Your ref: My ref: DGM(CS&RA)/TRF/Trf. 2023 Date: July 21, 2023

PUBLIC UTILITIES COMMISSION OF SRI LANKA
3181 .
24 JUL 2023

Director General
Public Utilities Commission of Sri Lanka
6th Floor, BOC Merchant Tower
No. 28, St. Michael's Road
Colombo 3.

Dear Sir,

CEB Comments for the PUCSL Decision on Electricity Tariff Revision July to December 2023

This refers to the following communications on the Electricity Tariff Revision from July to December 2023.

1. PUCSL letter no. PUC/E/Tariff/01 dated 2023-06-30 on the above subject.
2. Presentation made by the General Manager, CEB at the Stakeholder Consultation on the 2nd proposed Tariff Revision 2023 held on 2023-06-27 at BMICH.
3. Following even number letters.
   a. Comments for the consultation document for revision of elec. tariffs – July 2023 dated 2023-06-22.
   b. Clarification replies dated 2023-05-23, 2023-06-14 and 2023-06-28.
   c. Electricity Tariff Revision July – December 2023 dated 2023-05-15.

Accordingly, CEB comments on the PUCSL Tariff Decision for the Electricity Tariff Revision from July to December 2023 are as follows.

1. General

The prompt action taken to revise the End User Electricity Tariff for the second half of 2023 by the PUCSL as planned is commendable. Nevertheless, it is noteworthy to say that the new Tariff diverged from the objectives outlined in Section 4 of the Sri Lanka Electricity Act (SLEA) No. 20 of 2009 as amended. It is noted that PUCSL has not placed adequate emphasis on the provisions of Sections 4(b) and 4(c) of SLEA. These sections specifically aim to ensure the fulfillment of the country's energy demands and to guarantee that licensees operate efficiently and possess the necessary financial resources to carry out the activities authorized by their licenses. The revised Tariff also deviates from the Government policy directives given through the General Policy Guidelines for the electricity industry to make the electricity tariff cost reflective while allowing CEB to breakeven in revenue and expenditure at the end of the year 2023.

It appears that PUCSL has not given adequate emphasis to both written presentations and also oral presentation by the CEB during the Stakeholder Consultation session held on 2023-06-27. CEB is still awaiting comprehensive justifications for the new Tariff, crucial for understanding permitted costs and adjustments imposed by PUCSL to align CEB's operations for the rest of 2023. The absence of itemized curtailed cost explanations has left CEB without essential information to efficiently manage its activities and meet customer demands.

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CEB's tariff filing on 15th May 2023 has identified the reduction of cost of power generation and increase of other expenditures, proposing a tariff reduction of LKR 20,256 million. This reduction was allocated among the low income groups and hotel category. Notably, during the period between the tariff preparation and the Stakeholder Consultation session held on 27th June 2023, several input parameters for the tariff calculation changed. To address this, CEB presented a sensitivity analysis at the Stakeholder Consultation session, presenting the impacts of these changes on the tariff determination. However, it appears that PUCSL has not considered the input parameters presented based on the sensitivity analysis carried out by CEB for its tariff calculations.

It appears that the tariff approved by the PUCSL resulted a reduction of approximately Rs 33 billion in total expenditure for the year compared to what CEB had envisaged. This reduction will definitely cause CEB to incur losses by the end of the year, leading to a deviation from the Government's policy directives. Furthermore, the reduction will have a significant negative impact on CEB's ability to settle arrears for renewable power generators and other debtors. Moreover, the new tariff set by the PUCSL deviates from the cost reflective nature of the End User Tariff.

The challenges faced by the CEB due to the new Tariff approved by PUCSL are given below for your consideration.

2. Projected major hydro power generation for the year 2023

At the Stakeholder Consultation session, CEB highlighted the fact that the year 2023 could be a dry year and the hydropower generation envisaged on the tariff filing of 4500 GWh will not be met. The recorded hydropower generation by the 30th of June 2023 is only 1,738 GWh. The Meteorological Department also envisages that less rainfall is expected in the catchment areas for the next few months of the year. As a result, it is necessary to rely more on thermal power plants to meet the system demand leading to additional expenses for CEB, as they will need to procure costly CPC liquid fuel to compensate for the reduction of hydropower generation capacity. A reduction of about 500 GWh of hydropower generation capacity as CEB envisages for this year will incur an additional cost of approximately LKR 20 billion for which PUCSL has not kept provision in the new Tariff. This will lead CEB to incur substantial losses by the end of the year 2023.

