



Georgia's Energy Sector Electricity Market Watch

Georgia | Energy
Monthly Bulletin
October 5, 2015

Georgia has set out to become a major electricity transit hub in the coming 10 years, with an additional 5,000MW of transmission capacity and an additional 1,700km of high voltage transmission lines, based on the Ministry of Energy's 10-year transmission capacity development plan. Projected investments in the transmission grid over the next decade amount to EUR 623mn-824mn. Upgraded infrastructure would allow for the integration of new HPPs with more than 4,000MW of installed capacity into the transmission network.

Additional installed capacity of 230MW has been added to the grid in form of a combined cycle TPP in Gardabani. Georgian National Energy and Water Supply Commission (GNERC), the market regulator, issued an operating license for the Gardabani TPP to Georgian Oil and Gas Corporation in the beginning of September 2015.

A country-wide hike in the consumer tariff of 30% on average. Due to the recent currency devaluation and increased input prices for TPP-generated electricity, two main distribution license holders have applied for tariff revisions. Energo-Pro Georgia applied for a GEL 0.048 increase in consumer tariffs, but the regulator only allowed an increase of GEL 0.0348. Telasi also submitted a tariff revision proposal and obtained a 30% increase on average both for residential and commercial/industrial consumers.

Table 1: Electricity market highlights

Weighted average price of electricity in Georgia, August*	USc 5.9/kWh
Weighted average price of electricity in Turkey, August*	USc 5.7/kWh
HPP generation, 8M15	6,200gWh
TPP generation, 8M15	1,200gWh
Imports, 8M15	326gWh
Exports, 8M15	604gWh
Domestic consumption, 8M15	7,090gWh
Y/Y increase in consumption and exports, 8M15	7%

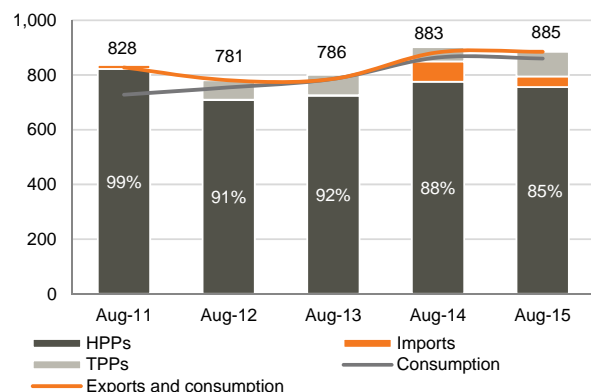
*Average exchange rates in August: GEL/US\$ = 2.3199; TRY/US\$ = 2.8456

Electricity Generation, Consumption, and Exports

Electricity consumption was flat y/y in August 2015. This was mainly due to a significant drop in consumption by direct customers (users with consumption over 7gWh/year). Even though direct consumers accounted for only 9% of total consumption, the 42% y/y drop could not be offset by the 7% y/y increase in retail and commercial consumption via distribution license holders. 8M15 figures are on the rise, with a 7% y/y increase in total consumption.

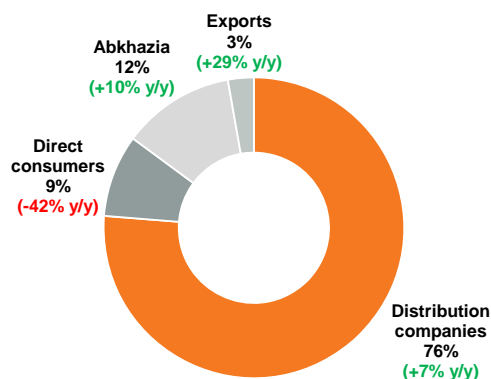
Electricity exports increased 29% y/y in August 2015 and accounted for 3% of total electricity generation. 100% of exports were directed to Turkey.

Figure 1: Electricity generation and consumption, gWh



Source: ESCO

Figure 2: Electricity consumption breakdown, August 2015



Source: ESCO

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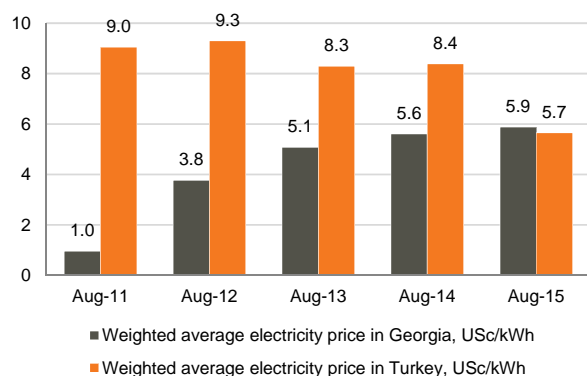


Electricity Prices in Georgia and Turkey

Upward pressure on electricity prices in Georgia has subsided. Prices have been at a record high since the beginning of the year. The winter prices spiked due to the currency depreciation, which started in December, and increased the price of gas (in GEL terms) used to power the thermal power plants as well as the price of imported electricity. In the summer months, there was an increase in the price of electricity supplied by privately owned HPPs. As Abkhazia increases its consumption of cheap electricity from the conventional dams, the demand for private HPP-generated electricity will keep rising in line with the rise in domestic and foreign demand, which will in turn contribute to a demand-driven rise in electricity prices. The price increase in August was almost 5% y/y.

Downward pressure on electricity prices on the Turkish market has eased, after a significant drop in prices since December 2014. Despite the temporary dip in prices on its local market, Turkey still imported a record-high amount of electricity from Georgia in 8M15 (285gWh). Electricity exports from Georgia to its electricity trade partners in 8M15 hit the highest volume since 8M11, reaching 604 gWh worth US\$ 23mn in export revenue.

Figure 3: Weighted average electricity prices in Georgia and Turkey, US\$/kWh



Source: ESCO, PMUM

Table 2: Y/Y changes in electricity prices in Georgia and Turkey, US\$/kWh

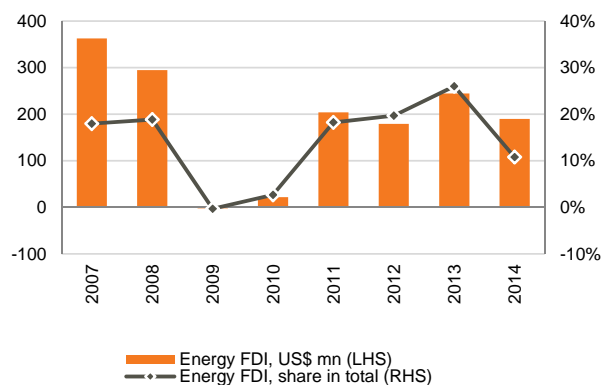
US\$ / kWh	Electricity prices in Turkey	% change, price y/y	Electricity prices in Georgia	% change, price y/y
Jan-15	7.69	3%	6.88	8%
Feb-15	5.91	-25%	7.34	14%
Mar-15	4.96	-21%	6.79	6%
Apr-15	3.77	-50%	6.04	-2%
May-15	4.17	-44%	3.40	400%
Jun-15	4.67	-36%	3.54	427%
Jul-15	5.16	-39%	3.99	8%
Aug-15	5.66	-33%	5.88	5%

Source: ESCO, PMUM

FDI in the Energy Sector

Energy sector was the third largest FDI recipient in 2014. National Statistics Office of Georgia (GeoStat) released the final numbers for FDI in the energy sector in 2014. The sector accounted for 11% of total FDI at US\$ 190mn, down 22% y/y.

Figure 4: FDI in the energy sector and its share in total FDI



Source: Geostat



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