

REPUBLIC OF TURKEY PRIME MINISTRY
INVESTMENT SUPPORT AND
PROMOTION AGENCY



YOUR ONE-STOP-SHOP
IN TURKEY

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Turkey's Electricity Distribution Industry

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TURKEY'S ELECTRICITY DISTRIBUTION INDUSTRY

TEDAS is a Turkish State-owned joint-stock company engaged in the distribution and retail sale of electricity and provision of retail services to final customers. With approximately 23 million customers, 107 billion kWh of electricity sales and 68% market share in electricity distribution across Turkey in 2009 (excluding privatized companies), TEDAS and its distribution companies together form one of the largest organizations in the country.

Each operating in one region, namely:

- Region 1: DİCLE Electricity Distribution Ltd. ("DİCLE");
- Region 11: GEDİZ Electricity Distribution Ltd ("GEDİZ");
- Region 13: TRAKYA Electricity Distribution Ltd. ("TRAKYA").
- Region 17: BOĞAZİÇİ Electricity Distribution Ltd. ("BOĞAZİÇİ")

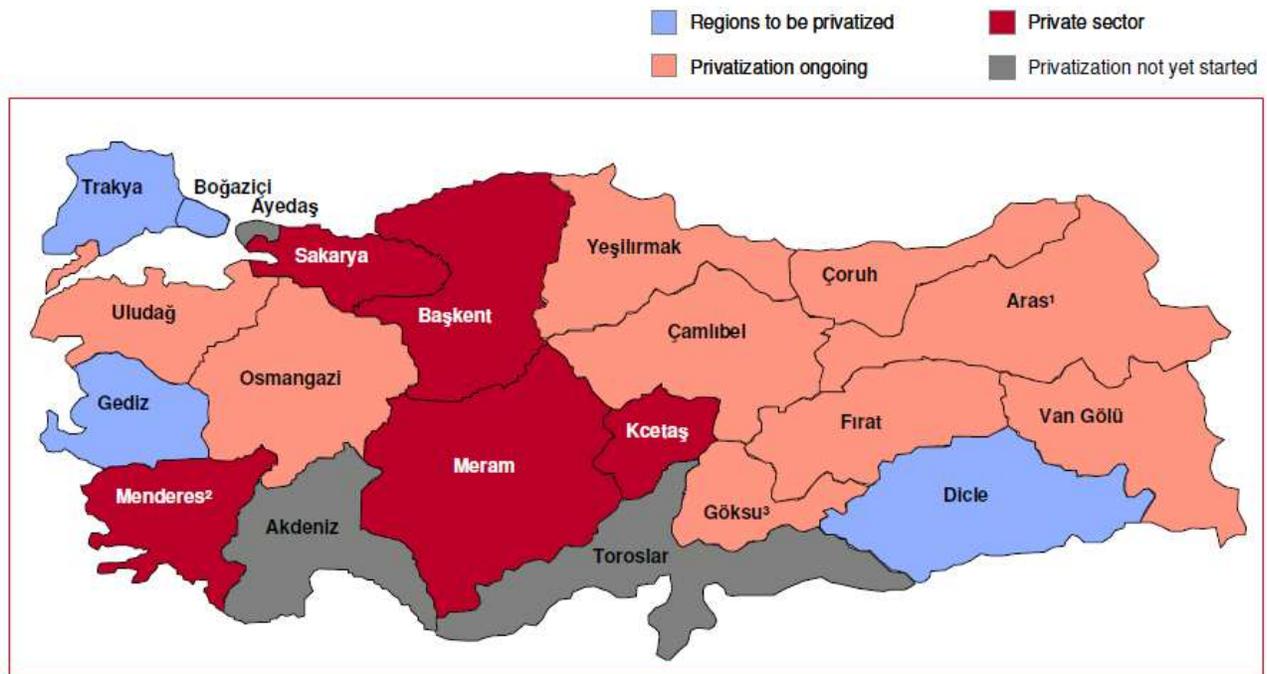
GEOGRAPHICAL COVERAGE OF DISTRIBUTION COMPANIES



1. Dicle elektrik Dağıtım A.Ş.	12. Uludağ Elektrik Dağıtım A.Ş.
2. Vanğözü Elektrik Dağıtım A.Ş.	13. Trakya Elektrik Dağıtım A.Ş.
3. Aras Elektrik Dağıtım A.Ş.	14. İstanbul Elektrik Dağıtım A.Ş.
4. Çoruh Elektrik Dağıtım A.Ş.	15. Sakarya Elektrik Dağıtım A.Ş.
5. Fırat Elektrik Dağıtım A.Ş.	16. Osmangazi Elektrik Dağıtım A.Ş.
6. Çamlıbel Elektrik Dağıtım A.Ş.	17. Boğaziçi Elektrik Dağıtım A.Ş.
7. Toroslar Elektrik Dağıtım A.Ş.	18. Kayseri Elektrik Dağıtım A.Ş.
8. Meram Elektrik Dağıtım A.Ş.	19. Menderes Elektrik Dağıtım A.Ş.
9. Başkent Elektrik Dağıtım A.Ş.	20. Gökse Elektrik Dağıtım A.Ş.
10. Akdeniz Elektrik Dağıtım A.Ş.	21. Yeşilirmak Elektrik Dağıtım A.Ş.
11. Gediz Elektrik A.Ş.	

Source: Republic of Turkey Prime Ministry Privatization Administration (PA)

