

# **ENERGY POLICY OF GEORGIA**

DRAFT

## 1. OBJECTIVES OF DEVISING THE ENERGY POLICY

Developing and implementing 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 a strategic policy framework that addresses the priorities and development opportunities in the energy sector of Georgia. 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; and the basis for creation of energy sector programs based on these strategies and the foundation for the development of the regulatory legal basis of the sector.

## 2. ENERGY POLICY DIRECTIONS

This *Energy Policy for Georgia* is meant to be an overarching long-term vision that will ensure energy security and the development of the energy sector.

The core national energy policy directions include:

- **Diversification of supply sources and optimal exploration of local energy resources**

For improving national energy security one of the main directions is diversification of supply sources and routes for oil, natural gas and electricity, and efficient exploration of local energy potential. Despite the scarce natural gas, oil and coal reserves in Georgia, small quantities still are harvested. However, vast majority of above-mentioned primary resources remains largely unexplored. Accordingly, search and exploration of the potential natural resource reserves and their rational utilization need to be fully facilitated.

- **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, and also has a potential of wind, solar, biomass and geothermal resources, which allow for creation of additional capacity by means of domestic and foreign investment. 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 commercial relations with neighboring countries' energy markets; through

development of corresponding domestic and cross-border infrastructure; also, through corresponding actions in creating an enabling environment for scientific-research (R&D). All of the above will decrease dependence on imported energy and increase country's energy security.

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

With the aim of achieving deeper economic and political relations, one of the main directions of government policy in the energy sector is gradual harmonization of Georgian legislation with the EU legislation. 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; exploration of renewable energy resources and facilitation of energy efficiency oriented activities in the country through economically and ecologically feasible means.

- **Improving energy market and energy trading mechanism**

Competitive market forces is 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 commercial relations the following steps are vital: deepening legal and commercial relations, establishment of strong and transparent institutional structures, improving regulatory legal basis and facilitating technical synchronization of Georgia's energy system with the regional energy systems.

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

Georgia is an important transit country. It is a connecting corridor between Europe and Asia, which has a potential to strengthen its role in carrying out East-West and North-South transit projects. Effective utilization of its geopolitical location will improve the 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 the legal framework as

well as scientific-research and infrastructure development, to allow for utilization of Georgia's existing clean energy potential and enable the country to become a regional platform for clean energy trade.

- **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 nation's competitiveness. The above indicator for Georgia remains higher than EU member states and other developed countries. Decreasing energy intensity through various measures of demand-side management (DSM) will be a prerequisite to economic growth and development.

Adequate DSM measures for energy generation, transportation, allocation 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 background needs to be created; events oriented on introduction and development 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 account components of environmental protection when implementing energy projects**

For energy infrastructure projects of large-scale social and environmental impacts, including large hydro power plants, it is important to follow best international practices, which include environmental and social impact analyses, consultations with the local communities and making all information publically accessible.

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

Another important direction of the energy policy is improving the service quality 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 in mind, new service standards must be determined and the criteria for their evaluation and fair rules for service quality monitoring must be determined by the regulatory institute.

For effective functioning of the energy market, transparent and fair tariff levels must be determined. Fair tariffs must on the one hand allow the producer to fully compensate for foregone 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 provision of energy to vulnerable population.

### **3. NATIONAL ENERGY STRATEGY**

With the purpose of implementing the directions of the *Energy Policy of Georgia*, the Ministry of Energy of Georgia will develop a national strategy for the energy sector, which will be approved by the government of Georgia.

DRAFT