

# Fuel Price Formula: Revised Methodology

In January 2025, the [Public Finance Fuel Price Tracker](#) updated its methodology for calculating the formula price of 92 Octane petrol and Auto Diesel. Below are key questions about the fuel price formula, the rationale behind the change in methodology, and the main adjustments made.

## 1. What is the Fuel Price Formula?

The **Fuel Price Formula** is designed to:

1. **Convert Global Prices to Local Prices:** It translates the price from USD per barrel to Sri Lankan Rupees (LKR) per litre.
2. **Account for Additional Costs:** It adds reasonable expenses such as transportation, processing, administrative fees, and taxes.

The aim is to find the **cost-reflective price**, which is a fair accounting of the full cost of delivering fuel at the pump. The cost-reflective price for the government-owned entity should aim to cover all relevant operational costs but exclude an **additional profit margin**—which would only apply if an investor required a return on investment.

## 2. Why implement a Fuel Price Formula?

In the past, local fuel prices often remained unchanged for months, leading to two major issues:

1. **Welfare Loss on Society:** When global fuel prices fell below local prices, consumers did not benefit, as the lower costs were not passed on to them.
2. **Financial Strain on CPC and the Government:** When global prices rose above local prices, the suppliers, including the Ceylon Petroleum Corporation (CPC) and the government, absorbed the additional costs, causing financial stress.

To address these issues, local fuel prices need to align with world market prices. However, global prices are quoted in U.S. dollars per barrel and don't include additional costs like, processing, administration, and taxes.

## 3. What is the Fuel Price Formula based on?

The Fuel Price formula featured on [Publicfinance.lk](#) is based on the pricing formula developed by the Ministry of Finance with IMF assistance in 2018 (see [link](#)).

The formula is as follows:

$$\text{Fuel Formula Price} = V_1 + V_2 + V_3 + V_4$$

Where:

**V<sub>1</sub> = Landed Cost (Rs./Litre)**

Which includes the Singapore Platts Price per barrel, the weighted average premium per barrel, the loss due to evaporation, and the exchange rate (US\$/LKR).

**V<sub>2</sub> = Processing Cost (Rs./Litre)**

Which includes local port charges, transport costs, the dealer's margin (including evaporation losses to dealers and stockholding cost).

**V<sub>3</sub> = Administrative Cost (Rs./Litre)**

Which includes administrative expenses such as personnel costs, depreciation, and other cost elements (if applicable).

#### V<sub>4</sub> = Taxation (Rs./Litre)

Which includes Customs Import Duty, Excise Duty, Ports and Airports Development Levy, and any other applicable taxes on fuel.

## 4. How is the Fuel Price Formula calculated?

The Fuel Price Formula is calculated based on figures provided by the Ministry of Finance under each category (V<sub>1</sub>, V<sub>2</sub>, V<sub>3</sub>, and V<sub>4</sub>). The figures are reverse-engineered to be used in the formula. The table below outlines how each variable is obtained to be applied in the pricing formula.

Exhibit 1: Key Variables and Assumptions for Fuel Price Calculations

Variable	Description	Source/Assumption
V <sub>1</sub>	Landed Cost (LKR/Litre)	
	Singapore Price per Barrel in USD	Singapore petrol and diesel prices published by the Central Bank of Sri Lanka (CBSL) on a subscription basis
	Exchange Rate (USD/LKR)	Indicative US Dollar SPOT Exchange Rate published by CBSL
	Weighted average premium per barrel and loss due to evaporation	Assumed to be - USD 3 for petrol - USD 2.3 for diesel
	No: of Litres per barrel	158.9
V <sub>2</sub>	Processing Cost (LKR/Litre)	Assumed to be - 6.6% of landed cost for petrol - 4.6% of landed cost for diesel
V <sub>3</sub>	Administrative Cost (LKR/Litre)	Assumed to be 4% of the landed cost
V <sub>4</sub>	Taxation (LKR/Litre)	Includes Customs Import Duty, Excise Duty, Ports and Airports Development Levy, and Nation Building Tax (now abolished)

## 5. Why is the formula price on Publicfinance.lk different from that of the Ministry of Energy?

The Ministry of Energy publishes a formula price under its "Pricing of Imported Refined Petroleum Products as Per the Pricing Formula." However, the prices reported differ slightly from those on Publicfinance.lk.

