



Recent developments in the Greek electricity market



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Issues to be discussed

- ◆ Inefficiencies of the wholesale market
- ◆ State of regulation of “monopolistic activities”
- ◆ The solution proposed by the new draft electricity law
- ◆ The way forward

Inefficiencies of the wholesale market Conditions in 2009

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- ✦ Strategic behavior of PPC :
 - i. Keep wholesale prices as low as possible
 - ii. Avoid being subject to imbalances charges
- ✦ This brought results:
 - i. Market prices were lower by 10,7 €/MWh for 2009 and by 7,3 €/MWh for 2010, from what PPC thinks is a fair remuneration covering its total generation cost (as revealed by its unbundled accounts – internal CfD)
 - ii. The operation of the imbalances market has been postponed 12 times, for 3½ years (still not operating)

Early to mid 2010

- ✦ EGL analyzed and proved (in April 2010) what the market knew: the abusive practice of PPC
- ✦ RAE accepted that HTSO did not demonstrate “due diligence” especially on issues where market power could be exercised, and quantified the abusive effect on market prices
- ✦ The “old tricks” could not be used extensively any more
- ✦ New-comers on the generating side started also pressing for urgent market rationalization, otherwise they would suffer big losses

So, something had to be done

Inefficiencies of the wholesale market

October 2010 and on

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Following agreement between generators and PPC (according to several news reports, never rebutted) and RAE's opinion:

- ✦ IPPs are remunerated for their CAPEX (standard price per MW-year) and OPEX+10% → they concluded an indirect PPA & they prefer having high variable cost
- ✦ PPC enjoys no pressure on the generation side and no cost for imbalances → they can keep wholesale prices as low as they want
- ✦ Two different prices in the GR wholesale market:
 - one price for selling power to the pool
 - another (much higher) price for buying the same power in order not to allow retailers and traders to take advantage of low prices

Market conditions worsened – So what?

- ✦ IPPs make easy money that they wouldn't under free market conditions (some hundreds mil€ per year)
- ✦ PPC make money they wouldn't in free market by keeping prices low (some addl hundreds mil€ per year)
- ✦ The RES don't care much, since they are remunerated using the increased RES levy
- ✦ Traders suffer a little due to dual prices, but they are flexible and actually only a small part of the market

There's only one actual problem:

- Who is paying all these money ?
- In a closed system (of reduced imports and exports to add value) where are these additional mil€ collected from?

State of regulation for monopolistic activities

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- ✦ We are happy to have a Code for the regulation of transmission (cost based remuneration)
- ✦ We've been waiting for 12 years for the license regulating ownership of the distribution system and the relevant terms
- ✦ We've been waiting for 12 years for the distribution system management Code (RAE made a public consultation in 2008)
- ✦ We've been waiting for 6 years for the license and Code governing the management of Non-Interconnected Islands

State of regulation for monopolistic activities

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- ✦ The regulation of monopolistic activities is not complete – So what ?
- ✦ Monopolistic activities of PPC, of annual cost over 1,3 billion €, are not regulated:
 - Cost based remuneration
 - No incentives for long term cost reduction
 - No benchmarking
 - No measures regarding quality of service
- ✦ Result: monopolistic charges are (and will remain) in GR of the highest in Europe and correspond to very poor quality

*Who is paying the cost of all these inefficiencies?
At which point in time ?*

The new draft electricity law is meant to transfer EU Directive 2009/72 to GR legislation

Where the EU directive is based on the main concept that:

“(1) The internal market in electricity, which has been progressively implemented throughout the Community since 1999, aims to deliver **real choice for all consumers** of the European Union, be they citizens or businesses, **new business opportunities** and **more cross-border trade**, so as to achieve **efficiency gains, competitive prices, and higher standards of service**, and to contribute to security of supply and sustainability.”

The “solution” given by the new electricity law

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- ✦ Given the problems of market abuse, reports on market collusion, poor efficiency/independence of HTSO, and also the general problems of the economy, the new law:
 - ✓ Entrusts the role of ITO to a subsidiary of PPC, including dispatch of generation, management of hydros and measurement/settlement of imbalances
 - ✓ Increases the total administration cost by several m€, for new BoDs, Supervisory Bodies, etc, as well as by forcing all market participants to allocate permanently resources for market monitoring and settlement of disputes
 - ✓ Does not include one single clause against abusive practices that have destroyed the wholesale market, and have limited drastically cross border trading and the ability of retailers to hedge their position

The “solution” given by the new electricity law

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- ◆ Given the total lack of regulation for monopolistic activities, after 12 years the new draft law:
 - ☑ Keeps calling PPC (the regulated party) to develop draft codes (no timelines, no “if not, what”)
 - ☑ Allows Distribution System Operator to share services, including explicitly “legal services”, with PPC holding (i.e. with PPC Supply against it’s competitors)
 - ☑ Does not give clear directions on establishing incentives for reduction of costs (operational and administrative) and improvement of quality

The way forward

Self esteem
Entrepreneurship

React against those who
destroy value and
oppose any positive step

Competition

