

MINISTRY OF POWER

NOTIFICATION

New Delhi, the 13th March, 2026

G.S.R. 186(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, further to amend the Electricity Rules, 2005 namely:—

1. **Short title and commencement.**— (1) These rules may be called the Electricity (Amendment) Rules, 2026.

(2) They shall come into force on the date of their publication in the Official Gazette:

Provided that sub-rule (2)(d)(ii), (iii) and sub-rule (4) of Rule 3 shall come into force on the 1st April, 2026.

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

“3. Requirements of Captive Generating Plant.—(1) For the purposes of this rule, unless the context otherwise requires,—

(a) “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 shall be collectively treated as a single captive user.

(b) “subsidiary company” shall have the meaning assigned to it under clause (87) of section 2 of the Companies Act, 2013 (18 of 2013);

(c) “holding company” shall have the meaning assigned to it under clause (46) of section 2 of the Companies Act, 2013 (18 of 2013).

(d) “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.

(e) “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) (a) No power plant shall qualify as a *captive generating plant* under section 9 read with clause (8) of section 2 of the Act unless —

(i) not less than twenty-six per cent of the ownership is held by the captive user (s); and

(ii) not less than fifty-one per cent of the aggregate electricity generated in such plant, during the financial year, is consumed for captive use.

(b) In case of a generating station owned by a company formed as special purpose vehicle for such generating station, a unit or units of such generating station identified for captive use and not the entire generating station satisfies the conditions contained in sub-clause (i) and (ii) of clause (a) above.

Explanation. — For the purpose of this sub-rule:

(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 Mega Watt each namely Units A and B, one unit of 50 Mega Watt 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 Mega Watt) and not less than fifty one percent of the electricity generated in Unit A determined during the financial year is to be consumed by the captive user(s).

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

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

(i) the conditions specified in sub-clause (i) and sub-clause (ii) of clause (a) above 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;

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

(iii) 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 sub-clause (ii) of clause (d) shall not apply to such captive user;

(iv) where the ownership pattern of the power plant varies during the financial year, the proportionate consumption of each captive user shall be determined on the basis of the weighted average shareholding of such captive user during the financial year;

(v) for the purpose of calculating proportionate consumption under sub-rule (2), 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) 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 financial year, 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 and cross-subsidy surcharge and additional surcharge shall be levied on such consumption:

Provided that in the case of a power plant set up by an association of persons, any consumption by an individual captive user in excess of one hundred per cent of its proportionate consumption shall be treated as supply of electricity by a generating company and cross-subsidy surcharge and additional surcharge shall be levied on such excess consumption.

(4) (a) 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.

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

(c) 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 or NLDC, as the case may be:

Provided that where the power plant fails verification of captive status for the financial year 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, as amended from time to time, shall be payable.

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

PIYUSH SINGH, Addl. Secy.

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 8th June, 2005 and was last amended vide GSR 688(E), dated the 19th September, 2025.

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	17	8.5	

Note:

- A) For A, Actual consumption (20%) qualifies as captive consumption.
 B) For B, only consumption up to 17% qualifies as captive consumption. 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 $\geq 26\%$

	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
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=70
Captive Consumption Eligibility Limit (as % of total ex-bus generation) = (Y.x/X)	48.12	8.75	13.12	

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 (48.12%) qualifies. Excess does not qualify as captive consumption. Allocation of the eligible collective captive consumption among group entities shall be 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 Electricity (Amendment) Rules, 2026 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 were proposed in January 2026. Based on stakeholder feedback, the amendments have been finalized.

1. Ownership Requirements

The definition of *ownership* has been clarified and will include subsidiary(ies), **holding company and other subsidiary(ies) of the holding company** of the entity who has 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 and flexibility. 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 such companies are eligible for the benefits of captive consumption.

2. Verification period

The verification of captive status shall be carried out for the entire financial year. This approach is intended to ensure clarity and uniformity in operational implementation, enable effective and verifiable assessment of ownership and equity structures over a clearly defined and consistent period, and provide certainty and predictability of receivables for distribution licensees. It also seeks to address interpretational ambiguities and reduce administrative complexities. However, in cases involving the first year or the last year of ownership of a captive generating station, the verification may be undertaken for the relevant part of the financial year applicable to such ownership.

3. Captive Plant by Association of Persons (AoP)

In the case of captive power plants established by an Association of Persons (AoP), each captive user is free to draw power based on their operational requirements. Eligibility for captive consumption is 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.

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 mechanism 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 consumption limit, 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

consumption 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 / Union Territory (UT) Governments have been empowered to designate a **nodal agency** for verification of captive status for intra-state captive consumption i.e., where the captive generating station and the captive consumer (s) is located within the State / UT. The verification will be undertaken in accordance with the procedure issued by the nodal agency. Verification of captive status for inter-state captive consumption i.e., where the captive generating station and the captive consumer (s) is located in different State / UT, 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:

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 NLDC 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 respective financial year, 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 relief pending verification. It is further clarified that CSS and AS shall be applicable in cases where a generating station fails to qualify as a captive generating plant upon verification, as

well as in respect of electricity consumed by captive users in an Association of Persons in excess of their respective eligible shares.

6. Applicability of the amendments:

To facilitate smooth implementation of the Rules, the provisions relating to proportionate consumption by an Association of Persons, as specified in sub-clauses (ii) and (iii) of sub-rule (2) clause (d), as well as the provisions concerning the new verification nodal agency, verification procedure, and treatment of CSS and AS under sub-rule (4), shall come into effect from 1st April 2026. All other amendments shall come into force with immediate effect.

To ensure clarity and continuity in implementation, it is clarified that verification of captive status for inter-State captive consumption for electricity consumed up to FY 2025-26 shall be undertaken by the Central Electricity Authority. With effect from FY 2026-27 onwards, verification of captive status for inter-State captive consumption shall be carried out by the NLDC. Similarly, verification of captive status for intra-State captive consumption shall, with effect from FY 2026-27, be undertaken by the respective State Nodal Agency designated by the respective State Government in accordance with the procedure to be made by them.
