



The National Water and Sewerage Commission through the power vested by the Water and Sewerage Act of 2005 Chapter 9.03 of the Revised Laws of St. Lucia 2008 (Section 37 (c) hereby makes the final Determination for the annual adjustment of tariffs applicable for 2014, pursuant to the Water and Sewerage Act Chapter 9.03 of the Revised Laws of St. Lucia 2008 (sections 78 - 84)



Agency: National Water and Sewerage Commission

Water Company: National Water and Sewerage Company Inc (WASCO).

Activity: Tariff Review

Type of Review Annual

Duration of Tariff: Twelve Months to March 2015

Stage: Final Determination Notice

Effective Date: Immediately

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Summary of Determinations

In response to the proposal submitted by the Water and Sewerage Company Inc. (WASCO) for the annual tariff review as provided for in the Water and Sewerage Act Chapter 9.03 of the Revised Laws of St. Lucia 2008 for the application of an increase of 1.1%, the Commission has made the following Determinations:

1. **The twelve month period February 2013 to January 2014 will be used as the base for calculating the 2014 index.**
2. **The index that has been derived for 2014 is 0.999046; this can reasonably and practically be rounded to 1.00.**
3. **The rates charged by WASCO shall therefore remain unchanged for 2014.**

Introduction

The National Water and Sewerage Commission (The Commission) has statutory responsibility, by virtue of powers conferred on it by the Water and Sewerage Act Chapter 9.03 of the Revised Laws of St. Lucia 2008, to regulate providers (Licencees) of water and sewerage services in St Lucia. The Water and Sewerage Company Inc. (WASCO) is the primary provider of water and sewerage services in St Lucia.

The Act provides for WASCO's tariffs to be reviewed and adjusted under three sets of circumstances

- a) annual tariff review;
- b) triennial tariff review; and
- c) extraordinary tariff review.

The base WASCO tariffs were established in the Act and subsequently adjusted through an extraordinary tariff review proceeding which commenced in February 2013 and concluded the following April. The extraordinary tariff adjustment became effective in April 2013. The Act provides for an annual review to be effected through a simple adjustment based on an indexation mechanism that recognizes the changes in labour rates, in energy, in St Lucia CPI and US PPI over the preceding 12 months.

Having implemented the new tariff effective April, 2013, WASCO has, in keeping with the regulations, applied to the Commission for the annual adjustment for 2014. WASCO's application is dated March 17, 2014.

This document sets out the Commission's decision regarding the annual adjustment and its reasons therefore. The Commission has also taken the opportunity to comment on the need to agree with WASCO on the procedure which to be adopted in subsequent years.

Legislative and Regulatory Framework

Section 35 (1) (c) of the Act provides a general function of the Commission to establish and approve tariff schemes, while Sections 78 - 84 sets out the principles and procedures which guide the Commission in its tariff making functions. The following are instructive:

Section 78 TARIFF SCHEME AND TARIFF

(1) A tariff scheme for the services of a service licensee shall be based on the following general principles –

- (a) tariffs must recover –*
 - (i) the efficiently incurred costs of the service, and*
 - (ii) a reasonable return on capital thereby permitting the service licensee to attain the objective of economic equilibrium;*
- (b) a tariff scheme must be explicit and elaborated in a manner so as to be easily understood, and must be made available to customers;*

(c) *subject to paragraph (d) a tariff must not be unduly discriminating, in the sense that all customers in the same category will be treated equally;*

(d) *when demand so permits, different tariffs may be established for differing localities, seasons, categories of customers, volumes of water provided and volumes of sewage discharged, if costs of the services so justify;*

(e) *subject to paragraph (d), a tariff scheme must not penalize the service licensee for –*

(i) *past benefits or benefits obtained from operating the services,*

(ii) *efficiency increases different from those considered in the tariff reviews; and*

(f) *a tariff scheme may permit the granting of a direct subsidy in accordance with section 83 or a cross subsidy in accordance with section 84.*

(2) *The Commission shall by order published in the Gazette and at least 2 newspapers in general weekly circulation in Saint Lucia –*

(a) *establish a tariff scheme for the services of a service licence;*

(b) *modify an existing tariff scheme in accordance with the modifications approved by the Commission for the services of a service licensee in accordance with sections 80, 81 or 82.*

Section 79 TYPES OF REVIEWS

There shall be 3 types of tariff reviews carried out in relation to the service of a service licensee as follows –

(a) *annual tariff review;*

(b) *triennial tariff review; and*

(c) *extraordinary tariff review;*

which will be considered by the Commission in approving a tariff or a tariff scheme or a modification of a tariff scheme in accordance with sections 80, 81 or 82.

