



Georgian National Energy and Water Regulatory Commission

## Investment Barriers in New Infrastructure

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## State Energy Policy and Regulation

- Georgian energy system used to be vertically integrated system and it was the part of unified USSR energy system
- “Sakenergo” was implementing the centralised management of Georgian energy system
- About 2,800 megawatts of the installed generation capacity was falling on hydropower
- 85% of Georgian hydropower stations were concentrated in Western Georgia

# General Characteristics of Georgian Energy System

- Hydro generation accounted for 78% of country's energy balance.
- Heat generation was represented by 3 heat power stations, aggregate installed capacity of which made 700 MWt.
- High voltage transmission system consisted of 576 km of 500 KV, 1,690 km of 220 KV and 8,144 km of 110 KV transmission lines. besides this, there was 21 km 330 KV line, which was providing connection with Azerbaijan
- During the Soviet period, Regional Dispatch Centre Pontoeli was managing South Caucasus integrated system, consisting of 3 systems

## General Characteristics of Georgian Energy System

- In accordance with the Presidential Ordinance No 437 (May 4, 1996) On Restructuring Energy System, the vertical system was split into several parts
- After dismissal and reorganisation of “Sakenergo“, ”Sakgeneracia“, JSC “Sakelektrogadacema” and “Elektrodispecherizacia 2000” were established
- Distribution sector was split up into 66 municipal distribution companies

## Reforms in Power Sector Institutional Changes

- On July 27 1997, Parliament of Georgia passed the Law of Georgia on Electric Energy, based on which the Georgian National Electric Energy Regulatory Commission was established
- On April 30 1999, Parliament introduced amendments and addendums into the Law of Georgian on Electric Energy and, following such amendments and addendums, GNERC was also assigned the task of regulating natural gas sector

# Reforms in Power Sector Institutional Changes

- Basic functions of Georgian National Energy Regulatory Commission:
- Setting and regulating power (capacity) and natural gas tariffs;
- Issuing, modifying and abolishing licenses in power and natural gas sectors;
- Within its competences, considering and resolving disputes between licensees and/or customers;
- Supervising performance of electricity wholesale market;

## Reforms in Power Sector Institutional Changes

- Promoting competition in power and natural gas sectors; balancing energy producers', suppliers' and consumers' interests;
- Organising and coordinating certification works in in energy sector;
- Regulating energy imports and exports;
- Supervising compliance with license conditions in power and natural gas sectors and imposing legal sanctions in case of non-compliance.

# Reforms in Power Sector

## Institutional Changes

• Based on the Law of Georgia on Electric Energy and Natural Gas the Georgian Electricity Wholesale Market was established (GEWM)

