

2014/15 Annual Report



November 2015

Electricity Regulatory Authority's Mission

The Electricity Regulatory Authority will protect the rights of electricity consumers in the Cayman Islands to ensure that they receive dependable power supply at the lowest possible cost.

The ERA is committed to the development of electricity from renewable resources to reduce the dependence of the Cayman Islands on diesel fuel.

The ERA, in consultation with other agencies, will promote the development of environmental and efficiency standards for the electricity industry licensees in the Cayman Islands.

Table of Contents

I. INTRODUCTION.....	I
1.1 ABOUT THE ERA.....	I
1.2 ESTABLISHMENT OF THE ERA	I
1.3 BOARD OF DIRECTORS.....	I
1.4 TECHNICAL COMMITTEE.....	2
2. SUMMARY OF NATURE AND SCOPE OF ACTIVITIES	3
2.1 REGULATING LICENSEES	3
2.1.1 Caribbean Utilities Company, Ltd.	3
2.1.2 Cayman Brac Power and Light Company Limited.....	4
2.2 STRATEGIC ADVICE TO GOVERNMENT	4
3. SUMMARY OF ACHIEVEMENT OF STRATEGIC GOALS	5
3.1 AWARDED THE WINNING BID FOR THE 36 MW FIRM CAPACITY RFP.....	5
3.2 APPROVAL OF CUC'S 2015-2019 CAPITAL INVESTMENT PLAN	5
3.3 APPROVAL OF CUC'S CUSTOMER SERVICE AND TRANSMISSION AND DISTRIBUTION CODES.....	6
3.4 MONITORING AND ENFORCING CUC'S PERFORMANCE STANDARDS	6
3.4.1 Fuel Efficiency Plans	6
3.4.2 Generation Availability Performance Limits	7
3.4.3 T&D Performance Limits.....	7
3.4.4 Proposed Customer Service Standards	8
3.5 CONSIDERATION OF A 5 MEGAWATT (MW) SOLAR PROJECT FOR A GENERATION LICENCE.....	8
3.6 LOWER FUEL HEDGING COSTS WITH INCREASED PROTECTION.....	9
3.7 APPROVAL OF RATE ADJUSTMENTS AND CONSIDERATION OF NEW CUSTOMER RATES.....	10
3.7.1 High Pressure Sodium Street Lights.....	10
3.7.2 Licence and Regulatory Fee Adjustment.....	10
3.7.3 June 1 st Base Rate Adjustment	11
3.7.4 Demand / Standby Rates	11
3.8 FUEL SUPPLY CONTRACTS.....	12
3.9 EXPANSION OF CORE PROGRAM	12
3.10 STRATEGIC ADVICE TO GOVERNMENT	13
3.10.1 Duty Waiver Proposal to Cabinet.....	13
3.10.2 National Energy Policy.....	13
3.11 TEMPORARY GENERATION	14
3.12 ACCOUNTING TREATMENT FOR SPARE PARTS	14
3.13 EFFECTING OAG ISA 260 REPORT RECOMMENDATIONS	14
3.14 CUC INFUSION STUDY	14
4. SUMMARY OF OWNERSHIP PERFORMANCE TARGETS	15
5. AUDITED FINANCIAL STATEMENTS.....	18
5.1 BREAKDOWN OF INCOME SOURCES	18
5.1.1 Regulatory Fees.....	18
5.1.2 Services Provided to Cabinet	18

5.1.3	Other Income	18
5.2	BREAKDOWN OF OPERATING EXPENSES	18
5.2.1	Personnel Costs	19
5.2.2	Professional and Consultancy Fees	19
5.2.3	Leases	19
5.2.4	Directors' Fees	19
5.2.5	Recruitment and Work Permit Fees	19
5.2.6	Legal Fees	19
5.2.7	Depreciation	19
5.2.8	Telephone	19
5.2.9	Subscriptions	19
5.2.10	Insurance	20
5.2.11	Employee Travel & Conference	20
5.2.12	Printing, Stationery and Supplies	20
5.2.13	Bank Charges	20
5.2.14	Repairs and Maintenance	20
5.2.15	Training	20
5.2.16	Postage	20
5.2.17	Miscellaneous	20
5.3	FINANCIAL STATEMENTS	20
5.4	FIVE YEAR SUMMARY OF ERA FINANCIALS	36
6.	CHARITABLE DONATIONS	37
7.	OTHER HIGHLIGHTS FROM THE 2014/15 FISCAL YEAR	38
7.1	CONSOLIDATION OF THE REGULATION OF UTILITIES	38
7.2	PARTICIPATION IN THE CAYMAN ISLANDS ENERGY SUMMIT 2015	38
7.3	INTEGRATED RESOURCE PLANNING	38

1. Introduction

The ERA's 2014/15 fiscal year commenced July 1, 2014 and ended June 30, 2015.

1.1 About the ERA

The Electricity Regulatory Authority (ERA or Authority) is the regulator for the electricity sector in the Cayman Islands and is an independent statutory authority falling under the responsibility of the Ministry of Planning, Lands, Agriculture, Housing and Infrastructure (PLAHI or Ministry) for the Government of the Cayman Islands.

ERA offices are located at Suite 14 Grand Pavilion, West Bay Road. The mailing address is P.O. Box 10189 George Town, KY1-1002 Grand Cayman, Cayman Islands. Office hours for the public are from 8:30 a.m. to 5:00 p.m., Monday through Friday excluding public holidays.

The ERA had 2.5 full time employees as of June 30, 2015 (2014 – 2.6 full time employees).



Photo: 13 kilovolt (kV) distribution and 69 kV transmission lines on Grand Cayman.

1.2 Establishment of the ERA

Prior to the establishment of the ERA, the Ministry of Planning, Communications, Works and Information Technology was responsible for all matters related to the electricity sector in the Cayman Islands.

The ERA was created on April 12, 2005 by the passing of the *Electricity Regulatory Authority Law, 2005*, in the Legislative Assembly on the 2nd of March, 2005 (Gazette No. 7 dated April 4, 2005). The most recent revision of the Law occurred on October 12, 2010 creating the *Electricity Regulatory Authority Law (2010 Revision)* (Supplement No. 9 with Gazette No. 22 dated October 25, 2010).

1.3 Board of Directors

The policy and general administration of the affairs and business of the ERA is governed by a Board of Directors, appointed by the Governor in Cabinet of the Cayman Islands. The Governor-in-Cabinet appointed the following persons to the ERA Board to hold office from August 19, 2013 until August 18, 2016:

Mrs. Sherri Bodden-Cowan	Chairperson
Mr. Derrick Tibbetts	Member
Mrs. Anna Rose Washburn	Member
Mrs. Dara Flowers Burke	Member
Mr. Kenny Ryan	Member
Mr. Reginald Nixon	Member
Mr. Alee Fa'amoe	Member
Mr. Gregg Anderson	Member
Ministry Representative	Ex-Officio Member
ERA Managing Director	Member

Pursuant to Section 8 of the Law, the Board of Directors meets at least four times per year. During the 2014/15 fiscal year, the Board

convened six times on the following dates reviewing the following items:

► 3 Jul 2014 09:20 - 13:50	ICF International presentation on bid results from the 36 Megawatt (MW) request for proposals (RFP)
► 31 Jul 2014 09:25 - 12:15	ICF International's RFP evaluation report; Government Information Services RFP press release
► 22 Sep 2014 10:10 - 13:55	36 MW RFP; Street lighting rates; and performance standards
► 18 Dec 2014 10:15 - 13:35	Audited 2013/14 financials; CUC's 2015-2019 capital investment plan (CIP); 2015 fuel price volatility management (FPVM) plan; Consumer-owned renewable energy (CORE) Program; Status of 13 MW renewable energy (RE) expression of interest (EOI); and fuel supply contracts
► 11 Feb 2015 10:15 - 12:20	2015-2019 CIP; CORE Program; 13 MW RE EOI; Performance standards; Licence and regulatory fee adjustment; Legal matters; and ISA 260 reports
► 30 Apr 2015 10:10 - 12:25	June 1 st base rate adjustment; 2015-2019 CIP; Spare parts accounting treatment; 13 MW RE EOI; Performance standards; Demand and standby rates; Duty Waiver Proposal; Temporary generation

1.4 Technical Committee

Section 8 of the Law empowers the ERA Board of Directors to create a subcommittee and delegate powers to it from time to time.

The Technical Committee (TC) was the only ERA subcommittee in the 2014/15 fiscal year. The TC unites Directors with staff to review technical matters, in depth, prior to ERA Board meetings. Then at the Board meetings, the TC puts forth a recommendation on each technical matter for Board consideration.

The Board appointed the following persons as TC members during the 2014/15 fiscal year:

Mr. Reginald Nixon	Chairperson
Mr. Derrick Tibbetts	Member
Mr. Alee Fa'amoe	Member
Mr. Gregg Anderson	Member
ERA Managing Director	Member
ERA Deputy Managing Director	Member
ERA Analyst	Member

During the 2014/15 fiscal year, the TC convened eight times on the following dates reviewing the following items:

► 4 Sep 2014 14:45 - 18:15	36 MW RFP; Performance Standards; Customer Service (CS) and Transmission and Distribution (T&D) Codes; and Street lighting rates
► 23 Oct 2014 14:10 - 15:25	CUC's Generation Licence
► 4 Dec 2014 14:15 - 17:25	36 MW RFP; Street lighting rates; and performance standards
► 5 Feb 2015 14:10 - 17:00	2015-2019 CIP; CORE Program; 13 MW RE EOI; and Performance Standards
► 10 Mar 2015 14:40 - 17:50	2015-2019 CIP; CORE Program; 13 MW RE EOI; and Demand / standby rates
► 12 Mar 2015 14:40 - 16:40	Meeting with Cayman Renewable Energy Association (CREA)
► 23 Apr 2015 14:40 - 17:10	June 1 st Base Rate adjustment; Performance Standards; 2015-2019 CIP; Spare parts accounting treatment; Temporary generation; Lubricant RFP; and Duty Waiver Proposal
► 25 Jun 2015 14:40 - 16:40	2015-2019 CIP; 13 MW RE EOI; Advanced metering infrastructure (AMI); Demand / standby rates; CUC Infusion study and Integrated Resource Plan

2. Summary of Nature and Scope of Activities

The ERA is charged with executing the following functions in a transparent and non-discriminatory manner to protect the interests of electricity consumers and licensees as well as the security and public interests of the Cayman Islands.

