# Energy Newsletter

**Substantial changes in the Renewable Energy Regime, Regulator's Measures on New Electricity Market, Latest Developments on Privatisations and other matters**

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## In this newsletter

### A. Renewable Energy: Increase of the special solidarity contribution on producers of electricity from photovoltaic power plants, introduction of annual generation license levy and other developments

- Increase in the rate of the so-called special solidarity contribution
- Further reductions in the feed-in tariffs
- Suspension of the conclusion of new connection agreements and new connection agreements
- Introduction of a Letter of Guarantee for the conclusion of new Connection Agreements and annual fee imposed for the preservation of rights stemming from generation licenses
- Other Measures?

### B. Privatisations: Failure of the privatisation attempt of DEPA

### C. Choice of TAP as the preferred route by Shah Deniz

### D. Privatisation and Restructuring Plans of Public Power Corporation (PPC)

- The Hellenic Independent Transmission System Operator (ADMIE) will be unbundled from PPC
- Creation of a "Small PPC"
- PPC itself will subsequently be privatised

### E. The new measures for the restructuring of the wholesale Electricity Market

### F. New Tender for Gas Distribution/Supply Companies

## A. Renewable Energy: Increase of the special solidarity contribution on producers of electricity from photovoltaic power plants, introduction of annual generation license levy and other developments

A set of measures was recently enacted in an attempt to reduce the deficit of the "Special Account" (Renewable Levy Fund) which is used to pay renewable energy producers in Greece the fixed feed in tariffs. The deficit of the relevant account has been increased throughout the last years and has reached a debt exceeding 700 million (according to press information) as a result of high feed-in tariffs, insufficient levies and other income to the Fund and other inherent deficiencies of the Greek energy market. The relevant measures have as follows:

### Increase in the rate of the so-called special solidarity contribution

By virtue of Law 4152/2013, which was recently enacted, the so-called special solidarity contribution (a form of taxation on turnover), introduced by law 4093/2012, was increased further. More specifically, the rate of the aforementioned special solidarity contribution is increased to 37% and 34% respectively for photovoltaic stations whose test operation takes place or their connection is energised during the time period from 1 January 2013 to 30 June 2013. This contribution applies retroactively on the sales of power which took place from 1 January 2013 onwards. Similarly, the rate of special solidarity contribution is increased to 40% and 42% respectively for photovoltaic stations whose test operation takes place or their connection is energised from 1 July 2013 onwards. Photovoltaic stations of professional farmers and photovoltaic stations located in non-interconnected islands are exempt.

Following the aforementioned legislative development, the applicable rates of the special solidarity contribution have as follows:

| | Date of energising or commencement of test operation | Feed – in Tariff | Special Solidarity Contrib. rate | Comments |
|---|---|---|---|---|
| 1. | 01.01.2013 – 30.06.2013 | In accordance with Article 27A of L. 3734/2009 and corresponding to a month prior to February 2012 | **37%** | With the exception of pv stations of professional farmers and pv stations located in non-interconnected islands |

| | Date of energising or commencement of test operation | Feed – in Tariff | Special Solidarity Contrib. rate | Comments |
|---|---|---|---|---|
| 2. | 01.01.2013 – 30.06.2013 | In accordance with Article 27A of L. 3734/2009 and corresponding to the period between February, 2012 and until August 9, 2012 | **34%** | With the exception of pv stations of professional farmers and pv stations located in non-interconnected islands |
| 3. | 01.07.2013 – 12.11.2013 | In accordance with Article 27A of L. 3734/2009 and corresponding to a month prior to February 2012 | **42%** | Applicable to projects which require the installation of at least one sub-station |
| 4. | 01.07.2013 – 12.11.2013 | In accordance with Article 27A of L. 3734/2009 and corresponding to the period from February 2012 to 9 August 2012 | **40%** | Applicable to projects which require the installation of at least one sub-station |
| 5. | | In accordance with Article 27A of L. 3734/2009 and corresponding to a period after 9 August 2012 | **0%** | Applicable to projects falling within the scope of application of case (a) of sub-paragraph 3 of par. I.2 of Law 4093/2012 for which the 18 month deadline from the execution of the PPA has not lapsed within the time period from 13.03.2013 and until 30.06.2013 and the energize their connection during the aforementioned period and benefit from the feed-in tariffs corresponding to the period from 10 August 2012 and until 31 January 2013 |

The contribution is withheld by the market operator (LAGIE) at the point of paying the feed-in tariff; therefore it effectively works as a reduction in the feed-in tariff.

