

# **Price Hikes and Regulatory Action**

## **Turkish Case**

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**ERRA Chairmen Meeting - 13.4.21**

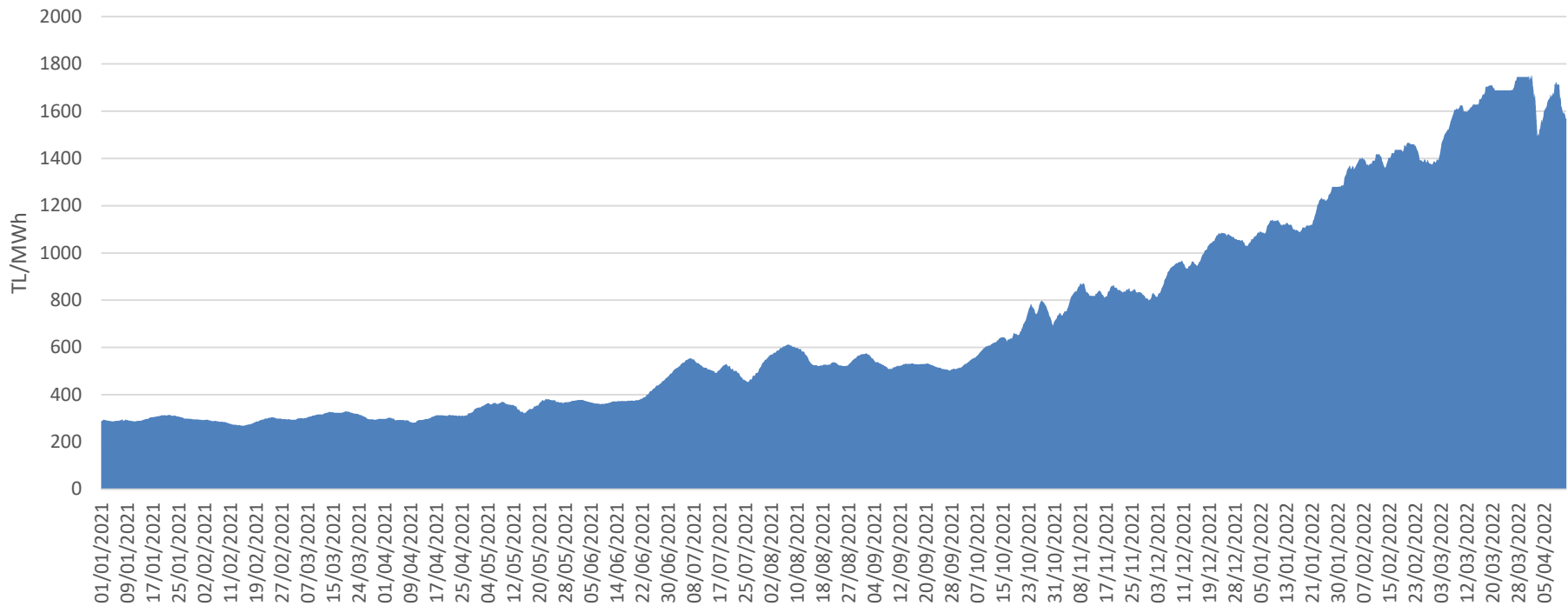
# GLOBAL TRENDS

- A general increase in prices of almost all goods
- Even 10 times compared to «before pandemic» conditions
- Political crises also enlarge dimensions

