

LAW

ELECTRICITY MARKET LAW

Law No. 6446Date of Ratification: 14/3/2013

PART ONE

Object, Scope and Definitions

Object

ARTICLE 1 - (1) The object of this Law is to ensure the establishment of a financially sound, stable and transparent electricity market operating in a competitive environment under, and subject to, private law provisions as well as to ensure the independent regulation and supervision of this market for purposes of providing sufficient, good quality, uninterrupted, low cost and environment-friendly electricity to consumers.

Scope

ARTICLE 2 - (1) This Law applies to electricity generation, transmission, distribution, wholesale and retail sale, import and export, market operation as well as to the rights and obligations of all real and legal persons engaged in such activities.

Definitions and abbreviations

ARTICLE 3 - (1) For the purposes of implementation of this Law, the following terms and definitions shall apply:

- a) Connection agreement: means the agreement entered into for purposes of ensuring connection with the transmission system or distribution system of a generation company, distribution company or consumer, which agreement includes general and special provisions,
- b) Minister: means the Minister of Energy and Natural Resources,
- c) Ministry: means the Ministry of Energy and Natural Resources,
- c) Distribution: means the conveyance of electricity through 36 kV or lower lines,
- d) Distribution system: means the electricity distribution facilities and grid operated by a distribution company at the distribution region specified in the license of the company,
- e) Distribution company: means a legal entity engaged in the activities of electricity distribution at a specific region,
- f) Distribution facility: means facilities and installation established for purposes of electricity distribution as well as meters established or taken over by distribution company situated at the area starting from the terminal post from the end point of switchyards, which belong to transmission facilities and generation and consumption facilities connected from the distribution voltage level until the construction building entries of consumers connected from low voltage level, excluding the area between building entries and meters,
- g) DSI: means the General Directorate of State Hydraulic Works,
- g) EPIAS: means the Energy Markets Operating Corporation,
- h) EUAS: means the Electricity Generation Corporation,
- i) General lighting: means the lighting and traffic signalization of avenues, streets, alleys, underpasses, overpasses, bridges, squares and pedestrian crossing which are open for public use as well as public parks, gardens, historical sites and ruins which are open for public use free of charge, excluding motorways and privatized access controlled highways,
- i) Assigned supplier company: means the supplier company which is established as part of legal separation of distribution and retailing activities or is authorized by the Board as the supplier company which is liable for the last resource provision,
- j) Bilateral agreement: means commercial agreements entered into by and between real and legal persons subject to special law provisions, for the purchase and sales of electric power and/or capacity, which are not subject to the approval of the Board,
- k) Transmission: means the conveyance of electricity through lines with voltage level of over 36 KV,
- l) Transmission extra charge: means the fee collectible in the name of the Authority out of the transmission tariff,
- m) Transmission system: means electricity transmission facilities and grid,
- n) Transmission facility: means the facilities covering an area from the terminal post following the switchyard of the generation or consumption facility where generation and consumption facilities are connected from a voltage level over 36 kV until the connection points of the distribution facilities including medium-voltage feeders of transmission switchyards,
- o) Emergency generator sets: means the generator sets used in case of power-supply failure for purposes of preventing loss of life and property,
- ö) Affiliate: Excluding state economic enterprises, means any company that controls alone or jointly with other company(ies) or real person(s), directly or indirectly another legal entity or any legal entity under common control of, directly or indirectly, alone or jointly with other company(ies) or real person(s); and direct or indirect relations between or among such company(ies) and/or legal entity(ies) operating in the market,

p) Cogeneration: means the concurrent generation of both heat and electricity and/or mechanical energy in the same plant,

r) Control: Rights which de facto or legally ensure implementation of decisive effect severally or jointly on a legal entity; a property right or right of use suitable for operation through contracts or other means particularly on the entirety or a part of assets of a legal entity; or rights which provide a decisive effect on formation of a legal entity's bodies or decisions; or rights arising from contracts,

Board: means the Energy Market Regulatory Board,

ş) Authority: means the Energy Market Regulatory Authority,

t) License: means the permit granted to legal entities under this Law, allowing them to operate within the market,

u) Central settlement institution: means the institution established as the central clearing house pursuant to the Capital Market Law no. 6362, dated 6/12/2012, used to conduct financial transactions between the market participants, as will be set forth under a relevant regulation,

ü) Existing agreements: means the agreements, concession agreements and implementation agreements signed in accordance with the Law no. 3096, dated 4/12/1984 on Authorization of Enterprises other than the Turkish Electricity Institution to Generate, Transmit, Distribute and Trade Electricity, the Law no. 3996, dated 8/6/1994 on Commissioning Certain Investments and Services within the Frame of Build-Operate-Transfer Model, the Law no. 4283, dated 16/7/1997 on Establishing and Operating Electric Power Plants and Sale of Energy through the Build-Operate Model, the Law no. 4501, dated 21/1/2000 on Principles to be Observed in Settlement of Disputes Arising from Concession Contracts and Agreements related with Public Services through Arbitration and other relevant regulations, prior to the date of effect of the Electricity Market Law no. 4628, dated 20/2/2001,

v) Micro-cogeneration facility: means cogeneration facility, the established electric power capacity of which is 100 kV or lower,

y) Organized electricity wholesale markets: means electrical energy markets where electrical energy, capacity or retailing are traded and where the day-ahead market, intra-day markets and standardized electricity contracts having the characteristics of capital market instruments and the underlying derivatives with electrical energy and/or capacity are transacted, which are organized and operated by an intermediary legal entity holding a market operating license and the markets which are operated by Istanbul Stock Exchange Corporation (*Borsa İstanbul Anonim Şirketi*) and electrical energy markets such as power balancing market and ancillary services market which are organized and operated by the Turkish Electricity Transmission Corporation,

z) Pre-license: means the permit granted for a specific period of time to such legal entities desiring to carry on generation activities, by which they will be able to obtain the license, permits and approvals required to commence generation facility investments,

aa) Retail sale: means the sale of electricity to consumers,

bb) Market: means the electrical energy market which consists of generation, transmission, distribution, market operating, wholesale, retail sale, import and export activities as well as transactions and procedures in relation thereto,

cc) Eligible consumers: means real or legal persons who are entitled to select their supplier as their consumption amount is over the electrical power amount designated by the Board or as they are directly connected to the transmission system or as they are organized industrial zone legal entity,

çç) System control agreement: means the agreements entered into by and between Turkish Electricity Transmission Corporation or the distribution company and the owner or operator of the private direct line, which is subject to private law provisions, which agreements contain provisions securing the stability of transmission and distribution systems and integrity of the enterprise and are subject to private law provisions,

dd) System use agreement: means an agreement which contains general provisions and terms and conditions specific to the relevant user with respect to the use of the transmission system or distribution system of a generation company, a company holding a supplier license or a consumer,

ee) Last resource supply: means the supply of electrical energy to consumers who, although they are eligible consumers, provide electrical energy from a supplier other than the company holding a supply license which is authorized as the supplier of last resource,

ff) Tariff: means arrangements, which include prices, provisions and terms relating to the transmission, distribution and sales of electrical power and/or capacity as well as associated services thereof,

gg) Supply: means wholesale or retail sale of electrical energy and/or capacity,

ğğ) Supplier: means generating companies which supply electrical energy and/or capacity and company holding a supply license,

hh) Supplier company: means a legal entity which can carry on wholesale and/or retail sale, import, export and trading of electrical energy and/or capacity,

ıı) TEDAS: Turkish Electricity Distribution Corporation,

ii) TEİAŞ: Turkish Electricity Transmission Corporation,

- jj) Facility: means facilities, grids or equipment by which the activities of electrical energy generation, transmission or distribution are conducted, or which are ready for the conduct of the same,
- kk) TETAS: Turkish Electricity Trade and Contracting Corporation,
- ll) Wholesale: means the sale of electrical energy and/or capacity for resale purposes,
- mm) Consumer: means a person purchasing electricity for his/her own purposes,
- nn) Derivative markets: means markets where electrical energy and/or capacity is purchased or sold at present for purposes of delivering or cash settlement at a defined point in the future,
- oo) International interconnection: means the interconnection which is based on the operation of the national electrical system with electrical system of other countries by way of employing either synchronous parallel, asynchronous parallel, unit direction or insulated region methods,
- Generation: means the transformation of energy sources into electrical energy at power generation facilities,
- pp) Generation company: means a legal entity which is subject to private law provisions, and is engaged in electrical energy generation or the sale of electrical energy it generated at generation facility or facilities which it owns, rented or acquired by way of financial lease or operating right of which it took over,
- rr) Generation facility: means facilities at which electrical energy is generated,
- ss) Ancillary services: means the services as described under the relevant regulation, provided by relevant legal entities connected to the transmission system or distribution system for purposes of safe operation of the transmission or distribution system putting electricity into service in line with required quality standards.

PART TWO

Electricity Market Activities and Licenses

Electricity market activities

ARTICLE 4- (1) The activities which may be carried out in the market subject to the obtainment of a license under Law shall be as follows:

- a) Generation activities
- b) Transmission activities
- c) Distribution activities
- ç) Wholesale activities
- d) Retail sale activities
- e) Market operating activities
- f) Import activities
- g) Export activities

(2) The principles and procedures with respect to the operations of legal entities in the market are arranged by a regulation.

(3) It is mandatory that the legal entities, which are subject to private law provisions, that will operate in the market be incorporated as a joint stock company or a limited company in accordance with the provisions of the relevant legislation and that the shares of joint stock companies other than those quoted at the stock exchange be in the name of the holder in accordance with the capital market legislation. Issues to be included in the articles of association of such companies shall be arranged under a regulation.

License principles

ARTICLE 5- (1) License is a certificate of permit granted to legal entities, enabling them to conduct the registered market activities specified in the license pursuant to the provisions of this Law. Save for the provisions regarding the markets specified in the fourth sub-paragraph of Article 11, the following matters regarding licenses shall be prescribed under a regulation made by the Authority.

- a) Application and evaluation principles and policies as well as the principles and procedures regarding the grant, amendment, expiry, revocation, periods, time extension, renewal of licenses and suspension of rights and obligations under the license for a specific period of time
- b) License fees to be prescribed based on the type of activity and nature of work
- c) Provisions regarding the rights of the license holders that are entitled under their licenses, liabilities, duties, capital requirements thereof and qualified personnel that need to be employed as well as the principles and procedures regarding the assignment of rights of the license holders, whose tariff is subject to regulation

(2) The principles which shall govern the licenses to be granted under this Law and the principles which the license holders must comply with shall be as follows:

- a) Excluding the exceptions provided under this Law, the legal entities to be engaged in market activities must, prior to commencing their activities, obtain license for each activity and, if activities are to be conducted at multiple facilities, for each facility.

b) The legal entities conducting activities, the tariff of which are subject to regulation, shall be responsible for keeping and maintaining the accounts and records for each activity, the tariff of which are subject to regulation, and for each region, to which such activity is limited.

c) Licenses shall be granted for a maximum period of forty-nine years. The minimum period valid for generation, transmission and distribution licenses shall be ten years.

ç) Legal entities are obliged to pay the license obtainment, license renewal, license amendment, issuance of license copy fees as well as annual license fees as designated by the Board to the Authority.

d) Legal entities holding a license must keep its facilities, legal books and records available for inspection by the Authority, and must make the same available for inspection when so requested by the Authority, and make any kind of information and document as the Authority may require in order to conduct its activities available in a timely, accurate and complete manner.

e) Legal entities shall, in addition to obtaining license, be responsible for fulfilling the requirements under the legislation.

f) Generation facilities based on renewal energy sources of the same kind installed on the surfaces of multiple buildings or auxiliary buildings may be evaluated within the scope of single generation license, providing that such facilities are connected to the system from the same point. The principles and procedures with respect to implementation shall be prescribed by the Authority.

