



ANNEX C1: Twinning Fiche

**Project title:** Development of Network Tariff Setting Methodologies, Energy Efficiency and Renewable Energy Regulatory Strategy and Creating Regulatory Framework for Enabling Demand Side Involvement

**Beneficiary administration:** Georgian National Energy and Water Supply Regulatory Commission (GNERC)

**Twining Reference:** GE 16 ENI EY 08 19

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**EU funded project**

***TWINNING TOOL***

**List of abbreviations:**

<b>AA</b>	<b>Association Agreement</b>
<b>ADB</b>	<b>Asian Development Bank</b>
<b>BA</b>	<b>Beneficiary Administration</b>
<b>BC</b>	<b>Beneficiary Country</b>
<b>CSB</b>	<b>Civil Service Bureau</b>
<b>CRE</b>	<b>Energy Regulatory Commission of France</b>
<b>DSO</b>	<b>Distribution System Operator</b>
<b>Eap</b>	<b>Eastern Partnership</b>
<b>EBRD</b>	<b>European Bank for Reconstruction and Development</b>
<b>EC</b>	<b>Energy Community</b>
<b>ENI</b>	<b>European Neighbourhood Instrument</b>
<b>ENP</b>	<b>European Neighbourhood Policy</b>
<b>ESCO</b>	<b>Electricity System Commercial Operator of Georgia</b>
<b>EU</b>	<b>European Union</b>
<b>EUD</b>	<b>Delegation of the European Union</b>
<b>GIZ</b>	<b>Association of International Cooperation of Germany</b>
<b>GNERC</b>	<b>Georgian National Energy and Water Supply Regulatory Commission</b>
<b>G4G</b>	<b>USAID Funded Project, Governing for Growth</b>
<b>GoG</b>	<b>Government of Georgia</b>
<b>HRM</b>	<b>Human Resources Management</b>
<b>LA</b>	<b>Legal Approximation</b>
<b>MOJ</b>	<b>Ministry of Justice</b>
<b>MS</b>	<b>Member State</b>
<b>OECD</b>	<b>Organisation for Economic Co-operation and Development</b>
<b>OSCE</b>	<b>Organisation for Security and Cooperation in Europe</b>
<b>PAO</b>	<b>Programme Administration Office</b>
<b>PAR</b>	<b>Public Administration Reform</b>
<b>PL</b>	<b>Project Leader</b>

<b>PSC</b>	<b>Project Steering Committee</b>
<b>RAE</b>	<b>Energy Regulatory Commission of Greece</b>
<b>RIA</b>	<b>Regulatory Impact Assessment</b>
<b>RTA</b>	<b>Resident Twinning Advisor</b>
<b>RES</b>	<b>Renewable Energy Sources</b>
<b>SC</b>	<b>Steering Committee</b>
<b>STE</b>	<b>Short Term Experts</b>
<b>TSO</b>	<b>Transmission System Operator</b>
<b>TEP</b>	<b>3<sup>rd</sup> Energy Package</b>

## **1. Basic Information**

1.1 Programme: Technical Cooperation Facility II ENI/2016/039-337/direct management

“For applicants from the United Kingdom: Please be aware that eligibility criteria must be complied with for the entire duration of the grant. If the United Kingdom withdraws from the EU during the grant period without concluding an agreement with the EU ensuring in particular that applicants from the United Kingdom continue to be eligible, the beneficiaries from the United Kingdom will cease to receive EU funding (while continuing, where possible, to participate) or be required to leave the project on the basis of Article 12.2 of the General Conditions<sup>[1]</sup> to the grant agreement.”

1.2 Twinning Sector: Energy

1.3 EU funded budget: 1,500,000 EUR.

## **2. Objectives**

**2.1 Overall Objective(s):** The overall objective of the project is to support the approximation of Georgia’s regulatory framework with the Union Energy *acquis* and promote wholesale and retail market development in Georgia, including promoting regulatory role in market regulation, renewable energy integration and energy efficiency.

### **2.2 Specific objective:**

The specific objective of the project is to develop the institutional framework for adoption and implementation of new regulations in a newly established electricity and natural gas markets of Georgia in line with the EU-Georgia Association Agreement and the protocol of Accession of Georgia to the Energy Community Treaty through strengthening the capabilities of Georgian National Energy and Water Supply Regulatory Commission (GNERC) as the independent national regulatory authority by developing relevant tools and mechanisms.

### **2.3 The elements targeted in strategic documents i.e. National Development Plan/Cooperation Agreement/Association Agreement/Sector reform strategy and related Action Plans**

This Twinning project is fully in line with the provisions of the EU-Georgia Association Agreement (AA). According to the AA, especially the Chapter 11 and annex XXV of it, Georgia undertakes the commitment to integrate its market and gradually approximate the EU Energy *acquis* to the national legislation as well as to become a Contracting Party to the Energy Community Treaty with the aim of ensuring access to secure, environmentally friendly and affordable energy. Regulation is a key element of this approximation process and therefore, the AA commits EU and Georgia to work 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.

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<sup>[1]</sup> Twinning manual Annex A2

According to the AA Georgia has to increase market integration and gradually approximate key regulatory elements towards the EU *acquis*, and promote energy efficiency; the use of renewable energy sources, increase reliability of energy infrastructure and quality of service standards. Furthermore, the parties acknowledged the need for enhanced energy cooperation, and the commitment to implement the Energy Charter Treaty.

By signing Protocol concerning the Accession of Georgia to the Treaty Establishing the Energy Community in 14<sup>th</sup> of October 2016, Georgia took commitment to approximate its national legislation with the third energy package *acquis* and as a consequence, develop secondary regulatory framework for implementing main principles of the *acquis*.

At the national level the State Policy Document – “Main directions of the state policy in energy sector of Georgia” approved by the Parliament in 2015, envisages gradual approximation of Georgian legislative and regulatory framework with the EU energy *acquis*.

Social-economic Development Strategy of Georgia —GEORGIA 2020, lays down energy saving and energy efficiency improvement goals and in order to ensure it, setting up EU compliant legislative mechanisms and institutional strengthening.

The Government Platform 2018-2020 - Freedom, Rapid Development, Welfare, inter alia, states the following: “Energy legislation of Georgia will be improved and approximated to European standards; by signing the Association Agreement and accession to Energy Community, Georgia is creating a precedent of energy legislation transfer from the Energy Community/EU to the Caucasus region”.

The planned Twinning Project aims at supporting the implementation of the above-mentioned goals through the approximation of Georgia’s regulatory framework in the electricity and natural gas markets.

### **3. Description**

#### **3.1 Background and justification:**

The Georgian National Energy and Water Supply Regulatory Commission (GNERC) is the legal entity established under the Law of Georgia on the Electricity and Natural Gas. Its status is also defined under the Law of Georgia on National Regulatory Authorities.

The main goals of GNERC are to create and develop competitive markets, set fair tariffs, create transparent tariff setting system and approve tariff setting methodologies, ensure quality of service, monitor energy markets and promote competition, define quality of service and supply standards, settle disputes, etc. Although energy strategy of Georgia is not yet in place, but the State Policy in Energy Sector of Georgia states important directions in the sector.

The procedure of appointing the Commissioners is the following - 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, renewable only once. 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.

On April 24, 2017, Georgia became a contracting party to the Energy Community and subsequently, approximation of the Union acquis to the energy legislation of Georgia has become necessary. Respectively, Georgia has undertaken the obligation to gradually approximate its legislation to the EU legislation and international legal instruments in a predetermined timeframe. Georgia undertook obligation to implement the 3<sup>rd</sup> Energy Package (TEP) by signing the Protocol of Accession to the European Energy Community. According to the abovementioned protocol, Georgia must ensure that the eligible customers within the meaning of EC Directives 2009/72/EC and 2009/73/EC are: all non-household customers- From [31 December 2018]; and all customers - From [31 December 2019].

New markets need appropriate regulatory framework and tools to operate effectively and accomplish the objectives, which they are created for. GNERC is in the process of implementing principles of European Regulations. Parallel practical steps and working mechanisms must be established in order to allow proper application of regulations. In this regard, selected topics envisage to support practical implementation of the best European practices on regulating network tariffs, supporting active demand participation at balancing and retail markets thus setting up enabling regulatory framework for new participants in wholesale and retail energy markets in Georgia, integration of renewable energy, as well as developing Energy Efficiency regulatory strategy and relevant secondary legislation.

