

Annual Report 2020



A short introduction about us

The Utility Regulation and Competition Office (OfReg or the Office) is the independent regulator established by section 4 of the Utility Regulation and Competition Act (as revised) (the “URC Act”) for the electricity, information, and communications technology, water, wastewater and fuel sectors in the Cayman Islands.

OfReg provides the opportunity for consistency and collaboration in regulation across the ICT, energy, fuel, and water sectors; better utilisation of skills and resources resulting in more efficient and effective regulatory processes; encouraging competition where appropriate and feasible; championing sustainability and innovation across markets, contributing to the economic and social goals of the Cayman Islands.

Index

Foreword	
Message from the Chairman	4
Message from the Chief Executive Officer	6
Introduction	10
About Us	12
Nature and Scope of Activities	13
Governance	14
Our People	17
Summary of Achievements	18
Consumer Protection Regulations	19
Fuel Market Definition and Economic Regulatory Market Assessment	19
Renewable Energy Capacity Reallocation and Tariff Setting (RECRTS)	19
Water Sector (Licence, Fee and Penalty) Regulations	20
Management's Discussion and Analysis	21
The Sectors	21
Key Milestones in 2020	31
Financial Performance and Analysis	38
Audited Financial Statements	48
Auditor's Report	
Notes to the 2020 FY Audited Financial Statements	

Company Name

The Utility Regulation and
Competition Office (OfReg)

Company Address

3rd Floor, Monaco Towers,
11 Dr. Roy's Drive
Grand Cayman, Cayman Islands

Message from the Chairman

We continued to put consumers at the centre of what we do—how we operate, how we move our objectives forward.

2020 has been a momentous year in many respects. As we look back on the last twelve months — a period of profound social and economic change — it is remarkable how much we have accomplished, not only in terms of operational performance but in our steadfast dedication to helping consumers, businesses and the broader community of the Cayman Islands.

I first want to say thank you to our staff for your continued support and trust in OfReg. I am proud of what we accomplished together during 2020, and I am also very optimistic about the opportunities ahead. We remain confident in our ability to effectively deliver our mission as a regulatory entity regardless of the current global challenges and local operating environment and expect to continue delivering long-term value for our stakeholders.

The COVID-19 crisis has undoubtedly tested our ability to adapt. I believe it has demonstrated that we are equipped and able to adapt quickly and effectively. While recognising the challenges we are going through, 2020 was another year of positive performance for the Office as we delivered tangible results through robust operational execution and decisive actions. Our regulatory reach has continued to extend by setting new administrative determinations for the Energy, Fuel and ICT sectors, including eight consultation papers released in the past twelve months.

The dedication and commitment of our people are critical enablers of our success. Despite significant economic and operational challenges, our employees in every department executed an essential role in ensuring business continuity of the sectors we regulate, benefiting the economic and social stability of the Cayman Islands. The combined excellence of our employees and our improved strategic objectives enable us to positively deliver our mission of ensuring safe, reliable, economic public utilities to businesses and the people of the Cayman Islands.

I would like to thank Malike Cummings for an extremely successful first year as Chief Executive Officer. He has continued with the transformation of OfReg, particularly around our aim to be more transparent,



Mr. Rudy Ebanks
Chair of the Board of Directors

Note: Dr. Linford Pierson resigned from the post of Chairman of the Board of Directors on May 31, 2021. Mr. Rudy Ebanks was appointed to the post of Chairman with effect from August 31, 2021. Mr. Ebanks served as Non-Executive Director since October 2017.

effective and stronger and encouraged a robust collegiate contribution from our excellent executive team. His leadership and broad industry knowledge make him uniquely qualified for this important mission. His strong strategic view and operational experience will ensure that OfReg successfully meets the changing needs of all our stakeholders.

We continued to put consumers at the centre of what we do—how we operate, how we move our objectives forward, and how we support our stakeholders in ensuring the Cayman Islands economy’s reliability. Each of our leading departments keeps making customer service a priority, providing professional advice and active support. We are optimistic about the opportunities in 2021 and beyond. OfReg finished 2020 in a much stronger position than we started, with our operational teams delivering on our strategic priorities and generating positive momentum across the board. Working hand in hand with consumers, businesses and government remains a firm priority, and we engaged extensively with them throughout the year.

I am proud of our past year’s successes and how we have adapted swiftly and professionally to recent events. The ongoing external challenges will inevitably influence how we move forward, but we remain very much focused on our statutory duties and on achieving the objectives set on our strategic plan. On behalf of the Board of Directors, I would like to thank our employees for their countless efforts and openness to take on the complex and ambitious responsibilities we have set as an organisation. I would also like to thank our management team for its collaboration and hard work building on our strong foundation.

Message from the Chief Executive Officer

2020 was also a record year in regard to strengthening the regulatory framework.

The year 2020 tested us beyond measure as a result of the coronavirus pandemic, which impacted economies and livelihood worldwide. Despite the challenges and uncertainty brought about by this pandemic, OfReg has successfully progressed and completed several projects embarked upon by our team.

Cognisant of the economic hardship brought on by the pandemic, OfReg worked with licensees to ensure continuity of services to consumers and businesses, especially during the lockdown period and the inevitable transitioning to a remote working environment. OfReg worked with licensees to agree to the temporary suspension on disconnection of electricity, water, internet and television services to bring relief to consumers.

Our collaboration with the Ministry of Commerce, Planning and Infrastructure (CPI), and other stakeholders helped to design and deploy a network of ten Wi-Fi hotspots around the country to enable residents to access free internet service after the “Shelter in Place” orders were lifted.

Other partnerships and agreements with service providers include free calls to the NEOC hotline; zero data charge to mobile data users accessing certain government websites; and increased bandwidth to government quarantined facilities at no additional charge. The team also worked with the Ministry of International Trade, Aviation and Maritime Affairs, under CIG’s COVID Regulations, to build an online system to automate the curfew exemption request and approval process.

OfReg focused on assessing and strengthening our organisational performance, helping us become more effective, efficient, and resilient.



Malike Cummings
CEO

The foregoing is demonstrative of OfReg's focus on working with the various licensees, service providers, the Government and other stakeholders to maintain an acceptable level of service to consumers, recognising the enormity of the challenges faced as a result of the unique circumstances which necessitated agility and innovation to navigate the emerging situations.

Emphasis was also placed on promoting and implementing regulatory tools and mechanisms for service providers to improve availability, reliability, quality and safety of ICT, energy and utility services. We have been promoting consumer protection regulations (CPRs) to augment the existing

framework for each sector. CPRs for the ICT sector were completed and shared with the Ministry of CPI. Similar regulations for the fuels and energy sectors were also consulted in 2020.

2020 was also a record year in regard to strengthening the regulatory framework. Eight consultation papers were released before finalising administrative determinations, an essential aspect of our regulatory accountability and transparency obligation.

The Fuel Market Regulatory and Economic Assessment ranked the highest priority for the fuels sector, progressed through to the completion of the market definition. The other aspects of

the work will continue into 2021 for completion. Three major investigations were progressed to conclusion during the year, namely the LPG Market Anti-Competitive Investigation, the Propane Cylinder Incident, and RUBIS Tank Release Incident.

Other notable accomplishments include the approval of the Request for Proposals (RFP) for a 20MW Energy Storage Battery System (BESS), which will lower the cost of electricity to consumers and also increase the amount of intermittent renewable energy capacity by 12MW, and approval of the Fuel Price Volatility Management Plan (FPVMP) for 2020-2021, allowing for 12-month fuel hedging contracts. OfReg also reviewed and approved

All of our accomplishments could not have been possible without the endeavour of our hard-working staff, Board members and stakeholders.

the Street Lighting Rates for the George Town Revitalisation project.

The negotiations with the Cayman Water Company (CWC) are continuing. During the course of the year, OfReg commissioned a Cost-of-Service Study (COSS) of CWC to assist with the determination of new water rates and a reasonable allowed return on investment.

In the ICT sector, OfReg continued modernising the licensing framework to inform the renewal process for ICT licensees. Recognising the importance of infrastructure to delivering reliable, cost-effective services to consumers, a significant area of focus was protecting Critical National Infrastructure (CNI), and as a result,

the first phase of the “Click Before U-Dig” underground infrastructure programme was launched.

The Office is committed to offering Cayman’s youth the opportunity to test and apply their knowledge in a real business context through internships. The Office welcomed one intern in the fuels sector, who will also be able to gain exposure and regulatory experience in this unique environment, only which OfReg can offer.

Additionally, OfReg focused on assessing and strengthening our organisational performance, helping us become more effective, efficient, and resilient while supporting the Office in delivering on our mandate of promoting competition to achieve better services at fair prices.

We continue to model and observe good governance as we shape our strategy, improve our internal protocols and rely on the right people to assist in our strategic work. As an organisation, our future is bright. We recognise the importance of continual improvement in what we do and how we do it. The development of the team and how we work together as an organisation is crucial to our success.

We commenced the review of our five-year strategic plan (2020-2025), which captured the scope and ambition of the OfReg Strategy, emphasising an innovative implementation approach, strengthened governance, and departments working together to deliver the key elements of the strategy to achieve its objectives. Our strategy forms part of a broader national strategy, reflecting Government's strategic priorities, the National Energy Policy, and working with all stakeholders to reach those stated outcomes.

All of our accomplishments could not have been possible without the endeavour of our hard-working staff, Board members and stakeholders. I sincerely thank our staff for their support this year, and I look forward to working with the team to have an even more significant impact in the years to come.

Towards the future, I look forward to building on the successes of OfReg and its team during this challenging year to achieve the objectives set for 2021 and ensuring that the Office continues to play an essential role in promoting the economic and social development of the Cayman Islands.

Malike Cummings
CEO



Fair Regulation for Consumers & Industry.

Introduction

This is the 2020 Annual Report for the Utility Regulation and Competition Office (the 'Office' or 'OfReg') for the period 1 January 2020 to 31 December 2020. This report is submitted in accordance with the reporting requirements of section 52 of the Public Management and Finance Act (as revised) (the 'PMFA') and section 43 of the Utility Regulation and Competition Act (as revised) (the 'URC Act'). The report is prepared for Cabinet, to whom OfReg is accountable, as well as the general public and licensees.



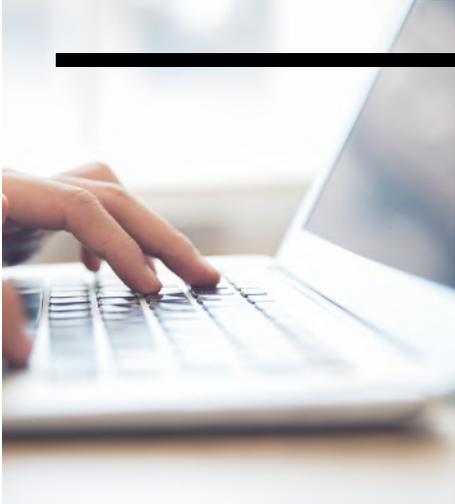
Safety is our mission

To ensure safe, reliable, economic public utilities to businesses and the people of the Cayman Islands.

To achieve this, OfReg will:

- Ensure that service providers operate in an environment that is fair and provides an opportunity to realise a reasonable return on investment;
- Advocate on behalf of consumers;
- Adopt and enforce regulations that are in the public interest and ensure that service providers comply with established regulations;
- Create standards and policies that protect the safety of the public;
- Explore innovation that will encourage the efficient and cost-effective delivery of utility services;
- Consider the economic and environmental impacts of all matters before the Office;
- Ensure effective methods of communicating the Office's areas of regulation, decisions and their impacts on the public;
- Develop and promote activities that encourage stakeholder trust and confidence;
- Serve the public interest through a commitment to professionalism, diversity, mutual respect and ethical conduct.

About Us



Nature and Scope of Activities

We seek to adopt and enforce regulations in the public interest and ensure that service providers comply with established rules.

The Office was established pursuant to section 4(1) of the URC Act and is the independent regulator for the energy, information and communications technology ('ICT'), water and fuel sectors in the Cayman Islands. The Office also regulates the use of electromagnetic spectrum and manages the .ky internet domain.

The Office is also guided by the importance of balancing the needs of investors and the sectoral utilities, not only in terms of recognising the importance of a fair return to investors but also ensuring that the operating environment is fair for all sectoral providers, while at the same time protecting the interests of consumers.

As a Government Policy, the Office is statutorily obligated to promote and be guided by the Cayman Islands Government National Energy Policy ('NEP').



Governance



URC Act

The URC Act defines the responsibilities of the Office and all stakeholders and governs regulation for the energy, ICT, water and fuel sectors in the Cayman Islands. The Public Authorities Act (as revised) (“PAA”), which came into force on 1 June 2017 via a Cabinet Order¹, regulates the management and governance of the Office.

Board of Directors

The Board of Directors are responsible for the governance and general administration of the affairs and business of the Office as well as carrying out regulatory powers and functions.

There are four Executive Directors on the Board, which includes the Chief Executive Officer, Executive Director of Information, Executive Director of Energy and the Chief Petroleum Inspector/Executive Director of Fuel Markets.

In 2020, the Board of Directors met 13 times during the year. The Board considered and took decisions on a wide range of issues relating to the sectors under its remit, and on organisational policy and governance matters.

The Office bid farewell to the former Deputy Chair of the Board, Mr. Ronnie Dunn, at the end of November 2020. Mr. Dunn served as Deputy Chair from 1 September 2017.

Committees

Pursuant to section 27 of the URC Act, the Office established a Remuneration and Human Resource Committee in 2020. The role of the Remuneration and Human Resource Committee is to provide guidance to the Board on remuneration and human resources issues.

The Office also established a Finance Committee, an Innovation Committee and a Public Relations Committee. The role of the Finance Committee is to review and provide recommendations to the Board on financial governance policies and the Office’s annual budget, while the role of the Public Relations Committee is to provide policy guidance and strategy for interaction with

stakeholders and the media.

During the year, the former Risk and Audit Subcommittee Chair resigned from the post effective April 2020. The Board appointed an interim Chair to the Committee until a replacement can be installed. The Office has made recommendations to amend legislation to allow for the Chair of this subcommittee to be a current member of the Board. The role of the Committee is to provide independent assurance and assistance to the Board on control, governance and risk management. The subcommittee reports to the Board of Directors within four months of the publication of the fiscal year’s annual report and publishes its report at the Office’s website within two months following Board review.



Codes of Conduct and Internal Policies

In 2020, the Board approved: a board and management communications framework; an Anti-Fraud policy; an IT Acceptable Use and Security policy; a Hospitality, Entertainment and Gift policy; an Information Security Breach Policy and a Human Resource Policy and Procedure Manual. The Office continues to develop and put in place robust mechanisms to improve governance and systems of control.

Duty to Consult

Affirming that consulting stakeholders is an essential aspect of regulatory accountability and transparency, and pursuant to section 7 of the URC Act, the Office sought stakeholder input prior to finalising administrative determinations for the following matters in 2020:

1. **E&U 2020 - 1** - Consultation on Final Regulatory Accounts Rules
2. **E&U 2020 - 2** - Consultation on Proposed Renewable Energy Capacity Reallocation and Tariff Setting
3. **E&U 2020 - 3** - Consultation on Proposed Consumer Protection Regulations
4. **FS 2020 - 1** - Consultation on Proposed Fuels Market Definition
5. **FS 2020 - 1** - Draft Determination on Proposed Consumer Protection Regulations
6. **OF 2020 - 1** - Consultation on Proposed Dispute Resolution Regulations
7. **WS 2020 - 1** - Consultation on Final Water (Licence, Fee, Offence and Penalty) Regulations
8. **ICT 2020 - 1** - Consultation on Internet Exchange Points (IXP) Regulatory Framework.

