2017 Annual Report

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Contents

Foreword

Message from the Chair

Dr. the Hon. Linford A. Pierson, OBE, JP, PhD, FCCA

It is my pleasure to present the Annual Report of the Utility Regulation and Competition Office (the '***Office***' or '***OfReg***'). This report presents the results of the Office's performance over the period 16 January 2017, the date of establishment of the Office, to 31 December 2017.

I am honoured to have been appointed the first Chair of the Office which, by statute, the Utility Regulation and Competition Law, 2016 ('***URC Law'***) is the independent regulator for the Information and Communications Technology, Electricity, Fuel and Water Sectors. The Office is an amalgamation of the former Information and Communications Technology Authority ('***ICTA***'), the Electricity Regulatory Authority ('***ERA***') and the Petroleum Inspectorate. It has also been given jurisdiction over the fuel market and the water sector.

"I believe that together the non-executive and executive members are an excellent team which comprises a formidable blend of professional expertise and experience."

Whilst the URC Law has provided the Office with independence in carrying out its mandate, it requires the Office to be accountable for its budget and processes in a transparent framework. This report is one of the provisions directed at achieving the accountability of the Office to its stakeholders – consumers, the Government and industry.

Constitution of the Board

The URC Law wisely made provision for the Chair and the Chief Executive Officer ('***CEO***') to constitute the Board as a consequence of which I was appointed the first Chair and Mr. J Paul Morgan the first CEO with effect from 16 January 2017.

On 16 January 2017, the Board appointed, Mr. Alee Fa'amoe as Executive Director of Information and Communications Technology ('***ICT***'), Mr. Charles Farrington as Executive Director of Energy and Utilities ('***E&U'***) and confirmed Mr. Duke Munroe as Chief Fuels Inspector. Mr. Fa'amoe and Mr. Farrington had been the Managing Directors of the ICTA and ERA, respectively, while Mr. Munroe was the incumbent Chief Petroleum Inspector appointed pursuant to the Dangerous Substances Law.

"The Board also agreed on its "Code of Ethics" which establishes the norms for ethical conduct not only for members but for the staff as a whole."

The URC Law sets out a process for Cabinet to appoint 4 non-executive members of the Board. Arising out of this process, Mr. Gregg Anderson, Mr. Ronnie Dunn, Mr. Frank Balderamos and Ms. Melissa Lim were appointed with effect from 17 May 2017. Mr. Anderson and Mr. Dunn were appointed for 4-year terms while Mr. Balderamos and Ms. Lim were appointed for 2-year terms.

Mr. Anderson resigned to take up office as Executive Director of E&U following the retirement of Mr. Farrington on 30 April 2017. Mr. Anderson had applied for the vacant position prior to his Board appointment as Executive Director E&U. Mr. Rudy Ebanks, in accordance with the selection process set out in the URC Law, was appointed by Cabinet with effect from 24 October 2017 as a non-executive Director in succession to and to complete Mr. Anderson's 4-year term.

I believe that together the non-executive and executive members are an excellent team which comprises a formidable blend of professional expertise and experience. Mr. Dunn was elected Deputy Chair by the non-executive members in succession to Mr. Anderson who was required to give up that position on his appointment as an executive member.

I take this opportunity to thank all members for the contributions of their time and intellect to the workings of the Board, which met sixteen times in 2017, as we sought to ensure a solid foundation for the operations of this new organisation.

Initial Focus of the Board

I am pleased that the early efforts of the Board resulted in the formulation of the Office's Vision and Mission Statements. These are prominently displayed on the website and in the office and serve as constant reminders of the values of the organisation. The Board also agreed on its "Code of Ethics" which establishes the norms for ethical conduct not only for members but for the staff as a whole.

During its first financial year, the Board has concentrated on the following 3 areas:

1) Ensuring that the legacy arrangements adopted from the ICTA and ERA were appropriate for the Office, these would include, contracts, procurement policies and similar governance matters; this continues to be

a work in progress as policies are developed and procedures implemented by management to ensure good governance and compliance with the various statutes to which the Office is subject;

2) The implications of the Public Authorities Law 2017 on the Office's operations, its independence and governance arrangements that are enshrined in the URC Law and which are intended to secure the confidence of all stakeholders including investors; and

3) Value for money in recognition that the Office is subject to an appraisal by the Auditor General where the URC Law provides for a performance or value for money audit to be carried out every 3 years.

"My fellow Board members and I are also grateful for the unwavering commitment and incredible organisational teamwork which has allowed us to achieve much during the first year of our operations."

Thanks

The expression, "*our people is our most valuable resource*" is not a cliché at the Office. We are fortunate to have inherited a dedicated and knowledgeable staff of professionals. Their tireless work during these initial stages of the Office's operations has enabled a greater than expected level of accomplishments in the execution of the regulatory agenda.

My fellow Board members and I are also grateful for the unwavering commitment and incredible organisational teamwork which has allowed us to achieve much during the first year of our operations. This initial success would not have been achieved without the dedication, attention to duty and in many ways, the tenacity of the Executive team led by the Chief Executive Officer, Mr. J Paul Morgan.

I thank them all.

Dr. the Hon. Linford A. Pierson, OBE, JP, PhD, FCCA
Chair of the Board of Directors

Report from the Chief Executive Officer

J Paul Morgan

After nearly two years of drafting of laws and preparation the Office opened its doors on 16 January 2017 at Alissta Towers, the offices of the former ICTA. This saw the amalgamation of the ICTA, the ERA and the Petroleum Inspectorate which hitherto had been a department of core Government.

I am honoured to have been appointed as the first Chief Executive Officer and by extension, a member of the Board. Subsequent to the appointment of Mr. Alee Fa'amoe as Executive Director of ICT, Mr. Charles Farrington as Executive Director of Energy and Utilities and the confirmation of Mr. Duke Munroe as Chief Fuels Inspector and, therefore, executive members of the Board, I appointed Mr. Fa'amoe as Deputy CEO and Mr. Munroe as Director Fuel Markets thus completing essential appointments for managerial coverage.

"The biggest challenge that faced the management team in our inaugural year was the processes for integrating the legacy organisations administratively and technologically and the fostering of a new culture that would be uniquely OfReg's."

I was also pleased to welcome Mr. Gregg Anderson as Executive Director Energy and Utilities with effect from 1 September 2017, following Mr. Farrington's retirement on 30 April 2017. The Chairman alluded to Mr. Anderson's appointment in his Message.

As will be appreciated, the biggest challenge that faced the management team in our inaugural year was the processes for integrating the legacy organisations administratively and technologically and the fostering of a new culture that would be uniquely OfReg's. Fortunately, of the legacy organisations ICTA was the most mature and early decisions were taken to adapt the ICTA policies as the starting point for OfReg.

Transition Challenges

It was assumed at the policy level that the revenues from the ICTA, the ERA and the core government appropriations would be sufficient to fund the transition and perhaps future operations of the Office.

The fact is that insufficient consideration was given to the additional burden to the Office imposed by the inclusion of the fuels market and the water sector regulatory functions. It is also noteworthy that the URC Law requires the Office to be funded through regulatory/licence fees by the regulated sectors in proportion to the burden imposed by the respective sectors. This is a widely accepted best practice that the regulator should collect in fees only sufficient to recover its costs for regulating a sector and that no sector should subsidise another.

“Despite the challenges associated with the transition, we have recorded creditable performance in the discharge of our statutory and regulatory functions…”

The consolidated budget which was required, prepared and eventually approved to legitimise the Office on the Government’s books and disband the legacy regulators indicated that approximately CI$1 million would be required to fund the transition including startup expenses and roll out of the Office’s new responsibilities across the fuels market and water sectors.

There were also understandings as to the source of funding for these additional monies. On the basis of these understandings, the cash needed was borrowed from the ICTA reserves, which as a result constrained the ICT group from executing some of its planned sectoral objectives.

At financial year end, and up to the time of writing, the understandings have not been honoured. As a result, the Office has recorded approximately CI$1.465 million in total losses on its operations in 2017.

As the space at Alissta Towers proved to be inadequate to house a doubling of the occupancy plus the inevitable strain for support space such as meeting rooms, sanitation and common space, an immediate priority was to identify suitable and secure office space.

Although appropriate space was eventually identified, and lease arrangements concluded in 2017, the Office found itself cash strapped due to the problems identified above and has been unable to commit to embarking on the associated leasehold improvements.

Regulatory Agenda

Despite the challenges associated with the transition, we have recorded creditable performance in the discharge of our statutory and regulatory functions; while these are all discussed in the body of this report I should like to highlight the following –

Statutory Requirements

The URC Law imposes on the Office a duty to consult with all who are likely to be affected by its decisions and provides for the Office to consult and make a Determination on its consultation procedure within 6-months of the URC Law coming into effect. This statutory provision was concluded within the period prescribed.

> *"Our 2018-2022 Strategic Plan anticipates that the Office will make significant strides in the development of a comprehensive regulatory framework to facilitate the adoption of renewables into the public supply system, both at the supply and demand levels."*

The URC Law also requires that the Office prepares, consults and issues its 5-year Strategic Plan within 12-months of the URC Law coming into effect, that is by 16 January 2018, and an Annual Plan and Budget for the forthcoming year by the first day of December each year. The Office's first Strategic Plan and Annual Plan, including budget, were prepared, consulted on and issued concurrently. The statutory requirements for both were met with the Determinations issued on 17 November 2017.

ICT Sector

Given the competitive nature of this sector and the number of licensees, the ICT sector enjoys the largest allocation of resources, including regulatory staff, in the Office. The significant ICT decisions in 2017 were –

- Guidelines on the definition of relevant markets and the assessment of significant market power which will provide the framework for the determination of dominance in the relevant markets;

- A regulatory notice update, pursuant to section 23(2) of the ICT Law, brought efficient and responsive updates to the ICT sector licensing framework to facilitate innovation in the form of services and networks; and

- ICT sector consumer protection regulations.

Electricity Sector

The National Energy Policy was unanimously approved by the Legislative Assembly in January 2017. This all-important policy, which charts a strategy for the Cayman Islands to achieve 70 percent renewables in its energy mix by 2037, provides the Office with important directions to design appropriate regulatory frameworks to secure the attainment of the national objectives.

Our *2018-2022 Strategic Plan* anticipates that the Office will make significant strides in the development of a comprehensive regulatory framework to facilitate the adoption of renewables into the public supply system, both at the supply and demand levels.

In this regard, the Office recognizes and is appreciative of the inputs from the Cayman Renewable Energy Association and Caribbean Utilities Company, Ltd.

Fuel Sector

The Office's interventions in the fuel market are governed by two principal sector statutes - the Dangerous Substances Law, 2016 ('***DS Law'***) which essentially addresses safety matters and the Fuel Markets Regulations Law, 2017 ('***FMR Law'***) which provides the framework for regulating the sector.

"With regard to the obligations under the DS Law the Fuels Inspectorate successfully introduced the regime for issuing permits."

With regard to the obligations under the DS Law the Fuels Inspectorate successfully introduced the regime for issuing permits.

In the case of the regulatory agenda under the FMR Law, the data gathering activities as well as a system for tracking and reporting prices were consolidated with the addition of a new staff member to that group.

The Office is acutely aware of the Government's Strategic Objectives to complete the market reviews and to manage the retail pricing environment effectively; however, the important work to commence the market analysis which will inform the development of the appropriate market rules could not be initiated because of revenue challenges referred to earlier.

It is important that the regulatory fees framework for this sector be implemented, pursuant to the FMR Law, and accordingly be approved early in the upcoming year so that Office's work in that sector can commence in earnest.

Water Sector

The Office's focus in the water sector has been to complete negotiations with Cayman Water Company for its new licence, the first that will be issued under the new regulatory regime.

Unfortunately, the negotiations slowed toward the end of the financial year as the parties struggled with an appropriate economic and rate making regime appropriate to the circumstances of the company.

It is now clear that the target for issuance of the new Licence by 31 January 2018 will not be achieved, but there is every expectation that these negotiations will be completed before the end of 2018.

Our People

The Office is endowed with a small group of enthusiastic, willing and dedicated staff but, in reality, the organisation currently lacks, in house, the range of requisite skills to perform its regulatory work.

"The Office's focus in the water sector has been to complete negotiations with Cayman Water Company for its new licence, the first that will be issued under the new regulatory regime."

It must be understood that to be effective our staff must be able to compete with the skills and competencies available to our licensees. Due to the inevitable environment of information and skills asymmetry between the regulator and the regulated it is important that OfReg's professional and technical staff are highly skilled, "*the best of the best"* so to speak. The Office is committed to investing heavily in training and development of staff and to recruit the right talent of economists, engineers and lawyers who have the foundation skills and academic background.

In the meantime, the Office must rely on consultant help. The expectation is that in the short to medium-term consulting and training costs will be high, but consulting costs will trend downwards as the effects of the training and development initiatives are realized.

Thanks

The challenges experienced at every level internally and in our relations with core government have been significant. We would not have achieved our objectives without the care and tenacious attention of our Chair, Dr. Linford A. Pierson. His knowledge and experience in the workings of core government and his ever-ready availability has been a constant source of support and confidence-building for the Office's Executive Team. I cannot thank Dr. Pierson enough.

I also thank the Non-Executive Members who have demonstrated a level of interest which reflects particularly in heightening the attention to be paid to all areas of governance. Their energy in supporting the work of and providing advice to the executives has been beyond reasonable expectations.

"We have good reason to be proud of our achievements."

The Office's Executive Team supported by the Senior Managers very quickly molded itself into a formidable unit, demonstrating a level of collegiality and cohesiveness which has been inspiring. The leadership which has been collectively and individually displayed augurs well for our future.

Finally, as the Chair mentioned in his message, *"our people is our most valuable resource"* is not cliché at the Office. I can only echo his sentiments as I take this opportunity to thank our entire staff for their hard work during this start up and transitional year. Their efforts have enabled the Office to meet most of its goals, despite the challenges.

We have good reason to be proud of our achievements.

J Paul Morgan
Chief Executive Officer

J Paul Morgan (CEO) and Dr. the Hon. Linford A. Pierson, OBE, JP, PhD, FCCA (Chair)

Introduction

"The Office is 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."

This is the 2017 Annual Report for the Utility Regulation and Competition Office of the Cayman Islands (the '***Office***' or '***OfReg***').

The Office's financial and operational year commenced 16 January 2017 and ended 31 December 2017. Financial statements in this report have been independently audited pursuant to the Utility Regulation and Competition Law ('***URC Law'***) and unless stated otherwise are reported in Cayman Islands dollars.

The format of this report is compliant with core government reporting as outlined in section 52 of the Public Management and Finance Law (2017 Revision) and in compliance with section 43 of the URC Law and is intended for review by the Office's stakeholders, to which the Office is accountable.

An electronic copy of this report is available for review at our website http://www.ofreg.ky/annual-report.

Hard copies are available at our office located on the 3rd floor of Alissta Towers in George Town, Grand Cayman. Office hours for the public are from 8.30am until 5pm, Monday through Friday excluding public holidays.

