energy
Department:
Energy
REPUBLIC OF SOUTH AFRICA

SOUTH AFRICAN CARBON OFFSET ADMINISTRATIVE AND REPORTING SYSTEM

STANDARD OPERATING PROCEDURES

VERSION 0.9

MARCH 2017

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GLOSSARY

TERM	ABBREVIATION	DESCRIPTION
Attestation of Voluntary Cancelation	AVC	A document from the registry of origin of the carbon offset credit (CDM, VCS or GS) that states that the credits have been cancelled in the voluntary market. This document must also state that the credits were cancelled for the specific purpose of being used in the South African carbon tax offset scheme.
Cancelation of credits		The process whereby carbon offset credits are irrevocable cancelled and removed from the system.
Carbon Offset Administrator	COA	The administrative units as defined by the Carbon Tax Act (to be published) and the Carbon Offset Regulations (to be published)
Carbon Offset Administrative System	COAS	The system described in this document that enable the COA to perform its duties as specified in the Carbon Tax Act (to be published) and the Carbon Offset Regulations (to be published)
CDM executive Board	CDM EB, EB	The Executive Board of the CDM as defined in Article 12 of the Kyoto Protocol. The function of the Board, whose members are elected by the CMP, is to supervise the CDM in accordance with paragraph 5 of the annex to decision 3/CMP.1.
CDM Programme of Activities Design Document	CDM-PoA-DD	The document prepared by the CME of a PoA, which sets out in detail, in accordance with the CDM rules and requirements, the PoA which is to be undertaken. The form of PoA-DD and guidelines on preparing the PoA-DD are publicly available on the UNFCCC CDM website.
Certified Emission Reductions	CER	CERs are emission reductions equivalent to one metric tonne of CO_2e. They may be used by countries towards meeting their commitments under the Kyoto Protocol, or by voluntary offsetters. CERs must come from projects that have been approved by the CDM.

TERM	ABBREVIATION	DESCRIPTION
Clean Development Mechanism	CDM	The CDM is an arrangement under the Kyoto Protocol allowing industrialised countries with a greenhouse gas reduction commitment (so-called Annex 1 countries) to invest in emission reducing projects in developing countries as an alternative to what are generally considered as more costly emission reductions in their own countries. The CDM is supervised by the CDM Executive Board (CDM EB) and is under the guidance of the Conference of the Parties (COP/MOP) of the United Nations Framework Convention on Climate Change (UNFCCC).
Climate, Community & Biodiversity Alliance	CCBA	The CCBA is a partnership of international NGOs that was founded in 2003 with a mission to stimulate and promote land management activities that credibly mitigate global climate change, improve the well-being and reduce the poverty of local communities, and conserve biodiversity.
Climate, Community & Biodiversity Standard	CCBS	Carbon offset label developed by the CCBA. It provides no set criteria regarding crediting-period, baseline setting, or monitoring methodologies. This label is under the management of the VCS since November 2014.
Component Project Activity	CPA	A single measure, or a set of interrelated measures under a PoA, to reduce GHG emissions by sources or result in net anthropogenic GHG removals by sinks, applied within a designated area defined in the baseline methodology (ies).
Component Project Activity Design Document	CPA-DD	The document prepared by the CME, which sets out in detail, in accordance with the CDM rules and requirements, the CPA, which is to be undertaken. The form of CPA-DD, and guidelines on preparing the CPA-DD, are publicly available on the UNFCCC CDM website.
Credit Owner		A Credit Owner is classified as an Organisation on the Carbon Offset Administration System that may own, trade and retire carbon offset credits. Offset projects may be uploaded to the Carbon Offset Administration System. Once the project is accepted on the system, carbon credits may be listed from said project. Credit owners may buy, sell and retire credits. Credit owners can own credits either as trading stock or for reduction of carbon tax liabilities and may choose to sell or retire their listed credits.

TERM	ABBREVIATION	DESCRIPTION
Designated Operational Entity	DOE	An entity designated by the Conference of the Parties to the Kyoto Protocol, based on a recommendation by the Board, as qualified to validate proposed CDM project activities and PoAs, as well as verify and certify reductions in anthropogenic emissions by sources of GHG and net anthropogenic GHG removals by sinks.
Gold Standard	GS	The Gold Standard is an independently audited, globally applicable best practice methodology for project development. The Gold Standard is a non-profit foundation, based in Basel, Switzerland. The Gold Standard project method requires the use of renewable energy and energy efficiency technologies that promise sustainable development for local communities. All Gold Standard projects are rigorously tested for environmental quality by registered third parties. The Gold Standard carbon credit label is awarded after third party validation and verification of the offset project.
Guidance document		Written guidelines, which provide broad advice in following a procedure or process, instead of providing a set of precise requirements or standards.
Letter of Approval	LOA	A letter granted by the DNA to the Executive Board of the CDM confirming that a specific project complies with the sustainable development criteria of the host country.
Issuance		The instruction by the Board to the CDM Registry Administrator to issue a specified quantity of carbon offset credits for a project activity or PoA, as applicable, into the pending account of the Board in the CDM registry, for subsequent distribution to accounts of project participants in accordance with the CDM rules and requirements.
Eligibility criteria		A set of criteria published under the South African carbon tax regime that defines what projects can be used as providers of carbon offsets in the carbon tax system.
Extended letter of approval	ELoA	The document required to confirm that a project is eligible to supply offset credits into the South African carbon tax system. This document consists of a normal LoA as issued by the South African DNA for the CDM plus a paragraph that states that the project also complies with the eligibility criteria as required under the South African carbon tax regime.

TERM	ABBREVIATION	DESCRIPTION
Kyoto Protocol	KP	An international agreement, reached in 1997 in Kyoto, Japan. The agreement came into force on 16th February 2005. The Protocol set targets for future emission reductions by each developed country up to 2012. Agreements were made to limit their greenhouse gas emissions, relative to the levels emitted in 1990.
Local Stakeholder Consultation	LSC	Process required by the Gold Standard in order to comply with the social impact requirements of the Standard.
Listing		The listing of credits in the South African Ownership Repository involves the generation of the credits in the electronic database. Each credit will have a unique identifier or serial number
Ownership Repository or South African Ownership Repository	SAOR	An electronic database system that records the listing and transfer of ownership of carbon offset credits in the South African carbon offset system.
PDCA	Plan-Do-Check–Act	A repetitive four-stage model for continuous improvement in business process management.
PDD	Project design document	The document prepared by the project participant of a CDM project activity which sets out in detail, in accordance with the CDM rules and requirements, the CDM project activity which is to be undertaken. The form of PDD, and guidelines on preparing the PDD, are publicly available on the UNFCCC CDM website.
PIN	Project Idea Note	It is the concept document that is submitted to the DNA, on a voluntary basis, which outlines the proposed CDM project or programme of activities. The DNA reviews the document and makes any suggestions for improvement, if these are needed. This is done prior to application for a Letter of Approval (which is a mandatory application and must be accompanied by a PDD). The reasons to submit a PIN vary, including increasing chances of getting the LoA signed without major queries/revisions, and some companies feel that it provides a measure of comfort for potential funders/partners if they can demonstrate that the DNA has provisionally approved the concept.

TERM	ABBREVIATION	DESCRIPTION
Programme of Activities	PoA	A voluntary coordinated action by a private or public entity which coordinates and implements any policy/measure or stated goal (i.e. incentive schemes and voluntary programmes), which leads to anthropogenic GHG emission reductions or net anthropogenic GHG removals by sinks that are additional to any that would occur in the absence of the PoA, via an unlimited number of CPAs.
Project Design Document	PDD	The document prepared by the project participant of a CDM project activity which sets out in detail, in accordance with the CDM rules and requirements, the CDM project activity which is to be undertaken. The form of PDD, and guidelines on preparing the PDD, are publicly available on the UNFCCC CDM website.
Record		A document, hard copy or electronic copy that provides evidence that a task has been performed
Registry		An electronic database consisting of the project information database and the Ownership Repository.
Retirement of credits		The process whereby carbon offsets are used to offset actual emissions. In the South African system, retirement will happen when the offset credits are used to offset taxable emissions as provided for by the carbon tax legislation.
Secretariat of the UNFCCC	Secretariat	The body established under Article 8 of the Convention and referred to in Article 14 of the Kyoto Protocol and in the CDM modalities and procedures.
Standard operating procedure (SOP)	SOP	An SOP is a set of written instructions that document a routine or repetitive activity followed by an organisation.
South African Transaction Log	SATL	An electronic database that records the listing, transfer of ownership and retirement (cancelation) of carbon offset credits in the South African system.
United Nations Framework Convention on Climate Change	UNFCCC	The UNFCCC is the Convention signed at the Earth Summit in Rio De Janiero in 1992. This stipulated that industrialised countries listed in Annex 1 were required to stabilise their emissions at 1990 levels by 2000. The Kyoto Protocol was later drawn up as the initial agreement was not sufficient.

TERM	ABBREVIATION	DESCRIPTION
Validation or Verification body	VVB	Auditors known as validation/verification bodies (VVBs) are tasked under VCS, with validating project descriptions and verifying actual emission reductions. All projects under the VCS Program must be independently audited to ensure compliance with rigorous VCS requirements for environmental integrity. Each VVB must meet key requirements before being eligible to audit a project in any given scope, though VVBs can be authorized to work on multiple sectoral scopes.
Verified Carbon Standard	VCS	The International Emission Trading Association, the Climate Change Group and the World Economic Forum have developed the Verified Carbon Standard (VCS). The VCS has been designed to be a global benchmark standard for project-based voluntary emission reductions. It creates a voluntary emission reduction credit, the VCU that can be traded.
Verified carbon Unit	VCU	Under VCS, projects are issued unique carbon credits known as Verified Carbon Units or VCUs. Each VCU represents a reduction or removal of one ton of carbon dioxide equivalent (CO_2e), which can be generated by reducing or removing any of the listed greenhouse gases (GHGs).
VPA-Passport	VPA	The Gold Standard PoA Passport is the document that presents all required information that is not already covered in the PoA-DD, such as information on the outcome of the two-step stakeholder consultations, the outcome of the sustainability assessment, the sustainability monitoring plan, and any deviations from CDM with respect to carbon accounting for example due to the application of the GS conservativeness principle.
VPD Design Document	VPD-DD	The Specific CPA/VPA–DD and CPA/VPA Passport will include details of the specific activities being submitted alongside the PoA documentation. Unlike CDM, it is not required to submit CPA/VPA-DD template for a dummy project. For registration of the PoA involving multiple technologies/measures, the CMEs must submit a VPA-DD for each one of the different methodologies (or combination of methodologies) or technologies/measures (or combination of technologies/measures).

1 INTRODUCTION

The purpose of this Operations Procedure Manual is to propose a holistic operating procedure for the Carbon Offset Administrator office or division, which will operate under the proposed Carbon Tax and offset scheme in South Africa. This Operations Procedure Manual specifically aims to outline the proposed processes and related responsibilities in approving and listing administration of carbon offset credits within the context of the South African Carbon offset registry. These credits may subsequently be used to offset the tax liabilities of companies that fall with in the South Africa carbon tax net.

The nature of the proposed Carbon Offset Administrator is broadly discussed in the *Carbon Offsets Paper* published in 2014 by National Treasury[1]. This document builds on the concept of the proposed Carbon Offset Administrator and proposes various high level functions that this office will need to undertake. These functions include the process required for the granting of an Extended Letter of Approval (ELoA) for project developers, listing of carbon offset credits, overseeing listing procedures in South Africa, transfer of ownership of the listed credits and the retirement of credits to gain a retirement certificate that can be provided to the South African Revenue Service (SARS) to reduce the carbon tax liability.

These functions must be undertaken in a uniform manner. Standard Operating Procedures (SOPs) are therefore proposed as the tools to achieve this, as their aim is to provide guidance on how to fulfil various objectives.

It is envisaged that the Carbon Offset Administrator office will reside within the Department of Energy. Stringent demands on government departments in terms of expanding roles and functions highlight the need for practical and clear process for planning and management. Therefore, SOPs are key tools that are widely used by successful administrators in both the private and public sectors.

Figure 1 on the following page provides an overview of the context of SOPs. Expanding roles and functions of departments / units go hand in hand with increased legal and regulatory requirements. As such, there is also an increased need for coordination and reporting. The SOP defines processes, allows for resource planning and informs monitoring and reporting. This enables a sound management structure with clearly defined practices and outputs to move processes forward.

[1] Please also see Annexure H: South African Policy Context

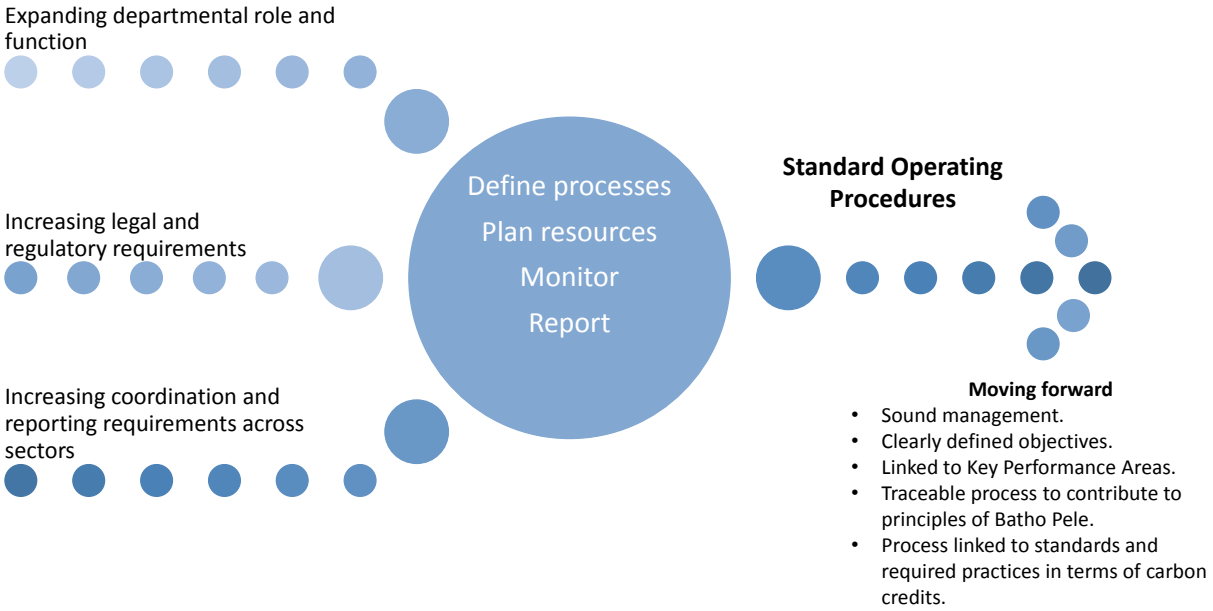


FIGURE 1: CONTEXT OF STANDARD OPERATING PROCEDURE

SOPs have many other applications and benefits for the proposed Carbon Offset Administrator, including:

• **Explanation of performance requirements**—SOPs describe and document what is required of the organisation and therefore of personnel in the performance of their duties. As such, they provide a benchmark for personnel, an objective mechanism for evaluating operational performance, and a tool for developing quality departmental processes.

• **Standardisation of activities**—SOPs identify planned and agreed-upon roles and actions. This information helps standardise activities and promote coordination and communications among personnel. SOPs also simplify decision-making requirements.

• **Training and reference document**—Written SOPs can provide the framework for training programmes and capacity building exercises. These activities, in turn, improve the understanding of work requirements and help identify potential problems. A comprehensive SOP manual also serves as a self-study and reference document for personnel.

• **Systems analysis and feedback**—The process of researching and developing SOPs provides opportunities for managers to compare current work practices with best practice and international learning. Feedback from external groups, technical experts, and staff can help to identify potential problems and innovative solutions.

Taking the above into consideration, the purpose of this Operating Procedure Manual can be summarised as follows:

- To describe the operations of processes in order to ensure quality and transparency within the South African carbon offset administration system.
- Detail compulsory instructions, steps and procedures, which is written so that individuals can follow it to complete a specific task.

- Facilitate operational functionality and efficiency.

The SOP will ensure tasks are carried out in a standardised and correct manner.This document provides a detailed overview of the required processes to list and retire carbon credits in the proposed South African Carbon Offset System.

The Operations Procedure Manual is based on the assumption that the following issues are taken as being pre-determined:

- The Carbon Offset Scheme will operate in the context of the proposed South African carbon tax.
- An Administrator, as contemplated in the Carbon Offset Paper will manage the Carbon Offset Scheme.
- The Carbon Offset Administrator will be the unit currently operating as the Designated National Authority (DNA) in terms of South Africa's commitments under the Kyoto Protocol, which is housed in the Department of Energy.
- An Independent Expert Committee, as contemplated in the Carbon Offset Paper will support the Carbon Offset Administrator.
- The Carbon Offset Administrator will be in full control of the process of issuance and retirement of the credits in the South African system.

The Operations Procedure Manual is built on the Carbon Offset Paper, 2014, and therefor all proposals and guidelines contained therein.

1.1 SCOPE OF THE OPERATIONS PROCEDURE MANUAL

The selected standards are responsible for the oversight and enforcement of the project approval and credit issuance process. The South African government has selected the standards and the Carbon Offset Administrator will monitor the retirement of credits for compliance under the carbon tax.

There are four processes governing the Carbon Offset Administration System. These include:

- The granting of an Extended Letter of Approval (ELoA) for project developers of offset credits;
- Credit listing in the Ownership Repository;
- Credit ownership transfer; and
- The retirement of credits to gain an offset certificate (i.e. to offset the liability of an entity that is eligible for the South African carbon tax).

As mentioned, the Operations Procedure Manual provides specific guidance related to the processes and tasks within the ambit of control and function of the Carbon Offset Administrator.

Owning to the above, further illustrates the scope of the Operations Procedure Manual:

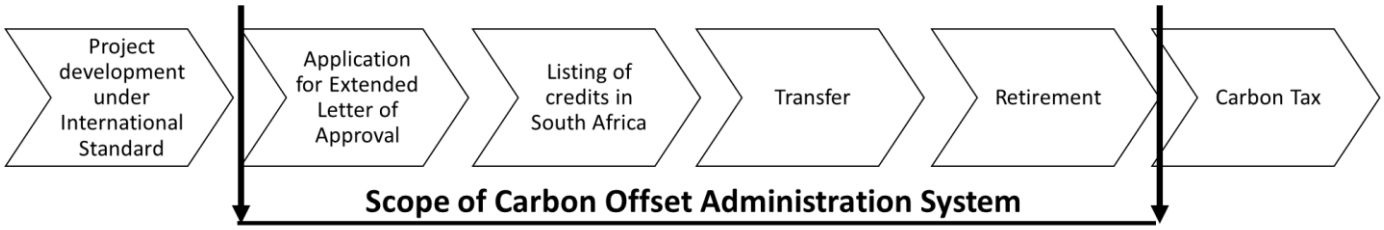


FIGURE 2: SCOPE OF THE OPERATIONS PROCEDURE MANUAL

The business processes described in this document informs the Information Technology (IT) System and the Organisation Development.

1.2 OVERALL CARBON OFFSET ADMINISTRATION PROCESS

This Operations Procedure Manual provides detail on the various processes related to administering the Carbon Offset System from a procedural perspective. These processes are discussed at length in Chapter 5 of this document. Figure 3 provides an overview of the total Carbon Offset Administration process.

It should be kept in mind that the processes related to the South African Carbon Tax Offset system start with the approval of a specific project by the relevant project standard. According to the draft Carbon Tax Legislation, standards allowed into the South African offset scheme include the Clean Development Mechanism (CDM), Verified Carbon Standard (VCS)[2] and the Gold Standard (GS). Therefore, all projects undergo the obligatory processes required for project registration and credits issuance by each specific standard. This is further illustrated in the diagram below.

[2] The Climate, Community & Biodiversity Alliance (CCBA) Standard is included under the VCS

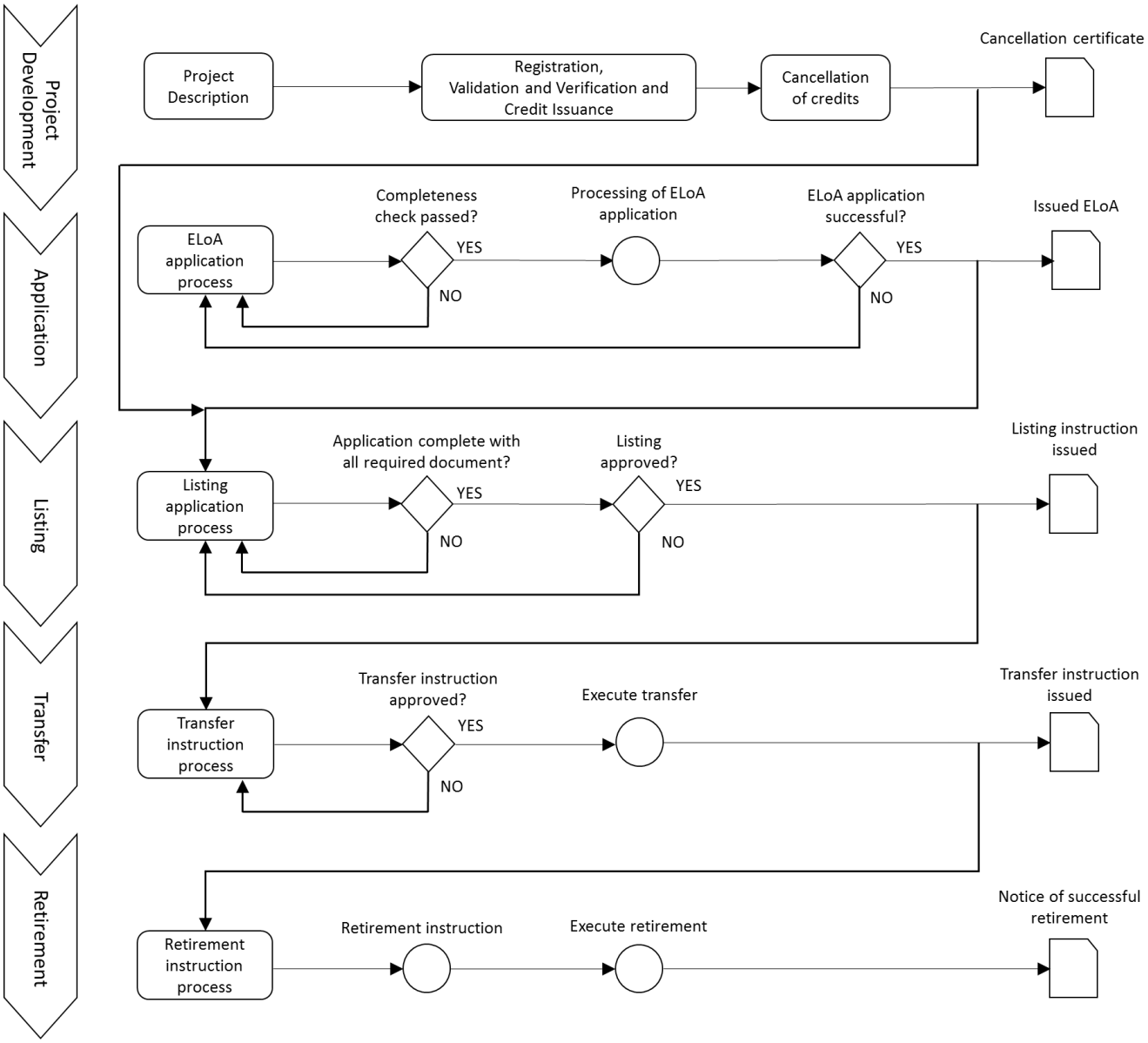


FIGURE 3: Overall COA System Process

1.3 CARBON OFFSET ADMINISTRATION SYSTEM ROLE-PLAYERS AND FUNCTIONS

The diverse nature of the South African Carbon Offset System requires inputs from different role-players. In addition, the process of approving an extended letter of approval through to the transfer of credit ownership requires different functions and as such different skill sets.

The role-players and their functions are illustrated in the schematic diagram below.

