

# **ANNUAL REPORT** | 2017-2018





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# WELCOME TO THE REGULATORY AUTHORITY

“*The Authority was established by legislation in January 2013, (Regulatory Authority Act 2011) as the national regulatory body to regulate the Electronic Communications and Electricity sectors.*”

## WHO WE ARE:

As an independent, apolitical, regulatory body, the Regulatory Authority of Bermuda (“the Authority”) was established to promote fair business practice, protect consumer and industry stakeholders and encourage innovation, competition and integrity in regulated markets.

We are comprised of a professional team of subject matter specialists, who are passionate about managing the infrastructure of Bermuda’s regulatory environment with high standards.

## OUR MISSION:

The Authority conducts technological, economic and market analysis to provide robust and independent information, for consideration in our decisions and rulings.

We Follow Principles Such As:

- transparency of information and decision making
- public consultation and participation

# WELCOME TO THE REGULATORY AUTHORITY

## OUR MANDATE:

The Principal Functions of the Authority, in relation to any regulated industry sectors are:

- to promote and preserve competition;
- to promote the interests of the residents and consumers of Bermuda;
- to promote the development of the Bermudian economy, Bermudian employment and Bermudian ownership;
- to promote innovation, and
- to fulfill any additional functions specified by sectoral legislation.

The Authority has the power to supervise, monitor and regulate any regulated industry sector, in accordance with the Regulatory Authority Act 2011, sectoral legislation and any regulations or policies made by the Minister. Within its scope, it may make administrative determinations and has the power to issue adjudicative decisions and orders as appropriate.

## THE SECTORS WE REGULATE:

The Authority regulates Bermuda's Electronic Communications and Electricity sectors.



### ELECTRONIC COMMUNICATIONS:

In compliance with the Electronic Communications Act 2011 and subsidiary legislation, the Authority promotes sustainable competition in the electronic communications sector, covering services such as fixed and mobile telephone, long distance, Internet access and subscription television.



### ELECTRICITY:

In compliance with the Electricity Act 2016, the Authority regulates the Generation and Transmission, Distribution and Retail licencees to ensure they are compliant with the provisions of the Electricity Act 2016.

# CHAIRMAN'S COMMENTS

**“** *The main strategic focus for the fiscal period was based on establishing a significant and robust regulatory framework for Bermuda's electricity sector in order to liberalize the electricity generation market, protect end-users, to ensure that opportunities exist for all credible supply or demand-side entities and to modernize the sector.*

*I am pleased to report that the Authority completed several substantial projects and initiated others in the sector”*



This Annual Report presents the annual activities and financial statements of the Regulatory Authority (“the Authority”) of Bermuda for the fiscal year April 1, 2017 to March 31, 2018, which is the Authority's fifth year of operation since it was established in 2013. The Authority's budget and Work Plan for the fiscal period were approved by the Minister of Finance on April 20, 2017, and its activities were carried out within the approved budget.

The main strategic focus for the fiscal period was based on establishing a significant and robust regulatory framework for Bermuda's electricity sector in order to liberalize the electricity generation market, protect end-users, to ensure that opportunities exist for all credible supply or demand-side entities and to modernize the sector. I am pleased to report that the Authority completed several substantial projects and initiated others in the sector, which will be detailed further in this report.

The other strategic goals for fiscal 2017-2018 included: a) striving for organizational excellence; b) promoting and facilitating sustainable competition; c) promoting and protecting the interests of consumers; d) facilitating innovation and investment; and e)

providing advice or information to the Government. Details of the activities to support these goals are also set out in this report.

While there were senior leadership changes which created a degree of uncertainty, the Authority was nonetheless able to progress and achieve several key initiatives, which is a testament to the hard work and commitment of the Authority's team.

Looking ahead, the Authority will continue to adhere to, and uphold, strong regulatory principles and standards with integrity, while also discharging its regulatory duties in an independent, transparent and proportionate manner. This means that amongst other initiatives, it will look to:

- Conduct a Sectoral Review of the Electronic Communications (“EC”) sector and a Market Review to determine the competitive state of the EC sector;
- Introduce a public consultation on a proposed Integrated Resource Plan (“IRP”) for Bermuda's electricity sector;
- Continue with its awareness campaign to educate the public about the Authority and the need for an IRP;
- Launch a Retail Tariff Methodology Consultation, requiring electricity licencees to show the separation of accounting and gain insight into the cost of electricity generation versus transmission, distribution and retail activities;
- Develop an electricity retail tariff methodology to analyze the cost to generate, transmit and distribute electricity, including its operation and maintenance, overhead expenses, administration and other costs; and
- Develop the Principles of Consumer Protection - a set of standards to further protect consumers in both regulated sectors.

In closing, I wish to thank my fellow Commissioners and the management and staff of the Authority for their dedication to delivering on our mandate, through fair processes, evidence-based analysis and quality outcomes for the regulated sectors, and ultimately for the people of Bermuda.

On behalf of the Authority, I would also like to thank the sectoral providers of electronic communications and electricity, and the general public for their feedback and input through public consultations issued by the Authority. We will continue to encourage all stakeholders to have an open dialogue with the Authority and look forward to continued participation.

*Angela S. Berry,*

Chairman

# STRATEGIC GOALS



The Authority is focused on achieving the following five strategic goals:

- 1 STRIVING FOR ORGANIZATIONAL EXCELLENCE:**  
to be a highly efficient and effective organization that supports and enables its staff to achieve the Authority's objectives;
- 2 PROMOTING AND FACILITATING SUSTAINABLE COMPETITION:**  
to apply effective and proportionate regulation to facilitate dynamic and sustainable competition within the sectors it regulates;
- 3 PROMOTING AND PROTECTING THE INTEREST OF CONSUMERS:**  
to safeguard the interests of the consumers of electronic communications and electricity services by protecting and empowering consumers;
- 4 FACILITATING INNOVATION AND INVESTMENT:**  
to provide regulatory certainty within the sectors under its responsibility. This will include the fair application of rules, market evaluation and enforcement of breaches of its regulatory rules. This, in turn, will encourage and support investment into the relevant sectors; and
- 5 PROVIDING ADVICE AND INFORMATION TO THE GOVERNMENT:**  
on policy and legislative changes which may be required to enhance the success of the electronic communications and electricity sectors, and to promptly respond to legally mandated directives from the Minister.

# REGULATORY AUTHORITY

## ACTIVITIES

The Authority performed the following activities to support its strategic goals:



### **ELECTRONIC COMMUNICATIONS: PROMOTING AND PROTECTING THE INTERESTS OF CONSUMERS**

#### **SPECTRUM:**

Following on from the conclusion of the spectrum assignment process referred to as HDS-1, the Authority continued its oversight of the implementation of the process. As detailed in its previous annual report, the Authority focused on the Coverage/Rollout and Minimum Quality of Service Obligations for 4G LTE service deployment. The obligations contained the following:

- A Minimum Average Download User Data Rate of at least 15 Mbps
- America's Cup and Interim coverage obligations

The HDS-1 America's Cup obligations were met by One Communications and Digicel on May 17th and May 31st, 2017 respectively, and each received a Certification of Compliance. The coverage and Minimum Quality of Service Obligations for 4G LTE service deployment for this obligation was focused on the western portion of the island, including the Great Sound.

The HDS-1 Interim obligations were met by One Communications and Digicel, with both receiving Certifications of Compliance on October 23rd, 2017. The coverage and Minimum Quality of Service Obligations for 4G LTE service deployment for this obligation was focused on 75% & 50% coverage respectively. For these interim requirements, both One Communications and Digicel surpassed the Minimum User Data Rate of 4 Mbps and an Minimum Average User Data Rate of 15 Mbps.

The Authority also handled many other spectrum related matters in accordance with the spectrum policy and the Electronic Communications Act 2011.