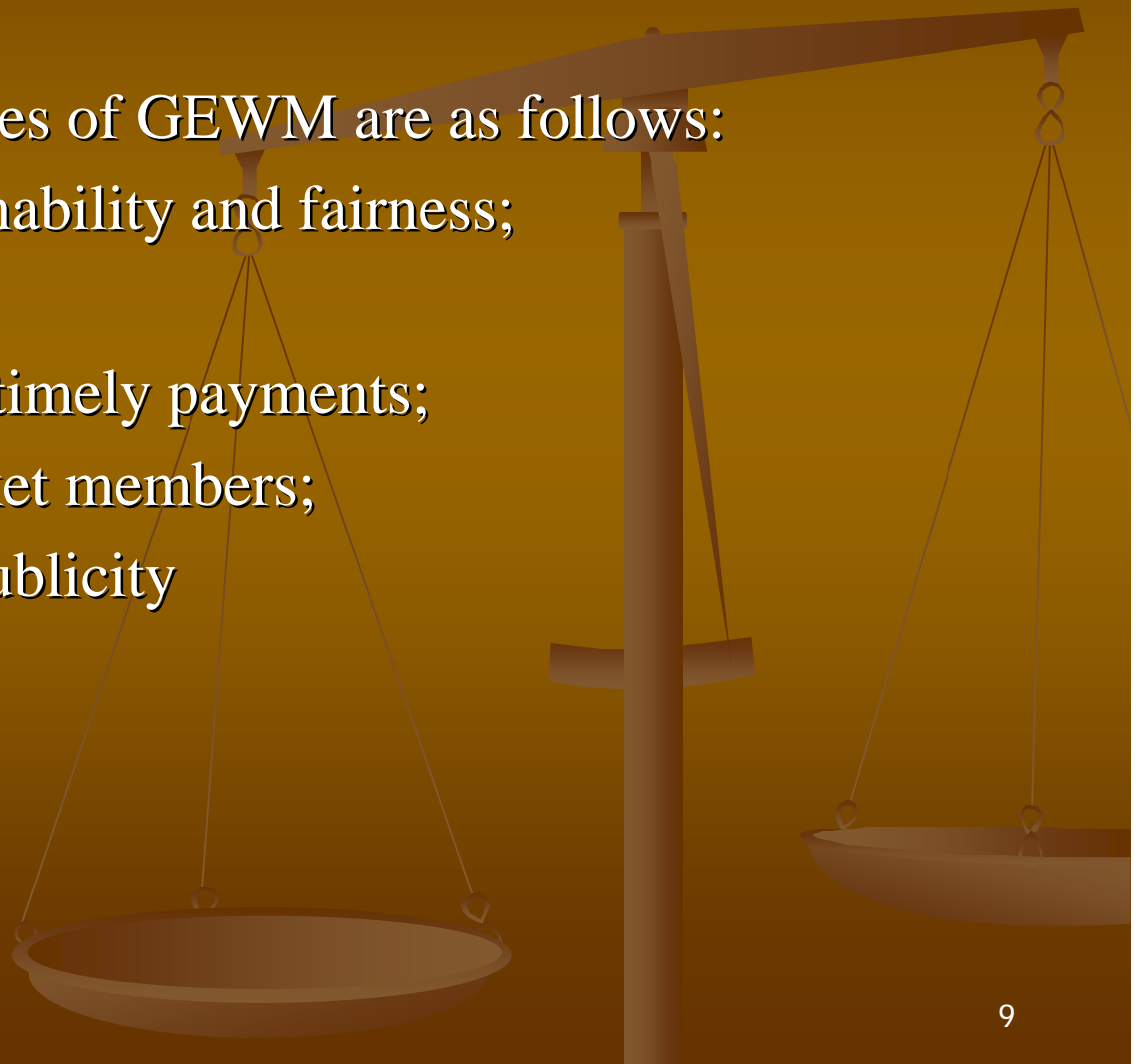
GEWM was established for the following purposes:

- developing competitive and economically efficient electricity wholesale market;
- strengthening unified structure in energy sector;
- attracting necessary investments;
- creating and promoting stable power system;

# Reforms in Power Sector Institutional Changes

The Basic Principles of GEWM are as follows:

- Economic reasonability and fairness;
- Independence;
- Guaranteed and timely payments;
- Equality of market members;
- Transparency, publicity



