



December 2024

Draft framework for trading of Carbon Credit Certificates through power exchange

On November 13, 2024, the Central Electricity Regulatory Commission (“CERC”) notified the draft CERC (Terms and Conditions for Purchase and Sale of Carbon Credit Certificates) Regulations, 2024 (“**CCC Regulations**”). The CCC Regulations aim to provide a structured framework for the trading of Carbon Credit Certificates (“**CCCs**”) through power exchanges, enhancing the efficiency and transparency of India's emerging carbon market. CERC has invited comments /suggestions/objections on the draft CCC Regulations, to be submitted on or before December 15, 2024.

Purpose

The primary aim of the CCC Regulations is to establish a robust market mechanism for trading CCCs on power exchanges. This framework caters to both industries with specific environmental obligations (“**Obligated Entities**”) and voluntary participants (“**Non-Obligated Entities**”).

Salient features

1. **Scope:** The CCC Regulations specifically govern the purchase, sale, and exchange of CCCs in accordance with the Carbon Credit Trading Scheme, 2023 (“**CC Scheme**”). They apply to CCCs that are offered for transactions on power exchanges, including contracts in CCCs that have received approval from CERC as per the provisions outlined in the CERC (Power Market) Regulations, 2021.
2. **Registry:** The Grid Controller of India has been designated as the ‘Registry’ for CCCs, responsible for creating and maintaining the necessary infrastructure to facilitate trading.
3. **Administrator:** The Bureau of Energy Efficiency (“**BEE**”) will act as the administrator, responsible for formulating detailed procedures for trading, transfer, and compliance mechanisms. BEE *inter alia* will also be responsible to:
 - a) formulate detailed procedure after public consultation and seeking approval of CERC for:
 - i) *re:* interface between the power exchange, registry, etc;
 - ii) registration of obligated and non-obligated entities; and
 - iii) dealing, transfer and other residual matters related to CCCs;
 - b) assist CERC in monitoring market activities;
 - c) disseminate relevant information;

- d) ensure adherence to environmental laws; and
 - e) report instances of non-compliance to CERC for appropriate action;
4. **Value and validity of CCCs:** Each CCC represents 1 (one) ton of carbon dioxide equivalent emissions. The validity of these certificates will depend on the detailed procedure for compliance and offset mechanisms to be developed under the CC Scheme.
 5. **Category of certificates:** CCCs will be categorised for Obligated Entities and Non-Obligated Entities by the BBE. The power exchanges may propose additional categories for approval by CERC.
 6. **Trading of certificates:**
 - a) CCCs can only be traded through power exchanges, and separate market segments will exist for 'Compliance Markets' (for Obligated Entities) and 'Offset Markets' (for Non-Obligated Entities);
 - b) trading sessions will be conducted monthly, adhering to strict rules to prevent defaults;
 - c) the registry will monitor bids and transactions to ensure compliance and maintain market integrity;
 - d) entities with more than 3 (three) defaults in a quarter will be barred from trading CCCs for 6 (six) months, and their details will be published monthly; and
 - e) Power Exchanges must report transaction details to entities and update the Registry accounts post successful trades;
 7. **Banking and extinguishment of CCCs:** The provisions for banking (saving) and extinguishment (retirement) of CCCs will follow detailed procedures under the compliance and offset mechanisms outlined in the CC Scheme.
 8. **Pricing of certificate:** The price of CCCs will be determined through bidding on power exchanges. The transactions must occur within the floor price and forbearance price, as approved by CERC. CERC reserves the right to intervene in cases of abnormal price fluctuations or trading irregularities.
 9. **Fee and charges:** The fees for registry management and the software platform will be determined by CERC in consultation with the BBE. These fees will be levied on Obligated Entities and Non-Obligated Entities participating in the market.
 10. **Market oversight:** CERC, with the support of the BEE, will oversee market operations to ensure transparency, fairness, and compliance with regulations. Any irregularities or issues will be addressed promptly to maintain market integrity.

Conclusion

CERC's draft CCC Regulations provide a structured framework for the trading of CCCs. By defining roles, procedures, and compliance mechanisms, the CCC Regulations aim to streamline the carbon credit market and ensure effective implementation of the CC Scheme. The provisions for oversight, pricing, and management are designed to facilitate a clear process for both obligated and non-obligated entities, supporting the broader goals of emission reduction and market development.

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