RETAIL TARIFF REVIEW

Regulatory Authority of Bermuda | September 2026



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01 BACKGROUND

The August 2026 reforms changed how approved electricity costs are recovered, not the total amount to be recovered

Clearer electricity bills

Customers can see what they are paying for.

Closer alignment between charges and costs

Charges better reflect the costs actually incurred.

Fairer sharing of shared system costs

Costs of the shared electricity system are spread more evenly across customers.

The reforms are an initial step in a longer transition, not a fully cost-reflective end state.



02 HOW DO ELECTRICITY BILLS WORK?

Electricity bills recover both energy costs and the cost of keeping the system available

Usage-related costs

Costs that vary with the amount of electricity produced or consumed, including fuel.

System and infrastructure costs

Costs incurred to maintain the electricity system and provide access to electricity services, regardless of monthly consumption.

Customers pay both for the electricity they use and for the system that remains available when they need it.

Before August 2026, bills combined fixed and usage-based elements

Graduated Facilities Charge

A monthly fixed charge set by tier according to average daily electricity use.

Fuel Adjustment Rate

Charged per kWh to recover fuel costs.

Other variable charge

Charged per kWh, covering other costs.

Five GFC tiers applied, from $25.44 per month (0-10 kWh/day) to $120.86 per month (more than 50 kWh/day). The average Facilities Charge was $52.48 per month.

Residential customers with distributed generation paid a fixed charge broadly aligned with Tier 3.



03 WHY WAS THE EXISTING TARIFF STRUCTURE REVIEWED?

Four connected findings led to the tariff review

Limited bill transparency

Customers could not easily see what they were paying for.

→

Most costs did not vary with consumption

A large share of costs was incurred regardless of monthly use.

→

Much of the revenue depended on grid imports

Those costs were largely recovered through consumption-based charges.

→

Cost recovery became uneven

Contributions varied across customer groups.

Each finding followed from the one before it, and together they set the scope of the review.

FINDING 1 OF 4 LIMITED BILL TRANSPARENCY

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

The previous tariff structure combined the cost of producing electricity and wider electricity-system costs within consumption-based charges.

Previous bill

One combined consumption-related amount

Clearer tariff

Generation costs | Wider electricity-system costs

The reform improves visibility of what customers pay for. It does not mean that every underlying cost is shown individually, or that charges are fully cost-reflective.

A large share of electricity-system costs was not related to electricity consumption

Estimated costs incurred, per $100



Most of the cost of serving residential customers was incurred regardless of how much electricity was used in any month.

Estimated breakdown of the costs of serving residential customers before August 2026.

