



Energy Sector in Turkey

I. Overview of Turkish Energy Market

Economic expansion, positive demographic trends and the rapid pace of urbanization are the main drivers of Turkey's growing energy demand. Due to this increase in the energy demand, the Turkish energy market has been experiencing vast changes. These changes include liberalization, attracting private sector participation and the establishment of a competitive market.

In line with the liberalization targets of Turkey, the Ministry of Energy and Natural Resources ("**MENR**") has been preparing and implementing energy policies, plans and programs in coordination with its affiliated institutions. The national regulatory authority, Energy Market Regulatory Authority ("**EMRA**") regulates and supervises the operation of electricity, downstream petroleum and downstream natural gas markets whereas the General Directorate of Petroleum Affairs regulates and supervises upstream markets.

EMRA exercises its powers through the Energy Market Regulatory Board ("**EMRB**"). With its capacity to regulate and supervise energy markets, EMRA has the following duties: (i) issuing licenses; (ii) drafting, amending, enforcing and auditing performance standards, as well as distribution and customer services; (iii) setting out the pricing principles indicated in the law; and (iv) ensuring the development and implementation of an infrastructure.

The primary legislation for the electricity market is the Electricity Market Law¹ ("**EML**") and the Electricity Market License Regulation². The Petroleum Market Law³ ("**PML**"), the Liquefied Petroleum Gas Market Law⁴ and the Petroleum Market License Regulation⁵ govern downstream petroleum activities. The Natural Gas Market Law⁶ and the Natural Gas Market License Regulation⁷ govern downstream and midstream natural gas activities. As for the upstream market, the Turkish Petroleum Law⁸ governs upstream oil and gas activities. The Law on Transit Passage through Petroleum Pipelines⁹ governs the transit passage of oil and gas.

II. Recent Developments

Turkey's importance in the energy market is not just increasing as a growing consumer with a huge domestic market, but also as an energy transit hub. Recent developments in energy

¹ Published in the Official Gazette dated 30 March 2013 numbered 28603

² Published in the Official Gazette dated 2 November 2013 numbered 28809

³ Published in the Official Gazette dated 20 December 2013 numbered 25322

⁴ Published in the Official Gazette dated 13 March 2005 numbered 25754

⁵ Published in the Official Gazette dated 17 June 2004 numbered 25495

⁶ Published in the Official Gazette dated 2 May 2001 numbered 24390

⁷ Published in the Official Gazette dated 7 September 2002 numbered 24869

⁸ Published in the Official Gazette dated 11 June 2013 numbered 28674

⁹ Published in the Official Gazette dated 29 June 2000 numbered 24094

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markets are briefly summarized below, under three subsections (i) electricity market; (ii) upstream; and (iii) renewable energy.

1. Electricity

The new EML provides that an electricity exchange market will be established, which will be administered through a newly incorporated company, Enerji Piyasaları İşletme Anonim Şirketi ("**EPIAŞ**"). EMRA finalized the preparation of EPIAŞ's draft articles of association. According to the draft, EPIAŞ's shareholding structure will be as follows: 30% will be owned by Türkiye Elektrik İletim Anonim Şirketi ("**TEİAŞ**"), the state transmission entity; 30% will be owned by the Istanbul Stock Exchange; and 40% will be owned by private energy companies. On 16 December 2014, EMRA announced that that EPIAŞ's articles of association was finalized and, on 25 February 2015, the 99 founding shareholders of EPIAŞ, including the Istanbul Stock Exchange and TEİAŞ, were invited to sign the articles of association.¹⁰ In addition, EMRB determined EPIAŞ's board of directors' structure, to be composed of seven members.

The Turkish electricity market is one of the fastest-growing in the world, with an approximately 9% annual increase on average. Currently, Turkey took the second place in the world for the growth pace in electricity consumption, after China.

2. Upstream

There have been some significant developments in international pipeline projects in Turkey. The most important pending project is the Trans Anatolian Natural Gas Pipeline ("**TANAP**"). On 24 July 2014, Turkey approved the environmental impact assessment report prepared for the TANAP Project. In September 2014, the Turkish Parliament approved (i) the MoU between the Republic of Turkey and the Republic of Azerbaijan Regarding the TANAP System; and (ii) the Text of Amendment to the Host Government Agreement between the Republic of Turkey and the TANAP Project Company. The Council of Ministers' Ratification Decrees for these two texts were published in the Official Gazette on 21 October 2014.

