



Georgia's Energy Sector Electricity Market Watch

Georgia | Energy
Monthly Bulletin
December 10, 2015

GNERC set the guaranteed capacity (GC) fee for the Gardabani TPP at GEL 366,173 - 7x higher than the average GC fee for other TPPs. The GC fee is a fixed per diem fee for maintaining a TPP in standby mode. Gardabani TPP, a state-owned entity (GOGC – 51%, Partnership Fund – 49%), has been operational since September 2015. The second tier of the tariff, the price of actual electricity supplied, was set at GEL 0.067/kWh, 30% less than the average for the three other TPPs supplying the grid with gas-powered electricity. The tariffs are set for 13 months, through the end of December 2016. Gardabani TPP has signed a gas purchase agreement with SOCAR at a price of US\$ 143.0/mcm, nearly half the average commercial gas price. G-Power TPP is next in line for tariff recalculation, currently receiving a GC fee of GEL 42,360 and a per kW tariff of GEL 0.075 (nearly 30% lower than the others, excluding Gardabani). Application review will be finalized in December 2015. GNERC will also recalculate the distribution, consumption, and pass-through tariffs for the distribution license holder, Energo-Pro Georgia.

Electricity market highlights

Weighted average price of electricity in Georgia, October*	USc 5.2 / kWh
Weighted average price of electricity in Turkey, October*	USc 4.8 / kWh
Average export price for Georgian electricity, October*	USc 4.2 / kWh
Average import price for electricity, October*	USc 5.0 / kWh
Y/Y increase in domestic consumption in kWh, 10M15	1.3 %
Y/Y increase in exports in kWh, 10M15	26.6 %
Y/Y increase in exports to Turkey in kWh, 10M15	48.4 %

*Average exchange rates in October GEL/US\$ =2.3928; TRY/US\$=2.9300

Georgian State Electrosystem (GSE) will earn GEL 500,000 in electricity transit fees as Georgia becomes an electricity bridge between Azerbaijan and Turkey starting January 2016. Georgia acting as a transit country for Azeri electricity directed to the Turkish market underlines the importance of regional cooperation in matters of energy security and trade. Georgia is also a potential transit country for Russian electricity directed to Armenia. Cooperation possibilities were discussed in meetings with the President and the Minister of Energy of Armenia during their visit in November. Georgian-Armenian transmission capacity is expected to increase by 700MW after the construction of the new transmission line between Georgia and Armenia and the Ayrum back-to-back station is completed. This creates additional opportunities for Georgian electricity exporters. Notably, over 1/3 of Armenia's electricity supply comes from the Metsamor nuclear power plant, which, according to the International Energy Agency (IEA), needs to be refurbished in the coming two years to remain operational; Georgia could provide some of the imported electricity that Armenia will likely resort to.

Electricity Generation, Consumption and Exports

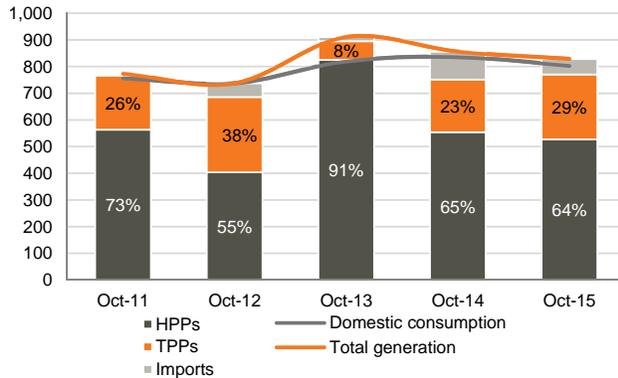
Electricity consumption was down 3.9% y/y in October 2015, mainly due to a 42.2% y/y drop in consumption by direct consumers (users with consumption of over 7gWh/year). The major contributor to the drop was Georgian Manganese; its electricity consumption declined 52.6% y/y in October 2015 and its share in total consumption fell from 11.3% in October 2014 to 6.2% in October 2015. Even though direct consumers accounted for only 9.6% of total consumption, the decrease could not be offset by the 4.6% y/y increase in retail and commercial consumption via distribution license holders. 10M15 consumption figures are on the rise, with a 1.3% y/y increase in total domestic consumption and a 26.7% y/y increase in exports.

