



Georgia's Energy Sector Electricity Market Watch

Georgia | Energy
Monthly Bulletin
December 28, 2017

Lukhuni HPP 2 is up for sale at an auction for a listed price of US\$ 11.5mn.

The HPP was transferred to the government when the investor, Rustavi Group, failed to fulfill its obligations. US\$ 53,500 will cover the unpaid penalties; the rest will be paid to the previous project owner. If no bids are submitted before the deadline on December 28, 2017, the second round of the auction will start out at half the current price. It is estimated that in addition to the US\$ 11.5mn already invested, it will take US\$ 10.0mn and 24 months to finish construction. Lukhuni HPP's annual generation is estimated at 73.6GWh, to be sold at a deregulated price at the investor's discretion.

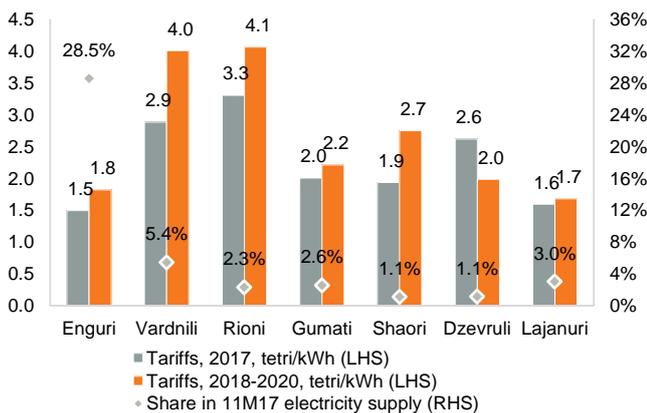
GNERC has set tariffs for TPPs, regulated HPPs, transmission companies, and distribution licensees.

Tariff changes go into effect January 1, 2018. Prior to setting the tariffs, GNERC approved the regulated companies' investment plans for the corresponding period, as dictated by the tariff methodology. Investment plans for distribution licensees – Telasi and Energo-Pro – are approved at GEL 66.2mn and GEL 278.4mn, respectively, for 2017-2019. As a result, the tariffs will increase by 1.56 tetri/kWh for Telasi subscribers and 1.28 tetri/kWh for Energo-pro consumers, on average, for 2018-2020.

Enguri and Vardnili tariffs are set until the end of 2020. Enguri and Vardnili HPPs will invest GEL 94.3mn and GEL 37.6mn, respectively, over 2017-2019, causing increases in their tariffs to 1.818 tetri/kWh (+21.5%) for the former and 4.002 tetri/kWh (+39.0%) for the latter. The three-year rehabilitation plan for Enguri involves the closure of Enguri for three to six months in spring 2019, along with other rehabilitation works during 2018-2020. According to the market rules, the Enguri tariff is the new balancing electricity price that deregulated power plants will receive for electricity sold to ESCO without a contract May through August. Notably, Enguri and Vardnili HPPs generated one third (33.9%) of total electricity supplied to the grid in 11M17.

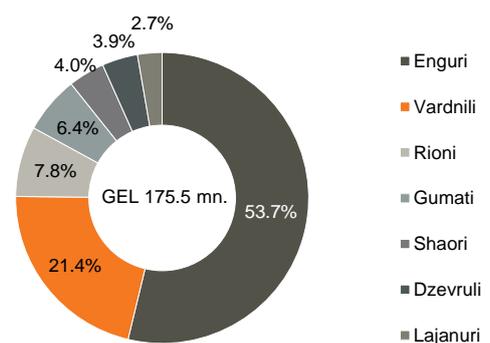
Tariffs were revised for five other HPPs, all owned by Energo-Pro. Only Dzevrulei HPP got a tariff decrease (-24.1%). Tariffs were increased for the other four HPPs by 0.5 tetri/kWh, on average. The tariffs will allow a reasonable return on investments amounting to GEL 43.6mn over 2017-2019. Regulated HPPs of Energo-Pro Georgia accounted for 10.2% of total generation in 11M17. Another five of Energo-Pro's HPPs, with total installed capacity of 118.8MW, will become deregulated as of January 1, 2018, as the deregulation threshold increases from the current 13MW to 40MW, per recent changes in the Law on Electricity and Natural Gas.

