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DRAFT NATURAL GAS SUPPLIER OF LAST RESORT TARIFF METHODOLOGY

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DRAFT METHODOLOGY ON SETTING THE SUPPLY TARIFF FOR THE SUPPLIER OF LAST RESORT FOR NATURAL GAS SUPPLY

INTRODUCTION

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

The enabling environment in the Georgian Electricity 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 gas sector supplier of last resort tariff methodology. Following a presentation and detailed discussion with GNERC Gas Department and Tariff Department experts, the draft supplier of last resort tariff methodology is included in Annex 1.

In a competitive market, it is possible that suppliers will bankrupt. Should a supplier bankrupt, its customers will be left without a party responsible for their electricity supply. This could lead to demand to be met and use made of the Transmission and Distribution Network without a responsible party. This represents a risk to other market participants. Normally, a supplier will exit the market and will arrange for the continuation of supply for its customers with another supplier. However, on occasions a supplier may exit the market without making such arrangements, for example if they have gone into administration. European Directive 2009/73/EC¹ stipulates that all households, and small enterprises where appropriate should enjoy universal service². To ensure the provision of universal service, EU Member States may appoint a supplier of last resort. Consequently, all licenses in Georgia provide for the Georgian National Energy and Water Supply Regulatory Commission (GNERC) to direct that supplier to be a Supplier of Last Resort (SoLR), provided that such a direction would not adversely affect the supplier's business. The GNERC sets out its decision in relation to how a SoLR will be chosen in Georgia's electricity market, and what procedures will apply in the case of a SoLR event. The document set out the issues that GNERC would need to consider in the event of the bankruptcy of an electricity supplier.

This document therefore updates the arrangements based on the current license conditions and provides enhanced guidance on GNERC's policies and procedures. In particular, this document provides detailed information about the process GNERC will follow and the criteria it will use to select and appoint a SoLR. It also provides details about the information that industry parties will be required to give GNERC as part of that selection process. This will enable them to prepare as much as possible in advance to respond to a supplier failure.

¹ EU Directive 2009/73/EC of the European Parliament and the Council of 13 July 2009;

Art. 3. "Public service obligation and customer protection" 3. "Member States shall ensure that all household customers, and, where Member States deem it appropriate, small enterprises (namely enterprises with fewer than 50 occupied persons and an annual turnover or balance sheet not exceeding EUR 10 million), enjoy universal service, that is the right to be supplied with electricity of a specified quality within their territory at reasonable, easily and clearly comparable, transparent and non-discriminatory prices. To ensure the provision of universal service, Member States may appoint a supplier of last resort. Member States shall impose on distribution companies an obligation to connect customers to their network under terms, conditions and tariffs set in accordance with the procedure laid down in Article 37(6). Nothing in this Directive shall prevent Member States from strengthening the market position of the household, small and medium-sized consumers by promoting the possibilities of voluntary aggregation of representation for that class of consumers.

² Universal service - an economic term used in regulated industries, referring to the practice of providing a baseline level of services to every citizen of a country. It was adopted in EU energy legislation in Energy Market Directives (Directive 2003/55/EC and Directive 2009/73/EC).

This tariff methodology is consistent with the draft Electricity Network 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).

EXECUTIVE SUMMARY

On July 13, 2009 the European Parliament and the Council adopted the Third Energy Package paving a way to a fully competitive electricity and gas markets in Europe. One of the important elements in liberalization of the electricity and gas markets is assurance of the third party access to the networks, and this could be done by unbundling of monopolistic network activities from the competitive generation and supply activities. Ensuring universal service (the provision of a defined minimum set of services to all end-users at an affordable price) may involve the provision of some services to some end-users at prices that depart from those resulting from normal market conditions. However, compensating undertakings designated to provide such services in such circumstances need not result in any distortion of competition, provided that designated undertakings are compensated for the specific net cost involved and provided that the net cost burden is recovered in a competitively neutral way. In a competitive market, certain obligations should apply to all undertakings providing publicly available telephone services at fixed locations and others should apply only to undertakings enjoying significant market power or which have been designated as a supplier of last resort.

