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India’s RE evolution- CERC issues draft guidelines on Virtual PPAs

On May 22, 2025, the Central Electricity Regulatory Commission (“**CERC**”) released draft guidelines to establish a regulatory framework for Virtual Power Purchase Agreements (“**VPPAs**”), marking a significant step in India’s Renewable Energy (“**RE**”) policy evolution. This initiative follows the Central Government’s October 2023 notification under Sections 14(n) and 14(x) of the Energy Conservation Act, 2001, which, in consultation with the Bureau of Energy Efficiency (“**BEE**”), introduced Renewable Energy Consumption Obligations (“**RCO**”) for designated consumers. These obligations require a minimum share of electricity consumption to come from non-fossil sources and may be fulfilled either through direct procurement or via Renewable Energy Certificates (“**RECs**”), with non-compliance attracting penalties.

In this context, the Ministry of Power (“**MoP**”), *vide* its communication dated March 3, 2025, requested CERC to develop a framework recognising VPPAs as Non-Transferable Specific Delivery (“**NTSD**”), Over-the-Counter (“**OTC**”) contracts, to aid compliance with RCO targets. The Securities and Exchange Board of India (“**SEBI**”) has confirmed that such contracts fall outside the purview of the Securities Contracts (Regulation) Act, 1956, thereby placing them squarely under CERC’s jurisdiction. The draft guidelines are intended to offer designated consumers, particularly those in the Commercial and Industrial (“**C&I**”) sectors, a new mechanism for RE procurement, alleviating some of the challenges associated with existing routes such as open access and captive generation.

CERC has invited stakeholder comments on the draft guidelines by July 11, 2025.

Overview of the Draft Guidelines

VPPA is a form of a corporate power purchase agreement (“**CPPA**”). A VPPA or a CPPA is not defined under the Indian legislation yet. However, the same is already internationally recognised. VPPAs, though not yet defined under Indian law, are internationally recognised contractual arrangements, functioning as financial contracts for difference, whereby corporates agree to pay RE generators a fixed price over a fixed term, while the power is sold on the exchange. The differential between the exchange price and the agreed VPPA price[1] is settled financially, and RECs corresponding to the power sold are transferred to the corporate buyer. This model enables compliance with RE obligations without requiring physical delivery of electricity.

[1] the “**VPPA Price**” is a pre-agreed price of electricity between a consumer or a designated consumer and an RE generator either directly or through a trader or by listing on an OTC platform.

The CERC draft guidelines set out the following key provisions:

1. a VPPA is defined as a bilateral NTSD-based OTC contract between a consumer or designated consumer and a registered RE generator, with the consumer committing to pay the VPPA price for the term of the contract;
2. the RE generator may sell electricity through power exchange or any other mode authorised under the Electricity Act 2003, and the difference between the VPPA price and the market price will be settled bilaterally between the contracting parties as per mutually agreed terms;
3. if the RE generator sells electricity components through power exchanges (in Day Ahead Market (the "**DAM**") and/or Real Time Market (the "**RTM**") market segments) or any other mode authorised under the Electricity Act 2003, the RECs received thereby will be transferred to the consumer or designated consumer who can use such RECs for RCO compliance or for claiming green attributes. Such RECs will not be allowed to be traded;
4. the RE project must be registered under the Central Electricity Regulatory Commission (Terms and Conditions for Renewable Energy Certificates for Renewable Energy Generation) Regulations, 2022, or as amended;
5. VPPA contracts are non-tradable and non-transferable and are binding on the parties for their full duration. The contract may be executed directly, through a trader, or via a CERC-registered OTC platform; and
6. upon receipt of RECs, the consumer must notify the REC Registry, which will then extinguish the certificates accordingly.

Context and implications

Historically, C&I consumers in India have pursued RE procurement through 3 (three) primary routes: (a) on-site generation; (b) intra-state offsite generation, and (3) REC purchases. However, regulatory barriers at the state level such as cross-subsidy surcharges, wheeling charges, and net metering limitations have constrained uptake.

The introduction of VPPAs provides a fourth route that enables inter-state RE procurement without physical delivery. This approach aligns with international practices where VPPAs operate outside the purview of traditional energy regulatory approvals but are subject to financial regulations in some jurisdictions. By facilitating financial settlements tied to RE generation, VPPAs support designated consumers in meeting statutory and voluntary RE targets under the RCO framework introduced by the Energy Conservation (Amendment) Act, 2022.

Conclusion

The CERC draft guidelines represent a welcome and timely intervention in India's RE transition. By formalising VPPAs as legitimate instruments under Indian law and clarifying their regulatory treatment, the draft lays the groundwork for broader participation by C&I consumers in the RE market. While the guidelines address key jurisdictional and structural aspects, they stop short of detailing monitoring mechanisms, dispute resolution frameworks, or comprehensive risk mitigation protocols, gaps that must be addressed in the final regulation or through follow-on implementation rules.

Maintaining price competitiveness will also be crucial for the viability of VPPAs, especially in a market heavily influenced by long-term thermal contracts. Nonetheless, by reducing geographic and regulatory friction in RE procurement, the framework opens the door to more dynamic and market-aligned approaches for both consumers and generators.

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