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# ENERGY REGULATORY REPORT

2017 SECOND HALF YEAR

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**15 August 2017**

## **Amendments on the Network Code regarding the Connection of Transit Pipeline Projects to the Turkish Transmission System**

On 15 August 2017, the amendment proposed by the transmission system operator, BOTAŞ, on the Network Code regarding the connection of transit pipelines operated under intergovernmental agreements to the transmission network in Turkey entered into force with the approval decision of the energy regulator, EMRA, No.7231. With the amendments to the Network Code, transit pipelines and transit entry points were defined and also, transportation quantity notifications and their revisions to be made by the transit pipeline operator to BOTAŞ were regulated. These amendments are important, especially for TANAP (Trans-Anatolian Natural Gas Pipeline), which is planned to be connected to the network in 2018.

**20 September 2017 & 20 January 2018**

## **Establishment of a Capacity Market for Electricity**

As per the 2017 plan of the Turkish government published on 30 October 2016, a capacity mechanism was planned to be established until the end of 2017 for the purpose of procuring security of supply for the times when the market will be insufficient to provide the security supply for electricity in accordance with the Electricity Market Law No.6446 (“**EML**”). Article 20 of the EML sets forth that the principles and procedures regarding the establishment of the capacity mechanism will be regulated by the Council of Ministers. The energy regulator, EMRA had published a draft Regulation regarding capacity market for public review in September 2017. Following the evaluation of the public reviews, the draft has entered into force with certain amendments under the name Electricity Market Capacity Mechanism Regulation (“**Regulation**”) on 20 January 2018. As per the Regulation, it is understood that mainly power plants generating electricity based on lignite, imported coal and natural gas are targeted to participate in the capacity mechanism. The Regulation determines which power plants would be eligible to participate in the mechanism as per certain criteria, such as the installed capacity, the age of the power plant, whether the source used is local or foreign and the efficiency of the power plant. The capacity mechanism will be managed by the transmission system operator, TEİAŞ. Power plants participating in the mechanism will receive payments for keeping their electricity generation capacities available for TEİAŞ. The draft determines the price to be paid for each power plant differently, as per the formula set forth in the Regulation, which also, among other things, takes into consideration as to whether the cost of components are below or above the market clearing price. The prices to be paid in a year cannot exceed the budget determined for such year. The Regulation also

stipulates that if the weighted average of capacity usage ratio of the last 12 months is less than 10% for facilities using local sources, and 15% for other facilities, no capacity payment will be made. As per the Regulation, the entities wishing to participate in the capacity mechanism should apply prior to 15<sup>th</sup> of October of the previous year with the necessary documents. For 2018, however, the Regulation sets forth that the applications will be made until the end of 31 January 2018, and the facilities that will benefit from the mechanism will be announced until 15 February 2018. These facilities will be deemed to have participated in the mechanism from the start of 2018.

## 16 October 2017 & 20 January 2018

### Communiqué introducing two different Eligible Consumer types entered into force

On 16 October 2017, the energy regulator, EMRA published a draft communiqué on the regulation of the last resort supply tariff for public review. The draft has entered into force with certain amendments (“**Communiqué**”) on 20 January 2018. The Communiqué divides the eligible consumers (subject to the threshold of 2,000 kwh for 2018) who do not choose to procure their electricity needs from supply companies through bilateral agreements into two different types: (i) consumers with low-consumption, and (ii) consumers with high-consumption. According to the Communiqué, while the tariff to be applied for eligible consumers with low-consumption will be equal to the retail tariff approved for the non-eligible consumers, the eligible consumers with high-consumption will be subject to a higher tariff to be determined by the EMRA, which is likely to push those consumers to purchase their electricity rather *via* bilateral agreements from supply companies. As per the Communiqué, the threshold of the low and high consumption will be determined by the EMRA each year considering social and economic conditions and depending on the development of the market.

## 19 October 2017

### Tolerance Ratios for Different Energy Resources

Last year’s amendment dated 29 April 2016 in the Regulation on the Documentation and Support of Renewable Energy Resources, which entered into force on 1 May 2016 (“**RES Regulation**”) starting to hold the renewable energy generators responsible for their imbalances with a tolerance co-efficiency of 98% (which would correspond to a tolerance of 2% for these generators) was criticized as not being fair on the grounds that the generation predictability for all the renewable energy generators were not the same. Following the critiques, with the Board Decision No.7522-1, published on 20 December 2017 (“**Decision**”), the energy regulator, EMRA differentiated the tolerance ratio for each type of renewable energy source. According to the Decision, as of 1 January 2018, the tolerance co-efficiency ratios for different each type of renewable energy resources will be as follows:

| Type of Resource               | Tolerance Co-efficiency | Tolerance Ratio Provided |
|--------------------------------|-------------------------|--------------------------|
| Hydroelectric (Canal Type)     | 98%                     | 2%                       |
| Hydroelectric (with Reservoir) | 100%                    | None                     |
| Wind                           | 97%                     | 3%                       |
| Geothermal                     | 99.5%                   | 0.5%                     |
| Biomass                        | 99%                     | 1%                       |
| Solar                          | 98%                     | 2%                       |

According to the table above, no tolerance will be shown for the hydroelectric power plants with reservoir, whereas the highest tolerance will be provided to the wind power plants, which are subject to the biggest unpredictability.

**7 November 2017**

### **A Second Draft Revising the Electricity Market Consumer Services Regulation**

A draft regulation foreseeing essential changes in the Electricity Market Consumer Services Regulation (“**Regulation**”) had been published on 13 April 2017 (“**First Draft**”) by the energy regulator, EMRA, on its website for review and comments of the public. Having received large amount of reviews from the interested parties on the matter, the EMRA published a second draft on 7 November 2017 for further review and comments of the public (“**Second Draft**”).

Currently, the Regulation mainly regulates the agreements and the relationship between the authorized supply companies and the consumers; only a few provisions regulating the bilateral electricity sale agreements executed with the supply companies exist in the Regulation. Both the First Draft and the Second Draft intend to include detailed provisions on bilateral agreements, such as provisions on the scope, execution, renewal and termination of bilateral agreements in the Regulation.

One of the most notable novelties brought with the Second Draft is the difference between the consumers with low-consumption and consumers with high-consumption. The Second Draft provides a definition for “consumer with low-consumption” as the eligible consumer whose annual electricity consumption is under 100,000 kWh. While the same terms are also used in the Communiqué on the regulation of the last resort supply tariff (read above paragraph titled Communiqué Introducing Two Different Eligible Consumer Types entered into force), on the said Communiqué, the threshold for being an eligible consumer with low-consumption and high-consumption is determined by the EMRA

Board (which is 50.000.000 kWh for 2018), suggesting that although the same terms are used, they may refer to different amounts for each legal document. The Second Draft, differently from the First Draft, regulates the bilateral agreements in a manner that such provisions and requirements in the bilateral agreements will only be applicable to consumers with low-consumption. Therefore, the Second Draft does not regulate the bilateral agreements to be executed with eligible consumers with high-consumption.

