

ELECRICITY MARKET LAW

(UNOFFICIAL TRANSLATION)

PART ONE

General Provisions

SECTION ONE

Purpose, Scope and Definitions

Purpose, scope and definitions:

ARTICLE 1 – The purpose of this law is to ensure the formation of a financially strong, stable and transparent electrical energy market and an independent regulation and supervision of this market which can operate according to private law provisions in a competitive environment so that electricity can be supplied to consumers in a manner which is sufficient, quality, regular, low cost and environment-friendly. This Law covers production, transmission, wholesale, retailing and retailing services and import and export of electricity and the rights and obligations of all the real and juristic persons related to these activities, working procedures and principles regarding the establishment of the Electricity Market Regulatory Authority and the procedure applicable to privatization of electricity production and distribution assets.

With regard to the enforcement of this Law:

1. The Ministry shall express the MENR (Ministry of Energy and Natural Resources), 2. The Minister shall express the Energy and Resources Minister. 3. TEAŞ shall express the Turkish Electricity Production Corp. 4. TEDAŞ shall express the Turkish Electricity Distribution Company. 5. DSI shall express the State Hydraulic Works. 6. The Authority shall express the Electricity Market Regulatory Authority 7. The Council shall express the Electricity Market Regulatory Authority

8. Current contracts shall express; the contracts, concession contracts and implementation contracts which have been signed in accordance with the provisions of Law No 3096 dated 4/12/1984, Law No 3996 dated 8/6/1994, Law No 4283 dated 16/07/1997 and Law No 4501 dated 21/1/2000 and related regulations prior to the entry into force of this Law.

9. Subsidiaries shall express; any juristic persons, which, except for the public economic enterprises, are the companies controlling any juristic persons operating in the market solo or jointly with another company and companies or another juristic person or persons or the juristic persons which are controlled by any other company and companies or real person and persons and their direct or indirect relations between or with each other of them.

10. Control shall express; the right to use more than half the capital or commercial assets of the relevant juristic person or more than half the votes on a juristic person directly or indirectly or the right to appoint more than half the number of the members of the supervisory board, executive board or any organs authorized to represent the juristic person in question or to manage its affairs.

11. Production shall express; conversion of energy resources into electrical energy at the electricity generating plants.

12. Transmission shall express; transmission of electrical energy through the lines with a tension level of more than 36 kV.

13. Distribution shall express; distribution of electrical energy through the lines of 36 kV and less.

14. Wholesale shall express; the sale of electricity for purpose of reselling it.

15. Retail sale shall express; sale of electricity to consumers.

16. Retail sale services shall express; the services provided by the companies having retail sale licenses to the consumers other than the sale of electrical energy and/or capacity.

17. Consumers shall express; free and non-free consumers buying electricity for their own requirements.

18. Suppliers shall express; Production companies, auto producers, groups of auto producers, wholesale and retail companies which are obligated to supply electric energy and/or capacity to their consumers.

19. Free consumers shall express; Real or juristic persons who enjoy the right to choose their own suppliers because they consume more than the electric energy volume established by the Council or who are directly attached to the transmission system.

20. Non-free consumers shall express; real or juristic persons who can buy electric energy and/or capacity from the distribution companies or retailing companies in their regions, which hold relevant licenses.

21. Production companies shall express the juristic persons who are engaged in electricity production and in sale of the electricity they produce, excluding auto producers and groups of auto producers.

22. Distribution companies shall express; the juristic persons who are engaged in electricity distribution in any assigned zones.

23. Wholesale companies shall express; the juristic persons, which can become engaged in wholesaling, import and export of electric energy and/or capacity and sale and trading of it to free consumers.

24. Retailing companies shall express; the juristic persons who can become engaged in retailing of electric energy to the consumers except for those involved in imports and those directly attached to the transmission system and/or provision of retail services to the consumers.

25. Auto producers shall express; the juristic persons who are engaged in electricity production basically for their own electric energy requirements.

26. Groups of auto producers shall express; the juristic persons who are engaged in electricity production basically for their partners' electric energy requirements.

27. Facilities shall express; the facilities and equipment which are set up to carry out the functions of electric energy production or transmission or distribution.

28. Distribution systems shall express; the electricity distribution facilities and networks operated and/or owned by any distribution companies in any assigned zones.

29. Transmission systems shall express; electricity transmission facilities and networks.

30. Production facilities shall express; the facility by which electric energy is produced.

31. Transmission facilities shall express those facilities starting from the points where production facilities end and terminating at the connection points to the distribution facilities including medium tension feeders.

32. Distribution facilities shall express the facilities and networks independently installed for electricity distribution, starting from the points where transmission facilities terminate.

33. The market shall express; the electric energy market comprising of sales and purchases or commercial activities of electric energy and capacity and the transactions related to these activities, including

production, distribution, wholesaling, retailing, retail services, imports and exports.

34. Production capacity projections shall express; the production capacity forecasts which are prepared by the Turkish Electricity Transmission Corp. on the basis of the demand forecasts by the distribution companies, and which are needed for electric energy supplies security.

35. The tariff shall express; the regulations which cover the prices, provisions and conditions concerning transmission, distribution and sale of electric energy and/or capacity and related services.

36. Licenses shall express; the licenses issued by the Council as per this Law to allow the juristic persons to operate in the market.

37. Allied services agreements: the agreements which establish the costs, provisions and terms of the allied services that cover the costs of the relevant services to be provided by the production companies, auto producers, groups of auto producers, distribution companies or consumers connected to the transmission systems to the Turkish Electricity Transmission Corp as per the network regulations.

38. Allied services shall express; the services that are to be provided by all the juristic persons attached to the transmission systems or distribution systems as per allied services agreements and which are defined by the network regulations and/or distribution regulations.

39. Energy purchase and energy sale agreements shall express; the agreements the Turkish Electricity Trading and Contracting Corp. will take over from TEAŞ and TEDAŞ in the scope of the current contracts and can sign in the framework of the projects that will be realized in the scope of Provisional Article 4 and Provisional Article 8 and the agreements that can be signed by the Turkish Electricity Trading and Contracting Corp subject to approval by the Council as per item (1) of paragraph (d) of Article 2 of this Law.

40. Connection and system usage agreements shall express; the agreements which contain relevant connection and system usage tariff prices, provisions and conditions and consist of conditions and provisions applicable to each user to allow any production companies, auto producers, groups of producers, distribution companies or consumers to have access to the transmission systems or distribution systems or to have connections to them.

41. Bilateral agreements shall express; the commercial agreements which are executed between the real and juristic persons for sales

and/or purchases of electric energy in accordance with private law provisions and which are not subject to approval by the Council.

42. Transmission control agreements shall express; the bilateral agreements executed between the Turkish Electricity Transmission Corp and juristic persons which are owners or operators of any private direct transmission lines and which are subject to private law provisions, in accordance with private law provisions.

43. Network regulations shall express the rules establishing standards, procedures and principles prepared by the Turkish Electricity Transmission Corp. and applicable to all the parties connected to the transmission system and the Turkish Electricity Transmission Corp. as per the transmission license provisions.

44. Distribution regulations shall express; the rules, which are prepared by TEDAŞ in consultation with the juristic persons, engaged in distribution activities and which establish the standards, procedures and principles applicable to all the parties connected to the distribution system and the distribution companies as per the provisions of distribution licenses.

45. Customer services regulations shall express; the rules which will be prepared by TEDAŞ in consultation with the juristic persons engaged in activities of distribution and retailing and which establish the

standards, procedures and principles applicable to the distribution companies and retailing companies and those parties getting services from the companies in question in accordance with the provisions of distribution and retail sale licenses.

