PUBLIC UTILITIES COMMISSION OF SRI LANKA

DECISION ON ELECTRICITY TARIFFS - 2022

Effective from 10th August 2022

Background

The Ceylon Electricity Board applied for an electricity tariff revision through their submission dated 19th March 2022, and the Bulk Supply Tariff submission for the period Jan-Jun 2022 (revised) was submitted on 22nd April 2022. Their initial tariff review request has been revised twice considering the fuel price revision by the Ceylon Petroleum Corporation (CPC) in March 2022.

The revenue requirement as filed by CEB is LKR 505 billion (excluding LECO costs) requiring 82.4% increase in revenue to recover the forecast cost for 2022. When the proposed Tariff revision is applied, the overall revenue increase is forecasted at 512 billion (including LECO sales) meaning a 79% increase.

The tariff revision was submitted in terms of Section 30(2) of Sri Lanka Electricity Act; No. 20 of 2009 and the Tariff Methodology approved by the Commission. Commission opened the proposed tariff for written stakeholder comments during the period 28th June 2022 to 18th July 2022, followed by the Oral Consultation session held on 28th July 2022. Altogether Commission has received 1,324 written and 46 oral submissions from individual consumers, consumers associations, peoples' representatives, industry associations, energy experts, etc.

The following sections give a summary of the main issues raised by the stakeholders, Commissions response to the stakeholder issues, Commissions decision on revised electricity tariffs, justification for category wise revisions and the conditions put forward to ensure the costs of the electricity licensees are transparent, reasonable and efficient in future.

Summary of the Comments Received at the Stakeholder Consultation and the Response of the Commission

S/N	Main Issues Raised at the Stakeholder Consultation on Electricity Tariff Revision 2022	How the stakeholder comments are accommodated in the approved tariff
Affordability in terms of Section 30(4) of Sri Lanka Electricity Act, No. 20 of 2009		
1	**The proposed tariff increase is too high and unaffordable, increase shall be limited to 50%**	Affordability concerns are accommodated as much as possible through cross-subsidies as the Treasury is not providing additional subsidies.
a)	Industry tariff needs to be competitive with other countries in the region, Sri Lanka industry tariffs are too high and industries might relocate to other countries	Prior to this tariff revision the average revenue from Industry category was 16.70 LKR/kWh, which was 12.9 US Cents / kWh in 2013 and presently 4.6 US Cents/kWh, and the proposed increase would make it only 31.11 LKR/kWh (8.6 US Cents/kWh). Thus, this claim is not accurate.
b)	0-60 kWh Domestic category need a subsidy	This is accommodated in the Tariff revision
c)	0-30kWh Domestic category tariff should be zero to incentivize conservation	This is not implemented as free electricity discourages energy conservation, but the lower tariff would be attractive enough

d)	Fixed charges are too high	The Cost of supplying a kW of capacity is about 2,800 LKR/Month, in addition the meter retails costs (meter reading, billing and collection costs) amount to 200 LKR/ month for a consumer and thus the fixed charges are already below cost for all retail consumers.
e)	Equity principles must be honored- low-cost indigenous resources are owned by everyone and shall have access to it equally	The subsidized rates for consumers with lower monthly consumption accommodate this concern as well
2	**Industry category tariffs are too high**	The industry category tariff increase is limited to the average tariff hike; thus, they are not unduly burdened.
a)	Peak rate increase shall be limited to 50-60%	Marginal cost of electricity is in the range of 90 LKR/kWh due to use oil fired thermal plants and thus the peak tariff is increased to discourage consumption during that period.
b)	Off-peak rate increased by 110% is discouraging night time consumption, and makes it unattractive (as there are additional costs when operating in the off-peak times)	Off peak shall cover at least coal/ hydro power generations costs and the associated Transmission and Distribution costs. Even with the tariff increase the rates do not recover the projected coal plant generation costs- that are as high as 70 LKR/ kWh at the end of the year.
3	**The economic conditions are very difficult and thus it is not the best time to do a tariff revision; propose to do a two-step increase (now and in 1 year)**	Same is true for the Utilities and it may not be prudent to wait one year since require revision is high and further deteriorate the financial position of the Utilities.
Reasonableness of Costs in terms of Section 30(2)(b) of Sri Lanka Electricity Act, No. 20 of 2009		
4	**CEB/PUCSL has not proven the costs that are to be recovered are reasonable/ fair. It is unfair to revise tariffs to cover costs that arise as a result of inaction by CEB**	It is correct that the information requirements are not fully fulfilled by CEB, thus these transparency requirements are imposed as conditions for future tariff revision with strict timelines. Also, the extraordinary nature of the very high-cost increases needs to be accommodated.
a)	Delay in construction of low-cost power plants like LNG and Renewable energy	Agreed, and thus incorporated as policy advice to the Government
b)	Unreasonable salary costs, high number of employees, etc.	PUCSL has conducted cost benchmarking studies and they are within the regional norms. However, there may be scope for improvement which is incentivized via the revenue cap regime, in case the CEB management is interested in maximizing profit.
c)	Tariff increase is only one solution for the cost increase, CEB shall explore other options like cost cutting as a solution	Agreed, However the extraordinary nature of cost increases (fuel price increase, etc) is beyond the short-term cost cutting possibilities.

