



# Georgia's Energy Sector Electricity Market Watch

Georgia | Energy  
Monthly Bulletin  
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**Changes in electricity and gas market rules and regulations.** By signing the Energy Community charter in October 2016, Georgia took on the obligation to synchronize Georgian legislation with EU standards in the energy sector. To that end, the country aims to transition to a competitive market with transparent rules and regulations. On June 30, 2017, changes were made to the Law on Electricity and Natural Gas, setting deadlines for the gradual opening of the market and filling the gaps in the current secondary legislation. Changes in the natural gas sector are more technical – the Grid Code for Natural Gas, which needs to be developed, will regulate the technical aspects of natural gas supply for each market participant. The Grid Code is expected to become effective after final approval by GNERC before September 1, 2018. Changes in the electricity sector are more significant, as they will result in an increase in the number of players outside the regulated market and stimulate competitive trades between market participants.

Electricity market highlights	
Balancing price of electricity in Georgia, June*	USc 5.1/ kWh
Market clearing price of electricity in Turkey, June*	USc 4.3/ kWh
Average export price for Georgian electricity, June	N/A
Average import price for electricity, June**	USc 0.0/ kWh
Guaranteed Capacity Fee, June	USc 0.2/ kWh
Y/Y change in domestic consumption in kWh, 6M17	6.9%
Y/Y change in exports in kWh, 6M17	7.4%
Y/Y change in exports to Turkey in kWh, 6M17	-10.8%

\*Average exchange rates in June GEL/US\$ = 2.4116; TRY/US\$= 3.519

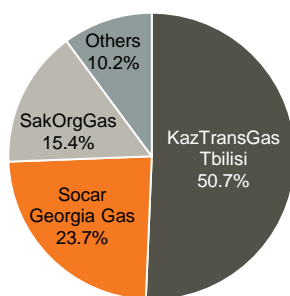
\*\* Imports were negligible in June (0.004 GWh)

**The degree of deregulation in the electricity market is set to increase in 2018.** Currently all TPPs, as well as HPPs constructed before August 1, 2008, with installed capacity of over 13MW, are regulated by GNERC, which limits their ability to sell electricity for more than the predetermined tariff. According to the changes to the Law on Electricity and Natural Gas, the minimum threshold will increase from 13MW to 40MW as of January 1, 2018. Based on our estimates, this change will result in an increase in the share of deregulated power plants from 15.5% to 20.5% of total installed capacity and about 3.1TWh (26.0% of electricity supply in 2016) will be supplied to the Georgian market at unregulated prices annually over 2018-2019. Notably, 77.6% of deregulated power plants (in terms of installed capacity) have PPAs with ESCO. Therefore, a significant portion of the newly deregulated generation will still be traded through ESCO at the rate and for the period set out in the respective PPAs.

**Direct consumers are set to account for at least a quarter of total electricity consumption in Georgia.** Direct consumers purchase electricity directly from suppliers, at prices negotiated with the suppliers, usually on a monthly basis. This allows the direct consumers to sidestep the distribution companies, but they pay all system service and transmission fees. According to the changes to the Law on Electricity and Natural Gas, starting May 1, 2018, consumers connected to high voltage (35kv and above) transmission lines will automatically be registered as direct consumers. This change will result in an increase in the number of direct consumers from two to over 60, with aggregate annual consumption of at least 3.1TWh (28.2% of 2016 consumption). Other companies will retain the option to be registered as direct consumers. The increase in the number of players on the unregulated market should foster price competitiveness for all market participants. Furthermore, such legislative changes can lead to electricity traders appearing on the market, which can be beneficial for direct consumers, as they offer various services, including fixed price contracts and one-shot payments, among others.

