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# Office of Utilities Regulation

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RECONSIDERATION OF THE OFFICE'S DECISION:  
DETERMINATION NOTICE  
(2013/WAS/004/DET.003) "NATIONAL WATER  
COMMISSION REVIEW OF RATES"

FINAL DECISION

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Adoption date: July 24, 2014



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**OFFICE OF UTILITIES REGULATION**

**DOCUMENT TITLE AND APPROVAL PAGE**

1. **DOCUMENT NUMBER:** 2014/WAS/004/RCN.001

2. **DOCUMENT TITLE:** Reconsideration of the Office's Decision: Determination Notice (Document No. 2013/WAS/004/DET.003) on "National Water Commission Review of Rates"

3. **PURPOSE OF DOCUMENT:**

This document provides the Office's decision on the Reconsideration of the Office's Determination Notice on the National Water Commission's water and sewerage rates.

4. **ANTECEDENT DOCUMENTS:**

| Document Number      | Description  | Date           |
|----------------------|--|----------------|
| 2013/WAS/004/DET.003 | National Water Commission Review of Rates – Determination Notice | October 1 2013 |
|                      | NWC Tariff Submission for the Period 2013 to 2018                | March 2013     |
|                      |  |                |

5. **APPROVAL:**

This document is approved by the Office of Utilities Regulation and the decisions therein become effective on July 28, 2014

On behalf of the Office:



**Hopeton Heron**  
**Deputy Director General**

**July 24, 2014**

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# Chapter 1: Summary of Responses

## *Introduction*

- 1.1 On March 11, 2013 the National Water Commission ("NWC/Commission") submitted to the Office of Utilities Regulation ("OUR/Office") a tariff application for the review of its water and sewerage rates. The Office considered the tariff application and issued the "National Water Commission Review of Rates- Determination Notice" (Document No. 2013/WAS/004/DET.003) dated October 1, 2013 (the "Determination Notice").
- 1.2 By way of letter dated October 31, 2013, the NWC requested that the Office reconsider certain aspects of the Determination Notice. At the Commission's request, a meeting was held with the NWC on November 7, 2013, and on November 18, 2013, the NWC made further written submissions. By letter dated December 4, 2013 the NWC made a further submission for a review of certain Guaranteed Standards.
- 1.3 In a follow-up meeting with the Office held on January 7, 2014 and by letter dated January 31, 2014, the NWC re-emphasized various aspects of its reconsideration application. The OUR sought additional information from the NWC which has been provided, the last of such response was submitted on April 29, 2014.
- 1.4 The NWC's expressed position is that the Determination contains requirements that it believes will have an adverse effect on its operation, if not addressed.
- 1.5 Based on the OUR's review of the various submissions from the Commission, the Office is being asked to reconsider:
  1. Depreciation costs;
  2. Price Adjustment Mechanism (PAM) Roll-in;
  3. The K-Factor schedule and scope;
  4. Allowing the X-Factor to be set at zero for the five-year tariff period;
  5. The collection of a security deposit from customers; and
  6. Five (5) of the Guaranteed Standards.

## ***Summary of Reconsideration Decisions***

- 1.6 The Office has considered the Commission's submissions in its reconsideration application and has made the following decisions/or clarifications:
1. Depreciation charges shall remain unchanged.
  2. There will be no change to the application of the Price Adjustment Mechanism (PAM).
  3. The K-Factor Programme is approved for an additional period of fifteen (15) years up to 2032 and the K-Factor for the period 2019 to 2032 is projected as set out in Chapter Three but shall be the subject of review at each tariff determination.
  4. The existing criterion for K-Factor project shall remain the same and consequently, NWC's request for it to be expanded to explicitly include service extension is denied.
  5. The X-Factor shall be kept at zero for only the first year of the price cap regime as indicated in the Determination Notice.
  6. WGS 2: The timeline for the NWC to produce the first bill to the customer shall remain at forty (40) working days as specified in the Determination Notice. There will be no annual review of WGS 2, however a mid- tariff review will be conducted to review all guaranteed standards.
  7. WGS 8: The timeline within which a defective meter is to be repaired or replaced shall remain at twenty (20) working days as stipulated in the Determination Notice. This standard only applies to breaches that occur subsequent to the effective date of the tariff.
  8. WGS 10(b): The Office accedes to NWC's request to rephrase WGS 10(b). WGS 10(b) shall read as follows: **"Where the NWC obtains a meter reading that falls within its exceptions criteria (60% high and 40% low), same is to be verified, the customer alerted upon verification and the reading applied to the customer's account within one (1) billing period."**
  9. WGS 11: The time within which service is to be restored after all overdue amounts have been settled shall remain at twenty-four (24) hours as stipulated in the Determination Notice.

10. WGS 14: Estimated consumption shall be calculated using the last three (3) actual meter readings as the basis, as stipulated in the Determination Notice.
11. NWC's request for approval of the collection of a security deposit from customers is denied.

The reasons for the Office's decisions are set out in Chapter 2.



