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## ENERGY TRANSACTIONS SCHEME ON FORWARD ELECTRICITY PRODUCTS

Statute 4336/2015, which was published on 14 August 2015, provided for the procedure of sale of electricity forward products with physical delivery from the Power Public Corporation (PPC) to electricity suppliers through auctions (so-called “NOME auctions”) in order to strengthen the competition within the Greek electricity retail market and to improve the quality and the price of electricity offered to end consumers.





On 25 May 2016, under the legislative instructions of statute 4389/2016, the Economic Policy Council adopted the electricity auctions scheme (Government Gazette no. B 1473/25.5.2016) which regulates the requirements for performing NOME auctions and includes details on their design, on the rules governing the auctions of electricity forward products and on the necessary amendments of the current regulatory framework for the introduction of NOME auctions. Furthermore, on 2 June 2016 the Greek Parliament adopted statute 4393/2016 (Government Gazette no. A 106/6.6.2016), which amended certain provisions of statute 4389/2016 to highlight that the aim of such auctions is to secure competition within the energy retail market. Finally, on 30 September 2016 the Regulatory Authority for Energy (RAE) issued the Code of Energy Transactions Scheme on Forward Electricity Products (decision no. 329/2016), which was initially drafted by the Electricity Market Operator (LAGIE). The Code was set under public consultation until 9.9.2016.

### **Public consultation**

During the public consultation introduced by RAE, associations of electricity suppliers and producers expressed their opposition to the Yankee Auction model for the upcoming NOME auctions. Within the Yankee Auction process, successful bidders pay the amount of the top bid made by any participant instead of the amount of their final bid. In particular, the Hellenic Association of Independent Power Producers (ESAI) expressed preference for a method making available transfer ability to international interconnections as it offers transparency to participants. It further pointed out that its members (i.e. power producers with the exception of the PPC) should have the right to purchase electricity at NOME auctions for their own consumption and that they intend to develop electricity supply particularly to small industries as a separate activity. Electricity producers also asked for an upper limit to the electricity amount that may be awarded to each auction participant as well as a reduction to the share to be exported.