### **PROMOTING AND FACILITATING SUSTAINABLE COMPETITION**

#### **MARKET REVIEW & REMEDIES:**

The Authority initiated a comprehensive Market Review of the electronic communications sector. The review assessed whether operators in certain markets hold a significant position of market power, such that it is necessary and appropriate for the Authority to intervene and impose regulations to prevent or deter anti-competitive behaviour and/or impact. During this fiscal period, the Authority gathered and analysed data collected from sectoral providers to form an evidence-based conclusion on the market's competitive position.

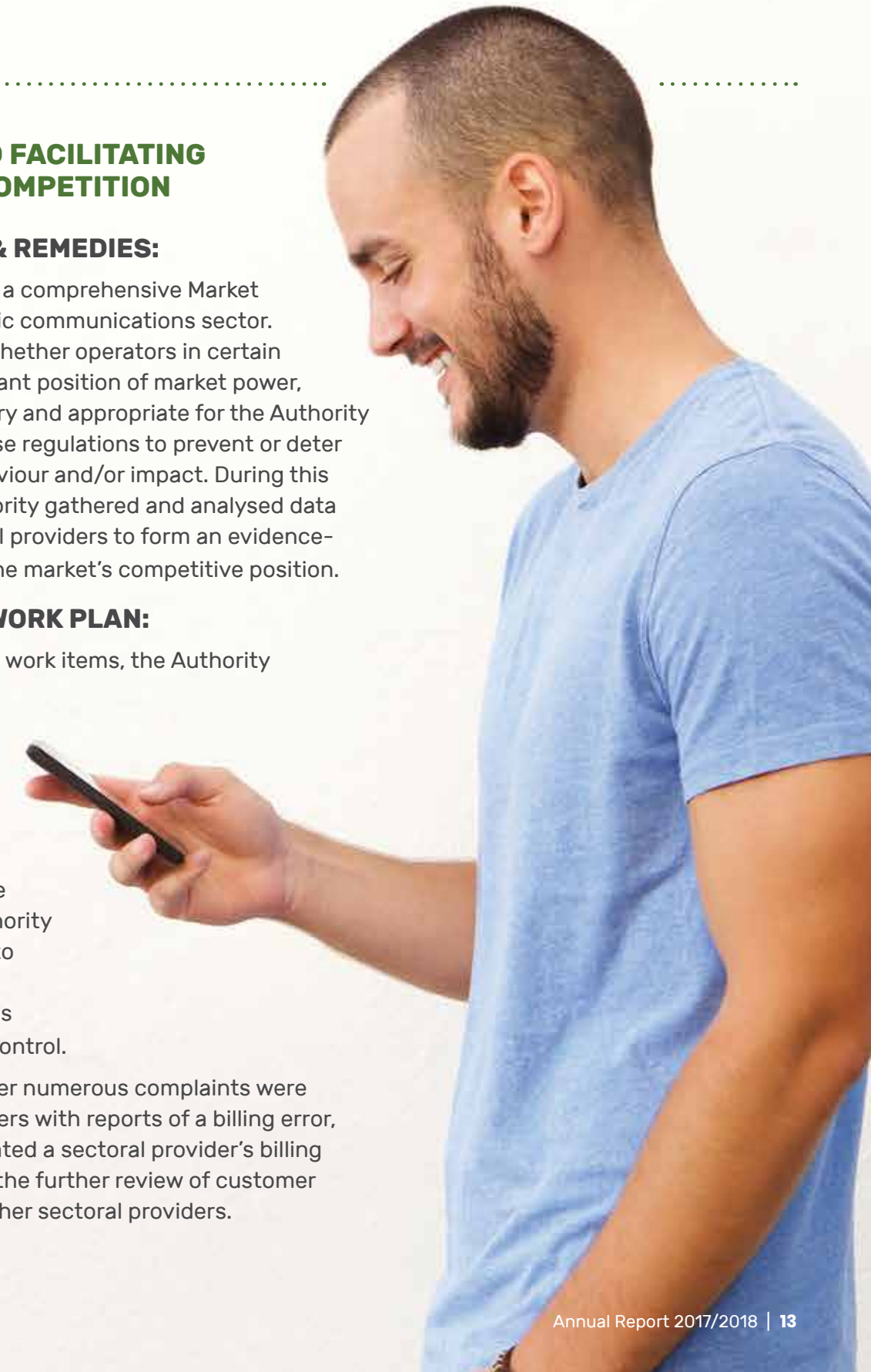
#### **OUTSIDE OF THE WORK PLAN:**

Outside of the planned work items, the Authority routinely carries out various reviews and investigations throughout the fiscal year.

These include:

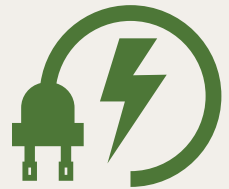
**FILINGS:** Reviews were carried out by the Authority on matters in relation to various submissions for regulatory approvals including changes of control.

**INVESTIGATIONS:** After numerous complaints were received from consumers with reports of a billing error, the Authority investigated a sectoral provider's billing practices. This led to the further review of customer contracts of several other sectoral providers.



# REGULATORY AUTHORITY

## ACTIVITIES



### **ELECTRICITY: FACILITATING INNOVATION AND INVESTMENT**

Within the fiscal year 2017-18, the Authority conducted the following key strategic activities in the electricity sector:

- The Authority completed the licensing of the incumbent Bulk Generation (“BG”) and Transmission Distribution & Retail (“TD&R”) providers, Bermuda Electric Light Company Limited (“BELCO”) and Tynes Bay Waste to Energy Facility;
- Initiated the development of Bermuda’s first Integrated Resource Plan (“IRP”);
- Developed procedures for evaluating and processing Power Purchase Agreements (“PPA’s”) between the TD&R licensee and future BG licensees;
- Created an emergency General Determination (“GD”) to establish transitional measures for BELCO’s Solar Net Metering Scheme;
- Initiated the development and consultation of the Feed in Tariff (“FIT”) methodology to provide a mechanism to compensate distributed generators; and
- Commenced the development and consultation of the Retail Tariff (“RT”) methodology to provide new electricity rates.

# CORPORATE DEVELOPMENTS & INITIATIVES

### **STRIVING FOR ORGANIZATIONAL DEVELOPMENT:**

#### **ACTIVITY 1**

**The Authority continued the provision of targeted training for members of staff to ensure they are equipped to perform at the highest level of professionalism.**

The Authority’s senior staff engaged in specialized training in utility and economic regulation. Individuals also underwent professional development, and external training via courses and conferences.

#### **ACTIVITY 2**

**Participation in relevant industry and regulatory forums and training.**

The electricity team participated in two international conferences:

- 1) The World Forum in Energy Regulation; the leading international conference on energy regulation focused on empowered consumers, dynamic markets and sustainable infrastructure and matters at the forefront of regulation in a time of innovation, and
- 2) OOCUR, the Organization of Caribbean Utility Regulators which hosted its annual conference, that focused on regulating for sustainability in a disruptive environment.



# COMMENTARY ON THE 2017-18 WORK PLAN



## ELECTRONIC COMMUNICATIONS: PROMOTING AND PROTECTING THE INTEREST OF CONSUMERS

### ACTIVITY 1

**The Authority continued to process individual consumer complaints and addressed issues raised.**

To this end, in 2017, the Authority commenced its review and reconstruction of its website to make it more accessible for consumers and to improve the consumer education and dispute submission sections on the website.

The Authority continued to accept and process consumer complaints for both residential and business consumers. Residential sector complaints were primarily related to the cost of roaming and the speed of home internet, while business complaints focused on billing queries and late charge fees. During the fiscal year, the Authority also maintained dialog with government entities, to further improve the complaints handling processes.

### ACTIVITY 2

**The Authority reviewed the Terms and Conditions of consumer contracts to better protect the public.**

The Authority reviewed the Terms and Conditions of several sectoral providers' agreements for the services they provide to the general public, and required the relevant entities to implement amendments.

