Regulatory Procedures in Turkey

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An overview of Turkish Natural Gas Market

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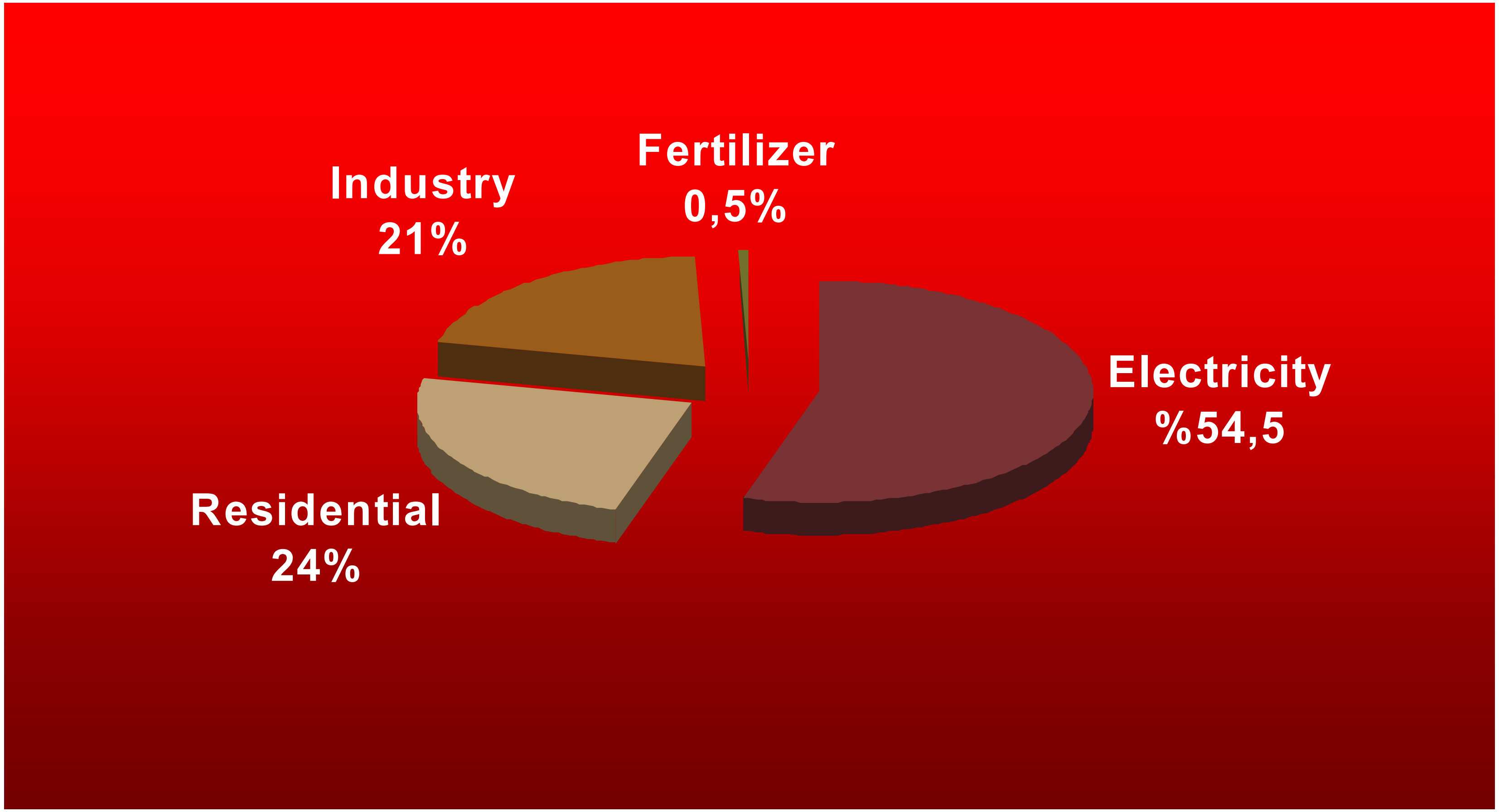
Natural Gas in Turkey (1)

