TWINNING PROJECT FICHE

1. Basic Information

1.1 Programme:	Annual Action programme 2013- Framework Programme in Support of EU-Georgia Agreements
1.2 Twinning Number:	GE/23
1.3 Title:	STRENGTHENING CAPACITIES OF THE GEORGIAN NATIONAL ENERGY AND WATER SUPPLY REGULATORY COMMISSION (GNERC) IN REGULATORY COST AUDIT AND MARKET MONITORING
1.4 Sector:	Energy
1.5 Beneficiary country:	Georgia

2. Objectives

2.1 Overall Objective:

The operation of a competitive, transparent and efficient energy market in Georgia.

2.2 Project purpose:

The purpose of this Twinning Project is to develop the institutional framework for the implementation of regulation of Georgia's energy market in line with EU *acquis*.

The project aims to strengthen the capabilities of GNERC as the independent national regulatory authority through the development of tools and mechanisms based on best-EU practice regarding regulatory cost audit and market monitoring within the electricity sector.

2.3 Contribution to National Development Plan/Cooperation agreement/Association Agreement/Action Plan

In the framework of the implementation of the Association Agreement between the European Union and Georgia an Association Agenda has been adopted for the period 2014-2016 with aim to ensure that the Parties are able to enjoy the full benefits of the Agreement starting with its partial provisional application. This Twinning Project will be particularly relevant for Chapter 2.6 of the Association Agenda "Other Cooperation Policies - Energy". In particular, it envisages that parties will cooperate on:

- *taking steps towards the integration of Georgia's energy market with that of the EU, and strengthening Georgia's energy security and regulatory convergence through the implementation of relevant EU legislation applicable to Georgia, in line with Association Agreement and Energy Community commitments and in accordance with*

the timeline agreed by Georgia in the framework of the Energy Community Treaty;

According to the Association Agreement (AA) , to ensure access to secure, environmentally friendly and affordable energy, Georgia undertakes to integrate its market and gradually transpose the EU energy *acquis* into its national legislation as well as to become a Contracting Party to the Energy Community Treaty. Regulation is a key element of this approximation process and therefore, the AA commits EU and Georgia to works towards strengthening the independence of the national energy regulatory authority and its capacity to develop the relevant regulatory framework to ensure the operation of competitive, transparent and efficient energy markets.

Further objectives of the AA are to increase market integration and gradual regulatory approximation towards key elements of the EU *acquis*, and promote energy efficiency and the use of renewable energy sources. Furthermore, the parties acknowledged the need for enhanced energy cooperation, and the commitment to implement the Energy Charter Treaty. The agreement also gives details about:

- Energy transit – that envisages obligation of the parties to ensure transit, consistent with their international commitments in accordance with the provisions of GATT 1994 and the Energy Charter Treaty;
- Unauthorised taking of goods in transit– states that parties shall take all necessary measures to prohibit and address any unauthorised taking of energy goods in transit through its territory by any entity subject to that Party's control or jurisdiction;
- Uninterrupted transit – according to which parties shall not take from or interfere otherwise with the transit of energy goods through their territory, besides specified exceptional circumstances specified in the Agreement;

- Transit obligations for operators - parties shall ensure that operators of energy transport facilities take the necessary measures to minimise the risk of accidental interruption or reduction of transit; and to expeditiously restore the normal operation of such transit, which has been accidentally interrupted or reduced;
- Independent National Regulatory Authorities– according to which each Party shall designate independent regulatory authorities empowered to regulate the gas and electricity markets. These regulatory authorities shall be legally distinct and functionally independent from any other public or private enterprise, market participant or operator.

- Organisation of markets - the Parties shall ensure that energy markets are operated with a view to achieving competitive, secure and environmentally sustainable conditions and shall not discriminate between enterprises as regards rights or obligations.

- Access to energy transport facilities - each Party shall ensure on its territory the implementation of a system of third party access to energy transport facilities and Liquefied Natural Gas and storage facilities applicable to all users and applied in a transparent, objective and non-discriminatory manner.

Furthermore, the Regulation (EU) No 232/2014 of the European Parliament and of the Council of 11 March 2014 establishing a European Neighbourhood Instrument defines in Annex II the priorities for Union support at bilateral level which include the institutional cooperation and capacity development, including for the implementation of Union agreements, such as within the energy sector.

This Twinning Project will support implementation of the above-mentioned aims through the approximation of Georgia’s regulatory framework in the electricity market.

3. Description

3.1 Background and justification:

Development of the sector

End of January 2013, Georgia applied for full membership of the Energy Community. The accession will need – according to the existing Treaty – the transposition in Georgia of the main elements of the EU *acquis* in the energy sector.

In comparison with 1989, electricity consumption in the country decreased by half. The economic collapse after the breakdown of the Soviet Union deteriorated further as a result of the civil war, the conflicts in Abkhazia and South Ossetia and political instability. During the mid-90s, the electricity sector of Georgia was close to a full collapse: electricity supply was limited to minimum, e.g. in winter periods electricity supply was reduced to 2-3 hours a day and natural gas deliveries were completely stopped. The unreliable energy supply had an adverse impact on the socio-economic situation in Georgia.

Staring from 1997, Georgia started comprehensive reforms in its energy sector. These reforms included the adoption of the Law on Electricity and Natural Gas, the creation of the Electricity Regulatory Commission and the unbundling of the State Electricity Company 'Sakenergo' into separate, yet still state-owned, companies for generation, transmission and distribution. The creation of an Electricity Pool (in 2000) and the introduction of Power Market Rules became important milestones in the reform process.

Nonetheless, the sector reforms were hampered by a number of issues: an almost entire dependence on energy supply from Russia; low tariffs and collection rates resulted in poor maintenance of the electricity system, corruption and slow progress in the privatisation of distribution and generation. By 2000, Georgia's generation capacity had decreased from 3,200 MW (in 1985) to 700-800 MW.

After the 'Rose Revolution' the new Government, with support from the EU, the World Bank, USAID and other donors, developed and implemented an ambitious plan to ensure uninterrupted electricity supply. The activities simultaneously addressed several problems: legal and regulatory changes creating favourable conditions for investing in the sector, diversification of energy supply sources, fight against corruption in the energy sector (and elsewhere), improvement of the energy infrastructure and privatisation of distribution and generation companies. It also improved bill collection rates and increased electricity tariffs to cost-recovery levels. As a result, by 2005 the electricity deficit was eliminated.

In the period 2006-2010, the Georgian Government allocated more than 500 mln GEL (approximately 230 mln EUR) for the rehabilitation and development of the electricity sector.

Significant progress was achieved in the direction of market liberalization. The presence of foreign energy companies and distributors in the local market has contributed to diversity and sustainability of the sector in general. The beginning of the implementation of the Turkey - Georgia – Armenia- Azerbaijan High Voltage Interconnection Project was a very important step to improve energy security and enhance the use of renewable energy. This is a 500 kV high voltage transmission line project that will connect the Georgian power system to the Azeri, Armenian and Turkish grids. This project has a great importance for Georgia as well as for the whole region.

Structure of the electricity sector

As a result of implementation of the mentioned measures in the period 2007-2011, Georgia became an exporter of electricity in the South Caucasus region (See table). However, since 2012 Georgia had to import electricity, especially in the winter when the generation from hydropower stations is at its lowest.

Indicator	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 (9 months)
Electricity Production	7216.9	6880	7419.8	8169.5	8279.1	8278.1	9919.2	9912.2	9471.9	9860.6	7674.4
Change (%)	100%	95.33%	107.85 %	110.10 %	101.34 %	99.99%	119.82 %	99.93%	95.56%	104.10 %	77.83%
Electricity Consumption	6763.7	7842.7	7882.6	7812.6	8074.8	7640.1	8441.99	9256.6	9379.4	9690.2	7458.3
Change (%)	100%	116%	101%	99%	103%	95%	110%	110%	101%	103%	77%
Export	204.6	121.8	82.6	625.5	679.6	749.4	1524.3	930.6	528.1	450.4	497.5
Change (%)	100%	60%	68%	757%	109%	110%	203%	61%	57%	85%	110%
Import	599.5	1398.6	777.5	433.2	649	254.8	222.1	470.97	614.6	484.1	450.5
Change (%)	100%	233%	56%	56%	150%	39%	87%	212%	130%	79%	93%
Balance (+) (-)	848.10	314.10	232.10	164.60	173.70	143.40	-175.01	195.97	179.00	204.10	169.10

Figure 1: Electricity Balance in Georgia, 2000-2014, mln. KW/h

In Georgia there are more than 40 generation companies, including three gas-fired, thermal power generating companies.