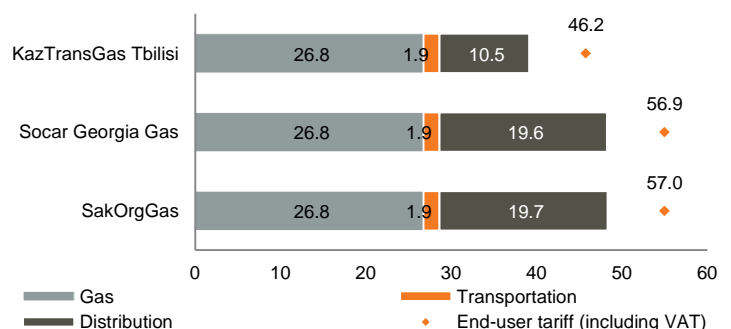
**GNERC has recalculated natural gas end-user tariffs for the three leading gas distribution companies,** which together accounted for 89.8% of the market in 2016. Old tariffs varied by region and supply pressure, while the new methodology sets a uniform, transparent tariff structure. The end-user tariff is comprised of three components: transmission, cost of gas, and distribution. The transmission tariff, which has remained unchanged for 17 years, is now set at 1.884 tetri/m<sup>3</sup> for all consumers, an average increase of 0.5 tetri/m<sup>3</sup>. Cost of gas, which now incorporates a government subsidy of 5 tetri/m<sup>3</sup>, in effect since March 2013, is set at 26.8 tetri/m<sup>3</sup> (a decrease of 12.5%, as stated by the officials). The distribution tariff, designed to cover the distribution licensee's investment costs, is the only remaining driver of tariff differences among distribution companies. End-user tariffs (including VAT) per m<sup>3</sup> as of July 20, 2017 are set at 46.153 tetri for KazTransGas Tbilisi (+1.2%); 56.940 tetri for Socar Georgia Gas (+26.7%, on average); and 57.011 tetri for SakOrgGas (+30.5%, on average). Notably, these changes apply only to regulated users, which account for 47% of total supply. Consumers who were connected to the national gas infrastructure in the regions after Sep-2007 and in Tbilisi after Aug-2008 are deregulated and pay the prices set independently by distributors (50 to 63 tetri/m<sup>3</sup> on average). The Ministry of Energy has voiced the possibility of the entire gas distribution market becoming regulated, with a uniform tariff structure for all users.

Figure 1: Market shares of gas distribution licensees, 2016



Source: GNERC

Figure 2: Gas tariff structure for distribution licensees, tetri/m<sup>3</sup>



Source: GNERC

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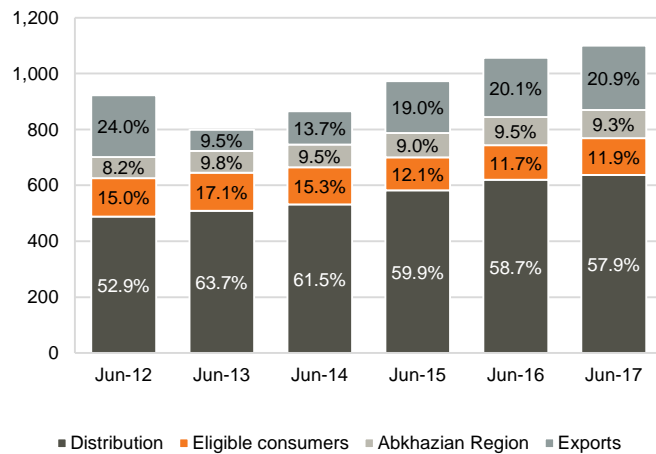
**Kakheti Energy Distribution was sold for GEL 21.7mn at a public auction.** The buyer was Energo-Pro Georgia, the largest electricity distribution company in Georgia, whose market share will increase from 60.2% to 64.6% as a result of this transaction. Energo-Pro Georgia will become the sole electricity distributor in Georgia outside of Tbilisi. Kakheti Energy Distribution has operated in bankruptcy since 2011, managed by a representative of the National Bureau of Enforcement. For three years prior, the company was owned by a Lithuanian concern, Achemos Grupe. Current outstanding debt of GEL 21mn will be paid off from the GEL 21.7mn purchase price. Energo-Pro plans to make significant infrastructural investments in order to increase supply quality, reduce costs, and transform the purchased entity into a profit-oriented, high-quality distribution service provider.

