

ANNUAL REPORT

2018–2019



**REGULATORY
AUTHORITY**
OF BERMUDA



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WELCOME TO THE REGULATORY AUTHORITY

WHO WE ARE:

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

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

OUR MISSION:

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

We Follow Principles Such As:

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

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

OUR MANDATE:

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

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

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

THE SECTORS WE REGULATE:

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



ELECTRONIC COMMUNICATIONS:

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



ELECTRICITY:

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

CHAIRMAN'S COMMENTS

It is my pleasure to present the Regulatory Authority's 2018-19 Annual Report and to introduce its major accomplishments. With the Budget and Work Plan approved by the Minister of Finance on July 16, 2018, I am pleased to report that the Authority's activities were carried out within the approved budgets.

Building on the developing regulatory framework of the electricity sector and the more mature structure of the electronic communications sector, this Report reflects the activities that support the Authority's key strategic focus, which is to ensure the delivery of benefits to consumers and the promotion of competition.

During the reporting year, the Authority investigated the concerns of various citizen groups in the electricity sector; such as the safe emissions from BELCO's 'smart meters', and through a Standard Contract, the Authority required BELCO to implement retroactive payments to all Distributed Generators ("DG") for the electricity they feed-in to the grid and initiated the process to review and update the existing Feed-in-Tariff.

The Authority continued to prioritise the education and protection of the public by conducting several consultations in the electricity sector, including a) a proposal to change the way rates are calculated through a Retail Tariff Methodology consultation; b) a comprehensive rate review to assess all costs associated with the production and distribution of electricity; and c) a proposal to assess the quality of customer service and the technical performance of the electricity network and generation plants through proposed Service Standards.

Public consultations into the Island's first energy plan, the Integrated Resource Plan ("IRP") proceeded, with almost 800 responses from the public, the highest ever received by the Authority on any consultation. The Authority also received eight alternative bulk generation proposals from private sector entities for consideration.

To protect consumers' interests, promote the delivery of high-quality services and products and encourage best practices by licensees in both the electricity sector and electronic communications sectors, the Authority began the consultation on proposed Principles of Consumer Protection.

Given the relative maturity of the Electronic Communications sector, less focus was required to build its infrastructure. Nevertheless, there were several noteworthy consumer-focused initiatives which will be expounded upon in this Report, such as the continued comprehensive assessment of the Market Review and the completion of the Sectoral Review. To encourage competition and innovation in the sector, the Authority recommended to the Minister that he lift the moratorium on the granting of Communication Operating Licences ("COLs") and Integrated Communication Operating

Licences ("ICOLs"), to allow the Authority to begin the process of establishing the framework for new entrants to apply for, and be issued, new licences to deliver electronic communication services to the Bermuda marketplace.

To increase public awareness and strengthen its presence in the community, the Authority launched its redesigned website, released informational explanatory videos and distributed public education content island-wide, including project-specific communications with each public consultation.

In January 2019, Mr. Denton Williams was appointed to the position of Chief Executive ("CE"), the Authority's first Bermudian CE. Not only does he have the qualifications and experience to lead the Authority, Mr. Williams also possesses the acumen to ensure that the duties of the Authority are fulfilled in the best interest of the residents of Bermuda.

We should all be pleased with the progress of work at the Authority. That said, there is still much work ahead. In the next fiscal year, the Authority will continue to reinforce its commitment to engage stakeholders on key developments and strengthen the regulatory frameworks in both sectors through key initiatives such as:

- The continued development of the Integrated Resource Plan;
- Processing and assessing electricity licence applications;
- Conducting an Electricity Retail Tariff Review;
- Conducting an Electricity Sectoral Review;
- Consider Market Review Remedies in the Electronic Communications sector;
- Explore Net Neutrality/Open Internet (Monitoring and Compliance);
- Assess Broadband Quality of Service; and
- Review High Demand Spectrum 1 ("HDS-1") Compliance

Finally, I would like to acknowledge that none of the accomplishments presented in this report would have been possible without the support and cooperation of the Board of Commissioners and the management and staff of the Authority. To them, I extend my heartfelt thanks and wishes for even greater things to come.

Angela S. Berry,

Chairman



STRATEGIC GOALS

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

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

REGULATORY AUTHORITY

ACTIVITIES

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



ELECTRONIC COMMUNICATIONS: PROMOTING AND FACILITATING SUSTAINABLE COMPETITION:

to apply effective and proportionate regulation to facilitate dynamic and sustainable competition within the sectors it regulates.

ACTIVITY 1:

HDS- 1 Compliance: During the fiscal year, Digicel and OneComm each completed the Interim and Final Coverage Obligation Certificate of Compliance, to achieve the following:

- Met the minimum received power which should be greater than or equal to -120dBm, which the Authority considers to be the minimum Reference Signal Receive Power necessary to achieve the Minimum Download User Data Rate of 4 Mbps for 99.5% coverage on the island.
- Delivered the Minimum Average Download User Data Rate of 15Mbps for 99.5% coverage of the island; and
- Provided mobile broadband services with a Minimum Average Download User Data Rate a minimum of 15 Mbps, and a minimum received power of -120 dBm for 99.5% of the island.

FACILITATING INNOVATION AND INVESTMENT:

To provide regulatory certainty within the sectors under its responsibility. This will include the fair application of rules, market evaluation and enforcement of breaches of its regulatory rules. This, in turn, will encourage and support investment into the relevant sectors;

ACTIVITY 1:

5Th Generation Review: The Authority carried over the potential review of 5G technology as the world-wide review of the 5G mobile/fixed wireless connectivity continues to develop. The final form of 5G is still taking shape and will ultimately be determined across the International Telecommunications Union regions. As of the date of this document's release, a comprehensive ecosystem will need to be developed before this technology is ready for full deployment.



