

Investment Assessment and Monitoring Today and How We See Regulatory Audit



Giorgi Kelbakiani
Tbilisi, Georgia
October 2014



საქართველოს ენერგეტიკისა და
წყალმომარაგების მარეგულირებელი
ეროვნული კომისია

საქართველოს ენერგეტიკისა და
წყალმომარაგების მარეგულირებელი
ეროვნული კომისია

Georgian National Energy And
Water Supply Regulatory
Commission

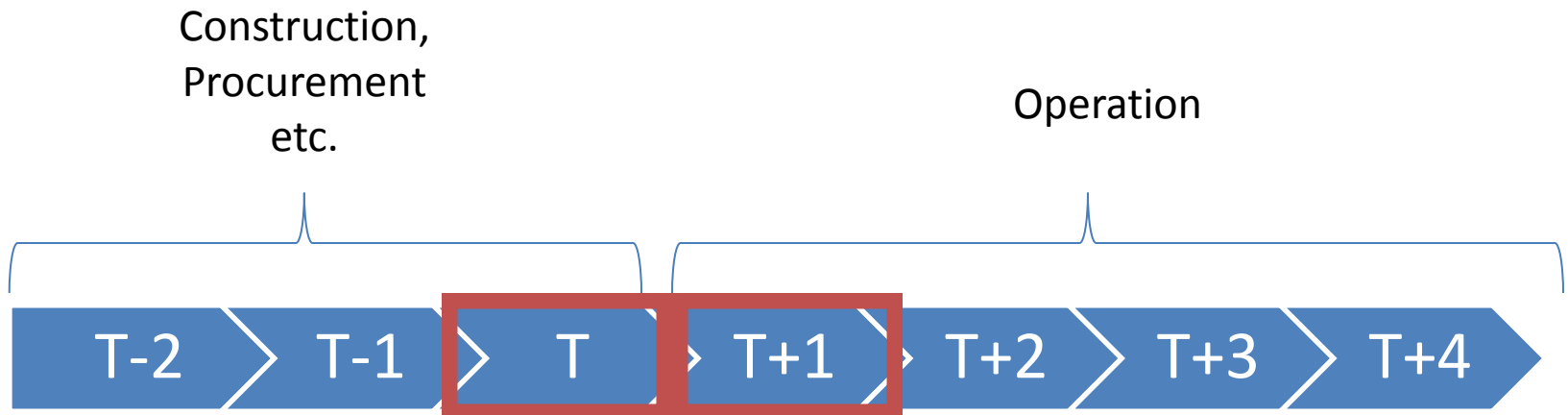
საქართველოს ენერგეტიკისა და
წყალმომარაგების მარეგულირებელი
ეროვნული კომისია

Content

- New Methodology and its Implications with Investments
- Investment Template
- Investment Reasonability, Goals and Justification (ex-ante Analysis)
- Investment Monitoring and Verification (ex-post Analysis)
- Procurement System
- Regulatory Audit

New Methodology and its Implications with Investments

- To incentivize the new investments in the distribution networks, GNERC decided to reflect Investments in distribution tariffs in advance





საქართველოს ენერგეტიკისა და
წყალმომარაგების მარეგულირებელი
ეროვნული კომისია

საქართველოს ენერგეტიკისა და
წყალმომარაგების მარეგულირებელი
ეროვნული კომისია

Georgian National Energy And
Water Supply Regulatory
Commission

საქართველოს ენერგეტიკისა და
წყალმომარაგების მარეგულირებელი
ეროვნული კომისია

New Methodology and its Implications with Investments

- If there is a difference between the planned and actual values in investments, the Commission will make corrections in tariffs accordingly considering the two year cost of money
- Companies must inform and consult with the Commission if the need of the increase of any investment expenditures arises
- In order to maintain some control on some situation, the Commission needs to develop some monitoring tools that will collect the information about the investment projects in process



საქართველოს ენერგეტიკისა და
წყალმომარაგების მარეგულირებელი
ეროვნული კომისია

საქსპო

Georgian National Energy And
Water Supply Regulatory
Commission

საქსპო

Investment Template

- Project Code and Name
- Voltage Level
- Project Type (New Construction, Replacement of Old Assets, Rehabilitation, Procurement etc.)
- Investment Cost and Financing Source (Equity, Credit and/or Third Party)
- NBV and Annual Depreciation of the Replaced Asset

