

Your excellencies,

First of all I would like to thank the United States Energy Association, USAID and SARI for Energy for the opportunity given to us- the countries in South Asia Region, to discuss ways and means of promoting energy security.

The **Ceylon Electricity Board (CEB)** is a statutory Body with the responsibility of Generation, Transmission and Distribution of electric power which has been established by an Act of parliament in Sri Lanka. In Addition to its own hydro thermal generation the CEB purchases power from private Independent Power Producers (IPP) as well. The total number of employees in CEB stands at approximately 14,000 and it serves a consumer base of 3.4 million customers.

The CEB's Transmission system comprises of 220Kv,132Kv while the distribution network comprises of 33kv, 11 Kv and 400 Volts. The **CEB** and **Lanka Electricity Company Limited (LECO)** are the sole distribution utilities of electricity in the country.

### Key Issues

The turnover from the year 2006 was Rs.55,927 Million equivalent to (560 Million US\$) and the system losses at the end of the year 2006 stands at 16%. The peak demand of the system is between 7.00 p.m. to 9.00 p.m. and presently it stands at 1750MW. The electricity generation sources have been mainly hydro until the 1990s it is tilting towards thermal power with the increase in demand and presently it stands at 36% of hydro and 64% of thermal power.

The CEB has not been able to obtain a tariff that would match the cost of supply, as the government feels that such a tariff would not be affordable to the public. Further Industrialists have pointed out that their products would not be competitive in the international market in the event in that such a tariff is enforced. CEB faces this problem as the consecutive governments have not given them green light for setting up of

large scale, low cost, base load coal power plants during the last 2 decades. Instead, The deficit has been met by relatively low capacity Thermal power generation plants (combined cycle plants) using petroleum fuel. Furthermore independent power producers too generate electricity using petroleum fuels such as furnace oil and diesel. As you know there has been a rapid escalation of prices of these fuels in the international markets. However CEB is not able to increase tariff to commensurate with such hikes in fuel prices. The situation has aggravated with the depreciation of the Sri Lankan Rupee against the US Dollar, as it affects the capital cost and the operational costs. Recently the present government has been able to give the CEB a tariff increase of 12% which is not adequate at all and at present CEB is making losses nearly 40 Million Rupees per day due to this imbalance in tariff.

While elaborating the root causes for the financial crisis in the CEB, I would like to state that the restructuring process which was initiated by the government had to be laid by owing to strong opposition raised by the employees of the CEB. As a result of which the government has decided to decouple regulatory reforms and structural reforms in the power sector enabling a phased approach to reforms. Following this decision regulatory reforms are to be carried out introducing independent regulations in the sector.

Despite these issues Sri Lanka's electricity demand has been growing at an average rate of 7%-8% annually and this trend is expected to continue in the future. Thus our energy generation plans envisage 1000 MW to be added to the national grid in the next 5 years.

### Coal /Thermal Power

To achieve these targets we have commenced the construction of a coal power plant project at Norochcholai in the west coast of Sri Lanka. This project will be implemented in <sup>three</sup> ~~two~~ stages. At the completion of the first stage it is expected to generate 300MW and at the end of the ~~second~~ <sup>third</sup> stage its capacity will be

expanded to 900MW with the increasing demand. For the use of this project clean coal will be imported.

Furthermore a coal power plant is proposed to be implemented in the close proximity of Tricomalee in the East coast of Sri Lanka and this will have a regional flavour as it is due to be a collaboration between India and Sri Lanka. A joint venture between CEB and National Thermal Power Corporation (NTPC) of India is contemplated to operate this coal power plant as an IPP project.

Sri Lanka is also in the process of introducing <sup>liquified</sup> ~~Liquid~~ Natural Gas (LNG) to the country. The first power plant and thermal facility is now under contemplation.

Also, I am happy to announce that the inter-connection of power grid of India and Sri Lanka is proposed to be implemented. Sri Lanka has a combination of hydropower and thermal power generation and the inter-connection is likely to facilitate around 500MW of power transfer between the two countries for mutual advantage. This will consist of transmission lines and a High Voltage Direct Current (HVDC) submarine cable, linking India and Sri Lanka. The ADB is in the process of arranging technical assistance for carrying out a feasibility study for this project which is expected to materialize by year 2012.

### **Hydro Power**

We are in the process of developing and expanding our hydro power resources and we have recently embarked on the development of the upper Kotmale hydro power project with financial and technological assistance from Japan. This hydropower plant is expected to be commissioned in 2010 as a "peaking plant". The installed capacity of this plant will be 150 MW. The Major hydropower resources have already been developed and several small and mini hydro power plants are under construction.

### Mini Hydro

Although there had been a speedy growth in the development of mini hydro projects which presently generates approximately 86MW, it is negligible as it stands at only 0.06% of the total energy generation. Further 142MW of power of mini hydros will be added to the national grid within the next two (2) years and new sites are presently being investigated.

### Other sources of renewable energy

Today there is a global trend to explore, promote and develop environmental friendly renewable energy resources, and Sri Lanka being a country whose majority of hydro power resources have already been exhausted, much emphasis will be made with regard to the renewable and alternate energy resources in the future. Particularly in the rural areas we will be actively pursuing micro hydro development projects at village level and wind power of small to medium sizes. Attractive prices are offered through intervention of the Energy Fund. Letters of Intents have been issued approximately <sup>for</sup> 40 MW of wind power and regional inputs of wind power and regional inputs towards design and machinery is desirable

Furthermore Sri Lanka has proceeded with active use of biomass. A dendro thermal power plant of 1MW in Walapane in the Central part of Sri Lanka has commenced operations recently. A remarkable factor is that this power plant uses grown fuel wood and is able to compete with oil fired thermal power plants. The growing of glicidia plants is under taken at village levels and is already providing sizeable employment. In the future Sri Lanka will be constructing more and more dendro thermal power plants.

In this respect <sup>for</sup> ~~of~~ promoting energy efficiency and conservation a **sustainable energy authority** is being set up. In the meantime, the existing Body- the energy Conservation Fund, is actively promoting energy efficiency and conservation. This

is a drive towards utilization of more energy efficient equipment in industries, commercial establishments and households. A credit enhancement mechanism introduced by the energy conservation fund is able to substitute the usual requirement for colaterals.

Sri Lanka is deficient in commercial energy resources. All petroleum fuel resources for power generation, transportation and for industrial usage etc. are imported. In future (from year 2011) coal requirements for the coal power plants needs to be imported to Sri Lanka, as mentioned above.

It would be seen that the power sector is a major constraint to the economic growth of my country Sri Lanka, as well . I fervently hope the discussions, suggestions and proposals initiated here would help us in a tangible way to identify the pragmatic means of overcoming the issues relating to power sector.

Thank You

