
Office of Utilities Regulation

National Water Commission Annual
Price Adjustment Mechanism
2021 Rate Adjustment

Determination Notice



OFFICE OF UTILITIES REGULATION

2021 April 27

DOCUMENT TITLE AND APPROVAL PAGE

1. DOCUMENT NUMBER: 2021/WAS/002/DET.002

2. DOCUMENT TITLE: National Water Commission Annual Price Adjustment Mechanism 2021 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.

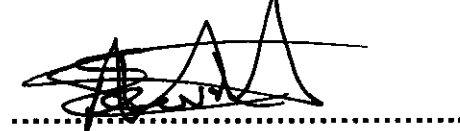
4. ANTECEDENT PUBLICATIONS

Publication Number	Publication Title	Publication Date
2020/WAS/003/DET.003	National Water Commission Annual Price Adjustment Mechanism 2020 Rate Adjustment Determination Notice	2020 April 27
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 2021 April 27

On behalf of the Office:



.....
Director-General
Ansord E. Hewitt

.....
2021 April 27

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
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 2021 March 18, 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 6.05%, to be applied to its base rates. Additionally, the Commission requested that the reconnection fees be held at its current levels until the next rate review period.
- 1.2. The OUR has verified the information presented and has confirmed that an ANPAM rate adjustment of 6.05% is applicable to the NWC's base rates. The miscellaneous/reconnection fees will remain unchanged.
- 1.3. The ANPAM rate adjustment is a rebasing of indices, which are to apply to customers' 2021 April consumption for reflection on 2021 May bills.
- 1.4. The new base indices for the Price Adjustment Mechanism (PAM) are as shown below:
 - Foreign Exchange Rate: J\$150.66 to US\$1.00
 - Consumer Price Index: 107.10
 - Electricity Charge: \$44.83/kWh.

These revised base indices will remain in effect until the next programmed reset of the ANPAM in 2022 April or the implementation of new water and sewerage tariffs, whichever is earlier. NWC is expected to submit an application for a review of its rates in 2021.

2. Introduction

- 2.1. On 2021 March 18, the NWC applied to the OUR for an ANPAM adjustment of 6.05%. The ANPAM adjustment application is consistent with the Office of Utilities Regulation's (OUR's) approval, which is outlined 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").
- 2.2. 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.
- 2.3. The PAM captures the effects of movements in certain indices associated with the NWC's major input costs, over which it has no control.
- 2.4. In particular, the mechanism is predicated on the assumption that the NWC has no control over inflation, the movement of the Jamaican dollar relative to its US dollar counterpart and electricity prices. The three (3) indices in the PAM that reflect changes in these respective costs are:
 1. Consumer Price Index (CPI);
 2. Foreign exchange rate (FE): the Jamaican dollar exchange rate relative to the United States dollar (FE); and
 3. Electricity Prices expressed as \$/kWh.
- 2.5. 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. This process generally occurs on an annual basis. The annual reset is referred to as the Annual Price Adjustment Mechanism (ANPAM).
- 2.6. The objective of the annual reset is to minimize the monthly PAM differential adjustment, which accounts for the variance between the current and the base values for the three (3) indices.

4. 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, the 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.

5. 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:

ΔFE is the monthly percentage change in the JMS/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 JMS/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. This is achieved by the 'rolling-in' of the cumulative PAM rate from the time of last ANPAM adjustment into the base rate. The calculated ANPAM rate reflects the weighted change in the base values for the three (3) components in the mechanism since the last ANPAM adjustment.

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 2021 May is 6.05%. 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 (FX) rate (JAS:US\$); and
- NWC's electricity bills for the month of 2021 February to ascertain the electricity component.

