



When Balance is Achieved



Case Study Session on Regulation of Transmission and Distribution Unbundling

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Transmission and Distribution Unbundling

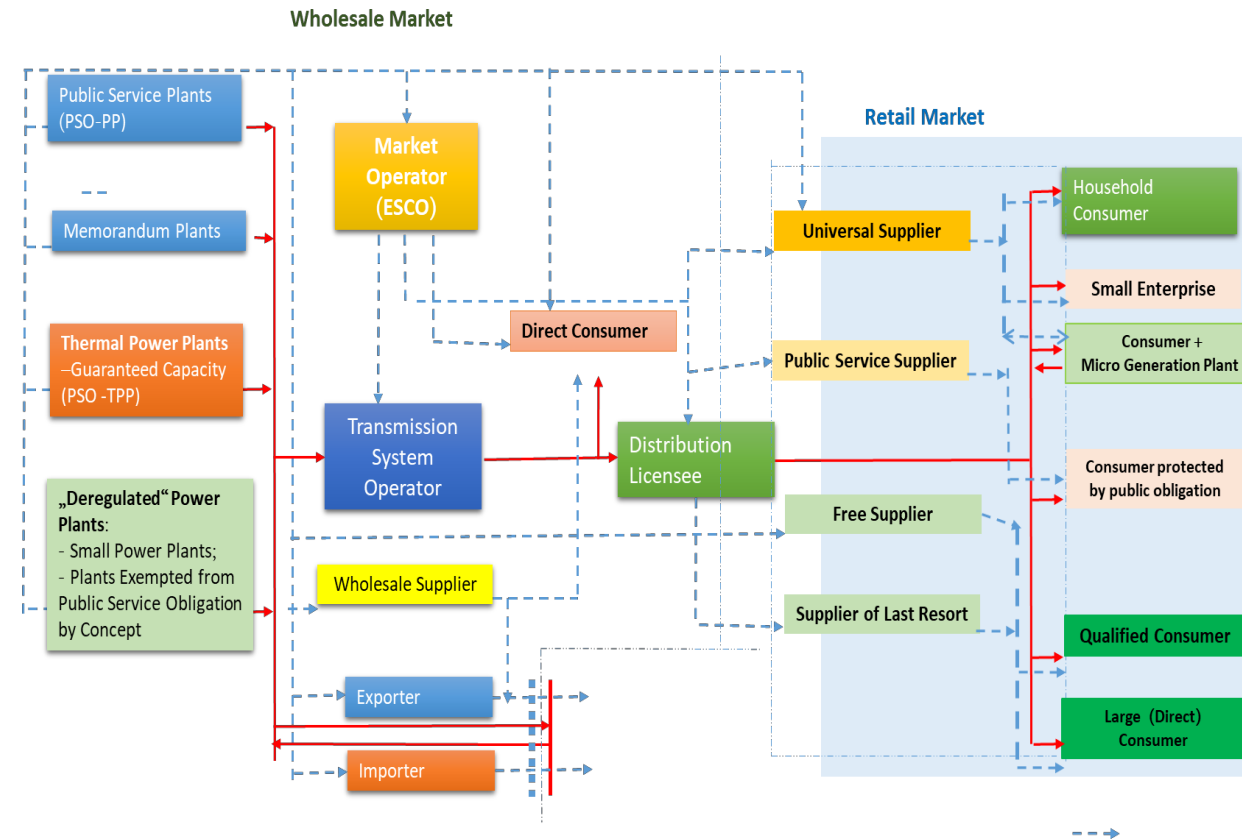


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Electricity Sector

Electricity Market Structure in Georgia

- In 2023 the new legislative base was formed and improved. It should be noted that the mentioned process is fully harmonized with the Directives and Regulations of the 3rd European Energy Package, as well as with the Accession Protocol to the Energy Community. The existing market structure is depicted in Figure
- Network and system services are provided by the transmission system operator (TSO) and the distribution system operator. TSO mainly manages the system using SCADA (Supervisory Control and Data Acquisition) system and, at the same time, uses upper-level Automatic System of Capacity Control and Metering (upper -level AMR system).
- Distribution system operator provides network services using the networks existing in their ownership and also in ownership of third persons. Costs of wheeling service through the distribution network are compensated to distribution system operators in accordance with the tariff set by the Commission.