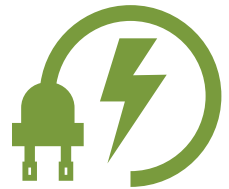
## PROVIDING ADVICE/INFORMATION TO THE GOVERNMENT

In accordance with section 17 of the RAA, the Authority commenced the review of the electronic communications sector (the "Sectoral Review") by issuing the Review of the Electronic Communications Sector Consultation Document (the "Consultation Document") on 17 October 2017. The purpose of the Sectoral Review is to conduct a comprehensive review of the electronic communications sector, including all policies, legislation, regulation and administrative determinations applicable to the sector.

The Consultation Document initiated consultation for both the Sectoral Review and the market review conducted pursuant to part 4 of the Electronic Communications Act 2011. The Consultation Document provided a broad overview of the Authority's then current views of the electronic communications sector and invited comments from the public on the Authority's proposals. It also solicited feedback from the public on any other changes that should be made to the electronic communications sector through legislation or administrative determinations.

In accordance with the requirements of section 17 of the RAA, the Authority intends to complete the Sectoral Review in the 2018-2019 fiscal year, including the publication of a Preliminary Report and its recommendations by 17 April 2018, in accordance with section 17(3) of the RAA.

# COMMENTARY ON THE 2017-18 WORK PLAN



## ELECTRICITY:

### PROMOTING AND FACILITATING SUSTAINABLE COMPETITION

#### ACTIVITY 1

**The Authority completed the licensing of the incumbent BG and TD&R providers.**

The Authority developed and consulted on its Application Process for Electricity Licences which provided clarity on the class of licences, licence applications, application procedures and how the applications would be evaluated.

#### ACTIVITY 2

**As a result of Activity 1, the Authority issued BG and TD&R licences to the incumbent sectoral providers in accordance with the Application Process for Electricity Licences General Determination.**

#### ACTIVITY 3

**The Authority reviewed Power Purchase Agreements (“PPAs”) to ensure they are consistent with the developing IRP, and that they will broadly be fair to the utility, developer and end-user, and to ensure technical and financial controls are in place.**

Procedures were developed for PPA evaluations and processing.

#### ACTIVITY 4

**The Authority established a methodology to determine fair market value to the exporters of electricity and the electricity utility.**

The Authority issued an emergency General Determination (“GD”) to reinstate BELCO’s renewable energy program, which was halted by the company. This action allowed customers to continue to receive compensation for excess energy that was exported to the utility’s network. During this time, the Authority also commenced the development and consultation of the FIT methodology to provide a mechanism to compensate distributed generators.

#### ACTIVITY 5

**The Authority evaluated rate case submissions to ensure fair market value to the consumer with acceptable rates of returns to the electricity utility.**

The Authority is responsible for the regulation of retail tariffs and conducts a retail tariff review (also known as a “rate case”) using the methodology set by the Authority. The methodology will seek to ensure the promotion of the adequate, safe, sustainable and reliable supply of electricity, together with the economic efficiency and affordability of prices to end-users.

Since development of the methodology was taking place through a comprehensive consultation process, there were no rate cases under review during this fiscal period. However, the Authority expects to conduct a retail tariff review immediately preceding the establishment of the methodology in the following fiscal period of 2018-19.

Included as a component of the retail tariff rate is the Fuel Adjustment Rate (the “FAR”). The FAR is the rate paid by consumers for the cost of fuel used in the consumption of electricity. As a function carried over from the Energy Commission, the Authority currently reviews the proposed rate submission made by BELCO every month.

The Authority is also conducting a review of validation procedures of the FAR to ensure that the rate reflects the true costs to be incurred by consumers.



# COMMENTARY ON THE 2017-18 WORK PLAN

## ELECTRICITY:

### PROMOTING AND PROTECTING THE INTERESTS OF CONSUMERS

#### ACTIVITY 1

##### **Conducted consumer education and website development.**

In 2017, the Authority commenced its review and reconstruction of its website to make it more user-friendly and accessible for consumers, and to improve consumer education content.

#### ACTIVITY 2

##### **Conducted Consumer Perception surveys to study the quality of electricity services, including renewable energy services.**

The Authority conducted several surveys to gain insight into consumer perceptions of the electricity sector including BELCO, rates and the renewable energy industry. The survey showed that there was an overwhelming desire to have lower electricity rates. While respondents also had a strong desire to have more renewable energy resources in Bermuda, 8 out of 10 did not have the same desire to pay higher electricity rates to support more renewable energy resources.

#### ACTIVITY 3

##### **Reviewed consumer pricing based on fair and competitive rates which are attributed to accurate accounting principles by the electricity utility. Finalized accounting separation of the electric utility.**

As a licence condition, the Authority requires licencees to report separately for each licenced business unit, the elements of the balance sheet and income statement (the "accounts") with corresponding accounting disclosures and notes.

The Authority commenced a consultation process on the regulatory accounting instructions to provide guidance to the licencees on the application of separating their accounts.

Separated regulatory accounts enable the Authority to fulfill its functions in accordance with the EA. Specifically, separated regulatory accounts are essential to:

- Inform the level of electricity tariffs to end-users and the requirements for what constitutes an adequate tariff; and
- Increase the transparency of costs and profitability levels, which enhances the ability of independent power producers to compete with vertically integrated utilities, such as BELCO.

### FACILITATING INNOVATION AND INVESTMENT

#### ACTIVITY 1

##### **Evaluated the utility's proposed energy mix scenarios for Bermuda's IRP to identify least cost, and high-quality options.**

On November 17, 2017, the Authority requested an IRP Proposal from BELCO; which was submitted for review on February 15, 2018.

The Authority is currently reviewing the proposal and will seek additional input on the IRP proposal and submissions of alternative proposals from the public during the upcoming consultation process, scheduled to commence in Q1 of the fiscal year 2018-19.

### PROVIDING ADVICE/INFORMATION TO THE GOVERNMENT

#### ACTIVITY 1

##### **Review of the electricity sector to consider recommendations on policies which remove barriers to competition and market anomalies.**

The Authority did not provide any formal recommendations for policies which remove barriers to competition and market anomalies. However, the Authority discussed several prospective issues with the Government.

# FINANCIAL HIGHLIGHTS

The Authority prepares its financial statements in accordance with public sector accounting standards, which are generally accepted in Bermuda and Canada as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada, and which are subject to an annual audit. Included in this report are the audited financial statements for the financial period ended 31 March, 2018.

Shared expenses such as rent, advertising and other office services were allocated amongst the electricity and electronic communications sectors on a 50-50 basis. Other expenses, such as salaries, are allocated as determined by the Chief Executive. Salaries also split between the two sectors based on a reasonable estimate of time spent on each sector. In the near future, the Authority anticipates conducting a detailed work study to more accurately apportion shared costs between the electronic communications and electricity sectors.

Overall, consolidated results for the 2017-18 fiscal year included actual revenues of \$6,442k, made up of Integrated Communications Operating Licence ("ICOL"), Bulk Generation ("BG") and Transmission, Distribution and Retail ("TD&R") fees. Budgeted revenues for the year were \$6,420k, with actual revenues exceeding this by \$22k.

Overall expenses for the year were budgeted to be \$6,660k, however, total expenses amounted to \$6,069k, an underspend of \$591k. These results led to a surplus for the year of \$373k.

The Authority made a request to the Ministry of Finance and Ministry of Home Affairs to carry-forward the deficit incurred during the 2016-17 fiscal year. This carry-forward was approved, allowing for the \$308k loss to be applied to the current annual surplus. The net annual surplus of \$66k, was allocated based on the Authority's legislative mandate with 50% (\$33k) distributed to the Consolidated Fund and 25% each distributed to the Paid-up capital and Reserve Fund.



## ELECTRONIC COMMUNICATIONS:

The Electronic Communications sector incurred an actual expense of \$2,932k related to the general administration, professional services and amortization expenses. Projected expenses of \$3,305k were not fully realized, resulting in an underspend of \$373k. Salaries, rent, and technical and non-technical consultancy made up most of the year's expenses, incurring a cost of \$2,712k (92%) of the actual spend.

