



## Regional seminar: INOGATE PC convergence with EU Electricity and Gas Tariffs



# INOGATE Information Event Support to the Electricity Sector

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Tbilisi, February 19, 2014

# Tariff Review



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## Regional Review of Tariffs

- Focus on methodologies for Electricity and gas
- Comment on alignment with EU practises

## Tariff Seminar

- Tariff methodologies
- Tariff Design



# Tariff Review

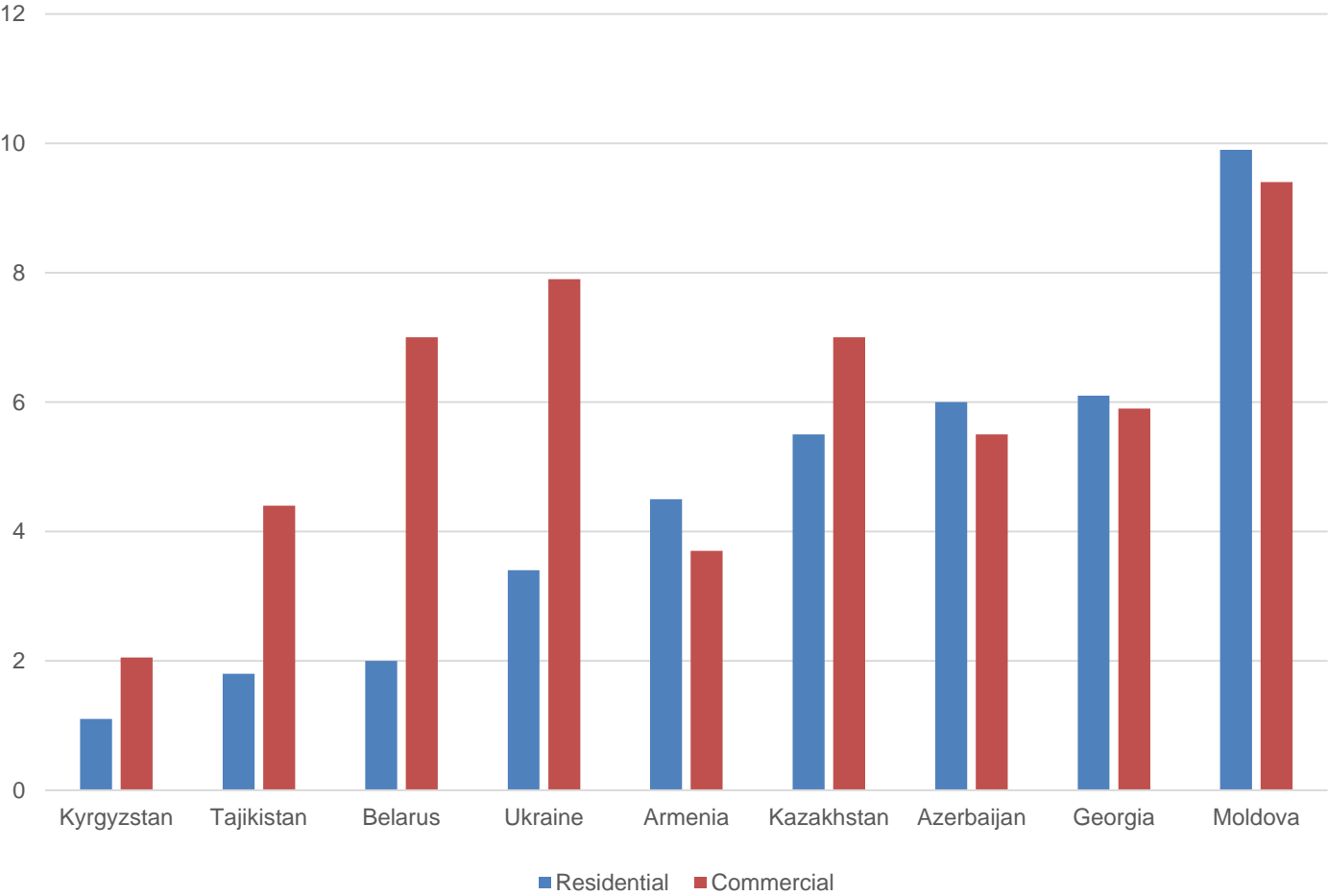


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- All respondents said that their tariffs are cost based
- Most use historical costs for valuing assets and use straight line depreciation
- All say that tariffs are fully cost reflective
- Most say that there are no subsidies in the tariffs
- Some (Georgia, Kazakhstan, Moldova, Ukraine) are contemplating incentive regulation for transmission/distribution

