PUBLIC UTILITIES COMMISSION OF SRI LANKA

Report on Electricity Cost Recovery of Transmission and Bulk Supply Licensee/ National System Operator (Pvt) Limited – 1st Quarter of 2026

August - 2026

Contents

List of Acronyms

AWPLR	Average Weighted Prime Lending Rate
BSOB	Bulk Supply Operations Business
BST	Bulk Supply Tariff
BSTA	Bulk Supply Transaction Account
CAPEX	Capital Expenditure
CEB	Ceylon Electricity Board
DL	Distribution Licensee
EDL	Electricity Distribution Lanka (Pvt) Ltd.
EGL	Electricity Generation Lanka (Pvt) Ltd.
IPP	Independent Power Producers
LECO	Lanka Electricity Company Private Limited
MLKR	Million Sri Lankan Rupees
RE	Renewable Energy
NSO	National System Operator (Pvt) Ltd.
NTNSP	National Transmission Network Service Provider (Pvt) Ltd.
O&M	Operation and Maintenance
OPEX	Operational Expenditure
PPA	Power Purchase Agreement
TL	Transmission Licensee
ToU	Time of Use
UNT	Uniform National Tariff

1. Introduction

The Sri Lankan Electricity supply sector operated with the entities licensed for the following functions, under the Sri Lanka Electricity Act No. 20 of 2009, until March 08, 2026.

Table 1: Licensed Electricity industry functions

Function	License	Entities
Electricity Generation	Generation License	CEB - Generation, IPPs
Electricity Transmission and Bulk Supply Operations Business	Transmission License	CEB – Transmission
Electricity Distribution and Supply	Distribution and Supply License	CEB – Distribution, LECO

The single-buyer market setup and the ring-fenced operation means, any revenue surplus or shortage in the industry would be passed to the Transmission Licensee.

It is to be noted that the Sri Lankan electricity industry restructuring has been completed with the full enactment of the Sri Lanka Electricity Act No. 36 of 2024 (Amended) in March - 2026. The main functions of CEB on electricity supply have been assigned to the following successor entities.

1. Electricity Generation Lanka Private Limited (EGL) – Electricity generation
2. National Transmission Network Service Provider Private Limited (NTNSP) – Electricity transmission
3. National System Operator Private Limited (NSO) – System operation and bulk supply business
4. Electricity Distribution Lanka Private Limited (EDL) – Electricity distribution and supply

Accordingly, in the restructured industry setup, the NSO is identified as the single buyer, until open access is introduced. In the following sections the term 'Transmission Licensee' specifically refers to the Bulk Supply Operations Business function of the Transmission License issued under the Electricity Act of 2009 or the functions of National System Operator (Pvt) Limited, under the Electricity Act of 2024.

Accordingly, this report has been prepared to assess the cost recovery of electricity supply sector of Sri Lanka, through the analysis of costs and revenues of the Transmission Licensee/NSO, the single buyer, that reflects the sector performance. The period considered for reporting is the first quarter of 2026. This report is also published in compliance with the requirement of quarterly reporting on electricity cost recovery, as required under the 'Procedure for Review and Adjustment of Tariffs Rules No. 01 of 2026'.

2. Forecasted Costs and Revenues

The following forecast costs were submitted for the Transmission Licensee, for the first quarter of 2026, by the Ceylon Electricity Board. These costs and revenues have not been subjected to a formal review process, owing to the submission delays.

Table 2: CEB forecasted costs for the 1st quarter of 2026

Cost Item	Unit	Amount
Generation - Energy Cost	MLKR	83,504
Generation - Capacity Cost	MLKR	17,318
Transmission Licensee Allowed Revenue	MLKR	5,290
Bulk Supply Operations Business Allowed Revenue	MLKR	529
Finance Cost - BSOB	MLKR	7,638
Total	MLKR	114,279

It is to be noted that the above cost has been forecasted considering a total net generation of 4,454 GWh for the period.

As per the CEB submission, the total revenue forecast for the 1st quarter of 2026 is estimated to be MLKR 90,423. Furthermore, in accordance with the Clause 2.5.3 and 2.5.4 of the 'Tariff Methodology', revenue surplus/deficit of the Transmission Licensee (arising from Bulk Supply and Operation Business) in a period 'p' is to be compensated during the tariff determination for period 'p+2'. However, due to the forgoing of the 1st quarter tariff review of 2026, the 3rd quarter 2025 revenue surplus/deficit has been considered with the 2nd quarter tariff review of 2026. Therefore, no revenue surplus/deficit adjustment is applicable to be considered for cost recovery analysis of 1st quarter of 2026.