There are three companies having transmission licenses: 'Georgian State Electrosystem' (GSE), Energotrans LTD and 'Sakrusenergo'. Sakrusenergo, a joint venture with the Russian Inter-RAO, owns and operates 220, 330, and 500 kV high voltage lines, connecting Georgia with Russia, as well as with Turkey and Azerbaijan. The state-owned GSE and Energotrans Ltd own and operate all other high voltage lines, transformers and other related facilities. GSE also operates the dispatch centre and some system operation function.

The Georgian electricity sector today operates with three distribution companies: 'Telasi' (mainly owned by Russian Inter-RAO), 'EnergoPro Georgia' (owned by Czech company EnergoPro) and 'Kakheti' Distribution Company (owned by the Lithuanian company ACHEMAOS Gruppe). They are in charge of energy distribution and supply to the incumbent domestic and household customers.

The Georgian electricity market is based on a system of bilateral contracts between generators and eligible consumers, complemented by a balancing mechanism managed by the market operator. ESCO, the Electricity Commercial Operator, is responsible for the balancing of the market by selling and buying the balance energy providing the system with reserve capacity, providing dispatcher with the information in order to plan the electricity and capacity supply and consumption in the national electricity system, providing platform for the settlements between the buyers and sellers of the reserve capacity and balance energy.

Legal Background

The relevant legal acts for GNERC are the 'Law of Georgia on Electricity and Natural Gas' (with later changes and additions regarding water supply regulation as well) of 27 June 1997, the 'Law of Georgia on National Regulatory Authorities' (coming into effect from 15 October 2002), the Law on Licensing and Permits of 2005 and the General Administrative Code of Georgia which applies to all state agencies.

The first two Laws provide high level of autonomy to GNERC in those issues where it has authority. The Law on Independent National Regulatory Authorities clearly defines, that *'independence is the ability of both an independent regulatory authority and the commissioner to carry out activities without improper influence and illegal interference to exercise the authority of a regulatory authority as determined under the applicable law, including discussing, investigating and deciding the matters assigned to its authority; any interference in the activities of an independent regulatory authority, control of the said activities and demanding accounts of such activities on the part of any state authority shall be inadmissible, if this is not explicitly provided for by the applicable law'*.

The Law on electricity and natural gas defines the main features of independence: the Commission consists of five members. The President of Georgia submits the candidatures of the Commission members with the approval of Government of Georgia to the Parliament of Georgia, which elects them with the majority vote. A member of the Commission is elected for a six-year term. A member of the Commission may be re-appointed for another six-year term; the President of Georgia submits the candidature of the Chairman of the Commission with the approval of Government of Georgia to the Parliament of Georgia. The Parliament votes for the appointed candidature and elects the Chairman of the Commission with the majority vote. They may be removed from the office only in the cases stated in the Law. The Commission has an independent budget and is funded from the regulatory fees; this regulatory fee is evaluated and set by the Commission for the next year until September 15 of the current year without any interference of the Government. The Commission has sole use of the funds. By March 31 of each year the Commission prepares and publishes a report for the past year; it is available in the Georgian language for the general public.

After 2005 several changes were made to the Law on Electricity and Natural Gas. The changes provided clear definition of rights and duties of subjects participating in wholesale trade with electricity, development of unified effective sector management system, ensuring energy security of the country, liberalization of particular segments of sector up to its full deregulation and amongst them transfer to bilateral contracts.

In 2006 amendments to the energy laws transferred the authority to the Ministry of Energy for the preparation of electricity and natural gas balances, electricity market rules (including backup capacity calculations), and natural gas market rules.

The possibility of definition of long term tariffs was also a legislative innovation. This makes it possible for the companies to plan financial results in advance, and protects final user from unexpected increase of tariff.

GNERC has no legislative advising power to propose amendments of laws, but it could have informal suggestion in initiating or preparing drafts regarding harmonized definitions of laws.

Most recently, the Law of Georgia on Electricity & Natural Gas was amended at the end of 2013 (27 December, 2013). These amendments significantly increase the mandate and responsibilities of GNERC, and specifically:

- GNERC is responsible for the monitoring of energy markets.

- GNERC is granted the authority to approve the Grid Code for transmission and distribution networks. Under the transitional provisions, the deadline for adoption of the Grid Code is 1 June, 2015.

- GNERC is empowered to approve Uniform System of Accounting[1] for license holders. The Uniform System of Accounting has to be approved within three years from 27 December, 2013.

Sector Regulation

From the above described background, *the main tasks* to be addressed by GNERC in the mid-term are the following:

- Development and approval of the Distribution Grid Code.
- Development of mechanisms and procedures and rules for the monitoring of energy markets.
- Development of the regulatory cost audit mechanisms, tools and procedures.
- Implementation of the Unified System of Accounting.
- Support to the process of complete opening of the electricity market.

Within the planned Twinning Project, GNERC seeks to work with EU peers in two priority tasks:

1. Cost Audit Process implementation

In order to implement the newest regulatory approaches, cost audit processes have to be developed at GNERC on the basis of EU MS experiences. The ultimate aim is to facilitate investments into the electricity grid and increase the efficiency of regulated transmission and distribution activities.

In 2014, GNERC completed the design of a new incentive-based tariff methodology in the framework of the Twinning project 09/2012 – 06/2014 (GE10/ENP-PCA/EY/11). This methodology has been rolled out at one of the three electricity distribution companies operating in Georgia. However, GNERC capacity needs further development in order to expand the implementation of the incentive-based methodology throughout the electricity market. Regulatory costs auditing is an essential activity for the design and implementation of regulated tariffs.

2. Market monitoring in line with the EU legislation

Monitoring of national energy markets is an obligation set out within the EU Third Energy Package and thus has to be adopted as part of the adoption of EU energy *acquis.* This is a new task for GNERC following the amendment of the Law on Electricity and Gas in 2013. Market monitoring provides greater transparency, and therefore a key contribution toward development of efficient markets.

The challenge for GNERC is to obtain a full understanding of the principles, methodologies and procedures for monitoring energy markets in the EU. It will enable GNERC to analyse

[1] The Uniform System of Accounting (USoA) sets out accounting and reporting standards mandatory for GNERC licensees.

the current situation in Georgia's electricity market and develop recommendations for the methodology and the implementing modalities to monitor Georgia's electricity market.

Strengthening the capacity and knowledge base within GNERC will both support and complement the work under the two areas described above.

3.2 Linked activities *(other international and national initiatives)*:

In the recent years, a number of projects financed by different donors have been contributing to the development and strengthening of the Georgian energy system and its efficiency. Below is a summary of the main interventions:
The **EU funded project under INOGATE 'Capacity-Building for Energy Regulators in Eastern Europe and central Asia'** January 2009-July 2010 –promoted and advocated good and sound energy regulatory practices in the Partner Countries of the INOGATE Programme and promotes harmonisation of energy regulatory practices among them. Beneficiary countries: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

The **mentioned EU funded project under INOGATE 'Capacity-Building for Energy Regulators in Eastern Europe and central Asia' has financed a Peer-Review Study through ERRA in 2009-2010** (Report published in February 2010). The Peer-Review has analysed the autonomy, the authority and the accountability of the regulatory bodies. The present Twinning Fiche is utilising many of the findings and advice of the Peer-Review.

The **EU funded project 'Georgian-European Policy and Legal Advice Centre – GEPLAC'** prepared different analyses on implementation of the EU-Georgia cooperation documents in different fields, including the energy sector. They also analysed the situation and tasks regarding Georgia's possible membership in the Energy Community.

Black Sea Transmission Network, co-financed by EBRD (European Bank for Reconstruction and Development), KfW, EIB (European Investment Bank) and EC through the Neighbourhood Investment Facility. This project connects the Georgian and Turkish electricity grids and strengthens the Georgian transmission grid. The total cost is around 290 m€.