# TURKISH CASE: ELECTRICITY

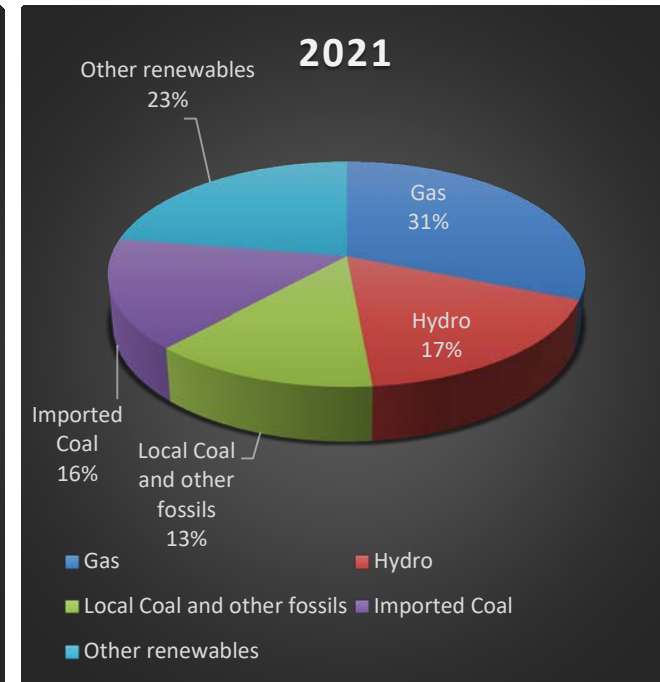
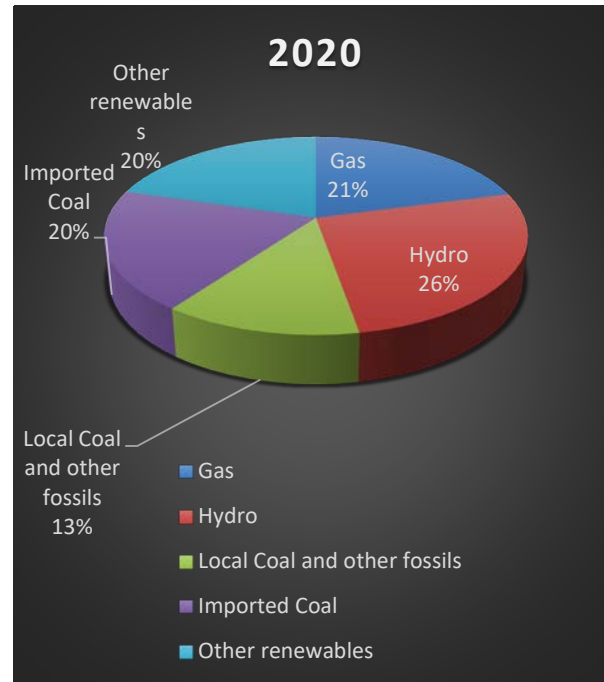
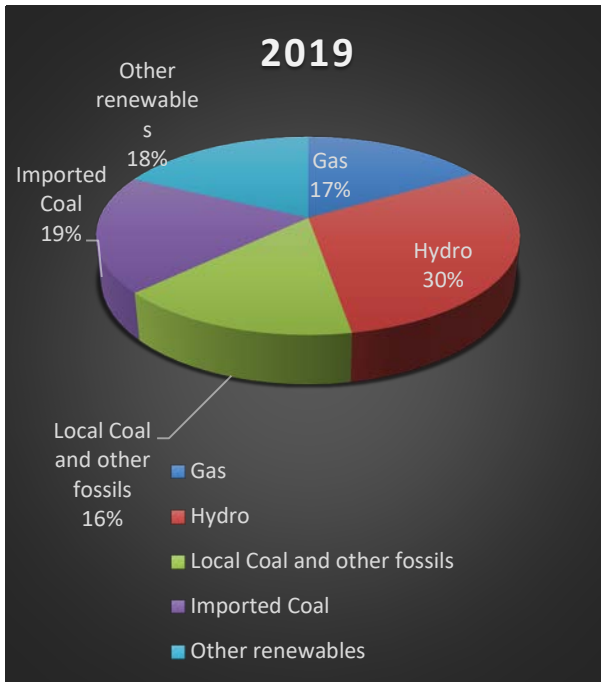
- Day-ahead prices: MCP

