

## Energy & Natural Resources - Greece

### How will the electricity market be reformed?

Contributed by [KG Law Firm](#)

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[Wholesale electricity market](#)  
[RES market](#)  
[Comment](#)

#### Wholesale electricity market

Within the framework of the EU Third Energy Package, and under European Commission and International Monetary Fund guidance to reform its domestic wholesale electricity market, Greece is in the process of evaluating several options in order to proceed with a complete restructure of its electricity model and conform with the rules for market integration based on the European target model for electricity. The fact that the EU-promoted target model is strongly influenced by the northwestern European market raises significant challenges for the Greek market, since it is designed in a fundamentally different way from its northwestern European counterpart.

To address these challenges, the Regulatory Authority for Energy has initiated a consultation as to which model should be adopted by the state. It is hoped that the consultation will facilitate the safe and smooth transition of the Greek electricity market to the European target model. Three different options under which Greece could comply with the requirements of the target model are under review:

- an adaptation of the existing Greek model;
- the northwestern European power exchange model; and
- a hybrid of forward bilateral agreements with a pool used for the day-ahead market.

Depending on the model that the state ultimately adopts for the transition of its existing market structure to the European target model, the mandatory pool model will either cease to exist (under the northwestern European option) or it will most likely be amended to a voluntary pool with the simultaneous introduction of bilateral agreements between market participants. However, the full transition of the Greek market to the European target model through the adoption of one of these options is not expected to be made before 2015, since the consultation between the state authorities and key market players is still ongoing.

Until full electricity market deregulation is achieved, transitional regulatory measures must be implemented to allow portfolio diversification and cost reduction for independent power producer generators, facilitating their entry into the retail market. One such measure is indirect access to cheap electricity production through virtual power plant auctions or through a model similar to the French 'new organisation of the electricity market' model, which would enhance gains for consumers. Under this model, the Regulatory Authority for Energy has proposed a series of measures which aim to grant market participants equivalent access to lignite and hydro power production, so as to create equivalent generation portfolios with the same range of supply cost (which would correspond to the amount of energy channelled to the retail market). This would create the necessary conditions for the development of competition, and consequently, the retention of final consumer tariffs.

Such mechanisms can constitute only transitional arrangements and should not impede the provision of direct access to lignite and hydro power and the development of substantial competition in both the generation and supply of electricity.

#### RES market

With the adoption of a new framework for the operation of the wholesale electricity market, the renewable energy services (RES) market will also need to be overhauled in order to comply with the new rules and market regulations. This becomes even more pressing when considering that the electricity market operator and the state are unable

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to perform their obligations fully under the existing feed-in tariff arrangement. A readjustment of the existing RES support scheme would also comply with the state's obligations under its recent loan agreements, which require it to reexamine the viability of the RES market in general and make it more compatible with current economic and market conditions.

Nonetheless, until implementation of the electricity market reforms, in an effort to secure the viability of the existing RES structure, the state is examining several options, such as renegotiating the terms and conditions of existing power purchase agreements through a voluntary new deal with RES producers. Under this new deal, RES producers are expected to be asked to agree to a reduction of the income expected under the agreements in exchange for an extension of their validity period.

The Ministry of Environment, Energy and Climate Change, in consultation with the representatives of the *troika*, is reviewing three scenarios with regards to the implementation of the new deal as it would apply to already operating photovoltaic (PV) parks, in an effort to eliminate gradually the deficit in the RES special account and rationalise the operation of the PV market.

Regardless of the scenario ultimately adopted by the state, it is expected that the feed-in tariffs which apply to already operating PV parks will be significantly reduced by an average of 45%; this reduction will be lower if the timeframe which has been set by the Regulatory Authority for Energy for the accounting elimination of the deficit of the RES special account is extended for a further six months (ie, a deadline of June 2015), as requested by the ministry.

In exchange for this reduction in the income of power purchase agreements, the ministry intends to extend their validity periods by between five and seven years, depending on the average percentage of the reduction finally imposed on each PV producer. In addition, the ministry seems to have reached an agreement with the banks which have provided financing for the implementation of PV projects, under which the respective loan agreements of these producers will be extended for a minimum of two years. However, the banks have not agreed to reduce the interest rates which apply to these loan agreements, because they maintain that on the basis of recent announcements by the European Central Bank, interest rates will soon be reduced anyway.

Based on the state's actions and the unsustainability of the existing feed-in tariff scheme, it is clear that prevailing attitudes have changed and that the RES market must conform to wider European trends.

## Comment

These developments are the focal point of a comprehensive energy policy which seeks to promote competition, liberalise the market – with power producers having the option to choose their customers – and reduce final supply tariffs. The implementation of the electricity market reform, in large part in the manner described in this update, is expected to bring about the desired results and will introduce certainty and stability to this market.

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