



Protocol: First Meeting of the Government - Industry Working Group on Energy Efficiency, 19th February 2020, Tbilisi

The Government-Industry Working Group on Energy Efficiency (hereinafter simply referred as Working Group – WG) aims to establish a “platform” for regular ongoing dialogue between Government and Industry¹ to jointly discuss and identify solutions to the challenges that implementation of the new Georgian Law on Energy Efficiency (and associated EU Directives) will pose to Government and to industrial companies and businesses. This Protocol summarises the content and results of the first meeting of the Government-Industry Working Group whose objectives were:

1. To start a structured dialogue on voluntary schemes between Government and industry
2. To discuss incentive schemes for participating in voluntary agreements with large companies and Government
3. To ask industries and attending companies for their commitment in participating in the design process of a first pilot voluntary scheme for energy efficiency

Venue: Ministry of Economy and Sustainable Development of Georgia, 2 Sanapiro Str., Tbilisi

The meeting was attended by a total of 18 participants, 7 from government authorities, 9 from companies and 2 from energy efficiency supporting organizations. Please see Annex 1 for the full list of participants.

March 2020 | within UNIDO project on Industrial Energy Efficiency (IEE) “Reducing Greenhouse Gas Emissions through Improved Energy Efficiency in the Industrial Sector in Georgia”

1. Background of the Government - Industry (G-I) Working Group (WG) on Energy Efficiency

Driven by the ongoing process and efforts for Georgia’s accession to the European Union, energy efficiency has come in latest years to the top of the Georgian Government’s political agenda and very soon (March/April 2020) the new Georgian Law on Energy Efficiency will complete its development and legislative journey. The UNIDO Industrial Energy Efficiency (IEE) Project being implemented in Georgia provided substantial direct support to the shaping of the Law’s articles affecting industry and its related energy efficiency services market. The law on energy efficiency (EE) represents an extremely important achievement of Georgia’s Government and energy efficiency stakeholders. At the same time, the law, once enacted, will not be the end of the work, but rather the beginning of a new phase, that of the law implementation through development of programmes and secondary legislation to enable and support

¹ The term “Industry” is used here in the context of the WG with a broader meaning and it wants to indicate companies from traditional manufacturing and processing sectors as well as from energy sector and other commercial sectors with large companies and energy users.



the achievement of the law's objectives. Article 21 of the current draft Law of Georgia on Energy Efficiency that is in Parliament reads:

Draft Law on Energy Efficiency of Georgia - Article 21. Additional Policies to Encourage Energy Efficiency in Industry

1. With the aim to achieve Energy Efficiency Improvements in industry, the Government is entitled to provide the opportunity for Enterprises to enter into a voluntary agreement with the State represented by the Ministry. The Voluntary Agreement can envisage improvement of energy provision services.
2. The Ministry before entering into Voluntary Agreement shall assess amount of energy saving targets proposed by the enterprise. If deemed necessary, if the proposed targets are not sufficiently challenging, the Ministry may establish mandatory targets on the objectives for energy efficiency improvements.
3. An enterprise participating in a **voluntary agreement**, in accordance with the relevant legislation of Georgia, is entitled to receive governmental assistance, including Ministry support, for implementation of an Energy Audit, Energy Management System and individual measure to improve energy efficiency.
4. The Ministry shall be entitled to elaborate the rules for determining the basis for the voluntary agreement and general provisions.

The basic idea of voluntary agreements is to implement programmes motivating companies to do better than what is prescribed by existing legislation. In return, participating companies receive some benefits or advantages. International and in particular EU experiences on industrial energy efficiency (IEE) policies shows that to identify the most cost-effective measures and programmes for Government and industry (and likewise other energy end-users), it is critically important to look together to the challenges and closely collaborate to develop the best solutions for the parties involved.

Building on such evidence Voluntary Agreement Schemes represented one of the IEE policies on which the UNIDO IEE Project provided focused promotion, institutional capacity building and stakeholders engagement support, through a series of trainings and events, last of which was the "1st Meeting of the Government-Industry Working Group on Energy Efficiency Voluntary Agreements" held on 19 February 2020 in Tbilisi. This meeting kicked-off a process aimed to develop the design of a Voluntary Agreement (VA) Scheme for energy efficiency targeted to large enterprises and SMEs in industry and other key energy consuming sectors in Georgia. See in Fig. 1 the overview of the 3 WG meetings process envisaged for the development of the VA Scheme design.