**Electricity Consumption, Exports, and Generation**

**Domestic consumption increased 3.1% y/y in June 2017 and 6.9% y/y in 1H17.** Consumption of distribution companies increased 2.9% y/y in June: consumption was down 0.2% y/y by Telasi, up 4.3% y/y by Energo-Pro, and up 6.3% y/y by Kakheti Energy Distribution. The Abkhazian region's electricity usage was up 1.3% y/y and accounted for 9.3% of domestic consumption. Consumption by eligible consumers was up 5.6% y/y, with Georgian Manganese usage up 10.3% y/y.

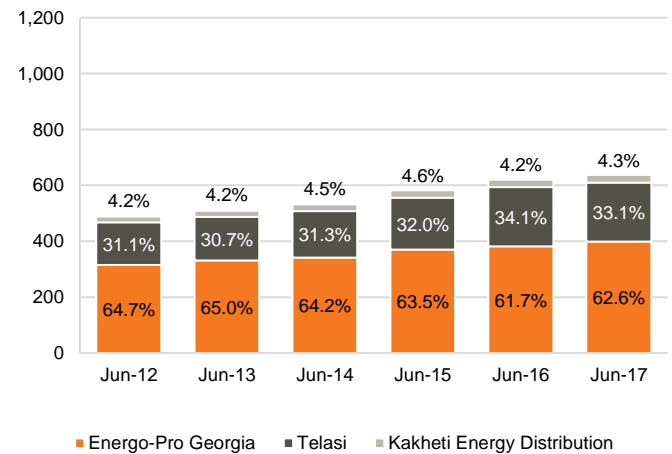
**Electricity exports increased 8.6% y/y in June 2017 to 230.1 GWh and 7.4% y/y in 1H17.** 28.3% of exported electricity went to Turkey, down 38.8% y/y, albeit from the high base in June 2016 (+23.1% y/y). The top exporters to Turkey were Georgian Urban Energy (58.0% of total), owner of the 89MW Paravani HPP, and Adjar Energy 2007 (26.2% of total), owner of the 47.5MW Khelvachauri HPP. ESCO also exported 5.1 GWh (8.0% of total) to Turkey, in exchange for electricity imports from Azerbaijan in 2012. Exports to Armenia decreased 2.3% y/y and accounted for 18.4% of total exports, split between GIEC (60.3%) and ESCO (39.7%), which exported electricity in exchange for the electricity imported during Feb-Apr from Armenia. Exports to Russia almost doubled (+98.2% y/y) and accounted for over half of electricity exports (53.3%), with ESCO being the sole exporter. The reason behind the increase in exports to Russia was an unexpected surplus of generation in the second half of the month and inflexibility of other markets to import additional electricity on short notice. Overall, ESCO accounted for 63.4% of total electricity exports in June 2017.

