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இலங்கைப் பொதுப் பயன்பாடுகள் ஆணைக்குழு
PUBLIC UTILITIES COMMISSION OF SRI LANKA



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திகதி }
Date } 13.01.2023

Mr. W.M.D.J. Fernando
Secretary to the Cabinet of Ministers
Office of the Cabinet of Ministers
Colombo 1

**Cabinet Decision on Cabinet Memorandum 23/0046/021/002-1 dated January 02, 2023 on
“Proposal for the revision of Electricity Tariff in the year 2023”**

Reference to your letter 23/0010/621/002 dated January 10, 2023, conveying the decision of the Cabinet of Ministers on the captioned cabinet memorandum.

Public Utilities Commission of Sri Lanka (Commission), at its special Commission meeting held on January 12, 2023, has taken a decision to appraise the Cabinet of Ministers on the response of Commission with regards to the above mentioned Cabinet decision and the amended General Policy Guidelines attached as Annexure 1 of the said decision. It is further to mention that the Commission is in receipt of the tariff proposal bearing No. DGM (CS& RA)/TRF/trf.2023 dated January 5, 2023 submitted to the Commission by Ceylon Electricity Board (CEB) under Section 30 of Sri Lanka Electricity Act No 20 of 2009 (As amended) (Sri Lanka Electricity Act).

Having perused the said Cabinet Decision with the amended Policy Guideline and the Tariff proposal of the CEB, the Commission wishes to appraise the Cabinet of Ministers on the following observations;

1. Response of the Commission to Tariff Proposal bearing No. DGM (CS& RA)/TRF/trf.2023 dated 05.01.2023 submitted to the Commission by Ceylon Electricity Board (CEB)

The Commission is in process of reviewing the Tariff Proposal submitted by the CEB under the statutory provisions in the Sri Lanka Electricity Act which governs the Commission decision on tariff. Hence the tariff proposal submitted by CEB will be open for stakeholder consultation as required by the Sri Lanka Electricity Act and Electricity (Procedure for Review and Adjustment of Tariff) Rules No 03 of 2016 prescribed under Section 30 (3) (Electricity Tariff Rules) (**Annex-1**) from January 16, 2023.

2. Response to the request made to the Commission by the Cabinet of Ministers vide Item No.7 of the Minutes of the Cabinet Meeting held on January 9, 2023, bearing No. 23/0010/621/002 dated January 10, 2023

Decision b) (i) –The electricity tariff decision of the Commission is governed by Sections 3(1)(d),4(1)(a) read in conjunction with 4(2)(a) and Section 30 of Sri Lanka Electricity Act, Electricity Tariff Rules of the Sri Lanka Electricity and the cost reflective tariff methodology approved by the Commission under Section 30 (2 a) of Sri Lanka Electricity Act (**Annex - 2**). The process to review tariff is governed by the Sri Lanka Electricity Act and subsidiary legislations which shall be adhered to Commission as unless it would amounts to a violation of Law. The Commission is not in a position to violate the Sri Lanka Electricity Act. Hence the Commission, as described in paragraph (1) mentioned above has decided to review the CEB tariff submission under section 30 of the Sri Lanka Electricity Act according to the provisions of the Act.


Decision b) (ii) As mentioned in the response to above (b)(i) there are no provisions in the Sri Lanka Electricity Act to provide for an interim tariff as requested by the Cabinet of Ministers and to apply it with retrospective effect. The procedure for the Tariff revision is governed by Sri Lanka Electricity Act, Electricity Tariff Rules, and the cost reflective tariff methodology approved by the Commission as aforesaid and the Commission shall comply with the said statutory provisions with regard to the Tariff Revision.

Decision b) (iii) The Electricity Tariff Rules gazetted on August 02, 2016 has provided for biannual tariff revisions and it can be done under Sri Lanka Electricity Act. Hence, if CEB submits clear tariff proposals biannually, Commission will take action to decide on those, in terms of the Act.

3. Commission views on the amendments made to General Policy Guidelines which was attached to Cabinet Memorandum as Annexure 01

1. General Comment

Under section 30 (3) (b) of the Public Utilities Commission of Sri Lanka Act No 35 of 2002 (PUCSL Act) the Minister in charge of the subject of Policy Development and Implementation shall lay policy guidelines before Parliament for information prior to issuing the policy guidelines.

Further under section 30 (1) of said PUCSL Act such general policy guidelines shall be issued to the Commission by the Cabinet of Ministers through the Minister in charge of the subject of Policy Development & Implementation. 

2. Specific Comments

Tariff period

Clause (10) of the amended General Policy Guideline

The Electricity Tariff Rules prescribed under Section 30 (3) of the Sri Lanka Electricity Act has clearly recognized biannual tariff revision. Therefore biannual tariff revision can be performed upon receipt of tariff proposals from CEB biannually. Further tariff methodologies and the said tariff review procedure has recognized tariff revisions under extraordinary circumstances. Thus, the amendment to clause 10 of General Policy Guideline is implementable.

Clause 11 of the amended General Policy Guideline.

The dates of the tariff revisions and the dates of submissions and decisions are already provided in the said prescribed and the gazetted Electricity Tariff Rules.

