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August 26, 2022

Subject: Response to draft decision WACC Caribisch Nederland 2023-2025

Dear Ms. [REDACTED],

Hereby, we are pleased to provide a follow up reaction to the concept decision *WACC Caribisch Nederland 2023-2025*.

We begin first by referring to our letter directed to you on January 7, 2022 and which we resubmitted on July 1st, 2022. This letter gives a general summary of our position with regards to the way the WACC is calculated and applied. We consider the considerations in that letter applicable to the new draft proposal as well.

Further, we have taken note of the comments of WEB Bonaire in their reaction to the concept law. We concur fully with the content of WEB Bonaire's reaction.

As a matter of emphasis, we provide below, in short, our additional comment:

1. The calculations have been made for a period of 3 years. However, we are concerned that, given the present volatility ignited by the developments in Ukraine, the fluctuations in fuel costs and resulting high inflation, could result in major shifts in the next few years in one or more of the parameters in the mix used for calculating the WACC. We wonder what provisions exist which would afford a possible reevaluation of the WACC %, should inflationary factors prove the now calculated percentages to be too low.
2. We acknowledge an improvement in the approach with the omission of the European factor from the calculations and with the new method of determining the WACC for each business segment.
3. The point of departure for determination of the WACC has always been the question of a reasonable ROI in the eye of an impartial investor. Given the realities of a micro economy and given the significantly higher WACC return opportunities in other territories of the region, one must conclude that investment at the rate indicated would not be considered attractive to most investors.



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4. We believe the interest free rate of 1.87% to be too low. We have taken note that this percentage has been determined solely based on rates applicable in North America. Latin America was omitted, and we are not clear about the reason. Further, once again, countries in the wider Caribbean were omitted. We wonder why, for instance, Government bond offerings within these countries and even within the countries of the Dutch Caribbean, have not been taken into account.
5. The cost of debt established at 4.54% for 2023, is on the lowest end of the spectrum of lending possibilities in our region. For 2024 and 2025 the rates applied are even lower. Offerings on the local and regional market are generally higher. In the case where entities might have engaged third-party financing several years ago, they must continue to meet their commitments and at the preexisting, higher rates.

Based on the considerations above, we must conclude that the approach to the determination of the WACC in this draft law, does not sufficiently support the concept of a reasonable return in the eye of an independent investor. In turn, it does not contribute sufficiently towards the sustainability of the utility companies in the long term. The balance between the consumer interest and the long-term sustainability of the energy producing utilities seems skewed. Our conclusion is supported by the performance results of the utilities over the past years, in which the WACC return has generally not been realized.

We would request that the draft law be revised by taking into account the considerations we have outlined in this letter and in earlier correspondence.

We look forward to your response.

Sincerely,



Mr. [REDACTED]  
CEO STUCO