ClickB4UDig is an industry initiative protecting the safety of workers and underground infrastructure throughout the Cayman Islands *(photos from WAC)*

Nature and Scope of Activities

The Office is the independent regulator for the energy, information and communications technology, water, wastewater and fuel sectors in the Cayman Islands. The Office also regulates the use of electromagnetic spectrum and manages the .ky internet domain.

The Office was established pursuant to section 4(1) of the URC Law and opened for business on 16 January 2017 on the 3rd floor of Alissta Towers at 85 North Sound Road in George Town, Grand Cayman.

Operating under the brand name '*OfReg*', the Office seeks to be predictable, to encourage competition where appropriate and feasible; to champion sustainability and innovation across markets; and to contribute to economic and social goals of the Cayman Islands.[1]

The Office's principal functions are set out in section 6(1) of the URC Law, which includes promoting objectives set out in Government policy, promoting effective and fair competition, protecting the interests of consumers and promoting innovation and facilitating economic and national development.

Sectoral Laws provide for sector specific powers and functions (which differ from sector to sector), the principal ones being the Electricity Sector Regulation Law, 2016 ('***ESR Law'***), the Information and Communication Technology Law (2017 Revision) ('***ICT Law'***), the Dangerous Substances Law (2017 Revision) ('***DS Law'***), the Fuel Market Regulation Law, 2017 ('***FMR Law'***) and the Water Sector Regulation Law, 2017 ('***WSR Law'***).

The Office is 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.

Many of the functions previously carried out by the legacy regulators, the ICTA, ERA and Petroleum Inspectorate[2], continue as usual; however, the Office's remit has been expanded to include fuel markets and water sector regulation. The Office's authority has also been broadened to include strengthened competition and consumer protection powers as well as a duty to promote innovation in all the sectors for which it has responsibility. Table 1 provides perspective for some of the office's responsibilities per sector.

[1] In addition to its website, the Office maintained a social media presence during the financial year on *Facebook*, *LinkedIn* and *Twitter* to educate the public and promote its brand.
[2] The ICTA and ERA were semi-autonomous statutory authorities while the Petroleum Inspectorate was a department in core Government.

Table 1: Scope of Activities per Sector Team

	ICT	E&U	Fuels
Allocating the electromagnetic spectrum for facilities and specified services within the Cayman Islands or between the Cayman Islands and elsewhere;	✓		
Determining methods for assigning the electromagnetic spectrum;	✓		
Issuing licences authorising the use of specified portions of the electromagnetic spectrum, including those used on any ship, aircraft, vessel, or other floating or airborne contrivance or spacecraft registered in the Islands;	✓		
Instituting procedures for ensuring the compliance by licensees with any obligations regarding the use of the electromagnetic spectrum, imposed by or under the licence, any provisions of the ICT and URC Laws or any regulations made thereunder;	✓		
Promoting competition in the provision of ICT services and ICT networks where it is reasonable or necessary to do so;	✓		
Investigating and resolving complaints from consumers and service providers concerning the provision of ICT services and ICT networks;	✓		
Determining the categories of licences to be issued under the ICT Law and the Electronic Transactions Law 2000;	✓		
Licensing and regulating ICT services and ICT networks as specified in the ICT Law and the Electronic Transactions Law 2000;	✓		
Collecting all fees and any other charges levied under the ICT Law or the Electronic Transactions Law 2000 or regulations made thereunder;	✓		
Resolving disputes concerning the interconnection or sharing of infrastructure between or among ICT service providers or ICT network providers;	✓		
Promoting and maintaining an efficient, economic and harmonised ICT infrastructure;	✓		
Managing the .ky internet domain;	✓		
Issuing Licences for electricity generation, transmission, distribution and supply; monitoring the continued relevance of licence conditions and the performance of licensees; and taking enforcement action as necessary;		✓	
Ensuring that all submissions and publications due under the URC Law, ESR Law, WSR Law and subsidiary legislation from licensees, or as detailed under existing licences, are received and evaluated in a timely manner.		✓	

Table 1: Scope of Activities per Sector Team

	ICT	E&U	Fuels
Ensuring the proper and timely collection of all licence, regulatory and permit fees (where applicable);	✓	✓	✓
Encouraging competition within the electricity generation industry throughout the Cayman Islands by running a competitive solicitation for new firm electrical power, with new licence(s) to be issued to any new entrants to the market including the issuance of licences to new entrants involved in the generation of electricity from renewable resources;		✓	
Implementing Government policy as expressed in the National Energy Policy with particular emphasis on regulatory facilitation of the attainment of strategic aims;	✓	✓	✓
Issuing Licences for water and wastewater services, monitoring the performance of licensees and taking enforcement action as necessary;		✓	
Encouraging the introduction of competition where possible;	✓	✓	✓
Ensuring that the Office works closely with licensees and core government for licensee compliance with environmental laws;	✓	✓	✓
Administrating the DS Law, including inspection of fuel storage terminals, advising on the safe handling and storage of hazardous substances and inspection of workplaces to ensure compliance with safety, health and environmental standards for hazardous materials;			✓
Promoting competition in fuel markets in the Cayman Islands through the development and enforcement of market rules;			✓
Conducting regular analyses of the state of competition in the fuels market and to prescribe appropriate measures where market failure is deemed to have occurred.			✓

Our Values

Vision Statement

"*To be a leader in regulatory excellence, demonstrating our commitment to the public, to the companies we regulate, and our colleagues by building an environment of mutual respect, professionalism, and diversity, while promoting competition and innovation.*"

Mission Statement

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

An initial focus for the Board was defining the Office's values

To achieve this the Office will:

- Ensure that service providers operate in an environment which is fair and provides an opportunity to realise 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 polices 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;
- Encourage the conservation of natural resources and environmental preservation;
- Ensure effective methods of communicating the Office's areas of regulation, decisions and their impacts on the public;
- Develop and promote activities that encourage stakeholders trust and confidence; and
- Serve the public interest through a commitment to professionalism, diversity, mutual respect and ethical conduct."

Governance

Governance is the system or processes by which the Office makes decisions and then implements its decisions.

Figure 1 depicts the Office's governance model, the mainstays being legislative guidance and Board oversight.

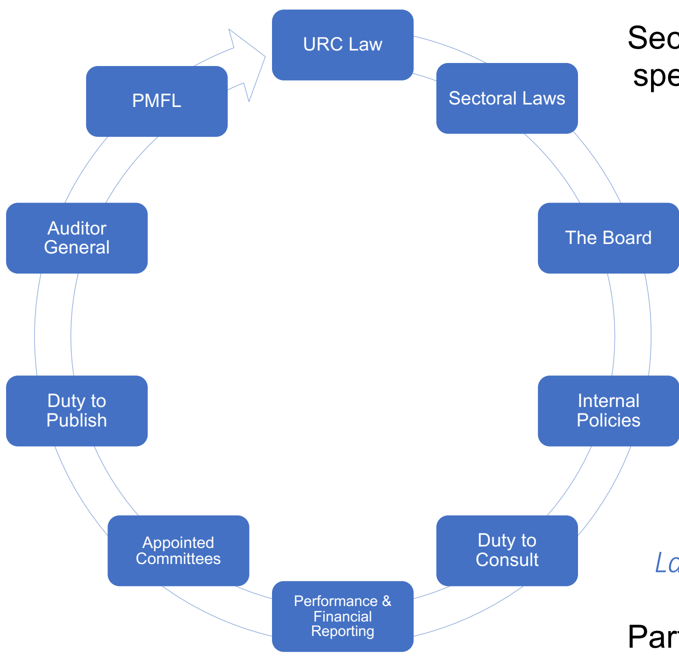


Figure 1: The Office's governance model

URC Law

Not only does the URC Law set out the broad duties and powers for the Office, it also stipulates the type of oversight and reporting required to ensure the Office's output is transparent and aligned with its target objectives.

Part 3 and Part 4 of the URC Law address oversight while Part 6 defines the financial reporting and accountability provisions for the Office.

A copy of the URC Law is available at http://www.ofreg.ky/legislation-regulation.

Sectoral Laws

Sectoral Laws provide for sector specific powers and functions for the Office. These powers and functions differ from sector to sector.

The principal Sectoral Laws which guide the duties and responsibilities of the Office in the sectors for which it has responsibility are the ICT, ESR, DS, FMR and WSR.

Public Management and Finance Law (2017 Revision)

Part 5 of the Public Management and Finance Law (2017 Revision) ('***PMFL***') outlines the duties and powers of statutory authorities and Government companies as well as performance specification and financial reporting.

For 2017, the Office agreed to targets with Cabinet pertaining to financial performance and strategic objectives that are summarised later in this report.

The Board as of 31 December 2017. *Left to Right:* Ronnie Dunn (Deputy Chair), Sonji Myles (Acting Secretary), J Paul Morgan (CEO), Duke Munroe, Dr. the Hon. Linford A. Pierson, OBE, JP, PhD, FCCA (Chair), Melissa Lim, Gregg Anderson, Rudy Ebanks, Alee Fa'amoe (Deputy CEO) and Frank Balderamos

The Board

In accordance with Part 3 of the URC Law, a Board comprised of nine members oversaw general administration of the affairs and business of the Office as well as the carrying out of regulatory powers and functions during 2017.

The Board is comprised of Cabinet appointed Non-Executive Directors and Board appointed Executive Directors. Pursuant to Part 3 of the URC Law, Directors are appointed for fixed terms.

Four members of the Board are Executive Directors, which includes the Chief Executive Officer ('***CEO***') who is a voting member, Executive Director of ICT, Executive Director of E&U and the Chief Fuels Inspector & Head Fuel Markets.

Each Executive Director brings substantial technical, operating and regulatory knowledge and experience in their respective areas of responsibility.

Accordingly, the Board is required to have regard to the recommendations of Executive Directors when making regulatory determinations.

Five members of the Board are Non-Executive Directors, including the Chair. The Chair is a direct appointment by Cabinet while each of the other Non-Executive Directors is selected by Cabinet out of a qualified pool of candidates recommended by a Nominating Committee established pursuant to the URC Law. Each Non-

Executive Member is appointed for a fixed term by Cabinet.

To ensure continuity and no skills gap the Chair and Executive Directors were appointed to 3-year terms while the remaining four Non-Executive Directors were split between 2-year and 4-year terms. Subsequent appointments of Non-Executive Directors by Cabinet will be for 3-year terms to maintain the stagger.

The Board met sixteen (16) times in 2017 to consider administrative and regulatory matters.

Appointed Committees

Pursuant to section 26 of the URC Law, the Board has the power to appoint a Risk and Audit Subcommittee chaired by an independent person.

The Subcommittee is to provide oversight for risk mitigation, internal audit functions and value for money considerations. The Subcommittee will prepare a report for the Board within 4-months of the publication of the Office's fiscal year Annual Report.

The Risk and Audit Subcommittee's yearly report will be published at the Office's website within 2-months following Board review.

Codes of Conduct and Internal Policies

In 2017, the Board agreed on and published a *Code of Ethics and Business Conduct of the Board of Directors* to provide guidance to Directors in recognising and dealing with ethical issues and to mechanisms to report unethical conduct. This published document is available for review at http://www.ofreg.ky/board-of-directors.

For increased workplace efficiency and guidance, the Office published internal policies pertaining to recruitment, procurement, travel and finance in 2017 as well as an *Employee Handbook* to aid Staff in upholding the Office's ideals and principles.

Duty to Consult

Affirming that consulting with all stakeholders is not only an essential aspect for the regulator but is also a statutory requirement promoting accountability and transparency and pursuant to section 7 of the URC Law, the Office seeks input from its stakeholders prior to finalizing all administrative determinations of public significance.

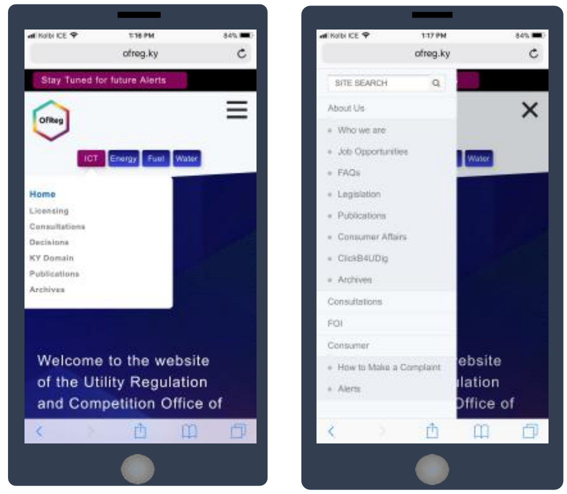
Website

Pursuant to section 8 of the URC Law and for stakeholder convenience, the office maintains a mobile and desktop website at http://www.ofreg.ky as a primary source for publishing its administrative decisions as well as reporting performance (see Figure 2).

Publishing

Pursuant to Section 41 of the URC Law and following a public consultation the Office published its 5-year strategic plan on 17 November

Figure 2: OfReg's mobile website



ICT menu at homepage engaged

Triple bar button engaged

2017. The *2018-2022 Strategic Plan* along with subsequent Government policy will guide the Office's short and medium-term focus in all of the sectors it regulates.[3] The Strategic Plan is available for review at http://www.ofreg.ky/strategic-plan.

One month before the end of its financial year, the Office is required to publish an annual plan for the forthcoming financial year. The annual plan outlines strategic objectives, key performance indicators ('***KPI***') to measure its own performance and a budget. Following a public consultation, the Office published its *2018 Annual Plan* on 17 November 2017. It is available online at http://www.ofreg.ky/annual-plan.

Performance and Financial Audits

Pursuant to Part 5 of the PMFL, the Office and the Cabinet have agreed to financial and performance targets for the 2017 financial year through an ownership agreement. Also, section 41(1) of the URC Law, requires the Office publish an annual report containing audited financial statements for its most recent financial year.

The Office's financial statements are prepared in accordance with the International Financial Reporting Standards, audited by the Auditor General and submitted to Cabinet for review within 4-months of the financial year end.

Auditor General

Part 6 of the URC Law charges the Auditor General with reporting to the Board every 3-years on the performance of the Office against its Annual Plan.

A final report is to be published at the Office's website that evaluates the deployment of financial resources and whether value for money was delivered and the impact of the Office's regulatory decisions versus the projected impacts.

[3] Section 41(4) of the URC Law requires the strategic plan be updated every 3 years.

Our People

A Board oversees the Office's decisions while Staff conduct day-to-day business to meet internal and regulatory objectives. The following summarises how the Office delivered on its plans during 2017.

The Board

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

In accordance with section 105 of the URC Law, an initial 2-member Board was appointed by Cabinet on 16 January 2017 consisting of the Office's first Chair and CEO, Dr. the Hon. Linford A. Pierson and J Paul Morgan respectively.

That same day, the Board appointed Alee Fa'amoe as Executive Director of ICT, Charles Farrington as Executive Director of E&U and confirmed Duke Munroe as Chief Fuels Inspector. The CEO later appointed Mr. Fa'amoe Deputy CEO and Mr. Munroe Head of Fuel Markets.

Appointed by the Cabinet to serve staggered terms with effect from 17 May 2017 as Non-Executive Directors were Gregg Anderson, Ronnie Dunn, Frank Balderamos and Melissa Lim. The Non-Executive Directors elected Mr. Anderson Deputy Chair of the Board.