Unbundling of transmission system operators



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- In 2024, as a result of consultations with the Energy Union Secretariat, the best way to ensure the independence and unbundling requirements of electricity and natural gas transmission system operators stipulated by the Law of Georgia on Energy and Water Supply was determined to be the distribution of powers between the Ministry of Economy and Sustainable Development of Georgia and the LEPL "National Agency of State Property" in such a way that one state body would not simultaneously manage, on the one hand, companies engaged in electricity and/or natural gas transmission/distribution and, on the other hand, companies engaged in production/supply/trade.
- In order to implement the above, amendments were made to the Law of Georgia on State Property, according to which the Property Agency will independently exercise the authority of a shareholder/partner in the following state-owned enterprises transferred with the right of management: (i) Enguri Hydropower Plant LLC; (ii) JSC Commercial Operator of the Electric Power System; (iii) JSC Georgian Oil and Gas Corporation; while the transmission system operators - JSC Georgian State Electrosystem and LLC Georgian Gas Transportation Company - will be managed by the Ministry of Economy and Sustainable Development.

Unbundling of transmission system operators



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- The Property Agency will exercise the authority of a shareholder/partner in the energy enterprises under its management (LLC "Engurhesi", JSC "Commercial Operator of the Electric Power System", JSC "Georgian Oil and Gas Corporation") completely independently of the Government of Georgia, including the Ministry of Economy and Sustainable Development, and any other executive branch agency. To ensure this independence, the law provides for the following mechanisms:

I

- • The authority of the Property Agency to establish a supervisory board in the energy enterprises under its management, with respect to whose members the requirements of independence and unbundling of the transmission system operator specified in the Law of Georgia on Energy and Water Supply will be observed;

II

- • Decisions made by the Property Agency within the framework of exercising its shareholder/partner powers in energy enterprises under its management will not be appealed to the higher administrative body - the Ministry of Economy and Sustainable Development, but directly to the general courts of Georgia;

III

- • The management of state-owned electricity and natural gas transmission system operators will be carried out by a department within the Ministry of Economy and Sustainable Development, which will not be involved in the definition and development of energy policy or the development and adoption of regulations. This department will be directly subordinate to the Minister.

Unbundling of transmission system operators



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- The aforementioned amendments to the law will enter into force on March 29, 2025.
- Based on these amendments, after implementing amendments to the relevant by-laws, transmission system operators will apply to the Commission for re-certification.

Agreement on the candidacy of the Distribution System Operator Compliance Officer



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- The Compliance Officer is an important innovation provided for by the Law of Georgia on Energy and Water Supply, the purpose of which is to ensure compliance with the unbundling requirements of the distribution system operator. For this purpose, the Compliance Officer is responsible for implementing and monitoring a compliance program, informing the Commission about any violations of the requirements and conditions established by the same program, eliminating conflicts of interest between the managers and employees of the distribution system operator, and submitting a report to the Commission on compliance with the unbundling requirements.
- The Compliance Officer shall be appointed after the development of the Compliance Program by the authorized collegial body of the Distribution System Operator, and in the absence of such a body – by the Director of the Distribution System Operator, with the prior consent of the Commission. For this purpose, by Decision No. 27/3 of July 25, 2024, the National Energy and Water Regulatory Commission of Georgia approved the candidate for the Compliance Officer presented by the Distribution System Operator - JSC “ENERGO-PRO Georgia”.

