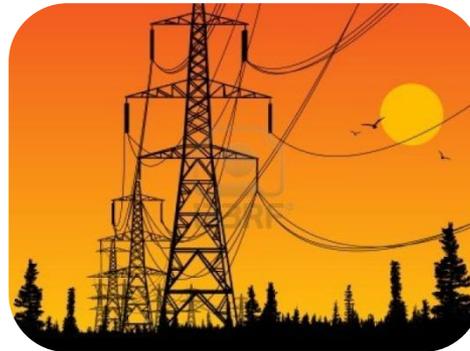


Results of the Twinning Project between Georgia and Austria on Tariffs



Sergo Latsabidze
Brussels, Belgium
June 19, 2015



Goal of the Project

- “Strengthening capacities of the Georgian National Energy and Water Supply Regulatory Commission (GNERC) in updating incentive based electricity tariff methodology”;
- Increase institutional capacity of GNERC staff in the field of electricity regulation;
- Incentive regulation through the application of incentive mechanisms for the increase of companies’ energy efficiency by the cost optimization.



საქართველოს ენერჯეტიკისა და
წყალმომარაგების მარეგულირებელი
ეროვნული კომისია

Georgian National Energy And
Water Supply Regulatory
Commission

Project Partners

- E-Control Austria – Energy Regulatory Commission of Austria;
- BNetzA – Federal Network Agency of Germany in Electricity, Tele Communication, Post and Railway Sectors;
- SPRK – Regulatory Commission of Utility Companies of Latvia;
- EXAA – Power Exchange, Austria

