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DRAFT NATURAL GAS DISTRIBUTION CONNECTION TARIFF METHODOLOGY

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30 July 2018

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USAID ENERGY PROGRAM

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DATA

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ACRONYMS

CAPEX	Capital Expenses
DLCA	Domestic Load Connection Allowance
DSO	Distribution System Operator
ECV	Emergency Control Valve
GEL	Georgian Lari
GNERC	Georgian National Energy and Water Supply Regulatory Commission
ICP	Independent Connection Provider
IFRS	International Financial Reporting Standard
kWh	Kilowatt Hour
MoESD	Ministry of Economy and Sustainable Development of Georgia
NARUC	National Association of Regulatory Utility Commissioners
NEA	Network Entry Agreement
NEXA	Network Exit Agreement
OPEX	Operational Expenses
RAB	Regulatory Asset Base
RCB	Regulatory Cost Base
SCA	Storage Connection Agreement
USAID	United States Agency for International Development
VAT	Value Added Tax
WACC	Weighted Average Cost of Capital
WC	Working Capital

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EXECUTIVE SUMMARY

USAID Energy Program is a three year program focused on supporting the development of Georgian electricity and natural gas markets that support further expansion of renewable energy projects thereby improving Georgia' security of supply. The Program's Task 1 supports the development of competitive electricity and natural gas markets including cross-border energy trading.

The enabling environment in the Georgian natural gas sector needs further development and enhancement to meet the requirements of Georgia's Accession Protocols of the Energy Community Treaty. Under agreement between USAID Georgia and the Georgian National Energy and Water Supply Regulatory Commission (GNERC), the USAID Energy Program is supporting GNERC in drafting several secondary legislative acts during 2018.

GNERC requested support from the USAID Energy Program to develop the draft natural gas sector distribution connection tariff methodology. Following a presentation and detailed discussion with GNERC gas division and tariff division experts, the draft distribution tariff methodology for natural gas connections is included in Annex 1.

This tariff methodology is consistent with the draft Natural Gas Grid Code developed by US National Association of Regulatory Utility Commissioners (NARUC) financed USAID and the draft Energy Law under review by the Ministry of Economy and Sustainable Development of Georgia (MoESD).

ANNEX 1

CHAPTER I. GENERAL PROVISIONS

ARTICLE 1 PURPOSE

1. The purpose of the Tariff Setting Methodology for Connection to the Natural Gas Distribution Network (hereafter “the Methodology”) is to define the rules and principles for calculating the connection evaluation, connection installation, the disconnection/reconnection and connection termination tariffs in accordance with the Law of Georgia on Electricity and Natural Gas.
2. Tariff setting based on this Methodology is in accordance with the both “Price Cap” and “Cost Plus” regulation principle which stimulates stable functioning of the Distribution System Operators (DSOs) recovery of reasonable costs and gain fair profit.

ARTICLE 2 DEFINITIONS

1. The terms used in this Methodology have the same meaning as in the Law of Georgia on Electricity and Natural Gas (or Law on Energy).
2. Other terms used in methodology for the tariff regulation purposes have the following meaning:
 - a) **Intangible assets** – identifiable, non-monetary assets without physical form used in relevant regulated activity;
 - b) **Assets** – tangible and intangible assets;
 - c) **Asset replacement costs** - total expenditures that will be necessary for creating assets similar to the assets that need to be evaluated;
 - d) **Asset cost** – the real value of payments in money or money equivalents or other compensation during the creation or the first purchase of an asset;
 - e) **Historical cost asset valuation method** – Valuation of the Asset Cost according to the price of its creation or initial purchase;
 - f) **Net book value of the Asset – accumulated depreciation/amortization deducted from the Asset Cost** (envisaging investments made in this Asset);
 - g) **Reasonable costs** – cost incurred in accordance with the least cost principle, for the purpose of purchasing goods, services and construction works with required characteristics, which is rational and necessary for the efficient provision of connection services of the DSO;
 - h) **Cost audit** – regulatory mechanisms, by means of which the Commission (the Commission by itself or/and through the neutral third party) verifies the DSO’s costs and financial results and defines the Regulatory Cost Base;
 - i) **Investment** – capital investment which is used for creating, purchasing and/or rehabilitation of assets;
 - j) **Weighted Average Cost of Capital (WACC)** – rate of return on the Regulatory Asset Base calculated before taxes according to the capital (own or raised) structure defined by the Commission;
 - k) **Capital Expenses (CAPEX)** - return on Regulatory Asset Base and depreciation/amortization, for the purposes of this Methodology;
 - l) **Tangible assets** – Fixed assets used in respective regulated activities the useful life of which exceeds one year;
 - m) **Third party** - any physical and/or legal person (including: state, customer, etc.), except of the DSO shareholder, which issues subsidies, awards grants to the DSO, pays fees for connecting to the natural gas distribution network and/or awards the DSO with tangible and intangible assets free of charge;
 - n) **Regulated activity** – for the purpose of this Methodology the activities for providing network connection-related services, which is regulated by the Commission in accordance with the Law of Georgia on Electricity and Natural Gas (or Law on Energy);
 - o) **Regulatory Cost Base (RCB)** – revenue of the DSO allowed by the Commission for the tariff year that is necessary for the efficient functioning of the DSO connection-related activities and comprises reasonable costs and rational profit;
 - p) **Regulatory Asset Base (RAB)** – Tangible and intangible assets used in regulated activities of the DSO (except of the assets created by means of funding by the third parties), that are directly related to the connection activities;