Fees received from the Electronic Communications sector in relation to Integrated Communications Operating Licence holders, totaled \$3,464k, which exceeded budgeted revenues of \$3,440k by \$24k.



## ELECTRICITY:

The fiscal 2017-18 year saw the newly regulated Electricity sector go through its first complete year under regulation. Compared to the previous year where expenses began to be incurred without offsetting revenues, the fees generated by the sector during fiscal year 2017-18 covered expenses. The total of the general administration, professional services and amortization expenses for the Electricity sector totaled \$3,137k compared to a total expense budget of \$3,355k. Electricity expenditures were \$218k less than budgeted.

The 2016-17 expenses of \$937k were less than 2017-18; however, this was due to expenses being incurred between 28 October 2016 (Electricity Act 2016 commencement day) and 31 March 2017. Expenses such as salaries, rent and technical and non-technical consultancy made up most of the electricity sector's total incurred expenses, incurring a cost of \$2,853k (91%) of the actual spend. During the year, the Authority received fees from the sector in relation to BG and BELCO's electricity fees for a total of \$2,979k, as compared to budgeted revenues of \$2,980k.

# FINANCIAL STATEMENTS

MARCH 21, 2018

3 October 2019

## Management's Responsibility for the Financial Statements

These financial statements have been prepared by management, who are responsible for the reliability, integrity and objectivity of the information provided. The preparation of financial statements necessarily involves using management's best estimates and judgments, where appropriate.

Management is responsible for maintaining a comprehensive system of accounting records, internal controls, policies and management practices, designed to provide reasonable assurance that transactions are properly authorized and in compliance with legislation, assets are safeguarded, and reliable financial information is available on a timely basis.

The Board of Commissioners (the "Board") is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. They meet periodically with management to discuss matters relating to financial reporting, internal control and audits. They also review the financial statements before their approval. The financial statements have been approved by the Board and have been examined by the Office of the Auditor General.

The accompanying Independent Auditor's Report is presented herein.



Denton Williams  
Chief Executive



Bradley Mitchell  
Financial Controller

3 October 2019  
(Date of approval)



## Office of the Auditor General

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### INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners

#### Report on the Financial Statements

I have audited the accompanying financial statements of the Regulatory Authority, which comprise the statement of financial position as at March 31, 2018, and the statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with public sector accounting standards generally accepted in Bermuda and Canada, 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 my audit. I conducted my audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 on 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.

#### Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Regulatory Authority as at March 31, 2018, and the results of its operations, changes in its net financial assets and its cash flows for the year then ended in accordance with public sector accounting standards generally accepted in Bermuda and Canada.

#### Report on Other Legal and Regulatory Requirements

As required by Section 46 of the Regulatory Authority Act 2011, I also report that, in my opinion, the financial statements show fairly the financial transactions and the state of affairs of the Regulatory Authority, proper accounting and other records have been kept, including records of all assets of the Regulatory Authority, and the receipts, expenditure and investment of moneys and the acquisition and disposal of assets by the Regulatory Authority during the financial year, were in accordance with the provisions of the Act.

Hamilton, Bermuda  
October 3, 2019

Heather Thomas, CPA, CFE, CGMA  
Auditor General

## REGULATORY AUTHORITY STATEMENT OF FINANCIAL POSITION

As at March 31, 2018  
(Expressed in Bermuda dollars)

	2018	2017
	\$	\$
<b>FINANCIAL ASSETS</b>		
Cash	1,082,428	1,502,454
Accounts receivable	5,549,831	4,908,015
Due from the Government of Bermuda	-	4,875
	<u>6,632,259</u>	<u>6,415,344</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	494,889	398,402
Bank borrowing <sup>(Note 10)</sup>	144,206	374,182
Due to the Government of Bermuda <sup>(Note 9)</sup>	4,305,224	4,184,455
Obligation under capital lease <sup>(Note 8)</sup>	4,945	9,348
Distribution payable to the Consolidated Fund of the Government of Bermuda <sup>(Note 9)</sup>	693,854	660,950
	<u>5,643,118</u>	<u>5,627,337</u>
<b>NET FINANCIAL ASSETS</b>	<u>989,141</u>	<u>788,007</u>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets <sup>(Note 3 and 8)</sup>	341,719	191,191
Prepaid expenses	32,518	43,693
	<u>374,237</u>	<u>234,884</u>
<b>ACCUMULATED SURPLUS</b> <sup>(Note 4)</sup>	<u>1,363,378</u>	<u>1,022,891</u>
<b>CONTRACTUAL OBLIGATIONS</b> <sup>(Note 7)</sup>		

The accompanying notes and schedules are an integral part of these financial statements

## REGULATORY AUTHORITY STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

For the year ended March 31, 2018  
(Expressed in Bermuda dollars)

	2018	2018	2017
	Budget	Actual	Actual
	<sup>(Note 14)</sup>		
	\$	\$	\$
<b>REVENUES</b>			
Fees from Integrated Communications Operating Licences <sup>(Note 12)</sup>	3,440,000	3,463,571	3,565,936
Fees from Transmission, Distribution and Retail, and Bulk Generation Licences <sup>(Note 13)</sup>	2,980,000	2,978,514	-
Interest	-	6	428
	<u>6,420,000</u>	<u>6,442,091</u>	<u>3,566,364</u>
<b>EXPENSES</b> <sup>(Note 5)</sup>			
General administration	4,048,960	3,581,494	2,519,031
Professional services	2,611,040	2,408,407	1,636,101
Amortization of tangible capital assets	-	78,799	49,289
	<u>6,660,000</u>	<u>6,068,700</u>	<u>4,204,421</u>
<b>ANNUAL SURPLUS (DEFICIT)</b>	<u>(240,000)</u>	373,391	(638,057)
<b>ACCUMULATED SURPLUS, BEGINNING OF YEAR</b>		1,022,891	1,660,948
Less: Distribution to the Consolidated Fund of the Government of Bermuda <sup>(Notes 4 and 9)</sup>		(32,904)	-
<b>ACCUMULATED SURPLUS, END OF YEAR</b>		<u>1,363,378</u>	<u>1,022,891</u>

The accompanying notes and schedules are an integral part of these financial statements

## REGULATORY AUTHORITY STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

For the year ended March 31, 2018  
(Expressed in Bermuda dollars)

	2018 Budget (Note 14)	2018	2017
	\$	\$	\$
NET FINANCIAL ASSETS, BEGINNING OF YEAR	788,007	788,007	1,506,265
Annual surplus (deficit)	(240,000)	373,391	(638,057)
Acquisition of tangible capital assets (Note 3)	(229,327)	(229,327)	(107,823)
Loss on disposal of tangible capital assets (Note 3)	-	-	5,412
Proceeds on disposal of tangible capital assets (Note 3)	-	-	300
Acquisition of office equipment under capital lease (Note 3)	-	-	(4,890)
Amortization of tangible capital assets (Note 3)	-	78,799	49,289
Change in prepaid expenses	-	11,175	(22,489)
Distribution to the Consolidated Fund of the Government of Bermuda (Notes 4 and 9)	-	(32,904)	-
Change in net financial assets	(469,327)	201,134	(718,258)
NET FINANCIAL ASSETS, END OF YEAR	318,680	989,141	788,007

The accompanying notes and schedules are an integral part of these financial statements

## REGULATORY AUTHORITY STATEMENT OF CASH FLOWS

For the year ended March 31, 2018  
(Expressed in Bermuda dollars)

	2018 \$	2017 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Annual surplus (deficit)	373,391	(638,057)
Adjustment for items not affecting cash:		
Amortization of tangible capital assets	78,799	49,289
Acquisition of office equipment under capital lease	-	(4,890)
Loss on disposal of tangible capital assets	-	5,412
	452,190	(588,246)
Changes in non-cash working capital:		
Increase in accounts receivable	(641,816)	(1,405,547)
Decrease (increase) in due from the Government of Bermuda	4,875	(4,875)
Decrease (increase) in prepaid expenses	11,175	(22,489)
Increase in accounts payable and accrued liabilities	96,487	107,001
(Decrease) increase in Bank Borrowing	(229,976)	374,182
Increase in due to the Government of Bermuda	120,769	1,367,187
Increase in obligation under capital lease	(4,403)	1,192
Cash flows used in operating activities	(190,699)	(171,595)
CASH FLOWS FROM CAPITAL ACTIVITIES		
Acquisition of tangible capital assets	(229,327)	(107,823)
Proceeds on disposal of tangible capital assets	-	300
NET DECREASE IN CASH	(420,026)	(279,118)
CASH, BEGINNING OF YEAR	1,502,454	1,781,572
CASH, END OF YEAR	1,082,428	1,502,454

The accompanying notes and schedules are an integral part of these financial statements



## REGULATORY AUTHORITY

# NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

### 1. AUTHORITY AND PURPOSE

The Regulatory Authority (the "Authority") was established under the Regulatory Authority Act 2011 (the "Act"), as amended.

