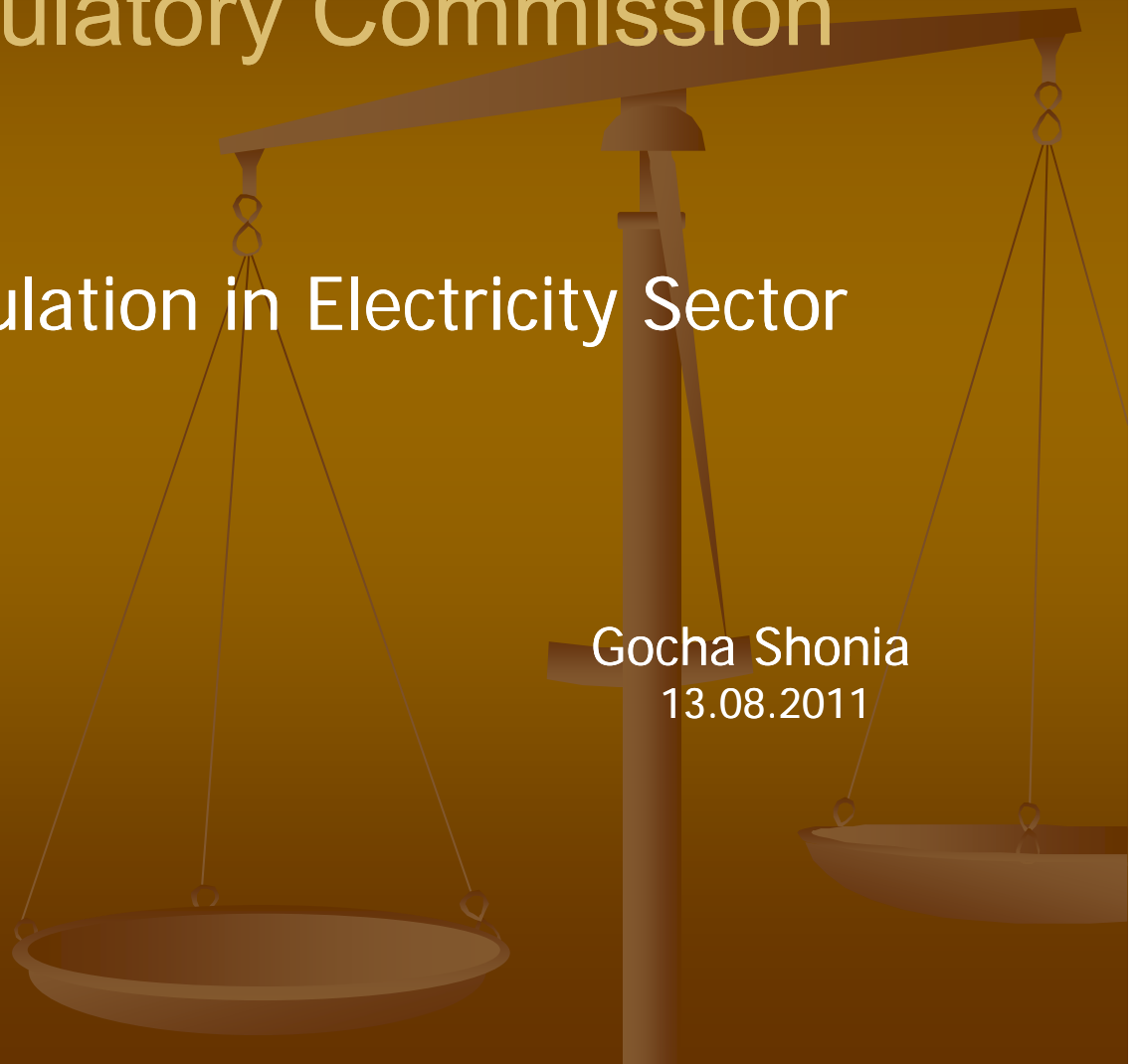


Georgian National Energy and Water Supply regulatory Commission

Tariff Regulation in Electricity Sector

Gocha Shonia
13.08.2011



Existing Legislation

- The commission is regulating tariffs in electric power sector since 1998
- The first tariff methodology was approved in accordance with Law of Georgia on Electric Energy of 1997

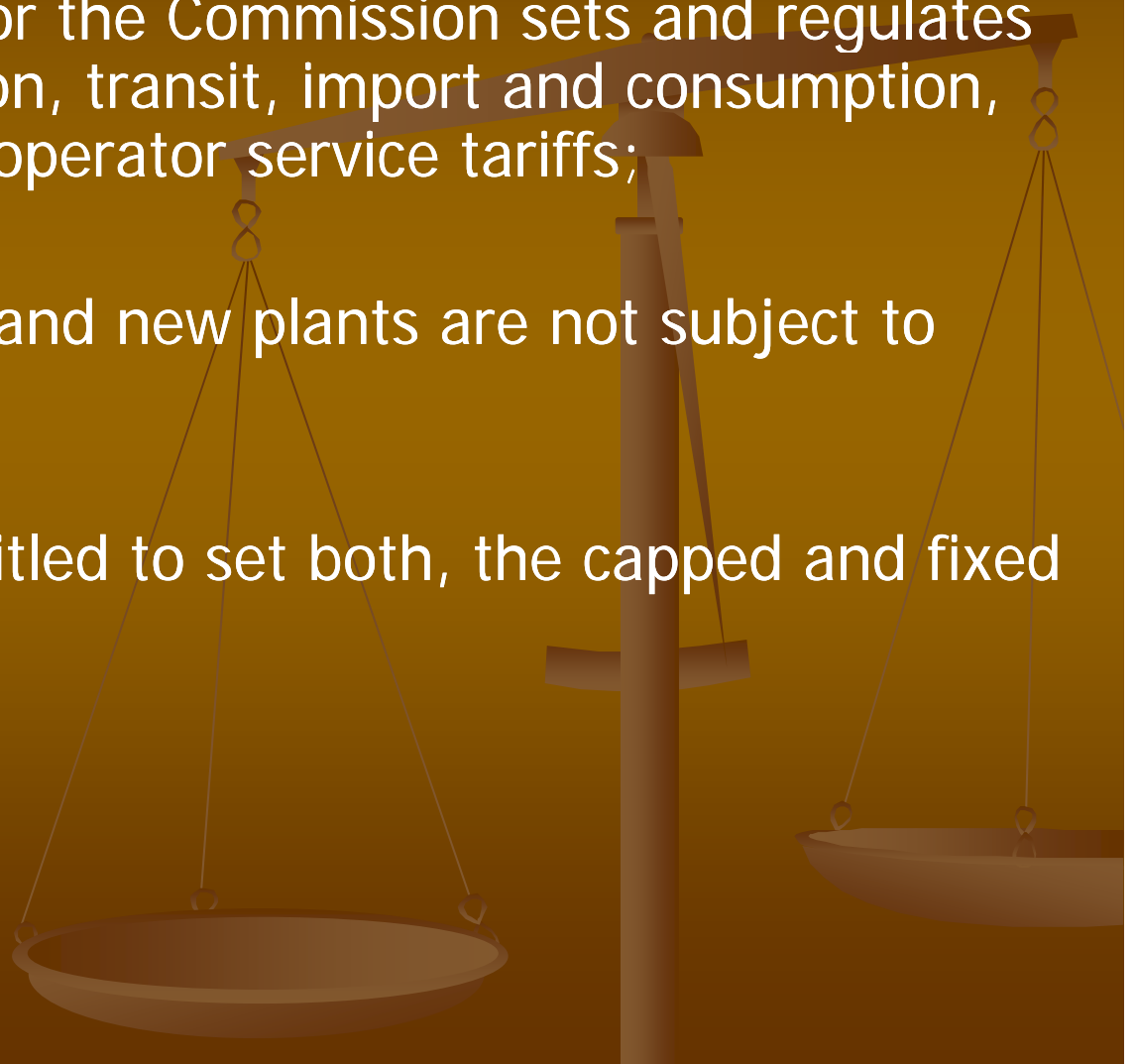


Existing Legislation

- Currently, the tariff regulation in electric power sector is based upon the Law of Georgia on Electric Energy and Natural Gas, Methodology for Calculation of Tariffs in Electric Power sector approved by the Commission and other standard acts;
- Various amendments have been introduced into the Law of Georgia on Electric Energy and Natural Gas since its adoption;
- The older version of electric power tariff calculation methodology was based upon the full cost principle or, in other words, expenses plus profit principle;
- New methodology of electric power tariff calculation is based upon incentive model and is stimulatory in its essence.