EBRD financed a study about "Electricity Distribution Tariff Reform" from January to October 2013. The project supported GNERC to ensure that the new tariff methodology elaborated by GNERC is in line with an internationally accepted framework and commitments that Georgia has assumed as an observer of the Energy Community Treaty. KEMA reviewed the new tariff methodology and performed gap analysis between proposed methodology and international best practice.

EBRD, EIB and EC through the Neighbourhood Investment Facility are financing the rehabilitation of the Enguri and Vardnili hydropower cascade. This project started in 2004 and is now at its second phase. Enguri and Vardnili hydropower plants provide around one third of the electricity consumed in Georgia.

The **USAID-financed project 'Energy Capacity Initiative' implemented by Advanced Engineering Associates International, Inc (AEAI),** March 2008 - March 2011.This project was designed to enhance energy policy analysis capacity within Georgia, to facilitate stakeholder dialogue on policy issues and to support higher education programs in energy.

The **USAID financed project 'GNERC Partnership Program' implemented by National Association of Regulatory Utility Commissions (NARUC),** Sept. 2008 - Sept. 2011 supported the effective functioning of the GNERC by building and strengthening a partnership between GNERC and a U.S. regulator.

The **USAID financed project 'Black Sea Transmission Planning' implemented by US Energy Association USEA,** Sept. 2007 - Sept. 2012 was designed to establish a Caucasus group to enable joint planning of regional transmission links.

The USAID Hydropower Investment Promotion Project (HIPP) was actively working on developing cross border trading mechanisms and the new electricity market model. The project was consulting various stakeholders including MoE, GNERC, market operators and GSE. US Government launched **Hydro Power and Energy Planning Project (HPEP)** on November 14, 2013. HPEP is USAID's follow-on project to the HIPP and will continue supporting Georgia for market-based initiatives to stimulate investments into the hydro power sector. HPEP will facilitate private sector development of hydro power resources of Georgia that are environmentally, socially and economically sound, support Georgia in adopting and implementing the Georgia Electricity Market Model of 2015 (GEMM 2015) developed under HIPP, and help establish an electricity trading mechanism in Georgia and beyond.

The **USAID (USAID) Governing for Growth (G4G)** in Georgia was launched in December 2014 and will last 5 years. G4G is designed to enhance governance in select business enabling areas: tax and customs administration, trade facilitation, land registration, electricity trading policy, and water resource management.

The **EU-financed Twinning project "Strengthening capacities of the Georgian National Energy and Water Supply Regulatory Commission (GNERC) in updating incentive based electricity tariff methodology"** (E10/ENP-PCA/EY/11), Sept 2012 – June 2014 which strengthened the capacities of GNERC and developed the new electricity tariff methodology. The project was implemented by E-Control, the Austrian energy regulatory authority.

3.3 Results:

By the end of the Twinning Project, the following results will be achieved:

Result 1 - The enabling environment within GNERC to begin development work towards the implementation of regulatory cost audits and market monitoring is established.

Result 2 - The draft Rules for Regulatory Cost Audit according to the EU regulations are prepared as well as the knowledge and skills of GNERC management and staff in respect of collection of regulatory data, regulatory cost allocation, and cost audit techniques.

Result 3 - The draft Rules for Monitoring of the Electricity Market according to the EU best practices have been prepared, as well as the knowledge and skills of GNERC management and staff in market monitoring are strengthened.

3.4 Activities:

The list of Components and Activities as well as their method of implementation, benchmarks and resources are indicative only. Applicants are requested to develop their own solutions regarding appropriate activities and their content.

This Project comprises three components related to the specific project purpose and results above. Inside each component there is a series of activities which if implemented correctly and in full will lead to the production of the Results set out in Section 3.3.

In order to achieve the expected results it is important that GNERC staff further develops their technical English language skills and are proficient in the use of MS Excel and Access software.

During the first months of the project implementation, partnership relations must be established and mutual understanding achieved between the Twinning Partners at managerial levels as well as between experts of the EU MS and GNERC working group members. The mechanism of coordinated solution of problematic issues should be elaborated. Significant support to the project implementation is expected to be received from the PAO and the EU Delegation to Georgia.

General Activities

Activity 1.1: Organise kick-off conference and establish necessary working groups

Method

The first month of the project will be used to allow the installation of the Resident Twinning Adviser (RTA) in Georgia. The RTA will have to be installed in his/her office at the GNERC.

S/he will be introduced to the beneficiary country (BC) stakeholders of the project and to his counterparts and staff.

S/he will also hire an RTA Assistant and a Translator/Interpreter Assistant through an appropriate selection procedure. Hiring a Translator/Interpreter Assistant is important in addition to the RTA Assistant due to the significant amount of interpretation/translation needs amongst the GNERC circumstances.

A one-day Kick-off Conference will be organised in the first month aiming at launching and presenting the project to the stakeholders, the media and the public at large. In order to guarantee large public information about the start of the project, the meeting will be concluded with a press conference and a press release.

In the first month of the project the partners will establish necessary Working Groups (WG) (possibly two: Cost Audit WG - CAWG and Market Monitoring WG - MMWG) to lead and undertake all activities in the various components, supported by the RTA and the MS short-term experts (STEs).

In addition to the RTA and STEs, each WG will comprise 25 persons from GNERC staff. They will be chaired by key experts from both sides.

The Working Groups will meet regularly during the missions of MS STEs.

The RTA and the RTA Counterpart will be responsible for all coordination, logistical and operational matters regarding the establishment and operation of the WGs. The project leaders (PL) may wish to assign responsibility for specific Components to STEs.

Benchmarks: Stakeholders, media and public informed about the start and content of the project by start of month 2; operational and functional Working Groups

Resources: venue, catering, translation, interpretation and interpretation equipment, printing costs

Activity 1.2: Organise Project Final Conference

Method

During the last month of the project, a closing conference will be organised at which the results of the project will be presented. The achieved results in the areas of the project's interventions will be discussed with the Beneficiary, the Georgian Government and the companies. The conference will be concluded with recommendations for possible follow-up and lessons learnt for similar projects.

Benchmarks: closing conference organised, recommendations and lessons learnt formulated and discussed, stakeholders, media and public informed about the results of the project and its completion

Resources: venue, catering, translation, interpretation and interpretation equipment, printing costs

Activities linked to Result 1: the enabling environment within GNERC to begin development work towards the implementation of regulatory cost audits and market monitoring is established (COMPONENT 1: CAPACITY DEVELOPMENT AND PROJECT MANAGEMENT).

Activity 1.3: Prepare a baseline report on the status of Georgia's electricity market

Method:

In the framework of the WGs, the MS and BC experts will prepare a *status report* on the current legal, institutional and regulatory state of play at GNERC and Georgia's electricity market. The report shall include a qualitative and quantitative analysis of the present situation in the electricity market as a starting point towards the development and implementation of a new market model. The report will present the features and elements of the proposed new market model and the implementation plans for their implementation.

This report shall be agreed with GNERC and will serve as a baseline for later assessments and as a background report for finalizing the exact scope of the activities to be carried out by this Twinning Project.

Benchmarks: baseline report drafted with the WGs and agreed with GNERC management.

Resources: interpretation, translation

Activity 1.4: Prepare GNERC staff' skills gap analysis focusing on regulatory cost audit, market monitoring and IT needs

Method:

The RTA with STE support will prepare a detailed skills gap analysis of GNERC expert staff, which will mainly focus on regulatory cost audit and market monitoring, and identifying IT needs to help to fine-tune training plans and to serve later as baseline for characterizing developments in staff skills.

Benchmarks: Skills gap analysis prepared and discussed within the WGs and with GNERC management.

Resources: interpretation, translation

Activity 1.5: Identify relevant primary and secondary legislation as well as rules and procedures related to Energy Markets Monitoring and Regulatory Cost Audit from across the EU and similar Georgian documentation deemed necessary for supporting the project and arrange its translation into Georgian or English

Method

Based upon the findings of Activities 1.3 and 1.4 above, the STE and BC experts will identify and compile:

1. A list of legislation (laws and regulations), rules and procedures from EU *acquis* and best regulatory practice related to the Monitoring of Energy Markets and Regulatory Cost Audit;
2. The list of Georgian electricity primary and secondary legislation pursuant to these two issues.