Annual consumption in 2006 ~ 30 BCM

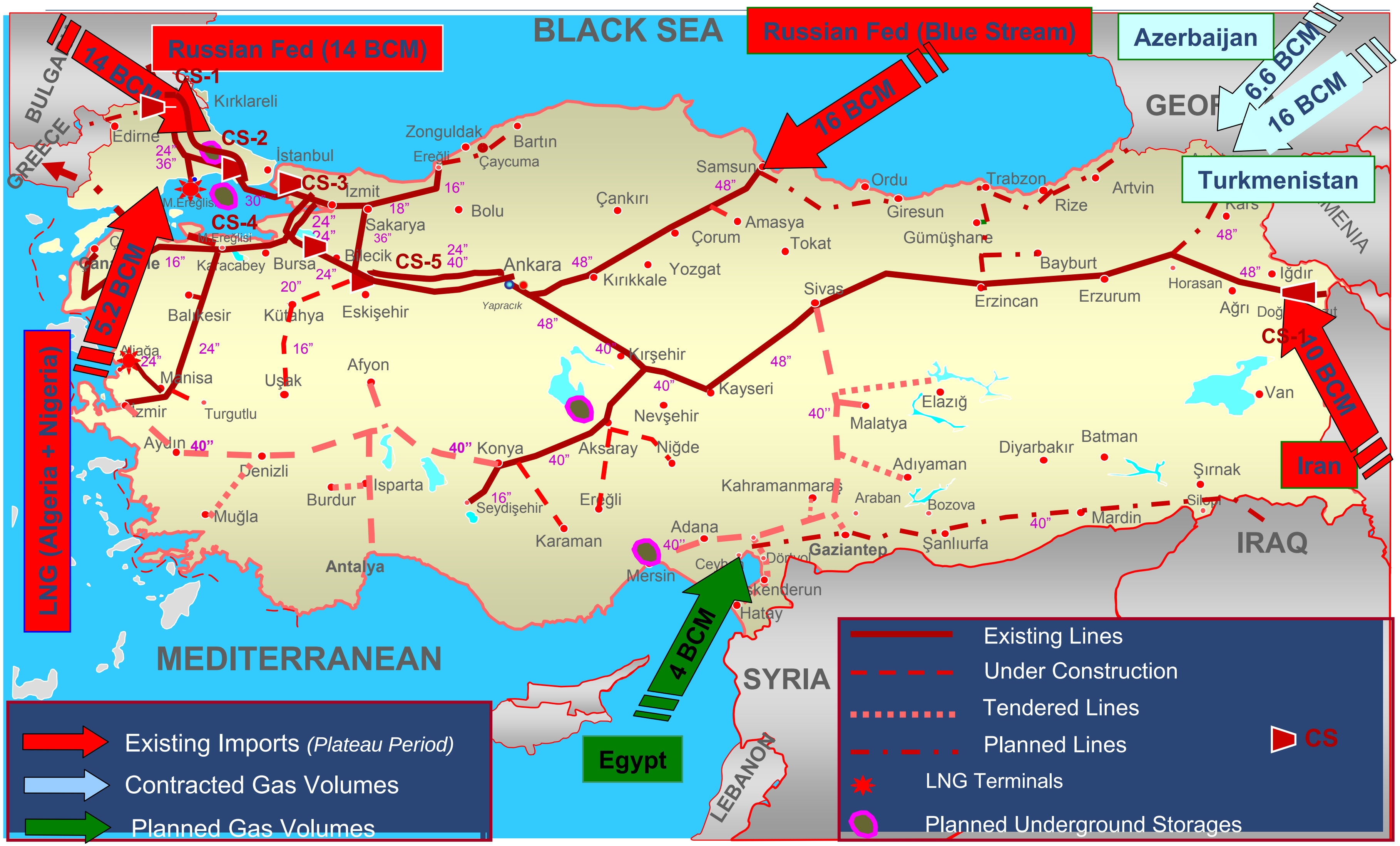


- Total contracted natural gas in plateau period is 67.8 BCM

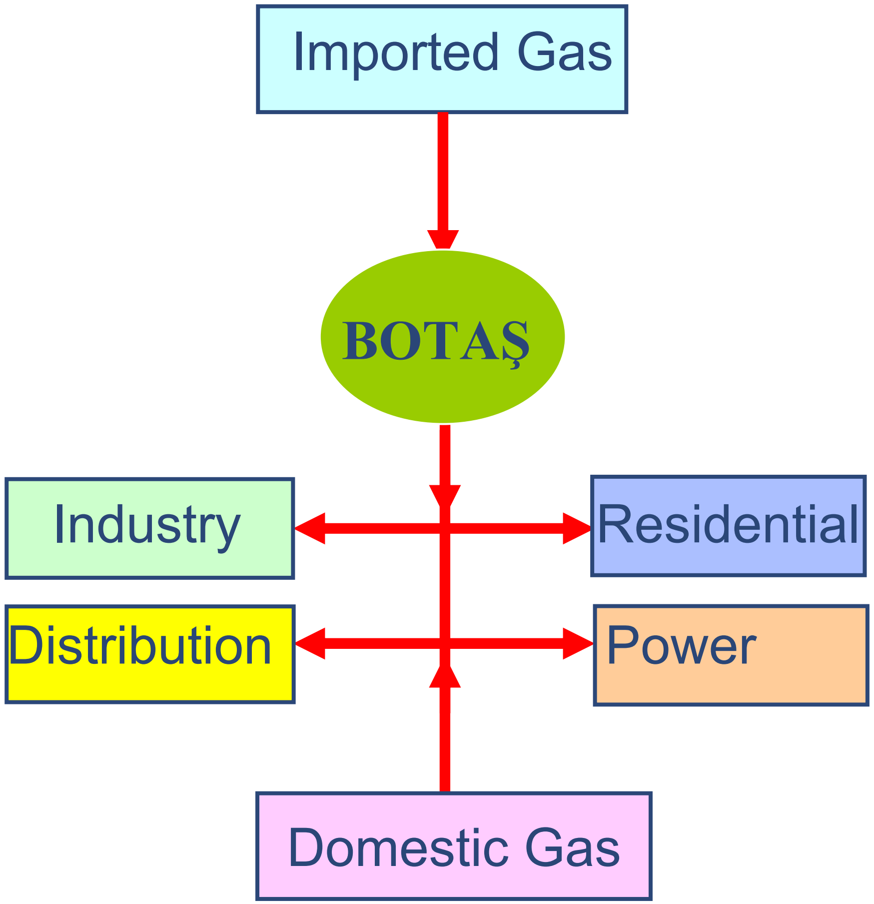
Natural Gas in Turkey (2)

Natural Gas Sales and Purchase Contracts				
Existing Contracts	Quantity (BCM/Year)	Date of Signature	Term (Year)	Status
Russian Federation	6	1986	25	In Operation (1987)
Russian Federation	8	1998	23	In Operation (1998)
Russian Federation	16	1997	25	In Operation (2003)
Iran	10	1996	25	In Operation (2001)
Azerbaijan	6,6	2001	15	2007
Turkmenistan	16	1999	30	????
Algeria (LNG)	4	1988	20	In Operation (1994)
Nigeria (LNG)	1,2	1995	22	In Operation (1999)
Total	67.8			

Natural Gas in Turkey (3)



Previous Structure



BOTAŞ was empowered under Decree No. 397 as a monopoly on;

- ✓Import
- ✓Transmission
- ✓sales prices
- ✓Distribution (partly)

Turkish Natural Gas Market Restructuring

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

  - ✓ To liberalise the natural gas sector
  - ✓ To create a financially sound, stable and transparent market
  - ✓ To establish an independent regulatory authority to supervise and monitor market
  - ✓ To ensure natural gas supply with a competitive prices to consumers
  - ✓ To maintain supply security

  Market Opening – November 2, 2002

Secondary legislation

- ✓ License regulation
- ✓ Certificate regulation
- ✓ City distribution & consumer services regulation
- ✓ Tariffs regulation
- ✓ Transmission network operation regulation
- ✓ Facilities regulation
- ✓ Internal installations regulation

Board decisions & communiques

License regulation

Objective

To set forth the principles and procedures for legal entities engaged or which shall engage in natural gas market activities