MCP - 7 days moving average



# TURKISH CASE: ELECTRICITY

## GENERATION MIX



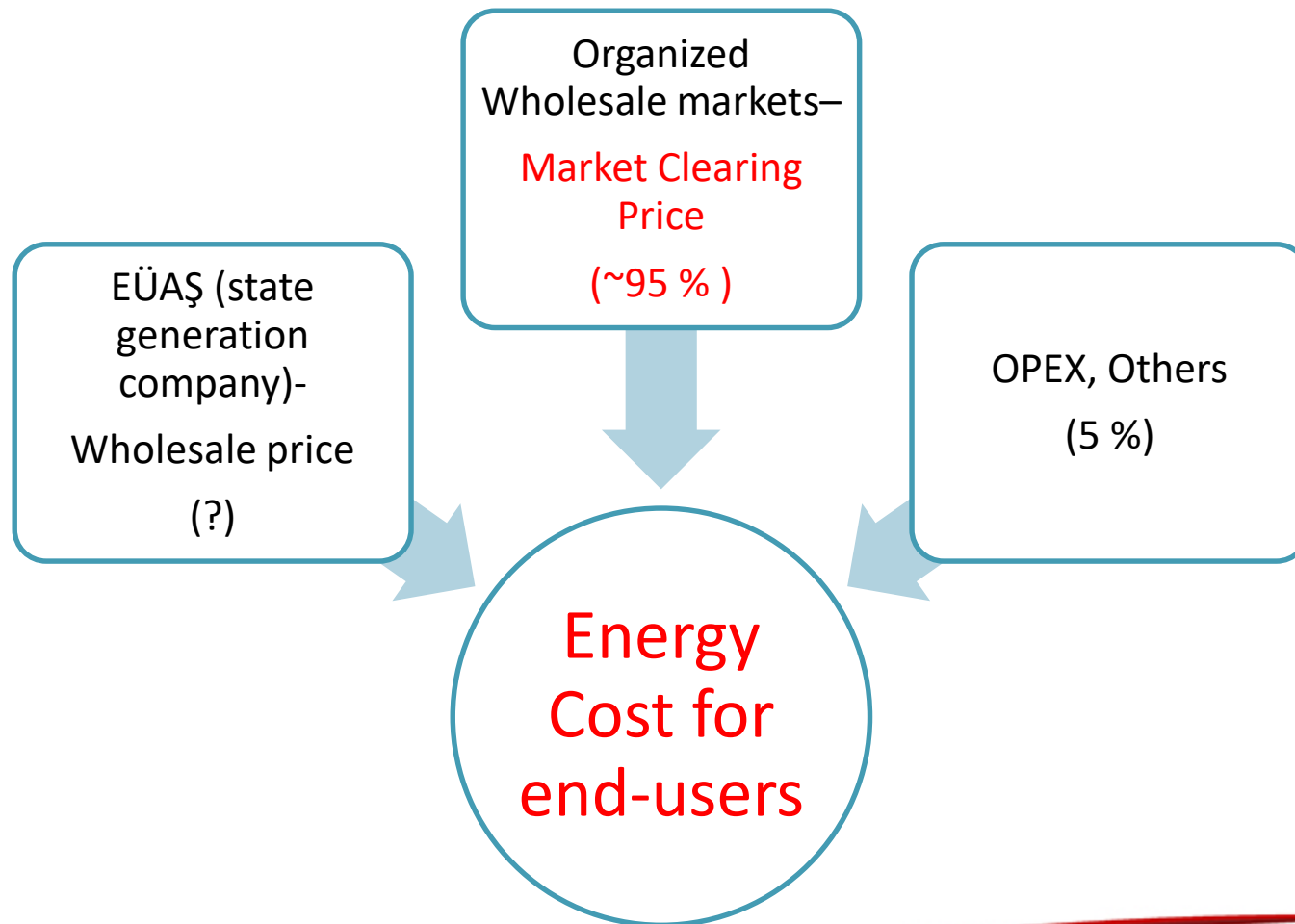
- Drought & increased demand

# TURKISH CASE: ELECTRICITY

- Global price hike combined with the degradation of Turkish Lira with respect to foreign currencies widened the price jump
- In January 2021 average Market Clearing Price was around 300-350 TL per MWh
- Nowadays the price reached 2000 TL/MWh

# TURKISH CASE: ELECTRICITY

- End-user regulated tariffs are directly affected by MCP



# TURKISH CASE: ELECTRICITY

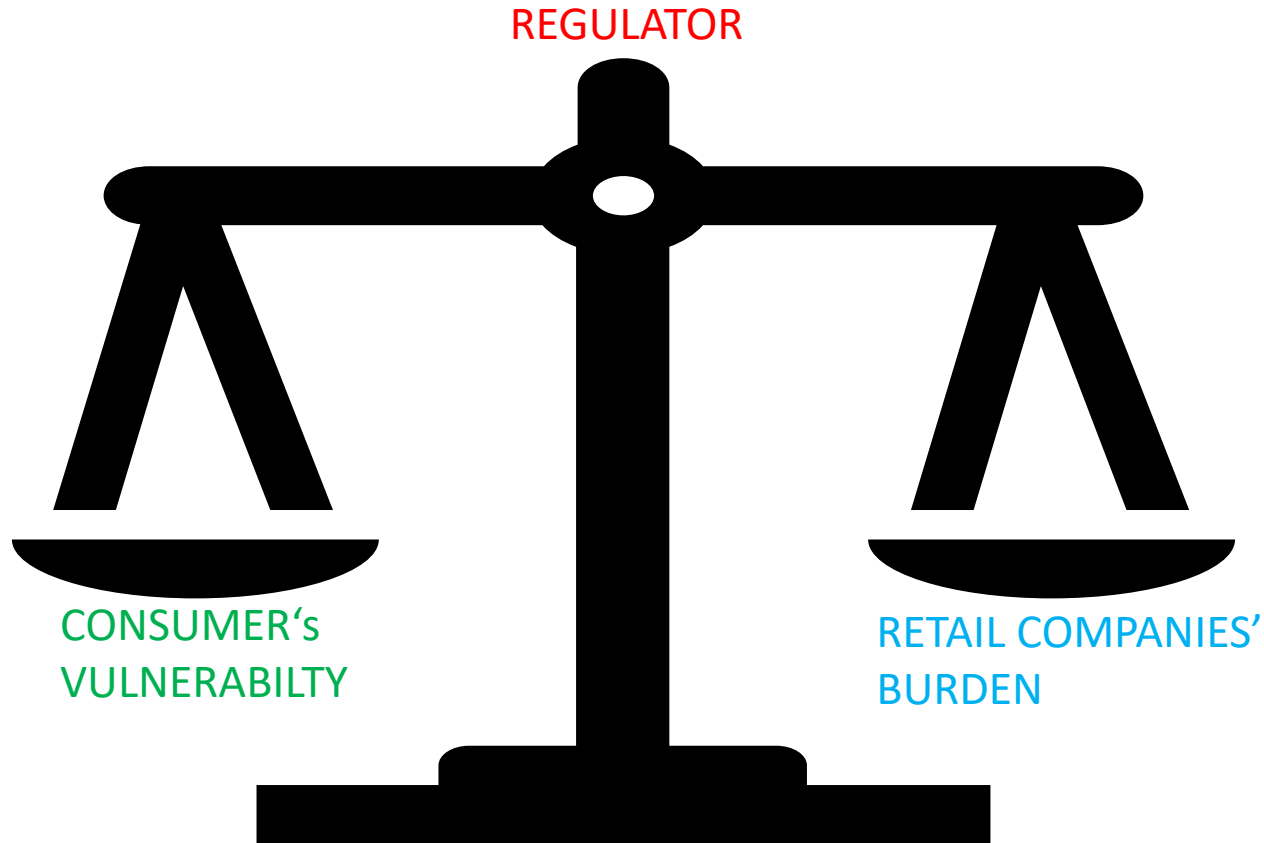
- Eligible consumers which have already left “regulated tariff zone” are directly subject to increase in Clearing Price
- However in 2021 almost 40% of total energy consumption was sold in «regulated tariff» zone

