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HYDRO POWER AND ENERGY PLANNING PROJECT (HPEP)

GENERAL DESCRIPTION OF THE PROJECT

Building on 20 years of success assisting the Georgian energy sector, USAID has designed the Hydro Power and Energy Planning Project (HPEP) to help the Ministry of Energy (MOE) address the challenges of energy security, attraction of foreign direct investment, economic development and unlock Georgia's hydropower potential. USAID HPEP, implemented by Deloitte Consulting Overseas Projects, assists the Government of Georgia (GOG) to continue to implement Georgian Electricity Market Model 2015 (GEMM 2015) developed by USAID's Hydropower Investment Promotion Project (HIPP), and to create competition through the introduction of the Electricity Trading Mechanism (ETM) it incorporates.

HPEP will also improve the efficiency of the Georgian power system and support the launch of cross-border trade in clean energy between Georgia, Azerbaijan, Armenia and Turkey.

To achieve its objectives, HPEP provides technical assistance ranging from legal and policy advice, capacity building, financial planning, and outreach. The Project engages in the following three



M. J. Delphia, CoP of HPEP; M. Valishvili Deputy Minister of Energy; Roy Plucknett, Acting USAID Mission Director; S. Bogut, USAID Energy Advisor opening HPEP

distinct but interdependent areas of technical assistance:

- (1) Institutional and Human Capacity Development;
- (2) Implementation of the Rules, Regulations, Procedures and Processes;
- (3) Support for Investor Outreach through supporting the MOE investor relations for the previously prepared pre-feasibility reports and outreach efforts.

INSTITUTIONAL AND HUMAN CAPACITY DEVELOPMENT:

The Project is providing support to the four key GEMM 2015 institutions: (1) The Ministry of Energy of Georgia (MoE);

- (2) Georgian State Electrosystem (GSE);
- (3) Georgian National Energy and Water Regulatory Commission (GNERC);
- (4) Electricity System Commercial Operator (ESCO). HPEP is supporting GOG's plans to establish a new Market Operator (MO), a Transmission System Operator (TSO), and supporting development of the independent and competent energy regulator.

HPEP holds regular Steering Committee meetings at MoE to ensure coordinated work with all counterparts (MoE, GNERC, ESCO, GSE). Four working groups established by the Steering Committee are actively guiding GEMM 2015 activities to ensure maximum impact and enhance Georgian electricity sector entities' capabilities to support private sector led development of HPP investment through exposure to studies, analysis and data. At the 1st HPEP Steering Committee Meeting, The MoE agreed to make amendments to the existing Market Rules to bring clarity and consistency throughout the rules and to implement a day ahead planning process in preparation of the hourly electricity balancing market.

HPEP SUPPORT TO GNERC

To prepare GNERC to effectively regulate competitive electricity markets, USAID through HPEP provides guidance in reforming Georgia's electricity regulatory framework. In October 2013 the Memorandum of Understanding between GNERC and USAID was developed and agreed upon, which details the specific technical assistance that USAID HPEP will provide to GNERC.

Following the signing of the MoU, GNERC endorsed introducing Regulatory Accounting proposed by HPEP as its new task. This was a major step forward for Georgia in Energy rate stability, transparency, fair allocation of costs to consumers, and elimination of hidden costs in tariff. 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.

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.



HPEP Regulatory Team with GNERC management discussing USoA

Newsletter, October 2013

MAIN OBJECTIVES OF HPEP ARE TO SUPPORT:

- Accomplishment of tasks outlined in the GEMM 2015
- Financing of the new, run-of-river, HPPs by means of non-recourse loans
- Cross-border, competitive trading of clean energy

MoU between USAID and GNERC covers:

- Introduction of USOA
- Power Market Monitoring
- Tariff Methodology Development for Electricity Network Companies
- Assistance in reviewing and adoption of Georgian Transmission Grid Code
- Legal advice on Electricity Market secondary legislation
- Support on coordination of mutual activities between GNERC and EMRA (Turkish energy market regulator) on cross border trading issues
- Support for improving the organizational design of GNERC and provide capacity building to strengthen its staff on competitive market regulatory oversight

