Restructuring Implementation Plan for
The Georgia Power Sector

Georgia Power Sector Reform
Contract No. LAG-I-00-98-00005-00
Task Order No. 4

Final Report

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CONTENTS

Introduction

1. Preparation of detailed market rules ........................................... 2
2. Setting up wholesale market personnel........................................... 3
3. Preparation of procedures, business training, and dry runs.............. 4
4. Identification and allocation of sector debt .................................... 5
5. Wholesale and retail pricing strategies........................................... 5
6. Grouping of assets..................................................................... 6
7. Study tour.................................................................................. 6

Conclusion

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RESTRUCTURING IMPLEMENTATION PLAN
FOR THE GEORGIA POWER SECTOR

This is the Restructuring Implementation Plan called for by Subtask A of Contract No. LAG-I-
00-98-00005-00, Task Order No. 4, that Hagler Bailly develop a plan “for completing the
restructuring of the sector into separate generation, transmission, dispatch, and distribution
enterprises in a manner that will improve the commercial provision of electricity services and
prepare them for private sector participation.” The plan draws upon the following:

- The work plan for Subtask A of Task Order 4, submitted to USAID for review and
  comment in draft form in November, 1998;

- The Assessment of the Status of Restructuring of the Georgia Power Sector, submitted to
  USAID for review and comment in draft form in January, 1999 and in final form in
  February, 1999; and

- Hagler Bailly’s work and experience under Task Order 4, which began in September
  1998 and has continued to date.

Of necessity, Hagler Bailly’s work under this Subtask relates to and must be integrated with our
work under each of the other Task Order 4 Subtasks, particularly Subtasks B (Legal/Regulatory
Reform), C (Commercialization) and D (Privatization). This Restructuring Implementation Plan
therefore refers to activities under the other Subtasks, as appropriate.

As noted in the Assessment of the Status of Restructuring, the Government of Georgia (GoG)
has already accomplished much of the important work of restructuring the power sector. GoG
has, for example, disaggregated the former State-owned, vertically integrated electric monopoly
by separating the generation, transmission and distribution components of the sector. GoG has
further restructured within these subsectors by creating separate Joint Stock Companies for most
generating plants and for each of Georgia’s approximately 65 distribution enterprises. GoG
completed the physical restructuring of the sector with the Ministry of Fuel and Energy’s 1998
functional separation of Sakenergo into transmission and dispatch/sales.

With the foregoing restructuring complete, Hagler Bailly, at USAID’s direction, has turned its
attention to restructuring the relationships (commercial, contractual, and otherwise) between and
among the enterprises in the electric sector. This Plan identifies and discusses each of the major
items of work that Hagler Bailly has been implementing and/or will implement under the
Restructuring Subtask during the duration of Task Order 4. In general, this plan lists the items of work in order of importance to the restructuring effort.\(^1\)

1. **Preparation of detailed market rules.**

President Shevardnadze’s Decree No. 421 approved the market rules principles that had been prepared over a period of months by a working group consisting of representatives of the Ministry of Fuel and Energy, the Georgia National Electricity Regulatory Commission (GNERC), and Sakenergo, with technical assistance from Hagler Bailly. The market rules principles described, in broad outline, a new wholesale electricity market the principal feature of which would be, initially, a restructured model for power sales, billing, collections, and payments in the sector. An important element of the new market would be the elimination of Sakenergo as the central buyer/reseller of power, and the creation of a new market in which generators would simply sell into, and distributors buy from, the wholesale market, which would consist of those same buyers and sellers and be represented by a contract among them.

The market rules principles described the market, its participants, and its administration in broad outline. What remained, and one of the items ordered completed by Decree No. 421, was to flesh out the principles with market rules that would address, in appropriate detail, the structure, functions, and activities of each of the participants in the new market. Hagler Bailly will offer technical assistance to relevant market participants in developing the detailed market rules. In fact, this represents Hagler Bailly’s first and to large extent most important work under Subtask A of Task Order 4.