Creation of enabling environment is necessary for ensuring market opening and active participation at the wholesale and retail markets. In order to achieve the above mentioned at the wholesale level Georgia aims to establish balancing energy and capacity markets. Which means that TSO will start procurement of the balancing reserves and other types of ancillary services on a regular basis. This creates necessity of establishing a new cost recovery framework through network tariffs regardless of the fact whether the procurement of the reserve capacities and ancillary services will fall under regulation (cost-based) or will be market based.

Another issue is participation of demand in supplying balancing services to TSO and in certain cases to DSO. Despite the fact that Georgia is in the process of implementing European Network Code (including Commission Regulation (EU) 2016/1388 establishing a network code on demand connection) that sets conditions for demand side participation, awareness rising, proper incentive schemes and requirements for technical adaptations must be set up in order to allow effective demand side response. Awareness is one of the most challenging issues in both regulated sectors. The regulation should provide enough incentives for engaging in balancing services.

DSO unbundling and market opening will be frontrunners in the agenda of reforms of Georgian energy markets at the retail level. Market opening envisages different phases of gradual exposure of consumers to a free market. Big and medium-size consumers will be gradually switched to the independent suppliers while small commercial customers and households will be served by the universal supplier with constantly decreasing basket of energy supplies as the market continues to open<sup>1</sup>. Such inherent changes at retail market require appropriate changes in the regulatory framework with regards to:

- Unbundling of DSO and supplier tariffs;

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<sup>1</sup> From 1<sup>st</sup> of March 2019, according to the first phase of market opening, big consumers connected to at least to 35-110 KV voltage and with average consumption of 5 million kwh are obliged to procure electricity on wholesale market or chose independent supplier.

- Establishing new enabling framework:
  1. for prosumers to deal with changed structure of retail market,
  2. for charging stations of electric vehicles,
  3. for development of micro grids and etc.

Taking into account that sources of gas are not diversified, market opening and introduction of the competition are the most challenging issues. At the moment there is no regulation for integration of renewable gasses into the system. Proper regulation with proper incentives should be on place to bring new sources, particularly renewable gasses, in the system.

At the grid level, reforming existing tariff system will be substantial in order to establish appropriate tariffs for system operators (TSO-DSO) to cover grid expenses, including system stability expenses. At the transmission level it means to include balancing & ancillary services in transmission tariffs while at distribution level, unbundling DSO and supply tariff may necessitate introduction of capacity (subscription) charges<sup>2</sup> apart from supply tariffs. Reforms at the distribution network tariffs will also concern changes of the net-metering policy, introduce new connection and usage tariffs for charging facilities for electric vehicles and for small and micro renewable power plants. At the time being existing regulatory frameworks doesn't support such cost recovery and it needs to be reformed in order to be in compliance with new market design of Georgia.

Energy efficiency, growing role of regulatory authorities in promoting energy efficiency stemming from TEP and upcoming new energy efficiency legislation of Georgia, empowers GNERC to conduct active measures in order to fulfil its duties and promote energy efficiency in generation, transmission, distribution and consumption. As for now, GNERC to a great extent lacks experience in regulatory treatment of energy efficiency issues. Regulatory strategy and relevant secondary legislation, in accordance to best practice, must be elaborated.

It is worth mentioning that currently active work is carried out in order to ensure compliance with the third energy package. At this stage efforts are made to fulfil the obligations that are to be implemented currently or in the nearest future. However, after fulfilment of those requirements, obligations to be implemented by 2022 will be targeted by the Twinning Project.

Specific attention will be paid to ensure that legal approximation process supported under this Twinning project will be according to the national framework on policy development and to the better regulation approach supported also at the EU level<sup>3</sup>. A better regulation approach requires that policies and legislation are prepared on the basis of the best available evidence (impact assessments) and according to an inclusive approach involving both internal and external stakeholders.

Furthermore, building on the lessons learnt and the Better Regulation agenda promoted at the EU level<sup>4</sup>, this Twinning project will contribute to the overall public administration reform in Georgia by ensuring the introduction of an inclusive and evidence-based approach to policy-making and legal drafting in the respective sector. It will also pay specific attention to accountability and reporting lines between concerned institutions. GNERC will ensure participation of the representatives of stakeholders in the

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<sup>2</sup> According to existing tariffs, there are energy-only tariffs for consumers.

<sup>3</sup> [http://ec.europa.eu/info/strategy/better-regulation-why-and-how\\_en](http://ec.europa.eu/info/strategy/better-regulation-why-and-how_en)

<sup>4</sup> [http://ec.europa.eu/info/files/better-regulation-better-results-eu-agenda-0\\_en](http://ec.europa.eu/info/files/better-regulation-better-results-eu-agenda-0_en)

activities that will be undertaken within the project (ex. agencies, ministries, distribution and transmission licensees, etc.).

### **3.2 Ongoing reforms:**

By joining the Treaty Establishing the Energy Community, Georgia started to reform energy sector in various directions. A new draft Law on Energy was prepared and proposed by the Energy Community Secretariat, transposing principle of directives 72/2009 and 73/2009. Besides, new draft laws were prepared on Promotion Renewable Energy Sources and a law on Energy Efficiency. All three draft laws are already submitted to the Parliament by the Government and are in active discussion in the respective Parliamentary Committees.

Parallel to the work done on developing primary legislation, there is ongoing reform in the regulatory framework of the energy market of Georgia. 24<sup>th</sup> of December 2018 the Minister of Economy and Sustainable development issued an ordinance on establishing Electricity Market Concept Design of Georgia that sets high level requirements and shapes future electricity market of Georgia. The market concept design defines new market places of different timeframes, balancing responsibilities of future market participants and as well as establishing roadmap for market opening.

Consequently, Government of Georgia on 28 of January 2019 made an amendment to the decree concerning Compulsory Criteria of Electricity Direct Consumers and mandatorily instructed retail consumers connected 35/110 KV voltage and having average monthly consumption 5 mln. kwh and above to register as direct consumers (to become qualified enterprise) at market operator (ESCO) and thus mandatorily to become wholesale market participants. As a consequence direct consumers shall constitute approximately 30% of electricity market of Georgia. Next stages of market opening is envisaged from 2020 till 2023 years.

GNERC is in the process of transposing European network connection codes<sup>5</sup> and reforming existing national grid code. Apart from transposing network connection codes, changes in existing grid code is into consideration to establish appropriate technical provisions for balancing and ancillary services and in order to set up basis for balancing and ancillary cost recovery by the TSO through appropriate regulatory mechanisms.

In 2017 GNERC adopted so called net-metering policy that implies a renewable microgenerator at retail consumer premises up to 100 KW installed capacity and that can work parallel to the grid, firstly satisfying such retail consumer energy needs and injecting excessive energy into the grid. in 2019 net-metering regulation was amended and group connections were allowed. Next upgrade of the regulation that GNERC aims is to introduce virtual net metering and local energy communities (local smart grids). Elaboration of the regulation, so far, facilitated in development micro generators in Georgian distribution grid over last 2 year, more specifically small solar photovoltaics that corresponds to more than 1 MW

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<sup>5</sup> Regulation (EU) 2016/1388 17 August 2016 establishing a network code on demand connection; Regulation (EU) 2016/631 of 14 April 2016 establishing a network code on requirements for grid connection of generators; Regulation (EU) 2016/1447 of 26 August 2016 establishing a network code on requirements for grid connection of high voltage direct current systems and direct current-connected power park modules



installed capacity in total.

