



**UTILITIES REGULATORY AUTHORITY
ACT NO.11 OF 2007**

**DETERMINATION OF MAXIMUM PRICE OF ELECTRICITY FOR
VANPAWA**

Notice No. 150 of 2026

In the exercise of the powers conferred upon the Authority by section 18 of the Utilities Regulatory Authority Act No.11 of 2007 (as amended), the Authority makes the following Determination.

1 Definition

In this Determination, unless the contrary intention appears.

Commission Decision means the Authority's Decision Order (Case U-0010-26) In the Matter of VANPAWA Limited's electricity tariff review for Malekula and Tanna Concessions

2. Maximum Price of Electricity to be charged by VANPAWA

- (1) The maximum price of electricity that VANPAWA is allowed to charge for Malekula and Tanna customers is set at a uniform base tariff of 80.73 Vatu/kWh.
- (2) VANPAWA is authorized to apply a Force Majeure Contribution to electricity consumers within its concession areas at the rate of 1 Vatu/kWh, which shall be charged to the Customer during the relevant billing period.

3 Application of the Determined Price

The maximum price outlined under 2 is to be applied to VANPAWA electricity customers as of the next billing cycle from the date this Determination is gazetted.

4. Approved Tariff Structure

The Tariff structure for the next billing cycle is outlined in Table 15(page 20) of the Authority's Decision and Commission Order Case U-0010-26

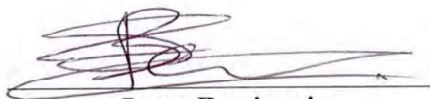
5. Expiry of the Determination

This Determination expires within 36 months from the Commencement date.

6. Commencement date

This Determination commences on the date on which it is published in the Official Gazette.

Made at Port Vila this 21st day of August 2026



Jesse Benjamin
Chief Executive Officer &
Executive Commissioner



Jerryson Lapi
Chairperson



David Warfe
Commissioner

Case U-0010-26

In the Matter of VANPAWA Electricity Tariff Review

July 2026

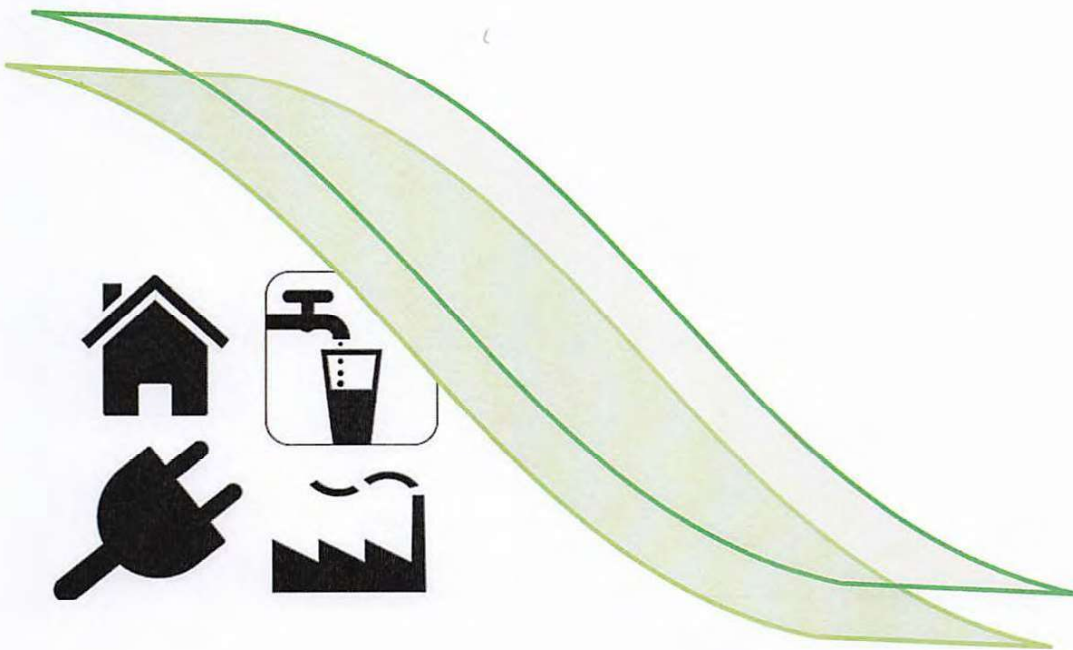


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Executive Summary

The Utilities Regulatory Authority (the Authority) has completed its review of the Vanuatu National Power and Water Authority (VANPAWA) electricity tariff application, which was submitted on 18th June 2026. The Authority conducted consultations with VANPAWA staff and electricity customers in the Malekula and Tanna concession areas in July 2026 prior to finalizing this determination.

This uniform tariff determination will be effective for a period of three years from August 2026 to August 2029. Details of the tariff determination are summarized in Table 1 below.

Table 1: VANPAWA uniform tariff determination 2026 – 2029.

Tariff Components	Unit	Malekula	Tanna	Tariff Period	%
Generation Cost					
Diesel Cost	VT	6,101,867	100,507,452	106,609,319	44%
Lubricant Cost	VT	45,366	1,141,791	1,187,158	0%
Personnel Cost	VT	33,460,300	29,781,700	63,242,000	26%
Subcontracting Cost	VT	11,565,998	5,162,450	16,728,448	7%
Other Costs					
Goods and Equipment	VT	2,881,983	2,881,983	5,763,967	2%
Repair and Maintenance	VT	4,502,184	4,502,184	9,004,368	4%
Office and administration	VT	6,200,068	6,200,068	12,400,136	5%
Vehicle Fuel	VT	390,083	390,083	780,167	0%
Insurance	VT	958,196	958,196	1,916,391	1%
Provisions					
Severance	VT	1,944,228	1,730,481	3,674,709	2%
Doubtful debt	VT	755,248	755,248	1,510,495	1%
Depreciation	VT	6,194,680	6,194,680	12,389,360	5%
Reasonable Return	VT	4,635,076	4,635,076	9,270,152	4%
Other Revenues	VT	(1,151,569)	(1,151,569)	(2,303,139)	-1%
Required Revenues	VT	78,483,708	163,689,822	242,173,530	
Demand	kWh	1,292,447	1,707,314	2,999,761	
Base Tariff	VT/kWh	60.72	95.88	80.73	
Current Base Tariff	VT/kWh	64.29	64.29	64.29	
Percentage Change	%	-6%	49%	26%	

The Authority has determined a uniform base tariff of **80.73 Vt/kWh**, representing an increase of approximately **26%** compared with the current uniform base tariff. While the increase reflects the actual cost of providing electricity services, the continued adoption of a uniform tariff supports affordability for customers, particularly within the Tanna concession area. The approved tariff will be subject to monthly and annual adjustments in accordance with VANPAWA's Tariff Adjustment Formula and will be applied through the approved Tariff Structure.

