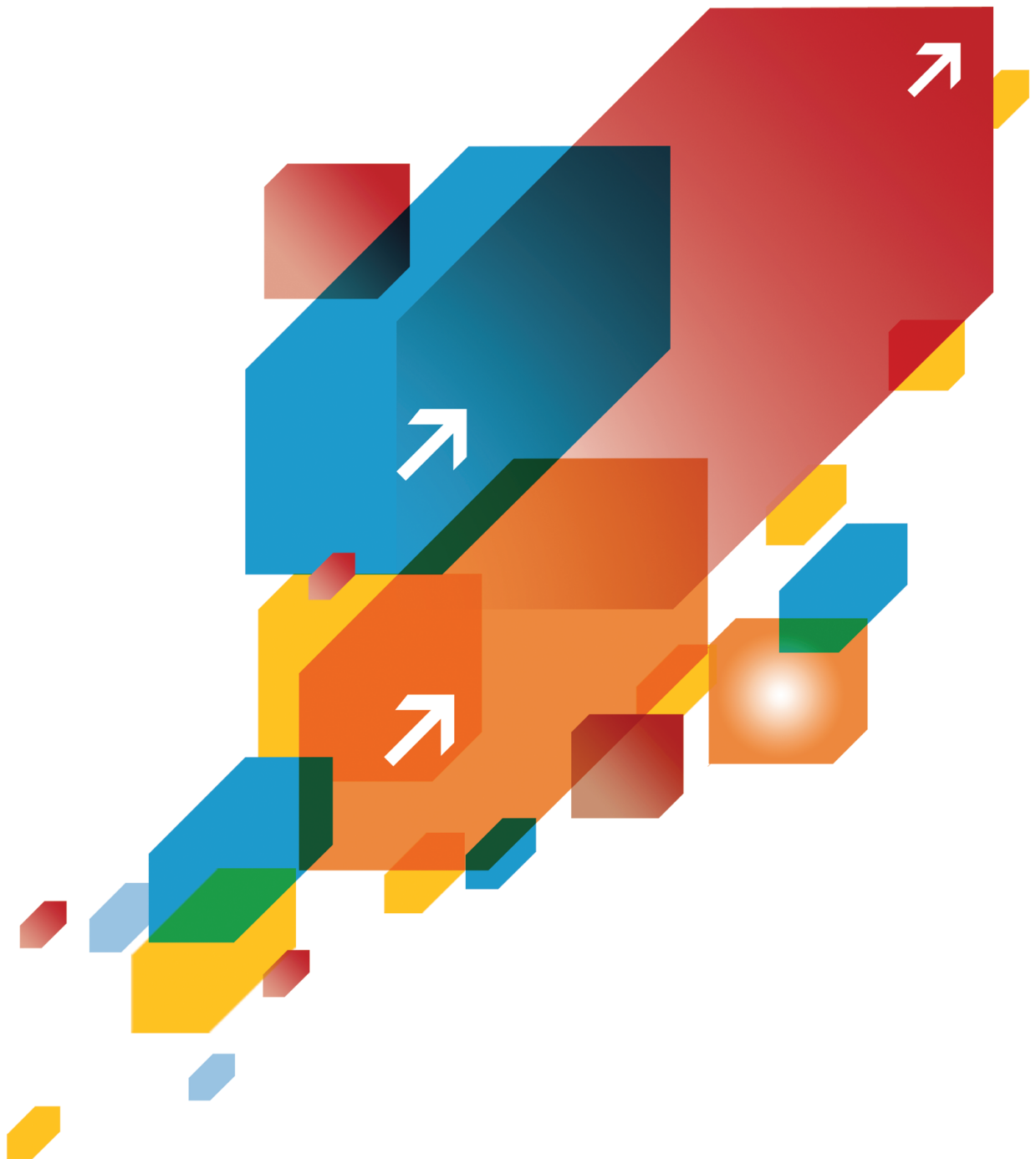


ANNUAL REPORT 2012



**PUBLIC UTILITIES COMMISSION
OF SRI LANKA**



PUCSL is the regulator in ensuring safe, reliable and reasonably priced infrastructure services

Contents

Overview

- 01. The Commission
- 02. Corporate Information
- 03. Members of the Commission
- 04. Chairman's Statement
- 05. Director General's Review
- 07. Year in Retrospect

Performance

- 08. Electricity Sector
- 08. Consumer Protection
- 12. Public Consultations
- 12. Policy Advices to the Government
- 12. Licensing
- 13. NCRE Sector
- 15. Tariff Process
- 15. Research and Studies
- 18. Regulations/Rules/Procedures/Codes/Methodologies and Guidelines
- 21. Petroleum Sector
- 23. Other Activities
- 23. Inspections
- 25. Human Resources

Outlook

- 26. Programmes 2013

Auditing

- 31. Auditor General's Report
- 34. Response to Auditor General's Report

Accounts

- 37. Financial Statement 2012



For a more complete picture
please visit:



www.pucsl.gov.lk

Vision and Mission

Our Vision

Create an environment for all inhabitants of Sri Lanka and the contributors to its development, to have access to essential infrastructure and utility services in the most economical manner within the boundaries of sustainable development agenda of the country.

Our Mission

Regulate all the utilities within the purview of the Public Utilities Commission of Sri Lanka to ensure safe, reliable and reasonably priced infrastructure services for existing as well as future consumers in the most reliable and sustainable manner.

Overview

Highlights

Consumer Protection

425 complaints

20 societies

Public Participation

02 consultations

Licensing

58 licenses

12 exemptions

Research & Studies

09 projects

Safety

26 inspections

Regulatory Tools

10 rules etc.

Goals

- Protection to Electricity Consumers
- Fairness in the Electricity Tariff
- Energy Security, Conservation & Efficient
- Quality and reliability of the electricity supply
- Safety of electricity to persons and property
- Information to stakeholders
- Promote competition
- Regulating the downstream petroleum products

Overview

Performance

Outlook 2013

Auditing

Accounts

The Commission

The Public Utilities Commission of Sri Lanka (PUCSL) is entrusted with the regulatory aspects of the Electricity, Petroleum and Water industries. The objectives, functions and the legal framework for the PUCSL have been defined in the Public Utilities Commission of Sri Lanka Act no. 35 of 2002 and the Electricity Act no. 20 of 2009. The vision of the Commission is to ensure that all stakeholders have equitable access to all areas of the utility industries and to provide such services in the most economical manner within the boundaries of the country's sustainable development agenda.

In 2009, the PUCSL commenced regulation of the electricity sector with the enactment of the Sri Lanka Electricity Act. The Commission in its capacity as the regulator of the nation's electricity industry is mandated to ensure; Fairness in electricity tariff and service charges; Adequacy of quality and reliability of the electricity supply; Safety of electricity to living beings and property; Energy security, energy conservation, efficient use of electricity and mitigation of environmental concerns resulting from power sector investments; Assuring protection for electricity consumers; Establishing the electricity market structure to promote competition; and Disseminating electricity sector information to stakeholders.

Currently, the Commission acts as the shadow regulator for the downstream petroleum industry (i.e refining of petroleum resources to retailing of petroleum products). At present, the Commission provides advice and assistance to relevant authorities on policy and regulatory aspects pertaining to the lubricant and greases market. The Commission expects to commence its role as the authorized regulator for the downstream petroleum industry in 2013, with proposed amendments to the petroleum industry legislations, which is expected to be enacted by parliament during 2013.

This report contains information on the activities carried out by the Commission from 01st January 2012 to 31st December 2012 and also activities envisaged by the Commission for the year 2013.

Corporate Information

Name of the Commission

Public Utilities Commission of Sri Lanka

Legal Status

Established by the Public Utilities Commission of Sri Lanka Act No. 35 of 2002

Commission Members during the year 2012

Dr Jayatissa De Costa P.C.	Chairman
Dr Bandula Perera	Deputy Chairman
Prof. Rahula Attalage	Commission Member
Mr Sanjaya Gamage	Commission Member
Mr Prasad Galhena	Commission Member

Director General

Mr. Damitha Kumarasinghe

Secretary to the Commission

Mrs Janaki M. Vithanagama

Registered Office

6th Floor, BOC Merchant Tower
St Michael's Road, Colombo 3
Sri Lanka
Email: info@pucsl.gov.lk
Tel. +9411 239 2607
Fax +9411 239 2641
Website: www.pucsl.gov.lk

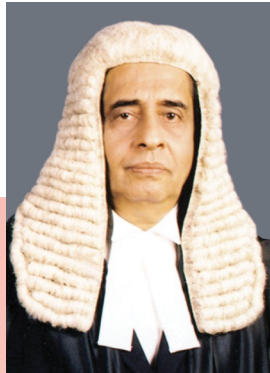
Auditors

Auditor General's Department

Banker

Bank of Ceylon
1st & 2nd Floor, BOC Merchant Tower,
No. 28, St Michael's Road,
Colombo 03

Members of the Commission



Dr. Jayatissa De Costa, P.C.
Chairman



Dr. Bandula Perera
Deputy Chairman



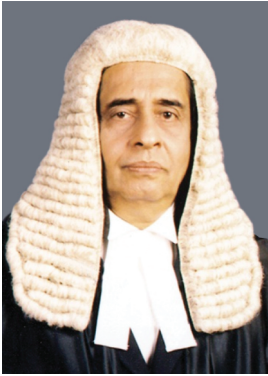
Prof. Rahula Attalage
Member



Mr. Sanjaya Gamage
Member



Mr. Prasad Galhena
Member



Chairman's Statement

Since its inception in 2002, and consequent empowerment as the regulator of the electricity sector by the Sri Lanka Electricity Act No 20 of 2009, the Public Utilities Commission of Sri Lanka (the Commission) has been constantly striving to improve energy services in Sri Lanka, through the development of appropriate standards and regulatory interventions, thereby assuring improved performance, safety and efficiency in the electricity industry.

The year 2012 presented many challenges and opportunities to the Commission, in terms of carrying out its regulatory interventions. The Commission made significant strides in the areas of consumer protection and in the approval of the Non-Conventional renewable energy purchasing tariffs for 2012. Rising global petroleum prices and Sri Lanka's present heavy reliance on imported fossil fuels for power generation, places a large economic burden on the Government and the consumer. This burden has severely impacted electricity tariff determination in recent years. Sri Lanka's national energy policy has specified a target of 10% of energy to be generated through non-conventional renewable energy sources by 2016; this is in addition to the present 1000 MW generated through conventional hydro power. Consequently, the Commission remains deeply committed to the promotion of NCRE in Sri Lanka through its regulatory interventions in the power sector. In 2012, the Commission conducted a successful public consultation process and approved a new Non-Conventional Renewable Energy Purchasing Tariffs for 2012. This new tariff structure is expected to be an incentive towards encouraging increased investments in the Non-conventional renewable energy sector.

Protection of consumer interests in the utilities sectors remains a main sanction of the Commission and the PUCSL was able to make great strides in this area in 2012, by providing improved island wide consumer outreach initiatives advocating the rights and responsibilities of electricity consumers. The Commission also embarked on a landmark survey to assess current consumer satisfaction with respect to consumer services provided by the Ceylon Electricity Board and the Lanka Electricity Company (pvt) Ltd. The Commission further initiated a new user friendly website in 2012, providing enhanced information to consumers and to all sector stakeholders on relevant electricity and petroleum industry regulations, applicable tariffs and relevant industry updates. The new website also attempts to foster transparency in the electricity sector through the dissemination of accurate industry performance data and thereby raise consumer awareness and stimulate public discourses on real challenges faced by the electricity industry.

Areas such as Electricity safety are also of paramount interest to the Commission. In 2012 Commission staff were actively engaged in investigating numerous electricity related accidents and incidents throughout the island, as well as site inspections of mini-hydro power plants to ascertain safety procedures adopted at these plants. These site visits and inspections greatly assist the Commission in developing enhanced electricity safety regulations benefitting the general public.

A vigorous recruitment drive in 2012, also helped facilitate new research on electricity industry performance and in the Non-Conventional Renewable Energy sector. The results of these endeavors will be published in the upcoming year. Additionally, the Commission hopes data gathered through such research will provide a base for policy formulation and policy advice to the Government, especially in crucial areas such as the Non-Conventional Renewable Energy Sector.

With the impending petroleum sector legislation in 2013, the role of the Commission as a multi-sector regulatory body will be reinforced. Consequently, more demands and challenges will be placed on the Commission in the coming years.

I wish to thank the members of the Commission, the Ministry of Finance and Planning, and the Ministry of Power and Energy, and other relevant government organizations, and the Director General and the staff for their commitment extended to me during the year.

Dr. Jayatissa De Costa, P.C.
Chairman



Director General's Review

The year 2012 was a challenging as well as a dynamic year for the Commission. The Commission successfully completed its third year as the regulator of the electricity sector in 2012. A bulk of the regulatory mechanisms, tools, codes and methodologies under development by the Commission were successfully finalized or nearing completion towards the end of 2012. Important regulations pertaining to the Safety, Quality and Continuity of the Electricity Supply, the Supply Services Code and Procedures for Review of Tariff were finalized and these are expected help strengthen the regulatory role of the Commission as well as increase the long term efficiency and safety aspects of the electricity industry in the years ahead.

The Commission also made significant achievements with respect to the area of Consumer Protection. Over 400 consumer complaints were successfully facilitated in 2012. A number of new initiatives were embarked upon pertaining to the protection of electricity consumer rights. These being; the island wide awareness campaigns emphasizing the rights and obligations of electricity consumers, producing a host of new literature in this regard and also embarking on a consumer satisfaction survey to gauge prevailing consumer satisfaction pertaining to electricity supply services. The Commission also commenced initial steps to introduce a new electricity bill format, providing consumers more transparency in electricity bill calculation methodologies.

In 2012, the Commission also introduced a new web based consumer complaints facilitation system for the convenience of electricity consumers. The system will function as an interface between the Commission and a complainant wishing to submit and maintain communication with the Commission on an electricity related dispute. The system facilitates access in all official languages, i.e Sinhala, Tamil and English in line with Government requirements. Along with the consumer complaints facilitation system a new revamped user friendly website with content available in the three official languages was in the design and initial implementation stage in 2012 and will be officially launched in 2013.

Research and Studies in the Energy Sector likewise took on a more dynamic role at the Commission in 2012 and a host of new studies pertaining to the current performance of the electricity industry and the crucial Non-Conventional Renewable Energy Sector were commenced. The Commission hopes this research would assist in future Government policy formulation and directives pertaining to the power sector.

Electricity Safety and Protection also remained high on the Commission's agenda in 2012, and a large number of electricity related accidents and electricity safety protection procedures adopted at public institutions and at Independent Power Plants, were investigated by Commission staff. In 2012, the Commission also commenced formulating enhanced electricity safety regulations based on data gathered from these investigations and these will be made available to the licensees and to the general public in 2013.

In 2012, the Commission also developed its corporate plan for the year 2013-2015. These plans were also subject to a process of public consultation prior to finalization. The corporate plan identifies the mid to long term goals of the Commission and future projects are formulated in line with these goals. Based on the goals and initiatives envisaged in the corporate plan the Commission also developed its outlook 2013 report, highlighting the programmes envisaged for the year 2013.

Significant achievements were also made with respect to human resources, a key factor in an efficient regulatory agency. Thirteen new executives joined the Commission in 2012 and we envisage this new recruitment would spearhead the long term goals and initiatives of the Commission, thereby benefitting all industry stakeholders.

