

GEORGIAN LAW ON ELECTRICITY AND NATURAL GAS

CHAPTER 1.

GENERAL PROVISIONS

Article 1. Objectives and Purposes of the Law

1. This law shall regulate relations and activities of Sole entrepreneurs, Physical persons and Legal entities in the areas of water supply, electricity system management, wholesale electricity (capacity) trade, electricity generation, transmission, dispatch, distribution, import, export and consumption, as well as in the areas of natural gas supply, import, export, transportation, distribution and consumption, and shall ensure functioning and development of water supply, electricity and natural gas sectors in Georgia, in accordance with market economy principles. This Law shall not apply to extraction and/or production of underground or surface water, to exploration, production, processing and storage of natural gas, to relations between the producer and supplier of natural gas, as well as to electricity and natural gas transit through the territory of Georgia. *(20.11.2007#5466)*.
2. The purpose of this Law is:
 - a. Ensure, through the development of competition and the regulation of existing non-competitive markets, establishment of water supply, electricity and natural gas markets and tariff systems, which shall accurately reflect economically justified electricity generation, transmission, dispatch, distribution, export, import and consumption costs, as well as costs of natural gas transportation, distribution, import, export, supply and consumption; *(20.11.2007#5466)*
 - b. Create legal foundation for reliable supply of electricity, natural gas water to all categories of consumers; *(5.07.2008 # 92)*
 - c. Support attraction of domestic and foreign investment for the rehabilitation and development of electricity, natural gas and water supply sectors; *(5.07.2008 #92)*
 - d. Support priority use of local hydro, other renewable, alternative and gas resources. *(9.06.2006 N3292 effective 1st September, 2006)*
3. The objective of this Law is:
 - a. To charge the Ministry of Energy of Georgia with the function of establishing main directions of the state policy in the electricity and natural gas sector, ensuring their implementation, and creating and adopting the legal framework; also to relieve the Ministry of ownership, operative-economic and regulatory functions; *(27.12.2005 N2537)*
 - b. To determine main principles of regulating electricity generation, transmission, dispatch, distribution, import, export, as well as natural gas supply, import, export, transportation and distribution; also to determine main principles of regulating consumer relations and activities based on transparency and equality, and to establish

legal foundation for the creation of an independent regulatory framework of the energy sector for these purposes; (27.12.2005 N2537)

- c. To promote growth of efficiency in the areas of electricity generation, transmission, dispatch, distribution, import, export and consumption, as well as natural gas supply, import, export, transportation, distribution and consumption; (27.12.2005 N2537)
- d. To ensure development of competition in Georgia's electricity and natural gas markets;
- e. To ensure formation of markets and tariff systems in the electricity and natural gas sectors of Georgia and to create a legal framework of tariff regulation on their bases; The foregoing shall protect consumers from monopolistic tariffs, and at the same time shall promote long term financial stability and development of the energy sector; (9.06.2006 N3292 effective date 1st September, 2006)
- f. To charge Georgian National Energy and Water Supply Regulatory Commission with duties of tariff regulation in the areas of water supply and pass through and treatment of discharged liquids; (20.11.2007#5466)

Article 2. Definitions.

Terms used in this Law shall have the following meanings:

- a. "Transmission of Electricity" shall mean operation of the transmission network for the purpose of transporting electricity (capacity) through the transmission network from the point of receipt to the point of delivery; (27.12.2005 N2537)
- b. "Transmission Grid" shall mean electricity transmission facility, which connects receiving points to delivery points. Transmission Grid includes all transmission facilities operating above 110kV, including substations and transmission lines, also electricity circuits operating at 35 and 110kV, and relevant substations that are specifically identified in the Transmission License and are used for the system and inter-system transit of electricity. Other at 35 and 110 kV networks shall be a part of distribution facilities. The Ministry of Energy of Georgia shall approve the list of transmission lines used for system and inter-system transit of electricity; (27.12.2005 N2537)
- c. "Distribution Grid" shall mean facilities used for electricity (capacity) distribution, connecting delivery points to consumers. Distribution Grid includes all 0.4 - 6 - 10 – 35 – 110 kV facilities, except for those specified in Paragraph (b) of this Article. The same term shall designate natural gas distribution networks, which include 1.2 - 0.6 - 0.3 - 0.005 M Pascal pressure pipes; (27.12.2005 N2537)
- d. "Electricity Distribution" shall mean receipt of electricity (capacity) from two or more mutually independent delivery points and operation of the Distribution Grid; (8.06.2007 N4911) (*The Order of the Constitutional Court of Georgia #1/2/411 19.12.2008*)
- e. "Electricity Dispatch" shall mean technical management of licensees and consumers in order to ensure stable supply and consumption regime, and implementation of a parallel regime of operation of the electricity system of Georgia with electricity systems of (an)other country(ies). Only one Dispatch Licensee shall be allowed in Georgia; (27.12.2005 N2537)

- f.** "Commission" shall mean Georgian National Energy and Water Supply Regulatory Commission; (20.11.2007#5466)
- g.** "License" shall mean the right granted by GNERC resolution to a person meeting requirements defined by law to carry out activities defined in this Law. (20.11.2007#5466)
- h.** "License Holder (Licensee)" shall mean a person who received the right granted by GNERC Resolution to carry out activities defined in the License; (20.11.2007#5466)
- i.** "Receiving Point" shall mean the point where Transmission and/or Distribution Licensee receives electricity and capacity into the transmission and/or distribution grid from a network of a generation and/or other transmission and/or other distribution licensee, from the network of a small power generation plant or the electricity system of another country including electricity import, or a point where the natural gas Transportation Licensee receives natural gas into the transportation system including import;
- j.** "Delivery Point" shall mean the point where a Transmission and/or Generation Licensee, supplies electricity and capacity from the transmission and/or generation grid to a Distribution Licensee, Direct Customer and/or the electricity system of another country, or a point where a Natural Gas Transportation Licensee supplies natural gas from the transportation system to a Distribution Licensee, Direct Customer and/or transportation systems of other countries;
- k.** "Consumer" shall mean a direct or a retail consumer, as well as the person consuming potable water from the water supply system for his/her/ its own consumption purposes only; (5.07.2008#92)
- l.** "Direct Customer" shall mean a person receiving electricity (capacity) from networks owned by a power generation, transmission or distribution licensee, in compliance with the rules and conditions defined by the "Electricity (Capacity) Market Rules"; in the case of natural gas - a person receiving natural gas from the gas transportation system whose entity is not a Distribution Licensee; (27.12.2005 N2537)
- m.** "Regulation Fee" – a fee defined by the Law of Georgia on Regulation Fees; (27.12.2005 N2537)
- n.** "Generation of Electricity" shall mean connection of generation assets to transmission grids, distribution grids or consumer's networks and supply of electricity (or readiness to supply) to transmission grids, distribution grids or consumer's networks; also sale of this electricity; (9.06.2006. #3292, effective day 1st September, 2006)
- o.** "Exporter" shall mean a person who sells electricity (capacity) at the Delivery Point outside of Georgia; (27.12.2005 N2537).
- p.** "Importer" shall mean a person who receives and sells, and/or consumes electricity (capacity) from outside of Georgia at one or more Receiving Points; (9.06.2006. #3292, effective day 1st September, 2006)
- q.** "Georgian Wholesale Electricity Market (Wholesale Market)" shall mean a legal entity of private law created with the purpose of management of wholesale purchase and sale of electricity (capacity), a and step-by-step development of competition in the electricity sector; (27.12.2005 N2537) (will be abolished - 9.06.2006 N3292 effective date 1st September, 2006)

