



# Annual Report

## & Financial Statements

### 2002/03



*Working for better Utility Services*

E-mail: [consumer@our.org.jm](mailto:consumer@our.org.jm) Website: [www.our.org.jm](http://www.our.org.jm)





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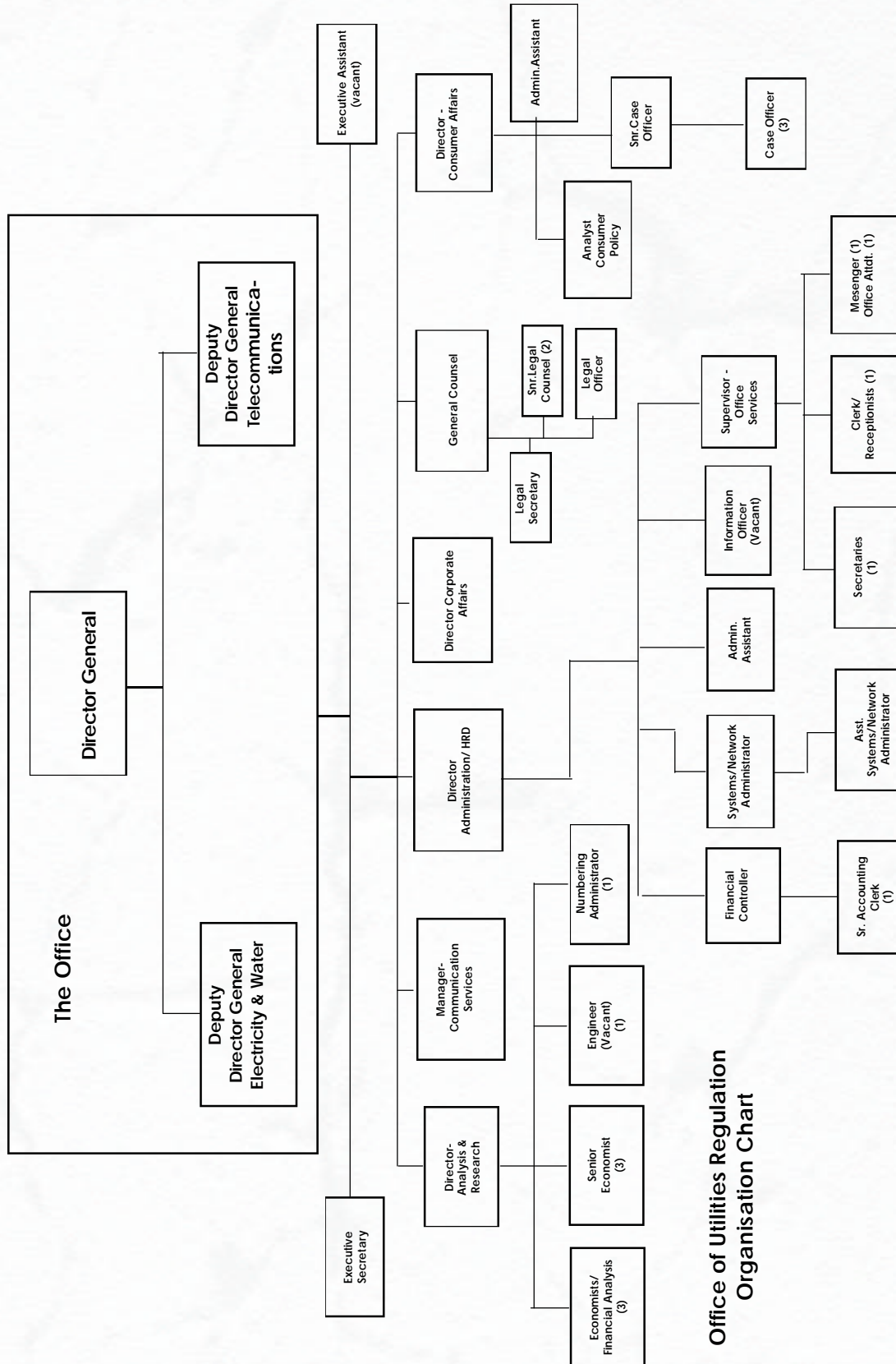


**OFFICE OF UTILITIES REGULATION**

*Working for better Utility Services*

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## Organization Chart



Office of Utilities Regulation  
Organisation Chart



*To contribute to national development by  
creating an environment for the efficient  
delivery of utility services to the customers  
whilst ensuring that service providers have  
the opportunity to make a reasonable  
return on investment.*





## INTRODUCTION

Transport Water Telecommunications Electricity Transport Water

**T**he Office of Utilities Regulation Act of 1995 established the Office of Utilities Regulation (the Office/OUR) as a body corporate. Under the Act, the OUR is charged with the responsibility of regulating the provision of utility services in the following sectors:

- ♦ Electricity
- ♦ Telecommunications
- ♦ Water
- ♦ Sewerage
- ♦ Public transportation by road, rail and ferry.

This, the sixth report of the Office, will inform Parliament and the country at large of the activities of the OUR for the period 1st April 2002 to 31st March 2003.



## OBJECTIVES

Transport Water Telecommunications Electricity Transport Water

- *To ensure that consumers of utility services enjoy an acceptable quality of service at reasonable cost.*
- *To establish and maintain transparent, consistent and objective rules for the regulation of utility service providers.*
- *To promote the long-term efficient provision of utility services for national development consistent with Government's policy.*
- *To provide an avenue of appeal for consumers who have grievances with the utility service providers.*
- *To work with other related agencies in the promotion of a sustainable environment.*
- *To act independently and impartially.*



## MEMBERS OF THE OFFICE

**J. PAUL MORGAN**  
DIRECTOR GENERAL

**G. COURTNEY JACKSON**  
DEPUTY DIRECTOR GENERAL





## Director General's Statement

In many ways, the year just ended, may have been the most significant in the short history of the OUR. The year 2002 saw the organization celebrating its fifth anniversary; consequent on its first Director General demitting office, the leadership changed; and its regulatory process experienced its first real test when aspects of its decision making was challenged in the courts.



**J Paul Morgan**  
*Director General*

During the week of September 1-7 the OUR embarked on a number of

events in celebration of its fifth anniversary. The climax of the week was the Awards Ceremony at the Mona Visitors Lodge on the 6th. This was a splendid but emotional affair. Emotional as the opportunity was used to pay tribute and say good-bye to Winston Hay. Then Minister of Industry, Commerce and Technology, the Hon. Phillip Paulwell was the guest speaker. Eleven staff members were recognized for their service to the organization.

Winston Hay, who was appointed as the first Director General in October 1996 and subsequently reappointed for a second three-year term in 1999, demitted office at the end of September 2002. Much has been said about his contribution to the development of this institution and his commitment to seeing the OUR firmly established as a credible, objective and balanced regulator.

He has been lauded for his dedication to the task and for his unapologetic integrity and honesty. I can only use the medium of this annual report to record for posterity our sincere thanks to him for his vision and leadership as he sought to position the organization firmly within the landscape of governance in Jamaica. We wish him and his family well.

I consider it a real privilege to have been appointed by **His Excellency the Governor General Sir Howard Cooke** to

succeed Mr. Hay with effect from December 01, 2002. The first months of my tenure have indeed been challenging and I must, at the onset record my appreciation to every single member of the OUR team for embracing the change and putting in more than could reasonably have been expected to see me through what was an extremely difficult and challenging transition.

While I assert that the OUR has delivered on its mandate, I am mindful that some criticisms have been leveled at the organization, particularly in terms of its capacity to deal with the volume of issues with which it has been confronted. At the outset it was recognised that a competent staff is an absolute requirement and that *by building competency, skill and maintaining good staff morale, high levels of productivity and quality could be achieved.*



## Director General's Statement

As a consequence, the Office invests heavily in the training and development of its human resources. It procures those skills that it does not have as third party services and uses these services not only as developmental tools but also to fill resource gaps at peak periods. We are mindful that the costs of regulation can be expensive and in the same way that we seek to have the companies operate efficiently, we ourselves must be efficient and offer our stakeholders good value for money. To this end staffing levels must always be optimal. We believe that the investment in human resources is now paying great dividends and the Office can state without fear of successful contradiction that the OUR has on its current staff the finest group of regulatory professionals to be found anywhere in the region.

I am also mindful that the content of this report must satisfy two provisions of the Act - (i) to present the audited financial statements and (ii) to report on the activities of the Office and specifically on the state of the sectors for which the Office has regulatory responsibility. This annual report is structured to fulfill these statutory requirements.

### CONSUMER AFFAIRS

In the scheme of things, the Consumer Affairs Department deserves special mention and recognition, as it found itself handling a total of 2,865 consumer contacts during the year. This compares with 2,208 contacts in the previous year and 763 in the year prior to that with a net increase in staff of 1. The period in December/January, when over 400 contacts were received in respect of JPS, was particularly challenging and the Office has been minded to recognise the attention and devotion of the CAD staff in attempting to keep up to date. That the department did not meet its performance standards belies the tremendous effort put out by the staff.

The Office has commissioned a survey designed to elicit consumers' views on a whole slew of issues ranging from public perception of the OUR to expectations of service quality delivered by the service providers. The Office will be using the results of the survey to assist in the design of its own public education programmes as well as to inform the negotiation of service quality issues with the several service providers.

One of the significant initiatives undertaken by the Office in its attempt to secure acceptable levels of service for consumers is the introduction of the "Guaranteed Standards Scheme" where the service providers undertake to make compensatory payments to its customers when it fails to meet an agreed standard. *This scheme has been formally introduced by the Jamaica Public Service Company and the National Water Commission.* The response by customers has been disappointing, to say the least and the Office has formed the view that the lack of uptake, may be due to the scheme being inappropriate for the Jamaican environment, or the level of compensatory payment offered is too low, or the standards that have been defined are not consistent with the customers' expectation of good service. It is anticipated that the survey will provide answers to these issues.

The Office regards its Public Education programmes as a vital part of its responsibility to consumers and much effort has been directed at organizing community meetings across the country. The Office is grateful for the assistance that it has received from the Jamaica Information Service in organizing these community meetings. In all, just over 100 such meetings were held islandwide with an average of 100 persons attending each meeting. The primary focus of these meetings is to expose communities to the role and functions of the OUR and to hear consumers' views on the performance and their expectations of the service providers.





## Director General's Statement

The Consumers Advisory Committee chaired by Dr. Alfred Sangster continues to provide the Office with an independent view of issues related to the utilities and is regarded as an integral part of the consultative machinery. It is anticipated that this Committee will be expanded during the upcoming year and that its influence on the decision making process will continue to grow. The Committee has provided the Office with useful comments on several important issues and is becoming an increasingly important input to the consultative process.

### TELECOMMUNICATIONS

The Telecommunications Act 2000 was the first of the sector specific legislation to have been enacted and with it Jamaica was the first of the English speaking Caribbean countries to liberalize its telecommunications sector. The liberalization process was planned to be implemented over a three-year period in three phases commencing March 2000 with the award of two licences for mobile services to Mossel Jamaica Ltd (trading as Digicel) and Centennial Jamaica Ltd. (now operating as Oceanic Digital Jamaica Ltd.). Phase 2, which commenced in September 2001 provided for the opening of the domestic market with licences for domestic service providers and domestic carriers among others being made available. On March 1, 2003 the liberalization process was completed with the opening of the international market to competition.

The focus of activities during the year under review, was the work necessary to prepare the sector for full liberalization on March 1. I must state at the outset that the Office did not achieve all its objectives in this regard and I am less than satisfied with our performance.

However there were a number of factors that were completely outside of our control and influenced our preparedness for the March date, not the least of these being:

- i.* the two matters that Mossel Jamaica Ltd brought before the courts and on which the Office cannot therefore take action until the courts have handed down their decisions, and
- ii.* the date of receipt from the Minister, of the Direction to invite licences, posed an aggressive time frame in which to complete the arrangements, I also believe that there were activities within our control that we could and should have managed better.

Having said that, a challenge facing the Office is that of adjudicating over the conflicting objectives of the new entrants and the incumbent, in a manner that balances the expectations and justifiable impatience of the one, to see the arrangements in place for them to do business with the capacity of the other to respond to and handle the demands for new services in a timely manner.

During the year under review the activities in the telecommunications sector could be broadly characterized under three general headings - activities to facilitate entry; enforcement of regulation and the resolution of customer complaints. With regards to the first - consultations have been ongoing or concluded on a number of issues, which when determinations are made will enhance the competitive environment. The specifics of these are reported on in some detail elsewhere in this report. Suffice to say that consultations relating to modifications to the price cap regime for C&WJ and the considerations relating to the imposition of Access Deficit Charges were pre-eminent, but equally important were the conclusion of the consultation on the market for directory enquiries.



## Director General's Statement

A consultative document entitled "Toward Universal Service/Access Obligation for Telecommunication Services In Jamaica" was released in October. The results of this consultation, anticipated in November 2003, will provide the basis on which the Office will formulate its advice to the *Minister of Commerce, Science and Technology*.

The Office has a duty under Section 51 of the Telecommunications Act to issue terms and conditions to C&WJ, or any licensed carrier, in such cases where the Office is satisfied that the information presented to it is sufficient for the company to reasonably conclude that the company's international facilities are being bypassed to terminate international calls in Jamaica. The hearing of bypass matters has been one of the most vexed issues between C&WJ and the Office with the company claiming that the Office does not act expeditiously in responding to submissions presented by the company.

One of the primary duties of the Office is to promote competition. While the growth and vibrancy of the mobile market has been nothing short of spectacular and the three companies involved, C&WJ (Mobile), Mossel Jamaica and Oceanic Digital, must be specially recognized and commended, the results in other markets have been mediocre, at best. The calling card market for example has just not shown the activity expected. The Office will be monitoring the markets very closely in the upcoming year to establish objective reasons for the performance or non-performance of the several markets and will seek to identify measures to facilitate increased vibrancy.

The Office is conscious of the changing Information, Communications and Technology (ICT) landscape and the consequential impact on policy, but it would caution against any initiatives to disturb the existing market and regulatory environment and would suggest that,

apart from minor amendments to the 2000 Act to improve the administrative provisions, a comprehensive review of the Act be undertaken in two or three years hence.

### WATER AND SEWERAGE

Perhaps the most important development in the water sector is the commitment by the Government through the Ministry of Water and Housing to the preparation of a new Act, the "Water Supply and Sewerage Services Act" to govern the water sector. When enacted, this legislation will provide the specific regulatory and operating framework for the sector and will remove any perceived ambiguities in the respective functions of policy makers, regulators and operators. Most importantly, it is expected that the role of the National Water Commission as a service provider will be specifically defined.

The Office continued to have and to express reservations about the NWC, in particular, its commitment to the regulatory process but, the Office was pleased to note that towards the end of the year the NWC, made positive steps towards compliance in that some reports were being regularly submitted.

The Office had anticipated that in setting a new regulatory framework for the NWC, which recognized some of the difficulties and challenges that it was facing, the organization would respond by showing improvements in efficiencies, at least in some areas. The fact that these gains were not realized has led the Office to conclude that its original views were correct and that the problems at the NWC are structural and "cultural". The Office is therefore gratified to have noted that the NWC commissioned a study with a view to securing recommendations directed at organizational and structural improvements.





## Director General's Statement

The Office has also noted, with some satisfaction that the NWC has commissioned a cost of service study, in compliance with the regulatory framework, as a precursor to submitting itself to a tariff review. The Office would, however, caution that the cost of service study cannot be conducted in isolation of the organizational review and in considering any application for a new tariff the Office would take into consideration the anticipated effects of any gains to be realized from organizational restructuring.

The Office is mindful that the Government has signaled its intention to wean the NWC from the public purse. While the Office will have to be mindful of this objective as it reviews the NWC tariff, it will need a clear statement of policy from the government in terms of its social policy objectives. The need to address issues such as the structure and legal mandate of the NWC, the build out of the water systems into uneconomic areas, the costs of providing social water, the requirement that the NWC will have to be allowed to operate as a "commercial entity" without political interference in its day to day operations but subject to the direction of the regulator, the capitalization of the company and, most important, the requirements for a suitable institutional structure to manage sewerage operations are all issues that must be addressed. The Office is quite prepared to discharge its mandate in regulating the NWC within the context of stated policy but it must caution that the process will not be successful if the NWC receives conflicting signals from the government.

