Captive Rule Compliance in Open Access PPAs India 2026: Equity, Consumption, Risk

By Sudarshan Karweer · 29 August 2026 · growthifye.com

A 2026 guide to group captive compliance in India: 26% equity, 51% consumption, landed-cost risk, audits and PPA structuring.

Captive Rule Compliance in Open Access PPAs India 2026: Equity, Consumption, Risk

For Indian commercial and industrial power buyers, the big strategic choice in open access is often framed as tariff: third-party versus group captive. But by 2026, most sophisticated buyers already know that the headline tariff is only the starting point. The real differentiator is compliance durability.

A third-party structure is usually simpler from a legal and operational standpoint, but it may attract additional surcharges and can look expensive in states where cross-subsidy surcharge remains material. A group captive structure can sharply reduce landed power cost because it may avoid cross-subsidy surcharge subject to state rules and actual implementation. However, those savings depend on meeting the captive tests every year, not just on the transaction closing date.

This article focuses on the part many teams underestimate: how the 26% equity rule, the 51% consumption rule, shareholder design, seasonal load shifts, affiliate changes and audit readiness shape the real economics of a group captive open access PPA in India in 2026. For CFOs, procurement heads, developers, lenders and policymakers, this is the difference between a bankable structure and a future dispute.

Why this topic matters in 2026

The broad market has matured. Buyers now compare open access options using hourly load curves, banking assumptions, wheeling losses, approved charges and PPA risk allocation. In many industrial states, plain-vanilla topics such as approvals, banking and headline landed cost have already been widely discussed. The harder question in 2026 is whether group captive savings are robust through the full PPA term.

This matters because several market conditions have become more dynamic:

- C&I demand profiles are changing with electrification, process modernization and expanded second-shift operations.
- Multi-location corporate portfolios are being reorganized more frequently, including mergers, business transfers and SPV-level restructuring.
- Regulators and discoms are applying closer scrutiny to captive claims where surcharge impact is large.
- Lenders are more sensitive to compliance-linked cash flow volatility in open access portfolios.
- Developers are trying to aggregate smaller buyers into larger group captive pools, which can improve diversification but also increases coordination risk.

A group captive project can look cheaper by Rs 1.0-2.5/kWh versus a comparable third-party structure in some use cases once cross-subsidy surcharge impact is considered. But if the captive criteria are breached, retrospective claims can materially alter landed economics. The financial downside is not theoretical.

The legal tests that drive captive status

At a practical level, market participants center on two core tests associated with captive generating plant treatment for a group captive arrangement:

- Captive users, taken together, must hold at least 26% of ownership in the project company.
- Captive users, taken together, must consume at least 51% of the electricity generated on an annual basis, in proportion to their ownership, subject to the applicable legal interpretation and transaction structure.

For advisory and transaction purposes, these are not box-ticking conditions. They affect shareholder documentation, off-take allocation, replacement rights, metering logic, deemed generation treatment, annual true-up and exit mechanics.

In the market, many shorthand explanations are too simplistic. Saying “the users need 26% equity and 51% offtake” is directionally correct but operationally incomplete. The compliance challenge sits in the details:

- Which entities are recognized as captive users?
- How is proportionality maintained if one buyer under-consumes?
- What happens when a plant under-generates relative to P50 or contracted expectation?
- Can a user be replaced mid-year without affecting annual compliance?
- How should one treat shutdowns, maintenance outages and force majeure periods?
- How are step-down shareholding structures viewed in practice by counterparties and risk committees?

These questions are why transaction design matters as much as tariff.

How group captive economics can fail despite a cheap tariff

Consider a stylized 2026 case for a Maharashtra or Karnataka industrial consumer evaluating a solar or solar-hybrid open access supply arrangement.

Illustrative comparison:

- Third-party open access tariff at generator busbar: Rs 3.40-4.10/kWh
- Group captive tariff at generator busbar: Rs 3.10-3.90/kWh
- Delivery losses plus wheeling/transmission and SLDC-related costs: state- and voltage-dependent
- Additional surcharge under third-party route: can be nil in some cases, low in some states, or above Rs 1.0/kWh in others
- Cross-subsidy surcharge under third-party route: can be a major cost adder depending on state and consumer category

This is why group captive often wins the spreadsheet comparison.

But now test downside cases:

- One anchor user reduces production for four months due to demand slowdown.
- A second user transfers its plant to another group entity but does not simultaneously align captive shareholding and approvals.
- One shareholder exits after a merger, and replacement is delayed.
- Annual generation exceeds expected offtake, pushing actual captive consumption ratio below the required threshold.