2.1 Regulating Licensees

The *Electricity Regulatory Authority Law (2010 Revision)* defines the responsibilities of the ERA and its licensees and guides regulation for the generation and transmission and distribution of electricity in the Cayman Islands. Some of the ERA's responsibilities include:

- Licensing firm and non-firm electricity generators and those involved in the transmission and distribution of electricity;
- Reviewing and approving charges associated with generation that are passed through to consumers by a transmission and distribution (T&D) licensee;
- Monitoring and regulating all licenses in a manner that promotes sustainable competitive practices; provides an opportunity for a fair and reasonable return to licensees and protects the economic interests and well-being of consumers by keeping tariffs and rate structures as low as can reasonably be achieved;
- Monitoring and regulating the tariffs, rate structures and terms and conditions for electricity transmission and distribution charged to consumers by transmission and distribution licensees;
- Establishing and enforcing regulations, processes and licence standards for licensees;
- Establishing and monitoring performance standards on licensees;

- Soliciting additional generation capacity for Grand Cayman and overseeing a competitive generation solicitation process;
- Reviewing and approving any power purchase agreements for Grand Cayman;
- Reviewing and approving rates for backup electricity supply and for interconnection charged by a T&D licensee to another person in accordance with the Law;
- Reviewing and approving the annual capital investment plans for all licensees;
- Authorizing a T&D licensee to purchase renewable or alternative forms of energy from consumers who generate electricity.

Through June 30, 2015, ERA responsibilities pertain to the following licensees:

2.1.1 Caribbean Utilities Company, Ltd.

Caribbean Utilities Company, Ltd. (CUC) was awarded a 25-year non-exclusive electricity generation licence, commencing November 2014 and expiring November 2039, as well as a 20-year exclusive electricity transmission and distribution (T&D) licence, commencing April 2008 and expiring April 2028, for the Grand Cayman service territory.



Photo: Switchgear inside a CUC substation on Grand Cayman.

CUC has operated on Grand Cayman since 1966, and the newest iterations of both Licences

were signed with the ERA. An electronic version of each licence is available for review at the ERA's website at <http://www.caymanera.ky/cuc>.

CUC's licences are modeled on a price cap approach versus a U.S.-style rate of return. Key characteristics of the licences include:

- A floating target rate of return of 10% plus or minus a factor dependent on the average yield of the 10-Year US Treasury Note, negotiated down from 15% in its previous licence. (Note: CUC's rate of return on its rate base for its 2014 fiscal year was 7.4%);
- Performance standards monitoring efficiency and service quality, allowing CUC to earn financial rewards when it surpasses targets and incur penalties when it underperforms;
- An ERA-annually approved five year capital investment plan for all capital expenditures;
- Annual base rate adjustments on June 1st via a rate cap adjustment mechanism (RCAM) comprised of an inflation index and a productivity offset (or X-factor); and
- Revenue neutral rate restructuring.

For additional information on CUC, visit their website at <https://www.cuc-cayman.com/>.

2.1.2 Cayman Brac Power and Light Company Limited

On December 17, 2003 the Government awarded a 15-year licence to Cayman Brac Power and Light Company Limited (CBP&L) pursuant to the provisions of the *Electricity Law (2003 Revision)*. The CBP&L licence is for exclusive generation, transmission and distribution rights for the Cayman Brac and Little Cayman service areas.

An electronic version of the CBP&L licence is available at <http://www.caymanera.ky/cbpal>. More detailed information on CBP&L is available at <https://www.facebook.com/BracPower>.

2.2 Strategic Advice to Government

The ERA provides strategic advice and services to the Cabinet of the Government of the Cayman Islands which are billed on a quarterly basis, under a purchase agreement signed with Cabinet. The purchase agreement calls for the ERA to be paid for services rendered.



Photo: Engine Room 5 at CUC's North Sound Plant on Grand Cayman. The engine room houses 68.75 megawatts (MW) of diesel generation.

3. Summary of Achievement of Strategic Goals

The following highlights the ERA's performance during the 2014/15 fiscal year:

3.1 Awarded the Winning Bid for the 36 MW Firm Capacity RFP

Condition 29 of CUC's T&D Licence addresses the size and timing for new firm generating capacity for Grand Cayman.¹ Foreseeable growth in electricity demand and/or the anticipated retirement of older generating units currently in service may trigger a need for new firm generating capacity to ensure CUC is compliant with its reserve capacity requirements.

In October 2013, CUC submitted a certificate of need which was approved by the ERA for a nominal 36 megawatts (MW) +/-10% of firm generating capacity to come online in May and June 2016. The Law charges the ERA with conducting a competitive solicitation process to meet the approved CUC generation requirement and the ERA immediately began advertising the solicitation both locally and internationally in search of qualified power producers to compete against CUC.



Photo: 16 MW diesel generating set at CUC's North Sound Plant.

The ERA received nine statements of qualifications and at its meeting on January 28, 2014, the ERA Board of Directors qualified five potential bidders plus CUC. The ERA then distributed an RFP document to qualified bidders. In addition to instructing bidders on how to submit bids as well as outlining the RFP evaluation procedure, the RFP document clearly stated the ERA's preference for bids utilizing firm renewable resources and/or combined heat and power (CHP) to improve plant efficiency.

Two of the qualified bidders plus CUC submitted a total of six bids that were evaluated independently by the ERA's consultant, ICF International.

The ERA successfully concluded the competitive RFP by publicly announcing on October 3, 2014 that it had accepted the recommendation from ICF International to award the bid to CUC for 39.7 MW of new diesel generating capacity, of which 2.6 MW is CHP. The final evaluation report is available for public review at the ERA's website <http://www.caymanera.ky/competitive-generation-solicitation>.

3.2 Approval of CUC's 2015-2019 Capital Investment Plan

CUC must continually make capital investments in its operations in order to provide dependable electricity service to its customers on Grand Cayman. To ensure CUC's capital investment is aligned with its regulatory commitments, the ERA reviews and annually approves CUC's anticipated investments over a prospective 5-year period.

The ERA Board of Directors approved CUC's 2015-2019 CIP at its meeting on December 18, 2014 conditional on outstanding items being finalized.

¹ An electronic copy of CUC's T&D Licence is available for review at <http://www.caymanera.ky/cuc>.

3.3 Approval of CUC's Customer Service and Transmission and Distribution Codes

The Customer Service Code (CSC) defines the terms of service for CUC's customers, while the T&D Code outlines industry standard technical requirements for secure, efficient and safe development, maintenance and operation of the power system as a whole. Electronic copies of both codes are available at CUC's website at <https://www.cuc-cayman.com/terms-of-service>.

At its meeting of April 24, 2014 (during the prior ERA fiscal year) the ERA Board of Directors approved both codes on the condition that the TC finalize with CUC any minor issues that remained outstanding. All outstanding issues were resolved on November 24, 2014 and the Codes were given final approval.

3.4 Monitoring and Enforcing CUC's Performance Standards

Performance standards monitor CUC's level of efficiency and quality of service. When CUC surpasses its performance targets consumers benefit from lower rates and/or increased service quality; in this case CUC is rewarded. On the other hand, when CUC underperforms, it incurs penalties.

The *Electricity Regulatory Authority (Standard of Performance) Rules, 2012*, (the Rules) define the targets, rewards and penalties for each of CUC's performance standards. An electronic copy of the Rules is available at the ERA's website at <http://www.caymanera.ky/cuc>.

3.4.1 Fuel Efficiency Plans

In accordance with Condition 21 of CUC's T&D Licence, all fuel costs from electricity generation

are a 100% pass-through to consumers, without benefit or cost to CUC.

The ERA is responsible for reviewing and approving CUC's annual total plant net fuel efficiency (ATPNFE)² target and zone of acceptability. In an effort to increase plant fuel efficiency and lower fuel costs passed-through to consumers, CUC's ATPNFE is benchmarked against the approved target.

At its meeting on September 22, 2014, the ERA Board of Directors approved a 2014 ATPNFE target of 18.44 kilowatt-hours (kWh) per Imperial Gallon (IG) and a zone of acceptable performance from 17.89 kWh per IG to 19.00 kWh per IG, wherein no rewards or penalties would apply.

Figure 1: CUC's 2014 Fuel Efficiency Target and Result

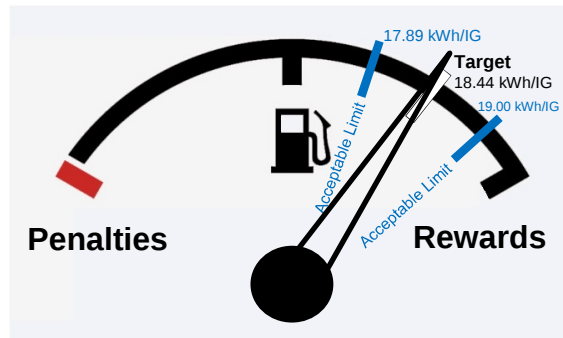


Figure 1 shows CUC's actual 2014 ATPNFE was slightly below target at 18.41 kWh per IG, but within the zone of acceptable performance.

