



Decision

Variable usage tariff electricity July 1, 2019

Our reference : ACM/UIT/513526
Case number : ACM/19/035491

Decision setting the maximum variable usage tariff for electricity with effect from July 1st, 2019 for:

Saba Electric Company N.V.

Determination by the Netherlands Authority for Consumers and Markets of the maximum variable usage tariff for electricity as referred to in Section 3.14, paragraph 1, paragraph 2(c) and paragraph 6, and Section 3.17, paragraph 3, of the BES Electricity and Drinking Water Act.

Contents

1	Introduction and reader's guide	3
2	Context of this decision	4
3	Connection with other decisions	5
4	Setting of the variable usage tariff for electricity	6
5	Provisions	8
	Annex 1: Overview of amounts	9
	Annex 2: Calculation model	10

1 Introduction and reader's guide

1. By means of this tariff decision, the Netherlands Authority for Consumers and Markets (hereinafter: ACM) implements Section 3.14, paragraph 1, paragraph 2(c) and paragraph 6, and Section 3.17, paragraph 3, of the BES Electricity and Drinking Water Act.¹ Under those sections, ACM is required to set the maximum variable usage tariff for electricity that the distributor will charge end-users for the distribution of electricity. That tariff can be set with effect from January 1st and July 1st of each calendar year.
2. Saba Electric Company N.V. (hereinafter: SEC) is an electricity producer and distributor on Saba.
3. In this decision, ACM sets the maximum variable usage tariff that SEC will charge from July 1st, 2019 for the distribution of electricity. Where ACM uses the formulation 'maximum tariff' in this decision, it refers to the maximum tariff that SEC is permitted to charge.
4. This decision consists of a number of sections. Section 2 provides the context of this decision. Section 3 sets out the connection with other decisions. Section 4 sets out successively the costs, revenues and maximum variable usage tariff for electricity. This decision also contains two annexes, namely an overview of the main calculated amounts (Annex 1) and the Excel file 'Calculation variable usage tariff electricity SEC as of July 1, 2019' (Annex 2). Annex 2 is published on the ACM website (www.acm.nl) and forms an integral part of the decision.
5. This decision comes into force on July 1st, 2019.

¹ Law of March 23, 2016, containing rules for the production and distribution of electricity and drinking water on Bonaire, Sint Eustatius and Saba (Wet elektriciteit en drinkwater BES), Government Gazette 2016, 142.

2 Context of this decision

6. The BES Electricity and Drinking Water Act aims to ensure reliable, sustainable and affordable supplies of electricity and drinking water on Bonaire, Sint Eustatius and Saba.² This is achieved in part through tariff regulation.
7. Section 2.5, paragraph 1, of the BES Electricity and Drinking Water Act mandates ACM, to the extent relevant here, to set a maximum production price for electricity with effect from January 1st of each year. The production price is charged by the producer to the distributor. Under Section 2.5, paragraph 3, of the BES Electricity and Drinking Water Act, energy costs (i.e. fuel costs) are set as a monthly variable part of the production price.
8. Under Section 3.14, paragraph 1, paragraph 2(c) and paragraph 6, of the BES Electricity and Drinking Water Act, ACM is required to set the maximum variable usage tariff for electricity that the distributor will charge end-users for the distribution of electricity. That tariff can be set with effect from January 1st and July 1st of each calendar year.
9. The legal possibility of adjusting the variable usage tariff for electricity with effect from July 1st of a calendar year is related to changes in fuel costs, as part of the aforementioned production price. If fuel costs rise (or fall), the electricity production price will also rise (or fall). Under Section 2.5, paragraph 3, of the BES Electricity and Drinking Water Act, the producer can pass on those cost changes to the distributor on a monthly basis. Under Section 3.14, paragraph 6, the distributor can incorporate those cost changes twice a year in the tariffs for the end-user (with effect from January 1st and July 1st).
10. This means that in the event of a rise in fuel costs, a distributor will have to pre-finance those costs for several months before the end-user starts to bear them. In the event of a decrease in fuel costs, the end-user will have to wait several months before that decrease in costs is incorporated in the variable usage tariff.
11. By means of this decision, ACM sets the maximum variable usage tariff for electricity which SEC will charge from July 1st, 2019 for the distribution of electricity.

² *Parliamentary papers II*, 2014-15, 34089, 3, p. 1.

