



Retail Tariff Review - Allowed Revenue Amended Decision & Order

Order # 20191125

Date: 25th November 2019, Amended 17th December 2019 by Order #20191217

Background

Section 35(1) of the Electricity Act 2016 (the “EA”) requires the Regulatory Authority of Bermuda (the “RA”) to determine the Retail Tariff in accordance with 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, including investment costs (and an appropriate return on such investments), operating expenses, fuel procured for generation, generation procured, and other expenses. The purpose of this Order is to set forth the Authority’s decisions regarding the Allowed Revenue for 2020, which will underpin the retail tariffs to be applied by the Bermuda Electric Light Company Ltd (“BELCO”), as the TD&R Licensee, for the year.

Although the RA sets the level of Allowed Revenue BELCO can recover from retail tariffs for the twelve (12) period, the Allowed Revenue may alter during the period. This may result from differences in fuel costs between those forecast and those actually incurred and is handled by an automatic “trueing-up” mechanism. Allowed Revenue in respect of the year can also be impacted by an incentive mechanism (which compares actual capital and operating expenditure performance against forecasts), 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 will be adjusted for in subsequent retail tariff periods.

Key inputs to determining the level of the Allowed Revenue are the regulatory asset base (including additions resulting from BELCO’s 2020 capital expenditure), the rate of return, the operating cost allowance together with fuel and other pass-through costs. Another important factor is the sales forecast.

Table 1 below indicates for several of these key inputs, the values assumed by BELCO in its final retail tariff application. These key inputs were reviewed by the RA. In a number of cases, it is the RA’s view 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 below, to calculate the Allowed Revenue.

Table 1		
Key Input	BELCO Final Tariff application	Authority Conclusions
Rate of return	9.45%	Up to 8.00%
2020 capital budget	BMD 65.0 million	BMD 58.7 million
Operating cost allowance	BMD 110.8 million	BMD 100.7 million

Table 2 below compares the level of Allowed Revenue sought by BELCO in its final tariff application with that resulting from the RA decisions on key inputs.

Table 2		
	BELCO Final Tariff application	Authority Conclusions
Allowed revenue ¹	BMD 223 million	Maximum of BMD 207 million ²

As this is the first time that tariffs have been set since the commencement of the RA's regulation of the electricity sector and the adoption of the Methodology GD, the RA determined that the first tariff review period will be for a twelve (12) month period.

¹ After deducting allowance for "other revenues" such as payments for new connections

² As amended by Order #20191217

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The RA hereby determines that the Allowed Revenue that BELCO may collect through tariffs from electricity end-users for the twelve (12) month period beginning from the effective date of the Retail Tariff to be approved at a later date, will be:

- a) a maximum of BMD 207,020,413;³
- b) at a rate of return up to 8%; and
- c) with no increase in residential tariffs.

The Allowed Revenue may subsequently be adjusted during the period, as a result of changes in BELCO's fuel costs.

Subsequent to this Order, the RA requires BELCO to file detailed end-user tariffs that align with the above conditions.

So ordered this 25th November 2019, as amended on 17th December 2019.

³ As amended by Order #20191217