

DRAFT NATIONAL ELECTRICITY POLICY, 2026: INDIA'S SECOND-GENERATION POWER SECTOR REFORM



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When the Electricity Act, 2003 was enacted, it marked the beginning of India's modern electricity market architecture. The subsequent National Electricity Policy, 2005 was shaped by an era defined by capacity shortages, weak rural access, financially distressed State Electricity Boards, and limited private participation. The reform vocabulary of that period revolved around unbundling, open access, and rapid generation expansion.

Two decades later, the Draft National Electricity Policy, 2026 ("Draft NEP") emerges in an altered landscape. India has achieved near-universal electrification, installed capacity exceeds peak demand, renewable energy forms a substantial share of generation, and power exchanges record unprecedented trading volumes. Yet the sector remains structurally fragile. Distribution companies ("DISCOMs") continue to face chronic financial stress, industrial tariffs remain elevated due to cross-subsidies, regulatory assets distort balance sheets, and grid management has become increasingly complex with variable renewable energy.

The Draft NEP must therefore be understood not as a routine update, but as a second-generation reform blueprint. Its emphasis shifts from expansion to optimisation, from access to accountability, and from megawatt targets to system reliability and financial discipline.

I. THE STRUCTURAL REORIENTATION OF INDIA'S ELECTRICITY POLICY

b. From Capacity Addition to Resource Adequacy

The Draft NEP's most conceptual shift is its move away from headline capacity addition toward structured resource adequacy planning. Earlier reforms prioritised adding generation to overcome shortages. Today's challenge lies not in aggregate capacity, but in ensuring the right mix of resources is available at the right time, at least cost, and with adequate reserves.

The Draft NEP emphasises coordinated resource adequacy planning at national, state, and utility levels. In a renewable-heavy system, flexibility, storage integration, demand forecasting, and reserve margins become critical. Reliability not mere expansion becomes the central planning objective.

b. Financial Discipline: Substance and Process

Financial discipline forms the core of the Draft NEP's reform thrust. Despite repeated restructuring packages, DISCOMs remain the weakest link in the power value chain. Delays in tariff determination, accumulation of regulatory assets, under-recovery of costs, and unpaid state subsidies have undermined sector credibility.

The Draft NEP adopts a more assertive framework, emphasising:

- Timely tariff and true-up orders
- Elimination of regulatory assets going forward
- Automatic tariff adjustments in case of regulatory delays
- Regular pass-through of power purchase costs
- Advance payment of state subsidies in accordance with statutory mandates

The fundamental takeaway is clear: tariff regulation needs to transition from discretion to discipline. But institutional constraints stand in the way of the reform program.

In addition to political resistance, procedural obstacles such as inadequate data, protracted hearings, litigation-induced stays, delayed ARR submissions, and regulatory capacity constraints frequently cause tariff delays. Regulatory assets are often the consequence of systemic delay as well as tariff suppression. Future tariff shocks and rising carrying costs result from deferring unrecovered revenue when cost escalations are not immediately passed on.

Therefore, procedural enforcement—disciplined filings, computerized verification systems, expedited adjudication, and reinforced State Commissions is necessary to eliminate regulatory assets. Although the outcome problem is accurately identified in the Draft NEP, the process problem also needs to be addressed.

The underlying message is clear: tariff regulation must move from discretion to discipline.

c. Competition Beyond the Wires

Despite increased competition in transmission and generation since 2003, retail supply is still primarily monopolistic. The economic feasibility of open access has been undermined by cross-subsidy and additional levies, especially for industrial consumers.

The Draft NEP acknowledges that manufacturing competitiveness is harmed by consistently high industrial tariffs. It calls for deeper power markets, a re-examination of the obstacles restricting consumer choice, and the increasing rationalization of cross-subsidies. Cross-subsidy rationalization is politically delicate, though. Uncertainty could be created by partial implementation without producing competitive results.

d. Decarbonisation and Grid Redesign

Unlike earlier policy frameworks where renewable energy was treated as supplemental, the Draft NEP places decarbonisation at the centre of system design. The challenge is no longer merely adding renewable capacity, but redesigning the grid to manage variability.