3 Connection with other decisions

12. Every year, ACM sets the cost-covering (maximum) production price that a producer of electricity is permitted to charge a distributor of electricity. ACM also sets the cost-covering (maximum) usage tariffs that a distributor is permitted to charge end-users.
13. With regard to the electricity production price and the variable usage tariff for electricity for 2019 for SEC, ACM has adopted the following decisions:
 - Decision dated December 4, 2018 setting the maximum production price of electricity for the 2019 calendar year for SEC (reference: ACM/UIT/503807, case number ACM/18/033334).
 - Decision dated December 4, 2018 setting the maximum usage tariffs for electricity with effect from January 1st, 2019 for SEC (reference: ACM/UIT/503808, case number ACM/18/033334).

Process used to adjust the variable usage tariff for electricity

14. In accordance with Section 2.1, paragraph 5, of the Ministerial Decree on Electricity and Drinking Water in the BES Islands, a distributor must submit an appropriate proposal to ACM three months before the intended start date of a tariff amendment.
15. In the explanatory notes of the Ministerial Decree on Electricity and Drinking Water in the BES Islands, the legislature considers that Section 2.5, paragraph 3, of the BES Electricity and Drinking Water Act offers the possibility of setting energy costs as a monthly variable part of the production price. Therefore, for that part of the production price there is no three-month time limit for the submission of a production price proposal.
16. Although Section 2.5, paragraph 3, of the BES Electricity and Drinking Water Act relates to the electricity production price, ACM sees no grounds for applying the aforementioned three-month time limit in the event of an adjustment to the variable usage tariff due to changes in fuel costs.
17. This position is also based on the legislature's intention in Section 3.14, paragraph 6, of the BES Electricity and Drinking Water Act, namely to take account of changes in fuel costs as a result of global movements in the oil price. According to ACM, that intention on the part of the legislature means that any adjustment to the variable usage tariff must be based on the most recent (i.e. up-to-date) fuel costs. If ACM were to adhere (strictly) to a three-month time limit for the submission of the aforementioned tariff proposal by a distributor, the incurred fuel costs would be less up to date than desired.
18. Therefore, in the half-yearly adjustment of the variable usage tariff for electricity, ACM will not require the distributor to submit a tariff proposal three months before the date of July 1st, 2019.
19. ACM sent SEC the draft calculation model on May 16, 2019, after which SEC was given an opportunity to respond to the draft calculation model. SEC has not responded to the draft calculation model.

4 Setting of the variable usage tariff for electricity

20. ACM is adjusting the variable usage tariff with effect from July 1st, 2019 due to changes in fuel costs. ACM first describes which part of the variable usage tariff consists of the fuel costs. We then explain the two components that make up the adjustment with effect from July 1st, 2019.

Fuel costs as part of the variable usage tariff

21. ACM has set the variable usage tariff by increasing the production price of SEC by the cost of network losses. That means that with the variable usage tariff per kWh the end-user pays the costs that the distributor SEC incurs for the purchase of electricity per kWh from the producer SEC. ACM previously set the variable usage tariff for SEC with effect from July 1st, 2018 and January 1st, 2019 on the basis of the production price of SEC.
22. The fuel costs are part of the production price of SEC and have been set separately in the production price decision as the fuel component. The fuel component is set on the basis of a formula that takes into account the fuel price on the most recent fuel invoice. The producer updates the fuel component monthly on the basis of the fuel price on the most recent fuel invoice at that time. In most cases this is the invoice for month T-2, or the weighted average fuel price for that month. The production price of SEC for March is therefore based in principle on the fuel price in January.
23. Hence there is a difference between the fuel component of the production price that the distributor SEC pays monthly to the producer SEC (as an internal transfer price) and the fuel component that the distributor SEC charges end-users through the variable usage tariff.

Method of calculating the adjustment of the variable usage tariff

24. The adjustment of the variable usage tariff consists of two components:
- 1) The offset (retrospective costing) in respect of past differences between the actual fuel component that the producer charges the distributor monthly through the production price and the fuel component estimated by ACM in the variable usage tariff;
 - 2) The adjustment of the estimate of the fuel component of the production price in the variable usage tariff with effect from July 1st, 2019 based on the most recent fuel price.

First component: Offset (retrospective costing)

25. In this decision, ACM offsets the movements in fuel costs that have arisen in the period since the previous offset, which ran up to the end of October 2018. The first month for which ACM offsets the movements is therefore November 2018.
26. ACM offsets the differences up to the end of April 2019. When setting the variable usage tariff with effect from January 1, 2020, ACM will carry out the retrospective costing from May 2019.
27. For the months November 2018 up to and including April 2019, ACM calculates the difference between the fuel component charged in the variable usage tariff and the monthly variable fuel component as part of the production price of SEC. ACM multiplies these differences by the volume of electricity which SEC produced in those months. The result is the amount which ACM offsets in the variable usage tariff with effect from July 1st, 2019. In the case of the 2018 amounts, ACM takes into account the effect of the time between the year to which the correction refers and the year in which it takes place. ACM does this by applying an inflation adjustment to the corrections

between years.

