

PN-ACJ-099

**REPORT ON LEGISLATION TO REGULATE THE
SUPPLY, TRANSPORTATION, AND DISTRIBUTION
OF NATURAL GAS**

**Georgia Oil and Gas Sector Reform
Contract No. LAG-I-00-98-00005-00
Task Order No. 5**

Final Report

Prepared for:

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

Prepared by:

Hagler Bailly
1530 Wilson Boulevard
Suite 400
Arlington, VA 22209-2406
(703) 351-0300

June 14, 1999

REPORT ON LEGISLATION TO REGULATE THE SUPPLY, TRANSPORTATION, AND DISTRIBUTION OF NATURAL GAS

Background

Hagler Bailly first prepared draft legislation providing for the regulation of natural gas in Georgia in the late summer and fall of 1997, under Delivery Order 16. The Government of Georgia (GoG) apparently lacked, however, a consensus on enacting such legislation, and it was not until December, 1998, under encouragement from The World Bank, that GoG formed a working group to prepare a draft law. The working group, the principal participants of which were representatives of the Ministries of Justice and Fuel and Energy and the Wholesale Electric Market, met every other day from the middle of December to the middle of January, with technical assistance from Hagler Bailly. By late January, 1999, the law had been through several drafts, and GoG made a decision to integrate the draft law with another item of legislation, the amendments to the Electricity Law of 1997, which were designed to authorize the Georgia Wholesale Electric Market. The two pieces of legislation were integrated by early February. The resulting package of amendments was presented to Parliament in March 1999. Parliament approved the amendments on their third reading on April 30, 1999, and President Shevardnadze signed the legislation two weeks later.

Principal Features of the Legislation

As relevant here, the amendments approved by Parliament create a new Law on Electricity and Natural Gas, consisting of a substantially overhauled Electricity Law and the new amendments devoted to the regulation of natural gas. The amendments rename GNERC the Georgia National *Energy* Regulatory Commission, which will consist, as before, of an independent agency with three commissioners appointed by the President. The legislation authorizes GNERC comprehensively to regulate the rates, terms and conditions of natural gas service through a scheme of licenses and tariffs. The Law authorizes the Commission to issue, and requires those offering service to secure licenses for natural gas supply, transportation, and distribution. GNERC will not directly regulate the price of the natural gas commodity, but it will regulate the margins of suppliers, and the rates for transportation and distribution.

Conclusion

The new Georgian Law on Electricity and Natural Gas provides for the regulation of monopoly natural gas service, which has either been unregulated, or ineffectively regulated, since the demise of the Soviets

Attachments

We attach English-language copies of the following:

Attachment A: “On Changes and Amendments in Some Legislative Acts of Georgia,” the amendments as passed by Parliament

Attachment B: The Georgian Law on Electricity and Natural Gas (the Electricity Law, with amendments integrated)

ATTACHMENT A:

**ON CHANGES AND AMENDMENTS IN SOME LEGISLATIVE ACTS OF
GEORGIA**

Georgian Law

ON CHANGES AND AMENDMENTS IN SOME LEGISLATIVE ACTS OF GEORGIA

I. Georgian Electricity Law

1. The title of the law to be amended as “Georgian Law on Electricity and Natural Gas”

2. Clause 1

a) Point 1 to be edited as follows:

“This law shall regulate relations and activities of Individuals and Legal persons in the areas of electricity generation, transmission, dispatch, distribution, import, export and consumption, as well as in the areas of natural gas supply, transportation and distribution and promotes development of the electricity and natural gas sectors in Georgia on the basis of market economy principles. The present law shall not apply to activity, which includes exploration, production, purification, processing, storage of natural gas, also to relations between the producer of natural gas and Supply Licensee and to electricity or natural gas transit through the territory of Georgia”.

b) Point 2, sub-point “a’ shall be modified as follows:

Based on a development of the competition and through the regulation of existing non-competitive market, provide establishment of the Wholesale Electricity and Natural Gas Markets and tariff systems, which shall accurately reflect economically justified electricity generation, transmission, dispatch, distribution, export, import, and consumption costs, as well as costs associated with Natural Gas transportation, distribution, supply and consumption;

c) Point 2, sub-point “b”, the wording “electricity supply” to be replaced with “electricity and natural gas supply”. In sub-point “c” the word “electricity” to be added with “and natural gas sectors”.

d) Point 2 to be added with sub-point “d”:

“d. Encourage the use of indigenous gas resources.”

e) Point 3 sub-point “a”, to add wording “and natural gas sector” after the “electricity sector”.

f) To amend sub-points “b” and “c” as follows:

b. To determine the main principles of electricity sector regulation of electricity generation, transmission, dispatch, distribution, import, export, as well as

natural gas supply, transportation and distribution licensees and consumers, and for these purposes to establish a basis for creation of independent regulatory framework.

- c. Promote growth of efficiency in the areas of electricity generation, transmission, dispatch, distribution, import, export and consumption, as well as in the areas of natural gas supply, transportation, distribution and consumption.

g) In sub-Clause “d” to replace the word “market” with “and natural gas markets”.

3. Clause 2

- a) To delete points b, f, h, q and to allow corresponding changes in numeration.
- b) Point “c” the word “Substation” to be added with “and transmission lines”. Point “c”: to replace the word ‘systems’ by “network”
- c) Point “d”: The figures "0.4 - 6.3 - 10.5" shall be changed by figures "0.4 - 6 - 10". The word “Systems” to replace with “the Grid”. After the words "...distribution facilities" the following provision shall be added: "upon Commissions permission 35 and 110 kV lines may be included in distribution network, provided, that these lines are not intended for purposes of systems or international transit of electricity (capacity). The same terms shall apply to natural gas distribution network, which includes 1.2 - 0.6 - 0.3 - 0.005 M Pascal pressure pipes"
- d) Point “e”: before the wording “to receive energy” to add the wording “to operate distribution networks”; after the wording “and distribute” to add “and sell”; after the wording “area” to add “or certain distribution network”.
- e) Point “g”; the words “import, export” to be added after the word "distribution". In the beginning of the second sentence to add the following words: "Upon Commission’s approval...".
- f) Point “j”: after the wording “dispatch license” to add the wording “export, import, or natural gas supply, transportation and distribution license”.
- g) Point “k” Licensee shall mean a legal Person or an Individual, who owns one or more licenses determined by the present law”.
- h) Point “l”: to be added at the end of sentence with the wording: “or a point, where a natural gas transportation licensee, within the transportation system, receives natural gas, including imports”.
- i) Point “m”: to be added at the end of sentence with the wording: “or a point, where a natural gas transportation licensee, from the transportation system, supplies natural gas to its distribution licensee, direct consumer or foreign energy systems”.

j) Point “n” to be edited as follows:

"Direct Consumer - shall mean an Natural or Legal person, which receives electricity or natural gas directly from the transmission grid, generation licensee, transportation system, and is not a Distribution Licensee".

k) Point “o” to be edited as follows:

“Regulatory Fee” shall mean a fee to be annually imposed to generation licensee, transmission licensee, dispatch licensee, import licensee, export licensee, distribution licensee, natural gas supply licensee, transportation licensee, distribution licensee, such fee designed to cover the expenses of the Commission’s activity.

l) The following definitions shall be added to this Clause:

- l. “Export License” shall mean a permit granted by the Commission under this Law to sell electricity and capacity outside of Georgia from the delivery points.
- m. "Import License" shall mean a permit granted by the Commission under this Law to receive electric capacity and energy deliveries from the source external to Georgia at one or more reception points at the Georgian border for reselling and/or self-consumption purposes."
- n. "Georgian Wholesale Electricity Market" (briefly - El. Market) shall mean an independent, non-governmental Legal Person of private justice, created with a purpose of gradual development of the competition within the electricity sector”.
- o. "Executive Board of the Georgian Wholesale Electricity Market" shall mean body wholesale electricity market's management body, which defines main directions of the Wholesale Market's operation and development, settles disputes between the Market Members, monitors implementation of the requirements of the "Market Rules" and "Technical Standards."
- p. “General Director of the Georgian Wholesale Electricity Market – shall mean a person which conducts direct management of the electricity market according the Market Rules and the Grid Code, and shall be accountable to the Executive Board. The General Director is appointed by the Executive Board and approved by the Commission.”
- q. "Market Rules" shall mean a legal act regulating operation, management of the Wholesale Market, as well as commercial inter-relations among the licensees. Market Rules shall be approved by the Commission and shall be mandatory for all Licensees, Market members and Consumers."
- r. “Technical Standards” shall mean a document, developed by a Dispatch Licensee in conjunction with other licensees and which determine technical requirements of the functioning of the Wholesale Market. Technical Standards shall be approved by the Commission and shall be mandatory for all the Licensees, Market Members and Consumers."

- s. "Natural Gas" or "Gas" shall mean hydrocarbons which are in a gaseous state at an pressure of 1.2 M Pascal and at a temperature of 20 degrees Celsius ("C") and have a heating content of not less than 31.8 M Joule (7600 KCal/m³).
- t. "Natural Gas Transportation Network" or "Transportation Network" shall mean all the pipelines, compressor stations, metering stations and other related facilities which are used for transportation of natural gas; operate, or are designed to operate, at or above 1.2 MPa pressure; connect Receiving Points and Delivery Points; and are owned or managed, and/or operated by a Transportation Licensee. Transportation network shall include all pipelines and relevant facilities, operating, or designed to operate. At or above 1.2 Mpa pressure, including compressor stations, metering stations, as indicated in transportation license.
- u. "Natural Gas Transportation License" or "Transportation License" shall mean a License granted by the Commission under this Law to operate transportation facilities, receive natural gas from one or more Receiving Points and to transport natural gas to one or more Natural Gas Distribution Licensees, or Direct Consumer, or Delivery Points.
- v. "Natural Gas Distribution License" shall mean a License granted by the Commission under this Law to receive natural gas from one or more sources, to operate distribution network and to distribute natural gas within a defined geographic or certain distribution area as the License is in effect.
- z. "Natural Gas Supply License" or "Supply License" shall mean a License granted by the Commission under this Law to acquire volumes of natural gas for selling to other Natural Gas Supply Licensees or other customers.

