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இலங்கைப் பொதுப் பயன்பாடுகள் ஆணைக்குழு
PUBLIC UTILITIES COMMISSION OF SRI LANKA



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உமது இல. }
Your No. }

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Our No. }

PUC/E/Tariff/01

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திகதி }
Date } February 13, 2024

Dr. N. De Silva
General Manager
Ceylon Electricity Board

Electricity tariff revision January – March 2024

Reference is made to CEB tariff proposal (dated January 12, 2023) submitted on January 16, 2023 (Ref: DGM(CS&RA)/TRF/Trf.2024) and following subsequent communications on the same;

1. PUCSL letter requesting clarification on January 24, 2024
2. PUCSL letter requesting clarification on February 2, 2024
3. CEB letter submitting clarification on February 5, 2024
4. CEB letter submitting clarification on February 6, 2024
5. CEB letter submitting clarification on February 7, 2024

Please note that the clarifications submitted by CEB via aforementioned letters did not fully provide the clarifications requested by PUCSL in the following areas.

1. Distribution cost of CEB

PUCSL has requested to **'Provide the basis for increase of Distribution cost (including allocations from common divisions) with detail numerical calculations (in the form of incremental budgeting, giving reasons for marginal increase of each cost item)'**

CEB via its letter (Number 3 above) has submitted the increase of its Capital Expenditure (CAPEX) from 2019 to 2023. Further, CEB has stated that costs after 2019 are not reflective of full costs of CEB distribution divisions due to the pandemic and economic crisis.

It shall be noted that the CEB has failed to understand the fact that CAPEX is not passed on to tariff, but only asset depreciation and return on assets is passed to the tariff, according to the Tariff Methodology. Further the CAPEX which was incurred or proposed to be incurred with inflated prices is a minor (less than 11% - 2023 CAPEX of CEB DLs as a percentage of net asset base of CEB DLs as at December 31, 2023) percentage compared with the asset base of CEB (DLs). Therefore, impact of increase of CAPEX in the period 2024 – 2026, on the tariff is minimal.

CEB has not clarified how the operational expenditure (OPEX) has increased in proposed revenue requirement for 2024. OPEX is a cost item which is allowed to pass to the tariff according to the approved Tariff Methodology.

A comparison of actual OPEX (excluding depreciation) from 2018 to 2023 along with CEB proposed 2024 OPEX (excluding depreciation) is shown in the table below.

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28. ගාන්ත මයිකල් පාර, කොළඹ 03.

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Description	Unit	2018	2019	2020	2021	2022	2023	2024	Percentage Increase from 2022 to 2024
Personnel Expenses	MLKR	11,529.61	12,984.68	14,510.67	18,900.79	16,502.01	48,469.00	31,077.95	88.3%
Material Cost	MLKR	5,199.86	6,143.38	5,393.45	6,309.75	4,502.79		12,475.68	177.1%
Accommodation Expenses	MLKR	208.98	277.41	172.23	160.68	208.92		2,569.96	1130.1%
Trasport & Communication Expenses	MLKR	1,196.13	1,333.98	980.13	1,164.72	1,680.98		7,166.00	326.3%
Retail Service Cost	MLKR	10,983.65	11,901.48	10,348.72	6,826.08	9,377.95		32,971.55	251.6%
Other Costs	MLKR	12,795.00	13,900.60	19,419.51	19,125.42	23,144.72		11,023.01	-52.4%
Total OPEX	MLKR	41,913.23	46,541.52	50,824.71	52,487.44	55,417.37		97,284.15	75.5%

Sources: Actual data – CEB submitted accounts, 2024 data – CEB revenue filing for DLs

CEB shall justify above increases with a reasonable basis. If CEB claims that 2020 – 2023 costs were affected by pandemic and economic crisis, CEB shall justify the same with reasonable basis, as above listed costs, such as personnel costs, are less affected by external factors.

2. Generation Capacity

PUCSL has requested to ***‘Provide the basis for increase of Generation capacity cost (Including allocations from common divisions) with detail numerical calculations (in the form of incremental budgeting, giving reasons for marginal increase of each cost item)’***

CEB via its letter (Number 3 above) has stated that increase in Generation Capacity is directly attributable to the procurement of material (such as imported OEM spare parts).

Clause 2.2.2.2.4 (Filing and Approval of CEB Generation PPAs) of Tariff Methodology has clearly mentioned how CAPEX as mentioned above shall be treated. As per the said clause;

Forecast O&M costs shall be consistent with the same operational expenditure included in the audited accounts of the last financial year. Any extraordinary (non-recurrent) maintenance costs not included in the fixed or variable O&M costs, have to be submitted to the Commission for approval in a special filing process, initiated by the Generation Licensee. In case the Commission approves the cost and the need for the investment, the Commission will recalculate the capacity price for the remaining duration of the corresponding CEB Generation PPA.

