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DRAFT UNIVERSAL SERVICE SUPPLIER TARIFF METHODOLOGY

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30 July 2018

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DRAFT METHODOLOGY ON SETTING THE SUPPLY TARIFF FOR THE UNIVERSAL SERVICE SUPPLIER AND CALCULATING CORRESPONDING RENUMERATION FOR SERVICE PROVIDER

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' 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 Electricity sector distribution connection tariff methodology. Following a presentation and detailed discussion with GNERC Electricity Department and Tariff Department experts, the draft distribution tariff methodology for Electricity connections is included in Annex 1.

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).

The purpose of developing this document is creation of Methodology for calculation of service tariffs from the Electricity Market Operator (EMO). The cost of administering and operating the Electricity Market in Georgia shall be recovered by the Market Operator through tariffs imposed on all Electricity Market Participants or Electricity 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. 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 universal service operator.

The purpose of developing this document is creation of Methodology for calculation of electricity tariffs from the Universal Service Supplier (USS) and Calculating Corresponding Remuneration for the Service Provider for the electricity market in Georgia.

Service provided by Universal Service Supplier may also involve making provisions so that service is available to vulnerable customers and in particular the customers with a disability. The supply tariff for electricity supplied by Universal Service Supplier shall be determined by the GNERC, pursuant to the principles of this Methodology.

The Universal Service Supplier tariff methodology covers:

1. The Right for Universal Service - Universal Service - Determination of Reasonable Price - Retail Market Competition Assessment;
2. Public Service Obligation - Imposition of Public Service Obligation - Regulation of Prices for Universal Service Supplier;
3. Retail Tariff for Universal Service Customers - General Principles - Input Values Reviews - Adjustments of Regulated Revenues - Extraordinary Reviews;
4. Input Values - Definition of Input Values;
5. Universal Service Regulated Revenues - General Principles - Allowed Retail Costs - Allowed Working Capital Costs - Allowed Bad Debt Costs - Wholesale Power Purchase Costs - Pass-Through Costs – Costs Allocation;
6. Tariff Structure Methodology - Methodology for Structuring the Retail Tariff for Universal Service Supplier;
7. Calculation of Regulated Revenues;
8. Transitional and Final Provisions - amendment - Interpretation - Repeal - Entry into force.

This document does not cover detailed conditions of supply by universal service supplier, status and tasks of universal service supplier, and provisions for vulnerable customers – these are covered in the Operational Rules for Electricity Supply by Universal Service Supplier, Electricity 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 119 – Universal Service Supply 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 Universal Service Supplier, Electricity Market Rules, Network Rules, Rules on Commercial Service Quality, and Electricity/Capacity Supply and Consumption Rules. The Universal Service Supplier 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 UNIVERSAL SERVICE SUPPLIER AND CALCULATING CORRESPONDING RENUMERATION FOR SERVICE PROVIDER

CHAPTER I. GENERAL PROVISIONS

Article 1

Purpose

1. The purpose of this methodology is to set electricity tariff supplied by the Universal Service Supplier 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 universal service supplier tariffs.

Article 2

Acronyms

Acronym	Description
DSO	Distribution System Operator
GEL	Georgian Lari
GNERC	Georgian National Energy and Water Supply Regulatory Commission
kWh	Kilowatt hour
MO	Market Operator
MWh	Megawatt hour
SO	System Operator
TOU	Time of Use tariff
TSO	Transmission System Operator
UOS	Use of the System
USS	Universal Service Supplier

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 Operational Rules for Electricity Supply by Universal Service Supplier.
2. Other terms used in methodology for the tariff regulation purposes have the following meaning:

Bad debt allowance – an allowance in tariffs to reflect amounts owed by customers of the USS which are unlikely to be paid, as determined by GNERC.

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.

Customer – a final Customer which purchases electricity.

Customer category – the classification of different types of customers for the purposes of charging retail tariffs. The classification should have regard to customers' manner of active energy and capacity measuring, manner of electricity consumption, peak load, supply voltage, and other characteristics that impact on the cost of supply.

Distribution system operator – an electricity undertaking carrying out the distribution of electricity and responsible for operating, ensuring the maintenance of and, if necessary, developing the electricity 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 electricity.

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

Supplier of Last Resort – an electricity or natural gas supplier performing the supply of last resort.

Supply of Last resort – 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.

Supply Tariffs – regulated charges by the Universal Service Supplier to the Customer strictly related to the supply of electricity by the Universal Service Supplier to the specified Customer.

