

Georgian National Energy and Water Supply Regulatory Commission

Resolution N 14

July 30 2014

Tbilisi

On approving Electricity Tariff Calculation Methodologies

Under the Article 4 (4) and Article 5 of the Law of Georgia on Electricity and Natural Gas, Georgian National Energy and Water Supply Regulatory Commission establishes the following:

1. Tariff Setting Methodology for Electricity Dispatch, Transmission, Distribution, Wheeling and End-user Tariffs shall be approved (Annex N1).
2. Tariff Setting Methodology for Electricity Generation shall be approved (Annex N2).
- 2¹. Tariff Setting Methodology for Guaranteed Capacity Fee, Electricity Generation Tariff of Guaranteed Capacity Source and Electricity Market Operator Service Tariff (Annex N3) shall be approved.
- 2². Rule for the Electricity Sector Regulatory Cost Audit shall be approved (Annex N3¹)
3. Regulated Asset Depreciation/Amortization Norms of the Regulated Utilities shall be approved (Annex N4).
4. This resolution shall enter into force on the date of its publication.
5. Upon entry into force of this resolution the resolution of June 8 2011 N11 on adoption of Electricity Tariff Setting Methodologies shall be declared invalid.

Chair of Georgian National Energy and
Water Supply Regulatory Commission

Irina
Milorava

Commissioner	Maia Nadiradze
Commissioner	Gocha Shonia
Commissioner	Sergo Meskhi

Annex №1

Tariff Setting Methodology for Electricity Dispatch, Transmission, Distribution, Wheeling and End-user Tariffs

Chapter I. General Provisions

Article 1. Purpose

1. The purpose of the Methodology for Calculation of Electricity Dispatch, Transmission, Distribution, Wheeling and End-user Tariffs (hereinafter, the Methodology) shall be to define the rules and principles for setting the electricity dispatch, transmission, distribution, wheeling and end-user Tariffs, in accordance with the Law of Georgia on Electricity and Natural Gas.
2. During calculation of tariff based on this Methodology, the internationally accepted principles of incentive-based regulation (revenue-cap regulation) shall be used, which ensure stimulation of increase of efficiency of the utilities.

Article 2. Definition of Terms

1. The terms used in this Methodology have the same meaning as in the Law of Georgia on Electricity and Natural Gas.
2. Other terms used in this Methodology for the tariff regulation purposes are defined as follows:
 - a) **Intangible Assets** – identifiable non-monetary assets without physical form, that are used in relevant regulated activities;
 - b) **Non-Controllable Operational Expenditures (ncOPEX)** - expenditures of the utility that are caused by external factors and cannot be influenced by the utility;
 - b¹) **Unregulated Assets** – assets which are not used in regulated activities;

- c) **Assets** – tangible and intangible assets;
- d) **Asset Reproduction Costs** – total expenditures which will be necessary for creating assets analogous to the assets that need to be evaluated;
- e) **Asset Cost** – the amount of the real value of money or money equivalents or other compensation paid during creation or initial purchase of an asset;
- f) **Historical Cost Asset Valuation Method** – valuation of the asset cost according to the price of its creation or initial purchase;
- g) **Net Book Value of the Asset** - accumulated depreciation/amortization deducted from the asset cost (taking into account the investments made into this asset);
- h) (Repealed – 22.10.19, #23);
- i) (Repealed – 22.10.19, #23);
- j) **Cost Cascading Method** – allocation of part of the costs of the upper voltage level of the electricity distribution network to the costs of the subsequent voltage level;
- k) **Electricity Transmission Tariff** – price of the electricity transportation services, carried out by the electricity transmission licensee through the electricity transmission network;
- l) **Electricity Distribution Tariff** – price of the electricity distribution services, provided to consumers by the distribution licensee through the electricity distribution network;
- m) **Electricity Wheeling Tariff** – price of the services provided by the distribution licensee through the electricity distribution network for wheeling the electricity that belongs to others;
- n) **Electricity Dispatch Tariff** – price of the services provided by the dispatch licensee for dispatching electricity;
- o) **Electricity End-user Tariff** – price of the electricity consumed by the retail consumer;
- p) **Normative Losses of Electricity** – admissible technological losses of the electricity that occur in the process of transporting electricity through transmission and distribution networks;
- q) **Extra Normative Losses of Electricity** – positive difference between actual losses in the respective electricity transmission and distribution networks and the normative losses of electricity defined by the Commission;
- r) **Actual Losses of Electricity** - difference between the electricity received in and the electricity delivered from the respective transmission and distribution networks, which is calculated based on the metering device readings;
- s) **Efficiency Factor (X-Factor)** – rate of increase of productivity and efficiency of operational activities of the utility, which includes the general efficiency factor (X_{gen}) and the individual efficiency factor (X_{ind});
- t) **General Efficiency Factor (X_{gen})** - rate of efficiency increase for a specific sector;
- u) **Individual Efficiency Factor (X_{ind})** - rate of efficiency increase for a specific utility;
- v) **Investment** – capital investments carried out for creation, purchase, modernization and/or rehabilitation of the assets;

- w) **Weighted Average Cost of Capital (WACC)** – rate of return on the regulatory asset base, calculated before taxes, according to structure of the capital (own or raised) defined by the Commission;
- x) **Capital Expenditures (CAPEX)** – for the purposes of this Methodology, return on the regulatory asset base and depreciation/amortization;
- y) **Controllable Operational Expenditures (cOPEX)** – operational expenditures of the utility, caused by internal factors and which can be influenced by the utility;
- z) **Tangible Asset** – fixed assets used in respective regulated activities, the useful life of which exceeds one year;
- aa) **Third Party** – any physical and/or legal person (including: the state, consumer, etc.), except for the utility shareholder, which issues subsidies and awards grants to the utility, pays fees for connecting to the electricity transmission and distribution network and/or transfers tangible and intangible assets to the utility free of charge;
- aa¹) **Regulated Asset** – asset used in regulated activities;
- bb) **Regulated Activity** – for the purposes of this Methodology, activity of electricity dispatch, transmission, distribution and wheeling, which is regulated by the Commission in accordance with the Law of Georgia on Electricity and Natural Gas;
- cc) **Regulatory Cost Base (RCB)** – revenue of the utility, allowed by the Commission for the tariff year, which is necessary for efficient functioning of the utility and includes reasonable costs and reasonable profit;
- dd) **Regulatory Asset Base (RAB)** – tangible and intangible assets used in regulated activities of the utility, which are directly related to the respective regulated activities;
- ee) **Working Capital (WC)** – the amount defined by the Commission for funding operational expenditures of the utility;
- ff) **Building Block Approach** – defining the regulatory cost base structure according to its components;
- gg) **Base Year (t-1)** – calendar year preceding the tariff calculation year;
- hh) **Inflation** – for the purposes of this Methodology, change of the annual average indicator percentage of the Consumer Price Index (CPI), published by the LEPL National Statistics Office, compared to the similar indicator of the previous year;
- ii) **Operational Expenditures (OPEX)** – operational expenditures related to activities of the dispatch licensee's utility, as well as expenditures related to operation and services of the electricity transmission and distribution network and, for the purposes of this methodology, other current expenditures related to the regulated activity;
- jj) **Tariff Application** – forms approved by the Commission and the documents to be submitted together with them, which reflect financial and technical data for the utility's base year, as well as the investment plan to be implemented during the regulatory period;
- kk) **Tariff Regulatory Period (n)** – period defined by the Commission, during which the tariff set by the Commission is in force;
- ll) **Tariff Year (t+i)** – i calendar year of the tariff regulatory period;

- mm) Utility** – dispatch, transmission and distribution licensee, for which electricity dispatch, transmission, distribution, wheeling and/or end-user tariffs are set pursuant to this Methodology;
- nn) Tariff Calculation Year (t)** – calendar year preceding the first tariff year of the tariff regulatory period;
- oo) Depreciation/Amortization** – gradual distribution of depreciable costs of the tangible/intangible assets over their useful life.

Article 3. Main Principles

1. This Methodology and the tariffs set based on it shall:
 - a) Protect consumers from monopolistic prices;
 - b) Incentivize the utility to increase efficiency through optimization of its own costs, on condition that no worsening of service quality and technical situation of the utility will occur;
 - c) Promote growth of financial returns of the utility through increase of operational and management efficiency;
 - d) Promote stable and reliable functioning of the utility;
 - e) Ensure the setting of transparent, stable and fair tariff rates for the utility
2. In the process of defining structure of the regulatory cost base of the utility, the building block approach shall be applied. The regulatory cost base defined by means of this method shall consist of the following components:
 - a) Capital Expenditures;
 - b) Controllable operational expenditures;
 - c) Non-controllable operational expenditures;
 - d) Interest cost of working capital;
 - e) Correction Component;
 - f) Expenditures for purchasing normative losses in electricity transmission or distribution networks, if electricity transmission, distribution and wheeling services through electricity transmission and distribution networks envisage the obligation of purchasing the electricity normative losses;
 - g) Service quality component.
3. Calculation of capital expenditures and non-controllable operational expenditures, as well as the forecasted part of controllable operational expenditures (spOpex, if applicable) shall be carried out while taking into account audited data of the base year and forecasted expenditures for the regulatory period, corrected based on the cost plus method, in compliance with the correction principles defined in this Methodology.

4. In relation to controllable operational expenditures, defined based on audited data of the base year, incentive-based regulation mechanisms shall be applied, which implies establishing certain incentives for the utility for the purpose of optimizing expenditures, in compliance with the principles provided in this methodology.
5. If, as a result of the regulatory cost audit, information of the period defined by Paragraph 3 of Article 7 of the Rule for the electricity sector regulatory cost audit, approved by this Resolution, is detected, which was not identified during calculation of the tariffs of the previous tariff year(s), the Commission shall be authorized to use that information for correcting audit results of the base year. Correction shall be carried out while taking into account the principles defined in Chapter IV of this Methodology.
6. In the process of calculating expenditures for purchasing normative losses in electricity transmission and distribution networks, the model of appraisal of the amount and target indicators of actual losses shall be used.
7. All tariffs set by the Commission shall be calculated without Value Added Tax (VAT).

Article 4. Tariff Regulatory and Tariff Setting Period

1. Tariff regulatory period (n) shall be defined as 3 calendar years.
2. The Commission shall set tariffs for the whole tariff regulatory period, whereas correction of set tariffs shall be carried out in accordance with this methodology.
- 2¹. If a tariff is set for a utility for the first time within this Methodology, the Commission shall be authorized to define the period of validity of the respective tariff as until the end of the ongoing regulatory period.
3. Fixed rates of the Weighted Average Cost of Capital (WACC) basic component values and the efficiency (X-factor) factor shall be set by the Commission for the whole tariff regulatory period.

Chapter II. Calculation of Regulatory Costs

Article 5. Regulatory Cost Base for Tariff Year

Regulatory cost base for the respective tariff year (t+i) of the regulatory period shall be calculated according to the following formula:

$$RCB_{t+i} = CAPEX_{t+i} + cOPEX_{t+i} + ncOPEX_{t+i} + CNL_{t+i} + WCC_{t+i} + TVCORR_{t+i} \pm Q_{t+i} \quad (1),$$

Where:

- i – Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$);
- RCB_{t+i} – Regulatory cost base of the utility for the respective tariff year (GEL);
- $CAPEX_{t+i}$ – Capital expenditures of the utility for the respective tariff year (GEL);
- $cOPEX_{t+i}$ – Controllable operational expenditures of the utility for the respective tariff year (GEL);
- $ncOPEX_{t+i}$ – Non-controllable operational expenditures of the utility for the respective tariff year (GEL);
- CNL_{t+i} – Cost of normative losses in electricity transmission and distribution networks of the respective tariff year (GEL);
- WCC_{t+i} – Interest cost of working capital in the respective tariff year (GEL);
- $TVCORR_{t+i}$ – Correction component of the expenditures, which shall be calculated in compliance with Article (GEL);
- Q_{t+i} – Financial result (GEL) of improvement/worsening of the annual target indicator(s) of the overall standard of service quality, defined by the Commission for the utility through respective normative Act(s).

Article 6. Capital Expenditures

Capital expenditures of the respective tariff year ($t+i$) of the regulatory period shall be calculated according to the following formula:

$$CAPEX_{t+i} = RAB_{t+i} * WACC_{t+i} + D_{t+i} \quad (2),$$

Where:

- i – Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$);
- $CAPEX_{t+i}$ – Capital expenditures of the utility for the respective tariff year (GEL);
- RAB_{t+i} – Cost of the regulatory asset base for the respective tariff year (GEL);

$WACC_{t+i}$ – Rate of return from the regulatory asset base for the respective tariff year (%);

D_{t+i} – Annual depreciation/amortization for the respective tariff year (GEL).

Article 7. Regulatory Asset Base

1. Current (active) assets of the utility, as well as (planned) assets envisaged under the investment plan agreed with the Commission, shall participate in formation of the regulatory asset base.
2. Cost of the asset shall be defined based on the historical cost valuation method.
3. In cases when cost of the asset cannot be defined through the method prescribed under Paragraph 2 of this Article, the Commission shall apply the asset reproduction cost valuation method.
- 3¹. In case of privatization of state property (assets) by the state, the initial historical cost shall be considered the privatization cost of the property, taking into account the relevant privatization conditions.
- 3². In case of the utilities subject to state/municipal control, historical cost of assets shall be the book value of regulated assets, included in the utility's capital and/or received as a result of merging (unification, joining) of utilities, if it is impossible to determine historical cost of these assets.
4. If regulated assets are sold to another utility, the Commission shall not take into account the resale cost of the asset and shall be guided by historical cost of the asset.
5. (Repealed – 22.10.19, #23);
6. The Commission shall reflect the investments, planned in compliance with the investment plan for each tariff year within the tariff regulatory period, in the regulatory asset base of the utility. The utility shall be obliged to justify necessity of the investments, as well as the effect (target indicator) and benefit to be achieved through implementation of these investments. If the change in the investment plan value for the specific tariff year exceeds 10% in positive or negative expression, the utility shall be obliged to agree those amendments with the Commission in advance.
7. If the investments planned by the utility (specific investment project) are not carried out in compliance with the conditions of the investment plan agreed with the Commission (are not completed before the end of the respective tariff year envisaged under the investment

plan), such investments shall be considered as unfinished construction and the capital expenditures received by the utility on that investment shall be subject to correction in accordance with this Methodology.

8. If the utility does not submit the investment plan to the Commission and does not agree with it the investment projects to be carried out, the Commission shall be entitled not to take into account in the tariff calculation process the actual unagreed investment implemented in the relevant period, which is not deemed expedient and/or reasonable.
9. The regulatory asset base shall not include the following:
 - a) Those parts of the investment which were funded by third parties. The utility shall keep records for such assets separately;
 - b) Those investments which are not deemed justified and reasonable by the Commission;
 - c) Those parts of the investment which exceed reasonable expenditure amounts and which were not undertaken by the Utility in accordance with the least cost principle;
 - d) Assets not used in regulated activities;
 - e) Unfinished construction.
10. The Commission shall be entitled not to take into account in the regulatory asset base value the cost of the asset, included by the utility's shareholder in the capital, which was transferred by third parties, if the shareholder or the third party is the state or a utility no less than 50% of shares of which are owned by the state.
11. The Commission shall take the capitalized cost of the loan interest, paid in the amount of the actual annual interest rate of the long-term loan taken to by the utility for funding construction during the construction process, into account in the cost price of the asset defined in Subparagraph "e" of Paragraph 9 of this Article, but it shall not exceed the rate of the cost of the loan (r_d) defined in this Methodology.
12. Value of the regulatory asset base of the utility shall be determined according to the net book value of the assets included in this base.
13. For tariff regulatory purposes and if required by legislative Acts and legal acts approved by the Commission, the Commission shall be obliged to and if required by other normative Acts – the Commission shall be authorized to reflect in the tariff the capital expenditures corresponding to the regulated assets which were retired by the utility based on requirements of the abovementioned legislation. Also, the Commission shall be authorized to consider the abovementioned assets as regulated assets before expiry of their useful life

or to reflect the net book value of these assets in the regulatory asset base, as a one-time action.

14. (Repealed – 22.10.19, #23);

15. The RAB value shall be calculated at the end of the respective (t+i) tariff year of the tariff regulatory period, according to the following formula:

$$RAB_{t+i} = TA_{t-1} + IA_{t-1} - TP_{t-1} + \sum_{j=0}^i (pINV_{t+j} - RA_{t+j} - D_{t+j} - pTP_{t+j} + pDTP_{t+j})$$

(3),

Where:

- i – Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$);
- RAB_{t+i} – Value of the regulatory asset base at the end of the respective tariff year of the tariff regulatory period (GEL);
- TA_{t-1} – Net book value of the tangible assets at the end of the base year (GEL);
- IA_{t-1} – Net book value of intangible assets at the end of the base year (GEL);
- TP_{t-1} – Value of the assets funded by third parties at the end of the base year (GEL);
- RA_{t+j} – Net book value of the assets to be retired within the framework of the investment plan for the respective tariff year of the tariff calculation and regulatory period (GEL);
- $pINV_{t+j}$ – Value of the assets envisaged (planned) under the investment plan agreed with the Commission for the respective tariff year of the tariff regulatory period (GEL);
- D_{t+j} – Annual depreciation/amortization for the respective tariff year of the tariff regulatory period, that is accrued to the existing and planned tangible and intangible assets (GEL);
- pTP_{t+j} – Value of the assets created with funding by third parties for the respective tariff year of the tariff regulatory period (GEL);
- $pDTP_{t+j}$ – Annual depreciation/amortization accrued to the assets funded by third parties for the respective tariff year of the tariff regulatory period (GEL).

Article 8. Depreciation/Amortization

1. For the assets which were put into operation after January 1, 2014, linear method of depreciation shall be used, in compliance with the Regulated Asset Depreciation/Amortization Norms for Regulated Utilities, approved by the Commission.
2. In connection with the assets put into operation before January 1, 2014, the Commission shall take into account the depreciation/amortization rates used by the utility, while in case of non-existence of this information, the Commission shall be authorized to use the amortization rate calculation Rule, defined in the Tax Code of Georgia or the Regulated Asset Depreciation/Amortization Norms for Regulated Utilities, approved by the Commission.

Article 9. Weighted Average Cost of Capital

1. Rate of return on the RAB shall be defined based on the WACC method.
2. The Weighted Average Cost of Capital (WACC) and the short-term loan interest rate (r_{sd}) values shall be fixed during the regulatory period.
3. The pre-tax Weighted Average Cost of Capital (WACC) for each regulatory period shall be calculated as follows:

$$WACC_{pre-tax} = g * r_d + \frac{(1-g)*r_e}{(1-T)} \quad (4)$$

Where:

$WACC_{pre-tax}$	– Weighted Average Cost of Capital before taxes (%);
g	– Loan ratio (%);
r_d	– Loan cost (%);
r_e	– Cost of Equity (%);
T	– Profit tax rate (%).

4. Cost of Equity shall be calculated according to the following formula:

$$r_e = (r_f - ds) + cr + \beta \times mp \quad (5),$$

Where:

r_{rf}	– Risk free rate (%);
ds	– Country default spread (%);
cr	– Country risk (%);
mp	– Market risk premium (%);
β	– Equity beta.

5. For the purpose of WACC calculation by the Commission, the share of loans (g) within the total capital shall be envisaged in the amount of 60%.

Article 10. Operational Expenditures

1. For the purpose of this Methodology the operational expenditures shall consist of the following two parts:
 - a) Controllable operational expenditures;
 - b) Non-controllable operational expenditures.
2. Operational expenditures shall ensure recovery of expenses to be borne by the utility for the respective regulated activity, including:
 - a) Operation and service costs;
 - b) Administrative and general expenditures.
3. Operational expenditures shall ensure remuneration of the expenditures related to service of the assets funded by third parties (including: ongoing repair, maintenance and other expenditures).
4. Those operational expenditures of the base year which are justified, reasonable and fair shall be taken into account during calculation of tariffs for the tariff regulatory period.
5. During calculation of tariffs for the tariff regulatory period, the Commission shall be entitled to take into account the forecasted technical-economic data, that it considers to be justified, reasonable and fair.
6. Actual financial data and technical information of the base year, approved by the Head or authorized person of the utility, shall be submitted using the templates approved by the Commission.
7. The Commission shall check correctness of submitted documentation and data and assess reasonableness and compliance of submitted expenditures, according to the Rule for the electricity sector regulatory cost audit, approved by this Resolution.

Article 11. Controllable Operational Expenditures

1. Controllable operational expenditures shall include all those costs, on which the utility is able to make a decision and can therefore influence them.
2. Utility's controllable operational expenditures of the tariff year of the tariff regulatory period (t+i) shall be calculated according to the following formula:

$$cOPEX_{t+i} = cOPEX_{t-1} * \prod_{j=0}^i [(1 + CPI_{t+j}) * (1 - X_{t+j})] + spOPEX_{t+i} \quad (6),$$

Where:

- i – Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$);
 - $cOPEX_{t+i}$ – Controllable operational expenditures of the utility for the respective tariff year (GEL);
 - $cOPEX_{t-1}$ – Controllable operational expenditures of the utility for the base year (GEL);
 - CPI_{t+j} – Forecasted indicator of inflation for tariff calculation and the respective tariff year, which is calculated based on forecasted data (%), prepared by the Ministry of Finance of Georgia;
 - X_{t+j} – Efficiency factor for tariff calculation and the respective tariff year (%).
 - $spOPEX_{t+i}$ – The part of the utility's controllable operational expenditures, which is not an actual expenditure of the base year, but the Commission considers its reflection expedient, based on forecasted indicators.
3. If the forecasted inflation indicator is a negative number, in relation to the salary fund it will be taken into account in the amount of zero ($CPI_{t+j} = 0\%$), while if it exceeds 5%, in relation to the salary fund it will be taken into account in the amount of 5% ($CPI_{t+j} = 5\%$).
 4. The part of the utility's controllable operational expenditures which is defined for the regulatory period based on forecasted data ($spOPEX_{t+i}$) shall be subjected to correction, taking into account the principles reflected in Chapter IV of this Methodology.

Article 12. Non-controllable Operational Expenditures

1. All the expenditures caused by external factors and on which the utility is unable to make a decision or which it cannot influence (taxes, fees, regulatory fee of the Commission,

market operator tariff etc.), shall be taken into account in the non-controllable operational expenditures

2. For each tariff year of the tariff regulatory period, non-controllable operational expenditures shall be defined based on the forecasted technical-economic data of the tariff regulatory period.

