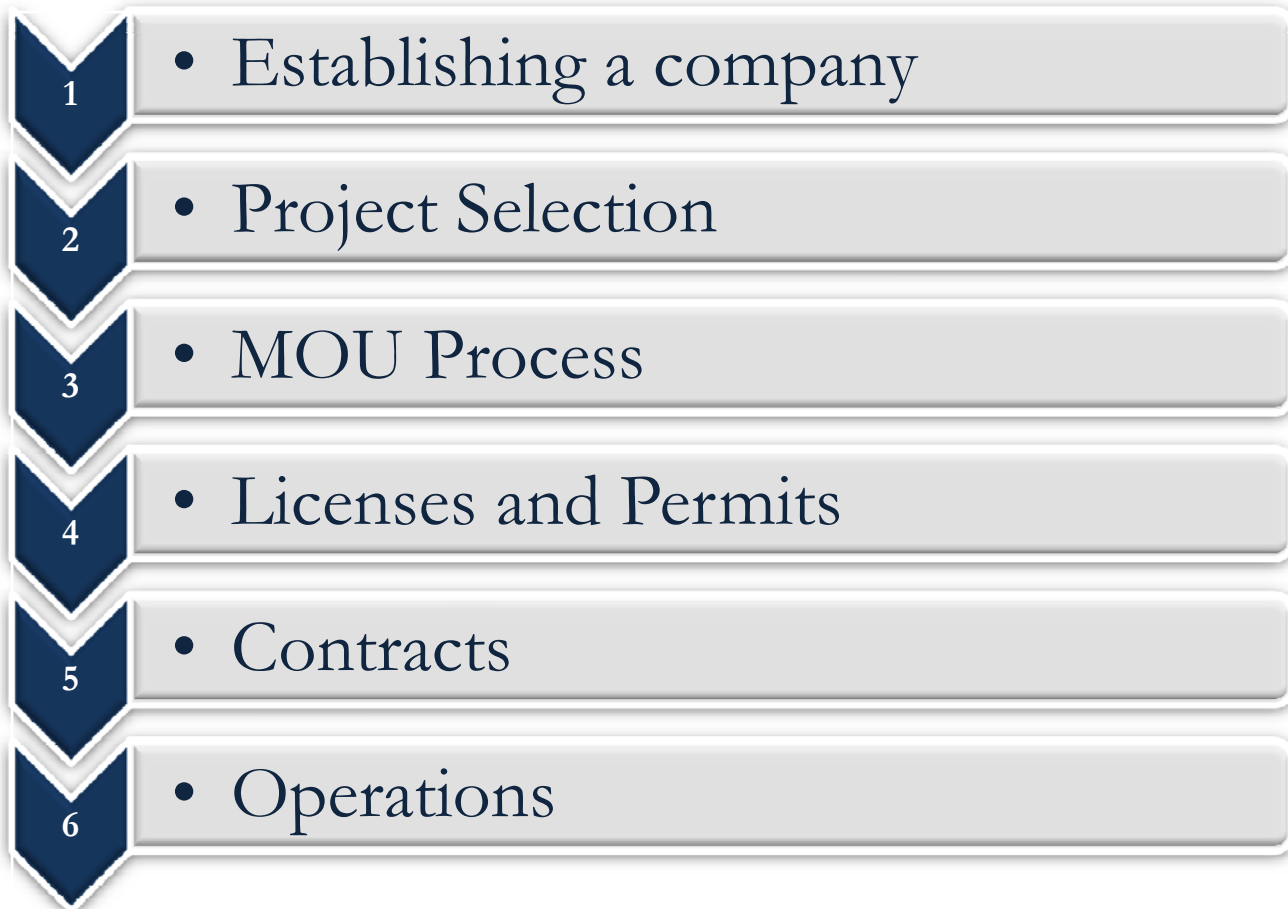




HYDROPOWER DEVELOPEMNT PROCESS

Ministry of Energy and Natural Resources of Georgia

SIX PHASES OF DEVELOPMENT



1. ESTABLISHING A COMPANY

Georgian company law authorizes the following six types of business entities:

