

Concept paper on proposed amendments to the Electricity Act No. 36 of 2024

Committee Report

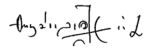
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1. Introduction

Sri Lanka's electricity sector is at a critical juncture, facing multifaceted challenges such as high electricity cost, over-reliance on imported fossil fuels, delays in adding new electricity generation plants to the grid, inefficiencies in governance and lack of strategic vision for a sustainable energy transition. Reforms and proper restructuring of the institutions in the electricity sector are mandatory to overcome these challenges.

After a narrow stakeholder consultation, the Sri Lanka Electricity Act, No. 36 of 2024 (Electricity Act) was approved by the Parliament on 06.06.2024 and became an Act of Parliament on 27.06.2024. The objects of this Electricity Act have been stated as (a) to ensure improved electricity industry performance through independent and accountable corporate entities, (b) to facilitate the establishment of independent and accountable corporate entities, (c) to promote and facilitate the establishment and functioning of the wholesale electricity market, (d) to promote competition in the electricity industry, (e) to ensure efficiency in carrying out the activities authorized or required by the respective licences issued to licensees, (f) to ensure that all reasonable demands for electricity are met, (g) to protect the public from dangers by improved safety standards, reliability and quality of services, (h) to identify the tariff principles and (i) to provide for the decarbonization of the electricity industry and the promotion of renewable energy and detailed in the Section 2 of the Electricity Act.

While many positive aspects that are essential for reforming the electricity sector are included in the Electricity Act, it also includes several institutions, provisions, and trade arrangements that are non-optimal, non-essential or detrimental to the sector. Some of the proposed establishments and their duties and responsibilities would not serve the stated objectives of the Electricity Act, but can make additional burdens on the electricity industry and the consumers. Certain provisions in the Electricity Act may impact on the affordable and secure supply of electricity, and make the transition excessively complex. These issues were also observed in some of the submissions made in the previous stakeholder consultations.

In consideration of the above facts and the public mandate on a people-centric energy transition towards an affordable, secure and cleaner energy sector, The Cabinet of Ministers authorized Secretary to the Ministry of Energy (MoE) to appoint this committee on 7th January 2025 to study, consult and provide recommendations on amending the Electricity Act.

2. Present Status

The Electricity Act was written over 53 main sections and Table 1 shows the dates of operation of each section as mentioned in Section 1 of the Electricity Act. The ‘Appointed Date’ shall be ordered by the Minister of Energy (Minister) published in the Gazette, provided that, prior to making such order, the Minister shall be satisfied that the Preliminary Transfer Plan, the National Electricity Policy, including the National Tariff Policy, Annual Power Procurement Plan and Long Term Power System Development Plan have been prepared, approved and are in place in accordance with the provisions of the Electricity Act. If no appointed date is published in the Gazette, the relevant sections and subsections become operational upon the expiry of twelve months from the date the Bill became an Act of Parliament.

Date of Operation	27th June 2024, on the date on which the Bill becomes an Act of Parliament	On the appointed date or 12 months from 27th June 2024 if no appointed date is published in the Gazette	On different order dates by the Minister
Sections	Provisions of Section 1, Sections 2, 3, 4, 9, Subsection (1), paragraph (b) of Subsection (2), Subsections (3) and (5) of Section 10, Sections 14, 15, 17, 18, 38, 39 as mentioned in Section 1.	Sections 5, 6, 7, 8, Provisions of Section 10, Sections 11, 12, 16, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53 as mentioned in Section 1.	Provisions of Section 13, Provisions of Part IX; as mentioned in Section 1.

Table 1

Proposals, strategies and structure for the unbundling of the activities of the Ceylon Electricity Board (CEB) relating to the generation, transmission, distribution and supply of electricity are detailed in Schedule I of the Electricity Act.

Implementation of incorporation of limited companies under the Companies Act, No. 07 of 2007 and the vesting therein of the restructured activities of CEB is described in Section 17 and preparation of the ‘Transfer Plan’ for the transition, transfer and reorganization of the electricity industry in Sri Lanka is detailed in Section 18 of the Electricity Act.

A secretariat called ‘Power Sector Reforms Secretariat’ (PSRS) shall be established for the purpose of assisting the Minister in the implementation of the reforms process

as provided for in the Electricity Act. Functions and duties of the PSRS are to assist, direct and oversee the implementation of the reforms enumerated in the Electricity Act including incorporation of new companies, preparation of regulations, preparation of the preliminary transfer plan and the final transfer plan, formulation of a comprehensive and efficient financial restructuring process and initiation of capacity building of the National System Operator (NSO) in planning, procurement and operations of the restructured sector as mentioned in Section 38 of the Electricity Act.

However, PSRS had failed to facilitate the incorporation of new companies and preparation of the preliminary transfer plan promptly by 27.10.2024 which was the due date all officers and servants of CEB holding office in CEB on the day preceding the appointed date to be notified by CEB of their proposed assignation to the respective successor companies, i.e. within four months Section 18 of the Electricity Act comes into operation.

Subsequently, MoE and CEB notified all officers and servants of CEB and all relevant stakeholders the intention of the new government for revisiting the Electricity Act for a progressive amendment with approval of the Minister once the new parliament is summoned on 21.11.2024.

Now this committee has categorized fundamental issues relating to the ongoing reforms process identified by various key stakeholders and propose the way forward in reforms and restructuring of the electricity sector with the recommendations on amending the Electricity Act.

3. Fundamental Comments

Various recommendations from previous cabinet-appointed committees and key stakeholders, and international best practices indicate the necessity for legislative amendments to the Electricity Act to address the current gaps.

