# Regulatory Authority of Bermuda
# Retail Tariff Review

## Rate Design

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# Document distribution

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# Abbreviations and glossary

## Abbreviations

| Abbreviation | Description |
|---|---|
| DG | Distributed Generation |
| FAR | Fuel Adjustment Rate |
| FiT | Feed-in-Tariffs |
| GFC | Graduated Facilities Charge |
| kW | Kilowatt |
| kWh | Kilowatt-Hour |
| RA | Regulatory Authority of Bermuda |

# 1. Background

On 1 August 2026, the RA introduced changes to the structure of electricity tariffs in Bermuda. The objective was not to increase the total amount of revenue recovered from customers, but to modernise how electricity costs are reflected in customer bills.

The electricity sector is evolving. Customers are using electricity differently, energy efficiency has improved, and more households and businesses are generating some of their own electricity. At the same time, the electricity system continues to require investment in generation plants, networks, customer services and other infrastructure that must be available whenever customers need electricity. These changes have prompted regulators and utilities around the world to review whether existing tariff structures remain fit for purpose and continue to allocate costs fairly and transparently across customers.

The tariff review undertaken in Bermuda was designed to support three overarching objectives:

1. Improve the transparency of electricity bills and make it easier for customers to understand what they are paying for.
2. Better align electricity charges with the types of costs incurred in providing electricity services.
3. Reduce situations where the costs associated with providing electricity services are recovered unevenly across customer groups.

The changes introduced in August 2026 represent an initial step in a longer transition towards a more transparent and cost-reflective tariff structure. They do not represent a move to a fully cost-reflective model, nor were they intended to resolve all tariff design challenges in a single reform. Instead, the approach adopted sought to balance improved cost reflectivity with bill stability, customer understanding and implementation practicality.

This report explains:

- How electricity costs are incurred and recovered through tariffs;
- Why changes to the tariff structure were considered necessary;
- The options considered during the review and the reasons for the approach that was ultimately adopted; and
- What the reforms achieved and how future rate design reviews may build on the progress made.

# 2. How Do Electricity Bills Work?

Electricity bills are designed to recover the costs of providing electricity services to customers. Some of these costs vary depending on how much electricity is used, while others are incurred regardless of the amount of electricity consumed. Understanding this distinction is important when considering how electricity tariffs are structured and why they change over time.

## Different Types of Electricity System Costs

Providing electricity requires a range of assets and services, from power stations and fuel supplies to electricity networks, metering equipment and customer support services.

Some costs vary depending on how much electricity is produced and consumed. For example, fuel costs increase when more electricity is generated. Other operating costs are also linked to the volume of electricity produced.

On the other hand, there are other costs which are incurred largely regardless of how much electricity is consumed in any given month. These include maintaining and operating the electricity network, metering and billing systems, customer services and other infrastructure required to ensure electricity remains available when customers need it. These costs continue to be incurred even if electricity consumption varies from month to month.

For simplicity, this report refers to these as:

- **Usage-related (volumetric) costs,** which vary with the amount of electricity produced or consumed.
- **System and infrastructure (fixed) costs,** which are incurred to maintain the electricity system and provide access to electricity services.

## How Costs Are Recovered Through Bills

Electricity tariffs are the mechanism used to recover these costs from customers.

Most electricity bills around the world include two broad categories of charges:

- **Fixed charges**, which are paid regardless of how much electricity is consumed.
- **Usage-based charges**, which vary according to the amount of electricity imported from the grid.

Different jurisdictions recover costs in different ways. Some recover a larger proportion of costs through fixed charges, while others recover more through usage-based charges. There is no single tariff structure that is universally applied. Instead, regulators must balance several objectives, including affordability, transparency, simplicity and the extent to which prices reflect underlying costs.

# How Electricity Bills Have Historically Been Structured in Bermuda

Prior to the August 2026 changes, Bermuda's electricity tariffs included both fixed and usage-based charges. More specifically, residential electricity bills comprised three main elements:

- a monthly **Graduated Facilities Charge (GFC)**;
- a **Fuel Adjustment Rate (FAR)**, charged per kWh to recover fuel costs; and
- a separate **variable charge**, also charged per kWh, covering other costs.

The GFC was based on average daily electricity use. Customers were placed in one of five tiers, with higher-use customers paying a higher monthly charge. The structure was intended to support vulnerable customers and encourage energy efficiency.

> **Customers with Distributed Generation (DG):** Rather than being assigned a tier based on measured consumption, residential DG customers paid a fixed charge broadly aligned with Tier 3.

**Table 1: Residential Graduated Facilities Charges before August 2026**

| GFC tier | Average daily use | Monthly charge |
|---|---|---|
| Tier 1 | 0–10 kWh/day | $25.44 |
| Tier 2 | 10–15 kWh/day | $38.17 |
| Tier 3 | 15–25 kWh/day | $50.83 |
| Tier 4 | 25–50 kWh/day | $79.51 |
| Tier 5 | More than 50 kWh/day | $120.86 |
| Average Facilities Charge | | $52.48 |

Commercial and demand customers were also subject to a combination of fixed and usage-based charges, although the precise tariff structures differed by customer class.