General overview of the Second Draft nevertheless indicates that the purposed changes aim to provide more consumer-friendly regulations. Some of the notable provisions envisaged in the Second Draft in this regard are as follows:

- Bilateral agreements should be formed in a way that consumers with low-consumption are clearly informed on the content of the agreement. Differently from the First Draft, the Second Draft sets forth that parties may execute bilateral agreements not only in a written form; but also verbally, over the phone or internet. On the other hand, it also requires the conclusion of the agreement in writing afterwards as a condition for an agreement to be deemed concluded. We believe that there is a legal confusion on the conclusion of the agreements in the Second Draft. The provisions of the Second Draft relevant to the conclusion of the agreements are against the principles set forth by law, therefore should not be deemed valid. We believe these provisions should be revisited significantly in order to comply with the laws.
- Similar to the First Draft, the Second Draft also classifies bilateral agreements as definite term bilateral agreements and indefinite term bilateral agreements. However, differently from the First Draft it sets forth that the term of definite term bilateral agreements cannot be less than one (1) year and cannot exceed three (3) years. Also, contrary to the First Draft, the Second Draft does not provide that a bilateral agreement shall automatically become an indefinite term agreement at the end of such three (3) year-period; instead, it envisages how the definite term bilateral agreements may be extended by the parties.
- As for the termination of bilateral agreements, the First Draft was granting a termination right without any reason to both parties, if the agreement is an indefinite term bilateral agreement. The Second Draft, however, only provides such a termination right to the customers with low-consumption without any payment of penalty. As a legal principle, in indefinite term agreements, both parties should have right to terminate the agreement by giving a reasonable prior notice. Therefore, we believe not granting such a right to the supply companies to be contrary to contract law principles, and should be revisited in a way granting right to terminate to both parties.

- For definite term bilateral agreements, the Second Draft regulates the instances where the customers with low-consumption and supply companies may terminate a bilateral agreement, in both cases, without any payment of penalty. Any termination by supply companies other than the listed instances is subject to a penalty payment.
- The Second Draft will not be automatically applicable to the bilateral agreements that have been made prior to the entry into force of the Second Draft. On the other hand, if an eligible consumer with low-consumption requests so, existing agreements may be revised according to this new regulation within 90 days following its entry into force.
- The Second Draft also regulates that the agreements entered into should be confirmed prior to the notification to the market management system, PYS, in order to be deemed valid, and that the confirming natural person or legal entity should not have any direct or indirect relationship with the supply company. This provision lacks the necessary clarification on what qualities the confirming parties need to hold to be confirming parties. We believe such a confirmation should not be regulated in a way to create a validity condition for the bilateral agreements.
- The First Draft had set forth the items to be included in the price, and explicitly determined that no other items could be reflected in the prices. The Second Draft, however, does not adopt such a restrictive wording and states instead that the system usage price and other funds, shares, and taxes collected due to other legislations, and other prices collected as intermediary approved by the EMRA's Board will be reflected in the price.
- Finally, the Second Draft, stipulating certain requirements and conditions only to consumers with low-consumption, does not regulate the consequences on an existing contract of a consumer with high-consumption turning into a consumer with low-consumption the following year and *vice versa*. Apart from the explanations above, we believe that the Second Draft contains significant inconsistencies and should be thoroughly revised before its enactment.

As of the date of writing, the Second Draft has not been enacted yet.

**20 November 2017**

### **Purchase Guarantee for Electricity Generation from Coal until the end of 2024**

The Council of Minister's Decision No.2016/9096, which was published on 9 August 2016 ("Decision No.1"), had brought a new incentive for companies generating electricity from domestic coal for 2016. The Decision No.1 sets forth that the state-owned electricity supply company, TETAŞ would buy electricity the amount of which will be determined by the Council of Ministers. The Decision entitles

TETAŞ to buy the electricity within the range of  $\pm 10$  % of this amount. As per the Decision, TETAŞ would determine the amount to be supplied to TETAŞ by each company that applies to TETAŞ for supply of electricity as per the total electricity amount to be procured. In the event a company does not accept to supply such calculated amount, the amounts are re-evaluated for the other applying companies. As a result of the final evaluations, companies willing to supply electricity to TETAŞ sign an electricity sale agreement with TETAŞ. The Council of Minister's Decision No. 2016/9369, published on 28 October 2016 ("**Decision No.2**") regarding the incentive for 2017 determined the amount to be supplied as 18 billion kWh and the price as 185 TL/MWh (*circa* €39.8/MWh<sup>1</sup>) from 1 January 2017 until 31 December 2017.

While the Decision No.1 incentivized the generation of electricity only from domestic coal, and stated that the amount and the price would be determined each year by the Council of Ministers, the Council of Minister's Decision No. 2017/11070, which was published on 2 December 2017 ("**Decision No. 3**"), amended the Decision No.1 in a way to determine a formula for the price and the amount of electricity to be supplied to TETAŞ each year instead of determining them each year itself, and in a way to include the generation facilities generating electricity using imported and domestic coal together to such incentive. Furthermore, according to the Decision No.3 the purchase guarantee for the companies generating electricity from domestic coal will be effective until the end of 2024.

Accordingly, the amounts to be purchased from generation facilities from solely domestic coal and from domestic and imported coal together were determined as follows: If the generation facility generates electricity only with domestic coal fuel, the purchase amount will be half of the installed capacity of coal power plants in commercial operation in October of the previous year. If the plant makes production with the mixture of domestic and imported coal, the purchase amount will be half of the installed capacity of the power plants in commercial operation in October of the previous year. While the electricity unit price will also be set forth as per the formula set forth in the Decision No.3, the Decision No.3 determined the start of the use of the formula after the first quarter of 2018. Accordingly, it determined the electricity energy unit price for the first three months of 2018 as 201.35 TL/MWh (*circa* €43.3/MWh<sup>2</sup>).

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<sup>1</sup> The EUR/Turkish Lira exchange rates used in this report are based on the EUR buying rate of the Central Bank of the Republic of Turkey as of 14.30 p.m. on 25 January 2018 (*circa* EUR 1 = 4.64).

<sup>2</sup> The EUR/Turkish Lira exchange rates used in this report are based on the EUR buying rate of the Central Bank of the Republic of Turkey as of 14.30 p.m. on 25 January 2018 (*circa* EUR 1 = 4.64).



**29 November 2017**

## **Final Steps in Creation of a Gas Trading Platform in Turkey**

On 31 March 2017, the energy regulator, EMRA published the Regulation on the Organized Wholesale Natural Gas Market No. 30024 (“**Regulation**”), which aims the establishment of an organized wholesale natural gas market in Turkey. After enactment of the Regulation, necessary legal and regulatory infrastructure works have been significantly accelerated. Accordingly, the market operator, EPIAŞ, has drafted the operation principles and procedures of the organized wholesale natural gas market (“**OPP**”). The OPP has been approved by the EMRA with its Board Decision No. 7293-7 and entered into force on 23 September 2017.

The establishment of an organized spot market is an important step towards achieving Turkey’s ambition to become a natural gas trade centre. It includes setting up an electronic platform for continuous trading (Continuous Trading Platform, CTP), where market participants can purchase or sell natural gas. The platform will be established by EPIAŞ. The OPP will also enable market participants to balance their contractual obligations in the day-ahead and intra-day markets through the CTP. EPIAŞ also announced that day-after trading will be included in the system.

