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**Hydropower Investment
Promotion Project (HIPP)**

TRANSMISSION SYSTEM OPERATOR AND MARKET OPERATOR LICENSE TEMPLATES

INITIAL DRAFT

This publication was produced for review by the United States Agency for International Development. It was prepared by Deloitte Consulting in collaboration with Black & Veatch and Pierce Atwood Attorneys LLC.

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USAID HYDROPOWER INVESTMENT PROMOTION PROJECT
(HIPP)

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DELOITTE CONSULTING LLP

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This document was prepared by

Author	Organization	Contact Details
Valeri Vlatchkov	Deloitte Consulting LLP	vvlatchkov@deloitte.com
Reviewer	Organization	Contact Details
Valeri Vlatchkov	Deloitte Consulting LLP	vvlatchkov@deloitte.com

TRANSMISSION SYSTEM OPERATOR AND MARKET OPERATOR LICENSE TEMPLATES

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1.0 LIST OF ACRONYMS

Acronym	Description
ACC	Available Capacity Certificate
ESCO	Electricity System Commercial Operator
GNERC	Georgian National Energy and Water Supply Regulatory Commission
GSE	Georgian State Electrosystem
MO	Market Operator
TSO	Transmission System Operator

2.0 TRANSMISSION SYSTEM OPERATOR AND MARKET OPERATOR LICENSE TEMPLATES

The overall objective of this paper is to provide the HIPP with proposal for licensing the new market participants Transmission System Operator and market Operator with respect to the proposed by HIPP amendments to the Law of Georgia on Electricity and Natural Gas from May 2012. Furthermore, the proposal is oriented to the regional integration of Georgia, which plays an increasingly important role in production of renewable energy from hydropower plants in the region. After introducing the specific role and functions of a Transmission System Operator and the Market Operator, we proposed specific functions of the new entities in compliance with the requirements of the EU energy legislation and regulations regarding the future integration of Georgian power market to the Internal power market of European Union. The proposed TSO and MO license templates are oriented for the future development of the Georgia power sector and creation of powerful independent regulatory environment in the country. The documents need additional discussions and clarifications after the amendment of the Law of Georgia on Electricity and Natural Gas and changes of the relevant Georgian legislation.

In addition to the Transmission System Operator License and the Market Operator License it is necessary to be prepared the documents as follows below:

1. Transmission Grid Code;
2. Distribution Grid Code;
3. Metering Code;
4. Code of Conduct of the Transmission System Operator;
5. Code of Practice;
6. Regulation/Ordinance on Methodology and Principles for calculation of the Transmission tariffs;
7. Regulation on General conditions of Energy Supply;
8. Regulation on Dispute Settlement Procedures in the Electricity Sector;
9. Regulation on the Publicity and Confidentiality of Information;
10. Regulation on Administrative Fines and Measures;
11. Regulations in Licensing Activities in Georgia.

The organization of this document is:

Attachment I: Transmission System Operator License Template;

Attachment II: Market Operator Licensee Template.

3.0 ATTACHMENT I

3.1 TRANSMISSION SYSTEM OPERATOR LICENSE TEMPLATE

PART I TERMS OF THE LICENSE

1. The Georgian National Energy and Water Regulatory Commission (hereinafter referred to as "GNERC or Commission in compliance with the Law on Energy and Natural Gas"), in exercise of the powers granted by Article ... of the Law of Georgia on Independent National Regulator, Article of the Law on Electricity and Natural Gas, hereby issues, to GSE – TRANSMISSION SYSTEM OPERATOR, appointed by the Government of Georgia in accordance to Article of the Law of Georgia on Electricity and Natural Gas (hereinafter referred to as the "Licensee") a license to carry out the transmission of electricity during the period specified in paragraph 6, subject to the Articles and conditions set out in Part II.
2. The territory covered by this license is, according to the Article ... of the Law on the Energy Regulator, the whole territory of Georgia (hereinafter referred to as the "Territory").
3. The Licensee may not obtain a license for the generation, distribution, supply or trade of electricity, or for the generation of heat in accordance with Article ... of the Georgian Law on Independent National Authorities.
4. The Licensee shall comply with all Articles and conditions stipulated in this license for carrying out the licensed activity, and with the requirements of all relevant legislation and directions of GNERC and, in doing so, shall endeavor, at all times, to comply with the following:
 - a) the efficient discharge of the obligations imposed upon it by this license;
 - b) the efficient, economic and co-ordinated operation by the Licensee of the Licensee's transmission system;
 - c) promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity;
 - d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements provided by the Market Rules.
5. The Articles and conditions of this license are subject to modification or termination or withdrawal in accordance with their terms and with Article ... of the Law of Georgia on Licenses and Permits in Georgia.
6. This license shall come into force on ---date---, unless withdrawn, shall remain valid for a period of ----defining the period--- years, until ---date--- with possibility of extension in accordance to the Law of Georgia on Licenses and Permits of Energy Activities in Georgia.

Stamped with the common stamp of the GNERC on

Signature (on behalf of the Board of GNERC)

PART II CONDITIONS OF THE LICENSE

Article 1: Definitions and Interpretation

1. For the purpose of this license, the terms and expressions listed below shall have the following meanings:

"Affiliate" means, in relation directly or indirectly to the Licensee, any Holding Company or Subsidiary of the Licensee, or any Subsidiary of a Holding Company of the Licensee, in each case within the meaning of the legislation applicable in Georgia.

"Ancillary Services" has the meaning given in the Georgian Grid Code.

"Compliance program" means the program required to be prepared by the Licensee and approved by GNERC pursuant to Article ... of the Law of Georgia on Electricity and Natural Gas;

"Confidential information" means any commercial or other kind of information held and/or obtained by the Licensee in the discharge of its duties under the Legislation, that is to be regarded as confidential under the Regulation on Confidentiality of Information and under this license.

"Distribution Code" means the set of technical rules issued by Transmission System Operator and approved by GNERC, pursuant to Article ... of the Georgian Law on Independent National Authorities.

"Distribution System" has a meaning as provided by Article ... of the Law of Georgia on Electricity and Natural Gas.

"Distribution System Operator" has a meaning as provided by Article ... of the Law of Georgia on Electricity and Natural Gas.

"Development Plan" means any development plan to be prepared by the Licensee pursuant to Article ... of the Law of Georgia on Electricity and Natural Gas and Natural Gas.

"Electricity enterprise" has a meaning as provided in Article ... of the Law of Georgia on Electricity and Natural Gas.

"Financial year" is the period from 1 January up to 31 December of the same calendar year.

"Forecast statement" means the long-term and annual energy balances for electricity to be proposed by the Licensee after consultation with GNERC, to the Ministry of Energy and Natural Resources, pursuant to Article ... of the Law on Electricity and Natural Gas and in accordance with the Grid Code.

"Grid Code" is the set of technical rules issued by the Transmission System Operator pursuant to Law of Georgia on Electricity and Natural Gas and approved by GNERC pursuant to Article ... of the Law on the Energy Regulator.

"Holding company" means any company defined as such in accordance to the legislation applicable in Georgia.

"Legislation" means Law on Electricity and Natural Gas, Georgian Law on Independent National Authorities and other primary legislation, or secondary legislation to be issued in execution of primary legislation, regulating energy sector.

“Market Operator” means a legal person responsible for the organization and administration of trade in electricity and payment settlements among generators, suppliers and customers;

“Market Rules” mean the rules approved by GNERC governing transactions in electrical energy between the Market Operator and other electricity enterprises , including where appropriate the interaction between these parties and the Transmission System Operator for the purposes of maintaining the physical balance of the market. This includes any transitional transaction arrangements that may be approved by GNERC.

