

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
Public Financial Management		
<p>Insufficient cash generation by CEB to fund its operations due to</p> <p>(i) an increase in fuel oil cost and reliance on high-cost oil-fired electricity generation,</p> <p>(ii) delays in commissioning lower-cost generating capacity, and</p> <p>(iii) tariffs set below the cost of supply</p>	Medium	<p>Progress on energy sector reforms, including an independent energy sector regulatory framework, rationalization of tariff structures, and internal structural reforms in CEB; and commissioning of low-cost generation, including from hydropower and other renewable energy sources. The independent regulatory framework is now functional.</p> <p>The government remains committed to power subsector reforms. Under the Sri Lanka Electricity Act, 2009, all tariffs must reflect costs; the Treasury will bear the cost of any government-approved subsidy. The government increased retail tariffs in January 2011, and introduced a fuel adjustment formula for certain customer categories in February 2012; further tariff increases followed in 2013. The government is considering converting Treasury loans provided to CEB into equity; and aims to increase supply capacity and introduce low-cost generation, including from hydropower and other renewable energy sources. Under the investment program, ADB will assist the government in developing renewable energy generation, network efficiency and loss reduction, and demand-side management to help reduce dependence on expensive oil-fired electricity generation.</p>
Procurement		
<p>Cost escalation as a result of delays in project implementation (procurement, consultant recruitment, and construction) due to delayed government approvals, resulting in higher project costs</p>	Medium	<p>The risk will be mitigated through close supervision by the government's steering committee and ADB, open and transparent competitive bidding, proactive project implementation, advance contracting, and inclusion of physical and price contingencies in the project cost estimates.</p>
Others		
<p>Potential difficulties in managing the grid due to instability as a result of integration of new renewable wind generation</p>	Medium	<p>Wind integration requirements are addressed by the renewable energy master plan and system stability studies prepared under ADB technical assistance; investment for renewable energy integration is proposed under the investment program tranches. Changes are proposed for regulatory codes and commercial arrangements.</p>
<p>Unexpected increase in the prices of commodities and raw materials</p>	Medium	<p>Physical and price contingencies are included in the project cost estimates; and project implementation will be timely.</p>
<p>Reduced water flow during the dry season in Mahaweli River might affect an endangered fish</p>	Medium	<p>CEB and Mahaweli Authority are to develop an appropriate mechanism to guarantee downstream flows to maintain the endangered Green Labeo fish in the tailrace.</p>
Overall	Medium	

ADB = Asian Development Bank, CEB = Ceylon Electricity Board.

Source: Asian Development Bank estimates.