

Draft

Resolution of Georgian Government
“On approval of the concept of electricity market model”

Article 1. In accordance with the first paragraph of Article 123 and subparagraph “a” of first paragraph of Article 162 of Georgian Law “On Energy and Water supply”, the attached “Concept of Electricity Market Model” to be approved.

Article 2. Resolution to be entered into force upon promulgation

Prime Minister

Giorgi Gakharia

Concept of Electricity Market Model

Chapter I. General Provisions

Article 1. Purposes of the market concept

1. Concept of electricity market model (hereinafter the “Concept”) sets the guiding principles for organizing and functioning of electricity wholesale market (hereinafter the - “Market”) in Georgia that aims to:
 - a) Set such model of electricity market that ensures creation of attractive investment environment and opportunity for free choice for the customers, in way of transparent and competitive market development as on wholesale as well as on retail level;
 - b) Set electricity organized markets including day-ahead, intraday, balancing and ancillary services, as well as set of for bilateral market;
 - c) Definition of the rights and responsibilities among the market subjects and distribution of the functions;
 - d) Formation of liquidity and competitive price on electricity organized markets, also implementation of financial mechanisms needed for effective and sustainable functioning of the market;
 - e) Supporting the establishment of supporting mechanisms (schemes) foreseen by Georgian law “On energy generation from renewable sources and utilization encouragement”;
 - f) Identify activities and measures to be implemented in the transition period to the target model;
 - g) Fulfillment of the commitments undertaken by the protocol “On Accession of Georgia to the founder agreement of Energy Community”.
2. Market concept also sets the mechanism of commitment fulfillment deriving from the agreements concluded with the energy entities before the enactment of the Georgian Law “On Energy and Water supply”, special requirements of electricity supply of the occupied territories of Georgia and public service organization.
3. Electricity market target model implies free market, where the participants benefit of equal, non discriminatory conditions and the competitive price is established transparently giving customers opportunity of the free choice.
4. Terminology applied in the Market Concept has the same meaning as defined in the law on “Energy and Water Supply”.

Article 2. Guiding principles of market concept

Guiding principles of market concept are:

- a) Competitive, free and transparent trade in energy markets;
- b) Avoiding the conflict of interests and discrimination;
- c) Electricity trade on the wholesale market through the competitive market mechanisms, namely, by bilateral agreements and/or on electricity-organized markets, including the day-ahead, intraday and balancing markets;

- d) Trading only on organized markets for electricity by producers benefiting from support schemes and electricity produced by producers to which public service obligations are imposed;
- e) Definition of generation and consumption hourly schedules, also determination of electricity generation/ consumption means and their load by the parties responsible for the planning (selfdispatching)
- f) Hourly trade on organized markets and accordingly, the responsibility of each market participants for the imbalances caused by them in each hour;
- g) Purchase of electricity only for the dayahead and intraday markets to cover losses by system operators;
- h) Cross border capacity allocation based on transparent and fair rules.

Chapter II. Segments and Operation of the Wholesale Market

Article 3. Segments of the Wholesale Market

Segments of the Wholesale Market are:

- a) Day ahead market;
- b) Intraday market;
- c) Bilateral agreements' market;
- d) Balancing and ancillary services' market.

Article 4. Wholesale market Subjects

Subjects of the wholesale market are:

- a) Electricity Market Operator;
- b) Transmission system operator;
- c) Distribution system operator;
- d) Electricity producer;
- e) Trader;
- f) Supplier;
- g) Large Consumer;
- h) Wholesale public Service Organization.

Article 5. Operation of the Wholesale markets

1. Electricity day-ahead, intraday market operator (hereinafter the power exchange operator) ensures:
 - a) Operation of day ahead and intraday markets;
 - b) Proceeding the registry of day ahead and intraday market participants;
 - c) Establishment of transparent, accessible and reliable unified system of financial settlement for all segments of organized market, mainly for day ahead, intraday and balancing and ancillary service markets, as well as for financial clearing of imbalance settlement;

2. Power exchange operator has the right to carry out the service related to the financial settlement through the financial institution with corresponding qualification and experience

3. Balancing and ancillary services market operator (hereinafter Balancing Market Operator) ensures:

- a) Operation of balancing and ancillary services market;
- b) Definition of balancing and ancillary services market products;
- c) Calculation of imbalance price;
- d) Definition of collateral amounts for ensuring the payment of balancing and ancillary services market products and imbalance cost, as well as definition of financial liability for the products purchased in this market.

4. Other subjects has right to operate derivatives market according to article 121, point 2 of Law on “Energy and Water Supply”.

