
Office of Utilities Regulation

Dynamic Environmental Management Limited
Annual Price Adjustment Mechanism
2021 Rate Adjustment

Determination Notice



OFFICE OF UTILITIES REGULATION

2021 October 25

DOCUMENT TITLE AND APPROVAL PAGE

1. DOCUMENT NUMBER: 2021/WAS/004/DET.004

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

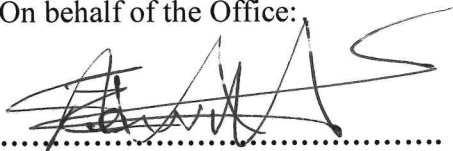
4. ANTECEDENT PUBLICATIONS

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 2021 October 25

On behalf of the Office:



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Director-General
Ansord E. Hewitt

.....
2021 October 25

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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 number 2015/WAS/001/REV.001, issued on 2015 February 2.
US\$	-	United States Dollars

1. Executive Summary

- 1.1. On 2021 September 16, Dynamic Environmental Management Limited (DEML) presented its submission to the Office of Utilities Regulation (OUR) for an Annual Price Adjustment Mechanism (ANPAM) rate adjustment of 6.827%, applicable to its base rates.
- 1.2. The OUR has verified and approved the ANPAM rate adjustment of 6.827%, which is to be applied to the DEML's base rates. This adjustment is in keeping with the requirements specified in **Dynamic Environmental Management Limited - Water and Sewerage Rates Determination Notice: document number 2015/WAS/001/REV.001**, which addresses the application of the Price Adjustment Mechanism.
- 1.3. The new base indices for the Price Adjustment Mechanism (PAM) are as follows:
- Foreign Exchange Rate US\$1.00 - J\$: 154.33
 - Consumer Price Index : 112.30
 - Electricity Charge J\$/kWh : 56.24
- 1.4. The new base indices will remain in effect until the next reset of the ANPAM or until the implementation of new tariffs, whichever is earlier.
- 1.5. The new base rate and fees become effective on 2021 November 01 and are displayed in Table 1.1 below.

Table 1.1: 2021 Rate Schedule

Rate Schedule		
Effective 2021 November 01		
Water Rates	(\$/thousand liters)	135.83
Sewerage Rates	(\$/thousand liters)	135.83
Service Charge	(\$/month)	772.12
Reconnection Fee	(\$)	5,250.21
Connection Fee	(\$)	3,126.38

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. This mechanism is designed to capture 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. As such 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 rate adjustment 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 adjustments into the base rates, annually. This annual reset is referred to as the Annual Price Adjustment Mechanism (ANPAM) rate adjustment. The objective of the ANPAM rate adjustment is to minimize the monthly PAM differential between the base rate and the applicable billing rate.
- 2.4. On 2021 September 16, DEML submitted an application to the OUR for an ANPAM rate adjustment of 6.827%. The weights of the indices in DEML’s application are consistent with those approved in the OUR’s 2015 Revised Determination Notice.
- 2.5. The 2015 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 on 2015 February 15, issued a Revised Determination Notice, which sets out the approved rates and charges for DEML’s services. In the Revised Determination Notice the OUR approved the continuation of the PAM, with annual reset. The PAM adjustment rate is to be reflected on customers’ bills monthly.

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 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 financial viability of the utility company, as it allows the adjustment of 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, which are 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) indices 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. The OUR verified the accuracy of the ANPAM adjustment rate of 6.827%. Table 4.1 below shows the details of the computation.
- 4.7. The source of the input data are as follows:
- STATIN for CPI
 - BOJ for foreign exchange rate (US\$1: J\$)
 - DEML's electricity bills for the month of 2021 August to ascertain the electricity component

Table 4.1: ANPAM Calculation

Index	Unit	Current Base Rate Aug. 2020	New Base Rates Aug. 2021	Weight	Change	ANPAM
FE	US\$1:J\$	150.08	154.33	0.21	2.832%	0.595%
CPI	-	105.90	112.30	0.54	6.043%	3.263%
Electricity	J\$/kWh	50.27	56.24	0.25	11.876%	2.969%
ANPAM						6.827%

- 4.8. The base indices which were approved in DEML's Annual Price Adjustment Mechanism Determination Notice on 2020 October 26 are now reset. The baseline for FE, CPI and electricity shall be adjusted to 154.33, 112.30 and 56.24 respectively. See Table 4.1 above for details.
- 4.9. The new base rates are displayed in Table 4.2 below. These new rates and fees become effective on 2021 November 01.

Table 4.2: 2021 Rate Schedule

Rate Schedule Effective 2021 November 01		
Water Rate	(\$/thousand liters)	135.83
Sewerage Rate	(\$/thousand liters)	135.83
Service Charge	(\$/month)	772.12
Reconnection Fee	(\$)	5,250.21
Connection Fee	(\$)	3,126.38

Determination 1

- The Office approves the ANPAM rate adjustment of 6.827%, which shall be applied to DEML's base rates and fees.
- The application of the ANPAM rate adjustment becomes effective on 2021 November 01.
- The new base indices for the monthly PAM are as follows:
 - Foreign Exchange Rate US\$1.00 - J\$: 154.33
 - Consumer Price Index : 112.30
 - Electricity Charge J\$/kWh: 56.24
- The new base indices will remain unchanged until the next ANPAM reset or the implementation of new tariffs, whichever is earlier.

