

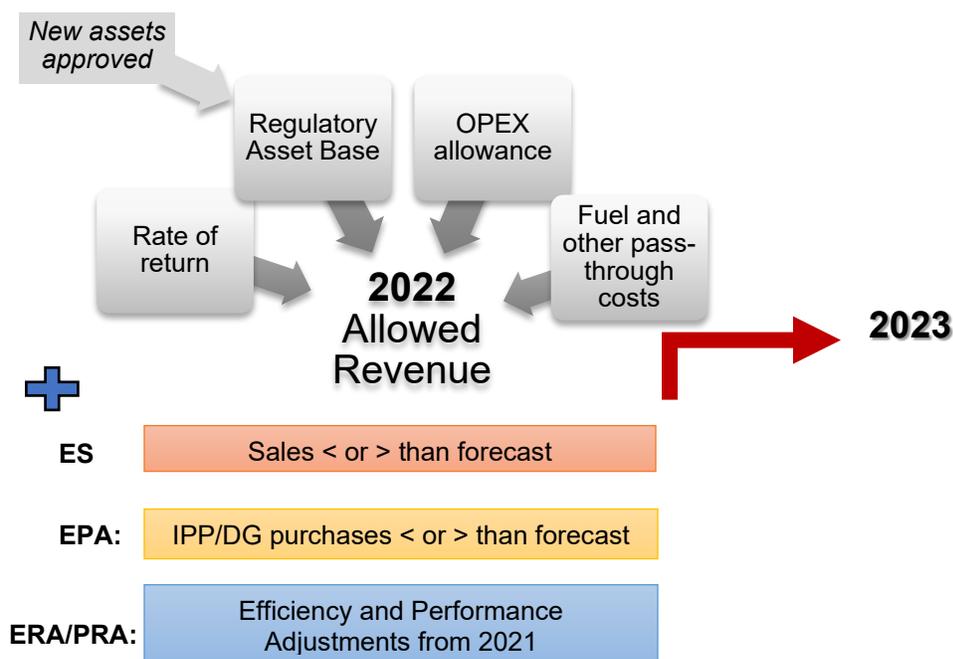
Retail Tariff Review Public Report

How the RA Updates Electricity Rates

Bermuda’s Regulatory Authority (the “RA”) promotes fair business practises and advocates for electricity consumers and industry stakeholders. The Electricity Act 2016 (“EA”) prescribes the methodology¹ which governs the process of electricity rate setting and the role of the RA in enabling BELCO² to generate a total revenue (“Allowed Revenue”) that recovers reasonable service costs incurred in achieving service standards. This includes recovering operating expenses, existing and proposed capital expenditures, projected fuel costs, and purchased power. These also include Government authorization fees, the Regulatory Authority fee, other statutory fees, plus an appropriate return on investments. Other Allowed Revenue inputs include “trueing-up” mechanisms,³ plus performance and efficiency regime adjustments⁴.

The Retail Tariff rate review, which is a regulatory process conducted by the RA to independently review BELCO’s Retail Tariff proposal to adjust electricity rates, began with the RA requesting BELCO to apply for an Allowed Revenue, detailing proposed their activities for the 2022 and 2023 review period and associated costs. The RA reviewed and adjusted their application, seeking to balance consumer and industry stakeholder needs. The approved Allowed Revenue was then used to derive new electricity rates.

Figure 1: Allowed Revenue Components



¹ Retail Tariff Methodology <https://www.ra.bm/documents/retail-tariff-final-report-decision-order/?wpdmdl=13336&refresh=5dd5dc4e63dfa1574296654>

² As Transmission, Distribution & Retail (“TD&R”) Licensee

³ Energy Sales Adjustment (ESA) and the Energy Purchase Adjustment (EPA) adjust for prior review period variances between forecast vs. actual purchases and sales

⁴ Performance Regimes Adjustments (PRA) and Efficiency Regimes Adjustments (ERA) can be incentives and/or penalties

BELCO's Bulk Generation (BG) and Transmission, Distribution, and Retail (TD&R) Business Areas are financially segregated and have distinct Allowed Revenues.

Key Steps in the review process:

- 1) RA requests BELCO to submit its initial Allowed Revenue application.
- 2) BELCO submits its application.
- 3) RA conducts its review, including additional information requests and site visits.
- 4) BELCO submits additional information requested.
- 5) RA conducts its final review and adjustments to BELCO's Allowed Revenue.
- 6) Order issued, setting BELCO's 2022 Allowed Revenue.
- 7) RA requests BELCO to propose Retail Tariffs in alignment with the approved Allowed Revenue.
- 8) BELCO submits Retail Tariffs for approval.
- 9) RA reviews BELCO proposed retail tariffs.
- 10) RA approves and publishes an Order setting BELCO's Retail Tariffs for 2022.

