



Georgian National Energy and Water Supply Regulatory Commission

Classification of Costs by Types of Services and their Differentiation by Categories of Customers with regards to Natural Gas Consumption

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Cost Classification

- In gas sector, utility may be called as more than one regulated activity so unregulated activity. Consequently, it is of uttermost important to allocate costs by regulated and unregulated activities.
- Regulated activities are:
 - Natural gas transportation
 - Natural gas delivery
 - Natural gas distribution

Cost Classification

continued

- Almost all utilities operating in gas sector of Georgia are engaged in more than one type of activities
- Transportation licensee is also engaged in delivery (in exchange for transit to Armenia Russian side are paying it in kind with natural gas)
- suppliers and consequently delivery costs are divided into retail and wholesale traders – wholesale suppliers' activity and therefore expenditures are related to purchase of natural gas and delivery to other suppliers and/or directly to end consumers (sales)
- Retail delivery and related costs constitutes delivery of natural gas through distribution networks to connected consumers. Activity implies metering at retail consumer's side, billing and collection (banking) costs

Cost Classification

continued

- Almost every gas distribution licensee is engaged in purchase of natural gas from wholesale suppliers as well and retail delivery (sale) to end consumers through their own distribution networks – meaning they are engaged in more than one regulated activity.
- To date, costs associated with retail delivery (billing) are included in distribution costs of the distribution company and are set into the tariff. The Commission is actively working on allocation of retail delivery costs in order to diversify them from distribution or network servicing costs
- Apart from regulated activities, distribution companies are engaged in unregulated activities, like networking new consumers and associated costs and revenues, that are not regulated by the Commission under current legislation
- Certain difficulties exist with regards to collecting accurate data from these companies per types of their activities in order to correctly allocate costs

Cost Classification

continued

- Allocation of costs in natural gas sector is strict requirement of the current legislation and Decree concerning Procedure of Control and Licensing in Electric Energy, Natural Gas and Water Supply related Activities adopted by the Commission on the basis of said legislation. By virtue of the Decree, if entity is engaged in several business activities, it is obliged to account for relations arising from each of the activities, including revenues, costs and financial results, separately by each of the activities.
- In order to solve the issue, the Commission is preparing both financial and technical annual reports' forms by activities as defined by virtue of the law *concerning Power Engineering and Gas*. The practice is believed to make informing the Commission easier for licensees and suppliers.

Allocation of Costs by Categories (Groups) of Consumers

- As per established methodology of tariff calculation in natural gas sector, consumers may be categorized (grouped) as follows: by pressure, consumption volume, territorial-administrative boundaries and other criteria provided for by the law.
- For the time being costs are calculated in their entirety for all supply related activities and it is not being allocated by consumer categories.
- Also, since natural gas transportation network is operating or is being designed mainly through high pressure main pipelines (1.2 MPa), no division of costs by consumer categories (groups) is taking place in the sector and unified transportation tariff is applied for all types of consumers (but for thermal power plants and two distribution companies – Dushetigas and Kazbegigas)
- Transportation system is also used for transit of gas to neighbouring country – Armenia, transit not being regulated by the Commission. However, revenue from transit is taken into account when regulating transportation tariff.

Allocation of Costs by Categories (Groups) of Consumers Continued

- In distribution, costs are allocated by pressure levels: high, medium and low pressure consumer categories.
- Apart from above, division by territorial-administrative boundaries is practiced (Kartlgas providing services to 6 administrative units)

Allocation of Costs by Categories (Groups) of Consumers

Continued

- According to adopted methodology, allocation of costs by pressure levels (high, medium, low) should be proportional to basic assets allocated for providing services for each category
- Basic assets allocated for providing services to several categories of consumers are being divided in proportion to volume of gas consumed

Allocation of Costs by Categories (Groups) of Consumers

Continued

Allocation of Basic Assets by Consumer Categories (pressures)

	Readings	Measurement unit		Share of the whole volume, %
1	Total volume of natural gas	Thousand m ³ .	430000,0	100,0
	Including			
	For high pressure consumers	--	16000,0	3,72
	For medium pressure consumers	--	60000,0	14,0
	For low pressure consumers	--	354000,0	82,3

Allocation of Costs by Categories (Groups) of Consumers

Continued

2	Basic Assets Residual Value			
	Start of the year, total	Thousand GEL	56882,96	100,0
	Including			
	a. Gas pipelines	"--	30996,1	
	High pressure	"--	1193,67	
	Medium pressure	"--	21778,9	
	Low pressure	"--	8023,527	
	b. Other assets (apart from pipelines)	"--	25886,86	

