
Office of Utilities Regulation

Dynamic Environment Management Limited
Annual Price Adjustment Mechanism
2020 Rate Adjustment

Determination Notice



OFFICE OF UTILITIES REGULATION

2020 October 26

DOCUMENT TITLE AND APPROVAL PAGE

1. DOCUMENT NUMBER: 2020/WAS/006/DET.006

2. DOCUMENT TITLE: Dynamic Environmental Management Limited 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 DEML's base rates and other charges.


4. ANTECEDENT PUBLICATIONS

Publication Number	Publication Title	Publication Date
2015/WAS/001/REV.001	Dynamic Environmental Management Limited – Water and Sewerage Rates Revised Determination Notice	2015 February 2

5. Approval

This document is approved by the Office of Utilities Regulation and the decisions therein become effective on 2020 October 26

On behalf of the Office:


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Director General
Ansord E. Hewitt

.....
2020 October 26

Table of Contents

Abbreviation, Acronyms and Definition.....	3
1. Executive Summary.....	4
2. Introduction	5
3. Legal Framework.....	6
4. The OUR's Analysis.....	7

Abbreviation, Acronyms and Definitions

ANPAM	-	Annual Price Adjustment Mechanism
CPI	-	Consumer Price Index
DEML	-	Dynamic Environment Management Limited
FE	-	Foreign Exchange
J\$	-	Jamaican Dollars
kWh	-	Kilowatt Hour
OUR/Office	-	Office of Utilities Regulation
OUR Act	-	Office of Utilities Regulation Act
PAM	-	Price Adjustment Mechanism
Revised Determination Notice	-	Dynamic Environmental Management Limited – Water and Sewerage Rates Revised Determination Notice, Document No. 2015/WAS/001/REV.001, issued on 2015 February 2.
US\$	-	United States Dollars

1. Executive Summary

- 1.1. On 2020 September 18, the Dynamic Environmental Management Limited (DEML) made a submission to the Office of Utilities Regulation (OUR) for an Annual Price Adjustment Mechanism (ANPAM) rate adjustment of 8.392%, to be applied to its base rates at the end of 2020 September.
- 1.2. The OUR has verified the information presented and has confirmed that an ANPAM rate adjustment of 8.392% is to be applied to the DEML's base rates.
- 1.3. The ANPAM rate adjustment is a rebasing of indices, which will be reflected on customers' 2020 October bills.
- 1.4. The new base indices for the Price Adjustment Mechanism (PAM) are as shown below:
 - Foreign Exchange Rate: J\$150.08 to US\$1.00
 - Consumer Price Index: 105.90
 - Electricity Charge: J\$50.27/kWh.

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

2. Introduction

- 2.1. The Office of Utilities Regulation (OUR) in the **Dynamic Environmental Management Limited – Water and Sewerage Rates Revised Determination Notice, document number 2015/WAS/001/REV.001**, issued 2015 February 02 (the “Revised Determination Notice”), approved the inclusion of the Price Adjustment Mechanism (PAM) as a component of the Dynamic Environmental Management Limited’s (DEML’s) customers’ bill. The PAM captures the effects of movements in certain indices associated with the DEML’s major input costs, over which it has no control.
- 2.2. The mechanism is based on the assumption that DEML 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 rates, generally on an annual basis. This annual reset is referred to as the Annual Price Adjustment Mechanism (ANPAM) rate adjustment. The objective of this resetting of the base rates annually, is to minimize the monthly PAM differential between the base rate and the applicable billing rate.
- 2.4. On 2020 September 18, DEML submitted an application to the OUR for an ANPAM rate adjustment of 8.392%, which would be implemented by the end of September 2020. The weights of the indices within the DEML’s application corresponds with the approved weighting in the Revised Determination Notice that was published on 2015 February 2.
- 2.5. The Revised Determination Notice provides the OUR’s analyses and presents the Office’ decision on DEML’s application for the ANPAM re-set.

3. Legal Framework

- 3.1. DEML is a regulated utility pursuant to the Office of Utilities Regulation Act and operates under the following licences (collectively referred to as the Licences)
- Dynamic Environmental Management Limited Water Supply Licence (Caribbean Estates and Portmore Country Club) 2008;
 - Dynamic Environmental Management Limited Sewerage Service Provider Licence (Caribbean Estates and Portmore Country Club), 2008;
 - Dynamic Environmental Management Limited Water Supply Licence (Morris Park) 2007;
 - Dynamic Environmental Management Limited Sewerage Provider Licence (Morris Park) 2007;
 - Dynamic Environmental Management Limited Water Supply Licence, 2005; and
 - Dynamic Environmental Management Limited Sewerage Provider Licence, 2005.
- 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 Revised Determination Notice which sets out the approved rates and charges for DEML’s services. The Revised Tariff Determination Notice confirmed the application of the PAM, which should be reflected on customers’ bills monthly. The Revised Determination Notice 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, DEML 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 DEML's sustainability, as it allows the company 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 DEML'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:

ΔFE is the monthly percentage change in the J\$/US\$ exchange rate,
 ΔCPI is the monthly percentage change in the CPI,
 ΔkWh is the monthly percentage in the kilowatt hour charge for electricity,
 w_{fe} is the approved weight for the J\$/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 by the rolling in of the PAM up to the anniversary date to reset the base values for the three (3) components in the mechanism.
- 4.5. Mathematically, the new base rates may be expressed as follows:
New Base Rate = Current Base Rate * (1 + ANPAM adjustment rate).
- 4.6. DEML's ANPAM adjustment rate computation implementable in 2020 September is 8.392%. 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 are as follows:
- Statistical Institute of Jamaica (STATIN) for Consumer Price Index (CPI)
 - Bank of Jamaica (BOJ) for foreign exchange (FE) rate (J\$:US\$); and
 - DEML's electricity bills for the month of 2020 August to ascertain the electricity component.

Table 4.1: ANPAM Calculation

Index	Unit	Current Base Rate Jul. 2019	New Base Rates Aug. 2020	Weight	Change	ANPAM
FE	J\$/US\$	130.94	150.08	0.21	14.617%	3.070%
CPI	-	99	105.90	0.54	6.970%	3.763%
Electricity	J\$/kWh	47.32	50.27	0.25	6.234%	1.559%
ANPAM						8.392%

- 4.8. Consistent with the base indices in the 2019 DEML ANPAM, the baseline data for FE, CPI and electricity, as shown in Table 4.1 above, shall be adjusted to J\$150.08, 105.90 and J\$50.27/kWh respectively.

Determination 1

- a) The Office approves the ANPAM rate adjustment of 8.392%, which shall be applied to the DEML's base rates and fees.
- b) The application of the ANPAM becomes effective on customers' 2020 October bills.
- c) The new base indices for the monthly PAM are as follows:
 - Foreign Exchange Rate : J\$150.08 to US\$1.00
 - Consumer Price Index : 105.90
 - Electricity Charge : \$50.27/kWh.

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

- 4.9. The ANPAM adjusted base rates are displayed in Table 4.2 below. These new rates and fees shall become effective on customers' 2020 October bills.

Table 4.2: DEML 2020 Rate Schedule

Rate Schedule	
Effective on Customers' 2020 October Bills	
Volumetric Rate	\$ 127.15
Service Charge	\$ 722.78
Reconnection Fee	\$ 4,914.68
Connection Fee	\$ 2,926.58