The Regulation requires both settlements of market transactions and imbalances in the transmission system to be carried out by EPIAŞ. Although ensuring the physical balance of the transmission system is mainly the responsibility of the transmission system operator, BOTAŞ, this task will be carried out by EPIAŞ on behalf of BOTAŞ and in accordance with the data transmitted by BOTAŞ. EPIAŞ shall keep separate accounts for the settlement of market transactions and the settlement of imbalances. Settlements shall be made at the end of each month on a gas-day basis. In relation to settlements, EPIAŞ shall be responsible for the preparation and notification of invoices, collection and payment transactions, and other activities under the conditions stipulated in the Regulation, the OPP and also the Transmission Network Operation Principles of BOTAŞ (the Network Code), as the Network Code responsibilities shall remain in force for the market participants who carry out market transactions under the CTP.

With the Board Decision No. 7454, published on 29 November 2017, the EMRA announced a new schedule for the start of the Turkish organized wholesale natural gas market. Due to continued testing on the CTP, the market will primarily be launched with virtual implementation on 1 April 2018 at 8.00 a.m., which was the pre-scheduled date for the market operation. The main purpose of virtual implementation to be carried out on the CTP is to analyze the functioning of market in terms of seasonality and manipulation scenarios. Following the virtual implementation, the market operations

including those imposing obligations for delivery, invoicing and payment will be come into operation until 1 September 2018.

The necessary adjustment processes for creation of the gas trading platform are still continuing by BOTAŞ and EPIAŞ. The software codes of the CTP are being revised by EPIAŞ in accordance with the OPP rules and BOTAŞ continues to work on the required studies for amending the Network Code as per the new regime.

**15 December 2017**

### **Changes in the Electricity Market License Regulation**

The Regulation Amending the Electricity Market License Regulation (“**Regulation**”) has been published on 15 December 2017. As per the Regulation, amendments mainly concern license application procedure, rights and obligations of the license holders and share transfer procedure.

#### **(i) License Application**

Prior to the amendment, a guarantee letter was submitted during the pre-license application, and such amount of the guarantee letter was deducted from the amount of the guarantee letter to be submitted at the license application, which is calculated as per the formula set forth in as per the formula set forth in the Board Decision No: 4709-6, published on 28 November 2013. The amendment removed the provision stating that the amount of letter of guarantee submitted in the pre-license application would be deducted from the amount of guarantee letter determined by the energy regulator, EMRA. Accordingly, we understand that the intention with such an amendment is to obtain a higher amount of letter of guarantee constituting of the sum of the letters of guarantees submitted during the license application and the pre-license application.

#### **(ii) Rights and Obligations of the License Holders**

The Regulation further provides amendments to the rights and obligations of the license holders. Prior to the amendment, the license holders had the obligation to establish and/or receive services from data processing centers in Turkey. However with the amendment, such restriction in terms of the location of the data processing centers has been revoked. The amendment now allows for the data processing centers to be established abroad or allows for the license holders to receive services from data processing centers abroad.

The amendment further imposes an obligation on the license holders by requiring them to take all necessary technical and administrative precautions to prevent third persons from accessing data regarding the work and transactions done under the license holders' activities to ensure the confidentiality, coherence and accessibility of such data.

**(iii) Transfer of Shares**

The amendment now allows certain transfer of shares, which were not possible until the license obtaining before such amendment. Direct or indirect changes in the shareholding structure of a legal entity holding a pre-license through transfer of shares between natural persons that are spouses and first degree blood relatives and who have direct or indirect shares in the relevant legal entity are now allowed. In addition, legal entities that hold pre-license which is managed under the control of Savings Deposit Insurance Fund (TMSF) can now have direct or indirect changes in their shareholding structures with approval during the pre-license period.

While the Regulation sets forth that certain share transfers are subject to the EMRA's approval, within six (6) months after which the share transfer must be performed, the amendment newly introduces a provision stating that the license holders must apply for license amendment within three (3) months following the completion of the share transfer. For the share transfers that are not subject to the EMRA's approval, the amendment requires the license holders to notify the EMRA and to request license amendment from the EMRA, if necessary, within six (6) months following the relevant share structure change. As the amendment does not set forth which circumstances would require a license amendment request, we understand that such requirement will be subject to the EMRA's discretion following the license holders' notification.

While the share transfers resulting in the change of control in a license holder company is determined to be subject to approval in Article 57 of the Regulation without any exceptions to it, the amendment introduces a provision which, we think, provides an exception by stating that the share transfers of a foreign shareholder company resulting in a change of control in the license holder company will be subject to a notification requirement within one (1) year following the relevant share transfer, six (6) months upon which a license amendment will be requested from the EMRA, if necessary. Similar to the above explanation, the determination of which circumstances will require a license amendment request will be at the EMRA's discretion. The latter provision sets forth this notification requirement only for the license holder companies, the tariffs of which are not subject to regulation. Accordingly,

we understand that the companies, the tariffs of which are subject to regulation will have to obtain an approval even in indirect foreign shareholding changes resulting in a change of control.

#### (iv) License Fees

Article 43 of the Regulation sets forth that in cases of license amendment requests for an extension to the facility completion date, the license amendment fee will be equal to the license obtaining fee of the year in which the license amendment application is made. The amendment adds that such provision shall also apply for the facilities partially operating by taking into consideration the installed capacity amount which is not in operation and subject to extension request.

**25-29 December 2017**

#### Pre-License contests

Pre-License contests were made on 25-29 December 2017 for a total installed capacity of 2130 MW, which were announced in early April 2015 and the applications of which were made during 24-30 April 2015 within the scope of the Regulation on the Contest regarding the Pre-license Applications for Establishing Power Plants Based on Wind or Solar Power (“**Contest Regulation**”). The contests took place regarding the allocation of capacities for the following regions: Amasya - Samsun (60 MW), Çorum -Kastamonu - Sinop (70 MW), Antalya (100 MW), Bitlis - Muş (40 MW), Bolu - Düzce - Sakarya (30MW), Elazığ (40 MW), Gaziantep - Kilis (40 MW), İstanbul (50 MW), Adıyaman (40 MW), Ardahan - Kars (40 MW), Erzincan (50 MW), Malatya (80 MW), Hatay (30 MW), Kahramanmaraş - Osmaniye (40 MW), Kocaeli - Yalova (40 MW), Yozgat (50 MW), Ağrı - Iğdır (50 MW), Bartın - Zonguldak - Karabük (30 MW), Batman - Mardin - Diyarbakır - Şanlıurfa (60 MW), Bayburt - Gümüşhane - Giresun (40 MW), Bursa (110MW) 27 / Erzurum (50 MW), Karaman - Mersin (250 MW), Afyonkarahisar (30 MW), Isparta (60 MW), Burdur-Denizli-Uşak (50 MW), Aydın-Muğla (50 MW), Konya (50 MW), İzmir (50 MW), Balıkesir (160 MW), Çanakkale (260 MW), Manisa (30 MW). The winners and the prices of such regions are as follows:

- 49 MW of Amasya-Samsun region by Doğages Elektrik Üretim AŞ at a price of -0.88 \$/kWh, 11 MW of Amasya-Samsun region by Ekores Enerji Elektrik Üretim AŞ at a price of -0.55 \$/kWh,
- 5 MW of Çorum-Kastamonu-Sinop region by Ekores Enerji Elektrik Üretim AŞ at a price of -0.71 \$/kWh, 65 MW of Çorum-Kastamonu-Sinop region by Res Anatolia Holding AŞ at a price of -0.66 \$/kWh,

- 50 MW of Antalya region by Enyat Enerji Yatırımları ve Elektrik Üretim Ticaret AŞ at a price of -1.18 \$/kWh, 20 MW of Antalya region by Dere Enerji AŞ at a price of -0.57 \$/kWh (for 10 MW) and -0.48 (for 10 MW), 30 MW of Antalya region by Akhisar Enerji AŞ at a price of -0.52 \$/kWh,
- 20 MW of Bitlis-Muş region by Difer Enerji Sanayi ve Ticaret AŞ at a price of 7.10 \$/kWh, 20 MW of Bitlis-Muş region by Beres Elektrik Üretim AŞ at a price of -6.95 \$/kWh,
- 30 MW of Bolu-Düzce-Sakarya region by Gümüşçi Elektrik Üretim AŞ at a price of 3.78 \$/kWh,
- 40 MW of Elazığ region by Buca Rüzgar Güneş Yenilenebilir Enerji ve Elektrik Üretim AŞ at a price of -0.63 \$/kWh,
- 40 MW of Gaziantep- Kilis region Lacivert Yenilenebilir Enerji ve Elektrik Üretim AŞ at a price of -1.63 \$/kWh,
- 49,5 MW of İstanbul region by Lacivert Yenilenebilir Enerji ve Elektrik Üretim AŞ at a price of -1.71 \$/kWh, 0,5 MW of İstanbul region by Polat Enerji AŞ at a price of -0.65,
- 30 MW of Hatay region by Böğürtlen Yenilenebilir Enerji ve Elektrik Üretim AŞ at a price of -1.83 \$/kWh,
- 30 MW of Malatya region by Tunna Enerji Üretim Sanayi ve Ticaret AŞ at a price of -1.81 \$/kWh, 50 MW of Malatya region by Sandal Yenilenebilir Enerji ve Elektrik Üretim AŞ at a price of -1.22 \$/kWh,
- 40 MW of Adıyaman region by Errol Enerji Üretimi Sanayi ve Ticaret AŞ at a price of -1.40 \$/kWh, 20 MW of Adıyaman region by Özgül Lilyum Yenilenebilir Enerji ve Elektrik Üretim AŞ at a price of -0.77 \$/kWh,
- 20 MW of Ardahan-Kars region by Ceres Elektrik Üretim AŞ at a price of 7.29 \$/kWh,
- 48 MW of Erzincan region by Arapgir Elektrik Enerjisi Üretim AŞ at a price of -1.33 \$/kWh, 2 MW of Erzincan region by Bengü Enerji Üretim Sanayi ve Ticaret AŞ at a price of 6.20 \$/kWh,
- 20 MW of Kahramanmaraş- Osmaniye region by Güney Res Enerji Yatırım Üretim ve Ticaret A.Ş. at a price of -0.90 \$/kWh, 20 MW of Kahramanmaraş- Osmaniye region by Ak Jeo Enerji Üretim Sanayi Ve Ticaret A.Ş. at a price of -0.60 \$/kWh,
- 40 MW of Kocaeli-Yalova region by Karanfil Yenilenebilir Enerji ve Elektrik Üretim AŞ at a price of -1.41 \$/kWh,
- 30 MW of Yozgat region by Sandeks Enerji Üretimi Sanayi ve Ticaret AŞ at a price of -1.58 \$/kWh, 20 MW of Yozgat region by Menekşe Yenilenebilir Enerji ve Elektrik Üretim Ticaret AŞ at a price of -1.21 \$/kWh,

- 20 MW of Ağrı-Iğdır region by Kocatepe Arslanlar Elektrik Üretim AŞ at a price of 7.27 \$/kWh, 30 MW of Ağrı-Iğdır region by Knot Enerji Elektrik Üretim AŞ at a price of 7.29 \$/kWh,
- 30 MW of Bartın-Zonguldak- Karabük region by Yağmur Res Enerji Yatırım Üretim ve Ticaret AŞ at a price of -0.15 \$/kWh,
- 60 MW of Batman- Mardin- Diyarbakır- Şanlıurfa region by Uranüsgeş Elektrik Üretim AŞ at a price of -1.12 \$/kWh,
- 30 MW of Bayburt- Gümüşhane- Giresun region by Ömer Enerji Üretim Sanayi Ticaret AŞ at a price of -0.12 \$/kWh, 10 MW of Bayburt- Gümüşhane- Giresun region by Ömer Eşyel Global Elektrik Üretim AŞ at a price of 7.29 \$/kWh,
- 50 MW of Erzurum region by Yel Rüzgar Enerjisi Yatırımları ve Elektrik Üretim AŞ at a price of 5.64 \$/kWh,
- 45 MW of Bursa region by BER Enerji Üretim AŞ at a price of -1.41 \$/kWh, 15 MW of Bursa region by Işık Res Enerji Yatırım Üretim ve Ticaret AŞ at a price of -1.05 \$/kWh, 30 MW of Bursa region by Umut Res Enerji Yatırım Üretim ve Ticaret AŞ at a price of -1.05 \$/kWh, 10 MW of Bursa region by Baysal Elektrik Üretim AŞ at a price of -1.05 \$/kWh, 10 MW of Bursa region by NTP Elektrik Üretim LTD ŞTİ at a price of -0.99 \$/kWh,
- 124.2 MW of Bursa region by Polat Enerji Sanayi ve Ticaret AŞ at a price of -2.13 \$/kWh, 49.5 MW of Bursa region by Makif Rüzgar Güneş Yenilenebilir Enerji Ve Elektrik Üretim AŞ at a price of -1.59 \$/kWh, 49.5 MW of Bursa region by Sarmaşık Yenilenebilir Enerji Ve Elektrik Üretim AŞ at a price of -1.53 \$/kWh, 12 MW of Bursa region by Cerenges Elektrik Üretim AŞ at a price of -1.69 \$/kWh,
- 23.4 MW of Afyonkarahisar region by Polat Enerji Sanayi ve Ticaret AŞ at a price of -1.89 \$/kWh, 6.6 MW of Afyonkarahisar region by Hatmi Yenilenebilir Enerji ve Elektrik Üretim AŞ at a price of -1.25 \$/kWh,
- 60 MW of Afyonkarahisar region by Şule Enerji Üretim Sanayi ve Ticaret AŞ at a price of -1.69 \$/kWh,
- 47 MW of Burdur-Denizli-Uşak region by Batıres Elektrik Üretim AŞ at a price of -1.49 \$/kWh, 3 MW of Burdur-Denizli-Uşak region by Alternatif Res Enerji Yatırım Üretim ve Ticaret AŞ at a price of -0.69 \$/kWh,
- 49.5 MW of Aydın- Muğla region by Lodos Yenilenebilir Enerji ve Elektrik Üretim AŞ at a price of -2.23 \$/kWh, 0.5 MW of Aydın- Muğla region by Ekores Enerji Elektrik Üretim AŞ at a price of -2.02 \$/kWh,

