

Government amends Electricity Rules to strengthen captive power framework and support industrial competitiveness

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Government of India has notified the **Electricity (Amendment) Rules, 2026**, amending Rule 3 of the Electricity Rules, 2005 relating to **Captive Generating Plants (CGPs)**. The amendments aim to remove interpretational ambiguities, improve ease of doing business for industry, and align the captive generation framework with India's energy transition and industrial growth objectives.

Captive power generation has been a key enabling provision under the Electricity Act, 2003. The National Electricity Policy, 2005 recognised captive generation as an important mechanism for ensuring reliable and cost-effective electricity supply to industry. Captive power has supported industrial growth by enabling industries to mitigate supply constraints and manage electricity cost volatility.

Indian industries are increasingly adopting non-fossil fuel based energy to meet sustainability commitments and reduce costs. In this context, enabling a clear, predictable and implementable framework for captive power generation is critical for enhancing industrial competitiveness and supporting India's long-term economic growth.

Encouraging generation closer to the point of consumption also helps reduce transmission losses, improve system efficiency and strengthen grid resilience. The amendments therefore seek to provide clarity in the implementation of captive generation provisions while maintaining the statutory safeguards relating to ownership and consumption.

The **Electricity (Amendment) Rules, 2026** have been introduced to provide greater clarity and flexibility in the framework governing captive power plants so that industries can more easily generate electricity for their own consumption. The amendments seek to align the captive generation regime with modern corporate structures and evolving industrial energy needs, particularly as companies increasingly invest in non-fossil fuel based captive power projects. By clarifying ownership provisions, simplifying rules for group captive arrangements, and establishing a clear verification mechanism, the amendments aim to reduce regulatory ambiguity and disputes. Many provisions in the Rules have been simplified for ease of compliance. New provision has been added to avoid imposition of charges on the captive consumers by the Distribution licensees pending verification of the captive status. Overall, the amendments are expected to promote ease of doing business, enable industries to access reliable and cost-competitive electricity through captive generation, reduce regulatory ambiguities and disputes, and encourage greater investment in captive and non-fossil fuel based energy projects.

The amendments have been finalised after extensive stakeholder consultations.

Key features of the amendments

1. Clearly Defined Ownership Requirements

The definition of ownership has been clarified to include subsidiaries, holding companies and other subsidiaries of the holding company of the entity that establishes the captive generating plant. This clarification recognises modern corporate structures where power assets are often developed through group entities or special purpose vehicles. The amendment ensures that legitimate captive investments by corporate groups are not denied captive status merely due to organisational structuring.

2. Uniform Verification Period

Verification of captive status will be undertaken for the entire financial year, ensuring clarity and uniformity in implementation. In cases involving the first or last year of ownership of a captive generating plant, verification may be undertaken for the relevant part of the financial year.

3. Captive Plants established by Association of Persons (AoP)

The amendments provide greater flexibility in operation of group captive projects established through an Association of Persons (AoP). Captive users will be able to draw power based on their operational requirements, subject to overall compliance with the statutory ownership and consumption conditions.

Consumption exceeding the proportionate entitlement of an individual user will not result in disqualification of captive status for the plant. However, such excess consumption will not qualify as individual captive consumption but will still count towards the collective captive consumption qualifying requirement of the group.

Where a member of the AoP holds 26 percent or more ownership, the proportionate consumption requirement will not apply to that entity and its entire consumption will be treated as captive consumption.

For the purpose of proportionate consumption calculation, a captive user together with its subsidiaries, holding company and other subsidiaries of the holding company will be treated as a single person.

4. Nodal Agencies for Captive Status Verification

With effect from 1st April, 2026 the State or Union Territory Governments may designate a **nodal agency** for verification of captive status in cases of **intra-state captive consumption**. For **inter-state captive consumption**, verification will be undertaken by the **National Load Despatch Centre (NLDC)**.

A **Grievance Redressal Committee** will be constituted by the Appropriate Government to address disputes arising from such verification decisions.

5. Treatment of Cross-Subsidy Surcharge and Additional Surcharge

Pending verification of captive status, **Cross-Subsidy Surcharge (CSS)** and **Additional Surcharge (AS)** will not be levied if the captive users submit the prescribed declaration in accordance with the procedures issued by the NLDC (for inter-state cases) or the State nodal agency (for intra-state cases).

If a generating plant subsequently fails to qualify as a captive generating plant upon verification, the applicable CSS and AS will become payable along with carrying cost. The carrying cost will be calculated at the base rate of the Late Payment Surcharge under the Electricity (Late Payment Surcharge and Related Matters) Rules, 2022.

6. Applicability of the Amendments

To facilitate smooth implementation, certain provisions relating to proportionate consumption in AoP structures, the verification framework, and the treatment of CSS and AS will come into effect from **1st April 2026**. Other amendments will take effect immediately.

Reform for Supporting industrial growth and clean energy transition

By enabling industries to access reliable and cost-competitive electricity through captive generation, the reforms will strengthen industrial competitiveness and support India's transition towards a sustainable energy future. The reforms also align with the Government's broader vision of **energy self-reliance**, while supporting India's vision of achieving **Viksit Bharat @ 2047**.

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