Scope

Performance of the activities within the scope of licenses, cancellation, termination, renewal and modification of licenses and the rights and obligations of the licensees

Certificate regulation

Objective

To set forth the principles and procedures for real persons or legal entities, shall perform the internal installations, natural gas installations construction and service activities in the natural gas market

Scope

Performance of activities within the scope of certificates;namely cancellation, termination, renewal and amendment of certificates; and the rights and obligations of certificate and authorization document holders

Distribution and customer services regulation(1)

Objective

To set forth the principles and procedures pertaining to the selection of the companies to be issued natural gas city distribution licenses, natural gas distribution activity to be conducted and customer services to be provided by the distribution licensees

Scope

Construction, operation, expansion, improvement of distribution network; delivery of natural gas and monitoring and auditing of such activities; distribution license and the rights and obligations of the distribution licensees and the customers

Distribution and customer services regulation(2)

Distribution license tender shall be conducted upon a Board Decision: in the tender document;

- ✓ License term
- ✓ Eligible consumer threshold
- ✓ Non-eligible consumer connection charge applicable throughout the license period
- ✓ Bid bond and performance bond amounts
- ✓ Other tender related issues pertaining to the city

Distribution and customer services regulation(3)

Tender file shall include

- ✓ Commencement date of the investment
- ✓ The period during which unit service and depreciation charge shall be applied as a fixed amount
- ✓ All principles and procedures applicable to the design, construction and material required for the construction of the distribution network
- ✓ Commissioning of the completed network and the basic technical criteria. Terms of reference shall be prepared in accordance with the characteristics of the city subject to the tender

Distribution and customer services regulation(4)

Evaluation of the bids

- ✓Based on the unit service and depreciation charge, a single charge, for supplying one kWh natural gas to consumers
- ✓The ranked three lowest bids shall be determined
- ✓The relevant bidders shall make discounts off their bids
- ✓The bidder with the lowest bid, shall be the company which acquires the right to be granted a distribution license

The unit service and depreciation charge, which shall be set in the tendering process, shall be in effect throughout the period set forth in the relevant tender documents (fixed for the first 8 years)

Following the completion of such period, the unit service and depreciation charge to be determined by the Board in accordance with the price cap method

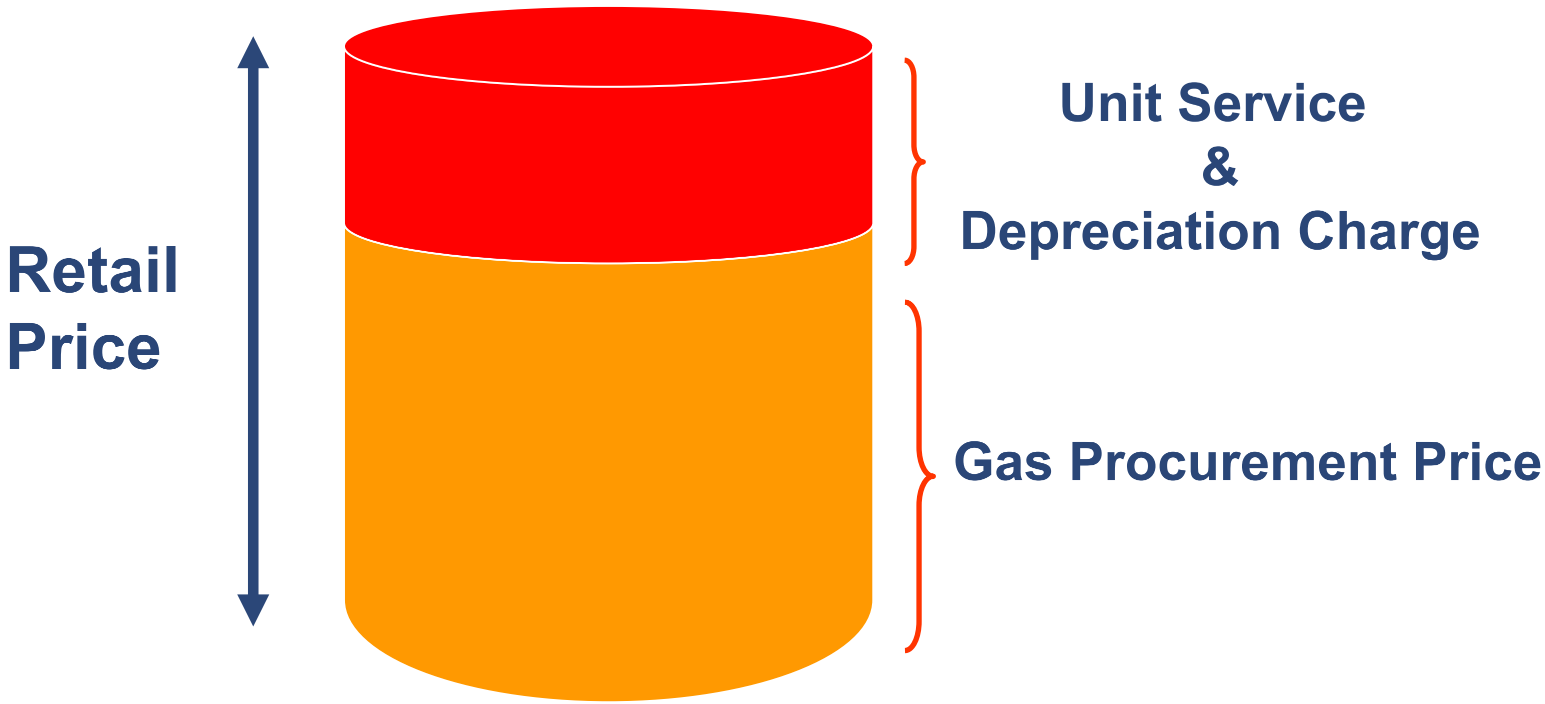
Distribution and customer services regulation(5)