3. Gross generation forecast

CEB has adjusted the gross generation forecast for the year 2023 while formulating the second tariff proposal from the previous estimate of an average of 45 GWh per day. These adjustments were based on the actual gross and net generation data available during the period January – April 2023. The new forecast submitted for the second tariff revision indicated an average gross generation of 43.5 GWh per day. However, according to the current pattern, the average daily gross generation for the year 2023 could reach approximately 44.5 GWh per day. CEB at the Stakeholder Consultation session highlighted the above fact and requested PUCSL to consider an increased load forecast and to provide the provision for the additional expenditure in the new Tariff. However, it appears that PUCSL has not considered the above recommendation in determining the new Tariff.

4. CPC fuel prices reduction

After the tariff filing on 15th May 2023 to PUCSL, the fuel prices have been reduced by the CPC as follows.

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Fuel	Prices in May 2023 (LKR/liter)	Prices for the month June 2023 (LKR/liter)	Prices for the month of July 2022 (LKR/liter)
Auto Diesel	310.00	308.00	308.00
Furnace Oil (HFO)	240.00	198.00	204.00
Naphtha	266.00	239.00	201.00

It appears that the PUCSL has taken the above cost reduction of the month of June into consideration and assumed the same reduced fuel prices prevail for the balance months of the year and adjusted the new Tariff accordingly. However, it is to be noted that fuel prices are revised on a monthly basis. Further, at the Stakeholder Consultation session, it was highlighted that the intention of CEB to use the savings of the fuel price reduction of approximately LKR 12.0 billion to settle the arrears for the Renewable Power Producers as directed by the PUCSL in the February tariff revision. However, it appears that PUCSL has not considered the above suggestion and used the above savings to reduce the Tariff. Due to this reason, CEB is not in a position to settle the arrears of renewable power generators which is approximately LKR 29.7 billion as at 14th July, 2023.

5. Payments made to settle arrears of Roof Solar Producers, Renewable Power Generators and suppliers

CEB wishes to notify PUCSL that since the last tariff revision, it has made settlements for the accumulated debt owed to rooftop solar producers, renewable power generators and suppliers. The arrears due for the Renewable Power Generation & Rooftop Solar Producers as at 2023-07-14 is given below.

	Settled amount from the past dues (LKR billion)	Remaining amount as of 2023-07-14 (LKR billion)
Rooftop solar producers	4.0	0.5
Renewable Power Generators	6.0	29.7

PUCSL tariff decision envisages settling the above arrears as early as possible. However, PUCSL has not allocated any provision to settle the above arrears from the new Tariff. Further, CEB's ability to raise loans to settle the renewable arrears is also impacted due to the substantial reduction of the tariff. CEB wishes to seek advice from PUCSL on how the above arrears should be settled.

6. Unaccounted Cost: Social Security Contribution Levy (SSCL) on LECO invoices

It appears that the expenditure incurred for Social Security Contribution Levy (SSCL) by LECO which is borne by CEB is not taken into consideration for the July Tariff revision. The accumulated outstanding SSCL payments owed by LECO for supplying power is LKR 980 million as of June 2023.

7. Conclusion

Based on the evaluations conducted by CEB, it is observed that in the recent End User Tariff determination, PUCSL reduced the allowed expenditure for the year 2023 by approximately LKR 33 billion more than what CEB had anticipated in their recent tariff filing. This reduction will hinder the possibility of meeting additional expenditure for increased thermal power generation, increased demand & other expenditure which are essential. Moreover, it will also impede CEB's ability to settle the previous debts owed to Renewable Power Producers and other suppliers. It is estimated that CEB incur a loss of around LKR 33 billion for the year 2023.

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Given the current circumstances, CEB earnestly requests PUCSL to consider a tariff adjustment immediately to address the challenges highlighted above.

Yours faithfully
CEYLON ELECTRICITY BOARD

Eng. G A D R P Seneviratne
General Manager
Ceylon Electricity Board

Eng. G.A.D.R.P. Seneviratne
General Manager
Ceylon Electricity Board

Copy to:

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2. *Secretary, MOPE* - *fi & na pl.*
3. *Director General, Dept. of Public Enterprises* - *fi pl.*
4. *Chairman, PUCSL* - *fi & na pl.*
5. *Ms. Chathurika Wijesinghe, member PUCSL* - *fi & na pl.*
6. *Mr. Douglas N. Nanayakkara, member PUCSL* - *fi & na pl.*
7. *Mr. SG Senaratne, member PUCSL* - *fi & na pl.*
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