## Chapter 2: Detailed Responses

### ***Approach to Reconsideration Applications***

- 2.1 As is the established practice, the Office will modify or reverse its decision or any part thereof where the applicant requesting reconsideration:
1. Presented new facts or changed circumstances which could not, with ordinary diligence, have been known to the applicant prior to the date of the Office's decision; and
  2. Established that a decision was based on errors of law or fact.
- 2.2 Also where relevant, the Office, either on its own initiative or at the request of stakeholders, will use the opportunity provided by an application for reconsideration to, clarify aspects of its determination.
- 2.3 The details of NWC's requests and the Office's responses are set out below.

### ***Depreciation Expense***

#### **NWC'S REQUEST**

- 2.4 The NWC asserted that in calculating the depreciation expense, the OUR used an underestimated depreciation value which did not take account of the revalued assets. The Commission indicated that it had revalued its assets as at March 31, 2013 and that on the basis of this revaluation; it projected depreciation of \$8.7 billion. NWC noted however that the OUR did not use this figure but opted to use the figure in the NWC's 2012/2013 audited financial statement which was based on the values of assets prior their revaluation at the end of that year. In its application for reconsideration, the NWC estimated depreciation expenses at \$6.3 billion.

#### **OFFICE'S COMMENTS**

- 2.5 The Office had some reservations about NWC's approach and methodology in respect of the treatment of its revalued assets but accepts that this was signed off on by the auditors. In respect of the figure provided for depreciation, however, this was based on projections and the NWC did not provide sufficient information to allow the Office to clearly determine how the depreciation figures for asset categories were determined and to distinguish between

depreciation attributed to revaluation, historic values, asset rehabilitation or improvement and anticipated capital investments. In this regard, the submission on depreciation charges did not conform to the principle of known and measureable and so the Office appropriately reverted to the figure provided in NWC 2012/2013 audited report viz. \$3.016 billion.

- 2.6 Notably, in its reconsideration request, NWC submitted a new figure of \$6.3 billion based on what it claims is an updated fixed asset schedule showing the rate of depreciation on revalued assets. The Office is not at liberty to consider this information however, as it clearly falls within the category of new facts. Even so, this presentation of a new figure for depreciation as part of the requested reconsideration, only serves to underscore the extent to which the original submissions were uncertain.
- 2.7 The NWC's request for a reconsideration of the amount applied for depreciation is therefore denied.

#### **Reconsideration Decision 1**

- (a) Depreciation charges shall remain unchanged

#### ***Price Adjustment Mechanism (PAM) Roll-in Old Rates Prior to Increase***

##### **NWC'S REQUEST**

- 2.8 The NWC stated that the OUR applied the effective increases for water and sewerage rates respectively to the rates and charges that were in effect as at April 2013. The NWC contended that since the new rates became effective as of October 2013, the effective increases should have been applied to the rates and charges that were in effect at August 2013 after adjustments for PAM. Consequently, the NWC will suffer a loss of \$1.5 billion.
- 2.9 The NWC explained that there is a two-month lag between consumption and billing of water, in that, for example, water consumed in August of 2013 is measured in September and billed in October. The Commission claimed that its request was consistent with the approach taken in the 2008 rate review – "National Water Commission Review of Rates Determination Notice, Document No. WAT 2008/01 dated April 28, 2008 ("May 2008 Determination Notice"). It noted that then, the increase was applied to the April 2008 rates and charges even though the tariff was made effective as of May 1, 2008.



#### **OFFICE'S COMMENTS**

- 2.10 As it relates to the current determination, the fact is, PAM rates calculated for May, June and July would have been billed for by the NWC in July, August and September respectively, before the new rates came into effect. In these circumstances, it would be imprudent to again increase the base rates of the NWC by these amounts.
- 2.11 Notably, although the analysis of NWC's rates was done using data ending July 2013 and the effective date of the tariff was October 2013, the NWC was able to recover for any loss in revenue through the PAM mechanism since the base rate of the PAM was set as at July 2013. In this regard, the effective PAM as at October 2013 was not set at zero, as was the case in previous determinations. The PAM calculation therefore allowed the NWC to recover any shortfall in revenues that occurred from July to October. The Office also notes that the lengthy delay in the application of the PAM by NWC is an administrative matter which the NWC might want to address at a subsequent tariff review.
- 2.12 The NWC's request for Office to revisit the PAM is therefore denied.

#### **Reconsideration Decision 2**

- (a) There will be no change to the application of the Price Adjustment Mechanism (PAM).

#### ***Reconsideration of the K-Factor Programme***

##### **NWC'S REQUEST**

- 2.13 The NWC has requested that the Office allows:
- (i) an extension of the K-Factor Programme by an additional fifteen (15) years that is from 2017 to 2032; and
  - (ii) an expansion of the eligibility criteria for K-Factor projects to include the establishment of new supply schemes which would result in increased revenues to the NWC.

#### **OFFICE'S COMMENTS**

- (i) **Extension of the K-Factor to 2032**
- 2.14 Although the Office does not intend for the K-Factor Programme to continue indefinitely, it was indeed the Office's intention to signal that the programme should continue beyond the current tariff regime. This is evidenced by the

Office's urgings in the Determination Notice that NWC should seek loans to fund upcoming K-Factor projects rather than depend on direct financing from K-Factor proceeds. Therefore, to the extent that the duration of these loans extends beyond the current regime, it is accepted that the K-Factor Programme would also need to be extended.