The most important and relevant documents or extracts thereof will be translated into Georgian or English as appropriate.

Benchmarks: Relevant parts of legislation, regulations, rules and procedures in respect of monitoring of energy markets and regulatory cost audit translated into Georgian. Relevant Georgian documentation of the same nature and topics translated into English.

Resources: translation of maximum 500 pages

Activity 1.6: Organise English language training service on energy sector specialised terminology for the staff of the core departments of GNERC

Method

The English language training will be organized for up to 30 GNERC staff participating in the project and it will last more or less throughout the project. The MS will sub-contract a Georgia-based language training institute or a private teacher – if available[2] - to provide training. Training aids and audiovisuals will be provided by the language institute in line with its standard rules. The precise level of the course will rely on the upfront analysis of the pre-existing English skills of the relevant GNERC staff. The results of the other activities' work (reports, presentations etc.) will be an important source of materials for these English training lessons as well. Depending on whether this turns out to be practical, feasible and desired in the course of the project, a session solely dedicated to English electricity terminology might be held. Should this be the case, the session shall be held by the MS jointly with the project translator/interpreter.

Participants of the language training shall receive a certificate of participation in line with the rules of the language institute that is contracted.

Benchmarks: 19 month training course for 30 persons from GNERC staff organised

Resources: Training Institute or Individual, private sector involvement with financing

[2] If no Georgia-based Computer Training Institute is available for this assignment then the MS Administration will recruit and contract with one or more individual qualified Trainers who are not related to any members of the MS Partner and/or Consortium or to any members of GNERC Management and/or staff.

Activity 1.7: Provide training on MS Access and Excel software for the staff of core departments of GNERC

Method

Implementation of data collection, storage, processing and analysis processes is a pre-condition for the Regulatory Authority to be able to carry out the functions of regulatory costs audit and market monitoring. Accordingly, GNERC capacity needs to be developed to implement these processes.

The MS Partner will arrange specialised computer training for up to 20 staff of GNERC participating in the project. The MS Partner might sub-contract a Georgia-based Computer Training Institute[2] to provide training in MS Access and Excel software. The Training Institute will be contracted within 4 weeks from the start of the project and training will commence in the second month of the project. Training aids will be provided by the Training Institute. The institute will provide a training achievement certificate to all participants at the end of the training.

Benchmarks: 50 day training course organised for up to 20 persons from GNERC staff.

Resources: Training Institute or Individual, private sector involvement with financing

ACTIVITIES LINKED TO RESULT 2 - The draft rules for Regulatory Cost Audit according to the EU regulations are prepared as well as the knowledge and skills of GNERC management and staff in respect of collection of regulatory data, regulatory cost allocation, and cost audit techniques (**COMPONENT 2: REGULATORY COST AUDIT)**

The aim of this component is twofold:

1) Support the implementation and enforcement of the incentive-based tariff methodology.
2) Establish the basis for on-going analysis and review enabling the Regulatory Authority to update the tariff methodology.

At the beginning of this component the theory and basics of the regulatory cost audits will be introduced. Recommendations and draft of regulatory cost audit rules have to be developed together with BC experts in order to design the right processes for GNERC. The main aim of this component is to strengthen the capacities of GNERC and to develop the processes for the first implementation of regulatory cost audits.

Activity 2.1: EU legal and practical requirements for unbundling of activities in the energy market and its monitoring

Method:

In order to support GNERC in its understanding of the EU legal and regulatory framework for the design, implementation and enforcement of the unbundling process, the MS STE will undertake one 5-day training of 20 BC experts on the unbundling requirements of the EU Directives and the approach to monitor these requirements.

Benchmarks: Training materials developed, 5-day Training for 20 BC experts is held. Guide and presentation on implementing of unbundling rules based on EU practice are prepared.

Resources: interpretation, translation

Activity 2.2: Elaboration of recommendations for unbundling of activities across Georgia's electricity market

Activity unbundling is essential for the efficient operation of energy markets insofar as regulated activities (transmission and distribution) have to be separated from market activities (generation and supply). The collection of unbundled (from market activities) data is essential for efficient regulation. While accounting unbundling is already implemented in Georgia, GNERC needs to collect technical and financial data on the regulated activities of the licensee.

Method:

As part of this activity, MS and BC experts will prepare and analyse a limited number of scenarios assessing the practical implementation of activities unbundling in Georgia's electricity market. The analysis and discussion will focus on the impact of the different scenarios on the cost structure of the electricity companies, as well as on the tariff structures.

Benchmarks: Analysis of scenarios for implementation of unbundling. Minutes of WG meetings are prepared. Recommendations for activities unbundling are drafted and compiled.

Resources: interpretation, translation

Activity 2.3: Training on the theory of Cost Audit

Cost audits are significantly different from financial audit. Cost audit entails the verification of cost records and cost accounts, and a check on the adherence to the prescribed cost accounting procedures and the relevance of such procedures.

Method:

MS experts will deliver a 10-days training for 10 BC experts on:

- Purpose, types, features, approaches (e.g. risk oriented), materiality, evaluation in term of amount and reason and on the use of right profit & loss and balance sheet positions of cost auditing;

- Design, preparation and implementation of cost audit programmes and its process.

Benchmarks: Training materials developed. Training on the theory and design of cost audits is delivered and a presentation on the theory and design of cost audits is prepared.

Resources: interpretation, translation

Activity 2.4: Training on company analysis focusing on distribution and transmission companies

Cost audits are carried out at company level. For the purposes of Regulatory Cost Audit, it is the network companies licensed to carry out regulated activities (distribution and transmission companies) in the electricity sector that will be the object of the analysis for which GNERC needs to develop an adequate understanding.

Method:

MS experts will deliver a 3-day training for 15 BC experts on company analysis with a focus on the comparison of key ratios and overall assessment of companies` data, on special topics concerning cost accounting, cost allocation and transfer pricing, advertising, sponsoring etc.

Benchmarks: Training materials developed. Presentations on regulated company analysis prepared.

Resources: interpretation, translation

Activity 2.5: Training on Activity-Based Costing and related benchmarking

Activity-Based costing (ABC) is one of several cost-management approaches that can help regulators to improve the efficient of energy markets through a more accurate process and product cost information and a better understanding of activities.

Method:

MS experts will provide a 10-day training for 10 BC experts on the analysis of regulated companies with the focus on the implementation of activity-based costing, definition of main activities and auditing schemes. MS experts will give recommendations on introduction of activity-based costing and benchmarking analysis in electricity markets. The definition of relevant key ratios for specific activities will be done together with GNERC.

Benchmarks: Training is held and report on the recommendations for cost audits with regard to activity based costing is prepared including recommendations on key ratios for the purposes of drafting rules on regulatory cost audit.

Resources: interpretation, translation

Activity 2.6: Trainings and workshops on Regulatory Cost Audit – a practical case

Method:

The MS experts will prepare and deliver 10-day trainings for 15 BC experts on regulatory cost audits on the basis of a case study. Several workshops will be held.

Benchmarks: Trainings and workshops delivered, training materials prepared.

Resources: interpretation, translation

Activity 2.7: Preparation of the recommended methodology for implementation of cost audits

Method:

For 20 days, MS and BC experts will work on the design of methodology to be proposed for the implementation of regulatory cost audits in Georgia's electricity market. The methodology will include: 1) cost audit rules, 2) guidelines for the implementation of cost audits, and 3) checklists for implementation of the cost audit programme.

Benchmarks: Recommendations on methodology for cost audit rules, guidelines and checklist for implementation are prepared.

Resources: interpretation, translation

Activity 2.8: Recommendation for a cost audit implementation plan

Method:

MS and BC experts will develop with the help of MS Project of a project plan for the initial implementation of cost audits across all companies licensed to operate in Georgia's electricity sector.

The project plan will include a timeline and deadlines for data collection from both the companies and GNERC as well as timing for its review and analysis. Recommendations regarding organizing cost audits will also be given. Furthermore training plans for the cost audit team will be prepared.