3. Actual Costs and Revenues

The actual Bulk Supply Tariff file received from NSO for the first quarter of 2026, along with the actual sales data of Transmission Licensee provides the following summary of operations for the 1st quarter of 2026. Additionally, it is necessary to note that the actual Generation – Energy Cost below includes the costs due to sub-standard coal, which has been disapproved by the Commission to be passed into the consumer electricity tariffs. Accordingly, this amount has been deducted for the purpose of cost recovery analysis. Further, the actual net generation for the period is 4,431 GWh, as per the NSO submission.

Table 3: Actual costs and revenues for the 1st quarter of 2026

Item	Unit	Amount
Electricity Sales Revenue of Transmission Licensee	MLKR	89,261*
Generation - Energy Cost	MLKR	(91,932)*
Additional Generation – Energy Cost due to Sub-standard Coal	MLKR	4,157*
Generation - Capacity Cost	MLKR	(15,195)
Transmission Licensee Allowed Revenue	MLKR	(5,140)
Bulk Supply Operations Business Allowed Revenue	MLKR	(529)
Finance Cost - BSOB	MLKR	(6,548)
Operating result for the period, before adjusting for revenue surplus brought forward	MLKR	(25,924)
Revenue surplus brought forward from the past periods	MLKR	-
Operating result for the period, after adjusting for revenue surplus brought forward	MLKR	(25,924)

*Note: Based on the provisional data

Accordingly, the Transmission Licensee has ended the quarter with a revenue deficit.

4. Ex-post Analysis on Cost Recovery

The actual cost/revenue data received from the Licensee indicates that the full cost recovery has not been achieved by the Transmission Licensee in the quarter 1 of the year 2026. This is mainly due to the non-implementation of tariff review for the 1st quarter of 2026, with delayed and erroneous tariff proposal submission by CEB.

The proposal submission for the 1st quarter tariff review of 2026 was due on November 14, 2025. However, the finalized proposal was received only on December 29, 2025, with a considerable delay. The received proposal too was erroneous, where the tariff table was not matching with the proposed tariff revision percentage. Thus, the CEB was directed to submit the corrected proposal by January 08,

2026. However, the corrected proposal was not received within the stipulated timeline. Subsequently, the Commission decided to forgo the tariff review, as the continuation with this review will only enable decision on tariffs to be issued by the end of the subjected quarter.

The following sections provide a comparison of the CEB forecast for the 1st quarter of 2026, as against the actual operation. It is re-iterated that these forecasts were not subjected to review or approval. Thus, the forecasts had no impact on the actual tariffs prevailed.

However, the cost items are comparable to evaluate the forecasting accuracy. The following table provides the forecast of CEB with the actuals, for the 1st quarter of 2026.

Table 4: Comparison of actual and forecasts

<table>
<tr><th>Item</th><th>Unit</th><th>Forecast Amount for 2026Q1</th><th>Actual Amount for 2026Q1</th><th>Increase</th></tr>
<tr><td>Generation - Energy Cost</td><td>MLKR</td><td>83,504</td><td>91,932*</td><td>8,428</td></tr>
<tr><td>Generation - Capacity Cost</td><td>MLKR</td><td>17,318</td><td>15,195</td><td>(2,123)</td></tr>
<tr><td>Transmission Licensee Allowed Revenue</td><td>MLKR</td><td rowspan="2">5,819</td><td>5,140</td><td rowspan="2">(151)</td></tr>
<tr><td>Bulk Supply Operations Business Allowed Revenue</td><td>MLKR</td><td>529</td></tr>
<tr><td>Finance Cost - BSOB</td><td>MLKR</td><td>7,638</td><td>6,548</td><td>(1,090)</td></tr>
<tr><td>Total Cost</td><td>MLKR</td><td>114,279</td><td>119,343</td><td>5,064</td></tr>
</table>

*Note: Based on the provisional data

The key items and significant deviations are further analyzed in the following sections.

