



USAID
FROM THE AMERICAN PEOPLE

GEORGIA

USAID ENERGY PROGRAM

SUPPLIER OF LAST RESORT TARIFF METHODOLOGY

DRAFT

VERSION-001

USAID ENERGY PROGRAM

20 September 2018

This publication was produced for review by the United States Agency for International Development. It was prepared by Deloitte Consulting LLP. The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

SUPPLIER OF LAST RESORT TARIFF METHODOLOGY

DRAFT
VERSION - 001

USAID ENERGY PROGRAM

CONTRACT NUMBER: AID-OAA-I-13-00018

DELOITTE CONSULTING LLP

USAID | GEORGIA

USAID CONTRACTING OFFICER'S

REPRESENTATIVE: NICHOLAS OKRESHIDZE

AUTHOR(S): VALERIY VLATCHKOV DAVIT MUJIRISHVILI

LANGUAGE: ENGLISH

27 FEBRUARY 2018

DISCLAIMER:

This publication was produced for review by the United States Agency for International Development. It was prepared by Deloitte Consulting LLP. The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

DATA

Reviewed by: Daniel Potash, Ivane Pirveli

Practice Area: Electricity Market Development

Key Words: Supplier of Last Resort, Tariff Methodology

ACRONYMS

GEL	Georgian Lari
GNERC	Georgian National Energy and Water Supply Regulatory Commission
GoG	Government of Georgia
MWh	Megawatt-Hour
SoLR	Supplier of Last Resort
USAID	United States Agency for International Development

CONTENTS

INTRODUCTION.....	5
EXECUTIVE SUMMARY	6
LEGAL REQUIREMENTS	7
METHODOLOGY ON SETTING THE TARIFFS FOR THE SUPPLIER OF LAST RESORT	8

INTRODUCTION

The purpose of developing this document is creation of Methodology for calculation of electricity selling tariffs from the Supplier of Last Resort (SoLR). The Law for Georgia provides the legal basis upon which the Government of Georgia (GoG) may appoint a SoLR for electricity, based on an open tendering procedure and for a defined period of time. Under the Operational Rules for Electricity Supply by SoLR adopted by the Georgian National Energy and Water Supply Regulatory Commission (GNERC) the Commission may specify the terms and conditions, including the tariff regime, under which SoLR may supply final customers. Accordingly, the SoLR must supply Customers who have been subjected to a SoLR event, defined as:

- a. Market exit or in any way termination of the supply business of the competitive Supplier, so that its Customers cease to be supplied with electricity, pursuant to the provisions of article 113 [Notification of supply activities] of the Energy Law;
- b. Initiation of bankruptcy or insolvency procedures by the competitive Supplier.

In order to be supplied with electricity, general rules for a valid Connection Agreement between the Customer and the competent Transmission or Distribution System Operator, as provided by the respective Electricity Transmission Network Code and Distribution Network Code, apply. The supply tariff for electricity supplied by SoLR shall be determined by GNERC, pursuant to the principles of this Methodology.

EXECUTIVE SUMMARY

The purpose of this document is to set out a methodology for setting tariffs for SoLR for the electricity market in Georgia.

The SoLR tariff methodology covers:

1. Setting electricity tariff from the SoLR;
2. Application for setting the electricity tariff for supply by the SoLR;
3. Calculation of the tariffs of the SoLR;
4. Monitoring the tariffs for the SoLR;
5. Publication of the tariffs for SoLR.

This document does not cover detailed conditions of supply by SoLR, status and tasks of SoLR, and provisions for vulnerable customers – these are covered in the Operational Rules for Electricity Supply by SoLR, Electricity Market Rules and the requirements of the other rules and regulations in force.

LEGAL REQUIREMENTS

This methodology is drafted pursuant to draft Law of Georgia on Energy, Article 121 – Supply of Last resort and in conformity with GNERC Organization, Operation and Procedures Rules. This Methodology takes into consideration and obeys where necessary the requirements under the draft Law of Georgia on Energy, Operational Rules for Electricity Supply by SoLR, Electricity Market Rules, Network Rules, Rules on Commercial Service Quality, and Electricity / Capacity Supply and Consumption Rules. The SoLR Tariff Methodology and associated procedures should be consistent with the adopted regulation by GNERC “Tariff Methodology for the Electricity Sector”. Hence this document must be revised whenever the New Law for Energy have been adopted by the Parliament of Georgia and the Electricity Market Rules are changed.

