N.V. Gemeenschappelijke Elektriciteitsbedrijf Bovenwindse Eilanden (NV GEBE)
Care of: Mr. Thomas Roggendorf and Mr. Wilco Seinen,
W.J.A. Nisbeth Road 35
Philipsburg,
St Maarten.

Date 31 July 2025

Subject: Independent evaluation of electricity- and potable water tariff Sint Maarten

Dear Misters, Roggendorf and Seinen,

Management of Gemeenschappelijk Elektriciteitsbedrijf Bovenwindse Eilanden N.V. (herein and hereafter referred to as GEBE) has commissioned Reporting, Controlling and Regulatory Consulting B.V. (RCRC) to review a report from The Regulatory Authority Curaçao (RAC), and to assess the viability of relief measures as requested by the Prime Minister. In accordance with GEBE's directive you hereby receive a concise version of the RCRC-report "Evaluation electricity- and water tariffs of Sint Maarten" in **appendix 1**.

A summary of RCRC's findings and recommendations are documented throughout this letter.

RCRC establishes bias in the RAC-report and warns that "each time history repeats itself; the price goes up".

RCRC establishes a biassed approach in the 'RAC-evaluation' which is observed from the start of the research and is substantiated by the wording of the research-objective: "to determine whether the fuel component can be reduced". According to RCRC, such an objective triggers a 'tariff-reducing' mindset within the human resources allocated to this project, thus steering the research into one direction without regarding a balanced approach between the various stakeholders. RCRC ascertains that this approach disregards the potential risks which the lowering of solely one component of the tariffs could cause to GEBE.

Going back in history, RCRC correlates this mindset to comparable research by BTP in 2011 and thus conveys a word of caution towards Sint Maarten, as history seems to be at the brink of repeating itself. In 2011 via her report BTP supported the request of the then sitting government to lower the fuel component in the electricity rates in Curaçao, by ANG 5 cents. This decision eventually led the utility company to the verge of bankruptcy (a solvency ratio below 10%) within less than a two-year period. Government (the shareholders), the Regulator and customers later found themselves bailing out the utility company by respectively 1. capitalizing millions of guilders into the company's equity; 2. increasing the fuel clause back to previous levels (by ANG 5 cents) and 3. charging an additional recovery component to customers for dozens of months to additionally recuperate the losses caused by the original decision.

The essence of RCRC's message is that this research, with an aim of lowering electricity, rates will have perilous effects upon GEBE.

<u>RCRC applies generally accepted principles of reasonable returns.</u>
In accordance with generally accepted regulatory principles, RCRC proceeds to apply a cautious weighted average cost of capital (WACC[1]) of 6.5% to GEBE's net asset-base, this with the objective of calculating GEBE's reasonable/allowable regulatory returns for a utility company of GEBE's size. Based upon the current net asset-base, RCRC estimates GEBE's current allowable/regulatory returns to be roughly XCG 20 million.
For the first in numerous years, dating back to available figures of 2018, there was a one-time achievement of this target in 2023 (a profit of XCG 22 million). The reasonable 2023 income, according to GEBE's management, results from significant liquidity and cash constraints experienced post the cyberattack, which limited funding for maintenance and other expenses.

In GEBE's forecasts, provisions are made for crucial future investments with the strategic intention of upgrading and aligning the production- and distribution networks to the demand-levels of Sint Maarten. These investments are projected to increase GEBE's net asset base by approximately 29% (from XCG 285 million in 2024 to XCG 373 million by 2027), which thereafter calls for a reasonable return of approximately XCG 25 million. The results for 2024 are XCG 11 million (unaudited) and are forecasted to reduce in future years if the tariff structure remains unchanged. As can be concluded, with the current tariff structure, GEBE is not projected to attain levels of reasonable revenues.

By means of these observations, RCRC establishes that cross subsidization exists within the different tariff components in GEBE. In GEBE's specific case, cross subsidization implies that if abundant profits originate from the fuel component (as established per RAC), that the base component does not render sufficient profits, as they were designed to yield. The structural[2] single-sided lowering of any of GEBE's tariff components will place GEBE even further away from reasonable returns and will eventually lead to the undesired bailing out of the company. The recommendation hereby is to not structurally lower any single component in GEBE's tariffs without increasing this by an equivalent level in another component. By adhering to this recommendation, GEBE will at least maintain the current levels of (low) profitability.

[1] RCRC uses an average of the WACC which Autoriteit Consument en Markt (ACM) in the Netherlands uses for WEB Bonaire.
[2] Structural refers to: 'fundamentally changing'. This does not include monthly in- or decreasing adaptations, but solely 'one-time fundamental change(s)'.