In these cases, a project that appeared cheaper can become expensive if surcharge exemptions are challenged. Even when final legal outcomes are arguable, the dispute itself can create provisioning pressure, lender discomfort and audit questions.

From a CFO perspective, the right metric is not nominal PPA tariff. It is compliance-adjusted landed cost.

Shareholding design: where most structuring mistakes begin

The most common error in group captive planning is treating equity as a one-time subscription exercise rather than a continuing compliance architecture.

A robust structure usually addresses the following:

- Equity allocation among captive users based on realistic, not aspirational, annual consumption.
- Buffers for seasonal volatility rather than precision-engineered minimum compliance.
- Replacement mechanisms if a user exits or materially cuts load.
- Transfer restrictions to prevent accidental dilution below the effective compliance threshold.
- Clear rules for capital calls and treatment of defaults.
- Alignment between PPA schedule, shareholder agreement and energy allocation methodology.

For example, if four captive users together hold exactly 26% and plan to consume just above 51%, the design is fragile. A better approach often builds margin into both ownership and consumption planning. In practice, many sponsors and advisors prefer not to sit exactly at the legal minimum. They may target ownership above 26% and captive consumption above 51% on a planned basis to absorb ordinary operational variance.

That is especially important where one or two users account for a large share of contracted energy. Concentration increases breach risk.

In 2026, buyers should also watch for structures where the developer seeks operational flexibility but pushes most compliance burden onto the captive users. If the users are expected to maintain annual proportionality, they need corresponding rights over data access, energy statements, replacement of defaulting users and corrective actions.

This is where Growthifye's [PPA structuring & negotiation](/coreservices/greenenergyppa/ppastructuringandnegotiation) capability becomes valuable: not just negotiating tariff, but allocating compliance responsibility in a way that survives audit and dispute.

The 51% consumption test: the real operational challenge

In live projects, the 51% annual consumption condition is often harder than the 26% ownership condition.

Why? Because electricity consumption changes. Industrial demand is not static.

Common causes of under-consumption include:

- Production slowdown or export demand weakness
- Planned maintenance shutdowns
- Fuel-switching in cogeneration-heavy facilities
- Unexpected discom outages affecting drawal pattern
- Changes in contract demand or connected load

- Relocation or closure of one consuming unit
- Internal power optimization across multiple plants

The practical issue is not only aggregate 51% consumption. It is also the proportionality expectation among captive users. If one user consumes materially less than its implied share, another cannot always automatically cure the issue unless the transaction documents and metering allocation framework allow it and state-level implementation risk is understood.

This is why annual energy nomination should be based on interval-load evidence, not broad annual estimates. Proper [Demand & ToD analysis](/coreservices/greenenergyppa/demandandtodanalysis) helps determine whether a plant can actually absorb the proposed captive allocation across months, shifts and seasonal operating cycles.

For a day-shift-heavy consumer such as textiles, food processing or assembly, a pure solar group captive supply may look sufficient on annual units but still create practical under-absorption issues in low-demand periods. For 24/7 process industries, the issue may be easier to manage, though banking rules and nighttime sourcing still matter.

In many cases, the right answer is not a larger PPA. It is a better-matched one.

Annual compliance management: what lenders and auditors now expect

By 2026, lenders financing open access portfolios increasingly ask whether the project has a formal captive compliance protocol. They are no longer satisfied with a generic legal memo and promoter comfort.

A credible annual compliance framework typically includes:

- Monthly tracking of shareholding and beneficial ownership changes
- Monthly energy generation and captive-user consumption reconciliation
- Proportionality checks against contracted allocation
- Early-warning triggers if any user falls below expected drawal
- Defined cure options, including temporary reallocation where feasible
- Board and shareholder approval workflow for changes in user mix
- Year-end certification support from metering, accounting and legal teams

Discoms and state agencies may focus on documentary consistency. If the shareholder register, PPA schedules, open access approvals, meter data and invoices tell different stories, the user is exposed.

From a lender viewpoint, key questions include:

- Is there one dominant captive user whose stress could impair compliance?
- What is the historical CUF versus contracted assumptions?
- How much consumption buffer exists beyond the minimum threshold?
- Are there substitute users already identified?
- Do financing documents recognize surcharge-reinstatement risk?
- Is there a reserve or indemnity framework if captive status is disputed?

These are now core credit questions, not side notes.

