

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
Public Financial Management			
Insufficient cash generation by CEB to fund its operations due to (i) an increase in fuel oil cost and reliance on high-cost oil-fired electricity generation, (ii) delays in commissioning lower-cost generating capacity, and (iii) tariffs set below the cost of supply	H to M	Progress on energy sector reforms, including (i) an independent energy sector regulatory framework, tariff structure rationalization, and internal structural reforms in CEB; (ii) improvement of CEB's financial management; and (iii) commissioning low-cost generation, including from hydropower and other renewable energy sources. The government remains committed to power sector reforms. Under the Sri Lanka Electricity Act, 2009, all tariffs must reflect costs; Treasury will bear the cost of any government-approved subsidy. The independent regulatory framework became functional in 2009. 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 has also converted CEB's long-term debt into equity. It aims to increase supply capacity and low-cost generation, including from hydropower and other renewable energy sources.	MPRE, CEB and PUCSL
Procurement			
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	M	The risk will be mitigated through close supervision by the government's steering committee and ADB, advance contracting, proactive project implementation, and inclusion of physical and price contingencies in the project cost estimates.	MPRE, CEB and ADB
Others			
Potential difficulties in managing the grid due to instability resulting from integration of renewable wind generation	M	Wind integration requirements are addressed by the renewable energy master plan and system stability studies prepared under ADB technical assistance and subsequent studies by CEB; investment for renewable energy integration is included in the second tranche (2016) of the investment program financed by ADB and the project. Changes are proposed for regulatory codes and commercial arrangements.	CEB
Potential impact on migratory and congregative water birds in the wetland area	M	Implementation of mitigation measures proposed in the Environment Impact Assessment and the Environmental Management Plan; curtailment of wind turbines during the bird migratory period; and implementation of the biodiversity management plan to ensure no net loss of biodiversity.	CEB and DWC
Delays in generation and transmission investments	M	ADB will continue regular dialogue with CEB on required investments and provide timely financial assistance including cofinancing.	CEB
Unexpected increase in the prices of commodities and raw materials	M	Physical and price contingencies are included in the project cost estimates; and project implementation will be timely.	CEB
Overall	M		

ADB = Asian Development Bank, CEB = Ceylon Electricity Board, DWC = Department of Wildlife Conservation, H = high, M = moderate, MPRE = Ministry of Power and Renewable Energy, PUCSL = Public Utilities Commission of Sri Lanka.

Source: Asian Development Bank estimates.