Changes in the RES Mechanism in Turkey

The Regulation on the Documentation and Support of Renewable Energy Resources (the "**RES Regulation**") was amended on 29 April 2016 (the "**Amendments**") and the Amendments became effective as of 1 May 2016. This note provides an overview of the Amendments, which introduce substantial changes in Turkey's renewable energy support mechanism (the "**RES Mechanism**").

Sale to the Free Market and Dual Payment System

Prior to the Amendments, participants in the RES Mechanism engaged in the day-ahead market through an isolated portfolio operated by EPİAŞ and benefited from the RES Mechanism feed-in tariff. In this feed-in tariff model, generators could not sell electricity outside the RES Mechanism during the year of their participation in the RES Mechanism. The Amendments have lifted this restriction and participants in the RES Mechanism are now able to sell electricity in the day-ahead market and intra-day market as well as through bilateral arrangements.

In order to maintain support provided to participants in the RES Mechanism, the Amendments also introduce a dual payment system between participants and EPİAŞ where either EPİAŞ or the participant may need to make a payment to the other in respect of the electricity sold by the participant.

This payment would primarily be based on the difference between the market set-off price (*piyasa takas fiyatı*) determined in the day-ahead market multiplied by the tolerance coefficient number determined by EMRA – initially set as 0.98 – and the feed-in tariff determined under the Law on the Utilisation of Renewable Energy Resources for Electric Power Generation (Law No. 5346). If the result of this calculation is less than the feed-in tariff, EPİAŞ would pay the difference to the participant and, if the result is higher than the feed-in tariff, the participant would be required to pay the surplus amount to EPİAŞ.

Liability for Balancing

While introducing the freedom to sell to the market, the Amendments remove the exemption provided to participants in the RES Mechanism in relation to their liabilities from balancing activities under the Electricity Market Balancing and Settlement Regulation (the "**Balancing Regulation**"). Accordingly, participants are now liable for balancing and need to bear any costs arising from their unbalanced market activities. As a mitigant, the market set-off price is multiplied by a tolerance coefficient number (i.e. not 100% of the market set-off price), thus participants have the benefit of an additional revenue corresponding to the remaining part of the market set-off price. Since the current coefficient number is initially set as 0.98, participants would keep the revenue corresponding to 2% of the market set-off price, potentially serving as a buffer for the relevant costs.

Secondary Service Contracts

In line with increased liability for balancing, participants in the RES Mechanism will also be responsible for the primary and secondary frequency control requirements set out under the Balancing Regulation.

Detailed penalties

The Amendments introduce changes to the existing penalties and envisage new ones that would be applicable under the RES Regulation. In summary:

- participants that give misleading information or documentation when applying to join the RES Mechanism;
- participants that are determined to be ineligible to benefit from the RES Mechanism; and
- participants producing hybrid powered electricity that use a different source of energy than the source approved by EMRA,

will be required to pay penalties as set out under the RES Regulation, together with interest over such penalties calculated in accordance with the Law on Collection Procedure of Public Receivables (Law No. 6183).

Conclusion

The Amendments are expected to create a more competitive energy market by introducing a dual payment system that may require participants in the RES Mechanism to make payments to EPİAŞ. Additionally, trade volumes in the electricity markets are expected to gradually increase since participants are now able to sell freely to the market and enter into bilateral arrangements.

Following the Amendments, participants need to factor in unbalancing risks and carefully forecast generation and sale volumes in order to minimise additional costs arising from their balancing liability. However, envisaging the level of such cost may not be an easy task in any case depending on potential changes introduced to the tolerance coefficient number.

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