

GEORGIAN LAW ON ELECTRICITY AND NATURAL GAS

ARTICLE 1.

GENERAL PROVISIONS

Clause 1. Objectives and Purposes of Law.

1. This law shall regulate relations and activities of Sole proprietors, Physical persons and Legal entities in the areas of electricity system operation, 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 promote functioning and development of the electricity and natural gas sectors in Georgia, based on market economy principles. The present law shall not apply to activity, which includes exploration, production, processing and storage of natural gas, also to relations between the producer of natural gas and supplier and to electricity or natural gas transit through the territory of Georgia. *(9.06.2006 N3292 effective date 1st September, 2006)*
2. The objectives of this Law, are:
 - a. Based on the development of competition and through the regulation of the existing non-competitive market, provide establishment of the 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 associated with Natural Gas transportation, distribution, import, export, supply and consumption.; *(27.12.2005 N2537)*
 - b. Provide the legal basis for reliable electricity and natural gas supply for all categories of consumers;
 - c. Encourage domestic and foreign investment participation in rehabilitation and development of electricity and natural gas sectors.
 - d. Encourage the use of indigenous hydro, renewable, alternative and gas resources first place. *(9.06.2006 N3292 effective 1st September, 2006)*
3. The purposes of this Law are to:
 - a. Attribute to the Ministry of Energy the function of establishing main directions of the state policy in the electricity and natural gas sector, securing 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. Determine the main principles of regulating electricity generation, transmission, dispatch, distribution, import, export, as well as natural gas supply, import, export, transportation and distribution and the main principles of

regulating consumers' activities and relations based on the principles of publicity and equality, and for these purposes to establish a legal basis for creation of an independent regulatory framework. (27.12.2005 N2537)

c. Promote growth of efficiency in the areas of 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. (27.12.2005 N2537)

d. Promote competition in Georgia's electricity and natural gas markets.

e. Ensure formation of market and tariff systems in the electricity and natural gas sector of Georgia based on which legal framework of tariff regulation must be created protecting customers from monopolistic tariffs and at the same time promoting long term financial stability and development of the energy sector. (9.06.2006 N3292 effective date 1st September, 2006)

Clause 2. Definitions.

For the purpose of this Law, the following words shall have the following meanings:

- a. "Transmission of Electricity" shall mean transmission network operation, for the purposes of electricity (capacity) transportation of through transmission network from the point of receipt to the point of delivery. (27.12.2005 N2537)
- b. "Transmission Grid" shall mean all the transmission facilities, which connect the Receiving Points to the Delivery Points, owned or controlled, and/or operated, by the Transmission Licensee. 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 used for system and inter system transit of electricity. Other at 35 and 110 kV networks shall be included in distribution facilities. The Ministry 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 capacity and electricity distribution, connecting the Delivery Points to consumers and owned and/or operated by the Distribution Licensee. Distribution Grid includes all 0.4 - 6 - 10 – 35 – 110 kV distribution facilities, except those specified as exceptions in Paragraph (b) of this Article. The same term shall apply to natural gas distribution network, which includes 1.2 - 0.6 - 0.3 - 0.005 M Pascal pressure pipes. (27.12.2005 N2537)
- d. "Electricity Distribution Activity" shall mean receipt of electricity (capacity) from two or more independent delivery points, operation of distribution grid and sales of electricity (capacity) to the retail consumers in the quantity exceeding the volume, fixed by the "Electricity (capacity) Market Rules", (8.06.2007)

- e. "Electricity Dispatch Activity" shall mean technical operation of licensees and consumers in order to ensure stable supply and consumption regime; implementation of the parallel regime operation of the Georgian electric system with the electric systems of the neighboring country (countries). Only one Dispatch Licensee shall be allowed in Georgia; *(27.12.2005 N2537)*
- f. "Commission" shall mean National Energy Regulatory Commission of Georgia;
- g. "License" shall mean the right granted by the GNERC Resolution to the person meeting the requirements defined by the Law to carry out activities stipulated in this Law. *(27.12.2005 N2537)*
- h. "Licensee" shall mean a person who received the right granted by the Commission Resolution to carry out activities stipulated in the License. *(27.12.2005 N2537)*
- i. "Receipt Point" shall mean the point, where the Transmission and/or Distribution Licensee receives electricity and capacity into the transmission and/or distribution network from the network of a generation and/or other distribution licensee and/or the network of a small power generation plant and electricity system of other 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 the Transmission and/or Generation Licensee, from the transmission and/or generation grid, supplies electricity and capacity to the Distribution Licensee, Direct Consumer and/or foreign electricity systems or a point, where a natural gas transportation licensee, from the transportation system, supplies natural gas to a distribution licensee, direct consumer and/or transportation systems of other country.
- j¹. Electricity Consumer shall mean direct consumer or retail consumer. *(9.06.2006 N3292 effective date 1st September, 2006)*
- i. "Direct Consumer" – A person receiving electricity (capacity) from power generation, transmission or distribution licensee owned networks in compliance with the rules and conditions defined by the "Electricity (Capacity) Market Rules"; in case of natural gas - a person receiving natural gas from gas transportation system of an entity which is not a Distribution Licensee. *(27.12.2005 N2537)*
- j. "Regulation Fee" – fee paid annually by licensees in compliance with the Law of Georgia on Regulation Fees. *(27.12.2005 N2537)*
- k. "Generation of Electricity" shall mean connection of generation assets to transmission and/or distribution networks and supply of electricity (or readiness to supply) to transmission and/or distribution networks or consumer's network for the purpose of selling it. *(27.12.2005 N2537)*
- (m. "Electricity Generation activity" shall mean connection of generation assets to transmission, distribution and/or consumers' networks and supply of electricity

(or readiness to supply) to transmission, distribution or consumers' networks, also sale of this electricity; (9.06.2006 N3292 effective date 1st September, 2006))

- l. "Exporter" – a person who at the delivery point sells electricity (capacity) outside of Georgia. (27.12.2005 N2537)
- m. "Importer" shall mean a person who at one or more reception point receives and sells, and/or consumes electricity (capacity) from outside of Georgia; (27.12.2005 N2537)
- (o. "Importer" shall mean a person who at one or more then one reception point receives and sells, and/or consumes electricity (capacity) from outside of Georgia; (9.06.2006 N3292 effective date 1st September, 2006))
- n. "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) 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))
- o. Removed (27.12.2005 N2537)
- p. Removed (27.12.2005 N2537)
- q. "Electricity (Capacity) Market Rules" shall mean a document regulating operation of the Wholesale Market and its management, as well as technical, commercial and financial relations arising from electricity purchase-sale based on the direct contracts, transmission, transportation, dispatch and operation of electricity systems in parallel regime, including development of electricity (capacity) balances and their implementation rules, quotas related to the volumes of electricity for sale under direct contracts, conditions of concluding and enforcement of direct contracts; (27.12.2005 N2537)
- s. "Electricity (Capacity) Market Rules" shall mean a document regulating operation of electricity market, activities of the commercial system operator, technical, commercial and financial relations arising from electricity purchase-sale based on the direct contracts or/and through commercial system operator, transmission, transportation, dispatch, operation of electricity systems in parallel regime and consumption of electricity for own needs generated by the generation licensee, including development of electricity (capacity) balances and their implementation rules, conditions of concluding and enforcement of direct contracts, definition of electricity seller categories for the purposes of differentiating electricity sale conditions for such categories. (9.06.2006 N3292 effective date 1st September, 2006))
- r. Removed (27.12.2005 N2537)
- s. Natural Gas or Gas – shall mean carbon which is in vapor condition at 1.2 mpa pressure and 20⁰C temperature, and heat content of which is not less than 31.8 mega joule /m³ (7600 kilo calories/m³).

