



# **Georgian National Energy and Water Supply Regulatory Commission**

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## **Regulation and Design of Rates**

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# Legal Framework and Basic Principles

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- **The Commission's rate setting authority is provided for by Georgian law on Electric Energy and Natural Gas;**
  - **Rate regulation in the electric energy sector has been in place since 1998 and the current methodology was approved in 2011;**
  - **In the natural gas sector - since 1999;**
  - **In the water supply sector - since 2008.**



# Methodological Foundations

- **Methodology and rates established according to its guidelines protect the consumer from monopolistic prices;**
- **It allows the companies to ensure the return on their investments within reasonable time frames;**
- **The Commission has been authorized to establish fixed, as well as cap rates.**



## Rate Types

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- **In the electric energy field, the Commission establishes and regulates the tariffs for production, transmission, dispatching, transfer-distribution, import and usage, as well as the prices of services rendered by the Electricity System Commercial Operator (ESCO) and guaranteed capacity for a back-up source;**
- **In the natural gas field, the Commission establishes and regulates the rates for transportation, transfer-distribution and usage;**
- **In the water supply field, the Commission establishes and regulates the rates for supplying water and maintaining sewage systems.**



# Main Principles of Calculating Rates

**rate = required revenue / volume of sold product**

***The required revenue (RR) consists of the following elements:***

- Operational costs;
- Costs for the regulation and the commercial operator of the system;
- Normative (technical) loss and personal use;
- Ammortization (Depreciation);
- Interest on loan;
- Taxes;
- Return on fixed assets.



# Electricity Production Rates

- In the energy production field, fixed rates are established for the regulatory hydro electric power stations;
- All other energy production licencees have cap rates established;
- The price to be paid for the electricity purchased from a regulated and newly built power station is determined based on the mutual agreement of the parties.

