



# DSO Tariff Structure

**Roundtable input by \*Armenia\***

Head of tariff division of Public Services Regulatory Commission of  
Republic of Armenia



**ERRA Natural Gas Markets and Economic Regulation Committee**

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# Structure

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- *Basic information about DSO system (developments, consumption trends, structure, etc)?*
- *When was the last DSO tariff approved (for a DSO that has significant share in the market)?*
- *Is set tariff fixed? If yes what proportion between fixed and variable component? If not specified, why not?*
- *Are there any changes planned in tariff structure?*
- *The number of users and consumption in each tariff group?*
- *More than 630 communities use natural gas in Armenia, and our country is one of the leaders in the world with a gasification rate of 96%.*

# Structure of gas system of Armenia



Import of natural gas

Operational technological dispatching

Natural gas distribution and sales

Transportation of natural gas and operation of storage

# Gas system of Armenia

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- The gas supply system consists of a gas transportation system and a gas distribution system.
- Currently, 2 companies are carrying out licensed activities in the gas supply system of Armenia: "Gazprom Armenia" CJSC and "Transgaz" LLC.
- "Gazprom Armenia" CJSC carries out the importation of natural gas, operational technological regulation of the system, distribution and sale of natural gas to consumers,
- "Transgaz" LLC carries out the transportation of natural gas and operation of underground gas storage facilities.

# Gas system of Armenia

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- The sole shareholder of "Gazprom Armenia" CJSC is the Russian "Gazprom" JSC.
- "Gazprom Armenia" CJSC has 15 gasification and gas supply branches, the "Engineering Center" branch and subsidiary companies organized on a territorial basis.
- "Transgaz" LLC was established by the former "ArmRusgazprom" CJSC in 1999 and is currently a subsidiary of "Gazprom Armenia" CJSC.
- "Transgaz" LLC carries out its activities on the basis of the trustee management contract signed with "Gazprom Armenia" CJSC.

# Gas system of Armenia

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- The total length of main gas pipelines and gas pipelines-branches in the gas transportation system is about 1690 km, of which 1594 km are in operation.

In addition, the gas transportation system also includes:

- 75 gas distribution stations:
- 21 measuring nodes,
- 182 electrochemical protection stations,
- 231 linear valve nodes in the linear section of the main gas pipeline,
- Abovyan underground gas storage station with 21 underground wells and pressure station.

# Gas system of Armenia



About 19,175 km of high, medium and low pressure gas pipelines are in service in the gas distribution system, of which 15,827 km are in operation, of which 74% (11,659 km) are low pressure gas pipelines. In addition, in order to operate the gas distribution system, there are:

- 2638 units of gas control points,
- 8522 units of individual pressure regulators,
- 1433 head measuring nodes,
- 326 electrochemical protection stations.

***"Gazprom Armenia" CJSC has about 754 thousand subscribers, of which only the population is about 735 thousand.***

# Gas import sources

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Currently, natural gas is imported to the Republic of Armenia from the Russian Federation and the Islamic Republic of Iran.

Natural gas from the Russian Federation is imported by "Gazprom Armenia" CJSC for sale to consumers.

Natural gas is imported from the Islamic Republic of Iran by "Yerevan Thermal Electric Center" CJSC within the scope of the gas-electricity exchange transaction.



# Gas balance 2023



		2023
1	Quantity of gas imported, including:	2730.8
1.1	From Russia	2360.4
1.2	From Iran	370.4
2	Retrieved from gas pipelines and underground gas storage and station (from Abovyan Gas storage)	66.8
3	Gas consumption for own needs in transportation system	5.2
4	Gas losses in the transportation system, of which:	99.5
4.1	unavoidable technological losses in pipelines	99.4
4.2	accidental losses	0.1
5	Pushed to Pipelines and Underground Gas Storage and Station	39.5
6	Volume of gas transmitted	2619.7
7	Gas consumption for own needs in distribution system	2.3
8	Restored gas	0.6
9	Gas losses in distribution system	38.3
10	The volume of gas sold in the distribution system, of which:	2578.6
10.1	Population	808.2
10.2	Energy	777.7
10.3	Industry	293.7
10.4	Auto Refill Pumps (ACLFS)	412.1
10.5	Budget Organizations	49.9
10.6	Other consumers	237.0

# Tariff policy

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The tariffs of the gas supply system companies are calculated and set based on the principles established by Law "On Energy", the tariff calculation methodology approved by the RA Public Services Regulatory Commission, and the rules of tariff setting (revision).