Such maintenance costs (as CEB has mentioned in above letter Number 5) have not been submitted to the Commission. Even if those costs are approved such approved costs (CAPEX) shall be distributed over the lifetime of those assets.

CEB has not clarified how the operation & maintenance cost (O&M) has increased in proposed tariff in 2024. O&M is a cost item which is allowed to pass to the tariff according to the approved Tariff Methodology.

A comparison of actual O&M (including depreciation) from 2018 to 2023 along with CEB proposed 2024 O&M (including depreciation) is shown in the table below.

Depreciation	Unit	2018	2019	2020	2021	2022	2024	Percentage Increase from 2022 to 2024
Personnel Expenses	MLKR	6,122.45	6,169.32	5,807.90	7,373.75	7,031.05	10,092.20	43.5%
Material Cost	MLKR	4,330.60	6,379.33	6,170.20	3,518.91	3,575.20	37,115.09	938.1%
Accommodation Expenses	MLKR	404.66	749.43	540.09	470.52	540.55	1,958.64	262.3%
Transport and Communication Expenses	MLKR	369.21	424.73	314.30	327.84	463.33	1,155.17	149.3%
Depreciation	MLKR	12,125.04	12,577.34	13,757.15	13,704.30	13,961.55	18,521.15	32.7%
Finance cost	MLKR	-	14,621.65	3,112.51	2,545.25	1,266.05	18,232.68	1340.1%
Other cost and GL HQ, CEB common cost allocation	MLKR	3,591.77	3,725.36	5,852.31	5,046.77	10,905.62	33,847.29	210.4%
Total	MLKR	26,943.72	44,647.15	35,554.45	32,987.33	37,743.35	120,922.22	220.4%

Sources: Actual data – CEB submitted accounts, 2024 data – CEB BST filing

CEB shall justify above increases with a reasonable basis. If CEB claims that 2020 – 2023 costs were affected by pandemic and economic crisis, CEB shall justify the same with reasonable basis, as above listed costs, such as personnel costs, are less affected by external factors.

Further CEB shall submit breakdown of 'Material cost' and 'Finance cost' for each plant. It is reiterated that Clause 2.2.2.2.4 of Tariff Methodology shall be followed by CEB.

3. Finance Cost

As per the CEB clarifications (submitted via its letter Number 4 above) it is observed that AWPLR used to calculate the submitted finance cost has decreased considerably during recent months, therefore finance cost as per the decreased AWPLR is recalculated below;

Finance cost of floating loans at the submitted AWPLR	MLKR	41,268.00
Finance cost of floating loans at the current AWPLR	MLKR	33,306.33
Reduction	MLKR	7,961.67
Submitted Total Finance Cost	MLKR	53,911.00
Updated Total Finance Cost	MLKR	45,949.33

Sources: CEB submitted data, CBSL published rates

4. Inclusion of profit of year 2023

As per the CEB clarifications (submitted via its letter Number 3 above) the profit of 2023 has been employed to clear settle payables as at Jan 1, 2023. Further decrease in payable situation by Dec 31, 2023 is given the above letter of CEB. However, CEB shall clearly clarify how the given decrease in payable situation was achieved. It may be achieved by a cash inflow from a financing activity of CEB. Therefore, proper cashflow statement must justify the above claim of CEB.

5. Consideration of the time period for the tariff calculation

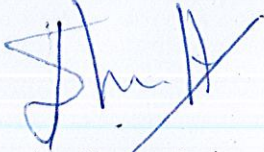
CEB in its aforementioned tariff proposal has mentioned;

'the tariff proposal for 2024 which is to be implemented with effect from 1st February 2024 and approved by the Board is submitted herewith for consideration of the Commission, please.'

As per the above request the percentage reduction calculation is erroneous.

Further in the subsequent communication (Letter Number 3 above) CEB has mentioned;
'In our letter dated 2024-01-12, the CEB diligently submitted the Tariff Proposal for the 1st quarter of 2024, anticipating its implementation within the month of January'
Which is contradicting to CEB tariff submission.

All the clarifications/information requested shall be submitted on or before February 15, 2024.

A handwritten signature in blue ink, appearing to read 'D. Kumarasinghe', with a long horizontal stroke extending to the right.

Damitha Kumarasinghe
Director General