Third-Party vs Group Captive Open Access PPAs in India 2026

By Sudarshan Karweer · 01 September 2026 · growthifye.com

A 2026 practitioner guide to third-party vs group captive PPAs in India: charges, compliance, banking, RPO and landed cost.

Corporate and industrial power buyers in India usually start an open-access sourcing discussion with one question: should we sign a third-party PPA or move to a group captive structure? In 2026, that choice has become more consequential because the gap in landed cost between the two routes can be material, while the compliance burden, cash-flow pattern, and risk allocation are very different.

This article sets out a practical framework for choosing between third-party and group captive open-access PPAs in India. It focuses on the items that actually move board approvals and financing decisions: cross-subsidy surcharge, additional surcharge, wheeling and transmission charges, banking design, captive-rule compliance, RPO treatment, and the final delivered tariff at the consumer meter.

The short answer is simple: group captive can still be significantly cheaper where surcharge exemptions hold and compliance is tightly managed, but third-party PPAs may be the better fit where load is volatile, equity deployment is constrained, or captive compliance risk outweighs the headline savings. The right answer depends on state regulation, monthly load shape, contract structure and governance discipline.

Why this decision matters more in 2026

The 2026 market is defined by five features.

- More states have tightened banking terms, moving toward monthly settlement, narrower banking windows, and lower compensation for unutilised banked energy.
- Several discoms are scrutinising captive structures more closely, especially annual consumption tests and related-party shareholding changes.
- For many HT consumers, cross-subsidy surcharge remains the single largest swing factor between third-party and group captive economics.
- Time-of-day tariffs and demand charges are getting sharper, so annual average tariff comparisons are no longer enough.
- Lenders and investment committees now test compliance resilience, not just headline tariff savings.

In practice, this means a procurement route that appears cheaper on a levelised basis can become more expensive after surcharge leakages, non-compliance events, banking losses, and balancing purchases. That is why corporates increasingly begin with [Demand & ToD analysis](/coreservices/greenenergyppa/demandandtodanalysis) before choosing the route.

The legal and commercial difference: third-party vs group captive

In a third-party open-access PPA, the generator sells electricity to the consumer without the consumer owning the qualifying equity in the project company. The buyer typically pays the agreed PPA tariff plus applicable open-access charges and state levies at the delivery point. In most states, this route attracts cross-subsidy surcharge unless a specific exemption applies.

In a group captive model, multiple users collectively hold at least 26% of the ownership of the captive generating plant and consume at least 51% of the electricity generated on an annual basis, in proportion to their shareholding, as interpreted through the Electricity Rules and subsequent judicial and regulatory treatment. The commercial advantage is that qualifying captive users are generally exempt from cross-subsidy surcharge, and in many cases additional surcharge as well, subject to the applicable state position and compliance.

That single exemption often explains why group captive is preferred by larger C&I buyers. But it comes with a major caveat: if the captive criteria are not met, the consumer can lose the benefit and face retrospective financial exposure, depending on the facts, contracts and regulatory outcome.

Cost stack in 2026: where the landed-cost gap really comes from

When comparing structures, many buyers focus too narrowly on the ex-bus generation tariff. That is a mistake. The better test is delivered or landed cost per kWh after all variable and fixed impacts.

A simplified landed-cost stack for open access in 2026 may include:

- Generator tariff under the PPA
- STU and/or CTU transmission charges, where applicable
- Wheeling charges
- SLDC fees and scheduling charges
- Losses at transmission and distribution levels
- Cross-subsidy surcharge
- Additional surcharge
- Banking charges or carry-forward haircut
- Standby or balancing power cost
- Demand-charge interactions with residual discom supply
- Electricity duty or state-specific levies where relevant

Typical 2026 broad ranges seen in market evaluations for C&I consumers are as follows, though state and voltage level matter enormously:

- Solar/wind open-access PPA tariff: around Rs 2.70-4.20/kWh depending on state, tenor, technology, CUF, location and profile risk
- Wheeling plus transmission plus losses impact: often Rs 0.40-1.20/kWh equivalent
- Cross-subsidy surcharge for third-party users: commonly Rs 0.80-2.50/kWh, sometimes higher for certain categories
- Additional surcharge: in some states negligible or inapplicable for certain structures, in others around Rs 0.30-1.20/kWh
- Banking cost and loss of value from restrictive settlement: around Rs 0.15-0.90/kWh equivalent depending on profile mismatch

This is why a group captive project with the same ex-bus tariff as a third-party project can end up cheaper by roughly Rs 0.8-2.0/kWh for some users. Conversely, if a captive structure requires expensive equity, complex shareholder arrangements, lower operational flexibility, and carries non-compliance risk, the economic edge can narrow quickly.