- q) **Working Capital (WC)** – Amount of funds defined by the Commission for financing the operational expenses of DSO related to connection activities;
- r) **Building block approach** – defining the structure of Regulatory Cost Base by its components;
- s) **Base Tariff Year (t+1)** - the calendar year for which the Commission sets base connection tariffs for the regulatory period in accordance with this Methodology;
- t) **Annual Escalation** – the annual percent tariff increase established for each tariff year beyond the base tariff year;
- u) **Regulatory Period** – a multi-year period consistent with the period established by the Commission for setting retail natural gas tariffs;
- v) **Price Cap Regulation** – tariff setting approach where prices are fixed for each year over a regulatory period;
- w) **Operational Expenses (OPEX)** – Operating expenses related to the connection-related activities of the DSO licensee;
- x) **Test year (t-1)** – the calendar year prior to the tariff calculation year by the Commission;
- y) **Tariff application** – forms approved by the Commission, which includes financial and technical data for the Test Year of the DSO as well as investments made during the Tariff Calculation Year;
- z) **Distribution System Operator (DSO)** – natural gas distribution system operator licensee, who is subject to tariff setting for their regulated network connection activities according to this Methodology and the current legislation;
- aa) **Tariff calculation year (t)**-the calendar year prior to the Tariff Year;
- bb) **Fixed operational costs** – the operational costs related to connection services which do not depend on the specifications of the non-standard connection;
- cc) **Depreciation/amortization** – gradual allocation of depreciable amount of the connection-related tangible/intangible asset over its useful life;
- dd) **Variable operational costs** – the operational costs of connection services which depends on the specification of the non-standard connection;

ARTICLE 3 MAIN PRINCIPLES

1. This Methodology and the tariffs set as its bases:
 - a. protect consumers from the monopolistic prices;
 - b. support the stable and reliable functioning of the DSOs' connection-related activities;
 - c. ensure that connection-related tariffs are transparent, stable and fair for the DSO customers.
2. For determination of RCB structure of a DSO's connection-related activities, the "building blocks" approach method is used. RCB defined by this Methodology consists of the following components:
 - a. Capital expenses related to connection activities;
 - b. Operational expenses related to connection activities;
3. Capital and operating costs for connection related activities will be identified separately within the natural gas Uniform System of Accounting in order historical costs of providing such services can be tracked.
4. Calculation of capital and operation expenses is carried out by Price Cap for standard connection activities and "Cost-Plus" method for non-standard connections. DSOs aim to recover those costs that they reasonably expect to incur when it provides connection services.
5. All tariffs set by the Commission are calculated without Value Added Tax (VAT).
6. Details of the DSO connection charges will be permanently and prominently posted on the website of the DSO.

ARTICLE 4 REGULATORY PERIOD

The Commission sets tariffs for 3-year regulatory period for specific DSOs on an individual basis. The regulatory period for connection-related charges will be the same period for the DSO established by the Commission for setting charges for natural gas distribution tariffs.

ARTICLE 5 CONNECTION SERVICES PROVIDED BY THE DSO

A DSO may propose tariffs for the following services.

1. Design of a new connection.

Normally the DSO will not charge for design of connections. Where the connection is a special connection, then the DSO can include the cost of the connection design.