A positive area, however, is that the NWC seems to have shown the greatest improvement, when compared with all sectors, in its delivery of customer care. Perhaps the area of greatest concern and one in which it must be admitted, that the Office has not been successful in securing the attention of the company, is the sewerage operations.

The Office is mindful that, in the tariff, it provided a significant revenue stream to be devoted to sewerage operations and also a not insignificant amount was provided for capital maintenance. It is of concern that there is no evidence that these funds have been or are being used for the purposes intended. The Office can only recommit itself to addressing possible solutions for dealing with this critical and important sub sector, if only to protect and optimize the operations of the existing infrastructure. To this end the Office will seek to address, what may be institutional issues at the level of the responsible ministry, while attempting to deal with the operational and other issues with the NWC.

### ELECTRICITY

Three developments came to the fore during the year under review the consideration of which must be concluded during the upcoming year and the results of which could influence the electricity sector for many years to come.

- i.* The Government has announced that as an integral part of its policy of fuel diversification it has embarked on a project to examine the feasibility of introducing Liquid Natural Gas (LNG) as a primary fuel in Jamaica.
- ii.* The All Island Electricity Licence provides for capacity additions after April 2004 to be made based on a competition which is to be managed by the Office and in this regard the Office commenced preparation for a consultation, the results of which will advise on the modality for this competitive market.
- iii.* JPS released its preliminary load forecast and if the projection of an average 4.5% annual growth in demand holds, additional capacity will be required by late 2006 to early 2007.



## *Director General's Statement*

An early decision on LNG is crucial as this is a critical input to the least cost expansion plan. The Office has advised the minister of the critical nature of this decision and the potential consequences to the reliability and cost of power supplies should there be significant delays in deciding on the "least cost option". The Office has a real concern that delays in making these critical decisions will result in less than economic and optimal solutions being adopted to meet the system demand in 2007.

The structure of the generation market in the "competitive" environment has to be designed in such a manner as to facilitate seamless changes in the market modalities as the system demand grows and as conditions become favorable for an increasingly competitive market place. Should LNG prove to be the preferred option, the assumptions used to secure the viability of that option will also have to be taken into account in the market design. The Office has embarked on a consultation to examine the modalities for the market design and eventually to decide on the way forward. The results of this consultation are anticipated by the end of the calendar year 2003.

Overall, JPSCo. continued to record improvements in the quality of service as it brought 80MW of gas turbine capacity into service at the Bogue Power Station. This will be converted to a 120MW combined cycle plant with the commissioning of an associated 40MW heat recovery steam generator later in the upcoming year. When completed the company's generation situation should be stable.

An area that has been engaging the attention of the Office is the incidences of and treatment by the company of claims for equipment damage. This continues to be a vexed issue and, despite having agreed on a new liability clause, the Office is increasingly of the view that the company is being less than objective in the treatment of claims.

This is a matter, which will continue to receive specific attention until it is felt that the company is treating its customers fairly. It should not be construed that the Office is of the view that the company must settle every claim for equipment damage in the customers' favour, but as a monopoly service provider, the company must acknowledge its burden to ensure the quality of its product because its customers have no choice in Service Providers. As such it must accord, in appropriate circumstances, the fact that the customers' claims are valid and not "deny liability" as a matter of rote.

### **AND FINALLY**

The upcoming year poses interesting and critical challenges for the OUR. Paramount among these will be the initiatives necessary to secure a vibrant telecommunications market. In this regard the promulgation of the rules as required in the Telecommunications Act is vital. It is only when these rules are in place that the certainty of the regulator's actions, which investors need, will be assured and while the Office appears to, by and large, enjoy the confidence of the various stakeholders the law requires the promulgation of rules. Not only are the promulgation of the rules pursuant to the Telecommunications Act critical but the Office must finalize and make public its own internal rules of procedure, if it is to perform and be perceived to be performing administratively at the desired level of efficiency. Completion of these procedures will also take on priority attention during the upcoming year.

When the organizational structure of the OUR was first designed, it was done intuitively with a sincere desire to build an institution that would reflect current thinking in organizational development. The organization has served us well, but after six years it is appropriate to revisit the structure and to make any necessary adjustments to secure improved organizational efficiency taking into account the experiences and lessons learned during the years since inception.





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## *Director General's Statement*

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The OUR is blessed with a fine cadre of dedicated professionals all of whom have contributed generously to the organization. I can only but thank them most sincerely for the constancy and sincerity of their efforts in the year past.

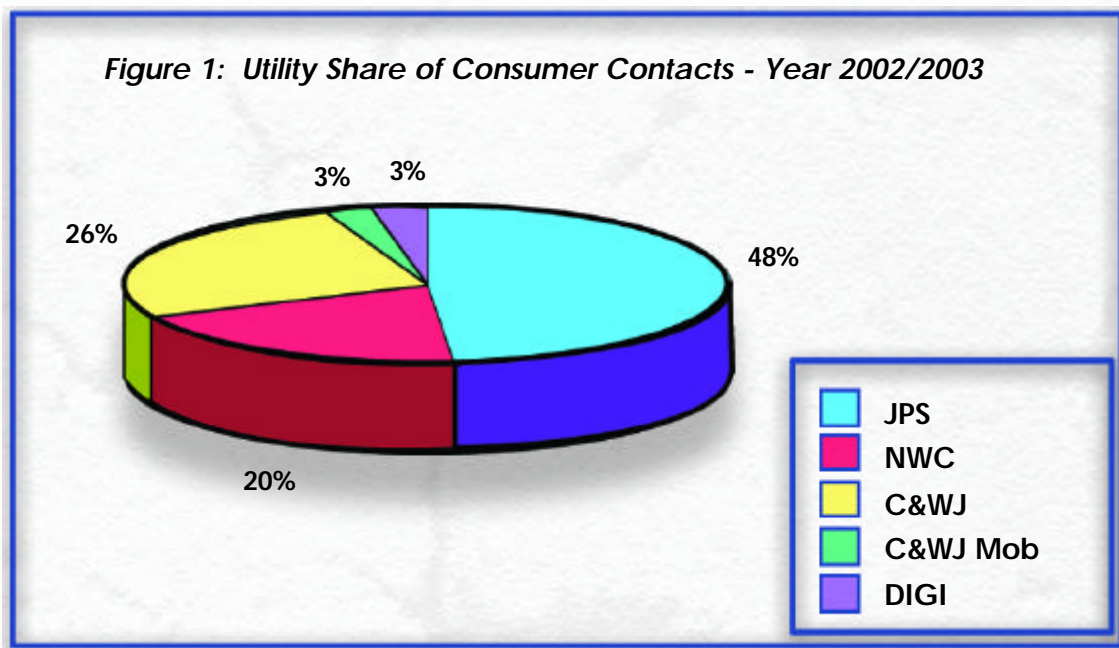
J Paul Morgan

## Consumer Affairs

For the period April 2002 to March 2003, a total of 2,865 contacts were processed, which compares with a total of 2,208 handled in the previous fiscal year, and 763 in 2000/2001. Overall, for the fiscal year the OUR processed 30% more consumer contacts than that of the previous year. .

When one compares contacts for the fiscal year 2002/03 to the previous year, the increase in contacts related to JPS was 45%, and NWC was 14%, while those in respect of C&WJ declined by 0.7%. Overall, JPS with a 49% share of total contacts was the utility about which consumers had the most concerns, compared to 43% in the last fiscal year.

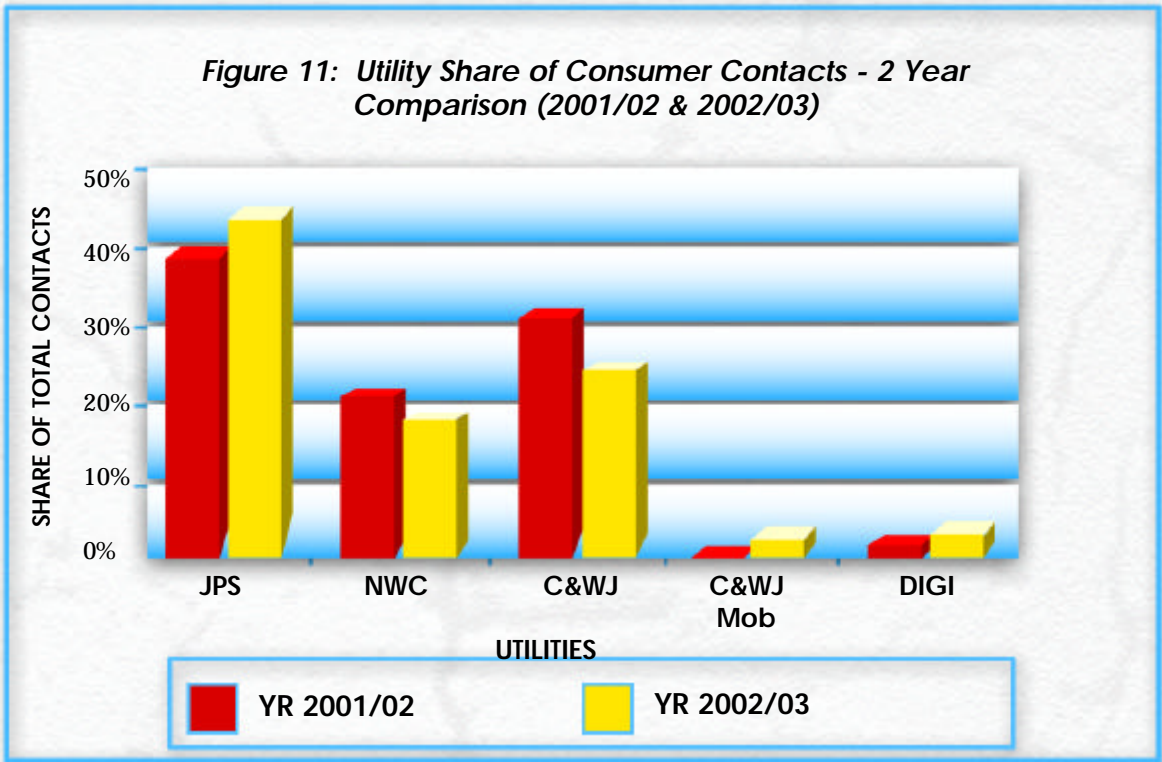
Problems associated with the introduction of a new Customer Information System (CIS) by Jamaica Public Service Company (JPS) in September 2002 led to increased numbers of consumers contacting the OUR, especially during January 2003. Digicel and C&WJ mobile accounted for a similar 3% share of total consumer contacts for the year. Refer to Figures I and II.





Consumer Affairs

Figure 11: Utility Share of Consumer Contacts - 2 Year Comparison (2001/02 & 2002/03)



Similar to the situation of 2001/02, the vast majority of customer contacts processed at the OUR were referrals , with this contact category accounting for as much as 2,209 (77%) of the 2,865 total contacts. A further 333 (12%) were classified as formal complaints , a slightly lower proportion than the approximately 13% in the previous year. It is noteworthy that although the relative share of contacts representing formal complaints declined, there were 55 more complaints this year than in the previous.

A total of 119 formal complaints were resolved during the year under review. The majority (61%) of these were resolved in favour of the utilities, while 36% were in favour of the customer with 3% being mutually resolved.

The overwhelming majority (77%) of contacts were, as has been the case in previous years, related to residential services regardless of the utility involved. This is not unexpected as with all the utility companies, residential account holders' account for the overwhelming majority of customers. Customer contacts about commercial services maintained its 10% proportionate share of consumer contacts when compared to the previous year. Concerns regarding mobile services now account for 6% of contacts received by the OUR, up from 4% in the previous year. The relative share of consumer concerns about community services account for 7% of total consumer contacts: down from 9% in the previous period. Community service are issues such as fallen power lines, broken water mains, blocked sewer mains, improper restoration of road excavations and malfunctioning call boxes.



## Consumer Affairs

1. **Referral:** Any contact advised by the OUR to consult the relevant utility company because the complainant had not initially utilized, or exhausted the complaint procedures within the relevant utility company.

2. **Complaint:** Any contact expressing dissatisfaction with the terms of service, practice or action of a utility company or its employees. A complaint would result from a concern made by a consumer about a utility company which, in the opinion of the consumer, was not satisfactorily addressed.

As was the case in the previous year, the Kingston Metropolitan Region (KMR) accounted for the vast majority (70%) of contacts received. The parishes from which most of the remaining contacts originated were St. Ann (6%), St. James (4%) and Manchester (3%).

Regardless of the origin of contacts, the telephone was the most frequently used method (73% of contacts) by which consumers brought their various complaints to the OUR. Fifteen percent (15%) of complaints received were by letters. These are consistent with the trends observed in the previous year. During the past year, in an effort to improve the means by which consumers can access its services, the OUR instituted a postage paid complaints form. This form is available at post offices and other public places across the island. The use of these complaints forms accounted for 2% of all consumer contacts. For the year under review, the number of consumers visiting the OUR to register complaints decreased to 6%, down from 7% in the previous fiscal year.

In terms of the specific categories of complaints raised by consumers, a very high proportion of these continue to be about billing-related issues. For the year under review, some 53% of all contacts were related to billing, somewhat higher than the 44% of contacts received in the previous reporting period. On a utility basis, though all three major providers generally had billing as the most frequent concern raised by their customers, the problem continues to be of a higher significance for both JPS and NWC. Among the most frequently raised billing issues were high consumption, disputed charges and estimated billing.

The next most significant area of concern was *unscheduled interruption of service*, accounting for 11% of all contacts. Concerns about equipment damage remained important during this year.

Contacts regarding *equipment damage*, which were almost exclusively directed to JPS, accounted for 7% of total contacts, a similar share to that of the fiscal year. A noteworthy development during this fiscal year is the emergence of concerns about *security deposit*, which now account for 5% of total contacts. The other significant concerns included *unscheduled interruption of service* (14%), *disconnections* (5%) and *customer service practice* (4%).

An analysis of the nature of consumer contacts established with the OUR during the 2002/2003 fiscal year revealed that a very high proportion (56%) were referred to the OUR because of inadequate or lack of communication on the part of the utility with the customer. Other factors of high significance included unsatisfactory responses (37%) and untimely responses (15%) received by customers from the utilities. These suggest that the companies general handling of the initial complaints is inadequate and that attention must be paid to the quality and training of the front line customer contact personnel.

3. *KMR comprises the parishes of Kingston, St. Andrew and St. Catherine.*



## Consumer Affairs

**Table 2: Contact Activity Summary (All Utilities)**  
**April 2002 - March 2003**

	DESCRIPTION	JPS	NWC	C&WJ	C&WJ Mobile	DIGI	TOTAL
<b>A</b>	<b>Contacts for the Year:</b>						
(i)	New Opinions	34	11	32	5	7	89
(ii)	New Referrals	1100	431	547	60	71	2209
(iii)	New Inquiries	87	36	93	12	6	234
(iv)	New Complaints	89	40	42	0	2	173
(v)	New Complaints -Pending Information	83	48	29	0	0	160
(vi)	New Complaints - Initiated by OUR	0	0	0	0	0	0
	<b>Total contacts</b>	<b>1393</b>	<b>566</b>	<b>743</b>	<b>77</b>	<b>86</b>	<b>2865</b>
<b>B</b>	<b>Closure/Resolution of Complaints:</b>						
(i)	Mutually Resolved	2	0	1	0	0	3
(ii)	Withdrawn by Customer	3	2	0	0	0	5
(iii)	Insufficient Information	45	14	28	0	0	87
(iv)	Outside of Jurisdiction	3	1	1	0	0	5
(v)	Resolved in Favour of Customer	22	9	12	0	0	43
(vi)	Resolved in Favour of Utility	32	17	24	0	0	73
	<b>Total closures</b>	<b>107</b>	<b>43</b>	<b>66</b>	<b>0</b>	<b>0</b>	<b>216</b>

## Consumer Affairs

**Table 3: Distribution of Contacts by Utilities  
(April 2002 -March 2003)**

Nature of Customer Concern	Utility					
	JPS	NWC	C&WJ	C&WJ Mobile	DIGI	TOTAL
Billing Matters	829	337	316	35	13	1530
Equipment Damage	180	0	0	0	0	180
Property Damage	11	2	1	0	0	14
Disconnection	70	22	39	3	4	138
Re-Connection	6	3	6	0	0	15
Redress Not Received	1	2	1	0	0	4
Irregular Supply	9	13	0	0	0	22
Unavailability of service	5	3	19	0	3	30
Payment Arrangement	19	3	2	0	0	24
Health and Safety	8	7	1	0	1	17
Poor Customer Service	24	12	36	20	12	104
Code of Practice	0	0	0	0	0	0
Unscheduled Interruption of Service	87	66	149	3	7	312
Metering	3	7	0	0	0	10
Service Connection	19	6	18	0	0	43
Guaranteed Standards	25	5	0	0	0	30
Community-wide	0	29	0	0	0	29
Security Deposit	24	0	83	1	2	110
Other	73	49	72	15	44	253
<b>TOTAL</b>	<b>1393</b>	<b>566</b>	<b>743</b>	<b>77</b>	<b>86</b>	<b>2865</b>



## Telecommunications Sector

### Overview

Fiscal year 2002/2003 saw the continuation of intense activities in the telecommunications sector. The mobile market, which saw the introduction of competition in early 2001, remained at the focus of activities with continued expansion in network coverage, number of customers, variety of service options and capital investment. Indeed indications are that the number of mobile customers now totals over 1.2 million, more than doubling that obtaining for fixed lines. Table 1 shows the change in telephone subscription over the last four years.



