



Retail Tariff Review - Allowed Revenue Decision & Order

Order # 20210507

Date: 07 May 2021

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 including Government authorisation fees, the Regulatory Authority fee; and other statutory fees. The purpose of this Order is to set forth the RA’s decisions regarding the Allowed Revenue for 2021, 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 a given tariff review period, the Allowed Revenue may be altered 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 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 2021 capital expenditure), the rate of return, the operating cost allowance together with fuel and other pass-through costs, and factors resulting from “trueing-up” mechanisms referred to in the last paragraph (such as the Energy Sales Adjustment and the Energy Purchase Adjustment). Another important factor is the sales forecast. Finally, the Deferred Revenue Allowance represents a share of the Allowed Revenue whose recovery is deferred to future years.

Table 1 below indicates for several of these key inputs, the values assumed by BELCO in its final 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 Tariff application dated 18 th January 2021	RA Decision
2021 Rate of Return	8.00%	Up to 7.50%
Total 2021 Capital Budget ¹	BMD 66.4 million	BMD 53.4 million
2021 Transfer Price (excluding Fuel Costs)	BMD 72.3 million	BMD 71.7 million
Deferred Revenue Allowance	BMD 13.5 million	BMD 13.4 million

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

Table 2		
	BELCO Tariff application dated 18 th January 2021	RA Decision
Allowed revenue ²	BMD 213.0 million	Maximum of BMD 211.4 million
Allowed revenue net of Deferred Revenue Allowance	BMD 199.5 million	Maximum of BMD 198.0 million

The RA determined that the level of Allowed Revenue set forth in Table 2 shall apply for the twelve (12) month period starting on 1st January 2021 and ending on 31st December 2021.

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

² After deducting allowance for "other revenues" such as payments for new connections

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1. The RA hereby 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 June 2021, for the twelve (12) month period, 1st January 2021 to 31st December 2021, will be:
 - a) a maximum of BMD 197,995,968 at a rate of return of 7.5%;
 - b) a maximum of BMD 13,436,051 in Deferred Revenue Allowance to be recovered for a period of up to five (5) years at a rate of return of at least 7.5%.
2. The Allowed Revenue may subsequently be adjusted during the period, as a result of changes in BELCO's fuel costs.
3. The Deferred Revenue Allowance rate of return may subsequently be adjusted during the five (5) year period following an annual review, subject to the minimum rate of return noted in paragraph 1.b).
4. Subsequent to this Order, the RA requires BELCO to file detailed end-user tariffs that align with the above conditions.
5. This Order shall become effective on the day it is published on the RA's website.

So ordered this 7th May 2021.

Denton Williams, Chief Executive