



USAID | **GEORGIA**
FROM THE AMERICAN PEOPLE

USAID ENERGY PROGRAM

DRAFT NATURAL GAS MARKET OPERATOR SERVICE TARIFF METHODOLOGY

USAID ENERGY PROGRAM

30 July 2018

This publication was produced for review by the United States Agency for International Development. It was prepared by Deloitte Consulting LLP. The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

DRAFT NATURAL GAS MARKET OPERATOR SERVICE TARIFF METHODOLOGY

USAID ENERGY PROGRAM

CONTRACT NUMBER: AID-OAA-I-13-00018

DELOITTE CONSULTING LLP

USAID | GEORGIA

USAID CONTRACTING OFFICER'S

REPRESENTATIVE: NICHOLAS OKRESHIDZE

AUTHOR(S): VALERIY VLATCHKOV

LANGUAGE: ENGLISH

30 JULY 2018

DISCLAIMER:

This publication was produced for review by the United States Agency for International Development. It was prepared by Deloitte Consulting LLP. The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

DATA

Reviewed by: Ivane Pirveli

Practice Area: Natural Gas Market Operator Service Tariff Methodology

Key Words: Natural Gas, Tariff Methodology, Market Operator

CONTENTS

DRAFT METHODOLOGY ON DETERMINATION OF NATURAL GAS MARKET OPERATOR SERVICE TARIFFS	4
INTRODUCTION.....	4
EXECUTIVE SUMMARY:	5
LEGAL REQUIREMENTS	6
METHODOLOGY ON SETTING THE TARIFFS FOR THE NATURAL GAS MARKET OPERATOR..	7
ANNEX 1.....	15
ANNEX 2.....	17

DRAFT METHODOLOGY ON DETERMINATION OF NATURAL GAS MARKET OPERATOR SERVICE TARIFFS

INTRODUCTION

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).

The purpose of developing this document is creation of Methodology for calculation of service tariffs from the Natural Gas Market Operator (NGMO). The cost of administering and operating the Natural Gas Market in Georgia shall be recovered by the Market Operator through tariffs imposed on all Natural Gas Market Participants or Natural Gas Market transactions, provided such tariffs shall be filed by the Market Operator with the GNERC for approval, consistent with the Law of Georgia on Energy. The market operator tariff shall be approved by the GNERC, pursuant to the principles of this Methodology.

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. The tasks performed by these third parties include, among others, imbalance calculation and settlement, data publication related to electricity balancing markets and issuing of the rules related to balancing markets. These tasks underpin the electricity market and represent the link between the physical exchange of electricity among market participants and the financial outcomes. The Law of Georgia on Energy determines the responsibilities of the Natural Gas Market Operator. The natural gas market operator shall be responsible for the organization of the day-ahead natural gas market in Georgia, when established, for trade in natural gas as well as for its connection and integration with other organized natural gas markets. Organization of the natural gas market shall be regulated by the Natural Gas Market Rules.

The purpose of this document is to set out a methodology for setting service tariffs for Natural Gas Market Operator for the Natural Gas Market in Georgia, for the determination of Maximum Allowed Revenues that may be earned by the Natural Gas Market Operator in any relevant year of operation in order to allow it to recover the reasonable costs of operating and maintaining the electricity market in accordance with the Law of Georgia on Energy.

The Gas Market Operator tariff methodology covers:

1. Legal and Regulatory framework on Natural Gas Market Operator Tariffs;
2. The definition of Natural Gas Market Operator services;
3. Natural Gas Market Operator Cost Allocation;
4. Natural Gas Market Operator tariffs calculation

LEGAL REQUIREMENTS

This methodology is drafted pursuant to draft Law of Georgia on Energy, Article 137 – Organization of the Natural Gas Market and Article 138 Tasks of the Natural Gas Market Operator 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 Natural Gas Supply by Universal Service Supplier, Natural Gas Market Rules, Network Rules, Rules on Commercial Service Quality, Natural Gas / Capacity Supply and Consumption Rules and General Supply Conditions. The Natural Gas Market Operator Tariff Methodology and associated procedures should be consistent with the adopted regulation by GNERC “Tariff Methodology for the Natural Gas Sector”. Hence this document must be revised whenever the New Law for Energy have been adopted by the Parliament of Georgia and the Natural Gas Market Rules are changed.

