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# Turkey/Türkiye

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## Overview of the current energy mix, and the place in the market of different energy sources

### Electricity

Electricity market activity in Turkey is regulated by the Energy Market Regulatory Authority (“EMRA”) under the Electricity Market Law No. 6446<sup>1</sup> and the secondary legislation issued under this law. While most generation facilities are now operated by private companies in Turkey, Elektrik Üretim Anonim Şirketi (“EÜAŞ”), *Electricity Generation Corporation*, as the state-owned electricity generation company, still holds 22.4% of the generation assets,<sup>2</sup> but the market share of these assets has been gradually decreasing. In contrast, transmission activities are carried out solely by Türkiye Elektrik İletim A.Ş. (“TEİAŞ”), *Turkish Electricity Transmission Company*, the state monopoly, which is expected to be privatised by way of public offering (preliminary studies for such privatisation are expected to be completed by 31 December 2022). As for distribution activities, Turkey’s electricity distribution network is divided into 21 distribution regions, which are operated by private companies. Other main actors in the electricity market are supply companies, which are responsible for the sale of electricity to customers, and Enerji Piyasaları İşletme Anonim Şirketi (“EPIAŞ”), *Energy Markets Operation Corporation*, which operates the organised wholesale electricity markets and engages in financial settlement transactions.

According to official data published by the Ministry of Energy and Natural Resources (“MENR”), Turkey’s installed capacity reached 102,043 MW as of August 2022, and the share of each source is as follows: (i) 30.9% hydraulic energy; (ii) 24.8% natural gas; (iii) 20.7% coal; (iv) 10.9% wind; (v) 8.6% solar; (vi) 1.7% geothermal; and (vii) 2.4% other sources. Turkey’s installed capacity is expected to reach 102,423 MW by the end of 2022 and electricity consumption is expected to be 370 TWh in 2025 and 591 TWh in 2040.<sup>3</sup>

### Renewable energy

Renewable energy is regulated under Law No. 5346 on Generation of Electricity from Renewable Energy Resources<sup>4</sup> and its secondary legislation. Under this law, renewable energy sources are non-fossil sources such as wind, solar, geothermal, biomass, wave, stream and tidal.

Turkey has been rapidly increasing its renewable energy installed capacity. According to statements published by MENR, Turkey ranks 12<sup>th</sup> in the world and fifth in Europe in terms of renewable energy installed capacity. As of August 2022, 54.3% of power plants in operation are renewable energy-based power plants, while the contribution of wind and solar power plants is 19.5% in total.<sup>5</sup> Hydroelectric power plants compose 30.9% of Turkey’s total installed electricity capacity, and such capacity is expected to reach 32,228 MW by the end of 2022.<sup>6</sup>

## Natural gas

Natural gas market activities (*i.e.*, midstream and downstream activities) in Turkey are governed by the Natural Gas Market Law<sup>7</sup> and its secondary legislation implemented by EMRA, whereas upstream activities are governed by the Petroleum Law<sup>8</sup> and its secondary legislation implemented by the General Directorate of Mining and Petroleum Affairs of MENR (“**MAPEG**”).

Boru Hatları ile Petrol Taşıma Anonim Şirketi (“**BOTAŞ**”), *Petroleum Pipeline Corporation*, is the owner and operator of the main transmission network and remains vertically integrated across much of the natural gas sector. In addition, BOTAŞ accounts for nearly 80% of natural gas imports and dominates the wholesale market despite liberalisation efforts.

Supply security concerns are generally addressed as the main reason why Turkey failed to fully meet its liberalisation targets. Turkey depends heavily on natural gas imports since its natural gas production is negligible (the volume of production was 210,747 m<sup>3</sup> in the first six months of 2022, which corresponds to approximately to 0.6% of overall natural gas consumption). This makes securing supply of natural gas the most central theme in all topics surrounding the natural gas sector in Turkey.

In the first six months of 2022, the share of natural gas in the total consumption was 21% and the total number of natural gas consumers in Turkey increased to 18.9 million in June 2022. In order to meet the demand, Turkey imports natural gas from several countries. According to the June 2022 data, Russia’s share is 44.05%, Azerbaijan’s share is 19.02% and Iran’s share is 22.29% among the countries from which natural gas is imported.<sup>9</sup>

## Oil

Similar to natural gas, upstream oil activities are governed by the Petroleum Law and its secondary legislation implemented by MAPEG, and midstream and downstream activities are governed by the Petroleum Market Law<sup>10</sup> and the Natural Gas Market Law (as the case may be) and their respective secondary legislation implemented by EMRA.