“Metering Code” means the set of technical rules issued by Transmission System Operator pursuant to Law on Electricity and Natural Gas approved by GNERC, pursuant to Article ---- of the Georgian Law on Independent National Authorities.

“Metering Equipment” means the equipment and installations in a Metering System as specified in the Metering Code that is sufficient to provide the Metering data required under the Market Rules.

“Metering System” means a registered aggregation of meters treated as a single reading for Settlement as prescribed in Metering Code.

“Modification” includes addition, amendment and substitution, and cognate expressions shall be construed accordingly.

“Operating Security Standards” means the document to be prepared by the Licensee in accordance with Article 16 of the license.

“Power Purchase Agreement” means an agreement referred to in Article ... of the Law of Georgia on Electricity and Natural Gas.

“Regional Regulations” mean the binding Regulations for allocation of transmission capacities pursuant to international agreements.

“Subsidiary” means any company owned or controlled by another company, defined in accordance to the legislation applicable in Georgia.

“Supplier” means a legal person licensed under the provisions of the Law on the Energy Regulator to carry out the supply of electricity as defined under Article ... of the Law of Georgia on Electricity and Natural Gas.

“Transmission System” has the meaning as provided by Article ... of the Law of Georgia on Electricity and Natural Gas.

“Transmission System Operator” has the meaning as provided by Article ... of the Law of Georgia on Electricity and Natural Gas.

“Transmission System Security and Planning Standards” means the document that shall be prepared by the Licensee in accordance to Article ... of this license.

2. Terms used in this license shall have the same meanings as the terms used in the Legislation.

3. In reference to paragraph 2 any modification or re-enactment of the legislation after the date when this License comes into force, shall apply.

4. Unless otherwise specified:

a) any reference to a numbered Article or to a numbered Annex is respectively a reference to the Article or the Annex bearing that number in this license;

b) any reference to a numbered paragraph is a reference to the paragraph bearing that number in the Article or Annex in which the reference occurs.

5. The heading or title of any Part, Article, Annex or paragraph shall not affect the construction thereof.

6. Where an obligation is imposed to the Licensee with a specific deadline for performance, that obligation shall continue to be binding and enforceable after that time limit without prejudice to all rights and administrative measures and fines that may be imposed against the Licensee if such Licensee fails to perform within the time limit.

7. The provisions of Paragraph 6 shall apply in any case of document, direction or notice pursuant to this license and directions issued by GNERC.

Article 2: Separate Accounts for the Licensed Businesses

Condition 1

In accordance with Article 46 of the Law of Georgia on Electricity and Natural Gas the Licensee shall fully comply with requirement of this Article within twelve (12) months from the date when this license is issued.

1. The Licensee shall prepare annual regulatory accounts in accordance with *Regulatory Accounting Manual* issued by GNERC and shall deliver to GNERC a copy of the annual audited accounts so prepared as soon as reasonably practicable, and in any event no later than three (3) months after the end of the financial year to which the accounts relate.

2. The Licensee shall, in its internal accounting, keep a separate account for the Transmission System Operator's business as a whole (separate from the Market Operator's business) which when requested by GNERC, must be delivered in the form and at the times specified by GNERC. The accounts shall be kept in accordance with such Regulatory Accounting Manual as may be issued by GNERC from time to time.

3. The Regulatory Accounting Manual or directions notified by GNERC to the Licensee under paragraph 2 may, inter alia:

a) specify the form of the regulatory accounting statements/records, including but not limited to, profit and loss accounts, balance sheets, recognized gains and losses statements, cash flow statements and statements of the amounts of any revenues, costs, assets, liabilities, reserves or provisions which have been either charged from or to any other business or determined by allocation or apportionment between the consolidated Transmission System Operator's business and any other business.

b) specify the nature and content of the regulatory accounting statements/records, including information on specified types of revenue, cost, asset or liability and information on the revenues, costs, assets and liabilities attributable to specified activities.

c) specify the regulatory accounting principles (including the basis for the allocation of costs).

4. The Licensee shall not, in relation to the regulatory accounting statements in respect of a financial year, change the bases of charge, apportionment or allocation from those applied in respect of the previous financial year, unless GNERC has previously issued directions for the purposes of this Article or GNERC gives its prior written approval to the change in such bases.

5. The Licensee shall fully comply with provisions of the Article ... of the Law of Georgia on Electricity and Natural Gas and take all necessary measures to comply with those requirements in order to ensure its independence.

6. The Licensee shall comply with any directions issued by GNERC for the purposes of this Article.

Article 3: Prohibition of Subsidies and Cross-subsidies

The Licensee shall ensure that business licensed by this license does not give any subsidy or cross-subsidy (direct or indirect) to, nor receive any subsidy or cross-subsidy (direct or indirect) from, any other business of the Licensee and/or any Affiliate or related enterprise of the Licensee and/or any other person.

Article 4: Compliance with Distribution Code, the Grid Code and the Metering Code

Condition 2:

In accordance with Article ... of the Law of Georgia on Licenses and Permits in Georgia, following consultation with the Licensee, Generators, and the Distribution System Operator, GNERC may provide the Licensee with a direction with specific time schedule of implementation of this Article. Such time schedule may apply to such parts in the Codes and to such extent, as specified in such schedule.

1. The Licensee shall comply with the provisions of the Distribution Code, the Grid Code and the Metering Code insofar as applicable to it.

Article 5: Operation of the Transmission System

1. The Licensee shall perform the efficient, economic and coordinated operation on the Transmission System.

2. The provisions of Article ... of Law of Georgia on Electricity and Natural Gas and Natural Gas, Ordinance/Regulation on Principles of Calculation of Tariffs in the Electricity Sector and Tariff methodology for the Electricity Sector as adopted by GNERC, Article ... of Law of Georgia on Electricity and Natural Gas and the Grid Code and Distribution Code, shall apply to the Licensee.

3. The Licensee bears the obligation to offer terms for connection to and use of its system in accordance to the Regulation on General Condition of Energy Supply and for any dispute arising out of the connection to and use of the Transmission System, to apply the Regulation on Dispute Settlement Procedures in the Energy Sector adopted by GNERC.

4. The Licensee shall ensure the non-discriminatory access between system users or classes of system users, particularly in favor of any subsidiary or shareholder and provide to system

users the information they need for efficient access to the system, in accordance with Article ... of the Law of Georgia on Electricity and Natural Gas.

5. In setting its tariffs and charges for connection to and use of the transmission system, the Licensee shall provide appropriate and non-discriminatory pricing signals and ensure that such tariffs and charges

a) encourage competition in the power sector and facilitate new entrants into the market; and

b) are in accordance to the Tariff Methodology for the Electricity Sector

6. The Licensee shall provide appropriate and fair signal that facilitate free entrance into the market

7. The Licensee shall publish and make available on the Licensee's web-site the statement of charges for connection to and use of the Transmission System approved by GNERC under Article ...of the Law on Electricity and Natural Gas, and Article ... of the Georgian Law on Independent National Authorities.

Article 6: Development Plan

1. The Licensee shall prepare, issue and make publicly available, in accordance with Article ... of the Law on Electricity and Natural Gas and Article ... of the Law of Georgia on Licenses and Permits in Georgia, the development plan of the Transmission System for the following three (3) years. The development plan has to identify opportunities and restrictions for using and connecting into the system. Prior to publication such plan shall be submitted to GNERC for approval.

2. The Licensee shall revise the development plan annually to ensure that the information set out in the development plan remains accurate in all material respects and shall submit it to GNERC for approval.