Duty to Publish

Pursuant to section 8 of the URC Act, the Office maintains a website as a primary source for sectoral news and information and current regulatory documents, including administrative decisions and Minutes of the meetings of the Board of Directors.

Performance and Financial Audits

To promote transparency and accountability, section 6 of the URC Act sets out the Office's statutory obligations for reporting performance.

Pursuant to sections 41(1)(b) and 41(3) of the URC Act, the Office shall publish an annual report (containing the audited financial statements for the financial year) and a five-year strategic plan, respectively.

In accordance with section 6 of the URC Act, all financial statements contained in this report have been prepared to International Public Sector Accounting Standards, audited by the Auditor General of the Cayman Islands ('Auditor General') and will be submitted to Cabinet for review by 30 April 2021.

Section 42 of the URC Act requires the Auditor General to report to the Board of Directors, every three years, on the Office's performance against its annual plan. The Auditor General's Office concluded the three-year review of the Office's performance in June 2020. (See Management's Discussion and Analysis for further information).

Our People

The Office is comprised of a Board of Directors and 25 employees. Executive Directors are the principal sectoral advisors while Non-Executive Directors are chosen by Cabinet and initially appointed for fixed terms of up to three years.

Staff

There were no new additions to the Office's staff complement.

Turnover

The Office bid farewell to the former Executive Director of Information, Mr. Alee Fa'amoe in 2020. Mr. Fa'amoe was the Executive Director ICT from the Office's inception in January 2017, and his contract term ended in 2020.

Professional Development

The Office is committed to the professional development of its staff by providing targeted training and development opportunities for up-skilling and overall employee development.

The Office recognises the benefit of employee development and training and considers on a case-by-case basis requests for support in the following areas: time off for training and/or study; time in the office environment to undertake a course or complete projects that support an employee's development needs; and tuition/course fees and expenses. During 2020, the restrictions imposed by the Government arising from the Covid-19 pandemic frustrated the plans for training. Some training was completed through on-line resources, while some training has been deferred to 2021.

Internships

During 2020, the Office hired Mr. Romaine Knight as an intern in

the fuels sector. Offering local interns an opportunity to work alongside staff on administrative and regulatory matters of the day aligns with the Office's objectives for recruiting talent and professional development.

Scholarships

Aligning with its five-year strategic plan for recruiting and developing staff, the Office offers financial assistance to local students furthering their education. Mr. Juwan McLean is presently on an OfReg scholarship at the University College of the Cayman Islands. He is completing a Bachelor of Science degree in Computer Science.



Summary of Achievements

Despite the challenges, it was a successful year.

During 2020 the Office, like all other entities locally and globally, was negatively impacted by COVID-19. The Office diverted its attention and resources from implementing the 2020 Annual Plan objectives in order to focus on essential service sustainability as a result of the pandemic. The Office focused on working with the various licensees, service providers, the Government and other stakeholders to maintain an acceptable level of service, recognising the enormity of the challenges faced as a result of the unique circumstances which necessitated agility and innovation to navigate the emerging situations. Despite the foregoing, a number of key work programmes were impeded especially during the Government-imposed restrictions to preserve health and safety.

None of the Office's regulatory programmes were suspended, however, they were affected in varying ways. The Office sought to ensure utilities and infrastructure essential to the well-being of the Cayman Islands remained available and accessible while navigating the unprecedented times. OfReg's business continuity plan allowed the Office to quickly adapt as the situation unfolded, to ensure responsiveness.

Nevertheless, despite the challenges, the Office successfully executed several projects embarked on by the sectoral teams in the previous Annual Plan and the Purchase Agreements. The achievement of the key strategic objectives detailed in the Ownership Agreement have been delayed, and it is anticipated that in 2021, the Office will redirect its focus to achieving these strategic goals.

Consumer Protection Regulations

During 2020, the Office presented the proposed ICT Consumer Protection Regulations to the Minister for review and approval. This presentation culminates the work that was initially started in 2017, whereby the Office produced and consulted on Draft Consumer Protection Regulations. In consideration of responses received, the Office conducted another round of consultation at the end of 2019, with a draft determination published on 5 December 2019. The Office considered that in the interest of protecting the ICT consumer, it was necessary to establish regulations to outline the protocols and rules that service providers should adhere to when interacting with and serving consumers in the Cayman Islands. These regulations will enable the Office to better regulate the terms and conditions under which ICT services are provided. The Office expects that the consultation with the Minister will result in the publishing of the Regulations in 2021.

The Office also completed its final round of public consultations on the proposed Consumer

Protection Regulations for the fuel sector. These regulations will regulate the terms and conditions under which the services and products in relation to fuels sector are provided by prescribing quality standards. The Office plans to submit the proposed Consumer Protection Regulations to Cabinet for approval and final drafting instructions in 2021.

The Office also issued a Consultation Paper on draft Consumer Protection Regulations for both the electricity and water sectors. The intent is to regulate the terms and conditions under which services in relation to the Energy & Utility sectors are provided by prescribing quality standards. The Office expects to submit the Proposed Consumer Protection Regulations to Cabinet for approval by end of Q2 2022.

Fuel Market Definition and Economic Regulatory Market Assessment

The Market Definition and Economic Assessment ranked the highest priority for the fuels

sector in 2020. During 2020, consultations were conducted on the Proposed Fuels Market Definition, which is considered an essential preliminary phase to the Economic Regulatory Market Assessment. The Market Definition study allows for understanding of the operation of markets to inform future developments for the comprehensive regulatory monitoring regime. Work also continued on the Competition Assessment report and the public consultation, commenced in February 2021.

Renewable Energy Capacity Reallocation and Tariff Setting

The Office undertook two rounds of consultation on the proposed Renewable Energy Capacity Reallocation and Tariff Setting. The consultation papers outlined the legal basis for the capacity reallocation and tariff setting for 1 MW of capacity from the Distributed Energy Resources programme to the Customer-Owned Renewable Energy (CORE) programme and identifies the

approach and applicable principles. It sought input on the appropriate feed-in-tariff rate to be paid to CORE subscribers. The determination will be announced in February 2021.

Water Sector (Licence, Fee, Offence and Penalty) Regulations

The Office again submitted the proposed Water Sector (Licence, Fee, Offence and Penalty) Regulations to Cabinet for its approval in July 2020. These Regulations, when enacted, will complete the regulatory framework and establish the long-term funding mechanism for the Water Sector and thus enable OfReg to effectively execute its regulatory activities for water service providers and water and wastewater operators. The Office is working with the Legal Drafting Department to complete the project.

Five Year Strategic Plan Review and Update

During 2020, the Office commenced a review of the 2018-2022 strategic plan in accordance with Section 41 of the URC Act. The Office is required to update the strategic plan every 3 years. The review of the strategic plan is a key activity from a governance perspective and will drive the activities of the Office over the long-term. The Office reviewed the strategic plan in order to establish a programme of activities in the four sectors with tangible outcomes for the benefit of the Cayman Islands. The updated plan includes key performance indicators and expected outcomes for each activity for each sector. The strategic plan review and update also placed major emphasis on Institutional Strengthening, a key element of achieving the objectives that was not included in the initial strategic plan. The updated Strategic Plan will be published in Q2 2021.



Management's Discussion and Analysis

The Office is responsible for regulating licensees in the energy, ICT, water and fuel sectors in the Cayman Islands. This section gives an update from each of the sectors during 2020. Further information on the Auditor General's Performance Audit is also included in this section.

Energy

The Office continued monitoring and oversight of the monopoly electricity provider in the Grand Cayman service territory, Caribbean Utilities Company, Ltd. ('CUC'); the monopoly electricity provider in Cayman Brac and Little Cayman, Cayman Brac Power & Light Company Ltd. ('CBP&L'); Bodden Town Solar I Limited ('BTSIL') (formerly Entropy Cayman Solar Limited); and the facilitation of initiatives to meet the NEP for the Cayman Islands.

A focus was on diversifying renewable energy infusion onto the grid. In addition to continuing its regulatory oversight of CUC, CBP&L, BTSIL and other future licensees, the Office plans to focus more on strategic issues in the sector such as protecting Critical National Infrastructure ('CNI') and fostering innovative technology processes and systems that will enable customers to benefit from improvements in services.

ICT

In 2020, the ICT sector made significant advancements towards promoting innovation and protecting CNI throughout the Cayman Islands. The Office also contributed to assisting with the response to the COVID-19 pandemic, with a number of initiatives gauged at assisting the public during the stay-in-shelter order. The Office spearheaded the project to provide free Wi-Fi across the Cayman Islands. This project was supported by FLOW, who provided bandwidth to facilitate the provision of Wi-Fi hotspot locations primarily located at government operated civic centres and facilities across all three islands. Additional initiatives are discussed in the “Key Milestones” section of this report.

In the area of cybersecurity, the Office: advised core Government on cybersecurity matters; provided

the National Security Council with a recommended course of action to combat cybercrime; and worked regularly with key stakeholders in developing cybersecurity strategies.

The value of the **.ky** domain continues to increase, such that it has attracted the interest of worldrenowned domain registrar company, GoDaddy. During 2020, Uniregistry, the third party responsible for marketing the dot ky domain transferred the domain portfolio section of their business to GoDaddy. GoDaddy is a publicly traded domain registrar company. This transaction has significantly increased the exposure of the dot ky domain. During 2020, the Office continued working on the expansion of the **.ky** domain, paving the way for additional registrars, the offering of short string character names and the onboarding of national registries.

.KY DOMAIN SALES & REGISTRATIONS



Fuel

Despite the effects of the COVID-19 pandemic, the Office was able to progress work on the Fuel Market Assessment, with the completed report expected in February 2021. Considerable progress was also made on the Consumer Protection Regulations for the fuel sector.

The compliance and permitting programme under the Dangerous Substances Act, 2017 was severely impacted due to manpower resource constraints in these areas, combined with the broader impact of the pandemic and associated effects.

In the area of fuel quality assurance, the team ensured that work continued to validate and verify fuel quality. The Office conducted sampling and testing as prescribed based upon accepted/approved standards and in line with Purchase Agreement targets. The comprehensive regime for calibration of meters and dispensing equipment also continued in 2020 to ensure effective use for the general public's benefit.

Monitoring and posting of fuel prices throughout the Cayman Islands are being done on a consistent basis and posted weekly to www.ofreg.ky for the benefit of the public. Analyses of local price trends is also available for public access at the Office's website.

Water

The Office continues to make progress in this sector with emphasis placed on the completion of the license negotiations with Cayman Water Company ('CWC'). The Office commenced negotiations with CWC on July 11, 2017 and in 2020 undertook a Cost of Service Study (COSS) to assist with the determination of new water rates, the acceptable return on investment and the allocation of general and administrative expenses from Consolidated Water Company, Ltd. to CWC.

The Office also anticipates that a new licensing regime will be in place for Water Producers and Suppliers licensees, Water Operators, Wastewater Operators and Water Producers and Suppliers for a defined area licensee, as stipulated in the Water Sector (Licence, Fee, Offence, and Penalty) Regulations.

The value of the **.ky** domain continues to increase, such that it has attracted the interest of world-renowned domain registrar company, Go Daddy.

Report of the Efficiency and Effectiveness of the Utility Regulation and Competition Office (Performance Audit)

The OAG conducted an audit of the Efficiency and Effectiveness of OfReg over the first three years of its operations. This audit was finalised in June 2020. Sixteen recommendations were made to address deficiencies and challenges the Office face. Of the 16 recommendations to which OfReg had direct responsibility, 5 have been implemented whilst the balance is being progressed to the point requiring Cabinet's consideration and other stakeholder involvement.

The Public Accounts Committee (PAC) met to consider the Auditor General's Performance Audit Report in July 2020. Five Public Hearings were held with a number of witnesses called by the PAC to submit evidence for the Committee's consideration. The PAC issued a report on the Performance Audit which included an additional set of recommendations, with 24 recommendations falling under the direct responsibility of the Office. At the end of the year, the Office was in the process of preparing Management Responses to the PAC's recommendations.

Cost of Utilities

The Economics and Statistics Office (ESO) published the Consumer Price Index Report for Q3 2020 in December 2020. The report indicated that the Housing and Utilities index showed a 2.8 percent decrease when compared to the Q3 2019. The primary driver of this reduction is a decrease in the cost of electricity by 24.6 percent. The average price for water supply fell by 15.3 percent and gas (LPG/Propane) by 2.2 percent. These decreases were

partially offset by the Housing factors which carries a greater weight for the Housing and Utilities index and experienced an increase in rental prices. (Consumer Price Index, 2020).

Consumers continue to benefit from the lower cost of diesel, which drives the cost of electricity and water supply as presented in the Consumer Price Index Report.



Crude Oil and Fuel Prices trends in 2020

Fuel prices continued its volatile trend in 2020. COVID-19 had a pronounced effect on global demand for fuel and the glut resulted in a sharp decline in prices, crude oil in particular which recorded a negative price (see inverted spike in Graph 1) for the first time on record, and the lowest since 1998. Highest and lowest crude oil price during the year were 1.52 KYD per Imperial Gallons (IG) and -0.89 KYD per IG respectively, which impacted refined fuel products prices.