3.1. National Energy Policy and Continuous Transitions in Energy Sector

National Energy Policy and Strategies of Sri Lanka has been published in the Gazette Extraordinary No. 2135/61 of 09.08.2019 as approved by the government. Policy reviews should be conducted at least once in six years and the Results Delivery Framework aligned with the policy and strategies should be revised in two-year intervals according to the framework of this National Energy Policy.

Considering the nature of continuous transitions in the energy sector, National Energy Policy should be reviewed and amended in accordance with the government policy and strategies in the energy sector.

This continuous energy transition should be supported by strong industry and regulatory laws and acts. New legislation is required to empower public mandate on energy sector, National Energy Policy of the government and to establish effective mechanisms to formulate policies and monitor the implementation.

The current Electricity Act requires formulation of a National Electricity Policy, which will be reviewed and updated every five years. However, electricity is an integral part of the National Energy Policy and should not be considered in isolation, as such an approach can lead to economic, financial, technical and other inefficiencies. The Result Delivery Framework, which obviously covers matters related to the Electricity Sector, provides a more dynamic and flexible framework to adapt and implement policies related to the electricity sector. Thus the development of a separate National Electricity Policy is problematic. Instead, the process of revision and implementation of the National Energy Policy must be strengthened and streamlined.

3.2. National Electricity Advisory Council

The National Electricity Advisory Council (NEAC) is tasked with the responsibility of advising the Minister in formulating the national electricity policy, preparation of national electricity policy including tariff policy, issue of policy guidelines, and review of the Long Term Power System Development Plan (LTPSDP). However, these tasks have been assigned to the regulator, Public Utilities Commission of Sri Lanka (PUCSL) and Sri Lanka Sustainable Energy Authority (SLSEA) through their respective Acts and the Electricity Act 2009. These respective institutions remain the obligations to perform these tasks efficiently though there were observations of shortcomings in the fulfillment of the tasks in the past. Additionally, if the Minister

requires expert advisors for analysis, formulation and implementation of policies, such advisors can be appointed at any time with the approval of Cabinet of Ministers following existing procedures. The NEAC duplicates and interferes with the independent functions of existing institutions and the NSO, and it undermines the very purpose of the entire reform process. Therefore the committee is of the view that NEAC is unnecessary.

3.3. Electricity Industry

Present government energy policy states following on electricity generation, transmission and distribution respectively;

(i) that the hydropower plants, renewable energy plants, the coal power plant, and all other major power plants currently owned by the state will remain under state ownership, while private investments on power generation will be protected and enhanced.

(ii) that the transmission network, the system control centre, and bulk power purchase and dispatch functions will continue to be operated under state ownership with regular audits.

(iii) that the distribution licensees will be restructured into entities with enhanced customer service and engagement following thorough stakeholder consultations, customer engagement and expert advice.

The items listed above were part of the policy presented to the public, which received a strong mandate through the presidential and parliamentary elections. The rationale for the above policy is the importance of energy security for economic stability and development, and the need for providing equitable access to electricity for consumers in all layers of the society. Thus, respecting the public mandate, the ownership structure of the successor companies to the CEB provided in the Electricity Act need to be revisited.

According to Schedule 1 of the current Electricity Act, CEB assets and functions will be assigned to a minimum of twelve (12) successor companies. The Secretary to the Treasury will hold one hundred per centum of the shares of the generation company that takes over the hydropower generation assets of CEB, the NSO, and the company taking over the Provident Fund and Pension Fund of CEB. The current Electricity Act does not explicitly state the share ownership structure of the remaining companies, although the Secretary to the Treasury is expected to hold the shares initially.

Also, according to Section 14. (1) of the current Electricity Act states, a company in which the Government of Sri Lanka holds more than 50% of its shares is eligible to apply for the National Transmission Network Service Provider (NTNSP) licence. While this provision facilitates private investment in the transmission network, it runs

counter to the stated policy of state ownership of the transmission network. Also, there is no restriction for a person or company holding shares of the NTNSP to apply for additional transmission licences weakening the position of state in the operation of the transmission network.

Sri Lanka's electricity system is yet to see a peak demand of 3,000 MW and is a relatively a small system. Establishing multiple standalone companies will introduce unnecessary complexities including appointing competent governing boards and leadership teams. This will result in erosion of governance and technical capabilities of these smaller companies. Furthermore, segmented smaller companies will have a weakened ability of raising capital in an environment where substantial investments will be needed to cater for the growing demand for electricity. The recommended solution is establishing government-owned holding companies to hold shares of the completely unbundled generation, transmission, and distribution companies formed as successor companies of CEB to operate under the NSO.

3.4. National Electricity Market

The current structure of the Electricity Industry, Single Buyer Electricity Market is a regulatory model where a single entity (CEB) buys electricity from Independent Power Producers (IPPs). The single buyer is responsible for securing the supply of electricity at the lowest possible cost. After the appointed date, the NSO becomes the single buyer.

One of the main objectives of the Electricity Act is to promote and facilitate the establishment and functioning of the Wholesale Electricity Market (WEM). However, the character of the WEM is not properly prescribed in Section 30 and the interpretation of the WEM in Section 52 is inadequate.

A competitive electricity market can consist of all or some of the following market components:

Bilateral Electricity Trade or Over the Counter (OTC) Trading: Trading takes place bilaterally outside the electricity exchange, and prices and amounts are not made public.

The Day-ahead Market (a Spot Market): Producers and buyers bid for electricity delivered from midnight and 24 hours ahead. The spot market is a day ahead-market where bidding closes at a certain time before the start of deliveries. The prices and amounts are based on supply and demand which are made public. In certain markets, there is an intraday market where the participants in the day-ahead market can trade bilaterally, for example for trading one-hour long power contracts.

