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Comments on the draft Carbon Credit Trading Scheme (CCTS)

The Institute for Energy Economics and Financial Analysis (IEEFA) has submitted comments to the Ministry of Power (MoP) on the draft Carbon Credit Trading Scheme (CCTS) as per one of the provisions of the December 2022 amendment to the Energy Conservation Act (2001). The ministry requested comments from sectoral stakeholders by 14th April 2023.

To achieve our Nationally Determined Contribution (NDC) targets, developing a carbon market in India will be critical. The draft CCTS outlines the roles and duties of key stakeholders and includes the structure for the proposed Indian Carbon market (ICM) (both voluntary and compliance). The methodology and process for identifying market participants, price discovery processes, monitoring, and reporting procedures are not adequately covered in the draft. In addition, the regulators need to define the vision and objective of voluntary markets clearly. How will voluntary markets help curb carbon emission and incentivize customers to shift to cleaner solutions?

Our comments and questions on some of the provisions of the proposed scheme are as follows:

Linking of the proposed draft with existing carbon trading mechanism:

- *Alignment with global markets* - Article 6 under the Paris Agreement talks about international trading of carbon credits. Here lies a great opportunity to channelize international finance for emissions reduction investments in India. But under the proposed regulation:
    - How will the proposed trading scheme align with existing international carbon markets like the EU's Emission Trading Scheme (ETS), California's Cap-and-Trade Program, and more? What type and quantum of credits will be allowed for international trade? It will be crucial to define such rules.
    - What learning can be drawn from the failure of The Clean Development Mechanism (CDM)? It had been found that several projects in the country were earning large sums through the sale of carbon credits that were ineligible, documents were manipulated and backdated to meet CDM requirements.

- *Linking with existing domestic carbon certificates* - India is focusing on developing and strengthening its domestic carbon market. But there is limited clarity on:

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- How will the existing trading of energy saving certificates (ESCerts) under the Perform, Achieve, and Trade (PAT) scheme and renewable energy certificates (RECs) to meet the renewable purchase obligation (RPO) be accounted for?

- Early in 2022, the Bureau of Energy Efficiency (BEE) published a white paper with a detailed phase-wise plan for moving from a PAT system to an ETS. However, limited clarity exists on how this transition will happen?

- *Integration with identified 13 sectors* - As the National designated Authority for the Implementation of the Paris Agreement (NDAIAPA), India has identified 13 activities under three heads – GHG mitigation activities, alternate materials, and removal activities. The final list for GHG mitigation includes areas like renewable energy with storage (only stored component), solar thermal power, off- shore wind, green hydrogen, compressed biogas, emerging mobility solutions, high end technology for energy efficiency, sustainable aviation fuel, use of best available technologies, tidal energy, high voltage direct current transmission in conjunction with the renewable energy projects.

  - Would this list be considered as the basis for selecting targeted sectors/obligated entities under the compliance mechanism?

- *The Green Credit Programme* announced as part of Budget 2023, aims to work with existing corporates to catalyze green credits by initiating voluntary net-zero or carbon neutrality pledges. This would require development of a market infrastructure for trading of carbon credits. But:

  - How will this work in parallel to CCTS, or would CCTS absorb the credit trading under the green credit scheme?

Voluntary Market:

- *Verification standards* - Unlike compliance markets like the EU's ETS, voluntary markets do not have the same level of regulation. In the voluntary market, standards, and certification criteria such as the Verified Carbon Standard (VCS) of Verra or the Gold Standard of the Gold Standard Foundation already exist to avoid green washing.

  - The ICM proposes accreditation of an 'Accredited Carbon Verifier (ACV)' by BEE to carry out validation or verification activities with respect to CCTS. How would the standards and certification processes set by ACV align with Veera and Gold standards?

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- *Timeline* - ICM focuses on starting with a voluntary market, but there is no outlook on the timeline to convert to a compliance driven market.

Compliance Market:

- *Consumer Profile* - How would the sectors/ obligated entities for the compliance market be identified considering we already have energy efficiency (ESCerts) and renewable energy (REC) certificates? How would the ICM move beyond energy emissions to process emissions? How will the market incentivize MSME's to participate in carbon trading?
- *Timeline* - Development of a robust compliance market will take time because targets and timelines will need to be given to the industries. How will the ICM walk this transition?
- *Target setting* - What would be the methodology for defining the sectoral benchmarks (based on baseline emission data) and target for emission reduction? How can national and corporate/ industry targets be matched?

Administration:

- *Cross ministerial coordination* - BEE will be the administrator for ICM. It will formulate the complete framework, set the systems, along with the methodologies for both voluntary market and the compliance market for certain sectors. Whereas MoEFC, is leading the green credit scheme. How will the coordination amongst these stakeholders happen?
- *Inclusion on non-power sectors* - Carbon markets include sectors beyond power sector - steel, cement, aviation and more. With central electricity regulatory commission (CERC) being the regulator, how will the coordination with buyers and sellers from non-power sector be managed?

Trading:

- *Price discovery* – Carbon pricing depends on the trading model – offset or ETS.
  The draft provides limited to no clarity on the stand of ICM. How would the price discovery mechanism be established? A voluntary market may not realize the true cost of carbon, so how is the regulator planning to ensure efficient price discovery?
- *Price stability mechanism* – The draft talks about the 'floor and forbearance' price of

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Carbon Credit Certificates (CCC). Is it similar to the 'cap and trade' model? It is often argued that a price discovery mechanism based on real demand and supply matching is the most efficient one.

- *Frequency of trading* – What would be the frequency of trading and how would it be different for domestic and international trading? What would be the timeline for the settlement – monthly/ annually or what?