



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%

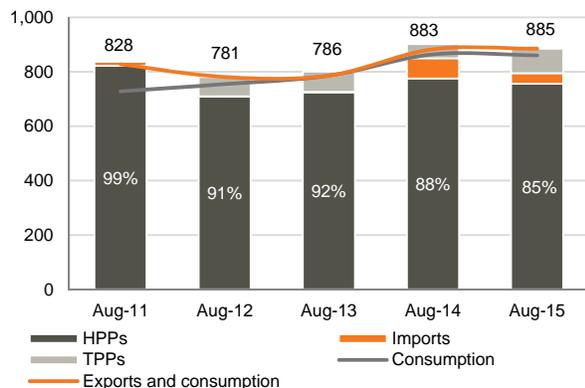
*Average exchange rates in August: GEL/US\$ = 2.3199; TLY/US\$ = 2.8456

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.

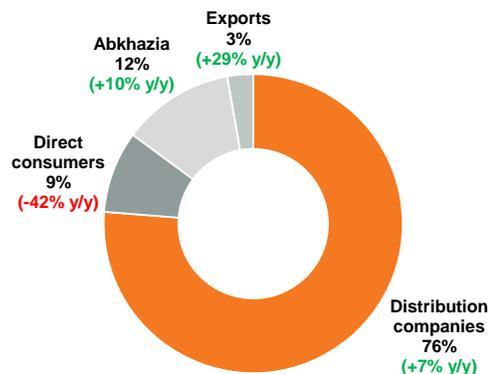
Electricity exports increased 29% y/y in August 2015 and accounted for 3% of total electricity generation. 100% of exports were directed to Turkey.

Figure 1: Electricity generation and consumption, gWh



Source: ESCO

Figure 2: Electricity consumption breakdown, August 2015



Source: ESCO

Nino Papava
Head of Research | n.papava@gt.ge | +995 322 401 111 ext.4693

Tamara Kurdadze
Analyst | tamarkurdadze@gt.ge | +995 322 401 111 ext.4298

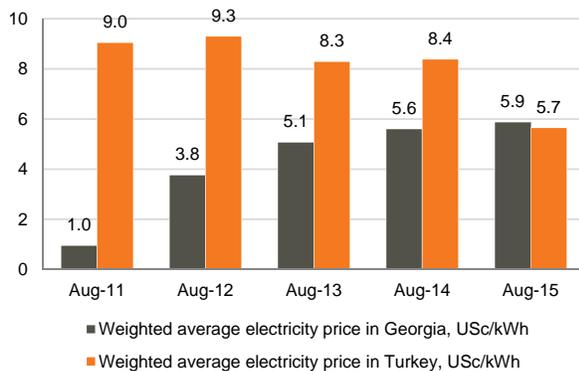


Electricity Prices in Georgia and Turkey

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

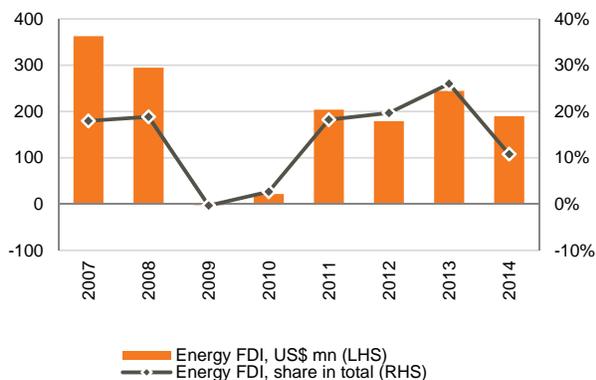
USc / kWh	Electricity prices in Turkey	% change, price y/y	Electricity prices in Georgia	% change, price y/y
Jan-15	7.69	3%	6.88	8%
Feb-15	5.91	-25%	7.34	14%
Mar-15	4.96	-21%	6.79	6%
Apr-15	3.77	-50%	6.04	-2%
May-15	4.17	-44%	3.40	400%
Jun-15	4.67	-36%	3.54	427%
Jul-15	5.16	-39%	3.99	8%
Aug-15	5.66	-33%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



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

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

Analyst

David Niniklashvili | dniklashvili@gt.ge

Analyst

Tamar Kurdadze | tamarkurdadze@gt.ge

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

Tel: + (995) 32 2401 111

Email: research@gt.ge