## Further reductions in the feed-in tariffs

In addition to the aforementioned increase of the special levy, the Ministry of Environment, Energy and Climate Change has introduced drastic cuts in the feed-in tariffs for power generated from photovoltaic stations. According to Ministerial Decision ΥΑΠΕ/Φ1/οικ. 31.01.2012, the reductions are applicable from 1 June 2013 onwards and have as follows:

New tariffs for photovoltaic parks of a capacity above 100 kW:

| Month/Year | Old Prices €/MWh | New Prices €/MWh |
|---|---|---|
| February 2013 | 171.90 | 95.00 |
| August 2013 | 164.16 | 95.00 |
| February 2014 | 156.78 | 90.00 |
| August 2014 | 149.72 | 90.00 |

New tariffs for photovoltaic parks of a capacity below or equal to 100 kW:

| Month/Year | Old Prices €/MWh | New Prices €/MWh |
|---|---|---|
| February 2013 | 214.88 | 120.00 |
| August 2013 | 205.21 | 120.00 |
| February 2014 | 195.97 | 95.00 |
| August 2014 | 187.15 | 95.00 |

New tariffs for pvs located in the non–interconnected system regardless of their capacity:

| Month/Year | Old Prices €/MWh | New Prices €/MWh |
|---|---|---|
| February 2013 | 214.88 | 100.00 |
| August 2013 | 205.21 | 100.00 |
| February 2014 | 195.97 | 95.00 |
| August 2014 | 187.15 | 95.00 |

For every year from 2015 onwards the tariffs will be calculated on the basis of the following mathematical formula: SMP (v-1), where SMP means Average System Price for the previous year n-1.

The Ministry has introduced the aforementioned cuts in an effort to reduce the deficit of the Special Account and also based on the fact that the target of RES penetration in the energy balance has been met, as well as on the fact that consumers are significantly burdened by high feed-in tariffs.

## Suspension of the conclusion of new connection agreements and new connection agreements

By virtue of the provisions of Law 4152/2013 the conclusion of new grid connection agreements for photovoltaic stations (including stations located on non-interconnected islands) is suspended until the end of 2013. The same applies for the conclusion of new power purchase agreements (PPAs).

However, the suspension applicable to the conclusion of new PPAs does not apply to projects for which a complete file for the conclusion of a PPA was submitted until 9 May 2013. Likewise, the suspension of the conclusion of new grid connection agreements does not apply to photovoltaics installed on rooftops.

The Minister of Environment Energy and Climate Change, in cooperation with the Regulator, may decide to lift the aforementioned suspension prior to 31 December 2013 taking into consideration the progress of the deficit of the Special Account in combination with the RES penetration targets set forth by Law 3468/2006.

## Introduction of a Letter of Guarantee for the conclusion of new Connection Agreements and annual fee imposed for the preservation of rights stemming from generation licenses

Pursuant to the provisions of Law 4152/2013 the acceptance of final connection offers must be accompanied by a letter of guarantee addressed to the Operator. The duration of the letter of guarantee is at least two years and must be renewed prior to its expiry and until the commencement of the test operation of the station or, in case test operation is not required, until the energisation thereof. The amount of the Letter of Guarantee is defined on the basis of the capacity of the station for which the connection is requested. The letter of guarantee is forfeited in case it is not renewed prior to its expiry or in case the power connection agreement does not come into effect within the time period of the duration of the Letter of Guarantee. When the connection agreement comes into effect the amount of the Letter of Guarantee is reduced by ¾.

The obligation to submit a Letter of Guarantee along with the application for new connections becomes effective from 1 May 2014 onwards. It is also applicable for projects where final connection terms have been granted, but the connection agreement has not been concluded by the aforementioned date; in such cases the amount of the Letter of Guarantee is significantly reduced.

Law 4152/2013 has also introduced an annual fee to be imposed for the preservation of rights stemming from the granting of generation licenses. The relevant fee which amounts to Euro 1000/MW is payable within the first quarter of each calendar year to the market operator (LAGIE) and, again, is to be disposed for the Special Account which is used to pay renewable energy producers in Greece.