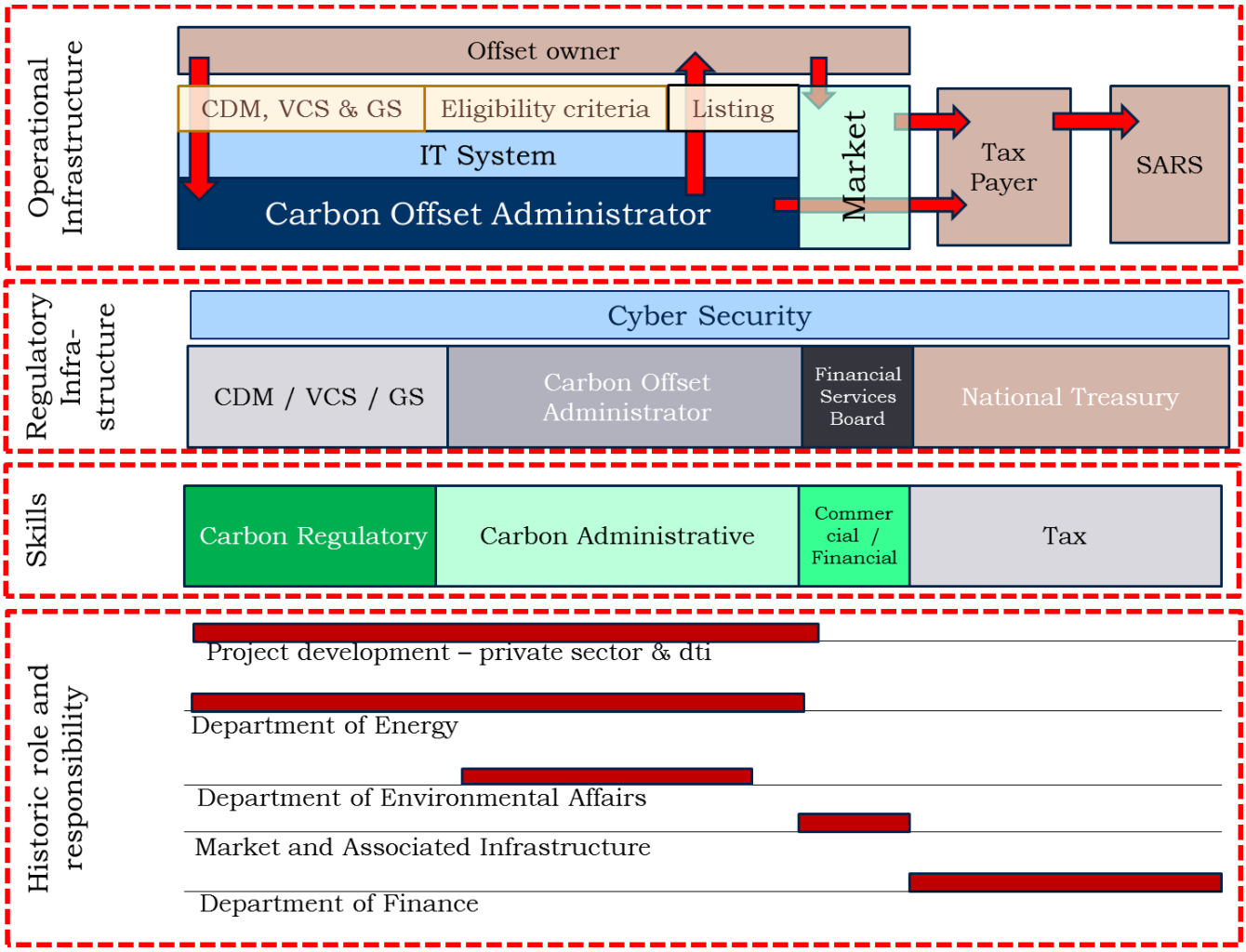


FIGURE 4: CARBON OFFSET ADMINISTRATION SYSTEM ROLE PLAYER AND FUNCTIONS

It is evident from the above that there are important interdependencies to take note of in the proposed carbon offset administration system. These are discussed in more details in the following sections.

1.3.1 OPERATIONAL INFRASTRUCTURE

The operational infrastructure of the system consists of the Carbon Offset Administrator, the market and SARS. These units stand into relation to the system participants as indicated in the Figure below.

The offset owner interacts with the Carbon Offset Administrator and the market. The taxpayer on the other hand interfaces with the market, the Carbon Offset Administrator and SARS.

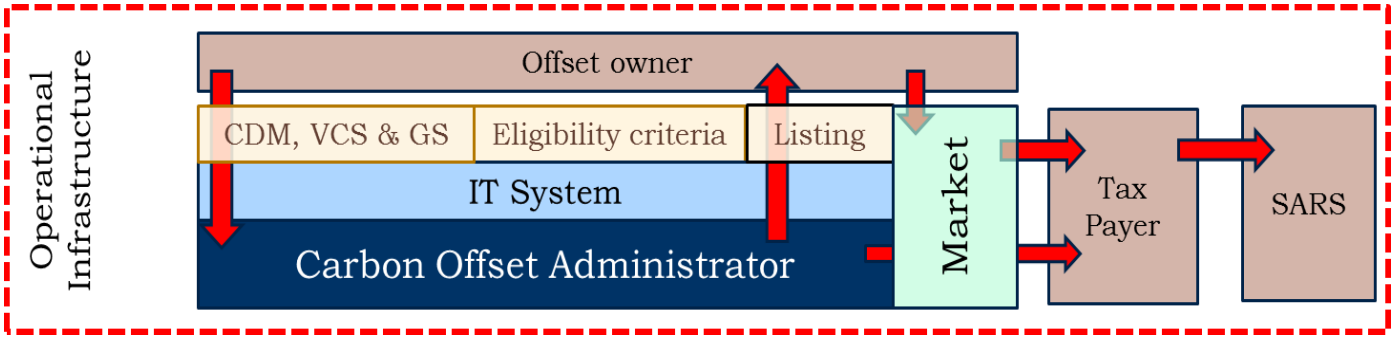


FIGURE 5: OPERATIONAL INFRASTRUCTURE

1.3.2 REGULATORY INFRASTRUCTURE

The regulatory infrastructure required for the carbon offset administration system consists of the carbon offset standards (CDM / VCS / GS), the Carbon Offset Administrator (as defined in this SOP), the Financial Services Board (in the event that the trading of carbon credits needs to be regulated on a market platform such as, e.g. the JSE) and National Treasury (with respect to the Carbon Tax System).

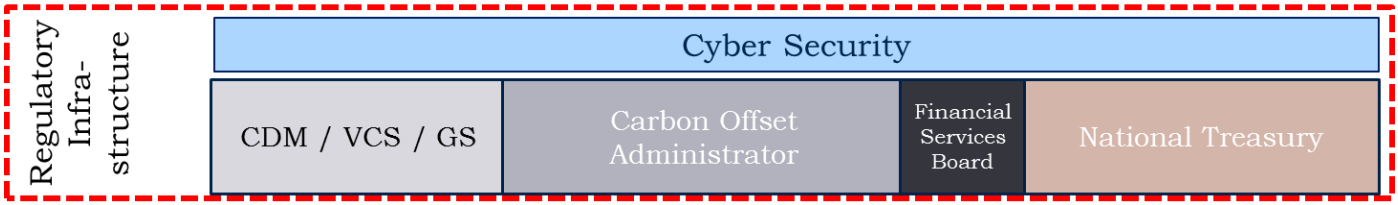


FIGURE 6: REGULATORY INFRASTRUCTURE

1.3.3 SKILLS

The scope of the SOP only convers the carbon regulator and the carbon administrative skills requirements.

The carbon regulatory and carbon administrative skills are part of operational management of the proposed Carbon Offset Administration System. The following table provides an overview of the key tasks, hard skills and soft skills related specifically to carbon offset administration [3]:

TABLE 1: CARBON OFFSET ADMINISTRATION: OPERATIONAL SKILLS MATRIX

Operational management	Carbon Regulatory	Carbon Administrative
	Updating documentation (requested from customers and making updated documents available)	Managing the execution of the KYC (Know Your Customer) processes: entering into relations and monitoring relations, particularly updating supporting documentation, and monitoring compliance operations
	Ensuring compliance checks by implementing the KYC (Know Your Customer) criteria	Handling administrative tasks: setting account parameters, and opening, closing and updating accounts
	Monitoring the use of procedures and following up as appropriate	Informing customers of changes in regulations;
	Checking the compliance of the documents received	Managing relations with the regulatory authorities
	Reporting inconsistencies and instances of non -compliance	Checking the comprehensiveness of each of the application (pre-existing customers or requests for opening new accounts)
		Updating, improving and drawing up the procedures applicable to the activity
		Ensuring support and technical advice functions to users of the registry
	Demonstrate great rigorousness and keeping the information confidential	Demonstrate great rigorousness and keeping the information confidential
	Show proven experience in terms of middle office and/or back office control procedures	Show proven experience in terms of middle office and/or back office control procedures
	Demonstrate good personal relations and organisational qualities	Demonstrate good personal relations and organisational qualities
	Demonstrate a feel for good customer relations	Demonstrate a feel for good customer relations
	Demonstrate ability to use, and a passion for, IT systems and mastery of standard office ware tools	Demonstrate ability to use, and a passion for, IT systems and mastery of standard office ware tools
	Analyse data as collected through the data collection methodology	Analyse data as collected through the data collection methodology

[3] The skills matrix will be discussed in more detail in the Organisational Development Plan. It should also be noted that this matrix does not include current DNA functions and roles. This will change once the legislation changes in terms of the DNA's extended role.

	Verify the completeness, relevance and accuracy of data as far as reasonably possible	Verify the completeness, relevance and accuracy of data as far as reasonably possible
	Engaging relevant stakeholders, both internal and external and building a robust monitoring and evaluation methodology	Engaging relevant stakeholders, both internal and external and building a robust monitoring and evaluation methodology
	Demonstrate an interest in issues relating to environmental goals	Demonstrate an interest in issues relating to environmental goals
	Demonstrate independence, rigorousness, and the capacity to take the initiative and work in a team	Demonstrate independence, rigorousness, and the capacity to take the initiative and work in a team
	Communication: Being a team player and working well with others is crucial	Analytical Skills: Data coordinators must be able to analyse how data is coming in and how it will need to be organized so that it when it is needed, it can easily be used
	Logical Thinking: Data coordinators need to look at what data needs to be recorded, and determine how to store it in such a way that it will be easily used in the future	Logical Thinking: Data coordinators need to look at what data needs to be recorded, and determine how to store it in such a way that it will be easily used in the future
	Problem-Solving: Coordinators need to be able to solve data problems as they arise	Problem-Solving: Coordinators need to be able to solve data problems as they arise
	Attention to Detail: Data is complex and can coordinators need to be able to look at the minute details to make sure it is being recorded and stored properly	Attention to Detail: Data is complex and can coordinators need to be able to look at the minute details to make sure it is being recorded and stored properly

1.3.4 ROLES AND RESPONSIBILITIES

Within the context of this System, the Department of Energy has the biggest role in that it houses the Carbon Offset Administrator. The Department of Environmental Affairs provides supporting infrastructure. Carbon offsets are traded between credit owners on the market. The Department of Finance regulates the commercial and tax aspects of the System.

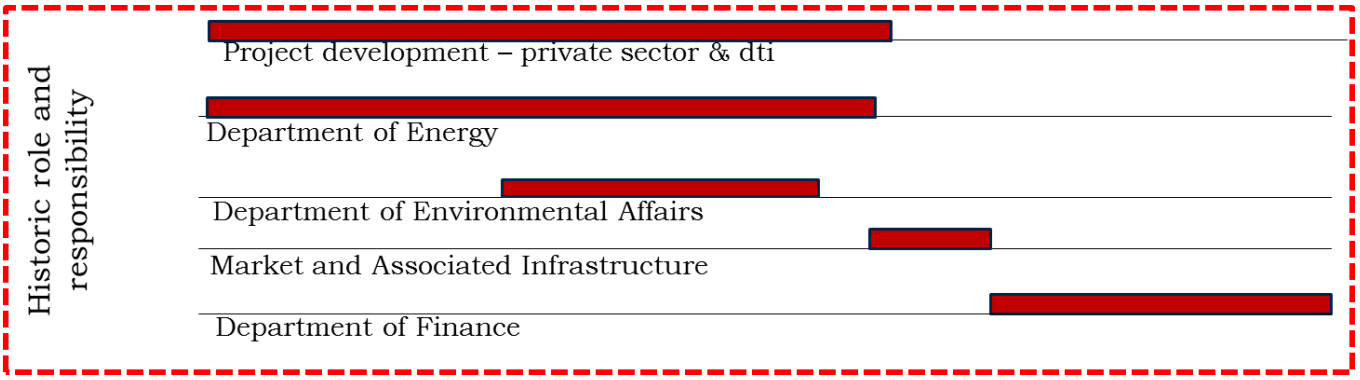


FIGURE 7: ROLES AND RESPONSIBILITIES

2 SYSTEM REQUIREMENTS FOR THE OPERATIONS PROCEDURES MANUAL

The following table provides an overview of key system requirements to be included in the Standard Operating Procedures. This table provides these requirements and indicates how the business process flows and process write-ups meet the requirements.

Table 2: Criteria for Procedures

System Requirement	Definition	This document
Well-designed with a solid structure.	A good procedure has a Plan-Do-Check-Act flow that addresses planning and effectiveness criteria or metrics required for proper operation, the doing or execution and data collection elements of each procedure step, followed by clear check steps against the planned targets, as well as references to taking action.	The business process approach taken to defining the necessary procedural steps exemplifies a Plan Do Check Act approach. Each process is logically structured with clear outcomes and an analysis of potential pitfalls.
Define who does what when and where with criteria for success.	For Supplier, Inputs, Process, Outputs, Procedures should account for all of the who, what, when, and where elements. Save the whys for training, footnotes or an appendix.	The proposed standard operating procedures are based on best practice system principles and clearly defines the relevant processes in terms of responsibilities, actions and outcomes.
Form part of a business system of core business processes.	A good procedure does not work in isolation. Other processes may be suppliers of inputs or customers of the procedure's outputs.	The proposed process flow diagrams show an integrated approach to listing and retirements of credits. In addition, these processes have been defined with current work processes in mind.
Are clear, specific, and to the point.	Should exclude statements such as "as necessary", "as applicable", or "may include". Too much extra information can confuse your readers. Stick to critical information.	The business flow approach followed allows for clear and concise descriptions of all activities and processes.
Have a solid business case or reason for existence.	Every procedure has an operational purpose so make sure the operation being described addresses the business reason for the procedure.	All the processes discussed in this document pertain to the proposed functions of the Carbon Offset Administrator.

System Requirement	Definition	This document
Include clear references to supporting documents.	Clear references to documents, forms, storage or document details. Procedures work with these other documents.	The process flow diagrams indicate required forms or documents, which should be used at specific points in the process.
Are used and updated regularly.	The only way to ensure effective procedures is to use and update them regularly.	In part, the objective of the Operations Procedure Manual is to provide clear guidelines on the required processes of the Carbon Offset Administration System. These procedures must be followed to ensure system integrity and a sense of transparency to all relevant stakeholders.

3 OPERATIONS PROCEDURE MANUAL ASPECTS

This Operations Procedure Manual describes the following aspects of the South African Carbon Offset Administrator:

Policy: *What is the objective that this procedure must meet?*

This Operations Procedure Manual aims to provide a detailed overview of the proposed processes and related responsibilities in approving carbon offsets and listing these carbon credits on the Carbon Offset Registry for use under the South African Carbon Tax.

Purpose: *What is the rationale of this procedure?*

It is proposed that the procedures described in this document be implemented and followed in order to operate the South African Carbon Offset Administrative and Reporting System.

Scope: *What areas of the organisation are affected by this procedure?*

This document and all contained herein relate specifically to the proposed Carbon Offset System Administrator. It is envisaged that this office will reside, in association with the Designated National Authority, within the Department of Energy.

Responsibilities: *Who is listed in this procedure and what are they required to do?*

The proposed Carbon Offset Administrator and the Designated National Authority within the Department of Energy (DoE) are the key responsible parties[4] in the context of the South African Carbon Offset Administration System. These entities are tasked with different components of the carbon offset system. In this regard, the DNA will continue to facilitate the approval of CER credits. The Carbon Offset Administration will be responsible for approving the listing of carbon offset credits, as well as overseeing the transfer of ownership and retirement of credits.

[4] Both the Carbon Tax Policy Paper and the Carbon Offset Paper refer to South Africa's Designated National Authority (DNA) as the administrator of the carbon offset system. To achieve this, the following should be implemented:

a) That the unit currently residing in the Department of Energy and fulfilling the functions of the DNA be expanded to make provision for the functions of the Carbon Offset Administrator.

b) A sub-unit inside the Carbon Offset Administrator acts as the DNA in terms of South Africa's commitments under Article 12 of the Kyoto Protocol. It is important to note that the functions of the DNA need to stay intact as South Africa plans to continue making us of the CDM of the UNFCCC to generate Certified Emission Reduction (CER) credits for the domestic offset scheme. We, therefore, recommend that the new unit, the Carbon Offset Administrator, becomes the home for the DNA, which will now reside inside the Department of Energy.

Should Government decide to implement the structure as proposed above, then there is no need to revise Regulation 721.

Procedure: *What are the activities and tasks or steps to this procedure?*

There are numerous tasks and activities pertaining to the operations of the South African Carbon Offset Administrative System. These activities relate to the following:

- Ensuring that the required criteria are met with regards to eligible carbon offset projects (please see Annexure G);
- Approving carbon offset projects and confirming approval through written communication;
- Loading information onto the Transaction Log;
- Listing offset credits in the Ownership Repository; and
- Reporting on transactions within the Registry[5].

Effectiveness Criteria: *How should effectiveness be measured?*

Effectiveness should be measured by a two-fold approach: Firstly, operational effectiveness will be measured through quality control criteria. Criteria in this regard could include:

- Ensuring adherence to international reporting requirements and increased efficiency;
- Consistency of all processes across the Designated National Authority and the Carbon Offset Administrator;
- Improvement of processes based on documented facts;
- Well-structured and effective documentation; and
- Sustainable functionality.

Secondly, the applicable project criteria will be measured to ensure sound regulated project approval and credit listing. Criteria in this regard include the following:

- Environmental integrity;
- National appropriateness;
- Sustainable development criteria; and
- Carbon tax offset project eligibility criteria.

This Standard Operating Procedure describes the principles and methodologies according to which these criteria will be measured and assessed.

[5] The Registry refers to a combination of two components: The Project Database and the Ownership Repository. Please refer to the "Registry and IT System description" report for more detail.

4 PRINCIPLES FOR CARBON OFFSET STANDARDS

The Carbon Tax Offset Paper lists four standards that can be used in the first phase of the carbon tax implementation. These standards are the Clean Development Mechanism, the Verified Carbon Standard (which now included the Climate, Community and Biodiversity Standards) and the Gold Standard. These standards have high environmental integrity, as criteria such as the crediting period, baseline setting, monitoring methodologies are clearly defined prior to issuing the credits.

In addition, the Carbon Tax Policy Paper mentions that a South African standard can be developed at a later stage. It is suggested that the existing and internationally accepted standards be used initially within the South African Carbon Offset Administration system. Using existing standards will facilitate ease of implementation and allow for the possible development of uniquely South African criteria based on lessons learnt from this system.

Standards for carbon offsets need to comply with a set of minimum standards. These criteria are:

TABLE 3: Criteria For Carbon Offset Standards

Criteria	Questions to be answered for each standard
Environmental integrity	Are emission reductions real?
	Are emission reductions permanent?
	Can the emission reduction be verified?
	Are emission reductions additional?
	Does the standard provide for the avoidance of double counting?
	What is the risk of erroneous exclusion and erroneous inclusion of emission reduction projects?
Economic factors	What is the cost of validation, verification and registration?
	What degree of localisation is possible by using local auditors and registry structures?
Regulatory factors	What are the regulatory delays associated with validation, verification and registration of credits?
	How does the standard cater for the South African sustainable development criteria

5 BUSINESS PROCESS DESCRIPTION

The following Chapter provides details on the proposed activities within the scope of work of the Carbon Offset Administrator pertaining to the listing and the retirement of credits in the South African Carbon Offset System. Please refer to Figure 10 related to the scope of the Operations Procedure Manual.

The first business process that is outlined in this section deals with the registration of a new organisation (company) on the Carbon Offset Administration System. This is followed by the four processes governing the Carbon Offset Administration System:

- Extended Letter of Approval procedure;
- Listing Procedure;
- Transfer of Ownership; and
- Retirement of credits.

This Chapter provides a detailed business process for each of the processes mentioned above; the format of this chapter is as follows:

- Business process diagrams were developed for each of the relevant processes. The swim-lane approach to business process flow diagram is described below in a graphic way. These diagrams provide an overview of the process, its various tasks and the relevant administrative authority.
- In addition, each process flow diagram is accompanied by a process flow description table, which provides a detailed overview of the various tasks and actions as well as junction points within the diagram.

The layout of the business process is depicted Figure 8 in while a legend for symbols used in the business processes is depicted in Figure 9**Error! Reference source not found.**. A detailed description of each of the basic components of the process flow diagrams and how this relates responsibilities and procedures is described in the next section. Figure 9

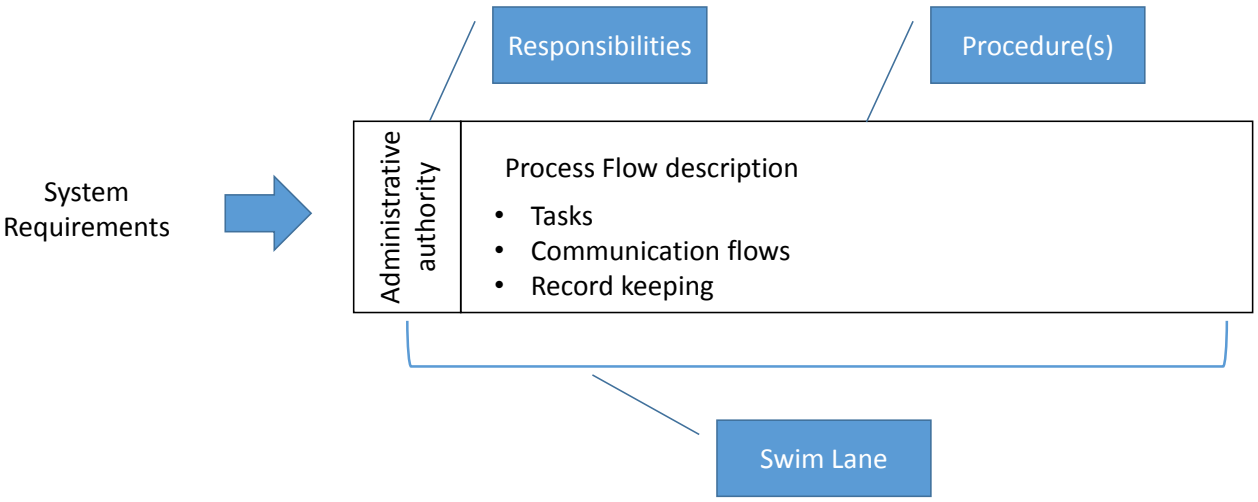


FIGURE 8: OVERVIEW OF PROCESS FLOW MODEL

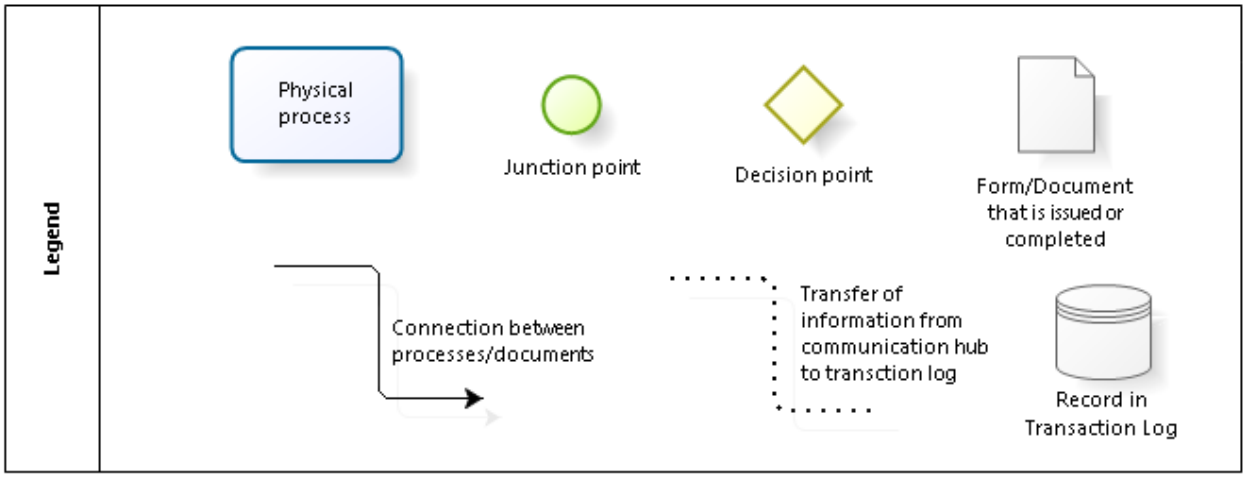


Figure 9: OVERVIEW OF PROCESS FLOW COMPONENTS SYMBOLS USED IN PROCESS FLOW CHARTS

The overall procedure as discussed in this document comprises the following processes:

Adding organisations

Organisations request registration on the Carbon Offset Administration System (COAS) by completing an application form on the COAS. The Carbon Offset Administrator would then review the registration request. If the organisation provided the correct information, it will be granted access to the system. The organisation's primary user (administration user) can then add additional users to their organisation as is required. A business process depicts the process for registering an organisation on the system. Users are added to the system through the administrative user of the organisation. As this process does not require approval from the Carbon Offset Administrator, a detailed business process is not required. A short explanation will be provided to detail how a new user is added to the Carbon Offset Administration System.

ELoA application

The owner of the offset projects needs to get approval from the South African Government prior to project registration. This is necessary, as there are certain Sustainable Development criteria that such projects must comply with. The current criteria is listed in Annexure F. The first level of compliance is with the published sustainable development criteria of the SA Government. This is already a requirement for projects that are registered under the CDM. It is however not a requirement for VCS or GS projects. CDM projects are issued with a Letter of Approval (LoA) from the DNA. This LoA confirms that the project has been vetted by the DNA and complies with the country's Sustainable Development criteria. In order for the CDM project to be considered to be eligible to supply offset credits in the carbon tax net, the LoA needs to be extended to assure that the project also complies with the carbon tax offset eligibility criteria as dictated by the carbon tax legislation (see Annexure F). Upon confirmation that this is indeed the case, the Carbon Offset Administrator will issues an Extended Letter of Approval (ELoA).

Projects registered under the VCS and GS will have to demonstrate that they meet the set Sustainable Development criteria for offset projects while applying for an ELoA.

Listing The listing process entails the approval of carbon offset credits to be listed in the South African Ownership Repository.

Transfer of Ownership The process for transfer of ownership describes the steps that need to be taken for the owner of listed credits to transfer the ownership of the listed credits to a buyer. The transfer could take place directly between a credit owner and the taxpayer (who will use it to mitigate his tax liability), or it can be traded through intermediaries.

Retirement The process for retirement is the mechanism in which credits are deactivated in the Carbon Offset Administration in mitigation of carbon tax liabilities.

