

Annual Report

30 June 2016

Electricity Regulatory Authority's Mission

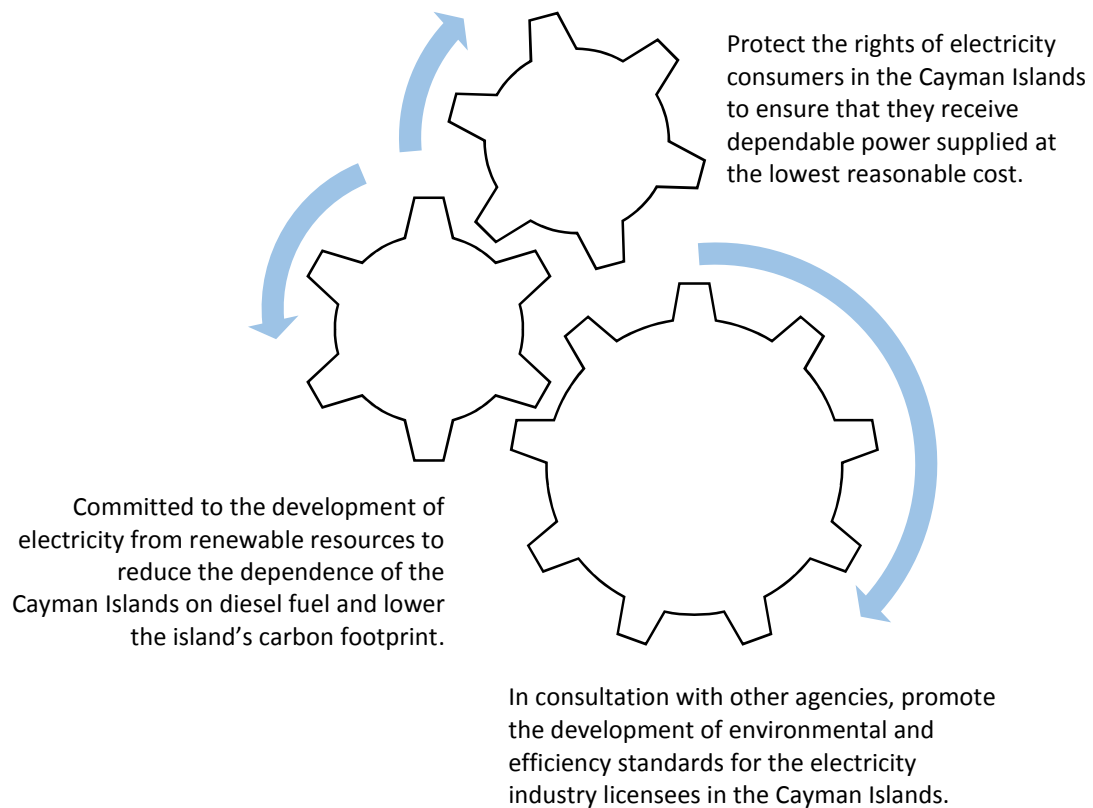


TABLE OF CONTENTS

FOREWORD	II
CHAIRPERSON OF THE BOARD OF DIRECTORS, ELECTRICITY REGULATORY AUTHORITY	II
MANAGING DIRECTOR, ELECTRICITY REGULATORY AUTHORITY.....	III
ABOUT THE ERA	1
NATURE AND SCOPE OF ACTIVITIES.....	1
GOVERNANCE.....	1
OUR PEOPLE	2
MANAGEMENT DISCUSSION AND ANALYSIS.....	5
HIGHLIGHT OF ACHIEVEMENTS.....	5
FINANCIAL PERFORMANCE AND ANALYSIS	13
SCRUTINY BY PARLIAMENT AND PUBLIC	21
INTERNAL AND EXTERNAL AUDIT UPDATES	22
FORWARD LOOKING	26
AUDITED FINANCIAL STATEMENTS	32
NOTES TO THE 2015-2016 FISCAL YEAR FINANCIAL STATEMENTS	39
APPENDIX: SUMMARY OF BOARD OF DIRECTORS MEETINGS	I

Foreword

Chairperson of the Board of Directors, Electricity Regulatory Authority

Dear Stakeholders,

I am pleased to present the Electricity Regulatory Authority's ("ERA") Annual Report through June 30, 2016.

The past fiscal year presented challenges and opportunities for the electricity sector, locally and globally, as rapidly emerging technologies continue to guide the evolution of electricity generation and electricity transmission and distribution.

The ERA is tasked with oversight of the electricity sector in the Cayman Islands and is focused on balancing the interests of all stakeholders in a manner that is transparent and within the regulatory framework detailed in the Electricity Regulatory Authority Law (2010 Revision) ("the Law").

In 2015-2016, the ERA demonstrated its commitment to its stakeholders by:

- Ensuring consumers received safe and reliable electricity service while paying rates that were as low as could be reasonably achieved;
- Encouraging the highest level of performance from licensees while permitting them to earn a reasonable return for their investors; and
- Promoting sustainable practices from licensees which benefit the general public, including a focus towards environmental quality.

A major milestone for the ERA was the award of a generation licence to the island's first utility-scale renewable energy generating facility. Entropy Cayman Solar Ltd. became the ERA's newest Licensee with its commitment to construct and operate a five megawatt solar photovoltaic generating plant in Bodden Town with first sales anticipated in the first half of 2017.

Government also began the work to re-table a National Energy Policy that was first drafted in 2013. By appointing a National Energy Policy Review Committee to update the original document, Government is moving to align its energy goals with the objectives from the Paris Climate Change Accord and the United Nations Sustainable Development Goals. Once law, the National Energy Policy will guide carbon reduction and energy security in the Cayman Islands into the foreseeable future.

Finally, the 2016-2017 fiscal year will bring significant change in the ERA's own organization. With the Ministry of Planning, Lands, Agriculture, Housing and Infrastructure at the lead, the ERA will consolidate into a single utilities commission with other local regulators, sharing both expertise and resources.

The ensuing pages detail our organization, the nature and scope of our activities and our financial performance through June 30, 2016. The report also provides a glimpse into our objectives for the 2016-2017 fiscal year.

I hope you find it informative.

Sincerely,



Sherri Bodden-Cowan
Chairperson
Cayman Islands Electricity Regulatory Authority

Managing Director, Electricity Regulatory Authority

Dear Stakeholders,

Our office is charged with many responsibilities which on the whole ensures the electricity sector in the Cayman Islands performs as prescribed while remaining transparent, predictable and inclusive.

An overarching priority in our work is to open opportunities within the framework that empower stakeholders to make well-informed energy choices that will lower the sector's cost of service; maintain the existing level of service reliability and safety; and increase environmental performance.

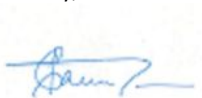
In the past year, we made real progress on this front via the following:

- Licence award for Grand Cayman's first utility-scale solar photovoltaic generating facility;
- Extensive work on the development of standby rates on Grand Cayman by the utility for customers choosing to serve some or all their own electricity requirements with onsite generation;
- Approval of the terms of reference for an integrated resource planning ("IRP") exercise for Grand Cayman that will investigate a range of potential future power supply options, including supply and demand-side management options and distributed generation utilizing renewable energy resources;
- Expansion of the Consumer-Owned Renewable Energy ("CORE") Program from four (4) up to six (6) megawatts of capacity with revised rates offering stable, long-term returns for participants;
- Extensive work on the development of street lighting rates by the utility for the conversion of more than 7,800 high-pressure sodium street light fixtures to higher efficiency and more energy efficient light-emitting diode ("LED") fixtures;
- Assisting a Government appointed committee in finalizing a National Energy Policy that will guide timelines and targets for improved energy efficiency and further infusion of renewable energy in the Cayman Islands.

2015-2016 was a busy and productive year for the Electricity Regulatory Authority. As always, contributions from our staff and guidance from our Board of Directors allowed regulatory priorities to progress in a timely manner.

I am pleased with our 2015-2016 accomplishments which you will find discussed in this Annual Report and look forward to having even more exciting progress to report on in the coming year.

Sincerely,



Charles Farrington
Managing Director of the Electricity Regulatory Authority

About the ERA

Nature and Scope of Activities

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

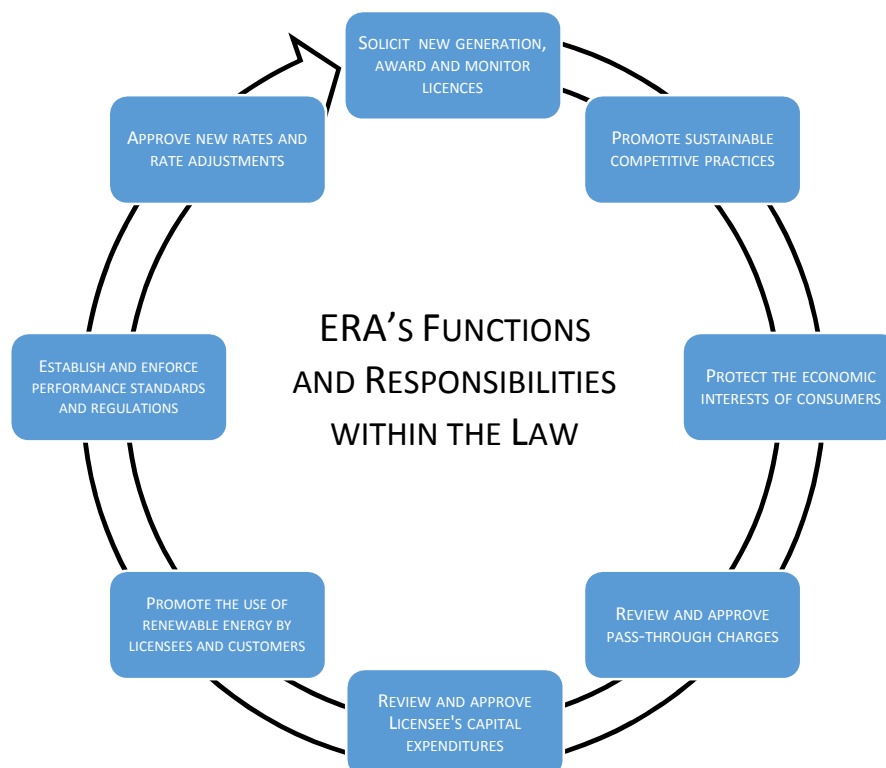
As of June 30, 2016 the ERA fully oversees two Licensees, both within the Grand Cayman service territory: Caribbean Utilities Company, Ltd. (“CUC”) as the holder of a non-exclusive electricity generating licence and an exclusive electricity transmission and distribution licence; and Entropy Cayman Solar Ltd. (“Entropy”) as the holder of a non-exclusive 100% renewable energy electricity generating licence.

The ERA also provides strategic advice and services to the Cayman Islands Government, including monitoring an exclusive licence held by Cayman Brac Power and Light Company Limited for the Cayman Brac and Little Cayman Service territories.

Governance

Electricity Regulatory Authority Law

The *Electricity Regulatory Authority Law (2010 Revision)* (“the Law”) defines the responsibilities of the ERA and its licensees and governs regulation for the generation and transmission and distribution of electricity in the Cayman Islands. The graphic below highlights some of the ERA’s functions and responsibilities within the Law:



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 Board of Directors through bi-monthly meetings reviews all significant work undertaken by the ERA, approves all important decisions affecting Licensees and Consumers, reviews the financial performance of the ERA in detail and ensures all audit reports are responded to appropriately and in a timely manner.

Technical Committee

Section 8 of the Law empowers the ERA's Board of Directors to create subcommittees and delegate powers to them from time to time.

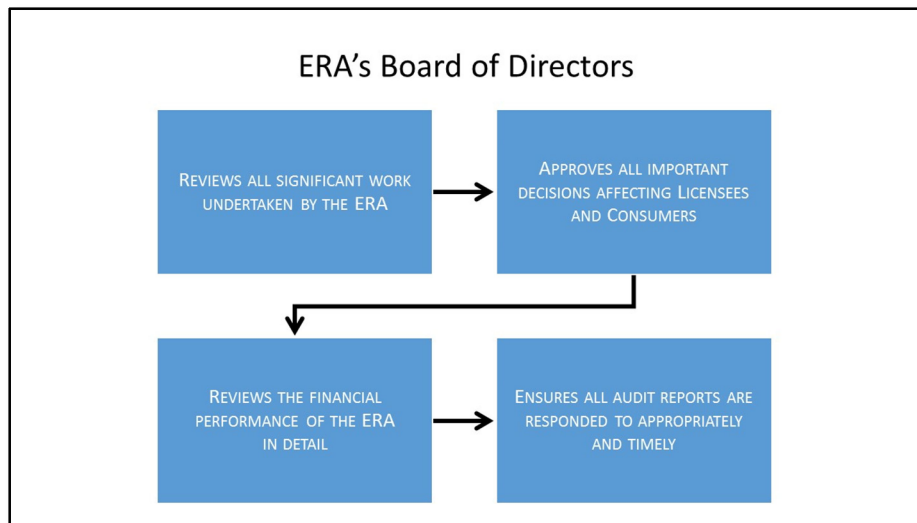
The Technical Committee was the only subcommittee formed by the Board of Directors during the 2015-2016 fiscal year. It is comprised of five (5) Directors and four (4) staff and meets outside of scheduled Board meetings to review all technical matters in depth.

