



PUBLIC SERVICES REGULATORY COMMISSION OF ARMENIA (PSRC)

THE GAS SECTOR OF ARMENIA

There are two companies operating in the Armenian gas sector

1. ARMGASPROM, whose functions are

- *importation*
- *distribution, and*
- *supply of natural gas,*
- *as well as management of country's gas systems*

2. TRANSGAS, whose functions are

- *transportation of natural gas from Armenia's borders to the distribution company;*
 - *accounting for the transported natural gas and its reserves; and*
 - *liquefaction, pumping, collection, and storage of gas in underground storage facilities*
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The Gas Supplier Company of Armenia

The ArmRosgasprom Company was established on August 30, 1997, by the Ministry of Energy of Armenia, the Russian company Gasprom, and the ITERA International Energy, L.L.C. (ITERA) in accordance with the founding agreement

- ✓ The company's charter capital was \$880 mln
 - ✓ 80% of shares are held by Gasprom and 20% by the Republic of Armenia, represented by the Ministry of Energy and Natural Resources
 - ✓ ArmRosgasprom manages 13,255 km of gas pipes, of which 10,483 km are in active use
 - ✓ In 2009, 1,605 mln cubic meters of natural gas were imported by the Republic of Armenia and 1,558 mln cubic meters were sold to consumers
 - ✓ The number of consumers is approximately 550,000
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The Gas Transportation Company of Armenia

Transgas was formed by ArmRosgasprom in 1999

- ✓ The charter capital of the company is \$3,86 mln
- ✓ Transgas maintains 1,900 km of pipelines, of which 1,650 km are in active use
- ✓ There are 74 gas distribution plants
- ✓ The underground gas storage facility has 2 important functions:
 - *To provide a reliable and safe gas supply for the Armenian consumers, and*
 - *To manage seasonal and peak fluctuations in gas supply*

\$7,5 million invested in the reconstruction and the modernization of the underground gas storage facility resulted in an increase in the stored gas volume from 76 million cubic meters to 120 million. In favorable circumstances, this volume may be increased even further up to 170-180 million cubic meters by 2013.

Ratemaking in the Gas Sector

ArmRosgasprom is regulated as follows:

- ✓ Licensing, including establishing licensing terms and monitoring compliance with the terms
 - ✓ Establishing accounting rules for reporting to the PSRC of Armenia
 - ✓ Establishing rates
 - ✓ Establishing rules for supply and use of natural gas
 - ✓ Establishing quality standards for services
 - ✓ Establishing standards or mandatory terms for gas supply agreements (services) with other licensed companies and consumers; the registration of agreements with other licensed companies
 - ✓ Other types of regulation provided for by the Law on Energy
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Ratemaking in the Gas Sector

Ratemaking principles:

- ✓ Recovering justified operational costs and depreciation of intangible assets and fixed assets required by the licensing terms
- ✓ Allowing for reasonable profit rates
- ✓ Allowing for justified cost of loans
- ✓ Differentiation of rates by the volumes of consumption, terms of connection, and types of services
- ✓ Allowing for necessary and justified insurance costs
- ✓ Allowing for justified environment protection costs
- ✓ Allowing for justified technical and commercial losses
- ✓ Allowing for other necessary and justified costs provided for by law

Ratemaking in the Gas Sector

There are several stages of rate calculations :

- 1) Income of gas companies is set at a level that is sufficient to cover all functional costs necessary for reliable, safe, and uninterrupted operations, as well as to ensure a reasonable profit on investments
 - 2) The cost of services is determined for the individual consumers and consumer categories by classifying functional costs and determining profit rates for each different consumer category
 - 3) Ratemaking methods are selected and rates are calculated accordingly
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Ratemaking in the Gas Sector

The PSRC of Armenia introduced the following rates (including VAT) in the gas sector

Transgas

- Transportation of gas - 19.3 \$ for 1,000 cubic meter

Armgasprom

- Services of the gas system operator - \$0.0573 for 1,000 cubic meters
 - Distribution of natural gas - \$38.08 for 1,000 cubic meters
 - Natural gas consumption for up to 10,000 cubic meters/month - \$366.67 for 1,000 cubic meters
 - Natural gas consumption in excess of 10,000 cubic meters/month - \$243.13 for 1,000 cubic meters
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Legal Framework

Gas sector regulation is governed by the following laws and agreements:

- ✓ Law on Energy
 - ✓ Rules for the delivery and use of natural gas
 - ✓ Methods for calculating regulated tariffs in the gas sector
 - ✓ Licensing procedures in the energy sector of the Republic of Armenia
 - ✓ Terms of licenses issued to companies
 - ✓ Agreements with household consumers and licensed companies
 - ✓ Other regimes, methods, and regulations established by the PSRC of Armenia
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Quality Standards of Customer Service