At its meeting on April 30, 2015, the ERA Board of Directors approved a 2015 ATPNFE target of 18.35 kWh per IG and a zone of acceptability from 17.80 kWh per IG to 18.90 kWh per IG.

² ATPNFE is calculated as total plant fuel consumption divided by net actual generation for the calendar year.

3.4.2 Generation Availability Performance Limits

Annual total plant equivalent availability factor (ATPEAF) tracks the availability (or readiness) of generating units in an effort to optimize electricity production and/or increase service reliability.

At its meeting on September 22, 2014, the ERA Board of Directors approved a 2014 ATPEAF target of 81.7% and a zone of acceptable performance from 75.6% to 87.9%, wherein no rewards or penalties would apply.

Figure 2: CUC's 2014 ATPEAF Target and Result

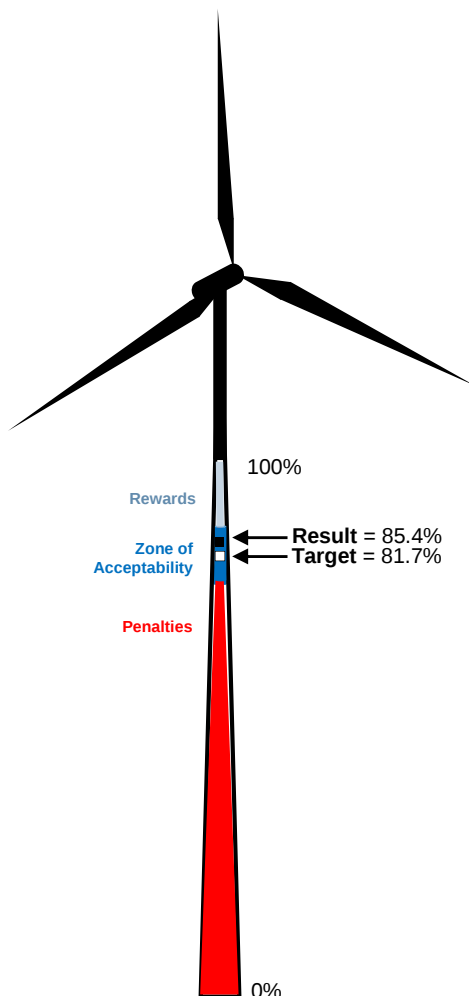


Figure 2 shows CUC's actual ATPEAF in 2014 was well above target at 85.4%, but remained within the zone of acceptable performance; therefore, no reward was applied.

At its meeting on February 11, 2015, the ERA Board of Directors approved an ATPEAF target of 82.3% and a zone of acceptable performance from 76.1% to 88.5% to benchmark CUC's performance for the 2015 calendar year.

3.4.3 T&D Performance Limits

3.4.3.1 SAIDI

System average interruption duration index (SAIDI) is a service reliability standard measuring the total hours, on average, a customer is without electricity service in a given calendar year.

At its meeting on September 22, 2014, the ERA Board of Directors approved a 2014 SAIDI target of 4.0 hours with a zone of acceptable performance from 3.6 to 4.4 hours, wherein no rewards or penalties would apply.

Figure 3: CUC's 2014 SAIDI Target and Result

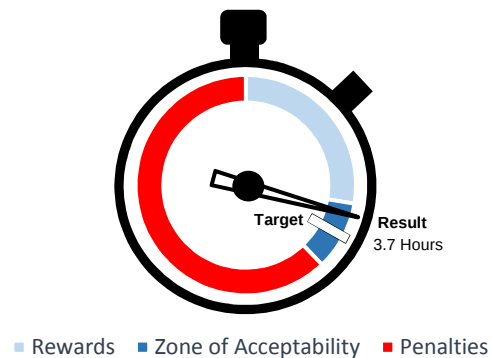


Figure 3 shows CUC's 2014 SAIDI result of 3.7 hours, outperforming the target but remaining just inside the zone of acceptability. [Note: the average CUC customer benefitted by receiving an additional 0.3 hours (i.e., 18 minutes) of service versus the target in 2014]

A target of 3.8 hours with a zone of acceptability from 3.4 to 4.1 hours has been approved for the 2015 calendar year.

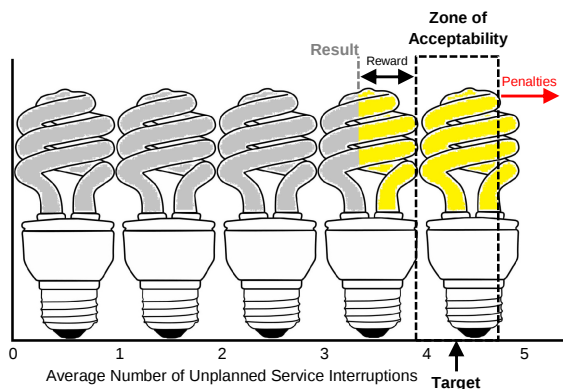
3.4.3.2 SAIFI

System average interruption frequency index (SAIFI) is another service reliability standard that measures the number of occasions, on average, a customer can expect unplanned service interruptions in a year.

At its meeting on September 22, 2014, the ERA Board of Directors approved a 2014 SAIFI target of 4.3 interruptions and a zone of acceptable performance from 3.9 to 4.7 interruptions, where no rewards or penalties would apply.

Figure 4 shows CUC's actual SAIFI performance in 2014 was 3.4 interruptions, almost a full interruption less than what was targeted. Accordingly, at its meeting on April 30, 2015, the ERA Board of Directors approved a 2014 SAIFI reward of CI\$25,000 as per Section 5(9) of the Standards of Performance Rules.

Figure 4: CUC's 2014 SAIFI Target and Result



A SAIFI target of 3.8 interruptions and zone of acceptability from 3.4 to 4.2 interruptions has been proposed for the 2015 calendar year.

3.4.4 *Proposed Customer Service Standards*

Pursuant to its T&D Licence, CUC submitted a customer service standards proposal on March 2, 2015 for ERA consideration. The ERA will be reviewing the proposal at the start of the next fiscal year.

3.5 Consideration of a 5 Megawatt (MW) Solar Project for a Generation Licence

In August 2011, CUC issued a request for expressions of interest (EOI) for the financing, construction, ownership and operation of up to 13 MW in aggregate of utility scale renewable energy facilities on Grand Cayman.

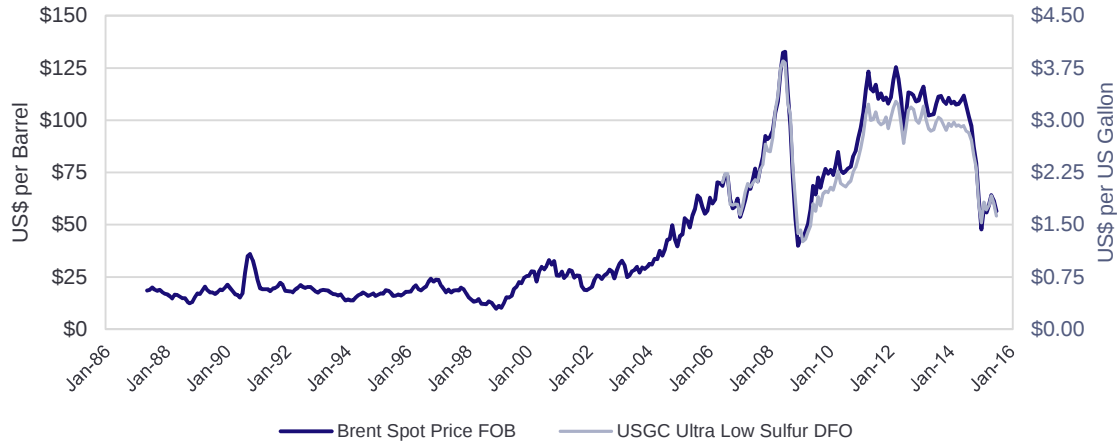
CUC evaluated all proposals received on both technical and financial merit, and after protracted discussions with two other entities which were not successful, ultimately chose to pursue finalizing a draft power purchase agreement (PPA) and draft interconnection agreement (IA) with International Electric Power LLC (IEP).

IEP subsequently transferred all rights for the project to an affiliate of Entropy Cayman Solar Limited (Entropy).

On December 1, 2014, and in accordance with Condition 32 of its T&D Licence, CUC submitted to the ERA a draft PPA and draft IA for Entropy's 5 MW alternating current (AC) solar photovoltaic (PV) generating facility to be located in Bodden Town.

The ERA, assisted by its legal counsel and ICF International, has been reviewing the draft documents and performing due diligence on Entropy, as outlined in the ERA Law. The ERA anticipates making a licence recommendation to its Board of Directors in the first quarter of the next fiscal year.

Figure 5: U.S. Energy Information Administration (EIA) Pricing for Brent Crude and U.S. Gulf Coast ULSDFO



3.6 Lower Fuel Hedging Costs with Increased Protection

CUC purchases large volumes of No. 2 diesel fuel oil (DFO) to generate electricity. In accordance with Condition 21 of CUC's T&D Licence, all fuel costs associated with electricity generation are a 100% pass-through to consumers, without benefit or cost to CUC.

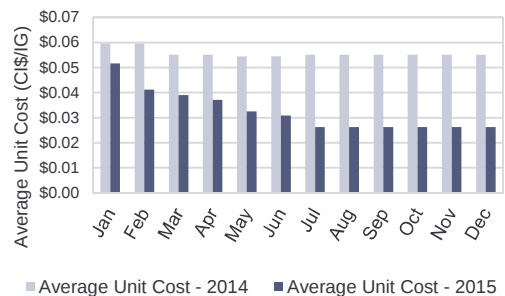
DFO is a refined oil fraction. As a result, its market price is heavily reliant on global oil prices which are sensitive to speculation, global supply and demand, and geopolitics.