Article 6. TSO role in balancing of electricity system

In accordance with the “Energy and Water Supply” law and respective legal acts of the commission, transmission system operator ensures:

- a) Defining the relevant amounts of forecasting products on balancing and ancillary services’ markets;
- b) Managing of the system with self-dispatching principle, also taking other needed measurements for balancing including the activation of balancing capacity based on the market results;
- c) Organization of cross border balancing mechanisms, which includes management of emergency power supply between power systems;
- d) Registration of the balance responsible parties, including balancing service providers and issuing the relevant codes;
- e) For the purpose of wholesale electricity market operation needs, managing and developing the unified electricity metering system, accessibility of hourly metered data.

Article 7. Trade on retail market

On electricity retail market, final consumer, including the large customer, purchases electricity from the supplier based on the relevant agreement. The customer selects suppliers by itself.

Article 8. Cross Border Capacity Allocation

Along with cross border capacity allocation with neighbouring countries, in case of implicit trade, the capacity allocation by TSO will be conducted through the procedure approved by commission and consulted with day ahead market operator, taking into consideration technical and economical criteria.

Chapter III. Organizing the Public Service

Article 9. Public service obligations

1. Based on common economic interest, for the purpose to ensure security of supply, continuity, corresponding quality and price, for renewable energy sources or energy production, upon the legal act of Government of Georgia, the public service obligation is imposed upon:

- a) The Wholesale Public Service Organization;
- b) Universal Service Supplier;
- c) Supplier of the Last Resort;
- d) Electricity Producers Performing the Public Service, including guaranteed capacity sources.

2. Within the conditions of market liberalization, the public service obligation is imposed temporarily after consultation of Government of Georgia with the Commission, the competent authorities and the Energy Community Secretariat;

3. A public service obligation is a temporary measure that should be subject to regular, at least within two years, review to determine its needs and impacts.

Article 10. Wholesale Public Service obligations

1. WPSO aims: support of renewable energy and PPA producers and facilitate their produced electricity trade in the organized markets; support universal service supply through support ensuring the stable price of purchased electricity and integration in the organized markets; security of supply of the customers in the occupied territory of Georgia (autonomous republic of Abkhazia) through the purchasing electricity in the organized markets;

2. For the purpose to ensure the first point of this article, WPSO includes:

a) Electricity purchase foreseen by “Guaranteed Power Purchase Agreement” (PPA) and sale on organized markets and applying the relevant financial mechanisms with the purpose to fulfill the terms of the agreement and financial settlement;

b) Financial settlement within the frames of the support scheme for the producers participating into the renewable energy and other supporting schemes;

c) Financial settlement on the difference between the organized market price and the price established by the Commission, within the scope of contract for difference concluded with a producer performing the public service;

d) Purchase of electricity, for supplying the occupied territory of Georgia (autonomous republic of Abkhazia), on the organized market, responsibility on an imbalance related to it;

e) Financial settlement on the difference between the organized market price and price established by the Commission, within the scope of contract for difference concluded with the universal service supplier.

3. WPSO shall make sure, that the income received from the PSO producers is only used to achieve the purpose, for which this public service obligation was imposed in the first place.

4. Wholesale public services is carried out by the wholesale public service organization (hereinafter - WPSO), in accordance with the Articles 11-13 and paragraph 3 of article 14 of this

concept. Other commitments may also be imposed on the wholesale public service reorganization by the legislation.

5. In accordance with the Georgian law “On Energy and Water supply“, in case of necessity, the regulator sets the tariff of wholesale public service.

6. The rule of carrying out the wholesale public service function, also forming and spending the fund of it, will be defined by the Government of Georgia. The WPSO makes separate accounts to record costs and revenues related to each wholesale public service.

Article 11. Integration of guaranteed power purchase agreements (PPAs) in the organized market and settlement with the producers using supporting scheme

1. For the transparency, liquidity and formations of a competitive price on the electricity market, the electricity purchased under PPAs shall be traded at the organized market, by the WPSO or a producer itself.

2. To support the involvement of electricity producers in the organized markets, upon agreement with the Georgian Government, the agreement, which provides for either a compensation of negative difference between the market price and the price included in the existing agreements, or other supporting measure, maybe concluded with the WPSO.

3. If the producer participating in the guaranteed purchase agreement does not apply the right foreseen by the paragraph 2 of this article, the WPSO is responsible for the bidding of this electricity at the organized market

4. Producers using a renewable energy or other -supporting scheme may decide, that the electricity generated by them are traded at the organized market, on their own (or other entity, if the agreement says so). The fee foreseen by a supporting scheme will be reimbursed by the WPSO.