Yet a large share of those costs was recovered through consumption-based charges

Estimated costs incurred, per $100



Other about $1

Revenue recovered through the tariff, per $100



Facilities Charge $17

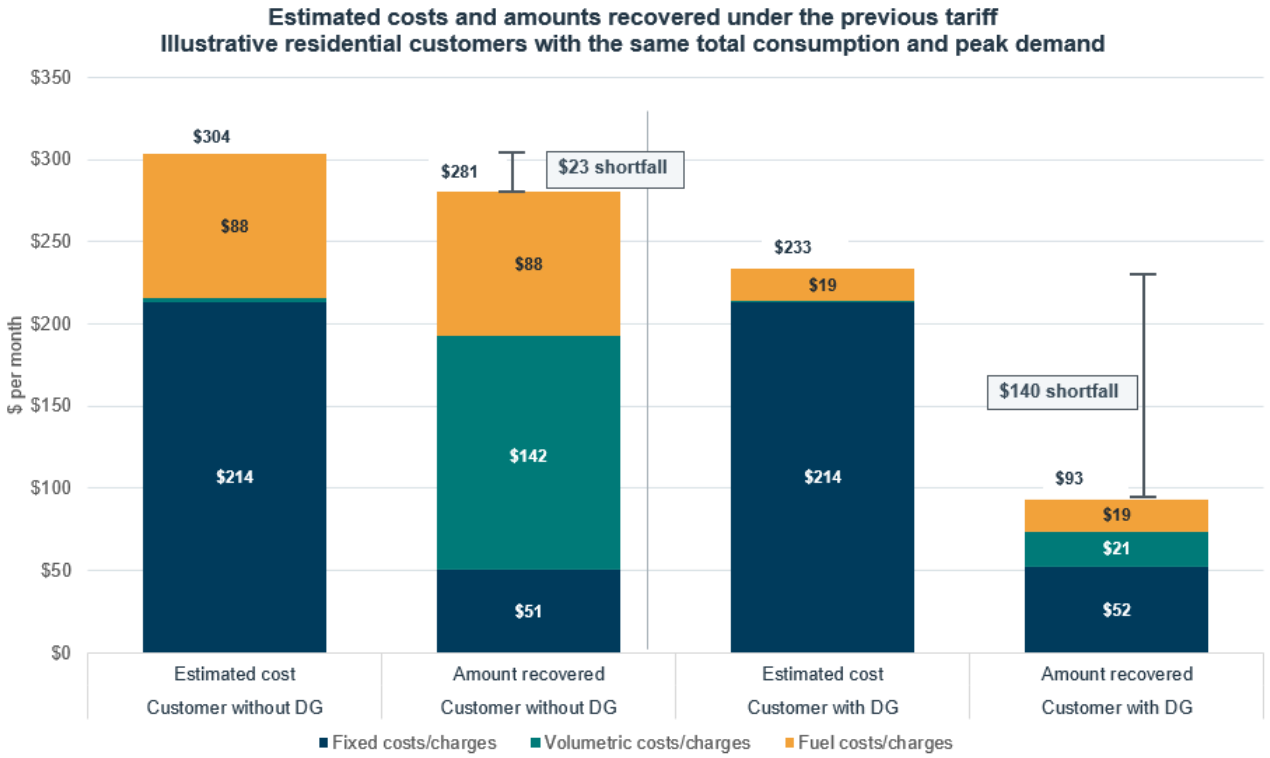
$54 of every $100 was recovered through consumption-based charges even though the associated costs were largely fixed.

The $28 fuel component was recovered through the Fuel Adjustment Rate, which was fully cost-reflective by design.

FINDING 4 OF 4 COST RECOVERY BECAME UNEVEN

Many customers with distributed generation contributed significantly less than the estimated cost of serving them

What the chart shows - for two illustrative residential customers with the same total consumption (20 kWh/day) and peak demand, one without DG and one with: the estimated cost of serving each customer alongside the revenue recovered from them under the previous tariff. The shortfall is the estimated cost minus the revenue recovered.



Illustrative example only: the figures are not representative of every customer with distributed generation.

Lower grid imports appropriately reduced fuel-related charges, but they also reduced contributions towards fixed costs that continued to be incurred.

The approved system costs do not disappear. An unrecovered amount from one customer must be recovered elsewhere from the wider customer base.



04 WHAT OPTIONS WERE CONSIDERED AND WHY WAS THIS APPROACH CHOSEN?

The review assessed improvements across three areas

1

Bill transparency

Making it easier for customers to see what they are paying for.

2

Recovery of fixed electricity-system costs

Better aligning how shared system costs are recovered.

3

Contributions from customers with distributed generation

Reflecting how DG customers use the electricity system.

Each area was assessed separately before the options were brought together into the final tariff design.

Two-part unbundling improved transparency without excessive complexity

Bundled volumetric rate

Simpler, but limited transparency.

Two-part unbundling

Separates generation costs from transmission, distribution, retail and residual costs.

Selected

Three-part unbundling

Greater detail, but a more complex bill.



Less transparent, simpler

More transparent, more complex

Options were assessed against two criteria: transparency and simplicity.

The selected approach gives customers a clearer view of what they are paying for without introducing unnecessary bill complexity.

Gradual rebalancing was preferred to either extreme

Retain the existing structure

Lowest immediate disruption.

Leaves the underlying cost-recovery issue largely unchanged.

Gradual rebalancing

Increases recovery through fixed charges.

Improves alignment while limiting customer disruption.

Selected

Immediate fully cost-reflective tariffs

Closest alignment with the cost analysis.

Significantly larger changes to customer bills.