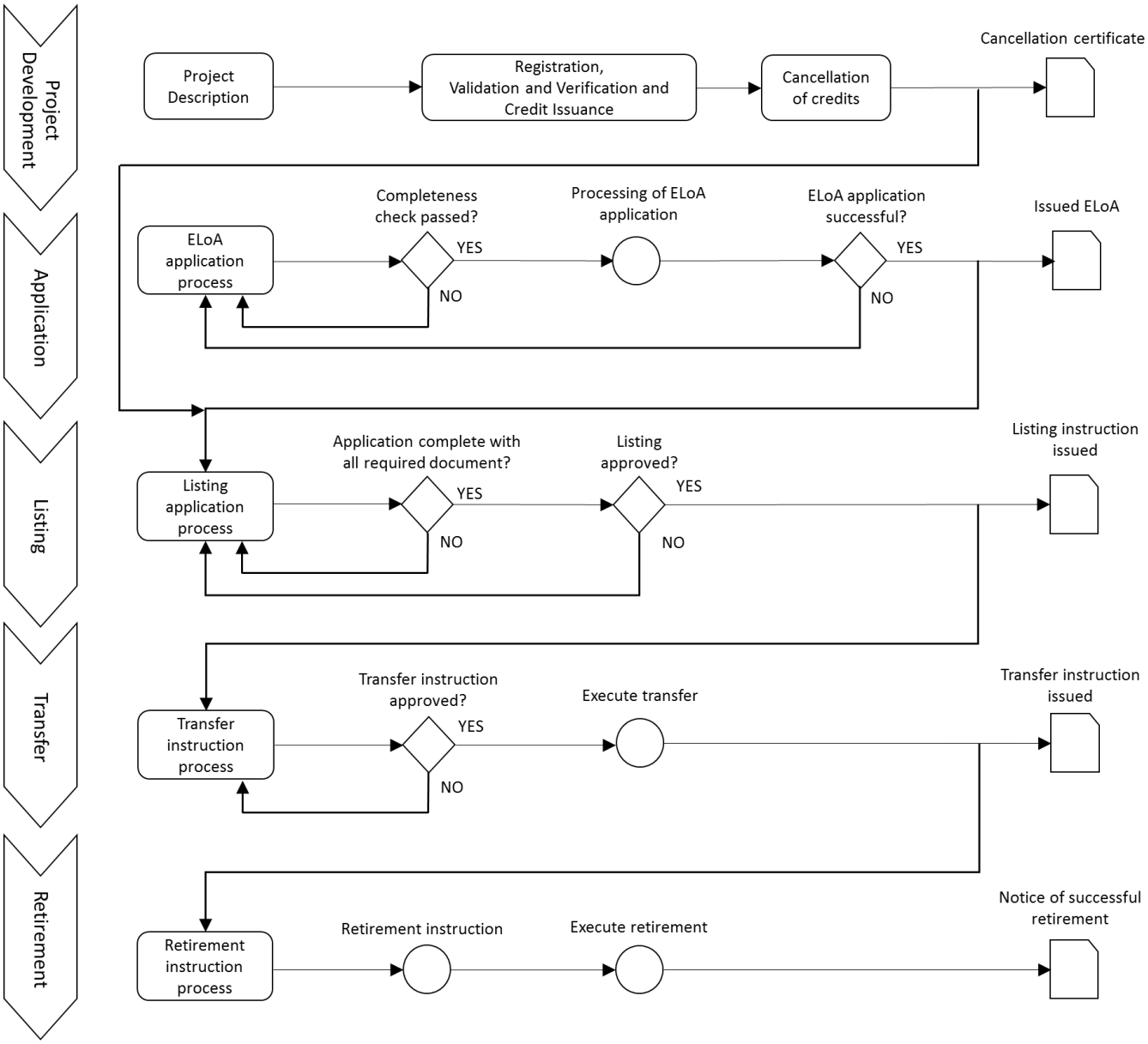


FIGURE 10: CARBON ADMINISTRATIVE PROCESSES OVERALL COA SYSTEM PROCESS

The Carbon Offset Administration System's participants are referred to as organisations. The people who make use of the system within an organisation are referred to as users. An organisation refers to a government department, a credit owner, SARS, the Carbon Offset Administrator or a NGO.

The processes described below involve the following participants:

TABLE 4: Participants in the Business Processes

PARTICIPANT	COMMENTS
Carbon Offset Administrator	The COA is the South African government entity, housed in the Department of Energy that administers the South African carbon offset system. The business processes described below provides for sets of processes. The first is for automated processes that will be programmed into the IT system of the COA. The second is for manual processes that will require manual execution by personnel of the COA.
Credit Owner	A Credit Owner is classified as an Organisation on the Carbon Offset Administration System that may own, trade and retire carbon offset credits. A credit owner can be a a taxpayer, or a credit trader that buys and sells carbon offset credits for his own account as means of investment or speculation.
Tax Payer	The taxpayer is the legal entity that is liable to pay carbon tax under the South African carbon tax system and that wishes to use the carbon offsets to mitigate its tax liability within the context of the carbon tax regime.
Observers	Observers are organisations or individuals who have access to specific reports from the carbon offset administration system, but who do not participate in the system. Examples of observers are SARS, The Department of Environmental Affairs, other government departments, NGO's and members of the public.

TABLE 5: COMPONENTS OF THE OFFSET ADMINISTRATION SYSTEM

COMPONENT	COMMENTS
Web interface	The interface through which all users log onto the system. This interface allows for the execution of administrative tasks, entering of information, uploading of documents, processing of applications, delivery of notices and reporting of actions and outcomes.
Registry	The Registry is the database that consists of the Project Database and the Ownership Repository.

COMPONENT	COMMENTS
Project Database	The Project Database contains all the information about projects on the system and the various organisation, which make use of the Carbon Offset Administration System. This includes the data entered into the system by all system participants as well as the documents uploaded by the users.
Ownership Repository	The Ownership Repository is an electronic database system that records the listing and transfer of ownership of carbon offset credits in the South African carbon offset system.
Transaction Log	The Transaction Log is an electronic database that records the listing, transfer of ownership and retirement of carbon offset credits in the South African system. The Transaction Log has a Communications Hub that serves as the central coordinator of all the instructions to and from the Ownership Repository. All processes in the Transaction Log and the Communication Hub are automated. The Transaction Log contains a set of automatic checks designed to identify when irregularities occur in the system of listing, transfer of ownership and retirement of credits.

Note on LoA and ELoA

Only CDM projects have required the LoA prior to registration at the UNFCCC. CDM projects that will only generate carbon credits into the international market can still apply just for the LoA. All credit owners that would like issued credits to form part of the South African offset system has to apply for an ELoA. A project can apply for an ELoA at any stage of the project development. Projects that make use of the VCS or GS need only apply for an ELoA. The Sustainable Development criteria, will be assessed by the Carbon Offset Administrator for compliance during the application for the ELoA for standards other than the CDM.

Note on timeframes

Where possible timeframes have already been included based on the current timeframes of the DNA. It should be noted that timeframes are being defined as part of the IT system development process. Once the IT System has been developed refined timeframes for processes and tasks will be included in the final Standard Operating Procedures to be submitted towards the end of this project.

5.1 Procedure A: Addition of an organisation and users to the COAS

The following section details the procedures associated with the addition of a new organisation to the COAS and adding users within an organisation. The procedure to register as a member of the public on the COAS will also be discussed in this section.

An organisation that wishes to register on the COAS has to provide information with the registration request. This information is used to check the validity of the request and confirm that the organisation is what it states to be. This information is called the “Know Your Customer” (KYC) and is detailed on the following page:

Organisation details:

- Name
- Income Tax Reference Number
- Business Registration Number
- VAT Number
- Building Details
- Street Address
- Suburb
- Province
- Postal Code
- Office Telephone Number
- Role the organisation wishes to be assigned in the COAS

The person that registers the organisation (registrar) on the COAS will be registered as the first administration user of that organisation if all information provided is correct. The registrar will thus be required to provide the following personal details during the organisation registration to register them as the first user of the organisation:

Personal details:

- Title
- First Name
- Last Name
- ID Number
- Occupation Title
- Email Address (used as username on the COAS)
- Mobile Contact Number
- Other Contact Number

The procedure to register on the COAS as a member of the public will be discussed at the end of this section.

The business flow diagram that depicts the process for an organisation to be added to the COAS by the Carbon Offset Administrator is presented in Figure 11:

5.1.1 PROCESS FLOW DIAGRAM

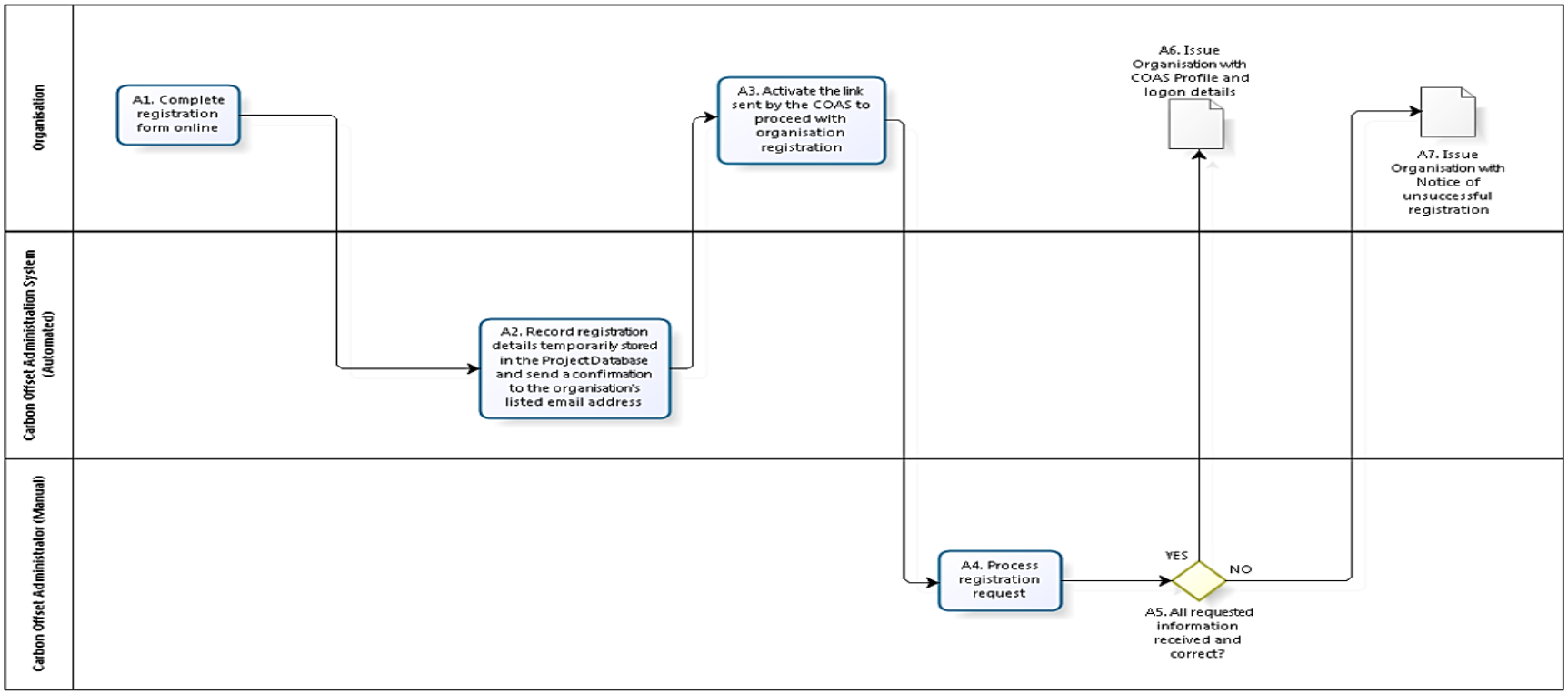


FIGURE 11: ORGANISATION REGISTRATION PROCEDURE

5.1.2 ORGANISATION REGISTRATION PROCESS FLOW TABLE

A: Organisation registration procedure		
Entity/process responsible	**Process step**	**Description**
Organisation	A1. Complete registration form online	The organisation that wishes to join the Carbon Offset Administration System (COAS) will access the registration platform through the Department of Energy's (DoE) website or through the COAS URL. The Designated National Authority (DNA) section on the DoE website will contain a link to the Carbon Offset Administration System portal. The organisation will find a link to register on this portal. The organisation will click on the registration link and complete the KYC criteria that are requested. The documents to verify the KYC information will also have to be included to this registration form. The email address specified for the registrar will be used to deliver the verification and acceptance of the registration request. Timing: Dependant on registrar
COAS (Automated)	A2. Record registration details temporarily stored in the Project Database and send a confirmation to the organisation's listed email address	The system will record the registration request and store it temporarily in the Project Database. The automated COAS component will send an email to the person who completed the registration request with a link to verify the request. For the registration request to be sent to the Carbon Offset Administrator (COA) for evaluation, the verification link for the registration request has to be validated by the registrar. Timing: Immediate.
Organisation	A3. Activate the link sent by the COAS to proceed with organisation registration	The registrar will receive and email to validate the request before it is verified. In the event that the registrar does not respond to the link that was emailed by the COAS, the registration request will be deleted from the Project Database. Timing: The registration link has to be validated within 1 week.

COA (Manual)	A4. Process registration request	The COA will process the registration request by going through all the information that has been provided by the registrar. The KYC criteria will be evaluated by comparing the information provided to that recorded at SARS and CIPC. The COA will have to accept or reject each of the KYC criteria. In the event that a criterion is rejected, the reason for rejection will have to be selected from a dropdown list. Timing: Still required from DNA
COA (Manual)	A5. All relevant information received and correct?	The COA will evaluate all of the KYC criteria. If all of the criteria are met and deemed to be acceptable, the COA will process the request as accepted. Once the "process" button has been clicked, the registrar will receive an email with a link that will take the registrar to the login page of the COAS. If any of the criteria were rejected, the COA will still process the request but the registrar will receive an email with the reason for rejecting the registration request.
Organisation	A6. Issue Organisation with COAS Profile and logon details	Upon successful registration, the registrar will receive an email with a link to log into the COAS. The registrar's email address will be used as a username while a randomly generated encrypted password will be provided for the first login to the system. Once the registrar has logged in, he/she will be prompted to choose a security PIN and change their password before any action can be carried out. This is done to ensure that the randomly generated password does not remain default password of the organisation.
Organisation	A7. Issue Organisation with notice of unsuccessful registration	If the COA has rejected any of the KYC criteria in the registration request, the registrar will receive an email that details which criteria were rejected with a reason. The registrar will then have the opportunity to amend the rejected criteria by clicking on the link provided to the rejected registration request. This link will allow the registrar to amend the field(s) that were rejected while retaining all the information that was completed correctly.

5.1.3 FORMS, NOTICES AND DOCUMENTS

The processes described refers to the following forms and documents:

TABLE 6: Notifications generated during the registration of an organisation

FORM/ NOTICE/ DOCUMENT	NAME	ANNEX
N1	Successful organisation registration	Annexure D
N2	Rejected organisation registration	Annexure D

5.1.4 USER REGISTRATION

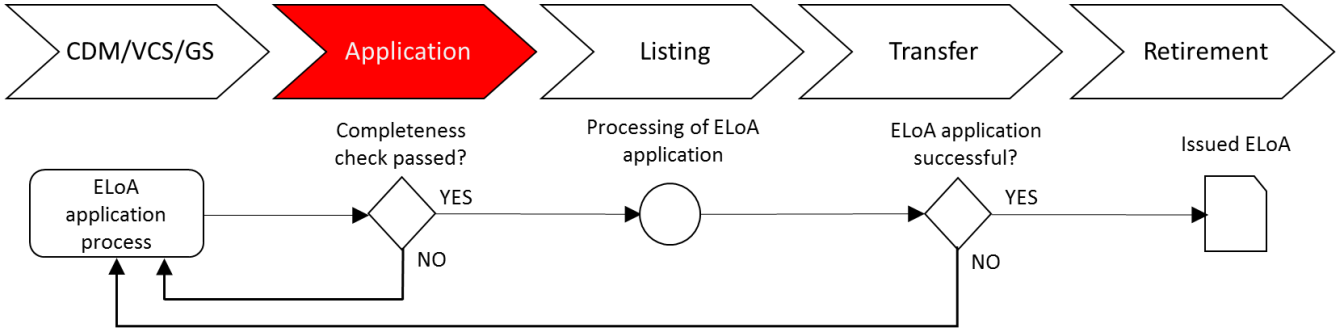
The administrative user of the organisation can register users within the organisation's profile. Users are assigned a role based on the type of action that they would like to carry out; and have clearance to do so within the organisation itself. A new user would simply send the admin user an email in which he/she requests a profile on the COAS under their organisation. The administration user will then create the profile with the assigned role and notify the user that their profile has been created.

5.1.5 MEMBER OF PUBLIC REGISTRATION

A member of public can register on the COAS under the public users organisation. When completing the organisation registration request, the registrar will select member of public as their organisation. The registrar will then only be required to complete the personal details fields requested for the KYC. When the registration form is completed, a link will be emailed to the registrar's email address provided in the registration form. Once this link is clicked, the registrar will be registered as a member of the public.

5.2 PROCEDURE B: EXTENDED LETTER OF APPROVAL

The following section deals with the Application for South African carbon offset process as depicted and highlighted in the diagram below.



This section provides details on the Extended Letter of Approval process. This is the first step in the carbon credit listing process and is the most complex. This process require an evaluation against the Sustainable Development criteria, as well as tax offset eligibility criteria for use against carbon tax. In the case of CDM projects, the Sustainable Development criteria do not need to be re-assessed.

5.2.1 PROCESS FLOW DIAGRAM

The following process flow diagram provides an overview of the Extended Letter of Approval process.

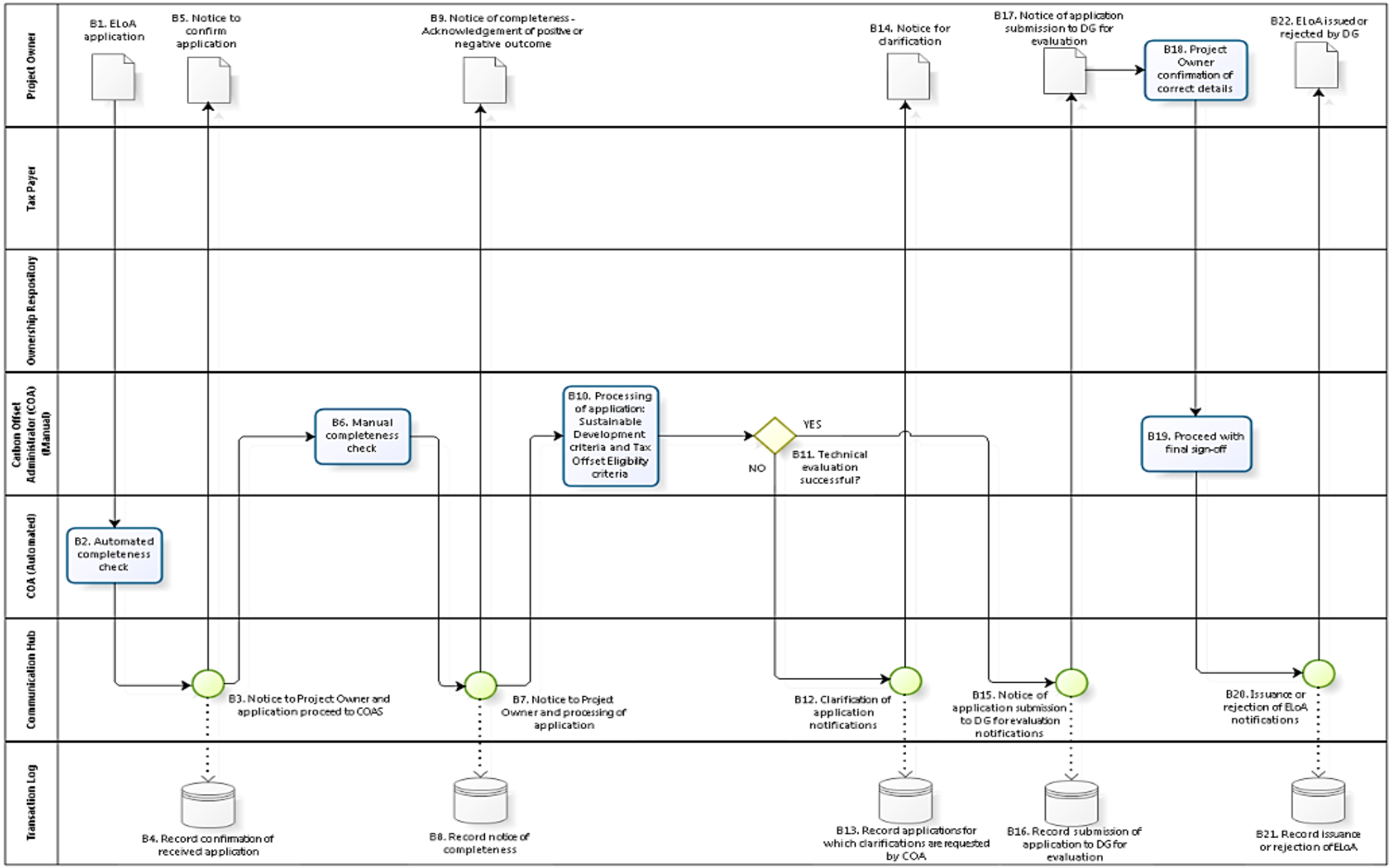


FIGURE 12: ELOA APPLICATION PROCESS

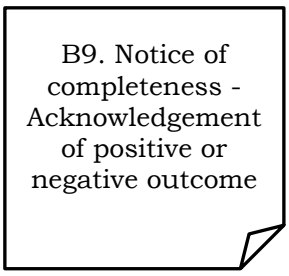
5.2.2 ELoA Process flow table

The following table describes the activities (physical processes, junction points, decision points and forms/documents) required to apply for an ELoA. The link of the specific responsibilities must be done according to the latest version of the Organisational Development Plan.

B: ELoA application procedure		
Entity/process responsible	**Process step**	**Description**
Credit Owner	B1. ELoA application	Credit owner completes form F1 (ELoA application). The completed form, together with all required additional documentation such as the project design document, project validation report, verification report and the modalities of communication (MOC) is sent to the Carbon Offset Administrator for processing. Timing: Dependant on credit owner.
COA (Automated)	B2. Automated completeness check	The Automated COA system checks that all the required documents are attached to the ELoA application. This includes the Design Document, project validation report and the MOC. If all required documents are present, the application is sent to the COA for a manual completeness check. The credit Owner will receive (Notification N3: Positive notice to confirm receipt of application) via the Communication Hub to inform him/her that their application has been sent to COA for a manual completeness check. If documents are missing or incorrect, the credit owner receives a Notification N3 (negative) via the Communication Hub detailing which sections of the application form are incomplete and/or which documents are outstanding/must be resubmitted. It should be noted that the application is completed on the COAS portal. In the event that any information fields are not completed, the credit owner will not be able to submit the application for an automated completeness check. Timing: Immediate.

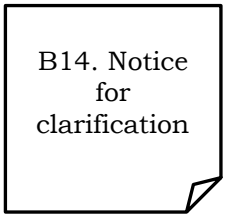
B: ELoA application procedure		
Entity/process responsible	**Process step**	**Description**
Communication Hub	 B3. Notice to credit owner and application proceed to COAS	The COAS automated completeness check sends a message to the Communication Hub to do the following: If the automated completeness check was successful, the COAS Automated system will instruct the Communication Hub to issue the credit owner with a positive Notice to confirm application. The issuance of this notice will be recorded in the Transaction Log. The application is then passed via the Communication Hub for the COA's Manual completeness check. If the automated completeness check was unsuccessful, the COAS system will instruct the Communication Hub to issue the credit owner with a negative Notice to confirm application. The issuance of this notice will be recorded in the Transaction Log. The credit owner may resubmit their application once the required amendments are made. Timing: Immediate.
Transaction Log	 B4. Record confirmation of received application	The Communication Hub sends a message to the Transaction Log to record a copy of the Notice to confirm application (positive or negative). This information is captured for administrative and quality control purposes. Timing: Immediate.

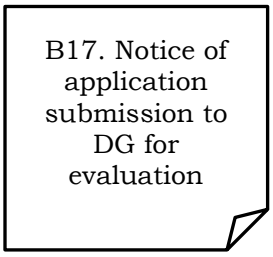
B: ELoA application procedure		
Entity/process responsible	**Process step**	**Description**
Credit owner	B5. Notice to confirm application	The Notice to confirm application, Notice N3, can be either positive or negative. If the automated completeness check issued a positive response, the Credit owner will receive a notice that acknowledges the receipt of the application. This notice also indicates the timelines for the manual completeness check. If the automated completeness check issued a negative response, the Credit owner will receive a notice that details omissions or erroneous information to be rectified. Timing: Immediate.
COA (Manual)	B6. Manual completeness check	The COA project officer evaluates the ELoA application's content for correctness and legitimacy. This relates to the fields that were marked compulsory and the attached documents. If the ELoA application and attached documentation is correct, the COA officer sends the ELoA application for technical evaluation. If information within the application is erroneous or any attached documents incorrect, the application is rejected. If the manual completeness check is positive, the COA officer will notify the Credit owner that the application will be submitted for technical evaluation. The application is then sent to the COA technical evaluator. If the manual completeness check has a negative outcome, the COA officer will inform the Credit owner that the application failed the manual completeness check and provide him/her with the reasons for this. Timing: The manual processing will require a maximum of 3 working days for completion.

B: ELoA application procedure		
Entity/process responsible	**Process step**	**Description**
Communication Hub	 B7. Notice to Credit owner and processing of application	Upon completion of the manual completion check, the COA officer submits the result via the Communication Hub to the Credit owner. If the manual completeness check was successful, the Credit owner receives a notice of completeness-Acknowledgement of positive outcome. The application is then forwarded via the Communication Hub to the COA technical evaluator. If the manual completeness check was unsuccessful, the COA officer will issue the Credit owner with a notice of completeness-Acknowledgement of negative outcome that provides him/her with the reasons for the negative outcome. Positive and negative notice of completeness-Acknowledgements are recorded in the Transaction Log for quality control. Timing: Immediate.
Transaction Log	 B8. Record notice of completeness	The Communication Hub sends a message to the Transaction Log to record a copy of the positive or negative notice of completeness-Acknowledgement. This information is captured for administrative and quality control purposes. Timing: Immediate.
Credit owner	 B9. Notice of completeness - Acknowledgement of positive or negative outcome	The notice of completeness -Acknowledgement of outcome, Notice N4, can be either positive or negative. If the manual completeness check was successful a positive response is issued. The Credit owner will receive a notice that informs him/her that the application is sent for technical evaluation. This notice will contain the period for technical evaluation. If the manual completeness check was unsuccessful a negative notice of completeness -Acknowledgement of outcome is issued to the Credit owner. This notice will provide the reasons for the unsuccessful manual completeness check. Timing: Immediate.

