

Of the Minister of Energy of Georgia

29 December 2006

Tbilisi

On Approval of the Natural Gas Market Rules

According to Article 3(3)(d) of the Law of Georgia on Electric Energy and Natural Gas, I hereby **order** that:

1. The Natural Gas Market Rules shall hereby be approved (attached).
2. The Order shall enter into force upon promulgation.

A. Mamatelashvili

Acting Minister

Natural Gas Market Rules

Article 1 - General provisions

1. The Natural Gas Market Rules (the Rules) determine technical, commercial and financial relations in the purchase and sale and transmission of natural gas, including reliability standards and the rules for preparing and implementing natural gas balances. The Rules shall be binding for all persons who purchase, sell, transport, supply, distribute and/or consume natural gas according to the Rules established in the territory of Georgia.
2. The Rules regulate relations between natural gas suppliers, transmission and distribution licensees and direct consumers of natural gas.
3. These Rules and contracts concluded in compliance with them shall be the basic legal documents for licensees, suppliers and direct consumers which establish their rights and obligations.
4. The relations between natural gas suppliers, transmission and/or distribution licensees and direct consumers shall be regulated according to these Rules and the principles of equality and expression of free will prescribed by the legislation of Georgia (except where the suppliers and/or the licensees dominate the market).
5. Unless otherwise provided for by legislation, suppliers and/or licensees shall be prohibited from terminating or reducing natural gas supply, except for the cases provided for by these Rules.
6. Suppliers, licensees and direct consumers in the natural gas sector shall be obliged to comply with the provisions set forth in these Rules. The imposition of obligations that do not comply with these Rules shall be prohibited.
7. In order to improve the balancing of natural gas supply and consumption, reliability standards, determination of representative powers, safety of purchase and sale transactions, payment and other types of relationships, the participants of the purchase and sale and transmission of natural gas may conclude (bilateral or multilateral) agreements. Anyone may join these agreements to undertake and enjoy the rights and obligations provided therein.
8. Any person may, if his/her rights are infringed, request from the infringer compensation for damages incurred by violation of the rights guaranteed by these Rules or by non-performance of the obligations imposed under these Rules.
9. The terms used in these Rules shall have the same meaning as in the Law of Georgia on Electric Energy and Natural Gas.

Article 2 - Basic principles

1. Basic principles of natural gas supply are as follows: Safe, uninterrupted, reliable and quality supply of natural gas, according to the legislation, these Rules and terms of the license.
2. A transmission licensee shall be obliged to:
 - a) timely carry out the supplier's instructions on the supply, or termination or resumption of natural gas supply to certain persons;
 - b) comply with reliability standards;



c) ensure uninterrupted service to all consumers according to the legislation and these Rules;

d) comply with established safety norms and regulations;

e) act according to the lowest value principle;

f) properly fulfil the obligations undertaken under these Rules and the terms of their license.

3. A supplier or a licensee of the natural gas sector may, in compliance with the legislation and the provisions of these Rules, terminate service, if:

a) the consumer fails to fulfil the obligations prescribed under legislation, these Rules and an agreement;

b) there are circumstances beyond the control of the parties, and which the parties to the agreement are not able to prevent, stop or correct, and which actually interfere with the natural gas supply;

c) the planned or emergency repair works need to be carried out;

d) a person's life, health or property is endangered; in this case, the natural gas supply shall be immediately terminated;

f) safety requirements are violated and/or the use of gas devices poses risk of damage; in this case, the natural gas supply shall be immediately terminated;

Article 3 - Basic principles of reliability standards

1. This article defines basic principles of reliability standards. The provisions defining reliability standards shall comply with the principles set out in this article.

2. Basic principles of reliability standards shall be as follows: system stability and reliability of services, efficient administration, adequacy and provision of safety.

3. Reliability standards shall be clearly formulated, realizable, non-discriminating and not unfairly privileged, and shall serve public interests.

4. For a person who purchases, sells, transports, supplies, distributes and/or consumes natural gas through a transmission system, compliance with the reliability standards provided in agreements relating to the above listed activities shall be mandatory. In addition, the reliability standards shall include the following types:

a) the state of readiness to prevent circumstances leading to possible shortages in the system;

b) the state of taking measures to deliver services under conditions of shortage of natural gas in the system, and to eliminate the shortage.

5. Under conditions of shortage of natural gas in the transmission system, it shall be allowed to reduce or limit the natural gas supply according to the terms set out in the Rules. A licensee of natural gas transmission shall distribute the natural gas based on the principles of fairness, consumers' dependence on natural gas and necessity.