Article 13. Working Capital

1. The Commission shall define the amount of the utility's working capital for the respective tariff year ($t+i$), which shall be calculated based on the following formula:

$$WC_{t+i} = \frac{(ARD - APD_{Opex(t-1)})}{365} * OPP_{t+i} + \frac{(ARD - APD_{VAT(t-1)})}{365} * nVAT_{t+i} \quad (7),$$

Where:

- i – Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$);
 - WC_{t+i} – Amount of working capital for the respective tariff year (GEL);
 - ARD – Day of covering the accounts receivable, but no later than the 25th (day) of the month after the billing calendar month;
 - $APD_{Opex(t-1)}$ – Day of covering the accounts payable with regard to operational expenditures and in case of electricity distribution licensees - electricity purchase expenditures, but no earlier than the 10th (day) of the billing calendar ;
 - $APD_{VAT(t-1)}$ – Day of covering the accounts payable with regard to the VAT – no earlier than the 15th (day) of the month after the billing calendar month;
 - OPP_{t+i} – Operational expenditures and in case of electricity distribution licensees - electricity purchase expenditures for the respective tariff year, in case of which the utility has a positive difference between the days of covering the accounts payable and the accounts receivable;
 - $nVAT_{t+i}$ – Difference between the amount of the VAT accrued to taxable turnover and the deductible VAT for the respective tariff year (GEL);
2. If any component of the working capital calculated in compliance with the first Paragraph of this Article is a negative number, that component shall equal zero during calculation of working capital.

3. The Commission shall reflect the interest cost of working capital in the regulated cost base of the respective tariff year (t+i) of the utility, in accordance with the following formula:

$$WCC_{t+i} = WC_{t+i} * r_{sd(t+i)} (8),$$

Where:

- i – Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$);
 - WCC_{t+i} – Interest cost of working capital for the respective tariff year (GEL);
 - WC_{t+i} – Amount of working capital for the respective tariff year (GEL);
 - $r_{sd(t+i)}$ – Short-term loan interest rate, established by the Commission for the respective tariff year (%).
4. (Repealed – 22.10.19, #23);

Article 14. Normative Losses of Electricity

1. The amount of electricity normative losses of electricity of the utility shall be established by the Commission, in compliance with the rule envisaged by the respective normative Act and shall be valid for the tariff regulatory period.
2. The amount of electricity normative losses, set by the Commission for the utility, shall remain unchanged during the regulatory period, except for the cases defined under the legislation.
3. New indicators of electricity normative losses shall be defined before the beginning of new regulatory period.
4. Electricity normative losses shall be defined by the respective Resolution of the Commission.
5. Purchase price of electricity normative losses shall be taken into account in the tariff only if the respective service provided by the utility envisages such expenditures, in accordance with the legislation.
6. If actual losses in the electricity transmission and distribution networks exceed the electricity normative losses set for the respective utility, the cost of the extra normative losses of electricity, caused by the difference, shall not be taken into account during tariff calculation and shall not be reimbursed to the Utility.

7. If actual normative losses in the electricity transmission and distribution networks are less than the electricity normative losses set for the respective network, the profit from the difference shall remain with the utility.
8. If the transmission, distribution and wheeling services through the electricity transmission and distribution networks envisage the obligation of replenishing normative losses, the cost of purchasing the normative losses in the electricity transmission and distribution networks for the (t+i) year shall be calculated according to the following formula:

$$CNL_{t+i} = P_{Ave(t+i)} * E_{Loss(t+i)} \text{ (9)},$$

Where:

- | | |
|-----------------|--|
| i | – Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$); |
| CNL_{t+i} | – Cost of electricity normative losses in the electricity transmission and distribution networks for the respective tariff year (GEL); |
| $P_{Ave(t+i)}$ | – Weighted average price of electricity for replenishing electricity normative losses for respective tariff year of tariff regulatory period: (GEL/kWh); |
| $E_{Loss(t+i)}$ | – Amount of electricity normative losses for the respective tariff year of the tariff regulatory period (kWh). |
9. Weighted average price of the electricity to be purchased by the distribution licensee for replenishing electricity normative losses for the tariff year, shall include the expenditures related to electricity purchase and shall be calculated in accordance with Paragraph 2 of Article 20.
 10. The amount of electricity normative losses for the tariff regulatory period shall be defined while taking into account the forecasted amounts of electricity transmitted, distributed and wheeled in accordance with the amounts set under Paragraph 1 of Article 20 of this Methodology.

Article 15. Allocation of Expenditures

1. Allocation of expenditures shall be carried out in compliance with the Rule for the electricity sector regulatory cost audit, approved by this Resolution.

2. Expenditures allocated and distributed to the voltage levels shall be allocated to the consumers of each voltage level in accordance with the cost cascading method, taking into account the principles of Annex 1 of this Methodology.

Chapter III. Tariff Calculation

Article 16. Electricity Dispatch Tariff

Electricity Dispatch Tariff for the tariff regulatory period shall be calculated according to the following formula:

$$T_{Disp} = \frac{\sum_{i=1}^n RCB_{t+i}}{\sum_{i=1}^n E_{t+i}} (10),$$

Where:

- i – Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$);
- T_{Disp} – Tariffs of the service provided by the dispatch licensee for the tariff regulatory period (tetri/kWh);
- RCB_{t+i} – Regulatory cost base of the dispatch licensee for the respective tariff year of the tariff regulatory period (GEL);
- E_{t+i} – Amount of electricity consumed (metered) by eligible utilities at supply nodes for the respective tariff year of the tariff regulatory period (kWh).

Article 17. Electricity Transmission Tariff

1. Electricity transmission tariff shall be set for the electricity transmission licensee, on transmission activity.
2. Electricity transmission tariff for the tariff regulatory period shall be calculated according to the following formula:

$$T_{Trans} = \frac{\sum_{i=1}^n RCB_{t+i}}{\sum_{i=1}^n E_{t+i}} (11),$$

Where:

- i – Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$);
- T_{Trans} – Transmission tariff for the tariff regulatory period (tetri/kWh);

- RCB_{t+i} – Value of the regulatory cost base of the transmission licensee for the respective tariff year of the tariff regulatory period (GEL);
- E_{t+i} – Amount of electricity consumed (metered) by eligible utilities at supply nodes for respective tariff year of the tariff regulatory period (kWh).

Article 18. Electricity Distribution and Wheeling Tariffs

1. Electricity distribution and wheeling tariffs shall be set for the electricity distribution licensee, on electricity distribution and wheeling activities.
2. Electricity distribution and wheeling tariffs shall be set according to the following voltage levels of the distribution network:
 - a) 0,2-0,4 kV voltage;
 - b) 3,3-6-10 kV voltage;
 - c) 35-110 kV voltage;
3. Electricity distribution and wheeling tariffs for the tariff regulatory period at each tariff level shall be calculated according to the following formula:

$$T_{Dist}^k = \frac{\sum_{i=1}^n RCB_{t+i}^k}{\sum_{i=1}^n E_{t+i}^k} (12),$$

Where:

- i – Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$);
- T_{Dist}^k – k-voltage level electricity distribution tariff for the tariff regulatory period (tetri/kWh);
- RCB_{t+i}^k – Value of the regulatory cost base, attributed to the k-voltage level consumers of the distribution and wheeling licensee, for the respective tariff year of the tariff regulatory period (GEL);
- E_{t+i}^k – Sum of the forecasted amounts of electricity, distributed and wheeled through the electricity distribution network at k-voltage level, for the respective tariff year of the tariff regulatory period (kWh);
- k – Respective voltage level of the electricity distribution network.

4. Electricity wheeling tariffs shall be equal to electricity distribution tariffs.

Article 19. Electricity End-user Tariff

1. Electricity end-user tariff shall include the expenditures related to electricity purchase and distribution.
2. Electricity end-user tariff for the tariff regulatory period shall be set according to each voltage level of the electricity distribution network and shall be calculated based on the following formula, taking into account the principles of this Methodology and this Article:

$$T_{Cons}^k = P_{Ave} + T_{Dist}^k \text{ (13)},$$

Where:

- i – Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$);
- T_{Cons}^k – Electricity end-user tariff for k-voltage level of the distribution network for the tariff regulatory period (tetri/kWh);
- T_{Dist}^k – Electricity distribution tariff for k-voltage level of the distribution network for the tariff regulatory period (tetri/kWh);
- P_{Ave} – Forecasted weighted average price of the electricity to be purchased by the distribution licensee for the tariff regulatory period, which includes all expenditures related to electricity purchase, envisaged in the legislation (tetri/kWh);
- k – Respective voltage level of the electricity distribution network.

Article 20. Amount of Electricity and Weighted Average Purchase Price

1. In the tariff calculation process, the Commission shall be guided by the actual data of the electricity amounts, purchased and distributed by the utility in the base year, taking into account consumption dynamics in the sector and/or the electricity (capacity) forecasted balance, approved for the first tariff year of the tariff regulatory period.
2. For the purpose of determining the weighted average price of electricity by the distribution licensee, the utility shall be obliged to submit to the Commission the tentative amount and price of the electricity to be purchased for the first tariff year of the tariff regulatory period from the specific electricity sources, defined under Paragraph 1 of this Article, as well as other forecasted expenditures related to electricity purchase, such as the expenditures

related to dispatch, transmission services and purchase of the guaranteed capacity. Taking the submitted data into consideration, the Commission shall set the weighted average price of the electricity purchased by the Utility for the tariff regulatory period.

3. Taking the submitted data into consideration, the Commission shall set the weighted average price of the electricity to be purchased by the distribution licensee in the tariff regulatory period, based on the following formula:

$$P_{Ave} = \frac{\sum_{i=1}^n (Cost_{t+i}^E + Cost_{t+i}^{GC} + Cost_{t+i}^T + Cost_{t+i}^D + WCS_{t+i} + TVCORR_{t+i}^{EP})}{\sum_{i=1}^n E_{t+i}^{Purch}} (14),$$

Where:

- i – Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$);
- P_{Ave} – Forecasted weighted average price of electricity to be purchased by the utility for the tariff regulatory period (tetri/kWh);
- $Cost_{t+i}^E$ – Total forecasted cost of electricity to be purchased by the utility for the respective tariff year of the tariff regulatory period (GEL);
- $Cost_{t+i}^{GC}$ – Total forecasted value of the guaranteed capacity fee for the respective tariff year of the tariff regulatory period (GEL);
- $Cost_{t+i}^T$ – Total forecasted value of the transmission services provided by the transmission licensees for the respective tariff year of the tariff regulatory period (GEL);
- $Cost_{t+i}^D$ – Total forecasted value of the dispatch services provided by the dispatch licensee for the respective tariff year of the tariff regulatory period (GEL);
- WCS_{t+i} – Interest cost of working capital for the respective tariff year of the tariff regulatory period, related to purchase of electricity, the amount of which shall be calculated while taking into account forecasted seasonal variation of the electricity purchase price (GEL);

$TVCORR_{t+i}^{EP}$ – Cost correction factor, which shall be calculated in compliance with Article 27 (GEL);

E_{t+i}^{Purch} – Forecasted amount of electricity to be purchased by the utility for the respective tariff year of the tariff regulatory period (kWh).

4. If the component related to seasonal variation of the electricity purchase price included in calculation of the interest cost of working capital, under Paragraph 3 of this Article, is a negative number, then this component shall equal zero in the calculation.

Chapter IV. Tariff Correction

Article 21. Principles and Main Mechanisms of Tariff Correction

1. This Methodology envisages reflection of planned indicators in the regulatory cost base, during the tariff calculation process. Consequently, the Commission shall carry out tariff correction for each year of the tariff regulatory period, according to the cost correction factor.
2. Electricity end-user tariff shall be corrected as a result of correction of the electricity distribution tariff and/or the weighted average purchase price of electricity.

Article 22. Correction of Electricity Dispatch, Transmission and Distribution Tariffs

1. Electricity dispatch, transmission and distribution tariffs of each tariff regulatory period shall be subject to correction and shall be based on the following factors:
 - a) Capital expenditures;
 - b) Forecasted part of the controllable operational expenditures;
 - c) Non-controllable operational expenditures;
 - d) Amount of electricity;
 - e) Value of the electricity normative losses;
 - f) (Repealed – 22.10.19, #23).
2. Cost correction factor for the respective (t+i) tariff year, taking into account the time value of money, shall be calculated according to the following formula:

$$TVCORR_{t+i} = CORR_{t+i} * \prod_{j=0}^n (1 + r_{d(t-(n+1)+i+j)}) \quad (15),$$

Where:

- i – Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$);
 - $TVCORR_{t+i}$ – Cost correction factor for the respective tariff year, taking into account the time value of money (GEL);
 - $CORR_{t+i}$ – Correction of the year subject to correction ($t-(n+1)+i$), which is reflected in the regulatory cost base of the ($t+i$) tariff year (GEL);
 - $r_{d(t-(n+1)+i+j)}$ – Time value of money, equal to the cost of the loan valid for the respective tariff year (%);
3. Cost correction factor for the respective tariff year shall be calculated according to the following formula:

$$CORR_{t+i} = cCAPEX_{t-(n+1)+i} + corrOPEX_{t-(n+1)+i} + cCNL_{t-(n+1)+i} - cREV_{t-(n+1)+i} \quad (16),$$

Where:

- i – Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$);
- $CORR_{t+i}$ – Correction of the year subject to correction ($t-(n+1)+i$), which is reflected in the regulatory cost base of the ($t+i$) tariff year (GEL);
- $cCAPEX_{t-(n+1)+i}$ – Correction of the revenue caused by the difference between the actual and planned capital expenditures of the ($t-(n+1)+i$) year (GEL);
- $corrOPEX_{t-(n+1)+i}$ – Correction of the revenue caused by the difference between the actual and planned non-controllable operational expenditures of the ($t-(n+1)+i$) year, the difference between the actual and planned controllable expenditures subject to correction and the difference between the actual and planned inflation rates (GEL);
- $cRev_{t-(n+1)+i}$ – Correction of the revenue caused by the difference between the actual and planned amounts of electricity for the ($t-(n+1)+i$) year;

$cCNL_{t-(n+1)+i}$ – Correction of the revenue caused by the difference between the actual and planned values of electricity normative losses for the (t-(n+1)+i) year (GEL).

- 3¹. The Commission shall be authorized to reflect in the relevant tariff of the subsequent regulatory period the correction factors of the weighted average purchase price of electricity, cost of electricity normative losses and correction of revenues received based on the actual amount of distributed electricity, calculated based on the actual data of the past months of the tariff calculation year and in compliance with the principles defined in Chapter IV of this Methodology.
4. The Commission shall be authorized to reduce the regulatory cost base, in compliance with Chapters V and VI of the Rule for the electricity sector regulatory cost audit, approved by this Resolution.

Article 23. Correction of Capital Expenditures

1. If the value of the utility's regulatory asset base and/or annual depreciation for the specific tariff year differs from planned indicators of the same year, tariff correction shall be carried out in accordance with Paragraph 2 of this Article, taking into account the principles reflected in Article 7 of this Methodology.
2. Correction of capital expenditures of the utility shall be calculated according to the following formulas:

$$cCAPEX = cRet + cD \text{ (17),}$$

Where:

$cCAPEX$ – Correction of capital expenditures for the specific year (GEL);
 $cRet$ – Correction of return for the specific year (GEL);
 cD – Correction of depreciation for the specific year (GEL).

$$cRet = (aRAB - pRAB) \times WACC \text{ (18),}$$

Where:

$cRet$ – Corrected value of return for the respective year (GEL);
 $aRAB$ – Actual value of the RAB for the respective year (GEL);
 $pRAB$ – Planned value of the RAB for the respective tariff year of the tariff regulatory period (GEL);

WACC – Weighted average cost of capital which is valid for the respective year (%).

$$cD = (aD - pD) \text{ (19),}$$

Where:

- cD* – Corrected value of annual depreciation/amortization for the respective tariff year (GEL);
- aD* – Actual value of annual depreciation/amortization for the respective tariff year (GEL);
- pD_(t-1)* – Planned value of annual depreciation/amortization for the respective tariff year (GEL).

3. Regarding those investment projects of the specific tariff year, the cost of which, confirmed by expert inspection, is less than the cost of the same projects indicated in the report submitted by the utility on actual implementation of the investment plan, the Commission shall calculate the percentage amount of the difference between the cost of the abovementioned investment projects confirmed by expert inspection and their cost indicated in the report submitted on actual implementation of the investment plan, in relation to the total cost indicated in the report, submitted on actual implementation of the investment projects, selected by the Commission for the purpose of submitting expert conclusions of the respective tariff year.
4. The Commission shall reduce the cost of those construction, rehabilitation or reconstruction type investment projects of the specific tariff year, which have not been confirmed based on relevant expert conclusions, by the percentage amount calculated in compliance with Paragraph 3 of this Article.

Article 24. Correction of Operational Expenditures

1. If the operational expenditures actually incurred by the utility in the specific year differ from the amount of planned operational expenditures, then the corrected amount of operational expenditures of that year shall be calculated according to the following formula:

$$corrOPEX = (a \text{ } ncOPEX - p \text{ } ncOPEX) + (a \text{ } spOPEX - p \text{ } spOPEX) + cINFL \text{ (20),}$$

Where:

<i>corrOPEX</i>	– Corrected amount of operational expenditures for the respective tariff year (GEL);
<i>a ncOPEX</i>	– Actual amount of non-controllable operational expenditures for the respective tariff year (GEL);
<i>p ncOPEX</i>	– Planned amount of non-controllable operational expenditures for the respective tariff year (GEL);
<i>a spOPEX</i>	– Actual amount of controllable operational expenditures for the respective tariff year, subject to correction (GEL);
<i>p spOPEX</i>	– Planned amount of controllable operational expenditures for the respective tariff year, subject to correction (GEL);
<i>cINFL</i>	– Corrected amount of controllable operational expenditures for the respective tariff year, caused by the difference between the actual and planned inflation indicators (GEL).

Article 25. Correction of Revenues Received Based on the Amount of Electricity

1. If the amounts of electricity actually dispatched, transmitted, distributed and wheeled by the utility in the specific tariff year differ from the planned amounts, then the corrected amount of revenues for that year shall be calculated according to the following formula:

$$cREV = (aE - pE) \times T \text{ (21)},$$

Where:

<i>cREV</i>	– Corrected amount of revenues for the respective tariff year of the tariff regulatory period (GEL);
<i>aE</i>	– Actual amount of electricity for the respective tariff year of the tariff regulatory period (kWh);
<i>pE</i>	– Planned amount of electricity for the respective tariff year of the tariff regulatory period (kWh);
<i>T</i>	– Tariff for the respective tariff year of the tariff regulatory period (tetri/kWh).

2. The Commission shall not apply the correction mechanism defined under the first Paragraph of this Article, if the lack of actual electricity in comparison with the planned amounts is caused by the fault of the utility.

Article 26. Correction of the Cost of Normative Losses

1. If the amounts of electricity actually transmitted, distributed and wheeled by the utility in the specific tariff year differ from the planned amounts, the Commission shall ensure determining of actual electricity losses of the utility, based on the defined normative indicator and shall correct the cost of normative losses of electricity, according to the following formula:

$$cCNL = (aE_{loss} \times aP_{average} - pE_{loss} \times pP_{average}) (22),$$

Where:

- | | |
|----------------|--|
| $cCNL$ | – Corrected value of electricity normative losses for the respective tariff year of the tariff regulatory period (GEL); |
| aE_{loss} | – Corrected amount of electricity normative losses for the respective tariff year of the tariff regulatory period, which shall be calculated in accordance with Paragraph 2 of this Article (kWh); |
| pE_{loss} | – Planned amount of electricity normative losses for the respective tariff year of the tariff regulatory period (kWh); |
| $aP_{average}$ | – Actual weighted average price of electricity purchase for the tariff regulatory period (tetri/kWh); |
| $pP_{average}$ | – Planned weighted average price of electricity purchase for the respective tariff year of the tariff regulatory period (tetri/kWh). |
2. Corrected amount of electricity normative losses for the specific tariff year shall be calculated according to the following formula:

$$aE_{loss} = aE / (1 - L) - aE (23),$$

Where:

- | | |
|-------------|--|
| aE_{loss} | – Corrected amount of electricity normative losses for the respective tariff year of the tariff regulatory period (kWh); |
| aE | – Actual amount of electricity for the respective tariff year of the tariff regulatory period (kWh); |
| L | – Amount of normative losses set by the Commission for the respective period (%). |

Article 27. Correction of Weighted Average Price of the Electricity Purchased by Electricity Distribution Licensee

1. (Repealed – 22.10.19, #23);
 2. Weighted average price of electricity purchase for each tariff regulatory period shall be subject to correction and based on the following factors:
 - a) Amount of purchased electricity;
 - b) Cost of purchased electricity, as well as the costs of guaranteed capacity, electricity transmission and dispatch services.
- 2¹. Correction factor of the electricity purchase expenditures for the respective (t+i) tariff year, taking into account the time value of money, shall be calculated according to the following formula:

$$TVCORR_{EP, t+i} = CORR_{EP, t+i} * \prod_{j=0}^n (1 + r_{d, (t-(n+1)+i+j)}) \quad (24),$$

Where:

i	Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$);
$TVCORR_{EP, t+i}$	Electricity purchase cost correction factor for the respective tariff year, taking into account the time value of money (GEL);
$CORR_{EP, t+i}$	Correction of the year (t-(n+1)+i) subject to correction, which is reflected in the electricity purchase expenditures of the (t+i) tariff year (GEL);
$Id_{(t-(n+1)+i+j)}$	Time value of money, which equals the cost of the loan valid for the respective tariff year (%);

- 2². Correction factor of the electricity purchase expenditures for the respective tariff year shall be calculated according to the following formula:

$$CORR_{t+i}^{EP} = aE_{t-(n+1)+i}^{Purch} * (aP_{average\ t-(n+1)+i} - pP_{average\ t-(n+1)+i}) \quad (25)$$

Where:

i	Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$);
$CORR_{t+i}^{EP}$	Correction of the year $(t-(n+1)+i)$ subject to correction, which is reflected in the regulated electricity purchase expenditures of the $(t+i)$ tariff year (GEL);
$aE_{t-(n+1)+i}^{Purch}$	Actual amount of the electricity purchased by the utility for the year $(t-(n+1)+i)$ (kWh);
$aP_{average\ t-(n+1)+i}$	Corrected actual weighted average price of the electricity purchased by the utility in the year $(t-(n+1)+i)$, which shall be calculated in compliance with Paragraph 4 of this Article (tetri/kWh);
$pP_{average\ t-(n+1)+i}$	Forecasted weighted average price of the electricity to be purchased by the utility for the year $(t-(n+1)+i)$.

2³. Corrected weighted average price of the electricity purchased by the utility for the specific tariff year shall be calculated based on the following formula:

$$aP_{average} = \frac{aCost^E + aCost^{GC} + aCost^T + aCost^T + WCS + TVC CORR^{EP}}{aE^{Purch}} \quad (26),$$

Where:

$aP_{average}$	Corrected actual weighted average price of the electricity purchased by the utility for the respective tariff year (tetri/kWh);
$aCost^E$	Total actual cost of the electricity purchased by the utility for the respective tariff year (GEL);
$aCost^{GC}$	Total actual cost of guaranteed capacity for the respective tariff year (GEL);
$aCost^T$	Total actual cost of the transmission service provided by transmission licensees for the respective tariff year (GEL);

<i>aCost^D</i>	Total actual cost of the dispatch service provided by dispatch licensee for the respective tariff year (GEL);
<i>WCS</i>	Planned interest cost of working capital related to purchase of electricity for the respective tariff year (GEL);
<i>TVCORR^{EP}</i>	Amount of correction of expenditures, which was taken into account during calculation of the weighted average price of the electricity to be purchased, set for the respective tariff year (GEL);
<i>aE^{Purch}</i>	Actual amount of electricity purchased by the utility for the respective tariff year (kWh);

3. Correction of the electricity weighted average price shall be carried out if the difference between the planned and actual electricity weighted average purchase prices was predetermined by reasons not influenced by the utility.