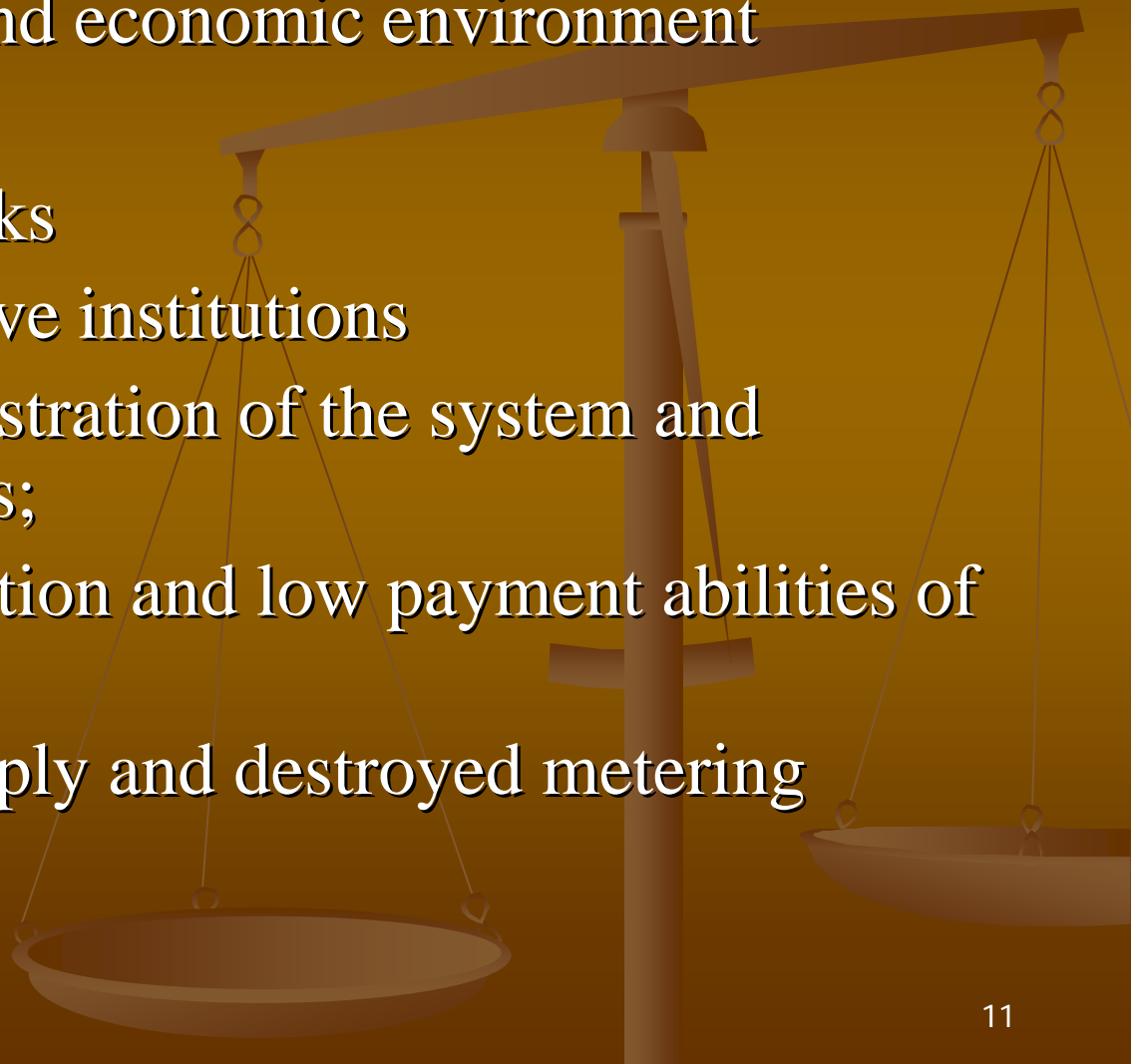
# Reforms in Power Sector Privatisation

The goals of large scale privatisation were as follows:

- Rehabilitation and farther improvement of energy system;
- Ensuring reliable and high quality power supply;
- Ensuring power supply by the least-cost principle;
- Separating restructuring regulation function and commercial activities;
- Step-by-step elimination of state monopoly (save the transmission system), introduction of ownership diversity principle, establishment of competitive environment and attraction of foreign investments

