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**REPORT ON MARKET RULES FOR THE GEORGIA  
WHOLESALE ELECTRICITY MARKET**

**Georgia Power Sector Reform  
Contract No. LAG-I-00-98-00005-00  
Task Order No. 4**

*Final Report*

*Prepared for:*

U.S Agency for International Development  
Bureau for Europe and NIS  
Office of Environment, Energy and Urban Development  
Energy and Infrastructure Division

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## REPORT ON MARKET RULES FOR THE GEORGIA WHOLESALE ELECTRICITY MARKET

In July, 1998, in Decree No. 421, "On Main Principles of the Georgian Wholesale Electricity Market," President Shevardnadze approved a statement of principles to govern a restructured electricity market. The principles, which were prepared over a period of months by representatives of the Georgian National Electricity Regulatory Commission, the Ministry of Fuel and Energy, and Sakenergo, with technical assistance from Hagler Bailly, provide among other things:

- ▶ For a new wholesale market into which generators would sell power, and from which distributors and direct customers will buy power
- ▶ For the elimination of Sakenergo as the middleman purchaser and reseller of electricity; the new market would not have a centralized buyer/reseller
- ▶ For the separation of dispatch, settlements, and billing and collection functions
- ▶ For a governance structure in which the market members would appoint their representatives to an Executive Board, which will also include government representatives
- ▶ For a pricing scheme in which rates for generation would initially be set by the Commission, but over time will be set by the open market

Decree No. 421 set in train a series of events relating to the wholesale electric market, principal among them passage by Parliament of amendments to the Electricity Law of 1997 to establish the new market as a legal entity, the organization of the market in late 1998, and commencement of operation of the market on July 1, 1999. As reported elsewhere, Hagler Bailly offered technical assistance to Parliament, the Georgia National Energy Regulatory Commission (GNERC), the Wholesale Electric Market, and to other representatives of the Government of Georgia on all of these matters under USAID's power sector reform program.

Decree No. 421 ordered the Wholesale Market to prepare detailed Market Rules, to flesh out the principles approved in the decree and to address, in appropriate detail, the structure, functions, and activities of each of the participants in the new market. Hagler Bailly began working with the Market Rules Committee on a first draft of the detailed rules in November, 1998. The Committee completed the first draft in December. Following review by counterparts and donor agencies, the Market Rules Committee, assisted by Hagler Bailly, prepared a second draft during

December. The Committee completed the second draft of the Rules and circulated them for further comment in January, 1999. The Committee made additional revisions to the draft based on comments. Indeed, revisions continued through May, 1999, when the Market's Executive Board formally approved the Rules and, following submittal by the Market, GNERC did the same. We have attached the Market Rules as approved by GNERC (Attachment 1).

Hagler Bailly has continued to review the Market Rules in light of the Market's actual experience. We have attached revised Market Rules as of August, 1999, showing proposed revisions (Attachment 2). Hagler Bailly will present these proposed revisions to the General Director of the Wholesale Market and to GNERC prior to the end of Task Order 5.

### **Conclusion**

The Market Rules provide a sound basis on which the Georgia Wholesale Electricity Market may conduct its business.

### **Attachments**

1. Market Rules (Participants Agreement for Georgian Wholesale Electricity Market) as approved by Wholesale Market Executive Board and GNERC, May, 1999.
2. Revised Market Rules, Hagler Bailly draft, August, 1999.

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**ATTACHMENT 1**

**MARKET RULES**

**(PARTICIPANTS AGREEMENT FOR GEORGIAN WHOLESALE  
ELECTRICITY MARKET)**

**AS APPROVED BY WHOLESALE MARKET EXECUTIVE BOARD  
AND GNERC**

**MAY 1999**

*Approved*  
*by Resolution # \_\_\_ Georgian National*  
*Electricity Regulatory Commission*  
*\_\_\_\_\_ , 1999*

## **MARKET RULES**

### **Participants Agreement for Georgian Wholesale Electricity Market**

Tbilisi  
May \_\_\_ 1999

**Preamble**

1. The presented agreement of the members of the Georgian Wholesale Electricity Market (hereinafter referred to as an Energy Market) is made in Tbilisi, May \_\_, 1999, according the decision of general meeting of the companies existing within the Georgian electricity sector.
2. The legal persons (licensees), which signed the presented agreement, are becoming the members of the energy market, fully and unconditionally recognize the "Market Rules" and agree to conduct all their activities according this agreement.
3. The purpose of the Agreement is to establish the Wholesale Electricity Market in Georgia, to define its main goals and to promote restructuring of the electricity Sector.
4. "Market Rules" are elaborated according the Georgian Law "On Electricity and Natural Gas", The Presidential Decree #421 "On Main Principles of the Wholesale Electricity Market of Georgia", is agreed with the Ministry of Fuel and Energy and is approved by the Georgian National Energy Regulatory Commission.

## **I. General Provisions**

### **Clause 1. Objectives and Purpose of "Market Rules"**

1. The strategic objective of this document is to establish market relations within the electricity sector, to promote efficiency of electricity generation, transmission, distribution, export, import and consumption, to gradually develop competition within the sector, to create environment to attract the necessary investment and to develop reliable, fair and stable relationships among the Licensees.
2. In accordance with the above stated strategy "The Market Rules", provide with:
  - Implementation of accounting standards adequate to ongoing restructuring of the electricity sector;
  - Creation of the Wholesale Market's independent democratic management systems.
3. The Main Principles of the Wholesale Market are:
  - Independence;
  - Economical reasonability and fairness;
  - guaranteed and timely payment;
  - equality of Market members;
  - Transparency;

### **Clause 2. Definitions**

The terms used in this document have the same meaning as in Georgian Law "On Electricity and Natural Gas". Those terms that are directly related to the Wholesale Market are defined below:

- a. "Energy Market" - legal person of Private Justice, created for the purpose of management of wholesale electricity (capacity) trading and gradual development of competition.
- b. "Executive Board of the Georgian Wholesale Electricity Market" - management body of the Energy Market, which defines the main directions for development and functioning of the Market, resolves disputes among the Market members, conducts monitoring over proper implementation of the "Market Rules" and "Wholesale Market's Technical Code".
- c. "Market Rules" - normative act on Market's operation, management and financial relations among the licensees, which is approved by Georgian National Electricity regulatory Commission and is mandatory for all licensees, market members and consumers.
- d. "Wholesale Market's Technical Code" – document prepared by the Dispatch Licensee in agreement with other Licensees, which defines requirements for technical operation of the Wholesale Market; Technical Code shall be approved by the Georgian National Electricity Regulatory Commission and is mandatory for all licensees, market members and consumers.
- e. "The General Director of the Georgian Wholesale Electricity Market" - person, which conducts management of the Wholesale Market according to the "Market Rules" and "Technical Code of the Wholesale Market and is reporting to the Executive Board. The General Director of the Wholesale Market is appointed by the Executive Board and approved by the Georgian National Electricity Regulatory Commission
- f. "The Settlement Director of the Georgian Wholesale Electricity Market" - person, which defines the volume of electricity (capacity) traded through the wholesale market and volume of transmission and dispatch services, also determines amounts due and issues relevant invoices.
- g. "The Market Funds Director of the Georgian Wholesale Electricity Market" - person, which collects and distributes funds received from the trading of electricity (capacity) within the Wholesale Market, as well as from transmission and dispatch services.
- h. "The Director of the Georgian Wholesale Electricity Market for Economics and Development" - person, which conducts monitoring of the companies' financial-economic conditions, develops issues related to the strategic development of the Market, supervises issues related to price formation within the Wholesale Market.
- i. "Settlement Period" - on shall mean, initially, the period of one calendar month.

- j. "Wholesale Market Seller" - Market Members - generation and import licensees, who are suppliers of electric energy and capacity, also transmission and dispatch Licensees, who supply transmission and dispatch services to the Wholesale Market.
- k. "Wholesale Market Buyers" - Market Members – distribution and export licensees, direct consumers, which, at the Wholesale Market, define level of demand on electricity.
- l. "Wholesale Market Member" - individual or legal person, which holds generation, distribution, transmission, dispatch, export, import licenses or direct consumers.
- m. "Georgian Control" Area shall mean the integrated electric power system to which various operating procedures are applied by or under the supervision of the Dispatch Licensee in order to:
  - (a) match, at all times, the power output of the generators within the electric power system and electricity purchased from entities outside the electric power system, with the load within the electric power system;
  - (b) maintain scheduled interchange with other interconnected systems, within the limits of Good Utility Practice;
  - (c) maintain the frequency of the electric power system within reasonable limits in accordance with Good Utility Practice.
- o. "Emergency Period" - period of time, during which electricity supply shall be limited, in order to maintain a balance between electricity demand and supply.
- p. "Curtailement Group" - shall mean the group of customers or feeders grouped together by the dispatch Licensee for the purpose of elaboration of a Curtailement Plan.
- q. "Curtailement Plan" - shall mean the list of Curtailement Groups, which determines order for electricity supply to electricity buyers and according which electricity is supplied to the electricity buyers during times of capacity shortages or emergency periods.
- r. "Commission" - Georgian National Energy Regulatory Commission.

### **Clause 3. Legal Status of the Market**

- 1. Organizational-legal form of the Wholesale Market is a Union (Association) of Electricity Sector Licensees and Direct Consumers. A Union (Association) established by the members of the Georgian Wholesale Electricity Market is a legal person of the private justice, its entrepreneurial activities may have only supplementary nature and shall serve the common goals of the Wholesale Market, i.e. establishment of favorable conditions for development of competition.

2. The signatories to these Market Rules and Agreement shall not become partners by reason of these Market Rules and Agreement or their activities hereunder, but as to each other and to third persons, they shall be and remain independent contractors in all matters relating to this Agreement. This Agreement shall not be construed to create any liability on the part of any signatory to anyone not a party to this Agreement. Each signatory shall retain its separate identity and, to the extent not limited hereby, its individual freedom in rendering service to its customers.

## **II. Establishment of the Market**

### **Clause 4. Membership (Participation)**

1. All Individuals or Legal Persons connected to or capable of being connected to the Transmission Grid for the purpose of supplying electricity and who have been issued a Generation License will be required to be a member of the Georgian Electricity Market (Wholesale Market).
2. All Individuals or Legal Persons who receive electricity at a Delivery Point for the purpose of resale and who have been issued a Distribution License will be required to be a member of the Wholesale Market.
3. All Individuals or Legal Persons connected to or capable of being connected to a Delivery Point for the purpose of receiving electricity for only their own consumption will be required to be a member of the Wholesale Market.
4. All Individuals or Legal Persons who receive electricity at a Delivery Point for the purpose of resale to a Distribution Licensee, Direct Consumer or foreign entity and who have been issued either an Export or an Import Licenses will be required to be a member of the Wholesale Market.
5. All Individuals or Legal Persons who hold a transmission license shall become a member of the Wholesale Market.
6. Legal Person who holds Dispatch License shall become a member of the Wholesale Market.
7. Any other Entity which is eligible to be engaged, or proposes to engage in the wholesale or retail electric power business in Georgia may, upon compliance with such reasonable conditions as the Georgian National Energy Regulatory Commission and the Executive Board of the GWEM may prescribe, shall become a Member.
8. Wholesale Market membership will be limited to Georgian Individuals and/or Legal Persons.

9. On initial stage of Wholesale Market Establishment, the first stage for membership is candidate's participation in founding meeting of the Union (Association) and signing of the Agreement. After signing the Agreement the Executive Board makes a decision on acceptance of the candidate, based on candidate's conformity with the terms applied to the Market member.
10. The Wholesale Market members shall pay membership fee, amount and form subject to be determined by the Executive Board and approved by the Regulatory Commission.
11. Incompliance with the "Market Rules", "Wholesale Market's Technical Standards", legitimate requirements of the General Director, Executive Board of the Wholesale Market and the Commission, may cause suspension of the Wholesale Market's Membership.
12. Violation of the "Market Rules" requirements and of other regulating documents, or if disputes occur, such a case falls beyond the jurisdiction of the Executive Board and the Commission, then the case shall be brought before the Georgian Court.

