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TRANSITORY NATURAL GAS MARKET RULES FOR GEORGIA

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DATA

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ACRONYMS

GNERC	Georgian National Energy and Water Supply Regulatory Commission
USAID	United States Agency for International Development
NARUC	National Association of Regulatory Utility Commissioners
TSO	Transmission System Operator
DSO	Distribution System Operator
VTP	Virtual Trading Point
kWh	Kilowatt Hour

CONTENTS

EXECUTIVE SUMMARY	5
CHAPTER ONE: GENERAL PROVISIONS.....	6
CHAPTER TWO: NATURAL GAS TRANSACTIONS	8
Section 1: Contractual Relationship between Market Participants	8
Section 2: Subject and Content of Transactions between Market Participants	8
CHAPTER THREE: VIRTUAL TRADING POINT: TRANSACTIONS AND NOTIFICATIONS.....	10
CHAPTER FOUR: SUPPLEMENTARY PROVISIONS	12

EXECUTIVE SUMMARY

Per the draft Law on Energy, natural gas market rules are to be developed, adopted and modified, as needed, by the Georgian National Energy and Water Supply Regulatory Commission (GNERC). GNERC requested support from the USAID Energy Program in developing natural gas market secondary legislation including draft transitory natural gas rules.

USAID recently assisted GNERC through a project with US National Association of Regulatory Utility Commissioners (NARUC) to develop the draft natural gas sector Network Code. This draft Code includes many articles that eliminate most of the articles in the existing natural gas rules.

CHAPTER ONE: GENERAL PROVISIONS

Article 1:

- (1) These Natural Gas Market Rules (the Rules) aim to describe organization and operation of natural gas market in Georgia, regulate relations between market participants and final customers, determine commercial procedures for balancing the system in the purchase, sale and transmission of natural gas, and provide information to network users;
- (2) These Rules shall assure natural gas market consumers access to reliable and quality gas supply at lowest reasonable price based on competitive market conditions;
- (3) Market participants shall trade and supply natural gas to final customers based on the principles of transparency, objectiveness, publicity and nondiscrimination;
- (4) These Rules and contracts concluded in compliance with them shall be the basic legal documents for market participants and final direct consumers that establish their rights and obligations;
- (5) The Rules shall be binding for all parties who purchase, sell, transport, supply, distribute and/or consume natural gas according to the Rules established in the territory of Georgia;
- (6) Unless otherwise provided for by legislation and contracts, suppliers shall be prohibited from terminating or reducing natural gas supply;
- (7) The Regulator shall control the compliance with the Rules.

Article 2:

These Rules stipulate:

1. Structure, procedures and principles of natural gas market organization based on the Natural Gas Market Concept Design;
2. Procedures for recording gas purchase and sale transactions and creation and administration of a database;
3. Contractual relationship between market participants and between market participants and final customers;
4. Types of transaction between market participants and between market participants and final customers;
5. Subject and content of transactions between market participants and between market participants and final customers;
6. Virtual Trading Point: transactions and notifications.

Article 3:

- (1) The natural gas market in Georgia shall include retail and wholesale markets;
- (2) The delivery point for wholesale market agreements shall be the virtual trading point;
- (3) The delivery points for retail market agreements shall be the respective consumption points;
- (4) The natural gas agreements shall be made on the basis of written contracts;
- (5) Purchase and sale between final customers and suppliers shall be made on the retail natural gas market;
- (6) The suppliers shall conclude contracts for natural gas supply to customers connected to a gas distribution/transmission network, the public supplier, supplying undertakings; and
- (7) traders within and outside Georgia;
- (8) The customers shall conclude contracts for natural gas supply with the public supplier, natural gas undertakings, balancing party, the storage system operator and natural gas traders within or outside Georgia;
- (9) Purchase and sale on the wholesale natural gas market shall be contracted under bilateral agreements;
- (10) The public supplier shall conclude contracts with suppliers, undertakings, customers, and the storage system operator;

- (11)The transmission system operator shall conclude contracts for natural gas supply for operational gas offsetting and balancing purposes;
- (12)The distribution system operator may conclude contracts for natural gas supply for operational offsetting purposes;
- (13)The natural gas traders may conclude contracts for natural gas supply with the public supplier, suppliers, customers, supplying undertakings and natural gas traders within or outside Georgia, as well as with transmission system operator and distribution system operators, and with natural gas storage system operator.