This tariff structure had been used for many years and provided a familiar framework for customers. As part of the tariff review, the RA assessed how this structure compared with the costs incurred in providing electricity services and whether changes in the electricity sector warranted modifications to the way those costs were recovered.

# 3. Why Was the Existing Tariff Structure Reviewed?

The tariff review was undertaken to assess whether Bermuda's existing electricity tariffs remained suitable as the electricity sector evolved. The review focused on whether customers could understand what they were paying for, whether costs were being recovered in a sustainable way and whether those costs were being shared fairly across customers.

The review reached four main conclusions:

1. It was difficult for customers to easily see or understand what they were paying for
2. A large share of electricity system costs is not related to electricity consumption
3. Yet, a large share of those costs was recovered through charges based on electricity consumption
4. Many customers with Distributed Generation were contributing significantly less than the estimated cost of serving them

## Customers could not easily see or understand what they were paying for

Under the previous tariff structure, most customers saw a single charge for each unit of electricity consumed. This charge combined the costs of producing electricity with the costs of delivering electricity through Bermuda's network and maintaining access to the wider electricity system.

As a result, customers could not easily see how much of their bill was attributable to, for example:

- Producing electricity;
- Operating and maintaining the electricity network; or
- Other services required to provide electricity reliably and safely.

This mattered because these costs are driven by different factors.

The cost of producing electricity includes fuel costs, which generally increase as more electricity is generated. However, it also includes investment in and maintenance of generation assets, many of which must be available regardless of the amount of electricity consumed.

Similarly, network costs are associated with maintaining the poles, wires, substations, metering systems and other infrastructure required to provide customers with access to electricity whenever they need it. Many of these costs do not vary significantly from month to month as electricity consumption changes.

Because these costs were combined into a single usage charge, customers had limited visibility of what they were paying for and limited ability to understand why bills changed over time.

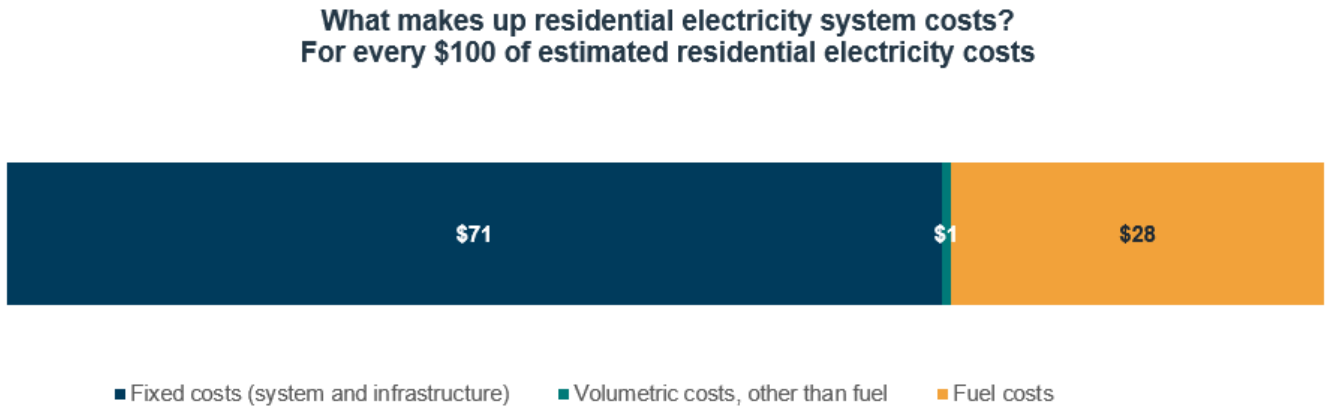
The review therefore concluded that customers would benefit from a tariff structure that more clearly distinguished between the cost of producing electricity (including investment in and maintenance of generation assets) and the cost of investing in and maintaining the electricity system that delivers it.

## A large share of electricity system costs is not related to electricity consumption

Analysis undertaken as part of the review indicated that much of the cost of providing electricity is associated with maintaining and operating the electricity system itself. These costs include maintaining the network, customer services, metering systems and other infrastructure required to ensure electricity remains available when customers need it.

The figure below illustrates the estimated breakdown of costs associated with serving residential customers.

**Figure 1: How residential electricity costs were incurred and recovered before August 2026[1]**




As illustrated above, the review found that a significant proportion of these costs do not vary directly with electricity consumption. In other words, while lower consumption can reduce fuel and generation-related costs, it does not remove the need to maintain the electricity system and keep it available for customers.

[1] Values shown are rounded

This matters because it highlights an important distinction: electricity bills are not only paying for energy, they are also paying for the infrastructure and services that make electricity available in the first place.