### **Policy and legislative process**

The National Policy Planning System Reform Strategy, adopted by the Government of Georgia in August 2015 recognizes the current weak link between the policy planning process and legislation drafting, the absence of practice of legislative impact assessment and the weak institutional capacity of ministries in legal drafting. The OECD/SIGMA 2018 assessment in the policy development and coordination area highlights a number of weaknesses in the quality of policy planning (costing, monitoring, coordination and public consultation), which are currently being addressed through the PAR roadmap and action plan. The document specifically notes the reoccurring problem with implementation of laws, which can be attributed to the low quality of laws due to weaknesses in the law-making process. There is a pressure to complete numerous legal reforms in the shortest possible time: "This situation inevitably places enormous pressure on the combined law-making resources of the Government and the Parliament and leaves little time for essential elements of a well-ordered law-making process, such as regulatory impact assessments or proper consultation with civil society." Improvement of the legislative drafting process and quality of legislation is now a priority area of action for the Administration of Government under the Prime Minister (steering the policy-making process) and all line ministries. This primarily involves the Administration of Government, Ministry of Justice, and Ministry of Economy and Sustainable Development. In order to meet the targets and obligations in law making process the Government introduced changes in Law on Normative acts (amended on June 13, 2018) and Regulation of the Government (amended on August 24, 2018). These amendments put more emphasis on concordance with Union *acquis* and Regulatory Impact Assessment (RIA.)

To sustain the legal approximation process the Ministry of Justice (MoJ) with the support of the EU assistance (below mentioned projects Association Agreement Facility and Legal Drafting projects) elaborated Legal Approximation Guidelines and Manual. These documents provide key principles and techniques of approximation that will guide and orient legal drafters throughout the approximation process.

The documents are under finalization and after official adoption by the Government should be used consistently, not only by MoJ, but also by all line ministries, and institutions tasked with the approximation exercise. Such proceedings will help to ensure the achievement of a steady and sustainable approximation path.

Along the legislative process the Government is proceeding with the rational organization of state administration and clear accountability lines between institutions, including supervision and reporting between line ministries and agencies. The Civil Service Bureau (CSB) is tasked with the development of uniform civil service state policy. Functional reviews of the line Ministries has been already done and currently the CSB is performing an analysis of state agencies with the intention of identifying and putting forward reforms to improve the organization of PA, to streamline their mandates, enforcement mechanism as well as policy making process.

In this regard the project will ensure consistency between the review of the organizational set-up of the beneficiary institution with the national legislation regulating the organization of the state administrations and above mentioned analysis of the state agencies.

### 3.3 Linked activities:

In the recent years, a number of projects financed by different donors have been contributing for development and strengthening of the Georgian energy system and its efficiency. Below is a summary of the main interventions:

**Development of Incentive Based Regulation for Service Quality and Regulatory Strategy to Support Roll-Out of Smart Metering” (ENI/2018/403-468)** - The EU Twinning project started in February 2019, will last for 21 months. The project budget is 1 200 000 Euro. The main purpose of the project is to bring norms related to the service quality and reliability of supply in compliance with the EU acquis and development of the regulatory strategy to support smart-metering roll-out. The project is implemented by the Energy Regulatory Authority of Austria (E-Control), Energy Regulatory Commission of France (CRE) and Energy Regulatory Authority of Greece (RAE).

**EU4ENERGY** – Period of implementation: 2016-2020; the budget is 21 000 000 Euro. European Union (EU) initiative that works with the six Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) and five Central Asian countries (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) to support the elaboration and implementation of energy policies that reduce their energy dependence and intensity, bolster their resilience and open up new opportunities for efficient low-carbon economies that further advance citizens' well-being. The project assists GNERC in drafting pieces of secondary legislation that will be compatible with the EU legislation

**"Georgian Energy Sector Reform"** – EU funded; Duration 2018- 2021; The EU grant contribution of EUR 8,5 mln (approx. GEL 26 mln) through Neighbourhood Investment Platform (NIP) to support the scope of this agreement. The grant supports the establishing of a strategic, institutional, and financial vision and framework for Energy Efficiency in Georgia, especially in the building sector. It will also promote energy efficiency through a reform program that moves Georgia from a centralized electricity market to an organised market as envisaged by EU's Third Energy Package.

**Technical Assistance of Ministry of Foreign Affairs of Denmark** – Period of implementation: **2014-2019**; Ministry of Foreign Affairs of Denmark carries out a project related to the Energy Efficiency. The project encompasses issues related specifically to data collection, monitoring, accounting and integration of renewable energies into the existing national electricity network.

**“Strengthening capacities of the Georgian National Energy and Water Supply Regulatory Commission (GNERC) in regulatory Cost Audit and Market Monitoring”** - EU funded Twinning project. Period of implementation: January 2016 – September 2017. **The Project budget was 1 000 000 Euro.** The project aimed to strengthen the capabilities of GNERC through the development of tools and mechanisms based on the best-EU practice regarding regulatory cost audit and market monitoring within the electricity sector.

**“Advisory Support to the Georgian National Energy & Water Supply Regulatory Commission (GNERC)** – funded by the European Bank for Reconstruction and Development (EBRD), Period of implementation: April 2016 – April 2017. The project included: calculation of losses in electricity and

natural gas networks, quality of service regulation in electricity and natural gas sectors, licensing in gas sector, investment appraisal, unbundling of activities in gas sector and implementation of uniform system of accounting in electricity sector.

**TAIEX Expert mission on EU legislation in the area of supplier switching and retail market development in the natural gas sector.** Period of implementation – September 2015. (ref. 60219). The aim of the mission was to strengthen the capacity of the Georgian National Energy and Water Supply Regulatory Commission in regulating the natural gas sector in line with the EU legislation.

**“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) – EU funded Twinning Project. The project budget was 1 100 000 Euro. Period of implementation: September 2012-June 20 2014. The project supported to strengthen the capacities of GNERC and develop the new electricity tariff methodology. The main objectives of the project were to significantly increase the knowledge and skills of GNERC`s management and its staff in the electricity sector regulation with specific reference to incentive based electricity tariffs, benchmarking, data monitoring and management and quality of service regulation in line with the Union acquis and best practices.

### **Related Programmes and Projects**

The reform of Public Administration (PAR) is of utmost importance for the country and the process is supported through donor community. The EU total contribution to the “Support to the Public Administration Reform in Georgia” 2016-2019, is EUR 30 000 000. Out of which EUR 20 000 000 is budget support share and EUR 10 000 000 for complementary support. The objective of the programme is to improve the efficiency, accountability and transparency of the public administration of Georgia, in line with the key Principles of Public Administration that have been developed by OECD/SIGMA in close cooperation with the European Commission. It will have a particular focus on the improvement of the policy planning and coordination capacities and processes in the central public administration. The professionalization of the civil service (including the reform of the civil service training system) will also be supported through the programme. **“Support to the Public Administration in Georgia”**- EU funded; Duration: 2019-2021; Description: The objective of the project is to improve the efficiency, accessibility, accountability and transparency of the Georgian Public Administration in accordance with European principles of Public administration and best practices. More specifically, the project is mainly focused on improving the results-based approach in policy planning, development, coordination, monitoring and evaluation, increasing the awareness of the Civil servants and streamlining the implementation of the civil service reform in public institutions, improving the intra and inter-ministerial business processes related to policy making and service delivery enhancing thus the efficiency of the administration and the quality of service delivery, strengthening policy development and implementation of the anti-corruption and transparency national policies, thus increasing the accessibility, accountability and transparency of the executive branch and combating corruption, establishing an efficient, accountable and transparent institutional and legal framework for efficiently, timely and reliably delivered public and electronic services and raising public awareness and increasing visibility of the Government’s public administration reform agenda as well as on available public services.

### **“Capacity Building of the Civil Service Bureau of Georgia to Implement the Civil Service Reform”**

- EU funded; Duration: 2019-2020. Description: The objective of the project is to enhance the professionalism of the civil service in Georgia. More specifically, the project aims to strengthen the institutional and Human Resource (HR) capacities of the Civil Service Bureau (CSB) to manage the implementation of the Civil Service Reform, through the reinforcement of the legal framework, introduction of modern Human Resource Management (HRM) information system, tools and techniques, development of training scheme for HR managers and improvement of Assets Declaration Monitoring system.

**Facility for the implementation of the Association Agreement in Georgia** - EU funded; Duration: 2015-2018; Description: The project provided policy advice and capacity building support to the Georgian Government in coordinating the implementation of the Association, strengthening the institutional capacities of the line ministries and other public institutions to carry out the required reforms, including on policy development and legal approximation processes. Since February 2019, phase II of the aforementioned project has been launched. Duration: 2019-2021.