Figure 1: New HPP tariffs



Source: GNERC

Figure 2: Investment plans of regulated HPPs, 2017-2019



Source: GNERC

Exporters will no longer pay an extra charge for transmission. Exporters used to pay a transmission fee to Energo-Trans (0.496 tetri/kWh in 2017) in addition to other transmission fees payable by direct consumers and distribution licensees in proportion to their consumption. The differentiated tariff for Energo-Trans is eliminated and a unified tariff set at 0.38 tetri/kWh until end-2020. Transmission fees for the other two transmission licensees, SakRusEnergo and GSE, were increased to 0.278 tetri/kWh (+54.4%) and 1.323 tetri/kWh (+51.7%), respectively. The dispatch fee for GSE will increase to 0.092 tetri/kWh (+12.2%) through May 1, 2018 and 0.412 tetri/kWh thereafter. The total transmission and dispatch fee will amount to 2.393 tetri/kWh to cover GEL 596.6mn of investments in the rehabilitation of the transmission grid over 2016-2020.

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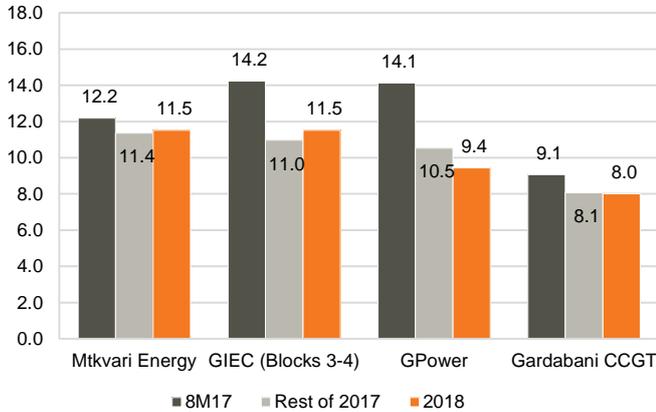
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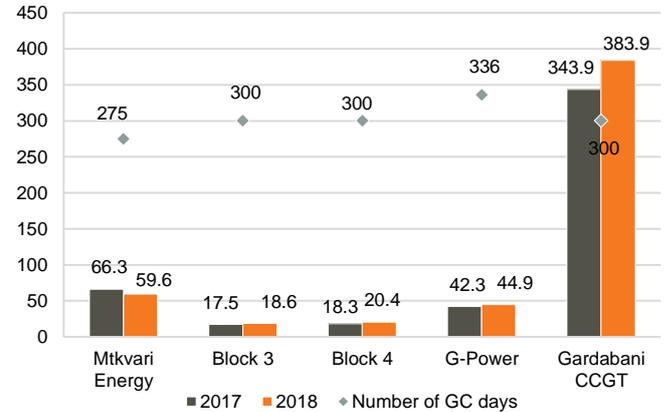
TPP tariffs have also been revised for 2018, both for electricity generated (tetri/kWh) and guaranteed capacity. Tariffs were lowered 1.5% and 0.5% for GPower and Gardabani CCGT, respectively. Tariffs for the other TPPs were increased by 3.8% on average. The guaranteed capacity fee was raised for Gardabani CCGT (+11.6%), GPower (+6.2%), Block 3 (+6.4%), and Block 4 (+11.0%) and lowered for Mtkvari Energy (-10.0%).

