Captive Rules in Open Access PPAs India 2026: Group Captive Compliance & Risk

By Sudarshan Karweer · 08 September 2026 · growthifye.com

A 2026 practitioner guide to group captive compliance in open access PPAs: 26% equity, 51% consumption, rule changes, charges and risk.

Open access group captive compliance in India is moving from a legal checkbox to a core bankability issue. In 2026, many C&I consumers still focus first on quoted energy tariff and apparent savings versus discom supply. But for group captive structures, the real decision is not only third-party versus captive in principle; it is whether the project can continue to satisfy captive-user tests year after year without creating back-billed charges, PPA disputes, lender stress, or stranded equity.

This article focuses on a narrower and different question than a generic third-party vs group captive comparison: how group captive compliance actually works in operating open access projects in India in 2026, where the failure points sit, and how to underwrite them in commercial, legal and operating documents.

For C&I offtakers, developers, lenders and advisors, this is where open-access savings are either protected or lost.

Why group captive compliance matters more in 2026

The usual commercial attraction of group captive remains familiar. If a project qualifies as a captive generating plant and captive users consume power in line with the rules, key open-access surcharges such as cross-subsidy surcharge are typically not payable, subject to state implementation and applicable orders. In many states, this can reduce landed cost by roughly Rs 0.80/kWh to Rs 2.50/kWh relative to a third-party structure, sometimes more for high-paying HT commercial and industrial categories.

That saving, however, is conditional. It depends on compliance with captive tests under the Electricity Rules framework, as interpreted through regulatory orders and court decisions, and then reflected in state-level implementation by discoms, SLDCs and approval authorities.

In 2026, the issue is sharper for five reasons:

- OA charges have generally become more granular, with separate treatment for wheeling, transmission, losses, banking, standby, scheduling and additional surcharges.
- Banking has tightened in several states, increasing pressure to align contracted generation and real user consumption.
- C&I buyer portfolios now commonly include multiple entities, leased plants, contract manufacturing loads and shifting demand centres, making annual captive compliance harder.
- Lenders are scrutinising post-COD regulatory risk more closely, especially where debt sizing assumed captive-status savings.
- Discoms are more willing to challenge structure, user mix, shareholding continuity and consumption allocation when revenue leakage is material.

The result is simple: a project can be technically commissioned, commercially contracted and operationally healthy, yet still face major value erosion if captive compliance slips.

The core legal tests: 26% ownership and 51% consumption

At the heart of group captive design are the two well-known tests under the captive framework:

- Captive users, collectively, must hold not less than 26% of the ownership in the captive generating plant.
- Captive users, collectively, must consume not less than 51% of the aggregate electricity generated on an annual basis.

For group captive, the second test is not only collective. Consumption is also expected to track shareholding proportionately, subject to the tolerance developed in practice and jurisprudence. In execution, this is where many projects get stressed.

A simple example illustrates the issue.

Assume a 100 MW solar project generates 190 million units annually. To preserve captive status:

- Captive users as a group should consume at least 96.9 million units in the year.
- They should collectively own at least 26% of the SPV or the generating asset, depending on structure.
- Individual user consumption should broadly align with each user's equity stake in the captive pool.

If one captive user owns 20% of captive equity but consumes materially less than its proportionate share, another user cannot always fully cure the shortfall merely by consuming more, depending on structure and interpretation. This is one reason “paper diversification” across many users can be less robust than it looks in a teaser model.

Practically, advisors should test at least three cases before deal closure:

- Base-case annual generation versus aggregate captive load
- Weak-demand case, where one or more users reduce plant operations by 20% to 40%
- User-exit case, where a captive shareholder leaves mid-year or post true-up cycle

If the project only works in the base case, it is not a well-structured group captive deal.

Where group captive deals fail in practice

Most failures are not caused by headline law. They arise from poor operating design.

1) Oversized project relative to firm captive load

Developers often market larger project capacities to improve tariff optics. But where captive users cannot confidently absorb 51% of annual generation, the structure becomes fragile. This is especially risky for seasonal sectors such as textiles, foundries, cold-chain loads, agro-processing or export-linked manufacturing with variable utilisation.