Article 7: Infrastructure Commitment

1. The Licensee shall comply with the infrastructure commitment arising out of the Strategy Implementation Program adopted by the Government, where funds are made available for this purpose (either through the price control or from the Government or other sources), as well as the infrastructure commitments specified in Article ... of the Law of Georgia on Electricity and Natural Gas.

2. The Licensee shall report annually to GNERC on the activities to be performed by it in relation to the infrastructure commitment.

Article 8: Energy Balance

1. After consultation with GNERC, the Licensee shall propose to the Ministry of Energy and Natural Resources the long-term and annual energy balances for electricity in accordance to the Article ... of the Law on Electricity and Natural Gas within the deadline set forth in Law on Electricity and Natural gas.

2. The Licensee shall publish and make available the proposals on the energy balance on the Licensee's web site, except for any information the disclosure of which would place the Licensee in breach of Article 19 of this license.

Article 9: Availability and Maintenance of Data

1. The Licensee shall ensure that actual and potential users of the Transmission system have non-discriminatory access to the information they need for efficient

access to the system, in accordance with Article ... of the Law of Georgia on Electricity and Natural Gas.

2. The Licensee shall take all reasonable steps to secure and implement all obligations arising out or in connection with the applicable Legislation, the present license and the agreements where it is a party.

3. With reference to paragraph 1, the Licensee shall deliver to GNERC a quarterly report about its Transmission System operation business and compliance with the License conditions.

4. The Licensee has the responsibility of maintaining and publishing the records of the information on border capacities, on interconnections as well as on the rights and obligations regarding hardware and software necessary for load flow calculation, congestion management, power plan dispatch, ancillary and balancing market and other related information.

5. GNERC may require the Licensee to collect and keep information, data and document in accordance with Article ... of the Law of Georgia on Licenses and Permits in Georgia.

Article 10: Interconnectors

1. In accordance with Article ... of the Law of Georgia on Electricity and Natural Gas and the Market Rules, the Licensee shall, no later than six (6) months after this license has come into force, prepare a procedure for the allocation and use of Interconnections with other systems to be submitted to GNERC for approval. When Regional Regulations (or Regulations for the Interconnectors with Neighboring countries – Turkey, Armenia, Azerbaijan, Russia) for allocation of transmission capacities becomes binding then the Licensee, not later than six (6) months from the date these Regulations come into force, shall prepare relevant procedures and submit to GNERC for approve.

2. The Licensee shall explore and develop opportunities to interconnect the Transmission System with other systems, prepare every two (2) years on the basis of regional needs the list of the new transmission capacities and interconnection power lines required to meet the needs of Georgia, and shall comply with any direction of GNERC and any relevant provision of the Legislation.

3. The Licensee shall as soon as practicable after the commissioning of each interconnector, and in any event not later than such date as the GNERC shall specify, prepare a statement for the approval of GNERC showing:

a) the total amount of the capacity of each or all relevant interconnector which the Licensee anticipates will be available for the transfer of electricity from the territory of the Licensee to the other Transmission Operators out of the territory on the daily basis;

b) the amount of the capacity of each interconnector proposed to be reserved by the Licensee and/or any other system operator for such purposes as system security;

c) any matters as GNERC may specify prior to approval of the statement.

4. The licensee shall review on a regular basis the capacities identified in the statement referred to in paragraph 3 and in case of modification shall immediately submit a revised statement to GNERC for approval.

5. The statement referred to in paragraph 3 shall be published on the Licensee's web-site.

Article 11: System Operation

1. The Licensee shall issue direct instructions for the dispatch of all available generation units of each relevant generator in the territory following the scheduling and written notification provided by the generators and suppliers, and thereafter the Licensee shall perform the balancing mechanism (demand and supply) in accordance with the Market Rules.

2. The Licensee shall undertake operational planning and issue direct instructions for the dispatch of such generation units taking into account written notifications referred to in paragraph 1 and the following factors:

a) forecast demands;

b) technical constraints from time to time imposed on the total system or any part or parts thereof;

c) the dynamic operating characteristics of generation units and interconnector transfers;

d) forecast exports and imports of electricity across any interconnector;

e) transmission losses;

f) transmission system outages for maintenance, repair, extension or reinforcement

g) the Operating Security Standards referred to in Article 16 of this license;

h) the balancing mechanism according to the Market Rules;

i) allocation of transmission capacities in a non-discriminatory way;

j) electricity delivered to the transmission system from generation units not subject to central dispatch; and

k) other matters provided for in the Grid Code.

3. When dispatching generation the Licensee shall give priority to generation produced by renewable energy sources as permitted under the Grid Code and in accordance with Article ... of the Law on Electricity and Natural Gas.

4. The Licensee shall provide to GNERC such information as GNERC shall request concerning the system operation or any aspect of its operation.

5. In this Article:

"Interconnector transfer" means the flow of energy across an interconnector as prescribed in Grid Code.

Article 12: Economic Purchasing of Assets, Services, and Ancillary Services

1. The Licensee shall contract for or arrange for the provision of such assets and services, and such quantities and types of ancillary services, as may be necessary

and appropriate to enable the Licensee to discharge its obligations under the legislation relevant to procurement that is applicable in Georgia and under the Grid Code.

2. In contracting or arranging for the provision of assets, services, and ancillary services pursuant to paragraph 1, without prejudice to the infrastructure commitment, the Licensee shall purchase or otherwise acquire such assets, services, and ancillary services from the most economical sources available.

3 In considering the most economical sources available, the Licensee shall have regard to the quantity, nature, and diversity and reliability of the assets, services and Ancillary Services available at that time for purchase or other acquisition, and to its requirements to enable it to discharge its obligations under the Legislation, the Grid Code and this license.

Article 13: Registration and Disposal of Relevant Assets

1. The Licensee shall prepare and maintain a register of all relevant assets and shall provide GNERC with such a register annually not later than on 30 January of coming year.

2. The Licensee shall not dispose of, or relinquish operational control over, any relevant asset if the disposal or relinquishment of control would affect its ability to discharge its obligations or if the asset has replacement value of more than Euro 100,000.00.

3. In case where the Licensee requests to dispose of certain assets owned or used by it, or of other resources used to perform the licensed activity, the Licensee will be obliged to notify GNERC in writing. The Licensee may only realize the disposal of any assets following GNERC's written approval.

4. The disposition set forth in paragraph 3 applies to the outsourcing of assets or other resources used to perform the licensed activity.

5. In this Article:

"Disposal" means any sale, assignment, gift, lease, license, loan, transfer, mortgage, charge, restriction on use (whether physical or legal), or the grant or any other encumbrance or the permitting of any encumbrance, or any other disposition to any other business of the Licensee and/or to a third party, and "dispose" shall be construed accordingly.

"Relevant asset" means:

a) any Transmission System equipment used by the Licensee in the discharge of its functions under this license, or

b) any legal or beneficial interest in land and/or premises upon which any of the foregoing is situated and/or used by the Licensee in the discharge of its functions under this license, or

c) any relevant intellectual property right.

Article 14: Transmission System Security and Planning Standards

1. The Licensee shall, no later than twelve (12) months after this license has come into force, establish Transmission System Security and Planning Standards and

submit to GNERC for approval. GNERC may approve extension to this deadline in response to a justified request by the Licensee.

2. The Licensee shall be responsible for operating, ensuring the maintenance of and, if necessary, developing the Transmission System in accordance with the Transmission System Security and Planning standards.