6. If the transmission system is saturated with natural gas, the transmission licensee shall be obliged to admit in the transmission network natural gas that costs less, according to the lowest value principle. The principle defined in this paragraph shall, in compliance with the respective procedure, be reflected in the natural gas balances.

7. To ensure reliability and stability of the transmission system, a transmission licensee shall be obliged to manage and develop the system in a manner that allows for all parties concerned to have equal rights and obligations.

Article 4 - Reliability standards

1. A licensee of natural gas transmission shall be obliged to maintain in good working order the natural gas transmission network connecting to the systems of neighbouring countries.

2. In order to keep in good working order the network connecting to the transmission systems of neighbouring countries, a licensee of natural gas transmission shall take measures that, based on the existing situation and taking into account the interests of reliable operation of the natural gas system and public interests, will be considered the best option.

3. A licensee of natural gas transmission shall be obliged to design and manage the system in a manner that ensures sustainability of the natural gas transmission system even when one or more elements (devices) of the system responsible for gas supply is damaged due to natural calamities, sabotage, accident or other events.

4. In the case of shortage of natural gas caused by natural calamities, sabotage, accident or other events in the transmission system, natural gas shall be distributed according to the principles of necessity and fairness. In the case of a shortage of natural gas, the licensee of the natural gas shall be obliged to deliver natural gas, primarily to those direct consumers that generate electricity using natural gas.

5. In the case of saturation of the transmission system and/or of a particular section of the system, including one or several receipt points, with natural gas, the transmission licensee shall, during the period of limited supply, distribute natural gas available in the system to the respective suppliers and direct consumers that have been affected by the limited supply, based on the principles of dependence on natural gas and necessity, by proper notification and/or mutually agreed procedures. In this case, the suppliers and direct consumers referred to in this paragraph may indemnify (return) the



natural gas consumed during the period of limited supply with the same volume of natural gas.

6. Suppliers shall, before 1 October of each calendar year, submit to the Ministry their plans for special activities agreed with the licensee of natural gas transmission which will be used in emergency situations.

7. Natural gas transmission and distribution licensees, suppliers and direct consumers may define additional terms of service of the reliability standard, based on the written mutual agreement of all participants of this legal relationship. If the mutually agreed terms of service of the reliability standard obligate a specific person to deliver any additional service, that person may request reimbursement of extra costs borne.

8. If the natural gas transmission network connecting to the natural gas systems of other countries is not the only means for supplying natural gas to consumers, and the given section of the natural gas transmission network is not an important facility in terms of reliable operation of the natural gas system and public interests, the licensee of natural gas transmission may, after notifying the interested persons and providing them with appropriate reasoned arguments, begin conservation of the given section of the natural gas transmission network in compliance with the statutory requirements.

Article 5 - Contractual relations

1. Natural gas suppliers, direct consumers and transmission and/or distribution licensees shall be obliged to immediately notify the other parties to the legal relationship:

a) of a delay in, or termination of, natural gas supply;

b) of expected changes in the schedule of natural gas supply;

c) of the failure to perform the obligations provided for by the legislation in force, by these Rules and/or by the relevant agreement, or of other hindering circumstances (including *force majeure*).

2. If the scheduled repair works cause temporary termination of natural gas supply, the respective interested person shall be notified at least 30 days prior; in the case of breach of this procedure, the termination of natural gas supply shall be postponed accordingly.

3. In order to ensure proper connection to the natural gas network of neighbouring persons, the person who is not a distribution licensee and who is not responsible for the distribution of natural gas, but who owns a natural gas network, shall, under the Civil Code of Georgia, be obliged to tolerate the use of its network and allow the transmission of natural gas. Compensation for transmission of natural gas and for tolerating the use of the network shall be awarded in the manner prescribed by the Civil Code of Georgia, based on the mutual agreement between the parties.

Article 6 - Procedure for submitting applications for purchase and transmission of natural gas and procedure for drawing up agreements

1. After concluding an agreement for the purchase of natural gas, unless different time limits for supply and transmission of natural gas are prescribed under an agreement, the seller of natural gas shall be obliged to submit to the transmission licensee an application concerning the transmission of natural gas and ensure the supply of natural gas within 10 days.

