

Georgian National Energy and Water Supply Regulatory Commission



Report on Activities of 2015

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Dear Reader,

In 2015 Georgian National Energy and Water Supply Regulatory Commission (hereinafter, “the Commission”) has been regulating Electricity, Natural Gas and Water Supply Sectors in an efficient, reasonable, impartial and transparent manner. In the process of performing its activities the Commission is fully independent and spares no effort to ensure maximum engagement of public and dissemination of information related to its decisions.

Development of Energy and Water Supply Sectors is a compulsory precondition for economic growth of the country. Respectively, in the process of current reforms special role is conferred upon the regulatory authority. Therefore, the Commission ensures improvement of market regulation processes, protection of rights of consumers and companies operating in the Electricity, Natural Gas and Water Supply Sectors, promotion of market competition, approval of transparent and reasonable tariffs, uninterrupted supply of the high-quality electricity and balance between parties’ interests along with changes taking place in the country.

For the purpose of achieving the above-mentioned, the Commission actively co-operates with energy market participants, regulators of other countries and international organizations, which have been significantly contributing to the development of market and regulatory processes through implemented projects. I suppose, we will manage to improve regulatory standards by utilizing accumulated experience and international best practices acquired from international projects.

In 2015 the Commission has been facing series of challenges. Those challenges were stimulated by events taking place both on the internal market and on the international arena. While discussing challenges of the Commission I have to bring to attention state policy that aims at becoming Energy Community member by the second half of 2016. As a consequence, necessity of implementing new market model and development of new regulatory framework will arise. The mission of the Commission in these processes will be peculiar as it will lead the process of new energy market regulation.

Hereby, I would like to introduce Report of 2015 reflecting basic results of the Commission’s activities. Hope, you will be able to receive comprehensive information.

Irina Milorava

Tbilisi, 2016



Georgian National Energy and Water Supply Regulatory Commission



i. Main Directions and Results of the Commission's Activities

In 2015 following major events and trends took place in energy and water supply sectors:

- Electricity generation (bus bar delivery) has been increased by 4.3% compared with previous year, and by – 7.4% compared with 2013;
- Based on the data of 2006-2015 electricity generation (bus bar delivery) annual average increase constitutes 4.2%;
- Electricity consumption has been increased by 2.1% in comparison with previous year, and by 7.1% – in comparison with 2013;
- Based on the data of 2006-2015 electricity consumption annually increases by 3.2% in average;
- Electricity import has decreased by 17.9% compared with previous year, however, it has been increased by 44.4% in comparison with 2013;
- Electricity export exceeds indicators of previous year by 9.3% and indicators of 2013 by 46.5%;
- The country is still net-importer. Annual balance of import-export has constituted 39.3 million kw/h, that is 84.2% less than previous year;
- Actual electricity losses during reporting year has been 2.21% in the transmission network and - 5.41% in the distribution network;
- 2 small Hydro Power Plants (with 4.95 mw) and one Thermal Power Plant (with 231.2 mw) with 236.15 mw total installed capacity have been put into operation;
- Total installed capacity of Power Plants has increased by 7.1%;
- Electricity distribution (supply) market is highly concentrated (HHI = 5010.2) with 62.5% market share of “Energo-Pro Georgia” JSC, 32.9% - “Telasi” JSC and 4.6% - “Kakheti Energo Distribution” JSC;
- Market shares for three largest generators have been allocated as follows: 31.04% - to “Enguri HPP” LLC, 10.89% - to “Mtkvari Energy” LLC, 7.21% - to “Vartsikhe HPP” LLC. Herfindahl Hirschman Index for these companies is $HHI_{2015} = 1133.6$;
- The Commission had examined and given its consent to investment plans for 2015-2016 of distribution companies - “Telasi” JSC and “Energo-Pro Georgia” JSC;
- Following chapters of the Transmission Network Code have been approved:
 - Chapter V - Rule of Scheduling Electricity Readiness and Dispatching;
 - Chapter VI - Rules for Providing Information;
 - Chapter VII - Metering Rules.
- Through cooperation with international partners and based on the international best practices the Commission has prepared draft of the Distribution Network Code;
- Tariff application forms have been developed and approved by the Commission:
 - For electricity Transmission-Dispatch Licensees;
 - For electricity Generation Licensees;
- Conclusions and recommendations on “10-Year Transmission Network Development Plans of Georgia” have been prepared for the periods of 2015-2026 and 2016-2026;
- Recommendations have been prepared on 3-year investment plans of transmission licensees and Transmission System Operator;
- Household tariffs and amount of normative losses has been approved for “Telasi” JSC;
- Generation tariffs for electricity generation licensees (Atshesi, Gumati HPP Cascade, Zahesi, Lajanuri HPP, Ortachala HPP, Rioni HPP, Satskhenisi HPP, Shaori HPP, Chitaxevi HPP, Dzevrula HPP), also guaranteed capacity fees of guaranteed capacity sources - “Mtkvari Energy” LLC, “Georgian International Energy Corporation” LLC, “G-Power” LLC and “Gardabani Thermal Power Plant” LLC and generated electricity tariffs have been approved by the Commission;
- Transmission tariffs have been approved for electricity Transmission Licensees – “Georgian State Electrosystem” JSC and “Energotrans” JSC;

- Household tariffs of electricity Distribution Company – “Energo-Pro Georgia” JSC has been corrected.
- Electricity tariff setting methodologies have been amended and improved. Specifically, issues such as consumption tariff correction and work-in capital definition mechanisms, validity period of WACC etc. have been envisaged;
- In 2015 demand on natural gas has been increased by 9%. Especially, high speed of growth has been observed within household segment, where demand has been increased by 16% in comparison with previous year;
- Natural Gas losses in the transportation system has increased in comparison with previous year and have constituted 26 mln cubic meters;
- Losses within natural gas distribution network have reached 104 million cubic meters and weighted average loss of licensees has constituted 8.8%, while same indicator in 2014 has been 7.9%;
- Herfindahl-Hirschman Index for natural gas importers has been 3, 240 and 2,007 - for wholesale level traders. Both indicators refer to highly concentrated market;
- 4 natural gas licenses have been revoked and 3 natural gas licenses have been modified in 2015;
- Rules for Calculating Normative Losses within Natural Gas distribution network have been approved under the Resolution №5 of March 26, 2015 of the Commission;
- Since 2015 information on natural gas quality and composition has become available to the customers and it can be obtained from official websites of Natural Gas Transportation Licensee – “Georgian Gas Transportation Company” LLC and of Georgian National Energy and Water Supply Regulatory Commission;
- Based on the decisions of the Commission of April 16, 2015, №22/15; July 24, 2015, №39/15 and September 25, 2015, №53/4 56 populated areas have been added to the list of gasified settlements. Subsequently, since the end of the reporting period fees for connection to the natural gas distribution network will apply to 627 populated areas. Complete list of gasified settlements can be found at Commission’s website;
- Based on the data of January 1, 2015 11 Licensees are operating in Georgian water supply sector;
- Based on the data of January 1, 2016 and of the data provided by National Statistics Office of Georgia, population of Georgia constitutes 3,729,500, out of which 56% (2,097,261) is supplied with water by 11 licensee companies, whereas 44%(1,632,139) are supplied from water supply systems under the ownership of local municipalities;
- Based on the data of National Statistics Office of Georgia, 54 cities, villages and boroughs (totally 3,706) are registered as populated areas. Population living in cities constitutes 2, 140, 400 and 1,589,100- living in villages. Out of that number licensee companies provide services to 54 cities and 364 villages and boroughs.
- Fee of installing potable water meters for household customers in the amount of 100 Georgian Lari (hereinafter, “GEL”) has been revoked in 2015. Respectively, Water Supply Licensee has been obliged to install meters free of charge for those household customers, who use drinking water for residential purposes;
- Amendments have been introduced to “Drinking Water Supply and Consumption” rules and terms, procedures and costs of the service for connecting new customers to the network have been defined;
- Liabilities (including unlawful charging) exceeding 1.5 million GEL has been cut off from the customers’ accounts by the Commission.

1. Electricity Sector

1.1. Electricity Market

1.1.1. Existing Structure of the Electricity Market and its Participants

No modifications have been made to the electricity market structure in 2015. Existing structure, reflecting amendments introduced to Georgian legislation are provided on figure 1.1.

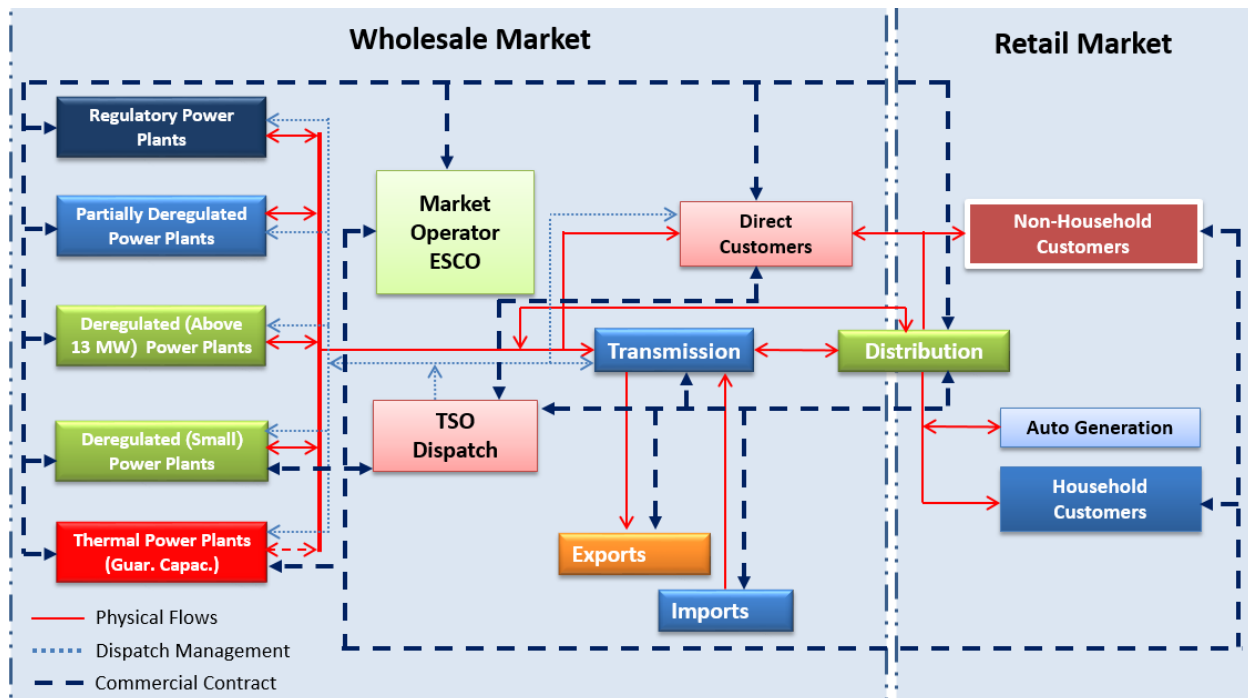


Figure 1.1. Existing Structure of the Electricity Market

Electricity market can be provisionally divided into retail and wholesale markets. Participants of the wholesale market are electricity generators, direct customers, exporters, importers and distribution licensees (with regards to electricity supply), also service providers, transmission system operator, market operator, transmission and distribution licensees (with regards to transmission – network service). Main service providers at the retail market are electricity distribution licensees (both related to the network and supply services). Electricity can be also supplied by small power plants at the retail market. As regards to final customer segment, retail market is comprised of household and non-household customers. So called eligible customers shall be permanently distinguished from above-mentioned category as far as they are free to choose wholesale supplier (generation unit or importer) due to competitive prices, rather than purchasing electricity for fixed household tariffs.

Wholesale Market Participants:

➤ *Engaged in electricity purchase and sale:*

- Electricity Generators: 71 producers have been registered at wholesale market in 2015, out of which 4 have been Thermal Power Plants, 2-Regulatory Power Plants, 15 - partly deregulated (exceeding 13 mw.) and 2 - deregulated Hydro Power Plants, 48 – small power plants (Debeda HPP and Pshavela HPP) and 1- Thermal Power Plant (Gardabani TPP);
- Direct Customers: Trend of reducing amounts of electricity purchased and consumed by direct customers (registered as eligible customers) remained in 2015. Specifically, 4 direct customers have been registered at the market, whereas number of direct customers in 2014 has been 6;
- Electricity Importers: Within reporting year 7 entities have been registered at wholesale market as electricity importers;
- Electricity Exporter: Within reporting year 23 entities have been registered at wholesale market as electricity exporters;
- Electricity System Commercial Operator (ESCO) is entitled to sell and/or purchase imported electricity and/or electricity intended for export on the basis of both – direct contracts and other means envisaged for purchase and sale of balance electricity under Market Rules (Standard Terms and Conditions of Direct Contracts);
- With respect to electricity purchase, following 3 entities have been registered as eligible customers: “Energo-Pro Georgia” JSC, “Telasi” JSC and “Kakheti Energodistribution” JSC;
- Amount of electricity supplied to Abkhazia constituted 1,797.2 millionkw/h, respectively 9.7% increase has been observed in comparison with previous year;
- Transmission and Dispatch Licensees aiming at covering losses for ensuring electricity (capacity) transit with regards to electricity purchase - no transit has taken place in reporting year.

➤ *Engaged in network, system, metering and administrative - commercial services:*

- Transmission System Operator (TSO) – the Dispatch Licensee. Based on the amendments introduced to the Law of Georgia on Electricity and Natural Gas by the end of 2014, the Dispatch Licensee had been nominated as Transmission System Operator. The latter had signed contracts with owners of transmission network assets (Transmission Licensees) on transferring rights of transmission network operation and development planning to the TSO. In 2015 TSO had prepared 10-Year Transmission Network Development Plans for the periods of 2015-2025 and 2016-2026. Basically, TSO manages the system through SCADA (Supervisory Control and Data Acquisition System) and at the same time uses upper level Automated System of Electricity and Capacity Control and Metering (upper level ASECCM);
- Market Operator – Electricity System Commercial Operator (ESCO) - purchases and sells balance electricity and guaranteed capacity in order to meet (to balance) demands of eligible enterprises, it also registers utilities for wholesale electricity trade, modifies and annuls registrations. Market operator owns and operates Automated System of Commercial Metering (ASCM), which administers uniform base of electricity sale and automatically obtains metering data from ASECCM. It is designed for obtaining, checking, collecting, grouping and summing up data for the purpose of final settlement during wholesale electricity trade;

- Transmission Licensees – Within reporting year three electricity Transmission Licensees have been performing transmission activities at Georgian electricity market. In 2015 preliminary license for 220/154kv transmission facilities from Batumi to Muratli (Turkey) has been awarded to “Energo-Pro Georgia” JSC;
- Guaranteed Capacity Sources – Gardabani Thermal Power Plant with 231.2 mw installed capacity has been put into operation in 2015. Subsequently, 4 Thermal Power Plants have been operating on Georgian Electricity Market during 2015;
- Distribution Licensees (with regards to network services) – are delivering services via networks both under their ownership and under ownership of third parties. The Distribution Licensees are delivering network services to:
 - Retail customers, together with supply activities;
 - Retail customers who purchase electricity from small power plants on the basis of direct contracts;
 - Direct Customers connected to the Distribution Network, and
 - So called “distributed generation”, though, on the contrary to above-mentioned cases, existing legislation does not envisage payment for network services incurred by distributed generation.

Retail Market Participants:

Engaged in electricity purchase and sale:

- Electricity Distribution Licensees (engaged in supply services): “Energo-Pro Georgia” JSC, “Telasi” JSC, “Kakheti Energodistribution”;
- Small Power Plants – their participation at retail market has been strictly limited, specifically, 48 small HPPs were engaged in electricity retail trade;
- Important steps have been made in 2015 for practical implementation of auto-generation so called net-metering and development of respective legal basis. In total 3 customers owning renewable energy sources up to 100 kw (with 111 kw total installed capacity of generation) operate on retail market;
- Retail Customers – In 2015 1,653,549 retail customers have been registered at electricity retail market, including 1,556,003 – household and 97,546 – non-household. 2015 number of customers at retail market has decreased by 0.7%. The reason for such decrease has been “clearance” of billing databases of the Distribution Licensees (“Energo-Pro Georgia” JSC and “Kakheti Energo Distribution” JSC), which implied deletion of doubled data and non-active customers and also by providing more precise information on number of customers on the basis of metering.

Engaged in network, system, metering and administrative-commercial services:

- Distribution System Operator, which is not defined under Georgian legislation and whose functions are carried out by the distribution Licensees.

1.1.2 Key Features of the Market

Total amount of electricity supplied into the network has reached 11,291.7 million kw/h. Electricity generated by HPPs has been 8,453.8 mln kw/h, that constitutes 74.8% of electricity supplied into the network, whereas, electricity generated by thermal power plants has been 2,378.7 millionkw/h, that constitutes 21.1% of electricity supplied into the network. Totally, electricity generated in Georgia has been 93.8% of electricity supplied into the network, where plant losses of power plants and self-consumption has been 2.1%. As regards to imports, 699.2 million kw/h of electricity has been imported in 2015 that constitutes 6.2% of electricity supplied into the network.

Within reporting year 7,346.3 million kw/h of electricity had been supplied to distribution companies that was 65.1% of total electricity consumed in Georgia. Out of that number 2,419.4 mln kw/h

(21.4% of total consumption of the country) was consumed by “Telasi” JSC, 4,590.5 million kw/h (40.7 % of total consumption) – by “Energo-Pro Georgia” JSC and 336.4 million kw/h (3% of total consumption) – by “Kakheti Energodistribution” JSC. It should be noted that 15.9%, of total consumption has been consumed by direct customers and 11% was supplied to Abkhazia. Share of electricity losses in consumption has been 2.2%, whereas export share has been 5.8% (see figure 1.2).

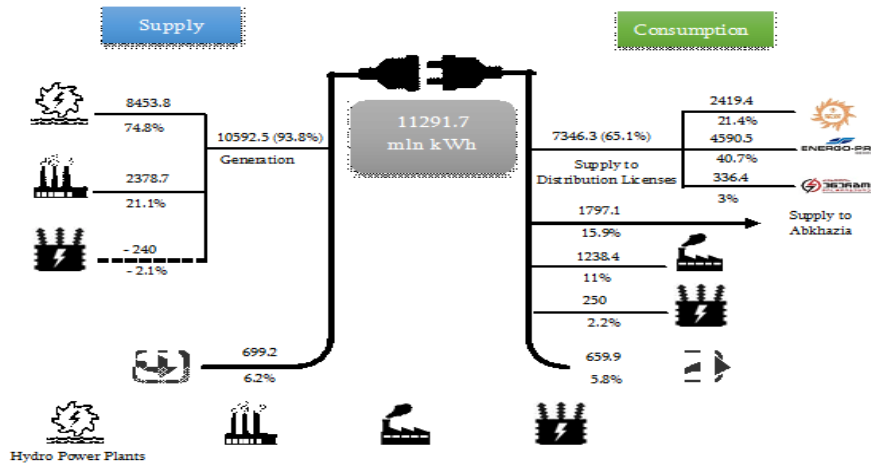


Figure 1.2. Electricity Balance in 2015¹

Electricity generation (bus bar delivery) has been 10,592.5 million kw/h and consumption – 10,381.78 million kw/h. Electricity generation has been increased by 4.3% compared to 2014 and by 7.4% -compared to 2013. Based on the data of 2006-2015, electricity generation in Georgia annually increases by 4.2% in average. Such increase is the result of new electricity generation power plants being put into operation in those years and not an outcome of improved hydrological conditions (see figure 1.5).

Electricity consumption is increasing steadily. Electricity consumption in Georgia in 2015 has reached 10,381.78 million kw/h that exceed data of 2014 by 2.1% and 2013 by - 7.1%. It is worth mentioning that based on the data of 2006-2015, annual increase of electricity consumption in Georgia constitutes 3.2%, that is less than generation speed and slightly increases export potential (see figure 1.3).

¹ Values provided indicate million kw/h, whereas electricity consumption by direct customers comprises self-consumption of power plants in stand-by mode.

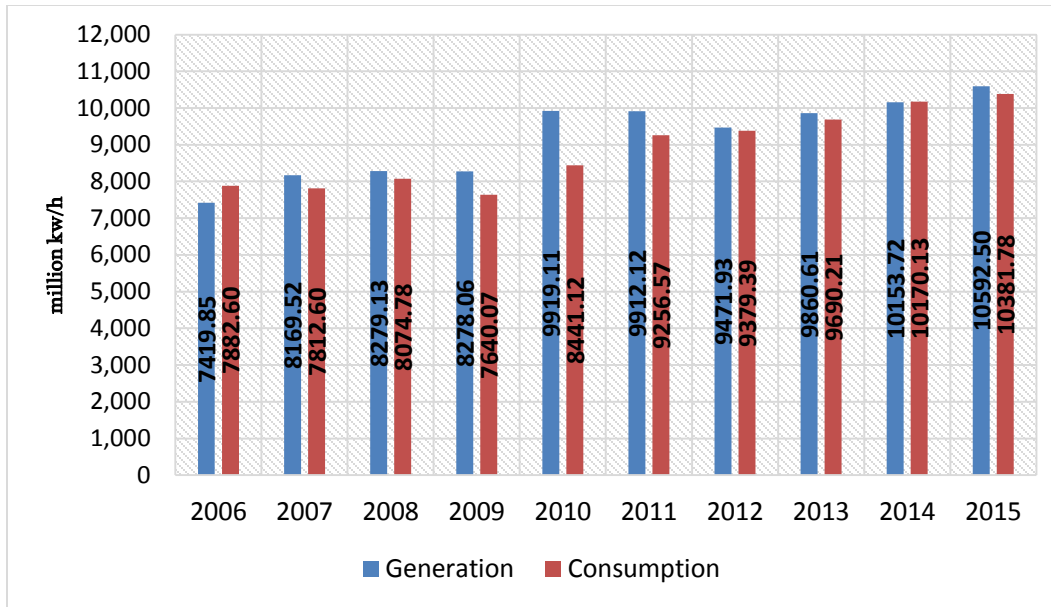


Figure 1.3. Electricity Generation (Bus Bar Delivery) and Consumption

It should be noted that share of electricity generated by thermal and hydro power plants in total generation keeps to develop persistently. In 2015 electricity generated by Thermal Power Plants has reached 21.4% of total generated electricity, whereas similar indicator for 2014 has been 19%. Mentioned indicators are increased by 17.3% in comparison to 2014 and by 33.5% - to 2013, what was triggered by putting new Gardabani Thermal Power Plant with 231.2 mw installed capacity into operation.

As regards to electricity generated by HPPs, its share in totally generated electricity has constituted 78.6% in 2015 and 81% - in 2014. Despite the fact that slight decrease can be observed in shares of electricity generated by HPPs in totally generated electricity, electricity generated by HPPs has in fact increased by 1.3% in comparison with 2014 and by 2% - compared to 2013. The above-mentioned has been caused by putting 2 small power plants – Debeda (3 MW installed capacity) and Pshavela (1.95 MW installed capacity) into operation (see figure 1.4).

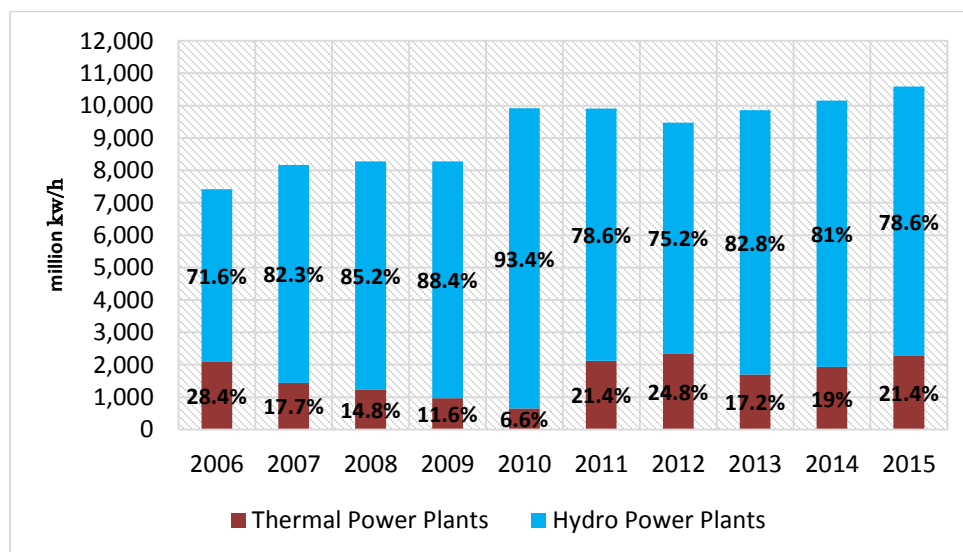


Figure 1.4. Electricity Delivered on a Bus Bas By HPPs and TPPs

Electricity shares generated by HPPs according to types of regulation are provided on Figure 1.5. It can be observed that electricity share generated by regulatory power plants² in totally consumed electricity has constituted 46.2%, share of electricity generated by partly deregulated HPPs³ has been 42%, whereas electricity share generated by deregulated power plants⁴ was 11.8%, which is made up of 5.7% share of electricity generated by power plants exceeding 13mw and 6.1% - by small power plants.

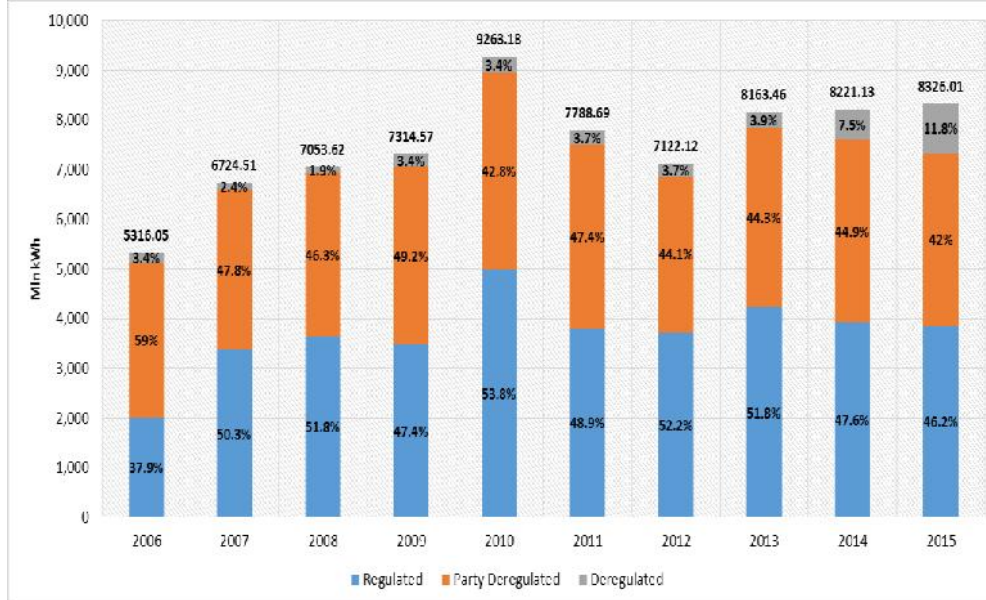


Figure 1.5. Structure of Electricity Generation of HPPs

Substantial share of electricity consumption (70.8%) has been still utilized by the electricity distribution companies, direct customers' share in total consumption has been 11.9% and electricity supplied to Abkhazia has constituted 17.3%. Electricity consumed by distribution companies has been increased by 5.5% compared to previous year and by 12.7% - to 2013. On the other hand, electricity consumed by direct customers has decreased by 21.1% in comparison with 2014 and by 20.9% - with 2013, such reduction was caused by the fact that they became customers of electricity distribution companies. It is also worth to mention that amount of electricity supplied to Abkhazia has been increased by 9.7% compared with 2014 and by 12% - with 2013 (see figure 1.6).

² Regulatory Power Plants: Enguri HPP, Vardnili HPP.

³ Partly deregulated power plants: Khadori HPP, Jinvali HPP, Khrami 1 and Khrami 2, Vartsikhe HPP, Dzevrula HPP, Chitakhevi HPP, Rioni HPP, Gumati HPP, Satskhenisi HPP, Atshesi, Lajanuri HPP, Ortachala HPP, Shaori HPP, Zahesi.

⁴ Deregulated power plants: power plants with more than 13 mw installed capacity (Larsi HPP and Paravani HPP) and small power plants.

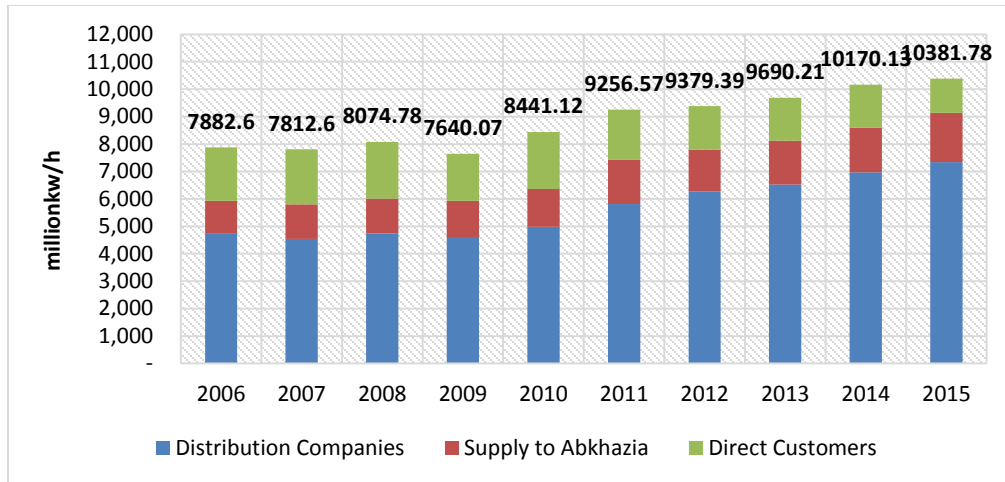


Figure 1.6. Internal Consumption Structure of Electricity

Negative net balance of import/export has been decreased in 2015 (see figure 1.7). Electricity import has constituted 699.2 million kw/h – 17.9% less than in 2014 and 44.4% more than -2013. As regards to exports, 659.9 million kw/h electricity has been exported from Georgia, exceeding indicators of 2014 by 9.3% and indicators of 2013 by 46.5%.



Figure 1.7. Electricity Import and Export

Figures 1.8 and 1.9 provide information regarding export and import in foreign countries. It can be observed that electricity import takes place generally in Autumn-Winter periods of the year, whereas export takes place in Spring-Summer periods. Figures clearly indicate that in previous years (2006-2013) substantial part of electricity import and export is carried out from/to Russia, though electricity export to Turkey has been significantly increased via new electricity transmission line from Georgia to Turkey.

In 2015 export to Turkey has constituted 63.6% of total export, while it has been 25.7% to Russia, whereas export to Armenia has constituted 10.6%. Electricity export has been increased almost by 77.4% in comparison with previous year.

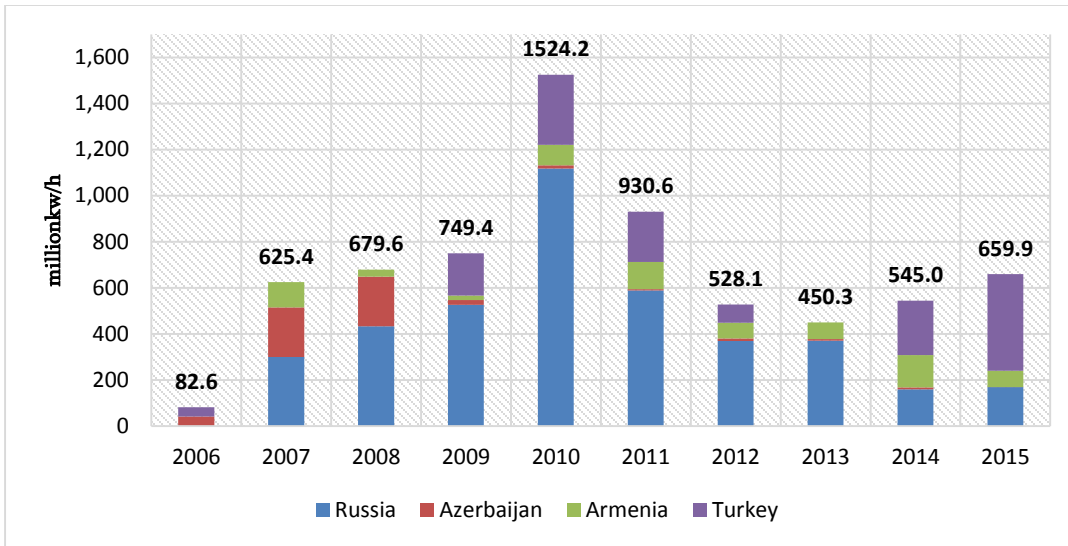


Figure 1.8. Data of Electricity Export to Foreign Countries

Electricity import has constituted 73.1% of total import from Russia, 14.5% - from Azerbaijan and 12.4% - from Armenia. Electricity import from Turkey has not been carried out in 2015.

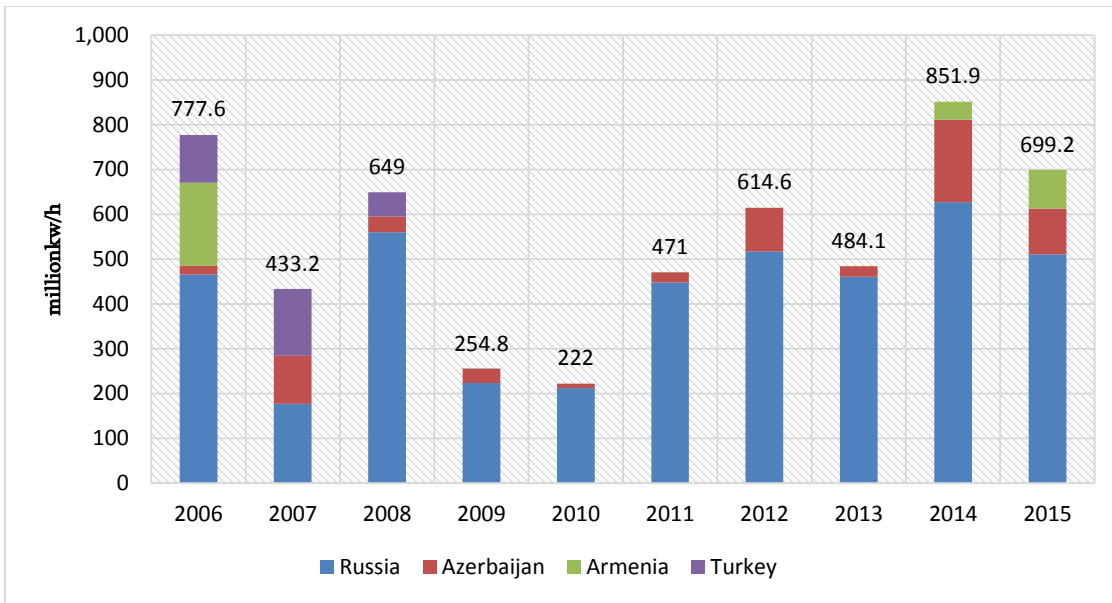


Figure 1.9. Data of Electricity Import from Foreign Countries

Based on the analysis of electricity consumption and supply balance results of 2015, it can be concluded that important attention should be paid to the construction of new generation capacities via new local energy resources. Respectively, new hydrocarbon and renewable resources should be utilized together with hydro-resources, including wind resources. It is worth mentioning that total generation capacity in 2015 has been increased by 7.1% compared with previous year and has constituted 3,718.16 mw. Figure 1.10 describes generation capacities according to power plants.