**C. Courtney Jackson**  
*Deputy Director General*

**TABLE 1**  
**TELEPHONE SUBSCRIBERS BY CATEGORIES - 1999 - 2002 (NUMBER OF LINES)**

	1999	2000	2001	2002
<b>Land Lines</b>	493,523	507,107	511,302	432,772*
<b>Mobile</b>	117,861	249,842	640,453	1, 187, 295*

*Source - Various reports from telecommunications companies*

*\*OUR's Estimates; \*Includes figures for Gotel.*

The ownership structure of Centennial Digital changed during the course of the year with its previously minority partner, Oceanic Digital Communications (ODC) acquiring full control of the Company. The service offered by the company is still geographically constrained but it has signalled its intention to expand its coverage in the very near future.

As is the case with the other mobile carriers, under the terms of its mobile licence ODC is required to achieve ninety percent geographical coverage by the end of 2005.



## Telecommunications Sector

The Government opened invited bids for a fourth mobile licence during the year but did not successfully conclude negotiations. The government has indicated, however, that it is still in negotiation with a view to issuing such a licence.

At the same time, the year also witnessed the commencement of Phase III (March 1, 2003) of the telecommunications sector liberalisation, which means that all legal impediments to full competition have been removed. The Office remains fixed on its responsibilities to ensure fairness in the market place, to cultivate a regulatory environment that is conducive to increased investment and continuous innovation while ensuring that liberalisation benefits the sector and provides consumers with all the attendant benefits.

Work undertaken during the course of the year can be divided into activities to facilitate entry, enforcement of regulation and efforts to resolve and redress consumer complaints. Among the major activities occupying the Office's attention during the year were:

- Ongoing processing and issuing of licences that were permissible during Phases One and Two;
- Inviting and processing applications for international licences to be granted on commencement of Phase III and providing policy advice on the content and form of such licences;
- Continued review of terms and conditions governing interconnection with Cable and Wireless Jamaica (C&WJ) to take into account market developments and to meet the requirements of Phase III;
- Consulting on and drafting rules for International Competition;

- Assessment of New Asset Valuation data submitted by C&WJ;
- Review of the existing Price Cap regimes to take into account new Asset Valuation data and to examine the feasibility of imposing Access Deficit Charges (ADC);
- Conclusion of consultation on liberalisation of the market for directory enquiries;
- Continued consultation on the process to be employed in making declarations of Dominance;
- Ongoing administration and allocation of numbers;
- Assistance to other regulatory agencies particularly in the Caribbean;
- Enforcement of the provisions of the Act with regard to bypass of the incumbent's international network;
- Preparation and issuance of a consultation document on Universal Service in Telecommunications;
- Planning and hosting of major Internet forum to consider measures to expand Internet penetration.

### Processing And Issuance Of Additional Licences

Save for the limit placed on mobile, the current policy approach places no restriction on the number of licences that may be issued under the various categories permitted in Phases One and Two. Additionally, with the advent of full liberalisation licences are now available for international services. This means that the processing of licences is an ongoing exercise. During the review period additional licences were issued for:

- Domestic Carrier (DC) and Domestic Voice Service Provider (DVSP);



## Telecommunications Sector

- International Voice Service Provider (IVSP)
- Data Service Provider (DSP) ;
- Internet Service Provider (ISP);
- Free Trade Zone Carrier (FTZC) and Free Trade Zone Service Provider (FTZSP);
- International Voice Service Provider (IVSP)
- International Carrier (IC) and International Service Provider (INT'L SP)

Table 2 shows a listing of licences issued in the various categories during the course of the year and the total of such licences that have been issued to March 31, 2003.

**TABLE 2**  
**LICENCES ISSUED UNDER THE NEW**  
**TELECOMMUNICATIONS ACT**

LICENCES	Issued between April 2002 and March 2003	Total Issued between March 2000 and March 31, 2003
<i>Phase 1</i>		
ISP	15	63
IVSP	14	42
DSP	3	24
FTZC	4	10
FTZSP	2	8
<b>TOTAL</b>	<b>38</b>	<b>139</b>
<i>Phase 2</i>		
DVSP	13	28
DC	7	17
<b>TOTAL</b>	<b>20</b>	<b>45</b>
<i>Phase 3</i>		
IC	12	12
INTL SP	.6	.6
<b>TOTAL</b>	<b>18</b>	<b>18</b>
<b>GRAND TOTAL</b>	<b>76</b>	<b>202</b>

Although a total of eighteen Domestic Carrier Licences have been issued, to March 31, only one entity (GOTEL) is actually operating as a competitor to the incumbent.

The Company employs wireless technology to provide service in a number of geographical areas but has indicated that it proposes to move quickly to provide island-wide coverage. GOTEL has concluded an interconnection agreement with C&WJ and offers both voice telephony and Internet service.

Rollout of service with regard to the non-mobile domestic market continues to be slow despite the enthusiastic take-up of the licences on offer. It is anticipated, however, that the full liberalisation of the sector, which will allow for both greater diversity and integration of services will provide the stimulus for more rapid rollouts.

### Inviting and Processing Application for International Licences

Acting on the directives issued by the Ministry of Commerce, Science and Technology the Office issued invitations in January 2003 seeking applications for various licences to provide international telecommunication services from Jamaica. Licences are on offer in the categories:

- International Carrier for voice, data and transit service
- International Service Provider for voice and data

There was an enthusiastic response to the invitation as new carriers sought to carve out a piece of what they considered to be a lucrative international service market (see Table 3). The categories and number of applications received in respect of these licences during the year were as indicated under Phase three in Table 2. Processing of these applications were completed and the Office recommended the issuance of the eighteen (18) licences.

## Telecommunications Sector

**Table 3. Quarterly International Volumes (mins.)**

	Q1	Q2	Q3	Q4	Totals
Inbound 2001	94,359,320	98,813,120	109,779,708	120,481,088	423,433,236
Inbound 2002	127,209,802	129,997,000	142,125,179	133,748,892	533,080,873
Outbound 2001	22,508,166	24,654,788	27,509,790	27,461,231	102,133,975
Outbound 2002	29,964,965	30,052,257	34,110,932	39,586,134	133,714,288

It can be seen from Table 3 that the increasing international call volumes are coincident with significantly increasing domestic subscriber base (particularly mobile) as well as the downward trend of prices.

### Assessment of Reference Interconnection Offers

Further work was undertaken during the course of the year to complete the assessment of Reference Interconnection Offer 4 (RIO 4) submitted by Cable and Wireless Jamaica (C&WJ). This was in keeping with the Office's undertaking in earlier assessments to review the RIO process when more reliable data became available and also because of the need to make provision for interconnection in Phase Three.

The Office was not able to conclude its determination on RIO 4 however, as Digicel initiated legal actions in the Supreme Court which made it impossible to proceed with the issuance of a determination. Among the issues that Digicel is asking the Supreme Court to adjudicate on are the Office's authority to regulate mobile termination and treatment of information designated as confidential. The Supreme Court concluded its hearing into these matters before the end of the review period but has reserved its judgement.

### Consulting On Draft Rules For International Competition

The Office consulted on the proposed regime and the rules for international competition during the year. Since the rules and regime for international competition must be consistent with both the regime adopted for price caps and interconnection it was deemed prudent to treat these matters as part of one determination.

The Office also discussed the efficacy and applicability of an Access Deficit Charge (ADC) in its consultation on the regime and rules for international competition. Specifically, the opening of the international market to competition is expected to substantially reduce and ultimately eliminate the scope for using revenues from international calls to subsidise the cost of domestic access and usage. To the extent that regulatory determinations prevent access charges from reflecting true cost, there is need for an ADC. Access Deficit is the difference between the true cost of access and the rates actually charged. An ADC must therefore be paid to a carrier if it is prevented by regulatory action from increasing its prices to their true economic levels.





## Telecommunications Sector

The legal action initiated by Digicel also touches on the issue of the information used by the Office to assess the need for and to compute an ADC. The data was submitted under confidential cover and was treated as such by the Office. Digicel has objected to this and in that regard sought the intervention of the courts. The effect of this however, is that a determination on ADC has also been delayed by the on going lawsuit.

### **Assessment of New Asset Valuation Data Submitted by C&WJ**

Determining the value of C&WJ's asset base, which determines charges for interconnection and price cap services, has been a major occupation of the Office over the last three years. At the start of its examination of C&WJ's asset base the Office indicated that Modern Equivalent Asset (MEA) valuation was the best approach to determining economic values for C&WJ's assets. MEA values represent the current values of assets of the same functionality adjusted for devaluation and changes in technology. In the absence of such valuations, the Office used a number of benchmarks and proxies to adjust the Historical Cost Accounting (HCA) determined values submitted by the company but indicated that it would be subject to review once more reliable data were obtained.

C&WJ commissioned a MEA valuation study for a substantial portion of its fixed network and submitted the results to the Office in August 2001. A review of these MEA results along with other asset values determined by indexation was completed during the fiscal year and the Office issued directions to C&WJ regarding the value of assets that would be applied for regulatory purposes.

### **Review of the 2001 Price Cap Regime**

The Office initiated and substantially completed consultation on a proposed review of the Price Cap regime imposed on C&WJ. A review of the regime which is in its second year, became necessary because of the imminent opening up of the international telecommunications market to competition in March 2003, the Office's commitment to incorporate the MEA values submitted by C&WJ subsequent to the issuance of the Office's August 2001 Determination Notice on Price Caps and the Office's previous undertaking to revisit the issue of Access Deficit Charges (ADC) at the commencement of Phase III. Since the possible inclusion of an ADC was integral to the Price Cap review, progress on this matter was also adversely affected by the lawsuit.

### **Conclusion Of Consultation On Liberalisation Of The Market For Directories Enquiry**

The Office completed its consultation on liberalising the market for directory enquiries with a public forum exploring issues such as intellectual property rights, consumer privacy and the structure and operation of the market for directory enquires. A wide cross section of institutions was represented at the forum, including consumer groups, regulators, investors and heavy users of directory enquiry services. After the public forum the Office issued a determination notice setting out the principles to govern the operation of the directory enquires market.

Although the market is fully liberalised with free entry and exit possible, only the incumbent continues to provide a directory enquires service. Parties to the consultation process also showed a marked lack of interest in establishing their own or participating in an independent directory enquires service.



## Telecommunications Sector

The determination notice (a copy of which is available on the OUR's website [www.our.org.jm](http://www.our.org.jm)) covered such issues as the provision of access to directory listings to telecommunications service providers at a reasonable cost, prohibition against discrimination and transparent costing of the service. Additionally the notice also provided for the privacy of customer information and that the incumbent is required to add to its data base customer information supplied by other service providers.

### Consultation on Declaration of Dominance

The Telecommunications Act 2000 requires the Office to make determinations regarding which voice carriers are dominant. At the same time, for the purposes of interconnection and other services, the incumbent is treated as dominant. The Office resumed consultation on the approach to declaration of dominance during the period by issuing a second consultative document setting out the Office's current thinking.

Carriers determined by the Office to be dominant are required to file Reference Interconnection Offers with the Office. They are also required to maintain separate accounts, to provide interconnection on terms and conditions that are non-discriminatory, reasonable and transparent and at charges that are cost oriented. Additionally, the Office may impose on such carriers' rules for competitive safeguards and requirements for providing indirect access to their networks.

Only a few entities elected to respond to this consultation but the responses were very useful. Nevertheless, the Office deemed it necessary to engage in a further round of consultation prior to making a determination. That consultation and the resulting determination are part of the programme of work for Financial Year 2003/04.

### Administration of Numbers

Work continued on the development of a national numbering plan during the year. At the same time the Office has taken full control of the management and allocation of the country's numbering resources with the exception of toll free numbers, which will be the subject of a separate consultation. The demand for and use of short codes proved to be a thorny issue during the review period with the appropriation in a number of instances of unassigned codes by some telecommunications entities. The Office conscious of the importance of the judicious use of such codes took steps to prevent this unauthorised use. Office personnel also continue to attend and participate in the meetings of the North American Numbering Council (NANC) to ensure the preservation of Jamaica's interest as regards the development and management of the North American Numbering Plan (NANP) which serves the United States and its territories, Canada, the Bahamas, Bermuda, the Dominican Republic and fifteen Caribbean nations, including Jamaica.

### Enforcement

Enforcement activities undertaken during the year included activities relating to bypass allegations and issuing terms and conditions where appropriate; preventing unauthorised use of numbers, monitoring adherence to terms and conditions of licences and ensuring compliance with price cap constraints. At the same time, the Consumer Affairs Department continued its monitoring of quality of service issues and its effort to provide redress for various consumer complaints.

Enquires into allegations of bypass proved to be particularly time consuming, given the complexities of the issues involved and the nature of the evidence required for the Office to safeguard itself against liabilities. The Office anticipates however, that bypass will become less of an issue given that the sector is now fully liberalised.





## Telecommunications Sector

### Universal Service

Part VI of the Telecommunications Act anticipates the provision of universal service in telecommunications. Although ultimate policy decisions regarding the composition, scope and funding of universal service rest with the Minister of Commerce, Science and Technology, the Office has a responsibility to provide policy advice to the Ministry. In this regard, the Office with World Bank assistance undertook a preliminary study of universal service options and requirements. As part of this exercise, the Office also published a consultation document in which it set out its own preliminary positions and sought the inputs of all interested parties.

In February 2003 the Office also convened a forum on expanding Internet access in Jamaica. The two-day forum held at the Jamaica Grande Hotel, saw participation of local and international academics, practitioners and regulators. Coming out of this forum the participants committed to continue an online dialogue, which Cable and Wireless Jamaica (C&WJ) volunteered to host.

### Assistance To Other Regulatory Agencies Particularly In The Caribbean

Jamaica has led the region in terms of liberalisation of its telecommunications sector and putting in place the requisite regulatory infrastructure. Consequent on this, there are frequent requests for OUR staff to provide information, advice and even personnel visits to other regional countries that are at a less advanced stage of regulation. With the assistance of the Canadian International Development Agency (CIDA), a Personnel visit was offered to Suriname during the year. There is also ongoing interaction with the Barbadian Fair Trading Commission and the Public Utilities Commission in the Bahamas.

### Outlook

The telecommunications sector is expected to continue to experience rapid changes, with the liberalization of the market for international telecommunications expected to generate an influx of additional carriers and service providers. The immediate expectation is that competition will accelerate the trend towards lower international rates. At the same time however, local rates should rise given the historical subsidy between international and local charges although the extent of adjustment is expected to be moderated by new entry or the potential for such entry. The sector should also see further expansion in investments as the different players position themselves to take advantage of the fully liberalized market.

In this new environment the Office anticipates that competition issues will become even more paramount. In this regard, work will continue apace in the next financial year to prescribe on and to put in place regulatory accounts for dominant carriers. Similarly, developing competitive safeguard rules to prevent abuse and to facilitate competition will also be critical. It is also anticipated that the consultation and determination on dominant carriers and service providers will be concluded during the course of next year.