Sections 80 and 81 specifically address the matter of the Annual tariff review which is the subject of this proceeding.

Section 80 ANNUAL TARIFF REVIEW

(1) *An annual tariff review shall be carried out annually by a service licensee within a triennial period between the ninth and the eleventh month in each 12 month period following the date of commencement of the service licence of that service licensee.*

(2) *In carrying out the annual tariff review the service licensee shall ensure that the value of the tariff is maintained in real terms, regardless of the evolution of the service licensee's own costs and using an index stipulated in the service licence.*

(3) *The service licensee shall submit to the Commission the new tariffs if any which it requires to be applied in accordance with the tariff scheme together with supporting information for approval and publication in accordance with subsection (4).*

(4) *The Commission –*

(a) may amend the new tariffs required by the service licensee and submitted to it pursuant to subsection (3), if it considers that an error has been made in calculating the new tariffs; or

(b) shall, if it accepts the tariffs submitted to it pursuant to subsection (3), publish the new tariffs, the corresponding indices and the effective date in two newspapers in general and weekly circulation in Saint Lucia at least one month prior to the effective date.

The Water and Sewerage (Tariff) Regulations Section 97 of the Act Part 2 Clause 4 and 5 address the Indexation Adjustment and the associated procedures.

4. Indexation Adjustment

(1) *A service licensee is entitled to adjust its water and sewerage rates annually in accordance with the indexation formula in Schedule 2 to compensate it for the impact of inflation on costs and to allow for efficiency gains and capital investment.*

(2) *Indices specified in Schedule 2 are to be the latest index available at the time of the review.*

(3) *The indexation formula shall be applied equally to all service licensees' tariff classes.*

5. Indexation Procedure

(1) *Two months prior to the start of each year, the service licensee shall apply the indexation formula to tariffs, and notify the Commission of the proposed new tariffs, the corresponding indices and the effective date.*

(2) *The Commission may amend the proposed new tariffs if it considers that an error has been made in calculating the tariffs.*

(3) *Where the commission accepts the tariffs submitted in accordance with this regulation, it shall publish the new tariffs, the corresponding indices and the effective date in the Gazette and 2 newspapers in weekly circulation in Saint Lucia, at least one month prior to the effective date.*

(4) *The service licensee shall implement the new tariffs no earlier than the effective date.*

(5) *The service licensee may object to the new tariffs if it believes that the Commission has erred and in the event of an objection, the Commission and the service licensee shall resolve the dispute in accordance with the appeals process outlined under the Act.*

(6) *In the event of a dispute that extends beyond the effective date of the new tariffs, the service licensee's tariff shall be implemented until the dispute is resolved and if the decision is given against the service licensee, it shall immediately reduce tariffs to the agreed level and issue a customer refund.*

Indexation Formula (Schedule 2 of the Regulations)

Both the Commission and WASCO recognised that greater clarity was needed in the composition of the formula and agreed, without changing definitions of terms or the structure, to the following restatement:

$$T_t = T_{(t-1)} * [1 + (.4 \Delta L) + (.3 \Delta E) + (.2 \Delta I) + (.1 \Delta CPI) + K]$$

Where T, L, E, I, CPI and K are as defined in the regulation:

T = Tariff;

t = Year in which the adjustments will be implemented (current year);

t- 1 = Year prior to the year in which the adjustments will be implemented

L = Wage Index, measured by the wage rate for the lowest grade of worker at Cable & Wireless

E = Tariff for high voltage electricity supply (per kWh)

I = Industrial index weighting for Maintenance costs as measured by changes to the following categories in the US Department of Labor Producer Price Index (This index does not take into account currency fluctuations and so shall be adjusted during a triennial tariff review to provide for exchange rate fluctuation if the currency in Saint Lucia is no longer pegged to the US Dollar):

Category

P - Pump and Pumping Equipment Manufacturing, Domestic Water Systems

FM - Totalizing Fluid Meters and Counting Devices, Integrating and Totalizing Meters for Gas and Liquids

I = Industrial Index, as calculated by:

$$(P + FM)/2$$

CPI = St Lucia Consumer Price Index, as published by the St Lucia Central Statistics Office

K = K factor. This is to be determined by the Commission during each triennial tariff review;

and ΔL = change in labour index = $[L_t - L_{(t-1)}] / L_{(t-1)}$

ΔE = change in electricity index = $[E_t - E_{(t-1)}] / E_{(t-1)}$

ΔI = change in Industrial Index = $[I_t - I_{(t-1)}] / I_{(t-1)}$

ΔCPI = change in CPI = $[CPI_t - CPI_{(t-1)}] / CPI_{(t-1)}$

Summary of WASCO’s Annual Tariff Review Proposal

WASCO submitted its application for the annual adjustment dated March 17 2014 pursuant to the Annual Tariff Review provisions in the Act (section 80). In its submission WASCO sought approval for an increase of 1.1% in the base rates through the application of the indexation formula defined in the Regulations and as restated.