- r. Removed (27.12.2005 N2537)
 - s. Removed (27.12.2005 N2537)
 - t. “Electricity (Capacity) Market Rules” shall mean a document regulating operation of the electricity market, activities of the commercial system operator, technical, commercial and financial relations arising from electricity purchase-sale based on direct contracts or/and through commercial system operator, transmission, dispatch, operation of electricity systems in a parallel regime and consumption of electricity generated by the Generation Licensee for own needs, as well as compilation of electricity (capacity) balances and their implementation rules, conditions for entering into direct contracts and their effectiveness, defines categories of sellers of electricity for the purposes of differentiating conditions of their electricity sales; (9.06.2006 N3292 effective date 1st September, 2006))
 - u. Removed (27.12.2005 N2537)
 - v. “Natural Gas or Gas” shall mean hydrocarbons which are in gaseous state at 1.2 mpa pressure and 20⁰C temperature, and whose heat content is no less than 31.8 mega joule /m³ (7600 kilo calories/m³);
 - w. “Natural Gas Transportation System” or “Transportation System” shall mean – all pipelines, compressor stations, metering stations and any other facilities used for natural gas transportation, operating or designed to operate at pressures above 1.2 mpa, connecting Delivery and Reception Points and owned, managed or operated by a Transportation Licensee. The Transportation System includes all pipes and facilities operating or designed to operate at pressures above 1.2 mpa, including compressor stations, metering stations and other facilities indicated in the Transportation License;
 - x. “Natural Gas Transportation Activity” shall mean operation of the Transportation System, with the purpose of transporting natural gas through the Transportation System from the Reception Point to the Delivery Point; (27.12.2005 N2537)
 - y. “Natural Gas Distribution Activity” shall mean receipt of natural gas from one or more Delivery Points, operation of the Distribution System and natural gas supply to consumers at their request, within a specific distribution network; (27.12.2005 N2537)
 - z. “Supplier” shall mean a person who buys natural gas and sells it to other Suppliers and/or other consumers, as well as a person providing water supply; (20.11.2007#5466)
- z¹. “The Ministry” shall mean the Ministry of Energy of Georgia; (27.12.2005 N2537)
- z². “Natural Gas Market Rules” shall mean a document regulating commercial, financial and technical relations arising from natural gas purchase-sale, pass through and transportation including compilation of natural gas balances and their implementation; (27.12.2005 N2537)
- z³. “Operation of the Power System in a Parallel Regime” shall mean synchronized operation of the Georgian power system and power systems of (an)other country(ies) during which electricity (capacity) flows between the systems; (27.12.2005 N2537)

z⁴. “Balance of Electricity Flow” shall mean the difference between electricity volumes exchanged during a Parallel Regime of Operation as of the expiration date of the agreement; (27.12.2005 N2537)

z⁵. “Reliability Standard” shall mean the ability of a Transmission or a Transportation Licensee to meet necessary conditions for the operation of the system despite variations in operating conditions. This standard may be incorporated in the relevant Market Rules, as well as relevant licenses; (27.12.2005 N2537)

z⁶. “Reliability Standard of the Contracting Party” shall mean the requirement that Dispatch or Transportation Licensee and the other contracting party be obligated to adequately reflect their expected load and variations therefrom in such a way not to impose undue costs on their counter-parties. Said standard may be reflected in relevant Market Rules as well as relevant licenses; (27.12.2005 N2537)

z⁷. “Deregulation” shall mean granting a Generation Licensee the right, to operate without setting tariffs or granting a small hydro-power plant the right to operate without a License and without setting tariffs, pursuant to an administrative-legal act issued in accordance with this Law, as well as granting the right to operate without setting tariffs on the supply of natural gas; In addition, in the case of a construction of new Natural Gas Transportation or Distribution networks, granting the right to operate without setting transportation or distribution tariffs respectively;

Z⁸. “Partial Deregulation” shall mean granting a Generation Licensee the right, to operate based on a marginal tariff or granting a small hydro-power plant the right to operate based on a marginal tariff and without a License, pursuant to an administrative-legal act issued in accordance with this Law, as well as granting the right to operate based on a marginal tariff for the supply of natural gas; In addition, in the case of a construction of new Natural Gas Transportation or Distribution networks, granting the right to operate based on marginal transportation or distribution tariffs respectively; (8.06.2007. #4911)

Z⁹. “State of Emergency” shall mean events defined in the Georgian Law on the State of Emergency; (27.12.2005 N2537)

Z¹⁰. “Market Rules” shall mean Electricity (capacity) Market Rules and Natural Gas Market Rules; (27.12.2005 N2537)

z¹¹. Rules for Supply and Consumption – shall mean “Rules for Supply and Consumption of Electricity (Capacity),” “Rules for Supply and Consumption of Natural Gas” and “Rules for Supply and Consumption of Water”; (5.07.2008#92)

z¹². “Rules for Supply and Consumption of Electricity (Capacity)” shall mean a document regulating relations between Distribution Licensees, Generation Licensees, and small power plants, on one hand, and retail consumers, on the other, during the sale, purchase, distribution, transmission and/or consumption of electricity through the Distribution Grid;

z¹³. “Rules for Supply and Consumption of Natural Gas” shall mean a document regulating relations between Suppliers, Distribution Licensees, Generation Licensees, and/or retail consumers during the sale, purchase, distribution, transportation and/or consumption of natural gas through the Distribution Network;

z¹⁴. “Small Power Plant” shall mean a power plant with a design capacity not exceeding 13 MW; (7.03.2008 N5803)

- z¹⁵. "Retail Consumer" shall mean a person receiving electricity (capacity) from the Generation, Transmission or Distribution Grid, or a person receiving natural gas from the Distribution Licensee's network only for his/her/its own consumption who is not a Direct Customer; (9.06.2006 N3292 effective date 1st September, 2006))
- z¹⁶. "Direct Agreement" shall mean a bilateral power purchase agreement between the wholesale buyer and seller of electricity (qualified enterprises) defining quantity, price, term, conditions and quality parameters of the electricity (capacity) to be purchased, which agreement is duly registered by Dispatch Licensee;
- z¹⁹. "Balance Electricity" shall mean electricity (capacity) purchased and/or sold by qualified enterprises, which is used to satisfy actual needs of buyers and sellers, including balancing of volumes of electricity stipulated in Direct Agreements; (9.06.2006 N3292 effective date 1st September, 2006)
- z²⁰. "System Reserve Capacity" shall mean capacity provided in accordance with relevant contracts from guaranteed reserve sources, which serves the objective of reliable operation of the country's unified electricity grid, and has relevant dispatch readiness quality and volume as defined in the "Electricity" (capacity) Market Rules" (8.06.2007 #4911)
- z²¹. "Qualified Enterprise" shall mean Generation and Distribution Licensees, Direct Customers, Importers, Exporters, a Commercial System Operator, small hydro-power plants, who have the right to participate in wholesale electricity (capacity) trade under this Law and the Electricity (Capacity) Market Rules;
- z²². "Commercial Operator of the Electricity System" (hereinafter Commercial System Operator) shall mean a commercial legal entity of private law buying and selling balance electricity and reserve capacity in order to satisfy (to balance) the demand (actual and forecast) of Qualified Enterprises. Commercial System Operator shall carry out activities stipulated under this Law in accordance with Georgian legislation; (8.06.2007 #4911)
- z²³. "Long Term Tariff" shall mean a pre-defined, fixed or marginal tariff set for a period of no less than 3 years. (9.06.2006 N3292 effective date 1st September, 2006)
- z²⁴. "Source of Guaranteed Reserve" shall mean a thermal power plant or/and a newly constructed power station (Generation Licensee), which, at the request of Dispatch Licensee shall supply predetermined capacity to the power system, pursuant to the rules and terms defined in this Law and in "Electricity (capacity) Market Rules".
- z²⁵. "Pass Through" shall mean transfer of electricity (capacity), except for transmission service, owned by another person to the electricity grid belonging to a person identified in advance, through the grid of a Distribution or a Generation Licensee, a small plant or a Direct Customer; Also, Transportation of natural gas owned by another person through natural gas Distribution Licensee's network; 8.06.2007 N4911).
- z²⁶. "Water Supply" shall mean operation of potable water supply system, supply of potable water and water drainage; (20.11.2007 # 5466).
- z²⁷. "Potable Water" shall mean water of appropriate quality as defined by technical regulations of potable water;
- z²⁸. "Drainage System" shall mean passing of waste waters and treatment (cleaning of water) up to permissible standards by means of treatment facilities;

Z²⁹. “Potable Water Supply System” shall mean aggregation of Water Supply, transportation and distribution networks (pipelines, reservoirs, open and closed canals, pumping stations if necessary, etc.) used for supplying water consumers with potable water;

Z³⁰. “Potable Water Supply” shall mean supplying water consumers with Potable Water through Potable Water Supply System.

Z³¹. “Potable Water Supply and Consumption Regulations” shall refer to the document that regulates relations between the supplier and the consumer when purchasing, selling, supplying and consuming Potable Water through Water Supply System.

CHAPTER 2.

NATIONAL POLICY IN ELECTRICITY AND NATURAL GAS SECTORS

Article 3. Electricity and Natural Gas Policy Formation and Implementation.

