
Office of Utilities Regulation

National Water Commission Annual
Price Adjustment Mechanism
2022 Rate Adjustment

Determination Notice



OFFICE OF UTILITIES REGULATION

2022 April 25

| DOCUMENT TITLE AND APPROVAL PAGE | | | | | | | | | | | | | | | | | |
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| 1. DOCUMENT NUMBER: 2022/WAS/002/DET.001 | | | | | | | | | | | | | | | | | |
| 2. DOCUMENT TITLE: National Water Commission Annual Price Adjustment Mechanism 2022 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 <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 25%;">Publication Number</th> <th style="width: 50%;">Publication Title</th> <th style="width: 25%;">Publication Date</th> </tr> </thead> <tbody> <tr> <td>2021/WAS/002/DET.002</td> <td>National Water Commission Annual Price Adjustment Mechanism 2021 Rate Adjustment Determination Notice</td> <td>2021 April 27</td> </tr> <tr> <td>2020/WAS/003/DET.003</td> <td>National Water Commission Annual Price Adjustment Mechanism 2020 Rate Adjustment Determination Notice</td> <td>2020 April 27</td> </tr> <tr> <td>2019/WAS/007/DET.003</td> <td>National Water Commission Interim Tariff Review 2019-2021 Determination Notice</td> <td>2019 December 09</td> </tr> <tr> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table> | | | Publication Number | Publication Title | Publication Date | 2021/WAS/002/DET.002 | National Water Commission Annual Price Adjustment Mechanism 2021 Rate Adjustment Determination Notice | 2021 April 27 | 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 | | | |
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| 5. Approval This document is approved by the Office of Utilities Regulation and the decisions therein become effective on 2022 April 25. On behalf of the Office: <div style="text-align: center;">  Director-General Ansord E. Hewitt 2022 April 25 </div> | | | | | | | | | | | | | | | | | |

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 2022 March 23, 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 11.70%, to be applied to its base rates. Additionally, the Commission is requesting an increase in miscellaneous/reconnection fees.
- 1.2. The OUR has verified the information presented and has confirmed that an ANPAM rate adjustment of 11.70% is applicable to the NWC's base rates. By extension, this means that a maximum rate of 11.70% is also applicable to NWC's Miscellaneous/ reconnection fees.
- 1.3. The ANPAM rate adjustment is a rebasing of a specified set of indices. This rate adjustment is applicable to customers' 2022 April consumption, which will be reflected in their 2022 May bills.
- 1.4. The new base indices for the Price Adjustment Mechanism (PAM) are as shown below:
 - Foreign Exchange Rate: J\$157.13 to US\$1.00
 - Consumer Price Index: 118.6
 - Electricity Charge: \$54.41/kWh.

These revised base indices will remain in effect until the next programmed reset of the ANPAM in 2023 April or the implementation of new water and sewerage tariffs, whichever is earlier.

2. Introduction

- 2.1. On 2022 March 23, the NWC applied to the OUR for an ANPAM rate adjustment of 11.70%. The ANPAM rate 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 three 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 (FX): the Jamaican dollar exchange rate relative to the United States dollar (FX); 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.

3. 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 latest approved rates and charges for NWC’s services. The Interim Tariff Determination includes the application of the PAM which is reflected on customers’ bills monthly. The Interim Tariff Determination further indicated that the PAM should be reset at its anniversary.

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 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 and charges each year. This is achieved by the 'rolling- in' of the cumulative PAM rate from the time of last ANPAM adjustment into the base rates. 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 applicable as of 2022 May is 11.70%. 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 (JA\$:US\$); and
- NWC's electricity bills for the month of 2022 February to ascertain the electricity component.