- 30 MW of Konya region by İdilres Elektrik Üretim AŞ at a price of -1.19 \$/kWh, 20 MW of Konya region by Res Anatolia Holding AŞ at a price of -0.56 \$/kWh,
- 50 MW of İzmir region by Polat Enerji Sanayi ve Ticaret AŞ at a price of -2.51 \$/kWh,
- 150.1 MW of Balıkesir region by Polat Enerji Sanayi ve Ticaret AŞ at a price of -2.51 \$/kWh, 9.9 MW of Balıkesir region by Sarı Kanat Enerji Ve Sanayi Ticaret AŞ at a price of -2.57 \$/kWh,
- 30 MW of Manisa region by Düzce Rüzgar Yenilenebilir Enerji ve Elektrik Üretim AŞ at a price of -2.02 \$/kWh,
- 30 MW of Manisa region by Düzce Rüzgar Yenilenebilir Enerji ve Elektrik Üretim AŞ at a price of -2.02 \$/kWh,
- 99.9 MW of Çanakkale region by Polat Enerji Sanayi ve Ticaret AŞ at a price of -2.42 \$/kWh, 71.4 MW of Çanakkale region by PNE Wind Yenilenebilir Enerjiler LTD ŞTİ at a price of -2.87 \$/kWh, 40 MW of Çanakkale region by Yakın Yenilenebilir Enerji Danışmanlık Mühendislik İnşaat Sanayi ve Ticaret Enerjiler LTD ŞTİ at a price of -2.11 \$/kWh, 10 MW of Çanakkale region by Selin4 Enerji Elektrik Üretim AŞ at a price of -2.71 \$/kWh, 10 MW of Çanakkale region by Selin3 Enerji Elektrik Üretim AŞ at a price of -2.70 \$/kWh, 9.9 MW of Çanakkale region by Balay Enerji Elektrik Üretim AŞ at a price of -2.10 \$/kWh, 5 MW of Çanakkale region by Merkom Enerji Sanayi ve Ticaret AŞ at a price of -2.35 \$/kWh, 3.8 MW of Çanakkale region by Keremres Elektrik Üretim AŞ at a price of -2.09 \$/kWh.

As announced by the transmission system operator, TEİAŞ, 2,110 MW out of 2,130 MW capacities were allocated within the scope of the contests. The reason for the unallocated capacity of 20 MW was that there was only one application made for the Ardahan-Kars region, therefore no capacity was allocated to this region.

**30 December 2017**

### **EMRA's Decision on the Change of Distribution Fee Tariffs for Unlicensed Electricity Generation Facilities**

With the Board Decision No. 7617 (“**Decision**”) published on 30 December 2017, the energy regulator, EMRA announced the determined new distribution tariffs that will apply to unlicensed electricity generation facilities for the year of 2018. The Decision increased the distribution tariff that the unlicensed electricity generators will be subject to by 10.3% compared to last year's tariff. The distribution tariffs for the years 2017 and 2018 are shown below:

|   | <b>2017</b><br><b>(First quarter)</b><br><b>kr/kWh</b> | <b>2017</b><br><b>(Second quarter)</b><br><b>kr/kWh</b> | <b>2017</b><br><b>(Third quarter)</b><br><b>kr/kWh</b> | <b>2017</b><br><b>(Fourth quarter)</b><br><b>kr/kWh</b> | <b>2018</b><br><b>(First quarter)</b><br><b>kr/kWh</b> |
|---|--|---|--|---|--|
| <b>For the generation facilities that obtain minutes on the readiness to provisional acceptance before 31/12/2017</b> | 2,5628   | 2,5628  | 2,5628   | 2,5104  | 2,8276   |
| <b>For the generation facilities that obtain minutes on the readiness to provisional acceptance after 31/12/2017</b>  | 10,2510  | 10,2510   | 10,2510  | 10,0417   | 11,3104  |

As per the Decision, the unlicensed electricity generation facilities that obtained their minutes on the readiness to provisional acceptance before 31 December 2017 will continue to benefit from a discount of 75% during the period that they can benefit from the feed-in-tariffs based on the Utilization of Renewable Energy Sources for the Purposes of Generating Electrical Energy Law No: 5346, for the purpose of removing the negative effects of the high increase in the tariff for the unlicensed electricity generators which are close to obtaining their provisional acceptances.

**30 December 2017**

**Procedures and Principles on the acquisitions by distribution companies of the electricity distribution facilities owned by users**

With the Board Decision No. 7533-1, published on 30 December 2017, the energy regulator, EMRA, announced the procedures and principles on the acquisitions by distribution companies of the electricity distribution facilities which fall under the scope of Article 37 of the Connection System Usage Regulation. As per Article 37 (*read more in the 2017 half year edition*), the following



electricity facilities owned by users will be transferred to the relevant distribution company in the following order:

- distribution facilities providing energy to institutions and organizations engaged in national security (if requested by such institution or organization),
- distribution facilities that will be subject to common usage within the scope of a new connection and facilities that will become within the scope of distribution facilities due to a new connection,
- distribution facilities requiring improvement and/or capacity increase investment,
- facilities that have been decided to be acquired to be used for other purposes in the distribution network.

These newly introduced principles and procedures set forth the principles and procedures for the price calculation and payment methods to be used for the acquisitions of these facilities by distribution companies.

**30 December 2017**

### **Amendment in the Implementation Regulations regarding the Public Procurements**

With Circular No 2016/25 (“**Circular**”) published on 19 November 2016, the purpose and importance of Istanbul Arbitration Centre (“**İSTAC**”) had been underlined through its advantages and people had been encouraged to choose arbitration rather than resolution through courts for the agreements conducted with state institutions and organizations. Even though choosing arbitration was not made mandatory in the Circular, it was strongly recommended.

In the Official Gazette dated 30 December 2017 (*bis 1*), four Implementation Regulations regarding the Public Procurements (“**Regulations**”) have adopted the Circular’s main aim to encourage İSTAC as an advantageous way to resolve the disputes arising out of public procurements relevant the amendments. As a result of the amendments in the Regulations, İSTAC will be an alternative dispute resolution in public procurements signed after 19 January 2018 not only with foreign investors but also with domestic investors. With this way, İSTAC will be an advantageous solution to resolve the disputes arising out of public procurements for both foreign investors and domestic investors.

## **Privatization of Eskişehir Coal Mine Reserve Area and Energy Generation Area**

With the decision No.4805, published on 26 September 2017, the Privatization Administration announced a tender for the privatization of Eskişehir Coal Mine Reserve Area and Energy Generation Area located in Alpu, Eskişehir (“Area”). Accordingly, the Area will be privatized through the method of “granting of operation right” for the purpose of establishment of a power plant generating electricity from the coal reserve in the Area and for the sale of such electricity to the state-owned electricity generation company, EÜAŞ with an electricity purchase agreement, the terms of which to be determined in the tender. The tender will be carried-out through the negotiation procedure by reduction, and if deemed necessary by the tender commission, will be finalized *via* open reduction auction. The tender specification fee is set forth as TL 25,000 (*circa* USD 6,680<sup>3</sup>). The companies should also submit a temporary performance guarantee of USD 25,000,000 (*circa* TL 93,577,500<sup>4</sup>). The deadline for making the bids for the Area is 26 January 2018.