- 2.15 The fact is, the NWC did not provide an investment schedule beyond the current regime to support an explicit indication of the projected duration of the programme. In its request for reconsideration, NWC provided information to support the funding and loan servicing requirement as projected up to 2032 for existing approved projects, as well as, new proposed projects for the 2014-2018 tariff period (Tables 1, 2 and 3). NWC has also indicated in its reconsideration application that it plans to secure loans for all new and existing approved projects and would use the K-Factor inflows to service such loans .

**Table 1: Applicable K-Factor and X-Factor variables (as per Tariff)**

| Year Ending October | 2014 | 2015  | 2016  | 2017   | 2018   |
|---------------------|------|-------|-------|--------|--------|
| K-Factor            | 14%  | 14%   | 14%   | 14%    | 14%    |
| X-Factor            | -    | -5.5% | -9.7% | -12.7% | -15.2% |

K-Factor projected to yield J\$26.5B through to 2018 as set out in Table 2 below:

**Table 2: Projected K-Factor Inflows 2014-18 (as per Tariff)**

| NWC Projected Financing requirements for Projects – J\$26.5B |                          |          |
|--|--------------------------|----------|
| Year   | K-factor Revenue (J'000) | K-factor |
| 2014   | 3,662,852                | 14%      |
|  |                          |          |
| 2015   | 4,389,204                | 14%      |
| 2016   | 5,205,784                | 14%      |
| 2017   | 6,109,345                | 14%      |
| 2018   | 7,143,585                | 14%      |
| <b>Total</b>   | <b>26,510,770</b>        |          |



**Table 3- NWC Projected K-Factor Funding Requirements 2014-18 (as per reconsideration request)**

| Approved Projects Funding Requirements as Projected by NWC 2014 - 2018 |                          |        |        |            |
|--|--------------------------|--------|--------|------------|
| Year   | Loan Payments (Existing) | Direct | Total  | Cumulative |
|  | J\$M                     | J\$M   | J\$M   | J\$M       |
| <b>FY 2014/15</b>  | 1,023                    | 11,292 | 12,316 | 12,316     |
| <b>FY 2015/16</b>  | 989                      | 8,627  | 9,616  | 21,932     |
| <b>FY 2016/17</b>  | 1,136                    | 1,358  | 2,494  | 24,426     |
| <b>FY 2017/18</b>  | 1,087                    | 521    | 1,608  | 26,033     |

**\*see List of approved projects in Appendix**

- 2.16 As can be seen from the Table 3 above, NWC in its reconsideration application provided information that suggested that in order to service existing K-Factor loans, as well as directly finance existing approved projects, a total of J\$26.033B was required up to 2018. The K-Factor as determined in the tariff is projected to yield J\$26.5B by 2018. While the Office has taken cognizance of the differences between the NWC's funding projections and the K-Factor outturn annually as determined in the tariff, it takes the view that the onus is on the NWC to manage its cash flows in relation to the implementation of the projects. In any event, these cash flow differences may be offset if the NWC is successful in its expressed intention to obtain long term loans to fund all existing approved projects.
- 2.17 Accordingly, for the tariff period 2014 to 2018, the Office maintains the K-Factor percentages and reiterates its previously expressed position that NWC focuses on completing the existing approved projects during the 2014 to 2018 tariff period. The Office further restates its position that its reserves the option to approve additional K-Factor projects should the need arise and where the NWC demonstrates meaningful improvement in the returns from K-Factor.
- 2.18 For the post tariff period 2018 to 2032, the Office has sought to determine a K-Factor that would allow the NWC to service its loans regarding the existing approved projects (those that have been brought forward from previous tariff periods) and the new projects that NWC proposes to implement. Given the Office's stated position that NWC must focus on implementing existing approved projects, it is expected that proposed "new" projects will be implemented mainly during the 2018 to 2032 tariff period. Additionally, it is contemplated that NWC would secure loan funding for all new projects and accordingly, the K-Factor schedule is developed with this in mind. Thus the K-



Factor schedule should serve to indicate to potential lenders, the ability of the NWC through K-Factor inflows to service debt in relation to approved projects. NWC has proposed projects that are expected to cost approximately J\$87B, as set out in Appendix 2.

**Table 4: Projected K-Factor Funding Requirements: 2019-2032**

| Year Ending October                   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024   | 2025   | 2026   | 2027   | 2028   | 2029   | 2030    | 2031    | 2032    |
|---------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|
|                                       | J\$M   | J\$M   | J\$M   | J\$M   | J\$M   | J\$M   | J\$M   | J\$M   | J\$M   | J\$M   | J\$M   | J\$M    | J\$M    | J\$M    |
| Loan Payments – Approved Projects (A) | 1,046  | 925    | 949    | 922    | 881    | 840    | 795    | 751    | 450    | 253    | 146    | 144     | 72      | -       |
| Loan Payments – New Projects (B)      | 6,098  | 6,769  | 7,245  | 7,805  | 9,740  | 11,179 | 12,758 | 12,079 | 11,505 | 10,661 | 10,509 | 10,171  | 9,816   | 9,228   |
| Total Financing Requirements (A+B)    | 7,144  | 7,694  | 8,194  | 8,726  | 10,621 | 12,019 | 13,553 | 12,830 | 11,956 | 10,914 | 10,655 | 10,316  | 9,888   | 9,228   |
| Operating Revenue (C) projected*      | 51,026 | 54,955 | 58,527 | 62,331 | 66,382 | 70,697 | 75,293 | 80,187 | 85,399 | 90,950 | 96,981 | 103,157 | 109,863 | 115,536 |
| K-Factor [(A+B)/C] %                  | 14%    | 14%    | 14%    | 14%    | 16%    | 17%    | 18%    | 16%    | 14%    | 12%    | 11%    | 10%     | 9%      | 8%      |

