

Our Ref: B-R85

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21 June 2018

Regulatory Authority
1st Floor, Craig Appin House
8 Wesley Street
Hamilton HM 11

Attention: Jozelle Escolastica, Head of Regulatory Finance

Dear Sirs,

Re: Response to Consultation Document: Comments on Regulatory Accounting Instructions for Electricity Sector

This letter provides the response of Bermuda Electric Light Company Limited ("BELCO") to the consultation document entitled, "2nd Round Consultation Document: Regulatory Authority Instructions General Determination for Electricity Sector" dated 4 May 2018 (the "Second Round Consultation Document"). It represents BELCO's second set of comments in the public consultation process on the proposed Regulatory Authority Instructions General Determination for Electricity Sector (the "Consultation").

An initial set of instructions was circulated by the Regulatory Authority (the "Authority") as part of the first round of the Consultation, and BELCO submitted its comments on 14 March 2018 (the "First Round Response"). Within the Second Round Consultation Document, the Authority has proposed and included an updated set of instructions (the "Updated Instructions").

BELCO is pleased and grateful to see that some of its comments have been included in the Updated Instructions.

BELCO does not wish to belabour any of the points made in the First Round Response that have not been addressed, but BELCO reserves all rights and remedies available to it, now and in the future, to provide additional and/or complementary submissions in relation to the subject matters contained herein and/or otherwise to modify and amend its position as set out herein.

The one question posed in the Second Round Consultation Document to which BELCO wishes to respond is now addressed below.



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67. In particular, the Authority welcomes responses in relation to the questions outlined in the table below.

7. Do you agree that the licensee should comply with IFRS in relation to the capitalisation policy in everything but capitalisation of interest – i.e. that the licensee should not capitalise interest.

In the First Round Response BELCO stated that a licensee should comply with international financial reporting standards in general. BELCO further stated that the treatment of interest should follow the retail tariff methodology. Such view was taken on the premise that the retail tariff methodology would provide the licensee with an appropriate return on assets under construction.

In its response to the First Round Response, the Authority has confirmed that the treatment of interest for accounting separation will be consistent with the retail tariff methodology, but it has not signaled how a return on assets under construction would be earned.

While the issue of how a return on assets under construction will be earned is a matter for the retail tariff consultation, it is inseparable from the question posed above. Provided that the methodology adopted is an allowance for funds used during construction, based on allowing a return on equity and debt, then BELCO agrees that interest should not be capitalized.

BELCO looks forward to the publication of a general determination in connection with the Consultation in short order.

Yours faithfully,



Sean Durfy
President and Chief Executive Officer

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