

GOVERNMENT OF THE CAYMAN ISLANDS

**ELECTRICITY
TRANSMISSION AND DISTRIBUTION LICENCE**

GRANTED TO

CARIBBEAN UTILITIES COMPANY, LTD

3 April 2008

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PART I TERMS OF THE LICENCE

1. The Government of the Cayman Islands (the "**Government**"), in exercise of the powers conferred by Section 93(3) of the Electricity Regulatory Authority Law (2005 Revision) (as amended by the Electricity Regulatory Authority (Amendment) Law, 2008) (the "**Law**") hereby grants to Caribbean Utilities Company, Ltd. (the "**Licensee**") an exclusive licence (the "**Licence**") to transmit, distribute and deliver electricity during the period specified in paragraph 3 below, subject to the Conditions set out in Parts II, III, IV and V (the "**Conditions**").
2. The Conditions are subject to modification or amendment in accordance with their terms or in accordance with the Law.
3. This Licence shall come into force on April 3, 2008 and, unless revoked or suspended in accordance with the provisions of Condition 13, shall continue in full force and effect for a period of twenty (20) years.
4. This Licence shall be governed by and construed, enforced and performed in accordance with the laws of the Cayman Islands.

Sealed with the Seal of and executed for and on behalf of the Government of the Cayman Islands
this 3rd day of April 2008



The Honourable Arden McLean
Minister of Communications, Works &
Infrastructure

PART II CONDITIONS OF THE LICENCE

Condition 1: Interpretation and Construction

- 1.1 Unless the contrary intention appears words and expressions used in these Conditions shall be construed as if they were in an enactment and the Interpretation Law (1995 Revision) applied to them.
- 1.2 Any word or expression defined in the Law shall, unless the contrary intention appears, have the same meaning when used in the Conditions.
- 1.3 In these Conditions, unless otherwise specified or the context otherwise requires:

“Accumulated Depreciation” has the meaning given in Condition 25.11.2;

“Allowance for Funds Used during Construction” or “AFUDC” has the meaning given in Condition 25.11.4;

“Allowance for Working Capital” has the meaning given in Condition 25.16;

“Authority” means the Electricity Regulatory Authority established or to be established pursuant to section 3 of the Law;

“Back up electricity supply” has the meaning given in the Law;

“Base Rates” has the meaning given in Condition 20.5;

“Calendar Quarter” means each consecutive period of three months beginning on 1st January, 1st April, 1st July and 1st October of each calendar year;

“Capital Investment Plan” or “CIP” has the meaning given in Condition 19.8;

“Certificate of Need” means a certificate that the Licensee prepares and submits to the Authority, which sets out Licensee’s requirement for the incremental amount of capacity for which the Authority would solicit;

“Consumer” means any person who is a customer of, and is supplied with electricity by the Licensee;

“Cost of Capital” has the meaning given in Condition 25.12;

<i>“Consumer Service Standard”</i>	means the standards for providing customer service as proposed by the Licensee and approved by the Authority in accordance with Condition 28;
<i>“Disaster”</i>	means any event which prevents the Licensee from performing its obligations under the Licence, including acts of God, hurricane, fire, flood, earthquake, war, riot or act of terrorism.
<i>“Electric Rate Restructuring Report”</i>	means the electric rate restructuring report that the Licensee submitted to and approved by the Government which laid out the agreed new billing rates for Consumers, and attached to hereto as Schedule 1;
<i>“Electricity Law”</i>	means the Electricity Law (2005 Revision) as amended by the Electricity (Amendment) Law, 2008;
<i>“Existing T&D System Operating Standards”</i>	means the Licensee’s rules, principles and measures for operating the T&D System as of the date of this Licence, a compilation of which shall be filed with the Authority within 60 days of the grant of this Licence;
<i>“Existing T&D System Planning and Reliability Standards”</i>	means the Licensee's current rules, principles and measures for system planning and reliability of the T&D System as of the date of this Licence, a compilation of which shall be filed with the Authority within 60 days of the grant of this Licence;
<i>“Fixed Assets”</i>	has the meaning given in Condition 25.11.1;
<i>“Force Majeure”</i>	means an event or circumstance which prevents the Licensee from performing its obligations under this Licence, which event or circumstance is not within the reasonable control of, or the result of the negligence of, the Licensee, and which the Licensee is unable to overcome or avoid or cause to be avoided through the exercise of due diligence. Events of Force Majeure may include, but are not limited to, acts of God; fire; flood; earthquake; war; riots; acts of

terrorism; strikes, walkouts, lockouts and other labour disputes; requirements, actions or failure to act on the part of governmental authorities; adoption or change in any law, regulation, statute, rule or regulation imposed by governmental bodies, including, without limitation, a change in the interpretation thereof; or any lawful order by any court or administrative agency (so long as the Licensee has not applied for or assisted in the application for such court or governmental action);

- “Fortis Bermuda”*** means Fortis Energy (Bermuda) Ltd., which is the majority shareholder of the Licensee;
- “Fortis”*** means Fortis Inc. of St. Johns, Newfoundland and Labrador, Canada;
- “Fuel Cost Charge”*** has the meaning given in Condition 21.2.2;
- “Fuel Cost Tracker Account”*** has the meaning given in Condition 21.2.3;
- “Fuel Costs”*** has the meaning given in Condition 21.2.1;
- “Generate”*** means to produce electricity for supply to the Licensee and further Transmission and Distribution to Consumers and **“Generation”** shall be construed accordingly;
- “Generating Set”*** means any plant or apparatus for the production of electricity and shall where appropriate, include a generating station comprising of one or more than one generating unit;
- “Generation Business”*** means the business of the Licensee in the Generation of electricity for supply in accordance with the Licensee’s Generation Licence;
- “Generating Capacity”*** means the maximum Generating Capacity (measured in megawatts MW), that is available from the Licensee’s Generating Sets pursuant to its Generation Licence and the Generating Capacity available from the other Generation Licensees pursuant to the

	PPAs;
“Generation Licence”	means a licence under the Law to Generate electricity.;
“Generation Licensee”	means a Person who holds a Generation Licence;
“Generation Performance Standards”	means the generation performance standards, including the standards with respect to generator availability and generator efficiency, as will be proposed by the Licensee and approved by the Authority in accordance with the Licensee’s Generation Licence;
“Generation Solicitation Process”	has the meaning given in the Law;
“Government and Regulatory Charge”	has the meaning given in Condition 21.3.2;
“Government and Regulatory Costs”	has the meaning given in Condition 21.3.1;
“Government and Regulatory Tracker Account”	has the meaning given in Condition 21.3.3;
“HCRS”	means the Hurricane Ivan Cost Recovery Surcharge to Consumers that the Licensee introduced after Hurricane Ivan with the approval of the Government;
“Interconnection”	has the meaning given in the Law;
“Interim T&D Code”	means the existing practices and procedures followed by the Licensee for operating the T&D System as of the date of the Licence, a compilation of which shall be filed with the Authority within 120 days of the grant of this Licence;
“kWh”	means kilowatt-hour, a unit of electrical energy which is equivalent to one kilowatt of power used continuously for one hour;
“Law”	has the meaning given in paragraph 1 of Part I of this Licence;

<i>“Licence Fee”</i>	has the meaning given in Condition 10.1;
<i>“Licence”</i>	means this licence under which the Licensee is Authorised to conduct the T&D Business;
<i>“Licensee Income”</i>	has the meaning given in Condition 25.10;
<i>“Licensee”</i>	has the meaning given in paragraph 1 of Part I of this Licence;
<i>“MW”</i>	means megawatt, a unit of electrical power equal to 1,000,000 watts;
<i>“Non-Fuel Operating Expenses”</i>	has the meaning given in Condition 25.15;
<i>“Other Business”</i>	means the business or activities of the Licensee other than the Generation Business or T&D Business;
<i>“Parent Company”</i>	in relation to any person means any other person who holds (directly or indirectly) in the first person the majority of the voting or equity interests or actually exercises management control;
<i>“Person”</i>	shall include any individual, firm, company or association or body of individuals, whether incorporated or not;
<i>“PPA”</i>	means a power purchase agreement between the Licensee and another Generation Licensee for the purchase of the whole or any part of the Generating Capacity or electricity generated;
<i>“Price Level Index”</i>	means an index composed of 60% weighting of the Cayman Islands Consumer Price Index (CI CPI) and a 40% weighting of the United States of America Consumer Price Index (US CPI) (both after adjusting to remove the effects of prices of food and fuel);
<i>“Rate Base”</i>	has the meaning given in Condition 25.11;
<i>“RCAM”</i>	has the meaning given in Condition 25;