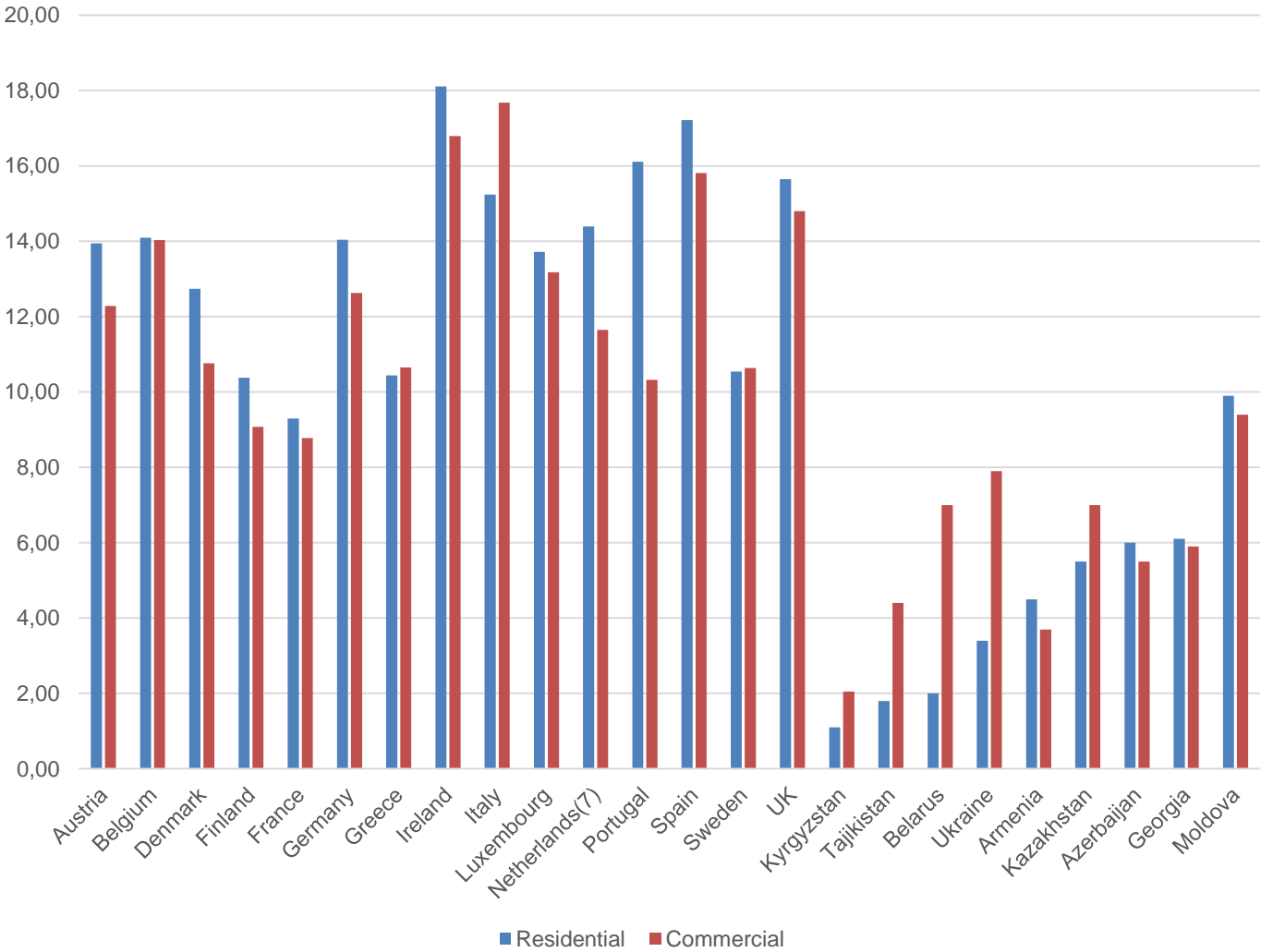


# Commercial & Residential Tariffs in PCs



# Tariffs in EU15 and PCs

EU 15 and Partner Countries (Excl. Tax)