RCRC also supports the recommendation that GEBE should perform a profound/integral analysis of all her tariff components. RCRC, however, goes a step further in this context by recommending that the integral tariff evaluation should align with GEBE's processes, meaning that this is not simply a 'copy and paste project' from another country or island. GEBE's / Sint Maarten's tariff mix of the future should be aligned with (should resolve) problem/issues facing Sint Maarten, the tariffs should be aligned with visions of Sint Maarten. RCRC highly recommends embedding the tariff calculations in GEBE's financial reporting system.

<u>RCRC analyses the profits yielded via the fuel- and base components.</u>

GEBE's fuel clause for water, functions differently than those observed by RCRC on other islands, in that it is based upon a Ministerial Decree stemming from 1979. The decree reads as follows:

The fuel component (for water production) is based upon ANG 165 per 1000 liters of fuel oil delivered to the grounds of the water production plant. For every ANG 1.00 that the fuel price is higher (or lower) than ANG 165 per liter, the tariffs of the company can be respectively increased or decreased by ANG 0.015 (1.5 cents) per m3 of water sold.

In the 'RAC-report' the calculation of the expenses pertaining to the fuel component for the production of water does not adhere to this decree. RAC further assumes the XCG 1.5cent to be "1.5% for the coverage of electricity for the production of water" (consequently an assumed double coverage according to RAC). Based upon this assumption RAC recommends omitting one of the double charges for electricity.

RCRC establishes that the foundation of this 'RAC-recommendation' is inaccurate and therefore admonishes stakeholders involved, that risks exist should one choose to execute this incorrectly based advice.

RCRC proceeds to use the internal calculations of the fuel- and base components, as performed by GEBE, which concur with the decree, and observes that GEBE's profits are generally generated via the fuel component and not by the thereto designed base component. Based upon this observation RCRC highly recommends to first achieve clarity by revising the fuel- and base clauses before implementing a strategy of omitting any tariff component.

RCRC calls for eventually rescinding this ministerial decree (13773/JAZ) after creating new calculation models for the costs and tariffs of fuel for electricity and – water of GEBE. This process should result in Ministerially approved guidelines regarding the periodic calculation of the fuel components.

<u>RCRC quantifies the effect of omitting electricity usage for the production of water.</u>

RAC, in her evaluation report makes no mention of the effect of omitting the electricity used for the production of water. RCRC did take note of a letter referenced 16116; subject "*Lowering electricity tariffs'* from the desk of The Prime Minister of Sint Maarten, in which the omittance is calculated to have a reducing effect of XCG 6 cents to XCG 7 cents in electricity rates. Do note that the basis for this calculation was based upon RAC's calculation of the overcharges in the fuel component, which was not based upon the aforementioned Ministerial Decree.

RCRC proceeded to quantify the effects of this omittance and this amounts to approximately XCG 2.6 cents per kilowatt hour. This equates to an annual reduction in revenues of approximately XCG 9.2 million, which will negatively impact GEBE's sustainability.

RCRC performs benchmarking of utility invoices between the four larger Dutch islands.
Towards the end of her report RCRC researches any perception of GEBE's tariffs having an 'overcharging effect', the manner of establishing this is by benchmarking. The thought-process behind benchmarking in this specific case, is that any 'abusive' electricity– or water rates will be revealed upon associating invoices of comparable usages on other comparable islands for these services.

RCRC's research confirms that GEBE's current electricity invoices are lower than both Curaçao and Bonaire yet resulted slightly higher than Aruba[3]. GEBE achieves these results despite being at a disadvantage regarding economy of scales.
The benchmarking also confirms that GEBE's water rates/invoices for commercial and industrial users are significantly higher than those of other islands yet remain significantly lower in the domestic category.
RCRC recommends addressing the fair allocation of expenses between water and electricity throughout the tariff study and to spread the water expenses more evenly over the water clientele.

Basically, all Caribbean islands face these challenges which GEBE is currently confronted with, and RCRC views it as plausible that The Government of Sint Maarten is keen to achieve efficient tariffs. RCRC's general recommendation herein is to allow GEBE to perform the necessary tariff studies within an acceptable timeframe, which will allow all parties to proceed with well-balanced knowledge as to GEBE's expenses, which will assist all parties in establishing the most sound and the best tariff-solutions for the island.

Yours sincerely,

Locksley A.M Brodie, M.Sc.
Managing Director

Appendix 1: Evaluation report electricity- and water tariffs Sint Maarten (concise report)

[3] Please note that Aruba's electricity grid is far less complexed than Sint Maarten's grid in that the island is flat, and due to the fact that the large users (hotels) are all located on one strip. Because of this relative simplicity, Aruba's grid is far less expensive than the other islands.