To mitigate and manage consumer's exposure to any dramatic DFO price volatility, the ERA and CUC implemented a Fuel Price Volatility Management (FPVM) Program in 2011.

Each year CUC submits a FPVM Plan for ERA approval, outlining a non-speculative and transparent fuel hedging strategy that aims to protect consumers against catastrophic price spikes like the one experienced in 2007-2008 (see Figure 5 above).

At its meeting on December 18, 2014, the ERA Board of Directors approved CUC's 2015 FPVM Plan. Figure 6 shows lower average monthly unit costs in calendar year 2015 versus 2014 as a result of price savings in the 2015 FPVM Plan.

Figure 6: Average Unit Cost per Month for Fuel Hedging Contracts



At the same time, Figure 7 on the next page shows consumer protection (i.e., the area above the dotted lines) increasing in 2015 as a result of average monthly strike prices being lowered to align with DFO market prices.

Figure 7: Average Monthly Strike Price for Hedging Contracts versus DFO Market Price



If the strike price is lower than the market price hedging contract protection is triggered. Contracts in the 2014 FPVM Plan had an average strike price of US\$3.20 per US Gallon; whereas, strike prices in the 2015 FPVM Plan were lower, at approx. US\$2.50 per US Gallon.

On September 22, 2014, the ERA Board of Directors approved CUC's cost of service study that supported a rate increase for HPS street lights.

To review HPS street lighting rates, see Appendix C of CUC's Customer Service Code at <https://www.cuc-cayman.com/terms-of-service>.

3.7 Approval of Rate Adjustments and Consideration of New Customer Rates

In the 2014/15 FY, the ERA approved or began considering the following rate adjustments.

3.7.1 High Pressure Sodium Street Lights

CUC owns approximately 7,700 high pressure sodium (HPS) street light fixtures on Grand Cayman. It earns revenue on street lights by charging public and private street light customers a fixed monthly charge.

Condition 22.2 of CUC's T&D Licence allows the utility to apply for adjustments to street lighting rates on an as needed basis. The rates were previously adjusted on June 1, 2009.

3.7.2 Licence and Regulatory Fee Adjustment

CUC pays a licence fee of 1.0% and a regulatory fee of 0.5% of its gross revenues per calendar year. Licence fees are payable to the Cayman Islands Government, while regulatory fees are the primary revenue source for the ERA.

CUC is permitted to pass-through licence and regulatory fees to customers allocated on kWh's consumed above 1,000 kWh per month. CUC estimates a charge to collect these fees (CIS/kWh) based on quarterly forecasts of gross revenue. Fees paid quarterly to Government and the ERA are reconciled against actual revenue collected, with any difference being adjusted in subsequent months' pass through amounts to consumers.

For 2015, CUC proposed adjusting the charge to CI\$0.0138 per kWh to collect approximately CI\$1.3 million in under-collected fees that had accumulated.

The adjustment is approximately 75% higher than the 2014 charge of CI\$0.0079 per kWh; however, the cost difference to a customer consuming 2,500 kWh per month (i.e., a high range for Rate R and average range for Rate C) is a nominal CI\$8.85 per month.

At its meeting on February 11, 2015, the ERA Board of Directors approved the licence and regulatory fee adjustment for the 2015 calendar year. The ERA now monitors the outstanding balance more closely to ensure that a significant over or under collection does not accumulate.

3.7.3 June 1st Base Rate Adjustment

The rate cap adjustment mechanism (RCAM) in CUC's T&D Licence utilizes a target rate of return, an inflation measure, and an X Factor to adjust base rates on the first day of June each year. Linking rate adjustments to consumer price levels (which can be unpredictable) creates incentive for CUC to improve efficiency by

operating and investing at a cost level that is supported by its anticipated revenue.

For June 1, 2015, CUC was entitled to a 0.9% base rate increase (i.e., approximately 80% of the 1.2% increase in consumer price levels) which was approved by the ERA Board of Directors at its meeting on April 30, 2015.

Table 1 below demonstrates the effects of the base rate adjustment on monthly electricity bills at average monthly consumption levels, per rate class, for the 2014 calendar year.

3.7.4 Demand / Standby Rates

On February 16, 2015, CUC presented the ERA with proposed demand and standby rates for consideration.

Both the ERA and CUC believe demand and standby rates result in appropriate charges of costs incurred to provide service to commercial customers using renewable or alternative forms of energy to serve some or all of their own electricity requirements without negatively impacting other customers.

Table 1: Effects of June 1, 2015 Rate Adjustment on Average Monthly Electricity Bills

	Average Consumption (kWh)	Base Rates June 1, 2014 (CI\$/kWh)	Cost June 1, 2014 (CI\$)	Base Rates June 1, 2015 (CI\$/kWh)	Cost June 1, 2015 (CI\$)	Differential (CI\$)
Residential: Rate R						
Facilities Charge			CI\$5.17		CI\$5.22	CI\$0.05
Energy	950	CI\$0.1031	CI\$97.95	CI\$0.1040	CI\$98.80	CI\$0.85
TOTAL	950		CI\$103.12		CI\$104.02	CI\$0.90
Commercial: Rate C						
Facilities Charge			CI\$28.60		CI\$28.86	CI\$0.26
Energy	2,500	CI\$0.1153	CI\$288.25	CI\$0.1163	CI\$290.75	CI\$2.50
TOTAL	2,500		CI\$316.85		CI\$319.61	CI\$2.76
Large Commercial: Rate L						
Facilities Charge			CI\$150.00		CI\$151.35	CI\$1.35
Energy less than 30,000 kWh	30,000	CI\$0.1153	CI\$3,459.00	CI\$0.1163	CI\$3,489.00	CI\$30.00
Energy greater than 30,000 kWh	80,000	CI\$0.0952	CI\$7,616.00	CI\$0.0961	CI\$7,688.00	CI\$72.00
TOTAL	110,000		CI\$11,225.00		CI\$11,328.35	CI\$103.35

At the end of the ERA's 2014/15 fiscal year, a final demand and standby rates proposal had yet to be presented to the ERA Board of Directors for approval. The ERA, with the aid of ICF International, continues to work with CUC on improving the proposal so as to be fair to all consumers.



Photo: Mobile substation in Prospect on Grand Cayman.

3.8 Fuel Supply Contracts

CUC consumes a large volume of diesel fuel oil (DFO) annually. In April 2012, CUC issued a request for proposals (RFP) for 5 years of DFO supply to replace expiring contracts.

In September 2012, the ERA approved CUC signing a primary supply contract with Rubis Cayman Islands Limited and a secondary supply contract with Esso Cayman Limited (Esso). In 2013, Esso transferred all rights to SOL Petroleum Cayman Limited.

Each fuel supply contract is for a maximum 5-year term, but requires CUC and the fuel supplier to agree to extend original and/or amended contractual conditions after the first 24-month period, and again midway through the final 36-month period.

³ The CORE Program uses a feed-in-tariff (FIT) system whereby CUC meters the CORE generator's output, multiplies the metered output by the CORE FIT rate to determine a CORE credit, and then offsets the customer's monthly energy consumption charges by applying the CORE credit. In accordance with Condition 32 of CUC's T&D

On December 18, 2014, the ERA Board of Directors approved the agreed amendments that extended both contracts past the first 24-months.

3.9 Expansion of CORE Program

The Consumer-Owned Renewable Energy (CORE) Program incentivizes consumers through stable, long-term rates³ to invest in small-scale renewable energy generators at their premises, reducing the consumer's energy costs and reducing the negative environmental impacts of burning fossil fuels.

The CORE Program was initiated in 2011 with the following key features: a total capacity limit of 1 MW AC; a 20-year agreement for generators to be paid CI\$0.37 per kWh; a maximum size limit of 20 kW AC for Rate R participants; and a maximum size limit of 50 kW AC for Rates C and L participants.

A low level of interest in the CORE Program caused the ERA to further incentivize the program with the following changes made in August 2012: a total capacity limit of 2 MW AC; a maximum size limit of 100 kW AC for Rates C and L; a 20-year rate of CI\$0.385 per kWh for Rate R; and a 20-year rate of CI\$0.375 per kWh for Rates C and L.

Due to escalating interest in the CORE Program as well as rapid declines in solar PV equipment pricing coupled with increased vendor warranty periods, the ERA Board of Directors on March 16, 2015 approved the expansion of the CORE Program capacity limit to 4 MW AC (split evenly between residential and commercial). Also, for contracts signed on or after April 1, 2015, 25-year rates apply to Rate R participants at CI\$0.32 and Rates C and L at CI\$0.28 per kWh.

Licence, all CORE credits (minus CI\$0.005 per kWh paid by CUC for operations and maintenance savings) are a 100% pass-through charge to consumers.

Table 2 summarizes enrollment in the CORE Program through June 30, 2015.

3.10 Strategic Advice to Government

The ERA provides strategic advice and services to the Cabinet of the Government of the Cayman Islands which are billed on a quarterly basis, under a purchase agreement signed with Cabinet. During the 2014/15 fiscal year, the ERA provided the following two deliverables to Government:

3.10.1 Duty Waiver Proposal to Cabinet

On December 1, 2008, the Cayman Islands Government implemented a full import duty waiver for renewable energy equipment. Residential equipment purchases are granted a full duty waiver, while commercial equipment purchases are reviewed on a case-by-case basis by the ERA.

Due to a significant number of commercial duty waiver applications, the ERA drafted a proposal for Cabinet consideration presenting a number of scenarios that have arisen under the duty waiver program to date. The proposal recommends Cabinet implement guidelines to guide the ERA in its review and approval of commercial duty waivers.