4. Article 2

- a) The title of the Article is edited as: "National Energy Policy"
- b) The title of the Clause 3 shall be edited as follows: "Electricity and natural Gas Policy Formation and Implementation".
- c) To replace the wording "electricity" through the whole text with the wording "electricity and natural gas sectors".
- d) Point "e" to be edited as follows:
 "Develop and coordinate implementation of uniform State program on efficiency increase in the areas of electricity generation, transmission, dispatch, distribution, import, export and consumption, as well as in the areas of natural gas supply, transportation and distribution".
- d) Section 3. The word "electricity" to be added with "or natural gas...". The following words shall be added in the end of this section "and to the natural gas transportation system".

5. Article 3, Clause 4

- a) In the titles of Article 3 and Clause 4 the word “electricity” shall be replaced with “energy”.

6. Clause 4:

- a) Point 1. The word: “...body” shall be replaced by “State Body, which does not conduct economic activities,”.

- b) Point 3. After the word “charter” to add the wording “structure and personnel schedule”

- c) Point 4. The word “Electricity” shall be replaced with “Electricity and Natural Gas Sectors”.

- d) Point 5, sub-points “a” and “c” The words "import, export, as well as natural gas supply, transportation, distribution" to be added after the word "distribution".

- i. Sub-point “b” to be edited as follows:

“Setting and regulation of wholesale and retail tariffs for electricity generation, transmission, dispatch, distribution, import, export and consumption, as well as for natural gas supply, transportation, distribution and consumption.”

- ii. Sub point “d”. The word Electricity to be replaced by the words: “Electricity and Natural Gas Sectors”

- e) Following sub-points to be added to Point 5:

e. organization and coordination of activities, with regard to mandatory certification within the energy sector;

f. regulation of electricity import and export activities;

g. supervision over the operation of the Wholesale Market and approval of the Market Rules.”

7. Clause 5, Point 1

- a) After words " ... for consideration of disputes " the following wording shall be added "... market rules, Grid Code, electricity import/export regulating rules, retail and wholesale tariffs; as well as methodology for setting and regulating such tariffs, rules of calculating regulation and tariff setting fees, also expenses of the licensees associated with the membership in the Wholesale Electricity market. ”

- b) To add the wording “...and legal regulations” after the wording “...and other laws”.

8. Clause 6.

a) Point 3. To add (twice) the wording “ upon nomination by the Chairman” after the wording “member of the Commission” and after the wording “president”.

9. Clause 11. Point 1.

a) To Replace the word: “Electricity” with “Energy”.

b) Point 2. To Add the words “and natural gas “ after “electricity”

10. Clause 12. Point 1.

a) To replace the wording “at the time decisions and resolutions are made” with “according to the set rules”.

11. Clause 18.

a) Change the title to: "Personal Security and Assistance in Further Employment"

b) The first phrasing to be counted as a Point 1, so that it would be added with Point 2 as follows:

"2. The State shall provide assistance to the Commissioner in further employment upon completion of his membership term in the Commission”.

12. Clause 19

a) Point 1. To replace the word “prepare” with “approve”. To replace the wording “License fee’ with “regulatory fee”. Sub-clause 1. The wording "...export, import" to be added after the word "...Dispatch". The wording “as well as natural gas transportation, supply and distribution licensees “ to be added after the wording “Distribution Licensee”.

b) The wording “License Fee” to be replaced with “regulatory fee” through the text.

13. Clause 21 to be edited as follows:

"By March 31 the Commissions shall make a report regarding its activities during past year and present it to the President, Parliament and the Ministry. Copies of the report shall be made available to the public."

14. After Article III the Article IV with Clauses 22 and 23 to be added as follows:

“Article IV

Georgian Wholesale Electricity Market

Clause 22. Status and Functions of the Wholesale Market

1. The Georgian Wholesale Electricity Market is a Legal Person of private justice, created with a purpose of governing the wholesale electricity (capacity) trading activities and gradual development of the competition within the electricity sector. Its organizational-legislative form shall be a Union (Association) of licensees and direct consumers.
2. The Wholesale Electricity Market shall conduct its operations independently and according to this Law. The Normative Document for operation, management and regulation of the commercial relations between the Licensees, are the "Market Rules" and "Technical Code", which are based on this Law, are approved by the Commission and are mandatory for all Licensees, Market Members and electricity consumers.
3. Wholesale trading of the entire amount of electricity generated in, or imported to, Georgia, as well as sale and purchase by the Dispatch and Transmission licensees (except for the amounts covering direct contracts) shall be conducted within the Wholesale Electricity Market. There shall be only one Wholesale Electricity Market admitted in Georgia."
4. The limits for electricity (capacity) trading, as well as of import-export, through Direct Contracts shall be determined by the Commission, for balancing of electricity generation and consumption within the country. Licensees and Market Members shall seek for the Wholesale Market's consent on the amounts of electricity traded through the Direct Contracts and shall supply the information about such amounts of electricity (capacity), as well as of export-import and transit transactions.
5. Wholesale Electricity Market shall conform in its activity with the main principles of the State Energy Policy and State Energy Security."
6. Membership fees imposed to all market members shall cover the services of the Wholesale Electricity Market. Such fees, subject to be recovered through electricity tariffs, shall be defined by the Executive Board of the Wholesale Market and approved by the Commission. Membership in the Georgian Wholesale electricity market is mandatory for all Licensees and Direct Consumers.
7. Georgian Security Council, within the competence, shall develop the list of the consumers exempted from curtailment or disconnection with regard to the State Security policy. Along with the approved list of such consumers, the said bodies shall define rules and sources of guaranteed recovery for the electricity so consumed, according to the "Market Rules.
8. The Wholesale Market, together with the Dispatch Licensee approves the electricity (capacity) balances and makes their corrections, if necessary. The Licensees and direct customers shall provide the Wholesale Market with all information, necessary for elaboration of the electricity (capacity) balances, and for efficient performance of the Market, including proper settlement and metering, the relevant information on

electricity generation, transmission, import, export, transit and consumption shall also be available to the Georgian Wholesale Electricity Market.

Clause 23. The main principles of the Wholesale Electricity Market's operation are as follows:

- Independence;
- Economic viability and soundness;
- Guaranteed and timely financial settlement;
- Equality of Market Members;
- Transparency.”

15. So that the Article IV is added, the existing Article IV becomes Article V and, respectively, Clause 22 becomes Clause 24. Numeric order of all further clauses shall be adjusted accordingly.

16. Clause 24.

a) Point 1 to be edited as follows:

“The Commission shall be entitled to issue electricity Generation, Transmission, Dispatch, Distribution, Import and Export Licenses, as well as natural gas supply, transportation and distribution, according to the present law and procedures and to the rules and regulations as approved by Commission. The Commission shall also be entitled to monitor fulfillment of the License requirements by the Licensees.”

b) Point 2. shall be edited as follows: “Generation, transmission, dispatch, Distribution, Import and Export as well as natural gas supply, transportation and distribution without the relevant License, shall be forbidden, except for the cases described in the Point 3 of this Clause ”

c) Point 3. To delete the wording “legal or individual”.

17. Clause 26:

a) Point 1. The word “Natural” shall be replaced by “Individual”, and after word “Electricity” the words “and natural gas sectors” to be added.

b) Point 3, First line: The wording “reduce or increase to be added after the wording “...to discontinue”. Words “reduce, or increase” to be added. Further in the text: to add the wording “or reduction” after “discontinues”.

b) Point 5 to be added as follows:

“5. Each Licensee who holds a Natural Gas Supply License, shall submit to the Commission any reports, statements, and information that the Commission deems necessary for the economically prudent, safe, and reliable operation of the Natural

Gas Transportation Network and related facilities. If required by the Commission, the Licensee shall submit to the Commission data and other information deemed relevant by the Commission concerning commercial terms, including, but not limited to pricing terms, paid to acquire natural gas supplies. The Commission shall hold all such information on price and other matters in strictest confidence, if so required by the applicable law and by the Licensee.

18. Clause 28 to be edited as follows:

"Clause 28. Electricity Metering, Sales, Metering Equipment

1. Licensees shall measure the quantity of electricity flowing through their facilities by use of metering equipment and procedures that satisfy rules, standards and other requirements and shall make this information available. The Commission and Wholesale Electricity Market are authorized to conduct inspections of metering equipment.
2. Wholesale trade of electricity shall only be made within the Wholesale Market (except for those made by direct contracts) according the following procedures:
 - a. Generation Licensee sells electricity only to Distribution Licensee, and/or Export Licensee, and/or Electricity Market, and/or Direct Consumer;
 - b. Distribution Licensee purchases electricity only from Generation, and/or Import Licensees, and/or Electricity Market.
 - c. Import Licensee sells electricity to Distribution Licensee, and/or Export Licensee, and/or Direct Consumer, and/or Electricity Market.
 - d. Export Licensee purchases electricity from generation licensee and/or wholesale market and sells outside of Georgia.

19. Clause 29. The wording "and natural gas" to be added after the "electricity".

20. Clause 32.

- a) Point 1. To add the words "export licensee, import licensee" after the wording "dispatch licensee". To add the wording "as well as natural gas supply licensee, transportation licensee and distribution licensee" after the words "distribution licensee".
- b) Point 2. To delete words "Legal or Individual". Sub-point "a" in the beginning to be added with the wording "licensed according to this law". Sub-point "c" to be added with the following words: "and changing ownership and/or organizational-legal status".

21. Clause 33.

- a) Point 1. The word "Natural" to be replaced by "Individual".
- b) Point 3, sub-point "Natural" to be replaced by "Individual". Sub-point "c": The wording "Wholesale Market, Market Rules, Technical Standards" to be added after the words "requirements regarding...".

22. Clause 34

- a) Point 1, to delete the wording "Natural or" after the word "authorizes".
- b) Point 6, sub-point "a" to be edited as follows:

"a. Ensure functioning of the Transmission Grid in a manner adequate to satisfy the needs of Generation Licensees, Distribution Licensees, Export Licensees, Import Licensees, Direct consumers, and according to the requirements of the "Market Rules" and "Grid Code of the Wholesale Market".

23. Clause 35

- a) Point 1 to be edited as follows:

"1. Dispatch License issued by the Commission grants an Natural or Legal person the right to operate a central and regional dispatch center of the Georgian power system.