# TURKISH CASE: ELECTRICITY

- 4<sup>th</sup> quarter of 2021 was passed without raise in regulated tariffs (decision by end of 3<sup>rd</sup> quarter) and waited for current trend's tendency
- 4<sup>th</sup> quarter's realizations showed us impossibility of continuum of prevalent tariffs



# TURKISH CASE: ELECTRICITY



# TURKISH CASE: ELECTRICITY

- FIRST STAGE

- A limited raise in total fee of regulated tariffs (around 92-125 %)
  - Energy fee raise 135%
  - Distribution fee raise 25%
- A stepped tariff for household consumers (initially 5 kWh/day) and less increase in low-consumption level (around 50 %)
- Elimination of some taxes such as energy (0.7 %) & TRT funds (2 %)

# TURKISH CASE: ELECTRICITY

- SECOND STAGE

- For stepped tariff, limit of households is updated as 8 kWh/day
- A new stepped tariff implementation for commercial consumers as 30 kWh/day and a discount made around 25 % at low step
- Value added tax is reduced from 18 % to 8 % for households and agricultural irrigation consumers
- Increase in direct bill-support of Ministry of Family & Social Policies
- Non-profit organizations have also been counted in household tariff group

# TURKISH CASE: ELECTRICITY

- What about total burden on the system?

## REMEDY # 1:

Transfer of excess revenue coming from difference between Renewable Support Mechanism Cost and cost caused by Clearing Price

## REMEDY # 2:

The revenue generated by difference between market price and pre-determined price of producers according to sources are going to be also transferred to incumbent supply companies regulated portfolio

6 MONTHS

## REMEDY # 3:

Consumption limit of last resort supply tariffs decreased to 1M kWh/year valid by July 1st, 2022