\*\*assumes a 7.7% p.a. for 2019 and 6.5% p.a. for the period 2020-2032 inflationary(CPI) increase in operating revenues based on the IMF Country Report No 14/85.

\*Due to the volatility of the exchange rate the Office believes that foreign exchange movement is better captured through the Price Adjustment Mechanism.

- 2.19 As seen in Table 4 above, the K-Factor for the 2019 to 2032 period is based on the funding requirement to service loans in relation to the existing approved projects and new projects proposed.

### Reconsideration Decision 3

(a) The K-Factor Programme is approved for an additional period of fifteen (15) years up to 2032.

(b) The K-Factor for the period 2019 to 2032 is projected as set out in Table 5 below and shall be reviewed at each tariff determination.

**Table 5: K-Factor 2019-2032**

| Year Ending October | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| K-Factor            | 14%  | 14%  | 14%  | 14%  | 16%  | 17%  | 18%  | 16%  | 14%  | 12%  | 11%  | 10%  | 9%   | 8%   |

## **(ii) Expand Eligibility for K-Factor Projects to include Service Extension**

- 2.20 In a meeting held at the OUR's offices on February 7, 2014, the NWC gave a verbal indication that this request was withdrawn. Notwithstanding, given that the matter is on the record, the Office is taking the opportunity to respond.
- 2.21 Projects that meet the existing eligibility K-Factor criterion and may lead to the extension of services will continue to be favourably reviewed by the Office. The Office understands and appreciates the need for the NWC to extend its service into areas currently unserved or underserved. However, the Office takes the position that to add this dimension to the K-Factor would place an undue burden on customers, who are already bearing the up-front cost of financing system rehabilitation and the reduction of Non-Revenue Water (NRW).
- 2.22 In any event, the NWC should be able to convince financial institutions to fund service extension projects where it can be demonstrated that such projects will provide increased revenue and a positive return on investment. The OUR is mindful that service extension may be contemplated in areas that would not necessarily lead to increased revenues but provide a greater social benefit. In such instances, the Office would encourage the NWC to seek the support of the Government and multilaterals to fund such projects. The Office also notes that once such investments are made they would be reflected in future rate base and returns provided.
- 2.23 Lastly, the Office is of the view that given the current state of the NWC's infrastructure, the K-Factor proceeds are better spent in addressing the matter of infrastructure rehabilitation and renewal, specifically targeting the reduction of NRW. This will place the NWC in a position to better serve its potential and existing customers.

### **Reconsideration Decision 4**

- (a) The existing criterion for K-Factor project funding shall remain the same and consequently NWC's request for it to be expanded to explicitly include service extension is denied.



## ***X-Factor Expenditure***

### **NWC'S REQUEST**

- 2.24 Along with the request for an extension of the K-Factor Programme to the financial year 2032, NWC has also requested that the X-Factor be set to zero percent (0%) until 2032.

### **OFFICE'S COMMENTS**

- 2.25 The Office has allowed the X-Factor to be set at zero for the first year of the tariff period. As indicated in the Determination Notice, the Office is disappointed with the NWC's failure to demonstrate a clear dividend to rate payers arising from the K-Factor over the tenure of the 2008 -2013 tariff regime. The Office further notes that the rate of K-Factor financed investment were substantially ramped up in the last two years of the previous tariff regime. In this regard, it is reasonable to anticipate that such projects would begin to deliver consumer dividend within the current period. Therefore, the Office considers that any significant postponement of a positive X-Factor would be counter-intuitive to the underlying assumptions of the present tariff regime. Indeed, the Office deems its allowance of a zero X-Factor for the first year of the tariff period to be generous.
- 2.26 Notably, NWC has also omitted to present data in support of its request for a modification of the X- Factor for the tariff period. The Office therefore, stands by its decision to allow the NWC zero X-Factor in the first year of the tariff period. The X-Factor will be reviewed at the next tariff review which is expected in 2018.

### **Reconsideration Decision 5**

- (a) The X-Factor shall be kept at zero for only the first year of the price cap regime as determined in the Determination Notice.

## ***Quality of Service Standards***

- 2.27 The Office has reviewed the NWC's request for reconsideration on a number of quality of service standards and the responses are set out below.

### **WGS 2: ISSUE OF FIRST BILL**

- 2.28 *"Maximum time of forty (40) working days after connection of supply and installation of meter"*



### **NWC'S REQUEST**

- 2.29 The NWC has requested that the OUR reconsiders the amendment made to WGS 2 from forty-eight (48) working days to forty (40) working days and this standard should be reviewed on an annual basis. The reason posited by the NWC for this request is that it was not aware of any evidence that this standard had been breached. The NWC stated that the amendment was an instance where more stringent measures were being applied despite its continued efforts to meet and surpass the set standards.