- An Individual Entrepreneur (“IE”)
- A General Partnership (“GP”)
- A Limited Partnership (“LP”)
- A Limited Liability Company (“LLC”)
- A Joint Stock Company (“JSC”)
- A Branch Office (“BO”)

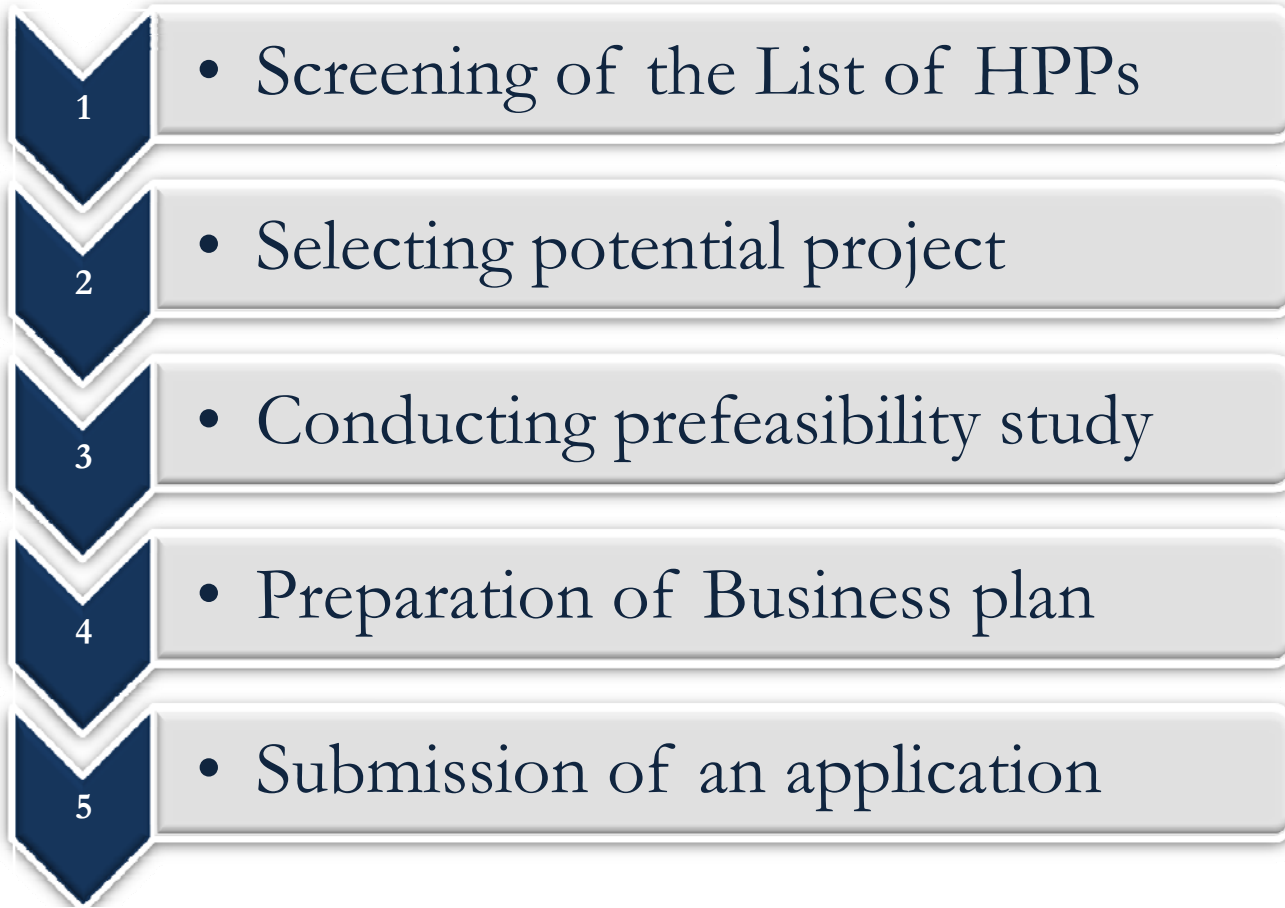
1. ESTABLISHING A COMPANY

Registration Process

- Registration of commercial entities is undertaken by the National Agency of the Public Registry under the Ministry of Justice of Georgia
- An application for Registration is filed by an interested party at the Public Registry and it should include a notarized charter, protocol nominating company director, signature card of such director, letter/consent confirming legal address of an enterprise
- There are no restrictions on the foreign ownership of companies in Georgia or their involvement in management and representation of the companies
- Normally registration takes one business day. Registration may also be accomplished on the same day subject to payment of higher fee for acceleration of the process