3) The following procedures of the legal entities operating in the market shall be subject to authorization by the Board. Principles and procedures regarding the obtainment of the Board's permit shall be prescribed by a regulation to be made by the Authority.

a) Changes to capital shares by five percent in public corporations, and by ten percent or over, in other corporations

b) Any kind of transaction that will result in the change of control

c) Transactions and procedures that will result in the change of ownership or right of use of the facilities

(4) For the legal entities holding a license, the tariff of which is subject to regulation, the provisions regarding the matters below shall be prescribed under a regulation made by the Authority:

a) Real or legal persons who are to provide services under a license and the provisions setting forth the types of activities to be conducted

b) The provisions anticipating that a distribution or transmission license holder shall provide real and legal persons with the opportunity to access to, or use of, the system without discrimination among equal parties

c) Methods regarding the determination of pricing principles referred to under this Law and the determination of pricing principles within the scope of last resource supply, considering market needs and/or pricing principles applicable to non-eligible consumers and methods regarding the implementation of formulas regarding other adjustments, including inflation, as may be needed to be applied to such prices, and provisions regarding the inspection thereof,

ç) Provisions which will ensure that License holder, as a prudent merchant, provides the Authority with complete and accurate information and electrical energy or capacity is purchased in terms of sales to consumers

d) Rules relating to the reflection of service costs and provisions which contain principles regarding the implementation of methods which will minimize technical or nontechnical losses

e) Provisions regarding the obligation of the license holder to act in compliance with all instructions of the Authority

f) Provisions regarding the activities which may be conducted under the license, without seeking the permit of the Board

g) Provisions which will ensure that service is provided in line with technical requirements

(5) The legal entities, license applications of which are refused, will be informed about the reason of refusal clearly and completely.

(6) License shall expire automatically at the end of its period of validity, and in cases where the bankruptcy of the license holder, where requested by the license holder or where the conditions of license may no longer be met, upon resolution of the Board.

(7) The legal entity applying for a generation license shall, after meeting the pre-license requirements, be required to furnish a letter of guarantee up to ten percent of the amount of investment depending on the nature and size of the generation facility desired to be established, for purposes of recording as revenue if and where the relevant legal entity fails to establish the generation facility within the construction time specified in the license of the generation facility. Except for force majeure and for just reasons not resulting from the license holders, in cases where the legal entity fails to establish the generation facility within the construction period specified in the license thereof or where it is fixed that the generation facility may not be completed within the remaining period, the license shall be cancelled and the letter of guarantee shall be recorded as revenue. The principles and procedures regarding reception, nature and time extension of guarantee shall be prescribed under a regulation.

(8) Legal entities whose licenses are revoked, the partners of such legal entity that hold a share of ten percent or over and the chairman and members of the board of directors, including those who left office within one year prior to the

revocation of license may not obtain, or apply for, license, nor may they directly or indirectly hold shares in legal entities which applied for license, or take office in the boards of directors thereof for a period of three years following the revocation.

(9) Distribution license may be granted if and where the applicant fulfills the obligations provided for under this Law and authenticates the right to operate the relevant distribution system.

(10) Notice, report and other documentation required from legal entities holding a license shall be submitted to the Authority in accordance with the principles and procedures prescribed under regulations.

(11) The Authority shall adopt required measures in cases where licenses are terminated or revoked in order to protect consumers and avoid the interruption of market activities.

Pre-license principles

ARTICLE 6 - (1) A legal entity applying for a generation license shall first be provided with a fixed-term pre-license to enable it to obtain the permits, approvals, licenses or other similar certificates as required by the legislation as well as to have the ownership or the right of use of the site on which the generation facilities will be established to commence the generation facility investment. The following matters regarding pre-license shall be prescribed under a regulation made by the Authority:

a) Principles and procedures regarding application, evaluation and letter of guarantee as well as the principles and procedures applicable in the event of the grant, amendment, expiry, termination, revocation, term and time extension of pre-license

b) The provisions and consequences of revocation or expiry of pre-license

c) Procedures and principles regarding the rights which the legal entities holding a pre-license are entitled under their pre-license, and obligations and capital requirements thereof

(2) Legal entities who, during the term of license, fail to obtain required permit, approval, license or other similar certificates, who fail to authenticate that they obtained the ownership or the right of use of the site on which the generation facility is to be established and who fail to fulfill the obligations specified by the Authority shall not be granted a license.

(3) Pre-licenses shall be revoked if, until the obtainment of license, for reasons other than the reasons of heredity and bankruptcy, the partnership structure of the legal entity changes, either directly or indirectly, if the shares thereof are transferred or works and transactions and procedures are carried out which will result in the transfer of its shares or if the obligations specified by the Authority are not met.

The principles which shall govern the pre-licenses to be granted under this Law and the principles which the license holders must comply with shall be as follows:

a) Excluding the exceptions provided for under this Law, legal entities which shall be engaged in generation facilities must obtain pre-license for each facility if it will conduct activities at multiple facilities.

b) Legal entities must pay to the Authority the pre-license obtainment, grant, issuance of copy and other fees as specified by the Authority.

c) Legal entities holding a pre-license must provide the Authority with any kind of information and documentation as the Authority may need to conduct its activities.

(5) Except for the force majeure, the term of pre-license may not exceed twenty-four months. The Board may, depending on the type of source and installed capacity, extend this term by half of the original term.

(6) Where pre-license is revoked or expired for a reason not resulting from the legal entity holding the license, the relevant guarantee shall be returned.

(7) Pre-license, if no time extension is applied thereto, shall automatically terminate if and where the legal entity holding pre-license requests or goes bankrupt.

(8) Legal entities applying for pre-license shall be required to furnish a letter of guarantee with such amount as will be prescribed under a regulation, depending on the nature and size of the intended generation facility, for purposes of recording as revenue if and where the relevant legal entity fails to consummate the obligations which it is required to do so during the term of pre-license.

(9) If a separate license application is lodged for petroleum or natural gas market activities for purposes of conducting such activities at the place where the generation facility, being the subject of license application, will be established, license application to be given priority shall be subject to the resolution of the Board by consultation with the Ministry.

Generation activity

ARTICLE 7 - (1) Generation activities shall be carried out by generation companies of public and private sector and legal entities located at organized industrial zone under the scope of their licenses.

(2) Generation companies may carry out the following activities under the licenses thereof:

a) Sale of electrical energy or capacity to supplier companies, eligible consumers and to persons for whom it established private direct line

b) Trading of electrical energy or capacity

c) Purchase of electrical energy or capacity for purposes of providing electrical energy or capacity which it undertook to supply, providing that it does not exceed such rate determined by the Board for the annual electrical energy generation amount in a calendar year as included in the license thereof

(3) Providing that legal entities holding a generation license use the energy it generated at facilities before reaching the transmission or distribution system, the generation ensured in order to cover the consumption need of facilities which it owns, rented, acquired by way of financial lease or took over the right of use thereof shall not be considered a sale to end consumer. Electrical energy purchased for purposes of consumption at the said consumption facilities shall not be taken into consideration in the calculation of the rate referred to in sub-paragraph (c) of the second paragraph.

(4) Pre-license applications made for the establishment of electricity generation facility based on wind or solar power shall be evaluated in accordance with the following principles:

a) Where application is lodged by the owner of the site where the generation facility is to be established, other applications made for the same site shall not be taken into consideration.

b) In respect of the applications, it is mandatory that there is a wind or solar measurement at the site conforming to standards, where the facility is to be established, obtained within the last three years and covering a minimum period of one year. The principles and procedures regarding this matter shall be prescribed under a regulation to be made by the Authority.

c) The applications, for which connection assent is given by TEIAS or relevant distribution company, shall be evaluated considering the effects of technologies to be employed in respect of the grid.

ç) Where there are multiple applications for connection to the same connection point and/or to the same connection region, a competition shall be held by TEIAS in order to determine those, among the applicants, to connect to the system up to the announced capacity, which competition will be based on selecting the applicants who propose or undertake to pay the highest total contribution per unit megawatt, which will be paid within a maximum period of three years following the commissioning. Principles and procedures regarding the competition and the payment of the specified contribution at the end of the competition shall be prescribed under a regulation to be made by the Authority with and by the proposal of TEIAS. Principles and procedures regarding the technical evaluation of applications for wind and solar energy license shall be prescribed under a regulation to be made by the Ministry.

(5) The total electricity generation amount that a real person or a legal entity of private sector can generate through a generation company it controls may not exceed twenty percent of Turkey's total electrical energy generation published for the previous year.

(6) The legal entities generating electrical energy on the basis of renewable energy sources may obtain from the Ministry a Certificate of Electricity Generation from Renewable Sources regarding that the source of electrical energy they generate is renewable source. The principles and procedures regarding the grant of the said certificate shall be prescribed under a regulation to be made by the Ministry.

If, for the facilities under the scope of licenses obtained for purposes of establishing generation facility based on wind power, the connection opinion received from TEIAS and relevant distribution company under the scope of amendment is favorable, capacity increase, modernization and renewal investments and modifications may be allowed, provided that there is no other license application for the site specified in the initial license application made to the Authority and the existing transmission/distribution line and existing connection point and voltage level are used for the new power to be created at the end of capacity increase.

Transmission activity

ARTICLE 8 - (1) Electrical energy transmission activity may exclusively be carried out by TEIAS under the scope of a license. TEIAS may not be engaged in activities other than the activities prescribed under this Law. The conduct of off-market activities which have the characteristics of ensuring the increase of productivity if conducted in conjunction with transmission activities shall be subject to authorization by the Authority. The purchase or the rental of electrical energy or capacity under the scope of ancillary services market and for purposes of covering distribution system technical and nontechnical losses and the sale of excessive part of the energy connected to the agreement for purposes of covering transmission system technical and nontechnical losses due to realizations shall be an exception of this provision.

(2) Duties and obligations of TEIAS shall be as follows:

a) To plan transmission investments for transmission facilities envisaged to be established, to establish new transmission facilities and to operate the transmission system in line with the environment of competition in electrical energy generation and supply and, where necessary, to make investments of substitution or capacity increase in the transmission system.

b) To prepare the tariff proposals in relation to the activities conducted thereby under this Law in accordance with the principles and standards prescribed by the Authority and to submit the same for the approval of the Authority.

c) To supervise the implementation of, and compliance with, the regulations on grid, balancing, settlement and ancillary services, to perform required examinations to that end, furnish a report to the Authority in respect of results and request the adoption of required measures.

ç) To identify required ancillary services and to provide such services in accordance with the provisions of relevant regulation in order to perform load distribution and frequency check, to operate ancillary services market and balancing power market, to monitor real-time system reliability, and to secure system reliability to ensure that electrical energy is provided in anticipated quality conditions.

d) To make substitution and capacity increase in transmission system.

e) To conduct international interconnection works in line with the resolution of the Ministry, to provide transmission and connection services to all system users, including eligible users connected, or to be connected to, the transmission system, in accordance with the provisions of the legislation on the operation of network, without discrimination among equal parties.

(3) TEIAS's ownership and operating borderline starts at the point of connection to the transmission system. Where the connection of generation or consumption facility to the transmission system is made through a switchyard of another generation or consumption facility, the right of use, operation and maintenance of the feeder connected shall rest with TEIAS. However, TEIAS may have the relevant generators or consumers perform the operation and maintenance of such equipment against the price thereof.

(4) TEIAS may, by consultation with the Ministry, ensure the installation and operation of the portion of international interconnection line, which fall out of the national boundaries and/or establish international company for such purpose or become a partner with the existing international companies and participate in organizations relating to the operation of regional markets.

(5) Where it is necessary to install a new transmission facility for purposes of connecting generation and consumption facilities and to install new transmission line for connecting such new facility to the system; if TEIAS has no sufficient financing or if it is failed to make a timely investment planning, the said investments may be jointly made or financed by the legal entity or entities requesting connection to such facility. The amount of investment so made shall be returned under a facility agreement and connection and system use agreements to be entered into by and between the relevant legal entity or entities and TEIAS. Payback period shall be a maximum period of ten years for generation and consumption facilities. The principles and procedures regarding this matter shall be prescribed under a regulation to be made by the Authority.

(6) TEIAS shall, for electrical system operation, collect data in accordance with the principles and procedures set out by the Board, and report and publish the same in accordance with the provisions of the Turkish Statistical Law No. 5429, dated 10/11/2005.

(7) TEIAS shall establish and operate any kind of communication and information systems including wireless system needed for the operation of transmission system. It may also have third parties use a certain portion of the fiber optic cable infrastructure under the frame of the relevant legislation, in a manner not interrupting its own activities in line with the opinions of the Authority.

