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**STATUS ASSESSMENT OF THE LEGAL  
AND REGULATORY FRAMEWORK  
OF THE GEORGIA POWER SECTOR**

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## STATUS ASSESSMENT OF THE LEGAL AND REGULATORY FRAMEWORK OF THE GEORGIA POWER SECTOR

### Background

The Georgian electric power sector has made great strides since the mid-1990s. The former state-owned vertically integrated monopoly has been unbundled, commercialized and corporatized. Privatization is under way. But the biggest changes in the sector relate to the legal and regulatory framework that guide the operation of the electric sector.

This is a brief assessment of the status of legal and regulatory reform in Georgia.

### 1. The Electricity Law of 1997

By far the most important development in the electric sector in the post-Soviet period was enactment of the Electricity Law, which President Shevardnadze signed into law in late June, 1997. The Law's major features include:

- ▶ Removal of the Ministry of Fuel and Energy from regulatory, ownership, and operational responsibilities in the electric sector
- ▶ Creation of the three-member Georgian National Electric Regulatory Commission (GNERC or Commission), an independent regulatory agency with comprehensive jurisdiction over the rates, terms and conditions of service of electric sector enterprises
- ▶ Establishment of a system of licenses and tariffs to regulate the operations of electric sector enterprises, with different requirements for generation, transmission, dispatch, and distribution licensees
- ▶ Statement of competition and development of a market economy as fundamental Government of Georgia policies for the electric sector, along with regulation of those parts of the sector that are non-competitive

The Law defines the composition and operations of the Commission in some detail. At the same time, it leaves considerable leeway to the Commission to fill in the regulatory blanks in ratemaking and licensing.<sup>1</sup>

## 2. Presidential Decree # 421 The Market Rules

In July, 1998 the President approved Decree # 421 "On Main Principles of the Georgian Wholesale Electricity Market." The decree approved a statement of principles attached to the decree, that will govern a restructured wholesale electric market beginning in 1999.<sup>2</sup> The principles, which were prepared over a period of months by representatives of the Commission, the Ministry of Fuel and Energy, and Sakenergo, provide

- ▶ For a new wholesale market into which generators will sell power and from which distributors and direct customers will buy power
- ▶ For the elimination of Sakenergo as the middleman purchaser and reseller of electricity; the new market will not have a centralized buyer/reseller
- ▶ For the separation of dispatch, settlements, and billing and collection functions; each function to be undertaken by a contractor or service provider selected by the market members
- ▶ For a governance structure in which the market members appoint their representatives to an Executive Board, which will also include government representatives
- ▶ For a pricing scheme in which rates for generation will initially be set by the Commission, but over time will be set by the open market

The new wholesale market represents significant changes for the sector, the two biggest of which are the elimination of the middleman in transactions between buyers and sellers, and the separation of functions so that buy/sell transactions will be recorded with far more accountability and transparency than at present.

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<sup>1</sup> Two other statutes that currently relate to but do not directly control the operations of the electric sector are the Law About Privatization of State Property, pursuant to the terms of which electric sector assets are being offered for sale, beginning with Telasi, the distribution company for Tbilisi, and the Law On Entrepreneurs, under the terms of which newly-privatized enterprises will operate.

<sup>2</sup> The decree also approved an ambitious schedule for implementing the market rules, setting various documentary and organizational deadlines for the balance of calendar 1998, and on into 1999.

### 3 GNERC Regulatory Initiatives

The Commission which has just completed its first full year of operation under the Electricity Law, has begun to set in place the framework for regulation of the sector. The Commission has

- ▶ Issued interim licenses for electric sector enterprises
- ▶ Issued interim rates for certain generation facilities
- ▶ Adopted a tariff methodology for cost-based rates
- ▶ Developed model permanent licenses for generation, transmission, and distribution licensees
- ▶ Commenced long-term, cost-based rate proceedings for generation, transmission, dispatch, and distribution licensees
- ▶ Adopted an interim rate increase to 6 tetri/kWh (from 4.5 tetri) pending completion of the longer-term rate proceedings

The Commission will continue with its regulatory program over the next year, particularly in the areas of permanent licensing and long-term cost-based rates. The Commission will undoubtedly be called upon to review and approve certain aspects of the Telasi privatization, such as transfer of the distribution license and, depending on how the purchase of Telasi is structured, power purchase agreements and/or tariff adjustments.

### 4 Tasks under the Market Rules Principles

Certain of the milestones specified in the market rules principles have already been reached:

- ▶ The Interim Executive Board has been nominated and approved
- ▶ The Board has appointed the Market Rules Committee, to work on the detailed language of the market rules
- ▶ The Board has appointed, and GNERC has approved, the Wholesale Market Manager, the Settlements Manager, and the Market Funds Manager

Much remains to be done:

- ▶ Amendments to the Electricity Law must be prepared and agreed to by all parties, and submitted to Parliament

- ▶ Detailed market rules must be drafted to govern how the market will do business in that connection the market members must address many difficult issues such as what to do about distribution and other customers who do not pay their bills
- ▶ A grid code must be prepared setting out the minimum standards for connection to the system and operation in parallel with it

These activities are expected to consume the balance of 1998

### **Conclusion**

The Electricity Law and the Market Rules principles and the regulatory and other initiatives being undertaken under each of them, provide a solid legal basis on which the electric sector may proceed with the important work of reform. Much remains to be done but the tasks are well-defined.