



ENVIRONMENT

REGULATORY

Operationalizing India's Carbon Market: An Analysis of the CERC (Terms and Conditions for Purchase and Sale of Carbon Credit Certificates) Regulations, 2026

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Introduction

The global imperative to combat climate change has catalysed the development of strong market-based mechanisms for carbon emissions reduction, and India has progressively aligned itself with this international momentum through domestic legislative and regulatory frameworks.

In furtherance of this commitment, the Central Electricity Regulatory Commission (CERC) has promulgated the **Central Electricity Regulatory Commission (Terms and Conditions for Purchase and Sale of Carbon Credit Certificates) Regulations, 2026**, which were officially notified on 27th February 2026 and subsequently published in the Gazette of India on 27th April 2026.

These regulations represent a pivotal development in India's environmental regulatory architecture, establishing the procedural and substantive framework for trading Carbon Credit Certificates (CCCs) within the Indian carbon market.

Issued under the authority of Section 178(1) and clause (y) of sub-section (2) of Section 178 of the Electricity Act, 2003, read with Section 66 thereof, and in conjunction with the Carbon Credit Trading Scheme, 2023 notified by the Ministry of Power, these regulations operationalize the theoretical constructs of carbon trading into a functional market mechanism.

The present article undertakes a comprehensive analysis of these regulations, examining their background, definitional framework, operational mechanisms, and regulatory oversight structures, thereby elucidating the legal contours of India's emerging carbon market.

Background and Legislative Genesis

The regulatory foundation for these provisions derives from a composite legislative framework that integrates environmental and energy legislation with specialized regulatory mechanisms. The **Electricity Act, 2003** constitutes the primary enabling statute, conferring upon CERC the requisite regulatory authority to formulate these regulations.

Concurrently, the **Carbon Credit Trading Scheme, 2023**, initially notified through S.O. 2825(E) dated 28th June 2023 and subsequently amended through S.O. 5369(E) dated 19th December 2023, provides the substantive policy framework within which these regulations operate.

The Energy Conservation Act, 2001 and the Environment Protection Act, 1986 further supplement this framework, ensuring that carbon credit trading aligns with India's broader environmental compliance obligations. This tripartite legislative foundation ensures that the regulations are not merely administrative instruments but are deeply embedded within India's statutory environmental governance structure.

Definitional Architecture and Conceptual Clarity

The regulations establish a precise definitional framework in **Regulation 2**, which is indispensable for legal certainty and operational clarity in carbon market transactions. Key definitions include:

- **“Act”** — refers specifically to the Electricity Act, 2003.
- **“Administrator”** — designated as the Bureau of Energy Efficiency (BEE), a statutory body established under Section 3(1) of the Energy Conservation Act, 2001.
- **“Carbon Credit Certificate (CCC)”** — defined by reference to Section 2(d) of the Carbon Credit Trading Scheme, 2023, ensuring definitional consistency across the regulatory framework.
- **“Obligated Entities”** — entities legally mandated to achieve emission reduction targets.
- **“Non-Obligated Entities”** — entities that participate voluntarily in the carbon market.
- **“Floor Price” and “Forbearance Price”** — establish the minimum and maximum price thresholds respectively, within which CCC trading must occur, thereby preventing market manipulation and ensuring price stability.
- **“Registry”** — identified as the Grid Controller of India.
- **“Power Exchanges”** — defined by reference to the CERC (Power Market) Regulations, 2021.

This comprehensive definitional architecture eliminates ambiguity and establishes clear parameters for market participation.

Objective and Scope

Regulation 3 articulates the fundamental objective of these regulations, which is to create a structured framework enabling the exchange of Carbon Credit Certificates between Obligated and Non-Obligated entities.

This exchange mechanism is primarily channelled through Power Exchanges, though the regulations retain flexibility by permitting alternative trading modes as may be authorized by CERC through separate orders, provided such modes comply with the Carbon Credit Trading Scheme, 2023.

