

Energy & Natural Resources - Greece

Energy sector to be reformed under new EU loan agreement

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[Background](#)

[Key reforms](#)

[Unbundling of network activities](#)

[Competition in the generation of electricity](#)

[Other measures](#)

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Background

On February 14 2012 the Greek Parliament passed Law 4046/2012,⁽¹⁾ which has introduced structural changes to various sectors of the economy, as agreed with the European Union under a memorandum of cooperation for a new loan programme for Greece.

An annex to this agreement is specifically dedicated to the energy sector, which is expected to change drastically due to the overarching reforms that the government has undertaken to implement within the tight timeframes set out by the law.

These structural reforms are considered vital for the liberalisation of the energy market; in fact, key players in the market have consistently demanded their introduction and implementation for the past few years. As a result, the obligations undertaken by the Ministry of Environment, Energy and Climate Change under the new loan agreement with the European Union may be considered a positive development towards the full liberalisation of the Greek energy market.

The ministry's obligations entail a variety of measures that must be introduced by means of legislative acts. They mainly concern the reduction of operational costs, restructuring of the ministry's bodies, swifter absorption of funds and other structural reforms relating to energy, environmental licensing, land and urban planning and waste management.

Key reforms

The most important measures that must be introduced in the energy market are as follows:

- Regulated tariffs - further measures must be adopted by the second quarter of 2012 so that, by June 2013 at the latest, the energy component of regulated tariffs for households and small enterprises (except for vulnerable customers) reflect wholesale market prices. Within the same timeframe, the government must also remove the tariffs for all but vulnerable customers.
- Renewable energy sources - by March 2012 the government must complete the transposition and implementation of the EU Renewable Energy Directive (2009/28/EC) into Greek law, and submit the relevant progress report required under the directive.

Within the same timeframe, the government must also reduce reliance on public grants and prepare a plan for market developments. This plan must contain the following data at a minimum:

- a timetable for meetings and stakeholder discussions on the reform of the support scheme;
- options for the reform of the support scheme, including a feed-in premium model, and which specify the method of tariff calculation under each option, along with the means to avoid possible overcompensation;
- current and expected trends in the costs of all relevant technologies;
- consideration of the option of automatic tariff digression; and

- measures for the development of wind and solar energy resources.

The government must also pursue implementation of the Helios renewable energy project' for the export of solar energy generated in Greece to other EU countries through the enactment of relevant legislation by March 2012. It must facilitate the licensing process for this project by June 2012 in close cooperation with other EU countries.

Unbundling of network activities

Greece must ensure that network activities are effectively unbundled from supply activities. In particular, as far as the electricity sector is concerned, the following measures must take place:

- In February 2012 the necessary staff and assets were transferred to the Independent Transmission Operator (ITO), which began operations on March 1 2012. The necessary certification of the Regulatory Authority for Energy is expected to be issued by no later than June 2012.
- The same transfer must take place with regard to the Distribution Network Operator (DNO), which must be completed by the end of March 2012 at the latest. The transfer of staff and assets to the DNO is underway; however, it is probable that an extension will be granted, since the transfer process is not expected to be completed on time.

As far as the Greek natural gas sector is concerned, the following measures must take place:

- The unbundling of the natural gas sector must be implemented by March 2012 on the basis of common rules for the internal market. The Gas System Operator (GSO) already operates as a wholly owned subsidiary of the Public Gas Company (DEPA) and owns the National Natural Gas System. The remaining technicalities concerning compliance with the ITO model are expected to be sorted within the set time limit. The certification of the Gas System Operator is expected to begin in March 2012.
- The government has undertaken to establish, by the end of 2012, a 'one-stop shop' for the licensing and permitting of several classes of infrastructure projects, such as liquefied natural gas (LNG) installations, natural gas storage and transmission pipeline projects and electricity transmission lines.
- The government must establish, by the end of September 2012, an LNG code, approved by the regulatory authority, which ensures transparent and non-discriminatory access to the Revithoussa LNG terminal and secures the efficient allocation of unused capacity.

Competition in the generation of electricity

By the end of March 2012, the government must finalise remedies to facilitate third-party access to lignite-fired electricity generation, in order to ensure that competitors of the Public Power Corporation (PPC) can access this market by November 2013 at the latest. In the context of the privatisation of the PPC, the government is also taking the necessary steps for the sale of hydro capacity and other generation assets to investors. This sale is separate from the divestiture of lignite capacity provided for in the commission's decision on the lignite case. Nevertheless, investors may be given the opportunity to purchase hydro capacity or other generation assets together with lignite capacity. In any event, the sale of hydro capacity shall not delay the sale of lignite assets beyond the timeframe provided in the commission's decision.

Other measures

The government must ensure that the regulatory framework for the energy sector is fully compliant with the EU Electricity and Gas Regulations by the end of March 2012, specifically regarding transparency, congestion management and non-discriminatory and efficient allocation of capacity on gas and electricity networks. In particular, the government has committed to resolve all open issues regarding Infringement Case 2009/2168 for non-compliance with the Electricity Regulation. This resolution will include the adoption by the regulatory authority of a modified electricity market code and the establishment of cross-border electricity trading procedures for the interconnectors with Bulgaria in line with EU Regulation 714/2009 and its annexes.

Finally, the government has committed to launch the privatisation of the PPC and DEPA following the unbundling of the ITO in line with Law 4046/2012, and to monitor the process to ensure competition in the market. The government has undertaken that whatever the outcome of the privatisation process, the gas industry structure will be fully compliant with EU Directive 2009/72/EC. The invitation to participate in the qualification process for the tender relating to the sale of DEPA and to the sale of a certain percentage of the GSO has already been published.

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Endnotes

(1) Approval of the Draft Financial Assistance Facility Agreements between the European Financial Stability Facility, the Hellenic Republic and the Bank of Greece, approval of the Draft Memorandum of Understanding between the European Commission, the Hellenic Republic and the Bank of Greece and Other Urgent Provisions for the reduction of the Public Debt and the Rescue of the National Economy (Government Gazette A' 28, April 14 2012).

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