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TELLING OUR STORY

Success Story

USAID ASSISTANCE GUIDES GEORGIAN NATIONAL ENERGY REGULATORY COMMISSION IN REFORMING THE REGULATORY FRAMEWORK

Over the last decade the retail electricity rates in Georgia were set at government specified levels with the government providing large subsidies for power plants rehabilitation and operations while on the other hand mandating retail tariffs levels without considering the real of cost of service. That approach led to unanticipated and unwanted consequences. The electricity sector regulatory framework is in dire need of reform, now seeing:

1. Lack of transparency in rate setting process;
2. Poor record on investment into the aging distribution networks
3. Lack of incentive to invest into new generation facilities with too low of a tariff for generation production aimed for sales in the local market
4. No incentives in rates for better utility performance; and,
5. Uncertainty about long term rate stability.

USAID through its Hydropower Investment Promotion Project (March 2010-August 2013) and its Hydro Power and Energy Planning Project (starting September 2013) provides guidance to GNERC in reforming the regulatory framework including development of the USoA for the electricity sector of Georgia. USAID assistance has included development of a regulatory chart of accounts for the electricity sector, instructions to the chart of accounts and capacity building of GNERC and the electricity sector licensees.



Above: HPEP Team of regulatory experts meeting with the GNERC's Chairman and the Commissioners on USoA principles



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Above: HPEP's Regulatory Team lead meeting at GNERC.

accounts and instructions on how to use the chart of accounts so that all expenses can be properly accounted for, audited and used as the basis for setting tariffs.

The USoA has proven to be a good tool for financial management of the utilities and without exception, the increased level of information provided by the USoA to utility management allows for better cost control and insights on the efficiency of their companies. It is a win-win success story as both consumers and investors reap benefits from this proven approach to regulatory oversight.

In October 2013 Georgia's energy regulator (GNERC) endorsed introducing Regulatory Accounting as a new task. This is a major step forward for Georgia in energy rate stability, transparency, fair allocation of costs to consumers, and elimination of hidden costs in tariffs.

Regulatory accounting or as it is known in the industry, Uniform System of Accounts (USoA), provides a sound basis for recording of expenses and assets in the regulated energy utilities. It includes a detailed chart of



Above: HPEP's USoA Expert conducting the workshop in accounting regulations for energy transmission, distribution, and generation companies.