



Georgia's Energy Sector Electricity Market Watch

Georgia | Energy
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The construction of Gardabani CCPP II is expected to commence in 2017. The 240MW power plant will replicate the technical characteristics of Gardabani CCPP and cost an estimated US\$ 190.0mn. According to GOGC, six international companies participated in the Expression of Interest stage, but their identities are not public yet. Gardabani CCPP was built by Turkish Calik Enerji Holding.

Turkey's interest in the Georgian energy sector remains strong. Calik

Enerji Holding has expressed interest in building another TPP with GE power, the owner of a 110MW TPP. Calik is also considering the potential of wind power plants to be located in Shida Kartli and Imereti regions, where wind towers have already been installed to monitor wind conditions over a 1-year period. Meanwhile, the official agreement between Georgian and Turkish governments was ratified by the Turkish Parliament, further fostering the energy sector cooperation between Georgia and Turkey.

Inter Rao intends to sell its generation assets – Mtkvari Energy, blocks 9 and 10. The grid (Telasi) is not up for sale. The news has been confirmed by the Deputy Minister of Energy of Georgia and the Chairman of Inter Rao – Boris Kovalchuk. A likely buyer is GIG, which owns 362MW of generation assets, including a 300MW natural-gas fired TPP, small hydro plants, and a 13MW coal TPP, for which it mines its own coal. Recently, the group signed an MoU to construct another coal TPP in Tkibuli, with an installed capacity of 150MW. Successful acquisition of Mtkvari Energy and construction of Tkibuli-150 TPP would make GIG the owner of one-fifth of Georgia's total installed capacity.

Turkey reduces the annual consumption threshold for electricity trading. The eligibility criterion for trading on the day-ahead electricity market has been reduced from 5,000kWh to 3,600kWh annual consumption, theoretically opening up 85.8% of the electricity market to competitive trading. The change is in line with EU best practices and signals Turkey's continuous development towards a more competitive electricity market.

Electricity Generation, Consumption, and Exports

Domestic electricity consumption was up 1.0% y/y in March 2016 and 1.8% y/y in 1Q16. Weaker growth was partly due to the high base in March 2015 and warmer weather compared to March of last year. DNO consumption was up 2.7% y/y in March 2016, as opposed to 8.2% y/y growth in March 2015. Consumption in the greater Tbilisi area (Telasi) grew 5.8% y/y as compared to 12.9% y/y growth in 2015. The growth rate in the regions was even weaker – 1.2% y/y as opposed to 5.1% y/y in March 2015. Despite a decelerated rate of contraction of Georgian Manganese electricity use, consumption by eligible consumers was down 6.7% y/y in March 2016 from an already low base in March 2015 (down 7.0% y/y). Georgian Manganese, representing 81.0% of direct consumption, reduced its consumption 4.7% y/y in March 2016. Consumption by the Abkhazian region was flat (+0.8% y/y), after expanding 7.7% and 7.3% in January and February, respectively. The Abkhazian Region got its full supply of electricity from Enguri and Vardnili, utilizing almost 100% of their generation in March. Georgia had to import additional electricity from Russia to fill the deficit in the region in the last couple months, so the halted growth is a welcome change. There were no electricity exports from Georgia in March 2016.