46. Balancing and reconciliation regulations shall express; the rules which will be prepared by the Turkish Electricity Transmission Corp. and which establish the detailed procedures and principles related to real time balancing and financial reconciliation of electric energy and/or capacity purchases and sales in the scope of the agreements between the parties operating in the market in accordance with provisions of production licenses.

47. Transmission additional fees shall express; the fees to be collected on behalf of the Authority on the basis of the transmission tariff.

48. Turkish Electricity Transmission Corp shall express, the transmission company, which is formed from TEAŞ (Turkish Electricity Production Corp.).

49. Turkish Electricity Trading and Contracting Corp shall express; the trading and contracting company which is formed from TEAŞ.

50. Electricity Production Corp shall express; the production company which is formed from TEAŞ.

SECTION TWO

Electricity Market Activities and Licenses

Electricity Market Activities:

ARTICLE 2. Electricity market activities are activities by the juristic persons, which are to operate in the market according to the provisions of this Law in connection with production, transmission, distribution, wholesaling, retailing, and retailing services, trade, imports and exports.

This Law and relevant regulations govern procedures and principles, which have to be observed by the juristic persons operating in the market.

In case the juristic persons operating in the market subject to private law provisions are established under the status of an incorporated company or a limited liability company in accordance with the provisions of Turkish Commercial Code No 6762, it is a prerequisite for the entire shares to be written in the bearers' names. Minimum capitals of these companies and miscellaneous provisions, which have to be incorporated by main contracts, are governed by regulations. Activities, which can be carried out in the market as per the provisions of this Law and the juristic persons, which can operate, are as follows:

a) Juristic persons eligible for production activities: Electric energy production other than the production activities by auto producers and groups of auto producers is carried out by the Electricity Production Corp. and private sector production companies. Electricity Production Corp. and private sector production companies can sell electric energy and/or capacity to real and juristic persons.

1. Electricity Production Corp.: it can build, hire and operate new production facilities if necessary in line with Council-approved production capacity projections by taking into account the private sector investments.

Electricity Production Corp takes over the production facilities within DSI in accordance with the provisions of this law, operates those facilities taken over from TEAŞ but not transferred to the juristic persons subject to private law provisions and/or ensures their operation through its affiliated partnerships or discontinues their operation if necessary.

Electricity Production Corp. guards the ownership of the facilities and operations transferred or to be transferred to the juristic persons subject to private law provisions by way of transferring operational rights as well as the additional and maintenance investments to be made on them.

2. Private sector production companies are juristic persons subject to private law provisions and engaged in production and sale of electric energy at the production facility or facilities they have acquired through financial leasing or for which they have obtained operational rights.

The total share to be held by any private sector production company through the production facilities it operates jointly with its subsidiaries cannot exceed twenty per cent of the total electric energy installed output in Turkey in the previous year.

3. An auto producer or group of auto producers can sell a quantity of the electric energy it produces, which is established by the Council, provided that it does not exceed 20 % in a calendar year, in a competitive environment. The Council can increase this ratio by half only in cases of extraordinary situations. A production license has to be obtained in case a quantity of electric energy above the Council-established ratio is sold in a calendar year.

Operating procedures and principles related to auto producers and groups of auto producers, the arrangements related to the nature of sales to their partners and sale of any surplus electricity production are governed by regulations to be issued.

b) Juristic persons eligible for transmission activities: the Turkish Electricity Transmission Corp carries out Electric energy transmission activities.

It is the duty of the Turkish Electricity Transmission Corp. to take over all the State-owned transmission facilities, carry out transmission investment plans for projected new transmission facilities and build and run new transmission facilities.

Turkish Electricity Transmission Corp also prepares transmission, connection and system usage tariffs subject to Council approval, revises and checks them, performs load distribution and frequency controls, carries out substitution and capacity expansion with regard to the transmission system, monitors the system reliability on a real time basis and procures and provides allied services through allied services agreements concluded.

Turkish Electricity Transmission Corp carries out international interconnection works in line with the Ministry decisions and provides transmission and connection services to all the system users including free consumers connected or to be connected to the

transmission system on the basis of equality without discrimination in line with the network regulations and transmission license provisions.

Development and implementation of infrastructure related to execution of new trading methods and sales channels parallel to the market developments in line with the Council decisions are carried out by the Turkish Electricity Transmission Corp. Turkish Electricity Transmission Corp. prepares production capacity projections on the basis of the demand forecasts by the distribution companies in the framework of the regulations and submit them to the Council.

Installation of special direct transmission lines the juristic persons operating in the market and their customers and/or subsidiaries and/or free consumers outside the transmission network provided they conform to the standards applicable to the national transmission system is only possible transmission control agreements to be concluded between the Turkish Electricity Transmission Corp and the juristic persons engaged in production activities. The purpose of this transmission control agreement is to maintain the firmness over the transmission system and the operational integrity.

c) Juristic persons eligible for distribution activities: the distribution companies in the zones designated by their licenses carry out Electric energy distribution activities.

In case there are consumers, which cannot buy electric energy and/or capacity from another supplier in their zones, distribution companies are obligated to sell electricity to these consumers and/or provide retailing services by getting a retailing license.

Distribution companies can make sales to consumers on a retail basis and/or provide retail services by obtaining retailing licenses even if there are another / other retailing company/companies in their zones.

Distribution companies operating and/or owning distribution facilities in the zones indicated in their licenses carry out renewal, substitution and capacity expansion investments for these facilities and provides electric energy distribution and connection services to all the system users including the free zones connected and/or to be connected to the free consumers on the basis of equality without discrimination in accordance with the provisions and conditions of distribution licenses and the provisions of the distribution regulations. Distribution companies purchase and provide allied services under allied services

agreements concluded. The duty of preparation of demand projections with regard to the zones indicated in the distribution licenses and presentation of them to the Turkish Electricity Transmission Corp in the framework of the regulations rests with the distribution companies. The Council approves these demand projections and projections are published by the Turkish Electricity Transmission Corp.

The duty of preparation of the investment plans for the State-owned distribution facilities in line with the Council – approved demand projections, realization of the necessary improvement and reinforcement works in the distribution facilities which have been incorporated in the investment program as per the approved investment plans and/or construction of new distribution facilities rests with the distribution companies operating the distribution facilities.

d) Juristic persons eligible for wholesale activities: Wholesale activities are carried out by the Turkish Electricity Trading and Contracting Corp and private sector wholesale companies in accordance with this Law, relevant regulations, licenses, network regulations, balancing and reconciliation regulations and bilateral agreements.

1. Turkish Electricity Trading and Contracting Corp. takes over the energy sale and purchase agreements from TEAŞ and TEDAŞ, which have been signed in the scope of the current contracts. It can sign energy purchase and energy sale agreements in the scope of paragraphs (c) and (g) of Provisional Article 2, and executes and terminates the agreements it has taken over or signed. Turkish Electricity Trading and Contracting Corp can sign energy purchase agreements subject to approval by the Council for a maximum term of one year, provided that it is limited to the energy sales undertaken towards the distribution companies and TEDAŞ in the framework of the contracts for transfers of operational rights out of the current contracts for which transfers have been realized until June 31, 2001 and that a more economical source is not available, with priority being given to purchases from the Electricity Production Corp and in case that the latter also proves insufficient.

2. Private sector wholesale companies are engaged in wholesale trading activities for electricity.

The total share to be held by any private sector wholesale company including its subsidiaries cannot be higher than 10 per cent of the total volume of electric energy consumed in the previous year.

e) Juristic persons eligible for retailing activities: Activities involving retail sale of electric energy and/or capacity and/or retail sale services are conducted by retail sale companies and distribution companies possessing retailing licenses in accordance with this

Law, relevant regulations, licenses, customer services regulations and distribution regulations.

f) Juristic persons eligible for import and export activities: Imports and/or exports of electric energy subject to Cabinet approval from and to the countries with which international interconnection has been established in line with the Ministry comments which are formed according to Law No 3154 on the Organization and Duties of the MENR (Ministry of Energy and Natural Resources) are made by the Turkish Electricity Trading and Contracting Corp., private sector wholesale companies, retail sale companies and distribution companies which have obtained retail sale licenses in accordance with this Law, relevant regulations, licenses, network regulations and distribution regulations.

