



Gas

SCREENING CHAPTER 15
ENERGY

AGENDA ITEM : CONVENTIONAL SOURCES OF ENERGY

Gas

Country Session: The Republic of TURKEY
14-15 June 2006



Gas

CONTENTS

- Overview
- Legal Framework



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OVERVIEW

Sale And Purchase Contracts

EXISTING CONTRACTS	QUANTITY (BCM/YEAR)	DATE OF SIGNATURE	TERM (YEARS)	STATUS
RUSSIAN FED.	6	1986	25	In Operation (1987)
RUSSIAN FED.	8	1998	23	In Operation (1998)
RUSSIAN FED.	16	1997	25	In Operation (2003)
IRAN	10	1996	25	In Operation (2001)
AZERBAIJAN	6,6	2001	15	2006
TURKMENISTAN	16	1999	30	
ALGERIA (LNG)	4	1988	20	In Operation (1994)
NIGERIA (LNG)	1,2	1995	22	In Operation (1999)
TOTAL	67.8			

Source:EMRA

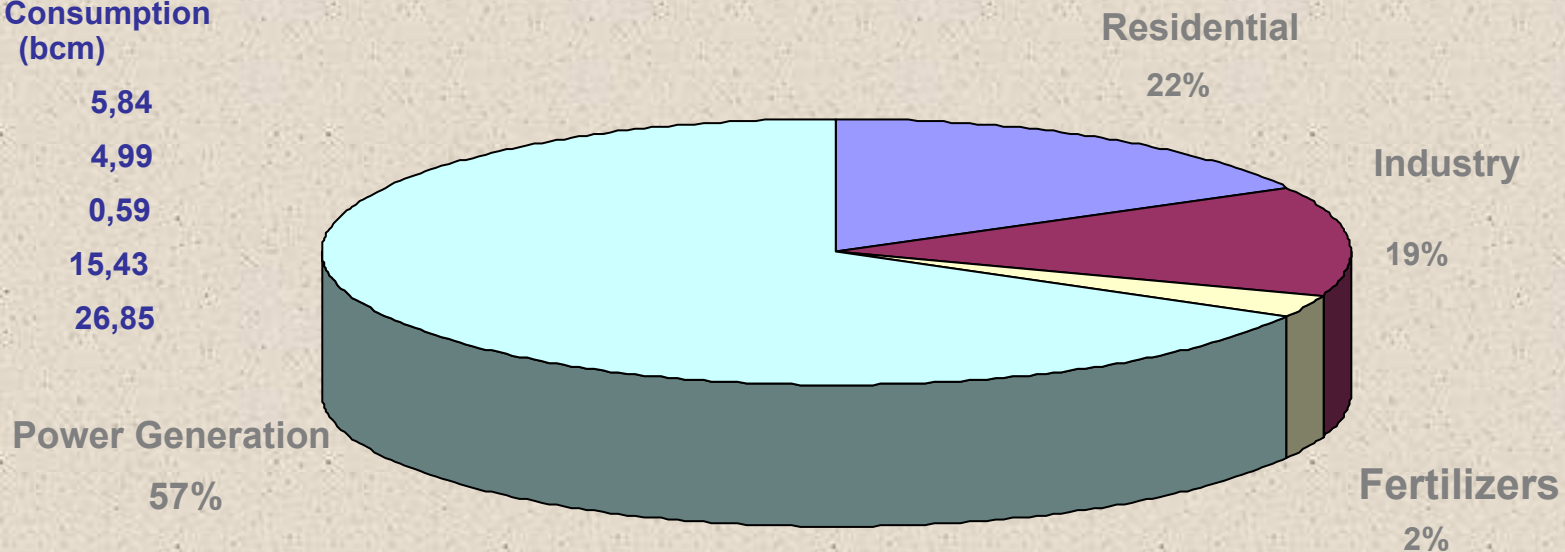


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OVERVIEW (CONT'D)

Natural Gas Consumption (2005)

Sector	Consumption (bcm)
Residential	5,84
Industry	4,99
Fertilizers	0,59
Power Gen.	15,43
Total	26,85