#### **Clause 5. Establishment of the Wholesale Market**

1. The Wholesale Market is established and creation of its structures finished after the date the Agreement is signed. Decision on establishment of the Wholesale Market Member's Union (Association) is reflected in the protocol of the General Meeting.
2. Guarantee for Wholesale Market Member's compliance with the "Market Rules" and "Wholesale Market's Technical Code" is the Georgian Law "On Electricity and Natural Gas", procedures for issuance and suspension of the Licenses, as well as Market Rules and other normative acts.
3. The Executive Board submits and the GNERC approves amendments to the "Market Rules", "Wholesale Market's Technical Code", or other documents related to them.
4. Person who applies for the membership in the Wholesale Electricity Market or a Market member, which may not be able to fulfill financial requirements of the Market Rules and Agreement, may be required by the Executive Board to present a bank guarantee or other kind guarantees, which the Executive Board agrees on and considers as a sufficient, for avoiding the risk of not payment of dues to other Participants.

### **III. Management of the Wholesale Market**

#### **Clause 6. Executive Board**

1. The Executive Board consists of 12 members:
  - three members - from Generation Licensees, with three votes;
  - one members - from Transmission Licensees, with one votes;
  - one members - from Dispatch Licensee, with one votes;
  - two members - from Distribution Licensees, with two votes;
  - one member - from Direct Consumers, with one vote;
  - General Director of the Wholesale Market, one vote;
  - one member - from the Ministry of Fuel and Energy, no vote;
  - one member - from the Ministry of Economy, no vote;
  - one member - from the Ministry of Finance, no vote;

If the representatives of all three Ministries believe, that any decision made by the Executive Board violates existing legislation, they are authorized to bring this decision to the attention of the related Ministries and the Commission. If it is necessary, such decision may be appealed to the Court.

2. At the initial stage of formation of the Wholesale Market the regime defined in the section 1 of this Clause shall be defined by the Georgian National Electricity Regulatory Commission (GNERC), but after the Wholesale Market starts operation, the Executive Board is authorized to make decision on changing the number of Board members and representation in it.
3. Each member of the Executive Board is nominated by their Companies and Ministries and is appointed by the GNERC for a 5-year period.
4. Premature interruption of the terms of an Executive Board member is due in cases as follows:
  - a. if a member voluntarily resigns from the Executive Board, or his employment is terminated by Participant who appointed him;
  - b. if the person, by any reasons, leaves the position, which was supporting his membership in Executive board;
  - c. if the Participant who appointed the member losses its seat on Executive Board;
  - d. if accusatory decision has been taken against the member according to the Georgian legislation;
  - e. if the Court recognizes the member as disabled or missing;
  - f. if member consistently does not satisfactorily perform his duties;
  - g. if member dies.

## Clause 7. Performance of the Executive Board

1. The Executive Board may petition the Georgian National Energy Regulatory Commission to approve special fees to compensate Executive Board Members for their services.
2. A Participant who is a member of the Executive Board may designate, by a written notice given to the Secretary of the Executive Board, an alternate for any member of the Executive Board appointed by such Participant. In the absence of the member, the alternate shall have all the powers of the member, including the power to vote.
3. The adoption of actions by the Executive Board shall require affirmative votes by voting members aggregating at least 60% of the number of votes.
4. At its annual meeting, the Executive Board shall elect from its voting members a Chairman and a Secretary.

The GNERC shall approve the First Chairman of the Board. It is desirable to elect a new Chairman every year *provided* that the new Chairman will represent another sub-sector of the Electricity Sector.

5. The Chairman of the Executive Board has one vote. The Chairman is responsible for organization of the Executive Board's meetings.
6. The Executive Board shall hold its annual meeting in December or January at such time and place as the Chairman shall designate and shall hold other meetings in accordance with a schedule adopted by the Executive Board or at the call of the Chairman. Any two members may call a special meeting of the Executive Board in the event that the Chairman shall fail to call such a meeting within three business days following the Chairman's receipt, from at least one of such members, of a request specifying the subject matters to be acted upon at the meeting. Any regular or special meeting of the Executive Board may be conducted in person face to face, or by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other.
7. Written notice of each meeting of the Executive Board shall be given to each member of the Executive Board, not less than three business days prior to the date of the meeting. The notice shall specify the principal subject matter expected to be acted upon at the meeting.
8. Any Participant may appeal to the Georgian National Energy Regulatory Commission any action taken by the Executive Board. Such an appeal shall be taken prior to the end of the tenth business day following the meeting of the Executive Board, to which the appeal relates, by giving to the Commission and to the Secretary of the Executive Board a signed and written notice of appeal and by mailing a copy of the notice to each member of the Executive Board. Pending action on the appeal, the giving of a notice of appeal as aforesaid shall suspend the action appealed from.

9. The Executive Board shall have the power and authority to establish after commencement of the Wholesale Market operation of other committees and working groups, subordinated to the Executive Board, to manage at the Executive Board's direction various areas of market activities.
10. At each annual meeting, the Executive Board shall adopt a Wholesale Market budget for the ensuing calendar year. In adopting budget the Executive Board shall give due consideration to the budgetary requests of each committee and General Director of the Wholesale Market. The Executive Board may modify Wholesale Market budget from time to time after its adoption.

The first year budget of the Board shall be approved by the GNERC upon its submission by the Executive Board.

11. The Executive Board shall appoint the General Director of the Wholesale Market (General Director) for 5 year period and at his nomination, appoints Settlement Director, Market Funds Director and Director in Economics and Development.
12. The Executive Board considers main normative documents, including "Market Rules" and "Technical Code", presented by the General Director and prepared by the relevant working committees, and then presents them to the GNERC for its approval.
13. The meetings of the Executive Board are called once in a month.
14. Responsibilities of the Executive Board:
  - a. The Executive Board shall have the duty and requisite authority to administer, enforce and interpret the provisions of these Market Rules and Agreement, in order to accomplish the objectives of Market Rules;
  - b. The Executive Board, after consultation with the relevant Committees, General Director and Dispatch Licensee, shall establish standards, which will define relations between the Market Members, also between Market Members and other Entities;
  - c. The Executive Board is authorized to appoint a Dispute Resolution Committee, which shall consider disputes between the Market Members, as well as between governing bodies of the Wholesale market. The Executive Board may take any other action, if it determines that such action is necessary or appropriate to achieve a prompt resolution of disputes;
  - d. The Executive Board shall have such further powers and duties, as are conferred or imposed upon it, by other sections of these Market Rules and Agreement;
  - e. Each member of the Executive Board or that member designee, shall be entitled to attend any meeting of any other Wholesale Market committee, and shall have a

reasonable opportunity to express views on any matter to be acted upon at the meeting.

#### **Clause 8. The General Director of the Wholesale Market**

1. The General Director of the Georgian Wholesale Electricity Market is directing a special independent structure, which is in charge of wholesale electricity trading relations in fair and non-discriminatory manner. The General director is reporting to the Executive Board.
2. The General Director of the Wholesale Market, according to "Market rules":
  - a. monitors operation of the wholesale bulk power market on a day by day basis;
  - b. directs activities related to preparation, consideration and submission of "market Rules", also monitors the process associated with changes and amendments to it;
  - c. between the meetings of the Executive Board considers and makes decisions on issues related to the operation and development of the Wholesale Market;
  - d. within its competency represents the Wholesale market;
  - e. appoints, with the Executive Board's approval, the Settlement Director, the Market Funds Director and the Director of Economics and Development, the other authorized persons and the staff;
  - f. together with the Dispatch Licensee, approves the balances on delivery and demand on electricity within the Wholesale Market and makes corrections to these balances if necessary; in case of deficit announces the tender for importing of necessary amount of electricity, makes relevant decisions;
  - g. within its competency, informs GNERC on violation of the License requirements by the Licensees;
  - h. conducts monitoring of fulfillment of the "Market Rules" by Licensees within the Wholesale Market;
  - i. according to approved budget, independently sets salary and bonus rates;
  - j. directs activities related to the forecast of the Wholesale Market's operation and development;
  - k. within its competency, issues orders and controls their fulfillment;
  - l. according to existing legislation, provides transparency and availability of the documents related to the Wholesale market's operation.

### **IV. Formation of the Electricity (Capacity) Balances, Distribution and Dispatching**

#### **Clause 9. The Responsibilities of the Market Members**

1. Each member of the Wholesale Market shall:
  - a. in order to guarantee reliable operation of the electricity sector, the Wholesale Market member shall install, repair, maintain and operate all the facilities under its

control and systematically provide the Wholesale Market with the information related to the reliability of these facilities;

- b. to the fullest extent practicable, subject all facilities and other resources owned or controlled by it to central dispatch by the Dispatch Licensee; provided, however, that each Participant shall at all times be the sole judge as to whether or not and to what extent safety requires, that at any time any of such facilities will be operated at less than full capacity or not at all. Each Member may remove from central dispatch a facility or other resources owned or controlled by it, if and to the extent such removal is permitted by rules and standards approved by the Executive Board.
- c. Each Member shall, to the fullest extent practicable:
  - restore such facilities to good operating condition with reasonable promptness;
  - accelerate or delay maintenance and repair at the reasonable request of the Dispatch Licensee or the General Director in accordance with market operation procedures, approved by the General Director and Executive Board.
2. The day-to-day scheduling and coordination through the Dispatch Licensee of the operation of generating units and other resources, shall be designed to assure the reliability of the Georgian bulk power system at the lowest practicable cost.

#### **Clause 10. Dispatch and Scheduling**

1. The Dispatch Licensee shall:
  - a. be responsible for scheduling and dispatching the power system such that the frequency, voltage and quality of electrical supply meet the requirements specified in the Technical Standards;
  - b. at any time balance electricity supply, transmission and consumption;
  - c. be responsible for preparation and implementation, in cooperation with the Wholesale Market and in accordance with the principle of least (optimal) cost, a daily schedule of electricity (capacity) supply (Generation, Import). Such schedules shall meet consumer demand, as well as exports and necessary reserve requirements.
  - d. satisfy requirements of the Wholesale Market, regarding reduction, curtailment, discontinuation or increase of electricity supply services to Distribution Companies and Direct Consumers, despite the payment for electricity cost.
  - e. satisfy requirements of Wholesale Market, regarding economical reasonability and fairness of electricity generation, import, export, distribution and direct consumption.

2. Wholesale Market members shall unconditionally fulfill orders issued by the Dispatch Licensee within its competency, and if dispute occurs, it shall be resolved according to set rules.
3. By the end of each day, the Dispatch Licensee shall provide the Wholesale Market with all orders, which were issued during the day, as well as all changes, made in the preliminary prepared application.

#### **Clause 11. Day to Day Scheduling**

1. At no later time than 09:30 of each day each Generation and Import Licensees shall submit to the Settlement Manager and Dispatch Licensee, with respect to each generating block and direct contract, an availability declaration for the following day. The availability declaration shall represent projected capability of each generating block and direct contract to supply electric energy for the following day. If any generator fails to submit for any generating block or direct contract any data in accordance with this section, the Settlement Director and Dispatch Licensee shall assume that the generating block and/or direct is unavailable and shall proceed in the unit commitment and settlement computations accordingly.
2. In conformance with established procedures, a Generation or Import Licensee may submit to the Settlement Director and the Dispatch Licensee a revised availability declaration with respect to each generating block and direct contract the availability or flexibility of which has been changed since the time of the most recent declaration.