The Authority commenced operations on January 28, 2013 and currently operates as an electronic communications and electricity regulator under the Electronic Communications Act 2011 ("ECA") and Electricity Act 2016 ("EA") respectively. Effective October 28, 2016, the Electricity Act 2016 came into effect and transferred responsibility for the regulation of electricity from the Energy Commission to the Authority.

The principal functions of the Authority, in relation to any industry sector that it regulates, are:

- to promote and preserve competition;
- to promote the interests of the residents and consumers of Bermuda;
- to promote the development of the Bermudian economy, Bermudian employment and Bermudian ownership;
- to promote innovation; and
- to fulfill any additional functions specified by sectoral legislation.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with public sector accounting standards generally accepted in Bermuda and Canada as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. For financial reporting purposes, the Authority is classified as an "other government organization" and has adopted accounting policies appropriate for this classification. The policies considered particularly significant are as follows:

#### (a) Revenue recognition

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

The Authority derives revenues from electronic communications sector licencees from Integrated Communication Operating Licenses ("ICOLs") which are based on actual returns received and an accrued estimate relating to carriers which are required by the ECA to file returns and remit the related ICOL fees.

Revenues from the electricity sector are derived from Transmission, Distribution and Retail ("TD&R") licenses as well as Bulk Generation licenses. These revenues are based on returns received, and an accrued estimate for carriers required by the EA to file returns and remit fees. These estimates have been made by management using information available to the Authority.

## REGULATORY AUTHORITY

# NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (a) Revenue recognition (continued)

Fees collected on behalf of the Government of Bermuda (the "Government") for Class licenses are not recognized as revenue, but rather recorded as amounts due to Government.

#### (b) Expenses

Expenses are recognized when, and to the extent that, the goods or services have been received. They are measured at the fair value of the consideration paid or payable.

#### (c) Cash

Cash includes all cash on deposit with financial institutions that can be withdrawn without prior notice or penalty.

#### (d) Tangible capital assets including capital lease and amortization

Tangible capital assets are recorded at cost less accumulated amortization. The cost of a tangible capital asset consists of its purchase price and costs directly attributable to making the asset ready for its intended use.

Obligations under capital leases are recorded at the present value of the minimum lease payments excluding executor costs (e.g. insurance, maintenance cost, etc.). The discount rate used to determine the present value of the lease payments is the Authority's rate for incremental borrowing.

Amortization is computed using the straight-line method over the estimated useful lives of the tangible capital assets as follows:

Furniture and fittings	10 years
Office equipment	5 years
Leasehold improvements	5 years
Electronic communications equipment	5 years
Computers and software	3 years

The estimated useful life of an asset is the period over which the Authority expects to obtain economic benefits or service potential from the asset. This is specific to the Authority and may be shorter than the physical life of the asset itself. Estimated useful lives and residual values are reviewed each year end, with the effect of any changes recognized on a prospective basis.

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Authority's ability to provide services, or when the value of the future economic benefits associated with the tangible capital assets is less than their net book value. The net write-down is accounted for as an expense in the statement of operations and accumulated surplus.

## REGULATORY AUTHORITY

# NOTES TO THE FINANCIAL STATEMENTS

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MARCH 31, 2018

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (e) Leases

Leases are classified as capital leases when substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Lease incentives are recognized as a reduction of rentals on a straight-line basis over the lease term.

#### (f) Funds and reserves

Certain amounts, as stipulated in the Act, are set aside from the accumulated surplus for future operating and capital purposes. Transfers to/from funds and reserves are an adjustment to the respective fund when approved.

#### (g) Foreign currencies

The Authority's functional and presentation currency is the Bermuda dollar.

Transactions denominated in foreign currencies are translated into Bermuda dollars at the prevailing exchange rates on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the year-end date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the statement of operations and accumulated surplus.

#### (h) Financial instruments

The Authority's financial instruments consist of cash, accounts receivable, accounts payable, amounts due to/from the Government of Bermuda and distribution payable to the Consolidated Fund of the Government of Bermuda (the "Consolidated Fund"). These financial instruments are measured at cost or amortized cost.

#### (i) Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current period and are not intended for sale in the normal course of operations.

## REGULATORY AUTHORITY

# NOTES TO THE FINANCIAL STATEMENTS

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MARCH 31, 2018

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (j) Measurement uncertainty

These financial statements are prepared in accordance with public sector accounting standards generally accepted in Bermuda and Canada. These standards require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant areas requiring the use of estimates include determination of the estimated useful lives of tangible capital assets and accruals. Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Actual results could differ from these estimates.

#### (k) Remeasurement gains and losses

The Authority has no transactions that would result in remeasurement gains and losses therefore no statement of remeasurement gains and losses has been prepared.

#### (l) Changes in accounting standards

On April 1, 2017, the following new standards were adopted:

PS 2200 Related party disclosures – defines a related party and establishes disclosures required for related party transactions.

PS 3210 Assets – provides guidance for applying the definition of assets set out in PS 1000 and establishes general disclosure standards for assets.

PS 3320 Contingent assets – defines and establishes disclosure standards on contingent assets.

PS 3380 Contractual rights – defines and establishes disclosure standards on contractual rights.

PS 3420 Inter-entity transactions – establishes how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

The adoption of these accounting standards had no significant impact on the financial statements.

## REGULATORY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

### 3. TANGIBLE CAPITAL ASSETS

	Furniture and fittings	Office equipment	Electronic communications equipment	Computers and software	Office equipment under capital lease	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$	\$
Opening cost - April 1, 2017	105,113	6,324	9,420	99,552	13,263	54,400	288,072
Additions	3,915	-	218,625	2,129	-	4,658	229,327
Closing cost - March 31, 2018	109,028	6,324	228,045	101,681	13,263	59,058	517,399
Opening accumulated amortization - April 1, 2017	21,773	4,921	372	60,927	2,598	6,290	96,881
Amortization	10,664	1,265	28,473	24,281	2,652	11,464	78,799
Closing accumulated amortization - March 31, 2018	32,437	6,186	28,845	85,208	5,250	17,754	175,680
Net book value - March 31, 2018	76,591	138	199,200	16,473	8,013	41,304	341,719

## REGULATORY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

### 3. TANGIBLE CAPITAL ASSETS (continued)

	Furniture and fittings	Office equipment	Electronic communications equipment	Computers and software	Office equipment under capital lease	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$	\$
Opening cost - April 1, 2016	66,547	13,354	-	99,505	8,373	-	187,779
Additions	42,636	-	9,420	1,367	4,890	54,400	112,713
Disposal	(4,070)	(7,030)	-	(1,320)	-	-	(12,420)
Closing cost - March 31, 2017	105,113	6,324	9,420	99,552	13,263	54,400	288,072
Opening accumulated amortization - April 1, 2016	13,884	7,249	-	33,029	138	-	54,300
Amortization	8,882	2,067	372	29,218	2,460	6,290	49,289
Disposal	(993)	(4,395)	-	(1,320)	-	-	(6,708)
Closing accumulated amortization - March 31, 2017	21,773	4,921	372	60,927	2,598	6,290	96,881
Net book value - March 31, 2017	83,340	1,403	9,048	38,625	10,665	48,110	191,191

## REGULATORY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

### 4. ACCUMULATED SURPLUS

Funds and reserves: Pursuant to Section 41 of the Act, in any year in which the Authority realizes a net surplus, the Authority, after recouping any net losses brought forward from prior years (subject to the approval of all Ministers responsible for regulated industry sectors), shall transfer any remaining surplus in the following manner:

- 50% shall be transferred to the Consolidated Fund;
- 25% shall be transferred to paid-up capital of the Authority; and
- 25% shall be transferred to the Reserve Fund.