1. The Ministry shall formulate main directions of the state policy in the energy sector and ensure its implementation upon approval by the Parliament of Georgia. For the purposes of implementing this goal, the Ministry shall have the following main functions: (27.12.2005 N2537)

- a) Formulate short, medium, and long-term strategies and priorities in the energy sector, as well as develop and coordinate programs based upon them;
- b) Support attraction of short, medium, and long-term investments and credit resources, as well as implementation of state investments for the rehabilitation and development of the energy sector;
- c) Support optimization of restructuring and privatization processes of state owned enterprises in the energy sector; Support development of competition in electricity and natural gas markets; Also, develop rules and strategies for conservation and liquidation of facilities in these sectors;
- d) Participate in the formation and development of the legislative and normative framework; monitor technical and economic condition of the energy sector;
- e) Develop and coordinate implementation of a uniform state program targeted at increasing efficiency in the areas of Electricity Generation, Transmission, Dispatch, Distribution, Import, Export and consumption, as well as Natural Gas Supply, Import, Export, Transportation, Distribution and consumption;
- f) Support development of scientific-research, design-construction and educational areas in the energy sector; Also aid attraction of investments and credit resources, and implement state investments;
- g) Promote environmental protection in the energy sector, and optimal reflection of ecological aspects in energy programs during their development and implementation;

- h) Promote cooperation between Licensees, Importers, Exporters, Suppliers and energy entities in foreign countries; Also, support transit and import/export relationships in the electricity and natural gas sectors;
- i) Develop state emergency strategies for the energy sector;
- j) Determine security strategy for the energy sector and develop recommendations; also study emergency situations and other technical malfunctions, and prepare relevant conclusions about them;
- k) Support increased production of energy resources, give priority to the development of renewable (alternative) energy sources, and promote energy efficiency measures related to the increase of the production effectiveness.
- l) Removed (5.07.2008#92)

2. Conduct of ownership, regulatory, economic and operational activities in the electricity and natural gas sectors are not within the realm of the Ministry's functions.

3. The Ministry approves the following documents by means of a normative legal act, an Order: (27.12.2005 N2537)

- a. Electricity (capacity) balance;
- b. Natural gas balance;
- c. Electricity (Capacity) Market Rules;
- d. Natural Gas Market Rules;
- e. Rules of Installation and Operation of Energy Facilities and other Technical Equipment;

4. The Ministry is authorized to make decisions on Deregulation or Partial Deregulation, based on the state energy policy.

5. Normative administrative-legal acts referenced in Paragraphs 3 and 4 of this Chapter, with the exception of acts defined in sub-paragraphs a) and b) of paragraph 3, shall be issued (approved) in accordance with public administration rules provided in the General Administrative Code of Georgia, including participation of the Commission and other interested parties. (9.06.2006 N3292 effective date 1st September, 2006)

CHAPTER 3.

GEORGIAN NATIONAL ENERGY AND WATER SUPPLY REGULATORY COMMISSION

Article 4. Status and Functions of Georgian National Energy and Water Supply Regulatory Commission.

1. Georgian National Energy and Water Supply Regulatory Commission (hereinafter “the Commission”) is an entity defined under the Law of Georgia on Independent Regulatory Bodies”, and is not founded on the basis of state property. (20.11.2007 #5466)

2. Legal bases for the Commission's activities are Georgian Constitution, international treaties and agreements, this law, the Charter of the Commission, and other legal acts.
3. The Charter, structure and personnel schedule of the Commission shall be developed and approved by the Commission.
4. The Commission has the authority to issue Licenses and to regulate activities of Licensees, Importers, Exporters, Commercial System Operator and Suppliers within the electricity and natural gas sectors of Georgia. (9.06.2006 N3292 effective date 1st September, 2006))
5. Main functions of the Commission are:
 - a. To establish rules and conditions for granting Generation, Transmission, Dispatch, Distribution Licenses, as well as Natural Gas Transportation and Distribution Licenses; also to grant, to modify and to revoke Licenses in accordance with provisions of the Law of Georgia on Licenses and Permits, this Law and licensing rules; (27.12.2005 N2537)
 - b. To set and regulate tariffs for Electricity Generation, Transmission, Dispatch, Distribution, Pass Through, Import and Consumption, services of the Commercial System Operator and Electricity System Reserve; also to set and regulate tariffs for Natural Gas Transportation, Parr Through, Distribution, Delivery and Consumption, excluding tariffs for natural gas sold at the auto gas stations, in accordance with this Law, main directions of the state policy in the energy sector, and administrative legal acts adopted pursuant to this policy and established methodology; (5.07.2008#92)
 - c. To resolve disputes between Licensees, Importers, Exporters, Suppliers, Consumers, and the Commercial System Operator; (9.06.2006 N3292 effective date 1st September, 2006)
 - d. To establish control over compliance with the conditions of Licenses within the electricity and natural gas sectors of Georgia, and in the cases of violations take measures in accordance with the law;
 - e. To organize and coordinate certification activities within the energy sector;
 - f. Removed. (27.12.2005 N2537)
 - g. Removed. (27.12.2005 N2537)
 - h. To set Water Supply tariffs.

Article 5. Resolutions of the Commission

1. The Commission, within its competence, issues normative administrative-legal acts – Resolutions. The Commission approves the Charter, operational rules and procedures, procedures for dispute resolution, regulatory fee amount and its calculation methodology, licensing rules, supply and consumption rules, tariff methodology, tariffs (including marginal tariffs), normative losses and their calculation methodology by its Resolutions. A Resolution of the Commission may also be issued in other cases specified by normative acts. (9.06.2006 N3292 effective date 1st September, 2006))

2. The Commission, within its sphere of competence, is authorized to make decisions on certain specific issues under this Law, including issues arising from its Resolutions. (27.12.2005 N2537)
3. Resolutions and decisions of the Commission are adopted by the majority of votes of the Commission Members at the Commission's meetings. The meeting of the Commission is authorized if at least three members of the Commission are present. Compliance with Resolutions and decisions of the Commission is mandatory for Licensees, Suppliers, Importers, Exporters, Consumers and the Commercial System Operators. 1st September, 2006)) (2.10.2008 #317)

Article 6. Members of the Commission and Duration of Membership.

1. The Commission shall consist of five members. President of Georgia appoints and dismisses the members of the Commission.
2. A person can be appointed as a member of the Commission if he/she is a citizen of Georgia, has higher education and possesses qualification and experience necessary to carry out functions defined under this Law. (27.12.2005 N2537)
3. Members of the Commission are appointed upon the nomination by the Chairman, for a term of six years. A member may be re-appointed for an additional six-year term. If a position of a member of the Commission is vacated prior to the expiration of his/her term, the President, upon nomination by the Chairman, shall appoint a new member to serve out the remainder of that term.
4. Each member shall have one vote in the Commission's decisions.

Article 7. Discontinuation of Authority and Dismissal of Members of the Commission.

1. Authority of a member of the Commission is terminated, if:
 - a. He/she voluntarily resigns;
 - b. An accusatory decision is made by the court against him ;
 - c. The court declares him/her incompetent or missing;
 - d. His/her citizenship changes;
 - e. He/she violates provisions of the Law "On Conflict of Interests and Corruption in Public Service" of Georgia;
 - f. He/she fails to perform his/her official duties continuously for four months;
 - g. He/she dies.
2. A member of the Commission can be dismissed only in accordance with the provisions of paragraph 1 above.
3. A Member of the Commission has the right to appeal a decision about his/her dismissal in accordance with the provisions of the existing legislation.

Article 8. The Chairman; Duties of the Chairman.

1. The President of Georgia appoints one of the members of the Commission as the Chairman of the Commission. The Chairman may resign from his/her position but remain a

member of the Commission for the remainder of his/her term. During his/her absence, the Chairman may designate one of the other members to serve as Acting Chairman.

2. The Chairman presides over the meetings of the Commission, is responsible for following procedural rules during decision-making and adoption of resolutions as well as for their publishing, and for the administration of the Commission and its staff.

Article 9. Appointing and Dismissing Employees of the Commission.

For proper discharge of the Commission's duties the Commission has a staff. The Chairman of the Commission appoints or dismisses employees of the Commission in consultation with members of the Commission and in accordance with Georgian legislation. Employees of the Commission shall be equally subordinated to the members of the Commission, except on the issues of administrative management.

Article 10. Political Activities of the Commissioner.

