
Office of Utilities Regulation

Runaway Bay Water Company Limited
Annual Price Adjustment Mechanism
2022 Rate Adjustment

Determination Notice



2022 June 28

DOCUMENT TITLE AND APPROVAL PAGE

1. DOCUMENT NUMBER: 2022/WAS/003/DET.002

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

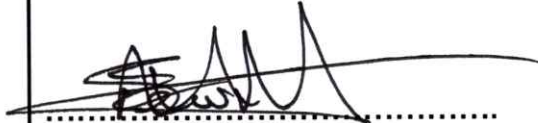
4. ANTECEDENT PUBLICATIONS

Publication Number	Publication Title	Publication Date
2022/WAS/002/DET.001	National Water Commission Annual Price Adjustment Mechanism 2022 Rate Adjustment Determination Notice	2022 April 25
2021/WAS/003/DET.003	Runaway Bay Water Company Limited Annual Price Adjustment Mechanism 2021 Rate Adjustment Determination Notice	2021 September 27
2021/WAS/001/DET.001	Runaway Bay Water Company Limited Water and Sewerage Rates Determination Notice	2021 April 27

5. Approval

This document is approved by the Office of Utilities Regulation and the decisions therein become effective on 2022 June 28

On behalf of the Office:



Director General
Ansord E. Hewitt

2022 June 28

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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
J\$	-	Jamaican Dollars
kWh	-	Kilowatt Hour
Licences	-	Runaway Bay Water Company Limited Water Supply Licence, 2004, Runaway Bay Water Company Limited Sewerage Service Licence, 2014 and Runaway Bay Water Company Limited Water Supply and Distribution Licence, 2017
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 2022 May 06, Runaway Bay Water Company Limited (RBWC) made an application to the Office of Utilities Regulation (OUR) for an Annual Price Adjustment Mechanism (ANPAM) adjustment of 11.70% to be applied to its base rates.
- 1.2. The Office has approved the ANPAM base rate adjustment of 11.70%. 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 addresses 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 ANPAM rate adjustment is applicable to customers' 2022 June consumption, which will be reflected in 2022 July bills.
- 1.5. The new base indices for the Price Adjustment Mechanism (PAM) are as follows:
 - Foreign Exchange Rate: J\$157.13 to US\$1.00
 - Consumer Price Index: 118.60
 - Electricity Charge: \$54.41/kWh
- 1.6. The new base rates will remain in effect until the next programmed reset of the ANPAM in 2023 May or the implementation of new tariffs, whichever is earlier.

2. Introduction

- 2.1. On 2022 May 06, 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 11.70%. This request is consistent with the determinations made 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”).
- 2.2. In the Determination Notice, the OUR 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).
- 2.3. The Determination Notice states that 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 on the anniversary date of the Determination Notice. Hence, the annual reset of the PAM is termed the Annual Price Adjustment Mechanism (ANPAM).
- 2.4. 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. The main objective of the annual reset is to minimize the monthly PAM differential adjustment on customers’ bills, which accounts for the variance between the current and the base values for the three (3) PAM indices.

3. Legal Framework

3.1. The RBWC is regulated by 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 Sewerage Service Licence, 2014
- Runaway Bay Water Company Limited Water Supply and Distribution Licence, 2017

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 guided by the principle that the rates should be sufficient to cover costs that are prudently incurred. In this regard, the monthly and annual price adjustment mechanisms are designed to align the rates with prudently incurred costs.

The Price Adjustment Mechanism

- 4.2. The PAM allows RBWC to adjust its rates on a monthly basis to account for the effect of changes in input cost that are exogenous to its operations. It therefore seeks to preserve RBWC rates in real terms against monthly fluctuations in its input costs, 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 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. In keeping with the Office's decision to apply an ANPAM rate equivalent to that of the NWC to the RBWCL, the OUR verified the proposed 11.70% ANPAM against the ANPAM rate that was approved 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 2022 February to ascertain the electricity component.

4.8. Details of the computation of the NWC's ANPAM rate of 11.70% are shown in Table 4.1 below.

Table 4.1: ANPAM Rate Adjustment Computation

Index	Unit	Current Base Rate Apr. 2021	New Base Rates May 2022	Weight	Change	ANPAM
FE	JS/US\$	150.66	157.13	0.18	4.294%	0.77%
CPI	-	107.10	118.60	0.62	10.738%	6.66%
Electricity	JS/kWh	44.83	54.41	0.20	21.370%	4.27%
ANPAM						11.70%

- 4.9. On 2022 April 25, the Office issued the National Water Commission Annual Price Adjustment Mechanism 2022 Rate Adjustment Determination Notice, document number 2022/WAS/002/DET.001 in which it approved the ANPAM rate adjustment of 11.70%. The ANPAM rate adjustment was applied to bills issued by NWC in 2022 May for services rendered in the month of 2022 April.
- 4.10. Given the Office's decision in the Determination Notice to align RBWC's ANPAM with that of the NWC, it therefore holds that the approved ANPAM rate adjustment of 11.70% for the NWC is applicable to RBWC. Accordingly, in keeping with the Determination Notice, the existing baseline FE (J\$150.66), CPI (107.10) and electricity price (J\$44.83), as shown in Table 4.1 above, shall be adjusted to reflect the new baseline parameters of \$157.13, 118.60 and \$54.41/kWh respectively. This translates to the base rate adjustments of 11.70%.
- 4.11. No proposal was received for an adjustment to the company's miscellaneous/reconnection fees.
- 4.12. The new base rates for RBWC are displayed in Table 4.2 below. These new rates becomes effective on customers' 2022 July bills.

Determination 1

- a) The Office has approved the ANPAM rate adjustment of 11.70%, which shall apply to RBWC's base rates. The ANPAM rate adjustment shall not apply to reconnection fees.
- b) The application of the ANPAM rate adjustment becomes effective on customers' 2022 July bills.
- c) RBWC new base rates will remain in effect until the next programmed reset of the ANPAM or the implementation of new tariffs, whichever is earlier.

Table 4.2: RBWC 2022 Rate Schedule

Rate Schedule Effective 2022 July	
Service Charge	
Description (Size)	JS/ Month
5/8 inch/ 15mm	817.77
1 inch/ 25mm	2,344.15
2 inch/ 50mm	6,251.01
3 inch/ 75mm	11,352.84
4 inch/ 100mm	18,339.49
8 inch/ 200mm (NWC by Contract)	12,836.32
Water Rates	
Consumption Bands (Litres)	JS/1000 litres
Commercial	
0 to 9,100,000	399.35
Over 9,100,000	232.78
Condominiums	198.08
Bulk Water Supply Rate (NWC by Contract)	45.19
Domestic	
0 to 14,000	104.60
14,001 to 27,000	186.03
27,001 to 41,000	202.87
41,001 and Over	345.76
Sewerage Rates	
Consumption Bands (Litre)	JS/1000 litres
Commercial	
0 to 9,100,000	465.14
Over 9,100,000	271.13
Condominiums	230.71
Domestic	
0 to 14,000	121.67
14,001 to 27,000	215.32
27,001 to 41,000	236.02
41,001 and Over	402.78
Miscellaneous Fees	
Fee Type	JS
Reconnection	4,370.00