METHODOLOGY ON SETTING THE TARIFFS FOR THE NATURAL GAS MARKET OPERATOR

Article 1. Purpose

1. The purpose of this methodology is to set service tariffs for Natural Gas Market Operator based on clear principles of cost calculation related to this service and detail of the necessary data to set fair and transparent tariffs.
2. The methodology sets the process for reviewing and adjusting the Natural Gas Market Operator services tariffs.

Article 2. Acronyms

Acronym	Description
BM	Balancing Market
BRP	Balancing Responsible Party
CMLC	Centralized Market for Large Customers
CMBC	Centralized Market for Bilateral Contracts
DAM	Day Ahead Market
DSO	Distribution System Operator
NGMO	Natural Gas Market Operator
GEL	Georgian Lari
GNERC	Georgian National Energy and Water Supply Regulatory Commission
IM	Intraday Market
MO	Market Operator
RCB	Regulatory Cost Base
SO	System Operator
TSO	Transmission System Operator
TU	Traded Unit
VAT	Value Added Tax

Article 3. Definitions and Interpretation

1. The terms used in this Methodology have the same meaning as in the Law of Georgia on Energy and Natural Gas Market Rules.
2. Other terms used in methodology for the tariff regulation purposes have the following meaning:

Business day – any day other than a Saturday, a Sunday or a Georgian national holiday as defined in the Organic Law of Georgia - the Labor Code of Georgia, as apply.

Distribution system operator - a Natural Gas undertaking carrying out the distribution of Natural Gas and responsible for operating, ensuring the maintenance of and, if necessary, developing the Natural Gas distribution system in a given area and, where applicable, its interconnections with other systems, and for ensuring the long-term ability of the system to meet reasonable demands for the distribution of Natural Gas.

Natural Gas market - a market for exchange of Natural Gas and ancillary services organized under the terms and conditions stipulated in the Law of Georgia on Energy, the Natural Gas market concept design, the Natural Gas Market Rules and other applicable legal acts.

Natural Gas market operator - a legal person responsible for organizing the defined segments of the Natural Gas market in Georgia, as assigned pursuant to the Law of Georgia on Energy.

Natural Gas market participant - any natural or legal person authorized for purchase and/or sale of Natural Gas, including system operators, based on its right to participate in the Natural Gas market in compliance with the Law of Georgia on Energy, the Natural Gas Market Rules and other applicable legal acts.

GNERC – shall mean Georgian National Regulatory authority for the Natural Gas, Natural Gas and Water Sectors, which operates in conformity with the Law of Georgia on Energy and Law of Georgia on Licenses and Permits.

Inflation rate - the regulated rate of the consumer price index, expressed as a percentage, determined by the competent institutions.

Tariff – a regulated charge for the use of the Natural Gas or natural gas systems, or for other Natural Gas or natural gas related services.

Tariff methodology – the entirety of rules, methods and principles that are prescribed and enacted by the GNERC and are applied for setting the tariffs.

Tariff period - the time period in which tariffs approved by competent authority are apply by energy enterprises. As a rule, this is one calendar year.

Transaction - Commercial operation concluded between two parties through which Natural Gas sale and purchase activities are carried out.

Transmission System Operator for Natural Gas – a Natural Gas undertaking which carries out the function of the transmission of Natural Gas and is responsible for operating, ensuring the maintenance of and developing the Natural Gas transmission system in a given area and, where applicable, its interconnections with other systems, and for ensuring the long-term ability of the system to meet reasonable demands for the transmission of Natural Gas.