Figure 3: Domestic electricity consumption and export, GWh



Source: ESCO

Figure 4: Consumption of distribution companies, GWh

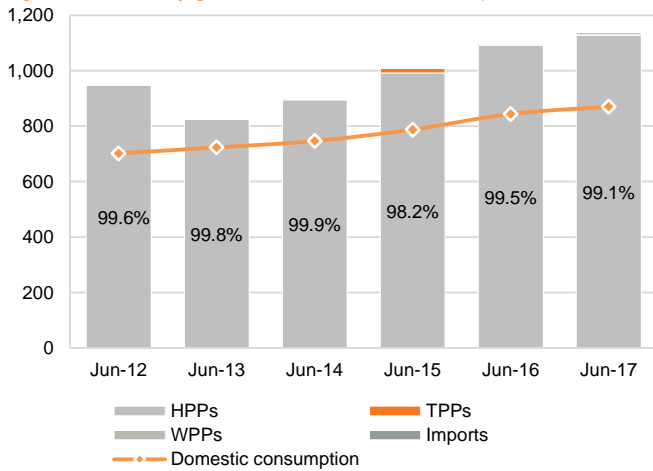


Source: ESCO

**Electricity demand was satisfied largely by hydro generation, with 99.1% in the supply mix.** The new wind power plant accounted for 0.8% of total electricity supply. 20.9% of domestic generation was exported. Total hydro generation was up 3.4% y/y. Deregulated HPPs posted a 22.7% y/y increase in generation, due to the addition of new large HPPs – Dariali HPP (108.0MW) and Khelvachauri HPP (47.5 MW). However, generation was up only 1.8% y/y by Enguri/Vardnili and down 1.8% y/y by other regulated HPPs. The guaranteed capacity fee was halved, down 50.5% y/y to USc 0.39/kWh, as Block 3 and Gardabani CCGT were under maintenance for the entire month and did not receive guaranteed capacity payments, while the other TPPs provided guaranteed capacity for the entire month.

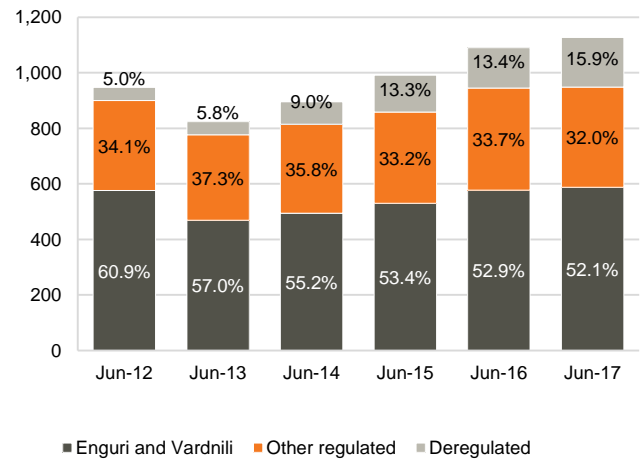


Figure 5: Electricity generation, domestic consumption, GWh



Source: ESCO

Figure 6: Hydro generation, GWh

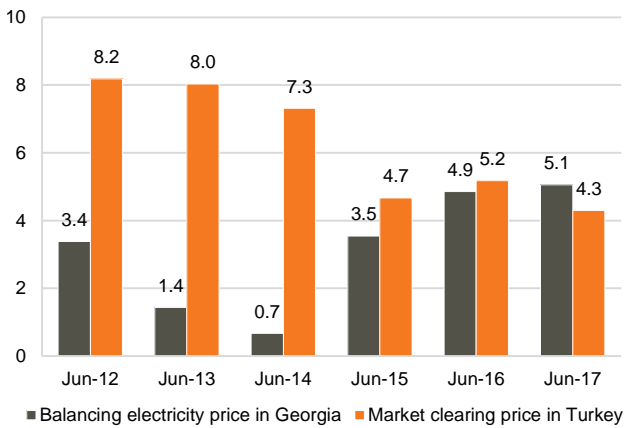


Source: ESCO

### Electricity Prices in Georgia and Turkey

Wholesale market prices in Georgia increased 5.0% y/y to USc 5.1/kWh. Only 4.8% of total electricity supplied to the grid in June 2017 was traded through the market operator, with the rest traded through bilateral contracts. Due to the high share of electricity exports to Russia at comparatively low prices, the average price of electricity exported from Georgia declined significantly, but we are awaiting further information to confirm the figures. The average monthly market clearing price in Turkey decreased 17.0% y/y to USc 4.3/kWh, 14.9% below the Georgian wholesale market price in June 2017.

