
Office of Utilities Regulation

Runaway Bay Water Company Limited
Annual Price Adjustment Mechanism
2021 Rate Adjustment

Determination Notice



2021 September 27

DOCUMENT TITLE AND APPROVAL PAGE

1. DOCUMENT NUMBER: 2021/WAS/003/DET.003

2. DOCUMENT TITLE: Runaway Bay Water Company 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 RBWC's base rates and other charges.

4. ANTECEDENT PUBLICATIONS

Publication Number	Publication Title	Publication Date
2021/WAS/001/DET.001	Runaway Bay Water Company Limited – Water and Sewerage Rates Determination Notice	2021 April 27
2021/WAS/002/DET.002	National Water Commission Annual Price Adjustment Mechanism 2021 Rate Adjustment Determination Notice	2021 April 27

5. Approval

This document is approved by the Office of Utilities Regulation and the decisions therein become effective on 2021 September 27

On behalf of the Office:



Director General
Ansord E. Hewitt

2021 September 27

Table of Contents

Abbreviation, Acronyms and Definitions.....	4
1. Executive Summary.....	5
2. Introduction	6
3. Legal Framework.....	7
4. The OUR's Analysis.....	8

Abbreviation, Acronyms and Definitions

ANPAM	-	Annual Price Adjustment Mechanism
CPI	-	Consumer Price Index
Determination Notice	-	Runaway Bay Water Company Limited – Water and Sewerage Rates Determination Notice, document number 2021/WAS/001/DET.001, issued on 2021 April 27.
FE	-	Foreign Exchange
JM\$	-	Jamaican Dollars
kWh	-	Kilowatt Hour
Licences	-	Runaway Bay Water Company Limited Water Supply Licence, 2004, Runaway Bay Water Company Limited Water Licence Supply, 2014 and Runaway Bay Water Company Limited Sewerage Service Licence, 2014
Licensee/RBWC	-	Runaway Bay Water Company Limited
NWC	-	National Water Commission
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 July 09, Runaway Bay Water Company Limited (RBWC) made an application to the Office of Utilities Regulation (OUR) for an Annual Price Adjustment Mechanism (ANPAM) rate adjustment of 6.05%, to be applicable to its base rates.
- 1.2. The Office has approved the ANPAM rate adjustment of 6.05%, which shall be applied to RBWC's base rates. This adjustment is in keeping with the requirements specified in **Runaway Bay Water Company Limited - Water and Sewerage Rates Determination Notice: document number 2021/WAS/001/DET.001**, which addressed the application of the Price Adjustment Mechanism, and its relationship to the National Water Commission's Price Adjustment Mechanism.
- 1.3. No proposal was submitted for an adjustment to the company's reconnection fee.
- 1.4. The new base indices for the Price Adjustment Mechanism (PAM) are as follows:
 - Foreign Exchange Rate: J\$150.66 to US\$1.00
 - Consumer Price Index: 107.10
 - Electricity Charge: \$44.83/kWh
- 1.5. The new base rates will remain in effect until the next programmed reset of the ANPAM in 2022 August or the implementation of new tariffs, whichever is earlier.

2. Introduction

- 2.1. The OUR in the **Runaway Bay Water Company Limited - Water and Sewerage Rates Determination Notice, document number 2021/WAS/001/DET.001**, issued 2021 April 27 (the “Determination Notice”), approved the retention of the PAM as a component of RBWC’s rate structure. The PAM corrects for movement in the Consumer Price Index (CPI), the Jamaican dollar exchange rate relative to the United States Dollar (FE) and Electricity Prices (KWh).
- 2.2. In accordance with the decisions in Determination Notice the PAM rate adjustment for RBWC should be equivalent to that of the NWC’s PAM. However, the application of the rate adjustment by RBWC lags that of the NWC by one month. The PAM is normally reset at its anniversary date, at which time new base values for the three (3) components are established. The mechanism for the annual reset of the PAM is termed the Annual Price Adjustment Mechanism (ANPAM).
- 2.3. The ANPAM mechanism allows for an adjustment of base rates by the rolling-in of the cumulative monthly PAM rate adjustments into the base rates. This adjustment is generally done annually. The main objective of this reset is to minimize the monthly PAM rate adjustment that is applied to customers’ bills.
- 2.4. On 2021 July 09, RBWC submitted an application to the OUR for an ANPAM rate adjustment of 6.05%.