License general principles and license types:

ARTICLE 3. The procedures and principles applicable to the licenses to be issued by the Authority in the scope of this Law and the minimum provisions to be stipulated in licenses are as follows:

a) Procedures and principles applicable to licenses;

1. Juristic persons who will engage in market activities are required to obtain licenses for each activity and multiple licenses separately for each facility in case the activities in question are carried out in more than one facility, prior to commencement of their activities.

2. Same juristic persons holding more than one license or carrying out the same activity in more than one facility have to hold separate books and records for each activity or facility subject to license.

3. Regulations govern the procedure and principles for license applications, rights and obligations of juristic persons holding licenses, assignment of licensee rights, modification in licenses and extensions and the cases in which licenses can be relinquished and license charges to be established according to the types of activity and production and the volumes of electric energy distributed.

4. Licenses are issued for maximum 49 years only. The minimum period applicable for licenses of production, transmission and distribution is 10 years.

5. It is the duty of the companies having distribution licenses and the Turkish Electricity Transmission Corp. to establish an efficient,

stable and economical system in the market and to safeguard it and to provide infrastructure compatible with competitiveness over production, wholesaling and retailing of electric energy as per the provisions of this Law.

6. Juristic persons have to pay annual license fees including charges determined by the Council for obtaining licenses, renewing licenses, modifying licenses and getting copies of licenses to the Council.

7. Juristic persons having licenses have to keep their facilities and legal books and records ready for inspection by the Council, to make them available for inspection whenever required by the Council and provide all kinds of information and documents to the Council in time so that the Council can perform its activities.

8. In addition to obtaining licenses, juristic persons have to meet the requirements of the legislation in force depending on their fields of activity.

b) The minimum provisions to be stipulated in licenses:

1. Provisions determining groups or categories pertaining to real and juristic persons which will operate in the scopes of licenses and the types of activities to be carried out,

2. Provisions stipulating that any distribution or transmission licensees will provide system access and system usage means to real and juristic persons on the basis of equality without discrimination,

3. Methods concerning establishment of the pricing principles incorporated by this Law, establishment of pricing principles applicable to electricity sales to non free consumers by taking into account the market requirements and implementation of the formulas related to adjustments to be needed in connection with these prices due to inflation and provisions for supervision of them,

4. Provisions enabling licensees to prove that they are providing full and precise information to the Council and that in view of sales to consumers, licensees are making electric energy and/or capacity purchases from the most economical sources and that if necessary, they are making the most appropriate purchases in the markets,

5. Provisions regarding implementation of the rules concerning reflection of service costs and the measures to minimize losses and smuggling as required by the regulations,

6. Provisions concerning cancellation and termination of licenses,

7. Provisions concerning revisions in licenses,

8. Provisions related to fees to be paid by licensees to the Authority and payment terms

9. Provisions regarding conditions for allowing the facility and/or facilities belonging to licensees or in their disposal to be used by others in line with the purposes of licenses if necessary,

10. Provisions regarding the obligations of licensees to comply with all the instructions issued by the Council,

11. Provisions regarding the activities that can be done in the scope of licenses without permission by the Council,

12. Provisions concerning which disputes related to the activities in the scopes of licenses can be settled by the Council

13. Provisions concerning terms, conditions and cases in connection with the declaration of the rights and obligations under licenses as null and void,

14. Provisions ensuring that services are rendered according to technical requirements.

c) The types of licenses that can be issued by the Authority to authorize operations in the electric energy market are indicated below:

1. Production License:

They express the licenses which have to be obtained from the Authority by production companies for the existing and soon-to-be-established production facilities for each production facility in connection with production and sale of electricity. Procedures and principles regarding receipt of licenses are governed by regulations.

Except for auto producers and groups of auto producers, real and juristic persons, who do not operate parallel to the transmission and distribution systems and produce electricity solely for their own requirements according to the regulations to be issued, are not subject to licensing.

Production companies can have subsidiary relationships with distribution companies without gaining control.

Production companies cannot carry out any activities in the market other than these.

2. Transmission License:

They express the license which has to be acquired by the Turkish Electricity Transmission Corp. from the Authority to conduct activities to perform transmission via all the current and future transmission facilities.

The Turkish Electricity Transmission Corp is responsible for; as per the network regulations, establishment of load distribution priorities in order to meet demand through supply available in the market, realization of the load distribution in line with technical and economic load distribution rules according to real time transmission restrictions and revision of the load distribution priorities in line with the provisions of the network regulations if required. The Turkish Electricity Transmission Corp. cannot get engaged in any activities other than the activity of transmission in the market.

3. Distribution License:

They express the licenses which have to be obtained by juristic persons from the Authority to conduct distribution activities in a certain zone. Private sector distribution companies can build production facilities in their licensed zones in addition to distribution and retailing activities on condition that production licenses are obtained and that their annual electric energy production is not more than twenty per cent of the annual total electric energy supplies made available in their zones in the previous year.

Distribution companies cannot buy electricity from production company or companies they own or have subsidiary relations with in excess of twenty per cent of the annual total volume they distributed in their zones in the previous year.

4. Wholesaling License:

This license expresses the wholesaling of electricity in the market by the wholesale companies and the sale to the free consumers, that has to be provided from the Authority.

In the wholesaling licenses, in the direction of the decision taken by the Ministry, the provisions related to the electric energy export to the countries where the international interconnection condition is formed or the provisions allowing import of electric energy, are set out in a separate section. Before issuing such a permission, the Council, gets views from Türkiye Elektrik İletim Anonim Şirketi (Turkish Electricity Transmission Corp.) on the technical limits. In the wholesaling license, provisions on import and export are valid for a limited period and amounts. This period can be different than the validity period of the relevant sale license.

All kinds of modifications or time extensions related to the provisions on import and export are regarded separately than the modifications and time extensions of the other provisions on the relevant wholesaling license.

5. Retail Sale License:

This kind of license expresses the license that the juristic persons have to get from the Council to be able to make retail sale in the market and/or provide retail sale service. In a retail sale license, the provisions allowing import of electric energy at the voltage levels below the transmission level in the direction of the Ministerial decision are outlined in a separate section.

Before issuing such a permission, the Council gets views on the technical matters from the distribution company carrying out activities in the subject distribution region. In the retail sale license, provisions related to import are valid for a limited period and amount. This period can be different from that of the validity period of the relevant retail sale license. All sorts of modifications and time extensions pertaining to the provisions on import are regarded separately than the modifications and time extensions of the other provisions of the relevant retail sale license.

Retail sale companies conducts activities of retail sale and retail sale services at all the regions without any limitation. Distribution companies that own a retail sale license can make sales of electric energy and/or capacity sale to the free consumers located in a region of another distribution company if this is included in its relation sale license.

6. Auto-Producer and Auto-Producer Group License:

This license expresses the license that has to be obtained from the Authority by the auto producers which generate electric energy to meet its own requirements and/or the auto producer groups which operate parallel to the distribution system and provide electric energy for its partners.

d) Expiration of the licenses: Licenses expire at the end of their period if not extended in accordance with the method specified by the Council in the license or automatically in case the licensor juristic person goes bankrupt. If the licensor juristic person decides to quit its license, expiration can only be valid upon the approval by the Council.