Regulation 4 delineates the scope, specifying that these regulations apply to CCCs offered for transaction on Power Exchanges or through other Commission-permitted modes, subject always to the overarching requirements of the Power Market Regulations. This scope provision ensures regulatory coherence across India's electricity and carbon markets.

The Registry and Its Functions

Regulation 5 constitutes a critical operational provision by designating the Grid Controller of India as the Registry for CCC exchange.

The Registry is mandated to establish the necessary institutional and technological framework for enabling these exchanges, in strict accordance with Section 6 of the Carbon Credit Trading Scheme, 2023. This designation is significant as it uses an existing institutional infrastructure with demonstrated competence in managing complex energy market operations, thereby ensuring operational efficiency and regulatory continuity.

Functions of the Administrator: The Bureau of Energy Efficiency

Regulation 6 elaborates the multifarious functions of the Administrator, which are comprehensive and integral to the effective functioning of the carbon market. The Bureau of Energy Efficiency is required to formulate detailed procedures for CCC transactions following public consultation and upon obtaining CERC approval.

These procedures encompass:

- Interface activities between Power Exchanges and the Registry
- Interface activities between the Administrator and the Registry
- Interface activities between the Registry and both categories of entities
- Any other activities that CERC may permit under the CCTS
- Registration of obligated and non-obligated entities with the Registry
- Procedures for dealing with, transferring, and managing residual matters concerning CCCs

Substantive Regulatory Support Functions

Beyond procedural formulation, the Administrator is entrusted with substantive regulatory support functions, including:

- Providing assistance to CERC in matters involving CCC transactions
- Disseminating relevant market information to all stakeholders
- Monitoring the transparency of CCC exchanges and reporting instances of non-compliance to CERC
- Providing entity-specific information to the Registry
- Adhering to compliance requirements under the Environment Protection Act and Energy Conservation Act
- Intimating the Registry regarding CCC expiry
- Coordinating with Power Exchanges and the Registry to ensure seamless operational interfaces

These functions collectively establish the **Administrator as the operational backbone** of India's carbon credit trading system.

Value and Validity of Carbon Credit Certificates

Regulation 7 addresses the intrinsic value and temporal validity of CCCs. The value is specified by reference to Section 2(1)(c) of the CCTS 2023.

The validity of CCCs is bifurcated according to the mechanism under which they are issued:

- Certificates issued under the **Compliance Mechanism** are governed by the Detailed Procedure for Compliance Mechanism.

- Certificates issued under the **Offset Mechanism** are governed by the corresponding Detailed Procedure for Offset Mechanism.

Both procedures are developed under Section 12 of the CCTS 2023, ensuring that validity periods are calibrated to the specific regulatory requirements of each mechanism.

Categorization and Segmented Market Structure

Regulation 8 empowers the Bureau of Energy Efficiency to categorize CCCs separately for obligated and non-obligated entities, recognizing the distinct regulatory status and compliance obligations of these participant categories.

Additionally, CERC retains the authority to permit the introduction of new CCC categories upon application, provided such introduction conforms to the Power Market Regulations. This dual structure ensures both administrative flexibility and regulatory control over market development.

Dealing in Certificates: Operational Provisions

Regulation 9 contains the most elaborate operational provisions governing CCC trading. The fundamental requirement is that CCCs shall be dealt with exclusively through Power Exchanges, unless CERC specifically permits alternative modes through orders issued under the CCTS. This platform restriction ensures centralized oversight and standardized trading practices.

The regulations further bifurcate the market into two distinct segments:

- The **Compliance Market** for Obligated Entities
- The **Offset Market** for Non-Obligated Entities

This segmentation maintains regulatory separation between mandatory and voluntary participation.

Eligibility and Trading Process

The eligibility for trading is contingent upon CCCs being issued by the Bureau of Energy Efficiency with Central Government approval and subsequently credited in the CCC Registry upon payment of stipulated fees.