- b) Point 3, Sub-points "a", "b" and "c" to be drafted as follows:

" a. Plan for and secure dispatch service for transmission of electricity, in order to satisfy the needs of relevant Licensee and Direct Consumer at least cost principle, given that a Licensee or a direct Consumer have contracted directly with one or more Generation or Import Licensees and, partly or in whole, meets its requirements, also has contracted with Transmission Licensee. Dispatch Licensee shall not be liable for obtaining back-up electricity supplies, except for the cases when the Distribution, Export or Direct Consumer covers such services, at the rate approved by the Commission.

b. Install and operate all facilities necessary for safe and reliable control of the energy system, and develop regimes and utilize appropriate dispatch protocols for the efficient operation of the Wholesale Market and efficient satisfaction of electricity supply requirements of Distribution, Import, Export licensee and Direct Consumers."

c. Shall operate in accordance with the instructions of the Wholesale Market, regarding discontinuation or curtailment of electricity supply service to violators of the "Market Rules".

24. Clause 36.

a) Point 1. To add the word "selling" after the word "distribution", the words "or particular distribution network".

b) Point 3. The following sub-points to be added:

"a. During the emergency periods, maintain strict regimes and limits of electricity supply, ensure priority supply of electricity to the objects of specific importance, given the due payment is provided.

b. According to the "Market Rules", provide full, timely and guaranteed bill collection for received electricity and services; a Distribution Licensee who fails to meet requirements of this provisions, shall be liable in accordance with the existing legislation.

c. According to the "Market Rules" and upon request from the Wholesale Market, open special credit account."

c) Due to adding the sub-points "a", "b" and "c" the existing sub-points "a", "b", "c", "d", "e", "f", "i", "ii", "iii" and "g" shall be changed to "d", "e", "f", "g", "h", "I", "i", "ii", "iii" and "j".

d) Point 3 Sub-point "e". The wording "and /or import..." to be added after the word "...Generation". The wording: "... and from other local or foreign Individuals or Legal Person" to be deleted. The word: " ... transmission" to change with "...distribution".

e) Sub-point "f". The wording "...obtaining and terminating the rights, also..." to be deleted. Sub-points "ii" the wording: "obtaining and terminating the rights for services" to be deleted.

25. After Clause 36 additional clauses 37-41 to be incorporated.

Clause 37. Import License

1. The Commission may issue Licenses that in each case authorize a Natural or Legal Person to exercise the right to engage in the importing of electric power from a source outside of Georgia.

2. The duration of each License shall be defined and subject to revocation by the Commission for violations of the License.

3. According to the License Conditions, each Import Licensee shall, for the duration of the License:

a. satisfy all the requirements of the Georgian Legislation regarding the electricity import activities;

b. cooperate and coordinate its activities with Dispatch licensee, Wholesale Market and Transmission Licensee;

- c. Charge only those rates, and impose only those terms and conditions of service, which are approved by the Commission;
- d. Make available to the public:
 - (i) The License and approved tariffs;
 - (ii) The Licensee's approved terms of service governing procedures for obtaining and terminating services;
 - (iii) A description of the performance standards applicable to the Licensee.
- f. Timely pay all License Fees imposed by the Commission and comply with all other terms and conditions of the License.

Clause 38. Export License

- 1. The Commission may issue Licenses that in each case authorize an Individual or Legal Person to exercise the right to engage in the exporting of electric power from a source inside of Georgia to the delivery point outside of Georgia.
- 2. The duration of each License shall be defined and subject to revocation by the Commission for violations of the License.
- 3. According to the License Conditions, each Export Licensee shall, for the duration of the License:
 - a. satisfy all the requirements of the Georgian Legislation regarding the electricity export activities;
 - b. cooperate and coordinate its activities with Dispatch licensee, Wholesale Market and Transmission Licensee;
 - c. Charge only those rates, and impose only those terms and conditions of service, which are approved by the Commission;
- a. Make available to the public:
 - (i) The License and approved tariffs;
 - (ii) The Licensee's approved terms of service governing procedures for obtaining and terminating services;
 - (iii) A description of the performance standards applicable to the Licensee.
- g. Timely pay all License Fees imposed by the Commission and comply with all other terms and conditions of the License.
- h. According to the Market Rules, provide full, guaranteed and timely payment for received electricity and services."

Due to new Clauses 37-41 the relevant adjustments shall be made in numeric order of other clauses.

Clause 39. Natural Gas Supply License.

1. The Commission may issue a Natural Gas Supply License granting an Individual or Legal Person the right to purchase natural gas and/or to sell it to other Natural Gas Supply Licensees or Customers.
2. The duration of a Natural Gas Supply License shall be for a fixed term. The License shall be subject to revocation by the Commission for violations of the License's terms and conditions.
3. For the duration of the License and in accordance with its conditions, the Supply Licensee shall:
 - a. Plan for and conduct reliable supply of natural gas and conduct its transportation shall satisfy the needs of its customers based on least cost principles;
 - b. Develop emergency plans to be implemented in emergency situations or conduct negotiations and enter agreements with other parties concerning the natural gas deliveries in such emergency situations;
 - c. Neither charge rates nor impose terms and conditions of service in excess of those established and approved by the Commission;
 - d. Timely pay all License Fees imposed by the Commission and comply with all other terms and conditions of the License.
4. In every case, when a Licensee enters an agreement on natural gas import, the Commission shall be authorized to request the information on capacities to be transported, as well as on payments and tariffs promulgated by the agreement. The Commission shall be authorized to request any other information too, as deemed necessary. The information so collected may be used by the Commission in setting the tariffs for transportation of the imported gas within the territory of Georgia.

Clause 40. Natural Gas Transportation Licenses.

1. The Commission may issue a License granting a Legal Person an exclusive right to provide natural gas transportation and transit services.
2. The License shall identify the proposed pipeline route and lines of pipe and other facilities, including the Receiving Points and the Delivery Points, to be operated by the Licensee.

3. When a new pipeline or other transportation facility is required, the party proposing such new pipeline or other facility shall apply for a Transportation License, or in the case of an existing Transportation License, apply for a modification to this License. If, after notice and hearing pursuant to the rules promulgated by the Commission, the Commission determines that the new pipeline or facility is actually required, and further determines that the proposed route for such pipeline or facility will minimize negative impacts on the area concerned, is consistent with the State Policy and complies with the requirements of Law, the Commission shall issue a new or modified Natural Gas Transportation License, that includes the new pipeline or other facility and authorizes its construction on the approved route.
4. If, following the hearing as described in the above Point 3, the Transportation Licensee is authorized to construct a new pipeline or other facility along an approved route, the Transportation Licensee shall be entitled, following to the set rules, to utilize the lands required to construct such pipeline or facility.
5. The duration of a Natural Gas Transportation License shall be for a term as indicated in the license. The License shall be subject to revocation by the Commission for violations of its terms and conditions.
6. According to the License Conditions, the Transportation Licensee shall, for the duration of the License:
 - a. Develop and maintain the Natural Gas Transportation Network in a manner adequate to support the needs of Supply Licensees;
 - b. Develop, submit to the Commission, and make publicly available an investment program;
 - c. Develop and make available reasonable instructions for the safe, reliable, and non-discriminatory interconnection and operation of the transmission network and connected facilities;
 - d. Charge only those rates, and impose only those conditions of service, approved by the Commission under Article 6; and
 - e. Timely pay all License Fees imposed by the Commission and comply with all other terms and conditions of the License.

Clause 41. Natural Gas Distribution Licenses.

1. The Commission may issue a Licenses that in each case authorizes a Natural or Legal Person to exercise a right to operate the distribution network and distribute Natural Gas within a defined geographic region or distribution network.
2. The duration of a Natural Gas Distribution License shall be for a fixed term. The License shall be subject to revocation by the Commission for violations of its terms and conditions.

3. According to the License Conditions, each Distribution Licensee shall, for the duration of the License:

- a. Provide distribution services to consumers, with regard to the normative acts applicable to the sector, rules established by the Commission and with the Licensee's investment program;
- b. Establish and submit to the Commission for approval procedures for metering, billing and collections;
- c. Develop, provide to the Commission, and make publicly available an investment program;
- d. Charge only those rates, and impose only those terms and conditions of service which are approved by the Commission;
- e. Make available to the public for review in the Licensee's offices:
 - (i) The License and approved tariffs;
 - (ii) The Licensee's approved terms of service governing procedures for obtaining and terminating services, metering, billing, and collections;
 - (iii) A description of the performance standards applicable to the Licensee, including time required to connect new customers; and
- f. Timely pay all License Fees imposed by the Commission and comply with all other terms and conditions of the License.

26. Clause 42. The text of the Clause to be edited as follows:

"1. The Commission shall be authorized to review and make a decision on approval, modification or rejection of a Licensee's application for prices and tariffs, as well as terms and conditions of his goods and services, except the cases considered in Clause 33 Section 3 point a. of this Law.

2. In order to protect the interests of the Licensees and/or the customers, considering tariff setting principles given in Clause 43 of this Law and the State Policy regarding National Security, Electricity Sector, Economy, Environment, social and other areas, the Commission is authorized, by its initiative, to make adjustments to the existing electricity tariffs, with respect to the applicable rules."

27. Clause 43

a) Point 1 to be edited as follows: "Prices and Tariffs approved by the Commission"

b) Sub-point "b": to delete the wording "provided services"

c) Sub-point "e" to be added with the wording "also tariff setting fees and expenses associated with Wholesale Market Membership."

d) Sub-point "f": the wording "and natural gas" to be added after the word "electricity"

e) To replace the wording "supply of electricity services" with the wording " services supplied by a Licensee"

28. Clause 44. To be added (beginning of the sentence) with the wording: " The Commission, according to the Clause 12 of the present Law, conducts open meetings on tariff setting issues" and (in the end of the sentence) the wording: "Only the Licensees and/or Direct Consumers shall have a right to submit to the Commission application on setting or revision of the tariff".

29. Clause 45. To make tariff enforcement in the Clause "within" 150 days instead of "after" 150 days. The word "Licensee" shall be changed to "Tariff Applicant".

30. Clause 48.

a) Section 4. The word "23" shall be replaced with the word "25", and the words "31-34" shall be replaced with "33-36".

b) Section 5. The word "42" shall be replaced with "49".

II. Law on Certification of Goods and Services

Clause 6. Point 1. After the word "...authority" the wording "and other" to be added.

