ELP

CREATING AN ARCHITECTURE FOR NET ZERO EMISSIONS

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As per a recent report published by the International Institute for Sustainable Development, fossil fuels account for around 76% of India's total primary energy supply. 18% of the total revenue of the Government is derived from fossil fuels. Against this backdrop, India is set to take a giant leap by the passing of the Energy Conservation (Amendment) Bill, 2022 (Bill) by the Lok Sabha on August 8, 2022.

The Bill seeks to amend the provisions of the Energy Conservation Act, 2001 (Act) and ensure faster decarbonisation of the Indian economy. This move is an endorsement of the "Panchamrit" or the five nectar elements presented by India in COP-26 (Conference of Parties -26) in Glasgow 2021.

Carbon Market

Currently, Energy Savings Certificates (ESCerts) and Renewable Energy Certificates (REC) are traded in the energy market in India.

ESCerts are certificates issued under the Perform Achieve Trade scheme (PAT Scheme) implemented by the Bureau of Energy Efficiency (BEE). The Act empowers the Central Government and in some instances the State Governments, in consultation with BEE to notify energy intensive industries, other establishments, and commercial buildings as designated consumers. Designated consumers who overachieve the energy consumption norms and standards individually allocated to them by a technical committee of the BEE are issued ESCerts. ESCerts are then traded on energy exchanges where designated consumers who underachieve their consumption norms can purchase ESCerts. As on October 6, 2021, there were 509 such designated consumers from industries ranging from aluminium, iron and steel, zinc units, copper units, mines, etc.

RECs are regulated by the Central Electricity Regulatory Commission (Terms and Conditions for Renewable Energy Certificates for Renewable Energy Generation) Regulations, 2022. Under the Electricity Act, 2003 (Electricity Act), the Ministry of Power prescribes a Renewable Purchase Obligation (RPO) trajectory. The RPO regime is enforced by State Electricity Regulatory Commissions who mandate that certain obligated entities purchase renewable power. These obligated entities include energy generators, distribution licensees and open access consumers.

Renewable energy generating stations are eligible to receive a REC if the tariff for the renewable energy generated is not determined or adopted under the Electricity Act or if the renewable energy generated is not sold for RPO compliance of the obligated entity. RECs are then traded on energy exchanges or through electricity traders and purchased by obligated entities to meet their RPO compliance.

The Bill introduces the concept of a carbon credit trading scheme which intends to combine the ESCerts and the REC scheme into one. The Central Government has been empowered to issue the carbon credit trading scheme pursuant to which carbon credit certificates would be issued. Such certificates can be purchased on a voluntary basis by any person and not just designated consumers.

This move is consistent with the Draft Blueprint on a National Carbon Market for India released by BEE in 2021 for stakeholder consultation. The draft emphasized the need of moving towards a voluntary carbon market in India.

Other Measures

The Bill seeks to meet India's climate change commitments by mandating the use of non-fossil sources, including Green Hydrogen, Green Ammonia, Biomass and Ethanol for energy and feedstock by certain energy intensive industries. The Central Government has been authorized to specify the minimum share of consumption of non-fossil sources by designated consumers. Such share would vary depending on the nature of the consumers. Given India's high dependency on fossil fuels, one would need to wait for the Central Government's proposals in this regard to ascertain whether this move will indeed help reduce India's carbon emissions.

With regard to decarbonisation of energy intensive industries, the Power Minister, R.K. Singh cited the example of the European Commission's proposed carbon border adjustment mechanism. The mechanism proposes that a carbon tax would be levied on the imports of products such as steel which are not green. The Minister indicated that if an industry does not adopt green measures, it will no longer be competitive.

Significantly, the Bill has also expanded the requirement of conformation to energy consumption standards to include vehicles, vessels, residential and office buildings in addition to equipment or appliances. Specified industrial units would be required to close their operations unless they conform to the norms for processes or energy consumption standards that are laid down by the Central Government.

Bill for the Future

While the Bill was up for discussion before the Parliament, the Power Minister observed that it was the "bill for the future". Energy conservation and energy transition is undeniably the need of the hour. However, the manner of implementation of the Bill would really unfold the tale. Although India does not currently intend to export carbon trading certificates, in the long run, the national market could be integrated with the framework for international trading of mitigation outcomes, pursuant to Article 6 of the Paris Agreement. However, this may lead to fears of non-availability of carbon credits domestically that could in turn result in challenges in meeting India's decarbonization commitments.

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