# TURKISH CASE: ELECTRICITY

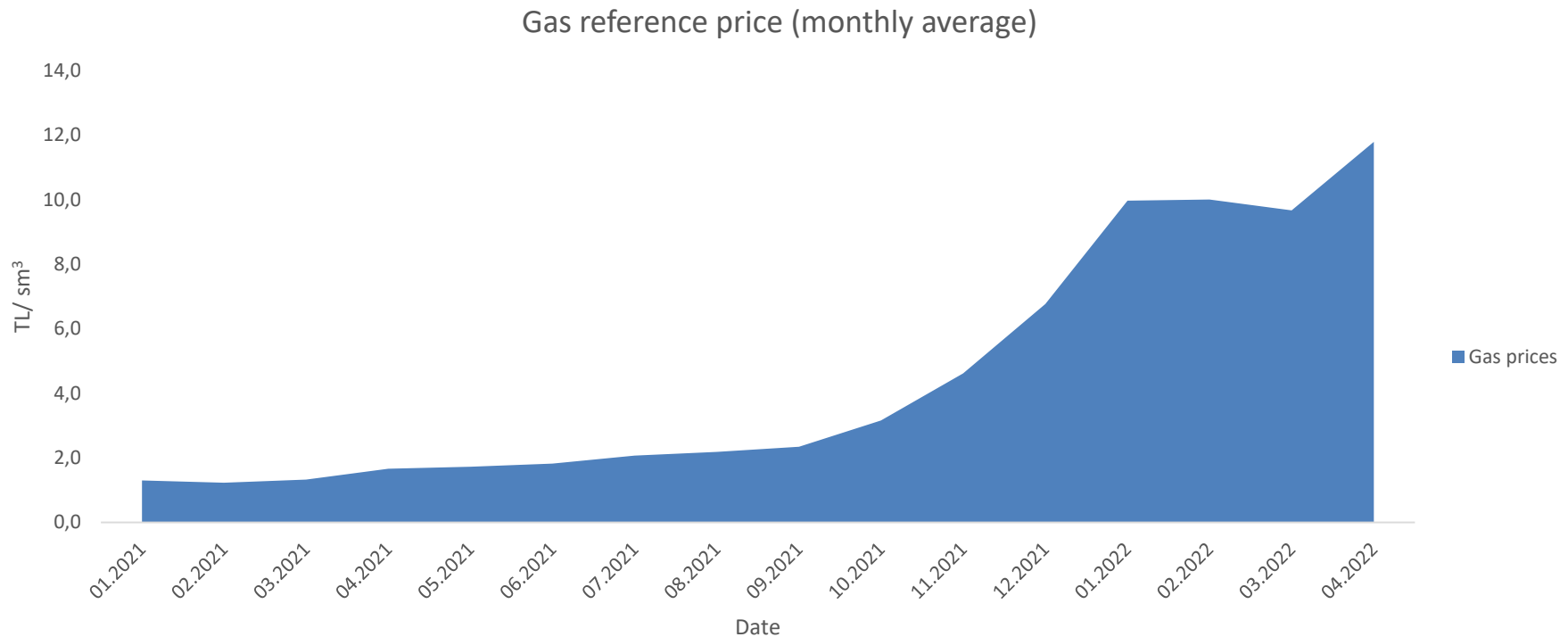
- What could be done more?
  - Amendments in current mechanisms
  - Subsidies by state company
  - Raise in tariffs: Theoretical «Must»

# TURKISH CASE: GAS

- Energy part of gas bills are pass-through costs for gas distribution utilities (not regulated)
- Gas prices of main supplier, BOTAŞ, is the core input for end-user gas bills