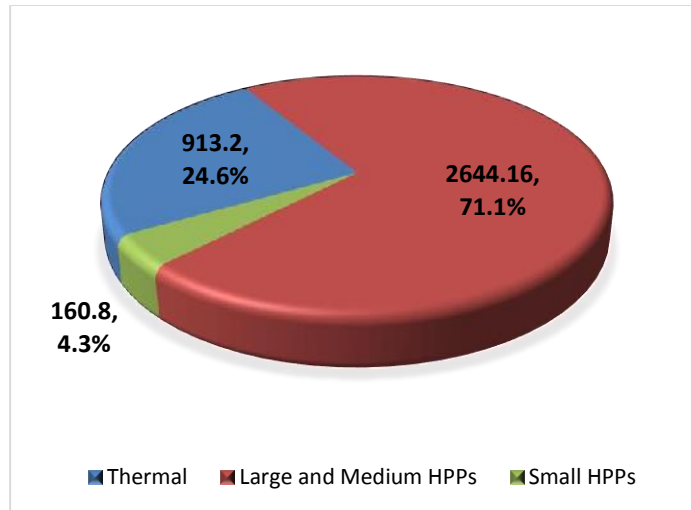


Figure 1.10. Generation Capacities in 2015

1.2. Licensing and Control of Licensed Activities

1.2.1. License Applications and Amendments to License Registry

By December 31, 2015 twenty-two licensees have been operating in the electricity sector (see annex N1), including:

- Generation – 15;
- Distribution – 3;
- Transmission – 3;
- Dispatch – 1.

4 decisions regarding licensing have been prepared by the Commission, specifically:

- Generation License №083 (Series Number 11) has been issued to “Gardabani Thermal Power Plant” LLC on the basis of the Decision №49/1 of September 7, 2015 for 231.2 mw installed capacity Thermal Power Plant located in Gardabani municipality;
- Preliminary license of electricity transmission №007 (Series Number 12) has been issued to “Energo-Pro Georgia” JSC on the basis of Decision №71/2 of December 9, 2015 of the Commission entailing following conditions:
 - a) To complete construction of and put into operation 220/154 kw back-to-back substation (maximum capacity – 350 mw) before December 31, 2016;
 - b) To complete construction and put into operation 220v single-circuit electricity transmission line from “Batumi 220” to substation of “Khelvachauri” with 220/154kw projected voltage before December 31, 2016;
 - c) To complete construction and put into operation 154 v electricity transmission line „Chorokhi“ (up to Georgian border) before December 31, 2016;
 - d) Constructions envisaged in subparagraphs „a“-„c“ shall be implemented in full compliance with technical conditions set by „Georgian State Electrosystem“ JSC;

- e) Documents related to putting transmission facilities provided in subparagraphs „a“-„c“ into operation shall be submitted to the Commission together with other relevant documents envisaged under Georgian legislation no later than December 31, 2016.

Electricity Transmission License №007 (Serie № 12) will become effective as soon as documents proving that licensing conditions have been met will be submitted to the Commission and the Commission issues subsequent legal act.

1.2.2. Customer Service Quality

In order to ensure balance of interests between customers and licensees the Commission pays special attention to the control of customer service quality. For the purposes of protecting customers' interests the Commission sets electricity supply reliability requirements for the Distribution Licensees. Quality of customer service provided by the Distribution Licensees is determined according to following indicators:

- Commercial service quality;
- Electricity reliability (uninterruptability).

1.2.2.1. Customer Service Quality Standards and Performance Results

In the electricity sector customer service quality is regulated under the Resolution №6 of the Commission of July 5, 2012 “On Approving Commercial Quality Rules for Services Provided by the Electricity Distribution Licensees”. This Resolution establishes rules and criteria of commercial quality requirements, methods and amounts of compensating services provided with breach of these rules, as well as uniform requirements for registering information and submitting it to the Commission.

The term - “commercial service quality standards” implies indicators of service quality that correspond to the minimum level of customers' service quality and which represent obligatory requirements for the Licensees.

Commercial service quality standards are composed of two basic parts:

- Overall Standards;
- Guaranteed standards.

Within reporting year commercial service quality has been envisaging 8 types of services. Out of which 3 belong to overall standards and 5 – to guaranteed standards. In case of non-fulfillment of any requirements envisaged under guaranteed standards electricity distribution licensee shall compensate customers in amounts set by the Commission. Such compensations are credited to the customers' subscription cards.

It is notable that in 2015 cases of non-fulfillment of guaranteed standards of commercial quality by each Distribution Licensee have occurred. Customers have been compensated for the breach of terms envisaged for connecting new customer to the network. Specifically,

Total amount of compensation accrued to customers of “Telasi” JSC for non-fulfillment of commercial quality standards has constituted 84,050 GEL.

Total amount of compensation accrued to the customers of “Energo-Pro Georgia” JSC for non-fulfillment of commercial quality standards has constituted 11,350 GEL.

In case of “Kakheti Energodistribution” JSC only one case of using services related to commercial quality has been observed and compensation of 10,750 GEL paid to customer.

1.2.2.2. Uninterruptable Supply

Quality control of reliable (uninterruptable) electricity supply is carried out in accordance with the

Resolution of the Commission №9 of June 4, 2009 “On Approving Instructions for Monitoring Fulfillment of Customer Electricity Reliability Indicators by the Distribution Licensees”. Such instructions set uniform rules and requirements regulating following issues:

- Registering information on reliability of electricity distribution by the Distribution Licensee;
- Submitting information on reliability of electricity supply to the Commission by the Distribution Licensee;
- Analysing and verifying data provided in reports on electricity reliability at the Commission.

Instructions also comprise provisions defining classification rules of population density and reasons of interruption, registration rule of commencing interruption and completion, Indices of planned and unplanned outages of electricity supply (SAIDI-SAIFI) etc.

In international practices reliability of electricity is determined through interruption indices of electricity supply. Above-mentioned “Instructions for Monitoring Fulfillment of Customer Electricity Reliability Indicators by Distribution Licensees” envisage following indices for determining electricity reliability (continuity):

- System Average Interruption Duration Index per customer - SAIDI minute/customer;
- System Average Interruption Frequency Index per customer - SAIFI interruption/customer.

Reliability (continuity) indices are calculated by the Distribution Licensee in accordance with specific formula provided in the instructions. In these formulas precise number of customers affected with interruptions is one of important variables. Hereby, if identification of precise number of customers connected to the transformer/low voltage line is impossible, provisional methods for estimating number of such customers are envisaged in the instructions.

Remarkably, such provisional method of calculating number of customers affected by interruptions has been used by “Telasi” JSC until the end of 2014. By the end of 2014 the company had implemented Geographical Informational System (GIS) which was linked with its billing base. Subsequently, identification of precise number of low voltage customers affected by interruptions was enabled and data on SAIDI-SAIFI for 2013, 2014 and 2015 have been corrected.

On the basis of analyzing accurate data provided on figure 1.11 it can be observed that SAIDI has improved by 30.4% compared with 2013 and - by 33.5% compared with 2014 and 2015.

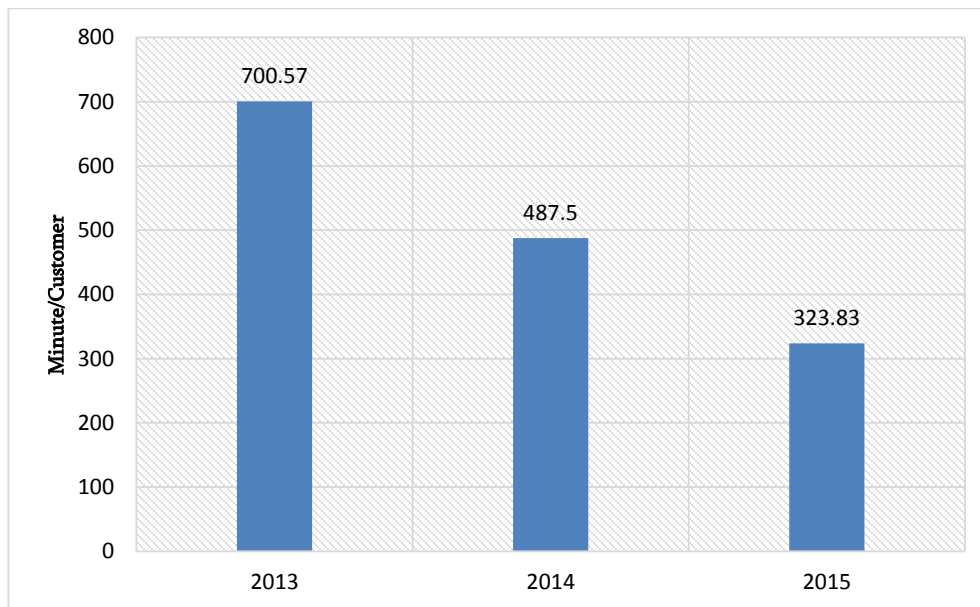


Figure 1.11. SAIDI Indicators of “Telasi” JSC in 2013-2015 mln

SAIFI indicators of “Telasi” JSC has improved by 9% compared with 2013 and by - 14% compared with 2014 and 2015 (see figure 1.12).

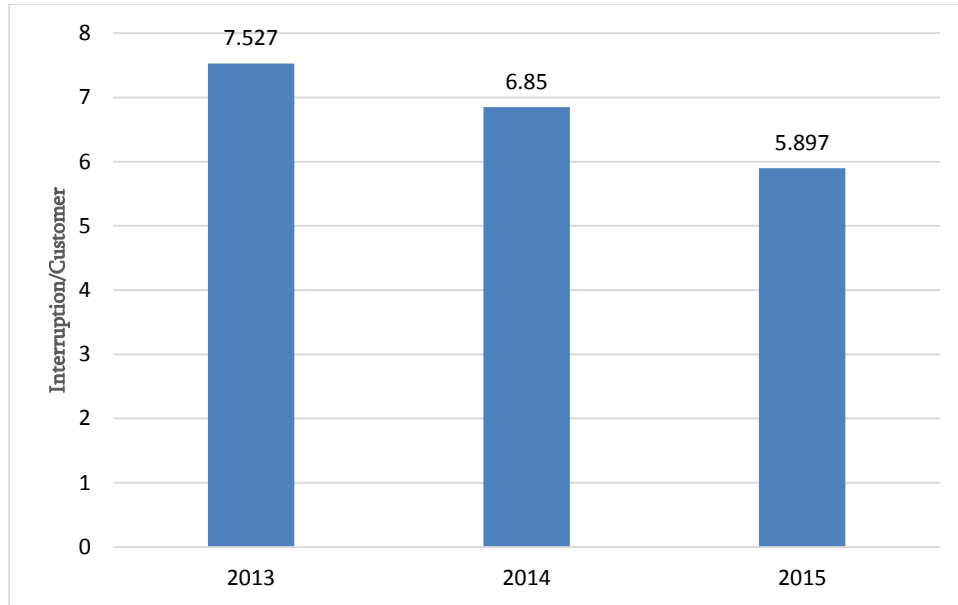


Figure 1.12. SAIFI Indicators of “Telasi” JSC in 2013-2015

It is worth mentioning that even in the period when „Telasi” JSC was calculating SAIDI-SAIFI on the basis of provisional methods (where calculations were based on average provisional quantity of customers affected by electricity interruptions) trend of development was still maintained, specifically, SAIDI was improved by 32.1% in 2014 in comparison with 2013 and SAIFI - by 17.4%. While, SAIDI indicators of 2015 had improved by 22% in comparison with 2014 and SAIFI-by 7.4%.

As regards to “Energo-Pro Georgia” JSC and “Kakheti Energodistribution” JSC, their electricity supply reliability indicators keep improving as well. SAIDI indicators of “Energo-Pro Georgia” JSC for 2015 have been improved by 21.6% in cities, by 20% - in boroughs and by 19.1% - in villages (see figure 1.13).

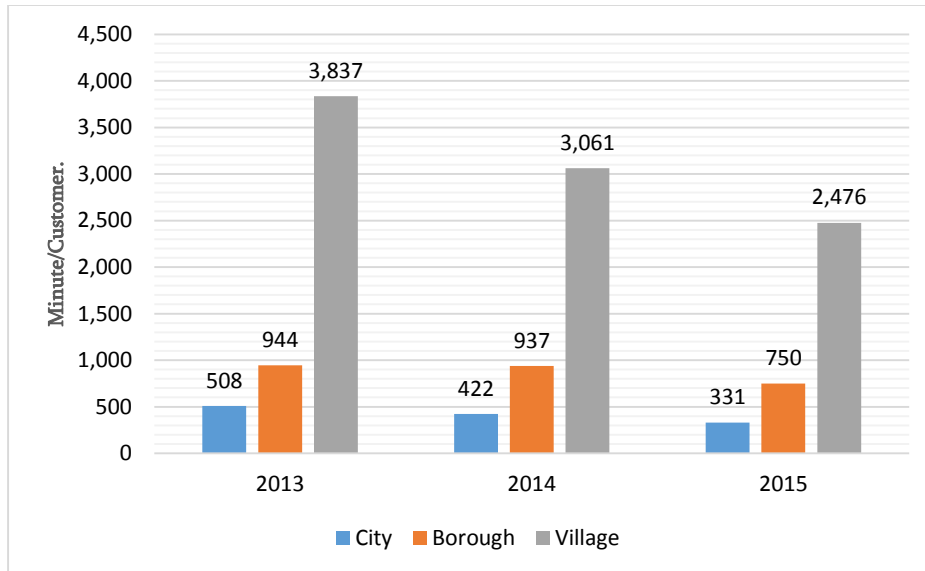


Figure 1.13. SAIDI indicators of “Energo-Pro Georgia” JSC in 2013-2015

As regards to SAIFI indicators of “Energo-Pro Georgia” JSC in 2015, they have been improved by 22.3% in cities, by 13% - in boroughs and by 12.4% - in villages (see figure 1.14).

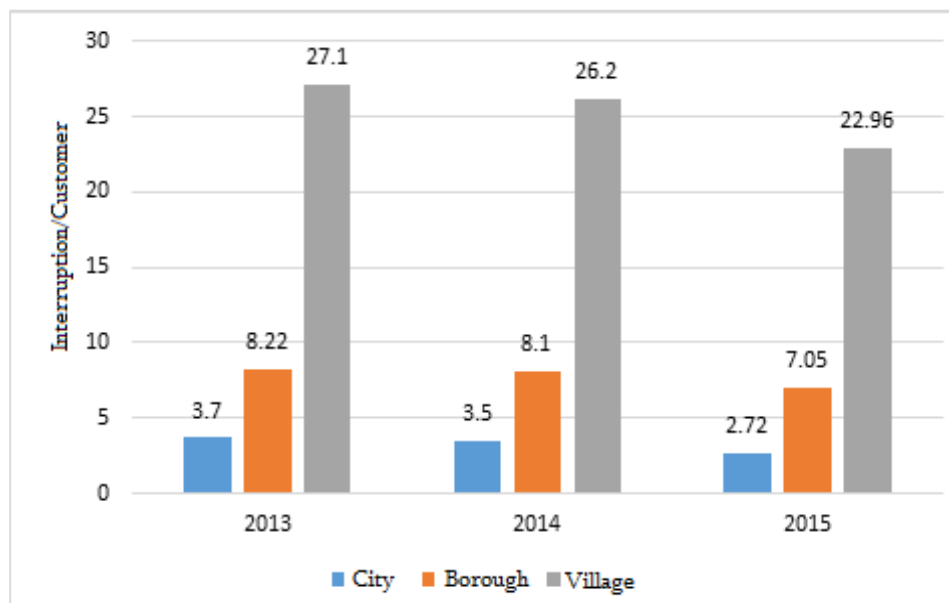


Figure 1.14. SAIFI Indicators of “Energo-Pro Georgia” JSC in 2013-2015

SAIDI indicators of “Kakheti Energodistribution” for 2015 in cities have improved by 44% and by 25.4% -in villages (see figure 1.15).

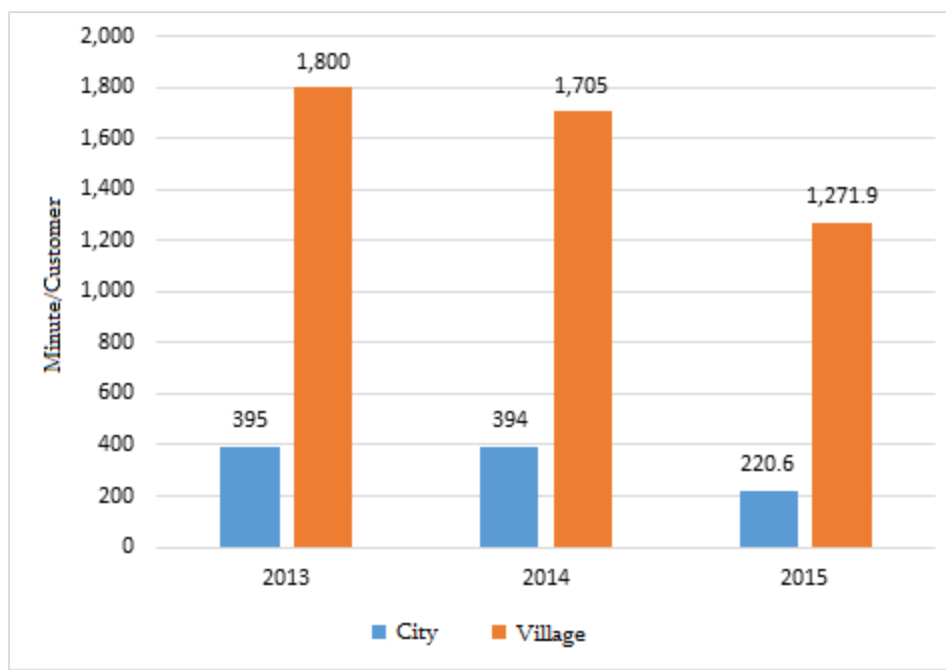


Figure 1.15. SAIDI Indicators of “Kakheti Energodistribution” JSC in 2013-2015

As regards to the SAIFI indicators in cities, they have improved by 15.8% and by 17.7% - in villages. (see figure 1.16).

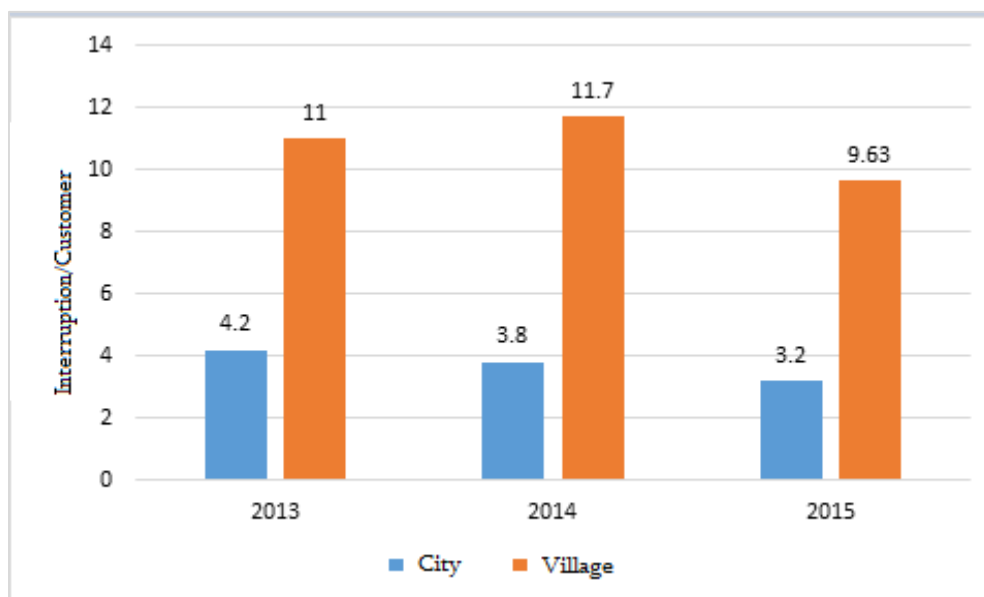


Figure 1.16. SAIFI Indicators of “Kakheti Energodistribution” JSC in 2013-2015

Notably, implementation of uniform electronic program of commercial service quality is planned for 2016. It will enable the Commission to monitor whether Distribution Licensees meet commercial quality requirements in real time. Hereby, authorized customers of the Commission will afford to get acquainted with information related to the review stage of application, as well as to its status.

1.3. Losses in Transmission and Distribution Networks

“Rules for Calculating Electricity Normative Losses” have been approved under the Resolution №15 of the Commission of July 30, 2014 that sets principles and rules for calculating normative values of electricity losses within transmission and distribution networks. On the basis of this Resolution electricity transmission or distribution Licensees shall submit information on technical expenditures to the Commission within timeframes set under existing legislation. Hereby, if during specific regulatory period significant changes have occurred in the network structure and/or in loads of transmission or distribution networks causing $\pm 10\%$ deviation of actual losses from the normative losses approved by the Commission, the Commission is entitled to recalculate normative losses on the basis of reasonable justifications submitted by the licensee and relevant data on actual losses.

Within reporting year trend of increased normative losses within Networks of the Distribution Licensees has been observed, that has been triggered by following factors:

- Increase of generation sources with generated electricity that is not consumed locally, but flows rather to the transmission network;
- Non-optimal development of the distribution network implieng the fact that lengthening of 0.4 kw lines is not based on engineering design norms (500 meter lines and less);
- Rehabilitation of the distribution network (with individual wires) and individual metering has not been completed by “Energo-Pro Georgia” JSC and “Kakheti Energodistribution” JSC, that has significant impact on losses within their networks (small leaks in land cover, remote short-circuits and metering losses);
- Those customers of the Distribution Licensees’ that are connected to the transmission network have been registered as eligible enterprises.

In 2015 absolute amounts of electricity losses in the network of “Kakheti Energodistribution” JSC have constituted 18.85% that exceeds data of previous year by 10.23% and 2013 - by 11.2%. It is remarkable that in 2014-2015 losses within network of “Kakheti Energodistribution” JSC have significantly decreased in comparison with 2009-2013, thus non-essential variability within admissible limits can be still observed (see figure 1.17).

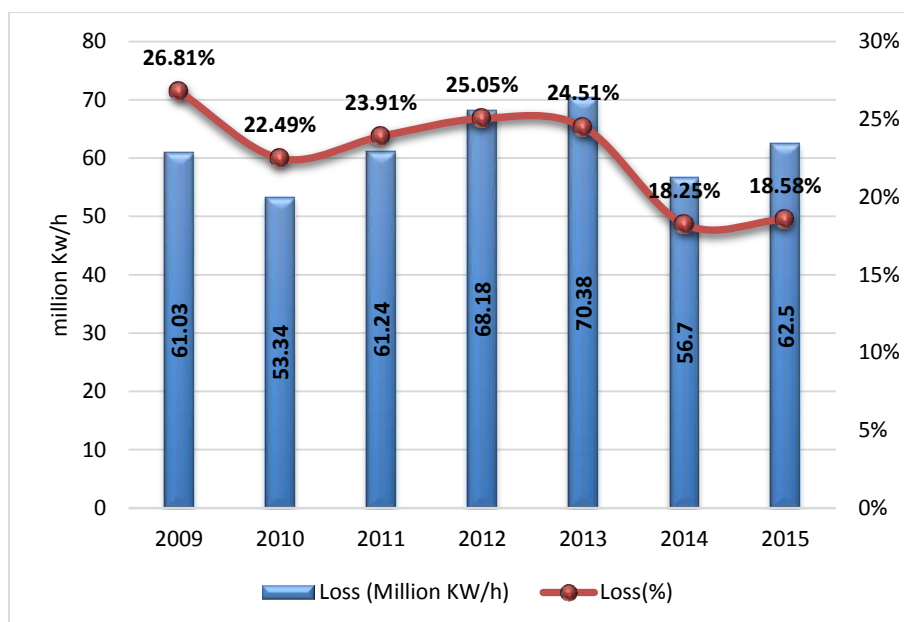


Figure 1.17. Dynamics of Losses within the Network of “Kakheti Energodistribution” JSC

Electricity losses within the network of “Energo-Pro Georgia” JSC have increased by 3.7% compared to previous year and by 16.19% - to 2013. It is notable that electricity losses have exceeded normative losses approved by the Commission by 10.1%. The above-mentioned implies that the Commission is entitled to recalculate normative losses on the basis of reasonable justification of “Energo-Pro Georgia” JSC and relevant actual data submitted to the Commission (see figure 1.18).

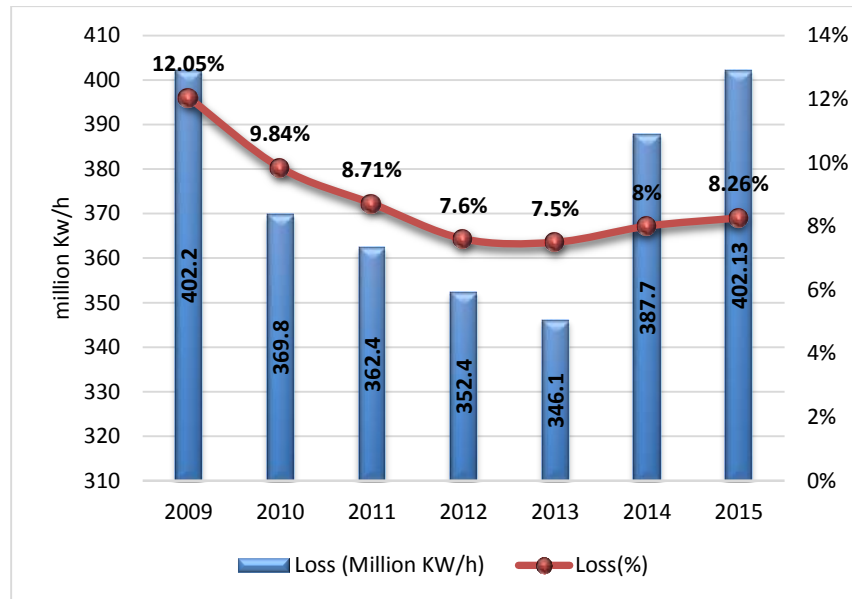


Figure 1.18. Dynamics of Losses within the Network of “Energo-Pro Georgia” JSC

Electricity losses within the network of “Telasi” JSC have constituted 5.49%, that exceeds data of previous year by 6.2%, however, is decreased by 6.4% in comparison with data of 2013 (see figure 1.19). It must be also noted that actual losses of “Telasi” JSC have exceeded normative losses set by the Commission by 3%. Therefore, those indicators do not qualify for recalculation within regulatory period.

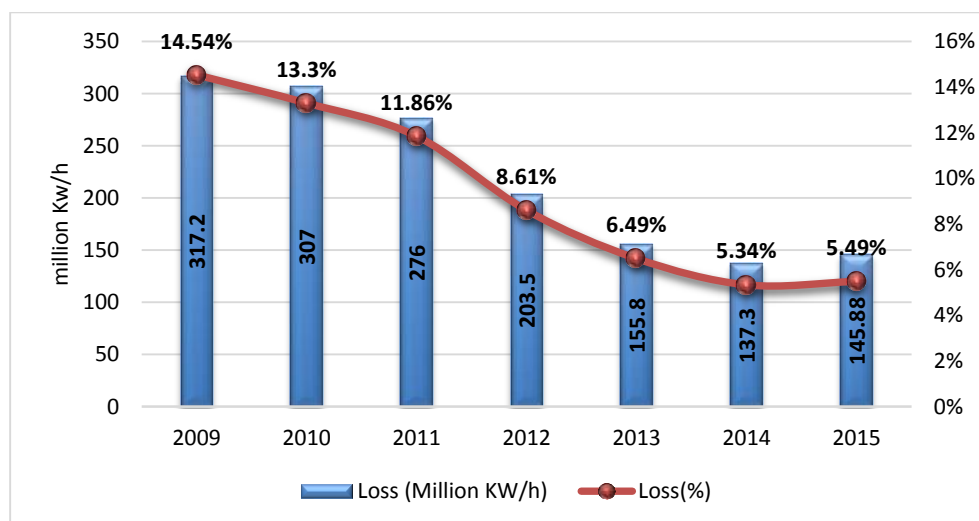


Figure 1.19. Dynamics of Losses within the Network of “Telasi” JSC

Actual losses within Georgian electricity system have been decreased by 6.65% in comparison with 2009, thus absolute amounts of electricity losses in both transmission and distribution networks have been increased in comparison with previous year, specifically, electricity losses within transmission network have been increased by 7.81% and in the distribution network - by 5% (see figure 1.20).

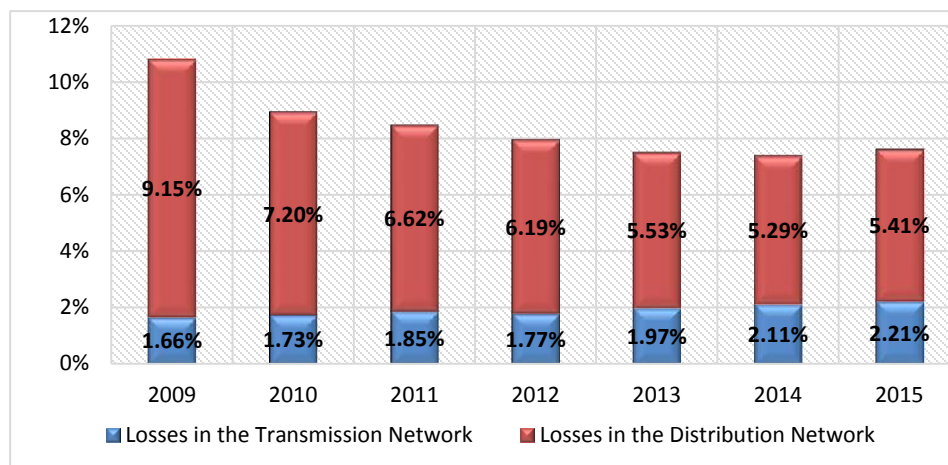


Figure 1.20. Actual Losses of the System

1.4. Price Setting and Tariff Regulation

1.3.1. Legal and Methodological Backgrounds

1.3.1.1. Tariff Regulations

The Commission sets tariffs for the regulated utilities (hereinafter, “utilities”) operating within the sector on the basis of the Law of Georgia on Electricity and Natural Gas and in accordance with Tariff Setting Methodologies approved by the Commission on the basis of above-mentioned Law.

Based on “Tariff Setting Methodology for Electricity Distribution, Pass Through and Consumption Tariffs” and “Tariff Setting Methodology for Electricity Generation, Transmission, Dispatch and Market Operator Services”(hereinafter, Tariff Setting Methodologies) approved under the Resolution №14 of the Commission of July 30, 2014 “On Approving Electricity Tariff Setting Methodologies”, internationally recognized “incentive-based” (marginal price regulation) and “cost-plus” regulation principles are applied. Such approach fosters efficiency and stable functioning of utilities, as well as reimbursement of reasonable expenditures and fair income.

In accordance with new tariff setting regulations the Commission had adequately responded to the macroeconomic changes related to the devaluation of national currency in 2015 and on the basis of applications submitted by utilities made adjustments to the generation tariffs of Thermal Power Plants (“Mtkvari Energy” LLC, IX Block of “Tbilsresi, III and IV Blocks of ”Georgian International Energy Corporation” LLC, “G-Power” LLC, Gardabani Gas Turbine Power Plant) set for guaranteed capacity sources. The reason behind mentioned adjustments has been dependence of those tariffs on the price of imported natural gas in USD.

WACC component of electricity consumption tariffs for “Energopro Georgia” JSC has been adjusted as well. Variation of USD exchange rate has had direct impact on the balance electricity price that had been adequately reflected on the activities of the Distribution Licensee.

Through above-mentioned regulatory approach the Commission has ensured stability of utilities and has fostered sustainability and reliability of electricity supply.

Under its Decision №4/1 of January 22, 2015 the Commission had approved tariff application forms (template) to be submitted for the purpose of calculating electricity transmission and dispatch tariffs. The above-mentioned forms comprise financial and technical indicators necessary for tariff calculation. The Commission had also prepared application form for calculating generation tariffs and approved it under its Decision №42/1 of August 6, 2015.

1.3.1.2 Uniform System of Accounting

Drafts of Uniform System of Accounting for the electricity sector Licensees have been prepared on the basis of memorandum of understanding between Georgian National Energy and Water Supply Regulatory Commission and US Agency for International Development/Georgia (USAID/Georgia). For the purpose of finalizing and implementing Uniform System of Accounting within deadlines envisaged under Georgian legislation, selection procedures of consulting company within EBRD-funded project on “Providing Technical Assistance to Georgian National Energy and Water Supply Regulatory Commission” have commenced in 2015.

1.2.3. Existing Tariffs of the Sector

In 2015 tariffs for almost all electricity Licensees have been recalculated on the basis of new tariff setting methodologies and regulations. As already noted, above-mentioned methodologies ensure protection of customer from monopolistic tariffs and at the same time foster long-term financial stability and development of the electricity sector. Recalculation process comprised tariff setting for 2 Distribution Licensees, 6 Generation Licensees (including 4 Thermal Power Plants and 10 HPPs) and 1 Dispatch Licensee.

Tariff calculation for transmission and dispatch is based on the “cost-plus” regulation principle. The Commission aims at creating authentic history of the company expenditures, after which shifting to “incentive-based” regulation model will be possible.

It should be mentioned that memorandum between Government of Georgia, “Partnership Fund” JSC, “Inter RAOUES” PJSC, “Telasi” JSC, “Mtkvari Energy” LLC, “Khrami HPP-1” and “Khrami HPP-2” (approved by Government of Georgia under its Decree №2047 of 24.12.2012, №299 of 28.3.2013 and №300 of 29.03.2013) envisaged long-term tariffs for Telasi” JSC until 2025. However, in 2015 “Telasi” JSC had submitted tariff application with request to calculate tariffs for electricity distribution, pass through and consumption in accordance with new tariff setting methodology. Submission of such application subsequently implies that “Telasi” JSC had refused provisions agreed in memorandum and became subject of tariff regulation.

Electricity Distribution, Pass Through and Consumption Tariffs have been set for “Energopro Georgia” on the basis of its application, for the latter tariff year 2016 has been second year of regulatory period.

Information on existing tariffs of the sector is provided in annex N9.

1.2.4. Analysis of Investment Projects⁵

⁵ Investment analysis is based on non-audited data.

Based on the provisions of tariff setting methodologies approved by the Commission under its Resolution №14 of July 30, 2014, implemented and/or future investments must be reflected in tariffs. From that perspective, the Commission pays significant attention to the analysis and monitoring of implemented and existing investment projects in the process of reviewing tariff applications.

As a result of well-targeted investments made by each Licensee of the electricity sector, reliability and safety of electricity networks, as well as improvement of respective quality indicators shall be achieved.