**Legislative Impact Assessment, Drafting and Representation** - EU funded; Period of implementation: 2015-2018; Description: The project aimed to improve the legal drafting process at the central level of government (through promoting better coordination among relevant entities, and introduction of the regulatory impact assessment of draft legislation) as well as the Government's international representation and reporting functions with special emphasis on the Ministry of Justice.

Two other projects, EU funded – implemented by GIZ, and USAID-funded ("G4G") also support LA and Regulatory Impact Assessment (RIA) but with focus on economic sphere.

### **3.4 List of applicable *Union acquis*/standards/norms:**

Georgia has the obligation to approximate its legislation with the energy *acquis* of Energy Community, specifically Protocol of Accession of Georgia with the Energy Community Treaty envisages approximation of national legislation with following EU legal acts:

- Directive 2009/72/EC<sup>6</sup> of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC;
- Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC
- Directive 28/2009/EC on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC
- Directive 27/2009/EC on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC
- Regulation (EU) 838/2010 on laying down guidelines relating to the inter-transmission system operator compensation mechanism and a common regulatory approach to transmission charging
- Commission Regulation 2016/1388 on establishing a Network Code on Demand Connection

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<sup>6</sup> With the Energy Community's decision from October 6, 2011, the Third Package (Directives 2009/72/EC, 2009/73/EC and associated regulations) is to be implemented in the Energy Community's legal framework<sup>6</sup>.

- Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005 and network codes developed based on the regulation.
- Directive 2004/67/EC concerning measures to safeguard security of natural gas supply
- Regulation (EC) No 714/2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003
- Directive 2005/89/EC concerning measures to safeguard security of the electricity supply and infrastructure investment
- Directive 85/337/EEC on the assessment of the effects of certain and private projects on the environment, as amended by Directive 1999/32/EC relating to a reduction in the sulphur content of certain liquid fuels
- Directive 2001/180/EC on the limitation of emissions of certain pollutants into the air from large combustion plants
- Chapter III, Annex V and Article 72(3)-(4) of Directive 2010/75/EU on industrial emissions (integrated pollution prevention and control) – for new plants
- Chapter III, Annex V and Article 72(3)-(4) of Directive 2010/75/EU on industrial emissions (integrated pollution prevention and control) - for existing plants
- Directive 79/409/EC, Article 4(2), on the conservation of wild birds
- Directive 2012/27/EU on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC.
- Directive 2010/30/EU on the indication by labelling and standard product information of the consumption of energy and other resources by energy-related products
- Directive 2010/31/EU on the energy performance of buildings
- Directive 2009/119/EC imposing an obligation on Member States to maintain minimum stocks of crude oil and/or petroleum products
- Directive 2008/92/EC concerning a Community procedure to improve transparency of gas and electricity prices charged to industrial end-users (recast)
- Regulation (EC) No 1099/2008 on energy statistics

Out of the EU directives listed above, this TWINNING project will address the following:

- Directive 2009/72/EC<sup>7</sup> of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC;
- Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC;
- Directive 28/2009/EC on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC;
- Directive 27/2009/EC on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC;

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<sup>7</sup> With the Energy Community's decision from October 6, 2011, the Third Package (Directives 2009/72/EC, 2009/73/EC and associated regulations) is to be implemented in the Energy Community's legal framework<sup>7</sup>.

- Regulation (EU) 838/2010 on laying down guidelines relating to the inter-transmission system operator compensation mechanism and a common regulatory approach to transmission charging;
- Commission Regulation 2016/1388 on establishing a Network Code on Demand Connection;
- Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005 and network codes developed based on the regulation.

### **3.5 Components and results per component**

The Twinning project will provide advisory support to the Georgian National Energy and Water Supply Regulatory Commission (GNERC) in three main directions:

#### **Mandatory result 1 (Component 1)/: Network Tariff Setting Supported**

Under new market model of Georgia, this Component aims at creating enabling basis for reforming existing tariff system that will be substantial in order to establish appropriate tariffs for system operators (TSO-DSO) in order to cover grid expenses, including system stability expenses. At the transmission level it means to include balancing & ancillary service costs in transmission tariffs while at distribution level, unbundled DSO tariff will necessitate introduction of capacity (subscription) charges<sup>8</sup> apart from energy tariffs. At the time being existing regulatory frameworks doesn't support such cost unbundling. Harmonization of transmission charges policies in the Energy Community and generator participation in covering network tariffs is one of the obligation of Georgia that requires further investigation and establishing regulatory strategy for rolling out G component if deemed appropriate<sup>9</sup>. For this processes Tariff systems must be analyzed and appropriate simulations conducted.

#### **Sub-Result 1.1.Capacity of the GNERC's staff strengthened with the aim to design network tariff setting methodologies**

In order to raise capacity and awareness of GNERC respective staff with regards to the network tariff setting methodologies this sub-result aims at conducting respective seminars, trainings, workshops and other kinds of awareness raising meetings. The abovementioned will allow GNERC staff to have sufficient knowledge and skills for further application of the documents elaborated within the project.

#### **Sub-Result 1.2. Network Tariff Setting Methodologies drafted for the electricity Sector**

This sub-result aims at preparation of Network Tariff Setting Methodologies and proposals for amendment in existing tariff methodology for the electricity sector. The expectation of the BC is to have a methodology which will envisage background for establishing a new cost recovery framework through network tariffs regardless of the fact whether procurement of the reserve capacities and ancillary services will fall under regulation (cost-based) or will be market based. It is expected that the methodologies will cover both transmission and distribution tariff methodologies and will address all the need of tariff reforms stemming from introduction of wholesale and retail market opening.

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<sup>8</sup> According to existing tariffs, there are energy-only tariffs for consumers.

<sup>9</sup> Obligation under COMMISSION REGULATION (EU) No 838/2010

## **Mandatory result 2 (Component 2): Enabling environment for ensuring market opening and active participation at the wholesale and retail markets created**

This component aims at establishing enabling environment for demand response and consumer active participation in the market on both wholesale and retail markets, including removing barriers for demand participation, establishing reward schemes for suppliers and consumers in participating in demand response depending on national circumstances. Demand response is crucial in the context of new market model of Georgia at both retail and wholesale markets. As peak demand increases at main load centers and resort destinations in Georgia, having consumers with ability to change/shave peak load, it is vital to set up proper mechanisms for utilizing such possibilities. Creation of balancing market will charge eligible consumers with balancing responsibilities while they also can be qualified as balancing service providers and benefit for participation in demand response<sup>10</sup>. At retail level, various demand participation activities may take place, such as supporting prosumers and electric charging points and as more high-level aim, setting up enabling regulatory environment for creation local energy communities with smart grids.

### **Sub-Result 2.1. Capacity of GNERC staff strengthened with the aim to ensuring market opening and active demand participation**

In order to raise capacity and awareness of GNERC respective staff with regards to the market opening and active participation of demand this sub-result aims at conducting respective seminars, trainings, workshops and other kinds of awareness raising meetings. The abovementioned will allow GNERC staff to have sufficient knowledge and skills for further application of the documents elaborated within the project. It is expected that the GNERC staff will have sufficient knowledge with regards to promoting prosumers and local energy communities, operation of organized energy/capacity markets, demand side management (including consumer response reward schemes and demand response participation incentives at balancing market), Cost-effective integration of various sources of flexibility (storage, demand response, flexible generation and etc.). Further development of respective recommendations regarding the communication measures to be conducted by TSO and DSOs would be useful. These measures will support demand side active participation at wholesale and retail markets and provide appropriate information to consumers. Development of recommendations for network operators is also expected, reflecting the impact of energy efficiency and demand response programs, specific provisions on renewables self-consumption and renewable energy communities, as well as on the infrastructure development plans of the operators; Also, the mentioned recommendations should define technical modalities for participation in these markets on the basis of the technical requirements of these markets and the capabilities of demand response (including aggregators).

