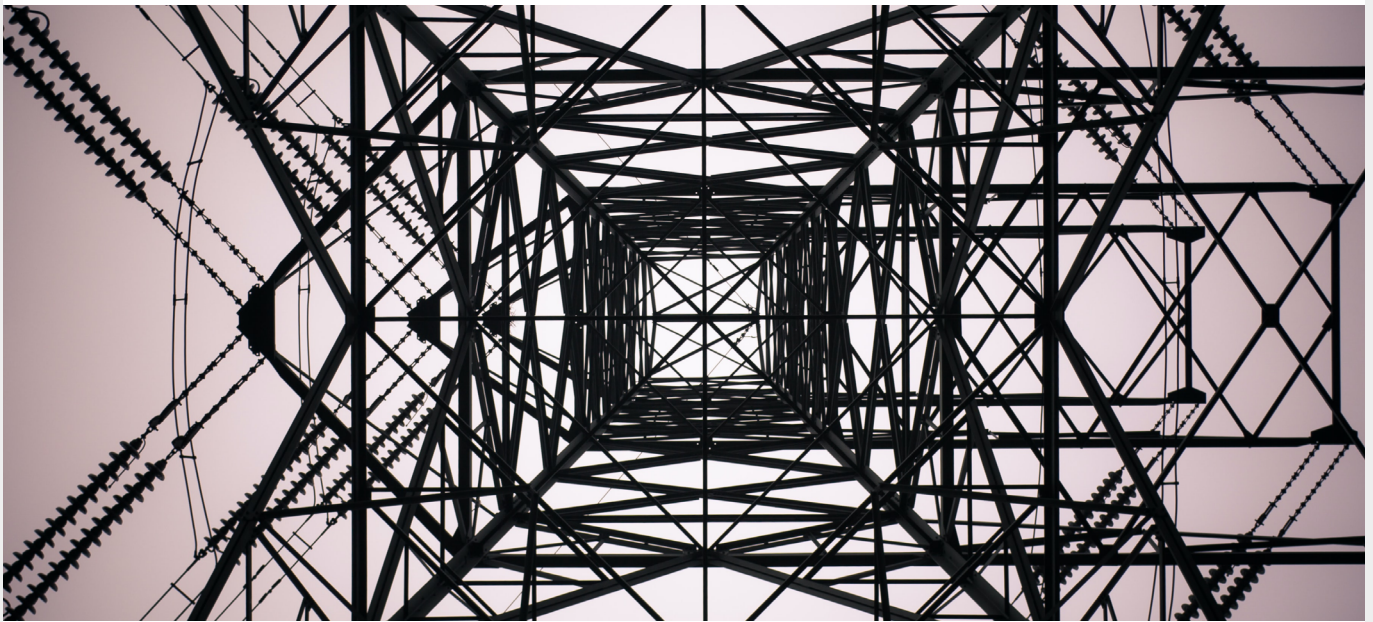


Recent Developments in the Energy Market as of the Beginning of 2022

January 2022



With the increasing energy prices in the World and the Europe, the electricity and natural gas market is phasing into a very interesting period. With the recent steps taken for reducing the carbon emissions, especially by the European Union, together with the nuclear energy which is preparing for its second renaissance and storage units and hydrogen energy that are becoming primary players in the electricity market, a very different market structure compared to a few years earlier awaits us.

In Turkey, fluctuations in the foreign currency prices and geopolitical developments will continue to have a direct effect on the energy market. Turkey needs to continue its energy infrastructure investments while integrating electrical vehicles into its daily life and continuing to promote renewable energy. It is evident that all of these aspects will continue to create a pressure on the energy prices in 2022.

As a result of these effects, in addition to the usual annual changes, there have been significant changes in the energy markets as of the beginning of 2022. Such key changes and developments in the energy markets are explained below.

Gradual Electricity Tariff Has Begun: With the decision of Energy Market Regulatory Authority (“EMRA”) dated 31 December 2021 and numbered 10708, the gradual electricity tariff period has begun for non-eligible household consumers.

According to such decision, the price for electricity consumed up to 150 kWh per month for household subscribers will be TRY 1.37/kWh. For the consumption above 150 kWh, the price is determined as TRY

2.06/kWh. Accordingly, the unit price of electricity has been increased by 50% in the first stage of pricing and by 125% in the second stage of pricing.

Similarly, the prices for commercial and industrial facilities have been increased between 122% and 226% depending on the connection points and tariff groups. It can be foreseen that such increases will create an important increase in the expenses of commercial users and will eventually be reflected to consumer prices. As the majority of the industrial facilities are qualified as eligible consumers and purchase electricity from independent suppliers under private agreements, they are not directly affected from such increase in the short term. However, such price hikes will put on additional pricing pressure on independent suppliers and result considerable increases in the prices during the renewal of private power purchase agreements in the medium term. This will create an increase in the manufacturing costs of the industrial facilities in the medium to long term.

As a last point, starting from 1 January 2022, the 1% share of the Turkish Radio Television Authority in the electricity bills, which is a widely debated practice in the market, had been repealed.

Eligible Consumer Limit: According to the decision of EMRA dated 16 December 2021 and numbered 10623, the eligible consumer limit in the electricity market has been reduced to 1,100 kWh per year. This is approximately equal to a consumption amount worth TRY 82 per month. Accordingly, consumers whose annual consumption amount exceed such limit will have the right to choose their electricity supplier.

It should be noted that while the number of eligible consumers purchasing electricity from private suppliers was approximately 4.7 million as of November 2017, this number decreased to 386,000 as of December 2021. The main reason for such decrease is that private suppliers face difficulties in determining prices due to fluctuating costs and cannot supply electricity to their customers. Therefore, it would be beneficial to set a lower limit to ensure the continuation of the liberalization of the market.

New Electricity License Fees: According to the decision of EMRA dated 16 December 2021 and numbered 10635, license fees and annual license fees in the electricity market were increased by approximately 36%. Accordingly, the pre-license and license fees had been determined between TRY 14,440 and TRY 701,430 depending on the capacity of the relevant license. In 2021, such prices were ranging between TRY 10,600 to TRY 515,000.

No change has been made in the annual license fee and it will continue to be applied as TRY kuruş (cents) 0.003/kWh.

New Natural Gas Prices: As of 2022, the price of natural gas used in residences has been increased by 25%, reaching to TRY 1,860/1,000 m³. The price of natural gas supplied to large industrial and commercial establishments was increased by 50%, reaching TRY 6,300/1,000 m³. The natural gas tariff used for electricity generation has been determined as TRY 5,520/1,000 m³, with an increase of 15%. It is expected that the such price increases will have a direct impact on manufacturing costs, leading to an increase especially in the electricity generation prices during the winter months.

New Natural Gas and Petroleum Market License Fees: EMRA announced the new license fees for the natural gas market. Accordingly, the license fees are determined as TRY 347,860 for the natural gas import licence; TRY 2,606,600 for the transmission licence; TRY 699,390 for the storage licence; TRY 173,520 for the wholesale and distribution licence; TRY 34,740 for the compressed natural gas licence (CNG) and TRY 69,880 for the export licence. This corresponds to a 36.2% increase compared to the previous year.

In the petroleum market, the license fees are determined as TRY 52,370 for the bunker fuel license; TRY 52,370 for the petrochemical operating license; TRY 17,850 for the biodiesel operating license; and TRY 137,230 for the operation waste license. The license fee for the mineral oil license has been determined as TRY 173,930.

In the LPG market, the LPG distributor license fee will be TRY 518,650 and the LPG autogas dealership license fee will be TRY 9,130.



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