Article 4. Objectives of the Natural Gas Market Operator Tariff Methodology

1. This methodology establishes main principles for determination of the regulated income of the Natural Gas market operator, as well as the calculation of the regulated tariff for the services provided by the Natural Gas market operator to the participants in the centralized Natural Gas market.
2. The methodology has the following objectives:
 - a. to promote effective operating practices;
 - b. efficient use of resources;
 - c. continuous improvement of the quality of the services provided;
 - d. financial viability and Natural Gas market operator development.
3. This methodology covers:
 - a. Legal and Regulatory framework on Natural Gas Market Operator Tariffs;
 - b. The definition of Natural Gas Market Operator services;
 - c. Natural Gas Market Operator Cost Allocation;
 - d. Natural Gas Market Operator tariffs calculation.
4. The used method for the Natural Gas market operator services provided to participants in centralized Natural Gas market is "Cost + method".
5. The regulated revenue is calculated as the sum of the justified total costs and a reasonable profit share, calculated as a percentage of these costs.

Article 5 Legal and regulatory principles for determining tariffs

1. This Methodology takes into account and complies with requirements provided by Law of Georgia on Energy, Article 131 – Organization of the Natural Gas Market and Article 132 Tasks of the Natural Gas Market Operator and in conformity with GNERC Organization, Operation and Procedures Rules.
2. This Methodology takes into consideration and obeys where necessary the requirements under the Law of Georgia on Energy, Operational Rules for Natural Gas Supply by Universal Service Supplier, Natural Gas Market Rules, Network Rules, Rules on Commercial Service Quality, and Natural Gas/Capacity Supply and Consumption Rules.
3. The Natural Gas Market Operator Tariff Methodology and associated procedures should be consistent with the adopted regulation by GNERC “Tariff Methodology for the Natural Gas Sector”.
4. This Methodology and the tariffs set on its bases:
 - a. protect consumers from the monopolistic prices;
 - b. support the stable and reliable functioning of the utility;
 - c. ensure that tariffs are transparent, stable and fair for the utilities.
5. For determination of Regulatory Cost Base (RCB) structure of a utility, "building blocks" approach method is used. RCB defined by this Methodology consists of the following components:

- a. Capital expenses;
 - b. Operational expenses;
 - c. Correction component.
6. Calculation of capital and operation expenses is carried out by "Cost-Plus" method with annual cost audit.
 7. In case if the result of the cost audit revealed corrective information of the previous years existed before the test year, which was not identified in the previous year(s) tariff calculations, the Commission has authority to use this information for correcting the results of the audit of the Test Year. Correction shall to be made by using principles outlined in Chapter IV of this Methodology.
 8. All tariffs set by the Commission are calculated without Value Added Tax (VAT).

Article 6 Contractual Arrangements

1. According to the Market Rules the payment of obligations to Natural Gas Market Operator is mandatory.
2. Market Rules set out the procedures to be followed in cases of disputes relating to tariffs or nonpayment of tariffs.

Article 7 Natural Gas Market Operator License

1. Natural Gas Market Operator Licensee, shall keep separate accounts for the Market Operation Business,
2. Natural Gas Market Operator Licensee in its internal accounting shall keep an account for all market operations business, and for other business. Regulatory accounting shall be pursuant to Uniform System of Accounts and Regulatory accounting guidelines issued by GNERC.
3. The basis of charge apportionment and allocation shall not change between financial years without consent of GNERC and written approval for any such changes.

Article 8 Natural Gas Market Operator Services

1. To enroll participants in centralized markets, the Natural Gas market operator may perform the following functions:
 - a. performs, under conditions of transparency, objectivity and non-discrimination, the registration of the participants in the centralized Natural Gas market, according to the Natural Gas Market Rules and the secondary legislation issued and approved by GNERC;
 - b. Receives the registration application and the related documents according to the Natural Gas Market Rules;
 - c. Verify the correctness and completeness of the documents and request, as appropriate, additions or corrections;
 - d. Confirm the completeness and validate the documentation;
 - e. Issues the invoice for the registration fee and sends it to the applicant;
 - f. Record the participants' data in the Natural Gas market participants Register;
 - g. Register applicants as participants in the centralized market (s) after signing the Participation Agreement by the parties;
 - h. Inform the participants, System Operator, and GNERC, and publish their registration;
 - i. File and archive the registration documents.

