

Annexure 1 – Consultancy Services for Revisiting and Reformulating the Regulatory Framework of (Electricity) Distribution Exempted Parties

Background

As per SLEA (Sri Lanka Electricity Act, No. 20 of 2009(as amended)), it is required to obtain a License or an Exemption (exemption from the requirement of obtaining a License) from the PUCSL in order to engage in electricity generation, transmission and distribution (and supply) activities. Types of Licenses and Exemptions issuing by the PUCSL are listed below.

1. License
 - Generation License
 - Transmission License
 - Distribution and Supply License

2. Exemption
 - Generation Exemption (exemption from the requirement of obtaining a License to generate electricity)
 - Distribution and Supply Exemption (exemption from the requirement of obtaining a License to distribute and supply electricity)

In order to obtain an Exemption from the PUCSL on aforesaid purposes, a person or category of persons (Applicants) needs to submit an application to the commission as specified in SLEA and the Electricity (Applications for Licences and Exemptions) Regulation, 2009. Considering the manner and the quantity of electricity generation and distribution (and supply) of those Applicants, PUCSL grants Certificate of Exemption* for the Applicants who are compliant to the SLEA and the aforesaid regulation (Exempted Parties).

The said Exempted Parties are currently regulated by the terms and conditions of the said Certificate of Exemption issuing by PUCSL (Standard templates of the said Certificate of Exemptions with respect to generation and distribution (and supply) are attached). The term of said Certificate of Exemptions are limited for five years and on or before the expiry date of the term, the Exempted Parties shall apply for an extension of the same. PUCSL has granted 100+ numbers of Certificates of Exemptions for Distribution (and supply) of Electricity and few Certificates of Exemptions for Generation Electricity. Summary of those Exempted parties are listed below;

Table 1

| Exemption type | Nature of business | Examples |
|---------------------------------|--|---|
| Type 1 - Generation Exemptions | Small scale electricity generation | Roof Top Solar Generation, Off Grid Solar Generation |
| Type 2- Distribution Exemptions | Distribution and supply of electricity within premises | Apartment Complexes/Condominiums, Shoppingmalls, Mixed Development Projects, Industrial Parks |

In past, electricity distribution (and supply) for the premises comes under Type-2, was done by the Distribution Licensee (CEB or LECO). But that practice has been altered with the time on many reasons. Currently associated practice with respect to electricity distribution (and supply) for the premises comes under Type 2 is; the Distribution Licensee does not directly distribute (and supply) electricity for the end consumer/occupant of the premises, instead the Licensee provides a bulk supply for the management authority who responsible for the administration, operation and maintenance of the premises and then the said management authority will re-distribute (and supply) the electricity for the end consumers/occupants of the premises. Accordingly, with respect to the premises comes under Type 2 (Distribution Exemption), there are three parties mainly involve in electricity distribution (and supply) business as described below;

Table 2

| Party | | Description |
|--------------|----------------------------------|--|
| Party 1 | Distribution Licensee (CEB/LECO) | Provides single main electricity supply (a bulk supply with an energy meter) to the management authority in order to cater the whole electricity requirement of the premises which comes under the purview of the management authority. The total electricity consumption of that premises is measured by the utility once a month and the electricity bill is issued to the management authority. Then the management authority is liable to pay that electricity bill to the utility. Utility has no legal connection with the end consumer/occupant of that premises. |
| Party 2 | Management Authority | Management authority re-distributes (and supply) the electricity purchased from the utility to the end consumers/occupants of their premises using the wires and other necessary switchgears which are belonged to the management authority. Management authority has installed separate meters for each end consumer/occupant in order to measure the individual electricity consumption. Considering the bill issued by the utility, consumption of end consumer/occupant, electricity utilization of common areas (lifts, car parks, swimming pools, leisure park) of the premises and other overhead costs (O and M staff, back up supply cost, etc.) management authority issues bill for end |

| | | |
|---------|-----------------------|--|
| | | consumers/occupants. Then the end consumer/occupant has to pay the bill to the management authority. End consumer/occupant has no legal connection with the utility service provider. |
| Party 3 | End consumer/occupant | End consumer/occupant receives the electricity supply from the management authority. Based on the monthly consumption and other applicable overhead costs, each consumer/occupant receives a bill from the management authority and end consumer/occupant has to pay the billed amount for the Management Authority. |

As per the provisions of SLEA, it is required to regulate the technical, safety and economic aspects of the electricity distribution and supply of any entity comes under Type 2, irrespective of the scale/size of the electricity distribution and the associated business model. the Existing regulatory framework applicable with respect to electricity distribution and supply comes under Type 2 consists of below regulatory tools.

1. Sri Lanka Electricity Act, No. 20 of 2009(as amended)
2. Electricity (Applications for Licences and Exemptions) Regulation, 2009
3. Certificate of Exemption (Distribution and supply) and the conditions imposed therein
4. Application Evaluation Criteria

During recent past, rapid development has been taken place with respect to the apartment sector/condominium properties, mixed development project and there are some new business models are being emerged and developed. With such developments, above stated (table 2) electricity distribution (and supply) structure has also been deviated in various aspects. On the contrary, there are some small-scale premises in which the electricity distribution (and supply) is being taken place in very ad hoc manner. Similarly, there are various issues have been arisen during recent past and few of those identified issues are listed below.