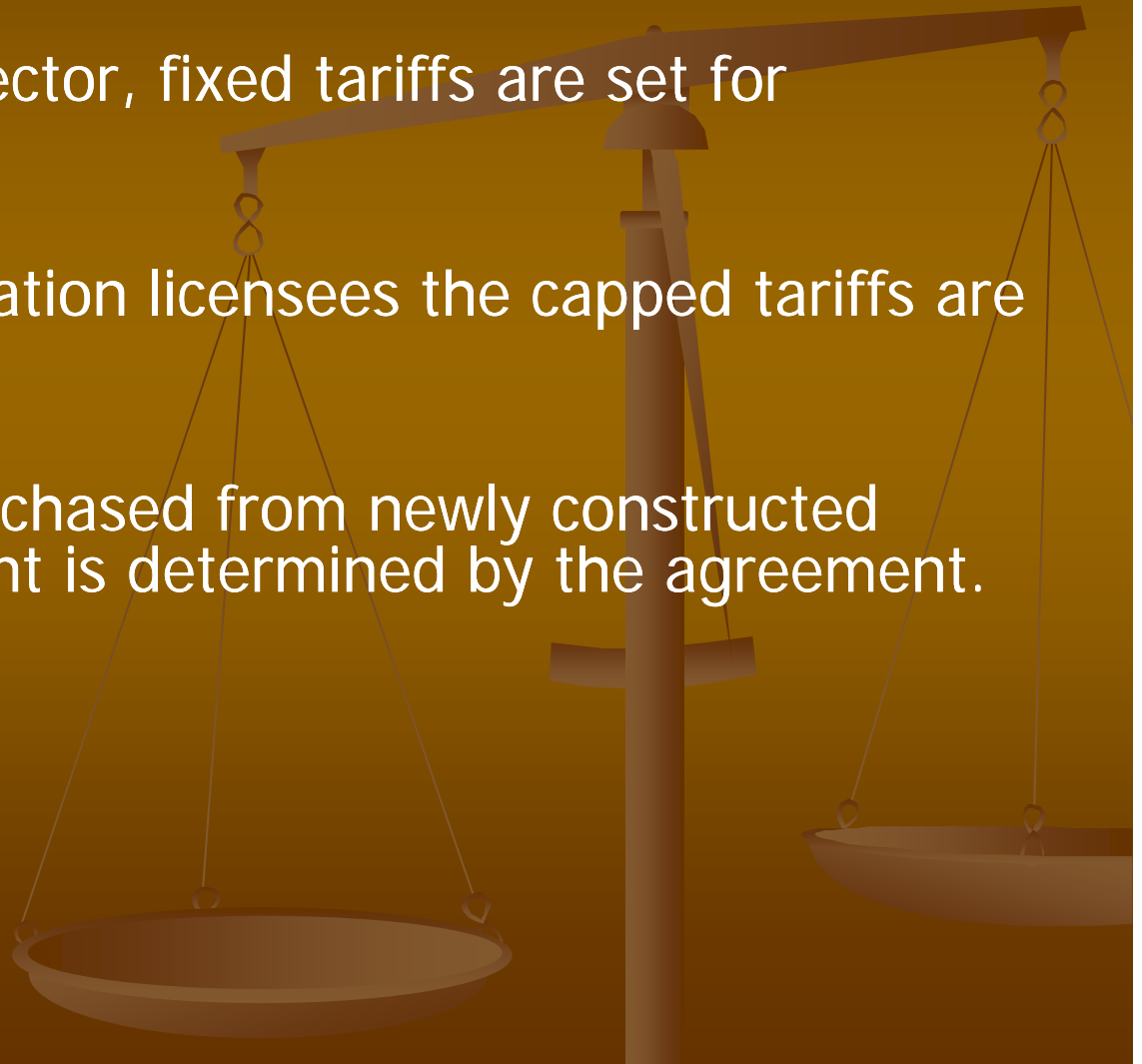
tariff System in Electric Energy Sector

- In electric energy sector the Commission sets and regulates generation, transmission, transit, import and consumption, as well as commercial operator service tariffs;
- Small HPPs, exporters and new plants are not subject to tariff regulation;
- The Commission is entitled to set both, the capped and fixed tariffs.



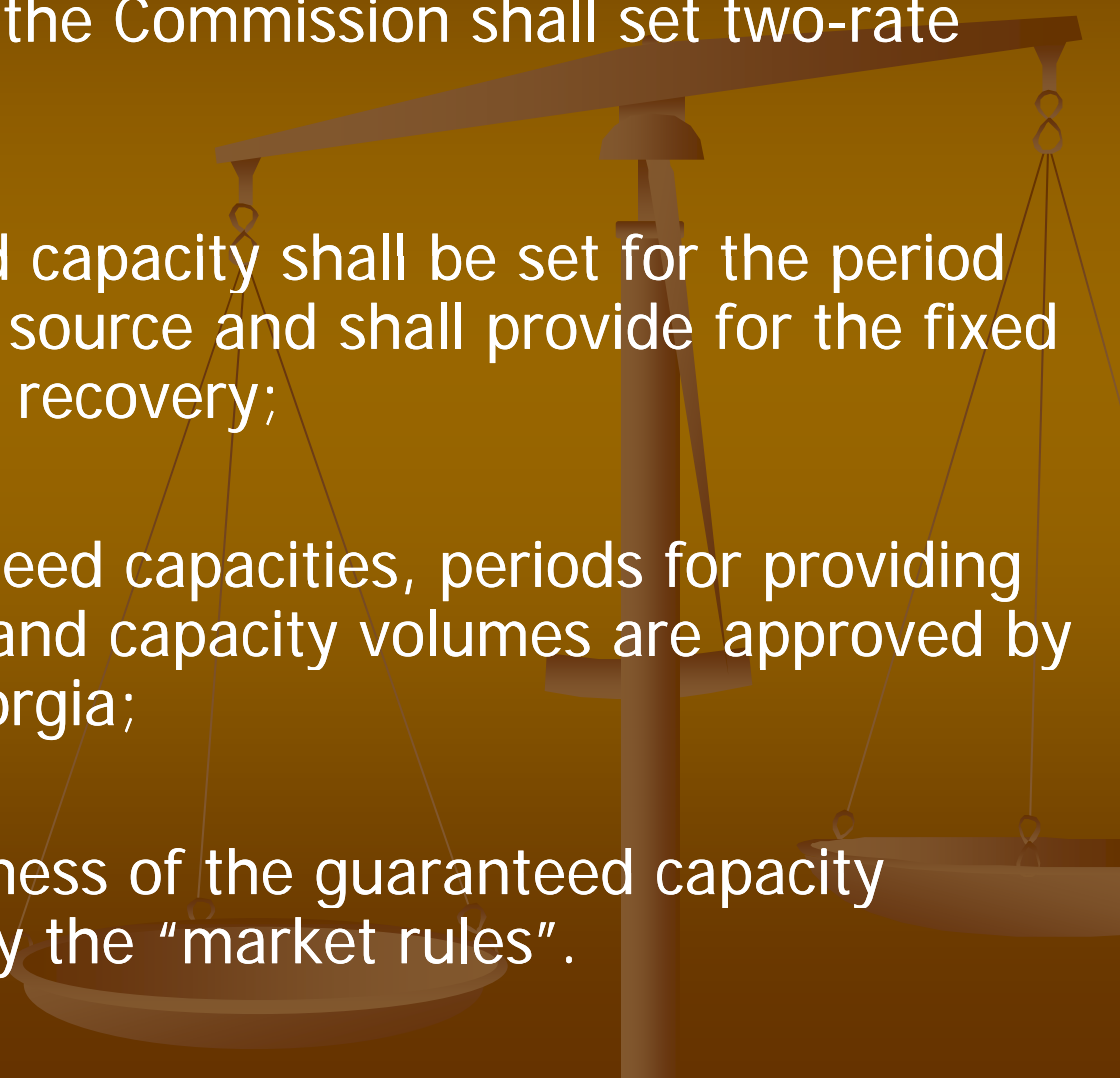
Power Generation tariffs

- In power generation sector, fixed tariffs are set for regulating HPPs;
- For all the other generation licensees the capped tariffs are set;
- The price of power purchased from newly constructed deregulated power plant is determined by the agreement.