Figure 3: TPP tariffs, tetri/kWh



Source: GNERC

Figure 4: Guaranteed capacity fee, GEL '000/day

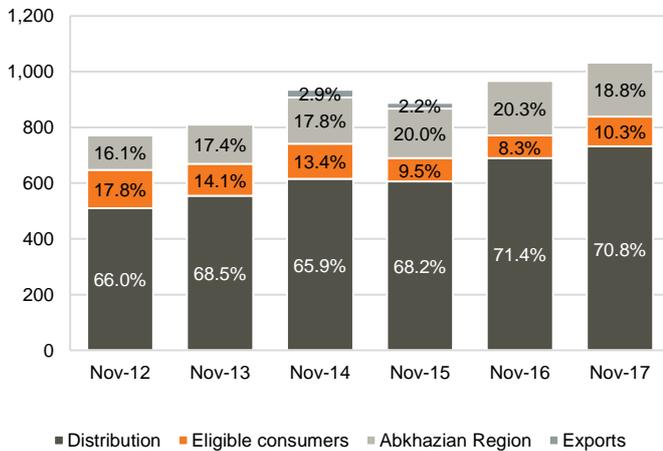


Source: GNERC

Electricity Consumption, Exports, and Generation

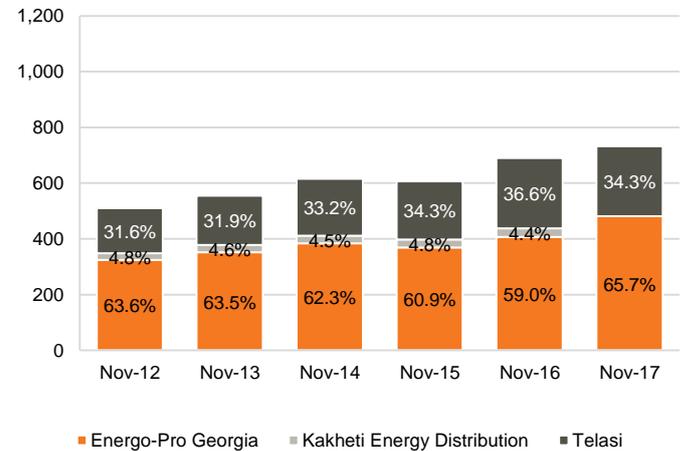
Domestic consumption increased 6.7% y/y in November 2017 and 8.6% y/y in 11M17. The growth in November was driven by 6.0% y/y growth in consumption of distribution companies and a 31.9% y/y increase in direct consumption, largely driven by 48.2% y/y growth in Georgian Manganese usage. Consumption by Energo-Pro Georgia subscribers, including former Kakheti Energy Distribution subscribers, increased 9.9% y/y, while Telasi consumption was down 0.7% y/y, albeit from a high base in November 2016 (+21.5% y/y). The Abkhazian region's electricity usage was down 1.1% y/y, accounting for 18.8% of domestic consumption and 75.6% of electricity generated by Enguri/Vardnili HPPs. Electricity transit from Azerbaijan to Turkey through Georgia declined 82.7% y/y to 22.8GWh, while electricity exports were negligible (0.851GWh) in November 2017.