For instance, in November 2024, the Ministry of Energy listed the formula price of petrol at LKR 310.2 per litre, while Publicfinance.lk reported it as LKR 298.5 per litre—a difference of LKR 11.7(see table below for details).

Exhibit 2: Illustrative Example of the discrepancy (November 2024 Petrol 92 Price)

Component	Ministry of Energy (LKR per litre)	Publicfinance.lk (LKR per litre)	Difference (LKR per litre)
V <sub>1</sub> : Landed Cost	159.51	153.01	6.50
V <sub>2</sub> : Processing Cost	17.52	10.10	7.42
V <sub>3</sub> : Stockholding Cost	-	-	-
V <sub>4</sub> : Taxation	120.85	129.26	-8.41

Component	Ministry of Energy (LKR per litre)	Publicfinance.lk (LKR per litre)	Difference (LKR per litre)
V5: Other Costs (Administrative)	3.36	6.12	-2.76
V6: Profit Margin	8.90	-	8.90
V7: Cost Savings from Refinery	-	-	-
<b>Formula-based Price</b>	<b>310.15</b>	<b>298.49</b>	<b>11.66</b>

The discrepancy between the Fuel Formula Price on Publicfinance.lk and the price released by the Ministry of Energy arises mainly due to two reasons:

**1. Additional Variables in the Ministry's Formula:**

The Ministry of Energy includes extra cost components in its formula that are not part of the original formula developed by the Ministry of Finance. These additional variables are:

- **V3: Stockholding Cost**
- **V6: Profit Margin** (up to 4% of the total cost per litre)
- **V7: Cost Savings from Refinery Production**

Note: The stockholding cost and cost savings from refinery production are not consistently applied each month.

**2. Different Calculation Methods for the Same Variables:**

The Ministry of Energy and Publicfinance.lk calculates certain cost components differently (see table below).

Exhibit 3: Discrepancy between the Ministry of Energy Formula and Publicfinance.lk formula

Description	Fuel Price Tracker of Publicfinance.lk	Ministry of Energy
<b>Landed Cost</b>		
Price per Barrel in USD	Based on Singapore petrol and diesel prices published by CBSL	Uses the actual importation price on DAP (Delivered at Place) terms
Weighted Average Premium & Evaporation Loss	Assumed premiums: - USD 3 per barrel for petrol - USD 2.3 per barrel for diesel Includes estimated evaporation loss	Considers only 0.3% per barrel in USD for evaporation loss; no premium is included since the actual import price is used
Exchange Rate (USD/LKR)	Uses the indicative USD spot exchange rate published by CBSL	Uses the CBSL TT (Telegraphic Transfer) selling rate from the past month
<b>Processing Cost</b>	- 6.6% of the landed cost for petrol - 4.6% of the landed cost for diesel	- A fixed rate of USD 0.06 per litre for petrol - A fixed rate of USD 0.05 per litre for diesel
<b>Administration Cost</b>	4% of the landed cost	2% of the landed cost
<b>Taxes</b>		
Duty Waiver	LKR 45 per litre of petrol (based on the last publicly available record)	LKR 50 per litre of petrol
SSCL (Social Security Contribution Levy)	Not added, as it is exempt during imports and retail sales at fuel stations under the SSCL Act	Added at 1.25% (which is 50% of the standard 2.5% rate)
VAT (Value Added Tax at 18%)	Calculated excluding the duty waiver: (Landed Cost + 10% of Landed Cost + CID + Excise Tax) * VAT rate	Calculated including applicable CID and excise tax: (Landed Cost + 10% of Landed Cost + Applicable CID + Excise Tax) * VAT rate

The primary reason for the discrepancy in these variables is that the Ministry of Energy adjusts its formula components monthly to reflect actual costs, including certain cost elements that may not be consistent with the original formula and are not publicly available (i.e. cost components known only to the CPC). As a result, this can introduce additional costs that are not accounted for in the original formula developed by the Ministry of Finance.

However, a press release by the Ministry of Finance clearly states:

*“According to the above pricing formula, Singapore Platts per Barrel and Exchange Rate are two uncontrollable variables. Other components are either controllable variables or fixed components”*

This ensures that the formula remains reasonably cost-reflective without incorporating inefficiencies or ad-hoc cost changes. This methodology prevents additional costs arising from inefficiencies from being passed on to consumers.