PART TWO
The Electrical Markets Regulatory Council and Various Provisions

SECTION ONE

**The responsibilities and authorities of Electrical Markets Regulatory
Authority and Electrical Markets Regulatory Council**

Electrical Markets Regulatory Authority:

ARTICLE 4. An Electrical Markets Regulatory Authority has been established which is a legal entity and which has administrative and financial autonomy to execute the responsibilities vested in it by this law.

The Authority is responsible for the following:

- *to issue approved licenses defining the rights and obligations originating from the activities which the legal entities are charged with;
- *to arrange the existing agreements within transfer of operation rights in accordance with the provisions of this law;
- *to follow up on market performance;
- *to form performance standards and regulations regarding distribution and customer services and their modification, implementation and inspection;
- *to determine essentials of pricing mentioned in this law;
- *to determine pricing essentials to be applied in the sale of electricity to be made to dependent consumers;
- *to implement formulae regarding adjustments to be needed in the prices because of the inflation;
- *to inspect the above; and
- *to see that adherence to this law is maintained in the market.

The Authority prepares the regulations which it will issue based on the provisions of this Law by the discussions of the Council by receiving the views of the concerned agencies and establishments.

The center of the Authority is in Ankara. The Ministry with whom the Authority has relations is the Ministry of Energy and Natural Resources. The Authority can establish liaison offices in the regions of distribution to maintain consumer relations. The Organization of the Authority is formed of the Electrical Markets Regulatory Council, the office of the Chairman and Service Units.

In the process of fulfilling its responsibilities originating from this Law, the Authority was its authorities via the

Electrical Markets Regulatory Council. The representation and decision organ of the Authority is the Council.

**Electrical Markets Regulatory Council and the
Chairman's Office of the Council**

ARTICLE 5. The Council is formed by seven members one of whom is the chairman and the other is the vice chairman.

The Members of the Council are assigned by the Council of Ministers from among the persons who have graduated from the higher education institutions offering at least four years of education in the area of law, political sciences, administrative sciences, public administration, economics, engineering, business or finance and who have a minimum work experience of 10 years and professionally recognized.

Simultaneously with the above assignments, the Council of Ministers appoint the Council Chairman and Vice Chairman. The term of duty of the Council Chairman and the Members of the Council is six years. The members whose terms of duty expire can be reassigned. Should the position of the Chairman or the positions the members are vacated due to a reason, before their terms of duty are up, new assignments are made to these positions within one month.

In addition to the duties defined by the other articles of this law, the Council carries out the following responsibilities also:

- a) to apply the provisions of this Law;
- b) to determine every year, until the end of January the discounts in the limits regarding the definition of the free consumer and to publicize the new limits;
- c) to make the necessary arrangements to provide to the consumer reliable, quality, uninterrupted and low-cost electrical energy service;
- d) per acceptable accounting procedures to define the standards of financial reporting and management information systems for licenses and to implement such;

e) to determine safety standards and conditions for the production, transmission and distribution companies and auto producers and auto producer group installations and to maintain their implementation;

f) Depending on the development of the market to maintain the development of the infrastructure aimed at new commercial methods and the applicability of sales channels;

g) To develop model agreements when necessary in keeping with the purposes of this law;

h) To determine the methods and bases and to implement such barricading publicizing of all sorts of information sensitive from a commercial point of view including trade secrets and confidential competitive data;

i) To inspect the activities and the implementations of the legal entities active in the market in order to see whether or not they conform to the concerned license provisions and conditions in order to provide that they act according to the quality and transparency standards;

j) To develop standards and rules regarding the inter-ownership relations to maintain competition, to implement such and to determine limitations in the event that these standards necessitate limitations in the reciprocal participation in market activities, in business and in accounting subjects, and;

k) To prepare and to submit the annual and other reports regarding market developments to the Ministry.

l) To establish the personnel policy of the Authority and implement it including the appointments of the personnel,

m) To take decisions on the subjects of procuring movables and immovables or services, selling and leasing,

n) By monitoring the legislation and implementation of the international organizations and institutions related to the market, to carry out the necessary regulatory arrangements that it deems fit.

In case juristic regulatory arrangements are to be made, it does the necessary preparatory work and submits it to the Ministry,

o) To take decisions on all kinds of procedures in connection with the claims, rights and debts of the Authority towards the third persons,

p) To take necessary measures in order to promote using recycling energy resources emerging from the environmental impacts in the electricity generation and using domestic energy resources and making attempts through the relevant institutions and establishments on this subject for incentive applications,

Apart from the authorities set out with the other provisions of this Law, the Council shall be empowered with the following liabilities:

a) To approve the instructions and communiqués, network regulations, distribution regulations, customer services regulations and balancing and compromising regulations that are to be followed by the real and juristic persons aiming at development competition in the market and are necessary in terms of implementing the provisions of this Law and fulfilling the tasks assigned to itself through this Law,

b) In the scope of the approvals of licenses, providing other approvals set out in this Law,

c) To approve the demand estimations and revise them when necessary, prepared by the distribution companies and concluded by the Türkiye Elektrik İletim Anonim Şirketi,

d) Based on the demand estimations approved by the Council, to approve the generation capacity projection and transmission investment plan and in harmony with these plans, distribution investment plans prepared by the distribution companies which operate the distribution installation owned by the state, when necessary to revise them and supervise the implementations of the investment plans that it has earlier approved,

e) To examine and approve the wholesale price tariff, transmission tariff, distribution tariff and retail sale tariffs of Türkiye Elektrik Ticaret ve Taahhüt Anonim Şirketi, that are to be prepared in line with the provisions of the relevant licenses,

f) To determine the main points of the pricing to be carried out for the transmission, distribution, wholesale and retail sale and when necessary, revise them in the direction of the provisions of the relevant license,

g) To publish the percentages related to the amount of the electric energy sold by the auto producers and auto producer groups other than the requirements of their own and their partners and when necessary to revise them,

h) To fix the rate of additional transmission fee, and collection of the total additional transmission fee by Türkiye Elektrik İletim Anonim Şirketi and to make regulatory arrangements related to the payment to be made to the Authority,

i) To determined the fees to be paid by the juristic persons to the Authority in return for the transactions related to the licenses and other transactions,

j) To examine or to get examined the audited financial tables of the juristic persons doing business in the market,

k) To fix the scope of the reports to be requested from the juristic persons, related to service confidence, exclusion of services and other performance criteria and making them submitted to the Council regularly,

l) In the cases when the provisions of this Law, the clauses of the regulations issued, tariff and regulations approved by the Council, provisions and terms of license and the decisions of the Council are not conformed with, to give administrative fines and to cancel the licenses,

m) To examine the cases threatening or likely to threaten the public good and security, together with the other public institutions to protect the public good, hydraulic resources, ecological system and possession rights in general during the construction and commissioning of the generation, transmission and distribution installations and for the purpose of removing such cases, to take necessary measures in line with the provisions of Law No: 3082 dated 20 November 1983 provided to supplying information beforehand,

n) To approve the Authority's budget, annual work plan, revenue-expenditure final accounts, annual report and the other reports related to the market developments prepared by the Office of the Chairman, and when it deems necessary, to take decisions to make transfers between the budget items,

o) In case the owners of the licenses cannot arrive a satisfactory understanding on the provisions of the agreements for the transmission system or connection to a distribution system and system utilization, to solve the disputes according to the provisions of this Law and of the relevant licenses,

p) To realize the expenditures of the Institution in the framework of the approved budget and in line with the regulations it will issue in order to set out the spending procedures and rules,

r) In connection with the existing contracts, when its considered necessary to participate in the meetings to be held between the parties of these contracts, date and hour about which are informed before five working days,

s) Related to the existing contracts, in the matters which facilitate transition to the competitive market in accordance with the provisions of this Law, to make proposals of modification to be evaluated by the parties and provided not to violate the provisions on the solution of the disputes of the existing contracts, to act as go-between for the solution of the disputes before starting the process of an official dispute regarding these contracts,

t) To request and/or examine at the spot all sorts of information and documents from all the state and private agencies that it regards necessary pertaining to its field of activity when fulfilling the tasks consigned to it through this Law,

u) To give assignments to or empower the Office of Chairman on the subject that it considers appropriate,

The President of the Council is also the president of the Authority. The President is responsible of implementing and executing the decisions of the Council and representing the Council. This responsibility also covers the task of providing information to the public agencies on the activities of the Council. The Vice-President undertakes all the tasks and authorities of the President when he is off duty for any reason.