Benchmarks: Report on the recommendations for a cost audit implementation plan is prepared.

Resources: interpretation, translation

Activity 2.9: Study Visit to National Regulatory Authorities in two different EU MS to share the experience of the MS on regulatory cost audit

Method: GNERC staff will have the opportunity to participate in two study tours to gain first-hand knowledge and experience in the design, implementation and results of regulatory cost audit in line with EU legislation and best practice. The focus of the Study Tours will enable GNERC respective staff to fully engage with respective staff of the NRAs in assessing the regulatory cost audit approaches by the NRAs.

Benchmarks: Two 5-days study tours with participation of 10 BC experts are carried out. Study tour reports with recommendations are prepared.

Resources: 10 flight tickets, 60 per diems, interpretation.

Activity 2.10: Roundtable Discussion and recommendations for/by stakeholders

Method:

The MS STEs and WG will discuss the recommendations for the implementation of regulatory cost audit developed earlier in the project at a round table/workshop with the electricity market stakeholders and will make recommendations for any subsequent improvements.

Benchmarks: Roundtable discussion with the respective stakeholders arranged and held. Recommendations are prepared and published.

Resources: interpretation, translations, development of website information, printing cost of materials

Activity 2.11: Drafting of Cost Audit Rules

Method:

MS experts will work with BS experts over ten days in the process of putting together the set of Rules for Cost Audit ready for approval by GNERC.

Benchmarks: Draft Cost Audit Rules compiled and ready for submission to GNERC approval.

Resources: interpretation, translation

Activity 2.12: Public Consultation on Draft Cost Audit Rules

Method:

In keeping up with the commitment for transparent market regulation, the MS STEs and WG will present the draft rules developed above in a public consultation format led by GNERC.

Benchmarks: Roundtable discussion with the respective stakeholders arranged and held. Recommendations are prepared and published.

Resources: interpretation, translations, development of website information, printing cost of materials

Activity 2.13: Training on the determination of cost for quality (interruptions, voltage quality, service quality) and network losses

Method:

For regulatory purposes, quality has to be priced accordingly to determine its costs. MS experts will deliver 5-day training on adequate schemes to determine the price of quality for 15 BC experts. Several tools like the conduction of customer surveys or macro-economic analysis will be evaluated together with GNERC. Moreover the pricing issue for network losses and the determination of an adequate cost base for network losses will be analysed. At the end of the training recommendations for determining the cost for quality and network losses will be prepared.

Benchmarks: Training on determining the cost for quality and network losses is held and relevant report on the recommendations is prepared.

Resources: interpretation, translation

Activity 2.14: Training and workshops on the theory of tariff setting for electricity generators

To enable GNERC to develop the capacity necessary for moving away from annual generation tariffs, this project will present EU regulations and best practice for tariff setting of regulated activities on the generation side.

Method:

MS experts will deliver a 7-day training for 15 BC experts on tariff setting on the basis of an example. Several workshops will be held.

Benchmarks: Training and workshops are held, training materials are prepared.

Resources: interpretation, translation

Activity 2.15: Training and workshops on the design and setting of tariffs for transmission and distribution

Method:

MS experts will provide a 5-day training on tariff design for both transmission and distribution systems operators on the basis of an example for 10 BC experts. Several workshops will be held.

Benchmarks: Training and workshops are held, training materials are prepared.

Resources: interpretation, translation

Activity 2.16: Training and workshops on cost cascading and cost allocation between network (voltage) levels

Method:

MS experts will provide 5-day training on cost cascading methods and cost allocation between network levels on the basis of an example for 15 BC experts. The training will include the differences tariff setting between transmission system operators (TSOs) and distribution system operators (DSOs). Several workshops will be held.

Benchmarks: Training and workshops are held, training materials are prepared.

Resources: interpretation, translation

Activities linked to Result 3 - The draft Rules for Monitoring of the Electricity Market according to the EU best practices have been prepared, as well as the knowledge and skills of GNERC management and staff in market monitoring are strengthened (COMPONENT 3: MARKET MONITORING)

Market Monitoring is a necessary regulatory function. It informs the regulator about the structure of the market (concentration, vertical integration), and the compliance with market rules. Ultimately, the mere presence of a monitoring system can deter anticompetitive conduct. The objective of market monitoring activities is to explain how energy markets can perform more efficiently.

At the beginning of the implementation of this component, GNERC staff will be introduced to the theory and basics of the market monitoring. Further on, recommendations have to be developed together with BC experts in order to design right monitoring processes for GNERC. This component aims to develop specific and practical recommendations for energy market monitoring implementation in Georgia and to draft the market monitoring rules.

Activity 3.1: Roundtable discussion with market participants[3] about the further evolution of the market

Method:

The MS Experts will facilitate roundtable discussion of GNERC with market participants. The background for this discussion will be based on the report on market and GNERC status prepared early into implementation of the project (Component 1, Activity 1.3). The roundtable discussion will cover of GNERC's role concerning further evolution of market reforms towards greater competition and removal of obstacles to a functioning market, including issues such as level playing field in generation, access to network, different degree of market opening, protecting small and vulnerable customers' rights etc. The feedback obtained and subsequent discussion will contribute to fine-tuning the scope of subsequent activities in this component.

Benchmarks: Minutes of meeting prepared.

Resources: interpretation, translation

Activity 3.2: Training on the Market Monitoring Concept

Method:

MS experts will prepare and deliver a 5-day training for 15 BC experts on the concept of market monitoring. The training will first address the purpose and aim of market monitoring in markets with different degrees of opening. Within the scope of this activity, MS experts will provide an overview of market monitoring and how it relates to monitoring market concentration, quality of supply, etc. A special emphasis will be on common problems encountered when developing a market monitoring system.

Benchmarks: Introductory training on the concept of Market Monitoring held and training materials distributed

Resources: interpretation, translation

Activity 3.3: Training on the legal requirements with regard to Market Monitoring in the EU

Method:

MS experts will deliver a 5-day training on requirements of all relevant EU legislation on market monitoring for 10 BC experts. The training will cover both EU *acquis* and

[3] Electricity Market Operator, dispatch licensee, transmission licensees, generation and distribution licensees, importers, exporters, direct customers, small power plants.

transposition by MS to include examples of best-practice legal implementation addressing both primary and secondary legal frameworks (i.e. clarity of implementation, development of regulations, etc.).

Benchmarks: Training held and training materials prepared.

Resources: interpretation, translation

Activity 3.4: Preparation of Report on the Legal Requirements for a Market Monitoring System

Method:

MS and BC experts will discuss the legal provisions and other regulatory requirements necessary for the development and implementation of a functioning market monitoring system in Georgia. MS experts will outline their experience in developing the legal and regulatory structure necessary for a fully-functioning energy markets monitoring system. The discussions shall also focus on the legal and regulatory updates and the timeline and responsibilities for their enacting. The result of these discussions will be a report describing the legal and regulatory design of a market monitoring system in line with EU *acquis* and Georgia's legislation.

Benchmarks: Report on the legal and regulatory features of a market monitoring system compatible with Georgia's electricity market is prepared.

Resources: interpretation, translation

Activity 3.5: Workshop on the Use of Energy Statistics for Market Monitoring

Method:

MS experts will prepare and deliver a 7-day workshop for 15 BC experts on the relationship between energy statistics and energy markets monitoring. In particular, which, when and how energy statistics should be used for market monitoring. During this activity, the methodological differences between statistics and monitoring will be highlighted. One part of the workshop will focus on the use of different data sources to verify data and check the plausibility of results.

Benchmarks: Workshop is held and materials are prepared and distributed.

Resources: interpretation, translation

Activity 3.6: Training on the Use of Indicators for Energy Market Monitoring

Method:

Based on Activity 3.6 the MS STEs will prepare and deliver a 7-day training for 15 BC experts. This includes indicators on the energy mix in various sectors, as-well as general economic indicators and their relation to energy markets, such as GDP, population growth, and international oil prices. The Project will prepare a handbook about main features of

energy market indicators used in market monitoring: definitions, sourcing of primary data, calculation methods, consistency checks, etc.

Benchmarks: Training carried out and Handbook on indicators for energy market monitoring prepared.