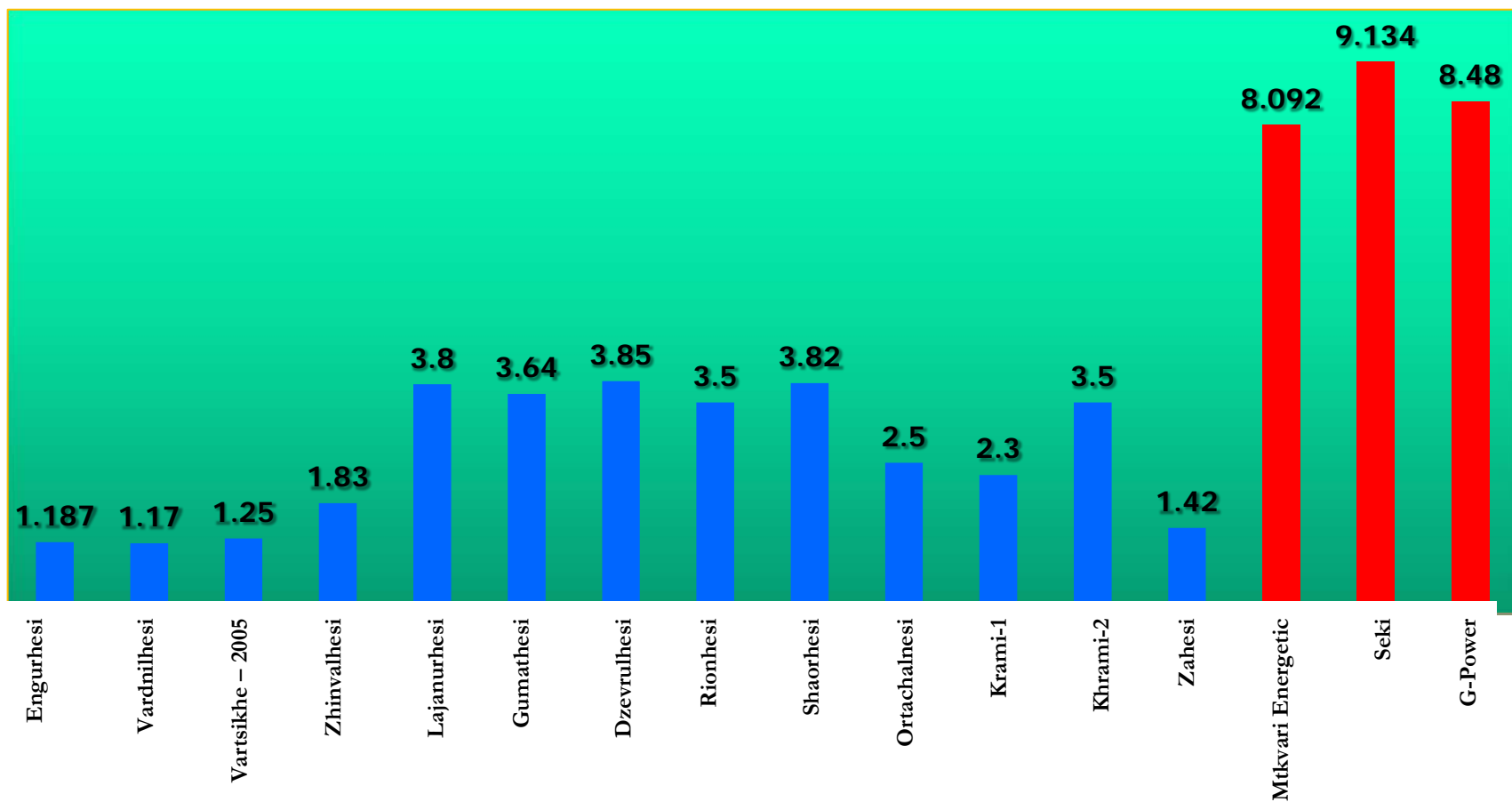


# Electricity Production Rates

- **For the back-up source, the Commission sets two-rate tariffs;**
- **The price of the guaranteed capacity is established for the source readiness period and provides for the recovery of fixed costs;**
- **The sources of guaranteed capacities, ensured guaranteed capacity periods and energy volumes are approved by the Georgian government;**
- **Readiness of guaranteed capacity sources is determined according to the "Market Rules" approved by the dispatcher.**



# Electric Energy Production Rates Without VAT (Tetri/kwhr)







# **Rates for Energy Transmission and Dispatching**

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- **Currently, two transmission licensees are operating in Georgia, one company has been issued a preliminary license and the issuance of a permanent license is underway;**
- **Transmission tariffs are flat-rate tariffs and are determined based on the amount of energy transmitted to the supply points through the transmission grid;**
- **Transmission rates are fixed and differentiated according to the voltage levels;**
- **During the calculation of rates, the transmission licensee is responsible for submitting the cost allocation. In the absence of such information, the Commission will determine the allocation terms itself based on the voltages.**



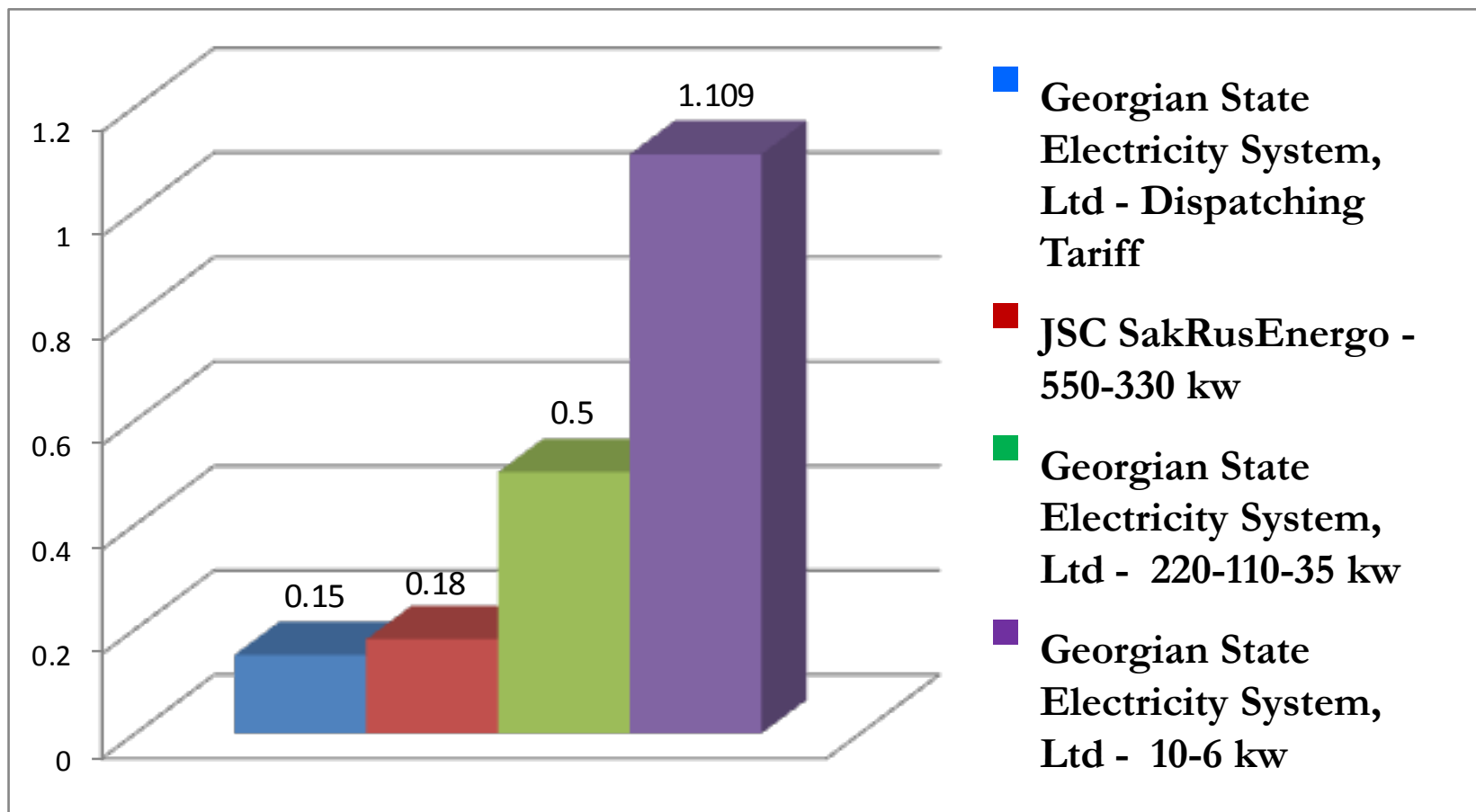
# **Rates for the Energy Transmission and Dispatching**

