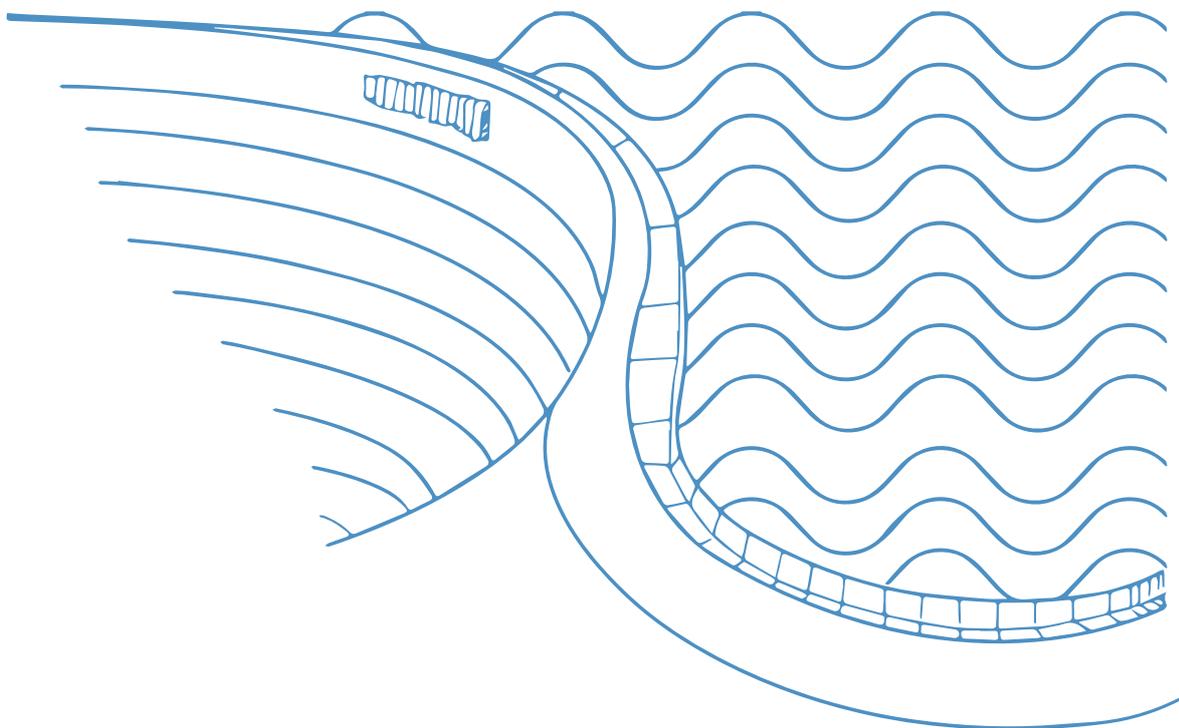


Georgia

Annual Implementation Report

1 November 2023



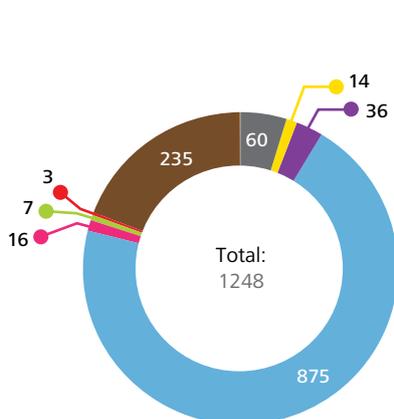


Georgia

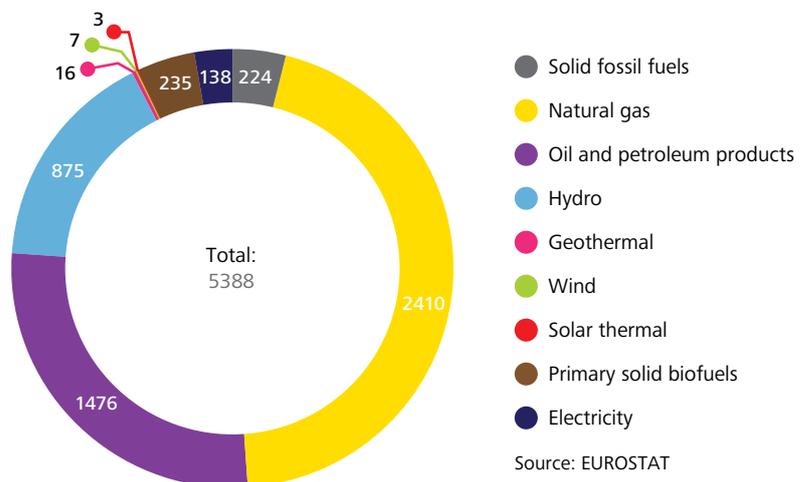
IMPLEMENTATION OVERVIEW

CLUSTER	IMPLEMENTATION STATUS	2023 HIGHLIGHTS AND NEXT STEPS
 Markets and integration	 36%	<p>The Government postponed the opening of the electricity day-ahead, intraday balancing and ancillary services markets for 1 July 2024. The implementation of natural gas market concept design, gas market rules, gas distribution rules, unbundling of gas distribution system operator has also been postponed. Georgia should strive to open the wholesale electricity and gas markets and urgently finish the unbundling and certification of the electricity and gas transmission system operators, along with the transposition and implementation of the Electricity Integration Package.</p>
 Decarbonising the energy sector	 42%	<p>Georgia has submitted its draft NECP to the Secretariat. The country has also conducted its inaugural auction for renewable energy and established an operational registry for guarantees of origin for electricity by signing an agreement with a service provider. Georgia should adopt the Renewable Energy Law and adopt amendments to the Energy Efficiency Law in line with the acquis.</p>
 Ensuring energy security	 19%	<p>The Ministry has been appointed as the competent authority in line with the Risk-preparedness Regulation. The Government is postponing the adoption of gas security of supply rules which would transpose the Security of Supply Regulation. Parallel to the need to transpose the Regulation, Georgia should perform a risk assessment for the gas market and complete the risk-preparedness plan for the electricity sector.</p>
 Improving the environment	 64%	<p>Georgia stepped up its legislative efforts with the adoption of the Industrial Emissions Law and achieved good progress in the area of environment. Secondary legislation for combustion plants should be adopted.</p>
 Performance of authorities	 62%	<p>GNERC adopted the electricity market rules as well as dispute resolution rules in 2023. GNERC is yet again not investigating any anti-competitive conduct nor reviewing State aid measures in the energy sector.</p>

2021 Fuel mix in primary production of energy (in ktoe)



2021 Gross available energy per product (in ktoe)



Source: EUROSTAT



Georgia

Markets and integration

ELECTRICITY

51%



UNBUNDLING

51%

The transmission system operator GSE is controlled by the Ministry of Economy and Sustainable Development. This set-up breaches the unbundling rules. In addition to the regulator's refusal of its certification in 2022, GSE was also penalized for non-compliance with unbundling requirements. In February 2023, the Secretariat launched infringement procedures against Georgia for the lack of unbundling and certification of the transmission system operator.

