

Managing Customers' Expectations

Presentation to OOCUR Annual Conference November 2005

By David Geddes

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Introduction

Jamaica has a population of approximately 2.7 million people, the island's electricity needs are met by the Jamaica Public Service Company which has a customer base of approximately 540 thousand. More than 90 percent of the population have access to the electricity provided by the JPS.

The salaries of a vast number of employees are now frozen compliments of a Memorandum of Understanding signed by the Government of Jamaica and the island's trade unions, in an effort to save the jobs of fifteen thousand public sector workers.

At the best of times increased utility rates is a hard sell, during periods of stagnant salaries and rising inflation it's a recipe for disaster.

The All Island Electricity Licence of 2001 is the instrument that directs the Office of Utilities Regulation in matters related to the economic regulation of the Jamaica Public Service Company (JPS).

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This gazetted document has only recently been the subject of scrutiny by members of the public and journalists.

Its ascension to prominence was due largely to the OUR's many referrals to it when consumers hit by steep inflation, rising fuel costs and the consequent escalating light bills strongly protested in the first instance the annual inflation adjustment.

Then right on the heels of that the adjustment to the 2004 - 2009 JPS Tariff which allowed the light and power company to recover just under five hundred million Jamaican dollars from its customers to compensate for hurricane damage.

This translated to seven Jamaican cents per Kilowatt Hour.

Under the current tariff, Residential Customers (Rate 10) pay an Energy Charge of approximately \$4.59 per kilowatt hour for each of the first 100 kilowatt hours per month and \$8 per kilowatt hour for each kilowatt hour in excess of 100 kilowatt hours per month.

Bear in mind that the Energy charge relates to non-fuel costs that vary with consumption such as wear and tear of the electricity plant and does not include any portion of the fuel cost.

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The Electricity Licence dictates that the Non Fuel Base rate for each customer (Rates 10, 20, 40 and 50) be adjusted on an annual base according to the formula ;

$$dI = 0.76 \left(\frac{EX_n - EX_b}{EX_b} \right) (1 + 0.92INF_{us}) + (0.76)(0.92) I_{us} + 0.24 INF_j$$

EX_b = Base Exchange Rate

EX_n = The New Base Exchange Rate

INF_{us} = US inflation rate

INF_j = Jamaican inflation rate.

The Licence also specifies that the annual Performance Based Rate Making will be determined by the formula ;

$$BR_n = BR(1 + dI \pm X \pm Q \pm Z)$$

Where: dI = annual growth rate in inflation and devaluation.

X = 0 until May 31st 2006 and 2.7% thereafter.

Q = an adjustment allowed by the OUR to reflect changes in the quality of service provided to customers.

Z = any adjustment approved by the OUR to reflect events that affect JPS' costs, which are not due to JPS' managerial decisions and which are not captured by other elements in the price cap mechanism.

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The X factor is based on the expected productivity gains of the licensed business.

The Q factor adjusts the annual escalation rate to reflect changes in the quality of service provided to customers by the JPS. The Q factor will be a symmetrical adjustment to the Consumer Price Index.

Before September 2004 when Hurricane Ivan struck Jamaica, few Jamaicans had ever heard about the Z-factor much less the All island Electricity Licence of 2001.

According to the Licence the Z-factor is the allowed percentage increase in the price cap index due to events that

;

a/ affect the Licensee's cost

b/ are not due to the Licensee's managerial decisions and

c/ are not captured by the other elements of the price cap mechanism

let us fast forward to March 2005, JPS submits a hurricane damage claim of almost one point five billion dollars as well as the figures for the so called annual inflation adjustment.

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We must note that the cost of fuel and foreign exchange is a direct pass through and as such is reflected on the customers electricity bill,

JPS is allowed to adjust their energy rates by some seven point five percent, which it is expected will translate to a three percent increase in the overall bill. The Energy side of the electricity bill represents approximately forty percent of the total bill.

There is a large outcry from consumers who denounce the adjustment while noting that their salaries are stagnant with no compensation for inflation, ironically the protests for this adjustment pale in comparison to the reaction to the adjustment one month later of a point five percent increase or seven Jamaican cents per kilowatt hour.

This is to be implemented over two years, as opposed to the one year JPS wanted.

The backlash was severe, the newspapers were filled with letters condemning the OUR, calling for a review of its mandate, for the agency to be scrapped, about the only thing not asked for was a psychiatric review of the senior management group.

(slides of letters and articles)

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What were the choices faced by the OUR and by JPS?

Insurance for the Transmission and Distribution system was not available because of Jamaica's vulnerability to hurricanes.

In June 2004 electricity rates were raised by an average of some eleven percent, after some fourteen public consultations across the island, which yielded significant recommendations on quality of service issues.

The tariff recognized that insurance for the light and power company's transmission and distribution system was not available and even it were, would be priced at a level that would likely be unacceptable to the regulator, because of the impact it would have on rates.

Whereas the average increase reflected in the current tariff was eleven percent, with insurance for the transmission and distribution lines it would have been more in the region of approximately 18 or 19 percent. We should note that insurance is available for the generation side of the business.

In early September 2005 scattered demonstrations coupled with roadblocks in selected areas disrupted commerce, school and daily life.

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What are the lessons to be learnt from this entire exercise and episode ?

From a **public relations point of view** it would have been better for the regulator to have insisted on the purchase of insurance irrespective of the cost, however this might in reality have pushed the cost of electricity out of reach of thousands of Jamaicans.