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- **The cost of normative losses of the transmission grid is provided for in the transmission rate as per the applicable legislation;**
- **When calculating energy transmission rates, income received from transit is taken into account;**
- **Dispatching rate is determined based on the energy received (metered) by the supply points of eligible companies.**



# Transmission and dispatching rates without VAT (Tetri/kwhr)





# Energy Transfer and Distribution Rates

- **Three distribution companies are operating in Georgia;**
- **For two distribution companies, transfer and distribution rates are established and for the third one - only the distribution rate;**
- **For two companies, rates are established based on the long-term regulation period with corresponding review and rate adjustment sub-periods;**



# Energy Transfer and Distribution Rates

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- Energy transfer and distribution rates are differentiated and are established according to high 110-35 kw, medium 10-6 kw and low 0.4-0.2 kw voltage levels;
- During the calculation of rates, the transmission licensee is responsible for submitting the cost allocation. In the absence of such information the Commission will determine the allocation terms itself.



# Connecting a New Customer to the Distribution Grid

- The price for connecting a new customer to the distribution grid is established by the Commission separately from the rate;
- Hook-up price is a one time charge;
- The price for connecting a new customer to the distribution grid is established based on the capacity/power to be connected as per the proposed packages;
- The hook-up service is performed according to the principle of "one window".



# Electricity Consumer Rates

- **Consumer rates are established according to the voltage levels of the distribution company and the volume of consumed energy;**
- **For residential customers low voltage rates are established according to the following consumption levels: 101 kwhr, 101-301 kwhr and above 301 kwhr;**
- **The regulation period for energy consumer rates may be short term and long term.**



## Electricity Consumer (Non-Residential) Cap Rates According to Voltages Without VAT

Indicators	JSC Telasi (Tbilisi consumer)	JSC Kakheti Energy Distribution (Kakhety region consumer)	JSC Energo- Pro Georgia (The rest of the consumers)
<b>220/380 v</b>	13.56 t/kwhr	11.698 t/kwhr	13.56 t/kwhr
<b>6–10 kw</b>	12.618 t/kwhr	8.106 t/kwhr	9.968 t/kwhr
<b>35–110 kw</b>	7.28 t/kwhr	6.412 t/kwhr	8.274 t/kwhr





## Electricity Consumer Rates for the Public According to the Amount of Energy Used at 220.380 Volts without VAT

Indicatores	JSC Telasi (Tbilisi consumer)	JSC Kakheti Energy Distribution (Kakhety region consumer)	JSC Energo- Pro Georgia (The rest of the consumers)
<b>including 101 kwhr</b>	8.424 t/kwhr	11.0 t/kwhr	8.0 t/kwhr
<b>including 101 – 301 kwhr</b>	10.56 t/kwhr	14.0 t/kwhr	11.0 t/kwhr
<b>301 kwhr and more</b>	14.998 t/kwhr	14.83 t/kwhr	14.83 t/kwhr



# Rate for the Service Rendered by the Electricity System Commercial Operator (ESCO)

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- The electricity system commercial operator buys and sells balance power and guaranteed capacity;
- ESCO carries out energy import and export;
- To ensure the provision of this service, the Commission has established fixed service rates for ESCO - **0.019 tetri/kwhr**, which shall be paid by all eligible companies.