A member of the Commission shall discontinue membership in any political party during his/her work at the Commission. Creation of political parties or social organizations, or their structural units within the Commission is prohibited.

Article 11. Powers and Duties in General.

1. The Commission shall give careful consideration to the main directions of the state energy policy, national security, economic, environmental, and other state policies, as well as to the normative administrative-legal acts adopted in accordance therewith. (27.12.2005 N2537)

2. The Commission shall allow relevant parties, including electricity, natural gas and potable water Consumers, to freely express their interests at the Commission meetings.(5.07.2008 #92)

3. The Commission members and its employees, within their competence, shall have unobstructed access to work with the personnel and documentation of Licensees, Importers, Exporters, Suppliers and Commercial System Operator, which are necessary for the implementation of the Commission's functions. (9.06.2006 N3292 effective date 1st September, 2006))

4. Within its competency, the Commission is authorized to verify correctness of all presented documents and data.

Article 12. Commission Sessions. Confidentiality of Information

1. The sessions of the Commission shall be public. The Commission's decisions and resolutions shall be published according the set rules.

2. 2. The Commission shall keep minutes of proceedings and other relevant documents for the period determined by the Commission. A member of the Commission shall have free access to information, records and documentation kept at the Commission.

3. All resolutions and decisions, orders, records and other documents of the Commission shall be open to public examination. The Commission shall adopt appropriate rules to ensure confidentiality of the information kept at the Commission, in accordance with the existing legislation.

Article 13. Conduct of the Commission Meetings

Before promulgating any Resolution or a decision, the Commission shall give a notice to interested parties and allow them an opportunity to attend the appropriate meeting of the Commission. In order to preserve confidentiality of the information, Commission is authorized to conduct meetings closed for public. The Resolutions and decisions made at closed meetings shall be published.

Article 14. Liability for Violation of the Law

The Commission is authorized to hold liable all legal persons or individuals, who violate the provisions of this Law or Resolutions and decisions of the Commission in accordance with the legislation.

Article 15. Appeals *(23.06.2005 N1738)*

A decision made by the Commission may be appealed in court in accordance with the existing rules and procedures.

Article 16. Meetings and Consultations of the Commission with Parties.

The Commission shall promulgate rules of meetings between members or employees of the Commission and interested parties. Pursuant to said rules, a member of the Commission is obligated to give interested parties a prior written notice about consultations and allow them an opportunity to participate in them.

Article 17. Conflict of Interest.

1. Georgian Law On Conflict of Interests and Corruption in Public Service determines conflicts of interest, rules of declaration of economic interests, and rules on the limitation of the Commissioners' activities; (17.10.97 Journal of Parliament N(44))
2. No staff member of the Commission shall have any direct or indirect, ownership or economic interest, or hold any position with any Licensee, Importer, Exporter, Supplier or Commercial System Operator. *(9.06.2006 N3292 effective date 1st September, 2006)*
3. Staff members of the Commission may be customers of a Licensee, Importer, or Supplier but said Licensee, Importer, Exporter or Supplier is prohibited to offer, and the staff member is prohibited to accept, free or discounted service from any of them. *(27.12.2005 N2537)*

Article 18. Personal Safety and Assistance in Further Employment

1. Threat, violence or any other illegal actions against members of the Commission, with regards to their performance of the official duties, is prohibited. Violation of this clause shall result in prosecution according to the existing rules and procedures.
2. The State shall provide assistance to the Commissioner in further employment upon completion of his/her membership term at the Commission.

Clause 19. Budget of Commission; Regulation Fee (27.12.2005 N2537)

1. The Commission shall, by October 1 of each year, approve its budget for the following year, which shall reflect all expenses of the Commission, including salaries and benefits of the members and the staff of the Commission. By September 15, the Commission shall establish a Regulation Fee sufficient to cover budgeted expenses of the Commission for the next year. Said fee shall be based on the forecast of the volume of work for the following year received by the Commission from Licensees, Importers, and Suppliers. The Commission is obligated to publish its budget.
2. The Regulations Fee shall be deposited into the Commission's account. The Commission shall have sole use of the funds. Any funds in the Commission's account not used during the current year shall be carried forward to the following year, with a corresponding reduction of the next year's Regulation Fee. If revenues received from the Regulation Fee are insufficient to cover current expenses of the Commission, the Commission shall be allowed to take out a loan. The loan and the interest thereon shall be paid off from the Regulations fee of the following year. State Budget may allocate funds and grants for the Commission's use.

Article 20. Financial Report; Audit.

1. By March 31 of each year the Commission shall prepare and publish a financial report of the past year, which shall reflect Regulation Fees paid to the Commission's account, and the use of the funds by the Commission during the year. The financial report shall also identify any loans taken out during that year and any other funds used by the Commission. The Commission shall make the financial report available to the public.
2. Review of the fiscal activities of the Commission shall be conducted in accordance with the existing legislation and shall be implemented by relevant authorities, including independent auditors appointed by the Commission. The audit shall not cause suspension of the Commission's ongoing work.

Article 21. Annual Report.

By March 31 of every year, the Commission shall make a report regarding its activities during the preceding year and send it to the President of Georgia, Parliament of Georgia and the Ministry. The report shall be made available to the public. (30.04.99 N1934 Journal Matsne N15 (22))

Chapter 4 (9.06.2006 N3292 effective date 1st September, 2006)

Wholesale Electricity (Capacity) Trade. Commercial System Operator

Article 22. Wholesale Electricity (Capacity) Trade

1. Purchase and sale of all electricity generated by all power stations which are part of the unified energy system of Georgia, as well as all electricity imported into

Georgia, shall be carried out through Direct Agreements or the Commercial System Operator, except for cases defined under this Law.

2. Parties to Direct Agreements for the sale and purchase of electricity and capacity shall register the agreements with Dispatch Licensee in compliance with the terms and procedures stipulated in the Electricity (Capacity) Market Rules. The Direct Agreement comes into force only upon its registration by Dispatch Licensee.
3. Dispatch Licensee has the right to deny registration of a Direct Agreements only if it does not comply with the existing legislation and/or deadlines for submitting Direct Agreements for registration.
4. If seller so requires, electricity and/or capacity purchase takes place only if the proof of payment in accordance with the existing legislation is presented.

Article 23. Commercial System Operator

1. Functions of the Commercial System Operator are as follows:

- a. Purchase and sale of balance electricity and capacity (including through execution of mid and long term import/export contracts);
- b. Provision of reserve capacity for the electric system in compliance with the provisions of this Law and Electricity (Capacity) Market Rules; *(8.06.2007 N4911)*
- c. Provision of relevant information to the Dispatch Licensee necessary for planning electricity and capacity supply and consumption in the unified power system of Georgia;
- d. Creation and maintenance of a purchase and sale database including a unified metering registry;
- e. Determination of amounts of power sold and purchased by electricity sellers and buyers according to the data received pursuant to article 35.3(f) hereof, and presentation of information required for financial settlement;
- f. Implementation of other functions stipulated under this Law.

2. Covering the difference between contracted and actual volumes of electricity and capacity during fulfillment of Direct Agreements on electricity and capacity. Also actual demand of buyers and sellers shall be satisfied by means of balance electricity sold/purchased based on Direct Agreements.

3. Commercial System Operator, who independently carries out functions stipulated in this Law, shall adhere to the provisions "Electricity (Capacity) Market Rules" and other normative-administrative legal acts.

4. Qualified Enterprises and parties to transit arrangements shall submit information needed for proper implementation of the Commercial System Operator' functions to the Commercial System Operator.

5. In case of an agreement between the government of Georgia, Commercial System Operator and an appropriate person, for the construction of a new power station in Georgia, the Commercial System Operator shall execute a Direct Agreement for the

purchase of electricity from the newly constructed power plant on the terms agreed upon between the government of Georgia, the Commercial System Operator and the appropriate person. If the newly constructed power station is deregulated pursuant to article 3.4 hereof, the cost of the electricity to be purchased shall be defined by an agreement the government of Georgia, the Commercial System Operator and the appropriate person. (5.07.2008 #92)

Article 23¹ System Reserve Capacity

1. Distribution Licensees, Direct Customers and Exporters are obligated to supply System Reserve Capacity with the required quantity in accordance with the procedures laid out in Electricity (Capacity) Market Rules and the main directions of the state policy in the energy sector.

