Comments and Suggestions on

Proposed Amendments to Rule 3 of the Electricity Rules, 2005

Prayas (Energy Group) **23rd October 2025**

The Ministry of Power has proposed an amendment to Rule 3 of the Electricity Rules, 2005 such that:

- there is relaxation of the proportionate consumption limit in group captive options especially in case of association of persons.
- there is clarity on the use of storage in captive systems, especially related to energy accounting for captive status compliance.

The present Rules require that captive consumers hold not less than 26% of ownership of the plant in aggregate and consume 51% or more of the electricity generated annually. While the 51% consumption is aggregate for all captive consumers, the consumers are also required to consume power in proportion to their shares in ownership of the plant, with a permitted 10% variation. This implies that if a consumer owning 10% of the shares in a captive plant with annual generation of 100 units and where captive consumption is 51 units, consumed 4 units in a year, the consumer would lose captive status. This is because the consumption would only account for 7.84% of total captive consumption rather than 10%, which is a 21% variation. For small consumers who are willing to make long-term investments in captive such a rule has been a major deterrent.

Under the proposed rule, the eligible captive consumption benefit is estimated based as 110% of the proportion of shares of the captive consumer. Unlike the 90% to 110% variation allowed presently, with the proposed amendment, all consumption up to the eligible captive consumption benefit is counted for captive benefit. This reduces financial impact due to uncertainties in demand for small captive users and also restricts captive benefit only to the investment of the user.

We support the proposed amendments as they have the potential to catalyse long-term investments in captive power systems and encourage innovative business models through energy storage integration and increased MSME participation in captive generation as the risk of losing captive status for serious, long term investors is less under the proposed framework.

In this context, to address the implementation challenges with the proposed amendments it is suggested that the following clarifications are provided:

1 Clarity on procedure for change in ownership structure

With relaxation in the proportionality rule, it is critical that the procedure for intimating change in shareholding is clear and standardised across states to ensure that the rule is implemented in letter and spirit.

Currently, verification takes place by the verifying authority at the end of the financial year. Where the Captive plant and the users are in multiple states, the CEA's "Procedure for Verification of Captive Status of such Generating Plant, where Captive Generating Plant and its Captive User(s) are located in more than one state", issued in January 2025 is applicable. In other cases, it is based on SERC Regulations. To operationalise this, states could adapt the Forum of Regulator's Model Regulations on "Verification of Status of Generating Plants and Captive Users", issued in September 2025. In both the CEA Procedure and the FoR Model Regulations:

— change in ownership structure needs to furnished only at the time of applying for captive status to the verifying authority.
— in a year where there is change in ownership structure, the weighted average shareholding shall be used for calculation of proportional consumption requirement.
— to give effect to loss of captive status, additional surcharge and cross subsidy surcharge applicable on loss of status is provided as payment security by the captive users.

In states with existing procedures for verifying captive status such as Madhya Pradesh, and Telangana, there is an additional requirement to intimate the DISCOM of change in shareholding pattern within 15 days of the change in ownership.

For effective implementation of the proposed rules, the Rule should:

— Clarify that change in share-holding pattern will be limited to 2 instances in a year. This will ensure ease in verification and also signal to group captive users to ensure long-term commitment in captive investment.
— Stipulate requirement to intimate various agencies along with the verifying authority within 15 days of change
— State, with illustrations, the procedure for estimation of weighted average shareholding for captive status verification at the end of the year

2 Accounting for Energy Storage Systems

Adequate clarity on use of storage systems by captive consumers is not provided in the existing Rules and subsequent amendments nor the CEA procure or FoR guidelines. The present amendment clarifies that the consumption of electricity though storage system can also qualify for the eligible captive consumption. This is a welcome step to encourage investment in storage by captive users.

To make it abundantly clear, it should be stipulated that all consumption, irrespective of source of supply, would be considered for captive eligibility if it is through energy storage system.

This will enable consumers to better optimise their supply mix while contributing to grid integration of RE.

3 Complementary measures required to ensure DISCOMs are able to support captive systems

Implementation of the proposed amendments would result in a proliferation of captive systems and significant investment in RE as well as ESS. However, to support such investments in the long-term DISCOMs would need to ensure:

- Cost compensation for reliability services provided especially for renewable energy banking and standby services
- Ability to manage metering and energy accounting requirements especially with multiple consumers and generators embedded within the DISCOMs network.

Presently commercial and industrial consumers can avail third party open access, captive and in some states even net metering services. To make energy accounting and captive status verification at scale manageable for DISCOMs it is necessary that:

- Net metering (physical or virtual), a hugely concessional service, be limited to consumers with load less than 3 or 5 kW.
- Captive consumers are limited to those connected to the HT network with Special Energy Meters in line with applicable CEA Metering Regulations. This will aid with operationalising scheduling requirements, ensuring proper energy accounting and addressing safety related concerns.

While the proposed amendments would ease restrictions on captive significantly, it can be also be followed with the proportionate consumption provision can be removed within a two-year timeframe for all captive users. This will enhance investments, especially private investment in renewable energy and storage substantially.

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