In real terms the OUR has saved the Jamaican consumer from higher rates which would outstripped the cost of the Z factor, but selling this concept has been largely unsuccessful.

The view has been, “ if I failed to insure my house and I suffered hurricane damage, too bad for me!”

The other view has been “why should I pay for JPS's hurricane damage?”

It is my view that regulators have an obligation to consumers and not least of all to themselves, to educate the stakeholders about the provisions of various pieces of legislation that have the potential for widespread impact.

In the OUR's case this would include the All island Electricity Licence of 2001, the Telecommunications Act 2000 and the OUR Act.

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Whenever the issue of the annual inflation adjustment comes up, the first question is was the OUR not party to the negotiations and then why don't we take the MOU into account when reviewing the issue.

But the License is clear on what is the OUR's duty, it is to verify that the correct formula was used and that the calculations are correct. We are not empowered to include deliberations on whether the utility company deserved the adjustment.

Last but not least is the cry "the service from JPS is dreadful! They don't deserve an increase!"

For the Jamaican consumer the link between increased rates and improved service appears cut and dried. Improve the service now and talk to us about increased rates later(which probably reads never!).

There is also the argument " my salary does not go up because inflation goes up, so why should the utility company get an increase in rates when there is inflation?"

There is also a lot of misconception about the Price Cap Regime, consumers ask if the rate was set for five years, how come they are getting an increase each year?"

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With our credibility and indeed our very survival on the line, and here let me hasten to note that it would be presumptuous of the OUR to believe that these circumstances it now finds itself in are non-migratory.

I would like to suggest that all regulatory agencies have a responsibility to educate their stakeholders.

We in Jamaica find telecommunications licensees bidding us to issue Decisions and Determinations outside the purview of the agency.

We must identify the issues that affect the organization and the expectations and perceptions that exist amongst stakeholders, all of whom are our customers by the way.

Once this has been done a social marketing campaign must be developed alongside the execution of the agency's statutory duties.

If you are not doing what you are supposed to do, it does not make sense to seek to engage customers and advertise your way out of the problem.

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Once Decisions and or Determinations have been made, just as how these are communicated to the affected companies directly, so too should the other set of customers – the consumers be made aware of the implications.

In other words we cannot rely on a press conference and the subsequent editorial judgment of journalists to communicate a decision to an equally important stakeholders the utility companies customers.

Let us use the example of the Jamaica Public Service Company and the National Water Commission when they each received tariff adjustments in 2004. NWC in January and the JPS in June.

All the headlines and accompanying stories noted that water rates would be going up by 26 point 35 percent and some six months later, electricity rates hiked – consumers to pay an average of eleven percent more.

Yet included in the Determination were several important economic and quality of service conditions that were imposed on the utility companies.

These conditions were really only picked up by current affairs shows and then only because we set the agenda by bringing them to the table.

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These conditions included for the NWC reducing Unaccounted For water by two percentage points each year, that company only collects revenue for about forty percent of its product, there was also a stipulation that staff costs should be no more than 35 percent of revenue. These were clear efficiency targets.

It is also therefore clear that the regulatory agency is not just about granting rate increases which is a common perception across the island.

In the case of the JPS, additional quality of service standards were introduced as Guaranteed Standards, meaning that if the company failed to meet them their customers could make a claim for monetary compensation.

These Standards ranged from the company not issuing more than two consecutive estimated bills to the acceptable method of estimating bills.

Thousands of customers are convinced that their electricity bills are incorrect because the estimate is too high and or the meter has malfunctioned.

Notwithstanding that with all the meters we have had tested, none of those found to be faulty, has caused the reading to be higher than actual consumption.

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The trend is that readings actually slow down and reflect lower than actual consumption.

So there is an expectation that the OUR should prevent the JPS from sending out inaccurate bills and that when these are “detected” by the consumer the OUR should take punitive action against the company and ensure that the bill is adjusted.

Here now is another dilemma, Customer A comes to the OUR, having left the JPS dissatisfied with the company's decision on an investigation into a high billing complaint.

A hold is put on what is deemed to be the disputed portion of the bill, usual consumption in dollars is six thousand Jamaican dollars or one hundred U.S. dollars, the bill in question totals eight thousand Jamaican dollars.

The problem might be increased consumption coupled with increasing fuel and exchange rates or just a plain bad reading.

When the next reading is done it compensates for the inaccurate reading, so Customer A gets a bill that is actually now approximately two thousand dollars less than what it would have been had both readings been correct.

So the customer has been compensated, but having not actually paid the “high bill” under investigation, they have still received a refund.

So at the end of the OUR’s investigation we have to advise them to pay the disputed amount, even though it was an inaccurate bill.

Their expectations were that OUR would put a hold on the account because they should not have to lend the utility company money while the investigation is conducted and that at the end of the investigation the disputed amount would be removed from their bill.

If we were talking about relatively small sums of money, there might be more tolerance or a willingness to pay first and await the outcome of an investigation.

However in Jamaica electricity bills despite their apparently erratic movements from month to month, usually represent the most costly of the utilities.

Customers expectations regarding investigations into complaints therefore, must also be managed.

Decisions and Determinations should be formatted in clear precise easy to understand language and published in national newspapers as a paid advertisement, it should also routinely be placed on the regulator’s web site.

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It is only if we pay to publish regulatory Decisions and Determinations that we can be certain that what we consider important for the customers to know is available for them.