The Regulating Power Market (Real-time Balancing Market): The main function of the real-time market is to provide power regulation to counteract imbalances related to planned day-ahead operation. The Transmission System Operators alone

make up the demand side of this market and only approved participants participate on the supply side. The prices within an imbalance market might vary seasonally; depending on supply and demand, but the reserve energy is only activating balancing products if imbalances actually occur.

The Ancillary Services Market: This is a collection of services that help maintain the stability and reliability of the electricity grid. These services include frequency regulation services, voltage control support, spinning reserves, black start capability, contingency reserves to respond to unexpected failures or outages.

The Retail Electricity Market: A retail electric market consists of utility companies, retail energy suppliers, energy traders, and energy consumers. Retail markets are open to supplier competition and energy consumers have the option to purchase electricity from a third-party provider, enroll in demand response programs, and even sell electricity back to the grid.

To build a National Electricity Market, these features need to be introduced gradually. Certain market features such as ancillary services market can be introduced even under the single buyer structure. However, the day-ahead or wholesale spot market need to be introduced when the generation market can be sufficiently competitive, and when there is no room for one or small group of participants to dictate the market prices. Global experiences have shown that a WEM should have a large share of long-term contracts with low-cost generators to anchor the electricity prices to avoid excessive volatility.

This committee recommends to amend the Electricity Act to allow the establishment of a wholesale market structure gradually, as the Sri Lankan electricity system meets progressive growth, rather than based on strict calendar deadlines.

The recommended path include considering the feasibility of establishing an ancillary services market including the regulating power market (balancing market) within the single buyer model and moving all Power Purchasing Agreements (PPA) with thermal peaking plants and future Battery Energy Storage Systems (BESS) to the ancillary services market and integrating with the dispatch of the NSO. If the ancillary market can incentivize new BESS for frequency support, that will be highly beneficial in the current context.

A wholesale electricity spot market shall be introduced to procure electricity competitively. Once the spot market has been established, the necessary structural changes must be implemented to move the single buyer market to a fully-fledged WEM.

Establishing the National Electricity Market includes gradual introduction of the retail electricity market as well.

3.5. Licensing

Eligibility criteria to apply for a licence should be reviewed in accordance with the changes to the electricity industry and market models mentioned in above sections. The licensing process needs adequate checks to avoid creation of monopolies or anti-competitive collaborations.

3.6. Reforms in entire Electricity Sector

Reforms should not be limited to the electricity utilities (CEB and LECO), but should also include the MoE, the regulator, SLSEA and other electricity sector organizations, for electricity sector reforms to be effective and meaningful, by identifying their weaknesses, and by simultaneously amending their respective acts and procedures, not to limit their present roles but to strengthen their respective roles and accountability.

Sri Lanka must be legislatively prepared for a considerable transition in the energy sector, with the rapidly changing global energy trends with global climate targets. An overreaching Energy Transition Act integrated with other industrial acts in the sector to facilitate this anticipated transition is much-needed.

4. Proposal

It is vital to revisit the objectives and other sections of the Electricity Act considering the fundamental comments and opinion of stakeholders to establish a sustainable and secure electricity sector. Proposals by this committee for the amendments to the Electricity Act is described in Table 2.

Only the Sections and Subsections relating to the fundamental and structural amendments are detailed in this Table 2, cross-referred sections and subsections should be reviewed and amended accordingly.

Table 2: Amendments to the Electricity Act No. 36 of 2024

Reference	Present Section	Proposed Amendment
Part I: Objects of the Act		
Section 2: Objects of the Act		
New Subsections		<p>to provide a continuous, reliable, convenient, clean and quality electricity supply at a reasonable and affordable price to the consumers.</p> <p>to establish proactive mechanisms to assure the continuity of electricity supply in the event of any social, economic, financial, geo-political, or technological transition, instability, or conflict.</p> <p>to minimize the impacts of electricity generation on the environment by committing to clean and sustainable sources and to preserve the ability of future generations to meet their energy needs.</p> <p>to manage future electricity supply and demand in the most economical and efficient ways.</p> <p>to transform the electricity sector into a people-centric and democratic system by empowering consumers to become educated and active prosumers.</p>

Reference	Present Section	Proposed Amendment
Section 2.(c)	to promote and facilitate the establishment and functioning of the Wholesale Electricity Market;	<p>to promote and facilitate the establishment and functioning of the completely unbundled Single Buyer Electricity Market with an independent system operator at the first phase.</p> <p>to introduce a competitive Wholesale Electricity Market and a competitive Retail Electricity Market in a progressive manner with the maturity of Single Buyer Electricity Market and operation of the completely unbundled electricity industry.</p>
Section 2.(g)	to protect the public from dangers arising from the generation, transmission, distribution, trade, supply and procurement of electricity by improved safety standards, reliability and quality of services;	to protect the public from risks associated with the generation, transmission, distribution, trade, supply, and procurement of electricity through enhanced safety standards, reliability, and quality of services;
Section 2.(i)	to provide for the decarbonization of the Sri Lankan Electricity Industry and the promotion of renewable energy and energy integration in accordance with Sri Lanka's national policies and its international obligations whilst ensuring optimal use of natural resources.	to minimize the carbon footprint of the Sri Lankan electricity industry, promoting renewable energy, and optimizing the integration of indigenous resources in line with Sri Lanka's national policies and international commitments.