In its submission, WASCO contends that

“The formula as stated in the Regulations is flawed and the years 2013 and 2012 were used as the base years in arriving at the increase of 1.1% for the year in question.”

Based on this, WASCO uses input data that it considers appropriate and reflective of the period 2012 - 2013 to calculate the annual index.

WASCO indexation data inputs are provided at Table 1 below.

Table 1
WASCO indexation data inputs

L	E	I	CPI	K
$L_t = 0$	$E_t = 1.032$	$P_t = 204.7$	$CPI_t = 103.29$	0
$L_{(t-1)} = 0$	$E_{(t-1)} = 0.977$	$P_{(t-1)} = 199.32$	$CPI_{(t-1)} = 107.20$	
$\Delta L = 0$	$\Delta E = 0.056295$	$\Delta P = 0.27$	$\Delta CPI = - 0.0365$	
		$FM_t = 195.7$		
		$FM_{(t-1)} = 188.72$		
		$\Delta FM = 0.37$		
		$\Delta I = 0.32$		

Based on these inputs, the derived adjustment proposed by WASCO for application to the tariffs and thus the index for 2014 is 1.1%.

The Commission’s Comments on WASCO’s Proposal

WASCO makes two assertions in its proposal which must be addressed at the onset. The company contends that

“(i) the formula as stated in the Regulations is flawed; and

(ii) the years 2013 and 2012 were used as the base years in arriving at the increase of 1.1% for the year in question.”

The Commission is not aware of any flaws in the Regulations particularly as the restatement of the indexation formula to achieve greater clarity, was done with agreement between the Commission and WASCO suggesting that any perceived flaws would have been addressed. The proposal by WASCO to use 2012 and 2013 as the base years is equally questionable as the Extraordinary Tariff Review which was conducted in February and March 2013 would have adjusted the base inputs and used available data to inform the tariff assessment as at January 2013. The Commission, therefore, does not agree with WASCO’s proposal to use the 2012 - 2013

as the base period for indexation but consistent with Section 4 (2) of the Water and Sewerage Tariff Regulations (SI 106/2008) the Commission will use “*the latest index available at the time of the review*”.

The adjustment proposal from WASCO was first received by letter dated March 17, 2014. The Commission therefore concludes that this date should be used for the purposes of fixing the time of the review.

Determination 1

The Commission has therefore determined that the twelve month period February 2013 to January 2014 will be used as the base for calculating the 2014 index.

The Commission notes that WASCO’s presentation is not fully compliant with the procedures prescribed in the Regulations where, it was in breach of the following requirements, for example:

- a) From clause 4(2) - Indices specified are to be the latest index available at the time of the review; and
- b) from clause 5(1) - Two months prior to the start of each year, the service licensee shall apply the indexation formula to tariffs, and notify the Commission of the proposed new tariffs, the corresponding indices and the effective date.

The situation regarding (a) above is addressed as part of the Determination in this document but the Commission is aware that this is the first such submission made by WASCO under these Regulations and it, therefore, will engage with the company to provide guidance for future submissions.

The Commission also notes that the outcome of the next Triennial review is due for implementation August 2015. WASCO would be well advised to make a timely submission for its 2015 annual adjustment so as to avoid any misconceptions and confusion between the two events. Going forward the Commission intends to consult with WASCO on a strategy to smooth out the process so the effective date of the annual adjustment as well as any tariff arising from a Triennial Review would be coincident with WASCO’s financial year.

The Commission’s response and determination of the indexation factor

The Commission accepts the assumptions made by WASCO that $L = 0$ and $K = 0$.

The Commission has derived the index using the twelve month period February 2013 to January 2012 as the base and has determined the various indices to be as presented at Table 2.

