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TURKISH ENERGY MARKET REFORM

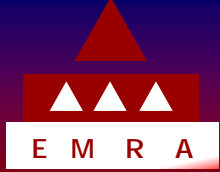
**Energy Market Regulatory Authority of Turkey
(EMRA)**

Cahit AKINCI

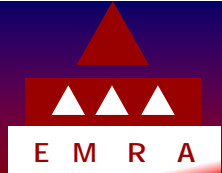
Department Head

International Relations and Coordination with EU

November, 2004



ELECTRICITY MARKET



➤ **The Electricity Market Law No:4628 - March 3,2001**

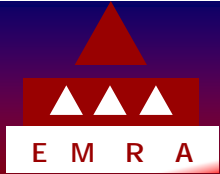
Objectives:

to establish a

- **financially viable**
- **stable**
- **transparent**
- **competitive energy market;**

to ensure adequate, efficient, continuous provision of

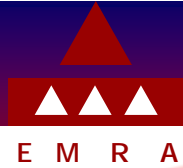
- **high quality**
- **low cost**
- **environmentally-friendly energy.**



Regulatory Authority: EMRA

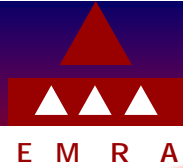
- **Energy Market Regulatory Authority (EMRA) was founded in late 2001;**
 - **as an independent regulatory body,**
 - **with administrative and financial autonomy.**
- **The decision making body of EMRA is the Board;**
 - **Appointed by the Council of Ministers**
 - **A president and 8 members**
 - **President chairs the Board and governs EMRA**
 - **Good governance: accountability, public participation, predictability and transparency in decision making.**

- **Preparing and implementing secondary legislation**
- **Licencing market participants**
- **Approving and publishing tariffs**
- **Monitoring and supervising market participants**
- **Conducting technical, legal and financial audits**
- **Settling disputes**
- **Applying sanctions where necessary**
- **Approving, amending and enforcing performance standards**



Comparison: Old Structure vs New Market Model 1/2

Subject	Old	New
Compliance with EU rules	No	Yes
Structure	Monopolistic	Competitive
Consumer tariff	Single	Multiple
Tariff structure	Not cost-reflective	Cost-reflective
Subsidy	Cross subsidies	Directly to consumers in need
Market entrance	Bidding / submission of feasibility studies	Licensing



