



# Georgia's Energy Sector Electricity Market Watch

Georgia | Energy  
Monthly Bulletin  
January 6, 2016

## GNERC sets new tariffs for generation, transmission, dispatch and distribution for the regulation period January – December, 2016.

Selected generation facilities (some HPPs/all TPPs), the transmission and dispatch licensee (GSE), and all distribution network operators (DNOs) fall under the status of a regulated entity. 9 regulated HPPs, currently owned and operated by Energo-Pro Georgia – one of the three DNOs in the country - got their tariffs revised (See Table 1). New tariffs are set so as to cover the capital and operating expenditures for the year 2016 and deliver a margin pre-determined by GNERC. Guaranteed capacity (GC) fees and per kWh generation tariffs for TPPs were also revised (See Table 2). The transmission tariff for GSE was reduced to GEL 0.00754 (-0.5%) and the dispatch fee was reduced to GEL 0.00098 (-3.9%) per kWh. The cross-border transmission licensee, Energotrans, had its tariffs increased for the 500kV domestic grid to GEL 0.0042/kWh (+55.6%) and reduced for the 400kV export line to GEL 0.0029/kWh (-17.1%). Revised tariffs are in effect through December 31, 2016.

## Electricity market highlights

Weighted average price of electricity in Georgia, November*	USc 5.5 / kWh
Weighted average price of electricity in Turkey, November*	USc 4.7 / kWh
Average export price for Georgian electricity, November*	USc 4.2 / kWh
Average import price for electricity, November*	USc 5.8 / kWh
Y/Y increase in domestic consumption** in kWh, 11M15	3.4%
Y/Y increase in exports in kWh, 11M15	23.7%
Y/Y increase in exports to Turkey in kWh, 11M15	39.4%

\*Average exchange rates in November GEL/US\$=2.4017; TRY/US\$=2.8712

\*\* Including Abkhazian Region

**Table 1: Revised tariffs for generation, transmission and dispatch for selected entities**

HPP	Revised tariff, GEL/kWh	Change
Satskhenisi HPP	0.062	+164.8%
Ortachala HPP	0.025	No change
Atshesi HPP	0.041	+5.6%
Rioni HPP	0.038	+9.3%
Gumati HPP	0.024	-34.5%
Lajanuri HPP	0.021	-45.7%
Dzevrula HPP	0.028	-28.2%
Shaori HPP	0.026	-32.3%
Zahesi HPP	0.052	+268.0%

Source: GNERC

**Table 2: Revised tariffs for TPPs**

TPP	Revised GC fee, GEL/day	Change	Revised generation tariff, GEL/kWh	Change
G-Power TPP (110MW)	41,671	-1.6%	0.085	+12.3%
Mtkvari Energetika TPP (300MW)	59,957	-6.0%	0.108	-1.1%
Tbilsresi (300MW)	49,400	+10.5%	0.113	+10.9%

Source: GNERC

**A 433MW installed capacity cascade, Namakhvani HPP, should be granted a construction permit in the beginning of 2016** and is up for open EOI starting December 25, 2015. The Namakhvani cascade will consist of two HPPs with estimated annual generation of 1,514GWh and estimated initial investment cost of US\$ 730mn. The project implementation model will be a BOO (Build-Operate-Own). The cascade project is currently owned by GEDF, a state-owned energy investment fund.

**The energy sector is the second largest recipient of FDI in Georgia with almost US\$ 860mn invested over the past five years.** At 15% of total FDI, it is second only to the transport and communication sector (23.4% of total over the past five years). The bulk of the energy FDI falls on the electricity generation sector. Over the past three years, US\$ 283mn was invested in HPPs through which an additional 170MW of installed capacity was added to the grid, according to the Ministry of Energy. Commercial banks are actively involved in the development, with over US\$ 100mn of financing made available over the past three years.