Standards used to determine the quality of customer service:

- ✓ No more than 4 interruptions in gas services per consumer during the 12 months period with each interruption lasting no more than 36 hours (with the exception of force majeure events causing interruptions)
 - ✓ During the winter period (from November 1 to March 15), planned maintenance should not cause interruptions of the gas services to household consumers
 - ✓ When informed of a possibility of an emergency (unsafe situation related to gas), the gas supplier, in shortest time possible, must stop supplying gas to the consumer. After the unsafe situation is resolved, the gas services should be resumed within 36 hours from the receipt of the consumer's request to resume service at the time agreed upon with the consumer.
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Quality Standards of Customer Service

Standards used to determine the quality of customer service (continued):

- ✓ If a consumer/supplier agreement is dissolved, or if gas services are temporary interrupted, or under other circumstances provided by law, the gas supplier must stop services within 2 business days from the receipt of a request from the consumer
 - ✓ Gas services are resumed after a temporary interruption at the request of the consumer within 36 hours, following an inspection required by the gas sector's technical standards
 - ✓ In case of planned maintenance or when connecting new consumers to service, the gas supplier has the right to stop services as specified in the agreement, provided that he gives a one day notice to the consumers
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Quality Standards of Customer Service

Collection and analysis of customer service information

Beginning in 2006, ArmRosgassprom must provide the PSRC the following information on customer service as required by law:

- ✓ Complaints and company's responses to complaints
- ✓ Registration of consumer phone calls
- ✓ Interruptions of gas service to consumers
- ✓ Average caloric capacity of delivered gas

In addition, beginning in 2010, all companies must provide the following data:

- ✓ Average number of consumers (by gas supply areas)
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Quality Standards of Customer Service

Collection and analysis of customer service information (cont.)

The analysis of customer service information, which was provided by ArmRosgasprom, has shown that:

- the average number of interruptions (SAIFI) is about 1.3, and
- the average duration of service interruptions (SAIDI) is about 36 hours

These numbers show that at this time a desired level of service has been reached and there is no need to improve these parameters.

Licensing Procedures

Licenses are issued to corporations only. The following types of operations in the gas sector of Armenia require licensing:

- Importation of natural gas
 - Transportation of natural gas
 - Distribution of natural gas
 - Gas system operator services
 - Construction of gas transportation networks
 - Construction of gas distribution networks
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Licensing Procedures

Review and approval of license applications

- To obtain a license, the company must provide 2 copies of a license application to the PSRC.
 - One of the departments within the PSRC ensures that the applicant has provided all necessary documentation as part of the application and that this documentation complies with established requirements
 - The application is rejected if:
 - *Documents submitted with the application do not conform to the requirements of law of the Republic of Armenia, its regulations, and established procedures;*
 - *The documents contain incomplete or conflicting data;*
 - *According to law or the applicant's charter, the applicant cannot engage in business for which he seeks to obtain a license*
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Licensing Procedures

Review and approval of license applications (continued)

- The PSRC makes its decision known to the applicant in writing no later than 10 business days from the date of the application. If the application is rejected because of shortcomings, it is kept at the PSRC. Once the shortcomings are removed and the missing documents submitted, the applicant can request to resume the application process.
 - The PSRC resumes the review of the application and arrives at a decision within 50 business days after a written notification to the applicant of the results of the review.
 - If necessary, the Commission's Working Group visits the applicant's site and determines whether the applicant is suitable for the licensed operations he has applied for.
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Licensing Procedures

Review and approval of license applications (continued)

➤ The PSRC rejects the application if:

- *The applicant is insolvent or went through bankruptcy;*
 - *The licensed activity will lead to ineffective use of Armenia's natural resources;*
 - *The technical data shown in the application does not meet established technical standards;*
 - *Granting of license will negatively impact another licensee whether technically or economically;*
 - *The applicant did not submit data, documents, or results of additional inspection requested by the PSRC;*
 - *The applicant's data or information is incomplete, untrue, or distorted, or does not comply with the law or regulations of the Republic of Armenia*
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Licensing Procedures

Review and approval of license applications (continued)

- Within 5 business days after a positive decision to grant the license, the PSRC issues 1 copy of the license to the applicant
 - Along with the license, the applicant receives the Licensing Terms, which are established by the PSRC
 - If the license application has been rejected, a copy of the decision stating the reason for rejection is sent to the applicant within 5 business days from the date of the decision
 - If the license terms are violated by the licensee, the PSRC responds in one of the following ways:
 - *Issues a warning*
 - *Reduces the rates*
 - *Suspends the license*
 - *Terminates the license*
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