5. The rules for establishing a fund to support renewable energy shall be determined by a resolution of the Government of Georgia on the organization of wholesale public services based on the article 10, point 6 of this concept.

Article 12. Imposing the public service obligation on electricity producers and their participation in the organized market

1. For the transparency, liquidity and formations of a competitive price on the electricity market, producers carrying out the public service (including guaranteed capacity sources) are trading at the organized markets.

2. Public service obligation on individual producers will be imposed for a limited period of time by the resolution of the Georgian Government, after consultation with the Commission and the Energy Community Secretariat. The Government’s Resolution will define the period in which PSOs on producers will be progressively reduced together with the decreasing scope of the universal service based on the annex 1 “market opening stages” of this concept.

3. Public service obligation, which is imposed on the producer due to the energy price, is expressed in the contract for difference with the WPSO. As a result, if a difference between the day-ahead market price and the contract price is:

- a) positive – the producer pays the difference to the WPSO;
- b) negative – the WPSO pays the difference to the producer.

4. In accordance with law on “Energy and Water Supply”, if necessary, commission may defined the energy tariff for public service obligation electricity producer, on which contract of difference will be adopted with WPSO;

5. For the guaranteed power sources, the commission determines the guaranteed capacity cost and / or the electricity generation tariff of the guaranteed power source based on the approved methodology.

6. Producer performing the public service is responsible for the imbalance.

Article 13. Rule of purchase of electricity consumed at the occupied territory of Georgia - Autonomius Republic of Abkhazia

1. Wholesale public service organization purchases the electricity on day ahead/intraday market for the consumption at the occupied territory of Georgia - Autonomius Republic of Abkhazia.

2. To cover the cost of occupied territory of Georgia’s (autonomius republic of Abkhazia) consumption and the expenses caused by the imbalance, the WPSO uses incomes received from the contract for difference concluded with the producers carrying out the public service, as well as other financial sources defined by the legislation;

3. Electricity consumption in the occupied territory of Georgia (Autonomous Republic of Abkhazia) can also be covered by using electricity imported by the Wholesale Public Service Organization.

Article 14. Universal Service

1. Universal service supplier ensures the electricity supply with the regulated terms to household and small enterprises, that did not choose the supplier, according to the distribution area, where it is determined by the relevant resolution of Georgian Government as the universal service supplier.

2. Universal Service Supplier purchases electricity only on day ahead and intraday markets.

3. In accordance with the Georgian law on Energy and Water supply, in case of necessity, tariff of electricity purchase for the universal service supplier may be defined by the Commission, on which the price difference agreement will be concluded with the WPSO. As a result, if a difference between the market price and the contract price is:

- a) positive – the WPSO pays the difference to the Universal Service Supplier;
- b) negative – the Universal Service Supplier pays the difference to the WPSO.

4. Universal service supplier is responsible for the imbalance.

Article 15. Supply of the last resort

1. Supplier of the Last Resort ensures electricity supply to those final customers, who loose the chance for getting electricity due to the planned or undue suspension of the market activities or rough violation of the commitments by their supplier, with the tarrif established by the commission.

2. Last Resort Supplier purchases the electricity only on day ahead /intraday market.

3. Last Resort Supplier is responsible for the imbalance.

Chapter IV. Transitional Provisions

Article 16. Preparatory activities for gradual transition to the target model from 2021

1. Until July 1st 2021:

- a) The below listed should be fulfilled by JSC “Georgian Energy Exchange”
 - a.a) Establishment of dayahead market platform, testing and running with the potential participants in simulation regime and its implementation;
 - a.b) Establishment of physical bilateral agreements (forward) market;
 - a.c) Submission of a corresponding application to the commission to get a day ahead and physical bilateral agreements market operator licence;

- b) The following should be performed by JSC “Georgian State Electrosystem”:
 - b.a) Establishment of balancing market platform, testing and running with potential participants in simulation regime and its implementation;
 - b.b) Formation of registration system of the balance responsible parties, including balance service providers and establishment of relevant registry;
 - b.c) Preparation of the measures necessary for unified metering system;
 - b.d) Submission of corresponding application to the commission for receiving the balancing market operator licence;

- c) Establishment of the system needed for the organization of wholesale public service by JSC “Electricity system commercial operator”, testing, running with the potential participants in simulation regime and its implementation;

2. From July 1st of 2021 the following should be implemented:

- a) By power exchange operator:
 - a.a) Day ahead and bilateral (forward) agreements markets operation;
 - a.b) Registration of the participants of day ahead and bilateral agreements’ markets;
 - a.c) Provision of united financial settlement function of organized markets.

