

Shram Shakti Bhawan, Rafi Marg.
New Delhi, 2nd January, 2026

To,

1. Secretary, MNRE, New Delhi.
2. Secretary, Ministry of MSME, New Delhi.
3. Chairperson, CEA, Sewa Bhawan, R.K. Puram, New Delhi.
4. Secretary, Central Electricity Regulatory Commission (CERC), New Delhi.
5. Principal Secretaries/Secretaries (Power/Energy) of all State Governments/UTs.
6. Secretaries of All State Electricity Regulatory Commissions/JERCs.
7. Chairman/CMDs of all PSUs under administrative control of Ministry of Power.
8. CMD, SECI, New Delhi.
9. CMDs/MDs of Discoms/Gencos of all State Governments.
10. CMD, IEX LTD New Delhi & MD/CEO, PXIL, Mumbai/ HPX New Delhi.
11. DG, Association of Power Producers, New Delhi.
12. President, FICCI, House No. 1, Tansen Marg New Delhi.
13. President, CII, New Delhi.
14. President, PHDCCI, New Delhi.
15. ASSOCHAM, Chanakyapuri, New Delhi.
16. Member, PRAYAS Energy Group, Pune.
17. DG, Electric Power Transmission Association (EPTA), New Delhi.
18. Chairman Indian Wind Power Association, New Delhi.
19. Chairman, Indian Wind Turbine Manufacturers Association, New Delhi.
20. Director General, National Solar Energy Federation of India (NSEFI), New Delhi.
21. DG, Solar Power Developers Association, New Delhi.
22. CEO, PFC Consulting Ltd (PFCCL), New Delhi.
23. Dr. Anoop Singh, Professor, CER (IIT), Kanpur.

Subject: Seeking comments on draft amendments proposed in Rule 3 (i.e., Requirements of Captive Generating Plant) of Electricity Rules, 2005 – reg.

Sir/Madam,

I am directed to forward herewith the draft amendments proposed to Rule 3 (Requirements of Captive Generating Plant) of the Electricity Rules, 2005, along with an explanatory note, and to request that any comments or suggestions thereon may kindly be furnished to this Ministry within 15 days from the date of issue of this letter, i.e., by 17th January, 2026. The comments (in word and pdf format) may also be emailed at rr1-mop@gov.in.

2. This issues with the approval of Competent Authority.

Encl: as above

Manish Mishra
(Manish Mishra)

Director
Tel. No. 011- 23718077

Copy for information to:

PS to Hon'ble Minister of Power, APS to Hon'ble MoSP, PPS to Secy(P), PPS to AS(SN), PSO to CE(R&R), Ministry of Power.

Copy to: Technical Director, NIC Cell for uploading on MOP's website under "New Notices" with the heading of "**Seeking comments on draft amendments proposed in Rule 3 (i.e Requirements of Captive Generating Plant) of Electricity Rules, 2005."**

(DRAFT)

[To be published in the Gazette of India, Extraordinary, Part-II, Section 3, Sub-section (i)]

GOVERNMENT OF INDIA
MINISTRY OF POWER

NOTIFICATION

New Delhi, the January, 2026

G.S.R.(E).—In exercise of the power conferred by sub-section (1), read with clause (z) of sub-section (2), of section 176 of the Electricity Act, 2003 (36 of 2003), the Central Government hereby makes the following rules, namely:—

1. Short title and commencement.—

- (1) These rules may be called the Electricity (Amendment) Rules, 2026.
- (2) These rules shall come into force on the date of their publication in the Official Gazette:

Provided that the sub-Rule (2)(iii)(b), (c) and sub-Rule (4) shall come into force on 1st April, 2026.