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

Tariff for the supply of last resort – the tariff provided by a supplier to cover his reasonable costs to ensure the electricity supply for the period for which it is designated as Supplier of Last Resort.

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

Transmission System Operator for electricity – an electricity undertaking which carries out the function of the transmission of electricity and is responsible for operating, ensuring the maintenance of and developing the electricity 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 electricity.

Universal Service – supply of electricity as a public service according to regulated conditions to those final customers which are entitled to be supplied with electricity under such conditions, i.e. household customers and small enterprises, and freely choose such a method of supply or use it by default.

Universal Service Supplier – an electricity supplier offering household Customers and small enterprises the universal service.

Vulnerable customer – a household customer which due to its social status and/or health condition and in accordance with applicable legal acts is recognized by the competent national authority of Georgia as being a vulnerable customer to whom the right to system use and/or supply of electricity or natural gas is granted under special conditions in accordance with the provisions of the Law of Georgia on Energy.

Article 4

Objectives of the Universal Service Supplier Tariff Methodology

1. The objective of this methodology is the calculation of the electricity tariffs supplied by universal services supplier for end-use customers in conformity with the criteria defined on Law of Georgia on Energy, Article 119.
2. This methodology shall be implemented for the single supplier to whom a public supply obligation has been imposed by Government of Georgia pursuant to Article 9 of Law of Georgia on Energy.

CHAPTER II. THE RIGHT FOR UNIVERSAL SERVICE

Article 5

Universal Service Supply

1. Household customers and small enterprises shall be entitled to be supplied with electricity by the universal service supplier under the terms and conditions stipulated in the Law of Georgia on Energy.
2. A Universal Service Customers shall be supplied with electricity of a specified quality at reasonable, transparent and non-discriminatory prices.
3. The tariff for various customer groups may change to the extent that the customer group load profile changes.
4. Adjustment /correction of the direct cost shall be according to the ex-post principle.

Article 6

Determination of Reasonable Price

1. Prices charged to Universal Service Customers will be considered reasonable if they represent the price that a supplier in an effectively competitive electricity retail supply market would be expected to apply for supply of electricity to customers of this service.
2. Prior to determination of prices for Universal Service Customers, the Commission will assess the level of competition in retail supply to Universal Service Customers, in line with Article 5 below.
3. When the retail supply market for Universal Service Customers is assessed as being uncompetitive, the Commission will further assess the reasonability of market based prices charged to universal service customers;
4. For the purposes of demonstrating that a price charged to all or any class of Universal Service Customers is reasonable, in accordance with paragraph 3 above, an electricity supplier may:
 - a. Demonstrate that the price charged to Universal Service Customers is equal to or less than a regulated price as approved by the GNERC in accordance with this Methodology.
 - b. Where no regulated price is in effect for any class of Universal Service Customer, provide convincing information to the GNERC that the price charged to Universal Supply Service Customers represents the outcome of a competitive procurement of wholesale electricity supply, regulated network tariffs and a margin set by the GNERC
 - c. The costs of purchased electricity shall be executed in a competitive way.
5. When a Universal Service Customer chooses to be supplied by an electricity supplier under the terms of a competitive supply contract:
 - a. The terms and conditions of supply are mutually agreed between the supplier and the Universal Service Customer and do not represent a Universal Supply Offer.
 - b. The Universal Service Customer retains the right to be supplied by a licensed supplier holding a Universal Service Obligation in accordance with the Universal Service Supply Offer of that supplier so long as he meets the requirements of Article 5, paragraph 1 above.
 - c. A Universal Service Customer switching from the supplier who does not have a Universal Service Obligation to a supplier who has such an obligation, must comply with all requirements set forth in respective legislation.

Article 7

Retail market competition assessment

1. The GNERC shall conduct an assessment of the effectiveness of competition in the electricity retail market for Universal Service Customers at least every two years.
2. The Retail Market Competition Assessment shall use verifiable and quantifiable indicators of the level of competition on electricity retail supply to all Universal Service Customers and separately to households and commercial customers who have the right to universal service.
3. The Retail Market Competition Assessment shall include:
 - a. An assessment of the level of competition in the electricity retail supply market for Universal Service Customers.
 - b. The GNERC's evaluation as to whether competition is considered effective or not.
 - c. The GNERC's evaluation as to whether ineffective competition requires price regulation so as to ensure that Universal Service Customers are supplied at a reasonable price;
 - d. A time-bound action plan for the removal of the price regulation shall be updated each year.