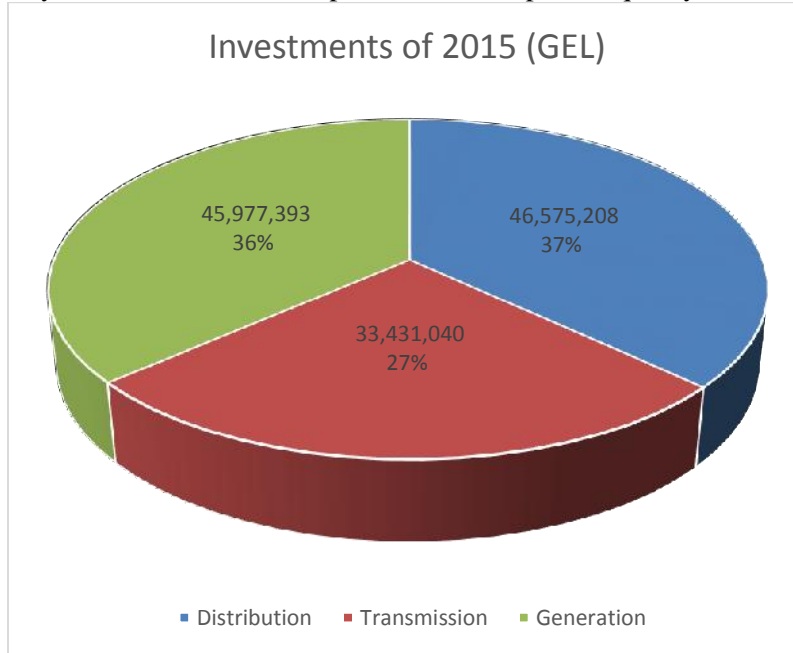


Figure 1.21. Implemented Investments

In 2015 total amount of investments carried out by electricity Generation, Transmission and Distribution Licensees has constituted 125,983,641 GEL. Information regarding investments due to activities and sources of funding is provided on figures 1.21 and 1.22.

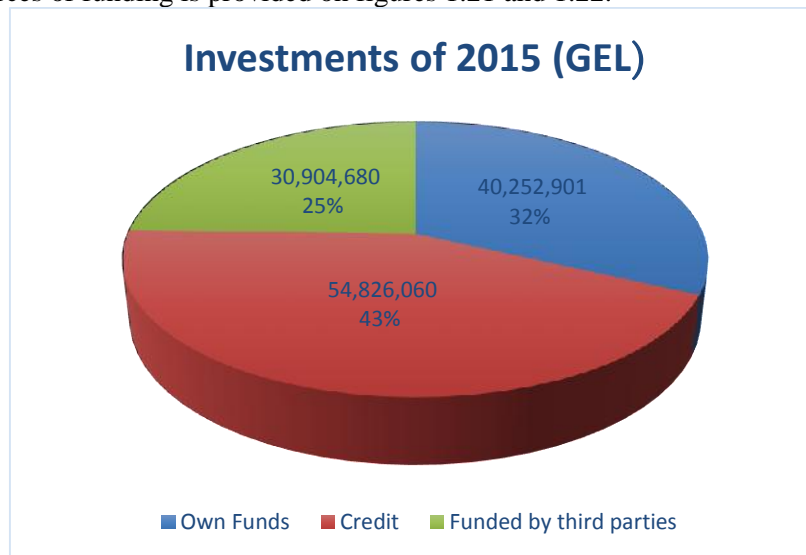


Figure 1.22. Source of Funding of Implemented Investments

Information on investments carried out in 2015 by electricity Distribution Licensees – “Energo-Pro Georgia” JSC, “Telasi” JSC and “Kakheti Energodistribution” JSC targeted at individual metering of customers, as well as at other directions, is provided on Figure 1.23.

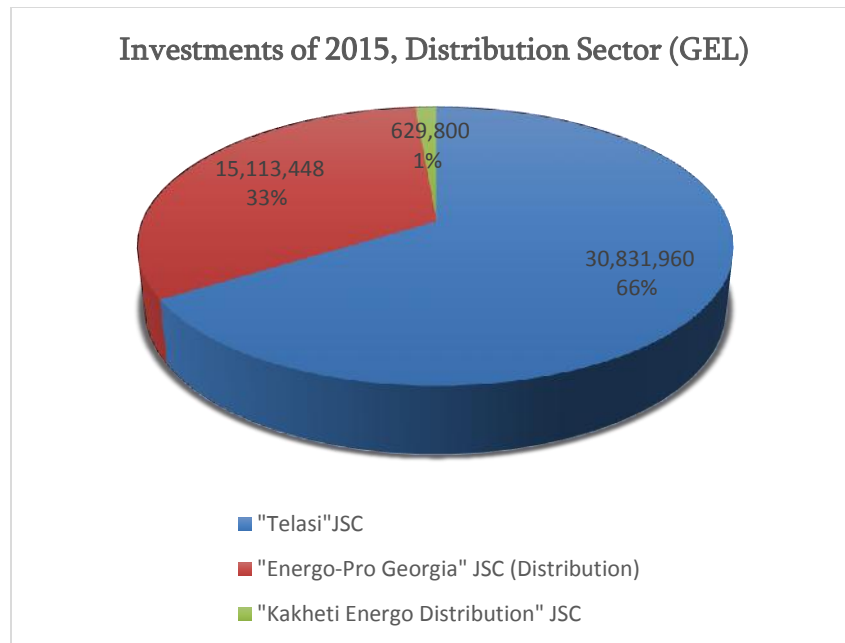


Figure 1.23. Investments Made by the Distribution Licensees

Based on the amendments introduced to the Law of Georgia on Electricity and Natural Gas electricity Transmission Licensee has prepared “10-Year Transmission Network Development Plan of Georgia”. Within the framework of 10-year network development plan licensees shall submit 3-year investment plans to the Commission for analysis and obtaining consent. Taking into consideration the fact that investments shall ensure reliability, safety and sustainable development of the network, as well as guaranteed improvement of electricity quality indicators, the Commission pays important attention to detailed performance of those activities and qualified analysis.

1.5. Regulatory Frameworks Fostering Renewable Energy –“Net-Metering”

Satisfaction of self-consumption demands of customers and development of micro generation power plants has been internationally fostered through various incentive-based policies. Incentive-based policy may be aggressive or relatively moderate. Aggressive policy is applied in countries where amount of electricity generated from fossil fuels is high and therefore, strict obligations of increasing renewable energy share exist. In such cases small renewable energy generators are mainly offered high tariffs (so called Feed-in Tariffs, etc.). It shall be also mentioned that such policy increases pressure on household tariffs and requires certain kind of resistance of implementing country. Moderate incentive-based policy is oriented towards ensuring conventional conditions through simplified way, by eradicating administrative or other types of bureaucratic barriers and incentivizing customers to develop their own electricity sources for full/partial satisfaction of electricity demand. This kind of policy does not significantly affect tariff processes and is based on more generous origins.

One of traditional and wide-spread policies for developing micro generation power plants has been net-metering. The term net-metering is internationally recognized and is used to denote that customer has its own electricity source connected to the network in a parallel mode and after satisfying own consumption

delivers excess electricity into the network. This scheme requires installation of specific meters that meter electricity in both directions and can calculate consumed and generated balances. Settlement between customer and electricity supplier is made on the basis of that difference i.e. net value. In case if generated electricity exceeds consumed electricity by the end of the settlement period, the Distribution Licensee/Supplier owes customer excess kw/h that can be reimbursed through various ways. One and most wide-spread approach is to credit excess kw/h in the bills for the next settlement period.

Figure below illustrates scheme of retail customer connected to net-metering program.

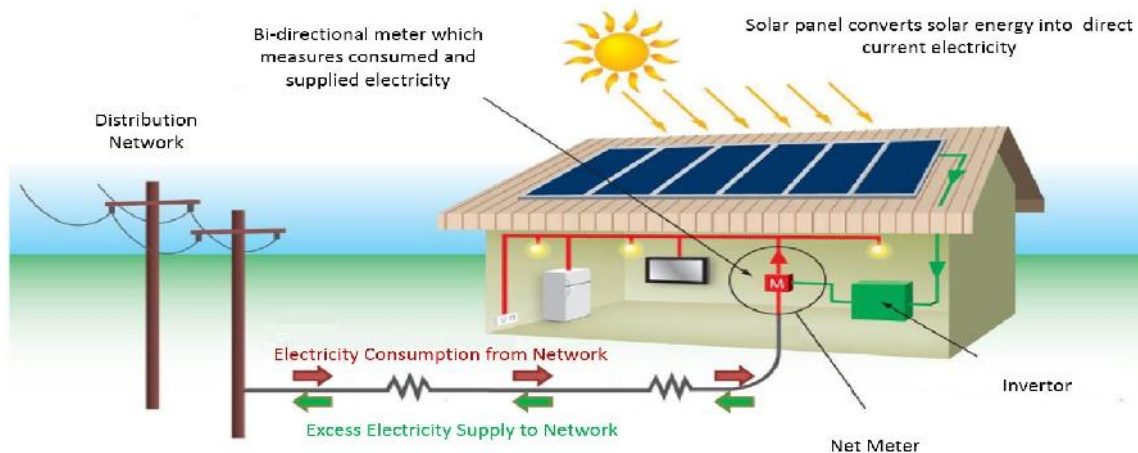


Figure 1.24. Illustration of the „Net-Metering”

Certain restrictions apply to the categories of customers and intensity of distribution. First of all, types and capacities of primary energy used by self-generating sources are limited. Usually, customer is not allowed to construct microgeneration power plant exceeding its requested capacity. Hereby, such power plant shall operate on renewable energy. Distribution Licensees require limitation of total capacity of micro-generators for the purpose of network management and fulfillment of technical standards, such limitations constitute 2-4% of peak loads in the networks.

Net-metering policy has been widely spread throughout the world. Obviously, construction of large energy units is not a single condition for ensuring sustainable development of the energy sector, huge potential is preserved with retail customers as well who can satisfy their own demands on energy by constructing micro-generation power plants. From international practices it can be observed that development of micro-generation power plants may bring versatile benefits, including:

- Reduction of financial expenditures necessary for the construction of transmission and distribution networks;
- Reduction of amounts of imported energy and generation of Thermal Power Plants;
- Reduction of electricity losses in transmission and distribution networks;
- Customer is given additional possibility to make financial savings or become electricity supplier;
- Will foster employment and economic activity as far as demand on qualified engineers and fitters will increase;
- The clean energy will have positive effects on the nature.

Currently, power plants in the ownership of retail customers and settlement for their generated electricity is regulated under the Resolution №20 of September 18, 2008 of the Commission “On Approving Electricity (Capacity) Supply and Consumption Rules”. Specifically, right of retail customers to design, construct and connect to the network power plants with maximum 100 mw installed capacity. As regards to settlement rules for excess electricity generated and delivered in the network by such power plants, Article 25(5) of “Electricity (Capacity) Supply and Consumption Rules” states that if not otherwise agreed between the Distribution Licensee and retail customer settlement obligations must be carried out in a following manner: Electricity cost delivered to the Distribution Network will be offset by the electricity costs received (consumed) from the network of the Distribution Licensee where price of electricity delivered by retail customer into the network will equal to difference between tariffs of electricity received (consumed) from the network and electricity distribution tariffs.

Despite the above-mentioned, disputes (Decision N 57/78 of October 29, 2015 on dispute between “Insta” LLC and “Energo-Pro Georgia” JSC and Decision N36/2 of July 7, 2015 on dispute between “Abso” LLC and “Telasi” JSC reviewed by the Commission in 2015 have pointed out necessity of defining micro generation power plant status at the level of primary legislation for the purpose of thorough regulation of the issue, to avoid legal and regulatory ambiguity, to avoid setting same technical and administrative requirements to such microgeneration power plants as it is envisaged for small power plants engaged in wholesale trade and to ensure maximum incentivization of retail customers. On the basis of above-mentioned the Commission had prepared draft of amendments to the Law of Georgia on Electricity and Natural Gas in close cooperation with Ministry of Energy of Georgia and submitted it too the Parliament of Georgia. The draft entails definition of micro generation power plants, determines status and other basic principles and obligation of the Commission to develop secondary legislation related to net-metering and bring them in conformity with requirements of the Law.

2. Natural Gas Sector

In the last years the demand for natural gas in Georgia had been growing due to the increasing gasification and replacing the fuel in transportation sector by natural gas. The demand for 2015 year was increased by 9 %. The increase during the reporting year was conditioned by the growth in natural gas demand at filling stations – by 4%, for population – by 16 %, and for thermal power plants by 13%.

Similarly as in 2014, the main challenge for Georgian natural gas market was the devaluation of Georgian Lari (GEL), and consequently increased prices (in GEL) on natural gas imports. However, natural gas prices for the household customers have not been increased.

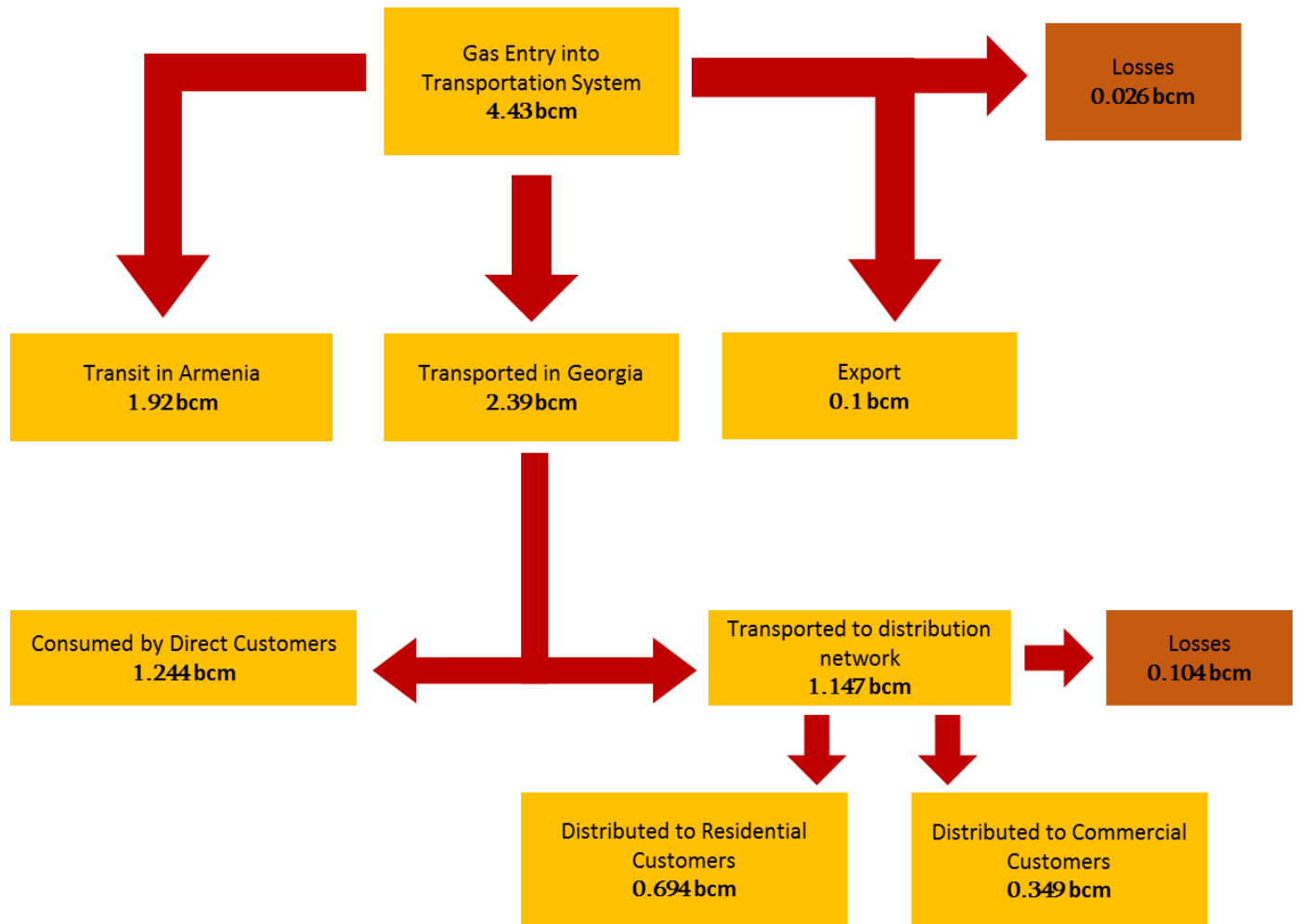


Figure 2.1. Main Data: Transported and Consumed Natural Gas⁶

2.1. Natural Gas Market

Natural gas market of Georgia represents a market of direct contracts. Both long-term and short-term contracts are concluded between the suppliers and customers. Affiliated companies of Socar dominate on the market which participate in both retail and wholesale markets. They supply the imported natural gas

⁶ The data presented in this chapter is preliminary data and may be changed upon providing of audited data from regulated companies.

to the suppliers and final customers. Natural Gas market is comprised of two different segments from the wholesale level to the customer level. Households and Thermal Power Plants are consuming cheaper natural gas. Accordingly, these two customer categories are represented as a social segment. As per the other customers, they buy natural gas from the direct contracts with different commercial prices and therefore they represent a commercial segment.

2.1.1. Regulatory Framework

Two significant changes have occurred related to the natural gas at the Commission in 2015. The “Natural Gas Supply and Consumption Rules” were amended by the Commission’s Resolution #15 May 27, 2015. According to the amendments, while connecting the apartment building to the natural gas distribution network by joint application, the date of connection is defined by total capacities of the person(s) willing to connect. Before this amendment, the connection date was determined by individually requested capacities.

The Commission approved Resolution #5, March 29, 2015, on Approving “Rule of Calculation of Normative Losses in Natural Gas Distribution Network” which set principles and rules of calculating normative indicators of natural gas losses in distribution networks owned by the natural gas distribution licensees. Incentive regulatory principles are used for calculation of natural gas normative losses which are based on setting of normative losses’ amount for natural gas distribution network of specific distribution licensee according to the actual data on natural gas losses. By above-mentioned rule the natural gas normative losses will be set for tariff calculating purposes.

According to the new rule, the levels of normative losses for all licensees shall strive to the final target and shall not exceed 2 % of amount of natural gas received in the network (for tariff calculation purposes). It means that percent indicator of the so called “allowed losses” for regulatory purposes shall not be more than 2 % regardless of actual losses of distribution licensee. The normative losses are set differently for those licensees who have already reached the final target. In this case the normative percent indicator shall be set based on the average losses of previous 3 years. The 5-year period is set in order to achieve the final target for those licensees who have not reached the final target. Accordingly, the Commission set the normative loss targets (trend) individually for each licensee for 5-year period which remains unaltered during this period and it can be changed only in case of merger/acquisition of licensees. The descending trend concave curve shape as shown on the Figure 2.2.

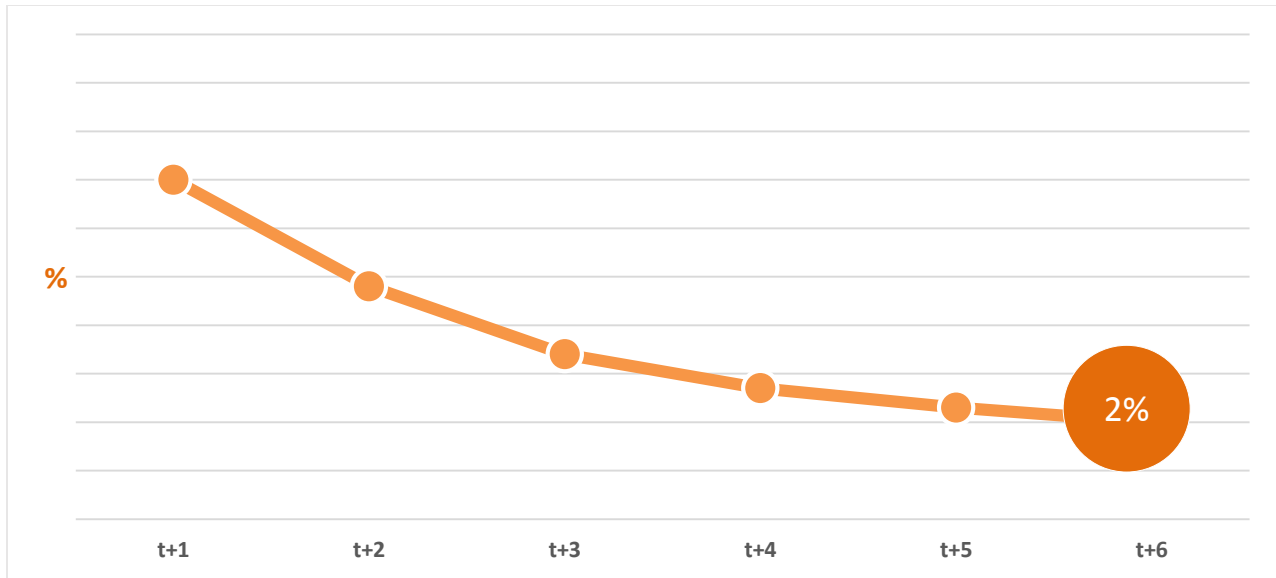


Figure 2.2. Chart of Descending Trend of Natural Gas Normative Losses ⁷

2.1.2. Market Structure and its Participants

During the reporting year no essential structural changes occurred at natural gas market. Existing structure and organization of Georgian natural gas market are conditioned by the proportion of natural gas supplied from South Caucasus Pipeline in cheaper prices, natural gas received as payment for transit fee from Russia to Armenia and imported commercial gas. The volume of natural gas delivered from South Caucasus Pipeline (SCP) is not enough to satisfy the total consumption of the country. Therefore, special customer categories are defined by the Government of Georgia (part of household customers and TPPs) for whom the natural gas supplied from SCP and North South Main Gas Pipeline (NSMGP) is available. Respectively, natural gas market of Georgia is divided into the regulated and deregulated segments. Wholesale and retail market prices, except for the regulated part of household customers, are deregulated and natural gas is supplied to them without setting the consumer tariff.

⁷ In *t+1* period the normative loss indicator is set individually considering the actual losses, and during 5-year period it is gradually declining to 2% according to the curve shown on the Figure.

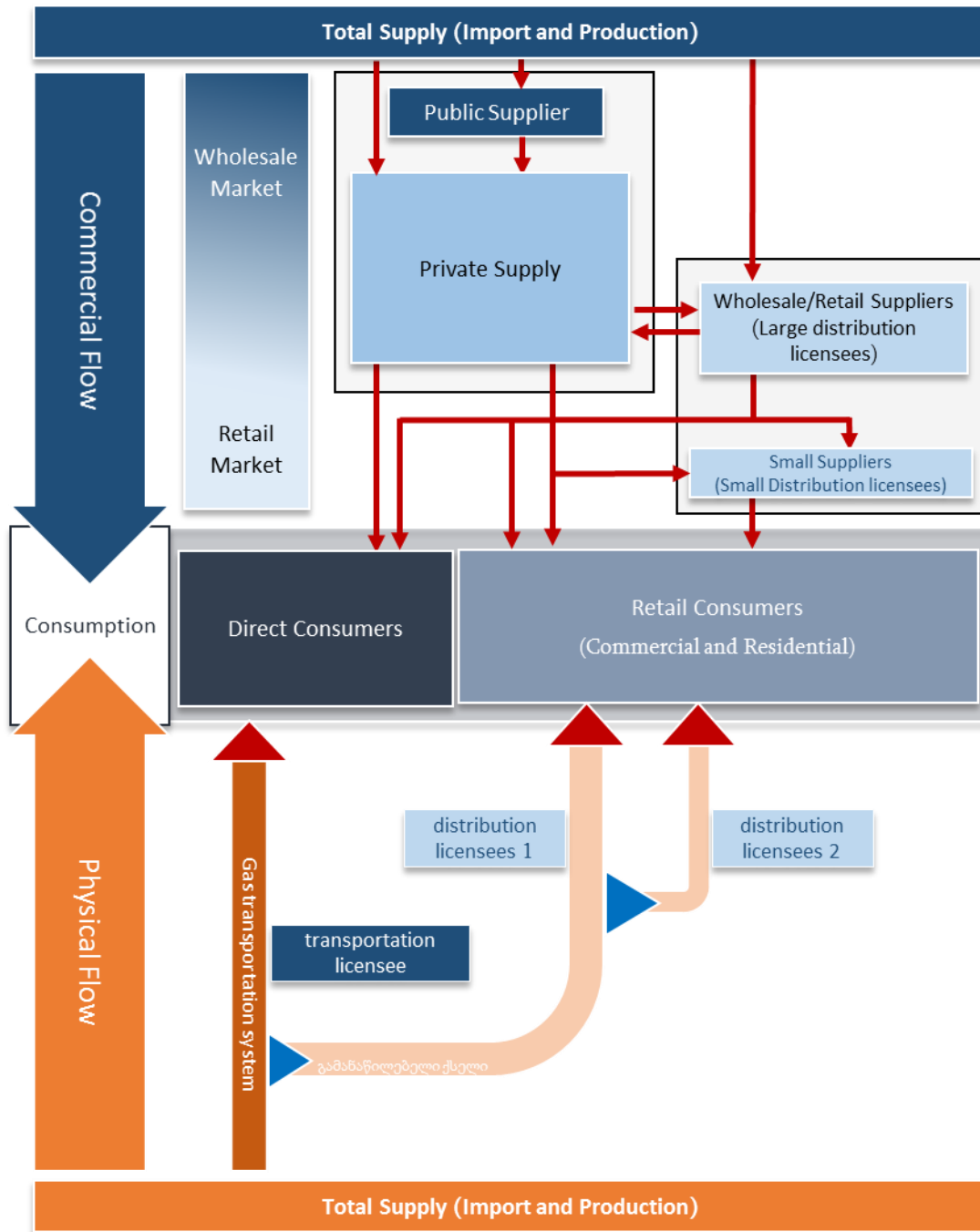


Figure 2.3. Structure of the Natural Gas Market, Main Commercial and Physical Flows

Option and additional gas from SCP and natural gas received as Armenian transit fee are transferred by “Georgian Oil and Gas Corporation (GOGC)” JSC through “Socar Gas Export-Import” LLC to the natural gas regulated segment, thermal power plants, and natural gas wholesale and retail traders who are delivering the natural gas to the distribution licensee which are represented as the suppliers for the household sector. It should be noted that the division of suppliers as wholesale and retail suppliers is conditional as in most cases wholesale suppliers are carrying out the retail supply as well. Organization of the natural gas market and existing structure are described on the figure 2.3.

2.1.3. Market Monitoring

The Commission is authorized to carry out the monitoring of natural gas market the purpose of which is to reveal market shortcomings and support competitive market with development of legal framework. Market monitoring includes the research of pricing on wholesale and retail market and commercial relationships, and also the analysis of behavior of natural gas suppliers.

As was noted above natural gas distribution licensees are carrying out also the supply activities. Issues related to the natural gas supply and pricing are discussed in this subchapter and topics about the control of license conditions and network activities are reviewed in subchapter 2.2.

2.1.3.1 Wholesale Market

Suppliers on the wholesale market supply the natural gas to the retail suppliers and retail suppliers - to end-users. Companies participating in wholesale market in some cases also provide retail supply. For the purposes of this chapter the wholesale supplier is a supplier who supplies a little part from sold amount of natural gas to another supplier.

In the year of 2015 Georgia received natural gas from 8 sources from which 2 are the local production (See Table 2.1). In 2015 from the above-mentioned sources 6 suppliers imported the natural gas in Georgia, out of which “Georgian Oil and Gas Corporation (GOGC)” JSC is the largest that received 43 % of total amount of natural gas received in Georgia. The second main supplier is “Socar Georgia Gas” LLC , which provided the import of 35 % of natural gas from Azerbaijan (See Table 2.2). For evaluating competition level on this stage of trade the Herfindahl-Hirschman index (HHI) is used that is 3,240 among natural gas importers of Georgia. This fact indicates that the market is highly concentrated. Such situation is common in the countries with developing markets. However, compared to some of the Eastern European countries where HHI indicator reaches 10,000 the import market of natural gas of Georgia is not characterized with monopolistic structure.

Natural Gas Source in Georgia		mln m ³	%
Russian Federation	Import	30	1%
	Gas received as transit fee	265	11%
SCP	Additional gas	501	20%
	Optional gas	220	9%
ArmRosGazprom (ARG) (import)		127	5%
Import from Azerbaijan		1,359	54%
Local extraction	Frontera	7	0.3%
	Ninotsminda head facility,	4	0.1%

Table 2.1 Natural Gas Source in Georgia, 2015

Nine companies provided trade of natural gas on wholesale level in 2015. The largest natural gas suppliers are: “Georgian Oil and Gas Corporation” JSC, “Socar Georgia Gas” LLC, “Socar Gas Export-Import” LLC, “Georgian Gas Transportation Company” LLC. The amount of purchased natural gas by retail suppliers (providing retail supply only) on a wholesale level was 157 mln m³. HHI indicator on wholesale level based on data for 2015 reached 2,007 indicating highly concentrated market.

Natural Gas importers	mln m ³	%
“Gas Transportation Company of Georgia” LLC (Gas received as transit fee)	265	11%
“Georgian Oil and Gas Corporation” JSC	1,081	43%
“Socar Georgia Gas” LLC	879	35%
“Socar Gas Export-Import” LLC	123	5%
“Geotrasngas” LLC	30	1%
“Georgian International Energy Corporation” LLC	127	5%
Frontera (production)	7	0.3%

Table 2.2. Natural gas importer companies in Georgia and natural gas volume received in 2015

2.1.3.2 Retail Market

37 suppliers provide natural gas supply to end consumers, 27 from which at the same time are natural gas distribution licensees. Except of distribution licensees other suppliers provide natural gas supply to the direct customers from which the TPPs are the largest ones. Figure 2.4 reflects the share of natural gas delivered by the retail suppliers in the total retail supply (except of TPPs).

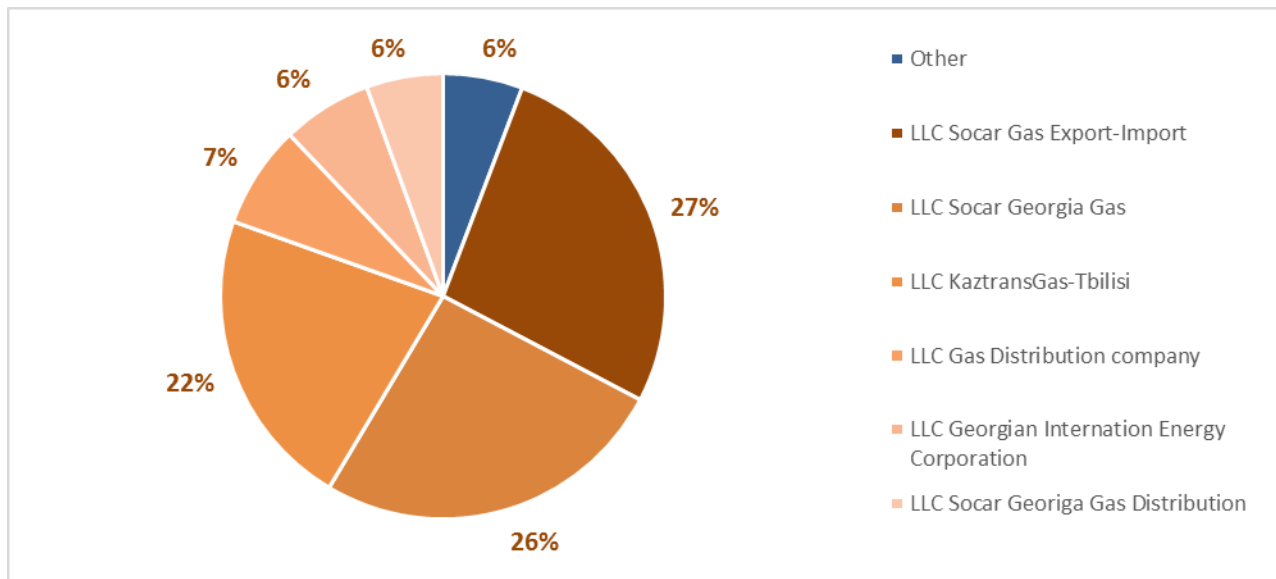


Figure 2.4. Share of the Largest Retail Suppliers in the Total Retail Supply

HHI on a retail level was 2,003 according to 2015 data that shows highly concentrated market.

2.1.3.3. Shortcomings of natural gas market

Natural gas market monitoring revealed shortcoming of natural gas market structure elimination which is crucially important for further development of the market. The main goal of natural gas market is to ensure the availability of the information for the consumers and offer competitive prices through the

competition and transparency. However, based on the peculiarities of natural gas sector, the fostering of the competition on the market is not enough for continuous and reliable supply with natural gas and by using relevant regulatory tools it is necessary to protect the consumers when special occasions arise. In particular, when existed supplier leaves the market (due to bankruptcy or any other occasion) the Supplier of Last Resort (SOLR) shall exist which will provide the consumers with natural gas before a new alternative supplier.

Pursuant to existing legislation the obligation of guaranteed supply for the consumers is imposed upon distribution licensee in its license area. However, taking into consideration the existing situation in natural gas sector when several facts of licensee's bankruptcy have been detected it is advisable to have the SOLR. SOLR, with strong financial capabilities, shall be licensed by the Commission for which guaranteed supply tariff will be set and in case alternative supplier does not exist he will provide continuous supply of natural gas. Considering the perspectives of gas storage construction in Georgia, international practice shall be implemented according to which the SOLR is obliged to draw up a contract on natural gas supply with gas storage operator.

Additionally, the rules in natural gas sector shall also envisage obligatory authorization or licensing of natural gas suppliers. Such request ensures the creation of unified registry of suppliers, monitoring of publicly declared prices and finally, protection of the consumers.

As the volume of cheap gas supplied to the country is limited in order to overcome energy poverty, it is advisable to define the category of vulnerable consumers, for which necessary amount of natural gas will be available at reasonable price taking their economic condition into considerations. Directive 2009/73/EC envisages for the member states to develop the concept of vulnerable consumers and ensure legal mechanisms for their protection. Determination of category of vulnerable consumers aims at overcoming energy poverty and continues supply of natural gas for retail consumers in remote areas.

It is advisable to publish annual and monthly balance sheets of natural gas in order to improve transparency of natural gas market.

2.1.3.4. Dynamics of Consumption

Natural Gas is consumed by retail consumers (connected to the distribution network) and direct consumers (connected to transportation system). Half of the total consumption of direct consumers is composed by consumption of Thermal Power Plants. The gas filling stations are among the largest consumers. They account for significant part of retail consumption. Natural gas consumption indicators of year 2015 are given on the Figures 2.5-2.7.