<i>“Regulations”</i>	means a Regulation or Regulations made by the Governor in Cabinet in exercise of the powers conferred on him by the Law;
<i>“Regulatory Assets”</i>	has the meaning given in Condition 25.17;
<i>“Regulatory Fee”</i>	has the meaning given in Condition 10.2;
<i>“Regulatory Liabilities”</i>	has the meaning given in Condition 25.17;
<i>“Return on Rate Base (RORB) ”</i>	has the meaning given in Condition 25.9 ;
<i>“RFP”</i>	means a request for proposals issued by the Authority whereby the Authority solicits competitive proposals for the approved incremental need for Generating Capacity;
<i>“Service Territory”</i>	means, for purposes of this Licence, the entire Island of Grand Cayman;
<i>“T&D Assets”</i>	means all the assets that form a part of the Licensee’s T&D System and are used by the Licensee in connection with the T&D Business, including, but not limited to property, rights of way, infrastructure (e.g. poles, wire, switches, transformers, capacitors, substations etc.) vehicles and equipment;
<i>“T&D Business”</i>	means the business of the Licensee in relation to the Transmission & Distribution and retail supply of electrical energy in the Service Territory, including all of its supply procurement and management, generation dispatch, delivery and Consumer service responsibilities, in accordance with this Licence;
<i>“T&D Code”</i>	means the T&D Code as defined in section 2 of the Law. and as further described in Condition 27;
<i>“T&D System Operating Standards”</i>	means the rules, principles and measures for operating the T&D System as proposed by the Licensee and approved by the Authority in accordance with Condition 28;
<i>“T&D System Planning and</i>	means the standards for system planning

Reliability Standards and reliability of the T&D System as proposed by the Licensee and approved by the Authority in accordance with Condition 28;

T&D System means the Transmission and Distribution (T&D) network of the Licensee in the Service Territory which conveys electricity from Generating Facilities to the consumers meters and consists of structures, lines, underground conduit, conductors, transformers, relays, switchgear and associated equipment in accordance with this Licence;

Transmission & Distribution means the transport of electricity by means of a T&D System for delivery to Consumers for reward;

Wheeling means the use of the T&D System by a Person other than the Licensee for the Transmission and/or Distribution of energy between locations, generally for purposes of wholesale transactions;

Work In Progress or ***WIP*** has the meaning given in Condition 25.13;

X Factor has the meaning given in Condition 25.4 and 25.6; and

Z Factor has the meaning given in Condition 25.5.

- 1.4 Expressions in the singular shall include the plural and in the masculine shall include the feminine and vice versa and references to persons shall include companies and other entities and vice versa.
- 1.5 Reference to any statute or statutory provision includes a reference to:
- 1.5.1 that statute or statutory provision as from time to time amended, extended, re-enacted, revised or consolidated whether before or after the date of this Licence; and,
 - 1.5.2 all statutory instruments, regulations or orders made pursuant to it.
- 1.6 In this Licence, "control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a body corporate, whether through the ownership of voting rights, by contract or otherwise.

- 1.7 Unless the context otherwise requires, reference to any Condition or Schedule is to a Condition of or Schedule to this Licence.
- 1.8 Headings in this Licence are for convenience only and shall not affect the interpretation of this Licence.

Condition 2: Authorisations

- 2.1 The Licensee is authorised to purchase, transmit and distribute electricity for delivery to Consumers for reward in the Service Territory and to construct, reconstruct, replace or modify a T&D System for those purposes.
- 2.2 This Licence shall be an exclusive licence for the Service Territory.
- 2.3 The Licensee shall be entitled to bill Consumers the Base Rates and shall be entitled to pass through to Consumers the Fuel Costs and Government and Regulatory Costs as described in this Licence. In addition, the Licensee may also bill temporary Z Factor charges as described in this Licence.

Condition 3: Obligation to Supply Consumers

- 3.1 Save as hereinafter provided, the Licensee shall plan for, serve, and extend service to, any location and to any Person in the Service Territory who applies to the Licensee for the supply of electricity without discrimination against or preference to any Person.
- 3.2 The Licensee shall maintain its T&D System and provide retail service to Consumers as part of its T&D Business.
- 3.3 The Licensee shall not sell, or otherwise provide, electricity to any Person other than in accordance with this Licence.
- 3.4 The Licensee shall comply with the provisions of the T&D Code in accordance with Condition 27.
- 3.5 The Licensee shall comply with the T&D System Planning and Reliability Standards and T&D System Operating Standards in accordance with Condition 28.
- 3.6 The Licensee shall provide Back up electricity supply, stand by connection and Interconnection to any Person requiring such service in accordance with the provisions of the Law. Such backup service shall be provided at rates proposed by the Licensee and approved by the Authority. Such rates shall be reviewed in connection with the cost of service study to be conducted pursuant to Condition 20.4.

Condition 4: Obligation to dispatch Generating Capacity

- 4.1 The Licensee shall be responsible for dispatching sufficient Generating Capacity to meet system requirements in a prudent manner, taking into consideration various operating considerations, including but not limited to least-cost, planned generator maintenance

schedules and operating reserves (both on-peak and off-peak) and subject to the terms and conditions of the PPAs.

- 4.2 The Licensee may purchase some or all of its power requirements from Generation Licensees other than itself pursuant to the PPAs.
- 4.3 The Licensee shall purchase the electricity output from any potential non-firm waste-to-energy facility on an energy only basis in accordance with the provisions for renewable resources described in Condition 32.
- 4.4 The Licensee is responsible for the procurement of adequate generation supply, in terms of required energy, capacity and ancillary services to fully meet the needs of its Consumers, subject to the application of the Generation Solicitation Process.
- 4.5 Except as authorized by the Authority in connection with purchases of renewable energy from customer-owned generation for self-supply, the Licensee shall not purchase electricity from any Person other than a Generation Licensee and may not purchase electricity from a Generation Licensee except in accordance with the relevant PPA.
- 4.6 Subject to satisfactory inspection of the Interconnection on behalf of the Authority and by the Licensee, Consumers who generate renewable energy for self-supply may sell energy to the Licensee, and the Licensee shall purchase such renewable energy at rates to be proposed by the Licensee and approved by the Authority. The Licensee shall submit to the Authority by June 1, 2008 a proposal that will describe the basis on which, and the rates at which, such Consumers may sell energy to, and purchase energy from, the Licensee, which proposal will be subject to the Authority's review and approval. The Licensee shall implement such approved rates no later than September 1, 2008, provided the same shall have been approved by the Authority no later than July 1, 2008. The approved rates shall be considered to be a part of Base Rates and subject to adjustment in accordance with the RCAM, and will be included in the cost of service study to be conducted pursuant to Condition 20.4.

Condition 5: Obligation to comply with Laws

- 5.1 The Licensee shall comply with the Law.
- 5.2 The Licensee shall comply with any directive, order, rule, decision or approval issued, made or granted by the Authority in accordance with the Law.
- 5.3 The Licensee shall comply with any other laws of the Cayman Islands that apply to it.

Condition 6: Obligation to Maintain Accounts and Provide Financial and Other Information.

- 6.1 The financial year of the Licensee currently runs from the 1st day of May to the 30th day of the following April. However, the Licensee may change its year-end date from the 30th day of April to a date that is aligned more closely with the calendar year-end.

- 6.2 The Licensee shall comply with its obligations regarding the maintenance of accounts and the provision of accounting and other information to the Authority contained in the Law.
- 6.3 Financial statements shall be prepared in accordance with Canadian generally accepted accounting principles, or such other generally accepted accounting principles as the Licensee may select with the Authority's approval.
- 6.4 The Licensee shall furnish to the Authority without undue delay such information, documents and details related to the T&D Business or any Other Business of the Licensee, as the Authority may reasonably require in order for it to fulfil its functions and discharge its obligations under the Law.
- 6.5 The Licensee shall provide basic audited financial statements on an annual basis prepared in accordance with appropriate generally accepted accounting principles and un-audited detailed financial statements, on a quarterly basis, in the general format required for its annual accounts.
- 6.6 The Licensee shall provide the Authority with a quarterly report with monthly detail showing the manner in which the Government and Regulatory Charge is calculated in accordance with Condition 10: and Condition 21.3.
- 6.7 The Licensee shall provide the Authority with a quarterly report with monthly detail showing the manner in which the Fuel Cost Charge is calculated pursuant to Condition 21.2.
- 6.8 The Licensee shall prepare and submit to the Authority a five-year forecast of projected loads and generation requirements as often as considered necessary by the Licensee but no less than annually. Upon request by the Authority at any time, the Licensee will provide the most recent five-year forecast.
- 6.9 The Licensee shall provide the Authority on a quarterly basis with a report on monthly energy sales, peak demands and the numbers of Consumers in each billing class.
- 6.10 The Licensee shall provide a quarterly report of monthly operating statistics relevant to monitoring the reliability of the T&D System, such as reliability or outage statistics and consistent with the requirements given in Condition 28.
- 6.11 The Licensee shall provide the Authority with the Capital Investment Plan each year in accordance with Condition 19.8, which will be subject to the Authority's review and approval.