Identified issue

1. Some small-scale business entities are unable to comply with the existing regulatory framework. Specially building owners in the Pettah and Fort (cross streets) are distributing and supplying electricity in very ad hoc manner and their business model cannot be integrated in to the regulatory framework described above.
2. As per the Electricity (Applications for Licences and Exemptions) Regulation, 2009, individuals, sole proprietorship and category of persons have not been identified as Applicants and has not been included in the definition of the Term “Applicant” therein. As a result, there are no application methods provided to apply for Distribution Exemption by the individuals, sole proprietorship and category of persons even though the SLEA doesn’t restrict them from applying. But there are premises owners who distribute (and supply) electricity for other occupants in their premises.
3. With the rapid development occurred in the apartment sector/condominium properties, mixed development projects, and some new business models are being developed where electricity distribution (and supply) of such models cannot be exempted with the existing regulatory framework. In some cases,
 - a. Management authority sell or rent the whole or part of the premises to another party and that party would be the interface to the end consumer/occupant. Two entities are involving in between the Distribution Licensee (CEB or LECO) and the consumer/occupant.
 - b. After receiving the supply from the Distribution Licensee (CEB or LECO), the medium voltage part is handled by one entity and then the low voltage part is handled by another entity. Then the entity who handles low voltage part will be the interface for the end consumer/occupants.
4. Management authorities of such premises are charging from the consumers/occupants without the tariff approval of the Commission
5. Most of the consumers/occupants are not aware about the regulatory framework associated with the electricity distribution (and supply) within the premises comes under Type 2.
6. No specific document available which describe the rights and obligations of the end consumers/occupants.
7. No supply service code is available with the Management authorities
8. In most cases, Developers do the all-construction work of the premises and they obtain all the approval (including the Certificate of Exemption) regarding the construction of the premises. After one- or two-years, Developer hands over the premises to the management authorities of the premises. In those circumstances, the Certificate of Exemption is not transferred properly to the management authority.
9. Developers are not informed by the Licensee about the requirement of obtaining a Certificate of Exemption from the PUCSL with respect to the electricity re-distribution (and supply)
10. Management authorities have no adequate technical and financial capability to carry out the electricity re-distribution (and supply) business.
11. Non availability of appropriate conditions of the approvals/license granted by other regulatory organizations with respect to the electricity supply.

Further, Consumer Affairs division of the PUCSL has received many complaints with respect to various issues associated with the Distribution and Supply Exemptions. And recently, PUCSL conducted an online survey in order to identify various issues pertaining to the consumers in Exempted premises.

With above, Commission observed that the existing regulatory framework (which was structured a decade ago) is not sufficient to address the above stated issues and the consequences occurred. Therefore, the existing regulatory framework shall be reviewed and reformulated considering the current and prospective interests of all stakeholders and necessary regulatory tools have to be introduced with respect to the same.

In view of above, the Commission expects to obtain service of a consultant in order to review and reformulate the said regulatory framework.

As described above, the regulatory framework with respect to Type 2- Distribution Exemptions is mainly consist of below regulatory tools.

1. Sri Lanka Electricity Act, No. 20 of 2009(as amended)
2. Electricity (Applications for Licences and Exemptions) Regulation, 2009
3. Certificate of Exemption (Distribution and supply) and the conditions imposed therein
4. Application Evaluation Criteria

But the Commission has no intention to make any changes to the Sri Lanka Electricity Act, No. 20 of 2009(as amended) and Electricity (Applications for Licenses and Exemptions) Regulation, 2009 at this stage. Therefore, this assignment should be done within the existing provisions available in the Sri Lanka Electricity Act, No. 20 of 2009(as amended) and Electricity (Applications for Licenses and Exemptions) Regulation, 2009.

*An Order published in the Gazette by the Commission exempting any person or category of persons from the requirement of obtaining a licence for generating or distributing (and supply) electricity, having regard to the manner in which or the quantity of electricity likely to be generated or distributed by such person or category of persons.

Objectives

The objectives of this assignment are;

1. To identify and study the electricity distribution and supply related issues associated with the Type 2 Exemptions.
2. To identify and study the electricity distribution and supply related current and prospective interests of the stakeholders associated with the Type 2 Exemptions.
3. Identify the loopholes in existing regulatory framework and identify modification required for existing regulatory framework in order to address the identifications under above item 1 and 2.
4. Revisit and reformulate the existing regulatory framework (along with preparation of necessary regulatory tools) as identified in above item 3.

