

# *Privatisation Agenda for Energy Assets*

October 2012

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# Introduction

*Lower deal values are likely to result from a more sound evaluation of the target companies and the financing environment.*

The Privatisation Administration has a heavy agenda for Fall 2012: The energy assets up for privatisation are power distribution companies Boğaziçi, Akdeniz and Gediz, gas-fired power plant Hamitabat, seventeen small hydropower plants and gas distribution company Başkent Gaz. All of these companies have one thing in common: They have all been put on tender before but their tenders were cancelled either because the bidders could not fulfil their commitments, or there was too little interest. Either way, a combination of regulatory uncertainties and financing difficulties reduced the attractiveness of these assets. The question now is whether privatisation tenders will reach a successful closure this time.

Concerns over Başkent Gaz's financials and the tariff structure have been addressed to a large extent. This will boost the company's chance for privatisation. The same cannot be said for the Hamitabat tender, as questions remain over the fuel supply,

energy sales and the power plant's efficiency. For power distribution companies, the 2013 deadline for legal unbundling and opening of the market for retail companies will certainly factor into the calculations of potential bidders.

Deal values are unlikely to rise to the levels observed in power distribution and earlier Başkent Gaz tenders. This time around we expect investors to better evaluate target companies' financials and growth potential as well as the financing environment. The Privatisation Administration, for its part, is likely to demand less strict payment terms from the bidders. Taking both regulatory and the financing environments into account, we may conclude that successful closure is more likely for gas and power distribution companies than for Hamitabat.

# Power distribution companies

*Upcoming changes to the distribution business will factor into the calculations of the potential bidders.*

Two years have passed since the privatisation tenders of seven power distribution companies took place in September and December 2010, but only one of these companies, Trakya, was able to be transferred to its new owner. The privatisation processes are still ongoing for Istanbul Anadolu Yakası, Toroslar and Dicle alongside Aras and Van Gölü, which were put on tender previously. All the bidders for Akdeniz, Boğaziçi and Gediz have withdrawn, leading the Privatisation Administration to organise new tenders for these companies. The bidding deadlines are 6 November 2012, 13 November 2012 and 20 November 2012, respectively. Many of the potential bidders have qualified for pre-eligibility for the tenders of all three companies.

The success of the new tenders for Boğaziçi, Akdeniz and Gediz will depend on whether the Privatisation Administration and the investors have learned their lesson from the failed tenders. Compared to earlier privatisation rounds, very high deal values resulted from the tenders in September-December 2010. A comparison of the deal value-per-subscriber and the deal value-per-MWh figures clearly demonstrate the difference between earlier and later privatisation rounds. Difficulties with financing in the wake of the global financial crisis as well as appreciation of the USD against the TRY in 2011 compounded the problem, making it very difficult for bidders to follow through on their commitments. The payment terms in the last round were also stricter than in earlier rounds, requiring companies to make the full payment rather than allowing for a more flexible payment schedule with installments. The upcoming tenders are expected to include more flexible payment terms.

Investors will also have to take into consideration the upcoming changes to the distribution business while making their bids. In the current regulatory framework, 01 January 2013 marks an important deadline for distribution companies. Firstly, the Electricity Market Law requires distribution companies to legally unbundle their retail and distribution functions. The retail company will purchase the services, which it is required to provide, from the distribution company until the partial spin-off and other transfer processes are complete. This period may last at most six months after 01 January 2013. The Energy Market Regulatory Board has issued the *Terms and Conditions for the Legal Unbundling of Distribution and Retail Activities*. Secondly, retail companies will be allowed to sell power to retail consumers starting from 1 January 2013. EMRA has postponed this deadline before, but currently has no plans to postpone it any further.

Distribution company	Potential bidders
Akdeniz	Enerjisa, Park, Zorlu, Cengiz-Kolin-Limak, Alsim, Elsan-Tümaş-Karaçay, Akxa, İş-Kaya, Genpa
Boğaziçi	Enerjisa, Park, Zorlu, Cengiz-Kolin-Limak, Genpa, Elsan-Tümaş-Karaçay, Akxa, Özyazıcı İnşaat-Sultanahmet Turizm, Tata Power, Çalık, IC İçtaş, Torunlar
Gediz	Enerjisa, Park, Genpa, Tata Power, Çalık, Torunlar, Elsan-Tümaş-Karaçay, Zorlu, Cengiz-Kolin-Limak, İş-Kaya, Fernas, Akxa, IC İçtaş

**Table 1: A closer look at Bogaziçi, Akdeniz and Gediz distribution companies**

Distribution Company	Region	Number of subscribers (million)	Consumption (TWh)	Loss & Theft Ratio	Bidders in previous privatisation tenders	Bid amounts (USDmn)	Deal value (in USD) by:	
							Subscribers	MWh
Boğaziçi Elektrik Dağıtım	İstanbul Avrupa yakası	4.07	17.29	10.90%	1- İş-Kaya - MMEKA	2 990	734.2	172.95
					2- Aksa	2 751	675.5	159.13
					3- Park Holding	2 496	612.9	144.38
Akdeniz Elektrik Dağıtım	Antalya, Burdur, Isparta	1.61	5.35	9.90%	1- Park Holding	1 165	723.1	217.60
					2- Enerjisa	1 128	700.1	210.69
					3- EMKAT	1 100	682.8	205.46
Gediz Elektrik Dağıtım	İzmir, Manisa	2.44	12.67	7.50%	1- Eti Gümüş - Söğütsen Seramik	1 915	785.2	151.13
					2- Enerjisa	1 800	738.1	142.06

Source: TEDAS, 2010 data.

