Kralendijk, Bonaire July 3, 2025

Bringing Together:
ContourGlobal Bonaire B.V.
Saba Electric Company N.V.
STUCO N.V.
Water- en Energiebedrijf Bonaire N.V.

To:

Autoriteit Consument & Markt (ACM)
PO Box 16326
2500 BH
The Hague, The Netherlands

Subject: Joint reaction (zienswijze) Draft Method decision on electricity and drinking water in the Caribbean Netherlands 2026-2031 - WACC Annex 2026–2028

Dear Members of the ACM Board,

On behalf of the regulated electricity companies of the Caribbean Netherlands—ContourGlobal Bonaire B.V., Saba Electric Company N.V., STUCO N.V., and Water- en Energiebedrijf Bonaire N.V. (collectively referred to as the "BES Water and Electricity Companies")—we respectfully submit our joint observations regarding the proposed ACM decision – WACC annex 2026-2028 (your reference ACM/UIT/649424) annex to Draft Method decision on electricity and drinking water in the Caribbean Netherlands 2026-2031 (reference ACM/UIT/649406).

We recognize and appreciate the extensive analytical work undertaken by ACM in preparing these proposals. As regulated utilities operating under complex island conditions, we fully support the ACM's objectives of securing affordability, reliability, and sustainability in the electricity sector. In that same constructive spirit, we respectfully request ACM's attention to several critical points that, in our view, warrant revision or clarification.

This response below is fully in line with what was presented and discussed during ACM's site visit in June 2025. The matters discussed during these meetings are further elaborated in this reaction.

1. INPUT BES WATER AND ELECTRICITY COMPANIES

On February 18 and 19, 2025, respectively, the BES Water and Electricity Companies took the opportunity to highlight points for the consultant's (Brattle's) investigation. The fact that these points were submitted is also mentioned in paragraph 9 of the draft WACC decision. This is the last mention by or on behalf of ACM of these points. In both ACM's draft decisions and Brattle's report, there is absolutely no information on whether these points were addressed and/or led to any new insights (and if not, why not). These were important points for the BES Water and Electricity Companies.

We recommend that the final WACC decision 2026-2028 will indicate how these points were incorporated into the investigation, with a reasoned explanation of what was or was not done with them.

2. ALIGNMENT WITH SMALL ISLAND RISK REALITIES

The BES Water and Electricity Companies are committed to long-term capital investments, including those in grid infrastructure and clean energy. However, the feasibility of such investments depends on a WACC that reflects the actual risks faced in isolated, resource-constrained environments like ours.

In particular, we are concerned that the methodology used to calculate the Equity Risk Premium (ERP)—a simple arithmetic average of regional ERP values across Europe, the United States, and Latin America—does not reflect the elevated investment risk of small economies such as the Caribbean Netherlands.

We strongly urge the ACM to revise the ERP weighting methodology by incorporating inverse GDP (or market capitalization as a proxy) as a core factor. This approach would shift the weight toward smaller and more volatile economies that better mirror the BES investment context, rather than over-relying on large, mature (developed) markets with fundamentally different risk-return profiles.

Such a weighting approach would be methodologically aligned with the ACM's rationale for using relative market size in the European ERP component. Applying this principle consistently across all regions would result in a more balanced, risk-reflective ERP calculation.

We also recommend ensuring consistency in the historical data period applied across regions. While Europe and the U.S. benefit from long-term data sets (1900–2024), the Latin American ERP relies on data from a single year (2024), introducing unnecessary volatility. A harmonized use of long-term data for Latin America would reduce short-term distortion.

Lastly, given the ERP's reliance on dynamic market indicators such as the 20-year U.S. government bond yield, we propose instituting an annual update mechanism to ensure that the ERP remains responsive to evolving capital market conditions and does not become outdated over the multi-year regulatory period.