3. Legal Framework

3.1. RBWC is a regulated utility pursuant to the Office of Utilities Regulation Act and operates under the following licences (collectively referred to as the Licences):

- Runaway Bay Water Company Limited Water Supply Licence, 2004
- Runaway Bay Water Company Limited Water Licence Supply, 2014
- Runaway Bay Water Company Limited Sewerage Service Licence, 2014

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 Determination Notice which sets out the approved rates and charges for RBWC’s services. The Determination Notice also makes allowance for an annual price adjustment, where RBWC’s ANPAM rates are tied to that of the NWC. On 2021 April 27 the Office issued its decision on the NWC’s application for an ANPAM rate adjustment.

3.5. In keeping with the determination regarding the annual reset of the PAM, RBWC has now applied for an ANPAM rate adjustment of its base rates.

4. The OUR's Analysis

- 4.1. The review of rates is, in general, guided by the principles of establishing rates that are sufficient to cover prudently incurred costs. The annual price adjustment mechanism is one such mechanism designed by the OUR to align rates with prudently incurred costs. The mechanism allows the company to adjust its rates on a monthly basis to account for the effect of changes in input cost that are exogenous to its operations.

The Price Adjustment Mechanism

- 4.2. The PAM seeks to preserve RBWC rates in real terms against monthly fluctuations in its 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. In resetting the base rates in keeping with the ANPAM, the weighted average percentage change for the PAM, is applied to the current base rates.
- 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. In keeping with the Office's decision to apply an ANPAM rate equivalent to that of the NWC to RBWCL, the OUR verified the proposed 6.05% ANPAM against the ANPAM determined for the NWC.
- 4.7. The source of the input data for the ANPAM granted to NWC 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
 - NWC's electricity bills for the month of 2021 February to ascertain the electricity component.
- 4.8. Details of the computation of the NWC's ANPAM rate of 6.05% are shown in Table 4.1 below.

Table 4.1: ANPAM Rate Adjustment Computation

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

- 4.9. On 2021 April 27, the Office issued the National Water Commission Annual Price Adjustment Mechanism 2021 Rate Adjustment Determination Notice, document number 2021/WAS/002/DET.002 in which it approved the ANPAM rate adjustment of 6.05%. The ANPAM rate adjustment was applied to the bills issued by NWC in 2021 May for consumption of services rendered in the month of 2021 April.
- 4.10. In keeping with the Determination Notice, the baseline data for FE, CPI and electricity, as shown in Table 4.1 above, shall be adjusted to \$150.66, 107.10 and \$44.83/kWh respectively.
- 4.11. No proposal was submitted for an adjustment to the company's reconnection fee.
- 4.12. The ANPAM adjusted base rates for RBWC are displayed in Table 4.2 below. These new rates becomes effective on customers' 2021 September bills.

Determination 1

- a) The Office has approved the ANPAM rate adjustment of 6.05%, which shall be applied to the RBWC's base rates. The ANPAM rate adjustment shall not be applied to reconnection fees.
- b) The application of the ANPAM rate adjustment becomes effective on customers' 2021 September's bills.
- c) RBWC new base rates will remain in effect until the next programmed reset of the ANPAM in 2022 September or the implementation of new tariffs, whichever is earlier.

Table 4.2: RBWC 2021 Rate Schedule

Rate Schedule Effective 2021 September	
Service Charge	
Description (Size)	JS/ Month
5/8 inch/ 15mm	732.11
1 inch/ 25mm	2,098.61
2 inch/ 50mm	5,596.25
3 inch/ 75mm	10,163.69
4 inch/ 100mm	16,418.52
8 inch/ 200mm (NWC by Contract)	11,491.78
Water Rates	
Consumption Bands (Litres)	JS/1000 litres
Commercial	
0 to 9,100,000	357.52
Over 9,100,000	208.40
Condominiums	177.33
Bulk Water Supply Rate (NWC by Contract)	40.46
Domestic	
0 to 14,000	93.64
14,001 to 27,000	166.54
27,001 to 41,000	181.62
41,001 and Over	309.54
Sewerage Rates	
Consumption Bands (Litre)	JS/1000 litres
Commercial	
0 to 9,100,000	416.42
Over 9,100,000	242.73
Condominiums	206.54
Domestic	
0 to 14,000	108.93
14,001 to 27,000	192.77
27,001 to 41,000	211.30
41,001 and Over	360.59