(8) Other than transmission network, installation of direct line between the generation facility under the license of a legal entity conducting generation activities and which is in compliance with the standards applicable to the national transmission system and its customers and/or affiliates and/or eligible consumers shall be possible subject to system control agreement to be made by and between TEIAS and the legal entity engaged in generation activities.

Distribution activity

ARTICLE 9 - (1) Distribution activities shall, under a license, be conducted by the distribution company at such region as specified in the license thereof. The distribution company shall be responsible for providing the services of reading, servicing and operation of meters at the region specified in the license thereof. The legal entities conducting market activities may not directly become a partner with a distribution company, nor may the distribution companies directly become a partner with legal entities conducting market activities. A distribution company may not be engaged in activities other than distribution activities. The principles and procedures regarding the conduct of off-market activities which have the characteristics of enhancing productivity if conducted in conjunction with distribution activities shall be prescribed under a regulation to be made by the Authority. The purchase of electrical energy for purposes of covering general lighting, distribution system technical and nontechnical losses and the sale of excessive portion of the energy connected to the agreement for purposes of covering system technical and nontechnical losses due to realizations shall be an exception of this provision.

(2) The distribution company shall be responsible for operating the distribution system specified in the license thereof in accordance with the competitive environment in electrical energy generation and sales, renewing such facilities, making substitution and capacity expansion investments, and for providing services to users connected, or to connect to the distribution system in accordance with the provisions of the relevant legislation, without discrimination among equal parties.

(3) The distribution company shall be responsible for providing ancillary services in line with the provisions of the relevant regulation.

(4) Preparation, and notification to TEIAS of demand estimations at regions specified in the distribution license shall be made by the distribution company. The Board shall approve such demand estimations, and the estimations shall be published by TEIAS.

(5) The duties of preparation of investment plans in line with the demand estimations approved by the Board and placing the same before the Board for approval, preparation of the projects of distribution facilities included in the investment program in pursuance of the approved investment plan and the making of required improvements and capacity expansion investments and/or the construction of new distribution facilities shall be incumbent on the distribution company operating the relevant distribution system.

(6) The title to the investments made for purposes of improvement, reinforcement and expansion of electricity distribution systems following the privatization ensured under the provisions of the Law no. 4046, dated 24/11/1994 on Arrangements for the Implementation of Privatization shall belong to the public. The power in respect of any kind of operation relating to the privatized electricity distribution facilities and assets and the approval and amendment powers in respect of investment planning and implementation shall rest with the Board. It is essential that investments are made in such a manner as to ensure that distribution services are provided in such manner as envisaged under this Law. The Authority shall direct, monitor and inspect the distribution activities. If investments approved by the Board are not made in the specified time and nature, the provisions of Article 16 shall apply.

(7) The title to, and ownership of, the meters installed in respect of the electrical energy measurement of distribution system users shall belong to the distribution company. The meters owned by the existing users as of the date of effect of this Law shall be taken over from the users for a token price against the operating and maintenance services. The principles and procedures regarding the implementation shall be prescribed under a regulation to be made by the Authority.

(8) Where the connection of a generation or consumption facility to the distribution system is made through the switchyard of another generation or consumption facility or where the same is made in form of an input-output to a distribution line, the switchyard jointly used or subjected to input-output or the switchyard of a generation or consumption facility connected to two separate facilities through two separate lines shall be a part of the distribution system. However, it may be ensured that the owners of relevant generation or consumption facilities perform the operation and servicing of the distribution facilities under this paragraph. The principles and procedures regarding the implementation shall be prescribed under a regulation to be made by the Authority.

(9) The installation, operation and servicing of the meters of consumers connected through the distribution voltage level and the acquisition of the title to the existing meters under a program shall be performed by the distribution company. The principles and procedures regarding the implementation shall be prescribed under a regulation to be made by the Authority.

(10) Other than distribution network, installation of direct line between the generation facility under the license of a legal entity conducting generation activities and which is in compliance with the standards applicable to the national distribution system and its customers or affiliates or eligible consumers on a land within the possession of the parties to install such direct line shall only be possible subject to system control agreement to be made by and between the distribution company and the generation company. Installation of a private direct line shall not constitute an impediment for eligible consumers to select their suppliers. If the generation facility referred to under this paragraph is connected to the transmission system, the principles and procedures regarding the conclusion of a system control agreement shall be prescribed under a regulation to be made by the Authority.

(11) The distribution company shall, at the distribution region, be responsible for general lighting and the installation and operation of required measurement systems pertaining thereto.

(12) The distribution company may establish a facility at a voltage level of 154 kV for purposes of using in distribution activities at the distribution region falling under the area of responsibility thereof, providing that it is separately stated in the investment plan approved by the Board and consulted with TEIAS.

(13) Where it is not technical and/or economical to meet the demands for connection made within the approved boundaries of a distribution region, the matter of meeting the said connection demands by another distribution region shall be set forth under a regulation to be made by the Board.

Wholesale or retail sale activities

ARTICLE 10 - (1) Wholesale and retail sale activities shall be carried out by generation companies and supply companies of public and private sector under a supply license in accordance with this Law and regulations made pursuant to this Law.

(2) Supply companies may, without a regional restriction, conduct the activities of wholesale or retail sale to consumers.

(3) Supply companies may, in line with the assent of the Ministry, carry out the activities of electrical energy import and export to and from countries, which meet the conditions for international interconnection. The principles and procedures regarding the implementation shall be prescribed under a regulation to be made by the Authority.

(4) Retail sale activities conducted by the distribution company shall be conducted by the assigned supplier company. The assigned supplier company shall sell electrical energy to eligible consumers at the relevant region over the retail sale tariffs approved by the Board.

(5) The assigned supplier company shall, in the capacity of a supplier of last resource, be responsible for supplying electrical energy to consumers who, although they are eligible consumers, do not supply electrical energy from another supplier. The region where such company acts as the supplier of last resource shall be the relevant distribution region and it shall be included in the supply license. The tariffs of Electrical energy to be supplied in the capacity of a supplier of last resource shall be prescribed by the Board. Where the license of the supplier company responsible for the supply of last resource expires or is revoked, the supplier company responsible for the supply of last resource for the relevant region shall be authorized by the Board. The principles and procedures regarding the determination of suppliers of last resource, tariffs of

last resource supply, term of supply, limitations and conditions as well as the implementation of the supply of last resource shall be prescribed under a regulation to be made by the Board.

(6) The amount of electrical energy which the private sector legal entities holding a supply license shall purchase from generation and import companies may not exceed twenty percent of the amount of electrical energy consumed within the country within the previous year. Also, the amount of electrical energy to be sold by the said legal entities of private sector to end consumers may not exceed twenty percent of the electrical energy consumed within the country within the previous year.

(7) Where the assigned supplier company is found to act or have relations which result in the restriction or prevention of competition in the market, the relevant supplier company shall be obliged to act in compliance with the measures to be set forth by the Board. The Board shall adopt measures which include the reorganization of the management of such supplier company or the restriction or termination of its ownership or control relationship with the distribution company under a program.

Market operating activity and incorporation of EPIAS

ARTICLE 11 - (1) Market operating activities are the operation of organized electricity wholesale markets and financial settlement transactions of the activities carried out in these markets as well as other financial transactions with respect to the said activities.

(2) Except for the provisions regarding incorporation and registration, a corporation named Energy Markets Operating Corporation is incorporated under this Law, which is subject to the Turkish Commercial Code no. 6102, dated 13/1/2011 and private law provisions. EPIAS shall commence operations upon the registry with the register of commerce and the publication of the articles of association which will be prepared by the Authority within a period of six months as of the date of effect of this Law, in manner not leading to non-compliance with provisions of this Law and the Law no. 6102.

(3) The organizational structure and the operating principles of EPIAS shall be prescribed under a regulation to be made by the Authority within a period of six months as of the date of effect of this Law. In respect of the matters of interest to Istanbul Stock Exchange Corporation, the Capital Market Board shall be consulted.

(4) Total direct or indirect share of the public institutions and public-capital companies at EPIAS may not exceed fifteen percent, excluding Istanbul Stock Exchange Corporation. The Council of Ministers shall be entitled to double this rate. Organizations who are shareholders of EPIAS, public-capital companies and Istanbul Stock Exchange Corporation shall be represented at the management of EPIAS.

(5) EPIAS shall, under the market operating license, carry out the activities of operating the organized wholesale electricity markets other than markets operated by Istanbul Stock Exchange Corporation and TEIAS under the scope of this Law. EPIAS shall, along with the financial settlement transactions of the organized wholesale electricity markets operated by TEIAS under the market operating license, conduct other required financial transactions. In line with the opinions of the Authority and the Capital Market Board, EPIAS may be a party to the agreements falling under the scope of Article 65 of the Capital Market Law.

(6) The legal entities conducting activities in the organized electricity wholesale markets which are operated by EPIAS under the scope of license or where financial settlement regarding market activities and financial transactions are performed shall be obliged to furnish to TEIAS and EPIAS the information required for the conduct of financial settlement transactions. The principles and procedures governing the confidentiality and disclosure to the public of the information provided shall be prescribed under a regulation to be made by the Authority.

(7) Rights and responsibilities of EPIAS shall be as follows:

a) To work on establishing new markets in organized wholesale electricity markets, which fall under the scope its responsibility in line with the development of the market, and place the same before the Authority.

b) If found fit by the Ministry; to participate as a party to international electricity markets created or to be created in the future for purposes of operating organized electricity wholesale markets falling within the scope of responsibility thereof, to become a partner or member with international electricity market operators established for such purpose.

c) To determine market operating tariffs under the frame of the principles and procedures prescribed by the Authority and present the same to the Authority.

(8) The matters concerning other energy market activities to be conducted by EPIAS out of the scope of market operating license and emission trade shall be prescribed by the Authority by consultation with the Capital Market Board.

(9) The legal entities carrying on activities within the organized electricity wholesale market, which are operated by EPIAS or in which financial settlement and other financial transactions are carried out, shall ensure the payment to the central settlement institution such fees as will be prescribed by EPIAS in return for the provision of services which are determined to be provided by the central settlement institution in pursuance of the relevant regulation.

(10) The operator of the markets in which the standardized electricity agreements that have the characteristics of capital market instruments, and the derivatives based on electrical energy and/or capacity are traded is Istanbul Stock Exchange Corporation.

The licensing in respect of such markets and the prescription of the operating principles of the markets, the determination of the standards of electricity agreements having the characteristics of capital market instruments and of the

derivatives with the underlying electrical energy and/or capacity, which shall be traded at such markets, settlement transactions in such markets, operating tariffs, the obligations of relevant persons and entities, the principles and procedures regarding supervision and inspection shall be prescribed under a regulation to be made jointly by the Authority and the Capital Market Board.

(11) The papers drawn up in respect of the transactions transacted in the organized wholesale electricity markets under the scope of this Law shall be exempt from the stamp duty.

(12) EPIAS shall, within a period of six months as of the date of incorporation thereof, commence market operating activities by obtaining the required market operating license from the Authority.

(13) Until EPIAS obtains the market operating license, the relevant market operating activities shall be continued by TEIAS without obtaining the market operating license.

Import and export activities

ARTICLE 12 - (1) The export of electrical energy and/or capacity to countries, which meet the international interconnection conditions, shall be performed by the companies and generation companies holding a supply license subject to the approval of the Board in line with the assent of the Ministry, in pursuance of this Law and the secondary legislation.

(2) The import of electrical energy and/or capacity from countries, which meet the international interconnection conditions, shall, subject to the approval of the Board, be performed by the companies holding a supply license in line with the assent of the Ministry and in pursuance of this Law and the secondary legislation.

(3) The legal entities desiring to export the electrical energy which it generated at a facility established thereby in border provinces through a private direct line it will establish without ensuring connection to a transmission or distribution system may be allowed by the Board in line with the assent of the Ministry, providing that they obtain a generation license.

(4) For purposes of supplying electrical energy at border regions, where a technical need arises, the import of electricity by way of insulated region may be temporarily allowed by the Board in line with the assent of the Ministry.

(5) The principles and procedures regarding import and export activities shall be prescribed under a regulation to be made by the Authority.