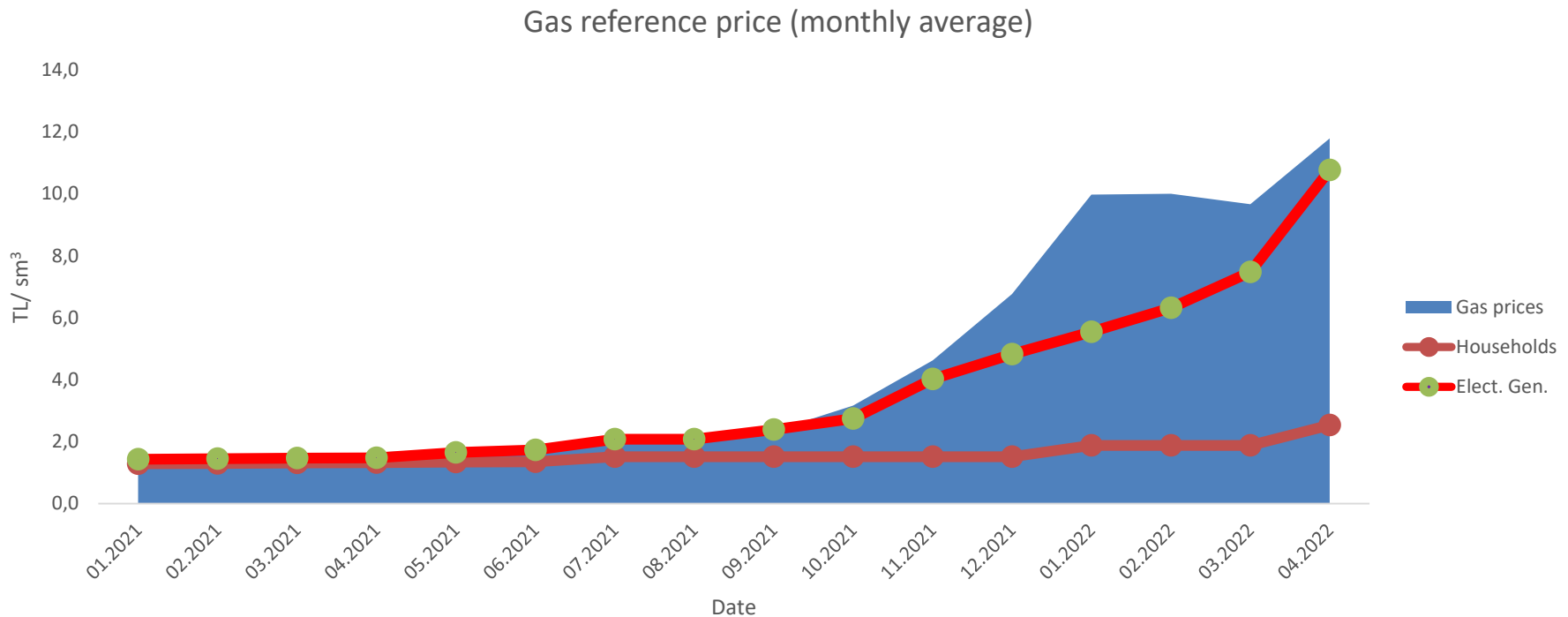
# TURKISH CASE: GAS

- The graphic shows up monthly average of daily gas reference prices settled at EPIAŞ-Market operator.



# TURKISH CASE: GAS

- The graphic shows up monthly average of daily gas reference prices of EPIAŞ-Market operator.





# TURKISH CASE: GAS

- Inference from the graph:
  - Gas supplier make subsidies for end-users, mostly households
  - The gap between cost/revenue is being covered by state
- Moreover, firstly this year, government implemented direct support for gas bills of vulnerable consumers

# TURKISH CASE: OIL

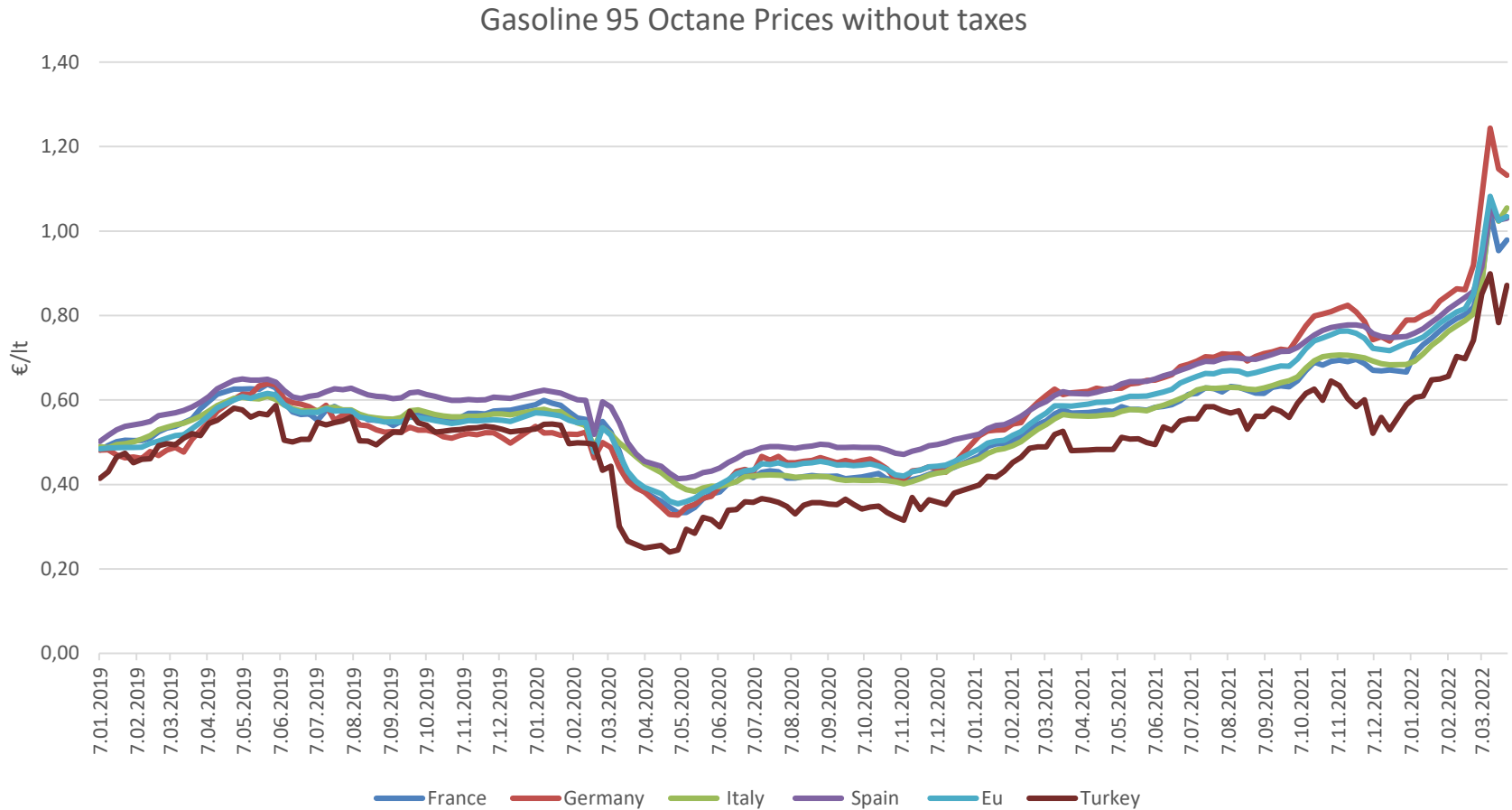
- Oil prices are also affected by global spikes
- Turkish market is a liberalized market where prices are set in free market
- Supply chain from refinery to gas station is held through free trade where distributors could acquire fuel via local refineries or import
- Regulator has a role of observer and in most cases, interventions are to be made when there occurs disorder of competition (2 month-period ceil)