PROMOTING AND PROTECTING THE INTERESTS OF CONSUMERS:

to safeguard the interests of the consumers of electronic communications and electricity services by protecting and empowering consumers

ACTIVITY 1

Broadband QoS: The Authority continued evaluating an enforceable standard of practice for broadband services. The proposed monitoring system will give the Authority and the consumers, quantitative data on internet performance, which will be monitored, pending the outcome of the Open Internet Consultation.

ACTIVITY 2

The Principles of Consumer Protection ("Consumer Protection") was open for public consultation throughout February 2019. Consumer Protection is designed to provide a single point of reference to protect consumers' interests, promote the delivery of high-quality services and products and encourage best practices by licensee's in the regulated sectors. Its recommendations include making sectoral participants responsible for delivering honest marketing and advertising, bills that are easy to understand and better handling of complaints and covers services such as fixed and mobile telephone, long-distance, internet access and subscription television.

ACTIVITY 3

A Market Review of the electronic communications public consultation was also launched in February, 2019. The Market Review is designed to offer a further degree of protection for consumers by analyzing the state of competition in the various electronic communications markets such as broadband and mobile, to determine whether there are operators with significant market power that may hinder competition. The aim of the Market Review is to create a regulatory environment where positive consumer developments are sustainable and enduring and determine whether remedies should be applied, or if existing regulations should be removed. Another review of the EC market will be conducted within four years.

REGULATORY AUTHORITY

ACTIVITIES



ELECTRICITY:

FACILITATING INNOVATION AND INVESTMENT:

To provide regulatory certainty within the sectors under its responsibility. This will include the fair application of rules, market evaluation and enforcement of breaches of its regulatory rules. This, in turn, will encourage and support investment into the relevant sectors

ACTIVITY 1

Integrated Resource Plan (“IRP”): The Authority continued the process of developing Bermuda’s first energy plan, IRP, by commencing a public consultation into BELCO’s IRP Proposal in May 2018. The process also included an extensive public relations campaign. During the initial consultation, the Authority received alternative proposals for bulk generation and demand-side resources which subsequently underwent a second consultation process in 2018. The two rounds of consultation yielded almost 800 responses from the public; the highest number ever received. The Authority is currently performing further assessment and analysis and anticipates issuing the final IRP in the fiscal year 2019-20.

PROMOTING AND FACILITATING SUSTAINABLE COMPETITION:

To apply effective and proportionate regulation to facilitate dynamic and sustainable competition within the sectors it regulates.

ACTIVITY 1

Standard Contract: On August 20, 2018, the Authority ordered BELCO to pay all distributed generators (“DGs”) for the electricity they feed-into the BELCO grid. As required by section 49 of the Electricity Act 2015, the payment requires a Standard Contract between BELCO and DGs. The Authority, through the Minister of Transport and Regulatory Affairs requested an amendment to the Electricity Act 2016, which became effective on July 30, 2018. The amendment clarifies that all DGs can be legally connected to the grid and receive payment for the electricity they provide to BELCO.

ACTIVITY 2

Regulatory Accounting Instructions: The Authority started the public consultation process in February 2018 and concluded in December 2018, with the issuance of a final report and General Determination. The Regulatory Accounting Instructions (the “Instructions”) enables the Authority to govern the regulatory accounting standards

for the vertically integrated electric utility holding licences for bulk generation and transmission, distribution and retail (“TD&R”) (the “Licensee”) and to all other bulk generation licence holders in the electricity sector of Bermuda. The licensees are required to submit Regulatory Accounts to the Authority.

ACTIVITY 3

Independent AMI (Smart) Meter Testing: From May to June 2018, the Authority conducted independent testing of BELCO’s advance meter infrastructure (AMI) meters to test the Maximum Permissible Exposure (MPE) of the meters.

An assessment for the test site was completed following recommendations of the Federal Communications Commission (FCC) Office of Engineering. The purpose of the MPE assessment at the test site was to determine the ambient levels of electromagnetic energy (EME) with regards to BELCO AMI Meters (model: GE-I210+c). In addition, the assessment was conducted to detect and document whether EME fields present at the site are above FCC guidelines for human exposure to radiofrequency (RF) emissions. The assessment was also to determine what, if any, areas should be defined as “hot” zones, or areas that contain RF levels above general population levels.

ACTIVITY 4

Feed-In-Tariff (“Fit”) Methodology: The Authority started a consultation in April 2018 to receive feedback from the general public on the FIT methodology (“FIT Methodology”) for the electricity sector. The public consultation process, which concluded 19 October 2018, resulted in a General Determination establishing the FIT Methodology, which is the method used to calculate compensation for distributed generators—small scale renewable energy producers—for the electricity they supply to the electricity network. The FIT Methodology was developed to reflect the generation costs that the TD&R Licensee avoided by purchasing electricity from distributed generators as well as other economic benefits provided.



REGULATORY AUTHORITY ACTIVITIES

ELECTRICITY CONT...

ACTIVITY 5

Retail Tariff Methodology Public Consultation: Consultation on the Retail Tariff Methodology began on 8 March 2018 and completed on 19 October 2018. The consultation process resulted in a General Determination to set the retail rates that consumers pay for electricity.

It also allows the TD&R licensee to generate a total revenue that covers reasonable costs of service for select performance standard requirements, and cost-efficiency incentives to promote affordable prices to end-users.

ACTIVITY 6

Service Standards: The Service Standards were developed to identify and provide an overview of the key performance indicators that the Authority intended to use in assessing the quality of customer service and the technical performance of the electricity network and generation plants. The development of the Service Standards also included a public consultation process which ran between 30 August 2018 and 4 April 2019.

PROMOTING AND PROTECTING THE INTERESTS OF CONSUMERS:

to safeguard the interests of the consumers of electronic communications and electricity services by protecting and empowering consumers.