CHAPTER TWO: NATURAL GAS TRANSACTIONS

SECTION 1: CONTRACTUAL RELATIONSHIP BETWEEN MARKET PARTICIPANTS

Article 4:

- (1) Parties in natural gas transactions are natural gas market participants and final customers;
- (2) Natural gas supply shall be provided at non-regulated market prices subject to a respective supply contract negotiated between the supplier and the final customer, except for in cases referred in paragraph 2 of this article;
- (3) Natural gas transactions are made under regulated prices between the public supplier, on one side, and customers provided by the decision of the Government of Georgia and as stipulated by Article 9 of the Law on Energy, on the other side. Household customers and small enterprises shall have a right to be supplied with natural gas pursuant to Article 120 [*Supply of natural gas under public service obligation*] of the Law on Energy;
- (4) Natural gas transactions at freely negotiated prices shall be made between the natural gas undertakings or natural gas traders, on one side, and the natural gas suppliers or natural gas traders, on the other side.

Article 5:

- (1) Transmission System Operator (TSO) and Distribution System Operator (DSO) should buy gas in accordance with the Natural Gas Network Code;
- (2) The transmission system operator shall keep a registry of all contracts of natural gas supply and trade;
- (3) Suppliers and traders shall provide the gas purchase contracts to TSO;
- (4) The notification under paragraph (2) shall be made in a form set forth by the transmission system operator of the respective network and shall include at least the following data:
 1. seller, ID data;
 2. buyer, ID data;
 3. contract duration, natural gas quantity under the supply program in energy units specified yearly at quarters, months and days;
 4. natural gas quality parameters;
 5. natural gas hand over and acceptance point.

SECTION 2: SUBJECT AND CONTENT OF TRANSACTIONS BETWEEN MARKET PARTICIPANTS

Article 6:

- (1) The subject of the supply contracts is the natural gas sale.
- (2) The natural gas supply contracts shall include at least the following data:
 1. subject of the contract, rights and obligations of the parties;
 2. information about the natural gas quantities contracted for supply, including quarters, months and days, and maximum and minimum daily quantity, as well;
 3. a time period and conditions for supply of natural gas quantities with the relevant quantitative indicators and parameters, including a natural gas acceptance, handover and metering point;
 4. procedure, terms and conditions for payment of the supplied natural gas quantities;
 5. penalties in case the parties fail to perform their obligations under the contract;
 6. terms and conditions for unilateral termination of the contract by the customer without paying additional fees and/or penalties apart from the negotiated ones;
 7. financial guarantees from the customer ensuring the fulfilment of his obligations under the supply contract;

8. terms and conditions for suspending, limiting and resuming the supplies in case of non-performance of obligations under supply contracts.
- (3) When a party under the contracts under paragraph (2) is the public supplier, the supply terms and conditions shall be binding with the contracts terms and conditions by which the public supplier purchases, transports and stores the natural gas.

Article 7:

- (1) The balancing party shall keep a register of the persons with whom contracts for natural gas purchase and sale for balancing are concluded, and which shall publish on its webpage;
- (2) All daily imbalances shall be subject to a financial clearing to the balancing account of the respective user. The users shall be responsible for balancing their inputs and off-takes in their balancing portfolio; a charge shall be payable by users for the daily imbalances they allowed; in order to reduce their imbalance, users may trade with gas at the Virtual Trading Point (VTP);
- (3) The imbalance charges accumulated to the financial account shall be cleared to/by the users on a monthly basis. The issuing of an invoice by the balancing entity or by the user shall be in line with the Methodology for calculation of the daily imbalance charge pursuant to the Natural Gas Network Code;
- (4) The natural gas suppliers and traders, as well as the persons having concluded an effective transport contract with the transmission system operator shall be considered as registered;
- (5) Persons who have payments due whose deadline for performance has expired, to the transmission system operator or other natural gas market participant within the country shall not be registered;
- (6) The registration of persons who are found not to meet with the requirements of Article 6 shall be terminated.

CHAPTER TREE: VIRTUAL TRADING POINT: TRANSACTIONS AND NOTIFICATIONS

Article 8:

The system users and gas traders may buy and sell natural gas at the Virtual Trading Point (VTP) for the defined balancing zone for Georgia, including for the purpose of minimizing the imbalances on their financial accounts.