Clause 8. Point 2. After wording "...Executive Authority" the word "or..." to be added.

Point 3 and Point 4. The wording "...Georgian Standard, or a State Body authorized by Executive Power" to be replaced with "Georgian Standard, State Body authorized by Executive Power or other State Entity".

Clause 9 (2nd paragraph). The wording "...Georgian Standard, or a State Body authorized by Executive Power" to be replaced with "Georgian Standard, State Body authorized by Executive Power or other State Entity".

In the third paragraph the words "...by State Bodies authorized by Executive Power" shall be changed by words "by Executive Power or by other State Entity authorized for these purposes."

Clause 10. The title of the Clause to be edited as: "Rights of Executive Power and other State Entities".

Clause 10. The wording "...Georgian Standard, or a State Body authorized by Executive Power" to be replaced with "Georgian Standard, State Body authorized by Executive Power or other State Entity".

Clause 11. Point "b". The wording "...informs Georgian Standard and other State Executive Agencies" to be replaced with "...informs Georgian Standard, State Body authorized by Executive Power or other State Entity".

III. Georgian Administrative Code (Bulletin of the Supreme Soviet of Georgia, 1984)

1. a. Clause 92¹ the word "Electricity Sector" shall be changed to "Energy Sector".
 - b. Clause 92¹ after the word "Licensee" the following words shall be added "or natural gas deliver, transportation or distribution licensee"
2. Clause 239 the word "Electricity Sector" shall be changed to "Energy Sector".

IV. Georgian Law on Conflict of Interests and Corruption in Public Services

Clause 1. Point 1 to be added with following paragraph:
"Public Service shall also include an activity in a State Agency, which is not a budgetary entity, its activity is directly related to implementation of the obligations covenant to the applicable law and is financed in different manner."

Point 4. After the word "...supervision" the word "...regulation" to be added.

Clause 2. Point 2. The following provision to be added: "h. Georgian National Electricity Regulatory Commission and its staff."

Clause 6. Point 1. The word "budgetary" to be replaced with the word "state".

Clause 9 to be added with Point 7 as follows: " The salary rate of the members of the Georgian National Electricity Regulatory Commission, its staff and auxiliary servants shall be determined with regard to the applicable law."

Clause 11. Point 2. The following section to be added: "(i). Members of the Georgian National Electricity Regulatory Commission and its staff".

V. The Executive Power is to bring respective legal regulations in compliance with the present law.

VI. This Law shall become effective upon its publication.

President of Georgia

E. Shevardnadze

Tbilisi, February _____, 1999.

ATTACHMENT: B

THE GEORGIAN LAW ON ELECTRICITY AND NATURAL GAS

GEORGIAN LAW ON ELECTRICITY AND NATURAL GAS

ARTICLE 1.

GENERAL PROVISIONS

Clause 1. Objectives and Purposes of Law.

1. This law shall regulate relations and activities of Individuals and Legal persons in the areas of electricity generation, transmission, dispatch, distribution, import, export and consumption, as well as in the areas of natural gas supply, transportation and distribution and promotes development of the electricity and natural gas sectors in Georgia on the basis of market economy principles. The present law shall not apply to activity, which includes exploration, production, purification, processing, storage of natural gas, also to relations between the producer of natural gas and Supply Licensee and to electricity or natural gas transit through the territory of Georgia
2. The objectives of this Law are:
 - a. Based on a development of the competition and through the regulation of existing non-competitive market, provide establishment of the Wholesale Electricity and Natural Gas Markets and tariff systems, which shall accurately reflect economically justified electricity generation, transmission, dispatch, distribution, export, import, and consumption costs, as well as costs associated with Natural Gas transportation, distribution, supply and consumption;
 - b. Provide the legal basis for reliable electricity and natural gas supply for all categories of consumers; and
 - c. Encourage domestic and foreign investment participation in rehabilitation and development of electricity and natural gas sectors
 - d. Encourage the use of indigenous gas resources
3. The purposes of this Law are to:
 - a. Assign responsibility for elaboration and implementation of the State Energy Policy in the electricity and natural gas sectors to the Ministry of Fuel and Energy, and relieve the Ministry of Fuel and Energy from regulatory, ownership and operational responsibilities in these sectors;
 - b. To determine the main principles of electricity sector regulation of electricity generation, transmission, dispatch, distribution, import, export, as well as natural gas supply, transportation and distribution licensees and consumers, and

for these purposes to establish a basis for creation of independent regulatory framework.

c. c. Promote growth of efficiency in the areas of electricity generation, transmission, dispatch, distribution, import, export and consumption, as well as in the areas of natural gas supply, transportation, distribution and consumption.

d. Promote competition in Georgia's electricity and natural gas markets.

Clause 2. Definitions.

For the purpose of this Law, the following words shall have the following meanings:

- a. "Transmission License" shall mean a License granted by the Commission under this Law to own or control, and operate, the Transmission Grid, but not to dispatch electricity over the Transmission Grid.
- b. "Transmission Grid" shall mean all the transmission facilities, which connect the Receiving Points to the Delivery Points, owned or controlled, and/or operated, by the Transmission Licensee. Transmission grid includes all transmission facilities operating above 35kV, including substations and transmission lines, also electricity circuits operating at 35kV and relevant substations that are specifically identified in the Transmission License. Other 35 kV networks shall be included in distribution facilities.
- c. "Distribution Grid" shall mean all the electricity distribution facilities, which connect the Delivery Points to consumers, owned or controlled, and/or operated, by the Distribution Licensee. Distribution grid includes all 0.4 - 6 - 10 distribution facilities, which are not the part of Transmission grid. Upon Commissions permission 35 and 110 kV lines may be included in distribution network, provided, that these lines are not intended for purposes of system's or international transit of electricity (capacity). The same terms shall apply to natural gas distribution network, which includes 1.2 - 0.6 - 0.3 - 0.005 M Pascal pressure pipes.
- d. "Distribution License" shall mean a License granted by the Commission under this Law to operate distribution network, to receive electric capacity and energy deliveries from one or more Delivery Points and distribute and sell electricity to consumers within a defined administrative or geographic area or certain distribution network.
- e. "Dispatch License" shall mean a License granted by the Commission under this Law to exercise dispatch rights over all Generation and transmission Licensees and, in order to meet the requirements of Distribution, Import, Export Licensees and Direct or other consumers. Upon Commission's approval the other rights may also be granted to the Dispatch licensee.
- f. "Commission" shall mean the Georgian Energy Regulatory National Commission.

- g. "License" shall mean a Generation License, a Transmission License, a Dispatch License, Import License, Export License or a Distribution License, as well as Natural Gas Supply, Transportation and Distribution license granted by the Commission.
- h. "Licensee" shall mean a legal Person or an Individual, who owns one or more licenses determined by the present law.
- i. "Receiving Point" shall mean a point at which the Transmission Licensee receives electric capacity and energy on the Transmission Grid, including import of electricity from foreign electricity systems or a point, where a natural gas transportation licensee, within the transportation system, receives natural gas, including imports.
- j. "Delivery Points" shall mean the point, where the Transmission Licensee, from the transmission grid, supplies electricity to the Distribution Licensee's facilities, the facilities of any Direct Consumer and foreign electricity systems or a point, where a natural gas transportation licensee, from the transportation system, supplies natural gas to its distribution licensee, direct consumer or foreign energy systems.
- k. "Direct Consumer - shall mean an Natural or Legal person, which receives electricity or natural gas directly from the transmission grid, generation licensee, transportation system, and is not a Distribution Licensee.
- l. "Regulatory Fee" shall mean a fee to be annually imposed to generation licensee, transmission licensee, dispatch licensee, import licensee, export licensee, distribution licensee, natural gas supply licensee, transportation licensee, distribution licensee, such fee designed to cover the expenses of the Commission's activity
- m. "Generation License" shall mean a License granted by the Commission under this Law to generate electricity and to connect electricity generation facilities to the Transmission and Distribution Grids at a Receiving Points.
- n. "Export License" shall mean a permit granted by the Commission under this Law to sell electricity and capacity outside of Georgia from the delivery points.
- o. "Import License" shall mean a permit granted by the Commission under this Law to receive electric capacity and energy deliveries from the source external to Georgia at one or more reception points at the Georgian border for reselling and/or self-consumption purposes."
- p. "Georgian Wholesale Electricity Market" (briefly - El. Market) shall mean an independent, non-governmental Legal Person of private justice, created with a purpose of gradual development of the competition within the electricity sector".
- q. "Executive Board of the Georgian Wholesale Electricity Market" shall mean body wholesale electricity market's management body, which defines main directions of the Wholesale Market's operation and development, settles disputes between the Market Members, monitors implementation of the requirements of the "Market Rules" and "Technical Standards."

- r. "General Director of the Georgian Wholesale Electricity Market – shall mean a person which conducts direct management of the electricity market according to the Market Rules and the Grid Code, and shall be accountable to the Executive Board. The General Director is appointed by the Executive Board and approved by the Commission."
- s. "Market Rules" shall mean a legal act regulating operation, management of the Wholesale Market, as well as commercial inter-relations among the licensees. Market Rules shall be approved by the Commission and shall be mandatory for all Licensees, Market members and Consumers."
- t. "Technical Standards" shall mean a document, developed by a Dispatch Licensee in conjunction with other licensees and which determine technical requirements of the functioning of the Wholesale Market. Technical Standards shall be approved by the Commission and shall be mandatory for all the Licensees, Market Members and Consumers."
- u. "Natural Gas" or "Gas" shall mean hydrocarbons which are in a gaseous state at a pressure of 1.2 M Pascal and at a temperature of 20 degrees Celsius ("C") and have a heating content of not less than 31.8 M Joule (7600 KCal/m³).
- v. "Natural Gas Transportation Network" or "Transportation Network" shall mean all the pipelines, compressor stations, metering stations and other related facilities which are used for transportation of natural gas; operate, or are designed to operate, at or above 1.2 MPa pressure; connect Receiving Points and Delivery Points; and are owned or managed, and/or operated by a Transportation Licensee. Transportation network shall include all pipelines and relevant facilities, operating, or designed to operate. At or above 1.2 Mpa pressure, including compressor stations, metering stations, as indicated in transportation license.
- w. "Natural Gas Transportation License" or "Transportation License" shall mean a License granted by the Commission under this Law to operate transportation facilities, receive natural gas from one or more Receiving Points and to transport natural gas to one or more Natural Gas Distribution Licensees, or Direct Consumer, or Delivery Points.
- x. "Natural Gas Distribution License" shall mean a License granted by the Commission under this Law to receive natural gas from one or more sources, to operate distribution network and to distribute natural gas within a defined geographic or certain distribution area as the License is in effect.
- y. "Natural Gas Supply License" or "Supply License" shall mean a License granted by the Commission under this Law to acquire volumes of natural gas for selling to other Natural Gas Supply Licensees or other customers.