### **OFFICE'S COMMENTS**

- 2.30 The Office is of the view that the justification proffered by NWC for a reconsideration of WGS 2 does not provide a sufficient basis for modifying its determination. While the OUR may from time-to-time adjust a standard consequent on reports of persistent breaches, a major consideration in the setting of standards is to drive greater efficiency and to improve customer satisfaction. The decision by the Office to reduce the time taken to provide customers with the first bill after service connection is influenced largely by that consideration. Additionally, the Office is of the view that a customer who is provided with a bill sooner rather than later, is in a better position to begin the process of assessing whether any anomaly exists at the premises that may require remedial action.

### **Reconsideration Decision 6**

- (a) The timeline for the NWC to produce the first bill to the customer shall remain at forty (40) working days as specified in the Determination Notice. There will be no annual review of WGS 2, however a mid- tariff review will be conducted to review all guaranteed standards.

### **WGS 8 – REPAIR AND REPLACEMENT OF FAULTY METERS**

- 2.31 *Maximum time of twenty (20) working days to verify, repair or replace meter after defect is identified or reported."*

### **NWC'S REQUEST**

- 2.32 The NWC stated that it is not practical to replace or repair faulty meters within twenty (20) working days as stipulated by the standard. Further, the NWC contended that WGS 8 contradicts with the Office's target for NWC to achieve an 87% metering level by 2018 which facilitates gradual increase in the level of

metering. The NWC further requests that the standard applies only to breaches that occur subsequent to the effective date of the tariff.

#### **OFFICE'S COMMENTS**

- 2.33 The Office, takes this opportunity to underscore that ensuring that functional meters are installed at customer's premises can only accrue to the benefit of the Commission and assist in its strategies to reduce non-revenue water. Therefore it is crucial that dilapidated, damaged or out of order meters are quickly replaced.
- 2.34 The Office also takes the opportunity to remind the NWC that the referenced target to achieve an 87% metering level by 2018 was proposed by the entity and not the OUR. Further, in spite of a request by the OUR for clarification of the alleged contradiction between WGS 8 and the metering target, the Office has not received any information from NWC proffering an explanation. In any event, in relation to accounts having a functioning meter, the Office notes that the NWC proposes to attain a target of 90% by 2018. Therefore, the Office is of the view that in all the circumstances, twenty (20) working days is a reasonable time, and the maintenance of the provisions of this standard will assist the NWC in achieving its 90% metering target.
- 2.35 The Office however accepts the NWC's request that it is clearly stated that this standard is only applicable to breaches which occur after the effective date of the tariff.

#### **Reconsideration Decision 7**

- (a) The timeline within which a defective meter is to be repaired or replaced shall remain at twenty (20) working days as stipulated in the Determination Notice. This standard only applies to breaches that occur subsequent to the effective date of the tariff.

#### **WGS 10(b) - EXCEPTIONAL METER READING**

- 2.36 *Where consumption increases by at least fifty percent (50%), then the customer is to be alerted within one billing period.*



### NWC'S REQUEST

- 2.37 The NWC acknowledged the basis and intent for the introduction of this standard but indicated that the standard as articulated would be onerous and levy a significant strain on the Commission's resources. As currently worded, the standard would require the monitoring of every account, while the problem was confined to a much smaller percentage of accounts. As such, the NWC requested that the standard be reviewed to reflect that the following:

*"Where the NWC obtains an exception reading and has verified same, then that reading must be applied to the customer's account and the customer notified of the exception. If the reading cannot be applied for any reason, the customer must be advised of the exception nonetheless".*

### OFFICE'S COMMENTS

- 2.38 The NWC is correct in stating that the intent of this standard is for the customer to be made aware, at the earliest time, that an exceptionally high reading was obtained. We have also taken into consideration the Commission's submissions regarding the strain the 50% stipulation may place on its resources. As such, the recommendation to rephrase the standard is accepted. The Office has therefore determined that WGS 10(b) shall be rephrased.

### **Reconsideration Decision 8**

- (a) The Office accedes to the NWC's request to rephrase WGS 10(b). WGS 10(b) shall read as follows: **Where the NWC obtains a meter reading that falls within its exceptions criteria (60% high and 40% low), same is to be verified, the customer alerted upon verification and the reading applied to the customer's account within one (1) billing period.**

### **WGS 11 – Reconnection after Payment of Overdue Amount**

- 2.39 *"Maximum of twenty-four (24) hours to restore supply."*

### NWC'S REQUEST

- 2.40 The NWC has requested that the Office gives consideration to circumstances in which extenuating situations impact or prevent the reconnection of supplies within the specified twenty-four (24) hours. Such factor would include:



- Ease of procuring machines or material for completing the work;
- Time taken to access the property based on factors such as: distance, road conditions, geography etc.;
- Condition of pipes since time of disconnection; and
- Impact on other customers – based on size or layout of distribution network

#### **OFFICE'S COMMENTS**

- 2.41 The Office has reviewed the NWC's proposal to establish a list of exceptions to which the 24 hour timeline associated with this standard would not apply. The Office is however of the view that the incidents proposed by NWC are within its control. Additionally, the Office cannot disregard the fact that the customer would have been without the essential service for some time and would have satisfied the obligation, which includes the payment of a reconnection fee, to have the service restored. The Office is therefore of the view that the customer should not be further disadvantaged with having the service restored and is therefore not in favour of creating a list of exceptions for this standard.