Challenges were especially evident with regard to electricity tariffs. The Commission as a regulatory body is recurrently placed in a challenge between addressing the needs of the electricity consumer for reasonable electricity rates and the requirements of the electricity service provider for adequate revenue in order to supply electricity on a continuous basis. In January 2011, the Commission approved the first ever tariff revision in line with Government Policy. In 2012, a fuel adjustment charge was introduced to the existing electricity tariff to accommodate a sudden steep rise in fuel prices.

The annual incremental cost of petroleum products imports is growing at an unmanageable rate and Current Government policy is focused on strengthening the Non- Conventional Renewable Energy (NCRE) Sector. In this context, during the latter part of the year the NCRE purchasing tariffs was announced by the Commission in November 2012. The NCRE tariffs were approved by the Commission following the due process applicable to determine such tariffs; the Commission gave a fair hearing for all stakeholders and reached its conclusions pertaining to the NCRE purchasing tariffs.

As the present shadow regulator of the lubricants market, the Commission conducted a very successful lubricants workshop for industry players in September 2012, in collaboration with the Ministry of Petroleum Industries.

During 2012, the Ministry of Petroleum Industries continued its dialogue with the Attorney General's Department on proposed amendments to the Petroleum Products (Special Provisions) Act No.33 of 2002 and Ceylon Petroleum Corporation Act No. 28 of 1961, enabling the Commission to regulate the downstream petroleum industry. Both Acts have been redrafted by the Legal Draftsman's Department in consultation with the PUCSL and the Ministry of Petroleum Industries. Currently, clearance by the Hon. Attorney General is pending on the proposed amendments to the legislation.

I would like to thank the Chairman and members of the Commission for their dedication and support extended to me for Commission endeavors during 2012. Further, I would also like to thank the Deputy Director General and all staff for their hard work and their commitment toward the success of Commission activities in 2012.



Damitha Kumarasinghe
Director General

Year in Retrospect

The Corporate Plans of the Public Utilities Commission drives the mandate of the Commission in a given year. During the year under review, the Commission evolved through a series of new initiatives aimed at implementing the regulatory processes which has been entrusted to the Commission through the Sri Lanka Electricity Act and the Public Utilities Commission of Sri Lanka Act.

Accomplishments pertaining to the protection of consumer interests; a main prerogative of the Commission, improved significantly during the year 2012. The Commission is continuously engaged in conducting awareness raising programmes and in producing relevant literature emphasizing the rights and obligations of electricity consumers. The PUCSL organized 21 participatory awareness raising seminars in the Northwestern, Western, Southern, Sabaragamuwa, Uva, Central, Eastern and Northern provinces during the year reviewed.

The Commission introduced a new website with additional services for electricity consumers. The new website provides facilities for electricity consumers to submit their complaints online (a Consumer Dispute Resolution System). The system will function as an interface between the Commission and complainants who wish to submit their grievances. Further, the system will provide facility to review progress, maintain communication with the Commission on their specific disputes. The system will be accommodating consumer complaints in all three languages, keeping in line with Government requirements. Each submission provides a reference number and the steps that will follow thereafter. The Commission expects that the system would facilitate more efficient resolving of consumer disputes and complaints.

The Commission launched an island wide sample survey to assess consumer satisfaction on services provided by licensees. The aim of this survey was to identify areas for improvement in electricity supply services and energy efficiency among consumers. The survey will also aim to gather information on awareness on efficient use of energy and energy conservation.

A pilot survey and draft questionnaires were circulated among selected consumers in the first phase of the study and actual field work on the survey commenced in early December 2012. Data from 2500 consumers spread in all parts of the island falling under domestic and industrial categories, consumers of both distribution licensees; Ceylon Electricity Board (CEB) and Lanka Electricity Company (LECO) were asked to provide information for this survey. The findings of this report are expected to be released by April 2013.

The electricity provided through off-grid renewable energy projects, provides a significant contribution towards achieving the government objective of 100% electrification. With the extension of the national grid many of these off-grid schemes would lose their customers leading to financial problems and lack of commitment to engage on a continuous basis. As a result, investors of such schemes; villagers could lose their initial investment. Having considered the above situation, the Commission initiated a study to explore possible options for the development of the off-grid sector in Sri Lanka. During the year under review, the outcome of the study evolved up to a draft report and the Commission intends to improve the draft report with comments from resource personal who are involved in the off-grid sector.

A landmark workshop on the Lubricants Industry was organized by the Commission and was held in September, 2012 in collaboration with the Ministry of Petroleum Industries to make the public aware on the lubricant industry. Over 100 participants from the private and public sector were present at the event, where pamphlets on lubricants were also handed over. The workshop helps to create a fruitful discussion on policy oriented academics and media.

Electricity Sector

Consumer Protection

The Commission in its consumer protection role advises and assists electricity consumers in getting their grievances resolved and also engages in awareness raising on consumer rights to ensure consumer protection. In this capacity, the PUCSL also facilitates the dispute resolution process between the distribution licensees and the consumers. The independent consumer consultative committee which advises the Commission on consumer affairs coordinates through the consumer affairs division of the PUCSL. In 2012, the Commission carried out the following activities and initiatives pertaining to consumer protection.

Survey on Consumer Satisfaction

In 2012, the Commission launched an island-wide survey to assess prevailing electricity consumer satisfaction. The objective of this survey was to identify areas for improvement in electricity supply services and energy efficiency among consumers. The Commission engaged the services of an external consultant to carry out the survey. The survey commenced in early December 2012. A sample of 2,400 representing all categories of consumers (i.e. Domestic, Religious, General Purpose, Industrial, Hotel, etc.) covering all licensee areas and geographic and demographic types was selected for the survey. The findings of the survey are expected to be published by mid-2013.

Implementation of a new format for the Electricity Bill

Based on the findings of the island wide survey and input of the Ceylon Electricity Board and Lanka Electricity Company (pvt) Ltd, initial steps were taken in 2012 to introduce a new format for the electricity bill including the following information.

Details on how the bill has been calculated for domestic consumers. (Charges for separate segments (blocks) of units consumed)

- Costs on power generation, transmission and distribution to be shown separately
- Incentives provided by the government for the supply of power
- Taxes and other charges.

The Ceylon Electricity Board and the Lanka Electric Company (pvt) Ltd were informed by the PUCSL to take steps to introduce this new electricity bill format that includes the information requirements of the consumers.

Consumer Education and Empowerment

The Commission is continuously engaged in conducting awareness programmes. In the year 2012, the following initiatives were carried out with respect to consumer education and empowerment:

Awareness on PUCSL regulatory interventions

In 2012, The PUCSL organized 21 participatory awareness programmes for consumers and stakeholders in all provinces of the country. Through these programmes, the Commission was able to enhance consumer knowledge on the regulatory framework introduced through the Sri Lanka Electricity Act. 20. of 2009 and the regulatory tools to be developed in accordance with the provisions of that Act. The Commission hopes to build increased consumer awareness on rights of consumers to receive a reliable and safe electricity supply, rights of consumers at the time obtaining a new connection, disconnection and termination of agreement with the service provider, reconnection of supply, handling of complaints by the licensees, meter reading procedures, service charges, price structures and bill payment procedures and also on the obligations of electricity consumers.

Leaflets

PUCSL's Regulatory Role & Functions

These leaflets were developed with the aim of providing general information to consumers and to relevant stakeholders on the role of the Commission and its services and functions.

Electricity Consumer Complaints Handling Procedure

These leaflets were developed with the aim of creating awareness among the general public on the various types of complaints and inquiries which could be addressed to the electricity service providers. In addition, the secondary role of the PUCSL in facilitating such issues was also emphasized in the leaflets.

The above leaflets printed in all 3 languages were distributed at the awareness programmes conducted by the Commission in 2012 and were also made available at the Commission's office for the benefit of the general public.

Publishing of the 'Consumer Rights and Obligations Statement

In accordance with the Section 3(1) (e) of the Sri Lanka Electricity Act, No. 20 of 2009 and in order to enhance the awareness on rights and obligations of electricity consumers, PUCSL, in 2013, will publish the formal consumer rights and obligations statement. In 2012, the PUCSL compiled a draft Rights and Obligations statement, which will be formalized upon finalization of the Supply Services Code, which is being prepared by the Electricity Distribution Licensees under the guidance of the PUCSL. The final draft of Rights and Obligations Statement will be put forward for public consultation to obtain feedback from the public before finalization. The finalized statement will be incorporated as a part of the subject into the Commission's existing Consumer Awareness Programs.

Online Consumer Complaints Facilitating System

In 2012, the Commission introduced a new web based consumer complaints facilitation system. The system will function as an interface between the Commission and complainants wishing to submit their complaints, to check the status of complaints, and to maintain communication with the Commission. The system facilitates access in all three languages, (Sinhala, Tamil and English) in line with Government requirements. Through this interface, consumers can submit their complaints directly to the Commission, similar to any complaint submitted by post, via e-mail or in person. Each submission through the system is provided with a reference number and the system will guide the complainant on the steps that will be followed thereafter. The system will facilitate resolving of consumer complaints more efficiently.

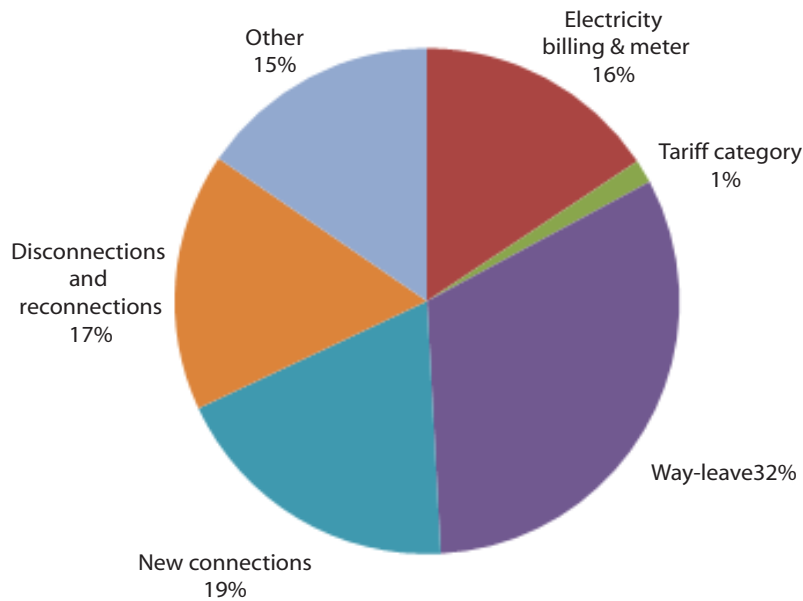
Management of Consumer Complaints

During 2012, the PUCSL received a total of 466 complaints and the commission was successful in facilitating 91% of these complaints. The majority of complaints directed towards the Commission were in the electricity supply and disconnections category.

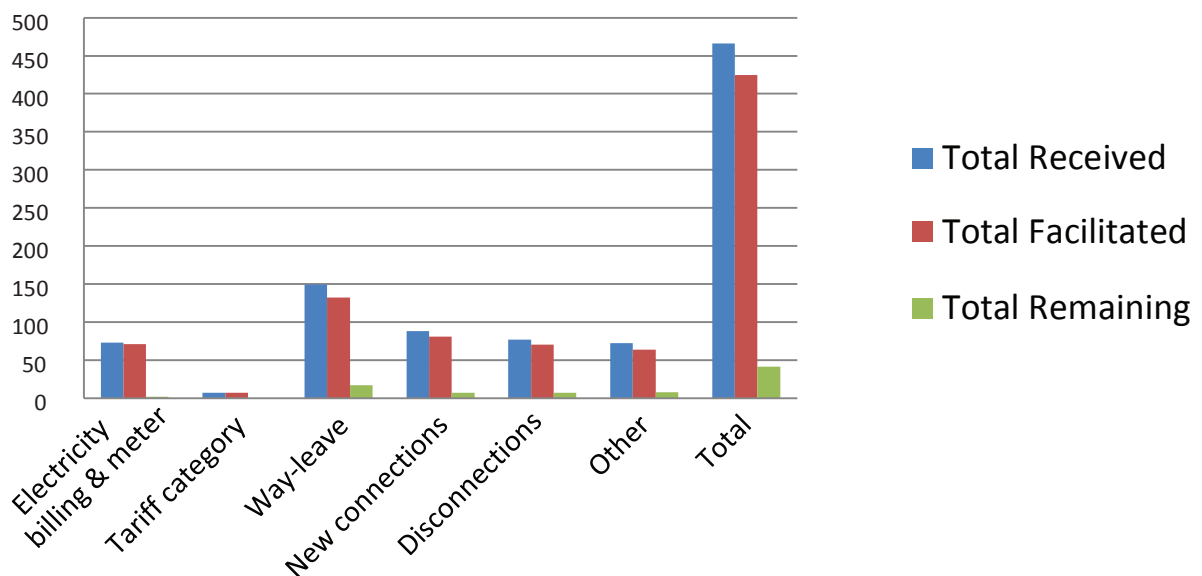
Consumer complaints handled by the Commission in 2012

Category No.	Complaint Category	Total Received	Total Facilitated	Total Remaining
01	Electricity billing & meter	73	71	02
02	Tariff category	7	7	00
03	Way-leave	149	132	17
04	New connections	88	81	07
05	Disconnections and reconnections	77	70	07
06	Other	72	64	08
	Total	466	425	41

Consumer Complaint Category



Complaints Facilitated in 2012



Implementation of Dispute Resolution Rules

The disputes arising between a licensee and a consumer; another licensee; or any other affected party, shall be referred to the Commission, if the dispute cannot be resolved by the parties, to resolve through mediation under 'Electricity (Dispute Resolution Procedure) Rules' prescribed by the Commission and published on the Extraordinary Gazette Notification of 1707/15 of 25th May 2011.

However, formal procedures and documentation required to initiate this procedure were deficient restricting the application of this procedure by the Commission in the event of a dispute. In 2012, the Commission developed all formal documentation and procedures required for the implementation of the Electricity (Dispute Resolution Procedure) Rules.

Establishing Regional Consumer Societies

In order to facilitate sharing of concerns among consumers and participation in regulatory and policy matters, the Commission decided to establish regional consumer societies (RCS).

The objectives of these societies are:

- Assess the services provided to electricity consumers and to assist the Commission in ensuring a high quality electricity supply service.
- Enhance consumer awareness on rights and responsibilities.
- Discuss proposals made by regional electricity consumers on problems encountered by them and on means to improve the quality of service with the electricity consumers and to educate the Commission through the CCC.
- Educate the Commission on matters directly affecting consumers in decision making procedures, including the introduction of the standards regarding the electricity tariffs, revision of tariffs and the quality of service.
- Enhance awareness on the role of the Commission in connection with the regulation of the electricity sector, in terms of the Public Utilities Commission of Sri Lanka Act No 35 of 2002.
- Create awareness among land owners and the general public on formal procedures for obtaining/granting wayleave required in connection with the stringing and erecting of electricity poles.
- Extend required assistance in other activities discharged by the Public Utilities Commission of Sri Lanka, including consumer surveys.

Further, the Commission expects the societies to function as a mechanism to obtain consumer/public comments during public consultations held in deciding on matters that affect the general public at large.