ARTICLE 2.

NATIONAL ENERGY POLICY

Clause 3. Electricity and Natural Gas Policy Formation and Implementation.

1. The Ministry elaborates the main directions of the State Electricity Policy and upon approval by the Parliament of Georgia coordinates the implementation of the policy. In this purpose, the main functions of the Ministry are, to:
 - a. Elaborate electricity and natural gas programs based on the short, medium, and long term strategy and priorities and to coordinate their implementation;
 - b. Promote an attraction of investments in the electricity and natural gas sectors for the short, medium, and long term;
 - c. Promote the optimal management of processes on restructuring and privatization of State enterprises in the electricity and natural gas sectors and the promotion of competition in electricity and natural gas markets, and establish strategies for the conservation or liquidation of State-owned electricity and natural gas sectors' facilities;
 - d. Participate in elaboration and development of legal and regulatory framework, monitor the technical and economic condition of the sectors;
 - e. Develop and coordinate implementation of uniform State program on efficiency increase in the areas of electricity generation, transmission, dispatch, distribution, import, export and consumption, as well as in the areas of natural gas supply, transportation and distribution;
 - f. Promote programs on scientific research, projection-construction and education in electricity and natural gas sectors.
 - g. Promote the environmental protection of all energy activities, and optimally incorporate environmental protection goals in the formulation and implementation of energy programs;
 - h. Promote the establishment of relationships between Licensees and electricity and natural gas sector entities in foreign countries, and promote the establishment of transit and import/export relationships in the electricity and natural gas sectors;
 - i. Promote development of state strategies for electricity and natural gas sectors' emergency situations; and
 - j. Elaborate the policy on Georgia's energy security.
2. The Ministry of Fuel and Energy shall relinquish ownership, regulatory and operational rights in the electricity and natural gas sectors.

3. The Ministry of Fuel and Energy shall be responsible under the Laws of Georgia for granting permits regarding the siting of generation facilities and granting all licenses and permits for electricity or natural gas transit facilities, which are not to be connected to the Transmission Grid and to natural gas transportation system.

ARTICLE 3.

GEORGIAN ENEREGY REGULATORY NATIONAL COMMISSION

Clause 4. Georgian Energy Regulatory National Commission. Status and Functions.

1. The Georgian Electricity Regulatory National Commission ("Commission") is established as a permanent independent State Body, which does not conduct economic activities and has the status of a legal entity of public justice, and is not subordinated in any way to any other governmental agencies or institutions.
2. The Legal base for Commission's activities is the Georgian Constitution, International Treaties, the Present Law, the Charter of the Commission, and other Legal Regulations.
3. The Charter, Structure and Personnel Schedule of the Commission shall be elaborated and approved by the Commission.
4. The Commission has authority to regulate Licensees and grant Licenses within the Electricity and Natural Gas Sectors of Georgia, except Licenses mentioned in clause 3.3 of this Law.
5. The main functions of the Commission are to:
 - a. set the rules and requirements, grant, modify, discontinue and revoke electricity generation, transmission, dispatch, distribution, import, export, as well as natural gas supply, transportation, distribution licenses, except cases mentioned in clause 3 of this Law;
 - b. Setting and regulation of wholesale and retail tariffs for electricity generation, transmission, dispatch, distribution, import, export and consumption, as well as for natural gas supply, transportation, distribution and consumption;
 - c. within its competence, resolve arguments between generation, transmission, dispatch, distribution, import, export, as well as natural gas supply, transportation, distribution Licensees; and between Licensees and consumers;
 - d. establish control over the conditions of the Licensing within the Electricity and Natural Gas Sectors of Georgia, and for violation of the conditions, shall combine the relevant administrative sanctions, which are determined by the existing Georgian Legislation.
 - e. organization and coordination of activities, with regard to mandatory certification within the energy sector;
 - f. regulation of electricity import and export activities;
 - g. supervision over the operation of the Wholesale Market and approval of the Market Rules.

Clause 5. Rules and Regulations of the Commission

1. Commission within its competence issues Rules and Regulations. The Rules and Regulations of the Commission are issued by Resolutions; The Commission by resolution approves the Charter, operational rules and procedures, rules for receipt and review of Licensing and tariff applications, rules and requirements for granting, modification, discontinuation or cancellation of the Licenses and procedures for consideration of the arguments, Market Rules, Technical Standards of the Wholesale Market, electricity import/export regulating rules, retail and wholesale tariffs; as well as methodology for setting and regulating such tariffs, rules of calculating regulation and tariff setting fees, also expenses of the licensees associated with the membership in the Wholesale Electricity market. The resolution of the Commission also may be made in cases set by the present law and other Normative Acts.
2. On each particular issue, considered in the present Law, Commission within its competency makes decisions.
3. Resolutions and decisions of the Commission are made on the meetings of the Commission by the majority of votes. The meeting of the Commission is authorized if, at least two members of the Commission attend the meeting. Resolutions and decisions of the Commission are mandatory for licensees and consumers.
4. The Chairman of the Commission issues orders on administrative issues.

Clause 6. Members of the Commission and Terms.

1. The Commission shall consist of three members. President of Georgia appoints and dismisses the members of the Commission.
2. An individual may be appointed as a Commissioner if: is a citizen of Georgia, is at least 35 years old, has a university degree, and is qualified by training and experience to discharge the duties prescribed by this Law.
3. The members of the Commission are appointed, upon nomination by the Chairman, for six-year term. A member who has served one complete six-year term may be re-appointed for additional six-year term. Whenever a vacancy in the Commission exists prior to the expiration of a term, the President, upon nomination by the Chairman, shall appoint a new member to serve for the remainder of the unexpired term.
4. Each member shall have one vote in Commission decisions.

Clause 7. The Discontinuation of Authority and Dismissal.

1. Premature interruption of the terms of a Commissioner is due in cases as follows:
 - a. if voluntarily quits;
 - b. if accusatory decision has been taken against him according to the Georgian legislation;

- c. if the court recognizes him disabled or missing;
 - d. if his citizenship changes;
 - e. if violates provisions of the Georgian Law "On Conflict of Interests and Corruption in Public Service"
 - f. if does not perform his duties constantly, during four months period;
 - g. if dies.
2. The member of the Commission can only be dismissed according to the provisions mentioned above.
 3. The Member of the Commission has a right to appeal his dismissal according to the rules and procedures established by the existing legislation.

Clause 8. Chairman; Duties of the Chairman.

1. The President from among the members of the Commission shall appoint the Chairman of the Commission. The Chairman of the Commission may resign from the position of the Chairman and remain a member of the Commission for the remainder of the member's term. The Chairman of the Commission may, from time to time, designate one of the other Commissioners to serve as Acting Chairman.
2. The Chairman of the Commission shall be responsible for presiding over the meetings of the Commission, for publishing and carrying out the Commission's decisions, and for the administration of the Commission.

Clause 9. Employees to be Appointed, Dismissed by the Commission.

For the proper discharge of the Commission's duties the Commission has the staff. The Chairman of the Commission, in consultation with the Commission and according to the Georgian legislation, may appoint or dismiss any employee. The employees of the Commission shall be equally subordinated to the members of the Commission, except the issues related to the administrative management.

Clause 10. Political Activities of the Commissioner.

The member of the Commission shall discontinue the membership of any party. The creation of political or social organizations within the Commission is prohibited.

Clause 11. Powers and Duties Generally.

1. The Commission shall, give careful consideration to the main directions of the state energy policy, national security, economic, environmental, and other policies of the Government.

2. The Commission shall allow the interests of the parties, including electricity and natural gas consumers, to be represented in proceedings.
3. The Commission and each of its employ, within its competence shall have full and prompt access to the personnel and records of every Licensee.
3. Within its competency, the Commission is authorized to conduct inspection of all presented records and data.

Clause 12. Public Sessions; Exception for Confidential Information.

1. The sessions of the Commission shall be public. Commission's decisions and resolutions, shall be made published according the set rules.
2. The Commission shall keep a record of all proceedings and other relevant documents for the period determined by the Commission. A member of the Commission shall have open access to any information, records and documentation of the Commission.
3. All resolutions and decisions, orders, records and other documents shall be open to public examination. The Commission shall adopt appropriate rules to ensure confidential information received by it remains confidential, whenever confidentiality is necessary.

Clause 13. Conducting Meetings of the Commission.

Before promulgating any resolution or decision the Commission shall give reasonable notice of its contents and shall give interested Persons an opportunity to attend the meeting. In order to keep information confidential, Commission is authorized to conduct meetings closed for the public. The resolutions and decisions made on closed meetings shall be published.

Clause 14. Liability for Violation of the Law

1. Commission, in accordance with the legislation, is authorized to hold liable all legal persons or individuals, who violates the provisions of this law or resolutions and decisions made by the Commission.

Clause 15. Appeals.

1. A resolution and decision made by the Commission may be appealed, by affected person, to the Constitutional or Supreme Court of Georgia, in accordance with the existing rules and procedures.

Clause 16. Meetings and Communications between the Commission and Parties.

1. The Commission shall promulgate rules controlling meetings between members or employees of the Commission and any other party. The rules shall provide that no member of the Commission shall consult with any party or Legal Person or individual acting on behalf of any party with respect to such a proceeding without giving notice, and an opportunity to participate, to all parties.

Clause 17. Conflicts of Interest.

1. The Georgian Law "On Conflict of Interests and Corruption in Public Service" determines the rules on suspension of the Commissioner's activities and the conflict of interests.
2. No staff member of the Commission shall directly or indirectly own any securities of, have any economic interest in, or hold any position with any Licensee.
3. This Clause shall not prevent any staff member of the Commission from being a customer of any Licensee, but no Licensee shall offer, nor shall any staff member of the Commission accept, free or discounted service or service at other than the rates and conditions generally applicable to the public.