Comparison: Old Structure vs New Market Model 2/2

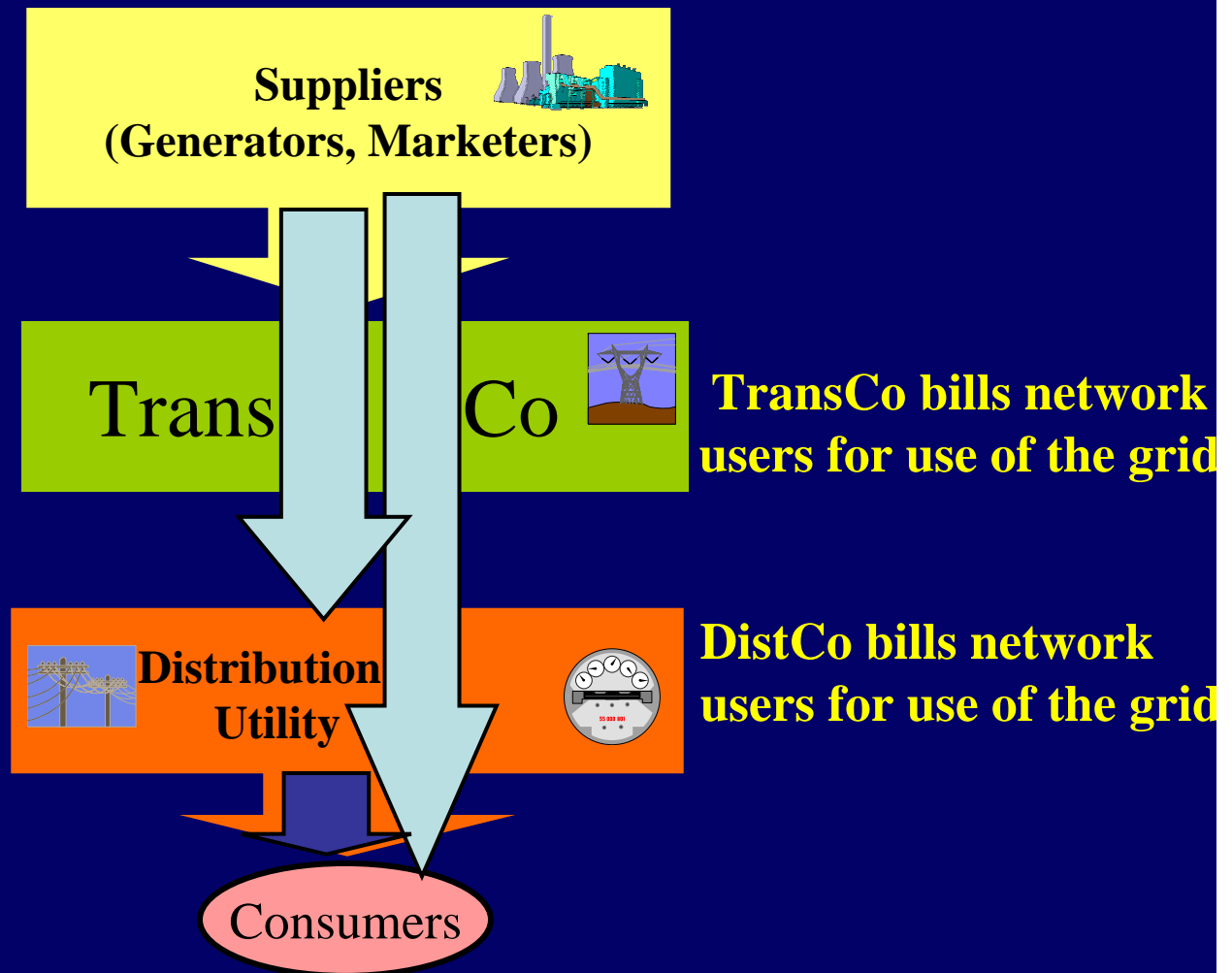
Subject	Old	New
Regulation	By the Ministry and related organizations	EMRA
Role of state	<ul style="list-style-type: none">• Investment• Operation• Auditing	Auditing
Market risks borne by	The state	Market participants
Private participation	BO, BOT and TOOR with state guarantees	Privatization and new companies
Governance	No	Yes

The market is based on voluntary bilateral contracts with residual balancing pool

All generation must be sold to traders and consumers.

TransCo will operate the balancing market that allows buyers to adjust their schedules by buying and selling.

The balancing price will be marginal price of accepted bid and offer prices.



- **All market activities are conducted under particular licenses obtained from EMRA**
- **Licenses are required for each market activity and for each facility**
- **Types of licences:**
 - **Generation License**
 - **Transmission License**
 - **Distribution License**
 - **Wholesale License**
 - **Retail sale License**
 - **Autoproducer and Autoproducer Group License**

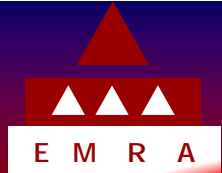
Tariffs of the following activities are regulated;

- **Transmission**
 - **Distribution**
 - **Sale of electricity and capacity to non-eligible customers**
 - **Wholesale by the state-owned wholesale and trade company TETAS**
-
- **Principles of Tariff Structure;**
 - **Costs should be related to market operations**
 - **Cross-subsidies are not allowed.**
 - **Regulated tariffs should be cost-reflective**



EU Directive – Electricity Market Law

Type of action	EU	Turkey
Eligible consumers	Non-households: July 2004 All: July 2007	min. consumption level: 7.8 GWh Full market opening: 2011
Third party access	Regulated third party access	Regulated third party access
Direct lines	Allowable through authorization based on defined criteria	Allowable through authorization based on defined criteria
Separate independent regulatory authority	Yes	Yes
Power generation business	Authorization Tendering	Authorization
Unbundling	Legal unbundling of activities and separate accounts for electricity transmission and distribution	Unbundling for electricity generation, transmission and distribution, separate accounts for distribution and retail sale