The policy emphasises:

- Storage integration
- Flexible thermal plant operations
- Strengthened ancillary service markets
- Demand response through time-of-use tariffs
- Expansion of nuclear capacity

Thermal generation is repositioned as a provider of grid stability rather than a competitor to renewables. Nuclear power is envisaged as a firm, non-fossil anchor in the energy mix. The underlying insight is pragmatic: decarbonisation without reliability would undermine economic growth and public confidence.

e. Distribution Reform and the Active Consumer

Distribution reform receives renewed attention. The Draft NEP envisions:

- Greater private participation
- Multiple supply licensees
- Smart metering and prepaid government consumption
- Transformation of DISCOMs into network operators

Consumers are no longer passive recipients of subsidised electricity. They are envisaged as active participants capable of rooftop generation, demand-side management, and potentially peer-to-peer transactions. Conceptually, the distribution utility evolves from monopoly supplier to system platform.

II. COMPLETING THE MARKET ARCHITECTURE: GAPS AND RISKS

Despite its ambition, the Draft NEP remains silent on two critical design elements for renewable-heavy systems: curtailment compensation and structured revenue stabilisation through Contracts for Difference (“CfDs”).

Curtailment Compensation

As renewable penetration increases, congestion and balancing constraints inevitably lead to curtailment. In the United Kingdom, generators are compensated for constraint-driven curtailment at market-linked prices. Across the European Union, redispatch compensation frameworks are standardised. In the United States, “make-whole” provisions address curtailment risks contractually. China mandates guaranteed renewable offtake.

India lacks a uniform framework. In its absence, curtailment risk is implicitly transferred to generators, raising financing costs and potentially increasing tariffs.

A robust framework must distinguish between security-related curtailment (non-compensable) and congestion or planning-related curtailment (compensable), provide transparent pricing mechanisms, and allocate costs clearly. Without this, curtailment disputes are likely to intensify as renewable penetration deepens.

Contracts for Difference

CfDs provide price certainty while preserving market signals. In the UK model administered by the Low Carbon Contracts Company, generators receive the difference between a strike price and the market price, refunding surplus during price spikes.

While the Draft NEP promotes market deepening, it does not propose structured revenue stabilisation tools. Introducing two-sided CfD auctions for offshore wind, storage, green hydrogen-linked power, or nuclear could reduce financing costs while protecting consumers from windfall gains. A central counterparty integrated within India's competitive bidding framework would enhance investor confidence without undermining market discipline.

III. RISKS OF PARTIAL IMPLEMENTATION

The success of the Draft NEP hinges on its thorough execution. Systemic hazards are associated with partial reform:

- Without political support, enforcing tariff discipline could lead to more regulatory disputes and lawsuits.
- DISCOM's finances could become unstable if cross-subsidy rationalization is implemented without direct benefit transfer reform.
- Without revenue-stabilization and curtailment regimes, renewable expansion could lead to contract disputes and project hardship.
- Without strengthening regulatory capability, distribution reform runs the danger of causing jurisdictional fragmentation.
- Without producing systemic improvements, incomplete reform could increase uncertainty.

IV. EMERGING LITIGATION AND THE 2028–2030 REFORM AGENDA

Over the next decade, regulatory litigation is probably going to change as a result of the Draft NEP. The introduction of time-of-use tariffs, automatic pass-through mechanisms, curtailment compensation claims, cross-subsidy surcharge issues, resource adequacy obligations, and tariff timetable enforcement are among the anticipated problems.

Generators seek legal clarity on market risk allocation in renewable-heavy systems, while DISCOMs may challenge payment security

methods and procurement structures as financial constraints mount. The focus of litigation will shift from capacity allocation to market design.

The institutional framework needs to be consolidated as change moves forward into 2028–2030. Among the priorities are:

- A framework for statutory curtailment compensation included into tariff laws and grid rules.
- A two-sided CfD that is structured and has a reliable central counterparty.
- Reforming direct benefit transfers will allow for true tariff rationalization.
- Utilizing an independent distribution system operator model, wire and supply operations are separated.

V. CONCLUSION: A RESET, NOT AN ENDPOINT

The maturity of India's power sector is reflected in the Draft NEP, which also marks a change from capacity increase to systemic reliability, from subsidy tolerance to fiscal restraint, and from expansion to optimization. However, ambition is not enough on its own. Partial implementation could exacerbate financial strain and regulatory litigation in the absence of political commitment, procedural strengthening, and market architecture completeness. The best way to see the Draft NEP is as a fundamental reset rather than the result of change. Its capacity to spark a cohesive and robust electrical market architecture by 2030, one that strikes a balance between affordability, decarbonization, dependability, and financial sustainability will determine its success. Scarcity is no longer the defining factor in India's electrical sector. Institutional consistency is its distinguishing challenge. Whether this second-generation reform results in long-lasting change will be determined during the next decade.