2. Installations of new connection

a. Standard charges

Standard quotes and standard charges will be applied for low pressure/low capacity customers. The charges can be one-time payments from the customer or spread over a 16-month period where the DSO will be able to recover the cost of financing the extended payment plan.

b. Design charges

Design charges associated with non-standard quotes will be identified within the quote. Where customers do not have an appropriate credit rating, design charges may be payable in advance. Where the work is sufficiently complex, a chargeable design study will be carried out prior to a quote being issued for physical connection work. The design charge for completing the design study will be payable in advance and will include an appropriate level of overhead.

c. Additional costs

DSO may carry out work additional to that requested by the customer. Where this occurs, the cost of the additional work will not be charged to the customer.

d. Abortive visits

Where customers fail to communicate changes in site conditions that prevent the DSO from starting work, the DSO may apply a standard charge for abortive visits.

e. Non-standard connection quotes

Non-standard quotes will include any assumptions that were used in the determination of the cost. Where these assumptions are found to be materially incorrect, the DSO may require the person requesting the connection to agree to a variation in price before commencing or continuing work on site. Where such agreement is not provided, the DSO may terminate the job. Assumption for labor, overhead and materials will be based on standard rates for each type of expense established by the Commission.

f. Group connection

The cost of connection to a multi-owned building will be shared by the existing owners. The allocation of the cost between the building owners will be determined by an agreement of the owners which shall be provided to the DSO before any connection related activities commence.

g. Special connection

For new connections that require non-normal connection arrangements, the DSO may negotiate the price of the new connection with the applicant. When the Parties cannot agree to the price, either Parties may request for Commission dispute resolution of the price.

3. Connection Alteration

A customer may request alterations to an existing connection. The alteration may include moving the connection or upgrading the connection to a higher pressure. The Commission will establish standard charges when the alterations involve standard connections. For non-standard connections, the DSOs will provide an estimated charge for alternation for the applicant.

4. Disconnection/reconnection

Disconnection (temporary interruption of gas flow) and reconnection charges will be adopted by the Commission based on the average cost to disconnect or reconnect a consumer.

Typically, the disconnection charges are paid by the respective gas supplier and reconnection charges are paid by the customers.

5. Termination of connection

A customer may request that an existing connection be terminated. Standard connection termination charges will be established by the Commission for low pressure/low capacity customers.

CHAPTER II. REGULATORY COST BASE

ARTICLE 1 REGULATORY COST BASE FOR THE TARIFF YEAR

The Regulatory Cost Base for the Tariff Year is calculated according to the following formula:

$$RCB_{(t+1)} = CAPEX_{(t+1)} + OPEX_{(t+1)},$$

Where:

$RCB_{(t+1)}$ – Regulatory Cost Base of the DSO connection activities for the Tariff Year (Georgian Lari (GEL));

$CAPEX_{(t+1)}$ – Capital Expenditures related to connection activities for the Tariff Year (GEL);

$OPEX_{(t+1)}$ – Operational Expenditures related to connection activities for the Tariff Year (GEL);

ARTICLE 2 CAPITAL EXPENSES

Capital expenses related to connection activities for the Tariff Year are calculated according to the following formula:

$$CAPEX_{(t+1)} = RAB_{start(t+1)} \times WACC + D_{(t+1)} \quad (2),$$

Where:

$CAPEX_{(t+1)}$ - Capital expenses related to connection activities for the Tariff Year (GEL);

$RAB_{start(t+1)}$ - Regulatory Asset Base related to connection activities for the beginning of Tariff Year (GEL);

WACC - Rate of return on Regulatory Assets Base related to connection activities for the Tariff Year (%);

$D_{(t+1)}$ - annual depreciation of connection related assets for the Tariff Year (GEL).

ARTICLE 3 REGULATORY ASSET BASE

1. The cost of an asset is defined by the historic cost valuation method.
2. In case if the assets' cost cannot be determined by the method specified in Paragraph 1 of this article, the Commission uses replacement cost asset valuation method.
3. In case if the DSO sells regulatory assets to another DSO, the Commission does not envisage asset resale value while calculating relevant tariffs and will use historic cost asset valuation method.
4. The RAB includes the existing asset value including actual investments.
5. The RAB shall not reflect:
 - a) the part of investments financed by the third parties. The utilities shall record such assets separately;
 - b) the investments the Commission does not consider justified and reasonable;
 - c) the part of the investment exceeding the amount of reasonable expense and has not been carried out based on the least cost principle by the DSO;
 - d) the assets not used in the regulated activity;
 - e) construction in progress.
6. The Commission is authorized not to consider the asset included by the shareholder in its capital which was transferred by the third party, if the shareholder or the third party is represented by the state, or by the enterprise who's no less than 50 % of shares is owned by the State.
7. The Commission will consider the capitalized cost of the paid loan according to the factual annual interest rate for the long term loan taken to finance the construction during the construction process in the cost of asset defined in Subparagraph E of Paragraph 5 of this Article, but the rate should not exceed the rate of debt (rd) defined in this Methodology.
8. The value of RAB related to connection activities is determined according to the net book value of the assets engaged in this base.
9. The RAB value at the beginning of the Tariff Year shall be determined based on the following formula:

$$RAB_{start(t+1)} = RAB_{end(t-1)} + INV_t - D_t \quad (3),$$

Where:

$RAB_{start(t+1)}$ - value of RAB at the beginning of the Tariff Year (t+1) (GEL);
 $RAB_{end(t-1)}$ - value of RAB at the end of the Test Year (t-1) (GEL);
 INV_t - actual investments which were deemed as justified and reasonable by the Commission for the Tariff Calculation Year (t) (GEL);
 D_t - depreciation/amortization of RAB, existing at the end of the Test year, for the Tariff Calculation Year (t) (GEL).

ARTICLE 4 DEPRECIATION AND AMORTIZATION

1. For the assets which become operational after January 1, 2014, the linear method of depreciation shall be used according to the “Regulated Asset Depreciation/Amortization Norms for Regulated Utilities” approved by the Commission.
2. With regard to assets which become operational before January 1, 2014, the Commission will consider the depreciation/amortization rates used in the DSO; in case of non-existence of such information the Commission is authorized to use amortization, rate calculation rule defined under the Tax Code of Georgia or the “Regulated Asset Depreciation/Amortization Norms for Regulated Utilities” approved by the Commission.

ARTICLE 5 WEIGHTED AVERAGE COST OF CAPITAL

1. Rate of Return on RAB is defined based on Weighted Average Cost of Capital (WACC) method.
2. The pretax Weighted Average Cost of Capital (WACC) for the Tariff Year is calculated as follows:

$$WACC_{pretax} = g * r_d + \frac{(1-g)*r_e}{(1-T)} \quad (4)$$

Where:

$WACC_{pre-tax}$ - pretax Weighted Average Cost of Capital (%);

g (gearing) - Debt ratio (%) of total capital;

r_d - Cost of debt (%);

r_e - Cost of Equity (%);

T - Profit tax rate (%).

3. Cost of Equity is calculated based on the following formula:

$$r_e = (r_{rf} - ds) + cr + \beta \times mp \quad (5),$$

Where:

r_{rf} risk free rate (%);

ds Country default spread (%);

cr country risk (%)

mp market risk premium (%);

β Equity Beta.

4. The ratio of debt (gearing) (g) of the total capital is 60 percent, for the purpose of calculation WACC by the Commission.

ARTICLE 6 OPERATIONAL COSTS

1. The Test Year data is used for calculation of connection related operational expenses of the Tariff Year. Tariff Calculation Year data is used for calculation of estimated expenses during the base tariff year of regulatory period and the remaining tariff years in the regulatory period.
2. The operational expenses which are justified, reasonable and fair are considered for calculating tariffs for the each tariff year of the regulatory period.
3. While calculating tariffs, the Commission is authorized to consider technical and economic forecasting data of Tariff Year, which it deems justified, reasonable and fair.
4. Operational expenses shall ensure the recovery of costs associated with the regulated activity, in particular:
 - a. maintenance and service expenses;
 - b. administrative and general expenses.

5. Operational expenses shall cover maintenance costs of assets financed by the third party (including current repair, service and maintenance as well as other costs).
6. Operational cost may reflect the actual cost of permitting and other costs associated with specific municipal design and construction regulations.
7. The Commission is authorized to verify the correctness of the submitted documentation, assess reasonability and compliance of the costs submitted. For this purpose the Commission is authorized to assess operational expenses for the Test year based on analysis of the operational expenses for the Test year of preceding years and based on benchmarking of other DSOs' connection related services.

ARTICLE 7 COST DISTRIBUTION (ALLOCATION)

1. The DSO is obligated to present to the Commission the unbundled data about costs and revenues of the Test Year for each regulated (including connection services and deregulated activities, and asset costs for each regulated activity according to the Commission's approved reporting forms.
2. The Commission has the right to disagree with the allocation method which was used by the DSO according to the Paragraph 1 of this Article (considering it unreasonable and unjustified) and use another method of allocation of cost and asset value.