METHODOLOGY ON SETTING THE TARIFFS FOR THE SUPPLIER OF LAST RESORT

CHAPTER I. GENERAL PROVISIONS

Article 1

Purpose

1. The purpose of this methodology, is to set electricity tariff supplied by the SoLR based on clear principles of cost calculation related to this service and detail of the necessary data to set fair and transparent tariffs.

Article 2

Acronyms

Acronym	Description
GEL	Georgian Lari
GNERC	Georgian National Energy and Water Supply Regulatory Commission
MWh	Megawatt Hour
SoLR	Supplier of Last Resort

Article 3

Definitions

1. The terms used in this Methodology have the same meaning as in the Law of Georgia on Energy.
2. Other terms used in methodology for the tariff regulation purposes have the following meaning:
 - a. **Direct cost for retail supply** – shall mean administrative costs (not related to electricity) connected with the function of the SoLR, approved by GNERC;
 - b. **GNERC** – shall mean the Regulator authority for Electricity and Natural Gas Sectors, which operates in conformity with the Law of Georgia on Energy and Law of Georgia on Licenses and Permits;
 - c. **License** – shall mean a right issued to a person for performing an activity on power and natural gas sector in conformity with the provisions of the Law of Georgia on Energy and Law of Georgia on Licenses and Permits;
 - d. **Procedure** – shall mean a set of actions, performed to implement the legislation in force;
 - e. **Supplier of Last Resort (SoLR)**- shall mean an electricity or natural gas supplier performing the supply of last resort;
 - f. **Supply of Last resort** – shall mean the supply of electricity or natural gas as a public service for a limited period of time according to regulated conditions to those final customers which have failed to choose or lost their supplier of electricity or natural gas respectively under specified circumstances;
 - g. **Supply Tariffs** – regulated charges by the SoLR to the Customer strictly related to the supply of electricity by the SoLR to the said Customer;
 - h. **Tariff** – shall mean a regulated charge for the use of the electricity or natural gas systems, or for other electricity or natural gas related services;
 - i. **Tariff for the supply of last resort** – shall mean the tariff provided by a supplier to cover his reasonable costs to ensure the electricity supply for the period for which it is designated as SoLR;
 - j. **Tariff methodology** – shall mean the entirety of rules, methods and principles that are prescribed and enacted by the GNERC and are applied for setting the tariffs.

Article 4

Objectives of the Supplier of Last Resort Methodology

1. The objective of this methodology is the calculation of the electricity tariffs supplied by SoLR for end-use customers in conformity with the criteria defined on Law of Georgia on Energy, Article 121;
2. This methodology shall be implemented for the energy enterprise designated as a SoLR on electricity sector, defined in conformity with the definitions of Article 3 of Law of Georgia on Energy.

CHAPTER II. SETTING ELECTRICITY TARIFF FOR THE SUPPLIER OF LAST RESORT

Article 5

Methodology on setting the tariffs for the Supplier of Last Resort

1. The tariff for various customer groups may change to the extent that the customer group load profile changes;
2. Adjustment /correction of the direct cost shall be according to the ex-post principle;
3. The tariff that the SoLR shall apply / charge to the customers, shall include the cost for the electricity purchase for the delivery period, above which it is applied even a supply margin approved by the Commission;
4. SoLR shall ensure the energy for the supply of the customers, by purchasing it in the unregulated market in conformity with the methodology adopted by the Commission;
5. The imbalance costs shall be permitted to be included in the supply cost and their calculation shall be in conformity with the definitions of the Market Rules and other secondary legislation in force;
6. The Supply Margin shall be a fix percentage applied over the electricity purchase cost by the SoLR according to the definitions on Paragraph 4 of Article 6, which shall return to the supplier a reasonable return to compensate its supply risk;
7. SoLR Customers shall pay the respective supply tariffs and the respective transmission and distribution network tariffs, in conformity with the voltage level where the customer is supplied;
8. Costs, which depend from the supplied electricity volume, shall be reflected in a transparent and non-discriminatory way and shall reflect the real supply cost, which shall be monitored periodically by the Regulator;
9. SoLR shall require from its customers to deposit a bank guarantee equal with the expected financial value of supply, a value agreed on the agreement between the parties, which shall be released immediately with the liquidation of financial obligations between the parties.