B: ELoA application procedure		
Entity/process responsible	**Process step**	**Description**
COA (Manual) (COA technical evaluator)	B10. Processing of application: Sustainable Development criteria and Tax Offset Eligibility criteria	The COA technical evaluator processes the application in a sequential manner for three aspects: technical completion/compliance, Sustainable Development (SD) criteria and carbon tax offset eligibility criteria. The combination of these three steps constitutes the technical evaluation. The technical completion/compliance entails the evaluation of the project and organisation details provided in the application against the information captured in internationally recognised standards databases (CDM, VCS and GS). A successful technical completion/compliance evaluation will prompt the initiation of the next stage: evaluation of SD criteria. In this stage, the SD criteria in the application is evaluated against the host country approval requirements. This is done by the by the South African Designated National Authority (DNA). If the SD criteria are met, the application moves to the last stage of technical evaluation, which is the carbon tax offset eligibility criteria. The application's carbon tax offset eligibility criteria is evaluated according to the requirements set out in the South African Carbon Tax Bill. Timing: This step has a maximum time duration of 23 working days. A notice of clarification can be issued at any time during this period should the application contain information that does not comply with the evaluation criteria. It is also important to note that once the application has passed all three stages of the technical evaluation, a public consultation period of 10 working days occurs concurrently with the senior COA officials' evaluation.

B: ELoA application procedure		
Entity/process responsible	**Process step**	**Description**
COA (Manual) (COA technical evaluator)	 B11. Technical evaluation successful?	If at any of these stages, the application fails to meet the requirements, a notice of clarification is issued to the Credit owner. This notice will provide the stage in which the application was unsuccessful and the reason(s) for being unsuccessful. As the process is done sequentially, the Credit owner can receive this notice at any of the three evaluation stages. It is important to note that the Credit owner has 3 working days to respond to this notice. If the first two stages of evaluation are successful, but the third stage unsuccessful and no response to the notice of clarification was received, the application is recommended by the COA technical evaluator for LoA sign-off only by the Director General. A notice with the successful LoA application included is sent to the Credit owner upon completion of this step. In addition, a clarification notice will be sent with reasons as to why compliance with the carbon tax offset eligibility criteria were not met. If all three stages of evaluation are successful, the application is recommended by the COA technical evaluator for ELoA sign-off by the Director General. A notice is sent to the Credit owner Timing: This step has a maximum time duration of 23 working days. A notice of clarification can be issued at any time during this period should the application be erroneous or contain uncertainties. It should also be noted that the processing period of 23 days would be paused for a maximum of 3 working days if a notice of clarification were issued to the Credit owner. The 23 working day period will resume once the Credit owner responds or when this period has expired.

B: ELoA application procedure		
Entity/process responsible	**Process step**	**Description**
Communication Hub	 B12. Clarification of application notifications	If at any of three evaluation stages, the application fails to meet the requirements, a notice of clarification is issued to the Credit owner via the Communication Hub. The notice of clarification provides the reason(s) for failing the indicated evaluation step. It should be noted that if the SD criteria evaluation stage were passed but the carbon tax offset eligibility criteria stage not, the Credit owner would be issued with a recommendation for a LoA only. The notice of clarification will detail the reason(s) as to why the carbon tax offset eligibility were not met. Timing: Immediate.
Transaction Log	 B13. Record applications for which clarifications are requested by COA	The Communication Hub sends a message to the Transaction Log to record a copy of notice of clarification. This information is recorded for applications that had uncertainties or errors at all three stages of the technical evaluation procedure. This information is captured for administrative and quality control purposes. Timing: Immediate.
Credit owner	 	The notice for clarification, N5, can be issued to the Credit owner at any of three evaluation stages. The reason(s) for not complying with the requirements of the evaluation stage will be communicated to the Credit owner in this notice. The Credit owner will then be granted 3 working days to respond to these clarifications. Timing: Immediate.

B: ELoA application procedure		
Entity/process responsible	**Process step**	**Description**
Communication Hub	 B15. Notice of application submission to Director General for evaluation notifications	If the first two stages of evaluation are successful, the application is recommended by the COA technical evaluator for LoA sign-off by the Director General. A notice with the successful LoA application attached is sent to the Credit owner. If all three stages of evaluation are successful, the application is recommended by the COA technical evaluator for ELoA sign-off by the Director General. A notice with a draft letter of the successful ELoA application attached is sent to the Credit owner. This is to confirm project details. Both of these issued notices are captured in the Transaction Log. Timing: Immediate.
Transaction Log	 B16. Record submission of application to DG for evaluation	The Communication Hub sends a message to the Transaction Log to record a copy of the recommended LoA or ELoA application to the Director General based on the stages of technical evaluation passed. This information is captured for administrative and quality control purposes. Timing: Immediate.
Credit owner	 B17. Notice of application submission to DG for evaluation	Upon completion of the technical evaluation, the notice of application submission to Director General for evaluation, that is ready for evaluation by the Director General, is sent to the Credit owner for review. This notice could contain either a LoA or ELoA dependent on stages of technical evaluation that were passed. Timing: Immediate.

B: ELoA application procedure		
Entity/process responsible	**Process step**	**Description**
Credit owner	B18. Project Owner confirmation of correct details	The Credit owner will have the option to review the submission of the draft ELoA submitted to the Director General for sign-off. Once the project details in the draft ELoA have been confirmed by the Credit owner this will initiate the Director General's evaluation procedure. Timing: The timing of this stage is dependent on the Credit owner.
COA (Manual)	B19. DG evaluation of application put forward by COA	Upon receiving confirmation of project details in the draft ELoA by the Credit owner, the COA submits the draft ELoA or rejected ELoA to the Director General for sign-off. Timing: This process can take up to a maximum of 16 working days.
Communication Hub	B20. Issuance or rejection of ELoA notifications	Once the Director General's evaluation is complete, the COA issues the Credit owner either with an ELoA or a letter of a rejected ELoA via the Communication Hub. A copy of the issued document is recorded in the Transaction Log as well. Timing: Immediate.
Transaction Log	B21. Record issuance or rejection of ELoA	The Communication Hub sends a message to the Transaction Log to record a copy of the ELoA or a letter of a rejected ELoA application. This information is captured for administrative and quality control purposes. Timing: Immediate.

B: ELoA application procedure		
Entity/process responsible	**Process step**	**Description**
Credit owner	B22. ELoA issued or rejected by DG	The Credit owner is issued with either an ELoA, Document D1, or a letter of a rejected ELoA application, Document D2. Timing: Immediate.

5.2.3 FORMS, NOTICES AND DOCUMENTS

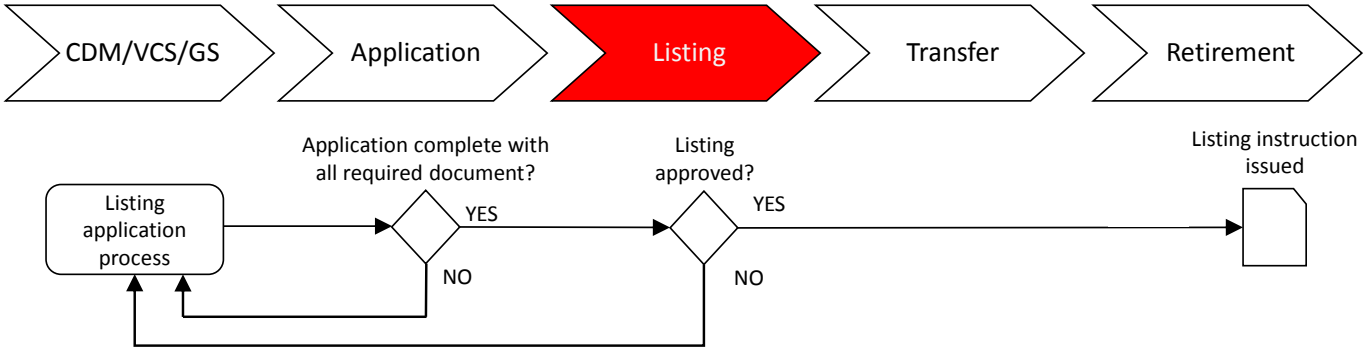
The processes described refers to the following forms and documents:

TABLE 7: Forms, documents and notices used for the ELoA process

FORM/ NOTICE/ DOCUMENT	NAME	ANNEX
F1	ELoA Application form	Annexure B
N3	Notice to confirm application receipt	Annexure D
N4	Notice of completeness -Acknowledgement of positive or negative outcome	Annexure D
N5	Notice for clarification	Annexure D
N6	Notice of application submission to Director General for evaluation	Annexure D
D1	ELoA	Included upon IT system completion
D2	Letter of rejected ELoA	Included upon IT system completion

5.3 PROCEDURE C: LISTING

The following section deals with the Listing process of credits into the South African offset system as depicted and highlighted in the diagram below.



The listing procedure is the second process which enables the listing of the carbon credits in the Transaction Log. This process is preceded by the Application process and leads into the Transfer process.

5.3.1 PROCESS FLOW DIAGRAM

The following process flow diagram provides an overview of the Listing process.

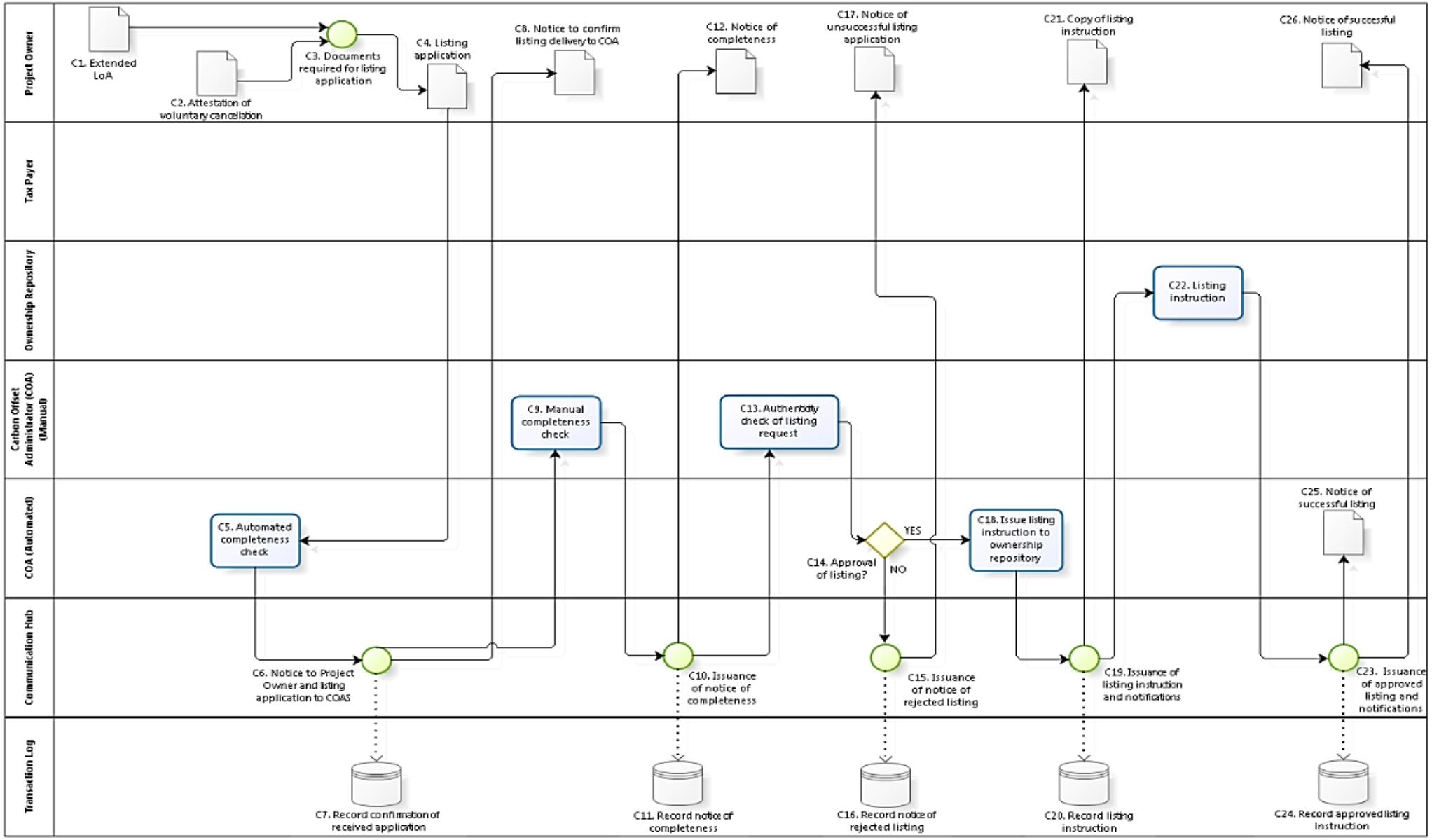
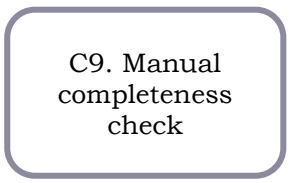


FIGURE 13: LISTING PROCESS

5.3.2 LISTING PROCESS FLOW TABLE

The following table provides a detailed overview of the Listing process.

C: Listing procedure		
Entity/process responsible	**Process step**	**Description**
Credit owner	C1. Extended LoA	The Credit owner requires an approved ELoA; document D1, which was issued by the COA.
Credit owner	C2. Attestation of voluntary cancellation	The Credit owner requires a valid Attestation of Voluntary Cancelation, Document D3. The relevant Standards Body e.g. the CDM, GS or VCS supplies this document. Timing: Currently the standards can generate these documents within a 48-hour period, but it is solely within the control of the relevant standard.
Credit owner	C3. Documents required for listing application	The Credit owner requires both an ELoA and an Attestation of Voluntary Cancellation to apply for a listing application. Timing: Immediate.
Credit owner	C4. Listing application	The Credit owner has to complete the listing application, form F2, and send it to the COA. Both the ELoA and Attestation of Voluntary Cancellation need to be attached to this application form. Timing: Dependent on the time it takes to obtain the ELoA and the Attestation of Voluntary Cancellation.
COA (Automated)	C5. Automated completeness check	The automated COA system checks that two documents are attached along with the listing application. If the required documents are attached the application is sent to the COA for a manual completeness check. If the required documents are not attached, the Credit owner receives a notice on the listing application screen detailing which documents or information is outstanding. Timing: Immediate.

C: Listing procedure		
Entity/process responsible	**Process step**	**Description**
Communication Hub	 C6. Notice to Credit owner and listing application to COAS	The COAS Automated system will carry out an initial screening check on the listing application. If the correct type and quantity of documents are attached to the listing application, a notice to confirm listing delivery to COA will be sent to the Credit owner. If the automated completeness check fails, the Credit owner will receive a notification in which the reason for the failure of the automated completeness check is provided. Timing: Immediate.
Transaction Log	 C7. Record confirmation of received application	The Communication Hub will send a copy of the B6 notification to the Transaction Log. A successful or failed automated completeness check is captured within the Transaction Log to ensure quality control. Timing: Immediate.
Credit owner	 C8. Notice to confirm listing delivery to COA	The Credit owner is issued with a notice to confirm listing delivery to COA, Notice N7, once the automated completeness check is completed. This notice may indicate either that the listing request is sent to the COA for a manual completeness check or it may issue a notice stating which information is erroneous or omitted. Timing: Immediate.
COA (Manual)	 C9. Manual completeness check	The COA project officer checks that the information provided in the listing application is in the correct format and that the attached documents are an ELoA and Attestation of Voluntary Cancellation. If both of these criteria are met, the COA forwards the listing application for an authenticity check. If the application itself contains erroneous information or if the attached documents are not an ELoA and Attestation of Voluntary Cancellation, the application is rejected. The validity of the document and the quantity of credits must be checked. Timing: 5 working days.

C: Listing procedure		
Entity/process responsible	**Process step**	**Description**
Communication Hub	C10. Issuance of notice of completeness	The Communication Hub issues a notice of a concluded manual completeness check to the Transaction Log and Credit owner. Should the manual completeness check not be successful, the Credit owner and Transaction Log will receive a notice of completeness – negative outcome for the listing application. Timing: Immediate.
Transaction Log	C11. Record notice of completeness	The notice of a concluded manual completeness check or a completeness check with a negative outcome is recorded in the Transaction Log. Timing: Immediate.
Credit owner	C12. Notice of completeness	The Credit owner is issued with a notice of completeness, Notice N8. This notice may either indicate that the required information is provided or it may state which information is erroneous or omitted for a negative outcome of the completeness check. Timing: Immediate.
COA (Manual)	C13. Authenticity check of listing request	The COA officer will evaluate the details provided in the listing application, ELoA and the Attestation of Voluntary Cancellation. The evaluation is done by comparing the information provided within the application with that recorded in the registry of origin (Markit or APX) and that recorded on the standard's database. For this step to be completed, a dual sign-off is required. The COA Officer has to sign the listing request first and then a senior COA officer / Director needs to sign the listing request as well. This is done to ensure quality control. Timing: 7 working days.
COA (Automated)	C14. Approval of listing?	The COA Automated system receives either a successful application status or a notice of unsuccessful application from this decision process. If the application is unsuccessful, a notice of unsuccessful application is sent to the Credit owner. If the application is successful, a listing request is generated and sent to the Communication Hub. Timing: Immediate.

C: Listing procedure		
Entity/process responsible	**Process step**	**Description**
Communication Hub	C15. Issuance of notice of rejected listing	The Communication Hub issues a notice of an unsuccessful listing application to the Credit owner and records it in the Transaction Log. Timing: Immediate.
Transaction Log	C16. Record notice of rejected listing	The notice of a rejected listing instruction that is sent to the Credit owner is recorded in the Transaction Log for quality control purposes. Timing: Immediate.
Credit owner	C17. Notice of unsuccessful listing application	In the event that the COA project officer rejected the listing request, the Credit owner will receive a notice of unsuccessful listing; Notice N9, with reasons as to why the listing application was rejected. Timing: Immediate.
COA (Automated)	C18. Issue of a listing instruction to ownership repository	In the event that the COA project officer approved the listing request, the Automated COA system sends a request via the Communication Hub to the Ownership Repository to do the following: • List the credits; • Send a copy of the listing instruction to the Credit owner; and • send a record of the issuance of the listing instruction to the Transaction Log. Timing: Immediate.
Communication Hub	C19. Issuance of listing instruction and notifications	The Communication Hub requests that the Ownership Repository issues a listing instruction. This is Document D3. In addition, a record of the issuance of the listing instruction is recorded in the Transaction Log and a copy of the listing instruction, Notice N8, is sent to the Credit owner. Timing: Immediate.

C: Listing procedure		
Entity/process responsible	**Process step**	**Description**
Transaction Log	C20. Record listing instruction	The listing instruction requested by the Communication Hub is recorded in the Transaction Log. Timing: Immediate.
Credit owner	C21. Copy of listing instruction	The credit owner receives a copy of the listing instruction, Notice N9, to confirm that the listing instruction has been processed and sent to the Ownership Repository. Timing: Immediate.
Ownership Repository	C22. Listing instruction	The listing instruction, Document D3, is sent to the Ownership Repository to list the requested amount of credits. Timing: Immediate.
Communication Hub	C23. Issuance of approved listing and notifications	The Ownership Repository sends a request to the Communication Hub to record the successful listing application in the Transaction Log. It also sends the Credit owner and COA a notice of successful listing, Notice N10. Timing: Immediate.
Transaction Log	B24. Record approved listing instruction	The Communication Hub issues a request to the Transaction Log to record the approval of the listing application. Timing: Immediate.
COA (Automated)	C25. Notice: Copy of listing certificate	The Communication Hub issues the COA with a copy of the listing certificate issued to the Credit owner, Notice N10. Timing: Immediate.

C: Listing procedure		
Entity/process responsible	**Process step**	**Description**
Credit owner	C26. Notice: Listing certificate	The Communication Hub issues the Credit owner with a listing certificate that contains the amount of credits listed on the COAS platform, Notice N10. Timing: Immediate.

5.3.3 Forms and Documents

The processes described refers to the following forms and documents:

TABLE 8: Forms, documents and notices used for the listing process

FORM/ NOTICE/ DOCUMENT	NAME	Annex
F2	Application for listing of carbon offset credits	Included upon IT system completion
N7	Notice to confirm listing delivery to COA	Annexure D
N8	Notice of completeness	Annexure D
N9	Notice of unsuccessful listing application	Annexure D
N10	Notice: Copy of listing certificate	Annexure D
N10	Notice: Listing certificate	Annexure D
D1	ELoA	Included upon IT system completion
D3	Attestation of Voluntary Cancellation	Included upon IT system completion

5.3.4 SPLITTING A LISTING CERTIFICATE

When a Credit owner applies to list credits on the Carbon Offset Administration System, the Attestation of Voluntary Cancellation that has to be included with the application indicates the quantity of credits that have been voluntarily cancelled from the Registry of Origin for use in the South African Registry.

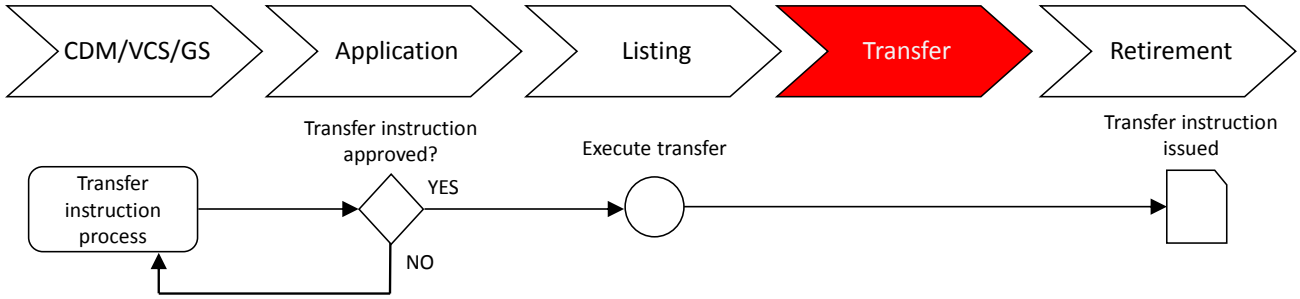
The listing certificate, which is issued to the Credit owner upon successful listing, will contain the exact amount of credits stated on the Attestation of Voluntary Cancellation. If the owner of this listing certificate would like to sell or retire a portion of the credits on the listing certificate, the certificate has to be split.

The owner of the credits can access the split action on their "My Credits" ribbon (which is on the left-hand side of the Carbon Offset Administration System default screen once they have successfully logged in).

The split action allows listing certificates to be split into two new certificates. The owner of the credits can select the number of credits contained in each of the new listing certificates. The two new certificates will reference back to the initial listing certificate that was issued to ensure traceability is maintained.

5.4 PROCEDURE D: TRANSFER OF OWNERSHIP

The following section deals with the transfer of ownership of credits within the South African offset system as depicted and highlighted in the diagram below:



The third process relates to the transfer of ownership of carbon credits. Once the carbon credits have been listed in the South African Ownership Repository, the credits can be transferred to various owners as part of a commercial transaction before being retired on the Carbon Offset Administration System to gain a retirement certificate that can be used to reduce an organisation's carbon tax liability.

Before the transfer of ownership process is discussed, a brief description is provided for adding beneficiaries on the Carbon Offset Administration System.

5.4.1 ADDING A BENEFICIARY ON THE CARBON OFFSET ADMINISTRATION SYSTEM

As stated previously, credits may only be transferred between organisations listed on the Carbon Offset Administration System. Organisations that wish to purchase credits, may view credits that are for sale by viewing the "credits available for transfer" report. From this report, interested buyers can see which organisations wish to sell credits, the quantity that is for sale and the contact details for the organisation selling the credits.

The organisation that would like to purchase credits will have to contact the owner of the credits and request his/her credit account number. Contact details are provided in the "credits available for transfer" report.

Once the transfer request is initiated, the account number from which credits will be transferred has to be provided if it is the first transfer made between the two respective organisations. If previous transfers have been made between the two organisations, the beneficiary can simply be selected from the beneficiary list.

PROCESS FLOW DIAGRAM

The following process flow diagram provides an overview of the Transfer of Ownership.