### **The NOME auctions**

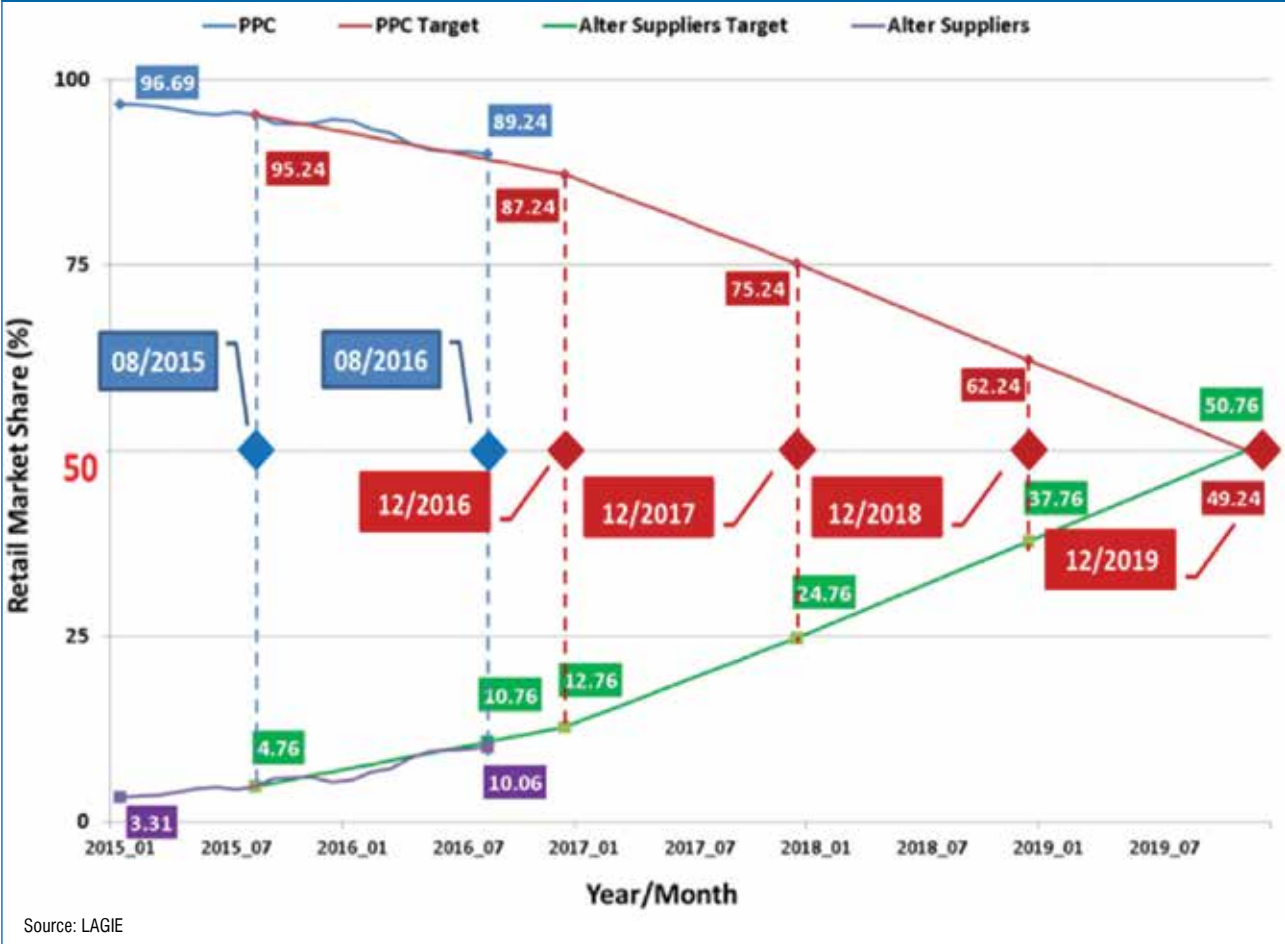
The new legal framework introduces

quarterly auctions whereby the PPC will sell forward products along with physical delivery to electricity suppliers (so-called “NOME” auctions, after the French acronym for such models). The purpose of this initiative is to reduce, by the end of 2019, the PPC’s retail market share in the interconnected system (electricity sold on islands, which are not connected to the mainland grid is not included) from 95.24% (as of August 2015) to less than 50%. The annual quantity of electricity generated by PPC to be sold at the auctions should gradually increase from 8% in 2016 to 13% in 2019.

The upcoming NOME auctions are intended to provide third parties with access to low-cost lignite and hydropower sources, currently owned by the main power utility PPC, as a measure to help break the utility’s market dominance.

The NOME-type auctions will last from two to three years, until the electricity market is fully opened, i.e. until the privatisation of PPC and the creation of independent vertically integrated companies. Companies such as

The annual targets of PPC's retail market share in the interconnected system



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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 the PPC) and broaden the services /offers to low and medium voltage consumers.

**Responsibilities of LAGIE**

The auctions will be organized by the Market Operator (LAGIE). In the framework of auctions of forward electricity products, LAGIE shall be responsible for actions such as the registration of PPC and the eligible electricity suppliers to the Registry of Participants in the Auctions, collection of fees from electricity suppliers, publication of table of participants, report and submission of the auction calendar for approval to RAE, the conduct of the

auction and the publication of the results of the auction.

**Technical characteristics**

Forward products auctioned must have the technical characteristics determined by decision of RAE. In particular, RAE must determine upon the recommendation of LAGIE the annual quantity of forward products to be auctioned, expressed in MWh/h. The term of forward product shall be fixed at twelve months and is expressed in hours. The overall energy volume, expressed in MWh, is obtained by multiplying the quantity and the term of forward product. For instance, the quantity of auctioned energy for 2016 is expected to be 460 MWh/hour (for two separate products 200 and 260 MWh, respectively) and the total energy volume 4,036,235.84 MWh.



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The reserve price of forward product shall be determined by a methodology following the proposal of RAE, expressed in €/MWh/h. The reserve price, pursuant to article 139 of statute 4389/2016, comprises the mixture of variable lignite and hydro production costs of the PPC production units. The variable lignite costs will be formed from the following costs: variable costs of PPC’s mines on the basis of the company’s financial data, cost of the purchase of fuel from third parties, special levy for lignite, special initiation cost, variable costs of operation and maintenance and costs of purchasing of CO<sub>2</sub> emission rights.

### **Register of participants in NOME auctions**

The participation in NOME auctions is made through the registration of participants with the Register of Participants of Energy Transactions System (Auctions) of Forward Electricity Products. This Register includes the Register of Vendors of Forward Electricity Products and the Register of the Suppliers and Traders of Forward Electricity Products. Only the Power Public Corporation (PPC) participates in the Register of Vendors of Forward Electricity Products, in accordance with statute 4389/2016. Moreover, only the licensed electricity

suppliers and traders registered in LAGIE’s Register of Participants of the Day Ahead Market can participate in the Register of Suppliers and Traders. On the other hand, PPC and industrial consumers, who are licensed suppliers of electricity registered in Register of Participants of the Day Ahead Market and the eligible customers of electricity for their own consumption, cannot participate in the Registry of Suppliers. Regarding the industrial consumers covering a major part of the supply market, the new legal framework provides that they can participate in the NOME auctions under strict conditions. In particular, they should represent customers from the category of household low-voltage consumers to medium – voltage under 13 GWh at least for two months. If they do not comply with this, then they will be deleted from the Registry.

### **The registration procedure**

As provided for in the Code, in order for interested suppliers and traders to participate in NOME auctions, they must first apply to LAGIE and file any necessary documentation five days before the auction in question. Within five days from the time of submission, LAGIE must decide on the registration of eligible participants to the Register.

Following the registration, the eligible participants conclude the so-called “Additional Contract of Energy Transactions System (Auctions) of Forward Electricity Products” with LAGIE. The main obligation of suppliers and traders is to offer all the necessary guaranties and to repay the respective charges, such as the State fee. On the other hand, PPC should sell forward electricity products in accordance with the auction’s conditions, ensure the physical delivery of energy and accept the financial transactions associated with the auctions. Furthermore, the suppliers purchasing products at the auctions (primary market) may further sell them on the secondary market of subproducts with the monthly duration further divided into daily and hourly products. The products in the secondary market may be sold to other suppliers, traders or may be exported.

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