Second component: Adjustment based on most recent fuel price

28. As the second component of the adjustment of the variable usage tariff with effect from July 1st, 2019, ACM re-estimates the fuel component of the variable usage tariff. ACM does this by basing the variable usage tariff on the production price with the most recent fuel price.

Conclusion

29. These two components lead as follows to the adjusted variable usage tariff with effect from July 1st, 2019. ACM incorporates the offsetting of past differences by calculating a mark-up on the variable usage tariff. This mark-up consists of the total amount to be offset, divided by the estimated volume of electricity which SEC will purchase in the second half of 2019.
30. ACM adds this mark-up to the production price, on the basis of the most recent fuel price. ACM then offsets the network losses in order to arrive at the variable usage tariff (in accordance with the setting of the variable usage tariff with effect from January 1st, 2019).
31. For the detailed calculation, ACM refers to the calculation model (Annex 2), which forms part of this decision. Annex 1 to this decision shows the main calculated amounts.

5 Provisions

32. Under Section 3.14, paragraph 1, paragraph 2(c) and paragraph 6, and Section 3.17, paragraph 3, of the BES Electricity and Drinking Water Act, the Netherlands Authority for Consumers and Markets sets the maximum variable usage tariff for electricity which SEC will charge end-users from July 1st, 2019. That tariff amounts to USD 0,3278 per kWh.
33. This decision and its annexes will be announced in the Government Gazette. The Netherlands Authority for Consumers and Markets will also publish this decision on its website (www.acm.nl).
34. This decision comes into force on July 1st, 2019.

The Hague,
Date: June 17, 2019

Netherlands Authority for Consumers and Markets,
on its behalf,

sgd.

F.E. Koel
Team Manager Energy Department

Judicial appeal

Natural persons and legal persons whose interests have been directly affected by this decision may file a judicial appeal no later than six weeks after this decision was sent or issued. Stakeholders established on Saba or Sint Eustatius must submit their appeal in duplicate to the Registry of the Court on Sint Maarten. The address of that Registry is: Frontstreet 58 (The Courthouse), Philipsburg, Sint Maarten. Stakeholders established on Bonaire must submit their appeal in duplicate to the Registry of the Court on Bonaire. The address of that Registry is: Plasa Reina Wilhelmina (Fort Oranje), Kralendijk, Bonaire.

An administrative appeal can also be filed with ACM first

Natural persons and legal persons whose interests have been directly affected by these decisions may also first file an administrative appeal against this decision. A substantiated administrative appeal can be submitted to ACM no later than six weeks after this decision was sent or issued. Stakeholders can submit their administrative appeal to ACM by e-mail. The appeal must be sent to: CaribischNederland@acm.nl. ACM will send a confirmation of receipt. If the submitter of the appeal receives no confirmation of receipt from ACM, ACM urges the submitter to contact ACM by telephone on: +31 (0)70 722 23 13

Annex 1: Overview of amounts

In this annex, ACM presents an overview of the amounts to which reference is made in this decision in Section 4. ACM has included the detailed calculation in the calculation model (Annex 2).

Key figures decision for variable usage tariff 1 July - 31 Dec 2019

Key Parameters

Estimated inflation 2019	%	4,40%
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Updated estimation production price

Most recent fuel price (May 2019)	USD/liter	0,8324
Updated estimation production price	USD/kWh	0,3093

Amount to be corrected

Correction Nov-Dec 2018	USD, pl 2018	13.033
Correction Jan-April 2019	USD, pl 2019	-20.707
Total correction	USD, pl 2019	-7.100
Expected total production July-Dec 2019	kWh	4.499.279
Add-on per kWh for fuel price difference	USD/kWh	-0,0016

Adjusted variable usage tariff

Updated estimation production price + add-on for fuel price difference	USD/kWh	0,3078
Network loss	%	6,10%
Variable usage tariff for the period 1 July - 31 Dec 2019	USD/kWh	0,3278

Note: 'pl' represents price level

Annex 2: Calculation model

ACM has published on its website (www.acm.nl) the Excel file 'Calculation variable usage tariff electricity SEC as of July 1, 2019' containing the calculation model including the calculation of the maximum tariffs for SEC. This file has been published as an annex to this decision, forms an integral part of it and can be found on the publication page of this decision at www.acm.nl.