4.1. Generation – Energy Cost

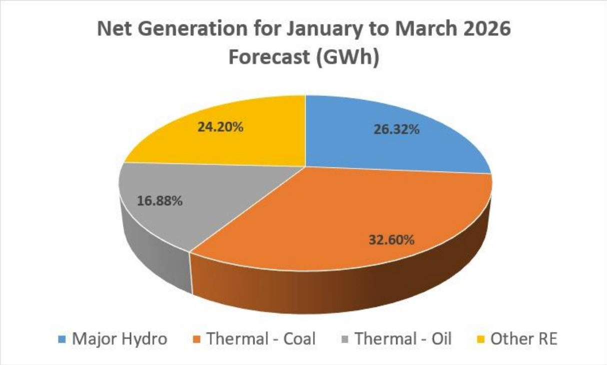
Significant increase is observed in the Generation – Energy Cost, though the total actual net generation is below the forecast. Therefore, the generation mixes are compared in the table below.

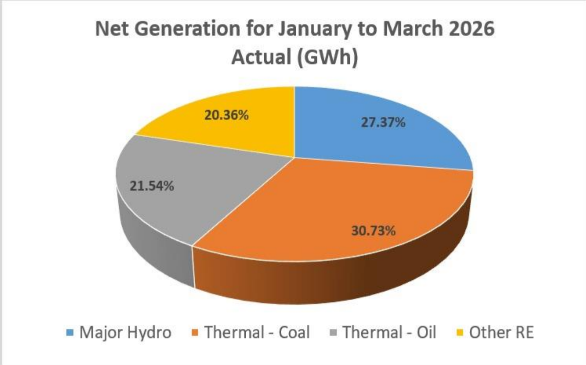
Table 5: Source wise electricity generation mix comparison

<table>
<tr><th rowspan="3">Generation Source</th><th colspan="4">Net Generation for January to March 2026</th></tr>
<tr><th colspan="2">Forecast</th><th colspan="2">Actual</th></tr>
<tr><th>GWh</th><th>%</th><th>GWh</th><th>%</th></tr>
<tr><td>Major Hydro</td><td>1,172</td><td>26.32%</td><td>1,213</td><td>27.37%</td></tr>
<tr><td>Thermal - Coal</td><td>1,452</td><td>32.60%</td><td>1,362</td><td>30.73%</td></tr>
<tr><td>Thermal - Oil</td><td>752</td><td>16.88%</td><td>954</td><td>21.54%</td></tr>
<tr><td>Other RE</td><td>1,078</td><td>24.20%</td><td>902*</td><td>20.36%</td></tr>
<tr><td>Total</td><td>4,454</td><td>100.00%</td><td>4,431</td><td>100.00%</td></tr>
</table>

*Note: Based on the provisional data

Figure 1: Source wise electricity generation mix





A significant increase is observed in the actual Thermal – Oil generation, as compared to the forecast. This increase has compensated the reduction in Thermal – Coal and Other RE generation, which are relatively less costly. Furthermore, the increase in Diesel price also has an impact on the generation cost increase.

4.2. Generation – Capacity Cost

The actual Generation – Capacity cost is considerably lower than the forecast. The CEB plant (Currently EGL) actual capacity costs are lower compared to the forecasts. Notably, these plants are operating without PPAs. Thus, the actual capacity related expenditure within the month is invoiced, introducing arbitrary variations. Further, the capacity cost of West Coast plant also shows a significant reduction from the forecast, due to the low-capacity charge in February 2026. This power plant operates with a PPA and thus the capacity charges are linked to performance parameters such as availability. Thus, the variation could be due to a performance variation.

The Commission has issued directives to the CEB Generation Licensee (currently EGL) to enter into PPA with TL, starting from the year 2013. However, this has not yet been realized and identified as a cause for concern.

The latest directives by the Commission to EGL and NSO is to finalize the formal PPAs within a period of six months from the industry restructure completion date (i.e.: to finalize by September - 2026). The CEB successor entities are working on the development of these agreements. The PPAs are supposed to address the above issues.

4.3. Finance Cost – BSOB

The finance cost of BSOB is lower than the forecast. These forecasts are linked to indices such as AWPLR. Accordingly, the changes to these indices would be reflected in the actual finance cost amount.

5. Conclusion

Based on the above evaluations, the full cost recovery has not been achieved within the first quarter of 2026. However, the Tariff Methodology enables these deficits to be recovered in future periods. Accordingly, the deficit of 1st quarter of 2026 is applicable to be recovered during the 3rd quarter of 2026. Thus, the above quarter 1 deficit will be recovered by the end of 3rd Quarter of 2026.