

**CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI**

**Draft Central Electricity Regulatory Commission (Deviation Settlement
Mechanism and Related Matters) (Third Amendment) Regulations, 2026**

No. L-1/260/2021/CERC

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EXPLANATORY MEMORANDUM

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1. Background

1.1 The Central Electricity Regulatory Commission (Deviation Settlement Mechanism and Related Matters) Regulations, 2024 (DSM Regulation, 2024) were notified on 5th August, 2024 and came into force from 16th September 2024, except for Regulation 8(8).

1.2 The Regulations 8 (8) were thereafter amended via the First Amendment (notified on 17th December 2024), which became effective from 23rd December, 2024. Vide the said amendment, the Commission amended inter alia the provisions relating to the treatment of infirm power.

1.3 The Commission further amended the Regulations via the Second Amendment (notified on 25th June, 2025), which became effective from 1st July, 2025. The amendment was issued to address concerns raised by thermal generating stations regarding cost recovery for fuel consumption during the testing phase.

1.4 Subsequent to the notification of the amendment, the Commission received representations from various Renewable Energy (RE) Associations and Energy Storage System (ESS) developers regarding the treatment of deviation charges associated with first-time charging of ESS up to successful completion of the trial run. Representations were also received on certain other provisions of the Regulations, including the definitions of Contract Rate and Reference Charge Rate for Captive and Open Access Consumers and Charges for Deviation in respect of Standalone ESS being Pumped Hydro Storage Projects (PSPs). Further, certain amendments are proposed pursuant to the Commission's Suo Motu Order in Petition No. 9/SM/2025. The Commission has also received communication from Grid India suggesting modifications related to the Schedule for Payment of Charges for Deviation, in accordance with the procedure issued by the National Load Despatch Centre (NLDC) for the operationalisation of the National Deviation and Ancillary Services Pool Account.

1.5 The following section provides the details of the amendments proposed in the DSM Regulations, 2024.

2. Definitions of Contract Rate and Reference Charge Rate for Third Party Sale as well as for Captive Generating Plant

2.1 Under the DSM Regulations, 2024, the 'Contract Rate' and 'Reference Charge Rate' applicable to the sale of power through open access to a third party, or captive consumption of a Captive Generating Plant (CGP), are presently determined based on the weighted average Area Clearing Price (ACP) of the Integrated Day-Ahead Market (IDAM) segments of all Power Exchanges for the respective time block.

2.2 It has been represented before the Commission that the deviation charge for the CGPs was earlier linked to their private contract rate. However, the DSM Regulations, 2024, do not recognise such a mutually agreed private contract rate; instead, they link the 'Contract Rate' and 'Reference Charge Rate' to the weighted average ACP of the IDAM for each time block. The Commission is of the view that, in the absence of regulatory approval of a contract rate/price for the CGPs, linking their contract rate to the market rate appears logical. However, such a contract rate or reference rate could be indexed to the IDAM's daily weighted-average ACP, to simplify the methodology for determining the applicable rate and provide a uniform basis for its computation by averaging out the DSM rate for such CGPs.

2.3 The Commission has proposed to amend these definitions to provide that the applicable rate shall be the daily weighted average ACP of the Integrated Day-Ahead Market segments of all Power Exchanges for the day. Accordingly, the Commission decides to bring clarity to the definition of Contract Rate and Reference Charge Rate and has proposed the amendment as follows:

*“2.1. In sub-clause (j) (iii) of Regulation 3 of the Principal Regulations, the words and expressions “weighted average ACP of the Integrated-Day Ahead Market segments of all Power Exchanges for the respective time block” shall be substituted as “**daily weighted average Area Clearing Price (ACP) of the Integrated-Day Ahead Market segments of all Power Exchanges for the day;**”*

2.2. In sub-clause (y) (iii) of Regulation 3 of the Principal Regulations, the words and expressions “weighted average ACP of the Integrated-Day Ahead Market segments of all Power Exchanges for the respective time block;” shall be substituted with **“daily weighted average Area Clearing Price (ACP) of the Integrated-Day Ahead Market segments of all Power Exchanges for the day;”**.