Annual consumption is 26,85 BCM

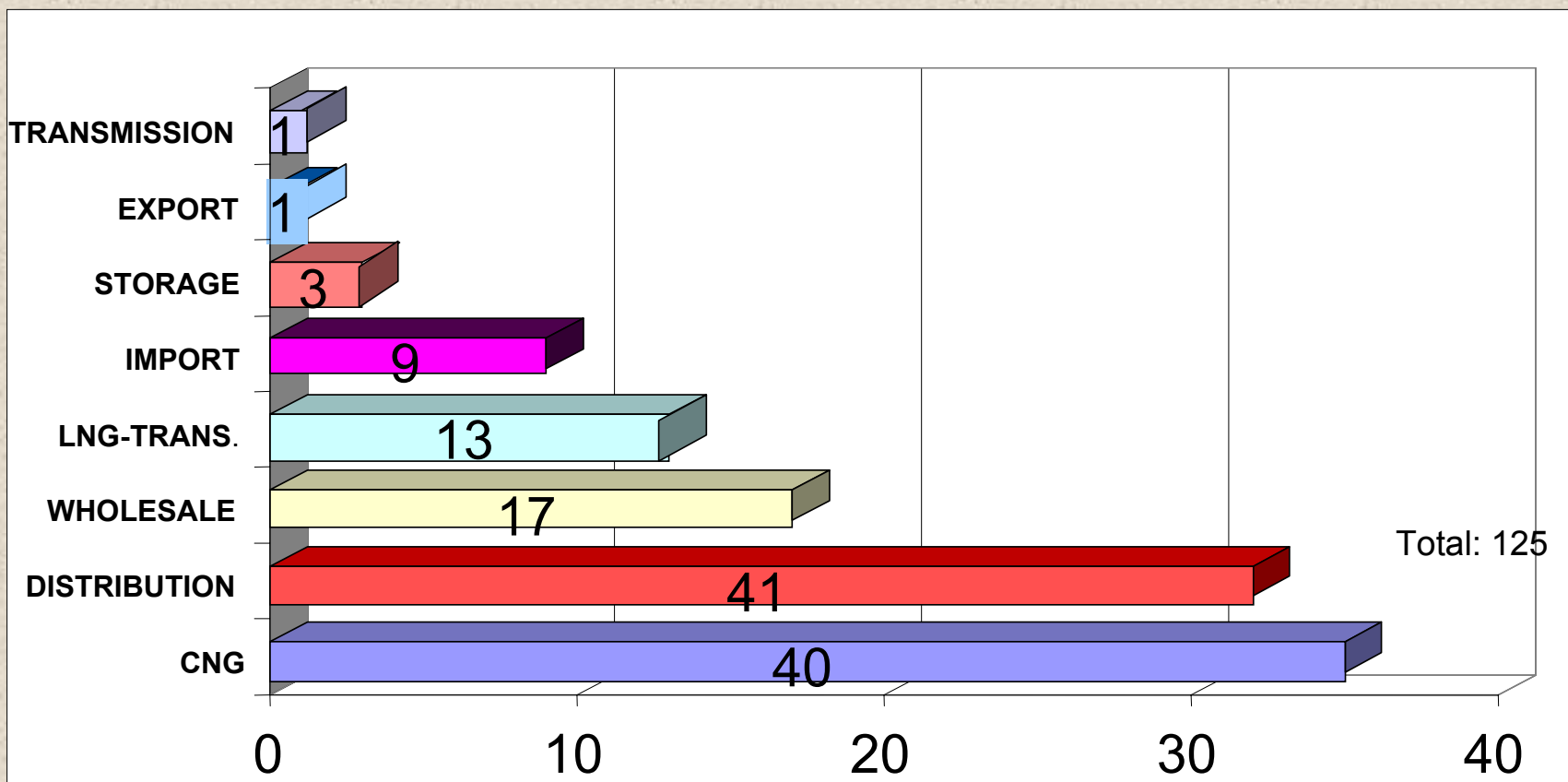
Source:BOTAS



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OVERVIEW (CONT'D)

Number of Licences Granted



Source: EMRA



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LEGAL FRAMEWORK

- **Law on Natural Gas Market No.4646**
(Official Gazette 2 May 2001, no 24390)
 - By-law on License
 - By-law on Tariffs
 - By-law on Internal Installations
 - By-law on Certificate
 - By-law on Transmission Network Operation
 - By-law on Distribution and Consumer Services
 - By-law on Facilities
 - Communications and Board Decisions