Article 28. Tariff Correction During Regulatory Period

1. If, as a result of analysis of annual report of the utility, it is revealed that correction volume of the calculation year (CORR t+i) equals or exceeds 10% of the revenue to be received through the dispatch, transmission and/or distribution tariff, in positive or negative expression, the Commission shall be obliged to carry out a regulatory audit of expenditures of the components subject to correction, in order to define the exact correction volume.
2. The costs which are deemed unreasonable by the regulatory audit of the utility's costs, carried out for the purpose of tariff calculation based on this Methodology, shall not be taken into account while defining the correction volume based on the annual report analysis, envisaged in Paragraph 1 of this Article.
3. If the correction volume (CORR t+i) verified based on the regulatory cost audit defined in the first Paragraph of this Article, equals or exceeds 10% of the revenue to be received from the tariff of the respective year, in positive or negative expression, the Commission shall carry out adjustments of the tariffs, set for the utility for the regulatory period, during that regulatory period.
4. The Commission shall be entitled to carry out adjustments of the electricity end-user tariff, calculated based on this methodology and set for the tariff regulatory period, by the weighted average purchase price of electricity, before the end of the same tariff regulatory

period, for the respective tariff year(s), as well as once during the respective tariff year - based on the justified request (tariff application) submitted by the utility.

5. (Repealed – 22.10.19, #23);
6. In case of merging (unification, joining) of utilities, the Commission shall be authorized to set the tariff for the utility established as a result of the merging, according to the principles defined in this Methodology, during the respective tariff year and to define the period of tariff validity as until the end of the current regulatory period or the following regulatory period.
7. In case of merging (unification, joining) of those utilities, the tariffs for which have been set, based on this Methodology, for the respective regulatory period, the Commission shall be authorized to define the regulatory cost base of the utility established as a result of the merging, based on unification (consolidation) of the regulatory cost bases of the utilities existing before the merging.
8. If the circumstances envisaged in this Article arise, the requirements defined in the first Paragraph of Article 31 of this Methodology shall not apply to the utility during submitting of the tariff application.

Chapter V. Procedures for Tariff Setting and Submitting the Application

Article 29. Accounting and Reporting

1. For regulatory purposes, the utility shall be obliged to carry out its accounting and financial reporting based on the requirements of the unified accounting form, approved by decision of the Commission, while those licensees for whom the Unified System of Accounting is defined, shall be obliged to carry out their accounting and financial reporting based on the Unified System of Accounting, in compliance with the current legislation.
2. If the utility carries out more than one regulated activity and/or also other entrepreneurial activities, it shall be obliged to separately account for its revenues, costs and financial results related to each regulated activity.
3. The utility shall submit information about the costs of the fixed assets, created using the consumer's financial sources, separately, in compliance with the conditions of this Methodology.

Article 30. Documents to be Submitted for the Purpose of Tariff Setting

1. For the purpose of tariff setting, the utility shall be obliged to submit to the Commission a tariff application for the tariff calculation year.
2. Tariff application and data templates, as well as the list of the documents to be submitted along with the tariff application, shall be defined by the individual legal-administrative Act of the Commission.
3. Together with the tariff application the utility shall also submit the financial accounting and reporting documents, compiled and audited in compliance with the IFRS.
- 3¹. If the utility submits the tariff application before expiry of the deadline for submitting the annual report of the base year, defined by the legislation and the tariff is being set for the utility within this Methodology for the first time, the Commission shall rely upon audited data of the nearest period during tariff calculation.
4. The Commission shall be authorized to require the utility to submit other additional information, which it considers necessary.
- 4¹. Simplified form of the justified request - tariff application, envisaged in Paragraph 4 of Article 28 and the list of the documents to be submitted along with it, shall be defined by the individual legal-administrative Act of the Commission.
5. The party submitting the application shall be responsible for accuracy of the tariff application and attached materials.

Article 31. Tariff Setting Deadlines and Procedures

1. The utility shall be obliged to submit the tariff application to the Commission no later than July 4 of the tariff calculation year. If this date coincides with a holiday, then the tariff application shall be submitted on the next working day.
2. The Commission shall review compliance of the tariff application with the approved form and its comprehensiveness within 3 working days from submitting of the tariff application.
3. If the submitted tariff application does not comply with the form defined by the Commission or is submitted incompletely, the Commission shall establish for the applicant, in writing, a period of no more than 30 working days for correcting the flaw. This period shall be extended only once, at the request of the applicant, for no more than 15 working days.

4. If the utility does not submit to the Commission requested information within the deadline defined in Paragraph 3 of this Article, the tariff application shall remain without consideration, upon decision of the Commission.
5. The Commission shall be authorized to make a relevant decision and review the utility's tariffs upon its own initiative. In such case, conditions for submitting the necessary information and documents shall be determined by relevant decision of the Commission.
6. Upon acceptance of a tariff application submitted in full and in the case envisaged in Paragraph 5 of this Article, administrative proceedings shall begin based on the decision of the Commission and the relevant notice shall be published on the Commission's website.
7. Tariff application shall be reviewed at the Commission in compliance with the rule for public administrative proceedings, envisaged under Georgian legislation. Therefore, tariff application and enclosed documents (except for personal data and information considered to be a commercial secret by the state or the Commission) shall be public and shall be available to any interested party.
8. All interested parties shall be authorized to become acquainted with the publicly available materials, submitted to the Commission and to address the Commission with their related comments.
9. Comments on the tariff application shall be submitted in written form and shall include justified argumentation. Also, persons shall be entitled not to indicate their identity while submitting their comments. Copies of submitted comments shall be sent to the person who submitted the tariff application, while comments shall be discussed during the public hearing on the tariff application.
10. While reviewing the tariff application, the Commission shall be authorized to request from the utility additional information or various types of conclusions.
11. During review of the tariff application, before taking the final decision, the Commission shall be authorized to hold meetings and/or public sessions related to this tariff application.
12. Applicant shall be notified about the time and venue of consideration of the tariff application at the public hearing, 7 working days in advance.

Chapter VI. Transitional Provisions

Article 32. Transitional Provisions

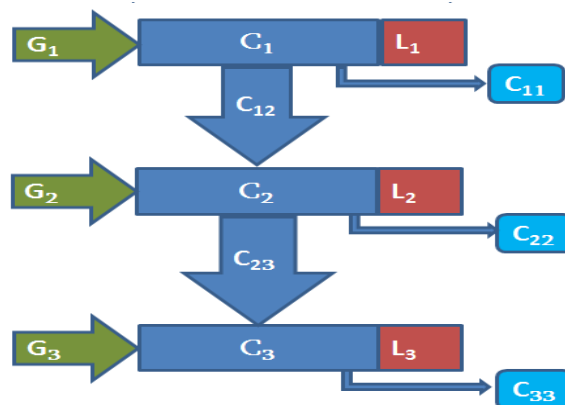
1. The values of the components of the weighted average cost of capital (WACC) for the 2018-2020 tariff regulatory period, given below, shall be defined as follows:
 - a) Risk-free interest rate (r_{rf}) – 12.22%;
 - b) Loan cost (r_d) – 12.93%;
 - c) Market risk premium (mp) – 6.17%;
 - d) Country default spread (ds) – 4.16%;
 - e) Country risk (cr) – 5.12%;
 - f) Equity Beta (β) – 0.84.
2. For the purpose of correcting the tariffs valid until January 1, 2018, the time value of money for the period before that date shall be equal to the WACC (13.54%) set by the Commission for the same period.
3. For the 2018-2020 tariff regulatory period, the general efficiency factor (X_{gen}) shall be equal to 1.5%, whereas the individual efficiency factor (X_{ind}) shall be equal to 0.
- 3¹. For the purposes of correcting the weighted average price of the electricity purchased during the 2018-2020 tariff regulatory period, the planned interest cost of working capital related to purchase of electricity for the respective tariff year (WCS), envisaged in Paragraph 2³ of Article 27, shall be defined as equal to 0.
4. (Repealed – 22.10.19, #23);
5. (Repealed – 22.10.19, #23);
- 5¹. (Repealed – 22.10.19, #23);
6. (Repealed – 22.10.19, #23);
7. (Repealed – 22.10.19, #23);
8. (Repealed – 22.10.19, #23);
9. Before the Rule for the regulatory cost audit in the electricity sector, approved by this Resolution, enters into force, for the purposes of this Methodology:
 - a) Regulatory cost audit shall be the audit of expenses borne by the utility, conducted for regulatory purposes directly by the Commission and/or an audit company, invited by the Commission, which serves the purpose of/ensures calculation and setting of the tariffs, in compliance with the principles envisaged in the tariff Methodologies;
 - b) Reasonable cost shall be an expense, borne by the utility for purchase of the goods, services and construction works having the necessary characteristics, based on the least cost principle, which is rational and necessary for efficient functioning of the utility;

- c) According to necessity arisen during regulatory cost audit, the Commission shall be authorized to request, apart from the documents and information of the base/test year, any documents and information for the periods indicated below, related to the following types of costs and serves the purpose of conducting full study and analysis of such costs:
- c.a) Operational costs – two full regulatory periods, including any test/base years, but no earlier than 2015;
- c.b) Capital costs – any period;
- d) If the utility carries out more than one regulated activity and/or also other entrepreneurial activities, overall costs and assets of the utility shall be distributed to specific activities by the Commission.

Annex N1

Cost Cascading Method

Cascading mechanism of allocating costs to consumers of different voltage levels (2nd stage of cost allocation), based on energy consumption by voltage levels:



G_1 – Energy supplied from Generation to the first level;

G_2 – Energy supplied from Generation to the second level;
 G_3 – Energy supplied from Generation to the third level;
 L_1 – Total losses on the first level;
 L_2 – Total losses on the second level;
 L_3 – Total losses on the third level;
 C_{11} – Energy delivered on the first level to consumers of the same level (consumption on the first level);
 C_{12} – Energy delivered from the first level to the second level;
 $C_1 = C_{11} + C_{12}$, Total energy delivered from the first level ($G_1 - L_1$);
 C_{22} – Energy delivered on the second level to consumers of the same level (consumption on the second level);
 C_{23} – Energy delivered from the second level to the third level;
 $C_2 = C_{22} + C_{23}$, Total energy delivered from the second level ($G_2 + C_{12} - L_2$);
 C_{33} – Energy delivered on the third level to consumers of the same level (consumption on the third level);
 $S_{11} = C_{11}/C_1$, Share of the energy consumed by first level consumers within the total energy delivered from this level;
 $S_{22} = C_{22}/C_2$, Share of the energy consumed by second level consumers within the total energy delivered from this level;
 $S_{33} = C_{33}/C_3$, Share of the energy share consumed by third level consumers within the total energy delivered from this level;

Mechanism of allocating costs according to voltage levels shall be based on energy consumptions on separate voltage levels.

$$S_1 = S_{11} \times \text{Cost}_1,$$

The share of loss value (and other costs) allocated to the **first level consumers** shall be defined as the share of the first level cost (Cost_1) to be allocated to the consumers of the same level, i.e. the S_{11} factor shall be multiplied by the cost allocated to the **first level**.

$$S_2 = S_{22} \times \text{Cost}_2 + S_{22} \times ((1 - S_{11}) \times \text{Cost}_1),$$

The share of loss value (and other costs) allocated to the **second level consumers** shall consist of two components:

The first of them shall define the share of the second level costs (Cost_2) to be allocated to consumers of the same level, i.e. the S_{22} factor shall be multiplied by the cost allocated to the **second level**.

The second component shall define the **share of the first level costs (Cost_1) to be attributed to the second level consumers**. For this purpose, **the residual share of the first level costs** (not allocated to the first level consumers) shall be used, from which the part which corresponds

to the share of the energy consumed by the second level consumers within the total energy delivered from the same level, shall be allocated to the second level.

$$S_3 = S_{33} \times \text{Cost}_3 + S_{33} \times ((1 - S_{22}) \times \text{Cost}_2) + S_{33} \times ((1 - S_{22}) \times (1 - S_{11}) \times \text{Cost}_1),$$

The share of loss value (and other costs) allocated to the **third level consumers** shall consists of the following three components:

The first of them shall define the share of **the third level cost (Cost₃)** to be allocated to the consumers of the same level, i.e. the S_{33} factor (the latter, on its part, is 100%) shall be multiplied by the cost allocated to the **third level**.

The second component shall determine the **share of the second level cost (Cost₂) to be allocated to consumers of the third level** and shall be the residual share of the second level costs (not allocated to consumers of the second level), which shall be fully allocated to the third level (**as $S_{33} = 100\%$**).

The third component shall determine the **share of the first level cost (Cost₁) to be allocated to consumers of the third level**. For this purpose, the residual share of the first level costs (not attributed to the first level consumers) shall be used, from which the part which was not allocated to consumers of the second level shall be allocated to consumers of the third level. In order to identify total energy delivered from each voltage level (C_1 , C_2 and C_3), it is necessary to know the amount of total loss according to voltage levels (L_1 , L_2 and L_3). In cases when information about losses is only total and its breakdown by voltage levels is not available, the Commission shall distribute the losses to voltage levels based on available data, with maximum possible approximation.

Tariff Setting Methodology for Electricity Generation

Chapter I. General Provisions

Article 1. Purpose

1. The purpose of the Tariff Setting Methodology for Electricity Generation (hereinafter “the Methodology”) shall be to define the rule and principles for calculating electricity generation tariffs in accordance with the Law of Georgia on Electricity and Natural Gas.
2. During tariff setting based on this Methodology, the internationally accepted practice of incentive-based regulation (revenue-cap regulation) principles shall be used, which stimulates growth of the utilities.

Article 2. Definition of Terms

1. The terms used in this Methodology shall have the same meaning as defined in the Law of Georgia on Electricity and Natural Gas.
2. Other terms used in this Methodology for the tariff regulation purposes shall have the following meaning:
 - a) **Intangible assets** – identifiable, non-monetary assets without physical form used in relevant regulated activity;
 - a¹) **Non-Controllable Operational Expenditures (ncOPEX)** - expenditures of the utility that are caused by external factors and cannot be influenced by the utility;
 - a²) **Unregulated Assets** – assets which are not used in regulated activities;
 - b) **Assets** – tangible and intangible assets;
 - c) **Asset Reproduction Costs** – total expenditures which will be necessary for creating assets analogous to the assets that need to be evaluated;
 - d) **Asset Cost** – the amount of the real value of money or money equivalents or other compensation paid during creation or initial purchase of an asset;
 - e) **Historical Cost Asset Valuation Method** – valuation of the asset cost according to the price of its creation or initial purchase;
 - f) **Net Book Value of the Asset** – accumulated depreciation/amortization deducted from the asset cost (taking into account the investments made into this asset);
 - g) (Repealed – 22.10.19, #23);
 - h) (Repealed – 22.10.19, #23);
 - i) **Electricity Generation Tariff** – price of electricity produced by the generation licensee in which the operational and capital expenditures related to electricity production by the generation licensee are reflected;

- i¹) **Efficiency Factor (X-Factor)** – rate of increase of productivity and efficiency of operational activities of the utility, which includes the general efficiency factor (X_{gen}) and the individual efficiency factor (X_{ind});
- i²) **General Efficiency Factor (X_{gen})** - rate of efficiency increase for a specific sector;
- i³) **Individual Efficiency Factor (X_{ind})** - rate of efficiency increase for a specific utility;
- j) **Investment** – capital investments carried out for creation, purchase, modernization and/or rehabilitation of assets;
- k) **Weighted Average Cost of Capital (WACC)** – rate of return on the regulatory asset base, calculated before taxes, according to structure of the capital (own on raised) defined by the Commission;
- l) **Capital Expenditures (CAPEX)** - for the purposes of this Methodology, return on the regulatory asset base and depreciation/amortization;
- l¹) **Controllable Operational Expenditures (cOPEX)** – operational expenditures of the utility, caused by internal factors and which can be influenced by the utility;
- m) **Tangible Asset** - fixed assets used in respective regulated activities the useful life of which exceeds one year;
- n) **Third party** - any physical and/or legal person (including: the state, consumer, etc.), except for the utility shareholder, which issues subsidies and awards grants to the utility, pays fees for connecting to the electricity transmission and distribution network and/or transfers tangible and intangible assets to the utility free of charge;
- o) **Regulatory Asset Base (RAB)** – tangible and intangible assets used in regulated activities of the utility, which are directly related to the respective regulated activities;
- p) **Regulated Asset** – asset used in regulated activities;
- q) **Regulatory Cost base (RCB)** – revenue of the utility, allowed by the Commission for the tariff year, which is necessary for efficient functioning of the utility and includes reasonable costs and rational profit;
- r) **Regulated activity** – for the purposes of this Methodology, electricity generation activity, which is regulated by the Commission in accordance with the Law of Georgia on Electricity and Natural Gas;
- s) **Working Capital (WC)** – amount defined by the Commission for funding operational expenditures of the utility;
- t) **Building block approach** – defining the regulatory cost base structure according to its components;
- u) **Base year (t-1)** – calendar year preceding the tariff calculation year;
- v) **Operational Expenditures (OPEX)** – operational expenditures related to activities of the generation licensee's utility, as well as other current expenditures related to the regulated activity for the purposes of this Methodology;
- w) **Tariff application** – forms approved by the Commission and the documents to be submitted together with them, which reflect financial and technical data for the utility's base year, as well as the investment plan to be implemented during the regulatory period;

- x) **Tariff Regulatory Period (n)** – period defined by the Commission, during which the tariff set by the Commission is in force;
- y) **Tariff Year (t+1)** - first calendar year of the tariff regulatory period;
- z) **Utility** – electricity generation licensee, for which electricity generation tariffs are set pursuant to this Methodology;
- aa) **Tariff Calculation Year (t)** - calendar year preceding the first tariff year of the tariff regulatory period;
- bb) **Depreciation/amortization** – gradual distribution of depreciable costs of the tangible/intangible assets over their useful life;

Article 3. Main Principles

1. This Methodology and the tariffs set based on it shall:
 - a) Protect consumers from monopolistic prices;
 - b) Promote growth of financial returns through increase of operational and management efficiency;
 - c) Promote stable and reliable functioning of the utility;
 - d) Ensure the setting of transparent, stable and fair tariff rates for the utility.
2. In the process of defining structure of the regulatory cost base of the utility, the building block approach shall be applied. The regulatory cost base defined by means of this method shall consist of the following components:
 - a) Capital Expenditures;
 - b) Controllable operational expenditures;
 - c) Non-controllable operational expenditures;
 - d) Interest cost of working capital;
 - e) Correction Component;
3. Calculation of capital expenditures and non-controllable operational expenditures, as well as the forecasted part of controllable operational expenditures (spOpex, if applicable) shall be carried out while taking into account audited data of the base year and forecasted expenditures for the regulatory period, corrected based on the cost plus method, in compliance with the correction principles defined in this Methodology.
- 3¹. In relation to controllable operational expenditures, defined based on audited data of the base year, incentive-based regulation mechanisms shall be applied, which implies establishing certain incentives for the utility for the purpose of optimizing expenditures, in compliance with the principles provided in this methodology.
4. If, as a result of the regulatory cost audit, information of the period defined by Paragraph 3 of Article 7 of the Rule for the electricity sector regulatory cost audit, approved by this

Resolution, is detected, which was not identified during calculation of the tariffs of the previous tariff year(s), the Commission shall be authorized to use that information for correcting audit results of the base year. Correction shall be carried out while taking into account the principles defined in Chapter IV of this Methodology.

5. All tariffs set by the Commission shall be calculated without Value Added Tax (VAT).

Article 4. Tariff Regulatory and Tariff Setting Period

1. Tariff regulatory period (n) shall be defined as 3 calendar years.
2. The Commission shall set tariffs for the whole tariff regulatory period and correction of set tariffs shall be carried out in accordance with this methodology.
- 2¹. If a tariff is set for a utility for the first time within this Methodology, the Commission shall be authorized to define the period of validity of the respective tariff as until the end of the ongoing regulatory period.
3. Fixed rates of the Weighted Average Cost of Capital (WACC) basic component values and the efficiency (X-factor) factor shall be set by the Commission for the whole tariff regulatory period.

Chapter II. Calculation of Regulatory Costs

Article 5. Regulatory Cost Base for the Tariff Year

Regulatory cost base for the respective tariff year (t+i) of the regulatory period shall be calculated according to the following formula:

$$RCB_{t+i} = CAPEX_{t+i} + cOPEX_{t+i} + ncOPEX + WCC_{t+i} + TVCORR_{t+i} (1),$$

Where:

- | | |
|---------------|---|
| i | – Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$); |
| RCB_{t+i} | – Regulatory cost base of the utility for the respective tariff year (GEL); |
| $CAPEX_{t+i}$ | – Capital expenditures of the utility for the respective tariff year (GEL); |

- $cOPEX_{t+i}$ – Controllable operational expenditures of the utility for the respective tariff year (GEL);
- $ncOPEX_{t+i}$ – Non-controllable operational expenditures of the utility for the respective tariff year (GEL);
- WCC_{t+i} – Interest cost of working capital in the respective tariff year (GEL);
- $TVCORR_{t+i}$ – Correction component of the expenditures, which shall be calculated in compliance with Article (GEL);

Article 6. Capital Expenditures

Capital expenditures for the (t+i) tariff year is calculated according to the following formula:

$$CAPEX_{t+i} = RAB_{t+i} * WACC_{t+i} + D_{t+i} \text{ (2)},$$

Where:

- i – Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$);
- $CAPEX_{t+i}$ – Capital expenditures of the utility for the respective tariff year (GEL);
- RAB_{t+i} – Cost of the regulatory asset base for the respective tariff year (GEL);
- $WACC_{t+i}$ – Rate of return from the regulatory asset base for the respective tariff year (%);
- D_{t+i} – Annual depreciation/amortization for the respective tariff year (GEL).

Article 7. Regulatory Asset Base

1. Current (active) assets of the utility, as well as (planned) assets envisaged under the investment plan agreed with the Commission, shall participate in formation of the regulatory asset base.
2. Cost of the asset shall be defined based on the historical cost valuation method.
3. In cases when cost of the asset cannot be defined through the method prescribed under Paragraph 2 of this Article, the Commission shall apply the asset reproduction cost valuation method.