# Tariff policy

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- The tariffs for gas supply system operator, natural gas distribution and natural gas transportation services provided by "Gazprom Armenia" CJSC were last revised and entered into force on August 1, 2023.
- The tariffs for natural gas sold to consumers by "Gazprom Armenia" CJSC were last revised and entered into force on April 1, 2022.



# Natural gas tariffs review

- The revision of natural gas tariffs sold to consumers is mainly due to the agreement between "Gazprom Armenia" CJSC and "Gazprom Export" LLC dated 29.12.2021. signed on 02.12.2013 for the delivery of natural gas to RA. With the application of additional agreement No. 105 of contract No. 02-13-04, according to which the price of natural gas imported to RA from April 1, 2022 for 7900 kcal/m<sup>3</sup> was set at 165 USD/thousand m<sup>3</sup> and for 8500 kcal/m<sup>3</sup> price: 177.53 USD/thousand cubic meters.
- According to the mentioned agreement, the actual price of imported natural gas for each month will be determined based on the actual weighted average caloric value of natural gas in the given month and the price set for 8500 kcal/m<sup>3</sup> will be reduced or increased proportionally.

# Natural gas stimulating tariff methodology



- During last review of natural gas tariffs, an analysis of the changes in the indicators included in the gas supply system tariff calculations was also carried out. In particular, there has been an increase in consumption volumes, a certain increase in operation and maintenance costs, as well as investments have been made and there is accumulated depreciation in the calculation of tariffs.
- As a result of discussions, "Gazprom Armenia" CJSC proposed to use as a basis the new tariff calculation methodology developed.

# Natural gas stimulating tariff methodology



- The purpose of new developed and approved methodology is to encourage
- the optimization of costs,
- the reduction of losses,
- the implementation of investments aimed at the development of the system through the fixation of costs and other indicators in a certain period,
- directing their results to the reduction of consumer tariffs at the end of the given period.

# Stimulating tariff policy

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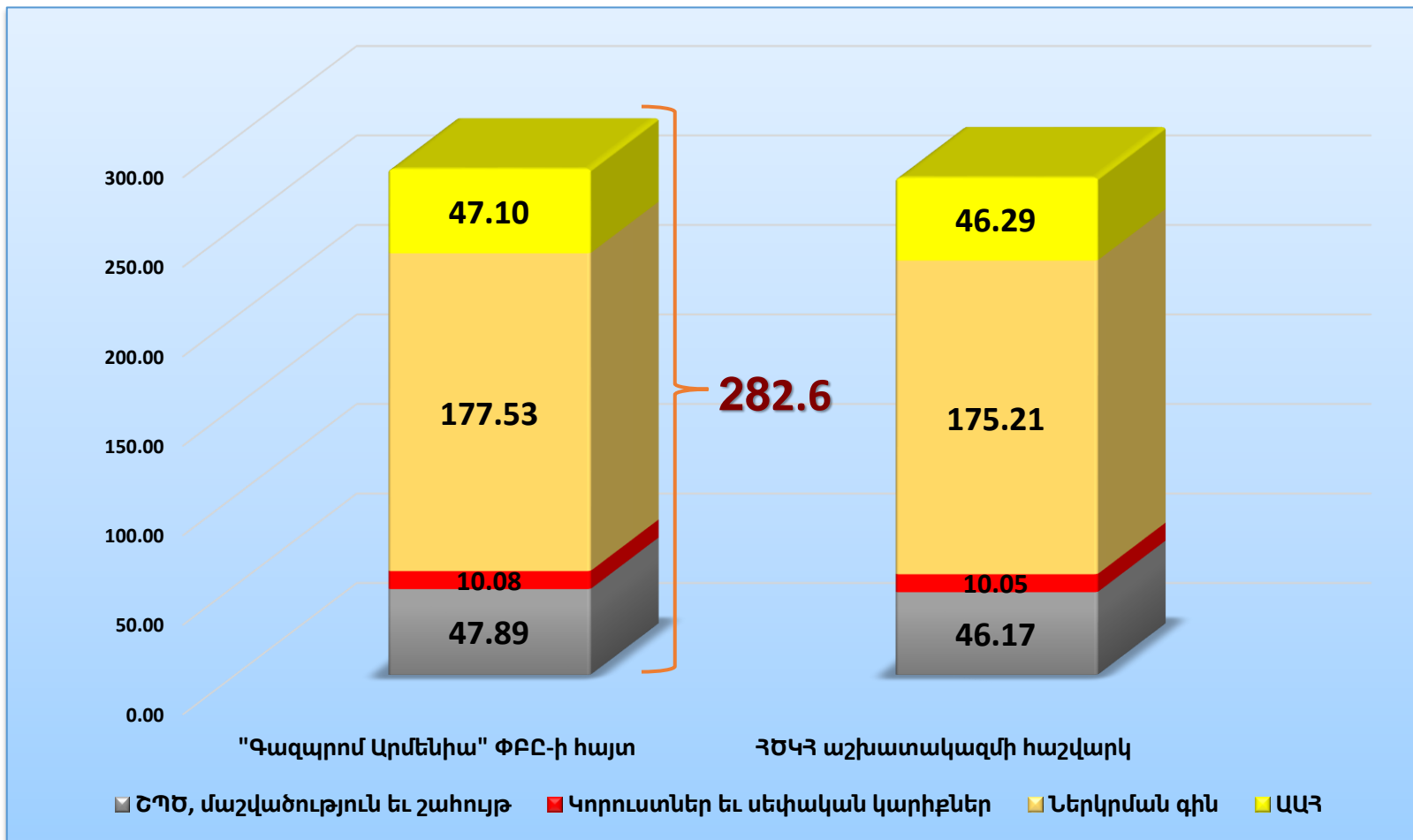
- For this purposes 10 years regulation period was divided into 2 5-years periods and targets for mentioned indicators for the end of each regulated periods were set.
- Regarding "Gazprom Armenia" CJSC, the implementation of the stimulating tariff policy continued, as a result of which, in 2030, system losses will amount to 3.4% (in 2023, in fact, they already amounted to about 5.1%), the number of employees will be optimized by 500 , operation and maintenance costs by about 20%.