Powers vested on the personnel of the Authority by the Office of the Chairman excluded, all the decisions of the Authority shall be taken by the Council.

Tasks and powers of the Office of the Chairman are as follows:

a) To establish units of service that it regards necessary on the basis of the decisions of the Council,

b) To employ sufficient number of personnel to fulfill the functions of the Authority in the direction of the decision of the Council,

c) To secure harmonious, productive, disciplined and regular working of the service units, to provide organization and coordination between the service units and the Council and to settle the task and power disputes that may emerge among the service units,

d) To identify the agenda, day and hour of the Council's meetings and to chair the meetings,

e) To secure what must be done in line with the decisions of the Council and to supervise application of these decisions,

f) To represent the Council in the relations with the official and private agencies,

g) To prepare the annual budget and revenue-expenditure account as well as the annual report of the Authority and present them to the Council and to secure implementation of the Authority's budget, collection of the revenues and making spending.

Prohibitions and discharging:

ARTICLE 6. Council members cannot be employed during their membership in the public or private agencies unless a special law is based on for such an employment. Council members, for a period of two years as of the termination of their membership, cannot be employed in the juristic persons which are subject to private law

provisions and doing business in the market or in their participations or cannot be a partner to such business activities and cannot establish direct or indirect relations to provide revenues from such juristic persons or participations and neither can they involve trading of electric energy. Members of the Council shall dispose off all kinds of shares that belong to juristic persons or their establishments that operate in the market excluding securities issued by the Undersecretariat of Treasury aimed at borrowing and all personal assets that they have possessed prior to their membership, through selling or transferring them to persons excluding relatives until third generation and relatives-in-law until second generation within 30 days following their inauguration.

Spouses and relatives of first generation of the members of the Council shall not: work in any juristic persons or establishments except those public institutions and establishments operating in the market; become shareholders in such establishments; establish relations, directly or indirectly, as to render money from those juristic persons or establishments and engage in energy trade after the members' inauguration and during his duty at the Council.

Members and personnel of the Council and of the Authority shall not disclose or use for their own or somebody else's benefit, the confidential information pertaining to the Authority and any secrets pertaining to any real or juristic persons in energy sector even if they have been dismissed from their post.

The members of the Council may not be dismissed unless their term of duty has expired. However, any member or chair of the Council may be dismissed by the Council of Ministers in case he: breaches a prohibition expressed in this article or in case there exists a final condemnation verdict on the grounds that he has committed a crime abusing his duties; or loses his qualification to be eligible to become a public officer in accordance with Public Officers Law No:657; or fails to carry out his job for three months due to an illness, accident or any other reason or without waiting for the three month period to expire, any member of the Council for whom a commission report has been received proving his the incapability to carry out his duty for the rest of his term of duty.

Taking Oath and Declaration of Assets:

ARTICLE 7. The Members of the Council take oath before the Supreme Court of Appeals First Chieftaincy Council stating that they shall carry out their duty in the Council with utmost care and honesty, shall not move or let others move against the articles of this Law and related regulations thereto.

An application for taking oath shall be considered as an emergency duty by the Supreme Court of Appeals.

Members of the Council shall not inaugurate their duty unless they have taken oath.

Members of the Council are obliged to declare their assets within one month after their inauguration and termination of duty and every two year during their term of duty.

Activities and Meetings of the Council, Council Approvals, Annual Report and Inspection

ARTICLE 8. Working Procedures and principles and procedures that the Council will follow in applications are arranged by regulations.

a) The Council convenes when it deems necessary, at least once a week. The meeting is chaired by Chairman of the Council or by the Vice Chairman in case of Chairman's absence. The agenda of the meeting is prepared by the Chairman or by the Vice Chairman in Chairman's absence before the meeting and made known to the Members of the Council.

The Council convenes with minimum majority and decisions are made with the majority votes of the participants.

The Members of the Council shall not participate in the negotiations or vote for the incidents regarding themselves, their relatives until third generation and relatives-in-law until second generation.

b) Juristic persons shall apply to the Council regarding all approvals and licenses concurrent with the principles outlined in the regulations.

A Council approval is necessary in case a capital share change of 10 per cent or more in partnership structure of juristic persons due to any reason or 5 per cent or more in public companies; or a merger between juristic persons; or a change in the juristic personality of a juristic person through consolidation, change of control, sale, transfer or other arrangements; or a considerable change in the production, transmission or distribution facilities of a juristic person through any sale, transfer or any other arrangement occurs.

The Competition Board reserves the right to grant permission in mergers and transfers to take place in the market that are subject to Article 7 of Law Regarding Protection of Competition No: 4054.

c) The Council shall forward a written annual report for the information of the Ministry for the previous fiscal year until the end of April the next year. The consolidated revenue tables, balance

sheets and comprehensive financial tables shall be included in the subject report.

d) Accounts of the Authority are subject to the inspection of Supreme Court of Public Accounts.

Status, Appointment Procedure and Fringe benefits of the Authority Personnel:

ARTICLE 9. The service units of the Authority contain main service units, consulting units and auxiliary services units organized as directorates necessitated by Authority's duties and rights. The service units of the Authority and their rights and duties along with cadre titles and numbers are arranged by regulations to be issued by the Council of Ministers at the recommendation of the Council.

The main and permanent duties necessitated by Authority services are carried out by the personnel employed through administrative service contract. Except for wages and financial rights, the Authority's personnel are subject to Public Officers Law No: 657.

All rights provided by social security institutions for the personnel prior to their appointment to the Authority are reserved during their term of duty.

National and international experts may be employed in accordance with the regulations prepared by the presidency and put into effect by the approval of the Council, within the scope of the regulation indicated in article one. The Authority personnel may be selected and appointed by the Council among personnel working at the Ministry, its attachments and related institutions and other public institutions and establishments related with energy issues upon permission by the institution in which the said personnel is employed.

Members of the Council and personnel of the Authority shall also possess the qualifications indicated in the sub-paragraphs (1), (4), (5), (6), (7) of paragraph (A) of Article 48 of Public Officers Law No:657.

Chairman of the Council and Members of the Council and other personnel of the Authority are subject to Republic of Turkey Retirement Fund Law No: 5434. The relation between those who have been appointed as Chairman or a member of the Council and their previous duty shall be terminated during their term of duty at the Council. However, after their termination of duty, those who are subject to personnel regime arranged by a special regulation or Public Officers Law No: 657 may be appointed to an appropriate post upon their request by the Ministry according to their acquired rights, provided that Article 6 of the Law are reserved. The conditions necessary for academic titles are reserved.

The retirement conditions of the personnel of the Authority are regulated by a regulation to be prepared

by the Chairmanship and put into operation by Council approval. Not depending on this condition, Chairman of the Council is deemed to possess a status equivalent to that of Undersecretary of Minister and Members of the Council to that of Assistant Undersecretary of Ministry.

Net monthly salaries of the Chairman of the Council and Members of the Council shall not exceed twice the amount of salary that the highest ranking public officer receives including all kinds of payments and the salaries shall be determined the by Council of Ministers upon recommendation by the Ministry.