Condition 7: Engaging in Other Businesses and Outsourcing

- 7.1 The Licensee may allow third parties (including a subsidiary) to utilize or have access to its facilities (e.g., space on its distribution poles, un-utilized real estate) on an arms-length basis, where this will allow the Licensee to utilize more fully or more efficiently the T&D Assets. The leasing or use of such assets would be offered subject to approval by the Authority, which approval shall not be unreasonably withheld, but shall not be given if the

Authority is reasonably satisfied that such approval is not in the interests of Consumers. The Licensee shall charge any such third party a fee for allowing the third party to access the relevant facilities and any such fee shall be determined on an arm's length commercial basis that is related to the value of such access as reflected in the revenues derived from it by the third party and any arrangement with such a third party shall allow for such fee to be subject to periodic review or to a formula so that it is not fixed for the duration of the Licence. For the avoidance of doubt, revenue from such activities would be included in Licensee Income as defined in Condition 25.10 (and therefore be taken into account for the purposes of the RORB calculation), but would not be considered to be a part of the Licensee's gross revenues for the purposes of calculating the Licence Fee and the Regulatory Fee under Condition 10:. Also, any distributions made by a subsidiary to the Licensee would be included in Licensee Income as defined in Condition 25.10 but would not be considered to be a part of the Licensee's gross revenues for the purposes of calculating the Licence Fee and the Regulatory Fee under Condition 10:. Provision of such services or access may subject the Licensee and such third parties to the licensing requirements of another regulator such as the Information and Communications Technology Authority (ICTA). The Licensee shall not build its T&D Assets explicitly for the purpose of accommodating such non-electric uses.

- 7.2 The Licensee may utilize the services of third parties on an ongoing basis in the provision of T&D services (i.e., the Licensee may "outsource" certain of its T&D functions). The procurement of such outsourced services shall be subject to the Authority's approval if they represent core and ongoing T&D functions, provided that the approval of the Authority shall not be required if the annual value of any such services procured by the Licensee from a particular service provider does not exceed CI\$100,000. Any such approval shall be based on the cost-effectiveness of the outsourced services and the fitness and propriety of the relevant third parties and shall not be unreasonably withheld. The Licensee may, without the need to obtain the approval of the Authority: (1) outsource its ancillary or support functions; and (2) in the event of a Disaster, temporarily outsource the installation and repair of T&D Assets.

Condition 8: Assignment of the Licence and transfer of the T&D Business

Any assignment of the Licence and transfer of the T&D Business shall be subject to the written consent of the Authority in accordance with section 25 of the Law.

Condition 9: Transfers of Shares in the Licensee

- 9.1 For the purposes of section 24(5) of the Law and subject to Conditions 9.2 and 9.3, the obligation of the Licensee to obtain the Authority's consent under section 24 of the Law to any issuance, transfer, disposal or dealing of its shares is hereby waived on the basis of, and conditional upon, the Licensee remaining listed on the Toronto Stock Exchange or any other stock exchange recognised by the Cayman Islands Monetary Authority.

9.2 The waiver in Condition 9.1 above shall be subject to the following conditions-

9.2.1 a condition that the Licensee shall, immediately upon becoming aware of same, notify the Authority of-

- (i) any actual or proposed change in control thereof;
- (ii) the actual or proposed acquisition which results or would result in a total shareholding by that person or group of persons of shares representing more than ten per cent of the issued share capital or total voting rights thereof; or
- (iii) the actual or proposed acquisition which results or would result in a total shareholding by that person or group of persons of shares representing more than ten per cent of the issued share capital or total voting rights of the Parent Company of the Licensee;

Provided that for the avoidance of doubt if a person holds more than 50% of the issued share capital or total voting rights of the Licensee as of the date of this Licence then the acquisition or proposed acquisition of any number of additional shares by that person would not trigger a notification obligation under Conditions 9.2.1(i) or 9.2.1(ii) above. Accordingly, in the circumstances set out in this proviso the Licensee would not be required to provide to the Authority any information pursuant to Condition 9.2.2 and the Authority would not have the authority to take any of the steps described in Condition 9.3.

9.2.2 a condition that the Licensee shall, as soon as reasonably practicable, provide such information to the Authority as may be required by the Authority for the purpose of satisfying itself that the persons acquiring control or ownership in the circumstances set out in Condition 9.2.1 are fit and proper persons to have such control or ownership, provided that the Licensee shall not be required to provide to the Authority information that is either not in its possession or that it does not have a legal or contractual right to obtain.

9.3 Notwithstanding the waiver given under Condition 9.1 and subject to the proviso in Condition 9.2.1, where the Authority has been notified by the Licensee or otherwise becomes aware of any of the circumstances set out in Condition 9.2.1 above, and the Authority has determined that such person or group of persons are not fit and proper persons to have control or ownership of the Licensee or its Parent Company, the Authority may:

9.3.1 in the event of a proposed acquisition of shares in the Licensee, refuse to allow the proposed transfer of shares; or

9.3.2 in the event of an acquisition of shares in either the Licensee or its Parent Company:

- (i) impose such conditions on the Licensee as it may deem necessary;

- (ii) issue a directive or directives to the Licensee as to the management and operations of the Licensee; or
- (iii) suspend or revoke the Licence on the order of the Governor where it determines such suspension or revocation is necessary for reasons of the security or public interest of the Islands.

9.4 For the purposes of section 24(5)(b) of the Law, it is hereby confirmed that each of Fortis Bermuda and Fortis are “fit and proper persons”.

Condition 10: Licence Fee and Regulatory Fee

- 10.1 The Licensee shall pay a Licence Fee of 1.0% of gross revenues, less Licence Fees and Regulatory Fees, to the Authority on a quarterly basis based on the previous Calendar Quarter’s gross revenues.
- 10.2 The Licensee shall pay a Regulatory Fee of 0.5% of gross revenues, less Licence Fees and Regulatory Fees, to the Authority on a quarterly basis based on the previous Calendar Quarter’s gross revenues.
- 10.3 Any future change in the Licence Fee or the Regulatory Fee shall be effective with and result in an automatic and equal adjustment on the Licensee’s bills to Consumers at the beginning of the next Calendar Quarter.
- 10.4 The Licensee shall pay the Licence Fee and the Regulatory Fee within 15 days after the 1st business day of each Calendar Quarter, commencing with the first payment (pro rated) on April 15, 2008.
- 10.5 The Licence Fee and Regulatory Fee shall be subject to periodic review and any change thereto shall be prescribed by Regulations.
- 10.6 The Licence Fees and Regulatory Fees form a part of the Government and Regulatory Costs, which will be detailed on bills to Consumers showing those costs as a direct pass-through to Consumers.
- 10.7 If the Licensee fails to pay to the Authority the Licence Fee or the Regulatory Fee by the due dates then the Licensee shall also be liable to pay simple interest on the outstanding amount at the Cayman Prime Lending Rate plus one percent per annum from the due date until the date of payment. Any such interest shall not be passed on to Consumers.

Condition 11: Renewal of the Licence

- 11.1 This Licence shall automatically renew for successive terms of 20 years each without the need for either the Licensee or the Authority to take any action in order to renew this Licence, unless the renewal of this Licence is cancelled in accordance with the terms of this Condition.

- 11.2 The Licensee may cancel the renewal of this Licence by giving written notice of non-renewal for any reason at least five years prior to the expiry of the Licence.
- 11.3 The Authority may cancel the renewal of this Licence for reasonable cause, including where the Licensee is or has engaged in conduct that contravenes the Law or is or has been otherwise in fundamental or persistent breach of this Licence. Where the Authority has reasonable cause for refusing to renew this Licence it shall inform the Licensee by written notice of the Authority's intention not to renew this Licence and specify the reasonable cause upon which the Authority relies for refusing to renew this Licence, which notice shall be served upon the Licensee as soon as practicable, but not less than five years prior to the expiry of the Licence.
- 11.4 The Licensee shall have three months from the date of service of the notice referred to in Condition 11.3 above to make written submissions to the Authority in respect of the refusal and showing cause why it ought to have its licence renewed.
- 11.5 The Authority shall consider any written submissions made under Condition 11.4 above and shall inform the Licensee of its decision on the matter and provide written reasons for its decision within two months of the receipt of the said submissions.
- 11.6 If the Authority serves a notice on the Licensee in accordance with Condition 11.3 above and if, within two years of service of the said notice given by the Authority, reasonable cause has not been shown to the Authority's satisfaction that the Licence should be renewed, the Authority shall compel compulsory divestiture of the T&D Assets of the Licensee upon expiry of the Licence at a value equal to the average of the values determined by a panel of three qualified valuers with experience in valuing T&D Assets.
- 11.7 The panel referred to in Condition 11.6 shall be -
- 11.7.1 one member to be chosen by the Authority;
 - 11.7.2 one member to be chosen by the Licensee; and
 - 11.7.3 one member, who shall be chairman of the panel, to be chosen by the other two members.
- 11.8 The panel referred to in Conditions 11.6 and 11.7 shall determine the fair market value of the T&D Assets of the Licensee. The fair market value for these purposes shall be considered to be the fair market value of the T&D Assets to another T&D Licensee determined in a manner that complies with the term Fair Market Value as defined by the American Society of Appraisers, that is, the price, expressed in cash equivalents, at which the T&D Assets would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.

