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# **EXPLANATORY PAPER WHERE ARE THE MARKET RULES IN GEMM 2015?**

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USAID HYDROPOWER INVESTMENT PROMOTION PROJECT (HIPP)

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## List of Acronyms

<b>BSTP</b>	<b>Black Sea Transmission Project</b>
<b>DEC</b>	<b>Development Experience Clearinghouse</b>
<b>EBRD</b>	<b>European Bank for Rehabilitation and Development</b>
<b>EIB</b>	<b>European Investment Bank</b>
<b>E&amp;G</b>	<b>Electricity and Natural Gas</b>
<b>EPIAS</b>	<b>Turkish Energy Exchange (EnerjiPiyasalarİsletmeAnonimSirketi)</b>
<b>EU</b>	<b>European Union</b>
<b>GEMM 2015</b>	<b>Georgia Electricity Market Model for 2015</b>
<b>GSE</b>	<b>Georgia State Electrosystem</b>
<b>HIPP</b>	<b>Hydropower Investment Promotion Project</b>
<b>IFI</b>	<b>International Financial Institution</b>
<b>KfW</b>	<b>Kreditanstalt für Wiederaufbau</b>
<b>OTC</b>	<b>Over the Counter</b>
<b>PX</b>	<b>Power Exchange</b>
<b>USAID</b>	<b>United States Agency for International Development</b>

# EXPLANATORY PAPER

## WHERE ARE THE MARKET RULES IN GEMM 2015?

Market Rules, in general, are the commercial rules for operating competitive markets in a power sector. In the case of Georgia, there is something called “Electricity Market Rules,” but they, for the most part, do not concern competition in the Georgia power sector. The existing Electricity Market Rules are various rules and procedures for power sales, but these rules and procedures are not followed (please see the text below concerning HIPP’s evaluation of these rules.) At present, there is not a competitive electricity markets operating in Georgia, such as physical bi-lateral contracts or day-ahead bidding. There is however a process of modifying contracts between generators and electricity distribution companies in a pseudo-power pool allocation process, which is a violation of the Market Rules.

The Law on Electricity and Natural Gas, as amended to date, does not envision a competitive electricity market in Georgia. The only market regulation that is allowed by Law is the Electricity Market Rules, which is approved by the Ministry of Energy. As the Ministry develops new regulations for the electricity sector, it simply adds those to the Electricity Market Rules. As a result, the Electricity Market Rules are a compilation of various unrelated topics within the same document.

USAID HIPP’s legal advisors completed an extensive review of the Market Rules in 2011. That report is available to the public on DEC and was provided to the Ministry of Energy. It identified gaps, large inconsistencies, and a huge difference between what was written in the rules and what was the actual operation of the power sector.

The Black Sea Transmission Project was initially conceived in the 1980’s, even before the independence of Georgia from the Soviet Union (see Pre-Feasibility Review of 500 KV Transmission Line – South Georgia, Advisory Assistance to the Ministry of Energy of Georgia, July 15, 2006.) Over time, the project has changed in its design and characteristics. In the mid-2000s, the project came alive with the financial support of the EU, EIB, KfW and EBRD. As part of the loan agreement, the KfW and EBRD specified some pre-conditions for the Government of Georgia to fulfill before the loan tranches would be provided. At the time of the signing of the loan agreements, the only documents concerning the loan covenants, unfortunately were the Law of Electricity and Natural Gas and the Georgian Electricity Market Rules. There was no other document for the IFIs to specify the reforms they desired in the electricity market. As we now know, these covenants were not fulfilled, as required by the loan covenants and nothing even to this day.

There are certain operating markets within competitive power market. These markets, which involve competitive normally price bids and offers from generators, electricity traders and electricity off-takers, include:

- Physical and financial bi-lateral agreements (over the counter trades or “OTCs”)

- Hourly Balancing for the next day
- Day ahead market
- Intra-day market
- Ancillary services
- Transmission auctions
- Secondary trading on OTCs contracts and transmission rights
- Forwards, futures, and options (financial contracts)

There are no existing rules in Georgia about any of the above listed markets. But within GEMM 2015, all these markets are anticipated in the future development of the Georgian electricity sector. The regulations in GEMM 2015 overseeing the competitive markets include:

- Balancing and settlement rules,
- Clearing rules,
- PX (day ahead and intra-day trading) rules,
- Template cross border electricity trading contract, public service obligations relating to purchase of renewable energy, switching rules and the supplier of last resort rules (for physical and financial bi-lateral contracts),
- Market monitoring procedures,
- Metering Data Procedures,
- Electricity Grid Codes,
- Interconnection Auction Rules
- Node on the Georgian-Turkish border (rules to be developed with EPIAS, for day ahead and intra-day trading).

All issues covered in the BSTP donor loan covenants are wholly required as part of GEMM 2015. These include:

- Separation of the dispatch from GSE
- Postage stamp transmission tariffs
- Renewable Energy Law
- Transit allowed as part of transmission services in the E&G Law
- Priority given to renewable projects for access to the transmission interconnection

In summary, the existing Georgian Electricity Market Rules do not support GEMM 2015. The Georgian Electricity Market Rules, as they exist today, would simply disappear under GEMM 2015. All market regulations that are required for competitive markets are 100% included in GEMM 2015. And all loan covenants for the BSTP are 100% covered in GEMM 2015.

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