Pursuant to Section 40 of the Act, in any financial year in which the Authority incurs a loss and the Reserve Fund is not sufficient to meet the loss, the Authority may carry forward and recoup the losses from any future surplus, before payment is made to the Consolidated Fund.

The Paid-up capital together with the Reserve Fund is not to exceed the Authority's authorized capital of \$3.5 million. Any excess surplus must be paid to the Consolidated Fund.

In 2013, the Government paid the Authority \$1 million as initial paid-up capital. The \$1 million was paid with the intent that the Authority would have funding until collecting sufficient revenues to cover operating expenses as per section 111 (b)(ii) of the Act.

On December 5, 2018 the Authority was granted approval by the Minister of Home Affairs to carry forward realized deficits incurred on or before March 31, 2018. The Authority has restated the prior years Paid-up capital account to its pre-deficit amount (as reductions to Paid-up capital through realized deficits are not mentioned in the Act) and utilized the remainder of the realized deficit against the March 31, 2018 surplus.

The Authority's opening accumulated surplus, by fund, is shown in Table 1 below. A restatement to account for the approval of a deficit carry-forward by the Minister of Home Affairs is shown in the following table:

**Table 1 – March 31, 2017 accumulated surplus – (as previously presented)**

	Operating Fund	Initial paid-up capital	Paid-up capital	Reserve Fund	Total
	\$	\$	\$	\$	\$
ACCUMULATED SURPLUS, BEGINNING OF THE YEAR	-	1,000,000	330,474	330,474	1,660,948
Annual deficit	(638,057)	-	-	-	(638,057)
Intra-fund transfers	638,057	-	(307,583)	(330,474)	-
ACCUMULATED SURPLUS, END OF THE YEAR	-	1,000,000	22,891	-	1,022,891

## REGULATORY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

**Table 2 – March 31, 2017 accumulated surplus – (restated)**

	Operating Fund	Initial paid-up capital	Paid-up capital	Reserve Fund	Deficit carry-forward Special Fund	Total
	\$	\$	\$	\$		\$
ACCUMULATED SURPLUS, BEGINNING OF THE YEAR	-	1,000,000	330,474	330,474	-	1,660,948
Annual deficit	(638,057)	-	-	-	-	(638,057)
Intra-fund transfers	638,057	-	-	(330,474)	(307,583)	-
ACCUMULATED SURPLUS, END OF THE YEAR	-	1,000,000	330,474	-	(307,583)	1,022,891

The movements in Operating Fund, Initial paid-up capital, Paid-up capital, Reserve Fund and the newly created Accumulated annual deficit balances during the year were as follows:

**Table 3 – March 31, 2018 accumulated surplus**

	Operating Fund	Initial paid-up capital	Paid-up capital	Reserve Fund	Deficit carry-forward Special Fund	Total
	\$	\$	\$	\$		\$
ACCUMULATED SURPLUS, BEGINNING OF THE YEAR	-	1,000,000	330,474	-	(307,583)	1,022,891
Annual surplus	373,391	-	-	-	-	373,391
Loss carry-forward distribution	(307,583)	-	-	-	307,583	-
Intra-fund transfers	(32,904)	-	16,452	16,452	-	-
Distribution to the Consolidated Fund	(32,904)	-	-	-	-	(32,904)
ACCUMULATED SURPLUS, END OF THE YEAR	-	1,000,000	346,926	16,452	-	1,363,378

## REGULATORY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

### 5. EXPENSES BY OBJECT

The following is a summary of expenses by object:

	2018	2017
	\$	\$
GENERAL ADMINISTRATION		
Salaries, employee benefits and commissioners' honoraria <sup>(Note 6)</sup>	2,982,924	1,962,013
Rent and utilities	211,559	184,002
Bank charges and lease interest	93,048	59,459
Office services	81,757	95,823
Training and travel	64,558	44,502
Information technology	61,572	63,420
Communication and meetings	54,449	40,548
Advertising and public relations	8,128	10,742
Staff recruitment	8,034	34,982
Membership fees	4,488	6,954
Loss on disposal of tangible capital assets	-	5,412
Miscellaneous	10,977	11,174
	<u>3,581,494</u>	<u>2,519,031</u>
PROFESSIONAL SERVICES		
Technical consultancy	2,083,407	1,452,565
Non-technical consultancy	287,140	91,106
Audit fees	30,000	24,000
Accounting fees	7,860	68,430
	<u>2,408,407</u>	<u>1,636,101</u>
AMORTIZATION OF TANGIBLE CAPITAL ASSETS <sup>(Note 3)</sup>		
	<u>78,799</u>	<u>49,289</u>
	<u>6,068,700</u>	<u>4,204,421</u>

## REGULATORY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

### 6. SALARIES, EMPLOYEE BENEFITS AND COMMISSIONERS' HONORARIA

This account consists of:

	2018	2017
	\$	\$
GENERAL ADMINISTRATION		
Salaries, bonuses and commissioners' honoraria	2,477,237	1,617,082
Payroll tax	283,258	168,443
Health insurance	96,061	70,474
Pension	89,144	73,264
Social insurance	23,474	17,750
Housing allowance	13,750	15,000
	<u>2,982,924</u>	<u>1,962,013</u>

Employee benefits include the following:

#### (a) Salaries, bonuses and commissioners' honoraria

##### i) Chief Executive compensation

The Chief Executive received gross salary of \$257,692 (2017 - \$227,302) during the year and was granted a housing allowance of \$13,750 (2017 - \$15,000). During February 2018 the incumbent stepped down from his position as Chief Executive and received a gross exit payment of \$271,008.

##### ii) Commissioners' Honoraria

The Authority has five Commissioners. In accordance with the provisions of the Act, each Commissioner is selected by a Selection Committee that consists of the Minister responsible for justice, as Chairman; the Minister responsible for labor; the Opposition Leader or his or her designate; and the Minister responsible for the electronic communications sector. The responsibilities of the Commissioners are quite broad and diverse. Amongst other things, they are responsible for the strategic direction and governance of the Authority and for providing general direction to its Chief Executive. They are also responsible for making statutory instruments, adjudication decisions and orders that may be required to effect the Authority's regulatory functions. The total amount of honoraria paid to the Commissioners was \$517,985 (2017- \$315,000).

## REGULATORY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

### 6. SALARIES, EMPLOYEE BENEFITS AND COMMISSIONERS' HONORARIA (continued)

#### (b) Compensated absences

Compensated absences include maternity and paternity leave, sick leave and vacation days. All of these benefits are unfunded as there is no separate fund set up to pay for these benefits.

Maternity and paternity leave does not accumulate or vest and therefore an expense and liability is only recognized when extended leave is applied for and approved. There were no maternity and paternity leave benefits applied for or approved during the current year and therefore, no liability has been accrued in the accounts.

Sick leave does not accumulate or vest, and like maternity and paternity leave, a liability is recorded only when extended leave is applied for and approved. There was no extended sick leave applied for or approved during the current year and therefore, no liability has been accrued in the accounts.

Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation liability as at March 31, 2018 is \$38,965 (2017 - \$31,615) and is included in accounts payable and accrued liabilities.