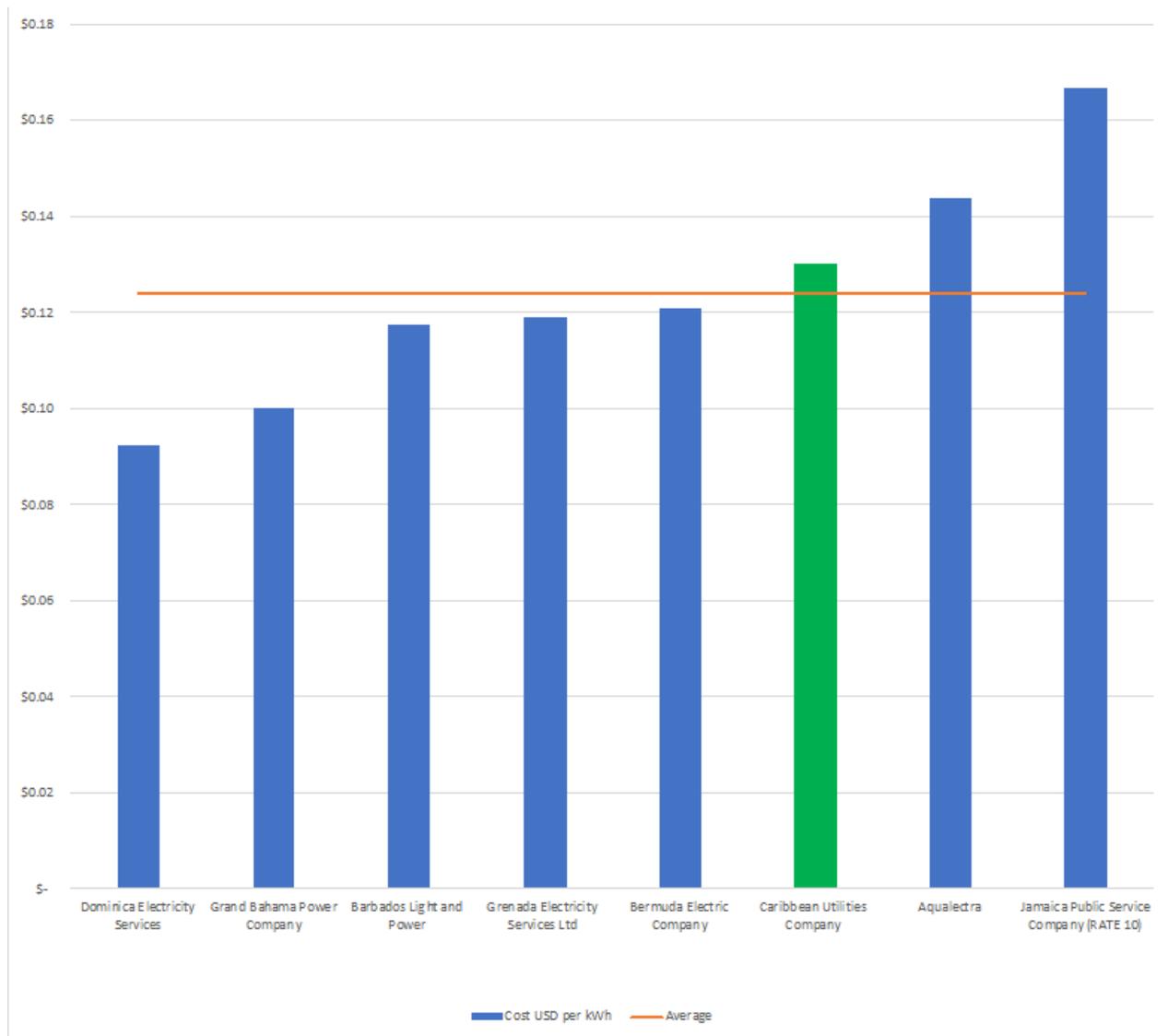
The graphs show the trend of crude oil and refined fuel prices relevant to the Cayman Islands and local fuel prices during 2020. Local prices generally followed refined price trends in the first half of the year, however during the second half of 2020, local prices remained generally stable relative to moderately increasing refined prices observed in global price trends. OfReg worked closely with the fuel suppliers to minimize the economic impact of fuel prices on consumers across the Cayman Islands.

Consumers benefited from lower-than-average fuel price across all grades of products in 2020 with regular gasoline being the lowest on average throughout the year. In one instance, gasoline price fell below 3.00 KYD per IG, the lowest it has been since 2009, based on OfReg's records.

Across the region, prices in comparable jurisdictions were observed to follow similar trends in previous years. Local prices continued in the median price range when compared to the regional jurisdictions analyzed.

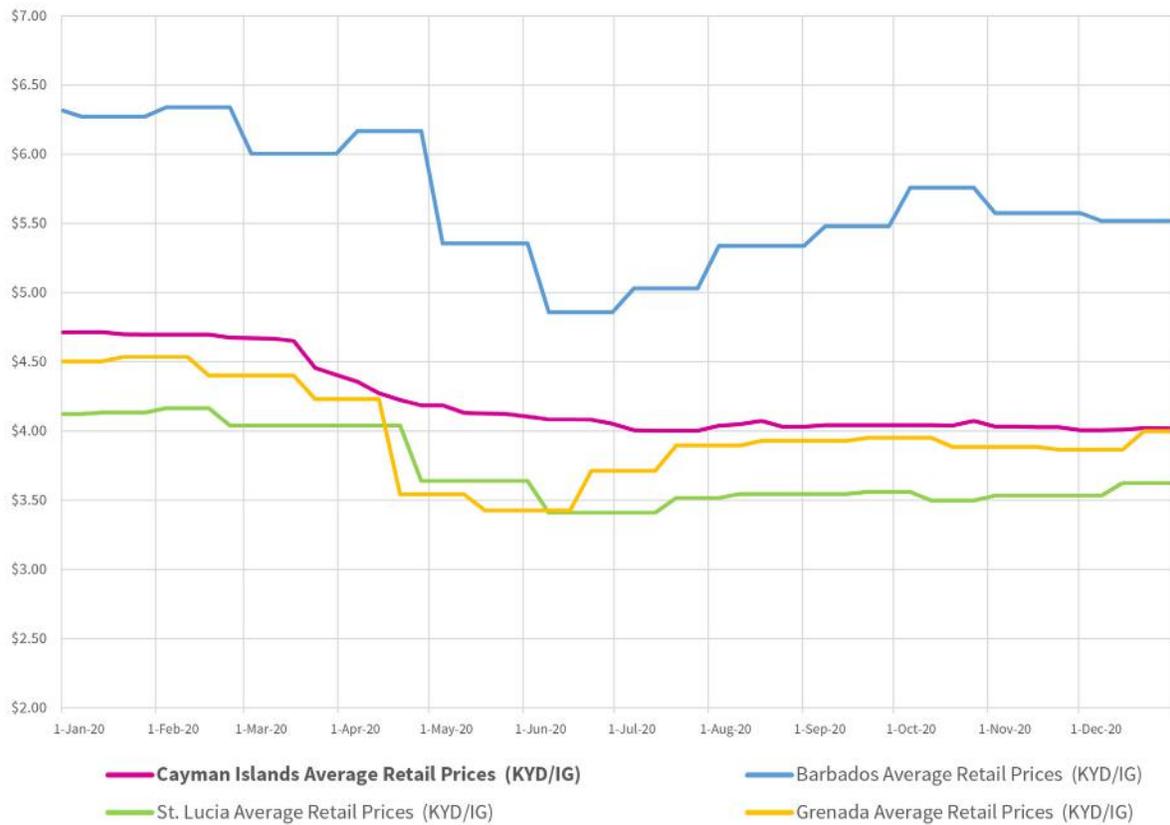
Comparative 2020 Fuel Factor (USD per KWh)*

The Office compared the 2020 average cost of the Fuel Factor pass-through amongst 8 different electric utilities in the region. The cost of the Fuel Factor in Grand Cayman was found to be just above the average of US\$0.12 per kWh. From the data collected Jamaica Public Service had the highest average 2020 fuel costs of US\$0.17 per kWh, while Dominica Electricity Services had the lowest average 2020 fuel cost of US\$0.09 per kWh. Note, all currencies were converted to USD for comparative purposes.

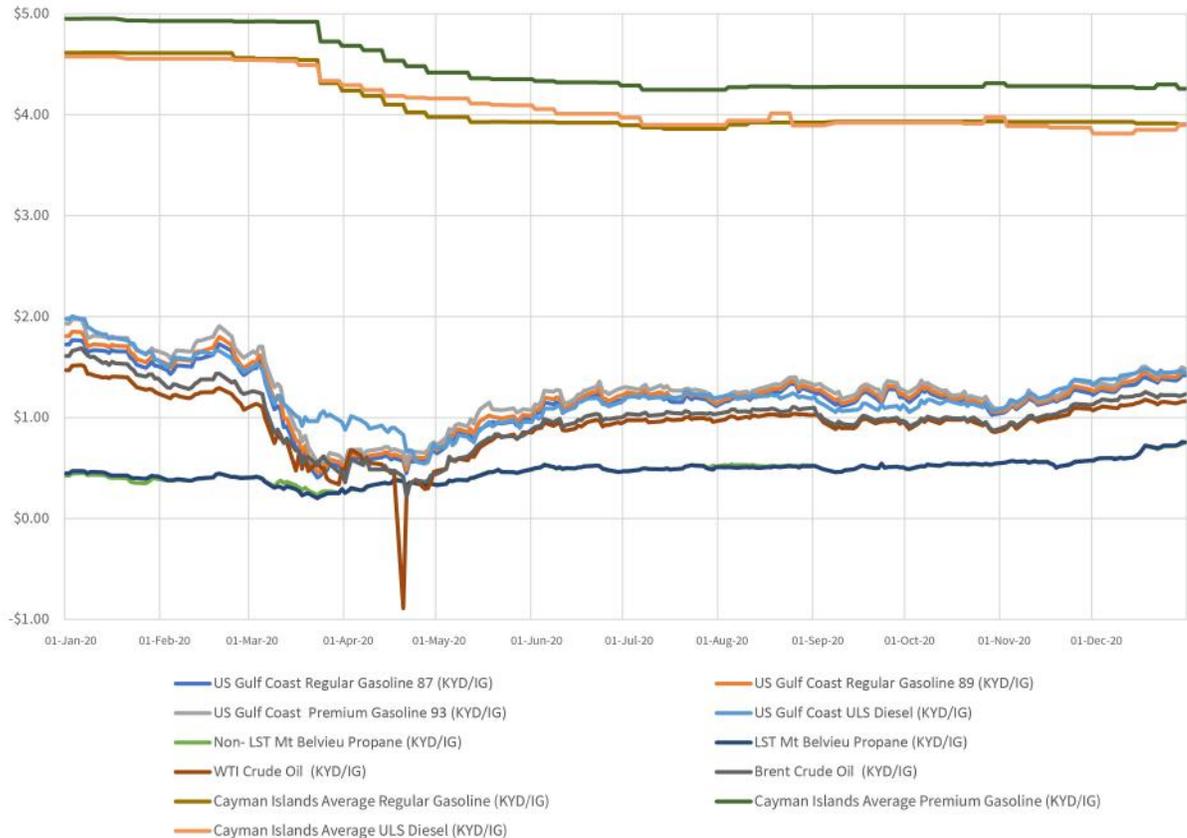




Cayman Islands vs. Comparable Regional Average Retail Prices in 2020 (KYD/IG)*



Cayman Islands Retail vs. US Gulf Coast Refinery and Oil Prices in 2020 (KYD/IG) *

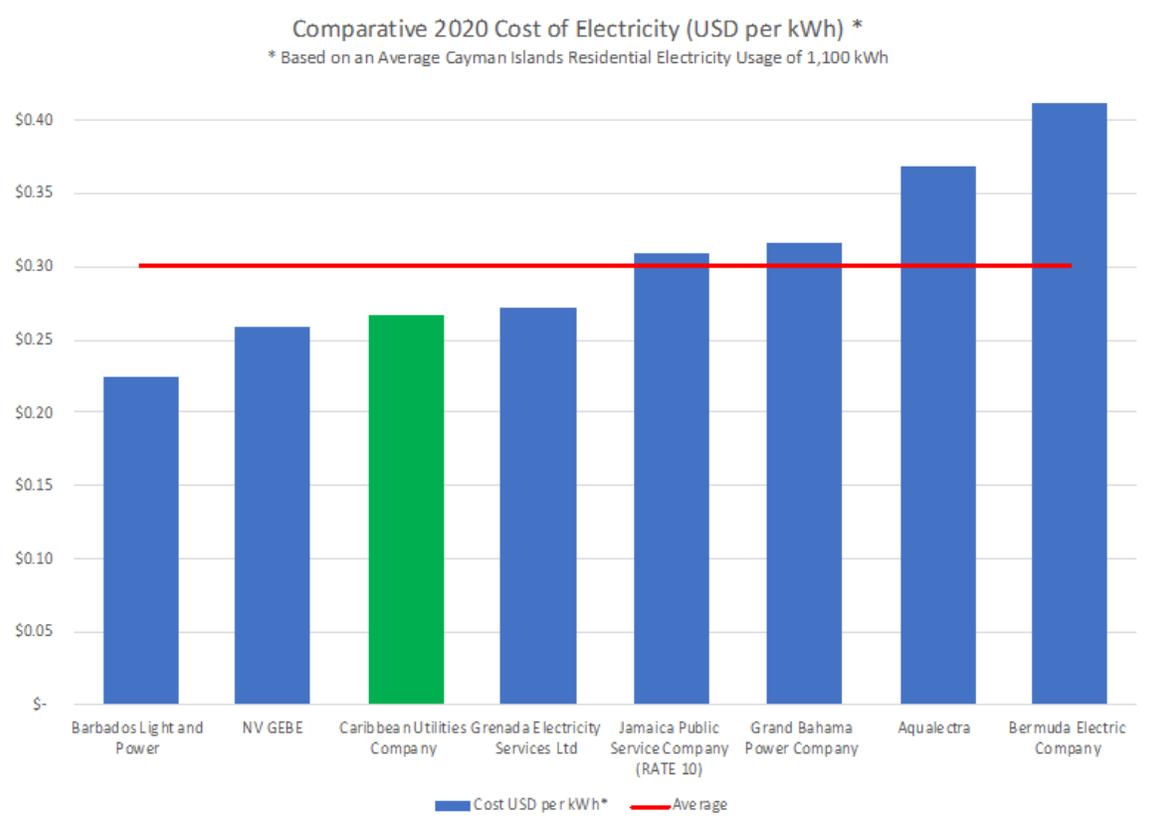


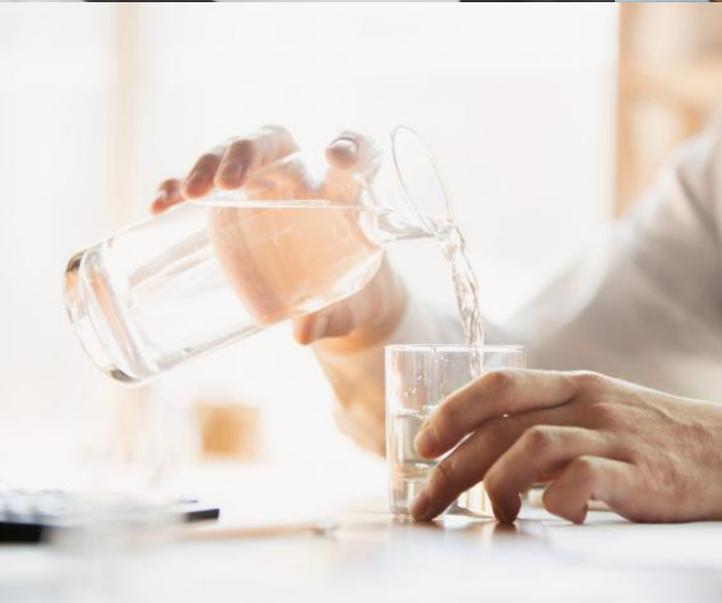
*References:

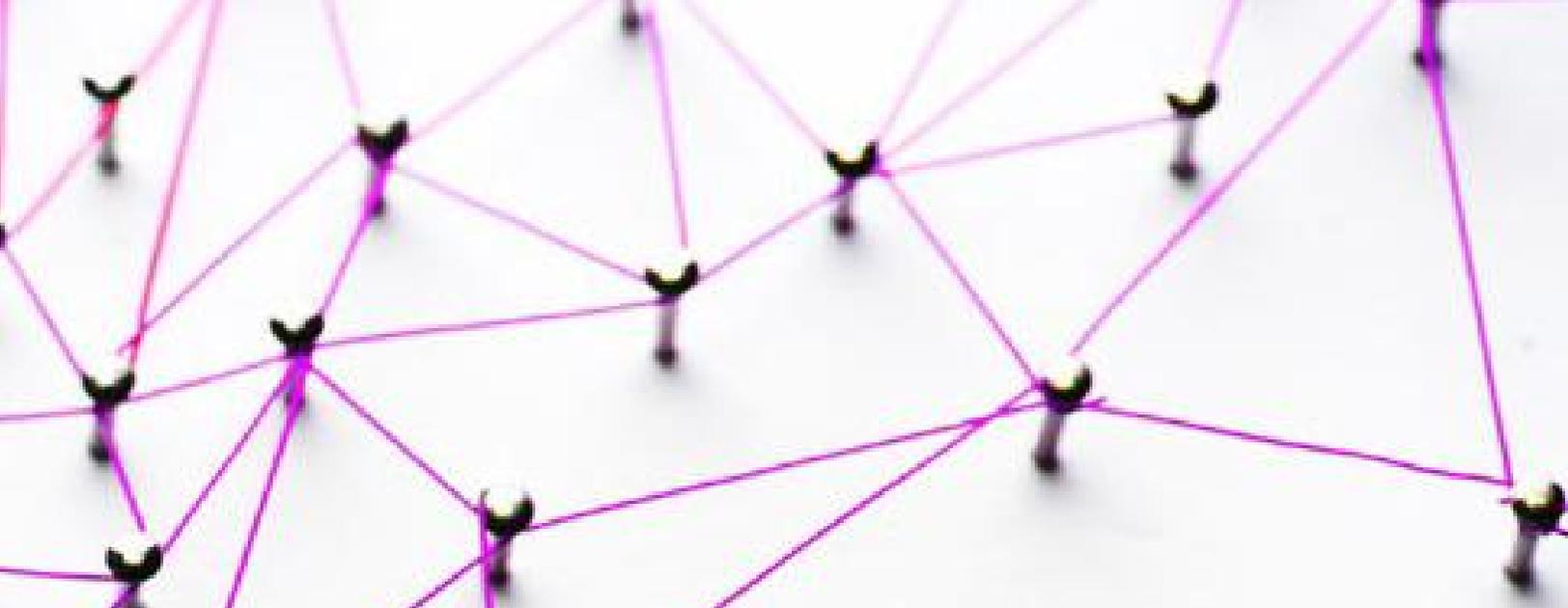
- <https://www.cuc-cayman.com/customer-service/fuel-cost/>
- <https://www.cuc-cayman.com/customer-service/billing-rates/>
- <https://www.belco.bm/general/fuel-adjustment.html>
- <https://www.belco.bm/residential-services/residential.html#rates>
- <https://www.aqualectra.com/rates/>
- <https://www.blpc.com.bb/index.php/customer-care/fuel-clause-adjustment>
- <https://www.blpc.com.bb/index.php/residential/tariffs-and-riders-residential>
- <https://gb-power.com/residential/energy-usage/#fuelchargeinformation>
- <https://gb-power.com/residential/billing/power-rates/>
- <http://grenlec.com/YourEnergy/Rates.aspx>
- <https://www.jpsco.com/jps-home/fuel-rates-2/>
- <https://www.jpsco.com/2020-2021-rate-schedules/>
- <https://www.facebook.com/page/110327952314188/search/?q=fuel%20clause>
- <https://www.nvgebe.com/rates-tariffs.php>

Cost of electricity compared to other regions*

The Office compared the average cost of electricity of 8 different electric utilities in the region and, the overall cost of electricity in Grand Cayman was found to be below average. Based on an average Cayman Islands Residential usage of 1,100 kWh per month, CUC was providing electricity at an average cost of \$0.27 USD per kWh in 2020. To compare CUC to the other regional electricity providers, the Office assumed a similar average residential electricity consumption pattern of 1,100 kWh per month and used the average 2020 electricity rates for each respective utility. From the data collected, Bermuda Electric Company had the highest average 2020 cost of US\$0.41 per kWh while Barbados Light and Power had the lowest cost of US\$0.22 per kWh. Note, all currencies were converted to USD for comparative purposes.







Key Milestones in 2020

The following key milestones were achieved by the sectoral teams during the Office's 2020 financial year:



Energy

>>>
20MW Energy Storage

The Office approved the CUC 20MW Energy Storage Project which will lower the cost of electricity to consumers and also increase the amount of intermittent renewable energy capacity that can safely be added to the grid without compromising its reliability and stability by 12MW.

>>>
CUC Rate Base
Adjustment Proposal

The Office conducted a detailed review of the CUC 1 June 2020 Rate Base Adjustment Proposal, the Office granted approval as allowed under the Rate Cap Adjustment Mechanism (RCAM) contained in the T&D licence. The implementation of the adjustment was deferred until 1 January 2021. This deferral was considered prudent to lessen the impact on consumers considering the economic, social and health impacts of the COVID-19 pandemic and the prevailing environment.

>>>
Fuel Price Volatility
Management Plan

The Office reviewed and approved the Fuel Price Volatility Management Plan (FPVMP) for the 2020-2021 calendar year as recommended. FPVM Plans typically call for purchasing 12-month hedging contracts from multiple providers using New York Mercantile Exchange (“NYMEX”) No. 2 Heating Oil as a proxy hedge since it is almost identical in terms of refining to Ultra Low Sulphur Diesel (ULSD).

The CUC 20MW Energy Storage Project will lower the cost of electricity to consumers



>>>
CUC COVID-19 Cost
Recovery Proposal

The Office worked with CUC to ensure that no disconnections were made during the lockdown period, disconnected parties were reconnected, and that payment plans were made available to all customers. The Office reviewed and approved the CUC COVID-19 Cost Recovery Proposal that enables CUC to recover these costs over a 12-month period commencing in January 2021.

>>>
George Town
Revitalisation Street
Lighting Rates

During 2020, the Office reviewed and approved CUC's proposed George Town Revitalisation Street Lighting Rates.

ICT

- >>> Licence Renewals

The Office initiated its programme to renew the licences of all licensees who were operating under extended licences.
- >>> Internet Exchange Point

The Office published a consultation on a first-term Internet Exchange Point licensing and regulatory framework. The Office expects to be prepared to issue an initial licence in Q1 2021.
- >>> COVID-19 response support

During 2020, the Office’s COVID-19 response included collaboration with the Ministry of International Trade, Investment, Aviation and Maritime Affairs to build an online system to automate the curfew exemption request and approval process for businesses. The Office also spearheaded an initiative in collaboration with telco licensees to ensure residents could contact essential services at no charge. The Office worked with mobile providers to ensure that access to certain government websites incurred no data charges from mobile devices and in support of Government’s quarantine programme for inbound travellers, the Office worked with ISP’s to ensure bandwidth to quarantine hotels was increased temporarily.

Multi-agency COVID-19 response in partnership with the private sector



Critical National
Infrastructure
Strategy

>>>

The Office commenced a number of initiatives during 2020 in relation to the ICT CNI Strategy, including: the launch of the first phase of the “Click Before U Dig” underground infrastructure protection programme; provision of support and information to the Ministry of Commerce, Planning and Infrastructure in support of their third international subsea cable initiative and conducted a second consultation on the Pole Attachment (Reservation Fees) dispute.

Fuel

>>>
National fuel quality standards

The Office focused on progressing the National Energy Policy (NEP) goals relating to the fuel sector, establishment of national fuel quality standards, and support for the Cayman Islands National Maritime Strategy with emphasis on III Code compliance extended by the UK to its OTs.

>>>
LPG Market Anti-Competitive Investigation

During 2020, three major investigations were progressed to conclusion during the year; namely the LPG Market Anti-Competitive Investigation, the Propane Cylinder Incident, and RUBIS Tank Release Incident. The first two investigations were completed, and enforcement actions taken, while the other is ongoing for conclusion and potential enforcement.

>>>
Other achievements

Other noteworthy achievements in the fuels sector include a merger assessment and pending approval, acquisition of an emergency trailer, and the roll out of the Fuels team internship (and mentoring) programme. The Fuel Sector Team also provided support as required during emergencies and events of national significance given their role as members of the national emergency response team.

Focusing on progressing the National Energy Policy (NEP) goals relating to the fuel sector



Water

Interim funding mechanism

>>>

During 2020, an interim funding mechanism for the Water sector was negotiated with the Water Authority Cayman (WAC) to enable the Office to acquire and deploy resources necessary to properly regulate the sector.

COSS on the Cayman Water Company

>>>

The Office commenced a (COSS) on the Cayman Water Company. The purpose of the COSS is to assist with the determination of new water rates, and to determine a reasonable allowed return on investment for the grant of a new Water Producers and Supply Licence. The COSS will conclude in Q1, 2021. The existing licence extension expired on 31 January 2018, and negotiations continued during 2020.

Financial Performance & Analysis

Summary of PMFL Ownership Targets

Pursuant to the PMFL, the following ownership targets for the Office were agreed between Cabinet and the Board for the 2020 financial year

Ownership Agreement Targets for Fiscal Year January – December 2020

Target	Deadline	Status
To establish a 90-day operating expenses reserve for the organisation.	31 December 2020	Funding is available to establish the 90-day reserve. The Office is currently working on a general reserve policy to govern the use of the reserve. The policy is scheduled to be completed in Q2 2021.
To identify and complete the necessary corporate governance policies and procedures required to enable the Office to effectively carry out its functions under the various laws.	31 March 2020	During 2020, the Board approved: a board and management communications framework; an Anti-Fraud policy; an IT Acceptable Use and Security policy; a Hospitality, Entertainment and Gift policy; an Information Security Breach Policy; and a Human Resource Policy and Procedure Manual. The update of the 5-year Strategic Plan will pave the way for the implementation of additional corporate governance policies and procedures. The Office continues to develop and put in place robust mechanisms to improve governance and systems of control.
To secure new office accommodations in order to improve productivity and ensure adequate space is available for employees.	30 September 2021	During 2020, the search for new office accommodations was temporarily halted due to the COVID-19 pandemic. The Office will continue the search for suitable office accommodations in 2021.
To develop and implement an employee performance management system to support continued employee and growth and succession planning.	30 June 2020	Performance agreements were completed with senior management in 2020. An office wide performance management system will be implemented by June 30, 2021.



Fuel Sector Outputs

The following results were achieved by the Fuel sector team during the Office's 2020 financial year:

URC 10 - Monitoring and Controlling of Petroleum Products, Storage and Handling

Objectives/ Action/ Measures		Annual Objective	Actual
Quantity	General Inspection (all permitted premises and vehicle)	270-300	103
	Statutory Consultation (Planning and Permitting)	60-120	255
	Fuel and Energy related Initiatives Engagement	5-10	27
	FOI, Media and Complaints handled/addressed	40-60	11
	Quality Control & Fuel testing	4-10	8
	Issuance of Operating and Import Permits, and Calibration Certs	210-245	142
	Pump Calibrations witnessed/supervised (Premises/Vehicles)	40-50	37
	General Policy Advice and Consultation	35-50	19
	Emergency and Spill Response Management	8 – 10	28
	Technician certification (certificates issued)	30-40	0



100 %

Comply with the Dangerous Substances Handling and Storage Act, 2017, its Regulations and relevant industry codes and standards determined by CPI in consultation with relevant stakeholder



100 %

Inspections to be carried out by qualified, competent and experienced Inspectors



100 %

Activities to be carried out to the highest ethical and professional standards using relevant and up-to-date industry information and practice, and engaging certified organisations where necessary

Timelines



95 %

Inspections (Cycle) to be completed within five (5) working days
Calibrations to be completed within 48 hours



95 %

Turnaround time of three (3) days to action and respond to applicant on Planning and Permitting Applications



100 %

All other Tasks to be completed within set/established timeline including and not limited to Operating Permit Issuance, Remedial Notices, Appeals, Reports, etc.

100 %

Cayman Islands

Location



URC 11 – Economic Regulations; Monitoring and Directing the Fuel Sector and Relevant Market

	Objectives/ Action/ Measures	Annual Objective	Actual
Quantity	Collate and Analyse “Section 10” Data from Importers	200-264	214
	Execute License Agreement with Major Fuel Licensees	10-12	0
	Monitoring and post Fuel Prices and analysis on a fortnightly basis	30-52	82
	Bi-annual market review and report submission on adequacy of regulation and state of competition in relevant markets	2-6	6
	Establish guidelines and criteria for new entrants to relevant Fuels Market	1-2	5
	Evaluate and report on adequacy of fuel mix bi-annually	1-2	3
	Function as Focal Point for CEIS/SRC providing data as required	10-13	17
	Represent government on Intl. Fuel Regulatory Affairs	2-3	0
	Annual engagement with Licensees	12-20	14
	Enforce Regulatory Breaches	20-40	7
	Regulatory Investigations	2-5	9
	Consumer & Public Awareness and Engagement on Fuel Sector	4-6	10



100 %

Comply with Fuels Market Regulation and Utility Regulation and Competition laws, and relevant regulation and competition regulations, guidelines and determination required by the Office and Cabinet



100 %

Economic Regulations to be administered by qualified, competent and experienced Analysts, Economists and Management team members



100 %

Activities to be carried out to the highest ethical and professional standards using relevant and up-to-date industry information and practice, and engaging certified organisations where necessary to augment the work of the Office

Timelines



95 %

Relevant analysis, research, assessment to be carried out within adequate timeframe to allow the Office to minimise and mitigate against negative competition effects in a timely manner.



95 %

Local price monitoring data to be posted within 48 hours of the most recent surveyed prices



100 %

All other tasks to be completed within set/established timeline

100 %

Cayman Islands

Location



Financial Targets

Pursuant to subsection 52(2)(c) in the PMFL, the tables below show the execution against agreed financial targets for the 2020 financial year.