Obligations of Distribution Companies

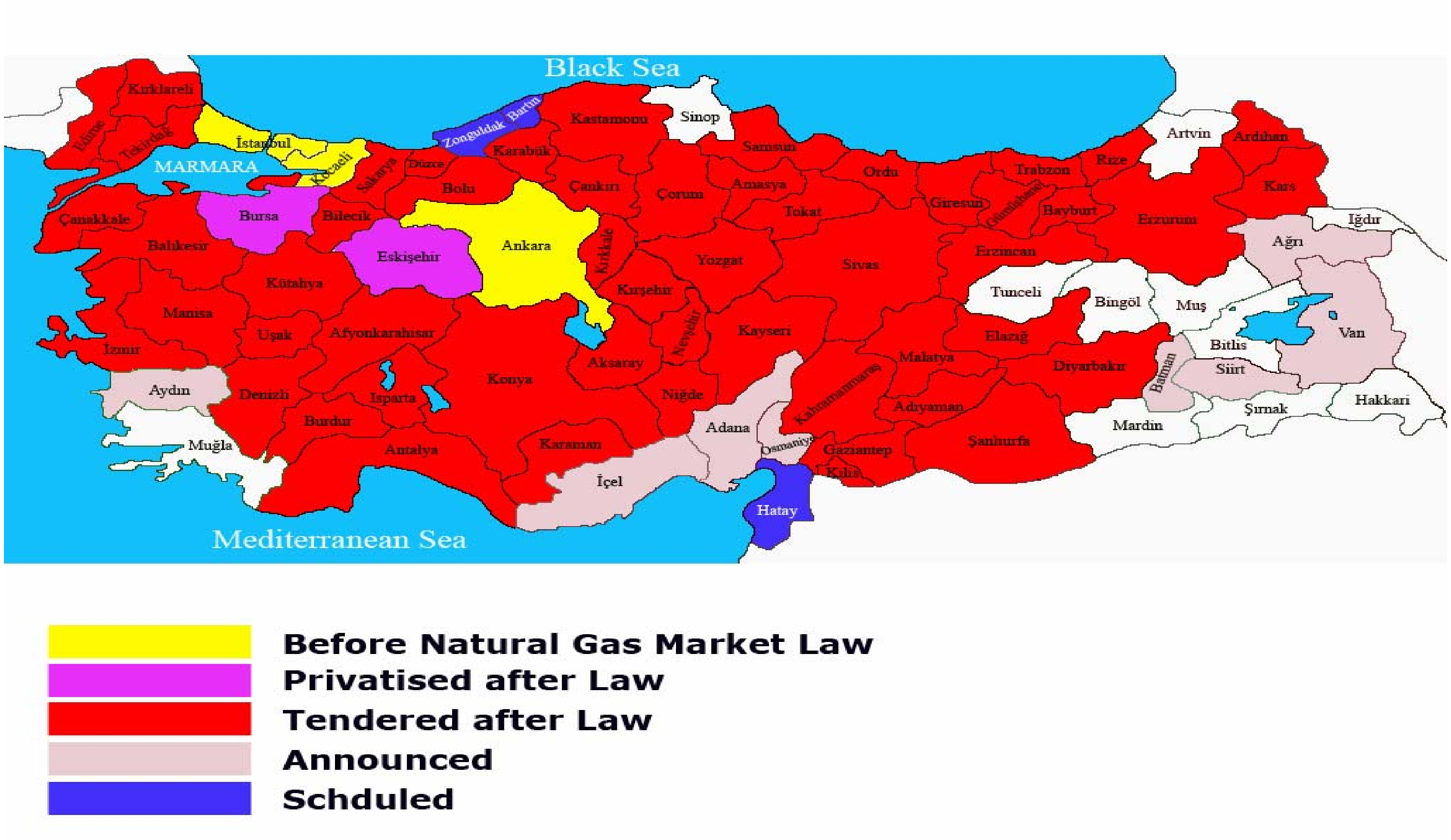
- ✓ Shall begin investment within at least six (6) months
- ✓ Shall start gas distribution in any region of the city within at least eighteen (18) months
- ✓ Shall connect all customers accross the whole city within at least five (5) years
- ✓ The eligibility limit for the customers is set to 15 million cubic meters for the first 5 years

Distribution and customer services regulation(6)