Upon Mr. Farrington's retirement in April 2017, the Board appointed Mr. Anderson the position of Executive Director of E&U in September 2017.[4] Cabinet then appointed Rudy Ebanks to serve as a Non-Executive Director with effect from 24 October 2017 for the remainder of Mr. Anderson's term.

Mr. Dunn replaced Mr Anderson as Deputy Chair of the Board and for the entire 2017 financial year Sonji Myles was Acting Board Secretary.

Staff

On 16 January 2017 the Office commenced operations and began amalgamating personnel from the legacy regulators: the ICTA; ERA; and Petroleum Inspectorate. All Management and Staff had been offered employment by the Office and accepted.[5] By the end of Q1, Staff were unified into a single work place at the former offices of the ICTA in Alissta Towers at 85 North Sound Road in George Town.

Executive Directors manage the day-to-day operations of the Office while administrative and technical support is provided by a management team, counsel, administrators, inspectors, analysts and consultants.

[4] Mr. Anderson had responded to the published vacancy prior to his appointment as a Non-Executive Director.

[5] The regulatory functions of the Water Authority related to the economic regulation of the sector were transferred to the Office under the WSR Law in May 2017; however, no staff moved to the Office from the Water Authority Cayman in 2017.

Figure 3 depicts how the Office was organised to deliver on its plans in 2017. Support staff were organised into administrative and sector teams.

Turnover

Two (2) staff left the Office in 2017. Both were from the E&U Team, one of whom was the Executive Director. Sadly, the Office also lost a third staff member who passed away in December.

Recruitment and Staffing

The following 4 new staff members joined the Office in 2017:

- A Fuel Analyst to assist with Fuel Market regulation (June);
- An Assistant to work with the Executive Team (August);
- A Project manager to assist with numerous ICT sector projects and to provide information technology and website administration support to the Office (September);
- An E&U Analyst to fill a vacancy (December).

Professional Development

The Office supports the professional development of its Staff with a commitment to providing targeted training and development opportunities for up-skilling and overall employee development.

The Office recognises the benefit of employee development and training and at the end of 2017 was in the process of developing a comprehensive training and development plan based on an assessment of needs and skills gaps.

The Office also considers on a case by case basis requests from staff for support in personal skills and professional development.

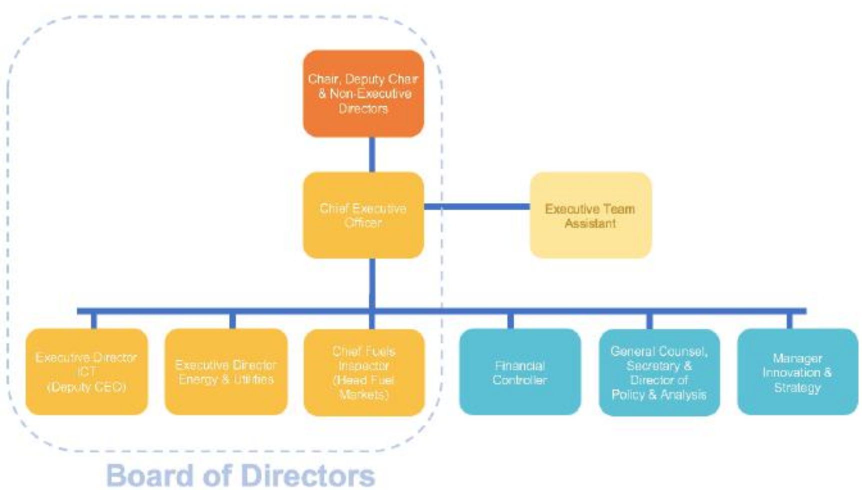


Figure 3: The Office's organisational chart as of 31 December 2017

The Staff highlighted below undertook external studies in 2017 while working full-time at the Office. The Office would like to recognise their areas of study, acknowledge their hard work and wish those still studying continued success.

Staff Receiving OfReg Assistance for External Studies during FY 2017

Tessa Ryan
M.Sc. Economic Policy

Dwayne Ebanks
National Petroleum Management Industry Designation

Echard McLaughlin
Ph.D. Law and Public Policy

Angela Connor
Chartered Certified Accountant

Tiffany Duarte
Certificate in Public Administration

Robert Tatum
M.Sc. Operations and Supply Chain Management

Community Involvement

The Office is committed to the growth and success of our communities in all Districts throughout the Cayman Islands. The Board and Staff were active in the community during 2017 and supported various local charities.

Internships

Offering local interns an opportunity to work alongside Staff on the administrative and regulatory matters of the day aligns with the Office's objectives for recruiting talent and developing our people.

In 2017, the Office provided internship opportunities for 3 Caymanian students furthering their post-secondary educations.

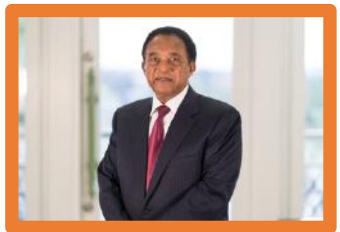
To review internship opportunities in 2018 for Caymanian students pursuing post-secondary education in applicable fields of study, please visit our website at http://www.ofreg.ky.

Scholarships

Aligning with its 5-year Strategic Plan for recruiting and developing Staff, the Office provides financial assistance to students furthering their education.

Please visit our office during office hours or visit our website for more detailed information on applying for our scholarships.

The Board
As of 31 December 2017

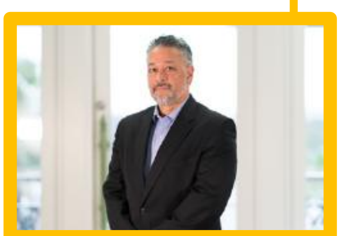


Dr. the Hon. Linford A. Pierson, OBE, JP, PhD, FCCA
Chair
Appointed January 2017
through May 2020

Sonji Myles
Acting Secretary

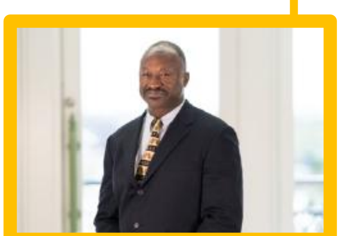
J. Paul Morgan
Chief Executive Officer & Executive Director
Appointed January 2017
through August 2018

Ronnie Dunn
Deputy Chair & Non-Executive Director
Appointed May 2017
through May 2021



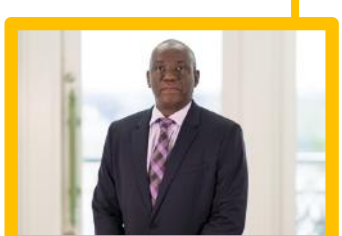
Alee Fa'amoe
Deputy CEO & Executive Director of ICT
Appointed January 2017
through January 2021

Melissa Lim
Non-Executive Director
Appointed May 2017
through May 2019

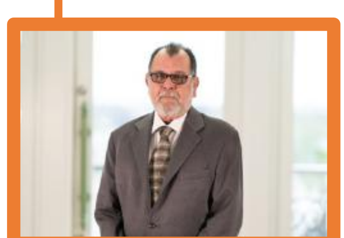


Gregg Anderson
Executive Director of E&U
Appointed September 2017
through September 2020
(Resigned as Non-Executive Member September 2017)

Frank Balderamos
Non-Executive Director
Appointed May 2017
through May 2019



Duke Monroe
Chief Fuels Inspector & Head Fuel Markets
Appointed January 2017
through January 2021



Rudy Ebanks
Non-Executive Director
Appointed October 2017
through May 2021

Executive Members

Non-Executive Members

Staff

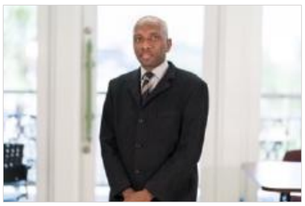
As of 31 December 2017

Executive Directors

L to R: J Paul Morgan (*CEO*), Alee Fa'amoe (*Deputy CEO and Executive Director of ICT*), Gregg Anderson (*Executive Director of E&U)* and Duke Munroe (*Chief Fuels Inspector and Head Fuel Markets*)

Administration

L to R: Tiffany Duarte (*Licensing Analyst)*, Echard McLaughlin (*Manager*) and Joanna Bodden (*Administrative Officer*). Missing from the photograph are Joanne Conolly (*Executive Team Assistant*) and Angela Connor (*Accounts Officer*)



Troy Claxton
Financial Controller

Alison Maxwell
Associate Counsel

Staff

As of 31 December 2017

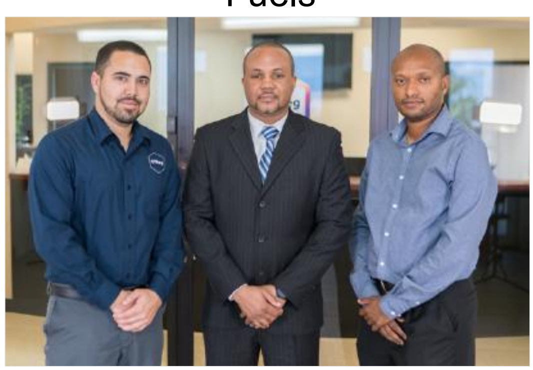
ICT

L to R: Jose Hernandez (*Manager – Intellectual Property and TV)*, Keith Dixon (*Project Manager*), Sonji Myles (*Deputy Executive Director & FOI Manager)*, Tessa Ryan (*Manager - Economics)*, Alee Fa'amoe (*Executive Director)*, Ian Callow (*Manager – Fixed and Wireless Services)* and Daniel Ebanks (*Manager - Infrastructure and Spectrum*)

Energy & Utilities

L to R: Dericka Ebanks (*Analyst*), Derrick Westerborg (*Analyst*) and Louis Boucher (*Deputy Executive Director)*

Fuels



L to R: Robert Tatum (*Inspector)*, Dwayne Tucker (*Analyst)* and Dwayne Ebanks (*Inspector)*

Management's Discussion and Analysis

Summary of Achievement of Strategic Goals

The Office's greatest achievement in 2017 was organising itself into a functioning corporate body.

The establishment of an independent multi-sector regulator was one of the proposals put forth for Government's consideration in Phase V of its Rationalisation Project to reform public services.[6]

In September 2016, Cabinet approved the formation of the Office and the principal enabling legislation was enacted.

Preparation was finalised leading up to (and during) the fiscal year to implement the URC Law and Sector Laws and transition the former ICTA, ERA and Petroleum Inspectorate Staff into a single location at Alissta Towers.

The success of the transition into OfReg would not have been possible if not for the work of the Ministry and its external consultant as well as the commitment from the Office's predecessors: ICTA, ERA and Petroleum Inspectorate.

In addition to organising itself into a body corporate in 2017, the Office also had to be compliant with its own statutory obligations and perform regulatory duties in the sectors for which it has responsibility. The following highlights these achievements for the Office in 2017.

Statutory Obligations

The Office has statutory obligations specified throughout the URC Law.

Forming the Board

Pursuant to Part 3 of the URC Law, the Office formed a nine (9) member Board.

In January 2017, Cabinet appointed Dr. Linford A. Pierson as the inaugural Chair of the Office's Board and J Paul Morgan as CEO. They then approved the three Executive Directors on the same day. Four Non-Executive Directors were subsequently appointed by Cabinet in compliance with section 23(1) of the URC Law.

Strategic Vision

In accordance with section 61 of the URC Law, the Office developed a strategic vision (or focus) that aligns with Government's broad priorities for 2018-2021.[7] The two pillars of the strategic vision are '*innovation*' and '*the delivery of utility services at least cost'*.[8]

[6] See the Government's commissioned review by Ernst & Young, specifically pp. 216-221 of the September 2014 report titled *"Project Future: creating a sustainable future for the Cayman Islands"* available at http://www.gov.ky/portal/page/portal/srihome/publications.
[7] See p. 47 of the Cayman Islands Government's 2018 Strategic Policy Statement available for review at http://www.gov.ky/portal/pls/portal/docs/1/12496493.PDF.
[8] See pp. 7-11 of the Office's *2018-2022 Strategic Plan*.

Procedure for Consultations

Pursuant to section 7(2) of the URC Law the Office is required to publish, within 6-months of its establishment, a standard procedure for seeking public comments prior to issuing administrative determinations of public significance.

In May 2017, following public consultation, the Office published its procedure which is available for review at http://www.ofreg.ky.

Publishing

In May 2017, pursuant to section 44(2) of the URC Law, the Office sought stakeholder input on the proposed '*Guidelines on the Criteria for the Definition of Relevant Markets and the Assessment of Significant Market Power*'[9].

Its consultation concluded in June 2017 and in September 2017 the Office issued a determination (*OF 2017 – 2 – Determination*) and the finalised guidelines (*OF 2017 – G2 – Guidelines*)[10].

On 17 November 2017, pursuant to section 41(4) of URC Law and following public consultation, the Office published its 5-year Strategic Plan which along with any applicable Government policy will guide the Office's short and medium-term focus in each of the sectors for which it has responsibility. The *2018-2022 Strategic Plan* is available for review at http://www.ofreg.ky/strategic-plan.

On 17 November 2017, pursuant to section 41(1) of the URC Law and following a public consultation, the Office published its *2018 Annual Plan* which outlines KPIs to measure its own performance, 2018-2020 sectoral objectives, including strategies to meet those objectives, and an approved budget for 2018. The *2018 Annual Plan* is available for review at http://www.ofreg.ky/annual-plan.

Reserve Fund

Pursuant to section 38(1) of the URC Law, the Office planned for a reserve fund for its 2018 budget by reviewing and implementing changes to the license fee structures in each of the sectors for which it has responsibility in 2017.

Alternative Dispute Resolution

In accordance with Part 10 of the URC Law, the Office has commenced work to consult on alternative dispute resolution ('***ADR***') schemes applicable to each of the sectors for which it has responsibility.

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[9] See the Office's Consultation on the Proposed Guidelines on the Criteria for the Definition of Relevant Markets and the Assessment of Significant Market Power: http://www.ofreg.ky/upimages/commonfiles/1506412521Consultation-on-the-proposed-Guidelines-on-the-Criteria-for-the-Definition-of-Relevant-Markets-and-the-Assessment-of-Significant-MarketPower.pdf.

[10] See the Office's Determination and the final Guidelines on the Criteria for the Definition of Relevant Markets and the Assessment of Significant Market Power: http://www.ofreg.ky/upimages/commonfiles/1507891125OF20172DeterminationandGuidelinesontheCriteriafortheDefinitionofRelevantMarketsandtheAssessmentofSMP.pdf.

Electricity Sector

National Energy Policy (2017-2037)

The Office's CEO, J Paul Morgan, who was the appointed Chairman of the National Energy Policy Review Committee ('***NEPRC***') prior to his appointment as CEO of the Office, concluded the work on the NEP with the secretarial support to the committee being provided by the legacy ERA.

The National Energy Policy (2017-2037) ('***NEP***') provides the Office with important policy guidance in the energy sector.

In January 2017, the Office finalised the Policy document on behalf of the NEPRC and submitted it to the Ministry for Cabinet consideration. In March 2017, the NEP was approved by Cabinet and unanimously approved by the Legislative Assembly.

In addition to energy conservation and energy efficiency goals, the NEP aims for 70 percent of total energy in the Cayman Islands to be produced from renewable resources by 2037.

