

Ladies and Gentlemen,

Dear Guests,

Greetings to you all

First and foremost let me congratulate our Austrian guests on the occasion of their national holiday and extend our best wishes.

Congratulations on starting the twining project. This project is very important to us. On behalf the GNERC we would like to express our gratitude to the European Union for financially supporting it.

GNERC is actively involved in a number local and international projects aimed at increasing overall energy security of the country, rational utilization of its energy resources and potential, increase energy security, diversify energy sources, attract investment, improve quality of service and overall offer high quality service to the public that meets the EU standards and best practices.

As mentioned, GNERC works to support the implementation of the state policy in the area of energy, national security, social welfare, ecology and other areas. Therefore one of its primary functions is to set and regulate tariffs on electricity generation, transmission, dispatch, distribution as well as its import and consumption. The starting point in this process is to develop the tariff methodology.

GNERC developed and approved its first tariff methodology back in 1998. It was a “cost plus” methodology which ensured covering all costs incurred by energy companies and realization of a reasonable profit. This methodology facilitated attracting investment in the energy field and consequently improving electricity supply to the consumers. The downside of the “cost plus” methodology was that it neither supported the stable development of the energy companies, nor gave them incentives for long term capital investment that was also very important for the complete rehabilitation of the energy sector and its development. “Cost plus” methodology did not consider criteria and parameters of the quality of service.

Recently issues of sustainable energy development became a high priority. Cooperation among countries and support to investment are essential in this regard.

Efforts of the European Commission and Euro Parliament are particularly noteworthy in the area of legislation development and harmonization. Tariff methodology was considerably improved. In particular, incentives-based, seasonal, time differentiated, local and other types of tariff methodologies were developed.

A while ago GNERC began working on developing new tariff methodology. At the same time Commission also started piloting reliable supply and quality of service control methodologies. During 2008 – 2012 control and monitoring system for the entities active in the energy field were also developed, tested and implemented.

In 2011 the “incentive based electricity tariff methodology” was drafted which requires further work. It is important to note that the new methodology reflects company efficiency and quality of service parameters.

Our goal for the twining project is get familiar and incorporate recommendations from our foreign colleagues in our work. Withing the project we will work on the incentive based tariffs regulation and creating preconditions for its application.

With the help of our foreign colleagues, we will resume working on tariff methodology; consider every modern European standard and model. Particular emphases will be placed on improving commission’s work in the area of the quality of service. Unified legislative base will be created and some of our regulations will be translated in English.

Project will also focus on other important issues currently challenging GNERC. Detailed plan is developed for training GNERC staff to increase their efficiency. Project staff will take advantage of English language training, with special emphasis on energy terminology. As a result direct communication with foreign colleagues will strengthen and develop.

At this stage we should probably ask a question- why is the twining project important for the energy sector in Georgia. The answer is that this project gives us opportunity to develop and increase our efficiency by developing professionalism of our staff and overall perform at much higher level.

During the last years Government of Georgia carried out various reforms that ensured economic stability and development, fiscal consolidation. It is noteworthy that these reforms were acknowledged at the international level.

Twining project that is now being implemented together with our Austrian colleagues is in line with the energy policy of Georgia, in particular with the major policy document – the Main Directions of the Energy Policy of Georgia, approved by the Parliament in 2006.

Cooperation agreement between Georgia and the European Union signed in 1996 and enforced in 1999, supports cooperation in the following areas: development of regional energy cooperation, transit of electricity and energy resources and integration of Georgia into Caspian, Black Sea and EU energy markets.

In 2006 as part of the European Union Neighborhood Program, action plan for the twining program was adopted. Twining project goals and objectives are in line with the action plan, that requires gradual transfer towards the principles of the electricity and gas internal market, prevention of price distortions on energy carriers, increasing revenues; developing GNERC in accordance with the EU Directive on Electricity and Gas; restructuring electricity (including hydropower), gas and thermal power sectors and their financial sustainability.

Currently Georgia no longer faces problems that were a major challenge for the country at the end of the 20<sup>th</sup> century and beginning of the 21 century.

Since 2007 the electricity sector works without deficit. In 2011, 9919,2 mln. kWh. was produced in the country. In 2011 electricity production exceeded its consumption by 7, 1%. 78,6 % is generated by HPPs and 21,4% by TPPs. Positive energy balance made it possible to export almost 1 billion kWh in 2011.

Compared to 2005 electricity production in Georgia increased by 44,1% and consumption by 18%. As a result import reduced 3 times with export increasing by 6, 7 times. In 2005 electricity deficit reached billion kWh. In 2011 surplus of produced electricity amounted to 655,6 mln. kWh.

These is just a small portion of the achievements in the energy sector. Commission will continue its activities to achieve even better results. Twinning project will be instrumental in this regard.

Congratulations once again and first of all I would like to congratulate GNERC staff and our partners on the launch of the twinning project. I would also like to thank everybody actively involved in this process in the capacity of our consultants and assistants and wish everybody a great success.