### **Sub-Result 2.2. Relevant rules/procedures for ensuring market opening and active demand participation developed**

Under this sub-result, development of respective secondary legislation and other types of documents for ensuring market opening and creating enabling environment for demand participation is envisaged. It is expected that the regulatory framework will be developed in order to set incentives for consumers to become active at wholesale and retail markets. Revision of current legislation and new developments proposed in the context of the open market model conditions will be expected in order to reach above-mentioned results. The revision of the Grid Code, market rules and methodologies can be made and

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<sup>10</sup> Directive 2009/72/EC tasks transmission system operators to ensure availability of all necessary ancillary services, including those provided by demand response.

recommendations might be drafted to support increased participation of consumers in wholesale energy markets and system flexibility improvement. Development of recommendations in relation to support increased participation of consumers in wholesale energy markets and system flexibility improvement would be useful.

### **Mandatory result 3 (Component 3): National regulatory framework on renewable energy integration/Energy efficiency upgraded**

The aim of the component is the development relevant secondary legislation and capacity building, in accordance to best practice and approximation obligation with EU respective acquis<sup>11</sup> in terms of establishing EU compliant requirements and strengthening regulatory role. Growing role of regulatory authorities in promoting renewable energy integration and energy efficiency stemming from TEP and upcoming new energy efficiency legislation of Georgia empowers GNERC to conduct active measures in order to fulfill its duties and promote energy efficiency in generation, transmission, distribution and consumption. As for now, GNERC to a great extent lacks experience in regulatory treatment of energy efficiency issues.

#### **Sub-result 3.1. Regulatory strategy and relevant secondary legislation for renewable energy integration/energy efficiency elaborated**

Under this sub-result, development of the regulatory strategy and the relevant draft secondary legislation with the aim of fostering renewable energy integration and energy efficiency is expected. Growing role of the regulatory authorities in promoting energy efficiency stemming from TEP and upcoming new energy efficiency legislation of Georgia, empowers GNERC to conduct active measures in order to fulfill its duties and promote energy efficiency in generation, transmission, distribution and consumption. As for now, GNERC to a great extent lacks experience in regulatory treatment of energy efficiency issues.

#### **Sub-result 3.2. Capacity of the GNERC's staff strengthened in meeting new responsibilities related to renewable energy and energy efficiency**

New regulations will require sufficiently trained staff. Therefore, raising awareness and capacities of the respective staff of GNERC with regards to responsibilities related to renewable energy and energy efficiency is expected under this sub-result.

### **3.6 Means/input from the EU Member State Partner Administration(s)\*:**

In their submitted proposal, Member State(s) is/are kindly requested to develop the activities, which are needed in order to achieve the results stipulated in the fiche.

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<sup>11</sup> Directive 28/2009/EC on the promotion of the use of energy from renewable sources and Directive 27/2009/EC on energy efficiency



### 3.6.1 Profile and tasks of the PL:

#### Profile:

- A high ranking Member State official or assimilated agent with a sufficient rank to ensure an operational dialogue at political level;
- University degree in Economics, Business, Energy or related studies or equivalent professional experience of 8 years;
- At least 3 years of professional experience in the field of Energy Regulation;
- A good knowledge of energy systems and legislation;
- Overall understanding of the relevant issues in the sector and energy related areas (gas, electricity);
- Good leadership skills;
- Experience with working in the countries of the Neighbourhood will be considered an asset.
- Excellent working level of English language.

#### Tasks:

- Overall direction, supervision, guidance and monitoring of the project;
- Ability to mobilise the necessary expertise in support of the efficient implementation of the project;
- Responsible for the project progress reports and the final report prepared with the 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.

### 3.6.2 Profile and tasks of the RTA:

#### Profile:

- University degree in Economics, Business, Energy or related studies or equivalent professional experience of 8 years;
- Minimum 3 years of professional experience in the field of energy regulation;
- Overall understanding of the issues related to the components of the project and the relevant EU legislation;
- Good inter-personal skills and good training, public speaking, diplomatic and written communication skills;
- Good computer literacy (Word, Excel, Power Point);
- Excellent English communication skills, both spoken and written;
- Previous experience in working on/managing similar projects will be considered an asset.

#### Tasks:

- Overall coordination project implementation and of all activities ;
- Coordination of the activities of the team members in line with the agreed work plan to enable timely completion of project outputs;
- Liaise with MS and BC PLs and daily contacts with BC RTA counterpart;

- Preparation of the initial and subsequent work plan(s) and project progress reports, together with PL, to be submitted to the Steering Committees;
- Liaise with EUD Project Manager and Programme Administration Office (PAO);
- Liaise with other relevant projects and relevant Georgian institutions.

### 3.6.3 Profile and tasks of Component Leaders:

#### Profile and Tasks of the Component Leader 1

##### Profile:

- University degree in Economics, Business, Energy or related studies or equivalent professional experience of 8 years;
- Minimum 3 years of relevant professional experience related to the Tariff Setting Methodologies.
- Experience in preparation of regulatory framework, strategy documents, recommendations etc.
- Proven experience in conducting and managing capacity building and professional development activities such as trainings, consultations etc.
- An excellent command of written and spoken English;
- Good writing and presentation skills, good training and facilitation skills;
- PC computer literacy;
- Experience in other international projects related to energy sector / electricity sub sector /management would be an advantage.

##### Tasks:

- Component coordination, guidance and monitoring;
- Conducting analysis of the area relevant to the component;
- Preparing and conducting training programs;
- Timely proposals for any corrective measures;
- Liaise with MS and BC PLs and daily contacts with RTA and BC counterpart.

#### Profile and Tasks of the Component Leader 2

##### Profile:

- University degree in Economics, Business, Energy or related studies or equivalent professional experience of 8 years;
- Minimum 3 years of relevant professional experience with working on the demand side management, market opening and prosumer issues, experience of working with the clean energy would be considered an advantage;
- Experience in preparation of relevant supporting documentation, recommendations, methodologies etc.;
- Proven experience in conducting capacity building and professional development activities such as trainings, consultations etc.
- An excellent command of written and spoken English;
- Good writing and presentation skills, good training and facilitation skills;
- PC computer literacy;

- Experience in other international projects related to energy sector / electricity sub sector /management would be an advantage.

Tasks:

- Component coordination, guidance and monitoring;
- Conducting analysis of the area relevant to the component;
- Preparing and conducting training programs;
- Timely proposals for any corrective measures;
- Liaise with MS and BC PLs and daily contacts with RTA and BC counterpart.

Profile and Tasks of the Component Leader 3

Profile:

- University degree in Economics, Business, Energy or related studies or equivalent professional experience of 8 years;
- Minimum 3 years of Relevant professional experience with the Renewable Energy/Energy efficiency;
- Experience in preparation of regulatory framework, strategy documents, recommendations etc.;
- Experience in conducting capacity building and professional development activities such as trainings, consultations etc.
- 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 other international projects related to energy sector / electricity sub sector /management would be an advantage.

Tasks:

- Component coordination, guidance and monitoring;
- Conducting analysis of the area relevant to the component;
- Preparing and conducting training programs;
- Timely proposals for any corrective measures;
- Liaise with MS and BC PLs and daily contacts with RTA and BC counterpart.

3.6.4 Profile and tasks of other short-term experts:

Profile:

- University degree in a relevant subject;
- Minimum of 3 years of professional experience in the field of energy;
- Excellent knowledge of energy, energy regulation systems, renewable energy, energy efficiency, gas and electricity or respective field ;
- Experience in drafting legislation and preparation of regulatory framework, and its implementation, taking into account the role of energy regulator;
- Demonstrated good report writing and communication skills;

- Good training and facilitation skills;
- Excellent coaching and mentoring skills;
- Excellent coordination and management skills of the activities;
- Experience in preparing regulatory and fiscal impact assessments would be an asset;
- Good command of written and spoken English.

#### Tasks

- Contributing to the sustainability of the project by ensuring that aspects of the project related to their field of expertise are implemented timely;
- Supervision and on-site coordination of all activities related to their field of expertise and performed under this project;
- Timely proposals for any corrective measures;
- Assistance with drafting of strategic documents and preparation of trainings, study tours, workshops, seminars, etc;
- Liaise with RTA and BC counterparts.