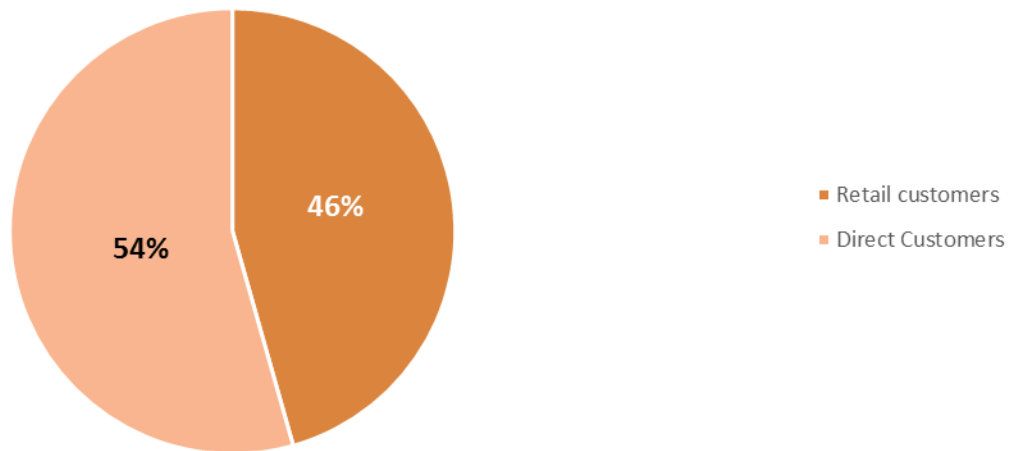


Figure 2.5. Natural Gas Consumption by Retail and Wholesale Consumers for 2015

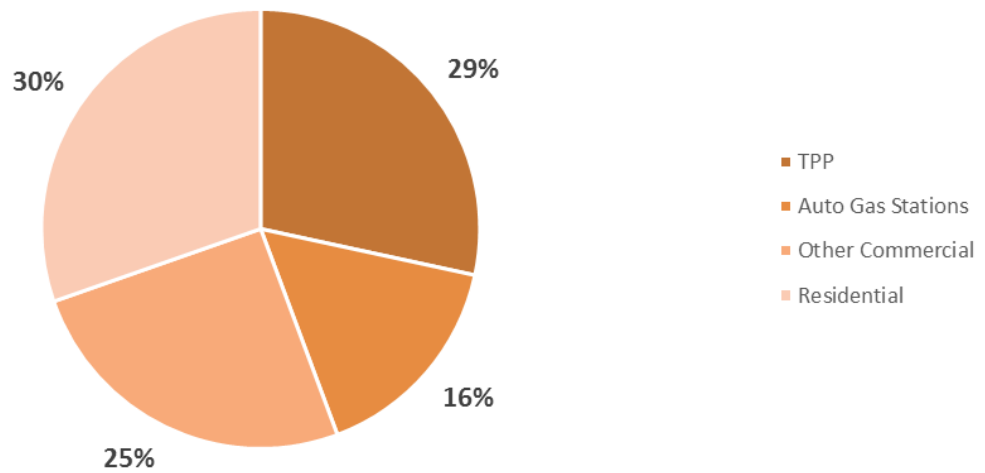


Figure 2.6. Natural Gas Consumption (Retail and Direct) by Customer Categories for 2015

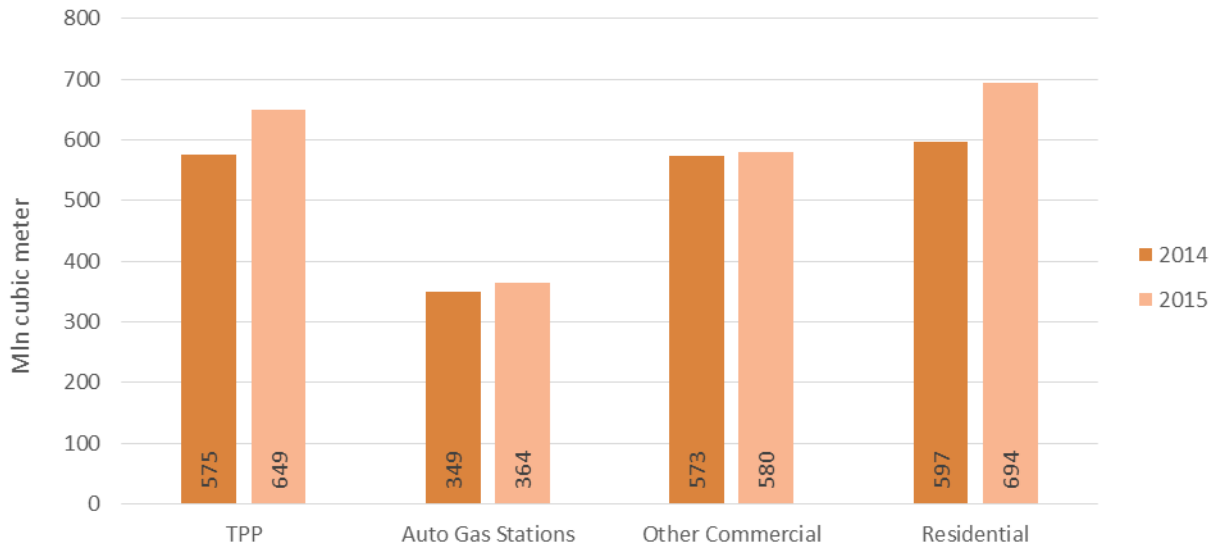


Figure 2.7. Natural Gas Consumption (Retail and Direct) by Customer Categories for 2014 and 2015 Years

In 2015 one household customer consumed average 739 m³ natural gas per year. This indicator is by 6% greater than the indicator recorded in the year 2014. The reasons of this fact may be the weather conditions and increase of natural gas appliances. The increase was recorded for household customers of both in Tbilisi and in rest of Georgia (Figure 2.8.)

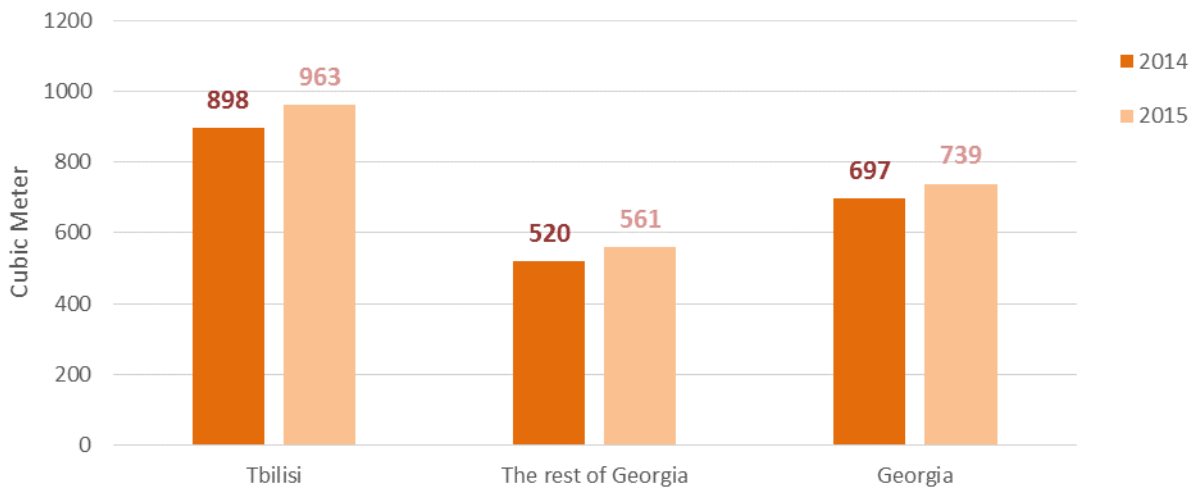


Figure 2.8. The Dynamics of Natural Gas Average Consumption per Household Customer

2.2. Licensing and Control of License Activities

2.2.1. Natural Gas Transportation System and Transportation Licensee

Natural gas transportation licensee, “Georgian Gas Transportation Company” LLC, operates the main gas pipeline system the total length of which is 1,968 km. It should be noted that main gas pipeline system operated by transportation licensee does not include Georgian section of SCP, which is operated by international company British Petroleum. Maximum operating pressure in the main gas pipeline system was 3.2 MPa in 2015.

In the main gas pipeline system of Georgia (transportation system) natural gas is injected from 5 reception points.

	Natural Gas Source	Reception Point	mln m³/day
1	From Russia	“Gazprom Export” LLC	20
2	From Azerbaijan	The State Oil Company of Azerbaijan Republic	5
3	From Azerbaijan	SCP	3.25
4	Local extraction	“Ninotsminda Head Facility” and “Frontera Resource Georgia Corporation”	0.03
5	From Armenia	“Transgas” LLC and “ArmRosGazprom” JSC	3.14

Table 2.4. Natural Gas Reception Points in Georgia, 2015

It should be noted that the number of natural gas reception points has been especially increased in recent years, which is caused on the one hand by increased connections to transportation system by the distribution licensees while gasification of populated areas, and on the other hand, by increasing the number of direct customers of natural gas. The number of direct customers in 2015 was 151, which is fairly a high rate, considering the fact that the main function of natural gas transportation system is to transport to natural gas throughout the county, interoperate with neighboring systems and supply natural gas to distribution system.

For effective utilization and development of existing distribution network, it is necessary that the connection to the transportation system by the customer and reception of direct customer status shall depend on obtaining such volume or pressure of natural gas from the system that cannot be ensured by the distribution licensee in the relevant area. Several cases were detected when a retail customer was connected to the transportation system with required capacity and became a direct customer. This highlights about the existence of inefficient investment signals in natural gas supply system due to the fact that the person willing to be connected carried out infrastructural investment which was not caused by the technical necessity.

In addition, it should be stated that the customers connected to direct customers’ network and their status need to be included in the legal framework, as such customers are not recognized by the legislation.

2.2.2. License applications and amendment in license registry

In 2015 the Commission reviewed one application on issuing natural gas distribution license, which was not satisfied as the license seeker could not present technical condition for the connection to the natural gas transportation system. Under the Law of Georgia on Electricity and Natural Gas, the natural gas distribution activity implies reception of natural gas from one or more supply points (connection point to the transportation system), maintenance of distribution network and supply of natural gas customers upon the suppliers' request within particular distribution network, in order to be granted with natural gas distribution license, it is important to be connected to the transportation system alongside with other requests, which were not satisfied and therefore, the application remained unviewed.

In 2015, 4 natural gas distribution licenses were revoked (“Sakhalkho Express Service” LLC, “Orujevi da Janmrteloba” LLC, “Gantiadi” LLC and “Adjara Natural Gas” LLC). Cancellation of licenses for “Sakhalkho Express Service” LLC, “Orujevi da Janmrteloba” LLC, and “Adjara Natural Gas” LLC was conditioned by their applications on revocation of license submitted in the Commission, since they did not own the network, based on which the Commission issued the natural gas distribution license. As for “Sakhalkho Express Service” LLC, natural gas distribution licensee violated the license conditions. The licensee did not submit reports set by the existing legislation and did not perform obligations imposed by license conditions, including the connection of new customers to the distribution network according to the procedures set by the Commission. Additionally, the fact that the licensee lost the rights of property or ownership of distribution network on which the relevant license was issued, was an additional circumstance for the Commission to revoke the natural gas distribution license for “Sakhalkho Express Service” LLC.

During the reporting period 3 distribution licenses were modified. The area of operation of “Socar Georgia Gas” LLC was further spread to Batumi, Kobuleti and Khelvachauri, also, in 30 villages of Samtredia municipality and within the scope of natural gas distribution network in the villages of Mstkhetia municipality –Lisi, Tsodoreti and Mukhattskharo. The operation area of “SakOrgGaz” JSC has increased and was further spread to the territory of Olympic village (nearby Tbilisi Sea), and also, within the scope of natural gas distribution network in the populated area of Kaspi, Ambrolauri and Terjola municipalities. The natural gas distribution license issued to “SachkhereGaz” JSC was amended and its operation area additionally covered the villages of Sachkhere municipality: Chalovani, Khvani, Licheli, Tskhomareti, Mokhvi and Uzunta.

By December 31, 2015, 30 distribution licensees operated in Georgia. Among them the following three companies are the largest ones: “Socar Georgia Gas” LLC, “KazTransGas Tbilisi” LLC, “SakOrgGaz” JSC. Three above-mentioned distribution licensees have distributed 89% share in total distributed natural gas (see figure 2.9).

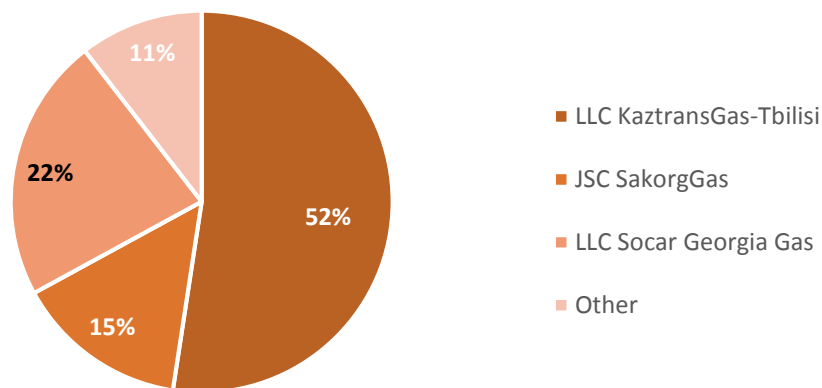


Figure 2.9. Shares of Distribution Licensees in Total Distributed Natural Gas.

In 2015 aggregation of natural gas distribution licensees can be still detected. Accordingly, the number of licensees is decreasing. The Figure 2.10 shows the number of natural distribution licensees by years. It is expected that the aggregation process of distribution licensees will be maintained in the following years.

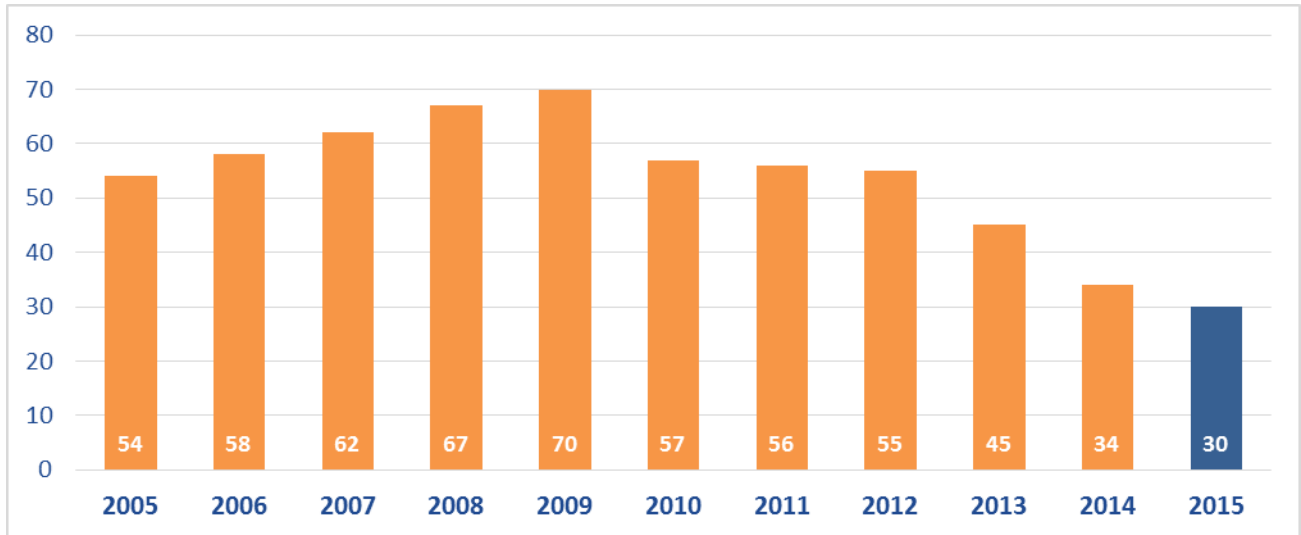


Figure 2.10. Dynamics of Natural Gas Distribution Licensees, 2005-2015

It should be noted that the issues related to 2 distribution licensees remain problematic. “Gazmsheni” LLC is under bankruptcy and does not perform adequate service for the customers. “AmbrolauriGazi” LLC does not provide proper maintenance of the network due to the poor financial conditions and does not submit the reports to the Commission.

As indicated above, the Commission issues natural gas distribution license and the list of documentation to be presented by the license seekers is determined according to the Law of Georgia on Electricity and Natural Gas (Article 25, Paragraph 1).

In case of complete submission of the documentation, the Commission is obliged to issue a natural gas distribution license. In contrast to international practice, the seeker of natural gas distribution license is not required to submit the justification of personnel experience and qualification and information on financial sustainability, which is a necessary precondition for stable, safe and reliable supply of natural gas. At the same time, according to the existing legislation the natural gas distribution license is issued within the framework of particular distribution network only and not by the geographical zone. Current practice does not exclude the existence of parallel networks causing inefficient use of distribution network (that is likely to cause tariff increase for existing customers), deteriorating security and neglecting the benefits obtained by natural monopoly regulation.

2.2.3 Reporting and Main Results of the Reporting year

Natural gas transportation and distribution licensees quarterly and annually submit the reports on regulating activities to the Commission. Despite natural gas supply is not a licensed activity, the natural gas distributions are obliged to submit quarterly and annual reports. Accordingly, the main results of reporting year are based on unaudited information analysis provided by licensed utilities and suppliers.

Figure 2.11 illustrates the balance of natural gas flows. The supply from the Azerbaijan Republic has been increased compared to the previous year.

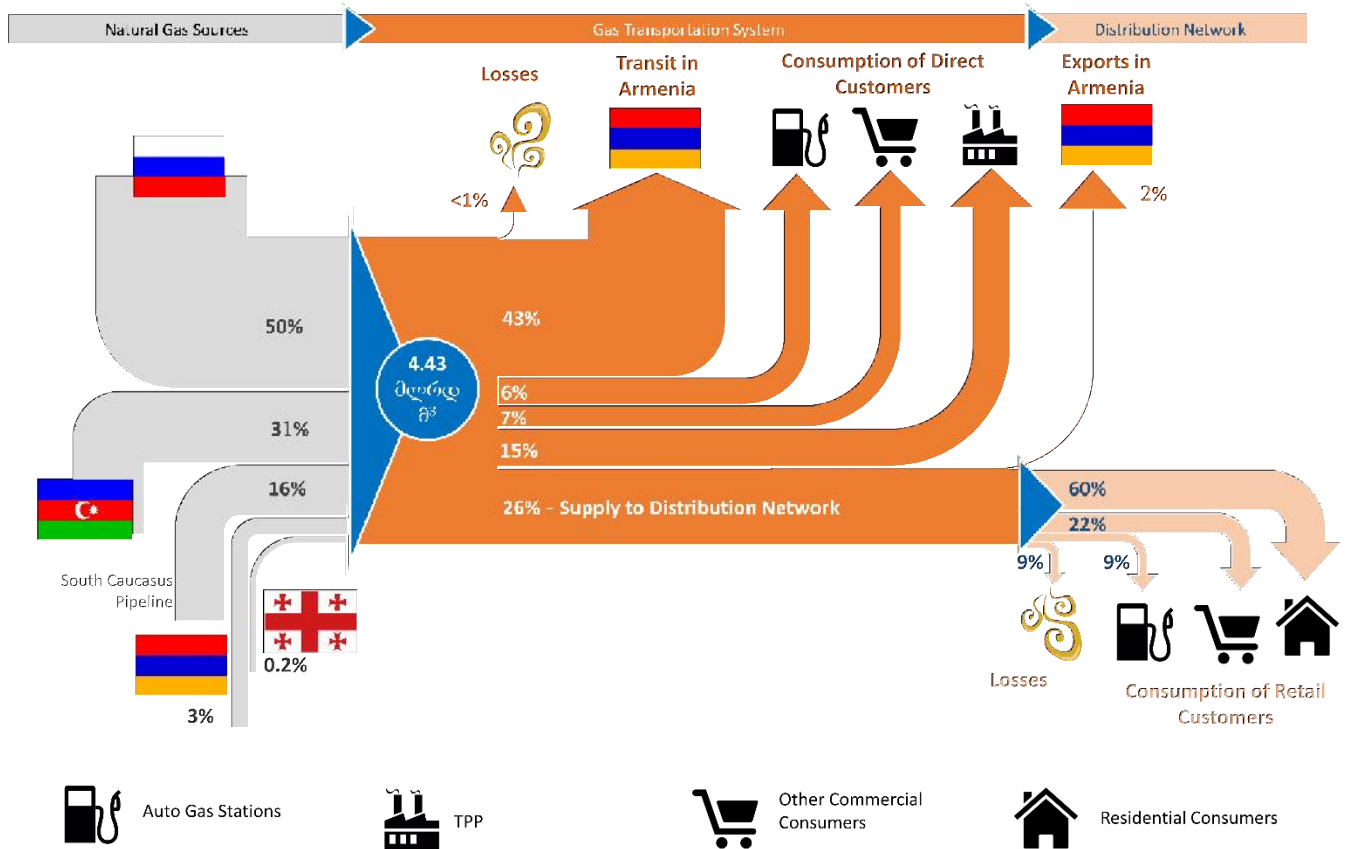


Figure 2.11. Balance of Natural Gas Physical Flows, 2015

In 2015 the distribution network received 5% more natural gas than in 2014. At the same time natural gas losses increased by 14.7 mln m³. Respectively, the customers connected to the distribution network consumed 101 mln m³ more natural gas compared with 2014. Figure 2.12 shows consumption changes in comparison with 2014 for different customer categories.

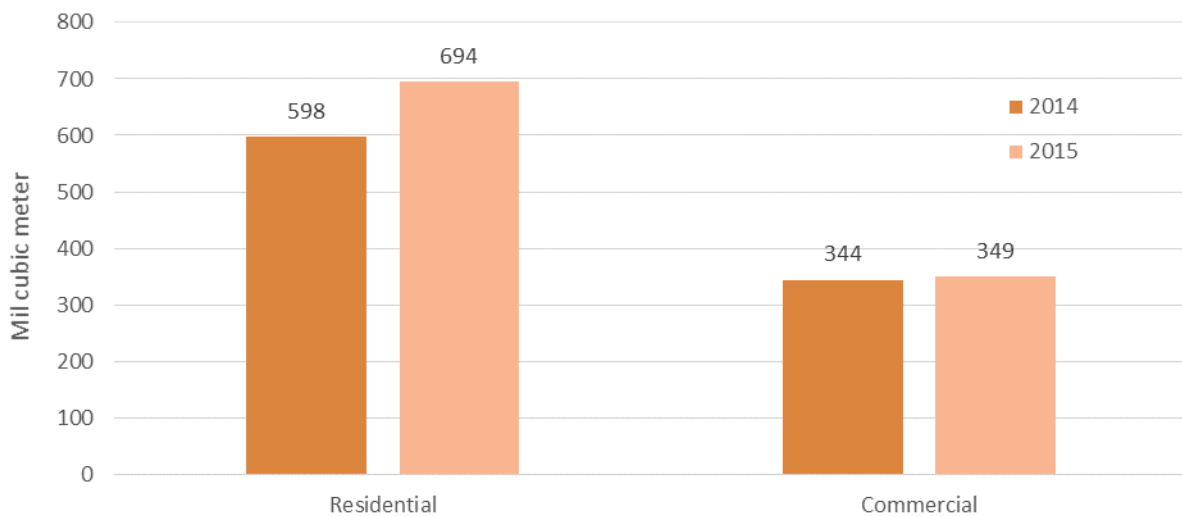


Figure 2.12. Natural Gas Consumption by Retail Customer Categories

The consumption increase is mainly caused by continuation of gasification process and increased number of new customers to the distribution network. 970,101 customers are connected to the natural gas distribution network by December 31, 2015 (including 939,552 household customers), which is by 10% more than the similar indicator in 2014. Accordingly, 80% of households are connected to the distribution network. Despite the consumption decrease, the number of non-household customers is increased. In 2015, the highest number of customers were connected to the “Socar Georgia Gas” LLC. In total, 95% of connected customers were connected to the 3 largest distribution licensees’ network (“Socar Georgia Gas” LLC, “KazTransGas – Tbilisi” LLC, “SakOrgGaz” JSC) in the reporting year. Such a high rate of above-mentioned licensees is due to the gasification works and new household and commercial constructions in Tbilisi. Figure 2.13 shows the information about customers connected to the distribution network.

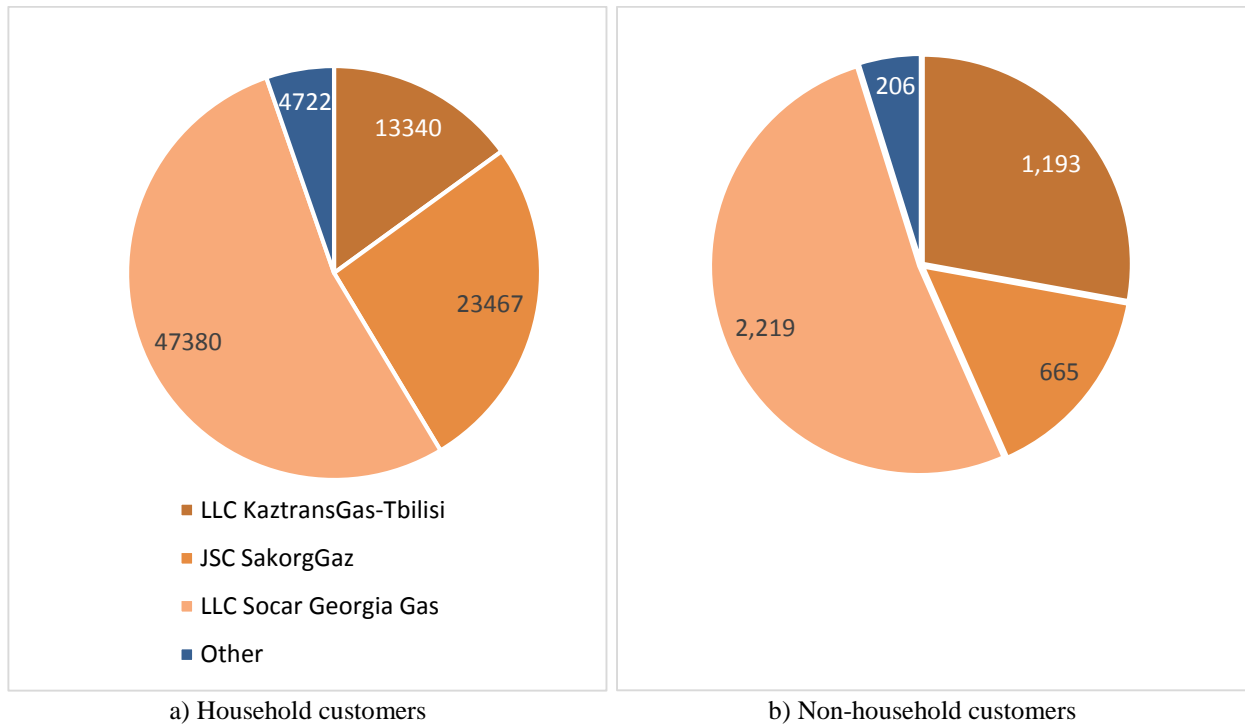


Figure 2.13. The Number of Customers Connected to the Distribution Network by Distribution Licensee in 2015

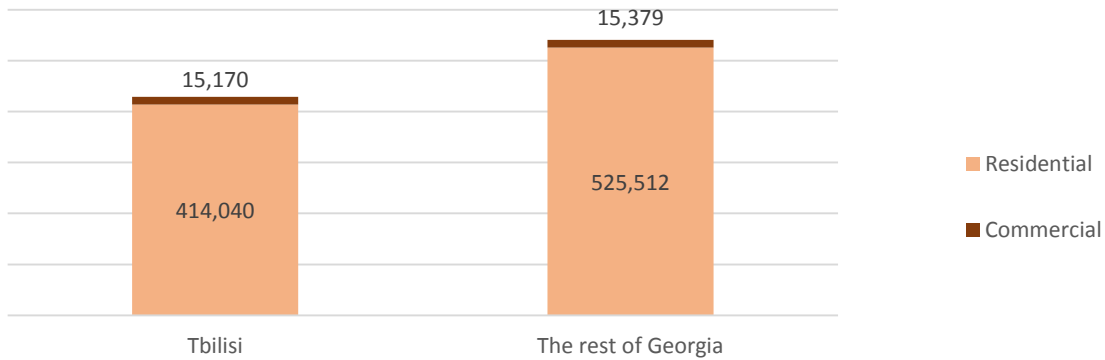


Figure 2.14. The Number of Retail Customer Categories by Regions

The consumption dynamics by months remains unchanged like previous years. The peak consumption of household customers during the winter period 6 times exceeds the minimal consumption in summer. The seasonal difference is much less for non-household customers.

In 2015 the distribution network was expanded. It should be noted that, the medium pressure distribution network has been mainly built during the last years, which significantly improves reliability of network in the conditions of growing demand. The length of pipelines is shown on the Figure 2.15.

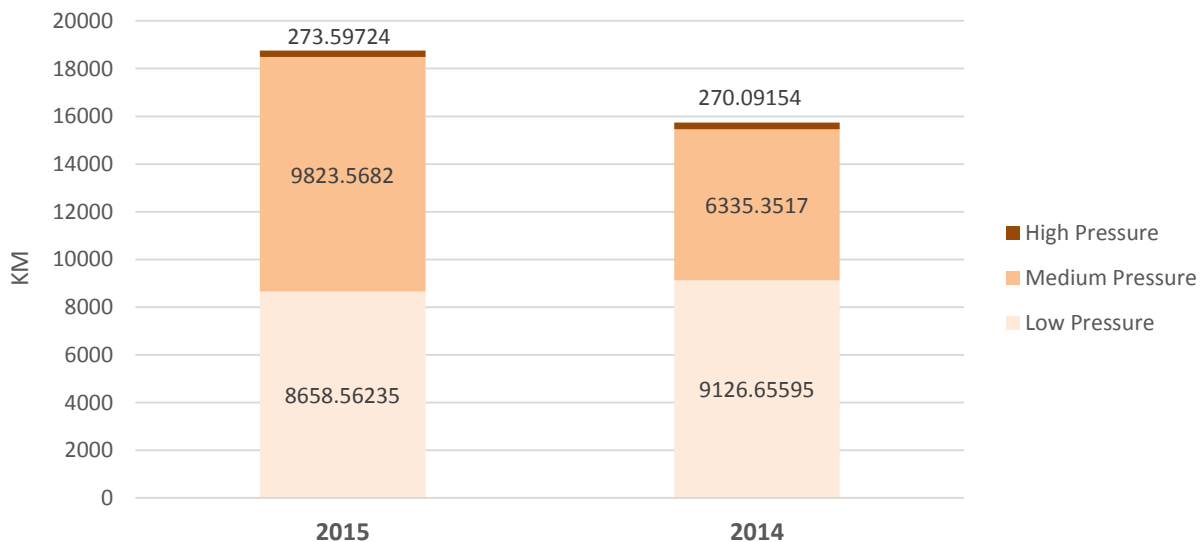


Figure 2.15. Natural Gas Distribution Network of Georgia by pressures

Due to the fact that connection period by distribution licensees to connect new customers to the natural gas distribution network was violated, and also the works for upgrading of allowed volumes of natural gas consumption were not completed in defined time, under the Resolution #12 of the Commission July 9, 2009, “on approving Natural Gas Supply and Consumption Rules”, the fee for network connection and capacity upgrade were decreased/halved that summed up 82750 GEL in 2015.

2.2.4. Actual Losses in the Distribution Network

In 2015 the amount of losses in the distribution network was 103.8 mln m³. As in previous years, the highest rate of losses accounts for “KazTransGas Tbilisi” LLC the portion of which is 64% in the total losses of natural gas distribution network. The level of losses in “Socar Georgia Gas” LLC and “SakOrgGaz” JSC is also very important, the share of which in total losses is respectively 12% and 18%.

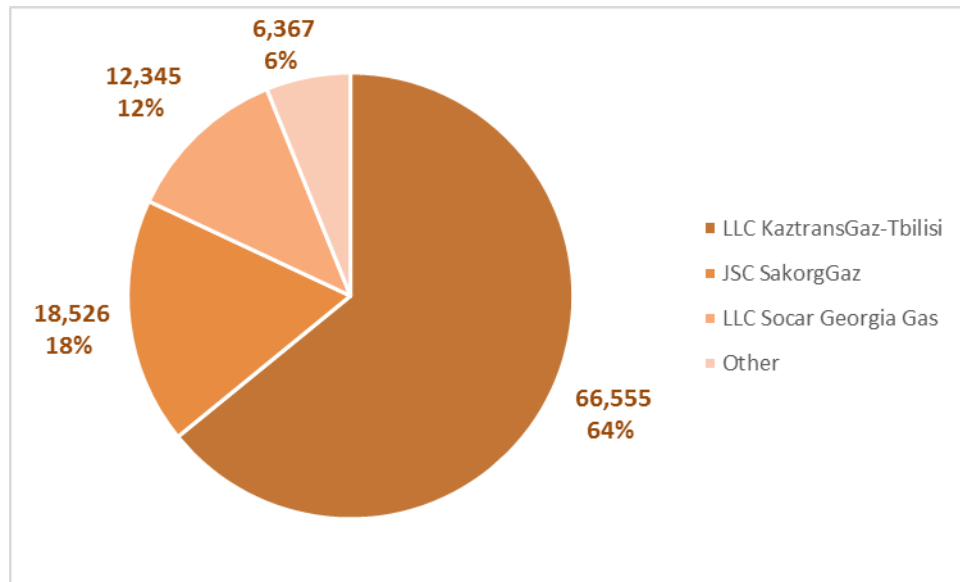


Figure 2.16. Natural Gas Losses by Licensees (thousand m³, %)

Although, the share of small licensees in the total losses do not exceed 6%, the loss of several gas distribution company is rather high.

2.2.5. Quality of Gas

According to the existing legislation the quality of natural gas is defined by interstate standard GOST 5542-87. “Natural Gas Supply and Consumption Rules” and “Natural Gas Market Rules” oblige the transportation licensee, suppliers, distribution licensees and direct customers to supply natural gas according to the acting standard quality (Physical and chemical parameters). Suppliers and distribution licensees shall supply the same quality natural gas to the customers connected to the distribution network. Maximal and minimal calorific value of the imported natural gas is described in the Table 2.5.

	Calorific Value kcal/m ³	
	Min	Max
Imported natural gas from Azerbaijan	8,379	8,565
Gas received from SCP	8,364	8,407

Gas received as fee from transit in Armenia	8,112	8,777
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Table 2.5. Maximal and Minimal Calorific Value of Natural Gas Delivered to Georgia in 2015

It should be noted that according to the GOST 5542-87 the minimal allowed calorific value is 7600kcal/m³ under standard conditions.

Since 2015 the transportation licensee, “Georgian Gas Transportation Company” LLC, publishes on daily basis on its own website the data about gas quality and consistency according to reception points, separate intermediate links and large gas distribution stations (See <http://ge.ggtc.ge/>).

2.3. Pricing and Tariff Regulation

2.3.1. Legal and Methodological Framework

The legal basis for setting relevant tariffs for natural gas sector licensees by the Commission is the Law of Georgia on Electricity and Natural Gas and tariff methodology developed and approved by the Commission pursuant to the requirements of this Law.

Based on the GNERC Resolution №33, December 25, 2014, on Approving Natural Gas Tariff Setting Methodology, while calculating natural gas supply, transportation, distribution, pass through and consumption tariffs, the cost-plus regulation principles recognized by the international practice is used, which stimulates the stable functioning of the utility, recovery of reasonable costs and gain fair profit. The Methodology does not apply to the deregulated activity based on the Law of Georgia on Electricity and Natural Gas, exploratory work in a natural gas, extraction, processing and storage, relationship between natural gas producer and supplier, as well as natural gas transit.

Based on a new tariff methodology the Commission developed and approved tariff application forms to be submitted by the natural gas supplier and natural gas distribution licensee for calculating natural gas supply, distribution, pass through and consumption tariffs according to Decision №4/4, January 22, 2015. The application forms also include financial and technical indicators for tariff calculation purposes.

According to the Commission’s Decision (№34/2, 18.12.2013), after entering into force the natural gas distribution license issued to “SakOrgGaz” JSC, the natural gas distribution licenses of “Gorigazi” JSC, “Bolnisigazi” JSC, “Kutaisigazi” JSC, “Samtrediagazi” LLC, “Borjomigazi” LLC, “Tetritskarogazi” JSC, “Rustavgazi” JSC, “Vanigazi” LLC and “Terjola Natural Gas” LLC were revoked. These utilities were merged with “SakOrgGaz” JSC. Accordingly, “SakOrgGaz” JSC from the moment of merging registration was their legal successor and January 1, 2016 was set as validity period for natural gas distribution tariff. The Commission issued the natural gas distribution license (№43/4 31.10.2014) to “Socar Georgia Gas” LLC and at the same time, the natural gas distribution licenses of “Socar Georgia Gas Imereti” LLC, “Socar Georgia Gas Adjara” LLC, “Socar Georgia Gas Guria” LLC, “Socar Georgia Gas Samegrelo” LLC, “Socar Georgia Gas Kartli” LLC and “Socar Georgia Gas Kakheti” LLC were revoked. They merged with “Socar Georgia Gas” LLC and the Commission set January 1, 2016 as validity period for natural gas distribution tariff. As a result of above-mentioned changes, determination of regulated asset cost according to the tariff methodology principles for newly formed utilities became necessary, since all the assets of merged utilities were accumulated in the regulated asset base of the utilities.

