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# Office of Utilities Regulation

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National Water Commission Annual  
Price Adjustment Mechanism  
2020 Rate Adjustment

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## Determination Notice

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**OFFICE OF UTILITIES REGULATION**

2020 April 27

**DOCUMENT TITLE AND APPROVAL PAGE**

**1. DOCUMENT NUMBER: 2020/WAS/003/DET.003**

**2. DOCUMENT TITLE: National Water Commission Annual Price Adjustment Mechanism 2020 Rate Adjustment**

**3. PURPOSE OF DOCUMENT**

This document sets out the Office's decision on the applicable Annual Price Adjustment Mechanism percentage to be applied to the NWC's base rates and other charges.

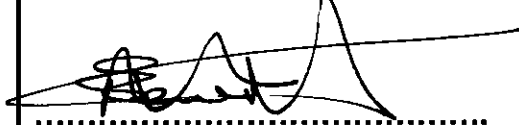
**4. ANTECEDENT PUBLICATIONS**

Publication Number	Publication Title	Publication Date
2019/WAS/007/DET.003	National Water Commission Interim Tariff Review 2019-2021 Determination Notice	2019 December 09

**5. Approval**

This document is approved by the Office of Utilities Regulation and the decisions therein become effective on 2020 April 27

On behalf of the Office:



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**Director-General**  
Ansord E. Hewitt

.....  
**2020 April 27**

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**Abbreviation, Acronyms and Definitions**

ANPAM	-	Annual Price Adjustment Mechanism
CPI	-	Consumer Price Index
FE	-	Foreign Exchange
Interim Tariff Determination Notice	-	National Water Commission Interim Tariff Review 2019-2021 Determination Notice, document number 2019/WAS/007/DET.003, issued 2019 December 09
JM\$	-	Jamaican Dollars
kWh	-	Kilowatt Hour
NWC/ Commission	-	National Water Commission
NWC Act	-	National Water Commission Act
OUR/Office	-	Office of Utilities Regulation
OUR Act	-	Office of Utilities Regulation Act
PAM	-	Price Adjustment Mechanism
US\$	-	United States Dollars

## **1. Executive Summary**

- 1.1. On 2020 March 23, the National Water Commission (NWC) made a submission to the Office of Utilities Regulation (OUR) for an Annual Price Adjustment Mechanism (ANPAM) rate adjustment of 8.59%, to be applied to its base rates to be implemented 2020 May 01. Additionally, the Commission requested that the reconnection fees be held at current levels until the next tariff determination.
- 1.2. The OUR has verified the information presented and has confirmed that an ANPAM rate adjustment of 8.59% is to be applied to the NWC's base rates, excluding its miscellaneous/reconnection fees.
- 1.3. The ANPAM rate adjustment is a rebasing of indices, which will become applicable to customers' 2020 April consumption and will be reflected on customers' 2020 May bills.
- 1.4. The new base indices for the Price Adjustment Mechanism (PAM) are as shown below:
  - Foreign Exchange Rate: JM\$140.73 to US\$1.00
  - Consumer Price Index: 269.50
  - Electricity Charge: \$39.96/kWh.

These base indices will remain in effect until the next reset of the ANPAM in 2021 April.

## **2. Introduction**

- 2.1. The Office of Utilities Regulation (OUR) in the **National Water Commission Interim Tariff Review 2019-2021 Determination Notice**, document number 2019/WAS/007/DET.003, issued 2019 December 09 (the “Interim Tariff Determination Notice”), approved the continued inclusion of the Price Adjustment Mechanism (PAM) as a component of the National Water Commission’s (NWC’s) customer bill. The PAM captures the effects of movements in certain indices associated with the NWC’s major input costs, over which it has no control.
- 2.2. The mechanism is predicated on the assumption that the NWC has no control over inflation, the foreign exchange rate and electricity prices. The three (3) indices in the PAM used to reflect changes in these costs are: (1) the Consumer Price Index (CPI); (2) the Jamaican dollar exchange rate relative to the United States Dollar (FE) and; (3) Electricity Prices (KWh).
- 2.3. The PAM is applied to customer bills on a monthly basis. In addition, the mechanism allows for an adjustment of base rates by the rolling in of the cumulative monthly PAM rate into the base tariff, generally on an annual basis. This annual reset is referred to as the Annual Price Adjustment Mechanism (ANPAM). The objective of this resetting of the base tariff rates annually is to minimize the monthly PAM differential between the base rate and the applicable billing rate.
- 2.4. On 2020 March 23, the NWC applied to the OUR for an ANPAM rate adjustment of 8.69%, which would be implemented 2020 May 01. The weights of indices in NWC’s application were consistent with those approved in the OUR’s 2019 December 9 Determination Notice.
- 2.5. The Interim Tariff Determination Notice provides that the OUR’s analyses and presents the Office decision on NWC’s application for the ANPAM re-set.