- t. "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 work at pressure 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 work at pressure above 1.2 mpa, including compressor stations, metering stations and other facilities indicated in the transportation license.
- u. "Natural Gas Transportation Activity" shall mean – operation of the transportation system, with the purpose to transport natural gas through the transportation system from the Reception Point to Delivery Point. (27.12.2005 N2537)
- v. "Natural Gas Distribution" shall mean receipt of natural gas from one or more delivery points, operation of the distribution system and natural gas supply to customers at their request, within the specific distribution network. (27.12.2005 N2537)
- w. "Natural Gas Supplier" shall mean a person who acquires natural gas and sells it to other Suppliers and/or other customers." (27.12.2005 N2537)
- x. "The Ministry" – shall mean the Ministry of Energy of Georgia. (27.12.2005 N2537)
- z¹. "Natural Gas Market Rules" shall mean a document regulating commercial, financial and technical relations arising from natural gas purchase-sale and transportation including development of natural gas balances and their implementation. (27.12.2005 N2537)
- z² "Operation of Power System in Parallel Regime" – shall mean synchronized operation of the Georgian power system and power systems of other country(s) during which flows of electricity (capacity) between the systems take place. (27.12.2005 N2537)
- z³ "Balance of Electricity Flow" - shall mean difference between the electricity volumes exchanged during the Parallel Regime Operation as of the expiration date of the Agreement. (27.12.2005 N2537)
- z⁴. Reliability Standard – shall mean the ability of a transmission or transportation licensee to meet required conditions to assure operation of the system despite variations in operating conditions. The above-mentioned standard may be incorporated in the relevant Market Rules, as well as relevant licenses. (27.12.2005 N2537)
- z⁵ Contracting Party Reliability Standard – The requirement that dispatch or transportation licensee and other party to a contract for provision of supply be required to assure that their contract adequately reflects their expected load and the variations in their expected load, so that they do not impose undue costs on other contracting parties, including dispatch or transportation licensees. Referred

standards shall be reflected in the relevant Market Rules, as well as relevant licenses. (27.12.2005 N2537)

z⁶. Deregulation –as provided by this Law, based on the Normative Administrative Act, granting generation licensee the right to operate without set tariff or granting small hydro power plant the right to operate without a license and set tariff, or granting the right to operate without set tariff on natural gas delivery and in addition, in case of construction of the new gas transportation or distribution networks granting the right to operate without setting transportation or distribution tariffs respectively.

z⁷. Partial Deregulation – as provided by this Law, based on the Normative Administrative Act, granting generation licensee the right to operate with setting the marginal tariff or granting small hydro power plant the right to operate without a license and by setting the marginal tariff, or granting the right to operate by setting the marginal tariff on natural gas delivery and in addition, in case of construction of the new gas transportation or distribution networks granting the right to operate by setting the transportation or distribution marginal tariffs respectively (8.06.2007. #4911)

z⁸. State of Emergency – events stipulated in the Georgian Law on State of Emergency. (27.12.2005 N2537)

z⁹. Market Rules – shall mean Electricity (capacity) Market Rules and Natural Gas Market Rules; (27.12.2005 N2537)

z¹⁰. Rules for Supply and Consumption – shall mean “Rules for Supply and Consumption of Electricity (Capacity)” and “Rules for Supply and Consumption of Natural Gas”. (27.12.2005 N2537)

z¹¹. Rules for Supply and Consumption of Electricity (Capacity) – shall mean a document regulating the relations between Supplier Distribution Licensee and/or retail consumers during sale, purchase, distribution and/or consumption of electricity through the distribution network, with the exception of relations with the direct consumers.

z¹². Rules for Supply and Consumption of Electricity (Capacity) – shall mean a document regulating those relations between, from one hand, Distribution, Generation Licensees, small power plants and from the other hand, which arises from the sale, purchase, distribution, transmission and/or consumption of electricity through the distribution network

z¹³. Retail Customer – a person receiving electricity (capacity) from the Distribution Licensee or a person receiving natural gas from the Distribution Licensee’s network only for own consumption. A Retail Customer has a right to change the external supply network or to build a new network only based on Technical Conditions issued by the Distribution Licensee. (27.12.2005 N2537)

z¹². Rules for Supply and Consumption of Natural Gas – shall mean a document regulating the relations between Suppliers, Distribution Licensees and/or retail

consumers arising from sale, purchase, distribution and/or consumption of natural gas through the distribution network.

z¹³. Small Hydropower Plant – shall mean a power plant with design capacity not exceeding 10 MW;

z¹⁴. Retail Customer – a person receiving electricity (capacity) from the generation, transmission or distribution network and a person receiving natural gas from the Distribution Licensee's network for own consumption only and is not a direct customer; *(9.06.2006 N3292 effective date 1st September, 2006)*)

z¹⁵. Direct Agreement – a bilateral power purchase agreement between the wholesale buyer and seller of electricity (qualified enterprises) defining prices, terms, conditions and quality parameters for electricity (capacity) purchase and registered by a Dispatch Licensee in compliance with the set rules. *(9.06.2006 N3292 effective date 1st September, 2006)*

z¹⁶. Balance Electricity – electricity, capacity purchased and/or sold by qualified enterprises and used to satisfy actual needs of buyers and sellers, including balancing of volumes stipulated in direct agreements signed between the buyers and sellers. *(9.06.2006 N3292 effective date 1st September, 2006)*

z¹⁷. System Reserve of Capacity – for the purpose of reliable operation of the country's unified electricity grid, based on the relevant Agreement, capacity, provided from the guaranteed sources of reserve, which possess relevant quality and volume, available for dispatching, defined under the "Electricity" (capacity) Market Rules" *(8.06.2007 #4911)*

z¹⁸. Qualified Enterprise – shall mean a generation and distribution licensee, direct customer, importer, exporter, commercial system operator, small hydro power plant, having the right to participate in wholesale electricity (capacity) trade under this Law and the Electricity (Capacity) Market Rules. *(9.06.2006 N3292 effective date 1st September, 2006)*

z¹⁹. Commercial Operator of the Electricity systems (Commercial system operator) – commercial legal entity of private law buying and selling balance electricity and reserve capacity in order to satisfy (to balance) demand (actual and forecasted) of qualified enterprises. Commercial system operator shall carry out only the activities stipulated under this Law. *(8.06.2007 #4911)*

z²⁰. Long Term Tariff – pre-defined fixed tariff or marginal price limit set for the period not less than 3 years. *(9.06.2006 N3292 effective date 1st September, 2006)*

z²¹ Guaranteed source of reserve - thermal power plant or/and new constructed power plant (generation licensee) which upon the request of dispatch licensee shall supply to the power system predetermined capacity, under the rules and terms defined by this Law or Electricity (capacity) Market Rules" *(8.06.2007 #4911)*

z²² Transit – except for transmission service, transfer of electricity (capacity), owned by other person to the electricity network, belonging to the preliminary identified person through the network of distribution or generation licensee, small hydro plant or direct customer; (8.06.2007 N4911)

ARTICLE 2.

NATIONAL ENERGY POLICY

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

1. The Ministry shall set the main directions of the state policy in the energy sector including electricity and natural gas sectors and secure their implementation upon approval by the Georgian Parliament. For the purposes of implementing this goal, the Ministry shall have the following main functions: (27.12.2005 N2537)

(a) Elaborate programs in energy sector including electricity and natural gas sectors based on the short, medium, and long-term strategy and priorities and to coordinate their implementation;

(b) Promote attraction of short, medium, and long-term investments and credit resources, also implementation of state investments for rehabilitation and development of the energy sector;

(c) Promotion of efficient restructuring and privatization of state owned enterprises in the energy sector, also support of competition development in electricity and natural gas sectors; development of rules and strategy for conservation and liquidation of energy facilities;

(d) Participate in elaboration and development of legal and regulatory framework; monitor the technical and economic condition of the energy sector;

(e) Develop and coordinate implementation of uniform State program targeted to increase efficiency in the areas of 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;

(f) Promote development of scientific research, design-construction and education spheres in the energy sector, also promote attraction of investments and credit resources and implement subsidies.