The aforementioned obligation becomes effective further to the lapse of a specific time period following the granting of the generation license which defined on the basis of the type of the RES station (e.g. in case of photovoltaics, the relevant obligation becomes effective one year following the granting of the generation license, while in other cases which include wind parks etc., the relevant obligation becomes effective three years following the granting of the generation license). If the levy is not paid in time the generation licence is automatically revoked.

The relevant obligation ceases to be effective when the foregoing letter of guarantee is submitted.

It is worth mentioning that under the provisions of the pertinent legal framework the Minister of Environment, Energy and Climate Change, following a relevant opinion from the Regulator, is entitled to readjust the aforementioned levy and extend its applicability to RES stations which are excluded from the obligation to obtain a generation license.

**Other Measures?**

Further measures to address the deficit of LAGIE's renewable Fund are under discussion, as the many measures already taken have not proved sufficient. Such measures include the ones stated above, but also a recent increase of the Renewables Levy ("ETMEAP") to an average rate of 14.96 €/MWh of which the cost for household consumers is as high as 20.80€/MWh. Reportedly, the Government has proposed to renewable operators and banks a voluntary reduction of feed in tariffs for renewables (in the region of 45% for photovoltaics and 10% for other renewable sources) together with an extension of their duration. Although the level of such measures is still not determined, an obligation to address the issue of the renewables market appears to be an obligation taken vis-à-vis Greece's lenders.

## B. Privatisations: Failure of the privatisation attempt of DEPA

The relevant tender for the privatisation of DEPA, the gas supply company, was launched on 29 February 2012. However, more than one year later and after the relevant procedure was completed, no bid was received after the last minute withdrawal of the main bidder, Gazprom, from the tender.

The relevant tender is expected to be re-launched soon.

The privatisation of DESFA was more successful, given one bid was received, namely by Socar, Azerbaijan's state-run oil company. The bidder had to submit a second offer, since the first one was considered un-satisfactory. According to a press release of 1 August 2013, the second offer of Euro 400 million was approved by the Board of Directors of the Hellenic Republic Asset Development Fund. The Greek State is selling 31% in DESFA (retaining 24%) and Hellenic Petroleum is selling its total shareholding of 35%.

## C. Choice of TAP as the preferred route by Shah Deniz

Following the official decision by the Shah Deniz II Consortium that they will use Transadriatic Pipeline (TAP) as the pipeline to transport natural gas from Shah Deniz II to Europe, TAP has signed an agreement with DESFA, the Greek grid operator, for the operation and maintenance of the part of the TAP pipeline which will be located on Greek territory. As it is known, TAP will cross Greece coming from Turkey before moving to Albania and across the Adriatic sea to Italy; the role of TAP in South Europe can be further enhanced if joined with the Greek-Bulgarian interconnection project (IGB), which will provide an extension towards the northern Balkans.

## D. Privatisation and Restructuring Plans of Public Power Corporation (PPC)

On 27 July 2013, the Council of Ministers voted on the plan for the restructuring and privatisation of PPC which had been announced earlier (for details see our Privatisation Alert of May 2013). The reform will consist of three steps:

### The Hellenic Independent Transmission System Operator (ADMIE) will be unbundled from PPC

The TSO is currently applying the TSO model (it owns and operates the electricity transmission system while being a 100% subsidiary of PPC). The majority of its shares up to 51% will be sold to a strategic investor, with the Greek State retaining a minority stake. It was envisaged that this sale would take place in phases, but there are rumours in the press that this is not feasible and that the sale to the investor will be completed in one phase. The remaining shares would be owned by the Greek State. In this sense, the TSO will move to a full unbundling and no longer be part of the PPC group. The Tender Process is expected to be launched this month; it will be handled by PPC.

### Creation of a "Small PPC"

A new vertically integrated electricity company will be created, acquiring 30% of the generation assets of PPC, and will be fully privatised. The aim is to create a competitive pole in the energy market. The new company shall acquire a mix of existing and new generation capacity (30% of PPC) of lignite-fired power plants (estimated at 1,450 MW), lignite mines for the supply of the respective production capacity, hydropower plants (500 MW) and natural gas fired power plants (500MW). The new company will also assume a proportional percentage of the Supply Division of PPC. Therefore, the generation mix addressed to a respective customer base of the new company will proportionally reflect the respective departments of PPC. The plan will include provisions for the divestment of lignite-fired, hydropower and natural gas fired power plants operated by PPC today. It will also include provisions for the access of the new company to lignite reserves on a proportionally equal basis with PPC, including in the portfolio of the new company lignite mines today managed by PPC, for the supply of the respective plants.