Article 6

Application for setting the electricity tariff for supply by the Supplier of Last Resort

1. SoLR not later than 5th date of the following month shall submit at GNERC the application for setting the electricity tariff for the SoLR for the current month. This application shall include all the costs identified from the Supplier, according to article 6 of this methodology;
2. Until setting the tariff by GNERC, the Supplier shall invoice the customer supplied in the conditions of the SoLR, with the higher tariff of electricity purchase for the period to which he shall be supplied, published from the SoLR, reflecting the transmission/distribution costs, according to the voltage level where the customer is connected and the costs defined on Paragraph 6 of Article 5;
3. In each case GNERC, shall set the electricity tariff for the SoLR not later than 15 days from the submission of the application. Within this period, GNERC may decide to hold public hearing sessions;
4. Not later than 5 days from GNERC decision to correct the electricity tariff according to Paragraph 2, of this Article, between the parties shall be issued an invoice with all the compensations for the differences between the tariff invoiced according to Paragraph 3 of this article and the tariff defined by GNERC.

Article 7

Calculation of the Supplier of Last Resort Tariff

1. The calculation of the SoLR Tariff shall be according to the following formula:

$$SP\ t = DCRS\ t + EP\ t + TTDN\ t$$

Where:

SP t = supply tariff for the relevant period t, GEL/MWh;
DCRS t = direct cost for retail supply according to Paragraph 6 of Article 5, GEL/MWh;
EP t = price for electricity purchase for the supply period t, GEL/MWh;
TTDN = tariff for using the transmission and distribution network for the relevant period t, GEL/MWh.

2. The price for electricity for SoLR is calculated by following formula:

$$EP\ t = \frac{CE\ t}{E\ t}$$

Where:

EP t = price for electricity purchased for the supply period t, GEL/MWh;
CE t = costs for purchasing electricity by SoLR, GEL/MWh;
E t = total electricity purchased by the SoLR, MWh;

Article 8

Other obligations

1. The tariff calculated according to the definitions of article 6 of this Methodology does not include the obligations regarding the incentive of electricity production generation from renewable resources and other tax obligations which the SoLR is obliged to identify them in a special item on the electricity sale invoice for the end-use customer supplied from him;
2. The tariff calculated according to the definitions of Article 5 of this Methodology does not include the obligations regarding the incentive of electricity production generation from renewable resources and other tax obligations which the SoLR is obliged to identify them in a special item on the electricity sale invoice for the end-use customer supplied from him;
3. SoLR has the obligation to purchase electricity on the name of the customers supplied from him and shall be responsible to purchase wholesale electricity on behalf of the customers supplied from him and shall be responsible for waste balancing for such a wholesale supply;
4. SoLR has the obligation to inform the customers for the conditions of the services provided from him;
5. SoLR has the obligation to deliver the supply contracts to the customers that shall be supplied from him within 8 days from the beginning of the supply;
6. SoLR shall supply the customers supplied from him, for a period not more than 60 days and assist them in finding an alternative supplier within the deadline.

Article 9

Monitoring the Tariff for the Supplier of Last Resort

1. The SoLR shall submit and justify at GNERC for every month all the costs based on the elements of this tariff as defined in Article 6 of this methodology;
2. SoLR shall keep separate accounts for the customers supply according to the SoLR service, from the customers supply from the Universal Service Supplier and any other commercial supply. These data shall be at available to GNERC when required;
3. GNERC shall monitor and control the set of the supply tariff from the SoLR.

Article 10

Publication

The SoLR is obliged to maintain and publish on its website, information regarding the SoLR service, supply tariffs for the previous months for different customer categories and approximate estimations for the tariffs which may be applied on the next month for the customers supplied from this supplier.

CHAPTER III. FINAL PROVISIONS

Article 11

Interpretation

In case a subject is not handled on this Methodology, GNERC shall decide case by case and shall issue the guidelines according to respective requirements.

Article 12

Transitory provisions

Calculating the electricity tariff supplied in the conditions of SoLR before this methodology becomes effective, shall be corrected in conformity with the criteria for setting the SoLR tariff defined with this methodology.

Article 13

Amendments of the regulation

This methodology is object of review and amendment with GNERC decision, and in conformity with the Regulation on GNERC Organization, Operation and Procedures.

Article 14

Entry into force

This Methodology shall come into effect from .../... (or on the day of its publishing in the Legislative Herald of Georgia).

USAID Energy Program

Deloitte Consulting Overseas Projects LLP

Address: 29 I. Chavchavadze Ave., 0179, Tbilisi, Georgia

Phone: +(995) 595 062505

E-mail: info@uep.ge