The Office is also examining and will begin consultation during the year on the issues involved in providing indirect access to the customers of dominant carriers. Indirect access allows customers of a dominant network to purchase services such as transit and international calls from competing networks.

As part of the drive to foster rapid service roll out and greater competition, the Office also proposes to examine the extent to which limitations on cable landing facilities could present a bottle neck to the development of competition in the international market. The Office therefore, proposes to initiate public consultation on this issue during the course of the next fiscal year.



## Telecommunications Sector

Toll free line Management and allocation came to the fore towards the end of the review period. Historically, toll free lines which allow consumers to access specific services without incurring a charge has been handled by C&WJ which sets the rate for this service and allocated numbers. Given the importance of this service to the development of competitive services, the Office intends to consult on and develop a plan for the management of this service during the next period. At the same time the Office will insist that the existing arrangement for managing the service be applied in a transparent, non-discriminatory and competition sensitive manner.

The Telecommunications Act expressly provides for the Office to make rules for carrying out its functions under the Act. Among the activities that contemplate the promulgation of rules are: arbitration of pre-contract disputes with respect to interconnection and the resale of switched international voice minutes; accounting separation; price caps; indirect access, international settlement and quality of service. In addition to making specific rules the Office is also authorized to make general rules for the regulation of the sector. Work on these rules is at different stages of completion with some of them already passed to the relevant Minister for affirmative resolution by the Parliament. The Office proposes to complete work on the drafting of all its rules by the end of the next period. It should be noted however, that while the Office is responsible for drafting, the actual promulgation can occur only after the responsible Minister presents them to parliament and they receive an affirmative vote.

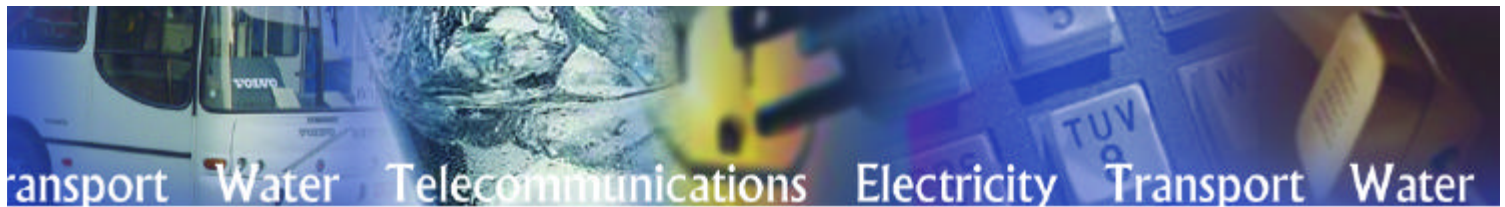
Full liberalization will require an even closer working relationship with the Fair Trading Commission, which also has jurisdiction in telecommunications issues with significant competition implications.

The Office will also continue its programme of informal and structured assistance to other regulators in the region. Additionally, the staff is expected to continue to contribute to both the regional and international

In this regard, it has been decided that a committee comprising representatives of the two agencies will be meeting on a monthly basis to share positions and to consult on matters of common interest.

The Office will also continue its programme of informal and structured assistance to other regulators in the region. Additionally, the staff is expected to continue to contribute to both the regional and international debate on telecommunications issues. At the same time, the Office will continue to take advantage of such opportunities as are afforded to provide greater training and exposure of its staff in the drive to stay at the cutting edge of developments in the telecommunications industry and particularly in the regulatory arena.





## Electricity Sector

### OVERVIEW

Jamaica Public Service Company Limited (JPSCo.) is the monopoly provider of electricity services to the public. The Office has the responsibilities of Regulatory oversight for electricity service providers and specifically for JPSCo. pursuant to the All-Island Electricity Licence, 2001.

Important regulatory interventions of the OUR in the sector during the year included:

1. Review of JPSCo. long term expansion Program
2. Compliance on procedures for regulatory reporting in accordance with the All Island Licence 2001
3. Completion of an Electricity Cost of Service Study
4. Evaluation and analysis of the company's performance in relation to the Quality of Service Standards
5. Evaluation of company's Rate Adjustment Submission and the subsequent Rate Determination Notice.
6. Closure to JPSCo. Fuel Rebate
7. Preparation of a Generation Market Study to identify best practices in electricity sector restructuring
8. Initiative to modernise the Electric Lighting Act through a grant provided by the Caribbean Development Bank (CDB)
9. Auditing of JPSCo. guaranteed standards
10. Consultation on JPSCo. Code of Practice pursuant to condition 17 of the licence

### JPSCo. LONG TERM EXPANSION PROGRAMME

Due to the shortfall in capacity JPSCo. was forced to modify its generation expansion plan in order to better address short-term needs for the period 2001 - 2004.

The company submitted a plan for this period for the consideration of the Office on May 10, 2001. In accordance with the provisions of Condition 21 of the All Island Electricity Licence 2001, the Office communicated its recommendations to the Ministry of Mining and Energy on the JPSCo. Expansion Plan 2001 - 2004. The plan provides for the installation of 140 Megawatt (MW) of capacity for the immediate short term 2001 -2004. A 20 MW (ISO) Gas Turbine was installed in 2001 and 120 MW of Combined Cycle technology approved for installation in two phases as follows ; 2x 40 MW (ISO) gas turbine in 2002 and 40 MW in 2003.

Consequently, during September/ October 2002, the company commissioned into service two 40 MW combustion turbines. The units exhibit similar general heat rate characteristics of the gas turbines previously employed in the company's operations. As part of the Expansion Plan 2001 -2004, the second half of 2003 will see the coupling of the two 40 MW combustion turbines with Heat Recovery Steam Generators (HRSGs) and the plant operating in combined cycle mode with a total output of 120MW. The Office anticipates that when the units are configured to operate in combined cycle mode it should have a material impact on the system heat rate.

The Government has signalled its strategy of fuel diversification and its intention to introduce Liquid Natural Gas (LNG) as a primary fuel to be used in Jamaica.



## Electricity Sector

While the office is supportive of the policy in principle, the decision to convert to LNG must be based on such financial and economic terms as to bring real benefits to the country as a whole by virtue of its competitiveness in electricity prices. As such the Office's primary interest will be the price at which LNG is delivered to the plant and the timing for first delivery.

It must also be noted and emphasised that if the system demand continues to grow at the projected rate of 4.5% annually, there will be need to add new generating capacity by late 2006 to early 2007. Decisions regarding fuel must be made in time to enable the appropriate choice of technology to ensure that enough capacity is in place to satisfy demand.

### COMPLIANCE ON PROCEDURES FOR REGULATORY REPORTING

During the review period the Office in consultation with JPSCo. implemented the format and time schedule of the reporting requirements in fulfilment of the All-Island Electricity License 2001. The regulatory reporting adopted in consultation with JPSCo. aided the regulatory process in three areas: -

- Economic
- Customer Service
- Technical

The regulatory reporting enabled the following outputs in the year in review:

- 1) Facilitate price control through the timely submission and evaluation of JPSCo. rate adjustment applications for 2003; providing incentives for cost reduction in fuel and efficiency gains in heat rate;
- 2) Capacity to monitor and measure technical performance through the establishment of technical standards and generation codes; and

- 3) Encouraging Customer Service efficiency through the establishment of a system of overall and guaranteed performance standards as well as preliminary preparation in the drafting of the codes of practice through a consultative process.

### ANNUAL RATE ADJUSTMENT REVIEW

The tariff regime that became effective on February 1, 2001 and which expires February 2004, provides for annual adjustments to reflect the impact of Jamaican and United States inflation as well as movements in the foreign exchange rate. It also allows the Office to fix the maximum level of systems losses allowed in calculating the fuel charge for the ensuing year. Additionally, it allows the Office to pass on efficiency gains through system heat rate reduction, to consumers. The Office conducted the second such annual review under the tariff regime and was able to finally issue its decision in March with the new rates to come into effect on April 1, 2003.

The following is an overall summary of the Office's determination to the JPSCo. rate adjustments proposals:

1. The average non-fuel base rate was adjusted upward by 7.1% effective April 1, 2003.

It should be noted however, that the effective non-fuel increase to the customers was 3.1% on the non-fuel charges given that the exchange rate adjustment from J\$47: US\$1 to J\$50 was already reflected in the current billing.

Based on these factors, as applied to the April billing, the customers would see an increase of approximately 1.8% on their overall bills.

2. JPSCo. may, as a first step towards addressing a comprehensive strategy of fuel price stability management introduce a uniform fuel rate across all rate classes but must give due recognition to the necessary differentiation of fuel charges for customers on Time of Use (TOU) billing.



Electricity Sector

3. The Office accepted that JPSCo. has a right, under the terms of the 2001 tariff schedule to eliminate the rate 40A class. However, the Office, being mindful of the need for further reclassification and simplification of all rate classes to reflect costs, considered that the elimination of rate 40A would be best dealt with at the 2004 tariff review. JPSCo. and the Office agreed that it would be appropriate to make the change at that time.
4. The losses target to remain at 15.8 %. JPSCo. may keep all gains that may accrue as a result of surpassing this target. This incentive will remain in effect until the 2004 tariff review.
5. The system heat rate shall be 11,600 kJ/kWh  
The tariff schedules were amended to reflect the impact of this determination.

The Office did not support JPSCo.'s proposals for:

- An increase of J\$0.0933/kWh in the energy rate of Rate 40 and Rate 50 customers to recover revenue losses attributable to Time of Use (TOU) design defect.
- The retention of the heat rate target at the existing level of 11,900 kJ/kWh, pending a full review in the 2004 rate filing.

QUALITY OF SERVICE STANDARDS

The total liability for compensation of claims by customers under the Guaranteed Customer Standard scheme, for the year 2002/2003, was \$6,473,781.

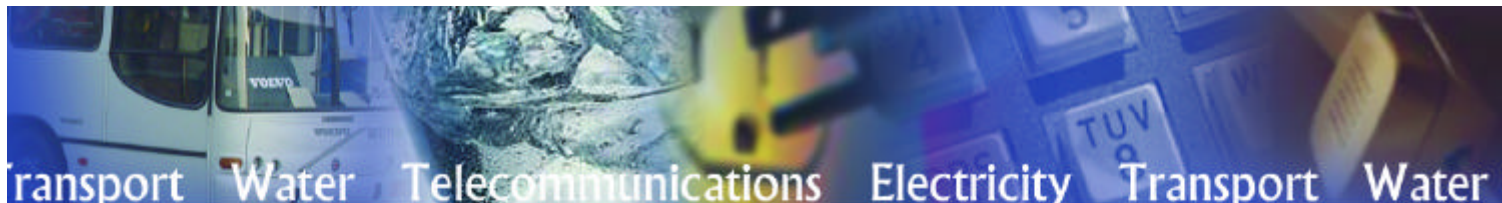
The actual claims received over the period was so low that it is of particular concern to the Office as the scheme may not be achieving the objectives intended and may be indicative of:

- a) Lack of awareness of the scheme on the part of customers,
- b) Customer preference for automatic payment and/or
- c) Customer preference for higher levels of compensation.

The Licence provides for the introduction of the automatic payment method in 2003. The company has, however expressed a desire to have the status quo remain. The Office is of the view that to continue the present regime where customers must claim for compensatory payments will require an increase in the level of the compensatory payments. In preparation for the possible introduction of a regime of automatic payments and to ensure speedy settlement of current claims, the Office has embarked on an audit of JPSCo.'s processes to ensure that all breaches of the standards are adequately recorded and reported.

Table 1

	Potential Compensatory Payment		Actual Customer Claims	
	2001/02	2002/03	2001/02	2002/03
April - June	\$1,440,225	\$1,275,600	-	-
July - September	\$1,086,300	\$1,312,043	-	-
October - December	\$1,315,950	\$2,938,978	-	-
January - March	\$1,355,250	\$947,160	-	-
Total	\$5,197,725	\$6,473,781	-	-



## Electricity Sector

### COST OF SERVICE STUDY

The Office engaged the services of a United Kingdom based consulting firm, Power Planning Associates (PPA) in association with Frontier Economics, to undertake a new Electricity Cost of Service Study. The study sought to determine, among other things, the following:

- Cost of providing electricity services to various groups of customers;
- Appropriate tariff structures and corresponding levels for each tariff category;
- Formulae by which the tariffs for each class of customers will be calculated
- The process for determining the productivity factor "X" for use in Price Cap formulae.

The study was completed in July 2002. The consultants in association with the OUR discussed aspects of the findings and conclusions at a public presentation at which stakeholders were given an opportunity for input before the final report was accepted. The present study will be used to inform the basis on which the 2004 JPSCo. rate case submission will be evaluated.

### JPSCo. FUEL REBATE

The Office continues to monitor the fuel rebate exercise providing payments to consumers to compensate for fuel overcharges during the period September 1994 to December 1998. The Office received and reviewed the audited accounts as at March 31, 2002. The Office has instructed JPSCo. to take the necessary steps to inform customers who are owed and whose accounts may have changed or no longer exist, of the outstanding balance by publishing the names of the outstanding accounts in the daily newspapers. The Office now considers that this matter is closed except for ensuring that JPSCo. complies with the latest directives.

### GENERATION MARKET STUDY

Over the review period the Office took steps to strengthen the regulatory and institutional framework of the Institution. This thrust resulted in the Government of Jamaica, on behalf of the Office of Utilities Regulation securing a Technical Assistance Grant (GA16/JM) from the Caribbean Development Bank (CDB). Under this programme, the Office will engage the services of an experienced and competent consultant or group of consultants to undertake a Generation Market Study. The Consultant or group of consultants will carry out a review of current international trends and identify best practices in electricity sector restructuring with particular emphasis on Generation Markets with a view to recommending an appropriate strategy for Jamaica in the structuring of its generation market, which is expected to become competitive in 2004.

The objectives of the consultancy services are to:

1. recommend a market structure for the generation aspect of the electricity sub-sector which would:
  - i. *promote competition in the sub-sector and attract both foreign and local private capital;*
  - ii. *provide an efficient and reliable supply of electricity at least cost;*
  - iii. *promote environmentally acceptable operating practices in the operation of the sub-sector.*
2. identify the institutional changes that would be required to support the recommended market structure;
3. prepare a roadmap which will chart a strategy to implement the institutional changes recommended;
4. prepare rules for the governance of the recommended market structure and to satisfy, in particular, the first phases of the objectives set out in the roadmap.



## Electricity Sector

Consequently, in accordance with the agreement with the CDB, a Terms of Reference (TOR) and a draft contract were prepared and five companies were invited to submit proposals from a shortlist evaluation of eleven (11) consultants who submitted statements of capability. The selection of consultants from these proposals and the completion of the study are expected by October 2003.

### MODERNISATION OF THE LEGAL FRAMEWORK

Under the Caribbean Development Bank (CDB) Technical Assistance Grant (GA16/JM) the Office will procure the services of consultants to prepare drafting instructions for a new Electricity Act to replace the existing legislation, which was enacted in 1893.

The existing legislation was first enacted in 1893 and although several amendments have been introduced over time, new legislation is needed that will be consistent with government policy and will reflect the changing environment in the electricity sector, not only in Jamaica but globally.

The OUR's role is primarily to facilitate execution of the project by the Ministry and to assist in bringing it to timely completion.

### JPSCo. PERFORMANCE

During the year 2002/2003 the electricity sector experienced quite robust growth in generation and customer base. Net Generation grew by 4.9 percent and the average number of customers grew by 3.0 percent. The Company has maintained a rate of expansion of its customer base of over 3% during the past four years from 1998 to 2001. The Survey of Living Conditions 2001 published by the Planning Institute of Jamaica and Statistical Institute of Jamaica, PIOJ/STATIN, indicates that approximately 86% of Jamaican households are served with electricity.

**Table 2. Average number of customers**

Year	1998	1999	2000	2001	2002
Rate 10 Residential	393,899	409,120	423,799	438,566	453,829
Rate 20 General Services	48,454	50,282	51,925	53,349	53,021
Rate 40 Power Services	1,174	1,192	1,269	1,304	1,376
Rate 50 Large Power	79	86	93	97	98
Rate 60 & Other	180	185	193	181	199
All Customers	443,786	460,865	477,279	493,497	508,523
Percentage Change	4.7%	3.8%	3.6%	3.4%	3.0%

Source JPSCo.

