

SECTOR OVERVIEW

A. Background

1. Development of water supply and sanitation (WSS) and power infrastructure and services are priorities for the Government of Georgia, which has implemented a number of key reforms beginning in the 2000s. The pace of reforms accelerated following the signing of the Association Agreement with the European Union (EU) in 2014,¹ aimed at closer political association and economic integration between the EU and Georgia. Georgia committed to bringing its legislation in these sectors in line with the EU standards and joined the European Energy Community to implement specific EU directives and regulations in the energy and water sectors. Successful market-oriented reforms and a favorable investment climate have resulted in Georgia receiving a consistently high ranking in the World Bank's Ease of Doing Business rankings (6th out of 190 in 2019).² Supporting the WSS and energy sectors, including renewable energy, are key priorities of the Asian Development Bank (ADB) for Georgia.³

B. Water Supply and Sanitation Sector

2. When Georgia became independent from the Soviet Union in 1991, its WSS infrastructure and services were in poor condition. Intermittent supply was common and drinking water quality was poor due to many years of neglected maintenance. In 2003, the Government of Georgia established the Western and Eastern water companies and transferred the WSS responsibilities from local governments to the new companies. Prior to 2009, 66 regional water companies provided WSS services to local bodies in Georgia; the only exceptions were Tbilisi and adjacent cities of Rustavi, Mtskheta, and Gardabani, which were served by independent water companies that were eventually merged and privatized in 2008 to form Georgian Water and Power LLC.

3. Subsequent to the establishment of Georgian Water and Power LLC in 2009, the 66 regional water companies were amalgamated into three companies: the Eastern, Western and Adjara water companies. In 2010, the government further consolidated the Eastern and Western water companies and established United Water Supply Company of Georgia. The Adjara Autonomous Region has continued to be serviced by the Adjara Water Company, which is now known as Batumi Water Company (BWC).

4. Currently, WSS services are provided by the following three companies: (i) Georgian Water and Power LLC, a privately owned company that provides services in Tbilisi and its vicinity that is 100%-owned by Georgia Global Utilities JSC (GGU); (ii) Batumi Water Company, a state-owned company managed by the municipal government of Adjara; and (iii) United Water Supply Company of Georgia, a state-owned company that covers 90% of the country's area and 59% of its population.

5. The main regulatory bodies involved in water supply services in Georgia are: (i) the Ministry of Regional Development and Infrastructure which is responsible for directing funds and planning the development of water infrastructure; (ii) the Ministry of Environment and Natural Resources, which oversees the environmental safety and sustainability aspects of the water recovery and supply process; and (iii) the Georgian National Energy and Water Supply Regulatory Commission (GNERC), which regulates the economic and license-related aspects. State policy

¹ European Union. [Georgia and the EU](#).

² World Bank. 2018. [Doing Business: Georgia Has Moved Up to 6th Place in the Global Rankings](#). Tbilisi.

³ ADB. 2019. *Country Partnership Strategy: Georgia, 2019-2023*. Manila.

for the WSS sector is developed by a special commission led by the Prime Minister of Georgia. In addition to these entities, the National Food Agency is responsible for ensuring drinking water quality.

6. In 2017, GNERC introduced a new tariff methodology for WSS services, which is a hybrid of incentives-based and cost-plus models, as part of harmonization with EU legislation. The model is designed to prevent a rapid increase in tariffs and overinvestment while allowing for a fair return on investments and recovery of operational expenses. The new methodology defines a 3-year regulatory period rather than the previous 1-year period, and is in line with EU standards. It considers existing assets and expected capital expenditures, operating expenses and allowed return on investments. In addition, GNERC developed several rules and procedures for detailed tariff calculations, definition and appraisal of investment plans, and minimum standards of service quality required from utility companies. Transparency in tariff setting and adherence to the EU requirements make the WSS sector attractive for investment.

7. Significant investments are needed to upgrade and maintain Georgian WSS infrastructure. The government attracted over \$800 million of financial assistance in the last 10 years and an estimated additional \$100 million per year are required to rehabilitate the WSS system. ADB provided a \$500 million loan under the Urban Services Improvement Investment Program approved in 2011.⁴ Through this program, ADB, as Georgia's lead development partner in the urban and rural water sector, has been supporting the government in improving WSS services in 12 cities. ADB's assistance has significantly contributed to addressing acute infrastructure deficiencies and incrementally developing the capacity of the United Water Supply Company of Georgia. ADB and the government are preparing a Sector Development Program for a \$150 million loan⁵ - scheduled for approval in 2020 to support implementation of important sector reforms, aimed at enhancing the institutional framework in the WSS sector and achieving cost recovery and sustainability of assets.

