



## PRESS RELEASE

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### **OfReg: CUC RCAM base rate increase is a legally enforceable condition of its Transmission & Distribution Licence; CUC's proposed 'rebalance' of consumer rates refused**

Cayman Islands utilities regulator OfReg, has sought to clarify that CUC's annual base rate adjustment, effective 1 June, was implemented as required in accordance with the conditions of the company's Transmission and Distribution Licence (T&D Licence), issued by the Cayman Islands Government in 2008.

The T&D licence includes a Rate Cap and Adjustment Mechanism (RCAM) which provides the formula on which annual rate adjustments are calculated and implemented. This process is not new and is conducted every year as part of CUC's licence agreement. OfReg's legal role in this process does not involve 'approving' the rate which the RCAM dictates - it has no discretion to refuse such a rate increase. Its function is to verify the data upon which the RCAM adjustment is based to ensure that the proposed increase is compliant with the conditions of the T&D licence.

The RCAM is an automatic rate adjustment mechanism designed to ensure that there would be no sudden swings of the base rate based on inflation brought about by sudden increases in the cost of known inflators such as food and fuel. For that purpose any base rate adjustment under the RCAM is based on a mix of 60% Cayman CPI and 40% US CPI, minus food and fuel.

The RCAM is therefore a rate mechanism, agreed between the Cayman Islands Government and CUC in 2008, which allows for an annual incremental adjustment of CUC's existing base rate based on an increase in CI/US CPI minus those inflationary factors and has been taking place annually since then.

OfReg inherited, and is legally obligated to follow, this rate making regime, until there is some other form of rate making mechanism implemented, which could only happen with an amendment of the CUC T&D Licence. Once OfReg has verified the data upon which an annual RCAM adjustment is predicated, it has no choice but to agree to implement that change in the base rate, otherwise it would be immediately subject to successful legal challenge by CUC.

#### **Additional Rate Changes Denied**

In addition, CUC submitted an application seeking OfReg's approval to "rebalance" its consumer class rates, based on its Cost of Service Study (COSS). OfReg refused to approve the rebalancing of the base rates between the commercial and residential classes, as there was no apparent rationale and it would mean that commercial rates would be reduced at the expense of residential rates which would have increased by an additional 3-4% over and above the RCAM adjustment increase.



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The Board's decision was based on its conclusion that such a rebalancing, especially in light of the RCAM adjustment, would impose an undue additional expense on the class of CUC consumers who could least afford it.

OfReg Interim CEO, Mr. Sonji Myles said, "Part of our role as the regulator in the energy sector and in all utility sectors, is to protect consumers and ensure that our licensees meet the terms and conditions of their licence. CUC's annual rate cap adjustment review is one such condition of its licence and the submission for this year was reviewed and found to be within the set terms of the licence. Based on the existing terms, OfReg is unable to deny a justified adjustment.

Any proposed rate increases or change, from any licensee, is closely scrutinised and reviewed for compliance with its terms and conditions, supported by financial information, before approval. Those that do not comply or which would appear to impose an unjustifiable, unnecessary or unfair burden on consumers are refused, as was the case with CUC when it submitted a proposal to rebalance its commercial and residential base rates."

CUC's T&D current licence was granted in 2008 and has not been updated since then. The company has stated that improvements to efficiencies from forthcoming upgrades to power generation infrastructure and its Battery Energy Storage System (BESS) should reduce energy costs for consumers over time and into the future as more renewable energy sources come online.

The terms and conditions of CUC's T&D licence at the time when it was granted could not have predicted the significant changes in power generation technology, although there was recognition at the time for the need to encourage renewable generation. In addition, given the current cost of fuel, which forms a significant part of every energy bill, OfReg suggests that more needs to be done to implement measures for regulation of efficiency standards.

Mr. Myles believes that "the time is right to review and update the existing licence regime (especially in light of the recent proposals reflected in the National Energy Policy) to better protect consumers by allowing for a contemporary, yet competitive mix of generation solutions that are routinely monitored to ensure the highest standards of efficiencies and quality of service."

In all cases, Cayman's critical national infrastructure, which includes CUC's Transmission & Distribution System, must be protected. Any such changes would have to be implemented after consultation with CUC.

Mr. Myles, continued, "We take our job as the regulator very seriously and we hold ourselves to very high standards to protect consumers in the Cayman Islands. We must however work within the legal framework and limits to our powers provided to us in order to fulfil our role. Progress and innovation in the energy sector has moved forward since the CUC T&D licence was first written and issued, and how we generate, distribute and manage our energy requirements today is very different.

"As the regulator we are also mandated by law to review and advise government on any required changes to licencing laws to meet the requirements of a modern energy sector. This may include



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implementing efficiency standards and measures to enforce these for licensees who fail to meet them.”

**- ENDS -**

**PHOTO:** Mr. Sonji Myles, Interim CEO, OfReg

**ABOUT OFREG**

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 energy, fuel, ICT, 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.

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