#### **Reconsideration Decision 9**

- (a) The time within which service is to be restored after all overdue amounts have been settled remain at twenty-four (24) hours, as stipulated in the Determination Notice.

#### **WGS 14 - Method of Estimation**

- 2.42 *"An estimated bill should be based on the average of the last three (3) actual readings."*

#### **NWC'S REQUEST**

- 2.43 The NWC has advised that its current Customer Information System (CIS) is not able to use the last three actual readings to derive estimates as stipulated by WGS 14 and that a formula was being used to derive estimates. The Commission is therefore asking that the existing practice of using the last three billed consumption, whether same was based on actual or estimates, to derive future estimates be continued. Further, the NWC has indicated that the technical details of the formula was provided to the OUR.

#### OFFICE'S COMMENT

- 2.44 The Office has considered the NWC's submissions regarding this standard, and fails to see the difficulty that the NWC faces in using an average of the last three actual meter readings as the basis for calculating an estimate.
- 2.45 The intent of the OUR in introducing this as a practice, is for the NWC to reduce any ambiguity on how the estimates are derived, so as to achieve consistency and predictability. Except for a draft policy document titled "*Disconnection of Accounts for Non-payment*" ("Disconnection Policy document"), there is no evidence to support the NWC's claim that it submitted the technical details of its calculation of estimates to the OUR. Section 6.0 of the Disconnection Policy document, refers to security deposits.

#### ***Security Deposit***

*"A Security Deposit will be required once the supply has been disconnected for non-payment. In the case of Metered Accounts, the **Security Deposit will be calculated as the average of the last three bills based on Actual Readings**, while for Unmetered Accounts, the Security Deposit will be calculated as the average of the last three bills. The Security Deposit is charged not to penalise the customers, but rather it's one of the methods used by the Commission to mitigate the risks associated with default on payments by its customers."*  
(Emphasis added)

- 2.46 The Office has noted that while the NWC has advised that the CIS is not able to use the average of the last three actual readings to calculate estimated consumption, it is this same methodology that is being proposed to estimate the amount customers should pay for security deposit. In our view, if the CIS can be used to generate estimates (using 3 actual readings) to decide on the amount that will be charged for security deposit, then it can be used to generate the estimated consumption as stipulated by the standard.

#### Reconsideration Decision 10

- (a) Estimated consumption shall be calculated using the last three (3) actual meter readings as the basis, as stipulated in the Determination Notice.



## **Security Deposit**

### **NWC REQUEST**

- 2.47 As part of its reconsideration submission, the NWC requested that the Office approves the collection of a security deposit from customers.

### **OFFICE COMMENTS**

- 2.48 The Office is of the view that in order for there to be any consideration for approval of a security deposit, the NWC would need to provide detailed explanation as to how this arrangement would be operationalized. While the NWC has provided a copy of its Disconnection Policy document, the Office notes that the policy does not provide the necessary details on “the advantages, impact on the customer and relevant aspects of the way the functionality operates”, as indicated by the NWC in its request. In the Office’s view, the policy submitted focuses mainly on the disconnection exercise.
- 2.49 In any event, the Office maintains its position that the provisions of the NWC Act afford significant options for the collection of outstanding amounts, therefore there is no need to resort to a security deposit.

### **Reconsideration Decision 11**

- (b) NWC’s request for approval of the collection of a security deposit from customers is denied.



## Chapter 3: Revised Decisions

The following section outlines the revised decisions of the Office having considered NWC's application for reconsideration.

3.1 The K-factor variable is extended for an additional 15 years.

### K-Factor and X-Factor 2014-2032

| Year Ending October | 2014 | 2015  | 2016  | 2017   | 2018   | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---------------------|------|-------|-------|--------|--------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| K-Factor            | 14 % | 14 %  | 14 %  | 14 %   | 14 %   | 14 % | 14 % | 14 % | 14 % | 16 % | 17 % | 18 % | 16 % | 14 % | 12 % | 11 % | 10 % | 9 %  | 8 %  |
| X-Factor            | -    | 5.5 % | 9.7 % | 12.7 % | 15.2 % | TB D | TB D | TB D | TB D | TB D | TB D | TB D | TB D | TB D | TB D | TB D | TB D | TB D | TB D |

\*TBD = To be Determined at the next tariff review

3.2 WGS 10(b) is rephrase to read, where the NWC obtains a meter reading that falls within its exceptions criteria (60% high and 40% low), same is to be verified, the customer alerted upon verification and the reading applied to the customer's account within one (1) billing period.

