

M e m o

To: Staff
Subject: Tariff Revisions

We plan to file for a revised tariff with the Tariff Council. Under their revised procedures, there must now be an open hearing where we will present our case. They will have the right to question us under oath and to listen to other experts or interests. At a minimum, we know that the Consumer Federation of Azerbaijan is planning to oppose our tariff request.

The hearing will be two hours from now, so swift preparation is vital. The essence of our rate request is as follows:

1. We have lost money each of the previous two years
2. Our tariff is frozen at 2006 levels
3. Energy costs, and hence, losses have risen
4. Our network requires rehabilitation & expansion

These adverse trends will require tariffs to rise. We propose to restructure the tariffs as well, charging an explicit network fee for all users, based on their voltage level. This will mean that higher voltage customers will pay less than low voltage users.

With the exception of a small number of high voltage users, there is no provision in our tariff for voltage levels. Therefore, we will ask the Tariff Commission to change not only the level of the tariff, to compensate us for inflation and higher energy costs, but also structure, introducing explicit charges by voltage level.

Our basic information is as follows:

Item	Value	Note/Comment
Peak demand	5.50E+06	kW, 2007
Energy consumption	2.20E+10	kWh, 2006
Demand at 132 kV	4.20E+06	kW, 2007
Demand at 66 kV	3.60E+06	kW, 2007
Consumption at 132 kV	1.69E+10	kWh, 2006

Consumption at 66 kV	9.50E+09	kWh, 2006
Distribution Substation Demand	5.50E+06	kW, 2007
Total Costs at 132 kV	9.00E+07	Demand Charges are 65%
Total Costs at 66 kV	4.50E+07	Demand Charges are 45%
Total Costs at Distribution Substation	3.50E+07	losses at distribution are 3.75%
Cost of Generation	5.50E-02	AZM/kWh
cost of losses	4.54E+07	AZM
System Load Factor	60.00%	

We have acquired the tariff model that is used by the Tariff Council to set distribution tariffs. Our financial analyst has adapted that model to be used for transmission cost estimation. It is attached to this memo.

We will have approximately 15 minutes to make our case before the Tariff Council. We want the Council to grant us relief for our historic costs, as well as for expected increases in energy and other operating costs. Also, it is reasonable to expect that the costs of new build in transmission will be considerably more expensive than the historic costs on which this tariff is based.