Reference	Present Section	Proposed Amendment
Part II: National Electricity Advisory Council, the National Electricity Policy and the Issue of Policy Guidelines		
Section 3: Establishment of the National Electricity Advisory Council		-deleted-
Section 4: Formulation of the National Electricity Policy and issue of Policy Guidelines	Formulation of the National Electricity Policy and issue of Policy Guidelines	Formulation of the National Electricity Policy as Part of the National Energy Policy and issue of Policy Guidelines
Section 4.(1)	The national electricity policy shall reflect the objects of the Act specified in section 2, and the policy of the Government for the development of the Electricity Industry in a manner consistent with the national policy on energy specified in paragraph (a) of section 5 of the Sri Lanka Sustainable Energy Authority Act, No. 35 of 2007.	The national electricity policy shall reflect the objects of the Act specified in section 2, and the National Energy Policy and Strategies of Sri Lanka published by the Government for the development of the Electricity Industry in a manner consistent with the national policy on energy specified in paragraph (a) of section 5 of the Sri Lanka Sustainable Energy Authority Act, No. 35 of 2007.
Section 4.(2)	Upon the coming into operation of this Act, the Minister shall, with a view to enabling Sri Lanka to meet the increasing future demands for electricity, after consultation with the Regulator, National System Operator, licensees, consumer organisations and other relevant stakeholders and in compliance with all relevant national policies and policy guidelines of the Minister, direct the Council to formulate the draft national electricity policy.	Upon the coming into operation of this Act, the Minister shall, with a view to enabling Sri Lanka to meet the increasing future demands for electricity, appoint a committee to formulate the draft national electricity policy as a Part of the National Energy Policy, in compliance with all relevant national policies and policy guidelines of the Minister.

Reference	Present Section	Proposed Amendment
Subsections in Section 4:		Replace 'Council' by 'the committee appointed by the minister' with cross references to the Section 4.(2).
Part III: Regulator for the Electricity Industry		
Section 5: Public Utilities Commission of Sri Lanka to be the Regulator of the Electricity Industry		
Section 5.(3) (e)	assist the Minister in terms of sections 13 and 30 to formulate relevant regulations to introduce and operationalize open access and the Wholesale Electricity Market;	assist the Minister in terms of sections 13 and 30 to formulate relevant regulations to introduce and operationalize open access and the National Electricity Market;
Section 5.(3) (j)	periodically set the feed in tariff, the power purchase tariff from the generation licensees, the bulk sale tariff of the National System Operator to the distribution licensees, the transmission tariff and open access charges payable to transmission and distribution licensees, the end user consumer tariff consisting of distribution tariff (i.e. for network costs of distribution licensees) and supply tariff (i.e. for power purchase tariff of distribution licensees) and the allowed revenue to be recovered by transmission and distribution licensees;	periodically set the bulk sale tariff of the National System Operator to the distribution licensees, the transmission tariff and open access charges payable to transmission and distribution licensees, the end user consumer tariff consisting of distribution tariff (i.e. for network costs of distribution licensees) and supply tariff (i.e. for power purchase tariff of distribution licensees) and the allowed revenue to be recovered by transmission and distribution licensees;
Section 5.(3) (l)	ensure cost reduction in power purchase cost of the National System Operator and distribution licensees is achieved through adoption of open competitive procurement of new generation capacity in accordance with the Long Term Power System Development Plan and least cost economic dispatch of available generation capacity by the National System Operator;	ensure cost reduction in power purchase cost of the National System Operator and distribution licensees is achieved through adoption of open competitive procurement of new generation capacity in accordance with the Long Term Power System Development Plan and economic dispatch of available generation capacity by the National System Operator;

Reference	Present Section	Proposed Amendment
Part IV: Establishment of the National System Operator		
Section 11: Procurement		
Section 11.(1)	<p>The National System Operator shall, in accordance with the Long Term Power System Development Plan, procure-</p> <p>(a) electricity, generation capacity and energy storage capacity by calling for tenders based on the following procedure:-</p> <p>The National System Operator shall call for proposals to proceed with the procuring of any new generation plant or for the expansion of the generation capacity of an existing plant in excess of the threshold capacity mentioned in subsection (3), energy storage capacity and any other form of ancillary service capacity, and the procurement including procedures adopted for public private partnership shall be undertaken in a transparent and competitive manner. Electricity Industry specific procedures for such procurement and the formats required therefore shall be prepared in consultation with the National Procurement Commission established in terms of Article 156B (1) of the Constitution and shall be as prescribed:</p>	<p>The National System Operator shall, in accordance with the Long Term Power System Development Plan, procure-</p> <p>(a) electricity, generation capacity and energy storage capacity by calling for tenders based on the following procedure:-</p> <p>The National System Operator shall call for proposals to proceed with the procuring of any new generation plant or for the expansion of the generation capacity of an existing plant in excess of the threshold capacity mentioned in subsection (3), energy storage capacity and any other form of ancillary service capacity, and the procurement including procedures adopted for public private partnership shall be undertaken in a transparent and competitive manner. Electricity Industry specific procedures for such procurement and the formats required therefore shall be prepared in consultation with the National Procurement Commission established in terms of Article 156B (1) of the Constitution and shall be as prescribed:</p>