Both distribution system operators, Energo-Pro Georgia and Telasi, are unbundled. Compliance reports are submitted to the regulator in line with the deadlines. The regulator amended the unbundling rules with a requirement for the distribution system operators to select a compliance officer in a competitive procedure. Telasi has already appointed a compliance officer. Energo-Pro Georgia selected a candidate compliance officer and submitted the proposal for the regulator's approval. The regulator's lack of approval raises concerns.

ACCESS TO THE SYSTEM

66%

The connection fees and network tariffs are transparent and published.

The Connection Codes are partially integrated in the applicable transmission grid code approved by the regulator. GSE prepared a new version of the transmission grid code. Its approval is expected to take place together with the market opening, which was postponed.

Transparency Regulation was transposed and a limited set of data is published on the ENTSO-E Transparency Platform. By an agreement signed with ENTSO-E in October 2023, the transmission system operator committed to ensure that the information published on the Transparency Platform is reliable and of the required quality.

WHOLESALE MARKET

48%

The Government postponed the opening of the day-ahead, balancing and ancillary services markets twice in the course of 2023. The last postponement applied to the intraday market as well. The market opening is to take place on 1 July 2024.

Electricity production is still largely regulated until 2027, according to a schedule defined by the Concept of Electricity Market Model. In the next step, the deregulation of hydro-power plants below 75 MW must take place as of 1 May 2024.

The regulator has transposed the REMIT Regulation. It is implemented through the energy market monitoring and reporting rules.

RETAIL MARKET

50%

The retail market is to be deregulated according to the schedule in the Concept of Electricity Market Model. Based on the latest amendments, the deadline for deregulation of all final customers connected to the 35-110 kV voltage levels and final customers connected to 6-10 kV voltage levels, who consume at least 1 million kWh electricity per month, was postponed by a year until 1 July 2025. All other customers are envisaged to be deregulated (except small enterprises and households) by 1 July 2026.

The concept of vulnerable customers is defined in primary legislation. One of the acts adopted in 2021 includes provisions to define vulnerable electricity customers in case the tariff for universal supplier increases. The protection of certain consumer groups is based on social vulnerability, as well as criteria in other governmental resolutions and secondary legal acts. And yet, a permanent definition of vulnerable customers still remains to be developed.