As a Government Policy, the Office is statutorily obligated to promote and be guided by the NEP.

Approval of a Solar Infusion Study for Grand Cayman

In 2017, CUC, as the holder of a non-exclusive generation licence and an exclusive transmission and distribution ('***T&D***') licence for the Grand Cayman service territory, submitted a final solar infusion study report for the Office's approval.

Completed for CUC by its external consultant, LEIDOS, the report contained detailed analyses using available data and assumptions from CUC's generation and T&D facilities to determine preliminary limits for renewable energy infusion into Grand Cayman's electricity grid.

Switchgear at CUC's North Sound Substation

ICF International ('***ICF***'), a U.S. consultancy with industry expertise, had been hired by the ERA in 2015 to review the terms of reference and in 2016 to review the draft versions of the report. ICF recommended the Office approve the final iteration of the infusion study report in 2017.

The solar infusion study report is available at http://www.ofreg.ky for review.

Oversight for a 5 MW Solar PV Plant on Grand Cayman

In August 2011, CUC had issued a request for expressions of interest for ownership and operation of up to 13 Megawatts ('***MW***') in aggregate of alternating current ('***AC***') utility-scale renewable energy facilities for the Grand Cayman service territory.

Following a protracted evaluation and negotiating process with a number of the top-rated bidders, CUC submitted to the Office's predecessor, the ERA, a draft power purchase agreement (‘***PPA***’) and interconnection agreement (‘***IA***’) in December 2014 for a 5 MW AC solar photovoltaic (‘***PV***’) generating facility to be owned and operated by Entropy Cayman Solar Ltd (‘***Entropy***’).

The ERA, with the assistance of its consultant ICF, reviewed the draft PPA and IA and performed due diligence as outlined in the ERA Law (now the ‘***ESR Law***’).

In October 2015, the ERA approved Entropy's generation licence application for the first utility-scale renewable energy facility in the Cayman Islands.

Entropy was awarded a non-exclusive generating licence for Grand Cayman and its generating facility, located in the district of Bodden Town, was commissioned in May 2017. The Office is now responsible for regulatory oversight of the generating licence.

5 MW utility-scale PV solar plant in Bodden Town

Electric Vehicle Charging Rates for Grand Cayman

In April 2016, CUC presented to the Office's predecessor, the ERA, for consideration and approval an electric vehicle (‘***EV***’) charging rate proposal with the intention of incentivising EV uptake on Grand Cayman.

The proposed EV rates are similar to time of use rates which incentivise off-peak charging (late evening through early morning) to reduce peak load growth (mid-afternoon demand) and avoid a need for new firm generating capacity.

The ERA's Technical Committee (‘***TC***’) first reviewed the rates at its meeting in June 2016 and the consensus amongst Members was not to reject the proposal but to have CUC provide greater clarity as to how it planned to prevent EV fraud.

In response to that concern CUC recommended a maximum consumption per EV per month at its proposed rates. If that maximum is exceeded the EV customer will be charged normal base rates for the excess consumption. Although not fool proof, CUC's recommendation does feasibly address the TC's original concern.

Accordingly, the TC at its meeting in November 2016 agreed to recommend approval, which was granted by the ERA's Board of Directors at its final meeting before transitioning over its regulatory duties to the Office.

The Office will continue to promote EV uptake as it aligns with recommendations and objectives in the National Energy Policy.

Distributed Energy Resources

Distributed energy resources ('***DER***') are smaller, non-conventional power sources aggregated throughout a power system to meet a particular demand. These power sources may include renewable or alternative energy generators as well as energy storage systems.

In 2017 and in alignment with the National Energy Policy the Office approved 3 MW AC of DER capacity for the Grand Cayman service territory. This included special rates for any excess energy sold from DER to the service provider, CUC.

Demand Rates

Residential and small commercial customers typically consume smaller amounts of energy in ways that are similar to one another; whereas, large commercial customers consume large amounts of energy very differently from one another.

Accordingly, volumetric charges as currently charged to residential and small commercial customers without onsite DER is more appropriate and industry standard; whereas, demand rates which account for the fixed and variable charges of serving a unique individual customer are more appropriate for large consumers and residential and commercial customers with DER.

By 2017, CUC had installed smart meters for all residential and commercial customers on Grand Cayman, except for a small number of residential customers who chose to opt out. Smart meters are capable of reading and transmitting total monthly energy use and peak monthly demand for all customers. This allows CUC as the service provider to accurately calculate another form of billing, demand and standby rates.

Accordingly, CUC and its external consultant had been developing a demand and standby rate formula meant to reduce cross-subsidisation of rates classes by more accurately charging commercial customers and residential and commercial customers with DER.

Following an extensive review, the Office approved CUC rolling out demand rates for its large commercial customers and any residential and commercial customers with DER, beginning January 2018.[11]

Consumer Owned Renewable Energy Program

In 2017, the Office approved an additional 2 MW AC of capacity to the Consumer Owned Renewable Energy ('***CORE***') Programme for Grand Cayman with 1 MW AC to be earmarked for Government installations.

The aggregate total for the CORE Programme is now 7 MW AC for non-

[11] For more information on demand rates, see CUC's 22 December 2017 press release at https://www.cuc-cayman.com/upimages/pressrelease/1514560708cuc_demand_rates_221217.pdf.

Government installations or 8 MW AC including Government installations.

For this CORE iteration, private customers are limited to system sizes less than 10 kilowatts (kW) AC; whereas, Government is permitted system sizes from 20 to 100 kW AC. The Office adopted this position to assist the Government to realise its own commitments under the National Energy Policy.

The approved CORE rate for private systems less than 5 kW AC is CI$0.30 per kilowatt-hour (kWh) sold to CUC.

The approved CORE rate for private systems from 5 to 10 kW AC is CI$0.26 per kWh sold to CUC.

The approved CORE rate for Government systems from 20 to 100 kW AC is CI$0.21 per kWh AC sold to CUC.

Also, for the first time CORE customers are now permitted to install energy storage equipment.

CUC's Integrated Resource Plan

In July 2015, CUC sought ERA's approval to perform a long range integrated resource planning ('***IRP***') exercise that carefully considers a range of potential future power supply options, including supply and demand-side management options and DER for Grand Cayman. In December 2015, the ERA approved the IRP exercise contingent on finalising an agreed upon terms of reference.

CUC and its external consultant, Pace Global, worked throughout 2016 and 2017 finalising the IRP analyses. In May 2017, CUC invited the public to the Grand Cayman Marriott where it presented its findings.

With the assistance of ICF, the Office provided regulatory oversight for the IRP in 2017 and the Office will continue to provide regulatory oversight as the Plan is finalised.

The IRP is a roadmap shaping energy generating plans on Grand Cayman over the next thirty (30) years, aligning with the National Energy Policy.

1.6 Percent Base Rate Increase on Grand Cayman

The RCAM in CUC's T&D licence utilises a target rate of return, an inflation measure, and an X Factor to adjust base rates on the first day of June each year.

The RCAM links rate adjustments to consumer price levels, which can be unpredictable, thus creating incentive for CUC to improve its efficiency by operating and investing at a cost level that is supported by its anticipated revenue.

CUC's rate of return in 2016 was 7.4 percent. Figure 4 shows that CUC's yearly rates of return, since the signing of its new Licences in 2008, have never exceeded 7.9 percent.[12]

CUC was entitled to a 1.6 percent base rate increase on 1 June 2017. Figure 5 shows the 5-year trend of the base rate

[12] The maximum rate of return permitted in CUC's T&D licence is 10 percent, negotiated down from 15 percent in its prior licence.

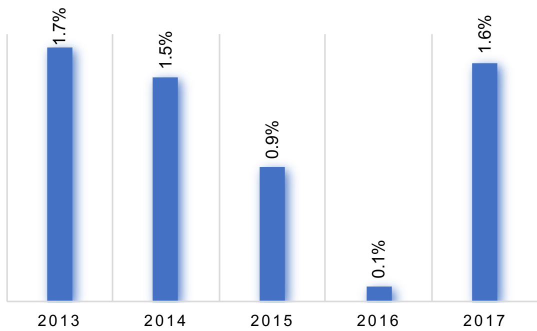


Figure 4: CUC's rates of return since the signing of its new licenses

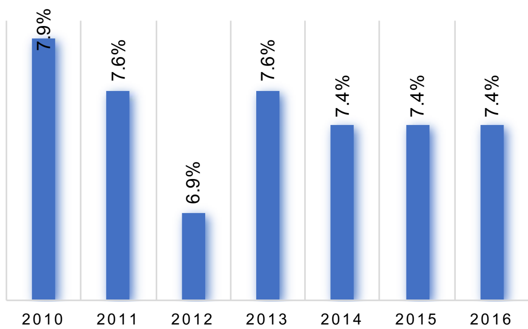


Figure 5: CUC's base rate increases over the most recent 5 years

increases, to which CUC is entitled pursuant to the terms of its T&D Licence.

CUC's 1.6 percent base rate increase on 1 June 2017 is estimated to result in a nominal monthly bill increase of approximately CI$1.83 for the average residential customer.[13]

ICT Sector

The '.ky' Internet Domain

The Office manages and regulates the '.ky' internet domain on behalf of the Government.

Launched in September 2015, anyone in the world may register a .ky domain on a first-come, first-served basis for an annual fee of US$39.88.

The ICTA had recognised the need to improve and secure the domain register. Significant work was needed to be done to bring the registry up to international standard and maintain it. The US$39.88 annual fee is used for this purpose and to give the domain some structure.

Uniregistry was hired by the Office in 2015 to manage and promote the .ky internet domain. Uniregistry is a global domain name registration service based in Grand Cayman and continued to manage the program through the 2017 financial year. In 2017, the number of .ky domains registered totaled 6,512.

Uniregistry receives a small percentage of the US$39.88 fee with the remainder passed through to the Office. This is an example of a public-private partnership ensuring the .ky internet domain is managed successfully and with greater accountability to registered owners.

The logo used for the .ky registration campaign

[13] For more information, refer to CUC's 9 June 2017 press release at https://www.cuc-cayman.com/upimages/pressrelease/1497037862cuc_ofreg_rate_adjustment_090617.pdf.

Further information on the .ky internet domain is available for review at http://www.ofreg.ky/ict/kydomain-introduction.

ICANN

The International Corporation for Assigned Names and Numbers ('***ICANN***') is responsible for coordinating the maintenance and procedures of several databases related to the namespaces of the internet, ensuring internet stability and security.

In 2017, sector Staff attended international meetings of ICANN representing the Cayman Islands and the '.ky' domain name.

Pole Attachment Industry Working Group

The Office is responsible for the regulation of the sharing of ICT infrastructure and the resolution of disputes among ICT Licensees.

In 2016, the Office's predecessor, the ICTA, commissioned an industry working group to address a long list of outstanding issues and various disputes amongst Licensees. The working group was comprised of Cable and Wireless (Cayman Islands) Limited (doing business as '***Flow***'), Digicel (Cayman) Limited ('***Digicel***'), Infinity Broadband Ltd. (doing business as '***C3***'), WestTel Limited (doing business as '***Logic***') and CUC's wholly-owned subsidiary, DataLink Ltd. ('***DataLink***').

The industry working group was facilitated by the regulator and charged with reviewing and improving "*an inefficient process with substantial delays*" relating to the installation and maintenance of attachments of communication cables to the electricity poles owned by CUC. The Office considered that an effective process was necessary for the timely rollout of ICT networks and the promotion of competition in the provision of ICT services.

In July 2017, the Office having reviewed the outcomes from ICTA Consultations 2016-1 and 2016-2 issued a determination (*ICT 2017-1-Determination*) regarding the appropriateness of reservation fees relating to the attachment of communication cables to electricity poles owned by CUC.[14]

The summary document, which took into account and had regard to the deliberations of the Working Group, titled '*ICT 2017-1-Determination: Pole Attachment Reservation Fees'* is available for review at http://www.ofreg.ky/ict-2017-1-determination. The determination is the subject of a judicial review application.

[14] It was determined that the other issues raised by the working group will be addressed separately at a later date.

Possible Landing Sites for Subsea Cable Connectivity

Cayman has two subsea cables providing internet service to the jurisdiction and also connecting the Islands to the world. They provide connectivity to about 99 per cent of the English-speaking Caribbean as well as Central and Latin America. However, both subsea cables are approximately 20 years old, with an estimated lifetime usage of 25 years. In addition, there is a single investor with a sizable interest in both cables, which diminishes the opportunity for true competition. The Office thinks there is a need, as well as space, in the market for a new player(s) to provide the same service. This will offer both choice and competition, and a diversity of technology which benefits the ICT consumer and the Islands as a whole. Visit http://www.cisc.ky for more information.

Subsea Cable Connectivity

Additional subsea cable connectivity (i.e., new cable laid on the seabed to carry communications signals between jurisdictions) is necessary for improved provision of ICT services throughout the Cayman Islands.

In 2017, the Office continued initiatives towards facilitating subsea cable connectivity by meeting with local investors (some of whom have engaged consulting professional firms overseas to complete feasibility studies) and a number of international entities who are in the process of deploying capacity in the Caribbean region. A promotional website was developed at http://www.cisc.ky to support facilitation.

Facilitating subsea cable connectivity aligns with the Office's strategic focus and is a sector priority in the 2018 Annual Plan.

Emergency Notification System

The July 2017 fuel depot fire at Jackson Point Fuel Terminal and the recent Tsunami threat (in 2018) highlight the need for a more innovative emergency notification system ('***ENS***').

The Department of Hazard Management Cayman Islands ('***HMCI***') oversees detailed hazard management plans to deal with natural disasters such as hurricanes, tsunamis, earthquakes and man-caused disasters such as large-scale accidents and fires. Upon consulting with Licensees, the Office proposed an ENS for HMCI consideration that utilises 12 innovative and inexpensive technologies that alert citizens and provide emergency instructions in real time.

In March 2017, along with other Caribbean jurisdictions, the Office and HMCI jointly participated in the CARIBE

WAVE 17 tsunami response exercise, successfully testing one of the technologies proposed – a short message service ('***SMS***') warning broadcast to cellular devices throughout the Cayman Islands.

At the start of 2018, the Office published a discussion paper for public consultation pertaining to its ENS proposal for HMCI consideration.[15]

The development of a more innovative ENS for the Cayman Islands aligns with the Office's strategic focus and is, therefore, an ICT sector priority in 2018.

Updated Section 23(2) of the ICT Law

Consumer demand and advancements in technologies require that local regulatory frameworks are periodically updated.

Thus, timely, relevant and responsive updates to the ICT sector licensing framework are needed to facilitate innovation in the form of services and networks, which aligns with the Office's strategic focus.

High demand for new ICT networks and services

Section 23(2) of the ICT Law addresses the types of ICT services and networks which are required to be licensed in the Cayman Islands.

In September 2017, the Office sought stakeholder input to proposed updates through a public consultation.

Final updates to section 23(2) of the ICT Law will be gazetted and are summarised for review in the document '*ICT 2017-2-Consultation on Proposed Section 23(2) Regulatory Notice'* available at http://www.ofreg.ky.