The Committee then puts forth technical recommendations to the Board of Directors for consideration.

Our People

Board of Directors

The present Board of Directors was appointed to hold office from August 19, 2013 until twelve (12) months after the date of establishment of the proposed public utilities commission to



ensure a seamless transition subsequent to the Authority's handover of its responsibilities under the Law.

Mrs. Sherri Bodden-Cowan, M.B.E., LLB. (Hons) was first appointed Chairwoman of the Board of Directors in August 2009 and will maintain her appointment through the Authority's handover. Mrs. Bodden-Cowan is a resident of Grand Cayman, a founding partner of Bodden & Bodden Attorney's-at-Law, and a director of Bodden Corporate Services.

Mr. Derrick Tibbetts, JP was elected Deputy Chairman in August 2013 and has served as an ERA Director since his first appointment in August 2009. Mr. Tibbetts also serves as a member of the ERA's Technical Committee. Mr. Tibbetts is a resident of Grand Cayman and is a senior manager with Cayman Airways.

Mrs. Anna Rose Washburn was first appointed to the Board of Directors in August 2013. Mrs. Washburn is a former Government director nominee on the CUC Board of Directors, a resident of Grand Cayman and Managing Director of Marksons Furniture & Supplies Ltd.

Mrs. Dara Flowers-Burke has served as an appointed Director since 2012. Mrs. Flowers-Burke is a resident of Grand Cayman and a director for CL Flowers & Sons Ltd.

Mr. Ken Ryan was an original ERA Director, and former Chairman, and was reappointed to serve on the Board of Directors in August 2013. Mr. Ryan is a resident of Cayman Brac and is a consultant for Cayman Brac Power and Light Company Limited.

Mr. Reginald Nixon was appointed to the Board of Directors in August 2013. Mr. Nixon is the Chairman of the Technical Committee, a resident of Grand Cayman and a retired technical manager with Cable and Wireless (Cayman) Ltd.

Mr. Gregg Anderson has served as an appointed Director since August 2013 and is a Member of the Technical Committee. Mr. Anderson is a resident of Grand Cayman and a consultant in the financial services industry.

Mr. Alee Fa'amoe was appointed to the Board of Directors in August 2013 and is a Member of the Technical Committee. Mr. Fa'amoe resides on Grand Cayman and is the Managing Director of the Information, Communication and Technology Authority.

Mr. Charles Farrington is the Managing Director of the ERA. Mr. Farrington is an original Member of the ERA's Board of Directors and was part of the Government team that negotiated the new licences with CUC. Mr. Farrington is a Member of the Technical Committee and resides on Grand Cayman.

Mr. Miguel Jacques has been the Ministry's non-voting representative to the Board of Directors since 2009. Mr. Jacques is actively involved in the process to consolidate regulating authorities into a public utilities commission and is a



From bottom left clockwise: Ken Ryan; Anna Rose Washburn; Derrick Tibbetts; Dara Flowers-Burke; Charles Farrington; Sherri Bodden-Cowan; Miguel Jacques; Reginald Nixon; Gregg Anderson; and Alee Fa'amoe.

Member of the National Energy Policy Review Committee.

Staff

The Board of Directors are supported by a management team who oversee the day-to-day operations of the ERA. Management is assisted by two analysts providing additional technical and administrative support.

Personnel costs, including salaries, pension and health insurance, were the largest line item expense at KYD 342,704 for the year ended June 30, 2016 (2015 – KYD 290,850).

Profile of ERA Staff

	Management	Analysts
Turnover	0	0
New Hires	0	1
Nationality	Management	Analysts
Caymanian	1	1
Canadian	1	1
	Male	Female
Management	2	0
Analysts	2	0

ERA TEAM



CHARLES FARRINGTON - MANAGING DIRECTOR

Education: *Engineering and Accounting*

Qualifications: *B.Sc. Electrical Eng. & Electronics*



LOUIS BOUCHER - DEPUTY MANAGING DIRECTOR

Education: *Engineering, Business & Accounting*

Qualifications: *P.Eng., MBA*



JASON ABRAHAM - ANALYST

Education: *Engineering and Economics*

Qualifications: *P.Eng.*



DERRICK WESTERBORG - ANALYST

Training: *Telecommunications*

Qualifications: *HND (Telecommunications)*

Management Discussion and Analysis

Highlight of Achievements

The following highlights the ERA's performance during the 2015-2016 fiscal year.

Approval of Governance Policies

As recommended by both the Office of the Auditor General ("OAG") in its International Standards of Auditing ISA 260 Report dated October 31, 2014 and as directed by the ERA's Board of Directors, the following governance policies were approved during the 2015-2016 fiscal year:

Purchasing / Vendor Management and Payment Policy

The objective of the policy is to set down general rules to be followed by staff with regard to the authorization of purchases and the selection and payment of vendors.

Travel Policy

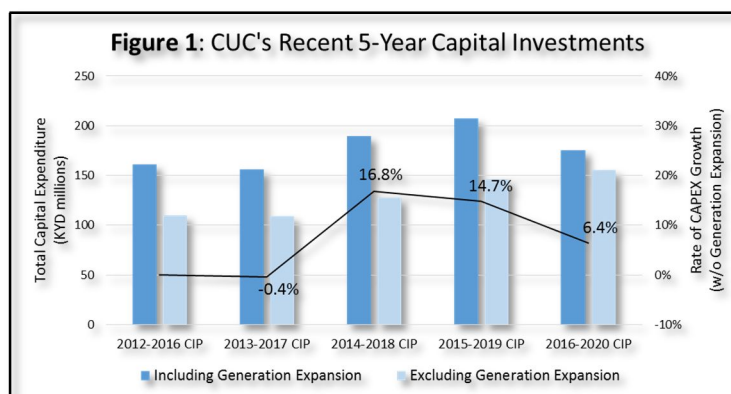
The policy applies to all travel by both directors and staff. It assesses whether travel is required in each instance and manages all travel expenditures with guidance from the Cayman Islands Government's official travel rate sheet.

Fraud Policy Statement

The ERA developed a fraud risk management system designed to identify the risk of and prevent, detect and deter: asset misappropriations, both cash and non-cash; fraudulent statements, both financial and non-financial; and corruption, including conflicts of interest, bribery and extortion.

Approval of CUC's 5-Year Capital Investment Plan

CUC makes capital investments in its operations to provide dependable electricity service to its more than 28,000 customers on Grand Cayman.



To ensure CUC's capital investments are aligned with its regulatory obligations, the ERA annually reviews and approves CUC's capital investment plan ("CIP") over the next prospective five (5) year period (see Figure 1).

Licence Award for 5 Megawatts of Utility-Scale Photovoltaic Solar

In August 2011, and as agreed with the ERA, CUC issued a request for expressions of interest ("EOI") for ownership and operation of up to 13 Megawatts ("MW") in aggregate of utility-scale renewable energy facilities for Grand Cayman.

Following a protracted evaluation and negotiating process with a number of the top-rated bidders, CUC submitted to the ERA a draft power purchase agreement ("PPA") and interconnection agreement ("IA") on December 1, 2014 for a 5 MW AC solar photovoltaic ("PV") generating facility to be owned and operated by Entropy Cayman Solar Ltd.

The ERA, assisted by its consultant ICF International, reviewed the draft PPA and IA and performed due diligence as outlined in the ERA Law and at its meeting on October 7, 2015 the ERA's Board of Directors approved Entropy's generation licence application for the first utility-scale renewable energy facility in the Cayman Islands.

The generating plant is located in the district of Bodden Town and is planned to come online in the first half of 2017.

The ERA's Board of Directors approved CUC's 2016-2020 CIP at its meeting on December 14, 2015. Excluded from approval was the light-emitting diode ("LED") street lights business case due to non-acceptance by the ERA of CUC's analysis and proposed rates.

Monitoring CUC's Performance Standards

CUC's level of efficiency and quality of service are measured against performance standards which are monitored by the ERA. When CUC surpasses its targets consumers benefit from lower rates and/or increased service quality and CUC can earn a reward. However, if CUC underperforms, it can incur 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.

Fuel Efficiency Plans

Pursuant to Condition 21 of CUC's T&D Licence, fuel costs for electricity generation are a 100% pass-through to consumers without benefit or cost to CUC.

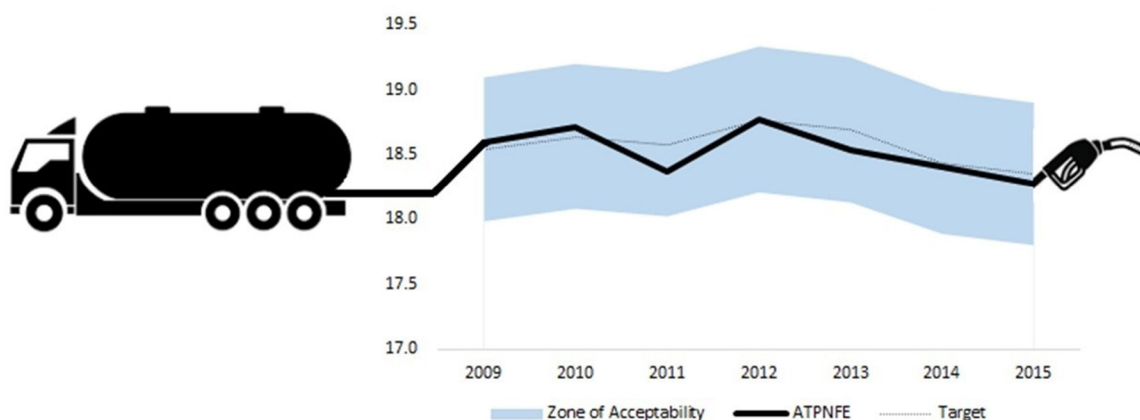
In an effort to increase plant fuel efficiency and lower pass-through charges, CUC's annual total plant net fuel efficiency ("ATPNFE") is benchmarked against a yearly target and zone of acceptability - where no rewards or penalties would apply.

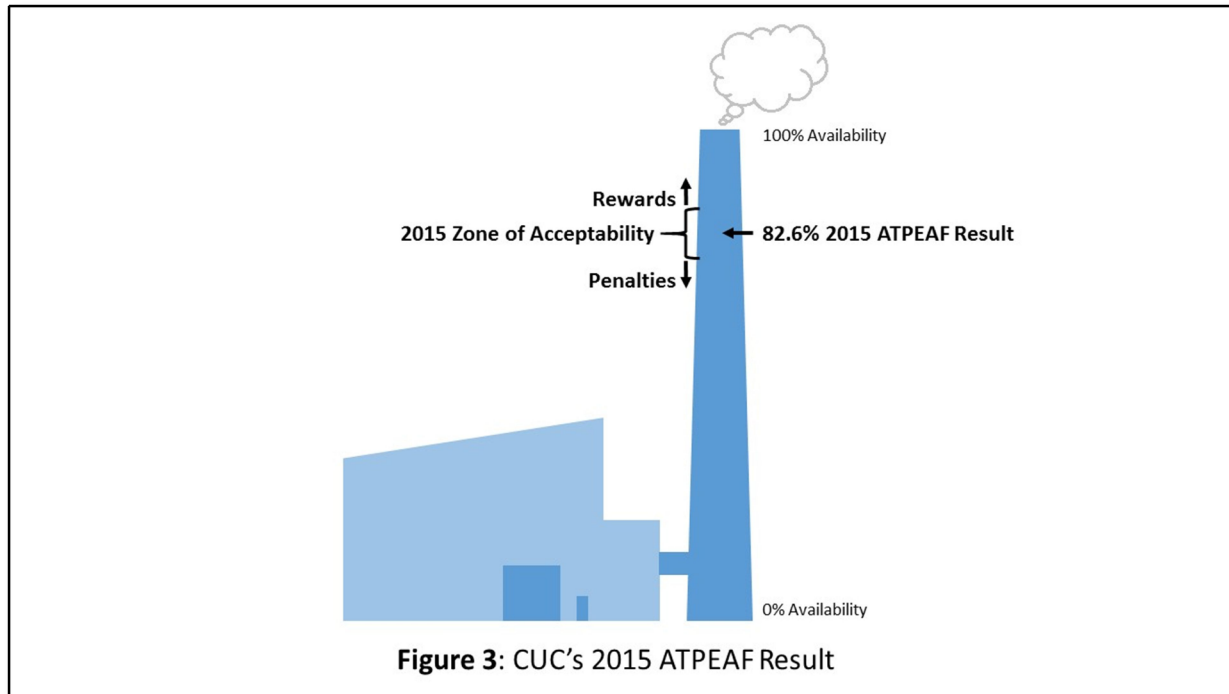
Figure 2 shows that CUC's 2015 ATPNFE performance of 18.28 kilowatt-hours of electricity generated per Imperial Gallon of fuel consumed was slightly below target, but within the zone of acceptability so no penalty or reward applied.