### 3. Legal Framework

- 3.1. The NWC is a body corporate established under Section 3 of the National Water Commission Act (“the NWC Act”), and is a specified organization as defined in section 2 of the OUR Act. Sections 4 (1) (d) & (e) of the NWC Act empowers the NWC to respectively, “*within the limits of its resources provide and improve water supply services throughout the Island*” and “*maintain and operate water supply services provided by the Commission*”.
- 3.2. The role and function of the OUR in the water and sewerage sector is governed by the provisions of the OUR Act. Section 4 (1) (a) of the OUR Act, provides that the OUR is empowered to “*regulate the provision of prescribed utility services by licensees or specified organizations*”. The provision of sewerage services and the supply and distribution of water are included among the prescribed utility services defined in the First Schedule of the OUR Act.
- 3.3. Section 4 (4) of the OUR Act expressly authorizes the OUR to determine the rates charged for the provision of a prescribed service. The section reads:

*“(4) The Office shall have power to determine, in accordance with the provisions of this Act, the rates or fares which may be charged in respect of the provisions of a prescribed utility service.”*
- 3.4. In exercise of its powers to determine rates, the OUR issued the Interim Tariff Determination Notice which sets out the approved rates and charges for NWC’s services for the period of 2019 to 2021. The Interim Tariff Determination confirmed the application of the PAM during this period, which PAM is reflected on customers’ bills monthly. The Interim Tariff Determination further indicated that the PAM should be reset at its anniversary.
- 3.5. In keeping with the determination regarding the annual reset of the PAM, NWC has now applied for an ANPAM rate adjustment of its base rates.

## 4. The OUR's Analysis

4.1. The OUR's review of rates, in general, is guided by the principle of establishing rates that are sufficient to cover prudently incurred costs. In this regard, the PAM is critical to the NWC's sustainability, as it allows the Commission to adjust its rates periodically to reflect the effects of changes in input costs that are exogenous to its operations.

### The Price Adjustment Mechanism

4.2. The PAM seeks to preserve NWC's rates in real terms, by accounting for fluctuations in monthly input costs, primarily due to changes in inflation, foreign exchange rate movements and changes in electricity rates.

4.3. The mathematical computation of the PAM is :

$$\text{PAM} = (w_{fe} * \Delta FE + w_{cpi} * \Delta CPI + w_{kwh} * \Delta kWh) * 100$$

Where:

$\Delta FE$  is the monthly percentage change in the JM\$/US\$ exchange rate,

$\Delta CPI$  is the monthly percentage change in the CPI,

$\Delta kWh$  is the monthly percentage in the kilowatt-hour charge for electricity,

$w_{fe}$  is the approved weight for the JM\$/US\$ exchange rate,

$w_{cpi}$  is the approved weight for the CPI, and

$w_{kwh}$  is the approved weight for the kilowatt hour charge for electricity.

4.4. The ANPAM normally allows for an adjustment of base rates each year by the rolling in of the PAM rate up to that point. The ANPAM adjustment rate reflects the weighted change the three (3) components in the mechanism since the last ANPAM adjustment anniversary.

4.5. Mathematically, the new base rates may be expressed as follows:

$$\text{New Base Rate} = \text{Current Base Rate} * (1 + \text{ANPAM adjustment rate}).$$

4.6. NWC's ANPAM adjustment rate computation implementable in 2020 May is 8.59%. Table 4.1 below shows the details of the computation, which have been verified by the OUR.

4.7. The source of the input data is as follows:

- Statistical Institute of Jamaica (STATIN) for Consumer Price Index (CPI)
- Bank of Jamaica (BOJ) for foreign exchange (FX) rate (JA\$:US\$); and
- NWC's electricity bills for the month of 2020 February to ascertain the electricity component.



**Table 4.1: ANPAM Calculation**

<b>Index</b>	<b>Unit</b>	<b>Current Base Rate Apr. 2019</b>	<b>New Base Rates May 2020</b>	<b>Weight</b>	<b>Change</b>	<b>ANPAM</b>
<b>FE</b>	JS/US\$	133.826	140.73	0.24	5.16%	<b>1.24%</b>
<b>CPI</b>	-	254.3	269.5	0.51	5.98%	<b>3.05%</b>
<b>Electricity</b>	JS/kWh	34.09	39.96	0.25	17.22%	<b>4.30%</b>
<b>ANPAM</b>						<b>8.59%</b>

