

# CONSUMER ADVISORY COMMITTEE ON UTILITIES

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Office of Utilities Regulation  
P.O. Box 593  
36 Trafalgar Road  
Kingston 10, JAMAICA

## **Re: Proposed Criteria Jamaica Public Service Company Limited 2019-2024 Rate Review Process**

Dear Sir/Madam :

The Consumer Advisory Committee on Utilities (CACU), thanks you for the opportunity to contribute to the regulatory consultation process.

Having considered the purpose of the Proposed Criteria Jamaica Public Service Company Limited 2019-2024 Rate Review Process, the CACU would like to offer the following comments on this consultative document:

It is noted in the Consultative Document that changes mandated by the Electricity Licence 2016, notably the introduction of a revenue cap approach and of a forward looking approach to the calculation of the tariff, requires a more rigorous and time consuming Rate Review Process. In order to be effective the Rate Review Process must begin at least two years before the submission of the Rate Review application by JPS. The Consultative Document on the Proposed Criteria is a key part of the review process. The thinking is that if stakeholders have the opportunity to discuss critical issues related to the tariff the risk of significant disputes after the tariffs are determined will be minimized.

### **Revenue Requirement**

The CACU notes the criteria set out for calculation of the Revenue Requires and in particular the adjustments that will be made in the use of the Capital Asset Pricing Model to calculate the Return on Equity (ROE), with a view to making the calculated ROE forward looking. The CACU believes that the calculation of the ROE seems rather complicated. It should really be done based on what is happening in the local economy and not influenced by what is happening in economies external to Jamaica. Investing in Jamaica carries a high risk so ROE has to be calculated accordingly. The "Risk Adjusted Return on Capital" (RAROC) could be a guide. Some companies in Jamaica have ROE in excess of 20%. The CACU would support an ROE of 13%

The criteria proposed for calculating the Cost of Debt, the Weighted Average Capital Cost, the Rate Base and Operating Expenses appear to be straightforward. We are in agreement.

It is noted that Criterion 4 specifies that JPS should do a depreciation study in 2018. However, Clause 3.7.15 suggests that the study is to be filed with the OUR on or before 2019 April 30. The CACU sees no justifiable reason why the depreciation study should not be filed with the OUR by 2018 December 31. We recommend that for avoidance of doubt Criterion 4 clearly identifies a specific date in 2018 by which the depreciation study is to be filed with the OUR.

### **Revenue Recovery**

Against the background of a deliberate thrust to make the calculation of ROE more forward looking, the CACU is concerned that the demand forecast information proposed (Section 3.8) is extrapolated from information that goes too far back. Notwithstanding the mention of a recent review of forecasting methodology by Manitoba Hydro International, the actual data on which the extrapolation is done appears to go back too far. It is noted for instance that the Rate 10 forecast is extrapolated from average growth between 2005 and 2016. With significant recent changes in customer behavior (e.g., increased customer self-generation and use of energy efficient technologies such as LED lighting) it does not appear prudent to use old data in generating the current demand forecasts. In the same vein it is noted that estimation of contribution of each rate class to the system peak is to be based on a JPS' 2009 load research information (page 26) and it seems that rather than using 10 year old data in the rate review a new assessment should be done. In the same manner that the return forecasts have been adjusted to be forward looking, the demand forecasts should also be forward looking.

### **System Losses in the Business Plan**

Section 6.1 outlines the requirements for the Business Plan to be submitted by JPS. From the consumer perspective mitigation of system losses is one of the most important elements to be included in the Business Plan. The CACU notes that the specifications given in Annex 3 for addressing Technical Losses are very detailed, while there is very little detail specified as to what JPS is to address in respect of Non-Technical Losses. To some extent this is not surprising, as it is far easier to develop specifications relating to technical losses. However, notwithstanding the difficulty in developing details as to how JPS is to present its plans for dealing with Non-Technical Losses, the CACU believes that the OUR must review the sections of the document dealing with losses and put forward more details as to the type of information that JPS will need to provide in respect of mitigating Non-Technical Losses. Even though it is recognized that there is a significant element of Non-Technical Losses that are not fully in JPS' control the JPS Business Plan must still include well thought-out strategies for addressing these losses.

The CACU looks forward to further engagement with the Office of Utilities Regulation (OUR) on this and other matters of regulatory importance.

Sincerely yours,

**CONSUMER ADVISORY COMMITTEE ON UTILITIES**



Erwin Burton  
Member