

PARTNERSHIP FOR MARKET READINESS (PMR)

PMR KAZAKHSTAN 2nd Proposal for Targeted Technical Support



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GENERAL INFORMATION

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SECTION I. BACKGROUND

Kazakhstan is one of the largest emitters of GHG in Europe and Central Asia with annual emissions of 283.5 MtCO₂ eq. in 2012 (i.e. around 1% of global GHG emissions), with the coal dominated energy sector accounting for 85% of total GHG emissions, followed by agriculture (7.6%) and industrial process (5.9%). In 2013, the Government launched a National Emissions Trading System (KZ ETS) as the country's main instrument to regulate domestic CO₂ emissions and drive the development of low-carbon technologies, energy efficiency, and renewables. The first National Allocation Plan (NAP) covered 178 companies, and set the total emissions cap at 147.2 Mt CO₂ for 2013. The second NAP (2014-2015) covers 166 enterprises with caps of 155.4 and 153 MtCO₂ respectively, accounting for more than a half of the country's yearly CO₂ emissions. The third NAP (2016-2020) is currently being developed and is expected to be adopted and issued in the coming months.

In October 2013 (7th Partnership Assembly), the PMR Partnership Assembly (PA) allocated funding to Kazakhstan in an amount of up to US\$1 million over three years in order to help Kazakhstan implement its National ETS.¹ In March 2014 (PA8), to make use of such funding, Kazakhstan presented a "Proposal for Targeted Technical Support"² requesting that US\$500,000 be allocated to the following activities (i.e. first tranche of funding):

- 1) *Study on Barriers to the Implementation of Kazakhstan's ETS and Options to Overcome Them;*
- 2) *Adaptation of Emissions Benchmarks for Emissions Allowances Allocation to Industry; and*
- 3) *Development of Policy Options for Mid- and Long-term Emissions Pathways and Role of Carbon Pricing.*

As of October 2015, activities 1 and 2 are completed, while activity 3 is expected completion in May 2016. Reporting for these activities, including status and outcomes, is covered under Kazakhstan's PMR Project Implementation Status Report which will be presented at PA13 in October 2015.

With this "2nd Proposal for Targeted Technical Support", Kazakhstan seeks endorsement by the PA to use the remaining PMR funding (i.e. US\$500,000) for new activities supporting the KZ ETS (i.e. second tranche of funding).

As further detailed in this document, the proposed new activities include:

- Stakeholder Consultation Process on the Developed Benchmarks;
- Development of E-Reporting and Supporting Institutional & Legal Frameworks; and
- Enhancement of Kazakhstan's Carbon Units Registry: Technical and Legal Aspects.

¹ See [PMR Secretariat Proposal for Targeted Technical Support to Kazakhstan](#), and related [Resolution PA7/2013-3: Targeted Technical Support to Kazakhstan](#).

² See [Kazakhstan: Proposal for Targeted Technical Support](#), and related [Resolution PA8 2014-5: Confirmation as Technical Partner and Allocation of Funding to Kazakhstan](#)



SECTION II. ACTIVITIES AND DELIVERABLES

Kazakhstan's Ministry of Energy (MoE), working with the PMR Secretariat and the World Bank, has identified the following activities for PMR support under the second tranche of funding (i.e. US\$500,000):

i. Stakeholder Consultation Process on the Developed Benchmarks

Over the past year, emissions benchmarks have been developed for the industry, power and oil & gas sectors in Kazakhstan, with the objective to allocate free allowances to regulated entities in the future based on these benchmarks. Such efforts have been supported by several technical assistance programs, such as the World Bank's PMR, Norway, EBRD, and USAID.