Generating Plant Availability Performance Limits

Annual total plant equivalent availability factor ("ATPEAF") tracks the annual availability, or readiness, of generating units to meet system

Figure 2: CUC's Recent Historical ATPNFE Results, Targets and Zones of Acceptability





demand and ensure sufficient operating reserves.

Figure 3 shows CUC's 2015 ATPEAF result of 82.6% which was approximately on target at the midpoint of the zone of acceptability; therefore, no reward or penalty was applied.

At its meeting on February 18, 2016 the ERA's Board of Directors approved a 2016 ATPEAF target of 82.3% and a zone of acceptability from 76.2% to 88.5%, wherein no rewards or penalties would apply.

System Reliability Indices

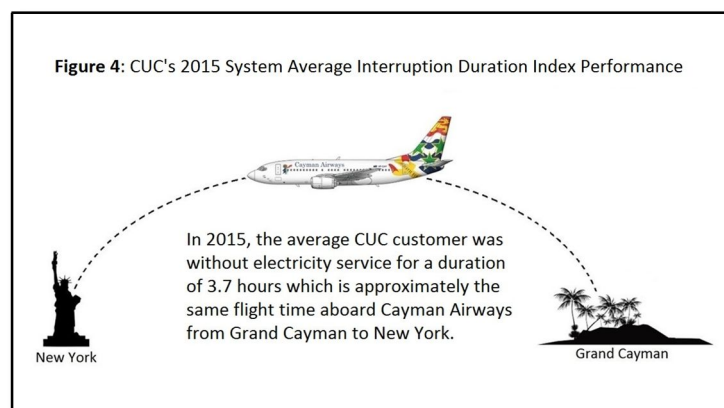
CUC's system reliability performance is benchmarked against two industry standard indices: a System Average Interruption Duration Index ("SAIDI"); and a System Average Interruption Frequency Index ("SAIFI").

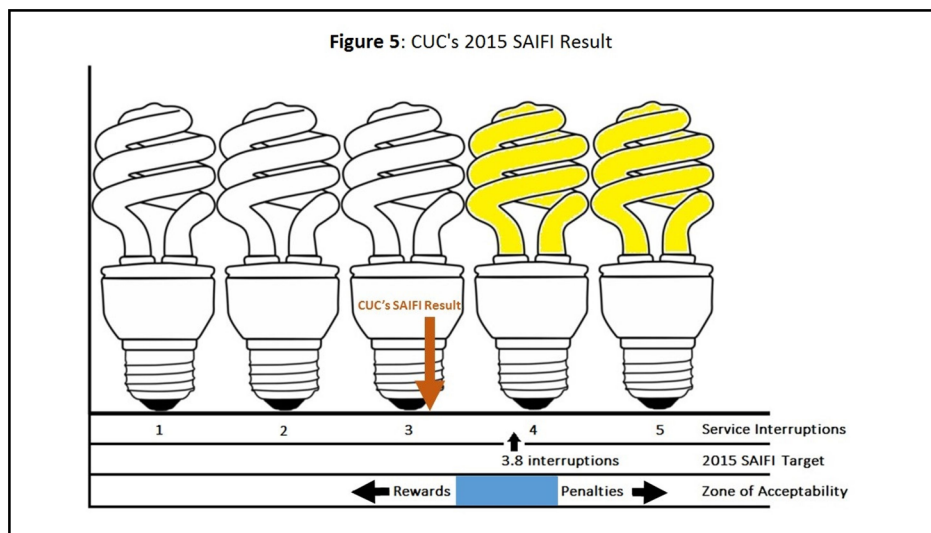
SAIDI measures the total hours, on average, per year that a customer is without electricity service for a sustained duration of at least one minute. SAIDI excludes major outages to maintain a consistent benchmark.

At its October 7, 2015 meeting the ERA's Board of Directors approved a 2015 SAIDI target of 3.8 hours with a zone of acceptability from 3.4 to 4.1 hours, where no rewards or penalties would apply.

CUC's 2015 SAIDI result of 3.7 hours (refer to Figure 4) outperformed the target of 3.8 hours but remained within the zone of acceptable performance so no reward was earned.

On June 30, 2016 the ERA's Board of Directors approved a 2016 SAIDI target of 3.7 hours with a zone of acceptability from 3.4 to 4.1 hours.





SAIFI measures the total number of unplanned service outages, or interruptions, greater than one minute in duration the average CUC customer experiences in a single year.

At its October 7, 2015 meeting the ERA's Board of Directors approved a 2015 SAIFI target of 3.8 interruptions with a zone of acceptability from 3.4 to 4.2 interruptions.

Figure 5 above shows CUC averaged 3.2 interruptions per customer in 2015, outperforming the zone of acceptability.

Accordingly, at its meeting on April 28, 2016 the ERA's Board of Directors approved a CI\$10,000 reward.

Approval of the Terms of Reference for an Infusion Study

In October 2015, CUC and its consultant submitted a final infusion study report for ERA consideration and approval.

The report contained detailed analyses using available data and assumptions from CUC's generation and transmission and distribution facilities to determine preliminary limits for renewable energy infusion on Grand Cayman's grid.

The ERA hired ICF International, a U.S. consultancy with industry expertise, to assist the ERA in reviewing the terms of reference and final infusion study report.

At its meeting on June 30, 2016 the ERA Board of Directors approved the infusion study contingent upon the Technical Committee

and CUC resolving some minor residual matters.

Approval of the Terms of Reference for an Integrated Resource Plan

In July 2015, CUC sought ERA approval to perform a long range integrated resource planning ("IRP") exercise that carefully considers a range of potential future power supply options, including supply and demand-side management options and distributed generation (renewable energy).

At its December 14, 2015 meeting the ERA's Board of Directors approved CUC capitalizing its IRP exercise contingent upon the ERA and CUC finalizing the terms of reference ("TOR").

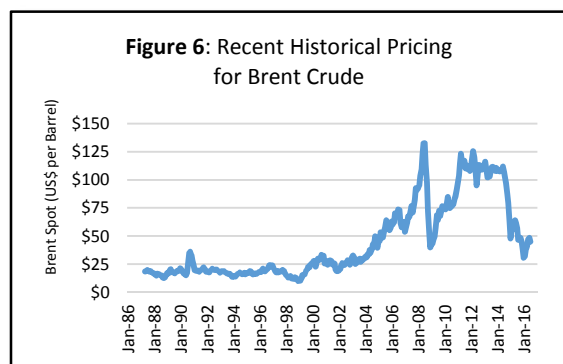
Although the TOR were not yet finalized by the close of the 2015-2016 fiscal year, CUC had selected a consultant, via a competitive solicitation, to perform and finalize the IRP by the end of the calendar year and the consultant is working to finalise the TOR with the ERA and its consultant.

Approval of a 2016 Fuel Price Volatility Plan

CUC purchases large volumes of ultra-low sulfur diesel ("ULSD") to generate electricity.

Given ULSD is a refined oil fraction its market price is heavily reliant on oil pricing which is set in a global marketplace and is sensitive to speculation, global supply and demand, geopolitics and global economic conditions.

The price of oil is currently in a down cycle; however, Figure 6 shows historical pricing for Brent Crude, which has a high price movement correlation to ULSD, having increased steadily since 2002 and having experienced a pronounced price spike in 2008.



In 2011, the ERA and CUC agreed to a Fuel Price Volatility Management (“FPVM”) Program where CUC submits to the ERA for approval a yearly plan outlining a non-speculative and transparent fuel hedging strategy which aims to protect against relatively short catastrophic price spikes like the one experienced in 2008.

FPVM Plans typically call for purchasing 12 month hedging contracts from multiple providers using New York Mercantile Exchange (“NYMEX”) No. 2 Heating Oil as a proxy hedge since it is almost identical in terms of refining to ULSD.

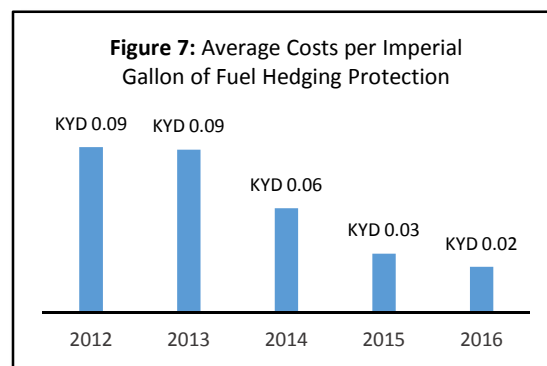
At its December 14, 2015 meeting the ERA’s Board of Directors approved CUC’s FPVM Plan for the 2016 calendar year.

Average Fuel Hedging Costs Trending Lower

Pursuant to Condition 21 in its T&D Licence all fuel costs associated with electricity generation

are a 100% pass-through to consumers without benefit or cost to the utility.

Fuel hedging is a 100% pass-through to consumers and Figure 7 below shows a trend of reductions in the average cost of fuel hedging since its inception.



Increased Price Protection from Lower Strike Prices

At the same time that the average cost for fuel hedging has been lowered, the level of protection has increased.

When the market price for NYMEX No. 2 Heating Oil exceeds the fuel hedging contract’s strike price, the contracts are “in the money” and consumers are reimbursed proceeds.

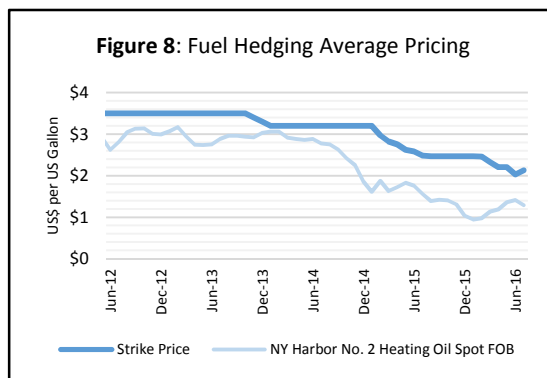


Figure 8 tracks the average strike price versus the U.S. Energy Information Agency’s (“EIA”) spot price for New York No. 2 Heating Oil.

As the strike price has been lowered from an average of KYD 3.50 in 2012 to less than KYD 2.50 in 2016 consumers have benefitted from increased protection on an absolute basis.

Approval of Rate L Demand and Standby Rates

In the prior fiscal year CUC had presented to the ERA a proposal to transition its largest commercial customers – Rate L – from energy rates to a combination demand and energy rates over the next three (3) years.

Both the ERA and CUC believe demand (fixed costs) and energy (variable costs) rates result in appropriate charges of costs incurred to provide service to Rate L customers.

The change will also allow CUC to offer Standby Rates to Rate L customers who choose to serve some or all of their own electricity requirements with onsite generation without negatively impacting the costs paid by other customers.

At its meeting on February 18, 2016 the ERA's Board of Directors approved demand and standby rates for Rate L customers contingent upon the Technical Committee and CUC finalizing non-fundamental residual matters.

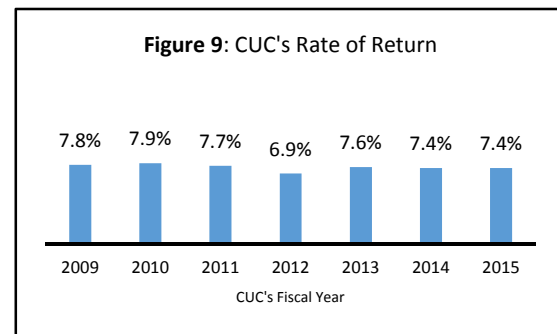
Approval for a June 1st Base Rate Adjustment

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.

Figure 9 shows that CUC's yearly rates of return for all fiscal years since the signing of its new Licences in 2008 have never exceeded 7.9%. CUC's nominal floating target rate of 10% was

negotiated down from a firm 15% target rate of return in the previous licence.



For the June 1, 2016 rate adjustment CUC was entitled to a 0.1% base rate increase (i.e., approximately 80% of the increase in consumer price levels) which was approved by the ERA Board of Directors on April 28, 2016. Figure 10 shows mostly a downward trend in rate adjustments over the past five (5) years.

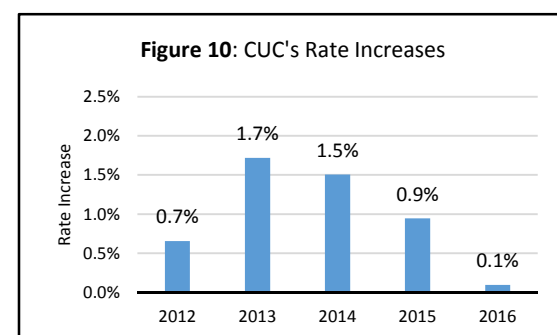


Table 1 on the next page demonstrates the effects of the June 1, 2016 base rate adjustment on monthly electricity bills at average monthly consumption levels, per rate class, for the 2015 calendar year.

Review of an Electric Vehicle Charging Rate Proposal

In April 2016, CUC presented to the ERA for consideration and approval an electric vehicle ("EV") charging rate proposal with the intention of incentivizing EV uptake on Grand Cayman.

