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TO : THE GENERAL PUBLIC

SUBJECT : A PROPOSAL TO AMEND THE ELECTRICITY TARIFF – YAP MAIN ISLAND

DATE : MARCH 17, 2026

YSPSC's Board of Director is proposing to amend YSPSC's electricity tariff for Yap Main Island. This paper will first explain the 3 components of the electricity tariff, discuss the need for adjusting the tariff, and then lay out the proposed tariff amendment.

There are 3 components in the electricity tariff as follows: (1) The Non-Fuel Cost, (2) the Monthly Service Charge, and (3) the Fuel Cost. They are explained below.

Non-Fuel Cost per Kilowatt-Hour (NFC)

Non-Fuel Cost per kilowatt-hour (NFC) is the cost, other than the cost of fuel, to produce and distribute electricity, and which is charged based on customer categories and amount of kilowatt-hour consumption. While NFC rates are fixed, and do not change unless amended by YSPSC's Board of Directors according to regulatory procedures, the amount of NFC charges will vary depending on customer category and level of kilowatt-hour consumption.

Monthly Service Charge (MSC)

Monthly Service Charge (MSC) is also the cost, other than the cost of fuel, to produce and distribute electricity, and is prescribed according to customer category. Like NFC, MSC charges are also fixed and do not change unless amended by YSPSC's Board of Directors according to regulatory procedures. But unlike NFC, MSC charges do not vary according kilowatt-hour consumption as it is based strictly on customer category. NFC and MSC each accounts for a portion of non-fuel costs. Together they comprise the entirety of non-fuel costs.

Fuel Cost per Kilowatt-Hour (FC)

Fuel cost per kilowatt-hour (FC) is the cost of diesel to produce electricity, and is a variable. It varies from billing month to billing month depending on the following factors:

1. The global market price of diesel;
2. The total gallons of diesel used to generate electricity; and

3. The total kilowatt-hours sold or billed.

The total kilowatt-hours produced from renewable energy (RE) also reduces FC since the level of RE production proportionately decreases the amount of kilowatt-hours required by customer demand to be generated from diesel. RE lessens diesel usage and hence fuel cost per kilowatt-hour.

FC will be the same for all customer categories, regardless of the level of consumption. The table below shows the annual average fuel cost per kilowatt-hour for the last 7 seven years.

Year	Average Fuel Cost/kWh
2019	\$ 0.2491
2020	\$ 0.2036
2021	\$ 0.2224
2022	\$ 0.3480
2023	\$ 0.3134
2024	\$ 0.3155
2025	\$ 0.2864
7-Year Average	\$ 0.2769

On average annually, fuel cost from 2019 to 2025 was \$0.2769 per kilowatt-hour. But within each year, FC varied from billing month to billing month depending on the factors explained above. For instance, while the 2025 FC annual average was \$0.2864, the actual FC was \$0.2577 in November 2025 (below the 2025 annual average), but jumped, as shown in the table below, to \$0.3088 in December 2025 (above the 2025 annual average). The table below also shows further FC variability going into the first two completed billing months of 2026, prior to the breakout of hostilities in the MiddleEast.

November 2025	\$ 0.2577
December 2025	\$ 0.3088
January 2026	\$ 0.2635
February 2026	\$ 0.2235

Following the breakout of mideast hostilities, the cost of diesel will likely undergo a series of spikes until hostilities end. In a recent press release, FSMPC stated that “[s]ince the start of the recent US–Iran hostilities, benchmark prices referenced to MOPS1 have moved significantly. Between February 22–27, the average across the three main products was USD 88/bbl. Between March 2–6, the average rose to USD 136/bbl -- an increase of roughly 55% over the two-week period.... Amid the current extreme volatility, national average retail and wholesale prices will be affected in the coming weeks.”

Rationale for Tariff Adjustment

The rationale for proposing an adjustment to the electricity tariff is as follows:

1. The need to adjust to fuel cost volatility, particularly now with the Middle East war causing fuel supply disruptions;
2. The existing tariff was adopted in 2012 and the costs of electricity production and distribution has significantly increased since; and
3. The need for YSPSC to properly factor the cost of debt service into its electricity tariff.

The current tariff structure does not have a variable fuel cost component. It does not adjust to increases or decreases in fuel costs. It remains fixed and does not react to the movement of fuel cost from month to month. Consequently, when fuel cost exceeds the fuel rate factored into the existing tariff, YSPSC is unable to charge the proper amount to cover the cost of fuel. Conversely, when fuel cost per kilowatt-hour decreases, either because drops in global fuel price, or because of significant renewable energy production, YSPSC is unable, under the current tariff structure, to correspondingly lower tariff in order to pass the diesel savings to customers. It makes better sense to have a tariff that allows the utility to (1) track the actual cost of fuel, and (2) pass savings to customers by lowering the tariff to follow decreases in fuel costs and/or volume of fuel usage.

The current tariff, which was adopted in 2012, were based on costs and price points that have changed significantly since. So to ensure that YSPSC is financially positioned to cope with today's cost of operation and delivery of service (OPEX), the tariff has to be adjusted.

Thirdly, YSPSC needs to resume repayments for ADB loans which the State borrowed, and then on-lent to YSPSC, for the purchase and installations of the wind farm, solar PV plants, and Caterpillar generators which make up the maintstay of YSPSC's power plants today on Yap Main Island. YSPSC was able to make the loan repayments from 2018 to 2021 when its cash flow could no longer sustain the repayments due to OPEX increases.