As of 2012, in all Provinces except Uva and Western, thirty five (35) RCSs were established consisting of five (5) RCSs per Province. In 2012, twenty (20) RCSs were established in Southern, Northern, North Central and Eastern Provinces. In this regard, four inaugural meetings were conducted in 2012 with the participation of the District Secretaries; Divisional Secretaries; Grama Niladharis; and members of RCSs. The participants were made aware of the Commission, its role (especially in setting of electricity tariffs), the role of the CCC, purpose of establishing RCSs and the role of members of such societies.

Consumer Consultative Committee (CCC)

Created by the PUCSL, under Section 29 of the PUCSL Act, the Consumer Consultative Committee (CCC) represents the interests of existing and potential smaller consumers, of regulated industries and acts as a counterweight to the government, service providers and larger consumers in advocating views.

The CCC currently consists of 15 committee members that are selected to represent a range of consumer interests. These members participate at regular meetings on a voluntary basis to discuss various issues related to the industry.

Current Membership

The current membership of the CCC consists of 15 members from the 9 provinces.

A Nominee to represent the Petroleum Industry

A Nominee to represent the Water Industry

A Nominee to represent the Electricity Industry

A Nominee from the National Chamber of Commerce

Nominee from the Ceylon Chamber of Commerce

Nominee from the Federation of Chamber of Commerce

During the latter half of 2012, three positions became vacant in the CCC and interviews were conducted to select suitable candidates for these positions. The vacancies are expected to be filled in the first half of 2013.

Functions of the CCC

The functions of the CCC as identified in Section 29 (3) of the PUCSL Act are:

- Advise the PUCSL on appropriate consumer service standards
- Monitor if the needs of consumers of goods or services provided by public utilities industries, are being satisfied
- Promote awareness on the standards prescribed or determined and the rights of consumers with respect to those standards

CCC contributions in 2012

In November 2012, the CCC actively participated in providing advice to the Commission prior to public consultation on the Regulations on Safety, Quality and Continuity and Regulations on (Distribution) Performance Standards and the Non-Conventional Renewable Energy Tariff Announcement.

Public Participation in Regulatory Process (Public Consultation)

Consultations allow stakeholders to comment on and respond to our proposals before a decision is made. During 2012, the following consultations were completed:

Consultation on Non-Conventional Renewable Energy Purchasing Tariffs for 2012-2013

The proposed prices for the purchase of power from newly constructed Non-Conventional Renewable Energy generating facilities by the Ceylon Electricity Board for 2012 and 2013 were forwarded to the Public Utilities Commission of Sri Lanka (PUCSL) for approval by the CEB. Prior to arriving at a decision on the proposed prices, the PUCSL conducted a stakeholder consultation to obtain the views of the general public in August 2012. Written comments and oral submissions were gathered during the consultation process. The Commission announced the final purchasing tariffs during October 2012. These tariffs will be applicable for renewable energy based power generation projects, which signed standard power purchase agreements (SPPA) in 2012 and 2013.

Consultation on proposed Regulations on Electricity Safety, Quality and Continuity

During 2012, draft regulations prepared by the Commission on electricity safety, quality and continuity were presented for public consultation in October 2012, through announcements made in the national press. Upon announcement, views were elicited from all stakeholders and the general public during a one month period through e-mail and written correspondence. The comments and feedback received have been incorporated into the final regulations, which will be presented to the Commission and thereafter to the Minister in 2013.

Policy Advices to the Government

Policy advice to the government on off- grid electrification schemes

In 2012, based on the findings of a study conducted by the Commission on the theme 'A Survey and Study on existing off-grid electrification Schemes', the Commission's licensing division commenced the preparation of applicable recommendations to the Government on the subject of off- grid electrification in Sri Lanka. The findings obtained from the study will also be utilized in initiatives envisaged for 2013 on the subject, which include regional workshops for off grid micro hydro schemes.

Licensing

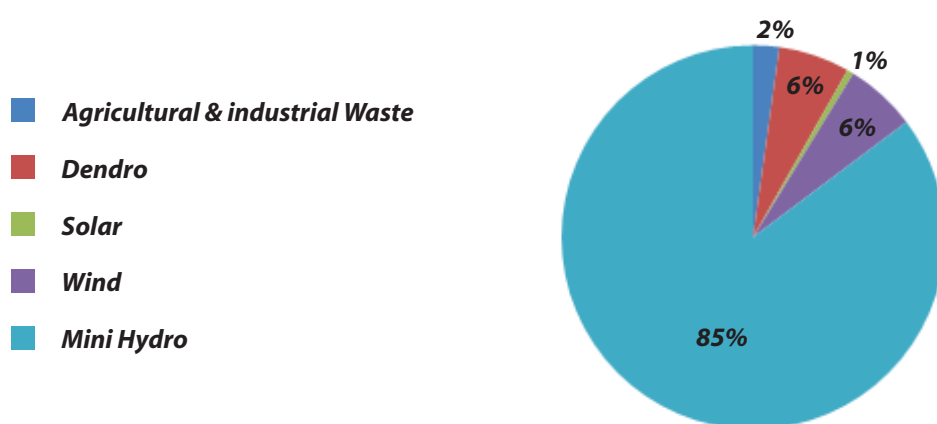
The PUCSL in its licensing role is entrusted with evaluating, selecting (in concurrence with the Minister of Power of Energy) and granting of electricity generation licenses to private power producers. Further, in this capacity the PUCSL regularly monitors the distribution activities of the licensees (currently, The Ceylon Electricity Board & Lanka Electricity Company) and requests monthly information on generation and selling costs from these two licensees.

Granting of Generation Licenses

As per the Sri Lanka Electricity Act, No. 20 of 2009, approval from the Commission is required to be obtained by any party wishing to establish or operate an electricity generation plant. This is also necessitated by reasons for assuring the safety, quality, efficiency of electricity produced in the country and also to regulate the required standards in the electricity generation industry. Accordingly, a generation license is issued by the Commission to all parties currently generating electricity in Sri Lanka. To date, the CEB remains the largest generation licensee. In 2012, 58 generation licenses were issued to Small Power Producers mainly from the Non-Conventional Renewable Energy Sector consisting of categories; agricultural and industrial waste, dendro, solar, mini hydro and wind power.

<i>Small Power Producers (SPP) Category</i>	<i>No. of Generation Licenses issued in 2012</i>
Agricultural & Industrial Waste	1
Dendro	9
Solar	1
Wind	4
Mini Hydro	42

Categories of Generation Licenses issued by PUCSL to date



Exemptions from Licenses

As per the Sri Lanka's Electricity Act No. 20 of 2009, the Commission may exempt certain persons or categories of persons from the requirement of obtaining a license to generate and distribute electricity. This is granted taking into consideration the manner in which or the quantity of electricity likely to be generated or distributed by such person or categories of persons.

After granting of an exemption by the Commission, a Gazette notification is published along with a public notice in the national newspapers and notices are sent to relevant parties including the Minister of Power and Energy. After the exemption is granted, the distributor is requested to come up with a proposed tariff rate, seeking the approval of the Commission. Small distributors (Condominiums, Residential buildings, Shopping complexes, etc.) who purchase electricity from the Distribution Licensees and subsequently distribute them to tenants are typically the categories of persons who are granted such licenses.

In the year 2012, 12 such licenses were granted to by the Commission to small distributors.

Licensee Information Submission System (LISS) & Monthly Management Information System (MIS)

In order to regulate the electricity industry, the Commission requires regular and standard information updates from the transmission, distribution and generation licensees, regarding their operations. Therefore, a system was developed and data is currently being gathered through a web based system on utilizing information gathering formats. The system utilized in this regard, is referred to as the Licensee Information Submission System (LISS) of the PUCSL. Data received through the LISS is verified and various Periodical Reports are produced for regulatory purposes. The Commission's Licensee Information Submission System has been in operation since March 2011. Licensees are required to upload information specified by the Commission on a daily and monthly basis. Energy purchase and sales information are also collected from the transmission and bulk supply licensee. Energy sales information to end users is also collected from the distribution licensees.

In 2012, a further enhancement to the LISS was incorporated with the introduction of monthly Management Information System (MIS) reports generating facility. Through the MIS reports generation feature, the PUCSL management can easily access required data for analyzing the performance level of licensees and the general performance of electricity sector at large (inclusive of consumer energy consumption).

Non-Conventional Renewable Energy Sector

Renewable Energy – Policy Targets

The budget proposal submitted to parliament in November 2012, for the year of 2013, has laid special emphasis on advancing renewable energy sources. As per the budget proposal, the Government is of the view that demands for energy increases significantly with advancements made in the economy. Since the cost of petroleum products has also increased drastically in recent times, current Government policy directions are to encourage the exploration of the remaining hydro potential, solar, and other renewable energy sources. Consequently, it remains the responsibility of all agencies engaged in the renewable energy sector to support the Government in its policy directives in this regard.

Sri Lanka's National Energy Policy and Strategies sets a target of 10% of total electricity generation to be from NCRE sources, by the year 2015. "Mahinda Chinthana Vision for the Future" has set a precise target of achieving 20% of total electricity generation from NCRE sources by the year 2020. This policy direction has been further strengthened by creating a separate Ministry for the promotion of Renewable Energy.

According to the estimate, it is required to generate 1,500 GWh of electricity through NCRE in 2015 in order to achieve the Government policy target - 10% of total generation by NCRE. Currently, 700 GWh of electricity are generated from NCRE sources. Therefore, a further 800 GWh of energy is required to be generated through NCRE sources by the year 2015, in order to achieve the Government policy target.

As per statistics derived from the Sustainable Energy Authority, which has been entrusted to prepare long-term NCRE development plans, the cumulative capacity additions that are required (estimated) to generate a 10% policy target are as follows:

Year	Technology (Capacity Additions in MW)					% of Total Gen.
	Biomass	Hydro	Wind	Other	Total	
2012	20	280	35	1	336	9.1
2013	20	295	85	2	402	9.8
2014	30	310	85	2	427	9.9
2015	40	330	85	5	460	10.0

Source: Sustainable Energy Authority of Sri Lanka

One of the unique feature in the renewable energy sector is that the almost all the generation capacities are owned by the Private Sector. Hence, competitive earnings on their investments are key factors for private investors to remain in the sector and attract new investments. Consequently, the Commission is required to play a pivotal role in encouragement of investments in the NCRE sector.

stipulated in the policy itself, difficulties lie in defining the word "additional", therefore, it is reasonable to assume that the cost of renewable energy should not exceed the average cost of electricity in that particular year

Renewable Energy Tariffs 2012-2013

The previously published NCRE purchase tariffs were valid only up to 31st December 2011 and the revision of the NCRE tariffs was due before 31st December 2011. However, the Ceylon Electricity Board as the Transmission Licensee submitted their proposals for Non-Conventional Renewable Energy purchase tariff for the year 2012-2013 on the 21st June 2012. The Commission also received subsequent detailed information in this regard on 9 July 2012.

Subsequently, the Commission decided to conduct a public consultation on the matter and the relevant consultation document containing the CEB proposal was published on 26th July 2012 in the national newspapers. The public consultation process ended on 28th August 2012, with the conclusion of oral representation session. Altogether nineteen (19) stakeholders submitted their written and oral comments on the proposed consultation document. The Commission also examined the internationally published information on cost trends to evaluate the tariff proposal.

The approved purchase tariffs for the Non-Conventional Renewable Energy based generation plants having capacities less than 10MW that signs the Standard Power Purchase Agreements (SPPAs), during the period 1st January 2012 to 31st December 2013 was issued to the Transmission Licensee in October 2012.

Tariff Process

- **Review of tariff filing by Ceylon Electricity Board**
A uniform national tariff adjustment is prepared every six months by the Commission for the Bulk Supply Tariff (BST) determined by the Transmission Licensee to the Distribution Licensee. This is based on the assessments of the prudent costs filed by the Transmission Licensee.
The BST for the first and second half's of year 2012, was filed by the CEB and the Commission after necessary adjustments and assessments approved the BST for the first half of year 2012, the BST for the second half of 2012 has been finalized and is awaiting Commission approval.
- **Allowed Charges filed by CEB and LECO 2012**
The allowed charges (charges that a licensee is allowed to charge from a consumer at cost for services such as, supplying a new electricity connection, energy meter testing, installation testing, pole shifting and any other services which the licensees are required to provide at the request of an electricity consumer) filed by CEB and LECO for the year 2012 were reviewed based on the allowed charges methodology; assessed against the approved allowed charges for 2011 and any variances were examined for appropriateness and approved subsequently. Both LECO and CEB allowed charges filed with the Commission were approved in March 2012.

Regulations on Demand Side Management

The concept of Demand-Side Management (DSM,) is aimed at reducing consumer demand for electricity voluntarily and increasing energy efficiency in the long run. A key objective of the Commission in terms of the Sri Lanka Electricity Act, No. 20 of 2009, is to promote the efficient use of electricity supplied to premises. The PUCSL has observed that the DSM related activities within existing utilities are weak or non-existent and the situation has worsened after the electricity sector reform process in the late 1990's.

Accordingly, the Commission intended to engage a qualified consultant to carry out the task of preparing regulations on DSM as a key tool to achieve energy efficiency and conservation related objectives of the Commission. These regulations are expected to create the necessary legal and institutional framework, by which many energy efficiency programs could be implemented effectively. Competitive bids were invited from qualified parties in November 2012 for the formulation of these regulations and subsequently Price Water House Coopers Ltd (Calcutta) was selected to carry out the assignment. Formal Commission approval is pending, to award the contract to the selected consultant.

Research and Studies

Survey and Study on existing off-grid electrification schemes

At present, Sri Lanka has a grid penetration level of 89%, this is mainly attributed to systematic grid expansion projects, carried out by the policy decisions of succeeding governments, which has resulted in the expansion of the national grid to many remote areas in Sri Lanka. However, the marginal costs of these expansion programs have not been carefully assessed and compared against the economic benefits derived at the national level. Many of Sri Lanka's Village Hydro Schemes (VHS) are aided by the Renewable Energy for Rural Economic Development (RERED) project funded by the World Bank and the Global Environment Facility (GEF). These initiatives have established 100-150 Village Hydro Power Schemes in the country with capacities ranging from 3-50 kW.

In the year 2012, PUCSL carried out a study in the Rathnapura and Kegalle districts also in the Deniyaya area on current off-grid electrification schemes. A selected number of off-grid schemes which have submitted applications for exemptions from generation and distribution licenses, for compliance with safety regulations and for substandard construction were inspected by the Commission. During inspection and survey of these hydro-power schemes, the PUCSL staff provided recommendations to these communities. The information gathered from these inspections was combined with existing data gathered by the Commission and a report titled 'A survey and Study on existing off-grid electrification schemes' was compiled. The report also offered insights on the community based model of development with respect to Sri Lanka's power & energy sector.

The findings from the survey were officially presented to the Commission and are now available on the PUCSL website for public views and feedback.

The findings from the survey were officially presented to the Commission and are now available on the PUCSL website for public views and feedback.

The main observations elicited through the study were that; certain practices were contributing to a high level of energy wastage in these schemes, the need for optimal technical arrangements in construction work and distribution systems relating to these schemes, Socio-economic factors impeding the management and administration of these schemes.

Study on the Existing Long Term Generation Plans 2009-2022

Adequate planning in the electricity generation system is vital to ensure future electricity demands in order to secure a reliable power and energy system for the nation in the long run.

In 2012, the Commission compiled a report based on an analysis of the long term generation expansion plans (2009-2022) of the Ceylon Electricity Board (CEB). The report identified shortcomings in the current electricity generation plans of the CEB and the actual ground realities affecting these long term generation plans. A major finding in the report was the significant discrepancy between forecasted long term power demands by the CEB and the actual long term demands.