Article 9 Scope and application

1. This methodology covers:
 - a. Legal and Regulatory framework on Market Operator Tariffs;
 - b. The determination of Market Operator services;
 - c. Market Operator Cost Allocation;
 - d. Market Operator tariffs calculation
2. The methodology shall be used to establish the market operator's tariff for the activities of the following centralized markets:
 - a. Organizing the centralized day ahead market (DAM);
 - b. Organizing the centralized intraday market (IM);
 - c. Organizing the centralized market for bilateral contracts;
 - d. Organizing the Natural Gas market for large final customers;

- e. Organizing the other centralized Natural Gas markets established by primary and / or secondary legislation in the Natural Gas sector.
3. This methodology does not apply to:
 - a. establishing the tariffs for the operation of the centralized market for the allocation of interconnection capacities, the centralized balancing market and the centralized market for ancillary services;
 - b. setting the tariff for the operator's activities related to the trading platform for greenhouse gas emission allowances.

Article 10 Obligations of the Natural Gas market operator

1. The Natural Gas market operator is obliged to organize:
 - a. separate bookkeeping for each centralized market;
 - b. separate accounting for non-regulated activities.
2. The operator is obliged to allocate the common costs related to the activities for which the regulated tariff and other regulated / unregulated activities are determined, using a cost allocation key communicated by GNERC.
3. The operator shall provide a detailed explanation of how the costs are allocated, the reason for choosing the method used and the quantification of the factors used in the allocation.
4. GNERC controls the correctness of the allocation of costs between the activities regulated by this methodology and other activities provided by the Natural Gas market operator.
5. The operator compiles and submits annually to ANRE the records of the financial contributions received from third parties (description, value, etc.).

Article 11 Structure and level of market operator tariffs

1. Prior to the commencement of the Natural Gas market, the Market Operator shall develop the structure and level of market tariffs in consultation with Natural Gas market Participants.
2. In developing the structure and level of market fees, the Market Operator shall take into consideration the manner in which it intends to charge each category of Natural Gas market participant, and whether that charging proposal is reasonable given the relative involvement of each category of participant in the Natural Gas market.
3. The Market Operator shall file the proposed structure and level of market operator tariffs with the GNERC for approval.

Article 12 Guiding Principles

1. The structure of market operator tariffs should, to the extent practicable, be consistent with the following principles:
 - a. The structure of market operator tariffs should be transparent;
 - b. Market operator tariffs shall consider the revenue requirements for the Market Operator; and
 - c. The structure and level of market operator tariffs should not favor or discriminate against a category or categories of market participants.

Article 13 Determination of regulated revenues for the market operator

1. Pursuant to Law of Georgia on Energy, Natural Gas market operator shall be particularly responsible for the following activities:
 - a. organizing Natural Gas markets within the assigned competence under this Law and/or the Natural Gas Market Rules;
 - b. keeping records on contracts and contractual obligations in accordance with the Natural Gas Market Rules;
 - c. preparation of daily schedules for purchase and sale of Natural Gas within and across the borders of Georgia pursuant to contractual obligations arising from purchasing and selling on the day-ahead Natural Gas market;
 - d. timely delivery of daily schedules for purchase and sale of Natural Gas referred to in subparagraph "c" to the transmission system operator in charge;
 - e. registering and keeping records on Natural Gas market participants;
 - f. appropriate publishing of information required for unhindered organization of the Natural Gas market and performance of the Natural Gas activities.
2. The Natural Gas market operator may be assigned with other tasks and responsibilities under the Law of Georgia on Energy and the Natural Gas Market Rules, including those additional

tasks and responsibilities which may be conferred upon establishment of the organized Natural Gas balancing and ancillary services markets as referred to in paragraph 8 of Article 130 of the Law of Georgia on Energy.