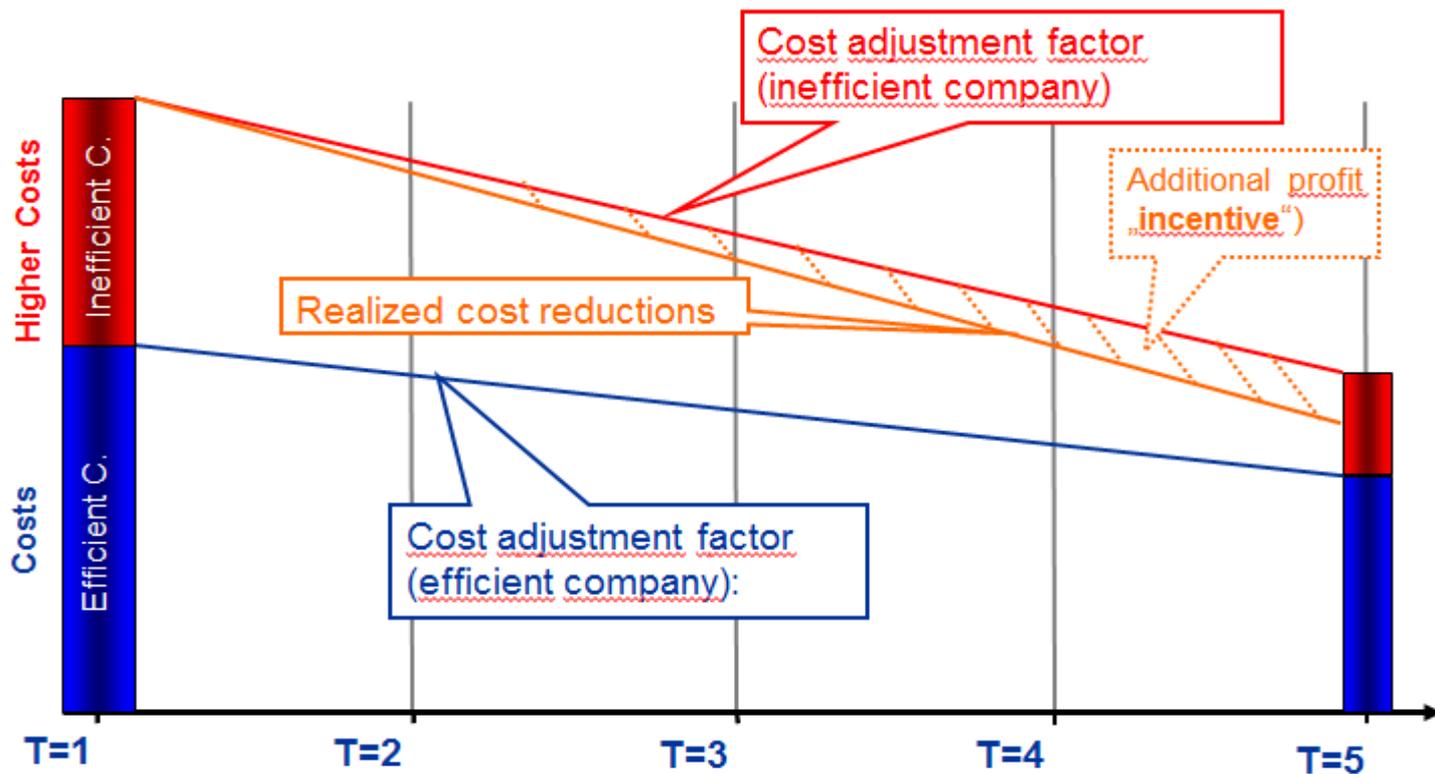


Project Results

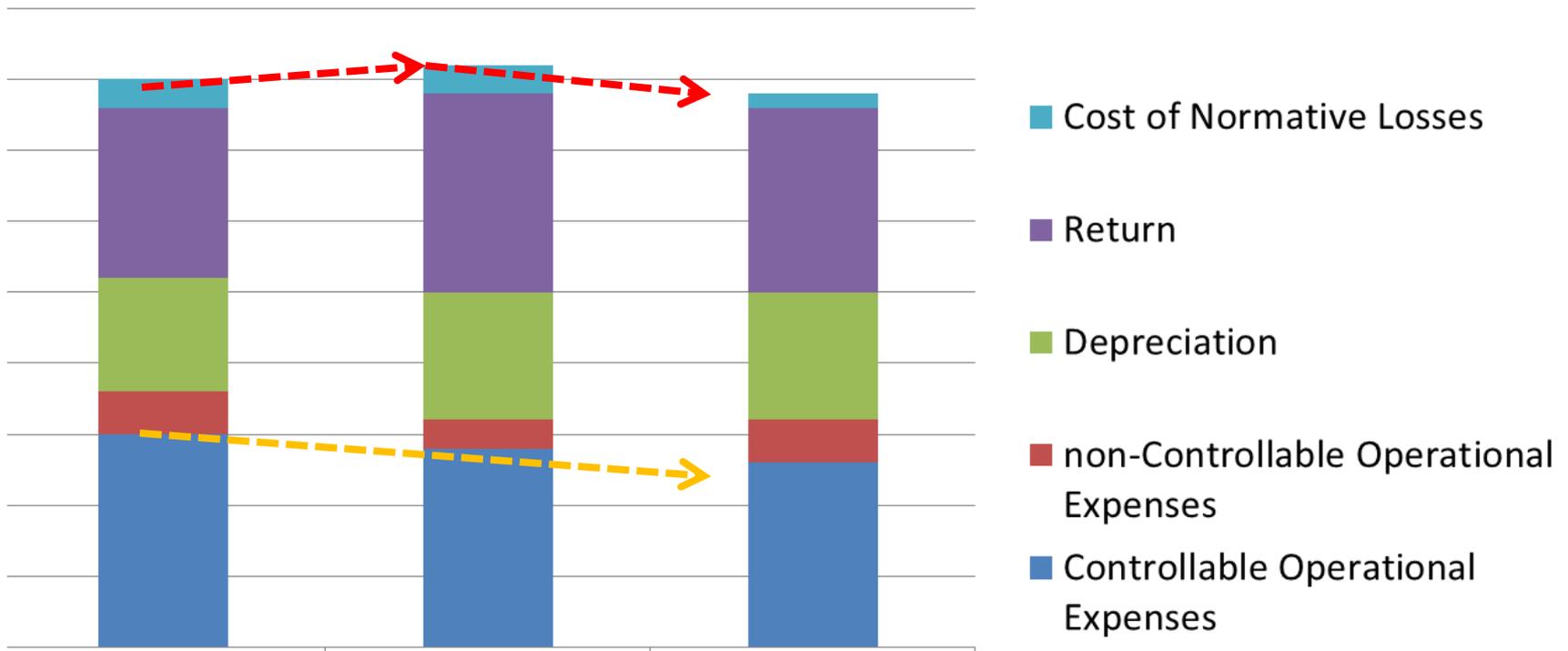
Tariff Setting Methodology for Electricity Distribution, Pass Through and Consumption Tariffs

- Application of incentive-based principles for the first time in regulation;
- RCB structure based on the „Building Block“ approach;
- Determination of capital structure and WACC components;
- Preliminary reflection of investments in the tariff;
- Application of correction components for the first time .

