



Georgia's Energy Sector Electricity Market Watch

Georgia | Energy
Monthly Bulletin
June 7, 2016

Inter Rao completed the sale of Mtkvari Energy in May 2016. The thermal power plant, Unit 9, was purchased by a consortium of international investors that includes Georgian Industrial Group (GIG). Identities of the other investors and transaction terms are not yet public. Inter Rao maintains its stakes in hydro generation and grid operation.

Georgian Manganese (GM) resumed mining operations at the end of May 2016. A subsidiary of Georgian American Alloys, GM is the largest eligible consumer on the Georgian electricity market. Domestic electricity consumption growth stalled in 2015 on the back of lower consumption by GM, which reduced its production of silicon manganese when faced with lower global prices and high stock levels. We expect domestic consumption figures to rebound in June as GM's usage returns to earlier levels.

Ministry of Energy has expressed readiness to re-evaluate the PPA policy. The current policy grants new investors in electricity generation multi-year take-or-pay agreements, whereby ESCO, the electricity market operator, purchases their entire output September through April. The IMF mission in November 2015 pointed out that the government guarantees that backstop PPAs should be managed carefully in order to safeguard Georgia's hard-earned fiscal sustainability. The ministry is holding consultations with the IMF to come up with a revised approach.

Inauguration of the Trans-Adriatic Pipeline (TAP) that took place on May 17th in Greece was a significant step forward in the development of the Southern Gas Corridor (SGC). SGC is the corridor through which natural gas will be transported from Azerbaijan through Georgia and Turkey to the EU. TAP is the EU part of the pipeline that will pass through northern parts of Greece to Albania and Italy, with construction expected to last 3.5 years. South Caucasus Pipeline (SCP) is the section of SGC that transports gas from Azerbaijan through Georgia to Turkey. The expansion of SCP (US\$ 2bn investment) is currently in process; upon expected completion in 2018, it will be able to transport an additional 16bcm of natural gas. As a result, Georgia will receive greater volumes of natural gas as an in-kind transit fee.

Electricity Generation, Consumption, and Exports

Domestic electricity consumption was flat in April 2016 and up 1.3% y/y in 4M16. The high consumption growth by the Abkhazian Region in previous months leveled off in March 2016 and usage was down 12.5% y/y in April 2016. Excluding the Abkhazian Region, domestic consumption was up 2.8% y/y in April 2016, largely due to a 6.6% y/y increase in greater Tbilisi area consumption. Consumption by Energo-Pro subscribers was up 3.5% y/y, while Kakheti Energy Distribution (KED) subscriber usage was down 2.5% y/y. Consumption by Georgian Manganese was flat (+0.9% y/y) in April 2016. With the resumption of mining operations on May 20th, we expect GM's consumption to rise significantly in June as compared to the consumption figures in 2015. The increase will have a notable effect on the domestic consumption figure, as GM represents roughly 10% of total consumption. There were no electricity exports in April 2016.

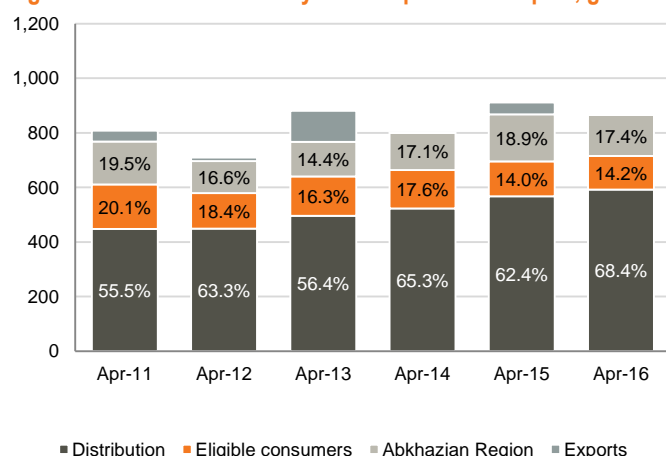
Electricity market highlights

Balancing price of electricity in Georgia, April*	USc 4.7 / kWh
Market clearing price of electricity in Turkey, April*	USc 4.3 / kWh
Average export price for Georgian electricity, April	No exports
Average import price for electricity, April	USc 5.2 / kWh
Y/Y increase in domestic consumption in kWh, 4M16	1.3%
Y/Y increase in exports in kWh, 4M16	No exports
Y/Y increase in exports to Turkey in kWh, 4M16	No exports