3. The Licensee shall periodically review the Transmission System Security and Planning Standards and their implementation. Following any such review, the Licensee shall send to GNERC for review and approval:

a) a report of the outcome of such review; and

b) amendment which it is proposed to make to the Transmission System Security and Planning Standards ,

4. GNERC may issue directions requiring the Licensee to revise the Transmission System Security and Planning Standards in such manner as may be specified in such directions, and the Licensee shall comply with such directions.

5. The Licensee shall publish and make the Transmission System Security and Planning Standards available on its web-site.

Article 15: Operating Security Standards

1. The Licensee shall, no later than twelve (12) months after this license has come into force, establish Operating Security Standards for ensuring day to day operating security of the Transmission System, and submit them to GNERC for approval. GNERC may approve extension to this deadline in response to a justified request by the Licensee.

2. The Licensee shall be responsible for operating the Transmission System in accordance with the Operating Security Standards.

3. The Licensee shall periodically review the Operating Security Standards and their implementation. Following any such review, the Licensee shall send to GNERC:

a) a report of the outcome of such review; and

b) amendment which it is proposed to make to the Operating Security Standards (having regard to the outcome of the review).

4. GNERC may issue directions requiring the Licensee to revise the Operating Security Standards in such manner as may be specified in such directions, and the Licensee shall comply with such directions.

5. The Licensee shall publish the Operating Security Standards available on its web-site.

Article 16: Overall and Minimum Standards of Performance of the Transmission Operation Business

1. The Licensee shall conduct the transmission operation business in the manner appropriate to achieve the overall and minimum standards of performance proposed by it and approved by GNERC from time to time.

2 Within twelve (12) months after this license comes into force, the Licensee shall prepare and submit to GNERC for approval a proposal for standards of performance, which shall:

- a) identify the standards of overall performance to which it shall be obliged to adhere;
- b) state the minimum standards of performance and service quality in relation to specific matters to which it shall be obliged to adhere from time to time; and
- c) specify the financial compensation that will be payable to customers in the event that the minimum standards of performance referred to in sub-paragraph b) and pursuant to accession agreement are not complied with.

3. At all the time GSE will act as reasonable and prudent operator in line with industry best practices.

4. The Licensee shall implement the approved standards and shall propose to GNERC for its approval, procedures for monitoring compliance with the same. The Licensee shall comply with the approved procedures.

5. The Licensee shall review and, if appropriate, propose amendments to the approved standards and/or procedures developed in accordance with this Article as directed by GNERC.

6. The Licensee shall provide to GNERC not later than on 30 April each year a report on the performance of the business against the performance standards. The report will include such information and analysis as GNERC may require from time to time for the purposes of establishing whether or not the Licensee's overall performance meets, the performance standards established pursuant to this Article.

7. The Licensee shall also by 30 April each year publish in such a manner as GNERC may direct, statistics, identifying the extent to which its performance meets, or fails to meet, the performance standards established pursuant to this Article.

8. The Licensee in discharging its functions shall take into account the target of being objective and non-discriminatory according to Article ... of the Law of Georgia on Electricity and Natural Gas.

Article 17: Access to Land and/or Premises

1. The Licensee shall, no later than three (3) months after this license is issued, prepare and submit to GNERC for its approval a Code of Practice setting out the principles and

procedures that the Licensee will follow in respect of any person acting on behalf of the Licensee who requires access to land and/or premises in connection with the licensed business.

2. The Code of Practice shall include procedures to ensure that persons requiring access on land and/or premises on behalf of the Licensee:

- a) possess the skills necessary to perform the required duties; and
- b) can be identified by public; and
- c) are appropriate persons to visit and enter land or premises.

3. The Licensee shall periodically review the Code of Practice and any revision of such Code of Practice shall be subject to the approval of GNERC.

4. The Licensee shall ensure that it complies with such a Code or any amendment to such a code as approved by GNERC.

Article 18: Restriction on Use of Certain Information

1. The Licensee may disclose any information other than the confidential information held and/or obtained by it in the discharge of its functions as Transmission System Operator, as defined in Regulation/ on Confidentiality of Information as adopted by GNERC, except that this restriction shall not prevent the Licensee disclosing to GNERC any information that GNERC may require to carry out its obligations under the Legislation and under Article 29 of this license.

2. The Licensee shall procure that any document containing confidential information shall be marked as such.

3. The Licensee shall take measures designed to prevent any person who is or ceases to be employed by the Licensee from disclosing confidential information.

4. The Licensee shall take all reasonable steps to ensure that confidential information is not used or disclosed for any purpose other than that for which it was provided pursuant to the relevant provisions of the Regulation on Confidentiality of Information.

Article 19: Provision of Information to other System Operators and the Distribution System Operator

1. In order to ensure the secure and efficient operation, coordinated development and interoperability of the interconnected systems the Licensee shall submit to the Distribution System Operator and to other interconnected System operators, any necessary

information in such manner and at such times as may be reasonably required by the Distribution System Operator and other System operators.

2. For the purposes of this Article, in case of any dispute between the Licensee and any other party, the Licensee shall apply the Regulation on Dispute Settlements in the Electricity Sector.

Article 20: Code of Conduct of the Transmission System Operator

1. The Licensee shall prepare a Code of Conduct, and submit it for approval by GNERC within six (6) months from the date of issuance of this license.

2. The Code of Conduct shall apply to all staff members of the Licensee.

3. The Code of Conduct of the Transmission System Operator shall cover obligations of confidentiality, conflicts of interest, and other related obligations.

4. The Licensee shall publish the Code of Conduct on its web site.

Article 21: Market Rules

Condition 3:

GNERC may issue directions to the Licensee relieving it of its obligation under this Article in respect of such parts of the Market Rules and to such extent as may be specified in those directions.

1. The Licensee shall comply with the Market Rules insofar as applicable to it.

Article 22: Health and Safety

1. The Licensee shall take all reasonable steps to protect persons and property from injury and damage that may be caused by the Licensee when carrying out the Transmission System Operator business.

2. The Licensee shall ensure that an independent expert whose appointment is approved by GNERC undertakes a technical and safety audit of the Transmission System on an annual basis.

3. The Licensee shall provide to GNERC the results of such audits within three (3) months of their completion.

Article 23: Labour

The Licensee shall comply with all legislation applicable to labour relations and work safety whether in force at the date hereof or in the future.

Article 24: Insurance obligation

Condition 4:

The Licensee shall comply with requirement set forth in Paragraph 1 within twelve (12) months from the date of issuance of this license.

1. The Licensee shall conclude and keep in force insurance contracts relating to the transmission assets and equipment used for transmission. Such contracts shall be annually submitted to GNERC for review.

Article 25: Change in Control of the Licensee

The Licensee shall notify GNERC of any intended change in control of the Licensee at least sixty (60) days in advance of such a change. Change in control may not take place unless GNERC has approved it.

Article 26: Public Service Obligation

The Licensee shall comply with any public service obligation imposed by GNERC pursuant to Article ... of Georgian Law on Independent National Authorities.

Article 27: Provision of Information to GNERC

1. The Licensee shall submit to GNERC, in manner and at such times as GNERC may require, such information and such reports as GNERC may consider necessary in the light of any Article or condition of this License or for the purpose of performing the functions assigned or transferred to it under Article ... of the Law of Georgia on Licenses and Permits in Georgia or other applicable Legislation.

2. The information shall be prepared to a level of audit as may be required by GNERC from time to time.

3. The power of GNERC to require information under paragraph 1 is without prejudice to the power of GNERC to require even information that are considered

confidential under or pursuant to any other Article or Condition of this license or under or pursuant to the applicable Legislation.