Activities which may be carried out by organized industrial zones

ARTICLE 13 - (1) Among the legal entities of organized industrial zones which are established in accordance with the Organized Industrial Zones Law no. 4562, dated 12/4/2000 those which meet such conditions as prescribed by the Authority under a regulation may carry out generation and/or distribution activities within the approved boundaries by obtaining a generation and/or distribution license from the Authority, without the conditions of incorporating a company being sought pursuant to the provisions of the Law no. 6102.

(2) The distribution activities within the approved boundaries of the organized industrial zone holding no distribution license shall be carried out by the relevant distribution company. Such organized industrial zones may not claim distribution fee from participants, nor prevent the participants from exercising their rights arising from their capacity as eligible consumer and from carrying out activities within the electricity markets.

(3) The consumers, who, among the participants of organized industrial zone holding a distribution license, exceed the eligible consumer limit, may exercise their right to select their supplier, providing that they pay a distribution fee to the organized industrial zone legal entity.

(4) The special conditions which need to be met by the organized industrial zone legal entity in order to obtain a generation or distribution license, the principles and procedures regarding its obtainment of a license as well as the principles and procedures regarding the provision of the electrical energy it generated or supplied as eligible consumer to the use of participants, the prescription of distribution fees, and the activities the organized industrial zone legal entity may conduct under the scope of this article shall be set forth under a regulation to be made by the Authority.

(5) The title and operating rights of distribution facilities which are within the approved boundaries of the organized industrial zone holding a distribution license, and are transferred to TEDAS free of charge or for a symbolic price shall be transferred to the relevant organized industrial zone within such period as will be determined by the Board, for a price which will be obtained by adding the financial costs of the amounts of investment made as of the date of transfer.

(6) The organized industrial region legal entity shall be deemed an eligible consumer for purposes of meeting electricity need of participants, regardless of the amount of consumption.

Activities which may be carried out without a license

Article 14 - (1) The activities exempt from obtaining a license or incorporating a company are as follows:

a) Emergency generator sets and generation facility which does not install connection with the transmission or distribution system

b) Generation facilities, the nameplate capacity of which is based on renewable energy sources of maximum one megawatt

c) Electricity generation facilities established for purposes of use in the disposal of mud of solid waste facilities and treatment facilities of municipalities

ç) Micro-generation facilities and the cogeneration facilities, among those which meet such productivity level as will be determined by the Ministry, which fall under such category as will be determined by the Board

d) Generation facilities based on renewable energy sources which use all of the energy it generated without giving to transmission or distribution system, the generation and consumption amount of which is at the same measurement point

(2) The Council of Ministers shall, on the basis of source, be entitled to quintuple the upper limit of the nameplate capacity of the generation facilities based on renewable energy sources, which may carry out activities without holding a license, under principles of development of competition, technical efficiency of transmission and distribution systems and securing the reliability of supply.

(3) Where the electrical energy generated over the need of those, who generate electrical energy from renewable energy sources which are exempt from the obligation to obtain a license, are given to the system, electrical energy shall be purchased by the supplier of last resource for such prices as determined on the basis of source type under Law no. 5346, dated 10/5/2005 on the Utilization of Renewable Energy Resources for Purposes of Generating Electrical Energy.

(4) The technical principles and procedures relating to the connection of such persons to the system as well as the principles and procedures regarding sales, application and inspection shall be set forth under a regulation to be made by the Authority.

(5) The legal entities, more than half of the capital of which is held by the municipality, may establish energy generation facility if there are technical possibilities on the water conveyance lines and waste water conveyance lines and if deemed proper by DSI. If multiple municipalities have the right of allocation on the water conveyance line, hydro-electrical energy facility shall be established and operated in accordance with a protocol to be made between the relevant municipalities. In respect of the facilities under the scope of this paragraph, the arrangements and amendments relating to the water use right agreements which must be signed with DSI shall be set forth within three months under the Regulation on the Principles and Procedures Regarding the Signature of Water Use Right Agreements for Purposes of Conducting Electricity Market Activities.

PART THREE **Supervision and Sanctions**

Supervision

ARTICLE 15 - (1) Save for the provisions of the Capital Market Law regarding the markets to be operated by Istanbul Stock Exchange Corporation pursuant to the tenth paragraph of Article 11, excluding the distribution companies, the inspection and supervision of the electricity market activities and the entities operating under a license shall be performed by the Authority. Supervision of the electricity distribution companies defined under this Law shall be performed by the Ministry. The Ministry may perform the supervision of electricity distribution companies in conjunction with specialized public institutions and organizations or may cause the supervision to be performed by such organizations through delegation of power thereto. The requests of the Ministry from such specialized public institutions and organizations shall be fulfilled in a timely manner. The supervision reports drawn up or resolved by the Ministry shall be served to the Authority. Depending on the result of the supervision report, required sanctions and proceedings shall be determined by the Authority.

(2) The inspection and supervision of such portions of generating facilities to be established for purposes of generating electrical energy under the frame of this Law and water use right agreement, which portions relate to the water structure as well as the construction of water structures such as dams, ponds and regulators to be established by real persons and legal entities shall be performed by DSI.

(3) The Ministry, Authority and DSI may, in respect of their supervision obligations under the scope of this law, purchase services from companies, which they will authorize to perform inspection, evaluation and reporting in a way not to be binding upon the Ministry, Authority and DSI in terms of the results thereof, in accordance with the relevant legislation. The qualifications of such companies, authorization thereof and the rights and obligations of authorized companies and the companies to be subjected to supervision as well as other principles and procedures shall, depending on relevancy, be set forth under such regulations as will be made by the Ministry, Authority and DSI.

Sanctions and the procedure in which the sanctions to be imposed

ARTICLE 16 - (1) The Board shall impose the following sanctions and penalties on the legal entities operating in the market:

a) Where information is requested or where on-site inspection is performed by the Board, if the information are found to be provided inaccurately, incompletely or misleadingly or if no information is provided at all or if on-site inspection is not allowed, the relevant entity shall be served a written warning to provide the information accurately and to allow for on-site inspection within fifteen days. If, in spite of the written warning served, noncompliance is not remedied, an administrative fine of five hundred thousand Turkish Liras shall be imposed.

b) Where acts of noncompliance with the provisions of this Law, secondary legislation or license, and with resolutions and instructions of the Board are found, a written warning shall be served requiring that noncompliance be remedied within thirty days and not repeated depending on the nature of noncompliance and where, in spite of the written warning served, the noncompliance is not remedied or repeated, an administrative fine of five hundred thousand Turkish Liras shall be imposed.

c) Where an act of noncompliance is committed, which, depending on the nature thereof, may not be remedied after committing the act of noncompliance with the provisions of this Law, secondary legislation or license, an administrative fine of five hundred thousand Turkish Liras shall be imposed without the need to serve a warning.

ç) Where, during the license application or during the period of validity of the license and in respect of the conditions sought for the grant of license, false documents are submitted or misleading information are provided or changes to the license conditions, which may have an impact on the grant of license are not advised to the Board, an administrative fine of eight hundred thousand Turkish Liras shall be imposed. Where it is not possible to remedy the said false documents or misleading information or the changes in the license conditions or where, in spite of written warning served for remedy within thirty days, the acts of noncompliance are not remedied, the license shall be revoked.

d) If the prohibition of affiliate relation is not complied during the term of the license, the relevant party shall be warned to remedy the affiliate relationship within a period of thirty days. If, in spite of the written warning served, noncompliance is not remedied, an administrative fine of nine hundred thousand Turkish Liras shall be imposed.

e) Where it is determined that activities are carried out within the market out of the scope of license, the relevant party shall be served a written warning to cease the activity out of the scope or the unfavorable activity within fifteen days. If, in spite of the written warning served, noncompliance is not remedied, an administrative fine of one million Turkish Liras shall be imposed.

f) Where it is determined that the conditions, based on which the license is granted, are no longer met during the term of the license or that the conditions were not met from the beginning, the relevant license shall be revoked.

g) Where, in respect of the demands and transactions performed in accordance with this Law, it is determined that there is fraud or a false statement is made against the law, the relevant license shall be revoked.

(2) The Board may, in respect of the aforementioned acts which require fines, apply different warning periods depending on the nature of the act. Where, following the imposition of the said fines, the act, being the subject of fine, is not remedied or is repeated within the warning time granted, the fines shall be applied by doubling the amount of the previous fine each time. Unless the same act, which requires the imposition of administrative fine, is not committed within two years as of the imposition of the said fines, the previous fines shall not be taken into consideration in repetition. However, if the same act is repeated within two years, the amount of fine to be imposed by increase may not exceed ten percent of the gross revenue of the relevant legal entity in its balance sheet of the previous fiscal year. If fines reach up to such level, the Board may revoke the license.

(3) Where violations of the legislation by a distribution company, which operates at a distribution region under the scope of its license, hinder its ability to fulfill its distribution activities satisfactorily in line with the principles and procedures prescribed under a regulation prepared by the Authority or the violations of the legislation reduce the nature and quality of the distribution activity to an acceptable level or where the said distribution company made it a habit to act in noncompliance with the legislation or where it is in the state of insolvency or it is determined by a resolution of the Board that it will be in the state of insolvency, the following sanctions may be imposed jointly or severally:

a) Some or all members of the board of directors of the legal entity holding a license may be dismissed and new members may be appointed by the Board.

b) Financial equivalents of the services, which should be provided by the legal entity holding a distribution license, but which have not been provided, and of the investments shall first be collected from the company's revenue from other activities, if not sufficient, from the dividend incomes of the existing shareholders and finally be collected from assets of the shareholders holding registered shares.

c) The works and procedures required in order to identify the legal entity entitled to operate the distribution system shall be performed under the frame of the first paragraph of Article 18.

ç) A new license shall be granted to such legal entity which certifies that it is entitled to operate the relevant distribution system and who fulfills the obligations provided for under this Law.

d) The Board shall, for protecting consumers and avoiding the interruption of services, adopt any measures until another legal entity is granted a distribution license for the distribution region, the license of which is terminated.

(4) Where violations of the legislation by an assigned supplier company hinder its ability to fulfill its distribution activities, which are subject to regulation, in a satisfactorily manner in line with the principles and procedures prescribed under a regulation prepared by the Authority or the violations of the legislation reduce the nature and quality of the distribution activities thereof, which are subject to regulation, to an unacceptable level or where the said distribution company made it a habit to act in noncompliance with the legislation or where it is in the state of insolvency or it is determined by a resolution of the Board that it will be in the state of insolvency, the following sanctions may be imposed jointly or severally:

a) Some or all members of the board of directors of the legal entity holding a license may be dismissed and new members may be appointed by the Board.

b) The Authority shall, for protecting consumers and avoiding any interruption of services, adopt any measures until another legal entity is identified as the supplier of last resource in substitution for the assigned supplier company, whose license has been terminated.

c) A new supply license shall be granted to the legal entity that is identified by the Board as the supplier of last resource.

(5) Where the violations of the legislation by the organized industrial zone holding a distribution license hinder its ability to fulfill the distribution activity in line with the principles and procedures prescribed under a regulation prepared by the Authority at an unacceptable level, where the violations of the legislation reduce the nature or quality of distribution activities to an unacceptable level, where the organized industrial zone made it a habit to violate the legislation or where it is in the state of insolvency or it is determined by a resolution of the Board that it will be in the state of insolvency, the license thereof shall be revoked and the distribution activities shall be carried out by the relevant distribution company.

(6) The Authority may, in respect of the conduct of other works and procedures under the scope of paragraph four, cooperate with other public institutions and organizations or procure services from real or legal entities in pursuance of the provisions of the relevant legislation. The principles and procedures regarding the implementation of the aforementioned provisions shall be prescribed under a regulation to be made by the Authority.

(7) The lawsuits brought by the Board against the members appointed to the board of directors of distribution companies for grounds relating to the performance of their functions shall be deemed to have been brought against the Authority, being the relevant authority ensuring the said appointment, and hostility shall be directed to the Authority in such lawsuits. Where, at the end of the judgment, order is given against the Authority and where the Authority makes any payment due to the finalization of the order, the amount of such payment shall be collected with recourse to the relevant parties in proportion to their negligence if and where the order regarding their negligence has been finalized. Staff members involved in the performance of the works and procedures under paragraph four shall be subject to the Law no. 4483, dated 2/12/1999 on the Prosecution of Civil Servants and other Public Employees.