Resources: interpretation, translation

Activity 3.7: Defining Criteria and Indicators for Wholesale Market Monitoring

Method:

Building on the outcome of the preceding activities in the component, this activity will give a detailed set of recommendations on how market monitoring for electricity wholesale markets should be performed. The activity will work on:

- The identification and definition of criteria and indicators used to assess the functioning of wholesale markets such as prices, concentration ratios, market liquidity, transparency, etc.;
- Preparation of the methodology for data collection and calculation of indicators;
- Data management issues: collection, validation, storage, etc.

The report will describe the above-mentioned issues across different sub-markets including energy exchanges and balancing markets.

The proposals developed in the report will be supported with examples from best-practice experiences within the EU.

This activity will include seminars and small hands-on group trainings on actual use and calculation of relevant indicators for the wholesale market as well as for the separate parts of the market.

Benchmarks: Report on monitoring of wholesale markets prepared. Feedback from the trainings carried out on market monitoring

Resources: interpretation, translation

Activity 3.8: Definition of Criteria and Indicators for Monitoring the Allocation of Interconnection Capacity

Cross-border trading of electricity in the form of export or transit is a key element of Georgia's energy policy and the newly built interconnection infrastructure is enabling increased electricity trade in the region. Moreover, trade in energy is a prominent feature of EU-Georgia DCFTA. Accordingly, this important in volume part of the electricity market needs monitoring in line with EU legislation and best practice.

Method:

Building on the outcome of the previous activities in the component, this activity will give a detailed picture for monitoring the allocation of capacity related to cross-border trading of electricity. The activity will work on the identification and definition of criteria and indicators

used to assess the functioning of capacity allocation, preparation of the methodology for data collection and calculation of indicators and data management issues.

The proposal developed in the report will be supported with examples from best-practice experiences within the EU.

This activity will include a dedicated training session on the monitoring of the allocation of interconnection capacity allocation and congestion management.

Benchmarks: Report on monitoring of the allocation of interconnection capacity. Feedback received from the training.

Resources: interpretation, translation

Activity 3.9: Definition of Criteria and Indicators for Monitoring Retail Markets

Method:

This activity will mirror the report-preparation task set out in Activity 3.7. The report will look into the features of different consumer groups such as industry, households, and small and medium enterprises and how they might differ in terms of behaviour and thus the different impacts on market outcomes. The report to be prepared will work on:

- The identification and definition of criteria and indicators used to assess the functioning of the retail market;
- Preparation of the methodology for data collection and calculation of indicators;
- Data management issues: collection, validation, storage, etc.

Overall, the activity will provide a detailed set of recommendations of how market monitoring for the electricity retail market should be performed.

Benchmarks: Report on retail market monitoring prepared.

Resources: interpretation, translation

Activity 3.10: Monitoring the deployment of renewables in EU electricity markets

The EU has one of the most developed policy frameworks supporting the development of renewable energy sources and actual output of electricity from them is now significant across the EU. However, deployment of renewables has an impact on electricity prices and the national regulators have a key role to play to ensure adequate balance between sustainable energy and affordable electricity.

Method:

The MS STEs will prepare and deliver a 5-day training for 15 BC experts on policy support frameworks for the use of renewable sources for electricity generation and the role of the regulator in their monitoring. The training will be based on examples from at least three EU Member States. A one-day workshop will be arranged to discuss findings and their relevance to Georgia's electricity market.

Benchmarks: Training carried out. Workshop materials prepared and distributed.

Resources: interpretation, translation

Activity 3.11: Report on Market Monitoring – Compiled Recommendations

Method:

Based on the results of activities 3.4, 3.7, 3.8 and 3.9, MS and BC experts jointly prepare a comprehensive set of recommendations for the implementation of market monitoring in Georgia's electricity market. The report will describe the legal (primary & secondary), regulatory and technical measures to be developed for the functioning of an energy market monitoring system.

The recommendations will be accompanied by an action plan for implementation of the recommendations. The plan shall include a timetable and identify additional costs that GNERC might incur.

Benchmarks: Report on overall recommendations on market monitoring prepared.

Resources: interpretation, translation

Activity 3.12: Undertake two Study Tours to National Regulatory Authorities in two different EU MS

Method:

GNERC staff will have the opportunity to participate in study tours to enhance their knowledge and experience in the subjects of the project. The focus of the Study Tours will enable GNERC respective staff to fully engage with respective staff of the NRAs in assessing the market monitoring approaches by EU National Regulators after training provided in Component 3.

Benchmarks: Two 5-day study tours for 10 persons from GNERC staff are carried out (5 persons will participate in each study tour); study tour reports with recommendations are prepared.

Resources: 10 flight tickets, 60 per diems, interpretation

Activity 3.13: Roundtable Discussion and recommendations for/by stakeholders

Method:

The MS STEs and WG will discuss the recommendations for the implementation of electricity market monitoring in a round table workshop with the stakeholders and will make recommendations for any subsequent improvements.

Benchmarks: Roundtable discussion with the respective stakeholders arranged and held. Recommendations are prepared and published.

Resources: interpretation, translations, printing cost of materials

Activity 3.14: Drafting of Market Monitoring Rules

Method:

MS experts will assist the BS experts in the process of putting together the draft *"Rules for Monitoring of Georgia's Electricity Market"*[4] ready for approval by GNERC.

Benchmarks: draft Rules for Monitoring of Georgia's electricity market compiled and ready for submission to GNERC approval.

Resources: interpretation, translation

Activity 3.15: Public Consultation on draft *"Rules for Monitoring of Georgia's Electricity Market"*

Method:

In keeping up with the commitment for transparent market regulation, the MS STEs and WG will present the draft rules developed above in a public consultation format led by GNERC.

Benchmarks: Roundtable discussion with the respective stakeholders arranged and held. Recommendations are prepared and published.

Resources: interpretation, translations, development of website information, printing cost of materials

3.5 Means/ Input from the MS Partner Administration:

3.5.1 Profile and tasks of the Project Leader

The Project Leader will coordinate and control the overall thrust of the Project, lead project activities, and ensure the attainment of the results. He/she should be a *senior official* from an EU energy regulator and is expected to devote a minimum of 3 days per month to the Project in his/her home administration with an on-site visit at least every 3 months. In addition, he/she should coordinate, from the Member State side, the Project Steering Committee (PSC), which will meet in Georgia every three months.

Profile:

- a long-term civil servant from an EU Member State Energy Regulatory body with necessary experience in a leading position in energy regulation
- at least 10 years professional experience in the field of energy policy, management and regulation with good understanding of the related subjects and, during that period, he/she must have been in an active senior management position in a Member State Energy Regulatory Authority for at least 3 years;
- Have experience in the field of project management, institutional issues and organisation of energy regulation to the European requirements;
- Experience in development and implementation of energy regulatory projects in EU and non EU countries;

[4] The name is indicative only.

- Have a good command of written and spoken English;
- Good inter-personal skills

Tasks:

- Overall coordination, guidance and monitoring of the Project;
- Preparation of project progress reports with support of RTA;
- Timely achievement of the project results;
- Co-Chairing of project steering committees;
- Provision of legal and technical advice and analysis whenever needed.

3.5.2 Profile and tasks of the RTA

The Resident Twinning Adviser has the responsibility to guide the work of the team and will coordinate and implement project activities on the ground over a period of 21 months under the overall supervision of the Project Leader. He/she should be a staff member / official from an EU energy regulator or a mandated body and is expected to be working on a permanent basis in the beneficiary country for the duration of the Project.
The Resident Twinning Adviser on energy regulation will provide advice and technical assistance to the GNERC Commissioners and staff. The RTA will promote that best European regulatory know-how will be fed into the decision making process at GNERC. The RTA will be responsible for the day-to-day management and implementation of the project. The RTA and Assistants will be based in GNERC offices and will liaise closely with his/her Counterpart at GNERC.

Profile:

- University high level education in Economics, Business, Accounting or Energy related studies
- Minimum 3 years of experience in the field of energy regulation;
- Sound comparative knowledge of relevant EU requirements related to the various components of this project;
- Experience in working on similar projects in transition countries would be an asset;
- Good inter-personal skills and good training, public speaking, diplomatic and written communication skills;
- Excellent computer literacy (Word, Excel, Power Point);
- Excellent English communication skills, both spoken and written.