2. Quantity of the Reserve Capacity necessary for ensuring safe operation of the unified electricity system of the country and for balancing delivery-consumption of the electricity (capacity) system, which has not been reserved by the Qualified Entity, shall be reserved by the Commercial System Operator and shall be paid for by the Qualified Entity in accordance with Georgian legislation and Electricity (Capacity) Market Rules.

3. System Reserve Capacity is at the disposal of the Dispatch Licensee and is used for balancing electricity (capacity) supply-consumption.

4. Readiness of the System Reserve Capacity is ascertained and verified by electricity Dispatch Licensee in accordance with the rules and frequency requirements set out in the Electricity (Capacity) Market Rules.

5. If during inspection of the readiness of the System Reserve, relevant degree and extent of the System Reserve Capacities are not confirmed from a certain reserve source, Dispatch Licensee must immediately act in accordance with the interests of the electricity system, also cancel registration of the relevant agreement, and forward relevant notices to the contracting parties and the Commercial System Operator without delay.

6. In order to become effective, contract for the provision of System Reserve Capacity requires compliance with the same terms and procedures as a Direct Agreement, including registration of the contract by the Dispatch Licensee. (8.06.2007 N4911)

Article 23² Electricity Import and Export

1. Electricity Import and Export may be done by any Person; Import and Export is done through Direct Agreements.

2. Removed (8.06.2007 N4911)

3. Removed (8.06.2007 N4911)

4. Removed (8.06.2007 N4911)

5. During registration of electricity import agreements Dispatch Licensee is allowed to leave a portion (reserve capacity) of the network transmission capacity unused, in accordance with the system reliability requirements.

Article 23³. Electricity Balances

1. Dispatch Licensee shall develop forecast Electricity Balance, which includes power supply and consumption indicators, and shall submit it to the Ministry for further approval.

2. For securing stable functioning of the energy system, Dispatch Licensee performs daily and hourly planning (and, if needed, double checking) of the generation installations and electricity (capacity) delivery sources based on the existing situation within the system and in accordance with approved Electricity Balances.(8.06.2007.#4911)

Article 23⁴. Electricity Trading by Small Power Plants

1. Small Power Plant is authorized to sell electricity to:
 - a. Qualified Enterprise;
 - b. Retail Customer.

CHAPTER 5.

LICENSES AND LICENSING PROCEDURES

Article 24. Issuing Licenses, Licensed Activities, Exceptions.

1. The Commission shall issue open ended (not limited in time) Licenses for the following activities (27.12.2005 N2537):

- a. Electricity Generation;
- b. Electricity Dispatch;
- c. Electricity Transmission;
- d. Electricity Distribution;
- e. Natural Gas Transportation;
- f. Natural Gas Distribution.

2. Electricity Generation, Transmission, Dispatch, Distribution, as well as Natural Gas Transportation and Distribution without a relevant License issued by the the Commission shall be prohibited, except for the cases described in Paragraph 3 of this Article. (27.12.2005 N2537)

3. Person generating electricity solely for his/her/its own consumption and not connected to Transmission or Distribution Grids shall not be required to obtain a License.

Article 25. Documents to Be Submitted by the License Applicant (27.12.2005 N2537)

1. In order to obtain a License,in addition to the requirements set out in other legal acts of Georgia, applicants under this Law shall submit the following documents together with the License application:

- a. A document certifying ownership (or the right to use) of production (operational) assets;
- b. A report certifying compliance of the technical condition of the production assets with standards;
- c. A list of fixed assets and a valuation audit report of the enterprise;
- d. Environmental impact study;
- e. Technical conditions for connection to the electricity or natural gas network of Georgia (except electricity dispatch license);
- f. Diagram of the electricity or natural gas network, relevant to the license application (except electricity dispatch licensees).

2. The study specified in Paragraph 1(d) of this Article shall be obtained by the issuer of the License based on a one stop shop principle as defined in the Law of Georgia on Licenses and Permits.

3. Issuers of documents specified in Paragraph 1 of this Article shall be defined in the licensing rules.

Article 26. Requirements for Issuing Licenses, Duration of Licenses

1. The Commission shall issue Licenses only to legal persons and the sole entrepreneurs that satisfy conditions stipulated in the legislation. (27.12.2005 N2537)

2. License certificate shall specify the type of service defined in the License application, location of the production assets, and the territory covered by the License, date of issue of the License, terms of modification or revocation of the License. (27.12.2005 N2537)

3. Licensee shall be prohibited to terminate, reduce or increase services stipulated in the License without the Commission's prior consent, except for termination of reduction of services due to non payment by the customer and/or for technical or safety reasons. In any other case, Licensee shall submit an application to the Commission for termination or reduction of services. Licensee shall turn in the License certificate upon receiving the Commission's consent on the reduction or termination of services. In this case, the Commission may amend or revoke the License. (27.12.2005 N2537)

4. No Licensee shall be required by its License and tariff terms, to continue providing services under the License, if the recipient of said services - another Licensee, Direct Customer, other legal or physical person fails to fulfill its obligations under the contract or under approved terms of service.

5. Upon request from the Commission, natural gas Supplier shall submit information and data about commercial terms, including but not limited to natural gas purchase price, to the Commission. The Commission shall hold all such information about the pricing in confidence, if so required by the legislation and the Supplier. (27.12.2005 N2537)

Article 27. Rights and Responsibilities of Commercial System Operator, Licensees, Importers, Exporters and Suppliers. Preparation of Information (5.07.2008 #92).

1. The Licensee shall comply with the License conditions. Normative acts issued by the Commission and the Ministry shall be mandatory for the Commercial System Operator, Licensee, Natural Gas Supplier, Importer, Exporter and Consumer. Normative acts issued by the Commission shall also be mandatory for Suppliers and Consumers of water supply. (27.12.2005 N2537)

2. Commercial System Operator, Licensee, Importer, Exporter and Supplier shall operate with the least cost principle and in accordance with economic efficiency requirements.

3. Commercial System Operator, Importer, Exporter, Natural Gas Supplier and Licensee shall submit to the Commission and to the Ministry, and make available to the public, whereas water Supplier shall submit to the Commission, and make available to the public the following information.

- a. Annual summary of activities for the preceding year;
- b. Annual work plan for the following year; and
- c. Other information as the Commission or the Ministry may deem necessary, except for the cases provided for in the existing legislation.

Article 28. Electricity Metering, Sales, Metering Equipment

1. Licensee, Direct Customer and Small Power Plant shall meter full quantity of electricity passing through the their assets in accordance with set standards, rules and requirements, and make this information accessible. Commercial System Operator shall be obliged, while the Ministry and the Commission are authorized to inspect meters in accordance with the Electricity (Capacity) Market Rules.

2. Sale and purchase of electricity, and transmission and dispatch services shall be carried out pursuant to relevant agreements, the present Law and Electricity (Capacity) Market Rules.(8.06.2007. #4911)

Article 29. Disputes (5.07.2008 #92)

Commercial System Operator, Licensees, Small Power Plants, Importers, Exporters, Suppliers and Consumer may refer disputes relating to electricity, natural gas and potable water supply sectors to the Commission for resolution, if resolution of such disputes is within the Commission's competence.

Article 30. Removed (27.12.2005 N2537)

Article 31. Modification and Revocation of License (27.12.2005 N2537)

A License may be modified pursuant to its terms and conditions; It may be revoked for violation of its terms and conditions, this Law and the Law of Georgia on Licenses and Permits. In any other case, the Commission may modify or revoke a License only with the prior consent of the Licensee. In addition, while modifying a License the Commission may require the Licensee to comply with different or more stringent requirements than those included in the original License.

Article 32. Removed (9.06.2006 N3292 effective date 1st September, 2006)

CHAPTER 6.

LICENSES; REQUIREMENTS AND CONDITIONS

Article 33. Generation License.

1. Generation License issued by the Commission allows a sole entrepreneur or a legal person to generate energy and to connect relevant generation facilities to the

Transmission or Distribution Grid at specific Receiving Points for the purpose of supplying electricity and/or capacity.

2. Abolished (27.12.2005 N2537)
3. Pursuant to the conditions of the License, each Generation Licensee shall, for the duration of the License: (27.12.2005 N2537)
 - a. Removed (27.12.2008)
 - b. Make generation facilities available to the Dispatch Licensee at the Receiving Point for safe, reliable, non-discriminatory, and economic dispatch and operation of the Transmission Grid and connected facilities, in accordance with the terms of its electricity sales agreements or its approved rates, terms and conditions of service;
 - c. Comply with requirements of the Electricity (Capacity) Market Rules regarding operation of generation assets, and with the requirements of the Dispatch Licensee regarding operation of transmission and distribution assets; **abolished** (9.06.2006 N3292 effective date 1st September, 2006))
 - d. Make timely payments of the Regulation Fee set by the Commission and comply with the terms of the License.