*Average exchange rates in April: GEL/US\$ = 2.2652; TRY/US\$ = 2.8347

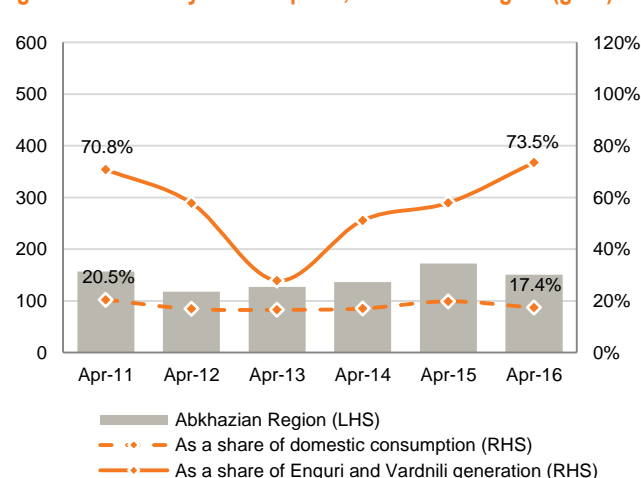


Figure 1: Domestic electricity consumption and export, gWh



Source: ESCO

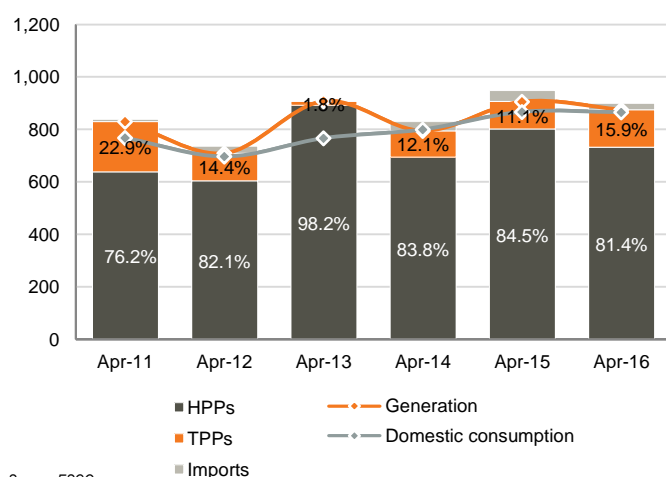
Figure 2: Electricity consumption, Abkhazian Region (gWh)



Source: ESCO

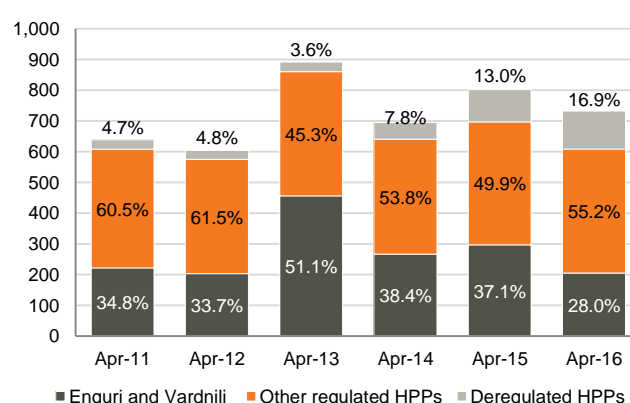
Domestic generation in April 2016 was down 3.4% y/y on the back of lower HPP output. Electricity generation by Enguri and Vardnili, the country's largest HPPs (41% of total installed capacity), was down 31.0% y/y due to low precipitation. TPP generation was up significantly (+36.5% y/y). 79.0% of thermal generation fell on Gardabani CCPP, followed by Tbilisres (Units 3 and 4) and Tkibuli coal. Imports decreased 41.3% y/y, with 93.4% coming from Russia at an average price of US\$ 5.2/kWh. Generation by deregulated HPPs increased 18.4% y/y and the share of deregulated HPPs in the hydro mix increased to 16.9% (vs 13.0% in April 2015). Generation by deregulated HPPs has been on the rise over the last few years as a result of robust development in the hydro generation sector and we expect the upward trend to persist.

Figure 3: Electricity generation, import, and domestic consumption, gWh



Source: ESCO

Figure 4: Hydro generation, gWh



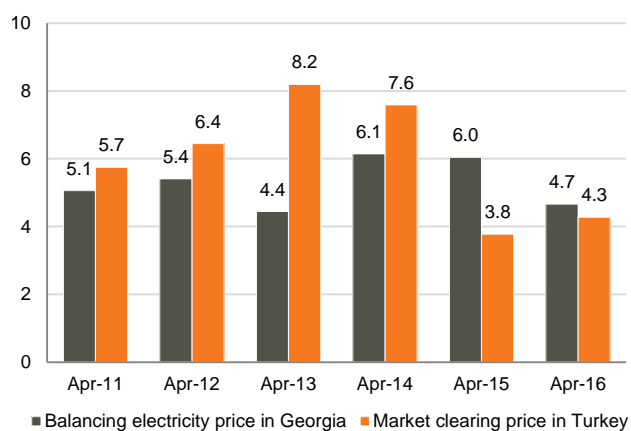
Source: ESCO

Electricity Prices in Georgia and Turkey

The weighted average market clearing price in Turkey increased 13.2% y/y in US\$ terms, after decreasing for 13 straight months, but the increase is largely due to the low base of April 2015, when the market clearing price was down over 50% y/y. Nonetheless, the increase is a positive sign for investors in the energy sector with an eye on the Turkish market. In Georgia, the balancing electricity price decreased 22.8% y/y to US\$ 4.7. 17.6% of total electricity supplied to the grid was traded on the wholesale market (via ESCO), with the rest traded via bilateral contracts. 70% of the balancing electricity price was made up of HPP generation, while TPPs and imports made up 14.2% and 16.1%, respectively.

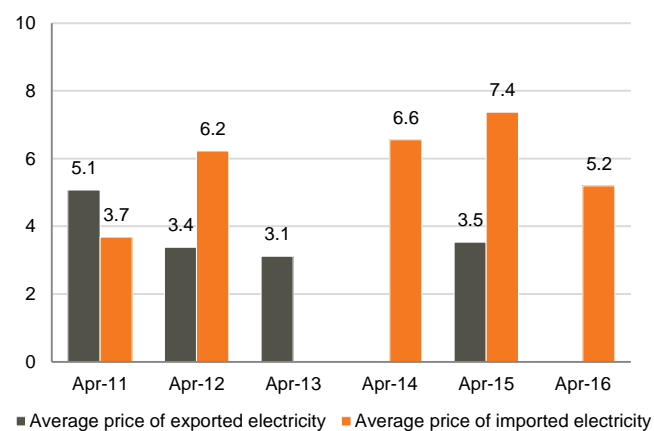


Figure 5: Electricity prices in Georgia and Turkey, US\$/kWh



Source: ESCO, EPIAS

Figure 6: Average prices for imports and exports, US\$/kWh



Source: ESCO, 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 Investment 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

Senior Analyst

David Niniklashvili | dniniklashvili@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