

Joint Submission on the National Electricity Policy of Sri Lanka (December 2025)

1. Introduction

We write on behalf of the Ceylon Chamber of Commerce, together with the Ceylon Chamber Energy Sector Committee, the Federation of Renewable Energy Developers (FRED), the National Chamber of Commerce of Sri Lanka (NCCSL), the American Chamber of Commerce in Sri Lanka (AMCHAM), Joint Apparel Association Forum (JAAF) and Export Association of Sri Lanka (EASL) to submit our joint observations and recommendations on the Draft National Electricity Policy.

This joint submission is made in response to the invitation issued by the Ministry of Energy for public consultation, titled *“Public Views and Suggestions on the National Electricity Policy”*, published on the official website of the Ministry, as well as the public notice published in the *Daily News* newspaper on 19 December 2025. We acknowledge the stated objectives of the policy, including energy security, least-cost electricity supply, financial sustainability of the electricity sector, and increased penetration of renewable energy.

However, upon careful review, we wish to place on record several concerns regarding contradictions between current legislation and the draft policy document of December 2025 that may have serious ramifications.

In clarification, international best practice is that both primary and subordinate legislation flow from comprehensively tested and finalised government policy. Although time constraints prevented this sequence from being followed consequent to the economic and political crisis Sri Lanka underwent in 2022 and 2023, the Objects of the Electricity Act no. 36 of 2024 (Section 2) clearly outline the intent and objectives of the administration in the prevailing local and global context. Although the various changes introduced in the Sri Lanka Electricity (Amendment) Act No. 36 of 2024 drastically altered the structure of the sector reforms proposed in the 2024 Act, its Objects remained untouched, introducing, even at this stage, ambiguity of purpose. Therefore, these Objects remain the legal basis for any policy to be aligned with until revised by another amendment in the future.

The draft policy submitted to the Chamber for review includes several substantive provisions that do not appear to align fully with the 2024 and 2025 Acts. In its current form, it may give rise to certain legal, governance, economic, and investment-related concerns. Without meaningful revision, there is a risk that the policy could affect investor confidence, slow progress in renewable energy development, increase long-term costs to consumers, and create uncertainty around future legal and contractual obligations.

Accordingly, as the membership of the Energy Committee of the Ceylon Chamber contains senior representation from almost all other Chambers, Associations, and Federations including sectors such as apparel, IT/BPM and tourism that together constitute a major

portion of private sector contribution to Sri Lanka's GDP, we wish to place our concerns on record, in more detail, below.

2. Procedural and Legal Non-Compliance with the Electricity Act

2.1 Violation of the Statutory Consultation Process

The formulation of the National Electricity Policy is governed by Section 4 of the Electricity Act No. 36 of 2024, as amended by Act No. 14 of 2025, which prescribes a two-stage consultation process:

1. Section 4(2): Consultation with the Regulator (PUCSL), the National System Operator (NSO), licensees, consumer organisations, and other relevant stakeholders before finalisation of the draft policy.
2. Section 4(4)(a): Public consultation following the Minister's verification that the draft policy complies with the Act, before submission to Cabinet.

Based on available information, the first mandatory stakeholder consultation stage under Section 4(2) does not appear to have been conducted. Consequently, the Draft Policy has proceeded directly to public consultation without compliance with the statutory process, rendering the policy formulation procedurally and legally defective. In not being de-risked by adequate key stakeholder consultation prior to being released, it has also raised concerns with international partners and investors.

2.2 Failure to Meet Mandatory Content Requirements

Section 4(3) of the Electricity Act clearly specifies the minimum content that must be addressed in the National Electricity Policy. Several of these statutory requirements are either omitted or inadequately addressed in the Draft Policy, including but not limited to:

- Alignment of power sector development with affordability, energy security, and Sri Lanka's international decarbonisation commitments
- Incentivisation of renewable energy, energy storage, and energy efficiency to reduce dependence on imported fossil fuels
- Measures to ensure the financial viability of the electricity industry while attracting private investment
- Introduction of competition and articulation of milestones for the Wholesale Electricity Market
- Mobilisation of investment required for sustainable sector growth

The omission of these mandatory elements constitutes a further breach of the Act.

2.3 National Tariff Policy and Required Inter-Ministerial Consultation

Section 4(3)(g) of the Act requires that the National Tariff Policy be developed in consultation with the Ministry of Finance and the Ministry of Policy Implementation. Based on available information, we believe that such consultation has not taken place. This omission is material, given the far-reaching fiscal, macroeconomic, and social implications of tariff policy reforms proposed in the Draft Policy, most notably the substantial direct treasury subsidies proposed.