ERP Comparison

Region	Current ERP	Adjusted ERP (1/GDP)	GDP (in billions)	1/GDP
Eurozone	5.27%	6.63%	14,721,803	6.79265E-08
LATAM	8.50%	11.68%	6,540,084	1.52903E-07
USA	5.95%	5.95%	27,360,935	3.65485E-08
Blended ERP	**6.57%**	**9.53%**		

3. ASSET BETA DRINKING WATER

Specifically for drinking water, the peer group in the draft WACC decision has significantly changed compared to the current WACC decision. For example, five companies from Europe and America with a relatively low asset beta have been added, and one company with a relatively high asset beta has been removed. This has disrupted the balance of comparison companies between Europe, America, and Latin America, resulting in an asset beta that is set too low to serve as a proxy for the drinking water companies in the Caribbean Netherlands.

The aforementioned companies were apparently already considered in the decision of October 2024 which established the WACC for drinking water companies in European Netherlands. However, according to Brattle, these companies did not meet the criteria to serve as comparables. Now, just a few months later, these companies are being used to determine the WACC for drinking water companies in the Caribbean Netherlands. According to footnote 9 of the Brattle report, this was triggered by a certain court ruling. It is not clarified to us which court case this concerns and, more importantly, why it is decisive in setting the asset beta for the Caribbean Netherlands, where maintaining the right balance between Europe, America, and Latin America is crucial. In our view, this proposed change of the peer group for the Caribbean Netherlands should be put aside for the final WACC decision.

Additionally, we observe a significant drop in the asset beta within the total comparison group. The total asset beta for drinking water is almost halved, which could lead to setting the WACC unrealistically low. With such a significant change, we would expect at least a double check (sanity check) on the results. However, no explanation or check is provided either in the draft decision of ACM or in Brattle's report. In our opinion, careful decision-making requires such explanations. We recommend conducting an analysis of this effect and/or verifying whether this results in a representative WACC for drinking water in the Caribbean Netherlands.

For now, we conclude that the asset beta for drinking water risks is being set at an excessively low level. We request that you prevent this by 1) performing a sanity check and/or 2) if there is no time for this, aligning the asset beta for drinking water with the asset beta for electricity.

4. COST OF DEBT

Regarding the Cost of Debt (“COD”), the basis is formed by the US BBB 10-year utility index (bond issuances). The spread relative to this index is calculated at 0.8 percent, based on a comparison of bonds issued in the Caribbean region with the index.

Even prior to the current 2022-2025 decision, and also during its preparation, we have expressed doubts regarding the representativeness of these bonds in the Caribbean region, as in our view they are often issued by so-called special purpose vehicles (“SPVs”) which are predominantly located in the Caribbean for tax reasons. Furthermore, the following considerations apply:

- These SPVs are frequently part of large corporations, which does not adequately reflect the small scale of the BES Water and Electricity Companies;
- It does not take into account the fact that the BES Water and Electricity Companies are too small to issue bonds themselves and are therefore reliant on conventional bank financing;
- These SPV's are not utility companies.

For instance, the Brattle report titled "Beta, Gearing, ERP and Cost of Debt for Electricity and Water Companies in the Caribbean Netherlands" considers 76 bonds issued in the Caribbean and compares them with a smaller set of bonds representing companies actually operating in the Caribbean. However, there tends to be little difference between the two sets.

Among the larger set of bonds, we highlight those issued by Vale Overseas Ltd. For example, in the bond prospectus, Vale Overseas Ltd. is described as follows:

"Vale Overseas is a finance company wholly owned by CVRD. Vale Overseas' business is to issue debt securities to finance CVRD's activities. Vale Overseas was registered and incorporated as a Cayman Islands exempted company with limited liability on April 3, 2001."

Regarding the companies classified as "operating" in the Caribbean, it should be emphasized that most are global companies with little more than a representative office in the region, or they are subsidiaries of larger corporations. These larger affiliations result in better credit ratings than those applicable to small, locally operating companies with comparatively low borrowing needs.