REGIONAL INTEGRATION

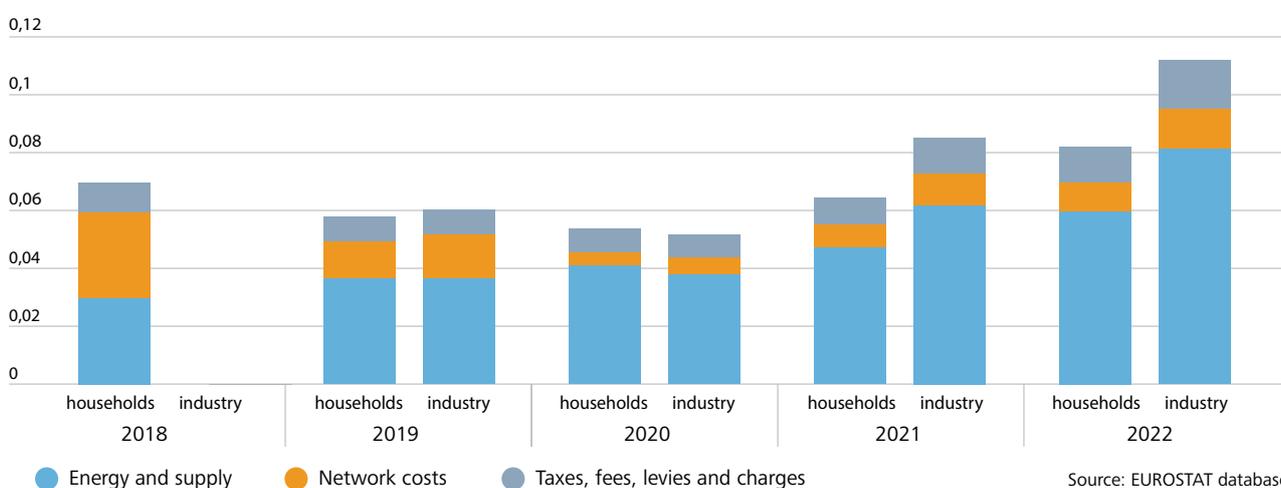
n.a.

Georgia has not transposed the TEN-E Regulation (EU) 347/2013. The national competent authority has not been established. GNERC adopted a Rule for Appraisal of Investments in the Electricity and Natural Gas Sectors. It is yet to publish the methodology and criteria used to evaluate investments in eligible infrastructure projects.

Georgia is not interconnected with other Contracting Parties or EU Member States. Thus, no regional integration at the Energy Community level is expected. Until Georgia has a physical interconnection with the EU or the Energy Community Contracting Parties' electricity markets, a derogation from cross-border co-

operation rules applies. At this stage, there is no coordinated capacity allocation of cross-border capacities with neighbouring countries, except bilateral cross-border capacity allocation on the interconnectors with Türkiye. This allocation is based on an auction with the merit order specified in the applicable electricity market rules. Rules for management of cross-border electricity flows and capacity allocation are incorporated in the draft transmission grid code. Agreements with neighbouring transmission system operators have not yet been signed. GSE closely cooperates with the Turkish transmission system operator with the intention to sign inter-TSO compensation (ITC) mechanism agreements prior to market opening planned for 1 July 2024.

Average annual prices of electricity for end users per component [EUR/kWh]





UNBUNDLING

8%

During the reporting period, Georgia has not separated control over state-owned energy companies engaged in trade and supply, and network-related activities. The country thus fails to comply with the unbundling requirements. In February 2023, the Secretariat launched an infringement procedure against Georgia for the lack of unbundling of its transmission system operators.

The unbundling plans of distribution system operators are yet to be approved. Georgia does not comply with the rules on distribution unbundling.

ACCESS TO THE SYSTEM

30%

The Natural Gas Network Rules adopted in 2018 ensure transparent and non-discriminatory third party access. Georgia is exempt from performing capacity allocation on the interconnection points, interoperability and data exchange rules. It transposed the Balancing Network Code, but did not implement it yet. GNERC allowed postponement by a year until 12 December 2023, since there is no possibility of market-based balancing. This is non-compliant as the postponement can last only for two years until December 2022. Natural Gas Distribution Network Rules are in place, although their implementation deadline was also postponed for another year until 1 January 2024. An entry-exit tariff methodology is not in place yet, consequently the tariff network code is not implemented.

WHOLESALE MARKET

26%

Wholesale trade is exercised only through bilateral contracts. The Natural Gas Market Concept Design (GMCD) conditions establish, in theory, an organized market with daily balancing

in place. Implementation as envisaged for 2023 did not take place. The gas exchange functions are currently transformed to Georgian Energy Exchange. SOCAR affiliated companies maintain dominant positions in the highly concentrated wholesale market.

RETAIL MARKET

23%

Gas is supplied to households at a tariff regulated by GNERC, and to thermal power plants (both part of the so-called “social sector”) at preferential rates established by the memorandum of understanding between the Government of Georgia and SOCAR. They are subsidized by the state-owned company GOGC. Prices are deregulated for the commercial sector, including industry and small enterprises. The supply companies are obliged to publish gas quantities and prices on their official websites for deregulated consumers.

