



NEWS

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Bermuda Energy Commission Issues New Rates Directive to BELCO

Hamilton, Bermuda (May 25, 2016) - The Energy Commission (EC) today advised BELCO that it has instructed the Department of Energy to post the EC’s final BELCO rate directive on the Bermuda Government’s Department of Energy website. The directive is in response to BELCO’s June 2015 rate submission. The new rates will go into effect on June 1, 2016.

The EC, recognizing that BELCO requires a reasonable return on capital in order to make the on-going infrastructure investments required to deliver the highly reliable electricity system for business and residential customers, has instructed the utility to revise its rates in order to achieve a 7% return on capital in 2016 and 8% in 2017.

The Facilities Charge and kilowatt hour (kWh) rates will increase slightly, but the Fuel Adjustment Rate (FAR) that is approved by the EC monthly, based on the actual cost of fuel purchased, is at the lowest level in nine years. The net effect is that most customers using the same number of kWh in June 2016, as in June 2015, will actually have a lower overall electricity bill as the FAR was 11.5¢ per kWh in June 2015 and continued a steady decrease over the course of the year to 7.65¢ in May 2016. The decrease in the FAR has continued despite Government’s increase on Custom Duty on fuel oil from \$23.05 per barrel to \$31.79 per barrel in the 2016/2017 Bermuda Government Budget. The Government tax on fuel accounts for approximately 5¢ or 66% of the present FAR. The EC also instructed BELCO to review discounts. BELCO intends to continue the 5% early payment discount which, as of July 1, 2016, will apply to the energy and facilities charge portion of the bill. The 5% discount will no longer apply to the FAR, as it is a neutral pass through.

This Rate Comparison Chart Includes the impact of Fuel Adjustment on the Total Bill

Illustrative Bill Impacts of BELCO June 1, 2016 Rate Changes			
Customer Class	Total Bill June 2015	Total Bill June 2016	Percent Change June 2015 to June 2016
<u>Residential</u>			
Small	\$100.88	\$98.44	-2.42%
Average	\$225.38	\$217.45	-3.52%
Large	\$607.14	\$614.14	1.15%
<u>Commercial</u>			
Small	\$142.35	\$143.20	0.60%
Medium	\$297.38	\$298.01	0.21%
Large	\$2,837.80	\$2,926.80	3.14%
Residential monthly usage: 300, 600, and 1,500 kWh per month; Commercial monthly usage: 300, 750, and 7,500 kWh per month			

Through 2010, BELCO usually filed for annual increases that were generally slightly under the rate of inflation. In 2011, in response to the effects of the recession on our community, BELCO waived a previously approved 1.5% rate increase that was due to take effect at the start of that year. The last rate increase was in 2013, as the EC granted rate increases of 1.58% for 2012 and 2.96% for 2013.

According to the Bermuda Digest of Statistics, fuel and power (BELCO represents approximately 50%) accounts for approximately four percent of the Consumer Price Index (CPI). The Digest details how this level has been consistently low over 40 years, while housing (27% of CPI) and education (15% of CPI) are up by half and healthcare (13% of CPI) has doubled during the 40-year period tracked in the report.

BELCO filed the rate case on June 3, 2015 in accordance with 2014 EC directive, instructing it to do so. As part of the filing, BELCO had an independent report prepared on the Cost of Capital, which indicated that a suitable return for BELCO, in line with peer island utilities, should be 10.5%, well above the 1.8% realized in 2013, the 3.3% in 2014, and the 6.0% in 2015. Over the past several years, despite higher system reliability, BELCO's realized return on capital has been consistently much lower than other island utilities.

Since 2000, BELCO has invested a total of \$390 million into electricity infrastructure to provide Bermuda with a highly reliable electric system. Given the prolonged erosion of sales revenues in a capital intensive and high fixed-cost regulated business, BELCO could not sustain high levels of investment with unreasonably low earnings.

During 2015, Government released The National Electricity Sector Policy of Bermuda and the Electricity Act was passed in Parliament in March 2016, which requires BELCO to submit an Integrated Resource Plan (IRP) to the regulator. BELCO delayed submitting the IRP in late 2015 in order to better understand the pending policies and processes, as well as thoroughly consider how recent fuel market changes and technological advances have affected the suitability and viability of Liquefied Natural Gas (LNG), large scale deployment of renewable energy systems and Energy Efficiency and Conservation. BELCO will soon be submitting the IRP to the regulator.

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