Clause 18. Personal Security and Assistance in Further Employment

1. Threatening, violence or any other illegal actions against the member of the Commission, or its employ, while they are fulfilling their responsibilities, are prohibited. Any person who violates this provision shall be prosecuted in accordance with procedures established by the existing legislation.
2. The State shall provide assistance to the Commissioner in further employment upon completion of his membership term in the Commission

Clause 19. Budget of Commission; Regulatory Fee.

1. The Commission shall, by October 1 of each year, approve its detailed budget for the following year, which shall indicate all the expenses of the Commission, including the salaries and benefits of the members and employees of the Commission. On the basis of load forecasts for the following year received from the Licensees by September 15, the Commission shall establish a Regulatory Fee to be paid by electricity Generation, Transmission, Dispatch, Export, Import and Distribution Licensees, as well as natural gas transportation, supply and distribution licensees, at a level sufficient to cover the budgeted expenses of the Commission for the next year. The budget of the Commission shall published.
2. Regulatory Fees shall be deposited in a separate account for the use of the Commission, which shall have sole access to the funds. Any funds in the Commission account not used in one year shall be carried forward to the next year, and the next year's Regulatory Fees reduced accordingly. The Commission shall be entitled to borrow

from the State Treasury to meet capital or operating expenses that cannot be met from current Regulatory Fees; the Commission shall repay the loans, with interest at the appropriate government borrowing rate, from future Regulatory Fees. The State Treasury may also allocate funds, including grants, for the Commission's use.

Clause 20. Financial Report; Audit.

1. By March 31 of each year, the Commission shall prepare and publish a financial report that shall include an accounting of the Regulatory Fees paid to the Commission's account and the Commission's expenses from this account, during the prior year. The financial report shall also identify any loans taken during the year, and any other funds made available to, and/or used by, the Commission. The Commission shall make financial report available to the public.
2. Review of the fiscal activities of the Commission shall be conducted in accordance with Georgian legislation and implemented by relevant authorized bodies, including independent auditors appointed by the Commission. Review shall not cause the suspension of the Commission's ongoing activity.

Clause 21. Annual Report.

By March 31 the Commission shall make a report regarding its activities during past year and present it to the President, Parliament and the Ministry. Copies of the report shall be made available to the public.

Article 4

Georgian Wholesale Electricity Market

Clause 22. Status and Functions of the Wholesale Market

1. The Georgian Wholesale Electricity Market is a Legal Person of private justice, created with a purpose of governing the wholesale electricity (capacity) trading activities and gradual development of the competition within the electricity sector. Its organizational-legislative form shall be a Union (Association) of licensees and direct consumers.
2. The Wholesale Electricity Market shall conduct its operations independently and according to this Law. The Normative Document for operation, management and regulation of the commercial relations between the Licensees, are the "Market Rules" and "Technical Code", which are based on this Law, are approved by the Commission and are mandatory for all Licensees, Market Members and electricity consumers.
3. Wholesale trading of the entire amount of electricity generated in, or imported to, Georgia, as well as sale and purchase by the Dispatch and Transmission licensees (except for the amounts covering direct contracts) shall be conducted within the Wholesale Electricity Market. There shall be only one Wholesale Electricity Market admitted in Georgia."
4. The limits for electricity (capacity) trading, as well as of import-export, through Direct Contracts shall be determined by the Commission, for balancing of electricity generation and consumption within the country. Licensees and Market Members shall seek for the Wholesale Market's consent on the amounts of electricity traded through the Direct Contracts and shall supply the information about such amounts of electricity (capacity), as well as of export-import and transit transactions.
5. Wholesale Electricity Market shall conform in its activity with the main principles of the State Energy Policy and State Energy Security."
6. Membership fees imposed to all market members shall cover the services of the Wholesale Electricity Market. Such fees, subject to be recovered through electricity tariffs, shall be defined by the Executive Board of the Wholesale Market and approved by the Commission. Membership in the Georgian Wholesale electricity market is mandatory for all Licensees and Direct Consumers.
7. Georgian Security Council, within the competence, shall develop the list of the consumers exempted from curtailment or disconnection with regard to the State Security policy. Along with the approved list of such consumers, the said bodies shall define rules and sources of guaranteed recovery for the electricity so consumed, according to the "Market Rules.
8. The Wholesale Market, together with the Dispatch Licensee, approves the electricity (capacity) balances and makes their corrections, if necessary. The Licensees and direct customers shall provide the Wholesale Market with all information necessary for elaboration of the electricity (capacity) balances, and for efficient performance of the

Market, including proper settlement and metering, the relevant information on electricity generation, transmission, import, export, transit and consumption shall also be available to the Georgian Wholesale Electricity Market.

Clause 23. The Main Principles of the Wholesale Electricity Market's Operation.

The main principles of the Wholesale Electricity Market's operation are as follows:

- Independence;
- Economic viability and soundness;
- Guaranteed and timely financial settlement;
- Equality of Market Members;
- Transparency.

ARTICLE 5.

LICENSES AND LICENSING PROCEDURES

Clause 24. Commission to Issue Licenses; Licensed Activities, Exceptions.

1. The Commission shall be entitled to issue electricity Generation, Transmission, Dispatch, Distribution, Import and Export Licenses, as well as natural gas supply, transportation and distribution, according to the present law and procedures and to the rules and regulations as approved by Commission. The Commission shall also be entitled to monitor fulfillment of the License requirements by the Licensees.
2. Electricity Generation, transmission, dispatch, Distribution, Import and Export as well as natural gas supply, transportation and distribution without the relevant License, shall be forbidden, except for the cases described in the Point 3 of this Clause.
3. Person, who generates electricity only for its own consumption and is not connected to the transmission or distribution grids, is not required to obtain the license.

Clause 25. Procedures.

The Commission shall establish procedures necessary to implement requirements of the present Law. The procedures shall specify the information required to obtain a License, including information regarding financial strength, credit rating, experience, and compliance with all Laws and regulations, as well as the issues related to the Regulatory Fee established by the Commission.

Clause 26. Competence Required; General License Provisions; Discontinuation of Service.

1. The Commission shall issue Licenses only to Legal Persons and Individuals, who have established competence to operate within the electricity and natural gas sectors and to satisfy the service obligations under this Law and the conditions to be included in each License.
2. Licenses shall describe the type of service to which the License applies, the location of the facilities or territory to which the License applies, the duration of the License, the requirement of timely payment of Regulatory Fees, and the conditions of License modification, suspension, or revocation.
3. No Licensee shall be entitled to discontinue, reduce or increase service under any License, except as permitted in the License for non-payment by the customer or technical and/or safety reasons. In such cases, The Licensee shall submit an application on discontinuation or reduction of the service to the Commission. After Commission approves discontinuation or reduction of the service, the Licensee relinquishes the License.

4. No Licensee shall be required by the terms of its License, by its tariff, or otherwise to continue supplying electricity or other electricity services in any case where another Licensee, a Direct Consumer, or any other Legal Person or individual has failed to meet its payment obligations under a contract or approved terms and conditions of service.
5. Each Licensee who holds a Natural Gas Supply License, shall submit to the Commission any reports, statements, and information that the Commission deems necessary for the economically prudent, safe, and reliable operation of the Natural Gas Transportation Network and related facilities. If required by the Commission, the Licensee shall submit to the Commission data and other information deemed relevant by the Commission concerning commercial terms, including, but not limited to pricing terms, paid to acquire natural gas supplies. The Commission shall hold all such information on price and other matters in strictest confidence, if so required by the applicable law and by the Licensee.

Clause 27. Rights and Duties of Licensees; Information Filings.

1. Each Licensee must comply with all conditions set forth in its License, the resolutions and decisions adopted by the Commission, and the Laws of Georgia.
2. Licensees shall operate at least cost principle and in accordance with economic efficiency requirements.
3. Each Licensee, with the exception set in clauses 25, section 4, shall submit to the Commission, to the Ministry, and make available to the public the following information:
 - a. An annual summary of the Licensee's activities for the past year;
 - b. An annual work plan describing the Licensee's anticipated activities for the following year; and
 - c. Other information as the Commission determines to be necessary or appropriate.
4. Each Licensee who holds a Generation License, granted following a finding that the power sales contract was determined on a competitive basis, shall submit to the Commission any reports, statements, and information that the Commission, deems necessary for the safe and reliable operation of the Transmission Grid and connected facilities.

Clause 28. Electricity Metering, Sales, Metering Equipment

1. Licensees shall measure the quantity of electricity flowing through their facilities by use of metering equipment and procedures that satisfy rules, standards and other requirements and shall make this information available. The Commission and Wholesale Electricity Market are authorized to conduct inspections of metering equipment.

2. Wholesale trade of electricity shall only be made within the Wholesale Market (except for those made by direct contracts) according the following procedures:
 - a. Generation Licensee sells electricity only to Distribution Licensee, and/or Export Licensee, and/or Electricity Market, and/or Direct Consumer;
 - b. Distribution Licensee purchases electricity only from Generation, and/or Import Licensees, and/or Electricity Market.
 - c. Import Licensee sells electricity to Distribution Licensee, and/or Export Licensee, and/or Direct Consumer, and/or Electricity Market.
 - d. Export Licensee purchases electricity from generation licensee and/or wholesale market and sells outside of Georgia.

Clause 29. Disputes.

Any Licensee, Direct Consumer, or customer of any Distribution Licensee may refer the dispute to the Commission for resolution; the Commission may in its discretion order the matter to be resolved through the court.

Clause 30. Bonds.

Before issuance of any License, or the reinstatement of a suspended License, the Commission may require a bond or any other form of financial security necessary to ensure adherence to this Law and the conditions of the License, including the payment of Regulatory Fees.

Clause 31. Modifications, Suspensions, Revocations.

Except where a License is modified pursuant to its terms and conditions or suspended or revoked for non-compliance with its terms and conditions, the Commission may modify, suspend, or revoke a License issued under this Law only with the prior consent of the Licensee; *provided*, that upon granting a License the Commission may require the Licensee to comply with different, or more stringent requirements than the requirements included in any prior License.

Clause 32. Restrictions on Ownership of Shares and Licensees; Restricted Transactions.