Under Resolution №2023 November 7, 2014, the Government of Georgia entitled the Commission to carry out state procurement of audit service related to calculation of asset cost in RAB of separate licensees subjected to tariff regulation with common procedures and method, by simplified procedure according to the Law of Georgia on State Procurement.

The Commission developed the rule “On Simplified Procurement of State Procurement by LEPL Georgian National Energy and Water Supply Regulatory Commission” according to which the best qualified audit company was selected. And also procurement conditions of audit service were developed including detailed requirements about subject of audit, important circumstances about regulated asset classification in the audit process, etc.

In February 2015 GNERC drew up relevant agreement with the winner company. With active participation of the Commission and detailed inspection and analysis of the data, the RAB for “SakOrgGaz” JSC and “Socar Georgia Gas” LLC was defined according to tariff methodology principles. After submission of application forms by the licensees the operational expenditures will be audited and the Commission will set the new tariffs for natural gas.

2.3.2. Existing Tariffs of the Sector

According to the Decree №69 of the Minister of Energy of Georgia, September 25, 2007 on Deregulation and Partial Deregulation of Natural Gas Supply Activity, the supply tariffs are partially deregulated for natural persons (population –household customer) existed before September 1, 2007 (in Tbilisi – August 1, 2008) that consume natural gas not for commercial purposes and GNERC (according to the methodology) sets marginal (upper limit) tariffs for them. The supply tariffs for non-household customers and household consumers gasified after September 1, 2007 (in Tbilisi – August 1, 2008) are deregulated they are supplied with natural gas without set tariffs by publicly offered conditions and prices by supplier utility.

In the reporting year the natural gas tariffs of regulated supply were stable and remained unchanged. Like previous years the situation was conditioned by the long-term contracts with gas supply company of Azerbaijan and optional gas Supply Company of South Caucasus that provide Georgia’s vital facilities and vulnerable customers with guaranteed supply of natural gas in stable prices.

The memorandum between Ministry of Energy and natural gas suppliers (wholesale and retail) signed on March 1, 2013, remained in force according to which natural gas supply tariffs for household customers decreased by 5.0 tetri/m³ (including VAT). Accordingly, considering the above-mentioned changes for household customers (population) connected to natural gas distribution network by retail suppliers the consumption tariffs decreased in the framework of marginal tariffs set by the Commission. In 2015 the tariffs of natural gas transportation and distribution remains unchanged and therefore, end user tariffs for household customers remain the same.

Natural gas supply tariffs for non-household customers (which according to above-mentioned order is deregulated) were stable in a foreign currency (US Dollar), but in national currency significantly increased, due to the exchange rate fluctuations of GEL to foreign currency.

In 2015 tariff resolutions in natural gas sectors were connected to the changes of natural gas distribution licensees “Socar Georgia Gas” LLC and “SakOrgGaz” JSC on the one hand, and expansion of distribution area of gas supply licensees, on the other hand. In this regard, based on relevant resolutions, 11 amendments were made to the Commission Resolution №30 of December 30, 2005, “On Natural Gas Tariffs”.

2.3.3. Analysis of Investment Projects

In 2015 investments were made for construction and rehabilitation of main gas pipeline of natural gas transportation by “Georgian Oil and Gas Corporation” JSC and “Georgian Gas Transportation Company” LLC. Also, significant investments were carried out for construction and rehabilitation of natural gas distribution networks and licensed activities by “Kaz Trans Gaz Tbilisi” LLC, “Socar Georgia Gas” LLC, “SakOrgGaz” JSC and “Georgian Gas Transportation Company” LLC. Actual amount of investments made by the above-mentioned licensees was 140,629,461 GEL, including 21,938,670 GEL in transportation

activity and 118,690,791 GEL - in distribution activity. Performance analysis of investment projects in natural gas sector is represented in Figures 2.17 and 2.18:

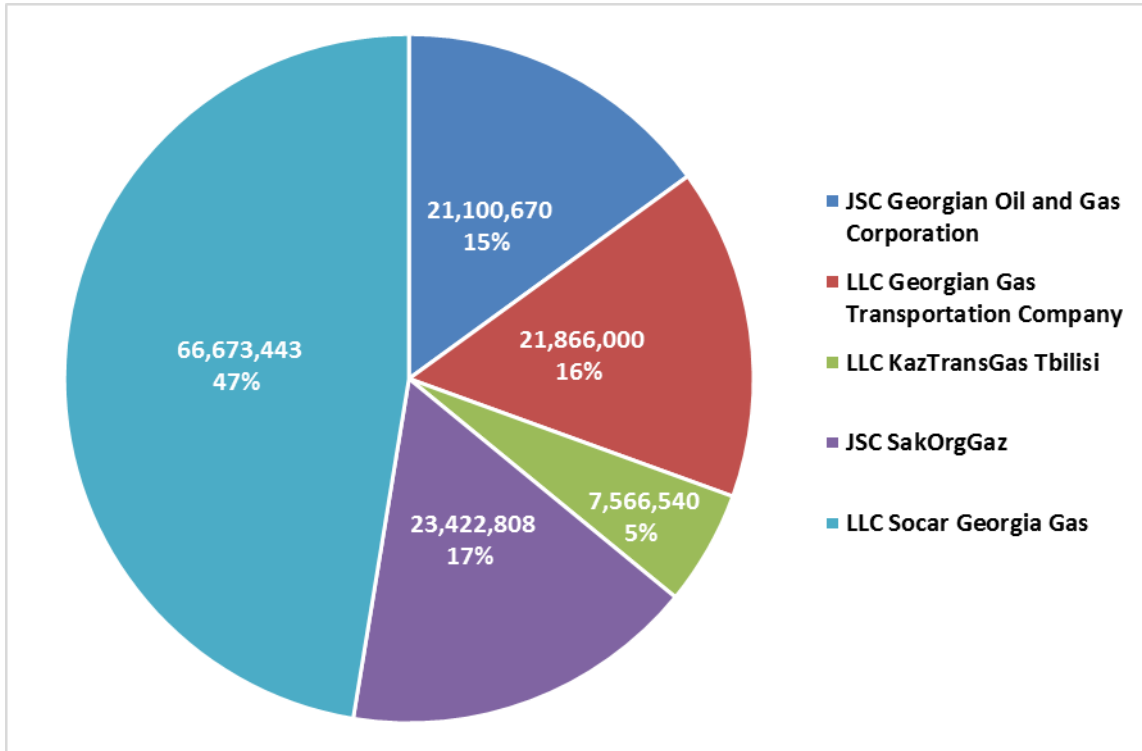


Figure 2.17. Investments for 2015

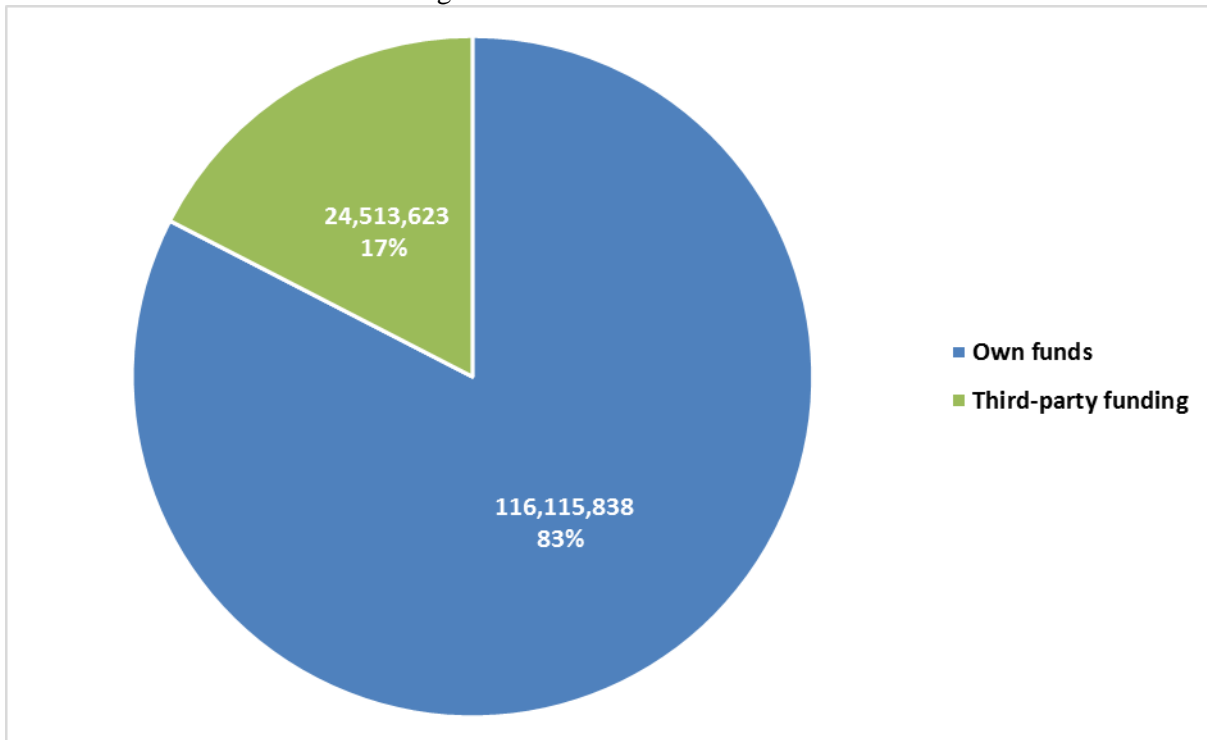


Figure 2.18. Sources of Financing of Made Investments

2.3.3.1. Natural Gas Transportation Activity

Main gas transportation pipelines of high pressure, which are under ownership of “Georgian Oil and Gas Corporation” JSC are operated by “Georgian Gas Transportation Company” LLC based on lease agreement. The amount of planned investments on the above-mentioned pipelines was 26,731,750 GEL in 2015 and actual investments were 21,938,670 GEL from which 96,2% (21,100,670 GEL) was financed by “Georgian Oil and Gas Corporation” JSC and 3,8% (838,000 GEL) – by “Georgian Gas Transportation Company” LLC.

These investments were made for construction and rehabilitation of main gas pipeline (21,264,670 GEL), and also for procurement of metering and office equipment, means of transportation and special machinery (674,000 GEL).

2.3.3.2. Natural Gas Distribution Activity

In 2015 the significant part of actual investments in distribution sector (56,02%; 66,673,443 GEL) accounts for “Socar Georgia Gas” LLC. In the framework of purchase agreement of state-owned regional gas distribution companies' shares signed on December 26, 2008, the “Socar Georgia Gas” LLC built and put into operation 268 km gas distribution network which ensures the gasification process for 8312 potential new subscribers. In addition, the company purchased the pipelines in the same year and paid 26,608,443 GEL (including 13,542,443 GEL for purchasing the gas pipelines from the state).

According to the planned parameters, the program of connecting new customers to the natural gas distribution network was still continuing.

In the period of execution of contractual obligations (2008-2015) “Socar Georgia Gas” LLC made investments of 202,500,000 USD. As a result, 4,610 km new natural gas distribution network was built in more than 100 cities, villages and populated areas, which ensures the gasification process for 203,500 potential new subscribers. Also, 500 km pipeline was fully rehabilitated.

In 2015 investments made by natural gas distribution licensee “SakOrgGaz” JSC was 23,422,808 GEL, including 19,937,185 GEL – from own funding, and 3,485,623 GEL – from the third parties' funding. Accordingly, in the reporting year the company built 236.828 km new gas pipelines in different regions, rehabilitated existing networks, changed natural gas meters and new subscribers were connected to distribution network.

Due to significant amount of debts to natural gas suppliers, since 2009 “KazTransGas Tbilisi” LLC has been under special management regime. However, in 2015 the company carried out investment projects of 7,566,540 GEL from its own funding; in particular: rehabilitation works, taking the meters outside of apartments, connection of new customers to natural gas distribution network, procurement of installations and equipment, means of transport, office equipment, and intangible assets (software of hot line service, “114” and program of service switch management monitoring).

During the year of 2015, according to different Resolutions of the Government of Georgia important works were carried out regarding gasification process in villages by “Georgian Gas Transportation Company” LLC. Particularly, 21,028,000 GEL investments were made on designing and construction of gas distribution networks in different regions in the country under financing of state budget.

3. Water Supply Sector

3.1. Amendments Introduced in 2015

Under the Resolution №23 of August 27, 2015 of the Commission amendments were introduced to the „Drinking Water Supply and Consumption Rules” based on which several norms have been newly formulated. Specifically,

- Terms and fees for installing metering points have been newly formulated. Particularly, installation of meters with 15 mm. diameter to the household customers has become free of charge since January 1, 2015. Hereby, term for organizing metering points has become 40 working days instead of 30;
- Rules of calculating amounts of unlawfully consumed drinking water have been also amended, specifically, Article 8(4b) has been formulated as follows: “If calculation of amounts of unlawfully consumed water throughout a day and/or month or estimating error of drinking water meter is possible, however starting date of unlawful consumption can not be estimated, total amount of consumed drinking water can be calculated from the date of last check of meter (metering point) and/or network by the representative of supplier (but not exceeding 3 months)”;
- Conditions of paying fees for connecting apartment houses to water supply system have been also changed, specifically, paragraph 2¹ has been added to the Article 18¹ which reads: “If connection of apartment houses to the water supply system takes place, applicant is obliged to pay fee for connecting new customer to the network in full amounts”.
- Technical aspects of connecting new customer to the water supply network have also changed, specifically, water supply licensee has been obliged to undertake connection works from water supply system under its ownership within 100 meter radius, instead of “within” 100 meters.

3.2. Regulatory Frameworks

On the basis of the amendments of November 20, 2007 introduced to the Law of Georgia on Electricity and Natural Gas regulation of the water supply sector fell under competences of the Commission. Based on the same law several normative acts have been approved for the purpose of regulating the water supply sector. Therefore, following laws and normative acts regulate water supply sector:

Law of Georgia on Electricity and Natural Gas

- Regulates relations between individual entrepreneurs, physical and legal entities in the water supply sector, ensures functioning of the sector and development in compliance with economic principles of the market;
- Sets norms for water supply activities, drinking water, wastewater, drinking water supply systems, drinking water consumption, also provides definitions of drinking water supply;
- Lists necessary documents for acquiring License at the Commission;
- Defines rights and duties of Water Supply Licensee;
- Defines other issues related to the Commission’s activities.

Resolution №32 of the Commission of November 26, 2008 “On Approving Drinking Water Supply and Consumption Rules”

- regulates relations between the supplier and the consumer during purchase, sale, supply and consumption of drinking water through the Drinking Water Supply System;
- determines rights and duties of supplier and consumer, general principles and basics of service, gives definition of unlawful use of drinking water and wastewater networks, sets rules and conditions of billing with water supply fees, defines procedures and fees for connecting new customers to water supply system.

Resolution №23 of September 18, 2008 of the Commission “On Approving Control and Licensing Rules in Electricity, Natural Gas and Water Supply Sectors“ sets mandatory requirements for utilities acting in the water supply sector, specifically:

- Sets terms and procedures for submitting reporting forms by entrepreneurs;
- Sets procedures and means of control for fulfilling licensing conditions, also types of liability for breach of licensing conditions;
- Sets rules and procedures of issuing licenses and refusing its issuance, introducing amendments and revoking it, also approves license certificate forms.

3.3. General Overview of the Sector

Based on the data of January 1, 2015 11 Licensee utilities operate in the Georgian water supply sector.

Based on the data of January 1, 2016 and the data provided by National Statistics Office of Georgia, population of Georgia is 3,729,500, out of which 56% (2,097,261) is supplied with water by 11 licensee companies, whereas 445%(1,632,139) are supplied through water supply systems under the ownership of local municipalities. (see figure 3.2).

Based on the data of National Statistics Office of Georgia, 54 cities, villages and boroughs (totally 3,706) are registered as populated areas. Population living in the cities is 2, 140, 400 and 1,589,100- living in villages. Out of that licensee companies provide services for 54 cities and 364 village and boroughs. (see figure 3.1).

Name of the Licensee	Service coverage area in relation to total population (%)		Quantity of populated areas within service coverage area		Number of Water Collection Points (Units)
	Water	Wastewater	City	Borough/Village	
„GWP“ LLC	24.86	24.86	1	12	9
„UWSCG“ LLC	20.66	16.50	48	318	112
„Batumis Tskali“ LLC	3.73	5.46	1	2	3
“Sachkheris Tskalkanali” LLC	0.32	0.22	1	2	4
“Tskarostavi” LLC	-	-	0	1	1
“Rustavis Tskali” LLC	3.23	3.11	1	17	19

“Mtskhetis Soptskali” LLC	0.3	-	0	1	6
“Mtskhetis Tskali” LLC	0.17	0.17	1	0	1
“Marneulis Soptskali” LLC	0.47	-	0	10	11
“Soguri” LLC	0.01	-	0	1	1
“Kobuletis Tskali” LLC	0.56	0.31	1	0	2
Total	56.24	50.67	54	364	168

Figure 3.1. Licensees and their Service Coverage Area⁸

Service provision areas of Licensee companies according to regions are given on Figure 3.1. In several cases one and the same regions are covered by two or more licensees.

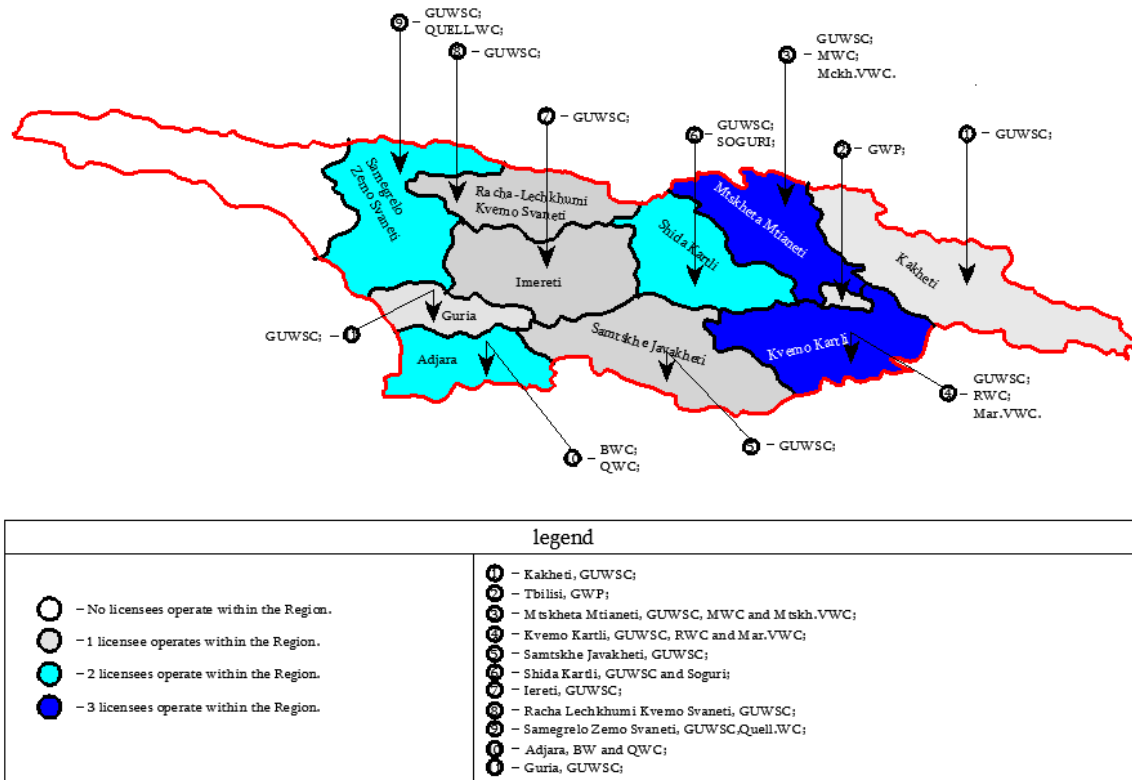


Figure 3.1 Coverage Areas of Licensees

⁸ In this table and in figures and tables below incomplete information about “Tskarostavi” LLC denotes the fact that tariffs were not set for the mentioned licensee by 2015. Tariff application of the above-mentioned utility was submitted in December 25, 2015 and respectively, tariff will be set by the Commission in 2016.

6 Licensees of the water supply sector are under state or municipal ownership, whilst 5 are privately owned ones. Table 3.2 provides information on share ownership of licensee companies.

№	Name of the Licensee	Ownership Forms
1	“Georgian Water and Power” LLC	private
2	“United Water Supply Company of Georgia” LLC	state
3	“Batumis Tskali” LLC	municipal
4	“Sachkheris Tskalkanali” LLC	municipal
5	“Tskarostavi” LLC	private
6	“Rustavis Tskali” LLC	private
7	“Mtskhetis Soptskali” LLC	municipal
8	“Mtskhetis Tskali” LLC	private
9	“Marneulis Soptskali” LLC	municipal
10	“Soguri” LLC	private
11	“Kobuletis Tskali” LLC	municipal

Table 3.2. Information on Ownership of Licensees

Licensee companies are extracting water from both – surface and underground sources. Water collected in 2015 has constituted 832,804,073 m³/year, out of which water collected from surface has been 236,621,286 m³/year and groundwater extraction has constituted 596,182,786 m³/year.

Water extracted by the companies was distributed in a following manner:

1. Based on the data of December 2015 water consumed in metered household segment has been 48,237,551 m³/year, that makes 6% of total extracted water;
2. In unmetered household segment approximate values of consumed water can be determined. In unmetered household segment consumption norm per person has been set by the Commission for each company individually. In most cases such norms are calculated according to amounts of drinking water actually consumed by metered consumers, taking into consideration norms set by the Commission and number of unmetered consumers according to capitation. Water amounts consumed by unmetered consumers has constituted approximately 190,288,201 m³/year, that constitutes 23% of total extracted water amounts;
3. Non-household segment throughout Georgia is fully (100%) metered. Respectively, their water consumption has been 35,682,271 m³/year based on the data of December 2015, what constitutes 4% of total extracted water;
4. Based on the data of December 2015 non-revenue water (loss+self-consumption) constituted 556,090,929 m³/year, that makes 67 % of total extracted water.

Summary data regarding water balances of 2015 are given on Figure 3.2.

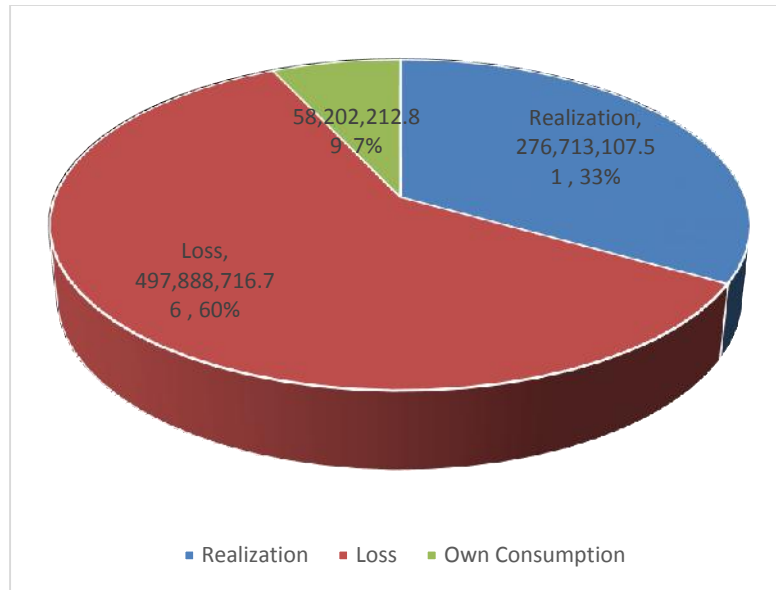


Figure 3.2. Drinking Water Balance

Information on the amount of registered consumers in service area (Household and non-household segments) is provided in Table 3.3.

№	Name of Licensee	Household Segment			Non-Household Segment
		Metered Subscribers	Non-Metered Subscribers	Subscribers per capitacion	Subscribers
1	“Georgian Water and Power” LLC	102 722	340 014	1 000 870	17 631
2	United Water Supply Company of Georgia” LLC	141 742	155 372	770 645	17 663
3	“Batumistskali” LLC	42 964	13 947	139 157	3 614
4	“Sachkheris Tskalkanali” LLC	3 782	39	11 794	357
5	“Tskarostavi” LLC	-	-	-	-
6	“Rustavistskali” LLC	35 614	15 783	120 620	2 702
7	“Mtskhetis Soptskali” LLC	1 673	2 663	11 236	0
8	“Mtskhetistskali” LLC	1 744	971	6 307	158
9	“Marneulisoptskali” LLC	1 341	3 815	17 529	57
10	“Soguri” LLC	0	112	260	11
11	“Kobuletis Tskali” LLC	0	5 920	18 944	434
Total		331 582	538 636	2 097 361	42 627

Table 3.3. Amount of Consumers

It can be clearly observed from the table above that number of non-metered customers throughout the country significantly exceeds number of metered customers and their share constitutes almost 60%.

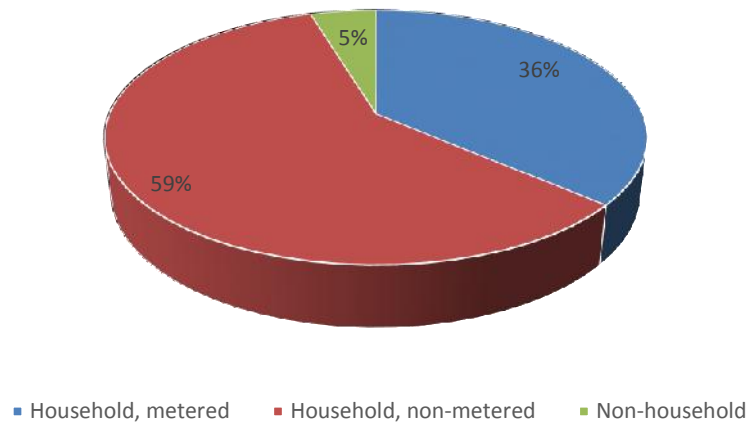


Figure 3.3. Quantity of Subscribers of Different Category and their Allocation

Metering process shall be considered as one of the important priorities for the proper development of the sector. Metering process will foster efficient use of drinking water, will reduce losses in the network and, respectively, operational costs related to drinking water extraction and supply. On the other hand, impact of the capital expenditures related to metering process on drinking water tariff requires thorough estimation. Certain decisions regarding reasonableness of metering with regards to specific utility or geographic area shall be made only on the basis of cost-benefit analysis.

Incentivization of metering process laid grounds to the Commission’s decision on introducing amendments to the Resolution “On Approving Drinking Water Supply and Consumption Rules”. The mentioned amendment was enacted since January 1, 2015 and envisaged exemption of non-metered household customers from paying fees of metering point installation in case if they requested so.

With regards to metering “Sachkheris Tskali” LLC and “Kobuleti Tskali” LLC have the best situation as far as meters have been installed to almost 100% of their customers. Metering process is intensive in “United Water Supply Company of Georgia” LLC. With regards to “Georgian Water and Power” LLC share of metered customers constitutes only 25%, therefore, much active works need to be undertaken by the company towards this direction. Figure 3.4. provides information on shares of metered customers per Licensee company.

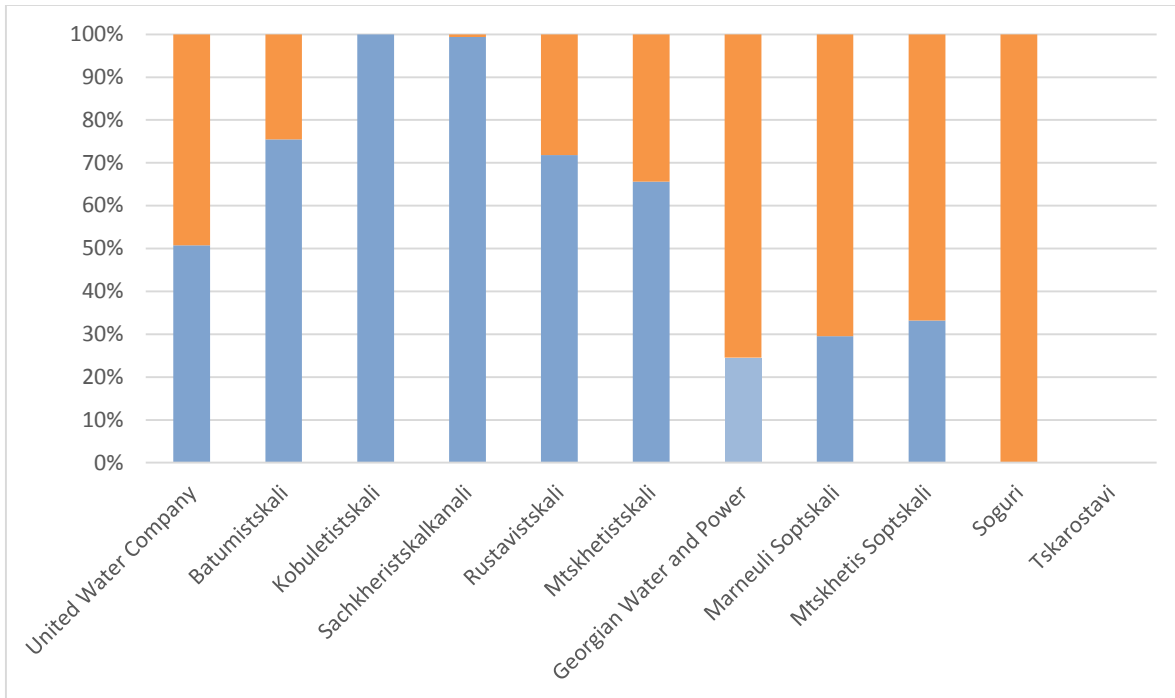


Figure 3.4. State of Metering on the Basis of Data of January 1, 2016

Figure 3.5. describes amount of water consumed by different types of customers and its shares. Given data serve as confirmation that in non-metered segment consumption of drinking water significantly exceeds water consumption by metered segment. 70% of metered and distributed drinking water is consumed by non-metered segment.

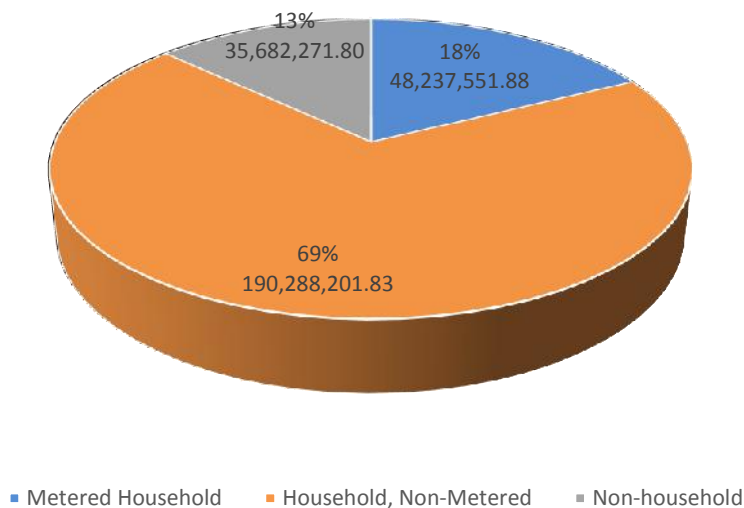


Figure 3.5. Drinking Water Amounts Consumed by Consumers of Different Category

On the basis of analyzing data provided by the companies it can be observed that average consumption indicator of customers having meters significantly exceeds average consumption indicator of

non-metered customers. Average water consumption by metered customer constitutes 155 litre per capitacion within 24 hours, whereas it is 2, 293 litres for non-metered customers.

Figure 3.6. provides indicators of drinking water consumption by metered household segment per licensee.

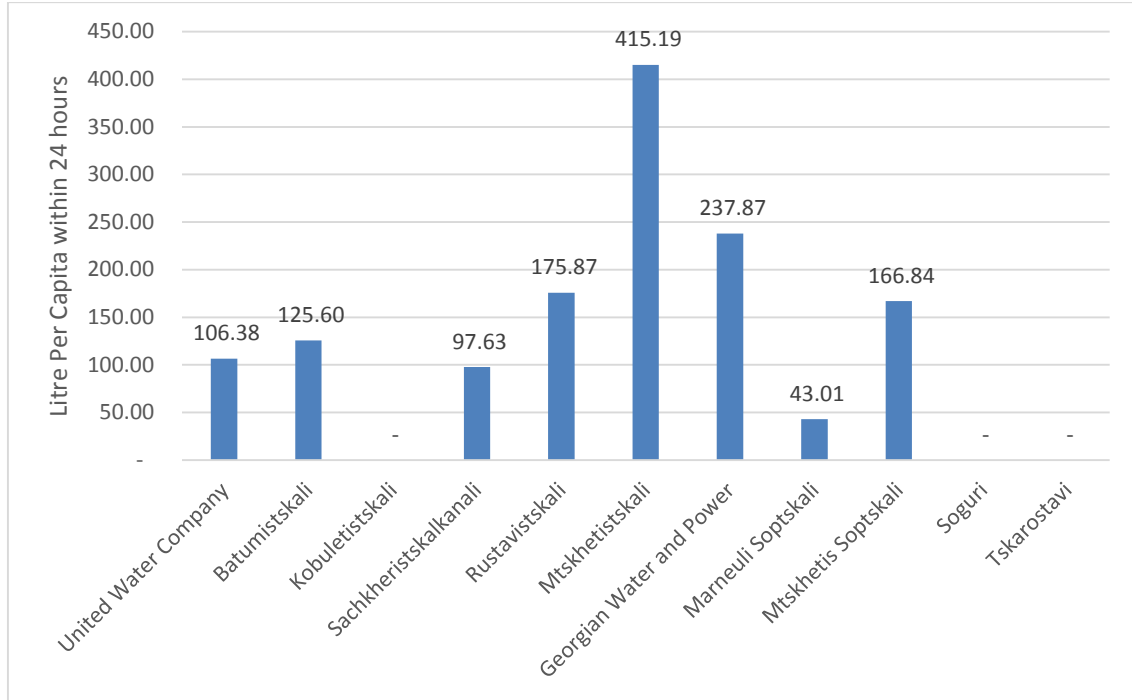


Figure 3.6. Drinking Water Consumption in Metered Household Segment

In metered household segment highest indicators of drinking water supply can be observed by the second half of the year (consumption peak is in August), whereas lowest consumption is in the first part of the year. Figure 3.7 gives details on drinking water consumption by metered household segment.