Reference	Present Section	Proposed Amendment
Section 11.(1)	<p>Provided that, -</p> <p>(i) if the capacity of the generation plant is below or equal to the threshold value as specified under subsection (3), and the final approval has been granted to generate electricity through renewable energy resources by the Sri Lanka Sustainable Energy Authority under section 18 of the Sri Lanka Sustainable Energy Authority Act, No. 35 of 2007;</p> <p>(ii) where on the day preceding the date of the coming into operation of this Act an approval of the Cabinet of Ministers has been obtained to develop a new generation plant or to expand the generation capacity of an existing generation plant; or</p> <p>(iii) where on the day preceding the appointed date a valid letter of award has been issued by the Ceylon Electricity Board in accordance with the provisions of the Sri Lanka Electricity Act, No. 20 of 2009,</p> <p>the National System Operator shall not be required to comply with the provisions of this subsection:</p> <p>Provided that, the selection of the party to whom approval has been granted or the letter of award has been issued has been selected pursuant to a competitive and transparent procurement process:</p> <p>Provided further, the requirement to submit a tender shall not be applicable in respect of any new generation plant or to the expansion of any existing generation plant that is being developed to meet any emergency situation as determined by the Cabinet of Ministers during a national calamity or a long term forced outage of a major generation plant, where protracted bid inviting process outweighs the potential benefit or procuring emergency capacity required to be provided by any person at least cost;</p>	<p>Provided that, -</p> <p>(i) if the capacity of the generation plant is below or equal to the threshold value as specified under subsection (3), and the final approval has been granted to generate electricity through renewable energy resources by the Sri Lanka Sustainable Energy Authority under section 18 of the Sri Lanka Sustainable Energy Authority Act, No. 35 of 2007;</p> <p>(ii) where on the day preceding the date of the coming into operation of this Act an approval of the Cabinet of Ministers has been obtained to develop a new generation plant or to expand the generation capacity of an existing generation plant; or</p> <p>(iii) where on the day preceding the appointed date a valid letter of award has been issued by the Ceylon Electricity Board in accordance with the provisions of the Sri Lanka Electricity Act, No. 20 of 2009,</p> <p>(iv) where the selection of the party to whom approval has been granted or the letter of award has been issued has been selected pursuant to a competitive and transparent procurement process:</p> <p>the National System Operator shall not be required to comply with the provisions of this subsection.</p>

Reference	Present Section	Proposed Amendment
Section 11.(3)	The Minister may on the advice of the Council, by Order published in the Gazette, specify the maximum capacity of any renewable energy technology-based power plants which may be permitted to enter into standardized power purchase agreements with the National System Operator:	the maximum capacity of any renewable energy technology-based power plants which may be permitted to enter into standardized power purchase agreements with the National System Operator shall not be exceeding 1 MW in interconnection capacity.
Section 11.(4) New Subsection		<p>The National System Operator may forego the requirement to submit a tender in respect of procuring any new generation plant or the expansion of any existing generation plant to meet any emergency situation as determined by the Cabinet of Ministers during a national calamity or a long term forced outage of a major generation plant, where the potential benefit or procuring emergency capacity required to be provided by any person at least cost outweighs protracted bid inviting process.</p> <p>Such period of emergency power purchasing from generation plants without submission of a tender shall not be longer than one (1) year.</p> <p>Period of power purchasing under this subsection shall be extended with prior approval of Cabinet of Ministers as required with the existence of the emergency situation longer than one (1) year.</p> <p>This provision shall cease to be in force when the Wholesale Electricity Spot Market or Ancillary Services Market outlined in Section 30 has been established.</p>

Reference	Present Section	Proposed Amendment
Part V: National Transmission Network Service Provider		
Section 14: Eligibility to apply for national transmission network service provider licence		
Section 14.(1)	No person other than a company incorporated in terms of the Companies Act, No. 07 of 2007 in which the Government of Sri Lanka holds more than fifty per centum of its shares shall be eligible to apply in terms of this Act for the issue of the national transmission network service provider licence.	No person other than a company incorporated in terms of the Companies Act, No. 07 of 2007 in which the 'Transmission Company' holds one hundred per centum of its shares shall be eligible to apply in terms of this Act for the issue of the national transmission network service provider licence, where the Government of Sri Lanka holds one hundred per centum of shares in the 'Transmission Company'.

Reference	Present Section	Proposed Amendment
Section 14.(2)	<p>Any person who has been issued with a letter of award by the National System Operator for constructing a transmission line in accordance with paragraph (b) of subsection (1) of section 11 shall apply to the Regulator for an additional transmission licence and for approval to proceed with the construction in accordance with the applicable grid code and other technical standards and parameters. Such additional transmission licensees shall be authorised to keep the ownership of such transmission assets built by them and required to provide non-discriminatory transmission connectivity to any generating station or consumer in accordance with the grid code and subject to the availability of surplus transmission capacity as determined by the National System Operator. The operation of such transmission assets shall be undertaken by the National System Operator in terms of the transmission service agreement entered into with the National System Operator in accordance with the provisions of subsection (12) of section 10.</p>	<p>No person other than a company incorporated in terms of the Companies Act, No. 07 of 2007 in which the Government of Sri Lanka holds more than fifty per centum of its shares, who has been issued with a letter of award by the National System Operator for constructing a transmission line in accordance with paragraph (b) of subsection (1) of section 11 shall be eligible to apply to the Regulator in terms of this Act for the issue of the additional transmission licence and for approval to proceed with the construction in accordance with the applicable grid code and other technical standards and parameters. Such additional transmission licensees shall be authorised to keep the ownership of such transmission assets built by them and required to provide non-discriminatory transmission connectivity to any generating station or consumer in accordance with the grid code and subject to the availability of surplus transmission capacity as determined by the National System Operator. The operation of such transmission assets shall be undertaken by the National System Operator in terms of the transmission service agreement entered into with the National System Operator in accordance with the provisions of subsection (12) of section 10.</p>

Reference	Present Section	Proposed Amendment
<p>Part VI: Incorporation of Limited Companies under the Companies Act, No. 07 of 2007</p>		
<p>Section 17: Incorporation of Limited Companies under the Companies Act, No. 07 of 2007 and the vesting therein of the restructured activities of the Ceylon Electricity Board</p>		
<p>Section 17.(2) (b)</p>	<p>The Secretary to the Treasury shall be initially allotted hundred per centem of the shares in the successor companies incorporated under this section other than the companies referred to in items (a), (f) and (h) (ii) of Schedule I in which the Secretary to the Treasury shall be permanently allotted hundred per centem of the shares.</p>	<p>The Secretary to the Treasury shall be permanently allotted hundred per centem of the shares in the successor companies incorporated under this section referred to in items (A), (B), (C), (f) and (h) (ii) of Schedule I.</p>