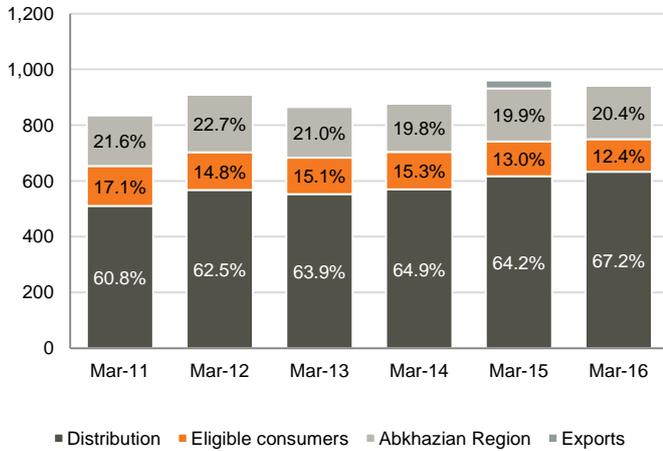
Electricity market highlights

Balancing price of electricity in Georgia, March*	USc 3.4 / kWh
Market clearing price of electricity in Turkey, March*	USc 3.7 / kWh
Average export price for Georgian electricity, March	No exports
Average import price for electricity, March	USc 2.8 / kWh
Y/Y increase in domestic consumption in kWh, 1Q16	1.8%
Y/Y increase in exports in kWh, 1Q16	No exports
Y/Y increase in exports to Turkey in kWh, 1Q16	No exports

*Average exchange rates in March GEL/US\$ = 2.3894; TRY/US\$ = 2.8917

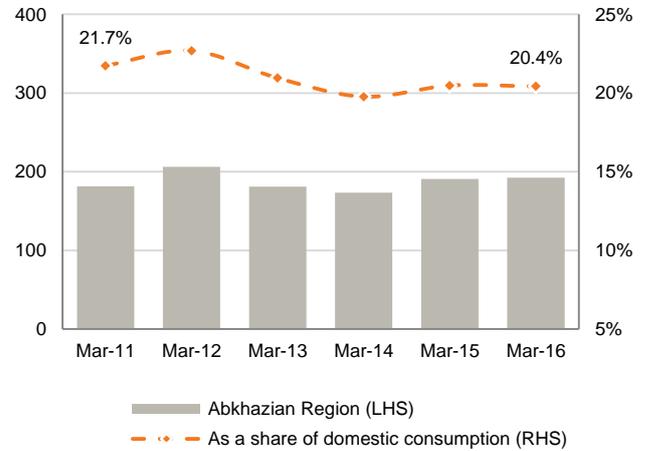


Figure 1: Domestic electricity consumption and export, gWh



Source: ESCO

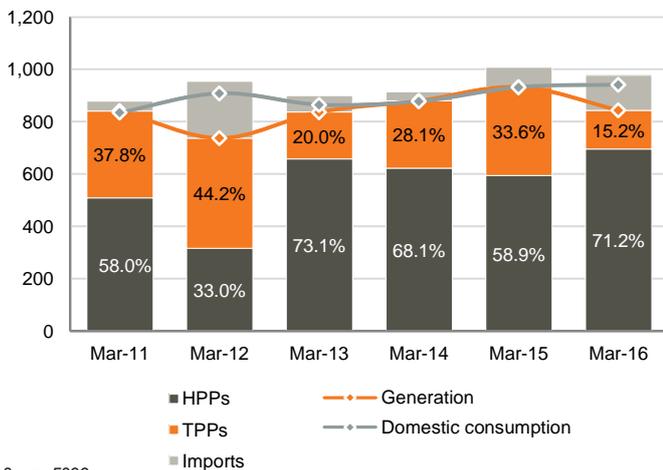
Figure 2: Electricity consumption, Abkhazian Region (gWh)