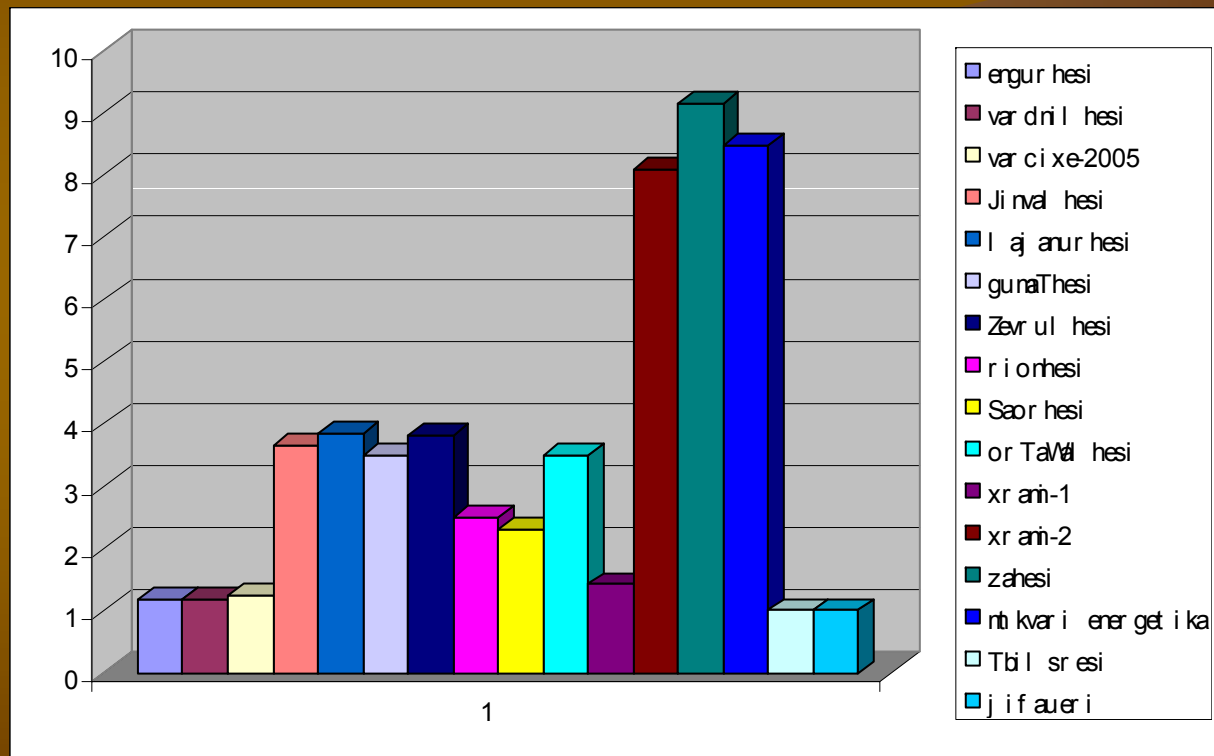


Power Generation tariffs

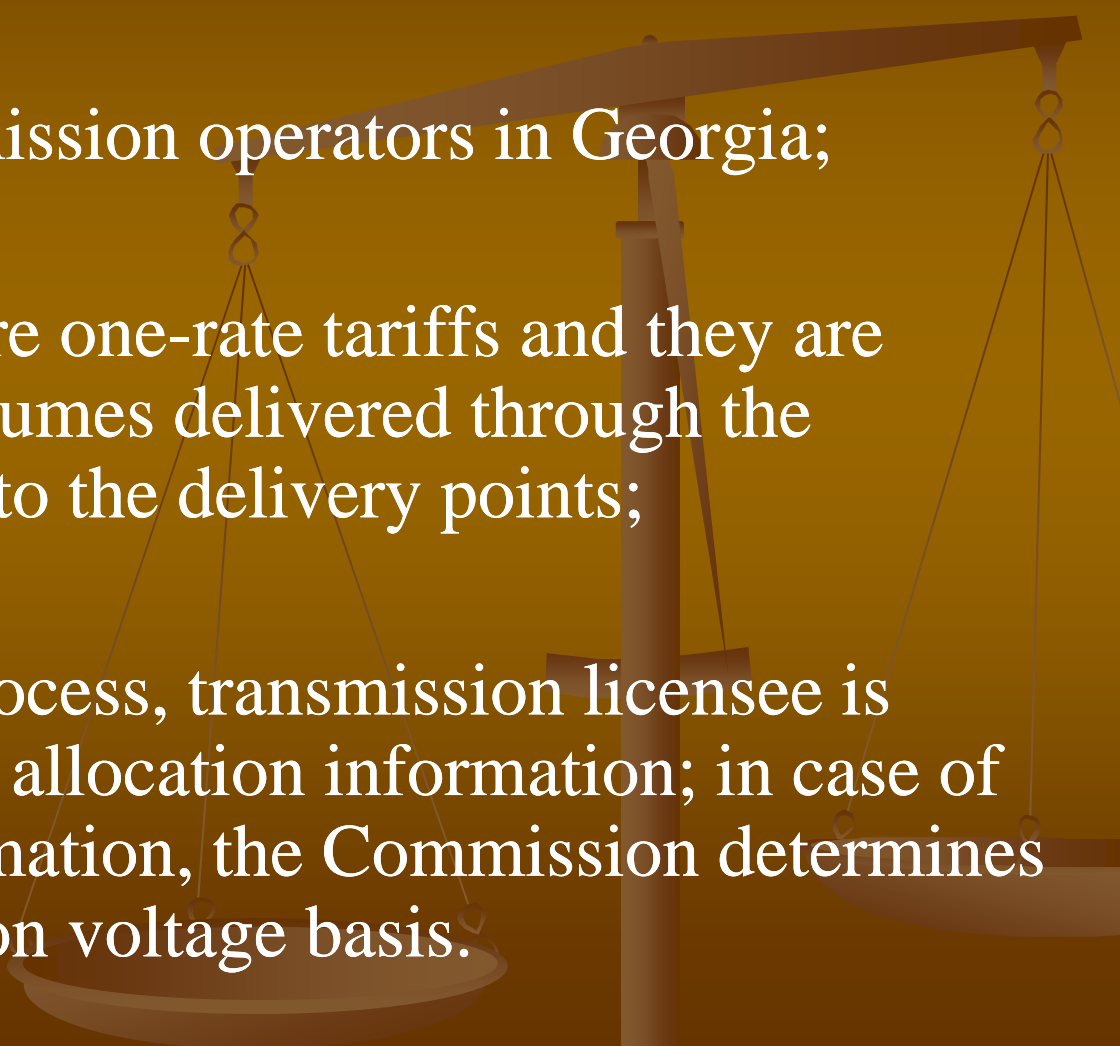
News in Legislation

- For the reserve source the Commission shall set two-rate tariffs;
 - Price of the guaranteed capacity shall be set for the period of preparedness of the source and shall provide for the fixed (permanent) expenses' recovery;
 - The sources of guaranteed capacities, periods for providing guaranteed capacities and capacity volumes are approved by the Government of Georgia;
 - The duration preparedness of the guaranteed capacity source is determined by the "market rules".
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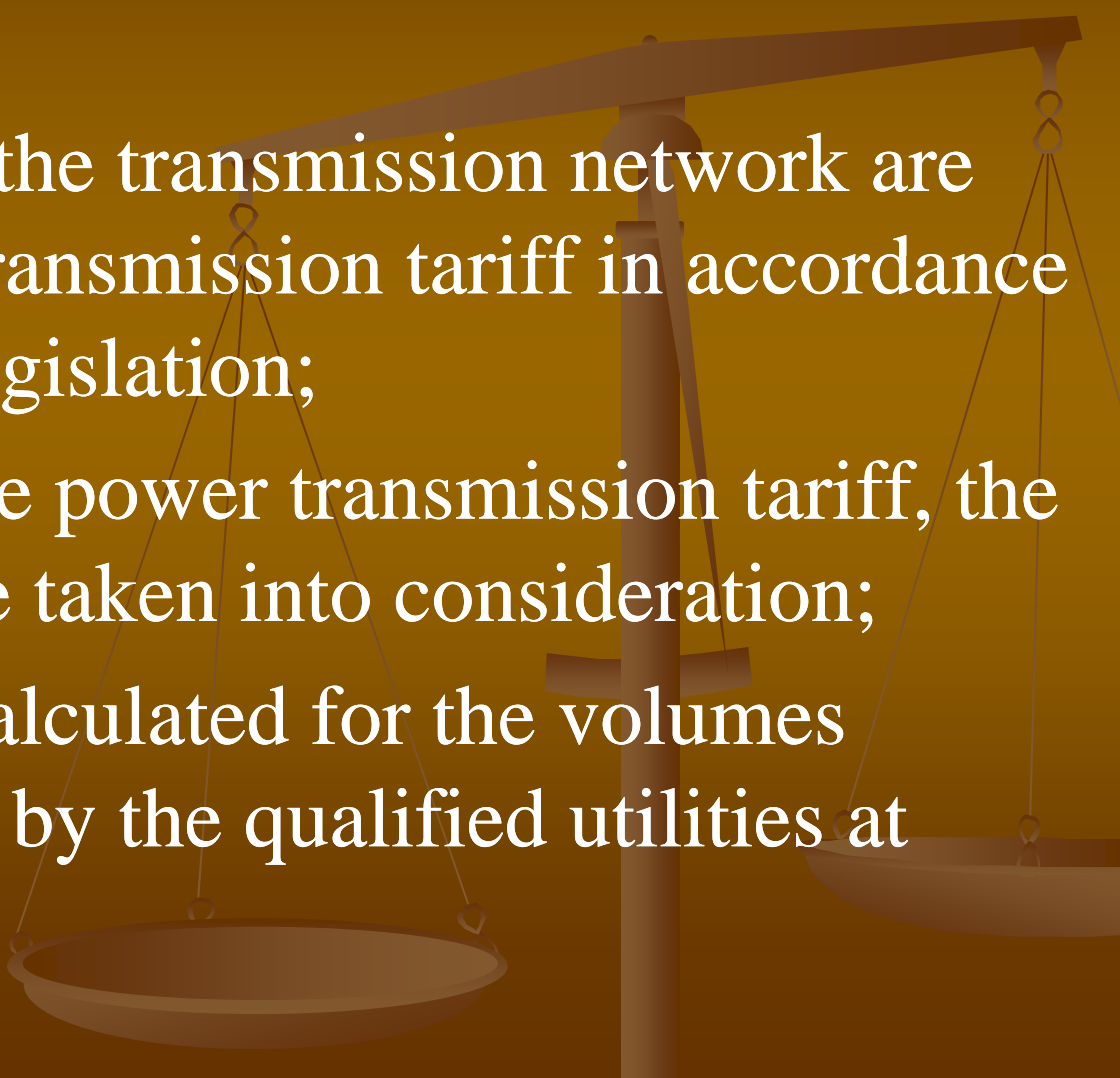
Power Generation Tariffs