2. Transmission of natural gas may be requested by suppliers or direct consumers.

3. An application for transmission of natural gas shall include:

a) the details of the applicant (the supplier or direct consumer);

b) the name, address and bank details of the legal person or individual entrepreneur responsible for payment of the cost of the transmitted natural gas;

c) a duly prepared written consent (if necessary) from the person responsible for payment of the cost of transmission of the natural gas;

d) the time of delivery in the transmission system and point of receipt of natural gas by the natural gas transmission licensee;

e) the time of beginning of the delivery of the transmitted natural gas and the name of the point of delivery;

f) the name and address of the recipient;

g) the quantity of natural gas and the requested pressure of the natural gas at the point of delivery;

h) time limits for the completion of the transmission of natural gas;

i) annual, monthly, daily schedules of forecasted natural gas supply to the point of delivery, specifying the conditions and sources for balancing supply and consumption of natural gas and the volumes required for the balancing (within the period of validity of the agreement for the purchase of natural gas).

4. A copy of the agreement for the purchase of natural gas shall be attached to the application.

5. A natural gas transmission licensee shall, not later than four working days after receipt of an application concerning the transmission of natural gas, conclude an agreement with the applicant, or notify the applicant in writing with a reasoned refusal due to the existence of technical conditions preventing the transmission of natural gas.

6. After an application completed according to paragraph 3 of this article is submitted to the natural gas transmission licensee, with the consent of the transmission licensee, the terms requested by the application shall be reflected in the written agreement for the transmission of natural gas.



7. If the application does not require such technical conditions that prevent the transmission of natural gas, regardless of the failure to agree on the individual terms of the natural gas transmission, and/or on the terms which have not been reflected in these Rules, starting from the tenth working day after the filing of the application, the transmission licensee shall be obliged to ensure transmission of natural gas in compliance with the terms defined in the application which has been prepared according to these Rules and with the requirements set forth in paragraph 3 of this article.

Article 7 - Reliability standards and obligations of parties to the agreement

1. A seller of natural gas shall be obliged to ensure receipt of the full volume of natural gas supplied under the agreement, while the transmission licensee shall be responsible for compliance with the volumes (schedules) agreed between the seller and the buyer, according to the terms provided in these Rules. The buyer may, in proportion to the actual consumption of natural gas, request reduction or increase of the agreed volume of natural gas supplied. It shall be mandatory for the parties to the relationship to comply with this requirement.

2. The customer shall submit an application to the transmission licensee requesting a reduction or increase in the volume of natural gas at least two days prior.

3. In the case of receipt of natural gas in a volume that exceeds the pre-defined volume, the recipient of the natural gas shall, during the reporting period, reimburse the transmission and/or distribution licensee, for the cost of the extra volume of the natural gas (taking into account the selling price of the owner of the natural gas) or reimburse with the same volume of natural gas (provided that all the parties to the transmission agreement and the owner of the consumed natural gas agree in writing).

4. If a natural gas buyer (supplier or direct consumer) receives a volume of natural gas that is less than the preliminarily defined volume, it may request three days for the receipt and/or sale of the natural gas not received. With respect to the natural gas not received, the transmission or distribution licensee shall incur the obligation to store the natural gas.

5. If, within three days, the buyer (supplier or direct consumer) of the natural gas fails to receive or sell the natural gas not received that remains in the transmission system, the natural gas transmission licensee may request indemnification for damages caused by the delay in receipt of the natural gas.

6. If the unconsumed natural gas that remains in the transmission system cannot be stored, the natural gas transmission licensee shall take such measures under the legislation that he/she considers best to satisfy the interests of the authorised person.

7. A request of the supplier of the increase of the volume of the natural gas to be supplied according to the schedule (which may be conditioned by climatic changes and which may cause sharp fall in the pressure of natural gas in the natural gas transmission and/or distribution system) shall be taken into account and shall be fulfilled by all the parties to the relationship.

8. The quality of natural gas and its odourisation shall comply with the regulations in force in the natural gas sector and with state standards.

9. If required, odourisation of the natural gas shall be performed by the transmission licensee. The natural gas transmission licensee and/or the respective distribution licensee shall monitor and be responsible for the odourisation and other technical characteristics of the supplied natural gas.

Article 8 - Terms of agreements for the purchase and transmission of natural gas

1. In agreements for the purchase and transmission of natural gas, account shall be taken of the terms for balancing natural gas supply and consumption, including the terms for preventing negative consequences resulting from changing climate conditions that may cause sharp fall in the natural gas pressure in the gas distribution system and/or forced restriction of [supply to] consumers.

2. Parties to an agreement for the purchase of natural gas may terminate the agreement according to statutory requirements. The buyer of natural gas may repudiate the agreement for the purchase of natural gas by giving at least one-month's prior notice to the other party (parties).