#### **4. Budget**

**Maximum Budget available for the Grant is 1 500 000 EUR**

#### **5. Implementation Arrangements**

- 5.1 The European Union Delegation in Tbilisi, Georgia, will be responsible for the tendering, contracting, payments and financial reporting, and will work in close co-operation with the Beneficiary. The person in charge of this project at the Delegation of the European Union to Georgia is:

Mr. Andrej BARTOSIEWICZ  
 Project Manager,  
 Delegation of the European Union to Georgia  
 64b Chavchavadze Avenue  
 0179 Tbilisi, Georgia  
 Tel.: +995-32-236 43 64  
 E-mail: [Andrej.BARTOSIEWICZ@eeas.europa.eu](mailto:Andrej.BARTOSIEWICZ@eeas.europa.eu)

#### 5.2 Institutional framework

The main beneficiary Institution of the Twinning project is the Georgian National Energy and Water Supply Regulatory Commission. As already mentioned above the Commission is an independent entity and acts in accordance with defined authorities under the Law of Georgia on "Independent National Regulatory Authorities" and Law of Georgia on "Electricity and Natural Gas". The Commission consists of five members.

Currently GNERC has 14 Departments in its structure (see annex 1).GNERC's Organizational Structure is specified in its Charter (GNERC Resolution No. 6). *Practically all the 14 Departments of GNERC will gain experience from the Twinning Project.*

The Departments which will mostly benefit from the project are described below:

**The main functions of the Regulation Improvement and Methodological Support Department** are survey and analysis of the challenges and best international practices in the electricity, natural gas and water supply sectors for the purpose of service and competition development, including for creating fair conditions and balanced environment. Develop methodologies for the calculation of electric energy, natural gas, and water tariffs, monitor Quality of Service of Distribution licensees. The Departments consist of seven persons, including lawyers, engineers and one economist.

**The main functions of the Electricity Department** are to develop standard-technical documentation for electric sector; establish control over the licensing conditions, Develop Network Rules. Monitor and analyse the electricity market. Develop database for electricity trade, inspect meters used in wholesale accounting. Examine new investment projects in electricity sector and prepare appropriate conclusions. The Department consists of 8 persons, including electric engineers and economist.

**The main functions of the Natural Gas Department** are to conduct technical expertise of license seeker documentation in natural gas sector, create database about licensees and participants of natural gas sector in the form determined by the Chair of the Commission, prepare relevant conclusions on the basis of analysing technical reports submitted by natural gas sector licensees, estimate investment projects presented by natural gas licensees and prepare relevant conclusions within its competence; monitor and analyse natural gas market within the competence of the Commission;. The Department consists of 7 persons, including engineers and economists.

**The main functions of Tariffs and Economic Analysis Department** are to analyse tariff applications presented to it, examine and monitor the economic status of licensees, importers, suppliers, and commercial operators in electricity, natural gas and water supply sectors, develop and modify tariff setting methodologies, calculates and sets tariffs . The Department consists of 13 persons, all of them are economists.

Considering the staffing situation in these departments it is important that the three Working Groups to be set up within the Twinning Project involve qualified specialists not only from these four 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.

All stakeholder representatives, including agencies, ministries, distribution and transmission licensees, etc will be involved in the project implementation according to their mandate and responsibilities.

### 5.3 Counterparts in the Beneficiary administration:

#### 5.3.1 Contact person:

*Nino Bukhnikashvili*

*International Relations' Department,*

*Georgian National Energy and Water Supply Regulatory Commission*

*#19, Mitskevichi St. 0194, Tbilisi, Georgia*

*[e-mail.n.bukhnikashvili@gnerc.org](mailto:n.bukhnikashvili@gnerc.org)*

#### 5.3.2 PL counterpart

*Giorgi Pangani*

*Commissioner*  
*Georgian National Energy and Water Supply Regulatory Commission*  
*#19, Mitskevichi St. 0194, Tbilisi, Georgia*  
*e-mail: [g.pangani@gnerc.org](mailto:g.pangani@gnerc.org)*

5.3.3 RTA counterpart  
*Zviad Gachechiladze,*  
*Electricity Department*  
*Georgian National Energy and Water Supply Regulatory Commission*  
*#19, Mitskevichi St. 0194, Tbilisi, Georgia*  
*e-mail: [z.gachechiladze@gnerc.org](mailto:z.gachechiladze@gnerc.org)*

## **6. Duration of the project**

*Duration of Execution period of the project will be 30 Months.*

## **7. Management and reporting<sup>12</sup>**

### **7.1 Language**

The official language of the project is the one used as contract language (English). All formal communications regarding the project, including interim and final reports, shall be produced in the language of the contract.

### **7.2 Project Steering Committee**

The Project Steering Committee (PSC) will be created at the beginning of the project, comprising of the representatives of GNERC, Member State Institutions, the EU Delegation to Georgia and Programme Administration Office (PAO) of the Ministry of Foreign Affairs of Georgia.

A project steering committee (PSC) shall oversee the implementation of the project. The main duties of the PSC include verification of the progress and achievements *via-à-vis* the mandatory results/outputs chain (from mandatory results/outputs per component to impact), ensuring good coordination among the actors, finalising the interim reports and discuss the updated work plan. The PSC meetings could be attended by the current ongoing related projects or representatives of the relevant institutions, with respect to the project aims and objectives. Those stakeholders can be involved in the PSC with observer status.

The Steering Committee will meet at regular quarterly intervals; It will be co-chaired by the Project Leaders (EU Member State and Beneficiary Country). Discussions and important decisions, taken during the meetings will be kept in the official minutes in English with the possibility to disseminate among the committee members afterwards. Other details concerning the establishment and functioning of the PSC are described in the Twinning Manual.

### **7.3 Reporting**

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<sup>12</sup> Sections 7.1-7.3 are to be kept without changes in all Twinning fiches.

All reports shall have a narrative section and a financial section. They shall include as a minimum the information detailed in section 5.5.2 (interim reports) and 5.5.3 (final report) of the Twinning Manual. Reports need to go beyond activities and inputs. Two types of reports are foreseen in the framework of Twinning: interim quarterly reports and final report. An interim quarterly report shall be presented for discussion at each meeting of the PSC. The narrative part shall primarily take stock of the progress and achievements *via-à-vis* the mandatory results and provide precise recommendations and corrective measures to be decided by in order to ensure the further progress. Monitoring and Evaluation of the project will be conducted using the project-specific logframe, to be encoded in the EU projects monitoring system OPSYS. The contractor should report on the results at impact, outcome and output levels, linked to sources of verification presented in the logframe. Reporting will be carried out through Progress, Interim and Final Reports as laid down in the terms of reference / project description and general conditions. For the better quality of the log frames and indicators, the contractors are encouraged to get familiar with DG NEAR guidelines on Indicators - P. 45 and the EU Results Framework. Wherever an indicator set out in the project log frame is also reflected in the EU Results Framework, project reporting will also cover it.

## **8. Sustainability**

The Project purposes 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 personnel trained by the project 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.

In order to contribute to develop implementable legislation, the twinning project will support preparation of analytical prerequisites i.e. preparation of concept notes, estimation of implementation costs and will support GNERC on conducting inter-institutional and public consultations.

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 characterized 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.

Any internal procedure developed with the support of the project will be consistent with the formal decrees on the organisational structure and job requirements for the organisation and any by-laws that exist for all government bodies regarding job descriptions and written procedures. In addition, any written procedural manual or guidelines developed with the support of the project will be simple enough to be regularly updated and changed by the staff of the respective organisations without external support.

## **9. Crosscutting issues** (*equal opportunity, environment, climate 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. Development of smart-metering will optimize energy consumption and energy efficiency. It is a part of demand side management and will contribute to the optimization of energy consumption and subsequently will have positive impact on the environment.

## **10. Conditionality and sequencing**

There is no precondition set for this Twinning project. The project has been initiated and drafted by the beneficiary institution, 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/ 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 computerization 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.

To achieve the expected results it is important that GNERC staff further enhance technical English language skills. It would also be highly recommended to ensure translation of all essential documents developed within the project into Georgian language.

## **11. Indicators for performance measurement**

### **Component 1/Mandatory result 1: Network Tariff Setting Supported**

Indicators for performance measurement:

- Status of normative acts approximating Georgian primary and secondary legislation with the Union energy acquis.