We provide the table below to illustrate this problem, with 6 companies that counts for 15 of the 20 bonds used to evaluate Caribbean Spread as pointed by the Brattle Report:

COMPANIES	BASED	BUSINESS
BACARDI[1]	Geneva Swiss	Worldwide spirit selling manufacturing in 23 sites in 10 countries
BARRICK[2]	British Virgin island	Worldwide gold mining with only small mining in Dominican Republic
GOLD FIELDS[3]	South África	Worldwide gold mining – 6 countries none in the Caribbean
AUTOPISTAS METROPOLITANAS DE PUERTO RICO LLC[4]	Puerto Rico US	Owned by Albertia worldwide highway operator with 15 countries operations
TRITON CONTAINER INTERNATIONAL LTD / TAL[5]	Bermuda -	Leasing containers 26% of the global market share owned by Brookfield
ENERGY DEVELOPMENT OMAN SAOC'S (EDO SUKUK) [6]	Oman	Public company form Oman to explore Oil/Gas and produce Hydrogen

[1] https://www.bacardilimited.com/media/news-archive/bacardi-is-a-great-place-to-work-and-a-great-place-to-make-iconic-spirits/#:~:text=The%20family%2Downed%20spirits%20company,and%20bottled%2C%20ready%20to%20be

[2] https://s25.q4cdn.com/322814910/files/doc_downloads/fact_sheet/Barrick_Fact_Sheet.pdf

[3] https://www.goldfields.com/this-is-gold-fields.php#:~:text=We%20are%20a%20global%20gold,and%20one%20project%20in%20Canada

[4] https://www.metropistas.com/inversionistas/

[5] https://en.wikipedia.org/wiki/Triton_International

[6] https://edoman.om/about-us/

So basically, as the graphic layout by Brattle points out, these bonds are issued primarily to take advantage of tax exemptions in certain Caribbean jurisdictions and are not related to the business activities or valuations of the issuing companies. They merely use the Caribbean location as a basis for tax benefits.

Consequently, there is a significant risk that the spread of **0,8%** is underestimated, and thus the COD is underestimated.

Our suspicion is confirmed when we pose the following inquiry to ChatGPT:

I am seeking the spread for bank financing for small, remote regulated utility companies relative to the IGUUUB10 BVLI Index.

ChatGPT provides the following response:

*For small, remote, and regulated utility companies, bank financing spreads typically are added on top of the IGUUUB10 BVLI index, often ranging from approximately 200 to 400 basis points (**2.00%–4.00%**). This depends significantly on factors such as credit rating, collateral, covenant structure, and market conditions.*

ChatGPT provides herewith an important indication that the spread based on the SPVs is too low. Subsequently, we developed a study to support this and to determine a representative spread relative to the IGUUUB10 BVLI index.

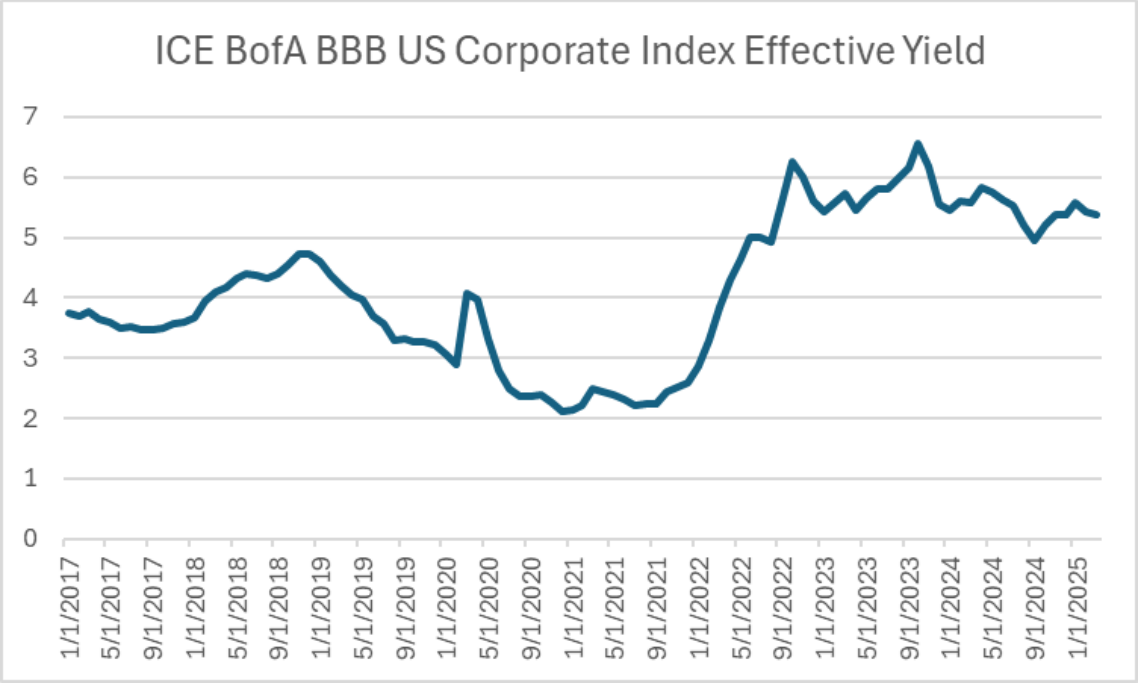
The outcome is a spread of **2.03%** for electricity and **2.48%** for drinking water (compared to the **0.8%** spread calculated by ACM).