# Tariff Seminar



- Held in Budapest 29 -31 October
- Representatives from 7 of PCs
- Covered all aspects of tariff setting:
  - OPEX, CAPX and RoA
  - Tariff design
  - Investments
  - Public Service Obligations
  - Network Access



# Tariff Seminar



Positive feedback on

Relevance

Quality

Organisation



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# Inogate involvement in the Georgian Electricity Sector



3 key areas:

- Review proposed legislation, codes etc. with a '3<sup>rd</sup> Package' focus
- Provide some learning from the experiences of recent accessions to the Energy Community
- Assist with the development of a detailed design for the wholesale electricity market

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# Energy Strategy



## Energy Strategy Review

- Energy Security
- Environment
- Energy Efficiency & Renewables
- Optimisation of resources
- Affordability

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# Energy Community Treaty



## Protection of Investment

- Stable, favourable and transparent conditions
- Most favoured nation principle

## Competition

- Eliminate barriers to trade
- Avoid market distortions
- Legislate against anti-competitive behaviour

# ECT (Continued):



## International Trade & Transit

- Non discriminatory access to networks
- Non discriminatory pricing of transit
- Dispute resolution

## Environment

- 20% reduction in GG emissions
- 20% increase in renewables share in energy resources
- 20% improvement in Energy Efficiency

# GEMM 2015



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	Arose from the Hydro Investment Promotion Project, supported by USAID and implemented by Deloitte
	Initially motivated by wish to encourage foreign investment into the small HPP sector
	Investment deterred by a lack of clarity in the Georgian market and by uncertainty in the ability to reach export markets
	The 'Georgian Electricity Market Model' document was a vision for reform of the electricity trading arrangements

# GEMM 2015



GEMM proposes a bilateral trading model

Incorporates the principles of the 2<sup>nd</sup> energy package of the EU

Covers the main principles of market operations and roles/responsibilities of actors

Proposes a roadmap for implementation

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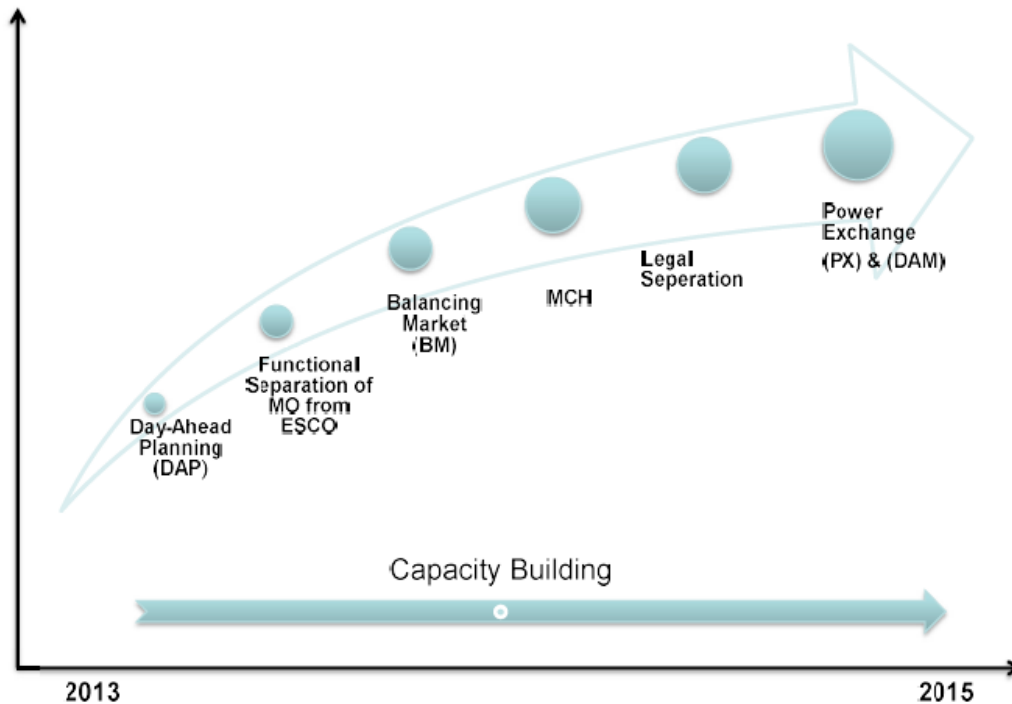