CHAPTER III. PUBLIC SERVICE OBLIGATION

Article 8

Imposition of Public Service Obligation

1. In order to ensure the provision of supply within the universal service, Government of Georgia may charge the Public Service Obligations to any supplier, obliging the supplier in question to provide electricity supply to customers who are entitled the supply within universal service;

2. The Universal Service Obligation shall be imposed on the Universal Service Supplier and shall be reviewed at least every three years or such lesser period as the GNERC deems reasonable.
3. Prior to the re-imposition of a Universal Service Obligation to the Public Service Supplier, the GNERC shall assess supply criteria, in accordance with the requirements of Article 119 of the Law on Georgia on Energy.

Article 9

Regulation of Prices for Universal Service Supplier

1. Following the Retail Market Competition Assessment, conducted in accordance with Article 7 of this Methodology, the GNERC may determine that prices to some or all Universal Service Customers must be regulated to ensure that these are reasonable.
2. When the GNERC makes such a determination, the Universal Service Supplier shall prepare and submit to the GNERC its proposed prices for supply to Universal Service Customers.
3. These proposals shall comply with the terms laid out in this Methodology and shall include necessary evidence to support the proposed tariffs.
4. The Universal Service Supplier shall maintain separate accounts between the regulated activities of Universal Service Supplier and other commercial activities.

CHAPTER IV. RETAIL TARIFF FOR UNIVERSAL SERVICE CUSTOMERS

Article 10

General Principles

1. The Universal Service Supplier shall charge the Universal Service Retail Tariff to Regulated Customers, as approved by the GNERC.
2. The Retail Tariff for Universal Service Customers shall be set and approved at each relevant year, such that:
 - a. The revenues that the Universal Service Supplier expects to earn from the Retail Tariffs for Universal Service Customers shall cover all costs for provision of universal service, Chapter V
 - b. The Retail Tariff for Universal Service Customers shall be consistent with the principles set in Chapter VII, Tariff Structure Methodology.
3. USS Regulated Revenues shall be determined as follows:
 - a. Universal Service Regulated Revenue shall be set each relevant tariff year;
 - b. The proposal for regulated revenues shall be submitted by USS to the GNERC for approval, prior to each relevant tariff year;
 - c. The calculation of Universal Service Regulated Revenue shall use Input Values set at Input Values Reviews; and
 - d. Extraordinary Reviews, which involve an adjustment to Universal Service Regulated Revenue for material changes in costs and/or revenues caused by an Extraordinary Event, shall be made as necessary.

Article 11

Input Values Reviews

1. The Input Values used to calculate Universal Service Regulated Revenues of the USS shall be set at input values review. Changes to Input Values shall only be made to the extent that those changes are reasonable, justified, and prudently asserted.
2. An Input Values Review shall be held at the initiation of the GNERC, when changes in circumstances are considered to merit such a review.
3. The USS may propose at any time to the GNERC that an Input Values Review be initiated. The GNERC is required to respond to such a proposal with written reasons for its decision to initiate or not initiate such a review.
4. The process for undertaking Input Values Reviews is given in Article 24.

Article 12

Adjustments of Regulated Revenues

1. The change in Universal Service Regulated Revenue that may result from the change between allowed revenues and realized costs, shall be conducted during annual adjustments.
2. Adjustments of USS Regulated Revenues shall take into account the changes between the revenues realized and the costs realized for the categories of expenses, which depend directly on the supply level.
3. Annual Adjustments shall be carried out prior to each relevant year, in accordance with the process described in **Article 25**.
4. The formulae for calculating Universal Service Regulated Revenue at Annual Adjustments are given in Article 23 of this Methodology.

Article 13

Extraordinary Reviews

1. Extraordinary Reviews shall be triggered by Extraordinary Events, as defined in ...
2. At Extraordinary Reviews the impact of the Extraordinary Event on Universal Service Regulated Revenue for the remainder of regulatory period will be calculated. If the impact is greater than the Materiality Threshold then an Extraordinary Adjustment to Universal Service Regulated Revenue shall be made. The Material Threshold¹ shall be 5% of revenues, unless determined otherwise at Input Values Reviews on the mutual agreement of the USS and the GNERC.
3. The calculation of the impact on Universal Service Regulated Revenue and adjustment of revenues shall not take into account for any factors that are not directly affected by the Extraordinary Event.
4. The GNERC shall also take account of the on-going impacts of Extraordinary Events (that pass the Materiality Threshold) at future Annual Adjustments.
5. The process for undertaking Extraordinary Reviews is given in **Schedule 4**.