Table 1: Effects of June 1, 2016 Rate Adjustment on Average Monthly Electricity Bills

	Average Consumption (2015 Units)	Base Rates June 1, 2015 (KYD per Unit)	Cost June 1, 2015 (KYD)	Base Rates June 1, 2016 (KYD per Unit)	Cost June 1, 2016 (KYD)	Cost Difference (KYD)
<u>Residential: Rate R</u>						
Facilities Charge			5.22		5.23	0.01
Energy	970	0.1040	100.88	0.1041	100.98	0.10
TOTAL	970		106.10		106.21	0.11
<u>Commercial: Rate C</u>						
Facilities Charge			28.86		28.89	0.03
Energy	2,630	0.1163	305.87	0.1164	306.13	0.26
TOTAL	2,630		334.73		335.02	0.29
<u>Large Commercial: Rate L</u>						
Facilities Charge			151.35		151.50	0.15
Energy less than 30,000 units	30,000	0.1163	3,489.00	0.1164	3,492.00	3.00
Energy greater than 30,000 units	82,850	0.0961	7,961.89	0.0962	7,970.17	8.29
TOTAL	112,850		11,602.24		11,613.67	11.44

At its meeting on June 3, 2016 the Technical Committee reviewed the proposal and requested CUC clarify how it intended to monitor and enforce certain terms and conditions.

As of June 30, 2016 the ERA continues to work with CUC to implement an EV charging rate structure that incentivizes electric vehicle uptake while attempting to obviate results that would not be fair to all consumers.

Assisting with the National Energy Policy

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

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

In October 2012, the committee with the assistance of an external consultant presented a draft policy to Government, but formalization

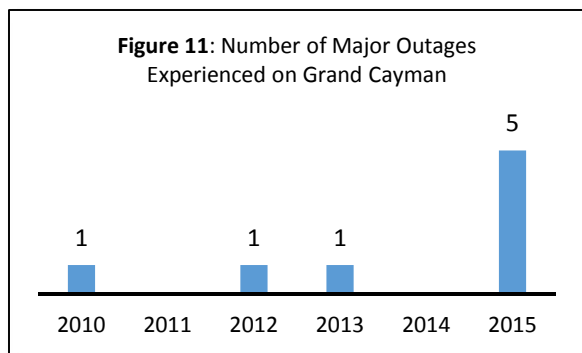
the policy was never achieved due to a number of competing factors.

The Government, in the light of recent international developments, including the 2015 Paris Climate Change Agreement and the energy goals subset of the Sustainable Development Goals, has reconstituted and prioritized the NEP.

The ERA is assisting Government in meeting its objective by acting as Secretariat for a newly appointed NEP Review Committee.

Review of Major Outage Reports

Figure 11 highlights the number of major event days, as defined by the Institute of Electrical and Electronics Engineers ("IEEE") Standard 1366, or major outages, per year for CUC since the signing of the new Licences in 2008.



Due to the high number of major outages in 2015 and at the request of the ERA, CUC submitted outage reports that explained the cause for each major outage in 2015.

The reports also outlined operational and customer service action items aimed to improve CUC's performance going forward.

The ERA's Technical Committee reviewed the CUC reports and continues to monitor the status of all outstanding action items.

Approval of CUC's Lubricant Supply Contract

CUC consumes large volumes of engine lubricant while generating electricity and the cost of lubricant is a 100% pass-through to consumers pursuant to Condition 21 in CUC's T&D Licence

At its meeting on December 14, 2015 the ERA's Board of Directors reviewed the results from CUC's evaluation of competitive bids and approved a contract for five (5) years of lubricant supply from the winning bidder to CUC.

Approval of CUC's Waste Oil Disposal Contract

CUC's waste oil consists mostly of used lubricant from diesel generation. Unlike lubricant supply,

waste oil disposal is a cost to CUC that is not passed-through to consumers.

At its April 28, 2016 meeting the ERA's Board of Directors reviewed the results from CUC's competitive solicitation and approved the waste oil disposal contract between CUC and the winning bidder.

Approval of Revisions to the Consumer-Owned Renewable Energy Program

The Consumer-Owned Renewable Energy ("CORE") Program incentivizes consumers through stable, long-term rates¹ to invest in small-scale renewable energy generators at their premises, thus offsetting some of the customer's energy costs and reducing the negative environmental impacts of burning fossil fuels.

Due to high demand for capacity and continued downward trends in renewable energy equipment pricing, the ERA's Board of Directors at its meeting on April 28, 2016 approved the following:

- Expansion of the CORE Program's capacity limit from 4 MW AC up to 6 MW AC (split evenly between residential and commercial participants)
- Contracts approved from May 1, 2016 onwards receive the following 25-year CORE feed-in tariff rates: KYD 0.30 per kilowatt-hour ("kWh") sold from 0-5 kW AC systems; KYD 0.28 per kWh sold from 5-10 kW AC systems; KYD 0.26 per kWh sold from 10-20 kW AC systems; and KYD 0.21 per kWh sold from 20-100 kW AC systems.

¹ The CORE Program uses a feed-in tariff system whereby CUC meters the CORE generator's output, multiplies the metered output by the CORE feed-in tariff rate to determine a CORE credit, and then lowers the customer's monthly energy consumption charges by applying the CORE credit. In accordance with Condition 32 of CUC's T&D Licence, all CORE credits, minus KYD 0.005 per kWh paid by CUC for operations and maintenance savings, are a 100% pass-through to consumers.

Financial Performance and Analysis

Summary of 2015-2016 Fiscal Year 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's Board of Directors agreed the ERA planned to achieve during the 2015-2016 fiscal year.

Table 2: Financial Performance Measures in Cayman Islands Dollars

	2015-2016 FY BUDGET	2015-2016 FY ACTUAL	2015-2016 FY VARIANCE
REVENUE FROM CABINET	10,000	15,040	5,040 ²
REVENUE FROM MINISTRIES, PORTFOLIOS, STATUTORY AUTHORITIES AND GOVERNMENT COMPANIES	NIL	NIL	NIL
REVENUE FROM OTHER PERSONS OR ORGANIZATIONS	864,488	743,297	(121,191) ³
SURPLUS / DEFICIT FROM OUTPUTS	NIL	NIL	NIL
OTHER EXPENSES	647,262	566,997	(80,264) ⁴
NET SURPLUS DEFICIT	227,226	191,340	(35,887)
TOTAL ASSETS	1,706,558	1,803,903	97,345
TOTAL LIABILITIES	208,266	207,928	(388)
NET WORTH	1,498,292	1,595,975	97,683
CASH FLOWS FROM OPERATING ACTIVITIES	249,054	163,643	(81,705)
CASH FLOWS FROM INVESTING ACTIVITIES	(4,000)	(1,428)	2,572
CASH FLOWS FROM FINANCING ACTIVITIES	(150,000)	(150,000)	NIL
CHANGE IN CASH BALANCES	95,054	12,215	(79,133)

Table 3: Financial Performance Ratios

	2015-2016 FY BUDGET	2015-2016 FY ACTUAL	2015-2016 FY VARIANCE
CURRENT ASSETS : CURRENT LIABILITIES	7.83 : 1	8.65 : 1	0.82 : 1
TOTAL ASSETS : TOTAL LIABILITIES	7.87 : 1	8.68 : 1	0.81 : 1

² KYD 5,040 incurred by ERA on behalf of the National Energy Policy Review Committee for a National Energy Policy workshop.

³ Variance detailed in the section "Breakdown of Income Sources".

⁴ Variance detailed in the section "Breakdown of Operating Expenses".

Table 4: Human Capital Measures

	2015-2016 FY BUDGET	2015-2016 FY ACTUAL	2015-2016 FY VARIANCE
TOTAL FULL TIME EQUIVALENT STAFF EMPLOYED	3.0	3.6	0.6 ⁵
STAFF TURNOVER (%)	NIL	NIL	NIL
AVERAGE YEARS OF SERVICE FOR SENIOR MANAGEMENT	5.0	5.0	NIL
AVERAGE YEARS OF SERVICE FOR PROFESSIONAL STAFF	5.0	5.0	NIL
AVERAGE YEARS OF SERVICE FOR ADMINISTRATIVE STAFF	0.5	0.5	NIL

Table 5: Physical Capital Measures in Cayman Islands Dollars

	2015-2016 FY BUDGET	2015-2016 FY ACTUAL	2015-2016 FY VARIANCE
VALUE OF TOTAL ASSETS	8,256	5,485	(2,771)
ASSET REPLACEMENTS : TOTAL ASSETS	4,000	1,428	(2,572)
BOOK VALUE OF DEPRECIATED ASSETS: INITIAL COST OF THOSE ASSETS	47,616	37,059	(10,557)
DEPRECIATION : CASH FLOW ON ASSET PURCHASES	6,826	6,166	(660)
CHANGES TO ASSET MANAGEMENT POLICIES	NONE	NONE	NIL

Table 6: Major Capital Expenditure Projects in Cayman Islands Dollars

	2015-2016 FY BUDGET	2015-2016 FY ACTUAL	2015-2016 FY VARIANCE
NEW ENTITY CAPITAL EXPENDITURE FOR THE YEAR	NIL	NIL	NIL

Table 7: Risk Management

	2015-2016 FY BUDGET	2015-2016 FY ACTUAL
KEY RISKS	NOTHING TO REPORT	NOTHING TO REPORT
CHANGE IN STATUS FROM PREVIOUS FINANCIAL YEAR	N/A	N/A
ACTIONS TO MANAGE RISK	N/A	N/A
FINANCIAL VALUE OF RISK	N/A	N/A

⁵ Caymanian analyst hired to further assist Management.

Table 8: Summary of Operating Statement in Cayman Islands Dollars

	2015-2016 FY BUDGET	2015-2016 FY ACTUAL	2015-2016 FY VARIANCE
REVENUE	874,488	758,337	(116,151) ⁶
OPERATING EXPENSES	647,262	566,997	(80,265) ⁷
NET SURPLUS/(DEFICIT)	227,226	191,340	(35,886)

Table 9: Summary of Balance Sheet in Cayman Islands Dollars

	2015-2016 FY BUDGET	2015-2016 FY ACTUAL	2015-2016 FY VARIANCE
ASSETS	1,706,558	1,803,903	97,345
LIABILITIES	208,266	207,928	(388)
NET WORTH	1,498,292	1,595,975	97,683

Table 10: Summary of Statement of Cash Flows in Cayman Islands Dollars

	2015-2016 FY BUDGET	2015-2016 FY ACTUAL	2015-2016 FY VARIANCE
NET CASH FLOWS FROM OPERATING ACTIVITIES	249,054	163,643	(85,411)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(4,000)	(1,428)	2,572
NET CASH FLOWS FROM FINANCING ACTIVITIES	(150,000)	(150,000)	NIL

⁶ Variance detailed in the section "Breakdown of Income Sources".

⁷ Variance detailed in the section "Breakdown of Operating Expenses".

Table 11: Other Financial Information in Cayman Islands Dollars

	2015-2016 FY BUDGET	2015-2016 FY ACTUAL	2015-2016 FY VARIANCE
EQUITY INVESTMENTS INTO ELECTRICITY REGULATORY AUTHORITY	NIL	NIL	NIL
CAPITAL WITHDRAWALS FROM ELECTRICITY REGULATORY AUTHORITY	NIL	NIL	NIL
DIVIDEND TO BE MADE BY THE ELECTRICITY REGULATORY AUTHORITY ⁸	150,000	150,000	NIL
GOVERNMENT LOANS TO ELECTRICITY REGULATORY AUTHORITY	NIL	NIL	NIL
GOVERNMENT GUARANTEES ISSUED IN RELATION TO ELECTRICITY REGULATORY AUTHORITY	NIL	NIL	NIL
RELATED PARTY PAYMENTS (NON REMUNERATION) MADE TO KEY MANAGEMENT PERSONNEL ⁹	NIL	NIL	NIL
REMUNERATION ¹⁰ PAYMENTS MADE TO KEY MANAGEMENT PERSONNEL	256,108	234,996	(21,112)
REMUNERATION PAYMENTS MADE TO SENIOR MANAGEMENT	208,108	201,996	(6,112)

Table 12: Other Financial Information

	2015-2016 FY BUDGET	2015-2016 FY ACTUAL	2015-2016 FY VARIANCE
NUMBER OF KEY MANAGEMENT PERSONNEL (BOARD)	10	10	NIL
NUMBER OF KEY SENIOR MANAGEMENT PERSONNEL (MD)	2	2	NIL

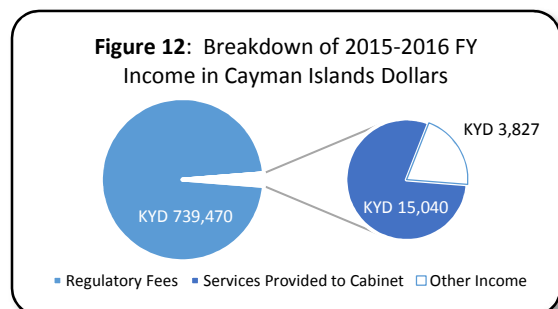
8 In accordance with Section 14(5) of the Law, the ERA's Board of Directors approved payment of KYD 150,000 to the Cayman Islands Government as a dividend and to be reported as dividends payable at June 30, 2016 (2015 – KYD 150,000).

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

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

Breakdown of Income Sources

Figure 12 breakdowns income of KYD 758,337 as of June 30, 2016 (2015 – KYD 927,725).