Electricity generation increased 2.5% y/y on the back of expanded TPP output, up 23.4% y/y, while HPP-generated electricity declined 4.9% y/y in October 2015 due to low precipitation. TPP-generated electricity represented 29% of the country's energy balance, up from 23% in October 2014. Gardabani TPP accounted for nearly 1/3 of total TPP generation, while Mtkvari TPP provided the rest. Imports were down 44.2% y/y, with TPP-generated electricity displacing imports. 2/3 of the imported electricity came from Russia, with the rest coming from Armenia.



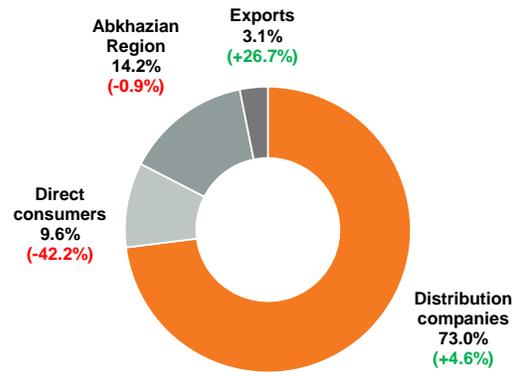
Electricity exports increased 26.7% y/y in October 2015 and accounted for 3.1% of total electricity generation. 100% of exports were directed to Turkey. In 10M15, exports to Turkey increased 48.4% y/y to 311gWh, while total exports increased 26.6% y/y to 655.7gWh, generating export revenue of US\$ 24.6mn. Total export revenue in October 2015 decreased 18.2% y/y in US\$ terms, as average export price was down 35.4% y/y in US\$ terms to USc 4.19 as a result of the currency depreciation.

Figure 1: Electricity generation and consumption, gWh



Source: ESCO

Figure 2: Electricity consumption breakdown, October 2015

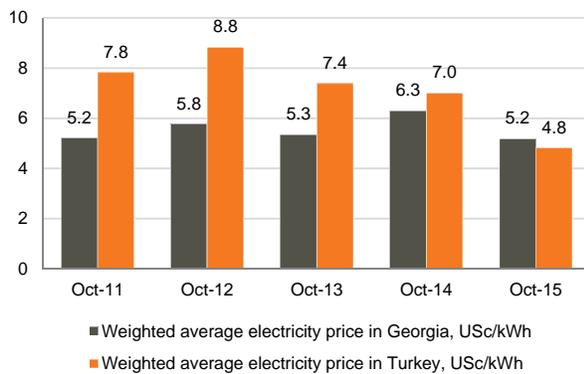


Source: ESCO

Electricity Prices in Georgia and Turkey

Electricity prices in Georgia declined 17.8% y/y in US\$ terms in October 2015, while prices increased 12.2% in GEL terms, largely due to the 36.4% y/y appreciation of US\$ against GEL in October 2015. This caused a corresponding decline in average electricity export price to Turkey in US\$ terms. Electricity prices in Turkey declined 10.8% in TRY terms; a 31.3% y/y decline in US\$ terms was also largely attributable to the national currency depreciation.

Figure 3: Weighted average electricity prices in Georgia and Turkey, USc/kWh



Source: ESCO, EPIAS



Disclaimer

This document is strictly confidential and has been prepared by JSC Galt & Taggart ("Galt & Taggart"), a member of JSC Bank of Georgia group ("Group") solely for informational purposes and independently of the respective companies mentioned herein. This document does not constitute or form part of, and should not be construed as, an offer or solicitation or invitation of an offer to buy, sell or subscribe for any securities or assets and nothing contained herein shall form the basis of any contract or commitment whatsoever or shall be considered as a recommendation to take any such actions.