## **Privatization Tenders for Hydroelectricity Power Plants**

- **Manyas and Tortum Hydroelectricity Power Plants**

As a part of the ongoing privatization program of Hydroelectricity Power Plants (“HPP”), the Privatization Administration has announced the privatization tenders regarding the Tortum HPP and Manyas HPP which owned by the state-owned electricity generation company, EÜAŞ. The tender information for Tortum HPP was announced on 20 September 2017 and for Manyas HPP it was announced on 2 October 2017. Tortum HPP is located in Erzurum with an installed capacity of 26, 20 MWe and Manyas HPP is located in Balıkesir with an installed capacity of 20, 25 MWe. As per the announcements, the HPPs will be privatized by granting to the private company who won the tender right to operate the HPPs. The deadline for making the bids for Tortum HPP was 2 November 2017 and for Manyas HPP was 13 November 2017.

On 7 November 2017, it was announced by the Privatization Administration that three (3) companies submitted bid for the tender of the privatization of Tortum HPP. Accordingly, at the end of the auction it was announced that Has-Kar Harita Kadastro Mühendislik Taahhüt ve Ticaret Ltd. Şti. submitted the highest bid in the tender with TL 56,000,000 (*circa* USD 17.192,513<sup>5</sup>) In January, there have been recent developments regarding the process of Tortum HPP. Due to protests from the residents of the

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<sup>3</sup> The USD/Turkish Lira exchange rates used in this report are based on the USD buying rate of the Central Bank of the Republic of Turkey as of 14.30 p.m. on 25 January 2018 (*circa* USD 1 = 3.74).

<sup>4</sup> *Ibid.*

<sup>5</sup> The USD/Turkish Lira exchange rates used in this report are based on the USD buying rate of the Central Bank of the Republic of Turkey as of 14.30 p.m on 25 January 2018 (*circa* USD 1 = 3.74).

area where the HPP is planned to be built and from the environmental organizations, the Ministry of Environment and Urbanization has made a public announcement stating that the Tortum HPP Project has been cancelled.

On 14 November 2017, it was announced by the Privatization Administration that five (5) companies submitted bid for the tender of the privatization of Manyas HPP. At the end of the auction it was announced that Samsun Makina Sanayi AŞ - Aria Teknoloji Yatırımlar AŞ joint venture submitted the highest bid in the tender with TL 64,300,000 (*circa* USD 17.182,406<sup>6</sup>) and therefore will be invited to sign the transfer of operation rights agreements for Manyas HPP.

- **Menzelet and Kılavuzlu Hydroelectricity Power Plants**

In 2016, Menzelet and Kılavuzlu Hydroelectricity Power Plants (“HPP”) were announced to be collectively privatized as a part of the privatization program of HPPs. Both of these HPPs are owned by the state-owned electricity generation company, EÜAŞ. Menzelet HPP is located in Kahramanmaraş with an installed capacity of 124 MWe and Kılavuzlu HPP is also located in Kahramanmaraş with an installed capacity of 54 MWe. The deadline for making the bids for both Menzelet HPP and Kılavuzlu HPP was 30 September 2016. On 3 November 2016, the tenders for both these HPPs were conducted with the bid submissions from 10 different companies. As per the Privatization Administration’s decisions for both tenders, the highest bidder, Akörenbeli Hidroelektrik Santral Yatırımları Yapım ve İşletim A.Ş was invited to sign the transfer of operation rights agreements for these two HPPs. However, the transfers of the operation rights of these HPPs were not completed; therefore privatization tenders were conducted once more in 2017. In the second tender which was conducted on 11 September 2017, six (6) companies submitted their bids to participate in the tender. The companies that participated in the tender were as follows:

- Sanko Rüzgar Enerjisi Sanayi ve Ticaret A.Ş.
- Entek Elektrik Üretimi A.Ş.
- Fernas İnşaat A.Ş.
- Bayburt Grup İnşaat Nakliyat Madencilik İthalat İhracat Sanayi ve Ticaret A.Ş.
- Demars İnşaat Turizm Ticaret Ltd. Şti.
- Limak Yatırım Enerji Üretim İşletme Hizmetleri ve İnşaat A.Ş.

On 19 September 2017, it was announced by the Privatization Administration that Entek Elektrik Üretimi A.Ş submitted the highest bid in the tender and therefore is invited to sign the transfer of

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<sup>6</sup> *Ibid.*

operation rights agreements for Menzelet HPP and Kılavuzlu HPP. Upon the failure to sign the transfer of operation rights agreements and failure to fulfill the obligations required thereto by Entek Elektrik Üretimi A.Ş, the second highest bidder Bayburt Grup İnşaat Nakliyat Madencilik İthalat İhracat Sanayi ve Ticaret A.Ş will be invited to sign the transfer of operation rights agreements for Menzelet HPP and Kılavuzlu HPP.

## Updates on the Tariffs, Thresholds and Participation Rates Applicable in 2018

### Eligible Consumer Threshold in Electricity Market

With the Board Decision No.7474, published on 29 December 2017, the energy regulator, EMRA announced the eligible consumer threshold in the electricity market as 2,000 kWh for 2018 which corresponds to a limit of over TL 69 per month (*circa* €14.86<sup>7</sup>). The threshold was 2,400 kWh for 2017<sup>8</sup>. The decrease of the eligible consumer threshold over the years is shown in the table below:

| Year | Eligible Consumer Threshold (kWh) | Decrease compared to previous year (%) |
|------|-----------------------------------|--|
| 2003 | 9,000,000                         | -                                      |
| 2004 | 7,800,000                         | 13 %                                   |
| 2005 | 7,700,000                         | 1 %                                    |
| 2006 | 6,000,000                         | 22 %                                   |
| 2007 | 3,000,000                         | 50 %                                   |
| 2008 | 1,200,000                         | 60 %                                   |
| 2009 | 480,000                           | 60 %                                   |
| 2010 | 100,000                           | 79 %                                   |
| 2011 | 30,000                            | 70 %                                   |
| 2012 | 25,000                            | 17 %                                   |
| 2013 | 5,000                             | 80 %                                   |
| 2014 | 4,500                             | 10 %                                   |

<sup>7</sup> The EUR/Turkish Lira exchange rates used in this report are based on the EUR buying rate of the Central Bank of the Republic of Turkey as of 14.30 p.m. on 25 January 2018 (*circa* EUR 1 = 4.64).