Take a stylised example for a Maharashtra or Karnataka HT consumer in 2026.

- Base solar OA tariff: Rs 3.20/kWh
- Delivery charges and losses: Rs 0.70/kWh equivalent
- Banking and balancing impact: Rs 0.35/kWh

If sourced under third-party open access and if cross-subsidy surcharge plus additional surcharge together add, say, Rs 1.40/kWh, landed cost reaches about Rs 5.65/kWh.

If the same project qualifies as group captive and those surcharges are exempt, landed cost may fall to about Rs 4.25/kWh, before considering equity return and compliance administration.

However, if the consumer must subscribe capital, accept governance constraints, and bear a risk-adjusted compliance reserve of perhaps Rs 0.20-0.40/kWh equivalent, the true decision is more balanced than the surcharge exemption alone suggests.

Captive compliance risk is the central issue, not just equity subscription

Many 2026 group captive transactions are being evaluated more rigorously because buyers now understand that captive is a continuing compliance regime, not a one-time transaction.

The key practical issues include:

- Minimum 26% ownership by captive users collectively
- Minimum 51% annual consumption by captive users collectively
- Consumption broadly in proportion to shareholding for each captive user
- Stability of ownership during the compliance year
- Treatment of mergers, demergers, and related-party restructuring
- Handling plant under-generation, over-generation, or delayed COD
- Exit mechanics if one captive user reduces load or leaves the structure

For lenders, the main concern is not whether a captive legal memo exists on signing date. It is whether the structure can survive annual operating realities. If one user under-consumes because of a production slowdown, or if ownership changes after a financing event, the whole pool may be stressed.

That is why sophisticated buyers now use [Sourcing strategy](/coreservices/greenenergyppa/sourcingstrategy) and PPA structuring & negotiation to build compliance protections such as:

- Load-based allotment buffers
- Substitution rights for incoming captive users
- Cure periods for consumption shortfall
- Indemnity and pass-through provisions for surcharge leakage
- Data-sharing covenants across users
- Annual compliance certification workflow

Third-party PPAs look simpler on this count because they avoid ownership and annual captive-test management. For companies with uncertain production, multi-location seasonal loads, or frequent group restructuring, this simplicity can be worth more than the apparent surcharge disadvantage.

Banking, load shape and residual discom power can change the answer

Two buyers with the same annual consumption can reach opposite conclusions depending on load profile.

Suppose Buyer A runs a daytime industrial process with strong weekday coincidence to solar generation and relatively stable monthly offtake. Buyer B has 24x7 load with night consumption, seasonal shutdowns, and high monthly variability.

Buyer A may capture much more value from a solar open-access arrangement because:

- Lower banking dependence

n- Lower balancing purchases from the discom or exchange

- Better demand-charge optimisation from coincident daytime supply
- Less exposure to monthly banking reform or poor settlement rates

Buyer B may need wind, hybrid, storage-backed shaping, or a portfolio approach. In that case, a simple group captive solar structure may not be the lowest-risk answer even if surcharge exemptions apply.

In 2026, banking terms remain highly state-specific. Some states allow limited monthly carry-forward with settlement at pooled or avoided-cost-like rates, which significantly reduces the value of excess afternoon injection. Others impose banking charges, restrict banking periods, or differentiate by consumer category and technology. For a consumer relying on banking to make a solar profile work, these details can move landed cost by more than Rs 0.50/kWh.

A robust route-selection exercise therefore needs:

- 15-minute interval consumption data for at least 12 months
- Contract-demand and maximum-demand analysis
- Existing discom tariff breakup including energy, demand, fuel, ToD and rebate structure
- Monthly production simulation for the proposed RE source
- State-specific OA charges and surcharge assumptions
- Banking and settlement rule modelling
- Scenario testing for load growth, outage periods and policy change

Without that, the debate becomes generic and often misleading.