5	**CEB is corrupt and its' processes and accounts shall be thoroughly audited**	
a)	Power procurement process	Tender process is closely monitored by PUCSL, and such inefficient costs are not recovered though tariff.
b)	Dispatch process	Annual independent Dispatch Audit is being conducted by PUCSL, as CEB is slow to respond.
6	**CEB is discouraging Renewable Energy based electricity generation and action required to promote RE (especially Solar PV)**	PUCSL engage with CEB on case-by-case basis to resolve issues
a)	Revise purchase price for Solar Roof Tops	This is being done by the Ministry of Power and Energy
b)	Provide tax and other incentives for Solar Panel/ battery imports	Would be incorporated in a policy advice
7	**Fixed charge charged from consumers with Solar Roof tops have been increased unfairly by CEB (violating the Agreement) – need to set a fair fixed charge**	Addressed in the Decision as a special rate
8	**CEB shall be restructured to make it efficient**	Would be incorporated in a policy advice
9	**Establish 24/7 electricity supply before increasing tariffs**	Unfortunately, this is constrained by the fuel(oil) supply by the CPC
10	**CEB/ PUCSL has not done cost of service studies and thus not possible to establish whether the tariffs are fair**	Cost of service models available with PUCSL was last updated in 2013, however they are not reliable due to lack of accurate load profile data. Action is taken to conduct such studies with the Assistance of USAID.
a)	CEB has not used the correct fuel prices and thus the costs recovered are incorrect	They are corrected by PUCSL in arriving at the forecast costs for year 2022.
b)	Fixed charges are too low and CEB might not recover all costs	Due to undesirable impacts on the low consuming customer group, fixed charges are not made fully cost reflective. However, these costs are recovered though above cost energy charges
c)	Energy charges are too low for low end consumers and discourage Solar PV	Agreed, affordability concerns overweigh this concern
11	**CEB / PUCSL has not followed the well-established procedures, methodologies, etc. to revise tariffs**	Due to delays from the part of CEB, some of the procedures are not fully followed, apart from that this revision is highly influenced by extraordinary cost increases
12	**Electricity Tariff setting is not a purely mathematical exercise, more input from economists needed**	
a)	Effects of price elasticity are ignored	Agreed, studies are underway to find these figures
b)	Other economic policies and impacts are ignored	The impacts of other national policies are not quantified by the decision-making bodies
c)	Basis for cross-subsidies or subsidies are not clear	Main reason is affordability

d)	An electricity tariff policy must be established	Agreed, will be incorporated in a policy advice
13	**Tariff structure is too complicated and need simplification**	Agreed – revised tariffs attempt to achieve this
a)	There are too many categories and thus difficult to comprehend	All retail bulk and MV supply tariffs are amalgamated. Retail categories are remaining due to affordability concerns.
Energy Conservation in terms of Section 4 (1)(d) of Sri Lanka Electricity Act, No. 20 of 2009		
14	**Energy Conservation must be incentivized**	Agreed
a)	Fixed charges are too high and energy charges are too low, and thus discourage energy conservation	Attempt is made to balance the two concerns; recovery of fixed costs and energy conservation
15	**Streetlights shall be funded through a special tax collected at the Local Authorities**	Agreed, will be incorporated in a policy advice

Conditions

Considering the provisions in the Sri Lanka Electricity Act, Regulations and the Licenses issued to CEB, and the representations by many stakeholders on the lack of proof for reasonableness of the costs of CEB in terms of Section 30 (2)(b) of Sri Lanka Electricity Act, No. 20 of 2009, the Commission has decided to impose the following conditions to consider any future upward tariff revisions and Commission will impose financial penalties for non-implementation of the Conditions as stipulated in the table below.