¹¹ The material threshold is for illustrative purposes and may be defined by GNERC at Input Values Reviews

CHAPTER V. INPUT VALUES

Article 14

Definition of Input Values

1. Input Values are key parameters used in the calculation of regulated revenues of Universal Service Supplier.
2. The following values can be specified as fixed or as a table of values, in which case different values for each relevant year will be applied, starting from the current relevant year until the next review of input values.
3. Input Values comprise the following:
 - a. Economic USS Related Asset Lives;
 - b. Retail Margin;
 - c. Bad Debt Allowance;
 - d. Balancing Sharing Factor;
 - e. Export Sharing Factor; and
 - f. Any other input parameter that the GNERC may deem necessary.
4. Input values are set for a period of three (3) years.
 - a. Retail Margin;
 - b. Bad Debt Allowance;
 - c. Imbalance Sharing Factor;

CHAPTER VI. UNIVERSAL SERVICE REGULATED REVENUE

Article 15

General Principles

1. Universal Service Regulated Revenue shall equal the reasonable costs of the USS in providing Standard Service to Regulated Customers, to the extent that those costs are justified and prudently incurred.
2. The reasonable costs of the USS shall comprise:
 - a. Allowed Retail Costs (given in Article 16);
 - b. Allowed Working Capital costs (given in Article 17);
 - c. Allowed Bad Debt Costs (given in Article 18);
 - d. Allowed Wholesale Power Costs (given in Article 19),
 - e. Pass-Through Costs including the costs of TSO/MO and DSO network and License Fee, which shall be fully passed-through at Annual Adjustments.
3. In determining reasonable costs, the GNERC shall refer to, but is not bound by or limited to:
 - a. Past volume, cost and service quality information relating to the USS;
 - b. Projected volumes, costs and service quality relating to the USS;
 - c. Comparisons with similar utilities in Georgia and in countries elsewhere in Europe, taking account of the similarities between the electricity industry in those countries and that of Georgia; and
 - d. Comparisons with the costs of similar activities in Georgia and in countries elsewhere in Europe, taking account of the similarities between the electricity industry in those countries and that of Georgia.
4. The reasonable costs shall be allocated to Regulated Customers, as foreseen in 1.520.
5. Any other revenue that is not collected through tariffs, but is related to provision of Standard Services to Regulated Customers shall be deducted from Universal Service Regulated Revenue, including any difference between the disposal value of assets and their regulatory value.

Article 16

Allowed Retail Costs

1. Allowed retail costs include the costs that are related to supplying Regulated Customers:
 - a. Operating and maintenance costs;

- b. Corporate costs;
 - c. Depreciation costs; and
 - d. Other costs that are out of USS Control.
2. Allowed operating and maintenance costs shall not include the costs of advertising and other marketing, and any taxes or duties that are intended to be recovered through the Retail Margin.
 3. Allowed corporate costs include costs (or a proportion of total corporate costs where the USS is a subsidiary or affiliate of another entity) that are necessary and attributable to the continued functioning of the USS but, in accordance with international accounting standards, are not directly associated with providing Standard Service to Regulated Customers.
 4. Costs of public communications for safety, conservation, encouraging prompt payment and discouraging unauthorized use are allowable costs.

Article 17

Allowed Working Capital Costs

1. Working capital costs shall be calculated as the cost of financing working capital for the USS multiplied by the allowed working capital value.
2. The cost of financing working capital shall be calculated as EURIBOR plus S%, where S is a value to be determined by the GNERC at Annual Adjustments and which reflects the premium payable by the supplier for short-term loans.
3. The allowed working capital value shall be calculated as 1/12th of the sum of allowed retail costs, allowed wholesale energy costs, allowed wholesale capacity costs and pass-through costs.

Article 18

Allowed Bad Debt Costs

1. The supplier will propose a bad debt allowance which GNERC will review for reasonableness. In making this determination, GNERC will consider the efforts being made by the USS as well as the support provided by law enforcement officials and the judicial system to enforce the collection of amounts due from consumers. In order to encourage the USS to manage its accounts receivable in a cost effective manner, GNERC may decide to establish a target level to provide the incentive to reduce this cost from the level experienced in the prior year.
2. The Bad Debt Allowance shall be set by the GNERC during the determination of input values.