### **Sub-Result 1.1.Capacity of the GNERC's staff strengthened with the aim to design network tariff setting methodologies**

Indicators for performance measurement:

- Share of GNERC Staff trained in network tariff setting within the project;
- Availability of the report on best EU practice in network tariff regulation;
- Availability of the report on the data assessment;



- Number of Simulations conducted on the impact on wholesale and end user tariffs by introducing transmission charges for producers as per commission Regulation (EU) 838/2010<sup>13</sup> within the project.

### **Sub-Result 1.2. Network Tariff Setting Methodologies drafted**

Indicators for performance measurement:

- Availability of the draft methodology for balancing and ancillary service pricing in transmission network tariffs and establish appropriate commercial cost reporting mechanism;
- Availability of the regulatory strategy to introduce transmission charges for producers as per commission Regulation (EU) 838/2010;
- Availability of the draft methodology in order to introduce capacity (subscription) charges as part of network tariff for the consumers connected to the Grid;
- Availability of revised Tariff application forms and amendment recommendations in order to allow data requests related to new tariff methodologies.

### **Component 2/Mandatory result 2: Enabling environment for ensuring market opening and active participation at the wholesale and retail markets created**

Indicators for performance measurement:

- Status of respective Legislation for ensuring active participation at the newly created wholesale and retail markets.

### **Sub-Result 2.1. Capacity of GNERC staff strengthened with the aim to ensuring market opening and active demand participation**

Indicators for performance measurement:

- Share of GNERC Staff trained within the project, inter alia, in:
  - promoting prosumers and local energy communities
  - operation of organized energy/capacity markets, demand side management (including consumer response reward schemes and demand response participation incentives at balancing market)
  - Cost-effective integration of various sources of flexibility (storage, demand response, flexible generation and etc.)
- Availability of the respective recommendations for GNERC and network operators.

### **Sub-Result 2.2. Relevant rules/procedures for ensuring market opening and active demand participation developed**

Indicators for performance measurement:

- Availability of recommendations on further development of existing “net-metering” regulations and improved support schemes for self-consumption<sup>14</sup>;
- Availability of revised market rules, tariff methodologies and grid code.

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<sup>13</sup> According to existing tariffs, generators doesn't pay grid usage charges

<sup>14</sup> As part of 1<sup>st</sup> result, establish appropriate enabling regulatory framework in terms of integrating in the market for prosumers (consumers with generating facilities) and for deployment of electric vehicles charging stations and to enable its participation in demand response.

### **Component 3/Mandatory result 3: National Regulatory Framework on renewable energy integration/Energy efficiency upgraded**

Indicators for performance measurement:

- Status of respective legislation on Renewable Energy Integration;
- Status of respective legislation on Energy Efficiency.

#### **Sub-result 3.1. Regulatory strategy and relevant secondary legislation for renewable energy integration/energy efficiency elaborated**

Indicators for performance measurement:

- Status of amendments to the legal acts to support integration of the renewable bio gases in the gas transmission and/or distribution grid;
- Status of amendments to the legal acts to support measuring and tariff setting in natural gas sector in energy units instead of physical units;
- Availability of revised normative loss calculation methodology of GNERC and amendments in terms of introducing cost-effective energy efficiency improvement measures in network infrastructure;
- Availability of the GNERC action plan in promoting energy efficiency;
- Availability of the amendments in the rules on connection of RES into the grid and bearing and sharing of connection costs among first and consecutive RES developers;
- Availability of the Regulatory strategy for renewable energy integration/energy efficiency.

#### **Sub-result 3.2. Capacity of the GNERC's staff strengthened in meeting new responsibilities related to renewable energy and energy efficiency**

Indicators for performance measurement:

- Share of GNERC staff trained in promoting energy efficiency and its regulatory role within the project;
- Share of GNERC staff trained in regulatory role enhancement in regard to promoting RES integration in the grid within the project.

## **12. Facilities available**

The BC commits itself to deliver the following facilities:

- Adequately equipped office space for the RTA and the RTA assistant(s) for the entire duration of their secondment.
- Supply of office room including access to computer, telephone, internet, printer, photocopier.
- Adequate conditions for the STEs to perform their work while on mission to the BC.
- Provide suitable venues for the training sessions and meetings that will be held under the Project.
- Security related issues will be assured according to the standards and practices applicable for all Georgian public institutions.

## **ANNEXES TO PROJECT FICHE**

1. The Simplified Logical framework matrix;
2. GNERC structure.

Annex 1: **Simplified Logical Framework**

Project Title: Development of Network Tariff Setting Methodologies, Energy Efficiency and Renewable Energy Regulatory Strategy and Creating Regulatory Framework for Enabling Demand Side Involvement				Programme name and number:  Technical Cooperation Facility II  ENI/2016/039-377/direct management	
Beneficiary Institution: <b>Georgian National Energy and Water Supply Regulatory Commission</b>				Total budget:  <b>1, 500,000 €</b>	EU ENI financing (100%)
	<b>Description</b>	<b>Indicators (with relevant baseline and target data)</b>	<b>Sources of verification</b>	<b>Risks</b>	<b>Assumptions (external to project)</b>
<b>Overall Objective</b>	Support the approximation of Georgia's regulatory framework with the Union Energy <i>acquis</i> , promote wholesale and retail market development in Georgia, including promoting regulatory role in market regulation,	Level of Compliance of wholesale and retail markets in Georgia with requirements  Baseline: 2019 - not compliant Target: mostly compliant	Energy Community Assessment Reports  GNERC Reports  Drafted Legislation  Monitoring/assessment reports by international organisations  AA implementation Report		

	renewable energy integration and energy efficiency.				
<b>Specific (Project) Objective(s)</b>	develop the institutional framework for adoption and implementation of new regulations in a newly established electricity and natural gas markets of Georgia in line with the EU-Georgia Association Agreement and the protocol of Accession of Georgia to the Energy Community Treaty through strengthening the capabilities of Georgian National Energy and Water Supply Regulatory Commission	Level of compliance of respective legislation of Georgia concerning electricity and natural gas sectors with the requirements of Union energy acquis  Baseline: 2019 - limited compliance Target: mostly compliant	Energy Community Assessment Reports  Lists of participants from various meetings (workshops, trainings, discussions) Project documentation  Project interim and final reports  LEPL – Legislative Herald of Georgia  Table of Concordances	Difficulties related to the implementation of the amended legislation  Lack of the available GNERC staff working on respective issues	Government commitment on the fulfillment of AA/ DCFTA requirements continued  Strong support and proactive cooperation of Twinning partner(s)ensured  Cooperation between the Respective Working Groups established at the Georgian National Energy and Water Supply Regulatory Commission and the MS experts on the upgrading of the national legislation

	(GNERC) as the independent national regulatory authority by developing relevant tools and mechanisms.				ensured
<b>Mandatory results/outputs by components</b>	<b>Mandatory result 1: Network Tariff Setting Supported</b>	<p>Status of normative acts approximating Georgian primary and secondary legislation with the Union energy acquis</p> <p>Baseline: 2019 - not available</p> <p>Target: Normative acts drafted and agreed with the relevant stakeholders by the end of the project</p>	<p>Drafts of network tariff setting methodologies</p> <p>Project Documentation</p> <p>Minutes of the meetings held with the stakeholders</p>	Lack of appropriate human and technical resources.	Cooperation between the Network Tariff Working Group established at the Georgian National Energy and Water Supply Regulatory Commission and the MS experts on the upgrading of the national legislation

					ensured
	<b>Mandatory result 2:</b> Enabling environment for ensuring market opening and active participation at the wholesale and retail markets created	Status of respective Legislation for ensuring active participation at the newly created wholesale and retail markets  Baseline: 2019 - not available Target: respective legislation drafted and agreed with respective stakeholders by the end of the project	Project Documentation  Minutes of the meetings held with the stakeholders  Draft legal acts/amendments  Table of Concordances	Lack of appropriate human resources  Lack of material-technical resources	Respective Working Group created at Georgian National Energy and Water Supply Regulatory Commission
	<b>Mandatory result 3: National Regulatory Framework on renewable energy integration/Energy efficiency upgraded</b>	Status of respective legislation on Renewable Energy Integration  Baseline: 2019 – Draft law on Renewable Energy available <sup>15</sup> Target: respective legislation drafted and agreed with respective stakeholders by the end of the project  Status of respective legislation on Energy Efficiency  Baseline: 2019 - Draft law	Project Documentation  Minutes of the meetings held with the stakeholders  Draft legal acts/amendments  Table of Concordances	Lack of sufficient human and technical resources	Strong collaboration and involvement at all levels including media, governmental, educational, donor, non-governmental and private organizations ensured