If the Dispatch Licensee finds that actual availability of any generation block is below its declared availability, it shall unilaterally redeclare the availability of this resource to its actually demonstrated value, and immediately relay this information to the Settlement Manager and concerned Participant(s).

3. At no later time than 9:30 of each day buyers under direct contracts and Import and Export Licensees should provide their respective hourly delivery schedules to the Settlement Manager and to the Dispatch Licensee to be included for the following day unit commitment.

#### **Clause 12. Direct Contracts**

1. There shall be direct contracts allowed between:
  - Distribution Licensees and Generation Licensees;
  - Distribution Licensees and Import Licensees;
  - Generator Licensees and Export Licensees;
  - Generator Licensees and Direct Consumers;
  - Import Licensees and Direct Consumers.
2. The General Director of the Wholesale Market in consultation with Dispatch Licensee, shall submit to the Executive Board for approval special procedures,

describing criteria which Licensees must satisfy to be eligible to engage in direct contracts. Such procedures shall determine amount of MW each generating plant can dedicate to direct contracts. These special procedures shall be approved by the GNERC.

3. Notwithstanding provision 2, no Distribution, Export, Trader Licensee, or Direct Consumer shall be allowed to enter into direct contracts, if such Licensee or Direct Consumer has an outstanding payment obligation to the Wholesale Market, or Transmission or Dispatch Licensee which is past due. Receiving electric power under direct contract does not release a buyer under such contract, from payment obligations to the Transmission and Dispatch Licensees, based on the respective tariffs, and from payment obligations to the Wholesale Market for the balance of energy requirements.
4. Parties to direct contracts bear full responsibility to provide to the Settlement Manager and the Dispatch Licensee with all relevant information to assure that these contracts can be physically implemented and correctly reflected in the settlement.

#### **Clause 13. Curtailment and Emergency Period**

1. Due to capacity and electricity deficit in Georgia, the Wholesale Market shall have a Curtailment Plan.
2. The Wholesale Market together with the Dispatch Licensee prepares curtailment schedule (Plan), which shall define amount of electricity to be curtailed during different regimes of expected deficit. The Curtailment Schedule (Plan) shall be agreed with the Executive Board and approved by the GNERC
3. During the implementation of the Curtailment Plan the careful consideration shall be given to the Buyer's background in terms of payment for consumed electricity.
4. Customers, their capacity and sequence, which are intended for curtailment, shall clearly be defined in the Curtailment Plan.
5. The Dispatch Licensee conducts its activities according to approved Curtailment Plan.
6. The Curtailment Plan comes into effect after those which do not meet their payment obligations are disconnected from the service.
7. The Ministry of Fuel & Energy determines certain customers who shall not be included in the Curtailment Plan as a matter of national security policy and shall not be disconnected, except cases when disconnection is caused by non-payment for consumed electricity. The Security Council of Georgia shall approve the list of such customers.
8. The Wholesale Market is authorized to conduct an auction among the Wholesale Market Buyers for positions on the Curtailment List for that year. The highest bid

of the electricity buyer will secure the highest position on the Curtailment List and be the last Curtailment Block to lose electrical supply. The lowest bid will be in the first position on the Curtailment List and be cut off first. Amounts collected from the auction will be held in a separate account. The Executive Board of the Wholesale Market will prepare a plan for the use of such amounts. The Wholesale Market will publish the Curtailment List.

9. The rules and procedures for auction shall be defined by special instruction approved by the GNERC.
10. The Dispatch Licensee will declare an Emergency Period when due to the unimaginable failure of generating or transmission equipment, the Dispatch Licensee will be unable to maintain a balance between supply and demand.
11. During an Emergency Period, the Dispatch Licensee may order the Wholesale Market Sellers and the Transmission Licensee to cancel maintenance outages and may request from the Wholesale Market Members compliance with the requirements of the emergency situations.

## **V. Terms for the Connection to the Transmission and Distribution System**

### **Clause 14. Connection to the Transmission System**

1. Transmission Licensees will connect to their Transmission system any Generator Licensee, Distribution Licensee, Import Licensee, Export Licensee or Direct Consumer in a manner that will meet their needs, provided that the entity requesting connection is a Wholesale Market Member and meets relevant technical standards.
2. Transmission Licensees and Dispatch Licensees shall prepare an investment plan that details new transmission facilities that will be necessary to construct within the next five years and submit that plan to the Georgian National Energy Regulatory Commission for approval.
3. The Transmission Licensee will require the entity requesting connection to pay for the costs of connection and any new transmission facilities specifically required by that connection and submit to the Georgian National Energy Regulatory Commission for approval.
4. Transmission Licensees will have the right to terminate service to any Wholesale Market Member under the procedures prepared by the Georgian National Energy Regulatory Commission in accordance with the Georgian Law "On Electricity and Natural Gas".

### **Clause 15. Connection to the Distribution System**

1. Distribution Licensees will connect to their Distribution System any customer that meets relevant technical standards and financial criteria, as determined by the existing legislation.
2. Distribution Licensees will require the customer requesting connection to pay for the costs of connection as approved by the Georgian National Energy Regulatory Commission.
3. Distribution Licensees will have the right to terminate service to customers under the Georgian Law "On Electricity and Natural Gas", "Market Rules", "Technical Code" or the procedures approved by the Georgian National Energy Regulatory Commission.

## **VI. Finances of the Wholesale Market**

### **Clause 16. Membership Fees**

1. The management bodies and the staff of the Georgian Wholesale Electricity Market Member's Union (Association) are financed by the membership fees, also through income allowed by Georgian Legislation.
2. Amount of the membership fees shall be determined according to the needs of the management bodies and the staff of the Wholesale Market and is approved by the GNERC upon Executive Board's submission.
3. Membership fees are accumulated in a Wholesale Market's account and their disposal shall be conducted according to the approved budget.
4. During the year, each member shall pay to the Wholesale Market annual membership fee in accordance with the set rules.
5. Members of the Wholesale Market shall, together with the General Director, establish fees that fairly allocate the Wholesale Market costs not reflected in the annual budget approved by the Executive Board. These kinds of fees shall be paid directly by Participants and non-participants responsible for such costs. The balance of the Wholesale Market expenses remaining to be paid after the application of (i) the annual membership dues to be paid, and (ii) any fees or other charges for services or other revenues received by the Wholesale Market, shall be allocated among and paid monthly by the Participants in accordance with the methodology approved by the Executive Board to compute membership dues.

### **Clause 17. Amounts Received from Supplementary Commercial Activities**

In order to develop the Energy Sector and to maintain a balance between supply and demand, funds received from supplementary commercial activities shall be used for

improvement of the Wholesale Market's operation and its technical capacity, for training of the staff, for bonuses and other similar purposes.

#### **Clause 18. Other Revenues**

The other revenues of the Wholesale Market may be grants, donations, budgetary resources (received through the State programs) and etc.

### **VII. Financial System of the Electricity Sector within the Wholesale Market**

#### **Clause 19. The Main Principles of the Financial System Reform**

1. Reforms of the financial system within the Electricity sector, which are integral part of the Sector's restructuring, shall be based on the following principles:
  - a) decentralization of financial-settlement relations, according to "Entrepreneurs Law", "Electricity and Natural Gas Law" and other legal regulations;
  - b) abolition of unnecessary institutions involved in electricity sales cash flow and transparency;
  - c) individual disposal of own financial resources by all Licensees and protection of Licensee from discriminatory financial policy and illegal actions from other Licensee(s);
  - d) efficiency in utilization of the financial resources and adjustment of the Licensee's rights and obligations to the existing legislation.

#### **Clause 20. Special Transfer Account of the Wholesale Market**

1. In accordance with Clause 19, the Wholesale Market sets a special transit bank accounts which accumulates all the finances paid by the Wholesale Market Buyers according to "Market rules".
2. Transfer of amounts from special account to the Wholesale Market Sellers, is conducted systematically, according to preliminarily prepared rule, approved by the Executive Board and known by the Wholesale Market Members. This formula is based on information provided by the sellers concerning the amount of energy (capacity) and services supplied to the market, their wholesale tariffs and equality of all the Sellers.

### **VIII. Electricity Metering and Settlement**

## **Clause 21. Electricity Metering**

1. In order to conduct accurate settlement for electricity, all the Wholesale Market Members shall be equipped with reliable meters. The meters shall be installed at delivery and receiving points according the Technical Standards.
2. All kind of meters shall be in compliance with Technical Standards and be recorded in State Register for Metering Equipment. All the meters shall be installed according the set rules for installment of electric equipment.
3. The Wholesale Market Members are legally and financially responsible for security, damage or accuracy of the meters they own.
4. The Wholesale Market Members shall, at any time, provide with unrestricted access of the Wholesale Market's representatives to the metering equipment.
5. The Dispatch Licensee, other Licensees shall, according to set rules, provide the Wholesale Market with the relevant information on metering.

## **Clause 22. Settlement**

1. Settlement Period shall mean, the period of one calendar month.
2. The Wholesale Market Members shall, within five days after expiration of the settlement period, notify the Settlement Director:
  - a. on amount of delivered or received electricity within the settlement period. The regional representative of the Wholesale Market shall affirm the notification.
  - b. on amount of electricity purchased or sold through the Direct Contracts.
3. If such information is not timely provided, the Wholesale Market Member shall bear responsibility according set rules.
4. If mistake was made in electricity metering, the data recalculation shall be made according to that specific period, when the last technical inspection of the meter was conducted.
5. The Wholesale Market Buyer shall fully pay for the received electricity not later the 10th day after the settlement period.
6. If the Wholesale Market Buyer violates provision 5 of this Clause, the Wholesale Market is authorized to suspend service to this Buyer.
7. If the Wholesale Market Buyer violates provision 5 of this Clause, the Wholesale Market is authorized to impose a fine in amount of 0.2% of the total unpaid amount for each delayed day.

8. If the Wholesale Market Sellers do not deliver electricity in amounts fixed in the Agreement, they shall be fined according to the set rules.
9. The Wholesale Market Members are not financially responsible for non-fulfillment of their obligation in case of Force Major events. The Wholesale Market shall be officially informed about such events.

#### **Clause 23. Invoicing and Funds Disbursement**

1. Settlement is conducted by the Settlement Director, who is responsible:
  - a. for presenting of invoices prepared according to the information received from the Dispatch and other Licensees and Direct Customers;
  - b. to meter capacity and energy, which was purchased by the Wholesale Market Members during the Settlement Period ;
  - c. for determination of the total amount of technical losses and their distribution among the Wholesale Market Members;
  - d. for determination of amounts, which are owed by the Wholesale Market Members to each other, after electricity trading during the settlement period;
2. The Wholesale Market Members shall:
  - a. examine invoices provided by the Settlement Director, and if inconsistency is revealed, shall notify Settlement Director about it;
  - b. make credit deposit or letter of credit at the Bank, within 5 (five) days after the General Directors request, or shall provide other kind of guarantees in order to avoid violation of payment obligations. This amount shall not be less than 33% of the electricity to be consumed monthly by the Buyer.
3. If the Wholesale Market Members do not make payment or do not make such credit deposit, the Settlement Director may require from the GNERC to withdraw the License from that particular Licensee, or require from Dispatch Licensee to disconnect the Licensee from the grid.

#### **Clause 24. Responsibility of the Market Funds Manager**

1. Market Funds Manager is responsible:
  - a. for distribution of amounts, received from the Wholesale Market Buyers, among the Wholesale Market Sellers, Transmission Licensee and Dispatch Licensee;
  - b. for conducting settlement from depository account, if the amount was not received from the Wholesale Market Buyers;
  - c. if the payment for the consumed electricity is not made by Buyers, during 5 days after the settlement period, the Settlement Director is authorized to impose a fine

according to the set rules and shall notify the Dispatch Licensee to discontinue the service to this Buyer.