(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 and Exporters, suppliers and electricity and natural sector entities in foreign countries, and

support transit and import/export relationships in the electricity and natural gas sectors.

(i) Develop state strategies for energy sector emergencies;

(j) Determine strategy for the insurance of the security in the energy sector, elaboration of recommendations as well as studying the emergency situations and technical imperfections and preparation of the conclusions about them.

(k) Promote increase of energy resource production, prevalent utilization of the renewable (alternative) energy resources and support energy efficient measures related to the increase of the effectiveness of the production.

(l) For the purpose of consumption of the renewable and alternative energy resources and promotion of withdrawal of the investments made for these purposes, identification of the newly built power plant (generation licensee or small power plant) which generates electricity (capacity) subject to be purchased under the full or partial mandatory rule and for which the Commission sets long term tariff for electricity purchase by the commercial operator of the electricity system (authority envisaged under the para 4 of this Article does not apply to the cases defined by this subparagraph) (8.06.2007 N4911)

2. The Ministry of Fuel and Energy shall relinquish ownership, regulatory and operational rights in the electricity and natural gas sectors.

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

- a) Electricity (capacity) balance;
- b) Natural gas balance;
- c) Electricity (Capacity) Market Rules;
- d) Natural Gas Market Rules;
- e) The 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. Standard acts stipulated in Paragraphs 3 and 4 of this Article except acts defined by sub-paragraphs a) and b) of paragraph 3 of this Article shall be issued (approved) in compliance with the public administration rules provided for 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)

ARTICLE 3.

GEORGIAN NATIONAL ENERGY REGULATORY COMMISSION

Clause 4. Georgian National Energy Regulatory Commission. Status and Functions.

1. Georgian National Energy Regulatory Commission (hereinafter “the Commission”) is an entity defined under the Law of Georgia on Independent Regulatory Bodies”, not founded on the bases of State property. (27.12.2005 N2537)
2. The Legal base for Commission's activities is the Georgian Constitution, International Treaties, the Present Law, the Charter of the Commission, and other Legal Regulations.
3. The Charter, Structure and Personnel Schedule of the Commission shall be elaborated and approved by the Commission.
4. The Commission has authority to grant Licenses and also 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. The main functions of the Commission are, to:
 - a. Establish rules and conditions for granting generation, transmission, dispatch, distribution, as well as natural gas transportation and distribution licenses, also grant, modify and revoke licenses in compliance with the Law of Georgia on Licenses and Permits, this Law and Licensing Rules; (27.12.2005 N2537)
 - b. Setting and regulation of tariffs for electricity generation, transmission, dispatch, distribution, transport, import and consumption, services provided by a commercial operator of the system, system reserve of the capacity to be purchased under the mandatory rule by commercial operator of the system, and also setting and regulation of tariffs on natural gas transportation, distribution delivery and consumption, excluding tariffs on natural gas sold in the auto gas stations, commensurate with this Law, main directions of state policy in the energy sector, administrative legal acts adopted based on this policy and established methodology. (8.06.2007 N4911)
 - c. Within its competence, resolve disputes between Licensees, Importers, Exporters, suppliers and consumers, also commercial system operator; (9.06.2006 N3292 effective date 1st September, 2006)
 - d. establish control over the conditions of the Licensing within the Electricity and Natural Gas Sectors of Georgia, and for violation of the conditions, shall combine the relevant administrative sanctions, which are determined by the existing Georgian Legislation.
 - c. organization and coordination of activities, with regard to mandatory certification within the energy sector;

- d. Removed. (27.12.2005 N2537)
- e. Removed. (27.12.2005 N2537)

Clause 5. Rules and Regulations of the Commission

1. Commission, within its competence, issues legal acts - Resolutions; The Commission by resolution approves the Charter, operational rules and procedures, procedures for consideration of disputes, regulatory fees and calculation methodology for setting regulation fees, licensing rules, supply and consumption rules, tariff methodology, tariffs (including marginal tariffs), rules for calculating admissible losses and the amount of such losses. The resolution of the Commission also may be issued in other cases directly specified in 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 Resolutions. (27.12.2005 N2537)
3. Resolutions and decisions of the Commission are made at the Commission's meetings by the majority of votes of the Commission Members. The meeting of the Commission is authorized if at least two members of the Commission attend the meeting. Resolutions and decisions of the Commission are mandatory for licensees, suppliers, importers, exporters, consumers and commercial system operators. (9.06.2006 N3292 effective date 1st September, 2006))
4. The Chairman of the Commission issues orders on administrative issues.

Clause 6. Members of the Commission and Terms.

1. The Commission shall consist of three members. President of Georgia appoints and dismisses the members of the Commission.
2. A person can be appointed as a Commission Member if he/she is a citizen of Georgia, has high education and qualification and experience necessary for the implementation of functions defined under this Law. (27.12.2005 N2537)
3. The members of the Commission are appointed, upon nomination by the Chairman, for six-year term. A member who has served one complete six-year term may be re-appointed for additional six-year term. Whenever a vacancy in the Commission exists prior to the expiration of a term, the President, upon nomination by the Chairman, shall appoint a new member to serve for the remainder of the unexpired term.
4. Each member shall have one vote in Commission decisions.

Clause 7. The Discontinuation of Authority and Dismissal.

1. Premature interruption of the terms of a Commissioner is due in cases as follows:

- a. if voluntarily quits;
- b. if accusatory decision has been taken against him according to the Georgian legislation;
- c. if the court recognizes him disabled or missing;
- d. if his citizenship changes;
- e. if violates provisions of the Georgian Law "On Conflict of Interests and Corruption in Public Service"
- f. if does not perform his duties constantly, during four months period;
- g. if dies.

2. The member of the Commission can only be dismissed according to the provisions mentioned above.

3. The Member of the Commission has a right to appeal his dismissal according to the rules and procedures established by the existing legislation.

Clause 8. Chairman; Duties of the Chairman.

1. The President from among the members of the Commission shall appoint the Chairman of the Commission. The Chairman of the Commission may resign from the position of the Chairman and remain a member of the Commission for the remainder of the member's term. The Chairman of the Commission may, from time to time, designate one of the other Commissioners to serve as Acting Chairman.

2. The Chairman of the Commission shall be responsible for presiding over the meetings of the Commission, for publishing and carrying out the Commission's decisions, and for the administration of the Commission.

Clause 9. Employees to be Appointed, Dismissed by the Commission.

For the proper discharge of the Commission's duties the Commission has the staff. The Chairman of the Commission, in consultation with the Commission and according to the Georgian legislation, may appoint or dismiss any employee. The employees of the Commission shall be equally subordinated to the members of the Commission, except the issues related to the administrative management.

Clause 10. Political Activities of the Commissioner.

The member of the Commission shall discontinue the membership of any party. The creation of political or social organizations within the Commission is prohibited.

Clause 11. Powers and Duties Generally.

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 legal acts adopted by the Ministry under this Law. *(27.12.2005 N2537)*
2. The Commission shall allow the interests of the parties, including electricity and natural gas consumers, to be represented in proceedings.
3. The Commission members and each of its employ, within its competence shall have full and prompt access to the personnel and records of every Licensee, Importer, Exporter, Supplier and commercial system operator that 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 conduct inspection of all presented records and data.