<sup>15</sup> The Draft Law on Renewable Energy available. The Draft doesn't cover the issues covered under the Twinning Project.

		on Renewable Energy available <sup>16</sup> Target: respective legislation drafted and agreed with respective stakeholders by the end of the project			
<b>Sub-results per component (optional and indicative)</b>	1.1 Capacity of the GNERC's staff strengthened with the aim to design network tariff setting methodologies	Share of GNERC Staff trained in network tariff setting within the project  Baseline: 2019 - N/A Target: Whole staff of Tariffs and Economic Analysis, Regulation Improvement and Methodological Support and Electricity departments trained with respect to the network tariff setting  Availability of the report on best EU practice in network tariff regulation  Baseline: 2019 - Not available Target: The report on best EU Practice in network tariff regulation fully available within the first year of the project implementation  Availability of the report on	Lists of participants from various meetings (workshops, trainings, discussions)  Project documentation  Project interim and final reports  Results of the Simulation	Lack of sufficient human and technical resources	Cooperation between the respective Working Group established at the Georgian National Energy and Water Supply Regulatory Commission and the MS experts ensured  Involvement of respective stakeholders ensured

<sup>16</sup> The Draft Law on Renewable Energy available. The Draft doesn't cover the issues covered under the Twinning Project.



		<p>the data assessment</p> <p>Baseline: 2019 - not available</p> <p>Target: Report on the Data Assessment fully available within 9 months of the project implementation</p> <p>Number of simulations conducted on the impact on wholesale and end user tariffs by introducing transmission charges for producers as per commission Regulation (EU) 838/2010 within the project</p> <p>Baseline: N/A</p> <p>Target: at least two simulations conducted within the first half of the project implementation period</p>			
	<p><b>1.2 Network Tariff Setting Methodologies for the Electricity Sector Drafted</b></p>	<p>Availability of the draft methodology for balancing and ancillary service pricing in transmission network tariffs and establish appropriate commercial cost reporting mechanism</p> <p>Baseline: 2019 - not available</p>	<p>Project Documentation</p> <p>Draft methodologies, regulatory strategies and tariff application templates</p> <p>Minutes of the meetings held with the stakeholders</p>		

		<p>Target: draft methodology prepared and agreed with respective stakeholders by the end of the project implementation</p> <p>Availability of the regulatory strategy to introduce transmission charges for producers as per commission Regulation (EU) 838/2010</p> <p>Baseline: 2019 - not available</p> <p>Target: The regulatory strategy prepared and agreed with respective stakeholders by the end of the project implementation</p> <p>Availability of the draft methodology in order to introduce capacity (subscription) charges as part of network tariff for the consumers connected to the Grid</p> <p>Baseline: 2019 - Not available</p> <p>Target: The draft methodology prepared and agreed with respective stakeholders by the end of the project implementation</p>			
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		<p>Availability of revised Tariff application forms and amendment recommendations in order to allow data requests related to new tariff setting methodologies</p> <p>Baseline: 2019 - Not available Target: Tariff application forms and amendment recommendations revised and agreed with respective stakeholders by the end of the project implementation</p>			
	<p>2.1. Capacity of GNERC staff strengthened with the aim to ensuring market opening and active demand participation</p>	<p>Share of GNERC Staff trained within the project inter alia, in promoting prosumers and local energy communities, operation of organized energy/capacity markets, demand side management (including consumer response reward schemes and demand response participation incentives at balancing market), Cost-effective integration of various sources of flexibility (storage, demand response, flexible</p>	<p>Project Documentation (Training Materials, list of participants, project reports, recommendations)</p>	<p>Lack of sufficient human and technical resources</p>	<p>Strong involvement from GNERC staff ensured</p>

		<p>generation and etc.)</p> <p>Baseline: 2019 - N/A Target: whole staff from Electricity, Natural Gas, Tariffs and Economic and Regulation Improvement and Methodological Support Departments trained</p> <p>Availability of recommendations for GNERC and network operators</p> <p>Baseline: 2019 - Not available Target: recommendations prepared and discussed with GNERC by the end of the project implementation</p>			
	<p><b>2.2. Relevant rules/procedures for ensuring market opening and active demand participation developed</b></p>	<p>Availability of recommendations on further development of existing net-metering regulations and improved support schemes for self-consumption</p> <p>Baseline: 2019 - Not available</p> <p>Target: recommendations drafted within the first 9 months of the project</p>	<p>Project Documentation</p> <p>Meeting minutes of the discussions and meetings with the stakeholders.</p>		

		<p>implementation</p> <p>Availability of revised market rules, tariff methodologies and grid code</p> <p>Baseline: 2019 - Not available</p> <p>Target: Market rules, tariff methodologies and grid code revised and agreed with the respective stakeholders by the end of the project implementation</p>			
	<p><b>3.1. Regulatory strategy and relevant secondary legislation for renewable energy integration/energy efficiency elaborated</b></p>	<p>Status of amendments to the legal acts to support integration of the renewable bio gases in the gas transmission and/or distribution grid</p> <p>Baseline: 2019 - Not available</p> <p>Target: Drafts prepared and agreed with all relevant stakeholders by the end of the project implementation</p> <p>Status of amendments to the legal acts to support measuring and tariff setting in natural gas sector in energy units instead of physical units</p>	<p>Project Documentation</p> <p>Meeting minutes with the stakeholders</p>	<p>Lack of sufficient human and technical resources</p>	<p>Strong involvement from GNERC staff ensured</p>

		<p>Baseline: 2019 - Not available  Target: Drafts prepared and agreed with all relevant stakeholders by the end of the project implementation</p> <p>Availability of revised normative loss calculation methodology of GNERC and amendments in terms of introducing cost-effective energy efficiency improvement measures in network infrastructure</p> <p>Baseline: 2019 - Not available  Target: Drafts prepared and agreed with all relevant stakeholders by the end of the project implementation</p> <p>Availability of the GNERC action plan in promoting energy efficiency</p> <p>Baseline:2019- Not available  Target: Drafts prepared and agreed with all relevant stakeholders by the end of the project implementation</p> <p>Availability of the amendments in the rules on connection of RES into the</p>			
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		<p>grid and bearing and sharing of connection costs among first and consecutive RES developers</p> <p>Baseline: 2019 - Not available Target: Drafts prepared and agreed with all relevant stakeholders by the end of the project implementation</p> <p>Availability of the Regulatory strategy for renewable energy integration/energy efficiency</p> <p>Baseline: 2019 - Not available Target: Drafts prepared and agreed with all relevant stakeholders by the end of the project implementation</p>			
	<p><b>3.2. Capacity of the GNERC's staff strengthened in meeting new responsibilities related to renewable energy and energy efficiency</b></p>	<p>Share of GNERC staff trained in promoting energy efficiency and its regulatory role within the project</p> <p>Baseline: 2019 – N/A Target: Whole staff of Electricity, Natural Gas, Tariffs and Economic Analysis and Regulation Improvement and</p>	<p>Project Documentation (Training Materials, list of participants, project reports, recommendations)</p>		

		<p>Methodological Support Departments trained in promoting energy efficiency and its regulatory role by the end of the project</p> <p>Share of GNERC staff trained in regulatory role enhancement in regard to promoting RES integration in the grid within the project</p> <p>Baseline: 2019 - N/A  Target: Whole staff of Electricity, Natural Gas, Tariffs and Economic Analysis and Regulation Improvement and Methodological Support Departments trained regarding to promoting RES integration to the grid by the end of the project.</p>			
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Annex 2