Reference	Present Section	Proposed Amendment
Section 17.(2) (c)		<p>'Generation Company', the successor company referred to in item (A) shall be permanently allotted hundred per centem of the shares in the successor companies incorporated under this section referred to in items (a), (b) and (c) of Schedule I.</p> <p>'Transmission Company', the successor company referred to in item (B) shall be permanently allotted hundred per centem of the shares in the successor companies incorporated under this section referred to in items (e) and (h) (i) of Schedule I.</p> <p>'Distribution Company', the successor company referred to in item (C) shall be permanently allotted hundred per centem of the shares in the successor companies incorporated under this section referred to in item (g) of Schedule I.</p>
Section 17.(3)	<p>If after the requirements of subsections (1) and (2) have been completed it is apparent that one or more residual companies are required to be incorporated for the transfer plan to be fully implemented, such required number of residual companies shall be incorporated in the manner provided for in the Companies Act, No.07 of 2007, and the provisions of subsections (1) and (2) of this section shall, mutatis mutandis, be applicable in relation to such residual companies.</p>	-deleted-

Reference	Present Section	Proposed Amendment
Section 18: Preparation of the transfer plan		
Section 18.(2) (c)	<p>The Secretary to the Treasury may, with the prior approval of the Cabinet of Ministers, and having followed a transparent and competitive bidding process as stipulated by law dispose of any shares issued or allotted to him in any successor company other than the companies referred to in items (a), (f) and (h) (ii) of Schedule I or of any rights over such shares only after the publication of the final transfer plan in the Gazette in terms of paragraph (b):</p> <p>Provided that, the Secretary to the Treasury shall, in disposing any shares as specified in paragraph (c) ensure that the Government holds more than fifty per centum of the shares of the company referred to in item (e) of Schedule I.</p>	-deleted-

Reference	Present Section	Proposed Amendment
Section 18.(3) (a)	identify the duties and functions discharged by the Ceylon Electricity Board immediately prior to the appointed date;	<p>identify the duties and functions discharged by the Ceylon Electricity Board and its employees immediately prior to the appointed date and separate such duties and functions of the Ceylon Electricity Board and its employees to the successor companies referred to in section 17 referred to in Schedule I.</p> <p>Provided that, both the Provident Fund and the Pension Fund shall be transferred to a separate company established for such purpose and the benefits of the said Provident Fund and the Pension Fund shall only apply to the employees on the day preceding the appointed date and former employees of the Ceylon Electricity Board:</p> <p>Provided further, the governance structure for the company assigned to manage such funds shall be as prescribed and shall include representatives from employees on the day preceding the appointed date and former employees of the Ceylon Electricity Board who shall be consulted regarding the investment decisions of such funds;</p>
Section 18.(3) (b)	in connection with the existing financial liabilities of the Ceylon Electricity Board, specify that a portion of the said liabilities which shall include supplier liabilities be allocated to the successor company to whom the hydro power generation assets of the Ceylon Electricity Board will be assigned and which shall be a company of which one hundred per centum of the shares are held by the Government of Sri Lanka and the balance portion of the said liabilities will be allocated amongst the other successor companies, in such proportions as shall be specified in the transfer plan;	in connection with the existing financial liabilities of the Ceylon Electricity Board, specify that a portion of the said liabilities which shall include supplier liabilities be allocated amongst successor companies, in such proportions as shall be specified in the transfer plan;

Reference	Present Section	Proposed Amendment
Section 18.(3) (c)	<p>separate such duties and functions of the Ceylon Electricity Board into the following categories to enable the allocation and subsequent vesting of the following duties and functions and its employees to the successor companies referred to in section 17 -</p> <ul style="list-style-type: none"> (i) electricity generation based on hydro, thermal and renewable energy sources; (ii) electricity transmission services and maintenance of the National Grid of Sri Lanka; (iii) electricity demand forecasting and planning, procurement of electricity and sale in bulk form, economic dispatch of electricity, the management, including operation and maintenance of the System Control Centre and National Grid of Sri Lanka operation including transmission network expansion planning; and (iv) electricity distribution or supply; 	-deleted-
Section 18.(3) (d)	<p>identify such duties, functions and activities of the Ceylon Electricity Board which are not connected directly to the duties and functions specified in paragraph (c), including but not limited to the management of employees' pensions and employees' Provident Fund, support services, and the distribution of existing human resources, which shall be vested in and be discharged by residual companies referred to in section 17;</p>	-deleted-

Reference	Present Section	Proposed Amendment
Section 18.(3) (e)	<p>allocate to a company or companies referred to in section 17 whose sole shareholder shall be the Government of Sri Lanka –</p> <p>(i) all unassigned residual assets, liabilities, duties and functions and the remaining staff of the Ceylon Electricity Board:</p> <p>Provided that, the Regulator may determine the rate of levy from the other successor companies to be paid to the residual companies to recover the administrative expenses of the residual companies and the procedure for the collection of such levy shall be as prescribed;</p> <p>(ii) the functions of the Provident Fund and Pension Fund of the Ceylon Electricity Board as the custodian and trustee and to manage such Provident Fund and Pension Fund and the monies required to meet the Provident Fund obligations of the employees of the Ceylon Electricity Board:</p> <p>Provided that, both the Provident Fund and the Pension Fund shall be transferred to a separate company established for such purpose and the benefits of the said Provident Fund and the Pension Fund shall only apply to the employees on the day preceding the appointed date and former employees of the Ceylon Electricity Board:</p> <p>Provided further, the governance structure for the company assigned to manage such funds shall be as prescribed and shall include representatives from employees on the day preceding the appointed date and former employees of the Ceylon Electricity Board who shall be consulted regarding the investment decisions of such funds;</p>	-deleted-