# New Rate Regulation in Electric Energy System

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- **The rate regulation period is established individually as requested by the company or initiated by the Commission;**
- **During or at the end of the regulation, the rate is adjusted according to the terms established by the Commission;**
- **The stability of the rate over the regulated period makes the rate system attractive for the investor.**



# Import Tariffs

- According to the applicable methodology, import tariffs are determined based on the contract on import;
- Tariffs on import are calculated according to the formula provided in the methodology of electric energy tariffs.



# Tariff Systems in Natural Gas Sector

## Fixed Transportation Tariff

- Transportation tariff is mainly the same for all consumers and is **13.83 L/1000m<sup>3</sup>** without VAT, except for the tariffs established for thermal power stations, which is **9 L/1000m<sup>3</sup>** without VAT

## Transit

- Tariffs for transit are not established by the Commission;
- During the calculation of transportation tariffs, revenues from transit are taken into account.



# Tariff Systems in Natural Gas Sector

## Fixed rates for distribution

- Distribution rates are determined according to the different (high, medium, low) levels of consumed pressure;
- Distribution rates are determined individually for each gas distribution company;
- The distribution activities include the transfer of the natural gas as well;
- Transfer rates are reimbursed to the applicable distribution licensee.

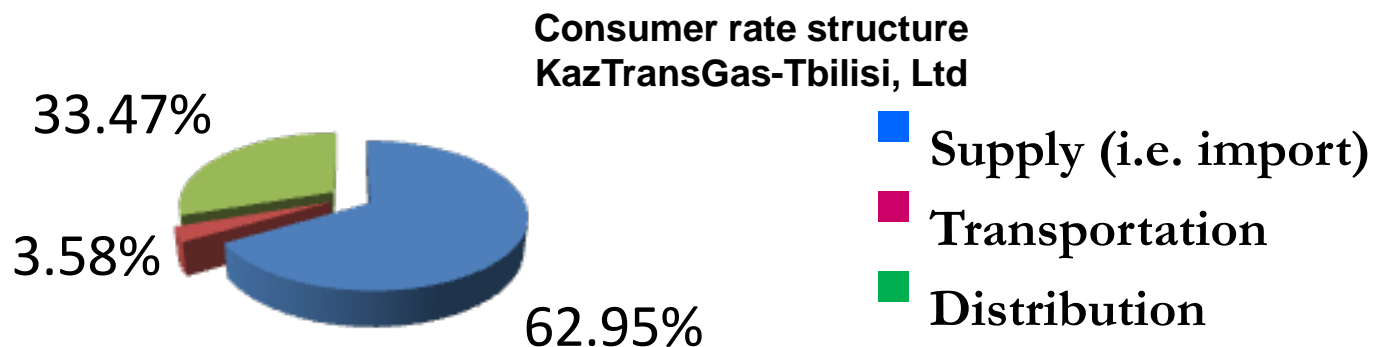


# Consumer Rate Structure in the Natural Gas Sector

- The consumer rate structure can be described the following way:
  - Cap tariff for the supply (i.e. import)
  - Fixed tariff for transportation
  - Fixed tariff for distribution or transfer
- Consumer rates are also determined separately for high, medium and low pressure consumers.