Financial Performance Measure		2020 Budget 12 Months \$ 000's	2020 Actual 12 Months \$000's
#			
1.	Revenue from Cabinet	1,758	1,628
2.	Revenue from ministries, portfolios, statutory authorities and government companies	20	20
3.	Revenue from other persons or organisations	4,755	3,694
4.	Other expenses	5,511	4,625
5.	Net Surplus/Deficit	1,002	717
6.	Total Assets	5,127	6,881
7.	Total Liabilities	350	4,071
8.	Net Worth	4,777	2,810
9.	Cash flows from operating activities	1,061	974
10.	Cash flows from investing activities	(1,489)	27
11.	Cash flows from financing activities	-	-
12.	Change in cash balances	(428)	1,949

Financial Performance Ratio	2020 Budget 12 Months \$ 000's	2020 Actual 12 Months \$000's
#		
13. Current Assets:Current Liabilities	12.46:1	2.49:1
14. Total Assets: Total Liabilities	14.653:1	2.03:1

Human Capital Maintenance	2020 Budget 12 Months	2020 Actual* 12 Months
#		
15. Total full time equivalent	28	25
16. Staff turnover (%)	Nil	4.00
17. Average length of service (Number of Years)		
18. Senior management	4.98	5.60
19. Professional staff	5.71	5.73
20. Administrative Staff	12.13	12.13
21. Significant changes to personnel management	None	None

Physical Capital Measures	2020 Budget 12 Months	2020 Actual 12 Months
#		
22. Value of total assets	5,127	6,881
23. Asset replacements: total assets	0.01:1	0.24:1
24. Book value of depreciated assets: initial cost of those assets	0.50:1	0.09:1
25. Depreciation: Cash flow on asset purchases	1.53:1	1.04:1
26. Changes to asset management policies	None	None

Major Capital Expenditure Projects		2020 Target	2020 Actual
		\$	\$
#			
27.	Leashold Improvements	300,000	-
28.	Testing Equipment	50,000	-
29.	Fuel Analyser	75,000	-
30.	Emergency Fuel Response Trailer	50,000	2,400
31.	IT Upgrade	25,000	-
32.	IT Equipment	-	13,848

Operating Statement		2020 Budget	2020 Actual
		12 Months	12 Months
		\$ 000's	\$000's
#			
33.	Revenue	6,513	5,342
34.	Operating Expenses	5,511	4,625
35.	Net Surplus/(Deficit)	1,002	717

Balance Sheet		2020 Budget	2020 Actual
		12 Months	12 Months
		\$ 000's	\$000's
#			
33.	Assets	5,127	6,749
34.	Liabilities	350	4,071
35.	Net Worth	4,777	2,810

Statement of Cash Flows		2020 Budget 12 Months \$ 000's	2020 Actual 12 Months \$000's
#			
36.	Net cash flows from operating activities	1,061	948
37.	Net cash flows from investing activities	(1,489)	974
38.	Net cash flows from financing activities	-	27

Transaction		Amount for 2020 Target \$	Amount for 2020 Actual \$
#			
39.	Equity Investments into OfReg	Nil	Nil
40.	Capital Withdrawals from OfReg	Nil	Nil
41.	Dividend Distributions to be made by OfReg	Nil	Nil
42.	Government Loans to be made to OfReg	Nil	Nil
43.	Government Guarantees to be issued in relation to OfReg	Nil	Nil
44.	Related Party Payments (Non-Remuneration) made to Key Management Personnel	Nil	Nil
45.	Remuneration Payments made to Key Management Personnel	204,000	180,367
46.	Remuneration Payments made to Senior Management	1,097,676	1,049,102

Balance Sheet		Number for 2020 Target	Number for 2020 Actual*
#			
33.	No of Key Management Personnel	7	6
34.	No of Senior Management	7	6

Utility Regulation and Competition Office

Financial Statements

31 December 2020

Utility Regulation and Competition Office

**FINANCIAL STATEMENTS
31 December 2020**

Table of Contents

Statement of Responsibility For The Financial Statements	Page 1
Auditor General's Report	Page 2-3
Statement of Financial Position	Page 4
Statement of Financial Performance	Page 5
Statement of Changes in Net Assets	Page 6
Statement of Cash Flows	Page 7
Notes to the Financial Statements	Page 8-35

Utility Regulation and Competition Office
Statement of Responsibility for the Financial Statements
31 December 2020

These financial statements have been prepared by the Utility Regulation and Competition Office in accordance with the provisions of the *Public Management and Finance Act (2020 Revision)*. The financial statements comply with generally accepted accounting practice as defined in International Public Sector Accounting Standards.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Act (2020 Revision)*.

As Chairman and Chief Executive Officer, we are responsible for establishing; and have established and maintain a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of the Utility Regulation and Competition Office.

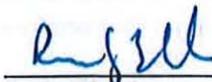
As Chairman and Chief Executive Officer, we are responsible for the preparation of the Utility Regulation and Competition Office's financial statements and for the judgements made in them.

The financial statements fairly present the statement of financial position, financial performance and cash flows for the financial year ended 31 December 2020.

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

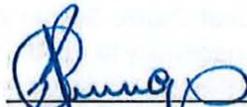
- (a) completely and reliably reflect the financial transactions of the Utility Regulation and Competition Office for the year ended 31 December 2020;
- (b) fairly reflect the financial position as at 31 December 2020 and financial performance for the period ended 31 December 2020; and
- (c) comply with International Public Sector Accounting Standards under the responsibility of International Public Sector Accounting Standards Board.

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



Rudy Ebanks
Chairman

Date: 30 November 2021



Malike Cummings
Chief Executive Officer

Date: 30 November 2021

AUDITOR GENERAL'S REPORT

To the Board of Directors of the Utility Regulation and Competition Office

Opinion

I have audited the financial statements of the Utility Regulation and Competition Office (the "Office") which comprise the statement of financial position as at December 31, 2020 and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year ended 31 December 2020, and notes to the financial statements, including a summary of accounting policies as set out on pages 8 to 35.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Office as at 31 December 2020 and its financial performance and its cash flows for the year ended 31 December 2020 in accordance with International Public Sector Accounting Standards.

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). 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 Board in accordance with the International Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, together with the ethical requirements that are relevant to my audit of the financial statements in the Cayman Islands, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 International Public Sector Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Office'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 Office or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Office's financial reporting process.

AUDITOR GENERAL'S REPORT (continued)

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 ISAs 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 ISAs, 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 for 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 Office'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 Office'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 Office to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I have undertaken the audit in accordance with the provisions of Section 60 (1) (a) of the *Public Management and Finance Act (2020 Revision)*. 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 my audit.



Sue Winspear, CPFA
Auditor General

30th November, 2021
Cayman Islands

Utility Regulation and Competition Office
Statement of Financial Position
As at 31 December 2020
(stated in Cayman Islands dollars)

CURRENT ASSETS	<u>Notes</u>	<u>31 Dec 2020</u>	<u>31 Dec 2019</u>
Cash and cash equivalents	3(n),20	5,170,702	3,221,127
Short-Term Investment	3(b),20	-	1,027,027
Accounts receivable	4,8,20	1,474,274	1,378,416
Prepaid expenses		103,737	99,312
		<u>6,748,713</u>	<u>5,725,882</u>
NON-CURRENT ASSETS			
Property, plant and equipment	5	132,449	132,154
Intangible Assets	6	-	116
TOTAL ASSETS		<u>6,881,162</u>	<u>5,858,152</u>
LIABILITIES			
CURRENT LIABILITIES			
Collections Payable to Government	8	2,088,878	2,019,493
Accounts payable and accrued liabilities	7	622,594	659,671
LONG-TERM LIABILITIES			
Defined benefit healthcare liability	10	1,008,000	688,000
Defined benefit pension liability	10	352,000	144,000
TOTAL LIABILITIES		<u>4,071,472</u>	<u>3,511,164</u>
NET ASSETS		2,809,690	2,346,988

Approved on behalf of the Board of Directors on the 30 of November 2021



Rudy Ebanks
Chairman



Malike Cummings
Chief Executive Officer

The accompanying notes form an integral part of these financial statements.

Utility Regulation and Competition Office
Statement of Financial Performance
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

INCOME	Notes	31 Dec 2020	31 Dec 2019
Regulatory fees	12	2,940,419	2,845,914
Services provided to Government	8,11	1,628,183	1,238,476
Licensing Fees	14	393,380	356,766
.ky domain fees		182,426	162,293
Permit Fees		137,716	76,329
Other Income	13	59,378	53,747
		<u>5,341,502</u>	<u>4,773,525</u>
EXPENSES			
Personnel costs	8,10,16	3,563,201	3,109,750
Professional and consultancy fees	17	304,733	217,367
General and Administration Costs	18	396,051	355,604
Lease of Office space	15	80,400	210,172
Litigation Costs	19	23,801	175,806
Directors' fees	8	180,973	175,176
Official Travel and conferences		9,982	39,722
Depreciation and amortisation	5,6	52,451	72,309
Training		13,245	47,658
		<u>4,624,837</u>	<u>4,403,564</u>
Net surplus for the year		<u>716,665</u>	<u>329,961</u>

The accompanying notes form an integral part of these financial statements.

Utility Regulation and Competition Office
Statement of Changes in Net Assets
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

	Note	Contributed Capital	General Reserve	Accumulated (deficit)/surplus	Other Comprehensive Income	Total Net Assets
Balance at 1 January 2019		2,393,678	1,924,000	(1,801,651)	102,000	2,618,027
Equity Investment			(400,000)			(400,000)
Net surplus for the year				329,961		329,961
Remeasurement of defined benefit plan	10				(201,000)	(201,000)
Balance at 31 December 2019		2,393,678	1,524,000	(1,471,690)	(99,000)	2,346,988
Balance at 1 January 2020		2,393,678	1,524,000	(1,471,690)	(99,000)	2,346,988
Prior Period adjustment	25	-	-	(7,176)	-	(7,176)
Balance at 1 January 2020 (restated)		2,393,678	1,524,000	(1,478,866)	(99,000)	2,339,812
Equity Injection		27,213				27,213
Net surplus for the year				716,665		716,665
Remeasurement of defined benefit plan	10				(274,000)	(274,000)
Balance at 31 December 2020		2,420,891	1,524,000	(762,201)	(373,000)	2,809,690

The accompanying notes form an integral part of these financial statements.

Utility Regulation and Competition Office
Statement of Cash Flows
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

		31 Dec 2020	31 Dec 2019
CASH FLOW FROM OPERATING ACTIVITIES			
Net surplus for year	Note	716,665	329,961
Adjustment for non-cash transactions:			
Non-Cash Defined Benefit Cost	16	254,000	187,000
Interest on Short Term Investment	3(b)	-	(18,833)
Depreciation and amortisation		52,451	72,309
Prior Period Adjustment	25	(7,176)	-
		<u>1,015,940</u>	<u>570,437</u>
Net changes in non-cash operating balances:			
Accounts receivable		(95,857)	(381,569)
Prepaid expenses		(4,425)	12,034
Collections payable to Government		69,385	(14,667)
Accounts Payable and Accrued Expenses		(37,077)	283,320
Net cash provided by operating activities		<u>947,966</u>	<u>469,555</u>
CASH FLOW FROM/(USED IN) INVESTING ACTIVITIES			
Fixed Deposit Maturity		1,027,027	-
Purchase of property, plant and equipment		(52,631)	(57,840)
Net cash used in investing activities		<u>974,396</u>	<u>(57,840)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Contribution of PP&E		27,213	-
Contribution to Department of Public Safety Communications	8	-	(400,000)
Net cash provided by financing activities		<u>27,213</u>	<u>(400,000)</u>
Net increase in cash and cash equivalents during the period		1,949,575	11,715
Cash and cash equivalents at beginning of the period		<u>3,221,127</u>	<u>3,209,412</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD		<u>5,170,702</u>	<u>3,221,127</u>

The accompanying notes form an integral part of these financial statements.

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

1. Establishment and principal activities

The Utility Regulation and Competition Office (*the 'Office'*) is the independent multisector authority established by the enactment of the Utility Regulation and Competition Act, 2016 (URC Act) and commenced operations on 16 January 2017. The Office was established pursuant to section 4(1) of the URC Act.

The Office is an amalgamation of the Information and Communications Technology Authority ('ICTA'), the Electricity Regulatory Authority ('ERA') and the Petroleum Inspectorate, which hitherto had been a Department of the Government of the Cayman Islands.

On 16 January 2017, ICTA and ERA were amalgamated to start the Office and in March 2017 in accordance with section 100A (1) of the Information and Communications Act, 2017 (ICTA Act) and section 92A of the Electricity Regulatory Authority Act, 2016 respectively. In February 2017, the Petroleum Inspectorate, was effectively transferred to the Office and in May 2017 the regulatory functions for the Water Sector were transferred to the Office in May 2017, with the passing of the Water Sector Regulatory Act, 2017 (WSR Act).

In each of these sectors for which it has responsibility, the Office derives its authority and functions through a variety of Sectoral Acts, the principal ones being the Electricity Sector Regulation Act, 2019 (ESR Act), the Information and Communication Technology Act (2019 Revision) (ICT Act), the Dangerous Substances Act (2017 Revision) (DS Act), the Fuels Sector Regulation Act, 2017 (FSR Act) and the Water Sector Regulation Act, 2017 (WSR Act).

While many of the functions previously carried out by the ICTA and ERA have continued as usual, in addition, OfReg is endowed with strengthened competition and consumer protection powers, as well as a duty to promote innovation in the sectors for which it has responsibility.

The Office's financial year end is **31st December** each year. As at 31 December 2020, the Office had 23 employees (December 2019: 24 employees).

The Cayman Islands Government ("the Government") appoints the Chair and Non-Executive Members to the Office's Board of Directors.

The Office is located at 85 North Sound Way, 3rd floor, Alissta Towers, George Town, Grand Cayman. Mailing address is P.O. Box 10189, Grand Cayman KY1-1002, Cayman Islands.

2. Significant accounting policies

These financial statements have been prepared in accordance with International Public Sector Accounting Standards ("IPSAS") issued by the International Federation of Accountants and its International Public Sector Accounting Standards Board ("IPSASB"). The Office adopted IPSAS in 2018 pursuant to section 40(1) of the URC Act. There were no material differences to the financial statements upon the adoption of IPSAS. The main differences relate to the presentation of Other Comprehensive Income/(Loss) on the Statement of Changes in Net Assets rather than being presented on the Statement of Financial Performance. In addition, the budget for the Office is presented in note 19 in accordance with IPSAS 24. The significant accounting policies adopted by the Office in these financial statements are as follows:

(a) Basis of preparation

The financial statements of the Office are presented in Cayman Island dollars and are prepared on the accruals basis under the historical cost convention. The figures presented have been rounded to the nearest dollar.

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

(b) Use of estimates

The preparation of financial statements in accordance with International Public Sector Accounting Standards requires 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 as well as the reported amounts of income and expenses during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the reporting period and in any future periods that are affected by those revisions.

(c) Budget amounts

The original budget amounts for the year ended 31 December 2020 were prepared using the accrual basis of accounting and the accounting policies have been consistently applied with the actual financial statement presentation. The amounts shown in these financial statements were included in the Budget Statement of the Government of the Cayman Islands for the year ended 31 December 2020 which was approved by the Parliament on 5 December 2019.

(d) Foreign currency translation

Assets and liabilities denominated in currencies other than Cayman Islands dollars are translated at exchange rates in effect at the financial statements date. Income and expense transactions denominated in currencies other than Cayman Islands dollars are translated at exchange rates at the date of those transactions. Gains and losses arising on translation are included in the statement of financial performance.

(e) Cash and cash equivalents

Cash and cash equivalents are considered as cash held on demand and fixed deposits with an original maturity of three months or less.

(f) Short Term Investments

Short-term Investments represent term deposits with banks or other financial institutions with original maturities of greater than three months but less than twelve months.

(g) Accounts receivable

Accounts receivable are recognised initially at fair value and are subsequently reviewed for impairment. Where there is objective evidence that a debt will not be collectible by the Office according to the agreed terms a provision for bad debt is established. The Office maintains a provision for doubtful accounts that is based on an assessment of account balances that are over 90 days old.

(h) Property, plant and equipment/depreciation and amortisation

Property, plant and equipment are stated at cost less accumulated depreciation and amortisation, and any impairment losses.

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

Depreciation is charged to the statement of financial performance on a straight-line basis over the estimated useful lives of the property, plant and equipment except for leasehold improvements which are amortised over the life of the lease.

The estimated useful lives of the property, plant and equipment are as follows:

IT equipment	3 - 5 Years
Computer Software	3 Years
Other Equipment	5 Years
Office equipment and furniture	3 – 5 Years
Motor Vehicles	7 Years

Management reviews the depreciation and amortisation method and useful life annually to ensure that they are consistent with the expected economic benefits from property, plant and equipment.

(i) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The Office recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity, and when specific criteria have been met for each of the Office’s activities described below.

Regulatory Fees - Regulatory Fees are the main source of revenue for the Office. Each year, the Office is required to balance its expenditure with its revenue. Regulatory fees are collected from each sector that the Office regulates, with revenue recognised in accordance with Section 6 (2)(I) the URC Act and the administration of licensing arrangements with major licensees. The performance obligations relate to the work to be undertaken by the Office as regulator of the sectors, and is set out in the published Strategic and Annual Plans, the URC Act and the licensing agreements. Revenue is recognised in the year that the costs are incurred.