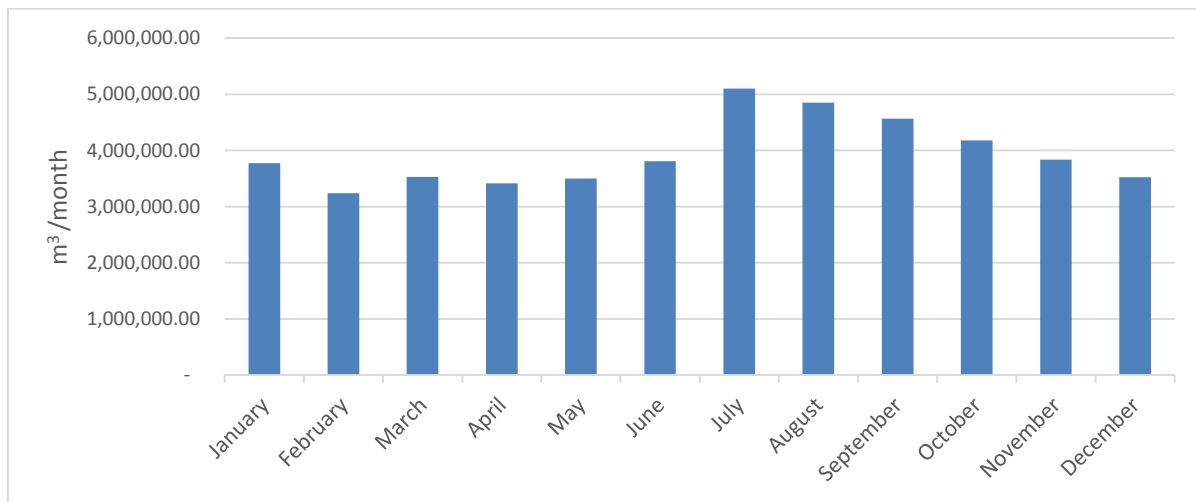


Figure 3.7. Water Consumption by Metered Household Customers

3.4. Proper Functioning and Reliability of Water Supply Systems

Proper functioning of systems in the possession of Licensee companies shall be determined due to the following general parameters:

1. 197 customers in average are connected per 1 km. of distribution network (throughout Georgia). “Batumis Tskali” LLC owns most densely loaded network (398 customers per 1 km. network), that is caused by density of population. Less loaded network is owned by “Mtskhetis Tskali” LLC (72 customers per 1 km. Network) that also depends on the density of population and also on the fact that “Mtskhetis Tskali” LLC operates mostly in village-type settlements where density of population per km² is less than in cities;

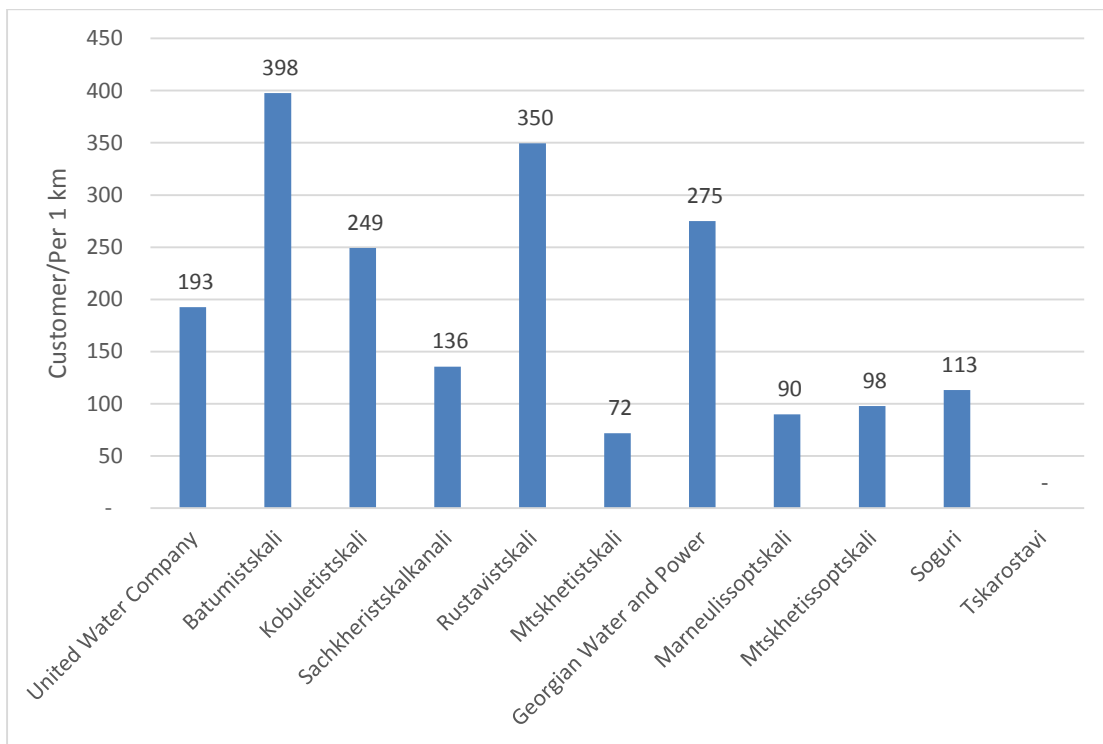


Figure 3.8. Quantity of Customers Connected Per 1 km.

2. In average 2.8 accidents have occurred per 1 km network during 2015. “Rustavis Tskali” LLC has highest indicators of accidents (6.62 accidents per 1 km), whereas lowest number of accidents have occurred in the network owned by “Kobuletis Tskali” LLC. The latter owns newly rehabilitated network and subsequently, indicator of accidents is low. Provided that accidents taking place in distribution and main pipelines have direct impact on uninterrupted drinking water supply companies with high parameters of accidents shall make necessary investments in order to avoid interrupted supply of drinking water with high intensity;

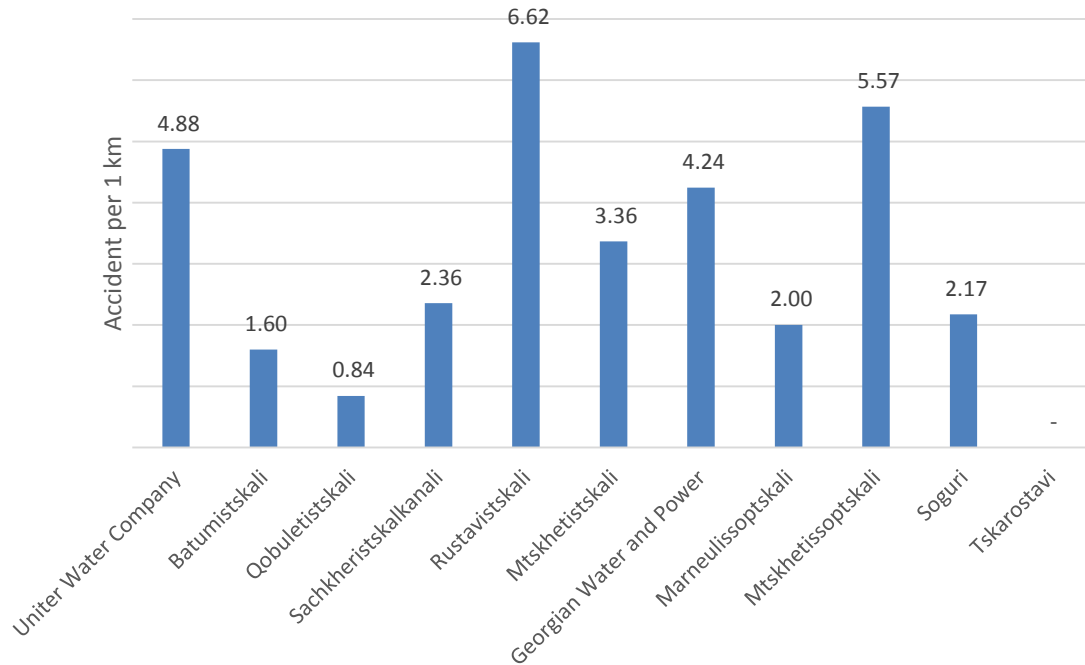


Figure 3.9. Accidents Per 1 km Network

- Length of network shut off per accident constitutes 1.2 km in average as far as recovery of damaged region requires network shutoff from accident point by nearest locking control valves in both directions. Those data are calculated due to the length of distribution pipelines and quantity of locking control valves in the possession of companies. According to the actual data of 2015 minimum length of network shut off was observed in case of “Batumis Tskali” LLC which constitutes 0.05 km. Such number was encouraged by quantity of locking control valves installed in distribution network. Worst parameters with this regard belongs to “Mtskhetis Soptskali” LLC, which requires shutoff of 8, 21 km network for recovering from single accident. At the same time, it must be noted, that Figure 3.10 gives information on quantity of customers connected per km network, where it can be observed that “Batumis Tskali” LLC has highest indicators (398 customers) and “Mtskhetis Soptskali” has much less customers connected per 1 km distribution network (98). Interrelation of those parameters can be observed on figure 3.10.

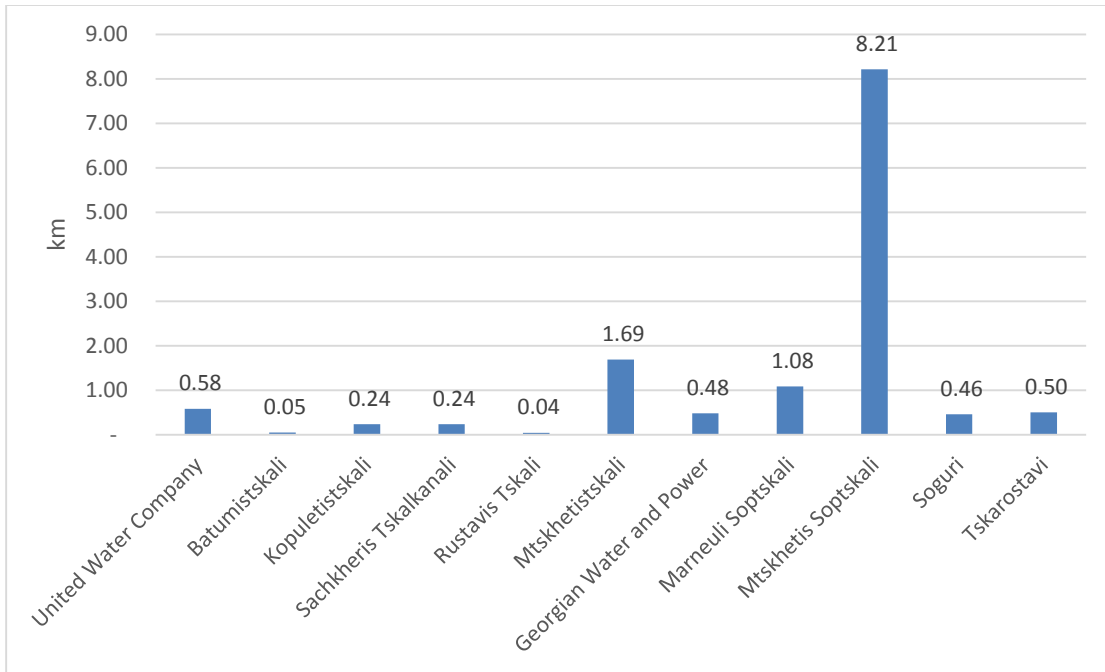


Figure 3.10. Average length of network shutoff per accident

4. Per accident water supply is suspended to 144 customers in average. With this regards “Batumis Tskali” LLC has least number of customers to whom water supply is suspended, whereas “Mtskhetis Tskali” LLC has highest number (803 customers in average per accident). Based on above-mentioned, “Mtskhetis Soptskali” LLC shall ensure installation of additional locking control valves in order to provide proper functioning of the network;

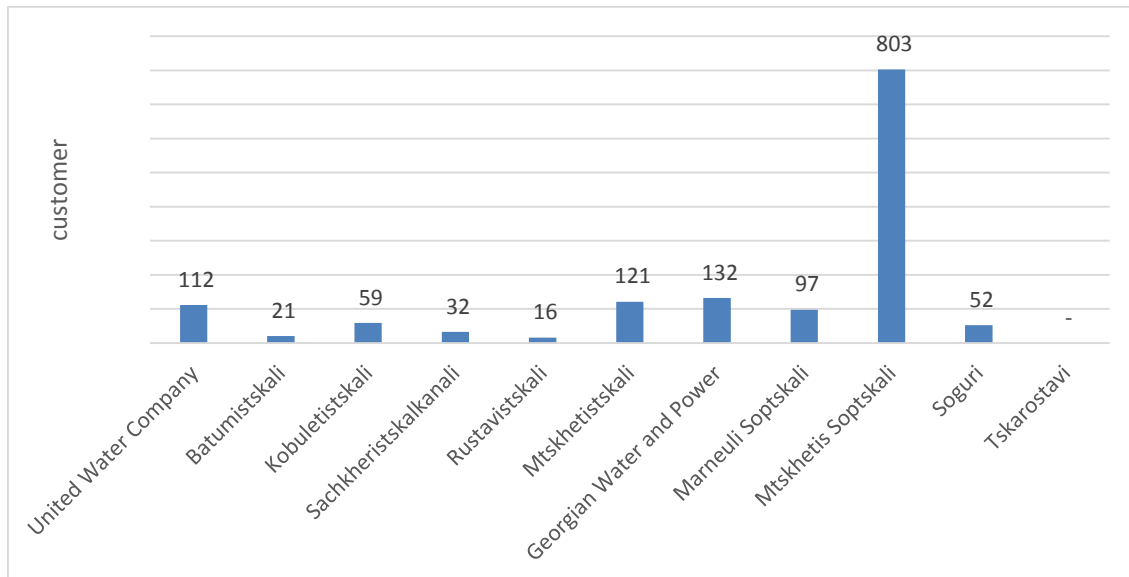


Figure 3.11 Average Number of Customers with Suspended Water Supply per Accident

- Average time of recovery from single accident constitutes 4.64 hours (see. Figure 3.12). This parameter proved that quantity of emergency teams at the companies, as well as their operational efficiency is satisfactory. Specifically, most responsive and most efficient in recovering accident consequences has been “Sackheris Tskalkanali” LLC with 1.5 hours in average;

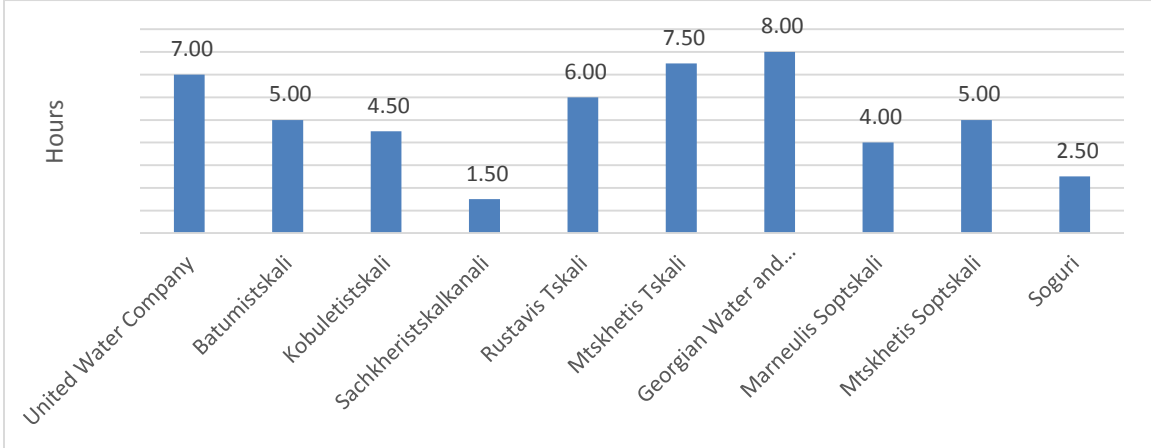


Figure 3.12 Average Time for Recovering from Accident

- Water Supply is carried out throughout 17.8 hours in average. Within the coverage area of “United Water Supply Company” LLC average water supply schedule is 14.5 hours, “Marneuli Soptskali” LLC provides water supply services for 9 hours, whereas the same indicator for “Mtskhetis Soptskali” constitutes 5 hours. Other Licensees provide water supply services to their customers for 24 hours.

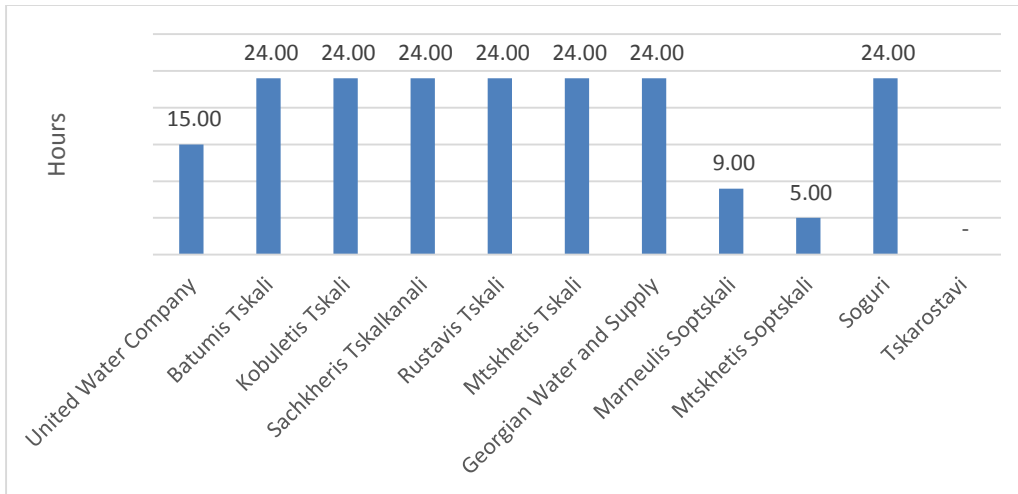


Figure 3.13. Water Supply Schedule in Average

3.5. Licensing and Control of Licensed Activities

3.5.1. License Applications and Ammendments To License Registry

In 2015 no licenses have been issued by the Commission in water supply sector. Amendments have been introduced to the licensing conditions of “Mtskhetis Soptskali” LLC which envisaged reduction of service coverage area. The reason for such reduction has been non-fulfillment of licensing conditions by the licensee.

3.5.2. Control of Licensed Activities

The commission has prepared plan for controlling lisensed activities of licensees operating in the water supply sector. In frames of mentioned plan 12 units of 5 licensees have been examined, specifically:

Name of the Licensee	Unit Name
“United Water Supply Company of Georgia” LLC	Abasha
	Senaki
	Kutaisi
	Baghdati
	Lagodekhi
	Tchiatura
“Georgian Water and Power”LLC	Tbilisi
	Rustavi
	Mtskheta
“Batumis Tskali” LLC	Batumi
“Kobuletis Tskali” LLC	Kobuleti
“Sachkheris Tskalkanali” LLC	Sackhere
“Kedis Tskalkanali” LLC	Borough of Keda
“Likani Sanatorium” LLC	Likani Sanatorium

Table 3.4. Plan for Controlling Activities

After the examination the diagramic figures for each unit are prepared, which provides information on elements of water supply system (with its main technical features). Besides that, explanatory note is drafted which entails narrative description of the mentioned elements. After analyzing data, respective remarks and comments are prepared obliging companies to submit specific timetables of works to be undertaken.

In 2015 fees for connection to the network has been reduced by 50%. The reason for aforementioned has been breach of terms of connecting new customers to the network in compliance with

Resolution №32 of the Commission “On Approving Drinking Water Supply and Consumption Rules”. Total amount of reduced fee has constituted 274,832 GEL.

3.6. Price Setting and Tariff Regulation

3.6.1. Legal and Methodological Backgrounds

The Commission is entitled to regulate tariffs of licensee companies in the water supply sector since 2007 on the basis of amendments introduced to the Law of Georgia on Electricity and Natural Gas that envisaged tariff regulation in the area of drinking water supply and wastewater drainage and treatment.

Based on the requirements of Law of Georgia on Electricity and Natural Gas the Commission had approved “Water Supply Tariff Setting Methodology” under its Resolution №18 of August 29, 2008. Despite the above-mentioned, due to specific features of the water supply sector regulation, existing challenges and best international practices the Commission is working intensively on a new draft of tariff setting methodology. Similarly to the amendments implemented in electricity and natural gas sectors, new tariff setting methodology in the water supply sector shall ensure customer protection from monopolistic prices and stable functioning of water supply licensees, reimbursement of reasonable expenditures and fair income through reflecting reasonable costs incurred by utilities into the tariffs.

3.6.2. Existing Tariffs of the Sector

In accordance with “Water Supply Tariff Calculation Methodology” approved under the Resolution №18 of the Commission of 29 August, 2008, tariff regulation of following Licensees took place in 2015:

- “Georgian Water and Power” LLC;
- “Mtskhets Tskali” LLC;
- “Rustavis Tskali” LLC;
- Mtskhets Soptskali” LLC.

Financial and technical indicators of test year (2014) of those Licensees have been analysed by the Commission. Regulated asset base of utilities, as well as their operational expenditures have been audited thoroughly on the basis of tariff setting methodology and practical regulations developed over time. As a result, only those assets and well-grounded expenditures were envisaged during tariff calculation which were related to water supply activity (see annex N15).

3.6.3. Analysis of Investment Projects

Substantial part of assets (network) within water supply network have been constructed by the State and has been lately privatized by the private investors. Taking into consideration the fact that water supply distribution network is already out of date and requires renovation, investments for rehabilitation of existing network, construction of new network and/or individual metering of customers has become extremely important.

For the purpose of ensuring uninterrupted, 24-hour water supply of customers, targeted and reasonable investments are necessary. Such investments actually made by two largest Licensees- “Georgian Water and Power” LLC (operates in Tbilisi) and “United Water Supply Company of Georgia” LLC (operates in Autonomous Republic of Adjara and other regions throughout the Georgia except Tbilisi) have constituted 129,710,297 GEL. Figures 3.14 and 3.15 provide information on investments according to Distribution Licensees and sources of funding:

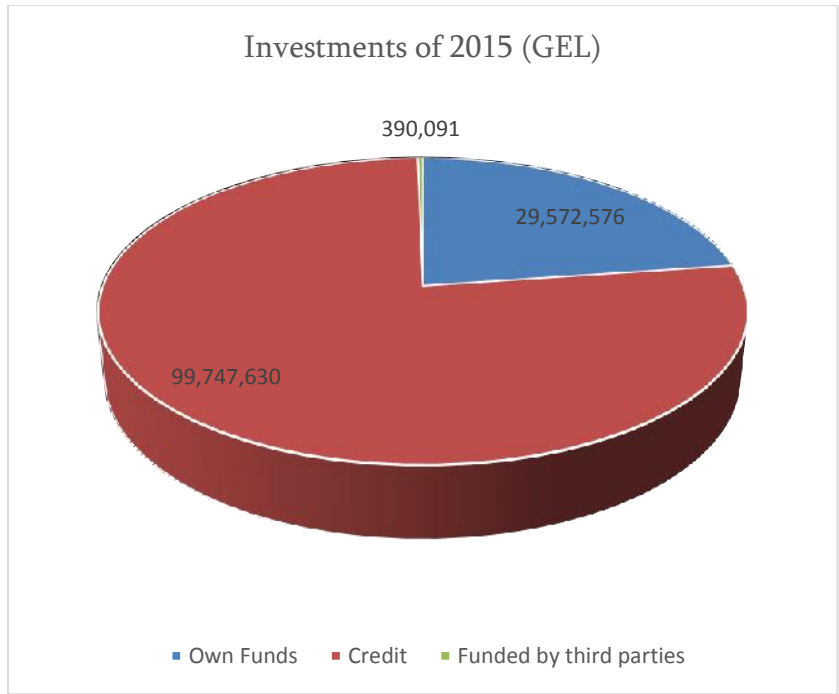


Figure 3.14. Investments According to Sources of Funding

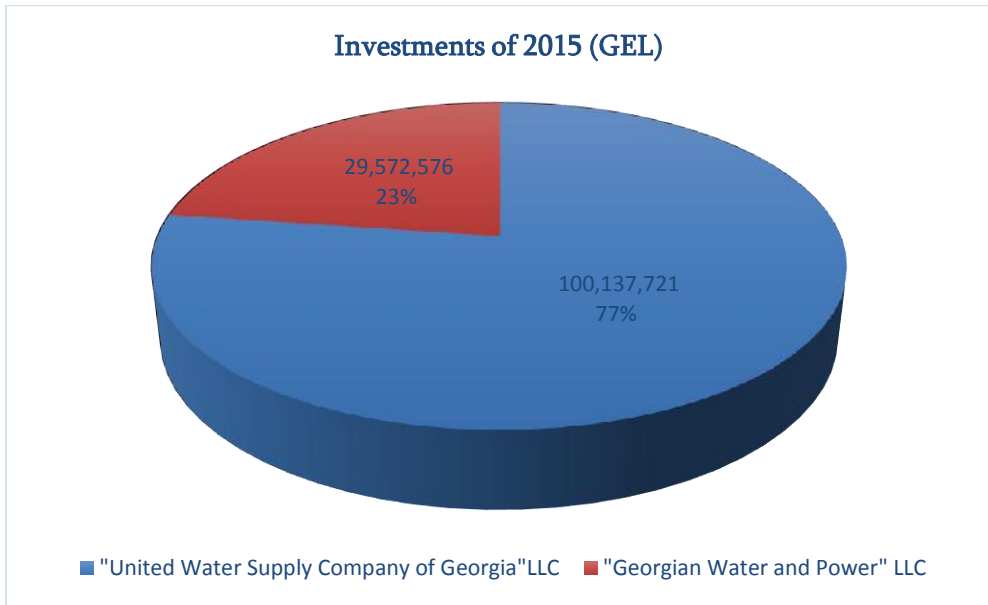


Figure 3.15. Investments made by distribution Licensees⁹

It is worth mentioning that proper functioning of water supply network, organization of metering and, respectively, insurance of high quality service can be achieved through long-term, stable investments. Therefore, investments of 2015 have been an important step forward towards ensuring uninterrupted, 24-hour water supply and high quality services.

⁹ Investment analyze is based on the non-audited data

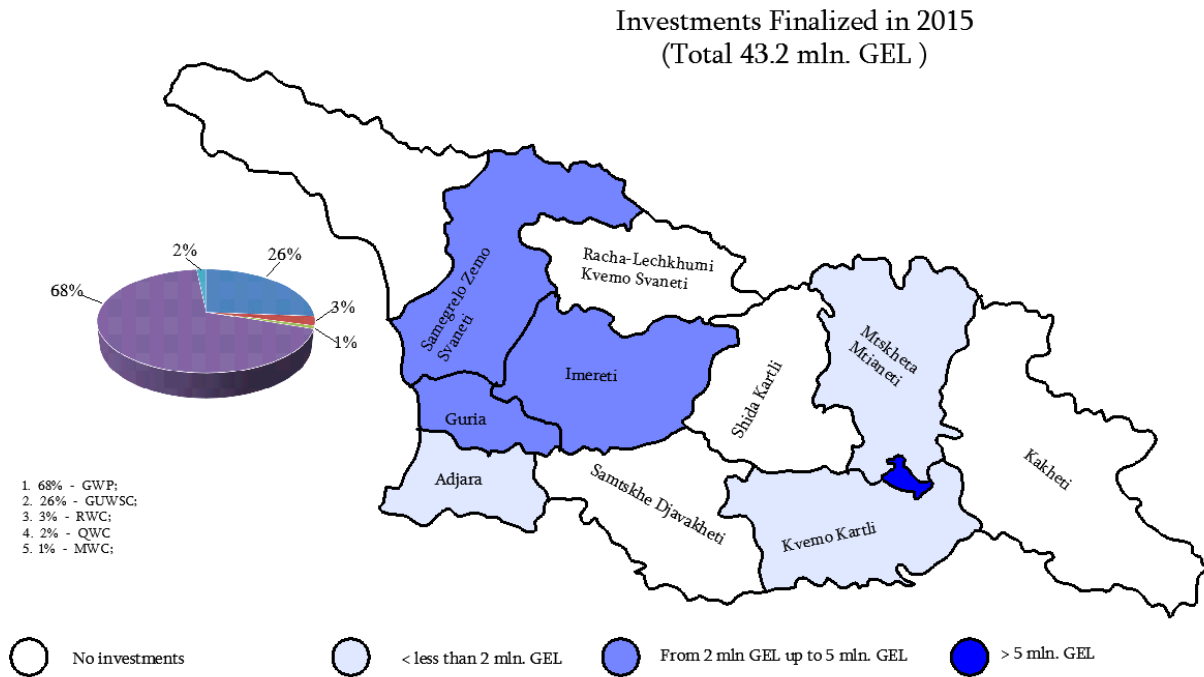


Figure 3.16. Projects Implemented in 2015 according to Regions

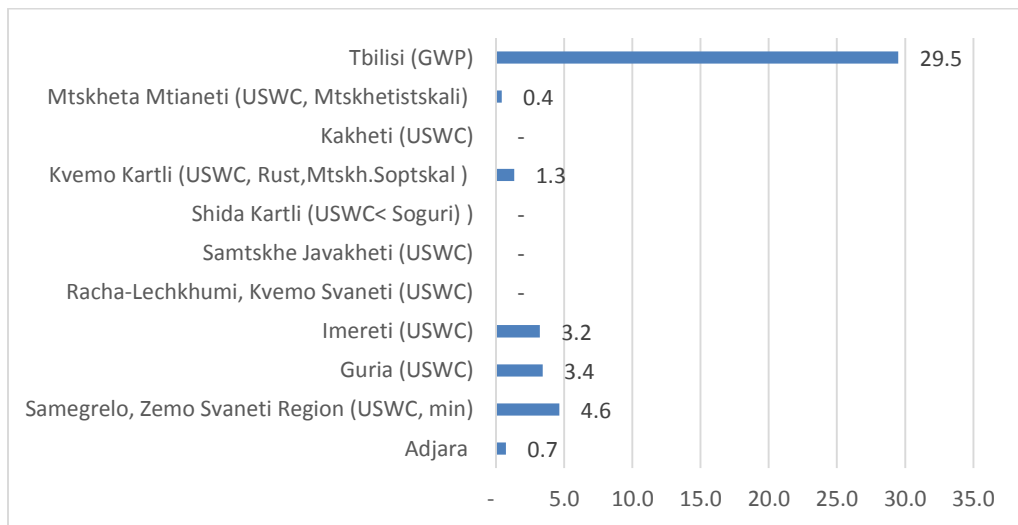


Figure 3.17. Data of Implemented Projects in 2015 According to Regions

With regards to investments made in the water supply sector, it has constituted 43 million GEL in 2015 (see table 3.5). Those investments were enforced by following Licensees:

№	Name of the Company	Implemented Projects (million GEL)
1	“Georgian Water and Power” LLC	29.5 *
2	“United Water Supply Company of Georgia” LLC	11.3 **
3	“Rustavis Tskali” LLC	1.3
4	“Kobuleti Tskali” LLC	0.7
5	“Mtskheta Tskali” LLC	0.4

Table 3.5. Projects Implemented by Licensees¹⁰

Within the frames of the mentioned project water supply licensees have rehabilitated water supply systems within their ownership. 158 km length of network has been rehabilitated/newly constructed. Figure 3.18 provides information on the network (km) organized in 2015 with the regions.

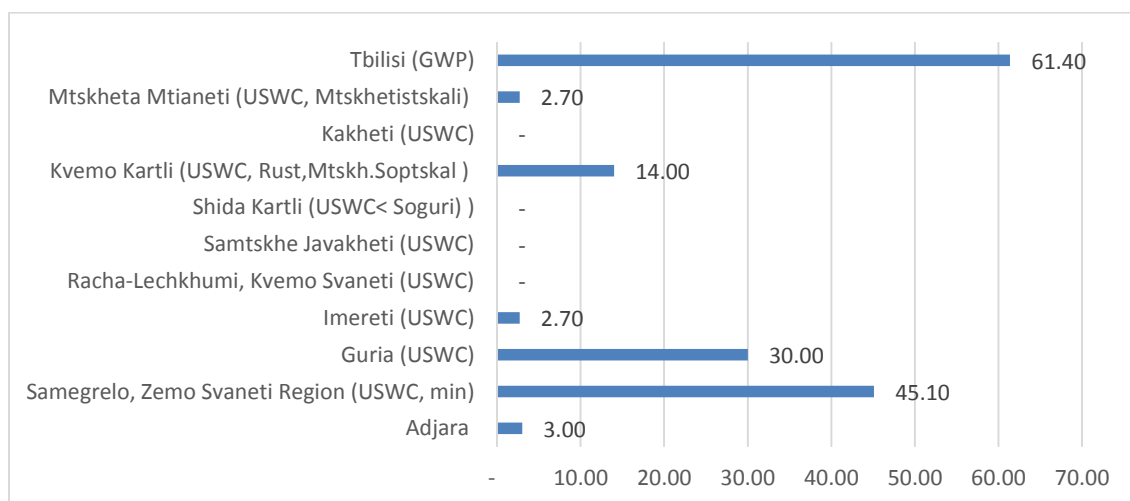


Figure 3.18. Data of Network (km) Organized in Regions during 2015

In addition, water supply Licensees operating in Georgia have organized 35 542 units of metering nodes within 2015.

¹⁰ * 6 million GEL out of 29.5 million are fees of connecting new customers to the network.

** Those expenditures are costs of construction works of those projects which have been finalised in 2015. Investments of 100.1 million GEL on figure 3.15 is total amount of investments made in 2015, including those projects which are still pending and their finalisation is scheduled by 2016-2017.

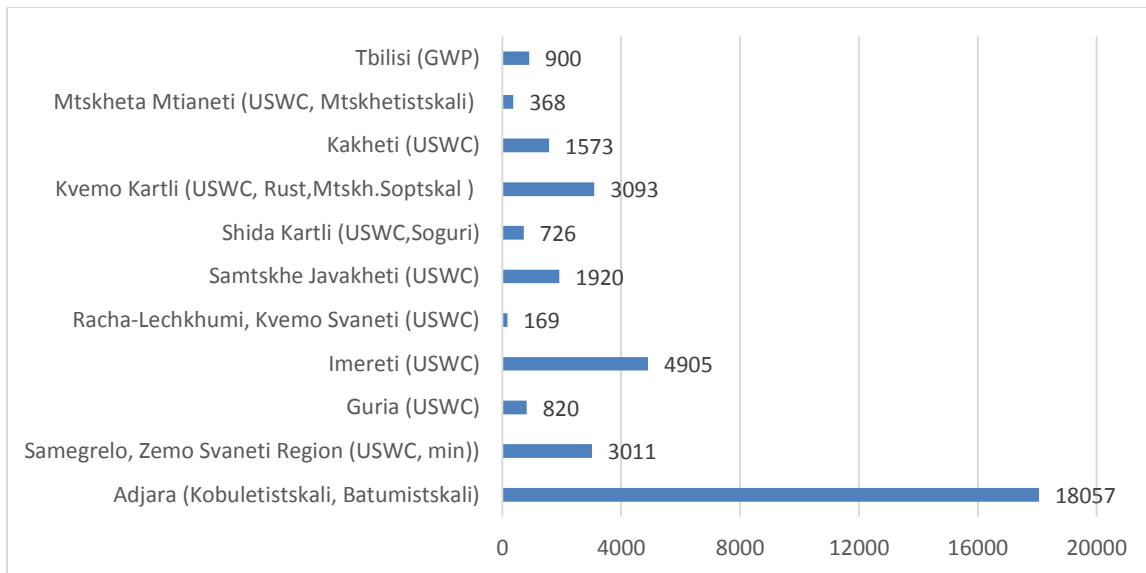


Figure 3.19. Meters being installed in 2015 in the regions

4. Dispute Settlement

4.1. Overview of the Dispute Settlement Regulatory Framework

According to the Article 4 (5) of Law of Georgia on Electricity and Natural Gas one of the main functions of the Commission is to settle disputes arising between licensees, small power plants, importers, exporters, suppliers, consumers and market operator within its competence. These competences are determined by Administrative Violations Code of Georgia, Resolution №12 of the Commission of July 9, 2009 “On Approving Natural Gas Supply and Consumption Rules” approved by the Commission, Resolution №20 of September 18, 2008 “On Approving Electricity (Capacity) Supply and Consumption Rules”, Resolution №32 of November 26, 2008 “On Approving Drinking Water Supply and Consumption Rules” and other legal acts.