The Authority has also approved a **Force Majeure (FM) Fund contribution of 1 Vt/kWh**, to be collected from electricity customers and administered in accordance with the relevant regulatory requirements. The fund will be used to finance the repair and replacement of electricity infrastructure damaged by force majeure events. This mechanism reduces the need for VANPAWA to maintain costly insurance coverage for such risks, thus helping to manage overall electricity supply costs more efficiently.

In addition to the tariff determination, the Authority, in consultation with VANPAWA and in support of the Government's policy objectives under the National Sustainable Development Plan, has approved the following regulatory measures:

- **Support for renewable energy integration** through mechanisms that encourage greater use of renewable generation sources and allow recovery of prudent costs associated with Power Purchase Agreements (PPAs) with Independent Power Producers (IPPs).
- **Improved long-term affordability of electricity** by promoting increased renewable energy penetration, which is expected to reduce dependence on diesel generation and lower generation costs over time.
- **Capped new connection charges** to improve access to electricity services. New Small Domestic customer connections will be capped at **15,000 Vt**, while Business License customer connections will be capped at **30,000 Vt**.
- **Annual capital expenditure adjustments and monthly fuel cost adjustments** to enable timely recovery of prudent costs and provide transparent price signals to consumers. This approach supports continued infrastructure investment and the achievement of Government policy objectives without requiring a full tariff review.
- **A Limited Partial Decoupling Mechanism (LPDM)** to protect the utility's financial sustainability when actual demand deviates significantly from forecast levels. The mechanism will also support VANPAWA in managing the impacts of Government-funded and donor-funded development projects that may affect future demand patterns.

Overall, this determination seeks to balance affordability, service reliability, financial sustainability, and the transition towards a more renewable and resilient electricity sector in Malekula and Tanna.

1 Introduction

1.1 Background

The Vanuatu National Power and Water Authority (VANPAWA) is a subsidiary of the Vanuatu National Provident Fund (VNPF) responsible for the generation and supply of electricity in the concession areas of Malekula and Tanna as outlined in its 20-year concession contract awarded by the Vanuatu Government on 6th May 2022.

VANPAWA assumed operations of the concession areas in May of 2023 and was issued a three-step transitional tariff by the Utilities Regulatory Authority (the Authority) as outlined below:

- 49 VT/kWh for period 1st April – 30th June 2023
- 55 VT/kWh for period 1st July – 30th September 2023
- 65 – 67 VT/kWh for 1st October onwards

The step tariff helped mitigated affordability issues that may have arisen because the concession areas were no longer cross subsidized by Port Vila customers under the UNELCO concession contract, which expired in 2020. This 12-month tariff was extended for a further 12 months ending in May 2025.

A revised tariff of 64.29 VT/kWh was issued by the Authority in August of 2025 for another 12 months. The Annual tariff determinations allowed sufficient time for VNPF to properly set up VANPAWA management and operations as an independent subsidiary to cater for the provision of electricity service on Malekula and Tanna.

1.2 Purpose and Structure of this Document

The purpose of this document is to present the Authority's tariff determination for VANPAWA's electricity tariff and the tariff setting methodology used. It also introduces VANPAWA's revised Tariff Structure, and Tariff Adjustment Formula.

The effective period for VANPAWA's new tariff is from the beginning of August 2026 to August 2029.

This document is structured as follows:

Section 2 details the tariff setting methodology.

Section 3 presents the demand for the tariff period.

Section 4 provides the reasonable revenue requirement.

Section 5 presents the uniform base tariff and other charges.

Section 6 presents the tariff structure and applicable charges.

Section 7 presents the tariff adjustment formula.

1.3 Legal and Regulatory Framework

The legal and regulatory framework applicable to water and electricity service providers in Vanuatu is provided for under the Utilities Regulatory Act No. 11 of 2007 (as amended) (the Act).

Section 2 of the Act provides for the purpose of the Authority which is to ensure the provision of safe, reliable, and affordable regulated services.

Section 18 of the Act provides for the Authority to determine the maximum price which may be charged in relation to any aspect of a regulated service in Vanuatu.

2 Methodology

2.1 Data Collection and Verification

The Authority initiated the tariff review process on 26th May 2026 ensuring that VANPAWA has sufficient time to provide the following:

- Electricity Regulatory Reporting Requirements for 2024 and 2025
- Audited Financials for Malekula and Tanna Concessions for 2025
- Tanna Concession Customer Lists
- Other Supporting Documents to be considered

Other data and information relied upon in this determination were sourced from the monthly tariff adjustments, concession monthly reporting, and prior tariff determinations. These data and information were provided by VANPAWA up to 8th July 2026. This also includes information obtained during a meeting held on 25th June 2026 between the VANPAWA General Manager and the Authority, at which VANPAWA responded to issues and queries raised by the Authority.

From 14th to 18th July the Authority conducted site inspections to verify VANPAWA investments for the period up to June 2026. The site inspections also allowed the Authority to discuss operational matters with VANPAWA staff on site ensuring that the tariff determined adequately addresses issues identified and answer queries raised. The Authority has prepared site inspection reports to document this activity.