The wages and other financial rights of the Authority personnel are determined by the Council within the framework of the essentials defined by the Council of Ministers and upon the recommendation of the Office of Chairman. As to which expenses incurred by the Chairman of the Council, the Council Members and the personnel of the Authority and by the people who work by job contracts or by authorization in line of duty can be defrayed from the budget of the Authority, will be determined by by-laws.

The income and assets of the Authority:

Article 10. The revenues of the Authority forms the budget of the Authority and consists of the following items of income:

- a) To receive licenses, to renew licenses, to copy licenses and annual license costs;
- b) Revenues from publications and miscellaneous income;
- c) Grants to be given by the international institutions and establishments to be used in consulting and project work involving market development provided details of such grants have been announced to the public opinion;
- d) 25 per cent of the administrative fines given by the Council;
- e) Additional transmission fees at the most as much as 1 per cent of transmission tariff.

It is essential that the revenues of the Authority can offset its expenses. The revenue excess of the Authority is transferred to the general budget by the end of March next year. The revenues of the Authority are kept in the accounts at the Banks found appropriate by the Authority pending the time when the income of the Authority has reached a sufficient level whereby it can carry out its responsibilities in full as defined in this law, the

necessary financial resources are provided from the general budget.

The properties and assets of the Authority are considered state possessions. And as such, they cannot be attached; nor can they be mortgaged.

SECTION TWO

Sanctions and the Right to Sue

Sanctions and the method for the implementation of the sanctions:

ARTICLE 11. The Board applies to the legal entities active in the market the following sanctions and fines:

a) In the cases when information is requested by the Board or studies conducted on the spot; if information requested has been given wrong, with shortcomings or misleading or no information is given at all, or making it impossible to conduct a study on the spot, a fine of two hundred billion Turkish Lira is imposed and a warning is issued to the effect that the requested data should be provided within seven days and/or the possibility to conduct a study is provided. However for the cases of misdemeanor, which can be eliminated with ease, a warning is issued without the application of a fine and a request is made to supply information correctly and/or the possibility to study within seven days.

b) In the event that a determination has been made that action was taken contrary to the provisions of this law, or to the regulations, instructions or communiqués put out, a fine of two hundred and fifty billion Turkish Liras is imposed and a warning is issued to the effect that the contrary action is eliminated within thirty days.

c) In the event that a determination has been made that one of the general license essentials and one of the obligations has not been fulfilled, a fine of three billion Turkish Liras is imposed and a warning is issued for rectification within 30 days.

d) At the application for a license in the event that untruthful documents or misleading information are provided; that modification to which happen in the conditions of license affecting the issue of the license for the license period are not reported to the Board and that it has been seen possible that the misleading information or the modifications in the conditions of the license, a fine of four hundred Billions is imposed and a warning is issued to the effect that the wrong is rectified within thirty days.

e) In the event that a behavior contrary to the participation ban throughout the license period has happened a fine of four hundred and fifty billion is imposed and a warning is issued to the effect that the participation relation should be put to right within thirty days.

f) In the event that activity pursued on the market outside of the coverage of the license has been

determined, a fine amounting to five hundred billions is imposed and a warning is issued for the stoppage of the activity pursued outside of the coverage of the license or the unfavorable activity pursued.

g) In the event that it has been determined that during the validity period of the license, the conditions essential to the issuing of the license have become non-existent or have not existed at all, the license is cancelled.

In the cases when actions necessitating the fines mentioned above have not been put to sight in spite of the warnings or they have been repeated, the fines are implemented increased twice by the amount of the previous fine every time. If within two years from the dates of such fines, the same action has not been repeated which has necessitated the payment of the administrative fine; the previous fines are not taken as base in the repetition. But if the same action is repeated within two years, the amount of the fine to be applied increasingly cannot exceed 10 per cent of the gross income shown in the balance sheet belonging to the previous fiscal year of the fined legal entity. Should fines reach this level, the Board may cancel the license.

In the violations enumerated in paragraphs (c) and (d) of this Article, the Board may elect to cancel the license directly depending on the significance of the action without imposing any fine.

In the event that the license should be cancelled for distribution regions, the Board can cancel the license by taking the necessary measures beforehand so that the service provided should not suffer. On behalf of the name and on the account of the licensee a tender is organized within one hundred and twenty days for the sale of the installation concerned. Methods and essentials pertaining to implementation are determined through by-laws.

All administrative fines contained in this Article cannot be an element of the cost in the Tariffs to be prepared by the legal entity which has paid the related fine.

The fine is applied separately to the parties who act contrary to this law. In accordance with this

law, consideration that the acts, which necessitate the fines, are considered infractions in the Turkish Penal Code and in the other laws, which are related with a requirement of punishment, would not impede payment of the fines nor it prevents cancellation of licenses. In the event that the actions necessitating fines should be more than one, and they are interconnected the punishable act calling for the highest fine is applied, if they are interconnected the fine for each one of them is applied separately.

When a fine is imposed, the legal entity can apply to the Board within fifteen days from the date on which it has been served with the fine, for a reviewing of the decision. In the event that such a request has not been made, the request has been rejected; the decision for the fine will be final and definite.

The right to apply the fine is subject to a prescription of five years starting from the beginning of the year following the date of the offense.

Any procedure in which the Board will engage to conduct a study or inspection, serving this procedure on the concerned party and the fact of initiating a legal action cuts prescription.

The fine decided upon is collected by the Ministry of Finance on behalf of the Institution in accordance with the provisions of the Law on the Collection of the Public Claims, No: 6183.

The amounts of fines are increased every year in accordance with the requirements of Article 2, appended to the Turkish Penal Code NO: 765 by the law dated July 28, 1999 and No:4421.

Right to Sue:

ARTICLE 12. The law suits to be brought up against a Board Resolution are tried at the Council of State as the first step Court. The Council of State assigns priority to the actions against the Resolutions of the Board.

SECTION THREE

Tariffs, Supporting Consumers, Privatization and Other Provisions

Tariffs and Supporting Consumers:

ARTICLE 13. Tariffs based on this law, the implementation of the Tariffs, and Methods and Essentials apply to Supporting Consumers are listed below:

a) Tariffs:

The Tariffs which have been arranged in this section and which will be proposed for implementation for the following year are prepared by the legal entity and submitted to the Board for approval in accordance with the provisions of this law and the license issued to the Entity by the Board. In the event that the Board determines that these applications conform to the related provisions on licenses, it is approves these applications in a manner, which will not go beyond the date of December 31 of the same year.

The adjustments, which the licensee will make in the Tariffs throughout the following year regarding the monthly inflation and other points contained in this license, are included in the approval of the Board. The formulae relating to this kind of price adjustments are contained in every license granted by the Board in line with the provisions of this law. In the price structure, no element, which is not directly related with the market activities of the subject legal entity, can be included. The additional transmission fee to be applied by Turkish Electricity Transmission Corporation is an exception to the above provision.

The price formulae contained in every license can only be altered at the times and/or under the conditions specified in the subject license.

The provision and conditions of the Board approved tariffs are binding on all real and legal entities. In case a real or legal entity do not make any more of the payments stated in the tariff to which he is subject, the methods and the essentials which also contain the stoppage of the service are regulated through by-laws.

By granting of a license, which necessitates tariff approval, the tariff belonging to the current year is studied and approved by the Board.

a) Types of tariffs to be arranged by the Board are as follows:

1) Connection and System Utilization Tariffs: The Connection and System Utilization Tariffs contain prices, provisions and conditions which are based upon the related connection and system utilization agreements and upon the principle not to make any discrimination among the equal parties for connection to a transmission or a distribution system and for the utilization of this system

The connection prices do not cover the network costs. The price of connection cannot exceed the expenses develop in the name of the legal entity for whom the connection is made.