Reference	Present Section	Proposed Amendment
Part VII: Licensing		
Section 20: Eligibility to apply for a licence		
Section 20.(3)	<p>Only a limited company incorporated under the Companies Act, No.07 of 2007 in which the Government of Sri Lanka holds -</p> <p>(a) one hundred per centum of its shares shall be eligible to apply for the issue of the national system operator licence;</p> <p>(b) more than fifty per centum of its shares shall be eligible to apply for the issue of the national transmission network service provider licence.</p>	<p>Only a limited company incorporated under the Companies Act, No.07 of 2007 in which the Government of Sri Lanka holds -</p> <p>(a) one hundred per centum of its shares shall be eligible to apply for the issue of the national system operator licence;</p> <p>(b) one hundred per centum of its shares directly or indirectly shall be eligible to apply for the issue of the national transmission network service provider licence.</p> <p>for the avoidance of doubt, it is hereby stated that;</p> <p>(i) there shall be only one national system operator licence</p> <p>(ii) there shall be only one national transmission network service provider licence</p> <p>granted under this Act.</p>

Reference	Present Section	Proposed Amendment
Section 20.(5)	Additional transmission licences may be granted to any person, which acquires subject to the limitation specified in paragraph (b) of subsection (4), the right to build a transmission asset pursuant to paragraph (c) of subsection (11) of section 10 and subsection (2) of section 14.	Additional transmission licences may be granted to a limited company incorporated under the Companies Act, No. 07 of 2007 in which the Government of Sri Lanka holds more than fifty per centum of its shares, who has been issued with a letter of award by the National System Operator for constructing a transmission line in accordance with paragraph (b) of subsection (1) of section 11, which acquires subject to the limitation specified in paragraph (b) of subsection (4), the right to build a transmission asset pursuant to paragraph (c) of subsection (11) of section 10 and subsection (2) of section 14.

Reference	Present Section	Proposed Amendment
Section 20.(6)	<p>A person who holds more than fifteen per centum of shares of a single company, directly or indirectly, shall not be granted a combination of any two of the following licences: –</p> <ul style="list-style-type: none"> (a) the national transmission network service provider licence and a generation licence; (b) the national transmission network service provider licence and a distribution licence; (c) the national transmission network service provider licence and national system operator licence; (d) the national system operator licence and a distribution licence; (e) the national system operator licence and a generation licence; (f) a generation licence and a distribution licence; or (g) more than one distribution licence. 	<ul style="list-style-type: none"> (a) A person, other than the Government of Sri Lanka, who holds more than five per centum of shares of a single company, directly or indirectly, shall not be granted a combination of any two of the following licences: <ul style="list-style-type: none"> (i) a generation licence and a distribution licence; or (ii) more than one distribution licence. (b) Any person or company other than the Government of Sri Lanka shall not simultaneously own, directly or indirectly, more than five per centum of the shares of two companies holding a combination of any two of the following licences: <ul style="list-style-type: none"> (i) a generation licence and a distribution licence; or (ii) more than one distribution licence.

Reference	Present Section	Proposed Amendment
Part VIII: Tariffs		
Section 29: Tariff		
Section 29.(1)	The national tariff policy shall include the principles to be adopted by the Regulator in setting the tariffs specified in subsection (3) and shall be submitted to the Cabinet of Ministers for approval.	The national tariff policy shall include the principles to be adopted by the Ministry of Energy in setting the tariffs specified in paragraphs (a), (b) and (c) and by the Regulator in setting the tariffs specified in paragraphs (d), (e), (f) and (g) of subsection (3) and shall be submitted to the Cabinet of Ministers for approval.
Section 29.(2)	In setting the tariffs, the Regulator shall ensure financial sustainability including a reasonable return on the investment of the regulated entities.	In setting the tariffs, the Ministry of Energy and the Regulator shall ensure financial sustainability including a reasonable return on the investment of the regulated entities.
Section 29.(3)	The following shall be the tariffs required to be set, as shall be prescribed by the Regulator in accordance with the national tariff policy:-	The following shall be the tariffs required to be set, in accordance with the national tariff policy:-

Reference	Present Section	Proposed Amendment
Part IX: Wholesale Electricity Market	Wholesale Electricity Market	National Electricity Market
Section 30: Establishment of the Wholesale Electricity Market	Establishment of the Wholesale Electricity Market	Establishment of the National Electricity Market
Section 30.(1)	The Minister shall, by Order published in the Gazette under section 1, specify the date from which the Wholesale Electricity Market shall commence operations, subject to any conditions which may be stated therein.	The Minister shall, by Order published in the Gazette under section 1, specify the date from which the National Electricity Market shall commence operations, subject to any conditions which may be stated therein.
Section 30.(2)	The Wholesale Electricity Market shall be a competitive market and the operating procedures to be adopted in the operation thereof shall be as prescribed.	<p>(a) The National Electricity Market shall be a competitive market and the operating procedures to be adopted in the operation thereof shall be as prescribed.</p> <p>(b) The National Electricity Market shall consist any or combination of:</p> <p>(i) A competitive Ancillary Services Market that includes frequency control ancillary services, reactive power ancillary services and black-start support services for the National system Operator</p> <p>(ii) A competitive Wholesale Electricity Spot Market that facilitates short term power procurement of day-ahead and intra day requirements of the National System Operator</p> <p>(iii) Competitive wholesale electricity market that facilitates the trading of long-term electricity supply contracts between generation licensees and distribution licensees.</p>

