



# Georgia's Energy Sector Electricity Market Watch

Georgia | Energy  
Monthly Bulletin  
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**JSC BGEO Investments, a BGEO Group subsidiary, has signed a Share Purchase Agreement to acquire a 75% equity stake in Georgian Global Utilities Limited (GGU), the parent company of Georgian Water and Power (GWP).** As a result of this buyout, BGEO Group will own 100% of GGU. The transaction values GGU's enterprise value at GEL 287.5mn. BGEO Investments will pay a cash consideration of US\$ 70mn (c.GEL 152.6mn) for the 75% stake in GGU. GGU supplies water and provides wastewater services to up to 1.4mn people in Tbilisi, Mtskheta, and Rustavi. In addition, GGU owns and operates three hydropower generation facilities with a total installed capacity 143 MW.

## Electricity market highlights

Balancing price of electricity in Georgia, May*	USc 4.7 / kWh
Market clearing price of electricity in Turkey, May*	USc 4.2 / kWh
Average export price for Georgian electricity, May*	USc 3.3 / kWh
Average import** price for electricity, May*	USc 1.1 / kWh
Y/Y increase in domestic consumption in kWh, 5M16	1.7 %
Y/Y increase in exports in kWh, 5M16	- 11.8 %
Y/Y increase in exports to Turkey in kWh, 5M16	- 15.6 %

\*Average exchange rates in May GEL/US\$ = 2.1860; TRY/US\$= 2.9266

\*\*Amount of imported electricity in May was negligible (2.7 gWh)

**Negotiations for Georgia's accession to the European Energy Community (EC) have concluded,** according to the Deputy Minister of Energy, Mariam Valishvili. The next step in the process is a discussion of the matter at the EC Council of Ministers in autumn 2016. If membership is approved, Georgia will have to make some changes to align its energy market practices with EU best practices, including changes in the tariff calculation methodology for electricity and natural gas supply, unbundling of generation and distribution, and a move toward a competitive electricity and natural gas market.

**The Khudoni HPP (702 MW) project has been put on hold by the government due to anticipated changes in Georgia's PPA policy.** The project, owned by Indian Transelectrica, was already facing difficulties and has yet to obtain a construction permit. Following the ministry's announcement last month that Georgia will reevaluate the existing PPA policy in accordance with IMF recommendations, government works on the Khudoni project from the government's side are halted before the new policy is drafted.

**Gazprom signs a 100 mmcm delivery contract with a small natural gas distribution license holder, Gasko+.** The contract was signed during the St. Petersburg International Economic Forum on June 16<sup>th</sup> and gas is to be delivered in July-December 2016. Gasko+ is a minor distribution licensee operating in Western Georgia. Notably, annual household consumption of natural gas in Georgia in 2015 amounted to 694 mmcm.

**Partnership Fund intends to invest US\$ 5mn in the Caucasus Clean Energy Fund (CCEF).** CCEF was launched in June 2015 by a US private equity firm, Schulze Global Investments, and is anchored by EIB, GEEREF and Austrian OeEB, according to company sources. The MoU was signed by Schulze Global Investments and the Partnership Fund on June 17<sup>th</sup>, 2016. CCEF is committed to investing in small and medium-sized HPPs in Georgia and has a target to raise US\$ 100mn.

## Electricity Generation, Consumption, and Exports

**Domestic electricity consumption was up 3.8% y/y in May 2016.** The Abkhazian region's consumption remains subdued, with only 1.0% y/y growth in May 2016, albeit from the high base of May 2015 (+31.5% y/y). Excluding the Abkhazian region, Georgia's domestic consumption grew 6.2% y/y, with growth concentrated on the greater Tbilisi area (+11.6% y/y). Consumption by Energo-Pro subscribers was up 3.6% y/y and Kakheti Energy Distribution (KED) subscriber usage was up 1.4% y/y. Consumption by Georgian Manganese, largest eligible consumer, was flat in May 2016, making up 12.5% of domestic consumption. Electricity exports in May 2016 were up 32.0% y/y to 189.9 gWh, with 43.0% of exports (81.7 gWh) going to Russia, 32.1% (61.0 gWh) to Turkey, and 23.8% (45.2 gWh) to Armenia. The average export price of Georgian electricity was USc 3.3/kWh, still competitive in comparison with Turkey's market price of USc 4.2/kWh.

