
Office of Utilities Regulation

**Amendment to National Water
Commission's Review of Rates**

Determination Notice No. WAT 2008/01



OFFICE OF UTILITIES REGULATION

February 28, 2011

National Water Commission
Amendment of Document NO. WAT2008/01
Document No. WAS2008001_DET001AMD001
Office of Utilities Regulation

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DOCUMENT TITLE AND APPROVAL PAGE

DOCUMENT NUMBER: WAS2008001_DET001AMD001

DOCUMENT TITLE: Amendment to National Water Commission Review of Rates Determination Notice

1. PURPOSE OF DOCUMENT

This document outlines the Office's Decision on the request for reconsideration brought forward by the NWC with regard to a decision made in the April 28, 2008 Decision Notice.

RECORD OF REVISIONS

Revision Number	Description	Date
-	-	-

APPROVAL

This Document is approved by the Office of Utilities Regulation, and the Decision therein becomes effective on March 07, 2011.

On behalf of the Office:

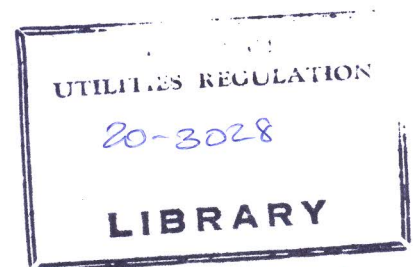


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Ahmad Zia Mian
Director General

Date: February 28, 2011

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Chapter 1: Background

Introduction

In its Determination Notice of April 2008 on the “National Water Commission Review of Rates” (“the Determination”) the OUR included a provision for a K-Factor (a variable on the National Water Commission’s (NWC) approved tariff to fund a specific programme of activities). The Determination defined the purpose for which the K-Factor Account was established, the methodology and rate of collection and its modus operandi. It also sets out procedures regarding the withdrawals of K-Factor collections as well as the applicable reporting requirements.

Specifically, the determination stated that NWC shall account for the deemed K-factor cash inflow calculated on the basis of 95% of K-factor billing. A separate bank account shall be established to accommodate the cash flows from the K-factor and a monthly report of the balances and changes should be sent to the Office within 45 days of each reporting period. K-factor revenues shall be deemed collected within 45 days after billing.

APPLICATION FOR CONSIDERATION

The NWC submitted a letter to the Office of Utilities Regulation (OUR) on October 20, 2010 requesting that the Office considers adjusting the deemed K-factor collection rate from 95% to reflect the actual collection rate of the NWC for the applicable month. The Commission outlined that given the current environment within which it operates, it is unable to consistently achieve such a high collection rate. It further stated that because the deemed collection rate is higher than the actual collection rate, then NWC’s day to day operations are experiencing cash flow constraints that would not have obtained otherwise.

The NWC requested that the OUR reconsider its decision and revise the deemed K-factor collection rate to actual collection rate.

Chapter 2: Detailed Response

NWC's Request

The NWC has presented the OUR with data showing the actual collection rate for the period June 2009 to August 2010 in support of its argument to have the deemed K-factor inflow adjusted to actual K-factor collections for the applicable month. The data showed that the actual collection rate for this period was 85%. It was further observed that the monthly deemed collection rate for most months was higher than the actual collection rate. The NWC stated that this resulted in the rest of their operations experiencing cash flow constraints.

Office's Comments

The OUR is of the opinion that in order to obtain a more realistic and consistent measure of NWC's actual collection, there must be observation of data over a longer time period. In that regard, monthly data over a five and a half year period was used to calculate the arithmetic mean of the NWC's actual collection rate. The data covers the period January 2004 to June 2010. During this period the actual collection rate of the Commission fluctuated, reaching as high as 121.33% in December 2007 and a minimum of 63.05% in July 2008. The arithmetic mean for the five and a half year period was 90%.

The standard deviation of 0.10 was also calculated and showed that the dispersion around the mean is between plus or minus 0.1. Therefore, average collection efficiency using plus or minus 1 standard deviation lies between 80% and 100% of the mean.

The OUR also calculated the skewness of the data. The data was found to be positively skewed which indicated that there are some large above average collection periods (though not

significant) that may from time to time result in the Commission collecting over 90% of their bills. The skewness of the data is 0.387 suggesting a right skewed frequency.

In light of the above analysis and the cash constraint being faced by the NWC in its day to day operations, the Office has decided to revise the deemed collection rate. However, the Office is not amenable to the NWC's proposal of using actual collection for the applicable month as this would result in a variable collection rate causing some amount of unpredictability in the stream of inflows to the K-factor Fund. The analysis above reveals that the NWC has achieved a mean collection rate of 90% over the period reviewed. To reduce the cash constraint that the entity has been experiencing and at the same time ensure that the company maintains an efficient collection rate, the Office has decided to revise the deemed collection rate downwards to 90% of billed collection.

Chapter 3: Revised Decisions

By this Chapter the Office **HEREBY AMENDS AND RESTATES** the decision paragraph 9.13.6 of its Determination Notice WAT 2008/01 dated April 28, 2008 taking into account any changes arising as a consequence of this reconsideration by substituting the following therefor:

“Section 9.13 K-factor application and recovery through X-factor

9.13.6 NWC shall account for the deemed K-factor cash inflows calculated on the basis of 90% of the K-factor billing. A separate bank account shall be instituted to accommodate the cash flows from the K-factor and monthly report of balances and changes should be submitted to the Office within 45 days of each reporting period. K-factor revenues shall be deemed collected within 45 days after billing”.

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