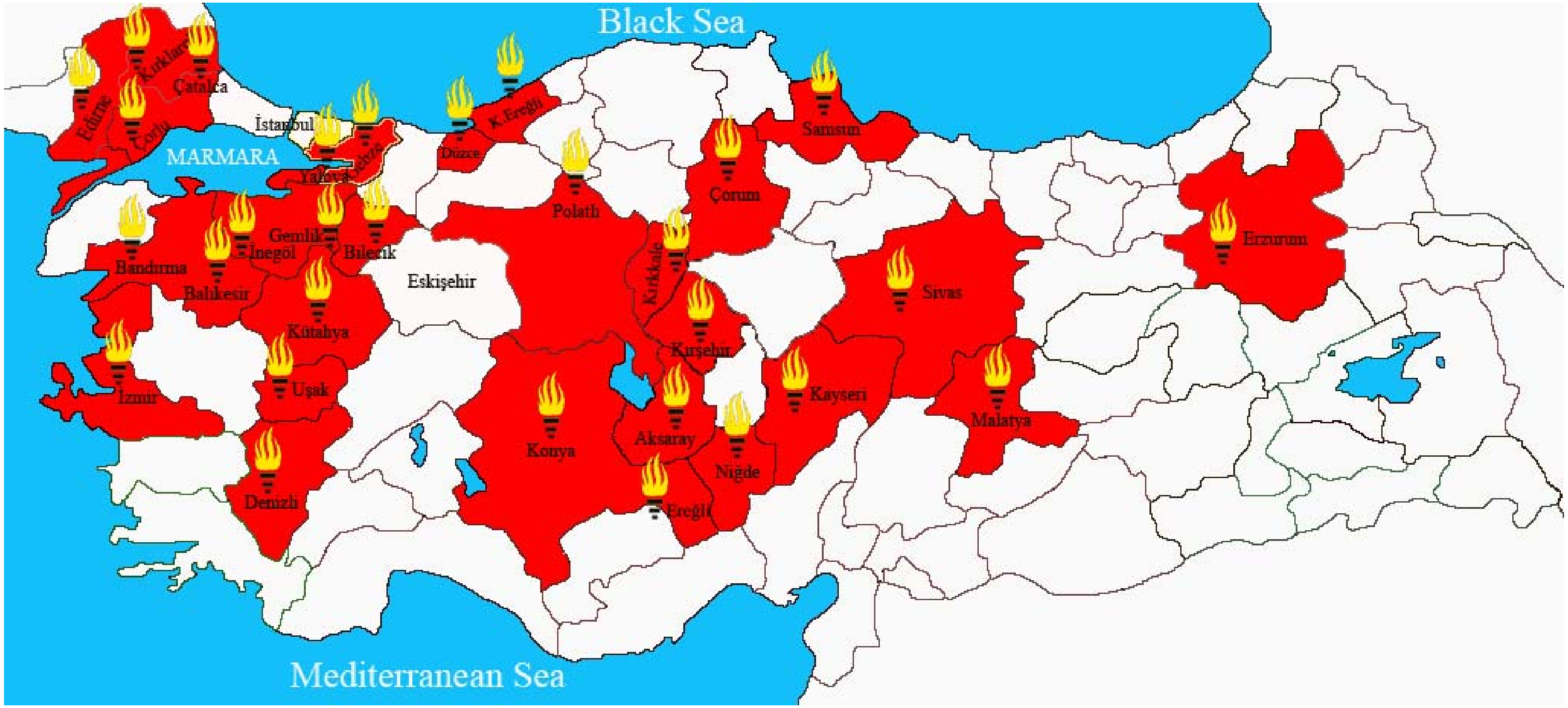
End user price



Distribution and customer services regulation(7)



Distribution and customer services regulation(8)



Facilities regulation

Objective

To set forth the principles and procedures related to the performance of activities, concerning natural gas facilities, in conformity with national and/or international standards

Scope

Principles and procedures related to design, construction, control, commissioning, operation, maintenance and repair activities concerning natural gas transmission, distribution, storage facilities and liquefied natural gas and compressed natural gas facilities, and the safety rules to be followed

Internal installations regulation

Objective

To set forth the principles and procedures pertaining to installation and control, in conformity with national and/or international standards, of all kinds of natural gas related equipment and relevant installations to be placed in buildings or on land for the purposes of natural gas consumption

Scope

Design, construction, control, commissioning and operation of internal installations, placing of all kinds of natural gas equipment and precautions to be taken against gas leakages and accidents

Tariffs regulation

Objective

To set forth the principles and procedures regarding preparation, review, evaluation, determination, approval, issuance and revision of tariffs pertaining to natural gas market activities

Scope

Principles and procedures pertaining to connection, transmission and supervision of conveyance , storage, wholesale and retail sale tariffs

Tariffs (process)

Submission of the tariffs proposals, by the the relevant legal entities

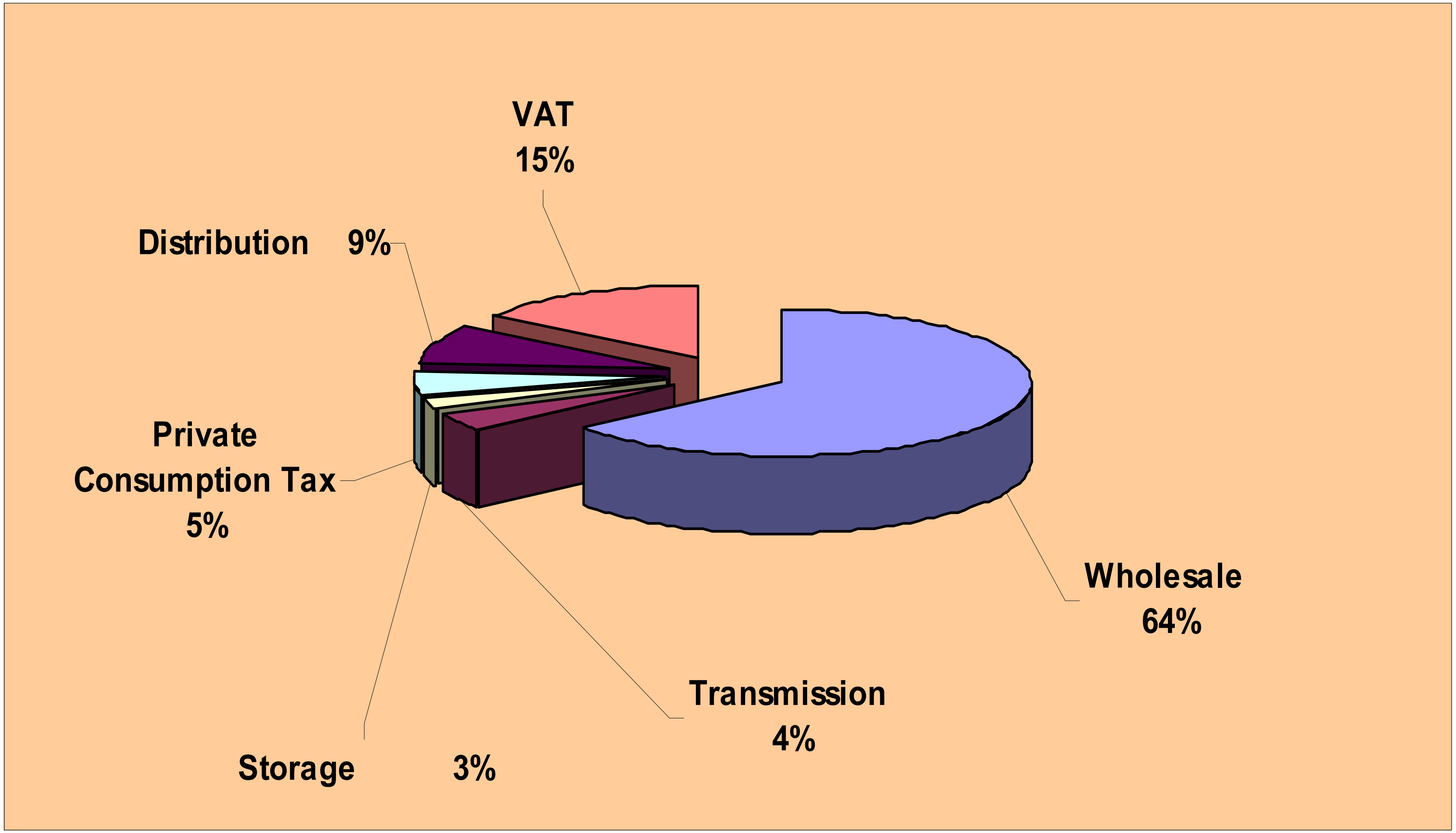
EMRA
(31 October)