<sup>8</sup> As per the Electricity Market Consumer Services Regulation published on 8 May 2014, a consumer qualifies as an eligible consumer, thus, may choose its electricity provider freely (i) if its electricity consumption in the previous year exceeds the eligible consumer threshold set by the EMRA each year, (ii) if it connects directly to the transmission system, or (iii) if it is an organized industrial zone legal entity. The EMRA decreases such threshold each year with the aim to finally reset it and liberate all the consumers to choose the supplier they wish. The threshold in 2013 was majorly decreased from 25,000 kWh to 5,000 kWh and continued to be decreased slowly each year ever since.

|             |       |      |
|-------------|-------|------|
| 2015        | 4,000 | 11 % |
| 2016        | 3,600 | 10 % |
| 2017        | 2,400 | 33 % |
| <b>2018</b> | 2,000 | 17 % |

### **Eligible Consumer Threshold in Natural Gas Market**

The notion of eligible consumer also exists in the natural gas market; yet it is applied differently for residential and non-residential consumers. Accordingly, while the energy regulator, EMRA sets forth since 2013 (starting with its decision No. 4168) that all consumers except for residential consumers are eligible consumers, thus, are able to choose their suppliers freely; only those residential consumers whose consumption is over the eligible consumer threshold annually set forth by the EMRA are deemed to be eligible consumers. However, such conditions for eligibility apply to the consumers of a distribution region only after five (5) years has passed after the distribution company obtained its license to distribute natural gas in its region. Please note that only nine (9) of the total 72 license holders obtained their licenses within the last five (5) years. With the Board Decision No. 7537, published on 30 December 2017, the EMRA announced the eligible consumer threshold in natural gas sector for residential consumers as 75,000 m<sup>3</sup> for 2018, by maintaining the same threshold for 2015, 2016 and 2017.

### **Participation Share Ratios in the Natural Gas LPG and Petroleum Markets**

The participation share is determined as one of the revenue sources of the energy regulator, EMRA with respect to (i) natural gas market, (ii) LPG market and (iii) petroleum market under Article 10 of the Law on the Structure and Duties of the Energy Market Regulatory Authority No. 4628 (“**Law**”).

#### **(i) Share Ratio in Natural Gas Market**

The participation share amount that natural gas market license and certificate holders must pay is calculated by multiplying (i) the relevant company’s net sale revenue stated in its annual income statement and (ii) the participation share ratio which is determined by the EMRA (such amount not to exceed 0.2%). In this regard, the EMRA determined the participation share ratio for the natural gas market activities in its decision No. 7560, published on 30 December 2017 as 0.05% for license holders and as 0% for certificate holders for 2018. The ratio for 2017 was also 0.05% for license holders and 0% for the certificate holders.

## **(ii) Share Ratio in LPG Market**

As per Article 10/D of the Law, the companies holding LPG production, distribution, filling and auto gas distributorship licenses are responsible for paying the participation share. The participation share ratio is determined by the EMRA in a way not to exceed (i) 0.01% of the annual total net sale revenue of the relevant companies stated in their income statement (ii) USD 2,000,000 (to be calculated in accordance with the buying rate of exchange of USD on 31 December 2018 as per the EMRA's decision described below).

As per the EMRA's Board Decision No. 7565, published on 30 December 2017, the participation share ratio that will be applied to LPG distribution license holders during 2017 will be 0.1% of their net sale amount arising from annual market activities of the prior year.

## **(iii) Share Ratio in the Petroleum Market**

As per Article 10/C of the Law, the companies holding refining, processing, distribution, transmission, shipment, storage, bunker fuel and mineral oil licenses are responsible for paying the participation share. The participation share ratio is determined by the EMRA in a way not to exceed (i) 0.01% of the annual total net sale revenue stated in their income statement and (ii) USD 2.000.000. As per the EMRA's Board Decision No.7562, published on 30 December 2017, the participation share ratio that will be applied to companies holding licenses in the petroleum market in 2018 will be 0.1% of their net sale amount arising from annual market activities of the prior year. For the companies holding transmission and dealership licenses in the petroleum market, the participation share ratio that will be applied in 2018 will be 0%.

## **License Fees regarding Electricity Market**

With the Board Decision No. 7557, published on 30 December 2017 ("**Decision**"), the energy regulator, EMRA announced **(i)** the fees to be paid by companies while obtaining, renewing, amending a license and issuing a copy of the license and **(ii)** the annual license and pre-license fees for 2018. According to the Decision, the mentioned license fees were increased 14.75% compared to the fees of 2017.

The generation license and pre-license issuance fees vary based on their installed capacity and are as follows for 2018:

| <b>GENERATION PRE-LICENSE AND LICENSE ISSUANCE FEES<sup>9</sup></b> |  |                     |                |                     |
|---|--|---------------------|----------------|---------------------|
| <b>Installed Capacity Value,<br/>“P(MW)”</b>                        | <b>Pre-License<sup>10</sup></b>  |                     | <b>License</b> |                     |
|   | <b>TL</b>  | <b>Euro (circa)</b> | <b>TL</b>      | <b>Euro (circa)</b> |
| 0 < P ≤ 10 MW   | 7,000  | 1,508               | 7,000          | 1,508               |
| 10 < P ≤ 25 MW  | 13,800   | 2,972               | 13,800         | 2,972               |
| 25 < P ≤ 50 MW  | 20,700   | 4,458               | 20,700         | 4,458               |
| 50 < P ≤ 100 MW   | 34,500   | 7,431               | 34,500         | 7,431               |
| 100 < P ≤ 250 MW  | 69,000   | 14,861              | 69,000         | 14,861              |
| 250 < P ≤ 500 MW  | 138,000  | 29,723              | 138,000        | 29,723              |
| 500 < P ≤ 1000 MW   | 207,000  | 44,584              | 207,000        | 44,584              |
| P > 1000 MW   | 345,000  | 74,321              | 345,000        | 74,321              |
| <b>ANNUAL GENERATION LICENSE FEES</b>                               |  |                     |                |                     |
| Kr 0.003 (circa Euro Cent 0.0065) for per produced kWh.             |  |                     |                |                     |
| <b>GENERATION LICENSE RENEWAL FEE</b>                               |  |                     |                |                     |
| 50% of the total license issuance fee.                              |  |                     |                |                     |
| <b>SUPPLY LICENSE ISSUANCE FEES</b>                                 |  |                     |                |                     |
| <u>For authorized supply companies<sup>11</sup>:</u>                | TL 690,000 (circa Euro 148,604)  |                     |                |                     |
| <u>For the other supply companies:</u>                              | TL 380,000 (circa Euro 81,840)   |                     |                |                     |
| <b>ANNUAL SUPPLY LICENSE FEES</b>                                   |  |                     |                |                     |
| <u>For authorized supply companies:</u>                             | Kr 0.003 (circa Euro Cent 0.0065) for per Kwh for total wholesale and / or retail sales. |                     |                |                     |
| <u>For the other supply companies:</u>                              | Kr 0.003 (circa Euro Cent 0.0065) for per Kwh for total wholesale and / or retail sales. |                     |                |                     |

<sup>9</sup> The EUR/Turkish Lira exchange rates used in this report are based on the EUR buying rate of the Central Bank of the Republic of Turkey as of 14.30 p.m. on 25 January 2018 (circa EUR 1 = 4.64).

<sup>10</sup> As per the Decision, legal entities which apply in order to obtain a pre-license for generation facilities based on domestic natural resources and renewable energy sources shall pay 10% of the pre-license issuance fees stated above.