2. APPLIYING FOR A PROJECT

Recommended process before submitting an application



2. APPLYING FOR A PROJECT (Under 100MW)

Parties interested in a project on the List of potential sites are required to submit an Application Form that includes:

- information about the investor;
- the name of the site (s);
- up to 7 sites;
- construction start and end dates; and
- The commercial operations date.

If a party is interested in a site not on the list, they may submit the site for inclusion in the list, and after technical review by the MoE, the qualified sites will be added to the list.

2. APPLYING FOR A PROJECT (Under 100MW)

- Once the Application Form is received by the MoE, information relating to the Application is published on its official website within 2 working days, with an invitation to other potential investors to submit competing applications for the site within 30 calendar days.
- If no competing applications are received within the 30 day period and after review for compliance with all of the terms, conditions and criteria detailed in the Order, the MoE declares the Application successful.
- Applicants must provide a bank guarantee within 5 working days from declaration
 - Amount of guarantee* = \$170,000/MW of capacity; and
 - May be issued by any Georgian bank and/or foreign bank licensed in an OECD country.

2. APPLYING FOR A PROJECT (Under 100MW)

- If two or more prospective investors submit competing Applications for the same project, the winner is the investor providing:
 - A higher amount of financial guarantee per MW; and
 - The fastest commitment to constructing the plant and making it operational; with
 - Each of these criteria given equal weight using a 10 point scale.
- If two or more applications are equivalent in ranking, the MoE can notify the applicants and ask them to improve and re-submit their bids.
- Upon selection of the winning bidder, the successful applicant must provide the bank guarantee within 5 working days.

2. APPLYING FOR A PROJECT (Above 100MW)

•For BOO projects over 100 MW, or if an interested party submits an application for multiple sites which total more than 100 MW and such sites will be under a single MOU, there is:

- No set application and selection procedure;
- An alternative MoU/Implementation Agreement may be negotiated
- The amount and timing of the bank guarantee are not fixed
- To-date most large projects have been defined by the GoG, including conditions and procedures for submission of an “Expression of Interest”, winning participant selection criteria, and amount of guarantees required, on a case-by-case basis, but in case of large projects government is more flexible and willing to decrease requirements in order to attract investments.

3. MOU PROCESS

A Memorandum of Understanding (MoU), which is provided in Standard Form, is a document between the plant operator, the GoG and the Electricity System Commercial Operator.

A target date for signing the MOU is set upon receipt of the bank guarantee, which shall be no later than 3 months from the award.

The MOU provides that the operator, during the first 10 years, must sell the electricity produced by the plant in the 3 winter months in the domestic market.

4. PERMITS AND LICENSING

Feasibility Study

- The MoU includes a provision for the investor to perform a detailed feasibility study and an environmental impact assessment (for projects of 2 MW or more), after which should the project not be found technically, economically or environmentally feasible, the investor is:
 - Freed from any obligations; and
 - The bank guarantee is released.
- The length of time allocated for completion of such studies is determined by the timeline and schedules submitted by the investor in the Application, and are expected to range from 12 to 18 months.

4. PERMITS AND LICENSING

Land Transfer

- Once the feasibility stage is completed, if the plant site is State-owned, the GoG will transfer the land plot to the investor for a nominal fee through the direct sale procedure for land privatization.
- The nominal fee is set by the local municipalities for the purpose of privatization and it is closer to market price.

Land ownership options:

- Purchase
- Lease
- Superficies – (Right to Build)

4. PERMITS AND LICENSING

Construction Permit

- A Permit is the legal basis for implementation of construction of plant and relevant infrastructure, in the absence of which any work is deemed illegal.
- Issued by Ministry of Economic Development of Georgia for 2 MW or more, by agencies of local self-governance for under 2 MW.