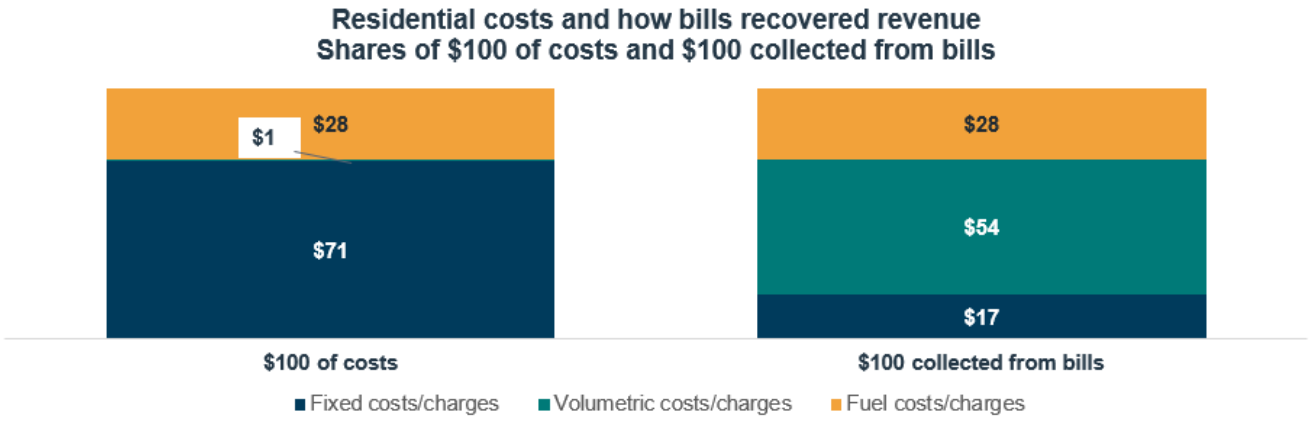
## Yet, a large share of those costs was recovered through charges based on electricity consumption

The review then compared the nature of electricity system costs with the way those costs were recovered through the existing tariff structure.

The analysis found that, although many costs did not vary significantly with electricity consumption, a large proportion of the revenue used to recover those costs was collected through charges based on electricity imported from the grid.

The figure below compares the estimated breakdown of costs with the way revenue was recovered under the previous tariff structure.

**Figure 2: Comparing costs incurred and tariff revenues recovered for residential customers under the previous tariff[2]**




The comparison shows that, for every **$100 of estimated residential costs**, approximately **$71** was associated with fixed costs, **$28** with fuel costs and approximately **$1** with other costs linked directly to electricity consumption.

By contrast, for every **$100 recovered from residential customers under the previous tariff**, only approximately **$17** was recovered through the monthly Facilities Charge, **$28** through the Fuel Adjustment Rate (FAR, fully cost-reflective by design) and approximately **$54** through other charges linked to electricity consumption.

[2] Values shown are rounded

The comparison therefore highlights that many costs that did not vary significantly with electricity consumption were recovered through charges based on electricity consumption, rather than through the monthly Facilities Charge.

This is material because the amount recovered towards many shared electricity system costs depends here heavily on the number of units of electricity purchased from the grid. As electricity consumption patterns has been evolving, the review considered whether this remained the most appropriate way to recover those costs.

The previous tariff structure reflected a range of objectives, including customer understanding, affordability and administrative simplicity. As Bermuda's electricity system evolved, including increased deployment of distributed generation, the rate review considered whether this balance between fixed and volumetric charges remained appropriate.

## Many customers with Distributed Generation were contributing significantly less than the estimated cost of serving them

The growth of DG, particularly rooftop solar, was an important consideration in the rate review. Customers with DG continue to rely on the electricity network, importing electricity when on-site generation is insufficient and, at times, exporting electricity back to the grid. As DG adoption increases, it becomes increasingly important that tariff structures appropriately reflect how different customers use the electricity system.

As discussed in the previous section, the review identified that many costs associated with providing electricity services are not directly linked to the volume of electricity consumed. While fuel costs vary with the amount of electricity supplied and are recovered through the FAR, a significant proportion of network and customer-related costs continue to be incurred regardless of the amount of electricity imported from the grid – as long as most of those customers rely on the grid when it is most constraints, i.e. at system peak time in the evening.

Those findings above are particularly consequential for customers with DG, such as rooftop solar. Under the previous tariff structure, a substantial amount of revenue was collected through charges based on electricity imported from the grid. Customers with DG can reduce those imports by generating and using some of their own electricity.