CURRENT STATE OF DISTRIBUTION COMPANIES



1 State council has decided on 20.03.2009; a stay of execution of privatization of Aras Elektrik Dağıtım A.Ş. following a law suit filed 2008/13541E

2 The region covering Aydın, Denizli and Muğla, in accordance with law number 3096, has been handed over to the private sector on 15.08.2008

3 GÖKSU EDAŞ has been excluded from the privatization program in 2009 so that it could be handed over as per law number 3096
Source: PA

ELECTRICITY TARIFFS

According to the general principles as stated in the Electricity Market Strategy Paper, Turkish Electricity Market has gone through a process of vast restructuring in core activities ranging from generation to distribution. Accordingly, a new tariff structure has been developed inline with the new structural requirements in mind.

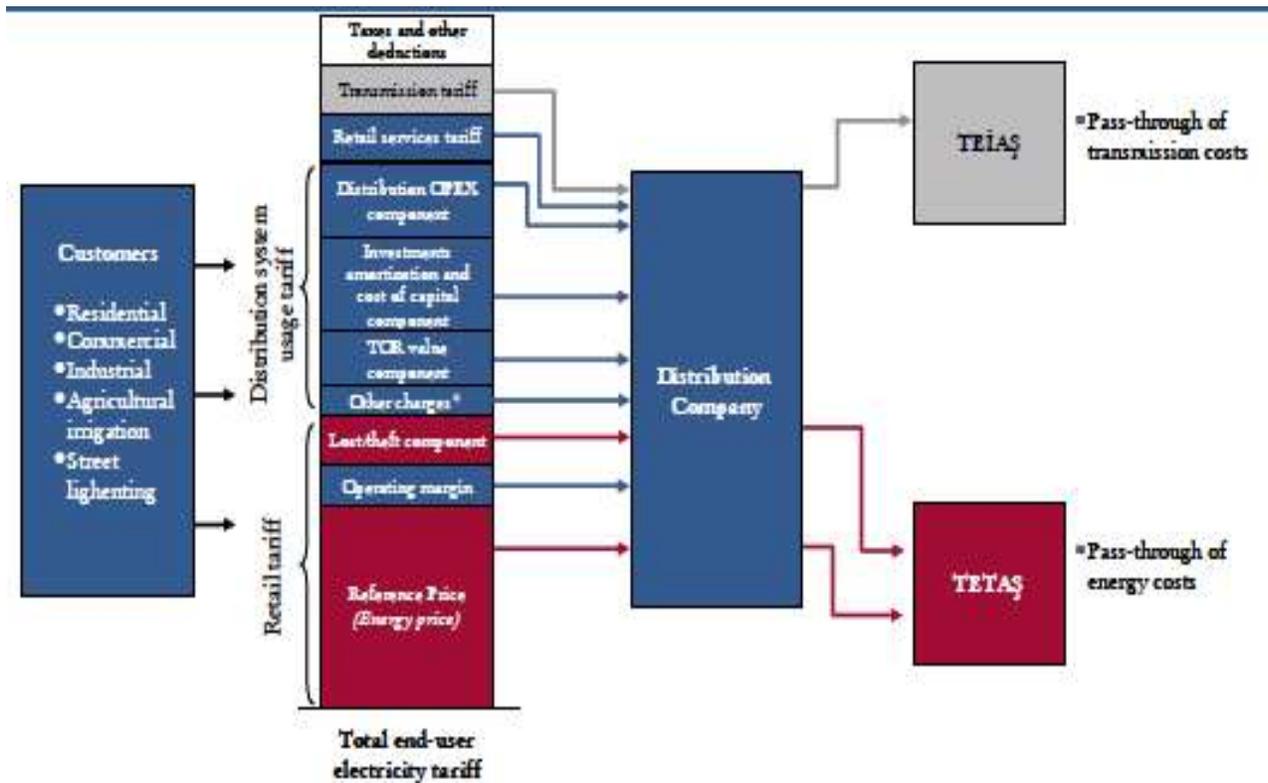
The first tariff implementation period (or transition period) has been set as five years from 2006 to 2010 to serve as the transitory period to fully cost based tariff structure after 2010. This transitory period has been extended to 2012 by the law numbered 5784 and dated 09.07.2008. The extension also applies to the tariff equalization mechanism to be discussed later in the document. EMRA has already approved the end user tariffs and revenue requirements of each distribution company for the period between 2006 and 2010. Revenue requirements cover the projected expenses for providing distribution and retail services and provide an allowance for the target level of technical and non-technical losses. After the expiration of EMRA approved tariffs, the new end-user tariffs will be determined by the distribution companies in accordance with the Electricity Market Tariffs Communiqué and the related regulations and will be subject to the Regulator's approval.