Article 19

Wholesale Power Purchase Costs

1. Universal Service Supplier is obliged to procure electricity in a transparent, economical and efficient manner.
2. The Universal Service Supplier is required to demonstrate that the projected prices of electricity to be procured are reasonable. This may include, but is not limited to, demonstrating that:
 - a. Projected prices are in line with historic and projected Georgia wholesale market prices.
 - b. Projected prices are in line with historic and projected regional wholesale market prices.
 - c. Prices result from a competitive procurement of wholesale electricity supplies.
 - d. Prices are consistent with the regulated tariffs applying to purchases where these are the result of an imposed obligation on the suppliers.
3. Wholesale energy costs that are related to supplying regulated customers, are comprised of:
 - a. Costs of energy procured from domestic generation;
 - b. Energy import costs;
 - c. Energy Purchase Retail Margin;
 - d. Net imbalance costs, subject to imbalance sharing factor;

4. Allowed net imbalance costs shall comprise the actual costs incurred less the actual revenues earned (as determined in accordance with the Market Rules) that result from imbalances between actual demand from regulated customers and the nominated supply of energy.
5. The Imbalance Sharing Factor shall be a fixed percentage that is applied to net imbalance costs to determine the sharing of these costs between the USS and regulated customers, where a value of 0% means that all net imbalance costs are allocated to the USS and a value of 100% means that all net imbalance costs are allocated to customers.
6. In setting the Imbalance Sharing Factor, the GNERC shall take into account the extent to which USS is able to manage imbalances and, especially, the balance between supply from domestic generation and sustainable import, as well as demand fulfilled by USS.
7. Verification of wholesale energy costs to provide Universal Supply Service shall be conducted in accordance with the principles set out in **Schedule 2**.
8. The Retail Margin shall be a fixed percentage that is applied to allowed wholesale energy costs and allowed wholesale capacity costs. It shall be set at such a level such that it:
 - a. Provides the USS with a reasonable profit that compensates it for the risks it assumes in providing the standard service for regulated customers. This shall be calculated with reference to the margins earned by similar utilities in countries elsewhere in Europe, taking account of the similarities between the electricity industry in those countries and that of Georgia; and
 - b. Provides the USS with a reasonable return on its net fixed assets used in providing Standard Service to Regulated Customers. This shall be calculated with reference to the cost of capital of other suppliers in Georgia.

Article 20

Pass-Through Costs

1. The USS shall cover the following costs during Annual Adjustments:
 - a. Market Operator (MO) costs that are invoiced by the MO and relate to Universal Service Customers;
 - b. System Operator (SO) charges that are invoiced by the TSO and relate to Universal Service Customers;
 - c. Transmission Network Use of the System (UOS) costs that are invoiced by the TSO and relate to Universal Service Customers;
 - d. Distribution Use of the System costs that are invoiced by the DSO and relate to Universal Service Customers; and
 - e. The share of the License Fee that relates to Universal Service Customers.

Article 21

Allocation of Costs

1. The reasonable costs calculated according to this Chapter shall be allocated as follows:
 - a. Allowed retail costs and allowed working capital costs shall be allocated in proportion with the number of customers.
 - b. Procured wholesale energy costs shall be allocated to Universal Service Customers in a way that does not distort competition for unregulated customers.
 - c. Pass-Through Costs shall be allocated to Universal Service Customers in a way that preserves, to the extent possible, the price signals.

CHAPTER VII. TARIFF STRUCTURE METHODOLOGY

Article 22

Methodology for Structuring the Retail Tariff for Universal Service Customers

1. The structure of the Retail Tariff for Universal Service Customers shall be consistent with the methodology set out in this article and in any further guidance issued by the GNERC.
2. A single set of prices shall apply to any Customer Group.

3. The Retail Tariff for Universal Service Customers shall not include any cross subsidization between Customer Groups.
4. The Retail Tariff for Universal Service Customers shall consider environmental concerns.
5. Block tariffs may be used to encourage efficient consumption of electricity. They may also be used for social reasons, but only in the circumstance where the GNERC is not satisfied, on the basis of the available evidence, that other subsidy mechanisms are adequately protecting vulnerable customers.
6. The Retail Tariff for Universal Service Customers may include Time of Use (TOU) tariffs to encourage efficient consumption of electricity, so long as metering is adequate for this purpose and if it is warranted by the load profile of the customer.
7. The Retail Tariff for Universal Service Customers shall vary based on the seasonal cost of service to encourage efficient consumption of electricity.
8. The Regulated Retail Tariff shall reflect the costs of supplying different Customer Groups and shall be set so as to:
 - a. Accurately preserve the tariff signals of the transmission and distribution network and the License Fee, to the allowed extent;
 - b. Recover the retail costs and working capital costs associated with supplying each different customer categories; and
 - c. Reflect the costs of supplying different customer categories during different seasons and times of the day;