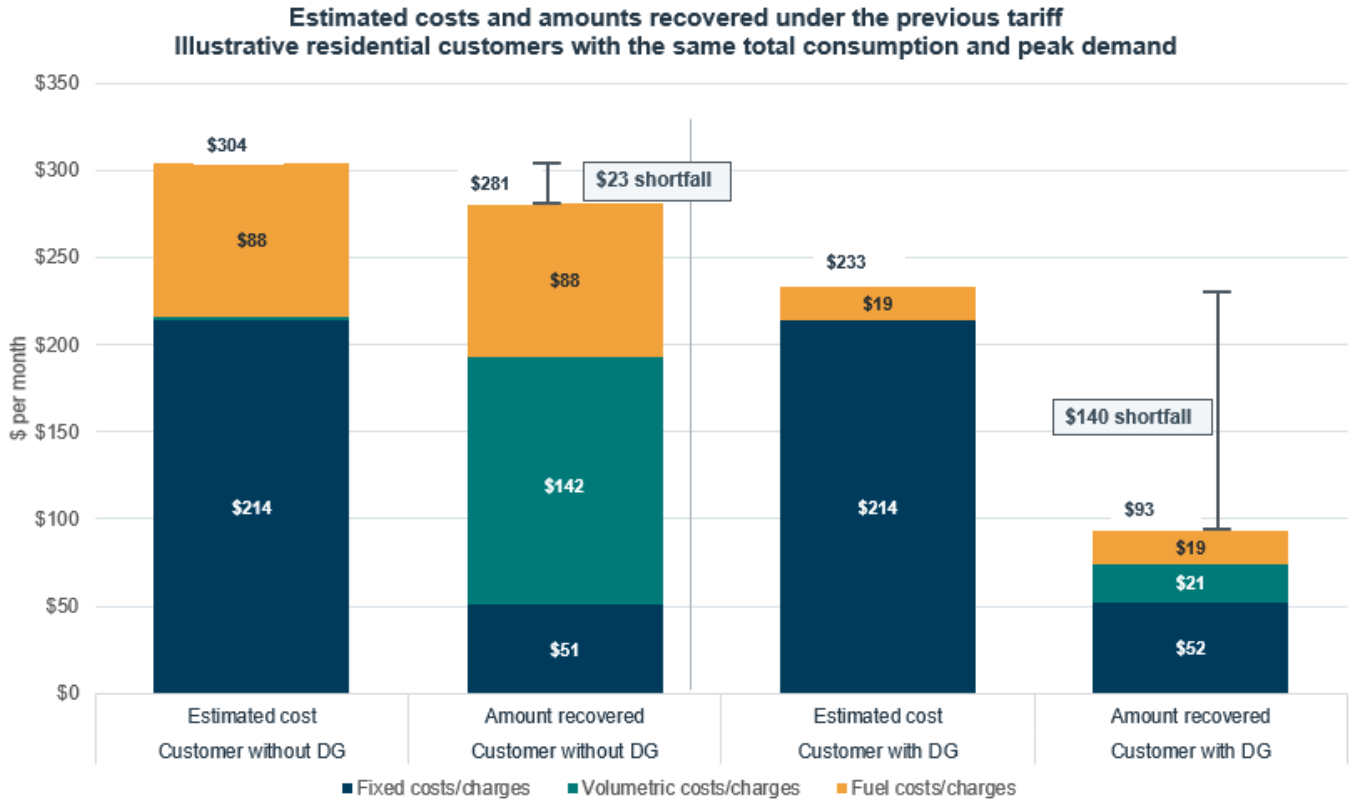
To illustrate the effect, we are comparing here two residential customers with:

- the same total electricity consumption of **20 kWh per day**, equivalent to **620 kWh per month**;
- the **same peak demand** and associated need for electricity system capacity.

The only difference is that one customer has rooftop solar and uses some of the electricity generated on site, reducing the amount purchases from the grid. The comparison therefore isolates the effect of self-generation and exports for illustration purposes. It is assuming that the network infrastructure costs of the DG customer are the same as those of the non-DG customer, hence potentially *underestimating* additional costs incurred by DG customers relating to their ability to exporting *as well as* importing electricity on the grid – as discussed later on in this report.

Results are illustrated in the figure below.

**Figure 3: Estimated costs and revenue recovered for illustrative DG and non-DG residential customers[3]**




Key findings drawn from this example are that:

- For the customer without DG, the estimated monthly cost of providing electricity service was **$303.69**. Under the previous tariff structure, approximately **$280.65** was recovered from that customer. The tariff therefore recovered around **92%** of the estimated cost of serving the customer.
- For the customer with DG, lower grid imports reduced the estimated fuel and other variable costs. The estimated monthly cost of serving that customer was therefore lower, at **$233.35**. However,

[3] Values shown are rounded

only approximately **$93.29** was recovered through the previous tariff, equivalent to around **40%** of the estimated cost.

Generating electricity on site appropriately reduced the DG customer's fuel-related charges because less electricity had to be supplied from the grid. The issue was that importing fewer kilowatt-hours also reduced the customer's contribution towards fixed costs that continued to be incurred.

The difference did not disappear. Bermuda's approved electricity system costs still had to be recovered from the customer base as a whole. Put simply, every **$1 of shortfall** from one customer is **$1 that must be paid by another customer, over and above the amount needed to recover the costs of serving that other customer**. In practice, most of this additional burden falls on customers in the commercial and demand categories. Where tariffs collected significantly less from DG customers than the estimated cost of serving them, those other customers therefore had to make up the difference through their own charges. This raised a direct question of fairness about how shared electricity system costs should be divided between customers with and without DG.

The review referred to this as **cross-subsidisation**: customers with DG, on average, contribute less than the estimated cost of serving them, while other customers contributed more to make up the difference. While the comparison shown above is based on an illustrative customer, this example reflects a broader trend identified through the rate design assessment.

# 4. What options were considered and why was this approach chosen?

The tariff review identified several areas where the existing tariff structure could be improved. Rather than considering a single change in isolation, the RA evaluated a package of options aimed at improving transparency, better aligning charges with underlying costs and addressing the issues identified for customers with distributed generation.

