

**DRAFT EXPLANATORY MEMORANDUM TO REGULATIONS ON THE CARBON
OFFSET REGULATIONS UNDER THE CARBON TAX ACT 15 OF 2019 (“THE
CARBON TAX ACT”)**

1 AUGUST 2024

EXPLANATORY MEMORANDUM TO REGULATIONS ON THE CARBON OFFSET REGULATIONS UNDER THE CARBON TAX ACT 15 OF 2019 (“THE CARBON TAX ACT”)

BACKGROUND

INCREASE TO THE THRESHOLD FOR ELIGIBLE RENEWABLE ENERGY PROJECTS FROM 15 TO 30 MEGAWATTS FOR THE CARBON OFFSET ALLOWANCE

The government recently introduced a range of structural reforms to address the electricity supply challenges and mitigate the economic impacts of continued loadshedding on business and residential consumers. The electricity generation licensing threshold was increased to 100MW installed capacity to expedite investments by independent power producers in alternative low carbon embedded and utility scale projects and reduce the compliance burden on generators.

To further encourage investments in embedded and utility scale electricity generation capacity, government introduced the 150 percent production tax incentive in March 2023 for a two-year period for electricity generated from solar PV, wind and other renewable energy sources.

Complementary to these initiatives, companies are allowed to claim the carbon offset allowance up to a maximum of 10 per cent of their total greenhouse gas emissions to reduce their carbon tax liability under the Carbon Tax Act. All small-scale renewable energy projects up to 15 MW contracted and installed capacity respectively for both the Renewable Energy Independent Power Producers Procurement Programme (REIPPPP) (from bid window 3 with power purchase agreements signed on or before 9 May 2013) and non- REIPPPP projects are eligible as carbon offsets.

REASONS FOR CHANGE

INCREASE TO THE THRESHOLD FOR ELIGIBLE RENEWABLE ENERGY PROJECTS FROM 15 TO 30 MEGAWATTS FOR THE CARBON OFFSET ALLOWANCE

Small scale solar PV generation is defined as projects of 1MW or less installed capacity while utility scale investments exceed 1 MW and small-scale hydro generation is around 30MW or less. To encourage additional embedded generation and some utility scale investments, government announced an increase to the threshold for eligible renewable energy projects for the carbon offsets under the carbon tax. This is aligned with the principle of financial additionality for carbon offset projects and will contribute towards meeting South Africa’s climate commitments and help contribute towards energy security of supply.

1. DETAILED EXPLANATION OF THE AMENDMENT

1.1. Regulations 4

It is proposed that the qualifying threshold for eligible renewable energy projects is increased from 15 megawatts to 30 megawatts installed capacity for purposes of the carbon offset allowance.

EFFECTIVE DATE

The amendments to the Regulations are deemed to have come into effect on 1 January 2024.