

Electricity Tariff Strategy

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Considerations

1. Socio-economic
2. Cost recovery
3. Fairness
4. Transparency

Multi Year Tariff Methodology

- Generation costs reviewed every six months
 - If actual hydro conditions/ fuel prices better than forecast, benefit will be passed on to consumers one year later.
 - Short term cash management at Bulk Supply Transaction Account
- Distribution wire, Transmission and BSOB set variable (sales, consumers, inflation) revenue caps for five years
 - Capex programs approved for five years and claw-back implemented
- Retail cost is a variable price cap for five years
- Network loss targets set for five years
- Benchmarking of costs
- Only Efficient costs are allowed

Bulk Supply Transaction Account

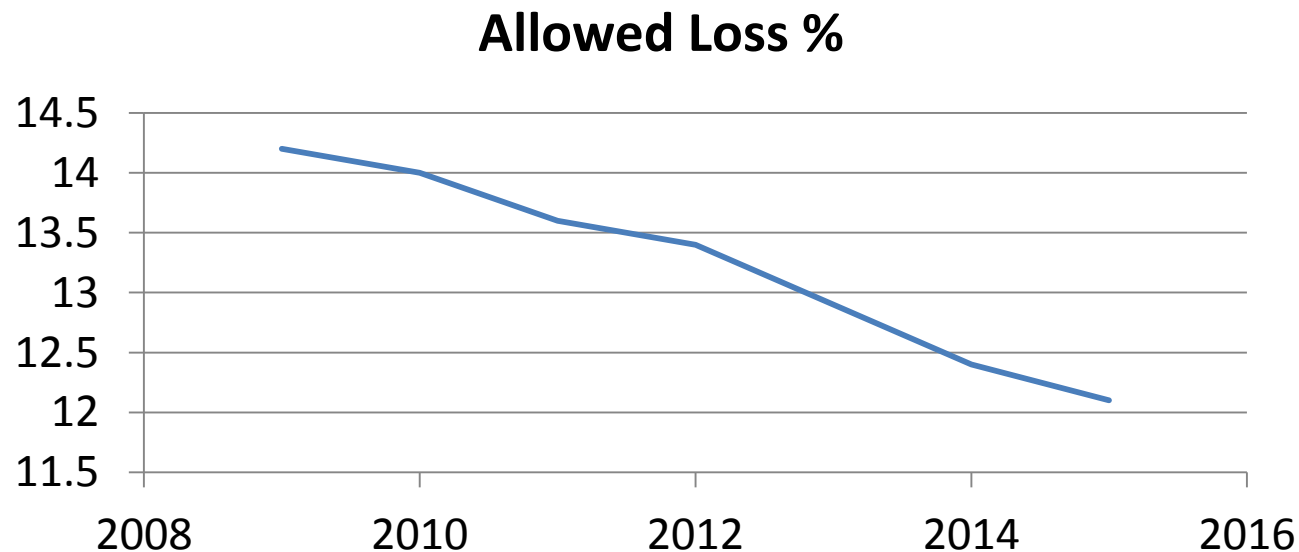
- Account that record the Buying and Selling transactions of Transmission Licensee
- Only CEB account monitored (Monthly) by PUCSL-guidelines issued
- Where the subsidy shall be injected or surplus is passed on to consumers
- Currently done on paper

Planned Improvements

- Study to set optimal network loss targets
- Interventions to improve investment planning
- Regulatory accounts to standardize financial information and facilitate monitoring

Network Loss Targets

- Transfer tariffs (Transmission to Distribution) are calculated based on target network loss levels, every six months



- If Licensees achieve better/ lower loss levels; **profits**

Investment Planning

- Generation, Transmission and Distribution plans
- Need to improve load forecasting
 - Can result in under/ over investment
- Generation and Transmission plans to be done together
 - PUCSL conduct own studies
 - Recommendations given through the investment plan approval process

Regulatory Accounting

- Standardize financial reporting for regulatory processes
 - Financial ring fencing of the regulated businesses
 - Reporting formats for tariff review purposes
 - Facilitate financial performance monitoring
 - Timely submission of periodical financial performance
 - Quantification of actual financial performance of the regulated business

CEB Revenue Position

	Units	Value
Generation Energy Cost (Jan-March 2016)	LKR Mn.	36,955
Generation Capacity Cost (Jan- March 2016)	LKR Mn.	11,310
Generation Energy Cost (April-Dec 2016)	LKR Mn.	77,151
Generation Capacity Cost (April- Dec 2016)	LKR Mn.	33,932
Transmission Revenue Cap 2016	LKR Mn.	11,943
BSOB Revenue Cap 2016	LKR Mn.	1,225
Term loan	LKR Mn.	9,517
DL1-5 Distribution Revenue Caps 2016	LKR Mn.	40,540
Retail Supply Revenue Caps 2016	LKR Mn.	3,612
Total Cost 2016	LKR Mn.	226,184
Total Sales (excluding Street lighting) 2016	GWh	11,843
Average Cost 2016	LKR/kWh	19.10
Total Estimated Sales Revenue 2016 at existing Sales Tariff	LKR Mn.	203,232
Average Sales Revenue	LKR/kWh	17.16
Estimated Revenue Surplus/ (deficit) 2016	LKR Mn.	(22,953)

Tariff Structure Issues

- Mix of Volume Differentiated Tariff (VDT) and Increasing Block Tariff (IBT) in the 'Domestic' category
 - Very high upper block (>180) tariff – Rs. 45.00/kWh
 - Very Low lower block (<30) tariff – Rs. 2.50/kWh
 - High price for marginal units; e.g. unit 61 is Rs. 290.50
- VDT in retail 'General' and 'Industry' categories
 - Very low I-1 tariff – Rs. 10.80/kWh
- Cross subsidies and net subsidies
 - Burden borne by 'General' and high end 'Domestic' categories

Tariff Direction/ Policies

- Safeguard low income groups
- Reduce number of 'Domestic' blocks/ unfair tariffs
- Introduce TOU tariff for retail consumers
- Smart meter deployment
- Prepaid metering
- Regulate Vehicle Charging Stations/ Tariff

Thank You