In late 2014, Minister of Energy, Mr. Taner Yıldız, once again reiterated the intention regarding Turkmen gas being transported through TANAP, along with Azeri gas, and stated that negotiations for this issue are pending. In addition, as a result of the new investment incentive certificates list prepared by the Ministry of Economy in January 2015,¹¹ TANAP currently benefits from VAT exemption, customs tax exemptions and employer's insurance contribution support, within the context of the Government's investment incentives.¹²

Another significant development is the emergence of a brand new pipeline project, which is the so-called "Turkish Stream". During his visit on 1 December 2014, Russian President Vladimir Putin stated that Russia and Turkey have started negotiations over this new pipeline project. The exact route of this contemplated pipeline has not yet been determined. Russian Gazprom and Turkish BOTAŞ signed an MoU to build an offshore gas pipeline through the Black Sea to Turkey, on 1 December 2014.

3. Renewable Energy

Renewable energy is a developing sector in Turkey. Although Turkey has remarkable potential in terms of renewable energy resources, there is currently insufficient legislation encouraging technological developments in the renewable energy sector. Turkey aims to

¹⁰ http://enerjigunlugu.net/enerji-borsasi-kuruculari-izmaya-cagildi_12426.html#.VPCv-3yUdqU

¹¹ Published in the Official Gazette dated 27 February 2015 numbered 29280

¹² <http://www.dunya.com/ekonomi/ekonomi-diger/tanap-tesvik-kapsamina-alindi-254401h.htm>

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increase the share of renewable energy to 30%, by 2023. To reach this aim, Turkey is planning to increase its hydro-electric power installed capacity to 20,000 MW; establish new power plants with 600 MW of geothermal energy; 3,000 MW of wind, 3,000 MW of solar and to decrease the ratio of obtaining electricity from natural gas down to 30%.¹³ In line with Turkey's substantial potential and its renewable energy targets, Turkey introduced the Regulation Regarding Generating Electricity without a License;¹⁴ the Regulation on Documentation and Support of Renewable Energy;¹⁵ the Contest Regulation on Pre-License Applications regarding Generation Facility Based on Solar and Wind Energy;¹⁶ and the Regulation on Renewable Energy Resources for Electricity Generation.¹⁷

As of 2 March 2015, EMRA has not issued any solar power based generation licenses. However, currently there are three solar based preliminary licenses in force for Şırnak, Elazığ and Erzurum districts, as a result of the first contest for solar based preliminary licenses which was held on 12 May 2014. In addition to this first contest, TEİAŞ held two more consecutive contests on 29 January 2015 and 30 January 2015. In the second contest, 13 companies were entitled to obtain solar power based preliminary licenses for Siirt-Batman-Mardin, Şanlıurfa-Diyarbakır, Antalya, Muğla-Aydın, Denizli and Burdur districts.¹⁸ In the third contest, nine companies were entitled to obtain solar power based preliminary licenses for Konya 1 and Konya 2 districts.¹⁹ As a result of the second and third contests, 22 more companies who won these contests are entitled to obtain solar based preliminary licenses. According to TEİAŞ, further contests will be held in 2015 to determine the candidates for solar based generation licenses in other districts.

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¹³ <http://www.abgs.gov.tr/index.php?l=1&p=80>

¹⁴ Published in the Official Gazette dated 21 July 2011 numbered 28001

¹⁵ Published in the Official Gazette dated 1 October 2013 numbered 28782

¹⁶ Published in the Official Gazette dated 6 December 2013 numbered 28843

¹⁷ Published in the Official Gazette dated 18 May 2005 numbered 25819

¹⁸ <http://www.teias.gov.tr/duyurular/29.01.2015%20GES%20Yar%C4%B1%C5%9Fma%202.Paket%20Sonu%C3%A7lar%C4%B1.pdf>

¹⁹ <http://www.teias.gov.tr/duyurular/30.01.2015%20GES%20Yar%C4%B1%C5%9Fma%203.Paket%20Sonu%C3%A7lar%C4%B1.pdf>