Aggregate revenue requirement of transmission and distribution licensees.

Clauses (12) (13) (14) and (15) of the amended General Policy Guideline

The referred cost reflective tariff methodology and the Rule on tariff review procedure issued under Sri Lanka Electricity Act govern the process and mechanism for determination of the aggregate revenue requirements of transmission and distribution licensees and the process of determination of tariffs once the revenue requirement is calculated. As per Section 30 (3) of the Sri Lanka Electricity Act, the Tariff proposal submitted by the Licensees shall be reviewed by the Commission and such review shall include the provision for consumers and another interested party to participate in the procedure for review. Such reviews shall protect the interest of the consumers as indicated in Section 4(1) (a) which in conjunction with Section 4 (2)(a).

Cost of supply to each consumer category and cost-reflective tariffs

Clauses (16)(17) & (18) of the amended General Policy Guideline

The consumer tariff determining methodology is possible under the tariff methodology and a cost-reflective tariff is a legal requirement under Section 30 of the Sri Lanka Electricity Act, which the Commission has to adhere to. However, the Act only allows to pass **reasonable costs** to the consumers.

Determination of the **reasonableness of the costs** is a function of the Commission under section 30 of the Act, and in this regard, Commission has directed CEB to perform the following conditions since 2013 in order to determine the reasonableness of costs.

- i. Establishment of Bulk Supply Transactions Account

- ii. Execution of Power Purchase Agreements between CEB Generations plants and Transmission Licensee
- iii. Execution of Power Sales Agreements between Transmission Licensee and Distribution Licensees
- iv. Transparency in Merit Order Dispatch and independent dispatch audit
- v. Long-term fuel supply agreements

However, CEB has not taken action for 10 long years to adhere those requirements and it is impossible to judge the reasonableness of the costs submitted by the CEB. Therefore, CEB shall complete these requirements before any tariff revision. Otherwise, it is a violation of the law as well as it is grossly unfair by the consumer.

Clauses (19) (20) of the amended General Policy Guideline

The subsidy requirement shall be determined by the Cabinet of Ministers and if there is any subsidy to be given to consumers. The Treasury shall provide such subsidy amounts to Licensees prior to implementation according to Section 30(4) of Sri Lanka Electricity Act and Section 30 of PUCSL Act.

Clause (21) of the amended General Policy Guideline

Powers to determine the cross-subsidy is vested with the Public Utilities Commission of Sri Lanka by Section 30 (4)(b) of Sri Lanka Electricity Act.

Clause (22) of the amended General Policy Guideline

The tariff design is a function of the Public Utilities Commission of Sri Lanka and Commission has already taken action to merge the categories. The 2022 August tariff determination has equal tariff for all bulk supply customers such as Hotel, Industry, General Purpose and Government. Therefore simplification of Tariff Structure has already begun and reviews will be done for further simplification in future Tariff Revision.

Clause (23) of the amended General Policy Guideline

This will be accommodated in future tariff revisions.

Subsidies

Clauses (24)(25)(26) of the amended General Policy Guideline

Declared subsidy policy (no subsidies) will be taken into account in future tariff revisions.

Interim revision of tariff for 1st half of 2023

Clause (27) of the amended General Policy Guideline

The electricity tariff revisions are governed by the Sri Lanka Electricity Act, Rules of Tariff Review Process, and the tariff methodology issued under the Act. Therefore, there are no provisions in Sri Lanka Electricity Act to provide specific tariffs through a general policy guideline. This clause in the general policy guideline is in violation the section 30 of the Sri Lanka Electricity Act, and Commission is not in a position to implement a tariff violating the Sri Lanka Electricity Act.

Market & Pricing Reforms

Clauses (28) & (29) of the amended General Policy Guideline

Commission noted the government policy on subsidies and industry reforms, unbundling & structural reforms

Unbundling and structural reforms

Clause (30) of the amended General Policy Guideline

Commission has already officially informed the Ministry of Power & Energy of the Commission's views on how to implement sector structural reforms (**Annex-3**)

Cause (31) of the amended General Policy Guideline

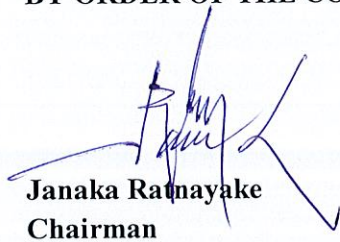
These are requirements under tariff methodologies and the conditions imposed by the Commission at the last tariff approvals in 2013 (**Annex-4**) and 2022 (**Annex-5**) to be fulfilled by the CEB for future tariff revisions. Licensees shall fulfill the same immediately to prove the reasonableness of costs.

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Clause (32) of the amended General Policy Guideline

Since Licensees (CEB) have already recognized the Additional General Managers as in charge of each business unit who are responsible for each Licenses (4 distribution Licenses, 1 Generation License, and 1 Transmission License) the Commission is of the view that the CEB shall comply with the Clause 32 of the amended General Policy Guideline.

BY ORDER OF THE COMMISSION



Janaka Ratnayake
Chairman

CC: Secretary, Ministry of Power and Energy
Secretary, Ministry of Finance, Economic Stabilization and National Policies