The first implementation period is designed to have a smooth and gradual transition from existing tariff structure to a lean and simple tariff structure. As of 2012, most customer groups will have cost based tariffs.

According to the Electricity Market Law, the Electricity Market Tariffs Communiqué and other related regulation,

the four tariff components¹ : (a) retail sales, (b) distribution, (c) retail services and (d) transmission; are governed in an unbundled fashion. Retail sales tariff has a “price cap” which is set as the basket price of the energy purchased by the distribution company. Distribution and retail services have “revenue caps” which cover operating expenses and investment requirements related to distribution and retail services. Transmission tariff is complete pass-through of transmission costs as charged by the national transmission company.

DECOMPOSITION OF END -USER TARIFF



* Dual-term tariffs: capacity charge, penalty for overload and reactive energy fee

Source: TEDAS

As stated in the Strategy Paper, the existing “national tariff” scheme will be maintained for the first tariff implementation period, rather than implementing “regional tariffs” in order to avoid sudden price fluctuations (currently, regional cost based tariffs vary significantly due to wide variation of loss/theft levels across the regions). Implementation of national tariffs, however, will result in revenue imbalances since the distribution company revenues will differ from its envisaged revenue cap. In order to remove such imbalances, the Regulator will employ a tariff equalization scheme to transfer revenues across the regions.

¹ Excluding taxes and other deductions components

TRANSITION PERIOD NATIONAL TARIFFS² (Krs/KWh)					
	2006	2007	2008	2009	2010
Industrial MV	11.63	11.52	11.40	11.30	11.19
Industrial LV	11.63	11.63	11.63	11.63	11.63
Commercial	14.75	14.50	14.15	13.87	13.62
Residential	12.40	12.40	12.64	12.89	13.14
Agricultural Irrigation	11.19	11.19	11.19	11.19	11.19
Lightening	11.97	12.00	12.04	12.07	12.10

² Applicable TEDAS wide average Tariffs

Source: EMRA

While the overall tariffs are pre-determined and approved for 2006-2010, the following revisions are allowed on the tariffs by the regulations:

- Revenue cap: the revenue caps are guaranteed regardless of the consumption levels in the region. Namely, if a distribution company underbills its revenue cap due to lower consumption, tariff adjustment is allowed for the subsequent year accordingly under the supervision of the Regulator. Moreover, the approved revenue caps for 2006-2010 will be inflation adjusted based on the changes in the Electricity Market Index ("EMI") announced by the Regulator.
- Retail price cap: the distribution company will reflect any increases in its energy sourcing costs to the price cap through a pass-through mechanism under the supervision of the Regulator.

Other than the end-user tariffs, customers are also charged a distribution connection fee for the establishment of the initial connection to the distribution network, a collateral amount as a warranty for non-payment, and a disconnection/reconnection fee in case a disconnection or reconnection is required.

POWER SUPPLY GUARANTEE

It is stated in the Strategy Paper that during the transition period 2006-2010, distribution companies are to procure 85% of the regional energy demand consumed by non-eligible customers from TETAS and the portfolio generation companies carved out of EUAS. Accordingly, each distribution company inherited Energy Sales Agreements with TETAS and EUAS portfolio companies, which secure the majority of distribution companies' energy needs for the transition period. In parallel with the extension of the transition period to 2012, Energy These Energy Sales Agreements have been established based on regulated prices for the transition period. After transition period, the distribution company will freely source its wholesale energy needs from alternative sources, e.g., bilateral contracts, spot market, vertical integration.