CHAPTER III. TARIFF CALCULATION

ARTICLE 1 METHODOLOGY FOR DETERMINING CONNECTION CHARGES

1. **Connection design philosophy.** The DSOs will construct apparatus on a least cost 'fit for purpose' basis. This means that where there are different design solutions that meet a customer's requirements, the one design that is anticipated to have the lowest overall cost of construction will be selected.
2. Connection work charging will include the following:
 - Materials – the costs plus overheads relating to the handling of materials;
 - Labor rates - based on direct labor rates plus overhead costs which reflect the cost of managing and delivering this connection work;
 - Special services – any costs (including scaffolding, premium hours such as weekends, suspension of parking bays, easements, traffic management permits etc.), plus overheads;
 - Pressure reduction apparatus – the cost plus overheads.
3. Larger projects, such as group connections, may be individually tendered or otherwise priced to take advantage of economies of scale and/or scope.

Public land - Where appropriate, charges for connection will include excavation, backfill and reinstatement in land dedicated to public use.

Private land - Charges include excavation, backfill and reinstatement on private land except where requested otherwise. The customer may request DSO to carry out permanent reinstatement of a specialist surface (e.g., mosaic, colored tarmac, block paving, non-standard tiles or flagstones), however this must be requested in advance and will result in a separate charge being made. Customers who require permanent reinstatement of a specialist surface are advised to arrange for their own contractor to carry out the work. DSO can't guarantee to avoid damage to growing plants.
4. **Pressure reduction apparatus** - Charges for pressure reduction apparatus are as follows:
 - If it forms part of the supply meter installation, then charges must be provided by a gas supplier;
 - If it's located along the connecting pipework, it's charged for at cost plus overheads;
 - If it's part of any specific reinforcement downstream of the connection charging point, it's charged for at cost plus overhead;
 - If it's part of any specific reinforcement upstream of the connection charging point, DSO will fund it subject to the application of the appropriate Economic Test;
 - If it's part of an 'alternative to reinforcement connection', then the cost is treated in the same way as the proposed alternative to reinforcement connection pipe.
5. **Service pipes.** When a property already has one or more natural gas service pipes and the owner or occupier wishes to increase their consumption of natural gas, it may be necessary to replace or duplicate an existing service pipe, unless Paragraph 6 is applicable.
6. **Load increases.** No charge will be made if the additional flow of natural gas is required from an existing supply meter point and the total consumption remains below (tbd) kWh (tbd therms) per annum. In other circumstances, the work will be chargeable. Please note that duplicate service pipes are not permitted for domestic premises unless the second service pipe is provided for a separate building, for example, a garage which is separate from the main house.
7. **Pressure increases.** All the costs associated with increasing the natural gas supply pressure from an existing gas supply pipe will be charged to the person concerned. Please note: Customers using less than (tbd) kWh (tbd therms) per annum are not permitted to receive their natural gas at medium pressure because of the provisions of the Natural Gas Grid Code.
8. **Standard charges.** Standard charges will be used for some types of connection service requests. The principles used to establish these charges are:
 - The standardization is based on an analysis of the types of work that are typically carried out in that charge category;