Analysis and Evaluation of the tariffs

31 December

The tariffs are approved **or** determined by the Board

Tariffs (formation of final price)



Tariffs (Types)

- Connection Tariffs
- Transmission & Supervision of Conveyance Tariffs
- Storage Tariffs
- Wholesale Tariffs
- Retail Sale Tariffs

✓Until sufficient competition is in place, all tariffs shall be determined by EMRA

✓All determined tariffs are in the form of price ceilings and they are in place at the moment

✓Transit tariffs will be determined based on different terms and conditions than the national transmission tariff, with the objective of promoting transit natural gas transmission

Transmission Network Operation regulation

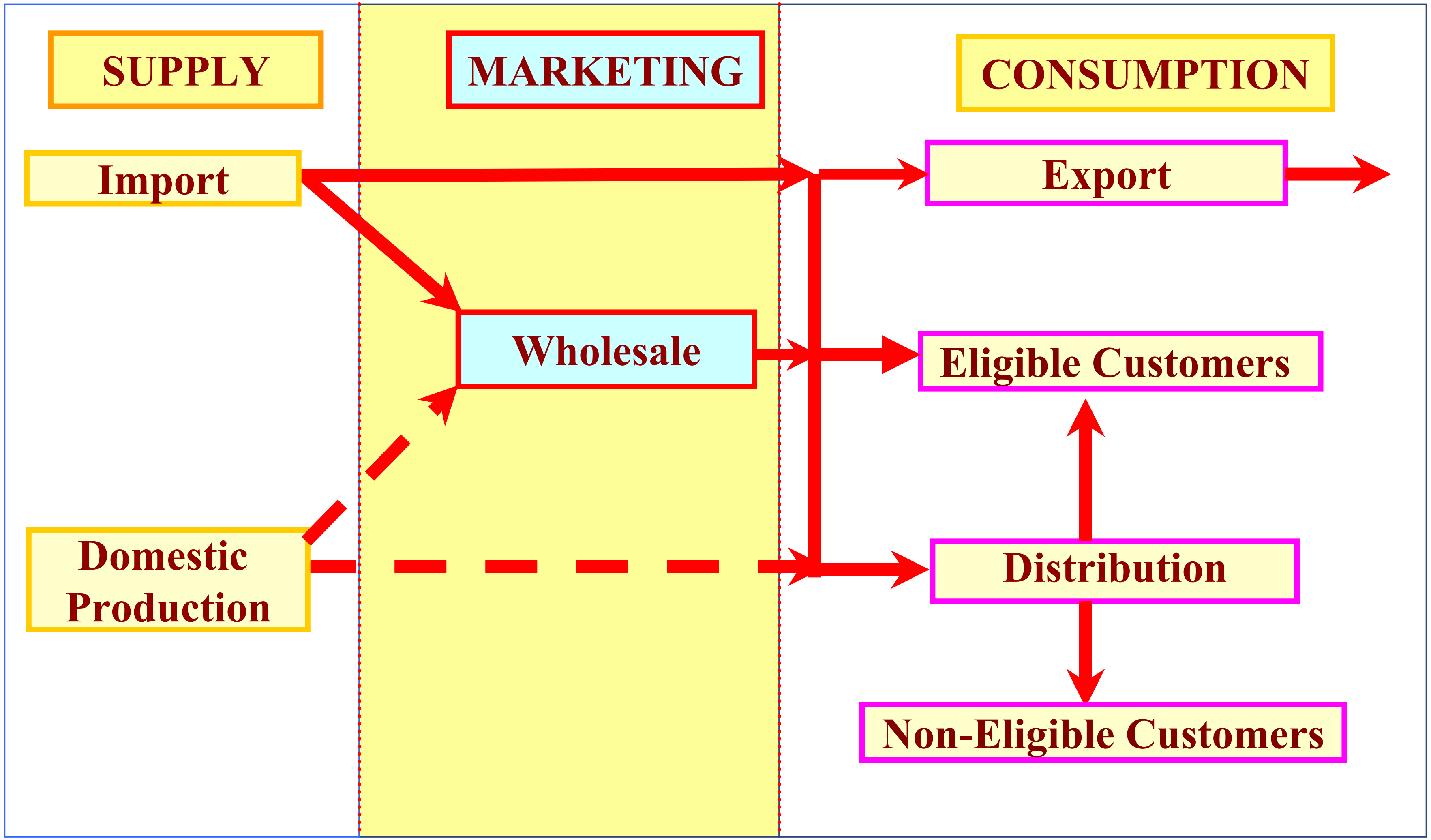
Objective

To set forth the principles and procedures to be covered in the network operation rules to be determined by the transmission companies

Scope

Principles and procedures to be included in the network operation rules to be determined by transmission companies engaged in the activity of transmission through natural gas pipeline network; system access, amount and scheduling of the transportation services, service interruptions, system balancing, communication system, capacity allocation, natural gas delivery and metering

New Market Structure



Import

- ✓Commitment for 10% storage capability for the natural gas to be imported
- ✓Import companies should hold seperate licenses for each import transaction
- ✓Annual import by any import company shall not exceed 20% of the estimated national gas consumption of the current year
- ✓Import companies are allowed to have wholesale activity with import licence

Transmission

- ✓New transmission lines can be constructed, operated and owned by private companies
- ✓Existing network and network under construction shall belong to BOTAŞ
- ✓Third party access without discrimination
- ✓In case of rejection of access to system, EMRA's decision shall be final and binding