Article 23

Calculation of Regulated Revenues

1. This Article sets out the formulae for calculating Universal Service Supplier Regulated Revenues and complements the principles set out in the Methodology.
2. USS Regulated Revenues shall be calculated at Annual Adjustments using the following formula:

$$USRR_t = (RETR_t + WCLC_t + WHPC_t + PSTC_t - NTFR_t + ADJ_t) / (1 - BDTA_t)$$

Where

USRR_t Universal Service Supplier Regulated Revenues in Relevant Year t

RETR_t Retail Costs in Relevant Year t, which are set at Annual Adjustments

WCLC_t Working Capital Costs in Relevant Year t

WHPC_t Wholesale Power Costs for the provision of Universal Supply Service in Relevant Year t

PSTC_t Pass-Through Costs in Relevant Year t

NTFR_t Non-tariff revenues in Relevant Year t

ADJ_t Revenue Correction factor in Relevant Year t

BDTA_t Bad Debt Allowance in Relevant Year t

- a. Allowed working capital costs (WCLC_t) shall be calculated using the following formula:

$$WCLC = (1 / 12) * I_t * (RETR_t + WHPC_t + PSTC_t - NTFR_t)$$

Where

I_t - is the interest rate for the Relevant Year t, calculated based on EURIBOR plus s%, where S is a value to be determined by the GNERC at Annual Adjustments and which reflects the premium payable by the licensee for short-term loans

RETRt - is Allowed Retail Costs in Relevant Year t

WHPct - Allowed Wholesale Power Costs in Relevant Year t

PSTCt - Pass-Through Costs in Relevant Year t

NTFRt - Non-tariff revenues in Relevant Year t

- b. Allowed Wholesale Power Costs (WHPct) shall be calculated using the following formula:

$$WHPct = (GENCt + IMPct + IMBCt * IMBFt) * (1 + RETMt)$$

Where

GENCt - Allowed costs of purchases from domestic generation in Relevant Year t

IMPct - Allowed energy import costs in Relevant Year t

IMBCt - Allowed net imbalance costs in Relevant Year t

IMBFt - Imbalance Sharing Factor in Relevant Year t

RETMt - Retail Margin in Relevant Year t

- c. The revenue adjustment factor (KREVt) shall be calculated using the following formula:

$$ADJt = (AACT-1 - ARRt-1) * (1 + It)$$

Where

AACT-1 - Allowed actual USS costs in Relevant Year t

ARRt-1 - Actual Regulated Revenues in Relevant Year t-1

Article 24

Input Values Review Process

1. The GNERC shall, in order to promote transparency, publish all submissions, comments, and other documentation received from the USS or other interested parties in relation to the Input Values Review on its official website, excluding any information that the GNERC acknowledges as being commercially confidential.
2. The Review of Input Values shall commence no later than 120 Business Days prior to commencement of the next Relevant Tariff Year.
3. The GNERC shall initiate the Input Values Review by notification to the USS of:
 - a. The years for which actual, estimated forecast data is required;
 - b. The format in which the data is required to be submitted;
 - c. The timetable for submission of the USS's Proposal for revisions to Input Values.
4. The USS Proposal shall contain the following information and address the following matters (without limitation):
 - a. Actual Regulated Revenues earned from the Retail Tariffs for Universal Service Customers during the current Relevant Year (using a reasonable estimate for the remaining months where necessary);
 - b. Actual costs of providing services to regulated customers during the current Relevant Year, in line with the definition of costs that was used for calculating Universal Service Regulated Revenue;
 - c. The annual report and audited financial statements for each financial year that ended in the current Relevant Year when these are available;
 - d. Electricity consumption during the most recent 12-month period;
 - e. Forecast electricity consumption for the Relevant Year;