Gas

Law on Natural Gas Market No. 4646 (CONT'D)

Objective (Article 1)

- Liberal market
 - Financially sound
 - Stable
 - Transparent
 - Competitive
- Independent regulation
- Natural gas supply
 - Good quality
 - Economical
 - Reliable
 - Environment friendly



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Law on Natural Gas Market No. 4646 (CONT'D)

Scope (Article 2)

- Import, transmission, distribution, storage, marketing, trade and export activities
- Rights and obligations of real and legal persons

Definitions (Article 3)



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Law on Natural Gas Market No. 4646 (CONT'D)

Natural Gas Market Activities (Article 4)

Legal entities must obtain the relevant licenses from the EMRA.

- Import
- Export
- Transmission
- Storage
- Wholesale
- Distribution



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Law on Natural Gas Market No. 4646 (CONT'D)

Natural Gas Market Activities (Article 4)

Import

- Separate license required for each import contract
- Technical and economical capability for import
- Information and guarantee regarding the source, reserves, production facilities and transmission system of the natural gas to be imported
- Guarantee to store an amount corresponding to 10% of the natural gas to be imported every year, in the national territory.
- Import companies must inform EMRA on
 - Term of contract
 - Extension of term
 - Envisaged annual and seasonal import amounts and any changes in these amounts
 - System security related obligations
- Annual natural gas amount procured through import by any import company shall not exceed 20% of the national gas consumption forecast determined by EMRA.



Gas

Law on Natural Gas Market No. 4646 (CONT'D) Natural Gas Market Activities (Article 4)

- System operation requirements of transmission companies
- Safe, secure and effective gas transmission
- Cost-effective operation
- Approval of transmission investment plans by EMRA
- Obligation to connect
 - Any user upon demand within 12 months
 - Connection criteria set by EMRA
 - Connection disputes settled by EMRA



Gas

Law on Natural Gas Market No. 4646 (CONT'D)

Natural Gas Market Activities (Article 4)

Storage (ground or underground)

- Technical and economical capability
- Contribute to safe and coordinated system operation in storage capacity management
- Non-discriminatory service subject to system availability
- Storage capacity access disputes settled by EMRA



Gas

Law on Natural Gas Market No. 4646 (CONT'D)

Natural Gas Market Activities (Article 4)

Wholesale

- No obligation of obtaining wholesale license for import companies
- Amount sold by each wholesale company shall not exceed 20% of national consumption forecast
- Storage obligation in order to meet maximum seasonal natural gas demand of the customers



Gas

Law on Natural Gas Market No. 4646 (CONT'D)

Natural Gas Market Activities (Article 4)

Export

- Technical and economic capability
- Information on destination country and means of transportation
- Obligatory insurance coverage



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Law on Natural Gas Market No. 4646 (CONT'D)

Natural Gas Market Activities (Article 4)

Production

- Natural gas production is not an activity within the scope of the Natural Gas Market Law. Exploration and production of natural gas fall under the jurisdiction of the Petroleum Law No. 6326 and exploration and production licenses are granted by the General Directorate of Petroleum Affairs.
- Production Companies holding **wholesale license** may sell gas to
 - Wholesale companies
 - Import companies
 - Distribution companies
 - Eligible consumers (upto 20% of annual consumption forecast)
- Production Companies holding **export license** may engage in export activity



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Law on Natural Gas Market No. 4646 (CONT'D) Natural Gas Market Activities (Article 4)

Natural Gas Distribution

- License to be granted through tender
- Liability to connect
 - The transmission and distribution companies are obliged to connect all customers to system
 - Distribution companies are required to gasify every region in their respective territories in five years and also are obliged to purchase natural gas at least from two different sources.
 - Distribution companies are also obliged to construct a distribution dispatch centers in order to perform gas scheduling and system balancing in accordance with the seasonal changes
- Distribution companies are obliged to prove that they purchase from the cheapest source.
- Connection disputes settled by EMRA.