G-I Working Group on EE Voluntary Agreements

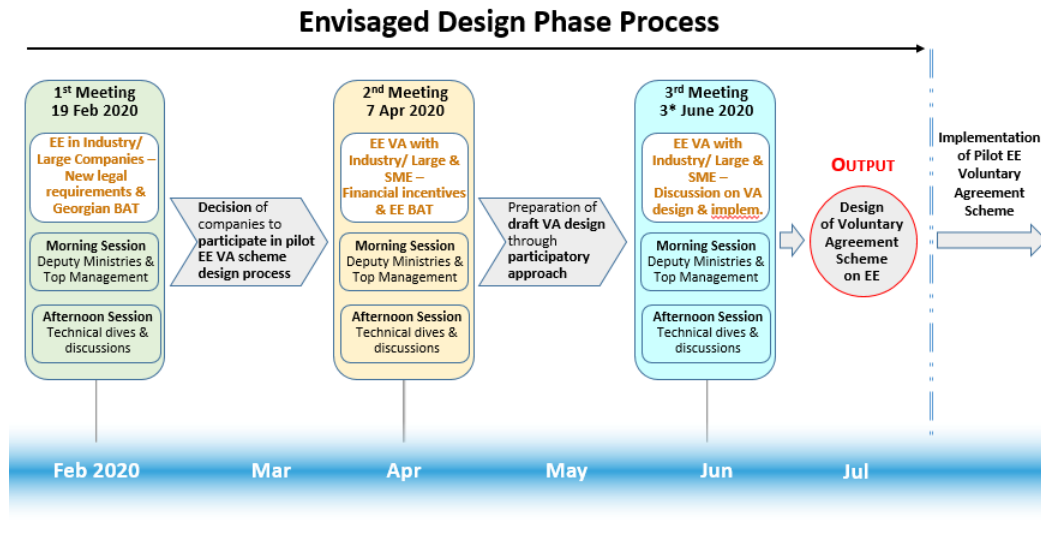


Fig. 1 Overview of EE VA Scheme design development process (this is being revised²)

This Government-Industry Working Group is focussing on Georgian large enterprises (e.g. Category 1 enterprises plus large enterprises as per definition of National Statistics Office of Georgia and direct customers under the electricity regulations), but it is open also to small- and medium-sized enterprises (SMEs).

According with the draft Law on Energy Efficiency of Georgia the definition of a **category 1 enterprise** is:

Category 1 enterprise' - An enterprise whose indicators satisfy at least two out of three criteria at the end of the annual accounting period:

- Total value of assets exceeds 50 million Laris;
- Income exceeds 100 million Laris;
- Average number of employees is more than 250 in the accounting period.

2. Protocol of the 1st Meeting of the Industry- Government Working Group, 19th of February 2020

In his welcome speech Mr. David Tvalabeishvili, Deputy Minister, Ministry of Economy and Sustainable Development (MOESD), highlighted the importance of this Government-Industry Working Group and expressed his strong support to the choice of Voluntary Agreement schemes focussing on energy efficiency as first policy measure to work on. Mr. Tvalabeishvili mentioned that without improved

² The timelines of the development process of the EE VA Scheme design are being revised to reflect the outbreak of the COVID-19 pandemic. It is anticipated that the process will extend in the 3rd and 4th quarter of 2020.



energy efficiency and energy savings Georgia will not be able to meet future increased energy demand. For Georgia it is important to implement energy efficiency measures in industry and on the other hand to qualify experts related to energy efficiency topics.

Ms. Maia Tskhvaradze, representative of Climate Change Division of the Ministry of Environmental Protection and Agriculture mentioned in her welcome speech the importance of energy efficiency to stop climate change. Currently the Ministry of Environmental Protection and Agriculture (MOEPA) is working with industries to reduce CO₂ and she highlighted that the collaboration between both Ministries, the Ministry of Economy and Sustainable Development and the Ministry of Environmental Protection and Agriculture is very important and synergies should be covered together.