2022 & 2023 Approved Allowed Revenue

BELCO's final tariff application proposed Allowed Revenue of BMD \$236,045,140 for 2022 and BMD \$242,162,115 for 2023⁵. However, following an exhaustive and prudent review, the RA set the 2022 Allowed Revenue BMD \$224,055,622 for 2022 and 2023's at BMD \$226,160,179. Together these Allowed Revenues, which BELCO applied for decreased by approximately BMD \$28 million. The main observations leading to this conclusion were:

- BELCO's proposed rate of return was independently reviewed, and concluded that the applied for 8.96% be adjusted to 7.16% (compared with 7.5% the RA approved in 2021).
- Many projects which the RA reviewed, demonstrated the need for prudence, customer benefits, cost effectiveness, appropriate planning and due process and were accepted. However, a significant number of projects and the value associated with BELCO's proposed capital budget project justifications did not provide evidence of these combined attributes. As a result, BELCO's non-critical projects were rejected.
- After reviewing BELCO's proposed 2022/23 OPEX Allowance, the RA modestly decreased the requested allowance, due to efficiency adjustments and fair value for consumers.

Figure 2 below breaks down the Allowed Revenue approved by the RA ⁶.

⁵ After 2021's COVID-related deferred revenue recovery, which assisted consumers with lower rates, followed by recovery over the \$13.47m in due revenue, spread over a 3-year period beginning in 2022.

<https://www.ra.bm/documents/2021-05-18-retail-tariff-2021-public-report/?wpdmdl=18291&refresh=623b6c5c9e65e1648061532>

⁶ Net of "other revenues" deducted from the Allowed Revenue

Figure 2: 2022 Allowed Revenue Breakdown by Business Area Before Deferrals

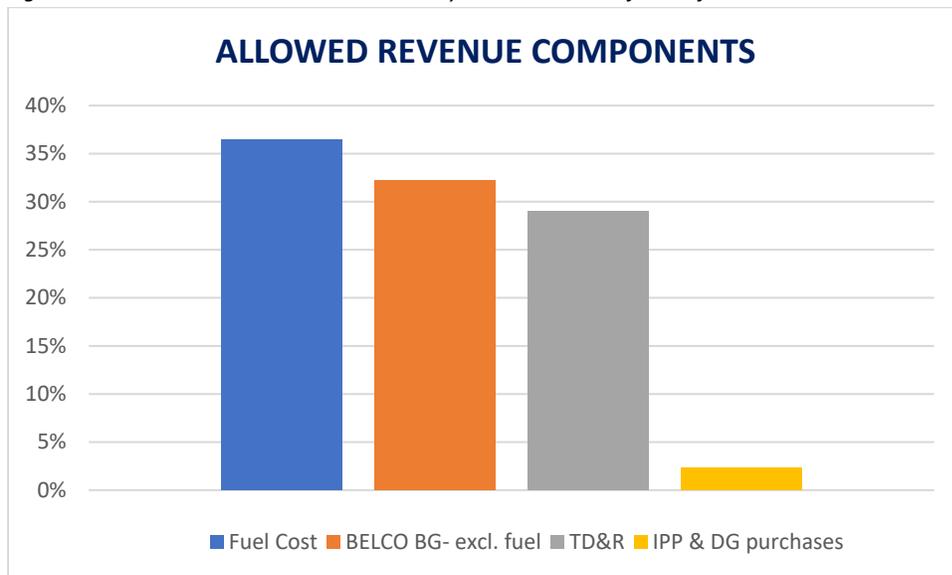


Figure 2 illustrates BELCO's Allowed Revenue split between business categories. Key observations include:

- Fuel totals 36% of Allowed Revenue
- BELCO Bulk Generation costs incurs roughly 32% of Allowed Revenue
- Other Bulk Generation Licensees (Independent Power Producers and distributed generators) costs incur 2% of Allowed Revenue
- BELCO TD&R costs account for 29% of Allowed Revenue

Calculating Updated Retail Tariffs

Using the Allowed Revenue to set 2022 Retail Tariffs comprised considering the following key principles:

- 1) The Retail Tariff structure (relative tariff subcomponent charges: facilities, energy tiers and demand charges) should remain unchanged;
- 2) Updated Retail Tariffs should enable BELCO to recover a maximum of BMD \$224.1 million (i.e., the Allowed Revenue set in Order #202203018 published on 18th March 2022);
- 3) Updated Retail Tariffs should seek reasonable impact within the customer groups; and
- 4) Average rate changes should be comparable across all customer groups.

Regarding BELCO collecting the approved Allowed Revenue, Figure 3 represents average customer group Retail Tariff base rate and total bill changes, relative to 2021 approved rates. It indicates that new tariffs are expected to yield a weighted average increase in retail tariffs (across customer groups) of 12.4%, inclusive of pending Fuel Adjustment Rate increases, both being implemented on April 1st, 2022.

Figure 3: Represents the average customer group Retail Tariff base rate and total bill changes, relative to the 2021 approved rates.