Network Code

- ✓Network code has been in force since September 2004
- ✓Capacity allocation is made based on entry-exit system
- ✓In case of congestion, capacity is allocated proportionally (pro-rata) for the applications
- ✓Capacity usage is based on "use or loose it" principle

Storage

- ✓Storage companies should hold seperate licenses for each storage facility
- ✓Equal and non-discriminative services
- ✓Rejection of access to the system is subject to the approval of the Authority

Wholesale

- ✓Annual sale by any wholesale company shall not exceed 20% of the estimated national gas consumption of the current year
- ✓Companies are subjected to take measure for gas storage to maintain supply security
- ✓Wholesale activities are not bounded by regions and can be carried out all accross the country

CNG

- ✓Compressing and filling of pressure vessels
- ✓Transportation of compressed natural gas accross cities via dedicated vehicles
- ✓Reducing the pressure of natural gas and selling where transmission network does not reach

Distribution

- ✓Distribution licenses are granted through a 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

Eligible Consumers

- ✓Customers whose annual consumption is above the threshold set by the Board
- ✓Companies purchasing natural gas for power generation
- ✓Domestic natural gas producers

have the right to choose their suppliers

Gas Release (1)

- ✓BOTAS is required to gradually transfer its import contracts to private enterprises through a tendering process

- ✓BOTAS is required to transfer at least %10 of its import contracts each year until its market share decreases to 20% of annual consumption by the year 2009

- ✓BOTAS cannot enter into a new import contract until its imports fall to 20% of the national consumption by 2009

Gas Release (2)

- ✓The companies should have a prior approval from sellers and pre-qualification import license from EMRA
- ✓After realisation of tender; Short list by BOTAS
- ✓The tenderer at the first rank is invited to negotiate with the seller
- ✓If the tenderer at the first rank does not agree with the seller for the Contract Transfer
- ✓Then the second ranked tenderer will be invited to negotiate with the seller; and
- ✓This process will be carried out for the short listed companies until the transfer is realised

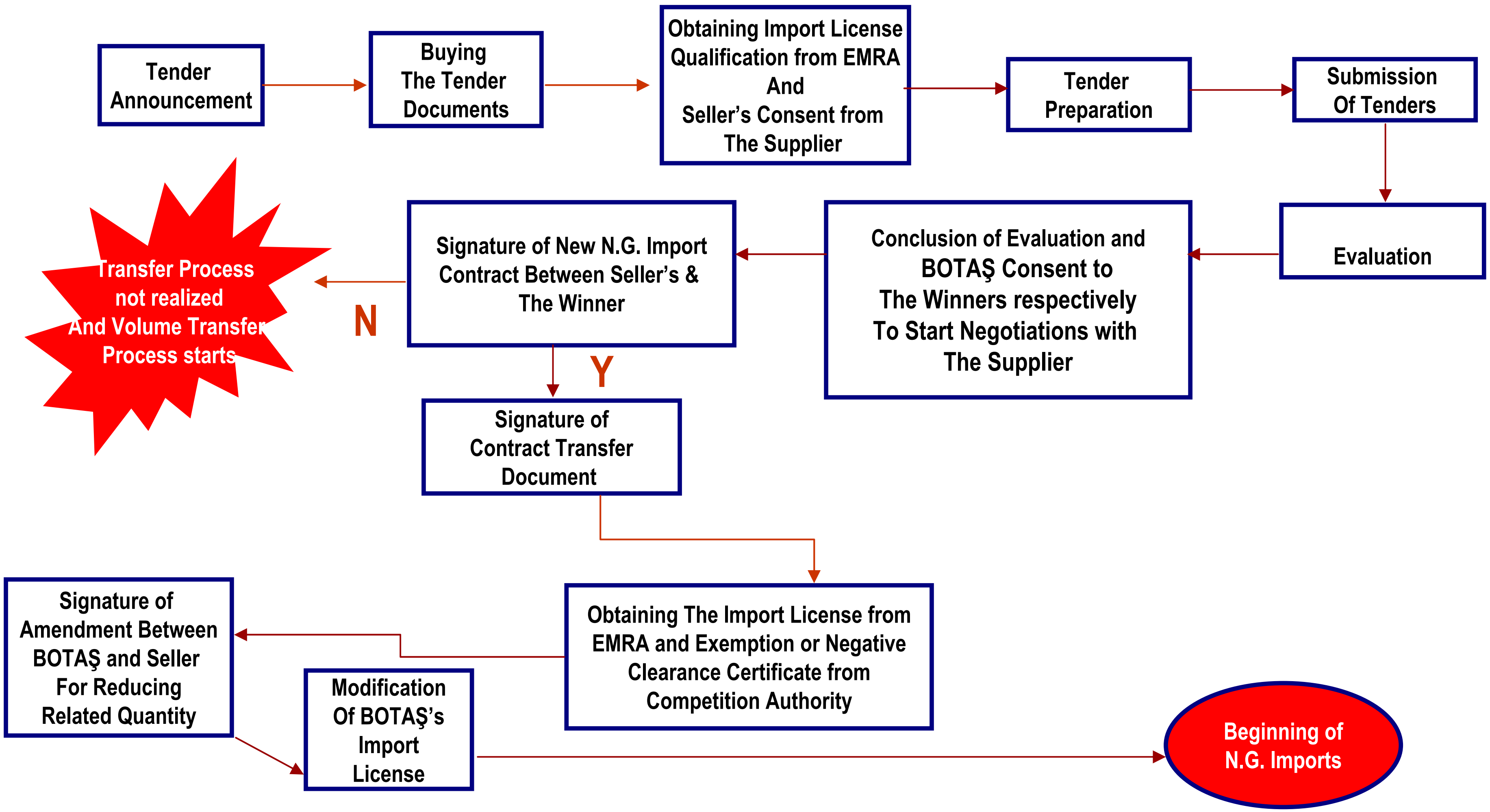
Gas Release (3)

IF none of the tenderers realise the contract transfer;

Then;

BOTAS will perform another tender based on volume transfer

Gas Release (4)



Privatisation

- ✓The existing distribution companies shall be privatised
- ✓The new distribution companies will be private companies
- ✓The trade, storage companies of BOTAS shall be privatised after 2009
- ✓BOTAS shall be involved only in transmission activities