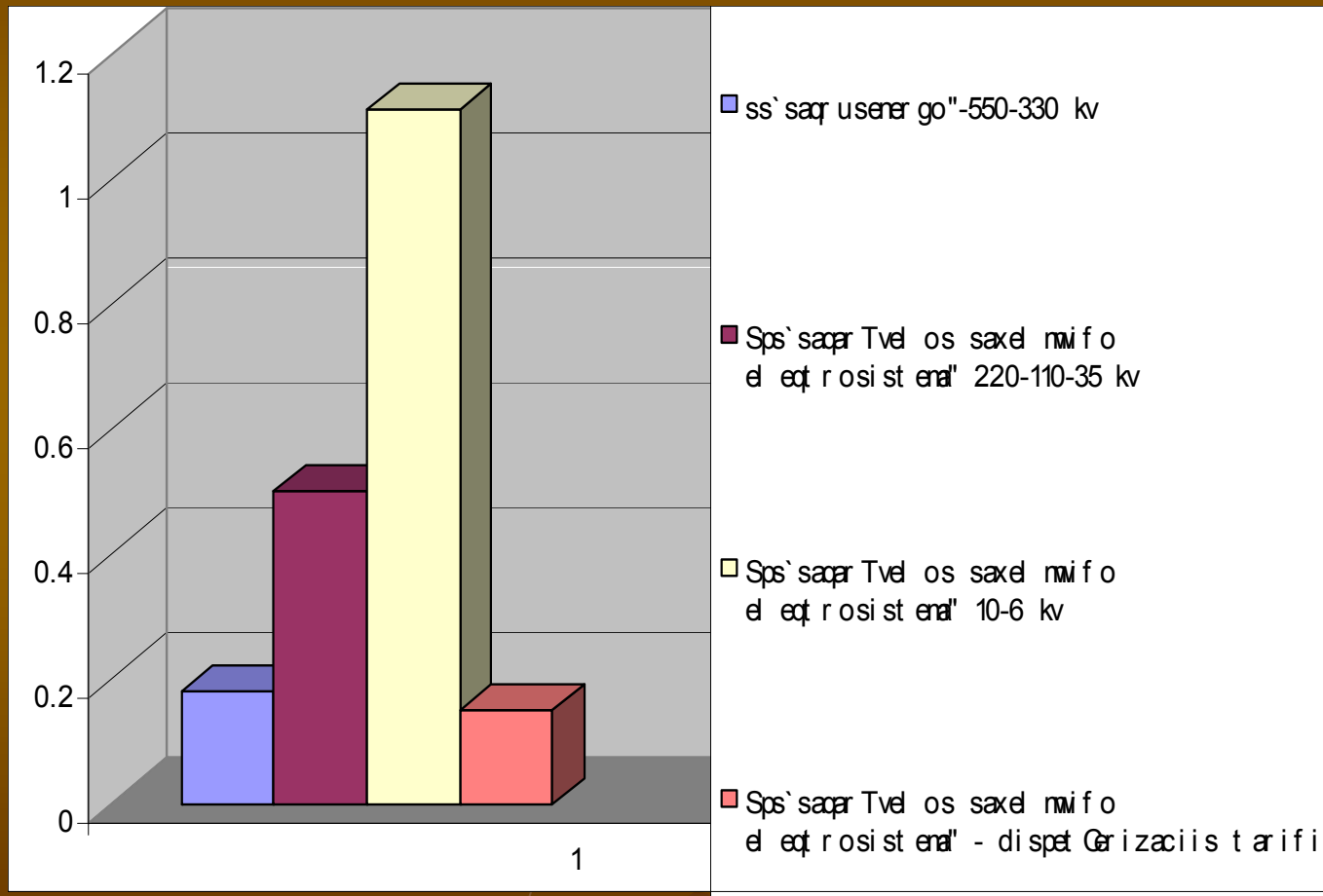
Power Transmission and Dispatch tariffs News in Legislation

- There are three transmission operators in Georgia;
 - Transmission tariffs are one-rate tariffs and they are determined for the volumes delivered through the transmission network to the delivery points;
 - In tariff calculation process, transmission licensee is obliged to submit cost allocation information; in case of absence of such information, the Commission determines allocation conditions on voltage basis.
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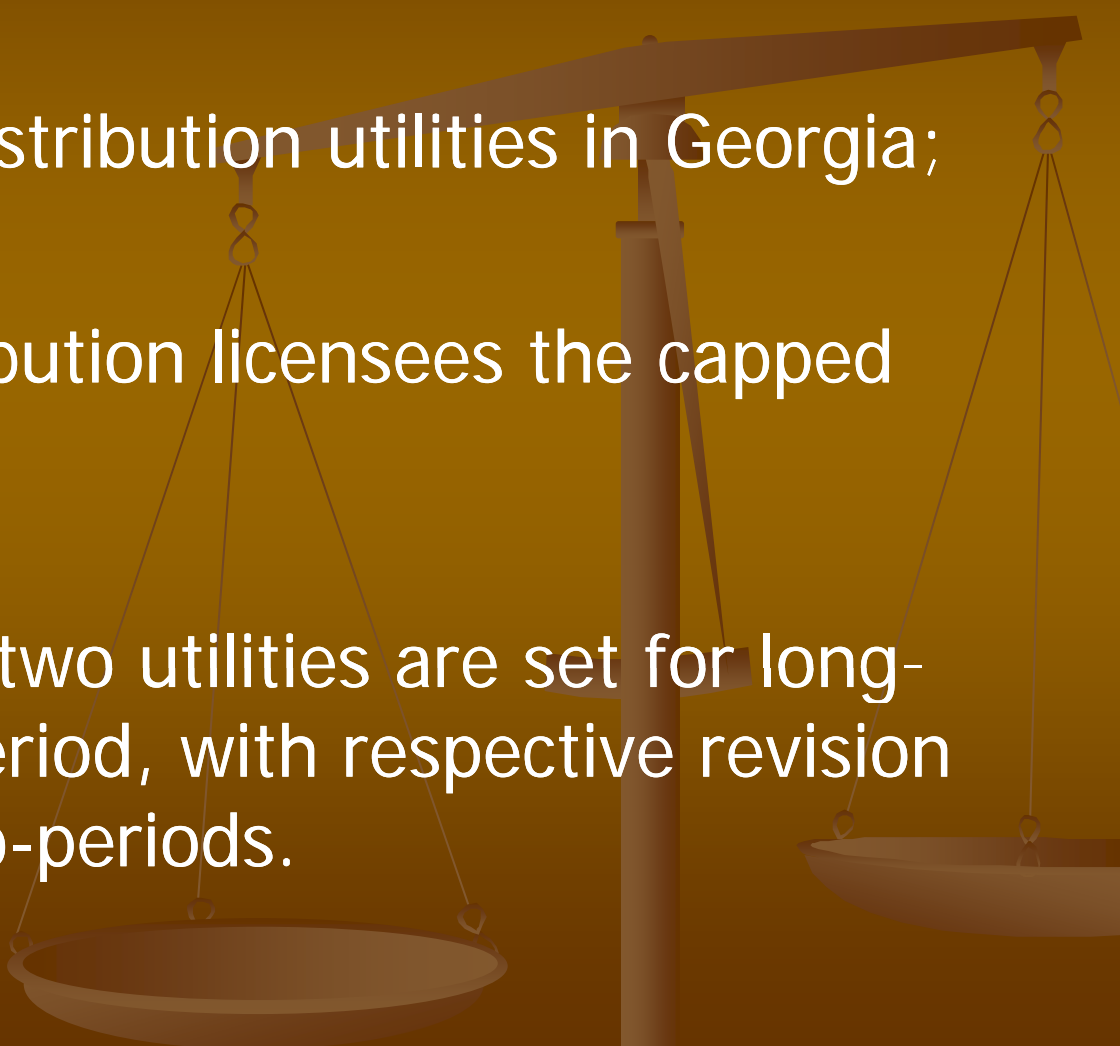
Power Transmission and Dispatch tariffs News in Legislation

- Standard losses of the transmission network are considered in the transmission tariff in accordance with the existing legislation;
 - In calculation of the power transmission tariff, the transit revenues are taken into consideration;
 - Dispatch tariff is calculated for the volumes received (metered) by the qualified utilities at delivery points.
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Power Transmission and Dispatch tariffs