Source: ESCO

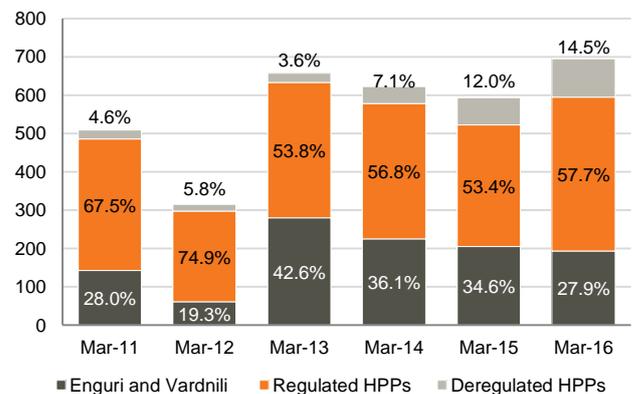
In March 2016, domestic generation was down 9.5% y/y on the back of lower TPP output, leading to higher imports from Russia. The amount of TPP-generated electricity decreased 56.2% y/y. Tbilisres generation was down 98.7% y/y, while Mtkvari halted production in March 2016 (172gWh in March 2015), as Inter Rao is negotiating the sale. We expect generation to resume once the transaction is finalized. The drop in domestic generation was compensated by Russian electricity imports. Total imports were up 76.2% y/y in March 2016, accounting for 14.2% of total domestic consumption. HPP output was up 17.1% y/y in March 2016, on the back of increased generation by deregulated HPPs (+41.0% y/y) and regulated seasonal HPPs (+26.5% y/y). Enguri and Vardnili production was down 5.7% y/y due to weather conditions and low water levels in the reservoir.

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



Source: ESCO

Figure 4: Hydro generation, gWh



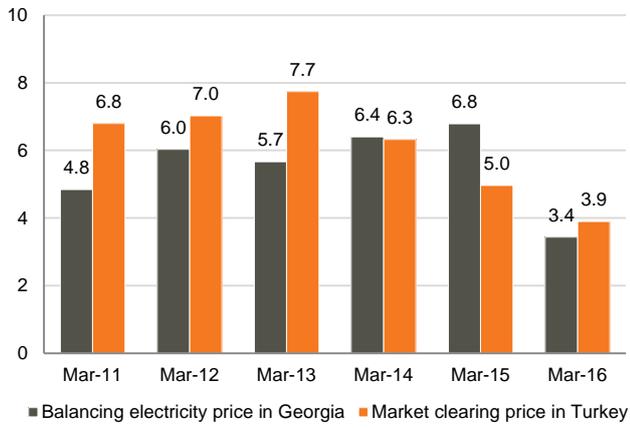
Source: ESCO

Electricity Prices in Georgia and Turkey

Balancing electricity price in Georgia was down 49.9% y/y to USc 3.4/kWh. The market clearing price of electricity in Turkey was down 21.5% y/y to USc 3.9/kWh. The reason for the sharp drop in Georgian balancing electricity price was an unusually low average price on imports from Russia (USc 2.8/kWh), resulting from the short-term deal for discounted electricity imports in February. As 61.1% of total electricity traded by ESCO (and making up the balancing electricity price) was imported electricity, the low import price exerted downward pressure on the average balancing price. 29.7% of electricity traded by ESCO came from HPPs and the rest from TPPs. Electricity prices in Turkey continue the downward trend. The prices are expected to remain low on the back of lower commodity prices, but are expected to rebound in the medium term.

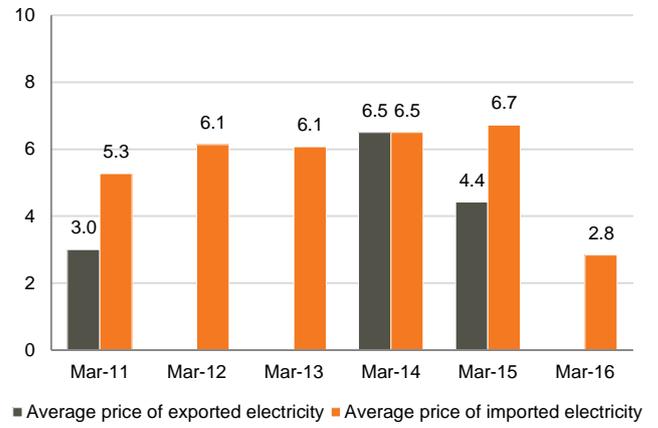


Figure 5: Electricity prices in Georgia and Turkey, USc/kWh



Source: ESCO, EPIAS

Figure 6: Average prices for imports and exports, USc/kWh



Source: ESCO, GeoStat



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