Table 4.1: ANPAM Calculation

| Index | Unit | Current Base Rates April 2022 | New Base Rates May 2022 | Weight | Percentage Change | ANPAM |
|-------------|----------|-------------------------------|-------------------------|--------|-------------------|--------|
| FX | J\$/US\$ | 150.66 | 157.13 | 0.18 | 4.294% | 0.77% |
| CPI | - | 107.1 | 118.60 | 0.62 | 10.738% | 6.66% |
| Electricity | J\$/kWh | 44.83 | 54.41 | 0.20 | 21.370% | 4.27% |
| ANPAM | | | | | | 11.70% |

- 4.8. Consistent with the base indices approved in the National Water Commission Annual Price Adjustment Mechanism 2021 Rate Adjustment Determination Notice, document number: 2021/WAS/002/DET.002, issued 2021 April 27, the baseline data for FE, CPI and electricity as shown in Table 4.1 shall be adjusted to \$157.13, 118.60 and \$54.41/kWh respectively.
- 4.9. The Commission has also requested that its miscellaneous/reconnection fees be adjusted upwards since the company has been experiencing an overall increase in costs accompanied by rate hike demands from its contractors. Table 4.2 below provides the details of the NWC proposed miscellaneous rates and the OUR approved rates.
- 4.10. In light of the circumstance outlined by the NWC and taking into account the fact that reconnection fees have remained unchanged since 2019, the request to increase the fees is considered to be reasonable and it is in accordance with the provisions of the price adjustment mechanism. In light of this, the OUR approves the increase.
- 4.11. It should be noted however, that the ANPAM adjustment rate is 11.70%, therefore the applicable increase to all rates and charges will be capped at the rate of 11.70%. In this regard, the NWC's proposal to increase the fee for *Removal and Replacement of Service (Unmetered)* by 12.5% to \$4,500.00 has been modified. The OUR has adjusted the increase to \$4,470.00 in line with the ANPAM rate 11.70%.

Table 4.2 Miscellaneous Rates

| Disconnection and Reconnection Fees | Current Fees | Calculated Fees (11.70% Increase) | NWC Requested Fees | NWC % Increase | OUR Approved Fees | OUR % Increase |
|--|--------------|-----------------------------------|--------------------|----------------|-------------------|----------------|
| Domestic Unmetered Services (Locked) | \$935.00 | \$1,044.43 | \$1,000.00 | 7.0% | \$1,000.00 | 7.0% |
| Removal and Replacement of Service (Unmetered) | \$4,000.00 | \$4,468.17 | \$4,500.00 | 12.5% | \$4,470.00 | 11.7% |
| Domestic Metered Service (Locked) | \$935.00 | \$1,044.43 | \$1,000.00 | 7.0% | \$1,000.00 | 7.0% |
| Replaced 5/8 inch/ 15mm and 3/4 inch/ 20mm | \$8,300.00 | \$9,271.45 | \$9,000.00 | 8.4% | \$9,000.00 | 8.4% |
| Replaced 1 inch/ 25mm and over | \$12,500.00 | \$13,963.03 | \$13,000.00 | 4.0% | \$13,000.00 | 4.0% |
| Commercial Metered Service (Locked) | \$935.00 | \$1,044.43 | \$1,000.00 | 7.0% | \$1,000.00 | 7.0% |
| Replaced | \$12,500.00 | \$13,963.03 | \$13,000.00 | 4.0% | \$13,000.00 | 4.0% |

- 4.12. The Standby Charges, which were approved in the Interim Tariff Determination Notice (Determination 21) shall be adjusted in keeping with the ANPAM rate adjustment of 11.70%. However, such rates are only implementable after the OUR has approved the NWC's current Standby Charge Policy and rollout plan.

- 4.13. The ANPAM adjusted base rates are displayed in Table 4.3 below. These new rates and charges shall be applicable to the services consumed by NWC's customers in 2022 April. Hence, the changes to the base rates shall be reflected in the NWC's 2022 May bills.

Determination 1

- a) The Office has approved the ANPAM rate adjustment of 11.70%, which shall be applied to the NWC's base rates and Standby charges.
- b) Given the approved increases to the Miscellaneous/Reconnection Fees they shall be as follows:

| Disconnection and Reconnection Fees | OUR Approved Fees |
|--|--------------------------|
| Domestic Unmetered Services (Locked) | \$1,000.00 |
| Removal and Replacement of Service (Unmetered) | \$4,470.00 |
| Domestic Metered Service (Locked) | \$1,000.00 |
| Replaced 5/8 inch/ 15mm and 3/4 inch/ 20mm | \$9,000.00 |
| Replaced 1 inch/ 25mm and over | \$13,000.00 |
| Commercial Metered Service (Locked) | \$1,000.00 |
| Replaced | \$13,000.00 |

- c) The application of the ANPAM rate adjustment shall be applied to services consumed by NWC's customers in 2022 April. Accordingly, the changes to the base rates shall be reflected in the bills issued by the NWC in 2022 May.
- d) The new base indices for the monthly PAM are as follows:
- Foreign Exchange Rate: JM\$157.13 to US\$1.00
 - Consumer Price Index : 118.60
 - Electricity Charge : \$54.41/kWh.