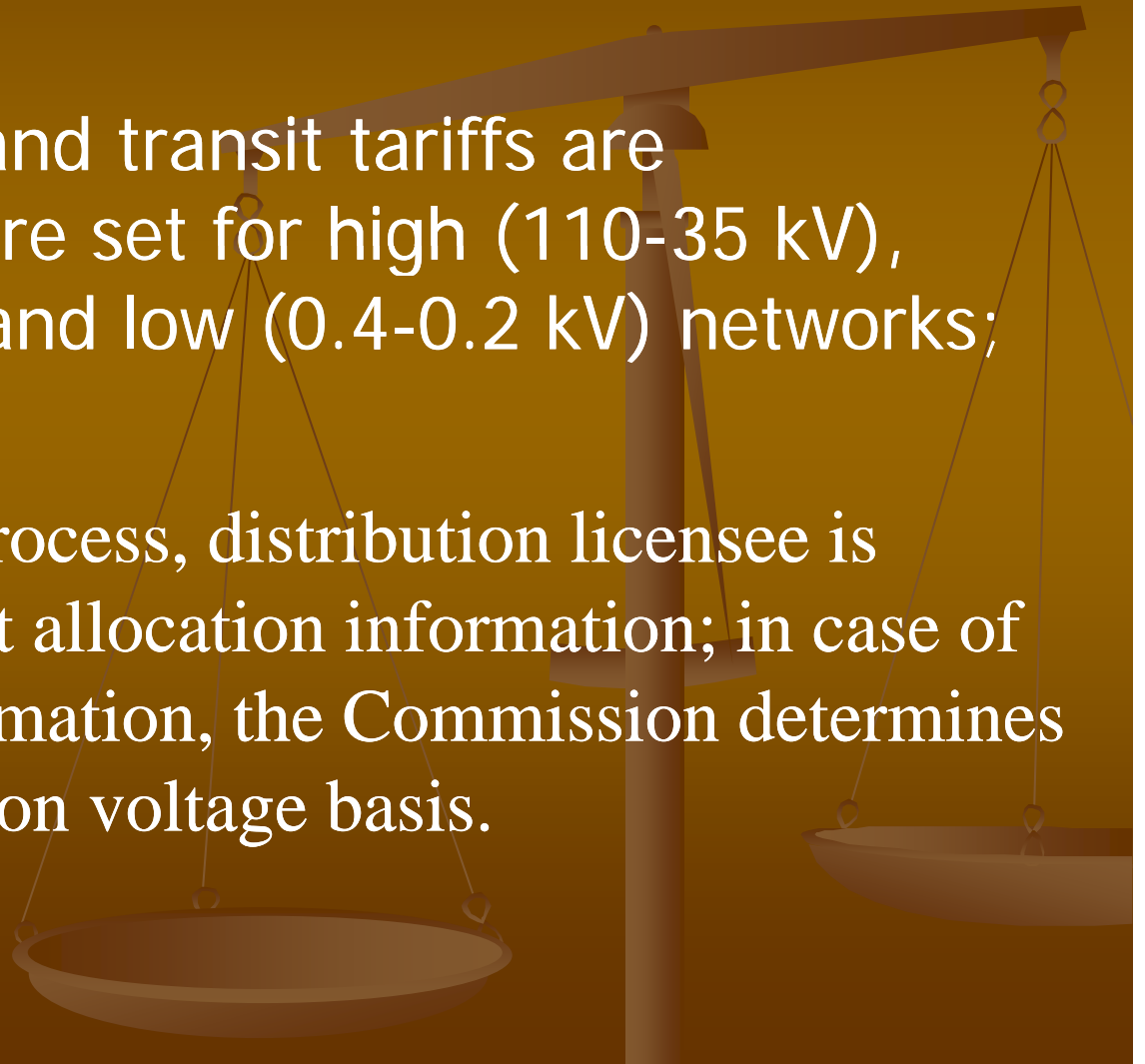


Power Distribution and Transit Tariffs News in Legislation

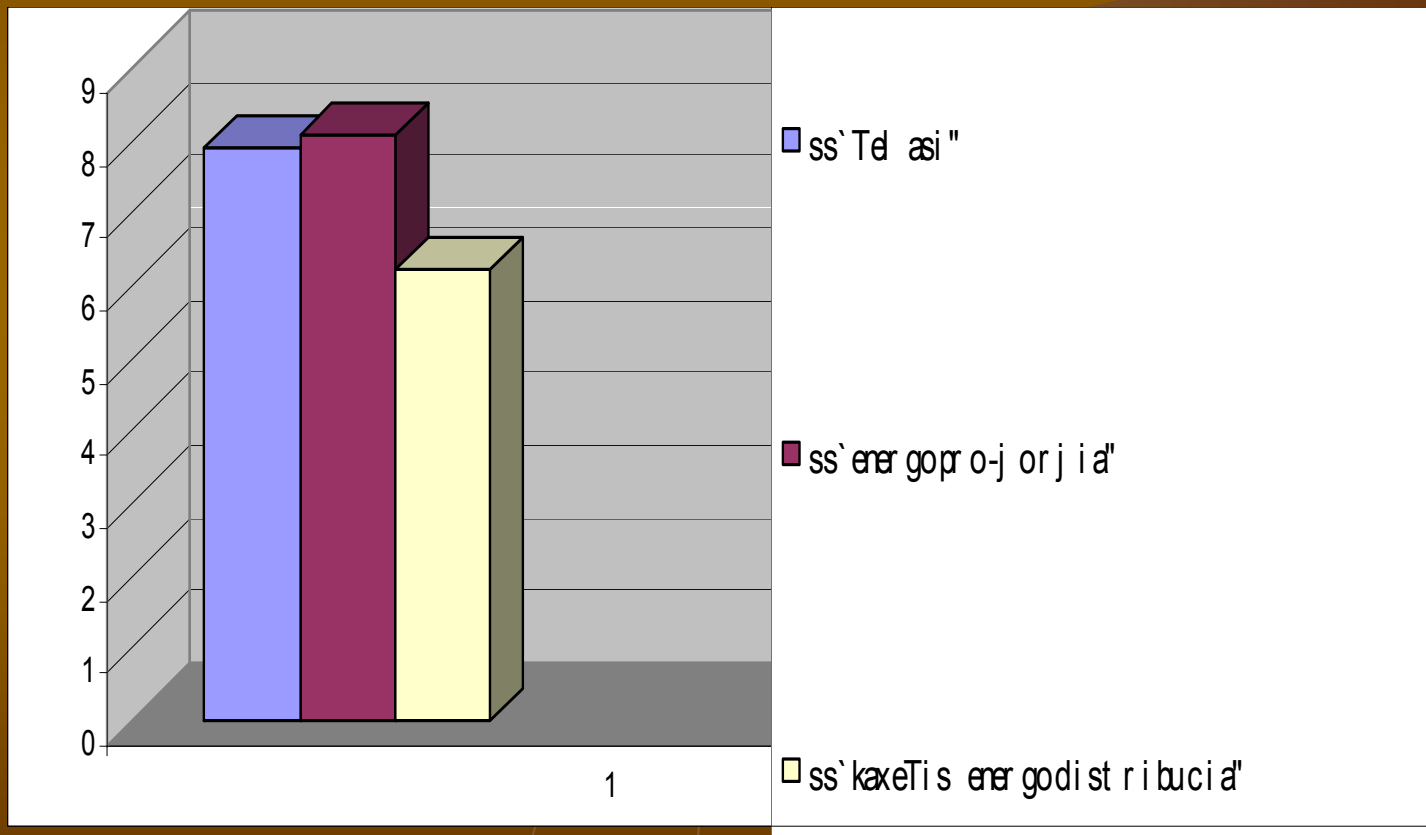
- There are three distribution utilities in Georgia;
 - For all three distribution licensees the capped tariffs are set;
 - Capped tariffs for two utilities are set for long-term regulation period, with respective revision and correction sub-periods.
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Power Distribution and Transit Tariffs

- Power distribution and transit tariffs are differentiated and are set for high (110-35 kV), medium (10-6 kV) and low (0.4-0.2 kV) networks;
- In tariff calculation process, distribution licensee is obliged to submit cost allocation information; in case of absence of such information, the Commission determines allocation conditions on voltage basis.

