



OFFICE OF UTILITIES REGULATION

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Regulating Utilities for the Benefit of All

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OUR Reviews JPS Tariff Application

The Jamaica Public Service Company (JPS) has submitted a tariff review application to the Office of Utilities Regulation (OUR). To facilitate public comment on the utility company's application, the OUR has organized consultations in four (4) parishes. These consultative meetings will provide an opportunity for consumers to hear the utility company's presentation in justification of its proposals and to put questions to both the JPS and the OUR.

The table below provides information on the schedule of meetings.

Parish	Venue	Date
Portland	Old Marina West Street, Port Antonio	Wednesday April 15, 2009
St. James	Civic Centre Sam Sharpe Square, Montego Bay	Tuesday April 21, 2009
Manchester	Ridgemount United Church Hall Main Street, Mandeville	Wednesday April 22, 2009
Kingston & St. Andrew	PCJ Auditorium 36 Trafalgar Road, Kingston 10	Tuesday April 28, 2009

Please note that all meetings begin at 5:15 p.m.

The Office of Utilities Regulation (OUR) considers tariff review applications from the JPS in accordance with the Jamaica Public Service Company Limited All-Island Electricity Licence, 2001.

Schedule 3, Section 1 of the Licence defines the Rate Base as:

"... the value of the net investment in the licensed business. The Rate Base shall be calculated on the net electric system investment made by the Licensee at the time the rates are being set and shall include net investment made by the Licensee in the generation, transmission and distribution and general plant assets. The Rate Base shall include appropriate rate-making adjustments to take into account known and measurable changes in the plant investment base and shall be increased or reduced by any positive or negative working capital requirement that may exist at such time. Working capital shall include, among other things, the cost of an appropriate level of fuel which is held in inventory, cost of appropriate levels of other inventories and an appropriate percentage of annual non-fuel operating expenses less any appropriate offsets."

Schedule 3, Section 2 (C) of the Licence further explains how the revenue requirement should be calculated:

"This filing shall include an annual non-fuel revenue requirement calculation and specific rate schedules by customer class. The revenue requirement shall be based on a test year in which the new rates will be in effect and shall include efficient non-fuel operating costs, depreciation expenses, taxes, and a fair return on investment. The components of the revenue requirement which are ultimately approved for inclusion will be those which are determined by the Office to be prudently incurred and in conformance

with the OUR Act, the Electric Lighting Act and subsequent implementing rules and regulations. The revenue requirement shall be calculated using the following formula, unless such formula is modified in accordance with the rules and regulations prescribed by the Office. Non-Fuel Revenue Requirement = non-fuel operating costs + depreciation + taxes + return on investment ..."

EXCERPTS FROM JPS' APPLICATION

Cost of Capital

JPS proposes that the pre-tax Weighted Average Cost of Capital (WACC) method be used in determining the WACC for the 2009 tariff review. According to the utility company, this change will correct an error in the post-tax WACC method that was used in the 2004 tariff review. The company further submits that the error resulted in the understatement of the cost of debt and ultimately the total allowed revenue requirement.

The WACC is the minimum return that any investor requires to make a business worthwhile. It is a combination of the cost of debt and equity (weighted by the fraction of each which makes up the total capital). Debt is money loaned to the company and equity is money put in by owners/shareholders.

JPS has determined that the pre-tax WACC to be applied to the revenue requirement is 23.08% (compared to 18% in 2004). The utility company determined this value following the same methodology used by the OUR in its 2004 Determination to calculate the WACC; with the noted exception of applying a pre-tax, as opposed to a post-tax, WACC. The return on equity (ROE) was calculated using the Capital Asset Pricing Model (CAPM) methodology and the long-term debt cost reflects the embedded costs of debt for the utility, plus the cost of acquiring an additional US\$60M that the Company intends to obtain by June 2009. JPS proposes that a cost of debt of 11.47% be included in the calculation of the WACC authorized in the revenue requirement. This represents a reduction on the 12.56% on the cost of debt which was authorized in the 2004 rate review.

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Return on Equity

In its 2004 rate case Determination, the OUR established a real allowed return on equity (ROE) for JPS of 14.85%. This decision had two components: the first was a real cost of equity determined through the Capital Asset Pricing Model (CAPM), equal to 9.535%; and the second was a country risk premium (CRP) to reflect the differential risks of investing in Jamaica versus the US, equal to 5.315%.