Regulatory Fees

Regulatory fees are the primary income source for the ERA and are assessed on CUC's gross revenue, including pass-through charges. Regulatory fees were down 18.7% at KYD 739,470 through June 30, 2016 (2015 – KYD 909,243) due to falling fuel prices and a 40% reduction in government import duty on diesel fuel used in the generation of electricity.¹¹

Services Provided to Cabinet

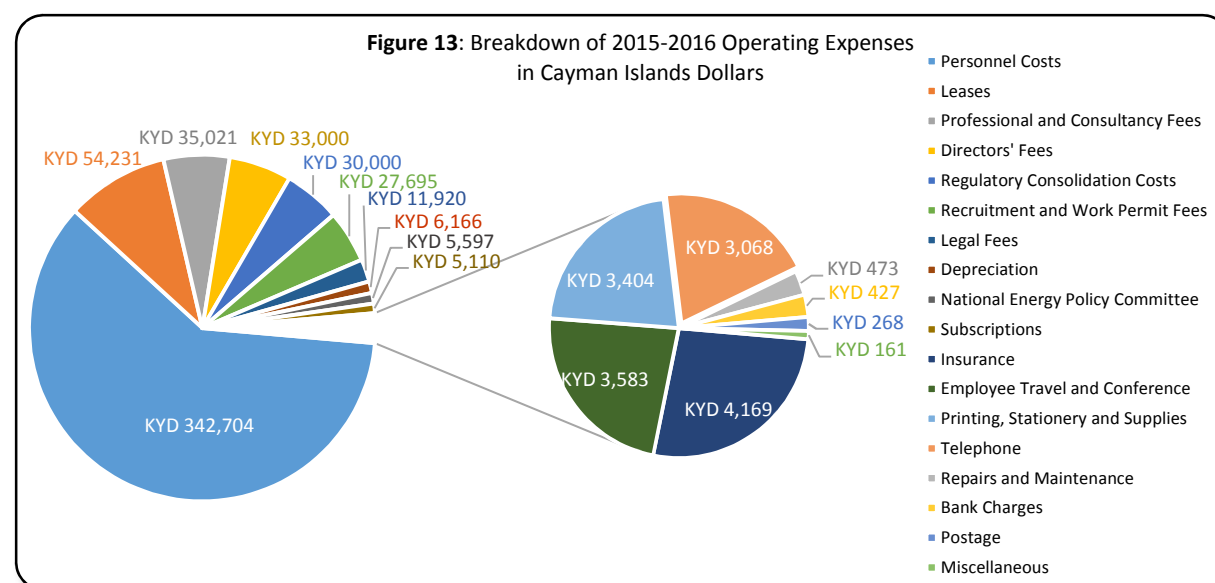
The ERA provides strategic advice and services to the Cabinet of the Cayman Islands Government billed on a quarterly basis under a purchase agreement for services rendered. Income from Cabinet was KYD 15,040¹² through June 30, 2016 (2015 – KYD 5,500).

Other Income

The ERA earns interest on cash and cash equivalents placed on call or short term deposit with a local bank. KYD 3,827 was earned as of June 30, 2016 (2015 – KYD 12,982¹³).

Breakdown of Operating Expenses

Figure 13 is a breakdown by source of the ERA's total operating expenses of KYD 566,997 for the year ended June 30, 2016 (2015 – KYD 530,809). Operating expenses increased by 6.8% versus 2014-2015.



11 Falling fuel prices negatively affected ERA revenue but positively impacted customers' electricity bills. Based on average consumption levels from Table 1 on p. 11, year to year savings for the average customer were KYD 825 for Rate R; KYD 2,160 for Rate C; and KYD 90,790 for Rate L.

12 KYD 5,040 incurred by ERA on behalf of the National Energy Policy Review Committee for a National Energy Policy workshop.

13 KYD 4,516 was interest income and KYD 8,466 was a recovery of a provision relating to a local merchant and the former managing director.

Personnel Costs

Personnel costs comprise staff salaries, pension and health insurance and was the largest line item expense at KYD 342,704 for the year ended June 30, 2016 (2015 – KYD 290,850).

The 17.9% increase versus the prior fiscal year was due to the hiring of a new staff member and a 3% cost of living adjustment for staff, in line with the adjustment adopted for Government staff, at the start of the 2015-2016 fiscal year.

Leases

The ERA leases three adjoining office spaces at Grand Pavilion Suites on West Bay Road under a lease agreement with the Grand Pavilion Suites. As of June 30, 2016 lease expense totaled KYD 54,231 (2015 – KYD 54,096).

The lease commenced on November 1, 2013 and expired on November 1, 2015. In preparation for consolidating into a single public utilities commission, the ERA's leasing terms are on a month-to-month basis at the same KYD 4,508 per month rent.

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 halved at KYD 35,021 through June 30, 2016 (2015 – KYD 70,004) due to fewer complex projects obtaining in the FY.

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 KYD 33,000 through June 30, 2016 (2015 – KYD 34,000).

Regulatory Consolidation Costs

In 2015, the Ministry hired an independent consultant to advise Government on the

consolidation of three statutory authorities into a single utilities commission, as proposed by Ernst and Young Ltd. in its report ["Project Future: Creating a Sustainable Future for the Cayman Islands"](#). The ERA's contribution to costs for the consultant was KYD 30,000 and the consolidation is expected to be in place by the end of 2016.

Recruitment and Work Permit Fees

Staff recruitment and work permit fees were KYD 27,695 as of June 30, 2016 (2015 – KYD 27,927).

Legal Fees

From time to time the ERA retains the services of legal advisors, who assist in specific legal matters primarily relating to the regulation of Licensees. Legal fees were more than halved at KYD 11,920 as of June 30, 2016 (2015 – KYD 27,408).

Depreciation

ERA fixed assets include computer equipment and office furniture and other office equipment. Depreciation expense was KYD 6,166 for the year ended June 30, 2016 (2015 – KYD 7,679).

National Energy Policy Committee

The Government re-established a National Energy Policy Committee midway through the ERA's fiscal year. The ERA is acting as Secretariat for the Committee and incurred expenses totaling KYD 5,597 of which \$5,040 is expected to be recovered from PLAHI as per Cabinet Billings.

Subscriptions

The ERA renewed its Chamber of Commerce membership and a subscription to verify prices for fuel used in the generation of electricity. Subscriptions expense as of June 30, 2016 was up 3.8% at KYD 5,110 (2015 – KYD 4,924).

Insurance

Insurance expense covers directors and officers liability ("D&O") insurance purchased through the Cayman Islands Government Risk Management Unit. D&O insurance expense for

the year ended June 30, 2016 was up 59% to KYD 4,169 (2015 – KYD 2,628) due to increased policy coverage from US\$1 million to US\$3 million.

Employee Travel and Conference

The line item was comprised of catering expense for Technical Committee and Board of Directors meetings, intra-island travel expense on Cayman Airways for a Director to attend Board meetings on Grand Cayman, and the Deputy Managing Director attending the 2015 Caribbean Renewable Energy Forum in Miami. Employee travel and conference expense as of June 30, 2016 was up 56% to KYD 3,583 (2015 – KYD 2,299).

Printing, Stationery and Supplies

Staff normally produces hardcopy materials for Technical Committee and Board of Directors meetings only; however, materials were also produced for the re-established National Energy Policy Committee. In addition, KYD 717 was spent to print the 2014-2015 Annual Report. Accordingly, this line item more than doubled to KYD 3,404 as of June 30, 2016 (2015 – KYD 1,258).

Telephone

The ERA pays monthly charges to a local service provider for telephone, mobile, landline, facsimile and internet service. Telephone

expense was reduced by 46% to KYD 3,068 as of June 30, 2016 (2015 – KYD 5,661) in part as a result of the ERA consolidating three services into one package.

Repairs and Maintenance

From time to time, ERA equipment and web-site may require scheduled preventative maintenance or may malfunction requiring repair. Repairs and maintenance expense for the year to June 30, 2016 was a nominal KYD 473 (2015 – KYD 577).

Bank Charges

Bank charges expense as of June 30, 2016 was KYD 427 (2015 – CI\$605).

Postage

The ERA posts its bill payments and maintains a post office box with the Cayman Islands Postal Service for an annual fee. Postage expense as of June 30, 2016 remained unchanged at KYD 268 (2015 – KYD 268).

Miscellaneous

Miscellaneous expense of KYD 161 at June 30, 2016 (2015 – KYD 225) is comprised of sundry items.

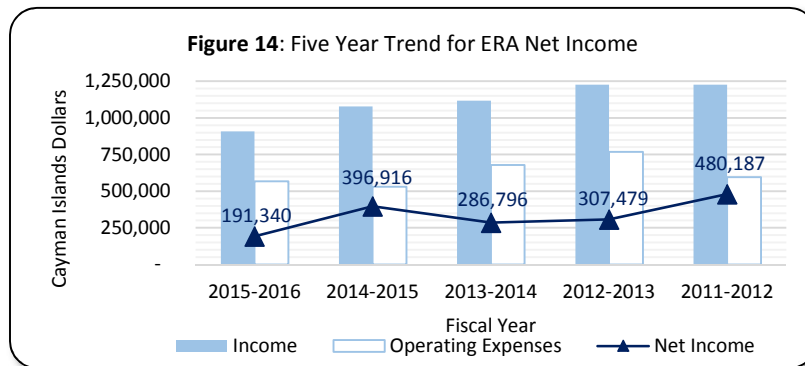


Photo: Engineered car park utilizing solar photovoltaic panels to export energy into CUC's T&D System.

Five Year Summary of ERA Financials

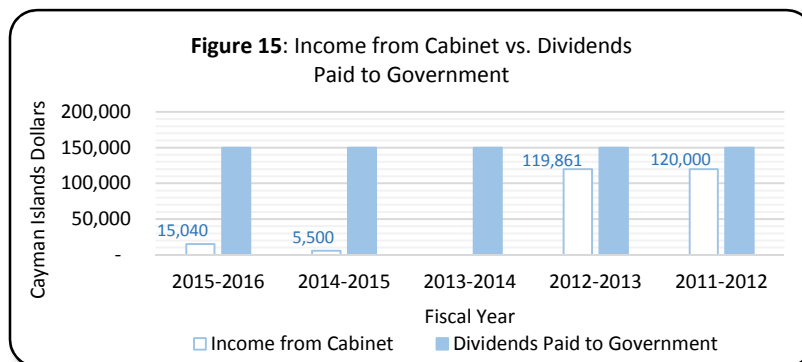
Income, Operating Expenses and Net Income

Figure 14 provides details of comprehensive income for the most recent five years. Net income is trending lower due to reduced regulatory fee income.



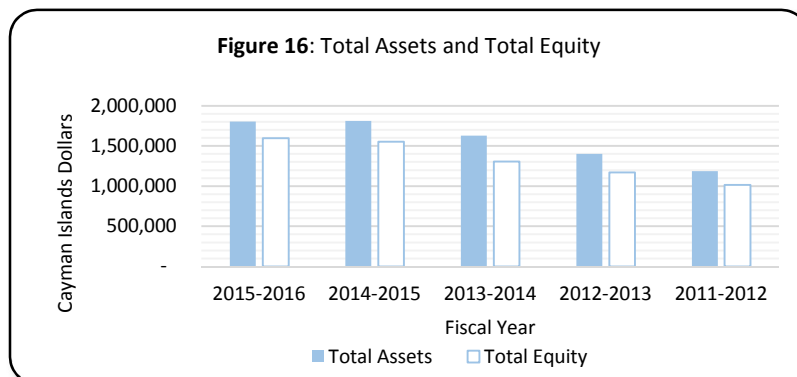
Government Transactions

Figure 15 compares income received from Cabinet versus dividends paid to Government.



Financial Position

Figure 16 is a five year snapshot of the ERA's financial position. The flat growth in the ERA's 2015-2016 financial position is the result of reduced regulatory fee revenue.



Scrutiny by Parliament and Public

Parliamentary Questions

The ERA did not deal with any parliamentary questions in the 2015-2016 fiscal year.

Freedom of Information Requests

The ERA dealt with the following freedom of information requests during the 2015-2016 fiscal year:

Date FOI Received	Details	Date of Final Response	Outcome
March 22, 2016	CUC Technical Study	Ongoing	Deferred

Complaints Made Against the ERA

Pursuant to guidelines put forth by the Office of the Complaints Commissioner, members of the public may submit a complaint against the ERA and that complaint shall be investigated by the ERA's Information Manager and brought to the attention of the ERA's Board of Directors.

No such complaint was made against the ERA in the 2015-2016 fiscal year.

Complaints Made Against CUC

When a CUC customer has a complaint against the utility, the ERA encourages both parties to attempt best efforts to resolve the matter. However, in rare instances where the customer and CUC are unable to resolve the matter the ERA has a complaints procedure in place whereby the aggrieved customer may make a formal complaint, in writing, against the utility. ERA Management will then work with CUC's Management to resolve the customer's complaint.