(8) All administrative fines set forth under this article may not in any manner be included as an item of cost in the tariffs as may be prepared by the legal entity who pays the relevant fine.

PART FOUR

Tariffs, Protection of Consumers, Privatization, Expropriation and Security of Supply

Tariffs and protection of consumers

ARTICLE 17 - (1) The tariffs set forth under this Law and proposed to be implemented in the following period shall be prepared by the relevant legal entity in line with such principles and procedures as will be prescribed by the Board and submitted to the Authority for approval. The Board shall require the revision of tariff offers which it did not consider proper under the frame of the legislation or, where necessary, shall revise it ex officio and so approve. The relevant legal entities shall be obliged to apply the approved tariffs.

(2) The inflation changes to be made by the license holder to the annual tariffs and the arrangements relating to other matters specified in the license thereof shall be subject to the approval of the Board. The price formulations specified under the scope of approved tariffs shall be amended subject to the conditions referred to in the legislation.

(3) The approved tariffs may not include anything that is not directly related to the market activities of the said legal entity. Transmission additional fee shall constitute an exception of this provision.

(4) The terms and conditions of the board-approved tariffs shall be binding upon all real and legal entities, being subject thereto. If any real or legal entity fails to ensure any payments prescribed in the tariff which it is subject to, the principles and procedures regarding the suspension of the said service shall be set forth under a regulation to be made by the Authority.

(5) Upon the grant of license which requires tariff approval, the tariff for the then current year shall be reviewed and approved by the Board.

(6) Types of tariffs subject to regulation by the Board shall be as follows:

a) Connection tariffs: Connection tariffs include prices, terms and conditions which are based on non-discrimination among equal parties for connection to the distribution system, which will be included in the relevant connection contracts. Connection tariffs shall not include network investment costs, and shall be limited with the costs accruing in the name of the person ensuring the connection.

b) Transmission tariff: Transmission tariff to be prepared by TEIAS shall include prices, terms and conditions which shall be applicable to all users making use of the conveyance of electrical energy generated, imported or exported through the transmission system, without discrimination among equal parties. Network investments to be made by TEIAS and transmission additional charges shall be included in the transmission tariff.

c) Wholesale tariff: Electricity wholesale prices shall be determined freely by parties under such procedures and principles as will be prescribed by the Authority. Technical and nontechnical losses of distribution companies, electrical energy to be supplied thereby under the scope of general lighting and the electrical energy wholesale tariff to be supplied from TETAS for the sale of electrical energy to the consumers, the tariff of whom are subject to regulation, shall be determined by the Board, considering the ability of TETAS to fulfill its financial obligations.

ç) Distribution tariffs: The distribution tariffs to be prepared by distribution companies shall include prices, terms and conditions which shall be applicable to all users making use of the conveyance of electrical energy through distribution system, without discrimination among equal parties.

d) Retail sale tariffs: In respect of ineligible consumers, it shall include prices, terms and conditions applicable without discrimination among equal parties. Retail sale tariffs applicable to ineligible consumers shall be proposed by the assigned supplier company and shall be revised and approved by the Board. The license of supply companies holding a license may include obligations regarding the application of such types of tariffs which change depending on the amount of electrical energy consumption or regarding the price ranges and related details shall be prescribed under a regulation to be made by the Authority and so included in the license.

e) Market operating tariff: It shall be prepared based on covering the income needed by EPIAS to maintain its activities and on fiscal sustainability.

f) Last resource supply tariff: Last resource supply tariff shall be prepared in consideration of the effective retail sale tariffs and market prices at a level which will encourage the consumers who, although they are eligible consumers, does not supply electrical energy from a supplier other than the company holding a supply license, and allow the last resource supplier to make reasonable profit. However, notwithstanding the said restrictions, a separate tariff may be created for consumers who consume electrical energy below such amount as will be determined by the Board in consideration of social and economic conditions. The tariffs provided for under the scope of last resource supply shall be separately proposed by the holders of supply license.

(7) Where it is necessary to ensure subvention to specific regions or for purposes of supporting consumers as intended for specific purposes, such subvention shall be ensured without any changes to the prices. The amount of subvention and related principles and procedures shall be set forth pursuant to the resolution of the Council of Ministers upon the proposal of the relevant ministry, and paid from the budget of the relevant authority.

(8) The principles and procedures regarding the compensation from the relevant parties of damages and losses arising from the poor quality or cuts or failures of electrical energy shall be set forth under a regulation to be made by the Authority.

(9) Infrastructure works to be performed by legal entities holding a transmission or distribution license shall not be subject to infrastructure excavation license charge. No condition of providing guarantee shall be sought in respect of infrastructure works, including license applications. The unit prices, based on which the ground ruin fees to arise due to infrastructure works may not exceed such unit prices as published by the Ministry of Environment and Urban Planning. The infrastructure excavation license applications lodged by the legal entities holding a transmission and distribution license shall be concluded promptly by the relevant public legal entities.

Privatization

ARTICLE 18 - (1) The Ministry shall advise to the Privatization Administration its proposals and opinions regarding the privatization of TEDAS, EUAS and the establishments, affiliates, subsidiaries, business and business units thereof as well as the assets thereof. Privatization procedures shall be conducted by the Privatization Administration under the frame of the provisions of the Law no. 4046.

(2) Save that the titles to and the ownership thereof shall be reserved, an operating right transfer agreement, in respect of the operating and assets which fall under the scope of activity of TEDAS and which are required for distribution activities, may be drawn up between TEDAS and the electricity distribution companies which are established for purposes of conducting activities at distribution regions determined.

(3) Even if EUAS or the organization, affiliate, subsidiary, business firm and business units and the assets thereof are included in the privatization program, their relation with the ministry or the authorities they report to and with the legislation they are currently subject to, and the ownership of the assets thereof by the authority or organizations shall remain unchanged. However, technical, financial, administrative and legal procedures with respect to the preparation for privatization by such organizations, procedures regarding the personnel and works and procedures relating to the privatization shall be conducted under the frame of the provisions of the law no. 4046. However, in respect of any appointments to the chair and memberships of the board of directors, members of the board of liquidation and to the general managements of such organizations and new corporations to be established under this scope and to managements and management committees of organizations which are included in the privatization program and which are not required to be converted into corporations and to the managements at business firms and business units and of dismissals from such offices, the power to submit proposal to the Prime Minister shall rest with the Minister. The Prime Minister may delegate such power thereof to the Minister. The powers of the Minister to which the Undersecretariat of Treasury reports, including the powers for appointment, referred to in the Decree Law no. 233, dated 8/6/1984 on State Economic Enterprises, which relate to the procedures falling under the scope of this paragraph, shall be reserved.

(4) At the phase of procedures to be conducted with respect to the privatization, sales and share transfer pursuant to this Law, under the internal and external contracts of loan to which the Undersecretariat of Treasury is a party or a guarantor, the financial liabilities arising from investments made for purposes of financing transmission facilities shall be fixed by a protocol to be made between EUAS, TEIAS, the Undersecretariat of Treasury and Privatization Administration for purposes of inclusion in the liabilities of the transferee legal entity of the said facilities.

Expropriation

ARTICLE 19 - (1) Expropriation demands by legal entities subject to private law holding a pre-license or license and conducting generation and distribution activities in the electricity market in respect of immoveable properties held

thereby, which are required for the activities subject to the pre-license and license shall be reviewed by the Authority and, if found proper, the Board shall take decision of public utilities. Under the frame of the mentioned decision, the required expropriation procedures shall be carried out under the principles referred to in the Expropriation Law no. 2942, dated 4/11/1983 by the Ministry of Finance for legal entities subject to private law conducting generation activities and holding a pre-license or license, and by TEDAS for the license holders conducting distribution activities. In such case, expropriation prices and other expenses required by the expropriation procedures shall be borne by legal entities holding pre-license or license which demand expropriation.

(2) The title to and ownership of the expropriated immoveable property and/or the limited rights in kind thereon shall rest with the relevant public institution or organization which hold the ownership of the generating and distribution facilities, and in the absence thereof, to the Treasury. Free easement shall be constituted by the Ministry of Finance on the immoveable properties, the expropriation price of which are paid by the private law legal entity holding a pre-license or license and which are then registered under the name of Treasury at the land registry office by payment of the expropriation price thereof or which are cancelled at the land registry office as a requirement of nature thereof, in favor of legal entities subject to private law holding a pre-license or license, who pay the expropriation prize and/or a right of use shall be granted thereto. The term of the easement and/or the right of use shall be limited with the period of validity of the pre-license or license.

(3) The expropriation prices required by privatizations ensured by legal entities holding a distribution license in respect of new distribution facilities and other expenses shall be repaid by way of tariffs.

(4) Where pre-license holder fails to obtain a license or where pre-license or license expires or is revoked, the following procedures shall apply in respect of the expropriation prices paid by legal entities that hold a pre-license or license:

a) Where distribution license is terminated due to the expiry of its term, expropriation prices which may not be recovered by way of tariffs shall be returned to the relevant company by the public institution or organization holding the title to the immoveable property.

b) Where expropriated immoveable properties are given up to another pre-license holder by way of constituting easement on, and/or providing an utilization permit for, the expropriated immoveable property, the expropriation price shall be paid to the legal entity who paid by the expropriation price by a pre-license holder in favor of whom easement is constituted and/or who is granted the utilization permit.

c) Where expropriated immoveable property is reclaimed by the holder of the immoveable property or by the heirs thereof pursuant to Article 23 of the Law no. 2942, the price payable by the holder of the immoveable property or by the heirs thereof shall be paid to the legal entity who paid the expropriation price.

(5) Privatization procedures relating to the immoveable properties which are required for the generating, transmission or distribution activities conducted by public legal entities holding a pre-license or license shall be carried out by such legal entities and expropriated immoveable properties shall be registered under the name of the relevant public corporate entities holding the title to the generating, transmission or distribution facilities.

(6) The expropriation of immoveable properties where the distribution facilities which, as of the date of privatization, are existing at distribution facilities for which the legal entities subject to private law obtained the operating right, are located and for which, as of the said date, expropriation decisions are not adopted or of which, although the expropriation decision is adopted, expropriation procedures are not completed shall be conducted by TEDAS, and be registered under the name of TEDAS after the payment of expropriation prices by TEDAS.

(7) The immoveable properties held by public institutions or organizations other than the immoveable properties held by the Treasury, which are required for the generating and distribution activities conducted by legal entities subject to private law shall be procured by the Ministry of Finance for legal entities subject to private law who hold a pre-license or license and who conduct generating activities pursuant to the resolution to be passed by the Board and for the license holders conducting distribution activities, by TEDAS by application of the Article 30 of the Law no. 2942. In such case, expropriation prices and other expenses required by the expropriation procedures shall be borne by the legal entities subject to private law, which demand expropriation. The title to such immoveable properties shall rest with the relevant public institution or organization holding the title to the generating or distribution facilities, and in the absence thereof, to the Treasury.

(8) In respect of easement, utilization permit and rental, the following shall apply:

a) License or pre-license holding Legal entities subject to private law, which conduct generating and distribution activities in the market shall, in respect of their activities, demand to the Authority in respect of constituting easement, grant of utilization permit or rental on the immoveable properties the title to which are held by the Treasury or which are under the control and disposal of the State. If such demand is found proper by the Board, a constitution of easement, utilization right or rental agreement shall be drawn up by and between the Ministry of Finance and pre-license or license holding legal entities which are subject to private law, save that the term thereof shall be limited with the period of validity of the pre-license or license. Such agreements shall include a clause, providing that the term of validity of the agreement shall be limited with the period of validity of the pre-license or license. The obligation to pay the price of easement, utilization right or rental shall rest with the pre-license or license holding legal entity which is subject to private law.

b) Where constitution of easement or the grant of utilization right is demanded in respect of the immoveable properties which are under the private ownership of the Treasury or are under the control and disposal of the State, which

properties are required for the generating, distribution or transmission activities carried out in the market by legal entities holding a pre-license or license, the Ministry of Finance shall constitute a free easement or grant an utilization right in favor of the public legal entities throughout the term of the license.