- 3¹. In case of privatization of state property (assets) by the state, the initial historical cost shall be considered the privatization cost of the property, taking into account the relevant privatization conditions.
- 3². In case of the utilities subject to state/municipal control, historical cost of assets shall be the book value of regulated assets, included in the utility's capital and/or received as a result of merging (unification, joining) of utilities, if it is impossible to determine historical cost of these assets.
4. If regulated assets are sold to another utility, the Commission shall not take into account the resale cost of the asset and shall be guided by historical cost of the asset.
5. (Repealed – 22.10.19, #23);
6. The Commission shall reflect the investments, planned in compliance with the investment plan for the tariff calculation year and for the first two tariff years of the tariff regulatory period, in the regulatory asset base of the utility. The utility shall be obliged to justify necessity of the investments, as well as the effect (target indicator) and benefit to be achieved through implementation of these investments. If the change in the investment plan value for the specific tariff year exceeds 10% in positive or negative expression, the utility shall be obliged to agree those amendments with the Commission in advance.
7. If the investments planned by the utility (specific investment project) are not carried out in compliance with the conditions of the investment plan agreed with the Commission (are not completed before the end of the respective tariff year envisaged under the investment plan), such investments shall be considered as unfinished construction and the capital expenditures received by the utility on that investment shall be subject to correction in accordance with this Methodology.
8. If the utility does not submit the investment plan to the Commission and does not agree with it the investment projects to be carried out, the Commission shall be entitled not to take into account in the tariff calculation process the actual unagreed investment implemented in the relevant period, which is not deemed expedient and/or reasonable.
9. The regulatory asset base shall not include the following:
 - a) Those parts of the investment which were funded by third parties. The utility shall keep records for such assets separately;
 - b) Those investments which are not deemed justified and reasonable by the Commission;

- c) Those parts of the investment which exceed reasonable expenditure amounts and which were not undertaken by the utility in accordance with the least cost principle;
 - d) Assets not used in regulated activities;
 - e) Unfinished construction.
10. The Commission shall be entitled not to take into account in the regulatory asset base the cost of the asset, included by the utility's shareholder in the capital, which was transferred by third parties, if the shareholder or the third party is the state or a utility no less than 50% of shares of which are owned by the state.
11. The Commission shall take the capitalized cost of the loan interest, paid in the amount of the actual annual interest rate of the long-term loan taken to by the utility for funding construction during the construction process, into account in the cost price of the asset defined in Subparagraph "e" of paragraph 9 of this Article, but it shall not exceed the rate of the cost of the loan (r_d) defined in this Methodology.
12. Value of the regulatory asset base of the utility shall be determined according to the net book value of the assets included in this base.
13. For tariff regulatory purposes and if required by legislative Acts and legal acts approved by the Commission, the Commission shall be obliged to and if required by other normative Acts – the Commission shall be authorized to reflect in the tariff the capital expenditures corresponding to the regulated assets which were retired by the utility based on requirements of the abovementioned legislation. Also, the Commission shall be authorized to consider the abovementioned assets as regulated assets before expiry of their useful life or to reflect the net book value of these assets in the regulatory asset base, as a one-time action.
14. (Repealed – 22.10.19, #23);
15. The RAB value shall be calculated at the end of the respective (t+i) tariff year of the tariff regulatory period, according to the following formula:

$$RAB_{t+i} = TA_{t-1} + IA_{t-1} - TP_{t-1} + \sum_{j=0}^{i-1} (pINV_{t+j} - RA_{t+j} - D_{t+j} - pTP_{t+j} + pDTP_{t+j})$$

(3),

Where:

i – Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$);

RAB_{t+i}	– Value of the regulatory asset base at the end of the respective tariff year of the tariff regulatory period (GEL);
TA_{t-1}	– Net book value of the tangible assets at the end of the base year (GEL);
IA_{t-1}	– Net book value of intangible assets at the end of the base year (GEL);
TP_{t-1}	– Value of the assets funded by third parties at the end of the base year (GEL);
RA_{t+j}	– Net book value of the assets to be retired within the framework of the investment plan for the respective tariff year of the tariff calculation and regulatory period (GEL);
$pINV_{t+j}$	– Value of the assets envisaged (planned) under the investment plan agreed with the Commission for the respective tariff year of the tariff regulatory period (GEL);
D_{t+j}	– Annual depreciation/amortization for the respective tariff year of the tariff regulatory period, that is accrued to the existing and planned tangible and intangible assets (GEL);
pTP_{t+j}	– Value of the assets created with funding by third parties for the respective tariff year of the tariff regulatory period (GEL);
$pDTP_{t+j}$	– Annual depreciation/amortization accrued to the assets funded by third parties for the respective tariff year of the tariff regulatory period (GEL).

Article 8. Depreciation/Amortization

1. For the assets which were put into operation after January 1, 2014, linear method of depreciation shall be used, in compliance with the Regulated Asset Depreciation/Amortization Norms for Regulated Utilities, approved by the Commission.
2. In connection with the assets put into operation before January 1, 2014, the Commission shall take into account the depreciation/amortization rates used by the utility, while in case of non-existence of this information, the Commission shall be authorized to use the amortization rate calculation Rule, defined in the Tax Code of Georgia or the Regulated Asset Depreciation/Amortization Norms for Regulated Utilities, approved by the Commission.

Article 9. Weighted Average Cost of Capital

1. Rate of return on the RAB shall be defined based on the WACC method.
2. The Weighted Average Cost of Capital (WACC) and the short-term loan interest rate (r_{sd}) values shall be fixed during the regulatory period.
3. The pre-tax Weighted Average Cost of Capital (WACC) for each regulatory period shall be calculated as follows:

$$WACC_{pre-tax} = g * r_d + \frac{(1-g)*r_e}{(1-T)} \quad (4)$$

Where:

$WACC_{pre-tax}$	– Weighted Average Cost of Capital before taxes (%);
g	– Loan ratio (%);
r_d	– Loan cost (%);
r_e	– Cost of Equity (%);
T	– Profit tax rate (%).

4. Cost of Equity shall be calculated according to the following formula:

$$r_e = (r_{rf} - ds) + cr + \beta \times mp \quad (5),$$

Where:

r_{rf}	– Risk free rate (%);
ds	– Country default spread (%);
cr	– Country risk (%);
mp	– Market risk premium (%);
β	– Equity beta.

5. For the purpose of WACC calculation by the Commission, the share of loans (g) within the total capital shall be taken into account in the amount of 60%.

Article 10. Operational Expenditures

1. For the purpose of this Methodology the operational expenditures shall consist of the following two parts:
 - a) Controllable operational expenditures;
 - b) Non-controllable operational expenditures.

2. Operational expenditures shall ensure recovery of expenses to be borne by the utility for the respective regulated activity, including:
 - a) Operation and service costs;
 - b) Administrative and general expenditures.
3. Operational expenditures shall ensure remuneration of the expenditures related to service of the assets funded by third parties (including: ongoing repair, maintenance and other expenditures).
4. Those operational expenditures of the base year which are justified, reasonable and fair shall be taken into account during calculation of tariffs for the tariff regulatory period.
5. During calculation of tariffs for the tariff regulatory period, the Commission shall be entitled to take into account the forecasted technical-economic data, that it considers to be justified, reasonable and fair.
6. Actual financial data and technical information of the base year, approved by the Head or authorized person of the utility, shall be submitted using the templates approved by the Commission.
7. The Commission shall check correctness of submitted documentation and data and assess reasonableness and compliance of submitted expenditures, according to the Rule for the electricity sector regulatory cost audit, approved by this Resolution.

Article 10¹. Controllable operational expenditures

1. Controllable operational expenditures shall include all those costs, on which the utility is able to make a decision and can therefore influence them.
2. Utility's controllable operational expenditures of the tariff year of the tariff regulatory period (t+i) shall be calculated according to the following formula:

$$cOPEX_{t+i} = cOPEX_{t-1} * \prod_{j=0}^i [(1 + CPI_{t+j}) * (1 - X_{t+j})] + spOPEX_{t+i} \text{ (5')},$$

Where:

i – Consecutive number of the tariff year within the regulatory period (1≤i≤n);

- $cOPEX_{t+i}$ – Controllable operational expenditures of the utility for the respective tariff year (GEL);
- $cOPEX_{t-1}$ – Controllable operational expenditures of the utility for the base year (GEL);
- CPI_{t+j} – Forecasted indicator of inflation for tariff calculation and the respective tariff year, which is calculated based on forecasted data (%), prepared by the Ministry of Finance of Georgia;
- X_{t+j} – Efficiency factor for tariff calculation and the respective tariff year (%).
- $spOPEX_{t+i}$ – The part of the utility's controllable operational expenditures, which is not an actual expenditure of the base year, but the Commission considers its reflection expedient, based on forecasted indicators.

3. If the forecasted inflation indicator is a negative number, in relation to the salary fund it will be taken into account in the amount of zero ($CPI_{t+j}=0\%$), while if it exceeds 5%, in relation to the salary fund it will be taken into account in the amount of 5% ($CPI_{t+j}=5\%$).
4. The part of the utility's controllable operational expenditures which is defined for the regulatory period based on forecasted data ($spOPEX_{t+i}$) shall be subjected to correction, taking into account the principles defined in Chapter IV of this Methodology.

Article 10². Non-controllable Operational Expenditures

1. All the expenditures caused by external factors and on which the utility is unable to make a decision or which it cannot influence (taxes, fees, regulatory fee of the Commission, market operator tariff etc.), shall be taken into account in the non-controllable operational expenditures
2. For each tariff year of the tariff regulatory period, non-controllable operational expenditures shall be defined based on the forecasted technical-economic data of the tariff regulatory period.

Article 11. Working Capital

1. The Commission shall define the amount of the utility's working capital for the respective tariff year ($t+i$), which shall be calculated based on the following formula:

$$WC_{t+i} = (ARD - APD_{Opex(t-1)}) / 365 * OPP_{t+i} \quad (6),$$

Where:

- i – Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$);
- WC_{t+i} – Amount of working capital for the respective tariff year (GEL);
- ARD – Day of covering the accounts receivable, but no later than the 25th (day) of the month after the billing calendar month;
- $APD_{Opex(t-1)}$ – Day of covering the accounts payable with regard to operational expenditures and in case of electricity distribution licensees - electricity purchase expenditures, but no earlier than the 10th (day) of the billing calendar month;
- OPP_{t+i} – Operational expenditures for the respective tariff year, in case of which the utility has a positive difference between the days of covering the accounts payable and the accounts receivable;

2. If any component of the working capital calculated in compliance with the first Paragraph of this Article is a negative number, that component shall equal zero during calculation of working capital.
3. The Commission shall reflect the interest cost of working capital in the regulated cost base of the respective tariff year ($t+i$) of the utility, in accordance with the following formula:

$$WCC_{t+i} = WC_{t+i} * r_{sd(t+i)} \quad (7),$$

Where:

- i – Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$);
- WCC_{t+i} – Interest cost of working capital for the respective tariff year (GEL);
- WC_{t+i} – Amount of working capital for the respective tariff year (GEL);

$r_{sd(t+i)}$ – Short-term loan interest rate, established by the Commission for the respective tariff year (%).

4. In relation to those utilities, which are carrying out supply of electricity based on the conditions defined in Article 49⁵ of the Law of Georgia On Electricity and Natural Gas, during calculation of the interest cost of working capital the Commission shall apply an alternative approach.

Article 12. Allocation of Expenditures

Allocation of expenditures shall be carried out in compliance with the Rule for the electricity sector regulatory cost audit, approved by this Resolution.

Chapter III. Tariff Calculation

Article 13. Electricity Generation Tariff

Electricity generation tariff for the tariff regulatory period shall be calculated according to the following formula:

$$T_{Gen} = \frac{\sum_{i=1}^n RCB_{t+i}}{\sum_{i=1}^n E_{t+i}} (8),$$

Where:

- i – Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$);
- T_{Gen} – Tariffs of the service provided by the generation licensee for the tariff regulatory period (tetri/kWh);
- RCB_{t+i} – Regulatory cost base of the generation licensee for the respective tariff year of the tariff regulatory period (GEL);
- E_{t+i} – Amount of electricity delivered (metered) at the bus-bar of the generation licensee for the respective tariff year of the tariff regulatory period (kWh).

Article 14. Amount of Electricity

1. During tariff calculation, the amount of electricity delivered at the bus-bar shall be determined based on the forecast indicators.

Chapter IV. Tariff Correction

Article 15. Principles and Main Mechanisms of Tariff Correction

1. This Methodology envisages reflection of planned indicators in the regulatory cost base, during the tariff calculation process. Consequently, the Commission shall carry out tariff correction for each year of the tariff regulatory period, according to the cost correction factor.

Article 16. Correction of Electricity Generation Tariffs

1. Electricity generation tariff for each tariff regulatory period shall be subject to correction and be based on the following factors:
 - a) Capital Expenditures;
 - b) Forecasted part of controllable operational expenditures;
 - c) Non-controllable operational Expenditures;
 - d) Amount of electricity.
2. Cost correction factor for the relevant (t+i) tariff year, taking into account the time value of money, shall be calculated according to the following formula:

$$TVCORR_{t+i} = CORR_{t+i} * \prod_{j=0}^n (1 + r_{d(t-(n+1)+i+j)}) \quad (9),$$

Where,

- | | |
|----------------------|--|
| i | – Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$); |
| $TVCORR_{t+i}$ | – Cost correction factor for the respective tariff year, taking into account the time value of money (GEL); |
| $CORR_{t+i}$ | – Correction of the year subject to correction ($t-(n+1)+i$), which is reflected in the regulatory cost base of the (t+i) tariff year (GEL); |
| $r_{d(t-(n+1)+i+j)}$ | – Time value of money, equal to the cost of the loan valid for the respective tariff year (%); |

3. Cost correction factor for the relevant tariff year shall be calculated according to the following formula:

$$CORR_{t+i} = cCAPEX_{t-(n+1)+i} + corrOPEX_{t-(n+1)+i} - cREV_{t-(n+1)+i} \text{ (10)},$$

Where:

- i – Consecutive number of the tariff year within the regulatory period ($1 \leq i \leq n$);
 - $CORR_{t+i}$ – Correction of the year subject to correction ($t-(n+1)+i$), which is reflected in the regulatory cost base of the ($t+i$) tariff year (GEL);
 - $cCAPEX_{t-(n+1)+i}$ – Correction of the revenue caused by the difference between the actual and planned capital expenditures of the ($t-(n+1)+i$) year (GEL);
 - $corrOPEX_{t-(n+1)+i}$ – Correction of the revenue caused by the difference between the actual and planned operational expenditures of the ($t-(n+1)+i$) year and the difference between the actual and planned inflation rates (GEL)
 - $cRev_{t-(n+1)+i}$ – Correction of the revenue caused by the difference between the actual and planned amounts of electricity for the ($t-(n+1)+i$) year;
- 3¹. The Commission shall be authorized to reflect in the relevant tariff of the following regulatory period the correction factor of capital expenditures of the utility's tariff calculation year, submitted within the regulatory cost audit, as well as the correction factor of the revenues received based on the actual amount of electricity delivered at the bus-bar, calculated according to the actual data of past months and in compliance with the principles defined in Chapter IV of this Methodology.
 - 3². In case of deregulation of an electricity generation licensee's specific generation unit, the correction factor of the costs of this generation unit, calculated for the moment of deregulation in compliance with the principles defined in Chapter IV of this Methodology, shall be taken into account by the Commission during calculation of the cost base of other generation unit(s), existing in ownership of the same licensee and subject to tariff regulation, while taking into account the principles defined in this

Methodology.

4. The Commission shall be authorized to reduce the regulatory cost base of the utility, in compliance with Chapters V and VI of the Rule for the electricity sector regulatory cost audit, approved by this Resolution.

Article 17. Correction of Capital Expenditures

1. If the value of the RAB of the utility and/or annual depreciation for the specific tariff year differ from the relevant planned indicators of the same year, tariff correction shall be carried out in compliance with Paragraph 2 of this Article, while taking into account the principles defined in Article 7 of this Methodology.
2. Correction of capital expenditures of the utility shall be calculated according to the following formula:

$$cCAPEX = cRet + cD \text{ (11),}$$

Where:

<i>cCAPEX</i>	– Correction of capital expenditures for the specific year (GEL);
<i>cRet</i>	– Correction of return for the specific year (GEL);
<i>cD</i>	– Correction of depreciation for the specific correction year (GEL).

$$cRet = (aRAB - pRAB) \times WACC \text{ (12),}$$

Where:

<i>cRet</i>	– Corrected value of return for the relevant year (GEL);
<i>aRAB</i>	– Actual value of the RAB for the relevant year (GEL);
<i>pRAB</i>	– Planned value of the RAB for the relevant tariff year of the tariff regulatory period (GEL);
<i>WACC</i>	– Weighted average cost of capital, valid for the relevant year (%).

$$cD = (aD - pD) \text{ (13),}$$

Where:

- cD – Corrected value of annual depreciation/amortization for the relevant tariff year (GEL);
- aD – Actual value of annual depreciation/amortization for the relevant tariff year (GEL);
- $pD_{(t-1)}$ – Planned value of annual depreciation/amortization for the relevant tariff year (GEL);

3. Regarding those investment projects of the specific tariff year, the cost of which, confirmed by expert inspection, is less than the cost of the same projects indicated in the report submitted by the utility on actual implementation of the investment plan, the Commission shall calculate the percentage amount of the difference between the cost of the abovementioned investment projects confirmed by expert inspection and their cost indicated in the report submitted on actual implementation of the investment plan, in relation to the total cost indicated in the report, submitted on actual implementation of the investment projects, selected by the Commission for the purpose of submitting expert conclusions of the respective tariff year.
4. The Commission shall reduce the cost of those construction, rehabilitation or reconstruction type investment projects of the specific tariff year, which have not been confirmed based on relevant expert conclusions, by the percentage amount calculated in compliance with Paragraph 3 of this Article.

Article 18. Correction of Operational Expenditures

If the operational expenditures actually incurred by the utility in the specific year differ from the amount of planned operational expenditures, then the corrected amount of operational expenditures of that year shall be calculated according to the following formula:

$$corrOPEX = (a \ ncOPEX - p \ ncOPEX) + (a \ spOPEX - p \ spOPEX) + cINFL \ (14),$$

Where:

- $corrOPEX$ – Corrected amount of operational expenditures for the respective tariff year (GEL);
- $a \ ncOPEX$ – Actual amount of non-controllable operational expenditures for the respective tariff year (GEL);
- $p \ ncOPEX$ – Planned amount of non-controllable operational expenditures for the respective tariff year (GEL);

- a spOPEX* – Actual amount of controllable operational expenditures for the respective tariff year, subject to correction (GEL);
- p spOPEX* – Planned amount of controllable operational expenditures for the respective tariff year, subject to correction (GEL);
- cINFL* – Corrected amount of controllable operational expenditures for the respective tariff year, caused by the difference between the actual and planned inflation indicators (GEL).

Article 19. Correction of Revenues Received Based on the Amount of Electricity

1. If the amount of electricity actually generated by the utility in the specific tariff year differ from the planned amount, then the corrected amount of revenues for that year shall be calculated according to the following formula:

$$cREV = (aE - pE) \times T \text{ (15)},$$

Where:

- cREV* – Corrected amount of revenues for the respective tariff year of the tariff regulatory period (GEL);
- aE* – Actual amount of electricity delivered at the bus-bar for the respective tariff year of the tariff regulatory period (kWh);
- pE* – Planned amount of electricity delivered at the bus-bar for the respective tariff year of the tariff regulatory period (kWh);
- T* – Tariff for the respective tariff year of the tariff regulatory period (tetri/kWh).

2. The Commission shall not apply the correction mechanism defined under the first Paragraph of this Article, if the lack of actual electricity delivered at the bus-bar in comparison with the planned amounts is caused by the fault of the utility.

Article 20. Tariff Correction During Regulatory Period

1. If, as a result of analysis of annual report of the utility, it is revealed that correction volume of the calculation year (CORR t+i) equals or exceeds 10% of the revenue to be received through the dispatch, transmission and/or distribution tariff, in positive or negative expression, the Commission shall be obliged to carry out a regulatory

audit of expenditures of the components subject to correction, in order to define the exact correction volume.

2. The costs which are deemed unreasonable by the regulatory audit of the utility's costs, carried out for the purpose of tariff calculation based on this Methodology, shall not be taken into account while defining the correction volume based on the annual report analysis, envisaged in Paragraph 1 of this Article.
3. If the correction volume (CORR t+i) verified based on the regulatory cost audit defined in the first Paragraph of this Article, equals or exceeds 10% of the revenue to be received from the tariff of the respective year, in positive or negative expression, the Commission shall carry out adjustments of the tariffs, set for the utility for the regulatory period, during that regulatory period.
4. In case of merging (unification, joining) of utilities, the Commission shall be authorized to set the tariff for the utility established as a result of the merging, according to the principles defined in this Methodology, during the respective tariff year and to define the period of tariff validity as until the end of the current regulatory period or the following regulatory period.
5. In case of merging (unification, joining) of those utilities, the tariffs for which have been set, based on this Methodology, for the respective regulatory period, the Commission shall be authorized to define the regulatory cost base of the utility established as a result of the merging, based on unification (consolidation) of the regulatory cost bases of the utilities existing before the merging.
6. If the circumstances envisaged in this Article arise, the requirements defined in the first Paragraph of Article 31 of this Methodology shall not apply to the utility during submitting of the tariff application.

Chapter V. Procedures for Tariff Setting and Submitting the Application

Article 21. Accounting and Reporting

1. For regulatory purposes, the utility shall be obliged to carry out its accounting and financial reporting based on the requirements of the unified accounting form, approved by decision of the Commission.
2. If the utility carries out more than one regulated activity and/or also other entrepreneurial activities, it shall be obliged to separately account for its revenues, costs and financial results related to each regulated activity.

3. The utility shall submit information about the costs of the fixed assets, created using the consumer's financial sources, separately, in compliance with the conditions of this Methodology.

Article 22. Documents to be Submitted for the Purpose of Tariff Setting

1. For the purpose of tariff setting, the utility shall be obliged to submit to the Commission a tariff application for the tariff calculation year.
2. Tariff application and data templates, as well as the list of the documents to be submitted along with the tariff application, shall be defined by the individual legal-administrative Act of the Commission.
3. Together with the tariff application the utility shall also submit the financial accounting and reporting documents, compiled and audited in compliance with the IFRS.
- 3¹. If the utility submits the tariff application before expiry of the deadline for submitting the annual report of the base year, defined by the legislation and the tariff is being set for the utility within this Methodology for the first time, the Commission shall rely upon audited data of the nearest period during tariff calculation.
4. The Commission shall be authorized to require the utility to submit other additional information, which it considers necessary.
5. The party submitting the application shall be responsible for accuracy of the tariff application and attached materials.

Article 23. Tariff Setting Deadlines and Procedures

1. The utility shall be obliged to submit the tariff application to the Commission no later than July 4 of the tariff calculation year. If this date coincides with a holiday, then the tariff application shall be submitted on the next working day.
2. The Commission shall review compliance of the tariff application with the approved form and its comprehensiveness within 3 working days from submitting of the tariff application.
3. If the submitted tariff application does not comply with the form defined by the Commission or is submitted incompletely, the Commission shall establish for the

applicant, in writing, a period of no more than 30 working days for correcting the flaw. This period shall be extended only once, at the request of the applicant, for no more than 15 working days.

4. If the utility does not submit to the Commission requested information within the deadline defined in Paragraph 3 of this Article, the tariff application shall remain without consideration, upon decision of the Commission.
5. The Commission shall be authorized to make a relevant decision and review the utility's tariffs upon its own initiative. In such case, conditions for submitting the necessary information and documents shall be determined by relevant decision of the Commission.
6. Upon acceptance of a tariff application submitted in full and in the case envisaged in Paragraph 5 of this Article, administrative proceedings shall begin based on the decision of the Commission and the relevant notice shall be published on the Commission's website.
7. Tariff application shall be reviewed at the Commission in compliance with the rule for public administrative proceedings, envisaged under Georgian legislation. Therefore, tariff application and enclosed documents (except for personal data and information considered to be a commercial secret by the state or the Commission) shall be public and shall be available to any interested party.
8. All interested parties shall be authorized to become acquainted with the publicly available materials, submitted to the Commission and to address the Commission with their related comments.
9. Comments on the tariff application shall be submitted in written form and shall include justified argumentation. Also, persons shall be entitled not to indicate their identity while submitting their comments. Copies of submitted comments shall be sent to the person who submitted the tariff application, while comments shall be discussed during the public hearing on the tariff application.
10. While reviewing the tariff application, the Commission shall be authorized to request from the utility additional information or various types of conclusions.
11. During review of the tariff application, before taking the final decision, the Commission shall be authorized to hold meetings and/or public sessions related to this tariff application.