Turkey is also dependent on oil imports, with 92.8% of oil consumed in 2021 coming from imports.<sup>11</sup> Although petroleum exploration and exploitation areas have long been state-dominated fields of activity in Turkey, the position of the state has become more private investor friendly within the past few years and the liberalisation of the market is continuing.

As the main importer of crude oil and petroleum products, Türkiye Petrol Rafinerileri Anonim Şirketi (“**TÜPRAŞ**”), *Turkish Oil Refinery Corporation*, increased its refinery production in July 2022 by 2.17% compared to July 2021 data and reached 3.4 million tons. Imports of crude oil, the largest item in Turkey’s total oil imports, increased by 0.4% to 2,993,803 tons.<sup>12</sup>

## Nuclear energy

Akkuyu Nuclear Power Plant (“**NPP**”) will be Turkey’s first NPP. According to the official numbers published by MENR, each unit will have an installed capacity of 1,200 MW and the total capacity of the NPP will be 4,800 MW. All four units of the Akkuyu NPP are now ready for construction, as the Nuclear Regulatory Authority issued a licence for the fourth unit on 28 October 2021, following the three previously licensed units. The construction of the Akkuyu NPP is currently ongoing and its first unit is expected to be commissioned in 2023.

Feasibility studies for two more NPPs are expected to continue. Site studies for the Sinop NPP project, which is expected to be Turkey’s second NPP in İnceburun, Sinop province, are being carried out by EÜAŞ. The total installed capacity of the Sinop NPP will be

4,560 MW and the amount of electricity generated is expected to be 34 billion kWh per year. In addition, a third NPP project is expected to be built in İğneada, in the northwestern province of Kırklareli; however, the feasibility studies are still at an early stage.

### **Changes in the energy situation in the last 12 months that are likely to have an impact on future direction or policy**

#### COVID-19 and economic outlook

According to the 2021 Energy Efficiency Report published in November 2021 by the International Energy Agency, restrictions to prevent the spread of COVID-19 affected the progress of energy efficiency worldwide, but venture capital investment in clean energy remained strong. In line with this, Turkey, as a country in the early stages of energy efficiency, has been rapidly increasing the share of clean energy despite the negative impacts of COVID-19. The increased tendency towards renewable energy sources can be considered one of the few positive aspects of the pandemic.

According to the 2021 Annual Activity Report published by MENR, financial contractions in global markets as well as the increase in energy costs due to the pandemic continue to put pressure on Turkey's economy. During global recovery after the pandemic, the demand for energy increased rapidly and the sudden increase in fossil fuel prices, such as natural gas, oil and coal, triggered an increase in electricity prices. While the whole world is affected by this sudden increase in energy prices, Turkey particularly struggled due to the depreciation of the Turkish Lira ("TRY").

In order to prevent increased electricity generation costs, a price cap was implemented on the market clearing price in April 2022 based on the source of electricity. As of October 2022, such price cap is TRY 4,500 per MWh for natural gas. In addition, with EMRA's recent decision,<sup>13</sup> EÜAŞ now sells both the electricity it produces and the electricity it purchases from the market to supply companies at a fixed and relatively lower price in order to subsidise consumers.

According to the temporary foreign trade statistics published by the Turkish Statistical Institute and the Ministry of Commerce, Turkey's imports in July increased by 41.4% compared to the same month of the previous year and amounted to approximately USD 29.24 billion, approximately USD 7.75 billion of which was composed of energy imports. The energy import bill was approximately USD 3.9 billion last year, meaning that Turkey has been increasingly dependent on imports over the last year due to the rise in industrial production.