Clause 12. Public Sessions; Exception for Confidential Information.

1. The sessions of the Commission shall be public. Commission's decisions and resolutions, shall be made published according the set rules.
2. The Commission shall keep a record of all proceedings and other relevant documents for the period determined by the Commission. A member of the Commission shall have open access to any information, records and documentation of the Commission.
3. All resolutions and decisions, orders, records and other documents shall be open to public examination. The Commission shall adopt appropriate rules to ensure confidential information received by it remains confidential, whenever confidentiality is necessary.

Clause 13. Conducting Meetings of the Commission.

Before promulgating any resolution or decision the Commission shall give reasonable notice of its contents and shall give interested Persons an opportunity to attend the meeting. In order to keep information confidential, Commission is authorized to conduct meetings closed for the public. The resolutions and decisions made on closed meetings shall be published.

Clause 14. Liability for Violation of the Law

1. Commission, in accordance with the legislation, is authorized to hold liable all legal persons or individuals, who violate the provisions of this law or resolutions and decisions made by the Commission.

Clause 15. Appeals (23.06.2005 N1738)

1. A resolution and decision made by the Commission may be appealed, by affected person, to the Constitutional or Supreme Court of Georgia, in accordance with the existing rules and procedures.

Clause 16. Meetings and Communications between the Commission and Parties.

1. The Commission shall promulgate rules controlling meetings between members or employees of the Commission and any other party. The rules shall provide that no member of the Commission shall consult with any party or Legal Person or individual acting on behalf of any party with respect to such a proceeding without giving notice, and an opportunity to participate, to all parties.

Clause 17. Conflicts of Interest.

1. The Georgian Law "On Conflict of Interests and Corruption in Public Service" determines the rules on suspension of the Commissioner's activities and the conflict of interests. (17.10.97 Journal of Parliament N(44))
2. No staff member of the Commission shall directly or indirectly own any securities of, have any economic interest in, or hold any position with any Licensee, Importer, Exporter, Supplier or commercial system operator. (9.06.2006 N3292 effective date 1st September, 2006))
3. This Clause shall not prevent any staff member of the Commission from being a customer of any Licensee, Importer, Exporter and Supplier but no Licensee, Importer, Exporter or Supplier shall offer, nor shall any staff member of the Commission accept, free or discounted service from a Licensee, Importer, Exporter or Supplier. (27.12.2005 N2537)

Clause 18. Personal Security and Assistance in Further Employment

1. Threatening, violence or any other illegal actions against the member of the Commission, or its employ, while they are fulfilling their responsibilities, are prohibited. Any person who violates this provision shall be prosecuted in accordance with procedures established by the existing legislation.
2. The State shall provide assistance to the Commissioner in further employment upon completion of his membership term in the Commission

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

1. The Commission shall, by October 1 of each year, approve its budget for the following year, which shall indicate all the expenses of the Commission,

including the salaries and benefits of the members and employees of the Commission. On the basis of load forecasts for the following year received from the Licensees, Importers and Suppliers by September 15, the Commission shall establish a Regulatory Fee at a level sufficient to cover the budgeted expenses of the Commission for the next year. The budget of the Commission must be published.

2. Regulatory Fees shall be deposited at the Commission's account. The Commission shall have sole access to the funds. Any funds in the Commission's account not used in one year shall be carried forward to the next year, and the next year's Regulatory Fees shall be reduced accordingly. The Commission shall be entitled to borrow in order to cover operating expenses that cannot be met from current Regulatory Fees; the Commission shall repay the loans, with interest from Regulatory Fees of the next year. The State Budget may allocate funds and grants, for the Commission's use.

Clause 20. Financial Report; Audit.

1. By March 31 of each year the Commission shall prepare and publish a financial report that shall include an accounting of the Regulatory Fees paid to the Commission's account and the Commission's expenses from this account, during the prior year. The financial report shall also identify any loans taken during the year, and any other funds made available to, and/or used by, the Commission. The Commission shall make financial report available to the public.
2. Review of the fiscal activities of the Commission, shall be conducted in accordance with Georgian legislation and implemented by relevant authorized bodies, including independent auditors appointed by the Commission. Review shall not cause the suspension of the Commission's ongoing activity.

Clause 21. Annual Report.

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

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

Wholesale Electricity (Capacity) Trade Commercial System Operator

Clause 22. Wholesale Electricity (Capacity) Trade

1. Purchase and sale of all electricity generated by any generation plant which is a part of the integral Georgian energy system, also purchase and sale of all

electricity imported to Georgia, shall be carried out through direct contracts or commercial system operator, except for the cases defined under this Law.

2. Parties of a direct agreement for sale and purchase of electricity and capacity shall register the direct agreement with the 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 the Dispatch Licensee. (8.06.2007 N4911)
3. The Dispatch Licensee has a right to deny registration of a direct agreement only if it violates the requirements stipulated in this Law and/or deadlines for submitting direct agreements for registration.
4. If seller requires, electricity and/or capacity purchase takes place only if the payment for the purchased power is secured as defined by the law.

Clause 23. Commercial System Operator

1. Functions of the Commercial System operator are as follows:
 - a) Purchase and sale of balance electricity and capacity (among them through execution of long term import/export contracts);
 - b) Provision of reserve capacity for the electric system in compliance with the rules under 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 power system of Georgia ;
 - d) Creation and Maintenance of a data base including an integrated register for recording wholesale purchase and sale;
 - e) Determination of amounts of power sold and purchased by the electricity sellers and buyers and submission of information required for financial settlement according to the data received based on the subparagraph (h), paragraph 3, clause 35 of this law;
 - f) Implementation of other functions stipulated under this Law.
2. While working on the implementation of direct power (capacity) supply agreements, the difference between contracted and actual volumes of electricity and capacity shall be filled in and also actual needs of buyers and sellers shall be satisfied by means of balance electricity sold/purchased based on direct agreements.
3. Commercial system operator shall independently carry out the functions stipulated in this Law and follow “Electricity (Capacity) Market Rules” and other normative-administrative legal acts.
4. Qualified enterprises and parties of transit arrangements shall submit to the Commercial System Operator all information needed for proper implementation of its functions.

5. Commercial system operator shall execute relevant agreement with the newly constructed power plant (generation licensee or/and small power plant). The electricity generated in such plants is subject to be purchased under the full or partial mandatory rule adopted by the Normative Administrative Act of the Ministry (8.06.2007 N4911)

Clause 23¹ System Reserve of the Capacity (effective as of September 1, 2007)

1. Distribution Licensee, Direct Customer and exporter shall have required volume of system reserve of the capacity according to the procedures determined by “Electricity (Capacity) Market Rules” and approved Balances, in compliance with the main directions of the state policy in the energy sector. (8.06.2007 N4911)
2. For securing energy safety of the country, delivery-consumption system reserve of the capacity, not reserved by the relevant qualified enterprise, is reserved by the commercial system operator, commensurate with the rules envisaged under the Georgian legislation and “Electricity (capacity) Market Rules” and the cost of electricity is paid by the above qualified enterprise (8.06.2007 N4911)
3. System reserve of the capacity is at the disposal of the dispatch licensee and is used for balancing electricity (capacity) supply-consumption (8.06.2007 N4911)
4. Availability for service of the system reserve of the capacity is checked and approved by electricity dispatch licensee commensurate with the rule set under the “Electricity (Capacity) Market Rules” (8.06.2007 N4911)
5. When checking the availability of the system reserve, the relevant degree and extent of the system reserve capacities are not confirmed, the dispatch licensee must suspend registration of the relevant agreement on securing system reserve of the capacity on which it immediately informs the parties of the agreement and the commercial operator of the system. Such circumstances represent the grounds for rejecting the agreement. (8.06.2007 N4911)
6. Enactment of the contract on provision of the system reserve of the capacity requires meeting with the same terms and procedures as the direct contract, among them registration of the contract by the dispatch licensee. (8.06.2007 N4911)

Clause 23² Electricity Import and Export

1. Electricity Import and Export may be done by any Person; Import and Export is done based on direct contracts.
2. Removed (8.06.2007 N4911)
3. Removed (8.06.2007 N4911)
4. Removed (8.06.2007 N4911)
5. While registering Electricity Import Agreements Dispatch Licensee is authorized to leave particular portion (reserve capacity) of Network Transmission Capacity unused in accordance with the system reliability requirements.