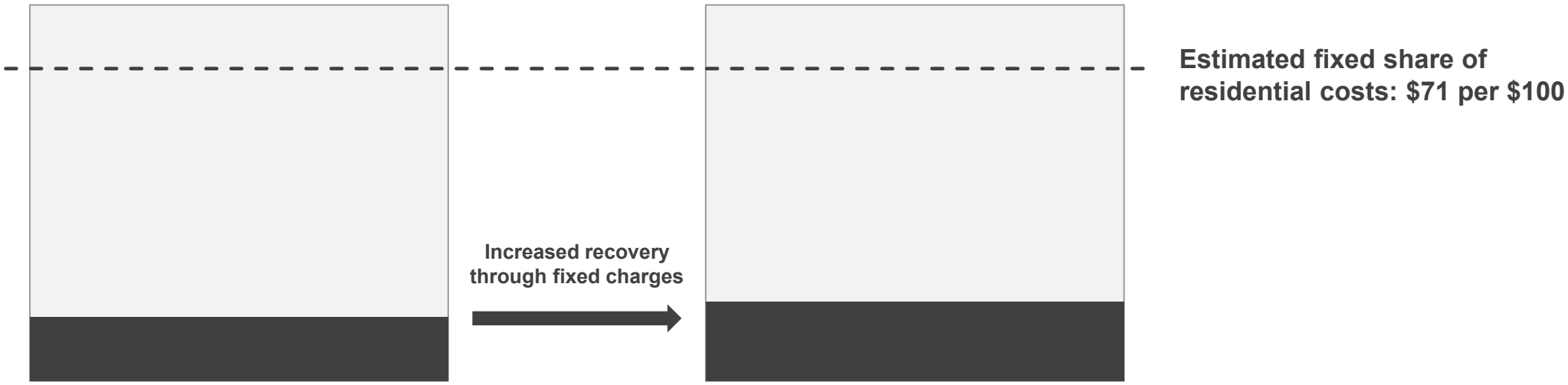


Least change to bills

Closest alignment with costs

The choice was a trade-off between cost reflectivity, bill stability, customer understanding and implementation practicality.

The August 2026 tariff increased fixed-charge recovery, but the structure remains transitional



The reforms reduced the tariff's reliance on electricity sales to recover fixed costs but did not move immediately to the fully cost-reflective level.

Three approaches were considered for DG customers

DG customers use the electricity system for two services: importing electricity when on-site generation is insufficient, and exporting surplus electricity when generation exceeds on-site use.

Option 1: Retain the previous DG charge

Keeps the charge broadly aligned with Tier 3 and applies only the general tariff rebalancing.

Simple to implement, but a substantial under-recovery would remain.

Option 2: Align with the residential cost-reflective fixed-charge principle

Applies the residential cost-reflective fixed-charge principle to DG customers: a fixed charge **in excess of $171 per month**, corresponding to the average estimated cost.

Materially improves cost recovery while retaining a relatively simple tariff structure.

Option 3: Cost-reflective fixed charge plus an export adjustment

Adds an export adjustment on top of the Option 2 fixed charge, recognising the export service the system provides.

Two alternative calculation methods for the same adjustment

Approach Alpha
Separate import and export charges: network costs split. **Yields a fixed charge in excess of $205 per month.**

Approach Beta
An additional fixed-charge amount: no separate export rate. **Yields a total fixed charge in excess of $172 per month.**

More cost-reflective, but larger customer impacts and assumptions requiring further validation.

Option 2 provided the preferred principle; Tier 5 provided the transitional implementation

Preferred design principle

Option 2: align DG customers with the residential cost-reflective fixed-charge principle.

Analytical benchmark

A residential cost-reflective fixed charge in excess of $171 per month.

Balanced against

Customer impacts, simplicity and implementation practicality.