#### **Clause 25. Data Collection and Verification**

1. It is the responsibility of market participants and a Dispatch Licensee to provide the Settlement Manager daily with all metered data related to actual system operation in order to assure accurate and timely settlement.
2. The amount of energy, generated, consumed, imported and exported shall be determined on the basis of metered data.
3. The Settlement Administrator, using appropriate software where necessary, shall collect metered data; validate metered data; update standing entries; and adjust and summarize the metered data for generation and consumption.
4. The following variables shall be determined on the basis of the metered data values for each Settlement Period:

AG - Block Actual Generation;

AAG - Block Adjusted Actual Generation, equals AG less own usage consumption

SD - Actual consumption of Distribution and Export Licensees, and Direct Consumers;

IF - Interconnection Flows.

5. All metered data shall be adjusted to take into account losses. Metered data from generators will be adjusted to determine the Adjusted Actual Generation (AAG).
6. In order to accurately calculate payments the Settlement Manager may request participants to provide summarized periodic readings of electricity meters of total energy generated by each Block and the station.
7. In order to verify the accuracy of the received data, the Dispatch Licensee or any person authorized by him and Settlement Manager, or any person authorized by him, have the right to enter premises of the market participants in order to inspect all the metering equipment and their compliance with the Technical Standards.
8. For each Settlement Period, the Settlement Manager shall calculate the high voltage transmission losses as the difference between the actual electricity sent directly to the high voltage networks and electricity consumption by suppliers directly from the high voltage networks. These losses, expressed in megawatt-hours (MWh), shall be allocated among Distribution and Export Licensees, and Direct Consumers on a monthly basis pro-rata to their respective volume of buying transactions.
9. By the first day of each month, the Settlement Manager shall determine who among the market participants has payment obligations with regard to energy deemed to be purchased through the wholesale market in the previous month, compute amounts due from each of such participants based on the methodology described in Section

11 below, and issue an itemized invoices for payment. Copy of these invoices shall also be furnished to the Funds Manager. The payment due date shall be set as a 10<sup>th</sup> (tenth) business day of the month.

10. By the first day of each month, the Settlement Manager shall determine who among the market participants has payments due with regard to energy deemed to be sold through the wholesale market in the previous month, compute the amount due to each of such participants based on the methodology described in Section 11 and issue an itemized payment statements. The Settlement Manager should also compute the amount of payments due to Transmission and Dispatch Licensees in accordance with provisions of Sections 11 respectively and issue respective statements. Copy of all statements shall be also furnished to the Fund Manager. The payment due day shall be set as the 10<sup>th</sup> (tenth) business day of the month.
11. Payments due from Distribution and Export Licensees and Direct Consumers shall be computed as follows:

$PMNT=(TE-DCE)*Ta+TE*(Tt+Td)$ , where:

PMNT - is payment due in Georgian Lari;

TE - is total energy consumed in the settlement month, adjusted for transmission losses, in megawatthours;

DCE - is energy received in the settlement month under direct contracts, adjusted for losses, in megawatthours;

Ta - is applicable energy tariff, in Georgian Lari per megawatthour;

Tt - is applicable transmission tariff, in Georgian Lari per megawatthour;

Td - is applicable distribution tariff, in Georgian Lari per megawatthour.

Payments due to Generation, Import, and Trading (if sellers) Licensees and Direct Consumers should be computed as follows:

$PMNT=(AAG-DCE)*Tgi$ , where:

PMNT - is payment to be paid to selling participants, in Georgian Lari;

DCE - is energy sold under direct contracts in the settlement month, in megawatthours;

AAG - is energy generated or imported in the settlement month, adjusted if applicable for own usage consumption, in megawatthours;

Tgi - is applicable respective generation or import tariff, in Georgian Lari per megawatthour.

Payments due to Transmission Licensee should be computed as follows:

$PMNT=TE*Tt$ , where:

PMNT - is payment to be paid to Transmission Licensee, in Georgian Lari;

TE - is total energy consumed in the settlement month, adjusted for transmission losses, in megawatthours;

Tt - is applicable transmission tariff, in Georgian Lari per megawatthour.

Payments due to Dispatch Licensee should be computed as follows:

$PMNT = TE * Td$ , where:

PMNT - is payment to be paid to Dispatch Licensee, in Georgian Lari;

TE - is total energy consumed in the settlement month, adjusted for transmission losses, in megawatthours;

Td - is applicable dispatch tariff, in Georgian Lari per megawatthours.

12. If for any reason by the due date for payments in accordance with Sections 10 and 12 there are a shortage of funds in the settlement account, the Funds Manager shall immediately notify the General Director and the Executive Board and determine the amount to be paid to each Participant to whom payment is due, as follows:

$PMNTA = TFA * PDP / SPD$ , where:

PMNTA - is payment in Georgian Lari, available to participant;

TFA - is total amount of funds in Georgian Lari, available for payments;

PDP - is payment in Georgian Lari, due to participant;

SPD - is a sum, in Georgian Lari, of payments due to all participants;

Payment of these computed amounts shall be conducted as specified in Section 10.

13. The General Director and the Funds Manager should provide to the Executive Board, on monthly basis, an itemized schedule that shows detailed flow of funds to and from the settlement account.

## **IX. Necessary Data for Market Functioning**

### **Clause 26. Data**

1. Each wholesale market member shall present following data to the wholesale market and Dispatch Licensee:

Data required from all market members:

- a) Full Name of the Participant;  
Type of activity (form of ownership);  
Address of the participant (full address).
- b) Thermal plants:  
Name of the plant;  
Number of the unit;  
Location of the unit's meter;  
Installed capacity of the unit;  
Unit's minimum load;  
Unit's thermal characteristics;  
Information on direct contracts (if any);  
Type and price of fuel.

- c) From hydro plants:  
 Name of the Plant;  
 Number of the plant;  
 Location of the plant's meter;  
 Information on direct contracts (if any);
  - d) From Distribution, Trade, Export and Import Licensees:  
 Electricity receiving point in the grid;  
 Metering point;  
 Information on direct contracts (if any);
  - e) From Direct Consumers:  
 Electricity receiving point in the grid;  
 Metering point;  
 Information on direct contracts (if any);
2. In order to provide accurate information each participant of the wholesale market shall make periodical adjustments to above data. The Settlement Manager and the Dispatch Licensee shall make appropriate amendments to their databases within two days after receiving such adjusted information.

## **X. Dispute Resolution**

### **Clause 27. Dispute Resolution Procedures**

1. If the Participant is aggrieved by a vote of the Executive Board to approve, modify or reject a proposed action under these Market Rules and Agreement, it may submit the matter for resolution hereunder, if the vote:
- (a) requires such Participant to make a payment or to take any action pursuant to these Market Rules and Agreement; or
  - (b) reduces the amount of any receipt or forbids, pursuant to these Market Rules and Agreement, the taking of any action by the Participant; or
  - (c) fails to afford it any right to which it believes it is entitled under the provisions of these Market Rules and Agreement or imposes on it a burden to which it is not subject under the provisions of these Market Rules and Agreement; or
  - (d) results in the termination of the Participant's status as a Participant or imposes any penalty on the Participant; or
  - (e) fails to grant in full an application for transmission service.

Any Participant with respect to any such matter shall initiate no legal or regulatory proceeding, while proceedings are pending under this Section with respect to the matter.

2. The Participant seeking review of a vote of the Executive Board shall give written notice to the Secretary of the Executive Board within ten business days of the vote, each member of the Executive Board shall be provided with a copy of the notice. The provider of notice under this Section shall be referred to herein as the "Aggrieved Party."
3. If the Participant seeks review of a vote of the Executive Board pursuant to this Section, the vote to be reviewed shall be suspended for up to 30 days following the giving of the Participant's notice, unless the Executive Board determines that the suspension will imperil the stability or reliability of the Georgian Wholesale Electricity Market.
4. The aggrieved Participant and the Executive Board shall attempt to choose by mutual agreement a single neutral arbitrator to hear the dispute. If the Participant and the Executive Board fail to agree upon a single arbitrator within seven calendar days of the giving of notice of arbitration to the Secretary of the Executive Board, each party shall be asked to appoint an arbitrator, and then these two arbitrators will select the third arbitrator. In either case, the arbitrator(s) shall be knowledgeable in matters involving the electric power industry, and shall not have any business or financial relationships with the Wholesale Market or its Participants (other than previous experience as an arbitrator), unless otherwise mutually agreed by the aggrieved Participant and the Executive Board.
5. Each party shall be responsible for the following costs, if applicable:
  - (a) its own costs incurred during the arbitration process; plus
  - (b) One half of the common costs of the arbitration including, but not limited to, the arbitrator's fee and expenses, the rental charge for a hearing room and the cost of a court reporter and transcript, if required.
6. Unless otherwise mutually agreed, the site for all arbitration hearings shall be the office of the Wholesale Market.

7. The Aggrieved Party shall provide the arbitrator(s) with a brief written statement of its complaint and a statement of the remedy or remedies it seeks, accompanied by copies of any documents or other materials it wishes the arbitrator(s) to review. The Executive Board will provide the arbitrator(s) with a copy of these Market Rules and Agreement and all relevant implementing documents, a brief description of the action being arbitrated, copies of the minutes of all Executive Board meetings at which the matter was discussed, a brief statement explaining why the Executive Board believes its decision should be upheld by the arbitrator, and copies of any documents or other materials the Executive Board wishes the arbitrator to review. These submissions shall be made within three days after the selection of the arbitrator. In addition, each party shall designate one or more individuals to be available to answer questions the arbitrator may have on the documents or other materials submitted by that party. The answers to all such questions shall be reduced to writing by the party providing the answer and a copy shall be furnished to the other party.
8. A hearing will be held no later than seven days after the selection of the arbitrator(s) and shall be limited to issues raised in the pre-hearing filings. The scheduling of further hearings shall be within the sole discretion of the arbitrator(s)
9. The arbitrator's decision shall be due, unless the deadline is extended by mutual agreement of the aggrieved Participant and the Executive Board, within five days of the hearing or within thirty days of the Aggrieved Party's initiation of arbitration, whichever occurs first. If there is a board of arbitrators, the decision is derived by a simple majority. The arbitrator(s) shall be authorized only to interpret and apply the provisions of these Market Rules and Agreement and the arbitrator(s) shall have no power to modify or change the Agreement in any manner.

## **XI. Regulatory Oversight**

### **Clause 28. Regulatory Oversight**

1. The Georgian National Energy Regulatory Commission will approve the Wholesale Market Rules, monitor the performance of the Wholesale Market and serve in an oversight role at all times, to ensure that the market matures and moves toward the competitive goals set forth in the Georgian Law "On Electricity and Natural Gas".
2. The Georgian National Energy Regulatory Commission will approve generation, transmission, dispatch, distribution and retail tariffs after the establishment of the Wholesale Market.
3. During all phase of the Wholesale Market for the wholesale tariff, the Georgian National Energy Regulatory Commission will approve the electricity price determination principles and methodology.

## **XII. Final Provisions**

### **Clause 29. Final Provisions**

1. Presented Market rules and Agreement, as well as attached documents, may be amended from time to time, according procedures, which shall be agreed with all Participants and approved by the Executive Board. Any kind of amendment to the Market Rules and Agreement, shall be approved by the Commission.  
Amendments shall be presented in written form and comes into effect on the date indicated in it. The different methodological and instructional documents, which particularize the procedures and rules for specific Market transactions, shall be prepared in accordance with the Market Rules and are approved by the GNERC.
2. If any provision of these Market Rules and Agreement is held by a court or regulatory authority of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of these Market Rules and Agreement shall continue in full force and effect and shall in no way be affected, impaired or invalidated, except as otherwise explicitly provided in this Section.
3. If any provision of these Market Rules and Agreement is held by a court or regulatory authority of competent jurisdiction to be invalid, void or unenforceable, or if these Market Rules and Agreement is modified or conditioned by a regulatory authority exercising jurisdiction over these Market Rules and Agreement, the Participants shall endeavor in good faith to negotiate such amendment or amendments to these Market Rules and Agreement as will restore the relative benefits and obligations of the Participants under these Market Rules and Agreement immediately prior to such holding, modification or condition.