12. Applicant shall be notified about the time and venue of consideration of the tariff application at the public hearing, 7 working days in advance.

Chapter VI. Transitional Provisions

Article 24. Transitional Provisions

1. The values of the components of the weighted average cost of capital (WACC) for the 2018-2020 tariff regulatory period, given below, shall be defined as follows:

c) Risk-free interest rate (r_{rf})	–	12.22%;
d) Loan cost (r_d)	–	12.93%
e) Market risk premium (mp)	–	6.17%;
f) Country default spread (ds)	–	4.16%;
g) Country risk (cr)	–	5.12%;
h) Equity Beta (β)	–	0.84.
2. For the purpose of correcting the tariffs valid until January 1, 2018, the time value of money for the period before that date shall be equal to the WACC (13.54%) set by the Commission for the same period.
- 2¹. For the 2021-2023 tariff regulatory period, the general efficiency factor (X_{gen}) shall be equal to 1%, whereas the individual efficiency factor (X_{ind}) shall be equal to 0.
3. (Repealed – 22.10.19, #23);
- 3¹. (Repealed – 22.10.19, #23);
4. (Repealed – 22.10.19, #23);
5. (Repealed – 22.10.19, #23);
6. (Repealed – 22.10.19, #23);
7. Before the Rule for the regulatory cost audit in the electricity sector, approved by this Resolution, enters into force, for the purposes of this Methodology:
 - a) Regulatory cost audit shall be the audit of expenses borne by the utility, conducted for regulatory purposes directly by the Commission and/or an audit company, invited by the Commission, which serves the purpose of/ensures calculation and setting of the tariffs, in compliance with the principles envisaged in the tariff Methodologies;
 - b) Reasonable cost shall be an expense, borne by the utility for purchase of the goods, services and construction works having the necessary

characteristics, based on the least cost principle, which is rational and necessary for efficient functioning of the utility;

- c) According to necessity arisen during regulatory cost audit, the Commission shall be authorized to request, apart from the documents and information of the base/test year, any documents and information for the periods indicated below, related to the following types of costs and serves the purpose of conducting full study and analysis of such costs:

- c.a) Operational costs – two full regulatory periods, including any test/base years, but no earlier than 2015;

- c.b) Capital costs – any period;

- d) If the utility carries out more than one regulated activity and/or also other entrepreneurial activities, overall costs and assets of the utility shall be distributed to specific activities by the Commission;

- e) Revenues of the utility subject to regulatory cost audit shall be grouped based on the following content:

- e.a) Operational revenue, formed as a result of performance of specific regulated activities;

- e.b) Other operational revenue, received by the utility as a result of delivery of the service/goods, related to the specific regulated activity and conditions of such service shall be defined by normative administrative-legal Acts of the Commission;

- e.c) Non-operational revenue, formed from income received as a result of any activity, except for the revenues envisaged in Subparagraphs “e.a” and “e.b” of this Paragraph;

- f) If the enterprise carries out other entrepreneurial activities, along with the regulated activity and receives revenue, the utility shall be obliged to separately account for the expenditures and revenues related to such activities, in order to identify the costs related to receipt of specific revenues, after which the income (or profit) received from this activity shall not be subject to correction;

- g) If received revenue is formed while using in other entrepreneurial activities the assets reflected in the regulatory asset base of the utility and the human resources employed in regulated activity, the utility shall be obliged to indicate about such common use assets and human resources,

in order to allocate the expenditures related to receipt of specific revenues to relevant entrepreneurial activities;

- h) If revenues received by the utility cannot be connected to relevant expenditures in compliance with the requirements of Subparagraphs “f” and “g” of this Paragraph, regulatory cost base of the utility shall be subject to reduction by the full amount of the revenue received such entrepreneurial activity;
- i) Within the audit of other operational and non-operational revenues, received by the utility subject to tariff regulation, the revenue or profit, received by the utility from other entrepreneurial activities, including the revenue or profit received from use of the assets reflected in the regulatory asset base of the utility and the human resources, employed in regulated activity, in other entrepreneurial activities, shall be determined, which, in its turn, may be fully or partly used for reducing the regulatory cost base in accordance with the following percentage indicators:

	Name	Correction percentage	Comment
i.a)	Revenue received from services and/or goods delivered to an associated utility	100%	Received profit or revenue is fully subject to correction
i.b)	Revenue, the expenditures related to which are identified in the operational and capital expenditures of the utility	50%	Received profit is subject to correction
i.c)	Revenue, the expenditures related to which cannot be identified in the operational and capital expenditures of the utility	100%	Received revenue is subject to correction
i.d)	Various revenues		Any revenue, about the content of

		100%	which the utility has not submitted detailed information
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- j) In case of sales of retired, completely depreciated regulated assets, regulatory cost base of the utility shall be subject to reduction by 50% of the profit received from the sales of these regulated assets, while in case of sales of incompletely depreciated regulated assets – by 100%.

Tariff Setting Methodology for Guaranteed Capacity Fee, Electricity Generation Tariff of Guaranteed Capacity Source and Electricity Market Operator Service Tariff

Chapter I. General Provisions

Article 1. Purpose

1. The purpose of the Tariff Setting Methodology for Guaranteed Capacity Fee, Electricity Generation Tariff of Guaranteed Capacity Source and Electricity Market Operator Service Tariff (hereinafter “the Methodology”) shall be to define the rules and principles for calculating guaranteed capacity fee, electricity generation tariff of guaranteed capacity source and electricity market operator service tariff, in accordance with the Law of Georgia on Electricity and Natural Gas.
2. Tariff setting based on this Methodology shall be carried out in compliance with the cost plus regulation principle, which stimulates stable functioning of the utility, recovery of borne reasonable costs and gaining of fair profit.

Article 2. Definitions

1. The terms used in this Methodology shall have the same meaning as defined in the Law of Georgia on Electricity and Natural Gas.
2. Other terms used in the Methodology for tariff regulation purposes shall have the following meaning:
 - a) **Intangible assets** – identifiable, non-monetary assets without physical form used in relevant regulated activity;
 - a¹) **Unregulated Assets** – assets which are not used in regulated activities;
 - b) **Assets** – tangible and intangible assets;
 - c) **Asset Reproduction Costs** – total expenditures which will be necessary for creating assets analogous to the assets that need to be evaluated;
 - d) **Asset cost** – the amount of the real value of money or money equivalents or other compensation paid during creation or initial purchase of an asset;
 - e) **Historical cost asset valuation method** – valuation of the asset cost according to the price of its creation or initial purchase;
 - f) **Net book value of the asset** – accumulated depreciation/amortization deducted from the asset cost (taking into account the investments made into this Asset);

- g) **Electricity Generation Tariff of Guaranteed Capacity Source** – price of the electricity produced by the guaranteed capacity source, which reflects the costs directly related to electricity production, as well as, in case of the thermal power plants built after 2010, part of constant (fixed) costs in accordance with the ratio (%) defined by the government of Georgia;
- h) **Guaranteed Capacity Fee** – fee for the guaranteed capacity source providing the country's unified electricity system with guaranteed capacity, which ensures reimbursement of capital expenditures and fixed operational expenditures of the guaranteed capacity source and, in case of the thermal power plants built after 2010 - in accordance with the ratio (%) defined by the government of Georgia;
- i) (Repealed – 22.10.19, #23);
- j) (Repealed – 22.10.19, #23);
- k) **Electricity market operator service tariff** – price of the service provided by the electricity market operator to qualified enterprises, in accordance with the current legislation;
- l) **Investment** – capital investments carried out for creation, purchase and/or rehabilitation of assets;
- m) **Weighted Average Cost of Capital (WACC)** – rate of return on the regulatory asset base, calculated before taxes, according to structure of the capital (own or raised) defined by the Commission;
- n) **Capital Expenditures (CAPEX)** - for the purposes of this Methodology, return on the regulatory asset base and depreciation/amortization;
- o) **Tangible Asset** – fixed assets used in respective regulated activities, the useful life of which exceeds one year;
- p) **Third party** - any physical and/or legal person (including: the state, consumer, etc.), except for the utility shareholder, which issues subsidies and awards grants to the utility, pays fees for connecting to the electricity transmission and distribution network and/or transfers tangible and intangible assets to the utility free of charge;
- q) **Regulated activity** – for the purpose of this Methodology the activities of the guaranteed capacity source providing guaranteed capacity and electricity generation, as well as electricity market operator service, which is regulated by the Commission in accordance with the Law of Georgia on Electricity and Natural Gas;
- r) **Regulatory Cost base (RCB)** – revenue of the Utility, allowed by the Commission for the tariff year, which is necessary for efficient functioning of the utility and includes reasonable costs and rational profit;
- s) **Regulatory Asset Base (RAB)** – tangible and intangible assets used in regulated activities of the utility, which are directly related to the respective regulated activities;
- s¹⁾ **Regulated Asset** – asset used in regulated activities;
- t) **Working Capital (WC)** – amount defined by the Commission for funding operational expenditures of the utility;

- u) **Building block approach** – defining the regulatory cost base structure according to its components;
- v) **Tariff Year (t+1)** - the calendar year for which the Commission sets tariffs in accordance with this Methodology;
- w) **Operational Expenditures (OPEX)** – operational expenditures related to activities of the electricity generation licensee and electricity market operator, as well as other current expenditures related to the regulated activity for the purposes of this Methodology;
- x) **Test year (t-1)** – calendar year preceding the year of tariff calculation by the Commission;
- y) **Tariff application** – forms approved by the Commission and the documents to be submitted together with them, which reflect financial and technical data for the utility's test year, as well as the investments made during the tariff calculation year;
- z) **Utility** – electricity generation licensee, as well as the electricity market operator, for which the tariffs for relevant regulated activities are set, pursuant current legislation and this Methodology;
- aa) **Tariff calculation year (t)** – calendar year preceding the tariff year;
- bb) **Fixed operational costs** – those operational costs of the guaranteed capacity source, which do not depend on electricity generation by the guaranteed capacity source;
- cc) **Depreciation/amortization** – gradual allocation of depreciable costs of the tangible/intangible assets over their useful life;
- dd) **Variable operational costs** – those operational costs of the guaranteed capacity source which depends on electricity generation by the guaranteed capacity source or on the volume of generated electricity;

Article 3. Main Principles

1. This Methodology and the tariffs set based on it shall:
 - a) Protect consumers from monopolistic prices;
 - b) Promote stable and reliable functioning of the utility;
 - c) Ensure the setting of transparent, stable and fair tariff rates for the utility.
2. In the process of defining structure of the regulatory cost base of the utility, the building block approach shall be applied. The regulatory cost base defined by means of this method shall consist of the following components:
 - a) Capital Expenditures;
 - b) Operational expenditures;
 - c) Correction Component;
3. Calculation of capital and operational expenditures shall be carried out based on the cost plus method, through annual audit of these costs.

4. If, as a result of the regulatory cost audit, information of the period defined by Paragraph 3 of Article 7 of the Rule for the electricity sector regulatory cost audit, approved by this Resolution, is detected, which was not identified during calculation of the tariffs of the previous tariff year(s), the Commission shall be authorized to use that information for correcting audit results of the test year. Correction shall be carried out while taking into account the principles defined in Chapter IV of this Methodology.
5. All tariffs set by the Commission shall be calculated without Value Added Tax (VAT).

Article 4. Tariff Setting Period

1. The Commission shall set the tariffs annually, individually for specific utilities and they shall be valid for one year, except for the circumstances envisaged by Paragraph 2 of Article 14¹ and Paragraph 3 of Article 18 of this Methodology.
2. If a tariff is set for a utility for the first time within this Methodology, the Commission shall be authorized to define the period of validity of the respective tariff as through December 31 of the calendar year after the tariff calculation year.

Chapter II. Regulatory Cost Base

Article 5. Regulatory Cost Base for the Tariff Year

Regulatory cost base for the tariff year shall be calculated according to the following formula:

$$RCB_{(t+1)} = CAPEX_{(t+1)} + OPEX_{(t+1)} + CORR_{(t+1)} (1),$$

Where:

RCB_(t+1) – Regulatory cost base of the utility for the tariff year (GEL);
 CAPEX_(t+1) – Capital expenditures of the utility for the tariff year (GEL);
 OPEX_(t+1) – Operational expenditures of the utility for the tariff year (GEL);
 CORR_(t+1) – Cost correction factor, calculated in compliance with Article 16 (GEL)

Article 6. Capital Expenditures

Capital expenditures for the tariff year shall be calculated according to the following formula:

$$CAPEX_{(t+1)} = RAB_{start(t+1)} \times WACC + D_{(t+1)} \quad (2),$$

Where:

$CAPEX_{(t+1)}$ - Capital expenditures of the utility for the tariff year (GEL);

$RAB_{start(t+1)}$ - Cost of the regulatory asset base for the beginning of the tariff year (GEL);

WACC - Rate of return on the regulatory assets base for the tariff year (%);

$D_{(t+1)}$ - Annual depreciation for the tariff year (GEL).

Article 7. Regulatory Asset Base

1. Cost of the asset shall be defined based on the historical cost valuation method.
2. In cases when cost of the asset cannot be defined through the method prescribed under the first Paragraph of this Article, the Commission shall apply the asset reproduction cost valuation method.
- 2¹. In case of privatization of state property (assets) by the state, the initial historical cost shall be considered the privatization cost of the property, taking into account the relevant privatization conditions.
- 2². In case of the utilities subject to state/municipal control, historical cost of assets shall be the book value of regulated assets, included in the utility's capital and/or received as a result of merging (unification, joining) of utilities, if it is impossible to determine historical cost of these assets.
3. If regulated assets are sold to another utility, the Commission shall not take into account the resale cost of the asset and shall be guided by historical cost of the asset.
4. The regulatory asset base shall include the existing (valid) regulated assets, among them the investments actually carried out.
5. The regulatory asset base shall not include the following:
 - a) Those parts of the investment which were funded by third parties. The utility shall keep records for such assets separately;
 - b) Those investments which are not deemed justified and reasonable by the Commission;

- c) Those parts of the investment which exceed reasonable expenditure amounts and which were not undertaken by the utility in accordance with the least cost principle;
 - d) Assets not used in regulated activities;
 - e) Unfinished construction.
6. The Commission shall be entitled not to take into account in the regulatory asset base value the cost of the asset, included by the utility's shareholder in the capital, which was transferred by third parties, if the shareholder or the third party is the state or a utility no less than 50% of shares of which are owned by the state.
 7. The Commission shall take the capitalized cost of the loan interest, paid in the amount of the actual annual interest rate of the long-term loan taken to by the utility for funding construction during the construction process, into account in the cost price of the asset defined in Subparagraph "e" of Paragraph 5 of this Article, but it shall not exceed the rate of the cost of the loan (r_d) defined in this Methodology.
 8. Value of the regulatory asset base of the utility shall be determined according to the net book value of the assets included in this base.
 9. For tariff regulatory purposes and if required by legislative Acts and legal acts approved by the Commission, the Commission shall be obliged to and if required by other normative Acts – the Commission shall be authorized to reflect in the tariff the capital expenditures corresponding to the regulated assets which were retired by the utility based on requirements of the abovementioned legislation. Also, the Commission shall be authorized to consider the abovementioned assets as regulated assets before expiry of their useful life or to reflect the net book value of these assets in the regulatory asset base, as a one-time action.
 10. (Repealed – 22.10.19, #23);
 11. Value of the regulatory asset base at the beginning of the tariff year shall be determined based on the following formula:

$$RAB_{start(t+1)} = RAB_{end(t-1)} + INV_t - D_t \quad (3),$$

Where:

$RAB_{start(t+1)}$ – Value of the RAB at the beginning of the tariff year (t+1) (GEL);

$RAB_{end(t-1)}$ – Value of the RAB at the end of the test year (t-1) (GEL);

INV_t – Actual investments which were deemed justified and reasonable by the Commission for the tariff calculation year (t) (GEL);
D_t – Depreciation/amortization of the RAB, existing at the end of the test year, for the tariff calculation year (t) (GEL).

Article 8. Depreciation/Amortization

1. For the assets which were put into operation after January 1, 2014, linear method of depreciation shall be used, in compliance with the Regulated Asset Depreciation/Amortization Norms for Regulated Utilities, approved by the Commission.
2. In connection with the assets put into operation before January 1, 2014, the Commission shall take into account the depreciation/amortization rates used by the utility, while in case of non-existence of this information, the Commission shall be authorized to use the amortization rate calculation Rule, defined in the Tax Code of Georgia or the Regulated Asset Depreciation/Amortization Norms for Regulated Utilities, approved by the Commission.

Article 9. Weighted Average Cost of Capital

1. Rate of return on the RAB shall be defined based on the WACC method.
2. The pre-tax Weighted Average Cost of Capital (WACC) for the tariff year shall be calculated as follows:

$$WACC_{pre-tax} = g * r_d + \frac{(1-g)*r_e}{(1-T)} \quad (4)$$

Where:

$WACC_{pre-tax}$	– Weighted Average Cost of Capital before taxes (%);
g	– Loan ratio (%);
r_d	– Loan cost (%);
r_e	– Cost of equity (%);
T	– Profit tax rate (%).

3. Cost of equity shall be calculated according to the following formula:

$$r_e = (r_{rf} - ds) + cr + \beta \times mp \text{ (5)},$$

Where:

r_{rf}	– Risk free rate (%);
ds	– Country default spread (%);
cr	– Country risk (%);
mp	– Market risk premium (%);
β	– Equity beta.

4. For the purpose of WACC calculation by the Commission, the share of loans (g) within the total capital shall be taken into account in the amount of 60%.

Article 10. Operational Expenditures

8. For the purpose of this Methodology the operational expenditures shall consist of the following two parts:
 - k) Controllable operational expenditures;
 - l) Non-controllable operational expenditures.
9. Operational expenditures shall ensure recovery of expenses to be borne by the utility for the respective regulated activity, including:
 - a) Operation and service costs;
 - b) Administrative and general expenditures.
10. Operational expenditures shall ensure remuneration of the expenditures related to service of the assets funded by third parties (including: ongoing repair, maintenance and other expenditures).
11. Those operational expenditures of the base year which are justified, reasonable and fair shall be taken into account during calculation of tariffs for the tariff regulatory period.
12. During calculation of tariffs for the tariff regulatory period, the Commission shall be entitled to take into account the forecasted technical-economic data, that it considers to be justified, reasonable and fair.

13. Actual financial data and technical information of the base year, approved by the Head or authorized person of the utility, shall be submitted using the templates approved by the Commission.
14. The Commission shall check correctness of submitted documentation and data and assess reasonableness and compliance of submitted expenditures, according to the Rule for the electricity sector regulatory cost audit, approved by this Resolution.

Article 10. Operational Expenditures

1. Test year data shall be used during calculation of operational expenditures for the tariff year. For the purpose of Paragraph 6 of Article 14¹, tariff calculation year data shall be used during calculation of the costs of purchase of the fuel necessary for guaranteed capacity source electricity generation.
2. Those operational expenditures which are justified, reasonable and fair shall be taken into account during calculation of the tariff for the tariff regulatory period.
3. During calculation of tariffs, the Commission shall be entitled to take into account the utility's forecasted technical-economic data for the tariff year, which it considers to be justified, reasonable and fair.
4. Operational expenditures shall ensure recovery of expenses to be borne by the utility for the respective regulated activity, including:
 - a) Operation and service costs;
 - b) Administrative and general expenditures.
5. Operational expenditures shall ensure recovery of the costs related to service of the assets funded by third parties (including: ongoing repair, maintenance and other expenditures).
6. Operational expenditures shall ensure recovery of the costs necessary for funding the working capital, in compliance with Article 11 of this Methodology.
7. Actual financial data and technical information, approved by the Head or authorized person of the utility, shall be submitted using the templates approved by the Commission.
8. The Commission shall be authorized to check correctness of submitted documentation and data and assess reasonableness and compliance of submitted

expenditures, according to the Rule for the electricity sector regulatory cost audit, approved by this Resolution.

Article 11. Working Capital

1. The Commission shall define the amount of the utility's working capital for the respective tariff year (t+i), which shall be calculated based on the following formula:

$$WC_{(t+1)} = (ARD - APD_{opex}) / 365 \times OPEX_{(t+1)} \text{ (6)},$$

Where:

- WC_{t+i} – Amount of working capital for the respective tariff year (GEL);
- ARD – Day of covering the accounts receivable, but no later than the 25th (day) of the month after the settlement month;
- APD_{opex} – Day of covering the accounts payable with regard to operational expenditures, but no earlier than the 10th (day) of the settlement month;
- $OPEX_{t+i}$ – Operational expenditures for the tariff year (GEL).

2. If any component of the working capital calculated in compliance with the first Paragraph of this Article is a negative number, then that component shall equal zero during calculation of working capital.
3. The Commission shall reflect the interest cost of working capital in the regulated cost base of the respective tariff year (t+i) of the utility, in accordance with the following formula:

$$WCC_{t+i} = WC_{t+i} * r_{sd(t+i)} \text{ (7)},$$

Where:

- WCC_{t+i} – Interest cost of working capital for the respective tariff year (GEL);
- WC_{t+i} – Amount of working capital for the respective tariff year (GEL);

- $r_{sd(t+i)}$ – Short-term loan interest rate, established by the Commission for the respective tariff year (%).

Article 12. Allocation of Expenditures

1. Allocation of expenditures shall be carried out in compliance with the Rule for the electricity sector regulatory cost audit, approved by this Resolution.

Chapter III. Tariff Calculation

Article 13. Amount of Electricity

Unless otherwise envisaged by this Methodology, the Commission shall set tariffs while taking into account the planned amount of electricity for the tariff year, while defining which the Commission shall rely on actual data of the electricity amounts or the forecasted balances of electricity (capacity), approved for the tariff year.

Article 14. Guaranteed Capacity Fee

1. Guaranteed capacity fee shall ensure recovery of those fixed operational expenditures and capital expenditures of the guaranteed capacity source (relevant electricity producer), which are not directly related to the electricity generation.
2. Guaranteed capacity fee shall be determined for each guaranteed capacity source on a daily basis.
3. Guaranteed capacity fee shall be calculated based on the following formula:

$$Q_{(t+1)} = \frac{OPEX_{fix(t+1)} + CAPEX_{(t+1)}}{N_{(t+1)}} * K \text{ (8)},$$

Where:

$Q_{(t+1)}$ – Guaranteed capacity cost for the tariff year (t+1) (GEL/day);

$OPEX_{fix(t+1)}$ – Fixed operational expenditures of the utility for the tariff year (t+1) (GEL);

$CAPEX_{(t+1)}$ – Capital expenditures of the utility for the tariff year (t+1) (GEL);

$N_{(t+1)}$ – Planned number of standby days of the guaranteed capacity source for the tariff year (t+1);

K – In case of the thermal power plants built after 2010, the share (%) of the fixed operational expenditures and capital expenditures, defined by the

government of Georgia and set by the Commission, which shall be recovered through the guaranteed capacity fee. In case of the thermal power plants built through the year 2010, K=1.