Tasks:

- Overall supervision of the project implementation and coordination of all activities, as well as management of the project administration;
- Coordination of the activities of the team members in line with the agreed work programmes to enable timely completion of project outputs;
- Provide technical input to the Project whenever needed and provision of advice in his/her field of expertise;
- Liaise with MS and BC Project Leaders and daily contacts with BC RTA counterpart;
- Co-preparation of project progress reports with Project Leader;
- Liaison with EU Project Manager;
- Liaison with other relevant projects and Georgian institutions.

3.5.3 Profile and tasks of the short-term experts

Tasks of short-term expertise

In order to provide the full range of expertise that is necessary a minimum of 7 short-term experts (STEs) will complete the activities. As a general approach, the short term experts together with the medium term expert will take the responsibility for the implementation of the Twinning project and the achievement of the results, each for his/her individual mission tasks. They will prepare together with their BC counterparts the required reports and the output described. The experts will be from the Regulatory Body/ies in the Member State(s) or from other Public Sector Institutions. The exact number of STEs per activity should be agreed during the contract negotiation process. Specific Terms of Reference for short-term advisers will be elaborated by Project Leader/RTA at the implementation stage.

Profile of short-term expertise

The STE's shall have the following Qualification and Skills:

- a university degree and extensive experience in the relevant subject;
- an excellent command of written and spoken English;
- good writing and presentation skills
- good training and facilitation skills;
- strong analytical and managerial capability
- coaching and mentoring skills;
- PC computer literacy;
- experience in Phare/ENP-East countries or in other international projects relating to energy sector / electricity sub sector /management would be an advantage.

STE 1: Regulatory Expert

STE 2: Cost Audit Expert

STE 3: Legal Expert

STE 4: Market Monitoring Expert

STE 5: Accounting Expert

STE 6: Market Model Expert

STE 7: Benchmarking Expert

4. Institutional Framework

The main beneficiary of the Project is GNERC and in particular two of GNERC's departments: the 1997 Law on Electricity created GNERC and in 1999, new legislation added regulation of the natural gas sector to GNERC's responsibilities. In 2002 the Georgian Parliament enacted the Law on National Independent Regulatory Bodies, making GNERC independent from other GoG (Government of Georgia) agencies. Under the new law, only Georgian courts could overturn the GNERC's decisions. In 2003 the Office of Public Defender was established within the GNERC and, although financed by the GNERC, it remains independent. In 2007 the Parliament amended the Law on Electricity and Natural Gas and placed regulation of potable water supply and sewerage services within the Commission's jurisdiction.

The current Law on Electricity and Natural Gas gives GNERC the authority to regulate in three broad areas:

- **Licensing:** GNERC has the authority to issue, modify, enforce (including the imposition of penalties), and revoke licenses under appropriate terms and conditions for electricity generation, transmission, dispatch, and distribution, and for natural gas transportation and distribution. GNERC is guided in licensing i) by the Law on Electricity and Natural Gas and also ii) by the Law on Licenses and Permits and iii) by the licensing rules developed by the Commission.
- **Tariffs:** GNERC has the authority to establish and modify tariffs for electricity generation, transmission, dispatch, distribution, pass-through, import, the services provided by the Market Operator (MO), and the system capacity reserve required to be purchased by the MO. In the natural gas subsector, GNERC establishes and modifies tariffs for transportation, distribution, delivery and consumption, subject to certain exceptions.
- **Dispute resolution:** GNERC is to resolve disputes on matters within its competence between and among licensees, importers, exporters, suppliers, consumers, and the market operator.

The GNERC's Charter, approved early 2008, and further details relating to GNERC's regulatory responsibility see GNERC web site: www.gnerc.org.

The members of the Commission were appointed by the former President of Georgia, while the new Chairperson who was appointed by the Prime Minister of Georgia in 2013. Within the frame of its competence the Commission issues resolutions as normative acts on general issues of regulation, while on individual issues, decisions are issued as normative acts. Operation of the Commission is not economic activity, but its financing does not depend on the state budget: it originates from annual regulation fees paid by license holders.

- Democratic procedures, admitted on international level are used for issuance of resolutions and decisions: at open (public) meetings of the Commission any stakeholder (license holder, client, defenders of clients' rights, representatives of different governmental and nongovernmental organizations) has the opportunity to defend their interests, express their opinion and present evidences. The decision of the Commission can be appealed at Court.
- Indicators demonstrating development of the Regulatory body in 2007 – 2012 are provided in the following table:

Development of GNERC 2007-2013

Indicators	Unit	2007	2008	2009	2010	2011	2012	2013
Number of Commissioners by the end of the year	Unit	3	4	5	5	5	5	4
Number of employees by the end of the year	“	72	106	106	108	84	84	113
Number of departments	“	7	8	10	10	10	10	10
Revenue	Th. GEL	4.305	5.968	8.317	8.709	10.283	13.733	9. 700
Expenses	“	3.715	5.609	8.227	7.491	8.893	9.440	10. 554

The creation of GNERC and commencement of its activities in 1997-2001 was largely supported by the international community, notably the World Bank and USAID and later the EU via the Twinning project. Donors have contributed to training, technical assistance, and other goods and services in support of the regulator and have repeatedly assessed the Commission’s performance and capabilities over the years. During the last 4-5 years a limited number of GNERC staff participated in different regional projects and programmes, such as INOGATE, ERRA and Energy Community meetings.

- In the framework of the Government’s programme the Commission was transferred to Kutaisi, more than 200 km from Tbilisi, in July 2008. This has changed the structure of staffing, since a good proportion of intensively trained and experienced staff was not able to move to Kutaisi. Many of those departing from GNERC had also good English language skills. A part of employees that moved to Kutaisi to work with GNERC still has basic residence in Tbilisi and are in Kutaisi only on workdays. Although the Commission has made significant efforts in many fields to counterbalance and improve the situation, a good part of tasks are still ahead. One of them is further staff capacity building in practically every important field covered by GNERC’s activities as well as in enhancing foreign (English) language capabilities of the staff. The Twinning project which started end of 2012 was instrumental in supporting GNERC in easing the capacity development tasks. At the end of 2013 the management decided to move back to Tbilisi in order to ensure the proper work of the regulatory authority and the cooperation with stakeholders of the energy market. The relocation of GNERC took place in February 2014.
- GNERC is a founding and active full member of ERRA – Energy Regulators Regional Association. The Association's main objective is to increase exchange of information and experience among its members and to expand access to energy regulatory experience around the world. The purpose of ERRA is to improve national energy regulation in member countries, to foster development of stable energy regulators with autonomy and authority and to improve cooperation among energy regulators and to increase communication and the exchange of information, research and experience among members and increase access to energy regulatory information and experience around the world and promote opportunities for training. The ERRA web site (http://www.erranet.org/) includes a huge amount of information about the organisation and activities of ERRA as well as about its members.

Organization

GNERC's Organizational Structure is specified in its Charter (GNERC Resolution No. 4 on approving the GNERC Charter). Practically all the 13 Departments of GNERC will gain experience from the Twinning Project. One department however will have outstanding importance in fulfilling the tasks and producing the mandatory results, because they are directly involved in development of the electricity market regulation. The tasks of this department are described below:

Tariff and Economic Analysis Department:

a) Analyses tariff applications presented by licensees, importers, suppliers, and consumers of energy, natural gas and water, and market operator.

b) Examines and monitors the economic status of licensees, importers, suppliers, and commercial operators in electricity, natural gas and water supply sectors.

c) Prepares quarterly and annual reports on the department's activities.

d) Prepares draft legislation.

e) Prepares conclusions respecting the financial calculations presented by licensees, importers, exporters, suppliers, consumers of energy, natural gas, water supply sectors, and market operator.

f) Develops and modifies tariff methodologies in the of electricity, natural gas, and water supply sectors.

g) Calculates and sets connection fees for new consumers.

h) Calculates and sets tariffs for energy generation, transmission, dispatch, distribution, import and consumption, market operator, obligatory state purchase, systems capacity reserve, transportation, distribution, supply of natural gas, and water supply.

i) Develops Uniform System of Accounts for all licensees

j) Prepares drafts of normative acts

k) Monitors fulfilment of the individual administrative-normative acts approved by the commission

l) Reviews the letters in its competence.