The growth in electricity consumption was curtailed in 2001 due to the effects of shortage in generation capacity. The addition of 80 MW of capacity in 2002 eased the constraint on the growth in sales. Consequently, sales expanded by 3.7% in 2002 when compared to 2001.

## Electricity Sector

**Table 3. Electricity consumption (MWh)**

Year	1998	1999	2000	2001	2002
Rate 10 Residential	926,296	1,007,442	1,046,822	1,065,426	1,103,133
Rate 20 General Services	589,070	605,991	598,314	604,770	618,071
Rate 40 Power Services	517,076	520,592	573,476	583,333	597,253
Rate 50 Large Power	358,842	383,606	463,816	474,034	510,401
Rate 60 & Other	54,905	58,524	56,567	65,812	67,689
All Customers	2,446,189	2,576,155	2,738,995	2,793,375	2,896,547
Percentage Change	7.2%	5.3%	6.3%	2.0%	3.7%

Source JPSCo.

### Generation

Total electricity generation (net generation from JPSCo. plus purchases from non-JPSCo. sources) for 2002 was 3,524.9 million kilowatt hours (kWh) an increase of 4.9 percent relative to the calendar year 2001. This increase in generation is partly reflective of the improvement in generation capacity by the addition of 80 MW and increased purchases from Independent Power Producers (IPP's). The comparative growth in generation for 2001 was 1.8% but this was for a period when there was a shortage in generation capacity that resulted in planned and unplanned outages.

### Heat Rate,

JPSCo. recorded system heat rate of 13,239 kilojoules per kilowatt hours (KJ/kWh) for 2002 compared to 13,224 KJ/kWh in 2001, a marginal deterioration. There have been and will be notable changes in the mix of the generating units and this will have a positive impact on system heat rate

- During September/October 2002, JPSCo. commissioned into service two 40MW combustion turbines at Bogue Power Station.

- During the second half of 2003, Heat Recovery Steam Generators (HRSGs) will be coupled to these units together with a 40MW steam turbine and the plant operated in combined cycle mode with a total output of 120MW.

There will therefore likely be a lowering of the system heat for the next review period, especially if the Combined Cycle Plant is commissioned in July 2003 rather than October 2003.

### Fuel Consumption and Fuel Cost

While total volume of fuel consumed by JPSCo. fell in 2002, total fuel cost increased by 3.8 percent, reflecting higher crude oil prices on the international market. This increase in fuel cost compares favourably with the 16.2 percent increase reported in 2001 when the company made extensive use of the higher operating cost gas turbines.

### Losses

The level of losses on the electricity system remains of particular concern to the Office. The tariff allows for a 15.8 percent loss.



## *Electricity Sector*

The Office is disappointed that this has not been achieved. Fuel rates are calculated using this deemed systems loss but the actual loss has deteriorated from 16.9 percent in April 2002 to 18.3 percent in March 2003. The company has indicated that it needs the commitment from the government in the form of increased penalties for theft and security for its personnel in containing and reducing this problem. The Office, while endorsing this position, feels that the company must also give the appropriate priority to this problem.

### **OUTLOOK**

The All-Island Electricity Licence Condition 18 gives JPSCo. the exclusive right to add new capacity during the first three years of the currency of the Licence. The Licence contemplates that after 2004, addition of capacity would be conducted through a competitive process in which JPSCo. would be allowed to participate. The Office is of the view that the competitive process to be introduced in 2004 should be as such to provide opportunities to create an increasingly competitive market in the future. The Office envisages that as demand increases, the system may eventually be of a size, which will provide some opportunities for competition in the generation market for energy.

In anticipation of this, the Office is in the process of commissioning a generation markets study designed to examine the options to secure the most efficient generation market for the Jamaican environment and to offer recommendations as to the processes and the institutional arrangements that are to be put in place from the outset, in the expectation that there will be a smooth transition from a market that is based on long term Power Purchase Agreements to a more competitive structure, recognising JPSCo. as the single buyer.



## Water & Sewerage Sector

### OVERVIEW

Although the National Water Commission (NWC) is the main provider of water and sewerage services, there are three other small water only companies that provide service to the St. Ann area. These are the Four Rivers Development Company (FRDC), Runaway Bay Water Company (RBWC) and Dairy Springs Limited (DSL). The National Irrigation Commission is the sole commercial provider of irrigation water. It also sells bulk water to industrial companies as well as to the NWC.

The OUR is the designated economic regulator of the sector pursuant to the OUR Act. It also has responsibilities to, inter alia, protect and preserve the environment and ensure that the services are provided in a manner designed to protect the health and well being of users of the services. The OUR's responsibilities, therefore, not only extend to ensuring that customers receive good quality service at reasonable prices but also that the service providers are provided with the financial resources through the tariffs to enable adherence to standards set by the Ministry of Health (MOH) and the National Environmental Protection Agency (NEPA).

Several private persons have expressed interest in providing water services to a variety of communities across Jamaica. There are presently a number of initiatives to establish community-based organizations to operate as service providers. The government, with assistance from the Inter-American Development Bank (IDB), is at various stages in implementing four (4) community based water supply projects. Similarly, opportunities utilizing assistance from the European Investment Bank (EIB) are also being explored.

The OUR considers the involvement of communities in the operation and provision of small water projects crucial and endorses the effort displayed. These projects are in pursuit of the government's overall policy objective of universal access to potable water by 2005. In all of these situations, there is a requirement for the service providers to be licensed and to be subject to a level of supervision by the OUR.

### LEGAL FRAMEWORK

The Office considered the enactment of legislation to govern the water sector to be of such importance that it facilitated the procurement of consultancy services to assist in the preparation of drafting instructions, through funds available to it from the United Nations Development Programme (UNDP).

After extensive consultations with stakeholders, the Minister of Water and Housing is in the final stages of drafting the new act which it expects to be tabled in Parliament in the next parliamentary year - 2003/04. The new Act will address several issues governing the Water and Sewerage sector, some of which are:

- Institutional Framework
- Functions of the Minister
- Functions of the Regulators
- The Licensing Regime
- The Regulatory Framework
- Consumer Protection

The NWC Act will also be amended to relieve the NWC of its regulatory and licensing functions.





## Water & Sewerage Sector

### POTABLE WATER

#### *National Water Commission*

In 1999, the OUR developed, as part of the decision on the new tariff, a regulatory framework which outlined a number of performance and operation targets for the NWC. The OUR reissued the document under the OUR Act in 2002, in an effort to increase their compliance. The targets were also revised for the 2002/03 financial period. The revised operating and financial performance targets set for the Commission were:

1. Reduce Unaccounted For Water (UFW) by at least 9 percentage points to 58% by March 2003;
2. Water quality must show a minimum of at least 99% compliance with Interim Jamaican Standards as developed by the Ministry of Health;
3. Effluent from sewage treatment plants must comply with the National Environment and Planning Agency (NEPA) effluent standards;
4. At least 85% of customers must have functioning meters.
5. All disconnected (inactive) accounts are to be revisited within ninety (90) days of any account being disconnected and not reconnected and action taken to ensure that outstanding balances are being collected and that these customers have not illegally reconnected.
6. At least 95% of blocked sewerage mains must be cleared within 24 hours.
7. A minimum of 97% of metered accounts must be read in each billing cycle.
8. Reduce the number of billing related complaints to 5% of total bills printed by March 2003. Thereafter, this target is to be maintained or exceeded.
9. NWC shall complete an inventory and valuation of all its fixed assets inclusive of those in use but not currently on its books. All assets in use by the Commission are to be brought to the books by March 2003. Valuation of these assets should be completed by March 2003.
10. Reduce gross receivables to and maintain at a level not greater than \$1.5B by March 2003.
11. Reduce employee costs as a proportion of revenues by at least six (6) percentage points to 36% by March 2003.
12. Maintain an average monthly collection rate of at least 90% of billing.
13. NWC shall prepare an Energy Efficiency Improvement Plan by September 2002.

The NWC initially was not very cooperative in the provision of the required reports. We are however pleased to note that there has been some change in attitude and since the last quarter of the period under review, the Commission has been providing some reports including the past due reports dating from 2001.

The Commission's customer base has increased when compared to the previous financial period. For the 2002/03 financial period the Commission received 10,547 applications for new service of which it connected 10,497 accounts .

## Water & Sewerage Sector

Overall the customer base at the end of the fiscal year was 410,074 accounts compared to 399,447 in the corresponding period last year, however, the number of inactive accounts has increased from 84,296 to 89,767. Table 1 summarizes this information. The reports have indicated that the level of permanently disconnected accounts as a proportion of total accounts has remained stable throughout the 2002/03 financial year. As at the end of March 2003, the percentage was an average of 8.32%.

**Table 1: Movement in NWC customer base for the 2002/03 financial year**

Category	Year end March 2003	Year end March 2002	Change	%age Change
New Applications	10,547	NA	-	-
New Customers	10,497	NA	-	-
Total reconnection	22,047	NA	-	-
Total disconnection	31,171	NA	-	-
Total Accounts	410,074	399,447	10,627	3%
Total inactive accounts	89,767	84,296	5,471	6%
Total permanently inactive account	35,730	33230	2500	7.5%
inactive account				

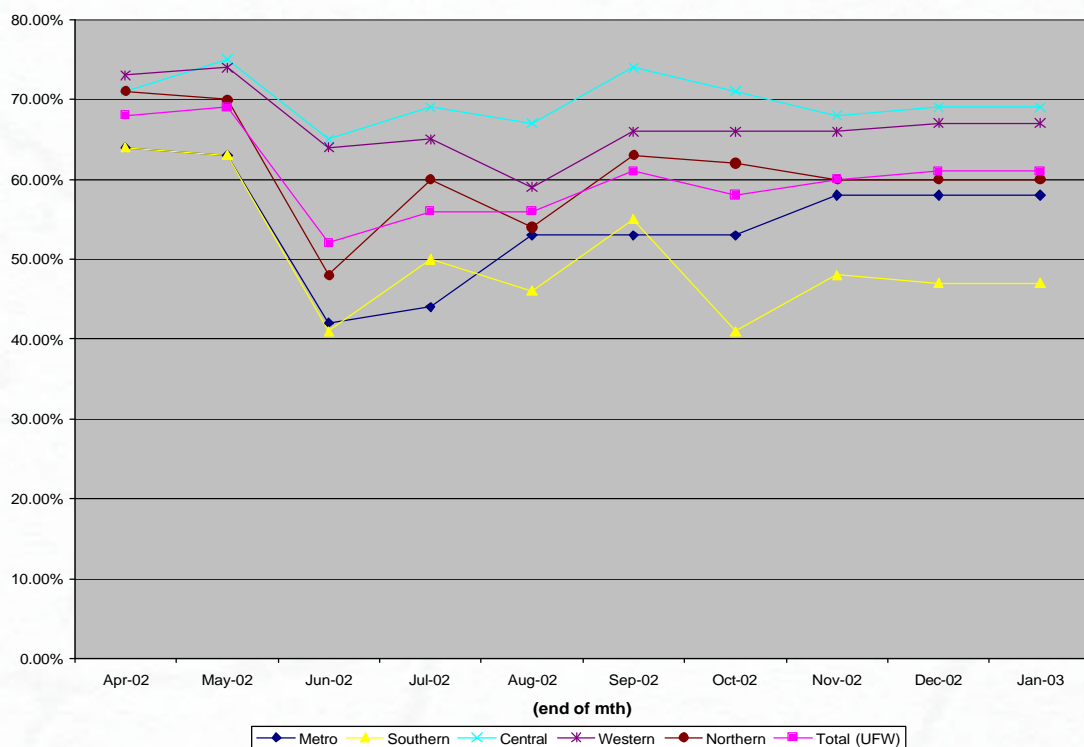
The OUR has continued to urge the NWC to contain the level of inactive accounts. It is with this intention that the OUR requires the Commission to present information on the follow-up after it has disconnected a customer. With regards to regular field activities, for the year under review, the NWC disconnected 31,171 accounts and reconnected 22,047. This implies that the rate at which customers are taken off the system is greater than the rate at which they are reactivated. This could explain the flat revenue line that the Commission has been experiencing for the last three years. The OUR is however aware that the results of the field activities would take a while to be reflected in revenues.



## Water & Sewerage Sector

The OUR is still dissatisfied with the level of UFW reported by the NWC. For this financial period the UFW averaged 60% and at January 2003 61%. Although this is an improvement over the 68% recorded for the corresponding period last year (see graph 1), it is still higher than the target of 58%. The Office notes, however, that a number of projects are being finalized, all of which have major components directed at infrastructure improvements to reduce UFW. While the Office appreciates the Commission's argument that the real extent of UFW is not known because the production volumes are not measured, much can be discerned from the information available (in relative terms).

Graph 1: Unaccounted for water for the period April 2002 - March 2003



The water quality standards are set by the Ministry of Health (MOH) and are:

1. At least 95% of samples should be collected for testing
2. No less than 95% of samples tested should be negative with bacteria coliform
3. At least 95% of samples should be positive with residual chlorine.

The reports as at March 2003 indicate that the average of total water samples tested that were negative with coliform bacteria was 85%. This is less than the 95% stipulated by the MOH Interim Standards.

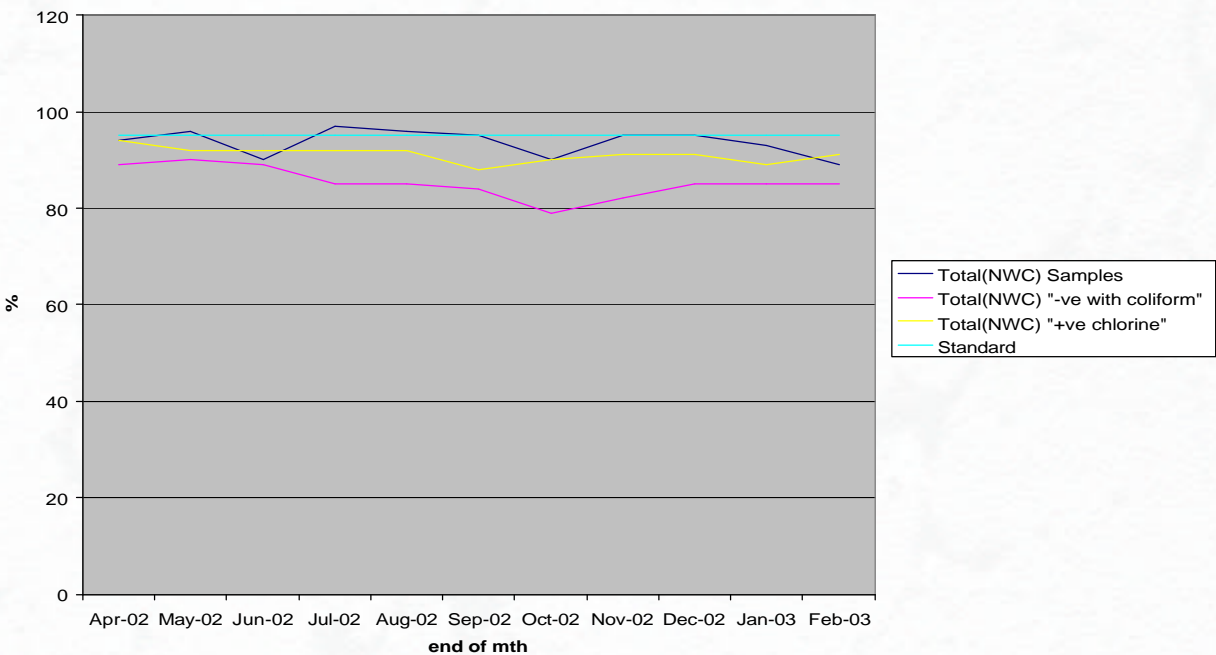
Water & Sewerage Sector

Ninety three percent (93%) of the required 95% of samples were tested and of this amount, an average of 91% had residual chlorine. These figures indicate that the NWC was unable to meet any of the three standards stipulated by the MOH. By extension the target to be 99% compliant with the MOH Interim Standards as outlined in the regulatory framework were not met. Table 2 summarizes the NWC's performance in relation to the MOH standards and graph 2 gives a representation of the movements in the three categories of water quality over the 2002/03 financial year. The Office remains concerned about the results of the quality of potable water produced by the NWC.