We urgently request that you set the spreads at these values (2.03% and 2.48%).

The study is detailed below.

Study representative spread and resulting COD

Regarding the IGUUUB10 BVLI Index published by Bloomberg, this is not publicly available information and can only be accessed by Bloomberg subscribers. We searched the Federal Reserve Economic Data data base ("FRED database") and found that the ICE BofA BBB US Corporate Index Effective Yield has very similar figures. However, this index does not represent yields for companies in the power and water sectors, and the ratings reflect conditions in the U.S. market, not the Caribbean market, and the bond approach is not valid since is just using SPV or big companies to explore Caribbeans tax heavens.



Since that is not representative, a different approach can be implemented for determining the cost of debt, as outlined below. There are scientific studies demonstrating that equity volatility and country-level volatility are linked to risk premiums. For example, see John Y. Campbell and Glen B. Taksler (2003), "Equity Volatility and Corporate Bond Yields," Journal of Finance, American Finance Association, Vol. 58(6), pp. 2321–2350.

This approach intends to adjust the spread for the Caribbean and does not represent a modification to the WACC methodology itself, including sustaining the staircase model.

Methodology for Estimating the Cost of Debt in Energy and Utilities Sectors in the Caribbean Netherlands sources:

Aswath Damodaran[7] – "Country Default Spreads and Risk Premiums," Stern School of Business[8]
Aswath Damodaran – Cost of Equity and Capital (updateable) Emerging Markets[9]

Methodology for Estimating the Cost of Debt in the Energy and Utilities Sectors in the Caribbean Netherlands:

The cost of debt is a key component of the Weighted Average Cost of Capital (WACC), especially relevant for valuing firms in capital-intensive sectors such as energy. However, estimating the cost of debt in emerging markets—like the Dutch Caribbean—presents

[7] Aswath Damodaran (Chennai, India, 1957) is a professor at the Leonard N. Stern School of Business at New York University, where he teaches courses in corporate finance and business valuation in the MBA program. He has received numerous awards for his outstanding teaching, and in 1994, *BusinessWeek* magazine recognized him as one of the best business school professors in the country. He has written or co-edited numerous books covering topics such as business valuation, investment management, and portfolio management.
[8] https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html
[9] https://pages.stern.nyu.edu/~adamodar/pc/datasets/waccemerg.xls

structural challenges: limited data availability, companies lacking public credit ratings, varying regulatory frameworks, and macroeconomic volatility, among others.

To address these challenges, Damodaran proposes a replicable, market-based methodology that provides reasonable estimates for various sectors, including Utilities, in the context of emerging economies. This approach estimates the sector's pre-tax cost of borrowing based on capital market volatility.

2. Methodological Foundations

a) Risk-Free Rate

As a reference, the yield on long-term U.S. Treasury bonds is used, under the assumption of a dollar-denominated investment with minimal credit risk. Since the ACM uses U.S. government bonds with a remaining maturity of 20 years and a three-year reference period based on daily data10, the average yield for each year from March 1, 2022, to February 28, 2025, is used under the same methodology.