Mr. Marco Matteini from UNIDO presented some international experience on voluntary agreement (VA) schemes. He highlighted that most of the existing voluntary agreement schemes internationally are focusing on industry (individual enterprises or branches) but also other sectors than industry can be covered by VAs. VAs can address large enterprises and SMEs. Voluntary agreements are contracts between government/local authorities (Public) and industrial enterprises or branches (Private) that include agreed actions and/or targets. Establishing voluntary agreements supports a culture of mutual trust and collaboration between the government and industry. The typical duration of VAs ranges from two to ten years depending on the type of VA and the agreed scope of work. Marco Matteini pointed out that for Georgia target-based voluntary agreement scheme was selected for implementation, as shown by Article 21 of the draft Law on EE. This type of VA requires participating companies to achieve measurable energy efficiency targets; for instance x% energy savings compared to a baseline scenario or y% energy efficiency improvement within n years. Mr. Matteini highlighted that the majority of VA schemes implemented in the European Union required/included the implementation of energy management systems in line with national or international standards, e.g. ISO 50001. Offering to companies incentives that are attractive enough to motivate them to participate in the VA and to do more on energy efficiency is an important topic. Common incentives provided to companies participating in VA schemes in the EU are:

- Incentives linked to energy related taxes: An incentive for companies participating in the VA scheme could be the full or partial reimbursement of energy-related tax upon fulfilment of agreed VA's obligations. If agreed measures/obligations are not implemented or set targets are not reached, then tax refund is not possible.
- Incentives related to other financial benefits: For example subsidised energy audits, cost-free expert support or subsidies for the implementation of energy efficiency measures, including energy management systems.
- Incentives consisting of non-monetary support: For example companies getting more recognition from the government
- Awareness, knowledge and recognition: It has become more and more frequent to have knowledge sharing events and networks within VA schemes. Exchange of information and experiences between enterprises from different industrial branches (steel, chemistry, agro-food)

or from the same branch have proven to have a significant positive effect on the improvement rate of energy efficiency and practices. Also recognition between government and industry could be a benefit for both stakeholders.

- Usually differentiated for large enterprises and for small and medium-sized enterprises

The introductory presentation of Mr. Matteini was followed by an open interactive discussion with and between participants, moderated by Mr. George Abulashvili, Director of the Energy Efficiency Centre of Georgia.

Mr. Abulashvili kicked-off discussion by asking participants *“Which expectations do you have on voluntary agreements and incentive schemes?”* and called on industry participants to indicate and prioritize areas for energy efficiency interventions within their companies. Using flipcharts for different categories of interventions and coloured stickers for priority levels (**Green = 1st priority**, **Yellow = 2nd priority** and **Red = 3rd priority**) companies participants were asked to map their priorities to the different categories. Each company Results were as follows:

- Flipchart 1 –Technologies improvement/add-on – **4 Greens, 3 Yellows**
- Flipchart 2 –Technologies replacement, upgrade – **1 Green, 2 Yellows**
- Flipchart 3 – Management, optimization – **1 Green, 1 Yellow, 5 Reds**
- Flipchart 4 – All others, e.g. ecology, etc. – **2 Greens, 2 Yellows, 2 Reds**

The prioritising of the types of energy efficiency interventions showed that for most companies improvement of existing technologies through equipment adds-on has the highest priority (4 companies) and for other 3 companies it was 2nd priority. The category of interventions that is considered of lowest priority was the one related to the improvement of management practices and optimization of operations, selected as 3rd priority by 5 companies.

Mr. Abulashvili invited then companies’ and other representatives to think of incentives and asked to indicate *“which kind of support should be provided by the Ministry/State to assist/help companies with implementation of energy efficiency interventions”* For the three categories of incentives defined, results were as follows:

- Flipchart 1: Incentives – Technical assistance
 - Feasibility studies
 - Energy efficient procurement
 - Training and expert advice in day ahead electricity markets
- Flipchart 2: Incentives - Fiscal measures
 - Introduction of electricity/energy self-generation
 - Special taxation for self-generation: The company that has self-generation is paying the transmission/dispatching and some other fees for the services that they are not using
 - Optimisation of energy bills: the companies operating under the new electricity law (on the power exchange market) mentioned that the billing procedure should be

optimised: they get the information of the price for kWh electricity at the end of each calendar month while energy consumption and the planning procedure start with the beginning of each calendar month. So companies would prefer to know the indicative costs for energy at the beginning of each month.

