
# TURKEY INTRODUCES THE NEW YEKDEM SCHEME

The Turkish Presidency published a decree (Decree No. 3453) (the "**Decree**") on 30 January 2021 on the new renewable energy resources support mechanism (*Yenilenebilir Enerji Kaynakları Destekleme Mekanizması*, commonly referred to as "**YEKDEM**") which introduces the highly-anticipated feed-in tariff scheme that will apply to renewable energy power plants becoming operational between 1 July 2021 and 21 December 2025 (inclusive). The new YEKDEM scheme shifts the currency of previously US Dollar (USD)-denominated feed-in tariff and domestic components incentive premia payments to Turkish Lira (TRY), whilst still capping the price based on USD.

## WHAT DOES THE NEW SCHEME PROVIDE?

According to the Decree, the new YEKDEM scheme will apply to power plants holding a Renewable Energy Source certificate ("**Renewable Energy Power Plants**") which will be commissioned between 1 July 2021 and 21 December 2025 (inclusive). The Decree provides two annexes (namely, "**Annex 1**" and "**Annex 2**"), with the former establishing new feed-in tariff and domestic components incentive amounts, and the latter explaining the price adjustment method for the amounts provided in Annex 1.

***New feed-in tariff and domestic components incentive prices***

The most significant novelty the Decree brings is basing YEKDEM feed-in tariff payments in TRY, which were previously denominated in USD and would continue to apply for Renewable Energy Power Plants that will become operational until 30 June 2021 (inclusive).

Similar to the previous structure, the feed-in tariff prices will vary for different types of renewable energy-based power plants, which are categorised under Annex 1 as hydroelectric, wind, geothermal, biomass and solar.

**Chart:** YEKDEM Prices (Excluding Domestic Components Incentive)

| Type of Power Plant | | Previous YEKDEM Price (USD/kWh) | New YEKDEM Price (TRY/kWh) | Change in the YEKDEM Price[1] |
|---|---|---|---|---|
| **Hydroelectric** | | 0.073 | **0.40** | - 25% |
| **Wind** | | 0.073 | **0.32** | - 40% |
| **Geothermal** | | 0.105 | **0.54** | - 30% |
| **Biomass** | Landfill gas or waste tyre processing facility | 0.133 | **0.32** | - 67% |
| | Biomethanisation generation facility | 0.133 | **0.54** | - 44% |
| | Thermal disposal facility | 0.133 | **0.50** | - 49% |
| **Solar** | | 0.133 | **0.32** | - 67% |

[1] Calculated based on the USD-to-TRY exchange rate as at 30 January 2021, which was USD/TRY: 7.31.

There is no change with respect to the duration of the feed-in tariff payments, however, and the new feed-in tariff scheme will also apply for 10 years for all Renewable Energy Power Plants that will become operational between 1 July 2021 and 21 December 2025 (inclusive). In addition, Renewable Energy Power Plants obtaining a domestic components certificate under the relevant legislation will benefit from an additional domestic components incentive premium of TRY 0.08 per kilowatt-hour for a period of five years.

As you may see from the chart above, regardless of the shift to Turkish lira, YEKDEM feed-in tariff prices have decreased with this Decree. However, we think that this should be considered in parallel with the sharp decline seen in renewable energy costs throughout the last decade due to technological advancements and consistent policy support. Going forward, the renewable energy costs are expected to continue falling, with prices declining even more rapidly in the upcoming decades, and the feed-in tariff schemes in similar markets which were initially aimed to provide a certain level of comfort against high renewable energy costs are expected to fade away as well. With the new Decree, Turkey also seems to be following this global trend in renewable feed-in-tariff schemes, and inviting market players to structure the financing of their upcoming projects with adequate hedging structures.

***Price adjustments***

The previous YEKDEM scheme provided a natural hedge against inflation risk as it was denominated in USD. In anticipation of the TRY-based scheme, sponsors and financiers were expecting the introduction of an adequate adjustment mechanism in order to effectively forecast and protect the project revenues from melting against fluctuations in inflation and foreign exchange rates.

The Decree seeks to address this concern with an inflation based price escalation mechanism. The prices determined in Annex 1 will be adjusted every quarter, with the first adjustment scheduled on 1 April 2021, in accordance with the formula set out in Annex 2. The adjustments will be basket-based, in accordance with the formula provided in Annex 2, which apply to both the feed-in tariff and domestic components incentive adjustments and will attribute:

- 26% weight to the Producers Price Index;
- 26% weight to the Consumer Price Index;
- 24% weight to the three-month average of the daily buying rate of USD as published by the Central Bank of Republic of Turkey; and
- 24% weight to the three-month average of the daily buying rate of Euro as published by the Central Bank of the Republic of Turkey.

Provided that the YEKDEM adjustments will be subject to a USD-indexed ceiling as set out in below chart, the Decree does not contemplate any FX-indexed cap for the domestic components incentive premia.

| Type of Power Plant | | Adjustment Cap (USD/kWh) |
|---|---|---|
| **Hydroelectric** | | 0.064 |
| **Wind** | | 0.051 |
| **Geothermal** | | 0.086 |
| **Biomass** | Landfill gas or waste tyre processing facility | 0.051 |
| | Biomethanisation generation facility | 0.086 |
| | Thermal disposal facility | 0.080 |
| **Solar** | | 0.051 |

## CONCLUSION

The previous YEKDEM scheme has played an instrumental role in building significant momentum and addressing the concerns of all stakeholders, while contributing to a giant leap in Turkish renewable energy capacity with impressive investments in almost all types of renewable energy sources. All considered, over the course of the last decade, Turkey has become a prominent country with an increasing installed renewable generation capacity and attracting impressive foreign investment in its thriving renewable energy sector.

With the Decree, Turkey introduces the new YEKDEM scheme, addressing the long-awaited need for foreseeability for upcoming renewable investments in the region. The new YEKDEM scheme did not take the renewable energy industry by surprise, seeing that the TRY base and fall of feed-in-tariff prices had already been anticipated. Now, the markets are awaiting to see whether the pricing adjustment mechanisms provided in Annex 2 will sufficiently address the escalation concerns of the industry, and whether new trends will be developed, including a drive towards alternative routes such as power purchase agreements, in an attempt to mitigate inflation and foreign exchange related risks and provide further comfort to both financiers and sponsors in the Turkish renewable energy sector.

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