2) Transmission Tariff: The Transmission Tariff to be prepared by Turkish Electricity Transmission

Corporation, contains prices to be applied to the users without any discrimination among equal parties making use of the transmission over the transmission installations of electricity produced, imported or exported, and the provisions and conditions. The network investments and additional transmission costs are included in the Transmission Tariff.

3) Wholesale Tariff: The Wholesale Tariff to be prepared by Turkish Electricity Trade and Contracting Corporation contains the prices which the corporation will apply among equal parties without discrimination charged with the sales of electrical energy, and provisions and conditions. In the determination of the sale tariff, the Board takes as the bases the capacity for fulfilling the financial obligations of Turkish Electricity Trade and Contracting Corporation and the reflection of the average price of the purchased electrical energy.

4) Distribution Tariffs: The distribution tariffs to be prepared by the distribution companies contain the prices, provisions and conditions regarding distribution services, to be applied to all the real and legal entities without any discrimination among equal parties who are benefiting from the transmission over the distribution installations of electrical energy.

5) The retail sale tariffs, which will be valid for the users who are not free, are recommended by the retail sale licensee distribution company and/or the retail sale companies and are approved by the Board, having been studied.

The retail sale tariffs which will be valid for the free consumers outside of those who are directly connected to the transmission system, are recommended by the retail sale licensee distribution company and/or the retail sale companies in the distribution region where they are, until such time as those consumers select their own providers through bilateral agreements, and are approved by the Board, having been studied. In the licenses of the companies which hold retail sale licenses, there may be obligations pertaining to the implementation of the tariffs of the type which change by the consumption quantities of electrical energy and/or the price spaces and the pertinent details are defined within the coverage of the license.

c) Supporting the consumers: When it becomes necessary to provide subvention for the purpose of supporting to the consumers in certain regions and/or in the direction of certain targets, such a subvention shall be implemented through cash repayment to the subject consumers, free from intervening the prices provided that the amount and procedures are set out by the Council of Ministers upon the offer by the Ministry. These payments are met from the allocations secured in the general budget.

The matter of compensating the losses and damages originated from the poor quality of the electric energy and/or cut-offs is expressed in the licenses and the contracts of the licensor juristic persons to which the consumers are addressed. Procedures and principles are related to the implementation are adjusted and directed in the regulations.

Privatization

ARTICLE 14. The Ministry communicates the proposals and views the privatization of TEDAŞ, Elektrik Üretim Anonim Şirketi, and their institutions, partnerships, participations, establishment and establishment units as well as their assets to the Privatization Administration. Privatization transactions are carried out by the Privatization Administration in line with the Provisions of Law Related to Making Modifications in the Law-Decrees and some of the Laws and the Regulatory Arrangements in the Privatization Implementation No 4046.

In the framework of these privatization implementations, of the real and juristic persons included in the market activities indicated in this Law, the foreigner real and juristic persons cannot have shares in the electricity generation, transmission and distribution sectors in such a way to form a control mechanism on sectorial basis.

Other provisions

ARTICLE 15. a) Repayment of the Debts:

Of the debt obligations undertaken by Türkiye Elektrik Üretim Anonim Şirketi (Turkish Electricity Generation Corp.) those related to the transmission activity are transferred to Türkiye Elektrik İletim Anonim Şirketi (Turkish Electricity Transmission Corp.), those related to generation, to Elektrik Üretim Anonim Şirketi, provided agreement is reached between the relevant agencies and the Treasury Undersecretariat within 60 days. The privatization process to be carried out pursuant to this Law, at the stage of sale and share transfer, in the framework of the domestic and foreign loan agreement to which the Treasury Undersecretariat is a party, are set out through a protocol to be made among the Elektrik Üretim Anonim Şirketi, Türkiye Elektrik İletim Anonim Şirketi, Treasury Undersecretariat and Privatization Administration provided that the financial obligations emerging from the investments realized in order to finance the relevant electricity generation and transmission facilities to be covered among the obligations of

the related juristic person that these facilities are transferred to.

b) Market Financial Reconciliation Center:

The Market Financial Reconciliation Center included in the structure of Türkiye Elektrik İletim Anonim Şirketi operates the financial reconciliation center in the direction of the clauses of the balancing and reconciling regulations prepared by Türkiye Elektrik İletim Anonim Şirketi and approved by the Council, based on the differences between the purchases-sales and the amounts fixed through the contracts and by calculating the amounts of claims or debts of the juristic persons conducting activities in the market.

The juristic persons are obliged to present all the data to the Market Financial Reconciliation Center so that the amounts of claims or debts of the juristic persons conducting activities in the market can be determined in accordance with the balancing and reconciliation regulations.

Under no circumstances can the Market Financial Reconciliation Center deal with purchase-sale of electric energy and/or capacity on his behalf or in different ways. All the data forwarded to the Market Financial Reconciliation Center are kept confidential in conformity with the clauses of the balancing and reconciling regulations.

Juristic persons that benefit from the services of the Market Financial Reconciliation Center pays a fee in accordance with the balancing and reconciling regulations and in the directions of the clauses of these regulations.

c) Expropriation:

In case the activities foreseen in this Law necessitate, expropriation is made based on the fundamentals outlined in Law on Expropriation No: 2942. The decisions of necessity taken on this subject by the Council serves as a decision of the public good and takes effect through the Ministerial approval.

In case the juristic persons conducting generation, distribution and transmission activities in the electric market demand an expropriation from the Authority, and if a decision is taken on such an expropriation by the Board, this expropriation is carried out by the Authority. In such a case, the fee of the expropriation and the increased fees to emerge out of the subject expropriation shall be paid by the juristic person. Possession of the real-estate expropriated is transferred to the Treasury and the usufruct to the juristic person that has paid the expropriation fee. Usufructs are a part of the relevant license or contract and their period of validity is limited with those of the license or contract.

In case of expiry or cancellation of licenses, expropriation costs paid by juristic persons shall not be returned.

d) Non-in-kind Rights and Leasing:

Juristic persons may ask for leasing or creation of non-in-kind rights on possession of lands owned by the public regarding their activity on the condition that the cost be paid by the juristic person.

In case this request is considered affirmative by the Council, the Authority may choose either advantage, easement, right of construction or leasing for a long period according to the need.

The responsibility to pay the cost to be determined by the Council of such a right is born by the juristic person. As usufructs constitute only a part of the related contract or license, their validity period is limited by the validity period of the contract or license.

Terms to be implemented:

ARTICLE 16. The Authority is not subject to the General Accounting Law No:1050; State Tender Law No.2886 and Per Diem Law No. 6245. Revenues of the Council and the Authority are exempt from all kinds of taxes, duties and levies. Guarantee is not sought for in the lawsuits filed by the Authority.

Terms amended and cancelled:

ARTICLE 17. a) "and lands needed by electricity generation plants and transmission and distribution plants and networks" clause has been added to follow "by tourist facilities" clause contained in the first paragraph of article 64 of State Tender Law No: 2886.

b) "to the extent that it is not left to the establishments and institutions operating in the market in the related laws" clause has been added to follow "Duties of the Ministry of Energy and Natural Resources" clause contained in the first paragraph of Article 2 of Law on Organization and Duties of the Ministry of Energy and Natural Resources with no: 3154 and "to the extent that it is not left to the establishments and institutions operating in the market in the related laws" clause has been added to follow "Duties of Energy Affairs General Directorate" contained in the first paragraph of Article 10 of the said law.

c)"Republic of Turkey Central Bank Law No:1211 dated May 28, 21986, Banks Law No:3182; Savings Incentive and Acceleration of Public Investments Law No: 2983; Mass Housing Law

No: 2985; Law No: 3238 dated November 7, 1985; Amendment to Capital Market Law No:2499; Abrogation of Certain Articles of Tobacco and Tobacco Monopoly Law No: 1177; Annexed Article1, first, second and third paragraphs of Annexed Article 2 and Annexed Article 3 of Law on Privatization of Public Economic Enterprises” have been abrogated.

