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CERC Notifies India's First VPPA Guidelines: A New Chapter in Renewable Energy Procurement

In a few years, the question for big Indian corporates won't be 'What's a VPPA?'—it will be 'Why don't we have one yet?'. For the first time, the Central Electricity Regulatory Commission (**CERC**) has formally notified its Guidelines for Virtual Power Purchase Agreements (**VPPA**) on 24th December 2025, which spell out how these contracts will work in India's power market and how they plug into the new Renewable Consumption Obligation regime.

A VPPA is a long-term financial contract linked to a specific renewable energy project, without any physical delivery of power to the buyer. The generator sells electricity into the power market [such as the Day-Ahead Market (**DAM**) or the Real-Time Market (**RTM**) on an exchange], while the buyer and generator fix a VPPA price per unit and periodically settle the difference between that price and the realised market price.

In return, the buyer typically receives the renewable energy certificates (**RECs**) associated with the contracted generation and can use them for compliance with Renewable Consumption Obligations (**RCO**). In effect, a VPPA is a financial hedge linked to renewable generation. It lets the buyer support clean energy and secure price certainty while continuing to draw power from its current source, whether a discom, captive plant, or open access.

For nearly a decade, the development of electricity derivatives in India was stalled by a jurisdictional dispute between the Central Electricity Regulatory Commission (**CERC**) and the Security and Exchange Board of India (**SEBI**) over who regulates forward and derivative contracts in the power sector. In 2019, a Ministry of Power committee recommended that all ready-delivery and Non-Transferable Specific Delivery (**NTSD**) contracts in electricity should fall under CERC, while other electricity derivatives should fall under SEBI. The Hon'ble Supreme Court of India ended this long-pending issue in the matter of Power Exchange of India Ltd. v. SEBI & Ors., endorsing the mutually agreed framework under which CERC would regulate physical delivery and NTSD contracts, and SEBI would regulate purely financial electricity derivative contracts, finally resolving the standoff and clearing the way for new market instruments.

In terms of the above, the Guidelines for Virtual Power Purchase Agreements, issued by CERC under the CERC (Power Market) Regulations, 2021, place VPPAs within India's power market and Energy Conservation Act framework. This positions VPPAs as a key instrument for achieving the 500 GW non-fossil target by 2030.

Under these Guidelines, a VPPA is a bilateral financial contract between a consumer/designated consumer and a renewable energy generator, optionally routed through a licensed trader or CERC-registered OTC platform. The generator sells power through exchanges (DAM/RTM) or other authorised routes, while the parties settle the difference between a mutually agreed VPPA price and the realised market price. The associated RECs are issued to the generator and mandatorily transferred and extinguished in favour of the buyer, to be

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used only for RCO compliance and green claims, and not for secondary trading. VPPA contracts are expressly non-tradable and non-transferable, and dispute resolution mechanisms are left to be detailed in the contract, giving parties flexibility on credit support, timelines, and forum (including arbitration) within this regulated perimeter.

Under the Draft Guidelines, VPPAs are primarily intended for Consumers and Designated Consumers, that is, large industrial and commercial users and other entities notified under the Energy Conservation Act that must meet RCO targets. In practice, this includes sectors such as steel, cement, data centres, refineries, large commercial complexes, and discoms, as well as multinational corporates with strong net-zero and ESG commitments who wish to secure RECs without shifting all their load to open access.

On the supply side, renewable energy generators eligible under the REC framework can enter into VPPAs for part or all of their project capacity, selling electricity through power exchanges while transferring the associated RECs to the buyer. These contracts may be entered into directly or routed through a licensed electricity trader or a CERC-registered OTC platform, which can aggregate demand, standardise documentation, and facilitate matchmaking. In effect, VPPAs are designed for creditworthy, RCO-obligated demand on one side and grid-connected RE projects on the other, with traders and platforms enabling scale and liquidity while the underlying contract remains a non-tradable, bilateral OTC instrument.

There are various key benefits also for Generators and Consumers. For RE generators, VPPAs offer long-term price visibility without giving up the flexibility of selling power on exchanges. A fixed VPPA price fixed by a consumer/designated consumer smooths cash flows and improves project bankability, making it easier to raise debt and equity. Generators can also tap demand across state boundaries without open access for every buyer and can use VPPAs for part of their capacity to complement conventional PPAs and merchant sales, thereby diversifying their portfolio.

For consumers and Designated Consumers, VPPAs provide a direct, auditable route to meet RCO targets and net-zero/ESG commitments by receiving RECs linked to specific projects. Crucially, they can do this without disturbing their existing physical supply from the discom, captive plant, or open access arrangement, since the VPPA sits well as a financial and green-attribute contract. Well-structured VPPAs can also operate as a hedge against rising market prices, offer geographic flexibility (supporting projects anywhere in India), and give corporates greater visibility and control over the timing, quality, and credibility of their green power procurement.

It is pertinent to note that there are also certain risks attached to the present setup. The most prominent VPPA risk is market price volatility: if exchange prices stay below the agreed VPPA price for sustained periods, the buyer must repeatedly pay the difference, which can strain budgets and earnings. This is best managed through robust price and volume modelling, limiting the proportion of load hedged under VPPAs, using caps/floors or banded volumes (e.g., only 30–50%

of expected generation), and building in periodic price review or re-opener clauses for very long tenors.

The second bucket is regulatory risk, particularly around changes in REC rules, RCO trajectories, or the treatment of VPPAs and non-fossil obligations over time. Parties should include detailed change-in-law and regulatory change provisions, clear allocation of responsibility for maintaining REC eligibility and project compliance, and tight drafting around events of default, termination, prompt payment clauses, and dispute-resolution mechanisms (including arbitration, governing law, and forum).

Operational risks arising from mismatches between project generation, exchange sales, REC issuance, and the buyer's own demand profile may also occur. Parties should agree on clear metering, data-sharing protocols, reconciliation of timelines and contracted quantities, to ensure exposures remain within acceptable bounds.

Global experience with VPPAs and similarly placed PPAs shows how powerful these contracts can be in scaling corporate clean energy procurement. In 2023 alone, corporations globally announced around 46 GW of wind and solar PPAs, with the US remaining the single largest market and Europe rapidly catching up. Many of these deals are structured as virtual PPAs, fixed-for-floating price swaps where the project sells into the grid and the buyer takes only financial settlement and green attributes (RECs, GOs, etc.), often across borders.

Recent cross-border VPPAs signed by companies like Deutsche Telekom with wind projects in Romania highlight how large corporates are using these instruments to meet 100% renewable goals while sitting in different power markets.

As even India finally has a rulebook for VPPAs, the question now is whether the market can scale them fast enough to matter. With CERC's Guidelines now in force, VPPAs provide a regulated pathway for large consumers to meet RCO targets while catalysing project bankability for renewable generators. If implemented properly, VPPAs could become a cornerstone of corporate clean energy in India's march toward 500 GW of non-fossil capacity by 2030.