The rules and terms for issuing a construction Permit are governed by GoG statute, and including the following timeframe.

- Stage One: Land ownership verification – no more than 30 days;
- Stage Two: Approval of technical design (including Environmental Impact Permit) – no more than 20 days; and
- Stage Three: Issuance of Permit – no more than 10 days

4. PERMITS AND LICENSING

Hydropwer Plants	< 2MW	From 2 to 13 MW	>13 MW
Construction Permit	Required	Required	Required
Environmental Impact	Not Required	Required	Required
Generation License	Not Required	Not Required	Required

4. PERMITS AND LICENSING

Environmental Impact Assessment

- Construction permits and environmental permits are combined. The Construction Permit Application includes the submission of an Environmental Impact Assessment, which must be approved by the Ministry of Environment Protection before the Construction Permit is given. The State body that issues the construction permit forwards Environmental Impact Assessment documentation (submitted as part of the project design) to the Division of Permits at the Department of Environmental Permits and requests a “Conclusion of State Ecological Expertise.” The “Conclusion” becomes part of the construction permit, which is approved by the Minister of Environment Protection of Georgia.
- Timeframe governing the EIA approval:
 - Public hearing – no more than 60 days; and
 - Approval by the state ecological expertise committee – no more than 20 days

4. PERMITS AND LICENSING

Taxes and Fees Related to HPP Development

Type	Level	Comment
Profit Tax	15%	
Income Tax	12-20% -2010 20% - 2011	12% applies only to certain income, otherwise most income is taxed 20% currently as well.
Dividends	Received by Foreign Entities and Physical Persons 2010 – 5% 2011 – 3% 2012 – 0%	Received by Georgian Enterprises (as defined by the Company Law) –Not taxed and not included into gross income of such entities
Property Tax	Up to 1% of asset book value	
Value Added Tax (VAT)	0%	
Withholding Tax On Interest Income	Interest from Local Banks-- 0%* *If the receiver is a licensed financial institution, interest income is taxed in 2010 – 5*, and in 2011 at 0%	
Customs Tax	Generally, all goods – 0% Certain Goods – 5% Certain Construction Materials – 12%	
Customs Fee	5 Euros in equivalent GEL per declaration for goods of value under 3000 GEL and 60 Euro in equivalent GEL per declaration for goods of value above 3000 GEL.	

4. PERMITS AND LICENSING

Generation License

- Is the legal basis for power generation activity and must be obtained prior to the operation of units of 13 MW or more.
- Is issued by the Georgian National Energy and Water Supply Regulatory Commission (“GNEWRC”)
- Process for obtaining license takes approximately 30 days, including 5 days to confirm application completeness.
- Term of license – no mandated termination

5.CONTRACTS

Transmission Line Agreements

- For operators intending to export electricity to Turkey using the new 500KV line owned and operated by EnergoTrans.
- Once the investor has entered into a properly registered agreement for export of electricity and the Dispatching Licensee, the Georgian State Electric System (“GSE”) has agreed to such Export Agreement, the investor is free at any time to enter into an Agreement on Transmission of Electricity on the Territory of Georgia with EnergoTrans.