**Table 2: Ongoing Privatisation Processes**

	Region	Number of subscribers (million)	Consumption (TWh)	Loss & Theft Ratio	Bidders in the process	Bid Amounts (USDmn)	Deal value (in USD) by:	
							Subscribers	MWh
İstanbul Anadolu Yakası	İstanbul Anatolian region	2.31	8.02	6.90%	1- MMEKA	1 813	784.9	226.17
					2- Yıldızlar SSS Holding	1 812	784.5	226.04
					3- Enerjisa	1 515	655.9	188.99
					4- Aksa	1 459	631.7	182.01
					5- Cengiz-Kolin-Limgaz	1 321	571.9	164.79
Toroslar	Adana, Gaziantep, Hatay, Mersin, Osmaniye, Kilis	2.82	14.78	7.90%	1- Yıldızlar SSS Holding	2 075	737.0	140.42
					2- Park Holding	2 074	736.7	140.35
					3- Türkerler	2 016	716.1	136.43
					4- Cengiz-Kolin-Limgaz	1 952	693.3	132.10
					5- EMKAT	1 851	657.5	125.26
Dicle	Diyarbakır, Şanlıurfa, Mardin, Batman, Siirt, Şırnak	1.17	5.72	65.30%	1- Karavil Ceylan	228	195.6	39.88
					2- Çalık	227	194.7	39.70
					3- Eti Gümüş-Söğütsen Seramik	168	144.1	29.38
Van Gölü	Bitlis, Hakkari, Muş, Van	0.45	1.28	57.20%	1- Aksa	100	224.6	78.07
					2- Kolin	100	224.4	77.99
Aras	Erzurum, Ağrı, Ardahan, Bayburt, Erzincan, Iğdır, Kars	0.77	1.82	25.60%	Kiler	129	166.9	70.80

Source: TEDAS, 2010 data.

**Table 3: Tendered Regions**

Tendered regions	Region	Acquirer	Deal Value (USD mn)	Number of subscribers (million)	Consumption (TWh)	Loss & Theft Ratio	Deal value (in USD) by:	
							Subscribers	MWh
Başkent	Ankara, Kırıkkale, Zonguldak, Bartın, Karabük, Çankırı, Kastamonu	Enerjisa	1 225	3.29	10.91	8.2%	372.10	112.31
Meram	Kırşehir, Nevşehir, Niğde, Aksaray, Konya, Karaman	Alarko	440	1.63	5.80	9.5%	269.40	75.91
Sakarya	Sakarya, Bolu, Düzce, Kocaeli	Akkök - Akenerji - CEZ	600	1.41	7.48	6.8%	426.09	80.21
Osmangazi	Eskişehir, Afyon, Bilecik, Kütahya, Uşak	Eti Gümüş	495	1.35	4.82	6.9%	367.26	102.63
Uludağ	Balikesir, Bursa, Çanakkale, Yalova	Limak - Kolin - Cengiz	940	2.44	9.28	6.4%	385.63	101.35
Çoruh	Trabzon, Artvin, Giresun, Gümüşhane, Rize	Aksa	227	1.06	2.43	12%	214.39	93.57
Çamlıbel	Sivas, Tokat, Yozgat	Limak - Kolin - Cengiz	259	0.74	2.16	7%	350.18	120.19
Fırat	Elazığ, Bingöl, Malatya, Tunceli	Aksa	230	0.70	2.18	12.6%	328.98	105.53
Yeşilirmak	Samsun, Amasya, Çorum, Ordu, Sinop	Çalık	442	1.56	4.04	13.5%	282.61	109.29
Trakya	Edirne, Kırklareli, Tekirdağ	IC İçdaş	575	0.82	4.96	6.8%	699.49	115.83
Göksu	Kahramanmaraş, Adıyaman	AKEDAŞ	60	0.54	3.79	7.3%	111.34	15.85
Menderes	Aydın, Denizli, Muğla	Bereket Enerji	110	1.52	5.12	8.6%	72.58	21.48

Source: TEDAS, 2010 data.

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# Hamitabat and small hydro assets

*Concerns over gas supply, power sales and the plant's efficiency are likely to cloud the privatisation prospects of Hamitabat.*

Publicly owned Electricity Generation Co. (EÜAŞ) is looking to privatise 45 power plants with a total capacity of 16 GW. While 41 of these power plants were put in portfolios, four of them were selected as “priority assets,” and the first among these power plants is gas-fired Hamitabat. The 1,120-MW power plant was first put on tender last year, and six companies and consortia met the pre-eligibility criteria: Enerjisa, Aksa, Cengiz-Kolin-Limgaz, IC İtaş, Park Holding and Eti Gümüş. The tender was later cancelled when only one bid was submitted.