Electrical Incident and Safety Report

The regulations on Electricity, Safety, Quality and Continuity currently under review by the Commission, specifies that all electricity accidents, shall be notified to the PUCSL by the licensee, exempted persons or the general public.

However, a proper reporting mechanism is yet to be designed and implemented without which long term analysis and improvement of electricity safety regulations is not viable. Currently, both the Ministry of Power and Energy, and the Department of Labour handles the reporting of electricity related accidents and fatalities. In 2012, the Commission's licensing division prepared a report titled 'Electrical Incident and Safety Report'. The report presents an analysis of electrical incidents which occurred in Sri Lanka in the recent past, that have been investigated by the PUCSL and attempts to propose feasible countermeasures which can mitigate risks and dangers associated with electrical incidents, and thereby related financial losses. This report was also based on data related to safety inspections carried out by the inspectorate division of the Commission, the prevailing practices and procedures of other countries, as well as reports used for qualitative assessments pertaining to electricity related accidents. In addition, local media reports were also utilized in arriving at conclusions and proposals submitted in the report.

The main recommendations of the report were; Enforcement and review of technical standards are imperative for electricity safety and proper operation of equipment, quality control of appliances and tools in market, the need to develop a database for notification of events on electricity related accidents and incidents, the need to develop a method to assign a monetary present value to costs (benefits lost) for accident evaluation and Risk Assessment, the need to benchmark electricity safety, the need for creating sustained awareness on electrical safety.

Stemming from the recommendations in the report, the PUCSL envisages in creating an electricity accident and incident database in 2013. This would assist all stakeholders and the general public immensely in accessing safety related information and streamlining the flow of information.

Annual report on achievement of renewable energy

Promotion of indigenous energy resources remains a vital component of Sri Lanka's national energy policy. As of 2011, power generation through NCRE sources to the national grid stood at 6.25%. The grid connected installed capacity for electricity generation from NCRE sources as of end 2011, stood at 243.7 MW, this was inclusive of 91 small hydro plants, 6 wind power plants, 4 solar power plants and 4 Biomass power plants known as Small Power Producers (SPPs). Nevertheless, in comparison with large conventional power plants, the total contribution made from the Non-Conventional Renewable Energy (NCRE) sector to the national grid still remains insignificant.

In 2012, the Commission drafted a report on the achievements made in the renewable energy sector for the year 2011. In compilation of this report data was collected from the Licensee information Submission System of the PUCSL and energy wise. In addition, information was obtained from the Sustainable Energy Authority on capacity development of NCRE power plants. The report was presented to the Commission and has been made available on the PUCSL website for public feedback and consultation.

The main recommendations of the report included: The necessity of Government subsidies to sustain NCRE power plants due to high initial investments, the need to improve technical knowledge and skills in the NCRE sector, Creating awareness on net metering schemes and its utilization through connection of domestic consumers who are in a position to generate electricity.

Transmission System Performance Report - 2011

Transmission System Performance Report - 2012 (First Half)

The electricity transmission network in Sri Lanka is solely owned and operated by the Ceylon Electricity Board (CEB). The CEB is responsible for the safe, secure and efficient operation of electricity transmission in Sri Lanka. The transmission network is operated at 220kV and 132kV to transport electricity from generation points to distribution bulk supply points. The PUCSL as the regulator of the electricity industry is required to monitor the technical performance of the transmission system. In 2012, the Commission compiled a Transmission Performance Report for the year 2011 and also for the first half of the year 2012. The PUCSL's Transmission Performance Report describes and calculates a number of key performance indicators for the electricity transmission system in Sri Lanka. Data for the report was collected through the LISS and monthly review reports of CEB and performance indicators were identified thereafter. The performance indicators identified covers the availability, security of the supply and quality of the service of the transmission of network. These identified indicators would also assist in future historical comparisons of the transmission licensees' performance and also assist in bench marking against international standards.

The major findings of the 2011, report covered areas pertaining to transmission loss, security of the supply, power quality and availability lines of transmission and transformers. The report covering the first half of 2012 makes a comparison between statistics obtained in 2011 against statistics obtained in the first half of 2012. The key observations in the 2012 first half report against the 2011 report are; improvements in transmission line availability as compared to 2011, Increase in transmission loss; rate for 2012 was 5.1% when compared to a 4.5% rate in 2011. Further, an increase in unserved energy due to transmission line interruptions was observed in 2012, compared to the unserved energy rate observed in 2011. The two reports were presented to the Commission in 2012, and are available on the Commission's website for stakeholder and public consultations.

Generation Performance Report - 2011

Generation Performance Report - 2012 (First Half)

The Generation Performance Reports produced by the Commission for 2011 and the first half of 2012, contains a summary of information and performance statistics of the generation units in Sri Lanka for the year 2011 and the first half of 2012. Based on the findings in the 2011 report, Sri Lanka's maximum electricity demand as per the 2011 statistics was 2163.1MW. Currently, in order to cater to that electricity requirement, 139 Grid connected power plants with total installed capacity of 3140MW were in operation since 2011. 23 of these power plants were owned and operated by the Ceylon Electricity Board, including 16 hydro plants, 6 thermal plants and 1 wind power plant. 11 thermal power plants are operated by Independent Power Producers (IPPs) and 104 small power plants are owned and operated by Small Power Producers (SPPs), this includes mini hydro plants, solar power plants, wind power plants and biomass power plants. Based on the findings in the first quarter 2012 report, maximum electricity demand in Sri Lanka was 2146.4MW (excluding the NCRE component). Therefore, a slight reduction in demand was experienced in the first half of 2012 in comparison to the demand experienced in 2011. In the first half of 2012, 145 Grid connected power plants and 3 power plants in Jaffna peninsula with a total installed capacity of 3277MW were in operation in the first half of 2012. Out of these power plants 24 were owned and operated by the Ceylon Electricity Board, including 17 hydro plants, 6 thermal plants and 1 wind power plant.

The Upper Kotmale hydro power plant with a 150MW capacity was added to the national grid to enhance the generation capacity of CEB, during the first 6 months of 2012. In the first half of 2012, 11 thermal power plants were operated by Independent Power Producers (IPPs) and 109 renewable power plants were operated by Small Power Producers (SPPs), including mini hydro plants, solar power plants, wind power plants and biomass power plants. 5 new renewable power plants were commissioned in the first half of 2012 to raise the generation capacity of the country.

The two reports have been presented to the Commission in 2012, and are currently available on the PUCSL website for stakeholder consultation.

Performance Report of Distribution Licensees - 2011

Performance Report of Distribution Licensees - 2012 (First half)

Sri Lanka's electricity sector is composed of five Distribution Licensees (DL), namely; CEB Region 1, CEB Region 2, CEB Region 3, CEB Region 4 and LECO. Current electricity sales (energy) to consumers by distribution licensees is 10 billion kWh per annum.

In 2012, the Commission compiled two reports analyzing the performance of each distribution licensees for the year 2011 and for the first half of 2012. As per the 2011 report it was found that; pertaining to energy losses the CEB region 2 has performed well, as they were in a position to keep energy losses (incurred in the distribution process) below the allowed losses (losses specified by the Commission) maintaining the highest margin out of all the DL's, whereas CEB Region 3 was found to be underperforming as their margin with allowed losses was found to be the highest. Overall in 2011, the wastage of electricity in the distribution process (energy losses) was found to be 7.5 %.

Highest customer growth in 2011 was recorded for CEB region 1, who possessed the second largest customer base. CEB region 2 possessed the largest customer base, with the highest sales margin. The quality of customer care provided was evaluated considering; new supply connections given and the number of outstanding service connections to be completed. In this analysis it was observed that CEB Region 1 was underperforming with respect to other CEB owned DLs, while DL4 is the best performer of CEB owned DLs. The total energy (kWh) purchased by all DLs for year 2011 was around 11 billion kWh units and total sales amounted to around 9.8 billion kWh units (excluding the energy consumption of street lights).

As per the DL performance data compiled and analyzed by the Commission, in the first half of 2012, electricity sales by the five distribution licensees amounted to five billion units. DLs have purchased electricity from the transmission licensee spending about SL Rs. 51 billion and the revenue obtained from the distribution business amounted to SL Rs. 71 billion. In addition, during the first half of 2012, it is noteworthy mentioning that, all DLs have managed to keep their network losses below the allowed losses stipulated by the PUCSL. LECO has recorded the lowest network loss amounting to 4.5% and DL2 has exhibited the highest (9.6%). In the first half of 2012, the overall energy losses were found to be 7.4% recording a slight decline.

The analysis and report compilation on the annual performance and progress of the Distribution Licensees by the PUCSL ensures improved transparency on the performance of the DLs to all consumers and stakeholders. Further the appropriate identification of network losses incurred by the DLs by the Commission assists the DLs in taking necessary steps to decrease wastage of electricity in the distribution process and in turn helps in increasing the operating efficiency of the DLs.

The 2011 distribution licensee performance report is currently available on the Commission's website and comments and feedback were obtained from the distribution licensees prior to finalization of the report. The 2012 (first half) distribution performance report is currently being finalized and will be made available to the general public via the Commission's website in 2013.

Study Report on Shifting of the Electricity Demand at the System Peak

This study analyzed the current system load profile, including the contributing factors for the high evening peak demand and explored practical demand side management options to arrest further exacerbation of the system load factor. In addition, information on consumer responses to tariff changes in 2011 and respective conclusions and recommendations in this regard have also been included in the report. The report is currently available on the Commission website.

Report on Energy Consumption Patterns of Consumers

This report contains information and statistics collected on electricity consumption patterns of various consumer categories, along with information on revenue collected by the licensee's from these different consumer categories during the year 2011. The report is currently available on the Commission website.

Regulations/Rules/Procedures/Codes/Methodologies and Guidelines

Regulations

Regulations on (Distribution) Performance Standards

In terms of the Sri Lanka Electricity Act, No. 20 of 2009, the Commission is required to set and enforce technical and other standards relating to the safety, quality, continuity and reliability of the electricity supply services and metering services. Towards this end, during 2012, the Commission developed Regulations on (Distribution) Performance Standards for Distribution Licensees under a technical assistance project on capacity development for the power sector regulation funded by the Asian Development Bank (Project No. 7265- SRI). These Regulations define the standards to be attained by Distribution Licensees in connection with the distribution and supply of electricity, as well as compensation to be paid for loss or damage and penalties to be imposed for non-compliance with such performance standards. These Regulations were prepared in consultation with the CEB and LECO, and prior to finalization of public comments were sought. Thereafter, the Regulations were approved by the Commission and recommended to the Minister of Power and Energy for gazetting.

Regulations on Safety, Quality & Continuity

In terms of the aforementioned requirement, Regulations are also being drafted on Safety, Quality & Continuity aimed at protecting the general public and consumers from dangers arising in the generation, transmission, distribution and supply of electricity. During 2012, the Commission reviewed the draft Regulations prepared in 2010 by a Committee comprising of representatives from the CEB, LECO and PUCSL. The revised Regulations were then submitted to the CEB and LECO for final comments. Thereafter, comments were also sought from the general public through notices published in the national newspapers as well as certain stakeholders through direct mailing. The final Regulations are ready for presentation to the Commission and thereafter will be forwarded to the Minister of Power & Energy for gazetting.

Rules

Procedure for Review of Tariff

In terms of the Electricity Act, No. 20 of 2009, the Commission is required to prescribe a procedure for review of transmission and bulk sale tariffs as well as distribution and supply tariffs, which shall include a time table for the review of tariffs and provision for consumers and other interested parties to participate in the procedure for review. Towards this end, during 2012, the Commission prepared the draft Rules on procedure for review of tariffs and a chapter to be included in the approved cost reflective methodology for tariffs on how to implement all the tariff reviews and adjustments identified in the said methodology. These were developed under the technical assistance project on capacity development for the power sector regulation funded by the Asian Development Bank (Project No. 7265- SRI). The Commission is currently reviewing the draft Rules and chapter to be included in the said methodology.

Codes

Distribution Code

In terms of the Sri Lanka Electricity Act, No. 20 of 2009, the Commission is required to approve such technical and operational codes and standards as are required from time to time, to be developed by the licensees. In addition, in terms of licenses issued under the aforementioned Act, No. 20 of 2009, licensees are required to implement and maintain such operational codes. Towards this end, during 2012, the Commission coordinated the development of the Distribution Code under the technical assistance project on capacity development for the power sector regulation funded by the Asian Development Bank (Project No. 7265- SRI). The Distribution Code specifies the criteria governing the operation, maintenance and development of the electricity distribution systems of Distribution Licensees. The primary objective of the Code is to regulate the provision of distribution services and connection to the distribution network by end users. The approved Codes were submitted to all the Distribution Licensees for implementation.

Grid Code

In terms of the aforementioned requirement, during 2012, the Commission also coordinated the development of the Grid Code under the technical assistance project on capacity development for the power sector regulation funded by the Asian Development Bank (Project No. 7265- SRI). The Grid Code lays down the rules, guidelines and standards to be followed by the Transmission Licensee and other users of the transmission system in an efficient, reliable, economic and secure manner. The draft Grid Code was submitted to the CEB for comments and a workshop was held to discuss the same. The draft Grid Code is being revised based on comments received from the CEB and will be submitted for Commission approval shortly.

Supply Services Code

In terms of the Sri Lanka Electricity Act, No. 20 of 2009 and Distribution & Supply Licenses issued thereunder, Distribution Licensees are required to publish and conform to codes of practice in relation to consumer issues, containing such provisions as the Commission considers necessary for the protection of consumers. The Supply Services Code, provides information on all aspects in relation to the supply of electricity to consumers such as billing, metering, payment of bills, terms and arrangements under which a supply of electricity is provided, consumer security deposits, access to customer premises by licensees, consumers in default, connections and disconnections, provisions of services to ill/disabled/pensioners (if any), complaint handling procedures, and responsibilities of consumers and provision of information to licensees. During 2012, the Commission redrafted the Supply Services Code prepared by the Ceylon Electricity Board and submitted the same to the CEB and the LECO for comments. Subsequently, a revised code was received from LECO, which is currently being reviewed by the Commission. Since the CEB did not submit revised codes in respect of its' Distribution Licensees, the Commission is currently drafting a generic code for the four Distribution Licensees of the CEB. The Commission plans to conduct a public consultation before finalization of the Supply Services Code.

Methodologies

Methodology to Estimate Energy Supplied

In terms of the Electricity Act, No. 20 of 2009 and Distribution & Supply Licenses issued thereunder, in the absence of any agreement, a licensee may charge for the electricity supplied to any consumer in accordance with any method of charging provided for in the license. Consequently, Distribution Licensees are required to prepare a methodology to estimate energy supplies to consumers in such events as; the absence of an electricity meter, a meter is proved to be registering incorrectly, the malfunction of any meter and any person altering the register of any meter.

Towards this end, during 2012, the Commission conducted exploratory meetings with Distribution Licensees to ascertain their current practices. Thereafter, the Commission developed specific methodologies for the aforementioned events and submitted the same to CEB and LECO for comments. The Commission is presently revising the said methodologies based on comments received from LECO.