ACTIVITY 1

The Principles of Consumer Protection (“Consumer Protection”) was open for public consultation in February, 2019 and is designed to provide a single point of reference to protect consumers’ interests, promote the delivery of high-quality services and products and encourage best practices by licensee’s in the electricity sector. The Consumer Protection document recommendations include making sectoral participants responsible for delivering honest marketing and advertising, bills that are easy to understand and better handling of complaints.

CORPORATE DEVELOPMENTS & INITIATIVES

The following are the main corporate and ongoing activities undertaken by the Authority.

PROFESSIONAL DEVELOPMENT:

UTILITY FINANCE OXFORD, UK

19 NOV 2018

The course, run as a combination of seminars and interactive case studies, explores techniques of financial analysis for regulated businesses.

DIGNITY AT WORK TRAINING

11 DEC 2018

The course provided knowledge and skills to help create a supportive workplace environment from a personal perspective and disseminate that knowledge at your workplace.

CARIBBEAN RENEWABLE ENERGY FORUM 2018 07 NOV 2018

The Caribbean’s premier renewable Energy conference focusing on clean, resilient, reliable, and economic energy production.

BERMUDA ENERGY SUMMIT

15 NOV 2018

Conference to discuss Bermuda’s Energy challenges.

PERFORMANCE-BASED REGULATION: THE POWER OF OUTCOMES

18 SEPT 2018

“Performance-based regulation,” or PBR, is a necessary tool for regulators and policymakers in this era of fundamental change. Join David Littell, Camille Kadoch, and Dr. Jan Rosenow and for a two-part webinar series exploring PBR and how it can improve outcomes for utilities, customers, regulators, and society at large. In the first webinar on September 21, learn the fundamentals of PBR, why it’s important, and hear how policymakers have used it to further specific goals in the United States and Europe. In the second webinar October 5, RAP will explore some of the principles of successful—and not-so successful—PBR efforts, and will lay out some considerations for regulators and policymakers who might want to take advantage of PBR for better outcomes.

OXERA TRAINING- ECONOMIC REGULATION

07 MAY 2018

The course covered topics in Principles of Economic Regulation, key tools for economic regulation: Electricity Market and economic regulation in Bermuda: Telecommunications.

FINANCIAL HIGHLIGHTS

The RA prepares its financial statements in accordance with public sector accounting standards, which are generally accepted in Bermuda and Canada as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada, and which are subject to an annual audit. Included in this report are the audited financial statements for the financial year ended 31 March, 2019.

Shared expenses such as rent, advertising and other office services were allocated amongst the electricity and electronic communications sectors on a 50-50 basis. Other expenses, such as salaries, are allocated and determined by the Chief Executive. Salaries are also split between the two sectors based on a reasonable estimate of time spent on each sector.

Overall, consolidated results for the 2018-19 fiscal year included actual revenues of \$6,394k, which were made up of Integrated Communications Operating Licence (“ICOL”), Bulk Generation (“BG”) and Transmission, Distribution and Retail (“TD&R”) fees. Budgeted revenues for the year were \$6,261k, with actual revenues exceeding this by \$133k (2%).

Overall expenses for the year were budgeted to be \$6,675k, however, the actual total expenses amounted to \$5,529k, hence, an underspend of \$865k. These results led to a surplus for the year of \$865k.

On March 22, 2019, the RA was granted approval by the Minister of Finance to create a Litigation Reserve Fund and a Project Fund. The RA Litigation Reserve Fund was approved to hold up to a maximum of one million, five hundred thousand dollars (\$1.5 million) and the Project Fund to hold monies for stated work plan projects and projects in progress.

To this end the surplus for the year was allocated as follows:
\$263k was allocated to the Litigation Reserve Fund, \$544k to the Project Fund and the remaining \$58k was allocated based on the RA’s legislative mandate, with 50% (\$29k) distributed to the Consolidated Fund and 25% each distributed to the Paid-up capital and Reserve Fund. It is important to note that the \$58k related to the ICOL fees from the Indefeasible Right of Use (“IRU”) agreement between GlobeNet Cobos Submarinos Bermuda Ltd (“GlobeNet”) and TeleBermuda International Limited (“TBI”) during the period of April 2013 to December 2017.

ELECTRONIC COMMUNICATIONS:

The Electronic Communications sector incurred an actual expense of \$2,783k which were related to the general administration, professional services and amortization expenses. Projected expenses of \$3,314, which were not fully realized, resulted in an underspend of \$531k. Salaries, rent, and technical and non-technical consultancy made up most of the year’s expenses, incurring a cost of \$2,503k (90%) of the actual total expenditure.

Fees received from the Electronic Communications sector in relation to Integrated Communications Operating Licence holders, totalled \$3,528k, which exceeded the budgeted revenues of \$3,325k by \$203k (6%).



ELECTRICITY:

The Electricity sector incurred a total expenditure of \$2,746k in relation to the general administration, professional services, and amortization expenses. The projected expenditure of \$3,361k was not fully realized, resulting in an underspend of \$615k. Salaries, rent, and technical and non-technical consultancy made up most of the year’s expenses, incurring a cost of \$2,466k (90%) of the total actual expenditure.

During the year, the RA received total fees of \$2,866k from the sector, of which \$2,679k were related to the TD&R licenses and \$187k to the BG licenses. The revenue collections for the year were below the overall budget of \$2,936k by \$70k (2%).

REGULATORY AUTHORITY
FINANCIAL STATEMENTS
MARCH 31, 2019

Management's Responsibility for the Financial Statements

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

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

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

The accompanying Independent Auditor's Report is presented herein.