Clause 23³. Electricity Balances

1. Dispatch Licensee will develop Forecasted Electricity Balance and submit it to the Ministry for further approval, which includes Power supply and consumption parameters.
2. For securing stable functioning of the energy system, daily and hourly planning (if needed double checking) of electricity (capacity) delivery within the approved Electricity Balance is performed by the Dispatch Licensee due to the situation existing in the system. .

Clause 23⁴. Electricity Trading by Small Hydro Power Plants

1. Small Power Plant is authorized to sell electricity to:
 - a) Qualified enterprise;
 - b) Retail customer.

ARTICLE 5.

LICENSES AND LICENSING PROCEDURES

Clause 24. Commission to Issue Licenses; Licensed Activities, Exceptions.

1. The Commission shall be entitled to issue permanent 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 supply
2. Electricity Generation, transmission, dispatch, Distribution, as well as natural gas transportation and distribution without the relevant License shall be forbidden, except for the cases described in the Paragraph 3 of this Article. (27.12.2005 N2537)
3. Person, who generates electricity only for its own consumption and is not connected to the transmission or distribution grids, is not required to obtain the license.

Clause 25. Documents to be submitted by the License Applicant (27.12.2005 N2537)

1. In addition to the requirements set under other legal acts and necessary to obtain a License, License Applicants stipulated in this Law shall submit the following documents together with the License application:

- i. document certifying ownership (usage) of production assets;
- ii. audit report on the technical condition of the production assets;
- iii. the list of fixed assets and audit report on the liquidity of the enterprise;
- iv. report of the relevant environmental institution on compliance with the environmental requirements;
- v. technical conditions for connection to the electricity or natural gas network (except electricity dispatch licensees);
- vi. scheme of the electrical or natural gas network, relevant to the license application (except electricity dispatch licensees).

2. The report specified in Paragraph 1(d) of this Article shall be obtained by the License Issuer based on “One Stop” principle stipulated in the Law on Licenses and Permits.

3. Issuer of the Conditions specified in Paragraph 1(e) of this Article shall be defined in compliance with Licensing rules.

Clause 26. Competence Required; General License Provisions; Discontinuation of Service.

1. The Commission shall issue Licenses only to Legal Persons and the sole entrepreneurs that satisfy the conditions stipulated in the legislation. *(27.12.2005 N2537)*
2. The License Certificate shall specify the type of service defined in the License application, location of the assets for providing services and service territory, for which the License is valid, also the date of issuing the License and conditions for its modification and revocation. *(27.12.2005 N2537)*
3. Licensees shall be prohibited to reduce or increase services stipulated in the License without the Commission’s preliminary 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, for termination or reduction of services the Licensee shall submit an application to the Commission. The Licensee shall turn in the License upon receiving the Commission’s consent. *(27.12.2005 N2537)*
4. No Licensee shall be required by the terms of its License, by its tariff, or otherwise to continue supplying electricity or other electricity services in any case where another Licensee, a Direct Consumer, or any other Legal Person or individual has failed to meet its payment obligations under a contract or approved terms and conditions of service.
5. Subject to the requirement of the Commission each Supplier of Natural Gas shall submit to the Commission information about commercial terms, including, but not limited to pricing terms, paid to acquire natural gas supplies. The Commission shall hold all such information on price and other matters in strictest confidence, if so required by the applicable law and by the Licensee. *(27.12.2005 N2537)*

Clause 27. Rights and Duties of Licensees, Importers, Exporters; Information Filing (27.12.2005 N2537).

1. The Licensee shall comply with the License conditions. Normative acts issued by the Commission and the Ministry shall be mandatory for the Licensee, Supplier, Importer, Exporter and Consumer; (27.12.2005 N2537)
2. Licensees, Importers, Exporters and Supplier shall operate at least cost principle and in accordance with economic efficiency requirements.
3. Each Licensee, Importer, Exporter and Supplier, with the exception of cases stipulated in Paragraph (4) of this Article, shall submit to the Commission, to the Ministry, and make available to the public the following information: (27.12.2005 N2537)
 - a. An annual summary of the Licensee's, Importer's, Exporter's activities for the past year;
 - b. An annual work plan for the following year; and
 - c. Other information as the Commission or the Ministry deems necessary, except for the cases provided for in the active legislation (27.12.2005 N2537)

Clause 27. Rights and Obligations of System Commercial Operator, Licensees, Importers, Exporters; Information Filing.

1. The Licensee shall comply with the License conditions. Normative acts issued by the Commission and the Ministry shall be mandatory for the System Commercial Operator, Licensee, Supplier, Importer, Exporter and Consumer;
2. System Commercial Operator, Licensees, Importers, Exporters and Supplier shall operate at least cost principle and in accordance with economic efficiency requirements.
3. Each System Commercial Operator, Licensee, Importer, Exporter and Supplier, shall submit to the Commission, to the Ministry, and make available to the public the following information:
 - a. An annual summary of the Licensee's, Importer's, Exporter's activities for the past year;
 - b. An annual work plan for the following year; and
 - c. Other information as the Commission or the Ministry deems necessary, except for the cases provided for in the active legislation.)

Clause 28. Electricity Metering, Sales, Metering Equipment

1. The Licensee, Direct customer and Small Hydro Power Plant shall record the full volume of electricity passing through the Licensee's assets in compliance with the set standards, rules and requirements and make this information accessible. The System Commercial Operator shall be obliged, while the Ministry and the Commission are authorized to inspect meters in compliance with the Electricity (Capacity) Market Rules
2. Sale and purchase of electricity and transmission and dispatch services shall be provided by relevant contracts, commensurate with the present Law and rules established by the Electricity (Capacity) Market Rules(8.06.2007 N4911)

Clause 29. Disputes (27.12.2005 N2537)

System Commercial Operator, Licensee, Importer, Exporter, Supplier and Consumer may refer the dispute relating to the electricity and gas sector to the Commission for resolution, if resolution of such dispute is within the Commission's competence.

Clause 30. Removed (27.12.2005 N2537)

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

A License is modified pursuant to its terms and conditions or revoked for non-compliance with 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; while modifying a License the Commission may require the Licensee to comply with different, or more stringent requirements than the requirements included in any prior License.

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

ARTICLE 6.

LICENSES; PROVISIONS AND CONDITIONS

Clause 33. Generation License.