Article 9:

Where the transmission system operator must undertake balancing actions, it may also trade with natural gas at the VTP.

Article 10:

Any purchase and sale of natural gas at the VTP shall be at unregulated prices.

Article 11:

- (1) The conclusion of a contract for participation in a VTP between the transmission system operator, on the one hand, and users having gas distribution capacity, and any other traders registered at the VTP, on the other hand, entitles network users and traders to trade at VTP as registered users and to submit change of gas ownership notifications to the transmission system operator;
- (2) The contracts for participation in the VTP shall be published by the transmission system operator and shall contain at least the following information:
 1. subject of the contract, rights and obligations of the parties thereto;
 2. price formation concerning VTP trades;
 3. participation fee, deadlines, invoicing and payments;
 4. conditions, order and timeframes concerning the operational exchange of information about VTP trades;
 5. penalties in case of a default by a party to the contracts.
- (3) The transmission system operator shall publish on its Internet page at least the following information concerning the VTP:
 1. list of the registered users containing information about the title, identification number;
 2. date of registration and data about the status;
 3. total number of concluded trades with natural gas for the purpose of balancing the gas;
 4. month, no later than the 10th day of the following gas month;
 5. the volume of the physical quantity of natural gas, purchased and sold at the VTP.
- (4) The transmission system operator shall update the information set out in paragraph (3).

Article 12:

Order and procedure for submitting trade notifications to the transmission system operator:

- (1) the transfer of natural gas ownership between two balancing portfolios of registered VTP users within the balancing zone of Georgia shall be carried out by submitting purchase and sale trade notifications to the operator in respect of the gas day, for a day ahead or within the same gas day;
- (2) the timing for submitting, withdrawing and amending trade notifications shall be defined by the operator, and shall be published on its Internet page;
- (3) the time for processing trade notifications by the operator shall not take more than two hours, whereupon confirmation shall be sent to the registered used by email;
- (4) Any VTP trade notification shall contain at least the following information:
 1. trade ID (unique number);
 2. the gas day on which the natural gas is traded;
 3. counterparties (codes) / the respective balancing portfolios;
 4. date and hour of concluding a trade;

5. type of trade (purchase/sale);
 6. quantity [...] kWh;
- (5) Where the operator receives a respective set of purchase and sale trade notifications, and where the quantities indicated in these notifications are equal, it shall allocate these quantities as per the respective portfolios:
- a. as off-take from the balancing portfolio of the user submitting the sale trade notification;
 - b. as input in the balancing portfolio of the user submitting the purchase trade notification.
- (6) Where the quantities indicated in these trade notifications are not equal, the transmission system operator shall allocate the lower quantity indicated in the trade notifications;
- (7) Any registered VTP user may submit a trade notification for any gas day, regardless of whether they have submitted a transport notification at entry or exit points for the same gas day;
- (8) The quantities of natural gas indicated in the trade notification shall be included in the daily nomination or the daily re-nomination.

Article 13:

- (1) The conclusion of a contract for participation in the VTP between the transmission system operator, on the one hand, and users having gas distribution capacity, and any other traders registered at the VTP, on the other hand, entitles network users and traders to trade at VTP as registered users and to submit change of gas ownership notifications to the transmission system operator;
- (2) The contracts for participation in the VTP shall be published by the transmission system operator;
- (3) The contracts for participation in the VTP shall contain at least the following information:
 1. subject of the contract, rights and obligations of the parties thereto;
 2. price formation concerning VTP trades;
 3. participation fee, deadlines, invoicing and payments;
 4. conditions, order and timeframes concerning the operational exchange of information about VTP trades;
 5. penalties in case of a default by a party to the contracts.

CHAPTER FOUR: SUPPLEMENTARY PROVISIONS

Terms used in Energy Law shall have same meaning in the Rules. Other terms include (but are not limited to):

1. “Balancing group responsible party” is a natural gas market participant that is responsible for imbalances of a Balancing Group;
2. “Balancing portfolio” means the aggregate of a network user’s inputs or off-takes;
3. “Balancing zone” means an entry-exit system which is subject to a special balancing regime;
4. “Supply contract” means an agreement between a seller and a buyer to supply the buyer with the contract quantity of natural gas with identified quality specifications. The supply contract is between a market participant and a final customer;
5. “Virtual trading point” is a non-physical point where network users can transfer natural gas.

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