- 11.9 The Licensee may apply to the Authority for a reconsideration of its decision not to renew this Licence and may appeal any decision made by the Authority following any such reconsideration in accordance with the Law.

Condition 12: Modification of the Licence

- 12.1 Without prejudice to Conditions 12.2 and 12.3 below, this Licence may be modified where the Authority and the Licensee each consent in writing to modify the Licence.
- 12.2 The Authority may modify the Licence for reasons of the security or the public interest of the Islands in accordance with the Law.
- 12.3 Where the Authority considers that the Licence should be modified in the public interest in accordance with the Law, the Authority shall give to the Licensee a written notice that-
- 12.3.1 sets out the proposed modification;
 - 12.3.2 states the reasons for the proposed amendment; and
 - 12.3.3 invites the Licensee to file submissions within twenty-eight days to show cause why the Licence should not be so modified.
- 12.4 The Authority may modify the licence if, after having regard to a submission made under Condition 12.3, the Authority considers the Licence should be modified-
- 12.4.1 in the manner set out in the notice; or
 - 12.4.2 in some other manner consistent with the said submissions.
- 12.5 Where the Authority decides to modify the Licence in accordance with the Law, the Authority shall give to the Licensee a written notice stating-
- 12.5.1 how the Licence has been modified; and
 - 12.5.2 that the Licensee may apply to the Authority for a reconsideration of its decision in accordance with the Law.
- 12.6 The Licensee may apply to the Authority for a reconsideration of its decision to modify this Licence and may appeal any decision made by the Authority following any such reconsideration in accordance with the Law.

Condition 13: Suspension or revocation of the Licence

- 13.1 The Authority may suspend or revoke this Licence where the Licensee-
- 13.1.1 is in fundamental breach of this Licence;
 - 13.1.2 persistently breaches any Condition attached to this Licence or repeatedly contravenes the Law;

- 13.1.3 is dissolved;
 - 13.1.4 is wound up or declared bankrupt;
 - 13.1.5 is convicted of an offence under the Law punished by a fine or fines in excess of three hundred thousand Cayman Islands dollars;
 - 13.1.6 fails to pay any Licence Fee or Regulatory Fee or financial commitment under the Law for a period in excess of three months after the relevant due date;
 - 13.1.7 is to be struck or is struck from the register of companies;
 - 13.1.8 compounds with its creditors to the detriment of the public interest;
 - 13.1.9 obtained this Licence by a fraudulent, false or misleading representation or in some other illegal manner; or
 - 13.1.10 having had this Licence suspended, has failed to rectify any ground for suspension under this Condition within a period of one year following upon the date of any such suspension.
- 13.2 The Authority shall, before suspending or revoking the Licence under Condition 13.1, give fourteen days written notice to the Licensee, in which notice the Authority shall draw to the attention of the Licensee the grounds on which the Authority intends to suspend or revoke the Licence.
- 13.3 Before suspending or revoking the Licence pursuant to Conditions 13.1.1 or 13.1.2 the Authority may give an opportunity to the Licensee to remedy the breach, if capable of remedy, within a reasonable time and in any event before the expiration of the fourteen day period of notice given under Condition 13.2 if the public interest or security of the Islands is not harmed in so doing.
- 13.4 Notwithstanding Conditions 13.1, 13.2, and 13.3, the Authority on the order of the Governor, shall without notice, suspend or revoke this Licence if the suspension or revocation is necessary for reasons of the security or the public interest of the Islands.
- 13.5 Upon revocation of the Licence under this Condition the Authority shall compel compulsory divestiture of the Licensee's T&D Assets. The provisions of Conditions 11.6, 11.7 and 11.8 shall apply mutatis mutandis to the valuation of such T&D Assets.
- 13.6 The Licensee may apply to the Authority for a reconsideration of its decision to suspend or revoke this Licence and may appeal any decision made by the Authority following any such reconsideration in accordance with the Law.

Condition 14: Consumer Deposits

Interest on Consumers' deposits will be paid at the prevailing rate for one-year certificates of deposits on Grand Cayman Island. The interest rates paid shall reflect the rates paid by Cayman Islands banks for certificates of deposit above C.I. \$3 million.

Condition 15: Communication

The Licensee shall designate a person that will act as a primary contact with the Authority on matters related to this Licence. The Licensee shall notify the Authority promptly should the contact details change.

Condition 16: Force Majeure

To the extent that the Licensee is prevented by Force Majeure from carrying out, in whole or part, its obligations under this Licence and the Licensee gives notice and details of the Force Majeure to the Authority as soon as practicable, then the Licensee shall be excused from the performance of its specific obligations prevented by the Force Majeure conditions during the period for which the Force Majeure conditions apply. The Licensee shall take all reasonable and necessary steps to enable it to perform such obligations with all reasonable dispatch after the period of Force Majeure.

Condition 17: Early Retirement of Assets

The Licensee may retire assets early, provided that any decision to retire assets early shall be subject to the approval of the Authority, which approval shall not be unreasonably withheld. On any early retirement of assets, the Licensee shall be allowed to recover the net book value of all T&D Assets whether those assets are on its books at the effective date of this Licence or are additions to the Licensee's Rate Base during the term of the Licence. This financial recovery shall be independent of whether these assets are physically retired before the end of their book life based on an economic evaluation or any change in Government policy or regulatory action. Such recovery shall take place through the continued depreciation of such assets until the end of their book life. The Licensee's accounting for any retirement will be in accordance with Conditions 25.11.1, 25.11.2 and 25.11.3 of this Licence and the Licensee's Rate Base shall not otherwise be affected by such retirement.

Condition 18: Wheeling

Wheeling is not desired and will not be allowed by the Licensee or the Authority.

PART III RATE STRUCTURE AND RATE CAP ADJUSTMENT MECHANISM (RCAM).

Condition 19: Rate Structure

19.1 As used herein, all rate adjustments will be applied to Consumers' bills on the first normal billing date following the effective date and will apply to the monthly consumption on that bill. For example, a rate adjustment effective June 1, may first appear on a bill dated June

20 and apply to consumption that may have occurred part in June and part in the preceding May.

- 19.2 Effective June 1, 2009, Base Rates will be increased in accordance with the following formula:

$$\text{Base Rate Increase} = \text{Price Level Index} \times 80.0 \%$$

Where Price Level Index is determined according to the RCAM set forth in Condition 25 below.

- 19.3 Subject to Conditions 19.6, 24 and 26.1, Base Rates will be adjusted annually in accordance with the RCAM. Following the rate increase effective June 1, 2009, annual rate adjustments will be calculated in accordance with the RCAM and shall be effective each June 1. Changes to the RCAM will only be made as set forth in Condition 25.
- 19.4 The Licensee will calculate the rate adjustment in accordance with the RCAM and will implement the same upon verification by the Authority, which shall not be unreasonably withheld or delayed. If the Licensee submits a valid request for rate adjustment in a timely manner and the Authority's verification process unreasonably delays the implementation of the rate adjustment, the Licensee shall be entitled to receive a rate adjustment that would provide it with the revenues it would have earned had the rate adjustment been implemented at the appropriate time.
- 19.5 The Z Factor, as defined in Condition 25.5, represents a charge to Consumers to recover unusual expenses outside of the control of the Licensee that are permitted to be recovered through a rate surcharge pursuant to this Licence and approved by the Authority.
- 19.6 Separately or in conjunction with other rate adjustments as set forth above, the Licensee may adjust Base Rates to achieve other objectives upon approval of the Authority. Such adjustments may include but are not limited to revising the rate design, rebalancing rate levels between Consumer classes, redefining Consumer classes or creating new Consumer classes, or implementing incentive rate structures or optional rates. It is expected that any such revisions would be supported by appropriate analysis from the Licensee and subject to review and approval by the Authority. Notwithstanding any specific analyses and adjustments, the Licensee shall provide the Authority with a comprehensive allocated cost of service study of Base Rates at least every five years.
- 19.7 The Licensee will submit annual updates to the Authority of its total 5-year capital expenditure plan. Any needed Generating Capacity shall be solicited in accordance with the Generation Solicitation Process.
- 19.8 The Licensee shall submit its Capital Investment Plan (CIP) to the Authority within three months of signing of this Licence and annually thereafter with a deadline to be decided by the Authority in consultation with the Licensee. The CIP will provide a listing of all projects currently being implemented as well as those for which implementation is planned to begin within the five year period considered in the CIP. Actual and forecast expenditures on the listed projects are to be indicated for each of the following periods- (a)

prior to year 1; (b) each of years 1 through 5 inclusive; and (c) beyond year 5. Individual projects for which investment amounts do not exceed three percent (3%) of the total investment forecast in any one year may be presented in groups of similar characteristics (e.g. low voltage distribution line extensions). Descriptions of such projects will provide such information as will enable the Authority to understand the rationale behind the proposed investment. However the Licensee shall provide details of all projects for which the forecast expenditure in any one year exceeds three percent (3%) of the total investment projected for that year, as well as for any project for which the total forecast expenditure over the five year period exceeds three percent (3%) of the total expenditure forecast for that period. The Authority will have the right to require submission of any information relevant to any proposed investment, regardless of the forecast monetary value. The intent of the forecasting process is not to involve the Authority in the Licensee's routine management decisions but to enable it to determine the reasonableness and efficiency of the proposed investments with respect to the provision of electricity service on Grand Cayman.