Each area was considered separately before being brought together into the final tariff design.

## Improving Bill Transparency

One of the review's findings was that customers could not easily see what they were paying for. The existing bill combined several different cost elements within a single consumption-based charge, making it difficult for customers to distinguish between the cost of producing electricity and the cost of maintaining the wider electricity system.

The review therefore considered whether customer bills should continue to recover costs through a largely bundled structure or whether greater transparency should be provided.

Several levels of unbundling were assessed, ranging from retaining the existing structure to fully separating all major cost components on customer bills, including:

a) Retaining one bundled volumetric rate
b) Unbundling volumetric rates into two charges: a generation volumetric rate and a transmission, distribution, retail and residual rate
c) Unbundling volumetric rates into three charges: a generation volumetric rate, a transmission volumetric rate, and a distribution, retail, and residual volumetric rate

The approach (b) was selected to introduce greater transparency than (a) and a clearer distinction between:

- The cost of producing electricity (including underlying investment); and
- The cost of maintaining and operating the electricity system.

This provides customers with a better understanding of what they are paying for without introducing unnecessary complexity as inevitably associated with (c).

# Recovering Fixed Electricity System Costs

The review also considered how the costs of maintaining Bermuda's electricity system should be recovered.

As discussed in Section 3, many electricity system costs do not vary significantly with electricity consumption. However, a large proportion of revenue under the previous tariff was recovered through charges linked to electricity consumption.

Several alternatives were considered:

- At one end of the spectrum, the existing balance between fixed charges and consumption-based charges could have been retained. This would have minimised any changes to customer bills but would have left the issues identified by the review largely unchanged.
- At the other end of the spectrum, a fully cost-reflective tariff structure could have been introduced immediately including substantial increases to fixed charges for all customers. This would have more closely reflected the results of the underlying cost study, but it would also have led to significantly larger changes in customer bills.

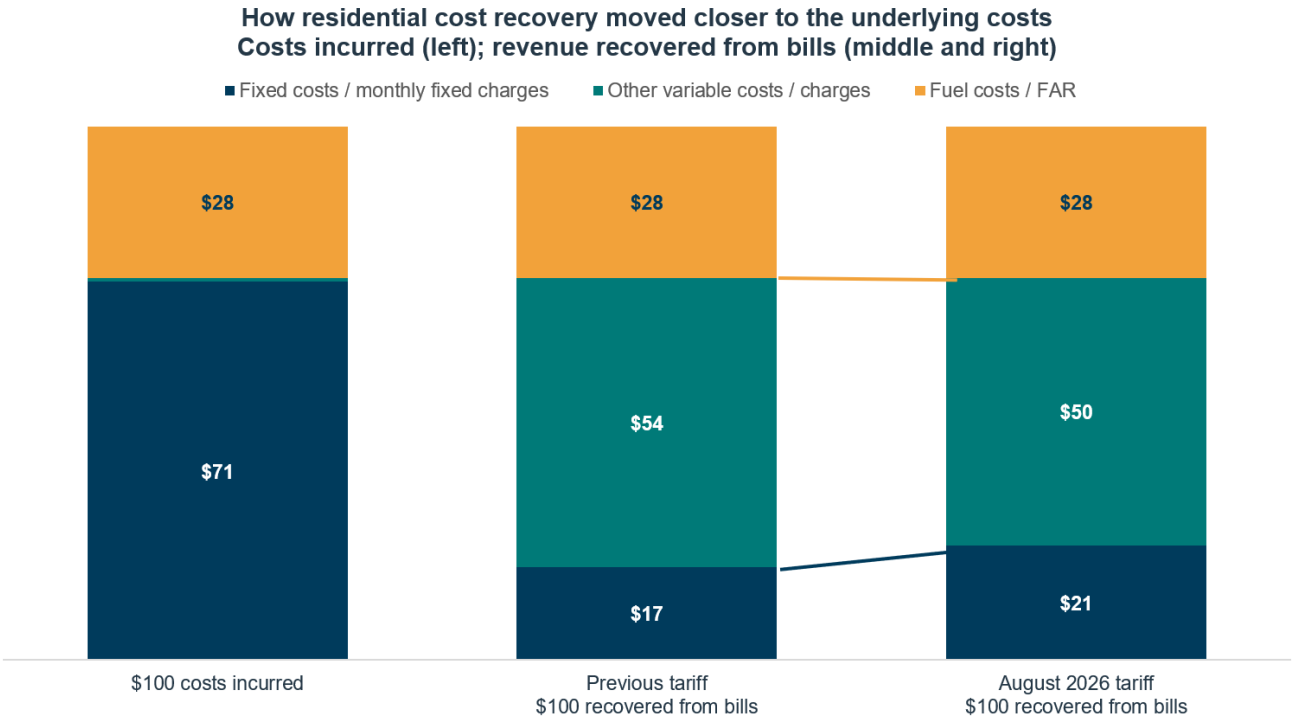
The review concluded that neither extreme represented the best outcome. Instead, it favoured a more gradual transition that would improve cost recovery while limiting disruption for customers.

