Changes to carbon offset regulations 'a welcome development'

The renewable energy industry has welcomed a move by the National Treasury to increase the threshold for renewable energy projects that are eligible for the carbon offset allowance.

The amendments would see the qualifying threshold for eligible renewable energy projects increased from 15MW to 30MW installed capacity for purposes of the carbon offset allowance that allows companies to offset a portion of their carbon tax liability through the purchase of carbon credits.

This was a "good and welcome" development, said Rethabile Melamu, CEO of the SA Photovoltaic Industry Association (SAPVIA).

Given that there were still few solar energy projects at this scale in SA, the change would not have much impact immediately, but, said Melamu, it was an incentive for those wanting to invest in larger-scale projects of up to 30MW.

The proposed changes are included in the draft regulations on amendments to the carbon offset regulations prescribing carbon offsets in terms of the Carbon Tax Act, which was released by the Treasury last week with the draft Revenue Laws Amendment Bill and the draft Taxation Laws Amendment Bill.

Joslin Lydall of Catalyst Solutions explained that at present carbon offsets from renewable energy projects that were over 15MW were not eligible under the SA carbon tax unless it could be demonstrated that the cost to produce electricity was higher than R1.09/kWh.

"The proposed change will see this increase to 30MW. So, you only need to demonstrate the R1.09/kWh condition for projects over 30MW for them to generate carbon credits that qualify under the SA carbon tax," Lydall said.

The R1.09/kWh requirement was put in place to ensure that to be eligible for carbon offsets, renewable power projects had to have additionality, instead of existing solely because they offer cheaper electricity. If a project is not additional, it means it would have been undertaken regardless of the carbon credit revenues. Essentially, a carbon project is additional when it can exist only because of revenue earned from the sale of carbon credits.

SA introduced a carbon tax in 2019 and the nominal tax rate is now R190/tonne of carbon dioxide equivalent emissions, but exemptions and allowances are still in place allowing companies to receive 60%-95% tax allowances. Carbon taxes are expected to increase to about R462/tonne by 2030.

Now the carbon tax regime allows companies to use carbon credits to offset 5%-10% of their tax liability.

The Treasury said it was proposing the change to encourage additional embedded generation and some utility scale investments. "This is aligned with the principle of financial additionality for carbon offset projects and will contribute towards meeting SA's climate commitments and help contribute towards energy security of supply," it said.

Lydall said she was not sure if the proposed change would have a huge impact.

“Something that would possibly have a greater impact would be the development of a national standard for carbon credits. Then we wouldn’t have to use the Verified Carbon Standard, which already excludes solar and wind projects that export more than 50% of their electricity to the grid from being eligible for carbon offsets.”

Developing a national standard for carbon credits could see more projects coming online as demand now outstripped supply for carbon offsets due to long development times and the high costs involved, she said.

The department of mineral resources & energy has developed a draft framework for domestic carbon offset standards, which could help reduce transaction costs and make local carbon offset schemes, especially by smaller players such as farmers, more feasible.

Ramping up domestic carbon pricing can also help SA retain carbon tax revenue domestically, instead of paying higher carbon border taxes to other countries through schemes such as the EU’s carbon border adjustment mechanism.

One reason for the EU’s implementation of the mechanism is to protect the competitiveness of its own producers, which are taxed on their emissions, against importers from countries that levy no such tax.

In instances where carbon prices apply in the country of origin, as they do in SA, some allowances can be made to apply to reduce the carbon prices that importers will be liable to pay.

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