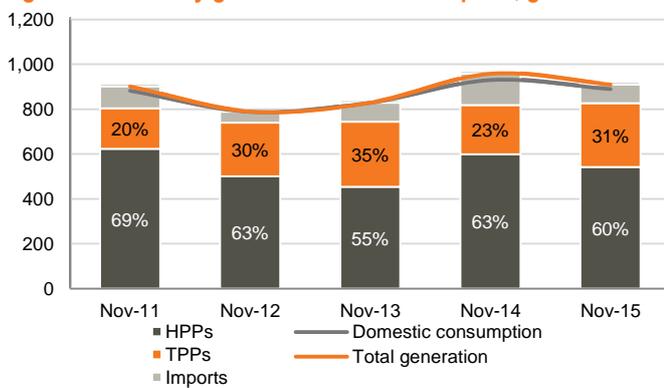


### Electricity Generation, Consumption and Exports

**Electricity consumption was down 4.3% y/y in November 2015.** The only rise in consumption (+7.1% y/y) was observed in the Abkhazian Region, which accounted for 20% of total electricity consumed in November 2015. In 11M15, the Abkhazian Region accounted for 16.7% of total domestic consumption, in line with its share over the past five years, but the growth rate of consumption more than doubled, reaching almost 10% y/y in 11M15. Direct consumers are the key contributors to the decline in Georgian electricity consumption, with direct consumption down 32.1% y/y in November 2015. Domestic consumption is up 3.4% y/y in 11M15. Exports were down 28.1% y/y from 28gWh in November 2014 to slightly over 20gWh in November 2015. Paravani HPP was the sole exporter in November, exporting exclusively to Turkey. Export revenue was down 59.9% y/y in November 2015, bringing down the average export price to USc 4.2 from USc 7.2 in November 2014. Exports are up 23.7% y/y in 11M15.

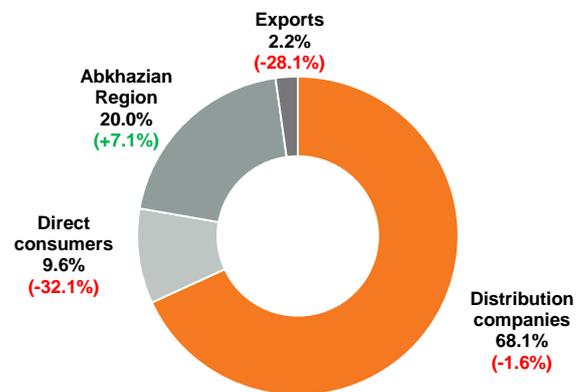
**Electricity generation posted a slight increase of 0.9% y/y in November 2015.** TPP output was up 29.9% y/y, while HPP-generated electricity declined 9.6% y/y due to low precipitation. TPP-generated electricity represented 30% of the country's energy balance, up from 23% in November 2014. Gardabani TPP accounted for nearly 1/3 of total TPP generation, while Mtkvari TPP provided the rest. Imports were down 40.1% y/y, with TPP-generated electricity displacing imports.

Figure 1: Electricity generation and consumption, gWh



Source: ESCO

Figure 2: Electricity consumption breakdown, November 2015

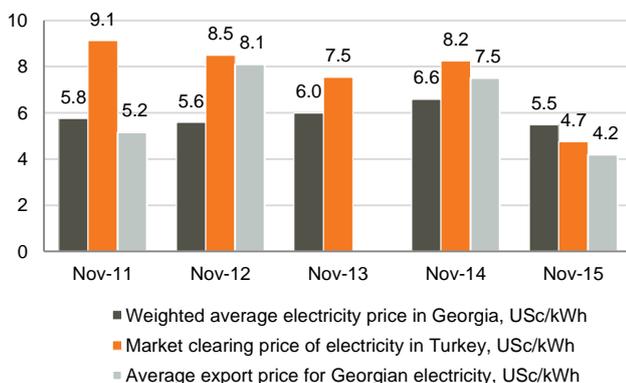


Source: ESCO

### Electricity Prices in Georgia and Turkey

**In November 2015, the weighted average price of electricity on the Georgian market declined 16.9% y/y in US\$ terms,** from a relatively high base in November 2014, but was up 12.3% y/y in GEL terms on the back of the currency depreciation. However, in November 2015, a significant portion of electricity imports were displaced by domestic TPP-generated electricity, easing the pressure on price, as the average price of TPP-generated electricity from the new Gardabani TPP (supplied bulk of TPP electricity to the grid in November) is almost half the import price in GEL terms. Electricity prices in Turkey declined 25.9% y/y in TRY terms and 42.2% y/y in US\$ terms, also largely due to the national currency depreciation. Georgian electricity remains competitive on the Turkish market as the average export price from Georgian suppliers was 11% lower than the market clearing price in Turkey in November 2015.

Figure 3: Electricity prices in Georgia and Turkey



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

### Senior Analyst

David Ninikelashvili | dninikelashvili@gt.ge

### Analyst

David Kutidze | dkutidze@gt.ge

### Analyst

Tamara Kurdadze | tamarkurdadze@gt.ge

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

**Tel:** + (995) 32 2401 111

**Email:** research@gt.ge