



Georgia's Energy Sector Electricity Market Watch

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On January 14th, Turkey became the first observer member of the European Network of Transmission System Operators for Electricity (ENTSO-E), a status that Georgia is aspiring to currently. ENTSO-E is currently assessing the relevance of granting observer member status to other non-EU TSOs. Observer member status allows the TSO to attend ENTSO-E task force meetings and adds credibility to the country's grid operations. Turkey started the process of synchronization in 2000 and joined in January 2016. Turkey and Georgia have a long-term energy cooperation agreement, whereby Turkey shares its experience in ENTSO-E integration process with Georgia. We believe that Georgia will be able to cover the same path in a shorter time span, due to the accelerated rate of reform implementation and initial approximation with the first and second energy packages. However, a substantial amount of work remains to be done. Georgia's 10-year transmission development plan is a significant step forward in increasing grid reliability and system credibility.

Electricity market highlights

Balancing price of electricity in Georgia, December*	USc 5.5 / kWh
Weighted average price of electricity in Turkey, December*	USc 5.8 / kWh
Average export price for Georgian electricity, December*	No exports
Average import price for electricity, December*	USc 5.8 / kWh
Y/Y increase in domestic consumption in kWh, 2015	2.8 %
Y/Y increase in exports in kWh, 2015	21.1 %
Y/Y increase in exports to Turkey in kWh, 2015	77.4 %

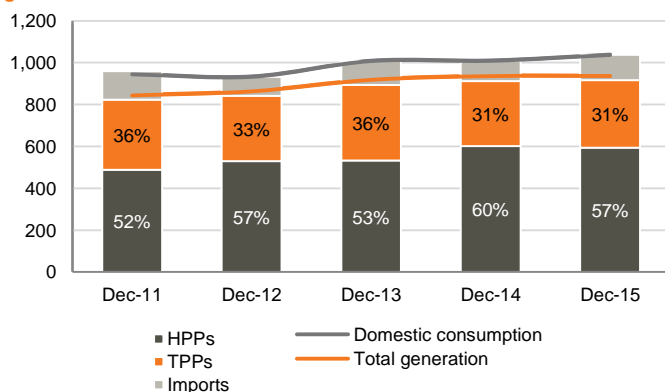
*Average exchange rates in December: GEL/US\$ = 2.3992; TRY/US\$ = 2.9172

Electricity Generation, Consumption and Exports

Domestic electricity consumption was up 2.8% y/y in December 2015. As there were no exports in December, total consumption increased by the same percentage. Consumption by the Abkhazian region was up 16.4% y/y, representing 22.8% of total domestic consumption, while consumption by eligible consumers was down 27.8% y/y. Distribution network operators (DNO) accounted for 68.6% of total electricity supplied to the domestic grid, up 4.6% y/y in December 2015. Overall, domestic consumption in 2015 was up 2.2% y/y, with the Abkhazian region growing the fastest (+16.9% y/y), followed by the DNOs (+5.5% y/y), which represent residential and commercial consumption. The downward pressure in 2015 was exerted by the drop in consumption by eligible consumers, largely Georgian Manganese (GM), whose consumption is down 36.4% y/y in December and 20.3% y/y in 2015. GM accounted for 2/3 of direct consumption in 2015. GM's reduced electricity consumption is due to a drop in its production resulting from reduced world prices on alloys. On January 20th, GM halted mining operations for four months due to low demand, so its electricity consumption is expected to stay low over the next few months. GM accounted for 8.6% (0.89tWh) of total domestic consumption in 2015 as compared to 10.6% (1.12tWh) in 2014.

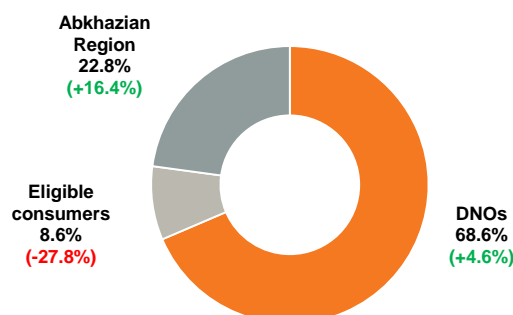
Electricity generation was flat in December 2015, with HPP generation down 1.7% y/y and TPP generation up 3.6% y/y. To fill the deficit, Georgia imported 123gWh (+23.8 y/y) from Russia at an average price of USc 5.8/kWh. The decrease in HPP generation was due to a 5.9% fall in regulated seasonal HPP production, likely resulting from low precipitation. Regulated seasonal HPPs represent 1/3 (32.2%) of total HPP generation.

Figure 1: Electricity generation, imports and consumption, gWh



Source: ESCO

Figure 2: Domestic consumption and exports, December 2015



Source: ESCO

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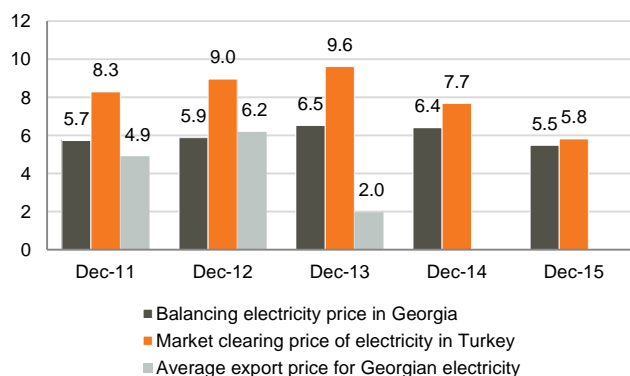
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Electricity Prices in Georgia and Turkey

Georgian electricity remains competitive for the Turkish market, despite an 8.8% y/y increase in December in the balancing electricity price in GEL terms. In US\$ terms, prices are down 14.5% y/y. Increase in the GEL price of balancing electricity was mainly caused by a 23.8% y/y increase in the amount of imported electricity. In Turkey the market clearing price in December was down 3.7% y/y in TRY terms and 24.5% y/y in US\$ terms, in line with the downward trend throughout 2015.

Figure 3: Electricity prices in Georgia and Turkey, US\$/kWh



Source: ESCO, EPIAS



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