



October 13th 2011

The Facts Regarding CUC's Electricity Rates

In order to assist our customers to better understand their electricity bills, the following are the facts related to electricity rates on Grand Cayman.

Current Fuel Costs

CUC's present total per kilowatt-hour (kWh) charge to consumers is approximately CI 35 cents per kWh, made up of the following major components:

- 20 cents per kWh representing Fuel Costs, excluding Government Fuel Duty
- 4.5 cents per kWh representing Government Fuel Duty
- 10.5 cents per kWh, the base rate that CUC has to cover all of its costs, excluding Fuel Costs and Government Fuel Duty

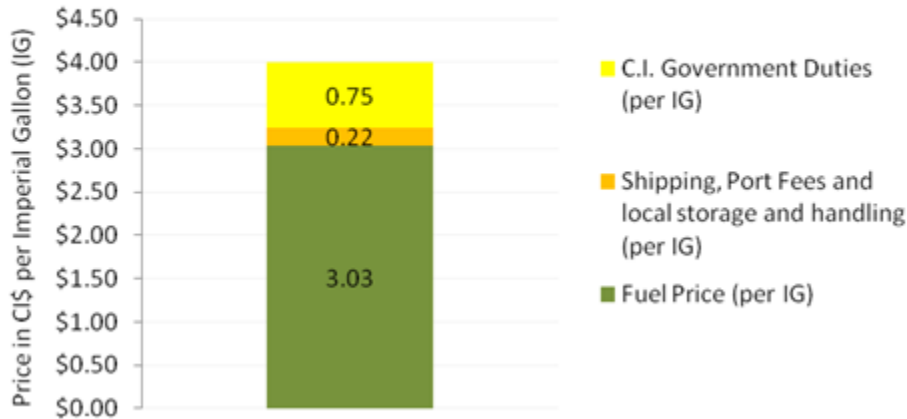
To ensure CUC obtains competitive pricing for its fuel, CUC conducts a competitive solicitation process for five year contracts with its fuel suppliers. Currently, CUC purchases approximately 80% of its fuel from Exxon Mobil (ESSO) and 20% of its fuel from Chevron (Texaco). The fuel price that CUC pays to the local oil companies is based on the international published market price for No 2 diesel loaded on a ship in the US Gulf Coast. As shown in the graph below, in August the price was approximately CI\$3.03 per Imperial Gallon (IG). Added to this is approximately CI 22 cents per Imperial Gallon which covers shipping, Cayman Islands Port Authority fees, local storage and handling, plus CI 75 cents per IG for Cayman Islands Government duties which gives approximately CI\$4.00 per IG as the landed fuel price.

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Breakdown of Fuel Costs per Imperial Gallon (IG) - August 2011



CUC is an environmental leader among utilities in the region including its fuel selection and resulting air emissions. The majority of the larger island-based power plants in the region, such as, Bermuda, Bahamas, Barbados, Jamaica and the Dominican Republic utilize Heavy Fuel Oil (HFO) with higher sulphur contents ranging from 1.3% to 2.2% sulphur. CUC uses No. 2 diesel which is a distillate fuel with a maximum sulphur content of 0.5%. In 2011, CUC's actual sulphur content of its fuel has ranged from 0.0008% to 0.5% sulphur. CUC believes that this fuel choice is the most suitable when balancing the economic and environmental impact of generating electricity.

The first cost that CUC pays for diesel is very competitive amongst electric utilities in the region. However, CUC's duty rate of CI 75 cents per Imperial Gallon is by far the highest in the region with the second highest being CI 40 cents per Imperial Gallon, and the majority being under CI 10 cents per Imperial Gallon. The difference between a duty level of 40 cents per Imperial Gallon and the current duty level in Grand Cayman represents over CI\$10.5 million per year cost to consumers.

CUC Rates are Reviewed and Approved

On a monthly basis CUC submits information regarding its fuel costs and its calculation of the per kWh rate to recover fuel costs, to the Electricity Regulatory Authority (ERA) to be reviewed in advance of billing customers. The fuel costs are recovered from electricity consumers two months in arrears in order to allow for a thorough review process. For example, fuel costs incurred in August are billed to consumers in October.



Changes to CUC base rates are calculated annually by a formula linked to Cayman Islands and U.S. inflation and are also submitted to the ERA for review prior to any application to consumers' bills.