## 6. What is the revision in the Formula Price for Publicfinance.lk?

After reconciliation with the Ministry of Energy's formula price, Publicfinance.lk has identified certain changes that may better reflect the current circumstances. Accordingly, the following changes have been incorporated into its fuel price calculation methodology.

- Landed Cost: Exchange Rate Adjustment and Evaporation Loss Separation:** Publicfinance.lk has introduced two revisions to the landed cost calculation for fuel pricing. First, the per-barrel USD price is now converted to LKR using the Telegraphic Transfers (TT) selling rate for USD/LKR instead of the indicative USD spot rate, reflecting the actual costs faced by fuel importers. Second, evaporation loss, which was previously included in the premium, is now calculated separately as 0.3% of the cost per barrel. The premium remains at USD 3 for petrol and USD 2.3 for diesel but no longer includes evaporation loss.
- Processing Cost Adjustment:** Due to increased processing costs incurred by the Ceylon Petroleum Corporation (CPC) and the suitability of a volume-based cost indicator, the processing cost has been revised. It will now align with the CPC's costs, set at USD 0.06 per litre for petrol and USD 0.05 per litre for diesel.
- Administrative Cost Reduction:** The Ministry of Energy now applies a lower administrative cost of 2%, compared to the previous 4%. The formula will be updated to reflect this reduced administrative cost.
- Inclusion of Social Security Contribution Levy:** A Social Security Contribution Levy (SSCL) of 1.25% has been added to the tax component. This inclusion aligns with the Ministry of Energy's practices and accurately represents the taxes paid by the CPC.
- Revision of Customs Import Duty Waiver:** The Customs Import Duty (CID) waiver has been increased to LKR 50 per litre to match the figure used by the Ministry of Energy, assuming their tax calculations are accurate. However, it should be noted that there is currently no publicly available documentation to confirm this tax waiver.
- Revised VAT Calculation:** The VAT calculation has been adjusted to incorporate the duty waiver, ensuring that it is computed accurately in accordance with the Ministry of Energy's methodology.

Exhibit 4: Comparative Analysis of 92 Petrol Pricing: Original vs. Revised Formula (November 2024)

Variable	Description - 92 Petrol	Original Formula - Nov 2024	Revised Formula - Nov 2024
V 1	Landed Cost Per Litre in Rs	153.01	155.83
V 2	Processing Cost	10.10	17.90
V 3	Administrative Cost	6.12	3.21
	Total Cost without Tax	169.23	176.85
V 4	Taxation	129.26	118.93
	Formula Price Per Litre	298.49	295.77
	Current Retail Price Per Litre in Rs (Month End Price)	311.00	311.00

Exhibit 5: Comparative Analysis of Auto Diesel Pricing: Original vs. Revised Formula (November 2024)

Variable	Description – Auto Diesel	Original Formula - Nov 2024	Revised Formula - Nov 2024
V 1	Landed Cost Per Litre in Rs	155.11	157.96
V 2	Processing Cost Per Litre in Rs (6.60% for petrol and 4.6% for Diesel)	7.13	14.92
V 3	Administrative Cost (4%)	6.20	3.16
	Total Cost without Tax	168.45	176.04
V 4	Taxation	94.21	93.10
	Formula Price Per Litre	262.66	269.14
	Current Retail Price Per Litre in Rs (Month End Price)	283.00	283.00

## 7. Why are the other discrepancies not included in the revised Formula Price of Publicfinance.lk ?

Publicfinance.lk has reviewed various discrepancies in the existing fuel pricing formula but has opted not to include some of them in the revised formula. These excluded components are primarily additional elements that do not consistently reflect actual costs. The reasons for their exclusion are as follows:

- 1. Profit Margins to CPC:** Profit margins allocated to the Ceylon Petroleum Corporation (CPC) are not directly linked to actual costs, making them unreliable for inclusion in the formula.
- 2. Refinery Cost Savings:** Savings from refinery operations are specific to CPC and apply only to a portion of the amount sold. Additionally, these savings are applied inconsistently across different months, undermining their reliability for use in the formula.
- 3. Stockholding Costs:** Stockholding costs are currently included under processing costs and are sporadically factored into monthly calculations. This inconsistency makes them unsuitable for inclusion as a separate component in the revised formula.