Services provided to the Government – The Office provides services to the Government which are established and defined through a Purchase Agreement. The purchase agreement details the outputs that the Government and the Office has agreed that the Office will deliver, and the Cabinet will purchase in a particular fiscal year. Revenue is recognized when the performance obligations agreed in the purchase agreement are performed. Payments will be made on the basis of a quarterly invoice provided to the Government by the Office.

Licensing fees – The Office issues ICT licenses for type approval and radio. A type approval is granted to a product that meets a minimum set of regulatory, technical and safety requirements. The Office is responsible for the licensing and regulation of all radio transmitters including radio licenses for Ships, Aircrafts, Amateur (HAM) and Land Mobile. Fees are levied pursuant to section 30 of the ICTA Act (2019). Revenue is recognized once the license has been issued. The Office also issues ICT licenses for the usage of electromagnetic spectrum in accordance with the section 9 of the ICTA Act (2019 Revision). The Office is responsible for allocating electromagnetic spectrum in the Cayman Islands, determining methods for assigning electromagnetic spectrum and instituting procedures for ensuring compliance by licensees with any obligations regarding the use of the electromagnetic spectrum imposed by the licence. Licensees are required to pay spectrum fees and submit spectrum returns annually. The validity period of the return represents the period that the economic benefits will flow to the Office and revenue is recognized in conformity with the validity period.

Permit Fees – The Office processes applications for operating permits for premises and vehicles used to store or transport dangerous substances, under the Dangerous Substances Handling & Storage Act, 2017. The Office also processes applications for permits in relation to the importation of fuel and compressed gas and revenue is recognized once the permit has been issued.

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

KY Domain Fees – The Office has been delegated authority from the Government, in accordance with section 9(i) of the ICTA Act (2019) for the management and administration of the .ky internet domain. A domain name registration fee is charged upon initial registration of the domain and also at the time of renewal. Fees are charged to domain owners on an annual basis. Revenue is recognized once a domain name has been granted. The management of the .ky domain is contracted to a third party, who remits payment of the registration fees on a quarterly basis.

All application and licence fees are non-refundable.

(j) Leases

The Office leases certain property, where a significant portion of the risks and rewards of ownership are retained by the lessor. These leases are classified as operating leases. Lease payments are recognised as an expense on the statement of financial performance on a straight-line basis over the lease term.

(k) Financial instruments

(i) Classification

A financial asset is classified as any asset that is cash, a contractual right to receive cash or another financial asset, exchange financial instruments under conditions that are potentially favourable or an equity instrument of another enterprise. Financial assets are comprised of cash and cash equivalents, short-term deposits and receivables.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial instrument or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable. Financial liabilities are comprised of accounts payables and accrued expenses.

(ii) Recognition

The Office recognises financial assets and financial liabilities on the date it becomes party to the contractual provisions of the instrument. From this date, any gains and losses arising from changes in fair value of the assets or liabilities are recognised in the statement of financial performance.

(iii) Measurement

Financial instruments are measured initially at cost which is the fair value of the consideration given or received. Subsequent to initial recognition, all financial assets are recorded at historical cost, which is considered to approximate fair value due to the short-term or immediate nature of these instruments.

(iv) Derecognition

A financial asset is derecognised when the Office realises the rights to the benefits specified in the contract or loses control over any right that comprise that asset. A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled, or expired.

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

(l) Provisions and contingencies

Provisions are recognised when an obligation (legal or constructive) is incurred as a result of a past event and where it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognised but are disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised but are disclosed in the financial statements when an inflow of economic benefits is probable.

(m) Employee benefits

Employee entitlements such as, annual leave, long service leave, retiring leave and other similar benefits are recognised in the statement of financial performance when they are earned by employees. Employee entitlements to be settled within one year following the year end outstanding at that date are reported as current liabilities at the amount expected to be paid.

Retirement benefits are provided to employees through a defined contribution plan, as well as a defined benefit plan (note 9).

Defined Contribution Plan

The Office participates in the Public Service Pensions Plan, a defined contribution pension fund, in accordance with the Public Service Pension Act. Contributions are charged to expenses as they are incurred based on set contribution rates. The Office makes monthly contributions at a rate of 12%, whereby the employer pays both the employer contribution of 6% and employee contributions of 6%. In addition, the Office is also required to contribute to the Public Service Pension Plan, an extra 0.4% (2019: 0.4%) of each employee's monthly salary. This 0.4% (2019:0.4%) is a Past Service Liability (PSL) cost to cover a deficiency in the Fund. During the year, the Public Service Pensions (Contribution Rates) Regulations (2019) were issued, which amended the additional normal cost contribution rate effective January 1, 2017 to 0.4%.

The Office also participates in a pension plan administered by Silver Thatch. The contributions made to this plan is for employees who have reached the previous retirement age of 60 prior to the amendment of the National Pensions Act or employees who are over the current retirement age of 65. These employees are unable to contribute to the Public Service Pension Plan. The Office makes monthly contributions at a total rate of 12%, whereby the employer pays both the employer contribution of 6% and employee contribution of 6%. The Office is not required to make any additional contributions for PSL to this fund.

Defined Benefit Plan

The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each financial position date. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the Office's defined obligation and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The defined benefit asset or liability comprises the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

(n) Subsequent Events

Post-year-end events that provide additional information about the Office's position at the financial position date (adjusting event) are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed in the notes to the financial statements when material.

3.

(a) Cash and cash equivalents

	31 December 2020	31 December 2019
Cash on Hand	2,692	500
Fixed Deposits	1,296,321	499,146
Current and Savings accounts	3,871,689	2,721,481
Total cash and cash equivalents	5,170,702	3,221,127

Included in Cash on Hand are undeposited checks totaling \$2,192. Included in fixed deposits is an amount of \$19,500 for the General Reserve fund.

(b) Short-Term Investments

Short-Term Investments are comprised of term deposits held with the Bank of Butterfield (Cayman) with a maturity date of 365 days. During the year, the Office did not reinvest the principal amount upon maturity, resulting in short-term investments of nil at the end of the year (2019: \$1,027,027).

4. Accounts receivable

	31 December 2020	31 December 2019
Accounts receivables - Trade	608,425	591,798
Receivable from Government	349,945	594,802
Receivable from Water Authority Cayman	495,813	215,552
Other Receivables	54,519	10,692
Allowance for doubtful accounts	(34,428)	(34,428)
Trade and other receivables (net)	1,474,274	1,378,416

The total Trade and other receivables below represent the net of receivables and Allowance for doubtful accounts. During the period, there were no bad debts written off.

Period Outstanding (Days)	31 December 2020	31 December 2019
0-30	1,395,350	1,103,518
30-90	33,677	261,236
Over 90	45,247	13,661
Total	1,474,274	1,378,416

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

4. Accounts receivable (continued)

The bad debts expense recorded in the statement of financial performance is nil, 2019 (nil) represents an estimate of the losses expected to be incurred. The amount recorded is based primarily on management's assessment of accounts in the over 90-day category.

5. Property, plant and equipment

31 December 2020					
	Office equipment and furniture	IT equipment	Motor vehicles	Other Equipment	Total
Cost					
Balance at beginning of period	29,352	204,216	207,686	17,051	458,305
Additions	2,566	16,946	-	33,119	52,631
Balance at end of period	31,918	221,162	207,686	50,170	510,936
Accumulated depreciation and Amortisation					
Balance at beginning of period	25,476	166,127	126,215	8,334	326,152
Charge for period	3,640	25,646	17,827	5,222	52,335
Balance at end of period	29,116	191,773	144,042	13,556	378,487
Net Book Value	\$2,802	\$29,389	\$63,644	36,614	\$132,449
31 December 2019					
	Office equipment and furniture	IT equipment	Motor vehicles	Other Equipment	Total
Cost					
Balance at beginning of period	26,722	186,472	173,186	14,085	400,465
Additions	2,630	17,744	34,500	2,966	57,840
Balance at end of period	29,352	204,216	207,686	17,051	458,305
Accumulated depreciation and Amortisation					
Balance at beginning of period	18,889	121,273	110,031	5,517	255,710
Charge for period	6,587	44,854	16,183	2,817	70,441
Balance at end of period	25,476	166,127	126,214	8,334	326,151
Net Book Value	\$3,876	\$38,089	\$81,472	\$8,717	\$132,154

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

6. Intangible Assets

	31 Dec 2020	31 Dec 2019
Cost		
Balance at beginning of period	7,788	7,788
Additions	-	-
Balance at end of period	7,788	7,788
Accumulated amortisation		
Balance at beginning of period	7,672	5,805
Charge for period	116	1,867
Balance at end of period	7,788	7,672
Net Book Value	\$-	\$116

7. Accounts payable and accrued liabilities

	31 December 2020	31 December 2019
Accrued Expenses	455,392	501,497
Accounts Payable	57,600	75,219
Other	109,602	82,955
	622,594	659,671

8. Related party balances and transactions

During the year, the Government engaged the Office to provide certain services. The provision of these services (or “Outputs”) is formalised in a purchase agreement which includes the collection and verification of royalties paid by Office’s Licensees, policy advice on utility regulation matters and drafting instructions for legislation and regulations.

As part of the services provided to the Government, the Office collected, verified and remitted the 6% Royalty Fee from ICT Licensees as follows:

Period	Amount Collected – CI\$
Q1	\$2,088,287
Q2	\$2,009,739
Q3	\$1,828,494
Q4	\$2,088,878
	\$8,015,398

At the end of the year, the amount collected in Q4 remains outstanding as a payable to Government (2019: \$2,019,493).

The Government paid the Office \$1,628,183 (2019: \$1,238,476) during the year to provide the services outlined in the Purchase Agreement. At the end of the year, \$349,944 (2019: \$348,164) remained outstanding as a receivable.

Water Sector Revenues

On November 18, 2020, a Memorandum of Understanding (MOU) was signed between the Office and Water Authority-Cayman (“the entities”). This MOU determines the allocation of the royalty fees paid by the Cayman Water Company (CWC) between the entities in recognition of the cost incurred for the statutory responsibilities of Water Authority Cayman (WAC) and the regulatory responsibilities of the Office. Prior to the MOU, WAC recognized the

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

8. Related party balances and transactions (continued)

total royalty paid by CWC as revenue. The revenue for the 2019 and 2020 financial years will be allocated between the entities based on the proportionate allocation of costs incurred by the Office for regulating the Water sector and the costs incurred by WAC for its statutory responsibilities for those years. The MOU will be in effect until the Water Sector Regulations and the Water Authority Regulations are implemented. The Water Authority Regulations will introduce a Statutory Fee mechanism and the Water Sector Regulations will introduce a Regulatory Fee mechanism. It is anticipated that these regulations will be implemented in 2021 and 2022 respectively and will pave the way to allow for the entities to effectively implement a long-term funding arrangement to collect statutory fees for WAC and to collect regulatory fees for the Office. These financial statements include revenue for the 2019 and 2020 financial years.

Public Service Pension Plan

As detailed in Note 10, the Office on behalf of its eligible employees paid contributions of \$238,013 (2019: \$225,838) to the Public Service Pensions Plan during the period.

Key Employee Benefits

The key employees of the Office includes the four (2019: four) Executive Members of the Board. Salaries and other short-term employee benefits for key management are shown below:

	31 December 2020**	31 December 2019*
Salaries and employee benefits	748,611	647,854

* The former Chief Executive Officer's contract ended in August 2018. This position remained vacant until September 2019. The current Chief Executive Officer's contract commenced in September 2019.

**The Executive Director Information Communication and Technology's contract ended in August 2020. The position remained vacant as of December 31, 2020

During the year, the Government seconded a Chief Operations Officer to be a part of the Office's management team. The employee is paid by government and therefore does not impact the payroll cost.

The following fixed stipend for Non-Executive Board Members was approved by Cabinet on December 29, 2016:

Chair	\$4,500 per month
Deputy Chair	\$2,500 per month
Member	\$2,000 per month

During the year, the Office added one additional Non-Executive Board Member and one Risk & Audit Subcommittee chairperson in accordance with Section 26(2) of the URC Act (2019 Revision). Total fees paid to the six Non-Executive Board Members for the year ended December 31, 2020 was \$180,367 (2019: 165,890).

9. General reserve

The Utility Regulation and Competition Act Section 38 requires the Office to maintain a reserve fund; the management of such fund being at the discretion of the Office. The Act requires the fund to be applied only for the purposes of the Office.

10. Post Retirement Benefits

Contributions to Public Service Pensions Plan

During the current year, the Office recognised pension expenses under salaries and employee benefits of \$300,085 (2019: \$260,101) paid to the Public Service Pensions Fund and the Silver Thatch Pensions Fund.

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

10. Post Retirement Benefits (continued)

Public Service Defined Benefit Plan (continued)

Public Service Defined Benefit Plan

The Office has three employees (2019: three employees) who are active participants in the Public Service defined benefit plan. During the year, the Office recognised pension expense under salaries and employee benefits of \$23,000 (2019: \$24,000).

Pension contributions for eligible employees of the Office are paid to the Public Service Pensions Fund (the “Fund”). The Fund is administered by the Public Service Pensions Board (“the Pensions Board”) and is operated as a multi-employer plan. Prior to 1 January 2000 the scheme underlying the Fund was a defined benefit scheme. With effect from 1 January 2000 the Fund had both a defined benefit and a defined contribution element, with participants joining after 1 January 2000 becoming members of the defined contribution element only.

Benefit obligations are estimated using the Projected Unit Credit method. Under this method, each participant’s benefits under the plan are attributed to years of service, taking into consideration future salary increases and the plan’s benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service.

The Fund has been valued by the Actuary (Mercer) to the Pensions Board. The defined contribution part of the Fund is not subject to the special actuarial valuations due to the nature of the benefits provided therein. The Office paid both the employee and employer’s contributions. The actual amount of pension expense relating to the defined benefits for staff also includes the effect of the changes in the actuarial determined liability.