The purpose of developing this document is creation of Methodology for calculation of Natural Gas selling tariffs from the SoLR. The Law for Georgia provides the legal basis upon which the Government of Georgia may appoint a supplier of last resort for Natural Gas, based on an open tendering procedure and for a defined period of time. Under the Operational Rules for Natural Gas Supply by Supplier of Last Resort adopted by the GNERC the Commission may specify the terms and conditions, including the tariff regime, under which SoLR may supply final customers. According the Supplier of Last Resort must supply Customers who have been subjected to a Supplier of Last Resort event, defined as:

- a. Market exit or in any way termination of the supply business of the competitive Supplier, so that its Customers cease to be supplied with Natural Gas, pursuant to the provisions of article 121 (Supply of Last Resort) of the Law of Georgia on Energy;
- b. Initiation of bankruptcy or insolvency procedures by the competitive Supplier.

In order to be supplied with Natural Gas, general rules for a valid Connection Agreement between the Customer and the competent Transmission or Distribution System Operator, as provided by the respective Natural Gas Transmission Network Code and Distribution Network Code, apply. The supply tariff for Natural Gas supplied by supplier of last resort shall be determined by the GNERC, pursuant to the principles of this Methodology.

The Supplier of Last Resort tariff methodology covers:

1. Setting Natural Gas tariff from the supplier of last resort;
2. Application for setting the Natural Gas tariff for supply by the supplier of last resort;
3. Calculation of the tariffs of the supplier of last resort;
4. Monitoring the tariffs for the supplier of last resort;
5. Publication of the tariffs for supplier of last resort.

This document does not cover detailed conditions of supply by supplier of last resort, status and tasks of supplier of last resort, and provisions for vulnerable customers – these are covered in the Operational Rules for Natural Gas Supply by Supplier of Last Resort, Natural Gas Market Rules and the requirements of the other rules and regulations in force.

LEGAL REQUIREMENTS

This methodology is drafted pursuant to draft Law of Georgia on Energy, Article 121 – Supply of Last Resort and in conformity with GNERC Organization, Operation and Procedures Rules. This Methodology takes into consideration and obeys where necessary the requirements under the Law of Georgia on Energy, Operational Rules for Electricity Supply by Supplier of Last Resort, Electricity Market Rules, Network Rules, Rules on Commercial Service Quality, and Electricity/Capacity Supply and Consumption Rules. The Natural Gas Supplier of Last Resort Tariff Methodology and associated procedures should be consistent with the adopted regulation by GNERC “Tariff Methodology for the Electricity Sector”. Hence this document must be revised whenever the New Law for Energy have been adopted by the Parliament of Georgia and the Electricity Market Rules are changed.

METHODOLOGY ON SETTING THE SUPPLY TARIFF FOR THE SUPPLIER OF LAST RESORT

CHAPTER I. GENERAL PROVISIONS

Article 1

Purpose

1. The purpose of this methodology is to set Natural Gas tariff supplied by the Supplier of Last Resort based on clear principles of cost calculation related to this service and detail of the necessary data to set fair and transparent tariffs.

Article 2

Acronyms

Acronym	Description
GEL	Georgian Lari
GNERC	Georgian National Energy and Water Supply Regulatory Commission
MOESD	Ministry of Economy and Sustainable Development
NARUC	National Association of Regulatory Utility Commissioners
SOLR	Supplier of Last Resort
USAID	United States Agency for International Development

