

# The Self Insurance (Natural Disaster) Fund for the electricity provider



As the 2012 hurricane season is upon us, we are reminded that on September 12, 2004, Jamaica was affected by hurricane Ivan. The damage caused by the hurricane on the island extended to the transmission and distribution system of the electricity provider.

While the transmission and distribution system is owned by Jamaica Public Service Company Ltd. (JPS), customers of the utility provider were asked to contribute financially to the work that was carried out to repair the system. Many, if not all, JPS customers remain uncertain as to the reason/basis on which they were asked to pay this cost. The general sentiment expressed by customers since that hurricane is, JPS should have borne the cost to restore the system as the company should have insured its equipment.

## Why were JPS customers asked to pay for Hurricane Ivan damage?

Since the 1900s there has been a significant increase in the frequency and intensity of tropical cyclones (including hurricanes) in the Caribbean region, as well as the south eastern and eastern United States. This region is sometimes referred to as the 'hurricane belt'.

Overhead transmission and distribution systems are extremely vulnerable to damage from hurricane force winds. This has caused insurance companies to offer coverage at extremely high premiums and at unattractive terms for transmission and distribution systems in the region. As such, over the last two to three decades, a number of Caribbean electric utilities, within the hurricane belt, have opted to create self-insurance funds as a way of lowering the cost customers pay in their bills for insurance while offering some protection to the utilities against hurricane damage to their transmission and distribution systems.

In light of the above factors, at the time of the JPS rate (tariff) review in 2004, the decision was made to establish a self-insurance fund for the company. The Fund was established in June and hurricane Ivan affected the island three months later, in September. The amount that had accumulated in the Fund was not enough to cover five percent (5%) of the cost submitted by JPS to restore the system. This led to the JPS making a claim under the Z-factor provision of its licence which allows the company to apply to the OUR for an adjustment (allowed percentage increase) in its rates to recover amounts that:

- affect the company's cost;
- are not due to the company's managerial decisions; and
- are not captured by the other elements of the rate setting mechanism.

In its hurricane Ivan Z-Factor claim, JPS applied for a recovery amount of J\$1,431 million. However, after careful analysis by the OUR, the company was only allowed to collect J\$457.5 million, which represents the amount necessary to restore the company to the position it was in just before the hurricane. Consequently, the hurricane Ivan recovery charge of J\$0.0729 per kilowatt hour (kWh) was applied to JPS customers' accounts for the 24 month period, June 2007 – June 2009.

## Why were customers who got connected to JPS' supply after the passage of the hurricane required to pay the recovery charge?

Customers of the electricity provider whose accounts were established after the passage and effects of the hurricane in September 2004 also had to pay the hurricane Ivan recovery charge. This is in keeping with the principle that the charge was established to allow JPS to recover the amounts spent on restoring the service after the damage. Had the company not been provided with the resources to restore the service, then it would not likely have been able to provide an acceptable service to its existing and new customers. Consequently, the recovery charge was applicable to all JPS customers up to the end of the allowed recovery period of June 2009.

It should be noted that for the years leading up to the June 2004 JPS Tariff Determination, JPS rates did not include insurance premium charges for its Transmission and Distribution system. As a result, electricity rates were lower than what they would have been (if charges for insurance premium were included).

Typically, the rates customers pay should include charges for insurance coverage of the Transmission and Distribution systems. This would facilitate the availability of funds to recover from any disaster before its occurrence. However, in the case of Hurricane Ivan, JPS customers paid for the restoration works after the passage of the hurricane.

## Will JPS customers be asked to pay for any other hurricane damage?

Since hurricane Ivan, JPS' transmission and distribution system suffered weather related damage from Hurricanes Dennis, Emily and Wilma (2005); Hurricane Dean (2007) and Tropical Storm Gustav (2008). In all these cases, the self-insurance fund has covered the compensation payments to JPS, without the need for a claim under the Z-factor. The total amount paid to JPS from the Fund is approximately US\$10.5 million.

The continued growth of the Fund is guaranteed with 14 cents (J\$) for every kWh of energy consumed being contributed to it. In light of the approximately US\$20 million which has accumulated so far, it is envisaged that providing the effects of damage from natural disasters remain minimal, restoration costs can be covered by the Fund. It is therefore unlikely that the need would again arise for JPS customers to be asked to pay for damage resulting from the effects of a hurricane or any other natural disasters.

It is also important to note that, according to the Rules governing the Fund, the maximum amount that is allowed to accumulate, subject to the OUR's decision, is 15% of the net book value of JPS' transmission and distribution assets. Given the value of JPS' transmission and distribution assets to date, the allowable amount would be approximately US\$40 million or twice the sum currently in the Fund. Should the Fund reach the US\$40 million limit, again subject to the OUR's decision, customers would cease contributing to it until another disaster strikes or the net book value of JPS' transmission and distribution assets increase.

# Renewable energy pricing published

The Office of Utilities Regulation (OUR) has begun the monthly publication of the rate payable by JPS to the customer for energy supplied to the national grid from the customer's renewable energy facility.

The Office says the rate shall be at the short term variable avoided cost of generation plus a premium of fifteen percent (15%) allowed for Renewable Energy. The short term variable avoided cost represents the short run marginal cost of generation, which reflects the cost of fuel used for power generation on a monthly basis.

The rate is expressed on a per kWh basis by dividing the total fuel cost for a given month by the net system generation for the same period. Based on this data and methodology, the OUR has determined that the rate payable for the month of June shall be JA\$/kWh 18.421.

The full notice containing the calculation is available on the OUR's website at [www.our.org.jm](http://www.our.org.jm)

Meanwhile the OUR wishes to again remind licensees under the net billing programme, that in order to be connected to the grid, they are required to fulfill **all** the requirements and obligations contained in the Standard Offer Contract which governs this service.

Applicants must comply with ALL the requirements, inclusive of insurance, and must obtain the approval of the Government's Electrical Inspectorate (GEI) Division of the Ministry of Science, Technology, Energy and Mining.

When a licence is issued to an applicant by the Minister of Science, Technology, Energy and Mining, it becomes the responsibility of that applicant to conclude the necessary contract with the JPS, and thereafter to install the appropriate infrastructure which must be approved by the GEI before connection to the grid.

Applicants who, having received a licence and fulfilled all the other requirements, experience any difficulty getting connected to the grid, may bring this matter to the attention of the OUR.

The full process is set out in documents posted on the home page of the OUR's website at [www.our.org.jm](http://www.our.org.jm)

The Office of Utilities Regulation, in this its 15th year, celebrates **Jamaica 50**

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