A final proposal was approved for submittal to the Ministry by the ERA Board of Directors at its meeting on April 30, 2015 and the document was delivered to the Ministry on the same date.

3.10.2 National Energy Policy

In 2010, Government established a committee to produce a national energy policy (NEP) for the Cayman Islands.

The vision for the NEP was an energy sector through 2032 that is efficient, diversified and supported by informed public behavior and that provides secure, reliable and affordable energy in an environmentally sustainable manner.

The ERA assisted the Ministry in initiating the development process and acted as the Secretariat of the NEP Committee. To assist the committee with policy development, Committee members appointed local experts from both the public and private sectors to participate within four separate subcommittees.

An external consultant was then hired to assist the committee in peer reviewing subcommittee policy proposals, performing economic analyses, and producing a final DRAFT NEP document and implementation strategy for Cabinet's consideration.

A final DRAFT NEP document and implementation strategy were completed in Q1 2013 and the DRAFT NEP was tabled in the legislative assembly in Q2 2013. The ERA is now working with the Ministry to restart the process to finalize the NEP.

Table 2: CORE Program Enrollment through June 30, 2015

	Residential (Rate R)	Commercial (Rates C and L)	TOTAL
Number of Generators connected	86	14	100
Capacity of Generators connected (kW AC)	691	443	1,134
12-months of production (kWh)	682,177	465,130	1,147,307
Capacity in queue for connection (kW AC)	618	1,160	1,778

3.11 Temporary Generation

At its meeting on April 30, 2015, the ERA Board of Directors approved 3 MW of temporary generation to be online in June 2015 to meet demand growth and reserve capacity requirements until CUC's 39.7 MW of new firm generating capacity comes online in Q2 2016.



Photo: Aerial view of Rum Point substation on Grand Cayman.

3.12 Accounting Treatment for Spare Parts

At its meeting on April 30, 2015, the ERA Board of Directors approved CUC conforming to U.S. GAAP by charging a proportionate amount of CI\$3.9 million to regulatory assets for non-expensed spare generator parts for Units 14, 15 and 16 over a 10-year period, thus reducing the impact on CUC's return on rate base and reducing the potential of a larger rate increase for consumers.



Photo: Control room at CUC's North Sound Plant on Grand Cayman.

3.13 Effecting OAG ISA 260 Report Recommendations

In response to comments in the ISA 260 Report produced by the Office of the Auditor General (OAG) following its audit of 2013/14 ERA accounts, the ERA produced a draft travel policy and draft fraud risk assessment policy. At the request of the ERA Board of Directors, the ERA also produced a draft purchasing policy.

Each policy will be presented to the ERA Board of Directors for review and approval at its first meeting in the next fiscal year. Going forward, it is anticipated these policies will be updated as necessary to incorporate recommendations from Management and Directors while giving due consideration to governance guidance emanating from the Ministry and the OAG.

3.14 CUC Infusion Study

During the 2014/15 fiscal year, the ERA with the assistance of its external consultant, ICF International, reviewed and provided feedback on the terms of reference for an infusion study to be conducted by an external consultant hired by CUC. The infusion study will assist CUC in determining an optimal implementation strategy for accommodating increased renewable energy delivered to the Grand Cayman grid. The ERA anticipates reviewing the results of the study during the first half of the next fiscal year.

4. Summary of Ownership Performance Targets

The following ownership performance targets are as specified in Schedule 5 to the *Public Management and Finance Law (2013 Revision)* (PMFL) and certified performance that the Cabinet and the ERA Board of Directors agreed the ERA planned to achieve during the 2014/15 fiscal year.

Table 3: Financial Performance Measures (CI\$)

	2014/15 BUDGET	2014/15 ACTUAL
REVENUE FROM CABINET	15,000	5,500
REVENUE FROM MINISTRIES, PORTFOLIOS, STATUTORY AUTHORITIES AND GOVERNMENT COMPANIES	NIL	NIL
REVENUE FROM OTHER PERSONS OR ORGANIZATIONS	1,007,500	922,225
SURPLUS / DEFICIT FROM OUTPUTS	NIL	NIL
OTHER EXPENSES	658,400	530,809
NET SURPLUS DEFICIT	364,100	396,916
TOTAL ASSETS	1,754,780	1,809,769
TOTAL LIABILITIES	187,000	255,134
NET WORTH	1,567,780	1,554,635
CASH FLOWS FROM OPERATING ACTIVITIES	320,008	385,310
CASH FLOWS FROM INVESTING ACTIVITIES	(8,000)	-
CASH FLOWS FROM FINANCING ACTIVITIES	(150,000)	(150,000)
CHANGE IN CASH BALANCES	162,008	235,310

Table 4: Financial Performance Ratios

	2014/15 BUDGET	2014/15 ACTUAL
CURRENT ASSETS : CURRENT LIABILITIES	9.30 : 1	7.05 : 1
TOTAL ASSETS : TOTAL LIABILITIES	9.38 : 1	7.09 : 1

Summary of Ownership Performance Targets continued...

Table 5: Human Capital Measures

	2014/15 BUDGET	2014/15 ACTUAL
TOTAL FULL TIME EQUIVALENT STAFF EMPLOYED	2.5	2.5
STAFF TURNOVER (%)	NIL	NIL
SENIOR MANAGER	4.0	3.0
PROFESSIONAL AND TECHNICAL STAFF	4.0	3.0
ADMINISTRATIVE STAFF	NIL	NIL

Table 6: Physical Capital Measures (CI\$)

	2014/15 BUDGET	2014/15 ACTUAL
VALUE OF TOTAL ASSETS	15,795	10,223
ASSET REPLACEMENTS : TOTAL ASSETS	8,000	NIL
BOOK VALUE OF ASSETS : COST OF THOSE ASSETS	59,605	52,105
DEPRECIATION : CASH FLOW ON ASSET PURCHASES	10,000	7,679
CHANGES TO ASSET MANAGEMENT POLICIES	NIL	NIL

Table 7: Major New Entity Capital Expenditure for the Year (CI\$)

	2014/15 BUDGET	2014/15 ACTUAL
NEW ENTITY CAPITAL EXPENDITURE FOR THE YEAR	NIL	NIL

Table 8: Risk Management

	2014/15 BUDGET	2014/15 ACTUAL
KEY RISK FACED BY MINISTRY / PORTFOLIO	NONE	NONE
CHANGED IN STATUS FROM 2013/14	N/A	N/A
ACTIONS TO MANAGE RISK	N/A	Draft Policy
FINANCIAL VALUE OF RISK	NIL	NIL

Summary of Ownership Performance Targets continued...

Table 9: Other Financial Information - Transactions (CI\$)

	2014/15 BUDGET	2014/15 ACTUAL
EQUITY INVESTMENTS INTO <i>ELECTRICITY REGULATORY AUTHORITY</i>	NIL	NIL
EQUITY REPAYMENTS FROM <i>ELECTRICITY REGULATORY AUTHORITY</i>	NIL	NIL
DIVIDEND TO BE MADE TO GOVERNMENT ⁴	150,000	150,000
GOVERNMENT LOANS TO <i>ELECTRICITY REGULATORY AUTHORITY</i>	NIL	NIL
GOVERNMENT GUARANTEES ISSUED IN RELATION TO <i>ELECTRICITY REGULATORY AUTHORITY</i>	NIL	NIL
RELATED PARTY PAYMENTS (NON REMUNERATION) MADE TO KEY MANAGEMENT PERSONNEL ⁵	NIL	NIL
REMUNERATION ⁶ PAYMENTS MADE TO KEY MANAGEMENT PERSONNEL	233,000	216,751
REMUNERATION PAYMENTS MADE TO SENIOR MANAGEMENT	185,000	182,751

Table 10: Other Financial Information - Description

	2014/15 BUDGET	2014/15 ACTUAL
NUMBER OF KEY MANAGEMENT PERSONNEL (BOARD)	10	10
NUMBER OF KEY SENIOR MANAGEMENT PERSONNEL (MD)	2	2

⁴ In accordance with Section 14(5) of the Law, the ERA paid CI\$150,000 to the Cayman Islands Government as a dividend in October 2015, which was reported as dividends payable at June 30, 2015 (2014: CI\$150,000).

⁵ Key Management Personnel as defined by International Public Accounting Standards No. 20, e.g. Minister, Board Member and Senior Management Team.

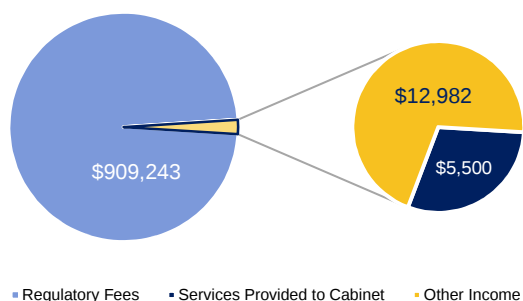
⁶ Remuneration as defined by International Public Accounting Standards No. 20 paragraph 34(a).

5. Audited Financial Statements

5.1 Breakdown of Income Sources

Figure 7 below gives a breakdown by source of the ERA's total income of CI\$927,725 through June 30, 2015 (2014 – CI\$966,200).

Figure 8: Breakdown of Income



5.1.1 Regulatory Fees

Figure 7 shows that regulatory fees are the primary source of the ERA's CI\$927,725 in total income for the year ended June 30, 2015. Regulatory fees are assessed on CUC's gross revenue which includes fuel costs passed-through to consumers. Even though CUC consumed 2.3% more fuel and sold 0.8% more units of electricity in the 2014/15 fiscal year versus the prior fiscal year, regulatory fees were down 6% at CI\$909,243 through June 30, 2015

(2014 – CI\$966,258) due to falling fuel prices and reduced government import duty on diesel fuel used in the generation of electricity.

