
Office of Utilities Regulation

Runaway Bay Water Company Limited
Annual Price Adjustment Mechanism
2023 Rate Adjustment

Determination Notice



2023 June 26

DOCUMENT TITLE AND APPROVAL PAGE

1. **DOCUMENT NUMBER:** 2023/WAS/007/DET.003

2. **DOCUMENT TITLE:** Runaway Bay Water Company Limited Annual Price Adjustment Mechanism 2023 Rate Adjustment – Determination Notice

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.

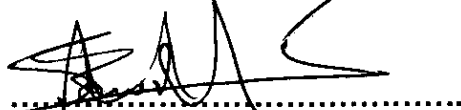
4. ANTECEDENT PUBLICATIONS

| Publication Number | Publication Title | Publication Date |
|----------------------|---|------------------|
| 2023/WAS/004/DET.002 | National Water Commission Annual Price Adjustment Mechanism 2023 Rate Adjustment Determination Notice | 2023 April 27 |
| 2022/WAS/003/DET.002 | Runaway Bay Water Company Limited Annual Price Adjustment Mechanism 2022 Rate Adjustment Determination Notice | 2022 June 28 |
| 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 2023 June 26

On behalf of the Office:



.....
Director General
Ansord E. Hewitt

2023 June 26

Table of Contents

Abbreviation, Acronyms and Definitions 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 |
| 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. |
| FX | - | Foreign Exchange |
| J\$ | - | Jamaican Dollars |
| kWh | - | Kilowatt Hour |
| Licences | - | Runaway Bay Water Company Limited Water Supply Licence, 2004, Runaway Bay Water Company Limited Water Supply and Distribution Licence, 2017 and Runaway Bay Water Company Limited Sewerage Services Provider 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 2023 June 02, 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 5.11% to be applied to its base rates.
- 1.2. The OUR has reviewed and examined RBWC's application and has set out its findings in this Determination Notice.
- 1.3. The OUR has no objection to the ANPAM base rate adjustment of 5.11% as proposed by RBWC. 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.
- 1.4. No proposal was submitted for an adjustment to the company's reconnection fee.
- 1.5. The ANPAM rate adjustment is a rebasing of a specific set of indices only, and mirrors that of the NWC. The adjustment is applicable to customers' 2023 June consumption, which will be reflected in 2023 July bills.
- 1.6. The new base indices for the Price Adjustment Mechanism (PAM) are as follows:
 - Foreign Exchange Rate: J\$154.89 to US\$1.00
 - Consumer Price Index: 127.80
 - Electricity Charge: \$55.92/kWh
- 1.7. The new base indices will remain in effect until the next programmed reset of the ANPAM in 2024 May, or the implementation of new tariffs, whichever is earlier.

2. Introduction

- 2.1. On 2023 June 02, 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 5.11%. 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, RBWC was granted approval to retain its’ PAM component to be a part of its’ rate structure. The aim of the mechanism is to correct the price of the utility for changes in three (3) base indices. Namely, the Consumer Price Index (CPI), the Jamaican dollar exchange rate relative to the United States Dollar (FX) and Electricity Prices (kWh).
- 2.3. The PAM rate adjustment, which was granted to RBWC, is equivalent to that of the NWC’s PAM. However, the application has a one-month lag, to that of the NWC’s PAM. The PAM has a feature where there is a reset of the base rates on the anniversary date of the Determination Notice. In this case, the anniversary date would be that of the NWC’s Tariff Determination Notice. The annual reset of the PAM is known as the Annual Price Adjustment Mechanism (ANPAM) rate adjustment.
- 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 Services Provider 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 2023 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 OUR's review and determination of rates is guided by the principle that rates should be sufficient to cover prudently incurred costs. 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 as follows:

$$\text{PAM} = (w_{fx} * \Delta\text{FX} + w_{cpi} * \Delta\text{CPI} + w_{kWh} * \Delta\text{kWh}) * 100$$

Where:

ΔFX 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_{fx} 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 5.11% 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 (FX) rate (J\$:US\$); and
- NWC's electricity bills for the month of 2023 February to ascertain the electricity component.

4.8. The details of the computation of the NWC’s ANPAM rate of 5.11% are shown in Table 4.1 below.

Table 4.1: ANPAM Computation

| Index | Unit | Current Base Rate Apr. 2022 | New Base Rate Apr. 2023 | Weight | Change | ANPAM |
|--------------------|-------------|------------------------------------|--------------------------------|---------------|---------------|---------------|
| FX | J\$/US\$ | 157.13 | 154.89 | 0.18 | -1.426% | -0.26% |
| CPI | - | 118.60 | 127.80 | 0.62 | 7.757% | 4.81% |
| Electricity | J\$/kWh | 54.41 | 55.92 | 0.20 | 2.775% | 0.56% |
| ANPAM | | | | | | 5.11% |

4.9. On 2023 April 27, the OUR issued the National Water Commission Annual Price Adjustment Mechanism 2023 Rate Adjustment Determination Notice, document number 2023/WAS/004/DET.002 in which, it approved the ANPAM rate adjustment of 5.11%. The ANPAM rate adjustment was applied to bills issued by the Commission in 2023 May for services rendered in the month of 2023 April.

4.10. Given the OUR’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 5.11% for the NWC is applicable to RBWC. Accordingly, in keeping with the Determination Notice, the current baseline rates as shown in Table 4.1 above, shall be adjusted to reflect the new baseline parameters of FX: \$154.89, CPI: 127.80 and Electricity: \$55.92/kWh. This translates to the base rate adjustments of 5.11%.

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 become effective on customers’ 2023 July bills.

Determination 1

- a) The Office has approved the ANPAM rate adjustment of 5.11%, 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’ 2023 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 2023 Rate Schedule

| Rate Schedule Effective 2023 July | |
|---|-----------------------|
| Service Charge | |
| Description (Size) | JS/ Month |
| 5/8 inch/ 15mm | 859.56 |
| 1 inch/ 25mm | 2,463.94 |
| 2 inch/ 50mm | 6,570.44 |
| 3 inch/ 75mm | 11,932.97 |
| 4 inch/ 100mm | 19,276.64 |
| 8 inch/ 200mm (NWC by Contract) | 13,492.26 |
| Water Rates | |
| Consumption Bands (Litres) | JS/1000 litres |
| Commercial | |
| 0 to 9,100,000 | 419.76 |
| Over 9,100,000 | 244.68 |
| Condominiums | 208.20 |
| Bulk Water Supply Rate (By Contract to the NWC) | 47.50 |
| Domestic | |
| 0 to 14,000 | 109.95 |
| 14,001 to 27,000 | 195.54 |
| 27,001 to 41,000 | 213.24 |
| 41,001 and Over | 363.43 |
| Sewerage Rates | |
| Consumption Bands (Litre) | JS/1000 litres |
| Commercial | |
| 0 to 9,100,000 | 488.91 |
| Over 9,100,000 | 284.98 |
| Condominiums | 242.50 |
| Domestic | |
| 0 to 14,000 | 127.89 |
| 14,001 to 27,000 | 226.32 |
| 27,001 to 41,000 | 248.08 |
| 41,001 and Over | 423.36 |
| Miscellaneous Fees | |
| Fee Type | JS |
| Reconnection | 4,370.00 |