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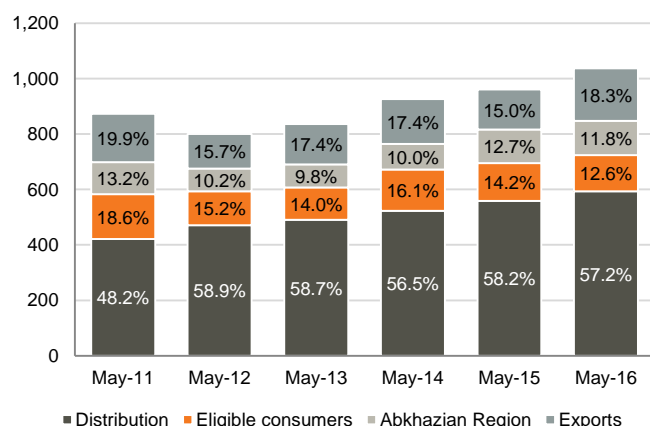
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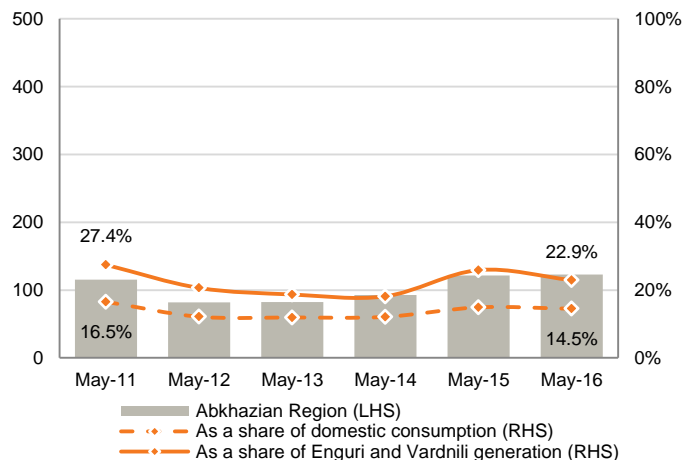


**Figure 1: Domestic electricity consumption and export, gWh**



Source: ESCO

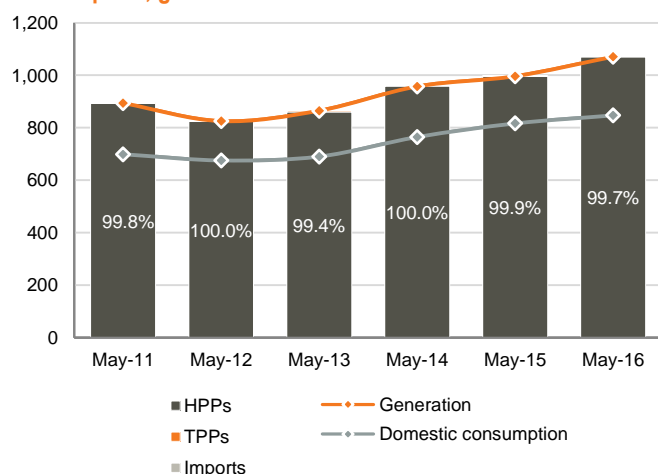
**Figure 2: Electricity consumption, Abkhazian Region (gWh)**



