

PROJECT NAME:	GAS SECTOR DEVELOPMENT PROJECT
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LOAN AMOUNT: 325 Million USD
DURATION : 2006-2015

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BACKGROUND: Turkey does not have significant domestic natural gas reserves and 99% of its gas is currently imported. However, despite the lack of domestic reserves, natural gas consumption has grown rapidly in Turkey over the past two decades – with an average annual growth rate of 24%. The largest user of gas is the electricity generation industry, but considerable amounts are also used in industry, commerce and increasingly, households. With increasing urbanization, and the resulting increase in the requirement for electricity and for heating, the demand for natural gas is expected to continue to grow rapidly in the medium term.

Turkey obtains its gas supplies through imports, primarily from Russia through two pipelines, one through Bulgaria and the second one under the Black Sea. Other major gas suppliers to Turkey are Iran (by pipeline) and Algeria and Nigeria (in the form of LNG). Deliveries of gas from Azerbaijan are expected to begin in late 2006.

Due to its unique geographical location, Turkey is well-placed to be a major gas transit country, exporting into mainland Europe. In addition to the growing in-country demand for gas, this role for Turkey as a transit country is likely to drive the economics of the natural gas market in the medium term.

Despite its size, and despite the rapid growth in demand, Turkey currently has no natural gas storage. The lack of storage jeopardizes the security of supply and reliability of the gas system and also the power system, which depends on gas as a major fuel source. Given that Turkey is a winter-peaking system, the lack of storage leads to gas shortages in the winter, or dependence on other fuels, or the purchase of gas at high prices. In response to the need to improve its security of gas supply, Turkey has diversified its import sources as indicated above. However, this is likely to be insufficient, and adequate storage would contribute a vital component to the security and operational efficiency of the gas system. A storage facility is under construction at Kuzey Marmara, with a capacity of 1.6 bcm. This however, has a low gas withdrawal rate and may not be adequate to meet peak demand. The Tuz Golu facility will add another 0.96 bcm of storage, and is more flexible, having withdrawal rates up to 4 times faster.

PROJECT OBJECTIVE: The project's main objective is to increase the reliability and stability of the gas supply in Turkey by putting into place critically needed gas storage and network infrastructure, and supporting BOTAS in strengthening its operations as a financially stable and commercially managed corporation.

PROJECT DESCRIPTION: The project has two components:

1) Tuz Gölü underground gas storage facility: The gas storage facility will be located in an underground salt formation close to Tuz Gölü, a salt lake in South Central Turkey. The facility, upon completion, will have a storage capacity of about 960 million cubic meters of working gas and 460 million cubic meters of cushion gas. The facility will have the capacity to deliver 40 million cubic meters of gas per day up to 20 days and can be refilled at the rate of 30 million cubic meters per day over a period of 25 days.

2) Network Expansion: The project will also finance compressor stations for BOTAS as well as other network infrastructure. These stations are required to help transmit the increasing volumes of gas expected to be imported into Turkey from existing and new sources.

IMPLEMENTING AND MONITORING: The project is being implemented by BOTAS. At the project-level, monitoring is being carried out by BOTAS along with the World Bank. The project also finances Owner's Engineers, who are assisting BOTAS in implementation.

BENEFITS: The Bank, by assisting in financing of the Tuz Golu storage facility, will help improve the security of supply of natural gas in the country.

PROJECT STATUS: Loan agreement for the project was signed on February 2, 2006 between the World Bank, the Republic of Turkey (the Guarantor), and Boru Hatlari ile Petrol Tasima A.Ş. (BOTAS) – the borrower and implementing agency. The Loan became effective on March 7, 2006. BOTAS is currently finalizing the procurement for various key works.