These benchmarks, and the methodologies used to develop them, need to be presented and discussed further with relevant stakeholders, including other government ministries, companies and trade associations. The aim of these discussions is to ensure that the benchmarking approach is fully understood by all stakeholders, that the methodology used to determine the benchmarks is acceptable and that the benchmark values are realistic and useable. The main forums identified for consultation purposes on the developed benchmarks include:

- Cross Ministry meetings: to allow the different Ministries for which the ETS has some relevance to understand the issues;
- Multi-stakeholder workshop(s): for discussion of general issues relating to the benchmarks and to enable conflicting views to be aired and different industries/government bodies to understand each other's perspectives; and
- Bi-lateral meetings between the Ministry of Energy and individual industries: to allow more technical (and less political) discussions.

To facilitate the consultation process, it is envisaged that an existing working group involving industry representatives be used as the main channel of communication. In addition, three sub-groups could be formed for i) industry ii) power and iii) oil and gas. Cross sectoral and more political issues could be addressed during meetings with the main working group meetings, with more technical and sector specific issues being addressed during sub-group meetings. Following the workshops and meetings, the benchmarks may need to be fine-tuned based on the feedback received from stakeholders.

Kazakhstan proposes that the PMR funding support the MoE in the consultation process with other agencies, companies and trade associations in order to reach consensus on acceptable benchmarks for allocation of allowances. For example, local and international experts could be hired to support the MoE with organizing workshops, making presentations, taking note of feedback from stakeholders and fine-tuning the benchmarking approach and benchmarks accordingly. Other relevant agencies (e.g. JSC Zhasyl Damu, Committee on Environmental Regulation and Control) would also take an active role in inviting participants to the workshop, in attending/chairing the workshop and in more political meetings. It is expected that the stakeholder consultation process and supporting PMR activity will last a maximum of 12 months.

ii. Development of E-Reporting and Supporting Institutional & Legal Frameworks

Since 2013, all facilities in the power, oil & gas, industry sectors in Kazakhstan must report CO₂, CH₄, N₂O, and PFCs emissions. In addition, those facilities whose annual emissions \geq 20,000 metric tons CO₂ have to submit verified inventory reports (see Table 1 below). As of today, there is no online platform for operators to submit emissions reports, for verifiers to confirm emissions data, and for the program administrator (i.e. JSC Zhasyl Damu) and regulator (i.e. MoE) to automatically check compliance with reporting obligations.

As highlighted in the “*Study on Barriers to the Implementation of Kazakhstan’s ETS and Options to Overcome Them*” carried out under the first tranche of PMR funding, transitioning to an electronic compliance system in Kazakhstan would have the benefits of increasing data accuracy, completeness and consistency, as well as allowing more accurate data review and analysis by JSC Zhasyl Damu and the MoE.

Table 1 – Overview of Kazakhstan’s GHG Reporting Program

COMPONENTS	DESCRIPTION
GHG Reporting Program	<ul style="list-style-type: none"> - Mandatory GHG Reporting - National ETS launched (2013)
Legal Basis	<ul style="list-style-type: none"> - Environmental Code (2007) - Rules on National inventory of GHGs emissions sources and removals (2015)
Administrative Agencies	<ul style="list-style-type: none"> - Ministry of Energy - JSC Zhasyl Damu (also administrates the carbon units registry)
Scope	<ul style="list-style-type: none"> - All facilities in the power, oil & gas, industry sectors must report CO₂, CH₄, N₂O, PFCs emissions - Facilities whose annual emissions \geq 20,000 metric tons CO₂ have to submit verified inventory reports
Data Managements Systems and Reporting Tools	<ul style="list-style-type: none"> - “The Cadaster” (DMS) - Paper-based reporting (i.e. no e-reporting) - Integrated (planned linkage to carbon units registry) - QA/QC: third-party verification

Source: JSC Zhasyl Damu (2015)

Kazakhstan therefore proposes that the PMR funding support the MoE, JSC Zhasyl Damu, and their local IT/development teams, on all aspects of designing and developing e-reporting (i.e. technical, institutional, and regulatory) – including:

- Gathering and analysis of system requirements to develop the reporting platform, as well as software development methodology – if applicable;
- Development of electronic templates for monitoring plans, annual emission reports, verification reports, and improvement reports – if applicable;
- Development of quality assurance (QA) and quality control (QC) measures and plans in order to ensure high quality, accurate, consistent and complete data;
- Development of guidelines and training materials for users to ensure smooth reporting cycles and accurate data; and

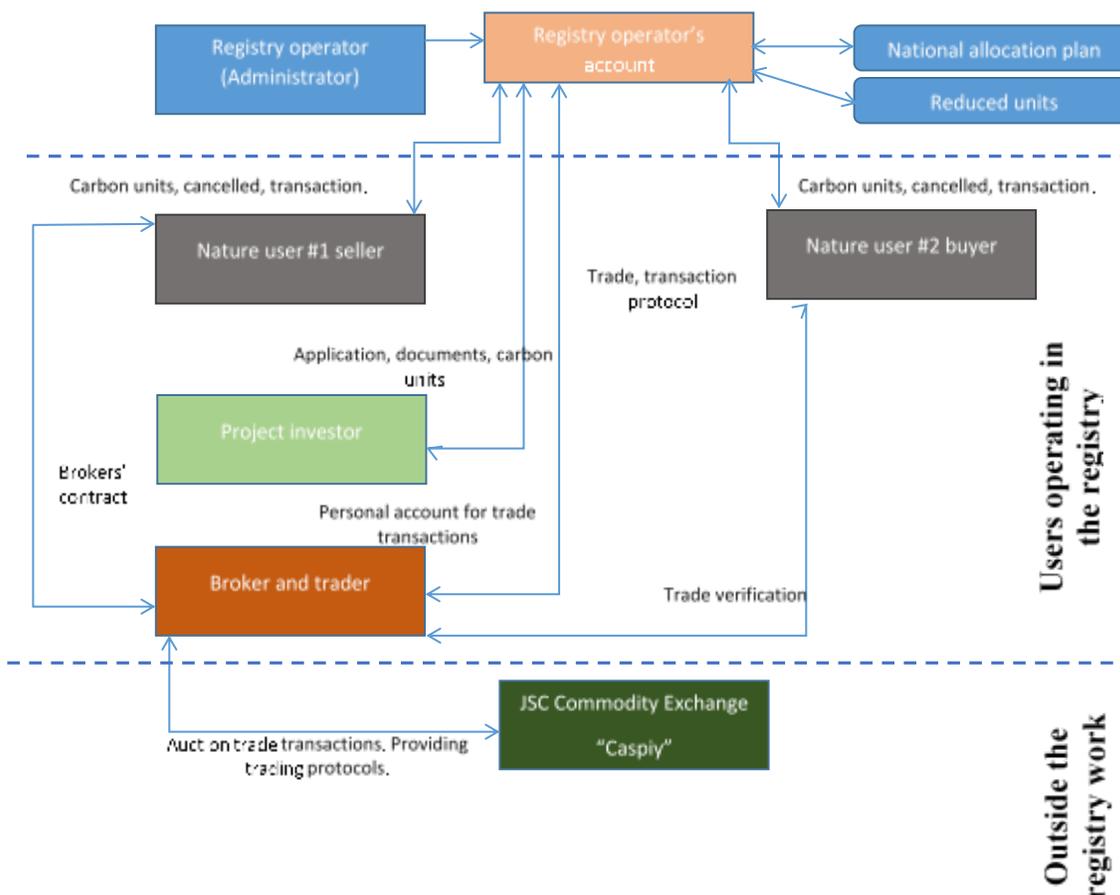
- Analysis of the related institutional and legal issues (e.g. definition of institutional roles and responsibilities, financial considerations for administration and system maintenance, data access and confidentiality, data ownership etc.).