4. The periods (days) of planned repairs and non-operating days, planned by the utility and agreed in advance with the dispatch licensee, shall not be taken into account in the number of standby days of the guaranteed capacity source.

Article 14¹. Guaranteed Capacity Source Electricity Generation Tariff

1. Electricity generation tariff of the guaranteed capacity source shall be set in compliance with Paragraph 2 of this Article, while for those guaranteed capacity sources, which were built after 2010 and for which, based on decision of the government of Georgia, there has been defined the percentage share of the constant (fixed) expenditures to be recovered through the guaranteed capacity fee, electricity generation tariff for the relevant tariff year shall be set in compliance with Paragraph 6 of this Article – with the upperlimit of the electricity generation price.
2. The amount of the Electricity generation tariff of the guaranteed capacity source for each billing calendar month shall be set according to the following formula:

$$T_{var} = \frac{(P + T_{trans} + T_{dis}) * V}{E * (1 - CRF)} \quad (8')$$

Where:

- T_{var} - Guaranteed capacity source electricity generation tariff (tetri/kWh);
- P - Purchase price of the natural gas needed for guaranteed capacity source electricity generation, agreed with the Commission (tetri/m³);
- T_{trans} - Natural gas transportation tariff (tetri/m³) set by the normative Act of the Commission for the distribution licensee, who possesses the distribution network to which the guaranteed capacity source is connected (if applicable);
- V - Actual volume of the natural gas (m³), purchased for electricity generation by the guaranteed capacity source in the billing calendar month;
- E - Actual amount of electricity delivered to the bus bar (sold) by the guaranteed capacity source (kWh) in the billing calendar month;

CRF - Coefficient of the regulation fee to be paid by the electricity generation licensee, established by the normative Act of the Commission.

3. For the purpose of providing the amount of the costs necessary for defining the guaranteed capacity source electricity generation tariff, envisaged by Paragraph 2 of this Article, as well as transparency of their value:
 - a) Guaranteed capacity source shall be obliged to:
 - a.a) Submit, no later than on the 15th day of the billing calendar month, the contract on natural gas purchase, to be agreed with the Commission;
 - a.b) In case of request by a qualified utility, authorized to purchase electricity generated by the guaranteed capacity source, provide them, based on relevant frequency, with updated information on the amounts of electricity generated and delivered to the bus bar and of the consumed natural gas, necessary for electricity generation;
 - b) Electricity dispatch and natural gas transportation licensees shall be obliged to submit to the Commission, no later than the 7th day of the month following the settlement month, the relevant documented data concerning the amounts of electricity generated and delivered to the bus bar by the guaranteed capacity source and of the consumed natural gas, necessary for electricity generation, while if the submitted data is corrected while taking into account current legislation, they shall be obliged to submit to the Commission corrected data, no later than the COB of the working day following the day when corrections are made
4. As a result of discussion on issuing consent to the contract on natural gas purchase, submitted in compliance with Subparagraph “a.a” of Paragraph 3 of this Article, the Commission shall be authorized to reject it or issue consent to it with certain additional conditions or without conditions. After issuing consent to the contract on natural gas purchase, the Commission shall ensure that the main conditions of this contract (price, settlement terms, period of validity) are made public, through publishing the information on the official website and/or delivering it directly to interested parties;
5. No later than the COB of the working day following the day of receipt of complete information, envisaged by Subparagraph “b” of Paragraph 3 of this Article, the

Commission shall publicly post the information about the tariffs calculated while taking into account Paragraph 2, on its official webpage (www.gnerc.org) and, in case of relevant request, ensure informing of interested parties through direct delivery.

6. For those guaranteed capacity sources (thermal power plants), which were built after 2010 and for which, based on decision of the government of Georgia, there has been defined the percentage share of the constant (fixed) expenditures to be recovered through the guaranteed capacity fee, electricity generation tariff shall be calculated according to the following formula:

$$T_{var(t+1)} = \frac{OPEX_{var(t+1)} + cFC_{(t+1)} + (OPEX_{fix(t+1)} + CAPEX_{(t+i)}) * (1-K)}{E_{delivered(t+1)}} * 100 \quad (9)$$

Where:

$T_{var(t+1)}$ – Electricity generation tariff of the guaranteed capacity source (tetri/kWh);

$OPEX_{var(t+1)}$ – Variable operational expenditures of the guaranteed capacity source for the tariff year (GEL);

$cFC_{(t+1)}$ – Corrected amount of the purchase costs of the fuel, needed for guaranteed capacity source electricity generation, defined in Paragraphs 2 and 3 of Article 18 of this Methodology (GEL);

$E_{delivered(t+1)}$ – Amount of electricity delivered to the bus-bar by the guaranteed capacity source for the tariff year (kWh);

K – Percentage share of the fixed operational expenditures and capital expenditures, defined by the government of Georgia and set by the Commission, which shall be recovered through the guaranteed capacity fee.

Article 15. Electricity Market Operator Tariff

1. Electricity market operator service tariff shall be defined for the service, for which, in compliance with current legislation, eligible enterprises pay a service fee to the electricity market operator and it shall be calculated according to the following formula:

$$T_{op(t+1)} = \frac{RCB_{(t+1)}}{E_{(t+1)}} * 100 \quad (10)$$

Where:

$T_{op}(t+1)$ - Electricity market operator's service tariff for the tariff year (t+1) (tetri/kWh);

$RCB_{(t+1)}$ - Regulatory cost base for the tariff year (t+1) (GEL);

$E_{(t+1)}$ - The amount of electricity for the tariff year, for which the electricity market operator provides the service to qualified enterprises during the tariff calculation year (kWh).

2. Regulatory cost base of the electricity market operator, based on functional characteristics of the utility, shall be calculated according to the following formula:

$$RCB_{(t+1)} = (D_{(t+1)} + OPEX_{(t+1)}) \times (1+L) \quad (11),$$

Where:

$RCB_{(t+1)}$ - RCB for the (t+1) tariff year (GEL);

$D_{(t+1)}$ - Depreciation for the tariff year (GEL);

$OPEX_{(t+1)}$ - Operational expenditures of the utility for the tariff year (GEL);

L - Profit rate in relation to expenditures, taken in the amount not exceeding 3 percent and annually defined by the Commission (%).

3. Revenues received from import-export activities by the electricity market operator, as well as taxes and expenditures related to this activity under current legislation, shall not be taken into account in the process of calculating the electricity market operator service tariff.

Article 15¹. Electricity Import (Import in Case of Exchange) Tariffs

1. During import of electricity to Georgia, the price cap (upper limit) of import (import in case of exchange) for the qualified utility shall be defined based on the following formula:

$$T = \frac{T_{imp} * U_{cust} + U_{serv} + U_{reg} + U_{bank}}{E} \quad (11')$$

Where:

T - Upper limit tariff of imported electricity (GEL/kWh);

T_{imp} - Price of electricity (GEL/kWh) or electricity exchange coefficient, defined by the relevant import contract;

- E - Amount of actually imported electricity (kWh);
- U_{cust} - Fee established for the Customs service (GEL);
- U_{serv} - Service fee of the Electricity System Commercial Operator, Ltd. (in case of import carried out by the Electricity System Commercial Operator Ltd., $U_{serv} = 0$);
- U_{reg} - Regulation fee (GEL);
- U_{bank} - Service fee of the bank guarantee submitted by the qualified utility to the foreign utility for the purpose of ensuring import of electricity to Georgia (GEL);
2. For the purposes of this Article, the amount of money secured by the bank guarantee shall not exceed the total contract value of two months of import. Also, the bank guarantee payment for the first billing period shall not exceed 0.50% of the guarantee amount, while for every next billing period – 0.20% of the guarantee amount. All one-time actual expenses of the bank guarantee, borne before the beginning of import, shall be reflected in the first billing period of import implementation, while all other expenditures envisaged by the bank guarantee contract shall be reflected in the import tariff according to the billing periods when they are actually borne.

Chapter IV. Tariff Correction

Article 16. Principles and Main Mechanisms of Tariff Correction

1. This Methodology envisages reflection of planned indicators in the regulatory cost base, during the tariff calculation process. Consequently, the Commission shall carry out tariff correction for each year of the tariff regulatory period, according to the cost correction indicator, based on the following factors:
- a) Capital Expenditures;
 - b) Operational expenditures;
 - c) Amount of electricity.
2. Cost correction factor shall be calculated as follows:

$$CORR_{(t+1)} = cRRAB_{(t+1)} + cD_{(t+1)} + cOPEX_{(t+1)} - cREV_{(t+1)} \quad (12)$$

Where:

$CORR_{(t+1)}$ - Cost correction factor for the tariff year (t+1)(GEL);

$cRRAB_{(t+1)}$ - Difference caused by the difference between planned and actual returns on the RAB, which is reflected in the tariff year (GEL);

$cD_{(t+1)}$ - Difference caused by the difference between planned and actual depreciation values, which is reflected in the tariff year (GEL);

$cOPEX_{(t+1)}$ - Difference caused by the difference between planned and actual operational expenditures, which is reflected in the tariff year (GEL);

$cREV_{(t+1)}$ - Difference caused by the difference between planned and actual amounts of electricity, which is reflected in the Tariff Year (GEL).

3. The Commission shall be authorized to reduce the RCB of the utility, in compliance with Chapters V and VI of the Rule for the electricity sector regulatory cost audit, approved by this Resolution.

Article 17. Correction of Capital Expenditures

1. If the actual investments made by the utility in the tariff calculation year differ from the investments reflected in the tariff, tariff correction shall be carried out in accordance with Paragraph 2 of this Article, taking into account the principles described in Article 7 of this Methodology.
2. Correction of capital expenditures of the utility shall be calculated according to the following formula:

$$cRRAB_{(t+1)} = [(aRAB_{starts(t)} - pRAB_{starts(t)}) \times r_{dt}] \times (1 + r_{dt}) \quad (13),$$

Where:

$cRRAB_{(t+1)}$ – Corrected amount of return for the (t+1) period (GEL);

$aRAB_{starts(t)}$ – Actual value of the RAB for the (t) period (GEL);

$pRAB_{starts(t)}$ – Planned value of the RAB for the (t) period (GEL);

r_{dt} – Rate of the time value of money, equal to the actual loan cost for the relevant tariff year (%).

$$cD_{(t+1)} = (aD_t - pD_t) \times (1 + r_{dt}) \quad (14),$$

Where:

- $cD_{(t+1)}$ – Corrected amount of annual depreciation for the (t+1) period (GEL);
- aD_t – Actual amount of annual depreciation for the (t) period (GEL);
- pD_t – Planned amount of annual depreciation for the (t) period (GEL);
- r_{dt} – Rate of the time value of money, equal to the actual cost of the loan valid for the relevant tariff year (%).

Article 18. Correction of Operational Expenditures

1. If the operational expenditures actually borne by the utility for the specific year differ from the amount of the operational expenditures envisaged while setting the respective tariff, then the Commission shall ensure correction of the utility's RCB, according to the following formula:

$$cOPEX_{(t+1)} = [(aOPEX_{(t-1)} - pOPEX_{(t-1)}) \times (1 + r_{d(t-1)}) \times (1 + r_{dt})] \quad (15),$$

Where:

- $cOPEX_{(t+1)}$ – Corrected amount of operational expenditures for the (t+1) period (GEL);
- $aOPEX_{(t-1)}$ – Actual amount of operational expenditures for the (t-1) period (GEL);
- $pOPEX_{(t-1)}$ – Planned amount of operational costs for the (t-1) period (GEL);
- r_d – Rate of the time value of money, equal to the actual cost of the loan valid for the relevant tariff year (%).

2. In case of changes of the planned price of the fuel (natural gas, mazut, coal) needed for electricity generation by the guaranteed capacity source, the foreign currency exchange rate in relation to the GEL and the share of specific fuel consumption, the Commission shall ensure correction of the purchase costs of the fuel needed for the guaranteed capacity source electricity generation, based on the following formula:

$$cFC_{(t+1)} = [(aV_t \times (aEXC_t \times aP_t - pEXC_t \times pP_t)) + (aE_t \times pP_t \times pEXC_t \times (aEFF_t - pEFF_t))] \times (1 + r_{dt}) \quad (16),$$

Where:

- $cFC_{(t+1)}$ – Corrected amount of the fuel purchase cost for the (t+1) period (GEL);
- $aV_{(t)}$ – Actual volume of purchased fuel for the (t) period (m^3);
- $aEXC_{(t)}$ – Actual exchange rate of foreign currency for the (t) period;
- $aP_{(t)}$ – Actual contractual price of fuel purchase for the (t) period (1000 m^3 in foreign currency);
- $pEXC_{(t)}$ – Planned exchange rate of foreign currency for the (t) period;

$pP_{(t)}$	- Planned contractual price of fuel purchase for the (t) period (1000 m ³ in foreign currency);
$aE_{(t)}$	- Actual amount of electricity delivered to the bus-bar for the (t) period (kWh);
$aEFF_{(t)}$	- Actual specific fuel consumption for the (t) period (m ³ /kWh);
$pEFF_{(t)}$	- Planned specific fuel consumption for the (t) period (m ³ /kWh);
rd	- Rate of the time value of money, equal to the actual cost of the loan valid for the relevant tariff year (%).

3. In case of essential changes of the planned price of fuel (natural gas, mazut, coal) needed for electricity generation by the guaranteed capacity source, the foreign currency exchange rate in relation to the GEL and the share of specific fuel consumption, the Commission shall be authorized to carry out a one-time adjustment of the guaranteed capacity source electricity generation tariff, based on justified request (tariff application) submitted by the utility, through correction of the purchase costs of the fuel needed for guaranteed capacity source electricity generation, according to the following formula:

$$cFC_t = [(aV_t \times (aEXC_t \times aP_t - pEXC_t \times pP_t)) + (aE_t \times pP_t \times pEXC_t \times (aEFF_t - pEFF_t))] \times (1 + rd_t)^{n/12} \quad (17),$$

Where:

cFC_t	- Corrected amount of the fuel purchase costs for the (t) period (GEL);
aV_t	- Actual amount of purchased fuel for the respective n period (m ³);
$aEXC_t$	- Actual currency exchange rate for the respective n period;
aP_t	- Actual contractual price of fuel purchase for the respective n period (1000 m ³ in foreign currency);
$pEXC_t$	- Planned currency exchange rate for the respective n period ;
pP_t	- Planned contractual price of fuel purchase for the respective n period (1000 m ³ in foreign currency);
$aE_{(t)}$	- Actual amount of electricity delivered to the bus-bar for the respective n period (kWh);
$aEFF_{(t)}$	- Actual specific fuel consumption for the respective n period (m ³ /kWh);
$pEFF_{(t)}$	- Planned specific fuel consumption for the respective n period (m ³ /kWh);
rd	- Rate of the time value of money, equal to the actual cost of the loan valid for the relevant tariff year (%).
n	- Period subject to correction (months).

3¹. (Repealed – 22.10.19, #23);

4. The Commission shall not take into account the rate of the time value of money during correction of operational expenditures of the electricity market operator.
5. In case of merging (unification, joining) of utilities, the Commission shall be authorized to set the tariff for the utility established as a result of the merging, in compliance with the principles stipulated by this Methodology, during the relevant tariff year and to define the period of tariff validity until the end of the current or the following regulatory period.
6. In case of merging (unification, joining) of those utilities, the tariffs for which have been set, based on this Methodology, for the respective regulatory period, the Commission shall be authorized to define the regulatory cost base of the utility established as a result of the merging, based on unification (consolidation) of the regulatory cost bases of the utilities existing before the merging.

Article 19. Correction of Revenues Based on the Actual Amounts of Electricity

During correction of those electricity and guaranteed capacity amounts, for which the electricity market operator service tariffs are set, the Commission shall not take into account the rate of the time value of money.

Chapter V. Procedures for Tariff Setting and Submitting the Application

Article 20. Accounting and Reporting

1. For regulatory purposes, the utility shall be obliged to carry out its accounting and financial reporting based on the requirements of the unified accounting form, approved by decision of the Commission.
2. If the utility carries out more than one regulated activity and/or also other entrepreneurial activities, it shall be obliged to separately account for its revenues, costs and financial results related to each regulated activity.
3. The utility shall submit information about the costs of the fixed assets, created using the consumer's financial sources, separately, in compliance with the conditions of this Methodology.

Article 21. Documents to be Submitted for the Purpose of Tariff Setting

1. For the purpose of tariff setting, the utility shall be obliged to submit to the Commission a tariff application for the tariff calculation year.
2. Tariff application and data templates, as well as the list of the documents to be submitted along with the tariff application, shall be defined by the individual legal-administrative Act of the Commission.
3. Together with the tariff application the utility shall also submit the financial accounting and reporting documents, compiled and audited in compliance with the IFRS.
- 3¹. Simplified form of the justified request - tariff application, envisaged in Paragraph 3 of Article 18 and the list of the documents to be submitted along with it, shall be defined by the individual legal-administrative Act of the Commission.
4. The Commission shall be authorized to require the utility to submit other additional information, which it considers necessary.
5. The party submitting the application shall be responsible for accuracy of the tariff application and attached materials.

Article 22. Tariff Setting Deadlines and Procedures

1. The utility shall be obliged to submit the tariff application to the Commission no later than July 4 of the tariff calculation year. If this date coincides with a holiday, then the tariff application shall be submitted on the next working day.
2. The Commission shall review compliance of the tariff application with the approved form and its comprehensiveness within 3 working days from submitting of the tariff application.
3. If the submitted tariff application does not comply with the form defined by the Commission or is submitted incompletely, the Commission shall establish for the applicant, in writing, a period of no more than 30 working days for correcting the flaw. This period shall be extended only once, at the request of the applicant, for no more than 15 working days.
4. If the utility does not submit to the Commission requested information within the deadline defined in Paragraph 3 of this Article, the tariff application shall remain without consideration, upon decision of the Commission.
5. The Commission shall be authorized to make a relevant decision and review the utility's tariffs upon its own initiative. In such case, conditions for submitting the necessary information and documents shall be determined by relevant decision of the Commission.

6. Upon acceptance of a tariff application submitted in full and in the case envisaged in Paragraph 5 of this Article, administrative proceedings shall begin based on the decision of the Commission and the relevant notice shall be published on the Commission's website.
7. Tariff application shall be reviewed at the Commission in compliance with the rule for public administrative proceedings, envisaged under Georgian legislation. Therefore, tariff application and enclosed documents (except for personal data and information considered to be a commercial secret by the state or the Commission) shall be public and shall be available to any interested party.
8. All interested parties shall be authorized to become acquainted with the publicly available materials, submitted to the Commission and to address the Commission with their related comments.
9. Comments on the tariff application shall be submitted in written form and shall include justified argumentation. Also, persons shall be entitled not to indicate their identity while submitting their comments. Copies of submitted comments shall be sent to the person who submitted the tariff application, while comments shall be discussed during the public hearing on the tariff application.
10. While reviewing the tariff application, the Commission shall be authorized to request from the utility additional information or various types of conclusions.
11. During review of the tariff application, before taking the final decision, the Commission shall be authorized to hold meetings and/or public sessions related to this tariff application.
12. Applicant shall be notified about the time and venue of consideration of the tariff application at the public hearing, 7 working days in advance.

Chapter VI. Transitional Provisions

Article 23. Transitional Provisions

1. The values of the components of the weighted average cost of capital (WACC) for the 2018-2020 tariff regulatory period, given below, shall be defined as follows:

- | | | |
|---|---|---------|
| a) Risk-free interest rate (r_{rf}) | – | 12.22%; |
| b) Loan cost (r_d) – 12.93% | – | 12.93% |
| c) Market risk premium (mp) | – | 6.17%; |
| d) Country default spread (ds) | – | 4.16%; |

- e) Country risk (cr) – 5.12%;
- f) Equity Beta (β) – 0.84.

2. For the purpose of correcting the tariffs valid until January 1, 2018, the time value of money for the period before that date shall be equal to the WACC (13.54%) set by the Commission for the same period.

2¹. The utility, for which no tariffs have been set yet based on this Methodology, shall not be obliged to observe the deadline for submitting the tariff application, defined in the first Paragraph of Article 22 of this Methodology.

2². (Repealed – 22.10.19, #23);

3. (Repealed – 22.10.19, #23);

4. (Repealed – 22.10.19, #23);

5. In case of transition from setting the tariff in compliance with Paragraph 6 of Article 14¹ to setting the tariff in compliance with Paragraph 2 of the same Article, corrected amount derived from the difference between the planned and the corresponding actual indicators defined by the upper limit tariffs for guaranteed capacity source electricity generation for the latest tariff year shall be reflected in the guaranteed capacity fee, taking into account the time value of money.

6. If transition from setting the tariff in compliance with Paragraph 6 of Article 14¹ to setting the tariff in compliance with Paragraph 2 of the same Article takes place within a tariff year, in such case the Commission shall use the purchase price of natural gas, needed for electricity generation, defined by the tariff set in compliance with Paragraph 6 of Article 14¹, until the end of the current tariff year.

7. The guaranteed capacity source electricity generation tariff, defined in Paragraph 2 of Article 14¹ of this Methodology, shall enter into force from the first of December of 2019.