*Signatures of the Wholesale Market Members.*

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**ATTACHMENT 2**

**REVISED MARKET RULES**

**HAGLER BAILLY DRAFT**

**AUGUST 1999**

**DRAFT**

*Approved*  
by Resolution # \_\_\_ Georgian National  
Electricity Regulatory Commission  
\_\_\_\_\_, 1999

## **MARKET RULES**

### **Participants Agreement for Georgian Wholesale Electricity Market**

Tbilisi  
September \_\_\_ 1999

## Preamble

1. The presented agreement of the members of the Georgian Wholesale Electricity Market (hereinafter referred to as an Energy Market) is made in Tbilisi, May \_\_, 1999, according the decision of general meeting of the companies existing within the Georgian electricity sector.
2. The legal persons (licensees), which signed the presented agreement, are becoming the members of the Energy Market, fully and unconditionally recognize the "Market Rules" and agree to conduct all their activities according to this agreement.
3. The purpose of the Agreement is to establish the wholesale electricity market in Georgia, to define its main goals and to promote restructuring of the electricity Sector.
4. "Market Rules" are developed in accordance with the Georgian Law "On Electricity and Natural Gas", The Presidential Decree #421 "On Main Principles of the Wholesale Electricity Market of Georgia", is agreed with the Ministry of Fuel and Energy and is approved by the Georgian National Energy Regulatory Commission.

## I. General Provisions

### Clause 1. Objectives and Purpose of "Market Rules"

1. The strategic objective of this document is to establish market relations within the electricity sector, to promote efficiency of electricity generation, transmission, distribution, export, import and consumption, to gradually develop competition within the sector, to create environment to attract the necessary investment and to develop reliable, fair and stable relationships among the Licensees.
2. In accordance with the above stated strategy "The Market Rules", provide with:
  - Implementation of accounting standards adequate to ongoing restructuring of the electricity sector;
  - Creation of the Energy Market's independent democratic management systems.
3. The Main Principles of the wholesale market are:
  - Independence;
  - economical reasonability and fairness;
  - guaranteed and timely payment;
  - equality of market members;
  - Transparency;

### Clause 2. Definitions

The terms used in this document have the same meaning as in Georgian Law "On Electricity and Natural Gas". Those terms that are directly related to the Wholesale Market are defined below:

- a. "Energy Market" - legal person of Private Justice, created for the purpose of management of wholesale electricity (capacity) trading and gradual development of competition.
- b. "Executive Board of the Georgian Wholesale Electricity Market" - management body of the Georgian Wholesale Electricity Market (Energy Market), which defines the main directions for development and functioning of the market, resolves disputes among market members, conducts monitoring over proper implementation of the "Market Rules" and "Wholesale Market's Technical Code".
- c. "Market Rules" - normative act on market's operation, management and financial relations among the licensees and direct consumers, which is approved by Georgian National Electricity Regulatory Commission and is mandatory for all licensees, market members and direct consumers.
- d. "Wholesale Market's Technical Code" – document prepared by the Dispatch Licensee in agreement with other Licensees and direct consumers, which defines requirements for technological operation of the wholesale market; Wholesale Market's Technical Code shall be approved by the Georgian National Electricity Regulatory Commission and is mandatory for all licensees, market members and direct consumers.
- e. "The General Director of the Georgian Wholesale Electricity Market" - person, which conducts day-to-day management of the Energy Market according to the "Market Rules" and "Wholesale Market's Technical Code and is reporting to the Executive Board. The General Director of the Wholesale Electricity Market is appointed by the Executive Board and approved by the Georgian National Electricity Regulatory Commission
- f. "The Settlement Director of the Georgian Wholesale Electricity Market" or Settlement Director- person, which defines the volume of electric energy traded through the wholesale market. and volume of transmission and dispatch services, also determines amounts due and issues relevant invoices.
- g. "The Market Funds Director of the Georgian Wholesale Electricity Market" or Market Fund Director- person, which based on information provided by the Settlement Director determines amounts due to and from market members, issues relevant invoices and collects and distributes funds received from the trading of electric energy and supply of transmission and dispatch services through the Energy Market, as well as from transmission and dispatch services.
- h. "The Director of the Georgian Wholesale Electricity Market for Economics and Development" - person, which conducts monitoring of the central economic dispatch decisions, develops issues related to the strategic development of the

- market, including but not limited to the economic forecasts and projections, supervises issues related to price formation within the Energy Market.
- i. "Settlement Period" - on shall mean, initially, the period of one calendar month.
  - j. "Energy Market Seller" - Market Members - generation and import licensees, who are in given Settlement Period deemed to be suppliers of electric energy and capacity., also transmission and dispatch Licensees, who supply transmission and dispatch services to the Wholesale Market.
  - k. "Energy Market Buyers" - Market Members – distribution and export licensees, direct consumers, which, at the Wholesale Market, define level of demand on electricity.
  - l. "Energy Market Member" or Market Member - individual or legal person, which holds generation, distribution, transmission, dispatch, export, import licenses or direct consumers.
  - m. "Georgian Control Area" shall mean the integrated electric power system to which various operating procedures are applied by or under the supervision of the Dispatch Licensee in order to:
    - (a) match, at all times, the power output of the generators within the electric power system and electric energy purchased from entities outside the electric power system, with the load within the electric power system;
    - (b) maintain scheduled interchange with other interconnected systems, within the limits of good Utility Practice;
    - (c) maintain the frequency of the electric power system within reasonable limits in accordance with good Utility Practice.
  - o. "Emergency Period" - period of time, during which electricity supply shall be limited, in order to maintain a balance between electricity demand and supply.
  - p. "Curtailement Group" - shall mean the group of customers or feeders grouped together by the dispatch Licensee for the purpose of elaboration of a Curtailement Plan.
  - q. "Curtailement Plan" - shall mean the list of Curtailement Groups, which determines order for electricity curtailement to electricity buyers and according to which electricity is curtailed to the electricity buyers during times of capacity shortages or emergency periods.
  - r. "Commission" - Georgian National Energy Regulatory Commission.

### Clause 3. Legal Status of the Market

1. Organizational-legal form of the Wholesale Market is a Union (Association) of Electricity Sector Licensees and Direct Consumers. A Union (Association) established by the members of the Georgian Wholesale Electricity Market is a legal person of the private justice, its entrepreneurial activities may have only supplementary nature and shall serve the common goals of the Wholesale Market, i.e. establishment of favorable conditions for development of competition.
2. The signatories to these Market Rules and Agreement shall not become partners by reason of these Market Rules and Agreement or their activities hereunder, but as to each other and to third persons, they shall be and remain independent contractors in all matters relating to this Agreement. This Agreement shall not be construed to create any liability on the part of any signatory to anyone not a party to this Agreement. Each signatory shall retain its separate identity and, to the extent not limited hereby, its individual freedom in rendering service to its customers.

## II. Establishment of the Energy Market

### Clause 4. Membership (Participation)

1. All Individuals or Legal Persons connected to or capable of being connected to the Transmission Grid for the purpose of supplying electricity and who have been issued a Generation License will be required to be a member of the Georgian Electricity Market (Wholesale Market).
2. All Individuals or Legal Persons who receive electricity at a wholesale delivery point for the purpose of resale and who have been issued a Distribution License will be required to be a member of the Energy Market.
3. All Individuals or Legal Persons connected to or capable of being connected to a Wholesale delivery point for the purpose of receiving electricity for only their own consumption will be required to be a member of the Energy Market.
4. All Individuals or Legal Persons who receive electricity at a wholesale delivery point for the purpose of resale to a Distribution Licensee, Direct Consumer or foreign entity and who have been issued either an Export or an Import Licenses will be required to be a member of the Energy Market.
5. All Individuals or Legal Persons who hold a transmission license shall become a member of the Energy Market.
6. Legal Person who holds Dispatch License shall become a member of the Energy Market.
7. Any other Entity which is eligible to be engaged, or proposes to engage in the wholesale or retail electric power business in Georgia may, upon compliance with such reasonable conditions as the Georgian National Energy Regulatory

Commission and the Executive Board of the GWEM may prescribe, shall become a Member.

8. Energy Market membership will be limited to Georgian Individuals and/or Legal Persons.
9. On initial stage of the establishment of the Energy Market Establishment, the first stage for membership is candidate's participation in founding meeting of the Union (Association) and signing of the Agreement. After signing the Agreement the Executive Board makes a decision on acceptance of the candidate, based on candidate's conformity with the terms applied to the Market member.
10. The Wholesale Market members shall pay membership fee, amount and form subject to be determined by the Executive Board and approved by the Regulatory Commission.
11. Noncompliance with the "Market Rules", "Wholesale Market's Technical Standards", legitimate requirements of the General Director, Executive Board of the Wholesale Market and the Commission, may cause suspension of the Wholesale Market's Membership.
12. In cases of violation of the "Market Rules" requirements and of other regulating documents, or if disputes occur, that fall beyond the jurisdiction of the Executive Board and the Commission, then the case shall be brought before the Georgian Court.

#### **Clause 5. Establishment of the Energy Market**

1. The Energy Market is established and creation of its structures finished after the date the Agreement is signed. Decision on establishment of the Wholesale Market Member's Union (Association) is reflected in the protocol of the General Meeting.
2. Guarantee for Wholesale Market Member's compliance with the "Market Rules" and "Wholesale Market's Technical Code" is the Georgian Law "On Electricity and Natural Gas", procedures for issuance and suspension of the Licenses, as well as Market Rules and other normative acts.
3. The Executive Board submits and the GNERC approves amendments to the "Market Rules", "Wholesale Market's Technical Code", or other documents related to them.
4. Person who applies for the membership in the Wholesale Electricity Market or a Market member, which may not be able to fulfill financial requirements of the Market Rules and Agreement, may be required by the Executive Board to present a bank guarantee or other kind guarantees, which the Executive Board agrees on and considers as a sufficient, for avoiding the risk of not payment of dues to other Participants.

### III. Management of the Energy Market

#### Clause 6. Executive Board

1. The Executive Board consists of 12 members:
  - three members - from Generation Licensees, with three votes;
  - one members - from Transmission Licensees, with one votes;
  - one members - from Dispatch Licensee, with one votes;
  - two members - from Distribution Licensees, with two votes;
  - one member - from Direct Consumers, with one vote;
  - General Director of the Wholesale Market, one vote;
  - one member - from the Ministry of Fuel and Energy, no vote;
  - one member - from the Ministry of Economy, no vote;
  - one member - from the Ministry of Finance, no vote;

If the representatives of all three Ministries believe, that any decision made by the Executive Board violates existing legislation, they are authorized to bring this decision to the attention of the related Ministries and the Commission. If it is necessary, such decision may be appealed to the Court.