Condition 20: Initial HCRS Removal and Rate Reduction

- 20.1 The Licensee will discontinue billing Consumers for the HCRS effective January 1, 2008.
- 20.2 Effective on the same date as the removal of the HCRS, the Government will rebate to the Licensee on a monthly basis an amount equivalent to CI\$0.20 (twenty cents) per Imperial Gallon of the import duty paid on that amount of diesel fuel consumed by the Licensee and any Generation Licensees during the month immediately preceding the month for which the rebate is paid. The Licensee will distribute such rebate during the third month and each month thereafter to the first 1,500 kWh of all residential Consumers. The Government reserves the right to discontinue the payment or adjust the amount of such rebate. For the avoidance of doubt, the rebate on fuel consumed in month 1, will be rebated by the Government to the Licensee in month 2, and the Licensee will affect the rebate on Consumer's bills in month 3.
- 20.3 Effective the date of this Licence, the Licensee will implement the Electric Rate Restructuring Report.
- 20.4 After the effective date of this Licence, the Licensee and the Authority will agree the scope and the timing of a cost of service study so that it will be completed by the Licensee, and reviewed, approved and taken into account by the Authority in respect of its approval of the rates to be implemented on June 1, 2009. After June 1, 2009, either upon the request of the Authority or at its own initiative, the Licensee may propose re-balanced and re-structured rates to the Authority for review and approval from time to time taking into account the results of any cost of service study completed, reviewed and approved in advance of the proposed rate adjustment. For the avoidance of doubt, any such re-balanced or re-structured rates shall be designed to be revenue neutral to the Licensee.
- 20.5 Base Rates are defined as retail rates less any Z Factor, Fuel Cost Charge and Government and Regulatory Charge. Existing rates will be restructured to segregate Base Rates from pass-through charges by removing from the existing rates the embedded costs of fuel,

lubricants and the existing licence fee. Initially, Base Rates will be designed for application to the same or similar Consumer classes in the existing rates – for example, residential, small commercial, large commercial and lighting.

Condition 21: Pass-through Charges

- 21.1 Pass-through charges for (a) Fuel Costs and (b) Government and Regulatory Costs will be shown as separate items on a Consumer's bill and the charges will be designed to recover 100% of actual costs of these items as described in more detail below. Pass-through charges will also include those charges described in Conditions 31.1.7 and 32.4.
- 21.2 Fuel Cost Charge
 - 21.2.1 Fuel Costs are the actual cost of fuel and lubricants used in the generation of electricity by the Licensee pursuant to its Generation Licence or by a Generation Licensee pursuant to the relevant PPA between the Licensee and the Generation Licensee. Fuel Costs do not constitute a component of Base Rates but will instead be collected from Consumers through the Fuel Cost Charge.
 - 21.2.2 The Fuel Cost Charge represents a per kWh charge designed to fully recover Fuel Costs from Consumers. The Fuel Cost Charge will be calculated monthly to recover Fuel Costs on a timely basis. The Licensee will establish a formula for the Fuel Cost Charge. A Fuel Cost Tracker Account will form a component of the formula to ensure that over time the Fuel Costs are passed through to the Consumers without benefit or cost to the Licensee.
 - 21.2.3 The Fuel Cost Tracker Account will accumulate actual Fuel Costs incurred less actual revenues collected from the Fuel Cost Charge as billed on an ongoing basis. The ending balance of the Fuel Cost Tracker Account for any given month will be determined each month by adding the previous month's ending balance, positive or negative, with the actual Fuel Costs for a given month less the actual Fuel Cost Charge billings during the given month.
- 21.3 Government and Regulatory Costs
 - 21.3.1 The Government and Regulatory Costs include the Licence Fees and Regulatory Fees pursuant to this Licence. In addition, these costs will include any future levy or charge imposed by Government that the Licensee is required to pay directly or that the Licensee is required to collect from Consumers and remit to Government on behalf of Consumers. These costs do not include Government duties on fuel, which will be included in the Fuel Charge, and customs duties and other Government charges.
 - 21.3.2 The Government and Regulatory Charge represent a per-kWh charge, separate from rates, designed to fully recover the Government and Regulatory Costs from Consumers. The Government and Regulatory Costs will be assessed using the Licensee's annual budget forecast each year to assess gross billing revenues, and other income on which the Licence Fee and the Regulatory Fee will be

calculated. The dollar calculation of such costs will then be divided by the forecast kWh sales to establish a per kWh charge to be applied to Consumers' bills for the future financial period in question subject to Condition 21.3.4 below. The Government and Regulatory Charge may be adjusted quarterly to recover Government and Regulatory Costs on a timely basis. The Licensee will establish a formula for the Government and Regulatory Charge. A Government and Regulatory Tracker Account will form a component of the formula to ensure that over time the Government and Regulatory Costs are passed through to the Consumers without benefit or cost to the Licensee.

- 21.3.3 The Government and Regulatory Tracker Account will accumulate actual Government and Regulatory Costs incurred less actual Government and Regulatory Costs billed on a quarterly basis. The ending balance of the Government and Regulatory Tracker Account for any given financial year will be determined each year by adding the previous year's ending balance, positive or negative, with the actual Government and Regulatory Costs for a given year less the actual Government and Regulatory Costs billed during the year.
- 21.3.4 Initially, the Government and Regulatory Charge shall be applied as a two-tiered rate applied only to kWh consumption greater than 1,000 kWh per Consumer per month.

Condition 22: Rates for Lighting

- 22.1 Commencing on the date of this Licence, the Licensee's rates for lighting service will have a rate structure that separates the cost of fuel and other pass-through costs from other costs so that such pass-through costs can be billed separately from the Base Rates for lighting. Such pass-through costs will be based on a standard monthly kWh usage factor and will be subject to periodic adjustment in a manner similar to other rate classes except that the adjustment period may be less frequent (e.g. quarterly or semi-annually). Lighting rates will also have the HCRS removed at that time.
- 22.2 The lighting rates will be adjusted on June 1, 2009 to reflect the allocated cost of service levels determined in the rate study prescribed in Condition 20.4. Thereafter, lighting rates will not be subject to the RCAM. Beyond that date, the Licensee would apply to the Authority for adjustments to the lighting rates only on an as-needed basis by submitting appropriate cost justifications.

Condition 23: PPA Rate Structure

The PPA structure will be prescribed in the Generation Solicitation Process to provide transparency and comparability in competitive bids. In that regard, the results of the evaluation of bids, including the relative scoring of the price and non-price criteria will be made available to all bidders.

Condition 24: Import Duty on Other Items Used in the Electricity Business

Customs duty at the rate of 15% will be charged on the importation by licensees into the Cayman Islands of non-fuel goods to be used exclusively for the conduct and operation of the business of the licensees in the Generation, Transmission and Distribution of electricity on Grand Cayman and will be incorporated into the T&D Base Rate and the PPA fixed charge. This rate of duty will continue at the 15% level until changed by Government. Any future change in the import duty on non-fuel purchases would result in and be effective with automatic adjustments to the PPA rate and the Licensee Base Rates at the beginning of the next calendar quarter equal to the effect of such increase in the import duty. The import duty on non-fuel purchases would apply equally to all licensees.

Condition 25: Rate Cap and Adjustment Mechanism (RCAM)

- 25.1 The RCAM is based on a formula that incorporates readily available external data to determine the Price Level Index. The Price Level Index is adjusted by an appropriate factor, which may provide for a rate increase less than, equal to, or greater than the Price Level Index, or for no increase. The relationship of the level of adjustment to the Price Level Index is based on the Licensee's Return on Rate Base, which is to be calculated from the most recent audited financial statements.
- 25.2 All of the provisions regarding the RCAM described in this Condition 25 will not be changed except by mutual agreement of the Licensee and the Authority. However, it is the responsibility of the Authority to determine the value of the X Factor on an annual basis in accordance with Condition 25.6 below, to adjust the value of the X Factor at the time of the five year review, and to establish appropriate Z Factors as the need arises in accordance with Condition 25.5 below.
- 25.3 Subject to Condition 25.2 above, the Authority shall review the RCAM as part of the five-year review. In addition, and again subject to Condition 25.2 above, the Licensee may request or the Government may direct at any time that the Authority review the RCAM, recognizing that actual circumstances may result in performance outside the bounds of reasonable expectations. For example, the Licensee's business results and financial stability may be affected by circumstances or conditions outside its direct control.
- 25.4 The RCAM will adjust the Base Rates on June 1 of each year (unless a change is agreed upon by the Licensee and the Authority) in accordance with the following formula:

$$\text{New Base Rate} = \text{Current Base Rate} \times \{100\% + P \times (100\% - X)\}$$

The Z Factor will be added where necessary in accordance with Condition 25.5.