**USAID**  
FROM THE AMERICAN PEOPLE

**Hydropower Investment  
Promotion Project (HIPP)**



## Evolution Path Of The Market Design Structure



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# GEMM 2015



- HIPP morphed into HPEP (Hydro Power and Energy Planning project in the autumn of 2013)
- Much work is in progress with HPEP, including proposals for
  - Changes to primary legislation
  - Drafting of arrangements for trade with Turkey
  - Proposals for capacity allocation on HVDC connection
  - Drafting of Grid code

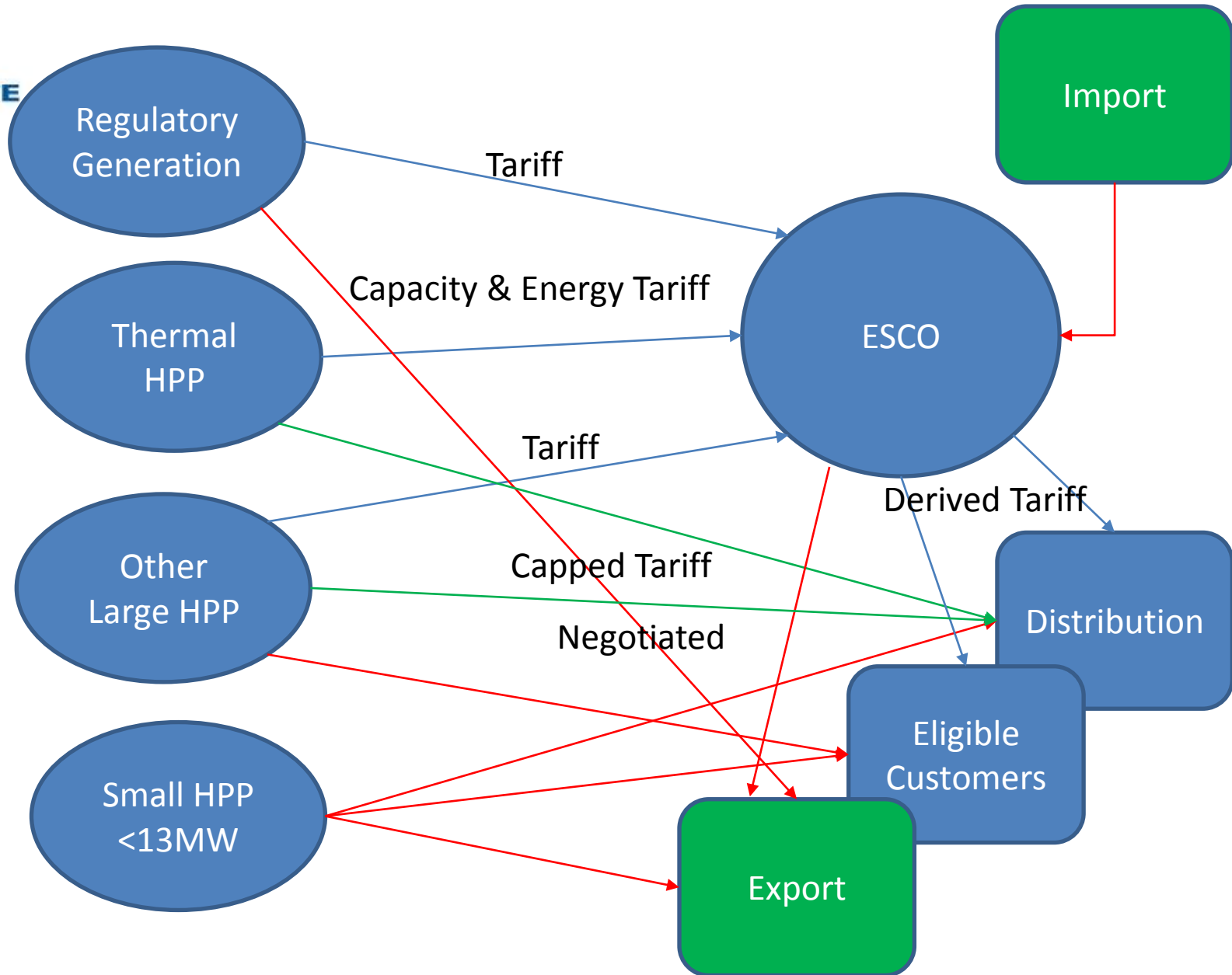
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# Current Market overview