- b) By the balancing market :
 - b.a) Operation of balancing and ancillary services market;
 - b.b) forecasting of balancing energy and balancing reserves in the balancing market and purchase form the balancing service providers;
 - b.c) implementing all measures needed for balancing;
 - b.d) management BRP, including BSP registry

- c) by the TSO – proceed and implement of unified metering data, based on the commission’s legal acts.
- d) Providing wholesale public service obligation by ESCO as Wholesale Public Service organization.

3. Until July 1st 2022, the JSC “Georgian Energy Exchange” shall:

- a) establish and test the intra-day market and running with the potential participants in simulation regime and its implementation;
- b) submit the application to the Commission to get a licence for operating the intraday market.

4. No later than July 1st 2022, market operator will ensure operation of intra-day market.

Article 17. Market functioning in transitional period – until July 1 of 2021

1. Until July 1st 2021:

- a) JSC “ Electricity System Commercial Operator” (ESCO) carries out:
 - a.a) Registration of market participants of wholesale market;
 - a.b) Proceeding of an entire metering data;
 - a.c) Trading with the balancing energy;
 - a.d) Trading with the guaranteed capacity;
 - a.e) Other functions determined by the acting legislation;
- b) Transmission System Operator:
 - b.a) Dispatching the electricity to be sold within the scope of bilaterall agreements and technical balancing of consumption/supply
 - b.b) Registration of direct bilateral contracts;
 - b.c) other functions defined by the legislation.

2. until the 1st July 2021, the requirements laid down by points “c”, “d”, “e”, “f”, “g” of article 2, as well as requirements provided by articles 5, 8, 10, 15 are not valid for trading in the organized market.

Article 18. Temporary rule for electricity supply to the Occupied territory of Georgia - Autonomous Republic of Abkhazia

Until July 1 of 2021, electricity supply to the territory of Abkhazia is carried out in accordance with the approved prognosis balance volumes of electricity (capacity) from Vardnili and Enguri HPP cascade hydro power plants. Enguri HPP and Vardnili HPP cascade hydro power plants have the diminished electricity volume of the supplied one to Abkhzaian territory from their generation, proportionally of the electricity generated by them in corresponding calculation period and do their registration in line with these rules and the tariff established by the commission. In case if electricity supply at Abkhzaian territory is done at expense of electricity purchase by ESCO, Enguri HPP and Vardnili HPP are obliged to provide ESCO with the equivavelt volume of electricity in the coming calculation period. ESCO is authorized to sell the noted electricity for the price of electricity supplied at Abkhazian territory and for the purchase price. At exporting of this electricity by ESCO, formation of the price is carried out in accordance with the agreement concluded on electricity export or/and change.

Article 19. Stages of competitive market development

1. According to paragraphs 2 and 3 of article 166 of the Georgian Law on Energy and Water Supply annex 1(1) defines delivery of electricity as public obligation also to other kind of end – users (not covered by the universal service). This customers should choose suppliers mandatory after expiration of indicate date.

2. The obligation referred to in paragraph 1 of this Article maybe imposed on the same enterprise performing the function of universal service provider by the decision of the Government of Georgia. The conditions for supplying those customers will not provide same protection and same prices as to customers benefiting from universal service.

3. paragraph 2 of the aanex 1 of presented concept defines the deadline of releasing the producers from publis service obligation.

Annex No 1

1. Stages of market opening

Period	Market Opening
Until July 1 of 2021	In all 35-110 kv voltage usage custimer, which consumes not less than 0,4 mln kW/h in month
Until July 1 of 2022	In all 35-110 kv voltage, also 6-10 kv voltage usage customer, which consumes not less than 1 mln kW/h in month
Until July 1 of 2026	All other consumers except households and small enterprises

2. Releasing the producers from the public service obligation

Period	Electricity producer on whom the public supply commitment can be imposed
From 01.01.2021-	Hydro power plants constructed until August 1 of 2008, which design capacity does not exceed 50 MW
From 01.05.2022-	Hydro power plants constructed until August 1 of 2008, which design capacity does not exceed 60 MW
From 01.05.2024	Hydro power plants constructed until August 1 of 2008, which design capacity does not exceed 70 MW
From 01.05.2026	Hydro power plants constructed until August 1 of 2008, which design capacity does not exceed 90 MW
From 01.01.2027	Hydro power plants constructed until August 1 of 2008, which design capacity does not exceed 115 MW