Denton Williams
Chief Executive



Denis Wasswa
Financial Controller

August 5, 2021

Date of approval



Office of the Auditor General

Reid Hall, Penthouse
3 Reid Street
Hamilton HM 11, Bermuda

Tel: (441) 296-3148

Fax: (441) 295-3849

Email: oag@oagbermuda.bm

Website: www.oagbermuda.bm

INDEPENDENT AUDITOR'S REPORT

To the Minister of Home Affairs

Opinion

I have audited the financial statements of the Regulatory Authority, which comprise the statement of financial position as at March 31, 2019, and the statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Regulatory Authority as at March 31, 2019, and the results of its operations, changes in its net debt and its cash flows for the year then ended in accordance with public sector accounting standards generally accepted in Bermuda and Canada.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in Bermuda and Canada. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Regulatory Authority in accordance with the ethical requirements that are relevant to my audit of the financial statements in Bermuda, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with public sector accounting standards generally accepted in Bermuda and Canada, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Regulatory Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Regulatory Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Regulatory Authority's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free

from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Bermuda and Canada will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in Bermuda and Canada, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements (whether due to fraud or error), design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than from one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Regulatory Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going-concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Regulatory Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Regulatory Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements (including the disclosures), and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, related safeguards.

A further description of the auditor's responsibilities for the audit of the financial statements is located at the Office of the Auditor General website at: www.oagbermuda.bm. This description forms part of our auditor's report.

Hamilton, Bermuda
August 5, 2021



Heather Thomas, CPA, CFE, CGMA
Auditor General

REGULATORY AUTHORITY

STATEMENT OF FINANCIAL POSITION

As at March 31, 2019

(Expressed in Bermuda dollars)

	2019	2018
	\$	\$
FINANCIAL ASSETS		
Cash	1,763,192	1,082,428
Accounts receivable	6,530,909	5,549,831
	<u>8,294,101</u>	<u>6,632,259</u>
LIABILITIES		
Accounts payable and accrued liabilities	386,167	494,889
Bank borrowing (Note 10)	-	144,206
Due to the Government of Bermuda (Note 9)	5,335,391	4,305,224
Obligation under capital lease (Note 8)	575	4,945
Distribution payable to the Consolidated Fund of the Government of Bermuda (Note 9)	722,950	693,854
Provision for Litigation Reserve Fund (Note 4)	263,341	-
Provision for Project Fund (Note 4)	543,425	-
	<u>7,251,849</u>	<u>5,643,118</u>
NET FINANCIAL ASSETS	<u>1,042,252</u>	<u>989,141</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (Notes 3 and 8)	286,628	341,719
Prepaid expenses (Note 11)	63,595	32,518
	<u>350,223</u>	<u>374,237</u>
ACCUMULATED SURPLUS (Note 4)	<u>1,392,475</u>	<u>1,363,378</u>
CONTRACTUAL OBLIGATIONS (Note 7)		

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

REGULATORY AUTHORITY

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

For the year ended March 31, 2019
(Expressed in Bermuda dollars)

	2019 (Note 15)	2019	2018
	Budget	Actual	Actual
	\$	\$	\$
REVENUES			
Fees from Integrated Communications Operating Licences (Note 13)	3,325,000	3,527,707	3,463,571
Fees from Transmission, Distribution and Retail Licences (Note 14)	2,759,200	2,679,558	2,763,414
Fees from Bulk Generation Licenses (Note 14)	176,800	186,725	215,100
Gain on disposal of assets	-	100	-
Interest	-	-	6
	<u>6,261,000</u>	<u>6,394,090</u>	<u>6,442,091</u>
EXPENSES (Note 5)			
General administration	4,185,000	3,157,722	3,581,494
Professional services	2,490,000	2,283,125	2,408,407
Amortization of tangible capital assets	-	88,284	78,799
	<u>6,675,000</u>	<u>5,529,131</u>	<u>6,068,700</u>
ANNUAL SURPLUS (DEFICIT)	<u>(414,000)</u>	864,959	373,391
ACCUMULATED SURPLUS, BEGINNING OF YEAR		1,363,378	1,022,891
Less: Provision for Litigation Reserve Fund (Note 4)		(263,341)	-
Less: Provision for Project Fund (Note 4)		(543,425)	-
Less: Distribution to the Consolidated Fund of the Government of Bermuda (Notes 4 and 9)		-	-
		<u>(29,096)</u>	<u>(32,904)</u>
ACCUMULATED SURPLUS, END OF YEAR		<u>1,392,475</u>	<u>1,363,378</u>

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

REGULATORY AUTHORITY

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

For the year ended March 31, 2019

(Expressed in Bermuda dollars)

	2019 (Note 15) Budget \$	2019 \$	2018 \$
NET FINANCIAL ASSETS, BEGINNING OF YEAR	<u>989,141</u>	<u>989,141</u>	<u>788,007</u>
Annual surplus (deficit)	(414,000)	864,959	373,391
Acquisition of tangible capital assets (Note 3)	(20,000)	(33,193)	(229,327)
Amortization of tangible capital assets (Note 3)	-	88,284	78,799
Change in prepaid expenses	-	(31,077)	11,175
Provision for Litigation Reserve Fund (Note 4)	-	(263,341)	-
Provision for Project Fund (Note 4)	-	(543,425)	-
Distribution to the Consolidated Fund of the Government of Bermuda (Notes 4 and 9)	-	(29,096)	(32,904)
Change in net financial assets	<u>(434,000)</u>	<u>53,111</u>	<u>201,134</u>
NET FINANCIAL ASSETS, END OF YEAR	<u><u>555,141</u></u>	<u><u>1,042,252</u></u>	<u><u>989,141</u></u>

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

REGULATORY AUTHORITY

STATEMENT OF CASH FLOWS

For the year ended March 31, 2019

(Expressed in Bermuda dollars)