Supply security

ARTICLE 20 - (1) The Ministry shall be responsible for monitoring the supply security of electrical energy and adopting measures with respect to supply security. Roles and responsibilities with respect to supply security shall be as follows:

a) TEIAS shall, in such a way as to minimize the transmission constraints, be responsible for ensuring the planning, installation of the transmission network, for maintaining the system security and preparing a twenty-year Long Term Electrical Energy Generation Development Plan under a generating capacity projection. TEIAS may, for purposes ensuring that system security is maintained, and supplying regional system needs as may arise due to the lack of sufficient capacity, make tenders to cause a new generating facility to be established or renting the capacities of the existing generating facilities under the scope of ancillary services agreements. The capacity rental price payable by TEIAS under the frame of tenders shall be covered by reflection on the system operating price, and the energy price shall, depending on the intended purpose, be covered by market participants under the balancing and settlement regulation or by reflection on the system operating price under the scope of commercial ancillary services agreements. The principles and procedures regarding the tender to be made by TEIAS for purposes of capacity rental under the ancillary services agreements shall be set forth under a regulation to be made by the Authority.

b) Assigned supplier companies must, until the end December each year, notify the Authority of their estimated peak demands for electrical energy, the amount of electrical energy they need, the contract they entered into to supply such amount and additional energy or capacity needs for the next five years. The principles and procedures regarding the agreements to be entered into with generating companies or supply companies for purposes of meeting the said energy and capacity needs shall be prescribed by the Authority under a regulation.

c) The Authority shall be responsible for monitoring the realizations of generation facilities which are granted a license, taking required measures to ensure the initiation of such facilities within the anticipated time under the frame of the relevant legislation, and, for purposes of use in works of supply-demand balance to be performed by TEIAS, furnishing a regular notice to the Ministry in respect of licensed new generation capacity amounts which will be put into operation within five years and which will be considered in supply calculation.

(2) Capacity mechanisms shall be created for purposes of creating sufficient nameplate power capacity, including the reserve capacity required for ensuring supply security. The principles and procedures regarding the creation of capacity mechanism shall be set forth under such regulation as will be prepared by the Ministry by consultation with the Authority and as will be put into force by and with the resolution of the Council of Ministers.

(3) The following procedures shall be followed for the monitoring and evaluation of supply security:

a) Electrical Energy Demand Projection Report of Turkey covering the next twenty years shall be prepared and published by the Ministry once in two years by consultation with the Ministry of Development and the Authority.

b) Following the publication of Electrical Energy Demand Project Report of Turkey, TEIAS shall, for purposes of use in determining the energy policies, prepare and present to the Ministry the Long Term Electrical Energy Generation Development Plan, considering the demand estimation covering the next twenty years, existing supply potential, potential supply means, fuel sources, structure of the transmission and distribution system and development plans, import or export opportunities and diversity of sources. This plan shall be published by the Ministry following the approval thereof.

c) TEIAS shall, each year, determine and present to the Ministry and Authority the realizations according to the Long Term Electrical Energy Generation Development Plan as well as short and medium term supply-demand balance in such a way as to cover the next five years under the scope of generation capacity projection.

ç) The Ministry shall, each year until December 31, prepare and present to the Council of Ministers the Report of Electrical Energy Supply Security, considering the supply-demand balance, source diversity, the state of transmission and distribution system and generating facilities in line with the results of aforementioned works and the Electricity Market Development Report as prepared by the Authority. The report shall cover evaluations about electricity market development and operation and findings, issues and solution officers in respect of supply security.

PART FIVE

Miscellaneous Provisions

Notices

ARTICLE 21 - (1) In respect of any notices to be given by the Authority under this Law, the provisions of the Service of Notices Law no. 7201, dated 11/2/1959 shall apply; however, the notices to be given by way of announcement shall be published in the Official Gazette.

Service procurement

ARTICLE 22 - (1) Legal entities holding a license may procure services in relation to the activities under the licenses thereof. However, it shall not be interpreted as a transfer by the relevant license holder legal entity of its obligations arising from the license. The Board shall prescribe which activities may be conducted by way of service procurement.

Opinion with respect to connection

ARTICLE 23 - (1) TEIAS and distribution companies shall publish each year the regional generating facility capacities that may be connected to the system thereof, for the next five years and the next ten years following it. No opinion with respect to connection shall be given to generating facilities other than the regional capacities so published. Where demanded by the Ministry for purposes of ensuring supply security and, for ensuring the development of competition in the market, by the Authority, TEIAS and distribution companies shall increase the capacities they determined and the number of connection points considering the system conditions.

Relocation

ARTICLE 24 - (1) In respect of the hydroelectric power plant projects to be carried out under the scope of this Law and the Law no. 5346 and the investments to be made for purposes of electricity generation from domestic sources under the second paragraph of the transitional Article 4 of the Law no. 4283, where it is mandatory to change the route of railway transport, including the projects relating the water use agreements, which are made prior to the effect of this Law, but which are not yet completed, relocation work shall be carried out by the administration which control the relevant railway by collection of the expropriation price of the existing railway to remain under water.

Taxes and charges

ARTICLE 25 - (1) The documents and papers drawn up in respect of the agreements relating to the right of use of water and operating principles, which are concluded by DSI as of 26/6/2003 and which do not make any provision regarding the repayment of joint facility investment price shall be exempt from stamp duty, and the associated transactions shall be exempt from charges.

Rights and obligations of EUAS

ARTICLE 26 - (1) EUAS shall take over the generating facilities under the control of DSI in accordance with the provisions under this Law, and shall, itself and/or through the agency of its affiliates, operate and, where necessary, exclude from the system the generating facilities which had been taken over from the cancelled Turkey Electricity Generation Transmission Corporation and which have not yet been transferred to legal entities subject to private law projections.

(2) EUAS shall protect the ownership of facilities and operations which are or will be transferred to legal entities that are subject to private law provisions by way of transfer of operating right under the existing agreements and additional, substitution and maintenance investments thereto.

(3) EUAS shall make any kind of improvement, capacity increase, renewal, substitution and maintenance investments in relation to the existing facilities or the facilities it will take over.

(4) EUAS may, subject to assent of the Ministry, enter into partnerships with legal entities subject to private law provisions, in respect of new generating facilities.

(5) The Ministry and Authority shall, for purposes of ensuring that EUAS creates an efficient generating composition and any financial burden resulting from generation is avoided, be entitled and obliged to adopt any kind of measures by consultation with the opinions of the Ministry of Development and Undersecretariat of Treasury, in a manner not leading to a negative impact on the financial structures of other government business enterprises operating in the energy market.

(6) EUAS shall, under the scope of generating license, perform the activities referred to under second paragraph of Article 7.

Rights and obligations of TETAS

ARTICLE 27 - (1) TETAS shall execute the energy purchase and sale agreements signed under the scope of existing agreements. It may also sign energy purchase and sales agreements under the scope of existing concession and implementation contracts, and may sign electrical energy import or export agreements under the scope of intergovernmental agreements.

(2) TETAS shall, under this Law and relevant legislation, enter into and execute bilateral agreements relating to electrical energy and capacity purchase and sales, and operate in organized electricity wholesale markets.

(3) TETAS shall sell electrical energy out of the wholesale tariff to assigned supplier companies for consumers, the tariff of who are subject to regulation.

(4) The prices, terms and conditions relating to the sale of electrical energy by TETAS to assigned supplier companies for consumers, the tariff of who are not subject to regulation, shall be prescribed freely between the parties.

(5) The suppliers who are authorized as the supplier of last resource by the Board shall be responsible for supplying from TETAS such amount of electrical energy which it supplies for customers under the scope of supplier of last resource as will be prescribed by the Board each year.

(6) Distribution companies shall supply from TETAS its energy demands due to general lighting and technical and nontechnical losses.

(7) The Ministry and Authority shall, for purposes of ensuring that TETAS fully fulfills its purchase obligations and any financial burden resulting from such obligations is avoided, be entitled and obliged to adopt any kind of measures by consultation with the opinions of the Ministry of Development and Undersecretariat of Treasury, in a manner not leading to a negative impact on the financial structures of other government business enterprises operating in the energy market.

Updating investment values

ARTICLE 28 - (1) DSI energy contribution shares referred to in US Dollars under the agreements of build-operate-transfer model hydroelectric power plants in operation, which operates under the frame of existing agreements and DSI contribution shares of which are paid by TETAS by way of tariffs shall, at the amount stated in the agreement, be paid to DSI at the end of each operating year out of the foreign exchange rate of the Central Bank of the Republic of Turkey valid on the date of payment.

(2) The installation price on which the energy contribution share payable to DSI under the provisions of the water use right agreement signed in respect of the existing hydroelectric power plants or for the power plants to be established under the scope of the Law no. 4628, the initial estimated value of the single or multipurpose facilities, on which the tender will be based;

a) Where it includes the energy facility, the initial estimated value of such part of the facility which is constructed by DSI,

b) Where it does not include the energy facility, the initial estimated value for the joint facility,

may not be greater than thirty percent of the amount which is brought to the date on which water use agreement is made by using Wholesale Price Index/Producer Price Index, and in respect of facilities falling under the scope of subparagraph (b), if there is any amount of expense made to the energy facility by DSI, such amount shall be separately added to the energy contribution share by calculation of Wholesale Price Index/Producer Price Index. The updating of the initial estimated value shall be based upon the value of Wholesale Price Index / Producer Price Index published in January of the year of estimation in respect of contracts brought to tender pursuant to the State Procurement Law no. 2886, dated 8/9/1983, if the value is fixed in water use right agreements made, on the Wholesale Price Index / Producer Price Indexed used in the calculation of such value, and one month prior values of Wholesale Price Index / Producer Price Index as of the date the tender is submitted in respect of contracts brought to tender pursuant to the Public Procurement Law no. 4734, dated 4/1/2002. In respect of the payments made or to be made for expropriations relating to the project, the entire amount falling under the energy contribution share of the value which is brought to the date on which the water use agreement is made using Wholesale Price Index shall be borne by the company.

Evaluation of applications for hydraulic sources

ARTICLE 29 - (1) In respect of applications lodged to sign a right of water use agreements for purposes of obtaining a generation license for hydraulic sources, DSI shall be entitled to identify the legal entity with which a right of water use agreement shall be signed. Where multiple applications are lodged to DSI for the same source, the legal entity, among those with acceptable feasibility, which proposes to give the highest rate of hydroelectric source contribution share per unit megawatt each year shall be determined and reported to the Authority as the legal entity with which an agreement will be signed.

(2) Hydroelectric source contribution share value shall, until the end of January each year, be paid for purposes of recording as revenue in DSI budget.

(3) The principles and procedures regarding the implementation of this article shall be set forth under a regulation to be made by the Ministry, to which DSI reports.

Amended and annulled provisions

ARTICLE 30 - (1) The heading of the Law no. 4628 has been amended as "Law on the Organization and Duties of the Energy Market Regulatory Authority".

(2) Article 1 including the heading of the Law no. 4628 was amended as follows.

"Object and definitions

ARTICLE 1 - The object of this Law is to set out the principles regarding the organization, duties, powers and responsibilities of the Energy Market Regulatory Authority and personnel affairs thereof.

For the purposes of this law, the following terms shall have the following meanings;

a) Minister: means the Minister of Energy and Natural Resources,

b) Ministry: means the Ministry of Energy and Natural Resources,

c) Board: means the Energy Market Regulatory Board,

ç) Authority: means the Energy Market Regulatory Authority,

(3) Article 9 including the heading of the Law no. 4628 was amended as follows.

"Status of the presidency, staff, personnel of the authority, and appointment procedure and personal rights thereof

ARTICLE 9 - The Presidency shall consist of the President, vice presidents and service units. Two vice presidents may be appointed subject to the resolution of the Board for purposes of assisting to the President in his/her functions as the President of the Authority. Vice presidents shall be responsible for fulfilling the duties and instructions given by the President and ensuring coordination among relevant service units. Also, the President may appoint a president advisor, provided that it does not exceed the number of staff members specified in the attached Schedule (I).