The ERA dealt with the following formal complaints against CUC during the 2015-2016 fiscal year:

Date Received	Formal Complaint	Outcome
May 18, 2016	Pole Relocation Issue	Ongoing

Internal and External Audit Updates

Internal Audit

At its meeting of February 18, 2016 the ERA's Board of Directors noted the recommendations within the "Payroll and Expenditure Audit" Report (dated January 2016) from the Internal Audit Unit of the Cayman Islands Government, conducted in accordance with the Public Management and Finance Law.

The following highlights the report's recommendations and how the recommendations are being resolved by ERA Management:

"Payroll and Expenditure Audit" (January 2016) CIG Internal Audit Unit	Management's Response
1. Going forward, all instances where the ERA enters into employment arrangements, such arrangements are evidenced by duly signed contracts that are finalized prior to the start of the employment term	Management agrees with the recommendation and undertakes to implement it immediately. Implementation: February 28, 2016
2. Written amendments outlining the material changes in remuneration for the Deputy Managing Director and the Analyst are prepared and disseminated to the concerned employees. Additionally, a copy of each amendment should be placed on the respective personnel files for review and audit purposes	Management agrees with the recommendation and undertakes to implement it immediately. Implementation: February 28, 2016
3. The ERA implements procedures in the area of Human Resources in order to assure consistent compliance with all aspects of the Labour Law	Management agrees with the recommendation and undertakes to implement it immediately. Implementation: February 28, 2016

External Audit

At its meeting of July 23, 2015 the ERA's Board of Directors noted the following responses by Management to the Office of the Auditor General's internal control matters observations and recommendations pertaining to the ERA contained in its 2014 ISA 260 Report:

OAG Observation	Risk/Implication	OAG Recommendation	Management's Response
1.1 Non Compliance with the ERA Law 6 (1) (2010 Revision) It was noted that the contract for the Managing Director who started employment with the Electricity Regulatory Authority on August 19, 2013 has not been officially signed off by the Governor (In Cabinet) as is required under the ERA law. Section 6 (1) states that the Governor shall appoint any individual to be the managing director (2) the managing director shall be an employee of the Authority appointed on such terms and conditions as the Governor may decide.	The Authority may not be in compliance with the ERA law and as such the contract for employment may not be legally binding.	The Authority/ Board of Directors should ensure that the finalization of the employment contract for the Managing Director is in compliance with the law by having the contract signed off by the Governor as is required. Strict timelines should be in place for the finalization of key documents such as employment contracts for senior personnel.	Management agrees with this observation. The Authority submitted the signed contract to the Ministry for onward submission to Cabinet but legal review required some further adjustment of the language. This has been done and the document is being resubmitted. Implemented: May 11, 2015

OAG Observation	Risk/Implication	OAG Recommendation	Management's Response
1.2 Non-compliance with Section (37) of the Financial Regulations 2013 During the reporting period, it was observed that a supplier of the Authority incurred expenses for consultancy fees which amounted to approximately \$169K. Upon review there did not appear be a policy in place to comply with the Financial Regulations Section (37) which requires all procurements over \$50K to be subject to tender. It was noted that no bidding or tendering had been done to ensure the Authority receives the best value for money. It was also noted that the Authority did not have an updated contract with the supplier.	The current procurement is not in line with the requirements of the Financial Regulations nor with good procurement practices as it relates to the use of public funds. Failure to properly tender contracts exposes the Authority to a number of issues: 1) The inability to properly determine that the distribution of funds via competition for the use of the ERA money is open, fair and free from potential bribery and nepotism. 2) Failure to ensure that no parties have an unfair advantage of separate, prior, closed-door negotiations for a contract. 3) Inability to properly conclude that they are obtaining the best value for money. 4) Potential issues of undisclosed conflicts of interest.	The Authority's governing board is ultimately responsible for overseeing and ensuring that the authority complies with all applicable laws and regulations in which it operates. This is a key principle of good governance. The Board should ensure that these matters are addressed as soon as possible and determine timelines in order to achieve the resolution of these matters. Where the regulation or law may appear onerous, detrimental or impracticable to comply with, formal negotiations with the relevant parties should be entered into to obtain a reasonable solution.	Generally Management agrees that this is an area where control could be improved. However the procurement practices that we have seen as provided by the Ministry seem to envisage tendering for time based tasks performed by consultants. The only task completed by ICF during the year which exceeded the \$50K ceiling was the review of the Firm Capacity Solicitation bids on which the ERA was extremely time constrained. Management therefore is of the view that OAG's analysis is not sufficiently nuanced as a reader might conclude that the entire \$169K was for a task that should have been tendered. The expenditure was in relation to many different tasks or engagements of the consultant. Having reviewed the relevant regulations the Authority is of the opinion that the best way to adhere to this policy is to tender individual tasks that are expected to exceed the \$50K limit since all engagements must be time bound. The Authority has requested advice from the Ministry on this approach.
2. Lack of ownership and accountability for the preparer and the reviewer of the bank reconciliations During the audit the following weakness was noted: Bank reconciliations were not being signed off by the person preparing the reconciliation and the person reviewing the reconciliation. Signing off on key financial and operational documents represents a good business practice as it signifies ownership and accountability over processes.	The weakness observed indicate • A lack of and or weak internal controls over the process. • Lack of ownership of the process of preparing and approving the reconciliations. • The inability to determine if proper segregation of duties is in place.	It is recommended that an accounting policy be put in place. This policy should cover key controls in the accounting functions to ensure a robust and strong system of controls. Included in the policy should be matters such as positions/personnel for preparing and reviewing documents and the proper sign off of documents by the persons preparing and reviewing such documents. This to ensure a strong system of controls, proper audit trails and segregation of duties. If based on the size of the Authority segregation of duties is an issue; to compensate for such lack of segregation of duties the Authority should follow a prescribed procedure where additional reviews are performed and signed off by a staff member other than the original preparer. Such reviews can help detect errors and irregularities.	Management had instituted a review process but acknowledges that it was not being documented by way of sign-offs. Management has implemented a process whereby the monthly financial statement binder, including bank reconciliations are reviewed and signed off by another member of staff other than the preparer. In addition the ERA Board of Directors regularly reviews the monthly movements on balance sheet and P&L accounts using variance analysis against prior month, year and budget. A comprehensive sign-off sheet for each month's management accounts has been implemented. Implemented: February 6, 2015

OAG Observation	Risk/Implication	OAG Recommendation	Management's Response
3. Risk Management (Re-iteration from prior year) Enterprise risk management as defined by the Committee of Sponsoring Organizations (COSO) as “a process . . . designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives. We noted that the Authority does not have a risk policy in place nor a formal risk assessment process to identify risks so as to manage the potential business and fraud risks of the Authority. a. Fraud Risk and Policy Development Currently there is no developed policy and program in place which proactively identifies and addresses the Authorities vulnerabilities to internal and external fraud.	a. Fraud Risk and Policy Development Without a developed fraud assessment, risk policy and program it exposes the Authority to potential areas that may be subject to fraud that are not known or be the focus on by Management or the Board.	a. Fraud Risk and Policy Development The Authority should develop a fraud risk policy and perform a fraud risk assessment which starts with an identification and prioritization of fraud risks that exist in the business. This includes proactively identifying its vulnerabilities to internal and external fraud. As part of the fraud risk approach, the Authority should develop a fraud risk management program, where the board of directors and senior management communicate, in writing, their commitment to proactively preventing, detecting, and addressing fraud. This communication can be made as part of the organisation's written statement of values and principles, as part of the code of conduct, or in a separate short document, such as a letter that is provided to all employees. The fraud risk management program must include mechanisms specifically designed to monitor, identify, and address breaches in compliance. Such breaches include failures in the design or operation of anti-fraud controls, as well as outright occurrences of fraud. A specific individual or team should be designated as responsible for monitoring compliance with the fraud risk management program and for handling suspected instances of non-compliance. Formal sanctions for intentional non-compliance must be well-publicized and carried out in a consistent and firm manner.	Management agrees with the observation although given the activities of the Authority, management is of the view that the number of areas at risk of fraud are quite limited. The Authority will implement this recommendation and will seek to do so in an effective and abbreviated manner befitting the footprint/activities of the Authority. Policy drafted June 19, 2015 and approved by Board of Directors at meeting of July 23, 2015.
4. Lack of support for changes to Service Contracts (Re-iteration from prior year) During the audit we noticed increases in the service fees for two service providers. Upon enquiry we were not provided with any evidence such as amended contracts to support the increase in the costs to provide the services.	Without contracts that agree to the terms of the provision of services; terms and conditions for the provision of services may not be concise and clear to the parties. Where terms and conditions are not clear this could also result in future disagreements which could result in negative financial implications for the Authority.	Management should ensure that all contracts entered into are current and that all terms of engagement are clearly and concisely detailed in the contract document.	Management is only aware of one contract that this could apply to but agrees in the one case (ICF) that a new contract is required. The Authority agrees that it needs to document its arrangement with ICF through a new contract signed by the 2 entities and the Authority proposes to do this. Completed: April 30, 2015

OAG Observation	Risk/Implication	OAG Recommendation	Management's Response
5. Lack of a Chart of Account It is the responsibility of management to ensure that each account is assigned a number or accounting code. The accounts listed in the Trail Balance presented for audit does not have account numbers assigned to them. The Office of the Auditor General assigned numbers for each account in order to carry out the audit.	As a result of balances not having account numbers assigned to them the risk of misclassification of accounts may occur between what is recorded in the client's trial balance and the auditor's working papers. This also results in an increase in the time and cost taken to carry out the audit.	Management should ensure that Account numbers are assigned to the balances recorded in the Authority's trial balance as this is a standard requirement.	Management agrees that account numbers have not been assigned although it is uncertain why given the size of the chart of accounts why this should present a risk or increase costs for OAG. The Authority agrees and will implement. Completed: June 11, 2015
6. Travel Policy During our review, it was noted that the Authority does not currently have a travel policy in place. Travel policies are necessary controls to ensure accountability, transparency and consistency in travel activities and related expenditures	Travel policies provide guidelines which establish the need for travel, personnel to attend and the amounts to be incurred for travel, per diem and any other associated costs. Without a travel policy the business case for travelling and associated costs such as per diem and other allowances could be subjective. Additionally, the amounts granted for travel could be insufficient to cover costs incurred.	It is recommended that the Authority develop a travel policy. The policy should be very detailed as to need for travel, persons responsible for approving the travel requests, daily amounts for per diem and what additional costs if any are covered by the Authority. This policy should be in line with the core Government travel policy.	Management agrees with the observation generally but sees little risk associated with the absence of the policy given the size and activities of the Authority. The Authority intends to develop an Operations manual of which a Travel Policy will be a part. The Authority is of the view that the policy should be effective but as brief as possible befitting the small size of the organization and the very limited travel that is undertaken. Policy drafted June 19, 2015 and approved by Board of Directors at meeting of July 23, 2015.

Forward Looking

Summary of 2016-2017 Fiscal Period 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's Board of Directors agreed the ERA planned to achieve during the next eighteen (18) months, aligning with Government's new budget period.

Table 13: Financial Performance Measures in Cayman Islands Dollars

	2016-2017 FP 1 JUL to 31 DEC 2016	2016-2017 FP 1 JAN to 31 DEC 2017	2015-2016 FY ACTUAL
REVENUE FROM CABINET	20,000	30,000	15,040
REVENUE FROM MINISTRIES, PORTFOLIOS, STATUTORY AUTHORITIES AND GOVERNMENT COMPANIES	NIL	NIL	NIL
REVENUE FROM OTHER PERSONS OR ORGANIZATIONS	337,074	761,486	743,297
SURPLUS / DEFICIT FROM OUTPUTS	NIL	NIL	NIL
OTHER EXPENSES	388,420	766,299	566,998
NET SURPLUS DEFICIT	(31,346)	25,187	191,340
TOTAL ASSETS	1,724,044	1,761,231	1,803,903
TOTAL LIABILITIES	45,760	57,760	207,928
NET WORTH	1,678,284	1,703,471	1,595,975
CASH FLOWS FROM OPERATING ACTIVITIES	(59,308)	16,465	167,349
CASH FLOWS FROM INVESTING ACTIVITIES	(5,000)	-	(1,428)
CASH FLOWS FROM FINANCING ACTIVITIES	NIL	NIL	(150,000)
CHANGE IN CASH BALANCES	(64,308)	16,465	15,921

Table 14: Financial Performance Ratios

	2016-2017 FP 1 JUL to 31 DEC 2016	2016-2017 FP 1 JAN to 31 DEC 2017	2015-2016 FY ACTUAL
CURRENT ASSETS : CURRENT LIABILITIES	37.5 : 1	30.4 : 1	8.65 : 1
TOTAL ASSETS : TOTAL LIABILITIES	37.7 : 1	30.5 : 1	8.68 : 1

Table 15: Human Capital Measures

	2016-2017 FP 1 JUL to 31 DEC 2016	2016-2017 FP 1 JAN to 31 DEC 2017	2015-2016 FY ACTUAL
TOTAL FULL TIME EQUIVALENT STAFF EMPLOYED	3.5	3.5	3.6
STAFF TURNOVER (%)	NIL	NIL	NIL
SENIOR MANAGEMENT			
PROFESSIONAL STAFF			
ADMINISTRATIVE STAFF			