<sup>11</sup> As per the Electricity Market License Regulation published on 2 November 2013, authorized supply company means the supply company which has been established within the scope of the legal segregation of distribution and retail sale activities or which has been delegated by the EMRA as the final source of supply.

### License Fees regarding Natural Gas Market

With the Board Decision No.7558, published on 30 December 2017 (“**Decision**”), the energy regulator, EMRA announced the license fees to be paid by companies while obtaining, renewing, amending a license and issuing a copy of the license together with the annual license fees for 2018.

License fees were increased by 14.3% compared to the license fees of 2017. The updated license issuance fees for 2018 are as follows:

| Activity                                 | License Issuance Fee |                                     |
|--|----------------------|-------------------------------------|
|  | TL                   | Euro ( <i>Circa</i> ) <sup>12</sup> |
| Import                                   | 171,000              | 36,833                              |
| Natural Gas Transmission                 | 1,282,000            | 276,138                             |
| Liquefied Natural Gas (LNG) Transmission | 62,100               | 13,376                              |
| Storage                                  | 344,000              | 74,096                              |
| Wholesale                                | 85,300               | 18,373                              |
| Distribution                             | 85,300               | 18,373                              |
| CNG Distribution                         | 17,100               | 3,683                               |
| CNG Transmission                         | 17,100               | 3,683                               |
| CNG Sale                                 | 17,100               | 3,683                               |
| Export                                   | 34,300               | 7,388                               |

The annual license fees shall be 0,0005 Kuruş (1,08 Euro Cent<sup>13</sup>) per Kw that is distributed, sold, bought, transmitted as per the license type. There is no annual license fee for export licenses.

### Minimum Share Capital Amounts for Companies Operating in Natural Gas Market

Companies willing to obtain a license in order to perform activities in the natural gas market should comply with the minimum share capital amounts set and revaluated each year by the energy regulator, EMRA as per Article 47 of the Natural Gas Market License Regulation. The new minimum share capital amounts for 2018 were revaluated as 14.47% in accordance with the revaluation rate announced in the Tax Procedure Law Communiqué (Item No: 484) published on 11 November 2017. Accordingly, the minimum share capital amounts for companies operating in natural gas market for each type of license are as follows:

<sup>12</sup> The EUR/Turkish Lira exchange rates used in this report are based on the EUR buying rate of the Central Bank of the Republic of Turkey as of 14.30 p.m. on 25 January 2018 (circa EUR 1 = 4.64).

<sup>13</sup> *Ibid.*



| License Type   | Minimum Capital Amounts for 2018 |                                     | Minimum Capital Amounts for 2017 |                                     |
|--|----------------------------------|-------------------------------------|----------------------------------|-------------------------------------|
|  | TL                               | Euro ( <i>Circa</i> ) <sup>14</sup> | TL                               | Euro ( <i>Circa</i> ) <sup>15</sup> |
| Import   | 6,192,827                        | 1,333,914                           | 5,409,425                        | 1,165,222                           |
| Storage  | 31,021,370                       | 6,681,896                           | 27,047,116                       | 5,826,106                           |
| Storage (for the liquefied natural gas plants with a maximum LNG capacity of 75,000 m <sup>3</sup> ) | 7,440,550                        | 1,602,669                           |                                  |                                     |
| Wholesale (50% is taken into consideration for the generation companies)                             | 6,192,827                        | 1,333,971                           | 5,409,425                        | 1,165,221                           |
| Wholesale (AutoLNG)  | 1,144,700                        | 246,575                             |                                  |                                     |
| Export   | 3,262,395                        | 702,739                             | 2,839,948                        | 611,741                             |
| CNG Sale   | 619,283                          | 133,397                             | 540,943                          | 116,50                              |
| CNG Distribution and Transmission  | 619,283                          | 133,397                             | 540,943                          | 130,596                             |
| AutoCNG  | 619,283                          | 133,397                             |                                  |                                     |
| Transmission   | 31,021,370                       | 6,682,183                           | 27,047,116                       | 5,825,102                           |
| Liquefied Natural Gas (LNG) Transmission   | 1,556,792                        | 335,342                             | 1,352,356                        | 291,255                             |

### Application and Annual Operation Fees for Unlicensed Electricity Generation

Companies willing to conduct electricity generation without obtaining a license should pay the application fee for their application for unlicensed electricity generation and annual operation fees for each year they perform unlicensed electricity generation. In accordance with the Article 31/2 of the

<sup>14</sup>The EUR/Turkish Lira exchange rates used in this report are based on the EUR buying rate of the Central Bank of the Republic of Turkey as of 14.30 p.m. on 25 January 2018 (circa EUR 1 = 4.64).

<sup>15</sup> *Ibid.*

Regulation on the Unlicensed Electricity Generation in Electricity Market published on 2 October 2013, the annual operation fees are regulated to be paid to the relevant electricity distribution company and the relevant authorized supply company separately. The Board Decisions of the energy regulator, EMRA, No.7516 (the application fees), No. 7516-8 (the annual operation fees to be paid to the relevant electricity distribution company); and No. 7516-9 (the annual operation fees to be paid to the relevant authorized supply company by companies willing to perform unlicensed electricity generation for 2018) were published on 16 December 2017.

The application and annual operation fees vary based on the installed capacity and are as follows for 2018:

| <b>APPLICATION FEES</b>  |                             |                                  |
|--|-----------------------------|----------------------------------|
| <b>Installed Capacity Value,<br/>“P(MW)”</b>   | <b>Application Fee</b>      |                                  |
|  | <b>TL</b>                   | <b>Euro (circa)<sup>16</sup></b> |
| 0 < P ≤ 250 kW   | 0                           | 0                                |
| 250 kW < P   | 596.48                      | 128,46                           |
| <b>ANNUAL OPERATION FEES TO BE PAID TO THE RELEVANT AUTHORIZED SUPPLY COMPANY</b>        |                             |                                  |
| <b>Installed Capacity Value,<br/>“P(MW)”</b>   | <b>Annual Operation Fee</b> |                                  |
|  | <b>TL</b>                   | <b>Euro (circa)</b>              |
| 0 < P ≤ 250 kW   | 0                           | 0                                |
| 250 kW < P   | 1,192.96                    | 256,93                           |
| <b>ANNUAL OPERATION FEES TO BE PAID TO THE RELEVANT ELECTRICITY DISTRIBUTION COMPANY</b> |                             |                                  |
| <b>Installed Capacity Value,<br/>“P(MW)”</b>   | <b>Annual Operation Fee</b> |                                  |
|  | <b>TL</b>                   | <b>Euro (circa)</b>              |
| 0 < P ≤ 10 kW  | 0                           | 0                                |
| 10 < P ≤ 250 kW  | 834                         | 179,62                           |
| 250 kW < P   | 1,667.98                    | 359,23                           |

<sup>16</sup>The EUR/Turkish Lira exchange rates used in this report are based on the EUR buying rate of the Central Bank of the Republic of Turkey as of 14.30 p.m. on 25 January 2018 (circa EUR 1 = 4.64).

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