2. Amendment of Rule 3.—In the Electricity Rules, 2005, for Rule 3, the following shall be substituted, namely:—

“3. Requirements of Captive Generating Plant.—

- (1) For the purposes of this rule, unless the context otherwise requires,—

- (a) "**assessment period**" shall mean a financial year or such other continuous period within a financial year, as may be opted by the captive user for the purposes of verification under these rules;
- (b) "**captive user**" shall mean an end user of the electricity generated in a Captive Generating Plant, and includes a person or group of persons who consume such electricity either directly or through an Energy Storage System used for storing energy generated from such Captive Generating Plant, and the term "captive use" shall be construed accordingly, -
Explanation. - Where a captive user is a company, the captive user shall be deemed to include its subsidiary or subsidiaries, its holding company, and any other subsidiary or subsidiaries of such holding company, and all such entities shall be collectively treated as a single captive user.
- (c) "**ownership**", in relation to a generating station or power plant set up by any person, shall mean proprietary interest and control, or equity share capital carrying voting rights, held either directly or through its subsidiary or subsidiaries, its holding company, and any other subsidiary or subsidiaries of such holding company.
- (d) "**Special Purpose Vehicle**" shall mean a legal entity established for the sole purpose of owning, operating and maintaining a generating station, and which does not undertake any other business or activity.
Explanation. - For the purposes of these rules, a Special Purpose Vehicle shall be treated as an Association of Persons.

(2) Captive Generating Plant and Captive Consumption: (i) No power plant shall qualify as a *captive generating plant* under section 9 read with clause (8) of section 2 of the Act unless —

- (a) not less than twenty-six per cent of the ownership is held by the captive user(s); and
- (b) not less than fifty-one per cent of the aggregate electricity generated in such plant, during the assessment period, is consumed for captive use.

Explanation. —

- (1) the electricity required to be consumed by the captive users shall be determined with reference to the aggregate generation of the generating unit or units identified for captive use, and not with reference to the generating station as a whole; and
- (2) the equity shares to be held by the captive user or users in the generating station shall not be less than twenty-six per cent of the proportionate equity of the company corresponding to the generating unit or units identified as the captive generating plant.

Illustration. - In a generating station with two units of 50 MW each namely Units A and B, one unit of 50 MW namely Unit A may be identified as the Captive Generating Plant. The captive users shall hold not less than thirteen percent of the equity shares in the company (being the twenty six percent proportionate to Unit A of 50 MW) and not less than fifty one percent of the electricity generated in Unit A determined during the assessment period is to be consumed by the captive users.

(3) In the case of a generating station owned by a company formed as a Special Purpose Vehicle for such generating station, the conditions specified in paragraph (i) of sub-rule (2) shall apply to the generating unit or units identified for captive use, and not to the generating station as a whole.

(ii) In the case of a power plant set up by a registered co-operative society, the conditions specified in paragraph (i) of sub-rule (2) above shall be satisfied collectively by the members of the co-operative society.

(iii) In the case of a power plant set up by an association of persons, —

(a) the conditions specified in paragraph (i) of sub-rule (2) shall be satisfied collectively by all the captive users, and the aggregate consumption by all such captive users from the power plant shall be considered for the purpose of verifying compliance with the said conditions;

(b) captive consumption by an individual captive user shall be admissible only up to one hundred per cent of its proportionate entitlement, calculated with reference to its share in the total captive ownership in the power plant;

- (c) where any captive user holds not less than twenty-six per cent ownership in the power plant, the condition relating to proportionate consumption specified in clause (b) shall not apply to such captive user;
- (d) where the ownership pattern of the power plant varies during the assessment period, the proportionate entitlement of each captive user shall be determined on the basis of the weighted average shareholding of such captive user during the assessment period;
- (e) for the purpose of calculating proportionate consumption under this sub-rule, a captive user, its subsidiary or subsidiaries, its holding company, and any other subsidiary or subsidiaries of such holding company shall be collectively treated as a single captive user.

(See illustrations in Schedule-III)

(3) Compliance during Assessment Period,—

It shall be the obligation of the captive user(s) to ensure that the conditions specified in sub-rule (2) are complied with during the assessment period, and where the minimum captive consumption requirement is not met during such period, the entire electricity generated by the power plant shall be treated as supply of electricity by a generating company.

(4) Verification of Captive Status.-

(i) The verification of captive status of a power plant where the power plant and the captive user(s) are located in the same State, shall be carried out by the nodal agency designated by the State Government, as per the procedure issued by such nodal agency.

Provided that where a captive power plant and its captive user(s) are located in more than one State, the verification shall be carried out by the National Load Despatch Centre (NLDC) in accordance with the procedure issued by the NLDC with approval of the Central Government.

