
Van: [REDACTED] <[REDACTED]@contourglobal.com>
Verzonden: maandag 8 augustus 2022 20:06
Aan: CaribischNederland
CC: [REDACTED]; [REDACTED]; [REDACTED]; [REDACTED]
Onderwerp: RE: [EXT] Draft decision WACC Caribbean Netherlands 2023-2025

Dears,

Following your communication on July 1st, 2022, regarding ACM's publication of the draft decision for the WACC Caribbean Netherlands 2023-2025, please find below our comments for your consideration.

1. Use of a three-year lagged period for the setting of the Risk-Free Rate and measurement date
 - Given the COVID-19 outbreak driving the economic turmoil in 2020 and 2021, the extreme volatility and the exceptional character of the period used for the calculation (Feb 28, 2019 – 2022), we believe that the inclusion of this data in the historical samples distorts the forecasted RFR for the WACC decision period and suggest this period to be excluded from the calculation.
2. Information date (Measurement date)
 - As mentioned above, the measurement date runs for a 3-year period to 28 February 2022, only four days since Russia's invasion of Ukraine took place. This prompted a surge in commodity prices and a sharp short-term inflation rise, accelerating monetary policy normalization and increasing refinancing risks, in the midst of a very significant market volatility. We suggest that the measurement date is 30 June 2022 instead.
 - Given the exceptional situation of the 3-year period analyzed and the economic forecasts expected for the upcoming short and medium term, we believe that the 3-year period is not a fair reflection of the macroeconomic scenario that companies will face in the period to which the WACC decision applies. As such, we suggest using a one-off date closer to the publication of the report (e.g., 30 June 2022) for the calculation of the parameters and not a 3-year period.
3. Inclusion of European and Latin American bonds for the RFR calculation
 - ACM determines the equity risk premium (ERP) for the Dutch Caribbean companies as the average of the ERP estimated for Latin America, the US and Europe, in line with the 2019 report. However, it is noted that the report departs from the method used by the ACM in 2019 when calculating the risk-free rate for the Caribbean Netherlands, which swiftness from referencing the average risk-free rate for the US, Latin America and Europe to not consider yields on European or Latin American bonds as relevant to the RFR. We believe that the calculation methodology should also consider yields on European and Latin American bonds as relevant to the RFR, as this approach is consistent with the 2019 methodology and in line with the ERP determination as well.

Kind regards,

[REDACTED]

[REDACTED]

Caribbean CFO
ContourGlobal

[REDACTED] | 28020 Madrid | Spain

Phone: [REDACTED] - Cell: + [REDACTED] | E-mail: [REDACTED]@contourglobal.com

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