2.2 Consultation

The Authority held consultations on the following dates with the following stakeholders:

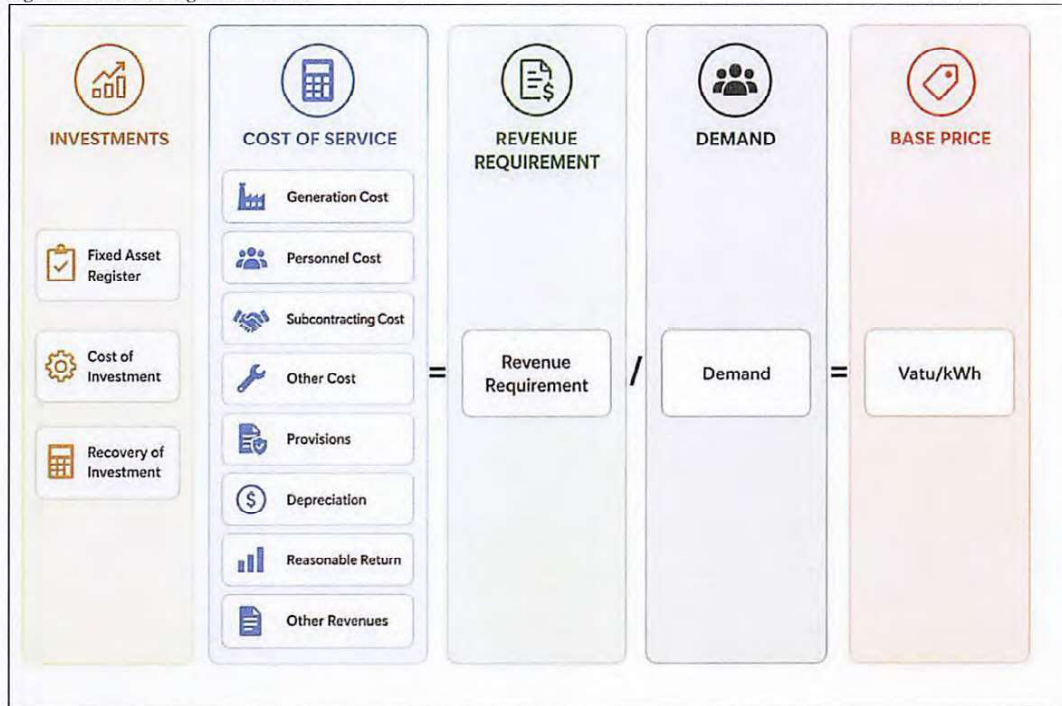
- On 7th July 2026, the Authority met with VANPAWA Finance Manager and staff to present the preliminary position. Emphasis was placed on improving hydro utilization rate and generation efficiency to reduce generation cost as a significant portion of the cost of service. Feedback provided have been considered in finalizing this position.
- Also on 7th July 2026, the Authority requested a consultation with the Members of Parliament for Malekula and Tanna, unfortunately they were not available. Therefore, no feedback from the Government has been incorporated in this determination. However, the Authority has ensured that this determination is aligned with the Government's policy objectives as outlined in the National Sustainable Development Plan.
- The Authority had held consultation sessions with electricity customers on Malekula and Tanna from 19th to 24th July 2026. Feedback received have been considered and issues identified will be dealt with as a separate matter by the Authority's Engineering and Customer Complaint Division with VANPAWA.

2.3 Tariff Setting Methodology

The tariff setting methodology implemented by the Authority is the "building blocks" approach. This approach allows regulated utilities to recover their reasonable and prudent cost of service and investments. These costs determine the overall Revenue Requirement expected to be generated by the utility annually over the next 3 years from 2026 - 2029, also known as the "tariff period."

Figure 2 below depicts the building blocks relevant to VANPAWA's cost to provide electricity service and computation to arrive at the base price/tariff to service the concession areas of Malekula and Tanna.

Figure 1: Tariff Building Blocks Model.



- **Investments:** Investments refer to VANPAWA's investments that the operator had undertaken using its shareholders equity¹ funds therefore the prudent investments made are to be recovered through the tariff annually. The rate of return as determined by the Authority allows for a reasonable return to investors based on these prudent investments.
- **Cost of Service:** This building block accounts for the regulated service-related operational costs of generating and supplying power. Depreciation and reasonable return as computed (under the Investment building block) is then added to the Cost-of-Service building block items.
- **The Revenue Requirement:** This is the summation of the cost-of-service components for the tariff period. This is the maximum total required revenue amount, in Vatu, allowed to VANPAWA annually for the tariff setting period.
- **Demand:** This is the forecasted electricity demand for the tariff period, measured in kilowatt-hour unit (kWh). This represents the minimum amount of power that VANPAWA is expected to sell.
- **Base Price/Tariff:** VANPAWA's base tariff is the ratio obtained by dividing the total Revenue Requirement amount by the Demand for the tariff period arriving at the vatu for each kilowatt hour sold.

¹ VANPAWA is a subsidiary wholly owned by VNPF whereby 100% of its shares belong to VNPF.

3 Demand

The Demand Section covers Malekula and Tanna demand for the period observed and tariff period. Demand is captured by determining the kilowatt hour (kWh) sold to VANPAWA's electricity customers.

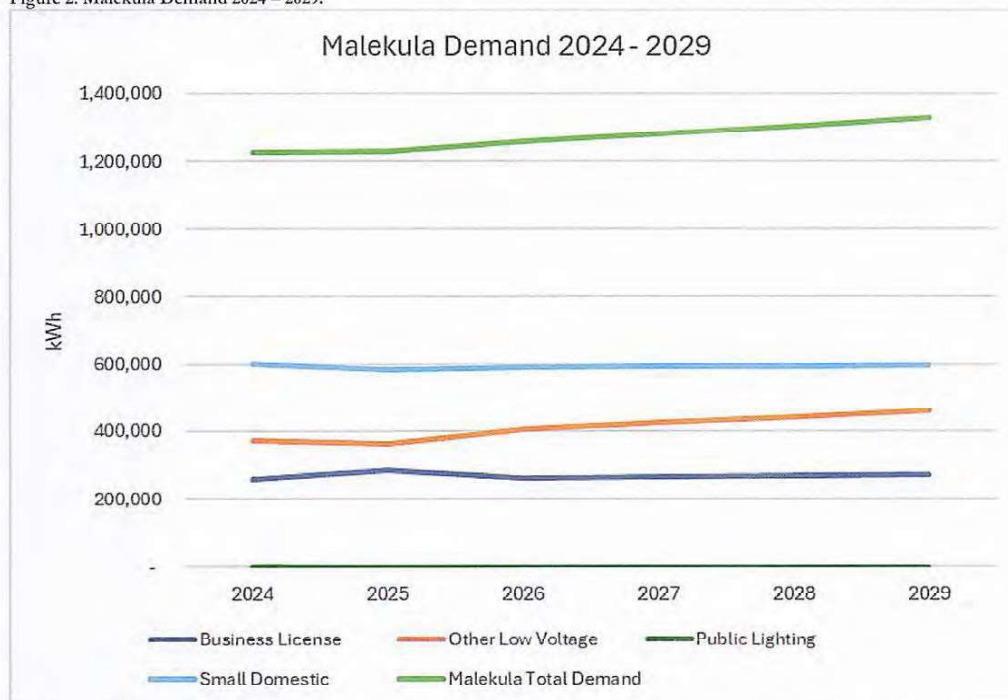
3.1 Malekula Demand

Malekula has four customer categories being the Business License (BL), Other Low Voltage (LV), Public Lighting (PL), and Small Domestic (SD) with each customer connected with either a single or three phase connection.

