

The Capital Investment (K- Factor) Fund for the NWC



Over the past decades, our main water provider, the National Water Commission (NWC), has suffered considerable loss of water as a result of leaks along its piping network. On a daily basis, millions of litres of potable water run to waste through the aging and decaying piping and other infrastructure that are in place to carry the precious commodity into the homes of Jamaicans. This situation has resulted in consumers suffering from an insufficient and irregular supply of the life-sustaining commodity while the utility

provider struggles to sustain an adequate supply.

In recognizing that this situation could not be allowed to continue, the NWC in its last tariff (rate) application included, for our review and approval, a proposal to address the issue. The proposal requested that a:

“K-factor be established to fund capital projects that will not generate any significant increase in revenues but are necessary for system reinforcement and reliability ...”

In other words, the NWC asked for funds to be made available that would enable it to repair/replace its current ageing and decaying infrastructure with the aim of significantly reducing and over time (possibly) eliminate leaks on its network. Additionally, the NWC requested that monies from the fund be used to carry out work on any project that will enable it to comply with specific regulatory directives.

After careful review, analysis and consultations, the Office of Utilities Regulation approved the establishment of the K-factor fund. In giving the approval however, the decision was taken to incorporate the expansion of the wastewater (sewerage) collection network so as to better utilise the Soapberry Wastewater Treatment Plant as part of the fund's objectives.

What are some of the projects that have already benefitted or are benefitting from the K-factor funding?

Since its implementation, the NWC has completed a number of projects which were funded by the K-factor. These projects include the pipe replacement exercise that was carried out in the Bog Walk Gorge and the rehabilitation work done on the Harbour View Waste Water Treatment Plant. At the end of December 2011, the total amount spent on projects from the K-factor fund amounted to J\$ 2,137.21 million.

Several other projects that are currently receiving resources, for improvement/rehabilitation works, from the K-factor fund include: the Jamaica Water Supply Improvement Project, Essex Valley Water Supply, Port Antonio Water Supply and Drainage Project, the Twickenham Park Sewerage Treatment Plant and the Western Sewerage Works.

How does the fund grow and what is its current value?

The growth of the K-factor fund is determined by the approved yearly percentage that is applied to each customer's monthly charges. However, the applicable percentage is only applied after amounts for efficiency improvements (X-factor) have been deducted.

In light of the expressed concern by the NWC that not all billed charges are collected for the corresponding period, consideration was given to allow for an amount representing 90% of total K-factor billings to be paid into the fund monthly. At the end of December 2011, the amount that has accumulated in the fund is approximately J\$4.785 billion. It is also important to note that the fund was established to provide the NWC with the needed capital for the period of its current tariff, which will end in 2013.

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What are the likely overall benefits of the K-factor fund?

If the objectives of the K-factor fund are achieved, then both consumers and the service provider stand to benefit from an improved and efficient water and sewerage supply system. With a renovated water distribution system, the service provider would realize a reduction in operation and maintenance activities and costs, which would include: reduced water pumping hours resulting in lower electricity rates to the NWC; reduced cost of repairs to the system and an increase in its hours of service to consumers, thereby increasing revenues. The savings and increase in revenues from the improved system would be passed on to customers as it would reduce the amount required by the Commission to serve its customers. With the rehabilitation of the waste water collection, treatment and disposal network, the nation can be assured of an improved system that is operating in conformity with best practises.

Changing or playing tactics with Jamaica's energy future

By: Yasmin M. Chong (Ms) - Chairman, Consumer Advisory Committee on Utilities (CACU)



Who would have thought that after several years of ongoing political and academic debate, we would once again be deliberating about the same old tactics for the Jamaican energy sector strategy? Today it's LNG, tomorrow it is coal, do not forget renewables, maybe it should be nuclear and the beat goes on. Inertia has set in and the clock is ticking, so

for every delay experienced, the price of energy increases for Jamaican consumers.

Jamaica's low productivity levels, total dependence on pricey crude oil compounded by expensive social issues (crime and violence), have had a negative impact on the cost of goods and services in the economy. It is high time that we surrender the "blame-game", "analyze-to-death"

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Did You Know?

That in Jamaica the Statute of Limitation sets the maximum time within which amounts owed can be collected after the debt was incurred? **The Statute of Limitation allows a period of six (6) years from the date that the monies became due and payable, for an action to be brought to recover the debt.** The Statute of Limitations extends to all merchants, which includes the utility service providers.

However, if during the original six (6) year period allowed under the statute, there is evidence that you have acknowledged to the merchant or utility provider that you owe the debt, then the merchant or service provider **has a period of six years from the date of acknowledgement** to recover the debt.

For example, if a customer of the electricity provider has an outstanding amount on his/her account at the end of May 2006, then the service provider has a six (6) year period to commence all attempts to collect the amount owed. Under the statute, the electricity service provider is not allowed to collect that debt after May 2012. However, if in May 2010 the customer acknowledges that he /she owes the outstanding amount, then the service provider is allowed to collect the outstanding amount up to May 2016.

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approach to resolving the existing energy crisis. Instead, let us change the tactics, deliver a credible strategy to realize instant benefits, while concurrently implementing policies which will guarantee a ready supply of high-quality, affordable energy for Jamaica over the longer term and contribute to increased productivity and economic growth.