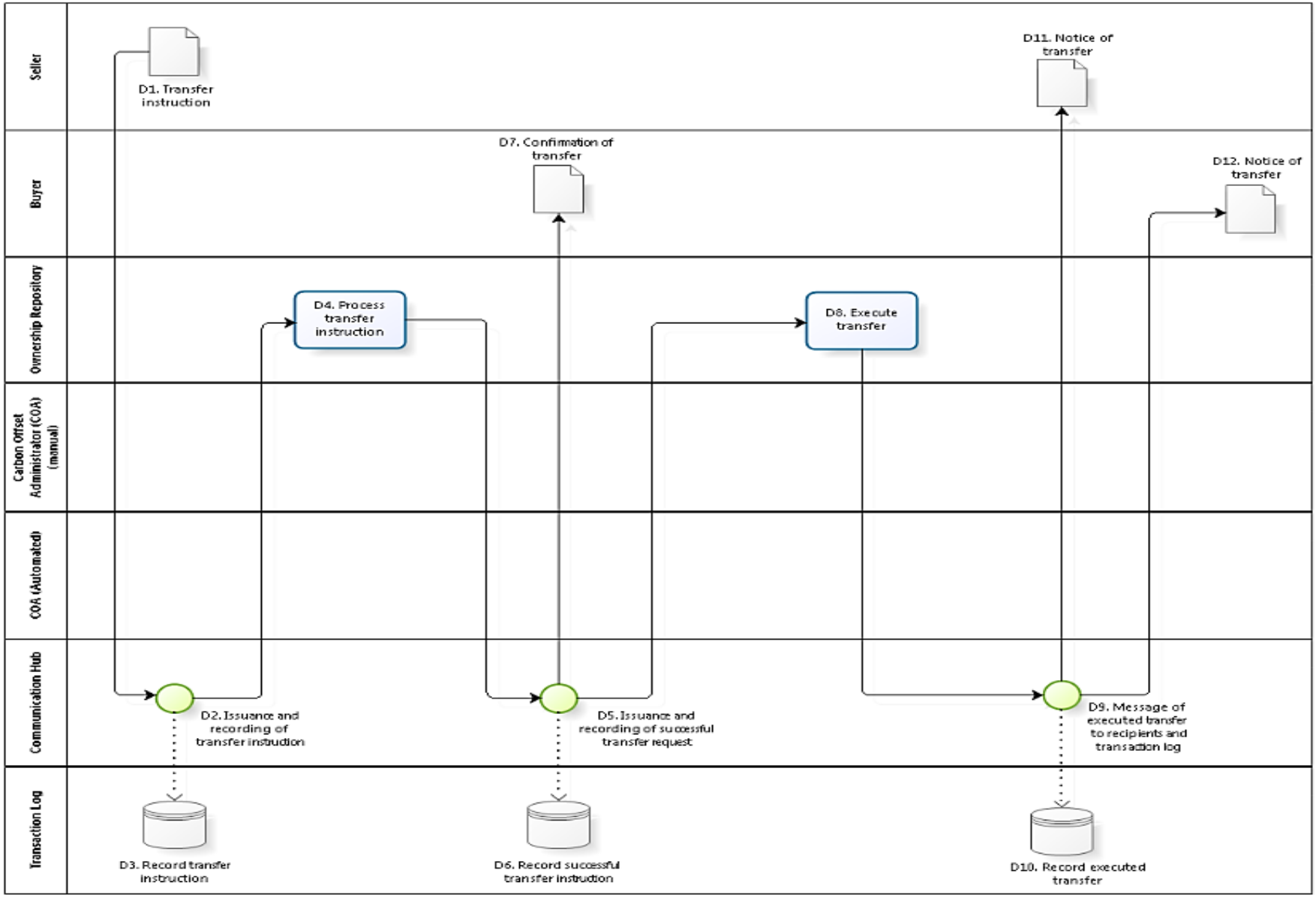
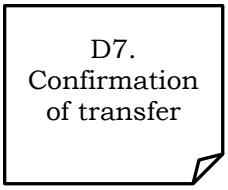
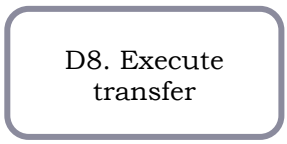
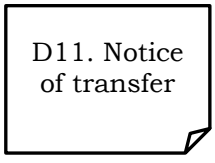


FIGURE 14: TRANSFER OF OWNERSHIP

5.4.2 TRANSFER OF OWNERSHIP PROCESS FLOW TABLE

The following table provides a detailed overview of the Transfer of Ownership process.

D: Transfer of ownership		
Entity/process responsible	**Process step**	**Description**
Seller	D1. Transfer instruction	The owner of the offset credits (Seller) can send a transfer instruction; form F3, via the Communication Hub to the Ownership Repository to initiate the transfer of credits from the Seller's account to that of the Buyer. Form F3 will require the Seller to specify the serial range of the credits being transferred to the Buyer. This information is required to ensure credits within the Ownership Repository are traceable throughout transfer of ownership cycles. Timing: The timing is dependent on the Seller of the credits.
Communication Hub	D2. Issuance and recording of transfer instruction	The Communication Hub relays the transfer request from the Seller to the Ownership Repository while also recording the transfer request in the Transaction Log. Timing: Immediate.
Transaction Log	D3. Record transfer instruction	The transfer request is recorded in the Transaction Log to enable the comparison of the amount of credits being listed for transfer and the actual amount that was transferred once the request has been processed. Timing: Immediate.
Ownership Repository	D4. Process transfer instruction	The Ownership Repository deducts the required amount of listed credits from the Seller's account and issues the Buyer with a confirmation of transfer, Notice N11. Timing: Immediate.
Communication Hub	D5. Issuance and recording of successful trade	The Communication Hub relays that the transfer request has been successfully processed. A confirmation of transfer, Notice N11, is sent to the owner of the listed credits while also recording the successful transfer request in the Transaction Log. Timing: Immediate.

D: Transfer of ownership		
Entity/process responsible	**Process step**	**Description**
Transaction Log	 D6. Record successful transfer instruction	The successful transfer request is recorded in the Transaction Log to enable the comparison of the amount of credits being listed for transfer and the actual amount that was transferred. Timing: Immediate.
Buyer	 D7. Confirmation of transfer	The confirmation of transfer, Notification N11, specifies the amount of credits that are being transferred from the Seller's account to that of the Buyer's. All required data from the Seller is provided within this document. Timing: Immediate.
Ownership Repository	 D8. Execute transfer	The Ownership Repository transfers the credits from the Seller's account to that of the Buyer. Upon successful transfer of credits, the Ownership Repository issues notifications of the successful transfer to the Seller, Buyer and Transaction Log through the Communication Hub. Timing: 24 hours to execute transfer.
Communication Hub	 D9. Message of executed transfer to recipients and transaction log	The Communication Hub issues a notice of transfer, document D4, to both the Seller and the Buyer. In addition, a record of the transfer is sent to the Transaction Log to enable a check with the listed transfer instruction, Form F3. Timing: Immediate.
Transaction Log	 D10. Record executed transfer	The executed transfer is recorded in the Transaction Log to enable the comparison of the amount of credits being listed for transfer and the actual amount that was transferred after completion of transfer request. Timing: Immediate.
Seller	 D11. Notice of transfer	The Seller receives a notice of transfer, Document D4, which indicates the amount of credits that have been transferred from his/her account to that of the Buyer. Timing: Immediate.

D: Transfer of ownership		
Entity/process responsible	**Process step**	**Description**
Buyer	D12. Notice of transfer	The Buyer receives a notice of transfer, Document D4, which indicates the amount of credits that have been transferred to the his/her account. Timing: Immediate.

5.4.3 FORMS AND DOCUMENTS

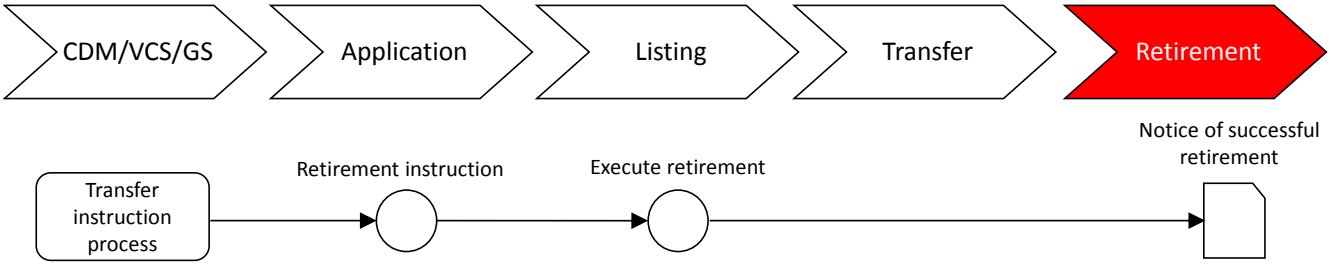
The processes described refers to the following forms and documents:

TABLE 9: Forms and documents used for the transfer of ownership process

FORM/ NOTICE/ DOCUMENT	NAME	Annex
F3	Instruction for transfer of ownership	Included upon IT system completion
N11	Confirmation of transfer	Annexure D
D4	Notice of transfer	Included upon IT system completion

5.5 PROCEDURE E: RETIREMENT OF CREDITS

The following section deals with the final step in the Carbon Offset Administration System, the retirement of credits, as depicted and highlighted in the diagram below:



The final process relates to the retirement of offset credits against a carbon tax obligation. This process is vital to avoid double counting of credits and to enhance the integrity of the system. Retirement of credits can only occur once the transfer of credits have been completed.

5.5.1 PROCESS FLOW DIAGRAM

The following diagram provides an overview of the process flow of the retirement of credits.

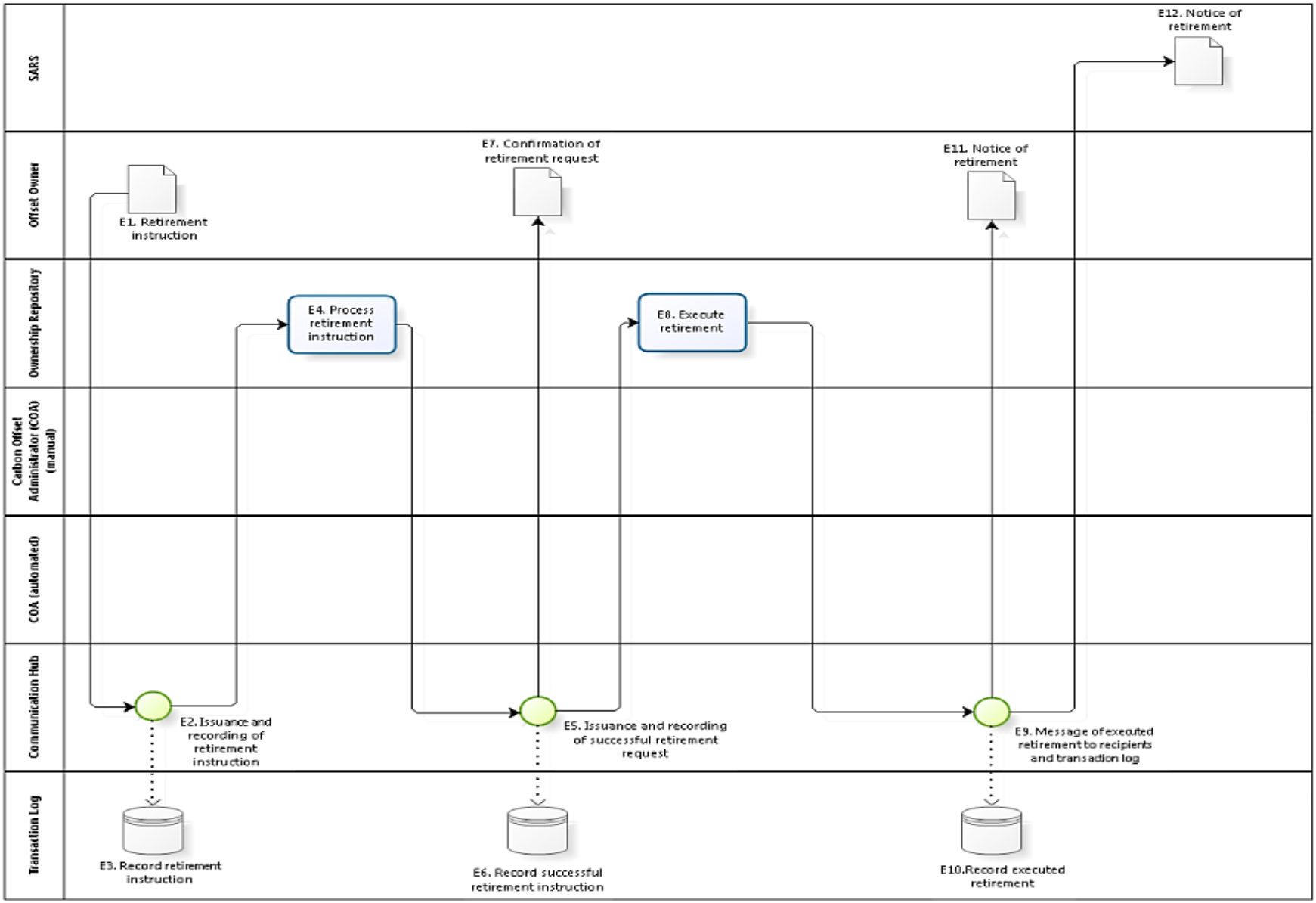
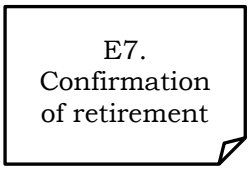
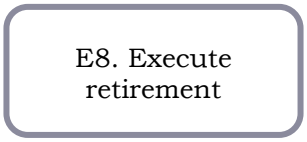
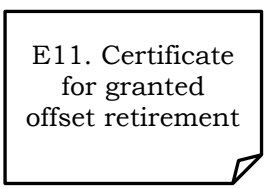


FIGURE 15: RETIREMENT OF CREDITS

5.5.2 RETIREMENT OF CREDITS PROCESS FLOW TABLE

The following table provides a detailed overview of the Retirement of Credits process.

E: Retirement of credits		
Entity/process responsible	**Process step**	**Description**
Offset Owner	E1. Retirement instruction	The owner of the offset credits sends a retirement instruction, form F4, via the Communication Hub to the Ownership Repository. This initiates the retirement of credits from the Offset Owner's account. Timing: Depends on Credit Owner
Communication Hub	E2. Issuance and recording of retirement instruction	The Communication Hub relays the retirement instruction from the Offset Owner to the Ownership Repository while also recording the retirement instruction in the Transaction Log. Timing: Immediate.
Transaction Log	E3. Record retirement instruction	The retirement instruction is recorded in the Transaction Log to enable a comparison between the amount of credits retired before and after the instruction has been executed. Timing: Immediate.
Ownership Repository	E4. Process retirement instruction	The Ownership Repository checks that the Offset Owner has a sufficient amount of credits in their account to retire the requested amount of credits. If sufficient credits are available, the Offset Owner is notified of a successful retirement instruction. The Ownership Repository then executes the retirement request. Timing: Immediate.
Communication Hub	E5. Confirmation of retirement notice	The Communication Hub issues a notice of retirement confirmation, Notice N12, to the Credit owner and records a copy thereof in the Transaction Log. Timing: Immediate.

E: Retirement of credits		
Entity/process responsible	**Process step**	**Description**
Transaction Log	 E6. Record confirmation of retirement	The confirmation of retirement that is sent to the Credit owner is recorded in the Transaction Log. Timing: Immediate.
Offset Owner	 E7. Confirmation of retirement	The Offset Owner is issued with a notice to confirm that the requested credits will be retired, Notice N12. Timing: Immediate.
Ownership Repository	 E8. Execute retirement	The Ownership Repository retires the credits from the Offset Owner's account. Upon successful retirement of credits, the Ownership Repository issues notifications of the successful retirement to the Offset Owner and Transaction Log through the Communication Hub. Timing: Immediate.
Communication Hub	 E9. Message of executed retirement to recipients and transaction log	The Communication Hub issues a notice of retirement, Document D5, to the Offset Owner and SARS. In addition, a record of the retirement is sent to the Transaction Log to enable a check with the listed retirement instruction, Form F4. Timing: Immediate.
Transaction Log	 E10. Record retirement instruction	The executed retirement is recorded in the Transaction Log to enable the comparison of the amount of credits being listed for retirement and the actual amount that was retired after completion of retirement. Timing: Immediate.
Offset Owner	 E11. Certificate for granted offset retirement	The Offset Owner receives a certificate for the granted offset retirement, Document D5, which indicates the amount of credits that have been retired from the Offset Owner's account. Timing: Immediate.

E: Retirement of credits		
Entity/process responsible	**Process step**	**Description**
SARS	E12. Copy of certificate for granted offset retirement	SARS receives a copy of the certificate for the granted offset retirement, Document D6, which indicates the amount of credits that have been retired by the Offset Owner. Timing: Immediate.

5.5.3 Forms and Documents

The processes described refers to the following forms and documents:

TABLE 10: Forms, documents and notifications used for the retirement process

FORM /NOTICE/ DOCUMENT	NAME	Annex
F4	Instruction to retire credits	Included upon IT system completion
N12	Confirmation of retirement	Annexure D
D5	Certificate for granted offset retirement	Included upon IT system completion
D6	Copy of certificate for granted offset retirement	Included upon IT system completion

6 QUALITY CONTROL

Quality management is a cardinal component of any process and will be especially important for the Carbon Offset Administrator in informing its operations. This will ensure the required level of transparency in the functions of the system.

In this regard it is suggested that the Carbon Offset Administrator adopts a quality management process aligned to, and informed by ISO 9001. The benefits of a structured and systemized quality management process, based on ISO 9001 include the following:

- Ensuring adherence to international reporting requirements and increased efficiency

  A Quality Management System for the Carbon Offset Administrator will ensure consistency, efficiency and support the unit's dedication to adhering to international best practice. The purpose of implementing and maintaining a Quality Management System is to maximize the quality and efficiency of the processes as part of the carbon offset processes. Importantly, in order to contribute towards the integrity of the Carbon Offset Administration System, a quality management system will allow for transparency and record keeping.

- Consistency of all processes within the Carbon Offset Administration System

  Consistency within all processes in the Carbon Offset Administrator minimises the opportunity for error. These processes include the necessary steps in listing and retiring credits as well as related internal and external communication. Consistency ensures system-wide adherence to best practice and process which encourages confidence in the offset system.

- Improvement of processes based on documented facts

  Audit processes, Management Review and Improvement processes based on documented data are outlined by the ISO 9001:2008 Quality Management System. Improvements based on facts are carefully planned and implemented, supporting the need to capture lessons learnt at the end of each reporting cycle and continuously refining and strengthening the functions of the Carbon Offset Administrator.

- Well-structured documentation

  The ISO 9001 Quality Management System requires that all processes are documented including any discrepancies, errors and changes. Staff accountability and consistency throughout production is then ensured. This will assist in achieving the required transparency in reporting and contributing towards efficient and effective functionality within the Carbon Offset Administrator.

- Sustainable functionality

  A structured quality management system will contribute towards improved functional performance as well as increased productivity as this provides actions, definitions and systems to support all required unit functions.

The following table provides an overview of the typical quality management system components. The purpose of this document is to highlight proposed quality management structures. Quality management will be discussed in more detail in the development of the Implementation Plan and the Monitoring and Verification system.

TABLE 11: QUALITY MANAGEMENT SYSTEM COMPONENTS

COAS QUALITY MANAGEMENT SYSTEM COMPONENT	DEFINITION AND DETAILS
COAS Quality Manual	Series of policy statements for each relevant elements of the ISO 9001 standard. Relevant elements to be defined and developed by the COAS: • Management responsibilities. • Document and data control. • Process control. • Corrective and preventative actions. • Control of quality records. • Internal quality audits. • Training. • Statistical techniques and protocols.
Procedures	Procedures will define policy in terms of who, what and where. In this regard each of the elements in the COAS Quality Manual will have a chain of responsibility in terms final sign-off and ultimate approval. Procedures should define the following roles: • Confirm the role and responsibility designation of the COAS management – the responsibilities of the director, deputy director and assistant directors. • Define review responsibilities – author, reviewer, approval. • Define role of quality auditor – internal and external. Determine person responsible. • Determine process in terms of non-conformances as identified in quality audit. Define hierarchy chain in terms of sign-off on non-conformances and rectifications. • Training schedule to be aligned with Training Plan (as per the Skills Development Plan). Determine sign-off responsibility on training and type of training (as per the Skills Development Plan).

COAS QUALITY MANAGEMENT SYSTEM COMPONENT	DEFINITION AND DETAILS
Clear instructions	Instructions should be provided to all related to the COAS reporting processes in order to streamline and ensure alignment to COAS quality requirements. Instructions will be defined in accordance with the finalisation of the COAS quality manual. Key questions to guide the development of instructions will include: • What level of information are you documenting? • What do you need to do to make the work instructions understandable? • Should you use flowcharts or another graphical representation? Work instructions could be operational such as "How to create monthly carbon offset report" or departmental "How to prepare a draft ELoA".

7 FORMAL IMPLEMENTATION OF THE STANDARD OPERATING PROCEDURES[6]

Standard Operating Procedures should be formally signed–off prior to implementation. The proposed sign off table is added below. Revisions of the Standard Operating Procedures should also be formally adopted and recorded in subsequent versions by the relevant authorities.

Designation	Name	Recommendation for approval	Signature	Date
Deputy Director				
Director				
Chief Director				
Deputy Director General				
Director General				

DRAFTING NOTES

These notes are intended to provide background to the processes followed in the drafting of the Standard Operating Procedure. They will not form part of the final document.

The Standard Operating Procedure provided in this document is a first draft. This draft will be used to develop the IT system, transaction log and the ownership repository, as well as to inform the development of the organisational development plan. The Standard Operating Procedure will be updated towards the end of the project.

The content of the Standard Operating Procedure has been workshopped through *inter alia* job shadowing sessions with members of the DNA during the development of the document. The project team express special appreciation for Takalani Rambau and Ndiafhi Tuwani for their inputs in this regard.

OBJECTIVES OF THIS DOCUMENT AS PER INCEPTION REPORT

The following table provides an overview of the Operating Procedures Manual objectives.

TABLE 12: INCEPTION REPORT OBJECTIVES

SOP Objective as per – Inception Report	Comment	Document reference
Purpose and scope.	Must be clearly defined.	The purpose and the scope of the Operations Procedure Manual is defined in Chapter 3. It is proposed that the procedures described in this document be implemented and followed in order to operate the South African Carbon Offset Administrative and Reporting System.
Standards, etc.	List of the standards (CDM, VCS, etc.) that are declared eligible in the offset scheme to be included. In addition, alignment to the IPCC is highlighted. There is also a set of guidelines that will need to be followed if new standards are to be considered to be included as eligible in the offset scheme. Written guidelines which provide broad advice in following a procedure or process, as opposed to a set of precise requirements or standards.	CDM, VCS and GS Standards are listed in Chapter 4. These are discussed in terms of process comparability.

SOP Objective as per – Inception Report	Comment	Document reference
Administrative requirements and authorities	Describe the administrative authorities and requirements of the system in a clear way.	Administrative authorities are described in the process flow diagrams and discussed in Chapter 6.
Responsibilities	Define the responsibilities with the context of the administrative authorities described above.	Responsibilities / participation are discussed as well defined tasks and processes in Chapter 6. These are illustrated in process flow diagrams and further explained in corresponding tables.
Standard operating procedure (SOP):Procedure	The SOP will describe the process to be followed if offsets credits are to be issued as well as indicate related tasks and estimated timeframes in this regard. These will be defined in the execution of the project, but could include the following: ▪ Confirmation that the project is registered with a recognised standard (CDM, VCS, etc.). ▪ Confirmation that the credits have not been used elsewhere (prevention of double counting). ▪ Confirmation that the project is eligible to be used as an offset in the South African carbon tax regime as described in the Carbon Offset Paper or any subsequent document such as the Draft Carbon tax Bill. Confirmation of retirement/redemption of the credits to SARS.	All processes related to the issuing of credits are discussed in Chapter 6. This is done in the form of process flow diagrams and corresponding explanatory tables. ✓ This is done as part of the initial listing process through the Letter of Approval or Extended Letter of Approval. See chapter 6. ✓ This is done as part of the various automatic and manual checks in processing the application. See chapter 6. ✓Eligibility criteria is the critical component in issuing a Letter of approval or Extended Letter of Approval, as discussed in the Listing Procedure. See chapter 6. ✓ The retirement of credits is discussed in chapter 6.

DECISIONS FOR MOVING FORWARD

The main decisions that need to be taken in relation to these aspects are listed in the table below:

TABLE F: LIST OF PROJECT DECISIONS TO BE TAKEN IN THE DEVELOPMENT OF THE CARBON OFFSETS ADMINISTRATION SYSTEM

Topic	Working question	Considerations
Organisational design	What should the Administrator look like?	The organisational design of the Administrator will impact on the capacity and skills of the Administrator. The design will impact on the definition of tasks to be performed in-house or outsourced. Responsibilities that may fall, as an example, under the regulation of the Financial Services Board, may have to be outsourced. These could typically include the administering and regulation of trades on the selected market platform.
Project eligibility rules	What projects can be allowed into the offset trading scheme?	The criteria for National Appropriateness must be considered. The Independent Expert Committee will perform a technical advisory function. The Project Steering Committee could be the decision point as this is a policy decision.
Administration of the IT System	Who should be in control of the administration of the carbon offset scheme?	This report is based on the assumption that this decision has been taken and that the unit in the Department of Energy that currently acts as South Africa's DNA will be the Administrator.
Structure of the Administrative IT System	What information should be contained in the administrative IT system?	The structure of the IT system will be informed by the responsibilities and actions of the Administrator. As a minimum, information that allows for full tracking and auditing of all aspects of the issuance and retirement of the credits in the system should be covered. Additional information may be required for National Government reporting.
Administrative IT System hosting	Where should the IT System be hosted?	Note that the decision of where to host is informed by issues such as security and disaster recovery and not by the controls of the system and the database. From this perspective, it may be prudent to host the IT system at a reputable third party service provider.