1. No Licensee may hold more than one License or own shares in any other Licensee without Commission approval. No Legal Person or Individual that exercises, directly or indirectly, owns or controls the shares of a Generation Licensee, Transmission Licensee, Dispatch Licensee, Export Licensee, Import Licensee or Distribution Licensee, as well as Natural Gas Supply Licensee, Transportation Licensee and Distribution Licensee without Commission approval, may own any shares of any other Licensee.

2. A Licensee may not, without the Commission's prior approval, transfer its License in any form to any other Persons. The Commission, according this law or public interest, may approve, disapprove, or restrict, the following activities by Licensees:

- a. Conducting a business merger or a major acquisition or sale of assets or securities;
- b. Expanding the Licensee's business activities; and
- c. Undertaking a reorganization of the Licensee's corporate structure, and/or changing of ownership and/or organizational-legal status.

ARTICLE 6.

LICENSES; PROVISIONS AND CONDITIONS

Clause 33. Generation Licenses.

1. The Commission may issue Licenses that in each case authorize a Legal Person or an Individual to generate energy and connect specifically identified generation facilities to the Transmission Grid for the purpose of supplying electricity capacity and/or energy to a specific Receiving Point.
2. The duration of each License shall be the expected useful life of the generation facility. Commission may, for violation of the terms of the License, revoke the generation License
3. According to the License Conditions, each Generation Licensee shall, for the duration of the License:
 - a. Submit the rates, terms, and conditions for power sales contracts with other Licensees for review and approval by the Commission under Article 6; *provided*, that such review and approval shall not be required once the Commission has determined that the Generation Licensee is either intending (1) to produce electricity solely for his own consumption, (2) to produce electricity solely for export or (3) conducts power sales in the competitive conditions; and *provided further*, that each Individual or Legal Person applying for a Generation License shall also submit to the Commission the technical, safety, and interconnection standards for the proposed generation facility.
 - b. Make the licensed generation facilities available to the Dispatch Licensee at the Receiving Point for the safe, reliable, non-discriminatory, and economic dispatch and operation of the Transmission Grid and connected facilities, pursuant to the terms of its power sales contracts or its approved rates and terms and conditions of service;
 - c. Comply with the requirements of the Market Rules, Technical Standards, the wholesale Market, as well as with all applicable requirements regarding the coordination of the operation of generation facilities with the Transmission Grid and distribution facilities, including instructions issued by the Dispatch Licensee; and
 - d. Timely pay the Regulatory Fees set by the Commission and comply with all other terms and conditions of the License.

Clause 34. Transmission License.

1. The Commission may issue a License granting a Legal Person the right to provide transmission service using the Transmission Grid.
2. The License shall identify the transmission system included in the Transmission Grid to be operated by the Licensee, which shall include the facilities between the Receiving Points and the Delivery Points. Where a Generation Licensee's facility is to be directly connected to a Distribution Licensee's or a Direct Consumer's facilities, the

Commission may deem the interconnection point a Receiving Point and a Delivery Point separated by a minimum section of the Transmission Grid for purposes of establishing parameters for transmission services.

3. When a new transmission facility is required in the Transmission Grid, the Transmission Licensee shall apply for a modification to its License proposing the new transmission facility. If, after notice and hearing pursuant to the rules promulgated by the Commission, the Commission determines that the new facility is required, and further determines that the proposed route for the facility, as may be amended at or following the hearing; will reasonably minimize adverse impacts on the area concerned, is consistent with the State Policy concerning the proposed route as expressed to the Commission during the proceeding; and complies with the requirements of Law, the Commission shall issue to the Transmission Licensee a modified Transmission License that includes the new transmission facility and authorizes its construction on the approved route.
4. If, following the hearing described in present Clause, section 3, the Transmission Licensee is authorized to construct a new transmission facility along an approved route, the Transmission Licensee shall be entitled to acquire any lands required to construct this facility.
5. The duration of a License shall be indefinite, but subject to revocation by the Commission for violations of the License.
6. According to the License Conditions, the Transmission Licensee shall, for the duration of the License:
 - a. Ensure functioning of the Transmission Grid in a manner adequate to satisfy the needs of Generation Licensees, Distribution Licensees, Export Licensees, Import Licensees, Direct consumers, and according to the requirements of the "Market Rules" and "Grid Code of the Wholesale Market;
 - b. Develop, submit to the Commission, and make publicly available an investment program;
 - c. Develop and make available reasonable instructions for the safe, reliable, and non-discriminatory interconnection and operation of the transmission network and connected facilities;
 - d. Charge only those rates, and impose only those conditions of service, approved by the Commission under Article 6; and
 - e. Timely pay all Regulatory Fees imposed by the Commission and comply with all other terms and conditions of the License.

Clause 35. Dispatch License.

1. Dispatch License issued by the Commission authorizes a Legal person to conduct the management of the Georgian electricity sector through its central and regional dispatch centers.

2. The duration of a License shall be indefinite, but subject to revocation by the Commission for violations of the License.
3. According to the License Conditions, the Dispatch Licensee shall, for the duration of the License:
 - a. Plan for and secure dispatch service for transmission of electricity, in order to satisfy the needs of relevant Licensee and Direct Consumer at least cost principle, given that a Licensee or a direct Consumer have contracted directly with one or more Generation or Import Licensees and, partly or in whole, meets its requirements, also has contracted with Transmission Licensee. Dispatch Licensee shall not be liable for obtaining back-up electricity supplies, except for the cases when the Distribution, Export or Direct Consumer covers such services, at the rate approved by the Commission.
 - b. Install and operate all facilities necessary for safe and reliable control of the energy system, and develop regimes and utilize appropriate dispatch protocols for the efficient operation of the Wholesale Market and efficient satisfaction of electricity supply requirements of Distribution, Import, Export licensee and Direct Consumers.
 - c. Shall operate in accordance with the instructions of the Wholesale Market, regarding discontinuation or curtailment of electricity supply service to violators of the "Market Rules.
 - d. Develop, provide the Commission, and make publicly available an investment program;
 - e. Charge only those rates, and impose only those terms and conditions of service which are approved by the Commission.
 - f. Timely pay all Regulatory Fees imposed by the Commission and comply with all other terms and conditions of the License.

Clause 36. Distribution Licenses.

1. The Commission may issue Licenses that in each case authorize an Individual or Legal Person to exercise the right to engage in the distribution and sales of electric power within a defined geographic region or a particular distribution network.
2. The duration of each License shall be indefinite but subject to revocation by the Commission for violations of the License.
3. According to the License Conditions, each Distribution Licensee shall, for the duration of the License:
 - a. During the emergency periods, maintain strict regimes and limits of electricity supply, ensure priority supply of electricity to the objects of specific importance, given the due payment is provided.

- b. According to the "Market Rules", provide full, timely and guaranteed bill collection for received electricity and services; a Distribution Licensee who fails to meet requirements of this provisions, shall be liable in accordance with the existing legislation.
- c. According to the "Market Rules" and upon request from the Wholesale Market, open special credit account.
- d. Extend distribution services to consumers consistent with eligibility criteria established by the Commission and with the Licensee's investment program;
- e. Obtain rights to sufficient distribution capacity and electricity from the Transmission Licensee and/or the Dispatch Licensee, also from Generation and/or Import Licensees.
- f. Establish and submit to the Commission for approval procedures for service, metering, billing, and collections;
- g. Develop, provide to the Commission, and make publicly available an investment program;
- h. Charge only those rates, and impose only those terms and conditions of service which are approved by the Commission; and
- i. Make available to the public for review in the Licensee's offices:
 - (i) The License and approved tariffs;
 - (ii) The Licensee's approved terms of service, metering, billing, and collections.
 - (iii) A description of the performance standards applicable to the Licensee, including time required to connect new customers; and
- j. Timely pay all Regulatory Fees imposed by the Commission and comply with all other terms and conditions of the License.

Clause 37. Import License

1. The Commission may issue Licenses that in each case authorize a Natural or Legal Person to exercise the right to engage in the importing of electric power from a source outside of Georgia.
2. The duration of each License shall be defined and subject to revocation by the Commission for violations of the License.
3. According to the License Conditions, each Import Licensee shall, for the duration of the License:

- a. satisfy all the requirements of the Georgian Legislation regarding the electricity import activities;
- b. cooperate and coordinate its activities with Dispatch licensee, Wholesale Market and Transmission Licensee;
- c. Charge only those rates, and impose only those terms and conditions of service, which are approved by the Commission;
- d. Make available to the public:
 - (i) The License and approved tariffs;
 - (ii) The Licensee's approved terms of service governing procedures for obtaining and terminating services;
 - (iii) A description of the performance standards applicable to the Licensee.
- f. Timely pay all License Fees imposed by the Commission and comply with all other terms and conditions of the License.

Clause 38. Export License

- 1. The Commission may issue Licenses that in each case authorize an Individual or Legal Person to exercise the right to engage in the exporting of electric power from a source inside of Georgia to the delivery point outside of Georgia.
- 2. The duration of each License shall be defined and subject to revocation by the Commission for violations of the License.
- 3. According to the License Conditions, each Export Licensee shall, for the duration of the License:
 - a. satisfy all the requirements of the Georgian Legislation regarding the electricity export activities;
 - b. cooperate and coordinate its activities with Dispatch licensee, Wholesale Market and Transmission Licensee;
 - c. Charge only those rates, and impose only those terms and conditions of service, which are approved by the Commission;
- a. Make available to the public:
 - (i) The License and approved tariffs;
 - (ii) The Licensee's approved terms of service governing procedures for obtaining and terminating services;
 - (iii) A description of the performance standards applicable to the Licensee.
- g. Timely pay all License Fees imposed by the Commission and comply with all other terms and conditions of the License.

- h. According to the Market Rules, provide full, guaranteed and timely payment for received electricity and services."

Clause 39. Natural Gas Supply License.