C. Energy Sector

8. Total installed generation capacity in Georgia is estimated at 4 gigawatts (GW), including from 80 hydro power plants (producing 3 GW, or 75% of total installed capacity), 5 thermal power plants (924 megawatts (MW), or 23% of total installed capacity) and 1 wind power plant of 21 MW.⁶ While most of the power plants are operated by private companies, state-owned plants account for about half of installed capacity. The Enguri hydropower project is the largest, with a capacity of 1.3 GW. Electricity production is seasonal because of the nature of hydropower generation and power consumption patterns, with deficits in the winter and excess production in the summer. Power generation within Georgia is insufficient to meet the growing demand, which reached 12.8 terawatt-hours per year in 2019, and imported electricity is used to fill the gap. Until recently (prior to the COVID-19 pandemic), electricity consumption was expected to grow until 2035 as a result of economic growth, a developing tourism industry, and a continuing increase in the use of domestic appliances, but tourism-related demand may be somewhat impacted as a result of COVID-19 in the short term. Georgia will need additional generation capacity to meet the demand and flatten seasonality. In the meantime, electricity trade with neighboring countries will continue to play an important role in the Georgian balance of electricity production and consumption.

⁴ ADB. 2011. [*Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to Georgia for the Urban Services Improvement Investment Program*](#). Manila.

⁵ ADB. 2020. [*Sustainable Water Supply and Sanitation Sector Development Program: Concept Paper*](#). Manila.

⁶ TBC Capital. 2019. *Energy Sector Overview: Charging Forward*. Tbilisi.

9. Transmission is handled by two companies: Georgia State Electro System JSC and Sakrusenergo JSC. Georgia State Electro System JSC and its subsidiary Energotrans operate the majority of transmission lines, with a total length of 3,350 kilometers. Transmission companies deliver domestically produced and imported electricity to distribution energy companies, direct customers or to neighboring countries. The Georgian grid is connected to Armenia, Azerbaijan, the Russian Federation and Turkey.

10. Energo-Pro Georgia JSC, Telasi JSC and Kakheti Energi Distribution JSC serve about 1.8 million consumers in Georgia. Energo-Pro Georgia JSC is the largest distribution company and covers most of the country, except for Tbilisi city and Kakheti Region. Telasi is responsible for distribution of electricity to Tbilisi city. Distribution companies mainly serve households, which account for 94% of consumption; commercial users account for 6% (footnote 4). This is a result of continuing deregulation that allows direct consumers (mainly industrial and commercial users) to procure electricity from power generating companies or wholesale traders. The share of direct consumers is estimated at 20% of total electricity consumption.⁷

11. The main legislation for the Georgian power sector is the Law on Electricity and Natural Gas. The Ministry of Energy is the Georgian energy sector's main governing body; it supervises state-owned enterprises and serves as the regulatory authority. In December 2019, Georgia adopted the Law on Energy and Water Supply, as part of its further harmonization with EU standards.

12. GNERC is an independent regulatory body responsible for regulation of electricity, natural gas and water supply in Georgia. GNERC's independence is guaranteed by a legally mandated, self-sufficient revenue stream, funded predominantly from regulatory fees paid by all energy market participants. This independence is a primary requirement for synchronization with the EU energy market and is outlined in the energy market regulations best practices. While GNERC plays an important role in regulating electricity market tariffs for electricity market the trend is towards liberalization of the market. Since 2017, hydro power plants below 40 MW capacity and large industrial customers have been gradually removed from the regulated pricing regime. Currently, power generation companies operate under different tariff regimes.

13. The Electricity System Commercial Operator is a state utility responsible for purchasing, selling and balancing energy. It is owned by Georgia's sovereign wealth fund (the Partnership Fund) and its management rights are retained by the Ministry of Economy and Sustainable Development.

⁷ Georgia Global Utilities. 2020. *Overview of Regulatory Environment and Electricity Market*. Tbilisi.