Table 4.1: ANPAM Calculation

Index	Unit	Current Base Rate Apr. 2020	New Base Rates May 2021	Weight	Change	ANPAM
FE	JS/US\$	140.73	150.66	0.18	7.056%	1.27%
CPI	-	103.20	107.10	0.62	3.779%	2.34%
Electricity	JS/kWh	39.96	44.83	0.20	12.187%	2.44%
ANPAM						6.05%

- 4.8. Consistent with the base indices approved in the National Water Commission Annual Price Adjustment Mechanism 2020 Rate Adjustment Determination Notice, document number: 2020/WAS/003/DET.003, issued 2020 April 27, the baseline data for FE, CPI and electricity as shown in Table 4.1 shall be adjusted to \$150.66, 107.10 and \$44.83/kWh respectively.
- 4.9. Additionally, the NWC has requested that reconnection fees remain unchanged until the next tariff review. The Office has no objection to this request.
- 4.10. The Standby Charges approved in the Interim Tariff Determination Notice (Determination 21) shall be adjusted in keeping with the ANPAM rate adjustment of 6.05%. However, such rates are only implementable after the OUR has approved the NWC’s current Standby Charge Policy and rollout plan.
- 4.11. The ANPAM adjusted base rates are displayed in Table 4.2 below. These new rates and charges shall be applicable to the services consumed by NWC’s customers in 2021 April. Hence, the changes to the base rates shall be reflected in the NWC’s 2021 May bills.

Determination 1

- a) The Office has approved the ANPAM rate adjustment of 6.05%, which shall be applied to the NWC’s base rates and Standby charges. However, in keeping with the NWC’s request, the ANPAM rate adjustment shall not be applied to reconnection fees.
- b) The application of the ANPAM rate adjustment shall be applied to services consumed by NWC’s customers in 2021 April. Accordingly, the changes to the base rates shall be reflected in the bills issued by the NWC in 2021 May.
- c) The new base indices for the monthly PAM are as follows:
 - Foreign Exchange Rate: JM\$150.66 to US\$1.00
 - Consumer Price Index : 107.10
 - Electricity Charge : \$44.83/kWh.

These base indices will remain unchanged until the next programmed reset of the ANPAM in 2022 April or the implementation of new water and sewerage tariffs, whichever is earlier.

Table 4.2: NWC 2021 Rate Schedule

Rate Schedule Effective 2021 April		
Service Charge		
Meter/Service Connection Size	Charges	
5/8 inch/ 15mm	\$	984.52
3/4 inch/ 20mm	\$	2,153.53
1 inch/ 25mm	\$	2,812.25
1 1/4 inch/ 30mm	\$	5,295.14
1 1/2 inch/ 40mm	\$	5,295.14
2 inch/ 50mm	\$	7,499.33
3 inch/ 75mm	\$	13,617.87
4 inch/ 100mm	\$	22,003.94
6 inch/ 150mm	\$	33,518.95
Volumetric Rate		
Consumer Category	Water Rate	Sewerage Rate
Residential (Imperial Metered)		
For up to 3,000 gallons	\$ 570.12	\$ 658.50
For the next 3,000 gallons	\$ 1,014.67	\$ 1,171.94
For the next 3,000 gallons	\$ 1,105.91	\$ 1,277.34
Over 9,000	\$ 1,886.47	\$ 2,178.88
Residential (Metric Metered)		
For up to 14,000 litres	\$ 125.40	\$ 144.84
For the next 13,000 litres	\$ 223.19	\$ 257.79
For the next 14,000 litres	\$ 243.27	\$ 280.97
Over 41,000	\$ 414.98	\$ 479.28
Commercial Imperial Metered)		
For up to 2,000,000	\$ 2,178.59	\$ 2,516.27
Over 2,000,000	\$ 1,269.86	\$ 1,466.70
Commercial (Metric Metered)		
For up to 9,100,000	\$ 479.23	\$ 553.51
Over 9,100,000	\$ 279.33	\$ 322.64
Condominiums		
Imperial Metered	\$ 1,080.71	\$ 1,248.23
Metric Metered	\$ 237.72	\$ 274.58
Primary Schools		

Imperial Metered	\$	863.36	\$	997.17
Metric Metered	\$	189.92	\$	219.34
Commercial Consumers - Standby (Water Services) Charges				
Imperial Metered				
Annual Contracted Capacity Change	\$			899.41
Volumetric (per 1000 gallons)	\$			954.08
Penalty (per 1000 gallons)	\$			954.08
Metric Metered				
Annual Contracted Capacity Change	\$			197.85
Volumetric (per 1000 litres)	\$			209.86
Penalty (per 1000 litres)	\$			209.86
Miscellaneous Fees				
Disconnection and Reconnection Type		Fees		
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