## APPENDIX 1

### Approved Projects 2014-18 - Projected Expenditure

| Project Name   | Balance               | FY 2014/2015          | FY 2015/2016         | FY 2016/2017         | FY 2017/2018       | FY 2018/2019       |
|--|-----------------------|-----------------------|----------------------|----------------------|--------------------|--------------------|
| Essex Valley Contract 2 - Transmission Main                                    | 224,760,000           | 127,200,000           | 97,560,000           |                      |                    |                    |
| Hounslow to Parottee Water Supply Improvement - Hounslow Well to Newell Square | 127,200,000           | 127,200,000           |                      |                      |                    |                    |
| Victoria Town Cross Keys; Grove Town to Smithfield Replacement                 | 33,000,000            | 9,428,571             | 23,571,429           |                      |                    |                    |
| Clarks Town Water Supply - Georgia to Clarks Town Pipeline                     | 229,580,000           | 229,580,000           |                      |                      |                    |                    |
| Black River & Greater Black River Pipeline Replacement                         | 493,372,459           |                       | 493,372,459          |                      |                    |                    |
| Roaring River/Savanna-la-mar & Greater Savanna-la-mar Water Supply             | 1,685,278,143         | 42,400,000            | 559,680,000          | 535,178,143          | 336,020,000        | 212,000,000        |
| Browns Town and Greater Browns Town Pipeline Replacement                       | 718,680,000           | 318,000,000           | 400,680,000          |                      |                    |                    |
| Christiana/ Spaldings - Limit/ Cobbla/ Mizpah-PRV Installation                 | 24,433,582            | 24,433,582            |                      |                      |                    |                    |
| Cascade / Claremont / Jericho W/S  | 237,616,881           | 171,896,881           |                      |                      |                    |                    |
| Iter Boreale to Agualta Vale W/S   | 839,530,638           | 12,720,000            | 410,220,000          | 416,590,638          |                    |                    |
| Burnt Savannah / Knoxwood  | 13,799,508            | 13,799,508            |                      |                      |                    |                    |
| Bullhead / Mason River / Kellits   | 132,032,638           | 132,032,638           |                      |                      |                    |                    |
| Eastern Westmoreland Distribution  | 41,340,000            | 41,340,000            |                      |                      |                    |                    |
| Logwood to Negril W/S - NonPariel/ Sheffield/ Orange Hill                      | 344,626,724           | 344,626,724           |                      |                      |                    |                    |
| Western Hanover - Prospect / Grange / Rock Spring                              | 678,025,990           | 326,105,990           | 351,920,000          |                      |                    |                    |
| Santa Cruz Phase 1B - Pipeline   | 30,740,000            | 3,180,000             | 27,560,000           |                      |                    |                    |
| All Island Tank & Pump Rehabilitation for Operational Efficiency Improvement   | 7,490,000,000         | 4,490,000,000         | 3,000,000,000        |                      |                    |                    |
| All Island Tank & Pump Rehabilitation for Operational Efficiency Improvement   | 618,869,844           | 618,869,844           |                      |                      |                    |                    |
| Supply & Erection of 10 No. Galvanised Bolted Steel Tanks                      | 83,181,471            | 83,181,471            |                      |                      |                    |                    |
| KMA WS Impr (IDB) Project (K-factor Counterpart)                               | 140,184,788           | 140,184,788           |                      |                      |                    |                    |
| KMA WS Impr (IDB) Project (K-factor Counterpart)                               | 366,998,288           | 366,998,288           |                      |                      |                    |                    |
| Mount Pleasant & Environs Water Supply   | 257,580,000           |                       | 151,580,000          | 106,000,000          |                    |                    |
| Wood Stock STP   | 173,840,000           | 67,840,000            | 106,000,000          |                      |                    |                    |
| Anchovey   | 162,180,000           | 56,180,000            | 106,000,000          |                      |                    |                    |
| Stockholm STP  | 159,000,000           | 53,000,000            | 106,000,000          |                      |                    |                    |
| Nightingale Grove STP  | 169,600,000           | 63,600,000            | 106,000,000          |                      |                    |                    |
| Crofts Hill STP  | 180,200,000           | 74,200,000            | 106,000,000          |                      |                    |                    |
| Bushy Park STP   | 392,200,000           | 180,200,000           | 212,000,000          |                      |                    |                    |
| Claremont STP  | 190,800,000           | 84,800,000            | 106,000,000          |                      |                    |                    |
| Old Harbour Villas STP   | 254,400,000           | 42,400,000            | 212,000,000          |                      |                    |                    |
| Greater Portmore Ponds   | 1,590,000,000         | 795,000,000           | 795,000,000          |                      |                    |                    |
| Springfield (Mow Base)   | 106,000,000           | 53,000,000            | 53,000,000           |                      |                    |                    |
| Set 1 - Build New Plant  | 318,000,000           | 318,000,000           |                      |                      |                    |                    |
| Set 1 - Build New Plant  | 121,900,000           | 121,900,000           |                      |                      |                    |                    |
| Set 2 - Conveyance Line  | 371,000,000           | 371,000,000           |                      |                      |                    |                    |
| Set 2 - Conveyance Line  | 159,000,000           |                       | 159,000,000          |                      |                    |                    |
| Set 3 - Rehabilitation   | 159,000,000           | 159,000,000           |                      |                      |                    |                    |
| Set 3 - Rehabilitation   | 106,000,000           |                       | 106,000,000          |                      |                    |                    |
| Set 4 - Mechanical Plants  | 265,000,000           | 265,000,000           |                      |                      |                    |                    |
| Set 4 - Mechanical Plants  | 424,000,000           |                       | 424,000,000          |                      |                    |                    |
| Mineral Heights  | 63,600,000            | 6,360,000             | 57,240,000           |                      |                    |                    |
| Hayes # 1  | 63,600,000            | 6,360,000             | 57,240,000           |                      |                    |                    |
| Hayes # 2  | 63,600,000            | 6,360,000             | 57,240,000           |                      |                    |                    |
| Horizon Park   | 63,600,000            | 6,360,000             | 57,240,000           |                      |                    |                    |
| Eltham Park  | 136,740,000           | 13,780,000            | 95,400,000           | 27,560,000           |                    |                    |
| Harbour View Phase 2 & 3   | 225,780,000           | 225,780,000           |                      |                      |                    |                    |
| Yallahs WWTP   | 14,840,000            | 14,840,000            |                      |                      |                    |                    |
| Sector F (Majestic Gardens, Riverton City & Seaview Gardens)                   | 617,980,000           | 617,980,000           |                      |                      |                    |                    |
| Dillsbury / Millsborough Avenue Sewers   | 103,880,000           | 3,180,000             | 100,700,000          |                      |                    |                    |
| Montrose/Upper Montrose Lady Musgrave Ave Sanitary Collector Sewer             | 28,620,000            | 28,620,000            |                      |                      |                    |                    |
| Fairway Avenue/Seymour Avenue/ Retreat Avenues Collector Sewer                 | 31,800,000            | 31,800,000            |                      |                      |                    |                    |
| Constant Spring Sewers   | 464,704,000           | 2,544,000             | 46,640,000           | 231,080,000          | 184,440,000        |                    |
| Sandhurst Trafalgar Park   | 84,800,000            |                       | 42,400,000           | 42,400,000           |                    |                    |
| <b>Total</b>   | <b>22,076,494,954</b> | <b>11,292,262,285</b> | <b>8,627,243,888</b> | <b>1,358,808,781</b> | <b>520,460,000</b> | <b>212,000,000</b> |