3. The Natural Gas market operator shall not trade in Natural Gas, except for the purpose of trading on the organized Natural Gas markets where the Natural Gas market operator represents a contractual party.
4. Natural Gas undertakings shall provide the Natural Gas market operator with continuous and unlimited access to data that the Natural Gas market operator needs for the organization of the Natural Gas market in line with the Natural Gas Market Rules.
5. The regulated gross profit rate for the activities referred to in paragraph 1 is 5%¹ of the total annual costs recognized by GNERC for the activities performed by the operator.
6. The regulated revenues of market operator obtained by applying the regulated tariff for services rendered to participants in centralized markets shall be calculated using the formula:

$$R_{MO} = R_S + R_A + R_T + Cor_{(t-1)} - R_{OA}$$

Where

$R_S = C_S * (1+p)$ is the revenue for the subscription activity of the participants in the centralized markets for the tariff period t+1, calculated on the basis of the justified costs C_{sub} and the profit corresponding to the regulated gross profit p;

$R_A = C_A * (1 + p)$ is the revenue for the centralized market management activity for the t+1 tariff period, calculated on the basis of justified costs C_A and the regulated gross profit

R_T is the income for the transaction activity on the centralized markets for the tariff period t+1, consisting of the income for the trading activity on the centralized markets in which the operator is a counterparty R_{TC} (DAM, IM) and the income for the activity trading on centralized markets where the Natural Gas market operator is not a counterparty R_{BT} (CMBC, CMLC).

Revenue on trading activity is calculated on the basis of the justified costs C_{TC} (Justified costs for transaction counterpart) and C_{BT} (Justified Costs for bilateral transaction), as well as of the profit corresponding to the regulated rate of gross profit p, as follows:

$$R_T = R_{TC} + R_{BT}$$

$$R_{TC} = C_C * (1 + p)$$

$$R_{BT} = C_B * (1 + p)$$

$Cor_{(t-1)}$ represents the forecast regulated income for the tariff period t+1 due to the cost forecasting error with the operator's activities for the t-1 tariff period against the values achieved in the t-1 tariff period;

R_{OA} represents the revenue from other activities using the resources recognized for the performance of the market operator's activities related to the tariff period t+1 (income from other benefits, other operating income, financial income, etc.).

7. Revenue derived from other activities R_{OA} shall not be taken into account in determining the regulated operator's income if the operator appropriately allocates costs to these activities.
8. For the purposes of determining the regulated income for the tariff period t+1, the operator shall complete and transmit to GNERC, by [...date²...] of each tariff period t, the necessary data for the calculation of the regulated tariff, according to the model in Annex no. 2, which is an integral part of this methodology.
9. The operator shall submit to GNERC the values stipulated in Paragraph 6 of this Article projected for the period t+1 and the values achieved for the t-1 tariff period as well as the estimated values to be achieved (8 months achieved: January-August and 4 months estimated: September-December) during the t tariff period.
10. The data on the costs referred to in paragraph 6 and 7 of this Article are substantiated by documents, justifications regarding the total values and the breakdown of these values on

¹ The value is for illustrative purpose and shall be determined by GNERC

² Date shall be determined by GNERC

each of the activities provided in art. 11 par. (1), such as: contracts, bids, invoices, accounting documents, investment justification, costs with third parties, etc.

11. All costs necessary to determine the regulated operator's income for services rendered to participants in centralized markets shall be expressed in nominal terms.
12. If the GNERC requires additional information, clarifications, and / or corrections, the Natural Gas market operator is obliged to submit the requested data within 7 working days from the date of the request.

Article 14 Calculation of the regulated tariffs for the activities performed by the Natural Gas market operator

1. The regulated market operator's tariff is set for each tariff period t and consists of the following components:
 - a. T_{SUB} - the subscription component to the centralized markets (one participant to enrollment), applied once, for the registration of a participant in one or more centralized markets;
 - b. T_{ADMIN} - administration of the centralized market component [GEL/participant/ year], applied annually to each participant in the centralized markets for each centralized market where it is registered;
 - c. T_{TC} - the transaction component of the centralized markets in which the operator is a counterparty [GEL/TU], applied to each participant for the sales / purchase transactions made, after each completed transaction;
 - d. T_T - the transaction component of the centralized markets where the operator is not a counterparty of bilateral transaction [GEL/TU], applied to each participant, for the sales / purchase transactions made after each completed transaction.
2. The subscriber component of the centralized markets shall be calculated using the formula:

$$T_{ENTRY} = R_{ENTRY} / N_P \text{ [GEL / number of subscribed participants] (2),}$$

Where:

R_{ENTRY} , [GEL] - is the revenue for the registration activity of the participants in the centralized markets, defined in art. --. paragraph (6).