Table 16: Physical Capital Measures in Cayman Islands Dollars

	2016-2017 FP 1 JUL to 31 DEC 2016	2016-2017 FP 1 JAN to 31 DEC 2017	2015-2016 FY ACTUAL
VALUE OF TOTAL ASSETS	7,447	4,227	5,485
ASSET REPLACEMENTS : TOTAL ASSETS	5,000	-	1,428
BOOK VALUE OF DEPRECIATED ASSETS: INITIAL COST OF THOSE ASSETS	48,968	48,968	37,059
DEPRECIATION : CASH FLOW ON ASSET PURCHASES	3,038	3,220	6,166
CHANGES TO ASSET MANAGEMENT POLICIES	NONE	NONE	NONE

Table 17: Major Capital Expenditure Projects in Cayman Islands Dollars

	2016-2017 FP 1 JUL to 31 DEC 2016	2016-2017 FP 1 JAN to 31 DEC 2017	2015-2016 FY ACTUAL
NEW ENTITY CAPITAL EXPENDITURE FOR THE YEAR	NIL	NIL	NIL

Table 18: Risk Management

	2016-2017 FP 1 JUL to 31 DEC 2016	2016-2017 FP 1 JAN to 31 DEC 2017	2015-2016 FY ACTUAL
KEY RISKS	NOTHING TO REPORT	NOTHING TO REPORT	NOTHING TO REPORT
CHANGE IN STATUS FROM PREVIOUS FINANCIAL YEAR	N/A	N/A	N/A
ACTIONS TO MANAGE RISK	N/A	N/A	N/A
FINANCIAL VALUE OF RISK	N/A	N/A	N/A

Table 19: Summary of Operating Statement in Cayman Islands Dollars

	2016-2017 FP 1 JUL to 31 DEC 2016	2016-2017 FP 1 JAN to 31 DEC 2017	2015-2016 FY ACTUAL
REVENUE	357,074	791,486	758,337
OPERATING EXPENSES	(388,420)	(766,299)	566,998
NET SURPLUS/(DEFICIT)	(31,346)	25,187	191,340

Table 20: Summary of Balance Sheet in Cayman Islands Dollars

	2016-2017 FP 1 JUL to 31 DEC 2016	2016-2017 FP 1 JAN to 31 DEC 2017	2015-2016 FY ACTUAL
ASSETS	1,724,044	1,761,231	1,803,903
LIABILITIES	45,760	57,760	207,928
NET WORTH	1,678,284	1,703,471	1,595,975

Table 21: Summary of Statement of Cash Flows in Cayman Islands Dollars

	2016-2017 FP 1 JUL to 31 DEC 2016	2016-2017 FP 1 JAN to 31 DEC 2017	2015-2016 FY ACTUAL
NET CASH FLOWS FROM OPERATING ACTIVITIES	(59,308)	16,465	167,349
NET CASH FLOWS FROM INVESTING ACTIVITIES	(5,000)	-	(1,428)
NET CASH FLOWS FROM FINANCING ACTIVITIES	NIL	NIL	(150,000)

Table 22: Other Financial Information in Cayman Islands Dollars

	2016-2017 FP
EQUITY INVESTMENTS INTO ELECTRICITY REGULATORY AUTHORITY	NIL
CAPITAL WITHDRAWALS FROM ELECTRICITY REGULATORY AUTHORITY	NIL
DIVIDEND TO BE MADE BY THE ELECTRICITY REGULATORY AUTHORITY ¹⁴	NIL
GOVERNMENT LOANS TO ELECTRICITY REGULATORY AUTHORITY	NIL
GOVERNMENT GUARANTEES ISSUED IN RELATION TO ELECTRICITY REGULATORY AUTHORITY	NIL
RELATED PARTY PAYMENTS (NON REMUNERATION) MADE TO KEY MANAGEMENT PERSONNEL ¹⁵	NIL
REMUNERATION ¹⁶ PAYMENTS MADE TO KEY MANAGEMENT PERSONNEL	330,648
REMUNERATION PAYMENTS MADE TO SENIOR MANAGEMENT	280,398

Table 23: Other Financial Information

	2016-2017 FP
NUMBER OF KEY MANAGEMENT PERSONNEL (BOARD)	10
NUMBER OF KEY SENIOR MANAGEMENT PERSONNEL (MD)	2

14 In accordance with Section 14(5) of the Law, the ERA's Board of Directors is anticipated to approve payment of KYD 150,000 to the Cayman Islands Government as a dividend and to be reported as dividends payable at June 30, 2017.

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

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

Competitive Solicitation for Solar Photovoltaic Capacity for Grand Cayman

Pursuant to the terms in Condition 32 in CUC's T&D Licence, the ERA and CUC have agreed that the ERA will conduct a competitive solicitation to procure up to six (6) megawatts of solar photovoltaic capacity for Grand Cayman during the 2016-2017 fiscal period.

The five (5) megawatts of utility-scale solar photovoltaic capacity owned by Entropy Solar (Cayman) Ltd. and being constructed in Bodden Town had been procured by CUC in its 2011 expression of interest. Accordingly, this will be the first renewable energy solicitation for the ERA.

CUC's Integrated Resource Plan

In July 2015, CUC sought ERA approval to perform a long range integrated resource planning ("IRP") exercise that carefully considers a range of potential future power supply options, including supply and demand-side management options and distributed generation (renewable energy).

At its December 14, 2015 meeting the ERA's Board of Directors approved CUC capitalizing its IRP exercise contingent upon the ERA and CUC finalizing the terms of reference ("TOR"). At the start of the 2016-2017 fiscal period, the ERA and its consultant, ICF International, are working with CUC and its consultant, PACE Global, to finalise the TOR so that the IRP exercise can be finalized by the end of the 2016 calendar year.

National Energy Policy

It is the view of the ERA Board of Directors that the penetration of renewable energy in the Cayman Islands shall be consistent with and guided by Government policy.

The Government, in the light of recent international developments, including the 2015 Paris Climate Change Agreement and the energy goals subset of the Sustainable Development Goals, has reconstituted and prioritized the National Energy Policy which shall specifically address renewable energy.

Finalizing Government's policy on energy benefits the ERA, its Licensees and electricity consumers by bringing greater clarity to timelines and targets for renewable energy infusion on all islands.

During the 2016-2017 fiscal period the ERA will continue to assist Government in finalizing its energy policy by acting as Secretariat for the National Energy Policy Review Committee.

Implementing Demand and Standby Rates

Both the ERA and CUC believe demand (fixed costs) and energy (variable costs) rates result in appropriate charges of costs incurred to provide service to Rate L customers. Developing demand rates will also allow CUC to offer Standby Rates to both commercial and residential customers who choose to serve some or all of their own electricity requirements with onsite generation without negatively impacting the costs paid by other customers.

The ERA's Board of Directors at its meeting on February 18, 2016 approved demand and standby rates for large commercial customers (Rate L) contingent upon the ERA's Technical Committee and CUC finalizing

non-fundamental residual matters. During the first half of the 2016-2017 fiscal period the ERA anticipates resolving these matters with CUC.

As for demand and standby rates for residential customers wishing to serve some or all of their own electricity needs, CUC has just presented the ERA with rate proposal at the start of the 2016-2017 fiscal period. The ERA's Technical Committee is in the process of evaluating CUC's rate proposal.

New Capital Investment in Critical Electricity Infrastructure on Grand Cayman

On October 15, 2016 CUC will submit its newest five-year capital investment plan for ERA review and approval. The ERA anticipates continued investment from CUC in improving its customer service as well as the safety and reliability of critical infrastructure.

The ERA also anticipates a revised street light rate proposal that would see the replacement over a five (5) year period but beginning immediately of more than 6,300 Government street light fixtures and approximately 1,500 private street lights to higher efficiency and more energy efficient light-emitting diode ("LED") fixtures.

**Electricity Regulatory Authority
Financial Statements
30 June 2016**

STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements have been prepared by the Electricity Regulatory Authority in accordance with the provisions of the *Public Management and Finance Law (2013 Revision)*.

We accept responsibility for the accuracy and integrity of the financial information in these statements and their compliance with the *Public Management and Finance Law (2013 Revision)*.

As Chairperson and Managing Director, we are responsible for establishing; and have established and maintain a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of the Electricity Regulatory Authority.

As Chairperson and Managing Director, we are responsible for the preparation of the Electricity Regulatory Authority financial statements and for the judgements made in them.

The financial statements fairly represent the financial position, statement of comprehensive income, and cash flows of the Electricity Regulatory Authority for the financial year ended 30 June 2016.

To the best of our knowledge we represent that these financial statements are:

- (a) complete and reliably reflect the financial transactions of the Electricity Regulatory Authority for the year ended 30 June 2016;
- (b) fairly reflect the financial position as at 30 June 2016 and comprehensive income for the year ended 30 June 2016; and
- (c) comply with International Financial Reporting Standards (IFRS) under the responsibility of the International Accounting Standards Board.

The office of the Auditor General conducts an independent audit and expresses an opinion on the accompanying financial statements. The Office of the Auditor General has been provided access to all information necessary to conduct an audit in accordance with International Standards on Auditing.



Ms. Sherri Bodden Cowan
Chairperson

Date: 27th October 2016



Mr. Charles Farrington
Managing Director

Date: 27th October 2016

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 the statement of financial position as at 30 June 2016, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information on pages 9-20 in accordance with the provisions of Section 60(1) (a) of the Public Management and Finance Law (2013 Revision).

Management's Responsibilities 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 my 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 2016 and its comprehensive income and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw attention to Note 16 to the financial statements which describe future plans that may significantly affect the operations of the Authority. The Government of the Cayman Islands, which owns the Authority, is proceeding with steps to establish a Utility Regulation and Competition Office ("the Office") which will consolidate the regulatory bodies for electricity, telecommunications, water and petroleum sectors. To date no definitive date has been determined as to when the Office will commence operation. Our opinion is not qualified in respect of this matter.



Sue Winspear, CPFA
Auditor General

Cayman Islands

Date 27 October 2016

Electricity Regulatory Authority

Statement of Financial Position

As at 30 June 2016

(Stated in Cayman Islands Dollars)

	NOTES	2016	2015
ASSETS			
Current Assets			
Cash & Cash Equivalents	3	596,556	584,341
Short Term Investments	4	1,008,194	1,004,488
Accounts Receivables (net)	5	178,849	195,346
Deposits & Prepayments		14,819	15,371
Total Current Assets		1,798,418	1,799,546
Non-Current Assets			
Property, plant and equipment	6	5,485	10,223
TOTAL ASSETS		1,803,903	1,809,769
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts Payable and Accrued Liabilities	7	57,928	105,134
Dividends Payable	16	150,000	150,000
Total Current Liabilities		207,928	255,134
EQUITY			
Retained Earnings		595,975	1,554,635
General Reserve	9	1,000,000	-
Total Equity		1,595,975	1,554,635
TOTAL LIABILITIES AND EQUITY		1,803,903	1,809,769

Approved on behalf of the Board on the 27th October 2016



Ms. Sherri Bodden-Cowan
Chairperson



Mr. Charles Farrington
Managing Director

The accompanying notes on pp. 39-49 form an integral part of these financial statements.

Electricity Regulatory Authority
Statement of Comprehensive Income
For the Year Ended 30 June 2016
(Stated in Cayman Islands Dollars)

	NOTES	2016	2015
INCOME			
Regulatory Fees	2	739,470	909,243
Services Provided to Cabinet	8	15,040	5,500
Other Income	14	3,827	12,982
Total Income		758,337	927,725
OPERATING EXPENSES			
Personnel Costs	8	342,704	290,850
Leases	11	54,231	54,096
Professional and Consultancy Fees	12	35,021	70,004
Directors' Fees		33,000	34,000
Regulatory Consolidation Costs	17	30,000	-
Recruitment and Work Permit Fees		27,695	27,927
Legal Fees	13	11,920	27,408
Depreciation	6	6,166	7,679
National Energy Policy Committee		5,597	-
Subscriptions		5,110	4,924
Insurance		4,169	2,628
Employee Travel & Conference		3,583	2,299
Printing, Stationery and Supplies		3,404	1,258
Telephone		3,068	5,661
Repairs and Maintenance		473	577
Bank Charges		427	605
Training		-	400
Postage		268	268
Miscellaneous		161	225
Total Expenses		566,997	530,809
Net Income		191,340	396,916

The accompanying notes on pp. 39-49 form an integral part of these financial statements.

Electricity Regulatory Authority
Statement of Changes in Equity
For the Year Ended 30 June 2016
(Stated in Cayman Islands Dollars)

	NOTES	Retained Earnings	General Reserve	Total
BALANCE AT 1 JULY 2013		1,307,719	-	1,307,719
Net Income for the year		396,916	-	396,916
Dividend Payable		(150,000)	-	(150,000)
BALANCE AT 30 JUNE 2015		1,554,635	-	1,554,635
Net Income for the year		191,340	-	191,340
General Reserve Fund	9	(1,000,000)	1,000,000	-
Dividend Payable	14	(150,000)	-	(150,000)
BALANCE AT 30 JUNE 2016		595,975	1,000,000	1,595,975

The accompanying notes on pp. 39-49 form an integral part of these financial statements.