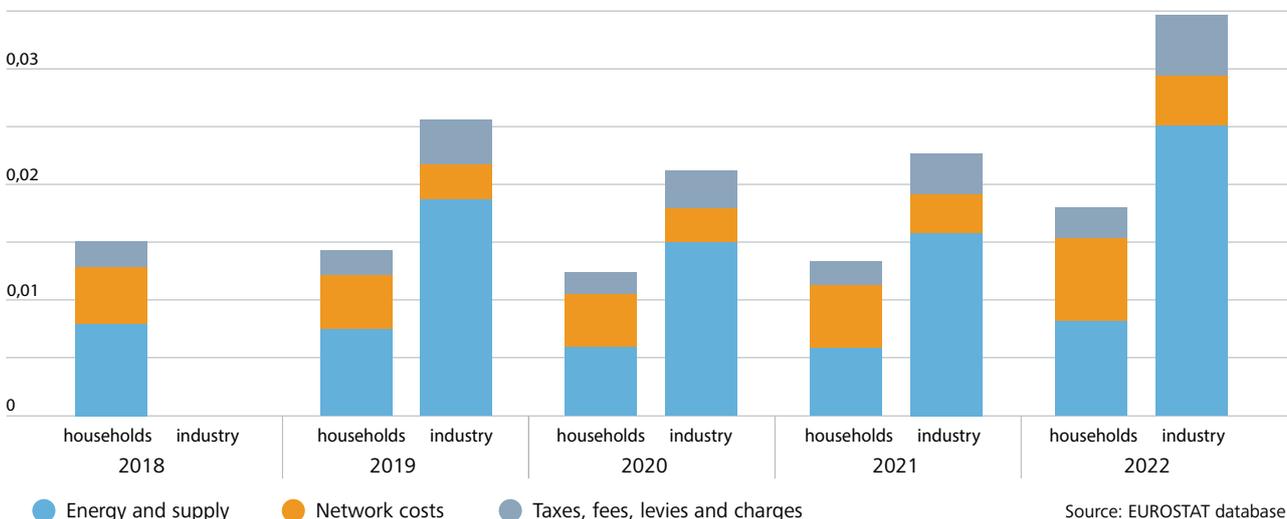
GNERC approved Natural Gas Retail Market Rules in 2021 but their implementation deadline was recently postponed to 1 January 2024. Although several governmental resolutions address the protection of a certain group of customers, a more precise definition of vulnerable customers and an efficient mechanism for their protection remains to be established.

REGIONAL INTEGRATION

n.a.

Georgia has not transposed the TEN-E Regulation (EU) 347/2013. As Georgia is only connected with third countries, it is exempt from the application of the Energy Community gas acquis at interconnection points. Georgia features a PMI project, the expansion of the off-take infrastructure on the South Caucasus pipeline, which would enable swapping LNG with Europe, and hence allow Georgia to gain access to the global LNG market.

Average annual prices of gas for end users per component [EUR/kWh]



Source: EUROSTAT database



Georgia

Decarbonising the energy sector

GOVERNANCE / CLIMATE IMPLEMENTATION

29%



NATIONAL ENERGY AND CLIMATE PLANS

63%

Georgia has submitted a draft National Energy and Climate Plan (NECP) which includes the climate and energy targets for 2030, as an annex to the draft State Energy Policy.

GREENHOUSE GAS 2030 TARGET

10%

Georgia has not defined the 2030 climate target in its national legislation, but has defined it in the draft NECP. However, the target is not in line with the 2030 targets set by the Energy Community because it foresees 6,7 MtCO_{2eq} more emissions.

NATIONAL SYSTEMS FOR CLIMATE REPORTING

18%

There is no legal basis for a national inventory system. Georgia has not yet established a national inventory system or a national system on policies, measures, and projections.

Georgia has initiated reporting on national systems for policies and measures and projections, but has yet to submit a report.

NATIONAL GREENHOUSE GAS EMISSIONS POLICIES AND MEASURES / ADAPTATION

13%

Reporting obligations have not been transposed in legislation. Georgia nominated lead reporters for the Governance Regulation reporting activities and initiated a reporting process on policies and measures (PaMs), without submitting a report. In the context of Reportnet system, no reporting activity was initiated on adaptation strategies and carbon revenue.

LONG-TERM STRATEGY AND CLIMATE NEUTRALITY

41%

The legal basis for a long-term strategy has not been adopted. Nonetheless, Georgia submitted its long-term strategy to the UNFCCC Secretariat in July 2023 with a 2050 climate neutrality objective.



2030 RENEWABLE ENERGY TARGETS 73%

The overall target of achieving a 27,4% share of renewable energy in the gross final energy consumption, as outlined in the draft NECP, is in line with the 2030 target set by the Energy Community. The 2030 RES target is subdivided into sectorial targets for electricity (85%), transport (10,45%), and heating and cooling (7%). Following Article 26 of the Renewable Energy Directive (REDII), Georgia has adjusted its minimum target for renewable energy in transport to 7% by 2030. The 2030 target for renewable energy in the heating and cooling sector of 7% does not align with Article 23 of REDII.