2.4 In other words, the Clause (j) for ‘Contract Rate’ and Sub-clause (y) from ‘Reference Rate’ or ‘RR’ of Regulation 3 (1) of the DSM Regulations, 2024 may be modified as follows:

Regulation 3 (1) (j) ‘Contract rate’ means (i) in respect of a WS seller or a MSW Seller or such other entity as applicable, whose tariff is determined or adopted or approved under Section 62 or Section 63 or Section 86(1)(b) of the Act, Rs/kWh tariff as determined or adopted or approved by the Appropriate Commission; or (ii) in respect of a WS seller or a MSW Seller or such other entity as applicable, whose tariff is not determined or adopted or approved under Section 62 or Section 63 or Section 86(1)(b) of the Act, and selling power through power exchange(s), the price as discovered in the Power Exchange for the respective transaction; or (iii) [in respect of a WS seller or a MSW seller or such other entity as applicable, selling power through open access to a third party or]¹ in case of captive consumption of a captive generating plant based on renewable energy sources ~~the weighted average ACP of the Integrated Day Ahead Market segments of all Power Exchanges for the respective time block~~ **daily weighted average Area Clearing Price (ACP) of the Integrated-Day Ahead Market segments of all Power Exchanges for the day;** (iv) in case of multiple contracts or transactions including captive consumption, the weighted average of the contract rates of all such contracts or transactions, as the case may be.

And

Regulation 3 (1) (y) ‘Reference Charge Rate’ or ‘RR’ means (i) in respect of a general seller whose tariff is determined or adopted or approved under Section 62 or Section 63 or Section 86(1)(b) of the Act, Rs/ kWh energy charge as determined or adopted or approved by the Appropriate Commission, or (ii) in respect of a general seller whose tariff is not determined or adopted or approved under Section 62 or Section 63 or Section 86(1) (b) of the Act, and selling power through power exchange(s), the price as

¹ Added vide DSM(1st Amendment) Regulations, 2024 dated 17.12.2024 effective from 23.12.2024

*discovered in the power exchange for the respective transaction; or (iii) [in respect of a general seller selling power through open access to a third party or]² in case of captive consumption of a captive generating plant based on resources other than renewable energy sources the ~~weighted average ACP of the Integrated Day Ahead Market segments of all Power Exchanges for the respective time block~~ **daily weighted average Area Clearing Price (ACP) of the Integrated-Day Ahead Market segments of all the Power Exchanges for the day**; or (iv) in case of multiple contracts or transactions including captive consumption, the weighted average of the reference rates of all such contracts or transactions*

3. Alignment of Deviation Charges for Wind-Solar (WS) Sellers with General Sellers

3.1 The Commission, vide Suo Motu Order in Petition No. 9/SM/2025 dated 31st March 2026, directed the Staff of the Commission to initiate the process for amendment of the DSM Regulations. In the said Order, the Commission observed that the energy transition should align with the principle of equitable treatment of all grid-connected generators and reflect the increasing maturity of the renewable energy sector. The Commission further noted that the challenges arising from the intermittency and variability of renewable energy sources are expected to be progressively addressed through advancements in forecasting, scheduling practices, operational experience, and the deployment of enabling technologies. In view of the evolving regulatory and operational landscape, the Commission is of the view that new wind-solar projects should be subject to deviation charges at par with other conventional sources to demonstrate the same level of scheduling discipline and grid compliance. Further, to bring regulatory certainty to future Wind and Solar Projects, the Commission has decided to clarify the treatment of deviations for such projects. Such an approach would facilitate deeper integration of renewable energy while supporting grid security, reliability, and efficient system operation.

3.2 Accordingly, the charges of deviation applicable to Wind-Solar (WS) Sellers shall be aligned with those applicable to General Sellers in respect of projects awarded through bidding processes with tendering or bid submission dates on or after 1st January 2027 and for other projects having commercial operation dates on or after 1st January 2029. The

² Added vide DSM(1st Amendment) Regulations, 2024 dated 17.12.2024 effective from 23.12.2024

amendment seeks to provide regulatory certainty to developers and procurers by clearly specifying the applicability criteria and timelines, while also ensuring a smooth transition to the revised framework for deviation charges.

