

OUR DECIDES ON JPS' EXTRAORDINARY RATE REQUEST

(KINGSTON, Jamaica; 2017 February 13): The Office of Utilities Regulation (OUR) has issued its decisions on the Extraordinary Rate Review application submitted by the Jamaica Public Service Company Limited (JPS) in 2016 October. The decisions take effect 2017 February 1.

JPS' request for an extraordinary rate review stems from amendments to its licence which took effect on 2016 January 27 and which resulted in the shortening of the depreciable life of some of its assets.

The company claims that the shortening of its asset lives has resulted in asset impairment expenses and increased depreciation costs which will amount to US\$28.5 million over the period 2016-2028. However, the immediate application was for US\$13.4 million.

The OUR, in its Determination Notice, concluded that while the claim can be made under an Extraordinary Rate Review, it should be separated into two distinct components. The approximately \$13.4 million asset impairment for 2016 was addressed using the Z-Factor mechanism because it is retrospective, while the component associated with the increase in depreciation expenses will be handled via a rate revision since this captures costs that are prospective.

The decisions will not result in any adjustment to customers' bills at this time. However, the impact on consumers' bills could be felt in July following the annual Rate Review application. This is because the OUR has assessed JPS' claim and has determined that it should recover the \$13.4 M through the Z-Factor mechanism in the revenue cap formula starting 2017 July 1, when the OUR's decision on JPS' Annual Review application will take effect.

The Z-Factor mechanism allows for adjustments to JPS' electricity rates outside the scheduled Five-year Rate Review to facilitate the recovery of expenses that:

- a) Materially affect the company's costs;
- b) Are not due to managerial decisions;
- c) Amount to more than J\$50M; and
- d) Are not included in the existing tariff mechanism.

JPS' Electricity Licence, 2016 makes provision for alterations to the tariff using the Z-Factor mechanism within the framework of the annual rate adjustment exercise.

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The OUR has also determined that JPS should be compensated for any increase in its depreciation expenses in 2018 and 2019 through a revision to the existing electricity rates. However, the company is required to provide details on each project in its investment plan for the next two (2) years, by 2017 March 3 as this is material to determining the amount of such compensation.

The OUR will review JPS' investment plan and make a determination on the changes to the company's base revenue requirement, which shall be published prior to 2017 July 1, being the date the revenue revision shall take effect.

The OUR's Determination Notice on the JPS' Extraordinary Rate Review 2017 is on our website: www.our.org.jm

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