As a rule of thumb, a group captive project should ideally have captive annual energy coverage of at least 1.15x to 1.30x of the minimum required 51% threshold under downside load scenarios, not merely at expected load. If the model needs perfect offtake discipline every month to remain compliant annually, it is too tight.

2) Misaligned shareholder mix

A common problem is onboarding many small users simply to fill the 26% equity pool. This creates recurring issues:

- KYC and transaction delays in equity allotment
- Board and shareholder consent friction

- Uneven energy offtake by small users
- Higher risk of one user defaulting on PPA or ceasing operations
- Difficulty rebalancing equity when load changes

In 2026, several successful portfolios are deliberately limiting captive-user count and preferring fewer, larger, operationally stable C&I buyers with predictable HT consumption profiles.

3) Weak documentation on annual true-up and cure rights

Many SPAs, SHAs and PPAs still lack precise machinery for dealing with annual captive deviations. The documents may define tariff, term and default, but not answer practical questions such as:

- Who monitors monthly ownership and consumption compliance?
- What early-warning triggers apply at 70%, 80% or 90% of projected annual captive consumption?
- Can one user temporarily increase drawal to protect group compliance?
- Can equity be reallocated mid-year or only prospectively?
- Who bears reopened CSS or additional surcharge exposure if captive status is denied?
- Is there an indemnity waterfall between developer, lead captive user and minority users?

Without this drafting, disputes surface only after the compliance year closes, by which time the commercial damage is already embedded.

4) Corporate restructuring at the consumer end

Mergers, demergers, business transfers, lease conversions and changes in GST registration or contracting entity often receive little attention during bid stage. But captive compliance depends on the legal identity of the consuming user, not just the industrial load at site.

If the shareholder in the SPV is Company A but the OA consumer later becomes Company B after internal restructuring, a previously compliant arrangement may need amendment, transfer or fresh approvals. This is often underestimated by multi-location groups.

5) State-level implementation mismatch

Even where central-rule interpretation appears settled, implementation by state discoms and SLDCs can differ on evidence, timelines and true-up mechanics. Some authorities ask for annual CA-certified consumption and shareholding statements; others seek monthly data trails, board records or beneficiary-wise generation allocation support.

This administrative layer can materially affect cash flow timing and dispute probability.

The financial risk if captive status is challenged

The largest misconception in the market is that captive non-compliance is only a technical regularisation issue. It is usually a landed-cost shock.

If captive status fails for a given period, impacted consumers may face some combination of:

- Cross-subsidy surcharge
- Additional surcharge, where applicable
- Recomputed wheeling or other OA charges depending on state treatment
- Interest or delayed payment surcharge on back-billed amounts

- Potential PPA disputes on who bears the differential

Illustratively, consider a 20 MW user consuming 35 million units annually under a captive solar-wind hybrid arrangement. If CSS plus additional surcharge exposure effectively reopens by Rs 1.60/kWh for the relevant period, the annual impact is about Rs 5.6 crore before interest. Even a lower reopening of Rs 0.90/kWh implies roughly Rs 3.15 crore. For many corporates, that can wipe out most year-one savings and materially reduce IRR over the PPA tenor.

For debt-funded projects, the implications are broader:

- DSCR assumptions weaken if captive savings are the basis of offtaker payment capacity
- Equity cure demands can rise if users dispute pass-throughs
- Refinancing may become harder if compliance track record is weak
- Residual asset value suffers because replacement users may require restructuring

This is why lenders now ask not only whether a project is group captive, but whether it is group-captive resilient.

Structuring safeguards that actually work

The most effective group captive structures are operationally simple and document-heavy in the right places.

Right-size the project to dependable captive demand

Do not size only on current connected load or management ambition. Size on dependable annual energy absorption after adjusting for:

- Actual 15-minute and monthly load shape
- Planned energy efficiency improvements
- Rooftop solar behind the meter, if any
- Shutdown cycles and maintenance seasonality
- Banking restrictions and settlement method
- Future plant relocation or production migration

This is where a rigorous [Demand & ToD analysis](/coreservices/greenenergyppa/demandandtodanalysis) changes the answer materially. Many buyers discover that the “cheapest” tariff quote assumes an energy volume they cannot consume in a compliant manner.