QUALITY OF SUPPORT SCHEME 37%

In December 2022, Georgia passed legislation enabling a market-based support scheme in the form of contracts for difference. The first auction was carried out in 2023. Nevertheless, to fully operationalize the scheme, it is crucial to adopt amendments to the Renewable Energy Law to create a comprehensive regulatory framework. Moreover, intraday and day-ahead electricity markets need to be established.

SELF-CONSUMPTION AND ENERGY COMMUNITIES 50%

Currently, Georgia has implemented a self-consumption scheme in the form of net metering for micro-power plants with up to 500 kW capacity. Amendments to the Renewable Energy Law are necessary to facilitate the establishment of renewable energy communities in accordance with REDII requirements.

GUARANTEES OF ORIGIN 45%

In February 2023, Georgia became the first Contracting Party to launch an electronic registry for guarantees of origin (GOs) under the umbrella of the regional project implemented by the Energy Community Secretariat. Presently, GOs are exclusively issued for renewable electricity. To establish a fully operational GOs system, it is essential to implement disclosure rules and formulate a methodology for calculating the residual energy mix. Additionally, amendments to the Renewable Energy Law must be adopted to expand GO to other energy carriers, as outlined in REDII.

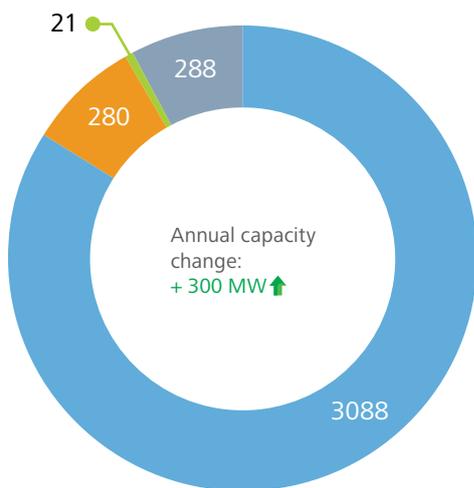
SUSTAINABILITY CRITERIA FOR BIOFUELS, BIOLIQUIDS/BIOMASS FUELS 0%

Provisions related to the sustainability and greenhouse gas emission saving criteria for biofuels, bioliquids, and biomass are not transposed, and the legal framework remains completely non-compliant with REDII. The Renewable Energy Law should be amended to incorporate these provisions.

RENEWABLE ENERGY IN HEATING AND COOLING 25%

There was no significant progress concerning the integration of renewable energy in the heating and cooling sector of Georgia. To meet the requirement of increasing renewable energy by 1,1 percentage points as set in Article 23 REDII, the creation of a framework and measures for the integration of renewable energy, including heat pumps in individual heating systems, is needed.

Total Capacities of Renewable Energy 2022 (MW)



- Large hydropower
- Pumped storage
- Wind
- Solar

Total capacities of renewable energy (MW):

3677

Source: Ministry of Economy and Sustainable Development

ENERGY EFFICIENCY IMPLEMENTATION

56%



2030 ENERGY EFFICIENCY TARGETS AND POLICY MEASURES

68%

The 2030 energy efficiency targets as outlined in the draft NECP are aligned with the 2030 targets set by the Energy Community. This is also true for specific targets related to the implementation of Article 5 and Article 7 of 2012 Energy Efficiency Directive (EED).

To transpose the Clean Energy Package, amendments to the Energy Efficiency Law, as well as amendments to the Law of Energy Performance of Buildings are being finalized and planned to be submitted to the Parliament by the end of 2023.

ENERGY EFFICIENCY IN BUILDINGS

78%

A Law on Energy Performance of Buildings and key by-laws are in place. The minimum energy performance requirements for buildings or building units and building elements, and the national calculation methodology were adopted. Georgia adopted rules on certificate registration, inspection reports registry and independent experts in May 2023, and rules on energy performance calculating tools in July 2023. Further amendments of the Law to transpose the Energy Performance of Buildings Directive 2018/844/EC are planned to be finalized by the end of 2023. The remaining by-laws (certification rules, regulation on inspection of heating and air-conditioning systems, etc.) were drafted. The long-term renovation strategy for stimulating investment in the renovation of buildings is still in the drafting phase.

ENERGY EFFICIENCY SCHEME AND FINANCING

51%

The energy efficiency obligation target is currently being updated in accordance with the 2030 framework and with new alternative measures to be incorporated in the draft NECP and the draft Energy Efficiency Law. In 2023, Georgia adopted a package of by-laws and model contracts for energy performance contracting as a new model of financing energy efficiency improvement measures.

ENERGY EFFICIENT PRODUCTS – LABELLING

51%

The Law on Energy Labelling adopted in 2019 transposed the Framework Labelling Regulation (EU) 2017/1369. In April 2023, three new technical regulations were adopted, regulating energy labelling of domestic ovens and range hoods, space heaters, water heaters and storage tanks. The remaining implementing product regulations required by the Law are in the adoption procedure.