Allocation of Costs by Categories (Groups) of Consumers

Continued

3	Basic assets for high pressure consumers			
	Share of high pressure pipelines	Thousand GEL	44,42	
	Other assets	--	963,23	
	Assets total	--	1007,65	1,8
4	Basic assets for medium pressure consumers			
	Share of high pressure pipelines	Thousand GEL	166,56	
	Share of medium pressure pipelines	--	3038,92	
	Other assets	--	3612,12	
	Assets total	--	6817,60	12,0

Allocation of Costs by Categories (Groups) of Consumers

Continued

- Formula given above is used to calculate coefficients in order to allocate total costs (apart from cost of standard losses) by consumer categories (pressures)
- Loss standard differs from pressure to pressure and is being determined separately by each pressure level
- Next slide relates calculation formula used by Tbilisi Distribution Company for allocation of costs by consumer categories (groups)

Calculation of Natural Gas Distribution and Consumption Tariffs by Consumer Categories (Pressures)

#	Data Title	Definition	2008 Forecast (approved)			
			Total	Including		
				High Pressure Consumers	Medium Pressure Consumers	Low Pressure Consumers
1	2	3	4	5	6	7
1	<u>Source Data</u>					
1	Total Natural Gas Received	Thousand m ³	432400.0	14000.0	80000.0	338400.0
2	Natural Gas Losses	---	38916.0	238.0	6000.000	32678.0
	Same as a percent share	%	9.00	1.70	7.500	9.66
2.1	Including Standard Losses	Thousand m ³				
	Same as a percent share	%				
3	Distributed natural gas	Thousand m ³	393484.0	13762.0	74000.0	305722.0
4	Length of adopted pipelines	Km	2420.0			
5	Number of consumers	Consumer	290000.0			
6	Residual value of basic assets by the end of the period	Thousand GEL	22333.05	227.5	2368.18	19737.43

Calculation of Natural Gas Distribution and Consumption Tariffs by Consumer Categories (Pressures)

1	2	3	4	5	6	7
1	Gas losses	---	11658,46	71,3	1797,48	9789,68
2	Wages fund	---	17280.0	58.00	525.00	16697.00
3	Basic assets depreciation	---	2073.68	4.15	219.81	1849.72
4	Basic assets maintenance costs	---	1116.7	11.39	118.37	986.90
5	Electric energy	---	50.0	0.51	5.30	44.19
6	Materials and spare parts	---	720.0	7.34	76.32	636.34
7	Fuel and lubricants	---	615.20	6.28	65.21	543.71
8	Connectivity	---	237.20	2.42	25.14	209.64
9	Communal services	---	100.0	1.02	10.60	88.38
10	Interest on loans	---	706.19	7.20	74.86	624.13
11	Other costs	---	2742.15	28.55	289.57	2424.03
III	Taxes VAT exclusive	Thousan d GEL	4297.63	19.32	190.15	4088.16
	Including					
1	Property Tax	---	223.33	2.28	23.68	197.37
2	Social Tax accrued to wages	---	3456.0	11.6	105.0	3339.4
3	Land usage Tax (non-agricultural land)	---	1.144	0.01	0.12	1.01
4	Regulation Fees	---	171.06	0.92	14.10	156.04
5	Income Tax	---	446.1	4.5	47.2	394.3
6	Other (Insurance)	---	0.0	0.0	0.0	0.0

Calculation of Natural Gas Distribution and Consumption Tariffs by Consumer Categories (Pressures) (Continued)

1	2	3	4	5	6	7
V	Net Profit	---	1784.41	18.05	188.98	1577.38
	Net profit in relation to current basic assets (%)	%	8.0	8.0	8.0	8.0
VI	Annual income from sales of natural gas, total (IV+V)	Thousand GEL	43381.6	235.5	3586.8	39559.3
VII	Tariffs					
1	Gas distribution tariff, VAT exclusive (VI / I-3)	GEL / 1000 m ³		17.11	48.47	129.40
2	Gas distribution tariff, VAT inclusive	---		20.2	57.2	152.7
3	Wholesale gas supply, VAT exclusive	---		285.75	285.75	285.75
4	Transportation costs, VAT exclusive	---		13.83	13.83	13.83
5	Gas consumption tariff, VAT exclusive	---		316.69	348.05	428.98
6	Gas consumption tariff, VAT inclusive	---		373.70	410.70	506.2

**Thank you for your
attention!**