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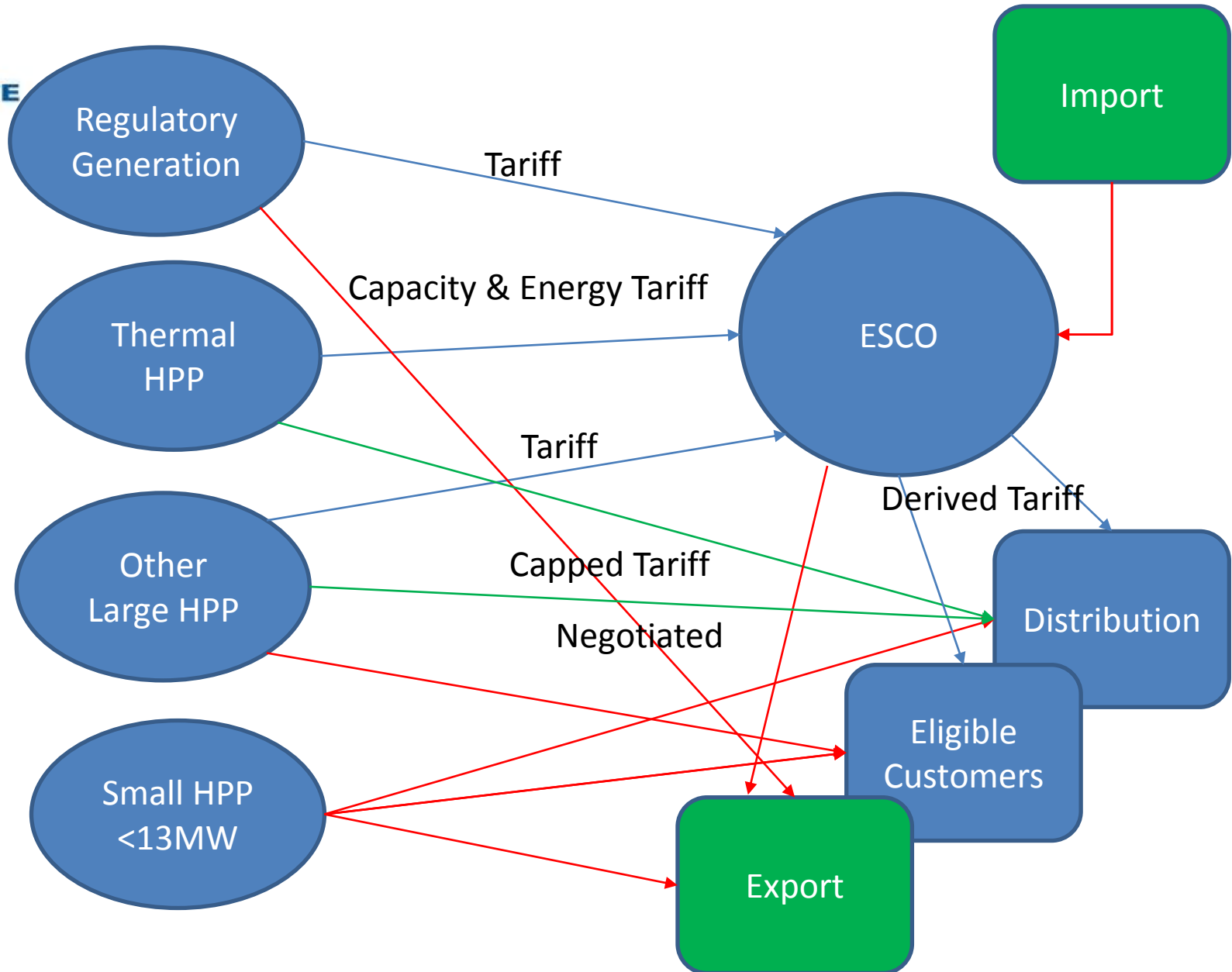




# Current Market overview



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# Issues with existing model