EFFICIENCY IN HEATING AND COOLING

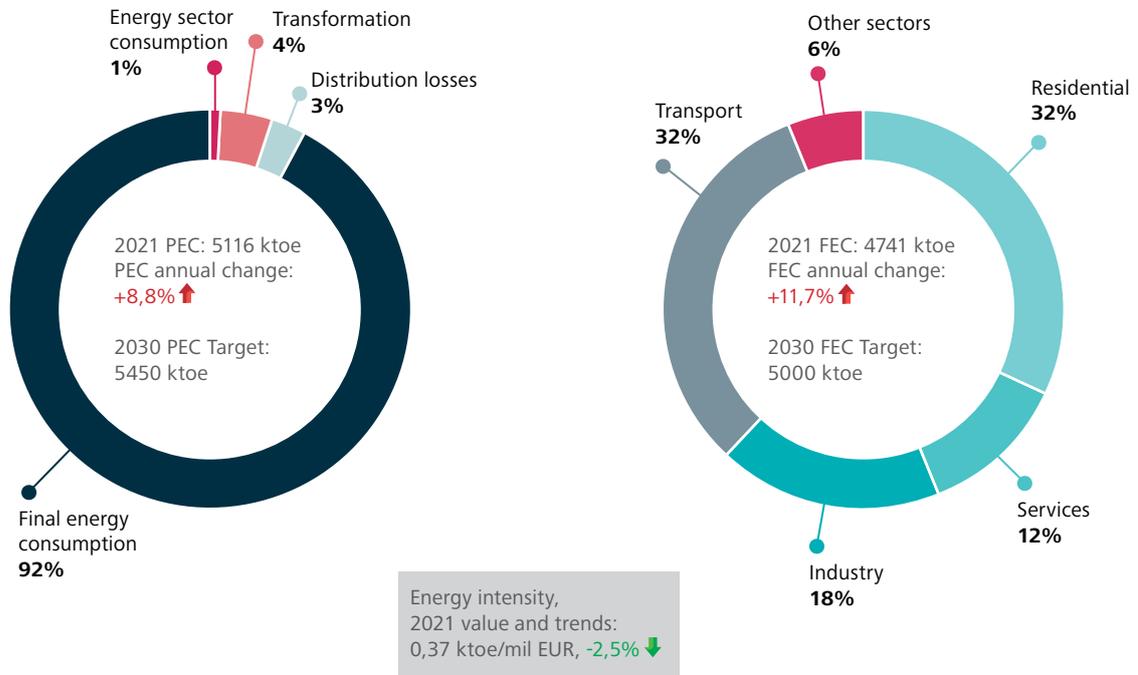
35%

In 2023, Georgia initiated a support programme for the production and purchase of energy-efficient biomass stoves. While there is a legal basis for developing a comprehensive assessment of the potential for efficient heating and cooling, the performance of such an assessment in line with Article 14 EED is needed.

2021 Energy Efficiency Indicators and Trends

Primary Energy Consumption (PEC)

Final Energy Consumption (FEC)



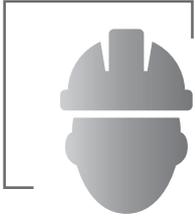
Source: EUROSTAT 2023 data, draft NECP and 2022 Ministerial Council Decision

Status of transposition and implementation of energy efficiency acquis of the Clean Energy Package

Building Renovation Strategy	Central Government Buildings Renovation	Energy Efficiency Obligation Scheme	Alternative Policy Measures	Metering and Billing Information for District Heating
●	●	●	●	n/a

● In place ● In progress ● Not in place

Source: compiled by the Energy Community Secretariat



Georgia

Ensuring energy security



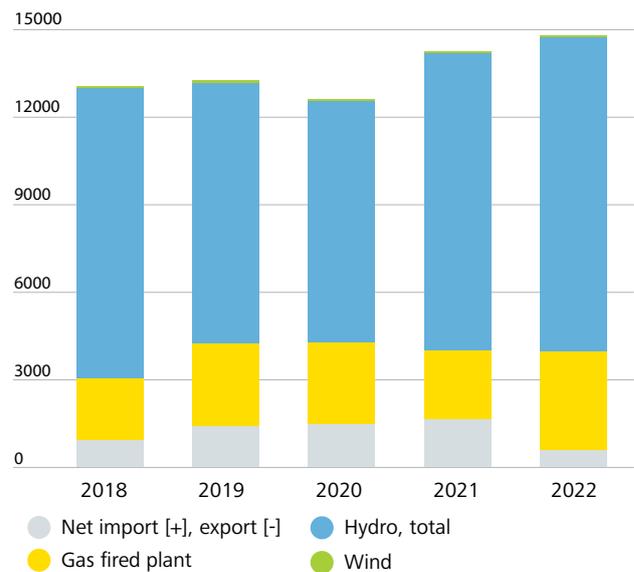
ELECTRICITY SECURITY OF SUPPLY

38%

Georgia adopted rules on electricity security of supply and has transposed the majority of the Risk-preparedness Regulation (EU) 2019/941. The Ministry of Economy and Sustainable Development of Georgia is appointed as the competent authority in line with Article 3 of Regulation (EU) 2019/941. A draft risk preparedness plan exists, but has not been approved yet. The annual Security of Supply Statement has been prepared since 2021.