Table 2: Summary of NWC's water quality performance

Category	Water samples collected	Negative with coliform bacteria	Positive with residual chlorine
MOH Interim Standard	>= 95%	>= 95%	>= 95%
NWC results as at March 2003	93%	85%	91%

Graph 2: Water quality for period April 2002 - March 2003







## Water & Sewerage Sector

In the 2001/02 financial year, the OUR had requested that the NWC investigate and implement measures to correct its deteriorating water quality. The NWC provided assurances that intense routine and preventative maintenance practices in addition to the improvement of five (5) major treatment systems would correct the problem. The OUR was also aware that the May - June flood rains may have damaged several of the NWC's facilities and this could account for the poor water quality. The Office had written to the NWC requesting that it submit the areas that have been affected by the June 2002 flood rains. At the time of writing the OUR had not received a list of affected areas, consequently the Office cannot comment on whether the low water quality was as a result of the affected systems.

The OUR estimates that about 71% of NWC's accounts have functional meters. This is a deterioration over the previous year's performance and less than the target to have at least 85% of accounts with functioning meters.

Notwithstanding this, the NWC has billed 316,547 of 320,022 (or 98%) active accounts and has maintained collections at 90% of accounts billed. It has also reduced the number of billing related complaints as a proportion of bills printed to 2.29%. However, the continued increase in gross receivables, which was recorded as \$3.64B at the end of the year, continues to hinder the Commission's ability to improve its revenues.

The Office maintains the view that the guaranteed standards are not sufficiently advertised by the company to its customers. At the time of writing the OUR had not received any information on NWC's quality of service performance, which is probably a reflection of the NWC's attitude to this area of regulatory intervention.

The OUR has commissioned a survey to determine whether customers deem the present level of compensation for breach of guaranteed standards by the NWC to be sufficient, and the ways in which the quality of service of the Commission can be improved. The results of the survey will influence the Office's decision in determining how to change the present guaranteed standard arrangements.

With the recent increases in fuel prices and the continued devaluation of the Jamaican dollar, the Price Adjustment Mechanism (PAM), which captures movement in the exchange rate, changes in electricity prices and inflation rate, has increased from 24.8% at April 2002 to 38.81% as at March 2003.

The Office understands that the government intends to wean the NWC from the budget and if this is the case, the financial structure of the Commission will change. If this is the intention, the Government will no longer provide capital and other financial grants to the NWC, but capital projects will be financed by loans, a majority of which would have to be recovered through tariffs. Given that capital charges constitute a significant proportion of NWC's expenses, the OUR expects that the NWC will be applying for a tariff review during the next financial year, in order to preserve its financial viability.

Consequently, the OUR will be embarking on a public consultation to determine the most effective and efficient regulatory and pricing regime under which the NWC should operate. The consultation will address issues such as the most appropriate level of pricing for the water services, calculation of cost of capital and capital cost recovery, accounting separation and proposes the methodology that should be used to value assets.

## Water & Sewerage Sector

A summary of NWC's performance in relation to the targets outlined in the regulatory framework follows:

Item No.	STANDARD MEASURE	ACTUAL
1	85% of accounts with functioning meters	71%
2	Reduce UFW to 58% by March 2003	61%
3	All disconnected (inactive) accounts are to be revisited within ninety (90) days of any account being disconnected and not reconnected and action taken to ensure that these customers have not illegally reconnected and outstanding balances are being collected.	100%
4	Reduce the number of billing related complaints to 5% of bills printed	2.29%
5	Complete inventory and valuation of all fixed assets inclusive of those in use but not currently on its books by March 2003\	NWC states that valuation is in progress
6	Gross receivables to be at most \$1.5B by March 2003	\$3.64B
7	Employee costs as a percentage of revenues should be at most 36% by March 2003	44%
8	Average monthly collection rate of at least 90% of billing	95%
9	Minimum of 97% of metered accounts are to be read in each billing cycle	71.4%
10	Water quality must comply with at least 99% of Interim Jamaican standards	86%
11	Effluent must comply with NEPA effluent standards	No information provided
12	At least 95% of blocked sewerage mains must be cleared within 24 hours	99% in Metro
13	Prepare an Energy Efficiency Improvement Plan by September 2002	-



## Water & Sewerage Sector

Item No.	STANDARD MEASURE	ACTUAL
14	Must maintain a pressure ranging from 20 to 60 psi	Item 14 - 28: No information received on overall and guaranteed standards
15	Minimum notification time of 12 hours for short interruptions (not more than 4 hours) and 24 hours for longer interruptions (more than 4 hours)	
16	Maximum of 24 hours to correct sewerage problems, after being informed	
17	Must provide consumers with details of the date of the change, meter readings on the day and serial numbers of the new meter when meter is changed	
18	Maximum time of 10 working days to connect new customers after application for service has been approved	
19	Maximum time of 48 working days after connection to issue first bill	
20	Notification to customers prior to appointed time, if cannot keep appointment.	
21	Maximum of 5 working days to acknowledge customer billing and non-billing related complaints, after receipt. Maximum time of 30 working days to complete investigation and respond, from date of receipt of complaint	
22	Meter to be read on same day customer is moving, if on a weekday (within 2 days of move if on a weekend) providing 5 days notice of move is given. Maximum time of 48 working days to provide final bill after move	
23	Maximum time of 24 hours to restore supply in urban areas. Maximum of 48 hours in rural areas after emergency lock-off.	

## Water & Sewerage Sector

Item No.	STANDARD MEASURE	ACTUAL
24	Maximum of 30 working days to install meter on customer's request	
25	Maximum time of 40 working days to repair or replace faulty meters after being informed	
26	Maximum of 3 months between each meter reading and between bill issues	
27	Maximum of 24 hours to restore supply (reconnect) in urban areas and maximum of 48 hours to restore supply in rural areas after payment of over-due amount	
28	Maximum of 60 working days to make payment when it becomes due if there is a breach of guaranteed standard	

### Four Rivers Development Company (FRDC)

FRDC provides water services to a designated part of Shaw Park, near Ocho Rios, St. Ann. In accordance with the provisions of the OUR Act, the Office recommended to the Minister of Water and Housing that a licence be granted to FRDC. The Minister accepted the recommendation, however, due to defects in the legislative framework, he has not been able to directly issue the licence. Upon the advice of the Attorney General, he directed the NWC to issue the licence. The Office is of the view that this is a most unsatisfactory arrangement, and throughout the whole exercise has considered the posture of the NWC to be deliberately frustrating the intentions of policy objectives in this regard.

FRDC was issued with a ten-year non-exclusive water service provider licence in November 2002. The OUR will continue to monitor the company's performance subject to the conditions of the licence.

### Runaway Bay Water Company (RBWC)

RBWC, a subsidiary of the Urban Development Corporation (UDC), supplies water to the Cardiff Hall area of Runaway Bay, St. Ann. The OUR received and processed its application for a licence and submitted a recommendation to the Minister. It is expected that the Minister will issue the licence to RBWC in the 2003/04 financial year.

### Dairy Springs Limited

Dairy Springs Limited was issued with a ten-year non-exclusive water service provider licence in November 2002 and currently provides service to sections of Shaw Park and Ocho Rios in St. Ann. The UDC previously supplied this area but after negotiations, DSL has assumed responsibility for and operation of the area. DSL is expected to submit yearly reports to the OUR on its financial and operational performances as stipulated in its licence conditions.





## Water & Sewerage Sector

### SEWERAGE

The NWC has several sewerage treatment plants island-wide. It has, however, not given the same level of attention to all. The operations of the North Coast Wastewater District (NCWD), which was recently developed to provide wastewater services to the Negril, Montego Bay and Ocho Rios areas, has been the Commission's primary focus whilst other treatment facilities, especially in the Metro and Southern Regions have been ignored. Although a \$142M provision was made in the last tariff review (February 1999) for the NWC to rehabilitate these wastewater facilities, the money has been used in potable water projects whilst the wastewater treatment facilities continue to be operated in a deplorable condition. To date, there has been no significant improvement in any of these wastewater facilities.

The NWC has acknowledged that a number of its plants are not in compliance with the environmental standards stipulated by NEPA and has stated that it is in negotiations with the environmental regulator on a timetable to bring them into compliance. The Office is of the opinion that the NWC has been negligent in the proper maintenance and functioning of these plants, and thinks that if the situation is not addressed, the environmental consequences would be challenging. No information on the NCWD has been submitted. The Office is therefore unable to comment on the level of compliance of the Negril, Montego Bay and Ocho Rios wastewater facilities.

### IRRIGATION

The Water Policy expressly states that there should be a creation of a Water Users Association (WUA), which would relieve the National Irrigation Commission (NIC) of most of its present responsibilities.

The NIC would act in a managerial capacity in the future. Stakeholders in the irrigation sector have been involved in continuous discussions to bring this to fruition. In light of this, Parliament has amended the existing Irrigation Act: Irrigation (Amendment) Act, 2003, to make the necessary provisions for the establishment of WUAs. WUAs would allow farmers to actively participate in the management and operation of irrigation systems.

There has been no change in the present rates that farmers pay for irrigation water. This indicates that the NIC will be unable to recover the full cost of its operation by 2005 as set out in the Sector Policy. The NIC has submitted its request to the Ministry of Finance to pay the difference between the recovery rate and the current rates that farmers pay, but to date there is no indication if the government will accept this liability.

### OUTLOOK

With the expectation that the new legislation will be enacted during the next financial period, the legal basis for private sector participation will be established. Additionally, the proposed amendments to the NWC Act will also bring clarity to the regulatory and licensing process for water and sewerage service providers. This will clearly delineate the respective roles of the Minister, regulators and the service providers. The NWC will operate only as a service provider; as such any attempts by it to deliberately frustrate the licensing process will be prevented.

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## *Water & Sewerage Sector*

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The OUR also anticipates that the NWC will complete its tariff and asset management studies in the next financial year. Upon completion of these, The OUR expects the Commission to make a submission for a comprehensive tariff review. The Office expects that the results of this tariff study, subsequent tariff review and the outcome of the OUR consultation will enable the Office to determine an appropriate financial structure which, along with the necessary efficiency improvements, will secure the improved performance of the NWC. The efficiency improvements and performance benchmarks will be incorporated in a new regulatory framework.

Particular attention will also be given to the compliance of non-compliant wastewater treatment facilities, the high UFW, the continuous increase in expenses although the revenue remains flat and the performance of the NWC in relation to the guaranteed standards. These targets will force the NWC to operate as a strict commercial entity with reduced dependence and interference from the government.



## Transportation Sector

### Overview

As has been reported in previous years, the Office has been reluctant to take on any full scale activities in this sector until it receives the formal direction from the responsible minister with respect to the government's expectations of the OUR in the sector. While every indication is that the OUR's role will be limited to economic regulation, the Office is of the view that the mandate should be formally established to avoid any confusion with the functions of the Transport Authority. To achieve this, minor legislative amendments are required.

In the meantime, the Office continued to receive monthly performance data from the Jamaica Urban Transit Company Limited and continued to develop its information base on the sector.

### Rate Reviews

During the year under review, the OUR received two fare proposals from the Ministry of Transport and Works (MTW) (through the Metropolitan Management Transport Holding Company) and the Transport Authority (TA). The OUR was requested to review the fare structures for both buses and route taxis operating within the Montego Bay Metropolitan Region (MMR).

The MTW proposed an expansion of the number of routes and an increase in fares such that the government owned company - Montego Bay Metro Limited could remain viable in the foreseeable future. The TA requested that the OUR review fares charged to customers purchasing route taxi services in the MMR.

The OUR reviewed both proposals on the basis that it could not make a determination on either proposal given the limited time in which the data supplied would have to be verified but would instead assess the methodologies employed. Comments were submitted to both organizations.

### Outlook

The Office anticipates that the necessary legislative changes will be implemented in the next coming year. It is also expected that the current consultation on the economic regulation of bus and taxi fares in the Kingston Metropolitan Transport Region will be finalized.

## Analysis & Research Department



**Maurice Charvis**  
*Director - Analysis and Research Department*

The Department's work of policy formulation, rules development and rate setting was severely affected by action brought in court by Digicel seeking Judicial Review of decisions made by the Office and the process by which certain decisions were about to be made. Digicel sought a review of the Office's decision to change the maximum mobile termination rates and also a stay in the Office's consultation process on an Access Deficit Charge (ADC).

An access deficit arises from any decision by the Office to restrict the price of access (in this case the line rental of Cable & Wireless Jamaica) such that the operator cannot recover the full cost from its customers. The Telecommunications Act then provides for the levy of an ADC on other services to compensate the operator for the below cost pricing. The delay in quantifying the amount, if any, of ADC affects the setting of Cable & Wireless Jamaica's retail prices and the prices of inter-connection services.

The cases therefore created a vacuum in the regulatory process which could lead to severe dislocations in the industry. In addition it caused a strain on the resources of the department. It is hoped that these cases do not indicate a trend towards the abandonment of the procedures provided for under the Telecommunications Act.

The department continued its monitoring of economic and operational performance of the Water and Electricity sectors including the review of the annual rate adjustment application from the Jamaica Public Service Company. Two rate reviews of buses and taxi fares in the Montego Bay area were also conducted despite the continued overlap in jurisdiction with the Transport Authority.





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*Analysis & Research Department*

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The Department now has a complement of eight staff members, a Director, six economists and an engineer responsible for the administration of telephone numbering. The Department also benefited from the assistance of Debra Slaco, a regulatory specialist, whose services were made possible by the Canadian government through CIDA. Debra has completed her assignment and we wish to thank her for her contribution to the development of the organization.

## Consumer Affairs Department



**Antoinette Stewart**  
*Director - Consumer Affairs*

The Consumer Affairs Department (CAD) throughout fiscal year 2002/2003 continued to perform a number of important roles in support of the overall mandate of the OUR. The most critical of these are:

- Serving as the focal point through which the organization offers direct contact and assistance to consumers, and
- Providing advice to the Office on consumer issues and policy.

During the year under review, CAD commenced two significant projects, the first of which is a National Consumer Survey currently being conducted to capture consumer views on the performance of the OUR and the utility service providers. The other is an audit of the Jamaica Public Service Co (JPS) system for the administration of the guaranteed standards scheme.

The department formally monitors its stewardship of the complaints management process against the following standards;

1. Acknowledgement Letters to Consumer Complaints: acknowledgement letters to be dispatched within five(5) business days of receipt of a written contact.
2. Case Letters to Utility Companies (detailing the complaint): to be dispatched within five (5) business days after receipt of required information from the customer.
3. Final Letters to Consumers: to be dispatched within five (5) business days to the consumer after receipt of an acceptable investigative report from the utility and whichever other interested party that might be involved.

There has been a marginal decline in the performance of CAD in meeting the five-day standard for all three types of correspondence. This can be attributed to a number of reasons including technical problems with the CAD database systems, increased need for technical support from other departments, and most importantly the unexpected increase in the number of contacts which strained existing personnel and infrastructure.

Notwithstanding, a primary objective of the department is to attain and maintain 100% compliance on all standards. (Refer to Table 1)





## Consumer Affairs Department

**Table 1: CAD Performance on Service Standards for April 2002 - March 2003**

PARAMETER	STANDARD	PERFORMANCE (avg. % compliance)	
		Yr. 2002/03	Yr. 2001/02
<b>Acknowledgement Letters</b>	Within 5 Business Days (of receipt of written customer contact)	32%	32%
<b>Case Letters</b>	Within 5 Business Days (of receipt of complaint information from customer)	22%	26%
<b>Final Letters</b>	Within 5 Business Days (of receipt of necessary information from relevant parties)	4%	8%
<b>All Letters</b>	All 5-day Standards	19%	22%



## Administration/Human Resource Department



**Carolyn B. Young**  
*Director - Human Resource Development  
and Administration Department*

The fiscal year 2002-2003 was indeed quite a challenge for the department in particular, and the organization as a whole. On September 30, our first Director General Winston C. Hay demitted office after serving the organization for two contract periods, commencing October 1, 1996. Consequently, effective October 1, 2002, the Most Hon. Prime Minister appointed then Deputy Director General J. Paul Morgan to act as Director General. The Governor General subsequently appointed him Director General, on December 1. This information was well received by the entire staff body.