As such, the review did not seek to eliminate consumption-based charges or move immediately to a fully cost-reflective tariff structure. Instead, it sought to improve the balance between fixed charges and charges based on electricity consumption.

A more detailed assessment of the alternative rate design pathways considered during the review is contained in the June 2026 ED14222 Rate Restructuring Report. That report examined multiple restructuring options with increasing levels of cost-reflectivity and complexity, including different approaches to rate unbundling, fixed-cost recovery and demand-based charging.

The figure below compares the way residential revenue was recovered before and after the August 2026 reforms.

**Figure 4: Movement towards greater recovery through fixed charges – residential customers[4]**




The figure shows that the reforms increased the proportion of revenue recovered through fixed charges and reduced the proportion recovered through charges based on electricity consumption. Similar gains have been achieved across commercial and demand customer categories.

This does not mean that the new tariff fully reflects the underlying cost structure of the electricity system. However, it represents a meaningful step towards closer alignment between the costs of maintaining the electricity system and the way those costs are recovered from customers.

In practical terms, the electricity system is now less dependent on electricity sales to recover fixed costs than it was under the previous tariff structure. As a result, the tariff is less sensitive to changes in electricity consumption and better aligned with the findings of the review.

# Determining an Appropriate Contribution from Customers with Distributed Generation

The final design question considered by the review related to customers with distributed generation (DG), such as rooftop solar.

As discussed in Section 3, the review found that many customers with DG were contributing significantly less than the estimated cost of serving them. This outcome arose because the previous tariff structure recovered a substantial proportion of shared electricity system costs through charges based on electricity

[4] Values shown are rounded

imported from the grid. Customers who generated and consumed electricity on site, reduced those imports and therefore, paid less through those charges, even though many of the costs associated with maintaining access to the electricity system remained.

The review therefore considered how customers with DG should contribute towards the shared costs of maintaining Bermuda's electricity system and evaluated three alternative approaches. The analysis summarised below is based on cost information dated from May 2024, noting that some cost parameters have since increased.

**Option 1: Retain the Existing DG Charge (broadly in line with Tier 3) and Apply Only the General Tariff Rebalancing**

The first option was to make no specific change to the treatment of DG customers beyond the broader tariff changes described in the previous section.

Under this approach, the shift towards greater recovery through fixed charges would improve cost recovery from all customers, including customers with DG. The approach would be simple to implement and would avoid introducing a distinct treatment for DG customers.

However, the analysis showed that while the general tariff rebalancing reduced the shortfall associated with DG customers, it did not eliminate it. Customers with DG would continue, on average, to contribute significantly less than the estimated cost of serving them, and the gap between costs incurred and revenues recovered would remain substantially larger than for comparable non-DG customers.

The review therefore concluded that the general tariff rebalancing represented part of the solution but was not sufficient on its own to address the fairness issue identified in Section 3.

**Option 2: Align DG Customers with the Residential Cost-Reflective Fixed Charge**

The second option was to require DG customers to contribute towards shared electricity system costs at a level equivalent to the residential cost-reflective fixed charge identified through the analysis.

Under this approach, the estimated recovery from DG customers increased substantially and the remaining shortfall was significantly reduced.

The analysis indicated that a cost-reflective residential fixed charge would be **in excess of $171 per month (corresponds to the average cost).** This option therefore brought revenue recovery much closer to the estimated costs attributed to serving DG customers while retaining a relatively simple tariff structure.

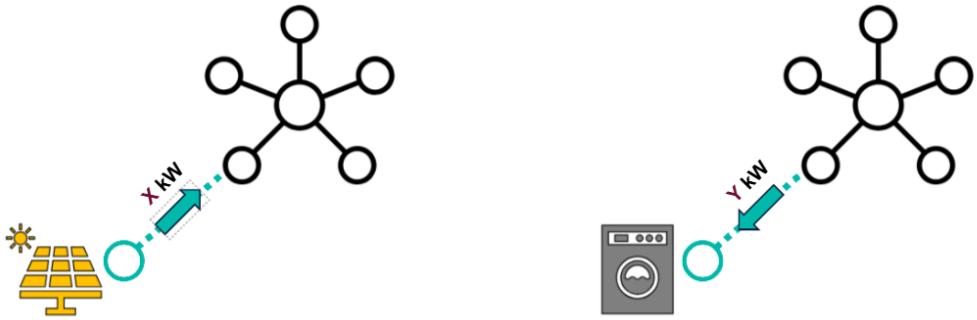
**Option 3: Residential Cost-Reflective Fixed Charge Plus Export Adjustment**

The third option recognised that customers with distributed generation benefit from two distinct services provided by the electricity system.

The first is the ability to import electricity whenever on-site generation is insufficient to meet demand. This service is reflected through the residential cost-reflective fixed charge considered under Option 2.

The second is the ability to export surplus electricity to the grid. This allows customers to continue generating electricity even when production exceeds their own consumption and relies on the electricity system being available to receive those exports.