2. At the initial stage of formation of the Energy Market the regime defined in the section 1 of this Clause shall be defined by the Georgian National Electricity Regulatory Commission (GNERC), but after the Energy Market starts operation, the Executive Board is authorized to make decision on changing the number of Board members and representation in it. In no case however shall number of voting members fall below 10 members.
3. Each member of the Executive Board is nominated by respective Market Member companies or group of Market Members, and Ministries and is appointed by the GNERC for a 5-year period.
4. Premature interruption of the terms of an Executive Board member is due in cases as follows:
  - a. if a member voluntarily resigns from the Executive Board.
  - b. member's employment is terminated by Market Member who nominated him;
  - c. if the person, for any reasons, leaves the position, which was supporting his membership on Executive board;
  - d. if the Market Member who appointed the member losses its seat on Executive Board;

- e. if accusatory decision has been taken against the member according to the Georgian legislation;
- f. if the Court recognizes the member as disabled or missing;
- g. if member consistently does not satisfactorily perform his duties;
- h. if the Executive Board votes to reduce the representation on the Executive Board.

#### **Clause 7. Performance of the Executive Board**

1. The Executive Board may petition the Georgian National Energy Regulatory Commission to approve special fees to compensate Executive Board Members for their services. The schedule of such fees shall be made available to all Market Members.
2. A Participant who is a member of the Executive Board may designate, by a written notice given to the Secretary of the Executive Board, an alternate for any member of the Executive Board appointed by such Participant. In the absence of the member, the alternate shall have all the powers of the member, including the power to vote.
3. The adoption of actions by the Executive Board shall require affirmative votes by voting members aggregating at least 60% of the number of votes of members present. Eight voting members present shall constitute the quorum.
4. At its annual meeting, the Executive Board shall elect from its voting members a Chairman. The Executive Board shall at that meeting also elect a Secretary who need not be a member of the Executive Board.

The GNERC shall approve the First Chairman of the Board. It is desirable to elect a new Chairman every year *provided* that the new Chairman will represent another sub-sector of the Electricity Sector.

5. The Chairman of the Executive Board has one vote. The Chairman is responsible for organization of the Executive Board's meetings.
6. The Executive Board shall hold its annual meeting in December or January at such time and place as the Chairman shall designate and shall hold other meetings in accordance with a schedule adopted by the Executive Board or at the call of the Chairman. Any two members may call a special meeting of the Executive Board in the event that the Chairman shall fail to call such a meeting within three business days following the Chairman's receipt, from at least one of such members, of a request specifying the subject matters to be acted upon at the meeting. Any regular or special meeting of the Executive Board may be conducted in person face to face, or by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other.

7. Written notice of each meeting of the Executive Board shall be given to each member of the Executive Board, not less than three business days prior to the date of the meeting. The notice shall specify the principal subject matter expected to be acted upon at the meeting.
8. Any Participant may appeal to the Georgian National Energy Regulatory Commission any action taken by the Executive Board. Such an appeal shall be taken prior to the end of the tenth business day following the meeting of the Executive Board. to which the appeal relates, by giving to the Commission and to the Secretary of the Executive Board a signed and written notice of appeal and by mailing a copy of the notice to each member of the Executive Board. Pending action on the appeal, the giving of a notice of appeal as aforesaid shall suspend the action appealed from.
9. The Executive Board shall have the power and authority to establish after commencement of the Energy Market operation of other committees and working groups, subordinated to the Executive Board to manage at the Executive Board's direction various areas of market activities.
10. At each annual meeting, the Executive Board shall adopt an Energy Market budget for the ensuing calendar year. In adopting budget the Executive Board shall give due consideration to the budgetary requests of each committee and General Director of the Wholesale Market. The Executive Board may modify Wholesale Market budget from time to time after its adoption.

The first year budget of the Board shall be approved by the GNERC upon its submission by the Executive Board.

11. The Executive Board shall appoints the General Director of the Wholesale Market (General Director) for 5 year period and at his nomination, approves Settlement Director, Market Funds Director and Director of Economics and Development.
12. The Executive Board considers main normative documents, including "Market Rules" and "Technical Code", presented by the General Director and prepared by the relevant working committees, and then presents them to the GNERC for its approval.
13. The meetings of the Executive Board are called once in a month.
14. Responsibilities of the Executive Board:
  - a. The Executive Board shall have the duty and requisite authority to administer, enforce and interpret the provisions of these Market Rules and Agreement, in order to accomplish the objectives of Market Rules;
  - b. The Executive Board, after consultation with the relevant Committees, General Director and Dispatch Licensee, shall establish standards, which will define

relations between the Market Members, also between Market Members and other Entities;

- c. The Executive Board is authorized to appoint a Dispute Resolution Committee, which shall consider disputes between the Market Members, as well as between governing bodies of the Energy Market. The Executive Board may take any other action, if it determines that such action is necessary or appropriate to achieve a prompt resolution of disputes;
- d. The Executive Board shall have such further powers and duties, as are conferred or imposed upon it, by other sections of these Market Rules and Agreement;
- e. Each member of the Executive Board or that member designee, shall be entitled to attend any meeting of any other Energy Market committee, and shall have a reasonable opportunity to express views on any matter to be acted upon at the meeting.

#### **Clause 8. The General Director of the Georgian Wholesale Electricity Market**

1. The General Director of the Georgian Wholesale Electricity Market is directing a special independent structure, which is in charge of wholesale electricity trading relations in fair and non-discriminatory manner. The General Director is reporting to the Executive Board.
2. The General Director of the Wholesale Market, according to "Market rules":
  - a. monitors operation of the wholesale bulk power market on a day by day basis;
  - b. directs activities related to preparation, consideration and submission of "market Rules", also monitors the process associated with changes and amendments to it;
  - c. between the meetings of the Executive Board considers and makes decisions on issues related to the operation and development of the Energy Market;
  - d. within its competency represents the Wholesale market;
  - e. appoints, with the Executive Board's approval, the Settlement Director, the Market Funds Director and the Director of Economics and Development, the other authorized persons and the staff;
  - f. together with the Dispatch Licensee, approves the balances on delivery and demand on electricity within the Energy Market and makes corrections to these balances if necessary; in case of deficit announces the tender for importing of necessary amount of electricity, makes relevant decisions;
  - g. within its competency, informs GNERC on violation of the License requirements by the Licensees;
  - h. conducts monitoring of compliance with the "Market Rules" by Market Members within the Wholesale Market;
  - i. according to approved budget, independently sets salary and bonus rates;
  - j. directs activities related to the forecast of the Energy Market's operation and development;
  - k. within its competency, issues orders and controls their fulfillment;

1. Ensures that documentation developed by the Energy Market related to its operation are in compliance with requirements of existing legislation.. provides transparency and availability of the documents related to the Wholesale market's operation.

#### **IV. Formation of the Electricity (Capacity) Balances, Distribution and Dispatching**

##### **Clause 9. The Responsibilities of the Market Members**

1. Each member of the Wholesale Market shall:
  - a. in order to guarantee reliable operation of the electricity sector, the Wholesale Market member shall install, repair, maintain and operate all the facilities under its control and systematically provide the Energy Market with the information related to the reliability of these facilities;
  - b. to the fullest extent practicable, subject all facilities and other resources owned or controlled by it to central dispatch by the Dispatch Licensee; provided, however, that each Member shall at all times be the sole judge as to whether or not and to what extent safety requires, that at any time any of such facilities will be operated at less than full capacity or not at all. Each Member may remove from central dispatch a facility or other resources owned or controlled by it, if and to the extent such removal is permitted by rules and standards approved by the Executive Board, or, if in the Market Member's judgment, financial difficulties limit his ability to ensure safe and reliable operation of facility.
  - c. Each Member shall, to the fullest extent practicable:
    - restore such facilities to good operating condition with reasonable promptness;
    - accelerate or delay maintenance and repair at the reasonable request of the Dispatch Licensee or the General Director in accordance with market operation procedures, approved by the General Director and Executive Board.
2. The day-to-day scheduling and coordination through the Dispatch Licensee of the operation of generating units and other resources, shall be designed to assure the reliability of the Georgian bulk power system at the lowest practicable cost.

##### **Clause 10. Dispatch and Scheduling**

1. The Dispatch Licensee shall:
  - a. be responsible for scheduling and dispatching the power system such that the frequency, voltage and quality of electrical supply meet the requirements specified in the Technical Standards;

- b. at any time balance electricity supply, transmission and demand;
  - c. be responsible for preparation and implementation, in cooperation with the Energy Market and in accordance with the principle of economic dispatch, a daily schedule of electric energy supply (Generation, Import). Such schedules shall meet consumer demand, as well as exports and necessary reserve requirements;
  - d. satisfy requirements of the Energy Market, regarding reduction, partial reduction or discontinuation or increase of electricity supply services to Distribution Companies and Direct Consumers, depending on payments for energy received from the wholesale market.
  - e. satisfy requirements of Energy Market, regarding economical reasonability and fairness of electricity generation, import, export, distribution and direct consumption.
2. Energy Market members, who in accordance with Clause 9.1.b subjected its facilities to the central dispatch, shall unconditionally fulfill orders issued by the Dispatch Licensee within its competency, and if dispute occurs, to reach a resolution in accordance with resolved according to set rules.
  3. By the end of each day, the Dispatch Licensee shall provide the Energy Market with all orders, which were issued during the day, as well as all changes, made in the preliminary prepared application.

### **Clause 11. Day to Day Scheduling**

1. At no later time than 09:30 of each day each Generation and Import Licensees shall submit to the Energy Market and Dispatch Licensee, with respect to each generating block and direct contract, an availability declaration for the following day. The availability declaration shall represent projected capability of each generating block and direct contract to supply electric energy for the following day. If any generator fails to submit for any generating block or direct contract any data in accordance with this section, the Energy Market and Dispatch Licensee shall assume that the generating block and/or direct is unavailable and shall proceed in the unit commitment and settlement computations accordingly.

2. In conformance with established procedures, a Generation or Import Licensee may submit to the Energy Market and the Dispatch Licensee a revised availability declaration with respect to each generating block and direct contract the availability or flexibility of which has been changed since the time of the most recent declaration.

If the Dispatch Licensee finds that actual availability of any generation block is below its declared availability, it shall unilaterally redeclare the availability of this resource to its actually demonstrated value, and immediately relay this information to the Energy Market and concerned Market Member(s).

3. At no later time than 9:30 of each day buyers under direct contracts and Import and Export Licensees should provide their respective hourly delivery schedules to the Energy Market and to the Dispatch Licensee to be included for the following day unit commitment.

#### **Clause 12. Direct Contracts**

1. There shall be direct contracts allowed between:
  - Distribution Licensees and Generation Licensees;
  - Distribution Licensees and Import Licensees;
  - Generator Licensees and Export Licensees;
  - Generator Licensees and Direct Consumers;
  - Import Licensees and Direct Consumers.
2. The General Director of the Georgian Wholesale Electricity Market in consultation with Dispatch Licensee, shall submit to the Executive Board for approval special procedures, describing criteria which Licensees must satisfy to be eligible to engage in direct contracts. Such procedures shall determine amount of MW each generating plant can dedicate to direct contracts. These special procedures shall be approved by the GNERC.
3. Notwithstanding provision 2, no Distribution, Export, Trader Licensee, or Direct Consumer shall be allowed to enter into direct contracts, if such Licensee or Direct Consumer has an outstanding payment obligation to the Wholesale Market, or Transmission or Dispatch Licensee which is past due. Receiving electric power under direct contract does not release a buyer under such contract, from payment obligations to the Transmission and Dispatch Licensees, based on the respective tariffs, and from payment obligations to the Energy Market for the balance of energy requirements.
4. Parties to direct contracts bear full responsibility to provide to the Settlement Director and the Dispatch Licensee with all relevant information to assure that these contracts can be physically implemented and correctly reflected in the settlement.