- The analysis will be based on a statistically significant sample of completed jobs over the 12-month period of the test year, and will produce a weighted average component for each work type in the charge category;
 - Current material and contractor charges and overheads are applied to each work type;
 - The cost of such typical work is calculated in accordance with the principles and methods of this tariff methodology;
 - The resulting standard charges do not entail undue preference or undue discrimination.
9. **Standard designs.** A DSO will use standard designs in respect of certain connections where:
- The cost/benefit of using standard designs is believed to be advantageous
 - The designs have been produced in accordance with the principles and methods of this tariff methodology
 - The resulting standard designs do not result in charges which entail undue preference or undue discrimination.
10. **Charging for the final connection of apparatus (low pressure connections).** In general a DSO will follow the same principles that apply to other connection work in respect of charging for final connections. Whoever requests to carry out a final connection will be expected to complete the necessary excavation and reinstatement and will include their obtaining suitable permissions.
11. **Standard source pressures.** A DSO will use, and provide to other connection service providers, standard source pressures for the purpose of the design of certain connections. The types of connection covered by standard source pressures will have previously been subject to public consultation. Standard source pressures are published by DSO and may be subject to change from time to time.
12. **Domestic Load Connection** For individual new connections to properties that are situated within 300 meters of a relevant main (unless the route to the property has obstacles which increase the physical pipe distance to over 300 meters or the obstruction acts as a barrier which is not economic to overcome) and are wholly or mainly used for domestic purposes, DSO will install the connection to the main under standard charges.
13. **Load evaluation service.** A DSO will carry out basic load evaluation calculations where it's necessary to determine which connection charge category a potential consumer is in.
14. **Connection design charges.** Any charges made for connection design work will be calculated on the basis of the cost that a DSO expects to incur and is dependent upon the information provided by the customer, other publicly available information and information relating to the pipeline network. A DSO will charge for a connections design except where there is a standard charge quote for a domestic load connection.
15. **System entry connections**
- a) A DSO apply a methodology for connected system connections that derives the connection point pressure that could reasonably be expected to be available for the purpose of designing low pressure gas transportation infrastructure. Subject to the Economic Test, DSO will fund reinforcement upstream of the connection charging point designed to provide this pressure where it isn't available. Where there's a requirement for a higher pressure than that derived by the methodology, associated additional costs will be payable by the client.
 - b) To ensure efficient system development, it is sometimes necessary to upsize a connection or reinforcement pipe beyond that which is required for the load. DSO will do this when the anticipated cost of subsequent reinforcement is greater than the predicted cost of upsizing apparatus, taking into account the time value of money and the probability that subsequent reinforcement will be required.
 - c) DSO will fund the reasonable marginal cost of upsizing apparatus that we adopt.
 - d) Where any specific reinforcement involves work that is of sufficient complexity the person requesting the connection or increase in load will give rise to the reinforcement, must pay for a design study prior to their receiving a quote. If the reinforcement subsequently proceeds with no substantive change to the load or original design, then subject to the outcome of the Economic Test, the cost of the design study may be reimbursed to the requestor.
16. **Gas Group projects.** In a Group connection, the calculation of any shared costs to be paid at each property is as follows:

- a) The shared costs include the cost of the new mains, connecting the new mains to existing mains, installing pressure controlling apparatus that's not part of any supply meter installation, and any charges for the provision of capacity on the existing network system.
- b) A survey will be conducted in the area to be supplied to assess the number of properties which are likely to connect within twenty years of the new mains being laid. It's this number which is used to apportion costs and not the total number of premises in the area.
- c) The appropriate proportion of the shared costs is charged to all customers connecting in the Group area for a period of not more than twenty years until the total cost of the mains has been recovered or the scheme closes, whichever is the earlier.
- d) The twenty-year period starts on the day the relevant main is commissioned.
- e) In an Group, the cost of the service pipe will be charged on an individual basis in the same way as any other connection. Potential consumers within an Group will benefit from the Domestic Load Connection Allowance where it's applicable.
- f) Where a consumer, likely to consume more than (tbd) kWh (tbd therms) per annum, is situated within the Group and will connect to gas at the time when mains are laid, they'll pay a mains contribution in direct proportion with their share of the total annual off take quantity of the Group.
- g) Where a consumer, likely to consume more than (tbd) kWh (tbd therms) per annum, is situated within the Group and declines to connect at the time when mains are laid, then that consumer won't be permitted to connect to the Group unless;
 - i. Either the twenty year Group period has expired, or
 - ii. They fund sufficient reinforcement to enable the remaining premises not above (tbd) kWh (tbd therms) per annum within the Group which might connect to gas, to be connected without there being any requirement for any additional reinforcement within the twenty year period.

17. Connection to CNG filling stations pipelines

- 18. Adoption of low pressure apparatus.** Subject to the exception detailed in the paragraph below, we'll adopt any fit for low pressure connections apparatus that's connected to our system and that's not intended in whole or part to be operated by another system operator (e.g., an Independent Gas Transporter).

A DSO will adopt free of charge for low pressure connections apparatus installed by Independent Connection Providers (ICPs) that are registered with the Gas Industry Registration Scheme.

A DSO will levy a charge in respect of the adoption of low pressure connections apparatus that is installed by an ICP that isn't registered with the Gas Industry Registration Scheme. Details of these charges are given in the Connection Services Charges document.

Where an ICP is not registered with the Gas Industry Registration Scheme they should contact us to explain their intentions and to discuss the adoption procedure before carrying out any work in respect of the design or construction of any low pressure apparatus that they wish us to adopt. DSO will make no adoption payment to any organization for the adoption of low pressure apparatus unless such payments are in support of fuel poor system extensions or connections.

- 19. Taking ownership of medium pressure apparatus.** With the exception detailed below, we will take ownership of fit for medium pressure connections apparatus that's connected to a DSO system and that's not intended to be operated in whole or in part by another system operator (e.g., a connected system operator that has received a Gas Act derogation).

The DSO will charge to determine whether medium pressure connection apparatus, to be installed by a third party and adopted by DSO, is fit for purpose.

