HPX

Ref: HPX/CERC/3112

Date: 31st December 2024

To,

The Secretary,
Central Electricity Regulatory Commission (CERC)
7th Floor, Tower B, World Trade Centre,
Nauroji Nagar, New Delhi- 110029

Subject: Comments on Draft CERC (Terms and Conditions for Purchase and Sale of Carbon Credit Certificates) Regulations, 2024.

Ref: *Public notice ref no RA-14026(13)/1/2024- CERC dated 13.11.2024 inviting comments and suggestions on 'Draft CERC (Terms and Conditions for Purchase and Sale of Carbon Credit Certificates) Regulations, 2024."*

Dear Sir,

Hon'ble Commission issued Draft CERC (Terms and Conditions for Purchase and Sale of Carbon Credit Certificates) Regulations, 2024 on 13th November'2024 and invited comments from various stakeholders on the same.

Hindustan Power Exchange Ltd. (HPX) is enclosing its comments on the above draft regulations as **Annexure-I** for perusal of the Hon'ble Commission.

Yours sincerely,

(Naveen Godiyal)
Head, Market Operations

HINDUSTAN POWER EXCHANGE LIMITED

Annexure- I

HPX's comments on Draft CERC (Terms and Conditions for Purchase and Sale of Carbon Credit Certificates) Regulations, 2024

1. We welcome the issuance of draft regulations. It is a significant step, as it marks an important initiative for establishing a carbon market in India. This move will also contribute towards fulfilling the nation's commitment to sustainable development and achieving the National Determined Contribution (NDCs) set by the Government of India. The draft regulations are aligned with the Carbon Credit Trading Scheme (CCTS) published by the Hon'ble Ministry of Power (MoP) in 2023, along with its amendment.

2. The second paragraph of Chapter 10 of the Detailed Procedure for Compliance Mechanism under CCTS states that:

   "(2) The banked CCCs, that were issued to the obligated entity, may either be sold within the Indian Carbon Market or utilised to meet compliance in future compliance years."

   As per our understanding, this provision specifically addresses the banking of CCCs, allowing obligated entities to carry forward their credits for future compliance. However, in order to ensure continued market liquidity and maintain a price equilibrium for both buyers and sellers, we believe that the introduction of a market stabilizing factor is essential. This concept has proven effective in the Korean Emissions Trading Scheme (ETS) since 2015. The Korean ETS outlines specific trigger points for implementing market stabilization measures. These include instances:

   - when the market allowance price over six consecutive months is at least three times higher than the average price of the previous two years.
   - when the market allowance price in the last month is at least double the average price of the prior two years.
   - the trading volume is at least twice that of the same month in the previous years.
   - when the average market allowance price for a given month is lower than 60% of the average price from the two previous years.

Additionally, stabilization measures may be triggered if there is a significant supply-demand imbalance that hinders trading. Such stabilizing factors can help manage price volatility, mitigate extreme fluctuations, and create a more stable and predictable market environment. For example-

- In 2021, the Allocation Committee set a price floor of KRW 12,900 (USD 9.98) per tonne in April and KRW 9,450 (USD 7.31) per tonne in June.
- Similarly, in 2023, the government implemented two temporary price floors with a trigger price of KRW 12,088 (USD 9.26), which was 60% of the average price from the preceding two years.
- These floors were set at KRW 7,020 (USD 5.38) in July and KRW 7,750 (USD 5.94) in November and were lifted in early December when prices held steady at KRW 8,520 (USD 6.53) for five consecutive days.

These cases which are highlighted above, shows that market stabilizer have played a significant role in maintaining market liquidity and stabilizing the price in the Korean ETS. In light of the above, we would like to suggest that any non-profitable organisation shall be granted the right to purchase and act as a market stabilizer. This would provide a stabilizing influence on the market and contribute to sustained liquidity.

3. We would like to suggest that market coupling could be highly beneficial in enhancing the liquidity of the carbon market, since it is a closed auction. As market coupling ensures a unified price discovery mechanism across different exchanges, it could facilitate better liquidity and price transparency. This would help to address potential fragmentation issues and lead to more efficient utilization of available opportunities for market participants. Thus, we believe that integrating market coupling for trading of CCCs could significantly improve market liquidity and efficiency.

4. We would like to submit that the Detailed Procedure for the Offset Mechanism has not yet been published, and its release is essential to provide much-needed clarity on the eligibility criteria and verification processes for offset projects. Considering the generation variability and the financial gaps that exist between different sectors, it is crucial that the value of carbon credits (CCCs) awarded to sectors such as afforestation and renewable

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energy generation be aligned and standardized. This will help maintain fairness, ensuring that credits across all covered sectors hold equivalent value and are not skewed by sector-specific disparities in generation potential or financial conditions.