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Draft National Electricity Policy 2026 bets big on N-Power, tweaks tariffs and cross-subsidy rules

Set to replace the two-decade-old NEP notified in 2005, the draft policy 2026 pushes for the adoption of advanced nuclear technologies, including Small Modular Reactors (SMRs), other small-capacity reactors, and direct use of nuclear power by commercial and industrial consumers

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The policy continues to back renewable energy expansion through market-based mechanisms and captive power plants, while placing greater emphasis on energy storage to ensure grid stability as variable renewable energy grows. (File)

Weeks after the government enacted the SHANTI Act to open India's nuclear sector to private players, a new draft National Electricity Policy (NEP) signals a clear policy shift — a strong pivot to nuclear power as a potential substitute for coal-based thermal generation.

India continues to rely heavily on thermal power, with coal dominating not just grid-based electricity but also captive power used by industries. Against this backdrop, the draft policy seeks to recalibrate the country's power mix.

Set to replace the two-decade-old NEP notified in 2005, the draft policy 2026 pushes for the adoption of advanced nuclear technologies, including Small Modular Reactors (SMRs), other small-capacity reactors, and direct use of nuclear power by commercial and industrial consumers.

This push aligns with the government's ambition of scaling India's nuclear capacity to 100 GWe by 2047 — more than ten times the current installed capacity of 8.8 GWe — and builds on the SHANTI Act's removal of long-standing legal and regulatory barriers to private participation in the sector.

At the same time, the draft policy proposes structural changes to improve the financial health of the power sector. It suggests an index-linked automatic tariff revision mechanism that would kick in if electricity regulators fail to revise tariffs on time, aimed at preventing revenue gaps for power utilities. It also proposes exemptions from cross-subsidy charges and surcharges for manufacturing units, Indian Railways and metro rail systems.

The policy continues to back renewable energy expansion through market-based mechanisms and captive power plants, while placing greater emphasis on energy storage to ensure grid stability as variable renewable energy grows.

NEP 2026: Fine prints

The draft sets out ambitious demand-side targets, projecting per capita electricity consumption to rise to 2,000 kWh by 2030 and over 4,000 kWh by 2047, reflecting the scale of power demand expected from a growing economy. It ties this growth to India's climate commitments—cutting emissions intensity by 45 percent from 2005 levels by 2030 and achieving net-zero emissions by 2070—underscoring the need for a decisive shift towards low-carbon energy pathways.

Beyond generation, the policy places a strong focus on the financial health of distribution companies (discoms).

"NEP 2026 seeks to restore financial health of the DISCOMs by promoting cost-reflective tariffs, timely cost pass-through, and reduction of AT&C losses," the draft policy states.

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It also proposes linking tariffs to a suitable index for automatic annual revision if no tariff order is issued by state electricity regulatory commissions. Currently, tariffs are determined by regulatory commissions using a cost-plus approach — covering generation, transmission and distribution costs along with a reasonable return — while factoring in consumer categories and policy considerations.

Rajasekhar, fellow at the Centre for Social and Economic Progress, cautioned that the proposal remains broad for now. "It has only been mentioned in the policy. Operational details are still awaited. A similar index-linked mechanism already exists through multi-year tariff regulations. What is crucial is maintaining regulatory sanctity so consumer confidence in tariff-setting is not undermined," he told *The Indian Express*.

Another major change proposed is the exemption of manufacturing enterprises, Railways and Metro Railways from paying cross-subsidy charges and surcharges when procuring power through open access. At present, large consumers that bypass local discoms must pay these levies to compensate for revenue losses. Cross-subsidy charges offset lower tariffs for residential and agricultural users, while surcharges help recover fixed costs.

"These measures will ensure that Indian goods remain competitively priced, cost of logistics is optimized and commuting costs of workforce come down," the draft policy read.

Push for N-power

The draft policy positions nuclear energy as a key pillar of India's long-term energy security. "Nuclear power is a clean, reliable, and sustainable energy source with significant potential for India's long-term energy security," it says. It states that the central government will collaborate with the private sector to set up Modular Reactors, develop Bharat Small Reactors, and advance nuclear technologies.

To facilitate financing, the policy states that nuclear projects will be eligible for Green Bond funding — a mechanism used to raise capital for projects that mitigate climate change or help communities adapt to its impacts.

While underlining the continued importance of coal-based power in meeting base-load demand, the draft places particular emphasis on nuclear power for captive use as a substitute for coal-based plants. “Measures like brownfield expansion, replacing coal-based captive plants with nuclear, where feasible, fleet-mode implementation establishing local supply chains for cost optimization with standardizing reactor sizes will be considered,” the draft NEP 2026 says.

It also advocates repurposing retired thermal power plant sites for nuclear generation wherever feasible.

Notably, the bulk of India’s captive power capacity remains coal-based. According to NITI Aayog data, coal-fired captive capacity stood at 46 GW in 2023–24, followed by diesel at 19.6 GW and gas at 6.2 GW. India has so far seen no captive use of nuclear power by any industry.

The draft policy nonetheless encourages large commercial and industrial consumers to shift towards nuclear-sourced power.

The draft policy further says future nuclear plants could be designed to operate more flexibly and use a two-part tariff structure so they can better support variable renewable energy such as solar and wind. These measures, it adds, will be pursued within the broader framework of ensuring adequate power supply, while safeguarding the country’s energy security.

Caveats from industry

However, industry insiders have been cautious about nuclear power, citing its highly capital-intensive nature. In an interview with *The Indian Express*, Brijendra Pratap Singh, chairman and managing director of National Aluminium Company Ltd (NALCO), had said the high upfront costs of nuclear projects could significantly raise power tariffs and, in turn, aluminium production costs.

“Thermal power may cost around Rs 6–7 crore per MW, while nuclear power costs around Rs 30 crore per MW. That is a very large capital requirement, and it would significantly increase power costs and, in turn, aluminium costs,” Singh had said.

Beyond costs, industry insiders also point to limited control over nuclear fuel as a key deterrent for private investment. Unlike coal-fired plants — where fuel costs are market-linked and play a central role in determining tariffs — nuclear power relies on uranium, over which the government exercises tight control over supply and pricing.

As a result, private players see their role in nuclear projects largely restricted to operating and maintaining plants, with little say over a critical cost component. This lack of fuel autonomy, industry insiders say, has made many Indian companies hesitant to enter the nuclear power sector.