#### Russia-Ukraine conflict

As explained above, Turkey largely depends on imports due to its insufficient natural gas resources. Natural gas is mainly imported from Russia, Azerbaijan and Iran through pipelines, and 45% of Turkey's total natural gas consumption was met from Russia last year.<sup>14</sup> The Russia-Ukraine conflict, which began in early 2022, caused natural gas prices in Turkey to increase rapidly compared to before the conflict according to the tariffs published by BOTAŞ. So far, natural gas supply from Russia to Turkey largely remains unaffected, and MENR officials state that it does not seem likely that Russia will cut off the natural gas supply to Turkey; however, even a partial decrease in the natural gas purchased from Russia may put many sectors in Turkey into trouble. MENR published a statement emphasising that Turkey had foreseen this situation, and therefore renewed its contracts to guarantee natural gas supply and executed liquefied natural gas ("LNG") agreements in order to take the necessary precautions in a timely manner. However, in June 2022, natural gas imports

decreased by 6% compared to June 2021 to 3.8 billion m<sup>3</sup>, with pipeline gas constituting 85% of total imports and LNG 15%.<sup>15</sup> In accordance with this, the installed capacity based on natural gas-based electricity generation was 25,733 MW at the end of 2021 and is estimated to fall to 25,108 MW by the end of 2022.<sup>16</sup>

The impact of the Russia-Ukraine conflict and seasonal demand fluctuations have also necessitated an increase in natural gas storage capacity. The current share of storage capacity to meet annual consumption is 8%.<sup>17</sup> Upon completion of the Tuz Gölü Underground Natural Gas Storage Project and the North Marmara Natural Gas Storage Expansion Project, Turkey's total underground natural gas storage capacity is expected to reach 10 billion m<sup>3</sup> in 2023.<sup>18</sup> In addition, investments in the Hatay-Dörtyol floating LNG storage and regasification unit ("FSRU") connection line and Edirne-Saros FSRU scaffolding and connection line, each with a natural gas delivery capacity of 1.5 billion m<sup>3</sup>/year, are in progress. Ertuğrul Gazi, the new FSRU vessel of BOTAŞ, was commissioned on 25 June 2021 and delivered 2.1 billion m<sup>3</sup> to the transmission system by 26 June 2022.<sup>19</sup>

The increasing need for supply security has also accelerated ongoing pipeline projects. Plans are in place for the completion of the Trans-Anatolian Natural Gas Pipeline Project, and the infrastructure for the transmission of gas from the Caspian basin to Europe should be finalised by 2023. The TurkStream Land Section-1 Natural Gas Pipeline Project is also expected to be completed.

#### Offshore drilling activities in the Black Sea and the Mediterranean

MENR has announced that a drilling ship, named "Abdülhamid Han", started drilling in the Mediterranean Sea on 9 August 2022. This is the first ship to drill in the Mediterranean Sea, while three other drilling ships are operating in the Black Sea.

Türkiye Petrolleri Anonim Ortaklığı ("TPAO"), *Turkish Petroleum Corporation*, aims to accelerate exploration activities in the Black Sea and the Mediterranean Sea with a fleet of two seismic research and four drilling vessels in line with its goal to increase daily crude oil production by 75% by 2023.<sup>20</sup> In addition, the Sakarya Natural Gas Field Development Project, regarding 540 billion m<sup>3</sup> of natural gas reserves discovered in the Black Sea region by TPAO, is expected to continue.<sup>21</sup>

### **Developments in government policy/strategy/approach**

#### The 11th Development Plan

According to the 11<sup>th</sup> Development Plan published by the Presidency of Strategy and Budget, Turkey's energy targets for 2023 are as follows:<sup>22</sup>

<b>Energy Sector Targets</b>	<b>2018</b>	<b>2023</b>
Electrical Energy Consumption <i>Per Capita</i> (KWh/Person)	3,698	4,324
Share of Natural Gas in Electricity Production (%)	29.85	20.7
Share of Renewable Resources in Electricity Generation (%)	32.5	38.8
Amount of Electricity Produced from Domestic Sources (TWh)	150.0	219.5
Installed Power Capacity (MW)	88,551	109,474

In order to reduce import dependency and the current accounts deficit in energy, exploration, generation and research and development activities will be increased for high-potential domestic resources such as geothermal and shale gas, especially lignite.<sup>23</sup> According to the 2022 Annual Program published by the Presidency, the installed capacity of indigenous coal, which was 11,336 MW in 2020, is expected to remain the same in 2022. Within

the scope of national energy and mining policy, in line with efforts to increase the use of domestic coal, studies to prepare a Resource Report and a Reserve Report in terms of mining for the use of large lignite reserves in electricity generation are ongoing.<sup>24</sup>

