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THE WAY TO ELECTRICITY FROM LIGNITE AND HYDROELECTRIC POWER

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In May 2014, the Greek Regulatory Authority of Energy (RAE) launched a public consultation on the proposal for the establishment and operation of a forward market, which will allow suppliers to access electricity produced from lignite and hydroelectric power. The above proposal implements the provisions of the detailed Roadmap and Action Plan on the reform of the domestic wholesale electricity market, which was drafted and published by RAE in December 2011.

This reform aims at the gradual harmonization of the Greek electricity market with those of other EU member states and at fulfilling the commitments undertaken by Greece under its Memorandum with the EU Commission, IMF and ECB on the support mechanism. These commitments include, among others, a provision for the creation of a forward auction-based mechanism for the allocation of electricity products, in accordance with the mechanism implemented in France under the NOME law (*Nouvelle Organisation du Marche de l'Electricite*), pursuant to which the French energy market was reformed in December 2010. In doing so, the French legislation introduced a mechanism that regulated third party access to nuclear power produced by EDF (which held a dominant market position) so as to remove some of the distortions of competition due to the exclusive access of the former state monopoly (EDF) to low-cost electricity.

Regulatory Framework

The mechanism proposed by RAE for the Greek electricity market provides for the compulsory allocation of forward

products covering the domestic electricity load, corresponding to 20%-30% of the overall annual lignite and hydroelectric power produced by the Public Power Corporation (PPC). The compulsory sale of forward products will be made according to the regulated auction process. Apart from PPC, the remaining holders of a supply license will be entitled to participate in the auction procedure, provided that they serve only domestic retail consumers. Moreover, buyers/suppliers are required to serve domestic retail consumers based on the consumption and the category within which these fall, as determined by their consumption characteristics. In particular, the proposed mechanism provides for the creation of a secondary market for the sale of forward products, in which the resale price will be equal to the purchase price, so that the abuse of dominant market position is avoided. Finally, the mechanism provides that, during the daily clearance and the weekly settlement of the day ahead market, the Operator of Electricity Market (LAGIE) shall be able to offset the quantities corresponding to forward products with other energy quantities of daily energy planning. This



aims at transferring the producer's excess from the cheaper domestic resources directly to retail customers.

Initial Public Consultation

The impression that was created by the long initial consultation during the summer of 2014 was that of a deadlock. And this is because the main three stakeholders, namely PPC, the independent power producers and large industrial consumers, advanced diametrically opposed views starting from completely different positions. In particular:

PPC

In its letter during the consultation, PPC highlighted that the auction's starting price is a key issue to the proposed mechanism. In PPC's opinion, the starting price cannot be lower than the company's cost, i.e. auctions cannot be made with prices that do not cover PPC's costs. According to PPC, the cost is specific and documented by the company's official cost records and by relevant independent studies.

Independent power producers

The independent power producers agree with the process but note that it does not improve competition in the electricity production market. Such improvement can only be achieved

with third party access to energy production from lignite and water sources. Therefore, the auctions should only be a transitional measure for the opening of the market until competitors are vertically integrated. Until then, the starting price should be regulated.

Industrial consumers

The industrial energy consumers suggested that, in accordance with the French model, an opportunity should be given to the domestic industrial consumers to be supplied with base-load products for the whole year and that access should be made to a specific and administratively defined price. Furthermore, they suggested that the rights granted to customers should be determined based on their consumer profile. Essentially, they asked for discounts or charges, according to the profile and the consumption during the hours of low and high electricity demand. In case of surplus of energy, this could be returned to the daily energy planning or, later on, to a domestic energy stock market. As regards the offer price, they suggested that the offer price should not be calculated according to the monopoly standards, as suggested by PPC, i.e. just below 60 euros, but according to the international

standards and, thus, stand at €30/MWh.

Second Public Consultation

In September 2014, RAE, having taken into consideration the positions and comments expressed by the stakeholders during the initial proposal, launched a consultation on a new proposal for the operation of the market in relation to the access of suppliers to electricity produced from lignite and hydroelectric power. In its latest proposal RAE provides for the creation of a mechanism of mandatory energy sale through forward products, corresponding to part of the country's lignite and hydroelectric power. The buyers shall be obliged to serve domestic retail customers in proportion to their consumption and the category in which they belong, as determined by their consumption characteristics. Therefore, the price of products resulting from the auction shall vary depending on the categories of consumers, for which the above products will be used by their suppliers. This price diversification ensures that the potential pricing by the suppliers to consumers will be at the same level as the current pricing, without creating large margins to some of the consumer categories. The above proposal further provides for the creation



of a regulated resale or/and repurchase of certain quantities of forward products during the daily consumption zone. However, it sets a limit to the maximum revenue earned by the users. This particular provision aims to allow end consumers, who have the ability to manage their load, to collect the relevant revenue by selling part of the product to consumers who do not have the ability

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to manage their load at a higher price.

At the same time, the proposal provides for an initial deposit of 1% of the total value of the reserved product upon the award of the auction and for a monthly prepayment of 50% of the value of the product declared to be used during the month to follow.

Finally, a check of the rights of each supplier shall be performed based on the actual consumption of its customers. In case of a surplus quantity, this shall be returned to the seller and a penalty shall be imposed on the purchaser/supplier for the quantities exceeding the final rights, based on measurements and following the implementation of an appropriate margin of tolerance. The above provision aims to reinforce the suppliers' initiatives for a realistic planning and also to avoid unfair competition practices.

Conclusion

Following the expiry of the second public consultation in late September, RAE, having taken into consideration the results of the two public consultations, proceeded with its final proposal. Thereafter, the final proposal regarding both the auctions and the methodological approach and the amounts for the reference price, will be submitted to the Ministry of Energy, Environment and Climate Change for approval in cooperation with the Troika. Subsequently, the final proposal

shall be submitted for approval to the General Directorate of Competition of the European Union to ensure that there are no infringements of conditions of competition provisions.

The auctions will begin following the completion of the required approvals by the Ministry and the European Commission. It is expected that the first auction will take place on 20.2.2015, when 800 Mw/hour will be auctioned for a twelve-month period (1.4.2015-31.3.2016). On the same date the auction for the three-month product of 400 Mw/hour for the period 1.4.2015-30.6.2015 will also take place. Three more auctions will follow for the three-month product of 400 Mw/hour to cover the sum of 1200 Mw/h for the twelve-month period (1.4.2015-31.3.2016).

The NOME-type auctions will last from two to three years, until the electricity market is fully opened, i.e. until PPC's privatization and until the creation of vertically integrated companies. Companies such as Elpedison, Protergia, Watt & Volt and Green, which are already active in the Greek energy supply market, are expected to participate in the above auctions in their effort to develop more competitive prices (as compared to those of PPC) and widen the services /offers to low and medium voltage consumers.