Methodology to Benchmark Generation, Transmission and Distribution licensees

In terms of the Public Utilities Commission of Sri Lanka Act, No. 35 of 2002, the Commission is required to benchmark, where feasible, the utilities services against international standards. During 2012, the Commission studied the feasibility of implementing partial methods of benchmarking with available information. The study aims to benchmark the performance of the five Distribution Licensees in an attempt to identify the best performing Distribution Licensee. The Commission is currently reviewing the proposed indices and sample calculations.

Performance

Guidelines

Guidelines on Regulatory Accounting

In terms of the Electricity Generation Licenses, the Electricity Transmission & Bulk Supply License and Electricity Distribution & Supply License granted under the Sri Lanka Electricity Act, No. 20 of 2009, the Commission may call for accounting information which is more extensive than or differs from the statutory accounts submitted by such licensees and may be of any description and any format specified by the Commission. Since the statutory accounts submitted by licensees presently do not contain sufficient information for regulatory purposes and are not comparable amongst licensees, the Commission plans to formulate guidelines for the preparation of Regulatory Accounts by Licensees. In this connection, during 2012, the Commission decided to engage the services of a qualified international consultancy firm possessing the requisite qualifications to develop such guidelines and to assist in implementing same.

Regulatory Manual (Revisions)

The Regulatory Manual of the Commission is a code of good practice governing the functions of the Commission. During 2012, the Commission began revising the existing regulatory manual, taking into consideration national exigencies and commission requirements.

Petroleum Sector

Assistance in drafting/amending petroleum sector legislations

During 2012, the Ministry of Petroleum Industries continued its dialogue with the Attorney General's Department on proposed amendments to the Petroleum Products (Special Provisions) Act No.33 of 2002 and Ceylon Petroleum Corporation Act No. 28 of 1961, which would enable the Commission to regulate the downstream petroleum industry. Both Acts have been redrafted by the Legal Draftsman's Department in consultation with the PUCSL and the Ministry of Petroleum Industries. Currently, clearance by the Attorney General is pending on the proposed amendments to the legislation.

Shadow Regulator's Role

Petroleum products include petrol, diesel, kerosene, aviation fuel, marine fuel, furnace oil, liquefied petroleum gas while petroleum resources include crude oil, natural gas and hydrocarbons whether in liquid, gaseous, semi-solid state. The downstream petroleum industry comprises of the following activities:

- Importing and exporting petroleum products or petroleum resources
- Refining and blending of petroleum resources or producing petroleum products
- Storing, distributing and transporting petroleum products or petroleum resources
- Wholesale and retailing of petroleum products

The regulation of the downstream petroleum industry at present is governed by the Petroleum Products (Special Provisions) Act No.33 of 2002 and Ceylon Petroleum Corporation Act No. 28 of 1961. At present the Minister of Petroleum Industries has overall powers to regulate the petroleum industry, but when issuing licenses, the required advice and assistance are not forthcoming as there is a regulatory lacuna as the Energy Supply Committee (ESC), established under the Energy Supply (Temporary Provisions) Act No.2 of 2002, lapsed in 2004. The Ceylon Petroleum Corporation Act and the Petroleum Products (Special Provisions) Act are being amended to enable the PUCSL to fully regulate the petroleum industry.

Regulation of the Lubricants Market

The lubricant market is regulated and governed under the provisions of the Petroleum Products (Special Provisions) Act No. 33 of 2002 and the Ceylon Petroleum Corporation Act No. 28 of 1961.

The importation, exportation, blending, production, sale, supply and distribution of lubricants including greases require specific authorization from the Government.

Authorization is granted only to qualified parties who possess proper technical knowhow and adequate financial capability, to ensure that substandard products do not enter the market.

The Government has appointed PUCSL as the shadow regulator for Lubricants. As the shadow regulator of the lubricants market, the PUCSL advises the Ministry of Petroleum Industries on policy and regulatory matters with respect to liberalization of the lubricants industry.

Lubricant Standards and Awareness

Lubricants Standards

In the international market, the quality of lubricants is governed by the standards issued by organizations such as American Petroleum Institute (API) and Japanese Automobile Standards Organization (JASO) as well as individual Original Equipment Manufacturers.

In 2012, the PUCSL initiated the preparation of lubricants standards for the automobile sector and greases by the Sri Lanka Standards Institute and also served as a member of the Standards Committee. These standards have been stipulated by the Government as the minimum standards for lubricants and greases in Sri Lanka.

In 2012, the following activities were carried out by the Commission in its role as the shadow regulator of the lubricants market.

Preparation of a Request for Qualifications (RFQ) document for the Lubricants Market

The Commission in its role as the shadow regulator of the lubricant and greases markets, prepared documentation and guidelines for new industry players to enter into the lubricants market. The draft documentation and guidelines were submitted to the Ministry of Petroleum Industries and the Commission is currently awaiting instructions and feedback from the Ministry on the draft submitted.

Public Awareness Campaign on Lubricant Industry

In order to increase awareness regarding use of lubricants and technical aspects pertaining to lubricant standards among the public and other stake holders, and the PUCSL's regulatory role as the shadow regulator of the lubricants market, a workshop on the Lubricants Industry, was organized by the Commission on September 11, 2012 in collaboration with the Ministry of Petroleum Industries.

Dr. R. H. S. Samaratunga, Secretary to the Ministry of Petroleum Industries, delivered the keynote address at the workshop held at the Cinnamon Grand Hotel in Colombo. Over 100 participants from the private and public sector including the lubricant market players, motor vehicle importers, Customs Department and the Sri Lanka Standards Institute were present at the event, where informative pamphlets on lubricants were handed over to lubricant market players to be distributed among lubricant users.

The welcome address at the workshop was delivered by Dr. Jayatissa De Costa PC, Chairman of the PUCSL. The Director General of PUCSL, Damitha Kumarasinghe, addressed the workshop on 'Public Utilities Commission & Regulating of Sector' and Dr. Gamini Amarasekera, Consultant, Lubricant Industry, spoke on 'Lubricant Technology'. Kishu Gomes, Managing Director/ CEO of Chevron Lubricants Lanka PLC made a presentation on 'Review of the Regulatory Environment from Industry Player's Perspective', while Raja Amaratunga, Consultant, Petroleum Industry attached to the PUCSL, addressed the workshop on 'Lubricant Industry Regulation – Present and Future'. The workshop concluded with a Q&A session.

Renewal of existing lubricant agreements

In the 2012, six (06) lubricant agreements were renewed by the Commission, out of existing thirteen (13) agreements signed by the Commission. These renewed agreements were as follows:

<u>Company</u>	<u>Nominee</u>
Toyota Tsusho Corporation	Toyota Lanka (Pvt) Limited
Indian Oil Corporation Limited	Lanka IOC PLC
Total Lubricants India Limited	Nawaloka ABC Lubricants (Pvt) Limited
Ashland Inc.	United Motors Lanka Limited
Bharat Petroleum Corporation Ltd	TVS Automotive (Pvt) Limited
Sinopec Corporation	Inter Ocean Lubricants Limited

Other Activities

Dissemination of Electricity Industry Information to Public

The dissemination of the electricity sector information is important to all stakeholders as well as to electricity consumers, since this facilitates effective participation in regulatory processes and increases awareness on the performance of the electricity industry at large.

The PUCSL website, media, leaflets, seminars and workshops have been the major mediums used for dissemination of information. The PUCSL launched its website in November 2009. Major part of the information such as Electricity act, regulations, rules, codes, role and responsibilities, decisions, application forms, sector information, etc. were made available to the public and stakeholders through the web site. In 2012, a new revamped user friendly website was conceived and will be officially launched in 2013. The effective and widespread dissemination of the information is further facilitated by the information made available in all three languages. A key feature of the website (and the most popular among browsers) has been the "Electricity Bill Calculator" which allows customers to clarify doubts about their electricity bill by plugging in required basic information, and obtaining feedback on the amount due.

Inspections

The PUCSL in its inspectorate capacity is responsible for overseeing the safety, continuity, quality, reliability, efficiency of electrical generation and transmission systems in Sri Lanka. In this capacity the PUCSL is responsible for investigating specific accidents and incidents occurring in the electricity sector, at the consumer level and in the generation and transmission process of the licensees. Awareness raising on electrical safety to the general public and providing input to tariff and regulation formulation based on observances at the field level are also part of its mandate.

During 2012, inspections pertaining to the following areas were carried out by Commission staff;

Inspection Category	No. of Inspections
Way leave	10
Tariff	9
Accuracy of revenue meter	1
Electrocution	2

Recommendations on sanctions

As per Chapter VII, on Offences and Regulations, specified in the Sri Lanka Electricity Act, No. 20 of 2009, no prosecution for an offence under the Electricity Act shall be instituted without written sanction from the PUCSL. During the year 2012, 123 recommendations on sanctions were approved for the CEB and LECO for electricity related offences.

Inspection of electricity related fatal accidents and reporting

During 2012, the salient features of safety lapses in the electricity system were identified and these lapses are in the process of being incorporated into new safety regulations.

Inspection report on performance and accuracy of revenue meters

In 2012, the Commission initiated the testing of 350 revenue meters older than 15 years from the Sri Jayawardanapura area for performance and accuracy testing through a random sampling method. The data obtained was analyzed and a report on the findings was prepared. A copy of the report along with future actions required will be sent to the CEB in January 2013.

Inspection of electricity safety of identified major public institutions

12 inspections of major public institutions were completed during 2012 by the Commission, among them included the Kalubowila general hospital, the Kalutara general hospital and the Sethsevana elders home and the Kurunegala Municipal Council and Shopping complex. The findings and recommendations of these visits have been compiled into a report by the PUCSL.

Awareness programs on "safe use of electricity"

In 2012, an awareness program on the dangers of tapping electricity illegally to kill animals was conducted in the Hanguranketha area along with the Chief Engineer of the CEB. Further, an awareness program on electrical safety was also conducted at Thisawewa Maha Vidyalaya, Anuradhapura.

Inspections on grid -connected renewable energy plants and on off-grid mini hydro plants

Two Electrical safety compliance inspections were conducted at the Kolonna Mini Hydro Power Plant and an off grid mini hydro power plant at Welewatta, Kolonna in the Ratnapura District in 2012.

Human Resources

During 2012, Human Resources at the Commission achieved progress in the areas of Training and Development, Compensation administration, Recruitment, Employee relations, Work environment and overall efficiencies.

A significant increase in staff strength occurred in 2012, with the addition of 22 new staff members to the Commission. This recruitment drive was initiated with the objective of employing human resources with the expertise and experience in related industries capable of fulfilling current national exigencies in the electricity industry.

Staff strength and composition as at 31st December 2012 was as follows:

Designation	Approved Cadre		Cadre as at 31st Dec 2012	
	Permanent	Contract	Permanent	Contract
Director General	1	–	1	–
Deputy Director General	1	–	1	–
Secretary to the Commission	1	–	1	–
Director	5	–	4	1
Deputy Director	12	–	7	3
Assistant Director	13	–	13	–
Management Assistant	8	–	8	–
Drivers	4	–	2	2

Programmes 2013

The Commission has formulated 38 projects for the year 2013, in line with the goals articulated in the Commission's corporate plan for the year 2013-2015. These goals being:

- Assuring Protection to Electricity Consumers
- Ensuring Fairness in the Electricity Tariff and Service Charges
- Ensuring the Energy Security, Conservation, Efficient Use and Environmental Concerns
- Ensuring the adequacy of quality and reliability of the electricity supply
- Ensuring the safety of electricity to persons and property
- Disseminating electricity sector information to stakeholders
- Establishing the electricity market structure to promote competition
- Regulating the downstream petroleum products in the market

These goals were derived from objectives and functions stipulated in the Public Utilities Commission Act No. 35 of 2002 and the Sri Lanka Electricity Act No. 20 of 2009.

Provided below is a brief description of projects formulated by the Commission in line with these goals.

Goal	Description of Project	Activities	Benefits
Assuring Protection to Electricity Consumers	Consumer Awareness on Electricity Industry Regulations	20 Seminars	• Help safeguard consumer interests
	Supply Services Code: Obtaining feedback on the quality and types of electricity supply services required by consumers	• Gather information & feedback on implementation of code	• Consumers have opportunity to express views on quality of services provided
	Establishment of Regional Consumer Societies	• To be established in 9 provinces • Assistance of Consumer Consultative Committee will be taken	• Improved knowledge on electricity industry regulations • Consumer platform to participate and build knowledge processes • Better services to Consumers
	Leaflets to Educate Consumers	• Preparation of leaflets • Distribution at awareness programmes • To be made available at information desk	• Consumer knowledge on energy estimation and energy meters enhanced • Consumer rights safeguarded
	Publishing of Consumer Rights & Obligations Statement	• Publishing the statement	• General public will be educated on rights & obligations as consumers

Ensuring Fairness in the Electricity Tariff and Service Charges	Reducing wastage of Electricity in Transmission and Distribution Processes for the period 2013-2015	<ul style="list-style-type: none"> • Study technical factors along with managerial and investment inefficiencies • Develop a set of realistic network loss targets for the licensees 	<ul style="list-style-type: none"> • Improved operating efficiency for licensees • Improved energy conservation and increased revenue for licensees • Lower generation investment requirements • Attractive consumer tariffs in the long run • Increased investments in the sector
	Feasibility Study: Reduction of Consumer Electricity Bills through Adjustment of Electricity Consumption Times	<ul style="list-style-type: none"> • Conduct a feasibility study 	<ul style="list-style-type: none"> • Reduced demand on the national grid • System costs as a whole reduced • Cost of Supply reduced • Overall electricity consumption of consumers reduced • Data for future tariff revisions
	Effective Management of Street Lights	<ul style="list-style-type: none"> • Developing guidelines on installation & standards • Strategy for collection expenditure from local bodies 	<ul style="list-style-type: none"> • Improved consumer tariffs • Policy advise on effective street light management
	Managing Losses in the Electricity Supply	<ul style="list-style-type: none"> • Expand on existing data to track specific losses 	<ul style="list-style-type: none"> • Reduced losses in the supply chain • Improved tariffs for consumers
	Ensuring Transparency and Reliability in Tariff Reviews for Bulk Supply Consumer Categories	<ul style="list-style-type: none"> • Specify procedure to be followed for review of tariff 	<ul style="list-style-type: none"> • Stakeholders can give feedback on tariff reviews • Fairness & transparency increased
	Ensuring Improved Transparency and Reliability in Tariff Reviews & Adjustments for Consumers	<ul style="list-style-type: none"> • Developing guidelines on implementing tariff reviews and adjustments • Consultations with industry experts 	<ul style="list-style-type: none"> • Feedback on tariff reviews obtained from stakeholders • Fairness & transparency increased
	Improving Regulatory Decision Making: Guidelines on Regulatory Accounting	<ul style="list-style-type: none"> • Develop and issue a set of regulatory accounting guidelines 	<ul style="list-style-type: none"> • Increased transparency & reliability on regulatory activities
Ensuring energy security, conservation, efficient use and environmental concerns	Assisting policy development in the Non-Conventional Renewable Energy (NCRE) sector	<ul style="list-style-type: none"> • Stakeholder consultations, study of NCRE policies of other nations • Assessment of the barriers affecting NCRE technology • Formulating strategies to promote NCRE technologies 	<ul style="list-style-type: none"> • Reduced dependence on imported fossil fuels • Reduced energy price fluctuations and improved tariffs in the long term • Renewed interest in NCRE technology among potential investors • Provide more information to the Government on NCRE sub-sectors
	Forecasting Electricity Demand for the Period 2013- 2017	<ul style="list-style-type: none"> • Inputs obtained from distribution licensee • Forecast both power & energy requirements 	<ul style="list-style-type: none"> • Provides information to power sector investments • Maintain energy security for 2013/17

