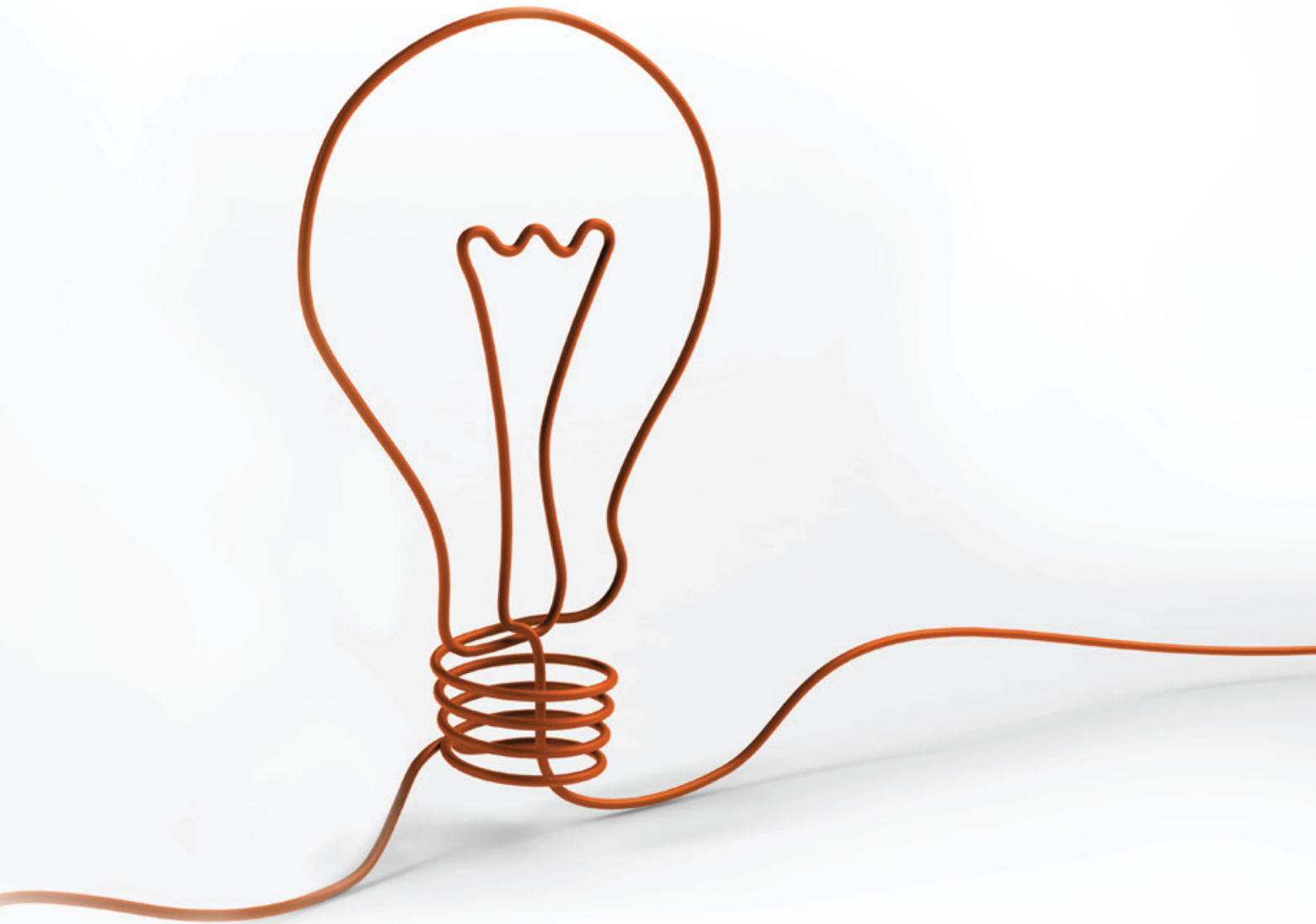




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# **Georgia's Energy Sector Changes Create Opportunities**



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## Executive summary

**Electricity is a capital-intensive sector with reasonable profits.** Georgia's investor-friendly regulations, upgraded transmission networks and export opportunities have attracted substantial investment in recent years. The energy sector was the second-largest FDI recipient in 2007-17. The sector's EBITDA margin averaged 19% in 2012-17, above the business sector's level of 13%.