These base indices will remain unchanged until the next programmed reset of the ANPAM in 2023 April or the implementation of new water and sewerage tariffs, whichever is earlier.

Table 4.3: NWC 2022 Rate Schedule

| Rate Schedule Effective 2022 April | | |
|---|-------------------|----------------------|
| <i>Service Charge</i> | | |
| Meter/Service Connection Size | Charge | |
| 5/8 inch/ 15mm | \$ | 1,099.75 |
| 3/4 inch/ 20mm | \$ | 2,405.58 |
| 1 inch/ 25mm | \$ | 3,141.40 |
| 1 1/4 inch/ 30mm | \$ | 5,914.90 |
| 1 1/2 inch/ 40mm | \$ | 5,914.90 |
| 2 inch/ 50mm | \$ | 8,377.07 |
| 3 inch/ 75mm | \$ | 15,211.74 |
| 4 inch/ 100mm | \$ | 24,579.34 |
| 6 inch/ 150mm | \$ | 37,442.09 |
| <i>Volumetric Rate</i> | | |
| Consumer Category | Water Rate | Sewerage Rate |
| Residential (Imperial Metered) | | |
| For up to 3,000 gallons | \$ 636.85 | \$ 735.57 |
| For the next 3,000 gallons | \$ 1,133.43 | \$ 1,309.11 |
| For the next 3,000 gallons | \$ 1,235.35 | \$ 1,426.84 |
| Over 9,000 | \$ 2,107.27 | \$ 2,433.90 |
| Residential (Metric Metered) | | |
| For up to 14,000 litres | \$ 140.08 | \$ 161.79 |
| For the next 13,000 litres | \$ 249.31 | \$ 287.96 |
| For the next 14,000 litres | \$ 271.74 | \$ 313.86 |
| Over 41,000 | \$ 463.55 | \$ 535.38 |
| Commercial Imperial Metered) | | |
| For up to 2,000,000 | \$ 2,433.58 | \$ 2,810.78 |
| Over 2,000,000 | \$ 1,418.49 | \$ 1,638.37 |
| Commercial (Metric Metered) | | |
| For up to 9,100,000 | \$ 535.32 | \$ 618.29 |
| Over 9,100,000 | \$ 312.02 | \$ 360.40 |
| Condominiums | | |
| Imperial Metered | \$ 1,207.20 | \$ 1,394.33 |
| Metric Metered | \$ 265.54 | \$ 306.72 |

| | | |
|---|----------------|-------------|
| | | |
| Primary Schools | | |
| Imperial Metered | \$ 964.41 | \$ 1,113.88 |
| Metric Metered | \$ 212.15 | \$ 245.01 |
| | | |
| Commercial Consumers - Standby (Water Services) | Charges | |
| Imperial Metered | | |
| Annual Contracted Capacity Change | \$ | 1,004.68 |
| Volumetric (per 1000 gallons) | \$ | 1,065.75 |
| Penalty (per 1000 gallons) | \$ | 1,065.75 |
| | | |
| Metric Metered | | |
| Annual Contracted Capacity Change | \$ | 221.01 |
| Volumetric (per 1000 litres) | \$ | 234.42 |
| Penalty (per 1000 litres) | \$ | 221.05 |
| | | |
| Miscellaneous Fees | | |
| Disconnection and Reconnection Type | Fees | |
| Domestic Unmetered Service (Locked) | \$ | 1,000.00 |
| Removal and Replacement of Service (Unmetered) | \$ | 4,470.00 |
| Domestic Metered Service (Locked) | \$ | 1,000.00 |
| Domestic Metered Service Removed and Replaced 5/8 inch/ 15mm and 3/4 inch/ 20mm | \$ | 9,000.00 |
| Domestic Metered Service Removed and Replaced 1 inch/ 25mm and over | \$ | 13,000.00 |
| Commercial Metered Service (Locked) | \$ | 1,000.00 |
| Commercial Metered Service Removed and Replaced | \$ | 13,000.00 |