



Georgian National Energy and Water Supply Regulatory Commission (GNERC)

Methodology, Expenses, and Their Allocation in the Energy Sector

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Methodology and Main Principles

- Current rate setting methodology in the power sector was approved by GNERC in 1998
- Rates are calculated based on total value
- Each category of customers pays for energy services
- Cross subsidies are not permitted
- Customers are protected from monopolized prices
- Cost of services differ for different categories of customers

Methodology and Main Principles

- When setting rates, GNERC calculates required revenues for the regulated companies
- Companies are not given incentives for good performance
- All reasonable regulatory expenses are included in tariffs
- Tariff structure should help increase companies' efficiency
- Tariff regulation must be transparent

Regulation Period

- Rates are set for one year period
- Data from the preceding year is used in current rate setting
- Rates are not indexed during the regulation period
- When setting rates for a regulation period, GNERC considers projected power balance (capacity)

Calculating Revenue Requirements

Calculating revenue requirements includes the following components:

- consumed electrical power
- taxes
- return on assets

Calculating Revenue Requirements

Costs

- Cost items are approved by the Georgian Ministry of Finance, including:
 - Resources and materials
 - Maintenance and major repairs
 - Production work and service
 - Fuel expenses for technological purposes
 - Fuel for company transportation services
 - Wages
 - Depreciation of fixed assets
 - Other expenses

Calculating Revenue Requirements

Depreciation

- Depreciation of fixed assets is based on existing standards
- The depreciation schedule is based on the Tax Code
- The Tax Code defines five groups of depreciation expenses
- Depreciation schedule changes within 5 to 20%

Calculating Revenue Requirements

Taxes

- When setting rates, GNERC takes into account taxes set forth by the Tax Code, such as:
 - general government taxes
 - local taxes, and
 - value added tax is also accounted for in the rates

Calculating Revenue Requirements

Return on Assets

- GNERC determines the rate of return on assets
- Return on assets is calculated in relationship to the asset's residual value
- If the value of an asset cannot be determined, GNERC determines its cost effectiveness
- Cost effectiveness coefficient is determined for each individual company
- Return on asset can also be determined using the method of comparative analysis.

Calculating Revenue Requirements

Allowable Energy Losses

- The allowable energy losses are determined by GNERC
- The allowable energy losses should be proportional to the network condition
- Transmission and distribution companies are rewarded if they succeed in reducing energy losses
- When calculating the rates for commercial losses, historical data is taken into account.

Allocation of expenses

Classification

- In the power sector, allocation of expenses is strictly regulated according to the operation type
- A company is responsible for having records of revenue, expenses, and other financial results separately for each of its line of business
- A company presents annual and quarterly statistical reports to GNERC
- In the energy sector, tariffs can be determined based on voltage, consumption, and other criteria.

Allocation of expenses

Classification

- If a company owns two or more power plants, tariffs will be determined per plant
- If there are two or more regulatory or non-regulatory activities in progress, expenditures differ per work type
- In transmission and distribution, expenses are allocated per voltage use; there are categories of customers who use high, middle, and low voltages

Allocation of Expenses

Classification

- To determine tariff rates for a voltage type, the network company should provide expense data for that type of voltage use
- In case there is no information available, expenses per voltage usage (high, middle, or low) are determined in proportion to the fixed assets necessary for serving each category
- The fixed assets used for servicing different categories of customers is divided in proportion to the energy used.

Thank you for your
attention!