

1,000 MW Wind Project Tender in Renewable Energy Resource Areas

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On 13 April 2017, the Ministry of Energy and Natural Resources (“[MENR](#)”) announced the awaited tender for a 1,000 MW wind project in the renewable energy resource areas (“[RERA](#)”).¹ The application deadline for the tender is 27 July 2017.

By way of background, the RERA model, which can be described as an investment package comprising the construction and operation of a major-scale renewable power plant, a domestic component production plant, and conducting research and development (“[R&D](#)”) activities, has recently been a game-changer in the Turkish renewable energy industry. The tender for the 1,000 MW Karapınar I Solar RERA, the first RERA tender, was completed on 20 March 2017. Less than one month later, MENR now revealed the specifications for the wind RERA project (the “[Specifications](#)”).

- The winning bidder will benefit from a 15-year purchase guarantee on the basis of the purchase price that it will submit as part of its bid. The ceiling price is set as USD 7 cent/kWh for this tender, which is slightly lower than the current YEKDEM (the renewable energy support mechanism) price of USD 7.3 cent/kWh applicable to wind projects.² Bidders will compete on the basis of a decrease under the ceiling price.
- The structure of the winning bidder will have implications on the execution of the project agreement with MENR, and the issuance of the electricity generation license(s) by Energy Market Regulatory Authority (“[EMRA](#)”). The bidders may structure themselves as a joint venture or consortium³, and each structure requires the participation of (i) a technology provider, which, among others, must have produced at least 2,000 MWe of wind turbine nacelle component between 1 January 2014 and 31 December 2016; and (ii) an investor with at least 25% direct or indirect Turkish shareholding. Under a consortium structure, both the technology provider and the investor member of the consortium will sign the project agreement with MENR and both members will be jointly and severally liable towards MENR. Yet, only the investor member will obtain an electricity generation license(s) from EMRA for a period of no less than 30 years. On the other hand, if the joint venture is awarded with the tender, its members will incorporate a special purpose vehicle company, and this company will sign the project agreement with MENR and obtain license(s) from EMRA for the said period.

¹ The announcement was published in the Official Gazette No. 30037, and dated 13 April 2017.

² The ceiling price in the Karapınar-I tender was USD 8 cent/kWh, while the YEKDEM price for solar projects is USD 13.3 cent/kWh. In that tender, the Kalyon-Hanwha consortium submitted the lowest bid of USD 6.99 cent/kWh.

³ For completeness, please note that the Specifications also permit the participation of a sole bidder.

- As part of their bids, the bidders will submit their proposals in respect of the locations of the RERAs up to an installed capacity of 1,700 MW, and MENR will ultimately decide on the RERA locations for an installed capacity of 1,000 MW. At least 400 MW of this 1,000 MW must be located within the Edirne - Tekirdağ - Kırklareli regions. The remaining 600 MW capacity can be located in the following regions subject to the connection capacity limits listed below:

Connection Point	Connection Capacity (MW)
Kayseri-Niğde	200
Sivas	200
Edirne-Kırklareli-Tekirdağ	700
Ankara-Çankırı-Kırıkkale	200
Bilecik-Kütahya-Eskişehir	150
Malatya	150
Burdur-Denizli-Uşak	100
TOTAL	1,700

- Bidders will submit a temporary performance bond in the amount of USD 10 million. The winning bidder will submit a USD 50 million performance bond for a term of 20 years; and this will be released following the completion of the following milestones:

Released Amount (USD)	Milestone
10 million	Initiation of the factory's operation
30 million	Completion of the power plants' construction
10 million	Completion of the 10 years of R&D activities

- The factory will begin production within 21 months following the execution of the project agreement with MENR. The factory will be capable of producing at least 150 turbines per year in a single shift.
- The turbines manufactured in the factory will be used in the power plants, and these must satisfy a 65% domestic production ratio.
- The technology provider will operate the R&D center for 10 years. Other than the equipment and fixed asset investment, the required annual budgets for these activities are set out as USD 2 million for the first year, USD 3 million for the second year, and USD 5 million for each of the remaining eight years.
- At least 90% of the employees in the factory, and 80% of the employees in the R&D center must be Turkish citizens. The applicable thresholds must be satisfied for each of white collar and blue collar employee categories.
- The Specifications provide that penalties will apply in the event that the following are not remedied within the applicable cure periods: (i) delays in respect of fulfilling the regulatory obligations in the preliminary license period; and (ii) non-compliance with the domestic component requirements. This is in line with the recent amendments introduced to the Renewable Energy Resource Areas Regulation⁴ on 11 April 2017. The penalties will be calculated by way of multiplying the performance bond amount with the percentage of delay/deficiency (installed capacity of the delayed/deficient plant over the entire installed capacity of the RERA project).

⁴ Published in the Official Gazette No. 29852, and dated 9 September 2016.

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