Over the period observed from 2024 to 2025, BL customer demand increased by 10% compared to LV and SD which showed negative demand of 2% and 3% respectively. PL was discontinued in 2025. The negative demand is correlated with a reduction in customer numbers for both LV and SD customer categories. In contrast, for BL customers, the impact of a reduction in customer numbers was offset by an increase in average customer demand resulting in an overall increase in demand.

With limited data points, the Authority had conservatively forecasted demand for the respective customer categories over the tariff period resulting in an average annual demand increase of 2%. This can be observed in Figure 3 below.

Figure 2: Malekula Demand 2024 – 2029.



3.2 Tanna Demand

Tanna also has four customer categories being the BL, LV, SD, and High Voltage (HV) with each customer connected with either a single or three phase connection.

Over the period observed from 2024 to 2025, HV customer demand increased the highest by 33% followed by BL customer by 27%, LV with only 2%, and SD customers by 4%. This positive demand growth was driven

by increased customer numbers for BL customers compared to LV and SD customers whereby a reduction in customer numbers was offset by an increase in average customer demand resulting in an overall increase in demand. There is only one HV customer on Tanna being the Department of Water, responsible for supplying water to its customers with increased demand related to the provision of water services.

Like Malekula, the Authority had conservatively forecasted demand for the respective customer categories over the tariff period resulting in an average annual demand increase of 1%. This is observed in Figure 4 below.

Figure 3: Tanna Demand 2024 – 2029.



3.3 Tariff Period Demand

There is a risk that demand may vary outside of the Authority's conservative average 2% forecast over the tariff period, therefore the Authority will be introducing a **Limited Partial Decoupling Mechanism (LPDM)** to ensure that the utility operations are sustained. The LPDM will allow tariff adjustments to VANPAWA's operational cost components **to account for demand variations that are above or below the annual average forecast of 2%.**

Furthermore, the Authority and VANPAWA management discussed and agreed to re-introduce street lighting within the Malekula and Tanna concessions. The associated investment costs will form part of VANPAWA's capital investments and will be considered by the Authority in its assessment of future tariff adjustments.

The LPDM and investment adjustments will be further discussed in Section 7.

4 Revenue Requirement

This section covers VANPAWA's Cost of Service components which includes prudent Investment Costs for the tariff period.

4.1 Generation Cost

Generation cost refers to the cost incurred by VANPAWA to generate and supply electricity to meet the generation requirement determined by adding demand to expected system losses. VANPAWA's generation cost is mainly attributed to diesel oil and lubricant oil used in VANPAWA diesel power stations in Malekula and Tanna.

Table 2 below summarizes the Authority's analysis in computing the reasonable annual average generation cost that is allowed to VANPAWA for the tariff period, set at Vt 107,796,477.

Table 2: Annual Average Generation Cost for the Tariff Period 2024 – 2026.

	Unit	2026	2027	2028	2029 Tariff Period	
Malekula						
Demand	kWh	1,256,735	1,280,603	1,304,380	1,328,069	
Losses	%	12%	12%	12%	12%	
Generation Requirement	kWh	1,413,017	1,439,852	1,466,586	1,493,221	
Generation Capacity						
Diesel						
G1	kW	250	250	250	250	
G2	kW	350	350	350	350	
G3	kW	250	250	250	250	
G4	kW	180	180	180	180	
Hydro						
G1	kW	350	350	350	350	
G2	kW	350	350	350	350	
Solar						
	kW	18	18	18	18	
Generation Mix						
Hydro	kWh	1,168,768	1,343,530	1,410,707	1,481,242	
Hydro utilization	%	20%	23%	27%	31%	
Diesel	kWh	244,249	96,322	55,880	11,979	
Generation Cost						
Diesel	L	73,152	28,849	16,736	3,588	
	VT	14,596,110	5,756,157	3,339,328	715,874	6,101,867
Lubricant	L	318	125	73	16	
	VT	108,520	42,796	24,827	5,322	45,366
Total	VT	14,704,630	5,798,953	3,364,155	721,197	6,147,234
Tanna						
Demand	kWh	1,675,624	1,696,678	1,717,835	1,739,118	
Losses	%	10%	10%	10%	10%	
Generation Requirement	kWh	1,837,766	1,860,858	1,884,062	1,907,404	
Generation Capacity						
Diesel						
G1	kW	500	500	500	500	
G2	kW	350	350	350	350	
G3	kW	275	275	275	275	
G4	kW	275	275	275	275	
Solar						
	kW	20	20	20	20	
Generation Mix						
Solar	kWh	16,513	16,513	16,513	16,513	
Diesel	kWh	1,821,253	1,844,345	1,867,549	1,890,891	
Generation Cost						
Diesel	L	494,288	500,555	506,853	513,188	
	VT	98,625,289	99,875,778	101,132,352	102,396,390	100,507,452
Lubricant	L	3,278	3,320	3,362	3,404	
	VT	1,120,409	1,134,615	1,148,890	1,163,250	1,141,791
Total	VT	99,745,698	101,010,393	102,281,242	103,559,640	101,649,243
Total Generation Cost						
		114,450,328	106,809,346	105,645,397	104,280,837	107,796,477

The computation of electricity generation mix prioritizes renewable sources such as hydro and solar over non-renewable sources like diesel, thereby ensuring that generation is at least cost.

The Brenwei hydro in Malekula was under-utilized over the 2024 to 2025 observed period due to technical issues experienced by VANPAWA. To address these issues and improve system performance, the Authority has forecasted a gradual increase in hydro utilization, from 20% in 2026 to 31% in 2029. Achieving this minimum hydro utilization rate will ensure that VANPAWA electricity customers benefit from the least cost electricity generation during the tariff period.