- Flipchart 3: Incentives – Financial incentives/ Attraction of funds
 - Low interest rates
 - Longer loans' tenor
 - Grant contributions for technical assistance or capital investments
 - Green Climate Fund (GCF) and other international multilateral/bilateral source of funds: Maia Tskhvaradze from the Ministry of Environmental Protection and Agriculture mentioned that EBRD with the GCF provides loans with lower interest rates as benefit for green cities with the horizon of 40 years. It must be checked if this fund is also applicable for industry. Private banks in Georgia should have direct access to these tenders.
 - Soft and/or grant financing for developing on-site generation.

The discussion of the working group showed that lower interest rates on commercial financing could be an incentive. Discussion also highlighted that one of the current most acute and problematic issue for large companies is electricity price; companies have difficulty to find lower price electricity for their production processes. Contracting is also an issue. At the same time the price of electricity is calculated on 15th of the following month that is also a problem for the company. Mr. Giorgi Sirbiladze from ESCO informed about latest developments in the day ahead electricity market. Several companies' representatives mentioned their difficulties in forecasting electricity demand for days or weeks ahead (also because of unplanned interruptions of production, not that rare in companies) as well as in estimating electricity cost and budget for forthcoming months. Representatives from MOESD highlighted the important topic of energy efficiency and green procurement. Mostly cheapest equipment is bought by companies and organizations without evaluating energy efficiency and lifetime operational costs, and at the moment there is a gap in legislation regarding green procurement.

A question asked by the audience was *“Could also energy efficient procurement be part of voluntary agreements?”* Mr. Matteini mentioned that EE procurement could be part of voluntary agreements and pointed to the example of Sweden previously shown. Within the Swedish PFE voluntary agreement scheme, during the first 2 years participating companies had to carry out an energy audit, introduce an energy management system and establish routines for purchasing and planning. During the following 3 years period companies had to apply EnMS, routines and implement energy efficiency measures. Tax exemption was indicated by companies as an attractive “carrot” for participation in a voluntary agreement scheme. Free economic zones were also mentioned. The discussion revealed also that a number of companies have not done yet energy audits to find out their energy baselines and potential for improvements.

The electricity market is not liberalised yet, the process is ongoing. Also this is not targeting midterm. Representatives from ESCO mentioned that they are now starting with simulations on different scenarios reg. the liberalisation framework. The feedback from the companies was that it is very important to stay with day ahead.

During the afternoon session Ms. Gabriele Brandl from the Austria Energy Agency presented different examples of what is considered best practice and good practice on energy efficiency in Austria. Defining what to consider additional to existing baseline energy efficiency practices is a key step in the design of any voluntary agreement scheme. Ms. Brandl presented also minimum energy efficiency practices, where in the Austrian's context minimum energy efficiency practice is also called state of the art / baseline practice. Georgia has to define in a first step the baseline for energy efficiency for companies (therefore also a secondary legislation on energy audits is needed) and in a second step the Georgian government should be defined what is better energy efficiency practice as input for voluntary agreements.

Ms. Tamar Tsukilashvili from Tbilisi Transport Company (TTC) presented the implementation of an energy management system (EnMS) in the metro department of TTC. The company introduced an energy policy and appointed an energy manager. TTC currently is implementing several projects on energy efficiency, namely modernization of lighting system (replacement by LED lighting), ventilation systems update and full renovation of the metro cables. The company is permanently working on encouraging energy efficiency ideas and raising employees' awareness. Additional energy management and efficiency measures under discussions include:

- procurement of trains equipped with modern systems,
- frequency converters for escalator electric motors,
- training of train-drivers on eco-driving and compliance with set driving modes
- construction of a new train depot: several distances to be covered by the trains are reduced which causes savings in electricity consumption and costs.

TTC has already results from its EnMS-ISO 50001 implementation activities. Modernization of the lighting system saved half of baseline electricity consumption on lighting and provided a simple rate of return on investment of 1.45 years.



Annex I – List of Participants

Partner organizations					
N	Name	Position	Organization	Phone	E-mail
Companies					
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Government Officials					
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13.	Natalia Jambuaria	Head of EE Division	MoE&SD		
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