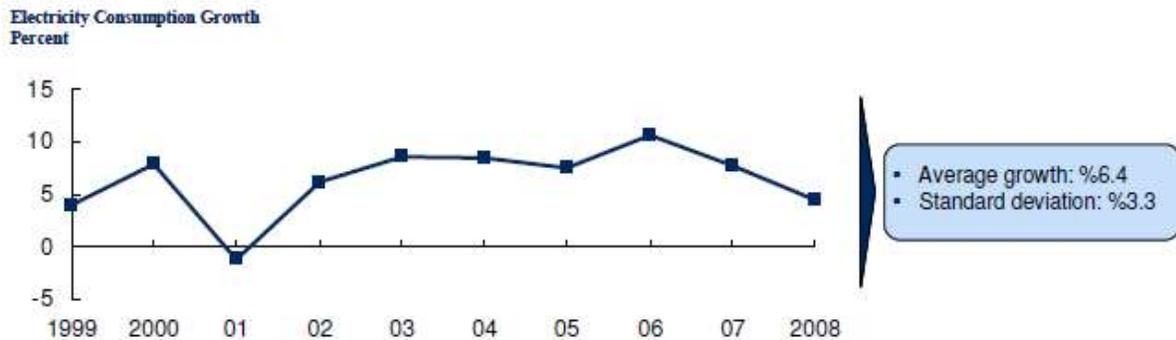
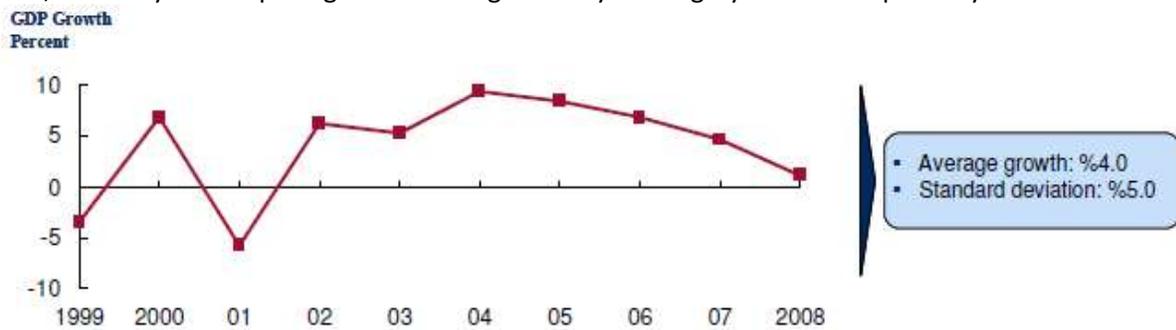
TURKISH ELECTRICITY MARKET OVERVIEW

The electricity industry is a large, high-growth sector in the Turkish economy. The industry constitutes an important part of the country's GDP. The sector's share in the Turkish economy has been growing rapidly, given the continuous growth in electricity demand over the past two decades. This rate of demand growth has been higher than the growth rates seen in other major Turkish industries and outstrips growth in the Turkish economy overall.

In 2008, the Turkish electricity sector recorded approximately 198 billion kWh of gross consumption (total

consumption including loss/theft, internal consumption and exports) and 190 billion kWh of net consumption (excluding loss/theft, internal consumption and exports). The industrials customer group represent approximately 50% of the total demand, while residential customers consume 24% of the total. Commercials customer group, excluding public institutions, is placed third in terms of consumption with a 15% share.

Distribution losses of the system, which amounted to 27.5 billion kWh in 2008, are high compared to international benchmarks. Accordingly, one of the primary objectives of the electricity sector reform has been defined as reducing the loss/theft ratio to OECD levels. Electricity consumption growth has historically been less volatile than the overall economic growth in Turkey. Between 1999 and 2008, GDP growth displayed a wide variance with a standard deviation of 5% around an average growth rate of around 4%. Consumption growth in the electricity sector during the same time period displayed a lower standard deviation of 3.3%, around a higher average growth rate of approximately 6.4%. As can be seen in the next chart, electricity consumption growth was negative only in a single year over the past 10 years.