The Authority has assessed VANPAWA's diesel generation efficiency to determine the amount of either diesel or lubricant oil liters required to produce each unit of kWh. This is referred to as the Heat Rate (HR) and is listed in Table 3 below for the respective concession areas and will remain fixed over the tariff period.

Table 3: Malekula and Tanna HR

	Unit	2027	2028	2029	Tariff Period
Malekula					
HR - Diesel	L/kWh	0.3150	0.2992	0.2843	0.2995
HR - Lubricant	L/kWh	0.0013	0.0013	0.0013	0.0013
Tanna					
HR - Diesel	L/kWh	0.3005	0.2704	0.2434	0.2714
HR - Lubricant	L/kWh	0.0018	0.0018	0.0018	0.0018

The Authority considers efficiency improvements of 5% for Malekula and 10% for Tanna to be reasonable over the tariff period. The determined HR will enable the computation of the required liters of diesel and lubricant oil over the tariff period.

The Authority is using March and April prices as they are the most recent diesel and lubricant oil prices of **199.53 VT/L** and **341.77 VT/L** respectively. Diesel prices have increased significantly due to the ongoing conflict between Iran and the United States that began in February 2026.

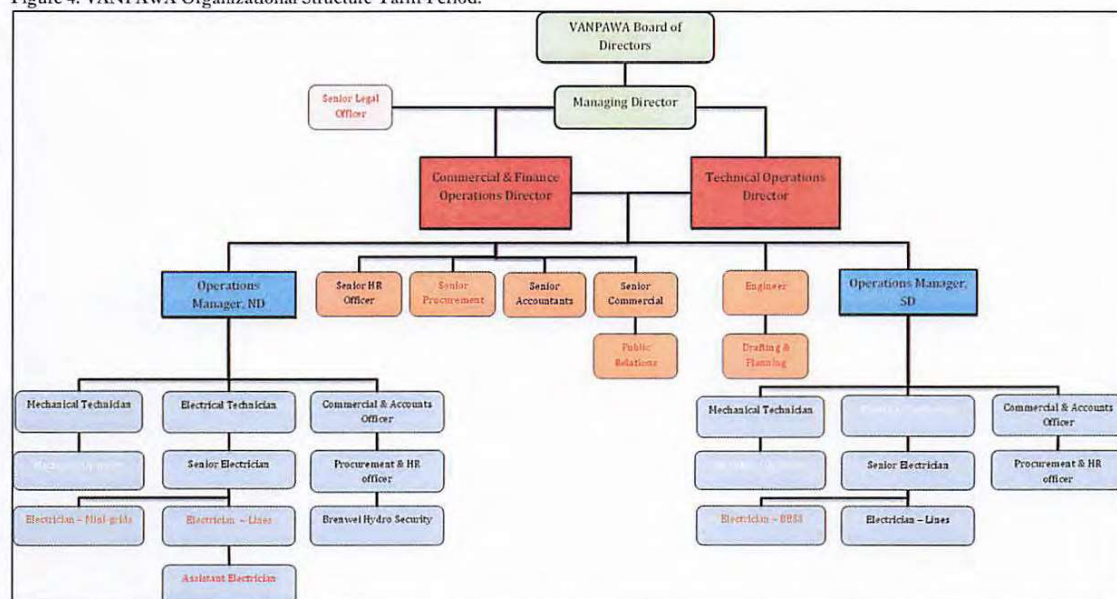
However, should prices and renewable energy contribution to the generation mix change during the tariff period, it will be captured in the tariff adjustment formula².

4.2 Personnel Costs

Personnel Costs is the cost incurred by VANPAWA for human resource labour to provide electricity services which also includes staff severance and other staff benefits. As of 2026, VANPAWA has employed 26 staff and is planning to employ additional staff during the tariff period to fill up positions presented in its organization structure as displayed in Figure 5 below.

² Refer to Section 7.

Figure 4: VANPAWA Organizational Structure Tariff Period.



(Source: VANPAWA Tariff Application, 2026)

The position fonts are as follows:

- Black font represent positions that are filled.
- White font represent positions that are vacant due to resignations and are to be filled.
- Red font represent new positions that did not exist in the previous organization structure where operational support was provided by VNPF.
- Green font represent apprenticeship roles as part of ongoing capacity building arrangements with Vanuatu Institute of Technology.

Based on the organizational structure, VANPAWA's reasonable annual average personnel cost for the tariff period is determined at Vt 63,242,000.

Table 4: Personnel Costs Tariff Period.

Personnel Costs	2026	2027	2028	2029	Tariff Period
Port Vila Operations	27,222,000	30,180,000	31,900,000	31,900,000	30,300,500
North Division Operations	17,145,050	18,285,050	18,725,050	19,085,050	18,310,050
South Division Operations	13,351,450	14,911,450	15,131,450	15,131,450	14,631,450
Total Personnel Cost					63,242,000

4.3 Third Party and Other Costs

Third party costs are related to subcontractors hired by VANPAWA to carry out works such as IT services, printing services, network clearance, and security services. Also includes rental contracts for office spaces.

Other Costs considers all other costs incurred in VANPAWA's provision of electricity service to its customers. This includes, goods and equipment, repair and maintenance, office and administrative, and insurance.

VANPAWA's reasonable annual average Third party and Other costs for the tariff period is determined at Vt 46,593,476. These costs have been summarized in the Table 5 below.

Table 5: Third Party and Other Costs Tariff Period.

Third Party and Other Costs	Tariff Period
Third Party Costs	16,728,448
IT services	1,359,576
Printing services	292,420
Network clearance	12,856,452
Security services	900,000
Rental	1,320,000
Other Costs	29,865,028
Goods and Equipment	5,763,967
Repair and Maintenance	9,004,368
Office and Administration	12,400,136
Vehicle fuel	780,167
Insurance	1,916,391
Total	46,593,476

Note that VANPAWA's insurance cost does not cover for force majeure events such as cyclones therefore any damage to network assets as a result of these events will require VANPAWA to incur asset repair and replacement costs that will be considered as investments.

To mitigate risk of high investment costs that will adversely impact electricity customer affordability, the Authority will continue to allow VANPAWA to collect from its customers a contribution of **Vt 1 per kWh** consumed that will accumulate in a **Force Majeure Fund³** managed by the Authority.