Where,

P = change in the Price Level Index, composed of 60% weighting of the Cayman Islands Consumer Price Index (CI CPI) and a 40% weighting of the United States of America Consumer Price Index (US CPI), (both after adjusting to remove the effects of prices of

food and fuel), expressed as an annual percentage change as reported for the most recent calendar year (e.g. 3.0%);

X = the X Factor, or “productivity factor”, which is the amount by which the effects of inflation (P) will be reduced in determining the rate adjustment, expressed as a percentage or proportion of P.

- 25.5 A Z Factor may be added to the Base Rate in effect from time to time. The Z Factor is the amount, expressed in cents per kWh, approved by the Authority and estimated to recover the sum of those cost items deemed to be outside the constraints of the RCAM. The Z Factor shall include, but not be limited to, those items that are described in Conditions 26.3 and 31.1.11.
- 25.6 The X Factor to be used in the annual Base Rate adjustment as defined in Condition 25.4 above will be determined by the Licensee’s Return on Rate Base for the most recent financial year for which audited financial statements are available as set out in the following table:

Range of Return on Rate Base Values	X Factor	Change in Base Rates as a percentage of P (100% - X)
Over 13%	140%	- 40% (rate reduction)
11 – 13%	100%	0% (no rate adjustment)
9 – 11%	20%	80%
7 – 9%	0%	100%
Below 7%	- 40%	140%

- 25.7 The ranges of Return on Rate Base in the above table will be adjusted annually on a one-for-one basis with changes in the Cost of Capital, which is set by the formula as described in Condition 25.12. This provision may not be changed except by mutual agreement between the Licensee and the Authority.
- 25.8 The “9 – 11%” range of Return on Rate Base in the table above, as such range may be adjusted from time to time by changes in the Cost of Capital as prescribed in Condition 25.12, shall be the target range of Return on Rate Base. The midpoint of the target range of Return on Rate Base shall constitute the definition of financial well being of the Licensee. These provisions may not be changed except by mutual agreement between the Licensee and the Authority. It is the Authority’s responsibility to adjust the X factor, and the Authority will use such midpoint as the appropriate target for any decisions regarding changes to the X Factor or any other pricing related decisions of the Authority permitted by this Licence or the Law.

- 25.9 Return on Rate Base is the fraction, expressed as a percentage, of Licensee Income for the financial year as the numerator and Rate Base as the denominator, as per the formula below:

$$\text{Return on Rate Base (\%)} = \text{Licensee Income} \div \text{Rate Base}$$

- 25.10 Licensee Income is the net earnings before preference dividends, or any other expenses related to distributions to shareholders other than common shareholders, adjusted by adding back interest expense, as determined from the audited financial statements of the Licensee for the financial year then ended. This definition is provisional based on the assumption that the composition of earnings and interest expense for the year will continue to incorporate the specified accounting treatment for each of the defined terms herein as currently defined by applicable accounting principles.
- 25.11 Rate Base is the value of capital upon which the Licensee is permitted an opportunity to earn the Return on Rate Base as established by this Licence. The value of this capital is the average of the beginning and ending values for the applicable financial year of: Fixed Assets, less Accumulated Depreciation, plus the Allowance for Working Capital, plus Regulatory Assets, if any, less Regulatory Liabilities, if any.
- 25.11.1 Fixed Assets are the Property Plant & Equipment, before Accumulated Depreciation, as reported in the Licensee's audited financial statements for any given year. Fixed Assets will be increased by the original book value of lands, buildings, plant and equipment, including computer software, acquired or constructed by the Licensee. The original book value of these Fixed Assets will include an Allowance for Funds Used during Construction (AFUDC), as defined below, and an Allowance for General Expenses Capitalized. Fixed Assets will be decreased by the retirement of the original book value of lands, buildings, plant and equipment, including computer software, permanently removed from service by the Licensee. The original book value to be retired will include any AFUDC and any Allowance for General Expenses Capitalized, if applicable.
- 25.11.2 Accumulated Depreciation is the accumulated depreciation as reported on the Licensee's audited financial statements for any given year. Accumulated Depreciation is increased by the Depreciation of Fixed Assets. Additionally, Accumulated Depreciation will be reduced by the original book value of Fixed Assets retired plus disposal cost expenditures, net of salvage proceeds.
- 25.11.3 Depreciation is the straight line amortization of Fixed Assets at percentage rates established, from time to time, by the Licensee that are designed to recover the original cost of Fixed Assets over their economic life. The rates will vary with each class of assets depending on estimates of the average useful life. Depreciation rates will include an allowance for estimated disposal costs, net of salvage, to be recovered over the economic life of the Fixed Assets.

25.11.4 Allowance for Funds Used during Construction (AFUDC) is the financing cost calculated by multiplying the Licensee's Cost of Capital, adjusted accordingly for periods of application that are less than one year, by the average Work In Progress for the given period. AFUDC is a provision for Cost of Capital to be included in Fixed Assets that represents the financing costs associated with the interim financing of capital expenditures through Work In Progress. AFUDC will be calculated and applied to Work In Progress on a monthly basis as follows:

$$(\text{Licensee's Cost of Capital} \div 12) \times \text{Average Work In Progress for the Month}$$

Where the average Work In Progress for a given month is calculated from the opening and ending balances for the month, before the application of AFUDC.

25.12 The base year Cost of Capital of the Licensee is 10 per cent. The Cost of Capital will be adjusted annually on a fiscal year basis according to the following formula:

$$\text{Cost of Capital} = 10\% + [0.75 \times (\text{Average Treasury Yield} - 5\%)]$$

Where,

The Cost of Capital of the Licensee for the year ended April 30, 2008, the base year of the Licence, is 10 per cent. For all years after the base year, the Cost of Capital will be subject to adjustment for a given year, if required based on the above formula;

The Average Treasury Yield represents the average yield of 10-Year United States Treasury Notes for the preceding fiscal year; and

The calculation of $[0.75 \times (\text{Average Treasury Yield} - 5\%)]$ is rounded up or down to the nearest 0.25 per cent, either positive or negative, before adding to, or deducting from, the Cost of Capital.

25.13 Work In Progress (WIP) represents Fixed Assets of the Licensee that are under construction or in the process of implementation and are not yet used and useful. WIP will not be considered as a part of Rate Base until the asset in question is completed and placed into service. No depreciation will be taken on WIP until the Fixed Assets have been placed into service. WIP will include AFUDC.

25.14 General Expenses Capitalized (GEC) are a portion of Non-Fuel Operating Expenses of the Licensee that are capitalized as a component of Fixed Assets. GEC represents the fact that a portion of Non-Fuel Operating Expenses are related, directly or indirectly, to the Licensee's capital projects. Indirect GEC will be calculated as a percentage of up to 10 per cent of Non-Fuel Operating Expenses and will vary annually depending on the level of the Licensee's activity for the year under the CIP.

- 25.15 Non-Fuel Operating Expenses represents all operating expenses as reported in the financial statements of the Licensee, net of Fuel Costs.
- 25.16 Allowance for Working Capital is equal to 30 days of total revenues, as represented in the audited financial statements of the Licensee, including Base Rate, Fuel Costs and Z Factor charges and other income, but excluding Government and Regulatory Costs. This allowance is calculated according to the following formula:

$$(\text{Total revenue for the preceding financial year} \div 365) \times 30$$

- 25.17 Regulatory Assets or Regulatory Liabilities represent assets or liabilities that are classified in the financial statements of the Licensee as required by generally accepted accounting principles as a result of the provisions of this Licence, by order of the Authority or by a directive of the Government. These assets or liabilities will only be added to Rate Base as defined in Condition 25.11 to the extent that they are not included in Fixed Assets.

Condition 26: Disaster Provisions

- 26.1 In the event of a Disaster which results in a state of emergency being proclaimed by the Governor under the Emergency Powers Law (2006 Revision) and (1) where the change in the Cayman Islands Consumer Price Index, excluding food and fuel, in the quarter following the disaster is twice or more of the average of the previous three year's CPI change for the equivalent quarter; and (2) the adjustment of Base Rates on the first adjustment date following the Disaster as calculated in Condition 25.4 would be greater than 60% of the change in the Price Level Index:
- 26.1.1 The actual increase in Base Rates will be capped for the year at 60% of the change in the Price Level Index; and
 - 26.1.2 The difference between the calculated rate increase and the actual increase expressed as a percentum shall be carried over and applied in addition to the normal RCAM adjustment in either of the two following years if the Licensee's Return on Rate Base is below the target range referred to in Condition 25.8.
- 26.2 In the event of a Disaster the Licensee will write-off destroyed assets over the remaining life of the asset that existed at time of destruction. The write-off calculation would be net of insurance proceeds, so property insurance deductibles would be included in the loss. (No Z Factor adjustment would be required for the write-off of the destroyed assets.)
- 26.3 Z Factor rate changes will be required for "business interruption" insurance deductibles and other extraordinary operating expenses. The Authority will determine a reasonable period over which the Z factor costs will be recovered based on the nature of the costs.
- 26.4 The Licensee shall as soon as reasonable practicable inform the Authority if the deductible for its property insurance changes from US\$1 million per site or a total of US\$4 million level and if the deductible for its business interruption insurance changes from 45 days.