Article 34. Transmission License.

1. Transmission License issued by the Commission allows a legal person to carry out Transmission services through the Transmission Grid.
2. License shall identify the transmission system connected to the Transmission Grid to be operated by the Licensee, which means facilities between Receiving and Delivery Points. Where Generation Licensee's facility is to be directly connected to a Distribution Licensee's or a Direct Consumer's facility, the Commission, for the purpose of establishing parameters for transmission services, may demand separation of the interconnection between Receiving and Delivery Points by a minimum section of the Transmission Grid.
3. If a new transmission facility is required in the Transmission Grid, the Transmission Licensee may apply for a modification of its License in regards to the installation of a new transmission facility. If having served the appropriate notice and having conducted the hearing, the Commission, pursuant to the rules promulgated by the Commission, determines that the new facility is actually required, and further determines that the proposed route for the facility, as may be amended at or following the hearing, has minimal adverse impact on the area concerned, is consistent with the state policy in the sector, as expressed at the hearing of the Commission and further complies with the requirements of the legislation, the Commission shall issue to the Transmission Licensee a modified Transmission License that includes the new transmission facility and authorizes its construction on the approved route.
4. If Transmission Licensee is authorized pursuant to paragraph 34.3 to construct a new transmission facility along the approved route, the Transmission Licensee, in accordance with the existing legislation, shall be entitled to receive a land use permit covering territory required for the construction of this facility.
5. Removed (27.12.2005 N2537)

6. Pursuant to the conditions of the License, Transmission Licensee shall, for the duration of the License:
 - a. Ensure functioning of the Transmission Grid in compliance with the Electricity (Capacity) Market Rules; *(27.12.2005 N2537)*
 - b. Develop and present an investment program to the Commission and the public;
 - c. Develop appropriate instructions for a safe, reliable, and non-discriminatory interconnection and operation of the transmission network and interconnected facilities;
 - d. Provide services in compliance with the requirements of this Law and standard acts issued under this Law; *(27.12.2005 N2537)*
 - e. Make timely payments of the Regulation Fee set by the Commission and comply with the terms of the License. *(27.12.2005 N2537)*
7. Removed *(9.06.2006 N3292 effective date 1st September, 2006)*

Article 35. Dispatch License.

1. Dispatch License issued by the Commission authorizes a legal person to conduct management of Georgian electricity sector through its central and regional dispatch centers. *(30.04.99 N1934 Journal Matsne N15 (22))*
2. *Removed (27.12.2005 N2537)*
3. Pursuant to the conditions of the License, Dispatch Licensee shall, for the duration of the License:
 - a. Ensure reliable functioning of the energy system, satisfy demands of all relevant Licensees, Importers, Exporter and Direct Customers, in compliance with approved Balances and requirements of Electricity (Capacity) Market Rules, and based on the principles of power system security and the least cost.
 - b. Install and operate all facilities necessary to ensure effective operation and electric stability of the energy system; develop regimes and utilize appropriate dispatch protocols that support efficient operation of the electricity sector and full satisfaction of the demand of Distribution, Import, Export Licensees and Consumers, in compliance with Electricity (Capacity) Market Rules;
 - c. Follow approved balances, this Law and requirements of Electricity (Capacity) Market Rules, and ensure fulfillment of Direct Agreements and satisfaction of the demand of sellers and buyers through Balance Electricity and System Reserve Capacity, or curtail or disconnect power supply to electricity buyers; *(8.06.2007. #4911)*.
 - d. Develop and present an investment program to the Commission and the public;
 - e. Provide services in compliance with the requirements of this Law and standard acts issued pursuant to this Law; *(27.12.2005 N2537)*.
 - f. Make timely payments of the Regulation Fee set by the Commission and comply with the terms of the License; *(27.12.2005 N2537)*.

- g. Maintain an integrated registry of Direct Agreements;
- h. Provide Commercial System Operator, in accordance with Electricity (Capacity) Market Rules, with information regarding the quantity of electricity to be sold pursuant to direct contracts and the quantity actually sold; *(9.06.2006 N3292 effective date 1st September, 2006)*

Article 36. Distribution License.

1. Distribution License issued by the Commission allows sole entrepreneur or a legal person to buy, transmit, distribute, and sell electricity. *(9.06.2006 N3292 effective date 1st September, 2006)*
2. Removed. *(27.12.2005 N2537)*
3. Pursuant to the conditions of the License, Distribution Licensee shall, for the duration of the License:
 - a. During emergency periods ensure adherence to electricity limits, protection of established regimes, prioritized supply of objects of strategic importance on the condition that due payments are made;
 - b. Ensure timely, full, and guaranteed payment for received electricity and services according to the Electricity (Capacity) Market Rules. A Distribution Licensee who violates this provision shall be liable in accordance with the existing legislation; *(9.06.2006 N3292 effective date 1st September, 2006)*
 - c. Removed *(9.06.2006 N3292 effective date 1st September, 2006)*
 - d. Provide distribution services to Consumers consistent with the rules established by the Commission and with the investment program;
 - e. Ensure uninterrupted supply of electricity (capacity) to Consumers within the area defined in the License on the condition of due payment; *(9.06.2006 N3292 effective date 1st September, 2006)*
 - f. Develop and submit for approval to the Commission procedures for metering, billing, and collections;
 - g. Develop and present an investment program to the Commission and the public;
 - h. Provide services in compliance with the requirements of this Law and standard normative acts issued pursuant to this Law; *(27.12.2005 N2537)*
 - i. Make the following documentation and information accessible to the public at his/her/its offices:
 - (i) License and approved tariffs;
 - (ii) The Licensee's approved terms of service containing procedures for obtaining and cancellation of service, as well as metering, billing, and collections.
 - (iii) Description of the performance standards applicable to the Licensee, including conditions to connect new customers;

- j. Make timely payments of the Regulation Fee set by the Commission and comply with the terms of the License. (27.12.2005 N2537)
- 4. Removed (9.06.2006 N3292 effective date 1st September, 2006))

Article 37. Importer (27.12.2005 N2537)

- 1. During importation period, the Importer shall act in accordance with the requirements of Georgian legislation, including Electricity (Capacity) Market Rules, Electricity (capacity) Balances and tariffs set by the Commission.
- 2. Importer shall make timely payment of the Regulation fee set by the Commission

Article 38. Exporter (27.12.2005 N2537)

During exportation period, the Exporter is obliged to act in accordance with the requirements of Georgian legislation, including Electricity (Capacity) Market Rules and Electricity (capacity) Balances.

Article 39. Natural Gas Supply License (27.12.2005 N2537)

The Natural Gas Supplier shall:

- a. Provide services in compliance with this Law and standard normative acts issued under this Law;
- b. Develop emergency plans to be implemented during emergency situations or conduct negotiations and enter into agreements with other parties concerning the supply of natural gas in such situation;.
- c. Removed.
- d. Make timely payments of the Regulation Fee set by the Commission and comply with the terms of the License.

Article 39¹ . Water Supplier (5.07.2008# 92)

Water Supplier shall:

- a. Provide services in compliance with this Law and standard normative acts issued under this Law;
- b. Carry out operation of the Potable Water Supply System, Supply of Potable Water and Water Drainage;
- c. Ensure supply of potable water, meeting quality standards as defined by Georgian legislation, to the consumer through the Water Supply System.
- d. Ensure regular quality control of Potable Water;
- e. Ensure proper protection of water installations and prevent any impact on the Water Supply System from third parties or pollution of Potable Water. Develop emergency plans to be implemented during emergency situations or conduct negotiations and enter into agreements with other parties concerning the supply of potable water in such situations;

- f. During emergency periods ensure adherence to potable water limits, protection of established regimes, prioritized supply of objects of strategic importance on the condition that due payments are made;
- g. Make the following documentation and information accessible to the public:
 - g.a) Approved tariffs;
 - g.b) Approved terms of service;
- h. Develop and present an investment program to the Commission and the public;
- i. Make timely payments of the Regulation Fee set by the Commission and comply with the terms of the License.

Article 40. Natural Gas Transportation License (Transportation License).