Electricity Regulatory Authority

Statement of Cash Flows

For the Year Ended 30 June 2016

(Stated in Cayman Islands Dollars)

	NOTES	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income for period		191,340	396,916
Adjustment for:			
Interest received		(3,706)	(4,488)
Depreciation	6	6,166	7,679
Decrease in accounts receivables	5	16,497	46,187
Decrease/(Increase) in deposits & prepayments		552	(902)
Decrease in accounts payable and accrued liabilities	7	(47,206)	(64,570)
Net cash from Operating Activities		163,643	380,822
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment (net of disposals)	6	(1,428)	-
Net cash used in Investing Activities		(1,428)	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	16	(150,000)	(150,000)
Net cash used in Financing Activities		(150,000)	(150,000)
Net increase in cash and cash equivalents during year		12,215	230,822
Cash and cash equivalents at the beginning of the year		584,341	353,519
Cash and cash equivalents at end of year		596,556	584,341

The accompanying notes on pp. 39-49 form an integral part of these financial statements.

Notes to the 2015-2016 Fiscal Year Financial Statements

1. *Establishment and Principal Activity*

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 Authority reports to the Legislative Assembly of the Cayman Islands on its operations through the Ministry of Planning, Lands, Agriculture, Housing and Infrastructure of the Cayman Islands

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 2016, the ERA had 3.6 full time employees (2015 - 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. *Significant Accounting Policies*

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Committee (“IASC”) as required under Section 20 (1) of the *ERA 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

2. Significant Accounting Policies (continued)

those transactions. Gains and losses arising on translation are included in the Statement of Comprehensive Income.

(c) Cash & cash equivalents

Cash and cash equivalents are considered as cash held on demand and bank account with an original maturity of no more than three months from the date of acquisition.

(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:

	2016	2015
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:

2. *Significant Accounting Policies (continued)*

- (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 recognised when incurred.

(j) 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 Pensions Law*. Contributions based on set contribution rates are charged to expenses when an employee has rendered services in exchange for those contributions.

(k) 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 favourable 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 unfavourable. Financial liabilities comprise of accounts payables and accrued expenses, as well as, dividends payable.

(ii) Recognition

The Authority recognises 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 recognised 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.

2. Significant Accounting Policies (continued)

(iv) Derecognition

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

A financial liability is derecognised 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.

(l) Use of estimates

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

- Σ reported amounts of assets and liabilities
- Σ disclosure of contingent assets and liabilities at the date of the financial statements
- Σ 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.

(m) Corresponding figures

Certain prior year corresponding figures in the statement of financial position and statement of cash flows have been reclassified to conform to current year presentation.

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

(n) 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:

2. Significant Accounting Policies (continued)

IFRS 9 Financial Instruments (replacement of IAS 39) (Effective for annual periods beginning on or after 1 January 2018).

The International Accounting Standards Board (the Board) completed the final element of its comprehensive response to the financial crisis with the publication of IFRS 9 *Financial Instruments* in July 2014. The package of improvements introduced by IFRS 9 includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.

Classification determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduces a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are complex and difficult to apply. The new model also results in a single impairment model being applied to all financial instruments removing a source of complexity associated with previous accounting requirements.

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.

2. Significant Accounting Policies (continued)

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

All amounts are stated in Cayman Islands Dollars.

	2016	2015
Bank accounts	\$596,556	\$584,341
Total Cash & Cash Equivalents	\$596,556	\$584,341

4. Short Term Investment

All amounts are stated in Cayman Islands Dollars.

	2016	2015
Term deposit- Butterfield Bank (Cayman) Ltd. for one year maturing 17 June 2016 @ 0.37%	\$1,008,194	1,004,488
Total Cash & Cash Equivalents	\$1,008,194	\$1,004,488

5. Accounts Receivables

All amounts are stated in Cayman Islands Dollars.

	2016	2015
Receivables from Cabinet	15,040	5,500
Regulatory fees receivable	162,005	187,704
Suspense Account	-	8,890
Employee advance	1,600	2,000
Allowance for doubtful accounts	-	(8,890)
Term Deposit interest receivable	204	142
Total Accounts Receivables	178,849	195,346

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

	2016	2015
Opening Provision	8,890	17,356
Doubtful Accounts provided for during the year	-	-
Less recoveries	-	(8,466)
Write off for accounts previously provided	(8,890)	-
Closing Provision	-	8,890

The Employee advance of KYD 1,600 (2015 – KYD 2,000) represents the unpaid balance on an original advance of KYD 10,000 to the former Managing Director. The ERA anticipates ultimate recovery of this balance.

Term deposit interest receivable represents 16 days of accrued interest earned on the term deposit of KYD 1,008,194 placed with Butterfield Bank (Cayman) Ltd. for a period of one year from June 15, 2016 to June 14, 2017 at an interest rate of 0.46%.

Aging Profile of Trade Receivables

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

Period Outstanding (Days)	2016	2015
1-30	177,249	193,346
31-90	-	-
Over 90	1,600	2,000
Total	178,849	195,346

6. Property, Plant and Equipment

All amounts are stated in Cayman Islands Dollars.

Cost	Computer Equipment	Office Furniture and Equipment	Total
Balance at 1 July 2015	41,105	11,000	52,105
Additions during the year	1,428	-	1,428
Disposals during the year	(10,989)	-	(10,989)
Balance at 30 June 2016	31,544	11,000	42,544
Accumulated Depreciation			
Balance at 1 July 2015	35,365	6,517	41,882
Charge for the Period	4,524	1,642	6,166
Disposals for the Period	(10,989)	-	(10,989)
Balance at 30 June 2016	28,900	8,159	37,059
Net Book Value at 30 June 2016	2,644	2,841	5,485
Net Book Value at 30 June 2015	5,740	4,483	10,223

7. Accounts Payable & Accrued Liabilities

All amounts are stated in Cayman Islands Dollars.

	2016	2015
Accrued Expenses	28,706	73,529
Due to Vendor	-	8,890
Payroll Liabilities	29,222	22,715
Total Accounts Payable & Accrued Liabilities	57,928	105,134

The balance of Nil (2015 - KYD 8,890) shown as Due to Vendor was under dispute and the balance in 2015 represents 50% of the claimed cost of electronic equipment purportedly supplied to the ex-Managing Director of the ERA by the vendor. The ERA settled this claim for 50% of its nominal value in the 2016 financial year.

8. Related Party Transactions

The ERA provided services to the Cabinet of the Cayman Islands during the period in the amount of KYD 15,040 (2015 - KYD 5,500). As at 30 June 2016, KYD 15,040 is owing to the ERA from Cabinet (2015 - KYD 5,500). The amount paid to the Managing Director for salary and other short term benefits (including statutory vacation pay) for the period to June 30, 2016 was KYD 70,435 (2015 - KYD 75,500), recorded under personnel costs.

9. General Reserve Fund

Section 18 of the ERA Law (2010) requires the Authority to maintain a reserve fund; the management of such fund being at the discretion of the Authority. The law requires the fund to be applied only for the purposes of the Authority. The current reserve fund represents approximately two (2) times the annual operating requirements (2015 - nil)

10. 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 KYD 27,689 to the Public Service Pensions Fund during the period (2015 - KYD 22,718).

11. 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 formal lease commenced on 1 November 2013 and expired on 1 November 2015 and with the agreement of the Landlord the Authority continues to occupy the premises on a month-to-month rental basis. Rent payments are currently KYD 4,523 per month and totaled KYD 54,231 in the period (2015 - KYD 54,096).

12. 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.

13. Legal Fees

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

14. 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 30 June 2016 was KYD 3,827 (2015 - KYD 4,516).

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 30 June 2016, 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 (2015 - 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 2016 and 2015, 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 judgement and therefore cannot be determined with precision. Changes in assumptions, economic conditions and other factors could cause significant changes in fair value estimates.

15. Contingent Liabilities

The Authority may be required to pay a company the amount of KYD 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.

16. Subsequent Events

In accordance with section 14 (5) of the *Electricity Regulatory Law (2010 Revision)*, the ERA paid KYD 150,000 to the Cayman Islands Government as a dividend in 29 September 2016 which was reported as dividends payable at 30 June 2016 (2015 - KYD 150,000).

The Government of the Cayman Islands, which owns the Authority, is proceeding with steps to establish a Utility Regulation and Competition Office which will consolidate the regulatory bodies for the electricity, telecommunications, water and petroleum sectors. As a result of this consolidation; a Bill for a law to amend the Electricity Regulatory Authority Law (2010 Revision) to dissolve the Electricity Regulatory Authority and transfer its powers and responsibilities to the Utility Regulation and Competition Office has been approved by Cabinet. This Law shall come into force on such date as may be appointed by order made by the Cabinet and different dates may be appointed for different provisions of the Law and in relation to different matters.

APPENDIX: Summary of Board of Directors Meetings

Meeting Date	Quorum	Agenda Items	Approvals
July 23, 2015 10:10 – 13:55	Yes	- ERA Accounts through June 30, 2015 - Dividend payable to the Cayman Islands Government (“CIG”) - Cost of living adjustment for staff - Governance Policies - Caribbean Utilities Company, Ltd.’s (“CUC’s”) cost recovery for a Cooling water discharge pipeline (“CWDP”) - Draft Generating Licence and application form	- ERA Accounts through June 30, 2015 - Dividend payable to CIG - Cost of living adjustment for staff - ERA Purchasing Policy - ERA Travel Policy - ERA Fraud Risk Assessment Policy - CWDP cost recovery
October 7, 2015 10:20 – 12:30	Yes	- ERA accounts through Sept. 30, 2015 - Power purchase agreement (“PPA”) and interconnection agreement (“IA”) for Entropy Cayman Solar Ltd. (“Entropy”) - Draft Generating Licence and application form - CUC’s 2015 Reliability Targets - Audit and <i>2014-2015 Annual Report</i> - Demand and Standby rates - CUC’s Integrated Resource Plan (“IRP”) - CUC’s July 17, 2015 all island blackout	- ERA Accounts through Sept. 30, 2015 - Entropy’s PPA - Draft Generating Licence - Issuance of a press release for Entropy’s licence award - CUC’s 2015 Reliability Targets - ERA’s <i>2014-2015 Annual Report</i>
December 14, 2015 10:35 – 12:50	Yes	- ERA Accounts through Nov. 30, 2015 - Contribution to <i>Office of Competition and Regulation</i> (“OCR”) start-up costs - CUC’s IRP business case - CUC’s 2016-2020 Capital Investment Plan (“CIP”) 2016 Fuel Price Volatility Management (“FPVM”) Plan - CUC’s Lubricant Supply Contract - CUC’s Infusion Study results - CUC’s proposal for participating in an ERA-run renewable energy solicitation - Analyst’s employment contract	- ERA Accounts through Nov. 30, 2015 - Contribution for OCR start-up costs - CUC’s IRP business case 2016-2020 CIP (minus Light-Emitting Diode street lights business case) 2016 FPVM Plan - Lubricant Supply Contract - Analyst’s employment contract
February 18, 2016 10:05 – 12:10	Yes	- ERA Accounts through January 31, 2016 - Demand and Standby Rates - Target for 2016 Annual Total Plant Equivalent Availability (“ATPEAF”) - Cayman Renewable Energy Association (CREA) memorandum on rates for the Consumer-Owned Renewable Energy (“CORE”) Program - Cayman Biodiesel - Premises search for OCR - Internal Audit Unit’s <i>Payroll and Expenditure Audit Report</i> - Directors and Officers (“D&O”) insurance	- ERA Accounts through January 31, 2016 - Demand and Standby Rates (contingent on ERA-approved consumer education plan) 2016 ATPEAF Target - D&O insurance

Meeting Date	Quorum	Agenda Items	Approvals
April 28, 2016 10:10 – 12:10	Yes	▪ ERA Accounts through March 31, 2016 ▪ CUC's June 1, 2016 Rate Adjustment ▪ Revised CORE Credit and Interconnection Agreement (C&IA) ▪ CUC's 2015 Outage Reports ▪ CUC's IRP Request for Proposals (RFP) document ▪ CUC's 2015 Performance Standards results ▪ CUC's Used Lubricant Disposal Contract ▪ National Energy Policy Review Committee	▪ ERA Accounts through March 31, 2016 ▪ CUC's June 1, 2016 Rate Adjustment ▪ Revised CORE C&IA ▪ CORE press release ▪ C\$10,000 reward to CUC for its above target 2015 result for System Average Interruption Frequency Index (SAIDI) ▪ CUC's Used Lubricant Disposal Contract
June 30, 2016	Yes	▪ ERA Accounts through May 31, 2016 ▪ Demand and Standby Rates for Rate L ▪ CUC's Electric Vehicle (EV) Rate Proposal ▪ Ocean Thermal Energy Conversion (OTEC) draft PPA and IA ▪ CUC's Renewable Energy Memorandum ▪ Extension of CUC's Primary Fuel Supply Contract ▪ CUC's Advanced Metering Infrastructure (AMI) Opt-Out Rate Proposal	▪ ERA Accounts through May 31, 2016 ▪ Demand and Standby Rates for Rate L



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