Enabling Provision	Requirement	Completion Date
Item 2.4.2 of the Tariff Methodology	Establishment of Bulk Supply Transactions Account	30th November 2022
Condition 30(11) of Transmission and Bulk Supply License	Independent Dispatch Audit for year 2021	28th February 2023
Item 2.2.2 of the Tariff Methodology	Power Purchase Agreements (PPA) between CEB Generation plants and the Transmission Licensee	30th November 2022
Condition 33 of the Transmission and Bulk Supply License	Power Sales Agreements (PSA) between Distribution Licensees and Transmission Licensee	30th November 2022
Section 28 (3) of Sri Lanka Electricity Act, No. 20 of 2009	Payment of interest for the security deposits obtained from the consumers	1st October 2022

Revised Tariff Structure

Considering the affordability concerns raised by the stakeholders and the reluctance to provide subsidies by the Government, tariffs were further revised (incorporating both subsidies, cross-subsidies and demand management features). The revised tariff structure is given in Annex 1, the key features of the revisions from the CEB proposal are listed below;

Domestic Category

- Considering their affordability concerns, 0-30 kWh and 31-60 kWh groups having 1.46 million and 1.68 million consumers respectively, are given a further concession from the fixed charge. Only part of their retails costs and capacity costs are recovered. This group represents 47% of the consumers in the Domestic Category.
- Part of the concession given to 0-60 kWh group have been recovered from the high consuming groups of the same category from the energy charge, with the objective to encourage energy conservation and distributed generation (Solar PV, etc) that improve energy security of the country.

General Purpose Category

- As their capacity consumption is less, the low consuming, GP-1 group is given a concession from the fixed charge, specially the below 300 kWh sub group whom are small businesses that consume 61 kWh per month on average (812,000 consumers). Their consumption band is decreased to 180 kWh per month to target the concession.
- Off-peak rate of the bulk consumers was reduced to facilitate demand management, while increasing the Day rate to cover the concessions given to low consuming groups in the category and the Off-peak rate.

Industry Category

- The low consuming, I-1 category is given a concession, specially the below 300kWh sub group whom are small cottage industries that consume 81 kWh per month on average (48,000 consumers) operating during day time.
- Day rate of the Bulk consumers were increased to recover the cross-subsidy within the category and part of the concession given to Domestic category. This also had the objective of encouraging energy conservation and distributed generation.

Government Category

- To encourage demand management and energy conservation a Time-Of-Use tariff similar to General Purpose category was introduced, by which educational institutions and offices are largely unaffected by the high Peak tariff charged for night time consumption.
- The category is merged with General Purpose category (which increases their tariffs), while benefiting from the concessions given to GP-1 (below 180 kWh) group.

Hotel Category

- Given the overall requirement to give 80% tariff increase, Hotels that are adversely affected by the issues in the country are allowed to merge with the General-Purpose category; whose overall increase was less.

Religious Category

- Overall tariff of the category was increased with the objective of encouraging energy conservation and distributed generation, while safeguarding the low consuming groups.

Overall, the categories are merged for bulk consumers; i.e Above 42 kVA low Voltage supply and medium Voltage supply. However, CEB and LECO are requested to keep the categorization for information purposes. The retail (below 42 kVA single phase and three phase) categories are reduced to five; Domestic, Religious, General Purpose, Industry and Street Lighting to facilitate the concessions in that sector.

Other Decisions

Fixed Charges Applicable for Consumers having Solar Roof Tops Under Net Metering, and Net Accounting Schemes

Considering the numerous complaints received and the representations received at the stakeholder consultation on electricity tariff revision 2022, the Commission decides to clarify the ambiguity in the Agreement for Solar Net Metering and Net Accounting prosumers. Thus, considering the collective capacity contribution by Solar PV systems during day time to the grid, the fixed charge for consumers with solar roof tops under Net Metering and Net Accounting schemes shall be charged the fixed charge applicable to their net imported energy. Thus, if they have a net export, the fixed charge will be the applicable fixed charge for zero consumption.

Payment of Electricity Bill in USD

Despite several objections raised against the proposed scheme to collect electricity bills in United States Dollars, from the Industry, Hotel and General-Purpose category consumers who earn more than 60% of their revenue in foreign currency would be implemented with effect from 1st September 2022, and thus those consumers will be required to pay their electricity bills in USD converted at the buying rate declared by the Central Bank of Sri Lanka for that date. The consumers who fall under this scheme shall be given a 1.5% discount on their bills.

Hotel Category Tariff

Considering the difficult business environment faced by the Hotel category consumers, the tariff increase for that category would be implemented in two stages; 50% of the increase to be effective from 10th August 2022 and the balance 50% on 10th November 2022.