Topic	Working question	Considerations
Administration of the Transaction Log	Who should be in control of the Transaction Log?	The purpose of the Transaction Log is to act as a control measure on the issuance, transfer of ownership and retirement of carbon offset credits. As such we believe that the Carbon Offset Administrator, as the final custodian of the carbon offset system, should be in control of the Transaction Log.
Structure of the Transaction Log	What information should be contained in the Transaction Log?	The Transaction Log should contain a full record of all transactions related to the issuance, transfer of ownership and retirement of credits in the system. The Transaction Log should further be structured that communication with other international Transaction Logs will be possible if required in future.
Transaction Log hosting	Where should the Transaction Log be hosted?	It would be best if the Transaction Log is hosted with the Administrative IT System.
Administration of the Ownership Repository (Registry)	Who should handle the administration of the ownership repository?	The administration of the ownership repository will require unique skills and responsibilities that may fall outside of the conventional skill-set of the Department of Energy. The most important element of the administration of the ownership repository is the responsibility for the commercial and financial integrity of the ownership database and transfer-of-ownership database for the carbon offset credits. We recommend that the administration of the ownership repository be outsourced to a competent third party.
Ownership Repository (Registry) structure	What information should be contained in the ownership repository?	The ownership repository must contain all information required to manage the ownership records and transfer-of-ownership records of the carbon offsets credits in an auditable environment. Only the owner of the credits can access the credits. Any changes to the ownership will be recorded in the transaction log
Ownership Repository (Registry) hosting	Where should the ownership repository be hosted?	Note that the decision of where to host is informed by issues such as security and disaster recovery and not by the controls of the ownership repository. From this perspective, it will be prudent to host the ownership repository at a reputable third party service provider. The government will retain oversight of the system through the Transaction Log.

THE ADMINISTRATIVE IT SYSTEM REQUIREMENTS

The Administrative IT System forms the backbone of the carbon offset administration system. This analysis is based on the following high-level system requirement specifications:

Control: That the administration will be under the control of the Carbon Offset Administrator, which will be the unit in the Department of Energy currently performing the function of the DNA. The Carbon Offset Administrator will be supported by an Independent Expert Committee.

Applicable Standards: The system must be able to handle offset credits from the UNFCCC's Clean Development Mechanism (CDM), the Verified Carbon Standard (VCS) and the Gold Standard (GS).

Project eligibility: The system must be able to handle the assessment of the National Appropriateness of offset projects as specified in the project eligibility criteria to be published in the forthcoming carbon tax legislation and regulations.

Record keeping: The system must keep all records related to project registration, national appropriateness (project eligibility in terms of the carbon tax), issuance and retirement of credits. This will require an extensive database in which all relevant data is recorded and kept.

Linkages: The system must link with both the Transaction Log and with the Ownership Repository.

Access: The system must be accessible to the following users:

- Carbon Offset Administrator.
- Technical Support.
- Carbon offset credit owners.
- Independent verifiers.
- Other Government departments that may require access to specific reports, such as SARS, Department of Environment, etc.;
- Members of the public with respect to specific standardised reports.

Reporting: The system must provide for a variety of fixed and configurable reports for various users.

Security: The system must have the required level of security.

Timeframes: The system must be operational in time for the implementation of the carbon tax in January 2017.

Based on the analysis done in this report, the recommendations with respect to the Administrative IT System are:

TABLE C: OPTIONS FOR ADMIN IT SYSTEM

Options	Comments	Analysis
Build new system	The benefits of building a new system for the Carbon Offset Administrator is that the IT System can be custom made to address the unique characteristics of the South African System.	***The South African Carbon Offset Administration system should be a custom designed IT System built purposely for the Carbon Offset Administrator, housed inside the Department of Energy.***
Use existing DNA system	The current DNA system is based on providing host country approval for the CDM projects. Certain critical components that will be required in the new carbon offset administration system that are not covered in the current DNA system are: • The ability to handle VCS projects. • The ability to handle GS projects. • The ability to handle CCBS projects. • The ability to handle full project registration details. • The ability to link to carbon offset credit registries.	
Use system developed by SANEDI for Section 12L energy efficiency incentives	Whereas the Section 12L IT system managed by Sanedi is similar in nature to the required carbon offset IT System, the processes differ on many points. Retrofitting this database to accommodate the carbon offset requirements would be costly and time intensive. However, elements of the 12L IT system can be replicated in the offset IT system.	

It is critical to note that there is a definitive split between the control of both the IT System and Ownership Repository and the hosting thereof. The control of the IT System and ownership repository will remain undoubtedly with the relevant Government Department. However, in term of hosting the actual hardware, the decision should be based on the necessary technical requirements, cost and security implications.

RISK ASSESSMENT DURING DRAFTING

The project team performed risks assessments of all the identified processes in within the scope of work of the Carbon Offset Administrator. The table below summarises the outcomes of the risk assessment workshops. This table should be read with the business process descriptions contained in the Standard Operating procedure.

These results have informed the content of the Standard Operating Procedure.

Table 13: Risk Assessment

Process step	Risks (What can go wrong?)	System corrective response/ Risk mitigation
Extended LoA application by Credit owner	1. Forged LoA	Check the reference number on LoA and compare against the DNA standards database
	2. Fraud/Corruption	Different levels of sign off by authority and transparent record keeping. A steering committee and a final signature by the Director General is required for the ELoA sign-off.
	3. Supply of false information	Check against relevant standards database (CDM, VCS, GS)
	4. False application by credit owner	Check against relevant standards database (CDM, VCS, GS)
	5. Unauthorized access	Sufficient login security set up by IT personnel
	6. Credit owner unique ID stolen	Sufficient login security set up by IT personnel
	7. Phising of information	Sufficient login security set up by IT personnel
Automated completeness check by the COA	1. Supporting documents not attached	Notification to credit owner.
	2. Incomplete application	Notification to credit owner.
Manual completeness check by the COA	1. Incorrect supporting documents attached	Notification to credit owner.
	2. Eligibility criteria not met	Notification to credit owner.
	3. Validation of substance insufficient	Notification to credit owner.
Processing of application and	1. Erroneous Extended LoA issuance	Different levels of sign off by authority and transparent record keeping, this should be based on the current thorough LoA process.

Process step	Risks (What can go wrong?)	System corrective response/ Risk mitigation
approval of application by COA	2. Fraud/Corruption	Different levels of sign off by authority and transparent record keeping
	3. Correct procedures not followed	Different levels of sign off by authority and quality audit for standard operating procedure followed
	4. Delays in the system	Flag delay within COA for action and follow-up by senior member. Flag to be recorded for performance assessment purposes
	5. Wrongful rejection of Extended LoA application	Appeals procedure and flag to be recorded for performance assessment purposes
	6. Wrongful acceptance of Extended LoA application	COA is liable for wrongful acceptance - would be evaluated by third party auditor
	7. Website down - unable to access upload platform	Help desk for queries, IT upload support and regular maintenance on website. Maintenance schedule checked as part quality assurance
	8. Mix-up of applications and documentation	COA to provide quality assurance through quality check. Flag to be recorded for performance assessment purposes
	9. Version control mix-up	IT system to check for latest version of document uploaded
	10. Changes in rules	Regulator standards rule check by COA. Need to inform applicants of recent rule changes on the website or via notices
Issuance of the Extended LoA by COA to	1. Changes in owner, etc.	Short issuance timeframe. Credit owner has to inform COA of change in owner as soon as possible. In the event that this does happen the Credit owner has to reapply

Process step	Risks (What can go wrong?)	System corrective response/ Risk mitigation
Credit owner	2. Errors in document issued	COA administrator to provide quality assurance through quality check. Flag to be recorded for performance assessment purposes
	3. Changes in rules	Regulator standards rule check by COA. Need to inform applicants of recent rule changes on the website or via notices
Attestation of voluntary cancellation by Credit owner	1. False document issued	Cross check standard and COA register
	2. Document issued for wrong project	COA administrator to provide quality assurance through quality check. Flag to be recorded for performance assessment purposes
	3. Document contains erroneous information	COA administrator to provide quality assurance through quality check. Flag to be recorded for performance assessment purposes
	4. Wrong vintage (commitment period of the CDM)	COA administrator to provide quality assurance through quality check. Flag to be recorded for performance assessment purposes
	5. Wrong volume specified for cancellation	COA administrator to provide quality assurance through quality check. Flag to be recorded for performance assessment purposes
Listing instructions sent by Credit owner to COA	1. Duplication of credits	IT system to check number of credits on instruction versus number on the attestation
	2. Mismatched ELoA/ Attestation	IT system to check specified document criteria on instruction versus specified document criteria on the attestation
	3. Fraud/Corruption	Different levels of sign off by authority and transparent record keeping and COA administrator to provide quality assurance through quality check. Flag

Process step	Risks (What can go wrong?)	System corrective response/ Risk mitigation
		to be recorded for performance assessment purposes
	4. Forged documents/False listing instruction	IT system to check specified document criteria on instruction versus specified document criteria on the attestation. Additionally could check form where request originates from. Multiple security measures to ensure authentication of Credit owner
	5. Wrong or erroneous information supplied	IT system to check specified document criteria on instruction versus specified document criteria on the attestation.
	6. Phising of information	Sufficient login security set up by IT personnel
Approval of listing by COA **and sending information of approval to** Communication Hub	1. Timeframe expiration	Flag delay within COA for action and follow-up by senior member. Flag to be recorded for performance assessment purposes
	2. Communication failure	Help desk for queries, IT upload support and regular maintenance on website. Maintenance schedule checked as part quality assurance. Automatic notification of communication failure sent to COA
	3. Version control	IT system to check for latest version of document uploaded
	4. Fraudulent Access	Protection against and notification of unsecure/unauthorized login breach at the COA
	5. Change or rules	Regulator standards rule check by COA. Need to inform applicants of recent rule changes on the website or via notices

Process step	Risks (What can go wrong?)	System corrective response/ Risk mitigation
	6. Changes in name, etc.	Short issuance timeframe. Credit owner has to inform COA of change in owner as soon as possible. In the event that this does happen the Credit owner has to reapply
	7. Website down	Help desk for queries, IT upload support and regular maintenance on website. Maintenance schedule checked as part quality assurance
	8. Fraud/Corruption	Different levels of sign off by authority and transparent record keeping
	9. Delays in processing of listing	Flag delay within COA for action and follow-up by senior member. Flag to be recorded for performance assessment purposes
	10. Wrongful listing from COA	COA is liable for wrongful acceptance - would be evaluated by third party auditor
	11. Wrongful rejection from COA	COA is liable for wrongful acceptance - would be evaluated by third party auditor
	12. Procedures not followed	COA administrator to provide quality assurance through quality check. Flag to be recorded for performance assessment purposes
	13. Authorities not followed (Procedure breach)	COA administrator to provide quality assurance through quality check. Flag to be recorded for performance assessment purposes
Issuance of listing from the Registry to the COA	1. Erroneous listing	IT system to check specified document criteria on instruction versus specified document criteria on the attestation.
	2. Fraud/Corruption	Protection against and notification of unsecure/unauthorized login breach at the Registry

Process step	Risks (What can go wrong?)	System corrective response/ Risk mitigation
and Credit owner	3. Delays in issuance of listing	Flag delay within COA for action and follow-up by senior member. Flag to be recorded for performance assessment purposes
	4. Errors in the registry system	IT system to check specified document criteria on instruction versus specified document criteria on the attestation.
	5. System failure	Help desk for queries, IT upload support and regular maintenance on registry. Maintenance schedule checked as part quality assurance
Balancing records on both sides of the listing in the Transaction Log	1. Volumes not balanced	IT system to check specified document criteria on instruction versus specified document criteria on the attestation.
	2. Erroneous automatic system checks	T be determined as part of IT System development.

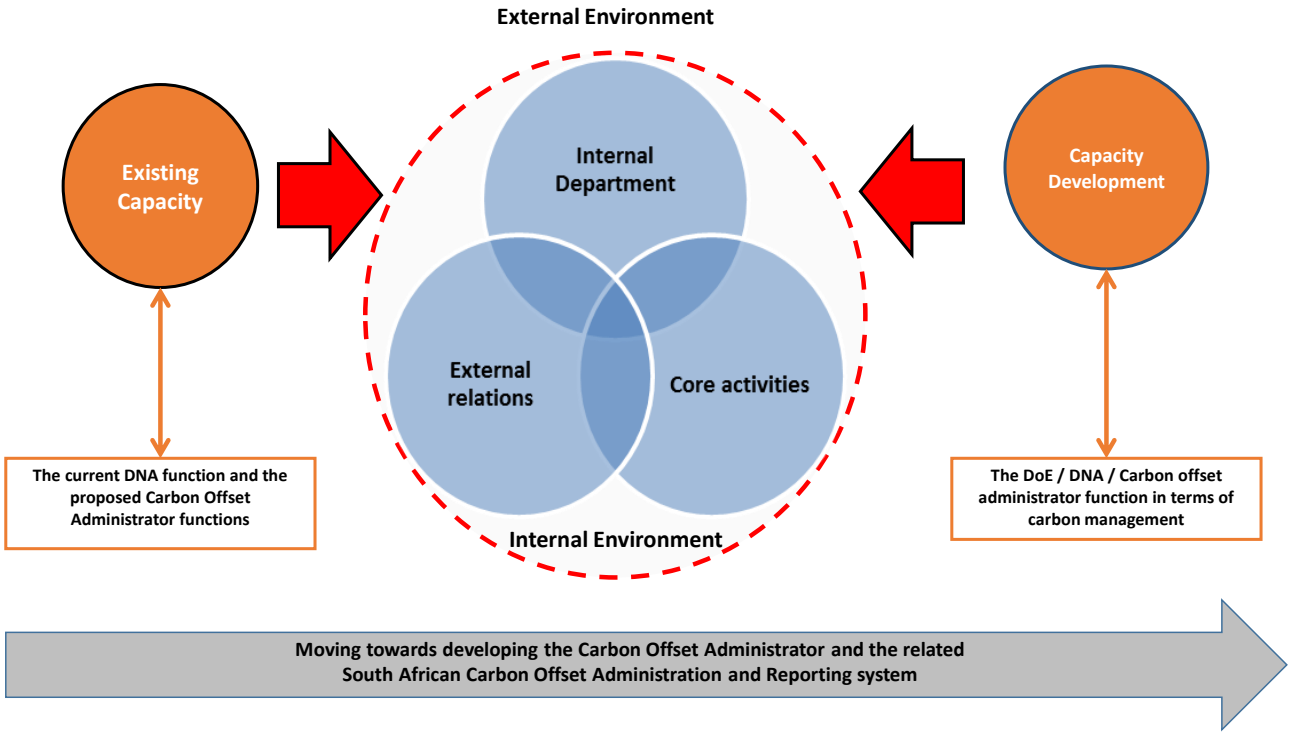
PRELIMINARY NOTES ON THE ORGANISATIONAL DEVELOPMENT PLAN

Organisational Development is not a step-by-step procedure to solve a specific problem, but a process of strategic change in the focus and aligned capacitation of the organisation. In this case the establishment of Carbon Offset Administrator within the Department of Energy. The organisational development plan for the proposed Carbon Offset Administrator should comprise the following specific components:

- **Internal Organisation**: Its own way of working such as staff skills, internal functioning, organisational structure, etc.
- **Relations with other Government Departments**: Outside relations with other actors (National Treasury, Department of Environmental; Affairs, etc.).
- **External Relations**: Forming part of a global partnership with regards to climate change and UNFCCC requirements.
- **Core Activities:** Execution of the functions described in this Standard Operating Procedure.

In light of the above, the following figure contextualizes these components in terms of the proposed Carbon Offset Administrator:

FIGURE 16: ORGANISATIONAL DEVELOPMENT COMPONENTS OF THE CARBON OFFSET ADMINISTRATOR



The following table provides an overview of the proposed organisational development components of the Carbon Offset Administration with reference to the developed business processes.

TABLE 14: OVERVIEW OF THE ORGANISATIONAL DEVELOPMENT COMPONENTS OF THE CARBON OFFSET ADMINISTRATOR

ORGANISATIONAL DEVELOPMENT COMPONENT	IMPLICATION FOR THE ORGANISATIONAL DESIGN OF THE PROPOSED CARBON OFFSET ADMINISTRATOR
Internal organisation	Internal skills: Technical skills as well as support skills to fulfil required roles and responsibilities. The organisation structure should comprise both technical and administrative support and skills. These should cover varied disciplines and fields in order to effectively address the diverse nature of a carbon offset system. Internal coordination in terms of information sharing and packaging of information will be vital so as to ensure that the work done is seamlessly captured and aligned to relevant reporting process requirements.
Relations with other Government Departments:	The objective of the Carbon Offset Administrator will be to oversee and manage, where necessary, the carbon offsetting process. This will include providing and formulating approvals, data management, coordination, collation and engagement where required. Core activities will include (but not limited to): project planning, data collection, data analysis, information synthesis, stakeholder engagement, research, data coordination and report formulation.
Core Activities	The objective of Carbon Offset Administrator will be to oversee and manage where necessary the carbon offsetting process including providing and formulating approvals, data management, coordination, collation and engagement where required. Core activities will include but will not be limited to: project planning, data collection, data analysis, information synthesis, stakeholder engagement, research, data coordination and report formulation.

ORGANISATIONAL DEVELOPMENT COMPONENT	IMPLICATION FOR THE ORGANISATIONAL DESIGN OF THE PROPOSED CARBON OFFSET ADMINISTRATOR
External Environment	The external environment with regards to carbon offsetting has a number of different layers: Local / domestic input and considerations pertaining to the developmental context of South Africa and specific issues pertaining to the dynamics between industry development and climate change management and economic conditions. Socio-political inputs regarding governance structures, integrating awareness of carbon offsetting and the reporting / management requirements across various sectors. International treaties and protocols dictating the need for reporting and providing progress in terms of commitments made. Contextualizing international trends and issues in localized actions and activities.
Capacity: DoE function in terms of carbon offsets	The Carbon Offset Administrator, in association with the Designated National Authority within the Department of Energy, is instrumental in implementing national legislation, polices, standards, guidelines and norms in order to improve adaptive capacity, resilience as well as reduce the level of vulnerability that all spheres within South Africa may face. This branch is also responsible for facilitating the South African preparations with regards to climate change negotiations and agreements at multiple levels.
Capacity Development: DoE ROLE in terms carbon offsets	The envisioned Carbon Offset Administrator will be dedicated to managing the proposed South African Carbon Offset administration system. In this regard the role of the Carbon Offset Administrator is to assess project applications timeously and to facilitate a manual and automated functions to process carbon credits. Capacity development should focus on enhancing the understanding of carbon credit registries and strengthening support skills such as project management, stakeholder engagement and project analysis in terms of eligibility criteria.

CRITICAL SUCCESS FACTORS FOR A SUCCESSFUL CARBON OFFSET ADMINISTRATOR

In order to effectively implement a Carbon Offset Administration system and to fulfil the required roles and functions in this regard, the organisational structure of the Carbon Offset Administrator will have to be resilient in design.

Due to the increased reporting requirements as well as the introduction of additional, full-time staff members, it is proposed that the organisational structure of the Carbon Offset Administrator, and the

processes related thereto, need to integrate the following criteria as discussed in Table 4 below. The criteria have been considered in terms of their ability ensure sustainable growth and maturing of the unit within the Department.

TABLE 15: RESILIENCE CRITERIA FOR THE CARBON OFFSET ADMINISTRATION ORGANISATIONAL DEVELOPMENT PLAN

CRITERIA FOR ORGANISATIONAL DESIGN RESILIENCE	DEFINITION AND IMPLICATION FOR THE COAS ORGANISATIONAL DESIGN
Leadership	Due to the timeframes and the pressures associated with the South African carbon offsetting process, strong leadership is required to provide good management and decision making. Leadership capacity includes continued evaluation of strategies within the Carbon Offset Administrator, and related partners, to address the requirements of the various business processes. In addition, strong leadership is required to facilitate and foster buy-in, not only with regards to climate change, but with regards to associated processes and reporting requirements. In this regard, institutional arrangements and organisational design of the Carbon Offset Administrator should be comprised of strong leadership working groups, operating across departments and sectors.
Situation Awareness	Situation awareness among staff and related departments around carbon offsets highly recommended. Keeping abreast of developments in the environment is crucial to informing understanding of what is happening in various relevant project / energy sectors. This could include training, development as well as knowledge sharing amongst staff. Internal workshops and training sessions can also act as catalysts to inform this process.
Planning Strategies	The development and evaluation of plans and strategies will assist in managing vulnerabilities in relation to the carbon offset environment and stakeholders.
Levering Knowledge	Critical information is stored in a number of formats and locations and staff that access to expert opinions when needed will benefit enormously from this. Roles can be shared and staff members trained so that someone in the team is always able to fill key roles. Levering knowledge is therefore important for integration between the various departments which will be required to plan and share roles in terms of the various components of the carbon offset system.

CRITERIA FOR ORGANISATIONAL DESIGN RESILIENCE	DEFINITION AND IMPLICATION FOR THE COAS ORGANISATIONAL DESIGN
Decision Making	Providing staff members with the appropriate authority to make decisions related to their work and authority will facilitate efficient and speedy responses to crises. The involvement of highly skilled staff members is recommended, particularly those who are able to make decisions where their specific knowledge adds significant value, or where their involvement will aid implementation. Strategic decision making should filter through from a strategic level to operational and day to day functional levels, in order to effectively stress climate change resilience and planning around climate change. Integrated risk management and decision making is therefore essential for managing climate change.

ANNEXURE A: ADDITIONAL INFORMATION

CARBON OFFSET STANDARDS COMPARISON

A standard is an agreed way of doing something. A standard outlines the requirements, specifications, guidelines or characteristics which must be used consistently to ensure that materials, products, processes and services are fit for their purpose.

In the context of this report, the term 'Standards' refers to the mechanisms that accredit carbon credits. Under the proposed South Africa Carbon Tax policy these include the Clean Development Mechanism (CDM), the Gold Standard (GS) and the Verified Carbon Standard (VCS). The development of a specific, 'South African Standard' has also been allowed for in the policy paper. Therefore the standard operating procedures have been drafted to be functional irrespective of the standard used to generate the credits.

The Carbon Tax Policy Paper states that only projects registered on the basis of approved carbon offset standards will be eligible to supply offset credits against the carbon tax obligations of South African companies. The following table provides a high-level overview of the procedural analysis of the various standards mentioned in the Carbon Tax Policy Paper. Note that the CCBS is not mentioned here as this standard has now been incorporated in the VCS. These standards are to be used in the listing / generation of carbon credits as per the Carbon Offset Paper .

The table provides an overview of the various procedural steps to carbon emission issuance.

Table 16: Carbon Credit Standard Procedural Comparison

Project cycle steps compared	CDM	VCS	GS
Project design requirements from project developer	The project developer must prepare a Project Design Document (PDD) and submit this for validation by a Designated Operational Entity (DOE)	The project developer must complete a Project Description and the accompanying documentation	For GS accreditation of a CDM Programme of Activity (PoA): a CDM Component Project Activity (CPA)-DD and CPA-Passport (same as GS-Passport) for each CPA is required in addition to CDM-PoA-DD and PoA-Passport. For a Voluntary PoA: a PoA-DD, PoA-Passport, a VPD-DD and VPA-Passport are required for each voluntary project activity. All PoAs and CPA/voluntary project activities require a Local Stakeholder Report

Project cycle steps compared	CDM	VCS	GS
Applicable methodologies that may be used	Only CDM Executive Board approved methodologies	CDM, VCS and Climate Action Reserve.	Gold Standard Methodology and all methodologies approved by CDM Executive Board
National approval required by DNA	Yes, letter of approval (LoA)	No	Yes, LoA for CDM projects.
Validation of project design documents	Validated by accredited designated operational entity) and must be done as a step prior to registration of project	Project Description must be validated by an approved validation/verification body member that is registered with the VCS.	Validated by accredited designated operational entity and must be done as a step prior to registration of project. All Design Documents and GS Passports require validation which includes validation for carbon and sustainability criteria. As an additional criteria for validation, the GS reviews and validates the design documents and passports that the designated operational entity submitted to them
Requirements for registration of project design document at standard	Completeness check, vetting by secretariat, vetting by Executive Board	Project Description may be sent to the VCS registry for project pipeline listing before being verified	Completeness check, Local Stakeholder Consultation report and all required GS-passports that are accepted by designated operational entities and approved by The GS Foundation. Documents submitted for CDM validation shall undergo GS validation and registration review

Project cycle steps compared	CDM	VCS	GS
Monitoring of emissions reductions	Project participant is responsible for monitoring of actual emissions.	Project proponent is responsible for monitoring of actual emissions.	Project proponent is responsible for monitoring of actual emissions and ensuring that all sustainability criteria are continuously met.
Verification	The Designated operational entity verifies that emissions reductions have taken place according to the approved monitoring plan.	Validation / verification body verifies that emissions reductions have taken place according to the validated/verified monitoring report.	The GS shall review documents after designated operational entity has approved them
Emission reduction issuance	Designated operational entity submits verification report with request for issuance of emissions reductions credits to CDM Executive Board	VCS registry creates project and Verified Carbon Unit records on the VCS project database and deposits Verified Carbon Units in project proponents account	GS issues label to UNFCCC serial numbers on account in registry

ANNEXURE B: Application form for ELoA

192 Visagie Street, Private Bag X96, Pretoria 0001 Tel: 012 406 7685, Fax: 012 406 7300

[OrganizationName]

[OrganizationAddress]

South African

Designated National Authority

For the

Clean Development Mechanism

Of the

Kyoto Protocol of the United Nations

Framework Convention of Climate Change

Office of the Director General in the

Department of Energy

DNA Contact Address

Tel: +27 (0) 12 406 7786

Fax: +27 (0) 12 323 5819

Email: DNA@energy.gov.za

Attention: **[UserTitle] [UserFirstName] [UserLastName]**

DESIGNATED NATIONAL AUTHORITY (DNA) FOR THE CLEAN DEVELOPMENT MECHANISM (CDM): EXTENDED LETTER OF APPROVAL FOR **[ProjectName]**.

We refer to the application for the DNA's Extended Letter of Approval for the **[ProjectName]** at **[OrganizationName]** in South Africa.

The Republic of South Africa has ratified the United Nations Framework Convention on Climate Change and is a signatory to the Kyoto Protocol and complies with its obligations under these international instruments.

The DNA is the authorised body in South Africa to issue Letters of Approval for CDM projects. South Africa participates voluntarily in the CDM and in the Project.

The DNA is also the authorised body in South Africa to issue Extended Letters of Approval for entities who wish to voluntarily cancel their carbon offset credits for use in the South African Carbon Tax Offset Scheme.