(ii) An appeal against the verification carried out under clause (i) of sub-rule (4) shall lie before a Grievance Redressal Committee constituted by the

Appropriate Government.

(iii) Pending verification of captive status for any financial year, the cross-subsidy surcharge and additional surcharge shall not be levied, subject to the declaration furnished by the captive user(s) in accordance with the procedure issued by the nodal agency.

Provided that where the power plant fails verification of captive status for the assessment period after furnishing such declaration, the applicable cross-subsidy surcharge and additional surcharge, as determined by the respective State Commission, along with the carrying cost calculated at the base rate of Late Payment Surcharge specified in the Electricity (Late Payment Surcharge and Related Matters) Rules, 2022, shall be payable.”

[File No. 23/26/2022-R&R (Part-1)]

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Additional Secretary to the Govt. of India

Note: The principal rules were published in the Gazette of India, Extraordinary, Part II, Section 3, sub-section (i) vide number G.S.R. 379(E), dated the 08th June, 2005.

Schedule- III

(see rule 3)

Example 1: Plant Qualifies as Captive - Proportionate Consumption Within Limit

	Captive User			Total
	A	B	C	
% Ownership of Captive User(s) (x)	15	10	5	X=30
Actual Consumption by Captive User(s) (as % of total ex-bus generation) (y)	33	28	9	Y=70
Captive Consumption Eligibility Limit (as % of total ex-bus generation) = (Y.x/X)	35	23.33	11.67	

Note:

- A) For A, actual consumption (33%) qualifies as captive consumption.
- B) For B, only consumption up to 23.33% qualifies as captive consumption.
- C) For C, actual consumption (9%) qualifies as captive consumption.

Example 2: Plant Qualifies as Captive – Collective vs Individual Limit

	Captive User			Total
	A	B	C	
% Ownership of Captive User(s) (x)	15	10	5	X=30
Actual Consumption by Captive User(s) (as % of total ex-bus generation) (y)	20	28	3	Y=51
Captive Consumption Eligibility Limit (as % of total ex-bus generation) = (Y.x/X)	25.5	9.33	8.5	

Note:

- A) For A, Actual consumption (20%) qualifies as captive consumption.

B) For B, only consumption up to 9.33% qualifies as captive consumption for user B. However, entire consumption (28%) counts for plant verification.

C) For C, actual consumption (3%) qualifies as captive consumption.

Example 3: Plant Qualifies as Captive – Individual Ownership >26% Exempted

	Captive User			Total
	A	B	C	
% Ownership of Captive User(s) (x)	30	15	5	X=50
Actual Consumption by Captive User(s) (as % of total ex-bus generation) (y)	80	12	5	Y=97
Captive Consumption Eligibility Limit (as % of total ex-bus generation) = (Y.x/X)	58.2	29.1	9.7	

Note:

A) For A, although proportionate limit is 58.2%, actual consumption (80%) qualifies because ownership is $\geq 26\%$.

B) For B, actual consumption (12%) qualifies as captive consumption.

C) For C, actual consumption (5%) qualifies as captive consumption.

Example 4: Plant Qualifies as Captive - Group Entities Treated as Single Person

	Captive User			Total
	Group	B	C	
% Ownership of Captive User(s) (x)	22 (A=22; A1 =0; A2 = 0; A3 = 0)	4	6	X=32

	Captive User			Total
	Group	B	C	
Actual Consumption by Captive User(s) (as % of total ex-bus generation) (y)	60 (A=0; A1 =30; A2 = 5; A3 = 25)	6	4	Y=84
Captive Consumption Eligibility Limit (as % of total ex-bus generation) = (Y.x/X)	57.75	10.5	15.75	

Note:

- A) Imagine a group where A holds ownership, A1 is the holding company of A, A2 the subsidiary of A and A3 the subsidiary of A1. In this case, only collective consumption of group (57.75%) qualifies. Excess does not qualify as captive consumption. Allocation of the eligible collective captive consumption among group entities is determined by the group, subject to the collective eligibility limit.
- B) For B, actual consumption (6%) qualifies as captive consumption.
- C) For C, actual consumption (4%) qualifies as captive consumption.