Galt & Taggart is authorized to perform professional activities on the Georgian market. The distribution of this document in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by Galt & Taggart to inform themselves about and to observe any and all restrictions applicable to them. This document is not directed to, or intended for distribution, directly or indirectly, to, or use by, any person or entity that is a citizen or resident located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction.

Investments (or any short-term transactions) in emerging markets involve significant risk and volatility and may not be suitable for everyone. The recipients of this document must make their own investment decisions as they believe appropriate based on their specific objectives and financial situation. When doing so, such recipients should be sure to make their own assessment of the risks inherent in emerging market investments, including potential political and economic instability, other political risks including without limitation changes to laws and tariffs, and nationalization of assets, and currency exchange risk.

No representation, warranty or undertaking, express or implied, is or will be made by Galt & Taggart or any other member of the Group or their respective directors, employees, affiliates, advisers or agents or any other person as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of this document and the information contained herein (and whether any information has been omitted from this document) and no reliance should be placed on it. This document should not be considered as a complete description of the markets, industries and/or companies referred to herein. Nothing contained in this document is, is to be construed as, or shall be relied on as legal, investment, business or tax advice, whether relating to the past or the future, by Galt & Taggart any other member of the Group or any of their respective directors, employees, affiliates, advisers or agents in any respect. Recipients are required to make their own independent investigation and appraisal of the matters discussed herein. Any investment decision should be made at the investor's sole discretion. To the extent permitted by law, Galt & Taggart, any other member of the Group and their respective directors, employees, affiliates, advisers and agents disclaim all liability whatsoever (in negligence or otherwise) for any loss or damages however arising, directly or indirectly, from any use of this document or its contents or otherwise arising in connection with this document, or for any act, or failure to act, by any party, on the basis of this document.

The information in this document is subject to verification, completion and change without notice and Galt & Taggart is not under any obligation to update or keep current the information contained herein. The delivery of this document shall not, under any circumstances, create any implication that there has been no change in the information since the date hereof or the date upon which this document has been most recently updated, or that the information contained in this document is correct as at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. No representation or warranty, expressed or implied, is made by Galt & Taggart or any other member of the Group, or any of their respective directors, employees, affiliates, advisers or agents with respect to the accuracy or completeness of such information.

The information provided and opinions expressed in this document are based on the information available as of the issue date and are solely those of Galt & Taggart as part of its internal research coverage. Opinions, forecasts and estimates contained herein are based on information obtained from third party sources believed to be reliable and in good faith, and may change without notice. Third party publications, studies and surveys generally state that the data contained therein have been obtained from sources believed to be reliable, but that there is no guarantee of the accuracy or completeness of such data. Accordingly, undue reliance should not be placed on any such data contained in this document. Neither Galt & Taggart, any other member of the Group, nor their respective directors, employees, affiliates, advisers or agents make any representation or warranty, express or implied, of this document's usefulness in predicting the future performance, or in estimating the current or future value, of any security or asset.

Galt & Taggart does, and seeks to do, and any other member of the Group may or seek to do business with companies covered in its research. As a result, investors should be aware of a potential conflict of interest that may affect the objectivity of the information contained in this document.

This document is confidential to clients of Galt & Taggart. Unauthorized copying, distribution, publication or retransmission of all or any part of this document by any medium or in any form for any purpose is strictly prohibited.

The recipients of this document are responsible for protecting against viruses and other destructive items. Receipt of the electronic transmission is at risk of the recipient and it is his/her responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Head of Research

Nino Papava | n.papava@gt.ge

Chief Economist

Koba Gvenetadze | kgvenetadze@gt.ge

Economist

Eva Bochorishvili | evabochorishvili@gt.ge

Economist

Alim Hasanov | ahasanov@gt.ge

Senior Associate

Giorgi Iremashvili | giremashvili@gt.ge

Analyst

David Kutidze | dkutidze@gt.ge

Senior Analyst

David Niniklashvili | dniniklashvili@gt.ge

Analyst

Tamara Kurdadze | tkurdadze@gt.ge

Address: 79 D. Agmashenebeli Avenue, Tbilisi 0102, Georgia

Tel: + (995) 32 2401 111

Email: research@gt.ge