3. Governance and Institutional Concerns

3.1 Ultra Vires Policy Recommendations

Several recommendations in the Draft Policy exceed the committee's authority and conflict with existing legislation and contracts, including:

- Proposals that contradict provisions embedded in law, such as the removal or destabilisation of feed-in tariff mechanisms
- Policy statements that purport to override existing Power Purchase Agreements (PPAs) and Standardised Power Purchase Agreements (SPPAs), including provisions denying compensation for curtailment
- Policy statements that erode the financial sustainability of licensees/regulated entities
- Confusion between the applicability of repealed policies and the current policy framework

4. Policy Positions Lacking Evidence and Impact Analysis

The Draft Policy introduces several highly consequential proposals without adequate technical, economic, or social impact assessment, including:

4.1 Removal of Cross-Subsidies

The proposed removal of cross-subsidies across industrial, household, and religious consumers is likely to result in steep tariff increases. The policy appears to envisage replacement through direct Treasury subsidies to vulnerable groups, an approach that carries significant fiscal risk and uncertainty. Reliance on a treasury subsidy will also reduce the financial viability of the NSO and create an investment risk to all industry participants including generation, transmission and distribution. A structured evaluation of cross-subsidy design is warranted, rather than outright removal.

4.2 Inequitable Subsidy Thresholds

Limiting direct subsidies to consumers using less than 30 kWh per month, with sharp tariff increases beyond that threshold, creates inequitable outcomes and perverse incentives, potentially disadvantaging low- and middle-income households. Energy poverty in Sri Lanka

is estimated to be 60 kWh per month by the World Bank, and energy consumption/capita is globally accepted as a key indicator of economic development.

4.3 Tariff Structure and Market Disruption

Proposals relating to fixed cost allocation and mandatory time-of-use (TOU) tariffs for rooftop solar prosumers risk significant market disruption. In their current form, these measures threaten the viability of the rooftop solar industry and undermine consumer confidence in distributed energy investments. These may also cause rooftop solar owners to shut down their rooftop solar system and/or default in their loan payments creating an economic and energy stress to the economy.

5. Backwards-Looking Orientation of the Draft Policy

The Draft Policy adopts a predominantly utility-centric and backward-looking perspective, with notable omissions, including:

- An inadequate definition of energy security, lacking reference to energy independence and diversification
- Absence of a coherent energy transition framework, including electrification of transport and thermal loads
- No provision for grid interconnection or cross-border electricity trading
- No recognition of energy markets, ancillary services, retail competition, or aggregator-based service models such as virtual power plants
- No reference to emerging technologies such as green hydrogen

These omissions place Sri Lanka at odds with prevailing international policy trends and best practices.

6. Discriminatory Impact on Renewable Energy

The Draft Policy imposes disproportionate burdens on renewable energy developers and prosumers (producers and consumers) while leaving fossil fuel-based generation largely unconstrained. One undefined consequence of not having a clear path to Open Access to permit wheeling and greening the grid overall would be non-investment in data centres, requiring 100s of MW of 100% RE, and the relocation of digital nomads to Sri Lanka, both stated objectives of the government.

6.1 Curtailment Without Compensation

Clauses permitting unlimited curtailment for economic or system reasons without compensation transfer all system risk to generators. This violates established contractual principles, undermines financial viability, contradicts provisions of the electricity Act and is inconsistent with international practice. In addition, uncompensated curtailment will force future investors (if any) into pricing this risk into their cost, defeating the purpose of lowering cost to the consumer and severely impacting project bankability and insurability.

6.2 Impact on Rooftop Solar Prosumers

Mandatory migration of net-metering and net-accounting customers to TOU tariffs fundamentally alters the financial assumptions underlying existing investments. This exposes consumers to loan repayment difficulties and higher electricity bills, while eroding trust in policy stability.

6.3 Removal of Feed-in-Tariff Mechanism

Feed-in-Tariff (FiT) mechanisms are responsible for the largest renewable energy contribution annually and are explicitly enabled by the Electricity Act. Policy cannot and should not override the same. While tendering may work for some specific technologies at scale, they are impractical in others (mini-hydro, biomass, rooftop solar, waste-to-energy). Resorting to tenders for smaller scale installations carries a high transaction cost and implementation delays, as mentioned in clause 6.1 above. Tender processes will also be stressed as Sri Lanka grapples with land use challenges, which have intensified post-Cyclone Ditwah. Removal of FiT will dramatically reduce solar rooftop additions in the country.

Therefore, limitations in/slowing down FiT procurement (if done) must be executed alongside the procurement of renewable energy for the same total. For this, the NSO must develop a tender pipeline that runs to at least 1 GW per annum.