N_P - is the number of new participants expected to join the centralized markets during the tariff period t .

3. The subscription component to the centralized markets shall be paid to the market operator by the participant once, on the first registration on one or more of the centralized markets, and is a condition for subscription.
4. The change of the centralized markets on which a participant activates after the first enrollment does not require payment of the enrollment component provided in paragraph (6).
5. The participants on the centralized markets until the beginning of the application of the tariffs established according to the provisions of the present methodology do not pay the registration component to the centralized markets.

Article 15 Calculation of the centralized market administration component

1. The centralized market administration component shall be calculated using the formula:

$$T_{ADMIN} = R_{ADMIN} / (N_P + N_{PN} - N_{PW}) \text{ [GEL / participant / year],}$$

Where:

R_{ADMIN} [GEL] is the revenue for the centralized market administration activity defined in art. ... paragraph (6);

N_P - is the number of participants registered in centralized markets at the beginning of the charging period t ;

N_{PN} - is the number of new entrants expected to join centralized markets during the t -period;

N_{PW} - is the number of participants expected to be withdrawn / revoked from centralized markets in the tariff period t .

2. The administration component shall be paid annually to the operator by each participant for each of the centralized markets in which it is registered.

3. For participants entering the centralized market / markets during the tariff period, the amount of the administration component paid to the operator shall be weighted by the duration for which the participant is registered, expressed in months and the total number of months in the tariff period.
4. For new participants, the administration component shall be charged by the operator from the month in which the Participation Agreement is concluded by market participants with the market operator enters into force.
5. In the case of the suspension and revocation of a participant, the market operator shall not return the annual administration component to the participant.

Article 16 Calculation the tariffs when the market operator is a counterparty of the transaction

1. The component of transactions on centralized markets where the operator is a counterparty shall be calculated as follows:

$$T_{\text{TRANZ}} = R_{\text{TRANZ}} / (2 * Q_{\text{TRANZ}} \text{ annual}) [\text{GEL} / \text{TU}] (4),$$

Where:

T_{TRANZ} [GEL/TU]– is the tariff for transaction activity on centralized market where the market operator is a counterpart

R_{TRANZ} [GEL] - is the revenue for the transaction activity on the centralized markets in which the operator is a counterpart, as defined in art. ... par. (6).

Q_{TRANZ} [UT] - is the number of units traded annually by participants in centralized markets where the Natural Gas market operator is a counterpart.

2. The component of transactions in centralized markets where the operator is a counterparty shall be paid by each participant for the traded units after each transaction carried out on the centralized markets.

Article 17 Calculation the tariffs when the market operator is not a counterparty of the transaction

1. The component of transactions in centralized markets where the market operator of the Natural Gas market is not a counterpart is calculated as follows:

$$T_{\text{BILATERAL}} = R_{\text{BILATERAL}} / (2 * Q_{\text{TRANZ.BILATERAL}}), [\text{GEL} / \text{TU}] (5),$$

Where:

$T_{\text{BILATERAL}}$ – [GEL/TU] is the tariff for the activity of performing transactions on centralized markets where the operator is not a counterpart, as defined in art. ... paragraph (6).

$R_{\text{BILATERAL}}$ - [GEL] is the revenue for the activity of performing transactions on centralized markets where the operator is not a counterpart, as defined in art. ... paragraph (6).

$Q_{\text{TRANZ.BILATERAL}}$ [TU] is the number of units traded annually by participants in centralized markets where the Natural Gas market operator is not a counterpart.

2. The component of transactions in centralized markets in which the market operator is not a counterparty shall be paid by each participant for the units traded after each transaction carried out on the centralized markets.