1. The Commission may issue Licenses that in each case authorize a Legal Person or an Individual to generate energy and connect specifically identified generation facilities to the Transmission Grid for the purpose of supplying electricity capacity and/or energy to a specific Receiving Point.
2. Abolished. (27.12.2005 N2537)

3. According to the License Conditions, each Generation Licensee shall, for the duration of the License: *(27.12.2005 N2537)*
 - a. Submit the rates, terms, and conditions for power sales contracts with other Licensees for review and approval by the Commission in case of a request made in compliance with the Electricity (Capacity) Market Rules. Such approval shall not be required once the Commission has determined that the Generation Licensee is producing electricity solely for his own consumption, solely for export or conducts power sales in the competitive conditions. *(abolished (9.06.2006 N3292 effective date 1st September, 2006)*
 - b. Make the generation facilities available to the Dispatch Licensee at the Receiving Point for the safe, reliable, non-discriminatory, and economic dispatch and operation of the Transmission Grid and connected facilities, pursuant to the terms of its power sales contracts or its approved rates and terms and conditions of service;
 - c. Comply with the requirements of the Electricity Market Rules regarding the 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 payment of the Regulation Fee set by the Commission and comply with other terms of the License.

Clause 34. Transmission License.

1. The Commission may issue a License granting a Legal Person the right to provide transmission service using the Transmission Grid.
2. The License shall identify the transmission system included in the Transmission Grid to be operated by the Licensee, which shall include the facilities between the Receiving Points and the Delivery Points. Where a Generation Licensee's facility is to be directly connected to a Distribution Licensee's or a Direct Consumer's facilities, the Commission may deem the interconnection point a Receiving Point and a Delivery Point separated by a minimum section of the Transmission Grid for purposes of establishing parameters for transmission services.
3. When a new transmission facility is required in the Transmission Grid, the Transmission Licensee shall apply for a modification to its License proposing the new transmission facility. If, after notice and hearing pursuant to the rules promulgated by the Commission, the Commission determines that the new facility is required, and further determines that the proposed route for the facility, as may be amended at or following the hearing; will reasonably minimize adverse impacts on the area concerned, is consistent with the State Policy concerning the proposed route as expressed to the Commission during the proceeding; and complies with the requirements of Law, 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, following the hearing described in present Clause, section 3, the Transmission Licensee is authorized to construct a new transmission facility along an approved route, the Transmission Licensee shall be entitled to acquire any lands required to construct this facility.
5. Abolished. *(27.12.2005 N2537)*
6. According to the License Conditions, the Transmission Licensee shall, for the duration of the License:
 - a. Ensure functioning of the Transmission Grid in a manner compliant to the Electricity (Capacity) Market Rules; *(27.12.2005 N2537)*
 - b. Develop, submit to the Commission, and make publicly available an investment program;
 - c. Develop and make available reasonable instructions for the safe, reliable, and non-discriminatory interconnection and operation of the transmission network and connected facilities;
 - d. Ensure provision of services in compliance with the requirements of this Law and standard acts issued under this Law; *(27.12.2005 N2537)*
 - e. Make timely payment of the Regulation Fee set by the Commission and comply with other terms of the License. *(27.12.2005 N2537)*
7. Removed *(9.06.2006 N3292 effective date 1st September, 2006)*

Clause 35. Dispatch License.

1. Dispatch License issued by the Commission authorizes a Legal person to conduct the management of the Georgian electricity sector through its central and regional dispatch centers. *(30.04.99 N1934 Journal Matsne N15 (22))*
2. Abolished. *(27.12.2005 N2537)*
3. According to the License Conditions, the Dispatch Licensee, for the duration of the License shall:
 - a. ensure reliable functioning of the energy system, satisfy the needs of all relevant Licensees, Importers, Exporter and Direct Consumer based on Power System Security and least cost principle in accordance with approved Balances and requirements of “Electricity (Capacity) Market Rules”
 - b. install and operate all facilities necessary to ensure operation and electric stability of the energy system, and develop regimes and utilize appropriate

dispatch protocols that support efficient operation of the Electricity Sector and full satisfaction of the requirements of Distribution, Import, Export licensee and Consumers, in compliance with "Electricity (Capacity) Market Rules.

- c. follow the approved balances, this Law and requirements of "Electricity (Capacity) Market Rules" and ensure execution of the direct contract and satisfy the demand of power sellers and buyers by providing balancing electricity and reserve capacity or curtail or disconnect power supply to electricity buyers (8.06.2007)
- a. Develop, provide the Commission, and make publicly available an investment program;
- b. Ensure provision of services in compliance with the requirements of this Law and standard acts issued based on this Law. (27.12.2005 N2537)
- c. Carry out timely payment of the Regulation fee set by the Commission and comply with the License conditions. (27.12.2005 N2537)
- g. Maintain integrated Register for direct contracts; (9.06.2006 N3292 effective date 1st September, 2006)
- h. According to the "Electricity (Capacity) Market Rules" provide System Commercial Operator with the information regarding amount of electricity to be sold as defined in the direct contracts and amount of actually sold electricity; (9.06.2006 N3292 effective date 1st September, 2006)

Clause 36. Distribution License.

1. Distribution License issued by the Commission authorizes the sole proprietor or legal entity to buy, transmit, distribute and sell electricity (9.06.2006 N3292 effective date 1st September, 2006))
2. Removed. (27.12.2005 N2537)
3. According to the License Conditions, each Distribution Licensee shall, for the duration of the License:
 - a. During the emergency periods, maintain strict regimes and limits of electricity supply, ensure priority supply of electricity to the objects of specific importance, given the due payment is provided.
 - b. .According to the "Electricity (Capacity) Market Rules", provide full, timely and guaranteed bill collection for received electricity and services; a Distribution Licensee who fails to meet requirements of this provisions, 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 eligibility criteria established by the Commission and with the Licensee's investment program;
- e. Provide uninterrupted electricity (capacity) supply to customers within the area defined in the License with the corresponding payment condition. *(9.06.2006 N3292 effective date 1st September, 2006)*
- f. Establish and submit to the Commission for approval procedures for service, metering, billing, and collections;
- g. Develop, provide to the Commission, and make publicly available an investment program;
- h. Carry out services in compliance with this Law and legal acts issued under this Law *(27.12.2005 N2537)*
- i. Make available to the public for review in the Licensee's offices:
 - (i) The License and approved tariffs;
 - (ii) The Licensee's approved terms of service, metering, billing, and collections.
 - (iii) A description of the performance standards applicable to the Licensee, including time required to connect new customers; and
- j. Carry out timely payment of the Regulation fee set by the Commission and comply with the License conditions. *(27.12.2005 N2537)*

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

Clause 37. Importer *(27.12.2005 N2537)*

- 1. During the import period an Importer shall act in accordance with the requirements of the Georgian legislation on import, including the Electricity (Capacity) Market Rules, electricity (capacity) balances and tariffs set by the Commission.
- 2. Make timely payment of the Regulation fee set by the Commission

Clause 38. Exporter *(27.12.2005 N2537)*

During the export period an Exporter is obliged to act in accordance with the requirements of the Georgian legislation on export, including the Electricity (Capacity) Market Rules and electricity (capacity) balances

Clause 39. Natural Gas Supply License *(27.12.2005 N2537)*

The Natural Gas Supplier shall:

- a. provide services in compliance with the requirements of this Law and standard acts issued under the Law.”
- b. Develop emergency plans to be implemented in emergencies or conduct negotiations and enter agreements with other parties concerning the natural gas deliveries in such emergencies;
- c. Provide services in compliance with the requirements of this Law and standard acts issued under the Law.
- d. Ensure timely payment of the Regulation fee set by the Commission

Clause 40. Natural Gas Transportation License.