The new company is expected to also acquire the respective liabilities of PPC and to be sold at a price not resulting to a loss for PPC, according to international accounting standards. The sale of the company shall take place through an international tender process carried out by PPC with the assistance of the HDRAF. The tender is expected to be announced in June 2014.

### PPC itself will subsequently be privatised

The Greek State is to sell 17% of the share capital of PPC, while the 49% of the share capital is traded in the Greek Stock Exchange. This process should take place within 2015.

## E. The New Measures for the Restructuring of the wholesale Electricity Market

The Greek Energy Regulator, RAE, announced substantial changes to the wholesale electricity market in Greece. These measures shall only apply in the short term (until the end of September 2014) and are implemented as a transitional step towards the eventual integration of the Greek market in the unified European wholesale electricity market (Target Model) which should take place by 2015. It is noted that the transition to the EU Target Model constitutes an obligation of the Greek State to its Lenders.

The measures are the following:

(a) The existing cost recovery mechanism will be abolished from 1 July 2014 and the margin of 10% will be reduced to 0% from the implementation of these measures.
(b) The existing rule that power generating units can submit offers below their cost for up to 30% of their capacity will be abolished with effect from 1 January 2014.
(c) The existing Capacity Certificates Mechanism ("ADI") will change radically in two ways: (i) certain power units of PPC of a total capacity of 1249 MW. which are "practically non-operating", will not benefit from this mechanism and (ii) natural gas fired power plants of a total capacity of 3998 MW will have the right to issue not one but two Capacity Certificates, thus increasing their financial support. Under the current framework, suppliers are obliged to pay for Capacity Certificates issued by power units at 56,000 €/MW per year based on the actual consumption of their clients.

RAE, in putting forward the above measures, has outlined its current views of the Greek electricity market. It notes that the market power historically in the hands of PPC which has the most competitive fuel mix (including lignite and the largest hydro in the country) and its vertically integrated operations, does not allow for a level playing field. This is exacerbated by the fact that the IPPs are mainly gas-fired plants which face high natural gas prices as well as high taxation of fuel. The quick and therefore unbalanced introduction of renewable generation into the country's energy mix complicates the picture and removes the ability of thermal generation to operate on a steady basis. Therefore RAE sees the future for unbundled energy products (ancillary services etc.) which shall be offered in view of the intermittent operation of renewable plants. It stresses that the new measures are necessary to preserve the very delicate balance of the energy market during the current financial crisis and to secure the existence of the operating infrastructure and that under development, thus ensuring the security of electricity supply in the country.

RAE notes that the new measures do not eliminate the existing problems of the market but "reduce substantially their negative impact" giving the necessary time to prepare and implement new measures.

## F. New Tender for Gas Distribution/Supply Companies

DEPA SA has launched a new tender for the participation of a strategic investor in three new natural gas supply and distribution companies to be set up in Central and Northern Greece. The companies will be EPA Central Macedonia, EPA Eastern Macedonia/ Thrace and EPA Sterea Ellada/Evia (the latter covering parts of Central Greece around but not including the area of

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This is the second time this tender is launched after it was cancelled in October 2012. The companies are expected to operate under a special distribution and supply licence, granting them exclusivity for the expansion and operation of their respective distribution systems. For this purpose they have already obtained from the EU Commission an exemption decision from TPA access for 20 years (for Central Macedonia and Eastern Macedonia/Thrace) and 10 years for Central Greece/Evia. The companies will own, operate and be under an obligation to expand their respective distribution systems and DEPA will transfer to them the existing networks and supply customers (with consumption not exceeding 100 GWh). State aid clearance has also been obtained with respect to the financing of the expansion of the system. It is envisaged that after the completion of the projects, the relevant networks shall consist of pipelines of 500-700 kms per EPA and will distribute/supply quantities in the region of 100-200 Nm3 per year.

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