Reference	Present Section	Proposed Amendment
Section 30.(3)	<p>Prior to an Order being made in terms of subsection (1) for the operation of the Wholesale Electricity Market by the National System Operator, the Minister shall ensure that regulations, terms and conditions, guidelines, and rules necessary for facilitating the efficient operation of the Wholesale Electricity Market have been made identifying and specifying the operating, technical, commercial and economic parameters and the market monitoring processes.</p>	<p>Prior to an Order being made in terms of subsection (1) for the operation of the National Electricity Market by the National System Operator, the Minister shall ensure that regulations, terms and conditions, guidelines, and rules necessary for facilitating the efficient operation of the National Electricity Market have been made identifying and specifying the operating, technical, commercial and economic parameters and the market monitoring processes.</p>
Section 30.(4)	<p>The Minister may, with the approval of the Cabinet of Ministers in the interests of the national economy, allow the distribution licensees to enter into power purchase agreements with generation licensees prior to the establishment of the Wholesale Electricity Market.</p>	<p>Upon the coming into operation of this Act, the Minister shall, with a view to enabling National Electricity Market order National System Operator to formulate the market models with implementation timeline including required regulations, terms and conditions, guidelines, and rules necessary for facilitating the efficient operation of the National Electricity Market.</p>

Reference	Present Section	Proposed Amendment
Schedule I: Structure of the electricity industry		
Schedule I:(A)	New item	one company (hereinafter referred as Generation Company) of which one hundred per centum of the shares are held by the Secretary to the Treasury to take over the assets and functions of the Ceylon Electricity Board relating to (i) the hydropower generation and Mannar Wind Power Plant, (ii) the Norochcholei Coal power Plant and Lanka Coal Company, and (iii) the other thermal generation
Schedule I:(B)	New item	one company (hereinafter referred as Transmission Company) of which one hundred per centum of the shares are held by the Secretary to the Treasury to take over the assets and functions of the Ceylon Electricity Board relating to (i) the development, maintenance and operation of the physical infrastructure that makes up the National Grid of Sri Lanka and (ii) the construction projects, training, IT solutions and other functions and activities not entrusted to other companies incorporated

Reference	Present Section	Proposed Amendment
Schedule I:(C)	New item	one company (hereinafter referred as Distribution Company) of which one hundred per centum of the shares are held by the Secretary to the Treasury to take over the assets and functions of the Ceylon Electricity Board relating to the distribution divisions 1, 2, 3 and 4
Schedule I:(a)	one company of which one hundred per centum of the shares are held by the Secretary to the Treasury to take over the hydropower generation assets of the Ceylon Electricity Board	one company of which is a fully owned subsidiary of Generation Company to take over the assets and functions of the Ceylon Electricity Board relating to the hydropower generation and Mannar Wind Power Plant
Schedule I:(b)	one company to take over the Coal power Plant owned and operated by the Ceylon Electricity Board as well as Lanka Coal Company	one company which is a fully owned subsidiary of Generation Company to take over the assets and functions of the Ceylon Electricity Board relating to the Norochcholei Coal power Plant and Lanka Coal Company
Schedule I:(c)	one company to take over the thermal generation assets of the Ceylon Electricity Board	one company which is a fully owned subsidiary of Generation Company to take over the assets and functions of the Ceylon Electricity Board relating to the other thermal generation
Schedule I:(d)	one company to take over the Wind Power Plant owned, possessed and operated by the Ceylon Electricity Board	-deleted-

Reference	Present Section	Proposed Amendment
Schedule I:(e)	one company of which the Secretary to the Treasury holds more than fifty per centum of the shares to take over the functions of the Ceylon Electricity Board relating to the development, maintenance and operation of the physical infrastructure that makes up the National Grid of Sri Lanka	one company which is a fully owned subsidiary of the Transmission Company to take over the assets and functions of the Ceylon Electricity Board relating to the development, maintenance and operation of the physical infrastructure that makes up the National Grid of Sri Lanka
Schedule I:(f)	one company of which the Secretary to the Treasury holds one hundred per centum of the shares to take over the functions of the Ceylon Electricity Board relating to generation scheduling, commitment and economic dispatch of generating plants and functions relating to the planning of future electricity and transmission capacity	-no change-
Schedule I:(g)	separate companies to take over the distribution functions of the distribution divisions of the Ceylon Electricity Board	four companies which are fully owned subsidiaries of the Distribution Company to take over the assets and functions of the Ceylon Electricity Board relating to the distribution divisions 1, 2, 3 and 4 respectively

Reference	Present Section	Proposed Amendment
Schedule I:(h)	such number of companies as shall be required for managing the residual functions of the Ceylon Electricity Board. Such residual companies shall be incorporated to undertake among other matters which may not be allocated to any successor company, the following residual functions	-no change-
Schedule I:(h) (i)	one company to take over functions of the Ceylon Electricity Board other than those functions and activities entrusted to the companies incorporated	one company which is a fully owned subsidiary of the Transmission Company to take over the assets and functions of the Ceylon Electricity Board relating to the construction projects, training, IT solutions and other functions and activities not entrusted to other companies incorporated
Schedule I:(h) (ii)	one company to take over the functions of the Provident Fund and Pension Fund of the Ceylon Electricity Board and to act as the custodian and trustee and manage of such provident fund and pension fund, provided that, the entire share holdings of the company shall always remain with the Secretary to the Treasury	-no change-

5. Recommendations

This committee recommends following actions on the electricity sector reforms and for the amendments to the Electricity Act.

1. To amend the Electricity Act No. 36 of 2024 considering fundamental comments in Section 3 and according to the proposals in Section 4.
2. To conduct stakeholder consultations and knowledge sharing sessions on the proposed amendments.
3. To initiate the legislative preparations for transitions in the energy sector by a Energy Transition Act integrated with other industrial acts in the sector.