4. If the Licensee requests that certain information shall be considered as confidential it is its obligation to mark such information as confidential and justify to GNERC such request.

5. The Licensee shall deliver to GNERC a quarterly and annual reports informing about its transmission system operation business and compliance with the Licensee's conditions in accordance to the Reporting Manual issued by GNERC.

6. The Licensee shall submit to GNERC details of any change in information submitted with application for this license.

7. The Licensee shall submit to GNERC the annual report on the status of main equipment and calculations of continuity of supply including but not limited to:

- a) incremental and decremental prices;
- b) constraint payments;
- c) demand forecasts;
- d) consumption details;
- e) system Demand profiles.

8. In this Article:

"Information" means material in any form and includes, without limitation, any books, documents, records, contracts, accounts (statutory or otherwise), estimates, returns or reports of any description and any explanations (oral or written) in relation to such information as may be requested by GNERC.

Article 28: Reasons for License Termination, Withdrawal and Modification

1. GNERC may terminate this license in accordance to Article ... of the Law of Georgia on Licenses and Permits in Georgia provided that the obligations of the Licensee shall be carried out by another Licensee or that customers are not at a disadvantage by such termination. Such termination may take place in case of:

- a) expiration of the term of the license;
- b) a request received from the licensed electricity enterprise in respect of its own license;
- c) dissolution of the legal person holding the license;
- d) destruction of the energy facility;
- e) upon decision of a court declaring the insolvency of the Licensee or court decision to terminate the energy activity due to the Licensee's declaration of liquidation;
- f) where the licensed energy activity has not been conducted for more than six months, except where the suspension of activity is at the approval of the GNERC;
- g) where provisions of Article ... of the Law of Georgia on Licenses and Permits in Georgia are met;

h) if any amount payable in respect of a fee for this License is unpaid thirty (30) days after it has become due and remains unpaid for a period of another thirty (30) days after GNERC has given the Licensee notice in writing that the payment is overdue, provided that, no such notice shall be given earlier than the day following the “day” the amount payable was due.

2. GNERC may withdraw this license in the following cases, stipulated in Article ... of the Law of Georgia on Licenses and Permits in Georgia, provided that the obligations of the Licensee shall be carried out by another Licensee or that customers are not disadvantaged by such withdrawal:

a) the Licensee defaults or violates material Articles, conditions, or obligations in the license and such defaults and violations have not been remedied within the deadline given by GNERC or seriously damage the quality, safety and reliability of the service that the Licensee was obliged to provide;

b) license monitoring by GNERC finds failure to fulfil administrative requirements and such failure has not been remedied within the deadline provided by GNERC;

c) the Licensee presented materially false information upon which the license grant was based.

3. In accordance with Article ... of the Law of Georgia on Licenses and Permits in Georgia,

GNERC may modify this license in the following cases:

a) at the request of the Licensee

b) where required to protect the energy system in Georgia, in connection with security of supply, security of life and health of citizens or protection of environment;

c) in order to adhere to new requirements set forth in international agreements and national laws, regulations and other applicable legislation;

d) as a sanction for violation of license terms and conditions, pursuant to Article ... of the Law of Georgia on Licenses and Permits in Georgia.

Article 29: Administrative Measures and Fines

1. In case of violation of any provision of the Legislation, of any Article or condition of this license and of any GNERC's instruction to the Licensee, GNERC shall have the power, pursuant to Article ... of the Georgian Law on Independent National Authorities and Regulation on Administrative Fines and Measures, either to prevent the Licensee from repeating the illegal action or, if the action has stopped, to issue a regulatory decision requiring that a particular action has to be taken or to impose an administrative fine to the Licensee and/or the members of its Board of Directors and/or its executives.

2. Prior to issuance of a fine, GNERC shall issue a notice of license violation to the Licensee and shall provide the Licensee with an opportunity to respond to GNERC, in writing, within fourteen (14) days of the notification, and to remedy the violation.

3. A fine shall be imposed on the Licensee in accordance to Article ... of the Georgian Law on Independent National Authorities and Regulation on Administrative

Fines and Measures, in the event that the Licensee violates the requirements of that Article insofar as they are applicable to the Licensee.

4. The amount of the fine will be evaluated in accordance to the Regulation on Administrative Fines and Measures. In any case, if the fine mentioned in paragraph 3 is imposed on the Licensee, it must not exceed 15% of the Licensee's gross revenues from the business conducted under this License in the previous financial year.

5. If the fine mentioned in paragraph 3 is imposed on a member of Board of Directors or an executive of the Licensee, it must not exceed 300% of the monthly remuneration received by that person from the Licensee.

6. In the case of repeat violations, the fine imposed may be three times greater than the amount authorized in paragraph 4 or 5.

7. When imposing a fine, in accordance to this Article, GNERC shall take into account the degree of social harm of the action, the prior behavior of the Licensee or person concerned, and the financial standing of the Licensee or person.

8. If a fine imposed by GNERC is not paid, GNERC shall initiate court proceedings for the collection of the fine as a civil debt.

Article 30: Settlement of Disputes

1. Any dispute arising out or in connection with the licensed activity shall be settled in accordance with the Regulation on Dispute Settlement Procedure in the Energy Sector adopted by GNERC.

2. Decisions of GNERC regarding the modification, withdrawal or termination of the license, as well as those regarding any fines resulting from breaches of the license or of the applicable legislation, may be appealed by the Licensee to the court of competent jurisdiction.

4.0 ATTACHMENT II

4.1 MARKET OPERATOR LICENSE PART I TERMS OF THE LICENSE

1. The Georgian National Energy and Water Regulatory Commission (hereinafter referred to as "GNERC"), in exercise of the powers granted by Article ... of the Law of Georgia on Independent National Regulatory Authorities (hereinafter referred to as the "Law"), Article ... of the Law on Electricity and Natural Gas, and Article 27 of the Law of Georgia on Licensing hereby issues to ESCO (hereinafter referred to as the "Licensee"), this license to ensure and undertake the economic management of the electricity system (Market Operator's license), during the period specified in paragraph 5, subject to the Articles and conditions Georgia set out in Part II.

2. The territory covered by this license is the whole territory of Georgia (hereinafter referred to as the "Territory").

3. The Licensee shall comply with all Articles and conditions stipulated in this license for carrying out the licensed activity, and with the requirements of Article ... of the Law of Georgia on Electricity and Natural Gas and all relevant legislation and directions of GNERC and, in doing so, shall endeavor, at all times, to comply with the following applicable objectives:

- a) the efficient discharge of the obligations imposed upon it by this license;
- b) promoting effective competition in the generation, trade and supply of electricity, and promoting such competition in the sale and purchase of electricity;
- c) promoting efficiency in the implementation and administration of the Market Rules;
- d) the efficient implementation and management of the balancing and settlement provided by the Market Rules.

4. The Articles and conditions of this license are subject to modification or termination or withdrawal in accordance with their terms and with Article ... of the Law of Georgia on Licenses and Permits in Georgia.

5. This license shall come into force on 2012 and, unless withdrawn, shall continue in full force and effect until 2047 with possibility of extension in accordance to the Law of Georgia on Licenses and Permits in Georgia.

Stamped with the common stamp of the Energy Regulatory Authority on

Signed by (on behalf of the Board of GNERC)

PART II CONDITIONS OF THE LICENSE

Article 1: Definitions and Interpretation

1. For the purpose of this license, the terms and expressions listed below shall have the following meanings:

"Accession Agreement" means the document signed by all parties who agree to be bound by the Market Rules as set out in ... of the Market Rules.