# TURKISH CASE: OIL

- 2018: Before pandemic
  - April 2018 the “échelle mobile” system had been implemented in Turkey
  - Principal of computational fluid
  - The pre-defined cap for Excise Duty (special tax) was being decreased when oil price increased or vice versa
  - The echelle mobile system was terminated by Dec-2021 when the Excise Duties of Gasoline & Diesel products has already became 0 by October

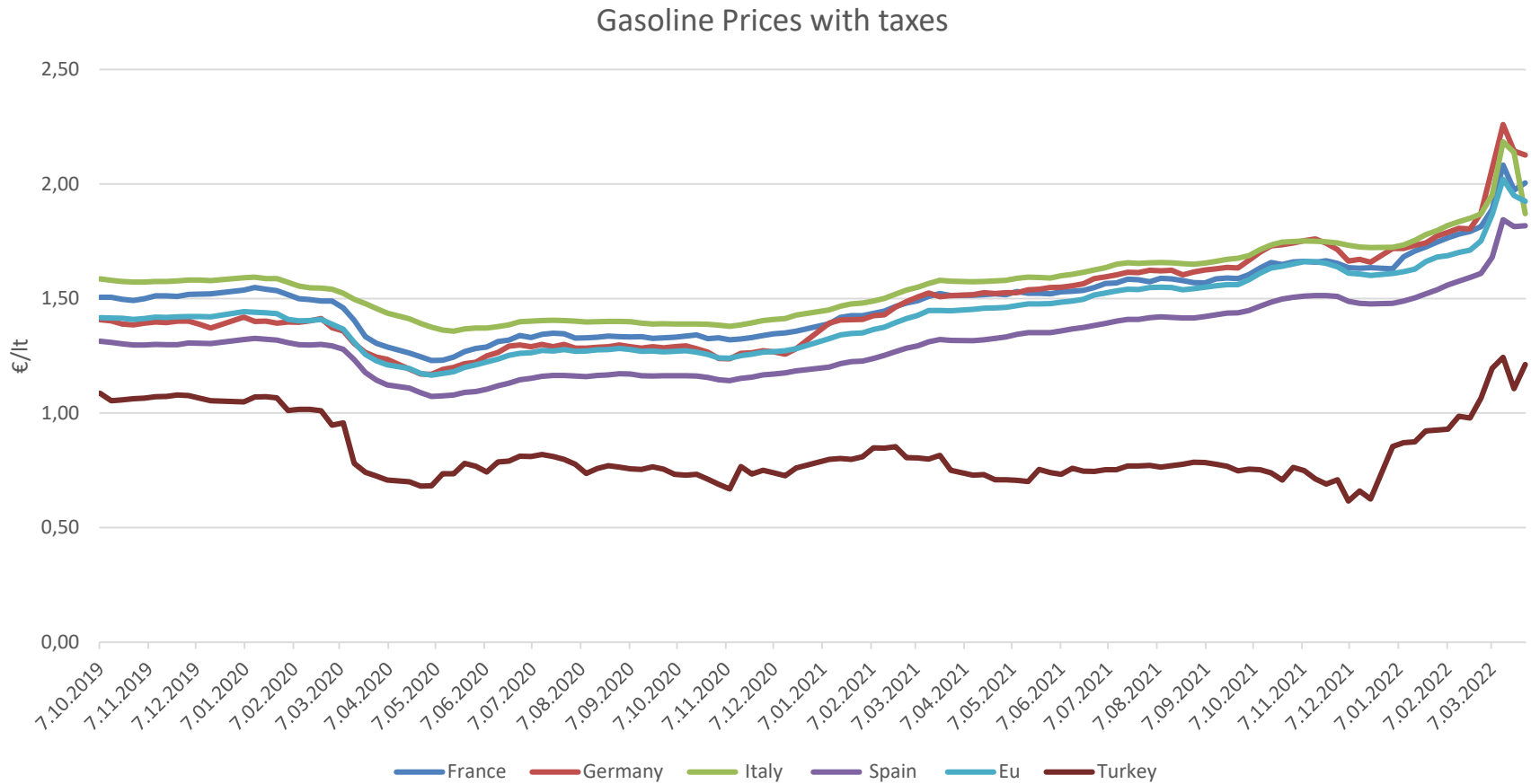
# TURKISH CASE: OIL

## Gasoline and Diesel Prices in Turkey and Europe



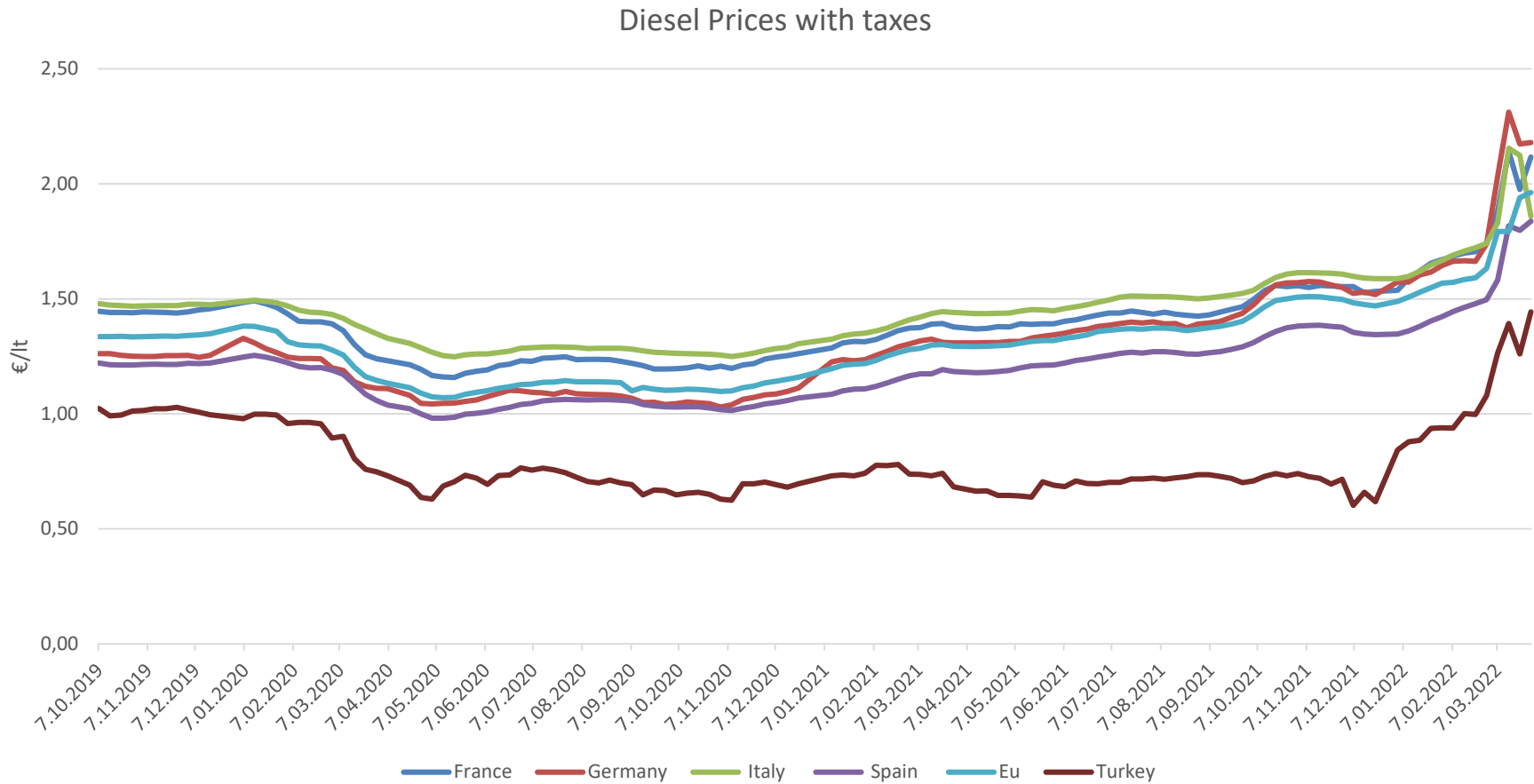
# TURKISH CASE: OIL

## Gasoline and Diesel Prices in Turkey and Europe



# TURKISH CASE: OIL

## Gasoline and Diesel Prices in Turkey and Europe



# TURKISH CASE: OIL

- The reasons for the differences
  - Refinery- Distributor-Station margins
  - Taxes / March-22 data

	Gasoline	Diesel
EU-27	47.3%	38.5%
Turkey	28.6%	25.1%

# EXPECTATIONS

- Tranquility in global markets (as a hope)
- If there is no degradation in prices, a raise necessity for end-user tariffs
- Alleviation on burden of incumbent electricity supply companies and gas traders (BOTAŞ)



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