Figure 7: Electricity prices in Georgia and Turkey, USc/kWh



Source: ESCO, EPIAS



**Table 1: Electricity Balance (GWh)**

	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	2016	1H17
<b>Domestic consumption</b>	<b>898</b>	<b>906</b>	<b>789</b>	<b>883</b>	<b>967</b>	<b>1,162</b>	<b>1,085</b>	<b>1,012</b>	<b>1,019</b>	<b>933</b>	<b>856</b>	<b>870</b>	<b>11,007</b>	<b>5,775</b>
<i>y/y growth rate</i>	7%	8%	4%	13%	11%	14%	7%	13%	8%	8%	1%	3%	6%	7%
Abkhazian Region	110	117	110	142	196	254	252	234	205	171	132	102	1,927	1,097
<i>y/y growth rate</i>	9%	12%	17%	24%	10%	9%	7%	20%	7%	14%	8%	1%	7%	10%
Eligible consumers	113	83	64	75	81	123	107	113	129	128	95	131	1,209	703
<i>y/y growth rate</i>	13%	11%	-13%	-2%	-4%	44%	18%	25%	12%	5%	-27%	6%	-1%	5%
Distribution Companies	675	706	615	666	690	785	726	666	685	634	629	637	7,872	3,976
<i>y/y growth rate</i>	6%	7%	4%	13%	14%	13%	6%	9%	8%	7%	6%	3%	7%	5%
Energo-Pro Georgia	417	434	375	405	407	455	413	381	410	390	393	399	4,740	2,385
<i>y/y growth rate</i>	1%	0%	-1%	8%	10%	8%	3%	10%	9%	6%	6%	4%	3%	6%
Telasi	230	240	213	231	253	297	281	256	246	216	209	211	2,789	1,420
<i>y/y growth rate</i>	18%	22%	17%	25%	22%	21%	11%	8%	8%	9%	7%	0%	15%	7%
Kakheti Energy Distr.	29	32	28	30	30	33	32	28	29	27	27	28	343	171
<i>y/y growth rate</i>	-3%	6%	2%	5%	6%	6%	8%	5%	7%	8%	6%	6%	2%	7%
<b>Domestic Generation</b>	<b>1,061</b>	<b>957</b>	<b>798</b>	<b>907</b>	<b>998</b>	<b>1,186</b>	<b>955</b>	<b>809</b>	<b>741</b>	<b>817</b>	<b>1,093</b>	<b>1,138</b>	<b>11,574</b>	<b>5,553</b>
<i>y/y growth rate</i>	2%	11%	3%	14%	18%	27%	-1%	0%	-12%	-7%	2%	4%	7%	-2%
HPPs	1,060	894	640	653	642	682	564	362	544	722	1,085	1,128	9,329	4,404
<i>y/y growth rate</i>	5%	17%	26%	22%	17%	12%	-10%	-33%	-22%	-1%	1%	3%	10%	-7%
TPPs	1	63	159	254	354	497	385	442	188	86	0	1	2,235	1,102
<i>y/y growth rate</i>	-96%	-34%	-41%	-1%	19%	51%	14%	62%	26%	-40%	N/A	-76%	-6%	21%
WPPs	-	-	-	-	2	7	7	6	9	9	8	9	9	47
<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	N/A	N/A
Imports	5	10	24	17	13	33	179	250	311	147	2	0	479	888
<i>y/y growth rate</i>	298%	-73%	-47%	-71%	-85%	-73%	92%	106%	134%	493%	-41%	-100%	-32%	136%
Exports	130	27	0	0	0	0	1	0	0	0	200	230	559	431
<i>y/y growth rate</i>	-22%	13%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	5%	9%	-15%	0.07
<b>Net Export/Import</b>	<b>124</b>	<b>17</b>	<b>(24)</b>	<b>(17)</b>	<b>(13)</b>	<b>(33)</b>	<b>(178)</b>	<b>(250)</b>	<b>(311)</b>	<b>(146)</b>	<b>199</b>	<b>230</b>	<b>80</b>	<b>(457)</b>
Transit	88	139	101	131	131	134	10	16	4	5	4	-	850	39
<i>y/y growth rate</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-49%	-84%	-90%	N/A	N/A	N/A	-69%

Source: ESCO



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