- 26.5 The Licensee may submit for the Authority's consideration Z Factor adjustments for amounts equal to or above CI\$500,000 at any time; or for amounts less than that in total for any fiscal year within three months following such fiscal year end. The Licensee will not file for the recovery of total amounts less than CI\$100,000 per financial year.
- 26.6 In the event of damage from a Disaster, the Licensee will invest in any required replacement assets in good faith as expeditiously as possible and will not require advance approval by the Authority. Unless the Authority subsequently determines that the Licensee acted unreasonably in all the circumstances in replacement of assets, such assets will be capitalized and amortized as part of Rate Base in accordance with generally accepted accounting principles and the provisions of this Licence.

PART IV TECHNICAL CONDITIONS

Condition 27: Compliance with the T&D Code

- 27.1 The Licensee shall comply with the provisions of the T&D Code, in so far as applicable to it.
- 27.2 The Authority may, on reasonable grounds, issue directions relieving the Licensee of its obligation under Condition 27.1 in respect of such parts of the T&D Code and to such extent as may be specified by the Authority.
- 27.3 The Licensee shall, within six months of issue of this Licence, prepare and submit to the Authority a T&D Code. The T&D Code shall be accompanied by a plan for its implementation of the T&D Code which shall among other provisions compare the standards of the Interim T&D Code to those of the T&D Code. Once the Authority approves the T&D Code and the said implementation plan, the Licensee shall implement and comply with such T&D Code.
- 27.4 The T&D Code shall cover all material technical aspects relating to, connections to, and the operation and use of the T&D System including the operation of the electrical lines and electrical plant and apparatus connected to the T&D System in so far as relevant to the operation and use of the T&D System and shall include, but not be limited to:
- 27.4.1 planning code specifying the plan for laying the distribution lines and the service lines in the Service Territory, the technical and design criteria and procedures to be applied by the Licensee in the planning and development of the Licensee's T&D System; and
 - 27.4.2 conditions of supply including connection conditions specifying the technical, design and operational criteria to be complied with by any Person connected or seeking connection with the Licensee's T&D System; and
 - 27.4.3 the conditions under which the Licensee shall operate the Licensee's T&D System and under which Persons shall operate their plant and/or T&D System in relation to the Licensee's T&D System, in so far as necessary to protect the

security and quality of supply and safe operation of the Licensee's T&D System under both normal and abnormal operating conditions;

- 27.4.4 a description of the practices to be followed with respect to the billing of Consumers and the metering of the electricity consumed by Consumers.
- 27.5 The T&D Code shall be designed so as to facilitate the development, maintenance and operation of an efficient, coordinated and economical T&D System.
- 27.6 The Licensee shall, until the T&D Code comes into force, follow the Interim T&D Code namely existing codes, standards and practices governing the Distribution of electricity with such modifications as the Authority may request from time to time. The compilation of such existing codes and standards shall be filed by the Licensee with the Authority within 120 days of the grant of this Licence.
- 27.7 The Licensee shall review annually or earlier, if required, the T&D Code and its implementation. The Licensee shall also undertake such review as and when directed to do so by the Authority. Following any such review, the Licensee shall send to the Authority:
- 27.7.1 a report on the outcome of such review;
- 27.7.2 any proposed revisions to the T&D Code as the Licensee (having regard to the outcome of such review) reasonably thinks fit for the achievement of the objectives of the T&D Code and this Licence; and
- 27.7.3 all written representations or objections received during such review.
- 27.8 All revisions to the T&D Code shall be filed with the Authority. The Authority will have 90 days from the date of filing to review, comment and reply.
- 27.9 The Licensee shall publish a notice advising of the T&D Code and any revisions thereto and shall make available to any Person requesting it, copies of the T&D Code and practices thereto in force at the relevant time, at a price not exceeding the reasonable cost of duplicating it.

Condition 28: T&D System Standards: Planning, Reliability, Operating and Overall Performance Standards

- 28.1 Performance standards will provide a balanced framework of potential penalties or rewards compared to historical performance. Standards shall include "zones of acceptability" where no penalties or rewards would apply. If performance deviates from agreed levels, the Licensee shall promptly notify the Authority of the deviation and discuss with the Authority the reasons for the deviation and the steps that the Licensee intends to take to make corrections for the deviation, but the Licensee shall not be required to obtain the Authority's approval of any such steps at this stage. If performance continues to deviate from the standard after the Licensee has been given a reasonable opportunity to implement the steps outlined to the Authority, the Authority may impose penalties for poor performance or provide rewards for superior performance.

- 28.2 These standards will be reconsidered as part of each five-year review.
- 28.3 After review and approval, the Authority will implement and enforce all the performance standards on separate schedules for each standard. Each schedule will depend on whether an appropriate measure has yet been defined and the availability of historical performance data against the measure to determine an appropriate benchmark for the Licensee.
- 28.4 The Licensee shall comply with the Existing T&D System Planning and Reliability Standards and the Existing T&D System Operating Standards with such modifications as the Authority may direct, until the T&D System Planning and Reliability Standards and T&D System Operating Standards proposed by the Licensee pursuant to Condition 28.6 are approved by the Authority. The compilation of such existing standards shall be filed by the Licensee with the Authority within 60 days from the grant of this Licence.
- 28.5 The Licensee shall plan and operate its T&D System to ensure that, subject to the availability of adequate power of appropriate quality, the system is capable of providing Consumers with a safe, reliable and efficient supply of electricity. In particular, the Licensee shall:
- 28.5.1 plan and develop its T&D System in accordance with the T&D System Planning and Reliability Standards together with the T&D Code as approved by the Authority; and
 - 28.5.2 operate the Licensee's T&D System in accordance with the T&D System Operating Standards together with the T&D Code as approved by the Authority.
- 28.6 The Licensee shall, within six months after this Licence becomes effective, prepare and submit to the Authority for approval, the Licensee's proposal for T&D System Planning and Reliability Standards and T&D System Operating Standards.
- 28.7 The Licensee shall, within nine months after this Licence becomes effective, prepare and submit to the Authority for approval, the Licensee's proposal for Consumer Service Standards, including a measure of customer satisfaction.
- 28.8 Having regard to any written representation received by the Authority or upon its own motion, after giving the Licensee an opportunity to present its perspective on the same, for reasons recorded in writing, the Authority may require the Licensee to revise the T&D System Planning and Reliability Standards, the T&D System Operating Standards and the Consumer Service Standards, and the Licensee shall comply with the directions of the Authority.
- 28.9 The Licensee shall, within 60 days of the end of each financial year, submit to the Authority a report indicating the performance of the Licensee's T&D System during the previous financial year. The Licensee shall, if required by the Authority, publish a summary of the report in a manner approved by the Authority.
- 28.10 The Licensee shall conduct its T&D Business in the manner which it reasonably considers to be best calculated to achieve the T&D System Operating Standards in connection with

provision of supply services and the promotion of the efficient use of electricity by Consumers.

- 28.11 The Licensee shall supply annually, information to the Authority as to the means by which it proposes to achieve the T&D System Operating Standards and other standards referred to in this Condition 28.

PART V GENERATION SOLICITATION PROCESS

Condition 29: Need for New Generation

- 29.1 The Licensee shall prepare a Certificate of Need to document the size and timing of future generation requirements for Grand Cayman for firm capacity, which shall be subject to competitive solicitations. The Licensee when preparing a Certificate of Need will consider the following factors:
- 29.1.1 Projected growth in electric peak load requirements (taking demand-side management and alternative peak demand growth rates into account);
 - 29.1.2 Availability of existing capacity, including any anticipated retirement of Generating units as proposed by the Licensee or any other generation licensee and approved by the Authority based on economics, reliability, obsolescence, safety and environmental requirements, Government and Regulatory policy and prudent utility practices;
 - 29.1.3 Projected reserve capacity requirements - the Licensee shall use a minimum reserve margin equal to 35% and maximum reserve margin equal to 55%, based on peak load projected for the year that the additional capacity is proposed to be in service;
 - 29.1.4 Safety and environmental requirements.

Condition 30: First Solicitation

With the Licensee's support as set out in Conditions 31.1.10 and 31.1.12, the Authority will prepare and conduct a solicitation for 32 MW, consisting of two units of 16 MW each to be operational not later than May 1, 2011 and 2012, respectively.