This PMR activity is expected to last a maximum of 18 months. In the meantime, Kazakhstan also hopes to benefit from current PMR work on the thematic under the PMR Technical Work Program, including the preparation of the forthcoming “PMR Guide for Designing and Developing GHG Data Management Systems for Corporate/Facility-Level Reporting” and other activities allowing to exchange with other countries on good practices related to GHG data management system (DMS) design, development, and operation.

iii. Enhancement of Kazakhstan’s Carbon Unit Registry: Technical and Legal Aspects

Kazakhstan’s carbon unit registry is the infrastructure supporting the issuance, transfer, and cancellation/retirement of carbon units in Kazakhstan’s carbon market – including the KZ ETS and the domestic offset program (not operational as of today). The robustness of Kazakhstan’s registry is critical to ensuring rigorous GHG accounting and market integrity at both a domestic and international level in case of future linking. The registry has been developed, maintained, and operated locally by JSC Zhasyl Damu. Figure 1 below provides further information on the structure, users, interfaces, and workflows of Kazakhstan’s registry.

Figure 1 – Kazakhstan’s Carbon Unit Registry



Source: JSC Zhasyl Damu (2015)

The issues and challenges currently facing the registry's technical infrastructure include low/outdated security standards (i.e. risk of breach in the accounts), no automatic communication with other systems such as the Cadaster and the trading platform (i.e. low speed, risk of human error), and no connection possible with other carbon unit registries outside Kazakhstan (i.e. no market linking possible). In addition, in order to ensure a well-functioning and transparent market, as well as the protection of market participants, the registry legal framework may need to be revised to address interactions with property, insolvency, and financial law. Kazakhstan therefore proposes that the PMR funding support the MoE (regulator) and JSC Zhasyl Damu (administrator) to i) perform an analysis of the registry's technical and legal frameworks, and ii) implement the resulting recommendations.

This PMR activity is expected to last a maximum of 18 months. In the meantime, Kazakhstan hopes to benefit from current PMR work on transaction registries under the PMR Technical Work Program, including the preparation of the forthcoming *"PMR/FCPF Guidance on Transaction Registry Development and Management"* and other activities allowing to exchange with other countries on good practices related to the development of transaction registries. For example, two registry developers from JSC Zhasyl Damu participated in the PMR Technical Workshop *"Building Registries to Support the Next Generation of Carbon Markets"* (Sacramento, California – September 2015) and started discussions with a number of experts on Kazakhstan's registry needs and plans.



SECTION III. PLANNING AND ESTIMATED BUDGET

Table 2 below summarizes the proposed activities, timeline, and budget estimates in Kazakhstan's 2nd Proposal for Targeted Technical Support:

Table 2 : Overview of activities and budget under the 2nd Proposal

Activity	Expected Deliverable	Time for completion	Estimated Completion date	Estimated budget
i. Stakeholder Consultation Process on the Developed Benchmarks	<ul style="list-style-type: none"> ▪ Expert support to industry consultations on benchmarks (i.e. expert advice, preparation of meeting material etc.) ▪ Fine tuning of the benchmarks (i.e. analysis) 	12 months	Late 2016	US\$50,000
ii. Development of E-Reporting and Supporting Institutional & Legal Frameworks	<ul style="list-style-type: none"> ▪ Analysis of e-reporting system requirements ▪ Development of electronic templates (e.g. monitoring plans etc.) and users guidelines/training materials) ▪ Development of QA/QC measures and plans ▪ Analysis of institutional and legal issues related to e-reporting and DMS 	18 months	Mid 2017	US\$300,000
ii. Enhancement of Kazakhstan's Carbon Units Registry: Technical and Legal Aspects	<ul style="list-style-type: none"> ▪ Analysis of registry system requirements ▪ Expert support to implementation of registry enhancement measures ▪ Analysis of registry-related legal issues in KZ ETS 	18 months	Mid 2017	US\$150,000
TOTAL ESTIMATED BUDGET				US\$500,000