RPO, accounting treatment and internal approval dynamics

RPO compliance and sustainability claims also influence the route choice, though often less than cost. Both third-party and group captive renewable procurement can support decarbonisation goals, but companies should map exactly how energy accounting, renewable attributes, and internal ESG reporting will be handled under the contract.

For some boards and CFOs, the decisive issue is not pure tariff reduction but certainty of savings and accounting simplicity.

Third-party route advantages often include:

- No equity lock-up in the project SPV
- Simpler internal approvals
- Easier onboarding for tenants or multi-entity industrial parks

- Cleaner exit compared with shareholder unwinding
- Less inter-user coordination risk

Group captive route advantages often include:

- Potentially lower landed cost due to surcharge exemption
- Stronger strategic linkage with long-term power access
- Better economics for large, stable anchor loads
- Greater control over project governance if documents are well designed

Utilities and policymakers also watch this distinction closely. Discoms are naturally more sensitive to migration of high-paying consumers under surcharge-exempt captive structures, while industrial policy often seeks cheaper clean power for manufacturing competitiveness. That tension is one reason state-level rule interpretation and litigation risk cannot be ignored in 2026.

A practical decision matrix for C&I buyers, developers and lenders

The easiest way to avoid a wrong route is to screen the opportunity across six questions.

1. Is the annual open-access quantum large enough to justify captive complexity?

- As a rule of thumb, group captive is more compelling where the buyer has a meaningful and stable base load, often from 10-15 million units per year upward, though smaller portfolios can also work in pooled structures.

2. How predictable is the buyer's monthly and annual consumption?

- If consumption can swing sharply because of maintenance shutdowns, commodity cycles or relocation risk, third-party may be safer.

3. What is the state-specific surcharge differential?

- If third-party CSS and AS together are low, the captive advantage may not justify governance effort.
- If they are high, group captive economics can be compelling.

4. How restrictive are banking and settlement rules?

- Weak banking terms reduce the value of solar-heavy portfolios and can narrow apparent savings under both structures.

5. Can the buyer deploy equity and live with shareholder documentation?

- Some companies prioritise conserving capital for core operations. In those cases, even a cheaper captive route may be unattractive.

6. Can the project be financed and governed with credible compliance safeguards?

- Lenders will want clarity on user mix, consumption buffers, default remedies, and documentary discipline.

For developers, the implication is equally important. Not every consumer should be pushed toward captive. A badly matched captive transaction creates long-term dispute risk. In many cases, the commercially superior answer is a third-party PPA today, with an option to migrate to captive later if policy, load and internal approvals align.

What a good 2026 procurement process looks like

A serious procurement process usually moves in the following order:

- Baseline the current discom bill and effective Rs/kWh by time block and voltage level
- Model third-party and group captive landed cost under realistic state charges
- Test multiple technology mixes: solar, wind, hybrid and shaped supply
- Stress-test captive compliance under downside consumption scenarios
- Evaluate equity IRR, debtability, security package and exit mechanics
- Run [Competitive developer selection](/coreservices/greenenergyppa/competitivedeveloperselection) on a standardised commercial sheet
- Finalise route, then close documentation and approvals with implementation milestones

This process often reveals that the right answer is not binary. Many large C&I buyers now adopt a portfolio model: a stable base load under group captive, plus flexible incremental procurement through third-party or other market routes. That can reduce compliance concentration risk while preserving most of the cost advantage.

For policymakers, the lesson is that open access outcomes are now driven as much by charge design and settlement rules as by generation cost. If the goal is competitive industrial power with grid discipline, then transparent surcharges, predictable banking rules, and timely approvals matter more than headline policy announcements.

In 2026, third-party versus group captive is best treated as a structured commercial decision, not a standard product choice. Group captive can be the lowest-cost route where load is stable, compliance is governable, and surcharge exemption is durable. Third-party can be the smarter route where flexibility, simplicity and lower governance risk matter more than maximum tariff arbitrage.

If your organisation is evaluating open access, the winning approach is to compare both structures on a fully loaded, state-specific, time-of-day basis before issuing any RFP or signing any term sheet.

If you would like a state-wise landed-cost model, captive-compliance review, or support on route selection and contracting, contact Growthifye's advisory desk.

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