

PUBLIC UTILITIES COMMISSION OF SRI LANKA



# **Report on Electricity Cost Recovery of Transmission and Bulk Supply Licensee – 4<sup>th</sup> Quarter of 2025**

April - 2026

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## List of Acronyms

AWPLR	Average Weighted Prime Lending Rate
BSOB	Bulk Supply Operations Business
BST	Bulk Supply Tariff
BSTA	Bulk Supply Transaction Account
CAPEX	Capital Expenditure
CEB	Ceylon Electricity Board
DL	Distribution Licensee
EDL	Electricity Distribution Lanka (Pvt) Ltd.
EGL	Electricity Generation Lanka (Pvt) Ltd.
IPP	Independent Power Producers
LECO	Lanka Electricity Company Private Limited
MLKR	Million Sri Lankan Rupees
NCRE	Non-Conventional Renewable Energy
NSO	National System Operator (Pvt) Ltd.
NTNSP	National Transmission Network Service Provider (Pvt) Ltd.
O&M	Operation and Maintenance
OPEX	Operational Expenditure
PPA	Power Purchase Agreement
TL	Transmission Licensee
ToU	Time of Use
UNT	Uniform National Tariff

## 1. Introduction

The Sri Lankan Electricity supply sector operated with the entities licensed for the following functions, under the Sri Lanka Electricity Act No. 20 of 2009, until March 08, 2026.

Table 1: Licensed Electricity industry functions

Function	License	Entities
<b>Electricity Generation</b>	Generation License	CEB - Generation, IPPs
<b>Electricity Transmission and Bulk Supply Operations Business</b>	Transmission License	CEB – Transmission
<b>Electricity Distribution and Supply</b>	Distribution and Supply License	CEB – Distribution, LECO

The single-buyer market setup and the ring-fenced operation means, any revenue surplus or shortage in the industry would be passed to the Transmission Licensee.

Accordingly, this report has been prepared to assess the cost recovery of electricity supply sector of Sri Lanka, through the analysis of costs and revenues of the Transmission Licensee, the single buyer that reflects the sector performance. The period considered for reporting is the fourth quarter of 2025. This report is also published in compliance with the requirement of quarterly reporting on electricity cost recovery, as required under the ‘Procedure for Review and Adjustment of Tariffs Rules No. 01 of 2026’.

Further, it is to be noted that the Sri Lankan electricity industry restructuring has been completed with the full enactment of the Sri Lanka Electricity Act No. 36 of 2024 (Amended) in March - 2026. The main functions of CEB on electricity supply have been assigned to the following successor entities.

1. Electricity Generation Lanka Private Limited (EGL) – Electricity generation
2. National Transmission Network Service Provider Private Limited (NTNSP) – Electricity transmission
3. National System Operator Private Limited (NSO) – System operation and bulk supply business
4. Electricity Distribution Lanka Private Limited (EDL) – Electricity distribution and supply

Accordingly, in the restructured industry setup, the NSO is identified as the single buyer, until open access is introduced. In the following sections the term ‘Transmission Licensee’ specifically refers to the Bulk Supply Operations Business function of the Transmission License issued under the Electricity Act of 2009. This is analogous to the functions of NSO in the present industry structure.

## 2. Approved Costs and Revenues

The following forecast costs have been approved for the Transmission Licensee, for the final quarter of 2025, with the decision on Bulk Supply Tariffs.

Table 2: Approved costs for the 4th quarter of 2025

Cost Item	Unit	Amount
<b>Generation - Energy Cost</b>	MLKR	68,469
<b>Generation - Capacity Cost</b>	MLKR	18,733
<b>Transmission Licensee Allowed Revenue</b>	MLKR	5,453
<b>Finance Cost - BSOB</b>	MLKR	7,830
<b>Total</b>	MLKR	100,485

It is to be noted that the above cost has been forecasted and approved considering a total net generation of 4,389 GWh for the period.

As per clause 2.5.3 and 2.5.4 of the 'Tariff Methodology', revenue surplus/deficit of the Transmission Licensee (arising from Bulk Supply and Operation Business) in a period 'p', is to be compensated during the tariff determination for period 'p+2'. The full-scale transition from bi-annual tariff reviews to quarterly tariff reviews was initiated from the final quarter of 2025. This made it necessary to consider revenue surplus/deficit of multiple past periods, which would otherwise be missing from the tariff determination framework. Accordingly, a revenue surplus of MLKR 25,462 has been calculated at the beginning of the final quarter of 2025, for the Transmission Licensee (Based on the data available at the time). Accordingly, a total forecast revenue of MLKR 92,577, is approved for the Transmission Licensee, for the final quarter of 2025.

Further, as per the updated data received from the NSO in March - 2026, the surplus available with Transmission Licensee at the beginning of the final quarter of 2025 has been recalculated to be MLKR 24,584.

### 3. Actual Costs and Revenues

The actual Bulk Supply Tariff file received for the final quarter of 2025, along with the actual sales data of Transmission Licensee provides following cost revenue data for the 4<sup>th</sup> quarter of 2025.

Table 3: Actual costs and revenues for the 4th quarter of 2025

Item	Unit	Amount
<b>Electricity Sales Revenue of Transmission Licensee</b>	MLKR	87,374
<b>Generation - Energy Cost</b>	MLKR	(68,983)
<b>Generation - Capacity Cost</b>	MLKR	(22,110)
<b>Transmission Licensee Allowed Revenue</b>	MLKR	(5,453)
<b>Finance Cost - BSOB</b>	MLKR	(5,915)
<b>Operating result for the period, before adjusting for revenue surplus brought forward</b>	MLKR	(15,087)
<b>Revenue surplus brought forward from the past periods</b>	MLKR	24,584
<b>Operating result for the period, after adjusting for revenue surplus brought forward</b>	MLKR	9,497

Accordingly, the Transmission Licensee has ended the quarter with a revenue surplus.