Consumers’ complaints (applications) submitted to the Commission have been reviewed by respective structural units. New challenges that the Commission has been facing, including inevitability of improving efficiency of protecting consumers’ interests and trend of increasing complaints (applications) have pointed out necessity of more flexible and efficient mechanisms of dispute resolution.

The Commission is independent in its decision-making process and complies only with Georgian legislation. It resolves disputes impartially and in full compliance with legal requirements. Despite the fact that Public Defender’s office of Consumers’ Interests is functioning independently from the Commission’s apparatus, protection of consumers’ interests is still one of most important functions of the Commission. Therefore, during dispute resolution process the Commission is devoted to fulfill mentioned functions in full conformity with the legislation.

Disputes are reviewed on an oral hearings of the Commission’s sessions on the basis of the rules set under the General Administrative Code of Georgia. Oral hearings of the case enable parties to express their positions, present evidences, submit petitions etc. Such approach ensures making fair decisions after comprehensive and detailed revision of the case. By the end of case review the Commission issues administrative-legal act - decision.

The function of the Commission to protect consumers' interests does not exclude right of the Commission to defend company's interests if the company submits well-grounded justifications which are based on evidences and are in compliance with existing legislation.

4.2. Electricity Sector

In the electricity sector relations between consumers and companies are regulated pursuant to the Resolution №20 of September 18, 2008 of the Commission "On Approving Electricity (Capacity) Supply and Consumption Rules".

The substantial part of disputes during reporting period were caused by claims of utilities to reimburse liabilities being out of limitation period. The cause of dispute has been non-performance of requirements by the company, particularly, incorrect billings caused by damage to the meters, incorrect determination of supervision and charging period, charging when meter was not checked by authorized body. The reason of claims has been also charging customers in a period after changing of meters when they were not residing in the respective address.

Part of disputes that considers unauthorized connections has been also relevant throughout reporting period. In opposite to the company's approach the Commission does not consider such types of actions as administrative violation based on the content of Article 96¹ of Code of Administrative Violations Georgia. Therefore, respective amendments need to be introduced to the Article 96¹ of Code of Administrative Violations of Georgia.

The total number of applications/complaints in the electricity sector during the reporting period has been 657, including:

- a) "Telasi" JSC - 570;
- b) "Energo-Pro Georgia" JSC -66;
- c) "Kakheti Energodistribution" JSC - 15.

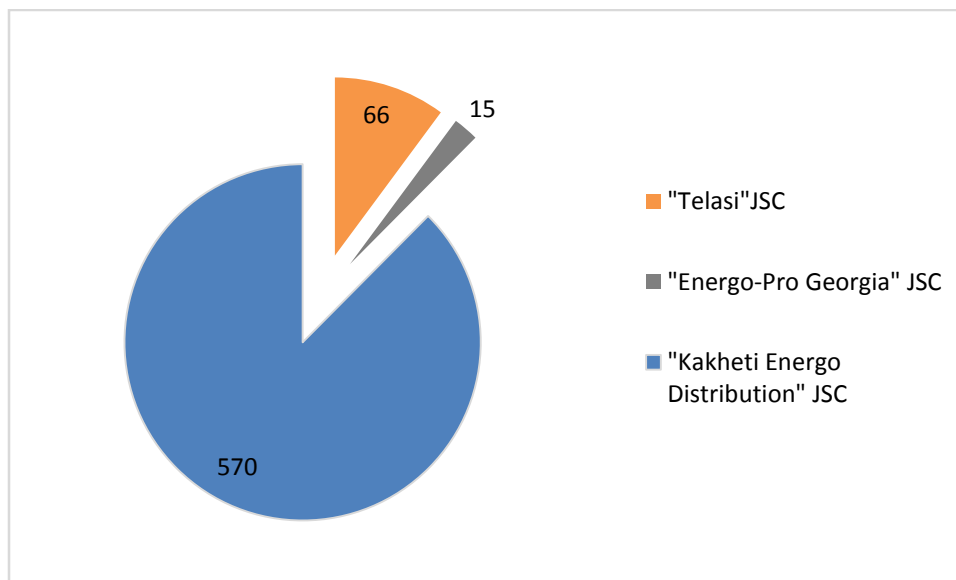


Figure 4.1. Dispute Statistics at Wholesale and Retail Markets

The Commission has made 675 decisions on the basis of dispute resolution submitted both to the Commission and to the Office of Public Defender of Consumers' Interests, out of which 624 have been fully satisfied, 41- partially satisfied and 10 - unsatisfied applications/complaints.

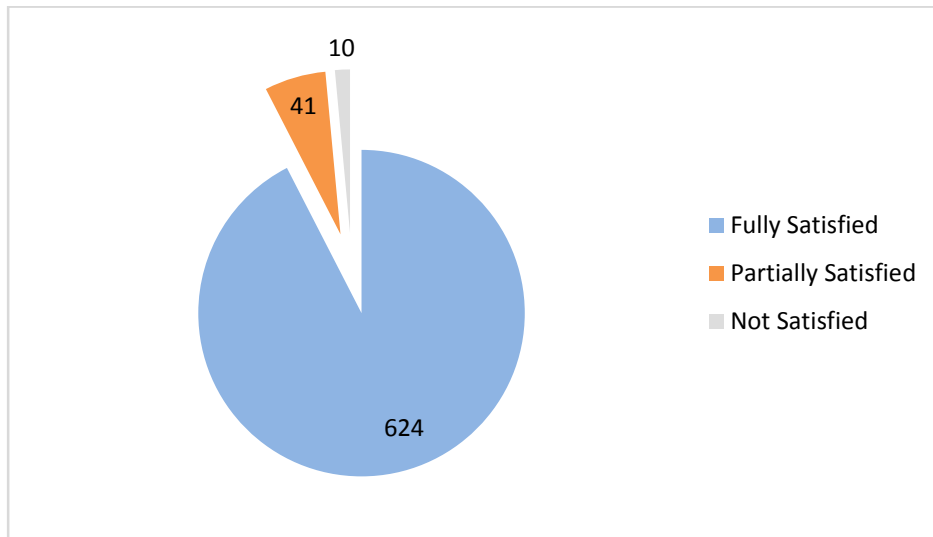


Figure 4.2. Decisions made by the Commission

Amount cut off from customers' accounts in the electricity sector constituted 1,207,654.84 GEL.

4.3. Natural Gas Sector

In the natural gas sector relations between consumers and companies are regulated under the Resolution №12 of July 9, 2009 of the Commission "On Approving Natural Gas Supply and Consumption Rules". Main grounds for disputes in natural gas sector are non-fulfillment of rules and procedures by utilities. Specifically, grounds for most disputable cases have been improperly drafted protocols and acts on illegal use (theft) of natural gas, drafting administrative violations protocol in cases where drafting of protocol is not permissible at all, incomplete examination of cases by company itself, charging customers with metering costs by mistake, and improper application of principles set by rules of charging. Customers' complaints are also caused by wrong qualification of cases related to the metering points and metering. One of the common grounds for disputes has also been wrong performance of repair works by the company itself and blaming customer for its consequences.

The total number of applications/complaints in the natural gas sector submitted directly to the Commission during the reporting period was 789, including:

- a) "KazTransGas-Tbilisi" LLC - 757;
- b) "Socar Georgia Gas" LLC -20;
- c) "Sakorggas" JSC - 9;
- d) "Varketilairi" LLC - 1;

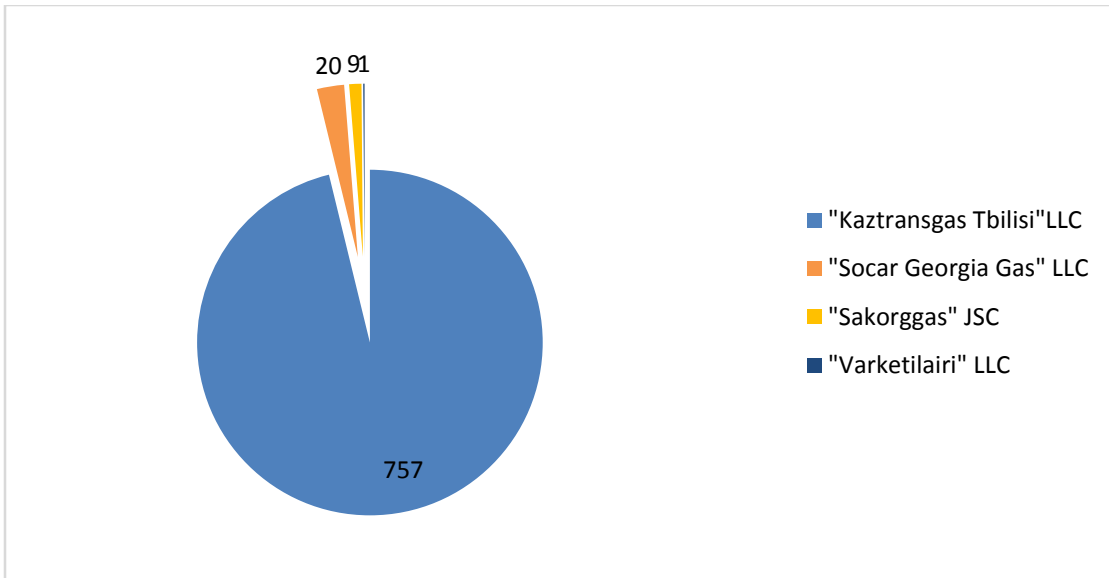


Figure 4.3. Dispute Statistics

As a result of dispute resolution the Commission has made 654 decisions on the complaints submitted to both the Commission and Office of the Public Defender of Consumers' Interests. 1007 applications/complaints have been satisfied, 128- partially satisfied and 54 - unsatisfied.

Amount cut off from customers's accounts in the natural gas sector has reached 164,256,66 GEL.

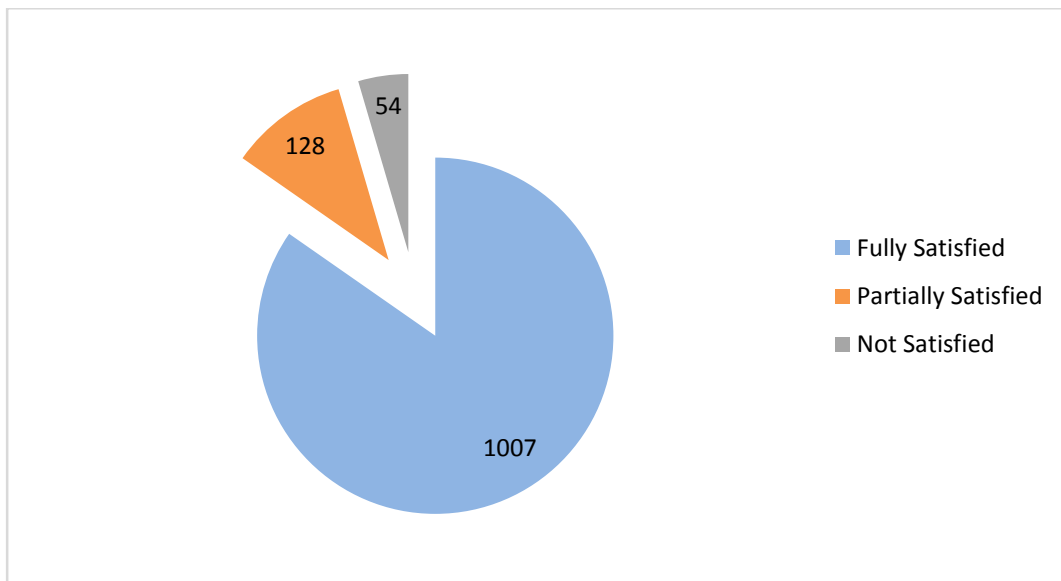


Figure 4.4. Decisions of the Commission

4.4. Water Supply Sector

In the water supply sector relations between consumers and companies are regulated under the Resolution №32 of November 26, 2008 of the Commission “On Approving Drinking Water Supply and Consumption Rules”.

One of main grounds for complaints in water supply sector has been non-fulfillment of rules and requirements by companies. Specifically, complaints for claiming reimbursement of liabilities being out of limitation period, improper charging of customers by non-metered water supply acts, illegal connection to the water supply network. Also charging household customers with tariffs set for non-household customers and charging according to the number of individuals living in households. The reason of claims has been also charging customers in a period when they were not actually residing there.

In the water supply and sewerage sector 314 applications/complaints have been submitted to the Commission, including:

- a) “Georgian Water and Power” LLC - 249;
- b) “United Water Supply Company of Georgia” LLC - 49;
- c) “Mtskheta Tskali” LLC - 7;
- d) “Rustavis Tskali” LLC - 2;
- e) “Batumi Tskali” LLC - 4.

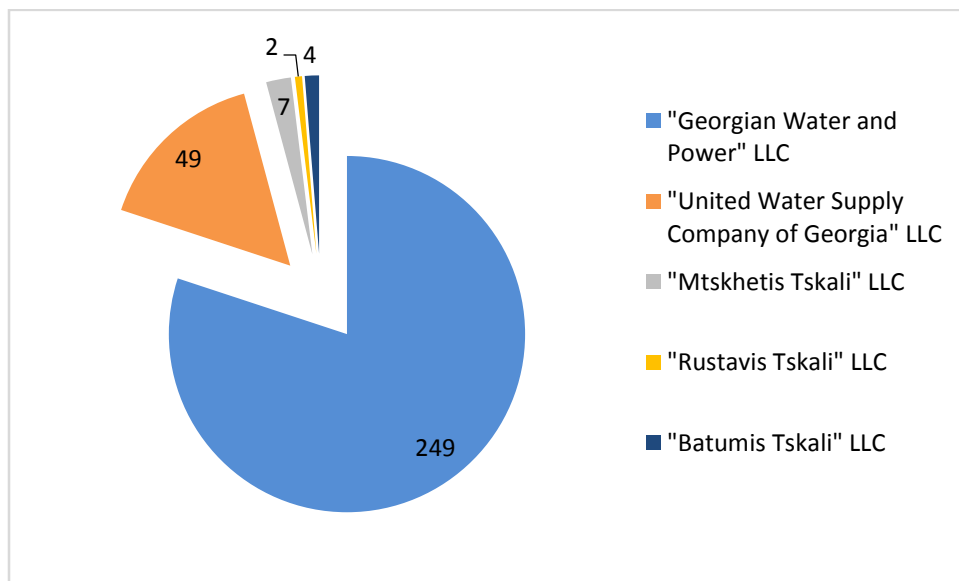


Figure 4.5. Dispute Statistics

As a result of dispute resolution the Commission has made 67 decisions on the complaints submitted to both the Commission and Office of the Public Defender of Consumers’ Interests. 47 applications/complaints have been fully satisfied, 11- partially satisfied and 9 - unsatisfied.

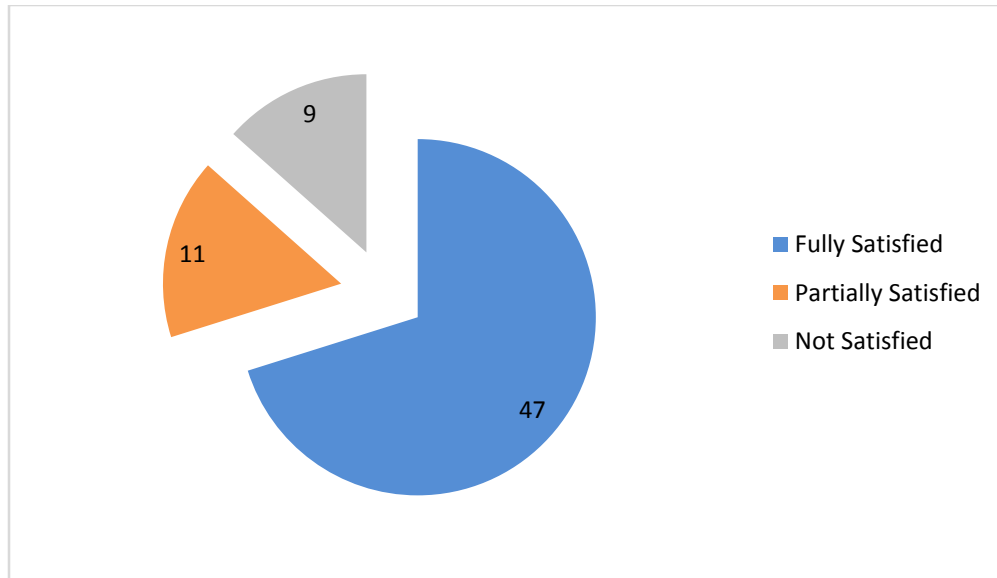


Figure 4.6. Decisions of the Commission on Dispute Settlement

Amount cut off from customers' accounts in the water supply sector has constituted 181,066,92 GEL.

Within Reporting Period the Commission has made 1396 decisions in total, whereas overall amount cut off from customers' accounts has constituted 1,552,978.42 GEL.

Existing dispute settlement practice points out that supply and consumption rules regulating all three sectors require improvement. In given situation, detalization of regulations related to disputable matters will notably decrease the number of disputes.

5. International Relations

5.1. Relations with International Partner Organizations

Relations with partner international organizations play significant role among the activities of the Commission. Cooperation with foreign experts, sharing international best practices and experience strengthens capacities of the Commission and improves regulatory process.

Throughout the reporting year the Commission has been actively cooperating with international organizations such as: United States Agency for International Development (USAID), National Association of Regulatory Utility Commissioners (NARUC), Energy Regulators Regional Association (ERRA), Energy Community, International Water Association (IWA), Energy Charter Secretariat, World Trade Organization (WTO), INOGATE technical secretariat etc.

In 2015 meeting was held between NARUC and the Commission within the Partnership Program. In terms of the activity issues related to electricity cross-border trade between Georgia and Turkey, methods of connection to the transmission network, distribution network rules, dispute settlement procedures and net metering have been discussed. The meetings were attended by the representatives of the Commission, Ministry of Energy of Georgia, "Georgian State Electrosystem" JSC, NARUC, USAID, Governing for Growth (G4G), licensee companies, Public Service Commissions of Michigan and Kentucky, Midcontinent Independent System Operator (MISO), Energy Market Regulatory Authority of Turkey (EMRA), Turkish

Electricity Transmission Company (TEIAS). In addition, workshops of NARUC within the frameworks of Black Sea Regional Initiative (BSRI) took place in Romania in March of the same year.

With respect to relations with Energy Community, Georgia still has a status of a candidate and its membership is scheduled for the nearest future. The staff, experts and specialists of the Commission actively participate in conferences, forums and working group meetings organized by Energy Community where issues related to the electricity and natural gas sectors, as well as to consumer protection are approached.

One cannot avoid mentioning Energy Regulators Regional Association (ERRA) as far as the Commission enjoys its full membership. In 2015 Commissioners and employees of the Commission have been participating in conferences, committee meetings and trainings organized by ERRA. Moreover, 14th Energy Investment and Regulation Conference, General Assembly, Presidium and Chairmen Sessions were organized, which were attended by the Chair of the Commission, Commissioners and employees of the Commission.

In 2015 Georgia became a country chairing European Energy Charter. Representatives of the Commission attended forums and conferences organized by Energy Charter Secretariat. Attention shall be paid to Energy Charter forum held on October 7 in Hungary where issues related to Energy Union, natural gas markets, specifically, cross-border trade and transit of natural gas and regional cooperation in the electricity sector have been brought to discussion. Furthermore, in December 2015 the 26th Meeting of the Energy Charter Conference Ministerial Session on “Fostering Regional Cooperation through Cross-border Trade” took place in Tbilisi. The latter was attended by the representatives of Energy Charter Member Countries, Ministry of Energy of Georgia, “Electricity System Commercial Operator” JSC, Georgian National Energy and Water Supply Regulatory Commission, “Georgian State Electrosystem” JSC and other electricity market players. After the speech of Energy Charter Secretary General and representatives of the member countries the following issues were discussed: fostering advantages of regional cooperation according to Energy Charter framework; necessity of fostering stimulation of creating regional electricity market; internal connections and electricity trade as a means of strengthening energy safety and ensuring reliable and accessible electricity; necessity of multilateral legal structure for promoting transportation, transit and trade of energy resources; Advantages of regional cooperation for better integration of renewable energy sources and increase of investments in renewable energy sources.

Representatives of the Commission also participated in the meetings organized by INOGATE technical secretariat that concerned electricity supply safety and interconnection issues.

International Water Association (IWA) is especially worth mentioning as far as it organizes meetings and forums on current issues of the water supply sector. Second Water Supply Sector Regulators Forum was organized by IWA in 2015, where issues of enhancing cooperation between the water supply sector regulatory authorities and improving water supply regulation were approached.

Besides, 6th Energy Regulation World Forum was held in Istanbul, Turkey, which was attended by the Chair of the Commission, Commissioner and staff of the Commission. The Chair of the Commission made a presentation on cross-border infrastructure and regulatory legislation of Georgia.

5.2. Relations with Energy and Water Supply Regulatory Authorities of Foreign Countries

In 2015 as well as in recent years the Commission had actively cooperated with energy and water supply regulatory authorities of various countries, respective meetings were organized, where current events occurring in energy and water supply sectors and practices of regulatory authorities were discussed.

Special attention should be paid to cooperation between Lithuanian National Commission for Energy Control and Prices (NCC) and Georgian National Energy and Water Supply Regulatory Commission. During the meeting in Lithuania in 2015 the parties made presentations and discussed issues related to Distribution System Operator, Supply of Last Resort and Customer Switching Rules. With respect to the

latest changes taking place in Georgia, discussion of above-mentioned issues is very important for increasing the Commission's efficiency and improving conditions on electricity market. Therefore, meeting mainly aimed at acquiring recommendations and getting familiar with regulatory practices of Lithuania.

On December 11, 2015 agreement on mutual cooperation had been signed between Georgian National Energy and Water Supply Regulatory Commission and the Water and Waste Services Regulation Authority (ERSAR) of Portugal in Lisbon, Portugal. The agreement envisages exchanging knowledge and experience on water and waste water services regulation.

One-week internship of the representative of the Energy Regulatory Authority of Ukraine at the Georgian National Energy and Water Supply Regulatory Commission had been organized by NARUC and funded by USAID, where Commission's staff shared experience regarding information transparency, dispute settlement and those main principles and acts that are applied during energy regulation process.

USAID had funded internship of representatives of the Tariffs and Economic Analysis Department, Electricity Department and Methodological Support and Quality of Service Control Department of the Commission at the Public Service Commission of Michigan. Internship concerned review of tariff application and reliability of electricity supply.

5.3. Completed and Ongoing International Projects

Significant international projects were implemented and planned by the Georgian National Energy and Water Supply Regulatory Commission in 2015.

Expert mission within TAIEX program had been organized at Georgian National Energy and Water Supply Regulatory Commission. The project concerned issues related to natural gas sector, retail market and customer switching. Experts made presentations on important issues such as: customer switching rules within Natural Gas Sector, natural monopolies, role of the Distribution System Operator during customer switching and other significant matters. The project had been supported and funded by the European Commission. The meetings were attended by the representatives of the Commission and Licensees operating in Natural Gas Sector.

Moreover, visit of US expert at the Commission has been organized by NARUC under the funding of USAID. Main topic for meetings has been to provide consultations on the Distribution Network Code. It is scheduled that the project will continue in 2016.

Several meetings have been held within the framework of Eastern Partnership program that were attended by the Representatives of the Commission. Representatives of the participating countries have brought into discussion tariff regulation model within the electricity sector, EU Twinning project and its outcomes, energy safety etc. The Commission had also prepared topic for the Eastern Partnership Project "High Quality Studies to Support Activities under the Eastern Partnership" (HiQSTEP). The topic concerns effects of locating solar energy sources on residential buildings and its regulation. The proposal on the topic to be researched has been sent to the representatives of the European Commission and Regulatory bodies of the partner countries.

The South-East European Regulatory Bridge project is being currently carried out by NARUC with funding of USAID. Within the framework of mentioned project the meeting has been held in September 2015, where following issues have been discussed: Issues of Distribution System operator's regulation; Institute of competitive supplier and its regulation; role of the competitive supplier within retail market conditions; issues related to the supplier of last resort, regulation of renewable energies and quality of service. Upcoming events are scheduled to take place in 2016.

Ministry of Foreign Affairs of Denmark is being implementing project related to the Energy Efficiency. Respective working group has been established within the Commission and meetings are held with the representatives of the Ministry of Foreign Affairs, where issues related to energy efficiency and sustainable

energy, specifically to data collection, monitoring, accounting and integration of renewable energies into the existing national electricity network are discussed.

One cannot avoid mentioning “Government for Growth” project (G4G) funded by USAID, which aims at creating competitive business environment and enforcing economic reforms through constructive dialogue between government and civil society and which will promote electricity trade and strengthening regulator’s capacities.

With regards to the other international projects, implementation of Twinning Project on “Strengthening Capacities of Georgian National Energy and Water Supply Regulatory Commission in Market Monitoring and Regulatory Cost Audit” will commence in 2016. Trainings, meetings, study tours will be held within the frameworks of the project which will enable the Commission to improve regulatory processes in line with Best international practices.

Implementation of the project related to “Urban Services Improvement Investment Program (Tranche 1) - 2749 - Capacity Building of Georgia National Energy and Water Supply Regulatory Commission (GNERC)” is also scheduled for 2016. The project is implemented by Asian Development Bank (ADB).

Project on providing consultancy services to the Commission is planned for the upcoming 2016 that will be funded by European Bank for Reconstruction and Development (EBRD). Terms of reference concerns technical assistance on following issues: calculation of losses in electricity and natural gas sector, quality of service regulation in electricity and natural gas sector, licensing in natural gas sector, investment appraisal, unbundling of activities in natural gas sector, unbundling of accounts and implementation of Uniform System of Accounting.

6. Public Relations

Public Relations plays one of the most important role among the Commission’s activities. Main principle of the public relations strategy is to provide society with important and necessary information and details on the activities of the Commission. On the other hand, the Commission shall be aware of the requirements and problems of the regulated companies, as well as of citizens that expect appropriate reaction.

For proper definition of the long-term public relations strategy and for providing relevant basis the Commission has undertaken several important activities throughout recent years. From that point of view close communication with media, non-governmental sector and experts of the field have been important directions that fell under the competences of Public Relations Department. Media Club Project is implemented at the Commission under which trainings for the representatives of media and non-governmental organizations and analysts are organized. In 2015 the third project of Media Club was carried out which provided participants with exhaustive information on specific issues that they were interested in. After successful completion of the project participants were awarded certificates.

In 2015 Public Relations Department successfully cooperated with all news and specific TV/radio programs being broadcasted in Georgia, Press and Internet Media. Radio Commersant dedicated time of broadcasting in the radio program “Professionals” to the Commission completely free of charge. As a result, reporting on the news taking place in Energy and Water Supply Sectors, analyzing ongoing projects and commenting on them were encouraged. Within the program “Professionals” Director of the Electricity Department of the Commission hosted representatives of the Governmental bodies in the Energy Sector, private sector, non-governmental organizations and also experts of the field.

By means of media monitoring, it was observed that media had dedicated substantial time to the airing of the Commission’s activities which ensured provision of information on current issues to the public. Several topics deserving special attention have been identified. For example, the tariff policy had been the issue of endless debate. In addition to reporting through media, public meetings were organized which were attended by field experts, representatives of non-governmental organizations, media and other stakeholders. During those meetings investment plans of companies operating in the Sector and tariff issues were

discussed. All the necessary documents related to tariff setting were placed on Commission’s official website: www.gnerc.org.

An important attention had been paid to the specifics of settling disputes between citizens and companies, debts out of statutes of limitations, unjustified billings, and consumers’ rights. Relevance of those issues were easily identified from the contents of the customers’ letters on official Facebook page of the Commission which mainly concerned protection of consumers’ rights, unjustified billings and low service quality indicators. Public relations department regularly provided media with information on decisions made by the Commission, also displayed them on the Commission’s website and in social network.

According to media monitoring indicators news (TV, Radio, Press, and Internet) related to the Commission’s activities constituted 3481 units.

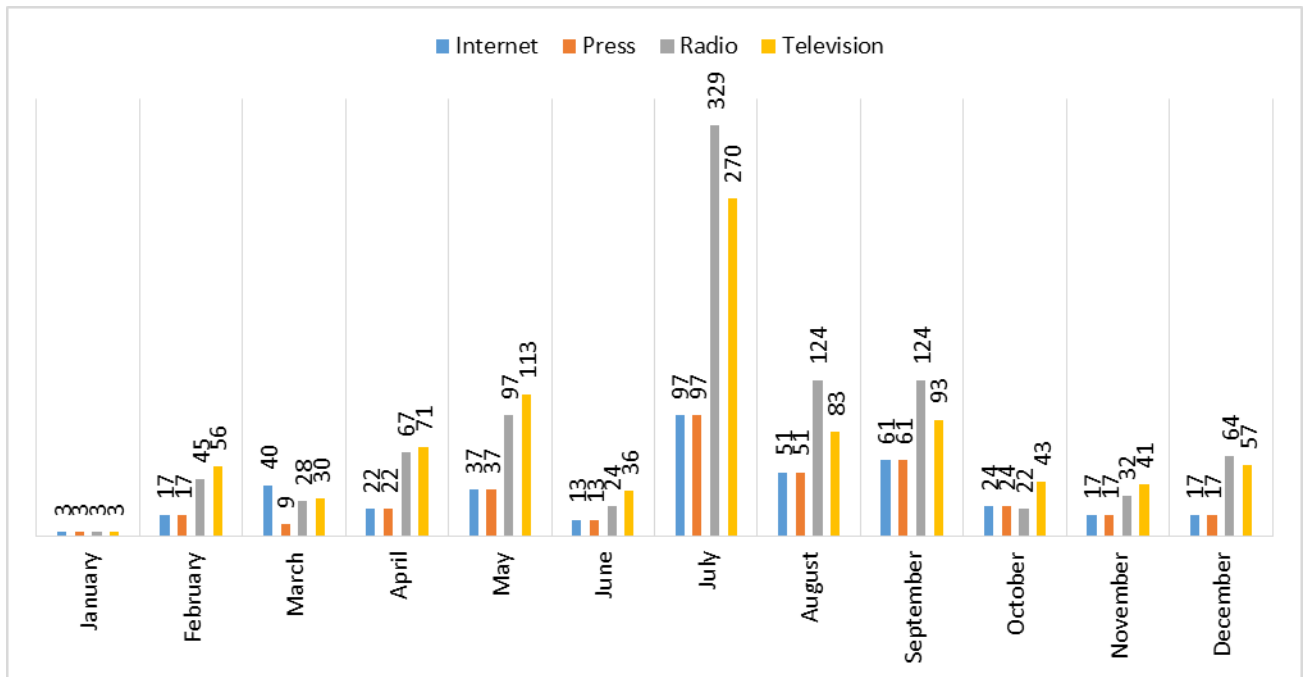


Figure 6.1.

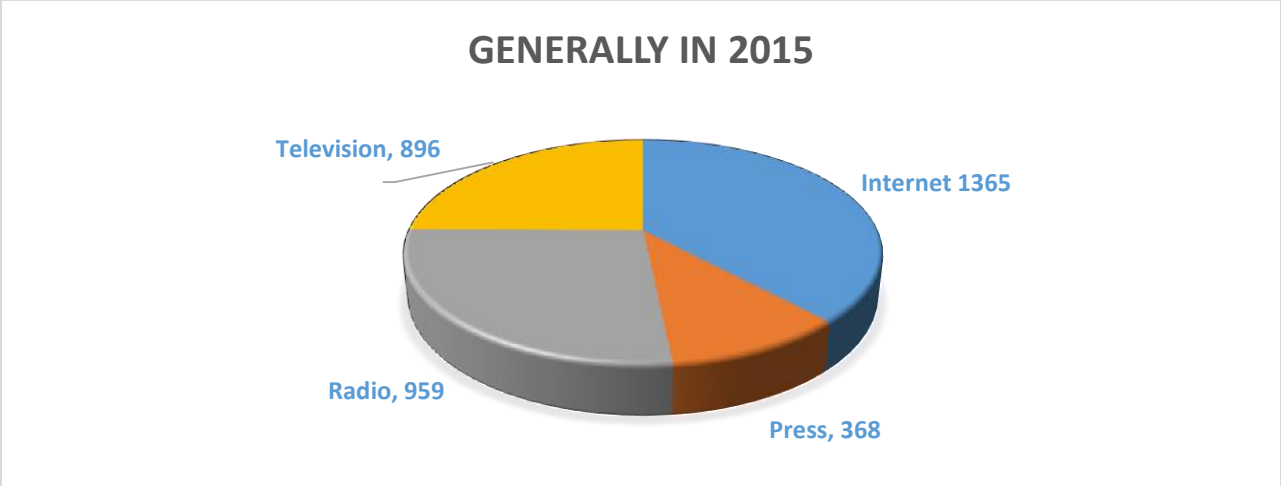


Figure 6.2.

A video on protection of consumer’s rights was prepared providing customers with additional information on measures to be undertaken in case if their rights are violated and on registering as a subscriber of Energy and Water Supply Sectors. The Video was broadcasted through Georgian Public Broadcaster and disseminated via internet.

Public Relations’ department organized meetings with entrepreneurs where representatives of the Commission provided clarification on important issues such as: rules and procedures of connecting new customers to the natural gas and water supply networks. The department organized presentation of 2014 report on the Commission’s activities, which was attended by the representatives of the governmental bodies, participants of the regulated sectors, local and international donor organizations, experts of the field, non-governmental organizations and media.

The Commission regularly works on developing Commission’s website and social profile and uploading information. The department aims at facilitating communication of customers with the Commission and providing them with necessary information within shortest timeframes.