	2019	2018
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Annual surplus	864,959	373,391
Adjustment for items not affecting cash:		
Amortization of tangible capital assets	88,284	78,799
	<u>953,243</u>	<u>452,190</u>
Changes in non-cash working capital:		
Increase in accounts receivable	(981,078)	(641,816)
Decrease in due from the Government of Bermuda	-	4,875
(Increase) decrease in prepaid expenses	(31,077)	11,175
(Decrease) increase in accounts payable and accrued liabilities	(108,722)	96,487
Decrease in Bank borrowing	(144,206)	(229,976)
Increase in due to the Government of Bermuda	1,030,167	120,769
Decrease in obligation under capital lease	(4,370)	(4,403)
	<u>713,957</u>	<u>(190,699)</u>
Cash flows generated from (used in) operating activities		
	<u>713,957</u>	<u>(190,699)</u>
CASH FLOWS FROM CAPITAL ACTIVITIES		
Acquisition of tangible capital assets	(33,193)	(229,327)
	<u>(33,193)</u>	<u>(229,327)</u>
Cash flows used in capital activities		
	<u>(33,193)</u>	<u>(229,327)</u>
NET INCREASE (DECREASE) IN CASH	680,764	(420,026)
CASH, BEGINNING OF YEAR	<u>1,082,428</u>	<u>1,502,454</u>
CASH, END OF YEAR	<u><u>1,763,192</u></u>	<u><u>1,082,428</u></u>

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

1. AUTHORITY AND PURPOSE

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Revenue recognition

(i) Electronic communications sector

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Revenue recognition (continued)

(i) Electronic communications sector (continued)

The RA derives revenues from Integrated Communication Operating Licenses (“ICOLs”) which are based on actual returns received and an accrued estimate relating to carriers which are required by the ECA to file returns and remit the related ICOL fees.

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

(ii) Electricity sector

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

(b) Expenses

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

(c) Cash

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

(d) Tangible capital assets including capital lease and amortization

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

(e) Leases

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Funds and reserves

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

(g) Foreign currencies

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

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

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

(h) Financial instruments

The RA's financial instruments consist of cash, accounts receivable, accounts payable, amounts due to/from the Government of Bermuda and distribution payable to the Consolidated Fund of the Government of Bermuda (the "Consolidated Fund"). These financial instruments are measured at cost. Write-downs on financial assets are recognized when the amount of a loss is known, and there is no prospect of recovery. Financial assets are then written down to net recoverable value with the write-down being recognized in the statement of operations and accumulated surplus.

(i) Non-financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Measurement uncertainty

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

(k) Remeasurement gains and losses

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

REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

3. TANGIBLE CAPITAL ASSETS

	Furniture and fittings	Office equipment	Electronic communica- tions equipment	Computers and software	Office equipment under capital lease	Leasehold improve- ments	Total
	\$	\$	\$	\$	\$	\$	\$
Opening cost -							
April 1, 2018	109,028	6,324	228,045	101,681	13,263	59,058	517,399
Additions	-	-	853	32,340	-	-	33,193
Disposal	-	-	-	(4,966)	-	-	(4,966)
Closing cost -							
March 31, 2019	109,028	6,324	228,898	129,055	13,263	59,058	545,626
Opening accumulated amortization -							
April 1, 2018	32,437	6,186	28,845	85,208	5,250	17,754	175,680
Amortization	10,903	138	45,779	17,140	2,513	11,811	88,284
Disposal	-	-	-	(4,966)	-	-	(4,966)
Closing accumulated amortization -							
March 31, 2019	43,340	6,324	74,624	97,382	7,763	29,565	258,998
Net book value							
- March 31, 2019	65,688	-	154,274	31,673	5,500	29,493	286,628

REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

3. TANGIBLE CAPITAL ASSETS (continued)

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

4. ACCUMULATED SURPLUS

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

- a) 50% shall be transferred to the Consolidated Fund;
- b) 25% shall be transferred to paid-up capital of the RA; and
- c) 25% shall be transferred to the Reserve Fund.

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

The Paid-up capital together with the Reserve Fund is not to exceed the RA's authorized capital of \$3.5 million. Any excess surplus must be paid to the Consolidated Fund. The sum of the Paid-up capital and Reserve Fund as at March 31, 2019 was \$1,392,475. (2018: \$1,363,378)

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

On December 5, 2018 the RA was granted approval by the Minister of Home Affairs to carry forward realized deficits incurred on or before March 31, 2018.

On March 22, 2019 the RA was granted approval by the Minister of Finance to create a Litigation Reserve Fund and a Project Fund. The RA Litigation Reserve Fund was approved to hold up to a maximum of one million, five hundred thousand dollars (\$1.5 million) and the Project Fund to hold monies for stated work plan projects and projects in progress.

The provisions for the Litigation Reserve Fund and the Project Fund as at March 31, 2019 amounted to \$263,341 and \$543,425 respectively.

REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

4. ACCUMULATED SURPLUS (continued)

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

Table 1 – March 31, 2019, accumulated surplus

	Operating Fund	Initial paid- up capital	Paid-up capital	Reserve Fund	Total
	\$	\$	\$	\$	\$
ACCUMULATED SURPLUS, BEGINNING OF YEAR	-	1,000,000	346,926	16,452	1,363,378
Annual surplus	864,959	-	-	-	864,959
Provision for Litigation Reserve Fund	(263,341)	-	-	-	(263,341)
Provision for Project Fund	(543,425)	-	-	-	(543,425)
Intra-fund transfers	(29,097)	-	14,548	14,549	-
Distribution to the Consolidated Fund	(29,096)	-	-	-	(29,096)
ACCUMULATED SURPLUS, END OF YEAR	-	1,000,000	361,474	31,001	1,392,475

Table 2 – March 31, 2018, accumulated surplus

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

REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

5. EXPENSES BY OBJECT

The following is a summary of expenses by object:

	2019	2018
	\$	\$
GENERAL ADMINISTRATION		
Salaries, employee benefits and commissioners' honoria (Note 6)	2,512,202	2,982,924
Rent and utilities	215,005	211,559
Advertising and public relations	96,030	8,128
Office services	82,219	81,757
Information technology	66,934	61,572
Bank charges and lease interest	63,723	93,048
Training and travel	72,497	64,558
Communication and meetings	24,311	54,449
Staff recruitment	6,683	8,034
Membership fees	6,133	4,488
Miscellaneous	11,985	10,977
	<u>3,157,722</u>	<u>3,581,494</u>
PROFESSIONAL SERVICES		
Technical consultancy	1,450,302	2,083,407
Non-technical consultancy	791,753	287,140
Audit fees	30,000	30,000
Accounting fees	11,070	7,860
	<u>2,283,125</u>	<u>2,408,407</u>
AMORTIZATION OF TANGIBLE CAPITAL ASSETS (Note 3)	<u>88,284</u>	<u>78,799</u>
	<u>5,529,131</u>	<u>6,068,700</u>

6. SALARIES, EMPLOYEE BENEFITS AND COMMISSIONERS' HONORARIA

This account consists of:

	2019	2018
	\$	\$
Salaries, bonuses and commissioners' honoraria	2,070,664	2,477,237
Payroll tax	246,478	283,258
Health insurance	85,166	96,061
Pension	82,172	89,144
Social insurance	22,722	23,474
Housing allowance	5,000	13,750
	<u>2,512,202</u>	<u>2,982,924</u>

Employee benefits include the following:

(a) Salaries, bonuses and commissioners' honoraria

i) Chief Executive compensation

The former Chief Executive for the year ended March 31, 2018 received a gross salary of \$257,692 and was granted a housing allowance of \$13,750. During the year, the former Interim Chief Executive, engaged in a consultancy capacity, received a total payment of \$149,000 for the period April 1, 2018 to October 31, 2019. Subsequently, the current Chief Executive was appointed on January 7, 2019 and received a gross salary of \$66,250 for the period ended March 31, 2019.

ii) Commissioners' Honoraria

The RA has five Commissioners. In accordance with the provisions of the Act, each Commissioner is selected by a Selection Committee that consists of the Minister responsible for justice, as Chairman; the Minister responsible for labour; the Opposition Leader or his or her designate; and the Minister(s) responsible for the regulated sectors. The responsibilities of the Commissioners are quite broad and diverse. Amongst other things, they are responsible for the strategic direction and governance of the RA and for providing general direction to the Chief Executive. They are also responsible for making administrative determinations such as statutory instruments, adjudication decisions and orders, that may be required to effect the RA's regulatory functions.

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

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

ii) Commissioners' Honoraria (continued)

The total amount of honoraria paid to the Commissioners was \$531,000 (2018: \$517,985).

(b) Compensated absences

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

Maternity and paternity leave does not accumulate or vest and therefore an expense and liability is only recognized when extended leave is applied for and approved. During the year there was one application for maternity leave benefit which was approved and fully utilized by the end of the year and therefore, no liability has been accrued in the accounts.

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

Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation liability as at March 31, 2019 is \$23,366 (2018: \$38,965) and is included in accounts payable and accrued liabilities.

(c) Health insurance

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

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

(d) Pension plans

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

i) Defined contribution plan

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

The RA's contributions are recognized as employee benefit expenses when they are due and totaled \$69,012 (2018: \$72,514) during the year.

ii) Defined benefit plan

The RA contributes to the Public Service Superannuation Fund (the "PSSF"), which is a defined benefit plan, administered by the Government and covers the remainder of the RA's eligible employees, all of whom were previous employees of the Government. Contributions of 8% of gross salary are required from both the employee and the RA and have been included in salaries and employee benefits. As part of the agreement to transfer this employee group to the RA, the RA is not required to make contributions to the PSSF with respect to the quantified actuarial deficiencies. As a result, the current year contributions to the PSSF represent the total liability of the RA. The RA's contributions to the PSSF during the year were \$13,160 (2018: \$17,203).

7. CONTRACTUAL OBLIGATIONS

Effective July 1, 2016, the RA entered into a five-year operating lease for office space and service charge at a cost of \$598,851 and \$259,063 respectively. The rent and service charge expense recognized during the year was \$119,770 (2018: \$119,770) and \$51,813 (2018: \$51,813) respectively.

As at March 31, 2019, the total remaining obligation under the operating lease for office space was \$386,062. The future minimum lease payments in the ensuing fiscal years are as follows:

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

In addition, the RA has entered into various contracts relating to operational support and delivery of services. The aforementioned contracts have commencement terms prior to March 31, 2019 and the latest contract termination date is June 30, 2021. These contractual obligations will become liabilities in the future when the terms of the contracts are met. The remaining obligations of the contracts were as follows:

	2019/20	2020/21	2021/22	2022/23
	\$	\$	\$	\$
Operational	16,672	13,440	13,440	13,440
Consultancy	200	-	-	-
IT support	4,443	-	-	-
	<u>21,315</u>	<u>13,440</u>	<u>13,440</u>	<u>13,440</u>

8. OBLIGATION UNDER CAPITAL LEASE

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

The lease expired during the year and as at March 31, 2019, there were no lease payments due. The interest and maintenance charge expense recognized during the year was \$1,714 (2018: \$2,000).

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

As at March 31, 2019, the present value of the minimum lease payments was \$2,259 and has been recorded as a liability and a tangible capital asset in the financial statements. The interest and maintenance charge expense recognized during the year was \$786 (2018: \$864).

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

	\$
2019/20	584
Total minimum lease payments	584
Less amounts representing interest	(9)
Present value of net minimum capital lease payments	575

9. RELATED PARTY TRANSACTIONS

The RA is related to all Government departments, ministries, funds, and quasi-autonomous nongovernmental organizations under the common control of the Government. Also, the RA is related to organizations that the Government jointly controls or significantly influences.