The high cost of using oil to produce electricity has put increasing pressure on the paying consumers' income. Their reduced personal income and spending has constrained economic development and retarded growth and the impact of this predicament is felt in all aspects of economic life, from the electricity bill, to the water and sewerage charges, bus fares and gas prices at the pump to name a few. There are no "quick-fixes" so long-term solutions must focus on an integrated plan to include conservation, innovation, training, production, good governance, public education, communication and effective leadership throughout the process. This plan must have the support of residential and business consumers along the energy production and consumption value chain.

Over the medium term and until plans for the introduction of the preferred fuel of choice – Liquefied Natural Gas (LNG) – are executed, residential and business customers alike will experience little or no relief in the cost of energy. How then do we create this winning proposition in order to achieve the near-term relief and concurrently build a realistic, smart and innovative industry for the medium to long term? The simple and obvious answer is – **STOP THE TALK AND JUST DO IT!**

First and foremost, the Government must pull out all the stops and proceed forthwith with the introduction of LNG in the local energy market. Concomitantly, a robust diversification plan should be implemented which would facilitate the introduction of cheaper and environmentally-friendly energy sources of fuel into the Jamaican economy.

The sole purpose of our resolve at this time must be to decrease the cost of energy. Time is money and instead of playing around with potentially expensive propositions such as liberalizing the transmission and distribution network (Grid), practical steps must be taken to provide direct and instant relief to the already over-burdened consumers.

One of the clearest and least difficult remedies is the **review and adjustment of Petrojam's pricing model.** While it is desirable for public companies to operate efficiently and for profit, it cannot be at the expense of the consuming public. In the case of Petrojam, consumers are paying the cost of the refinery's inefficiencies at the gas pumps, for electricity and in other spheres of the economy, while the Company continues to rake in profits.

Another measure which has brought some relief to consumers is the recent adjustment in the GCT charged on electricity. A cursory look at Government's interest in the energy sector reveals considerable revenues from profits earned at the publicly-owned refinery, tax on gasoline (at the pumps), GCT on electricity and profits from their 20% shareholding in JPS. This level of involvement presents some options for the Government, albeit challenging, given the existing macro-economic conditions and pending reforms which must be implemented for Jamaica to grow.

Another critical and immediate remedy is to fast-track the reduction of the non-technical losses. In as much as the Jamaica Public Service Co. Ltd. (JPS) has borne the brunt of this responsibility, the truth is that electricity theft is not only criminal but it is everybody's business. It is now the most opportune time for both the political directorate and civil society, to exercise their duty to resolve this issue, in a very real and public way. **All** users of electricity must pay their fair share for the good/service received and ease the stress of high energy bills on the few who diligently pay. Electricity theft must be dealt with through more rigorous policing of the system and more punitive penalties administered on the offending parties. On the technical side, a more transparent system of dispatch must be introduced, to take advantage of the savings associated with dispatching the most efficient power produced on a daily basis. Here the OUR must step up the regulatory functions associated with monitoring this aspect of the system.

The National Energy Policy 2009-2030 encourages the development of renewable energy sources as part of diversification with ambitious targets of 11% by 2012, 12.5% by 2015 and 20% by 2030 but omitted to present the roadmap. Needless to say, the first target has been missed and catching up may prove difficult. In developing this segment of the energy sector, policymakers must come up with more creative ways of granting incentives to renewable energy initiatives and actively promote innovation in the local manufacturing industry to design appropriate systems of quality standards,

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affordable prices and upgrading the skills-sets of Jamaica's human capital.

Finally, the OUR must more proactively regulate the energy sector and use its powers of enforcement to realize a more meaningful impact on the electricity sector. However, if the OUR is to properly regulate and police the public utilities sector, then it must be allowed the authority to act accordingly and independently.

What is required at this juncture is a renewed will to do what is right in the national interest. In repositioning the economy and to secure Jamaica's energy future, Government and civil society must transform our view of energy if we are to achieve sustainable growth, increase Jamaica's competitiveness and support human development. So we fix and improve what is broken, frequently conduct policy and strategy reviews, apply least-cost, technologically-sound solutions to meet the long-term needs of the state, practice conservation and exercise good governance, as we remain committed to the goals and objectives of Vision 2030 Jamaica – National Development Plan, "Jamaica, the place of choice to live, work, raise families and do business".

(The views expressed in the preceding article are solely those of the CACU and do not necessarily represent the views of the OUR)

Mission Statement

To contribute to national development by creating an environment for the efficient delivery of utility services to the customers while ensuring that service providers have the opportunity to make a reasonable return on investment.

Be an informed consumer – get information on your Rights under the **Guaranteed Standards Scheme** and submit your claim for breaches to the service provider, where compensation is not automatic. Copies of the Guaranteed Standards are available at the JPS and NWC offices islandwide as well as the OUR website at www.our.org.jm. You can also get information on utility subjects through our Information Centre. If you remain dissatisfied with the service provider's response to your complaint, you may **appeal** the utility company's decision to the OUR in writing.

SuDoKu

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But how do I do it?

The object is to insert the numbers in the boxes to satisfy only one condition: each row, column and 3x3 boxes must contain the digits 1 through 9 exactly once.

OUR's Role

The Office of Utilities Regulation Act of 1995 established the Office of Utilities Regulation (**OUR**) as a body corporate. Under the Act, the OUR is charged with the responsibility of regulating the provision of utility services in the following sectors:

- Electricity
- Telecommunications
- Water & Sewerage
- Public transportation by road, rail and ferry

The OUR is headed by the Director General, who along with the Deputy Directors General comprise '**the Office**'. The Director General is appointed by the Governor General and the Deputy Directors General are appointed by the Prime Minister.