Ensuring energy security, conservation, efficient use and environmental concerns	Helping Consumers adjust Power Consumption Patterns: Assessing applicability of the Smart Metering Concept	<ul style="list-style-type: none"> Assessment on adopting smart metering technology 	<ul style="list-style-type: none"> Help assess financial implications of technology Help consumers adjust power consumption patterns Reduced energy losses
	Improving Energy Efficiency among Small Industrial Consumers	<ul style="list-style-type: none"> Carrying out a pilot study 	<ul style="list-style-type: none"> Industrial consumers in energy conservation Long term energy security for the country
	Sharing Best Practices in Off Grid Micro Hydro Power Schemes	<ul style="list-style-type: none"> Conduct a series of forums 	<ul style="list-style-type: none"> Information provided to rural communities on efficient use of off-grid NCRE schemes Lessen demand on national grid
	Ensuring the safety of operational & maintenance staff attached to NCRE plants	<ul style="list-style-type: none"> Inspecting protection schemes and compliance at 20 NCRE plants 	<ul style="list-style-type: none"> Improved safety of staff attached to NCRE power plants Will ensure energy security and conservation efforts in the long term
	Setting Standards in Electricity Generation	<ul style="list-style-type: none"> Identifying key international performance indicators Workshops with licensees 	<ul style="list-style-type: none"> Licensees will be able to monitor their own performance Identifying areas where current losses & inefficiencies are Long term energy security for the nation
Ensuring the adequacy of quality and reliability of the Electricity Supply	Ensuring the Quality and Reliability of the Electricity Supply: Grid Code & Enforcement Panel	<ul style="list-style-type: none"> Establishing a Grid Code enforcement panel 	<ul style="list-style-type: none"> Will ensure a safe, reliable & efficient electricity supply
	Establishing Appropriate Standards and Monitoring the Electricity Distribution Process	<ul style="list-style-type: none"> Establishing a review panel 	<ul style="list-style-type: none"> Representation from stakeholders in setting standards
	Monitoring the Performance of Electricity Distribution Licensees (CEB & LECO)	<ul style="list-style-type: none"> Identifying and specifying performance standards 	<ul style="list-style-type: none"> Eliminates disputes between licensees and consumers Help protect consumer interests
	Enhancing the quality and reliability of the current Electricity Supply	<ul style="list-style-type: none"> Measure voltage, frequency and harmonic contents of national supply 	<ul style="list-style-type: none"> Enhancement in the quality and reliability of the current electricity supply Encourage new industrial investments
	Electrical Safety in Workplaces of Licensees	<ul style="list-style-type: none"> Inspect safety procedures Prepare a general report 	<ul style="list-style-type: none"> Minimize safety hazards Minimize accidents
	Assuring consumer protection in payment of electricity bills	<ul style="list-style-type: none"> Random sampling of energy meters older than 13 years Analysis on determining the need to replace energy meters older than 13 years in service 	<ul style="list-style-type: none"> Improved reliability in electricity bill estimation

Ensuring Safety of Electricity to Persons	Awareness on Electrical Safety and Protection	<ul style="list-style-type: none"> • Compilation of DVD • DVD to be made available to public & secondary schools 	<ul style="list-style-type: none"> • Educate public & younger generation on electrical safety • Increased awareness on electricity safety in the school system • Minimization of electricity related accidents in the Sri Lankan schools. • Prevent socio economic consequences related to electrocutions.
	Preparation of Electrical Safety Guidelines	<ul style="list-style-type: none"> • Preparation of technical guidelines • Guidelines to be updated periodically 	<ul style="list-style-type: none"> • Increased awareness on electrical safety guidelines • Ensure consumer protection
	Electrical safety Guidelines for Hospitals	<ul style="list-style-type: none"> • Inspections of 12 base hospitals • Guidelines to be made available to hospitals 	<ul style="list-style-type: none"> • Reduced electricity related accidents in hospitals • Improved electrical designs addressing health sector special requirements • Improved electrical installations in hospitals • Improved maintenance procedures ensuring reliability and effectiveness of the system • Help highlight managerial responsibilities related to electricity safety in hospitals
	Electricity Safety Guidelines for Schools	<ul style="list-style-type: none"> • Prepare electrical safety guidelines • Print copies of these guidelines in all three languages • Distribute among school system 	<ul style="list-style-type: none"> • Increased awareness on electricity safety in the school system • Minimization of electricity related accidents in the Sri Lankan schools. • Prevent socio economic consequences related to electrocutions.
	Preparation of Procedure of Inquest on Electricity related Fatal Accidents and Electrocutions	<ul style="list-style-type: none"> • Official procedure of inquest to be developed 	<ul style="list-style-type: none"> • Will help interested parties to identify root causes for an electrocution • Introduce reasonable mechanisms to compensate affected parties • Take action against responsible parties within the legal framework of the country. • Take measures to amend prevailing regulations to better address safety related shortcomings of the electrical system

Disseminating Electricity Sector Information to Stakeholders	Developing a database on electricity related accidents and incidents	<ul style="list-style-type: none"> • Database to be developed • Information to be made available to industry 	<ul style="list-style-type: none"> • Developing more effective regulatory mechanisms
Establishing the Electricity Market Structure to Promote Competition	Developing tender procedures for selecting new electricity generation plants	<ul style="list-style-type: none"> • Expertise on procurement will be sourced from consultants • Suitable procurement guidelines will be developed • Draft regulation will be prepared & submitted to the approval of Parliament. 	<ul style="list-style-type: none"> • Promotion of cost effective investment in the energy sector • Reduced electricity rates to consumers in the long term • Improved reliability in the power supply
Regulating the Products Downstream Petroleum	Increasing Awareness on the Petroleum Industry	<ul style="list-style-type: none"> • Conducting workshops for stakeholders 	<ul style="list-style-type: none"> • Increased consumer awareness on industry regulations • Enhanced Information on quality of products available in the market
	Identification of activities to be regulated by PUCSL in the Petroleum Industry	<ul style="list-style-type: none"> • Develop templates 	<ul style="list-style-type: none"> • Helps identify terms and conditions for carrying out operations
	Streamlining the Applications process for industry players in the downstream petroleum industry	<ul style="list-style-type: none"> • Identify petroleum products under price control • Gazette information 	<ul style="list-style-type: none"> • Help protect the interests of stakeholders
	Developing Rules on Transportation & Storage of Petroleum Products	<ul style="list-style-type: none"> • Specifying rules and conditions • Information made available to public 	<ul style="list-style-type: none"> • Protect persons and property from accidents
	Developing pricing methodologies to help regulate the price of petroleum products	<ul style="list-style-type: none"> • Developing methodology 	<ul style="list-style-type: none"> • Will protect consumer interests • Ensure financial viability to the operations of licensees

Auditor General's Report



විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல
My No.

FB/J/PUC/FA/2012

මගේ අංකය
உமது இல
No.

දිනය
திகதி
Date

22 August 2013

The Chairman,
Public Utilities Commission of Sri Lanka.

Report of the Auditor General on the Financial Statements of the Public Utilities Commission of Sri Lanka for the year ended 31 December 2012 in terms of Section 14(2)(c) of the Finance Act, No.38 of 1971

The audit of financial statements of the Public Utilities Commission of Sri Lanka for the year ended 31 December 2012 comprising the balance sheet as at 31 December 2012 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 and Section 34 of the Public Utilities Commission of Sri Lanka Act, No.35 of 2002. My comments and observations which I consider should be published with the Annual Report of the Commission in terms of Section 14(2)(c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act was furnished to the Chairman of the Commission on 13 June 2013.

1.2 Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Public Utilities Commission of Sri Lanka as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

Even though the provision for gratuity for the year under review according to the computation by the audit amounted to Rs.2,080,272, that had been brought to account as Rs.1,749,232. As such the provision for gratuity had been understated by a sum of Rs.331,040 while the profit for the year had been overstated by a sum of Rs.331,040.

2.2.2 Unexplained Differences

Differences amounting to Rs.892,519, Rs.2,009,952 and Rs.92,822 were observed between the financial statements as at 31 December 2012 and the schedule of fixed assets in relation to 03 items of fixed assets, namely computers and office equipment, furniture and fittings and software respectively.

2.2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliance were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a) Section 120(a) of the Inland Revenue Act, No. 10 of 2006	Action had not been taken to remit Pay As You Earn Tax amounting to Rs.546,440 to the Commissioner General of Inland Revenue, before the fifteenth day of the month following.
(b) Financial Regulation 341	A counterfoil register had not been maintained for the receipt books used for collection of income.
(c) Financial Regulation 387	Cheques valued at Rs.1,437,745 exceeding the balance of the cash book as at 31 December 2012 had been issued.
(d) Financial Regulation 756 (5)	A Board of Survey for the year 2012 had not been properly conducted by using the appropriate formats.
(e) Paragraph 24 of the Public Finance Circular No.PF/PE/6 of 31 January 2000	The Pay As You Earn Tax amounting to Rs.665,579 payable for the year under review by the employees had been paid from Commission Fund as in the preceding years.
(f) Treasury Circular No. IAI/2002/02 of 28 November 2002	The Register of Fixed Assets on Computers and Accessories had not been updated.

2.2.5 Lack of Evidence for Audit

The evidence indicated in connection with the following transactions included in the financial statements had not been furnished to audit.

- Properly approved source documents for the 234 Journal Entries valued at Rs.160,470,441 brought to account by the Commission in the year 2012 had not been furnished.
- The full amount of the all combined and the incidental allowances payable to the officers who had participated in forging travel and training programs only had been shown in the voucher without giving the particulars of travel, period of travel, computation of the rates, particulars of air travel, foreign sponsorship, etc.

3. Financial Review

3.1 Financial Results

Accounting to the financial statements presented, the operations of the Commission during the year under review had resulted in an excess of income over expenditure amounting to Rs.29,967,560 as compared with the corresponding excess of income over expenditure amounting to Rs.55,978,423 for the preceding year, thus indicating a decrease of Rs.26,010,863 in the financial result as compared with the preceding year. The increase of expenditure for the year under review by a sum of Rs. 47,669,634 as compared with the preceding year had been the reason for this decrease.

4. Operating Review

4.1 Performance

- (a) Even though the Action Plan prepared for the year 2012 contained 66 activities under 07 key activities for execution, 32 of those continue to remain in the progress level up to 31 December 2012.
- (b) Out of the 466 public complaints received by the Commission during the year 2012, solutions had been found for 425 while no action had been taken up to 31 December 2012 on 41 complaints.
- (c) Even though sum of Rs.356, 177,653 and Rs.61,383,125 had been spent as recurrent expenditure and capital expenditure respectively from the year 2004 to the end of the year under review for carrying out the regulatory functions on the electricity, water and petroleum industries under section 14(2) (1) of the Public Utility Commission of Sri Lanka Act, No.35 of 2002, the Commission carried out the regulatory function of the electricity industry with effect from 08 April 2009 in accordance with the Sri Lankan Electricity Act, No 23 of 2009. As the amendments to the Acts relating to the water and petroleum industries have not been approved, it had not been possible to carry out the regulatory functions of those industries. However, according to the decision of the Cabinet of Ministers, the regulatory functions regarding the lubricants had been vested in the commission.
- (d) According to Section 9 of the Sri Lanka Electricity Act, No 20 of 2009, licenses for generation of electricity cannot be issued to the companies generating electricity exceeding 25 megawatts capacity registered under the Companies Act, No 7, of 2007 without 50 per cent Government share holding. Licences had not been issued up to date to 06 companies which generate electricity exceeding 25 megawatts capacity and the electricity generated by those companies had been added to the electricity grid of Sri Lanka. Action had not been taken even up to the end of the year 2012 to rectify that situation. The Chairman informed that licenses had not been issued as the said companies had not satisfied requirements.
- (e) Fourteen companies operating in the lubricants market had registered and out of those, only 11 companies had carried out transactions exceeding Rupees 1 million from the variable registration fee at 0.5 per cent of the invoice value. As such the Commission had received a sum Rs.32,704.473 as the variable registration fees from the 11 companies in the year 2012.

4.2 Management Inefficiencies

Uneconomic Transactions

A surcharge of Rs.8,571 had been paid due to the delay in the remittance of contributions to the Employees' Trust Fund.

5. Accountability and Good Governance

5.1 Audit Committee

Even though at least 04 meetings of the Audit Committee should be held each year in terms of Section 7.4.1 of the Public Enterprises Circular No PED/12 of 02 June 2003, the Commission had held only 02 meetings in the year 2012.

5.2 Budgetary Control

Expenditure incurred exceeding Provisions

Expenditure amounting to Rs.1,137,023 exceeding the provisions made in the year 2012 under 04 categories of expenditure had been incurred.

6. Systems and Control

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the institution from time to time. Special attention is needed in respect of the following areas of control.

- (a) Investments
- (b) Maintenance of Counterfoil Books
- (c) Register of Fixed Assets



H.A.S. Samaraweera
Auditor General

Response to Auditor General's Report



ශ්‍රී ලංකා මහජන උපයෝගීතා කොමිෂන් සභාව
இலங்கைப் பொதுப்பயன்பாடுகள் ஆணைக்குழு
PUBLIC UTILITIES COMMISSION OF SRI LANKA



ඔබේ අංකය
உமது இல
Your No.

PUCSL/FIN/AGD/02

අපේ අංකය
எமது இல
Our Ref No.

19.06.2013
Auditor General
Auditor General's Department
Colombo 07

Auditor General's Report on Financial Statements of Public Utilities Commission of Sri Lanka for the year ended 31st December 2012 in terms of the Finance Act No. 38 of 1971, 14 (2) (c)

I hereby kindly draw your attention on my comments in respect of your draft report no. SB/J/PUC/FA/2012 dated June 13 2013.

2.2 Comments on financial statements

2.2.1 Accounting deficiencies

The gratuity for 6 employees was calculated without taking into account the cost of living allowance; therefore the gratuity allocation reflected in the accounts is less by Rs. 331,040.

2.2.2 Unexplained changes

- a) The errors depicted below have been a cause for difference in software.
1. The following have not been incorporated into the fixed assets registry

Symantec Antivirus Software	58,800.00
QB Pro 2011-User License	<u>34,272.00</u>
	93,072.00
2. Software costing Rs. 52,250 has been recorded in the fixed assets register as Rs. 52,500.	<u>(250.00)</u>
	<u>92,822.00</u>

Steps have been taken to identify the differences in computers and office equipment in the fixed assets registry and the ledger and will be balanced accordingly. Further, future action will be taken to rectify such inconsistencies.

- b) In the year 2011, Rs. 769,400 was credited into the accumulated fund account and Rs. 769,400 was debited into the gratuity account by mistake and this was corrected. Further, Rs. 3,675 was adjusted from the previous year to the accumulated fund account and the balance brought forward was Rs. 119,749,761.89.
- c) Rs. 600.00 was refunded as communication expenses from an unidentified credit balance of Rs. 754.00. The balance Rs. 154.00 consisted of additional income received. Since this item was part of income received last year, it has been adjusted into the accumulated account.

