

13th April, 2023

Pune

Comments on Carbon Credit Trading Scheme

Ministry of Power (MoP) prepared a draft notification outlining the details of the proposed Carbon Credit Trading Scheme as per one of the provisions of the December 2022 amendment to the Energy Conservation Act (2001). This notification was shared with a limited set of stakeholders on 27th March, 2023 and comments were requested by 14th April, 2023. We, Prayas (Energy Group), hereby submit our comments on the draft notification for MoP's consideration.

We appreciate that the MoP is seeking comments from some stakeholders. However, a carbon credit trading scheme has the potential to fundamentally affect all the sectors of the economy and can play a substantial role in India's efforts to mitigate climate change. Hence, we suggest that the draft should be made public so that all the stakeholders including citizens, civil society organizations, academic institutions, industry and others can effectively comment. This will help make the scheme robust in design.

Similarly, the Bureau of Energy Efficiency had sought comments on a policy paper on the Indian Carbon Market from a limited set of stakeholders in November 2022. It would have been desirable for that document also to go through a public review.

Our comments on some of the provisions of the proposed scheme are as follows.

1. Section 1 (1), Clause (l) and Clause (n):

Definitions of Obligated Entities and Registered Entities need clarity. Proposed clause (l) defines Obligated Entities as

'Obligated Entities' means 'registered entities' that are notified under the Compliance Mechanism

As per this definition, only registered entities can be notified under the compliance mechanism. The definition of registered entities in the proposed notification is as per clause (qa) of Section 2 of Energy Conservation Act (2001) inserted by the 2022 amendment:

'Registered Entity' means any entity, including designated consumers, registered for carbon credit trading scheme specified under clause (w) of Section 14 of the Act.

But, there are no provisions that allow BEE to notify consumers to get registered for carbon credit trading scheme. This should be corrected. It can be done either by changing the definitions or by adding a provision later which allows BEE to notify any entity to get registered for the CCTS.

2. Section 2 (2):

- While power sector is the biggest emitter currently, it is also the sector that is decarbonizing the fastest. Additionally, since the India Carbon Market is going to impact the entire economy, we suggest that the Cabinet Secretary or NITI Aayog Vice Chairman should be the ex-officio Chair of the ICMGB. This will also avoid any conflict of interest due to an energy related ministry chairing the ICMGB. Joint Secretaries of the line ministries can be the Members.
- In addition to the line ministries mentioned to be part of the ICMGB, we suggest addition of Secretaries from Ministry of Agriculture and Farmer Welfare, Ministry of Heavy Industries, and Ministry of Housing and Urban Affairs to be part of ICMGB. This is because Agriculture, Industry, and the Buildings sectors are some of the major contributors to India's GHG emissions.

3. Section 2 (3):

As discussed in comment 1, there are no provisions on who decides whether an entity would be an obligated entity. We suggest adding it to ICMGB's functions. A clause can be added: To notify any entity as an obligated entity requiring registration under the carbon credit trading scheme.

As per this clause, many of ICMGB's functions are recommendatory in nature. Given the critical role carbon markets can play across the economy, all such recommendations from the ICMGB should be finalized by the Central Government only after due public consultation.

4. Section 2 (4):

We recommend that the functioning of ICMGB should be transparent for effective governance. In this context, we suggest that ICMGB should have a separate website or a separate section in a dedicated website for the ICM where all the information related to composition of the board, details of the meetings held including minutes of the meetings, decisions taken and the rationale behind the decisions should be published. A clause to this effect should be included in the ICMGB structure.

5. Section 3 (1):

As discussed previously, CCTS can impact the entire economy. Hence, the ICM Administrator has a critical role to play. We recommend that a new agency should be created with the sole responsibility of being the ICM administrator given the scope of functions to be undertaken. This will also address the conflict of interest issues since Power sector is one of the sectors contributing to the total GHG emissions. BEE is a nodal agency under Ministry of Power focusing on Energy Efficiency and Energy Conservation Policies, and may not be best placed to administer a carbon market.

6. Section 3 (5):

- The clause should be numbered as 2 instead of 5.
- We recommend the following sub-clause to be inserted before the current sub-clause (q).

All critical functions including developing targets, trajectories, methodologies, shall be finalized after due public consultation process.

This will enable transparency in decision-making leading to better governance as well as improved design of the scheme. In particular, the challenge of ensuring sufficient demand for CCCs is well-known and has been discussed before. Hence, determination of the target and trajectory of emission intensity reduction is critical to the success of the ICM along with methodologies to calculate the same.

- We also suggest insertion of the following sub-clause before the current sub-clause (q)

Publish summary reports every quarter on vital statistics including but not limited to volumes traded, prices, number of complying entities, number of non-complying entities, details of non-complying entities, penalties levied, and penalties recovered.

7. Section 4 (2)

It will be good to define the term 'Meta-Registry' as mentioned in clause (g).

8. Section 6

We recommend adding the following clause:

All the information related to the working of Technical Committees should be in the public domain including but not limited to composition, minutes of meetings, and decisions taken.

9. Section 7

We recommend adding the following clause:

The list of all Accredited Carbon Verifiers should be publicly available on either the ICM section of BEE's website or a separate website for ICM.

10. Section 9 (2)

We recommend to substitute tCO₂e/tonne of production to tCO₂e/unit as notified by the government. This is because the unit may change depending on the nature of output of the entities.

11. Section 10 (b)

We recommend adding the following sub-clause before sub-clause (vi)

Criteria for identifying obligated entities and procedure to determine their targets and trajectories.
