



Samuel A. Charles Street No. 9

The Bottom | Saba | Dutch Caribbean | PO Box 43

Tel: (+599) 416-3266 | Fax: (599) 416-3535 | Email: billing@sabaelecnv.com

MEMO

TO: Authority for Consumers & Market
 FROM: Saba Electric Company NV
 DATE: August 9th, 2022
 SUBJECT: WACC Method 2023-2025

The Authority for Consumers & Market, hereafter referred to as "ACM", has communicated that they will start research into the WACC 2023-2025, and based on this research, they will take a (draft) decision. The ACM has requested input on the WACC 2023-2025 beforehand, and this is the purpose of this report.

1. Our opinion on WACC 2023-2025

In the current financial structure of the SEC, the WACC has a beneficial effect in the sense that it fictionally increases the costs of capital which leads to higher energy rates, whereas SEC does not have to pay interest to third-party creditors nor dividends to its shareholder. If these circumstances change, it is not clear if the interest and dividend expenses are limited to the WACC percentage instead of the actual expenses paid. If that would be the case, this would mean that ACM not only assumes control over the rates charged by SEC but effectively also of the rates that local banks should charge on financing products, which is of course not realistic. We recommend requesting ACM for clarification of what happens in a scenario like this.

2. Input for WACC 2023-2025

- a.) We noted that the peer group selected for the WACC 2023-2025 contains countries in Europe, Latin America, and the United States. These selected peer groups do not have the same weather and economic terrain as most Caribbean islands. We believe ACM should include electricity companies within the Caribbean to give a more comparable WACC with that in the region.
- b.) We noted that the peer group selected for the WACC 2023-2025 number of connections may not be comparable to Saba where there is a small number of connections due to the size of the island having approximately 2,500 to 3,000 inhabitants. It would be good for ACM to include the peer group selection, smaller countries, and/or islands with a similar number of connections.
- c.) As indicated in the last WACC decision, the WACC is estimated too low since the borrowing rate from a local bank is much higher. How is ACM planning to resolve the difference interest if SEC were to request bank financing?
- d.) The WACC percentages lead to the assumption that the company has a high market value while the company faces difficulties such as the so-called affordable fees which are now at prices not affordable for the Saba residents, the ability to re-invest, and/ or replace the Solar Park or power plant engines. The company is currently in a position where there needs to be a structural subsidy to survive.



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3. Conclusion We conclude that the WACC 2023-2025 was estimated too low by the ACM because the interest rates for consumer loans is much higher, further it gives a false impression of the company's sustainability. It seems that it would be more beneficial to include peer groups from the Caribbean region with a similar number of connections.