The amounts recognized in the statement of financial position is as follows:

	2020	2019
	\$’000	\$’000
Defined benefit obligation	817	504
Fair value of plan assets	465	360
Funded status	352	144
Net liability	352	144

The change in defined benefit obligation is as follows:

	2020	2019
	\$000	\$000
Defined benefit obligation at end of prior year	504	317
Service Cost	39	37
Interest expense	16	13
Cash flows	25	15
Other significant events	-	-
Remeasurements	233	122
Effect of changes in foreign exchange rates	-	-
Defined benefit obligation at end of year	817	504

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

10. Post Retirement Benefits (continued)

Public Service Defined Benefit Plan (continued)

The change in fair value of plan assets is as follows:

	2020	2019
	\$000	\$000
Fair value of plan assets at end of prior year	360	257
Interest Income	12	11
Cash flows – employer and participant contributions	41	30
Other significant events	4	-
Remeasurements	48	62
Effect of changes in foreign exchange rates	-	-
Fair value of plan assets at end of year	465	360

The net defined benefit liability (asset) reconciliation:

	2020	2019
	\$000	\$000
Net defined benefit liability as of beginning of year	144	60
Defined benefit cost included in P&L	43	39
Total remeasurements included in OCI	185	60
Other significant events	(4)	-
Cash flows	(16)	(15)
Credit to reimbursements	-	-
Effect of changes in foreign exchange rates	-	-
Net defined benefit liability as of end of year	352	144

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

10. Post Retirement Benefits (continued)

Public Service Defined Benefit Plan (continued)

The components of defined benefit cost is as follows:

	2020	2019
	\$000	\$000
Service Cost	39	37
Net interest cost	-	-
Interest expense on DBO	16	13
Interest (income) on plan assets	(12)	(11)
Total net interest cost	4	2
Remeasurements of Other Long Term Benefits		
Administrative expenses and taxes		
Defined benefit cost included in P & L	43	39
Remeasurements (recognized in other comprehensive income)		
Effect of changes in demographic assumptions	(21)	(2)
Effect of changes in financial assumptions	195	128
Effect of experience adjustments	59	(4)
(Return) on plan assets (excluding interest income)	(48)	(62)
(Return) on reimbursement rights (excluding interest income)		
Changes in asset ceiling/onerous liability (excluding interest income)		
Total remeasurements included in OCI	185	60
Total defined benefit cost recognized in P&L and OCI	228	99

The sensitivity analysis on defined benefit obligation is shown below:

	2020	2019
1. Discount rate		
a. Discount rate – 25 basis points	884	544
b. Discount rate + 25 basis points	757	468
2. Inflation rate		
a. Inflation rate – 25 basis points	755	470
b. Inflation rate + 25 basis points	885	542
3. Mortality		
a. Mortality - 10% of current rates	841	517
b. Mortality + 10% of current rates	796	493

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

10. Post Retirement Benefits (continued)

Public Service Defined Benefit Plan (continued)

The expected cash flow for the following year is as follows:

	Amount (\$000)	Amount (\$000)
Expected employer contributions	18	15

The significant actuarial assumptions are presented below:

	2020	2019
1. Discount rate	2.60%	3.50%
2. Rate of salary increase	2.50%	2.50%
3. Rate of price inflation	2.00%	2.00%
4. Rate of pension increases	2.00%	2.00%
5. Post-retirement mortality table	RP-2014 scaled back to 2006 using Scale MP-2014 then generationally projected from 2006 using Scale MP-2020	RP-2014 scaled back to 2006 using Scale MP-2014 then generationally projected from 2006 using Scale MP-2019
6. Cost Method	Projected Unit Credit	Projected Unit Credit
7. Asset valuation method	Market Value	Market Value

	2020	2019
1. Discount rate	3.60%	4.55%
2. Rate of salary increase	2.50%	2.50%
3. Rate of price inflation	2.00%	2.00%
4. Rate of pension increases	2.00%	2.00%
5. Post-retirement mortality table	RP-2014 scaled back to 2006 using Scale MP-2014 then generationally projected from 2006 using Scale MP-2019	RP-2014 scaled back to 2006 using Scale MP-2014 then generationally projected from 2006 using Scale MP-2018

Plan Assets

The Defined Benefit assets as well as Defined Contribution assets of the Plan are held as part of the Public Service Pensions Fund (“the Fund”) and managed by the PSPB. The assets of two other pension plans are pooled together to constitute the Fund. The assets are notionally allocated to each of the three participating pension plans through an internal accounting mechanism that tracks, for each accounting period, actual cash flows and allocates investment income and expenses in proportion to the opening value of assets allocated. Based on the data provided, the gross rate of return earned by the Fund for the period, January 1 2020 to December 31, 2020 was 15.61% per annum. Similar internal accounting is used for developing each participating entity’s share of the asset portfolio of the Fund.

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

10. Post Retirement Benefits (continued)

Public Service Defined Benefit Plan (continued)

The valuations are based on the draft financial statements as at 31 December 2020 provided by PSPB, along with cash flow and other supplemental asset information. The assets are held in trust by CIBC Mellon.

The Fund currently has investment policy with a target asset mix of 80% (2019:80%) equities and 20% (2019:20%) bonds. As at 31 December 2020, the Fund was invested as follows:

Plan Assets by Asset Category	2020		2019	
	\$000	Percentage	\$000	Percentage
Global equities securities	816,513	82%	680,288	79%
Debt securities	177,719	18%	167,692	20%
Cash and Receivables	3,398	0%	10,444	1%
Total	997,630	100%	858,424	100%

For the period ended December 2020, the Defined Contribution portion of the Fund totaled to \$423,060,600 (2019: \$400,941,600) as provided by PSPB. The share of the Fund that been notionally allocated to Office with regards to its participation in the Defined Benefit Part of the Plan at 31 December 2020 is \$465,000 (2019:\$360,000).

The Actuarial Assumptions

The actuarial assumptions have been approved by the Financial Secretary, the main sponsor of the Plan. The principal financial and demographic assumptions used at 31 December 2019 are shown in the table below. The assumptions as at the reporting date are used to determine the present value of the benefit obligation at that date and the pension expense for the following year.

Measurement Date	2020	2019
Discount rate		
- BOY disclosure and current year expense	3.50% per year	4.50% per year
- EOY disclosure and following year expense	2.60% per year	3.50% per year
Increases in pensionable earnings	2.50% per year	2.50% per year
Rate of Pension Increases	2.00% per year	2.00% per year
Rate of Indexation	2.00% per year	2.00% per year
Expected long-term rate of return on assets (net of expenses) for purposes of IFRIC only	2.00% per year	2.00% per year

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

10. Post Retirement Benefits (continued)

Public Service Defined Benefit Plan (continued)

Mortality	RP-2014 scaled back to 2006 using Scale MP-2014, then generationally projected from 2006 using scale MP-2018	RP-2014 scaled back to 2006 using Scale MP-2014, then generationally projected from 2006 using scale MP-2018
- BOY disclosure and current year expense	RP-2014 scaled back to 2006 using Scale MP-2014, then generationally projected from 2006 using scale MP-2019	RP-2014 scaled back to 2006 using Scale MP-2014, then generationally projected from 2006 using scale MP-2019
- EOY disclosure and following year expense	None	None
Disability	None	None
Turnover Rates	Age related table	Age related table
Retirement	Age 57 and 10 years of service	Age 57 and 10 years of service
	Retiring today (member age 57) 28.45	Retiring today (member age 57) 28.66
Assumed life expectations on retirement	Retiring in 25 years (at age 57): 30.61	Retiring in 25 years (at age 57): 30.93
Liability Cost Method	Projected unit credit method	Projected unit credit method
Asset Value Method	Market Value of Assets	Market Value of Assets
Commutation of pension	All members commute 25% at retirement	All members commute 25% at retirement

Turnover Rates at sample ages:

<u>Age</u>	<u>Males</u>	<u>Females</u>
20	7.5%	12.5%
25	5.0%	12.5%
30	3.5%	7.5%
35	2.5%	4.5%
40	1.5%	2.5%
45	0.5%	5.0%
50	0.0%	0.0%

There have been no changes in actuarial assumptions since the prior valuation other than the changes to the principal assumptions shown in the table above.

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

10. Post Retirement Benefits (continued)

Defined Benefit Healthcare Plan (continued)

Defined Benefit Healthcare Plan

The Office has established a post-retirement healthcare program for employees who were transferred to the Office from the Government upon creation of the Office. The objective of the plan was that staff members transferred to the Office will not be disadvantaged after the transfer in terms of employee benefits, they enjoyed as employees of the Government. This is in accordance with the Dangerous Substances Act (2017 Revision) Section 30.

The Office has accepted the responsibility to provide the same healthcare benefits enjoyed by former employees of the Government. Under this plan, the premiums for healthcare coverage would be paid by the Office for all eligible employees, together with their spouses (from the employee's retirement until death) and dependent children (from the employee's retirement until no longer considered a dependent child). To be eligible for this plan, the employee must be transferred from the Government with a total of 10 consecutive years spent with the Government and the Office. In addition, the employee must be entitled to a pension under the Public Service Pensions Act (2017 Revision) at the time of retirement from OfReg's employment. This post retirement coverage falls within the definition of a defined benefit as defined by International Public Sector Accounting Standards ("IPSAS") 25 – Employee Benefits and as such represents a future liability of the Office.

The Office has obtained the services of Mercer Actuaries of Canada to provide an actuarial valuation of the obligation. The details of the valuation method and assumptions used are presented below in accordance with IPSAS 25.

The Office has a present value net defined healthcare benefit obligation of \$1,008,000 at the year ended December 31, 2020 (2019: \$688,000).

The change in defined benefit obligation is as follows:

	2020	2019
	\$000	\$000
Defined benefit obligation at end of prior year	688	384
Service Cost	208	146
Interest expense	23	17
Remeasurements		
Effect of changes in demographic assumptions	(173)	-
Effect of experience adjustments	3	-
Effect of changes in financial assumptions	259	141
Defined benefit obligation at end of year	<u>1,008</u>	<u>688</u>

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

10. Post Retirement Benefits (continued)

Defined Benefit Healthcare Plan (continued)

The components of defined benefit cost is as follows:

	2020	2019
	\$000	\$000
Service Cost	208	146
Net interest cost	-	-
Interest expense on DBO	<u>23</u>	<u>17</u>
Defined benefit cost included in P & L	231	163
Remeasurements (recognized in other comprehensive income)		
Effect of changes in demographic assumptions	(173)	-
Effect of changes in financial assumptions	259	141
Effect of experience adjustments	<u>3</u>	=
Total remeasurements included in OCI	89	141
Total defined benefit cost recognized in P&L and OCI	<u>320</u>	<u>304</u>

The net defined benefit liability (asset) reconciliation:

	2020	2019
	\$000	\$000
Net defined benefit liability as of beginning of year	688	384
Defined benefit cost included in P&L	231	163
Total remeasurements included in OCI	89	141
Other significant events	-	-
Cash flows	-	-
Credit to reimbursements	-	-
Net defined benefit liability as of end of year	<u>1,008</u>	<u>688</u>

The Actuarial Assumptions

The significant actuarial assumptions are presented below:

	2020	2019
Weighted-average assumptions to determine defined benefit obligation		
Effective Discount rate	2.70%	3.60%
Weighted-average assumptions to determine defined benefit cost		
Effective Discount rate	3.60%	4.55%
Effective rate for net interest cost	3.35%	4.35%
Effective discount rate for service cost	3.70%	4.60%

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

Effective rate for interest on service cost 3.65% 4.60%

10. Post Retirement Benefits (continued)

Defined Benefit Healthcare Plan (continued)

The sensitivity analysis on defined benefit obligation is shown below:

	2020	2019
1. Discount rate		
a. Discount rate – 25 basis points	90	59
b. Discount rate + 25 basis points	(82)	(54)
2. Trend rate		
a. Health care cost trend rates – 100 basis points	(282)	(187)
b. Health care cost trend rates + 100 basis points	401	264
3. Mortality		
a. Mortality + 10% of current rates	(51)	(24)

11. Outputs to Cabinet: Revenue

The Office provides services to the Cabinet of the Government under an agreement established in the Annual Plan and Estimates (the “Plan”). The Plan for the year ended 31 December 2020 established legal provisions for the Office to provide a maximum of \$1,757,707 in services. Each fiscal year’s Ownership Agreement between the Office and Government sets out the objectives that the Office seeks to achieve.

12. Regulatory Fees

The breakdown of regulatory fees is shown in the below table:

Regulatory Fees by Sector	31 December 2020	31 December 2019
ICT	1,445,159	1,414,788
Electricity	1,215,000	1,215,575
Water	280,261	215,551
Total Regulatory Fees	2,940,420	2,845,914

13. Other Income/(Expenses)

	31 December 2020	31 December 2019
Administrative Fines	22,300	-
Interest on Fixed Deposits	9,657	20,987
Other	27,421	32,760
Total Other Income	59,378	53,747

During the year ended 31 December 2020, the Office imposed penalties of \$22,300 on Home Gas in relation to non-compliance and breaches of the Dangerous Substances Act which resulted in the incident on February 19, 2019.

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

14. Licensing Fees

The breakdown of licensing fees is shown in the table below:

	31 December 2020	31 December 2019
Ship Radio Licensing	151,718	142,004
Spectrum Allocation Fees	134,551	120,286
Type Approvals	77,339	68,869
Aircraft Radio Licensing	24,265	21,261
Other Radio Licensing	5,507	4,346
Total Licensing Fees	393,380	356,766

15. Commitments

Lease Commitments

The Office currently leases the third floor of Alissta Towers under a month to month operating lease. The Lease payments are \$6,700 per month.

Liability to the Cayman Islands Government – Dividends

Under Section 39(2) of the Public Authorities Act (2020 Revision), any surplus cash exceeding three months' reserve should be paid to the Cayman Islands Government, unless directed otherwise by Cabinet.

Under Section 39(3) of the Public Authorities Act (2020 Revision), the Office is required to pay dividends in accordance with the formula established by the Minister of Finance.

Based on the formula, no dividend is due to the Government for the financial year ended 31 December 2020, as the change in cash and cash equivalents less restricted cash is (\$1,663,303).

Contractual Obligations

During 2019, the Office entered into an agreement with Economics Partners Limited (“the Consultant”) to provide consultancy services for the fuel sector. The Consultant was selected following an open competitive bid process by the Central Procurement Office to perform the assessment of the fuels market across the Cayman Islands. The assessment is expected to be completed in 2021.

During 2020, the Office entered into an agreement with Rockwater International Communications Advisors Inc. (“RICA”) to provide consultancy services for the ICT sector. RICA was selected utilizing the direct award provision in the Procurement Regulations (2018) to provide legal regulatory assistance to the Office.

The Office’s future payments based on lease commitments and contractual obligations are:

Period	Amount
Less than 1 year	\$108,096
Greater than 1 year but less than 5 years	-
Greater than 5 years	-
Total Future Commitment	\$108,096

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

16. Personnel Costs

The breakdown of personnel costs is shown in the below table:

	December 31, 2020	December 31, 2019
Salaries	2,431,699	2,191,605
Health insurance	450,490	401,072
Pension	300,085	260,102
Post retirement benefit costs	254,000	187,000
Work permit fees	71,955	52,855
Other	54,972	17,116
Total Personnel costs	3,563,201	3,109,750

17. Professional and Consultancy Fees

The breakdown of professional and consultancy fees is shown in the below table:

	31 December 2020	31 December 2019
Consultancy Fees	246,238	170,594
Professional Fees	18,495	6,773
Audit Fees	40,000	40,000
Total Professional & Consultancy Fees	304,733	217,367

18. General and Administration Costs

The breakdown of general and administration costs is shown in the below table:

	31 December 2020	31 December 2019
Utilities	68,280	61,784
IT Services	82,670	84,510
Subscriptions and contributions	64,154	63,257
Office Administration Expenses	77,698	63,249
Bank Charges	15,055	15,389
Insurance	44,277	32,782
Bad Debt Expense	3,644	-
Other Expenses	40,273	34,633
Total General and Administrative Costs	396,051	355,604

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

19. Litigation Costs

The breakdown of litigation costs is shown in the below table:

	31 December 2020	31 December 2019
Legal Fees	23,801	7,806
Settlement Fees	-	168,000
Total Litigation Costs	23,801	175,806

20. Financial risk management objectives and policies

The Office's principal financial assets are comprised of cash and cash equivalents and accounts receivables. Financial liabilities are solely Accounts payable and other liabilities. The Office's Board of Directors has overall responsibility for the establishment and oversight of its risk management policies which are designed to identify and analyze the risks, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Risk management policies and systems are periodically reviewed to reflect changes in market conditions and Office's activities. The most important types of financial risk to which the Office is exposed are:

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Office did not hold any financial instrument that was subject to market risk at 31 December 2020.

b) Credit Risk

Credit risk for the Office is the risk that counterparty will not meet its obligation under a financial instrument, leading to a financial loss. The Office is exposed to credit risk primarily from its receivables from licensees, and from its various deposits in its bank. The Office does not have the flexibility in refusing to transact with a licensee in accordance with the acts.