"Affiliate" means in relation directly or indirectly to the Licensee any Holding Company or Subsidiary of the Licensee or any Subsidiary of a Holding Company of the Licensee, in each case within the meaning of the legislation applicable in Georgia.

"Distribution Code" means the set of technical rules issued by Transmission System Operator and approved by GNERC, pursuant to Article of the Law of Georgia on Independent National Regulatory Authorities.

"Distribution System" has a meaning as provided by Article of the Law of Georgia on Electricity and Natural Gas.

"Distribution System Operator" has a meaning as provided by Article of the Law of Georgia on Electricity and Natural Gas.

"Dominant Party" has a meaning as provided in the Market Rules.

"Electricity enterprise" has a meaning as provided in Article of the Law of Georgia on Electricity and Natural Gas.

"Financial year" is a period from 1 January up to 31 December of the same calendar year.

"Generation unit" means any plant or apparatus for the production of electricity as prescribed in the Grid Code.

"Grid Code" is the set of technical rules issued by the Transmission System Operator pursuant to Law of Georgia on Electricity and Natural Gas and approved by GNERC pursuant to Article ... of the Law of Georgia on Independent National Regulatory Authorities.

"Holding company" means any company defined as such in accordance to the legislation applicable in Georgia.

"Legislation" means Electricity and Natural Gas Law, Law of Georgia on Independent National Regulatory Authorities, and other primary legislation, or secondary legislation to be issued in execution of primary legislation regulating energy sector.

"Market Operator" means a legal person responsible for the organization and administration of trade in electricity and payment settlements among producers, suppliers and customers;

"Market Rules" mean the set of rules approved by GNERC governing transactions in electrical energy between the Market Operator and other electricity enterprises, including where appropriate the interaction between these parties and the Transmission System Operator for the purposes of maintaining the physical balance of the market This includes any transitional transaction arrangements that may be approved by GNERC.

"Market Rule Framework Agreement" has a meaning as provided in the Market Rules.

"Modification" includes addition, amendment and substitution, and cognate expressions shall be construed accordingly.

"Organized Market" means the organized range of transactions and commercial relations in the trade of electricity where the place, time and method for concluding

the transactions and establishing the commercial relations are known publicly and have been previously announced in the Market Rules.

“*Settlement*” has a meaning as provided in the Market Rules.

“*Subsidiary*” means any company owned or controlled by another company, defined in accordance to the legislation applicable in Georgia.

“*Transmission System*” has a meaning as provided by Article ... of the Law of Georgia on Electricity and Natural Gas.

“*Transmission System Operator*” has a meaning as provided by Article ... of the Law of Georgia on Electricity and Natural Gas.

“*Trading Party*” has a meaning as provided in the Market Rules.

“*Vertically integrated enterprise*” means an electricity enterprise which performs at least one of the functions that are required to be licensed under the Law of Georgia on Independent National Regulatory Authorities, other than transmission of electricity.

2. Terms used in this License shall have the same meanings as the terms used in the Legislation.

3. In reference to paragraph 2, any modification or re-enactment of the legislation after the date when this license comes into force, shall apply.

4. Unless otherwise specified:

a) any reference to a numbered Article or to a numbered Annex is respectively a reference to the Article or the Annex bearing that number in this license;

b) any reference to a numbered paragraph is a reference to the paragraph bearing that number in the Article or Annex, in which the reference occurs.

5. The heading or title of any Part, Article, Annex or paragraph shall not affect the construction thereof.

6. Where an obligation is imposed to the Licensee with a specific deadline for performance, that obligation shall continue to be binding and enforceable after that time limit without prejudice to all rights and administrative measures and fines that may be imposed against the Licensee if such Licensee fails to perform within the time limit.

7. The provisions of paragraph 6 shall apply in any case of document, direction or notice pursuant to this license and directions issued by GNERC.

Article 2: Authorization Granted Under this License

1. According to the Market Rules the Licensee is authorized to:

a) accede to the Market Rules in the capacity of “owner”;

b) maintain a process for all Trading Parties to accede to the Market Rules;

c) maintain accounts on behalf of Trading Parties and the Transmission and Distribution System Operators;

- d) manage the Settlement process;
- e) invoice and collect money owed to or by (as the case may be) Trading Parties under the terms of the Market Rules;
- f) act as agent of the Transmission System Operator, invoice and collect charges owed to or by (as the case may be) Trading Parties as allowed under the license granted to the Transmission System Operator by GNERC;
- g) act as agent of the Distribution System Operator(s), invoice and collect charges owed by Trading Parties as allowed under the license granted to the Distribution System Operator(s) by GNERC;
- h) manage the process of Modification of the Market Rules;
- i) provide market information in accordance with the provisions of the Market Rules; and
- j) perform all other function assigned to it under the Market Rules.

2. The Licensee shall not assign and/or transfer and shall not purport to assign or transfer any of its rights or obligations under the present license.

Article 3: Separate Accounts for the Market Operation Business

Condition 1:

In accordance with Article ... of the Law of Georgia on Licenses and Permits in Georgia the Licensee shall fully comply with requirement of this Article within twelve (12) months from the date when this license is issued.

1. The Licensee shall prepare annual regulatory accounts in accordance with Regulatory Accounting Manual issued by GNERC and shall deliver to GNERC a copy of the annual accounts so prepared and any annual audited accounts as soon as reasonably practicable, and in any event no later than (3) three months after the end of the financial year to which the accounts relate.

2. The Licensee shall, in its internal accounting, keep or cause to be kept a separate accounts for the Market Operation business as a whole (separate from the Transmission System Operators business) which, when requested by GNERC, must be delivered in the form and at the times specified by GNERC. The accounts shall be kept in accordance with such Regulatory Accounting Manual as may be issued by GNERC from time to time.

3. The Regulatory Accounting Manual or directions notified by GNERC to the Licensee under paragraph 2 may, inter alia:

a) specify the form of the regulatory accounting statements/records, including but not limited to, profit and loss accounts, balance sheets, recognized gains and losses statements, cash flow statements and statements of the amounts of any revenues, costs, assets, liabilities, reserves or provisions which have been either charged from or to any other business or determined by allocation or apportionment between the consolidated market operation business and any other business;

b) specify the nature and content of the regulatory accounting statements/records, including information on specified types of revenue, cost, asset or liability and

information on the revenues, costs, assets and liabilities attributable to specified activities;

c) specify the regulatory accounting principles (including the basis for the allocation of costs).

4. The Licensee shall not, in relation to the regulatory accounting statements in respect of a financial year, change the bases of charge, apportionment or allocation from those applied in respect of the previous financial year, unless GNERC has previously issued directions for the purposes of this Article or GNERC gives its prior written approval to the change in such bases.

5. The Licensee shall fully comply with any directions issued by GNERC for the purposes of this Article.

Article 4: Legal and Management Unbundling Obligations

1. As long as the Licensee is part of a vertically integrated enterprise, it shall comply with the provisions of Article ... of the Law of Georgia on Electricity and Natural Gas, to ensure it maintains independence from activities not related to Transmission in terms of its legal form, ownership, organization and decision making.