When YSPSC could no longer make the loan repayments, the State picked up the payments as guarantor, but has now asked YSPSC to resume these loan repayments. To do so, YSPSC needs to adjust its electricity tariff for Yap Main Island.

The Proposal for Electricity Tariff Adjustment

Based on the rationale outlined above – i.e. to have the flexibility to adjust to fuel cost, to orient the tariff to the increase in OPEX, and to resume repayments of the ADB loans – YSPSC's Board of Director is proposing four options for electricity tariff adjustments. Option 1 is for

100% resumption of the loan repayment, Option 2 is for 75% resumption of the loan repayment, Option 3 is for 50% resumption of the loan repayment, and Option 4 is for 25% resumption of the loan repayment. These options are listed in the tables below.

PROPOSED NEW TARIFF - OPTION 1						
Depreciation Cost				\$0		
Rate of Debt Service (ADB Loans)				100%		
Revenue Requirement				\$6,452,236.74		
Customer Categories	RES T1	RES T2	COM T1	COM T2	GOV	Cost Classification
Billing Tiers (kWh)	0-100	>100	0-1000	>1000		
Non-Fuel Cost (NFC) - \$/kWh	0.14	0.24	0.27	0.31	0.54	Fixed
Fuel Cost (FC) - \$/kWh	**	**	**	**	**	Variable
Tariff per kWh	NFC + FC					
Monthly Service Charge (MSC) - \$/Month	5		40		40	Fixed
Monthly Bill Calculation	(NFC+FC x kWh) + MSC					

** FC to be calculated and announced for next billing month based on fuel price, kWh billed, volume of diesel consumption, and total RE production in the previous billing month. FC is the same for all customer categories.

PROPOSED NEW TARIFF - OPTION 2						
Depreciation Cost				\$0		
Rate of Debt Service (ADB Loans)				75%		
Revenue Requirement				\$6,277,236.74		
Customer Categories	RES T1	RES T2	COM T1	COM T2	GOV	Cost Classification
Billing Tiers (kWh)	0-100	>100	0-1000	>1000		
Non-Fuel Cost (NFC) - \$/kWh	0.12	0.22	0.25	0.29	0.53	Fixed
Fuel Cost (FC) - \$/kWh	**	**	**	**	**	Variable
Tariff per kWh	NFC + FC					
Monthly Service Charge (MSC) - \$/Month	5		40		40	Fixed
Monthly Bill Calculation	(NFC+FC x kWh) + MSC					

** FC to be calculated and announced for next billing month based on fuel price, kWh billed, volume of diesel consumption, and total RE production in the previous billing month. FC is the same for all customer categories.

PROPOSED NEW TARIFF - OPTION 3						
Depreciation Cost				\$0		
Rate of Debt Service (ADB Loans)				50%		
Revenue Requirement				6,102,236.74		
Customer Categories	RES T1	RES T2	COM T1	COM T2	GOV	Cost Classification
Billing Tiers (kWh)	0-100	>100	0-1000	>1000		
Non-Fuel Cost (NFC) - \$/kWh	0.10	0.20	0.25	0.27	0.51	Fixed
Fuel Cost (FC) - \$/kWh	**	**	**	**	**	Variable
Tariff per kWh	NFC + FC					
Monthly Service Charge (MSC) - \$/Month	5		40		40	Fixed
Monthly Bill Calculation	(NFC + FC x kWh) + MSC					

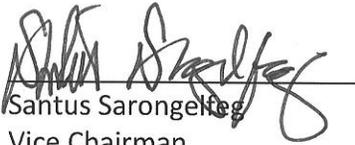
** FC to be calculated and announced for next billing month based on fuel price, kWh billed, volume of diesel consumption, and total RE production in the previous billing month. FC is the same for all customer categories.

PROPOSED NEW TARIFF - OPTION 4						
Depreciation Cost				\$0		
Rate of Debt Service (ADB Loans)				25%		
Revenue Requirement				\$5,927,236.74		
Customer Categories	RES T1	RES T2	COM T1	COM T2	GOV	Cost Classification
Billing Tiers (kWh)	0-100	>100	0-1000	>1000		
Non-Fuel Cost (NFC) - \$/kWh	0.10	0.20	0.22	0.25	0.49	Fixed
Fuel Cost (FC) - \$/kWh	**	**	**	**	**	Variable
Tariff per kWh	NFC + FC					
Monthly Service Charge (MSC) - \$/Month	5		40		40	Fixed
Monthly Bill Calculation	(NFC + FC x kWh) + MSC					

** FC to be calculated and announced for next billing month based on fuel price, kWh billed, volume of diesel consumption, and total RE production in the previous billing month. FC is the same for all customer categories.

YSPSC's Board of Directors is proposing to adopt one of these tariff adjustment options following consultation with the State and after consideration of public comments. Public comments may

be submitted in writing to Jeff Wuthel, Customer Service Officer, in person at YSPSC or at email address j_wuthel@yspsc.org. A public hearing on this proposal will also be held at a time and place to be announced. Thank you.



Santus Sarongel
Vice Chairman
Board of Directors



Victor Nabeyan
General Manager