Condition 31: Solicitation Process

- 31.1 On an ongoing basis, the Authority shall be responsible for the solicitation process for new Generating Capacity. Unless the Authority approves a change in this procedure, this process will consist of a number of steps, as outlined below, some of which can proceed in parallel:
- 31.1.1 No less than three years in advance of the projected need, the Licensee will file, for the review and approval by the Authority, a Certificate of Need establishing the incremental amount of capacity for which the Authority would solicit. This Certificate of Need will allow sufficient time for the Authority to conduct the solicitation and for potential bidders to develop such project(s) on Grand Cayman.
 - 31.1.2 Following the approval of the Certificate of Need, the Authority will prepare and publish the solicitation package, including the criteria (both quantitative and qualitative will be used) that they will use to evaluate bids, and the timetable for

the solicitation. Bid evaluation criteria may include non-price factors (e.g., permitting, environmental, finance ability) and price factors (e.g. capacity, energy and total project cost). Criteria and relative weighting will be transparent and set forth in the RFP; greater weight will be attached to price factors than non price factors. A scoring system indicating the relative weights of the various factors influencing the evaluation of proposals will be developed by the Authority and described in the RFP to ensure that, in addition to the relative weighting of price and non-price factors, the relative differences in the bid prices among the bidders and the relative differences of the non-price attributes among the bidders are given appropriate consideration in the selection process.

- 31.1.3 Well in advance of the projected need, the Authority will prepare and publish the minimum threshold requirements for bidders to be qualified to offer Generating Capacity on Grand Cayman. These threshold requirements will be consistent with (and may be the same as) the Authority's generation licence requirements. Solicitations will be open to all types of capacity that meet the required performance (e.g., including renewables if they can provide firm power). The Authority will then request expressions of interest from qualified parties, and will evaluate their submissions to ensure that they meet the minimum criteria for participation. The Authority will eliminate potential bidders that do not meet the minimum criteria.
- 31.1.4 The Authority shall consider the Licensee to be a qualified bidder. The Authority will issue the RFP to the qualified bidders, with a specific deadline for responses.
- 31.1.5 In response to an RFP for new capacity, the Licensee will provide a bid to the Authority in a format comparable to the bids prescribed in the RFP for evaluation purposes and to compete with bids from other bidders. This bid will include information on project location, financing, permitting, etc, as well as price. The Licensee will provide its proposal to the Authority as a sealed bid in accordance with the schedule required of other qualified bidders.

If there is competition to the Licensee providing this capacity, the Licensee shall be able to put into its Rate Base the amount of its bid, if the Licensee is the successful bidder. "Competition" shall be evidenced by the submission of one or more valid bids by one or more qualified bidders, in addition to the Licensee's bid. On the other hand, if there is no competition to the Licensee to provide the new capacity, then the Licensee may only place into its Rate Base an amount equal to its actual cost to build the new generation, an amount which the Licensee shall demonstrate to the Authority's satisfaction. The Authority shall review this proposed cost in a timely manner, using the Licensee's latest Capital Investment Plan and market information as indicators of cost, while making allowance for justifiable differences.

- 31.1.6 The Authority shall assess the Licensee's bid compared to other competitive bids either by determining the unit with the lowest cost per kWh, or by

calculating the net present value of the PPA charges and comparing that value to the Licensee's construction cost bid plus a comparable calculation of the net present value of the operating costs for the Licensee's proposed unit.

- 31.1.7 Bidders and or licensees shall not engage in anti-competitive practices in seeking to win the solicitation. The Authority will set and enforce level playing field rules for competitive bidding. All reasonable legal and professional fees incurred by the Licensees relating to disputes in the Generation Solicitation Process not covered by any award of costs shall be passed on to Consumers upon review and approval by the Authority, provided that the Licensee is successful in the relevant dispute.
- 31.1.8 The Licensee will develop a draft PPA to be included with the RFP, including such provisions as performance bonds, "step-in" rights, etc. For non-renewable projects, bidders must show fuel and lubricants as a separate component in their proposals so that, if they are successful, the Licensee can include that cost as a part of the Fuel Cost Charge in the rates to Consumers.
- 31.1.9 The Authority will receive and evaluate all responsive bids.
- 31.1.10 The Authority will conduct a detailed evaluation of the bids using the quantitative and qualitative criteria established in the RFP. The Licensee will support the process with transmission interconnection analysis of bids, if required by the Authority.
- 31.1.11 The Authority may choose a bid that is not the lowest cost, if consistent with the evaluation criteria. If Authority selects a higher cost bid, the Licensee will be compensated for the difference between that cost and the Licensee's bid in the form of a "Z Factor" adjustment so that the Licensee is not disadvantaged with respect to its Return on Rate Base and the formula for rate changes.
- 31.1.12 If the Licensee is not a successful bidder, the Licensee will negotiate a final PPA with the winner(s), including possible modification of the draft PPA as approved by the Authority. The final PPA will be submitted to the Authority for approval before it becomes effective.
- 31.1.13 The Authority will be responsible for managing the Generation Solicitation Process. The Generation Solicitation Process shall include milestones to assure that the chosen Generation Licensee will bring the needed supply on line as required by the PPA, and the Generation Licensee will make available contingency funds to procure temporary Generation, in case it is unable to provide the Generating Capacity specified in the contract. The PPA will provide for penalties to be imposed on the Generation Licensee if any of the milestones are not achieved. These penalties should adequately compensate for any costs that may result from the Generation Licensee's default and therefore these costs should not be passed onto the consumer but absorbed by the Generation Licensee holding the PPA. The PPA should provide for penalties to cover the

Licensee's legitimate costs for delay or for the failure of the Generation Licensee to supply power in accordance with the terms of the agreed PPA. The Licensee may apply to the Authority for recovery of any additional costs not covered by the PPA.

- 31.1.14 If the bidder accepts the package approved by the Authority, the Authority will issue a Generation Licence to the successful bidder(s), and plant construction can begin. Preliminary development (e.g., applying for permits, land acquisition) is acceptable before approval of the Generation Licence, but the Authority and the Licensee are not responsible for any costs or commitments made by the bidder in this regard, and shall not be involved in such activity.
- 31.1.15 If the results of the solicitation are not acceptable to the Licensee or any bidder(s), the aggrieved parties will have recourse to the dispute resolution procedures.
- 31.1.16 The non-pass-through components of the successful bidder's PPA would be an operating expense for the Licensee and would impact the Return on Rate Base calculation in the RCAM. Any generation installed by the Licensee would represent an increase in Fixed Assets and would impact the calculation of Rate Base in the RCAM. Additional operating costs, other than the pass-through components, would also impact the Return on Rate Base calculation in the RCAM.
- 31.1.17 Since the Licensee remains obligated for the reliability of supply previously approved by the Authority, appropriate measures in the PPA will provide for penalties and bonds to be paid to the Licensee by the Generation Licensee under the PPA that will be used toward the recovery of uncontrollable costs incurred by the Licensee as a result of delay or failure of a Generation Licensee to deliver the contracted generation. The Licensee may apply to the Authority for recovery of any additional costs not covered by these safeguards.

Condition 32: Encouragement of Renewables

- 32.1 In the event of any renewables-only solicitations by the Authority, the Licensee will support the solicitation process with technical information and advice to the Authority as requested. Notwithstanding such renewables-only solicitations by the Authority, the Licensee may consider renewable projects on a case-by-case basis and negotiate PPAs with such projects subject to Authority approval. All renewable generation secured by the Authority or the Licensee must be consistent with Government policy.
- 32.2 Government policy will determine the best means to encourage renewables, both at the wholesale and customer owned on-site levels. Government shall consider the Licensee's recommendations and "best practices", and other inputs in developing such policy. The Authority will implement Government policy in this area.
- 32.3 As with firm power, the Generation Licensee will pay the cost of interconnection.

- 32.4 The cost of non-firm renewables provided by a Generation Licensee would be included in a direct pass-through charge to Consumers, with no cost or financial benefit to the Licensee. This assumes that the renewable project was not awarded a PPA as the result of a firm power solicitation pursuant to Condition 30 or Condition 31 above, in which case, those provisions would apply.
- 32.5 Within three months after the effective date of this Licence, the Licensee will propose to the Authority the principles, prices and limits (if any) to be applied in the purchase of non-firm renewables power from independent Generation Licensees, which either provide power exclusively for the Licensee or for both the Licensee and on-site usage. To reduce dependence on fossil fuels and encourage renewables, the Licensee may propose (with justification) that such purchases of power take place at prices at or above those of its most economic short-run alternative (the Licensee's avoided cost), a cost that would be passed onto Consumers. If such purchases would increase consumer costs, the Licensee's proposal should recommend whether to impose a limit on such energy, and whether such a limit would vary over time. If the Licensee recommends such a limit, the Licensee shall justify the proposed limit and identify the Licensee's current avoided cost and how it would be calculated in the future. After review and consultation with the Licensee, the Authority will recommend to Government an appropriate policy framework for purchase of non-firm power from renewable resources.