2. The Licensee may not be engaged in electricity generation, public supply, and or supply/trading.

3. In order to ensure the independence of the Licensee:

a) those persons responsible for the management of the Licensee may not participate in company structures of the vertically integrated enterprise, be responsible, directly or indirectly, for the day-to-day operation of generation, distribution and supply of electricity;

b) the Licensee shall take appropriate measures to ensure that the professional interests of the persons responsible for the management of the Licensee are taken into account in a manner that ensures that they are capable of acting independently;

c) the Licensee shall prepare and GNERC shall approve a Code of Conduct, setting out measures necessary to ensure that any discriminatory behavior is excluded and that the observance of it is adequately monitored. The Code of Conduct shall include the specific obligations of the Licensees directors and employees to meet this objective, including obligations of non-competition, confidentiality and avoidance of conflicts of interest. The Code of Conduct shall be part of any contract of employment with the Licensee. The Licensee shall submit to GNERC every year, by 31 January at the latest, an annual report outlining the measures taken for the purpose of compliance with the Code of Conduct.

Article 5: Prohibition of Subsidies and Cross-subsidies

The Licensee shall ensure that the Market Operation business does not give any cross-subsidy (direct or indirect) to, or receive any subsidy or cross-subsidy (direct or indirect) from, any other business of the Licensee or any Affiliate or related undertaking of the Licensee.

Article 6: Prohibition of Discrimination

1. The Licensee shall not discriminate between the Trading Parties, particularly in favour of its Affiliates or related enterprises, and shall perform its functions with due respect of the principles of transparency, objectivity and independence.
2. A Trading Party having been designated as a Dominant Party by GNERC, may be treated differently by the Licensee according to the provisions of the Market Rules.

Article 7: Market Rules

Condition 2

Within a time period not exceeding three (3) months from the day of entering into force of the Market Rules, the Licensee is obliged to make arrangements for all relevant Electricity Enterprises licensed in Georgia, including the Transmission System Operator, the Distribution System Operator *and Electricity Enterprises with Generation Units* to sign the Market Rules Framework Agreement, or any other relevant Agreement by which the Parties agree to be bound by the Market Rules. GNERC may issue directions in order to vary the deadline set forth in this Condition as may be specified in those directions.

1. Within 120 days from the issuance of the present license, or such shorter deadline as GNERC may determine, the Licensee shall prepare and submit to GNERC the draft Market Rules that it proposes to apply.
2. Market Rules are subject to approval by GNERC, according to Article ... of the Law of Georgia on Independent National Regulatory Authorities. Furthermore, once the Market Rules are approved by GNERC, such rules cannot be changed without written agreement of GNERC.
3. The Licensee shall be responsible for managing any proposal for modification of the Market Rules, according to the relevant provisions of the Market Rules, and submit any proposed modifications to GNERC for approval following appropriate consultations with affected parties. Where GNERC may direct, the Licensee shall undertake the process for modification of the Market Rules in accordance with GNERC's direction.
4. The Licensee shall publish the applicable Market Rules on its web-site in a form in which they may be easily downloaded and copied and shall be responsible to provide a copy of the Market Rules to any person on request, subject on payment by such person of an amount not exceeding the Licensee's reasonable costs in making and providing such a copy. The due amount shall be approved by the Licensee from time to time and published on its web-site.

Article 8: Accession to Market Rules

1. The Licensee shall enter into Accession Agreements with all persons wishing to sign such an agreement and become Parties to the Market Rules, and shall give relevant notice to GNERC, according to the provisions of the Market Rules.
2. The Licensee is obliged to monitor compliance of the Trading Parties with the terms and conditions of the Accession Agreements, according to the Market Rules.
3. The Licensee may terminate Accession Agreements according to the provisions of the Market Rules.

4. The Licensee shall charge the Trading Parties any amounts applicable for participation in the Market (Market Operator charges), as well as any sums required to provide security to the Market, as specified by the Market Rules.

Article 9: Operational Communications

1. For the purposes of managing the Settlement, the Licensee shall procure and install adequate computer and other equipment and software and shall draft and publish the necessary standards for communication with such software, using appropriate international standards, in accordance with the Market Rules.

2. The Licensee shall ensure that the software used for Settlement is audited by a suitably qualified independent auditing company to determine its consistency with the Market Rules, according to the provisions of the Market Rules.

3. The Licensee shall maintain complete and accurate records of all Settlement Data submitted by the Trading Parties or maintained by the Licensee. The format for the retention of such records shall be determined by the Licensee.

4. For the purposes of this Article:

“Settlement Data” means all data required to be supplied either by the Licensee or the Trading Parties to allow Settlement to be carried out under the Market Rules.

Article 10: Capacity Availability

1. The Licensee shall establish, maintain and update a register (the capacity register) in which will be recorded the declared capacity of each Generation Unit, the number of Capacity Availability Certificates (CACs) held by each Trading Party for each Settlement Period, and all transactions with respect to CACs, including CAC transfer proposals and notifications, in accordance with the Market Rules.

2. The Licensee shall cooperate with the Transmission System Operator for the identification of the Generation Units' availability, and shall record the full history of capacity availability notifications submitted by the Trading Parties, as provided for by the Market Rules.

3. The Licensee shall award CACs to Generation Units and Interconnector Traders according to the provisions of the Market Rules.

4. The Licensee shall submit to each Trading Party reports regarding the CAC transfers where relevant to that Party according to the Market Rules.

5. For the purposes of this Article:

“Capacity Availability Certificate” has a meaning as provided in the Market Rules.

“Interconnector Trader” has a meaning as provided in the Market Rules;

Article 11: Interconnector Trading and Nomination

1. The Licensee shall establish, maintain and update an Interconnector capacity register, in which it will record information on Interconnector capacity accounts on behalf of any person wishing to hold Interconnector capacity rights and submitting the data required and any proofs regarding the ability to pay for Interconnection capacity rights, in accordance with the Market Rules.

2. The Licensee shall advertise all necessary and appropriate information for carrying out annual and monthly capacity auctions and for the allocation of Interconnector capacity on a daily basis, according to the Market Rules.
3. The Licensee shall be responsible for prescribing the form of the transfer of Interconnector capacity rights from one Trading Party to another, and for accepting and rejecting Interconnector Trade proposals, according to the Market Rules.
4. The Licensee shall submit to the Transmission System Operator on behalf of the Trading Parties the notifications specifying intended MW delivery or off take through any Interconnector over a specified day (Interconnector physical nominations) and is obliged to provide all Trading Parties having acquired Interconnector capacity rights with all necessary information, according to the Market Rules.
5. For the purposes of this Article:

“Interconnector” has a meaning as provided in the Market Rules and Grid Code.

Article 12: System Operation Forecasting

The Licensee shall be responsible for publishing on its web-site and updating at due times all information regarding annual, monthly, and day ahead forecasts of demand and other factors, as provided to it by the Transmission System Operator according to the Market Rules.

Article 13: Settlement and Energy Imbalance Prices

1. The Licensee shall be responsible for the settlement of the bid and offer contracts through the relevant energy accounts, according to the provisions of the Market Rules.
2. The Licensee shall calculate and publish for every Settlement Period the energy imbalance price according to the Market Rules.
3. The Licensee is obliged to calculate the metered energy and non-delivery bid and offer volumes with respect to the relevant energy accounts, according to the Market Rules, and is responsible for the settlement of such accounts.
4. For the settlement of capacity imbalances the Licensee shall calculate and impose capacity penalties according to the provisions of the Market Rules.
5. For the purposes of this Article:

“Settlement Period” has a meaning as provided in the Market Rules.

Article 14: System Charges

Acting in its capacity of agent for the Transmission System Operator and the Distribution System Operator, the Licensee shall collect from the Trading Parties all system charges applicable, and transfer the amounts due to the Transmission System Operator and the Distribution System Operator.

Article 15: Invoicing and Payments

1. The Licensee shall be responsible for issuing and submitting to the Trading Parties the invoices necessary for the settlement of their accounts, according to the provisions of the Market Rules.