The detailed market rules address, in some detail, the following features of the wholesale market:

- Legal status of the market
- Membership
- Market management
- Power dispatch and scheduling
- Direct contracts

\(^1\) A good deal of the work undertaken under Subtask A has depended on adoption by Parliament of amendments to the Electricity Law of 1997 to accommodate the new wholesale market structure reflected in the market rules principles approved by President Shevardnadze in Decree No. 421, “On Main Principles for the Georgian Wholesale Electricity Market” (adopted July 1998). Parliament adopted the amendments on 30 April 1999. Hagler Bailly’s work in connection with the amendments is described in the work plan and Implementation Plan for Subtask B of Task Order 4.
Timing: Georgia’s power sector licensees selected Interim Executive Board members for the wholesale market in September, 1998. The Interim Board, in turn, named the members of the Market Rules Committee, consisting of technical representatives to work on the detailed market rules. Hagler Bailly commenced working with the Market Rules Committee on a first draft of the detailed market rules in November, 1998. The first draft was completed in early December. Following review by counterparts and donor agencies, the Market Rules Committee, assisted by Hagler Bailly, prepared a second draft during December. The Committee completed the second draft and circulated it for further comment in January, 1999. The Committee made additional changes in the second draft based on comments.

Hagler Bailly commenced a final review of the detailed market rules in late April, 1999, and expects to complete its review with counterparts by the end of May. When the Executive Board of the wholesale market has reviewed and approved the revised rules, they will be presented to GNERC for formal approval.

2. Setting up wholesale market personnel.

Decree No. 421 provided for the selection and confirmation of wholesale market management and administration. The positions specified in the decree, with the individuals selected and confirmed by relevant authorities, are as follows:

- Interim Executive Board
- Market Rules Committee
- Wholesale Market Manager
- Settlements Manager
The wholesale market's management has selected or appointed, and will continue to select and appoint, other committees or individuals as needed. For example, in October 1998 the Market Manager appointed a working group to prepare a grid code for the wholesale market's members.

**Timing:** This work has been completed. The market members selected the Interim Executive Board in August, 1998. The Interim Board, in turn, selected the Market, the Settlements, and the Market Funds Managers, and appointed the Market Rules Committee, in late August or early September, 1998. GNERC confirmed the interim appointments in a resolution adopted on 7 September, 1998. In December, all of these positions were confirmed on a permanent basis.

### 3. Preparation of procedures, business training, and dry runs.

Although the detailed market rules provide a sound basis for the structure and overall operations of the wholesale market, more specific procedures are necessary to govern day-to-day operations of each of the principal market entities. In addition, three of the market functions—dispatch, settlements, and market funds—require business planning and training. Finally, the market should rehearse its daily operations, as a training exercise, prior to formal opening of the wholesale market. Hagler Bailly will offer technical assistance to the market participants, as follows.

**Dispatch**

The detailed market rules define the dispatcher's day-to-day scheduling responsibility in some detail. Nonetheless, procedures must be prepared to govern the dispatcher's preparation of day-ahead schedules. Moreover, rules must be prepared to address the dispatcher's responsibilities under two important variables: curtailment caused by capacity shortages; and curtailment to customers who have not paid all or part of their bills for wholesale supply. Dispatch personnel should also be put through rehearsals of their functions and duties prior to opening day of the market.

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2 In practice, the Interim Executive Board selected the Market, Settlements, and Market Funds Managers on an interim basis, because the Board itself was only an interim entity. The nominees were confirmed in their posts in December, when the Permanent Executive Board was appointed and confirmed by GNERC.

