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Spotlight on solar power in Turkey

The licensing process for solar power projects is finally moving forward in Turkey. In line with the recent amendments in the Licensing Regulation which requires bidding processes for pre-licensing when there is more than one interested party, the first competitions for two portfolios of 8 MW in Elazığ and 5 MW in Erzurum took place on 12 May with very surprising results.

The first round of pre-license applications for 600-MW capacity was received in June 2013, when 496 applications with a total capacity of 8900 MW were made. The Energy Market Regulatory Agency (EMRA) has granted no pre-licenses to solar power projects so far. This required a series of bidding processes for the regions for which more than one interest had been placed.

Some license-exempt projects under the Regulation on License-Exempt Power Generation, on the other hand, have started operation and they are already selling their excess output to the incumbent supplier company in their distribution region.

In this spotlight, we will be outlining the regulatory landscape for licensed and license-exempt solar power projects.

Licensed solar power projects

Regulatory requirements for licensed solar power projects

The licensing of power generation activity is a multi-stage process. Investors first have to receive a pre-license for each facility and fulfil some obligations in order to proceed to the final licensing stage. For more detailed information about the licensing process for power generation facilities in general, you can refer to our [Spotlight on the new Power Market Regulatory Landscape](#).

According to the the recent amendments in the Licensing Regulation, in any given year:

- The Turkish Power Transmission Company (TEIAS) will announce the five- and ten-year interconnection capacities allocated for solar and wind power plants by April 1. For the year 2014, TEIAS has not made this announcement yet for the available connection capacity for the solar generation facilities (in addition to the 600-MW mentioned above). Solar power pre-license applications are expected to be taken in early 2015.
- Solar power pre-license applications will be collected on the last five working days of October.

Solar power projects have some special requirements during the licensing process. While applying for a pre-license, they have to submit the results of the required technical surveys – the solar radiation measurements of at least one year, which are taken over the preceding three years.

After a pre-license application is accepted by EMRA for evaluation, it is forwarded to TEIAS and/or relevant distribution company for a connection opinion. Solar power pre-license applications also need to receive a positive technical evaluation opinion from the Renewable Energy General Administration under the Ministry of Energy and Natural Resources. In the case there are several solar power pre-license applications for the same connection capacity and/or piece of land, TEIAS shall organize tenders to determine which power plant will be granted a pre-license. The applicant, who bids the highest contribution fee per MW, wins the tender. This fee shall be paid to TEIAS in three annual installments following the preliminary acceptance of the facilities.

Commercial considerations for licensed solar power plants

Renewable power plants going into operation before the end of 2020 have the option of receiving feed-in tariffs for the first 10 years of operation by participating in the Renewable Energy Support Mechanism (YEKDEM). This figure is standing at \$133/MWh for the moment. The facility is also eligible to receive the local content premium for five years, which would push the total feed-in tariff up to \$225/MWh for the PVs. At the moment, this figure could only go up to \$140/MWh due to the absence of local equipment providers.

EMRA interprets the regulations differently for solar power plants. Verbal information from the EMRA officials suggests that licensed solar power plants will be required to sell all of their generation within the framework of YEKDEM, i.e they would not be provided with the option of selling their output to wholesale companies, eligible consumers or in the spot market. It is important to note that there is no precedent for this, as no solar power licenses have been awarded so far.

Having said that, this would be soon to be clarified as the first competitions for two portfolios of 8 MW in Elazığ and 5 MW in Erzurum took place on 12 May with very surprising results. The former received four bids, the highest of which at TL 827 000/MW was placed by Solentegre AS. The latter, on the other hand, could only get TL 68 000/MW placed by Halk Enerji. The discrepancy between these two figures stirred confusion in the market, not only about whether the current YEKDEM level is enough to cover this cost and leave a profit to the developer, but also about the assumptions behind these bids.

License-exempt solar power projects

Regulatory requirements for license-exempt solar power projects

Power Market Law No. 6446 specifies some power plants as exempt from the licensing and company establishment requirement. Two types of facilities are relevant for our purposes;

Renewable energy facilities with an established capacity not exceeding 1 MW,

Renewable energy facilities with 100% self-consumption, i.e. no supply to the transmission or distribution grid.

The Regulation on License-Exempt Power Generation, published in the Official Gazette on 2 October 2013, introduces the concept of a “consumption facility.” According to the regulation, the capacity of the license-exempt generation facility or facilities established for each consumption facility may not exceed 1 MW.

The developers of the projects fulfilling the requirements to be license-exempt file an application directly to the system operator (TEIAS or distribution company) for system connection. The application should include the title deeds or lease or easement agreement for the land. At this point, please note that the legal status of the roof and whether the roof can be leased to a third-party is unclear. The system operator may recommend an alternative connection point for applications, in case the suggested connection point is deemed unavailable.

Those applicants granted with a positive connection opinion from the system operator further need to obtain a “project approval” from the Turkish Electricity Distribution Company (TEDAS). The technical acceptance procedures of the project are also carried out by TEDAS.

Please bear in mind that additional permits are required from the local authorities, such as those certifying the structural safety of the facility.

Commercial considerations for license-exempt power plants

The main purpose of the license exemption is to encourage the manufacturing and commercial establishments to meet the energy needs from their own generation facilities. Excess output is allowed to be fed into the grid and the incumbent supplier in the region, i.e the unbundled retail sales arm of the power distribution company, is required to purchase the net power exported to the grid at the YEKDEM feed-in tariff (detailed above) for 10 years.

Please note that this excess output can only be sold to the incumbent supplier as described above, without leaving any room for trade with the other suppliers nor with the eligible customers.

Another dimension within this framework is that real persons and/or legal entities may bundle the consumption in their consumption facilities and establish a license-exempt generation facility by entering into a “consumption bundling” arrangement. All participating entities should be connected to the same connection point OR their consumption shall be measured with a single meter. Excess power that is not consumed within the group may still be sold to the supplier company within the YEKDEM mechanism. The entities in the arrangement designate one entity within the group as their representative in the group’s dealings with the system operator and the retail supplier.