3.3 In view of the above, the Commission proposed the following amendment:

“3.1 A new clause shall be inserted after clause (4) of the Regulation (8) of the Principal Regulations, as under:

“(4A) Notwithstanding the provisions of clause (4) of this Regulation, the charges for Deviation, in respect of a WS Seller, shall be treated at par with General Sellers in the following cases:

(a) for projects under bidding route, with tendering or bid submission dates on or after 01.01.2027; and

(b) for projects, other than those covered under sub-clause (a), having date of commercial operation on or after 01.01.2029.”

4. Deviation Charges for Standalone ESS Being Pumped Hydro Storage Plants

4.1 The Commission notes that representations have been received from hydro generating companies seeking clarity regarding the computation of charges of deviation for standalone Energy Storage Systems (ESS) being Pumped Hydro Storage Plants (PSPs) whose tariff is determined under Section 62 of the Electricity Act, 2003.

4.2 The Commission observes that, in the case of standalone PSPs whose tariff is determined under Section 62 of the Act, neither a Contract Rate nor a Reference Charge Rate is available for the purpose of computation of deviation charges. This is because the Annual Fixed Cost (AFC) of such PSPs is recovered entirely through fixed charges/capacity charges. Further, the energy required for charging the PSP is arranged by the beneficiaries, and therefore, no contract rate is associated with such energy. In the absence of an appropriate reference charge rate or contract rate under the existing provisions, it is necessary to specify a suitable energy rate to compute deviation charges for such projects.

4.3 Accordingly, the Commission considers it appropriate to specify the Energy Charge Rate under Clause (3) of Regulation 66 of the CERC (Terms and Conditions of Tariff) Regulations, 2024, as the basis for computation of deviation charges for such projects, as

the said provision specifically provides the Energy Charge Rate applicable to Pumped Storage Hydro Generating Stations regulated under the cost-plus tariff framework. This would ensure that the rate applicable for computation of deviation charges remains aligned with the Energy Charge Rate, including any amendments thereto.

4.4 The extract of Clause 3 of Regulation 66 of the CERC (Terms and Conditions of Tariff) Regulations, 2024, is as under:

“66. Computation and Payment of Capacity Charge and Energy Charge for Pumped Storage Hydro Generating Stations:

.....

(3) The energy charge shall be payable by every beneficiary for the total energy scheduled to be supplied to the beneficiary in excess of the design energy plus 75% of the energy utilized in pumping the water from the lower elevation reservoir to the higher elevation reservoir, at a flat rate equal to the average energy charge rate of 20 paise per kWh, if any, during the calendar month, on ex power plant basis.

.....”

4.5 Accordingly, the Commission proposed the following amendment:

“ 4.1 A Note shall be inserted after clause (5) of the Regulation (8) of the Principal Regulations, as under:

Note: The charges for deviation in respect of a standalone ESS being a pumped hydro storage plant under Section 62 of the Act shall be computed at the energy charge rate as specified under Clause 3 of Regulation 66 of the CERC (Terms and Conditions of Tariff) Regulations, 2024, as amended from time to time.”

5. Charges for Injection of Infirm Power

5.1 The Commission has received representations from various Renewable Energy (RE) Associations and Energy Storage System (ESS) developers regarding the treatment of infirm power injected into the grid by standalone ESS during the period from first synchronisation up to successful completion of the trial run. The stakeholders submitted that the existing provisions of the DSM Regulations, 2024, do not specifically provide for compensation of such infirm power injection for ESS. In this regard, the Commission also held discussions with stakeholders to deliberate upon the issues raised.