Figure 5: Domestic electricity consumption and export, GWh



Source: ESCO

Figure 6: Consumption of distribution companies, GWh

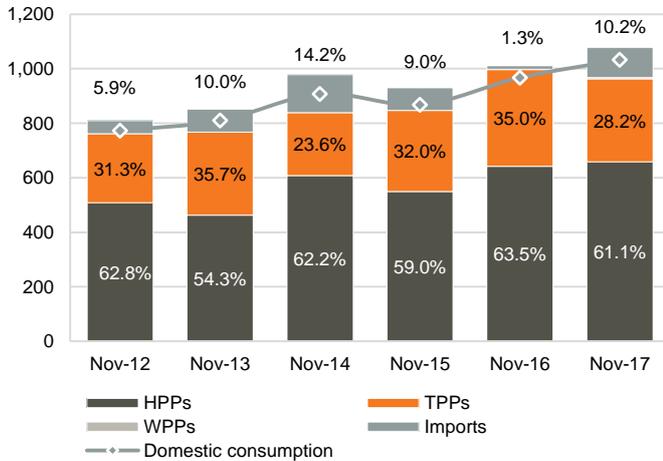


Source: ESCO

Growth in demand was met by electricity imports from Azerbaijan (48.7%), Russia (46.5%), and Armenia (4.8%). Electricity import increased 8.7 times y/y (+32.1% compared to November 2015) to 110.2 GWh, or 10.2% of total electricity supplied to the grid in November 2017. Notably, electricity import was 4.2% below the planned level. Domestic generation was roughly flat, with HPP generation up 2.5% y/y (61.1% of total) and TPP generation down 14.2% y/y (28.2% of total). The wind power plant accounted for the remaining 0.5% of electricity supply. Enguri/Vardnili generation was down 7.1% y/y, while generation of other regulated and deregulated HPPs increased 3.3% y/y and 30.0% y/y, respectively, in November 2017. The GC fee was down 22.6% y/y to USc 0.6/kWh. The reasons behind the decrease were higher consumption, which serves as the base for GC fee allocation, and a week of maintenance works on Mtkvari Energy. Gardabani CCGT and Mtkvari Energy operated at full power for most of the month, while the other three TPPs were mostly on standby.

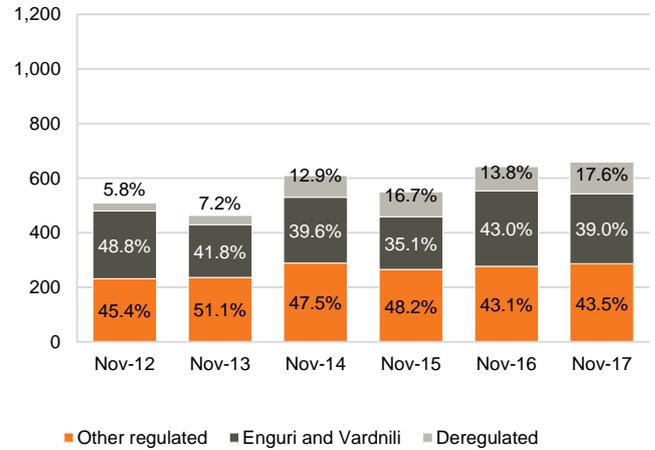


Figure 7: Electricity generation, domestic consumption, GWh



Source: ESCO

Figure 8: Hydro generation, GWh

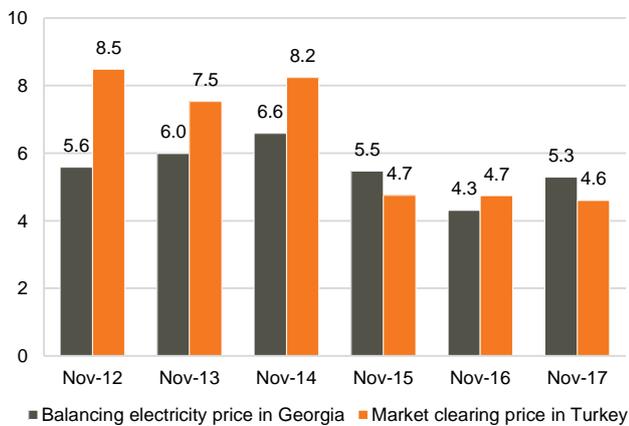


Source: ESCO

Electricity Prices in Georgia and Turkey

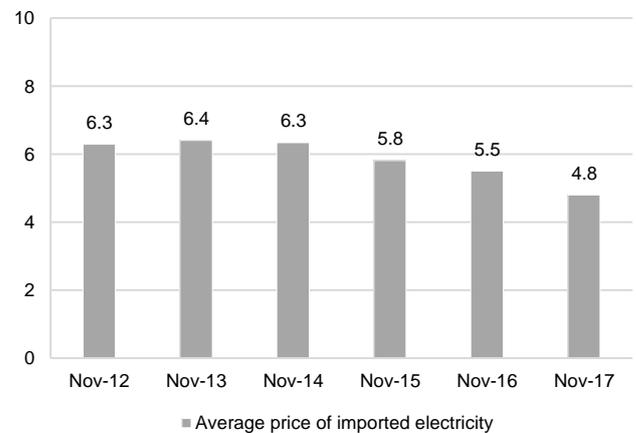
Average import price was down 12.8% y/y to USc 4.8/kWh. However, the high share of imports in the electricity supply mix resulted in an increase in the wholesale electricity price to USc 5.3/kWh (+22.9% y/y). Electricity traded at the wholesale price through the market operator accounted for 19.6% of total electricity supplied to the grid in November 2017, with the rest traded through bilateral contracts. Average monthly market clearing price in Turkey decreased 2.9% y/y to USc 4.6/kWh in November 2017.