Other significant targets in the 11<sup>th</sup> Development Plan are as follows:

- Feasibility studies for the Tortum-Georgia energy transmission line project will be completed by 2023.
- The Van Back to Back System and connection lines that will enable electricity trade between Turkey and Iran will be completed and begin operation by 2023.
- Organised industrial zones will be supported to complete the establishment of their certified energy management systems and energy efficiency action plans.
- In order to meet the electricity demand of the Thrace region more reliably, inactive power plants with sufficient capacity will be transferred to the region. In addition, Lapseki 3-Sütlüce 3 and Hersek Additional Pit-Dilovası Additional Pit underwater cables and land connections will be constructed between the Thrace and Anatolia regions.
- Production of the first domestic-brand automobile based on high technology will begin by 2023. In line with this target, Turkish officials state that the sale of Turkey's first domestic electric vehicle "TOGG" will begin in March 2023, and it is estimated that the number of electric vehicle charging units in Turkey will reach 54,000 in 2023, 1.1 million in 2030 and 4.8 million in 2040.

#### Developments in renewable energy

The 2023 target regarding an increase in the share of renewable resources discussed above has already been achieved, with 54.3% of power plants in operation based on renewables according to the August 2022 data. This is mainly because there has been a USD-denominated feed-in tariff mechanism applicable to renewable power plants for the first 10 years of operation. In addition, power plants using domestic mechanical and/or electromechanical parts also benefit from an additional domestic production incentive for the first five years of operation. These incentives were initially envisaged to apply only to power plants to be commissioned on or before 31 December 2020. However, with Presidential Decree No. 2949,<sup>25</sup> the commissioning deadline was extended by six months to 30 June 2021. Furthermore, under Presidential Decree No. 3453 of 29 January 2021,<sup>26</sup> the deadline was further extended to 31 December 2025, and feed-in tariffs and domestic production incentives have been converted to TRY for renewable energy plants that are commissioned between 1 July 2021 and 31 December 2025. A major concern within the sector is that TRY-based tariffs and incentives would obstruct financing of renewable investments, as project financings in Turkey are typically denominated in USD or EUR. In order to mitigate this concern to a certain extent, Presidential Decree No. 3453 includes an escalation mechanism in which prices are escalated every three months, subject to a ceiling price in USD. There are currently 1,034 companies approved for the final Renewable Energy Sources List for 2022, with unit prices varying from 7.300 to 16.130 cents/KWh.<sup>27</sup>

Further mechanisms to boost production from renewable energy resources include the introduction of the International Renewable Energy Certificate ("I-REC") and Renewable Energy Guarantee of Origin ("YEK-G") schemes into the Turkish energy market on 1 June and 21 June 2021, respectively. Under these schemes, EPIAŞ has been authorised to grant YEK-G certificates, while Foton Yazılım Teknolojileri ve Enerji Danışmanlık Hizmetleri A.Ş. ("Foton A.Ş.") has been authorised to grant I-REC certificates. Both of these schemes aim to increase the generation and consumption of renewable energy through providing accurate statistics of production concerning renewable energy for companies that have



applied for certificates. The certificates issued by YEK-G are calculated in terms of MWh, and 512 MWh worth of certificates are currently in active use,<sup>28</sup> while a total of 402,477 MWh worth of certificates have been revoked.<sup>29</sup> In terms of I-REC certificates, 58 have been issued by Foton A.Ş. so far.<sup>30</sup>

### Energy efficiency

Through energy efficiency projects, Turkey's energy intensity (*i.e.*, energy consumed per national income) is targeted to be reduced by at least 20% by 2023 compared to 2011.<sup>31</sup> With the implementation of 55 actions in six different sectors in the National Energy Efficiency Action Plan, which entered into force on 2 January 2018, a cumulative energy saving of 23.9 million tons of oil equivalent (“TOE”) is expected to be achieved by 2023 with an investment of USD 10.9 billion. This corresponds to a 14% decrease in Turkey's primary energy consumption in 2023, and the expected saving amounts to USD 30.2 billion by 2033.<sup>32</sup> In line with this, 111,666 TOE/year of energy was saved according to data as of 31 December 2021 through the Efficiency Enhancing Project.<sup>33</sup>

### Environment and climate

With the ratification of the Paris Agreement on 10 November 2021, Turkey's climate-related policymaking efforts have accelerated. The first Climate Council was held in Konya on 21–25 February 2022 in line with the 2053 Net Zero Emission Vision adopted following ratification of the Paris Agreement.