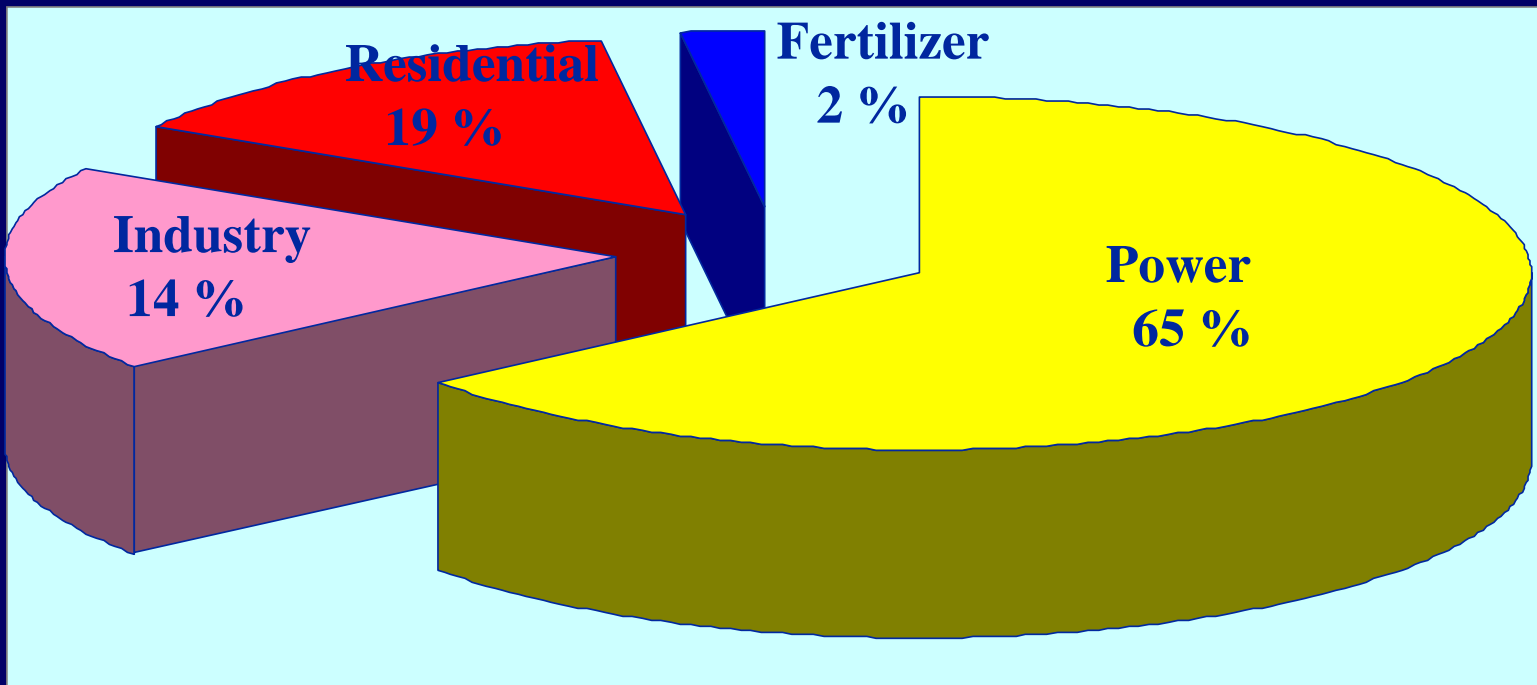


- **Electricity Market Reform and Privatization Strategy Paper**
- **High Planning Board Decision: 17 March 2004 – 2004/3**
- **Timetable for actions**
- **Main features:**
 - **Distribution re-organization on the basis of 21 regions and privatization (2005-2006)**
 - **Generation re-organization as portfolio companies and privatization (2006-2009)**
 - **Employment of cost-reflective tariffs with the aid of a price equalization mechanism**

NATURAL GAS MARKET

Natural Gas Consumption By Sectors (2003)