Article 3

Definitions

1. The terms used in this Methodology have the same meaning as in the Law of Georgia on Energy.
2. Other terms used in methodology for the tariff regulation purposes have the following meaning:
 - a. Direct cost for retail supply – shall mean administrative costs (not related to Natural Gas) connected with the function of the Supplier of Last Resort, approved by GNERC;
 - b. GNERC – shall mean the Regulator authority for Electricity and Natural Gas Sectors, which operates in conformity with the Law of Georgia on Energy and Law of Georgia on Licenses and Permits;
 - c. License – shall mean a right issued to a person for performing an activity on power and natural gas sector in conformity with the provisions of the Law of Georgia on Energy and Law of Georgia on Licenses and Permits;
 - d. Procedure – shall mean a set of actions, performed to implement the legislation in force;
 - e. Supplier of Last Resort - shall mean an electricity or natural gas supplier performing the supply of last resort;
 - f. Supply of Last resort – shall mean the supply of electricity or natural gas as a public service for a limited period of time according to regulated conditions to those final customers which have failed to choose or lost their supplier of electricity or natural gas respectively under specified circumstances;
 - g. Supply Tariffs – regulated charges by the Supplier of Last Resort to the Customer strictly related to the supply of Natural Gas by the Supplier of Last Resort to the said Customer;
 - h. Tariff – shall mean a regulated charge for the use of the electricity or natural gas systems, or for other electricity or natural gas related services;
 - i. Tariff for the supply of last resort – shall mean the tariff provided by a supplier to cover his reasonable costs to ensure the Natural Gas supply for the period for which it is designated as Supplier of Last Resort;
 - j. Tariff methodology – shall mean the entirety of rules, methods and principles that are prescribed and enacted by the GNERC and are applied for setting the tariffs.

Article 4

Objectives of the Supplier of Last Resort Tariff Methodology

1. The objective of this methodology is the calculation of the Natural Gas tariffs supplied by supplier of last resort for end-use customers in conformity with the criteria defined on Law of Georgia on Energy, Article 121.
2. This methodology shall be implemented for the energy enterprise designated as a Supplier of Last Resort on Natural Gas sector, defined in conformity with the definitions of Article 3 of Law of Georgia on Energy.

CHAPTER II. SETTING NATURAL GAS TARIFF FOR THE SUPPLIER OF LAST RESORT

Article 5

Methodology on setting the tariffs for the Supplier of Last Resort

1. The tariff for various customer groups may change to the extent that the customer group load profile changes;
2. Adjustment /correction of the direct cost shall be according to the ex-post principle;
3. The tariff that the Supplier of Last Resort shall apply/charge to the customers, shall include the cost for the Natural Gas purchase for the delivery period, above which it is applied even a supply margin approved by the Commission;
4. Supplier of Last Resort shall ensure the energy for the supply of the customers, by purchasing it in the unregulated market in conformity with the methodology adopted by the Commission;
5. The imbalance costs shall be permitted to be included in the supply cost and their calculation shall be in conformity with the definitions of the Market Rules and other secondary legislation in force;
6. The Supply Margin shall be a fix percentage applied over the Natural Gas purchase cost by the Supplier of Last Resort according to the definitions on Paragraph 4 of Article 6, which shall return to the supplier a reasonable return to compensate its supply risk;
7. Supplier of Last Resort Customers shall pay the respective supply tariffs and the respective transmission and distribution network tariffs, in conformity with the voltage level where the customer is supplied;
8. Costs, which depend from the supplied Natural Gas volume, shall be reflected in a transparent and non-discriminatory way and shall reflect the real supply cost, which shall be monitored periodically by the Regulator;
9. Supplier of Last Resort shall require from its customers to deposit a bank guarantee equal with the expected financial value of supply, a value agreed on the agreement between the parties, which shall be released immediately with the liquidation of financial obligations between the parties.