Year	Risk-Free Rate
2017	2.67%
2018	3.02%
2019	2.25%
2020	1.31%
2021	2.05%
2022	3.56%
2023	4.35%
2024	4.56%

b) Sector Risk Premium Lookup Table

Many firms in these sectors lack credit ratings. Therefore, Damodaran11 suggests using a lookup table that links the standard deviation of stock prices (as a proxy for equity volatility) to a corresponding debt spread. Higher volatility is associated with a higher perceived risk of default.

Based on this:

Power sector: Standard deviation of 28.21% → 0.50% spread

Utilities (General): Standard deviation of 29.01% → 0.50% spread

Utilities (Water): Standard deviation of 30.36% → 0.95% spread

[10] https://fred.stlouisfed.org/series/DGS20
[11] https://pages.stern.nyu.edu/~adamodar/pc/datasets/waccemerg.xls

Standard Deviation	Basis Spread
0 – 0.30	0.50%
0.30001 – 0.45	0.95%
0.45001 – 0.65	1.20%
0.650001 – 0.80	1.83%
0.800001 – 0.90	3.00%
0.900001 – 1	4.42%
1.000001 – 10	7.28%

c) Countries Country Default Spread (CDS) from Caribbean Islands

This spread reflects the average credit risk of operating in some Caribbean Countries, applied uniformly in the absence of specific country-level adjustments. Damodaran compute these by averaging CDS spreads and sovereign US$ bond spreads by ratings class—i.e., the CDS spread is information form Bloomberg12.

For the Caribbean Netherlands, the following countries13 are considered:

Country	Moody's rating	Adj. Default Spread
Aruba	Baa3	2.18%
Curacao	Baa3	2.18%
Montserrat	Baa3	2.18%
St. Maarten	Ba2	2.98%
Trinidad and Tobago	Ba2	2.98%
	Simple Average	2.50%

3. Cost of Debt Estimates Using the Damodaran Approach

Damodaran's methodology offers a practical and robust framework for estimating the cost of debt in the Caribbean Netherlands. The resulting estimates for the analysed energy and utility sectors reflect the specific characteristics and risk profiles of each industry.

Estimated Cost of Debt – Power and Utility (General) Sectors

Year	Risk-Free Rate	Sector Risk Premium	Default Spread	Estimated Cost of Debt
2017	2.67%	0.50%	2.50%	5.67%
2018	3.02%	0.50%	2.50%	6.02%
2019	2.25%	0.50%	2.50%	5.25%

[12] https://pages.stern.nyu.edu/~adamodar/pdfiles/papers/countryrisk2024formatted.pdf (Ver pg 71)
[13] https://pages.stern.nyu.edu/~adamodar/Nueva_página_de_inicio/archivo_de_datos/ctryprem.html

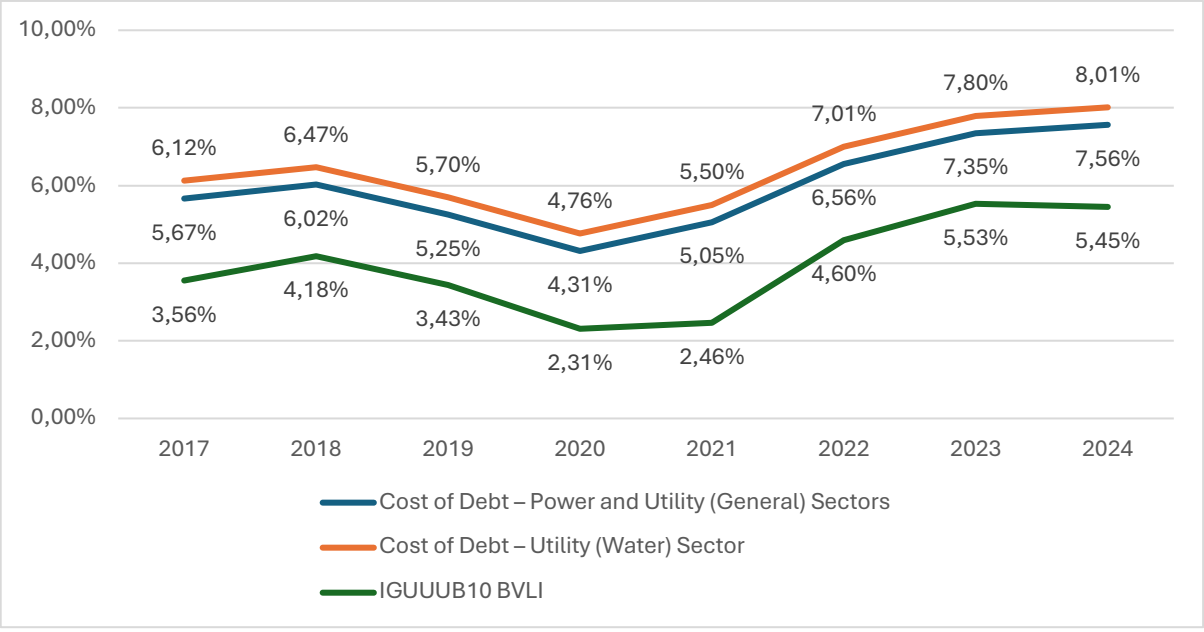
2020	1.31%	0.50%	2.50%	4.31%
2021	2.05%	0.50%	2.50%	5.05%
2022	3.56%	0.50%	2.50%	6.56%
2023	4.35%	0.50%	2.50%	7.35%
2024	4.56%	0.50%	2.50%	7.56%