Framework for Defining Relevant Markets and Significant Market Power

Principal functions of the Office, in the sectors for which it has responsibility, are to promote fair competition and to protect the interest of consumers in relation to utility services.

In accordance with section 44(2) of the URC Law, the Office developed guidelines to define relevant markets and assess whether any Licensee holds significant market power in the market defined.

In May 2017, the Office consulted with stakeholders in developing a framework that will guide the Office in defining markets and establishing criteria against which it will assess competition within the

[15] The discussion paper is available for public comment through 6 April 2018. The document can be viewed at the following link: http://www.ofreg.ky/upimages/commonfiles/1520359846201802223ENSDiscussionPaperVer0-2.pdf.

markets defined.[16] Stakeholders responses were reviewed and considered prior to the Office finalising its determination.

In September 2017, the Office published at its website the determination *'OF 2017-2-Determination - Guidelines on the Criteria for the Definition of Relevant Markets and the Assessment of Significant Market Power'.*[17]

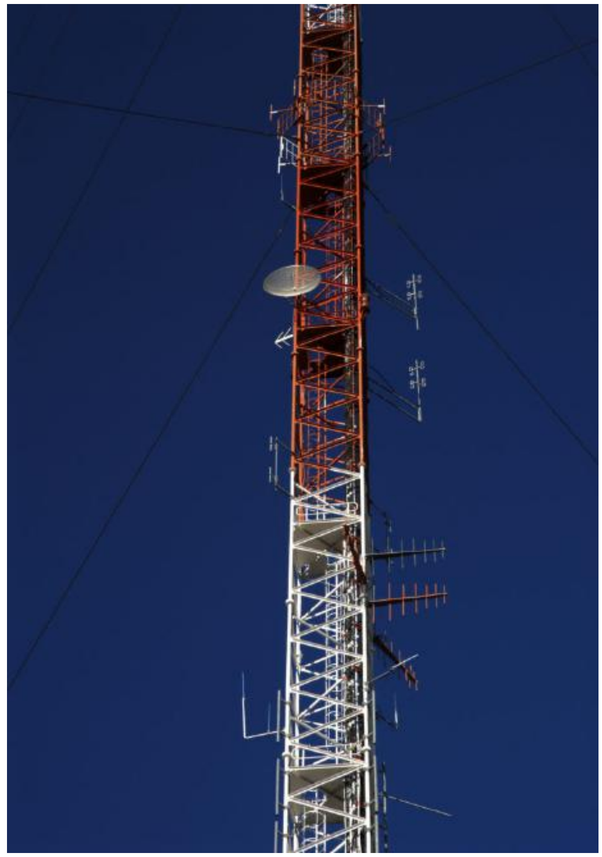
Market Review in the telecommunications sector

Following the finalisation of the Office's Guidelines on the Criteria for the Definition of Relevant Markets and Assessment of Significant Market Power, the Office commenced in September 2017 the first set of market reviews in the Cayman Islands' telecommunications sector.

In 2018, the Office will be consulting with Stakeholders on its findings on the market definitions and the assessment of significant market power within each of the relevant markets – subsequently making a determination on such findings.

Cybersecurity Incident Response Team

In 2017, the Office established a Cybersecurity Incident Response Team ('***CIRT-KY'***) including a strategy and roadmap towards protecting CNI.



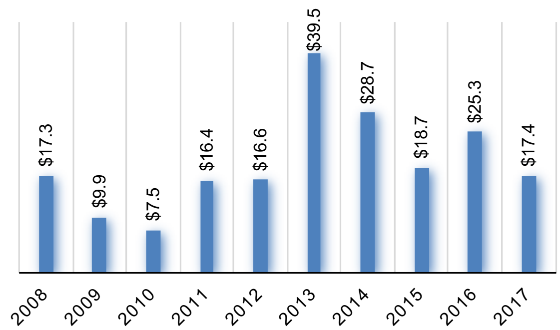
Consumer Protection Regulations

At the end of 2017, the Office, through a public consultation, sought stakeholder input on draft consumer protection regulations to better protect sector consumers.

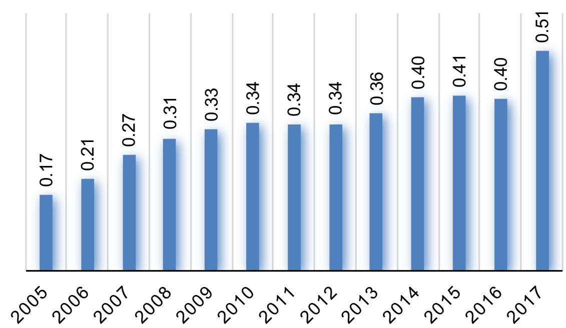
The Office plans on finalising its public consultation on 31 January 2018 and then submitting the administrative determination to Cabinet by 30 June 2018 for consideration and approval.

[16] See the Office's Consultation on the Proposed Guidelines on the Criteria for the Definition of Relevant Markets and the Assessment of Significant Market Power: http://www.ofreg.ky/upimages/commonfiles/1506412521Consultation-on-the-proposed-Guidelines-on-the-Criteria-for-the-Definition-of-Relevant-Markets-and-the-Assessment-of-Significant-MarketPower.pdf.
[17] See the Office's Determination and the final Guidelines on the Criteria for the Definition of Relevant Markets and the Assessment of Significant Market Power: http://www.ofreg.ky/upimages/commonfiles/1507891125OF20172DeterminationandGuidelinesontheCriteriafortheDefinitionofRelevantMarketsandtheAssessmentofSMP.pdf.

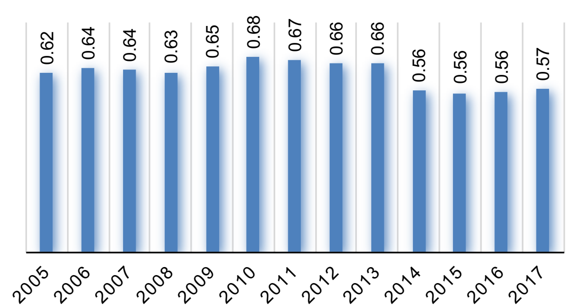
ICT Statistics for the Cayman Islands



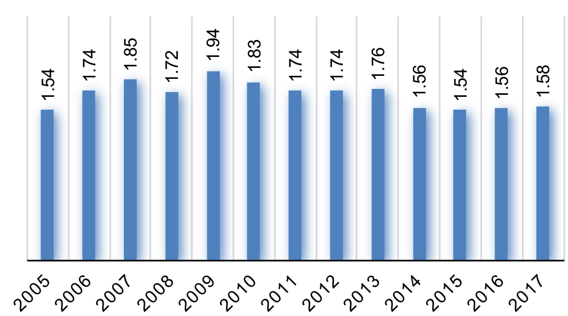
Capital expenditure (CI$ millions) in ICT networks and services over the past 10 years



Fixed broadband connections per person since Hurricane Ivan
(for download speeds greater than 256 kilobytes per second)



Fixed telephone lines in operation per person since Hurricane Ivan
(including fixed wireless)



Mobile telephone handsets per person since Hurricane Ivan

Table 2: Fuel Sector KPI's through December 31, 2017

Fiscal Year 2016/2017	Targets	Actuals
Liquefied Petroleum Gas Facilities Inspected	1-2	2
Compressed Gas Facilities Inspected	7-10	9
Bulk Petroleum Terminals Inspected	3-4	3
Consultations on Planning Applications	35-45	164
Service Stations Inspected	15-16	28
Petroleum Pump Calibrations Witnessed	15-16	19
Industrial Sites Inspected	100-150	81
LPG Tanks Inspected (greater than 250 IG)	130-140	120
Operating Permits Issued	100-150	233
Engagement on Fuel/Energy related initiatives	1-2	3
Surveying of Fuels Prices; Updating/Disseminating to Public	24-26	29
Fuel Incidents and Spill Response Attended/Investigated	8-10	6
Number of Fuel Quality Testing Coordinated	2-3	2

Fuel Sector

Higher than Expected Outputs

With the merger of the Petroleum Inspectorate, the remit for the fuel sector was increased due to new regulatory functions in the FMR Law. However, as shown in Table 2, sector Staff were able to outperform team expectations during the financial year.

Contributing factors to the increased output were an increase in manpower capability of the team via the recruitment

OfReg inspectors at site for the installation of new underground fuel tanks

of a Fuels Analyst to carry out key functions under the DS Law and FMR Law and the positive impact and synergies from the amalgamation of legacy regulators into a single entity.

With the hiring of the Fuels Analyst, efforts were focused during the first 3-months on building on the capacity of the Office to receive and assemble information and data received from the sector, and otherwise, onto a platform to allow for proper analysis and generation of reports to inform regulatory decisions.

Pursuant to section 10 in the DS Law, the mechanism for receiving information was substantially put in place in 2017.

Monitoring Fuel Prices

Monitoring and posting of fuel prices throughout the Cayman Islands is being done consistently on a weekly basis at http://www.ofreg.ky/fuel/current-retail-fuel-prices.

Analyses of price trends is also available for public access at the Office's website.

Market Review

In addition to building in-house organisational capacity in the area of economic monitoring and regulation of the sector, the importance of making assessments of appropriate regulatory remedies is an established priority.

While attempted in 2017, a market review was unfortunately delayed due to the uncertainty regarding funding for the fuel sector; however, the market review is a priority in the *2018 Annual Plan*.

Notwithstanding the absence of the comprehensive fuels market review, price movement at the pumps continues to be closely scrutinised by the Office and challenged in cases where it may not be reasonably justified.

Stable and Reliable Fuel Markets

The operation of the fuels market was considered stable and reliable during 2017 despite an incident at one of the major supplier's terminals which reduced the overall storage capacity on Grand Cayman by 19 percent for diesel and 12 percent overall.

2017 prices across the market generally followed global refined prices with an average spread of CI$0.53 per Imperial Gallon ('***IG***') for all products combined.

With the advent of the Office's regulatory oversight in the fuel markets, price movement at the pumps showed wider variation between suppliers/brands and these movements showed a greater degree of asynchrony when compared to other years.

Despite resource constraints, the Office continues to place emphasis in this area.

It appears, industry behavior has generally been to dissuade the Office from exercising any 'heavy-handed' option in relation to the economic regulation of the market.

Alternate Fuel Depot at Owen Roberts International Airport

In 2017, the Office collaborated with the Cayman Islands Airport Authority ('***CIAA***') on the establishment of an alternate Fuel Depot at Owen Roberts International Airport in George Town to serve the upgraded airport facility.

The Office worked closely with CIAA's legal and commercial teams to assist with negotiations to finalise a concession agreement between CIAA and the joint venture ('***JV***') grantees, Rubis and SOL.

Fueling facilities at Owen Roberts International Airport in George Town

DVES Fuel Facility Upgrade

In 2017, the Department of Vehicles and Equipment Services for the Cayman Islands Government ('***DVES***') sought assistance from the Office in facilitating the design and compliance requirements to ensure the project met the relevant codes for its fuel facility upgrade.

In preparation for the upgrade, the Office also meaningfully participated in much of the process, including request for proposals, environmental assessment, and the discussions with Rubis on transitional considerations for the existing facility.

The project is scheduled to commence in Q1 2018.

Fuel Standards Committee

In 2017, the Office established a Fuel Standards Committee. The committee commenced its work in July 2017 and continues to progress towards the implementation of National Fuel Quality Standards in 2018.

Maritime Interagency Committee

The Office continues to be involved in the work of the Interagency Maritime Committee and participated in the III Code Audit and debriefing sessions during summer of 2017.

Fuel Spills

In 2017, a total of 6 oil and fuel related spills[18] were attended to by the Office. All

[18] Minor inland spills (i.e., less than 5 IG per incident at industrial sites or as the result of vehicular accidents). No reportable marine spills in 2017.

were adequately managed to minimise their impact on the environment. Spill investigations were conducted, and reports have been prepared including remedial action and measures to be put in place to prevent recurrence.

SOL Incident Investigation

On 23 July 2017, national emergency personnel, including the Chief Fuels Inspector, responded to a reported fire inside a diesel bulk storage tank owned by SOL at Jackson Point Terminal.

During the response effort, there was no indication of engulfment; however, a heat source was visibly evident inside the tank along the upper portion of the tank shell.

A formal investigation, led by the Office's fuels team, was commenced to determine the root cause of the near miss incident, but the exercise was delayed due to some key safety considerations, primarily gaining access into the tank to obtain critical evidence.

The investigation was completed in December 2017 and at year end compilation of the findings were underway.

A final report is anticipated to be issued in Q1 2018.

Installation of industrial liquified petroleum gas (LPG) tanks and concrete safety berm at a regulated fuel storage facility in the Cayman Islands

Water Sector

Licence Negotiations

In 2017, the Office progressed licence negotiations with Cayman Water Company Ltd. ('***Cayman Water***') for its licence renewal to produce and supply potable water in the West Bay and Seven Mile Beach service areas on Grand Cayman.

Cayman Water supplies water to retail customers under an exclusive license issued in July 1990 by the Cayman Islands Government to supply water to retail customers in the service area.

The license was to expire in July 2010 but has been extended several times by Cabinet on the recommendations of the Office's predecessor, Water Authority Cayman ('***WAC***'), in order to provide additional time to negotiate the terms of a new license.

In May 2017, the Office superseded WAC as the regulator for the water sector and took charge of the licence negotiations with Cayman Water. The Office has been engaged in licence discussions with Cayman Water since mid 2017.

Like WAC, the Office has considered that a rate of return model for adjusting water prices (similar to CUC's RCAM) may be appropriate,but has latterly considered that having regard to all factors this methodology may not serve the best interests of the public and the utility's customers and is reviewing an alternative proposed by Cayman Water. The Office will continue to negotiate with Cayman Water towards a new licence based on a mutually-agreed pricing model.

Completing a new licence with Cayman Water is a 2018 priority for the Office. Further, the Water Sector Regulation Law requires the Office to issue the regulatory framework for WAC as an Administrative Determination.

These discussions with WAC are a priority and will commence in 2018.

Finalising Amendments to Sector Laws

In 2017, the Office worked with the Ministry and its Licensees towards finalising amendments to the Wastewater Collection and Treatment (Amendment) Bill, 2017, the Wastewater Collection and Treatment (Amendment) Law, 2017, the Water Authority (Amendment) Law, 2017 and the Water Sector Regulation Bill, 2017.

Installation of a potable water distribution pipeline in the Cayman Islands (photo from WAC)

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 2017 financial year. These ownership targets reflect a consolidation of the targets established for the legacy ICTA and ERA and also incorporates the commitments/appropriations of the legacy Petroleum Inspectorate. The consolidated budget and agreements were approved in November 2017.

Financial Targets

Pursuant to subsection 52(2)(d) in the PMFL, Tables 3 to 5 show the Office's performance against the agreed financial targets for its 2017 financial year.