➤ 2003 annual consumption was 21 billion m³



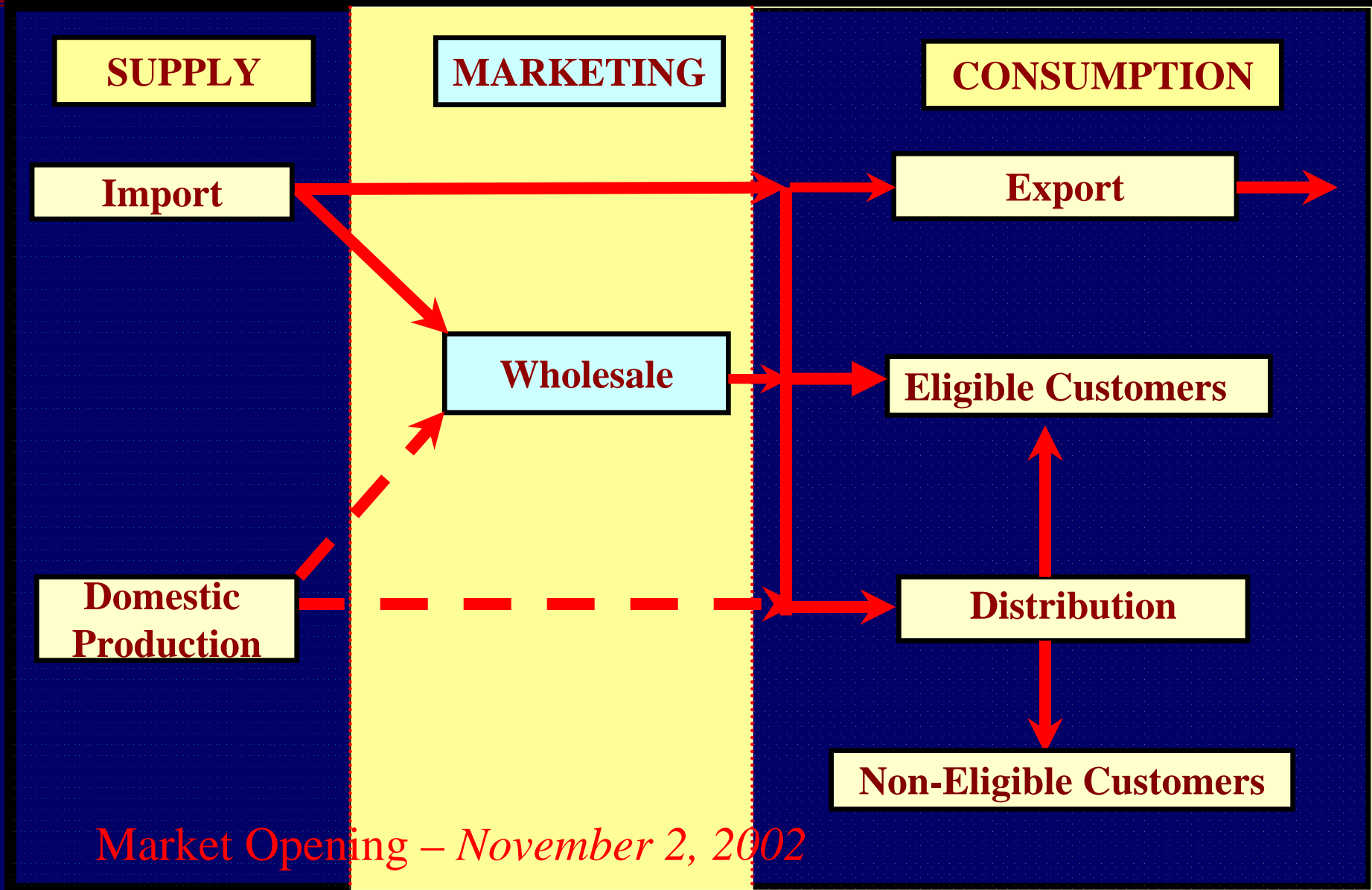
➤ Total contracted natural gas amount in plateau period is 67.8 BCM/year

Enactment of the Natural Gas Market Law – May 2, 2001

Objectives;

- To establish the legal framework for natural gas import, export, transmission, wholesale, city distribution, storage, and CNG sale, transmission and distribution
- To develop a fair, transparent and competitive natural gas market
- To unbundle market activities and eliminate the monopolistic structure in the market
- To create a market open to new entrants in all areas
- To ensure an independent regulatory and supervisory system in the natural gas market

New Market Structure



Market Opening – November 2, 2002

- Licenses are required to engage in natural gas market activity,
- Licenses are required for each market activity and for each facility,
- Types of Licenses
 - Import License
 - Transmission License
 - Storage License
 - Distribution License
 - Wholesale License
 - CNG License
 - Export License

Types of Tariffs;

- **Connection Tariffs**
- **Transmission**
- **Storage Tariffs**
- **Wholesale Tariffs**
- **Retail Sale Tariffs**

However, until competition is in place, all tariffs shall be approved by EMRA.

