



Retail Tariff Review – Allowed Revenue

Decision & Order

Order Number: 20220318

Date: 18 March 2022

BACKGROUND

Section 35(1) of the Electricity Act 2016 (the **EA**) requires the Regulatory Authority of Bermuda (the **RA**) to determine the Retail Tariff according to the methodology which was set by the RA in the Regulatory Authority (Retail Tariff Methodology) General Determination dated 19th October 2018 (the **Methodology GD**) and the principles set out in part 6 of the EA.

Section 35(2) of the EA requires the methodology set by the RA to enable the Transmission, Distribution & Retail (**TD&R**) Licensee to generate a total maximum revenue (the **Allowed Revenue**) that recovers the reasonable costs of service incurred in achieving the service standards. These costs include investment costs (and an appropriate return on such investments), operating expenses, fuel procured for generation, generation procured, and other expenses including Government authorisation fees, the Regulatory Authority fee, and other statutory fees. This Order sets forth the RA's decisions regarding the Allowed Revenue for 2022 and 2023, underpinning the retail tariffs to be applied by the Bermuda Electric Light Company Ltd (**BELCO**), as the TD&R Licensee.

Although the RA sets the level of Allowed Revenue that BELCO can recover from retail tariffs for a given tariff review period, the Allowed Revenue may be altered during the period. This may result from differences in fuel costs between those forecasts and those actually incurred and is handled by an automatic "trueing-up" mechanism. Allowed Revenue in respect of the particular year can also be impacted by an incentive mechanism (which compares actual technical performance against targets), whilst changes in sales volume can mean that actual revenue for the year varies from that forecast. Any resulting mismatches between Allowed Revenue and actual revenue resulting from these factors may be adjusted for in subsequent tariff periods.

Key inputs to determining the level of the Allowed Revenue are the regulatory asset base (including additions resulting from BELCO's capital expenditure), the rate of return, the operating cost allowance together with fuel and other pass-through costs, factors resulting from "trueing-up" mechanisms (such as the Energy Sales Adjustment and the Energy Purchase Adjustment), and adjustments resulting from the implementation of performance and efficiency regimes described in the GD. Another important factor is the sales forecast.

Finally, the deferred revenue allowance from the 2021 Allowed Revenue represents a share of the Allowed Revenue whose recovery was deferred to the years 2022-2024.

Table 1 and Table 2, below, indicates for several of these key inputs, the values assumed by BELCO in its Retail Tariff Filing for 2022 and 2023 respectively. These key inputs were reviewed by the RA. In several cases, the RA determines that the assumptions made were not fully justified or adequate. As a result, the RA has revised BELCO's figures to those shown in Table 1 and Table 2 below, to calculate the Allowed Revenue.

Additionally, the rate of return differs for non-regulatory assets set in line with the current retail tariff review, and regulatory assets set in line with the 2021 Retail Tariff Review - Allowed Revenue Decision & Order, Order #20210507. Accordingly, a weighted average of the two rates of return has been determined to be approximately 7.17%.

Table 1		
Key Input	BELCO Retail Tariff Filing	RA Decision
2022 Rate of Return (excluding Regulatory Asset)	8.96%	7.16%
2022 Rate of Return on Regulatory Asset	8.96%	7.50%
Total 2022 Capital Budget ¹ (excluding Regulatory Asset)	BMD 60.71 million	BMD 46.47 million
2022 Revenue Allowance (excluding Pass-through Cost)	BMD 151.64 million	BMD 141.77 million

Table 2		
Key Input	BELCO Retail Tariff Filing	RA Decision
2023 Rate of Return (excluding Regulatory Asset)	8.96%	7.16%
2023 Rate of Return on Regulatory Asset	8.96%	7.50%
Total 2023 Capital Budget ² (excluding Regulatory Asset)	BMD 40.75 million	BMD 36.78 million
2023 Revenue Allowance (excluding Pass-through Cost)	BMD 159.26 million	BMD 145.66 million

¹ Including both generation, transmission, distribution, and general plant investments

² Including both generation, transmission, distribution, and general plant investments

Table 3 below compares the level of Allowed Revenue sought by BELCO in its Retail Tariff Filing with that resulting from RA decisions on key inputs.

Table 3		
	BELCO Retail Tariff Filing	RA Decision
2022 Allowed Revenue ³	BMD 236.05 million	BMD 224.06 million
2023 Allowed Revenue ⁴	BMD 242.16 million	BMD 226.16 million ⁵

The RA determines that the level of Allowed Revenue for year 2022 set forth in Table 3 applies for 12-month period starting on 1st January 2022 and ending 31st December 2022. The Allowed Revenue for year 2023, starting on 1st January 2023 and ending 31st December 2023, will be set later this year by way of Order once adjustments are made.

³ After deducting allowance for “other revenues” such as payments for new connections

⁴ After deducting allowance for “other revenues” such as payments for new connections

⁵ Subject to adjustments mechanisms for 2023

ORDER

1. The RA determines that the Allowed Revenue that BELCO may collect through tariffs from electricity end-users starting on the effective date of the Retail Tariff, 1 April 2022, for the twelve (12) month period, 1st January 2022 to 31st December 2022, will be:
 - a) a maximum of BMD 224,055,622;
 - b) at a weighted average rate of return of approximately 7.17%.
2. The Allowed Revenue may subsequently be adjusted during the period, as a result of changes in BELCO's fuel costs.
3. Subsequent to this Order, the RA requires BELCO to file detailed end-user tariffs that align with the above conditions and the Retail Tariff Design Instructions.
4. This Order becomes effective on the day it is published on the RA's website.

So ordered this day 18 March 2022.

Michael Wells
Chairman