Table 3: Operating Statement

	2017 Actual 11.5 Months CI$	2017 Forecast 11.5 Months CI$
Revenue	3,011,297	4,955,000
Operating Expenses	4,476,385	4,604,000
Net Surplus/(Deficit)	*(1,465,088)*	*351,000*

Table 4: Balance Sheet

	2017 Actual 11.5 Months CI$	2017 Forecast 11.5 Months CI$
Assets	4,583,120	4,126,000
Liabilities	2,655,747	357,000
Net Worth	*1,927,373*	*351,000*

Table 5: Statement of Cash Flows

	2017 Actual 11.5 Months CI$	2017 Forecast 11.5 Months CI$
Net cash flows from operating activities	363,826	130,000
Net cash flows from investing activities	(169,015)	(942,000)
Net cash flows from financing activities	-	-

Ownership Performance Targets

Pursuant to subsection 52(2)(c) in the PMFL, Tables 6 to 10 show the Office's execution against its agreed performance targets for the 2017 financial year.

Table 6: Financial Performance Amounts

	2017 Actual 11.5 Months CI$	2017 Forecast 11.5 Months CI$
(a) revenue from trading with the Cabinet	698,487	698,000
(b) revenue from trading with ministries, portfolios, statutory authorities and government companies[19]	Nil	Nil
(c) revenue from trading with any other person	2,312,810	4,257,000
(d) other expenses	4,476,385	4,604,000
(e) ownership expenses (such as major losses on sales of fixed assets and downward asset revaluations)	-	-
(f) net surplus/deficit	(1,465,088)	351,000
(g) net worth	1,927,373	351,000
(h) cash from operating activities	363,826	130,000
(i) cash from investing activities	(169,015)	(1,642,000)
(j) cash from financing activities	-	-
(k) change in cash balances	194,811	(1,512,000)

Table 7: Financial Performance Ratios

	2017 Actual 11.5 Months	2017 Forecast 11.5 Months
(a) current assets to current liabilities	1.60:1	8.88:1
(b) total assets to total liabilities	1.73:1	11.54:1

[19] Core government as defined on p. 8 of the Public Management and Finance Law (2017 Revision).

Table 8: Human Capital Maintenance

	2017 Actual 11.5 Months	2017 Forecast 11.5 Months
(a) total full time equivalent staff	22	24
(b) staff turnover (14.7%)		
Senior Management	1	Nil
Professional Staff	1	Nil
Administrative Staff	1	Nil
(c) average length of service (Number)		
Senior Management	9	8
Professional Staff	12	10
Administrative Staff	4	6
(d) significant changes to personnel management system	None	None

Table 9: Physical Capital Maintenance

	2017 Actual 11.5 Months CI$	2017 Forecast 11.5 Months CI$
(a) value of total physical assets	4,583,120	4,126,000
(b) asset replacements as a percentage of total assets	N/A	N/A
(c) ratio of book value of depreciated assets to initial cost of depreciated assets	0.32:1	0.55:1
(d) ratio of depreciation to cash flow on asset purchases	0.77:1	0.16:1
(e) any changes in asset management policies and systems	None	None

Table 10: Major Capital Expenditure Projects

	2017 Actual 11.5 Months CI$	2017 Forecast 11.5 Months CI$
Leasehold Fit-Out (New Premises)	-	1,642,000

Public Scrutiny

Duty to Consult

Administrative determinations by the Office may affect persons and organisations throughout the country in different ways.

It is important that the Office make regulatory decisions with the appropriate input from persons with sufficient interest or who are likely to be affected by the outcome of such decisions.

In accordance with section 7 of the URC Law, public consultations are a mandated aspect of regulatory accountability and transparency and provide the formal mechanism for all stakeholders to express their views.

Table 11: Public Consultations in 2017

Description	Public Consultation Dates	Administrative Determination (AD)	AD Publication Date
ICTA Consultation 2016-2-Pole Attachment Reserved Space Fees, Permits Application Process and Charging Principles	27 April 2016 through 20 June 2017	Published ICT-1-Determination Pole Attachment Reserved Space Fees	11 July 2017
ICTA Pole Attachment Working Group (ICTA Consultation 2016-2-Pole Attachment Reserved Space Fees, Permits Application Process and Charging Principles)	9 December 2016 through 20 June 2017	Published ICT-1-Determination Pole Attachment Reserved Space Fees	11 July 2017
Consultation Procedure Guidelines	4 April 2017 through 5 May 2017	Published OF 2017-1-Determination and Consultation Procedure Guidelines	7 July 2017
Guidelines on the Definition of Relevant Markets and the Assessment of Significant Market Power (SMP)	1 May 2017 through 1 June 2017	Published OF 2017-2 Determination – Guidelines on the Criteria for the Definition of Relevant Markets and the Assessment of SMP	20 September 2017

Table 11: Public Consultations in 2017

Description	Public Consultation Dates	Administrative Determination (AD)	AD Publication Date
Updates to section 23(2) of the ICT Law	19 September 2017 through 19 October 2017	Gazette	20 November 2017
Templates for Type F and Type 8 Radio Broadcast Licenses	18 October 2017 through 18 November 2017	Updated Templates	18 October 2017
5-Year Strategic Plan	18 September 2017 through 19 October 2017	Published OF 2017-3 Consultation Response to Comments	17 November 2017
2018 Annual Plan	18 September 2017 through 19 October 2017	Published OF 2017-3 Consultation Response to Comments	17 November 2017
ICT Sector Consumer Protection Regulations	24 November 2017 through 31 January, 2018	TBD	TBD

During the 2017 financial year, the Office conducted all public consultations listed in Table 11 in compliance with its published '*Consultation Procedure Guidelines*' which are available for review at http://www.ofreg.ky/of-2017-1-determination-of-2017-g1-guidelines.

To review all current and concluded consultations, including consultations from legacy regulators, visit http://www.ofreg.ky/consultations.

Duty to Publish

Pursuant to section 8 of the URC Law, the office maintains a website at http://www.ofreg.ky as a primary source for consultations, administrative decisions, regulatory news and reporting performance.

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

Pursuant to section 41 of the URC Law, the Office shall publish an Annual Report containing independently audited financial statements for the financial year. The Office shall also publish a 5-year Strategic Plan to be updated every 3 years.

One month before the end of its financial year, the Office is required to publish an Annual Plan for the forthcoming financial year that outlines proposed objectives, strategies to meet those objectives, key performance indicators (KPI) and a board approved budget.

Following a public consultation, the Office published its *2018 Annual Plan* on 17 November 2017, which is available for review at http://www.ofreg.ky/annual-plan.

Following a public consultation, the Office published its 5-year strategic plan on 17 November 2017. The *2018-2022 Strategic Plan*, along with any applicable Government policy, will guide the Office's short and medium-term focus in each of the sectors for which it has responsibility.[20]

Finalising license negotiations with Cayman Water is a priority in the 2018 Annual Plan

Section 42 of the URC Law requires the Auditor General to report to the Board, every 3 years, on the Office's performance against its annual plan.

The Auditor General's report is to evaluate the extent to which the deployment of financial resources by the Office has delivered value for money and the impact of the Office's sectoral regulatory decisions when compared to the projected impacts.

Freedom of Information

The Cayman Islands Government committed itself to freedom of information ('***FOI***') with the passage of legislation in 2007.

As an independent statutory authority of the Government of the Cayman Islands, the Office is obligated to provide to individuals timely and complete access to information as set out in the *Freedom of Information Law (2015 Revision).*

The Office is committed to transparency and addressing compliant FOI requests. The Office is also a proactive publisher of non-confidential content and information pursuant to the URC Law and PMFL.

The Office's FOI Manager is Mr. Sonji Myles and the Deputy Manager is Alison Maxwell. Table 12 highlights all FOI requests received by the Office during the 2017 financial year.

[20] Section 41(4) of the URC Law requires the strategic plan be updated every three years. The strategic plan is available for review at http://www.ofreg.ky/strategic-plan.

Table 12: FOI Requests Received During the 2017 Financial Year

Received From	Date Received	Request	Response
JRC Investments	2 January 2017	Provide the percentage of smartphones in the local market, across all service providers. Also provide the mobile penetration rate in the Cayman Islands over the last 3 years	Full response. Smartphone information is published in the public domain. No records held for mobile penetration
Cayman Citizens Alliance	12 January 2017	List all radio stations including their call letters with outstanding fees and time in arrears	Responded in full
Cable and Wireless (Cayman) Ltd.	30 May 2017	Provide all email communications relating to or in any way connected with any application made by Cable and Wireless to the Immigration Dept. in relation to the issue or grant of work permits for the period 1 January 2010 to 1 May 2017	Full response with some redactions relating to personal information
Jennifer Hemmingsen	15 September 2017	Provide the names of the Chair and Directors, dates of initial appointment and when current terms expire; Board meeting schedule and location and whether the meetings are public; webpage or other locations of Board records	Full response. Information in the public domain. No Board records

Forward Looking

On 17 November 2017, and pursuant to section 41 of the URC Law, the Office published its *2018-2022 Strategic Plan* and *2018 Annual Plan* which detail the Office's short to medium-term objectives as well as budget and proposed strategies for meeting its objectives.

Both plans are available for review at http://www.ofreg.ky.

Bulk fuel handling facility in the Cayman Islands

Audited Financial Statements

Financial Performance and Analysis

During its inaugural financial year (11.5 months) the Office incurred an operating loss of CI$1,465,088.

This section takes a closer look at the Office's income sources and operating expenses in 2017. Notably, lower-than-anticipated revenue in each of the sectors it regulates and several unforeseen expenses.

Breakdown of Income Sources

The revenue guidance from the URC Law and Sectoral Laws as well as practices established by the legacy regulators is as follows:

- The Office's revenues are primarily derived from regulatory fees pursuant to the Sectoral Laws;
- The level of regulatory fees is prescribed in licenses;
- The regulatory fees are expected to remain stable over the medium-term and should cover the costs of regulating the respective sector; and
- The Office must establish and maintain a reserve fund.

The Office believes this to be a prudent approach for revenue generation that will allow it to budget and plan with greater certainty over the short to medium-term.

While assembling its consolidated budget in its *2018 Annual Plan*[21] a number of issues pertaining to how the legacy regulators derived revenue became evident to the Office.

First, electricity sector revenues are outlined in the licence with CUC as 0.5% of CUC gross sales revenue, which includes fuel cost recovery and Government fuel duty. Due to the downturn in global oil prices and a reduction in Government fuel duty from CI$0.75 per IG in 2014 to CI$0.25 per IG, revenues for the ERA had declined 30% requiring the use of its own reserve fund for operations.

ICTA revenues are also derived from regulatory fees of up to 1.5% of gross sales; however, the regulatory fees for ICT licensees are capped at a maximum CI$600,000 per year.

Lastly, the Petroleum Inspectorate was largely underfunded as a part of core Government which did not allow the PI to carry out certain important projects.

Table 13 breaks down the Office's combined and by sector revenue. The table highlights a total revenue shortfall of CI$1.943 million for 2017.

[21] The Office's *2018 Annual Plan* is published for review at http://www.ofreg.ky/annual-plan.

Of that, approximately CI$1 million is a lack of Government funding for the transition from legacy regulators to a single, multisector regulator.

To ensure greater certainty in revenue planning going forward, the Office determined it must modify the ICT and electricity regulatory fee structures and introduce appropriate measures for the water and fuels sectors.

Accordingly, the Office intends to adopt the following strategies, subject to Cabinet's approval where required, in January 2018 to meet its medium-term revenue requirements:

- For the electricity sector, negotiate and implement a change to the regulatory fee to remove the variability caused by the fluctuation in fuel prices which will restore sector revenue to initial CI$1.2 million levels (and by implication the licence fees of CI$2.4 million to the Government);
- For the ICT sector, remove the CI$600,000 cap in regulatory fees;
- For the fuels sector, introduce the 'registration fee' regime that was anticipated in the FMR Law and as far as practicable adjust the operating permit fees such that funding of the Office under the DS Law, which is driven largely by large importers, is equitable; and
- For the water sector, in the ongoing negotiations with Cayman Water, and the ensuing negotiations with WAC, prescribe regulatory fees for annual dollar amounts.[22]

Table 13: FY 2017 'Actual' vs. 'Budgeted' Income Sources
(stated in Cayman Islands dollars)

	Combined			ICT Sector		Electricity Sector		Fuel Sector		Water Sector	
	Actual 2017 CI$	Budget 2017 CI$	Variance 2017 CI$	Actual 2017 CI$	Budget 2017 CI$	Actual 2017 CI$	Budget 2017 CI$	Actual 2017 CI$	Budget 2017 CI$	Actual 2017 CI$	Budget 2017 CI$
Income											
Regulatory fees	1,774,250	3,768,452	(1,994,202)	1,076,394	1,782,077	697,856	976,000	-	660,375	-	350,000
Services to Gov't	698,487	698,487	-	311,927	311,927	28,750	28,750	357,810	357,810	-	-
.ky domain fees	175,439	95,833	79,606	175,439	95,833	-	-	-	-	-	-
Spectrum fees	99,328	105,417	(6,089)	99,328	105,417	-	-	-	-	-	-
Import permits	80,500	150,000	(69,500)	-	-	-	-	80,500	150,000	-	-
Licencing	171,083	129,375	41,708	171,083	129,375	-	-	-	-	-	-
Other	12,210	7,354	4,856	4,550	4,854	2,999	1,500	3,227	500	1,434	500
Total Income	**3,011,297**	**4,954,918**	**(1,943,621)**	**1,838,721**	**2,429,483**	**729,605**	**1,006,250**	**441,537**	**1,168,685**	**1,434**	**350,500**

[22] This approach replaces the fixed 1.5 percent regulatory fee in licenses which was discussed in the *2018 Annual Plan*. This is a best practice used by regulators in other jurisdictions where the dollar amount adjusts either up or down based on regulatory objectives in the sector for that year.

Breakdown of Operating Expenses

For its 2017 financial year, the Office incorporated the budgets of the legacy regulators as well as its own projections for the additional obligations arising from regulatory activities in the water and fuels sectors.

The pie graph that is Figure 6 breaks down total operating expenses of CI$4,476,385 for the Office in 2017 while Tables 14 through 18 compare the 'planned' and 'actual' operating expenses (combined and by sector) for the 2017 financial year.