HPEP SUPPORT TO GEORGIAN STATE ELECTROSYSTEM (GSE)

To prepare the Transmission System Operator (TSO) for competitive electricity market, HPEP is supporting GSE in development of the TSO including proposed organizational changes, and development of internal procedures for the TSO by working on new organizational design and description of internal procedures. These activities should result in transformation of GSE's current Dispatch Center into an

independent, efficient transmission system operator. Through regular working group meetings with the representatives and other electricity sector specialists, HPEP has already drafted three Chapters of the Transmission Grid Code, which consists of seven Chapters in all. As agreed at the 1st Steering Committee Meeting, held in the Ministry, Final Draft of Transmission Grid Code will be completed by February 2014 and submitted for GNERC's approval.



HPEP's TSO Team Leader discussing Grid Code with GSE

HPEP SUPPORT TO ELECTRICITY SYSTEM COMMERCIAL OPERATOR (ESCO)

To create a Market Operator for the competitive electricity market HPEP is supporting ESCO in development of the Market Operator including draft organizational changes and development of the internal procedures for the MO and implementation plan for electricity market trading that enables Georgian HPPs to sell electricity into Turkey and other ENTSO-E markets.

To ensure sustainability of its efforts in supporting institutional development of Georgian electricity sector, HPEP is using

CYPRESS, USAID-proven capacity development methodology, which has already successfully informed Deloitte's ongoing capacity development activities at the same institutions under HIPP. Using CYPRESS, ESCO, GSE and GNERC can take the lead responsibility to drive their own performance targets, solutions and indicators - thereby building human and institutional capacity and meeting the goals of ETM and GEMM 2015.

The first presentation on CYPRESS was provided to ESCO's management, which highly appraised the methodology and expressed the desire of getting further trainings

in this methodology.

Through regular meetings with ESCO/MO during October 2013 HPEP provided guidance on implementing Day Ahead Planning (DAP) procedures and Balancing and Settlement (B&S) rules, and reached agreement on DAP implementation with ESCO and GSE.

HPEP provided ESCO with the Report on Transition to Hourly Based Electricity Market in Georgia. ESCO expressed readiness to start working on implementation of the day ahead planning process; ESCO asked HPEP to prepare proposed amendment to the Electricity Market Rules to depict day ahead planning procedures; and also asked HPEP to start real simulation on (DAP).

IMPLEMENTATION OF THE RULES, REGULATIONS, PROCEDURES AND PROCESSES

HPEP is developing studies, draft primary legislation, draft regulations, and reports consistent with international best practices. This includes material related to the GEMM 2015 and to national energy planning.

HPEP's Legal and Contractual Development team drafted the Electricity Supply Agreement Template and participated in the drafting process of amendments to the Law of Georgia on Electricity and Natural Gas that are required to support competitive electricity market development.

By the request of MoE, HPEP's Policy and Strategy Team developed the **first Energy Policy White Paper** for



Deputy Minister of Energy of Georgia M. Valishvili holds Energy Policy Paper prepared by HPEP

Georgia and submitted to MoE for consideration. Energy Policy drafted by HPEP sets out a strategic policy framework addressing the priorities and challenges in the energy sector of Georgia.

The policy framework is based on the GoG's intent to meet the country's long-term needs for secure, clean and affordable energy through competitive markets that are operating in the best long-term interests of consumers and the nation. The main directions in the Government's energy policy are sufficiently predictable to facilitate governmental and private investment decisions, and flexible enough to address the impacts of technological, social, economic, environmental and national energy security improvements. The energy policy directions derived today are designed to meet tomorrow's challenges for Georgia.

HPEP shall advance the implementation of GEMM 2015 with activities involving:

- *primary, secondary and tertiary legislative work*
- *regulations and all required documentation, and modeling activities to complement and exceed GEMM 2015*
- *support the MoE in developing the energy policy and strategy of Georgia*