ARTICLE 18. The following term has been appended to the State Hydraulic Works General Directorate Organization and Duties Law No: 6200 dated December 18, 1953:

"ANNEXED ARTICLE 1- The energy generating sections and their complementary immovables either constructed, commissioned or to be commissioned by the State Hydraulic Works General Directorate shall be transferred to Electricity Generation Corporation over

the costs by considering the costs of those plants, financial liabilities stemming from foreign project credits allocated to State Hydraulic Works by Undersecretariat of Treasury and Public Partnership Fund payments. Those amounts to be paid to the related institutions shall be determined by a protocol to be prepared by and between the Ministry, Undersecretariat of Treasury, State Hydraulic Works General Directorate and Electricity Generation Corporation. The procedures and principles regarding the transfer shall be determined by the regulations to be prepared by the Ministry within six months following the adoption of this term and put into operation by a Council of Ministers decree. Transfer operations are exempt from all kinds of taxes, duties and levies.”

SECTION FOUR Provisional Clauses

PROVISIONAL ARTICLE 1. The duties and responsibilities given to the Electricity Production Corp., Turkish Transmission Corp. and Turkish Electricity Trading and Contracting Corp. are carried out by TEAŞ until these establishments have their juristic person entities set up.

PROVISIONAL ARTICLE 2. The first members of the Electricity Market Regulatory Council are appointed within 3 months following the date of the entry into force of this Law. Out of the members to be appointed for the first time excluding the President, appointments of new members are made to replace the two members who are determined by drawing lots at the end of the second year and the two members who are determined by drawing lots among the remaining members at the end of the fourth year. Staff appointment cannot be made before the Council is set up.

PROVISIONAL ARTICLE 3. The preparatory period expresses a term of eighteen months as of the date of the promulgation of this Law. The Cabinet can extend this term for up to six months once.

In the scope of the preparatory period:

a) During the period;

1. The juristic persons operating in the market are not required to obtain licenses.

2. Legal entities, which carry out more than one market activities, choose which activities they will continue to carry out in accordance with the Law provisions and have their contracts modified. The subject modifications in the existing contracts are arranged to take effect subsequent to the end of the preparatory period. Concessional characteristics of these contracts are not an obstacle for the implementation of this provision.

Council takes the necessary precautions for the continuation of the activities that legal entities abandon.

3. The Authority Development Process which contains the design of the Authority's work processes, development of the related methods, standards and documentation, design, development and implementation of the communication infrastructure and systems and necessary training personnel for the Authority is initiated by the Ministry upon the entry into force of the Law so that the Electricity Market Regulatory Authority can attain a level adequate for it to meet its duties efficiently, productively and fully as soon as possible and following the formation of the Council, it is taken on by the Council and it is carried out in coordination with the Ministry.

4. Regulations which are to be arranged under this law are prepared and issued.

5. The regulations concerning the network, distribution, customer services and balancing and reconciliation are prepared by the public agencies assigned under this Law. In case they are completed before the end of the preparatory period, studies necessary for putting them into force except for the balancing and reconciliation regulations are carried out in coordination with the Ministry and after establishment of the Council, they are carried out in coordination with the Council by the agencies preparing these regulations.

6. The Ministry takes necessary measures only in cases of emergency in view of electric energy supply security until the formation of the Council.

b) As of the end of the period;

1. Electricity Production Corp., Turkish Electricity Transmission Corp., Turkish Electricity Trading and Contracting Corp., TEDAŞ and juristic persons operating production and distribution facilities or those juristic persons which are subject to private law provisions and have acquired rights to operate production and distribution facilities submit information and documents concerning license applications indicated under the regulations following the promulgation of the regulations. Licenses are issued by the Authority to juristic persons meeting their obligations under this law within one month after the date of application. The juristic persons in question carry out their market activities in accordance with the procedures and principles in force until licenses are issued.

2. The concession contracts of the juristic persons which are carrying out more than one market activity, in connection with the execution of these services, their rights and obligations arising out of them are amended in line with the principles determined by the Council by taking into account the provisions of this law. Of these activities, the points related to transmission activities are carried out in the framework of the principles to be established by the Council under regulations.

3. The Cabinet is authorized to reduce the non tariff and below tariff practices and the levies and shares above the electricity sale tariffs to as low as zero and to carry out the arrangements concerning these subjects.

PROVISIONAL ARTICLE 4. As far as those State owned electric energy production and distribution facilities for which transfer of operational rights are envisaged are concerned, the contracts of the companies which cannot conclude their transfer procedures until June 30, 2001 are null and void. As far as those for which operational rights transfer procedures are completed until the date mentioned in the first paragraph above are concerned, a deadline of 2 years is granted for completion of those environmental pollution prevention facilities under construction by TEAŞ and for obtaining the necessary permissions as per the environmental legislation. Electricity production activities cannot be stopped at the facilities in question for this reason during this period.

PROVISIONAL ARTICLE 5. The affiliated companies of TEDAŞ and Electricity Production Corp maintain their present statuses until their operational rights or ownerships are transferred.

a) In the framework of the distribution activities; 1. In the distribution zones where operational rights have not been transferred to the private sector or have not been privatized in whatever manner, TEDAŞ continues carrying out distribution and retail sale activities. However, private retail sale companies can also operate in these zones.

2. As per the current contracts, it is TEDAŞ's obligation to review the investment programs and projects of the private distribution companies in TEDAŞ's ownership, approve and check if the projects taken under the program are being carried out according to the investment program as long as these contracts remain in force.

b) In the framework of production activities; the sale prices of the electric energy produced at the production facilities operated by the Electricity Production Corp. as well as its affiliated partnerships embody the equity used for the facilities, credit, principal, interest and exchange rate differences and the managerial expenses by the Electricity Production Corp. It is the responsibility of the Electricity Production Corp. to meet the obligations concerning credits.

PROVISIONAL ARTICLE 6. Electricity Production Corp. sells the electric energy it produces during a period, the length of which is determined by the Council, to Turkish Electricity Trading and Contracting Company. However, such a period cannot be more than five years following the end of the end of the preparatory period. The procedures and principles related to the sale of electric energy and/or capacity by Electricity Production Corp to Turkish Electricity Trading and Contracting Corp during this period are established by the Council in the framework of the Ministry comments which are formed according to Law No 3154 on the Organisation and Duties of the MENR (Ministry of Energy and Natural Resources).

PROVISIONAL ARTICLE 7. Following the entry into force of this law, consumers which are directly connected to the transmission system and consumers whose total electricity consumption in the previous year is more than nine million kWh with effect after twenty four months following the entry into force of the law are accepted as free consumers.

The contracts concluded with the consumers which are directly connected to the transmission system prior to the entry into force of this law and taken over by Turkish Electricity Trading and Contracting Corp remain in force until these consumers choose suppliers.

PROVISIONAL ARTICLE 8. Treasury guarantees in the framework of the provisions of Law No 3996 can only be issued for those projects which have been decided on before the promulgation of this Law on condition that they are commissioned by the end of 2002. Treasury guarantees become null and void if any of these projects which have been granted Treasury guarantees cannot be commissioned by the end of 2002.

No Treasury guarantees can be issued except for these projects in the framework of Law No 3996 dated 08/06/1994 and Law No 4283 dated 16/07/1997.

Validity:

ARTICLE 19. This law enters into force at the date of promulgation.

Execution

ARTICLE 20. The Cabinet executes the provisions of this Law.