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## Present Financial Position of CEB and the Urgent Requirement of a Tariff Revision

CEB has not received a cost reflective tariff even though the relevant tariff filing of PUCSL has been done since inception. Absence of a cost reflective tariff has made CEB to operate with recurrent financial losses. As per the Bulk Supply Transaction Accounts, the accumulated financial loss incurred by CEB between the period 2016 – 2022 December is LKR 384,708 million as detailed below.

Year	2016	2017	2018	2019	2020	2021	Accumul. Total
Deficit (MLKR)	(58,368)	(80,876)	(43,149)	(101,916)	(54,753)	(45,646)	(384,708)

The operating net cash flow has been negative over this period making CEB unable to find capital for core business activities unless external financial assistance is provided. This critical financial situation often enforces CEB to obtain long term borrowings to finance its short-term working capital requirements mainly for the procurement of oil and coal.

The accumulated total of major payable balances stands at LKR 276 billion as at December 31, 2021 as follows.

No.	Items	Amount (MLKR)
1	Independent power producers - Thermal Oil (with delay interest)	38,869
2	NCRE	17,115
3	Ceylon Petroleum Corporation (with delay interest)	82,256
4	Total Major Creditors	138,240
	<b>Total</b>	<b>276,480</b>

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~~In the context of present financial situation of CEB, it is impossible to settle the outstanding payments of CPC, IPP and NCRE suppliers on time, which in turn has affected the financial independence of CPC and the present renewable power policy of the Government.~~

It is noteworthy to see that CEB is purchasing fuel for thermal power plants from CPC on day to day basis in small quantities without resorting for power interruptions. However, it often leads to situations of insufficient fuel quantities preventing continuous operation of thermal power plants. At the same time, due to prevailing insufficient fuel quantities, power plants are operated violating economic merit order in many a times. Also, the ultimate objective of introducing the Time of Use Tariff is being violated especially since off peak is not run by cheapest power plants due to unavailability of fuel. This has incurred a huge cost to CEB and for the country. In the circumstance it is necessary that CEB be ready with cash upfront as a top most priority in order to enable CEB for timely ordering of fuel without accumulation of fuel bills.

Further, CEB has been operating without due subsidies as per the SLEA even though the amount of subsidy has been communicated to PUCSL for more than 10 years on monthly basis. Additionally, CEB customers have been given a rebate and an opportunity for installment payment due to Covid-19. Moreover, there is a huge overdue payment to CEB from Government customers such as Hospitals, Schools, Military camps etc. (Annex 1- A request to refrain from disconnection sent by Sri Lanka Air Force Headquarters).

In the meantime, considering the inflation and other costs escalated since 2014; PUCSL has also requested CEB to take necessary actions as per Section 30 of SLEA on Tariff revisions to ensure financial viability of CEB in order to ensure uninterrupted power supply (Letter No. PUC/E/Tariff/01 dated 2022-01-18). It is to be noted that PUCSL has issued the Decision document on Revenue Caps and Bulk Supply Tariffs, 2021-2023 on 2021-11-19 based on the tariff filing done in 2020 where a deficit of 23.3% is stated.

Moreover, Tariff revision is necessary in order to appraise the Board of ADB for consideration of loan of the Power System Reliability Strengthening Project (PSRSP).

Therefore, to overcome this adverse situation, the Board has discussed the issue in detail and has passed a resolution dated 2021-02-14 for a tariff revision proposal. The Board has noted that as of now the forecasted average cost of CEB has increased over and above the approved Budget 2022. The situation further aggravated due to increased fuel prices (Adj. Budget Estimate 2022). Therefore, tariff increase over and above the PUCSL approved deficit is envisioned for 2022.

It is to be noted that CEB being the holder of only four of the five distribution licenses is not able to submit a consolidated end-user-tariff and section 5.1 of the Tariff methodology states that *"For the third Implementation Period, the Single Buyer shall invoice the Distribution and Supply Licensees and Transmission Customers, on the basis of adjusted Bulk Supply Tariffs. Similarly, the Commission will employ them for calculating the tariff schedule for end-use customers"*. Also, CEB is unaware of any specific government policy guidelines as to how the tariff increase should be distributed among tariff categories to implement cross subsidies or whether the government is bearing the cost of any subsidy as stated in section 30 (4) of the Sri Lanka Electricity ACT (amended) No 20 of 2009.

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**OFFICE OF THE GENERAL MANAGER**

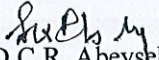
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Accordingly, we maintain the position that CEB cannot officially submit a UNT and it is the Commission that has to calculate the UNT. However, considering the nature of electricity industry in Sri Lanka where there is no option to interrupt millions of electricity consumers for the sake of making recurrent losses by the licensees, we are extending our corporation to PUCSL by preparing a tariff proposal approved by the board for consideration for an immediate tariff revision(Annex 2).

Additionally, PUCSL assistance is necessary in obtaining financial assistance from the General Treasury to compensate the accumulated unpaid subsidies.

Yours faithfully

CEYLON ELECTRICITY BOARD

  
Eng. D.C.R. Abeysekera  
**Actg. General Manager**  
**Ceylon Electricity Board**

Copy:

1. *Chairman, CEB* - *fi & na pl.*
2. *Addl.GM (CS)* - *fi pl.*
3. *FM, CEB* - *fi pl.*