

Natural Gas Market in Light of the Menr's Strategic Plan

Overview

Ministry of Energy ("MENR") published its Strategic Plan for 2015-2019 which has been designed as a strategic road map, by taking the global developments in the field of energy and natural resources into consideration and defining the sources owned by Turkey and its specific needs for determining the targets for meeting these needs in maximum level.

As per the Strategic Plan in 2013 43.8% of the total electricity generation was produced from natural gas. It is evident that the natural gas carries utmost importance for Turkey due to the dependence to it in the electricity generation sector and the increasing demand for electricity.

Security of energy supply; energy efficiency and energy saving; good governance and stakeholder interaction; regional and international effectiveness; technology, R&D and innovation; improvement of investment environment; raw material supply security and efficient and effective use of raw material were defined as themes under the

Strategic Plan. Within this scope goals were defined under the plan in order to implement these themes.

The Objectives under the Strategic Plan

The Strategic Plan defines the following objectives with regard to the natural gas:

- To ensure natural gas storage capacity to be able to meet 20% of the annual consumption in the long term, undertaking the necessary investments so as to be capable of meeting at least 10% of the annual consumption until the end of the plan period,
- Diversification of import countries and routes shall be provided by adding new source countries and routes into natural gas import portfolio,
- Increasing domestic oil and natural gas exploration and production activities until the end of the plan period,
- Reducing the share of natural gas in electricity generation to 38% until the end of the plan period,
- Completing feasibility studies regarding the expansion of LPG and dumped LNG use in the regions where natural gas cannot be supplied,
- Strengthening the role of Turkey to be an energy corridor in the field of natural gas by implementing new transit pipeline projects,
- Creating new sources in international area for energy raw materials including natural gas by making partnerships with the companies having foreign investments for exploration and international license area thereof.

Therefore it can be seen from the goals that generally Turkey is aiming to reduce electricity generation sector's dependency to natural gas whilst increasing the storage capacity of natural gas and the source diversification. The legal framework is essential in order to reach these

goals and complete the much-awaited liberalization of the sector.

The Draft Law

The Draft Law Regarding the Amendment to the Natural Gas Market Law (“NGML”) was submitted to the Presidency of the Grand National Assembly of Turkey on 04.08.2014, which still has not come into effect.

According to the preamble the amendments aim to restructure the natural gas market in order to ensure that the international integration is undertaken and allowing the market to meet the anticipated structure by taking the developments into consideration.

The foremost amendments under the draft law may be summarized as follows;

- The market activities are redefined and sale of LNG and operating a LNG terminal are set out as separate activities,
- As per the draft law all contracts between licensees’ are required to be in writing, which will also be exempt from the stamp duty,
- The definitions under the law are amended in order to allow import companies to import CNG and the export companies to wholesale CNG and LNG,
- MENR’s opinion is required in order to obtain a license for importing and exporting natural gas by import and export companies,
- The restrictions applied to the total number of licenses that the distribution companies may have throughout Turkey are removed and it will become possible to obtain a single license by merging the distribution zones or to divide current zones into more than one license zone,

- MENR is determined to be responsible from taking the necessary measures for ensuring security of supply,
- Under the NGML the Petroleum Pipeline Corporation (“BOTAS”) will not be able to execute a new natural gas purchase contract until its imports fall down to the twenty percent of the national consumption and this restriction is preserved within the draft law with the exception of LNG import,
- The draft law also states that BOTAS will not be able to execute any new sale of natural gas contract as of 01.01.2015 and may only renew the contracts that have expired, this date will be amended accordingly in case the draft law is approved,
- With reference to new sale of natural gas contracts, an exception is granted if it is required as per the terms and conditions set by the MENR within the scope of security of supply via a decree of the Council of Ministers,
- As per the draft law BOTAS will be unbundled into three separate entities to conduct transmission, operating of LNG facilities and storage activities together with other activities pursuant to the provisions of the decree of the Council of Ministers numbered 233 and this unbundling will be required to be completed within one year starting from the effective date of this provision,
- The terms and conditions for the privatization of IGDAS (Istanbul Gas Distribution Industry And Trade Joint Stock Company) is also determined within the draft law.

Conclusion

As stated above the draft law was submitted to the Presidency of the Grand National Assembly of Turkey in 2014. In the past few years the risks in relation to security of supply increased for Turkey due to global developments, terror and political issues. Therefore by taking into account the perspective of the stakeholders’ of the natural gas sector and the present situation, the draft law’s entry into force became an essential issue. In addition to furthering the liberalization of the

sector, the law will also increase the security of supply and provide much needed amendments.

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