#### (c) Health insurance

The Authority offers a standard group medical plan for a majority of employees and their qualified dependents. The remainder of employees, all of whom were previous employees of the Government, are covered by the Government Employment Health Insurance scheme ("GEHI"). The cost of health insurance is matched equally with employees.

#### (d) Pension plans

Employees of the Authority are enrolled in two different pension schemes:

##### i) Defined contribution plan

The Authority has a defined contribution plan administered by Colonial Pension Services Ltd. (the "Plan") for the majority of its eligible employees. A defined contribution plan is a post-employment benefit plan under which the Authority pays fixed contributions. The Authority has no legal or constructive obligations to pay further contributions. Employee contributions to the Plan are 5% of gross salary matched by the Authority.

The Authority's contributions are recognized as employee benefit expenses when they are due and totaled \$72,514 (2017 - \$49,623) during the year.

## REGULATORY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

### 6. SALARIES, EMPLOYEE BENEFITS AND COMMISSIONERS' HONORARIA (continued)

#### (d) Pension plans (continued)

##### ii) Defined benefit plan

The Authority contributes to the Public Service Superannuation Fund (the "PSSF"), which is a defined benefit plan, administered by the Government and covers the remainder of the Authority's eligible employees, all of whom were previous employees of the Government. Contributions of 8% of gross salary are required from both the employee and the Authority and have been included in salaries and employee benefits. As part of the agreement to transfer this employee group to the Authority, the Authority is not required to make contributions to the PSSF with respect to the quantified actuarial deficiencies. As a result, the current year contributions to the PSSF represent the total liability of the Authority. The Authority's contributions to the PSSF during the year were \$17,203 (2017 - \$23,641).

### 7. CONTRACTUAL OBLIGATIONS

Effective July 1, 2016, the Authority entered into a five-year operating lease for office space and service charge at a cost of \$598,851 and \$259,063 respectively. The rent and service charge expense recognized during the year was \$119,770 (2017 - \$95,706) and \$51,813 (2017 - \$51,436) respectively.

As at March 31, 2018, the total remaining obligation under the operating lease for office space is \$557,645. The future minimum lease payments in the ensuing fiscal years are as follows:

	\$
2018/19	171,583
2019/20	171,583
2020/21	171,583
2021/22	42,896

In addition, the Authority has entered into various contracts relating to operational support and delivery of services. The aforementioned contracts have commencement terms prior to March 31, 2018 and the latest contract termination date is June 30, 2021. These contractual obligations will become liabilities in the future when the terms of the contracts are met. The remaining obligations of the contracts are as follows:

## REGULATORY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

### 7. CONTRACTUAL OBLIGATIONS (continued)

	2018/19	2019/20	2020/21	2021/22
	\$	\$	\$	\$
Operational	16,406	16,406	16,406	16,406
Consultancy	181,202	-	-	-
IT support	26,032	4,443	-	-
	<u>223,640</u>	<u>20,849</u>	<u>16,406</u>	<u>16,406</u>

### 8. OBLIGATION UNDER CAPITAL LEASE

Effective March 1, 2016, the Authority entered into a three-year lease for office equipment at an effective interest rate of 4.75%, which ownership would transfer over to the Authority at the end of the lease.

As at March 31, 2018, the present value of the minimum lease payments was \$2,686 and has been recorded as a liability and a tangible capital asset in the financial statements. The interest and maintenance charge expense recognized during the year was \$2,000 (2017 - \$1,830).

The future minimum lease payments in the ensuing fiscal years are as follows:

	\$
2018/19	2,750
Total minimum lease payments	<u>2,750</u>
Less amounts representing interest	<u>(64)</u>
Present value of net minimum capital lease payments	<u>2,686</u>

Effective April 26, 2016, the Authority entered into a three-year lease for office equipment at an effective interest rate of 4.75%, which ownership would transfer over to the Authority at the end of the lease.

As at March 31, 2018, the present value of the minimum lease payments was \$2,259 and has been recorded as a liability and a tangible capital asset in the financial statements. The interest and maintenance charge expense recognized during the year was \$864 (2017 - \$379).

The future minimum lease payments in the ensuing fiscal years are as follows:

2018/19	1,752
2019/20	<u>584</u>
Total minimum lease payments	<u>2,336</u>
Less amounts representing interest	<u>(77)</u>
Present value of net minimum capital lease payments	<u>2,259</u>

## REGULATORY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

### 9. RELATED PARTY TRANSACTIONS

The Authority is related to all Government ministries, departments, agencies and quasi-autonomous non-governmental organizations under the common control of the Government. The Authority is also related to organizations that the Government jointly controls or significantly influences.

The Authority enters into transactions with these entities in the normal course of business and such transactions are measured at the exchange amount which is the amount of consideration established and agreed by the related parties.

Fees are collected by the Authority on behalf of the Government. These fees include the Government authorization, spectrum reference, class license and cellular telephone fees and are established by the Minister of Finance pursuant to the Government Fees Act 1965, as amended.

Transactions with related parties during the year included:

	Expense during the year	Collection of fees on behalf of the Government	Payments/Remittance made during the year	Due to the Government of Bermuda at year-end
	\$	\$	\$	\$
GEHI and PSSF	29,190	-	(25,449)	3,741
Land tax	8,632	-	(8,632)	-
Payroll tax	283,258	-	(148,255)	135,003
Social insurance	23,474	-	(20,441)	3,033
ICOLs, handset and spectrum fees	-	14,061,457	(10,026,194)	4,035,263
TD&R and bulk generation fees	-	80,319	-	80,319
Class licenses	-	435,113	(387,248)	47,865
	<u>344,554</u>	<u>14,576,889</u>	<u>(10,616,219)</u>	<u>4,305,224</u>

	Balance beginning of year	Distribution to the Consolidated Fund	Payments/Remittance made during the year	Balance end of year
	\$	\$	\$	\$
Distribution payable to the Consolidated Fund of the Government of Bermuda	(660,950)	(32,904)	-	(693,854)

## REGULATORY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

### 10. BANK BORROWING

Bank borrowing consists of the following:

	2018	2017
	\$	\$
The Bank of N.T. Butterfield & Son Limited overdraft facility	114,206	374,182

On October 30, 2017, the Ministry of Finance issued a letter of comfort to the Bank of N.T. Butterfield and Son Ltd. (the "Bank") extending an overdraft facility of \$2,700,000 to the Authority. On October 31, 2017, the Authority established the overdraft facility in the amount of \$2,700,000 with the Bank. The Authority's overdraft facility, which expires on October 31, 2018, bears interest at 1% per annum above the Bermuda dollar base rate. As at March 31, 2018, the Authority had drawn down \$144,206 on this facility, bearing interest of approximately 5.25%.

### 11. FINANCIAL RISK MANAGEMENT

In the normal course of operations, the Authority is exposed to a number of risks that can affect its operating performance. These include: credit risk, liquidity risk and market risk associated with its financial instruments. The Board of Commissioners has overall responsibility for the establishment and oversight of the Authority's risk management framework. The Authority's risk management program seeks to minimize potential adverse effects on the Authority's financial performance through a combination of sound business practices.

#### a) Credit risk

Credit risk is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations to the Authority. Such risks arise primarily from certain assets held consisting of cash and accounts receivable. The objective of managing counterparty risk is to prevent losses on financial assets. The Authority determines on a continuous basis, amounts receivable on the basis of amounts it is virtually certain to receive based on their estimated realizable value. It is management's opinion that the Authority is not exposed to significant credit risk associated with cash as they are placed with highly rated financial institutions.

The Authority is exposed to credit risk in the event of non-performance by licensed carriers. This risk is mitigated because 99% of accounts receivable are current; therefore, management does not consider it to be impaired.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods to measure credit risk.

## REGULATORY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

### 11. FINANCIAL RISK MANAGEMENT (continued)

#### b) Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they become due. The Authority manages liquidity risk by continually monitoring actual and forecasted cash flows from operations to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they become due.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods to measure liquidity risk.