2. In reference to paragraph 1, the Licensee shall establish an invoice Manual specifying the formats of invoices and of supporting data.

Article 16: Restrictions on Use of Certain Information

1. The Licensee shall not disclose directly or indirectly any confidential information to any other business of the Licensee or an Affiliate or related undertaking of the Licensee, unless the Market Rules provide for disclosing or publishing such information.

2. The Licensee may disclose any information other than confidential held and/or obtained by it in the discharge of its functions as Market Operator, as defined as such in the Regulation on Confidentiality of Information as adopted by GNERC. Except that this restriction shall not prevent the Licensee disclosing any information that GNERC may require while carrying out its obligations under the Legislation and under Article 20 of this license.

3. The Licensee shall procure that any document containing confidential information shall be marked as such.

4. The Licensee shall take measures designed to prevent any person who is or ceases to be employed by the Licensee from disclosing confidential information.

5. The Licensee shall take all reasonable steps to ensure that confidential information is not used or disclosed for any purpose other than that for which it was provided, pursuant to the relevant provisions of the Regulation on Confidentiality of Information.

6. For the purposes of this Article :

“confidential information” means any commercial or other kind of information held and/or obtained by the Licensee in the discharge of its duties under the Legislation, that is to be regarded as confidential under the Regulation on Confidentiality of Information and under this license.

Article 17: Labour

The Licensee shall comply with all legislation applicable to labor relations and work safety whether in force at the date hereof or in the future.

Article 18: Change in Control of the Licensee

The Licensee shall notify GNERC of any intended change in control of the Licensee at least sixty (60) days in advance of such a change. Change in control may not take place unless GNERC has approved it.

Article 19: Provision of Information to GNERC

1 The Licensee shall submit to GNERC, in manner and at such times as GNERC may require, such information and such reports as GNERC may consider necessary in the light of any Article or condition of this license or for the purpose of performing the functions assigned or transferred to it under Article ... of the Law of Georgia on Licenses and Permits in Georgia or other applicable Legislation.

2. The information shall be prepared to a level of audit as may be required by GNERC from time to time.

3. The power of GNERC to call for information under paragraph 1 is without prejudice to the power of GNERC to require even information that are considered confidential under or pursuant to any other Article or condition of this license or under or pursuant to the applicable Legislation.

4. If the Licensee requests that certain information shall be considered as confidential it is its obligation to mark such document as confidential and justify to GNERC such request.

5. The Licensee shall deliver to GNERC quarterly and annual reports about its market operation business and compliance with the license's Articles and conditions in accordance to the Reporting Manual issued by GNERC.

6. The Licensee shall submit to GNERC details of any change in information submitted with application for this license.

7. In this Article:

"Information" means material in any form and includes without limitation, any books, documents, records, contracts, accounts (statutory or otherwise), estimates, returns or reports of any description and any explanations (oral or written) in relation to such information as may be requested by GNERC.

Article 20: Reasons for License Termination, Withdrawal and Modification

1. GNERC may terminate this license in accordance to Article ... of the Law of Georgia on Licenses and Permits in Georgia provided that the obligations of the Licensee shall be carried out by another Licensee or that customers are not at a disadvantage by such termination. Such termination may take place in case of:

- a) expiration of the term of the license;
- b) a request received from the Licensee in respect of its own license;
- c) dissolution of the legal person holding the license;
- d) upon decision of a court declaring the insolvency of the Licensee or court decision to terminate the market operation due to the Licensee's declaration of liquidation;
- e) where the licensed energy activity has not been conducted for more than six (6) months, except where the suspension of activity is at the approval of GNERC;
- f) where provisions of Article ... of the Law of Georgia on Licenses and Permits in Georgia are met.
- g) if any amount payable in respect of a fee for this License is unpaid thirty (30) days after it has become due and remains unpaid for a period of another thirty (30) days after GNERC has given the Licensee notice in writing that the payment is overdue, provided that, no such notice shall be given earlier than the day following the "day" the amount payable was due.

2. GNERC may withdraw this license in the cases below as stipulated in Article ... of the Law of Georgia on Licenses and Permits in Georgia, provided that the obligations of the Licensee shall be carried out by another Licensee or that customers are not at a disadvantage by such withdrawal:

- a) the licensee defaults or violates material Articles, conditions, or obligations in the license and such defaults and violations have not been remedied within the deadline

given by GNERC or seriously damage the quality, safety and reliability of the service that the Licensee was obliged to provide;

b) license monitoring by GNERC finds failure to fulfil administrative requirements and such failure has not been remedied within the deadline provided by GNERC;

c) the Licensee presented materially false information upon which the license grant was based.

3. In accordance with Article ... of the Regulations on Licensing of Energy Activities in Georgia, GNERC may modify this license in the following cases:

a) at the request of the Licensee;

b) where required to protect the energy system in Georgia, in connection with security of supply or security of life and health of citizens or protection of environment;

c) in order to adhere to new requirements set forth in international agreements and national laws, regulations and other applicable legislation;

d) as a sanction for violation of license terms and conditions, pursuant to Article ... of the Law of Georgia on Licenses and Permits in Georgia.

Article 21: Administrative Measures and Fines

1. In case of violation of any provision of the Legislation and of any Article or condition of this license and of any GNERC's instruction to the Licensee, GNERC shall, have the power, pursuant to Article ... of the Law of Georgia on Independent National Regulatory Authorities and Regulation on Administrative Measures and Fines, either to prevent the Licensee from repeating the illegal action or, if the action has stopped, to issue a regulatory decision requiring that a particular action has to be taken or to impose an administrative fine to the Licensee and/or the member of its Board of Directors and/or its executives.

2. Prior to issuance of a fine, GNERC shall issue a notice of license violation to the Licensee and shall provide the Licensee with an opportunity to respond to GNERC, in writing, within fourteen (14) days of the notification in order to remedy the violation.

3. A fine shall be imposed on the Licensee in accordance with Article ... of the Law of Georgia on Independent National Regulatory Authorities and Regulation on Administrative Fines and Measures in the event that the Licensee violates the requirements of that Article insofar as they are applicable to the Licensee.

4. The amount of the fine will be evaluated in accordance to the Regulation on Administrative Measures and Fines. In any case, if the fine mentioned in paragraph 3 is imposed on the Licensee, it must not exceed 15% of the Licensee's net revenues for the business conducted under this License in the previous financial year

5. If the fine mentioned in paragraph 3 is imposed on a member of the Board of Directors or an executive of the Licensee, it must not exceed 300% of the monthly remuneration received by that person from the Licensee.

6. In cases of repeat violations, the fine imposed may be three (3) times greater than the amount authorized in paragraphs 4 or 5.

7. When imposing a fine, in accordance with this Article, GNERC shall take into account the degree of social harm of the action, the prior behavior of the Licensee or person concerned and the financial standing of the Licensee or person.

8. If a fine imposed by GNERC is not paid, GNERC shall initiate court proceedings for the collection of the fine as a civil debt.

Article 22: Settlement of Disputes

1. Any dispute arising out or in connection with the licensed activity shall be settled in accordance with the Regulation on Dispute Settlement Procedure in the Energy Sector adopted by GNERC.

2. Decisions of GNERC regarding the modification, withdrawal or termination of the license, as well as those regarding any fines resulting from breaches of the license or of the applicable legislation, may be appealed by the Licensee to the court of competent jurisdiction.

USAID Hydropower Investment Promotion Project (USAID-HIPP)

Deloitte Consulting Overseas Projects - HIPP

11 Apakidze Street, Tiflis Business Center

Tbilisi 0171, Georgia