For its inaugural financial year (11.5 months), the Office budgeted operating expenses at CI$4,619,536 while actual expenses were CI$4,476,385. The Office was 3 percent under budget (combined) indicating excellent accuracy.[23]

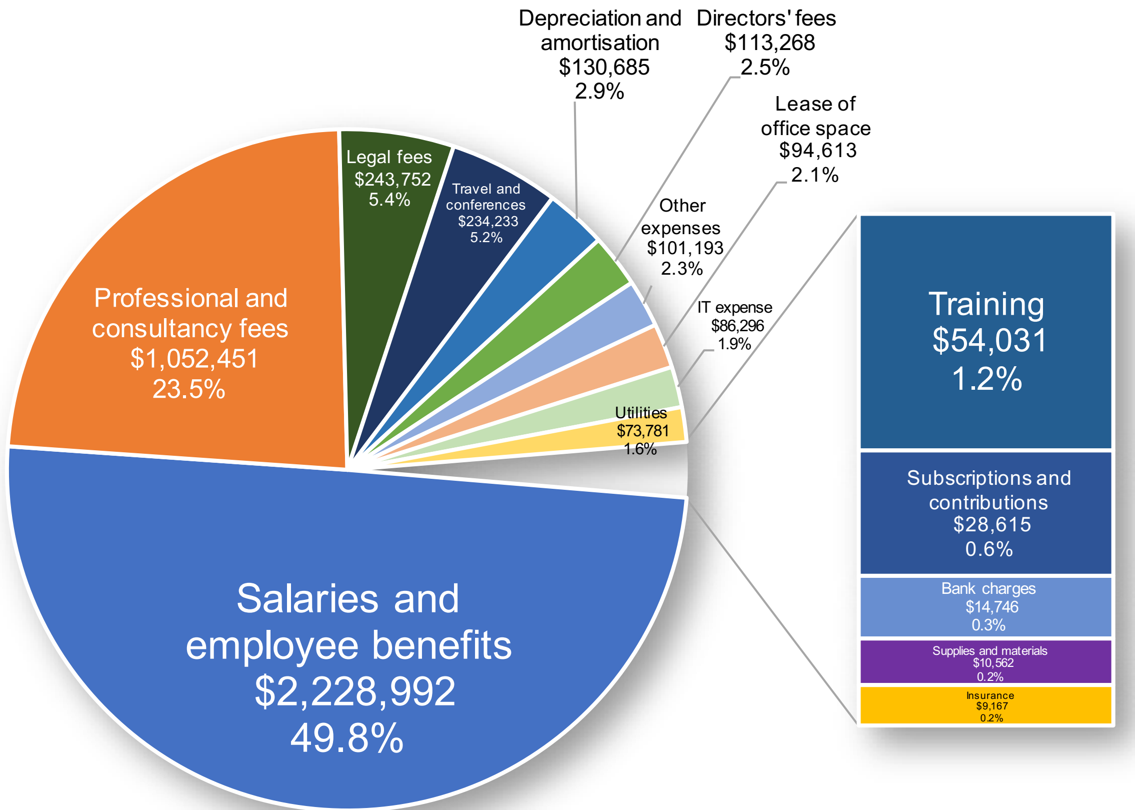


Figure 6: FY 2017 total operating expenses of CI$4,476,385

[23] In its *2018 Annual Plan*, management has set a KPI of +/-15 percent for budget accuracy. It is understood that the budget accuracy KPI will decrease with time.

Table 14: Combined Operating Expenses FY 2017
(in Cayman Islands dollars)

	Actual CI$	Budgeted CI$	CI$	Variance %
Operating Expenses				
Staff Payroll	1,782,736	1,996,268	213,532	11
Directors' Fees	113,268	119,750	6,482	5
Consultancy & Professional Fees (1)	1,052,451	875,083	(177,368)	20
Travel and Subsistence (2)	234,233	118,027	(116,207)	98
Office Supplies and Materials	10,562	24,246	13,684	
Lease of Property, Equip & Utilities (3)	94,613	155,586	60,973	39
Training (4)	54,031	73,750	19,719	27
Other Operating Expenses (5)	304,630	254,633	(49,997)	20
Legal Fees (6)	243,752	206,875	(36,877)	18
Office Insurance	5,452	12,292	6,840	
Directors & Officers Insurance	3,716	20,556	16,840	
Employee Health Insurance (7)	228,886	338,318	109,432	32
Pension Contributions	217,370	259,515	42,145	16
Depreciation (8)	130,685	164,638	33,954	21
Total Operating Expenses (9)	**4,476,385**	**4,619,536**	**143,151**	**3**

Explanation of variances (greater than 15 percent):

(1) More consultancy work than planned in ICT sector due to increased projects
(2) Directors traveled more than planned, representing OfReg at conferences
(3) Budgeted for a move to a larger office space
(4) Less training than budgeted
(5) Higher-than-anticipated operating costs as a result of offices merging
(6) Increased legal fees due to judicial review with ICT Licensee, DataLink
(7) Favourable variance as a result of fewer new staff hires
(8) Less leasehold improvements as a result of not moving to a new office space

Table 15: ICT Sector Operating Expenses FY 2017
(in Cayman Islands dollars)

	Actual CI$	Budgeted CI$	CI$	Variance %
Operating Expenses				
Staff Payroll	752,389	811,709	59,320	7
Directors' Fees	42,476	31,250	(11,226)	36
Consultancy & Professional Fees	783,783	289,000	(494,783)	171
Travel and Subsistence	113,458	85,027	(28,431)	33
Office Supplies and Materials	3,961	7,379	3,418	
Lease of Property, Equip & Utilities	35,480	56,217	20,737	37
Training	20,262	28,750	8,488	30
Other Operating Expenses	114,237	89,306	(24,931)	28
Legal Fees	242,023	187,500	(54,523)	29
Office Insurance	2,044	1,042	(1,103)	
Directors & Officers Insurance	1,393	5,556	4,162	
Employee Health Insurance	97,366	125,529	28,193	22
Pension Contributions	91,693	105,522	13,829	13
Depreciation	60,909	72,314	11,406	16
Total Operating Expenses	**2,361,443**	**1,896,101**	**(465,342)**	**25**

Table 16: Electricity Sector Operating Expenses FY 2017
(in Cayman Islands dollars)

	Actual CI$	Budgeted CI$	CI$	Variance %
Operating Expenses				
Staff Payroll	483,353	536,582	53,299	10
Directors' Fees	27,287	31,250	3,963	13
Consultancy & Professional Fees	128,886	128,083	(803)	1
Travel and Subsistence	46,554	10,000	(36,554)	366
Office Supplies and Materials	2,545	3,067	522	
Lease of Property, Equip & Utilities	22,793	41,478	18,685	45
Training	13,017	10,000	(3,017)	30
Other Operating Expenses	73,388	74,682	1,294	2
Legal Fees	1,036	14,375	13,399	
Office Insurance	1,313	3,750	2,437	
Directors & Officers Insurance	895	5,000	4,105	
Employee Health Insurance	62,531	96,493	33,962	35
Pension Contributions	58,906	69,756	10,850	16
Depreciation	21,410	26,072	4,662	4.8
Total Operating Expenses	**943,913**	**1,050,588**	**106,675**	**10**

Table 17: Fuel Sector Operating Expenses FY 2017
(in Cayman Islands dollars)

	Actual CI$	Budgeted CI$	CI$	Variance %
Operating Expenses				
Staff Payroll	533,512	467,470	(66,042)	14
Directors' Fees	30,119	31,250	1,131	4
Consultancy & Professional Fees	103,560	301,000	197,440	66
Travel and Subsistence	51,385	18,000	(33,385)	185
Office Supplies and Materials	2,809	10,800	7,991	
Lease of Property, Equip & Utilities	25,159	38,054	12,895	34
Training	14,367	25,000	10,633	43
Other Operating Expenses	81,005	57,706	(23,299)	40
Legal Fees	480	5,000	4,520	
Office Insurance	1,450	3,750	2,300	
Directors & Officers Insurance	988	5,000	4,012	
Employee Health Insurance	69,020	61,877	(7,143)	12
Pension Contributions	65,019	60,771	(4,248)	7
Depreciation	39,560	45,033	5,473	12
Total Operating Expenses	**1,018,431**	**1,130,711**	**112,280**	**10**

Table 18: Water Sector Operating Expenses FY 2017
(in Cayman Islands dollars)

	Actual CI$	Budgeted CI$	CI$	Variance %
Operating Expenses				
Staff Payroll	13,481	180,507	167,026	93
Directors' Fees	13,386	26,000	12,614	49
Consultancy & Professional Fees	36,222	157,000	120,778	77
Travel and Subsistence	22,838	5,000	(17,838)	
Office Supplies and Materials	1,248	3,000	1,752	
Lease of Property, Equip & Utilities	11,182	19,837	8,655	44
Training	6,385	10,000	3,615	
Other Operating Expenses	36,001	32,938	(3,063)	9
Office Insurance	644	3,750	3,106	
Directors & Officers Insurance	439	5,000	4,561	
Employee Health Insurance	-	54,419	54,419	100
Pension Contributions	1,752	23,466	21,714	93
Depreciation	8,806	21,219	12,412	58
Total Operating Expenses	**152,598**	**542,136**	**389,537**	**72**

Responsibility for Financial Statements

Utility Regulation and Competition Office
Statement of Responsibility for the Financial Statements
31 December 2017

These financial statements have been prepared by the Utility Regulation and Competition Office in accordance with the provisions of the *Public Management and Finance Law (2017 Revision)*. The financial statements comply with generally accepted accounting practice as defined in International Financial Reporting 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 Law (2017 Revision)*.

As Chair 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.

As Chair 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, comprehensive income and cash flows for the financial period ended 31 December 2017.

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 period ended 31 December 2017;

(b) fairly reflect the financial position as at 31 December 2017 and comprehensive income for the period ended 31 December 2017; and

(c) comply with International Financial Reporting Standards under the responsibility of International 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.

Dr. the Hon. Linford Pierson, OBE, JP Chair	J. Paul Morgan Chief Executive Officer
Date: 30 April 2018	Date: 30 April 2018

1

Independent Auditor's Report

Office of the Auditor General
CAYMAN ISLANDS

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AUDITOR GENERAL'S REPORT

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

Opinion

I have audited the financial statements of Utility Regulation and Competition Office (the "Office"), which comprise the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and cash flows statement for the 11.5 month period from 16 January 2017 to 31 December 2017, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 8 to 23.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Office as at 31 December 2017 and its financial performance and its cash flows for the 11.5 month period from 16 January 2017 to 31 December 2017 in accordance with International Financial Reporting 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 Office 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 of the financial statements in accordance with International Financial Reporting 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)(ii) of the Public Management and Finance Law (2017 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

30 April 2018
Cayman Islands

3

Utility Regulation and Competition Office
Statement of Financial Position
As at 31 December 2017
(stated in Cayman Islands dollars)

	Notes	Dec 31, 2017	Jan 15, 2017
CURRENT ASSETS			
Cash and cash equivalents	3,11	$ 2,980,184	$ 2,785,373
Accounts receivable	4,7,11	1,208,700	782,527
Prepaid expenses		69,743	111,344
		4,258,627	3,679,244
NON-CURRENT ASSETS			
Property, plant and equipment	5	324,493	286,163
TOTAL ASSETS		$ 4,583,120	$ 3,965,407
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	6	2,606,747	524,946
Defined benefit pension liability	2,9	49,000	48,000
		$ 2,655,747	$ 572,946
EQUITY			
Contributed capital		1,468,461	1,468,461
General reserve	8	1,924,000	1,924,000
Accumulated (deficit)/surplus		(1,465,088)	-
		1,927,373	3,392,461
TOTAL LIABILITIES AND EQUITY		$ 4,583,120	$ 3,965,407

Approved on behalf of the Board of Directors on the 30 of April 2018

Dr. the Hon. Linford Pierson, OBE, JP
Chair

J. Paul Morgan
Chief Executive Officer

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

4

Utility Regulation and Competition Office
Statement of Comprehensive Income
For the Period Ended 31 December 2017
(stated in Cayman Islands dollars)

	Notes	2017
INCOME		
Regulatory fees		$1,774,250
Services provided to Government	7	698,487
Licensing fees		270,411
.ky domain fees		175,439
Import permit		80,500
Other income		12,210
		3,011,297
EXPENSES		
Salaries and employee benefits	7,9	2,228,992
Professional and consultancy fees		1,052,451
Legal fees		243,752
Official travel and conferences		234,233
Depreciation and amortisation	5	130,685
Directors' fees		113,268
Other expense		101,193
Lease of office space	10	94,613
Utilities		73,781
IT expense		86,296
Training		54,031
Subscription and contributions		28,615
Bank charges		14,746
Supplies and materials		10,562
Insurance		9,167
		4,476,385
Net loss for the period		**(1,465,088)**
Other comprehensive loss for the period		
Re-measurement of defined benefit pension		19,000
Total comprehensive loss for the period		**($1,446,088)**

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

Utility Regulation and Competition Office
Statement of Changes in Equity
For the Period Ended 31 December 2017
(stated in Cayman Islands dollars)

	Notes	Contributed Capital	General Reserve	Accumulated (deficit)/surplus	Total Equity
Balance at 16 Jan 2017		**$1,468,461**	**$1,924,000**		**$3,392,461**
Net comprehensive loss for the period		-	-	(1,465,088)	(1,465,088)
Balance at 31 December 2017		**$1,468,461**	**$1,924,000**	**($1,465,088)**	**$1,927,373**

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

Utility Regulation and Competition Office
Statement of Cash Flows
For the Period Ended 31 December 2017
(stated in Cayman Islands dollars)

	Notes	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net comprehensive loss for the period		($1,465,088)
Adjustment for non-cash transactions:		
Depreciation and amortisation	**5**	130,685
		(1,334,403)
Net changes in non-cash operating balances:		
(Increase)/decrease in:		
Accounts receivable		(426,174)
Prepaid expenses		41,601
Accounts payable and accrued liabilities		2,082,802
Net cash provided by/(used in) operating activities		363,826
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**5**	(169,015)
Net cash from/(used in) investing activities		(169,015)
Net increase in cash and cash equivalents during the period		194,811
Cash and cash equivalents at the beginning of the period		2,785,373
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**$2,980,184**

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

Notes to the 2017 FY Audited Financial Statements

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 Law, 2016 ('***URC Law***') and commenced operations on 16 January 2017. The Office was established pursuant to section 4(1) of the URC Law.

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 Law, 2017 (ICTA Law)* and section 92A of the *Electricity Regulatory Authority Law, 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 Law, 2017 (WSR Law)*.

In each of sectors for which it has responsibility, the Office derives its authority and functions through a variety of Sectoral Laws, the principal ones being the *Electricity Sector Regulation Law, 2016 ('**ESR Law'**)*, the *Information and Communication Technology Law (2017 Revision) ('**ICT Law'**)*, the *Dangerous Substances Law (2017 Revision) ('**DS Law'**)*, the *Fuels Sector Regulation Law, 2017 ('**FSR Law**')* and the *Water Sector Regulation Law, 2017 ('**WSR Law'**)*.

While many if the functions previously carried out by the ICTA and ERA will continue 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.

For the Office's 2017 financial year, the beginning of year ('***BOY***') was 16 January and end of year ('***EOY***') was 31 December. As at 31 December 2017, the Office had 22 employees.

The Cayman Islands 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 2502, Grand Cayman KY1-1104, Cayman Islands.

2. Significant accounting policies

These financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. 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.

(b) Use of estimates

The preparation of financial statements in accordance with International Financial Reporting 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) 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 comprehensive income.

(d) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are considered as cash held on demand and fixed deposits with an original maturity of three months or less.

2. Significant accounting policies (continued)

(e) 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.

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

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

Depreciation is charged to the statement of comprehensive income 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:

Plant	15 years
Office equipment and furniture	5 - 12 years
IT equipment	3 years
Computer Software	3 years
Motor Vehicles	3 years
Leasehold improvements	5 years

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

(g) Income recognition

Services provided to Cabinet are recognised when the services agreed in the purchase agreement are performed and the Government is invoiced. Services are billed at cost to the Government (see also Related Party Note 7).

Regulatory and licensing fees are recognised as revenue when they are due to the Office. Radio licence fees are recognised when received by the Office. Application and licence fees are non-refundable.

(h) Operating lease

Lease payments are recognised as an expense on a straight-line basis over the lease term.

2. Significant accounting policies (continued)

(i) 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 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 comprehensive income.