Once credited, these certificates may be placed for dealing on any Power Exchange or permitted mode, subject to the Rules, Business Rules, and Bye-Laws of the relevant trading platforms. Transaction frequency is established on a **monthly basis** or such other periodicity as CERC may approve, ensuring regular market liquidity while accommodating administrative requirements.

A critical compliance requirement is that all CCC trading must conform to the Energy Conservation Act, 2001, the Environment Protection Act, 1986, the CCTS 2023, and these regulations, as amended from time to time. Power Exchanges and permitted entities must obtain prior CERC approval for their operational rules, including eligibility criteria, price discovery mechanisms, and interaction protocols with the Registry.

All participating entities must register with the Power Exchange or permitted entity, and CCCs credited in the Registry may be placed for dealing as the holder deems appropriate.

Compliance and Default Provisions

The regulations impose **strict sale bid limitations**, prohibiting entities from placing sale bids exceeding their Registry account holdings. The Registry is mandated to cross-check cumulative sale bids across all trading platforms against available holdings.

In cases of breach, the following consequences apply:

- The defaulting entity is treated as a defaulter with their bids rendered void and ineffective.
- Entities accumulating more than three default cases within a quarter face a **six-month trading bar**.
- Additional penalties under the Energy Conservation Act, 2001 may apply.
- The Registry is required to publish monthly lists of defaulting entities.

Post-transaction, Power Exchanges must send comprehensive reports to respective entities and update Registry accounts, debiting sellers and crediting buyers upon successful transaction completion.

Banking, Surrender, and Pricing Mechanisms

Regulation 10 incorporates by reference the Detailed Procedures for Compliance and Offset Mechanisms under the CCTS 2023, thereby maintaining regulatory consistency in banking and surrender procedures.

Regulation 11 establishes the pricing architecture, confirming the one tonne of carbon dioxide equivalent denomination, while providing that market prices shall be discovered through Power Exchange processes approved by CERC.

The Compliance Mechanism operates within **Floor Price and Forbearance Price bands** approved by CERC upon Bureau proposal. CERC retains intervention authority to issue directions when abnormal price fluctuations, sudden volatility, or unusual trading volumes are detected, thereby safeguarding market stability.

Fees, Charges, and Market Oversight

Regulation 12 empowers CERC, in consultation with the Bureau of Energy Efficiency, to determine fees and charges payable by both categories of entities for Registry management and software platform costs.

Regulation 13 establishes CERC's market oversight function, to be exercised with Bureau assistance and in accordance with Power Market Regulations, ensuring integrated supervision across India's energy and carbon markets.

Regulatory Flexibility: Powers to Relax and Issue Directions

Regulations 14 and 15 provide essential flexibility mechanisms.

CERC may relax any regulation provision through general or special orders, provided reasons are recorded in writing and affected parties are afforded hearing opportunities. This power may be exercised suo motu or upon application.

Additionally, where difficulties arise in implementation, CERC may issue necessary directions, again exercisable on its own motion or upon affected party application, to advance the regulations' objectives and purposes.

Conclusion

The Central Electricity Regulatory Commission (Terms and Conditions for Purchase and Sale of Carbon Credit Certificates) Regulations, 2026, constitute a **comprehensive and carefully structured legal framework** that transforms India's carbon trading policy into an operational market mechanism.

By establishing clear institutional roles for the Bureau of Energy Efficiency as Administrator and the Grid Controller of India as Registry, by delineating distinct market segments for obligated and non-obligated entities, by imposing rigorous compliance and default prevention mechanisms, and by retaining adaptive regulatory powers, these regulations demonstrate a sophisticated approach to environmental market governance.

The integration of price controls, market oversight, and procedural flexibility ensures that India's carbon market can develop within a stable yet adaptive regulatory environment.

As India continues to advance its climate commitments under international frameworks, these regulations provide the essential domestic infrastructure for market-based emissions reduction, representing a significant evolution in India's environmental law and regulatory practice. The success of this framework will ultimately depend upon effective implementation, stakeholder compliance, and the responsive exercise of CERC's supervisory and adaptive powers in an evolving carbon market landscape.

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