- 4.8. Consistent with the base indices established in the Interim Tariff Determination Notice, the baseline data for FE, CPI and electricity as shown in Table 4.1 shall be adjusted to \$140.73, 269.50 and \$39.96/kWh respectively.
- 4.9. NWC has requested that reconnection fees remain unchanged until the next tariff review, and the Office has no objection to this request.
- 4.10. In Determination 21 of the Interim Tariff Determination Notice, the Office accepted NWC’s proposal for the introduction of Standby charges for commercial customers and approved a Standby tariff. However, the Office stipulated that the implementation of the Standby charges is subject to OUR’s approval of NWC’s Standby Charge Policy and the roll out plan. NWC was required to submit the said policy and plan within three (3) months of the effective date of the Interim Tariff Determination Notice. To date the NWC has not submitted the required policy and plan to the Office for approval.
- 4.11. In light of this, the Standby charges approved in the Interim Tariff Determination Notice shall be adjusted in keeping with the ANPAM of 8.59%. However, such rates are only implementable after the OUR has approved the NWC’s Standby Charge Policy and the roll out plan.
- 4.12. The ANPAM adjusted base rates are displayed in Table 4.2 below. These new rates and charges shall become effective on customers’ 2020 April consumption, which will be reflected on 2020 May bills.

**Determination 1**

- a) The Office has approved the ANPAM rate adjustment of 8.59%, which shall be applied to the NWC's base rates and Standby charges. However, in keeping with the NWC's request the ANPAM shall not be applied to its reconnection fees.
- b) The application of the ANPAM becomes effective on customers' 2020 April consumption and implemented on the 2020 May bills.
- c) The new base indices for the monthly PAM are as follows:
  - Foreign Exchange Rate: JM\$140.73 to US\$1.00
  - Consumer Price Index : 269.50
  - Electricity Charge : \$39.96/kWh.

These base indices will remain unchanged until the next ANPAM reset.

**Table 4.2: NWC 2020 Rate Schedule**

<b>Rate Schedule</b>		
<b>Effective on Customers' 2020 April Consumption</b>		
<i><b>Service Charge</b></i>		
<b>Meter/Service Connection Size</b>	<b>Charge</b>	
5/8 inch/ 15mm	\$	928.35
3/4 inch/ 20mm	\$	2,030.66
1 inch/ 25mm	\$	2,651.80
1 1/4 inch/ 30mm	\$	4,993.03
1 1/2 inch/ 40mm	\$	4,993.03
2 inch/ 50mm	\$	7,071.47
3 inch/ 75mm	\$	12,840.92
4 inch/ 100mm	\$	20,748.54
6 inch/ 150mm	\$	31,606.58
<i><b>Volumetric Rate</b></i>		
<b>Consumer Category</b>	<b>Water Rate</b>	<b>Sewerage Rate</b>
Residential (Imperial Metered)		
For up to 3,000 gallons	\$ 537.59	\$ 620.93
For the next 3,000 gallons	\$ 956.78	\$ 1,105.08
For the next 3,000 gallons	\$ 1,042.81	\$ 1,204.46
Over 9,000	\$ 1,778.84	\$ 2,054.57
Residential (Metric Metered)		
For up to 14,000 litres	\$ 118.25	\$ 136.58
For the next 13,000 litres	\$ 210.46	\$ 243.08
For the next 14,000 litres	\$ 229.39	\$ 264.94
Over 41,000	\$ 391.30	\$ 451.94
Commercial Imperial Metered)		
For up to 2,000,000	\$ 2,054.29	\$ 2,372.71
Over 2,000,000	\$ 1,197.41	\$ 1,383.02
Commercial (Metric Metered)		
For up to 9,100,000	\$ 451.89	\$ 521.93
Over 9,100,000	\$ 263.39	\$ 304.23
Condominiums		
Imperial Metered	\$ 1,019.05	\$ 1,177.01
Metric Metered	\$ 224.16	\$ 258.91
Primary Schools		
Imperial Metered	\$ 814.10	\$ 940.28

Metric Metered	\$ 179.08	\$ 206.83
<b>Commercial Consumers - Standby (Water Services) Charges</b>		
Imperial Metered		
Annual Contracted Capacity Change	\$	848.10
Volumetric (per 1000 gallons)	\$	899.65
Penalty (per 1000 gallons)	\$	899.65
Metric Metered		
Annual Contracted Capacity Change	\$	186.56
Volumetric (per 1000 litres)	\$	197.89
Penalty (per 1000 litres)	\$	197.89
<b>Miscellaneous Fees</b>		
<b>Disconnection and Reconnection Type</b>	<b>Fees</b>	
Domestic Unmetered Service (Locked)	\$	935.00
Removal and Replacement of Service (Unmetered)	\$	4,000.00
Domestic Metered Service (Locked)	\$	935.00
Domestic Metered Service Removed and Replaced 5/8 inch/ 15mm and 3/4 inch/ 20mm	\$	8,300.00
Domestic Metered Service Removed and Replaced 1 inch/ 25mm and over	\$	12,500.00
Commercial Metered Service (Locked)	\$	935.00
Commercial Metered Service Removed and Replaced	\$	12,500.00