Turkey also adopted a Green Deal Action Plan on 16 July 2021, which focuses on green investments, the use of a cleaner energy supply model and transition to an internationally competitive, sustainable, efficient and technological agricultural policy. One of the most ambitious goals in the Green Deal Action Plan is to allocate 1 GW of capacity for solar and wind power generation every year until 2027.

Another significant strategy document focusing on environment and climate-related issues is the Medium Term Program of the Presidency of Strategy and Budget for the period of 2023 to 2025. The main climate-related target of this programme is to facilitate the transition to the EU's Carbon Border Adjustment Mechanism (“CBAM”), which will enter into force in 2026, and to implement policies for reducing emissions at the lowest cost for sectors that will be affected by the CBAM.

### Hydrogen strategy

MENR aims to balance its electricity generation from renewable energy sources by mixing 2–6% hydrogen into natural gas distribution lines.<sup>34</sup> According to statements made by MENR, Turkey aims to produce hydrogen from its domestic coal sources and increase the use of the boron minerals – 73% of worldwide reserves of which is located in Turkey – as a hydrogen storage and capture medium. MENR also states that the use of hydrogen will enable more integration of renewables in the grid and help the heating sector to be more carbon-neutral. These objectives within the scope of the hydrogen strategy are still targets, pending the establishment of a legal framework. According to MENR's statements, costs are currently high; however, as a result of technological developments in this field, it is expected that it will become more affordable in time, and that a local hydrogen ecosystem and a local hydrogen industry will be established.

## **Developments in legislation or regulation**

### Licence-exempt electricity generation

The Turkish government has long been incentivising licence-exempt electricity generation for self-consumption. Over the years, market practice has evolved to use this opportunity



beyond self-consumption, in a way to generate for trading purposes. In August 2022, EMRA declared that its policy will be to bring licence-exempt electricity generation activities back to basics and accordingly, certain restrictions have been introduced on the sale of excess generation (beyond self-consumption). With the Regulation Amending the Regulation on Licence-Exempt Electricity Generation in the Electricity Market dated 11 August 2022<sup>35</sup> (“**Amending Regulation**”), for persons who were entitled to connect to the grid as a result of an application made after 12 May 2019, the excess amount subject to sale cannot exceed the total amount of electricity consumption of the associated consumption facility in the previous year. This limitation has received major backlash from the market as it is considered to significantly limit previous opportunities to generate revenues from excess generation.

On the other hand, the Amending Regulation has also introduced some investor-friendly provisions for licence-exempt generation, such as allowing certain consumers, such as organised industrial zones, to locate their generation facilities and associated consumption facilities within different distribution areas falling into the operation of different distribution companies. This change in locational requirements is expected to open new venues for investments.

Furthermore, all licence-exempt generation facilities have been exempted from the availability fee, regardless of their installed capacity. Prior to the Amending Regulation, such exemption was only granted to facilities with an installed capacity of up to 5 MW.

Licence-exempt energy generation has also been incentivised through an amendment to the Decision and Implementation Communiqué Regarding State Aids to Investments dated 24 February 2022.<sup>36</sup> Under the state aids scheme, the goal is to increase overall production and employment in Turkey and to eliminate inter-regional imbalances in the country. Accordingly, Turkey is divided into six regions considering the socio-economic development levels of these regions. The first group consists of the most developed provinces, whereas the sixth group consists of underdeveloped eastern and south eastern provinces. With the amendments, the greater aid provided to investments in Zone 4 (such as interest and dividend support) will also be provided to licence-exempt wind and solar investment projects located in the 37 cities within Zones 1, 2 and 3.

#### Precautions to ensure supply security in the electricity markets

Turkish regulatory authorities have made numerous changes with regard to capacity increases in order to ensure supply security. A recent change in this regard has come into effect through the EMRA Decision dated 30 September 2022 (“**EMRA Decision**”) and the relevant amendments made in the Electricity Market Connection and System Usage Regulation on 22 March 2022.<sup>37</sup> According to the EMRA Decision and amendments, if deemed necessary by TEİAŞ to ensure supply security, licence holders will be allowed to exceed the amount stated in their licences until 31 March 2023, provided that they have applied to TEİAŞ regarding eligibility for such exception. Until this date, any electricity fed into the system that exceeds the amount stated in the licence will not be considered excess power and will therefore not be subject to any penalty.