## APPENDIX 2

| Proposed New Projects 2014-19                         |                       |
|---|-----------------------|
| Project Name  | Budgeted Expenditure  |
| East Prospect STP                                     | 286,200,000           |
| Supervision Services                                  | 159,000,000           |
| Supervision Services                                  | 212,000,000           |
| Portmore Seweline & Pump Station Project              | 2,275,820,000         |
| Vanzie Lands  | 66,810,336            |
| UTECH Sewer   | 146,280,000           |
| Downtown Kingston Sewerage Rehabilitation             | 42,399,900,000        |
| Mona Heights / Hope Pastures Sanitary Sewers          | 1,961,000,000         |
| Pembroke Hall Sewering                                | 858,600,000           |
| Birdsucker/Barbican                                   | 974,564,000           |
| Havendale   | 3,286,000,000         |
| KMA WS Impr (IDB) Project (K-factor Counterpart)      | 7,114,044,356         |
| KMA WS Impr (IDB) Project (portion of US\$133M)       | -                     |
| Islandwide NRW outside KSA                            | -                     |
| Lucky Hill Water Supply - Pipeline replacement        | 29,680,000            |
| Glenmuir HS Distribution Pipeline replacement         | 27,560,000            |
| Moravia/ Walderston/ Top Alston                       | 21,200,000            |
| Western St. Mary                                      | 1,557,140,000         |
| Richard Hall / Mt Dawson                              | 82,680,000            |
| Elderslie / Niagara / Garlands                        | 137,800,000           |
| Canaan/Adelphi/Lathium                                | 979,440,000           |
| Mavis Bank/ Content Gap / Clydesdale / Guava Ridge    | 118,720,000           |
| New Parottee/ Barbary Hall/ Hopewell                  | 942,340,000           |
| Maggotty / Cameron Hill / Carisbrook                  | 94,340,000            |
| Whitehall / New Market                                | 111,300,000           |
| Greenvale   | 10,600,000            |
| Mile Gully / Evergreen                                | 217,300,000           |
| Albert Town   | 114,480,000           |
| Comfort Hall / Richmond / Copperwood                  | 579,820,000           |
| Seaforth / York/ Morant Bay                           | 111,300,000           |
| Dornoch/ Samuel Prospect                              | 1,088,620,000         |
| John's Groyne   | 18,020,000            |
| Mitchell Town   | 37,100,000            |
| Nine Turns / Etric Hall                               | 15,900,000            |
| Higgin Town   | 111,300,000           |
| Queenhythe  | 324,360,000           |
| Goldmine  | 48,760,000            |
| Maroon Town   | 294,680,000           |
| Roehampton, Anchovy, Mount Carey, Mountpellier and    | 579,820,000           |
| Master Plan Study (preparation of K-Factor map 2019 - | -                     |
| Port Antonio Water Supply Sewerage & Drainage Proje   | 3,604,000,000         |
| Savannah - La - Mar                                   | 6,360,000,000         |
| Soapberry Expansion                                   | 9,540,000,000         |
| <b>Total</b>  | <b>86,898,478,692</b> |