



# Georgia's Energy Sector Electricity Market Watch

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On January 14<sup>th</sup>, 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 %

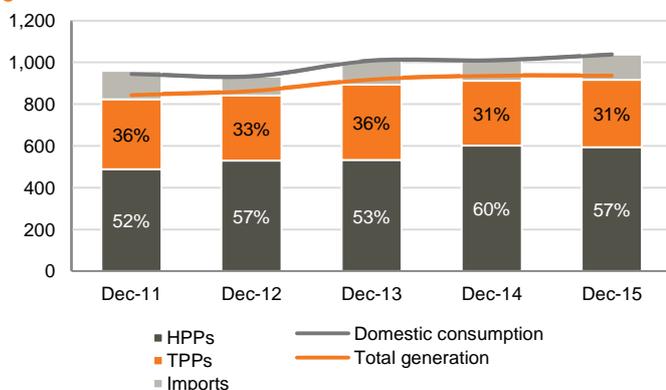
\*Average exchange rates in December GEL/US\$ =2.3992; TRY/US\$=2.9172

### 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 20<sup>th</sup>, 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.

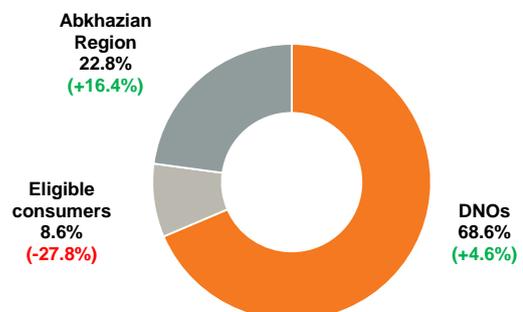
**Electricity generation was flat in December 2015, with HPP generation down 1.7% y/y and TPP generation up 3.6% y/y.** To fill the deficit, Georgia imported 123gWh (+23.8 y/y) from Russia at an average price of USc 5.8/kWh. The decrease in HPP generation was due to a 5.9% fall in regulated seasonal 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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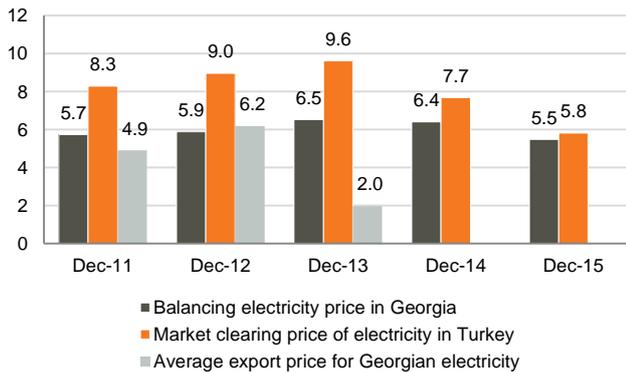
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### Electricity Prices in Georgia and Turkey

**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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