8. Before the Rule for the regulatory cost audit in the electricity sector, approved by this Resolution, enters into force, for the purposes of this Methodology:

- a) Regulatory cost audit shall be the audit of expenses borne by the utility, conducted for regulatory purposes directly by the Commission and/or an audit company, invited by the Commission, which serves the purpose of/ensures calculation and setting of the tariffs, in compliance with the principles envisaged in the tariff Methodologies;
- b) Reasonable cost shall be an expense, borne by the utility for purchase of the goods, services and construction works having the necessary

characteristics, based on the least cost principle, which is rational and necessary for efficient functioning of the utility;

- c) According to necessity arisen during regulatory cost audit, the Commission shall be authorized to request, apart from the documents and information of the base/test year, any documents and information for the periods indicated below, related to the following types of costs and serves the purpose of conducting full study and analysis of such costs:

- c.a) Operational costs – two full regulatory periods, including any test/base years, but no earlier than 2015;

- c.b) Capital costs – any period;

- d) If the utility carries out more than one regulated activity and/or also other entrepreneurial activities, overall costs and assets of the utility shall be distributed to specific activities by the Commission;

- e) Revenues of the utility subject to regulatory cost audit shall be grouped based on the following content:

- e.a) Operational revenue, formed as a result of performance of specific regulated activities;

- e.b) Other operational revenue, received by the utility as a result of delivery of the service/goods, related to the specific regulated activity and conditions of such service shall be defined by normative administrative-legal Acts of the Commission;

- e.c) Non-operational revenue, formed from income received as a result of any activity, except for the revenues envisaged in Subparagraphs “e.a” and “e.b” of this Paragraph;

- f) If the enterprise carries out other entrepreneurial activities, along with the regulated activity and receives revenue, the utility shall be obliged to separately account for the expenditures and revenues related to such activities, in order to identify the costs related to receipt of specific revenues, after which the income (or profit) received from this activity shall not be subject to correction;

- g) If received revenue is formed while using in other entrepreneurial activities the assets reflected in the regulatory asset base of the utility and the human resources employed in regulated activity, the utility shall be obliged to indicate about such common use assets and human resources,

in order to allocate the expenditures related to receipt of specific revenues to relevant entrepreneurial activities;

- h) If revenues received by the utility cannot be connected to relevant expenditures in compliance with the requirements of Subparagraphs “f” and “g” of this Paragraph, regulatory cost base of the utility shall be subject to reduction by the full amount of the revenue received such entrepreneurial activity;
- i) Within the audit of other operational and non-operational revenues, received by the utility subject to tariff regulation, the revenue or profit, received by the utility from other entrepreneurial activities, including the revenue or profit received from use of the assets reflected in the regulatory asset base of the utility and the human resources, employed in regulated activity, in other entrepreneurial activities, shall be determined, which, in its turn, may be fully or partly used for reducing the regulatory cost base in accordance with the following percentage indicators:

	Name	Correction percentage	Comment
i.a)	Revenue received from services and/or goods delivered to an associated utility	100%	Received profit or revenue is fully subject to correction
i.b)	Revenue, the expenditures related to which are identified in the operational and capital expenditures of the utility	50%	Received profit is subject to correction
i.c)	Revenue, the expenditures related to which cannot be identified in the operational and capital expenditures of the utility	100%	Received revenue is subject to correction
i.d)	Various revenues		Any revenue, about the content of

		100%	which the utility has not submitted detailed information
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- j) In case of sales of retired, completely depreciated regulated assets, regulatory cost base of the utility shall be subject to reduction by 50% of the profit received from the sales of these regulated assets, while in case of sales of incompletely depreciated regulated assets – by 100%.

Rule for the Electricity Sector Regulatory Cost Audit

Chapter I. General Provisions

Article 1. Purpose and Scope of Application

The purpose of the Rule for the electricity sector regulatory cost audit shall be to:

- a) Define the rule and principles for the regulatory cost audit to be carried out during tariff regulation of electricity sector licensees, in compliance with the Law of Georgia On Electricity and Natural Gas;
- b) Determine, how fully does the utility, subject to tariff regulation, comply with the obligations imposed upon it in terms of origin, justification, reasonableness and proper accounting of the expenditures, necessary for the specific regulated activity.

Article 2. Definition of Terms

1. The terms used in this Methodology shall have the same meaning as defined in the Law of Georgia on Electricity and Natural Gas and the Methodologies for calculation of electricity tariffs, approved by this Resolution.

2. For regulatory cost audit purposes, other terms used in this Rule shall have the following meaning:

- a) **Regulatory Cost Audit** – audit of the expenses, borne by the utility, for regulatory purposes, which shall be carried out directly by the Commission and/or an audit firm invited by the Commission and serve the purpose of/ensure calculation and setting of tariffs, in compliance with the principles envisaged by the tariff Methodologies;
- b) **Rule** – regulatory cost audit Rule;
- c) **Utility** – utility subject to the regulatory cost audit, which is an electricity sector licensee and is subject to tariff regulation by the Commission;
- d) **Audit Firm** – legal entity registered in the unified registry of auditors and audit firms, in compliance with Georgian legislation;
- e) **Conflict of Interests** – conflict arisen between fulfilment of obligations by the Head and/or member of the regulatory cost audit team and private interests, which may have a negative effect upon unbiased and objective fulfilment of these obligations;

- f) Reasonable Cost** – expense borne by the utility for purchase of the goods, services and construction works of relevant characteristics, in compliance with the least cost principle, which is rational and necessary for efficient functioning of the utility;
- g) Audit Team** – team performing the regulatory cost audit, in compliance with this Rule;
- h) Utility Subject to Audit** – electricity sector licensee, which is subject to tariff regulation by the Commission and whose regulatory cost audit is performed in compliance with this Rule;
- i) Tariff Unit** – tariff unit existing within one regulated activity, the tariffs for which are set individually by the Commission;
- j) Price-deregulated (Non-ariff) Unit** - unit existing within one regulated activity, which is not subject to tariff regulation by the Commission;
- k) Cost Assignment** – allocation of direct expenditures to relevant regulated activities, tariff units and price-deregulated units included in the regulated activity, as well as to other entrepreneurial activities;
- l) Cost Distribution**– distribution of indirect expenditures to relevant regulated activities, tariff units and price-deregulated units included in the regulated activity, as well as to other entrepreneurial activities;
- m) Cost Allocation** – identification/allocation of the direct expenditures to be assigned and indirect expenditures to be distributed to relevant regulated activities, tariff units and price-deregulated units included in the regulated activity, as well as to other entrepreneurial activities;
- n) Regulated Initial (Balance) Cost** – initial cost of the regulated asset (or capital repairs performed on it), corrected as a result of observing the principles of reasonableness, as well as bringing the circumstances discovered during audit and/or asset value into compliance with tariff methodology principles (excluding deduction of the value funded by third parties), including, in case of historical cost, the amount of real value of the money, money equivalent or other compensation paid during asset creation or initial purchase, while in case of reproduction cost – full (undepreciated) reproduction cost.

Article 3. Main Principles

1. This Rule shall be used for regulatory audit of operational and capital expenditures of such utilities, subject to tariff regulation by the Commission, as:
 - a) Electricity generation licensee;
 - b) Electricity transmission licensee;
 - c) Electricity dispatch licensee;
 - d) Electricity distribution licensee;
 - e) Electricity market operator.
2. Regulatory cost audit shall be planned and performed according to stages defined in advance, in the following order:
 - f) First stage – regulatory cost audit planning;
 - g) Second stage – regulatory cost audit implementation;
 - h) Third stage – compiling the regulatory cost audit report;
 - i) Fourth stage – discussing the regulatory cost audit report at a public session.
3. The following principles shall be observed within the frames of the Commission planning and performing the regulatory cost audit of the utility:
 - j) Fairness;
 - k) Objectivity;
 - l) Non-discrimination;
 - m) Public openness/transparency.

Article 4. Regulatory Cost Audit Planning and Frequency

1. Regulatory cost audit can be planned and unplanned.
2. Planned regulatory cost audit shall imply a regulatory cost audit occurring in the tariff calculation year and concerning (related to) the regulatory cost audit of the utility's base/test year operational and capital expenditures.
3. In case of planned regulatory cost audit, the Commission shall approve, by its decision, no later than December 31, the plan of the regulatory cost audit to be performed in the next year, which, for the purpose of ensuring its accessibility to any interested party, shall be posted on the Commission's official website.

4. Regulatory cost audit plan, envisaged by Paragraph 3 of this Article, shall include the following information:
 - a) Name and identification number of the utility subject to regulatory cost audit;
 - b) Regulatory cost audit subject;
 - c) Estimated start and end dates of the regulatory cost audit;
 - d) Audit team composition.
5. Unplanned regulatory cost audit shall imply the audit process initiated by the Commission for the purpose of studying specific issues and expenditures, which may be performed at any time and may include regulatory cost audit of the utility's operational and capital expenditures for any period.
6. The basis for initiating an unplanned regulatory cost audit process may be a written request by the utility, decision on satisfying or rejecting which shall be taken by the Commission.
7. The Commission shall be obliged to inform the utility in writing about unplanned regulatory cost audit, no less than 5 working days before commencement of such regulatory cost audit and to indicate the subject of the unplanned regulatory cost audit.

Article 5. Regulatory Cost Audit Team and Its Rights and Obligations

1. Regulatory cost audit of the utility shall be carried out by the regulatory cost audit team.
2. Audit team shall be obliged to confirm in writing, that there exists no conflict of interests with the utility subject to audit.
3. Composition of the audit team shall be defined by the order of the Commission Chair and consist of the Head and no less than one member of the audit team.
4. The Head of the audit team shall:
 - a) Organize work of the regulatory cost audit team and be responsible for quality of performance of the regulatory cost audit, as well as its completion within the set deadline;

- b) Act as a Commission representative during communication with the utility's management or authorized persons;
 - c) Be authorized to address the Commission with the initiative to involve in the regulatory cost audit process relevant specialists from the Commission's staff, specialists from other agencies and/or independent experts;
 - d) Ensure that the regulatory cost audit report is justified.
- 5. Regulatory cost audit report, prepared by the audit team, shall ensure that conducted work, obtained evidence and produced conclusions are comprehensively and easily understandable.
- 6. Within the frames of audit team activities, audit team shall timely request documents, update them in the process of performance of the regulatory cost audit and ensure documenting of the evidence supporting the audit findings, before publishing of the audit report.
- 7. During cost regulatory audit implementation, audit team shall comply with the legislation concerning (related to) regulated activity of the utility and principles defined in tariff methodology.
- 8. During performance of regulatory cost audit, audit team shall be authorized to:
 - a) Request and receive information, verbally and/or in writing, from the Head or other authorized persons of the utility subject to regulatory cost audit;
 - b) Request any type of documents and information, related to relevant activity subject to tariff regulation and/or regulatory cost audit purposes;
 - c) Request and inspect original documents or certified copies;
 - d) Not perform audit (study and analysis) of those expenses, which are not reflected, in terms of content, in the relevant specific expense item, taking into account the requirements of Subparagraph "c" of Paragraph 3 of Article 6 of this Rule;
 - e) Not perform audit of those expenses, information/documents requested for the purpose of study and analysis of which were submitted by the utility, subject to cost regulatory audit, in violation of the reasonable deadline for submitting such information.

9. Audit team shall be obliged to:
 - a) Collect all needed information about the utility;
 - b) Analyse and summarize all available information;
 - c) Study audit reports of past periods;
 - d) Be objective and conscientious, avoid preliminary evaluation of results;
 - e) Ensure proper safeguarding of confidential information, including personal and state secrets, obtained within the regulatory cost audit;
 - f) Ensure storage of the regulatory cost audit materials and results in a properly protected place.
10. It shall also be possible for the regulatory cost audit of the utility to be carried out by an independent audit firm, selected by the Commission in compliance with the established rule.
11. In the case envisaged in Paragraph 10 of this Article, audit firm shall be obliged to perform the regulatory cost audit of the utility in compliance with this Rule.

Article 6. Rights and Obligations of Utility Subject to Regulatory Cost Audit

1. Utility subject to regulatory cost audit, in accordance with the conditions defined by the Commission in this Rule, shall submit relevant documents/information to the audit team and assign relevant human resources for preparation of such documents/information, in order to facilitate conduction of the regulatory cost audit process within the planned period.
2. Utility subject to regulatory cost audit shall be authorized to:
 - a) Address the audit team with a justified request to extend the deadline for submitting documents and information;
 - b) Submit relevant written clarifications to the audit team, related to the initial report on the regulatory cost audit results;
 - c) Request from the audit team to observe the norms defined in the legislation and secondary legislation and to act within the limits of their authority, in compliance with this Rule;
 - d) Inform the Commission of any fact related to unlawful actions by the Head or any member of the audit team;
 - e) Participate in public sessions of the Commission, at which the Commission will consider the relevant regulatory cost audit reports.

3. Utility subject to regulatory cost audit shall be obliged to:
 - a) Define responsible persons, who will be authorized to participate in the utility's regulatory cost audit process and ensure cooperation and communication between the utility and the regulatory cost audit team;
 - b) Comply with the requests made by the audit team within the limits of authority granted to it and not interfere with the authority of the audit team;
 - c) Ensure accurate filling out of the tariff application templates, approved by the Commission, based on relevant instructions, which, proceeding from their content, includes both reflecting each expense in the item with the corresponding title, as well as distributing and allocating them to regulated activities, in accordance with the cost separation principles, defined in Chapter IV of this Rule;
 - d) Submit all documents, information and electronically processed data, which is important and needed for regulatory cost audit implementation;
 - e) Check any documents and information within no more than 90 calendar days from submitting of the tariff application, except for the deadline defined in Subparagraph "e" of Paragraph 8 of Article 5 of this Rule;
 - f) Create all needed conditions and a working environment for the audit team, if the regulatory cost audit is conducted on the utility's premises.

Article 7. Regulatory Cost Audit Documentation and Audit Evidence

1. Regulatory cost audit information is the information of the utility's base/test year, the conditions and forms of submitting which shall be approved by individual administrative-legal Act of the Commission.
2. Regulatory cost audit documentation is the documentation of the utility's base/test year, list of which shall be defined by individual administrative-legal Act of the Commission.
3. Based on necessity arisen within the regulatory cost audit, audit team shall be authorized to request, apart from the base/test year documents and information, any documentation and information which is related to the following types of expenses and serves the purpose of comprehensive study and analysis of such expenses:
 - a) Operational expenditures – two full regulatory periods, including the relevant test/base years, but no earlier than 2015;
 - b) Capital expenditures – any period.

4. Audit documents and information shall clearly evidence the results of the conducted regulatory cost audit.
5. It shall be inadmissible for the utility to submit, based on its own initiative, cost regulatory audit documents and information to the audit team after 90 calendar days from submitting of the tariff application.
6. As a result of analysis of the regulatory cost audit documents and information, audit team shall conduct an evaluation of audit evidence and ensure development of audit findings, conclusions and recommendations (if applicable).
7. Documents and criteria appropriate for defining reasonableness of the costs may proceed from a set of various norms.
8. For the purpose of proper application of the norms of primary or secondary legislation and formulation of an opinion regarding a specific issue, audit team shall be authorized to consider the relevant explanatory notes and/or receive consultation from relevant administrative bodies.
9. Regulatory cost audit team shall also be authorized to be guided by relevant decisions taken by courts and/or the Commission.

Chapter II. Reasonable Costs

Article 8. Criteria for Defining Reasonable Costs

1. Reasonable costs are the capital and operational expenditures borne by the utility for efficiently performing the regulated activity.
2. Information about the capital and operational expenditures of the utility subject to regulatory cost audit shall be submitted in the tariff application and the principles envisaged under this Rule and the Commission's relevant normative legal Acts shall be used for defining reasonable capital costs within this application, while the following types of documented costs can be considered as reasonable operational costs:
 - a) Electricity purchase costs (as a product to be sold);
 - b) Wheeling costs, including:
 - b.a) Costs of wheeling in networks of third parties;
 - b.b) Costs of wheeling in networks of other licensees.
 - c) Salary costs (fund) including:

- c.a) Salary fund (engineering-technical personnel, labourers, etc.);
- c.b) Salary fund (billing service, if applicable);
- c.c) Salary fund (administration);
- c.d) Salary fund (employees hired based on contracts with the duration of up to one year).
- d) Main and auxiliary material costs;
 - d.a) Fuel costs;
 - d.b) Material costs.
- e) Costs of ongoing repairs of main assets of the utility;
 - e.a) Costs of ongoing repairs performed with own efforts and materials;
 - e.b) Costs of ongoing repairs performed by contractors.
- f) Cost of ongoing repairs of administrative main assets;
- g) Utility payments, including;
 - g.a) Electricity costs;
 - g.b) Natural gas costs;
 - g.c) Water supply costs;
 - g.d) Cleaning costs.
- h) Communication costs, including
 - h.a) Local and cellular telephone communication costs;
 - h.b) Internet provider service costs;
 - h.c) Telecommunication costs;
 - h.d) Public relations costs;
 - h.e) Mail delivery costs.
- i) Stationery costs;
- j) Business trip costs, including:
 - j.a) Costs of business trips inside the country;
 - j.b) Costs of business trips outside the country;
- k) Consultation costs, including:
 - k.a) Costs of auditor services;
 - k.b) Appraisal service costs, related to appraisal of the assets used/involved in the regulated activity;
 - k.c) Tax consultation costs;
 - k.d) Costs of expert services on investment projects;
 - k.e) Costs of consultation necessary for efficient implementation of regulated activities, on accounting, legal, engineering-technical issues and issues related to consistent/proper operation.
- l) Representation costs;
- m) Security costs, including:
 - m.a) Costs of services of security guards for buildings and facilities, as well as the assets and supplies used in regulated activity;

m.b) Costs of distance security systems for buildings and facilities, as well as the assets and supplies used in regulated activity, including the expenses borne for installation services of such systems;

m.c) Costs of guarding/escorting the shipments, necessary within transportation of regulated assets and supplies.

n) Lease costs, including:

n.a) Lease of vehicles;

n.b) Lease of buildings and facilities;

n.c) Lease of pipelines/networks;

n.d) Lease of land.

o) Insurance costs, including:

o.a) Costs of health insurance of engineering-technical personnel;

o.b) Costs of insurance of the assets used in regulated activity.

p) Market operator service costs;

q) Commission regulatory fee;

r) Property tax (except for land);

s) Property tax on land;

t) Other tax costs, including:

t.a) Fee for use of natural resources;

t.b) Customs fee.

u) Other operational expenditures, which, in terms of content, do not belong to the costs defined under Subparagraphs “a”-“t” of this Article, although they are necessary for implementation of regulated activity, including:

u.a) Costs of the services needed for training and staff qualification improvement;

u.b) Costs of asset registration and related design services;

u.c) Costs of transportation services;

u.d) Costs of banking services;

u.e) Costs of software operation and licensed packages;

u.f) Costs of special purpose templates, tender fees and participation in auctions;

u.g) Various.

3. Such costs, which are related to regulated activity, although they are not included in the list defined by Paragraph 2 of this Article, shall be reflected by the utility, subject to audit, under Subparagraph “u.g” of Subparagraph “u” of Paragraph 2 of this Article (category – “Various”).
4. Utility subject to audit shall reflect other operational expenditures of other activities, not related to regulated activity separately, in the relevant field envisaged in the tariff application form.

Article 9. Rational Amount of Reasonable Costs

1. The costs which are deemed reasonable within the study of content of goods, services and works, may be further subject to correction and definition up to the rational amount of the cost, taking into account the quality, volume and scale, based on which specific goods, services and/or works are needed for implementation of regulated activity by the utility.
2. The norms, envisaged by the relevant Resolution of Georgian government, concerning distribution, classification and purchase of office vehicles of the state car pool of state agencies shall be used for defining the rational amount of reasonable costs borne for administrative vehicles.
3. During purchase of construction works, rational amounts of the norms of overhead expenses and planned profit shall be defined while taking into account the relevant technical regulations approved by the government of Georgia.
4. In order to define the rational value of administrative buildings and facilities, relevant audit shall be conducted in the context of the purpose of these buildings and facilities, in relation to the expedient number of employees, accommodated in them.
5. Rational amount of the cost of the lease of the assets, necessary for implementation of regulated activity, may be defined based on the amount of annual capital expenditures, counted according to comparative analysis, market principles or the tariff methodology on the same asset.

Chapter III. Unreasonable Costs

Article 10. Criteria for Deeming Costs Unreasonable

1. A cost, proceeding from its content, may be deemed unreasonable, in the following cases:
 - a) It is not directly related to specific regulated activity;
 - b) It is not of essential necessity for specific regulated activity;
 - c) It is not oriented towards ensuring delivery of the goods and services, in the relevant amounts and of relevant quality, within the regulated activity;
2. The costs which are deemed unreasonable shall not be subject to being taken into account in the relevant tariff calculation.

Article 11. List of Unreasonable Costs

1. A cost is unreasonable, when it does not represent an essential necessity for specific regulated activity and/or is caused by inefficient functioning of the utility. Such costs shall include the following:
 - a) Writing off of bad debts;
 - b) Costs of paid fines and penalty sanctions;
 - c) Court costs and any other costs related to legal disputes, including those of consultation, legal and other services;
 - d) Cost of the VAT accrued on extra-normative losses;
 - e) Costs of entertainment events and VIP services, as well as alcohol purchase costs, borne within representation costs;
 - f) Personal security guard costs;
 - g) Costs of insurance of financial, operational and business risks, as well as of civil liability;
 - h) Fees of membership in professional organizations or unions, which are not directly related to regulated activity;
 - i) Charity costs;
 - j) Costs of advertising and marketing services, except for social projects and projects related to increase of consumer awareness;
 - k) Cost of written off main assets, except for those cases, envisaged by tariff Methodology, when the regulated asset was retired and replaced with another regulated asset, based on the requirements of the legislative norm;
 - l) Missing amount identified as a result of inventory;
 - m) Costs related to bond issuance;
 - n) Property tax on unregulated assets;
 - o) The part of the lease cost, which exceeds the total amount of depreciation and return, calculated while taking into account the net balance value;
 - p) Payroll costs of the vacant positions existing in the staff list of the utility, which exceed 2% of the number of staff employed at the utility.
 - q) Any other cost, which satisfies the criteria defined by the first Paragraph of Article 10 of this Rule.

Chapter IV. Cost Separation

Article 12. Separation of Costs According to Activities

1. Utility subject to audit shall be obliged to submit to the audit team, within the frames of the cost regulatory audit, all the information (data), based on which the allocation and distribution of costs is carried out.
2. If the utility carries out other regulated and/or entrepreneurial activities along with the activity subject to tariff regulation, the utility shall be obliged to account for the costs, related to such activities, separately and also to separate the assets used and the staff member employed under these activities.
3. The utility subject to audit shall be obliged to assign the operational expenditures (including depreciation costs), staff numbers and assets directly related to regulated activity. Distribution by the utility of the operational expenditures and staff numbers of several regulated and/or other entrepreneurial activities according to relevant activities and distribution by the audit team of the costs of the assets used simultaneously in several regulated and/or other entrepreneurial activities, shall be carried out based on the following principle:
 - a) Common costs (asset costs, relevant depreciation and operational expenditures) and staff numbers shall be distributed according to regulated and other entrepreneurial activities based on the ratio of revenues received through these activities, which is defined by the latest cost regulatory audit.
 - b) If regulated activities of the utility include more than one regulated sector (electricity, natural gas, water supply), the principle of distributing the costs according to sectors shall be defined individually, while taking into account the specifics of regulated activities for each utility.
 - c) Common costs (asset costs, relevant depreciation and operational expenditures) and staff numbers of one regulated sector shall be distributed according to several regulated activities proportionally to the amount of sold goods, defined as a result of the latest cost regulatory audit. The principle defined by this Subparagraph shall not apply to distribution between electricity dispatch and transmission (including transit). Distribution of the costs and staff numbers between the abovementioned activities shall be carried out in compliance with the principles defined in Annex 1 to this Rule.
 - d) If the utility carries out several regulated activities and also one or more other entrepreneurial activities, distribution of the common costs and staff numbers shall be carried out in compliance with the following stages:

- d.a) Distribution shall be carried out between regulated activities and other entrepreneurial activities, in compliance with Subparagraph “a” of this Paragraph ;
- d.b) Distribution shall be carried out between regulated activities, in compliance with Subparagraph “b” of this Paragraph;
- d.c) Distribution shall be carried out between regulated activities, in compliance with Subparagraph “c” of this Paragraph;

Article 13. Separation of Costs Within Regulated Activity

1. The utility subject to audit shall be obliged to submit to the audit team, within the regulatory cost audit, all the information (data) based on which assignment and distribution of the costs have been carried out.
2. If several tariffs are set for the utility, subject to regulatory cost audit, within one regulated activity, or if this activity also includes price-deregulated units or if within this activity the utility operates a network which has various technical parameters (voltage levels), the utility shall be obliged to separately account for the costs related to separate tariff units, price-deregulated units or the network which has various technical parameters and also to separate involved assets and employed staff.
3. When within one regulated activity there exists a tariff unit and/or price-deregulated unit and/or a network which has various technical parameters, the utility subject to cost regulatory audit shall be obliged to assign the directly related operational expenditures, staff numbers and assets, with relevant value, to specific tariff and/or price-deregulated units, and/or the network which has various technical characteristics.
4. Distribution by the utility of the operational expenditures and staff numbers of the network, which simultaneously has several tariff units or tariff deregulated units and/or various technical parameters, according to relevant tariff and/or deregulated units and/or the network which has various technical parameters shall be carried out in compliance with the principles defined in Annex 1 to this Rule.