Article 18 Evaluation of Tariff Proposal

1. The tariff proposal shall be evaluated by GNERC within the terms specified in the Law of Georgia on National Regulatory Bodies
2. The GNERC shall approve or reject market operator tariffs by evaluating costs substantiating thereof.
3. During the process of tariff proposal evaluation, the market operator may submit corrections and additions of the tariff proposal.
4. Market operator tariffs set shall be in force until the setting of new tariffs.

Article 19 Market operator tariff approval process

1. The Natural Gas Market Operator shall submit Tariffs for approval by GNERC such that:

- a. The NGMO recovers its market operator costs, for the provision of services as authorized under the Law of Georgia on Energy and Market Operator License; and
 - b. Tariffs used by Natural Gas Market Operator shall be in accordance with this methodology, approved by the Regulator.
2. The Article – of this methodology specifies how costs are allocated to the market operator function and how these are to be recovered from tariffs.

Article 20 Market Operator Tariffs Approval Process

1. The MO shall submit to the Regulator its methodology for Market Operator Tariffs and any subsequent amendments to this methodology at least fifteen (15) business days prior to its proposed date of effectiveness.
2. No methodology or amendments to a methodology shall be effective until approved by the GNERC.
3. The MO is entitled to propose the Market Operator Tariffs subject to the requirements of Article -- above.

Article 21 Publication

The Natural Gas Market Operator is obliged to maintain and publish on its website, information regarding the market operator tariffs approved by the GNERC.

Article 22 Final Provisions

1. The market operator's regulated tariff for each tariff period t+1 shall be proposed by the market operator up to [date] of the t tariff period and approved by ANRE by [date] of the t tariff period, in accordance with this methodology.
2. The operator's rights resulting from the application of the tariff established in accordance with this methodology shall be obtained by the operator on a contractual basis by the conclusion of the Participation Agreement on the centralized markets

Article 23 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 24 Transitory provisions

Calculating the Natural Gas market operator tariff before this methodology becomes effective, shall be corrected in conformity with the criteria for setting the Natural Gas market operator tariff defined with this methodology.

Article 25 Amendments of the methodology

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

Article 26 Entry into force

This Methodology shall come into effect from .../... and shall be published on the Legislative Herald of Georgia and on the official site of the Commission.

ANNEX 1

Description of the activities performed by the Market Operator³

1. Enrolment in centralized markets. To enroll participants in centralized markets, the Natural Gas market operator may perform the following functions:
 - a. performs, under conditions of transparency, objectivity and non-discrimination, the registration of the participants in the centralized Natural Gas market, according to the Natural Gas Market Rules and the secondary legislation issued and approved by GNERC;
 - b. Receives the registration application and the related documents according to the Natural Gas Market Rules;
 - c. Verify the correctness and completeness of the documents and request, as appropriate, additions or corrections;
 - d. Confirm the completeness and validate the documentation;
 - e. Issues the invoice for the registration fee and sends it to the applicant;
 - f. Record the participants' data in the Natural Gas market participants Register;
 - g. Register applicants as participants in the centralized market (s) after signing the Participation Agreement by the parties;
 - h. Inform the participants, System Operator, and GNERC, and publish their registration;
 - i. File and archive the registration documents.
2. Administration of centralized markets. To manage the centralized markets Natural Gas market operator may perform the following functions:
 - a. Issue, upon request, based on the agreement concluded with the market participants, authentication key, together with the necessary addresses for their access to the transaction systems;
 - b. Provides the necessary training for participants to use the authentication key and operational assistance;
 - c. Enter the participant's identification data into the centralized market information database (participant configuration);
 - d. Elaborates reports on the economic operators registered on the centralized markets;
 - e. Organizes auctions / trading sessions;
 - f. Documents and archives the documents;
 - g. Organize and maintain warranty record registers;
 - h. Propose to GNERC the tariffs applicable to the participants in the centralized markets for its activity;
 - i. Register bilateral contracts;
 - j. Make available to other legal entities, the information contained in the Transaction Register;
 - k. Assists market participants;
 - l. Run computer applications dedicated to calculating payment obligations / collection rights for balancing market participants and for the parties responsible for balancing based on the provisions of the Natural Gas Market Rules and other specific regulations;
 - m. Settles deficit / surplus prices;
 - n. Receives and resolves the appeals;
 - o. Elaborates and sends to GNERC proposals for modification/improvement of the regulations/procedures in force, as well as proposals for new specific regulations/procedures regarding the activity on the Natural Gas markets
 - p. Update the participants' data in the trading registry and participant register;
 - q. Informs the participants, system operator and GNERC, and publishes information on their withdrawal, suspension or revocation;
 - r. Draws up views on regulations relating to administered markets when they are in the public consultation phase;
 - s. Issuance of the bills for the administration of centralized markets and forward them to the respective market participants