Build a reserve pool or replacement mechanism

Projects with a pre-negotiated reserve user pool are better positioned than projects relying on ad hoc replacements after a user under-consumes or exits. However, reserve users should not remain purely theoretical. Their onboarding pathway, equity transfer mechanics, commissioning readiness and OA application sequence must be documented.

Draft hard compliance covenants

At minimum, documents should cover:

- Monthly compliance reporting by generator/SPV
- User-level projected vs actual offtake dashboards
- Mandatory cure process if annual 51% trajectory weakens
- Share transfer triggers and timelines

- Indemnity allocation for surcharge reopening
- Security package for user default or under-consumption
- Consequences of regulatory reclassification

These issues belong inside [PPA structuring & negotiation](/coreservices/greenenergyppa/ppastructuringandnegotiation), not as side letters after signing.

Align tariff design with compliance behaviour

Flat energy tariff can create the wrong incentives where some users are tempted to underlift in low-demand months. Better structures sometimes combine:

- Minimum offtake obligations

n- Deviation charges for user-side shortfall

- Annual balancing provisions
- Limited merchant or third-party tail only after captive threshold protection

The exact mechanism depends on the state, scheduling setup and banking framework, but the principle is consistent: commercial design must support captive compliance, not undermine it.

State and policy watchpoints for 2026

A pan-India group captive strategy is increasingly difficult because state-level economics differ sharply. Even where captive exemption from CSS remains a key value driver, the net benefit can still be diluted by:

- High wheeling charges
- Transmission charges or losses
- Tight banking rules or no banking for certain OA categories
- ToD settlement asymmetry
- Additional approval complexity for cross-state structures

Examples seen in 2026 market screens include captive deals that look attractive in headline tariff terms but weaken after adding state-specific wheeling plus loss factors of 8% to 18% equivalent energy impact, especially for solar-only profiles without strong daytime demand matching. In some states, same-state solar captive landed cost may still clear at roughly Rs 4.20 to Rs 5.40/kWh for strong HT loads; in others, poor banking and charge stacks push effective cost toward or above discom alternatives unless load profile is favourable.

This is why captive qualification cannot be analysed in isolation from full landed-cost math. The right answer may still be third-party in some locations if captive-equity friction, compliance risk and administrative burden offset surcharge savings. A disciplined [Sourcing strategy](/coreservices/greenenergyppa/sourcingstrategy) should compare both structures on after-risk economics, not just nominal tariff.

A practical diligence checklist before signing a group captive PPA

Before financial close or board approval, C&I buyers and lenders should seek clear answers to the following:

- What is the annual generation estimate at P50 and P90 levels?
- How much captive consumption headroom exists above the 51% threshold?
- How many users are in the captive pool, and what is each user's downside load risk?
- Are equity allotment, beneficial ownership and share transfer mechanics fully documented?

- Does each user's projected offtake align with its ownership proportion?
- What happens if one user exits, restructures, or shuts a plant temporarily?
- Are reopened CSS/additional surcharge liabilities contractually allocated?
- What monthly monitoring pack will be issued, by whom, and by what date?
- Are banking assumptions conservative and current for 2026 state rules?
- Has the landed cost been tested under non-compliance scenarios as well as compliant scenarios?

If these questions do not have documentary answers before signing, the project is not yet investment-ready.

The bottom line for C&I buyers, developers and lenders

In 2026, the most important shift in group captive open access is this: the market is moving beyond “Is captive cheaper than third-party?” to “Can captive status be sustained through the full operating life of the PPA?”

That requires combining legal interpretation, offtaker diligence, annual consumption modelling, shareholding design, state-charge analysis and hard contractual cure mechanisms. Done well, group captive can still deliver durable savings and stronger offtake alignment. Done poorly, it can convert a nominally low-cost renewable PPA into a retroactive surcharge dispute.

For sophisticated buyers, the winning approach is to treat group captive as an ongoing compliance asset, not a one-time transaction label.

If you are evaluating a new open-access procurement or stress-testing an operating group captive portfolio, contact Growthifye's advisory desk for support on structure selection, compliance diligence, landed-cost risk review and execution strategy.

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