5. Distribution by the regulatory cost audit team of the costs of assets used simultaneously in several tariff and/or price-deregulated units and/or the network which has various technical parameters according to relevant tariff and/or deregulated units and/or the network which has various technical parameters shall be carried out in compliance with the principles defined in Annex 1 to this Rule.

Chapter V. Costs of Connecting New Consumers to Networks, Increase of Capacity and Installation of Metering Nodes

Article 14. Reflecting Costs in Electricity Sector

1. The utility shall be obliged to individually account for and to submit the revenues and costs related to connection of new consumers to electricity transmission and distribution networks, increase of the capacity to be connected, installation of metering nodes or connection of micro power plants, in accordance with the applications on requesting the service.
2. In case of connection of new consumers to the network, increase of the capacity to be connected, metering node installation or connection of micro power plants by the utility, when revenues received by the utility have been charged in accordance with the fees defined by Resolution of the Commission, regulatory asset base of the utility shall be subject to reduction by the value of the assets created within the revenues received through charging of the fees.
3. If the revenue received within the frames of connection of new consumers to the network, increase of the capacity to be connected, metering node installation or connection of micro power plants exceeds the cost of the assets created within this connection, regulatory cost base of the utility shall be subject to reduction by the positive difference existing between the revenues received within this connection and the expenditures borne for it.
4. Except for the cases defined in Paragraph 2 of this Article, if works on the electricity network are carried out based on mutual agreement between the utility and the consumer and received revenue exceeds the expenditures borne by the utility for these works, regulatory cost base of the utility shall be subject to reduction by 50% of the positive difference existing between received revenue and borne expenses.

5. If the expenditures borne for the works indicated in Paragraph 4 of this Article are reflected in the regulatory asset base of the utility, subject to regulatory cost audit, it (regulatory asset base) shall be subject to reduction by the full value of this asset.
6. At the first stage of connection to the electricity transmission network, when revenues received by the utility have been charged in accordance with the fees defined by Resolution of the Commission, regulatory cost base of the utility shall be subject to reduction by the amount of the connection fee, paid by the connection seeker, except for the cases when the utility is obliged to return the first stage fee to the applicant.
7. At the second stage of connection to the electricity transmission network, when revenues received by the utility have been charged in accordance with the fees defined by Resolution of the Commission, regulatory asset base of the utility shall be subject to reduction by the value of the assets, created by the connection seeker within the paid connection fee.
8. If the revenue received through the fee for the second stage of connection to the electricity transmission network exceeds the value of the assets created within this connection, regulatory cost base of the utility shall be subject to reduction by the positive difference existing between the connection fee and the expenditures borne for connection.
9. Except for the cases defined in Paragraphs 6 and 7 of this Article, if the works on connection to the electricity transmission network are carried out based on mutual agreement between the utility and the connection seeker and received revenue exceeds the expenditures borne by the utility for this connection, regulatory cost base of the utility shall be subject to reduction by 50% of the positive difference existing between received revenue and the expenditures borne for connection.
10. If the expenditures borne for the works on connection to the electricity transmission network, indicated in Paragraph 9 of this Article, are reflected in the regulatory asset base of the utility subject to regulatory cost audit, it (regulatory asset base) shall be subject to reduction by the full value of this asset.
11. If the utility fails to ensure submitting of the revenues and costs related to connection of new consumers to the network, increase of the capacity to be connected, installation of metering nodes or connection of micro power plants to the network, in accordance with the application on requesting the service, an approach different from the principles defined in this Article shall be used for the purpose of correcting the regulatory asset base and/or the regulatory cost base.

Chapter VI. Other Revenue

Article 15. Received Revenue

1. Within the regulatory cost audit of the utility, subject to tariff regulation, audit team shall perform an audit of revenues of this utility.
2. Revenues of the utility, subject to regulatory cost audit, shall be grouped according to the following content:
 - a) Operational revenue, formed as a result of performance of specific regulated activity;
 - b) Other operational revenue, received by the utility as a result of delivery of services/goods, related to specific regulated activity and the conditions of such service shall be defined by normative-administrative Act of the Commission;
 - c) Non-operational revenue, formed for income received as a result of any activity, except for the revenue envisaged in Subparagraphs “a-b” of Paragraph 2 of this Article.
3. If the utility carries out other entrepreneurial activity, along with the activity subject to tariff regulation, and receives revenue, the utility shall be obliged to separately account for the costs and revenues related to such activities, for the purpose of identification of the expenditures related to receipt of specific revenue, as a result of which the revenue (or profit) received from this activity shall not be subject to correction.
4. If received revenue is formed while using the assets, reflected in the utility's regulatory asset base and the human resources, employed in regulated activity, in other entrepreneurial activities, the utility shall be obliged to indicate about such assets and human resources of common use, in order to allocate the expenditure, related to receipt of specific revenue, to the relevant entrepreneurial activity.
5. If a revenue received by the utility cannot be connected to the relevant expense in accordance with the requirements of Paragraphs 3 and 4 of this

Article, regulatory cost base of the utility shall be subject to full reduction by the revenue received from such entrepreneurial activity.

6. Within the frames of the audit of other operational and non-operational revenue, received by the utility subject to tariff regulation, audit team shall determine the revenue or profit, received by the utility from other entrepreneurial activity, including use of the assets, reflected in the utility's regulatory asset base and the human resources, employed in regulated activity, in other entrepreneurial activities, which, in its turn, may be used for full or partial reduction of the utility's regulatory cost base, based on the percentage indicator envisaged in Annex 2 to this Rule.
7. In case of sale of retired, fully depreciated regulated assets, regulatory cost base of the utility shall be subject to reduction by 50% of the profit received from sale of these regulated assets, while in case of sale of not fully depreciated regulated assets – by 100%.
8. Regulatory cost base of the utility shall be subject to reduction by 100% of the fees charged within the frames of electricity supply restoration.

Chapter VII. Regulatory Cost Audit Report

Article 16. Structure of Regulatory Cost Audit Report

1. Report on the regulatory cost audit shall include the following issues:
 - a) Short review of the utility subject to regulatory cost audit, scale and main approaches of the regulatory cost audit;
 - b) Goals, objectives and legal basis of the regulatory cost audit;
 - c) Criteria, evidence, methods, data sources used in the regulatory cost audit process and restrictions on used data, specifically the conditions for using personal information and information containing commercial secrets;
 - d) Differing opinions of audit team members (including the Head of the audit team), occurring during the regulatory cost audit process, if applicable;
 - e) Findings and detailed information about the findings and evidence of the regulatory cost audit;
 - f) Conclusions;
 - g) Recommendations (if applicable).

2. Audit team shall submit to the Commission, at a public session, only the complete report, which includes a description and clarifications related to all the issues defined in the first Paragraph of this Article.
3. If the cost regulatory audit report is not compiled by the audit team while taking into account all the issues indicated in the first paragraph of this Article, such a report shall not be considered complete.

Article 17. Initial Report of Regulatory Cost Audit Team and Submitting of Related Comments

1. At the initial stage, audit team shall develop a draft of the regulatory cost audit report, which shall be submitted to the utility subject to regulatory cost audit as the initial report.
2. Initial report of the regulatory cost audit shall include all the issues defined in the first Paragraph of Article 16 of this Rule.
3. Initial report (along with the auxiliary Excel file) shall be sent in writing to the utility subject to regulatory cost audit for the purpose of becoming acquainted with it, while the period for submitting to the audit team the comments and clarifications on it shall be defined as no more than 10 working days.
4. If relevant comments and clarifications are submitted regarding the initial report, audit team shall be obliged to consider them and reflect a relevant justified position in the initial report of the cost regulatory audit.
5. If the utility subject to cost regulatory audit fails to submit the relevant comments and clarifications to the audit team within the deadline defined in Paragraph 3 of this Article, initial report of the regulatory cost audit shall be considered as the final report of the regulatory cost audit.

Article 18. Final Report of Regulatory Cost Audit and Its Public Availability

1. The status of the final report of the regulatory cost audit shall be granted to the initial report of the regulatory cost audit only after performance of the procedures envisaged in Article 17 of this Rule.
2. Final report of the regulatory cost audit shall be signed by the Head and members of the audit team, as well as by the Heads of the relevant structural units of the Commission, involved in the audit process.

3. Final report of the regulatory cost audit shall be submitted to the Commission and discussed at a public session of the Commission, in compliance with the rule envisaged in the legislation of Georgia.
4. Final report of the regulatory cost audit shall be sent to the utility subject to cost regulatory audit and it shall be notified of the time and location of considering it at the public session.
5. Final report of the regulatory cost audit shall be public and available to any person.

Principles of Distribution of Common Costs

No.	Cost to be distributed	Activity	Distribution object	Distribution ratio/allocator
1	Asset cost, depreciation corresponding to the cost, operational expenditures and staff number	Electricity generation	Hydro power plants; thermal power plant blocks	Installed capacity defined as a result of the latest audit
2	Asset cost and depreciation corresponding to the cost	Electricity distribution and transmission	Voltage levels	Regulated initial (balance) cost of regulated assets (defined under the latest audit)
3	Asset cost and depreciation corresponding to the cost	Electricity dispatch and transmission (including transit) (between activities)	Electricity dispatch and transmission activities (including transit)	Regulated initial (balance) cost of regulated assets (defined under the latest audit)
4	Cost of normative losses	Electricity distribution	Voltage levels	Amount of forecasted sold goods, defined as a result of latest audit, unless otherwise envisaged in the relevant normative Act (Rule for calculation of normative losses)

5	Cost of wheeling of electricity in the networks belonging to third parties	Electricity wheeling	Voltage levels	Number of consumers, services to whom are provided by this network, defined as a result of latest audit
6	Cost of wheeling of electricity in the networks belonging to other distribution licensees	Electricity wheeling	Voltage levels	Number of consumers, services to whom are provided by this network, defined as a result of latest audit
7	Salary fund of technical personnel and number of technical personnel	Electricity distribution and transmission; Electricity dispatch and transmission; (including transit) (between activities)	Voltage levels; Electricity dispatch and transmission activities (including transit)	Number of consumers, services to whom are provided by this network, defined as a result of latest audit
8	Salary fund of the billing service and number of billing service employees	Electricity distribution	Voltage levels	Number of metering nodes (at the end of the base year), defined as a result of latest audit
9	Salary fund of administrative staff and number of administrative staff	Electricity distribution and transmission; Electricity dispatch and transmission; (including transit) (between activities)	Voltage levels; Electricity transmission and dispatch activities	Number of staff derived as a result of allocation of directly employed staff members to specific tariff units and/or price-deregulated

				units and distribution of common employees, while taking into account Paragraphs 8 and 9
10	Costs of main and auxiliary materials	Electricity distribution and transmission; Electricity dispatch and transmission; (including transit) (between activities)	Voltage levels; Electricity transmission and dispatch activities	Regulated initial (balance) cost of regulated assets (defined under the latest audit)
11	Costs of ongoing repairs of main production assets	Electricity distribution and transmission; Electricity dispatch and transmission; (including transit) (between activities)	Voltage levels; Electricity transmission and dispatch activities	Regulated initial (balance) cost of regulated assets (defined under the latest audit)
12	Costs of ongoing repairs of main administrative assets	Electricity distribution and transmission; Electricity dispatch and transmission; (including transit) (between activities)	Voltage levels; Electricity transmission and dispatch activities	Regulated initial (balance) cost of regulated assets (defined under the latest audit)
13	Costs of utility services	Electricity distribution and transmission;	Voltage levels; Electricity	Number of staff derived as a result of allocation of directly

		Electricity dispatch and transmission; (including transit) (between activities)	transmission and dispatch activities	employed staff members to specific tariff units and/or price-deregulated units and distribution of common employees, while taking into account Paragraphs 8 and 9
14	Communication costs	Electricity distribution and transmission; Electricity dispatch and transmission; (including transit) (between activities)	Voltage levels; Electricity transmission and dispatch activities	Number of staff derived as a result of allocation of directly employed staff members to specific tariff units and/or price- deregulated units and distribution of common employees, while taking into account Paragraphs 8 and 9
15	Stationery costs	Electricity distribution and transmission; Electricity dispatch and transmission; (including transit) (between activities)	Voltage levels; Electricity transmission and dispatch activities	Number of staff derived as a result of allocation of directly employed staff members to specific tariff units and/or price-deregulated units and distribution

				of common employees, while taking into account Paragraphs 8 and 9
16	Business trip costs	Electricity distribution and transmission; Electricity dispatch and transmission; (including transit) (between activities)	Voltage levels; Electricity transmission and dispatch activities	Number of staff derived as a result of allocation of directly employed staff members to specific tariff units and/or price- deregulated units and distribution of common employees, while taking into account Paragraphs 8 and 9
17	Consultation costs	Electricity distribution and transmission; Electricity dispatch and transmission; (including transit) (between activities)	Voltage levels; Electricity transmission and dispatch activities	Regulated initial (balance) cost of regulated assets (defined under the latest audit)
18	Representation costs	Electricity distribution and transmission; Electricity dispatch and transmission;	Voltage levels; Electricity transmission and dispatch activities	Regulated initial (balance) cost of regulated assets (defined under the latest audit)

		(including transit) (between activities)		
19	Security costs	Electricity distribution and transmission; Electricity dispatch and transmission; (including transit) (between activities)	Voltage levels; Electricity transmission and dispatch activities	Regulated initial (balance) cost of regulated assets (defined under the latest audit)
20	Lease costs	Electricity distribution and transmission; Electricity dispatch and transmission; (including transit) (between activities)	Voltage levels; Electricity transmission and dispatch activities	Regulated initial (balance) cost of regulated assets (defined under the latest audit)
21	Property insurance costs	Electricity distribution and transmission; Electricity dispatch and transmission; (including transit) (between activities)	Voltage levels; Electricity transmission and dispatch activities	Regulated initial (balance) cost of regulated assets (defined under the latest audit)
22	Health insurance costs	Electricity distribution and transmission; Electricity dispatch and transmission;	Voltage levels; Electricity transmission and dispatch activities	Regulated initial (balance) cost of regulated assets (defined under the latest audit)

		(including transit) (between activities)		
23	Market operator service costs	Electricity distribution	Voltage level	Amount of electricity distributed (without wheeling) in the associated month
24	Property tax (except for land)	Electricity distribution and transmission; Electricity dispatch and transmission; (including transit) (between activities)	Voltage levels; Electricity transmission and dispatch activities	Regulated initial (balance) cost of regulated assets (defined under the latest audit)
25	Property tax on land	Electricity distribution and transmission; Electricity dispatch and transmission; (including transit) (between activities)	Voltage levels; Electricity transmission and dispatch activities	Regulated initial (balance) cost of regulated assets (defined under the latest audit)
26	Other tax costs	Electricity distribution and transmission; Electricity dispatch and transmission; (including transit) (between activities)	Voltage levels; Electricity transmission and dispatch activities	Regulated initial (balance) cost of regulated assets (defined under the latest audit)
27	Other operational expenditures	Electricity distribution and	Voltage levels; Electricity	Regulated initial (balance) cost of

		transmission; Electricity dispatch and transmission; (including transit) (between activities)	transmission and dispatch activities	regulated assets (defined under the latest audit)
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Annex 2

No.	Name	Correction percentage	Note
1	Revenue received from services and/or goods delivered to an associated utility	100%	Received profit or revenue is fully subject to correction
2	Revenue, the expenditures related to which are identified in the operational and capital expenditures of the utility	50%	Received profit is subject to correction
3	Revenue, the expenditures related to which cannot be identified in the operational and capital expenditures of the utility	100%	Received revenue is subject to correction
4	Various revenues	100%	Any revenue, about the content of which the utility has not submitted detailed information

Regulated Asset Depreciation/Amortization Rates of Utilities Under Tariff Regulation

1. The following rates of depreciation/amortization of regulated assets shall be used for the assets created or purchased by the utilities subject to tariff regulation after January 1, 2018:

№	Common assets	Annual rate of depreciation/ amortization (%)	Useful life (year)
1	Bridges of all types and structures (except for wooden bridges and metal bridges on wooden abutments)	1.0	100
2	Wooden bridges and metal bridges on wooden abutments	5.0	20
3	Concrete, reinforced concrete and stone overpasses, elevated roads	2.5	40
4	Cement-concrete roads	2.0	50
5	Asphalt-concrete road	3.33	30
6	Crushed rock and gravel roads	5.0	20
7	Containment and protective structures – stone, concrete, reinforced concrete (landslide protection, anti-avalanche, anti-collapse pillars, carrying walls, etc.)	1.66	60
8	HPP and pump storage buildings (concrete and reinforced concrete: run-of-river, spillway and pier-type, with reservoir, derivational, underground)	1.82	55
9	Administrative buildings	1.54	65
10	Residential buildings belonging to station	1.0	100

11	Substation buildings	1.66	60
12	Warehouse areas and simple structures	5.0	20
13	Parking area	4.0	25
14	Metal/panel containers	5.0	20
15	Furniture and mobile equipment	10.0	10
16	IT and office equipment	20.0	5
17	Tools / devices	20.0	5
18	Phones and radio communication equipment	20.0	5
19	Light vehicles	12.5	8
20	Heavy vehicles and special equipment	8.33	12
21	Bridge crane (stationary and portable)	4.0	25
22	Intangible Assets	20.0	5
	Hydro-technical structures		
23	Concrete and reinforced concrete dams	1.0	100
24	Reservoirs of embankment dams	1.33	75
25	Derivation channels and power plant pools	1.0	100

26	Spillways and water intakes, clarifiers, aqueducts, drain tunnels, grooves and fish bypass constructions)	2.0	50
27	Penstocks and balancing reservoirs, pressure tanks with free water supply pipes and shields for washing deep sediments, with lifting devices	1.0	100
28	Reinforced concrete, concrete and embankment protection structures	3.33	30
29	Unlined levees bounded with soil	1.0	100
30	Hydro-technical structures on channels (sluices, spillways, spillway channels, cantilever spillways)	2.5	40
31	All types of regulating (rectifying) structures (structures regulating the interaction of river flow and riverbed, impact of flow direction and waves on reservoir shorelines, river barriers, spurs, dam ponds, flow-guiding systems, embankment structures, water-jet structures)	10.0	10
32	Front locks of pipelines and turbines	3.33	30
33	Hydraulic turbines combined with generators and ancillary equipment (ancillary equipment includes: cooling systems, shields, lifting mechanisms, gratings, oil facilities, water supply and drainage systems, pneumatic facilities)	3.33	30
34	Hydraulic turbines	3.33	30
35	Generators	4.0	25
36	Regulators (speed, voltage and excitation systems)	4.0	25
	Thermo-technical structures		
37	Steam turbines with generators and ancillary equipment*	4.0	25
38	Air turbine machinery with peak and half-peak modes of operation	4.0	25

39	Air turbine machinery with base mode of operation	3.33	30
40	Boilers and stationary steam boilers with ancillary boiler equipment**	4.0	25
41	Ancillary thermomechanical power equipment (thermal supply equipment, pumps, water chemical treatment volumes and equipment, boiler machinery with pumps, and other thermo-mechanical power equipment for the whole station)	4.0	25
42	Water chemical treatment pumps and reinforcements in aggressive environments	5.0	20
43	Cooling tower	3.33	30
44	Diesel-generators	5.0	20
45	Compressors	7.69	13
46	Gas pipelines	2.5	40

	Network components	Annual rate of depreciation/ amortization (%)	Useful life (year)
47	Overhead lines 500 kV	2.22	45
48	Overhead lines 400 kV	2.22	45
49	Overhead lines 330 kV	2.22	45
50	Overhead lines 220 kV	2.22	45
51	Overhead lines 110 kV	2.22	45
52	Cable lines 110 kV	2.5	40
53	Overhead lines 35 kV	2.85	35
54	Cable lines 35 kV	3.33	30

55	Overhead lines 6/10 kV	3.33	30
56	Cable lines 6/10 kV	3.33	30
57	Overhead lines 220/380 V	3.33	30
58	Cable lines 220/380 V	3.33	30
59	Communication underground cable lines	2.85	35
60	Communication cable overhead lines	3.33	30
61	Power transformers	3.33	30
62	Breakers	3.33	30
63	Disconnecter switches	3.33	30
64	Distribution equipment (bus bar)	2.5	40
65	Lightning protection systems	4.0	25
66	Overvoltage protection equipment	4.0	25
67	Measuring transformers	4.0	25
68	Cable ducts/tunnels	2.22	45
69	Metal structures (abutments, portals, cross bars)	2.22	45
70	Communication, telemetry and remote control equipment	5.0	20
71	Relay protection equipment	5.0	20
72	Control and signal cables (in buildings, tunnels, channels)	4	25
73	Convertors (rectifiers, invertors and voltage regulators)	6.67	15
74	Reactors	6.67	15
75	High-frequency filters	5.0	20

76	Synchronous compensators	4.0	25
77	Condensers	10	10
78	Grounding equipment	5.0	20
79	Meters (compatible with the Automated System for Electricity and Capacity Control and Metering and the Automated System for Commercial Metering)	5.0	20
80	Meters (without load profile)	10.0	10
81	Internal and external lighting and connecting equipment	3.33	30
82	Electric motors up to 100 kW	10.0	10
83	Electric motors more than 100 kW	8.33	12
84	Stationary acid batteries	6.66	15
85	Stationary alkaline batteries	12.5	8
86	Portable acid batteries	33.33	3

*Ancillary equipment of turbo units includes: condensers, condensate pumps, air coolers, circulators, turbo feed pump, deaerators, reductive cooling machinery and evaporator, oil facilities, ejectors, regenerative heating devices, exciters, air coolers, electrical equipment of turbo generators existing on site

** boiler machinery includes main and ancillary equipment, in particular:

- a) Boilers itself: cylinder, steam overheaters, economizers, air heaters, etc.;
- b) Ventilation equipment;
- c) Ash collectors;
- d) Hydro ash treatment equipment (within the boiler): shaft frame, washing shaft, grinders, ash collector devices, charging box, transient inlet pipe, shield lockers, valves, casing, pipelines, ash removing devices, ejector water pumps, washing equipment, sluice gates without sand, iron traps, as well as electric devices and cables;

- e) Coal dust manufacturing equipment and transport for coal dust, mills, feeders, screws, belt scales, cyclones, separators, bins for unprocessed coal and coal dust (intermediate), dust duct and air duct, inlet pipes, isolating and regulating valves, remote actuators;
- f) Thermal controlling and measuring devices of boiler equipment and automation.