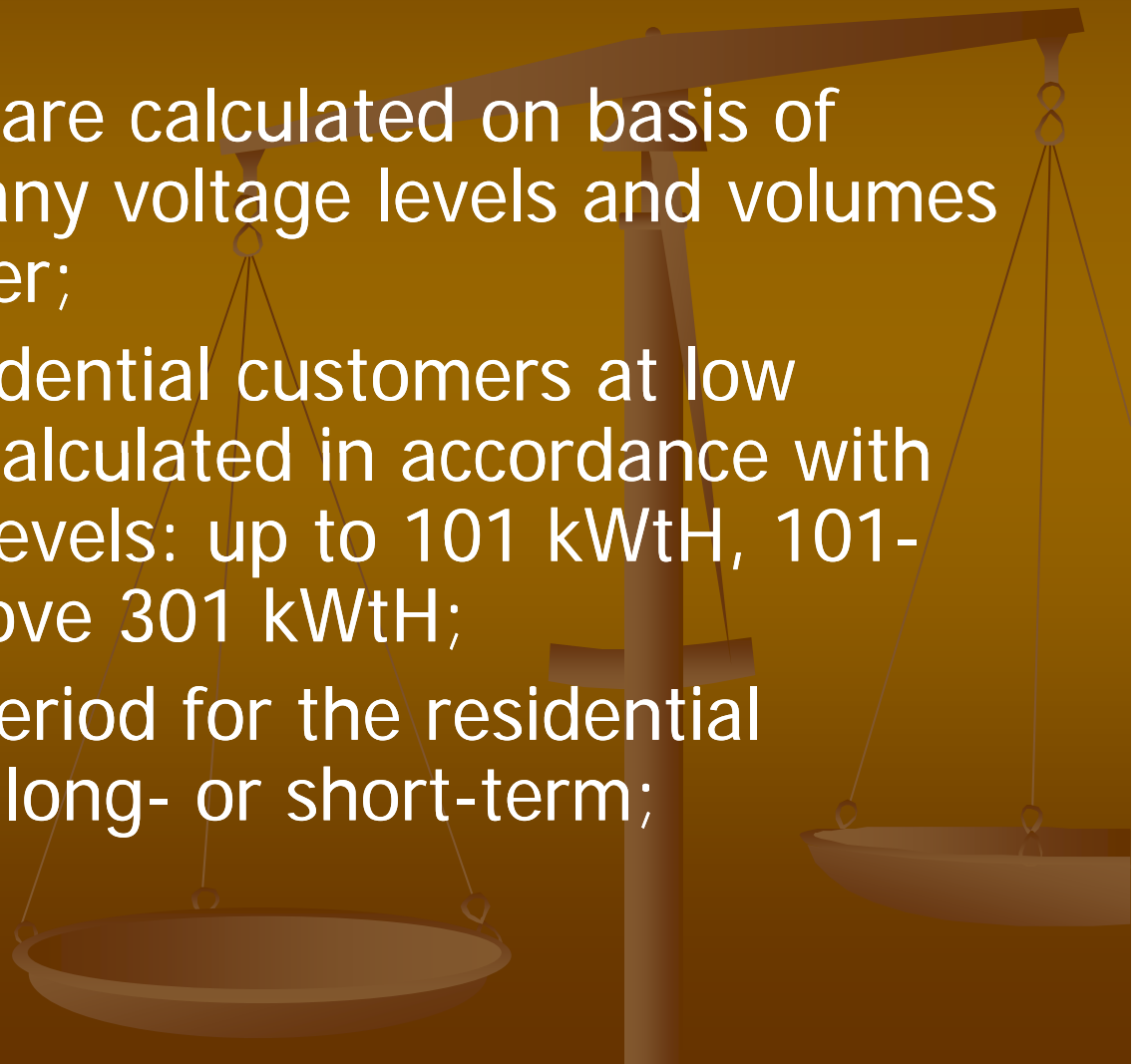


Power Distribution Tariffs

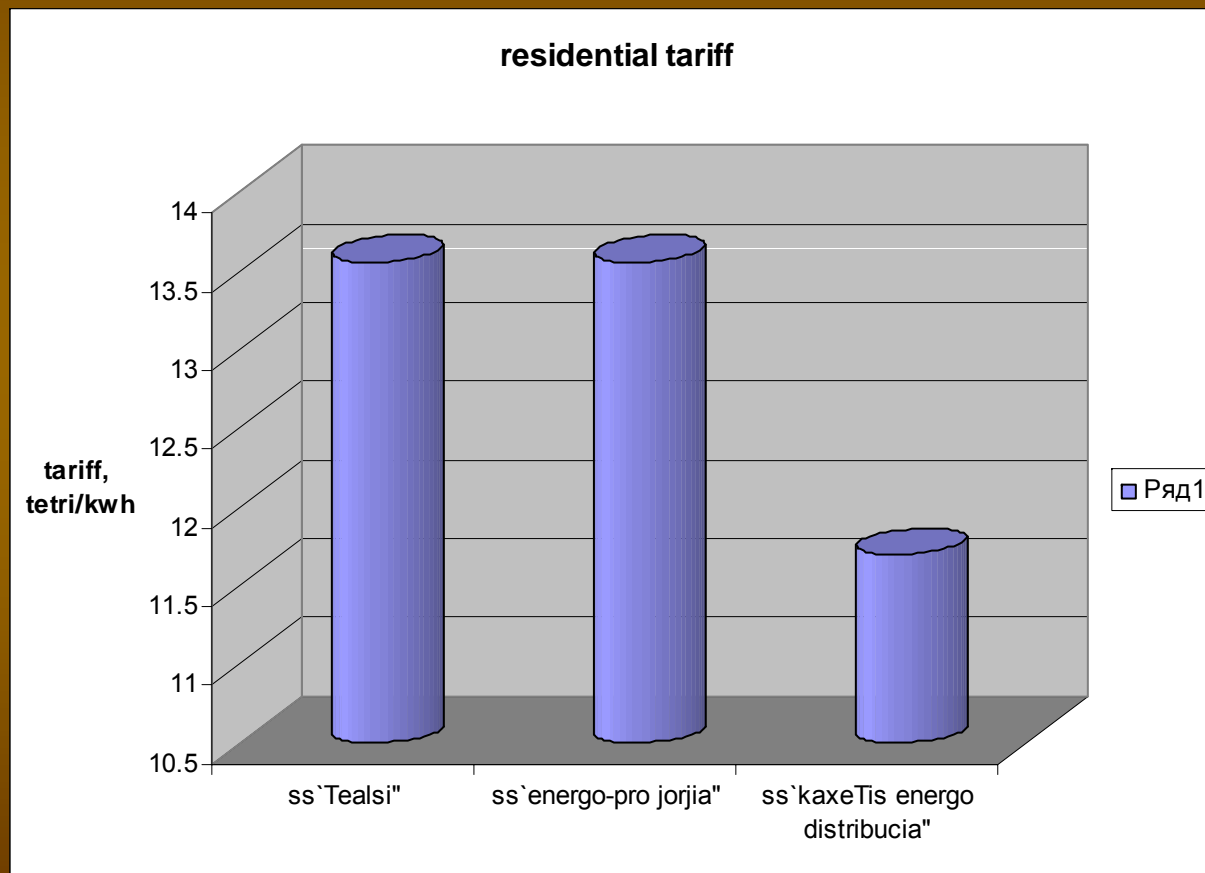


Customers' Power Tariffs

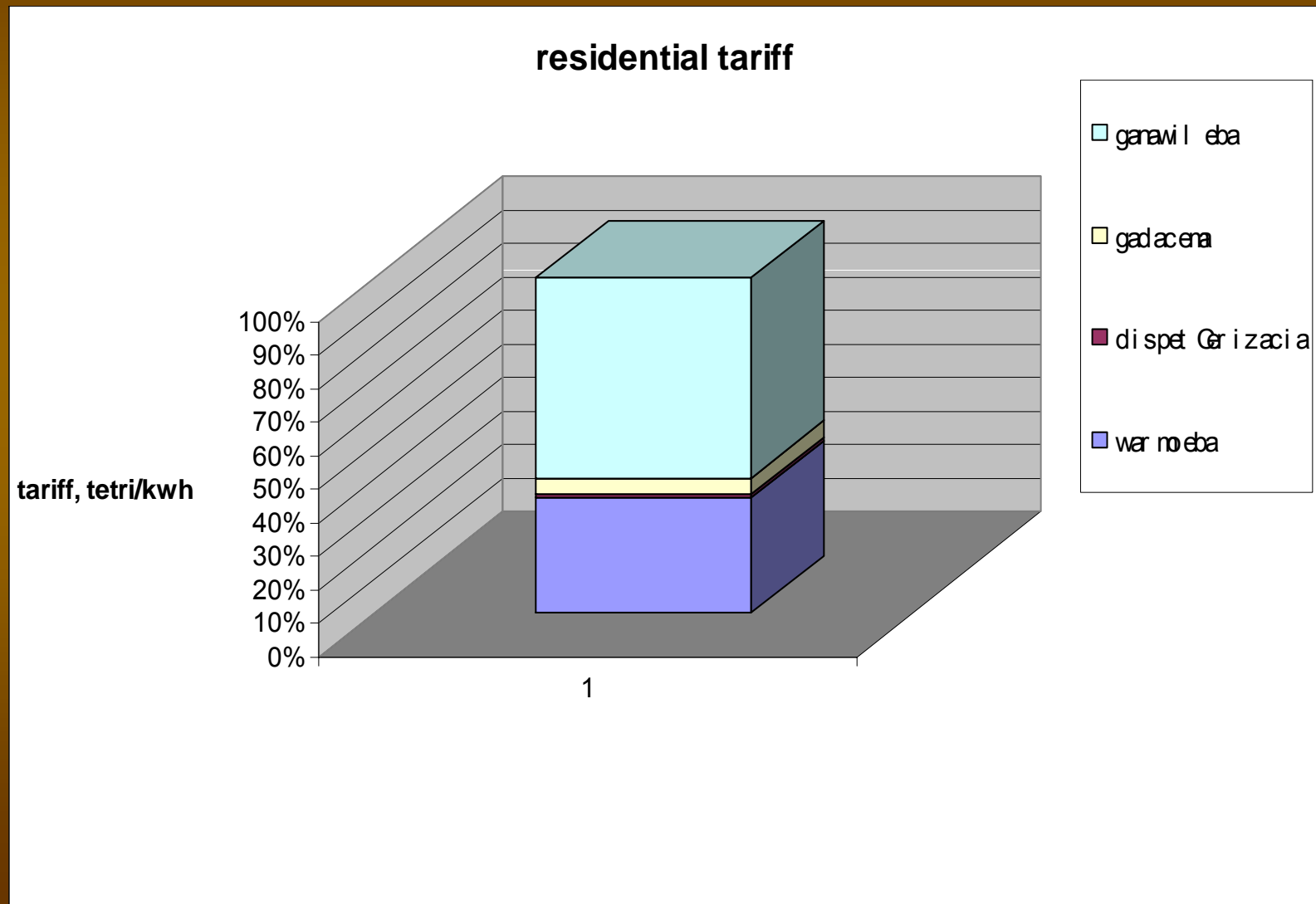
- Customers' tariffs are calculated on basis of distribution company voltage levels and volumes of consumed power;
- Tariffs for the residential customers at low voltage level are calculated in accordance with the consumption levels: up to 101 kWtH, 101-301 kWtH and above 301 kWtH;
- Tariff regulation period for the residential customers can be long- or short-term;