3 The preparation of such procedures is anticipated in the draft Detailed Market Rules themselves, e.g., Clause 11.2 ("Dispatch Licensee, according to set rules and procedures, shall prepare a forecast for the next day's consumption").
Settlements and Market Funds

The managers for these two functions (and staff, to the extent that they have hired staff) currently do not know precisely how they will do their jobs, far less have a plan for doing so. Business plans and/or procedures should be prepared to identify the responsibilities these entities will have, and how, on a day-to-day basis, they will meet those responsibilities. Personnel should then be trained in day-to-day operations under the procedures. For the settlements function, training must include training in data processing. For the market funds function, training must include a system of accounts. For both functions, dry runs should be scheduled for the month in advance of the opening of the wholesale market.

Timing: The wholesale market is now scheduled to open on 1 July 1999. Hagler Bailly began providing technical assistance in drafting business plans and procedures (including detailed dispatch procedures) in April; that work will continue in May and June. We will schedule rehearsals as training exercises for the market service entities in June.

4. Identification and allocation of sector debt.

Beginning shortly after the collapse of the Soviet system, debt began accumulating in the Georgian power sector, much of it arbitrarily assigned to individual enterprises. Over a period of years, this debt continued to increase at all levels, as industrial, commercial, and residential customers failed to pay distributors, as distributors failed to pay wholesale suppliers, as wholesale suppliers failed to pay generators, and as generators failed to pay fuel suppliers. Calculation of the levels of debt for each enterprise, and identification of options for handling the debt, are important both to the launch of the wholesale electric market and the continued privatization of electric sector enterprises.

Timing: Hagler Bailly commenced this work with a review of existing reports and studies, interviews with selected electric sector representatives, and design of a program for gathering data in February. This work will continue through June.

5. Wholesale and retail pricing strategies.

Under the Market Rules Principles approved by Decree 421, GNERC will regulate the rates for generators’ sales of power and energy to the market during the first (two-year) phase of the wholesale market. GNERC will also regulate the rates for transmission and retail sales during Phase I. Hagler Bailly will assist the Commission as it continues to refine its tariff methodology.

Timing: Hagler Bailly picked up its tariff work with GNERC in the fall of 1998, where it left off under Delivery Order 14. Hagler Bailly will continue this work at least through May, and, resources permitting, through the end of the contract in mid-July.

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6. Grouping of assets.

In Decree No. 58, “Regarding Action Program for Rehabilitation and Development of Electricity Distribution Companies and Generation Assets” (adopted February 1999), the President approved a plan for privatizing much of the electric sector assets remaining after the sale of Telasi, the Tbilisi distribution enterprise. The plan (attached to Decree No. 58) notes that the Ministry of State Property Management together with the Ministry of Fuel and Energy assisted by Merrill Lynch Investment Bank has commenced work on organizing privatization of East and West Georgia distribution companies by grouping shares of these regional distribution companies * * *

Hagler Bailly has offered its assistance with regard to grouping of distribution and generation assets both to Merrill Lynch and to the Ministry of State Property Management. Neither has responded with requests for assistance, and this item does not, therefore, appear to be a priority item of work under Task Order 4. Hagler Bailly will, however, stand ready to offer such technical assistance as GoG, Merrill Lynch, or a prospective investor requests.

Timing: During the remainder of the contract, Hagler Bailly will offer such assistance as the parties noted above request.

7. Study tour.

A study tour by members of the prospective wholesale market members, including service providers, would be an appropriate means by which to educate the representatives in the structure and operations of wholesale power markets.

Timing: The Unites States Energy Association conducted a study tour of the United Kingdom and New England between 23 January and 31 January 1999, in a program funded by USAID and designed, in part, by Hagler Bailly.

4 As the Rehabilitation Plan attached to Decree No. 58 notes, any ultimate decision on grouping of distribution assets must await privatization proposals from bidders (“it is reasonable that the MoSPM together with the [Ministry of Fuel and Energy] consider restructuring of blocks of shares in East and West distribution companies”).

5 For details of this study tour, see Thea Khirarishvili’s trip report dated 9 February, 1999.
Conclusion

Implementation of the foregoing plan will see the new wholesale electric market well launched by 15 July 1999, when Task Order 4 is currently due to expire.