

**ENERGY CHARTER
SECRETARIAT**

CCDEC 2005

6 EEF

Brussels, 9 December 2005

Related documents: CC 305, CC 309

DECISION OF THE ENERGY CHARTER CONFERENCE

Subject: Recommendations on the In-depth Energy Efficiency Review of Georgia

[The Energy Charter Conference at its 16th Meeting held on 9 December 2005 welcomed the In-depth Energy Efficiency Review of Georgia, and endorsed the recommendations made to the Government of Georgia circulated as document CC 305 (Annex).]

Keywords: In-depth Review of Energy Efficiency Policies, PEEREA, Recommendations, Georgia

Executive Summary and Recommendations on the In-Depth Review of the Energy Efficiency Policy of Georgia

as adopted by the Energy Charter Conference
at its 16th Meeting held on 9 December 2005

Executive Summary

Background

Georgia has had a difficult time since declaring independence in 1991 following the break-up of the former Soviet Union. After independence, output fell by 70 percent and exports by 90 percent, the worst decline suffered by any transition economy. In November 2003, the “rose” revolution led to a change in government in March 2004. The new Government has taken steps to introduce market reforms. This has included reforms and restructuring in the energy sector.

Despite of significant hydropower resources, Georgia is highly dependent on imports for its energy supply. The infrastructure suffers from years of under-investment and power plants (mainly hydro electric) have lost a significant amount of their capacity. To address these problems the Government has embarked on a major restructuring and deregulation process that includes privatisation and some private management of government-owned energy companies. There is an emphasis on creating a market foundation, where consumers are required to pay for their correctly metered energy use.

Energy Policy

Energy policy has been evolving since the mid 1990s. Current energy policy has four main goals: diversification of the sources of energy supply; fully meeting energy demand; independence and sustainability of the power sector; and energy security. The government-approved *Georgia Energy Sector Strategic Action Plan 2004-2005* states that obtaining self-sustainability and energy security have the highest priority.

An independent regulator, the Georgian National Energy Regulatory Commission (GNERC), created as part of the reform process for the electricity and natural gas markets, has been instrumental in improving the tariff system. The approach is to move towards tariffs reflecting all costs. No cross-subsidising is allowed.

Energy Efficiency Policies and Programmes

Available analysis points to an important potential for cost-effective investments in energy efficiency, particularly in small and medium-sized enterprises. While there have been many drafts prepared, there is no energy efficiency strategy, action plan or legislation. Thus there is no co-ordinated, comprehensive approach. The actions in energy efficiency are mainly driven by bilateral and multilateral programmes and by increased consumer awareness through the installation of meters. Energy efficiency activities are not initiated nationally. There is only limited institutional capability and experience within the Government

administration on energy efficiency policy development. Furthermore, the emphasis in energy efficiency policies has almost entirely been on generation and transmission, with little activity at the consumer end. The energy efficiency activities in the end-use sectors are the result of bilateral and multilateral support.

Of concern is the little end-use data collection and analysis that could provide a foundation for future activities in energy efficiency.

Renewable Energy

It is part of the Government's energy strategy to promote renewable energy (RES). Hydropower represents the most readily available RES that is currently exploited and there is still significant potential for further exploitation. There are other important renewable energy resources that show good promise. These include biomass, geothermal, wind and solar.

Energy Efficiency and the Environment

Environmental protection is not a priority for the Government which is focussed on stimulating economic development and creating a more business-friendly climate. All environmental taxes were removed in 2004.

Georgia ratified the Kyoto Protocol as a non-Annex 1 member and thus is not required to meet specific GHG targets. It can participate by encouraging investments through the Clean Development Mechanism (CDM) and the necessary administrative system has been created. There has been some foreign interest, but only in developing renewable energy. Energy efficiency projects have not attracted the interest of potential investors in CDM projects.

Recommendations

General

- The Government's energy policy should reflect the potential contribution of energy efficiency in improving the security of supply and supporting economic growth and the environment.
- In preparing for a new direction in energy policy, it would be a timely opportunity for the Government to underline the importance of energy efficiency and its integration into a comprehensive strategy throughout the whole energy chain.
- While liberalising the grid-bound energy market contributes to increased economic efficiency and more transparent and market-oriented price formation, energy efficiency measures should accompany the process in order to achieve more of the cost-effective potential.

Energy Efficiency Policies, Legislation and Programmes

- Taking into account the fact that energy efficiency policies are not yet well and transparently defined, steps should be taken by the Government to prepare and implement legislation, policies, measures and programmes to promote energy efficiency within the market-oriented framework of energy policy.
- In the process of developing energy efficiency strategies and measures, the Government should use the technical and financial assistance of various and relevant national and international institutions and programmes.
- The Government should develop specific programmes for improving energy efficiency in the various sectors of the economy which should include specific targets and monitoring systems for continuous evaluation of their implementation.
- Governmental objectives and priorities should to the extent feasible be supported by appropriate resources for energy efficiency.
- The Government should adopt and ensure enforcement of building standards for new and existing buildings taking into consideration cost-effective thermal efficiency levels.
- The Government should take action to modernise the existing building stock, energy efficiency improvements going hand in hand with other objectives such as better comfort and safety.
- Initiatives should be taken to enhance all consumers' knowledge and awareness about energy consumption and how to make it more efficient.
- Energy efficiency should be considered in the various stages of the education process as well as in professional training.
- Restructuring, privatisation, renovation and rebuilding of industry provide a good

opportunity to promote energy efficiency. The Government should ensure that any strategy for restructuring and development of the industrial sector includes an appropriate energy efficiency component reflected in objectives and concrete measures.

- The Government should benefit from the experience and knowledge accumulated from various energy efficiency projects funded from external sources.
- The Government should take action to integrate a strategy for the transport sector focusing on energy efficiency and environmental impacts.

Institutional Framework

- The Government should strengthen the capacity of the Ministry of Energy to develop and implement energy efficiency and renewable energy strategies and programmes.
- The Government should ensure better co-ordination between the various governmental institutions acting in the area of energy efficiency.
- The Government should ensure that appropriate institutions are in place empowered with the necessary mandate and resources to secure implementation of energy efficiency policies and programmes; the valuable experience of the Energy Efficiency Centre should support this capacity building process.

Energy Pricing

- The Government should support the active steps being taken to come to terms with and facilitate solutions to the technical challenges of installing metering systems since this is the fundamental pre-condition for solving problems for collecting payment and avoiding non-payment. It would also be a prerequisite for giving correct incentives for any active energy efficiency policy towards end consumers.
- The Government should continue the energy pricing regulatory reform with a view to eliminate any remaining subsidies and at the same time to create conditions for promoting energy efficiency and renewables without distorting the energy markets.

Financing Energy Efficiency

- The Government should analyse the opportunity for developing a revolving fund for financing prioritised energy efficiency projects, making use of the resources made available by different international donors.
- The Government should continue to work towards the active operation of the Kyoto Protocol flexible mechanism, CDM, and consider how this mechanism could become an effective vehicle for bundling potential cost-effective energy efficiency projects and make them feasible for financing within the CDM context.

Promotion of Renewable Energy

- The Government should, according to an economic assessment, encourage the most effective solutions for heating, including central heating and the local use of renewable energy resources.
- The Government should analyse the opportunities for long-term cost-effective use of renewable energy sources in the process of diversifying the energy supply to meet national policy objectives.

Data Collection, Monitoring and Forecasting

- The Government should strengthen the work on energy statistics and energy efficiency indicators since this is a basis for end-use policy analysis which is necessary for the development and implementation of energy efficiency policies.