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

9. RELATED PARTY TRANSACTIONS (continued)

a) Transactions with related parties during the year included:

	Expense during the year	Collection of fees on behalf of the Government	Payments / Remittance made during the year	Due to the Government of Bermuda at year-end
	\$	\$	\$	\$
GEHI and PSSF	49,456	-	(43,911)	5,545
Payroll tax	338,447	-	(236,546)	101,901
Social insurance	47,902	-	(43,592)	4,310
ICOLs, handset and spectrum fees	-	17,460,827	(13,156,629)	4,304,198
TD&R and bulk generation fees	-	195,237	(102,684)	92,553
Class licenses	-	544,621	(410,068)	134,553
	<u>435,805</u>	<u>18,200,685</u>	<u>(13,993,430)</u>	<u>4,643,060</u>

b) Balance due from Telecommunications (Bermuda & West Indies) Limited ("Digicel")

	Balance at beginning of year	Receipts during the year	Payments/ Remittance made during the year	Balance at end of year
	\$	\$	\$	\$
Handset fees due from Digicel and due to the Government of Bermuda	<u>614,921</u>	<u>-</u>	<u>-</u>	<u>614,921</u>

On May 14, 2020, the RA received the payment plan from Digicel regarding the withheld handset fees of \$614,921 from the fee filing submitted on the 28 February 2017. This balance is entirely due to government and will be remitted accordingly upon receipt. (Note 17)

The amount is outstanding due to a legacy dispute case which was subsequently resolved.

9. RELATED PARTY TRANSACTIONS (continued)

- c) Balance due to government in relation to the GlobeNet Cobos Submarinos Bermuda Ltd (“GlobeNet”) generated revenue from the Indefeasible Right of Use (“IRU”) agreement between TeleBermuda International Limited (“TBI”) and GlobeNet during the period April 2013 to December 2017. The corresponding total ICOL fees amounting to \$135,603 (\$77,410 for Government Authorization fees and \$58,193 as RA fees) were paid by GlobeNet on July 13, 2020.

	Balance at beginning of year	Receipts during the year	Payments/ Remittance made during the year	Balance at end of year
	\$	\$	\$	\$
ICOL fees due to government in relation to the GlobeNet IRU with TBI	77,410	-	-	77,410

The RA fees of \$58,193 were allocated as follows as at March 31, 2019.

50% to the Consolidated Fund (Note 9d & Note 4);

25% to paid-up capital of the RA (Note 4) and;

25% to the Reserve Fund (Note 4).

- d) Distribution payable to the Consolidated Fund of the Government of Bermuda:

	Balance at beginning of year	Distribution to the Consolidated Fund	Payments/ Remittance made during the year	Balance end of year
	\$	\$	\$	\$
Distribution payable to the Consolidated Fund of the Government of Bermuda	693,854	29,096	-	722,950

REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

10. BANK BORROWING

Bank borrowing consists of the following:

	<u>2019</u>	<u>2018</u>
	\$	\$
The Bank of N.T. Butterfield & Son Limited		
overdraft facility	-	144,206
	<u> </u>	<u> </u>

On October 30, 2017, the Ministry of Finance issued a letter of comfort to the Bank of N.T. Butterfield and Son Ltd. (the "Bank") extending an overdraft facility of \$2,700,000 to the RA. On October 31, 2017, the RA established the overdraft facility in the amount of \$2,700,000 with the Bank. The RA's overdraft facility expired on October 31, 2018.

On November 29, 2018, the Ministry of Finance issued a letter of comfort to the bank extending an overdraft facility of \$1,500,000 to the RA. On November 29, 2018, the RA established a short-term overdraft facility in the amount of \$1,500,000 which expired on February 28, 2019. Upon expiry of the overdraft facility, the RA applied for a 2-year revolving Line of Credit ("RLOC") with Clarien Bank Limited.

As at March 31, 2019, the RA had no overdraft facility with any financial institution.

11. PREPAID EXPENSES

This account consists of:

	<u>2019</u>	<u>2018</u>
	\$	\$
Insurance services	27,363	8,646
Software licenses & other subscriptions	20,248	224
Numbering services	4,443	4,215
Communication services	4,222	11,230
Computer & IT equipment maintenance	3,139	1,440
Professional memberships	2,141	1,491
Government levies	2,039	5,272
	<u>63,595</u>	<u>32,518</u>

12. FINANCIAL RISK MANAGEMENT

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

a) Credit risk

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

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

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

b) Liquidity risk

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

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

c) Market risk

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

12. FINANCIAL RISK MANAGEMENT (continued)

c) Market risk (continued)

i) Currency risk

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

ii) Interest rate risk

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

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

13. FEES FROM INTEGRATED COMMUNICATIONS OPERATING LICENCES

The Regulatory Authority fees were maintained at 1.75% of the ICOL holders' relevant turnover for the year from April 1, 2018 to March 31, 2019 in accordance with the Electronic Communications (Regulatory Authority Fees) Regulations 2018.

14. FEES FROM TRANSMISSION, DISTRIBUTION AND RETAIL, AND BULK GENERATION LICENCES

The RA began receiving fees for the regulation of the electricity sector effective April 1, 2017. TD&R fees are based on total kWh sales throughout the period and are calculated at a rate of \$0.00475 per kWh. Bulk Generation fees are based on total MW of installed capacity and are calculated at a rate of \$1,000 per MW for Utility Scale Electricity Generation and \$1,500 per MWh for Waste-to-Energy generation. These fees are in accordance with the Electricity (Regulatory Authority Fees) Regulations 2018.