Amendments have also been made in order to incentivise electricity storage activities. Legal persons who undertake to construct storage facilities will be provided with preliminary licences by EMRA for the construction of a wind or solar power plant with a capacity of up to the amount undertaken to be stored, without any tendering procedure. Capacity increases for existing operational wind or solar power plants will also be allowed in connection with the amount undertaken to be stored.

### Charging stations

New regulations have entered into force with regard to charging services, through the implementation of the Charging Services Regulation and the Procedures and Principles Regarding the Applications for Charging Grid Operating Licenses.<sup>38</sup> These regulations aim to accelerate the implementation of the legal and technical infrastructure of charging services. As of August 2022, there are currently 32 companies that have obtained licences to provide charging services.

### Environmental impact assessment

A new Environmental Impact Assessment (“EIA”) Regulation came into force on 29 July 2022,<sup>39</sup> replacing the previous regulation under the same name dated 25 October 2014. Under this new regulation, all wind, hydroelectric and geothermal power plant projects have become subject to EIA procedure, regardless of their capacity and location.

### **Judicial decisions, court judgments, results of public enquiries**

Firstly, EMRA imposed a record fine amounting to a total of TRY 18,820,125 on a distribution company due to long-term power outages in Isparta province in February 2022. The outages, each of which lasted for longer than 10 hours, affected 27,850 customers, while some neighbourhoods suffered outages for up to 80 hours. EMRA rejected the company’s request to consider the outages as *force majeure* due to extreme weather conditions and ruled that the company should pay a total of TRY 15,583,459 in compensation to its customers. During the investigation, EMRA also found that the company reduced the quality of its electricity distribution service in the region to an unacceptable level due to its failure to make the required investments and thus imposed an administrative fine of TRY 1,618,333. EMRA also imposed an additional fine of TRY 1,618,333 on the company for failing to present the required documents in a timely manner during the investigation.

Secondly, Elazığ Chamber of Commerce and Industry has filed a lawsuit against EMRA in order to challenge the abovementioned Amending Regulation before the administrative court. The process is ongoing.

Lastly, there has been an ongoing trend in Turkey to refer energy sector disputes to domestic and international arbitration. In light of this, the Energy Disputes Arbitration Centre was established in Ankara and began operating on 21 October 2022, with the aim of focusing on energy disputes and operating as an international arbitration centre.

\* \* \*

### **Endnotes**

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5. September 2022 Monthly Energy Bulletin published by TSKB.
6. Annual Presidency Program 2022 – Energy Sector Summary Report.
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8. Published in the Official Gazette dated 16 March 1954 and numbered 8659.
9. June 2022 Natural Gas Distribution Sector Report.
10. Published in the Official Gazette dated 20 December 2013 and numbered 25322.

11. 2021 TPAO Oil & Gas Sector Report.
12. July 2022 EMRA Petroleum Market Sector Report.
13. EMRA's Decision dated 8 August 2022 and numbered 11114, published in the Official Gazette dated 9 August 2022 and numbered 31918.
14. 2021 EMRA Natural Gas Sector Report.
15. *Ibid.*
16. *Ibid.*
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18. 2021 EMRA Natural Gas Sector Report.
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25. Published in the Official Gazette dated 18 September 2020 and numbered 31248.
26. Published in the Official Gazette dated 30 January 2021 and numbered 31380.
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31. National Energy Efficiency Action Plan 2017–2023.
32. *Ibid.*
33. *Ibid.*
34. May 2021 Hydrogen Energy Information Note by TSKB.
35. The amending regulation was published in the Official Gazette dated 11 August 2022 and numbered 31920.
36. Published in the Official Gazette dated 24 February 2022 and numbered 31760.
37. The amending regulation was published in the Official Gazette dated 22 March 2022 and numbered 31786.
38. Published in the Official Gazette dated 2 April 2022 and numbered 31797.
39. Published in the Official Gazette dated 29 July 2022 and numbered 31907.

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