

Over US\$14 Million in JPS Self-Insurance Fund

“Will customers of JPS have to pay for damage to poles and lines damaged by a storm or hurricane?” The answer is: not likely.

That’s because the Jamaica Public Service Company (JPS) has a self-insurance fund, which puts the Company in a good position to underwrite costs associated with the repair and replacement of its infrastructure in the event of damage from a natural disaster. The fund stood at **US\$14 million**, as at June this year.

The JPS self-insurance fund was established because, like other utilities in the hurricane belt, JPS is not able to get insurance for the poles and lines that make up its transmission and distribution (T&D) system. The Hurricane Belt includes the Caribbean region and sections of the United States. Due to the devastating effects of hurricanes and flood rains in this geographical area over the last two decades, insurers are unwilling to accept the high risk of insuring T&D systems in the hurricane belt because of the susceptibility of the region to those occurrences.

Why was there a surcharge for Hurricane Ivan?

With the unavailability of insurance for the T&D infrastructure, the Office of Utilities Regulation (OUR) allowed JPS to start its self-insurance fund, which came into effect in July 2004. Unfortunately, Hurricane Ivan hit the island two months after the fund was started, and there were inadequate funds in the self-insurance fund to cover the cost of repairs to the T&D system. As a consequence, the OUR allowed the utility to recover some of the costs of repairing the transmission and distribution system through a surcharge on customers’ bills over a two-year period (2007-2009).

No additional charges for damage caused by other storms

Since Hurricane Ivan, however, JPS customers have not had to pay any additional amounts for the damage caused by hurricanes or storms. The public was not asked to pay for damage caused by Hurricanes Emily (2005) or Dean (2007), nor was the public asked to pay for damage after Tropical Storms Dennis (2005), Wilma (2005) or Nicole (2010). These costs were covered by the JPS self-insurance fund, to the extent allowed by the OUR.

Self insurance funds are now standard in utilities that are exposed to natural disasters in the Caribbean and Americas. These funds help the utility companies to act quickly after a natural disaster to repair or replace critical components of the T&D network. The

regulators in the respective countries monitor these self-insurance funds, and determine when and how they are to be used.

Where the funds are not adequate to facilitate recovery after a natural disaster, the respective regulators will make a determination on whether or not a surcharge is to be applied to customers' bills, or Government assistance is to be provided to help with the utility's recovery in the aftermath of a disaster. Some recent examples where Government assistance was provided or where a storm surcharge was levied include utilities in: Florida, New Orleans, the Bahamas, Barbados and Cayman