CUC's Level of Earnings

There have been **no** changes to the base rates in the past two years, and in fact CUC's base rate is lower today than in 2002. From the period of 2002 to 2008 CUC froze its base rates while it negotiated new licences with the Cayman Islands Government. In early 2008, CUC gave rate reductions and relinquished its single, exclusive licence with the 15% return on rate base pricing mechanism in exchange for two licences; a non-exclusive generation licence and an exclusive transmission and distribution licence with the price cap mechanism that sets a cap on CUC's base rates. The cap is allowed to move only as a percentage of inflation (currently 80%) to ensure that CUC has an incentive to beat general price inflation by operating efficiently and reducing the costs that it has under its control.

The cumulative impact of the rate freezes, rate reductions, and now shrinking consumer demand due to the poor economy, is that CUC's return on rate base (before interest expenses) has fallen to less than 8%. Given the reduced level of returns and the weak economic conditions, Standard & Poors, the credit rating agency, recently reduced CUC's debt rating from A to A-. Nevertheless, CUC has had to invest US\$64 million in electricity infrastructure, training and technology over the past two years to meet its obligations under its Licences of providing a safe, reliable and efficient electricity service. Without this investment the current levels of continuity of service that exceeds 99.9%, and is comparable to North American utilities, could not be maintained.

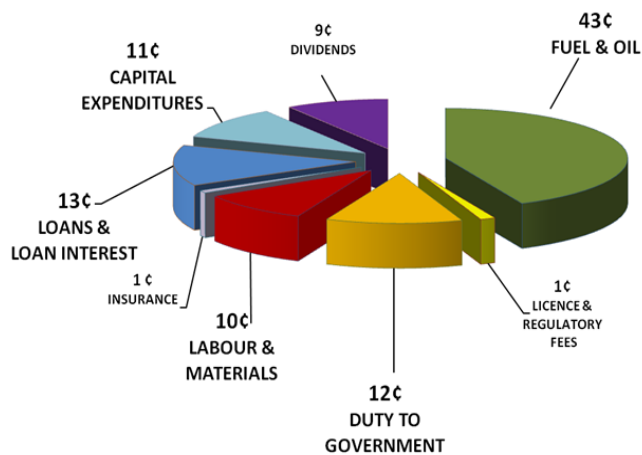
CUC will not recover its investments for many years to come, but invests with the approval of and with the expectation that the Government and the Electricity Regulatory Authority will honor their commitments to CUC under the Licences. Indeed, CUC has a fiduciary duty to its investors to ensure that its rights under the Licences are protected and upheld. Without the ongoing support of its shareholders and lenders, CUC would not be able to make the required investment in its infrastructure to maintain reliability of service at the levels expected by consumers.



Where the money is spent

The chart below shows where each dollar that CUC received from consumers, investors and lenders was spent for CUC's financial year 2010. As you can see 56¢ of every dollar went to fuel and government duties and fees and 13¢ went to loan and loan interest compared to 9¢ to shareholder dividends. Moreover, for the past three years the government's slice has been increasing with higher import duties for CUC's equipment and fuel and increases in Licence and regulatory fees, while CUC's focus on efficiencies have reduced the amount it spent on labour and materials.

Where Your Dollar Went - FY 2010



What is being done by CUC to combat high fuel costs

Grand Cayman is not alone in having to face the high cost of fuel. It is also negatively impacting small- island systems across the Caribbean, the Pacific and the Mediterranean that rely mainly on diesel fuel. Unlike the US and larger countries, the Cayman Islands and other small islands are not sufficient in size to install large power plants which can operate on coal, natural gas and nuclear fuel, and which have significantly lower operating costs than HFO and diesel power plants. Grand Cayman is unique in the high level of import duties placed on diesel used for electricity and this exacerbates the issue. CUC is making best efforts to operate efficiently and to cover its own costs under its base rates that have not been increasing. The Company has also placed significant resources behind finding practical alternative energy sources and lower cost fuel solutions, including the following:



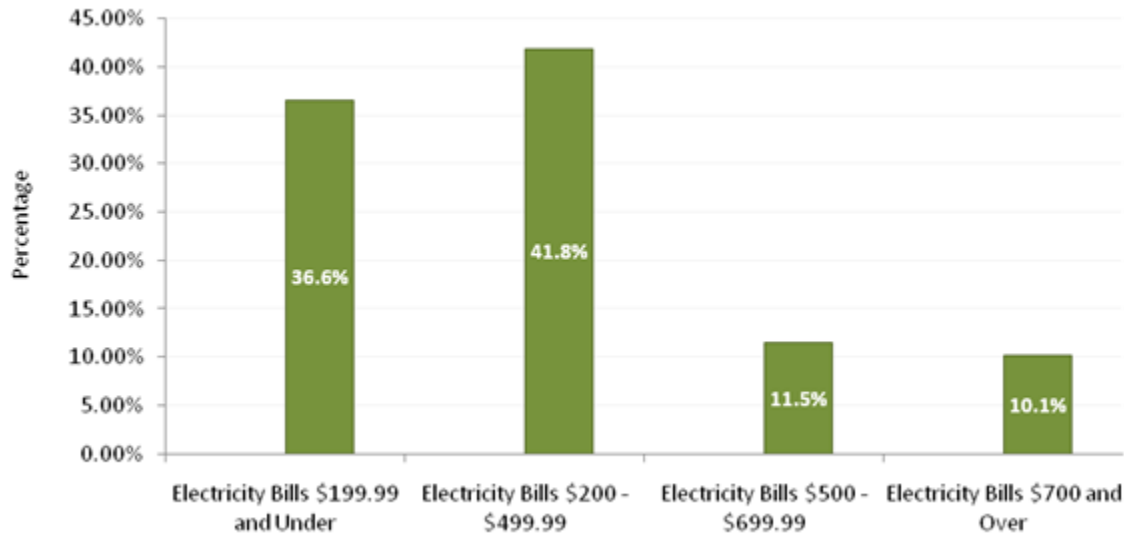
- CUC has installed the latest technology in high efficiency diesel engines and utilizes a computerized dispatch programme which enhances overall plant fuel efficiency.
- CUC facilitated the development of a viable proposal for a 10 MW wind farm by a third party which was rejected by Government as the site clashed with their proposed weather radar. If siting obstacles can be removed, wind turbines would displace some fuel costs with lower cost energy and further reduced air emissions.
- CUC established a consumer owned renewable energy (CORE) programme for small generators to connect to and enjoy the reliability of the grid, while being fairly compensated for the energy produced. There are currently seven participants and interest in the programme is growing.
- CUC has requested and is currently reviewing proposals for up to 13 MW of utility grade alternative energy projects.
- CUC has been and continues to explore lower cost alternative fuels for its diesel engines which will continue to play a major role in providing the reliable power output needed for a stable electricity supply.
- CUC is currently in the advanced stage of implementing Advanced Metering Infrastructure which will provide real-time electricity consumption information and a 'Pay As You Go' payment option to aid consumers in monitoring and reducing their electricity consumption.

What can you do to reduce your electricity bill?

CUC's rates are competitive in the region, however the average residential consumer in Grand Cayman consumes over twice the regional average due mainly to the prevalence of air-conditioned homes. Air conditioning may represent up to 70% of your electricity consumption depending on your habits so this should be the first area to look at.

A breakdown of the monthly residential electricity bills for August 2011 is shown below. Note that 36% of residential customers had bills of under \$200 per month (575 kWh) and over 78% had bills of less than \$500 (1500 kWh) and the top 21% had bills of over \$500. For comparison purposes CUC estimates that a single family home properly air-conditioned, insulated with efficient lighting with cooled square footage of 2200 to 3000 sq. ft. should be in the \$500 to \$699.99 range.

Customers with bills over \$700 are in the top 10% of consumers and if they are living in a home that is less than 3000 sq. ft are most likely missing opportunities to significantly reduce their electricity consumption.



Good practices for air conditioning, insulation and lighting include:

- Setting the A/C temperature at the highest comfortable setting. When it is 90 degrees outside with high humidity, an indoor temperature of 80 - 82 degrees with low humidity and ceiling fans can be very comfortable. Programmable thermostats should be used to turn off or turn up the temperature setting of the A/C system when the building is unoccupied.
- Central A/C systems should be 15 SEER (efficiency rating) or higher and installed and commissioned by a professional in accordance with the manufacturer's requirements.
- A/C systems including ducting should be inspected and maintained every 3 to 4 months. Customers should also purchase high-efficiency appliances such as washers, dryers and refrigerators.
- Install a timer on your electric water heater
- Insulate properly. Ceiling insulation should be at least R-38 and all exterior walls should be at least R-19. All windows should be double paned or at least insulated with window shades and/or reflective coatings.
- When properly sized, installed and maintained and with proper insulation the A/C system should cycle off for longer periods than it is on.
- Replace incandescent lighting with compact florescent lighting or LED lighting in frequently used areas.
- When evaluating rental properties ask about the energy efficiency of the property including evidence of the monthly electricity cost, if available from the landlord.
- Get a free energy audit from CUC.



CUC's objective is to deliver a safe, and reliable electricity supply to our customers premises at least cost and with respect to the environment, and it is our wish that our customers monitor the use of electricity and only use what is needed.