Scope of Work

Scope of work of this assignment is listed out below;

1. Study the

- 1.1. Existing regulatory framework with respect to electricity distribution (Type 2) in Sri Lanka by reviewing various regulatory and non-regulatory tools including Sri Lanka Electricity Act, No. 20 of 2009(as amended) and Electricity (Applications for Licences and Exemptions) Regulation, 2009 and Certificate of Exemption (Distribution and supply).
- 1.2. Electricity supply and distribution related conditions imposed under various approvals (pre-approvals /approvals /permits /licenses /authorizations /codes /guidelines) issued by below institutions;
 - 1.2.1. Condominium Management Authority
 - 1.2.2. Urban Development Authority
 - 1.2.3. District Council, Urban Council and Municipal Councils
 - 1.2.4. CEB/LECO
 - 1.2.5. Any other institution related to this assignment
- 1.3. International best practices with respect to regulations associated with this kind of electricity distribution (and supply)

2. Visit and have discussions with the managements of below entities;

- 2.1. Small scale shops/markets in cross streets of Pettah and Fort (at least 20)
- 2.2. Existing and proposed mixed development projects (at least 10)
- 2.3. Existing and proposed apartment/ condominium property development projects (at least 20)
- 2.4. Special projects like Port City, Light Rail System, etc.
- 2.5. Any other entities related to this assignment

In order to identify,

- a. the various business models related to electricity distribution and supply
- b. issues/practical problems related to electricity distribution and supply

With respect to above entities, PUCSL shall nominate few of them.

3. With taking into consideration the findings of 1 and 2 above, propose revision to the existing regulatory framework with respect to Distribution Exempted parties in order to;
 - 3.1. meet the interests of current and prospective stakeholders while ensuring technical, safety and economic aspects of the electricity distribution and supply.
 - 3.2. provide solutions for the issues listed under **Identified Issues** section above
 - 3.3. address the issues/problems identified under item 2 above
 - 3.4. eliminate the loopholes of existing regulatory framework
 - 3.5. ensure the requirement of obtaining Certificate of Exemption from the PUCSL is imposed in other regulatory tools of other institutions listed under 1.2

Further, attention shall be given on following items, when the revised regulatory framework is proposed;

- a) Integration of Smart Metering/Remote Metering
 - b) Renewable Integration/ Rooftop Solar Integration (net metering, net accounting, net plus)
 - c) Power quality and supply quality
 - d) Usage of energy storages/battery storages
 - e) EV Charging Stations
 - f) Disaster Management
 - g) Demand Side Management
 - h) More robust and improved Data Gathering, Managing and Information Dissemination in between PUCSL and Exempted parties.
4. Prepare below listed regulatory tools which are required under the proposed regulatory framework with respect to Type 2 Exemptions
 - 4.1. Criteria to evaluate the technical and financial capability of applicant to be eligible to obtain a Certificate of Exemption and extension of the same
 - 4.2. Certificate of Exemption and the conditions associated therein
 - 4.3. Guideline to prepare Supply Services Code for Distribution Exempted Parties and a model Supply Services Code
 - 4.4. Statement of Rights and Obligation for Consumers of Distribution Exempted Parties
 - 4.5. Applicable modifications to be done for the Distribution Code and any other regulatory tools as applicable with respect to proposed regulatory framework

And recommend other required regulatory tools (in addition to above) to be developed by the PUCSL

5. Submit a report proposing what conditions to be imposed (or revision of the existing conditions) in other approvals issued by other organizations (1.2), in order to ensure the requirement of obtaining Certificate of Exemption from the PUCSL is mandatory in order to distribute and supply electricity.
6. Submit a report including amendments to be done for the Sri Lanka Electricity Act, No. 20 of 2009(as amended) and Electricity (Applications for Licences and Exemptions) Regulation, 2009 in order to address the issues identified throughout this assignment which are to be considered at the time of amending Sri Lanka Electricity Act, No. 20 of 2009(as amended) and Electricity (Applications for Licences and Exemptions) Regulation, 2009
7. Conduct a stakeholder consultation(s) organized by the Commission to present the findings/outcomes/draft recommendations (based on the above item number 3, 4, 5 and 6) on behalf of the Commission.
8. Considering the comments of stakeholders (item number 7 above), provide the revised report including final recommendations (covering item number 3, 4, 5 and 6).

Deliverables

The Consultants are expected to provide the following deliverables:

| Deliverable | Content | Time target |
|--|--|---|
| Inception Report and presentation(s) | Reflecting the findings, constraints (if any) as well as the overall design/work plan of the assignment and sequence of the work | within 3 weeks of awarding this assignment |
| Interim Report and presentation(s) | Reflecting the findings under item 1 and 2 of the scope of work, how those findings to be addressed and initial draft of the proposed new regulatory framework | within 16 weeks of awarding this assignment |
| Draft Final Report and presentation(s) | Reflecting proposed new regulatory framework along with the regulatory tools as per the item 3, 4, 5 and 6 of the scope of work. | within 20 weeks of awarding this assignment |
| Stakeholder Consultation(s) | Findings/Recommendations under item 3, 4, 5 and 6 of the scope of work | within 22 weeks of awarding this assignment |
| Final Report and presentation(s) | Based on the comments made for the draft final report, finalized regulatory framework along with the regulatory tools as per the item 3, 4, 5 and 6 of the scope of work | within 24 weeks of awarding this assignment |

Duration of Assignment

The duration of the consultancy will span 24 weeks.