



Georgia: Georgian State Electrosystem Corporatization and Electricity Market Reforms Program

Project Name	Georgian State Electrosystem Corporatization and Electricity Market Reforms Program		
Project Number	49006-003		
Country	Georgia		
Project Status	Proposed		
Project Type / Modality of Assistance	Loan		
Source of Funding / Amount	Loan: SOE Corporatization (Energy) Program		
	Ordinary capital resources		US\$ 50.00 million
Strategic Agendas	Inclusive economic growth Regional integration		
Drivers of Change	Governance and capacity development Private sector development		
Sector / Subsector	Energy - Energy sector development and institutional reform		
Gender Equity and Mainstreaming	No gender elements		
Description	<p>The proposed Georgian State Electrosystem Corporatization and Electricity Market Reforms program aims to strengthen the corporate governance and financial management of Georgia's electricity transmission company, Georgia State Electrosystem (GSE), and improve electricity market competition by supporting an independent market operator. These reforms are critical to strengthen GSE's corporate governance; financial management, transparency and debt sustainability; and to improve electricity market competition. The proposed policy-based loan will be implemented during 2018-2019. Transaction technical assistance (TA) will facilitate program implementation, including providing technical advice to and building the capacity of the Ministry of Economic and Sustainable Development (MoESD). The proposed program is in line with the Asian Development Bank (ADB) country partnership strategy for Georgia, 2014-2018.</p>		

Project Rationale and Linkage to Country/Regional Strategy

Georgia is naturally positioned as a regional power hub, with an advanced electricity grid and interconnections with Armenia, Azerbaijan, Russia, and Turkey. Government policies to restructure the electricity sector coupled with public investment to repair dilapidated transmission infrastructure have transformed a power sector on the verge of collapse to one of the most technologically advanced grids; electricity losses have declined from 15% in 2000 to less than 2% in 2017. Georgia has significantly expanded its regional interconnection infrastructure, and transit and cross-border trade capacity has increased by over 80% to about 3 gigawatts. This capacity is expected to double by 2021, but the actual regional power trade remains very seasonal, and uses less than 10% of available transit and cross border trade capacity.

Georgia's electricity sector has successfully transformed from a state monopoly to a liberalized market. Most sector entities are privately owned, except for GSE, the Enguri and Vardnili hydropower plants, and the electricity market operator. Georgia signed an Association Agreement with the European Union (EU) in June 2014, undertaking an obligation to become a member of the European Energy Community through continuous reforms and legal approximation with the third energy package adopted by the EU member states. Reforms have commenced with technical support from the EU energy community, and the government is committed to continuing the reforms. Reforms include the establishment of an independent energy sector regulator, unbundling and privatization of power generation and distribution assets, and introduction of long-term concessions and guaranteed power purchase agreements (PPAs) for private investments in HPPs. While PPAs have been instrumental for hedging major risks of HPP developers in Georgia, the cumulative total of PPAs executed is highlighted by the International Monetary Fund (IMF) as a key source of the country's fiscal risk. To manage the contingent fiscal risks and sector sustainability, the government approved Public-Private Partnership (P3) legislation in 2018, and is making major efforts to improve GSE's financial performance and its corporatization before the end of the rehabilitation plan in 2023.

GSE (transmission system operator and Despatcher) owns 75% of the high-voltage transmission lines. Since 2008, GSE has operated under a 15-year financial rehabilitation plan approved by the Ministry of Finance. Prior to 2008, GSE was unable to pay its liabilities because of low tariffs and collection rates, and accumulated debts resulting from poor management. The rehabilitation plan has targets for GSE's debt repayment and the level of government support for the financing of transmission rehabilitation and expansion.

Georgian electricity transmission is characterized by relatively strong defensive qualities, including noncyclical and inelastic demand with stable growth in sales and predictable revenues backed by a new tariff setting. The tariffs are based on a transparently determined cost plus return on regulated asset-base, providing a strong basis for GSE's revenue generation from domestic transmission operations. However, the new tariffs have not improved GSE's financial position because of its weak internal management structure, lacking corporate ring fence provisions to commercialize assets, and due to insufficient volumes adversely impacting transit volumes.

Georgia's Parliament adopted the State Policy in Energy Sector (2015) to support (i) diversification and utilization of renewable generation to fully meet the domestic demand for electricity, (ii) Georgia's emergence as a regional platform for generation and trade of clean energy, (iii) implementation of east-west and north-south transit projects to strengthen regional connectivity, and (iv) gradual harmonization with the EU's third energy package. Sustainability of the key components of the strategy requires a strong and stable transmission network run by a fully independent and financially stable GSE, and electricity trading through open market operations. The government intends to rationalize the financial management and enhance the financial stability of GSE to reduce its reliance on the government's budget. Rationalization of state-owned enterprises in general is also a key reform under the IMF program.

In April 2018, Parliament ratified the accession agreement to the European Energy Community (EEC) and the country's subsequent membership in the EEC. The membership framework requires that the government align its energy market practices with EU's best practices, which requires changing the tariff calculation methodology for electricity, and adopting a competitive electricity market structure. ADB's proposed policy-based program is in line with the government's Energy Sector Strategy and its commitments under the EEC accession agreement.

Impact	Financial sustainability and sector performance achieved
Outcome	GSE autonomy and competition in electricity trading enhanced
Outputs	GSE's corporate governance GSE financial management, transparency, and debt sustainability Electricity market operations
Geographical Location	Nation-wide

Safeguard Categories

Environment	B
Involuntary Resettlement	C
Indigenous Peoples	C

Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

Stakeholder Communication, Participation, and Consultation

During Project Design

During Project Implementation

Responsible ADB Officer	Tareen, Adnan
Responsible ADB Department	Central and West Asia Department
Responsible ADB Division	Energy Division, CWRD
Executing Agencies	<i>Ministry of Finance 16 Gorgasali St., 0114 Tbilisi Georgia</i>

Timetable

Concept Clearance	19 Jul 2018
Fact Finding	20 Nov 2017 to 01 Dec 2017
MRM	23 Feb 2018
Approval	-
Last Review Mission	-
Last PDS Update	31 Jul 2018

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