1. The Commission may issue a License granting a Legal Person a right to provide natural gas transportation and transit services.
2. The License shall identify the proposed pipeline route and lines of pipe and other facilities, including the Receiving Points and the Delivery Points, to be operated by the Licensee.
3. When a new pipeline or other transportation facility is required, the party proposing such new pipeline or other facility shall apply for a Transportation License, or in the case of an existing Transportation License, apply for a modification to this License. If, after notice and hearing pursuant to the rules promulgated by the Commission, the Commission determines that the new pipeline or facility is actually required, and further determines that the proposed route for such pipeline or facility will minimize negative impacts on the area concerned, is consistent with the State Policy and complies with the requirements of Law, the Commission shall issue a new or modified Natural Gas Transportation License, that includes the new pipeline or other facility and authorizes its construction on the approved route.
4. If, following the hearing as described in the above Point 3, the Transportation Licensee is authorized to construct a new pipeline or other facility along an approved route, the Transportation Licensee shall be entitled, following to the set rules, to utilize the lands required to construct such pipeline or facility.
5. Connection of the direct customer or distribution network to the natural gas transportation system does not require modification of natural gas transportation license, if such 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. According to the License Conditions, the Transportation Licensee shall, for the duration of the License:
 - a. Develop and maintain the Natural Gas Transportation Network in a manner adequate to support the needs of Supply Licensees;
 - b. Develop, submit to the Commission, and make publicly available an investment program;
 - c. Develop and make available reasonable instructions for the safe, reliable, and non-discriminatory interconnection and operation of the transmission network and connected facilities;
 - d. Ensure provision of services in compliance with the requirements of this Law and standard acts issued under this Law; *(27.12.2005 N2537)*
 - e. Ensure timely payment of the Regulation fee set by the Commission and meet the requirements defined in the License. *(27.12.2005 N2537)*

Clause 41. Natural Gas Distribution License.

1. Natural Gas Distribution License issued by the Commission shall authorize the legal entity to operate the distribution network and distribute natural gas within the specific distribution network. *(27.12.2005 N2537)*
2. Abolished. *(27.12.2005 N2537)*
3. According to the License Conditions, each Distribution Licensee shall, for the duration of the License:
 - a. Ensure provision of services in compliance with the requirements of this Law, standard 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 service, metering, preparing and sending reports, also payment for natural gas consumed by the customers;
 - c. Develop, provide to the Commission, and make publicly available an investment program;
 - d. Abolished; *(27.12.2005 N2537)*
 - e. Ensure timely payment of the Regulation fee set by the Commission and compliance with other terms of the License.
 - a) License and approved tariffs;
 - b) Approved service terms and conditions including granting and cancel of service rights, procedures of metering, preparing and sending reports, also payment for natural gas consumed by the customers;

c) Description of standards for License operation, including conditions for connection of new customers;

f. Timely pay all License Fees imposed by the Commission and comply with all other terms and conditions of the License. (27.12.2005 N2537)

Article 6¹ (27.12.2005 N2537)

Electricity system Operation in Parallel Regime

Clause 41¹. Management and implementation of Parallel Regime Operation

1. Governance and regulation the relations related to the electricity system parallel regime operation is affected according to the Electricity (Capacity) Market Rules and electricity (capacity) balances.

2. Dispatch licensee, on the basis of the preliminary agreement with the electricity market, is authorized to conclude the agreements on parallel operation with the corresponding companies of the neighboring countries, according to the established rules.

3. The purpose of parallel regime operation is implementation of approved electricity (capacity) balance, effective balancing of electricity generation and transmission, also ensuring proper operation regime of power systems.

Clause 41¹. Management and implementation of Operation in Parallel Regime (9.06.2006 N3292 effective date 1st September, 2006)

1. Electricity Dispatch Licensee on the basis of the preliminary agreement with the System Commercial Operator, is authorized to conclude contracts on operation in parallel regime with corresponding companies of the power system in the neighboring countries according to the established rule.

2. The purpose of parallel regime operation is implementation of approved electricity (capacity) balance, effective balancing of electricity generation and transmission, also ensuring proper operation regime of power systems and providing for reserve capacity as required by the system.

3. Management and regulation of relations connected to the operation of power systems in parallel regime are performed based on the corresponding agreements, "Electricity (Capacity) Market Rules" and "Electricity (capacity) Balances".

Clause 41². Parallel Regime Operation Agreement and Balanced Flow

1. Electricity System Parallel Regime Operation Agreement shall be concluded and fulfilled so that electricity flows between electricity systems be amount to zero after expiry of the term of agreement.

2. In the event of non-fulfillment of Paragraph 1 of this Article and positive or negative balance as of the end of the agreement term, the Commercial System Operator together with the electricity dispatch licensee shall consider electricity in the electricity (capacity) balances to ensure zero balance in the following periods. Electricity dispatch licensee shall ensure technical implementation of the above-mentioned. (9.06.2006 N3292 effective date 1st September, 2006)

Clause 41³. Legal Status of Parallel Regime Operation

1. Relationships emerging on the basis of the agreement on parallel regime operations do not constitute import or export of electricity and do not require separate licensing or permitting.

2. Parallel operation of the electricity system shall not be deemed as economic activity. Electricity balance flow (except zero) as of expiration of the parallel regime operation agreement term shall be considered as import or export of electricity. The Dispatch Licensee shall be deemed as an Importer or exporter of the electricity balance flow. (9.06.2006 N3292 effective date 1st September, 2006)

ARTICLE 7

TARIFFS

Clause 42. Commission Authority for Tariff Setting (27.12.2005 N2537)

1. The Commission is authorized to review applications submitted by licensees, Importers, Suppliers and Commercial System Operator regarding prices, terms and conditions of providing products and services, to make and approve decisions, modify or deny approval, except for the cases provided for in this Law.

2. The Commission shall set tariffs and/or make changes to the acting tariffs based on the tariff setting principles stipulated in Article 43 of this Law, the Main Directions of the State Policy in the energy sector and normative administrative-legal acts issued in compliance with this policy. (9.06.2006 N3292 effective date 1st September, 2006)

Clause 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. Provide Licensees, Importers, Commercial System Operators or Suppliers with an opportunity to recover their costs, including prudently

incurred fuel, operating, and maintenance costs, the principal and interest costs of money borrowed for prudent investments, costs incurred to receive the relevant license and cover regulation fees and working capital. At the same time Tariff shall imply just and reasonable profit on invested equity sufficient to attract financing for the rehabilitation and further development of the sector;

- c. Encourage improvement of efficiency in internal operations and management practices by allowing increase of financial returns of a Licensee, Importer, Commercial System Operators or Supplier as a result of the having minimized its costs of providing service; provided, that the Licensee, Importer, Commercial System Operator and/or Supplier meets all requirements of the active legislation, the License concerning the provision and quality of services; *(9.06.2006 N3292 effective date 1st September, 2006)*
 - d. Encourage economic efficiency within the electricity and natural gas sectors by setting a short run and long run marginal costs and by sending accurate price signals regarding the relative abundance or scarcity of the supply of electric power services;
 - e. Allow Licensees, Importers, or Suppliers to cover all economically reasonable expenses, including expenses incurred to receive the License, also regulation fee, and the Wholesale Market membership costs; *(abolished 9.06.2006 N3292 effective date 1st September, 2006)*
 - f. Take into account Main State Energy Policy Directions in regard to priorities of the categories of electricity and natural gas consumers, provided, that it shall not prevent a Licensee, Importer, Commercial System Operator or Supplier from exercising any rights to demand from consumers payment for provided services and to disconnect any customer for failure to meet its payment obligations;
 - g. Take into account State Policy in regard to subsidies, conditional that it is prohibited to subsidize any category of the consumers at the expense of any Licensee, Importer, Commercial System Operators or Supplier or any other category of consumers. *(9.06.2006 N3292 effective date 1st September, 2006)*
 - h. Reflect cost differences for providing services to different categories of customers.”
2. Costs incurred by the Licensee, Importer, Commercial System Operator and Supplier to provide services shall be recovered from the amounts received from each customer category in proportion to the costs of serving that category. Costs incurred by the Licensee, Importer, Supplier or system Commercial operator to provide services shall be recovered from the amounts received from each customer category in proportion to the costs of serving that category.

