

All aboard the Orient Express

Turkey will continue to attract investors in the power sector. Economic growth is expected to reach 8% in 2010 and, according to the IMF, to average nearly 4% over the next few years. After the economic crisis of 2008-2009, Turkish electricity demand grew by 9% in 2010 and both private and government studies concur that electricity demand will continue to grow strongly, something unlikely to be emulated by other European countries.

The Turkish government's strategic plan for the power industry focuses on three objectives: (i) to promote enough investment to meet growing demand; (ii) to diversify power generation sources including the use of renewables and nuclear, thus reducing the reliance on imported natural gas and (iii) to improve the utilization of the existing infrastructure by transferring assets to the private sector.

Recent estimates from the state-owned Electric Generation Company (EUAS) indicate that the country will need 20 GW of new capacity by 2018 at a cost of around \$40 billion of investment. And whilst there is over 3 GW of licensed new CCGT capacity expected to come online between 2012 and 2016, the Turkish Higher Board of Planning actually wants to see the share of natural gas in electricity generation fall to below 30%. Turkey will thus need to provide investors with stronger incentives to develop local coal-fired capacity and renewable resources if they wish to meet such a target.

Both the private and public sector are expected to play significant roles in developing Turkey's significant renewable resources. Almost 5.5 GW of hydropower capacity has been licensed and is expected to come online by 2015. The Turkish Ministry of Energy and Natural Resources estimates the national wind power potential at 48 GW with less than 1.2 GW currently operational. But investments in new wind will need to be combined with improvements in tariffs and to the transmission network to overcome bottlenecks.

In May 2010 the government reached an agreement with Atomstroyexport from Russia to develop the Akkuyu nuclear power plant. This 4.8-GW project is expected to cost around \$20 billion but is unlikely to be operational

before 2020. Meanwhile, discussions over the development of a second nuclear power plant in Sinop are currently being held between Turkey and Japan after initial talks with South Korea failed.

On the privatization side, to date, the sale of eleven of twenty regional distribution companies have been successfully completed, raising over \$5 billion of revenue. The biggest winners have been large domestic companies with existing interests in the generation market, infrastructure and construction companies, and others active in natural gas distribution.

This year the government will begin the process of selling off the EUAS power plants. The first asset to go under the hammer is the Hamitabat combined cycle gas turbine plant (1,120MW). While officially announced in August 2010, some details still need to be ironed out such as the long-term provision of natural gas. The preparations for the sale are expected to be completed in early 2011 with an equity sale concluded by the end of the year.

The next assets in line are the lignite-fired plants of Soma (1,034MW), Can (320MW) and Seyitömer (600MW). But like Hamitabat, the privatization of these assets is complicated by fuel supply issues. Either a change will be required in the mining law to allow transferring the lignite mines to the investors, or the government will need to define long-term fuel supply contracts that are acceptable to the investors and funding institutions.

These four assets will be followed by the sale of about 40 plants with a total capacity of just over 13GW (see table), which have been grouped into nine portfolios according to location and technology mix. This should facilitate another government aim to create a series of vertically integrated power companies. So, whether investing in new capacity or participating in the privatization tenders, Turkey offers an exiting destination for investors. Don't forget to book your tickets.

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EUAS Portfolio by capacity type. Installed capacity (MW)

	CCGT	Coal	Hydro (Dam)	Hydro (Run-of-River)	Lignite	Steam	Total
Portfolio 1	0	0	0	0	2,795	0	2,795
Portfolio 2	1,351	0	0	0	0	630	1,981
Portfolio 3	180	300	0	0	822	0	1,302
Portfolio 4	1,432	0	476	0	210	0	2,118
Portfolio 5	0	0	370	0	1,680	0	2,050
Portfolio 6	0	0	1,017	0	0	0	1,017
Portfolio 7	0	0	838	0	0	0	838
Portfolio 8	0	0	620	0	0	0	620
Portfolio 9	0	0	281	75	0	0	356

Source: Turkish Privatisation Administration, EUAS and IPA calcs