3. Upon receipt of a request for the cancellation of an agreement for the purchase of natural gas, the seller of the natural gas shall be obliged to define the date for termination of the service, which shall not be more than one calendar month later, and shall notify the applicant and the natural gas transmission licensee of the specific date when the agreement for the purchase of natural gas will be terminated.

4. Termination of an agreement for the purchase or transmission of natural gas, and/or termination of the service shall not discharge the parties from the payment of the cost for the services delivered and/or for the natural gas consumed.

Article 9 - Natural gas supply and procedure for connecting to the natural gas transmission system

1. Supply or termination of supply of natural gas through transmission systems shall be the exclusive power of the natural gas transmission licensee. Before supplying natural gas, the natural gas transmission licensee shall be obliged to request from the distribution licensee or direct consumer documents confirming the good technical condition of the connection to the system and of the metering unit.

2. A person who intends to connect to the transmission system shall submit to the transmission licensee an application which shall contain:

- a) the place and type of location of the facility;
- b) the supposed point of connection to the transmission system;
- c) anticipated volume of natural gas (hourly, daily, yearly);
- d) minimum required pressure at the point of delivery.



3. A person who intends to connect to the natural gas transmission system, may, at his/her own discretion, submit, together with the application, project documentation in the form of additional documents.

4. The connection of direct consumers or a distribution network to the natural gas transmission system does not require modification of the natural gas transmission licence, except where an additional compressing station, metering station and other equipment forming part of the natural gas transmission system are installed on the way to the new point of delivery. The natural gas transmission licence does not require modification even in the case of such connection to the natural gas transmission system that results in the connection and installation of a pipeline, gas distribution station, regulating unit, valve, metering unit and/or other measuring devices. Under the above conditions, the natural gas transmission licensee shall be obliged to issue written permission for the connection, unless there are hindering circumstances specified in paragraphs 5 and/or 6 of this article.

5. A natural gas transmission licensee shall be obliged to refuse the connection if the connection to the natural gas transmission network (system) of a distribution licensee or a direct consumer will have clearly adverse effects on the general system and/or capacities of the natural gas transmission system and on its ability to deliver services to other consumers at a standard level. A natural gas transmission licensee may refuse the connection on the grounds that at the proposed connection point in the transmission system referred to in the application, there already exists a connection to the transmission network or another natural gas network, which is able to meet the terms requested by the application. The refusal of the natural gas transmission licensee shall be substantiated.

6. The connection to the natural gas transmission system of those consumers that consume 15% of the annual volume of the natural gas distributed by the distribution licensee serving the consumer requires a prior approval of the Georgian National Energy and Water Supply National Regulatory Commission (GNERC).

7. A facility connected to the natural gas transmission system shall be put into operation after the costs required for connection to the network have been reimbursed by the natural gas transmission licensee, based on the decision of the respective inspection commission stipulated by the legislation and after the performance of the design safety requirements. The natural gas transmission licensee shall be responsible for connection to the natural gas transmission system.

Article 10 - Unlawful consumption

1. Unlawful consumption of natural gas shall mean unauthorised connection to a natural gas network, damage to gas meter lugs (by compromising the accuracy of the meter), falsification of the meter's digital readings, theft and consumption of natural gas by bypassing the meter (except for the cases provided for in Article 12(5)).

2. In the case of unlawful consumption of natural gas, the natural gas transmission licensee may, without prior notice, terminate the natural gas supply to direct consumers or distribution licensees.

3. Upon detection of the unlawful consumption of natural gas, the natural gas transmission licensee shall be obliged to prepare a relevant document (in the presence of the party concerned) and notify the parties to the relationship of this fact.

4. In the case of unlawful consumption of natural gas, the distribution licensees or direct consumers shall be obliged to pay the cost of the natural gas transmitted or consumed during the period of unlawful consumption. The quantity of unlawfully consumed natural gas shall be determined in the following manner:

a) if the volume of the natural gas unlawfully transmitted or consumed can be established, the natural gas distribution licensee or direct consumer shall be obliged to cover the costs of the quantity of natural gas that is calculated from the date when the unlawful consumption started;

b) if the volume of the natural gas unlawfully transmitted or consumed cannot be established, the natural gas transmission licensee may charge direct the consumer or the distribution licensee for the period of violation, according to the maximum meter reading of daily consumption of the natural gas transmitted through the gas pipeline before the violation (taking into account seasonal fluctuations);

c) if the date of the commencement of the unlawful consumption of natural gas is unknown, the quantity of the natural gas shall be calculated starting from the date when the natural gas transmission licensee performed the last inspection. The inspection shall also include visual inspection of the transmission network or a meter (which is confirmed by an acceptance and delivery certificate or other, duly prepared document).