Customers' Power Tariffs

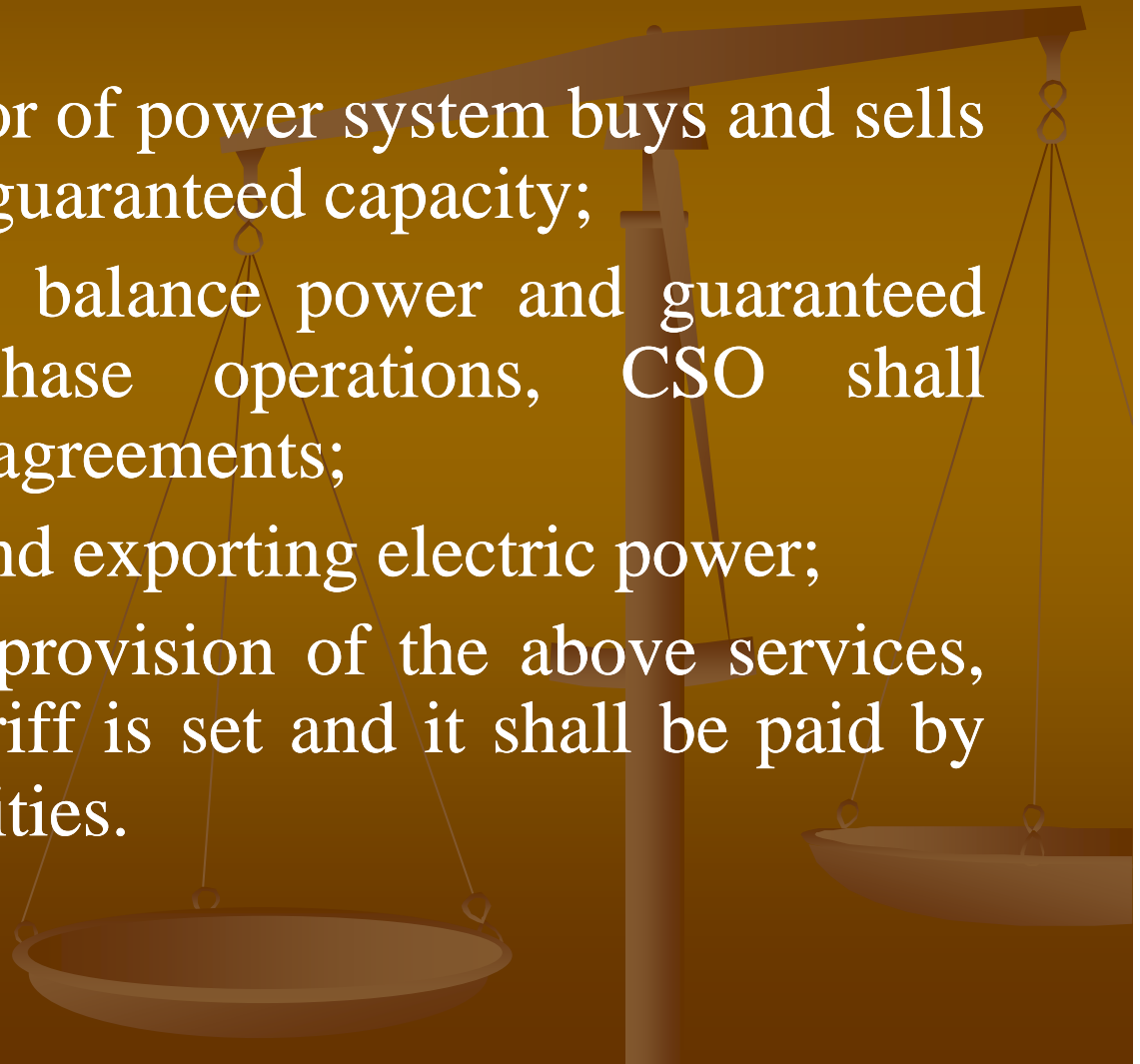


Customers' Power Tariffs



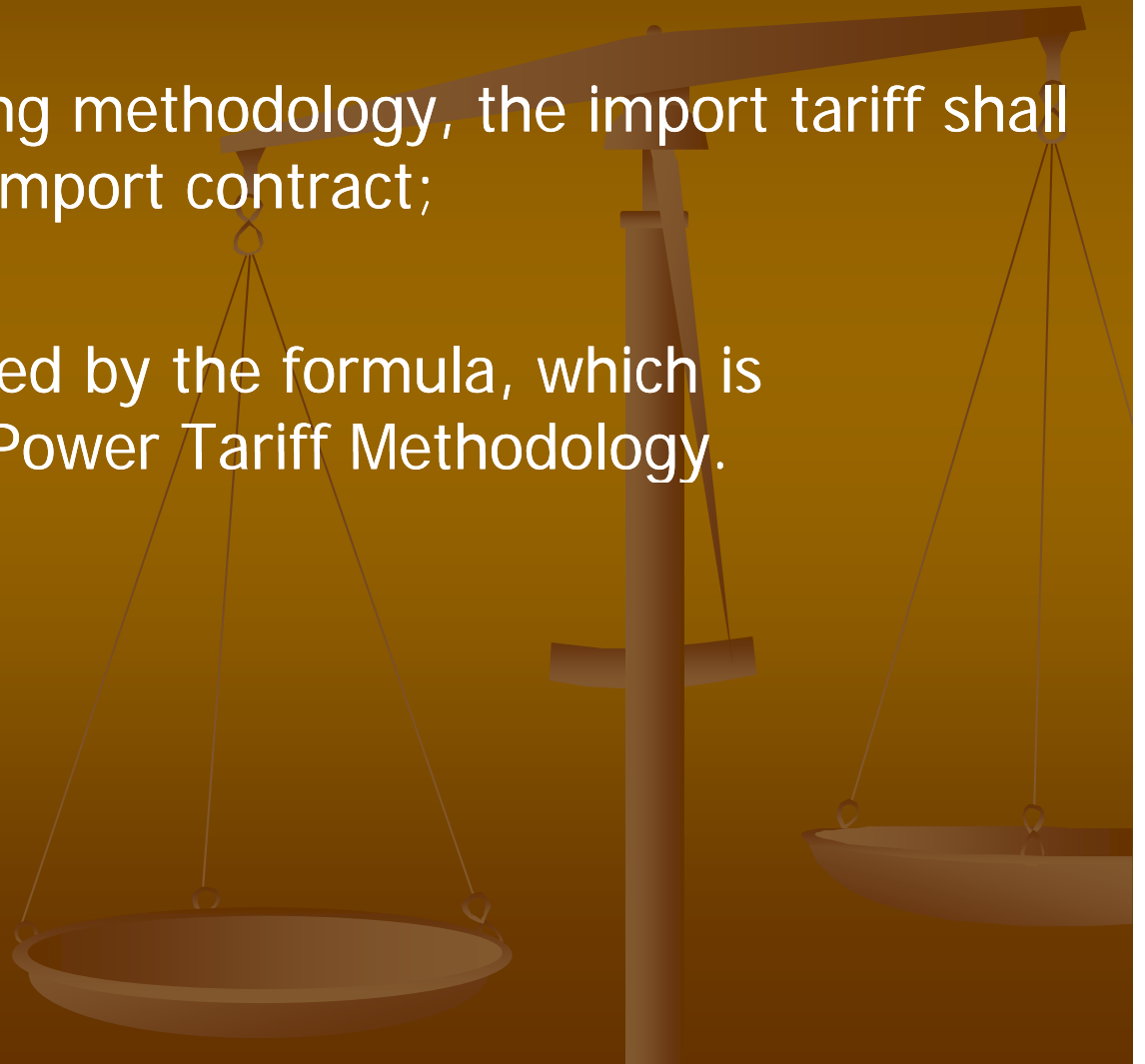
CSO Service Tariffs

- Commercial operator of power system buys and sells balance power and guaranteed capacity;
- For performing the balance power and guaranteed capacity sale-purchase operations, CSO shall conclude the direct agreements;
- CSO is importing and exporting electric power;
- In order to ensure provision of the above services, the CSO service tariff is set and it shall be paid by all the qualified utilities.



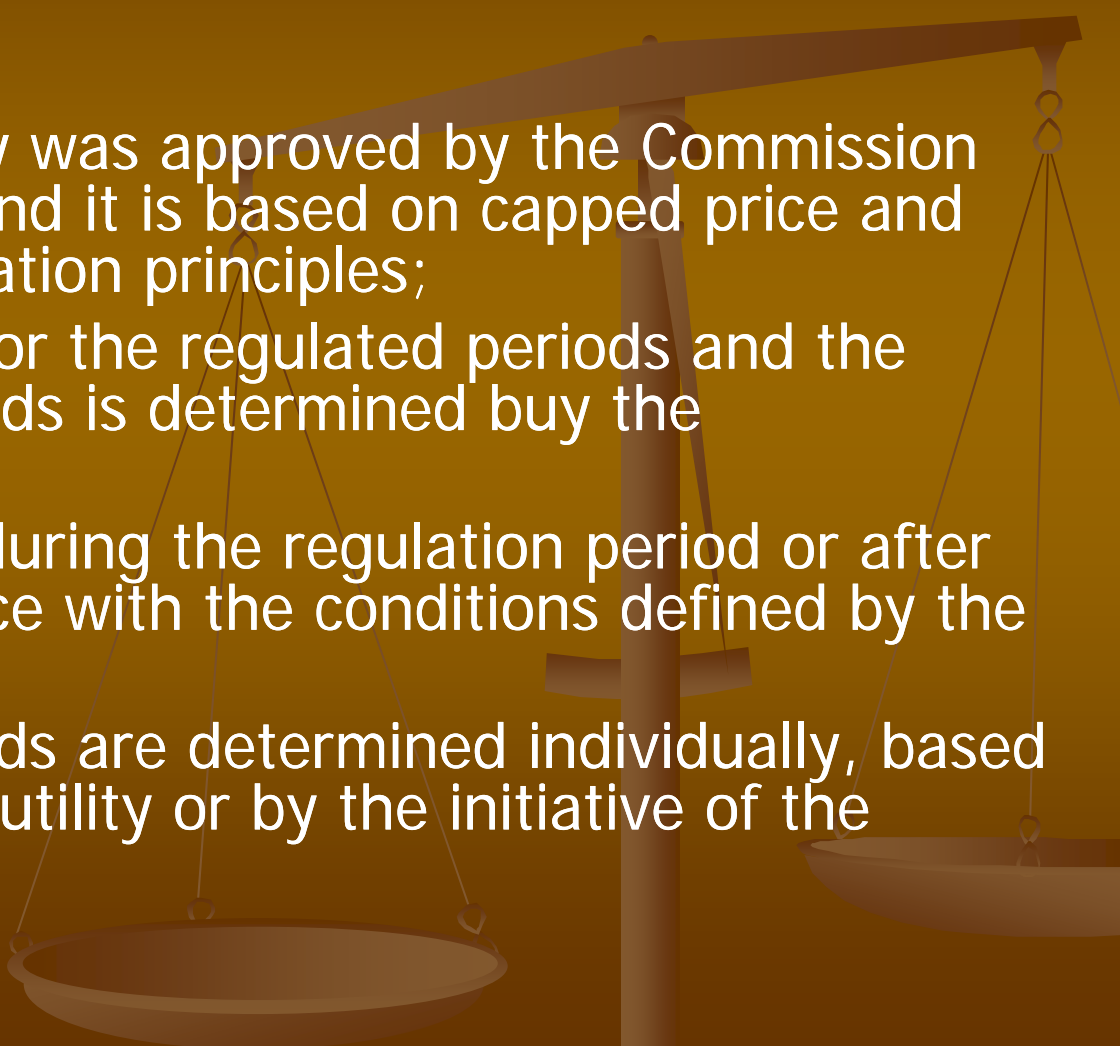
Import Tariff

- According to the existing methodology, the import tariff shall be set on basis of the import contract;
- Import tariff is calculated by the formula, which is determined in Electric Power Tariff Methodology.