The service units and duties and powers of the Authority shall be as follows:

a) Department of Electricity Market: The Department of Electricity Market shall be responsible for carrying out the works of drawing up relevant regulations with respect to the electricity market, creating competition conditions, protecting consumer rights and review of consumer complaints as assigned to the Authority by and under this Law and other laws as well as conducting works and procedures relating to any kind of licenses, certificates, permits and certification.

b) Department of Natural Gas Market: The Department of Natural Gas Market shall be responsible for carrying out the works of drawing up relevant regulations with respect to the electricity market, creating competition conditions, protecting consumer rights and review of consumer complaints as assigned to the Authority by this Law, the Natural Gas Market Law no. 4646, dated 18/4/2001 and other laws as well as conducting works and procedures relating to any kind of licenses, certificates, permits and certification.

c) Department of Petroleum Market: The Department of Petroleum Market shall be responsible for carrying out the works of drawing up relevant regulations with respect to the petroleum market, creating competition conditions, protecting consumer rights and review of consumer complaints as assigned to the Authority by and under the Petroleum Market Law no. 5015, dated 4/12/2003 and other laws as well as conducting works and procedures relating to any kind of licenses, certificates, permits and certification and perform national marker works and procedures.

ç) Department of Liquefied Petroleum Gases Market: The Department of Liquefied Petroleum Gas Market shall be responsible for carrying out the works of drawing up relevant regulations with respect to the liquefied petroleum gases market, creating competition conditions, protecting consumer rights and review of consumer complaints as assigned to the Authority by and under the Liquefied Petroleum Gases (LPG) Market Law no. 5307, dated 2/3/2005 and the Law on the Amendment of the Electricity Market Law and other laws as well as conducting works and procedures relating to any kind of licenses, certificates, permits and certification.

d) Department of Tariffs: The Department of Tariffs shall be responsible for carrying on works relating to the identification of tariffs, approval of investment plans constituting the basis of electricity and natural gas tariffs, determination of investment ceilings and approval of demand estimations as assigned to the Authority under this Law and other laws.

e) Department of Supervision: The Department of Supervision shall be responsible for performing or ensuring the performance of inspections and supervision required to be made in the relevant markets of the Authority pursuant to the applicable laws and secondary legislation, cooperating with authorized public institutions and organizations on such matters where necessary and providing solution offers in respect of problems faced in the markets.

f) Department of Expropriation: The Department of Expropriation shall, in markets falling under the area of activity of the Authority, be responsible for performing or ensuring the performance of works relating to the duties of the Authority in respect of expropriation as set forth in this Law and other laws.

g) Legal Department: The Legal Department shall be responsible for representing the Authority for the follow-up and settlement of any dispute relating to the Authority and, where necessary, taking legal actions and providing legal advice to the President and other service units on legal matters.

ğ) Department of Strategy Development: Department of Strategy Development shall be responsible for determining strategies and policies and following up the practices of the Authority, carrying on the international relations of the Authority, following up sectoral developments and trends, composing market data, preparing market development reports, carrying out the works relating to the consumer rights, to perform the duties assigned to strategy development and financial services units assigned thereto by and under the Public Finance Management and Control Law no. 5018, dated 10/12/2003 and other legislation, to establish and maintain data processing infrastructure.

h) Department of Human Resources and Support Services: The Department of Human Resources and Support Services shall be responsible to carry out any works and procedures relating to management development, labor planning, personnel affairs of the Authority, financial and social benefits thereof, and the administrative affairs.

ı) Department of Press and Public Relations: The Department of Press and Public Relations shall be responsible for following up visual and written media on the area of activity of the Authority and providing required documentation, planning the relations of the Authority with media organs and conducting publication and activities relating to ensuring publicity.

i) Board Services Office: Board Services Office shall be responsible for carrying out secretary services of the Board and Board members and organizing protocol works.

j) Private Secretariat of the President: Private Secretariat of the President shall provide secretary services for the President and organize any kind of protocol works.

The area of activity, duties, authorities and responsibilities of service units shall, in accordance with aforementioned duties and functions, be set forth under a regulation to be put into effect with the proposal of the Authority and by the resolution of the Council of Ministers.

The staff, title and number of personnel to be employed within the Authority are provided under the attached Schedule (I). Changes to titles and ranks, inclusion of new titles and cancellation of vacant positions may be made pursuant to a resolution of the Board, provided that it does not exceed the number of total staff members, and is limited with the staff member titles referred to the schedule to the Decree Law no. 190 on General Staff and its Procedure.

The duties required by Authority services shall be performed by contracted personnel who are employed under an administrative labor contract. The personnel of the Authority shall, other than the matters provided for under this Law, be subject to the Law no. 657 on Civil Servants.

It is mandatory that board members and personnel of the Authority also meet the conditions referred to in sub-paragraphs (1), (4), (5), (6) and (7) of paragraph (A) of Article 48 of the Law no. 657 on Civil Servants.

Fundamental duties and services required pursuant to the duties assigned to the Authority shall be performed by professional personnel consisting of energy experts and assistant energy experts and other personnel working in other positions referred to in schedule (I). Employment of assistant energy experts, competitive examination, thesis preparation and proficiency exams and their appointment as energy experts shall be prescribed under a regulation to be made by the Board under the provisions of supplemental Article 41 of the Law no. 657 on Civil Servants.

The Chairman of the Board and Board Members as well as the personnel of the Authority employed under an administrative labor contract for positions attached to this Law shall be deemed insured under the scope of sub-paragraph (c) of the first paragraph of Article 4 of the Law no. 5510, dated 31/5/2006 on Social Security and General Health Insurance Law. Social security rights and obligations of the Chairman of the Board and Board Members as well as the personnel employed under an administrative labor contract for positions attached to this Law shall, save for the provision made under transitional Article 4 of the Law no. 5510, be determined in accordance with the provisions of the said law. Time of service at office of those who, when they were insured under the scope of sub-paragraph (c) of the first paragraph of Article 4 of the Law no. 5510, are appointed as the Chairman or Member of the Board, those whose term of office has expired or those who wish to leave office, shall be taken into consideration in the determination of vested right, rank and seniorities. The time of service at office of those who, during their term of office, fall under the scope of transitional Article 4 of the Law no. 5510 shall be considered the time for which executive compensation and representation compensations are required to be paid. Disengagement with their previous institutions and organizations of those who, when they were insured at public institutions and organizations under the scope of sub-paragraph (a) of the first paragraph of Article 4 of the Law no. 5510, had been appointed as the Chairman or member of the Board shall not require the payment thereto any severance pay or termination pay. Service periods for which they are required to be paid severance or termination pay shall be merged with the service period spent as the Chairman or Member of the Board and shall be considered as period of service, for which retirement bonus will be paid.

The relation with their previous positions of those who are appointed as the Chairman or the member of Board shall be disengaged throughout the period they hold office. However, those who, when they were civil servant, are appointed as the member of the board shall be appointed by the competent authority to a position in line with their vested rights within one month where, providing that they still hold conditions of serving as a civil servant, their term of office is over or they request to leave office and apply to their previous institution within thirty days. Until the appointment is ensured, any kind of payments they receive shall be continued to be paid by the Board. Any and all payments received by those, among those who cannot serve at a public institution, who are appointed as the Chairman or member of the Board and whose term of office is terminated as stated above or until they take office, shall be continued to be paid by the Authority and the payment to be made by the Authority to those whose term of office is so terminated may not exceed two years.

The Chairman and members of the Board, personnel of the Authority and peer personnel determined pursuant to supplemental Article 11 of the Decree Law no. 375, dated 27/6/1989 shall be provided with all payments made pursuant to financial and social benefits, under the same principles and procedures, including taxes and any other legal deductions."

(4) The following transitional article has been included in the Law no. 4628.

"TRANSITIONAL ARTICLE 19 - Heads of the existing service units shall be deemed to have been appointed as the head of the relevant service unit created by and under this Law; and the personnel with the same position title shall be deemed to have been such positions created with the same title with their current ranks, without the need for any other procedure.

Personnel whose position and titles are changed or cancelled shall be appointed to positions conforming their status within a period of six months as of the effective date of this article. Until the appointment is ensured, they may be assigned to works as may be needed by the Authority. They shall, until they are appointed to a new position, continue to receive payments relating to their former titles. If, after they are appointed to a new position, net monthly salary they receive for their former positions is greater than the monthly amount they receive for their new positions, the difference shall be paid thereto as monthly compensation without being subject to any tax or deduction so long as they hold the same position and until the amount they receive for their new position becomes equal thereto. Optionally, those whose positions are subjected to any change and those who are transferred to other institutions shall be ceased to receive compensation.

In respect of the personnel holding the positions of the Authority as of 15/1/2012, the provisions of the legislation in effect prior to the said date, including retirement shall be continued to be applied considering the provisions made under transitional Article 10 of the Decree Law no. 375.

(5) Articles 2, 3, 11, 13, 14, 15, supplemental Article 3, transitional Article 1 and 2, transitional Article 3, transitional Article 4, transitional Article 5, transitional Article 6, transitional Article 7, transitional Article 8, transitional Article 9, transitional Article 10, transitional Article 11, transitional Article 12, transitional Article 13, transitional Article 14,

transitional Article 15, transitional Article 16, transitional Article 17 and transitional Article 18 of the Law no. 4628 are annulled.

(6) The fourth and sixth paragraphs of Article 6/C and transitional Article 4 of the Law no. 5346 are annulled.

(7) The sub-paragraph (b) of the first paragraph of transitional Article 6 of the Law on the Amendment of Liquefied Petroleum Gasses (LPG) Market Law no. 5307, dated 2/3/2005 and Electricity Market Law are annulled.

References and regulations

ARTICLE 31 - (1) In other legislation, the references made to the articles of the Law no. 4628 annulled by this Law shall be construed as made to the relevant provisions of this Law.

(2) The regulations which are required to be set forth under this Law and for which no time is specified shall be made within six months as of the date of effect of this Law. Until such regulations take effect, the provisions of all general regulatory procedures such as existing regulations, communiqués and Board resolutions, which are not in contradiction with this Law, shall continue to be implemented.

PART SIX

Transitional and Final Provisions

National tariff application

PROVISIONAL ARTICLE 1 - (1) A price equalization mechanism, which is established in such a way as to protect, in whole or in part, the consumers who buy electrical energy out of tariffs subject to regulation from interregional cost differences or from existing price differences, and the implementation matters of which are regulated under a communiqué prepared by the Authority, shall be implemented until 31/12/2015. All public and private distribution companies and assigned supplier companies shall be included in the price equalization mechanism.

(2) Until 31/12/2015, the requirements of the national tariff application shall be taken as the basis and cross subsidization shall be applicable in the national tariff. National tariff shall be prepared by the Authority and take effect upon approval thereof by the Board.

(3) Until 31/12/2015, all accounts shall be kept and maintained by separation in accordance with the relevant legislation.

(4) The authority to extend the periods under the scope of this article up to five years shall rest with the Council of Ministers.

Build-Operate-Transfer Agreement

PROVISIONAL ARTICLE 2 - (1) For purposes of ensuring that the companies which entered into a build-operate-transfer agreement with the Ministry under the provisions of the Law no. 3096, but which terminated or will terminate their agreements before commissioning could maintain their activities by obtaining a license under this Law, the immovable properties held by the Treasury, on which an easement is constituted in favor thereof for the establishment of build-operate-transfer facilities under the agreement, may be directly sold by the Ministry of Finance to such companies over their current values, regardless of the value of the facilities located on such immovable properties.

Tax regulations

PROVISIONAL ARTICLE 3 - (1) Under the scope of privatization of electricity distribution companies and generating facilities and/or companies, profits arising from transfer, merger, demerger, partial demerger procedures to be made until 31/12/2023 shall be exempt from corporate tax. In case of losses due to the procedures and transactions made under this article, such loss shall be disregarded in the determination of the profit of the institution. Such demerger procedures shall be deemed a demerger procedure ensured under the scope of Corporate Tax Law no. 5520, dated 13/6/2006.

(2) Deliveries and services to be provided under this Article shall be exempt from value added tax. The taxes undertaken with respect to the performance of such deliveries and services shall be deducted from value added tax calculated in respect of procedures subject to taxation. Value added tax which may not be covered by way of deduction may not be returned. In respect of procedures falling under the scope of this article, the relevant provisions of the Law no. 6102 shall not apply.

(3) The separation of distribution and retail sale activities shall be deemed a demerger ensured under the scope of the Law no. 5520 under the principles and procedures specified with regard to this Law, on condition that it is made over the registered values.

