24th February 2026

Ministry of Energy,
No. 437,
Galle Road,
Colombo 03.

<u>Re: Public Consultation on the Final Draft National Electricity & Tariff Policy 2026 – Written Submission from Advocata Institute.</u>

Please find attached the Advocata Institute's official submission containing the organization's consolidated feedback and comments on the **Final** Draft of National Electricity and Tariff Policy 2026.

Kindly note that editorial and drafting support from AI tools was used in preparing this submission.

Thank you for the opportunity to contribute to this important process.

Yours Faithfully,

Dhananath Fernando

CEO,

Advocata Institute

<u>Part 1: Comments and Feeback on Policy Statements and Results Delivery Framework of the Final National Electricity Policy</u>

Pertaining to Results Delivery Framework

Results Delivery Framework	Comments
2.(ii)	While promoting economic activity is an important objective, this statement, particularly part (ii) is ambiguous. It is unclear whether "incentivize" implies the provision of subsidized electricity. Advocata reiterates that electricity pricing should not be used as a tool to incentivize economic activity, as this falls outside the core mandate of the energy ministry. Instead, the Treasury can resort to options like cash transfers to kick start economic activity. Accordingly, we recommend that this part be removed.

<u>Part 2: Comments and Feeback on Policy Statements, Implementation Framework and Strategies of the Final Draft National Tariff Policy</u>

Pertaining to Policy Statements:

Policy Statement No.	Comments
4	Advocata reiterates that low usage households does not necessarily mean low income. The shift toward better targeting of lifeline and subsidized tariffs should be accelerated, with the policy setting out a clear timeline for implementation. Advocata further reiterates that the lifeline tariff should be progressively phased out altogether, as direct budgetary transfers are a more efficient and transparent mechanism for supporting eligible households' electricity consumption.
7	Electricity is a non-storable commodity whose economically relevant unit is instantaneous delivery, making it inherently a spot product, as large-scale storage is costly and physical supply cannot easily be smoothed over time. Attempting to smooth prices artificially, for example through the balance sheet of the CEB, undermines the purpose of sending efficient price signals to consumers. While it may be premature to expose all end-users to spot prices, bulk supply consumers, which account for 48% of total usage but 0.19% consumers excluding LECO as of 2024, can be transitioned to spot pricing. This allows them to adjust consumption based on actual system conditions, while indirectly providing some smoothing for retail consumers without distorting price signals.

Pertaining to Policy Implementation Framework:

5.1. The general principles to be adopted by the Regulator in preparation of the Tariff Methodology

Principle	Comments
13	Using the Consumer Price Index (CPI) as an indexation factor for operations and maintenance costs is inappropriate, as CPI is heavily influenced by food and other consumer items that are not relevant to utility cost structures. A Producer Price Index (PPI), particularly for manufacturing, would provide a more accurate and relevant measure of cost movements for O&M expenses.
15	The Ceylon Electricity Board is a listed entity and is required to file quarterly accounts within 45 days and annual accounts within 60 days. It is therefore reasonable to mandate that audited financial statements of licensees be submitted within four months of the financial year-end. In any event, unaudited accounts are already required to be filed with the stock exchange within 60 days. It is also imperative that these financial statements are made publicly available.

5.2. Implementation framework for strategies of the National Tariff Policy

Strategy	Comments
4.2	There is no strong justification for socialising the cost of street lighting through the distribution licensees. These costs should instead be borne and managed by the relevant municipal councils, which are responsible for public lighting services. Similarly, there is no clear need to create a separate entity to take over street lighting functions, as these responsibilities can be effectively handled by municipal councils within their existing mandates. Establishing a new entity may also raise constitutional and legal concerns, given that existing legislation has already delegated these powers to local government, potentially creating avoidable legal impediments.
7.2	The assumption that frequent adjustments to end-user electricity tariffs would unduly inconvenience consumers is misplaced. Households already routinely face price volatility in essential items such as food and fuel. There is therefore no clear justification for treating electricity prices as uniquely requiring artificial stability, particularly when price adjustments are necessary to reflect underlying costs and ensure the financial sustainability of the sector.