- Direct Contracts are imprecise
  - Total volume over month with provisions for wide variances in contract delivery
  - No incentive for accurate forecasting
  - Of little value in the unit commitment and dispatch process
- No price discovery
  - ESCO prices derived from the mix of supply injected into grid
  - Large proportion of wholesale supply on direct contracts between jointly owned supply and distribution
  - Little opportunity for traders or aggregators to introduce liquidity

# Issues with existing model



- Lack of certainty discourages investment
  - Uncertainty concerning legislative environment
  - Frequent changes to market rules
  - Pre-existing MOUs providing preference to some investments
  - Lack of access to export markets
- Uncertainty concerning tariff strategy
  - Pre-existing MOUs distort market
  - Relationship between cost to serve and cost allocation

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# Objectives of Market Design



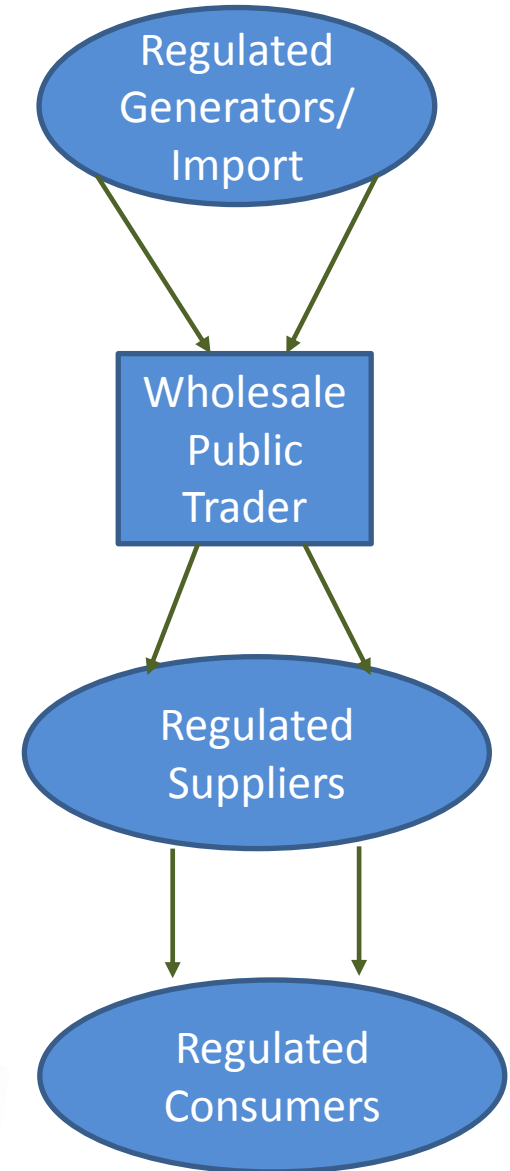
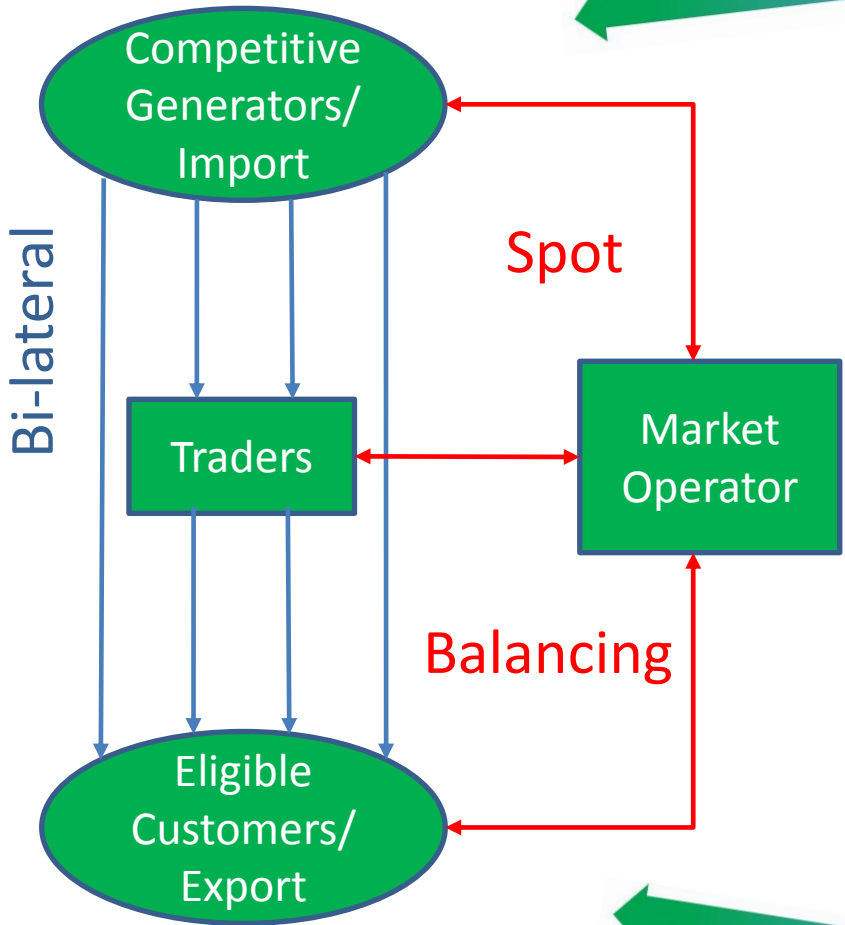
- Reflection of overall Energy Market strategy
- Define in detail the relationship and interaction between market actors
- Propose a pathway from the current environment to the liberalised, transparent and liquid market envisioned the EU Acquis and the GEMM 2015 concept