Source: ESCO

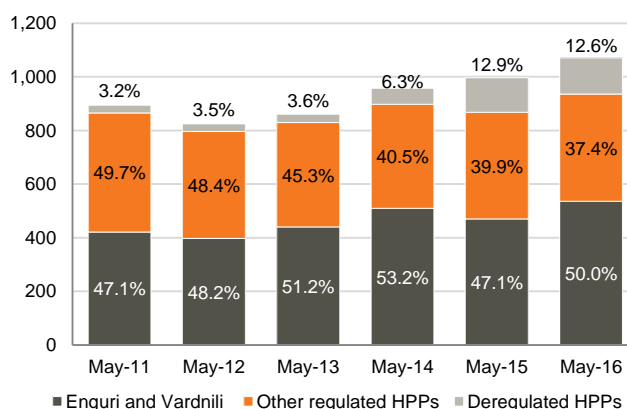
**Domestic consumption needs were fully met by domestic hydrogeneration in May 2016.** Electricity generation by Enguri and Vardnili made up 50% of total consumption. Imports were negligible. Generation by deregulated HPPs increased 4.9% y/y, while regulated seasonal HPP (except Enguri and Vardnili) generation was up 7.9% y/y. The system used no TPP-generated electricity in May 2016; however, the guaranteed capacity sources remained on standby mode, with the exception of Gardabani CCPP (20/31 days on standby) and GIG Unit 3 (0/31 days on standby). As Gardabani CCPP was not on standby for the full month, the GC fee decreased to GEL 0.012/kWh from GEL 0.020/kWh or higher in the previous months of 2016.

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



Source: ESCO

**Figure 4: Hydro generation, gWh**



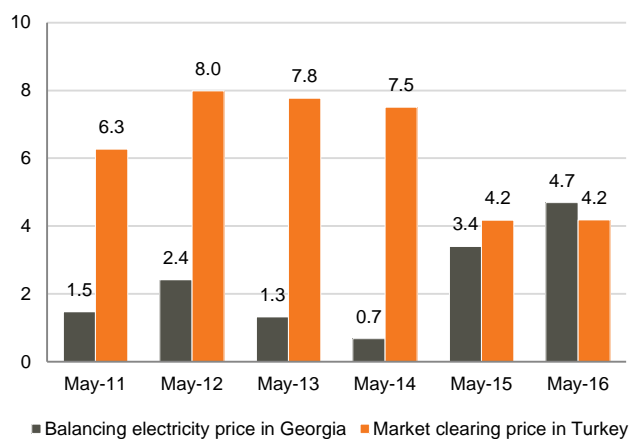
Source: ESCO

## Electricity Prices in Georgia and Turkey

**The weighted average market clearing price in Turkey was flat y/y in US\$ terms, but increased 10.5% y/y in TRY terms.** In Georgia, the balancing electricity price increased 37.9% y/y to US\$ 4.7/kWh. However, the wholesale price of electricity in May is not representative of the market, as a mere 1.7% of total electricity supplied to the grid was traded through the market operator. The rest of the trade occurred through bilateral contracts.

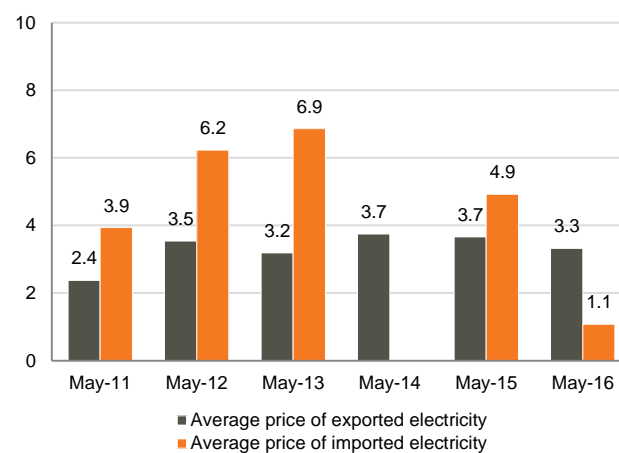


**Figure 5: Electricity prices in Georgia and Turkey, US\$/kWh**



Source: ESCO, EPIAS

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



Source: ESCO, GeoStat



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