Based exclusively on the information contained in the in the Project Design Document, the Attestation of Voluntary Cancellation and subject to the conditions set out herein;

We confirm that:

a) the project is located in **[ProjectLocation]**;
b) the boundary of the project is the physical boundary of **[ProjectBoundaryDetails]** and will be developed by **[OrganizationName](s)**; and
c) the Project support sustainable development.

Extended Letter of Approval

energy
Department:
Energy
REPUBLIC OF SOUTH AFRICA

We authorise:

a) the participation of **[ProjectName]** at the **[ProjectLocation]**, as a CDM Project;
b) **[OrganizationName](s)** as the project proponent(s) to participate in this CDM Project;
c) **[OrganizationName](s)** if they are the legal owner of the Project, to sell the title and all rights to the greenhouse gas emissions reductions generated by this Project; and
d) this Project may trade any issued carbon offset credits in terms of the South African Carbon Tax System.

This Letter of Approval is subject to the following conditions:

a) **[OrganizationName](s)** warrant to the DNA that they are the legal owner of the Project. The DNA does not take any responsibility for the private contractual arrangements and property rights between or among project participants. The DNA may not be held liable in the event that ownership of the Project is disputed;
b) the Project must be developed in accordance with the Project Design Document received by the DNA;
c) the Project must obtain all relevant authorisations as required by national laws; and
d) the DNA retains the right to withdraw authorisation granted in terms of the Letter of Approval in the event of non-compliance with the Project Design Document.

We will, to the extent possible, cooperate with **[OrganizationName](s)** and the CDM Executive Board to facilitate the CDM project cycle. The granting of this Letter of Approval does not guarantee the registration of the Project as a CDM project by the CDM Executive Board.

By their acceptance of this Letter of Approval, **[OrganizationName](s)** indemnifies the DNA against any loss that **[OrganizationName](s)** may suffer as a result of project implementation.

Yours Sincerely,

Signature of current Director-General

Title, Initials and Surname of current Director-General

Director General

Date: **[LoADateIssuance]**

ANNEXURE C: User Interface Screens

The user interface (UI) is everything designed into the COAS portal with which a user (human) may be able to interact. Items with which the user may interact include display screens (input or output screens), numeric keyboard displayed on the screen, illuminated characters (hyperlinks to other useful pages), help messages, and how an application or the portal invites interaction and subsequently responds to said interaction from the user.

Examples of the user interface screens are presented in Figure 17 to Figure 22:

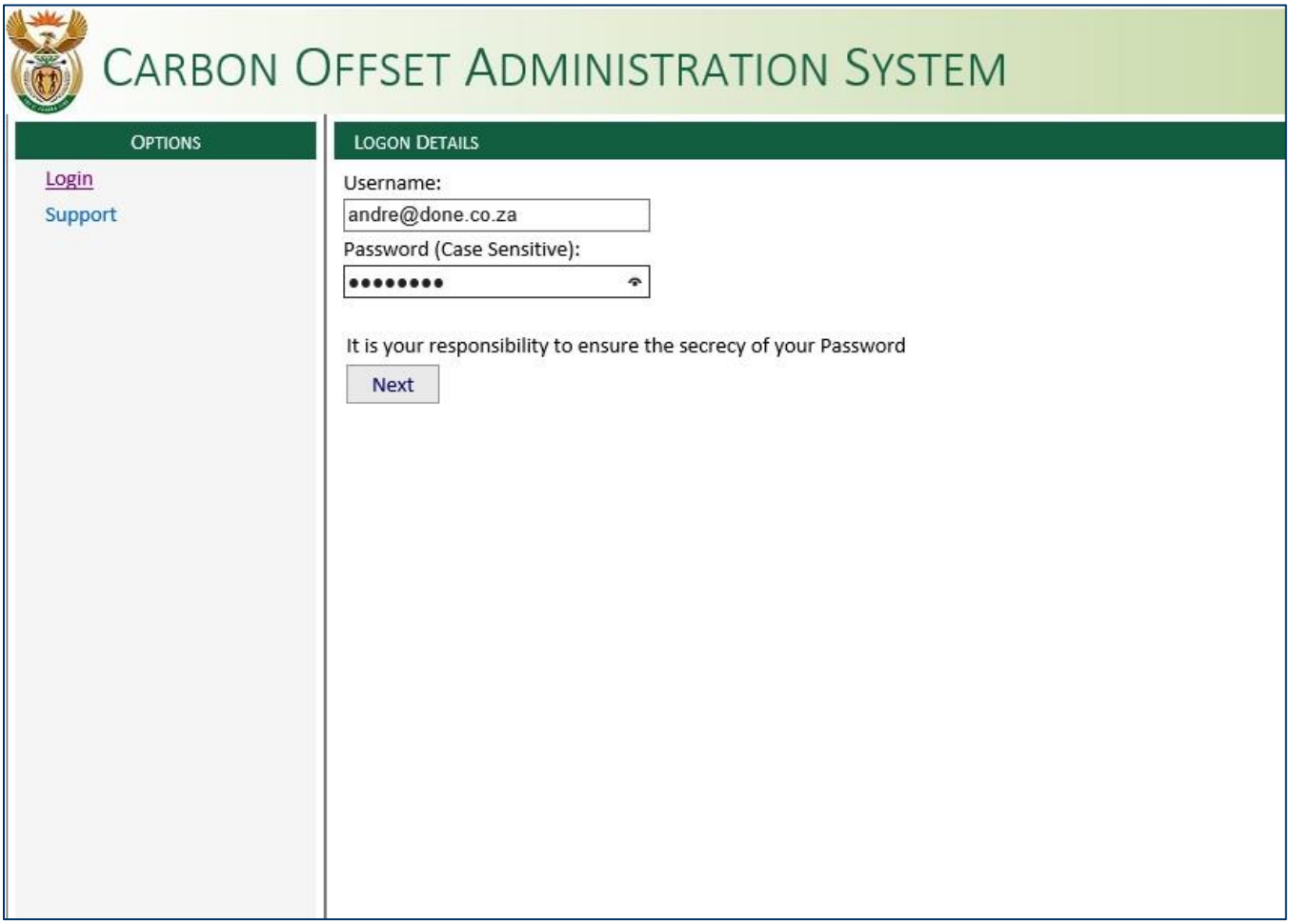


FIGURE 17: LOGIN SCREEN WITH PASSWORD ACCESS

When a user from an organization that has been added to the COAS clicks on the COAS portal link on the Department of Energy's website, they will be presented with the screen depicted in **Error! eference source not found.**. The user will be prompted to insert their username and password to gain access to the COAS portal itself. A support link is also available on this page should any errors occur during the login procedure or if the user forgot his/her login credentials.

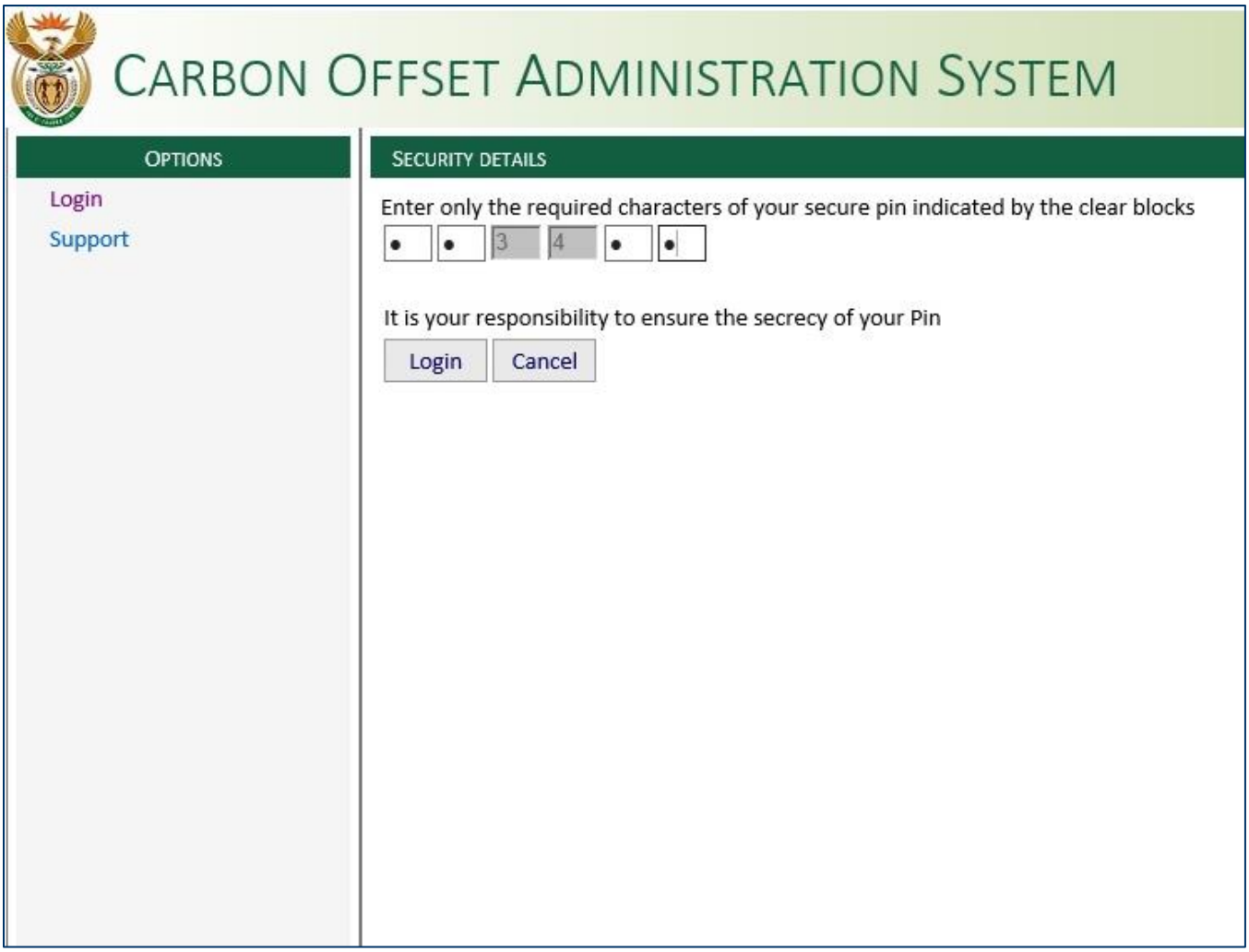


FIGURE 18: LOGIN SCREEN - PASSWORD SECURITY PASSED. PIN SECURITY SCREEN BEFORE ACCESS

If the user provided the correct login credentials, they will be presented with the PIN security screen depicted in Figure 18. The PIN which is selected by the user, acts as a second security layer.

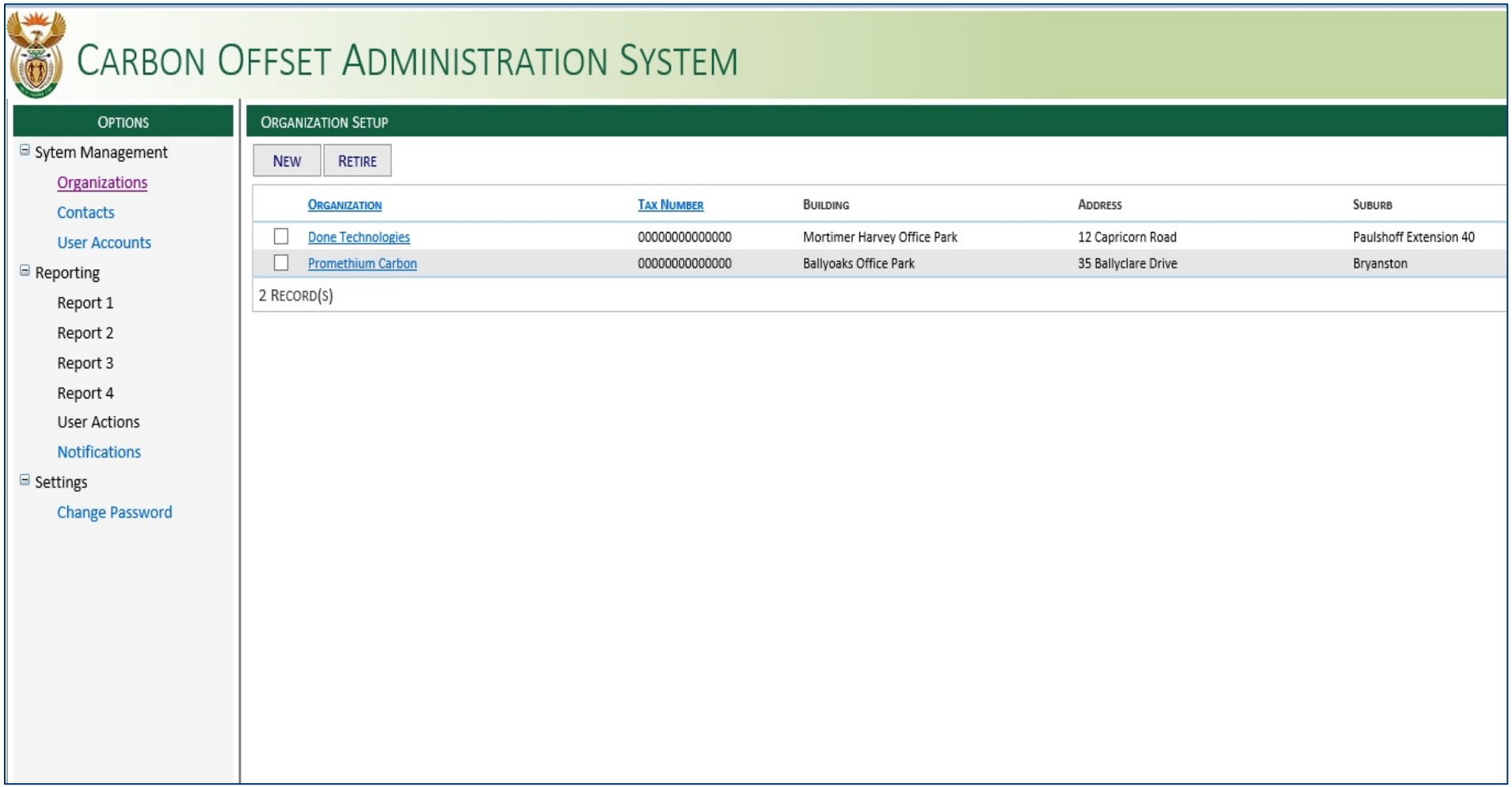


FIGURE 19: ORGANIZATION LANDING PAGE

If the password and PIN security checks have been passed, the user will be presented with the organization landing page presented in Figure 19. From here the user can edit their contact details, access reports, carry out administrative actions and access the COAS workflow.

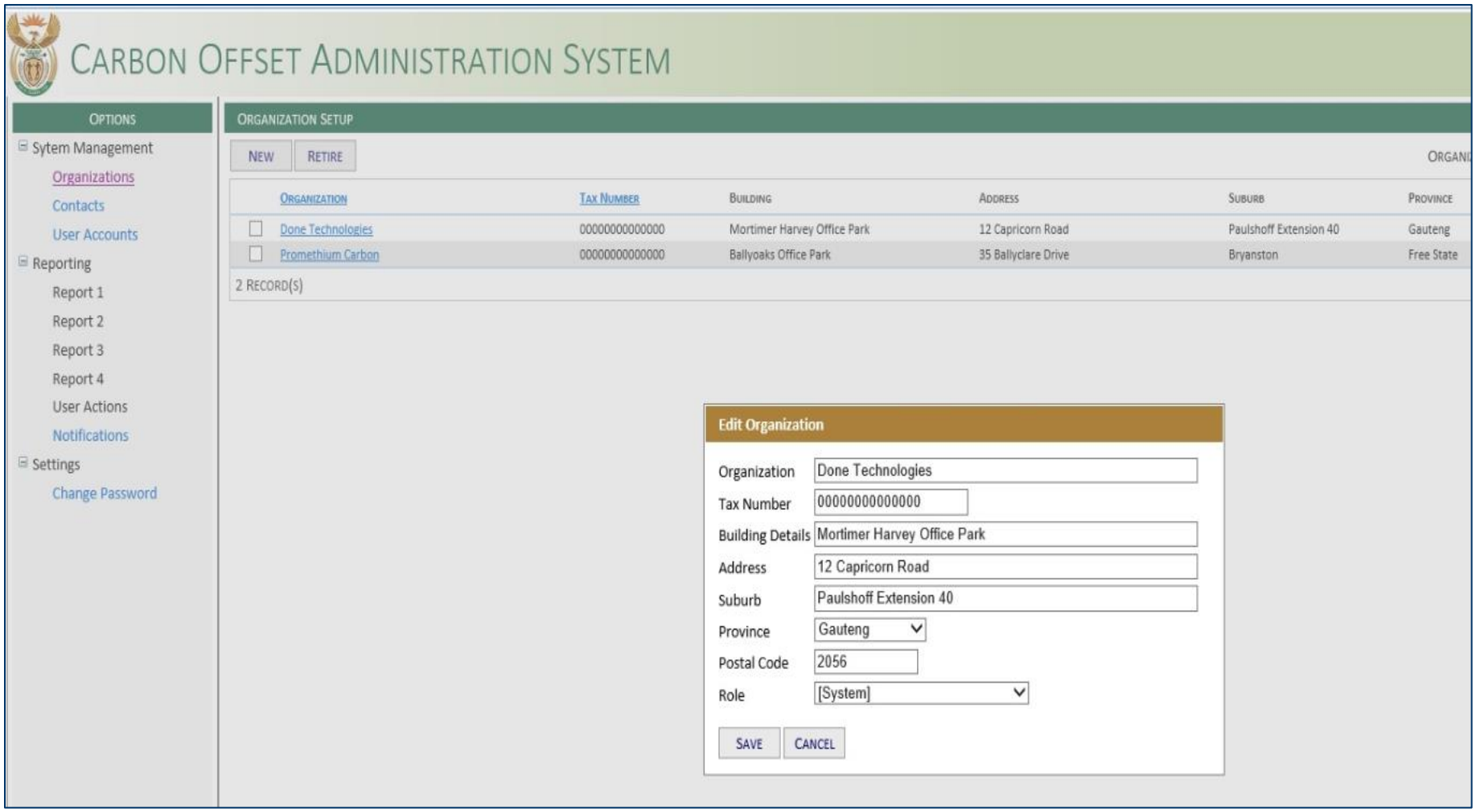


FIGURE 20: ORGANIZATIONS SCREEN

The organization screen depicted in Figure 20 allows a user with sufficient rights to change or amend any of the organization's details.

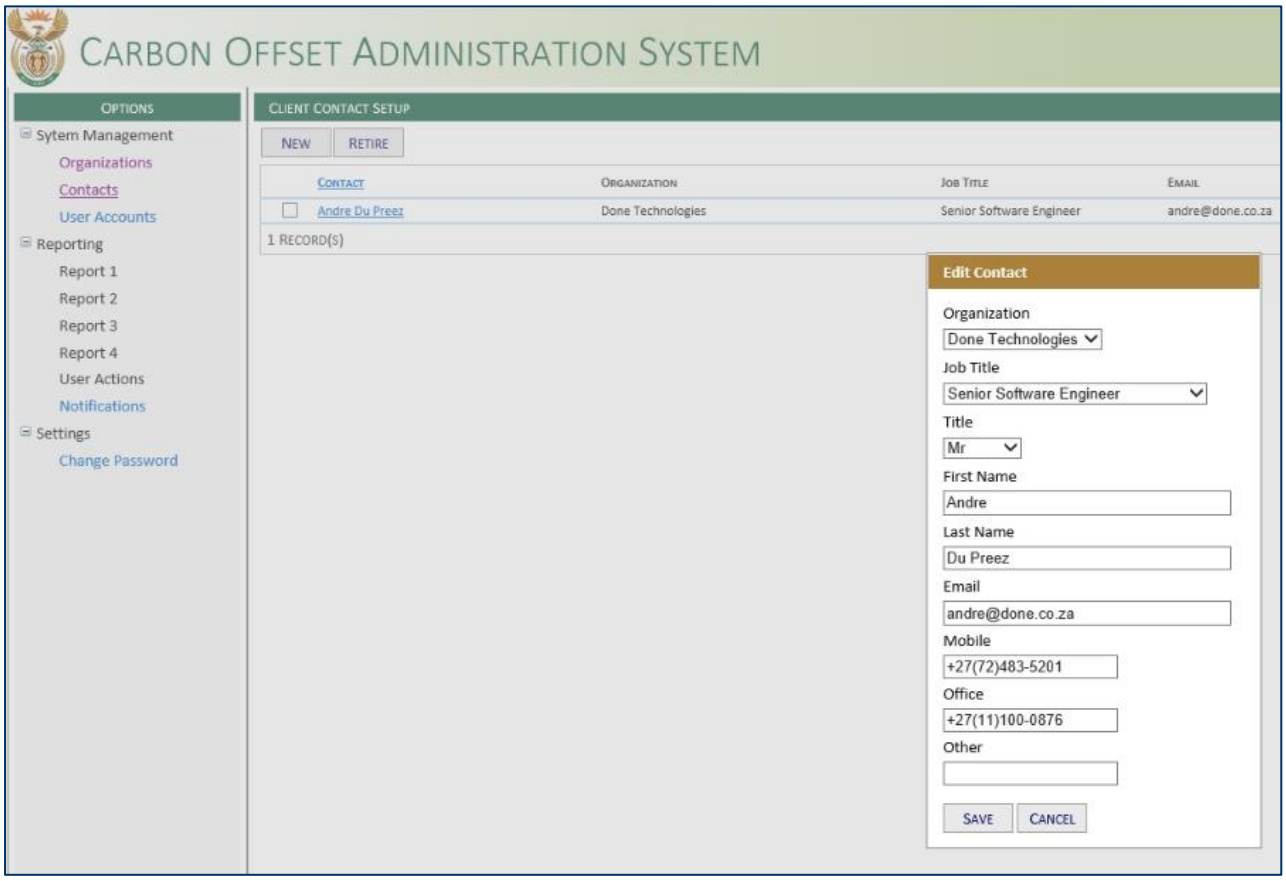


FIGURE 21: ORGANIZATION CONTACT SCREEN

The organization contact is the first point of call for an organization. Any formal communication from the Carbon Offset Administrator will be sent to this user. By default, this user is the organization's administration user. The administration user may choose to assign this right to another user within the organization. The screen depicted in Figure 21 allows the organization contact to amend their details.

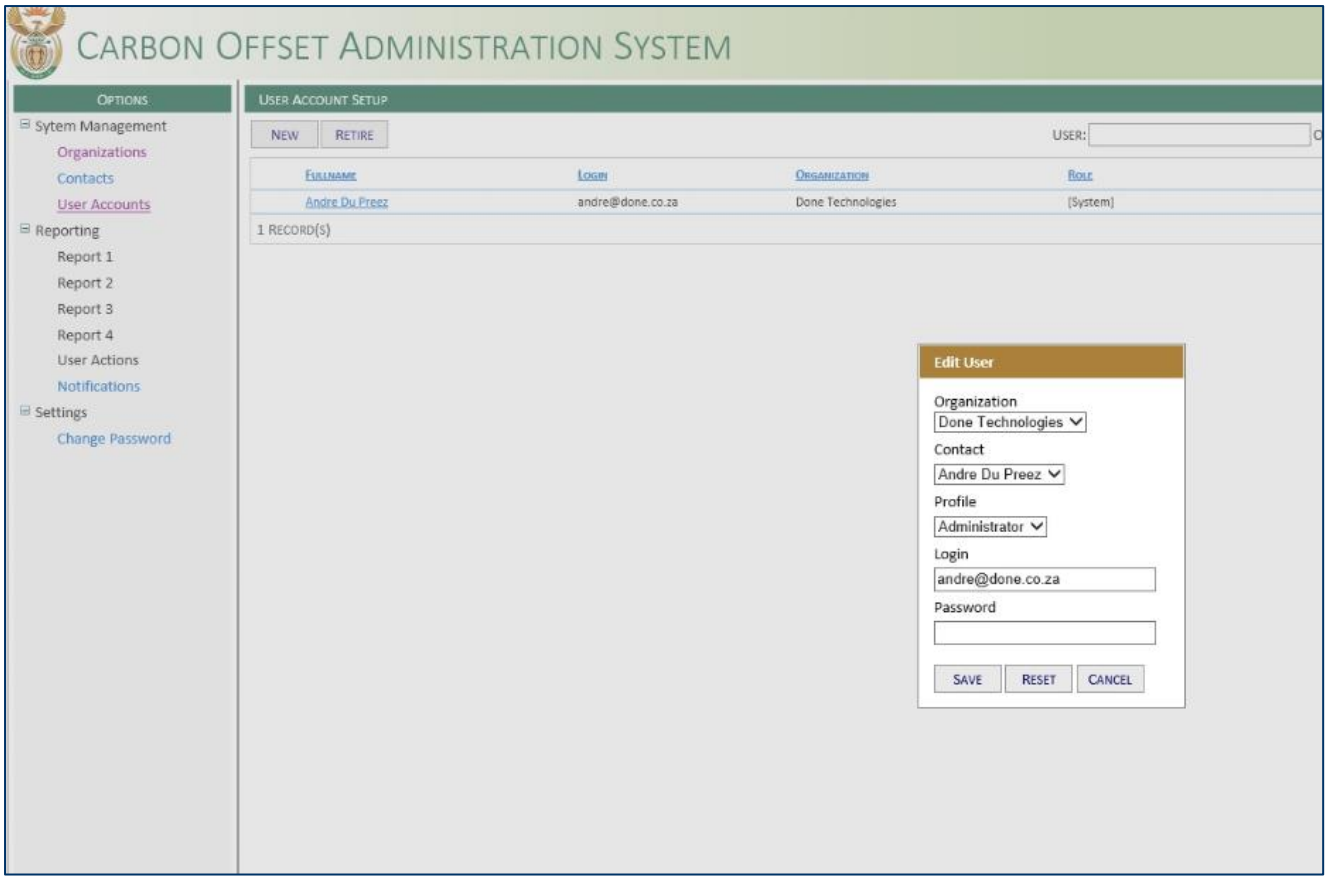


FIGURE 22: USER INFORMATION SCREEN

The user information screen allows a user within an organization to change any of their details. This would include contact number(s), email address and their password. If the user's role is to be changed, they will have to contact the organization administrator to change their role in the event that they have gained approval therefor.