The Department consists of ten persons, all of them are economists.

Methodology Support and Quality of Service Department

a) Develops methodologies for the calculation of electric energy, natural gas, and water tariffs.

b) Prepares legal normative acts, including rules for usage of electric energy, natural gas and water.

c) Ensures the proper registration of the Commission's approved standard acts in the Ministry of Justice and publishes them at a publishing office.

d) Examines international tendencies and methodological approaches to regulation and preparation of conclusions.

e) Develops and modifies tariff methodologies for electricity, natural gas, and water supply.

f) Prepares recommendations on rehabilitation and investment programs in the electricity, natural gas and water supply sectors.

g) Monitors Quality if Service of Distribution licensees.

h) Monitors and analyses Reliability of Supply of the Distribution licensees.

The Departments consist of four persons, including one lawyer, two engineers and one economist.

Electricity Department

a) Examines and prepares conclusions on normative losses by the licensees on the initiative of commission.

b) Prepares draft legal acts of the Commission.

c) Develops standard-technical documentation for electric sector.

d) Prepares appropriate conclusions on the technical calculations presented by the current licensees of electric sector.

e) Examines technical documentation filed by license applicants in the electric sector, prepares conclusions, and receives and reviews conclusions of other departments on similar issues.

f) Prepares documentation for further discussion at the commission meetings on granting the appropriate licenses, modifying or revoking them.

g) Establishes control over the licensing conditions within the electricity and natural gas sectors of Georgia and, for violation of the conditions, combines relevant administrative sanctions, according to existing Georgian legislation. In addition, draws up protocols upon the breach of established requirements and makes suggestions on the course of action foreseen by the legislation.

h) Participates in development of the schedule agreeable with licensees, importers, and Electricity Market Operator on the settlement of regulatory fees.

i) Develops Grid Rules.

j) Monitors and analyses the electricity market.

k) Develops data base for electricity trade.

l) Reviews the Standard Conditions provided by Electricity Market Operator, Dispatch and Transmission licensees.

m) Inspects meters used in wholesale accounting.

n) Develops draft of normative loss calculation rules.

o) Examines new investment projects in electricity sector and prepares appropriate conclusions.

The Department consists of four persons, including three electric engineers and one economist.

Considering the staffing situation in these three and other relevant departments of GNERC it is important that the two Working Groups to be set up within the Twinning Project involve qualified specialists not only from these three departments but also from the other ones to

ensure an overall significant capacity building. The composition of the Working Groups should be clarified and agreed on during the first month of the project implementation.

5. Budget

The Beneficiary will provide in kind contribution in the form foreseen in the twinning manual.
The maximum total budget available of the action is € 1,000,000.

6. Implementation Arrangements

6.1 Implementing Agency responsible for tendering, contracting and accounting
The European Union Delegation in Tbilisi will be responsible for tendering, contracting, payments and financial reporting, and will work in close cooperation with the Beneficiary.
The person in charge of this Project is:

Ms Muriel Lambert de Rouvroit
Project Manager
Delegation of the European Union to Georgia
38 Nino Chkheidze str., 0102 Tbilisi, Georgia
Tel: + 995 32 943 763 Fax: +995 32 943 768
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PAO will support the TWG Project implementation process together with the EU Delegation. The person in charge of this project is:

Mr Roman Kakulia
Head of Department
Office Address: EU Assistance Coordination Department/Project Administration Office (PAO) in Georgia, Office of the State Minister of Georgia on European and Euro-Atlantic Integration #7, Ingorokva Street, Tbilisi 0134
Georgia Office tel./fax: (995 32) 99 89 14
e-mail: pao@eu-nato-gov.ge

6.2 Main counterpart in the BC, *including contact person and contact details.*

Project leader:
Mr. Gocha Shonia
Commissioner
Georgian Energy and Water Supply Regulatory Commission - GNERC

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0194 Tbilisi, Georgia
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Email: gocha.shonia@gnerc.org

RTA Counterpart:

Mr. Nugzar Beridze

Director of Electricity Department
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0194 Tbilisi, Georgia
Tel. (+995 32) 2 42 01 80
Fax. (+995 32) 2 42 01 60

Email: nugzar.beridze@gnerc.org

6.3 Contracts

The Project will be implemented through one Twinning contract.

The Project will be implemented in the form of a Twinning contract between the Delegation of the European Union to Georgia and an EU Member State. The implementation of the Project requires one Project Leader with responsibility for the overall coordination of project activities. It is essential that the team have sufficiently broad expertise to cover all the areas included in the project description.

The interested Member State institution shall include in its proposal the CVs of the designated Project Leader, the proposed short and/or medium-term experts and the specific tasks to which they will be assigned. Considering the fact that this Project is organised as a Twinning project, no Consortia of MS partners are allowed.

7. Implementation Schedule (indicative)

7.1 Launching of the call for proposals: March 2015

7.2 Start of project activities: November 2015

7.3 Project completion: August 2017

7.4 Duration of the execution period: 24 months with an implementation period of 21 months.

8. Sustainability

The Project aims are based on the real development needs of GNERC. They are not additional to the tasks ahead of GNERC, but integral parts of their own plans. The sustainability of the Project will be achieved through a suitable implementation of the project activities and availability of trained by the project personnel in the electricity regulation subjects. It will be promoted by introduction of the project results into GNERC resolutions and decisions. Furthermore, needs of the local and international investors in clear and long term electricity regulations as well as needs of Government of Georgia and its population in a well regulated and stable and reasonably priced electricity sector supply are expected to contribute to maintaining high level services on a constant basis in GNERC.

The sustainability of the project will be achieved also through a smooth and timely implementation of the project activities and availability of trained personnel at the GNERC.

The workshops, seminars, on-the-job coaching and mentoring should take into account an opportunity for train-the-trainer approach, since it may entail a multiplier effect and ensure the sustainability of methodologies developed. It is necessary to apply a training approach characterised by focusing on cases in the local context. Direct peer-to-peer and expert-to-expert working relations should be established as well. Constant monitoring of developments shall be ensured through provision of short evaluation sheets (or questionnaires) surveying how Georgian participants appreciate of the content, method, applicability and transferability of the delivered topics.

9. Crosscutting issues *(equal opportunity, environment, etc…)*

The principle of equal opportunity will be integrated into all stages of the project implementation. The Project does not have direct environmental consequences, although environmental awareness raising and environment friendly decision making in all branches of the energy sector is a task of continuously growing importance.

10. Conditionality and sequencing

The Twinning project fiche has been drafted by GNERC, which, by endorsing the Twinning Fiche, commits itself to provide the contributions stated in the fiche.

They, among others, include:

- Strong commitment and support of GNERC management to the Project implementation
- Strong involvement and commitment of GNERC staff at all levels
- Assigning indispensable personnel to activities connected with the Project
- Ensuring co-ordination between departments and institutions connected with the Project
- Ensuring access to indispensable information and documents
- Ensuring sufficient development of computerisation within GNERC
- Adequate conditions for the STEs to perform their work while on mission to the BC
- Providing suitable venues and equipment for training sessions and meetings that will be held under the Project
- Designating a GNERC counterpart for each MS expert.

Significant changes in the GNERC staff could be of a significant risk for successful implementation of the Project and the sustainability of the results to be achieved. This primarily refers to professional staff having participated in the project design and those having knowledge of the English language.

In order to successfully implement the Twinning project it is regarded as important that the Government of Georgia and GNERC management take measures to ensure appropriate staffing – both in volume and quality - and their motivation for participation in the Twinning project, achieving the mandatory results jointly with the EU Partners and staying on in GNERC so that it can effectively carry out its regulatory function.

The ‘language barrier’ may become a critical issue of project implementation: most probably practically every meeting, discussion and workshop will require interpretation services and all presentations and technical material must be translated beforehand. This will pose serious strain on the Project’s capacities but also may double and sometimes even triple the time required and planned for each activity.

ANNEXES TO THE PROJECT FICHE

1. Logical Framework Matrix
2. Draft Implementation Chart
3. Organisation Chart of GNERC