

September 21, 2007

Mr. J. Paul Morgan  
Director General  
Office of Utilities Regulation  
36 Trafalgar Road  
Kingston 10

**Re: Reconsideration of Irrigation Rates (Beacon/Little Park, St. Elizabeth)  
Determination Notice, Document No. WAT 2007/02**

Further to your determination dated September 10, 2007, regarding the captioned item, we are requesting a re-consideration of the office determination on the following grounds.

The Office argues that in addition to a core staff complement of four (4) persons, (one (1) Works Supervisor and three (3) Systems Operators) and oversight responsibility provided by the Regional Manager; the Commission is proposing six (6) additional posts to maintain three (3) pumping installations inclusive of pump houses. The Office considers the expense unnecessary and in deleting it interprets the estimated annual cost of Four Hundred and Thirty-Two Thousand Dollars (\$432,000.00) as representing the remuneration of six (6) employees. This however is not so and was intended to show the unit of labour per annum to service and maintain the pumping installations and houses. It was not intended to have six persons on staff but to reflect the cost of servicing that is required on a per pump/house basis. However, the proposal for a "general provision for Repairs and Maintenance" to account for yearly maintenance of the irrigation system seems acceptable. Notwithstanding, the "general provision" should be derived from the revised total direct costs as shown in Table 2 below (four and one half percent (4½%) of \$31.263 million is \$1.406 million).

Although the Office concedes that the greater pumping depths at the three (3) Beacon and Little Park wells will increase energy demand by some Seventy percent (70%), it has reduced the Commission's cost estimate of \$24.133 million by \$5.67 million to \$18.46 million, based on Hounslow's historical usage.

There is also, another consideration related to the increased energy usage per unit volume of water pumped that has been ignored. That is the increased hours of pumping to meet the irrigation demand in the Beacon and Little Park area because of lower delivery capacities of the wells and differences in the pattern of irrigation management as determined by differences in physical variables (soil and climate) and the crops being grown at Hounslow (pasture) and Beacon/Little Park (vegetables).

The Office has used a unit energy cost of \$2.80/ m<sup>3</sup> at Hounslow as the basis of their calculation of the energy bill. Data from the Commission (table 1) indicates that the current unit cost of pumping water at Hounslow during the 2006 – 2007 financial year was \$5.36/ m<sup>3</sup>.

Table 1: Unit energy cost per m<sup>3</sup> for water at Hounslow

Year	2004 - 05	2005 - 06	2006 – 07
<b>Energy Costs (\$/m<sup>3</sup>)</b>	<b>2.80</b>	<b>4.39</b>	<b>5.36</b>

Source: NIC's Annual Reports

This is substantially above the \$2.80/m<sup>3</sup> the Office has used in its computation of energy costs. As shown in table 1, \$2.80/ m<sup>3</sup> was the energy input cost at Hounslow 3 years ago. The sharp increase in unit costs between 2004 and 2007 (from \$2.80 to \$5.36) reflects directly the change in JPS tariff structure, the price of oil and subsequent increases in electricity costs.

Given the continued decline of the value of the local currency as well as the increase in fuel prices, a unit cost of \$5.60/ m<sup>3</sup> of water pumped may be more realistic. The Commission in its submission proposed costs, which would result in the following unit energy costs:

Hounslow: \$3.90/ m<sup>3</sup>

Beacon and Little Park: \$6.64/ m<sup>3</sup>

These costs were generated using the data on the new pumps installed at the locations and a cost of \$13.50 per kwh for electricity. This kwh cost is now of the order of \$15/kwh. The higher cost for Beacon and Little Park reflects the increased well depths compared with those at Hounslow.

The actual cost incurred will be based on both the JPSCO pricing structure and the level of use of the pumping plants. It is our considered view that the unit costs of \$2.80/m<sup>3</sup> assumed by the Office at Hounslow is far too low, resulting in a less than reasonable rate for Beacon/Little Park. The Commission's proposed costs, while being on the low side are more realistic.

The costs associated with Administration, Accounting and Billing for the 3 projects were estimated at \$7.56 million annually. These costs were already allocated to the 3 project areas as follows:

- Beacon and Little Park,           \$3.6 million;
- Hounslow                               \$3.6 million and
- Sevens River                         \$0.36 million.

The assumption that the \$3.6 million mentioned in the Beacon/Little Park is the total cost for all three projects is incorrect. Hence, the fixed cost for this item should be \$3.6 million.

Please see below the Commission's revised cost schedule consistent with the issues outlined above:

Table 2

Item	NIC Proposal (\$)	Office Determined (\$)	NIC Revised Proposal (\$)
Salaries	5,856,000	5,424,000	5,424,000
Repairs & maintenance - pipeline	240,000	-	-
Repairs & maintenance - general	-	1,209,165	1,406,859
Electricity	24,132,676	18,459,305	24,132,676
Other direct costs (roads and verges)	300,000	300,000	300,000
<b>Total direct costs</b>	<b>30,528,676</b>	25,392,471	31,263,535
Administrative and billing	3,600,000	1,620,000	3,600,000
Office expenses	240,000	360,000	360,000
Office utilities	120,000	120,000	120,000
Rental premises	120,000	120,000	120,000
Operation supervision	360,000	360,000	360,000
Licence fee	60,000	0	0
Contribution to capital cost	10,000	0	0
<b>Total fixed costs</b>	<b>4,620,000</b>	<b>2,460,000</b>	4,560,000
<b>Total operation cost</b>	<b>35,148,676</b>	<b>27,852,471</b>	<b>35,823,535</b>

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With respect to the Guaranteed Service Standards on page 18 of the determination notice we object to the reconnection time. We instead suggest 72 hours instead of the 48 hours as irrigation installations involve larger pipes and fittings compared to domestic ones and are done in agricultural fields with operators traveling off the roads. This could affect access under conditions of persistent rainfall for example. Some reconnections may also involve excavation of valves and pipelines along with fabrication of components. This is not generally possible in 2 days especially when the works include installation and testing. With the best of intentions, a two-day guarantee is not sufficient. The JPSCO for example gives its customer 72 hours for this type of activity.

With respect to wrongful disconnection we think that 24 hours instead of 12 hours as per reasons listed above is more reasonable.

We are requesting that the trucking of irrigation water be removed. The Commission itself is not involved in the trucking of water, as this is a function of the Rapid Response Unit (RRU). However, we do facilitate this service where possible. Please note that farmers' crops can generally withstand loss of irrigation water for periods far longer than 24 hours. Moreover, it is well known that the trucking of water for agriculture is not feasible or practical because of the large volume of water required which is not the case with potable water. Additionally, the current contractual arrangement with our customers does not allow us to be liable for acts of God or any contingency affecting our supply works.

As a result of the revised cost schedule we are strongly recommending that the new proposed rates for Beacon and Little Park be as follows:

Service charge: \$813.70 per hectares  
Recovery rate (demand charge): \$8.21/m<sup>3</sup>

We look forward to your reconsideration of the determination notice accordingly.

Yours sincerely,  
**NATIONAL IRRIGATION COMMISSION LIMITED**

Donovan Reid  
**MANAGING DIRECTOR**

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