ANNEXURE D: Notices generated by the system

The automatic notices generated by the system will be presented in this section of the report. Each notice will be presented along with the relevant process step at which it is issued. Text that is presented like the following: **[drawn from database]**, is drawn directly from the Registry. The text within these brackets refer to the data field from the data is drawn from the Registry.

The following matrix provides an overview of the various notices. These notices are in Word Format.

Ref #	Notification Name	Public	Project Owner	Credit Owner	
	ORGANISATION REGISTRATION NOTICES				
N1	Notice to issue Organisation with COAS profile and logon details	x			Registration procedure
N2	Issue Organisation with notice of unsuccessful registration	x			
	PROJECT REGISTRATION / APPROVAL NOTICES				
N3P	Notice to confirm project approval application POSITIVE		x		Application for project approval
N3N	Notice to confirm project approval application NEGATIVE		x		
N4P	Notice of completeness - Acknowledgement POSITIVE		x		
N4N	Notice of completeness - Acknowledgement NEGATIVE		x		
N5	Notice for clarification		x		
N6	Notice of application submission to DG for evaluation		x		
	LISTING APPLICATION NOTICES				
N7P	Notice to confirm listing application POSITIVE		x	x	Listing application
N7N	Notice to confirm listing application NEGATIVE		x	x	
N8P	Notice of completeness - Acknowledgement POSITIVE		x	x	
N8N	Notice of completeness - Acknowledgement NEGATIVE		x	x	
N9	Notice of unsuccessful listing application		x	x	

Ref #	Notification Name	Public	Project Owner	Credit Owner	
N10	Notice of successful listing certificate issued		x	x	
	TRANSFER PROCESS NOTICES				
N11	Confirmation of transfer		x	x	Transfer
N12	Notice of transfer		x	x	
	RETIREMENT PROCESS NOTICES				
N13	Confirmation of retirement		x	x	Retirement
N14	Notice of retirement		x	x	

ANNEXURE E: Reports generated by the system

The following matrix provides an overview of the various reports generated by the system. These reports are in Word Format.

Report Name	Public	Government	Project Owner	Credit Owner	COAS	
Organisations Summary Report	x	x	x	x	x	Public Reports
Project Approvals Report	x	x	x	x	x	
Projects Summary	x	x	x	x	x	
Credit Listing, Transfer, Retirement	x	x	x	x	x	
Credits Available for Transfer	x	x	x	x	x	
Project Benefits Report			x		x	Administration Reports specific to COAS
Changes to Organisational Details					x	
Changes to Sustainable Development Criteria					x	
Changes to Eligibility Criteria					x	
Projects Summary for Project Owner			x		x	Project Owner Reports under User Actions
Credits Summary for Project Owner			x		x	
List of Beneficiaries for Project Owner			x		x	
Credits Summary for Credit Owner				x	x	Credit Owner Reports under User Actions
List of Beneficiaries for Credit Owner				x	x	

ANNEXURE F: Sustainable Development Criteria

Environmental Indicators in Support of the Project Approval Criteria

Category		Indicator	Comment
Environmental	Impact on local environmental quality	• Impact of the project on air quality • Impact of the project on water pollution • Impact of the project on the generation or disposal of waste • Any other positive or negative environmental impacts of the project (such as impacts on noise, safety, visual impacts, or traffic)	*Please comment on the impact of the project on local environmental quality. In particular, provide details indicating that pollution and degradation of the environment are avoided, as are negative impacts on people's environmental rights, or where these cannot be altogether avoided, are minimised and remedied (1 paragraph)*
	Change in usage of natural resources	• Impact of the project on community access to natural resources • Impact of the project on the sustainability of use of water, minerals or other non renewable natural resources • Impact of the project on the efficiency of resource (non-renewable and renewable) utilisation	*Please comment on the impact of the project on the usage of natural resources. Comment specifically on the indicators of relevance which are given here. In particular, provide details indicating that the use and exploitation of resources is responsible and equitable, and takes into account the consequences of the depletion of the resource (1 paragraph)*
	Impacts on biodiversity and ecosystems	• Changes in local or regional biodiversity arising from the project	*Please comment on the impact of the project on biodiversity and ecosystems. Comment specifically on the indicators of relevance which are given here, i.e. provide details indicating that the disturbance of ecosystems and loss of biological diversity are avoided, or where they cannot be avoided, are minimised and remedied (1 paragraph)*
	Impacts on cultural heritage	• Changes in local or regional landscapes or cultural heritage	*Please comment on the impact of the project on the disturbance of landscapes and sites that constitute the nation's cultural heritage is avoided, or where it cannot be altogether avoided, is minimised and remedied (1 paragraph)*

Economic Indicators in Support of the Project Approval Criteria

Category		Indicator	Comment
Economic	Economic impacts	• Impact of the project on foreign exchange requirements • Impact of the project on existing economic activity in the area and/or national economic development • Impact of the project on the cost of energy • Impact of the project on foreign direct investment	*Please comment on the economic impacts of the project. Comment specifically on the indicators of relevance which are given here (1 paragraph)*
	Appropriate technology transfer	• Positive or negative implications for the transfer of technology to South Africa arising from the project • Impacts of the project on local skills development • Demonstration and replication potential of the project	*Please comment on the impacts of the project on appropriate technology transfer. Comment specifically on the indicators of relevance which are given here (1 paragraph)*

Social Indicators in Support of the Project Approval Criteria

Category		Indicator	Comment
Social	Alignment with national provincial and local development priorities	• How the project is aligned with provincial and national government objectives regarding social development in South Africa • How the project is aligned with local developmental objectives • Impact of the project on the provision of, or access to, basic services to the area • Impact of the project on the relocation of communities if applicable • Contribution of the project to a any specific sectoral objectives (for example, renewable energy targets)	*Please comment on how the project is aligned with national, provincial and local development priorities. Comment specifically the indicators of relevance to the project which are given here (1 paragraph)*
	Social equity and poverty alleviation	• Impact of the project on employment levels? (specify the number of jobs created/lost; the duration of time employed, distribution of employment opportunities, types of employment, categories of employment changes in terms of skill levels and gender and racial equity) • Impact of the project on community social structures • Impact of the project on social heritage • Impact of the project on the provision of social amenities to the community in which the project is situated • Contribution of the project to the development of previously underdeveloped areas or specially designated development nodes	*Please comment on the impact of the project on social equity and poverty alleviation. Comment specifically on the indicators of relevance which are given here (1 paragraph)*

General Indicators in Support of the Project Approval Criteria

Category		Indicator	Comment
General	General Project Acceptability	• Are the benefits of project distributed in a reasonable and fair manner?	*Please comment on whether the benefits occurring from the project due to the contribution of the CDM are reasonable and fair (1 paragraph)*
	Risk aversion	• Risk averse and cautious approach to the project	*Please comment on what measures have been taken to ensure that the project is implemented in a risk averse and cautious manner, which takes into account the limits of current knowledge about the consequences of decisions and actions (1 paragraph)*
	Other	• Other indicators that the project contributes to sustainable development	*Please provide any other comments on how this project contributes to sustainable development in South Africa (optional) (1 paragraph)*

ANNEXURE G: Project Eligibility Criteria

The Carbon Tax Policy Paper states that certain projects will be allowed to be used to generate offsets for the carbon tax system while other project will be excluded. The Carbon Offset Paper provided a starting point for project eligibility criteria. The following list indicates the criteria in bold and the definition of the criteria as per the Carbon Offset Paper in italic print:

Location

Only South African-based credits will be eligible for use within the carbon offsets scheme, to encourage the development of locally based projects and GHG-mitigation in South Africa.

Position in tax net

Projects that generate carbon offset credits must occur outside the scope of activities that are subject to the carbon tax[7]*. This is to prevent double counting of the carbon reduction benefit should an offset project be implemented on an activity that is liable to the carbon tax.*

Eligible projects

In keeping with desired carbon offset principles a list of eligible projects will be introduced as a starting point to provide certainty and stimulate investment decisions and project development in the carbon offsets market. However, this standardised approach will be sufficiently flexible in accepting additional methodologies, so as not to limit the variety of projects that can be added once the offset programme has been launched. The list will therefore be expanded as the programme matures to allow new project types to be included should they meet the required criteria.

Lists of both eligible and ineligible projects should be introduced, based on the value added to the low-carbon transition. An eligible projects list would include project areas that, in addition to carbon mitigation, also have sustainable development benefits and contribute to meeting South Africa's developmental priorities. An ineligible projects list would include projects that would be implemented within the scope of taxable activities following the introduction of the carbon tax. Projects that have little co-benefits and low value, such as the mitigation of industrial gasses (adipic acid projects will remain included), should also be excluded.

Timing

Projects registered or implemented prior to the introduction of the carbon tax regime will have to fulfil specified conditions[8] *to be accepted to the scheme.*

In addition to the above-mentioned criteria from the Carbon Offset Paper, and taking into consideration the potential carbon offset market, we recommend that the following criteria also be considered:

Host Country Approval: The CDM currently requires that all projects must get approval from the host country DNA with respect to the eligibility of the project in terms of the sustainability criteria of the host country. This is the done in the form of requesting a Letter of Approval (LoA). This is not currently a requirement in either the VCS or the GS. It is recommended that VCS and GS must get approval in the same way as the CDM with respect to the sustainable development criteria before these credits can be eligible to trade in South Africa

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7 Note that the intention by Treasury is to define it as "*occur outside the scope of activities that are subject to the carbon tax"(.*

8 There was a concern around existing programmes that would flood the domestic carbon market. As a result the initial design of the Carbon Offset Paper suggested to limit supply by restricting CDM projects. However the CDM process of validation and annual verification will by definition prevent flooding of the domestic market. Therefore existing CDM projects could be allowed in the future design of the carbon tax system. Not all project concepts that were validated and registered were implemented, preserving the first mover advantage of CDM project developers. This supports the on-going promotion of mitigation through international tradable and credible mechanisms.

in the form of an Extended Letter of Approval. This will ensure that all credits used in the South African offset system meets both the sustainable development criteria as well as the carbon tax offset eligibility criteria ..

Forestry credits

The risk of non-permanence in international programmes can be dealt with in five main ways: buffers for unintentional reversals (VCS, GS, CAR), reserve accounts (VCS, CDM for CCS), compensatory measures by project developers (VCS and CAR), and temporary carbon credits (CDM) or consideration in the host country's inventory (Joint implementation)[9].

Non-permanence should be treated with caution in the South African carbon offset administration system to ensure that project permanency risk not be transferred to the State but rather lie with the credit owner.

Projects utilizing VCS methodologies (which address permanence through risk assessments and buffer accounts on a program level) should be eligible for carbon offset trading. These permanence requirements are applied across the entire program and do not vary methodology by methodology thereby reducing uncertainty and costs for project developers.

Though currently no such methodology or standard exist, it is recommended that credits generated under a ton-year accounting method[10,11] for biologically sequestered carbon be included in the system. This approach shifts risk related to the permanence of forestry credits from the issuance phase to the financing phase.

Registration Date:

It is recommended that projects registered prior to the date of introduction be eligible if the project applies for an ELoA. The motivation for this lies in two areas with specific reference to the registration date. The first is that these projects will supply the initial volume into the market that is required to give liquidity to the trading system, as these projects have passed through an additionality test. Secondly, any CER or VCU that is eligible to be used as an offset elsewhere in the world and which was generated from a project registered when there was no carbon pricing mechanism implemented in SA, should be eligible to be used in SA as well.

Additionality:

Projects registered under the CDM and for which the E-policy[12] argument was used in the additionality should prove that the project will still be additional if the E-policy argument is not used.

Type E-policies: National and/or sectoral policies or regulations that give comparative advantages to less emissions-intensive technologies over more emissions-intensive technologies (e.g. subsidies to promote the diffusion of renewable energy) (EB 22, Annex 3, paragraph 6). Policies or regulations classified as an E- policy can be excluded from the baseline scenario and additionality analysis. A reason for this is that governments should be encouraged to create

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9 World Bank. 2015. "Options to Use Existing International Offset Programs in a Domestic Context." PMR Technical Note 10. Partnership for Market Readiness, World Bank, Washington, DC. License: Creative Commons Attribution CC BY 3.0 IGO

10 McLaren & Ford-Robertson, Carbon accounting methodologies, Forest Research, Private Bag 3020, Rotorua, New Zealand.

11 IPCC Special Report on Land Use, Land-Use Change, and Forestry, 2000

12 One of the key design elements of the international carbon credits was promoting improvements in terms of climate change mitigation by countries. An approach that the CDM took in dealing with the evaluation of improving climate change mitigation was to evaluate changes in national and/or sectoral policies and regulations over time. The CDM Executive Board agreed to differentiate the following 2 types of national and/or sectoral policies that are to be taken into account when establishing baseline scenarios: Type E+ That give comparative advantages to more emissions intensive technologies or fuels and / or Type E- That give comparative advantages to less emissions intensive technologies (e.g. public subsidies to promote the diffusion of renewable energy or to finance energy efficiency programs). The progressive South African legislation quantifies in a large number of cases as E-policy and projects could get carbon credits under the CDM regime. (CDM in Charts, Ver. 26.0 Nov 2014, IGES).

such incentives without being restrained in their access to the international carbon credit market.

The South African Demand Side Management and REIPPP incentives are classified as E-policies and therefore don't form part of the financial additionality arguments of projects applying for registration with the CDM or VCS.

Though policy incentives should be excluded from CDM or VCS additionality analysis to prevent discouraging governments to support emission reduction projects, it is recommended that for additional South African benefits (i.e. to be classified as an offset project); all national incentives should be included in the financial additionality of a project.

This rule will prevent projects to obtain multiple benefits from the South African Government without needing it to overcome the barriers to implementation. By imposing this rule, it is believed that funds can be preserved and therefore more projects will be allowed to obtain financial support.

Projects registered under the CDM or VCS, which used barrier analysis to prove additionality will be automatically allowed as offsets.

Positive List:

Both the CDM and VCS allow for positive lists which both identify project types that have been deemed to be additional through a series of analysis. Projects on the positive list are automatically additional.

In the supply and demand section, the impact of supply of a positive list is assessed. The proposed positive list includes all projects in the residential sector, as well as projects developed under the RE IPP Programme up to a penetration rate of 5% for each technology.

Fast tracking:

Using the existing standards provide certainty and credibility to the credits issued under the respective standards. Efforts have been done internationally to maintain the high level of credibility but lower the cost and effort for project developers. These fast track initiatives can be grouped as follows

- Standardised baselines
- Automatic additionality for specific technologies
- Automatic additionality for specific under developed zones

If the Designated National Authority submits these to the UNFCCC the barriers to project development is significantly reduced without compromising the integrity of either the system or the credits.

With a standardised baseline for the Grid Emission Factor, as well automatic additionality for a range of small scale renewable energy projects, Renewable Energy Certificates could be a viable option to lower costs significantly while generating offset credits in a domestic, and very affordable way.

ANNEXURE H South African Context

The development of the South African carbon offset scheme is occurring within the context of the National Climate Change Response White Paper (NCCRWP), the Carbon Tax Policy Paper, and the Carbon Offset Paper. To get insights from carbon schemes in other countries, it is important to understand the policy contexts within which these schemes were developed.

NATIONAL CLIMATE CHANGE RESPONSE WHITE PAPER

The NCCRWP stipulates that South Africa's approach to greenhouse gas mitigation should balance its contribution to international efforts to curb global emissions with its developmental priorities. Therefore, a key element of South Africa's approach to mitigation will include the following:

"The deployment of a range of economic instruments to support the system of desired emissions reduction outcomes, including the appropriate pricing of carbon and economic incentives, as well as the possible use of ***emissions offset*** *or* ***emission reduction trading mechanisms*** *for those relevant sectors, sub-sectors, companies or entities where a carbon budget approach has been selected."*

The NCCRWP provides the framework and context for the implementation of the proposed carbon tax and the related carbon offsetting possibilities.

CARBON TAX POLICY PAPER

The Policy Paper makes the following provision for offsets:

- A carbon offset is defined as "*… an (external) investment through which a firm can access GHG mitigation options that are cheaper than what can be achieved by investment in its own operations.*"
- Carbon offsets are generated in projects that "*… are developed and evaluated under specific methodologies and standards, which enable the issuance of carbon credits*" and "*…can be categorised by a set of characteristic, including the technology employed or type of GHG reduction, as well as specific methodology selected to develop the project.*"
- *"Offsets can be used by firms to reduce their carbon tax liability up to a limit. Variable offset limits are proposed based on the mitigation potential of the sector.*"
- The proposed offset limits are listed in the Policy Paper and range from 5% for certain sectors to 10% for other sectors.
- The purpose of the offsets is to: " *allow greater flexibility to reduce emissions on the margin via investments outside a specific sector."*
- On the standards to be used, "*It is proposed that initially firms could use verified offsets developed under internationally recognised carbon offsetting standards (e.g. Clean Development Mechanism (CDM) and Verified Carbon Standard (VCS)) to reduce their carbon tax liability".*
- As per the Policy Paper, carbon offset projects must comply with the following principles:
    - ***Real*** *- develop or use available methodologies that ensure that carbon emissions are measurable and quantifiable and take into account adjustments for uncertainty and leakage.*
    - ***Reliable*** *- an independent, third party, to audit a project. This includes both a validation of a project's design before it is implemented, and then a constant verification process at set intervals following the generation of emission reductions.*
    - ***Additional*** *- its intent is to prove that a carbon offsetting project is being implemented above what would have happened under a 'business as usual' scenario. The project needs to demonstrate that its main aim is to reduce emissions, in a manner that would not have occurred under a business as usual situation.*

- ***Permanent*** *- relates to the long-term removal, reduction or avoidance of carbon (or carbon dioxide equivalent) emissions. This applies to projects with the risk of reversibility, especially in the case of land-based projects, which face risks such as fire and disease.*
- ***Sustainable Development*** *- within a carbon offset projects relates to the incentivising of co-benefits (positive externalities) from the development of projects.*

- On project eligibility:
  - ***Eligible projects*** *could include: Agriculture, forestry and other land uses (AFOLU), waste, community-based and municipal energy efficiency and renewable energy, electricity transmission and distribution efficiency, small-scale renewable energy (up to 15 MW) and transport projects.*
  - ***Ineligible projects*** *could include industrial gas destruction projects, e.g. HFC-23 and Nitrous Oxide destruction projects. In addition projects that could potentially result in a double incentive will not be allowed; energy efficiency in company owned or controlled operations that are covered by the carbon tax; embedded or cogeneration of renewable energy for company owned or controlled operations that are covered by the carbon tax. This includes parasitic electricity usage by fossil fuel based power stations; fuel switch projects in company owned or controlled operations that are covered by the carbon tax; and energy-efficient coal-fired power stations.*

CARBON OFFSET PAPER

The Offset Paper makes the following provision:

- The motivation for the offset scheme is: "*Carbon offsets will enable firms to cost-effectively lower their carbon tax liability. They will also incentivise investment in least-cost mitigation options in the country, driving investment in GHG-mitigation projects that deliver carbon emissions reduction at a cost lower than the carbon tax.*"
- Carbon offset projects will have to comply with a set of eligibility criteria. The eligibility criteria are specified regarding the following:
  - Geographical location – the projects must be located in South Africa.
  - Carbon tax coverage – only projects outside the carbon tax net will be eligible. This is shown in the figure below:

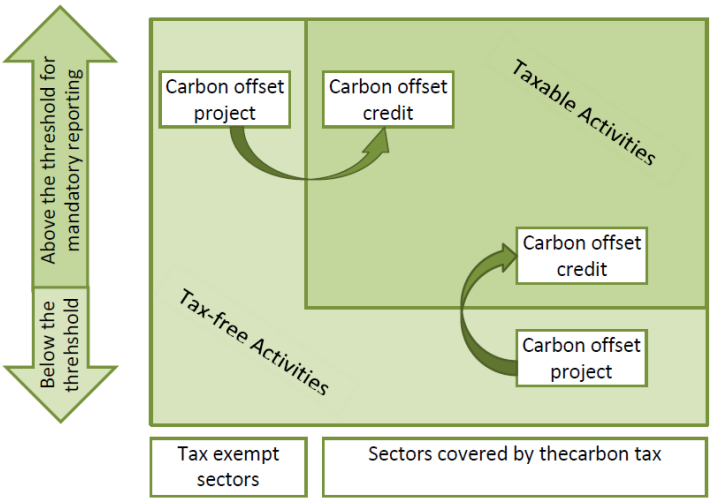

FIGURE 23: PROJECT ELIGIBILITY WITH RESPECT TO THE CARBON TAX NET

- Technical infrastructure: The Offset Paper proposes a technical infrastructure as shown below:

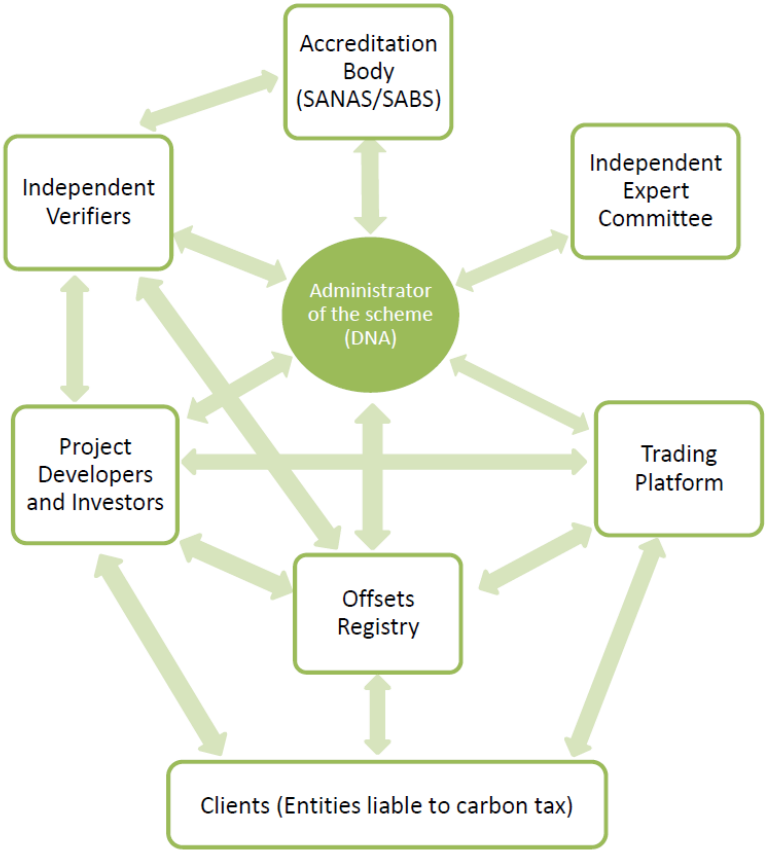

FIGURE 24: TECHNICAL INFRASTRUCTURE PROPOSED IN THE OFFSET PAPER

- The following comments are made with respect to the administration of the scheme:
  - *An administrator of the scheme, which is proposed to be the DNA, will have extensive responsibilities. Among its roles would be to pre-screen projects for their eligibility, evaluate independent verification reports and issue carbon credits. Additionally, an administrator or an appointed independent expert committee would be responsible for development and evaluation of methodologies and, when appropriate, also an endorsement of international methodologies for use in South Africa.*
  - *Firstly, an administrating entity should have the capacity to register carbon-offset project developers, to pre-screen project ideas to ensure they comply with eligibility criteria prior to their implementation. Secondly, it should be able to evaluate offset project verification reports prior to credits being issued and subsequently approve issuance of the specified amount of carbon credits.*
  - *Additionally, with the expansion of the scheme, an administrating entity and its affiliate, which is proposed to be an independent expert committee described below, would be responsible for the design and approval of methodologies and project types to be included within the scheme. This approach would lead to creation of a 'positive list' of approved methodologies. The administrator would then be responsible for providing guidance on approved methodologies and regular updating of the positive list.*
  - *The DNA has developed the capacity to assess CDM projects for eligibility and its institutional capacity will be used to administer the domestic carbon-offset scheme. The DNA already fulfils a part of the first responsibility of the*

administrator as it conducts pre-screening and tracking of projects for eligibility in the CDM, which is considered as the most robust global carbon offset standard.

- *To ensure sufficient capacity in this regard, expanding the DNA's technical capacity must be considered. The DNA must be further capacitated and provided with additional training, financial and human resources to carry out all proposed functions.*

- The Offset Paper also provides for the possible appointment of an Independent Expert Committee. This committee could handle issues such as the development and maintenance of a positive list and the approval of proposed new methodologies.
- Reference is made to the creation of a system of checks and balances that would rely on Independent Verification Bodies.
- The carbon offset registry must facilitate the effective management of carbon-offset credit records. The registry must ensure that credits surrendered for compliance are retired, thus eliminating double trading and double counting of credits either locally or internationally.
- The Offset Paper stipulates that the registry should consist of an electronic database allowing for the storing of carbon credits. The registry should explain the ownership of offsets by providing and assigning a serial number for each verified offset.
- The retirement of carbon credits is regarded as fundamental to ensure the integrity of the carbon offset.
- Key features of the carbon registry as per the Offset Paper includes the following:

  - *A registry with publicly available information to uniquely identify offset projects.*
  - *A serial number for each offset credit generated by each project.*
  - *A system to transparently track ownership of offsets which makes it possible to track each offset to the project from which it originated.*
  - *A system to easily check on the status of an offset (e.g. whether an offset has been retired).*
  - *Contractual or legal standards that clearly identify the original "owner" of the emission reductions as well as further owners of this offset.*
  - *Contractual or legal standards that spell out who bears the risk in case of project failure or partial project failure (e.g. who is responsible for replacing the offsets that should have been produced by the failed project)*