**Electricity consumption in Georgia increased by 1.6x (4.4% CAGR) in 2008-18 and is expected to double by 2030.** Electricity consumption is correlated with GDP, and in recent years growth in consumption has been driven by the non-residential sector. We project average annual growth of 5.7% in consumption in 2019-30, with the commercial sector being the key driver. As a result, by 2030, electricity consumption is expected to almost double and reach 24.5TWh.

**Despite growth, generation capacity is still insufficient to satisfy demand.** Since 2012, Georgia's installed capacity has increased by 25.3%, reaching 4.2GW in 2018. However, this was not enough to satisfy the growing demand, and Georgia became a net importer of electricity after having been a net exporter in 2007-11.

**Georgia can become a net exporter of electricity again.** Georgia has a solid pipeline of power plants, supported by government policy. Currently, 150 ongoing projects (installed capacity 5.4GW) are at various stages of development with identified investors. However, government policy has tightened significantly since 2016, which makes full implementation of the pipeline less likely. Nonetheless, we estimate that even partial implementation of these 150 projects will make Georgia a net exporter of electricity from 2021. Without the addition of new capacity, Georgia might need to import electricity, even in the summer months.

**A new wave of reforms will result in a competitive market model and attract new types of investor.** Georgia became a member of the Energy Community of EU and its neighbours in 2017, obliging it to harmonize its legislation with EU standards in the energy sector by 2025. This will eventually lead to a new market model with more competitive and transparent rules for power trading. This new energy market is expected to attract new types of investor, and it opens up the possibility of trading via Turkey to Eastern European countries, since Turkey is connected to the EU market and has a compatible market structure.

**We expect fundamental changes in the energy market.** Upcoming reforms should shorten the settlement period from one month to one day/hour, introduce an imbalance settlement mechanism, diversify power trading channels via the creation of day-ahead and intraday markets, increase the number of direct consumers, enhance power trading activities, and unbundle distribution and supply. In the context of these upcoming changes, we believe that future market prices will be dictated by neighbouring market prices and decisions on the integration of electricity generated from old regulated HPPs and from HPPs with Power Purchase Agreements.

**Turkey remains an attractive export market for Georgia.** Despite the dramatic fall in Turkish electricity prices in 2012-18, Turkey's geographic proximity, its compatible market structure, and the expected growth in prices will see it remain an attractive export destination, in our view. Another promising export market is Armenia, despite its small size, as the country is expected to face an electricity deficit due to the decommissioning of a nuclear plant in 2026.



## Table of Content

Terms and Definitions	3
Executive summary	4
1. Overview of Georgia's energy sector	5
2. Drivers of electricity consumption in Georgia	6
3. Expected growth of electricity consumption	10
4. Pipeline of power plants and generation forecast	11
4.1 Pipeline	11
4.2 Generation forecast	12
5. Investment environment	14
5.1 Power Purchase Agreements (PPA)	14
5.2 Identification of new sites for investments	15
5.3 Export procedures and Turkey as main export direction	16
6. Electricity market on the edge of changes	18
6.1 Expected market structure and trading principles	19
6.2 Transformation of market participants	20
6.3 Expectations on wholesale market prices	23
7. Export markets	25
7.1 Turkish electricity market	25
7.2 Forecast of MCP in Turkey over 2019-30	27
7.3 Armenian electricity market	28
7.4 Azerbaijani electricity market	29
7.5 Russian electricity market	30
8. Georgia's energy sector in figures	31
8.1 Profitability of energy sector	32
8.2 Investments in the sector	34
8.3 Financing of energy sector	35
Annex 1: Electricity sector's value chain and tariff structure	36
Annex 2: Existing generation assets	37
Annex 3: Public-private partnership procedure	38
Annex 4: List of figures	39
Annex 5: List of tables and diagrams	40
Annex 6: Description of VAR model for electricity consumption forecast in Georgia	41
Annex 7: Description of BVAR model for electricity price forecast in Turkey	42
Disclaimer	44



