

PROJECT NAME: ELECTRICITY GENERATION AND RESTRUCTURING PROJECT

LOAN AMOUNT: 280 Million Euro
DURATION : 2006-2010

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BACKGROUND: Turkey faces a risk of potential short-fall of electricity during 2008-2010 depending on prospective economic and demand growth. To mitigate these risks and reduce the possibility for economic dislocation resulting from power shortages, it is important that two steps are taken. First, the competitive electricity market under implementation needs to establish an operating track-record to remove the uncertainties that investors perceive. Second, cost-effective generation sources and underperforming assets need to be developed and rehabilitated to provide capacity and energy to fuel Turkey's private enterprise and household needs. This project loan will complement the on-going program of World Bank support to Turkey's energy sector by addressing these two priorities.

PROJECT OBJECTIVE: The development objective of the project loan is two-fold. The first objective is to mitigate the risk of electricity supply shortages during the period of energy reform transition until around 2010. The second objective is to support the restructuring of the state-owned generation sector operated by EUAS into corporate entities and prepare them for operation in the electricity market and for subsequent privatization.

PROJECT DESCRIPTION: The Project has two components
Component 1 – Afşin-Elbistan-A Rehabilitation:

The main component of this project is the rehabilitation of Afşin-Elbistan A Power Plant. The Afşin Elbistan generation complex which includes Afşin Elbistan A and the newly commissioned Afşin Elbistan B, is the largest thermal generation complex in Turkey.

This component includes:

- (a) Repair, replacement and upgrade of the power plant systems to restore reliability, availability, power output and improve plant efficiency.
- (b) Implementation of environmental protection systems and monitoring – new electrostatic precipitators (ESPs) will be installed to reduce and bring dust and particulate emissions within the Turkish Emission limits..
- (c) Improvements in plant operation and maintenance practices that are critical to keep the plant in good operating condition with high availability after rehabilitation. In addition, staff training programs to enhance operational and maintenance practices will be implemented.
- (d) Implementation of control systems to meet UCTE standards for primary and secondary frequency control –Meeting these standards would help Turkey in being certified to operate synchronously with the South East European Electricity network.

Component 2 – Support for Financial and Operational Restructuring of the Generation Business:

This component will focus on supporting EÜAŞ in restructuring its generation business into financially and operationally viable portfolio generation companies and a hydro corporation. This work will create the basis for undertaking the future privatization of these generation entities. Project will assist in completing this work, focusing on aspects of financial and operational restructuring of the companies to create them as viable business units. The Project will also provide support, if necessary, to EÜAŞ and the Government to implement mechanisms to address generation supply security needs in the period beyond 2008.

IMPLEMENTING AND MONITORING: The project is being implemented by EÜAŞ and a special Project Management Team (PMT) has been overseeing the implementation. For Component 2, there is significant oversight from the Ministry of Energy and Natural Resources. The rehabilitation is proposed to be carried out by one contractor.

BENEFITS: The project will help to:

- Achieve security of supply over the medium-term (specifically to meet energy shortages in the 2009-2010 period).
- Prevent further deterioration and enhance value of an important national asset.
- Improve environmental quality and environmental compliance.
- Advance implementation of reforms in the electricity generation sector in a manner consistent with the overall reform program.

PROJECT STATUS: The loan was approved by the World Bank on June 6, 2006 to Elektrik Uretim AS (EUAS), the government-owned electricity generation company EUAS, and is guaranteed by the Republic of Turkey. The project is currently in the procurement phase.