The Privatisation Administration has put Hamitabat on tender again, and the bidding deadline is 19 October 2012. This time four companies applied for pre-eligibility: Enerjisa, Karkey Elektrik, Limak and ICW & Power Projects.

The privatisation prospects of Hamitabat and the rest of the portfolio are clouded by uncertainties. Lignite fields have recently been put in the privatisation portfolio to be sold alongside the lignite-fired power plants, but questions regarding fuel supply remain for gas-fired power plants. Currently gas-fired EÜAŞ plants buy gas

from BOTAŞ at unsubsidised prices, and any losses are cross-subsidised by income from other EÜAŞ plants. Secondly, the transition power purchase agreements of EÜAŞ with TETAŞ and the distribution companies will expire at the end of 2012, and it is still unclear what kind of structure will replace them. Potential investors may be wary of the modernisation and expansion requirements as well as the environmental obligations, although this last point is more of an issue for the lignite-fired power plants. The draft Electricity Market Law provides time until 31 December 2018 for these companies to meet their environmental obligations, but the law has not been adopted yet. Finally, potential bidders on the plant may have concerns about the power plant's efficiency, but the plant may appear attractive considering the increasingly difficult conditions for obtaining licensing for greenfield gas-fired power plants.

In the meantime, the Privatisation Administration has put 10 portfolios containing 17 small hydropower plants on tender for privatisation. The bidding deadline for these assets was 5 October 2012, when 9 portfolios consisting 14 assets received a total of 80 bids. The

tenders for 52 hydro power plants, allocated in 19 portfolios, initially took place in 2010. The groups received a total of 613 bids, but only 10 groups could be transferred to their new owners so far. The tenders for five groups have been cancelled, and the transfer proceedings of four other groups are ongoing.

A final point relates to how the revenues from the privatisation of electricity generation assets will be spent. Amendments to Electricity Market Law No. 4628 and Privatisation Law No. 4046 enabled these revenues to go to the general budget, effective starting from 01 January 2013. The previous regime required this income to be transferred to the Ministry of Energy and Natural Resources and be spent on energy investments.

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# Başkent Gaz

*Favorable tariffs, a high eligible consumer limit and the elimination of collection risks with the latest legislative changes make Başkent Gaz a more attractive asset.*

After three failed attempts, the Privatisation Administration has put Başkent Gaz, Ankara's gas distribution network, once again on tender for privatisation with a bidding deadline of 17 December 2012. The company is the country's second largest inner-city gas distribution network with 1.4 million subscribers, an annual distribution volume of 3.6 bcm and an annual sales volume of 2.3 bcm. This time 100% of the company, rather than 80%, is on sale. The 20% stake, which Ankara Municipality tried to sell in the past, has been included in the Administration's portfolio.

Ankara Municipality put the whole company up for tender in 2008, when Global Yatırım bid \$1.61 billion. In 2010 MMEKA offered \$ 1.2 billion for the 80% stake in a tender organised by the Privatisation Administration. The most recent tender in April was cancelled when the highest bid for the 80% stake, at \$585 million, fell short of the Administration's valuation of \$626 million.

In July, the Natural Gas Market Law was amended to eliminate the uncertainties that were blocking earlier privatisation rounds. The law determines the transportation fee, which is charged from eligible consumers, as USD 0.0077/m<sup>3</sup>, whereas the unit service and amortisation fee, which is charged from ineligible consumers, is set at USD 0.05555/m<sup>3</sup>. These fees will remain valid for eight years following the

signing of the share transfer agreement. The unit service and amortisation fee is currently the third highest in the country. Furthermore, a special provision in the Natural Gas Market Tariffs Regulation sets the eligible consumer limit for Başkent Gaz at 800,000 m<sup>3</sup> until August 2017, while the eligible consumer limit is being gradually reduced for the market – the limit for 2012 is 300,000 m<sup>3</sup>.

The advantages for Başkent Gaz are not limited to favourable tariffs and a high eligible consumer limit. The company is exempt from the requirement for distribution companies to invite the municipality to take a 10% stake and have representation in the company board.

Before Ankara's gas distribution network was transferred to Başkent Gaz, it belonged to EGO, the General Directorate of Electricity and Gas under the Municipality. EGO still has to pay a significant debt to BOTAŞ and the Treasury, which guaranteed the loans EGO took from foreign creditors. Privatisation revenues will be spent on paying off these debts first. Secondly, privatisation revenues will cover the significant debt that Ankara Municipality and EGO owe to Başkent Gaz. This last point reportedly concerned potential investors during the last privatisation attempt, and its clarification in the law in July 2012 will be of help to the privatisation prospects of Başkent Gaz.

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