Reforms Envisaged By Legislation (1)

- ✓ *Market Control and Regulation*; All legal entities are required to optain a licence from EMRA
- ✓ *Prevention of Monopoly*; No legal entity is allowed to sell more than 20% of the annual gas consumption
- ✓ *Non discrimination*; Gas companies are not allowed to establish another company in the same field
- ✓ *Legal Separation*; Legal separation is required for transmission and distribution companies
- ✓ *Security of supply*; Import and wholesale companies are required to store 10% of the imported or sold natural gas supplies

Reformss Envisaged By Legislation (2)

- ✓*Eligibility;* Power plants, gas production companies, consumers whose consumption are above the threshold ,currently 1 million m^3/year)

- ✓*Competition on transmission;* Legal companies are allowed to build new pipelines

- ✓*Cross-subsides;* Prohibition of cross subsidy and unbundling of BOTAŞ's activities as transmission, storage and trade within two years after 2009

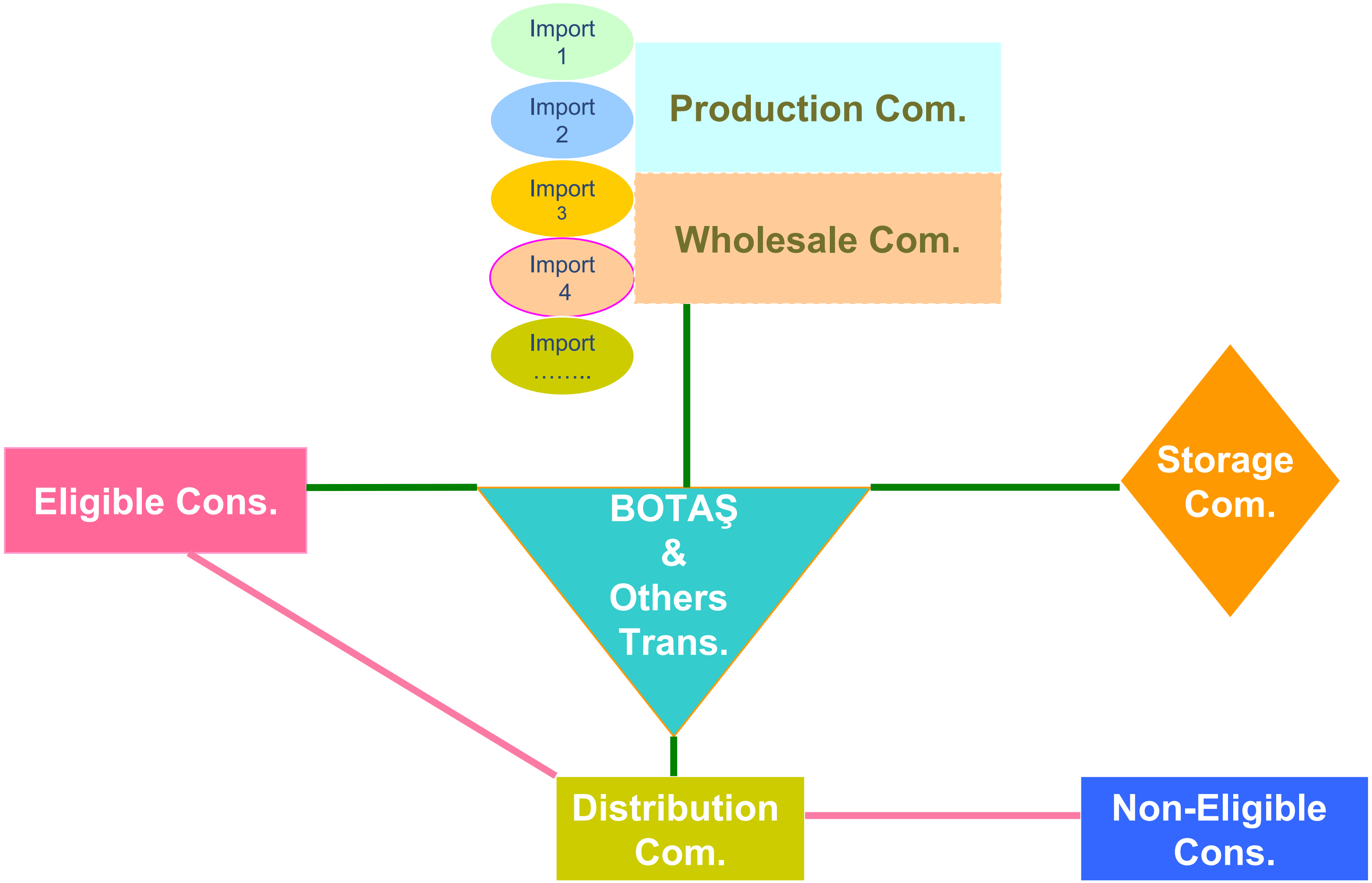
- ✓ *Monitoring;* Transmission and distribution companies are obligated to demonstrate EMRA that their operations are cost efficient, effective and reliable

- ✓*Transparency;* Electronic Bulletin Board (EBT) is required in the framework of the Network code

What is expected for the next step?

- ✓ Reducing BOTAS's share in import
- ✓ Encourage the expansion of the gas distribution networks
- ✓ Make natural gas prices more cost-reflective for all consumer groups
- ✓ Eliminate cross-subsidies between different customers
- ✓ Develop and support mechanisms to transfer existing import contracts
- ✓ Privitisation of the three state distribution enterprises
- ✓ Transit transmission tariffs

Full Competition in Market



Conclusions

- ✓Turkey has already made substantial progress in natural gas market
- ✓Turkish natural gas market legislation and applications can be deemed ahead of many member states of EU
- ✓A successful gas release program is of utmost importance for a competitive natural gas market
- ✓The reforms foreseen in Natural Gas Market Law are successfully being realized by EMRA
- ✓After the reforms, confidence in natural gas market is achieved
- ✓A fully liberalized market structure will inevitably increase Turkey's role as a bridge for energy trade between Asia and Europe

Contact

ENERGY MARKET REGULATORY AUTHORITY OF TURKEY

www.emra.org.tr