Third-party versus group captive: when simplicity may be worth paying for

Not every consumer should pursue group captive, even if the nominal savings are attractive.

A third-party structure may be preferable where:

- The buyer's annual load is volatile or project-linked
- The consuming entity may change due to restructuring
- Internal approvals for equity participation are cumbersome
- Minority shareholding in an SPV is not acceptable from governance or accounting standpoints
- The company wants rapid execution with fewer moving parts
- Compliance monitoring bandwidth is limited
- State-level surcharge economics are less punitive than before

In some states and use cases, the cost gap between third-party and group captive has narrowed after considering transaction costs, equity lock-up, legal work, administration and compliance overhead. If the expected advantage is only a few paise to low tens of paise per kWh on a risk-adjusted basis, the operational simplicity of third-party procurement can outweigh captive complexity.

This is particularly true for buyers with moderate annual consumption, short business visibility or uncertain load growth.

On the other hand, large stable base-load consumers in sectors such as metals, chemicals, cement, auto components and large manufacturing parks may still derive strong value from well-structured group captive procurement, especially in states where surcharge differentials remain meaningful.

The decision should be made through [Sourcing strategy](/coreservices/greenenergyppa/sourcingstrategy) and Landed-cost management, not by copying another company's structure.

A practical 2026 checklist for C&I buyers and developers

Before signing a group captive open access arrangement, parties should pressure-test at least the following:

- Is projected annual captive consumption at least 10-15% above the bare minimum on a planning basis, or is the structure too tight?
- Are ownership percentages aligned with realistic consumption shares rather than headline interest from users?
- Is there a documented process for replacing a user that exits or materially under-consumes?
- Do the PPA, SHA and power allocation schedules use consistent definitions and annual reconciliation methods?
- Are meter data, scheduling responsibilities and invoice formats adequate for year-end compliance support?
- Has the state-specific treatment of charges and captive implementation been tested with current 2026 orders and field practice?
- Are there any affiliate, merger, demerger or lease scenarios likely during the PPA term that could disrupt consuming-entity continuity?
- Is banking treatment supportive of the proposed load pattern, or will surplus timing create hidden compliance pressure?
- Has downside landed cost been modeled if captive status is disputed for one year?

Developers should add one more question: does the portfolio rely too heavily on marketing “captive savings” without building a compliance machine to protect those savings? If yes, the commercial model is incomplete.

The policy takeaway for regulators and utilities

For policymakers and utilities, the market need in 2026 is not ambiguity. It is consistent application.

Open access growth depends on predictable treatment of captive structures, transparent approval processes and clarity on how annual compliance is evidenced. Where implementation varies sharply between formal regulation and field practice, disputes increase and financing becomes costlier.

The best outcomes come when:

- Captive documentation expectations are explicit
- Annual verification processes are standardized
- Data submission formats are clear
- Timelines for review are predictable
- Treatment of ownership and consumption changes is transparently administered

This supports investment without compromising regulatory oversight.

Final view

Group captive remains a powerful route for Indian C&I consumers to reduce landed electricity cost in 2026, especially where third-party open access attracts material surcharge burden. But the cheapest-looking tariff is not always the best transaction. Real value comes from a structure that can maintain captive eligibility year after year despite load variability, corporate changes and operational friction.

If your team is evaluating a new open access procurement or stress-testing an existing captive portfolio, the right question is simple: will this structure still comply in a bad year, not just a base year?

Growthifye advises C&I buyers, developers and investors on open access strategy, compliance design, approvals and commercial risk. To assess your captive or third-party options, contact Growthifye’s advisory desk.

Explore Growthifye's related capabilities

This analysis connects directly to our advisory practice: [Demand & ToD analysis](/coreservices/greenenergyppa/demandandtodanalysis) · [Sourcing strategy](/coreservices/greenenergyppa/sourcingstrategy) · [Competitive developer selection](/coreservices/greenenergyppa/competitivedeveloperselection) · [PPA structuring & negotiation](/coreservices/greenenergyppa/ppastructuringandnegotiation).

ABOUT THE AUTHOR

Sudarshan Karweer — Chief Executive Officer, Growthifye

Over 23 years in management consulting — concept to scale — building and scaling new-age digital and energy businesses. An EY alumnus, Sudarshan leads Growthifye's renewable energy & storage advisory, EPC, transmission engineering and green-financing practices for developers, utilities and C&I consumers across India.
Contact: info@growthifye.com · +91 84510 99371 · growthifye.com