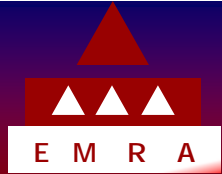
- **Transmission and distribution companies are obligated to connect all users to the system.**
- **In case of rejection of access to system, EMRA's decision shall be final and binding.**
- **Transmission and distribution companies are obligated to demonstrate EMRA that their operations are cost efficient and reliable.**

Distribution License Tenders

- **Distribution licenses are granted through tender process.**
- **Prequalification is based on financial strength and experience of the companies.**
- **Evaluation is based on the unit service and depreciation charge for supplying one kWh natural gas to consumers.**
- **Licenses are granted for a minimum of 10 and for a maximum of 30 years.**

- **BOTAŞ is required to transfer its import obligations to private firms through tendering process.**
- **The minimum amount to be transferred by BOTAŞ each year is 10% of the total contracted amount.**
- **BOTAŞ is required to transfer its import contracts until its market share decreases to 20% by the year 2009.**

PETROLEUM MARKET



Restructuring Petroleum Activities

Under Petroleum Market Law (enacted in Dec.2003);

- **Petroleum operations (upstream) and market activities (downstream) have been distinguished from each other.**
- **National petroleum stock system will be established**

The objective of the Law is;

- **to regulate; guidance, surveillance and supervision of, market activities,**
- **cost-effective and competitive supply of petroleum to consumers,**
- **transparency, non-discrimination and stability in the market.**

Holding a license is obligatory to perform:

- **Refining,**
- **Processing,**
- **Lube oil production,**
- **Storage,**
- **Transmission,**
- **Bunkering activities,**
- **Fuel distribution,**
- **Transportation,**
- **Vendor (retailing) activities,**
- **Eligible consumption.**

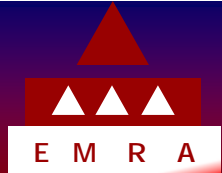
Pricing:

- The pricing for the purchase and sales will be constituted according to the free market conditions.
- Activities will be performed under the tariffs. These are;
 - ✓ Tariffs to be approved by EMRA; for transmission and storage (natural monopoly),
 - ✓ Tariffs to be submitted to EMRA as ceiling prices,
 - ✓ Tariffs to be declared (visible for consumers).

National marker:

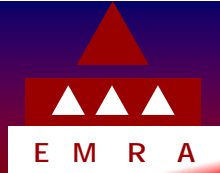
EMRA;

- Shall determine conditions and quality of national marker,
- Set forth the procedures and principles for addition of national marker and submission of projections,
- Shall establish an audit system by national marker,
- Shall apply provisions of sanctions when marker is not sufficient.



Current Status

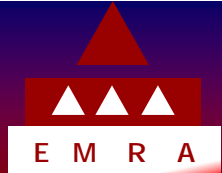
- A. Regulations put into effect in 2004;**
 - **Petroleum Market Licensing Regulation,**
 - **Petroleum Market Tariffs Regulation,**
 - **Regulation Regarding The Technical Criterion Implemented in Petroleum Market,**
- B. Procedures and calendar for license applications and fees have been announced.**
- C. License applications have been received since July 1st, 2004.**



International Relations of EMRA

Turkey is a bridge between the energy-rich countries of Asia and Middle East and energy-poor Europe. Its location and reform activities requires close relation to exchange know-how. Thus;

- **EMRA is a member of ERRA (Energy Regulators Regional Association) and thus in touch with NARUC**
- **EMRA participates in CEER (Council of European Energy Regulators) meetings**
- **Turkey has signed Athens Memorandum which envisages a regional energy market to be established in South East Europe and EMRA participates in the activities relating to the regulative issues**
- **Turkey is a party to MEDA to form a free trade zone, including energy trade in the Mediterranean region. EMRA is responsible for the Turkish regulative issues relating to this establishment.**



- **Progress in liberalizing energy sector is remarkable**
 - **Establishment of EMRA**
 - **Enactment of regulatory framework**
 - **Road-map for electricity distribution & generation co's**
 - **Creates attractive environment for investment & privatization; and, present**
 - . **stable politic and economic environment,**
 - . **strong Government that supports transformation,**
 - . **Also Turkey's geo-strategic location and her relation with USA, EU and energy-rich countries,**
- are key for smooth transformation into compapetive markets.**

THANK YOU

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