1. Natural Gas Transportation License issued by the Commission allows a legal person to transport natural gas through the transportation system.
2. The License shall determine the route, pipelines and other installations including Receiving and Delivery Points, to be used by the Licensee.
3. When there is a demand for a new pipeline or other transportation facility, the applicant parties shall apply for a Transportation License, or in the case of an existing Transportation License, apply for its modification. If, upon receiving the application and duly considering the issue, the Commission, pursuant to the rules promulgated by the Commission, determines that the new pipeline or installation is needed, reduces adverse impact on the area concerned as much as practicable, is consistent with the state policy in the sector and complies with the requirements of this Law, the Commission makes a decision to issue a new or a modified Natural Gas Transportation Licensee, which covers the new pipeline or installation and authorizes its construction on the approved route.
4. If a Transportation Licensee is authorized pursuant to paragraph 40.3 hereof to construct a new pipeline or other installation along the approved route, the Transportation Licensee, in accordance with the existing rules, shall be entitled to receive a permit for land use required for the construction of such a pipeline or a facility.
5. Connection of a Direct Customer or a Distribution Network to the natural gas transportation system does not require modification of Natural Gas Transportation License, if the connection to the natural gas supply system requires pipeline, gas distribution station, regulator, valve, metering point and/or other measuring devices to be connected-installed before the new supply point. *(9.06.2006 N3292 effective date 1st September, 2006)*
6. Pursuant to the conditions of the License, Transportation Licensee shall, for the duration of the License :
 - a. Develop and maintain Natural Gas Transportation Network in a manner to satisfy the needs of Supply Licensees;
 - b. Develop and present an investment program to the Commission and the public;
 - c. Develop and implement all relevant instructions for the safe, reliable, and unlimited operation of the transmission network and connected facilities;
 - d. Provide services in compliance with the requirements of this Law and standard acts issued under this Law; *(27.12.2005 N2537)*

- e. Make timely payments of the Regulation Fee set by the Commission and comply with the terms of the License. (27.12.2005 N2537)

Article 41. Natural Gas Distribution License.

1. Natural Gas Transportation License issued by the Commission allows a legal person to operate natural gas Distribution Network, Distribute and Pass Through natural gas within a specific distribution network. (27.12.2005 N2537)
2. Removed. (27.12.2005 N2537)
3. According to the License Conditions, each Distribution Licensee shall, for the duration of the License:
 - a. Provide services in compliance with the requirements of this Law, standard normative acts issued under this Law and the investment program of the Licensee; (27.12.2005 N2537)
 - b. Develop and submit for approval to the Commission procedures for providing services, as well as metering, billing, and collection for consumed natural gas;
 - c. Develop and present an investment program to the Commission and to the public;
 - d. Removed. (27.12.2005 N2537)
 - e. Make following documentation and information publicly available in Licensees offices:
 - e.a) License and approved tariffs;
 - e.b) Approved service terms and conditions including procedures for granting and cancelling service rights, metering, billing, and collection for consumed natural gas;
 - e.c) Description of standards of operation for the Licensee, including conditions for connecting new customers;
 - f. Make timely payments of the Regulation Fee set by the Commission and comply with the terms of the License. (27.12.2005 N2537)

CHATER 6¹ (27.12.2005 N2537)

Operation of the Electricity System in Parallel Regime

Article 41¹. Management and Implementation of Operation in Parallel Regime

1. Electricity Dispatch Licensee on the basis of a preliminary agreement with the Commercial System Operator is authorized to conclude contracts on Operation in a Parallel Regime with corresponding companies of power systems in the neighboring countries according to the established rule.
2. The purpose of Operation in a Parallel Regime is fulfillment of approved Electricity (capacity) Balances, effective balancing of Electricity Generation and Consumption, provision of proper operational regime of the power systems and provision of the System Reserve Capacity as required by the system.
3. Management and regulation of relations connected to the Operation of Power Systems in a Parallel Regime are performed pursuant to the corresponding

agreements, Electricity (Capacity) Market Rules and Electricity (capacity) Balances. (9.06.2006 N3292 effective date 1st September, 2006)

Article 41². Agreement on a Parallel Regime Operation and Balanced Flow

1. Agreement on a Parallel Regime Operation of the Electricity System shall be concluded and fulfilled so that electricity flows between the electricity systems amount to zero at the expiration of the contract.
2. In the event of non-fulfillment of Paragraph 1 of this Article, and in case of existence of a positive or negative balance at the end of the contract term, the Commercial System Operator together with the Dispatch Licensee shall include this electricity in the Electricity (capacity) Balance to ensure zero balance in the following period. Electricity Dispatch Licensee shall ensure technical implementation of the above-mentioned requirement. (9.06.2006 N3292 effective date 1st September, 2006)

Article 41³. Legal Status of Parallel Regime Operation

1. Relationships emerging on the basis of agreements on Parallel Regime Operations do not constitute Import or Export of electricity and do not require separate licensing or permitting.
2. Parallel Regime Operation of the Electricity System shall not be deemed economic activity. Electricity balance flow (except zero) at the expiration of the contract on a Parallel Regime Operation shall be considered as Import or Export of electricity. Dispatch Licensee shall be deemed an Importer or Exporter of the Electricity Balance flow. (9.06.2006 N3292 effective date 1st September, 2006)

CHAPTER 7

TARIFFS

Article 42. Authority of the Commission to Set Tariffs (27.12.2005 N2537)

1. The Commission is authorized to review, approve, make decisions, modify or deny applications submitted by Licensees, Importers, Suppliers and the Commercial System Operator regarding tariffs, prices, terms and conditions on providing products and services, except for the cases provided for in this Law.
2. The Commission shall set tariffs and/or make changes to existing tariffs based on the tariff setting principles stipulated in Article 43 of this Law, main directions of the state policy in the energy sector and normative administrative-legal acts issued in compliance with them. (9.06.2006 N3292 effective date 1st September, 2006)

Article 43. Tariff Setting Principles (27.12.2005 N2537)

1. The methodology approved by the Commission and tariffs set based on this methodology shall:

- a. Protect Consumers from monopolistic prices;
 - b. Enable Licensees, Importers, the Commercial System Operator or Suppliers to recover their costs, including prudently incurred fuel, operating costs, costs of ongoing maintenance and capital repairs, principal and interest costs of money borrowed as operating capital, costs incurred to receive relevant Licenses and Regulation Fees. At the same time, tariffs shall imply just and reasonable profit on the investment sufficient to attract financing for the rehabilitation and further development of the sector;
 - c. Encourage financial returns of the Licensee, Importer, Commercial System Operator, or the Supplier through improvement of efficiency in operations and management practices, through reduction in costs of providing services provided, that the Licensee, Importer, Commercial System Operator and/or the Supplier meet quality of service requirements of the existing legislation and the License; *(9.06.2006 N3292 effective date 1st September, 2006)*
 - d. Encourage economic efficiency within the electricity and natural gas sectors by setting short and long term marginal prices, and by forecasting price dynamic taking into account possible excess or shortage of electricity generation;
 - e. Removed. *(9.06.2006 N3292 effective date 1st September, 2006)*
 - f. Take into account main state energy policy directions related to priorities regarding categories of electricity and natural gas Consumers; At the same time, it shall not prevent the Licensee, Importer, Commercial System Operator or the Supplier from demanding from Consumers payment for services rendered, and from discontinuing services in cases of non-payment;
 - g. Take into account state policy in regard to tariff subsidies, provided that it is prohibited to subsidize any one category of Consumers at the expense of the Licensee, Importer, Commercial System Operators or the Supplier or any other category of Consumers; *(9.06.2006 N3292 effective date 1st September, 2006)*
 - h. Reflect different cost of providing services to different categories of Consumers.
2. Costs incurred by the Licensee, Importer, Commercial System Operator and the Supplier to provide services shall be recovered from the amounts received from each Consumer category, in proportion to the costs of serving that category of Consumers.
 3. Different tariffs may be established for each Consumer category in order to reflect peak values, average weighted and marginal values, overall seasonal usage, usage day and night variations, types of services purchased, or similar parameters. Innovative tariff setting methodologies, taking into account profit indexing, price indexing and other factors, may be used if use of such methodologies is in the interest of Licensees, Importers, the Commercial System Operator, Suppliers and Consumers.
 4. Removed (8.06.2007 #4911)
 5. The Commission is authorized to set long term tariffs taking into account main directions of the state energy policy.