**Figure 5. Illustrative DG Customer Behaviour**




Therefore, Option 3 added an export-related charge to the fixed charge in Option 2. Two approaches were considered for the calculation of the export-related charge:

- *Approach Alpha*: Part of BELCO's network costs would be allocated to electricity exports. DG customers would pay separate import and export charges. This is more cost-reflective but requires to make a judgement about how costs should be split between consumers and generators. This approach, under selected assumptions, yields a fixed charge **in excess of $205/month for residential DG customers (corresponds to the average cost + surcharge)**.
- *Approach Beta*: An additional "excess" fixed charge would reflect the export service. This addresses the issue without creating a separate export rate, making it simpler and quicker to implement. This approach yields a total fixed charge **in excess of $172/month for residential DG customers (corresponds to the average cost + surcharge)**.

**Deciding on the Fixed Charge Implemented in Utility Bills**

The review concluded that Option 1 did not go far enough and Option 3 went further than was justified at this stage.

While Option 3 may have produced a more cost-reflective outcome, it also resulted in significantly larger bill increases and relied on assumptions that required further validation.

Option 2 was therefore considered the most appropriate balance between fairness, simplicity and customer impacts.

The analysis indicated a residential cost-reflective fixed charge in excess of $171 per month. However, the broader tariff redesign had already produced a revised Tier 5 Facilities Charge of $148.83 per month.

Because the Tier 5 charge produced a result that was reasonably close to the charge indicated by the DG analysis, the RA concluded that it was preferable to align DG customers with Tier 5 rather than introduce a separate DG-specific fixed charge.

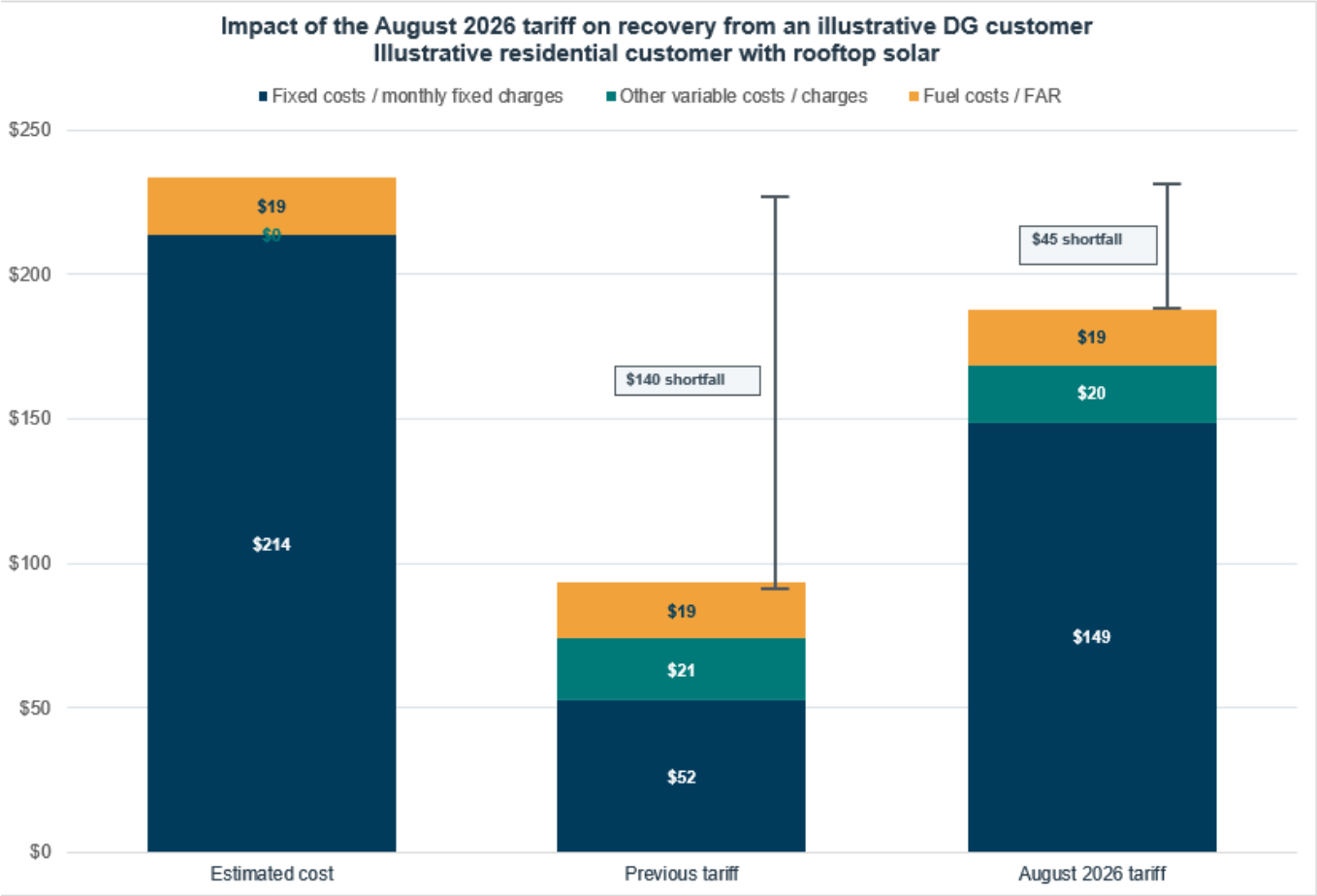
The resulting approach reduced the under-recovery identified through the review, remained simple to understand and administer, and avoided the larger customer impacts that would have resulted from Option 3.