Natural Gas Sector

Unbundling of distribution system operators

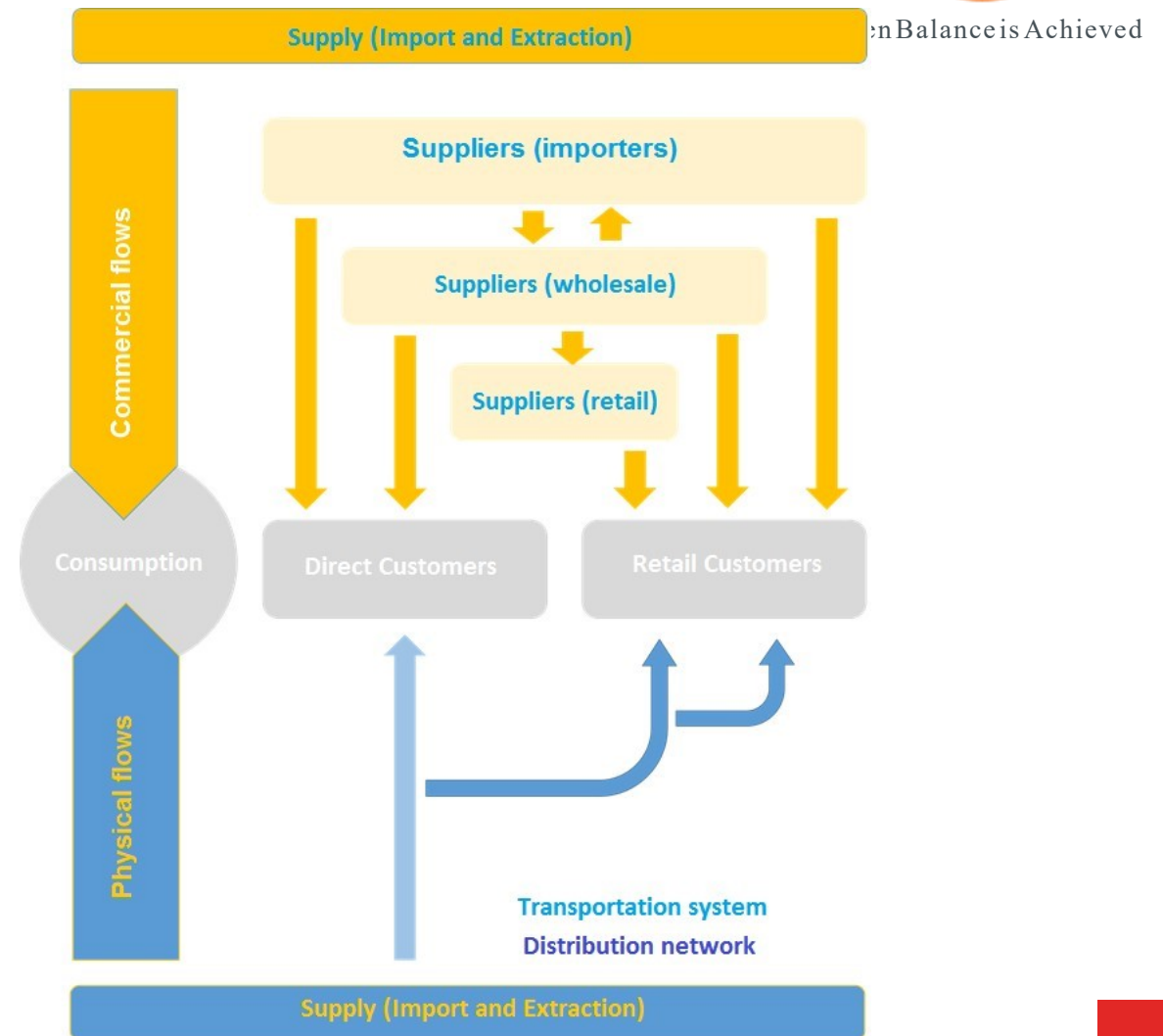


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- According to the Law of Georgia on Energy and Water Supply, a distribution system operator that is part of a vertically integrated enterprise must be independent, at least in terms of legal form, organizational structure and decision-making, from other activities that are not related to distribution activities.
- The “Rules on Unbundling of Distribution System Operators”, approved by the Commission’s Resolution No. 39 of 16 July 2020, describe in detail the requirements for legal, functional (management), accounting separation and independence of distribution system operators and the relevant procedures. The Resolution applies to distribution system operators in the electricity and natural gas sectors (except for small system operators serving up to 100,000 customers).
- It is noteworthy that in the reporting year, the natural gas distribution licensees - SOCAR Georgia Gas LLC, Telavgas LLC and Tbilisi Energy LLC submitted updated unbundling plans to the Commission. The Commission is currently conducting procedures to study and discuss the aforementioned unbundling plans in order to determine their compliance with the requirements of the Law of Georgia on Energy and Water Supply and the “Rules for Unbundling of Distribution System Operators” approved by the Commission’s Resolution No. 39 of July 16, 2020, and to subsequently agree on them.

Unbundling of distribution system operators

- According to the Law of Georgia on Energy and Water Supply the distribution system operator, which is part of a vertically integrated enterprise, must be independent, at least in terms of legal form, organizational arrangement, and decision-making, from other activities that do not relate to the distribution activities.
- The “Distribution System Operator Unbundling Rules”, approved by Commission’s Resolution N39 of July 16, 2020, describe in details the legal, functional (management), account unbundling, and independence requirements, as well as the related procedures for the distribution system operator. The Resolution applies to distribution system operators in the electricity and natural gas sectors, excluding small system operators serving up to 100,000 customers.
- It should be noted that in the reporting year, an agreement was reached as a result of working-format negotiations with the licensees of natural gas distribution, namely “Socar Georgia Gas” LLC, “Telavgas” LLC, and “Sakorgas” JSC, regarding the presentation of the updated unbundling plan to the Commission in accordance with the unbundling model and legislation.



- **Granting approval for disposal of shares/operating assets and merger of companies by the network system operator:**
 - The Law of Georgia on Energy and Water Supply regulates matters related to the procedures for the disposal of shares/operating assets by the system operator and the implementation of the merger of companies.
 - In particular, the first paragraph of Article 161 of the Law stipulates the obligation of the relevant system operator to notify the Commission in advance if there is an intention to merge the system operator and/or dispose of 5 percent or more than 5 percent of shares, or 5 percent or more than 5 percent of the total value of operating assets, or change the controlling person (ultimate beneficiary).
 - This change creates the possibility of a natural or legal entity resident in a third country exercising control over the system operator and/or operational assets.



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**THANK YOU
FOR YOUR ATTENTION!**

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