Figure 9: Electricity prices in Georgia and Turkey, USc/kWh



* There were no exports to Turkey in November 2017.
Source: ESCO, EPIAS

Figure 10: Average price of electricity imports, USc/kWh



* Exports are negligible in November
Source: ESCO, GeoStat



Table 1: Electricity Balance (GWh)

	Dec-16	2016	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	11M17
Domestic consumption	1,162	11,007	1,085	1,012	1,019	933	856	870	985	1,037	918	947	1,032	10,694
<i>y/y growth rate</i>	14%	6%	7%	13%	8%	8%	1%	3%	10%	14%	16%	7%	7%	9%
Abkhazian region	254	1,927	252	234	205	171	132	102	113	119	101	136	194	1,761
<i>y/y growth rate</i>	9%	7%	7%	20%	7%	14%	8%	1%	3%	2%	-8%	-4%	-1%	5%
Eligible consumers	123	1,209	107	113	129	128	95	131	136	138	122	121	107	1,325
<i>y/y growth rate</i>	44%	-1%	18%	25%	12%	5%	-27%	6%	21%	66%	91%	62%	32%	22%
Distribution companies	785	7,872	726	666	685	634	629	637	736	780	695	690	732	7,608
<i>y/y growth rate</i>	13%	7%	6%	9%	8%	7%	6%	3%	9%	10%	13%	4%	6%	22%
Energo-Pro Georgia	455	4,740	413	381	410	390	393	399	463	484	456	457	481	4,726
<i>y/y growth rate</i>	8%	3%	3%	10%	9%	6%	6%	4%	11%	12%	22%	5%	10%	8%
Telasi	297	2,789	281	256	246	216	209	211	240	261	239	233	251	2,643
<i>y/y growth rate</i>	21%	15%	11%	8%	8%	9%	7%	0%	5%	9%	12%	1%	-1%	6%
Kakheti Energy Distr.	33	343	32	28	29	27	27	28	33	35	-	-	-	239
<i>y/y growth rate</i>	6%	2%	8%	5%	7%	8%	6%	6%	14%	9%	-	-	-	-23%
Domestic generation	1,186	11,574	955	809	741	817	1,093	1,138	1,247	1,035	821	828	968	10,451
<i>y/y growth rate</i>	27%	7%	-1%	0%	-12%	-7%	2%	4%	18%	8%	3%	-9%	-3%	1%
HPPs	682	9,329	564	362	544	722	1,085	1,128	1,234	944	706	583	658	8,529
<i>y/y growth rate</i>	12%	10%	-10%	-33%	-22%	-1%	1%	3%	16%	6%	10%	-11%	2%	-1%
TPPs	497	2,235	385	442	188	86	0	1	5	83	107	239	304	1,840
<i>y/y growth rate</i>	51%	-6%	14%	62%	26%	-40%	N/A	-76%	321%	31%	-32%	-6%	-14%	6%
WPPs	7	9	7	6	9	9	8	9	7	8	7	7	5	82
<i>y/y growth rate</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	178%	N/A
Imports	33	479	179	250	311	147	2	0	1	73	133	157	110	1,363
<i>y/y growth rate</i>	-73%	-32%	92%	106%	134%	493%	-41%	-100%	-78%	597%	449%	832%	766%	206%
Exports	0	559	1	0	0	0	200	230	222	32	0	0	1	686
<i>y/y growth rate</i>	N/A	-15%	N/A	N/A	N/A	N/A	5%	9%	71%	16%	N/A	N/A	N/A	23%
Net export/import	(33)	80	(178)	(250)	(311)	(146)	199	230	221	(41)	(133)	(157)	(109)	(677)
Transit	134	850	10	16	4	5	4	-	-	93	32	15	23	201
<i>y/y growth rate</i>	N/A	N/A	N/A	-49%	-84%	-90%	N/A	N/A	N/A	-33%	-69%	-89%	-83%	-72%

Source: ESCO



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