



OFFICE OF UTILITIES REGULATION

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Office of Utilities Regulation
Speech by J Paul Morgan, Director General to
ICD & Associates Cooperative Credit Union
25th Annual General Meeting – October 17, 2007

Salutation

Let me thank you for having invited me to speak at this your 25th Annual General Meeting. The background which was provided indicates that you were first incorporated on 10th April 1953, albeit under another name, which suggest that you have been around in one form or the other for 50 odd years and I would certainly like to congratulate you on what appears to be enviable achievements over the years.

The Credit Union movement is, in my view, about self-help and pooling of individual resources to the benefit of all members. Despite the cooperative nature of the business, the Credit union movement operates in an extremely competitive environment and I am sure that the membership fully appreciates the importance of good service delivery and not only expects but demands that the services offered by the Credit Union are efficient. I am

sure also that as share holders, the members use the AGM as the forum to air their concerns about and expectations for customer service among other things.

It is the issue of giving a voice to customer expectations that I want to discuss for a few moments this evening.

If you permit me to lay a framework for this discussion, it would be important for you to appreciate that the OUR was incorporated by an Act of Parliament, the OUR Act of 1995, to regulate the service providers of electricity, water and sewerage, telecommunications and transportation. The Act provides, among other things, that – “the function of the Office is to protect the interest of consumers in relation to the provision of a prescribed utility service”.

This provision is fine when read on its own, but the Act also requires the Office to have regard to the needs of the investor and to see that the services are provided on terms which allow the companies to make a reasonable return on the capital invested in providing the service.

When taken together, it is clear that Parliament intended for the Office to operate as a referee and to balance the interests of both groups, to ensure fair play – if you will; rather than to be an advocate for either industry or the consumer.

This mandate has proven to be the most problematic for the OUR in terms of how we are viewed by consumers - in that the expectation is that the OUR

should be a consumer advocate and it is this expectation, on the part of consumers, that provides the basis for what I recognize as general public disaffection for the OUR. I think that this disaffection will continue until there are appropriate and effective mechanisms for consumer advocacy on utility issues and for such advocacy to represent consumer positions/issues in a structured way to the Office.

The fact is that there is a gap in the institutional arrangements for serious and informed consumer representation on utility issues. The Office has long recognized this deficiency and thus fostered the creation of a Consumer Advisory Committee on Utilities, which has done good work and has advanced the cause of consumers significantly over the years. I believe the time has now come to ramp up these activities and I should like to suggest that the next step should be the establishment by the various interest groups of a “coalition” to coordinate efforts to deal with utility issues. Whilst I believe that the end game should be some sort of public counsel, maybe a *consumers’ counsel* on utilities, there are many initiatives that can be taken towards that goal.

So long as there is a gap in consumer representation, the OUR can only guess at what the issues are that consumers really face. We have tried over the years but quite frankly we can misread, and I am sure that we have, the signals that we get and indeed we may offer solutions to problems which may or may not exist.

We at the OUR are constantly asking ourselves the question – what do consumers and customers really want out of their relationship with the public utility companies? Do they want low price; do they want efficient

and reliable service; do they want a service which is just barely on, or is always on? These issues are interrelated because reliability comes with a price. The concept of efficiency offers the notion of service availability at the lowest cost – but what level of service availability is being asked for? I should like to hear reasoned arguments from consumers as to what it is that is really important.

We have a duty to define the standards of service which the companies deliver – we have done so and in the case of JPS for instance, we have a set a standard for reliability which is fairly aggressive; this immediately implies a certain level of costs and therefore price. The question is – have we set a standard that is too high? Do consumers really want the level of service that we have defined or would they prefer to pay less knowing that the quality of service provided would be commensurately lower? We should like to hear reasoned arguments on these matters rather than to guess what the consumer wants.

If I could give you an example, using a situation which is quite topical at the moment. You may all have seen the lead article in the Business Observer this morning which spoke to the level of breaches of the Guaranteed Standards reported by the NWC and JPS and to the levels of claims made by customers for the compensatory payments attached to these breaches. The most recent reports indicate that for the period January to March 2007 JPS reported 16,684 breaches with a potential compensation of \$33,210,490 of which only \$109,000 was claimed. Similarly, NWC reported 14,876 breaches with a potential compensation \$15,247,900 for which no claims were received.

Now, what is the background to this? In the early days of the OUR we negotiated with and caused both JPS and NWC to introduce a scheme which we call Guaranteed Standards. The idea behind these standards is that the companies would guarantee specific dimensions to the services offered and would undertake that in the event that they should fail in meeting the guarantee then they would make a compensatory payment. When the scheme was being introduced we thought it would be appropriate for the companies to make the payments automatically when a breach is identified. The companies argued for a regime where the customer, having identified the breach, would make a claim and once verified the payment would be made. The arguments put forward by the companies at the time were fair and reasonable and so we introduced the scheme with the provision for customers to make claims. The OUR however indicated that it would move to introducing the regime for automatic payments in the future. Let me say that these were all the subject of public consultations at the time and to which we received **no** responses from members of the public. When the time came for us to revisit the arrangements with a view to implementing the regime for automatic payment, the companies argued for retention of the old scheme. With the best of intentions – the Office sought public opinion through a survey. The result of the survey was overwhelmingly in favour of maintaining the regime where the customers would make claims and, of course, this was accordingly done.

I can state that not only have JPS and the NWC fulfilled their obligations for publicizing the scheme but the OUR itself has also spent considerable sums in promoting the regime. So what is it that causes the customer apathy in making claims for compensatory payments? Is it that the OUR actually

chose the wrong option when it “guessed” at customer preference arising out of the surveys? It may be that direct and reasoned advocacy would have informed us differently and outcome in this situation would have been different. As a matter of interest, the OUR is thinking that there should be a change and that the regime for automatic compensation should be introduced, but the question is “is this what customers want?”

I believe that there is an overwhelming case, in the absence of formal structures, for the various consumer groups to form themselves into a coalition of sorts and to cooperate in bringing consumer issues to the Office. I would strongly urge the Consumer Advisory Committee on Utilities, the National Consumers League and even the Consumer Affairs Commission to start this process now - as we anticipate that we will be confronted in the next period with the whole gambit of issues involving the delivering of utility services which will have serious implications for consumers; not only in terms of pricing, but also perceptions of efficiency, quality of service and levels of service. Consumers cannot afford **not** to have their voices heard and from where I sit I would advise that such a coalition is not only vital but its formation is urgent.