GEDİK & ERAKSOY

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Regulation on Renewable Energy Resource Areas

*On 9 October 2016, the Turkish Government published the Regulation on Renewable Energy Resource Areas (the **Regulation**) to develop new renewable energy resource areas (the **RERAs**) and facilitate large-scale renewable energy investments.*

General

The Regulation replaced the old regulation of 2005, which was a dormant piece of legislation due to its lack of sufficient detail. In addition to facilitating new investments, another objective of the Regulation is to contribute to the development of a local industry for the power plant components and increase the proportion of domestically produced equipment within the electricity generation sector. The Regulation foresees a competition process for authorising private investors to operate in RERAs and the first competition under the Regulation has been completed in early 2017.

How does the RERA scheme work?

According to the Regulation, RERAs can be developed on both state-owned and privately owned land in two ways:

- by the Ministry of Energy and Natural Resources (the **MENR**) itself; or
- by private investors by way of a tender for "connection capacity allocation" launched by the MENR.

In the latter scenario, which is envisaged to increase private investors' involvement in the Turkish renewable energy sector, the MENR launches a competition (or "tender") and invites private investors – either alone or in the form of a joint venture – to place financial offers for a specific "connection area". The Regulation does not set out any restrictions or specific provisions about applications by foreign investors. In the recent competition, MENR required at 25% of the participation interests in the joint venture to be held by Turkish investors. In the tender process, the bidder who submits the lowest bid is awarded the tender and is obliged to sign an "RERA Usage Right Agreement" with the MENR.

According to the Regulation, the winning bidder is obliged to determine the proposed generation facility sites within 90 days following the signing of the RERA Usage Right Agreement. These sites need to be located within the connection area and their generation capacity should not exceed the total allocation capacity set out in the tender specifications.

Further, the total capacity of the sites determined by the winning bidder needs to be at least 70% of the allocation capacity set out in the tender specifications – and the winning bidder's failure to determine a total capacity higher than the 70% threshold results in the termination of the RERA Usage Right Agreement. The above-mentioned termination scenario highlights the importance of proper technical due diligence before participating in any RERA tender.

Since one of the objectives of the Regulation is to promote development of the power plant components industry, MENR may, in the tender specifications, require the investors to use components produced in Turkey or to set up a research and development (**R&D**) centre and production facility in Turkey to conduct necessary R&D works and produce the components in Turkey. In the recent competition, MENR has requested establishment of an R&D centre and a production facility with a capacity of 500 MWp/year.

After the determination of the sites and approval of the same by the MENR, the winning bidder can proceed with the licensing steps as set out under the Electricity Market Licence Regulation and develop the RERA. Please also see our newsletters on Turkish electricity market at http://www.gedikeraksoy.com/publications.shtml for further detail on licensing steps.

Tender process

Under the Regulation, the MENR is the authorised public entity for RERA tenders and for the allocation of capacities to private parties for RERA development. A tender starts with an announcement in the Official Gazette and on the General Directorate of Renewable Energy's website. The tender works are carried out by an ad hoc commission established by the MENR.

The document checking and pre-qualification stage at which each interested party's application and technical capacity documents are assessed is followed by a reverse auction (ie underbidding) process where only the first five bidders who have placed the lowest financial offers are invited to participate. At the reverse auction phase, the first, second and third lowest offers are determined and the bidder placing the first lowest offer is invited to sign an RERA Usage Right Agreement.

If the first bidder fails to sign the agreement within 30 days following the approval of the Minister of Energy and Natural Resources, the bidder of the second lowest financial offer is invited to sign the RERA Usage Right Agreement; failing this, the bidder of the third lowest financial offer is invited to sign the RERA Usage Right Agreement.

Tender price

The financial offers are based on an initial tender price determined by the MENR for the feed-in tariff per kW/h set out in the tender specifications. According to the Regulation, the MENR needs to determine an initial tender price for the reverse auction – and the initial tender price cannot exceed the sum of the relevant general feed-in tariffs applied under the Turkish "Renewable Energy Support Scheme" (the **RES Scheme**) as set out in Table 1 and Table 2 in the Annex below.

In the recent tender, the initial tender price determined by MENR for a solar based RERA was 8 USD cents/kW as opposed to 13.3 USD cents/kW feed-in tariff rate applicable under the RES Scheme.

The electricity generated in an RERA is purchased by the state under the RES Scheme at the balancing and settlement market. The period during which the state can purchase the output is set out in the tender specifications. In the recent tender, MENR has determined a purchase period of 15 years. The RERA generation company cannot request any time extension if no force majeure event, as described under the Regulation, has occurred or make any price adjustment. Following the end of the purchase period, the RERA generation company can continue its operations under its generation licence and sell the output in the market.

Annex

Table 1

Type of generation facility producing renewable energy	Applicable tariff (USD Cent/kW)
Hydroelectric Power Plants	7.3
Wind Power Plants	7.3

Geothermal Power Plants	10.5
Biomass Power Plants	13.3
Solar Power Plants	13.3

Table 2

Type of Generation Plant	Components Produced in Turkey	Additional tariff (USD Cent/kW)
A: Hydroelectric Power Plant	1. Turbine	1.3
	2. Generator and Power Electronics	1.0
B: Plant Generating Electricity from Wind Energy	1. Wing	0.8
	2. Generator and Power Electronics	1.0
	3. Turbine Power	0.6
	4. Entire Mechanical Components in Rotor and Nacelle Groups (Excluding Payments for Wing Group and Generator and Power Electronics)	1.3
C: Plant Generating Electricity Photovoltaic (PV) Solar Energy	1. Production of PV Panel Integration and Solar Structural Mechanics	0.8
	2. PV Modules	1.3
	3. Cells Constituting the PV Modules	3.5
	4. Inverter	0.6
	5. Material on the PV Module that Focuses Solar Ray	0.5
D: Plant Generating Electricity from Condensed Solar Energy	1. Radiation Collection Tube	2.4
	2. Reflector Surface Sheet	0.6
	3. Solar Tracing System	0.6
	4. Mechanical Parts of the Heat Storage System	1.3
	5. Mechanical Parts of the Tower Streamer Collecting Solar Rays	2.4
	6. Stirling Engine	1.3
	7. Panel Integration and Structural Mechanics of the Solar Panel	0.6
E: Plant Generating Electricity from Biomass Energy	1. Fluid-Bed Steam Boiler	0.8
	2. Fluid or Gas-Run Steam Boiler	0.4
	3. Gasification and Gas Cleaning Group	0.6
	4. Steam or Gas Turbine	2.0
	5. Internal Combustion or Stirling Engine	0.9
	6. Generator and Power Electronics	0.5
	7. Co-generation System	0.4
F: Plant Generating Electricity from Geothermal Energy	1. Steam or Gas Turbine	1.3
	2. Generator and Power Electronics	0.7
	3. Steam Injector or Vacuum Compressor	0.7

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