### 4. Ex-post Analysis on Cost Recovery

The actual cost/revenue data received from the Licensee indicates the full cost recovery by the Transmission Licensee in the quarter 4 of the year 2025. However, considerable deviations are observed between the forecast and actual cost/revenue for the period. These deviations are indicated in the table below.

Table 4: Comparison of actual and forecasts

Item	Unit	Forecast Amount for 2025Q4	Actual Amount for 2025Q4	Increase
Generation - Energy Cost	MLKR	68,469	68,983	514
Generation - Capacity Cost	MLKR	18,733	22,110	3,377
Transmission Licensee Allowed Revenue	MLKR	5,453	5,453	-
Finance Cost - BSOB	MLKR	7,830	5,915	(1,916)
<b>Total Cost</b>	MLKR	<b>100,485</b>	<b>102,460</b>	<b>1,975</b>
<b>Total Electricity Sales Revenue</b>	MLKR	<b>91,998</b>	<b>87,374</b>	<b>(4,624)</b>

The key items and significant deviations are further analyzed in the following sections.

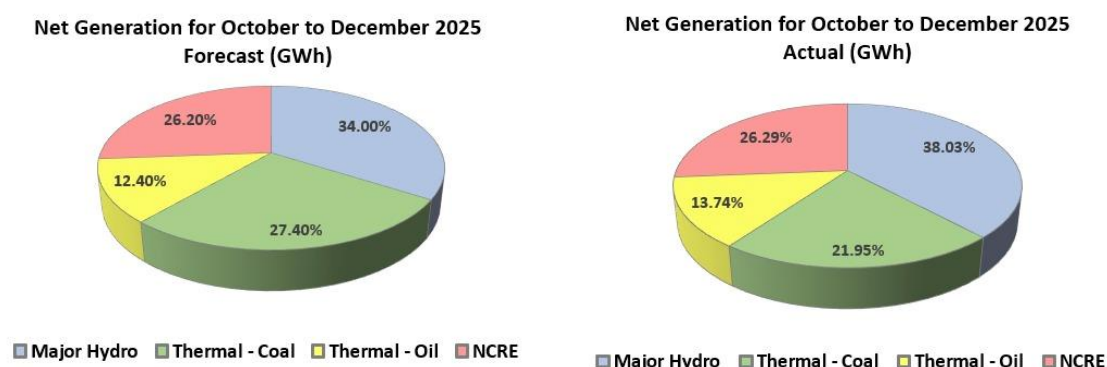
#### 4.1. Generation – Energy Cost

No significant variation is observed in the Generation – Energy Cost, though the actual demand is 80 GWh higher than the forecasted generation demand. This has resulted due to the increased Major hydro generation capturing the increased demand. The variation in source wise electricity generation is shown below.

Table 5: Source wise electricity generation mix comparison

Generation Source	Net Generation for October to December 2025			
	Forecast		Actual	
	GWh	%	GWh	%
Major Hydro	1,493	34.0%	1,700	38.03%
Thermal - Coal	1,203	27.4%	981	21.95%
Thermal - Oil	544	12.4%	614	13.74%
NCRE	1,149	26.2%	1,175	26.29%
<b>Total</b>	<b>4,389</b>	<b>100.0%</b>	<b>4,469</b>	<b>100.00%</b>

Figure 1: Source wise electricity generation mix



#### 4.2. Generation – Capacity Cost

The actual Generation – Capacity cost has significantly increased mainly due to the increased actual costs of CEB generation plants, which are operating without PPAs. The capacity costs are meant to be non-volatile. However, due to the absence of the PPAs the CEB – Generation charges the actual capacity related expenditure within the month from the Transmission Licensee. These may also include capital costs, which would not be allowed for a one-time recovery within a PPA-based system.

The Commission has issued directives to the CEB Generation Licensee (currently EGL) to enter into PPA with TL, starting from the year 2013. However, this has not yet been realized and identified as a cause for concern.

The latest directives by the Commission to EGL and NSO is to finalize the formal PPAs within a period of six months from the industry restructure completion date (i.e.: to finalize by September - 2026). The CEB successor entities are working on the development of these agreements. The PPAs are supposed to address the above issues.

#### 4.3. Finance Cost – BSOB

The finance cost of BSOB is lower than the forecast. These forecasts are linked to indices such as AWPLR. Accordingly, the changes to these indices would be reflected in the actual finance cost amount.

#### 4.4. Electricity Sales Revenue

The electricity sales revenue of the Transmission Licensee also shows a significant deviation. The changes to the sales mix could be the reason for this difference. Accordingly, it is important to verify the accuracy of sales forecasts in setting tariffs.

It is observed that the CEB, as a vertically integrated entity, followed the practice of preparing sales forecasts with a top-down approach, starting from the generation end. This approach would not fully capture the minute changes at the consumer end. The provisions of the grid code also require the use of bottom-up approach for sales forecasting.

The Distribution Licensees would require capacity building for proper demand forecasting, along with the access to forecasting tools. Further, penalties on large forecasting errors has been identified as a possible remedy to reduce demand forecasting errors.