2.2.4 Non- compliance with rules, regulations and management decisions

- a) F.R 135 payment activities
Since only two management assistants have been assigned to the accounts division, allocation of duties has been according to the audit query. Since the cash book is obtained through an accounting package, a comparison with the relevant official's cash book accounting package is also performed.
- b) F.R 138 (1) Preparing expenditure details
As instructed by the audit, steps have been taken to include expenditure details in payment vouchers.
- c) F.R 245 Payment of vouchers without certification
Although this problem occurs when functioning with a limited accounting staff, steps will be taken to prevent such occurrences in the future.
- d) F.R 341 Maintaining a registry of receipts
Since 2013, steps will be taken to maintain a registry of receipts.
- e) F.R 342 Ownership of receipt books
Steps will be taken to maintain a registry containing receipts issued and received. This will be maintained under the supervision of Deputy Director (Finance)
- f) F.R 387 Bank overdraft on Cash Book
Although a bank overdraft has been itemized in the cash book, this has not exceeded the bank balance in the bank account. Steps will be taken to ensure that this does not occur in the future.
- g) F.R. 756 (5) Utilizing required formats for survey of goods
In order to clearly identify the assets declared in the final accounts a survey will be conducted and during the survey appropriate formats will be developed.
- h) Pay As You earn Tax (PAYE)
As per discussions held with the Committee of Public Enterprises, the treasury has instructed the following measures to be taken.
 - (i) Pay as you earn tax will be sent before the 15th of the following month
 - (ii) Stamp duty will remitted to the commissioner of inland revenue every 3 months

2.2.5 Audit Evidence

- (i) Salaries, stamp duty, installment payments and the minor expenses account have been reflected in journal entries. Payment of salaries have been approved through vouchers, while the other journal entries also have been instructed to be performed through journal vouchers and necessary approval for these have been sought.
- (ii) Steps have been taken to include required details in and documentation in expense vouchers for overseas travel

3. Financial Analysis

3.1 Financial Results

Since the Commission's activities expanded significantly in 2012, necessary staff was recruited to address these expansions. Due to this reason, salaries, gratuity, consumer items, contractual payments, repair and maintenance costs have increased. Further the requirement for capital assets has also increased and due to increased accruing of assets, depreciation has also increased.

4.1 Performance

- a) Current situation pertaining to performance has been reported to Auditor General. (Annex 1 submitted to the audit)
- b) Action on Consumer complaints received during the Month of December is taken in the following month. Therefore actions on 41 complaints received during the month of December were taken up only in the following month.
- c) Taking steps to get the approval of the Cabinet and the Working Committee of the Parliament, for the amendments made to the Petroleum Corporation Act No.28 of 1961 and the Petroleum Products Bill (Special Provisions) No.33 of 2002. Approval of the Attorney General's Department has been received for the Petroleum Products Bill (Special Provisions) No. 33 of 2002 and upon receipt of approval from the Attorney General's Department for the Sri Lanka Petroleum Corporation Act No.28 of 1961 which should be tabled before the parliament together with the above act, both acts will be submitted for cabinet approval.

- d) As the relevant institutions have not met the requirements specified in Section 9(1) of the Electricity Act No. 20 of 2009, the Commission is not in a position to issue licenses. Therefore, we have sent a letter to the Ministry of Power and Energy requesting to make arrangements for the same. Further those institutions have also been informed by letters that the licenses cannot be issued.
- e) Though the audit inquiry states that 8 companies exceed revenue of over one million rupees in the lubricants market, according to the variable registration fees to the Commission, all 11 companies in the market exceeds revenue of over one million.

4.2 Management Inefficiencies

Although Payments for Employees Trust Fund (ETF) have been remitted in a timely manner, due to required details not being furnished a surcharge has been levied.

5. Accountability and good governance

5.1 Auditing and Management Committees

During the first six months of 2012, since no internal auditor was present at the Commission, no required auditing committee meetings were held. However, from 2013 steps will be taken to hold audit committee meetings

5.2 Budget Control

Steps will be taken to ensure that expenses will be kept in provision of the budget allocation.

6. Systems Control

Attention has been drawn on the areas of concern pointed out in the audit through a comprehensive internal control system.



Damitha Kumarasinghe
Director General

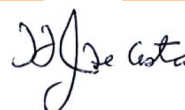
Financial Statement 2012

Statement of Financial Position As at 31st December 2012

	Notes	2012		2011	
		Rs.	Cts.	Rs.	Cts.
Assets					
Non -Current Assets					
Property Plant & Equipment	25	31,804,899.46		23,387,209.39	
Current Assets:					
Investment	15	121,674,405.58		87,011,431.23	
Inventories		97,795.75		117,889.50	
Rental Deposit	16	828,070.80		828,070.80	
Fees Receivable	17	17,834,030.02		15,050,351.00	
Advances & Pre Payments	18	2,239,440.23		8,050,617.98	
Interest Receivable	19	4,499,976.03		1,827,092.43	
Festival Advance		73,000.00		23,000.00	
Distress Loan		1,345,609.60		-	
Deposit A/C: Fixed Assets		2,010,497.02		-	
Cash Balance		(1,437,744.76)		742,174.25	
		149,165,080.27		113,650,627.19	
Total Assets		180,969,979.73		137,037,836.58	
Funds & Liabilities					
Funds					
Accumulated Fund	20	150,545,880.68		120,522,836.89	
Revaluation Reserves	21	1,193,453.14		1,193,453.14	
ADB- TA Assistance		2,227,880.00		2,227,880.00	
Reserves / FSD		1,500,000.00		1,500,000.00	
		155,467,213.82		125,444,170.03	
Non-Current Liabilities					
Provision for Gratuity		3,974,460.00		2,579,778.00	
Provisions Made	22	6,908,568.00		8,370,447.00	
Current Liabilities					
Payable Accounts	23	14,319,737.91		443,441.55	
Auditor General's Fees	24	300,000.00		200,000.00	
Total Liabilities		14,619,737.91		643,441.55	
		180,969,979.73		137,037,836.58	



Damitha Kumarasinghe
Director General



Dr. Jayatissa De Costa P.C.
Chairman

Financial Statement
Statement of comprehensive income
for the year ended 31st December 2012

	Notes	2012 Rs. Cts.	2011 Rs. Cts.
Revenue			
Variable Registration Fees	1	32,704,472.64	25,590,562.53
Annual Regulatory Levies	2	106,386,000.00	98,722,500.00
Licenses Application Fees	3	350,000.00	320,000.00
Other Income	4	10,961,312.79	4,397,562.05
Total Revenue		150,401,785.43	129,030,624.58
Expenses			
Personal Emoluments	5	55,033,814.99	27,666,758.60
Retirement Benefits	6	4,376,047.89	3,461,338.29
Overseas & Local -Training & Travelling	7	16,098,365.73	11,031,926.11
Consumable Materials	8	2,212,562.52	1,662,943.73
Contractual Services	9	29,401,972.88	20,215,854.97
Other Services	10	3,025,896.90	2,732,593.93
Repairs & Maintenance of Capital Assets	11	1,029,842.18	284,655.69
Finance Cost	12	10,405.00	8,600.00
Identified Losses	13	5,630.22	293,240.05
Total Expenditure		(111,194,538.31)	(67,357,911.37)
Operating Surplus		39,207,247.12	61,672,713.21
Provision -Depreciation	25	7,490,454.99	5,043,658.24
Provision for Gratuity		1,749,232.00	748,378.00
		(9,239,686.99)	(5,792,036.24)
Prior Year Adjustments	14	-	97,746.28
Surplus/ Deficit for the Year		29,967,560.13	55,978,423.25

Financial Statement
Cash Flow Statement for the Year Ended 31st December 2012

	2012		2011
	Rs. Cts.		Rs. Cts.
Cash Generated from Operating Activities			
Operational Surplus / (Deficit) in the year	29,967,560.13		55,978,423.25
Adjusted for			
Depreciation	7,490,454.99		5,043,658.24
Provision for Gratuity	1,749,232.00		748,378.00
Bank Interest Received	(10,688,065.18)		(2,540,228.10)
Adjustment for Prior Year Period	363,320.24		(56,063.77)
Finance Cost	10,405.00		8,600.00
Fixed Assets Disposal Income	(139,672.08)		-
	28,753,235.10		59,182,767.62
Changes Working Capital			
Increase / Decrease in Inventories	20,093.75		(2,524.89)
Increase / Decrease in Interest Receivable	(2,672,883.60)		-
Increase / Decrease in Debtors	(2,783,679.02)		(7,858,834.10)
Increase / Decrease in Payable	13,976,296.36		7,038,446.30
Increase / Decrease in Provisions Made	(1,461,879.00)		-
Increase / Decrease Advance, Pre Payments & Distress Loan	4,415,568.15		-
Net Changes in Working Capital	11,493,516.64		(822,912.69)
Cash Generated from / (Used in) Operating Activities	40,246,751.74		58,359,854.93
Cash Flow from the Investing Activities			
Fixed Assets Disposal Income Received	139,672.08		-
Finance Cost	(10,405.00)		(8,600.00)
Increase / Decrease in Reserves			
Purchase of Fixed Asset	(15,908,145.06)		(13,963,410.84)
Interest Received	8,015,181.58		2,540,228.10
Invested in Fixed Deposits/TBS & Call Deposits	(34,662,974.35)		(50,301,992.35)
	(42,426,670.75)		(61,733,775.09)
Net Cash Flow from (Used in) Operational Activities	(2,179,919.01)		(3,373,920.16)
Less: Cash and Cash Equivalent at the Beginning of the Year	742,174.25		4,481,171.41
Cash and Cash Equivalent at the End of the Year	(1,437,744.76)		1,107,251.25
Cash and Cash Equivalents,			
Cash in Hand & at Bank	(1,437,744.76)		1,107,251.25
	(1,437,744.76)		1,107,251.25

Financial Statement

Statement of Changes in Equity for the Year Ended 31st December 2012

	Accumulated fund	Reserves	Revaluation Reserve	Total
	Rs. Cts.	Rs. Cts.	Rs. Cts.	Rs. Cts.
Balance as at 1st January 2012	120,522,836.89	1,500,000.00	1,193,453.14	123,216,290.03
Prior Year Adjustments	55,483.66	-	-	-
Balance as at 1st January 2012	120,578,320.55	1,500,000.00	1,193,453.14	123,271,773.69
Surplus / (Deficit) in the Income Statement	29,967,560.13	-	-	29,967,560.13
Balance as at 31st December 2012	150,545,880.68	1,500,000.00	1,193,453.14	153,239,333.82

General Accounting Policies

1. General

The Public Utilities Commission of Sri Lanka (PUCSL) was established to regulate certain utility industries pursuant to a coherent national policy.

In line with the above policy, with the enactment of Sri Lanka Electricity Act No: 20 of 2009 PUCSL was fully empowered to regulate the electricity industry in Sri Lanka.

2. Basis of Preparation

2.1 The financial statements have been prepared in accordance with the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants Sri Lanka, the requirements of Public Utilities Commission of Sri Lanka Act No: 35 of 2002 and the Sri Lanka Accounting and Auditing Standards Act No: 15 of 1995.

2.2 The financial statements of Public Utilities Commission are prepared under the historical cost convention.

2.3 Financial period

The financial year of the commission shall be the calendar year.

03. Adoption of Sri Lanka Accounting Standards

The Commission has adopted the following new and revised Sri Lanka Accounting Standards (SLAS) and accounting policies of the Commission have been revised where relevant, to reflect the revision of these SLAS.

The adoption of the new and revised standards has resulted to changes to the method of presentation and additional disclosures being made in the financial statements

The following are the new and revised SLAS that are relevant to the Commission.

LKAS 1	Presentation of Financial Statements
LKAS 2	Inventories
LKAS 8	Policies, Changes in Accounting Estimates and Errors
LKAS 10	Events after the Balance Sheet date
LKAS 16	Property, Plant and Equipment
LKAS 40	Accounting for Investment
LKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
LKAS 18	Revenue
LKAS 24	Related party disclosures
LKAS 26	Accounting and Reporting by Retirement Benefits Plans

04. Comparative Information

The Accounting Policies applied by the Commission are, unless otherwise stated, consistent with those used in the previous year. Previous year's figures and phrases have been rearranged, wherever necessary, to conform to the current year's presentation.

05. Events after the Balance Sheet Date

All material post balance sheet events have been considered and appropriate adjustments or disclosures have been made in the respective notes to the financial statements.

06. Valuations of Assets and their Bases of Measurement

6.1 Property, Plant & Equipment

The Property, Plant & equipment are recorded at cost/less accumulated depreciation and revaluation gain and losses as set out below. The cost of Property, Plant and equipment is the cost of purchase or construction together with any expenses incurred in bringing the assets to its working condition for its intended use.

6.2 Revaluation of Property, Plant and Equipment

A Committee was appointed by Director General to revalue certain fully depreciated computer and equipment. In this process, there was no evidence of market value for consideration of fair value. Hence, they are valued at 20% of the actual cost. The revaluation of assets is effective from the date of 31st December 2012.

When an asset is revalued, any increase in value is credited to a revaluation reserve, and any decrease in value is directly offset against the surplus in the revaluation reserve.

Free used Assets

Commission has obtained the Stamp franker machine from the Department of Post, free of charge. The Commission has incurred a service charge for this and the same amount was charged for maintenance of the equipment. Further, the Commission has considered this property as owned by the Department of Post. Therefore, it could not be treated as an asset of PUCSL.

6.3 Depreciation

Provision for depreciation is calculated by using a straight-line method on the cost of property, plant and equipment, other than revalued property plant and equipment on the 31st December 2012.

The depreciation rates of the assets are as follows:

1. Furniture and Fixtures	20%
2. Computer and Office Equipment	20%
3. Vehicles	20%
4. Software	33 1/3%

The calculation of depreciation is applied from the date of purchase of property, plant and equipment in the current year.

The useful lives, residual values and depreciation methods of assets are reviewed and revalued if required, at the end of the each financial year.

The revalued assets during the year 2012 will be depreciated within the next few years, taking the following rate as the base in computing the depreciation.

Computer and Office Equipment 100%

The useful lives, residual values and depreciation methods of assets are reviewed and revalued if required, at the end of the each financial year.

07. Inventories

Inventories are valued at a lower of cost. The cost of each category of inventory is determined on the following basis.

Stationery - at purchase price.

08. Investments

Commission has invested its surplus income for the year 2011 in the Bank of Ceylon as fixed deposits and Treasury Bills with the concurrence of the Ministry of Finance to maximize return to the Commission.

09. Receivable

Receivables are stated at the amounts they are estimated to realize. No provision is being made for bad or doubtful debts.

10. Advances & Prepayments

Advance account includes a part of the premium paid to the Sri Lanka Insurance Corporation for the Medical Insurance for the staff. As the policy is effective up to 30th September 2012, it is required to treat the premium paid in a proportionate basis.

11. Cash and Cash Equivalents

Cash and cash equivalents in the cash flow statement comprise cash at bank and in hand.

12. Liabilities and Provisions

Liabilities classified as current liabilities in the balance sheet are those obligations payable on demand or within one year from the balance sheet date. Liabilities classified, as non-current liabilities are those obligations, which expire beyond the period of one year from the Balance sheet date.

Following provisions have been made for the anticipated expenses for the approved activities of the year 2012.

	Rs.
(a) Provision for Foreign Training	1,908,568.00
(b) Provisions for Consultancy	5,000,000.00

	6,908,568.00
	=====

13. Fund for Sector Development

The Commission decided to establish a separate fund known as Fund for Sector Development and Staff Welfare. This will utilized exclusively for consumer education and to strengthen the capacities of the PUCSL staff as well as provide a health insurance scheme for the staff. However, the Treasury directed the Commission that any scheme should be implemented using the income derived from the regulatory levies. The approval was granted to maintain a fixed deposit of Rs. 1.5 million.