Fixed charges for other customer categories were derived from the same logic, though in those cases and unlike with residential customers even Option 2 yielded a fixed charge significantly higher than the new, increased, fixed charge calculated for the customer category as a whole – to avoid significant price shock we settled on a fixed charge higher than non-DG customers to mark an improvement in cost-reflectivity but still resulting in a material shortfall against what we estimated to be fully reflective of costs.

**Illustrative Example of Impact**

Section 3 demonstrated how the previous tariff structure could result in customers with distributed generation contributing significantly less than the estimated cost of serving them. The figure below revisits the same illustrative residential DG customer described in Section 3 and compares the estimated cost of providing service with the amount recovered under both the previous tariff and the August 2026 tariff. By comparing the two tariff structures using the same customer assumptions, the figure illustrates the extent to which the revised DG Facilities Charge improves recovery of shared electricity system costs.

**Figure 6: Effect of the August 2026 tariff on recovery of costs attributed to an illustrative DG customer[5]**




This example illustrates that under the previous tariff, the difference between the estimated cost of serving the customer and the amount recovered through tariffs was substantial. Aligning DG customers with the revised Tier 5 Facilities Charge significantly reduces that gap, demonstrating that the August 2026 reforms address a significant portion of the under-recovery identified in Section 3. At the same time, the figure also shows that a residual shortfall remains. This reflects the RA's decision to adopt a transitional approach rather than move immediately to a fully cost-reflective charge. The selected charge therefore represents a meaningful step towards improved cost recovery and fairness, while avoiding the larger customer impacts associated with the more cost-reflective alternatives considered during the review.

[5] Values shown are rounded

# 5. What Happens Next?

The August 2026 reforms represent an important step in the evolution of Bermuda's electricity tariffs, but they are not intended to be the final stage of tariff reform.

As explained in Sections 3 and 4, the review identified opportunities to improve transparency, strengthen the relationship between costs and tariffs and reduce the extent to which some customers contributed less than the estimated cost of serving them. The changes introduced in August 2026 were designed to make meaningful progress towards these objectives while avoiding the disruption that would have resulted from a more immediate move to a fully cost-reflective tariff structure.

The RA therefore regards the August 2026 reforms as a transitional step rather than a final destination.

**Will Electricity Tariff Structures Continue to Evolve?**

Electricity systems around the world are changing as customers adopt new technologies such as rooftop solar, battery storage, electric vehicles and smart energy management systems.

These technologies can deliver significant benefits to customers and the electricity system. At the same time, they can change the way customers interact with the grid and the way electricity system costs are incurred and recovered.

As customer behaviour continues to evolve, tariff structures may also need to evolve to ensure that the costs of maintaining Bermuda's electricity system continue to be recovered in a fair and sustainable manner.

Future reviews may therefore consider whether further adjustments are required.

**Could Tariffs Become More Cost-Reflective in the Future?**

The analysis undertaken as part of the review considered approaches that would have moved further towards cost-reflective charging than the reforms introduced in August 2026.

Examples considered included:

- Greater recovery of fixed costs through Facilities/Fixed Charges;
- More fundamental reform of the GFC Facilities Charge mechanism;
- Introduction of more, differentiated, categories of customers;
- More tailored treatment of customers with distributed generation, for example depending on installed system capacity;

- Differentiation of DG customers with/without battery storage; and
- Charges that more directly reflect how individual customers use the electricity system.

While such approaches could improve cost-reflectivity, they could also introduce greater complexity and produce larger differences between customer bills.

The RA therefore concluded that a gradual transition was preferable at this stage. This allows improvements to be made while limiting customer impacts and avoiding unnecessary complexity.

Future tariff reviews may revisit these approaches if they are considered beneficial and supported by sufficient evidence.

**Key Messages**

The August 2026 reforms were designed to address specific issues identified through the tariff review while maintaining a tariff structure that remains understandable and practical for customers.

The review concluded that:

- Customers would benefit from greater transparency regarding what they are paying for;
- A greater proportion of fixed electricity system costs should be recovered through fixed charges;
- Customers with distributed generation should make a larger contribution towards shared electricity system costs than under the previous tariff structure; and
- For residential DG customers, aligning the fixed charge with the new Tier 5 Facilities Charge represented an appropriate transitional approach that significantly reduced the under-recovery identified through the review while avoiding the larger impacts associated with more cost-reflective alternatives. Fixed charges for DG customers in commercial and demand categories were also increased above those applying to non-DG customers, improving cost recovery while limiting price shocks, although material shortfalls against the estimated cost-reflective levels remain.

The resulting tariff structure does not represent a fully cost-reflective end-state. Rather, it represents a measured step towards a tariff framework that is more transparent, more sustainable and better aligned with the way electricity services are provided in Bermuda.

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