Charges will be based upon direct staff costs, together with any costs incurred by service providers employed by us. All charges will include an appropriate level of overheads.

Customers are strongly advised to contact us to explain their intentions and to discuss the taking ownership procedure before carrying out any work in respect of the design or construction of medium pressure apparatus that they wish DSO to take into ownership.

DSO will make no adoption payment to any organization for taking ownership of medium pressure apparatus.

- 20. Network approach mains.** In certain circumstances (in support of extensions to fuel poor communities for example), the DSO may offer a service to extend its system to an energy poor community.

21. **Entry and exit agreements.** The DSOs may reserve the right to require a customer to enter into a supply point Network Exit Agreement (NEXA), Network Entry Agreement (NEA) and/or Storage Connection Agreement (SCA) as appropriate. An example of when could make use of these rights is when a very large daily metered customer (customers taking more than (tbd mtpa) is connected.
22. **Connection – load size thresholds.** Loads or sources of gas of (tbd) kWh (tbd therms) per annum or less shall not be connected, or be permitted to connect, to any apparatus operating at medium (7-12 bar) pressure, or which has been declared not to be a relevant main.

ARTICLE 2 TARIFF CALCULATION FOR STANDARD FEES

1. Standard charges will be used for some types of connection service request. The principles used to establish these charges are:
 - The standardization is based on an analysis of the types of work that are typically carried out in that charge category;
 - The analysis will be based on a statistically significant sample of completed jobs over the previous 12 month period, and will produce a weighted average component for each work type in the charge category;
 - Current material and contractor charges and overheads are applied to each work type;
 - The Domestic Load Connection Allowance is applied where applicable to that charge category;
 - The cost of such typical work is calculated in accordance with the principles and methods of this statement;
 - The resulting standard charges do not entail undue preference or undue discrimination.
2. For individual new connections to properties that are situated within 23m of a relevant main (unless the route to the property has obstacles which increase the physical pipe distance to over 23m or the obstruction acts as a barrier which is not economic to overcome) and are wholly or mainly used for domestic purposes, DSO will install the connection to the main but will not charge for the first ten meters of pipe laid upon property dedicated to public use (ie where the pipe is not laid in property owned or occupied by the person concerned). This is known as the Domestic Load Connection Allowance (DLCA).
3. A person may request multiple connections, each benefiting from this allowance, provided that each connection is to a different eligible property.
4. This allowance will not apply if the property is eligible to benefit from the fuel poor voucher.

ARTICLE 3 TARIFF CALCULATION FOR SPECIAL CONNECTIONS

Design charges associated with non-standard quotes will be identified within the quote. Where customers do not have an appropriate credit rating, design charges may be payable in advance. Where the work is sufficiently complex, a chargeable design study will be carried out prior to a quote being issued for physical connection work. The design charge for completing the design study will be payable in advance and will include an appropriate level of overhead

Energy Poor connections

ARTICLE 4 CHARGES FOR DISCONNECTION

DSO will disconnect service pipes that DSO owns when requested by the registered user. If someone who owns or occupies the premises, or a person acting as their agent, contacts DSO to request a disconnection, DSO will request their permission to contact the registered user and will then gain permission to disconnect from the registered user.

This document, which relates to connection services, doesn't contain any detail of meter disconnection services or charges. Please refer to our DSO Metering Charges document which is available from DSO.co.uk.

DSO will charge the cost that it reasonably expects to incur when disconnecting a service pipe. In some instances, DSO will make use of standard charges. In these respects charges will be levied in the same way as for connections and will include appropriate overheads.

DSO won't charge for the additional cost where DSO carries out work, in addition to that required by the customer, which is designed to enhance our system.

If work is unable to proceed as a result of the presence of a supply meter installation, or because outlet pipework has not been purged, DSO may charge an abortive visit charge.

ARTICLE 5 ALTERATIONS

DSO will alter the position of any service pipe it owns when this is requested by the registered user or the person who owns or occupies the premises supplied by that pipe, or a person acting as their agent.

DSO will relocate the position of any supply meter installation on a chargeable basis where this is required as a result of the relocation of a gas service pipe.

DSO will charge the cost that it reasonably expects to incur when altering the position of a service pipe. In some instances, DSO will make use of standard charges. In these respects charges will be levied in the same way as for connection installations and will include appropriate overheads.