New Tariff Regulation

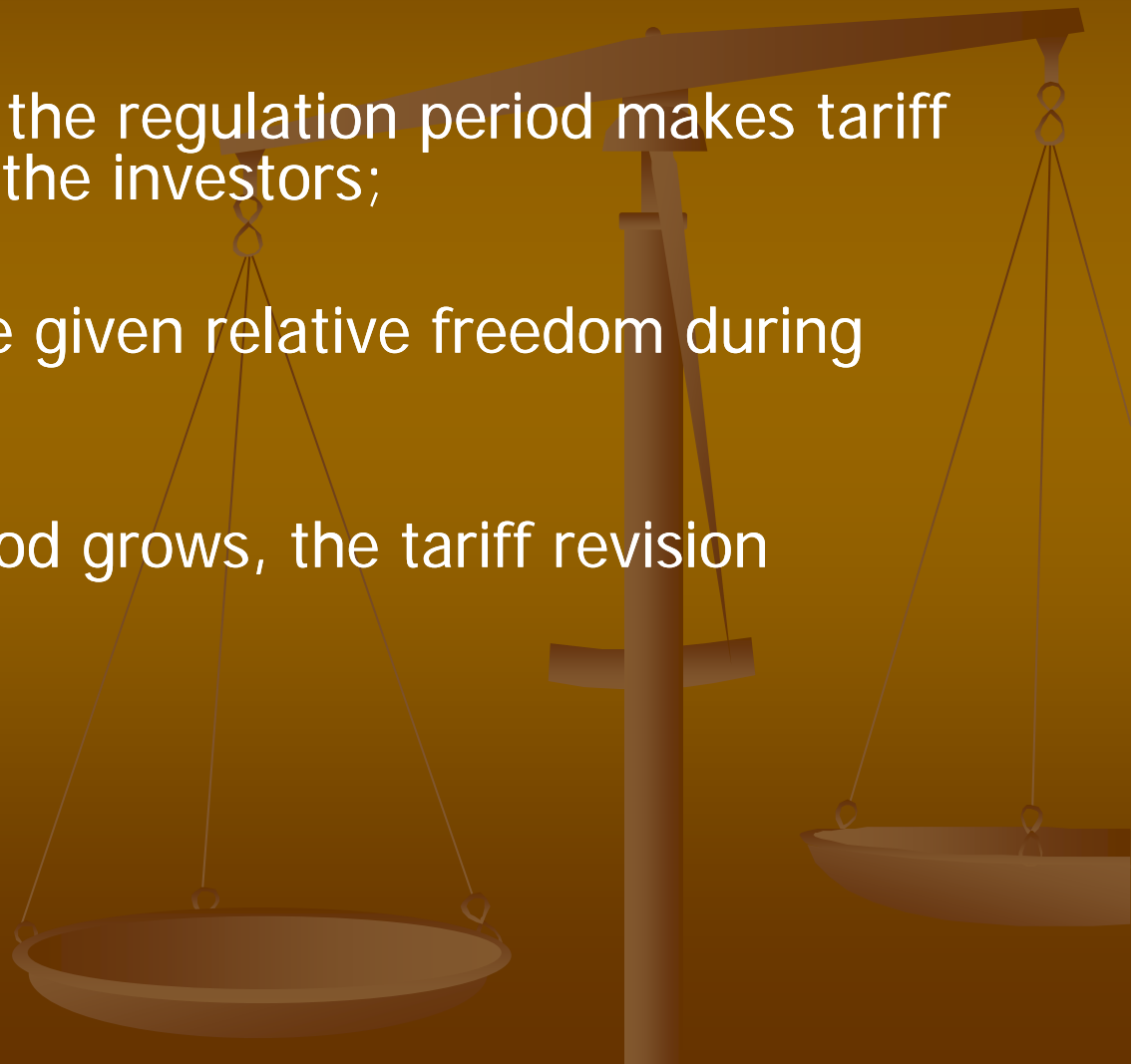
Basic Principles and Advantages

- The new methodology was approved by the Commission on June 8 this year, and it is based on capped price and incentive-based regulation principles;
 - Power tariffs are set for the regulated periods and the duration of such periods is determined by the Commission;
 - Tariffs are corrected during the regulation period or after its expiry in accordance with the conditions defined by the Commission;
 - Tariff regulation periods are determined individually, based on the request of the utility or by the initiative of the Commission;
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New Tariff Regulation

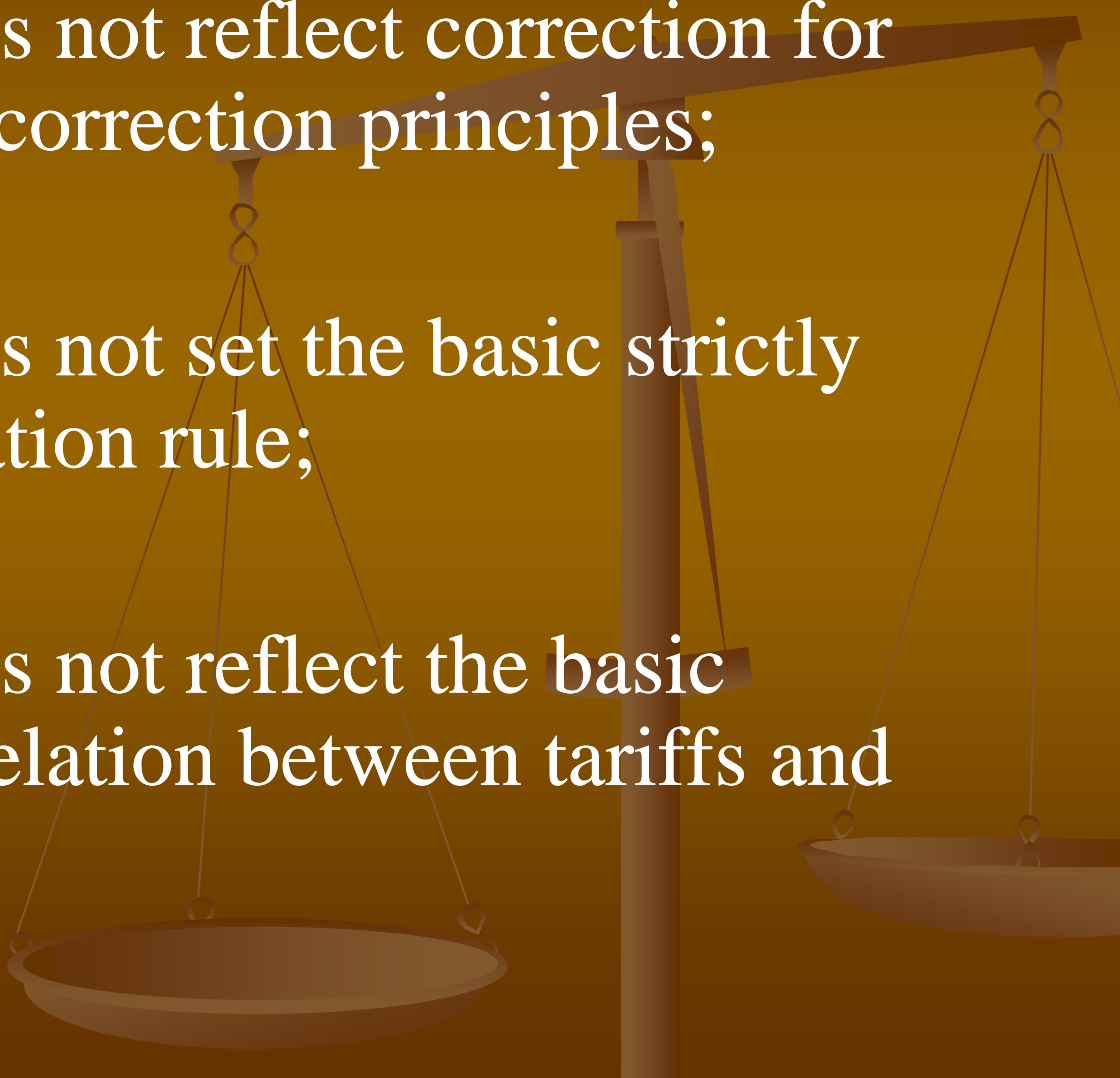
Basic Principles and Advantages

- Tariff stability during the regulation period makes tariff system attractive for the investors;
- Regulated utilities are given relative freedom during tariff setting;
- As the regulated period grows, the tariff revision expenses reduce.



New Tariff Regulation

Weaknesses and Deficiencies

- Methodology does not reflect correction for revenue X factor correction principles;
 - Methodology does not set the basic strictly determined allocation rule;
 - Methodology does not reflect the basic indicators of correlation between tariffs and service quality.
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Thank you for your attention!