There is no specific cybersecurity regulation regarding energy companies in Georgia. The Information Security Law divides different entities and institutions into three categories of cybersecurity importance, including energy companies. Critical infrastructure has been designated.

Fuel mix and primary supply of electricity (in GWh)



Source: Ministry of Economy and Sustainable Development of Georgia, compiled by the Energy Community Secretariat



GAS SECURITY OF SUPPLY

5%

Georgia did not transpose Regulation (EU) 2017/1938. The Rules on Security of Natural Gas Supply are in an advanced stage and their adoption would rectify the country's non-compliance. The

country does not have gas storage and is exempted from the Storage Regulation.



OIL SECURITY OF SUPPLY

10%

Georgia does not have emergency oil stocks. The Parliament still needs to adopt the draft Oil Stockholding Act prepared with the assistance of the Secretariat in 2017. The main obstacle is the storage capacity shortage. No procedures are in place for the release of emergency oil stocks. In the event of a supply disruption, the draft Law foresees the release of the stocks to

be based on a ministerial decree.

Monthly oil statistics are partially reported.

No progress was achieved during this reporting period. Georgia is non-compliant with regards to the oil acquis.



Georgia

Improving the environment

ENVIRONMENTAL ASSESSMENTS

60%

Georgia amended the Environmental Assessment Code to improve coordination in the environmental decision-making process in both the Environmental Impact Assessment (EIA) and the Strategic Environmental Assessment (SEA) processes. The responsibility of organizing all public hearings has been entrusted to a single agency, the Environmental Information and Education Centre of the Ministry of Environmental Protection and Agriculture of Georgia. Additionally, an electronic platform to enhance the participation process became operational in the reporting period, though its efficiency and effectiveness is yet to be assessed. Prolonging the applicability of the transitional provisions in the Environmental Assessment Code for unauthorized projects continues to exempt certain projects from undergoing an EIA, which is not in line with Article 8(a) of the EIA Directive. Whilst none of the modifications to the operational conditions of hydropower plants underwent an EIA, thirteen greenfield hydropower plants were subjected to a thorough assessment. In the ongoing deliberations concerning the Namakhvani hydro-power project, it is imperative to adhere to the environmental and financial review agreed within the mediation process to ensure responsible governance.

The National Energy Policy (NEP) and the National Energy and Climate Plan (NECP) were made subject to a joint SEA, with a scoping opinion encompassing both documents. The draft versions underwent multiple consultation discussions before the preparation of the SEA scoping opinion. The public consultation for the draft SEA report on NEP and NECP is ongoing, and the anticipated public hearing is to take place by the end of 2023.

LARGE COMBUSTION PLANTS

77%

Georgia complied with its reporting obligations under the Large Combustion Plants Directive in March 2023. The average emissions of the five gas-fired installations falling under the scope of the Large Combustion Plants Directive (and one new plant under the Industrial Emissions Directive) are compliant with the emission limit values of the respective Directives. The emissions of two plants are however very close to the limit and they do not apply continuous measurements.

A new Law on Industrial Emissions was adopted by the Parliament in June 2023. The Law introduces an integrated permitting system and the concept of best available techniques. According

to the Law, the Government shall adopt a decree with specific rules for combustion plants by 1 September 2025 which is required for full compliance.

SULPHUR IN FUELS

67%

The requirements and thresholds of the Sulphur in Fuels Directive, including those on marine fuels, are transposed by the Government Order on the Establishment of Sulphur Content Limit Values since 2021. Amendments for the establishment of a sampling system and appropriate analytical methods were developed and are to be submitted to the Government for approval still in the course of 2023. In addition, an amendment to the Code of Administrative Offences is currently being developed with the aim to introduce sanctions for non-compliance with the sulphur thresholds in heavy fuel oil, gas oil and marine fuel. The adoption of this amendment is important to achieve full transposition.

NATURE PROTECTION

33%

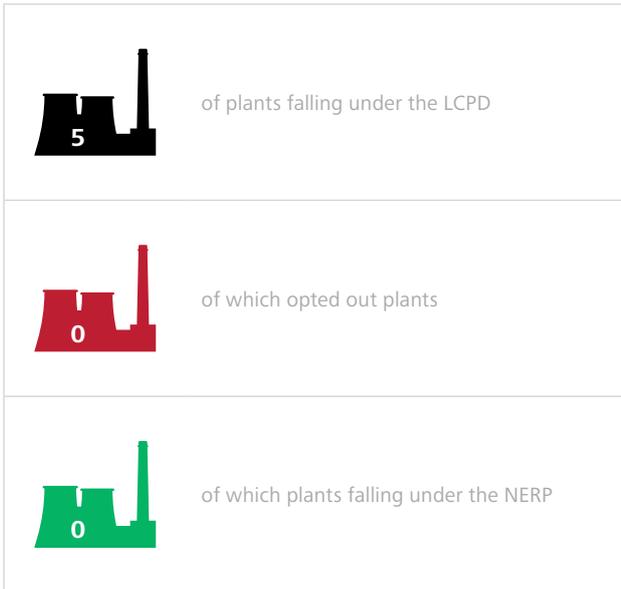
The draft Law on Biodiversity faced a setback as it was not adopted and subsequent actions are yet to be taken. A regulatory impact assessment is yet to take place before the draft is submitted to the Government. The Ministry of Environmental Protection and Agriculture, in collaboration with scientists, initiated a revision of the list and categories of certain species based on the latest studies. The research of the National Biodiversity Strategy and Action Plan is outdated, which calls for an urgent update to align with current ecological considerations and scientific insights.