#### **Clause 13. Curtailment and Emergency Period**

1. Due to possible capacity and energy deficit in Georgia, the Energy Market shall have a plan for actions in case of capacity (energy) deficiency.
2. Under the plan for actions in case of capacity (energy) deficiency the Energy Market together with the Dispatch Licensee prepares Curtailment schedule Plan, which shall define amount of electricity to be curtailed during different regimes of expected deficit. The Curtailment Schedule (Plan) shall be agreed with the Executive Board and approved by the GNERC.
3. During the implementation of the Curtailment Plan the careful consideration shall be given to the Buyer's background in terms of payment for consumed electricity.
4. The Dispatch Licensee conducts its activities according to approved Curtailment Plan.
5. The Curtailment Plan shall specify that those who have an outstanding payment obligations are disconnected first.
6. The Ministry of Fuel & Energy determines certain customers who shall not be included in the Curtailment Plan as a matter of national security policy and shall not be disconnected, except in cases when disconnection is caused by non-payment for consumed electricity. The Security Council of Georgia shall approve the list of such customers.
7. The Energy Market is authorized and may at its discretion to conduct seasonal auctions among the Distribution Licensees and Direct Consumers Wholesale Market Buyers for positions on the Curtailment List for the season. The highest bid of the electricity buyer will secure the highest position on the Curtailment List and be the last Curtailment Block to lose electrical supply. The lowest bid will be in the first position on the Curtailment List and be cut off first. All submitted bids shall be adjusted by the factors reflecting bidders history of payment for the energy and services received through the Energy Market, to assure that the bidder with a higher bid, but a poor payment history does not receive advantage before the bidder who submitted lower bid, but has a good payment history. Before (if any) auction takes place, the General Director shall develop and submit for Executive Board approval a detailed procedure for the auction, which then has to be approved by the Commission. Amounts collected from the auction shall be held in a separate account. The Executive Board of the Energy Market shall prepare a plan for the use of such amounts. The Energy Market shall publish the Curtailment List.
8. The Dispatch Licensee may declare an Emergency Period when due to the unexpected failure of generating or transmission equipment, the Dispatch Licensee may not be able to maintain a balance between supply and demand.
9. During an Emergency Period, the Dispatch Licensee may order the Generation and the Transmission Licensee to cancel maintenance outages and may request from the Wholesale Market Members compliance with the requirements of the emergency situations.

## V. Terms for the Connection to the Transmission and Distribution System

### Clause 14. Connection to the Transmission System

1. Transmission Licensees will connect to their Transmission system any Generator Licensee, Distribution Licensee, Import Licensee, Export Licensee or Direct Consumer in a manner that will meet their needs, provided that the entity requesting connection is a Wholesale Market Member and meets relevant technical standards.
2. Transmission Licensees and Dispatch Licensees shall prepare an investment plan that details new transmission facilities that will be necessary to construct within the next five years and submit that plan to the Georgian National Energy Regulatory Commission for approval.
3. The Transmission Licensee will require the entity requesting connection to pay for the costs of connection and a reasonable costs for any new transmission facilities specifically required by that connection with consideration of potential benefits of such facilities to other transmission users. and submit to the Georgian National Energy Regulatory Commission for approval.
4. Transmission Licensees will have the right to terminate service to any Wholesale Market Member under the procedures prepared by the Georgian National Energy Regulatory Commission in accordance with the Georgian Law "On Electricity and Natural Gas".

### Clause 15. Connection to the Distribution System

1. Distribution Licensees will connect to their Distribution System any customer that meets relevant technical standards and financial criteria, as determined by the existing legislation.
2. Distribution Licensees may require the customer requesting connection to pay for the costs of connection and a reasonable costs for any new transmission facilities specifically required by that connection with consideration of potential benefits of such facilities to other distribution system users. These costs shall be approved by the Commission.

3. Distribution Licensees will have the right to terminate service to customers under the Georgian Law "On Electricity and Natural Gas", "Market Rules", "Technical Code" or the procedures approved by the Georgian National Energy Regulatory Commission.

## **VI. Finances of the Wholesale Market**

### **Clause 16. Membership Fees**

1. The management bodies and the staff of the Georgian Wholesale Electricity Market Member's Union (Association) are financed by the membership fees, also through income allowed by Georgian Legislation.
2. Amount of the membership fees shall be determined according to the needs of the management bodies and the staff of the Energy Market and is approved by the GNERC upon Executive Board's submission.
3. Membership fees are accumulated in an Energy Market's account and their disposal shall be conducted according to the approved budget.
4. During the year, each member shall pay to the Energy Market annual membership fee in accordance with the set rules.
5. Members of the Energy Market shall, together with the General Director, establish fees that fairly allocate the Energy Market costs not reflected in the annual budget approved by the Executive Board. These kinds of fees shall be paid directly by participants and non-participants responsible for such costs. The balance of the Energy Market expenses remaining to be paid after the application of (i) the annual membership dues to be paid, and (ii) any fees or other charges for services or other revenues received by the Energy Market, shall be allocated among and paid monthly by the Market Members in accordance with the methodology approved by the Executive Board to compute membership dues.

### **Clause 17. Other Revenues**

The other revenues of the Wholesale Market may be grants, donations, budgetary resources (received through the State programs) and etc.

## **VII. Financial System of the Electricity Sector within the Energy Market.**

**Clause 18. Special Transfer Account of the Energy Market.**

1. In accordance with Clause 19, The Energy Market shall set a special transit bank accounts which accumulates all the finances paid by the Energy Market Buyers according to "Market rules".
2. Transfer of amounts from special account to the Energy Market Sellers, is conducted systematically, according to preliminarily prepared formula, approved by the Executive Board and known to the Energy Market Members. This formula is based on information provided by the Settlement Director concerning the amount of energy (capacity) and services supplied to the market, their wholesale tariffs and equality of all the Sellers.

**VIII. Electricity Metering and Settlement**

**Clause 19. Electricity Metering**

1. In order to conduct accurate settlement for electricity, facilities of all the Energy Market Members shall be equipped with reliable data acquisition equipment. The meters shall be installed at delivery and receiving points according the to Technical Standards.
2. All kind of meters shall be in compliance with Technical Standards and be recorded in State Register for Metering Equipment. All the meters shall be installed according to the set rules for installment of electric equipment.
3. The Wholesale Market Members are legally and financially responsible for security, damage or accuracy of the meters they own.
4. The Wholesale Market Members shall, at any time, provide with unrestricted access for the Energy Market's representatives to the metering equipment.
5. The Dispatch Licensee, other Licensees shall, according to set rules, provide the Energy Market with the relevant information on metered information.

**Clause 20. Settlement**

1. Settlement Period shall mean the period of one calendar month, or some other period as the Executive Board may designate.
2. Within 5 business days after the end of the settlement period, the Settlement Director shall:
  - a. determine for each Market Member amount of energy supplied to/purchased from the Energy Market and from Direct Contracts, including, if necessary,

- adjustments for losses, and adjustments from previous settlement periods, if any:
- b. Submit this information to the Market Fund Director for invoicing and funds disbursement.

3. The Wholesale Market Members shall, within three days after the end of the settlement period, notify the Settlement Director:
  - a. on amount of delivered or received electricity within the settlement period. The authorized representative of the Energy Market shall affirm the notification.
  - b. on amount of electricity purchased or sold through the Direct Contracts.
3. If such information is not timely provided, the Wholesale Market Member shall bear responsibility according to set rules.
4. If mistake was made in electricity metering, the data recalculation shall be made according to that specific period, when the last technical inspection of the meter was conducted.

#### **Clause 21. Invoicing and Funds Disbursement**

1. Invoicing and fund disbursement is conducted by the Market Fund Director, who is responsible:
  - a. for presenting invoices prepared according to the information received from the Settlement Director no later than on the 7<sup>th</sup> business day after the end of the settlement period.
  - b. for disbursement of funds to Energy Market Sellers and other entities which supplied energy and/or other services to the Energy Market.
2. The Energy Market Buyer shall fully pay for the received electricity no later than the 10th business day after the invoice from the wholesale market is received in order to avoid delinquency. The Energy Market Buyer who serves customers, subsidized by the Government of Georgia, and customers, that are entities of the Government of Georgia, and to whom subsidies payments and/or payments for service provided during particular settlement period were not made in full or in part, may pay less than the full amount due by the amount of governmental delinquency without being found delinquent, provided that such claim is properly supported.
3. If the Energy Market Buyer violates provision 2 of this Clause, General Director shall issue to the Dispatch Licensee an order to suspend service to this buyer.

4. If the Energy Market Buyer violates provision 2 of this Clause, General Director is authorized to impose a late payment fee and/or fine in the amount to be set by the Executive Board.
5. The Market Members are not financially responsible for non-fulfillment of their obligation in case of Force Majeure events. Any Market Member claiming Force Majeure shall promptly notify the General Director of such claim.
6. The Energy Market Buyers shall make at the request of the General Director credit deposit or letter of credit at the Bank, within 5 (five) days after such request is received, or shall provide other acceptable guarantees in order to establish its creditworthiness, if such credentials are required by the Executive Board. This amount shall not be less than the cost of 33% of the estimated average monthly consumption of the electric energy by the particular Energy Market Buyer.
7. If the Wholesale Market Members do not make payment or do not make such credit deposit, the Executive Board may request that Commission withdraw the License from that particular Licensee.

**Clause 22. Responsibility of the Market Funds Director.**

1. Market Funds Director is responsible:
  - a. for issuing invoices prepared in accordance with the information received from the Settlement Director on the 7<sup>th</sup> business day after the end of the Settlement Period;
  - b. for distribution of amounts, received from the Energy Market Buyers, among the Energy Market Sellers, and, as applicable, to Transmission Licensee and Dispatch Licensee;
  - c. for conducting settlement from depository account, if the amount was not received from the Energy Market Buyers;
  - d. if the payment for the consumed electricity is not made by Energy Market Buyers, during 20 business days after the end of the settlement period, the Market Fund Director shall immediately notify General Director.

**Clause 23. Data Collection, verification and payments computation methodology.**

1. It is the responsibility of Market Members and a Dispatch Licensee to provide the Settlement Director daily with all metered data related to actual system operation in order to assure accurate and timely settlement.
2. The amount of energy, generated, consumed, imported and exported shall be determined on the basis of metered data.
3. The Settlement Director, using appropriate software where necessary, shall collect metered data; validate metered data; update standing entries; and adjust and summarize the metered data for generation and consumption.

4. The following variables shall be determined on the basis of the metered data values for each Settlement Period:

AG - Block Actual Generation;

AAG - Block Adjusted Actual Generation, equals AG less own usage consumption

SD – Actual consumption of Distribution and Export Licensees, and Direct Consumers;

IF - Interconnection Flows.

5. All metered data shall be adjusted to take into account losses. Metered data from generators may need to be adjusted to determine the Adjusted Actual Generation (AAG).
6. In order to verify the accuracy of the received data, the Dispatch Licensee or any person authorized by him and Settlement *Director*, or any person authorized by him, have the right to enter premises of the market participants in order to inspect all the metering equipment and their compliance with the Technical Standards.
7. By the fifth business day of each Settlement Period, the Settlement *Director* shall determine who among the market participants has payment obligations with regard to energy deemed to be purchased through the wholesale market in the previous Settlement Period, Market Fund Director based on this information and methodology described in Section 9 below shall by the seventh business day of each Settlement Period compute amounts due from each of such participants and issue itemized invoices.
8. By the fifth business day of each Settlement Period, the Settlement *Director* shall determine to whom among the market participants payments are due with regard to energy deemed to be sold through the wholesale market in the previous Settlement Period, Market Fund Director based on this information and methodology described in Section 10 and 13 below shall by the seventh business day of each Settlement Period compute amounts due to each of such participants and issue itemized payment statements. The Market Fund Director if necessary should also compute the amount of payments due to Transmission and Dispatch Licensees in accordance with provisions of Sections 11 and 12 below and issue respective statements.
9. Payments due from Distribution and Export Licensees and Direct Consumers shall be computed as follows:

$PMNT = (TE - DCE) * Ta + TE * (Tt + Td)$ , where:

PMNT - is payment due in Georgian Lari;

TE - is total energy consumed in the settlement month; adjusted for transmission losses, in megawatthours;

DCE - is energy received in the settlement month under direct contracts; adjusted for losses, in megawatthours;

Ta - is applicable energy tariff, in Georgian Lari per megawatthour;

Tt - is applicable transmission tariff, in Georgian Lari per megawatthour;

Td - is applicable dispatch tariff, in Georgian Lari per megawatthour.