1. The Commission may issue a Natural Gas Supply License granting an Individual or Legal Person the right to purchase natural gas and/or to sell it to other Natural Gas Supply Licensees or Customers.
2. The duration of a Natural Gas Supply License shall be for a fixed term. The License shall be subject to revocation by the Commission for violations of the License's terms and conditions.
3. For the duration of the License and in accordance with its conditions, the Supply Licensee shall:
 - a. Plan for and conduct reliable supply of natural gas and conduct its transportation shall satisfy the needs of its customers based on least cost principles;
 - b. Develop emergency plans to be implemented in emergency situations or conduct negotiations and enter agreements with other parties concerning the natural gas deliveries in such emergency situations;
 - c. Neither charge rates nor impose terms and conditions of service in excess of those established and approved by the Commission;
 - d. Timely pay all License Fees imposed by the Commission and comply with all other terms and conditions of the License.
4. In every case, when a Licensee enters an agreement on natural gas import, the Commission shall be authorized to request the information on capacities to be transported, as well as on payments and tariffs promulgated by the agreement. The Commission shall be authorized to request any other information too, as deemed necessary. The information so collected may be used by the Commission in setting the tariffs for transportation of the imported gas within the territory of Georgia.

Clause 40. Natural Gas Transportation Licenses.

1. The Commission may issue a License granting a Legal Person a right to provide natural gas transportation and transit services.
2. The License shall identify the proposed pipeline route and lines of pipe and other facilities, including the Receiving Points and the Delivery Points, to be operated by the Licensee.
3. When a new pipeline or other transportation facility is required, the party proposing such new pipeline or other facility shall apply for a Transportation License, or in the case of an existing Transportation License, apply for a modification to this License. If, after notice and hearing pursuant to the rules promulgated by the Commission,

the Commission determines that the new pipeline or facility is actually required, and further determines that the proposed route for such pipeline or facility will minimize negative impacts on the area concerned, is consistent with the State Policy and complies with the requirements of Law, the Commission shall issue a new or modified Natural Gas Transportation License, that includes the new pipeline or other facility and authorizes its construction on the approved route.

4. If, following the hearing as described in the above Point 3, the Transportation Licensee is authorized to construct a new pipeline or other facility along an approved route, the Transportation Licensee shall be entitled, following to the set rules, to utilize the lands required to construct such pipeline or facility.
5. The duration of a Natural Gas Transportation License shall be for a term as indicated in the license. The License shall be subject to revocation by the Commission for violations of its terms and conditions.
6. According to the License Conditions, the Transportation Licensee shall, for the duration of the License:
 - a. Develop and maintain the Natural Gas Transportation Network in a manner adequate to support the needs of Supply Licensees;
 - b. Develop, submit to the Commission, and make publicly available an investment program;
 - c. Develop and make available reasonable instructions for the safe, reliable, and non-discriminatory interconnection and operation of the transmission network and connected facilities;
 - d. Charge only those rates, and impose only those conditions of service, approved by the Commission under Article 6; and
 - e. Timely pay all License Fees imposed by the Commission and comply with all other terms and conditions of the License.

Clause 41. Natural Gas Distribution Licenses.

1. The Commission may issue a Licenses that in each case authorizes a Legal Person to exercise a right to operate the distribution network and distribute Natural Gas within a defined geographic region or distribution network.
2. The duration of a Natural Gas Distribution License shall be for a fixed term. The License shall be subject to revocation by the Commission for violations of its terms and conditions.
3. According to the License Conditions, each Distribution Licensee shall, for the duration of the License:

- a. Provide distribution services to consumers, with regard to the normative acts applicable to the sector, rules established by the Commission and with the Licensee's investment program;
- b. Establish and submit to the Commission for approval procedures for metering, billing and collections;
- c. Develop, provide to the Commission, and make publicly available an investment program;
- d. Charge only those rates, and impose only those terms and conditions of service which are approved by the Commission;
- e. Make available to the public for review in the Licensee's offices:
 - (i) The License and approved tariffs;
 - (ii) The Licensee's approved terms of service governing procedures for obtaining and terminating services, metering, billing, and collections;
 - (iii) A description of the performance standards applicable to the Licensee, including time required to connect new customers; and
- f. Timely pay all License Fees imposed by the Commission and comply with all other terms and conditions of the License.

ARTICLE 7

TARIFFS

Clause 42. Commission Authority for Tariff Setting.

1. The Commission shall be authorized to review and make a decision on approval, modification or rejection of a Licensee's application for prices and tariffs, as well as terms and conditions of his goods and services, except the cases considered in Clause 33 Section 3 point a. of this Law.
2. In order to protect the interests of the Licensees and/or the customers, considering tariff setting principles given in Clause 43 of this Law and the State Policy regarding National Security, Electricity Sector, Economy, Environment, social and other areas, the Commission is authorized, by its initiative, to make adjustments to the existing electricity tariffs, with respect to the applicable rules.

Clause 43. Tariff Setting Principles.

1. Tariffs established by the Commission shall:
 - a. Protect consumers from monopolistic prices;
 - b. Provide Licensees with an opportunity to recover their costs, including prudently incurred fuel, operating, and maintenance costs, the principal and interest costs of money borrowed for prudent investments and working capital. At the same time Tariff shall imply just and reasonable profit on invested equity sufficient to attract financing for the rehabilitation and further development of the sector;
 - c. Encourage efficiency in internal operations and management practices by allowing a Licensee's financial returns to increase as a result of the Licensee having minimized its costs of providing service; *provided*, that the Licensee meets all requirements of its License concerning the provision and quality of service;
 - d. Encourage economic efficiency within the electricity and natural gas sectors by setting a short run and long run marginal costs and by sending accurate price signals regarding the relative abundance or scarcity of the supply of electric power services;
 - e. Allow Licensees to cover all economically reasonable expenses, including expenses for acquiring licenses on relevant services and covering Regulatory Fees, as well as expenses associated with tariff setting fee and Wholesale Market membership;
 - f. Take into account State Policy in regard to categories of electricity and natural gas consumers, provided, that it shall not prevent a Licensee from exercising

any rights granted in its License to disconnect any customer for failure to meet its payment obligations;

- g. Take into account State Policy in regard to subsidies, but it is prohibited to subsidize any category of the consumers on account of Licensee or any other category of consumers.
 - h. Reflect cost differences between different categories of customers.
2. Costs shall be recovered from each customer category in proportion to the costs of serving that category.
 3. Different tariffs may be established for each customer category to reflect the quantity of peak, average, or overall usage, the season, the time of day, the types of services purchased, or similar parameters. Performance-based tariffs, including revenue indexing, price indexing, and other innovative tariff methodologies may also be used, if the Commission finds the use of such methodologies to be in the interest of Licensees and consumers.

Clause 44. Rules for Tariff Setting

In the process of tariff setting the Commission, according to the Clause 12 of the present Law, conducts open meetings on tariff setting issues and relies on the following documents:

- a. Evidentiary requirements for tariff applications, including audited financial information;
- b. Time frames for tariff applications and decisions;
- c. Procedures for customers and other interested parties to comment on tariff applications;
- d. Procedures for the Commission to obtain additional information as necessary to evaluate tariff applications; and
- e. Setting procedures for financial reimbursement of licensing service.

Licensees and/or Direct Consumers shall have a right to submit to the Commission application on setting or revision of the tariff.

Clause 45. Effectiveness of Tariffs; Tariff Refund.

Tariffs shall become effective within 150 days from submission to the Commission for review, providing that such application complies with the Commission rules for tariff applications. Tariff applicant shall cover the expenses of the Commission on tariff approval.

Clause 46. Uniform Accounting Standards.

The Commission shall establish a uniform and standardized system of accounts to be based on internationally accepted accounting standards. All Licensees for financial and economic reporting to the Commission shall use this system of accounts. The Commission shall use the financial and economic reporting by Licensees, and its own analysis using the system of accounts, as the basis for calculating tariffs.

ARTICLE 8.

TRANSITION PROVISIONS

Clause 47. Initial Terms of Commission Members.

The initial members of the Commission shall be appointed as follows: first member for 6 years, second member for 4 years and third member for 2 years.

Clause 48. Interim Licenses.

1. Each Legal Person engaged in activities requiring a License under this Law on the day this Law came into effect shall be deemed to hold an interim License ("Interim License") with a duration of two years. Each Interim License shall allow that Individual or Legal Person ("Interim Licensee") to continue to undertake those activities requiring a License engaged in on the day this Law came into effect. The Commission may issue additional Interim Licenses in special circumstances within two years of the day this Law came into effect. Interim Licenses are not transferable.
2. The Commission may, in case of necessity, impose on "interim licenses" the same requirements as in License. The Commission may by decision, modify, or terminate any Interim License for the purpose of effecting a reorganization of the electricity sector and promoting transition to the market economy principles. Interim Licenses may be modified or terminated by the Commission without suspending the performance of the Interim Licensee during the duration of the Interim License.
3. Commission may on its own motion, establish a proceeding for the extension, modification, or termination of an Interim License. Where the Commission is considering a modification or termination of an Interim License, the Commission shall provide advance notice to the Ministry of Fuel and Energy and the Interim Licensee and shall give an opportunity for the Ministry of Fuel and Energy and the Interim Licensee to attend the meeting.
4. When the Commission has adopted rules and regulations pursuant to Clause 25, each Interim Licensee may apply for a License under Clauses 33-36, as applicable.
5. All tariffs of Interim Licensees in effect when this Law is adopted shall remain in effect until reviewed by the Commission; *provided*, that the Commission shall be deemed to have approved rate changes for each Interim Licensee in order to determine interim Regulatory Fee according Clause 49.

Clause 49. Interim Regulatory Fees.

The Commission may establish Interim Regulatory Fees on Interim Licensees. The Commission need not set Interim Regulatory Fees on the basis of load forecasts, and may set Interim Regulatory Fees for any period and calculated on any basis that the Commission reasonably determines is likely to cover its budgeted expenses for its next budget period.

Clause 50. Effecting the Law.

This Law shall be effective upon publication.

Clause 51. The list of invalid Rules and Regulations

1. After this Law comes in effect, the following decrees are invalid:

a) The Law of the Republic of Georgia On Energy, September 22, 1994 (Georgian Parliament Herald, 1994, # 19-20, Article. 436) first clause of the Article 4 and second clause of the Article 5.

b) The Law of the Republic of Georgia On Energy, Article 4, clause 7. October 11, 1994. (Georgian Parliament Herald, 1994, # 21-22, Article. 446)

2. Executive Power shall adjust underlying regulations to this Law.

The President of Georgia

E. Shevardnadze

Tbilisi, May 21, 1999