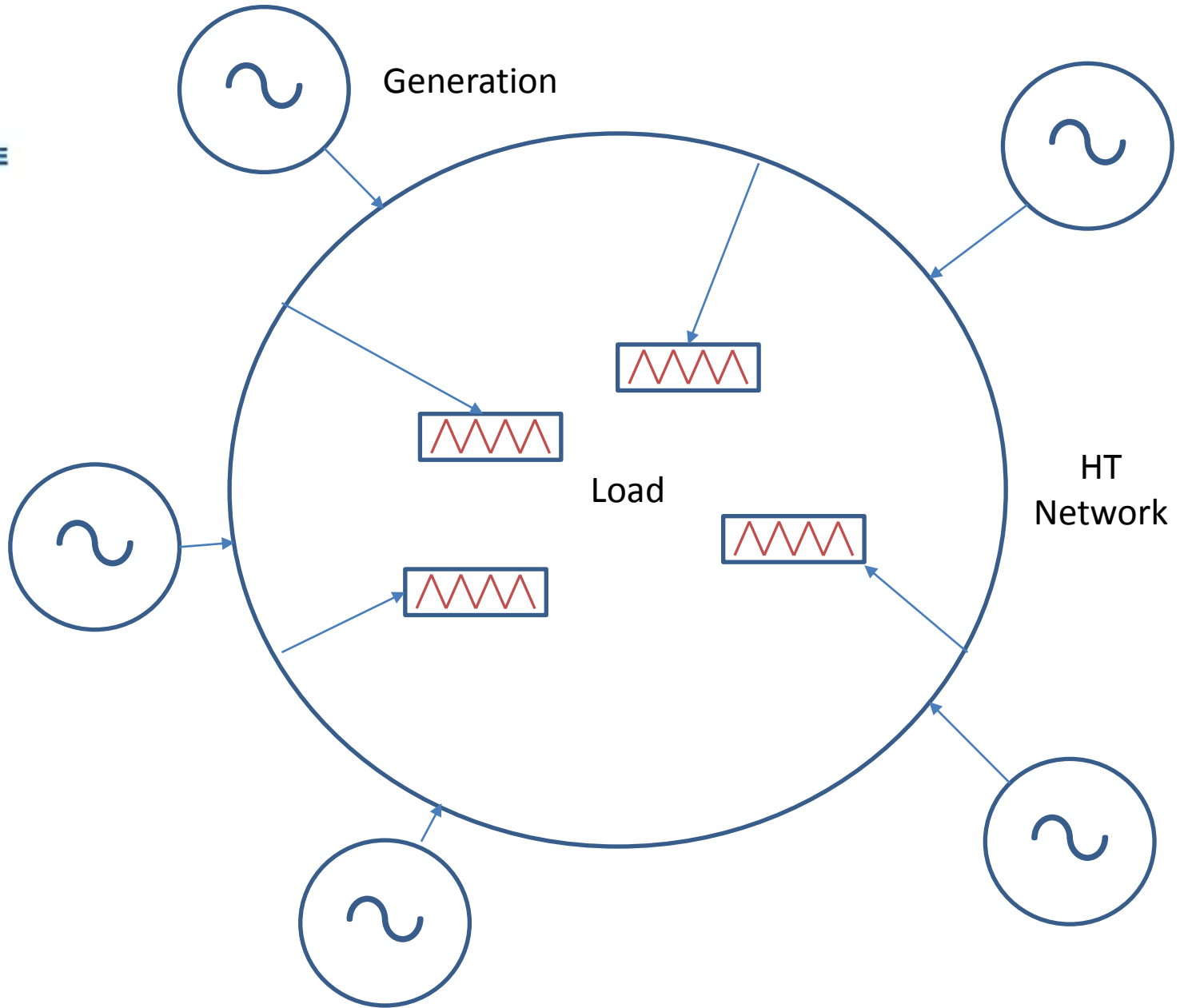
# Competitive Market

# Regulated Market



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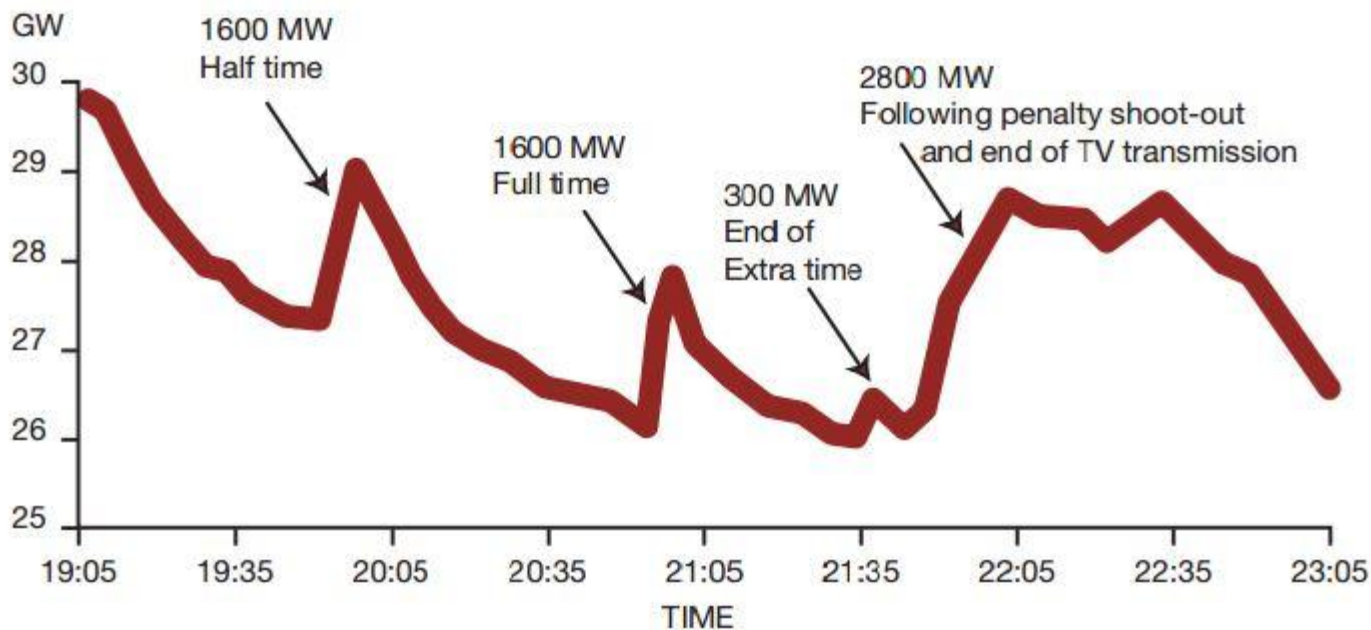




# Demand can be difficult to predict...



## England Vs Germany 1990, World Cup Semi-Final, Kick Off 19:00



# Design Issues



- TSO, MO and WPT: Separate entities? Functions within a single entity?
- Liquidity: How to move dominant regulated generation into the market?
- Competition: How to gradually open the market to wider competition?
- Pricing: How to prevent market distortion by leakage of low price competitive generation into the competitive segment?
- Affordability: How to protect vulnerable customers in a competitive market?
- Staging: What is the first incarnation and how does the market progress?





# Questions?

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