- f. Actual number of Regulated and Unregulated Customers during the current Relevant Year;
 - g. Forecast number of Regulated and Unregulated Customers for the forthcoming Relevant Year;
 - h. Forecast Universal Service Regulated Revenue, reporting each of the allowed cost components separately, for the forthcoming Relevant Year;
 - i. Actual billing determinants for the most recent 12-month period and forecast billing determinants for the forthcoming Relevant Year, based on forecast demand, energy and number of customers for each Customer Group;
 - j. The proposed Input Values for the forthcoming Relevant Year; and
 - k. Any studies commissioned by the USS relating to any of the matters to be contained in the USS's Proposal; and
 - l. Any other additional material that the GNERC reasonably considers should be included in the USS's proposal.
5. The USS shall, to the fullest extent possible, apply the principles set out in this Rule in preparing its Proposal. It shall disclose any areas where it has not applied these, the reason for not applying them, the reasons supporting the alternative approach, and provide an estimate of the impact of using the alternative approach.
 6. Upon receiving the USS's Proposal, the GNERC shall determine its accuracy, relevance and reasonableness, including determining whether:
 - a. The proposal for Input Values reflects the reasonable costs of providing services to Regulated Customers; and
 - b. The proposed regulated retail tariff shall reflect a fair balance between the interests of the USS and of Regulated Customers.
 7. The GNERC shall prepare a Provisional Evaluation within a reasonable time (set forth in the paragraph 3 of this Article) before the start of the forthcoming Relevant Year, after reviewing the submission of the USS and then consulting with the USS.
 8. The Provisional Evaluation shall set out the GNERC's proposals on the Input Values and the justification for these. The GNERC, in preparing its Provisional Evaluation, may amend, remove or replace any part of the USS's Proposal as it considers appropriate provided that it shall identify such amendments, removals or replacements and provide justification for these.
 9. Following the determination of the Provisional Evaluation, the GNERC shall notify USS and launch a public consultation on its Provisional Evaluation, in accordance with the Law of Georgia on Energy GNERC.
 10. Following completion of the public consultation within a reasonable time (set forth in paragraph 3 of this Article) before the start of the forthcoming Relevant Year, the GNERC shall make its Final Decision on Input Values. Such decision shall be consistent with this Rule.
 11. The USS may dispute or appeal any decision by the GNERC in accordance with applicable legislation.

Article 25

Annual Adjustment Process

1. 1 The Annual Adjustment process for the USS comprises three phases:
 - a. Phase 1: Determination of Wholesale Power Purchase Costs;
 - b. Phase 2: Determination of Retail Costs.
 - c. Phase 3: Determination of Maximum Allowed Revenues and Regulated Retail Tariff.
2. Phase 1: Determination of Wholesale Power Purchase Costs:
 - a. The USS shall submit the proposed wholesale power purchase costs to be included in the calculation of regulated revenues for the forthcoming Relevant Year to the GNERC at least 80 Business Days before the start of the forthcoming Relevant Year. The USS shall also include in its submission all relevant documents and evidence.
 - b. The GNERC shall advise the USS at least 60 Business Days before the start of the forthcoming Relevant Year whether or not it approves the USS's proposed wholesale power purchase costs.
 - c. If the GNERC does not approve the proposed wholesale power purchase costs, it shall provide an alternative value for the costs to be included in the calculation of

- Energy Costs for the forthcoming Relevant Year. Reasons and evidence for the alternative value shall be provided in accordance with this Rule.
3. Phase 2: Determination of retail costs
 - a. The USS shall submit the proposal for retail costs to be included in the calculation of Universal Service Regulated Revenues for the forthcoming Relevant Year to the GNERC at least 50 Business Days before the start of the forthcoming Relevant Year. The USS shall also include in its submission all relevant documents and evidence.
 - b. The GNERC shall advise the USS at least 40 Business Days before the start of the forthcoming Relevant Year whether or not it approves the USS's proposed retail costs.
 - c. If the GNERC does not approve the proposed retail costs, it shall provide an alternative value for retail costs to be included in the calculation of Regulated Revenues for the forthcoming relevant year. Reasons and evidence for the alternative value shall be provided in accordance with this Rule.
 4. Phase 3: Determination of Universal Service Regulated Revenues and Regulated Retail Tariff
 - a. The USS shall submit the proposed new Universal Service Regulated Revenues and associated adjustment to the Regulated Retail Tariff for the forthcoming Relevant Year to the GNERC at least 20 Business Days before the start of the forthcoming Relevant Year. The USS shall also include in its submission all relevant documents and evidence including the values relating to all the components of the Annual Adjustment formulae given in Article 23 and any other information required by the GNERC.
 - b. The GNERC may reasonably require the USS to further explain its method of calculating the proposed Universal Service Regulated Revenues or the Regulated Retail Tariff, and if so required, the USS shall promptly provide to the GNERC any further information or explanations sought.
 - c. The GNERC shall inform the USS before the start of the forthcoming Relevant Year whether or not it approves the USS's calculation of the proposed Universal Service Regulated Revenues and Regulated Retail Tariff.
 - d. If the GNERC does not approve the proposed Universal Service Regulated Revenues and Regulated Retail Tariff, it shall provide reasons and evidence why, in accordance with this Rule. The Regulated Retail Tariff shall not be adjusted until the GNERC approves an alternative proposal.
 - e. Any difference in revenues that arises from incorrect calculations, misreporting of Actual Regulated Revenues, or disputes relating to Annual Adjustments shall be recovered in subsequent Relevant Years.
 - f. The USS may dispute or appeal any decision by the GNERC in accordance with applicable legislation.