7. International Benchmarking, Corporatization and Competition

By contrast, recent renewable energy policies in comparable jurisdictions emphasise enablement rather than restriction. For example, Bangladesh's Renewable Energy Policy (2025)¹ includes provisions for net metering, open access, multiple procurement mechanisms, peer-to-peer trading, EV integration, energy storage, innovation, concessional finance, tax incentives, and cross-border energy trade. Such frameworks demonstrate how renewable energy policy can simultaneously support investment, affordability, and energy security. Further points to be considered under this category are listed below;

1. The draft policy attempts to limit what can be done with the profits of successor companies. This may impact providing reasonable dividends to the investors/shareholders. See section 2.2 above.
2. The draft policy asks for efficiency gains of companies to be shared with employees. This may prove to be untenable for private companies if improperly legislated, and administratively contentious for government organizations under all circumstances.
3. A central objective of electricity sector reform is the progressive development of competitive electricity markets, including at wholesale and, in due course, retail levels. In this context, careful consideration is required as to how the proposed

¹https://powerdivision.portal.gov.bd/sites/default/files/files/powerdivision.portal.gov.bd/page/f6d0e100_e2d8_47e7_b7cd_e292ea6395d3/The%20Renewable%20Energy%20Policy%202025%20%28Gazette%29.pdf

market structure, including the role and design of successor entities, will support the introduction of effective competition.

8. Clause-Specific Observations and Proposed Amendments

We respectfully propose the following targeted amendments to address the most critical deficiencies:

8.1 Curtailment Transparency (Clause 1.3.2)

Strengthen disclosure requirements to include detailed, periodic reporting on the quantum, duration, causes, affected technologies, and mitigation measures related to curtailment.

8.2 Curtailment Compensation (Clause 1.3.3)

Replace the blanket denial of compensation with a framework that:

- Minimises curtailment
- Provides compensation for curtailment not attributable to the generator
- Empowers the Regulator to determine compensation mechanisms following public consultation

8.3 Tariff Currency Denomination (Clause 1.3.5)

Permit limited, transparent indexation for foreign-currency funded capital components where this demonstrably reduces long-term consumer costs.

8.4 Structure of Renewable Energy PPAs (Clause 1.3.7)

Allow additional payments for storage, capacity support, or ancillary services where such services are provided and approved by the Regulator.

8.5 Feed-in Tariff Stability (Clause 1.4.2)

Fix feed-in tariffs at contract execution for the duration of the agreement, subject only to agreed indexation mechanisms.

8.6 Technology Variants for Mature Technologies (Clause 1.4.5)

The method specified under this clause can't be applied across the technologies mentioned therein. Historically, there were many tender awards secured at low rates which were never implemented as they were financially not viable. Hence tagging Feed-in Tariffs to be in par with lowest awarded tender price is not practical and will retard the RE integration. FIT s shall be independently established and evaluated / changed in prescribed periods

8.7 Limiting of Grid-connection Schemes and Integration methodology proposed for new Rooftop Solar Systems (Clause 1.4.6 & 1.4.7)

Energy prosumers shall have the right to decide which scheme they want to be in, instead of locking into Net Plus Scheme only. This will further facilitate industrial & commercial consumers to have flexibility in rooftop solar integration to align with sustainability targets mandated by their buyers for compliance. Further, centralizing rooftop solar under an aggregator-led tender mechanism will lead to monopolies in the market. Rooftop solar integration should be independent of NSO, other than approvals and grid-connection. Customers shall have the freedom of deciding which service provider to use, be it a small or large system on their preference. This will help maintain healthy competition, thus creating a favourable deliverables to the end customers, EPCs and utilities alike.

8.8 Strategies for Life-line Tariffs (Clause 5.1)

Allowing cross-subsidies for consumers who are using below 60 kWh monthly is being practiced in every country. By bringing the threshold down to 30 kWh will drive more and more citizens into energy poverty. Count of 6 million domestic consumers, 3.4 million falls into below 60 kWh monthly consumption category. This will negatively impact 12.7 million people which is 57% of the country's population. Removing cross-subsidies two years ago resulted in over 1.5 million electricity account disconnections. We strongly suggest to retain the cross subsidies offered to domestic consumers (less than 60 kWh monthly usage) and to GP1, H1 and IP1 consumers who contribute immensely to the grassroots level national economy.

8.9 Protection of Existing Contracts (New Clause)

Explicitly protect existing PPAs and SPPAs from retrospective or discriminatory policy changes.

9. Conclusion and Way Forward

We note that, in its current form, the Draft National Electricity Policy does not align with procedural, legal, and investment considerations for Sri Lanka's energy transition. We respectfully suggest that the Draft Policy be comprehensively revised before being re-submitted for public consultation, considering the following observations:

- Full compliance with the consultation requirements of the Electricity Act
- Reconstitution or strengthening of the drafting process with appropriate technical, financial, economic and market expertise
- Alignment with international best practices and financing norms
- Explanations of the intent of each section, and a detailed impact analysis on the targeted demography

Such an approach will better serve national objectives of affordability, energy security, sustainability, and economic resilience.

The Ceylon Chamber and its partner organisations stand ready to provide the detailed input required to assist policymakers to derive the best competitive advantage for Sri Lanka in this sector of very high economic potential.