5. The natural gas transmission licensee may not render services to persons who have unlawfully used its services and are in arrears, until an agreement on is reached on the payment (restructuring) of the arrears.

Article 11 - Payment

1. Unless the parties to an agreement for the purchase and/or transmission of natural gas agree on other rules of payment, the period of payment for the service delivered shall be one month.

2. The payment of the cost of the natural gas consumed shall be made under the agreement. If the terms of payment are not fulfilled, the supplier shall give a written warning about termination of the service to the direct consumer and/or other supplier and, within at least 10 days, give instructions on the termination of the supply and transmission of natural gas.

3. In the case of failure to pay the cost of the transmitted natural gas, the natural gas transmission licensee may, after giving prior notice, terminate service to the respective supplier or direct consumer. The natural gas transmission licensee shall be obliged to notify the parties to this relationship of the date of termination of the service, at least 10 days before the service is terminated.

4. In the case of failure and/or delay in giving a notice on the termination of the service, the termination of the service delivery shall be postponed.

5. If the date of termination of the service falls on a non-work day or weekend, termination of the service delivery shall be postponed until the next work day.



Article 12 - Disputes over natural gas metering

1. A natural gas meter shall be mounted on the natural gas network, on both sides at the point of separation of receiving and delivery points of the licensee.
2. The meters of the natural gas transmission or distribution licensee and of the direct consumer shall be equally accessible by the parties.
3. The person who owns the metering device and metering units shall be responsible for the protection of these devices and for the integrity of the lugs put on them, and for compromising the metering system.
4. Metering shall be made using a more accurate meter certified by the authorised body. If the meter fails to operate properly, the volume of the natural gas may be measured using another meter certified by the authorised body, based on the agreement of the parties.
5. Supply of natural gas without accurate metering shall be prohibited, except for emergency situations and only when all parties to this relationship give a written consent in the following manner:

The volume of the natural gas not metered shall be determined based on the average consumption of the natural gas transmitted during the proper operation of the metering unit (taking into consideration seasonal fluctuations). Metering by this method is only a one-time act and it may not exceed one calendar month.

Article 13 - Procedure for preparing a forecast balance for natural gas

1. The Ministry shall approve a forecast balance for one year based on the proper examination of the information obtained, and shall make adjustments to it, if required.
2. For the purposes of this article, the year shall start from 1 November and continue until 1 November of the next year, unless the approved balance otherwise prescribes.
3. The parties to the relationship of sale and purchase, distribution, transmission and transit of natural gas shall, before 10 September of each calendar year, submit to the Ministry the following data:
 - a) the anticipated volumes of natural gas which shall be considered in the balance for the next year, detailed by month and if required, by days and/or hours;
 - b) actual data from 1 November of the previous year to 1 September of the current year and indicative data from 1 September to 1 November of the current year, compared to the operating balances.
4. According to paragraph 3 of this article, the natural gas transmission licensee shall, taking into consideration its specific nature, additionally submit individual data on natural gas received, supplied and transmitted in the transmission system, in the following manner:
 - a) actual data - based on data registered at the points of delivery and receipt;
 - b) indicative data for the next year - taking into consideration agreements and anticipated data available in the sector.
5. The balances for the current and next year submitted to the Ministry shall be drawn up according to the form preliminarily developed by the Ministry.
6. The parameters provided in the approved balance of natural gas shall be binding on the suppliers, licensees and direct consumers. These parameters impose specific obligations and responsibilities on each of them.
7. The natural gas transmission licensee shall be obliged to ensure systematic monitoring (within the scope of his/her powers) of the compliance of the licensees and direct consumers with the parameters provided in the natural gas balance.
8. It shall not be deemed to be the violation of the natural gas balance if the Ministry and the natural gas transmission licensee are notified of the expected changes and the reasons thereof at least one month prior. Changes that occur due to an accident shall not be deemed to be a violation if the Ministry and the natural gas transmission licensee are immediately notified of the accident. The Ministry shall make respective adjustments to the approved balance if the application is based on such circumstances that may lead to substantial breach of the schedule defined by the balance for at least two months.

Article 14 - Publicity of information

The natural gas transmission licensee shall be obliged to make publicly available:

- a) an application form for natural gas transmission;
- b) an activity report for the previous year;
- c) a working plan for the next year;
- d) information on the on-going and planned rehabilitation and/or construction works of the transmission system;



- e) information on tariffs and related changes;
- f) information on additional services delivered or planned;
- g) other (public) information required by the legislation.