³ This annex shall be updated after the approval of the Natural Gas market rules

3. Organizing transactions. For organizing the centralized markets, the Natural Gas market operator performs the following functions:
 - a. Provides the trading framework (organizes infrastructure maintenance, logistics and personnel), including the development, implementation and maintenance of the necessary infrastructure and the applications of the trading systems;
 - b. Receives and validates offers for sale and purchase of Natural Gas;
 - c. Determines the number of traded units, the closing price of the market and communicates the confirmation of transactions;
 - d. Organizes the auctions / trading sessions;
 - e. Sets the winning bid and transaction partners as well as transaction confirmations for traded units;
 - f. Apply specific procedures in emergency situations, including in the case of malfunctions of computer systems;
 - g. Establishes the physical notifications on the balancing responsible parties related to the DAM / IP transactions made by each participant, makes them available to BRP and transmits them to the TSO;
 - h. Verify and, if appropriate, notify the participants and GNERC of any inconsistencies between the contract signed between the auctioned parties / the transaction confirmation form and the contract text published together with the applicable standard offer / contract and the results of the trading session notified to the parties;
 - i. Receives, manages, issues / executes the financial guarantees for participation in the auction, established by the market participants;
 - j. Sends the transaction confirmations to the participants who participated in the auction session;
 - k. Publish the market closing price and other relevant market information;
 - l. Ensures the configuration of all the elements regarding the access to trading and the validation of the offers proposed by the market participant in the applications serving the administered markets. These conditions concern, but are not limited to, the participant's identification code, the established guarantees and the list of accepted counterparts;
 - m. Supervise the functioning of the market and inform GNERC about the results of this activity, according to the legislation in force;
 - n. Collect and publish market statistics aggregated at a level that does not disclose the individual position of a participant on the market;
 - o. Update / improve the performance and parameters of trading information systems;
 - p. Ensure the administration of the databases specific to the trading IT systems;
 - q. Develops support applications for the elaboration of post-transaction reports and analyzes;
 - r. Ensure the filing and archiving, in accordance with the relevant provisions of the regulatory framework applicable to each of the centralized markets, of the documents relating to the auction / trading sessions organized;
 - s. Elaborates, promotes and presents materials on the results of the operation of centralized markets.

ANNEX 2

Costs⁴ of Natural Gas market operator for performing the functions of administration of the Natural Gas market:

1. Material costs (expenditure on materials, consumables, expenditures, goods, energy costs, water and gas)
2. Staff costs, salaries, social securities and social protection costs, contributions to social security, unemployment and health insurance
3. Other staff costs (vouchers, wages, provisions, employee participation in employment the profits of the previous year, etc.)
4. Depreciation cost and provisions for the year, Impairment of tangible and intangible assets, uncorrelated (less depreciation)
5. Other operating costs, out of which: Costs with external benefits (Protocol, Advertising and sponsorship)
6. Expenditure on other taxes, fees and charges,
7. Other operating costs
8. Financial costs
9. Number of participants withdrawn/ revoked to the centralized market
10. Traded units

⁴ Example is for illustrative purposes

USAID Energy Program

Deloitte Consulting Overseas Projects LLP

Address: 29 I. Chavchavadze Ave., 0179, Tbilisi, Georgia

Phone: +(995) 595 062505

E-mail: info@uep.ge