The Authority shall be responsible for auditing and authorizing the use of funds during force majeure events. Any assets financed or contributed to by the fund shall be classified as concession assets and treated as having been provided at zero cost to electricity customers.

4.4 Provisions

Provisions are funds set aside by the utility in anticipation of a future cost. VANPAWA provisions include the following:

- Doubtful debt: these are expected non recoverable debt owed to VANPAWA from its electricity customers. For this tariff period, it is reasonably considered as 1.1% of accounts receivables as no previous bad debt expense was incurred.
- Severance: this is a legal requirement under Vanuatu's Employment Act and is computed as one month of staff annual salary for each year of employment.
- Depreciation: this is recovery of investment costs incurred by VANPAWA for prudent investments as assessed by the Authority. This is computed utilising the Straight-line method over the life of the asset.

Therefore, VANPAWA's reasonable provision for the tariff period is determined as Vt 17,574,564. These provisions are summarised in Table 6 below.

³ Refer to Section 5.2.

Table 6: Provisions Tariff Period.

Provisions	Tariff Period
Doubtful debt	1,510,495
Severance	3,674,709
Depreciation	12,389,360
Total Provision	17,574,564

4.5 Investments

VANPAWA's investments are considered up to the year 2026. VANPAWA's main source of capital investments is purely by equity from VNPF with zero long term debt.

4.5.1 Rate of Return

In line with VANPAWA's pure equity financing of assets, VANPAWA's cost of investments is determined using the Capital Asset Pricing Model (CAPM) which utilises the below formula modified by the Authority for VANPAWA's context.

Equation 1: CAPM Formula

$$E(R_i) = R_f + \beta_i(MRP) + CRP$$

Whereby:

- $E(R_i)$ is the capital asset expected rate of return
- R_f is the risk-free rate of interest
- β_i is the market beta
- CRP is the country risk premium

The parameters of the CAPM formula have been identified in the table below.

Table 7: Rate of Return Tariff Period.

CAPM Components	Tariff Period
Risk free rate	2.94%
Market risk premium	4.31%
Equity beta	0.15
Country risk premium	4.10%
Rate of inflation	
Nominal Cost of Equity	7.68%

The risk-free rate uses the trailing 10-year average of US government 10-year treasury bond, and the equity risk premium data have been obtained for the period up to June 2026. The equity beta has been adjusted to an unlevered beta as VANPAWA's financing is solely equity based with the most recent data published in January of 2026. And the country risk premium is standard across all utilities operating in Vanuatu.

Based on the CAPM formula, the computed rate of return applicable for the tariff period is 7.68%.

4.5.2 Regulatory Asset Base

VANPAWA's Regulatory Asset Base (RAB) considers the following:

- The Net Book Value (NBV) as at year end 2025. The NBV is computed by removing accumulated depreciation over the life of the asset.
- Customer contributed funds which includes, severance provision, force majeure fund, and customer deposits. It should be noted that VANPAWA will be charging deposits for new connections prospectively.

- Working capital is computed based on the number of days from which service is provided and when the revenue from those services is collected. The number of days is computed on the operation cost of the utility which includes generation and operation costs. Since VANPAWA is transitioning from postpaid meters to prepaid meters, the working capital number of days is forecasted to reduce over the tariff period from 50 days in 2026 to 15 days in 2029.

Starting RAB as at end of 2025 applicable for the tariff period is displayed in Table 8 below.

Table 8: RAB 2025.

RAB	Balance	Tariff Period
Net Book Value 2025		109,560,950
Less Zero Cost Capital		(7,566,027)
Severance Provision	(6,249,051)	
Force Majeure Fund	(1,316,976)	
Add Working Capital		18,632,873
Total		120,627,795

Note that the RAB has been computed as at year-end 2025, as prospective prudent investments will be considered by the Authority during the annual adjustments⁴.

4.5.3 Reasonable Return

Given the above identified parameters and using the CAPM formula, VANPAWA's reasonable rate of return for the tariff period is determined as 7.68%. Therefore, the reasonable return on investments is determined to be Vt 9,270,152.

Table 9: Reasonable Return 2026

Return	Tariff Period
Total RAB	120,627,795
Rate of Return	7.68%
Reasonable Return	9,270,152

4.6 Other Revenues

Other Revenues consider sales revenue generated from other services provided by VANPAWA which include new connections, disconnections, and reconnections. Revenues generated from these services utilize costs allowed for in the tariff period therefore should be subtracted from the gross required revenue. Therefore, VANPAWA's reasonable other revenues for the tariff period is determined as Vt 2,303,139. These costs have been summarized in Table 10 below.

Table 10: Annual Average Other Revenues for the Tariff Period 2024 – 2026.

Other Revenues	Tariff Period
Revenue from sales of services and connections including groundwork	1,507,138
Revenue from other regulated services including penalties for disconnection/reconnection	791,001
Revenue from third party and donors contribution	
Sale on Disposal of Asset	5,000
Total	2,303,139

⁴ Refer to Section 7.

4.7 Net Required Revenue for the Tariff Period

VANPAWA's net average annual required revenue for each year of the tariff period is determined as Vt 242,173,530. Table 11 below summarizes the cost-of-service components forming the net annual required revenue for the tariff period.

Table 11: Net Annual Required Revenue Tariff Period.

Tariff Components	Unit	Malekula	Tanna	Tariff Period	%
Generation Cost					
Diesel Cost	VT	6,101,867	100,507,452	106,609,319	44%
Lubricant Cost	VT	45,366	1,141,791	1,187,158	0%
Personnel Cost	VT	33,460,300	29,781,700	63,242,000	26%
Subcontracting Cost	VT	11,565,998	5,162,450	16,728,448	7%
Other Costs					
Goods and Equipment	VT	2,881,983	2,881,983	5,763,967	2%
Repair and Maintenance	VT	4,502,184	4,502,184	9,004,368	4%
Office and administration	VT	6,200,068	6,200,068	12,400,136	5%
Vehicle Fuel	VT	390,083	390,083	780,167	0%
Insurance	VT	958,196	958,196	1,916,391	1%
Provisions					
Severance	VT	1,944,228	1,730,481	3,674,709	2%
Doubtful debt	VT	755,248	755,248	1,510,495	1%
Depreciation	VT	6,194,680	6,194,680	12,389,360	5%
Reasonable Return	VT	4,635,076	4,635,076	9,270,152	4%
Other Revenues	VT	(1,151,569)	(1,151,569)	(2,303,139)	-1%
Required Revenues	VT	78,483,708	163,689,822	242,173,530	

VANPAWA's largest cost is the generation cost driven by high diesel prices and personnel costs as the utility implements its updated organisational structure.