# Targets for stimulating tariff policy

	Baseline indicator (accepted in 2020 tariff calculations)	At the end of the 1st five- year period (2020-2025)		At the end of the 2nd five-year period (2025-2030թթ.)	
		the target	reduction relative to the baseline	the target	reduction relative to the baseline of 2025
1 Investments carried out by "Gazprom Armenia" CJSC (except for investments of strategic scheme provided by the decision of the Government of the Republic of Armenia)		by 80 billion AMD (incremental)	-	by 195 billion AMD (incremental)	-
2 Optimization of the number of employees (person), including:	5383	5083	-300	4883	-200
2.1 Gazprom Armenia CJSC	4601	4308	-293	4113	-195
2.2 Transgaz LLC	782	775	-7	770	-5
3 Reduction of repair and material costs, million drams (without taking into account the inflation index)	7515.77	6764.19	-10%	6087.77	10%
4 Reduction of other costs, million drams (without taking into account the changes in the legislation)	2636.42	2372.78	-10%	2135.50	-10%
5 Bad debt reduction	0.23%	0.20%	-0.03	0.15%	-0.05
6 Losses in the gas supply system, %	5.07%	3.9%	-1.17	<3.4%	-0.5
6.1 In the transportation system	3.54%	2.40%	-1.14	a) for up to 3 billion cubic meters of gas: 2%, b) for the amount exceeding 3 billion	-0.4



### The structure of the weighted average tariff for natural gas sold to consumers



277.71



# Tariffs for end users



	Consumer groups	with VAT*	
		Tariffs till 01.04.2022 AMD/thousand cubm USD/thousand cubm	Tariffs from 01.04.2022 AMD/thousand cubm USD/thousand cubm
1	Population (excluding socially vulnerable consumers and vulnerable consumers with exceeding amount of consumption of 600 cubic meters of natural gas per year)	139,000.0	143,700.0
2	Tariff for natural gas by 10,000 cubic meters per month consumption	139,000.0	143,700.0
3	Socially vulnerable consumers with consumption up to 600 cubic meters of natural gas per year	100,000.0	100,000.0
4	Greenhouses (For period November 1 to March 31 inclusive) agriculcure	224.0	233.90
5	Processing companies in agriculcure	224.0	233.90
7	Tariff for natural gas exceeding 10,000 cubic meters per month consumption	255.91	265.81



**THANK YOU  
FOR YOUR ATTENTION!**

mmomjyan@psrc.am