

## **AMENDMENT TO THE GENERAL POLICY GUIDELINES FOR THE ELECTRICITY INDUSTRY 2022**

### **Tariff period**

10. Costs and prices of electricity supply will be reviewed at least once in six months (the tariff period), targeting a fixed date preferably 01<sup>st</sup> January and July of each year to make revisions to consumer prices every year. Elements of costs, such as generation, transmission, and distribution costs, shall also be reviewed once a year and in times of high inflation and variations in generation cost due to changes in oil price, exchange rate, and rainfall, with the approval of the Cabinet of Ministers, the ministry will request the Public Utilities Commission of Sri Lanka (PUSCL) and licensees to shorten the duration of the tariff period.
11. PUSCL shall immediately publish in each year fixed dates, on which the reviewed electricity tariffs be effective in each year. Such dates will remain fixed throughout the period until 2030. Licensees shall submit their costs and prices for approval, well in advance of such date, on a schedule published by PCUSL.

### **Aggregate Revenue Requirement of Transmission & Distribution Licensees**

12. The transmission licensee is expected to submit the actual cost of power purchase incurred in the preceding tariff period within 30 days of the end of the tariff period and the projected power purchase cost for the next tariff period before 30 days of the start of the tariff period to PUSCL. PUSCL is expected to verify the published power purchase cost and determine the power purchase cost to be allowed to the transmission licensee within 15 days of the receipt of the power purchase cost data from the transmission licensee.
13. The transmission and distribution licensees will submit to PUSCL in every year the cost incurred on maintaining the transmission and distribution network and services including the overhead and financing costs in the preceding year and the projected expenses for the subsequent year by March 31<sup>st</sup> of each year. Based on the power purchase cost data and transmission and distribution cost data submitted by the licensees, PUSCL will determine the aggregate revenue requirement of each licensee before 2 months of the start of Calendar year. However, in considering the national importance, if the Cabinet of Ministers grants special approval for a revision of price and tariff based on a transmission and distribution cost, then PUSCL shall take immediate action to effectuate such a decision.
14. A revised methodology to determine allowed aggregate revenue requirement for each transmission and distribution licensee for each tariff period shall be prepared, published, and implemented by the PUSCL, by the end of 2023. To ensure that allowed revenues reflect efficient costs, each transmission and distribution licensee shall define and monitor key performance indices and submit the targets (including references to those for other regional and international electricity utilities) with progressive improvement of efficiency and achievements with each submission of revenue requirements.

15. If the transmission and distribution cost allowed for a tariff period is exceeded, such amount shall not be compensated unless justifiable reasons are presented. The PUSCL shall conduct a study via an expert independent body in consultation with licensees to set the minimum efficiency levels to be met by each licensee and in the event of the licensee is not meeting the stipulated efficiency standards, the aggregate revenue requirement will be calculated at the stipulated minimum efficiency level.

### **Cost of supply to each consumer category and cost-reflective tariffs**

16. By the end of 2023, PUSCL shall publish a methodology to determine consumer tariffs, taking into consideration of the policy guidelines.
17. Taking into account the allowed aggregate revenue requirement including electricity purchase prices, forecast customer numbers and sales, based on the assumption that the electricity is supplied to the consumers without interruption throughout the year, a comprehensive cost of supply for each type and category of customer shall be calculated and presented for each tariff period.
18. For consumers availing of smart meters, capable of recording the electricity consumption at different time blocks, the cost of supply shall be calculated for identified time blocks based on a methodology to be published by PUSCL.
19. The consumer tariffs shall be set at a level reflecting the cost of supply calculated for each consumer category. However, the PUSCL shall consult the Ministry of Power and energy in determining the subsidized tariffs targeting low-income groups.
20. PUSCL shall consult with Ministry of Power and Energy and Ministry of Finance regarding the socially acceptable levels of life line tariffs for low-income consumers and the amount of fiscal subsidies and cross subsidies to be provided by other consumer categories to cover the cost of supply and affordable tariff by low-income consumers. (Cross subsidy must be eliminated gradually preferably in few tariff cycles)
21. The cross subsidy to be provided by a particular consumer category to the low-income groups shall be limited to 15% of the cost of supply of the consumer category providing the subsidy to maintain the principle of cost-reflective tariffs.
22. PUSCL shall publish a road map to simplify customer tariffs by merging tariff blocks, removing volume-differentiated tariffs in the household, industrial and general-purpose tariffs, and removing types of customers with unclear definitions, to achieve simplicity and to align with international best practices in metering and pricing by 2025. PUSCL shall ensure such structural reforms to customer tariffs are implemented.
23. Commercial enterprises such as banks, financial institutions, capital investment entities, and real estate entities, shall not be granted any subsidy and shall be charged with at least the actual cost of supply of electricity.

## **Subsidies**

24. No government subsidies are provided for the electricity industry in the future. However, the utilities may follow the cross-subsidy policy to facilitate the low-income group and industrial consumers.
25. To ensure transparency in billing and managing subsidies, the cost of supply to a customer, the actual charge under the published tariff, and the subsidy provided to (or surcharge imposed on) the consumer shall be printed on the bill (or provided clearly using digital media in case of electronic billing), commencing from 2023.
26. Possibility shall be explored to provide subsidies to the hotel industry by offsetting the taxes already levied on the hotel industry.

## **Interim provision of pricing tariff for 1<sup>st</sup> half of 2023**

27. In line with the revised policy guidelines, the price and tariff for the year 2023 first half shall be implemented from the 1<sup>st</sup> of January 2023 as attached in Annex - 03.

## **Market and pricing reforms**

28. The Ministry of Power and Energy will commence further actions on reforms in the electricity industry, including (i) provision of wheeling facilities by distribution and transmission licensees, (ii) open access for smaller producers to sell to distribution or transmission licensees, and (iii) establishing a market for power trade.
29. The reforms will exclude all types of subsidies from 2025 onward, where any subsidies to deserving consumer groups will be provided direct, outside the electricity pricing and billing process.

## **Unbundling and structural reforms**

30. The unbundling process of Ceylon Electricity Board (CEB) in accordance shall be completed by 31<sup>st</sup> March 2024, establishing financial independence of all licensed entities in the electricity industry. For this purpose, all assets and liabilities shall be allocated to the respective licensee entity in the filing for costs for 2023.
31. The present invoicing for sales from generation to transmission and transmission to distribution will be converted to actual transactions from 2023 onward. End-use consumer payments shall be made to separate accounts maintained by each licensee selling electricity to the respective consumer.
32. Each independent licensee shall provide their regulatory accounts and publish their financial accounts from 2023 onward, with responsibility for financial well-being assigned to the respective Chief Executive Officer of each licensed entity.