#### c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk and interest rate risk.

##### i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. It is management's opinion that the Authority is not exposed to significant currency risk, as amounts held and transactions settled in foreign currencies are insignificant.

##### ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Authority's exposure to interest rate risk is limited to interest earned on its cash. It is management's opinion that the Authority is not exposed to significant interest rate risk.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods to measure market risk.

### 12. FEES FROM INTEGRATED COMMUNICATIONS OPERATING LICENCES

The Regulatory Authority fees were maintained at 1.75% of the ICOL holders' relevant turnover for the year from April 1, 2017 to March 31, 2018 in accordance with the Electronic Communications (Regulatory Authority Fees) Regulations 2017.



## REGULATORY AUTHORITY

# NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

### 13. FEES FROM TRANSMISSION, DISTRIBUTION AND RETAIL, AND BULK GENERATION LICENCES

The Authority began receiving fees for the regulation of the electricity sector effective April 1, 2017. TD&R fees are based on total kWh sales throughout the period and are calculated at a rate of \$0.00475 per kWh. Bulk Generation fees are based on total MWh of installed capacity and are calculated at a rate of \$1,000 per MWh for Utility Scale Electricity Generation and \$1,500 per MWh for Waste-to-Energy generation. These fees are in accordance with the Electricity (Regulatory Authority Fees) Regulations 2017.

### 14. BUDGET

The budgeted expenditures for the fiscal year April 1, 2017 to March 31, 2018 were \$3,305,000 (Schedule 1) for the electronic communications sector and \$3,355,000 (Schedule 2) for the electricity sector. This budget was approved by the Minister of Economic Development on April 20, 2017.

### 15. NEW AND AMENDED STANDARDS NOT YET EFFECTIVE

The Public Sector Accounting Board has issued a number of new public sector accounting standards and amendments to standards that are not yet effective for the year ended March 31, 2018. In particular, the new and amended standards, which became effective for annual periods beginning on or after April 1, 2018 are:

PS 3430 Restructuring transactions – a new standard that establishes standards on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities. This standard becomes effective for fiscal years beginning on or after April 1, 2018.

New standards effective for fiscal years beginning on or after April 1, 2021 include:

PS 2601 Foreign Currency Translation – replaces PS 2600 and has revised standards on accounting for and reporting transactions denominated in a foreign currency.

PS 3041 Portfolio investments – when Sections PS 2601 and PS 3450 are adopted.

PS 3280 Asset Retirement Obligations – addresses the reporting of legal obligations associated with the retirement of tangible capital assets.

PS 3450 Financial Instruments – provides guidance on the recognition, measurement, presentation and disclosure of financial instruments, including derivatives.

## REGULATORY AUTHORITY

# NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

### 15. NEW AND AMENDED STANDARDS NOT YET EFFECTIVE (continued)

New standards effective for fiscal years beginning on or after April 1, 2022:

PS 3400 Revenue – will address recognition, measurement and presentation of revenues that are common in the public sector.

The Authority does not intend to adopt these new standards prior to the effective dates. The impact that these standards will have on the financial statements is not deemed significant.

### 16. SUBSEQUENT EVENTS

On November 29, 2018, the Ministry of Finance issued a letter of comfort to the Bank extending an overdraft facility of \$1,500,000 to the Authority. On November 29, 2018, the Authority established a short-term overdraft facility in the amount of \$1,500,000 with the Bank. Upon expiry of the overdraft facility, the Authority applied for a Revolving Line of Credit (“RLOC”) with Clarien Bank Limited. The RLOC will be for a term of 2 years upon completion of the application process.

On December 5, 2018, the Minister of Home Affairs, pursuant to Section 40(5) of the Act, issued a letter to the Authority granting approval to carry forward realized deficits incurred on or before March 31, 2018. The deficit for the year ended March 31, 2017 has been carried forward after first replenishing the Paid-up capital account to its pre-deficit amount. The loss has been applied to the current year’s annual surplus <sup>(note 4)</sup>.

On February 4, 2019, a claim by the former Acting Chief Executive was initiated in the Supreme Court of Bermuda for breach of contract due to early termination. The claim is for an amount of \$74,404.76 and is expected to go to trial in the next calendar year. On February 15, 2019, a threatened claim in the amount of \$126,675.30 was made by the former Chief Financial Officer for repudiatory breach of employment after being terminated in September 2018. To date, no official filing has been made with the Supreme Court of Bermuda.

## REGULATORY AUTHORITY

### SCHEDULE 1: REVENUE AND EXPENSES BY SECTOR

MARCH 31, 2018

#### ELECTRONIC COMMUNICATIONS:

	2018 Budget	2018 Actual	2017 Actual
	\$	\$	\$
<b>REVENUES</b>			
Fees from Integrated Communications Operating Licences	3,440,000	3,463,571	3,565,936
Interest	-	6	428
	<u>3,440,000</u>	<u>3,463,577</u>	<u>3,566,364</u>
<b>EXPENSES</b>			
General Administration			
Salaries, employee benefits and commissioners' honoria	1,522,500	1,451,012	1,700,464
Rent and utilities	130,000	105,779	165,949
Office services	49,000	38,377	84,983
Communication and meetings	46,500	36,908	35,430
Information technology	35,000	30,786	55,107
Training and travel	50,000	24,736	41,457
Bank charges and lease interest	18,000	14,970	16,775
Staff recruitment	15,500	4,017	24,207
Advertising and public relations	120,000	3,567	9,065
Membership fees	10,000	2,244	6,814
Loss on disposal of tangible capital assets	-	-	5,412
Casual labor	15,000	-	-
Miscellaneous	8,500	5,489	10,407
	<u>2,020,000</u>	<u>1,717,885</u>	<u>2,156,070</u>
Professional Services			
Technical consultancy	1,020,000	961,520	895,878
Non-technical consultancy	230,000	193,785	85,987
Audit fees	15,000	15,000	22,000
Accounting fees	20,000	3,930	63,240
	<u>1,285,000</u>	<u>1,174,235</u>	<u>1,067,105</u>
Amortization of tangible capital assets	-	39,400	44,257
	<u>3,305,000</u>	<u>2,931,520</u>	<u>3,267,432</u>
<b>ANNUAL SURPLUS</b>	<u>135,000</u>	<u>532,057</u>	<u>298,932</u>

## REGULATORY AUTHORITY

### SCHEDULE 2: REVENUE AND EXPENSES BY SECTOR

MARCH 31, 2018

#### ELECTRICITY:

	2018 Budget	2018 Actual	2017 Actual
	\$	\$	\$
<b>REVENUES</b>			
Fees from Electricity Licences	2,980,000	2,978,514	-
Interest	-	-	-
	<u>2,980,000</u>	<u>2,978,514</u>	<u>-</u>
<b>EXPENSES</b>			
General Administration			
Salaries, employee benefits and commissioners' honoria	1,516,000	1,531,912	261,549
Rent and utilities	130,000	105,780	18,053
Bank charges and lease interest	53,460	78,078	42,684
Office services	115,000	43,380	10,840
Training and travel	25,500	39,822	3,045
Information technology	50,500	30,786	8,313
Communication and meetings	20,000	17,541	5,118
Advertising and public relations	50,000	4,561	1,677
Staff recruitment	50,000	4,017	10,775
Membership fees	10,000	2,244	140
Miscellaneous	8,500	5,488	767
	<u>2,028,960</u>	<u>1,863,609</u>	<u>362,961</u>
Professional Services			
Technical consultancy	1,255,000	1,121,887	556,687
Non-technical consultancy	15,000	93,355	5,119
Audit fees	15,000	15,000	2,000
Accounting fees	41,040	3,930	5,190
	<u>1,326,040</u>	<u>1,234,172</u>	<u>568,996</u>
Amortization of tangible capital assets	-	39,399	5,032
	<u>3,355,000</u>	<u>3,137,180</u>	<u>936,989</u>
<b>ANNUAL DEFICIT</b>	<u>(375,000)</u>	<u>(158,666)</u>	<u>(936,989)</u>



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