Explanatory Note for the proposed Amendments in the Captive Rules

National Electricity Policy, 2005 reaffirmed the liberal provisions for captive generation under the **Electricity Act, 2003**, recognising captive power as a key instrument for ensuring reliable, quality, and cost-effective electricity supply to industry. Captive generation was envisaged as a critical enabler of industrial growth and employment creation by mitigating supply constraints and cost volatility. Industrial electricity tariffs in India remain higher than those prevailing in comparable emerging economies such as China, Vietnam, and Indonesia. In addition, industrial consumers continue to face constraints in accessing affordable non-fossil fuel based energy, including through captive and open access routes, due to varied regulatory practices and commercial barriers across States. This cost disadvantage adversely impacts the operational viability, export competitiveness, and investment attractiveness of Indian industry.

Encouraging generation closer to the point of consumption can reduce transmission and distribution losses, improve system efficiency, and enhance grid resilience. Further, as India advances towards the objective of energy independence, broader stakeholder participation in generation and greater self-reliance in power supply assume critical importance. With future growth in electricity demand expected to be increasingly industry-led, there is a clear need for flexible and cost-competitive supply arrangements tailored to industrial requirements. In this context, promoting captive power generation sources is essential to support the vision of ***Viksit Bharat @ 2047*** and to strengthen the long-term competitiveness of Indian industry.

India's ambitious goal of achieving **500 GW of non-fossil capacity by 2030** is driving widespread industrial adoption of non-fossil fuel based energy. Modern corporate groups establish **dedicated subsidiaries or special-purpose vehicles** to own non-fossil fuel based or other captive power assets, while consumption occurs across multiple group companies. In such structures, narrow interpretation of existing captive consumption rules may inadvertently prevent legitimate group entities from fully availing the benefits of captive power, despite having made substantial investments. It is therefore necessary to align the captive generation framework with the energy transition and industrial development goals. An easy to understand and implementable and equitable framework will ensure that industries utilising group structures or investment vehicles can legitimately access the benefits of captive power, while maintaining compliance, accountability, and clarity in captive status.

In June 2023, the Electricity Rules, 2005 were amended with the objective of extending the benefits of captive consumption to group companies by permitting greater flexibility in capital structures. However, interpretational issues were observed in extending captive consumption benefits to group companies i.e. subsidiaries and holding company through flexible capital structures. Similar challenges were also noted in relation to the proportionality requirements applicable to Associations of Persons (AoPs). To address these concerns, amendments to the Electricity Rules, 2005 were proposed in September 2025 and stakeholder comments were invited. Based on the inputs received, and with a view to resolve ambiguities and reducing litigation arising from divergent interpretations, further amendments to Rule 3 (Requirements of Captive Generating Plant) of the Electricity Rules, 2005 are proposed.

1. Ownership Requirements

The definition of *ownership* is proposed to be clarified and will include **subsidiary(ies), holding company and other subsidiary(ies) of the holding company** of the entity that established the captive generating station. This clarification is necessary to reflect contemporary corporate structures where assets are frequently developed and held through group entities for operational and financial efficiency. Treating such subsidiaries or holding companies as “owners” and captive consumers will ensure that legitimate captive investments by corporate groups are not denied the benefits of captive status merely due to organisational structuring. All the group companies will be eligible for the benefits of captive consumption.

2. Assessment Period

In view of the seasonal and variable operational patterns across different industries, and with a view to enabling greater operational flexibility in availing captive consumption benefits, it is proposed that the assessment be undertaken with reference to the actual operational period of the captive user(s) during which a power plant qualifies as captive power plant, rather than on a rigid entire financial year basis. This approach would allow eligible entities to avail captive benefits in alignment with their operational requirements, instead of being constrained by an inflexible annual ownership and consumption framework.

Where the shareholding pattern varies during an assessment period, it is proposed that the proportionate entitlement of each shareholder be calculated on the basis of the weighted average shareholding held by that shareholder over the course of the assessment period. This approach

ensures accuracy and reflects the actual ownership profile applicable during the assessment period of captive consumption.