At year-end, the Office evaluates the financial capability of its licensees to determine any issues with collectability that can result in a financial loss. The Office also continues to monitor the financial soundness of its banking institution, and currently believes that there are no issues impacting the bank's ability to repay amounts in accordance with the respective terms of various deposits.

The Office's accounts receivable balance does not have any significant credit risk exposure to any single licensee but is inherently exposed in its entirety to each sector for which it has responsibility for regulating in the Cayman Islands. The Office's licensees include well-established local telecommunication and media, electricity, fuel and water companies and, at 31 December 2020, there have been no material indications of any insolvency in those entities that impacts their ability to pay the Office. On the other hand, the Office's deposits are concentrated in a single accredited banking institution based locally.

The maximum exposure to credit risk at 31 December 2020, is as follows:

	31 December 2020	31 December 2019
Cash and Cash equivalents	5,170,702	3,221,127
Short-Term Investments	-	1,027,027
Accounts Receivable	1,474,274	1,378,416
	6,644,976	5,626,570

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

20. Financial risk management objectives and policies (continued)

c) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The liquidity risk management process ensures that the Office is able to honour all of its financial commitments when due. The Office manages liquidity risk by ensuring that it has sufficient cash on demand to meet expected operational expenses and servicing of financial obligations. To this end, the Office maintains a reserve, as is required by the Utility Regulation and Competition Act. The size and nature of the reserve are determined by Management. At the moment, the Office maintains a cash reserve equivalent to 3 months of operating expenses.

d) Interest Rate Risk

The Office is subject to interest rate risk on the cash placed with a local bank which attracts interest. The Office is not exposed to significant interest rate risk as the cash and cash equivalents are placed on call and available on demand. Interest payments are charged to customers on late payments on accounts receivable.

21. Financial instruments

Fair values. The carrying amount of cash deposits, prepayments, accounts receivable and accounts payables and accrued liabilities approximate their fair value due to their short-term maturities. Fair values are made at specific points in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions, economic conditions and other factors could cause significant changes in fair value estimates.

22. Contingent Liability

The Office recognizes post-retirement healthcare costs for employees who were transferred to the Office from the civil service. The objective is that staff members transferred to the Office will not be disadvantaged after the transfer in terms of employee benefits they enjoyed as employees of the civil service. (See note 9 for further information).

The Office conducted a review of all employee contracts and determined that there is a possible obligation that may exist for an employee of the Office with regards to the coverage of post-retirement healthcare costs. The review indicated that there is one employee with a contract that may be considered a contingent liability as at 31 December 2020. The Office is assessing the matter as it relates to the employee and is currently of the view, that the present obligation may, but probably will not require an outflow of resources in respect to the conclusion of this assessment, therefore an obligation has not been recorded for this employee in accordance with IPSAS 19.

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

23. Segment Reporting

	ICT Sector	Electricity Sector	Fuel Sector	Water Sector	Consolidated
	2020	2020	2020	2020	2020
	\$	\$	\$	\$	\$
Revenue					
Outputs from Cabinet	205,908	41,637	1,368,557	12,080	1,628,182
Revenue from external sources	2,049,533	1,218,744	163,616	281,427	3,713,320
Total revenue	2,255,441	1,260,381	1,532,173	293,507	5,341,502
Expenses					
Personnel	1,564,159	651,332	947,147	400,563	3,563,201
Supplies and Consumables	371,166	162,136	295,426	80,774	909,502
Depreciation	25,967	11,540	11,350	3,594	52,451
Other expenses	57,637	16,832	20,871	4,343	99,683
Total expenses	2,018,929	841,840	1,274,794	489,274	4,624,837
Surplus/(deficit) from operating activities	236,512	418,541	257,379	(195,767)	716,665
Assets					
Accounts Receivable	648,908	316,121	11,916	497,329	1,474,274
Prepayments	19,109	37,373	44,230	3,025	103,737
Property, plant and equipment	32,729	13,507	83,803	2,410	132,449
Total assets (excluding Cash & Cash Equivalents and Short-Term Investments)	700,746	367,001	139,949	502,764	1,710,460
Liabilities					
Current liabilities	2,384,013	86,229	200,385	40,845	2,711,472
Long Term Liabilities	303,854	-	1,056,146	-	1,360,000
Total liabilities	2,287,767	86,229	1,256,531	40,845	4,071,472

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

23. Segment Reporting (continued)

	ICT Sector	Electricity Sector	Fuel Sector	Water Sector	Consolidated
	2019	2019	2019	2019	2019
	\$	\$	\$	\$	\$
Revenue					
Outputs from Cabinet	180,229	32,433	1,019,013	6,801	1,238,476
Revenue from external sources	1,960,510	1,220,529	97,420	216,590	3,495,049
Total revenue	2,140,739	1,252,962	1,116,433	223,391	4,733,525
Expenses					
Personnel	1,428,267	622,168	804,654	254,661	3,109,750
Supplies and Consumables	603,446	196,203	294,398	33,737	1,127,784
Depreciation	33,926	15,353	19,811	3,219	72,309
Other expenses	47,896	17,604	25,116	3,105	93,721
Total expenses	2,113,535	851,328	1,143,979	294,722	4,403,564
Surplus/(deficit) from operating activities	27,204	401,634	(27,546)	(71,331)	329,961
Assets					
Accounts Receivable	329,069	331,778	497,871	219,698	1,378,416
Prepayments	23,805	32,424	15,541	27,542	99,312
Property, Plant and Equipment	39,675	24,176	63,639	4,664	132,154
Intangible Assets	116	-	-	-	116
Total assets (excluding Cash & Cash Equivalents and Short-Term Investments)	392,665	388,378	577,051	251,904	1,609,998
Liabilities					
Current liabilities	2,457,548	76,003	127,712	17,902	2,679,165
Long-Term Liabilities	127,782	-	704,218	-	832,000
Total liabilities	2,585,330	76,003	831,930	17,902	3,511,165

In accordance with Section 40(2) of the Utility Regulation and Competition Act (2018 Revision), the Office's revenue and expenses have been allocated to each of the regulated sectors. In allocating the costs, the Office has used its best endeavours to allocate directly incurred costs to the regulated sector to which they relate. Indirect costs have been allocated utilizing the number of personnel within each sector to determine the proportion of the costs to be allocated to each regulated sector.

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

24. Budget Variances

Statement of Financial Position	December 31, 2020 Actual	December 31, 2020 Budget	December 31, 2020 Variance	Note
CURRENT ASSETS				
Cash and cash equivalents	5,170,702	769,351	4,401,351	1,2
Short Term Investments	-	1,944,000	(1,944,000)	2
Accounts receivable	1,474,274	1,565,097	(90,823)	
Prepaid expenses	103,737	86,681	17,056	
	6,748,713	4,365,129	2,383,584	
NON-CURRENT ASSETS				
Property, plant and equipment	132,449	762,339	(629,890)	3
TOTAL ASSETS	6,881,162	5,127,468	1,753,694	
LIABILITIES AND NET WORTH				
CURRENT LIABILITIES				
Collections Payable to Government	2,088,878	-	2,088,878	1
Accounts payable and accrued liabilities	622,594	350,256	272,338	4
LONG TERM LIABILITIES				
Defined benefit healthcare liability	1,008,000	-	1,008,000	5
Defined benefit pension liability	352,000	-	352,000	5
	4,071,472	350,256	3,721,216	
NET ASSETS	2,809,690	4,777,212	(1,967,522)	6

Note 1 – ICT royalty fees of \$2,088,878 due to Government at year end not included in the budget.

Note 2 - Funds included in budget for Short Term Investments not placed on fixed deposit due to uncertainty with COVID 19 pandemic.

Note 3 – The budgeted capital expenditure for leasehold improvements and equipment for the fuel sector for 2020 was \$300,000 and \$175,000 respectively. As at December 31, 2020, the actual spend for these category of assets is nil.

Note 4 – Higher vacation accrual and outstanding payments due for consultancy costs has led to higher Accounts payable and accrued liabilities than budgeted.

Note 5 – Unbudgeted defined benefit healthcare and pension costs for eligible employees.

Note 6 – The net assets are lower than budgeted due mainly to unbudgeted defined benefit health care costs.

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

24. Budget Variances (continued)

Statement of Financial Performance	December 31, 2020	December 31, 2020	December 31, 2020	Note
	Actual	Budget	Variance	
REVENUE				
Sales of goods and services	5,282,124	6,469,797	(1,187,673)	6
Other revenue	59,378	63,158	(3,780)	
TOTAL REVENUE	5,341,502	6,532,955	(1,191,453)	
EXPENSES				
Personnel Costs	3,550,935	3,543,396	(7,539)	
Purchase of Services	731,056	1,128,102	397,046	7
Lease of Property and Equipment	80,400	228,000	147,600	8
Travel and Subsistence	9,982	78,100	68,118	9
Depreciation	52,451	198,884	146,433	10
Recruitment and Training	25,512	157,325	131,813	9
Utilities	68,280	81,764	13,484	
General Insurance	44,277	46,440	2,163	
Supplies and Materials	18,300	8,900	(9,400)	
Interdepartmental expenses	40,000	40,000	-	
Bad Debt Expense	3,644	-	(3,644)	
TOTAL EXPENSES	4,624,837	5,510,911	886,074	
NET SURPLUS	716,665	1,022,044	(305,379)	

The Net Surplus is unfavourable to budget by 30% due mainly to a shortfall in revenues of \$1,191,453, partially offset by lower expenses of by \$886,074.

Note 6 – The unfavourable variance of \$1,187,673 is due mainly to the delay in the implementation of the regulatory fee mechanism for the Water Sector.

Note 7 – Purchase of Services is favourable to budget due to lower Professional and Consultancy fees and lower Legal fees.

Note 8 – Lease of Property and Equipment is favourable to budget due to the delay in relocating the office to a new location .

Note 9 – The favorable variances are due to the travel restrictions in place as a result of the COVID 19 pandemic.

Note 10 – Depreciation is favorable to budget due to the delay in relocating the office to a new location.

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

24. Budget Variances (continued)

Statement of Cash Flows	December 31, 2020	December 31, 2020	December 31, 2020	Note
	Actual	Budget	Variance	
CASH FLOW FROM OPERATING ACTIVITIES				
Net comprehensive surplus/(deficit) for year	716,665	1,022,044	(305,379)	12
Adjustment for non-cash transactions:				
Depreciation and amortisation	52,451	198,884	(146,433)	11
Non-Cash Defined Benefit Costs	254,000	-	254,000	13
Prior Period Adjustment	(7,176)	-	(7,176)	
	1,015,940	1,220,928	(204,988)	
Net changes in non-cash operating balances:				
(Increase)/decrease in:				
Accounts receivable	(95,858)	(160,030)	64,172	
Prepaid Expenses	(4,425)	-	(4,421)	
Accounts Payable and Accrued Expenses	32,305	2	32,303	
Net cash provided by operating activities	947,966	1,060,900	(112,934)	
CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(52,631)	(559,000)	506,369	14
Maturity/(Purchase) of investments	1,027,027	(929,819)	1,956,846	
Net cash used in investing activities	974,396	(1,488,819)	2,463,215	
CASH FLOWS FROM FINANCING ACTIVITIES				
Contribution of PP&E	27,213	-	27,213	
Net cash provided by financing activities	27,213	-	27,213	
Net increase in cash and cash equivalents during the period	1,949,575	(427,919)	2,377,494	
Cash and cash equivalents at beginning of the period	3,221,127	1,197,269	2,023,858	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	5,170,702	769,350	4,401,352	

Note 12 – The Net Surplus is lower than budgeted due to lower regulatory fees than anticipated, partially offset by lower total expenses.

Note 13 – Non-Cash Defined Benefit Costs are higher than budgeted due to unbudgeted defined benefit health care and pension costs for eligible employees.

Note 14 - The budgeted capital expenditure for leasehold improvements and equipment for the fuel sector for 2020 was \$300,000 and \$175,000 respectively. As at December 31, 2020, the actual spend for these category of assets is nil.

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2020
(stated in Cayman Islands dollars)

25. Prior Period Adjustment

The Office made a payment in 2020 for website administration costs that related to the 2018-2019 period. The total of the invoices paid is \$7,176. These payments have been recognized as a prior period adjustment.

26. Implications of COVID-19 on the Office

On 30 January 2020, the World Health Organization (“WHO”) declared a global health emergency in response to COVID-19, which surfaced in China in December 2019 and subsequently spread to various countries. The Cayman Islands Government announced the activation of the National Emergency Operations Centre on 3 March 2020 in response to the threat. On 11 March 2020 WHO declared a global pandemic due to the number of countries and individuals affected by the spread of COVID-19. The global efforts to contain the spread of COVID-19 has caused significant disruptions in the global and local economies, with the length of the disruption being uncertain at this time. The related implications to the Office’s revenues have been immaterial with no increase in credit risk noted. Management is not aware of any material adverse effects of the pandemic or any other events on the financial statements as at the date that these financial statements were authorised for use.

27. Subsequent Events

Presentation of General Reserve

On 26 February 2021, the Board made a decision in relation to the presentation of the General Reserve within the financial statements. The General Reserve line item within the Net Asset section of the Statement of Financial Position must reflect the actual cash amount earmarked by the Board for General Reserve purposes. The policy which will govern the management of the General Reserve will introduce a minimum cash amount that must be set aside for the Office’s General Reserve. The impact to the financial statements is nil.

Changes to the Board of Directors

Effective 30 November 2020, the Deputy Chairman of the Board resigned from the Board of Directors. On 18 May 2021, the terms for the remaining four Non-Executive Directors of the Office expired. Effective 31 May 2021, the former Chairman, Dr. the Hon. Linford A. Pierson, OBE, JP resigned from the Board of Directors. Effective 1 September 2021, the Cabinet of the Cayman Islands Government appointed Mr. Rudy Ebanks as the new Chairman of the Board.

On 29 October 2021, the Cabinet of the Cayman Islands Government appointed Mr. Frank Balderamos, Mr. Alric Lindsay and Mr. Leroy Whorms as Non-Executive Directors with an effective date of October 12, 2021.

The Utility Regulation and Competition Office

This is the 2020 Annual Report for the Utility Regulation and Competition Office (the 'Office' or 'OfReg') for the period 1 January 2020 to 31 December 2020.

This report is submitted in accordance with the reporting requirements of section 52 of the Public Management and Finance Act (as revised) (the 'PMFA') and section 43 of the Utility Regulation and Competition Act (as revised) (the 'URC Act'). The report is prepared for Cabinet, to whom OfReg is accountable, as well as the general public and licensees.



Utility Regulation and Competition Office
3rd Floor, Alista Towers, 85 North Sound Rd.
Grand Cayman, CAYMAN ISLANDS