Article 26

Extraordinary Review Process

1. If an Extraordinary Event has occurred, the USS may request an Extraordinary Review.
2. An Extraordinary Review cannot be launched within three months of an Input Values Review or the completion of a previous Extraordinary Review.
3. An Extraordinary Review may relate to more than one Extraordinary Event, in which case this schedule addresses the cumulative financial effect of those events.
4. Within 20 Business Days of the USS requesting an Extraordinary Review, it shall submit to the GNERC a Statement of Financial Impact that includes the following matters:
 - a. A description of the Extraordinary Event that is the reason for requesting the Extraordinary Review;
 - b. A summary of the impact of the Extraordinary Event on the USS's business;
 - c. An estimate of the change in the USS's costs of providing services to Regulated Customers in each year from the date that the Extraordinary Event occurred (or began) to the end of the current Relevant Year;
 - d. An estimate of the change in forecast revenues from the Regulated Retail Tariff resulting from the Extraordinary Event, in each year from the date that the Extraordinary Event occurred (or began) to the end of the current Relevant Year;

- e. A calculation of the financial impact of the Extraordinary Event on the USS, calculated as the sum of the change in the USS's costs and revenues above. Revenues shall be treated as positive numbers and costs treated as negative numbers; and
 - f. A calculation of whether the financial impact is expected to be greater than the Materiality Threshold.
5. If the USS determines that the financial impact is greater than the Materiality Threshold, it shall include in its Statement of Financial Impact a proposed Extraordinary Adjustment to Universal Service Regulated Revenues and Regulated Retail Tariff. The proposed Extraordinary Adjustment shall meet the following conditions:
- a. The Extraordinary Adjustment shall change Universal Service Regulated Revenues and the Regulated Retail Tariff in such a manner that the forecast change is equal to the financial impact of the Extraordinary Event;
 - b. The new Regulated Retail Tariff shall be consistent with the Tariff Structure Methodology and, where possible, is consistent with the tariff structure in place before the Extraordinary Event occurred; and
 - c. The timing and manner of the Extraordinary Adjustment shall, where possible, reduce the immediate increase of tariffs for customer categories (for example by smoothing the effect of the Extraordinary Adjustment over a number of years).
6. The GNERC may also launch an Extraordinary Review without the request of the USS. If so, the GNERC shall notify the USS and include a description of the Extraordinary Event and a summary of its expected impact. The USS shall then prepare a Statement of Financial Impact as per the process described above.
7. The GNERC may reasonably require the USS to further explain its method of calculating the Statement of Financial Impact and Extraordinary Adjustment. If so required, the USS shall promptly provide to the GNERC any further information or explanations sought.
8. The GNERC shall notify the USS within 20 Business Days of receiving the Statement of Financial Impact whether or not it approves the USS's proposed Extraordinary Adjustment. The GNERC shall approve the proposal if it:
- a. Meets the conditions provided above;
 - b. Is calculated correctly; and
 - c. Considers all material information reasonably available at the time.
9. If the GNERC approves the proposed Extraordinary Adjustment, the new Regulated Retail Tariff shall become effective immediately.
10. If the GNERC does not approve the proposed Extraordinary Adjustment, it shall provide reasons and evidence why, in accordance with this Rule. The Regulated Retail Tariff shall not be adjusted until the GNERC approves a proposal.
11. The USS may dispute or appeal any decision by the GNERC, in accordance with applicable legislation.

CHAPTER VIII. TRANSITIONAL PROVISIONS

Article 27

Amendment

1. GNERC is entitled to change or modify any provision of this Methodology.
2. Procedure for amendment or modification of this Methodology will be the same as for its approval.

Article 28

Monitoring the Tariff for the Universal Service Supplier

1. The Universal Service Supplier 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. Universal Service Supplier shall keep separate accounts for the customers supply according to the Universal Service Supplier 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 Universal Service Supplier.

Article 29

Publication

The Universal Service Supplier is obliged to maintain and publish on its website, information regarding the universal service supply, 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 IX. FINAL PROVISIONS

Article 30

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 31

Transitory provisions

Calculating the electricity tariff supplied in the conditions of Universal Service Supplier before this methodology becomes effective, shall be corrected in conformity with the criteria for setting the Universal Service Supplier tariff defined with this methodology.

Article 32

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 33

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.

USAID Energy Program

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