5.1.2 Services Provided to Cabinet

The ERA provides strategic advice and services to the Cabinet of the Government of the Cayman Islands which are billed on a quarterly basis, under a purchase agreement signed with Cabinet. Income from services provided to Cabinet was CI\$5,500 through June 30, 2015 (2014 – CI\$ (342)) for services rendered on two deliverables discussed in Section 3.10 of this report.

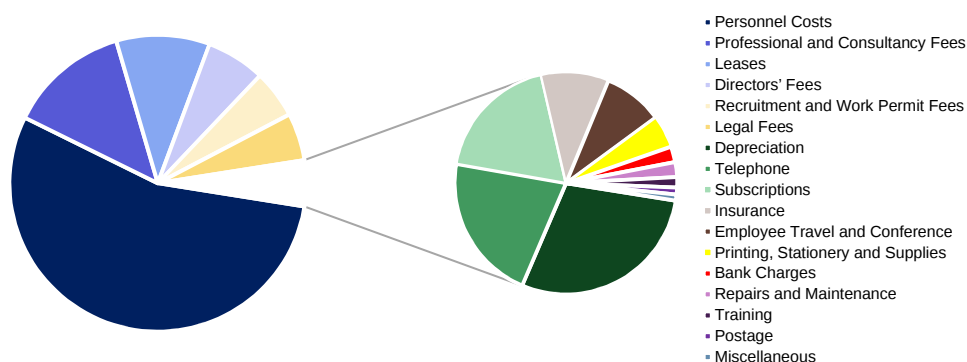
5.1.3 Other Income

The ERA earned interest on cash and cash equivalents placed on call or short term time deposit with a local bank and reduced its provision for a disputed vendor claim based on an agreed upon settlement (see Notes 6 and 12 in Section 5.3). Other income reflects the CI\$12,982 earned during the year ended June 30, 2015 (2014 – CI\$284).

5.2 Breakdown of Operating Expenses

Figure 8 gives a breakdown by source of the ERA's total operating expenses of CI\$530,809 for the year ended June 30, 2015 (2014 – CI\$679,404). Operating expenses decreased approximately 22% versus 2014.

Figure 9: Breakdown of Operating Expenses



5.2.1 Personnel Costs

Personnel costs were CI\$290,850 for the year ended June 30, 2015, down CI\$1,555 versus the prior fiscal year. The ERA had 2.5 full time employees as of June 30, 2015 (2014 – 2.6 full time employees), and this line item accounts for wages, pension, health insurance and sundry items.

5.2.2 Professional and Consultancy Fees

The ERA retains the services of a number of consultants specializing in the electrical utility field to assist and advise the ERA on regulatory matters. Professional and consultancy fees were CI\$70,004 for the year to June 30, 2015, down approximately 62% (2014 – CI\$185,946). [Note: the high cost in 2014 was attributable to assistance received in successfully conducting the competitive firm capacity generation solicitation for Grand Cayman]

5.2.3 Leases

The ERA leases an office at Suites 12, 14 and 16, Grand Pavilion Suites, West Bay Road under a lease agreement with the Grand Pavilion Suites. The lease commenced on November 1, 2013 and expires on November 1, 2015. Lease payments are currently CI\$4,508 per month and totaled CI\$54,096 in 2014/15 (2014- CI\$53,237).



Photo: High pressure sodium street lights on Grand Cayman.

5.2.4 Directors' Fees

In recognition of Directors' time commitment to ERA matters and in accordance with Section 5(10) of the Law, each voting member of the ERA Board of Directors is paid a quarterly stipend and an allowance per meeting attended. Directors' fees totaled CI\$34,000 in the 2014/15 fiscal year (2014 – CI\$34,788).

5.2.5 Recruitment and Work Permit Fees

Staff recruitment and work permit fees for the year ended June 30, 2015 were CI\$27,927 (2014 – 27,575).

5.2.6 Legal Fees

The Authority from time to time retains the services of Legal Advisors, who assist the Authority in specific legal matters primarily relating to the regulation of Licensees. Legal fees were CI\$27,408 for the year to June 30, 2015, down approximately 57% (2014 – CI\$63,149). [Note: the high cost in 2014 is attributable to legal advice received in relation to the competitive firm capacity generation solicitation for Grand Cayman]

5.2.7 Depreciation

ERA fixed assets include computer equipment and office furniture. Depreciation expense for the year to June 30, 2015 was CI\$7,679 (2014 – CI\$6,602).

5.2.8 Telephone

The ERA pays monthly charges to a local service provider for telephone, mobile, landline, facsimile and internet service. Telephone expense for the year ended June 30, 2015 was CI\$5,661 (2014 – CI\$5,231).

5.2.9 Subscriptions

This expense includes an annual Chamber of Commerce membership fee and a subscription to verify No. 2 diesel pricing in monthly pass-through charge submittals from CUC. Subscription expense for the year to June 30, 2015 was CI\$4,924 (2014 – CI\$3,176).

5.2.10 Insurance

Insurance expense covers directors and officers liability (D&O) insurance purchased through the Cayman Islands Government Risk Management Unit. The annual policy commences in April each year and coverage was recently increased to US\$3 million. Insurance expense for the year ended June 30, 2015 was CI\$2,628 (2014 – CI\$493).

5.2.11 Employee Travel & Conference

No staff overseas travel occurred in the 2014/15 fiscal year although a fee for a conference to be attended in the new fiscal year was expensed. This expense item was comprised primarily of catering expense for TC and Board meetings as well as reimbursed travel to and from Cayman Brac for an ERA Director to attend Board meetings. Employee travel and conference expense for the year to June 30, 2015 was CI\$2,299 (2014 - CI\$2,955).

5.2.12 Printing, Stationery and Supplies

The ERA is a small office and its deliverables are mostly electronic. Printing, stationery and supplies was a nominal expense for the year to June 30, 2015 at CI\$1,258 (2014 – CI\$1,291).

5.2.13 Bank Charges

Bank charges expense for the year ended June 30, 2015 was CI\$605 (2014 – CI\$556).

5.2.14 Repairs and Maintenance

The ERA owns approximately CI\$52,000 in furniture and office equipment (see Note 5 in Section 5.3). From time to time, furniture may require repair or electronic equipment may malfunction or require scheduled preventative maintenance. Repairs and maintenance expense for the year to June 30, 2015 was CI\$577 (2014 – CI\$934).

5.2.15 Training

ERA staff attended formal workshops during the Cayman Islands Government Professional Development Week held at the Marriott on

November 11-14, 2014. Training expense for the year ended June 30, 2015 was CI\$400 (2014 – CI\$300).



Photo: Distribution pole carrying electricity and communications lines.

5.2.16 Postage

In addition to posting bill payments, the ERA maintains a post office box with the Cayman Islands Postal Service for an annual fee. Postage expense for the year to June 30, 2015 was CI\$268 (2014 – CI\$651).

5.2.17 Miscellaneous

Miscellaneous expense is comprised of sundry items and was CI\$225 for the year ended June 30, 2015 (2014 - CI\$42).

5.3 Financial Statements

The following financial statements have been prepared by the ERA in accordance with the provisions of the *Public Management and Finance Law (2013 Revision)*. The ERA accepts responsibility for the accuracy and integrity of each statement.

To the best of its knowledge the following financial statements reliably reflect the financial transactions, financial position as at and comprehensive income for the financial year ended June 30, 2015.



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AUDITOR GENERAL'S REPORT

To the Board of Directors of the Electricity Regulatory Authority

I have audited the accompanying financial statements of the Electricity Regulatory Authority which comprise of the statement of financial position as at 30 June 2015, and the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information on pages 5-19 in accordance with the provisions of Section 60(1) (a) of the Public Management and Finance Law (2013 Revision).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on our audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

AUDITOR GENERAL'S REPORT (continued)

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Electricity Regulatory Authority as at 30 June 2015 and its comprehensive income and its cash flow for the year then ended in accordance with International Financial Reporting Standards.



Garnet Harrison, CPA, CA
Acting Auditor General

13 October, 2015
Cayman Islands

Electricity Regulatory Authority
Statement of Financial Position
As at 30 June 2015
(Stated in Cayman Islands Dollars)

	<u>NOTES</u>	2015	2014
		\$	\$
ASSETS			
Current Assets			
Cash & Cash Equivalents	3	1,588,829	1,353,519
Accounts Receivables (net)	4	195,346	241,533
Deposits & Prepayments		15,371	14,469
Total Current Assets		1,799,546	1,609,521
Non-Current Assets			
Property, plant and equipment	5	10,223	17,902
TOTAL ASSETS		1,809,769	1,627,423
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts Payable and Accrued Liabilities	6	105,134	169,704
Dividends Payable	14	150,000	150,000
Total Current Liabilities		255,134	319,704
EQUITY			
Contributed Capital		-	-
Retained Earnings		1,554,635	1,307,719
Total Equity		1,554,635	1,307,719
TOTAL LIABILITIES AND EQUITY		1,809,769	1,627,423

The accompanying notes on pp. 27-35 form an integral part of these financial statements.