## Annex 4: List of figures

Figure 1: Installed capacity of Georgia, December 2018 .....	5
Figure 2: Electricity supply and consumption, GWh .....	5
Figure 3: Electricity consumption and GDP dynamics .....	6
Figure 4: Electricity consumption, TWh .....	6
Figure 5: Electricity consumption by end-users, TWh .....	7
Figure 6: Contributions to overall consumption growth, ppts.....	7
Figure 7: Electricity generation, TWh .....	8
Figure 8: Seasonality of consumption and generation, 2018 .....	8
Figure 9: Seasonality of electricity consumption by residential consumers and Abkhazian region, GWh.....	8
Figure 10: Seasonality of electricity consumption by non-residential consumers, GWh .....	8
Figure 11: Electricity imports and exports, TWh .....	9
Figure 12: Electricity imports and exports, US\$ mn .....	9
Figure 13: Forecast of electricity consumption, TWh .....	10
Figure 14: Forecast of electricity consumption by end-users, TWh.....	10
Figure 15: Hypothetical deficit by 2024 .....	10
Figure 16: Pipeline of power plants by development stages .....	11
Figure 17: Generation forecast scenarios for 2019-29, TWh .....	12
Figure 18: Forecast of net exports of electricity according to different scenarios, TWh .....	13
Figure 19: Forecast of electricity generation, consumption and net exports over 2019-29, TWh .....	13
Figure 20: Average annual prices in Georgia and Turkey, US\$/kWh .....	16
Figure 21: Average monthly prices in Georgia and Turkey, US\$/kWh .....	16
Figure 22: Balancing electricity volumes and prices.....	23
Figure 23: Electricity consumption forecast for Turkey, TWh .....	25
Figure 24: Electricity generation in Turkey and imports in 2017, TWh .....	25
Figure 25: Turkey's installed capacity by type .....	25
Figure 26: Average annual MCP in Turkey and exports from Georgia .....	26
Figure 27: Average monthly MCP in Turkey and exports from Georgia.....	26
Figure 28: Forecast of average annual MCP prices over 2019-30, US\$/kWh.....	27
Figure 29: Electricity consumption in Armenia, TWh .....	28
Figure 30: Electricity supply mix of Armenia in 2017, TWh .....	28
Figure 31: Electricity consumption in Azerbaijan, TWh .....	29
Figure 32: Production of electricity in Azerbaijan, TWh.....	29
Figure 33: Electricity consumption and generation in Russia, TWh .....	30
Figure 34: Trade of electricity between Georgia and Russia, TWh .....	30
Figure 35: Energy sector's share of GDP .....	31
Figure 36: FDI in energy sector, US\$ mn .....	31
Figure 37: Turnover of energy sector, GEL bn .....	32
Figure 38: Turnover of electricity sector, 2017 .....	32
Figure 39: Profitability of energy sector, GEL mn .....	33
Figure 40: Structure of operating expenses of energy sector in 2017 .....	33
Figure 41: Average monthly salaries, GEL .....	33
Figure 42: Electricity sector employment and remuneration in 2017.....	33
Figure 43: Investments in fixed assets, GEL mn .....	34
Figure 44: Investments in electricity sector in 2017.....	34
Figure 45: Investment plans of distribution companies, GEL mn .....	34
Figure 46: Investment plans of transmission companies, EUR mn .....	34
Figure 47: Georgian bank loans to energy sector, GEL mn .....	35



## Annex 5: List of tables and diagrams

### List of tables:

Table 1: On-going projects with MoUs by stage of development .....	11
Table 2: Potential HPPs by stage of research .....	15
Table 3: Fees to be paid by Exporters.....	17
Table 4: Timetable for implementation of the acquis communautaire per energy community charter treaty for electricity .....	18
Table 5: Power plant projects financed by IFIs, US\$ mn.....	35

### List of diagrams:

Diagram 1: Expected electricity market structure in Georgia .....	21
Diagram 2: Tariff structure of Telasi and Energo-Pro Georgia, average for 2018-20 US\$/kWh.....	36



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