The JPS hired consultants to advise on the appropriate value for its cost of equity for the current 2009 rate review. According to the consultants, developments in financial markets since the initial 2004 Determination have serious implications for the cost of equity faced by JPS' investors. The consultants reported that the world is currently in the midst of its worst financial crisis in decades and it

is uncertain whether a resolution is imminent. As financial markets will be characterized by greater uncertainties, and probably higher capital demands than in the recent past, the consultants believe these factors point to a higher required cost of equity for JPS. The Consultants, therefore, recommended a real ROE for JPS of 21.6%. This recommendation is, in turn, founded on recommended values for the risk-free rate of return of 0.32%; an equity beta of 0.95% a market risk premium of 11.66% and a country risk premium of 10.23%.

Tiered Rate Classes

The JPS is proposing a new tiered rate class structure for residential (rate10) and small commercial (rate 20) customers and that different service/customer charges and energy charges be applied to the tiers. The new structure would introduce two tiers of service/customer charges for rate 10 customers and four tiers for rate 20 customers. The utility company contends that the redesign would result in a more cost reflective tariff structure that applies a minimal increase to customers consuming at the lowest levels in rates 10 and 20. According to the company this proposal would keep electricity prices affordable to vulnerable customers.

The following reflects the proposed tiered rate class structure:

Rate 10 (residential)

- 1st tier - Monthly consumption less than 100 kWh per month
- 2nd tier - Monthly consumption greater than 100 kWh per month

Rate 20 (small commercial)

- 1st tier - Monthly consumption less than 100 kWh per month
- 2nd tier - Monthly consumption between 101 – 1,000 kWh per month
- 3rd tier - Monthly consumption between 1,001 – 2,000 kWh per month
- 4th tier - Monthly consumption greater than 2,000 kWh per month

There are no proposed changes to the existing tariff structure for rate classes 40, 50 and 60.

Bill Impact

According to JPS, this proposed structure would result in an overall tariff adjustment that will have an average bill impact of 22.8% on electricity rates ranging from an increase of 4.3% for a tier 1 residential customer to 26.8% for a tier 4 commercial customer. [See the accompanying table.](#)

Reconnection Fee

JPS is allowed to charge a reconnection fee to customers disconnected for non-payment based on the actual cost of reconnection activities. The fee currently being charged is J\$1,441.00. The company calculated the unit costs of reconnections using 2008 data and is proposing an increase in the reconnection fee to J\$2,036.00. JPS proposes that the revised fee be implemented on July 1, 2009 to coincide with the new tariff.

Allowed (Z-Factor) Price Escalation Reflecting Special Circumstances

The Z factor is the allowed percentage increase in the price cap index due to events that:

- affect the Licensee's costs
- are not due to the Licensee's managerial decisions, and
- are not captured by the other elements of the price cap mechanism

Industrial Disputes Tribunal Award

The Company submitted a Z-factor claim in March 2009 in relation to the Industrial Disputes Tribunal (IDT) settlement made in 2008. The current tariff submission does not specifically contemplate the impact of that separate claim. However, it should be noted that the amount being claimed for recovery over the two year period amounts to J\$6.75¢ per kWh. According to JPS the Z Factor is designed to allow it to apply for the recovery of extraordinary costs that are legitimate operating expenses of the business, which were not contemplated in setting the tariffs.

Efficiency Targets

JPS is advocating the introduction of a US\$1M cap on the fuel penalty/reward mechanism in conjunction with the application of the fuel efficiency measures – that is heat rate and system loss. The proposal is for the cap to be symmetrical, thereby reducing the upside or downside exposure of the company in relation to fuel costs.

System Loss Targets

JPS notes that it has not been able to achieve a system loss reduction target in 15 years, reflecting what it describes as the ingrained and pervasive nature of electricity theft that thrives in Jamaica's challenging socioeconomic environment. Nevertheless, the company says it intends to intensify the battle against losses on both the technical and commercial sides. The utility company expects to reduce system losses from 22.9% (at the end of 2008) to 18.3% over the rate cap period, primarily as a result of its ongoing loss reduction initiatives. This would reflect almost a 1% point reduction per annum for the next five years as a result of an approximate US\$45M investment. JPS, therefore, proposes a reset of the system loss target with a reduction over the tariff period starting with an increased target of 20.5% up from 15.8% and further proposes that this would be reset downwards by one percent for each year of the five year tariff.