Investment Causality, Goals and Justification (ex-ante Analysis)

- Reason of the Project
- Project Target and Goals
- Main Parameters and Units (length, amount etc.)
- Investment per Unit
- Additional Project Data through Links

Investment Reasonability, Goals and Justification (ex-ante Analysis)

- Technical Assessment (Electricity Department)
- Additional Technical Data due to the Commission's Request
- Financial Assessment (Department of Tariffs and Economic Analysis)
- Additional Financial Data due to the Commission's Request

Investment Monitoring and Verification (ex-post Analysis)

- So far the Commission decided on Outsourcing:
 - Companies should provide the ex-post verifications from the National Expertise Bureau on the executed project volume and cost
- We need to develop investment project monitoring tools and tools for reasonability of the expenses (most of all, competitive price analysis for the procurements done for the investment projects)



საქართველოს ენერგეტიკისა და
წყალმომარაგების მარეგულირებელი
ეროვნული კომისია

საქართველოს ენერგეტიკისა და წყალმომარაგების მარეგულირებელი ეროვნული კომისია

Georgian National Energy And
Water Supply Regulatory
Commission

საქართველოს ენერგეტიკისა და წყალმომარაგების მარეგულირებელი ეროვნული კომისია

Procurement System

- In this period of time utility companies are making the purchases on the basis of rules developed by top management of the same utilities.
- in compliance with the rules set by the Companies themselves, they select a supplier and award a contract on procurement

Procurement System

- There are discussions currently on a law which will oblige the utility companies to execute all of their procurements via State Procurement Agency which runs tenders for the state and budget organizations
- Agency will provide supporting in the introduction of modern information and communication technologies within the procurement system and ensure the publicity of procurement
- In this case, a tool for competitive procurements for the regulated companies will exist without any additional enforcement from the Commission

Procurement System

- This law is still a project under discussion
- In compliance this Law at the decision of a procuring entity, simplified procurement may be performed electronically
- Procedure under electronic tender, during which within the timeframe set forth under the Georgian legislation a bidder may reduce the quoted price through an Unified Electronic System of State Procurement in order to win in the procurement procedure

Procurement System

formation of the Unified Electronic System of new procurement will provide:

- rational expenditure of funds designated for procurement
- promotion of healthy competition in the area of the supply of goods, rendering of services and the performance of construction works necessary for the company
- fair and non-discriminatory approach towards the participants of procurements during the performance of procurement
- publicity of procurement

Regulatory Audit

In compliance of New “Tariff Setting Methodology”:

- Calculation of capital and non-controllable operational expenses is carried out by "cost-plus" method, with annually cost audit
- For calculation controllable operational costs "incentive regulation" principle is used, which implies setting up incentives to optimize utility's costs. Controllable operational costs audit is carried out before regulatory period and costs changes are made during tariff regulatory period accordingly to this methodology
- Cost audit is regulations mechanism, by means of which the commission or/and neutral third party set reasonable costs incurred by the utility and define regulatory asset base

Regulatory Audit

- In case the result of the cost audit reveals corrective information of the previous year(s) existed before test year, which was not identified in the previous year(s) tariff calculations, Commission has authority to use this information for correcting the results of the audit
- For this purposes it's very important to examine US experience related to the tools/methods/requirements for regulatory audit, especially with regards of procurements and investments

Main Issues

several main issues for discussion:

- Auditing Quality Management and Guidelines for logistics during an audit
- Determine who should be funding audits of utilities
- Examine utility liabilities of Audit Execution
- To examine the tools/procedures of Ex-ante assessment of investment
- Tools/procedures to monitor the processing of approved investment plan
-

Specific Questions

Several specific questions:

- How should a proper investment plan look like?
- How many alternative plans should it include for comparative analysis?
- Are there any differences between the standards/approval procedures of the investment projects that go in the tariff application and the emergency investments?
- Is there unified system/rule of procurements for all public utility companies to follow?
- Is a tender proceeding electronically in a transparent way?

Thank You!



Giorgi Kelbakiani

Chief Expert,
Department of Tariff and Economic
Analysis

Giorgi.kelbakiani@gnerc.org