3. Different tariffs may be established for each customer category to reflect the quantity of peak, average weighted values or and maximum price cap values, overall usage, the season, the time of the day, the types of services purchased, or similar parameters. Profit indexing, price indexing and other factors considered by innovative tariff methodologies may also be used while setting tariffs, if the use of such methodologies is in the interest of Licensees, Importers, Commercial System Operators Suppliers and Consumers.
4. Removed (8.06.2007 #4911)
5. The Commission is authorized to set long term tariffs taking into account the Main State Energy Policy Directions; (9.06.2006 N3292 effective date 1st September, 2006)
6. Electricity transit tariffs in the distribution network shall be determined based on the rules envisaged by tariff methodology.
7. Electricity transit tariff is determined for the electricity carried through the distribution network and which is not purchased by the electricity consumers from the distribution licensee owing this distribution network, also in the cases, when distribution licensee is carrying electricity through its own network for other distribution licensees. Transit tariff will be calculated based on the costs incurred to provide such service and the amount of transited electricity, application on which shall be submitted to the Commission by the Distribution Licensee either with own initiative or by the request of Commission.
8. Corresponding electricity distribution licensee will be reimbursed at the transit tariff. (8.06.2007 #4911)
9. No generation tariff is determined for that amount of electricity which is generated by the generation licensee and consumed for own purposes of the generation licensee. (9.06.2006 N3292 effective date 1st September, 2006)
10. *Removed* (8.06.2007 #4911)
11. If the methodology or other normative-legal act issued commensurate with this Law do not state otherwise, upper margin of electricity sale tariff is set for electricity generation licensee and importer and fixed tariff, envisaged under this law, is set for the electricity generation licensee that is considered as regulatory station of the country's electricity grid under normative-legal act of "Electricity (capacity) Balance". (8.06.2007 #4911)

Clause 43¹. Tariff of System Reserve of Capacity

1. Except for the generation tariff for reserve source (for the relevant electricity generator), the Commission sets two-component tariff, consisting of system reserve of capacity tariff and tariff on electricity generation of used reserve (8.06.2007 #4911)

2. Tariff of system reserve of capacity ensures reimbursement of constant costs of reserve source (relevant electricity generator). In the electricity generation tariff of the used reserve is represented costs of electricity generation envisaged by this Law and tariff methodology, excluding the costs represented in the tariff of system reserve of capacity. (8.06.2007 #4911)
3. Commensurate with this Clause, two-component tariff set for reserve source (relevant electricity generator) applies only to the period of validity of the relevant contract and the period of proper availability of system reserve of the capacity of the production facilities based on this contract.

Clause 44. Rules for Tariff Setting (27.12.2005 N2537)

1. In the process of tariff setting the Commission, according to the Article 12 of the present Law, conducts open meetings on tariff setting issues and in the process of reviewing the tariff application relies on the following documents:

- a. Substantiated tariff applications, including audited and financial information;
- b. Procedures for reviewing tariff applications and issuing relevant resolutions;
- c. Procedures for customers and other interested parties to comment on tariff applications;
- d. Procedures for obtaining additional information as necessary to evaluate tariff applications; and
- e. Procedures for setting financial reimbursement of regulation costs.

2. Licensees, Importers, System Commercial Operator, Suppliers and Direct Customers shall have a right to submit to the Commission an application on setting or revision of the tariff. (9.06.2006 N3292 effective date 1st September, 2006)

Clause 45. Effectiveness of Tariffs; Tariff Refund.

Tariffs shall become effective within 150 days from submission to the Commission for review, providing that such application complies with the Commission rules for tariff applications. Tariff applicant shall cover the expenses of the Commission on tariff approval.

Clause 46. Uniform Accounting Standards (27.12.2005 N2537)

1. Removed (8.06.2007 #4911)
2. If a person having more than one License or carrying out other entrepreneurial activity in parallel with the licensed one, such person shall

keep separate accounting records for expenses and financial results of such activity.

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

ACCESS FOR THE THIRD PARTIES TO TRANSMISSION AND DISTRIBUTION NETWORK. CONNECTION TO THE GRID

Clause 46¹. Access for the Third Parties to Transmission and Distribution Network

Based on tariffs set by the Commission, Transmission and Distribution Licensee shall transmit through its network electricity for the persons entitled under the Law to sell electricity to electricity consumers.

Clause 46². Payments for Connecting New Customers to Transmission and Distribution Network.

The Commission, shall set the amounts payable to the relevant Licensee for connecting new customers to the transmission or distribution network. .

Clause 46³. Change of the External Supply Network or Construction of the New Network by a Retail Customer

A retail customer shall have a right to change the external power supply network or build a new network only based on a technical condition issued by the relevant Generation, Transmission or Distribution Licensee, who owns the network to which a retail customer is connected. The technical condition shall be issued by the Generation, Transmission or Distribution Licensee, whose network a retail customer plans to connect to.

ARTICLE 8.

TRANSITIONAL PROVISIONS

Clause 47. Initial Terms of Commission Members.

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

Clause 48. Removed (8.06.2007 #4911)

Clause 49. Removed (8.06.2007 #4911)

Clause 49¹. Transitional Clauses

1. Prior to August 1, 2007, Georgian Energy Regulatory Commission shall set electricity tariffs for the qualified enterprises at least 20% of the current distribution tariff and for the rest of the consumers no more than current distribution tariff. Tariffs set under this clause may be reviewed commensurate with the Tariff Methodology, based on the relevant licensee's tariff application. (8.06.2007 #4911)

Clause 49². Interim Rule of Provision of System Reserve of Capacity

1. For the purpose of providing system reserve of the capacity, to the power system, the system commercial operator buys full volume of system reserve of the capacity, based on the contractual relations with the guaranteed reserve source. (8.06.2007 #4911)

2. System reserve of the capacity is at the disposal of dispatch licensee and is used for balancing electricity (capacity) delivery-consumption. In addition, source of reserve (relevant electricity generator) sells electricity only based on the mutual agreement with the system commercial operator. (8.06.2007 #4911)

3. Distribution licensee, direct consumer and exporter shall pay to the system commercial operator cost of system reserve of the capacity commensurate with the rules of this Law and "Electricity (capacity) Market Rules" (8.06.2007 #4911)

4. Availability of system reserve of the capacity is checked and confirmed by the electricity dispatch licensee commensurate with the rule of "Electricity (capacity) Market Rules" (8.06.2007 #4911)

5. When checking the availability of the system reserve the relevant degree and extent of the system reserve capacities are not confirmed, the dispatch licensee must suspend registration of the relevant agreement on securing system reserve of the capacity on which it immediately informs the parties of the agreement and the commercial operator of the system. Such circumstances represent the grounds for rejecting the agreement. (8.06.2007 #4911)

6. Collection of payment for system reserve of capacity from the distribution licensee, direct customer and exporter and repayment of the sum to the relevant qualified enterprise is conducted by system commercial operator. (8.06.2007 #4911)

7. Termination of the term of validity of this clause does not exempt the parties from accomplishment of the financial obligations (8.06.2007 #4911)

8. This clause is in force till September 1, 2007 (8.06.2007 #4911)

Clause 50. Enactment of the Law

4. This Law shall be enacted upon the publication.

5. Clause 23¹ shall be enacted from September 1, 2007 (8.06.2007 #4911)

Clause 51. The list of invalid Rules and Regulations

1. After this Law comes in effect, the following decrees are invalid:

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 Power shall adjust underlying regulations to this Law.

The President of Georgia

E. Shevardnadze

Tbilisi, June 27, 1997