Table 2

The Commissions derived indices

L	E	I	CPI	K
$L_t = 0$	$E_t = 1.006$	$P_t = 208.40$	$CPI_t = 115.72$	0
$L_{(t-1)} = 0$	$E_{(t-1)} = 1.032$	$P_{(t-1)} = 201.50$	$CPI_{(t-1)} = 115.45$	
$\Delta L = 0$	$\Delta E = -0.02519$	$\Delta P = 0.03$	$\Delta CPI = 0.002339$	
		$FM_t = 195.70$		
		$FM_{(t-1)} = 190.10$		
		$\Delta FM = 0.30$		
		$\Delta I = 0.031851$		

The calculation of the annual inflation adjustment from which the escalation factor is derived is provided at Table 3. For the avoidance of doubt this index does not represent a percentage change but is a simple multiplier as demonstrated in the formula in Table 3 where $T_t = T_{(t-1)} * IA$.

Table 3

The Commission's derivation of Inflation Index

Indexation Formula			
$T_t = T_{(t-1)} * IA$			
Indexation Adjustment (IA) =			
$[1 + (0.4\Delta L) + (0.3\Delta E) + (0.2\Delta I) + (0.1\Delta CPI) + K]$			
$T_t = T_{(t-1)} * [1 + (0.4\Delta L) + (0.3\Delta E) + (0.2\Delta I) + (0.1\Delta CPI) + K]$			
		2014	
		Multiplier	Index
ΔL	0	0.400	0
ΔE	-0.02519	0.300	-0.00756
ΔI	0.031851	0.200	0.00637
ΔCPI	0.002339	0.100	0.000234
K	0		0
IA	0.999046		

Determination 2

Based on the foregoing, as the index that has been derived for 2014 is 0.999046; this can reasonably and practically be rounded to 1.00.

Determination 3

The rates charged by WASCO shall therefore remain unchanged for 2014.

Appendix

Appendix 1: US Bureau of Labor and Statistics-PPI Tables

Pump and Pumping Equipment Manufacturing
Product Code 333911
Domestic water systems
Product Code 333911-1Z1
Index Base Dec-83

Month	2010	2011	2012	2013	2014
January	182.40	190.00	199.40	201.50	208.40
February	182.40	190.10	199.90	201.50	206.90
March	182.40	191.10	199.90	204.90	207.40
April	184.50	190.30	199.90	204.30	208.20
May	184.30	190.50	198.70	204.30	
June	184.30	190.50	198.70	204.30	
July	185.70	191.60	198.90	204.70	
August	187.60	192.10	199.40	204.70	
September	187.50	192.20	199.40	204.70	
October	187.60	193.30	199.30	204.70	
November	187.40	193.30	199.60	204.70	
December	176.40	194.40	201.80	205.90	

Totalizing Fluid Meters and Counting Devices
Product Code 334514
Integrating and Totalizing Meters for Gas and Liquids
Product Code 334514 - 1
Index Base Dec-83

Month	2010	2011	2012	2013	2014
January	171.50	173.80	182.30	189.70	195.70
February	171.80	174.00	182.30	190.10	196.70
March	171.20	173.80	186.90	190.00	197.30
April	172.50	178.30	188.20	193.40	199.40
May	172.40	177.60	188.00	195.70	
June	172.20	177.60	188.20	195.70	
July	172.40	179.60	189.00	195.70	
August	172.50	179.60	188.90	195.70	
September	172.40	179.60	188.70	195.70	
October	172.70	181.40	188.80	195.70	
November	172.30	182.30	188.80	195.70	
December	172.30	182.30	188.80	195.70	

Appendix 2: St Lucia Central Statistics Office – Consumer Price Index

All Items Index

Index Base	Jan-08				
Month	2010	2011	2012	2013	2014
January	105.19	106.86	111.44	116.20	115.72
February	105.13	106.21	111.11	115.45	117.39
March	105.15	107.09	111.36	115.09	119.18
April	105.72	107.31	111.39	115.10	
May	105.40	108.40	111.38	115.23	
June	105.86	108.91	112.36	115.24	
July	105.94	109.62	112.24	114.70	
August	106.18	109.17	112.49	112.96	
September	106.14	108.90	112.26	113.76	
October	105.91	109.78	117.72	113.60	
November	105.60	110.03	117.42	114.68	
December	105.56	110.61	116.15	115.29	

Appendix 3: LUCELEC High Voltage Electricity Rates

LUCELEC Basic Energy Rates (Adjusted Annually) EC\$/kWh

Month		2010	2011	2012	2013	2014
Domestic	From 1 - 180			0.867	0.922	0.896
	From 180 and over			0.917	0.972	0.946
Commercial	LV			1.017	1.072	1.046
	HV			0.977	1.032	1.006
Industrial	LV			1.017	1.072	1.046
	HV			0.977	1.032	1.006
Hotels	LV			1.017	1.072	1.046
	HV			0.977	1.032	1.006
Street lighting				1.012	1.067	1.041

Source: LUCELEC Website - www.lucelec.com