10. Payments due to Generation, Import, and Trading (if sellers) Licensees and Direct Consumers should be computed as follows:

$PMNT=(AAG-DCE)*T_{gi}$ , where:

PMNT - is payment to be paid to selling participants, in Georgian Lari;

DCE - is energy sold under direct contracts in the settlement month, in megawatthours;

AAG - is energy generated or imported in the settlement month, adjusted if applicable for own usage consumption, in megawatthours;

$T_{gi}$  - is applicable respective generation or import tariff, in Georgian Lari per megawatthour.

11. Payments due to Transmission Licensee should be computed as follows:

$PMNT=TE*T_t$ , where:

PMNT - is payment to be paid to Transmission Licensee, in Georgian Lari;

TE - is total energy consumed in the settlement month, adjusted for transmission losses, in megawatthours;

$T_t$  - is applicable transmission tariff, in Georgian Lari per megawatthour.

12. Payments due to Dispatch Licensee should be computed as follows:

$PMNT=TE*T_d$ , where:

PMNT - is payment to be paid to Dispatch Licensee, in Georgian Lari;

TE - is total energy consumed in the settlement month, adjusted for transmission losses, in megawatthours;

$T_d$  - is applicable dispatch tariff, in Georgian Lari per megawatthours.

13. If for any reason by the due date for disbursements of funds there are a shortage of funds in the settlement account, the Market Fund Director shall immediately notify the General Director and the Executive Board and generally determine the amount to be paid to each Market Member to whom payment is due, as follows:

$PMNTA=TFA * PDP/SPD$ , where:

PMNTA - is payment in Georgian Lari, available to Energy Market Seller;

TFA - is total amount of funds in Georgian Lari, available for payments;

PDP - is payment in Georgian Lari, due to Energy Market Sellers, if there was no shortage of funds;

SPD - is a sum, in Georgian Lari, of payments due to all Energy Market Sellers if there was no shortage of funds.

If, however, at least part of the shortage is caused by the failure of the Government of Georgia to properly reimburse the Energy Market Buyer as described in Clause 21 section 2. that shortage shall be fully allocated among Energy Market Sellers who are Government of Georgia entities, without affecting other Energy Market Sellers.

In this case the payments due shall be calculated as follows:

$PMNTANG = (TFA + GDF) * PDPNG / SPD$ , and

$PMNTAG = (TFA + GDF) * PDPG / SPD - GDF * PDPG / SPD$ , where:

PMNTANG - is payment in Georgian Lari, available to Energy Market Sellers who are not Government of Georgia entities;

PMNTAG - is payment in Georgian Lari, available to Energy Market Sellers who are Government of Georgia entities;

TFA - is total amount of funds in Georgian Lari, available for payments;

GDF - is amount of the shortage of funds, in Georgian Lari, attributable to governmental delinquency;

PDPNG - is payment in Georgian Lari due to Energy Market Sellers who are not Government of Georgia Entities, if there was no shortage of funds;

PDPG - is payment in Georgian Lari due to Energy Market Sellers who are Government of Georgia Entities, if there was no shortage of funds;

SPD - is a sum, in Georgian Lari, of payments due to all Energy Market Sellers if there was no shortage of funds;

SPDG - is a sum, in Georgian Lari, of payments due to all Energy Market Sellers who are Government of Georgia entities, if there was no shortage of funds.

Payment of these computed amounts shall be conducted as specified in Section 10.

14. The General Director and the Market Fund Director should provide to the Executive Board, on a monthly basis, an itemized schedule that shows detailed flow of funds to and from the settlement account.

## **IX. Necessary Data for Market Functioning**

### **Clause 24. Data**

1. Each wholesale market member shall present following data to the wholesale market and Dispatch Licensee:

Data required from all market members:

- a) Full Name of the Participant;  
Type of activity (form of ownership);  
Address of the participant (full address).
- b) Thermal plants:  
Name of the plant;  
Number of the unit;  
Location of the unit's meter;

Installed capacity of the unit;  
Unit's minimum load;  
Unit's thermal characteristics;  
Information on direct contracts (if any);  
Type and price of fuel.

- c) From hydro plants:
  - Name of the Plant;
  - Number of the plant;
  - Installed capacity;
  - Energy constraints;
  - Location of the plant's meter;
  - Information on direct contracts (if any);
- d) From Distribution, Trade, Export and Import Licensees:
  - Electricity receiving point in the grid;
  - Metering point;
  - Information on direct contracts (if any);
- e) From Direct Consumers:
  - Electricity receiving point in the grid;
  - Metering point;
  - Information on direct contracts (if any);

- 2. In order to provide accurate information each Market Member shall make periodical adjustments to above data. The Settlement Director and the Dispatch Licensee shall make appropriate amendments to their databases within two days after receiving such adjusted information.

## X. Dispute Resolution

### Clause 25. Dispute Resolution Procedures

- 1. If the Market Member is aggrieved by a vote of the Executive Board to approve, modify or reject a proposed action under these Market Rules and Agreement, it may submit the matter for resolution hereunder, if the vote:
  - (a) requires such Market Member to make a payment or to take any action pursuant to these Market Rules and Agreement; or
  - (b) reduces the amount of any receipt or forbids, pursuant to these Market Rules and Agreement, the taking of any action by the Market Member; or
  - (c) fails to afford it any right to which it believes it is entitled under the provisions of these Market Rules and Agreement or imposes on it a burden to which it is not subject under the provisions of these Market Rules and Agreement; or

(d) results in the termination of the Market Member's status as a Market Member or imposes any penalty on the Market Member; or

(e) fails to grant in full an application for transmission service.

Any Market Member with respect to any such matter shall initiate no legal or regulatory proceeding, while proceedings are pending under this Clause with respect to the matter.

2. The Market Member seeking review of a vote of the Executive Board shall give written notice to the Secretary of the Executive Board within ten business days of the vote, each member of the Executive Board shall be provided with a copy of the notice. The provider of notice under this Clause shall be referred to herein as the "Aggrieved Party."
3. If the Market Member seeks review of a vote of the Executive Board pursuant to this Clause, the vote to be reviewed shall be suspended for up to 30 days following the giving of the Market Member's notice, unless the Executive Board determines that the suspension will imperil the stability or reliability of the Georgian Wholesale Electricity Market.
4. If the subject of the dispute is a payment due from the aggrieved Market Member, that Market Member shall pay an amount which is not in dispute in accordance with established procedures, and shall within 3 business days after the notice in accordance with section 2 of this Clause is given, deposit the amount of payment which is in dispute to specially established trustee account. The money from this account shall be disbursed after dispute is resolved either in accordance with the decision of an arbitrator pursuant with provisions of this clause, or by a mutual consent between aggrieved Market Member and Executive Board, if the matter is settled before an arbitrator renders his decision.
5. The aggrieved Market Member and the Executive Board shall attempt to choose by mutual agreement a single neutral arbitrator to hear the dispute. If the Market Member and the Executive Board fail to agree upon a single arbitrator within seven calendar days of the giving of notice of arbitration to the Secretary of the Executive Board, each party shall be asked to appoint an arbitrator, and then these two arbitrators will select the third arbitrator. In either case, the arbitrator(s) shall be knowledgeable in matters involving the electric power industry, and shall not have any business or financial relationships with the Energy Market or its members (other than previous experience as an arbitrator), unless otherwise mutually agreed by the aggrieved Market Member and the Executive Board.
6. Each party shall be responsible for the following costs, if applicable:
  - (a) its own costs incurred during the arbitration process: plus
  - (b) One half of the common costs of the arbitration including, but not limited to, the arbitrator's fee and expenses, the rental charge for a hearing room and the cost of a court reporter and transcript, if required.

6. Unless otherwise mutually agreed, the site for all arbitration hearings shall be the office of the Energy Market.
7. The Aggrieved Party shall provide the arbitrator(s) with a brief written statement of its complaint and a statement of the remedy or remedies it seeks, accompanied by copies of any documents or other materials it wishes the arbitrator(s) to review. The Executive Board will provide the arbitrator(s) with a copy of these Market Rules and Agreement and all relevant implementing documents, a brief description of the action being arbitrated, copies of the minutes of all Executive Board meetings at which the matter was discussed, a brief statement explaining why the Executive Board believes its decision should be upheld by the arbitrator, and copies of any documents or other materials the Executive Board wishes the arbitrator to review. These submissions shall be made within three days after the selection of the arbitrator. In addition, each party shall designate one or more individuals to be available to answer questions the arbitrator may have on the documents or other materials submitted by that party. The answers to all such questions shall be reduced to writing by the party providing the answer and a copy shall be furnished to the other party.
8. A hearing will be held no later than seven business days after the selection of the arbitrator(s) and shall be limited to issues raised in the pre-hearing filings. The scheduling of further hearings shall be within the sole discretion of the arbitrator(s)
9. The arbitrator's decision shall be due, unless the deadline is extended by mutual agreement of the aggrieved Market Member and the Executive Board, within five days of the hearing or within thirty days of the Aggrieved Party's initiation of arbitration, whichever occurs first. If there is a board of arbitrators, the decision is derived by a simple majority. The arbitrator(s) shall be authorized only to interpret and apply the provisions of these Market Rules and Agreement and the arbitrator(s) shall have no power to modify or change the Agreement in any manner.

## XI. Regulatory Oversight

### Clause 26. Regulatory Oversight

1. The Georgian National Energy Regulatory Commission will approve the Wholesale Market Rules, monitor the performance of the Energy Market and serve in an oversight role at all times, to ensure that the market matures and moves toward the competitive goals set forth in the Georgian Law "On Electricity and Natural Gas".
2. The Georgian National Energy Regulatory Commission will approve generation, transmission, dispatch, distribution and retail tariffs after the establishment of the Energy Market.

3. During *those* phases of the *Energy* Market *which require usage of* wholesale tariffs, the Georgian National Energy Regulatory Commission will approve the electricity price determination principles and methodology.

## XII. Final Provisions

### Clause 27. Final Provisions

1. Presented Market rules and Agreement, as well as attached documents, *if any*, may be amended from time to time, according *to the* procedures, which shall be agreed with all *Market members* and approved by the Executive Board. Any *kind of* amendment to the Market Rules and Agreement shall be approved by the Commission. Amendments shall be presented in written form and, *if approved*, shall come into effect on the date indicated in it, *or upon approval, whichever is later*. The different methodological and instructional documents, which particularize the procedures and rules for specific *Energy* Market transactions, shall be prepared in accordance with the Market Rules and *are* approved by the GNERC.
2. If any provision of these Market Rules and Agreement is held by a court or regulatory authority of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of these Market Rules and Agreement shall continue in full force and effect and shall in no way be affected, impaired or invalidated, except as otherwise explicitly provided in this *Clause*.
3. If any provision of these Market Rules and Agreement is held by a court or regulatory authority of competent jurisdiction to be invalid, void or unenforceable, or if these Market Rules and Agreement is modified or conditioned by a regulatory authority exercising jurisdiction over these Market Rules and Agreement, the *Market Members* shall endeavor in good faith to negotiate such amendment or amendments to these Market Rules and Agreement as will restore the relative benefits and obligations of the *Market Members* under these Market Rules and Agreement immediately prior to such holding, modification or condition.

*Signatures of the Wholesale Market Members.*