DSO won't charge for the relocation of an Emergency Control Valve (ECV) where a qualifying person requires it. In these circumstances, DSO will provide a least cost fit for purpose solution to meet the physical needs³ of the customer. Any additional work beyond this will be chargeable to the customer. DSO will require proof of eligibility with regard to qualification for such alterations and under these circumstances would request that this is provided along with the order documents included with the quote. Proof of eligibility could include documentation such as a letter from an appropriate medical specialist or medical certificate, a state retirement letter/card or proof of being in receipt of disability living allowance.

DSO will not charge additional cost where it carries out work in addition to those required by the customer, which are designed to enhance its system.

CHAPTER IV. TARIFF SETTING AND APPLICATION SUBMISSION PROCEDURES

ARTICLE 1 ACCOUNTING AND REPORTING

1. For the regulated purposes the DSO is obligated to carry out its financial accounting and reporting based on the Uniform System of Accounts approved by the Commission, according to the current legislation.
2. If the DSO carries out more than one regulated activity as well as a non-regulated activity, it is obligated to unbundle its revenues, costs and financial accounts for each regulated activity.
3. The DSO should submit information about assets created by the consumer financing separately as requested by this Methodology.

ARTICLE 2 REQUIRED DOCUMENTS FOR TARIFF SETTING

1. For the purpose of tariff setting the DSO has to submit the tariff application at the Commission for tariff calculation year.
2. Tariff application and data forms, as well as a list of documents to be submitted along with the tariff application are determined by individual administrative - legal act of the Commission.
3. Along with the tariff application the DSO shall also submit the following documents prepared and audited in accordance with the International Financial Reporting Standard (IFRS):
 - a. Balance Sheet;
 - b. Profit and Loss Statement;
 - c. Cash Flow Statement.
4. The Commission is authorized to request from the DSO other additional information if it finds appropriate.
5. The responsibility on the accuracy of the information contained in the tariff application lies on the party submitting the application.

ARTICLE 3 TARIFF SETTING TIMELINE AND PROCEDURES

1. The DSO is obliged to submit tariff application to the Commission from August 4 to August 15 of the tariff calculation year. If this date coincides with the non-working day, then the application shall be submitted the following working day.
2. The Commission reviews the compliance of tariff application with the approved form and its completeness within three days upon submission.
3. If the Commission finds tariff application incomplete or it does not correspond with the approved form, it sets the deadline in written form of no more than 30 working days for amending this. This period shall be extended once only upon request of the applicant, for no more than 15 working days.
4. If the tariff application is not submitted in the timeframe defined in paragraph 3 of this Article, it remains unconsidered according to the decision of the Commission. If unconsidered tariff application was submitted due to the obligations defined by the legislation, sanctions may be imposed on the DSO in accordance with the law.
5. The Commission is authorized to make a relevant decision and review the DSO's tariffs on its own initiative. In this case the provisions of submitting necessary information and documentation are determined by the relevant decision of the Commission.
6. Upon acceptance of properly submitted application and in case envisaged by Paragraph 5 of this Article, the Commission starts public administrative proceedings and the relevant notice shall be published on the Commission web site.
7. Tariff application is reviewed according to public administrative proceeding rule under the Georgian legislation. Therefore, tariff application and enclosed documents (except for personal information relating to identifiable persons, as well as commercially confidential information considered by the Commission) are public and shall be available to any interested party.
8. All the interested parties are authorized to get familiar with materials presented to the Commission and provide their comments.

9. Comments on the tariff application shall be submitted in written form and shall include justified argumentations. In addition, the interested party is entitled not to indicate the identity while submitting own comments, the copy of comments shall be sent to the tariff applicant, and the opinions are reviewed at the public hearing of tariff application.
10. In the process of reviewing the tariff application, the Commission is authorized to request submitting of additional documentation or different types of conclusions from the DSO.
11. In the process of reviewing the tariff application before reaching the final decision, the Commission is authorized to organize meetings and/or public hearings regarding the above-mentioned tariff application.
12. Applicant shall be notified about the time and venue of the public hearing seven days in advance.

CHAPTER V. TRANSITIONAL PROVISIONS

ARTICLE 1 TRANSITIONAL PROVISIONS

1. The values of the components of WACC are defined as follows:
 - a. Risk free rate (r_{rf}) - 12.22%
 - b. cost of debt (r_d) - 12.93%;
 - c. Market risk premium (mp) - 6.17%;
 - d. Country default spread (ds) - 4.16%;
 - e. Country risk (cr) – 5.12%;
 - f. Equity Beta (β) - 0.84.
2. The rule for conducting the cost regulatory audit shall be approved by the relevant normative act of the Commission.

USAID Energy Program

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