Regulations intended to ensure supply security

PROVISIONAL ARTICLE 4 - (1) For purposes of creating the required supply capacity in the short term along with a sufficient reserve, the legal entities holding a generation license, which will start operating until 31/12/2015 for the first time shall be provided with the following incentives. The authority to extend the said duration up to five years shall rest with the Council of Ministers.

a) Fifty percent discount shall be made for the system use prices of transmission systems for a period of five years as of the date of commissioning of generation facilities.

b) At the investment period of generating facilities, the procedures and works performed in respect of generating facilities shall be exempt from charge, and the documents and papers executed shall be exempt from stamp duty.

(2) Among the immovable properties, which are of forest nature or which are under the private ownership of the Treasury or under the control and disposal of the Government; at electricity generating facilities based on renewable energy sources under the Law no. 5346 and the electricity generating facilities, where the metals referred to in Group IV (b) of Article 2 of the Mining Law no. 3213, dated 4/6/1985 are utilized as input, under the scope of mine operation license and permit regulated by the Ministry; the Ministry of Forestry and Water Affairs or the Ministry of Finance shall, in return for its value, grant permit, or rent, constitute easement or provide utilization right to and for those which shall be used for energy conveyance line up to the facility, transportation and grid / network connection point.

(3) Where the immovable properties intended to be used for purposes referred to in the second paragraph are public-owned meadow, summer pasture, winter quarters and grassland and pasturage within the scope of Law no. 4342, dated 25/2/1998, such immovable properties shall be registered under the name of the Treasury by changing its purpose of allocation, in pursuance of the provisions of the Law no. 4342. The Ministry of Finance shall rent or constitute easement for such immovable properties in consideration of its value.

(4) For the electricity generation facilities which are based on renewal energy sources under the Law no. 5346 and are to be put into operation until 31/12/2020, including those in operation as of the day of publication of this Law, and the electricity generation facilities where the metals referred to in Group IV (b) paragraph of Article 2 of the Law no. 3213 are used as input under a mining operation license and permit as regulated by the Ministry, and which are to be put into operation until 31/12/2020 as of the publication of this Law, transport roads and from energy conveyance lines, including those which will be transferred to TEIAS or distribution companies, until the point of connection to the system specified in the licenses thereof, eighty-five percent deduction shall be applicable to the values of investment and permits in the first ten years of their operating period, rent, easement and utilization right, as of the date of permit granted by the authority. The Development of Forest Villagers Income and Forestation and Erosion Control Income shall not be demanded therefrom. The facilities which are established or to be established on mining sites, for which tender is made or which are regulated under an agreement for purposes of building electricity generating facilities by public institutions and organizations prior to the date of publication of this Law may not take advantage of the discount and exceptions referred to under this paragraph. The authority to extend the duration under this paragraph up to five years shall rest with the Council of Ministers.

Electrical Energy Fund

PROVISIONAL ARTICLE 5 - (1) Pursuant to the Fund Agreements signed by and between the relevant companies and the cancelled Electrical Energy Fund under the scope of projects realized under the frame of the Law no. 3096, no interest shall be applicable in the repayment of loans which are or are to be provided by the Fund and which are anticipated to be repaid to the Fund by provision of additional fund to companies, and by way of reflection on the sales tariffs of the company.

General lighting

PROVISIONAL ARTICLE 6 - (1) The lighting expenses made until 31/12/2015 at places which are lighted under the scope of general lighting shall be covered by the fund to be included in the budget of the Ministry and by general budget tax incomes of the relevant municipalities and special provincial administrations. The Council of Ministers shall be entitled to extend the said duration up to two years. The deduction to be made from the general budget tax income shares of the municipalities shall be applicable by ten percent of the lighting expenses for metropolitan municipalities and municipalities at urban areas, and for other municipalities, by five percent of the lighting expenses. Other than such limits, ten percent of the lighting costs shall be covered by way of deduction from the share of the relevant special provincial special administration. The Council of Ministers shall be entitled to double the rates referred to under this paragraph.

(2) Required investments for regions for which general lighting decision may be taken by the lighting committee which consists of the distribution company under the chair of the representative to be designated by the Ministry, relevant municipality and/or provincial special administration shall be made by the distribution company.

(3) Consumption and investment expenses relating to the border lighting for security purposes shall be covered by the fund to be included in the budget of the Ministry of Internal Affairs, and the lighting expenses of places of worship which are opened for worship by the public and which are free, by the fund to be included in the budget of the Department of Religious Affairs.

(4) TEDAS shall inspect the distribution companies as to whether, as of certain periods, the amount and price of consumption on bills sent by the distribution companies are accurate or not. Where, in consequence of the inspections made, it is determined that excessive payment is made to distribution companies, the relevant distribution company shall be required to ensure the payment of the excessive portion of the payment amount within one month along with the interest as will be applicable to the period from the date of payment and the date of payment return, which interest is calculated in accordance with the rate of default interest as set forth in accordance with Article 51 of the Law no. 6183, dated 21/7/1953 on Collection Procedure of Public Receivables. Where the distribution company fails to ensure the payment within the said period, the said amount of payment shall be offset against the current period receivables of the distribution company. Where the receivables may not be collected also in the said manner, the amount shall be subject to follow-up and collected by the tax offices in accordance with the provisions of this Law no. 6183. Eighty percent of the collections made due to overpayments shall be recorded as revenue with the general budget, and the remaining twenty percent portion shall be transferred to local

administrations. The authority to remove doubts with respect to the implementation of the foregoing paragraph and, where necessary, to set forth the principles and procedures shall, by consultation with the Ministry of Finance, rest with the Ministry.

(5) The Ministry shall ensure the required arrangements with respect to the payments under the scope of the first paragraph within three months as of the date of effect of this Law. During the said period of time, works and procedures relating to the payment of general lighting consumption expenses shall be carried out by the Undersecretariat of Treasury in accordance with the provisions of the provisional Article 17 of the Law no. 4628, annulled by this Law and of other relevant legislation. Pursuant to the provisional Article 17 of the Law no. 4628 which is annulled by this Law, the inspection, follow-up and collection procedures with respect to the payments made from the budget of the Undersecretariat of Treasury shall be carried out under the scope of the fourth paragraph.

(6) Technical principles relating to the measurement with respect to the lighting as well as the principles and procedures relating to payment, deduction, implementation and inspection shall be prescribed under a regulation to be put into effect by the Ministry.

Conversion of autoproducer license into generation license

PROVISIONAL ARTICLE 7 - (1) The legal entities holding an autoproducer license shall, by protection of their rights under their existing licenses, be granted a generation license ex officio within six months as of the date of publication of this Law and without imposing any charge of license obtainment. Following the effective date of this Law, no application may be lodged to the Authority for autoproducer license; the applications already made shall be evaluated under the scope of generation license.

(2) In respect of the organizations privatized prior to the date of effect of this Law, autoproducer licenses granted pursuant to the provisions of the Law no. 4628 shall be converted into generation licenses and the matters set forth under the sales/operating right transfer agreements shall be included in the generation license. The license holders falling under this scope may, at maximum, sell in the market twenty percent of the electrical energy generation amount within one calendar year. The Board may, exclusive for the cases as may be needed for supply security, increase this rate.

Harmonization of generation facilities with the environmental legislation

PROVISIONAL ARTICLE 8 - (1) EUAS or affiliates, subsidiaries, business firm and business units and the assets thereof and public generation companies to be established under the scope of the Law no. 4046 shall be granted time until 31/12/2018 for purposes of realization of investments intended for harmonization with the environmental legislation and completion of required permits in respect of environmental legislation, which shall also be valid if they are privatized. The power to extend the said duration up to three years shall rest with the Council of Ministers. During the said period and for the said reason with respect to the previous periods, electricity generation activities may not be ceased at EUAS or affiliate, subsidiary, business firm and business units and the assets thereof, and at public generation companies to be established under the scope of the Law no. 4046, nor may administrative fine be imposed, which shall be valid if and where they are privatized.

Procedures with respect to licenses not put into operation or failed to be put into operation

PROVISIONAL ARTICLE 9 - (1) The legal entities which, during the pre-construction period included in the generation license, could not consummate their obligations they need to fulfill in order to commence the construction of generation facility shall be granted a period of six months only or, if any, in addition to the remaining construction time thereof. Except for the force majeure, the licenses of the legal entities failing to fulfill their obligations within the said duration shall be revoked.

(2) The provision made under the first paragraph shall not be applicable for licenses which are granted for coal site obtained by royalty from public institutions for purposes of establishing electricity generation facility and for which it is documented to the Authority with valid grounds that expropriation and railway relocation procedures cannot be completed, which need to be completed within the pre-construction time specified in the license, within such period and for which such grounds are found acceptable by the Board.

(3) The licenses or the applications of the legal entities desiring to terminate their existing generation or autoproducer licenses or their license applications shall be terminated and their guarantees shall be returned if the said legal entities lodge an application the Authority within one month following the effective date of this Law.

Conversion of existing license applications into pre-license

PROVISIONAL ARTICLE 10 - (1) The generation license applications which are not yet finalized by the Authority as of the effective date of this Law shall be deemed an application for pre-license and so finalized.

Grant of supply license

PROVISIONAL ARTICLE 11 - (1) The legal entities holding a wholesale and retail sales license shall, by protecting their rights under their existing license, be granted ex officio a supply license free of charge.

Grant of license to generation facilities and projects under the scope of existing agreements

PROVISIONAL ARTICLE 12 - (1) The generation facilities and projects under the scope of existing agreements shall be granted ex officio a license under the scope of the relevant legislation within one year as of the effective date of this

law, provided, however, that it shall be limited with the rights and obligations under the existing agreements and with the term of agreement.

Investment guarantee by the Treasury

PROVISIONAL ARTICLE 13 - (1) No investment guarantee by the Treasury shall be provided to the investments made for purposes of electricity generation, transmission, distribution, and trading under the provisions of the Laws no. 3096, 3996 and 4283.

Grant of new license to facilities whose construction has started

PROVISIONAL ARTICLE 14 - (1) The license holders who, based on a valid generation license, commenced the construction of the plant prior to the effective date of this license, but the construction was cancelled or discontinued for whatsoever reason shall be granted a license by the Authority if they apply to the Authority within one year as of the effective date of this article, providing, however, that Ministry fixes that the generation facility has reached to an irreversible stage and finds it to be of public interest. The foregoing paragraph shall not apply to hydroelectric generation facilities.

(2) The applicants shall continue their activities until the procedures such as the obtainment of licenses and permits required for the generation activities under the scope of first paragraph within a period of two years as of the date of license obtainment. The activities of those who fail to obtain required permits within the said period shall be ceased until the completion of the said permits.

(3) If not disrupting the integrity of the lands which are opened for use for non-agricultural purposes for purposes of use of generation facilities under the first paragraph prior to the date of publication of this Law, permit may be granted to allow for the use for the intended purpose providing that an application should be made to the Ministry of Food, Agriculture and Livestock within one year following the date of publication of this Law and subject to compliance with the soil conservation project to be prepared and subject to payment of seven Turkish Liras for each square meter of the agricultural lands used for non-agricultural purposes. The qualification of the lands which are no longer qualified as agricultural land shall be changed in line with the request of the applicant.

(4) The principles and procedures regarding the implementation of this article shall be prescribed under a regulation to be made by the Authority.

Idle hydroelectric power plants

PROVISIONAL ARTICLE 15 - (1) A right of water use agreement shall be signed with the beneficiaries of the hydroelectric power plants which, prior to the date of effect of the Law no. 4628, performed electricity generation activities, but which, following date of effect of the said Law, could not perform generation activities or connect to the distribution system for a price of 1 kurus/kilowatt hour, without announcement by DSI, under the frame of relevant regulations where and if they apply within six months following the date of effect of this Law and if they coincide with the existing projects.

Ongoing works and procedures

PROVISIONAL ARTICLE 16 - (1) The expropriation and transfer procedures of the immovable properties, which are required for electricity generation and distribution facilities for which, prior to the effective date of this Law, an expropriation resolution is adopted or a transfer resolution is adopted in accordance with Article 30 of the Law no. 2942, shall be finalized by the Authority.

Enforcement

ARTICLE 32- (1) This Law shall take effect at the date of its publication.

Execution

ARTICLE 33- (1) The provisions of this Law shall be executed by the Council of Ministers.