

## Inputs on PUCSL Tariff submission

The Energy Sector Committee of the Ceylon Chamber of Commerce after careful examination of the current situation with the energy sector, developed the following input for the consideration of the PUCSL. This document is segregated into two parts; observations, where issues identified with the proposed tariffs are highlighted and; recommendations, where the committee relays relevant actions required by the PUCSL to ensure an effective tariff revision takes place.

### Observations

#### Costs

##### **1. Accuracy of Costs**

Fossil fuel prices have increased from those given in the Bulk Supply Tariffs (BST). There are significant errors in the figures of CEB submitted BST documents - for example, cost of coal given in the submission made on 27<sup>th</sup> April is significantly lower than the figures of Lanka Coal Company. Inaccuracy of underlying data is a significant issue for transparency and reasonableness of tariff. There are other missing costs - such as the coal plant level A maintenance costs for units 2 and 3 for 2022 is not included.

##### **2. Power cuts**

CEB has proposed the tariff increase assuming 100% power availability - which may not be a possibility for the near future. Since any power cuts due to lack of fuel will reduce a larger cost than the loss of revenue, there is a possibility that tariff increase will overcompensate the CEB. There is no modelling to explore how the costs and revenues will change under power cut scenarios.

##### **3. Reasonableness of the costs**

As per the Act, reasonable costs can be passed through to the consumers through a tariff increase. PUCSL has under previous tariff decisions issued some prerequisites to determine the reasonableness of the costs. These include placing CEB power plants under PPAs, dispatch audits, heat rate adjustments to PPAs etc. As per PUCSL, none of these measures are complied with. Therefore, it is not possible to ensure what is passed through is reasonable as a cost - and thus the increase proposed by PUCSL can be easily challenged in court, compromising the whole effort.

##### **4. Financial Independence of CEB entities**

As per the regulations, CEB generation, transmission and distribution licencees must be financially independent through the establishment of the Bulk Supply Transaction Account. This is step one to establish efficient cost (a term in the Act). Without setting up the same, CEB/PUCSL cannot establish that only efficient costs are passed through - and thus the increase proposed by PUCSL can be easily challenged in court, compromising the whole effort.

## **5. Renewable Energy**

The reason why generation costs are significantly higher is CEB's continuous blocking of renewable energy (RE). A larger portion of RE would have dramatically reduced the total and average cost of energy. Thus the costs are a result of CEB's own volition. It is debatable that this can be construed as reasonable costs.

## **Tariffs**

### **6. Cost of energy and service for categories**

The tariffs are expected to be cost reflective. For us to determine this, cost of power and cost of servicing each category of customers must be determined through an appropriate methodology by the CEB and presented as part of the public consultative process. Without such data, any tariff calculation cannot be shown as cost reflective.

### **7. Fixed and Variable Costs**

There is a significant increase in fixed costs as well - which can be counter argued/debated. This can slow down rooftop solar adoption, and also work as a counterproductive measure that dissuades people from implementing energy conservation projects.

### **8. Cross subsidies**

Looking at the different rates given for different categories, it is clear that there are various levels of cross subsidies in play. However, without adequate data, we are unable to determine who is subsidising whom and for what reasons. Without data on items 5 and 6, it is not possible to discern the levels of cross subsidies present. Cross subsidies must be determined as part of government policy and should not be left in the hands of a group of mid-level engineers at the utility.

### **9. Price Elasticity**

The tariff settings appear to be done assuming these are 100% elastic - thus increasing them will not result in any drop in consumption. Sri Lanka has a large population with energy poverty - and with a wider economic crisis, these groups will increase. Thus due consideration must be given - yet no analysis is present here.

### **10. Tariff principles**

Tariff settings require good understanding of economics with good data of price elasticity, equity, and incentivizing conservation. Tariffs should be also in line with national energy policy (focus on energy conservation/reduction of use, equity/affordability/availability/security etc.). It is unlikely that these factors have played a role in this tariff determination of CEB - it can be demonstrable that this tariff structure doesn't align with most of these principles.

We have not seen the calculations behind these tariffs, scenarios analysed and their outcomes and policy framework within which these tariffs are set. We are made to understand that there has not been no feedback from any economist into this process. This poses a serious concern as these decisions have significant economic implications.

## Recommendations

### Context

The tariff methodology calls for annual tariff revisions - but in the current context this may need to be revised each six months. This is especially so due to the tariff being artificially low compared to cost which is backward looking (1H 2023 costs significantly higher than 1H2022 costs due to fuel/exchange rates). Therefore, the energy sector committee's comments reflect this tariff filing and also future tariff filings based on observations given earlier.

### **a) We request PUCSL to insist on the following changes as a pre-condition to the tariff increase**

1. Proper operation of Bulk Supply Transaction Account (BSTA) and financial independence of CEB generation and distribution licensee
2. PPAs established for CEB generation plants and them be made financially independent through the same and avoidance of artificial subsidies
3. Dispatch audit process initiated
4. Since the reason for rapid electricity price hike is due to lack of adequate renewable energy, gazetting of new and economically feasible NCRE tariffs for SPPAs and rooftop solar systems

### **b) We request PUCSL to ensure following conditions are met before any further tariff increases are envisaged**

1. All recommendations of Deloitte with respect to dispatch process fully implemented
2. Dispatch audit complete for minimum two years (at minimum 2020, 2021). CEB has initiated immediate remedial measures of any adverse findings
3. Heat rate revisions incorporated to all PPAs
4. BSTA account properly audited and evidence of generation and distribution licensee initiation
5. All costs to be properly verified - for example, costs of Lanka Coal Company (LCC) and costs shown in BST cannot differ. Costs of coal must be paid by LCC and not CEB.
6. Moving of tariff process away from CEB engineers and under the transmission licensee finance team, headed by finance/economist professionals
7. A comprehensive cost of service and cost of energy study done for each consumer category backed by actual data
8. A comprehensive tariff study to make recommendations to government on how to allocate costs and prices.

9. Since significant amount of CEB capex is tied to grid upgrades (and CEB still insists that grid cannot take sufficient renewables), please audit the investments for transmission and distribution grid.

**c) We request government to initiate the following steps prior to any further tariffs**

1. The best way to protect manufacturing and service industries is to allow direct power purchase agreements from renewable energy producers. Amend the Act to enable the same, and PUCSL to work with Transmission Licencee to create an equitable mechanism
2. Fast track renewable energy implementation which is the only way to reduce costs to the consumers and make electricity affordable
3. Complete the unbundling of the CEB, creation of an Independent System Operator that is outside political and CEB Union influences.
4. Develop a national consumer tariff policy that will articulate how costs are allocated and the policy on cross subsidies