7. Annexes

Annex №1 – List of Licensees in the Electricity Sector

Types of Activities/Years	2010	2011	2012	2013	2014	2015
Electricity Generation	12	12	12	13	14	15
Electricity Distribution	3	3	3	3	3	3
Electricity Transmission	2	2	2	3	3	4
Electricity Dispatch	1	1	1	1	1	1
Total	18	18	18	20	21	23

Generation		Dispatch
<ul style="list-style-type: none"> • “Khrami HPP-1”JSC • “Khrami HPP-2” JSC • “Georgian Water and Power”LL(Jinvali HPP) • “Vardnili HPP Cascade”LLC • “Enguri HPP”LLC • “Eastern Energo Corporation” LLC (Khadori HPP) • “Mtkvari Energy” LLC • “Vartsikhe-2005”LLC • “Zahesi”JSC • “G-Power” LLC • “Energy” LLC (Larsi HPP) • “Gardabani Thermal Power Plant” LLC 	<ul style="list-style-type: none"> • “Energo-Pro Georgia” JSC <ul style="list-style-type: none"> – Rioni HPP – Lajanuri HPP – Dzevrula HPP – Atshesi – Gumati HPP Cascade – Shaori HPP – Satskhi HPP – Chitakhevi HPP – Ortachala HPP • “Georgian International Energy Corporation” LLC (Tbilsresi) • “Georgian Urban Energy” LLC (Paravani HPP) 	<p>“Georgian State Electrosystem” JSC</p>
		Transmission
		<ul style="list-style-type: none"> • ”Sakrusenergo” JSC • “Energotrans” LLC • Georgian State Electrosystem” JSC • “Energo-Pro Georgia” JSC (Preliminary License)
		Distribution
		<ul style="list-style-type: none"> • “Telasi” JSC • “Energo-Pro Georgia” JSC • “Kakheti Energodistribution” JSC

Annex №2 – Customer Quantity within the Electricity Sector in 2010-2015

Customer Classification/Years	2010	2011	2012	2013	2014	2015
Retail Customer	1,474,527	1,522,259	1,581,896	1,623,110	1,664,802	1,653,549
Including: Household	1,401,821	1,446,887	1,499,971	1,529,187	1,566,277	1,556,003
Non-household	72,706	75,372	81,925	93,923	98,525	97,546
Direct Customer	10	9	7	7	5	4
Total	1,474,537	1,522,268	1,581,903	1,623,117	1,664,807	1,653,553

Annex №3 – Number of Persons Employed in the Electricity Sector in 2010-2015

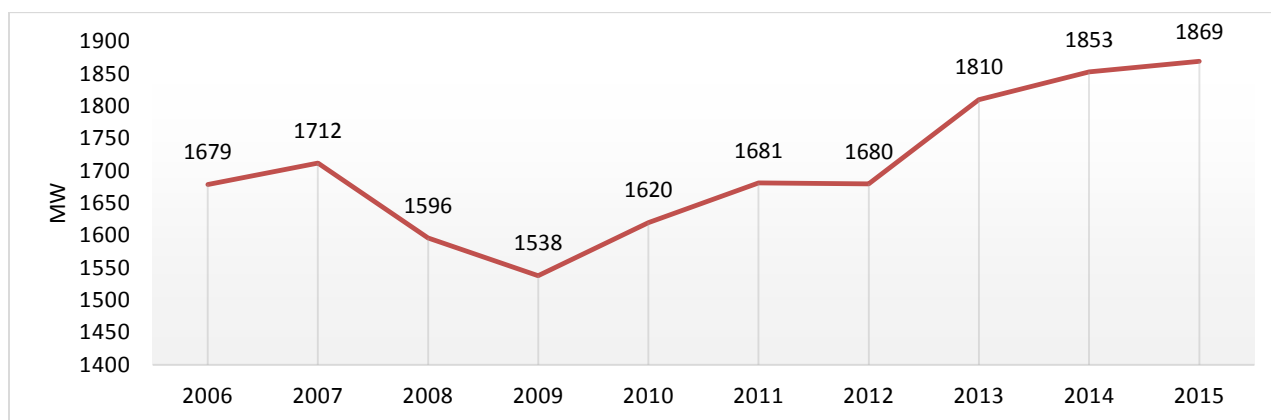
Types of Activity/Year	2010	2011	2012	2013	2014	2015
Electricity Generation Companies	2,709	2,711	2,722	2,731	2,765	2902
Electricity Distribution Companies	8,431	8,099	7,953	7,443	7,487	7578
Electricity Transmission Companies	1,189	1,212	1,240	1,368	1,566	1580
Electricity Dispatch Company	74	72	73	80	103	167
Total	12,403	12,094	11,988	11,622	11,921	12,227

Annex №4 – Length of Electricity Transmission Lines (km)

Voltage Levels/Years	2010	2011	2012	2013	2014	2015
500 kv						
Transmission	871	871	871	1,181	1,181	1138.7
400 kv						
Transmission	0	0	0	32.6	32.6	32.2
330 kv						
Transmission	21.1	21.1	21.1	21.1	21.1	21.1
220 kv						
Transmission	1,635.3	1,410.3	1,410.3	1,666.25	1,783.85	1611.5
110 kv						
Transmission	884.8	900.7	921.7	738.3	738.3	940.4
Distribution	2,889.49	2,889.49	2,889.49	2,881.5	2,877.8	2,142
35 kv						
Transmission	537	574	574	526.43	526.43	509.2
Distribution	2,678.72	2,675.47	2,683.65	2,684.77	2,684.77	2,259.2
Including: Overhead	2,624.92	2,624.92	2,631.62	2,627.9	2,627.9	2,198.7
Cable	53.8	50.55	52.03	56.87	56.87	60.5
6-10 kv						
Distribution	17,714.82	14,015.6	14,144	14,351.3	14,351.3	15,027.4
Including: Overhead	15,051.9	12,178.6	12,304	12,453	12,453	12,968.9
Cable	2,662.92	1,837	1,840	1,898.3	1,898.3	2,058.5
0.4 kv						
Distribution	41,058.4	39,509	39,800	39,468.8	39,468.8	39,205.8
Including: Overhead	37,623.3	37,435	37,590	36,255.9	36,255.9	36,780.9

Cable	3,435.1	2,074	2,210	3,212.9	3,212.9	2,424.9
Total						
Transmission	6,156.4	3,777.1	3,798.1	4,165.68	4,283.28	4,253.1
Distribution	64,341.43	59,089.56	59,517.14	59,386.37	59,382.67	58,634.4
Including: Overhead	55,300.12	52,238.52	52,525.62	51,336.8	51,336.8	51,948.5
Cable	6,151.82	3,961.55	4,102.03	5,168.07	5,168.07	4,543.9

Annex №5 – System Peak Loads 2006-2015



Annex №6 – State of Metering in Distribution Companies by January 1, 2016

№	Companies	Number of Customers in 2015			
		Total	Customers having individual meters	Customers not having individual meters	Customers consuming less than 1 kw capacity ¹¹
1	“Telasi” JSC	520,715	511,282	0	9,433
2	“Energo-Pro Georgia” JSC	1,002,428	940,908	61,513 ¹²	7

¹¹ Consumers of up to 1 kw that do not require individual metering node

¹² Customer number of “Energo-Pro Georgia” JSC that are supplied with electricity on the basis of shared meters

3	“Kakheti Energodistribution” JSC	130,406	130,361	17 ¹³	28
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Annex №7 – Map of Electricity Transmission Network of Georgia in 2015



Source: “Georgian State Electrosystem” JSC

¹³ 17 shared meter of “Kakheti Energodistribution” JSC that encompass approximately 300 customer

Annex №8 – Electricity Balance of Georgia in 2009-2015

Electricity Supply

Title	2009	2010		2011		2012		2013		2014		2015	
	Million/kw/h	Million/kw/h	Increase (%)	Million/kw/h	Increase (%)	Million/kw/h	Increase (%)	Million/kw/h	Increase (%)	Million/kw/h	Increase (%)	Million/kw/h	Increase (%)
Total Generation	8,407.7	10,057.7	19.62%	10,104.6	0.47%	9,697.6	-4.03%	10,058.7	3.72%	10,369.6	3.09%	10,832.6	4.46%
Thermal Power Plants- Total	990.7	682.8	-31.08%	2,212.1	223.97%	2,477.1	11.98%	1,787.7	- 27.83%	2,035.9	13.88%	2,378.7	16.84%
Share of thermal power plants in generation	11.78%	6.79%		21.89%		25.54%		17.77%		19.6%		22%	
Hydro Power Plants- Total	7,417	9,374.9	26.40%	7,892.5	-15.81%	7,220.5	-8.51%	8,271	14.55%	8333.7	0.76%	8,453.8	1.44%
Regulatory	4,737.5	6,525.4	37.74%	5,217.5	-20.04%	4,905.6	-5.98%	5,385.1	9.77%	5158.9	-4.2%	5118.5	-0.78%
Seasonal	2,421.3	2,532.5	4.59%	2,379.3	-6.05%	2,047.9	-13.93%	2,557.1	24.86%	2682.7	4.91%	2817.3	5.02%
Small	258.2	317	22.77%	295.7	-6.72%	267	-9.71%	328.8	23.15%	492.1	49.67%	518	5.26%
Share of Hydro in Generation	88.22%	93.21%		78.11%		74.46%		82.23%		80.40%		78%	
Total Import	254.8	222	-12.90%	471	112%	614.6	30.49%	484.1	- 21.23%	851.9	175.98%	699.2	-17.92%
Import from Russia	223.3	211.9	-5.11%	447.6	111.23%	517.1	15.53%	460.6	-10.93%	607	31.78%	511	-15.82%
Import from Azerbaijan	31.5	10.1	-67.94%	23.4	131.68%	97.5	316.67%	23.5	-75.90%	184.2	683.83%	101.7	-44.79%
Import from Armenia	0	0	0%	0	0%	0	0%	0	0%	2.1	100%	86.5	4019.05%
Import from Turkey	0	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Transit										58.6			
Share of import in total resources	2.94%	2.16%		4.45%		5.96%		4.59%		7.59%		6.1%	
Total Generation and Import	8,662.5	10,279.7	18.67%	10,575.6	2.88%	10,312.2	-2.49%	10,542.8	2.24%	11,221.5	6.44%	11,531.8	2.77%
Plant Losses and own consumption	129.6	138.5	6.87%	192.4	38.92%	225.7	17.31%	198.1	- 12.21%	215.9	8.96%	240	11.16%
Delivery into the Network	8,532.9	10,141.2	18.85%	10,383.2	2.39%	10,086.5	-2.86%	10,344.7	2.56%	11,005.6	6.39%	11,291.7	2.6%

Electricity
Consumption

Title	2009	2010		2011		2012		2013		2014		2015	
	millionkw/h	millionkw/h	Increase (%)	millionkw/h	Increase (%)	millionkw/h	Increase (%)	millionkw/h	Increase (%)	millionkw/h	Increase (%)	millionkw/h	Increase (%)
Supply to Customers	7,642.1	8,441.1	10.46%	9,256.7	9.66%	9,379.4	1.33%	9,690.3	3.31%	10,170.10	4.95%	10,381.8	2.08%
Distribution Companies- Total	4,572.5	4,983.2	8.98%	5,809.4	16.58%	6,262	7.79%	6,520.1	4.12%	6,962.30	6.78%	7,346.3	5.52%
“Energopro Georgia” JSC	2,481.3	2,798.7	12.8%	3,527.6	26.04%	3,967	12.46%	4,170.1	5.12%	4400.3	5.52%	4590.5	4.32%
“Telasi” JSC	1,863.6	1,947.3	4.5%	2,025.6	4.02%	2,022.8	-0.14%	2,062.9	1.98%	2251.6	9.15%	2419.4	7.45%
“Kakheti Energodistribution” JSC	227.6	237.2	4.22%	256.2	8.01%	272.2	6.25%	287.1	5.47%	310.4	8.12%	336.4	8.38%
Share of Distribution in Total Consumption	59.83%	59.03%		62.76%		66.76%		67.28%		68.46%		70.76%	
Abkhazia	1,358.3	1,377.1	1.38%	1,613.4	17.16%	1,533.7	-4.94%	1,605.3	4.67%	1638.6	2.07%	1797.2	9.68%
Share of Abkhazia in Domestic Consumption	17.77%	16.31%		0.2		16.35%		16.57%		16.11%		17.31%	
Direct Customers	1,711.3	2,080.8	21.59%	1,833.9	-11.87%	1,583.7	-13.64%	1,564.9	-1.19%	1569.2	0.27%	1238.4	-21.08%
Share of Direct Customers in Domestic Consumption	22.39%	24.65%		19.81%		16.90%		16.15%		15.43%		11.93%	
Total Export	749.4	1,524.2	103.39%	930.6	-38.95%	528.1	-43.25%	450.4	-14.71%	603.6	34.01%	659.925	9.33%
Export to Russia	525.8	1,117.1	112.46%	588.6	-47.31%	369.4	-37.24%	370.6	0.32%	160	-56.83%	169.57	5.98%
Export to Azerbaijan	21.5	14.3	-33.49%	5.9	-58.74%	11.8	100%	6.6	-44.07%	8	21.21%	0.015	-99.81%
Export to Armenia	19.8	89.4	351.52%	117.5	31.43%	67.9	-42%	73.1	7.66%	140.5	92.2%	70.85	-49.57%
Export to Turkey	182.3	303.4	66.43%	218.6	-27.95%	79	-63.86%	0	-100%	236.5	100%	419.49	77.37%
Transit										58.6		0	
Share of Export in Total Consumption	9.81%	18.06%		10.05%		5.63%		4.65%		5.94%		6.36%	
Transportation Costs	141.4	175.8	24.33%	195.9	11.43%	179	-8.63%	204	13.97%	231.9	13.68%	250	7.81%
Total Consumption and Export	8,532.9	10,141.1	18.85%	10,383.2	2.39%	10,086.5	-2.86%	10,344.7	2.56%	11,005.6	6.39%	11,291.70	2.60%

Annex №9 – Existing Tariffs of the Electricity Sector¹⁴

Guaranteed Capacity Sources	Tariffs	
	Cost of Capacity GEL/Day	Electricity Tariff Tetri/KW/h
“G-Power”LLC	41,671	8.460
“Mtkvari Energy”LLC	59,957	10.748
“Georgian International Energy Corporation”(Tbilsresi)	49,400	11.303
“Gardabani Thermal Power Plant”LLC	366,173	6.659

HPPs	Tariffs Tetri/Kw/h
“Enguri HPP”LLC	1.187
“Vardnili HPP Cascade”LLC	1.170
"Energopro Georgia" JSC (Shaori HPP)	2.586
"Energopro Georgia" JSC (Dzevrula HPP)	2.764
“Khrami HPP 1” JSC	8.200
“Khrami HPP 2” JSC	9.400
“Georgian Water and Power” LLC (Jinvalhesi)	1.830
“Zahesi”JSC	5.225
"Energopro Georgia" JSC (Lajanuri HPP)	2.064
"Energopro Georgia" JSC (Rioni HPP)	3.827
“Vartsike 2005” LLC	1.250
“Eastern Energy Corporation”LLC (Khadory HPP)	8.750
"Energopro Georgia" JSC (Atshesi)	4.067
"Energopro Georgia" JSC (Gumati HPP)	2.385
"Energopro Georgia" JSC (Ortachala HPP)	2.500
"Energopro Georgia" JSC (Satskheni HPP)	6.170
"Energopro Georgia" JSC (Chitakhevi HPP)	3.933
“Electricity System Commercial Operator”LLC	0.019

Type of Activity	Company	Voltage Levels	Tariffs/Tetri/kw/h
Electricity Dispatch	“Georgian State Electrosystem” JSC		0.998
Electricity Transmission	“Georgian State Electrosystem” JSC		0.754
		500 kv	0.420
	“Energotrans” LLC	400 kv	0.290

¹⁴ Tariffs do not include VAT

Electricity Distribution	“Sakrusenergo” JSC		0.180
	“Energo-Pro Georgia” JSC	35–110 kv	1.652
		6–10 kv	2.175
		0.4 kv	6.927
	“Telasi” JSC	35–110 kv	0.705
		6–10 kv	1.773
		0.4 kv	5.567
	“Kakheti Energodistribution” JSC	35–110 kv, 35–110-purchase	0.932
		6–10 kv, 35–110- purchase	2.626
		0.4 kv, 35–110–purchase	6.218
		6–10 kv, 6–10-purchase	2.046
		0.4 kv, 6–10- purchase	5.638

Annex №10 – Participants of Natural Gas Sector

Distribution Licensees

1. “SakOrgGaz” JSC	16. “Ambrolaurigazi” LLC
2. “KasTransGas Tbilisi” LLC	17. “Energy+” LLC
3. “Didi Dighomi” LLC	18. “Gasko+” LLC
4. “Varketilairi” LLC	19. “Akriani-2006” LLC
5. “Energokavshiri” JSC	20. “Versali” LLC
6. “Kamari M” LLC	21. “Chiraghdani XXI” LLC
7. “Gama” LLC	22. “Chiraghdani” LLC
8. “Sachkeregaz” JSC	23. “Tsalkagazi” LLC
9. “Mghebrishvili” GP	24. “Wissol Petroleum Georgia” JSC
10. “SG Gas Company” LLC	25. “Borchalo+” LLC
11. “DVS” LLC	26. “Mamed” LLC
12. “Sartichalis Gazi” JSC	27. “Vake” LLC
13. “Gogochuri and Company” LLC	28. “Gazmsheni” LLC
14. “Arzu-Gazi” LLC	29. “Inter Gazi” LLC
15. “Taba” LLC	30. “Socar Georgia Gas” LLC

Transportation Licensee

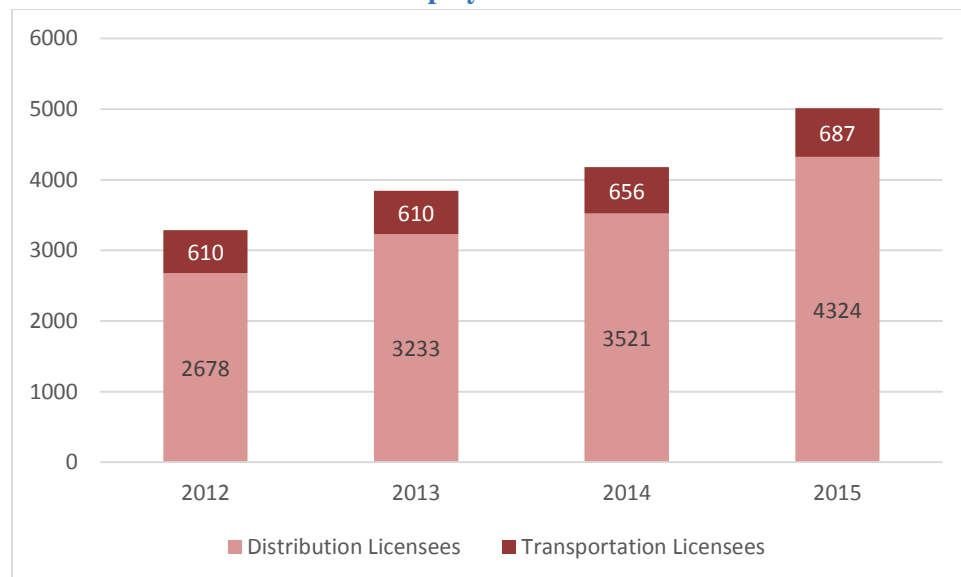
“Georgian Gas Transportation Company” LLC

Other Suppliers

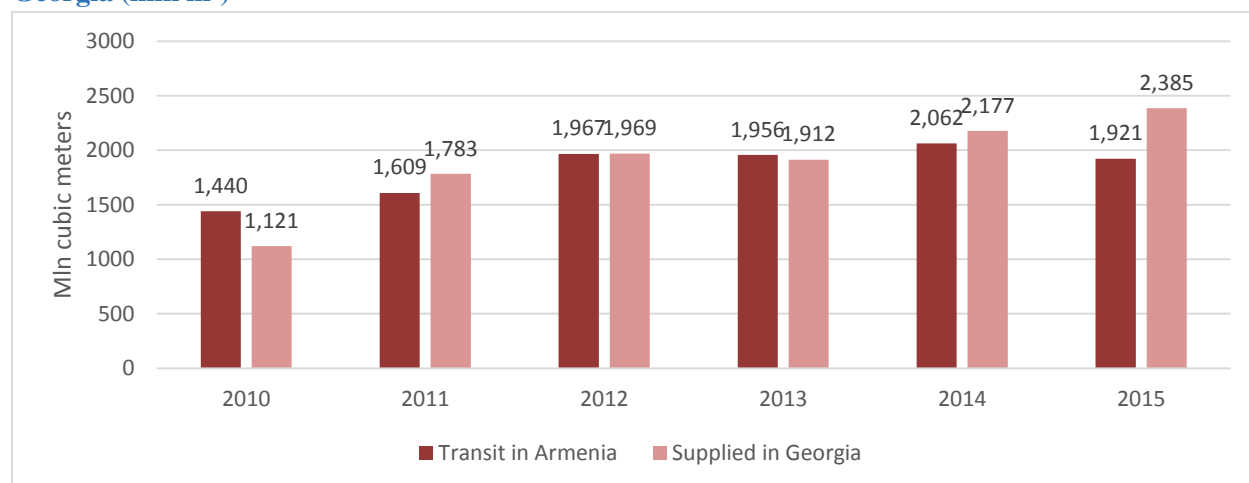
1. “Georgian Oil and Gas Corporation” JSC
2. “Gas Distribution Company” LLC
3. “Socar Georgia Gas Distribution” JSC
4. “Gas Energy” LLC
5. “Socar Gas Export-Import” LLC

6. "Georgian International Energy Corporation" LLC
7. "Guarantee XXI" LLC
8. "Bani 13" LLC
9. "KNF Energy" LLC
10. "Geotransgas" LLC
11. "Georgian Gas Transportation Company" LLC
12. "Gama" LLC

Annex №11 - The Number of Employees at Natural Gas Licensees



Annex №12- The Amount of Natural Gas Delivered from Natural Gas Transportation System of Georgia (mln m³)



Annex №13 - The Length of the Main Gas Pipelines according to the Pipe Diameter (km)

	2010	2011	2012	2013	2014	2015
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	Total	1939.3	1948.0	1922.5	1794.2	1918.2	1968.4
Pipe Diameter (mm)	1200	133.7	133.7	133.7	133.7	133.7	133.7
	1000	89.0	89.0	89.0	89.0	89.0	89.0
	800-700	492.9	501.5	560.0	563.7	662.8	687.8
	500	530.1	530.1	400.8	378.2	378.2	403.2
	300≤	693.7	693.8	739.1	629.7	654.6	654.7

Annex №14 – Tariffs in Natural Gas Sector¹⁵

#	Distribution Company	Natural Gas Retail Supplier	Supply Tariffs (Tetri/m ³)		Distribution Tariffs (Tetri/m ³)	Transportation Tariffs (Tetri/m ³)	Consumption Tariffs (Tetri/m ³)	
			Marginal tariffs approved by the Commission (upper limits)	** Decreased tariffs according to the memorandum			Marginal tariffs approved by the Commission (upper limits)	** Decreased tariffs according to the memorandum
1	2	3	4	5	6	7	8	9
1	“KazTransGas Tbilisi” LLC a) – High Pressure - Medium pressure - low pressure b) Former LLC “Datvis Uzunvelkopis Samsakhuri”	“KazTransGas Tbilisi” LLC	28.575	24.338	1.711	1.383	31.669	27.432
			28.575	24.338	4.847	1.383	34.805	30.568
			28.575	24.338	12.940	1.383	42.898	38.661
			30.286	26.049	12.906	1.383	44.575	40.338
2	“Wissol Petroleum Georgia” JSC	“Wissol Petroleum Georgia” JSC	29.236	24.999	14.296	1.383	44.915	40.678
3	“Mghebrishvili” GP	“Mghebrishvili” GP	29.236	24.999	10.779	1.383	41.398	37.161
4	“Gazmsheni” LLC	“SakOrgGaz” JSC	29.236	24.999	4.542	1.383	35.161	30.924
5	“Sartichala Gas” JSC - Medium pressure - low pressure	“Sartichala Gas” JSC	29.236	24.999	5.042	1.383	35.661	31.424
			29.236	24.999	10.550	1.383	41.169	36.932
6	“Energokavshiri” JSC - Medium pressure - low pressure	“Energokavshiri” JSC	29.236	24.999	3.957	1.383	34.576	30.339
			29.236	24.999	12.178	1.383	42.797	38.560
7	“Gogochuri” GP - Medium pressure	“Gogochuri” GP	29.236	24.999	5.093	1.383	35.712	31.475
8	“Arzu Gas” LLC	“Arzu Gas” LLC	29.236	24.999	9.932	1.383	40.551	36.314
9	“Ambrolaurigazi” LLC	“Socar Georgia Gas” LLC	29.236	24.999	14.296	1.383	44.915	40.678
10	“SachkhereGaz” JSC - Medium pressure - low pressure	“SachkhereGaz” JSC	23.282	23.282	7.171	1.383	31.836	31.836
			23.282	23.282	12.622	1.383	37.287	37.287
11	“Gama” LLC	“Gama” LLC	29.185	24.948	5.042	1.383	35.610	31.373

¹⁵ * Tariffs are given without VAT

** Decreased tariffs according to the memorandum between Ministry of Energy and natural gas suppliers signed on March 1, 2013

12	“Kamari M” LLC	“Kamari” M LLC	29.331	25.094	12.506	1.383	43.220	38.983
13	“Varketilairi” LLC	“Varketilairi” LLC	30.286	26.049	11.128	1.383	42.797	38.560
14	“Vake” LLC	“Vake” LLC	30.286	26.049	9.641	1.383	41.310	37.073
15	“Didi Dighomi” LLC	“Didi Dighomi” LLC	30.286	26.049	11.467	1.383	43.136	38.899
16	“Taba” LLC	“Taba” LLC	30.286	26.049	11.356	1.383	43.025	38.788
17	“Energy+” LLC	“Energy+” LLC	29.236	24.999	10.229	1.383	40.848	36.611
18	“DVS” LLC - Medium pressure - low pressure	“DVS” LLC	29.236	24.999	4.254	1.383	34.873	30.636
			29.236	24.999	10.483	1.383	41.102	36.865
19	“Gasko+” LLC - Medium pressure - low pressure	“Gasko+” LLC	29.236	24.999	4.042	1.383	34.661	30.424
			29.236	24.999	14.551	1.383	45.170	40.933
20	“Akriani 2006” LLC	“Akriani 2006” LLC	29.236	24.999	12.601	1.383	43.220	38.983
21	“Chiraghdani XXI” LLC	“Chiraghdani XXI” LLC	30.286	26.049	10.661	1.383	42.330	38.093
22	“Versali” LLC	“Versali” LLC	29.236	24.999	11.754	1.383	42.373	38.136
23	“Chiraghdani” LLC	“Socar Georgia Gas” LLC	29.236	24.999	15.144	1.383	45.763	41.526
24	“Tsalkagazi” LLC	“Tsalkagazi” LLC	29.236	24.999	15.567	1.383	46.186	41.949
25	“SG Gas Company” LLC	“SG Gas Company” LLC	29.236	24.999	14.466	1.383	45.085	40.848
26	“Borchalo+” LLC	“Borchalo+” LLC	29.236	24.999	10.059	1.383	40.678	36.441
27	“Intergaz” LLC	“SakOrgGaz” JSC	Deregulated		14.358	1.383	Deregulated	
28	“Mamed” LLC	“Mamed” LLC	29.719	25.482	12.966	1.383	44.068	39.831
29	“SakOrgGaz” JSC							
a) Former “Kutaisigazi” LLC - Medium pressure - low pressure b) Former “Kaspigazi” LLC - Medium pressure - low pressure c) Former “Gorigazi” JSC - Medium pressure - low pressure d) Former “Bolnisigazi” JSC e) Former “Borjomigazi” LLC f) Former “Rustavigazi” JSC - High pressure - Medium pressure - low pressure g) Former “Terjolis Bunebrivi Airi” LLC h) Former “Tetrtskarogazi” LLC - Medium pressure - low pressure i) Customers in Samtredia Municipality j) Former “Vanigazi” JSC k) Customers in the village Gamarjveba, Gardabani Municipality - Medium pressure - low pressure l) Customers in Aspindza, Akhaltsikhe and Adigeni Municipalities m) Customers in Amrolauri, Oni and Tkibuli Municipalities n) Customers in Martvili Municipality o) Customers in Varketili -Vazisubani district and in Olympic village located near the Tbilisi Sea - Medium pressure - low pressure	“Socar Georgia Gas” LLC	29.236	24.999	6.508	1.383	37.127	32.890	
		29.236	24.999	12.381	1.383	43.000	38.763	
		29.236	24.999	0.567	1.383	31.186	26.949	
		29.236	24.999	16.025	1.383	46.644	42.407	
		29.236	24.999	3.618	1.383	34.237	30.000	
		29.236	24.999	12.856	1.383	43.475	39.238	
		29.236	24.999	14.550	1.383	45.169	40.932	
		29.236	24.999	14.805	1.383	45.424	41.187	
		29.236	24.999	0.483	1.383	31.102	26.865	
		29.236	24.999	6.754	1.383	37.373	33.136	
		29.236	24.999	11.924	1.383	42.543	38.306	
		29.236	24.999	10.779	1.383	41.398	37.161	
		29.236	24.999	10.398	1.383	41.017	36.780	
		29.236	24.999	15.228	1.383	45.847	41.610	
		29.236	24.999	13.449	1.383	44.068	39.831	
		29.236	24.999	13.872	1.383	44.491	40.254	
29.236	24.999	6.466	1.383	37.085	32.848			
29.236	24.999	9.508	1.383	40.127	35.890			
		Deregulated		10.779	1.383	Deregulated		
		Deregulated		10.779	1.383	Deregulated		
		Deregulated		10.779	1.383	Deregulated		
		Deregulated		6.754	1.383	Deregulated		
		Deregulated		11.924	1.383	Deregulated		

	p) Customers in Terjola Municipality (Except the customers of “Terjolis Bunebrivi Airi” LLC)		Deregulated	10.779	1.383	Deregulated		
	q) Customers in Kaspi Municipality (Expect the customers of former “Kaspigazi” LLC - Medium pressure - low pressure		Deregulated	0.567 16.025	1.383 1.383	Deregulated		
30	“Socar Georgia Gas” LLC							
	a) Customers in Zugdidi and Zugdidi Municipality		29.382	25.145	14.829	1.383	45.594	41.357
	b) Former “Abashagazi” JSC		29.185	24.948	15.618	1.383	46.186	41.949
	c) Former “Mtskhetagazi” JSC - Medium pressure - low pressure		29.236 29.236	24.999 24.999	1.669 12.432	1.383 1.383	32.288 43.051	28.051 38.814
	d) Customers in Dusheti Municipality		29.236	24.999	8.157	1.167	38.560	34.323
	e) Former “Gardabangazi” JSC - High pressure - low pressure		29.236 29.236	24.999 24.999	0.0037 9.118	0.9 1.383	30.140 39.737	25.903 35.500
	f) Customers of village Norio, Gardabani Municipality (Former “Gio” LLC)		29.236	24.999	12.601	1.383	43.220	38.983
	g) Former “Dmanisigazi” LLC		29.236	24.999	11.627	1.383	42.246	38.009
	h) Former “Khashurigazi” LLC		29.236	24.999	14.381	1.383	45.000	40.763
	i) Customers in Kareli Municipality		29.236	24.999	13.737	1.383	44.356	40.119
	j) Former “Kazbegigazi” JSC		32.617	28.380	4.619	0.9	38.136	33.899
	k) Customers in Marneuli Municipality - Medium pressure - low pressure		29.236 29.236	24.999 24.999	8.449 13.449	1.383 1.383	39.068 44.068	34.831 39.831
	l) Customers in Gurjaani Municipality (Except the customers in “m” and “n” subparagraphs)		29.236	24.999	10.779	1.383	41.398	37.161
	m) Customers in Gurjaani Municipality (Former “Zaza da Giorgi Matiashvilebi” LLC)		29.236	24.999	14.127	1.383	44.746	40.509
	n) Customers in villages Kachreti, Kodalo, Naniani, Darcheti and Arashenda of Gurjaani Municipality)		29.236	24.999	10.779	1.383	41.398	37.161
	o) Former “Kvareligazi” LLC	“Socar Georgia Gas” LLC	29.236	24.999	11.627	1.383	42.246	38.009
	p) Former “Dedoplistskaraigazi” JSC - Medium pressure - low pressure		29.236 29.236	24.999 24.999	4.059 11.796	1.383 1.383	34.678 42.415	30.441 38.178
	q) Customers in Lagodekhi Municipality		29.236	24.999	9.118	1.383	39.737	35.500
	r) Customers in Signaghi Municipality		29.236	24.999	11.271	1.383	41.890	37.653
	s) Customers in Sagarejo Municipality		30.286	26.049	6.475	1.383	38.144	33.907
	t) Former “Akhmetagazi” JSC		29.236	24.999	11.923	1.383	42.542	38.305
	u) Former “Tskaltubogazi” JSC		29.236	24.999	13.449	1.383	44.068	39.831
	v) Former “Zestaponigazi” JSC		29.236	24.999	9.940	1.383	40.559	36.322
	w) Former “Chiaturgazi” JSC		29.185	24.948	12.542	1.383	43.110	38.873
	x) Former “Bagdadigazi” JSC		29.236	24.999	12.517	1.383	43.136	38.899
	z) Customers in Kharagauli Municipality		29.271	25.034	12.312	1.383	42.966	38.729
	z¹) Customers in Ozurgeti Municipality		29.236	24.999	11.796	1.383	42.415	38.178
	z²) Former “Chokhataurgazi” JSC		29.236	24.999	11.796	1.383	42.415	38.178
	z³) Former “Lanchkhutigazi” JSC		29.236	24.999	12.05	1.383	42.669	38.432
	z⁴) Former “Likhaigazi” LLC		29.236	24.999	12.856	1.383	43.475	39.238
	z⁵) Former “Socar Georgia Gas Adjara” LLC - Medium pressure - low pressure		29.272 29.272	25.035 25.035	7.133 11.235	1.383 1.383	37.788 41.890	33.551 37.653
	z⁶) Former “Orujevi da Janmrteloba” LLC - Medium pressure - low pressure		29.236 29.236	24.999 24.999	4.754 9.805	1.383 1.383	35.373 40.424	31.136 36.187

z ⁷) Customers in Gori and Kaspi Municipalities	29.236	24.999	12.432	1.383	43.051	38.814
z ⁸) Customers in Samtredia and Tkibuli Municipalities	29.236	24.999	13.449	1.383	44.068	39.831
z ⁹) Former “Gantiadi” LLC - High pressure - Medium pressure - low pressure	29.236 29.236 29.236	24.999 24.999 24.999	3.305 4.754 9.508	1.383 1.383 1.383	33.924 35.373 40.127	29.687 31.136 35.890
z ¹⁰) Former “Adjaris Bunebrivi Airi” LLC - High pressure - Medium pressure - low pressure	29.236 29.236 29.236	24.999 24.999 24.999	1.915 7.169 11.271	1.383 1.383 1.383	32.534 37.788 41.890	28.297 33.551 37.653
z ¹¹) Former “Sakhalkho Express Service” LLC	30.058	25.821	14.237	1.383	45.678	41.441

Annex №15 – Existing Tariffs of the Water Supply Sector¹⁶

Company	Tariff Category	Value	Tariffs of 2015		
			Drinking Water Supply	Wastewaters	Water Supply
“Georgian Water and Power” LLC	Household, metered	Gel/m ³	0.182	0.043	0.225
	Household, non-metered	Gel /Per capita/Per Month	2.155	0.512	2.667
	Non-household	Gel /m ³	3.013	0.716	3.729
“Rustavis Tskali” LLC	Household, metered	Gel /m ³³	0.316	0.027	0.343
	Household, non-metered	GEL/Per capita/Per Month	1.618	0.136	1.754
	Non-household	GEL/m ³	2.106	0.178	2.284
“Mtskhets Tskali” LLC	Household, metered	GEL/m ³	0.145	0.028	0.173
	Household, non-metered	GEL/Per capita/Per Month	1.706	0.327	2.033
	Non-household	GEL/m ³	3.129	0.600	3.729
“Mtskhets Soptskali” LLC	Household, metered	GEL/m ³	0.279		0.279
	Household, non-metered	GEL/Per capita/Per Month	2.224		2.224
	Non-household	GEL/m ³	0.279		0.279
“United Water Supply Company of Georgia” LLC	Household, metered	GEL/m ³	0.355	0.068	0.423
	Household, non-metered	GEL/Per capita/Per Month	1.704	0.326	2.030
	Non-household	GEL/m ³	2.860	0.790	3.650
“Soguri” LLC	Household, metered	GEL/m ³	0.071		0.071
	Household, non-metered	GEL/Per capita/Per Month	0.847		0.847
	Non-household	GEL/m ³	4.155		4.155
“Marneulis Soptskali” LLC	Household, metered	GEL/m ³	0.333		0.333

¹⁶ Tariffs are provided without VAT

	Household, non-metered	GEL/Per capita/Per Month	1.398		1.398
	Non-household	GEL/m ³	2.652		2.652
“Sachkheris Tskalkanali” LLC	Household, metered	GEL/m ³³	0.273	0.085	0.358
	Household, non-metered	GEL/Per capita/Per Month	1.432	0.447	1.879
	Non-household	GEL/m ³	2.643	0.824	3.467