**Electricity Regulatory Authority
Statement of Comprehensive Income
For the Year Ended 30 June 2015
(Stated in Cayman Islands Dollars)**

	NOTES	2015	2014
INCOME		\$	\$
Services provided to Cabinet	7	5,500	(342)
Regulatory Fees		909,243	966,258
Other Income	12	12,982	284
Total Income		927,725	966,200
OPERATING EXPENSES			
Personnel Costs		290,850	292,405
Professional and Consultancy Fees	11	70,004	185,946
Leases	9	54,096	53,237
Directors' Fees		34,000	34,788
Recruitment and Work Permit Fees		27,927	27,575
Legal Fees	10	27,408	63,149
Depreciation	5	7,679	6,602
Telephone		5,661	5,231
Subscriptions		4,924	3,176
Insurance		2,628	493
Employee Travel & Conference		2,299	2,955
Printing, Stationery and Supplies		1,258	1,291
Bank Charges		605	556
Repairs and Maintenance		577	934
Training		400	300
Postage		268	651
Miscellaneous		225	42
National Energy Policy Committee		-	73
Total Expenses		530,809	679,404
Net Income		396,916	286,796

The accompanying notes on pp. 27-35 form an integral part of these financial statements.

**Electricity Regulatory Authority
Statement of Changes in Equity
For the Year Ended 30 June 2015
(Stated in Cayman Islands Dollars)**

	<u>NOTES</u>	Retained Earnings	Contributed Capital	Total
		\$	\$	\$
BALANCE AT 1 JULY 2013		1,170,923	-	1,170,923
Net Income for the year		286,796	-	286,796
Dividend Payable		(150,000)	-	(150,000)
BALANCE AT 30 JUNE 2014		1,307,719	-	1,307,719
Net Income for the year		396,916	-	396,916
Dividend Payable	14	(150,000)	-	(150,000)
BALANCE AT 30 JUNE 2015		1,554,635	-	1,554,635

The accompanying notes on pp. 27-35 form an integral part of these financial statements.

**Electricity Regulatory Authority
Statement of Cash Flows
For the Year Ended 30 June 2015
(Stated in Cayman Islands Dollars)**

	NOTES	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		\$	\$
Net Income for period		396,916	286,796
Adjustment for:			
Depreciation	5	7,679	6,602
Increase in accounts receivables	4	46,187	114,301
(Increase)/decrease in deposits & prepayments		(902)	1,763
Increase/(decrease) in accounts payable and accrued liabilities	6	(64,570)	89,702
Net cash from Operating Activities		385,310	499,164
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment (net of disposals)	3	-	(18,242)
Net cash used in Investing Activities		-	(18,242)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	13	(150,000)	(150,000)
Net cash used in Financing Activities		(150,000)	(150,000)
Net increase in cash and cash equivalents during the year		235,310	330,921
Cash and cash equivalents at the beginning of the year		1,353,519	1,022,598
Cash and cash equivalents at end of year		1,588,829	1,353,519

The accompanying notes on pp. 27-35 form an integral part of these financial statements.

Notes to the 2014/15 Financial Statements

- (1) The Electricity Regulatory Authority (“the Authority”, “ERA”) is an independent Statutory Authority which was created on April 12, 2005 by the Electricity Regulatory Authority Law (2005). The Electricity Regulatory Authority Law was revised on October 12, 2010.

The Electricity Regulatory Authority is responsible for the following:

- Monitoring of licenses granted to Caribbean Utilities Company Ltd (“CUC”) and Cayman Brac Power and Light
- Encouraging the introduction of competition within the electricity generation industry within the Cayman Islands with new licenses to be issued to new entrants to the market
- Managing the solicitation for new firm generation capacity
- Encouraging the implementation and use of Renewable Energy by Consumers and Licensees
- Ensuring that all licence and regulatory fees are collected in a timely fashion; and
- Ensuring that the ERA works closely with licensees and the Department of the Environment to ensure that all Licensees comply with environmental laws.

As at 30 June 2015, the ERA had 2.6 full time employees (2014-2.6 full time employees). Its offices are located at Suites 12, 14, and 16 Grand Pavilion, West Bay Road, P.O. Box 10189 George Town, KY1-1002 Grand Cayman, Cayman Islands.

- (2) The ERA’s financial statements have been prepared by the ERA in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Committee (IASC) as required under Section 20(1) of the *Electricity Regulatory Authority Law (2010 Revision)*, and interpretations issued by the Standing Interpretations Committee of the IASC. The significant accounting policies adopted by the ERA in these financial statements are as follows:

(a) *Basis of preparation*

The financial statements of the ERA are presented in Cayman Island dollars and are prepared on the accrual basis under the historical cost convention.

(b) *Foreign currency translation*

Assets and liabilities denominated in currencies other than Cayman Islands Dollars are translated at exchange rates in effect at the balance sheet date. Revenue and expense transactions denominated in currencies other than Cayman Islands Dollars are translated at exchange rates ruling at the date of those transactions. Gains and losses arising on translation are included in the Statement of Comprehensive Income.

(c) *Cash & cash equivalents*

For the purpose of the statement of cash flows, cash and cash equivalents are considered as cash held on demand and fixed deposits with an original maturity of three twelve months or less.

(d) *Receivables*

Receivables are stated at original invoice amounts less provision for doubtful debts.

(e) *Allowance for bad debts*

The allowance for bad debts is established through a provision for bad debts charged to expenses. Accounts receivable are written off against the allowance when management believes that the collectability of the amount is unlikely. The allowance is an amount that management believes will be adequate to cover any bad debts, based on an evaluation of collectability and prior bad debts experience.

(f) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of the property, plant and equipment and other assets that are accounted for separately.

The estimated useful lives of the property, plant and equipment are as follows:

	2015	2014
Computer Equipment	3 Years	3 Years
Office Equipment	5-10 Years	5-10 Years

(g) *Accounts Payable*

Accounts payable are recorded at the amount owing after allowing for credit notes and other adjustments.

(h) *Revenue recognition*

The ERA derived its income during the year from:

- (1) Services provided to the Cabinet of the Government of the Cayman Islands which are billed on a quarterly basis, under a purchase agreement signed with Cabinet.
- (2) Regulatory Fees are in accordance with the Transmission and Distribution licence issued to CUC in April 2008 and are calculated based on the gross revenues of CUC.

(i) *Expense recognition*

Expenses are recognized when incurred.

(f) *Employees benefits*

Being required to provide pension for employees under the National Pension Law, the Authority participates in the Public Service Pensions Plan, a defined contribution pension fund, in accordance with the Public Service Pension Law. Contributions based on set contribution rates are charged to expenses when an employee has rendered services in exchange for those contributions.

(h) *Financial Instruments*

i. Classification

A financial asset is classified as any asset that is cash, a contractual right to receive cash or another financial asset, exchange financial instruments under conditions that are potentially favorable or an equity instrument of another enterprise. Financial assets comprise of cash and cash equivalents, accounts receivables, and deposits and prepayments.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial instrument or to exchange financial instruments with another enterprise under conditions that are potentially unfavorable. Financial liabilities comprise of accounts payables and accrued expenses, as well as, dividends payable.

ii. Recognition

The Authority recognizes financial assets and financial liabilities on the date it becomes party to the contractual provisions of the instrument. From this date, any gains and losses arising from changes in fair value of the assets or liabilities are recognized in the statement of comprehensive income.

iii. Measurement

Financial instruments are measured initially at cost which is the fair value of the consideration given or received. Subsequent to initial recognition all financial assets are recorded at historical cost, which is considered to approximate fair value due to the short-term or immediate nature of these instruments.

iv. Derecognition

A financial asset is derecognized when the Authority realizes the rights to the benefits specified in the contract or loses control over any right that comprise that asset.

A financial liability is derecognized when it is extinguished, that is when the obligation is discharged, cancelled, or expires.

v. Credit Risk

Cash and short term investments are held with substantial financial institutions. Receivables are short term and settled after the year-end.

vi. Interest Rate Risk

The Authority's income and operating cash flows are substantially independent of changes in market interest rates.

vii. Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect:

- Reported amounts of assets and liabilities
- Disclosure of contingent assets and liabilities at the date of the financial statements
- The reported amounts of revenue and expenses during the reporting period.

Actual results could differ from those estimates, the impact of which would be recorded in future periods.

viii. Changes in International Financial Reporting Standards

Below are several new standards and amendments that have been issued but are not yet effective. They do not impact the annual financial statements of the Authority. The nature and impact of each new standard/amendment is described below:

IFRS 15 Revenue from Contracts with Customers (Effective for annual periods beginning on or after 1 January 2017).

IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, equipment and intangible assets. The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 will be applied using a five-step model: 1. Identify the contract(s) with a customer 2. Identify the performance obligations in the contract 3. Determine the transaction price 4. Allocate the transaction price to the performance obligations in the contract 5. Recognise revenue when (or as) the entity satisfies a performance obligation. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with

their customers. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. Application guidance is provided in IFRS 15 to assist entities in applying its requirements to certain common arrangements, including licences of intellectual property, warranties, rights of return, principal-versus-agent considerations, options for additional goods or services and breakage.

IAS 1 Disclosure Initiative – Amendments to IAS 1 (Effective for annual periods beginning on or after 1 January 2016.)

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (Effective for annual periods beginning on or after 1 January 2016.)

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

(3) Cash & Cash Equivalents:

	2015	2014
Bank accounts	\$584,341	\$353,519
Term deposit- Butterfield Bank (Cayman) Ltd. for one year maturing 17 June 2016 @ 0.37%	\$1,004,488	1,000,000
Total Cash & Cash Equivalents	\$1,588,829	\$1,353,519

(4) Accounts Receivable:

	2015	2014
Receivables from Cabinet	\$5,500	\$-
Regulatory fees receivable	187,704	239,373
Suspense Account	17,356	17,356
Employee advance	2,000	2,000
Allowance for doubtful accounts	(17,356)	(17,356)
Term Deposit interest receivable	142	160
Total Accounts Receivables	\$195,346	\$241,533

The movement in allowance for doubtful accounts is detailed as follows:

	2015	2014
Opening Provision	\$17,356	\$70,478
Doubtful Accounts provided for during the year	-	-
Less recoveries	-	-
Write off for accounts previously provided	-	(53,122)
Closing Provision	\$17,356	\$17,356

The Employee advance of CI\$2,000 represents the unpaid balance on an original advance of CI\$10,000 to the former Managing Director. The ERA anticipates ultimate recovery of this balance.