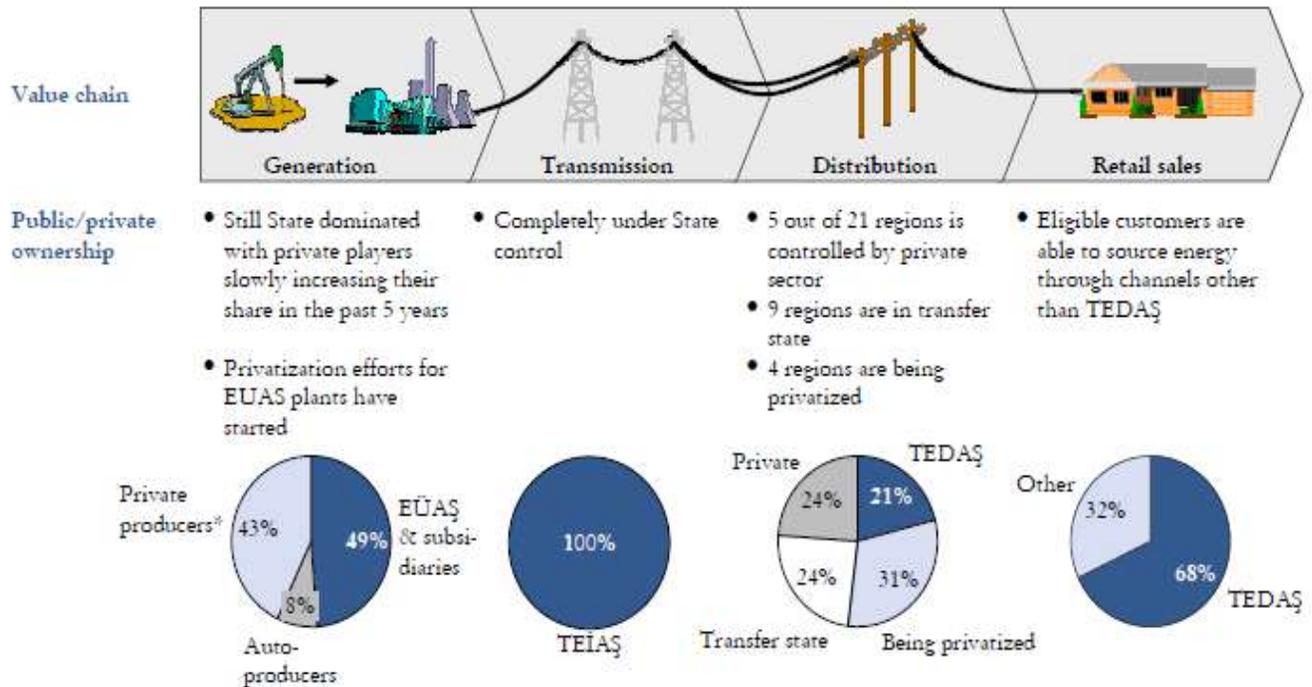


Source: TEDAS, SIS

According to the Ministry of Energy and Natural Resources (“MENR”) 2004-2020 projections that assume a continued cumulative annual growth rate of 7.7% in gross demand, per capita consumption is forecasted to reach 5,700 kWh by 2020.

Electricity consumption in Turkey has been growing at very high rates since the early 1980s. The next chart illustrates consumption growth for each customer group over the past two and a half decades. During the 1980s, average consumption growth was the same for all customer groups around 7.6%. After 1990s, however, consumption growth for residential and commercials customer groups outpaced that of industrials customer group. Nevertheless, the industrials segment still accounts for approximately 50% of electricity consumption in Turkey.

ELECTRICITY SECTOR VALUE CHAIN



- (1) Private producers include BO, BOT, TOR and mobile power plants
- (2) Transfers of Baskent and Sakarya were completed after 2008

Source: TEİAŞ, TEDAŞ

TENDER PROCESS

- Main steps of the tender process are laid down below in chronological order.
- Tender announcement
- Signing of confidentiality agreements and release of information memorandums
- Submission of pre qualification and tender documents
- Pre-qualification assessment
- Opening of the data room; management presentations; investor Q&A
- Submission of bid, bid bond, tender documentation, and final pre-qualifying documents by the investors
- Assessment of the bids
- Auction or negotiation with the remaining bidders
- Conclusion of the tender
- Preliminary approval of EMRA
- Competition Authority approval
- Procurement of Privatization High Council decision
- Signing of the Share Sale Agreement
- EMRA registration and transfer of shares

CONSUMPTIONS OF DISTRIBUTION COMPANIES BY SECTOR IN ANKARA AND ISTANBUL

Unit: MWh

DISTRIBUTION CO.	RESIDENTIAL	COMMERCIAL	INDUSTRY	OTHERS	TOTAL
AYEDAŞ	3,742,490	1,947,279	1,369,063	957,341	8,016,173
BOĞAZİÇİ EDAŞ	6,364,848	4,644,020	4,207,914	2,071,215	17,287,997
BASKENT EDAŞ	3,801,500	1,960,300	2,517,600	2,882,100	11,161,500

Source: TEDAS, Annual Report 2010.