

# ENERGY GOVERNANCE FACT SHEET: TURKEY

Last updated: 15 April 2016

## KEY ISSUES:

- Corruption risks are associated with the construction of hydro and thermal power plants, as well as for extraction of mineral resources.
- Energy tenders are implemented outside the general public procurement procedures.
- No commitment to reform public private partnerships of energy SOEs.
- Favouritism and arbitrary decision-making are common practices in energy SOEs.
- No attempts to limit the politicization of board members of the Energy Market Regulatory Authority (EMRA).
- The natural gas wholesale supplier, BOTAS, maintains a monopolistic position in the imports, transmission, and storage of natural gas.
- The Natural Gas Market Law imposes significant restrictions on private companies trying to compete with the incumbent wholesale supplier, BOTAS.
- Non-transparency in public procurement and large project management.

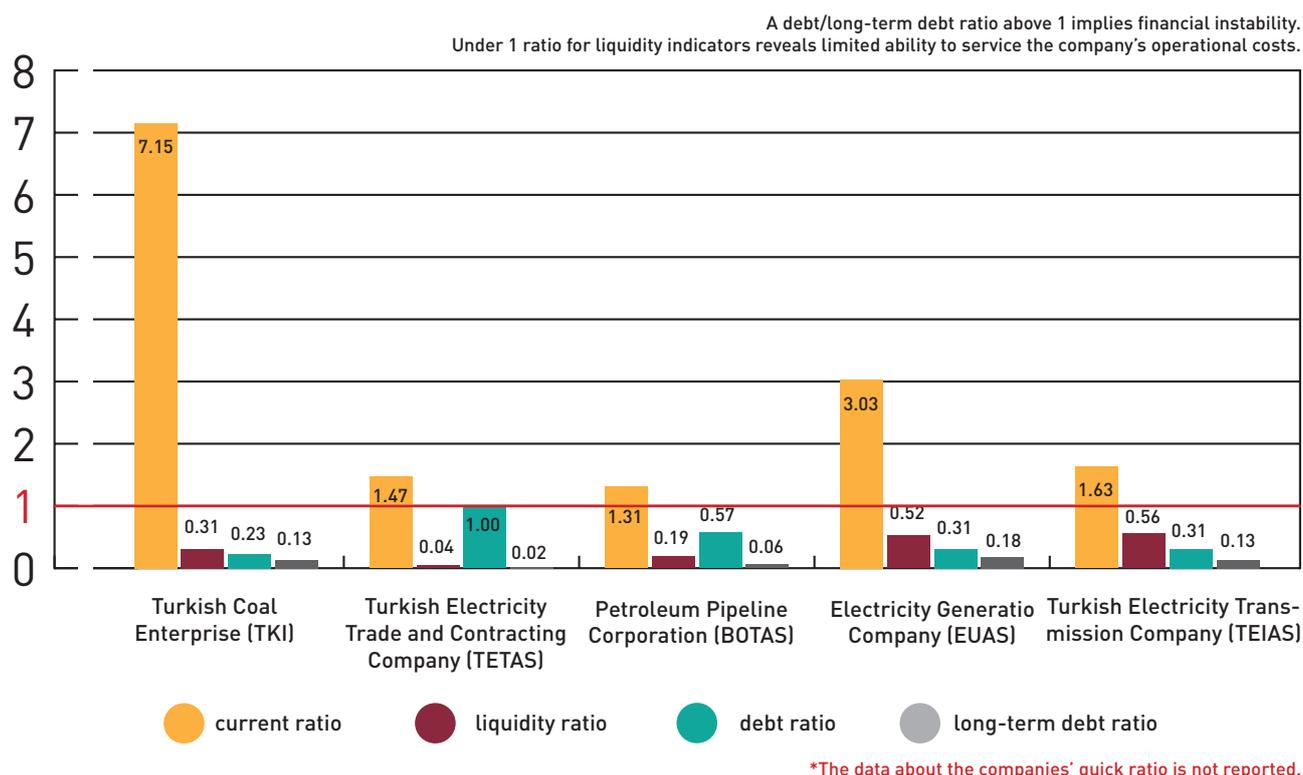
SOURCE: Regional Energy Governance and State Capture Assessment Report, SELDI, 2016.

**TABLE 1: State of electricity sector liberalisation  
(eligibility, market opening, price regulation and unbundling)**

<b>Price regulation</b>	Wholesale prices are not regulated but are determined freely by market forces. The regulator determines the tariff charged by the wholesale supplier (TETAS) to the private distribution system operators for the purpose of covering electricity losses, public lighting and for sales to the supplier of last resort. On the retail level, eligible customers for supplier switching are supplied at unregulated prices. Eligible customers may choose not to exercise their eligibility right, so they can be supplied at regulated prices by a supplier of last resort. Supply tariffs for non-eligible customers are approved by the regulator.
<b>Eligibility</b>	The concept of eligibility in Turkey is linked to the level of consumption. It is defined as the right of customers consuming more electricity than the level determined by the regulatory authority to freely sign a contract with a supplier. Every customer connected to the transmission network or the distribution network with a consumption of at least 4 MWh/year is currently deemed eligible.
<b>Market opening</b>	The market opening is around 85%.
<b>Unbundling</b>	The state-owned transmission system operator (TEIAS) was legally unbundled. After the enactment of Law No. 4628, no vertically integrated undertaking has remained in place.

SOURCE: Progress Report on the Implementation of the Energy Acquis of the European Energy, 2015.

**CHART 1: Financial Ratios (2014)**



SOURCE: Author's calculations based on the Annual Financial Reports of the SOEs

**TABLE 2: Energy Acquis Implementation by Measure**

Primary Laws	Progress on Track
Complementary Legal Acts	Progress on Track
Organised Day-Ahead Market	Functioning
National Balancing Market	Functioning
Price Deregulation	No Progress
DSO Unbundling	Progress on Track
TSO Unbundling	Progress on Track
NRA Independence	Independent

SOURCE: European Energy Community Progress Report, 2015.

**POLICY RECOMMENDATIONS:**

- Improve transparency in the energy sector decision-making.
- Improve transparency in the governance of state owned enterprises and in energy institutions.
- Adopt a standardized approach to concessions and tenders.
- The creation of a forward and futures gas market, which would mitigate price risk and encourage competition.
- Improve consistency of energy policy in the area of promoting renewable energy sources eliminating undue burden on companies applying for a license.

SOURCE: Regional Energy Governance and State Capture Assessment Report, SELDI, 2016.

## **PUBLIC PROCUREMENT:**

There is no specific legislation regarding the operation of public procurement or concessions in the utilities sector. While there is a prepared draft law that envisions the establishment of a central unit for the PPP called General Directorate of Public-Private Cooperation to standardize tender procedures, facilitate risk sharing, project assessment and dispute conflict, it is yet to be implemented. Thus the regulation of energy concessions remains a major legislative gap. This situation implies a serious political rent seeking risk that can be exploited by the management of energy SOEs for the gain of private interests. The lack of standardized approach to concessions and tenders eliminates potential bidders to fully grasp and prepare for the planned procurements. Besides hindering competition, this default also paves the way for private entities close to the government to have more successful results due to the inside information they gain on bids. This is a legal and institutional loophole that carries the highest political patronage, clientelism, and corruption risk.

SOURCE: Regional Energy Governance and State Capture Assessment Report, SELDI, 2016.



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