

MAIN DIRECTIONS OF THE STATE POLICY IN ENERGY SECTOR OF GEORGIA

1. OBJECTIVES OF THE ENERGY POLICY

Main objective of the energy policy is to raise country's energy security, which serves as a tool for ensuring national interests through uninterrupted supply of various energy products under acceptable quantity, quality and price.

Development and implementation of energy policy is a fundamental prerequisite for achieving strategic goals set forth in the economic development and energy fields.

This *Energy Policy for Georgia* sets out strategic directions that address the priorities and development opportunities in the energy sector of Georgia, also considers main directions towards energy security.

The policy's intent is to develop a long-term comprehensive state vision, which will later become the basis for the development of short, medium and long term strategies in the energy sector serving as the basis for energy sector programs and further development of the regulatory legal basis of the sector.

2. ENERGY POLICY DIRECTIONS

The core national energy policy directions include:

- **Diversification of supply sources, optimal utilization of local resources and reserves**

For improving national energy security, one of the main directions is diversification of supply sources and routes for oil, natural gas and electricity; efficient utilization of local energy potential; and if necessary, creation of strategic minimum reserves for oil and/or oil products. Despite the scarce natural gas, oil and coal reserves in Georgia, determined quantities still exist. However, vast majority of above-mentioned primary resources remains largely unexplored. Accordingly, exploration of existing reserves and rational utilization of potential natural resources need to be fully supported. Local demand on electricity shall be satisfied by own energy resources, through replacing imported energy carriers step by step..

- **Utilization of Georgia's renewable energy resources**

Development of renewable resources is a key to tackling climate change and deploying cleaner sources of energy. Georgia is remarkably rich in hydro-power resources, also having potential of wind, solar, biomass and geothermal resources, which can be used for creation of additional capacity by means of domestic and foreign investments. To achieve this goal, it is vital to improve investment climate through creation of stable, transparent and non-discriminatory legal basis; through deepening strong and stable trading relations with neighboring countries' energy markets; through development of corresponding domestic and cross-border infrastructure; also, through support of scientific-research (R&D)activities All of the above will decrease dependence on imported energy carriers and increase country's energy security level.

- **Gradual approximation of Georgia's legislative and regulatory framework with the EU's Energy acquis**

With the aim of achieving deeper economic and political relations, gradual approximation of Georgian legislation with the EU legislation is important. The above process will facilitate: competitive, transparent and effective energy market model as well as creation of attractive and stable investment climate; development of energy trade between Georgia and EU countries; utilization of renewable energy resources and facilitation of energy efficiency oriented activities in the country through economically and ecologically feasible means.

With the aim of gradual approximation with EU legislation, it's important that consumers, that have metering points acceptable by existing standards, have an opportunity to purchase electricity from any supplier. Thus, starting from year 2017, consumers shall have right to become direct consumers, if they satisfy the requirements set by relevant "Grid Codes" and "Electricity (capacity) Market Rules".

- **energy market development and improvement of energy trading mechanism**

Competitive market activities represent the most effective instrument for optimization of supply and demand for natural gas and electricity, which can be achieved through competitive market conditions. For gradual establishment of competitive energy market and development of trading relations, the following steps are vital: deepening legal and trading relations; establishment of strong and transparent institutions; improving regulatory legal basis; further development of gradual deregulation and technical synchronization of Georgia's energy system with the regional energy systems.

- **Strengthen Georgia's role as a transit route in the region**

Georgia is an important transit country. Georgia as a connecting corridor between Europe and Asia, has a potential to strengthen its role in implementation of East-West and North-South transit projects. Effective utilization of its geopolitical location, will contribute to country's energy security and economic development.

- **Georgia – regional platform for generation and trade of clean energy**

Georgia's wealth in existing hydro-resources, corresponding infrastructure and favorable investment climate enable the country to establish itself as a regional platform for the generation and trading of clean energy.

To achieve this goal, it is vital to continue working on further improvement of legal framework as well as scientific-research and infrastructure development, to

facilitate utilization of Georgia's existing clean energy potential and enable the country to become a regional platform for clean energy trading .

- **Develop and implement an integrated approach to energy efficiency in Georgia**

Energy intensity is a key measure of the country's economic strength and an important component of a generated product's competitiveness. The above indicator for Georgia remains higher than the indicators of not just EU member states, but also other developed countries. Decreasing energy intensity through various measures of demand-side management (DSM) will be a prerequisite to economic growth, improvement of social conditions and further development.

Adequate DSM measures for energy generation, transmission-distribution and consumption as well as energy efficiency programs, play an important role in optimizing country's energy consumption dynamics. To facilitate the DSM, an according legislative framework needs to be created; activities oriented on i development and establishment of energy efficient technologies and equipment must be planned and implemented; for energy producers and consumers incentivizing regulation must be created and established for realization of energy efficiency programs.

- **Taking into consideration environmental components in the implementation of the energy projects**

While implementing energy projects including implementation of large HPP projects, that might have an environmental and social impact, , it's vital to take into consideration best international practices, which include environmental and social impact assessment, consultations with local population, information publicity and availability.

- **Improving service quality and protection of consumer interests**

Another important direction of the energy policy is improving the service quality (development/rehabilitation of transmission and distribution infrastructure and finalization of individual metering) and protecting the consumer interests. In the natural gas and electricity sectors a significant share is held by natural monopolies. Therefore, it is of particular importance to strengthen the regulatory function of regulatory bodies, which through consideration of bilateral interests with fair approach ensures the monitoring of service quality and regulation of relations between service providers and the consumers. With this purpose, new standards for service quality must be determined and the criteria for their evaluation and fair rules for service quality monitoring must be determined by the regulatory authority.

For effective functioning of the energy markets, transparent and fair tariff levels must be determined. Fair tariffs must on the one hand allow the producer to fully compensate the costs related to service provision, and on the other hand, protect the consumer to receive high standard services at transparent and fair costs. The government led social programs and targeted subsidies must ensure uninterrupted supply of energy to vulnerable population. In addition long term, fixed tariffs (including cap tariffs) may be considered for various types of consumers, to ensure long term, financially and technically sustainable development of energy system.