5.2 The Commission maintains that grid security and reliability are of paramount importance, and that no scheduling of infirm power should be allowed prior to a successful trial run. However, the Commission has considered and accepted the views of the Stakeholders and notes that a standalone ESS is required to draw energy from the grid or other sources for first-time charging and testing prior to the commencement of commercial operation. Consequently, any injected power during such a period is associated with an underlying cost borne by the ESS developer.

5.3 The Commission is conscious that any compensation for infirm power injection would ultimately be recovered through the DSM pool and may have implications for other grid participants. Therefore, while it is necessary to provide reasonable compensation for standalone ESS developers, it is equally important to ensure that the interests of other stakeholders are adequately protected and that no unintended commercial benefit arises from injections made during testing, first-time charging, and trial operation. The Commission has therefore sought to strike a balance between providing equitable treatment for standalone ESS developers and limiting the financial burden on other stakeholders.

5.4 In this regard, the Commission has examined the weighted average prices discovered in the Integrated Day-Ahead Market during solar hours for the period from April 2025 to March 2026. The analysis indicates that market prices from 11:00 hrs to 16:00 hrs have generally remained below Rs. 2.00/kWh. Considering the prevailing market conditions, the need to provide reasonable compensation for infirm power injection by standalone ESS, and the need to safeguard other stakeholders from excessive financial burden, the Commission considers it appropriate to provide payment for the injection of the infirm power to the Standalone ESS linked to the Normal Rate of Charges for Deviations, subject to a ceiling of Rs. 2.00/kWh.

5.5 Accordingly, the Commission proposed the following amendments along with the consequential amendments arising therefrom:

“5.1 In sub-clause 8(1) of Regulation 8 of the Principal Regulations, the words “The charges for injection of infirm power shall be zero, except in cases specified under

clauses (2) and (3) of this Regulation” shall be read as “The charges for injection of infirm power shall be zero, except in cases specified under clauses (2), (2A) and (3) of this Regulation”.

5.2 A new clause shall be inserted after sub-clause 8(2) of the Regulation (8) of the Principal Regulations, as under:

“(2A) In case of Standalone Energy Storage System (ESS), the infirm power injected into the grid from the date of first synchronization of ESS up to the successful completion of the trial run shall be paid @ Normal Rate of Charges for Deviations for each time block, subject to a ceiling of ₹ 2.00/kWh.”

5.3 In sub-clause 8(4) of Regulation 8 of the Principal Regulations, the words “Notwithstanding the provisions of clauses (2) and (3) of this Regulation,” shall be read as “Notwithstanding the provisions of clauses (2), (2A) and (3) of this Regulation,”

6. Amendments to the Schedule of Payment of charges for deviation

6.1 Regulation 9(4) of the DSM Regulations, 2024 provides that the detailed procedure for implementation, maintenance and operation of the National Deviation and Ancillary Services Pool Account shall be prepared by the National Load Despatch Centre (NLDC). Pursuant to the said provision, NLDC has prepared the Detailed Procedure.

6.2 Therefore, in order to provide operational flexibility and ensure consistency between the DSM Regulations, 2024 and the Detailed Procedure for implementation, maintenance and operation of the National Deviation and Ancillary Services Pool Account, the Commission proposes consequential amendments to Regulation 10 of the DSM Regulations, 2024, relating to the Schedule of Payment of Charges for Deviation.

6.3 Accordingly, the Commission proposed the following amendments in Regulation 10 of the DSM Regulations, 2024:

“6.1 In clause (1) of Regulation 10 of the Principal Regulations, the words “10 (ten) days of the issue of the statement of charges for deviation by the Regional Power Committee,”

shall be substituted by “the timeline stipulated in the Detailed Procedure for implementation, maintenance and operation of the National Deviation and Ancillary Services Pool Account,”.

6.2 In clause (3) of Regulation 10 of the Principal Regulations, the words “10 (ten) days from the date of issue of the statement of charges for deviation” shall be substituted by “the timeline stipulated in the Detailed Procedure for implementation, maintenance and operation of the National Deviation and Ancillary Services Pool Account”.

7. In light of the above, the Commission seek comments from the stakeholders by 26th June 2026.