For financial statement presentation purposes, the fees for bulk generation licenses for the year ended March 31, 2019 and the corresponding comparative for the year ended March 31, 2018 have been presented as a separate line item.

15. BUDGET

The budgeted expenditures for the fiscal year April 1, 2018 to March 31, 2019 were \$3,314,000 (Schedule 1) for the electronic communications sector and \$3,361,000 (Schedule 2) for the electricity sector. This budget was approved by the Minister of Economic Development on July 16, 2018.

16. NEW AND AMENDED STANDARDS NOT YET EFFECTIVE

The Public Sector Accounting Board has issued a number of new public sector accounting standards and amendments to standards that are not yet effective for the year ended March 31, 2019.

In particular, the new and amended standards, which become effective for annual periods beginning on or after April 1, 2021 include:

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

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

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

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

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

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

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

17. SUBSEQUENT EVENTS

a) Clarien Bank Revolving line of credit.

On October 24, 2019, the Ministry of Finance issued a letter of comfort to Clarien Bank Limited approving the borrowing of \$1,500,000 by the RA to assist in short-term working capital requirements. On November 25, 2019, the RA established a Revolving Line of Credit with Clarien Bank Limited in the amount of \$1,500,000.

b) Handset fees payment plan from Telecommunications (Bermuda & West Indies) Limited ("Digicel")

On May 14, 2020, the RA received the handset fees payment plan from Digicel regarding the withheld \$614,921 ("the fee") owed to the RA from the fee filing submitted on the 28 February 2017.

Digicel is statutorily required to pay the fee pursuant to section 11 of the Electronic Communications Act 2011 (the "ECA") and section 44 of the Regulatory Authority Act 2011 (the "RAA").

To this end the RA has recorded this balance as a Receivable and Balance due to Government on the Statement of Financial position for the year ended March 31, 2019.

c) COVID 19- Pandemic

While the RA anticipates no significant impact to its operations of financial condition, the duration and extent of COVID-19 pandemic and its related economic, social, and public health implications remain uncertain at the issuance of the financial statements.

There have been no other significant events or transactions from March 31, 2019, to the date that these financial statements were available for issuance that require adjustments or disclosures in the financial statements.

d) The litigation matter between the RA and the former Interim Chief Executive due to alleged breach of contract was settled on November 17, 2020.

REGULATORY AUTHORITY

SCHEDULE 1:

REVENUE AND EXPENSES BY SECTOR - ELECTRONIC COMMUNICATIONS

MARCH 31, 2019

	2019	2019	2018
	Budget	Actual	Actual
	\$	\$	\$
REVENUES			
Fees from Integrated Communications			
Operating Licences	3,325,000	3,527,707	3,463,571
Gain on disposal of asset	-	100	-
Interest	-	-	6
	<u>3,325,000</u>	<u>3,527,807</u>	<u>3,463,577</u>
EXPENSES			
General Administration			
Salaries, employee benefits and commissioners' honoria	1,681,230	1,214,745	1,451,012
Rent and utilities	105,783	107,502	105,779
Advertising and public relations	4,900	47,765	3,567
Office services	46,825	39,631	38,377
Information technology	23,963	33,467	30,786
Training and travel	57,500	32,703	24,736
Bank charges and lease interest	8,500	14,267	14,970
Communication and meetings	70,300	11,681	36,908
Staff recruitment	24,050	3,341	4,017
Membership fees	6,364	3,066	2,244
Miscellaneous	8,085	5,994	5,489
	<u>2,037,500</u>	<u>1,514,162</u>	<u>1,717,885</u>
Professional Services			
Technical consultancy	817,408	801,255	961,520
Non-technical consultancy	444,092	379,859	193,785
Audit fees	15,000	15,000	15,000
Accounting fees	-	5,535	3,930
	<u>1,276,500</u>	<u>1,201,649</u>	<u>1,174,235</u>
Amortization of tangible capital assets	-	67,032	39,400
	<u>3,314,000</u>	<u>2,782,843</u>	<u>2,931,520</u>
ANNUAL SURPLUS	<u>11,000</u>	<u>744,964</u>	<u>532,057</u>

REGULATORY AUTHORITY

SCHEDULE 2:

REVENUE AND EXPENSES BY SECTOR - ELECTRICITY

MARCH 31, 2019

	2019	2019	2018
	Budget	Actual	Actual
	\$	\$	\$
REVENUES			
Fees from Electricity Licences	2,936,000	2,866,283	2,978,514
Interest	-	-	-
	<u>2,936,000</u>	<u>2,866,283</u>	<u>2,978,514</u>
EXPENSES			
General Administration			
Salaries, employee benefits and commissioners' honoria	1,694,149	1,297,457	1,531,912
Rent and utilities	105,783	107,502	105,780
Bank charges and lease interest	140,500	49,456	78,078
Advertising and public relations	4,900	48,265	4,561
Office services	47,075	42,588	43,380
Training and Travel	57,500	39,794	39,822
Information technology	23,663	33,467	30,786
Communication and meetings	42,900	12,631	17,541
Staff recruitment	16,050	3,341	4,017
Membership fees	6,364	3,066	2,244
Miscellaneous	8,616	5,994	5,488
	<u>2,147,500</u>	<u>1,643,561</u>	<u>1,863,609</u>
Professional Services			
Technical consultancy	962,553	649,047	1,121,887
Non-technical consultancy	235,947	411,893	93,355
Audit fees	15,000	15,000	15,000
Accounting fees	-	5,535	3,930
	<u>1,213,500</u>	<u>1,081,475</u>	<u>1,234,172</u>
Amortization of tangible capital assets	-	21,252	39,399
	<u>3,361,000</u>	<u>2,746,288</u>	<u>3,137,180</u>
ANNUAL SURPLUS (DEFICIT)	<u>(425,000)</u>	<u>119,995</u>	<u>(158,666)</u>