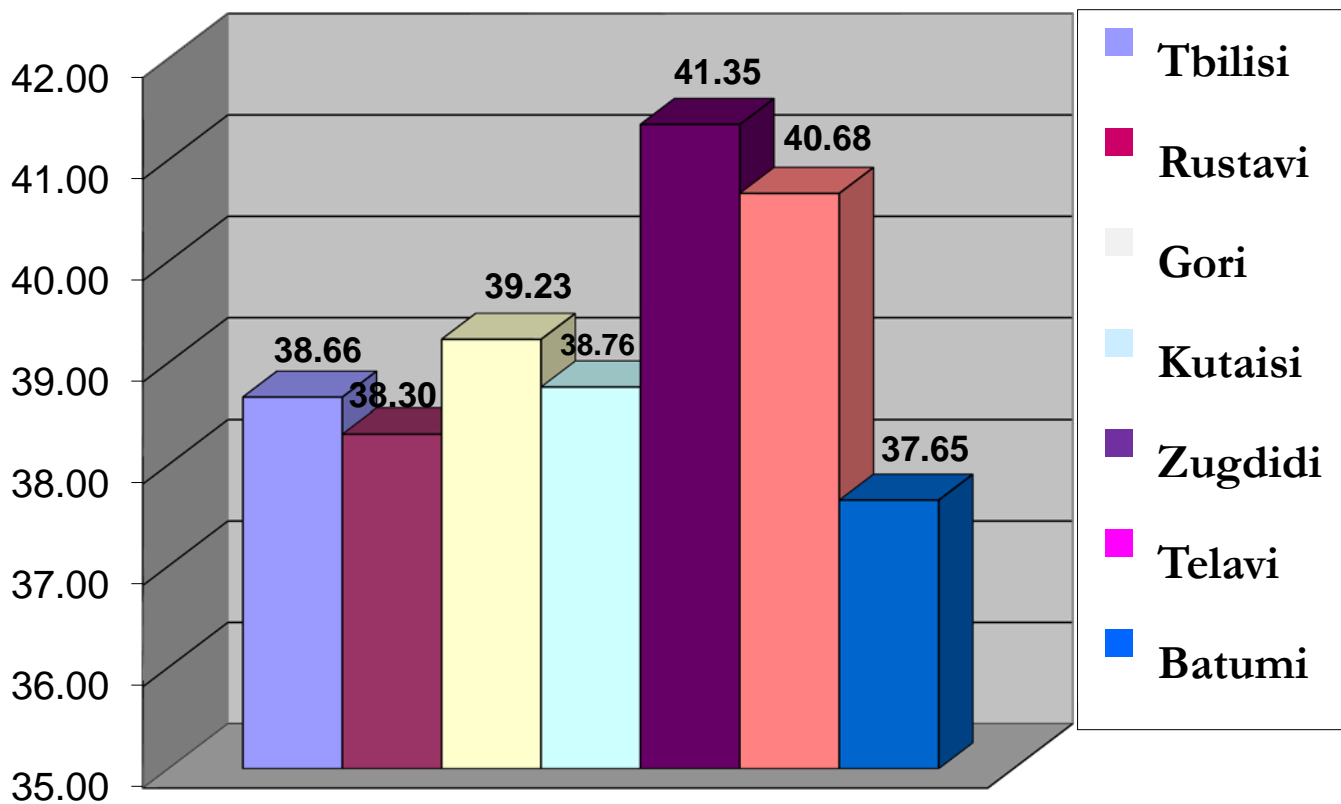
# Consumer Rate Structure in the Natural Gas Sector







# Retail Tariffs of Natural Gas in Large Cities of Georgia without VAT





# Tariff Systems in Water Supply Sector

- **The Commission sets cap rates for water as per the methodology, including the rates for supplying drinking water and maintaining sewage systems;**
- **Rates are differentiated according to the consumer categories (residential, non-residential);**
- **Water supply rates for residential consumers are differentiated according to the consumers with and without meters;**
- **The rates for the consumers for whom meters have not been installed are determined based on the drinking water consumption norm per one resident a day.**



# Tariff Systems in Water Supply Sector

Water supply cap rates for two large water supply companies without VAT:

**GWP**

**GUWC**

With meters residential - **0.225 L/m<sup>3</sup>** - **0.423 L/m<sup>3</sup>**

Without meters residential - **2.667 L/person/month** - **2.03 L/person/month**

Non-residential - **0.225 L/m<sup>3</sup>** - **0.423 L/m<sup>3</sup>**



# Connecting a New Consumer to the Water Supply System

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- The price for connecting a new customer to the water supply system is established by the Commission separately from the rate;
- Hook-up price is a one time charge;
- The price for connecting a new customer to the water supply system is established based on the proposed packages;
- The hook-up service is performed according to the principle of "one window"



# Rate Design Procedures

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- **The Commission reviews rate proposal submitted by the licensee;**
- **The application forms are developed by the Commission;**
- **Rate application must be accompanied by the audited financial information;**
- **Maximum period for determining the rate is 150 days;**
- **Draft prepared by the Commission staff will be reviewed during the Commission session;**
- **The rate will become effective from the date the decision has been published within the period as indicated by the Commission.**



# Monitoring Financial Statements for Tariff Purposes

- By the decision of the Commission, quarterly business-statistical and annual financial statement forms have been approved for electric energy, natural gas and water supply sectors;
- Companies are required to submit applicable information periodically within the established time frames;
- Financial statements must be presented separately for each regulated operations;
- Financial statement must be drafted in accordance with the main principles of International Accounting Standards (IAS) and be in compliance with the accounting policy established by law.



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**Thanks for Listening**