Also during the period, the need to strengthen the resources in the Legal Department, coupled with the intent of the Office to reduce our dependence on external legal support, resulted in the appointment of Mr. George Wilson, a senior member of the Jamaican Bar, to the position of General Counsel, effective December 1.

### INTERNAL CONSULTATION

In order to discharge its statutory duties, the members of the Office met formally on a monthly basis; the Senior Management team also met monthly, whilst general staff meetings were held quarterly. In addition to these formal meetings, monthly "Meet and learn" sessions were held where, among other things, the general staff body was kept abreast of regulatory issues by virtue of having authors of Consultative Documents make power-point presentations.

### INFORMATION TECHNOLOGY

During the review period, the IT Department saw some major changes both in personnel and focus. The year began with the appointment of a new Systems/Network Administrator, consequent on the resignation of the previous person. An important priority has been the increased application of Information Technology (IT) to improve organizational efficiency and to position IT as a critical tool in the operations of the Agency. The services of an IT consultancy firm, Systems Alliance, were engaged to develop an IT strategy for the OUR. This project was completed in August with the Office signing off on the recommended IT Strategy and committing itself to its implementation. By the end of the financial year, the detailed planning for the next phase of the project had commenced and it is anticipated that by the end of the next fiscal year, the IT capabilities and applications in the organization will have expanded considerably.

### INFORMATION CENTRE

In the process of preparing to comply fully with the Access to Information Act, the organization embarked on a refurbishing exercise for the Library. Accordingly, a Senior Librarian was contracted for an initial period of six months, to assist in ensuring full compliance with the requirements of the Act.



## Administration/Human Resource Department

The Office has a vision of transforming the OUR Library into an 'Information Centre' where it will be a point of reference nationally, regionally and internationally for information about utility regulations in general, but more so with regards to the Jamaican experience.

### CORPORATE SOCIAL RESPONSIBILITY

Mention must be made of the activity that constitutes one of the OUR's values - Community Services - most staff members contributed their time on Labour Day 2002 to the refurbishing of the Noel Basic School in the Waltham Park area of Kingston. Retired computers were also donated to the Wakefield Primary School in St. Catherine, as well as to the Louise Morgan Learning Centre in the Trench Community of Kingston.

### FINANCING THE OUR

The most significant feature of the year 2002/3 as regards the OUR's finances was that the regulatory fees charged were approximately \$9.0m less than was provided for in the budget. This shortfall occurred because the 2002/3 budget was approved almost at the end of the 2002/3 financial year and the Office felt it was unreasonable to impose the additional fees on the various utilities so late in the financial year.

Fortunately, the OUR was able to generate miscellaneous income of some \$7.0 m which largely made up for the shortfall in regulatory fees. Expenses were slightly over budget due to the unexpectedly high usage of consultants. The final deficit for the year was \$1.30m that was funded out of reserves.

Table I highlights the major areas of expense for the period. A more detailed breakdown of the expenses are contained in the financial statements. The compensation for the Senior Staff is outlined in Table II.

**TABLE I: Major Areas of Expense (2002-03)**

PARTICULARS	ACTUAL	BUDGET
Payroll Related Costs	\$72,820,951	\$73,761,209
Training	9,769,685	8,887,000
Foreign Travel	2,295,078	2,467,750
Information Technology	2,347,141	1,526,761
Public Education	2,712,216	3,828,000
Consultants' Fees	25,776,556	26,072,650
Office Rental	5,015,834	6,674,049
Depreciation	3,774,663	4,472,208
Other Costs	7,623,753	9,633,181
<b>TOTAL</b>	<b>\$132,135,877</b>	<b>\$137,322,808</b>



Administration/Human Resource  
Department

TABLE II: Compensation for Senior Staff (2002-03)

Positions	Basic Salary, p.a.	Gratuity	Company Owned Motor Vehicle	Motor Vehicle Lease p.a.	Clothing p.a.	Health Ins. (monthly premium)	Group Life Ins. (monthly premium)	Pension (8.3% monthly)
Director General **	4,377,500	25%	No	800,000	Nil	Nil	1,295	Nil
Director General*	4,377,500	25%	Yes	n/a	Nil	3,009	1,710	Nil
Deputy Director General i/c Electricity and Water	3,811,000	25%	Yes	Nil	Nil	3,009	1,710	Nil
Deputy Director General i/c Telecommunications	3,605,000	25%	Yes	Nil	Nil	6,015	3,375	Nil
General Counsel	3,480,000	25%	No	660,000	84,000	6,015	Nil	Nil
Director - Analysis & Research	3,213,598	Nil	Yes	Nil	30,000	6,015	1,710	22,227
Director - Administration/HRD	2,541,842	Nil	No	660,000	30,000	6,015	2,288	12,186
Director - Consumer Affairs	2,541,842	Nil	No	660,000	30,000	6,015	2,288	17,581
Director - Corporate Affairs	2,269,502	Nil	No	660,000	30,000	3,009	2,043	15,697
Manager - Communication Services	1,777,121	Nil	No	660,000	30,000	6,015	1,600	10,217

\*\* Applicable to the former Director General

\* Applicable to the present Director General



## Communication Services Department



**David Geddes**  
*Manager - Communication Services*

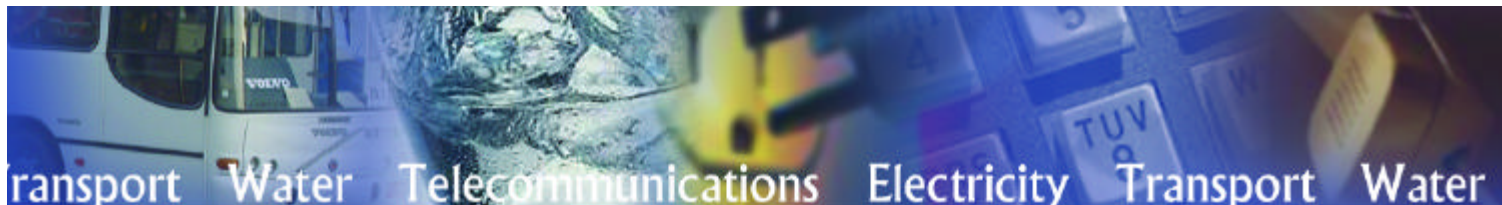
### Public Education

It was an active year for Communication Services, with a record number of community meetings being held across the island. These meetings were used to disseminate information on the role of the OUR, and to hear the concerns of citizens regarding utility services particularly in rural and inner city communities, as well as exposing consumers to the services offered by the OUR. The Jamaica Information Service through their regional offices played an integral role in facilitating these meetings. Just over 100 meetings were held attracting some ten thousand people.

In addition to community meetings the OUR participated in special events such as the Denbigh Agricultural Show, the National Craft Vendors Association forum, the Hague Agricultural Show, and Love FM's Village Days in Kingston and Port Royal.

In an effort to broaden the base for participation in the consultation process, the Consultative Document "Towards Universal Service/Access in Telecommunications" was distributed across the island and the OUR also solicited feedback through a series of community meetings involving primarily community leaders. The consultation which examines how basic telecommunications services can be made accessible to citizens in non-economic areas was intended to provide the basis on which the Office will provide advice to the Minister responsible for Telecommunications in pursuance of Government policy on Universal access and the associated provisions of the Telecommunications Act.

The Office has long regarded the establishment of Guaranteed Standards for the utility companies as a key component of the regulatory regime.



## Communication Services Department

Communication Services therefore spent much of its efforts, not only at community meetings, but also through promotional material, promoting the respective standards for the electricity and water utilities.

A newsletter designed to explain various issues related to utility regulation was introduced in February. Titled The Regulator it is published twice per year. Reaction to the first issue has been extremely favorable.

New flyers and posters were also designed to educate consumers about their rights in their dealings with the utility companies. The posters and flyers are distributed through post offices as well as at community meetings. The Postage paid complaint forms which are left at post offices islandwide have also proven to be an increasing method of contacting the OUR.

### Media Relations

The year witnessed a marked increase in appearances by The Director General, members of the Office and OUR staff on radio and television stations.

A poster was specially designed for placement in the studios of the radio stations. It gives the OUR telephone numbers including the toll free number, so that talk show hosts in particular can encourage their callers to contact the OUR if they have a complaint against a utility company and they do not believe that the issue has been handled fairly by the utility company, or if they have questions on utility issues.

The Quarterly Press Conferences which were launched last year continued this year and were well attended by a cross section of the media.

In addition, members of the Office (the Director General and Deputy Directors General) made themselves available to members of the media for interviews, in keeping with the agency's commitment to transparency and easy accessibility.

### Marketing

A half page advertisement was developed and is placed in the Jamaica Observer (the last Friday of every month). The theme of the advertisement is the rights of utility consumers. There are plans to extend publication to the Daily Gleaner and the Agriculturalist newspapers in the coming financial year.

Production of a five minute radio programme depicting the role of the OUR and current topical issues began this year. The programme should begin airing on three radio stations in the new financial year.



### Web site

The OUR web site, [www.our.org.jm](http://www.our.org.jm) hosts a wealth of information on the activities and publications of the agency. The award winning docudrama "Val, Olivene and Di Bills" can be viewed on the site. The docudrama outlines the difficulties one family has with utility companies and how the OUR assists them. In addition the audio tape from the agency's Quarterly Press Conferences is routinely placed on the site.

The Guaranteed Standards for the utility companies are also available on the web site. The standards form the basis of an agreement between the utility company and the consumer which entitles the consumer to a financial payment if breached by the company.



## Communication Services Department

### 5th Anniversary Celebrations

One of the highlights of the year was the observance of the OUR's 5th anniversary during the first week of September. By all accounts the celebrations were well received.

The weeklong activities began with a service at the Webster Memorial Church. One of the highlights of the service was a performance by the OUR family and friends choir.



#### 5th Anniversary

Director General- **J. Paul Morgan** (L) and Deputy Director General- **C. Courtney Jackson**, speaking on Disclosure, aired from the OUR office, during the week long celebrations.



#### 5th Anniversary - Awards Dinner

Then Minister of Industry, Commerce & Technology - **The Hon. Phillip Paulwell** was the guest speaker.



#### 5th Anniversary

The OUR Family Choir at the Webster Memorial Church



#### 5th Anniversary - Church Service

(From left) Former Director General- **Winston Hay**, Current Director General- **J. Paul Morgan** and pastor of the Webster Memorial Church- **Robert Stephens**



Communication Services Department



**5th Anniversary - Awards Dinner**

We said goodbye to our first Director General- **Mr. Winston Hay**



**5th Anniversary - Church Service**

(From left) Former Director General- **Winston Hay**, Current Director General- **J. Paul Morgan** and Then Minister of Industry, Commerce & Technology- The Hon Phillip Paulwell



**5th Anniversary - Awards Dinner**

We started with a Prayer - Communication Services Manager - **David Geddes**



**5th Anniversary -**

Xelenz Dancers performing



## Communication Services Department

The popular Hot 102 talk show Disclosure with Bruce Golding was aired from the offices of the OUR and this helped increase public awareness of the agency.

There was also a panel discussion on The Role of the Regulator : Walking The Tightrope.

On the 6th of September the OUR played host to some 150 guests at the Mona Visitors Lodge on the UWI Mona Campus. Eleven staff members were presented with awards for five year's service to the organization.



### 5th Anniversary

Public Forum - The Regulator - Walking The Tightrope held at the PCJ Auditorium (From left) Winston Hay, Bruce Golding, Dennis Morrison & Dr. Hopeton Dunn



### 5th Anniversary

The dinner at Mona Visitors Lodge, U.W.I. Was by all accounts a sumptuous and enjoyable event.

As we look towards the coming year, Communication Services will be building on the successes of the year just completed and will be seeking to further penetrate communities in Western Jamaica.

The Department will be utilizing more outlets for complaint forms and will be using the media to focus consumers attention on where they can obtain these forms.

There will also be increased efforts to inform consumers about the Guaranteed Standards.







**J. PAUL MORGAN**  
DIRECTOR GENERAL



**C. COURTNEY JACKSON**  
DEPUTY DIRECTOR GENERAL -  
TELECOMMUNICATIONS



**ANTOINETTE STEWART**  
DIRECTOR - CONSUMER AFFAIRS



**GEORGE WILSON**  
GENERAL COUNSEL



**CAROLYN YOUNG**  
DIRECTOR - ADMINISTRATION/  
HUMAN RESOURCE



**KAYANNE TAYLOR**  
SNR. LEGAL COUNSEL



**DAVID GEDDES**  
MANAGER - COMMUNICATION  
SERVICES





**EILEEN SALMON**  
DIRECTOR - CORPORATE AFFAIRS



**MARIE JAMES**  
ECONOMIST



**INGRID BROWN**  
SUPERVISOR - OFFICE SERVICES



**AINSLEY WILLIAMS**  
CASE OFFICER



**MAURICE CHARVIS**  
DIRECTOR - ANALYSIS &  
RESEARCH



**ANTHONY SHIM-QUEE**  
SNR. LEGAL COUNSEL



**CLARA JOHNSON**  
EXECUTIVE SECRETARY



**GARFIELD BRYAN**  
ANALYST - CONSUMER POLICY



**LESIA GREGORY**  
LIBRARIAN/CLERK



**DONOVAN SMITH**  
NETWORK ADMINISTRATOR





**CURTIS ROBINSON**  
NUMBERING ADMINISTRATOR



**DENISE MCCALLA**  
RECEPTIONIST/TYPIST



**SHIRLEY STEWART**  
DRIVER/MESSENGER



**LORNA TOWNSEND**  
ADMINISTRATIVE ASSISTANT



**PATRICK WILLIAMS**  
ECONOMIST



**VENETIA COOKE**  
OFFICE ATTENDANT



**ANSORD HEWITT**  
SNR. ECONOMIST



**MARGARET PARKER**  
SNR. ACCOUNTING CLERK



**DAVID SULLIVAN**  
ECONOMIST



**RICHARD BROWN**  
SNR. ECONOMIST





**BRIAN SALE**  
FINANCIAL CONTROLLER



**MECKLAR MYRIE**  
CASE OFFICER



**DWIGHT MCKENZIE**  
SENIOR CASE OFFICER



**NOVA BARNETT**  
ADMINISTRATIVE ASSISTANT



**FRANKLIN BROWN**  
SR. ECONOMIST



# FINANCIAL STATEMENTS

Transport Water Telecommunications Electricity Transport Water







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BDO Jamaica  
Chartered Accountants

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Kingston 5, Jamaica  
Telephone: (876) 926-1616-7, 926-4421  
Telefax: (876) 926-7580

## AUDITORS' REPORT

To the Members of  
Office of Utilities Regulation

We have audited the accompanying balance sheet of the Office of Utilities Regulation as of 31 March 2003, and the related statement of income, changes in equity and cash flows for the year then ended set out on pages 2 to 13. These financial statements are the responsibility of the Director General and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain all the information and explanations which we consider necessary to provide us with reasonable assurance that the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by the Director General and management, as well as evaluating the overall financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, proper accounting records have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of the Office's affairs at 31 March 2003, and of the results of its operations, its changes in equity and its cash flows for the year then ended, and have been prepared in accordance with Jamaican generally accepted accounting standards and comply with the provisions of the Office of Utilities Regulation Act 1995, which has since been amended by the Office of Utilities Regulation (Amendment) Act, 2000.