Interconnection

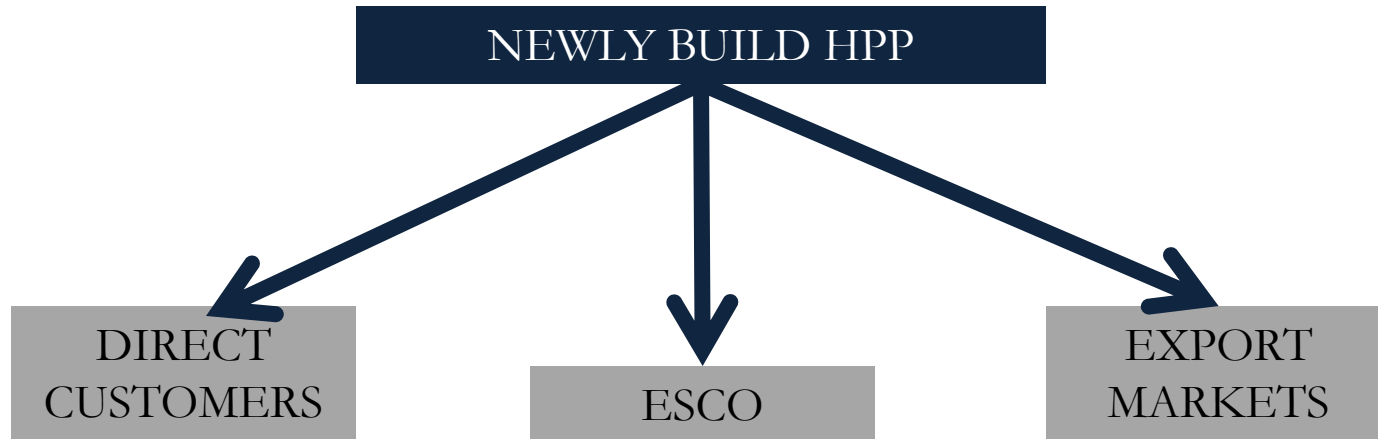
- For the newly constructed HPP need to make interconnection agreement with the owner of Transmission line/grid. The connecting is free of charge and transmission rates are set by the GNEWRC.

5.CONTRACTS

Power Purchasing Agreements

- According to the electricity power Market Rules, licensed suppliers of electricity and any eligible consumers (currently some of the larger wholesale customers) of electric power may make short term or long term direct contracts for the sale and purchase of electricity supply. Contracts must be registered with and scheduled by ESCO, the commercial operator, and the Dispatch Operator.
- Longer term balancing of electric power trade – when not covered by bilateral contracts – is carried out by ESCO

6. OPERATIONS



- HPPs under 13 MW can sell power to retail customers
- Hydropower stations built after August 1st, 2008 are fully deregulated and are entitled to trade electric power at unregulated tariffs
- Electricity sales through export not subject to licensing

LINKS OF GOVERNMENT ORGANIZATIONS

President Of Georgia- www.president.gov.ge

Government of Georgia- www.government.gov.ge

Parliament of Georgia- www.parliament.ge

Ministry of Environment Protection- www.mep.gov.ge

Ministry of Finance of Georgia- www.mof.gov.ge

Ministry of Economy and Sustainable Development of Georgia- www.economy.ge

Ministry of Foreign Affairs of Georgia- www.mfa.gov.ge

Ministry of Defence of Georgia- www.mod.gov.ge

Ministry of Interior Affairs of Georgia- www.police.ge

Ministry of Justice of Georgia- www.justice.gov.ge

Ministry of Culture of Georgia- www.msc.gov.ge

Ministry of Education and Science of Georgia- www.mes.gov.ge

Ministry of Agriculture of Georgia- www.maf.gov.ge

Supreme Court of Georgia- www.supremecourt.ge

Constitutional Court of Georgia- www.constcourt.ge

National Security Council of Georgia- www.nsc.gov.ge

LINKS OF ENERGY SECTOR ORGANIZATION

Georgian National Energy and Water Supply Regulatory Commission
(GNEWRC)- www.gnerc.org

EnergoPro Georgia- www.energo-pro.ge

Electricity System Commercial Operator (ESCO)- www.esco.ge

Telasi – www.telasi.ge

Georgian State Electricity System(GSE)- www.gse.com.ge

Energotrans- www.energotrans.com.ge

Georgian Oil and Gas Corporation- www.gogc.ge

Georgian International Energy Corporation (GIEC)- www.giec.ge

British Petroleum- www.bpgeorgia.ge

Anadarko- www.anadarko.com

Fronterra- www.fronteraresources.com

LINKS OF FINANCIAL INSTITUTIONS AND DONOR ORGANIZATIONS

USAID- <http://georgia.usaid.gov>

World Bank- www.worldbank.org.ge

KfW- www.kfw-entwicklungsbank.de

EBRD- www.ebrd.com

International Monetary Fund- www.imf.org

International Financial Corporation www.ifc.org

Rural Energy Program/Winrock- www.winrock.org

UNDP- www.undp.org.ge