ENERGY & NATURAL RESOURCES - GREECE

New support scheme for RES and CHP producers

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Introduction

In August 2016 Law 4414/2016 (under the title New Support Scheme for Power Plants Using Renewable Energy Sources and Co-generation of Electricity and High-Efficiency Heat – Provisions on Legal and Operational Unbundling in the Supply and Distribution of Natural Gas and Other Provisions) was published in the *Government Gazette* (A'149/09.08.2016). The law aims to:

- bring the existing support mechanism for electricity produced from renewable resources (RES) and co-generated heat and power (CHP) into line with the EU Guidelines on State Aid for Environmental Protection and Energy 2014-2020;
- address the insufficient funds in the RES account and the subsequent delays in paying RES electricity and CHP producers;
- establish a scheme which ensures the integration of RES electricity and CHP with the interconnected system; and
- develop a sustainable investment environment for the future.

The reform of the RES support scheme is one of Greece's commitments to its international lenders and it should have come into force at the beginning of 2016. Due to a delay in the law's adoption, the new scheme will be implemented retroactively from January 1 2016. Despite the delayed start, activities are being undertaken to enable the scheme's implementation, such as the two pilot programmes for photovoltaics (PV) producers which are planned for the last quarter of 2016.

Operational support scheme

The operational support scheme for RES and CHP plants introduces feed-in premiums (FiPs) to be paid above the electricity market price, which will be calculated on the basis of a competitive bidding procedure. The FiP scheme should replace the existing feed-in tariff scheme.

The new scheme provides for two types of operational support:

- FiPs; and
- fixed-price support – which will apply to:
    - wind farms with a total capacity of up to three megawatts;
    - other RES and CHP plants with a total capacity of up to 500 kilowatts; and
    - plants using new technologies established by certain research institutes and universities.

The fixed price will be equal to the reference price, as described below.

The law provides for the gradual introduction of the operational support scheme: the regulated premiums will apply to all RES electricity and CHP producers in 2016, while competitive bidding procedures will be organised from the beginning of 2017. During the transitional period, RES electricity and CHP producers will not have to pay for balancing services, although they will have to pay additional costs for the variability in production.

The new scheme will apply to plants that commenced operations (regular or trial), connected to the interconnected system and participated in the electricity market after January 1 2016.

The law provides for different levels of operational support for plants which receive other financial support. Further, certain plants will be excluded from the scheme – in particular, those for which a power purchase agreement (PPA) was signed before December 31 2015, on the condition that they commence operations before:

- June 30 2018 in the case of wind plants, small hydropower plants and biogas plants; and
- December 31 2017 in the case of other RES and CHP plants.

FiPs will be calculated as the difference between the special market price for each RES or CHP technology and the reference price, also calculated per technology used or per type of power plant, as regulated in the table provided in the law or as obtained in a competitive bidding procedure. The table also provides the reference prices that will apply to different technologies during the transitional period for all PPAs and after the transitional period for PPAs involving fixed prices. For example:

- the reference price for wind plants is €98 per megawatt hour;
- the reference price for small hydropower plants with a capacity of up to three megawatts is €100 per megawatt hour; and
- the reference price for PV plants is €257 per megawatt hour.

The reference price for PPAs involving a premium that are entered into after January 2017 will be obtained via a competitive bidding procedure. The competitive bidding procedure should result in a premium equal to or lower than the reference price provided in the table.

As regards the special market price calculation, different methodologies based on the wholesale electricity market price will apply for controlled production technologies (eg, biogas) and uncontrolled production technologies (eg, wind and PV). During the transitional period, the variable cost of thermal conventional plants may also be taken into consideration.

A ministerial decision regarding the scheme's implementation, which has yet to be issued, should regulate:

- the technologies and plants to which competitive bidding procedures will apply;
- the applicable methodology;
- the procedures for the distribution of capacity for the participation of plants established in European Economic Area countries; and
- the highest and lowest prices permitted in competitive bidding procedures.

The Regulatory Energy Agency will regulate:

- the participation criteria for competitive bidding procedures;
- the time limits for the construction and connection of plants; and
- the reduction of the reference price as a result of a competitive bidding procedure.

Plants, which will be selected on the basis of a competitive bidding procedure, must sign one of the following:

- a PPA involving a premium;
- a PPA for non-interconnected islands involving a premium; or
- a PPA involving a fixed price.

These agreements will be valid for 20 years, or 25 years in the case of PV agreements.

A support scheme monitoring committee for RES and CHP plants will be established, whose main task will be to:

- monitor the performance and results of the support scheme; and
- propose necessary amendments to the Ministry of Environment and Energy.

At present, there are still numerous issues regarding the application of the new scheme, as regulations necessary for its implementation have yet to be enacted.

New RES levies

The amendments regarding the RES account, which is used to pay RES electricity and CHP producers for the energy sold to the system, are important for enhancing the organisation of the market. The amendments aim to:

- resolve the insufficient funds in the RES account, which leads to continuous payment delays; and
- correct the structural dysfunction of the market, which fails to take into account the effect of RES electricity prices when calculating the wholesale electricity market price and thus favours suppliers by providing them with a lower wholesale price.

Law 4414/2016 provides for two new levies which will provide additional income for the RES account, without burdening end consumers by increasing the existing RES levy (ETMEAR):

- The first levy, which will have immediate application, will be imposed on suppliers and calculated as the difference between the applicable wholesale market price and a projection of the price which would have been in place had RES electricity not been included in the wholesale electricity market.
- The second levy, which will take effect from 2018, may be imposed on suppliers by a ministerial decision following a Regulatory Energy Agency request, in order to reduce the ETMEAR levy paid by end consumers gradually. In this context, the law also provides for the possibility to introduce a special market with guarantees of origin.

The law provides that the first levy will be gradually increased as follows:

- 50% of the calculated amount will be paid in 2016;
- 75% of the calculated amount will be paid in 2017; and
- 100% of the calculated amount will be paid from 2018 onwards.

However, the amendments provided by Law 4427 (*Government Gazette* 188A/08.10.2016) increase the amount to be paid in 2017 to 100% in order to cover the RES account debt and remedy the payment delays by the end of 2017. Further, on September 28 2016 the Regulatory Energy Agency issued Decision 334/2016 on Amendments of the Electricity Market Code and the manual of the Electricity Market Code (in compliance with Article 143(3)(a)(bb) of Law 4001/2011, as amended), which established the methodology for calculating the income of the sub-account of the RES and CHP special account.

Market reaction

Law 4414/2016 has attracted considerable attention and been widely discussed. Several pending ministerial and Regulatory Energy Agency decisions should clarify the various issues regarding the new scheme's implementation.

Electricity market stakeholders, which could comment on the draft law during the public consultations, have generally welcomed the attempt to improve the regulation of RES electricity and CHP producers' participation in the electricity market. Specifically, the PV industry's reaction seems positive, as a revival of that sector is expected. Conversely, the wind industry has warned that the scheme's ceiling premium price will not enable sustainable investments in the sector, which could lead to an estimated two-year delay for wind energy projects. Further, the Association of Small Hydropower Plants wants:

- the scheme's implementation to be delayed for all RES producers; and
- small hydropower plants with a capacity of up to one megawatt to be exempt from the new scheme from January 1 2017.

The Public Power Corporation has also expressed concerns regarding the new levy for the RES account, which will be paid by suppliers and not passed on to end consumers, as – given that it holds approximately 90% of the electricity retail market – this will mostly burden the corporation itself.

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