General Principles of New Regulation Incentive Regulation



General Principles of new Regulation „Building Block“ Approach

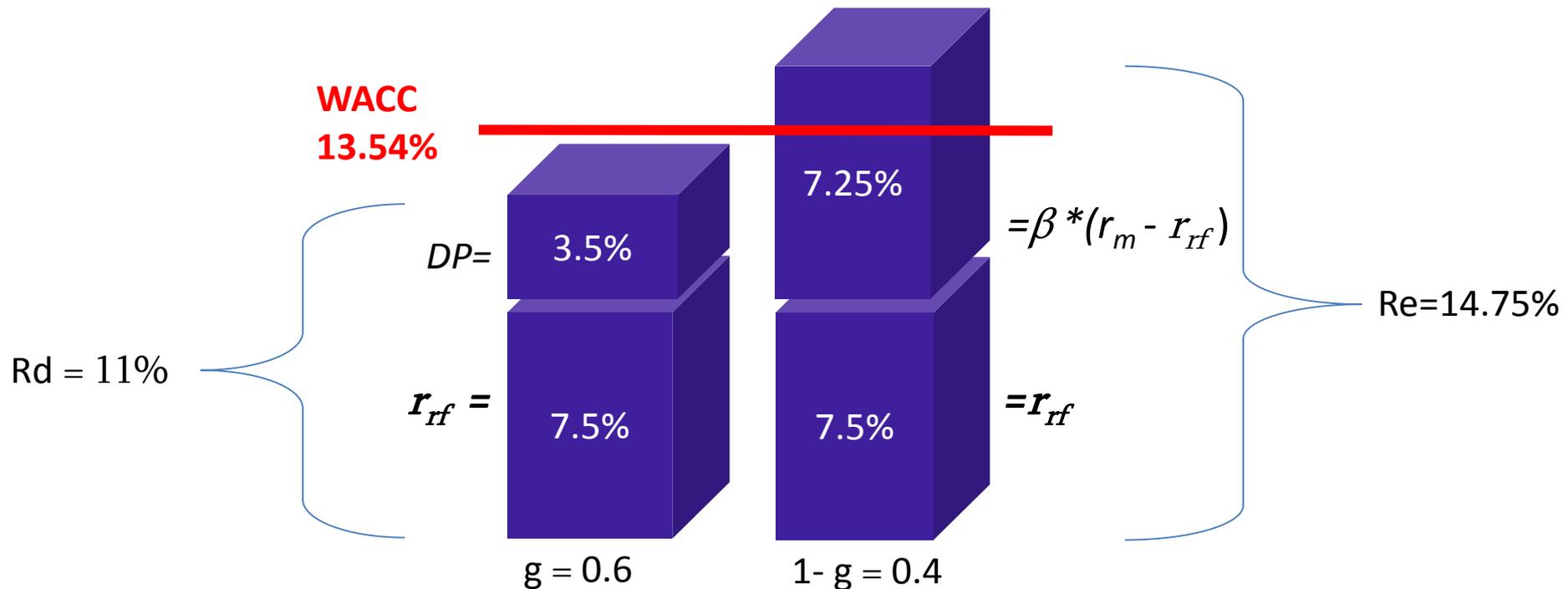




Capital Expenditures

Weighted Average Cost of Capital

$$WACC_{before\ tax} = 0.6 \times 11\% + 0.4 \times 14.75\% \times \frac{1}{(1 - 15\%)} = 13.54\%$$





Project Results

Tariff Setting Methodology for Electricity Distribution, Pass Through and Consumption Tariffs

- Additional incentives for the investment in the distribution network by preliminary reflection of investment returns for tariff calculation year and tariff year.
- Providing high level of fairness with correction of forecasted components by actual indicators for both the consumer and the investor.



Project Results

- GNERC approved/adopted Tariff Setting Methodology for Electricity Distribution, Pass Through and Consumption Tariffs according to the best international practice
- Based on this methodology GNERC approved tariffs for the largest distribution company who owns more than 75% of distribution network on August 22, 2014.



საქართველოს ენერჯეტიკისა და
წყალმომარაგების მარეგულირებელი
ეროვნული კომისია

Georgian National Energy And
Water Supply Regulatory
Commission

Thank you!



Sergo Latsabidze

Chief Expert,
Tariffs and Economic Analysis
Department

sergo@gnerc.org

s.latsabidze@gnerc.org