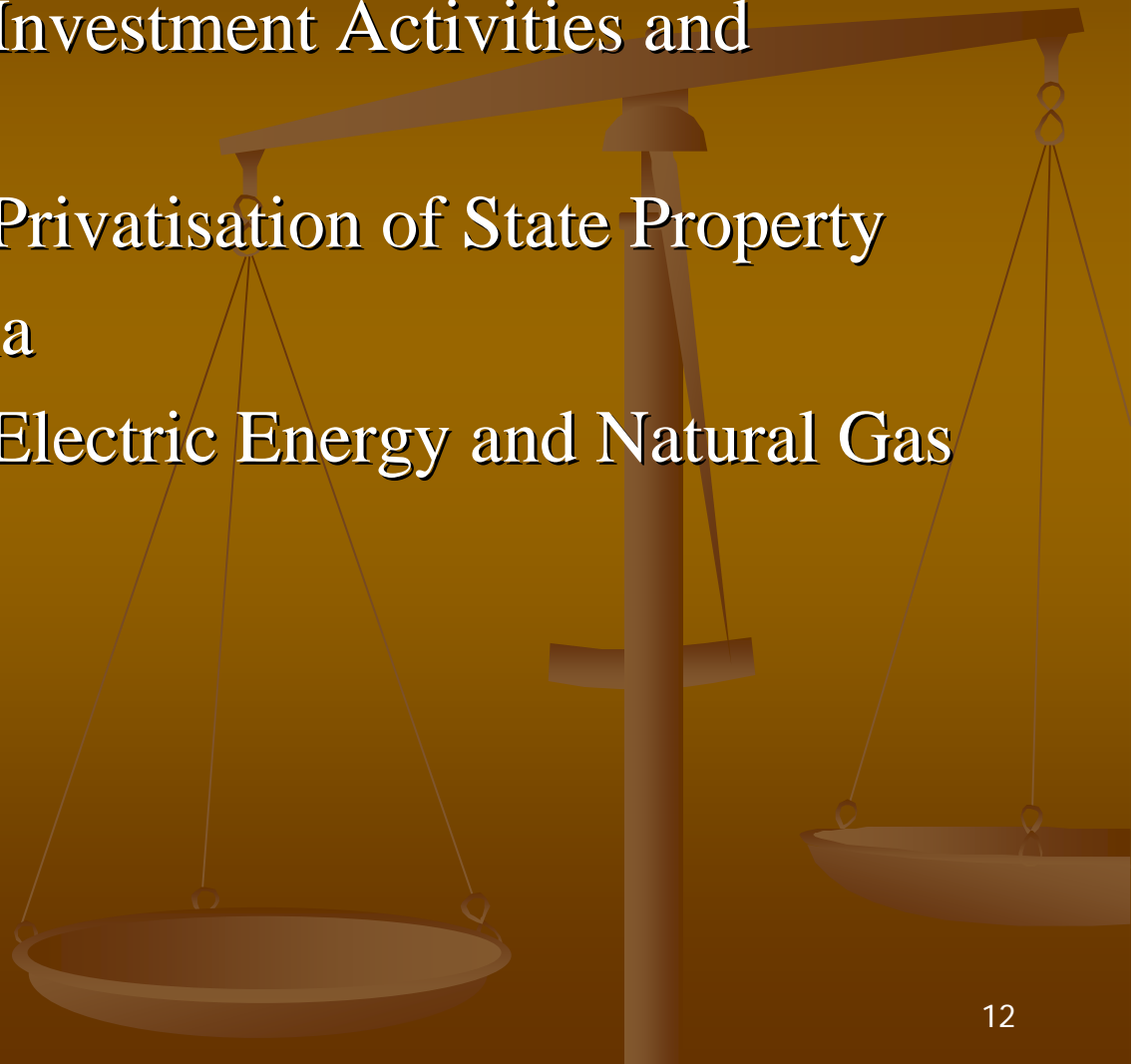
# Environment for Foreign Investments

- Unstable political and economic environment
- Fragile legal base
- High investment risks
- Absence of respective institutions
- Order-based administration of the system and bureaucratic barriers;
- Wide-spread corruption and low payment abilities of population
- Unstable power supply and destroyed metering system



# Environment for Foreign Investments

- Law of Georgia on Investment Activities and Guaranties
- Law of Georgia on Privatisation of State Property
- Tax Code of Georgia
- Law of Georgia on Electric Energy and Natural Gas



## Environment for Foreign Investments



- Law of Georgia on Independent National Regulatory Authorities
- Law of Georgia on Georgian National Investment Agency
- Law of Georgia on Licenses and Permits
- Law of Georgia on State Support to Investments

## Environment for Foreign Investments

- At the first stage, 21 small hydropower stations were privatised in Georgia
- Large scale privatisation process in energy sector of Georgia is underway since 1998;
- Ordinance of President of Georgia No 403 (July 5, 1998) approved strategy for privatisation of Georgian energy utilities.
- Privatisation process in Georgia was administered by the Ministry of Economy.

# Environment for Foreign Investments

- Private investor privatised power distribution company JSC Telasi
- Private investor privatised power distribution company JSC Energo-pro Georgia;
- Tbilisi natural gas distribution company JSC Kaztransgaz-Tbilisi was privatised
- All hydropower stations, except Enguri and Vardniliesi HPSs (these two are regulating utilities) were privatised.
- JSC Tbilisres thermal power station is under the bankruptcy regime

# Investment Attractiveness of Transmission and Distribution Systems

- Transmission grid – super high and high voltage electricity transmission systems
- JSC Sakrusenergo operating 500-330KV systems.
- JSC Georgian State Electricity System providing power supply through 220-110-35 KV inter-system network
- Other 110-35 KV grids are property of distribution company

# Investment Attractiveness of Transmission and Distribution Systems

- Distribution grid – high, medium and low voltage supply systems
- There are three distribution companies operating in Georgia, which provide power supply to the customers through the 110-35-10-6-0.4-0.2 KV networks
- Total number of distribution company customers reaches 1.1 mln

# Investment Attractiveness of Transmission and Distribution Systems

- Morally and physically worn transmission systems
- non-reliable and inadequate performance of transmission systems
- Obsolete SCADA systems and insufficient volumes of system reserves
- Non-existence of unified automatic management system in distribution sector

# Investment Attractiveness of Transmission and Distribution Systems

- Separation of network and commercial activities in distribution sector.
- Total metering of distribution network
- Reliable and high quality services of distribution network
- Introduction of service standards in distribution sector

## Incentive Structures

- Deregulation of low capacity HPSs (under 13 MWt);
- Deregulation of all new HPSs constructed after August 1, 2008.
- Eliminating import-export licenses and deregulation of export prices;
- Setting fixed electricity rates for long-term period
- Liberalisation of taxation system
- Introduction of new incentive-based rate methodologies

## Incentive Structures

- Executing long-term agreements for natural gas import
- Deregulation of supply activities in natural gas sector
- Deregulation of natural gas rates for industrial and commercial customers.
- Deregulation of natural gas rates for new customers of natural gas distribution companies.



Thanks for Attention!