3. Captive Plant by Association of Persons (AoP)

In the case of captive power plants established by an Association of Persons (AoP), it is proposed that each captive user is free to draw power based on their operational requirements. Eligibility for captive consumption is proposed to be linked solely to the requirement of proportionate consumption aligned with ownership, without imposing disqualification for consumption falling below or above the specific thresholds. There will not be any disqualification due to disproportionate consumption by an individual user, only the energy consumed over and above the proportionate consumption limit will not qualify as individual captive consumption. However, this individual disqualified energy consumption will still qualify as collective captive consumption and will be accounted for calculation of meeting 51% consumption requirement by all the users collectively. This will ensure that the group captive model retains its intended flexibility while maintaining compliance with statutory intent behind ownership and consumption criteria.

It is proposed that if any person in the AoP holds twenty-six percent or more of the ownership in the captive generating plant, the requirement relating to proportionate entitlement shall **not apply** to such person and the entire consumption by him will be treated as captive consumption. This proposal recognises the substantive ownership interest of a specific entity in an AoP irrespective of consumption variability. However, for other captive consumers the proportionate consumption condition will be applicable.

For calculating proportionate entitlement, a captive user together with its subsidiaries, its holding company, and the other subsidiaries of that holding company shall be treated as one **Person**. The proportionate entitlement requirement will not apply to any individual entity within this combined group.

However, when individual entities operate in the license areas of different distribution licensees, each entity claiming captive consumption must report its own electricity consumption to the respective distribution licensee(s), along with the group's consolidated captive entitlement (treated as one person) and a simple declaration that its consumption forms part of the group's captive consumption pool. The proportionality test will apply only at the group level, not to each entity. This aligns with the objective of promoting ease of doing business, reduction of disputes, and ease of compliance.

It is clarified that **Special Purpose Vehicles (SPVs)** will be treated as an **Association of Persons (AoP)** for the purpose of captive generation. This will eliminate interpretational ambiguities and ensure consistency in the treatment of SPVs, which are widely used by industries for developing captive and non-fossil fuel based energy projects.

4. Captive verification:

State Governments are proposed to be empowered to designate a **nodal agency** for verification of captive status for intra-state captive consumption. The verification will be undertaken in accordance with the procedure issued by the nodal agency. Verification of captive status for inter-state captive consumption will be performed by National Load Despatch Centre (NLDC). The verification will be undertaken in accordance with the procedure issued by the NLDC with the approval of

Central Government. Any disputes arising out of the verification decision of the nodal agencies shall be placed before a Grievance Redressal Committee to be constituted by the Appropriate Government. This will facilitate streamlined implementation, timely verification of captive status, and improved clarity for captive users, generators, and distribution licensees.

5. Treatment of Cross-subsidy Surcharge (CSS) and Additional Surcharge (AS) pending captive status verification:

It is proposed that, pending verification of captive status for any assessment period, the cross-subsidy surcharge and additional surcharge shall not be levied, provided that the captive user(s) furnish the requisite declaration in accordance with the procedure issued by the Central Electricity Authority for inter-state and the procedure issued by the State nodal agency for intra-state verification. This proposal ensures that captive users are not subjected to immediate surcharge liabilities solely due to procedural timelines, thereby mitigating working capital pressures and supporting continuity of operations.

If the generating plant ultimately fails to meet the captive status requirements for the assessment period, despite having furnished the declaration, the user(s) shall be liable to pay the applicable cross-subsidy surcharge and additional surcharge, together with the carrying cost. The carrying cost shall be calculated at the base rate of the Late Payment Surcharge, in accordance with the Electricity (Late Payment Surcharge and Related Matters) Rules, 2022. This ensures parity, protects the financial interests of distribution licensees, and maintains accountability while still providing temporary relief pending verification.

6. Unit-level ownership and consumption:

Unit-level ownership and consumption verification, in lieu of generating station-level verification and currently permitted only for Special Purpose Vehicles (SPVs), is proposed to be extended to all captive users. This would provide greater operational flexibility, better reflect diversified ownership and consumption structures, reduce compliance complexity, and help address practical difficulties faced by captive users with multiple units or phased development, while maintaining the integrity of captive status verification.

7. Applicability of the amendments:

To enable smooth implementation of the Rules, it is proposed that provisions relating to proportionate consumption in group captive arrangements, as well as State-level nodal agency designation and procedure creation, shall come into effect from 1st April 2026. All other amendments shall take effect immediately.