14. Retirement Benefit Plan-Gratuity.

14.1 Full provision has been made on account of retiring gratuity after completion of a year of service of an employee according to a policy decision of the Commission, in conformity with the Sri Lanka Accounting Standard No. 42 –'Retirement benefit cost 'At half month's salary for each year of service from the date of commencement of service.

According to payment of Gratuity Act No.12 of 1983, the liability for gratuity to an employee arises only on completion of one year of continued service with the Commission. Therefore, Gratuity Provision has been provided in accordance with the Gratuity Act. The provision for liability is externally invested after balance sheet date

14.2 Employee Provident Fund and Employee Trust Fund

Contributions were made in line with respective statutes and regulations in respect of all eligible employees.

15. Payables

Payables are stated at cost.

16. Assets transferred under Asian Development Bank Technical Assistance (ADB TA) Project

Under ADB TA Project, the following IT related software and equipment were transferred to PUCSL. The related ADB Fund amount decided to reduce over the useful life of the funded software and equipment.

Web based Licensee Information Submission System	Rs. 451,880
9 Laptop computers	Rs. 1,418,580
4 Desk top computers	Rs. 357,420

Total Value Charged to ADB TA Project	Rs. 2,227,880
	=====

Income Statement

17. Revenue recognition

17.1 Variable Registration (License) Fees

In term of clause 2 of the "Lubricant Agreement" executed with the Government of Sri Lanka, the lubricant market participants are required to pay bi-annually, a fixed and a variable registration (License) fee equivalent to sum of rupees One Million of 0.5% of total invoiced sales for the period (whichever is higher), subject to a maximum of rupees five million. In the event 0.5% of a market participant's total invoiced sales for a bi-annual period being greater than rupees one million, such additional amount is to be paid to the Public Utilities Commission, within 30 days of the end of the period.

17.2 Annual Levy

According to Section 46 of Sri Lanka Electricity Act, No.20 of 2009, the Commission is empowered to impose an annual regulatory levy and it's to be recovered from every licensee before the thirtieth day of June of that year. This Act was certified on 8th April 2009 and implemented by the Commission from that date.

17.3 Licenses Application Fees

In addition to the imposed the levies, according to Section 11 of the Sri Lanka Electricity Act, the Commission is empowered to collect the application processing fee with the license applications for licenses to generate, transmit or distribute the electricity.

17.4 Interest Income

Interest income was calculated on accrued basis. Revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the Commission. Therefore net interest income shown in the financial statements after deducting 10% withholding tax as final tax according to section 133 (1) of Act No:10 of Inland Revenue Act 2006.

17.5 Government Grants

As the Commission has decided to cover estimated expenditure in pursuance of own income from June 2009 there were no government grants received during the year under review.

18. Expenditure Recognition

Expenses are recognized in the income statement on the budgetary allocation approved by the Commission.

19. Other Information

The Commission has requested the Honorable Minister of Planning Implementation to seek the approval of Cabinet to exempt Public Utilities Commission of Sri Lanka from income tax on revenue according to section 7 (a) of No 10 of Inland Revenue Act 2006. A decision has not yet been received from the Department of Inland Revenue in this regard. Therefore, a contingent liability exists as at the balance sheet date. As the probability of getting the exemption is high due to the nature of the Commission's objectives and activities, a provision has not been made with regard to the pending income tax liability.

Related Party Disclosures

Name	Position	Other Positions	Related Party Relationships as described in line with Sri Lanka Accounting Standard 30
Dr. H. J. De Costa, P.C	Chairman		
Dr. C.T.S. Bandula Perera	Deputy Chairman	1. Chairman DRTV Ltd 2. Director Piramal Glass (Ceylon) PLC 3. Director Kelani Cables PLC 4. Board Member Industrial Technology Institute (ITI)	Non-related
Prof. R.A. Attalage	Member of the Commission	1. Deputy Vice Chancellor University of Moratuwa 2. Director Enertab (Pvt) Ltd 3. Director Environ Sustainability (Pvt) Ltd	Non-related
Mr. Sanjaya Gamage	Member of the Commission	1. Secretary Bar Association of Sri Lanka 2. Panel Lawyer Sri Lanka Transport Board 3. Unofficial Magistrate	Non-related
Mr. Prasad Galhena	Member of the Commission	Chairman National Gem & Jewelry Authority	Non-related

Notes to Accounts

Notes to the Financial Statements	2012		2011	
	Rs.	Cts.	Rs.	Cts.
01. Variable Registration Fees				
Lanka IOC Ltd	6,446,280.00		5,604,330.00	
Chevron Lubricant Lanka	8,000,000.00		8,000,000.00	
Mclarens Lubricant	5,759,888.28		3,509,488.00	
Ceylon Petroleum Corporation	7,070,274.30		4,857,948.94	
LAUGFS Lubricants Limited	1,013,972.23		1,567,099.59	
Interocean Services Ltd	432,700.58		742,785.00	
Associated Motorways	1,290,775.55		477,569.00	
TVS Lanka (Pvt) Ltd	840,703.52		831,342.00	
United Motors	259,037.88			
Toyota Lanka (Pvt) Ltd	1,048,087.63			
N. M. Distributors (Pvt) Limited	542,752.67			
	32,704,472.64		25,590,562.53	
02. Annual Regulatory Levies	106,386,000.00		98,722,500.00	
	106,386,000.00		98,722,500.00	
03. Licenses Application Fees	350,000.00		320,000.00	
	350,000.00		320,000.00	
04. Other Income				
Interest	10,688,065.18		4,444,225.81	
Less - Withhold Tax	-		(76,905.28)	
	10,688,065.18		4,367,320.53	
Exemption fee	-		6,000.00	
Sundry Income	36,160.98		24,241.52	
Verification Fee -Green Energy	97,414.55			
Income: Fixed Asset Disposal	139,672.08			
	10,961,312.79		4,397,562.05	
05. Personel Emoluments				
Commissioners Remuneration	1,848,000.00		1,895,024.33	
Salaries	36,431,317.89		23,685,816.27	
Consultancy	15,845,313.56		1,663,436.00	
Over-time	909,183.54		422,482.00	
	55,033,814.99		27,666,758.60	
06. Retirement benefits				
Contribution for Employee Provident Fund	3,500,838.29		2,769,070.61	
Contribution for Employee Trust Fund	875,209.60		692,267.68	
	4,376,047.89		3,461,338.29	
07. Training &Traveling Expenses - Overseas & Local				
Overseas & Local Training	8,377,648.16		2,899,893.46	
Foreign Travelling Expenses	2,579,158.72		3,103,624.00	
Incidental / perdiun	4,268,021.85		4,341,528.65	
Travelling (Local)	873,537.00		686,880.00	
	16,098,365.73		11,031,926.11	

Notes to the Financial Statements	2012		2011	
	Rs.	Cts.	Rs.	Cts.
08. Consumable Materials				
Stationery	664,426.91		604,664.46	
Open Stock 01-01-2012	117,889.50			
Closing Stock 31-12-2012	(97,795.75)			
Fuel & Parking	1,249,294.45		840,629.60	
Consumable Material	179,206.16		62,777.07	
Entertainment	99,541.25		154,872.60	
Other Expenses	-		-	
	2,212,562.52		1,662,943.73	
09. Contractual Services				
Transport & Hiring of Vehicle	5,149,918.36		4,306,599.47	
Communication including Newspapers & Postal	2,489,376.07		2,000,851.60	
Printing & Advertising	4,126,355.24		1,912,698.13	
Survey	4,408,978.60		1,479,045.00	
Rents and Rates for Building	7,696,652.61		6,977,200.49	
Electricity	800,017.48		459,775.15	
Medical	2,300,585.45		1,870,710.80	
Water	272,428.37		199,542.75	
Insurance	483,681.95		470,513.92	
Subscription	423,968.00		-	
Janitorial Services	523,010.75		331,022.69	
Legal & Investigation Fees	727,000.00		207,894.97	
Sundry Expenses plus Other	-		-	
	29,401,972.88		20,215,854.97	
10. Other services				
Public Awareness Cost	613,437.50		828,958.00	
Web Site Development	51,000.00		22,571.43	
Auditor General's Fees	100,000.00		100,000.00	
Welfare & Public Relations	1,349,674.00		189,146.50	
Floral Arrangements	28,504.40		18,700.00	
Consumer Consultative Committee Expenses	594,607.00		1,386,258.00	
Others (Translation Fees)	288,674.00		186,960.00	
	3,025,896.90		2,732,593.93	
11. Repair & Maintenance of Capital Asset				
Maintenance of vehicles	276,265.90		99,512.00	
Maintenance of Office Building	369,322.78		19,273.60	
Maintenance of Computer & Equipment	384,253.50		165,870.09	
	1,029,842.18		284,655.69	
12. Finance Cost				
Bank Charges	10,405.00		8,600.00	
13. Identified Losses				
Surcharge			5,990.62	
Compensation			284,000.00	
Loss on currency conversion	5,630.22		1,549.93	
Loss- other			1,699.50	
On Advance - loss	-		-	
	5,630.22		293,240.05	

	2012		2011	
	Rs.	Cts.	Rs.	Cts.
14. Previous Year Adjustment				
Over provision of SAFIR membership			44,682.51	
Under valuation of WHT payment correction			(3,000.00)	
Refund ARL			56,063.77	
Exemption Fee		-	-	
	828,558.26		97,746.28	
15. Investments				
Fixed Deposit	117,151,906.33		33,680,035.63	
Gratuity Fund Investment	3,022,499.25		1,831,400.00	
Special Fund Investment	1,500,000.00		1,500,000.00	
Treasury Bills	-		49,999,995.60	
	121,674,405.58		87,011,431.23	
16. Rental Deposit				
Deposit A/C	1,500.00		-	
BOC Property Development Ltd	826,570.80		828,070.80	
	828,070.80		828,070.80	
17. Fees Receivable				
Variable Registration Fee –Lubricant Sector				
Chevron Lubricant Ltd	4,000,000.00		4,000,000.00	
Lanka IOC Ltd	3,475,080.00		3,060,255.00	
McLaren's Lubricant	3,332,874.45		2,595,500.00	
Ceylon Petroleum Corporation	3,750,701.89		2,650,000.00	
Laugfs	374,382.22		1,029,186.00	
Interocean Services Ltd	149,857.56		742,785.00	
Associated Motorways	650,000.00		365,077.00	
TVS Lanka (Pvt) Ltd (Bharat Petroleum Cor.)	377,618.83		607,548.00	
United Motors	259,037.88		-	
Toyota Lanka (Pvt) Ltd	606,724.00		-	
N.M. Distributors (Pvt) Limited	337,104.32		-	
	17,313,381.15		15,050,351.00	
Annual Regulatory Levy – Electricity Sector	492,000.00		-	
Over Payment Communication	28,648.87			
	17,834,030.02		15,050,351.00	
18. Advance & Pre Payment				
Advances	2,215,955.23		1,427,078.58	
Postal Department	23,485.00		14,804.00	
Foreign Training/ Service Agreement	-		387,935.40	
Plan Gratuity Investment	-		769,400.00	
Advances provided to purchase IT & Inspectorate Items	-		5,451,400.00	
	2,239,440.23		8,050,617.98	
19. Interest Receivable				
Treasury Bills	-		1,311,428.31	
Fixed Deposits	4,499,976.03		515,664.12	
	4,499,976.03		1,827,092.43	

	2012		2011	
	Rs.	Cts.	Rs.	Cts.
20. Accumulated Fund				
Balance at 1st January 2012	119,749,761.89		64,544,413.64	
Surplus / Deficit for Year 2012	29,967,560.13		55,978,423.25	
Prior Year Adjustments	828,558.66			
	150,545,880.68		120,522,836.89	
21. Revaluation Reserves				
Balance B/F	1,193,453.14		2,833,933.83	
Increase/ Decrease Value			(1,640,480.69)	
	1,193,453.14		1,193,453.14	
22. Various Provisions Made				
Provision for Foreign Training	1,908,568.00		1,305,000.00	
Provision for IT & Inspectorate Equipment	0.00		5,451,400.00	
Provision for CCC Activities	0.00		665,000.00	
Provision of PAYE	0.00		145,137.00	
Provision for Furniture & Fittings	0.00		303,910.00	
Provision for Lubricant Sector Awareness Programme	0.00		500,000.00	
Provision for Consultancy	5,000,000.00			
	6,908,568.00		8,370,447.00	
23. Account Payable				
Consumable Materials	1,450.00		-	
Printing & Advertising	411,564.00		-	
Communication	268,010.13		192,130.45	
Legal & Investigation	-		8,571.22	
News Papers	30,885.00		5,420.00	
Overtime	83,928.75		59,370.00	
Stationary	1,040.00		11,852.48	
Translation	7,570.50		14,566.50	
Transport	20,526.84		47,311.36	
Travelling	80,240.00		9,500.00	
Welfare (Employee Engagement)	550,000.00		-	
CCC-Sitting Allowance	45,000.00		-	
Maintenance of Office Building	17,607.68		-	
Property Plants & Equipment	2,125,497.02		-	
Janitorial Services	46,450.00		-	
Water	31,639.03		-	
Electricity	72,969.75		37,979.95	
Floral Arrangement	-		-	
Insurance	43,714.10		3,801.26	
Consultancy	9,880,861.11		39,984.00	
Stamp Duty Payable	13,025.00		9,125.00	
Payee	184,009.00		-	
Local Training Expense	275,000.00		-	
Other	-		3,829.33	
Other Allowances	128,750.00			
	14,319,737.91		443,441.55	
24. Auditor General's Fees				
Balance B/F	200,000.00		100,000.00	
Provision for 2012	100,000.00		100,000.00	
	300,000.00		200,000.00	

Note 25
As at 31st December 2012
Property, Plant & Equipment

	Furniture & Fixtures	Computer & Office Equipment	Vehicles	Tools	Software	Total
	Rs. Cts.	Rs. Cts.	Rs. Cts.	Rs. Cts.	Rs. Cts.	Rs. Cts.
As at Beginning of the year	8,120,023.31	7,894,159.88	14,719,060.00	30,305.00	1,198,762.62	31,962,310.81
Additions During the year	4,064,608.80	4,661,124.34	5,500,000.00		1,682,411.92	15,908,145.06
Add: Revaluation of Assets						
Less: Revaluation Book Value						
As at End of the Year	12,184,632.11	12,555,284.22	20,219,060.00	30,305.00	2,881,174.54	47,870,455.87
Depreciation						
As at Beginning of the Year	3,099,510.97	3,287,032.96	2,112,726.28	-	75,831.21	8,575,101.42
Charge for the year	1,635,231.20	2,375,361.40	3,004,085.97		475,776.42	7,490,454.99
Less: Removal of Revaluation Dep.						
As at the End of the Year	4,734,742.17	5,662,394.36	5,116,812.25	-	551,607.63	16,065,556.41
Net Book Value as at December 2012	7,449,889.94	6,892,889.86	15,102,247.75	30,305.00	2,329,566.91	31,804,899.46



Report of the Public Utilities Commission of Sri Lanka for the period 1 January 2012 to 31 December 2012, to the Minister of Finance, the Parliament of Sri Lanka and all Stakeholders.

The document comprises a report made under Section 37 (1) of the PUCSL Act No. 35 of 2002.