ENVIRONMENTAL LIABILITY

80%

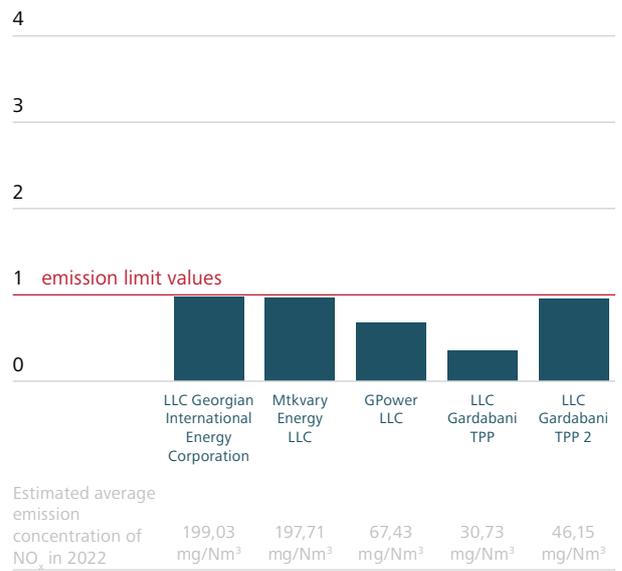
With the Law on Environmental Liability, in force since March 2021, and four government resolutions necessary for its implementation adopted in 2022, Georgia has transposed the Directive 2004/35/EC. Financial security instruments for the risks of environmental damage are established in the form of insurances and bank guarantees. The amount of financial security shall be determined based on the assessment of the risks of environmental damage, consisting of a risk assessment, a processing of the risks and an identification of expenses and a cost estimation for the worst-case scenario.

Installations under the Large Combustion Plants Directive



Source: compiled by the Energy Community Secretariat

2022 emissions of NO_x versus applicable emission limit values (ELV)





Georgia

Performance of authorities



REGULATORY AUTHORITY

93%

The legal framework that governs the functioning of the Georgian National Energy and Water Supply Regulatory Commission (GNERC) is fully aligned with the Energy Community legislation.

In 2023, GNERC continued its efforts to implement the acquis; among others, it adopted the electricity market rules and

dispute resolution rules. In 2023, GNERC sanctioned several electricity and gas distribution system operators for breaching the network codes and quality of supply rules. Regulation of household prices below costs continues.



COMPETITION AUTHORITY

15%

The national regulatory authority GNERC is responsible for the enforcement of the competition acquis in the electricity and natural gas sectors. However, GNERC has never investigated nor decided on any anti-competitive conduct in the energy sectors.

Full compliance with its obligations under the Treaty would require effective enforcement of the competition acquis in the energy sectors.



STATE AID AUTHORITY

10%

The current Law on Competition is not fully aligned with the State aid acquis. In particular, it does not require authorities to notify aid before it is granted and does not grant the power to render negative decisions and order recovery. Georgia does not comply with its obligations under Treaty in terms of effective

enforcement of the State aid acquis since neither the Competition Agency nor GNERC consider themselves to be competent. A clear decision on competence and the subsequent active use of this competence is key to Georgia's compliance with the Treaty.



STATISTICAL AUTHORITY

97%

The national statistics institute GEOSTAT produces the energy statistics. The five questionnaires and disaggregated data on final energy consumption of households are transmitted to and published by EUROSTAT, in compliance with Annex B of Regulation (EC) 1099/2008 on Energy Statistics, as well as SHARES questionnaire and preliminary annual data for 2022.

The quality report in the 2022 cycle, with the metadata for transmitted energy statistics for the previous reporting cycle was submitted to EUROSTAT, as required by Regulation (EC) 1099/2008.

Georgia has been transmitting all monthly data collections from Annex C of Regulation (EC) 1099/2008 timely, except for the crude oil import registry which has to be formally transmitted even in the absence of crude oil imports. The transmission of statistics on prices of natural gas and electricity charged to end-users, broken down by consumption band, taxation level and price component, has been conducted from 2018 onwards in full compliance with the acquis. Quality reports on electricity and natural gas price statistics are transmitted and published.