Article 6

Application for setting the Natural Gas tariff for supply by the Supplier of Last Resort

1. Supplier of Last Resort not later than 5th date of the following month shall submit at GNERC the application for setting the Natural Gas tariff for the Supplier of Last Resort for the current month. This application shall include all the costs identified from the Supplier, according to article 6 of this methodology;
2. Until setting the tariff by GNERC, the Supplier shall invoice the customer supplied in the conditions of the Supplier of Last Resort, with the higher tariff of Natural Gas purchase for the period to which he shall be supplied, published from the Supplier of Last Resort, reflecting the transmission/distribution costs, according to the voltage level where the customer is connected and the costs defined on Paragraph 6 of Article 5;
3. In each case GNERC, shall set the Natural Gas tariff for the Supplier of Last Resort not later than 15 days from the submission of the application. Within this period, GNERC may decide to hold public hearing sessions;
4. Not later than 5 days from GNERC decision to correct the Natural Gas tariff according to Paragraph 2, of this Article, between the parties shall be issued an invoice with all the compensations for the differences between the tariff invoiced according to Paragraph 3 of this article and the tariff defined by GNERC.

Article 7

Calculation of the Supplier of Last Resort Tariff

1. The calculation of the Supplier of Last Resort Tariff shall be according to the following formula:

$$SP\ t = DCRS\ t + EP\ t + TTDN\ t$$

Where:

SP t = supply tariff for the relevant period t, GEL/1000m³

DCRS t = direct cost for retail supply according to Paragraph 6 of Article 5, GEL/1000m³

EP t = price for Natural Gas purchase for the supply period t, GEL/1000m³

TTDN = tariff for using the transmission and distribution network for the relevant period t, GEL/1000m³

2. The price for Natural Gas for SOLR is calculated by following formula:

$$EP\ t = \frac{CE\ t}{NG\ t}$$

Where:

EP t = price for Natural Gas purchased for the supply period t, GEL/1000m³

CE t = costs for purchasing Natural Gas by SOLR, GEL/1000m³

NG t = total Natural Gas purchased by the SOLR, 1000m³

Article 8

Other obligations

1. Supplier of Last Resort has the obligation to purchase Natural Gas on the name of the customers supplied from him and shall be responsible to purchase wholesale Natural Gas on behalf of the customers supplied from him and shall be responsible for waste balancing for such a wholesale supply;
2. Supplier of Last Resort has the obligation to inform the customers for the conditions of the services provided from him;
3. Supplier of Last Resort has the obligation to deliver the supply contracts to the customers that shall be supplied from him within 8 days from the beginning of the supply;
4. Supplier of Last Resort shall supply the customers supplied from him, for a period not more than 60 days and assist them in finding an alternative supplier within the deadline.

Article 9

Monitoring the Tariff for the Supplier of Last Resort

1. The Supplier of Last Resort shall submit and justify at GNERC for every month all the costs based on the elements of this tariff as defined in Article 6 of this methodology;
2. Supplier of Last Resort shall keep separate accounts for the customers supply according to the Supplier of Last Resort service, from the customers supply from the Universal Service Supplier and any other commercial supply. These data shall be at available to GNERC when required;
3. GNERC shall monitor and control the set of the supply tariff from the Supplier of Last Resort.

Article 10

Publication

The Supplier of Last Resort is obliged to maintain and publish on its website, information regarding the supplier of last resort service, supply tariffs for the previous months for different customer categories and approximate estimations for the tariffs which may be applied on the next month for the customers supplied from this supplier.

CHAPTER III. FINAL PROVISIONS

Article 11

Interpretation

In case a subject is not handled on this Methodology, GNERC shall decide case by case and shall issue the guidelines according to respective requirements

Article 12

Transitory provisions

Calculating the Natural Gas tariff supplied in the conditions of supplier of last resort before this methodology becomes effective, shall be corrected in conformity with the criteria for setting the supplier of last resort tariff defined with this methodology.

Article 13

Amendments of the regulation

This methodology is object of review and amendment with GNERC decision, and in conformity with the Regulation on GNERC Organization, Operation and Procedures.

Article 14

Entry into force

This Methodology shall come into effect from .../... (or on the day of its publishing in the Legislative Herald of Georgia).

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