6. Tariffs for transmitting Pass Through electricity through distribution networks are set in accordance with the rules of tariff setting methodology.
7. Pass Through electricity tariff is calculated for electricity carried through the Distribution Network which is not purchased by the electricity Consumer from the Distribution Licensee owning this Distribution Network; Also in cases, when electricity Distribution Licensee is carrying electricity through its own network for other Distribution Licensees. Pass Through electricity tariff is calculated by Distribution Licensee based on the Pass Through service costs and the quantity of Pass Through electricity; Distribution Licensee submits appropriate proposal and the documentation to the Commission on its own initiative or at the Commission's request.
8. Corresponding Distribution Licensee will be reimbursed at the tariffs set for Pass-Through services. (8.06.2007 #4911)
9. No generation tariff is applied to that amount of electricity generated by Generation Licensee, which is produced for the Generation Licensee's own consumption and needs.
10. *Removed* (8.06.2007 #4911)
11. If the methodology or other administrative normative-legal acts issued pursuant to this Law do not prescribe otherwise, the upper margin of electricity sales tariff shall be set for Electricity Generation Licensee and Importer; A fixed tariff shall be set for the Electricity Generation Licensee, which is designated by an administrative-legal act Electricity (Capacity) Balance as a regulating station of the country's unifies electricity grid. (8.06.2007 #4911)
12. Tariffs for Passing Through of natural gas in Distribution Networks is calculated in accordance with the rules of tariff setting methodology. Corresponding natural gas Licensee will be reimbursed at the tariffs set for pass-through services.

Article 43¹. System Reserve Capacity Tariffs

1. The Commission, besides the generation tariff, sets a two-component tariff for the source of reserve (for the relevant electricity producer). It consists of the System Reserve tariff and the tariff on Electricity Generation for used Reserve Capacity. (8.06.2007 #4911)
2. System Reserve Capacity tariff ensures reimbursement of fixed costs of the reserve source (for the relevant electricity producer). The tariff on Electricity Generation for used Reserve Capacity reflects costs stipulated in this Law and tariff setting methodology for the Electricity Generation tariff, except for costs reflected in the System Reserve Capacity tariff.
3. Commensurate with this Clause, the two-component tariff set for the source of reserve (for the relevant electricity producer) applies only to the period of validity of the relevant contract and the readiness period of the production facilities of the System Reserve Capacity based on this contract. (8.06.2007 #4911)

Article 43². Principles of Setting Water Supply Tariffs (20.11.2007 #5466)

The methodology approved by the Commission and Water Supply tariffs set based on this methodology shall include operational expenses as well as costs of maintenance and capital repairs of the Water Supply System. It must be sufficient for the rehabilitation and development, and must include just and reasonable profit on investment.

Article 44. Rules for Setting Tariffs (27.12.2005 N2537)

1. Pursuant to Article 12 hereof, the Commission conducts open hearings on setting tariffs. During the review of the tariff application and tariff setting, the Commission relies on the following:

- a. Substantiated tariff applications, which include audit and financial information;
- b. Procedures for reviewing tariff applications and issuing relevant Resolutions;
- c. Procedures for consumers and other interested parties to comment on tariff applications;
- d. Procedures for searching and obtaining additional information necessary for the evaluation of tariff applications; and
- e. Procedures for setting financial reimbursement of regulation costs.

2. Licensees, Importers, the System Commercial Operator, Suppliers and Direct Consumers shall have a right to apply to the Commission for setting or revising tariffs. (9.06.2006 N3292 effective date 1st September, 2006)

Article 45. Effectiveness of Tariffs; Compensation for Setting Tariffs.

Tariffs shall become effective within 150 days from submission of the tariff application to the Commission, provided that such application complies with the Commission rules for tariff applications. Tariff applicant shall compensate the Commission for the tariff setting services.

Article 46. Uniform Accounting Standards (27.12.2005 N2537)

1. Removed (9.06.2006 N3292 effective date 1st September, 2006)

2. If a person holds more than one License or together with the licensed activity carries out (an)other business activity(ies), such person shall keep separate accounting records for revenues, expenses and financial results of such activities.

CHAPTER 7¹ (9.06.2006 N3292 effective date 1st September, 2006)

ACCESS OF THIRD PARTIES TO TRANSMISSION AND DISTRIBUTION NETWORKS. CONNECTION TO THE GRID

Article 46¹. Third Party Access to Transmission and Distribution Networks

Transmission and Distribution Licensee shall, in exchange for tariffs set by the Commission, Pass Through their networks electricity of the persons who are entitled under this Law to sell electricity directly to electricity Consumers.

Article 46². Payments for Connecting New Customers to Transmission and Distribution Networks.

The Commission shall set the price for connecting new customers to the Transmission or Distribution Network, which shall be reimbursed to the corresponding Licensee.

Article 46³. Change of the External Supply Network or Construction of a New Network by a Retail Consumer

A Retail Consumer may change an external supply network or build a new network only based on technical conditions issued by that Generation, Transmission or Distribution Licensee, to whose network the Retail Consumer is connected. The technical condition shall also be issued by the Generation, Transmission or Distribution Licensee to whose network a Retail Consumer plans to connect.

CHAPTER 8.

TRANSITIONAL and FINAL PROVISIONS

Article 47. Terms of the Initial Members of the Commission.

The initial members of the Commission shall be appointed as follows: the first member for 6 years, the second member for 4 years and the third member for 2 years.

Article 48. Removed (8.06.2007 #4911)

Article 49. Removed (8.06.2007 #4911)

Article 49¹. Transitional Clauses

1. Georgian Energy Regulatory Commission shall, no later than August 1, 2007, set electricity Pass Through tariffs for Qualified Enterprises, per voltage, at no less than 20% of the current distribution tariff, and for the rest of the Consumers not higher than the current distribution tariff. Tariffs set under this clause may be reviewed commensurate with the tariff setting methodology, based on the relevant Licensee's tariff application. (8.06.2007 #4911)

2. Paragraphs 22.9 and 22.10 hereof shall come into force and effect on August 1, 2004. (15.06.2004 N122)

Article 49². Interim Rule of Provision of System Reserve Capacity

1. For the purpose of providing System Reserve Capacity to the power system, the Commercial System Operator shall buy, on a contractual basis, the full quantity of System Reserve Capacity from a guaranteed reserve source.

2. System Reserve Capacity is at the disposal Dispatch Licensee and is used for balancing electricity (capacity) delivery-consumption. In addition, reserve source (relevant electricity producer) sells electricity only upon agreement with the Commercial System Operator.

3. Distribution Licensee, Direct Consumer and Exporter shall pay to the Commercial System Operator the cost of providing System Reserve Capacity pursuant to the rules set out in this Law and Electricity (capacity) Market Rules.
4. Dispatch Licensee checks readiness of the System Reserve Capacity in accordance with rules and frequency requirements set out in Electricity (capacity) Market Rules.
5. If during the inspection of readiness of the System Reserve, relevant degree and extent of the System Reserve Capacities are not confirmed from a certain reserve source, the Commercial System Operator must immediately act in accordance with the interests of the electricity system, and send appropriate notices to the contracting parties. Such circumstances constitute grounds for the cancellation of the agreement.
6. Collection of payments from the Distribution Licensee, Direct Customer and Exporter for the System Reserve Capacity, and payment of the sum to the relevant Qualified Enterprise is conducted by the Commercial System Operator.
7. Expiration of the term of this article does not exempt parties from discharging their financial obligations.
8. This article is in force till September 1, 2007(8.06.2007 #4911)

Article 49³

Deregulation of Power Plants Constructed after 1st of August, 2008. (5.07.2008#92)

Every power plant, constructed after 1st of August, 2008, shall be deregulated.

Article 50. Effect the Law-

1. This Law shall become effective upon its publication.
2. Clause 23¹ shall be effective from September 1, 2007 (8.06.2007 #4911)

Article 51. The List of Invalid Normative Acts

1. The following shall be deemed invalid after this Law enters into full force and effect:
 - a) The Law of the Republic of Georgia On Energy, September 22, 1994 (Georgian Parliament Herald, 1994, # 19-20, Article. 436) first clause of the Article 4 and second clause of the Article 5;
 - b) The Law of the Republic of Georgia On Energy, Article 4, clause 7. October 11, 1994. (Georgian Parliament Herald, 1994, # 21-22, Article. 446)
2. Executive branch shall amend underlying regulations to comply with this Law.

The President of Georgia

E. Shevardnadze