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Law on Natural Gas Market No. 4646 (CONT'D) Natural Gas Market Activities (Article 4)

Natural Gas Distribution (Amended with Law No. 5367)

- Companies to hold licenses for two cities only
- Number of the licenses can be increased by EMRA
- The distribution zones of the companies may be expanded by EMRA
- EMRA able to divide a city in more than one distribution zone with predetermined borders and tender out each zone separately



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Law on Natural Gas Market No. 4646 (CONT'D)

Construction and Service Activities (Article 5)

Licensees and eligible consumers may enter into construction and service contracts with certificate holding real persons or legal entities

General Principles of Licences and Certificates (Article 6)

- Separate license for each activity and for each facility before starting operation
- Separate accounts for each activity and facility subject to license
- Licensed facilities, legal books and records available for the auditing of EMRA



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Law on Natural Gas Market No. 4646 (CONT'D)

Competition, Data Submission, Unbundling Of Accounts (Article 7)

- Freedom of competition, non-abuse of dominant position, mergers and acquisitions related provision applicable
- Only production companies in Turkey may sell over 20% percent of the national natural gas consumption forecast
- Liability to provide information on activities, prohibition of using confidential information
- Obligation to keep separate accounts for each market activity
- Account unbundling is required between all natural gas market activities and also between BOTAS' activities.
- Distribution companies shall purchase max. %50 of natural gas from one legal entity annually.



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Law on Natural Gas Market No. 4646 (CONT'D)

Eligible Consumers (Article 8)

- Eligible consumers
 - Consumers purchasing natural gas of more than 1 million m³/year and the user unions
 - Companies purchasing natural gas for electricity generation
 - Cogeneration facilities (combined heat and power)
 - Companies producing natural gas in Turkey
- EMRA to determine eligibility threshold annually until all consumers are eligible.



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Law on Natural Gas Market No. 4646 (CONT'D) **Third Party Access (Article 8)**

- Third party access (TPA) is regulated.
- Access to the transmission and distribution systems is a right for all parties.
- Cases of rejection of connection request
 - insufficient system capacity
 - failure in performing obligations upon entry into the system
 - financial difficulties arising from existing contracts
- Connection disputes settled by EMRA



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Law on Natural Gas Market No. 4646 (CONT'D)

Sanctions and the Procedure on the Imposition of the Sanctions (Article 9)

- EMRA to impose administrative sanctions / penalties in cases of breach of legislation

Preliminary Investigation, Inquiry and Right of Legal Action (Article 10)

- EMRA to initiate preliminary investigation or inquiry
- Legal actions against Board Decisions to be heard in the Council of State



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Law on Natural Gas Market No. 4646 (CONT'D)

Tariffs (Article 11)

- Connection Tariffs
- Transmission and Supervision of Conveyance Tariffs
- Storage Tariffs
- Wholesale Tariffs
- Retail Sale Tariffs
- Transmission and Supervision of Conveyance Tariffs and Retail Sale Tariffs to be determined by EMRA
- All tariffs to be approved by EMRA until sufficient competition is in place.



Law on Natural Gas Market No. 4646 (CONT'D)

- **Miscellaneous Provisions (Article 12)**

Inter alia, expropriation, non in rem rights and leasing, notification

- **Amended, Repealed And Non-applicable Provisions (Article 13)**

- **Temporary Provisions Amending Law On Electricity Market (Article 14-20)**

Duties and revenues of EMRA regarding the natural gas market was added to Electricity Market Law.



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Law on Natural Gas Market No. 4646 (CONT'D)

Temporary Article 1.

The preparation term shall mean a period of twelve months beginning from the promulgation date of this Law. The Council of Ministers may extend this term only for once for another six months.

Temporary Article 3.

- Privatisation of Bursa and Eskisehir distribution operations of BOTAS
- Privatisation of the distribution companies existing before the enactment of this law.

Temporary Article 4.

- Finalization of the Egyptian natural gas purchase and sale agreement initialed by BOTAS



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Law on Natural Gas Market No. 4646 (CONT'D)

Contract Release

Temporary Article 2. (Amended with Law No. 5367)

- No more new contracts for BOTAS
 - Until its share in imports fall to 20% of annual consumption by 2009.
- BOTAS to conduct tenders for contract release
 - At least **10%** of its existing contractual obligations each year until 2009
- If contract release not possible, then another tender for volume release



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Law on Natural Gas Market No. 4646 (CONT'D)

Unbundling of System Operator

- Legal unbundling and separation of BOTAS's activities in 2 years as of 2009
 - Transmission
 - Storage
 - Trade
- Ownership Unbundling of BOTAS
 - Privatisation of BOTAS's storage and trade businesses



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Thank you for your attention