Transitional implementation

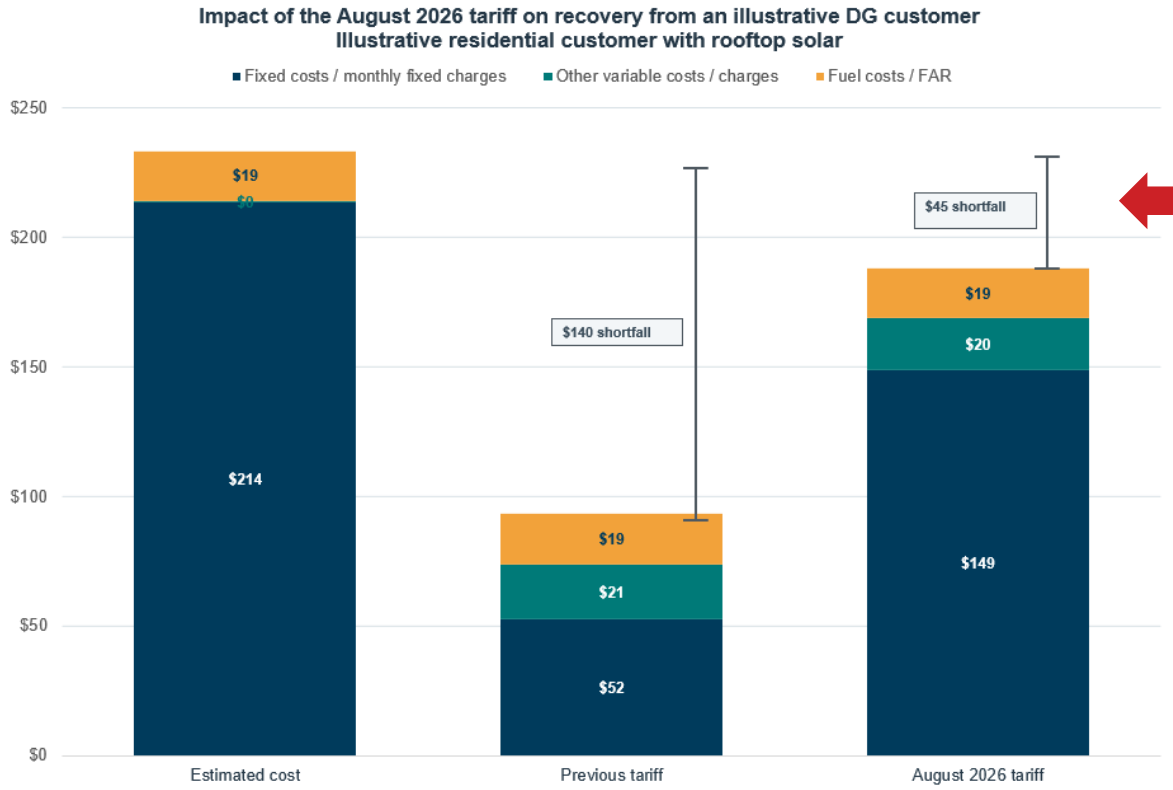
Revised Tier 5 Facilities Charge of $148.83 per month.

Tier 5 provided a practical transitional implementation that moved materially towards the analytical benchmark without introducing a separate residential DG-specific charge for residential customers.

DG fixed charges for commercial and demand customer categories were also increased, improving cost recovery while limiting price shocks. Material shortfalls against the estimated cost-reflective levels remain for those categories.

Tier 5 alignment materially reduced the illustrative DG shortfall, while retaining a transitional gap

Recall from slide 13: the same illustrative DG customer (20 kWh electricity consumption per day), now showing revenue recovered under the previous tariff and under the August 2026 tariff against the estimated cost of serving them.



Shortfall reduced

The selected approach addresses a significant part of the under-recovery while avoiding the larger customer impact of moving immediately to the full cost-reflective level.

Illustrative example only; the figures are not representative of every DG customer. A residual shortfall remains, reflecting the transitional approach adopted.



05 WHAT HAPPENS NEXT?

The reforms deliver meaningful improvement, but further evolution may be needed

What the reforms achieved

Clearer distinction between generation and wider system costs

Greater recovery through fixed charges

Increased contributions from DG customers

Reduced reliance on electricity sales to recover fixed costs

What future reviews may consider

Further fixed-charge reform

More fundamental reform of the Graduated Facilities Charge mechanism

More differentiated customer categories

More tailored treatment of DG customers

Differentiation between DG customers with and without storage

Charges more directly related to system use

Three key messages

1

Clearer bills

Customers can better distinguish generation costs from wider electricity-system costs.

2

Better alignment

More fixed costs are recovered through fixed charges, reducing reliance on electricity sales.

3

A proportionate transition

DG contributions increased and under-recovery reduced, without moving immediately to the full cost-reflective level.

The August 2026 reforms are a measured step towards a more transparent, sustainable and cost-reflective tariff framework.