JPS PROPOSED TARIFF STRUCTURE				Demand Charge \$/kVA		
Rates	Description	Customer Charge \$/Month	Energy Charge \$/kWh	STD and On-Peak	Partial-Peak	Off-Peak
R10_1	0 - 100 kWh/month	190.00	6.20			
R10_2	100 - 500 kWh/month	475.00	17.65			
R10_3	> 500 kWh/month	475.00	17.65			
R20_1	0 - 100 kWh/month	475.00	8.38			
R20_2	100 - 1000 kWh/month	955.00	14.80			
R20_3	1000 - 3000 kWh/month	2,385.00	14.80			
R20_4	> 2000 kWh/month	4,775.00	14.80			
RT40 (STD)		10,956.03	5.23	1,444.91		
RT40 (TOU)		10,956.03	5.23	813.52	680.21	61.33
RT50 (STD)		10,956.03	4.94	1,369.44		
RT50 (TOU)		10,956.03	4.94	779.90	606.05	42.75
RT60	Streetlight	9,064.61	16.93			

The complete JPS 2009-2014 Tariff Review Application and the Jamaica Public Service Company Limited All-Island Electricity Licence, 2001 are available on the OUR website at www.our.org.jm.

Guaranteed Standards Scheme

The OUR is also interested in knowing whether consumers would like the payment for breaches of the Guaranteed Standards to be automatic. Should there be compensation for wrongful disconnection and are all the standards still relevant? Copies of the Guaranteed Standards are available from JPS Customer Service offices, as well as the OUR. We also want your views and suggestions on how to improve quality of service issues that affect you. Join us at the consultation nearest to you and become an informed consumer. **Your voice matters!**

The accompanying table provides information on the current Guaranteed Standards for JPS. A breach of any of those standards by the company attracts compensation of **\$1,000.00** for residential (Rate 10) and small commercial customers (Rate 20); and **\$8,400.00** for Rates 40 & 50 customers. The amount should be credited to the customer's account by JPS within 45 days of verification of the breach **after a claim is made**. Claims should be made within **30 working days** after the occurrence of the breach.

JAMAICA PUBLIC SERVICE CO. LTD. GUARANTEED STANDARDS 2004 – 2009			
CODE	FOCUS	DESCRIPTION	PERFORMANCE MEASURE
EGS 1(a)	Access	Connection to Supply - New Installations.	New service Installations within 5 working days.
EGS 1(b)	Access	Connection to Supply - Simple Connections	Connections within 4 working days where supply and meter already on premises
EGS 2(a)	Access	Complex Connection to supply	Between 30 and 100m of existing distribution line i - estimate within 10 working days ii - connection within 30 working days after payment
EGS 2(b)	Access	Complex Connection to supply	Between 101 and 250m of existing distribution line i - estimate within 15 working days ii - connection within 40 working days after payment
EGS 3	Response to Emergency	Response to Emergency	Response to Emergency calls within 6 hours
EGS 4	Billing Punctuality	Issue of First bill	Produce and dispatch first bill within 45 working days after service connection
EGS 5(a)	Complaints/Queries	Acknowledgements	Acknowledge written queries within 5 working days
EGS 5(b)	Complaints/Queries	Investigations	Complete investigation within 30 working days
EGS 5(c)	Complaints/Queries	Investigations involving 3rd party	Complete investigation within 60 working days if 3rd party involved
EGS 6(a)	Reconnection	Reconnection after Payments of Overdue amounts - urban areas	Urban reconnection within 1 day
EGS 6(b)	Reconnection	Reconnection after Payments of Overdue amounts - rural areas	Rural - reconnection within 2 days
EGS 7	Estimated Bills	Frequency of Meter reading	Should be not more than two (2) consecutive estimated bills (where company has access to meter).
EGS 8	Estimation of Consumption	Method of estimating consumption	An estimated bill should be based on the average of the last three (3) actual readings (first 6 bills of new accounts excepted)
EGS 9	Meter Replacement	Timeliness of Meter Replacement	Maximum of 20 business days to replace meter after detection of fault
EGS 10	Billing Adjustments	Timeliness of adjustment to customer's account	Where necessary, customer must be billed for adjustment within one (1) billing period of identification of error
EGS12	Compensation	Making compensatory payments	Response to claim for compensation within 45 days of verification of breach