5 Base Tariff

The Base Tariff Section covers the Base Tariff Computed and Other Charges.

5.1 Base Tariff for the Tariff Period

VANPAWA's net required revenue over its demand for the tariff period gives the base tariff applicable for the tariff period and effective on the gazettal of this Authority tariff review determination. The uniform tariff of **80.73 Vt/kWh** is to be applied by VANPAWA to its Malekula and Tanna concession areas.

A uniform tariff is preferred, as a stand-alone tariff would not be affordable for Tanna as can be observed in Table 12 below.

Table 12: Uniform Base Tariff for the Tariff Period 2024 – 2026.

Tariff Components	Unit	Malekula	Tanna	Tariff Period
Required Revenues	VT	78,483,708	163,689,822	242,173,530
Demand	kWh	1,292,447	1,707,314	2,999,761
Base Tariff	VT/kWh	60.72	95.88	80.73
Current Base Tariff	VT/kWh	64.29	64.29	64.29
Percentage Change	%	-6%	49%	26%

The base uniform tariff determined reflects an increase of 26% over the current base uniform tariff. Stand-alone tariffs would result in a 6% tariff decrease for Malekula electricity customers compared to a 49% increase in tariff for Tanna electricity customers.

5.2 Other Charges

Other Charges considers the Value Added Tax (VAT) which is surcharge to all applicable goods and services as required under the Value Added Tax Act of 1998 and the Tax Administration Act of 2018. There is also a regulator charge known as the URA surcharge allowing for consumers to finance the Authority's regulatory activities as required by the URA Act (as amended) of 2007.

The Force Majeure Fund is an affordable alternative to VANPAWA purchasing insurance cover. The fund will incur a consumption charge of 1 Vt/kWh. This fund is to be utilized by VANPAWA after receiving authorization from the Authority to repair damage to assets caused by cyclones and other force majeure events.

Table 13: Other Charges for the Tariff Period 2024 – 2026.

Other Charges	Amount
VAT	15%
URA Surcharge	1.50%
Customer Funds	1 Vt/kWh

6 Tariff Structure and Charges

This Section covers the cost allocation arriving at the Tariff Structure and highlights VANPAWA's other charges.

6.1 Tariff Structure

The tariff structure considers the cost allocation to VANPAWA's five customer categories. The Authority in this tariff review has determined the cost to providing electricity service to each customer category based on their demand and determining the need for any cross-subsidy.

Table 14 below displays the cost to VANPAWA by each customer category based on their demand for power.

Table 14: Customer Category Cost of Service

Customer Category	Demand (kWh)	Cost to Provide Service (VT)
Business License	682,763	55,120,116
Other Low Voltage	1,001,171	80,825,499
Public Lighting	-	-
Small Domestic	1,189,215	96,006,446
High Voltage	126,612	10,221,468

The Authority has determined that BL and LV customers are to cross-subsidize SD customers who are households with less income. Therefore, Vt 14,400,967 (15%) of the SD customer's cost to VUI has been allocated to be covered by BL and LV customers. The cross-subsidized amount has been lowered for this tariff period allowing businesses and other low voltage customers to continue to grow and wean off small domestic customers from cross subsidization thus encouraging efficient use of electricity.

The Authority for this tariff period is allowing BL and LV customers to pay the same rate therefore allowing them to contribute equally to the cross-subsidy amount based on their consumption. The revised tariff structure is displayed in Table 15 below.

Table 15: Tariff Structure.

Customer Category	Tranches	VT/kWh	VT/kVA
Small Domestic	0-30	0.73	
	31-60	1.06	
	61+	3.00	
Business and Other Low Voltage		1.06	2.85
Public Lighting		1.00	-
High Voltage		0.70	79.93

6.2 New Connections and Augmentation

The new customer connection and augmentation charges within 30 meters from a low voltage distribution network is outlined in Table 16 below.

Note that new customer connections are capped at Vt 15,000 and Vt 30,000 for Small Domestic Customers and Business and Other Low Voltage customers respectively. Other customers and augmentations to existing connections require the electricity customer to bear 100% of the cost.

The excess cost for new connections above the capped price is to be capitalised by VANPAWA and form part of their RAB annually⁵.

Table 16: Charges for the Tariff Period

VANPAWA Charges	Unit	Small Domestic & Public Lighting	Businnes & Other Low Voltage	High Voltage
Disconnection/Reconnection	VT	2,000	2,000	2,000
New Customer Connection (within 30M)	VT/%	15,000	30,000	100%
Network Augmentation	%	100%	100%	100%
Customer Connection Augmentation	%	100%	100%	100%

6.3 Customer Deposits

Customer deposits are required advance payment on consumption and therefore reduce the risk of VANPAWA incurring bad debts. The customer deposit is determined based on one month's estimated customer bill for the respective customer categories. These deposit amounts applicable for the tariff period are listed in Table 17 below.

Table 17: Customer Deposit.

Deposits	Amount
Business License	89,000
Other Low Voltage	37,000
Small Domestic	4,000
High Voltage	500,000
Public Lighting	5,000

⁵ Refer to Section 7.

7 Tariff Adjustment Formula

The Tariff Adjustment Formula (TAF) considers adjustments required to align VANPAWA's cost with current market conditions and towards achieving Government policy objectives. The Authority has allowed for these variables to adjust VANPAWA's uniform base tariff of 80.73 Vt/kWh.

