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South African Association for Energy Efficiency Chapter:

Council of Measurement and Verification Professionals of South Africa (CMVPSA)

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## **Regulating energy efficiency tax incentives**

Globally governments influence energy and climate change policy by either taxing the excessive use of energy, or granting tax rebates on reduced energy demand. Locally the South African government has followed suit by offering tax rebates using section 12i, the Industrial Policy Project Investment incentive for manufacturing-related projects with a 10% energy demand reduction component, and more recently the proposed 12L 'Regulations on the allowance for energy efficiency savings'. Both these tax incentives are sections of the Income Tax Act of 1962 and are used as an instrument by government to encourage sustainable development of the economy.

In terms of these tax allowances, industry will be entitled to claim a rebate for energy efficiency savings. The proposed regulation for 12L sets out the process for determining the quantum of energy efficiency savings, and requirements for claiming the proposed tax rebate, which stipulates a prerequisite that energy savings reports have to be compiled by registered Measurement and Verification (M&V) Professionals. As from 1 January 2012, this prerequisite will pertain to the 12i incentives as well.

The South African National Accreditation System (SANAS) was tasked by government to create an infrastructure in order to accredit M&V Bodies for tax incentives. SANAS is the 9<sup>th</sup> largest accreditation body in the world and its technical structures are internationally recognised. Mpho Phaloane, Senior Manager Mechanical and Physical, SANAS says that, "Government needs complete confidence in the savings results presented, and assurance that the incentives can be granted without fear of subjectivity or conflict of interest, and SANAS, as the national accreditation body of South Africa, has the infrastructure to independently confirm competence of M&V Bodies." The SANAS requirement protects participating M&V Bodies, assists in good business management whilst ensuring sustainability of the Accredited M&V Body. Further, these controls will establish a viable M&V market, introduce job opportunities and augment local skills development.

To ensure that M&V services and service providers are credible, trustworthy and transparent an independent Professional Body was established in the form of the Council of Measurement and Verification Professionals of South Africa (CMVPSA), a chapter of the Southern African Association for Energy Efficiency (SAEE). Karel Steyn, Board Member of the CMVPSA says, "It is important that an independent body exists to protect the interests of all M&V stakeholders and the CMVPSA was established to take on the responsibility of registering and governing M&V Professionals in South Africa." The CMVPSA was founded to develop the local M&V market after the budget announcement in February 2009 of the government's intention to introduce tax incentives for companies that can prove energy efficiency savings. This council and its members operate in the same way than legal and accounting associations/councils.

The South African National Energy Development Institute (SANEDI), the organisation currently tasked with the responsibility of adjudicating, evaluating and supporting 12i projects to the Minister for the Industrial Policy Project Investment incentive, is set to undertake a similar task for the 12L

incentives according to the regulation published for comment. Adjudication of the 12L tax incentive claims will be based on the reports compiled by registered M&V Professionals to ensure accurate and transparent claims. Organisations wishing to claim incentives are therefore required to appoint an M&V Professional as part of the requirements of the regulation.

The technical and academic requirements for registration with CMVPSA are of such a standard that the SANEDI adjudication committee has decided to only consider section 12i tax rebate claims where CMVPSA registered M&V Professionals have participated in the project up until 1 January 2012, similar to the requirement of 12L. Section 12i has been in operation since 2009, and its claiming process will remain as is until 1 January 2012, after which date this new requirement will come into effect.

The cornerstone of any energy efficiency claim lies in the proper measurements that are taken within the context of an internationally tried and tested standard like SATS 50 010 and then correlated and verified against a suitable baseline by an accredited body so that confirmed competence and conformity is ensured. In a nutshell, this underscores the importance of effective M&V, but what should also be taken into account are the additional benefits that such a system provides to an organisation.

Not only are energy savings quantified and assessed, but various other impacts on the energy use are identified which allows scope for even more energy savings. Future focus areas for energy efficiency activities are identified as well as potential problems in the project or programme implementation, before the project even commences. This assists with proper initial implementation thereby optimising any investment made and enabling maximum results to claim the maximum rebates, in addition to the lower energy bill. Overall design, operation and maintenance of a manufacturing process are improved and users become educated about the system and process' energy impact. Besides managing risks for shareholders and stakeholders in the business, it will encourage further investment into optimised business models as the impact of an energy efficiency project or programme can be evaluated against pre-set targets. When done by an Accredited M&V Body, credibility is improved as knowledgeable, impartial stakeholders are involved.

*For more information on the regulation of energy efficiency tax incentives contact the stakeholders through the websites at [www.cmvpsa.org.za](http://www.cmvpsa.org.za), [www.saneri.org.za](http://www.saneri.org.za), [www.sanas.co.za](http://www.sanas.co.za), [www.sae.org.za](http://www.sae.org.za).*

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