Estimated Cost of Debt – Utility (Water) Sector

Year	Risk-Free Rate	Sector Risk Premium	Default Spread	Estimated Cost of Debt
2017	2.67%	0.95%	2.50%	6.12%
2018	3.02%	0.95%	2.50%	6.47%
2019	2.25%	0.95%	2.50%	5.70%
2020	1.31%	0.95%	2.50%	4.76%
2021	2.05%	0.95%	2.50%	5.50%
2022	3.56%	0.95%	2.50%	7.01%
2023	4.35%	0.95%	2.50%	7.80%
2024	4.56%	0.95%	2.50%	8.01%

4. Utility Index Yield and Estimated Cost of Debt Spread Using Damodaran's Methodology

The following chart provides a more detailed comparison between the annual spread of Bloomberg's IGUUUB10 BVLI index, used by the ACM, and the estimates developed in the previous chapter. Analysing the evolution of annual spreads over time, we find that the average spread from 2017 to 2024 is 2.03% for the Power and Utility (General) sectors, and 2.48% for the Utility (Water) sector.



5. Cost of Debt Estimation for Companies in the Caribbean Netherlands

Finally, the cost of debt is estimated for companies operating in electricity production, electricity distribution, and water production and distribution in the Caribbean Netherlands.

The estimation is based on the average interest rate, considering that ACM applies a laddering model to determine the efficient cost of existing debt in future years. To this base rate, the following components are added:

The estimated spread obtained in the previous chapter, and

Applicable non-interest fees.

Cost of Debt – Electricity production and Electricity distribution

Year	Average interest rate	Spread[14]	Non-interest fees	Cost of Debt (pre-tax)
2026	4.22%	2.03%	0.15%	**6.40%**
2027	4.39%	2.03%	0.15%	**6.57%**
2028	4.51%	2.03%	0.15%	**6.69%**

Cost of Debt – Water production and distribution

Year	Average interest rate	Spread[15]	Non-interest fees	Cost of Debt (pre-tax)
2026	4.22%	2.48%	0.15%	**6.85%**
2027	4.39%	2.48%	0.15%	**7.02%**
2028	4.51%	2.48%	0.15%	**7.14%**

5. CLOSING STATEMENT

We sincerely appreciate the ACM's open and transparent approach to regulatory consultation. The methodologies proposed the WACC will play a defining role in the investment climate and operational sustainability of the electricity and drinking water sector across the BES Islands. We trust that our recommendations will be considered constructively and in line with the overarching public interest of the Caribbean Netherlands.

We remain at your disposal for technical follow-up and are willing to provide additional supporting data as required.

Thank you for your attention and consideration.

Kind regards,

ContourGlobal Bonaire B.V.
Saba Electric Company N.V.
STUCO N.V.
Water- en Energiebedrijf Bonaire N.V.

[14] For the Power and Utility (General) sectors
[15] For the Utility (Water) sector