1. Fuel Price – due to volatile and unpredictable global supply and demand of fuel especially during the Iran and United States conflict has resulted in price swings that impact VANPAWA's generation cost. Therefore, VANPAWA should be allowed to pass these cost changes onto its customers. However, these pass through is pegged to VANPAWA generating at the predetermined efficient HR level and weighted by renewable energy penetration into the generation mix including minimum hydro utilization rates set for the tariff period. Any increase in renewable energy above what has been forecasted by the Authority will result in lower tariffs for electricity customers.
2. Inflation – due to increase in goods and services prices over the observed period, VANPAWA should be allowed annual adjustments according to inflation to identified components of its cost of service that are impacted. However, this adjustment is guaranteed provided that VANPAWA performance based on the number of customers connected is met annually. The Authority expects VANPAWA to connect to 300 customers annually.
3. Investments – As required by the Authority or Government policy objectives, the utility is required to make investments to meet these obligations therefore the Authority is enabling annual recovery of the cost of and on prudent investments.
4. Independent Power Producers (IPP) under Power Purchasing Agreements (PPA) under the current regulatory framework established by the Authority – It is expected that during the tariff period, investors willing to become an IPP and have a PPA with VANPAWA will require appropriate mechanisms to pass through costs and benefits to customers. This will assist in increasing renewable energy generation at least cost.
5. Demand – Due to limited demand data over the period observed and the Authority's conservative forecast, a PLDM is to be implemented over the tariff period that will adjust the tariff to ensure that the utility is able to sustain its operations during times where demand decreases and reduce tariff when demand increases above a threshold set by the Authority.

The variables highlighted above adjust certain components of the cost of service, therefore the respective weights have been computed in Table 18 below.

Table 18: TAF Weightings.

Weights	Component
45%	Generation
26%	Personnel Costs
19%	Other Costs
10%	CAPEX

Utilizing the above weightings, the TAF is displayed in the Equation 2 below.

Equation 2: Tariff Adjustment Formula.

$$P_M = P_0 \times \left(0.45 \times \left(\frac{G_1}{G_0} \times \frac{N_1}{N_0} \right) + 0.10 \times \frac{CAPEX_1}{CAPEX_0} + \left[0.26 + 0.19 \times \left(\frac{CPI_1}{CPI_0} \right) \right] \times V \right) + PPA$$

The parameters displayed in the equation above are described in the Table 19 below.

Table 19: TAF Parameters.

Parameter	Description of Parameter	Frequency of Adjustment
P_0	This is the base price set at 80.73 Vt/kWh	N/A

G_0	This is the weighted average cost of diesel and lubricant oil per liter for Malekula and Tanna concessions set for the tariff period at 201.09 (2.d.p.)	N/A
G_1	This is the weighted average cost of diesel and lubricant oil per liter for the prior month for Malekula and Tanna computed as follows. $G = 0.9890 \times G_{TM} + 0.0110 \times LO_{TM}$ Whereby: G_{TM} is the is the weighted average cost of diesel fuel, delivered to the Tanna and Malekula power stations. It is calculated by computing the total amount of accrued diesel invoices for the preceding month over the number of respective liters purchased. LO_{TM} is the weighted average cost of Lubricant Oil delivered to the Tanna and Malekula power stations. It is calculated by computing the total amount of accrued Lubricant Oil invoices for the preceding month over the number of respective liters purchased. Note that where no fuel or lubricant oil is purchased for the month, the prior cost will be utilized for the computation.	Monthly
N_0	This is the portion of diesel oil output in the generation mix for VANPAWA's concessions. This is set for the tariff period at 0.59 (2.d.p.)	N/A
N_1	This is the portion of diesel oil output in the generation mix for the prior month divided by the averaged total output over the trailing 12 months over VANPAWA's concessions computed as follows: $N = \frac{kWh_{DTM}}{kWh_{TTM}}$ Whereby: kWh_{DTM} is the total number of kilowatt-hours produced by VANPAWA diesel generation power plants on Tanna and Malekula, expressed in kilowatt-hour generated. It is calculated and updated once a month based on the sum of the trailing twelve months. The trailing twelve months are counted from (and including) the months preceding the tariff adjustment. kWh_{TTM} is the total number of kilowatt-hours produced by VANPAWA's Total generation power plants on Tanna and Malekula, expressed in kilowatt-hour generated. It is calculated and updated once a month based on the sum of the trailing twelve months. The trailing twelve months are counted from (and including) the months preceding the tariff adjustment. Note that it does not include power purchased from IPP. To ensure that the hydro is fully utilized, the Authority has set minimum hydro utilization rates for the years as follows: 2026 = 20% 2027 = 23% 2028 = 27% 2029 = 31%	Monthly
CPI_0	This is the Consumer Price Index for Vanuatu set at 205.8 (2.d.p.)	N/A
CPI_1	This is the most recent Consumer Price Index published for Vanuatu by the Vanuatu National Statistics Office. Note that this index is to be adjusted based on performance. Performance measure for this tariff period is number of customers	Annually

	whereby VANAPWA is expected to connect 300 customers/annually. Not meeting the performance target results in reduced inflation increase by 50%.	
CAPEX₀	This is the cost of investment for VANPAWA concessions which include recovery of and on investments and allocations for zero cost capital set at 12,773,984.	Annually
CAPEX₁	This is the cost of investment and allocation for zero cost capital for VANPAWA's concessions for the prior year. This is computed as follows: $CAPEX_1 = CAPEX_1$ $= D_{n-1} + S_{n-1} + (NBV_{n-1} + D_{n-1} + WC_{n-1} - ZCC_{n-1}) \times RoR$ Whereby: • D_{n-1} is depreciation expense for investment in the prior year. • S_{n-1} is severance provision in the prior year. • NBV_{n-1} is net book value for investments in the prior year. • WC_{n-1} is working capital is 10% of sales revenue for the prior year. • ZCC_{n-1} is zero cost capital identified as force majeure fund, severance provision, and customer deposit balances for the prior year. • RoR is reasonable rate of return set at 7.68%. Total investment allowed by VANPAWA per year is capped at Vt 25 Million. Investments more than this amount shall be subject to the Authority's approval and risks delayed recovery of and on investments.	Annually
V	This is the current demand level where V is the demand percentage more than +/- 2% band on annual demand in P. Annual demand in P is the summation of demand sales revenue for the year divided by the monthly adjusted tariffs for the year	
PPA	This is VANPAWA's cost of IPP/PPAs approved by the Authority. This is computed as follows: $PPA = \frac{PPA\ Cost_{m-1}}{Sales\ Revenue_{m3}}$ Whereby: • PPA Cost is VANPAWA's cost of purchased power from IPP/PPAs for the prior month. • Sales revenue is VANPAWA's average sales revenue for the prior three months.	Monthly

The above Tariff Adjustment Formula is to be verified and approved by the Authority prior to charging VANPAWA electricity customers.

Utilities Regulatory Authority

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