Term Deposit interest receivable represents 13 days of accrued interest earned on the Term Deposit of CI\$1,004,488 placed with Butterfield Bank (Cayman) Ltd. for a period of one year from June 18, 2015 to June 17, 2016 at an interest rate of 0.37%.

Aging Profile of Trade Receivables

Regulatory fees are billed on quarterly basis as are outputs from cabinet.

Period Outstanding (Days)	2015	2014
1-30	\$193,346	\$239,533
31-90		
Over 90	\$2,000	\$2,000
Total	\$195,346	\$241,533

(5) Property, Plant and Equipment:

Cost	Computer Equipment	Office Furniture and Equipment	Total
	\$	\$	\$
Balance at 1 July 2014	41,105	11,000	52,105
Additions during the year	-	-	-
Disposals during the year	-	-	-
Balance at 30 June 2015	41,105	11,000	52,105

Accumulated Depreciation			
Balance at 1 July 2014	29,329	4,874	34,203
Charge for the Period	6,036	1,643	7,679
Disposals for the Period	-	-	-
Balance at 30 June 2015	35,365	6,517	41,882
Net Book Value at 30 June 2015	\$5,740	\$4,483	\$10,223
Net Book Value at 30 June 2014	\$11,776	\$6,126	\$17,902

(6) Accounts Payable & Accrued Liabilities:

	2015	2014
Accrued Expenses	\$73,529	\$132,581
Due to Vendor	8,890	17,356
Payroll Liabilities	22,715	19,767
Total Accounts Payable & Accrued Liabilities	\$105,134	\$169,704

The balance of CI\$8,890 (2014:CI\$17,356) shown as Due to Vendor is under dispute but represents 50% of the claimed cost of electronic equipment purportedly supplied to the ex-Managing Director of the ERA by the Mac Store. The ERA has agreed in principle to settle this claim for 50% of its nominal value.

(7) Related Party Transactions:

The ERA provided services to the Cabinet of the Cayman Islands during the period in the amount of CI\$5,500 (2014 - CI\$ (342)). As at June 30, 2015, CI\$5,500 is owing to the ERA from Cabinet (2014- CI\$ Nil).

ERA engages the services of other government departments of the Cayman Islands Government. Since July 1, 2009, Government wide policy stated that such services are not subject to inter-agency charging.

The amount paid to the Managing Director for salary and other short term benefits (including statutory vacation pay) for the period to June 30, 2015 was CI\$75,500 (2014 CI\$75,000), recorded under personnel costs.

(8) Pensions:

The defined contribution pension of employees of the Authority are paid directly to the Public Service Pensions Fund (the Fund). The Fund is administered by the Public Service Pensions Board and is operated as a multi-employer non-contributory Fund, whereby the employer pays both the employer and employee contributions.

The ERA paid contributions of CI\$22,718 to the Public Service Pensions Fund during the period (2014 - CI\$22,718).

(9) Leases:

The Authority leases an office at Suites 12, 14 and 16, Grand Pavilion Suites, West Bay Road under lease agreement with the Grand Pavilion Suites. The lease commenced on November 1, 2013 and expires on November 1, 2015. Lease payments are currently CI\$4,508 per month and totaled CI\$54,096 in the period (2014- CI\$53,237).

(10) Legal Fees

The Authority from time to time retains the services of Legal Advisors, who assist the Authority in specific legal matters.

(11) Professional and Consultancy Fees

The Electricity Regulatory Authority retains the services of a number of consultants specialising in the electrical utility field to provide the Authority with advice on and analytical review of specific topics related to the regulatory duties of the entity. These consultants also assist and advise the ERA in on-going regulatory activities with Licensees. Additionally the ERA engages the services of the Auditor General to conduct an annual statutory audit.

(12) Financial Risk Management

The Authority is exposed to a variety of financial risks including interest rate risk, credit risk and liquidity risk. The Authority's risk management policies are designed to identify and manage these risks, to set appropriate risk limits and controls, and to monitor the risks and adhere to limits by means of up-to-date and reliable information systems. These risks are managed within the parameters established by the Financial Regulations.

Interest Rate Risk

The Authority is subject to interest rate risk on the cash placed with a local bank which attracts interest. No interest payments are charged to customers on late payments on accounts receivable. The Authority is not exposed to significant interest rate risk as the cash and cash equivalents are placed on call or short term time deposit. The total interest earned during the year ended June 30, 2015 was CI\$4,516 (2014: CI\$284)

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Authority. Financial assets which potentially expose the Authority to credit risk comprise cash and cash equivalents and accounts receivables.

The Authority is exposed to potential loss that would be incurred if the counterparty to the bank balances fails to discharge its obligation to repay. All bank balances are with one financial institution located in the Cayman Islands which management considers to be financially secure and well managed.

The Authority is also exposed to a significant concentration of credit risk in relation to accounts receivables, which are due from both the Cayman Islands Government and Caribbean Utilities Company, Ltd.

No credit limits have been established. As at June 30, 2015, a provision for doubtful accounts has not been made as none of these receivables are impaired and management consider them to be recoverable in full (2014: Nil).

The carrying amount of financial assets recorded in the financial statements represents the Authority's maximum exposure to credit risk. No collateral is required from the Authority's debtors.

Liquidity Risk

Liquidity risk is the risk that the Authority is unable to meet its payment obligations associated with its financial liabilities when they fall due.

The ability of the Authority to meet its debts and obligations is dependent upon its ability to collect the debts outstanding to the Authority in a timely basis. As at 30 June 2015 and 2014, all of the financial liabilities were due within one month of the balance sheet dates.

Fair values

The carrying amount of cash deposits, prepayments, and accounts payables and accrued liabilities approximate their fair value due to their short-term maturities. Fair values are determined at specific points in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions, economic conditions and other factors could cause significant changes in fair value estimates.

(13)Contingent Liabilities

The Authority may be required to pay a company the amount of \$12,250 (including legal fees) relating to a number of outstanding invoices entered into by a former ERA official. The settlement of this amount is contingent upon the recovery of said amount from the previous official. Management believes that this probably will not, require an outflow of resources from the Authority.

(14)Subsequent Events

In accordance with Section 14(5) of the Law, the ERA paid CI\$150,000 to the Cayman Islands Government as a dividend in October 2015, which was reported as dividends payable at June 30, 2015 (2014: CI\$150,000).

During the board meeting held on July 23, 2015, the Authority resolved to establish a General Reserve Fund in the amount of \$1million.

5.4 Five Year Summary of ERA Financials

Figure 12 gives a summary of the most recent five years of ERA audited financials. Audited accounts for the ERA can be accessed at the ERA's website at <http://www.caymanera.ky/era-accounts>.

Figure 10: Five-Year Summary of ERA Financials (CI\$)

	2014/15 ACTUAL	2013/14 ACTUAL	2012/13 ACTUAL	2011/12 ACTUAL	2010/11 ACTUAL
INCOME FROM CABINET	5,500	(342)	119,861	120,000	37,017
INCOME FROM REGULATORY FEES	909,243	966,258	955,679	955,726	825,087
OTHER INCOME	12,982	284	95	1,344	55
OPERATING EXPENSES	530,809	679,404	768,156	596,883	535,557
NET INCOME	396,916	286,796	307,479	480,187	326,602
TOTAL ASSETS	1,809,769	1,627,423	1,400,925	1,186,846	871,280
TOTAL LIABILITIES	255,134	319,704	230,002	173,402	188,023
TOTAL EQUITY	1,554,635	1,307,719	1,170,923	1,013,444	683,257
DIVIDEND PAID TO GOVERNMENT	150,000	150,000	150,000	150,000	150,000

6. Charitable Donations

Over the years some Directors have requested the ERA allocate their fees earned into a charitable donation account. As of June 30, 2015, the charitable account had a balance of CI\$13,879. From time to time the ERA Directors consider charitable causes they wish to benefit.



Photo: Engineered car park on Grand Cayman utilizing solar photovoltaic (PV) panels to produce clean energy for export into CUC's T&D system.

7. Other Highlights from the 2014/15 Fiscal Year

7.1 Consolidation of the Regulation of Utilities

The Ministry informed the ERA during the 2014/15 fiscal year it has hired an independent consultant to investigate consolidating the regulation of telecommunications, electricity, petroleum, water and wastewater in the Cayman Islands into a single entity. The Authority has provided the consultant with information and other support.

7.2 Participation in the Cayman Islands Energy Summit 2015

On the evening of June 4, 2015 at the Town Hall in George Town, the Hon. Winston Connolly, MLA, organized the inaugural Cayman Islands Energy Summit.

ERA Managing Director, Mr. Charles Farrington, presented to the audience as did representatives from CUC, the Cayman Renewable Energy Association, the Department of Environment and Sustainable Barbados.

The ERA is grateful to Mr. Connolly and to all who attended for their commitment to renewable energy in the Cayman Islands and the Caribbean region.

7.3 Integrated Resource Planning

Given the prospect of increased renewable energy being integrated into Grand Cayman's energy mix, CUC informed the ERA it plans to submit a business case in its 2016-2020 Capital Investment Plan to perform an integrated resource planning (IRP) exercise.

An IRP will analyze how best to meet Grand Cayman's energy requirements for the next 10 to 20 years using a number of metrics such as net revenue requirements (NRR) and levelized cost of energy (LCOE).

Photo: Solar PV supported light-emitting diode (LED) private lighting project in a parking lot at Seven Mile Beach on Grand Cayman. LED technology can reduce energy consumption from the grid.





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