

PROPOSALS FOR BUDGET 2026

Research Publications and Resources



Introduce a rational method for electricity tariffs for households

The Poor Should Not Have to Compensate for the Overconsumption of the Rich

Abstract - As of March 2023, Sri Lanka has the highest electricity tariffs in South Asia, with costs 2 to 2.5 times higher than the regional average¹. To address this, it is vital to balance cost recovery and affordability. This proposal aims to reward reduced electricity consumption with lower tariffs, as decreased consumption enables the use of lower-cost generation options.

Overview - Since August 2022, Sri Lanka's electricity tariffs have been revised five times, resulting in an overall tariff structure that is now 1.3 times higher than it was prior to these changes. A common criticism of these revisions is the lack of a clear, justifiable criterion for how tariffs are differentiated among households, leading to perceptions of arbitrariness.

This proposal introduces a rational approach to tariff differentiation, designed to be fair and universally justifiable. Under this approach, electricity generated is allocated from various sources—hydro, wind, coal, solar, and oil—in ascending order of cost. Households start consuming from the least expensive source, moving to higher cost sources as their usage increases.

Those who consume less electricity meet their needs with cheaper, lower cost energy sources and consequently benefit from lower tariffs. This pricing method ensures that each consumer pays according to the actual cost of the electricity they use, promoting fairness across different consumer categories. Additionally, this approach achieves cost-recovery in electricity pricing, as each household is charged based on the actual cost of generating the electricity they consume. When applied universally, the revenue generated covers the total cost incurred to supply electricity.

¹ For more, read: <https://publicfinance.lk/en/topics/electricity-bills-in-sri-lanka-highest-in-south-asia-1707265066>

Note: This analysis was published before the March 2024 tariff revision