Chartered Accountants

14 May 2003



**INCOME AND EXPENDITURE ACCOUNT  
YEAR ENDED 31 MARCH 2003**



	<u>Note</u>	<u>2003</u> \$	<u>2002</u> \$
<b>INCOME</b>	3	120,010,863	116,101,338
Other income		<u>6,625,731</u>	<u>869,555</u>
		<u>126,636,594</u>	<u>116,970,893</u>
Administrative and general expenses		<u>132,132,114</u>	<u>123,086,317</u>
Operating deficit	4	( 5,495,520)	( 6,115,424)
Finance income	6	<u>4,152,233</u>	<u>5,403,199</u>
Deficit		( 1,343,287)	( 712,225)
Taxation	7	<u>-</u>	<u>-</u>
Net deficit		( 1,343,287)	( 712,225)
Accumulated deficit at beginning of year		( <u>22,381,979</u> )	( <u>21,669,754</u> )
<b>ACCUMULATED DEFICIT</b>		( <u>23,725,266</u> )	( <u>22,381,979</u> )



**BALANCE SHEET**  
**31 MARCH 2003**



	<u>Note</u>	<u>2003</u> \$	<u>2002</u> \$
<b><u>ASSETS</u></b>			
FIXED ASSETS	8	15,253,562	14,537,809
INVESTMENTS	9	<u>19,645,551</u>	<u>29,908,688</u>
		<u>34,899,113</u>	<u>44,446,497</u>
CURRENT ASSETS:			
Receivables	10	20,390,609	20,167,547
Taxation recoverable		2,740,927	1,716,812
Cash and bank balances	11	<u>6,341,900</u>	<u>1,080,507</u>
		<u>29,473,436</u>	<u>22,964,866</u>
		<u>64,372,549</u>	<u>67,411,363</u>
<b><u>EQUITY AND LIABILITIES</u></b>			
RESERVES -			
GRANTS	12	10,048,836	9,340,847
PROFIT AND LOSS ACCOUNT-			
Accumulated deficit		( <u>23,725,266</u> )	( <u>22,381,979</u> )
		( 13,676,430 )	(13,041,132)
LONG TERM LIABILITIES	13	<u>64,366,639</u>	<u>64,366,639</u>
		<u>50,690,209</u>	<u>51,325,507</u>
CURRENT LIABILITIES			
Payables	14	13,682,340	16,085,856
		<u>64,372,549</u>	<u>67,411,363</u>

On behalf of the Office:

  
..... )  
J Paul Morgan ) Director General  
  
  
..... ) Deputy Director General  
C Courtney Jackson



**STATEMENT OF CHANGES IN EQUITY**  
**YEAR ENDED 31 MARCH 2003**



	<u>Grants</u>	Accumulated <u>Deficit</u>	<u>Total</u>
	\$	\$	\$
Balance at 1 April 2001	9,340,847	( 21,669,754)	(12,328,907)
Net deficit	<u>-</u>	( <u>712,225</u> )	( <u>712,225</u> )
Balance at March 2002	9,340,847	( 22,381,979)	(13,041,132)
Increase in grants	707,989	-	707,989
Net deficit	<u>-</u>	( <u>1,343,287</u> )	( <u>1,343,287</u> )
Balance at 31 March 2003	<u>10,048,836</u>	( <u>23,725,266</u> )	( <u>13,676,430</u> )



**STATEMENT OF CASH FLOWS**  
**YEAR ENDED 31 MARCH 2003**



	<u>2003</u>	<u>2002</u>
	<u>\$</u>	<u>\$</u>
<b>CASH RESOURCES WERE PROVIDED BY/(USED IN):</b>		
<b>OPERATING ACTIVITIES -</b>		
Net deficit	( 1,343,287)	( 712,225)
Items not affecting cash resources -		
Depreciation	3,774,663	3,827,261
Gain on disposal of fixed assets	<u>-</u>	<u>( 18,010)</u>
	2,431,376	3,097,026
Changes in non-cash working capital components -		
Receivables	( 223,062)	3,258,147
Payables	( 2,403,516)	4,725,564
Taxation recoverable	<u>( 1,024,115)</u>	<u>( 1,277,954)</u>
Cash (used in)/provided by operating activities	<u>(1,219,317)</u>	<u>9,802,783</u>
<b>FINANCING ACTIVITIES -</b>		
Increase in grants	<u>707,989</u>	<u>-</u>
Cash provided by financing activities	<u>707,989</u>	<u>-</u>
<b>INVESTING ACTIVITIES -</b>		
Investments	10,263,137	(10,408,688)
Purchase of fixed assets	( 4,490,416)	( 5,342,617)
Proceeds from sale of fixed assets	<u>-</u>	<u>65,000</u>
Cash provided by/(used in) investing activities	<u>5,772,721</u>	<u>(15,686,305)</u>
<b>INCREASE/(DECREASE) IN NET CASH BALANCES</b>	5,261,393	( 5,883,522)
Net cash balances at beginning of year	<u>1,080,507</u>	<u>6,964,029</u>
<b>NET CASH BALANCES AT END OF YEAR</b>	<u>6,341,900</u>	<u>1,080,507</u>
Represented by:		
Cash and bank balances	<u>6,341,900</u>	<u>1,080,507</u>



**NOTES TO THE FINANCIAL STATEMENTS**  
**31 MARCH 2003**



**1. STATUS AND PRINCIPAL ACTIVITY:**

The Office of Utilities Regulation (OUR) was established by the Office of Utilities Regulation Act 1995, which has since been amended by the Office of Utilities Regulation (Amendment) Act, 2000. The main activity of the Office is to receive and process all applications for licences to provide utility services as defined under the Act, set rates where applicable and to monitor the operations of such utilities. In addition, the Office is charged with ensuring that consumers are provided with adequate levels of service, that the needs of the community are met and that the environment is protected.

These financial statements are expressed in Jamaican dollars.

**2. SIGNIFICANT ACCOUNTING POLICIES:**

**(a) Basis of preparation -**

These financial statements have been prepared in accordance with and comply with Jamaican accounting standards and have been prepared under the historical cost convention.

**(b) Use of estimates -**

The preparation of financial statements in conformity with Jamaican generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**(c) Revenue recognition -**

Income is recognized as it accrues unless collectibility is in doubt.



**NOTES TO THE FINANCIAL STATEMENTS**  
**31 MARCH 2003**



**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):**

**(d) Depreciation -**

Depreciation is provided on all fixed assets at rates calculated to write off the cost of assets evenly over the period of their expected useful lives. Annual rates are as follows:

Leasehold improvement	10%
Furniture and fixtures	10%
Office machinery and equipment	10%
Computers and accessories	20%
Motor vehicles	20%

**(e) Foreign currency translation -**

Balances in foreign currencies are translated at the rate of exchange ruling at balance sheet date. Transactions during the year are translated at the exchange rates prevailing at the date of the transactions. Gains or losses on translation are dealt with in the profit and loss account.

Exchange rates are determined by the published weighted average rate at which commercial banks trade in foreign currencies.

**(f) Fair value of financial instruments -**

Financial instruments carried on the balance sheet include cash and bank balances, receivables and payables.

The fair values of the company's financial instruments are discussed in note 17.



**NOTES TO THE FINANCIAL STATEMENTS**  
**31 MARCH 2003**



**3. INCOME:**

Income represents regulatory service fees imposed on utility companies as approved by the responsible Minister.

**4. OPERATING DEFICIT:**

Stated after charging the following:-

	<u>2003</u>	<u>2002</u>
	\$	\$
Auditors' remuneration	267,000	245,000
Depreciation	3,774,663	3,827,261
Staff costs (note 5)	<u>78,251,430</u>	<u>64,932,429</u>

**5. STAFF COSTS:**

	<u>2003</u>	<u>2002</u>
	\$	\$
Salaries and related expenses	68,049,602	58,680,459
Staff costs - miscellaneous	432,144	520,627
Staff training	<u>9,769,684</u>	<u>5,731,343</u>
	<u>78,251,430</u>	<u>64,932,429</u>

The company employed 32 persons at the end of the year (2002-31).

**6. FINANCE INCOME:**

	<u>2003</u>	<u>2002</u>
	\$	\$
Interest income	4,088,964	5,403,199
Bank interest	( 3,761)	-
Gain on foreign exchange	<u>67,030</u>	<u>-</u>
	<u>4,152,233</u>	<u>5,403,199</u>

**7. TAXATION:**

No taxation is charged in these financial statements as the Office has no chargeable income for the year. Subject to agreement with the Commissioner of Taxpayer Audit and Assessment, losses of approximately \$21,295,835 (2002 - \$21,151,034) are available to be set off against future profits



# NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2003



8. FIXED ASSETS:		Leasehold Improvement \$	Furniture & Fixtures \$	Office Machinery & Equipment \$	Computers & Accessories \$	Motor Vehicles \$	Total \$
At cost -							
1 April 2002		2,508,607	4,731,563	2,866,612	12,151,995	5,104,719	27,363,496
Additions		668,597	1,001,809	87,059	1,151,984	1,580,967	4,490,416
Disposal		-	-	-	(5,226,037)	-	(5,226,037)
		<u>3,177,204</u>	<u>5,733,372</u>	<u>2,953,671</u>	<u>8,077,942</u>	<u>6,685,686</u>	<u>26,627,875</u>
Depreciation -							
1 April 2002		563,535	1,877,564	727,016	7,797,053	1,860,519	12,825,687
Charge for the year		267,575	490,111	291,740	1,611,100	1,114,137	3,774,663
Eliminated on disposal		-	-	-	(5,226,037)	-	(5,226,037)
		<u>831,110</u>	<u>2,367,675</u>	<u>1,018,756</u>	<u>4,182,116</u>	<u>2,974,656</u>	<u>11,374,313</u>
Net Book Value -							
31 March 2003		<u>2,346,094</u>	<u>3,365,697</u>	<u>1,934,915</u>	<u>3,895,826</u>	<u>3,711,030</u>	<u>15,253,562</u>
31 March 2002		<u>1,945,072</u>	<u>2,853,999</u>	<u>2,139,596</u>	<u>4,354,942</u>	<u>3,244,200</u>	<u>14,537,809</u>



**NOTES TO THE FINANCIAL STATEMENTS**  
**31 MARCH 2003**



9. **INVESTMENTS:**

	<u>2003</u>	<u>2002</u>
	\$	\$
Capital and Credit Merchant Bank	10,145,551	10,408,688
Barita Investments Limited	<u>9,500,000</u>	<u>19,500,000</u>
	<u>19,645,551</u>	<u>29,908,688</u>

10. **RECEIVABLES:**

	<u>2003</u>	<u>2002</u>
	\$	\$
Utility companies	11,419,685	17,661,507
Deposits	2,206,597	1,599,770
Other	<u>6,764,327</u>	<u>906,270</u>
	<u>20,390,609</u>	<u>20,167,547</u>

11. **CASH AND BANK BALANCES:**

	<u>2003</u>	<u>2002</u>
	\$	\$
Current accounts	5,393,342	864,854
Savings account	869,063	154,984
Cash in hand	74,495	55,669
Petty cash	<u>5,000</u>	<u>5,000</u>
	<u>6,341,900</u>	<u>1,080,507</u>



**NOTES TO THE FINANCIAL STATEMENTS**  
**31 MARCH 2003**



**12. GRANTS:**

	<u>2003</u>	<u>2002</u>
	<u>\$</u>	<u>\$</u>
Multilateral Investment Fund	6,879,856	6,879,856
World Bank	1,142,400	1,142,400
Government of Jamaica	42,591	42,591
Department for International Development	1,276,000	1,276,000
United Nations Development Programme	<u>707,989</u>	<u>-</u>
	<u>10,048,836</u>	<u>9,340,847</u>

The Multilateral Investment Fund represents funding received from the Inter-American Development Bank as Administrators of the Multilateral Investment Fund, Technical Co-operation agreement ATN/MT-4529-JA, for the purpose of establishing the Office of Utilities Regulation.

The grant from the World Bank represents the purchase of software on behalf of the Office of Utilities Regulation.

The grant from the Government of Jamaica represents office furniture and equipment purchased on behalf of the Office of Utilities Regulation.

The grant from the Department for International Development, (which is an arm of the British Government), represents the purchase of a customised software, CHARM (Case Handling and Response Management).

The grant from the United Nations Development Programme represents the purchase of a computer server on behalf of the Office of Utilities Regulation.

**13. LONG TERM LIABILITIES:**

The amounts represent advances from the Government of Jamaica with no stated terms of repayment.



**NOTES TO THE FINANCIAL STATEMENTS**  
**31 MARCH 2003**



14. **PAYABLES:**

	<u>2003</u>	<u>2002</u>
	<u>\$</u>	<u>\$</u>
Payables and accruals	<u>13,682,340</u>	<u>16,085,856</u>

15. **PENSION:**

The Office participates in a pension plan which is administered by Guardian Life Limited. All permanent employees who have completed three (3) months of service are required to join. The Office contributes at the rate of eight point three (8.3%) of pensionable salaries; employees contribute at a mandatory rate of five percent (5%), but may make voluntary contributions not exceeding a further five percent (5%).

Employer's contribution for the year amounted to \$2,882,732 (2002 - \$2,487,745).

16. **CONTINGENT LIABILITY:**

The Office of Utilities Regulation is involved in three matters regarding applications for Judicial Review. The issues concern the carrying out of public statutory duties and the remedies sought are Declarations and Prohibition. There is no exposure at this stage to an award of Damages and consequently, no provision has been made in these financial statements.

If the suits are unsuccessful, the Office of Utilities Regulation may however be ordered to pay costs of the other parties involved amounting to approximately Three Million Dollars (\$3,000,000).



**NOTES TO THE FINANCIAL STATEMENTS**  
**31 MARCH 2003**



**17. FINANCIAL INSTRUMENTS:**

(a) Currency risk -

The net foreign currency exposures at 31 March 2003 are as follows, assets:

	<u>2003</u>	<u>2002</u>
	\$	\$
Cash (US\$)	<u>65,259</u>	<u>47,751</u>
Cash (£ )	<u>4,336</u>	<u>3,319</u>

(b) Credit risk -

The Office has no significant concentration of credit risk. Cash at bank is placed with substantial financial institutions.

(c) Fair values -

The amounts included in the financial statements for cash at bank, receivables and payables reflect their approximate fair values because of the short term maturity of these instruments.



**DETAILED INCOME AND EXPENDITURE  
ACCOUNT**

**YEAR ENDED 31 MARCH 2003**



	<u>2003</u> \$	<u>2002</u> \$
INCOME:		
Regulatory service fees	113,775,613	113,775,618
Licence application processing fees	<u>6,235,250</u>	<u>2,325,720</u>
	<u>120,010,863</u>	<u>116,101,338</u>
Other income:		
Grants	6,084,755	264,673
Interest received	4,088,964	5,403,199
Other	<u>540,976</u>	<u>604,882</u>
	<u>10,714,695</u>	<u>6,272,754</u>
Total income	<u>130,725,558</u>	<u>122,374,092</u>
ADMINISTRATIVE AND OTHER EXPENSES:		
Administrative and general (page 15)	132,132,114	123,086,317
Financial expenses (page 16)	( <u>63,269</u> )	<u>-</u>
	<u>132,068,845</u>	<u>123,086,317</u>
DEFICIT	( <u>1,343,287</u> )	( <u>712,225</u> )



**ADMINISTRATIVE AND GENERAL EXPENSES**  
**YEAR ENDED 31 MARCH 2003**



	<u>2003</u>	<u>2002</u>
	\$	\$
Salaries	58,242,499	50,316,405
Statutory costs	3,252,088	3,421,072
Pension contributions	2,882,732	2,487,745
Group Life insurance	437,205	259,082
Health insurance	1,655,115	1,153,858
Staff welfare	<u>1,579,963</u>	<u>1,042,297</u>
Salaries and related expenses	68,049,602	58,680,459
Staff costs - miscellaneous	432,144	520,627
Staff training	9,769,685	5,731,343
Foreign travel	2,295,078	3,526,094
Entertainment	109,670	59,200
Travelling and subsistence	4,350,870	4,181,957
Motor vehicle expenses	1,213,872	599,493
Insurance	204,960	163,589
Rental	5,015,834	4,198,999
Telephone and internet charges	1,002,301	824,959
Professional fees	25,830,529	33,008,517
Audit fees	267,000	245,000
Repairs and maintenance	366,685	171,155
Annual report	549,000	819,224
Stationery, printing and postage	762,508	654,841
Office and general expenses	1,758,566	1,276,391
Information technology	2,347,426	1,828,322
Public education	1,692,081	1,874,008
Consumer advisory committee	19,106	9,938
Advertising and promotion	2,258,614	842,596
Gain on disposal of fixed assets	-	( 18,010)
Bank charges	61,920	60,354
Depreciation	<u>3,774,663</u>	<u>3,827,261</u>
	<u>132,132,114</u>	<u>123,086,317</u>



**FINANCIAL EXPENSES**  
**YEAR ENDED 31 MARCH 2003**



	<u>2003</u>	<u>2002</u>
	<u>\$</u>	<u>\$</u>
Bank interest	3,761	-
Gain on foreign exchange	( 67,030)	-
	<u>( 63,269)</u>	<u>-</u>



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