(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.

2. Significant accounting policies (continued)

(j) 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.

(k) Employee benefits

Employee entitlements such as, annual leave, long service leave, retiring leave and other similar benefits are recognised in the statement of comprehensive income 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 Law. 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 and employee contributions. In addition, the Office is also required to contribute to the Public Service Pension Plan, an extra 1% of each employee's monthly salary. This 1% is a Past Service Liability (PSL) cost to cover a deficiency in the 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.

2. Significant accounting policies (continued)

<u>*Defined Benefit Plan (continued)*</u>
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.

(l) 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.

(m) Changes in International Financial Reporting Standards

Below are several new standards and amendments that have been issued but are not yet effective. They do not impact the annual financial statements of the Office. The nature and impact of each new standard/amendment is described below:

IFRS 9 Financial Instruments (replacement of IAS 39) (Effective for annual periods beginning on or after 1 January 2018).

The International Accounting Standards Board (the Board) completed the final element of its comprehensive response to the financial crisis with the publication of IFRS 9 Financial Instruments in July 2014.

The package of improvements introduced by IFRS 9 includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.

Classification determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduces a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are complex and difficult to apply. The new model also results in a single impairment model being applied to all financial instruments removing a source of complexity associated with previous accounting requirements.

2. Significant accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers (Effective for annual periods beginning on or after 1 January 2017).

IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, equipment and intangible assets. The standard outlines the principles an entity must apply to measure and recognise revenue.

The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 will be applied using a five-step model: 1. Identify the contract(s) with a customer 2. Identify the performance obligations in the contract 3. Determine the transaction price 4. Allocate the transaction price to the performance obligations in the contract 5. Recognise revenue when (or as) the entity satisfies a performance obligation the standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. Application guidance is provided in IFRS 15 to assist entities in applying its requirements to certain common arrangements, including licences of intellectual property, warranties, rights of return, principal-versus-agent considerations, options for additional goods or services and breakage.

IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019.)

In January 2016, the IASB issued IFRS 16, "Leases", which replaces IAS 17, "Leases". IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard establishes a single lessee accounting model while maintaining the classification of either an operating or financing lease for the lessor similar to IAS 17. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoptions permitted. The Utility Regulation and Competition Office is currently assessing the impact of the new standard.

3. Cash and cash equivalents

	31 December 2017 (CI$)
Checking accounts	1,493,865
Fixed deposits	1,486,319
	$2,980,184

4. Accounts receivable

Management estimates that accounts receivable of CI$1,208,700 as of 31 December 2017 are fully collectible. During the period, there were no bad debts written off.

5. Property, plant and equipment

As of 31December 2017

(stated in Cayman Islands dollars)

	Office Equipment and Furniture	IT Equipment	Leasehold Improvements	Computer Software	Motor Vehicles	Plant and other equipment	Other Equipment	Total
Cost								
Balance at beginning of period	12,602	90,318	-	3,588	90,786	74,784	14,085	286,163
Additions	12,845	69,570	-	4,200	82,400	-	-	169,015
Balance at end of period	25,447	159,888	-	7,788	173,186	74,784	14,085	455,178
Accumulated depreciation and Amortization								
Balance at beginning of period	-	-	-	-	-	-	-	-
Charge for period	9,782	63,316	-	3,005	47,104	4,778	2,700	130,685
Balance at end of period	9,782	63,316	-	3,005	47,104	4,778	2,700	130,685
Net Book Value 31 December 2017	**$15,665**	**$96,572**	**$-**	**$4,783**	**$126,082**	**$70,006**	**$11,385**	**$324,493**

6. Accounts payable and accrued liabilities

	31 December 2017 (CI$)
Accounts payable	2,271,747
Accruals	384,000
	$2,606,747

7. Related party balances and transactions

The following balances and transactions occurred during the period between the Office and Cayman Islands Government.

	31 December 2017 (CI$)
Accounts receivable – Government	-
Services provided to Cabinet	698,487
	$698,487

7. Related party balances and transactions (continued)

During the year, the Cayman Islands Government engaged the Authority to provide, a number of Utility Regulation and Competition Office related 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. Additionally, in lieu of subsidies, the Government pays the Office for services such as the management of the Electromagnetic Spectrum.

As detailed in Note 9, the Office on behalf of its eligible employees paid contributions of CI$217,370 to the Public Service Pensions Plan during the period.

Salaries and other short-term employee benefits for key management of $569,875 are included within salaries and employee benefits.

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

(stated in Cayman Islands dollars)

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	2017
Balance at beginning of period	$-	$-	$-	$-	$-
Amount collected	1,951,060	2,043,218	1,970,859	1,966,721	7,931,858
Amount paid	(1,951,060)	(2,043,218)	(1,970,859)	-	(5,965,137)
Balance at end of period	$-	$-	$-	$1,966,721	$1,966,721

On the 29 December 2016 Cabinet approved the following fixed stipend (CI$) for Non-Executive Board Members:

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

8. General Reserve

The Utility Regulation and Competition Law requires the Office to maintain a reserve fund; the management of such fund being at the discretion of the Office. The Law requires the fund to be applied only for the purposes of the Office. The current reserve account represents approximately five to six times the monthly operating requirements.

9. Pensions

Contributions to Public Service Pensions Plan
During the current year, the Authority recognised pension expenses under salaries and employee benefits of CI$217,370 paid to the Public Service Pensions Fund.

Public Service Defined Benefit Plan
The Office has one employee who is an active participant in the Public Service defined benefit plan. During the year, the Office recognised pension expense under salaries and employee benefits of CI$ nil.

IAS 19R became effective January 1, 2013. All unamortised gains and losses and past service costs under IAS 19 will be immediately recognized as a one-off transition adjustment to equity. Administration costs that are not investment related will be recognized in profit or loss as an operating charge under IAS 19R. This differs from the current approach under IAS 19, where all administration costs are allowed for within the expected rate of return of assets. Under IAS 19R, the expected return on assets is no longer used in the determination of the defined benefit cost, but it continues to be used in the determination of the asset limit under IFRIC 14. The expected return on assets assumption continues to be management best estimate.

Pension contributions for eligible employees of the Authority 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 Authority paid both the employee and employers 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.

9. Pensions (continued)

The amounts recognised in the statement of financial position are as follows:

	2017 *CI$'000*
Defined benefit obligation	277
Fair value of plan assets	228
Funded status	49
Net liability	49

The change in defined benefit obligation is as follows:

	2017 *CI$'000*
Defined benefit obligation at end of prior year	-
Service cost	19
Interest expense	8
Cash flows	12
Other significant events	220
Remeasurements	18
Effect of changes in foreign exchange rates	-
Defined benefit obligation at the end of year	277

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

	2017 *CI$'000*
Fair value of plan assets at end of prior year	-
Interest income	7
Cash flows – employer participation contributions	24
Other significant events	172
Remeasurements	25
Effect of changes in foreign exchange rates	-
Fair value of plan assets at end of year	228

The net defined benefit liability (asset) reconciliation:

	2017 *CI$'000*
Net defined benefit liability as of beginning of year	-
Defined benefit cost included in P&L	20
Total remeasurements included in OCI	(7)
Other significant events	48
Cash flows	(12)
Credit to reimbursements	-
Effect of changes in foreign exchange rates	-
Net defined benefit liability as of end of year	49

9. Pensions (continued)

The components of defined benefit cost is as follows:

	2017 *CI$'000*
Service cost	19
Net interest cost	-
Interest expense on DBO	8
Interest (income) on plan assets	(7)
Total net interest cost	1
Remeasurements of other long-term benefits	-
Administrative expenses and taxes	-
Defined benefit cost included in P&L	20
Remeasurements (recognized in other comprehensive income)	-
Effect of changes in demographic assumptions	(33)
Effect of changes in financial assumptions	(9)
Effect of experience adjustments	60
(Return) on plan assets (excluding interest income)	(25)
(Return) on reimbursement rights (excluding interest income)	-
Changes in asset ceiling/onerous liability (excluding interest income)	-
Total remeasurements included in OCI	-
Total defined benefit cost recognised in P&L and OCI	13

The sensitivity analysis on defined benefit obligation is shown below:

	2017
1. Discount rate	
a. Discount rate -25 basis points	300
b. Discount rate +25 basis points	256
2. Inflation rate	
a. Discount rate -25 basis points	256
b. Discount rate +25 basis points	300
3. Mortality	
a. Mortality -10% of current rates	283
b. Mortality +10% of current rates	271

9. Pensions (continued)

Public Service Defined Benefit Plan (continued)

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

	Amount *CI$'000*
Expected employer contributions	6

The significant actuarial assumptions are presented below:

	2017
1. Discount rate	3.80%
2. Rate of salary increase	2.50%
3. Rate of price inflation	2.00%
4. Rate of pension increases	2.00%
5. Post-retirement mortality table	RP-2014 Scaled back to 2006 using Scale MP-2014 then generationally projected using Scale MP-2016
6. Cost Method	Projected Unit Credit
7. Asset valuation method	Market Value

	2017
1. Discount rate	4.60%
2. Rate of salary increase	3.50%
3. Rate of price inflation	2.50%
4. Rate of pension increases	2.50%
5. Post-retirement mortality table	RP-2014 projected on a generational basis using Scale MP-2014

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 ended January 2017 was 4.89%. Similar internal accounting is used for developing each participating entity's share of the asset portfolio of the Fund.

9. Pensions (continued)

Public Service Defined Benefit Plan (continued)

The valuations are based on the draft financial statements as at 31 December 2017 as well as asset value as at 31 December 2017 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% equities and 20% bonds. As at 31 December 2017, the Fund was invested as follows:

	2017	
Plan Assets by Asset Category	**(CI$'000)**	**Percentage**
Global equities securities	547,500	80
Debt securities	129,083	19
Real estate/infrastructure	-	-
Cash	9,000	1
Total	685,583	100

For the period ended 31 December 2017, the Defined Contribution portion of the Fund totaled to CI$303,457,800 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 is CI$227,500 as at 31 December 2017.

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 2017 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	**2017**
Discount rate	
- BOY disclosure and current year expense	4.50%
- EOY disclosure and following year expense	3.80%
Increases in pensionable earnings	3.50%
Rate of pension increases	2.00%
Rate of indexation	2.00%
Expected long-term rate of return on assets (net of expenses) for purposes of IFRIC only mortality	2.00%
- BOY disclosure and current year expense	RP-2014 generationally projected using scale MP-2014
- EOY disclosure and following year expense	RP-2014 scaled back to 2006 using Scale MP-2014, then generationally projected using Scale MP-2016
Disability	None
Turnover rates	Age related table

9. Pensions (continued)

Public Service Defined Benefit Plan (continued)

Measurement Date	**2017**
Retirement	Age 57 and 10 years of service
Assumed life expectations on retirement	Retiring today (member age 57) 29.13 years Retiring in 25 years (at age 57) 31.42 years
Liability cost method	Projected unit credit method
Asset Value Method	Market value of assets
Communication of pension	All members commute 25% at retirement

Turnover rates at sample ages:

Age	Males	Females
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. The mortality assumption was updated to make allowance for future mortality improvements. In the addition, the mortality improvement scale has been updated from Scale AA to Scale BB. These are the same assumptions as approved by the PSPB for use in the 1 January 2014 funding valuation of the Plan.

The discount rate as at 31 January 2017 was determined in accordance with IAS 19. In accordance with IAS 19R paragraph 83, determined by reference to market yields on high quality corporate bonds (consistent with the term of the benefit obligations) at the fiscal year end date. The Mercer US Above Mean Yield Curve (referencing US corporate bond yields) was used to determine discount rates due to strong economic and currency links between the US and the Cayman Islands.

10. Lease commitments

The Office leases the 3rd floor of Alissta Towers under an operating lease. The Lease payments are CI$6,139 per month. The Office also has a contractual arrangement with Rainbow Reality Limited for lease payments of CI$17,186 per month. The Office's Future lease commitments are:

Period	Amount
1 January 2018 to 30 June 2018	CI$139,950

10. Lease commitments (continued)

At the termination of the lease, unless agreed between the Landlord and the Office in writing, the Office is to remove at its cost and expense any partitions, structures, additions or improvements erected by the Office and shall reinstate the premises to the condition they were in at the commencement of the term.

11. 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 has overall responsibility for the establishment and oversight of its risk management policies which are designed to identify and analyse 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 the Office's activities. The most important types of financial risk to which the Office is exposed are market risk, credit risk, liquidity risk and interest rate risk.

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 2017.

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 laws.

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.

11. Financial risk management objectives and policies (continued)

The Office's licensees include well-established local telecommunication and media, electricity, fuel and water companies and, at 31 December 2017, there have been no 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 banking institution based locally.

The maximum exposure to credit risk at 31 December 2017 is as follows:

	31 December 2017 (CI$)
Cash and cash equivalents	2,980,184
Accounts receivable	1,208,700
	$4,188,884

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 Law. The size and nature of the reserve are determined by Management. At the moment, the Office maintains a cash reserve equivalent to 6 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. Interest payments are charged to customers on late payments on accounts receivable. The Office is not exposed to significant interest rate risk as the cash and cash equivalents are placed on call and available on demand.

12. 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.

13. Judicial Review

A judicial review is currently ongoing between the Office and an ICT Licensee. The case concerns an application for judicial review made by the ICT Licensee against a determination made by the Office concerning the level of pole attachment reservation fees levied by the ICT Licensee in the broadband internet provision sector against the named telecommunications providers. There is a possibility that the Office may be required to pay certain legal costs, if the defence of the application is not successful. The precise level of costs that the ICT Licensee will seek if successful cannot be determined at this time. However, the lawyers estimate that the figure will be in the order of CI$250,000.

14. Segment Reporting

	ICT Sector	Electricity Sector	Fuel Sector	Water Sector	Combined
	2017 CI$	2017 CI$	2017 CI$	2017 CI$	2017 CI$
Revenue					
Outputs from Cabinet	311,927	28,750	357,810	-	698,487
Revenue from external sources	1,526,794	700,855	83,727	1,434	2,312,810
Total Revenue	**$1,838,721**	**$729,605**	**$441,537**	**$1,434**	**$3,011,297**
Expenses					
Personnel	941,418	604,790	667,551	15,233	2,228,992
Supplies and consumables	1,321,168	293,335	284,412	116,600	2,015,515
Depreciation	60,909	21,410	39,560	8,806	130,685
Other expenses	37,948	24,378	26,908	11,959	101,193
Total Expenses	**$2,361,443**	**$943,913**	**$1,018,431**	**$152,598**	**$4,476,385**
Surplus/(deficit) operating activities	**(522,722)**	**(214,308)**	**(576,894)**	**(151,164)**	**(1,465,088)**
Assets					
Property, plant and equipment	94,461	65,800	150,614	13,618	324,493
Total Assets	**$94,461**	**$65,800**	**$150,614**	**13,618**	**$324,493**
Liabilities					
Current liabilities	2,469,134	88,943	97,670	-	2,655,747
Total Liabilities	**$2,469,134**	**$88,943**	**$97,670**	**-**	**$2,655,747**

15. Subsequent events

Management is not aware of any occurrences subsequent to the reporting date which will have an impact on the financial statements at 31 December 2017.

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