

# Parliament approves electricity market reform

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## Introduction

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## Introduction

On May 22 2016 Parliament approved Law 4389/2016 (OJ A 94/2016), entitled "Urgent Regulations for the Implementation of Agreements on Fiscal Targets, Structural Reforms and Other Provisions", as amended on June 6 2016 through Law 4393/2016 (OJ A 106/2016). The law introduces significant changes to the Greek electricity market, with particular regard to the following goals:

- reducing the share of the Power Public Corporation (PPC) in the electricity supply market;
- unbundling the transmission system operator from the PPC and partially privatising it; and
- regulating the temporary capacity mechanism.

## Electricity auctions for suppliers

With regard to the retail market, the law introduces quarterly auctions whereby the PPC will sell electricity term products along with physical delivery to eligible electricity suppliers (so-called 'NOME' auctions, after the French acronym for such models). The purpose of this initiative is to reduce, by the end of 2019, the PPC's retail market share in the interconnected system (electricity sold on islands that are not connected to the mainland grid is not included) from 95.24% (as of August 2015) to less than 50%. The annual quantity of PPC-generated electricity to be sold at the auctions should gradually increase from the quantity sold by the PPC in August 2015, from 8% in 2016 to 13% in 2019.

Only duly registered suppliers will have the right to purchase electricity at these auctions, with the exception of the PPC and energy-intensive consumers. Energy-intensive consumers which hold a supply licence will be eligible to participate in the NOME auctions only if they supply electricity on the retail market as a separate activity.

The Regulatory Energy Agency (RAE) will further regulate the annual quantity of electricity to be sold, as well as other details regarding the implementation of the auctions. The first auction is planned for September 2016. The Ministry of Finance and the Ministry of Environment and Energy will, on the RAE's proposal, regulate the initial electricity price for the auctions, based on the variable costs of electricity production from lignite and hydroelectric power plants. The auctions will be organised by the market operator (LAGIE), which will issue the respective rulebook governing the auctions until the end of June 2016.

These auctions should enable alternative suppliers to have direct access to cheaper electricity acquired beyond the mandatory pool of the day-ahead wholesale electricity market, thus increasing competition between them and the PPC. The law provides that electricity should be sold at a price incorporating a mixture of variable costs of electricity production by the PPC from lignite and hydro power.

Details on the regulation of NOME auctions – in particular, issues as to eligible auction participants

AUTHOR

[Mira Todorovic Symeonidis](#)



(whether only suppliers were eligible or also producers and self-supplied energy-intensive consumers) and calculation of the initial auction price – were discussed during the two public consultations launched by the RAE in May and August 2014. However, the Hellenic Union of Industrial Consumers of Energy objected to the law following its adoption, claiming that the exclusion of its members (self-supplied energy-intensive consumers) from participation in NOME auctions contravenes general EU principles, as it treats suppliers unequally. It further pointed out that its members should have the right to purchase electricity at NOME auctions for their own consumption, and that they intend to develop electricity supply – particularly to small industries – as a separate activity.

### **Ownership unbundling of transmission system operator**

The law also regulates the unbundling of the Greek transmission system operator (ADMIE) – currently a 100% subsidiary of the PPC – and its partial privatisation. According to the law, at the end of the transaction 51% of ADMIE will be held by a holding company which will have the same shareholder structure as that of the PPC (51% Greek state and 49% private shareholders). At least 25% of ADMIE's shares will be held by the Greek state and a minimum of 20% will be sold to a strategic partner. The strategic partner must be either:

- an electricity transmission system operator that is a member of the European Network of Transmission System Operators (ENTSO-E) or one that participates in another transmission system operator that is a member of ENTSO-E; or
- a consortium in which one member is a transmission system operator meeting one of the conditions of the above point.

The procedure should be initiated in July 2016 and finalised around February 2017. At the end of the procedure, ADMIE must pass a transmission system operator certification procedure.

The law repeals the provisions of the existing energy law which stipulated that 66% of ADMIE would be privatised and that the PPC would be divided into two vertically integrated companies, as these provisions were part of the previous plans for reorganisation of the electricity market.

### **Temporary capacity mechanism**

The law introduced a transitional mechanism of flexibility compensation which entered into force on May 1 2016 and will be in place for one year, unless the permanent mechanism is introduced before this period ends. The mechanism is intended to ensure a smooth transition to the permanent capacity mechanism. It compensates certain production units for the provision of flexibility services (ie, their availability to quickly increase or reduce dispatched electricity in order to cover demand after receiving dispatch orders from the system operator).

Production units must have certain technical capabilities to participate in this mechanism. In particular, within three hours of receiving an order from the operator, they should be able to increase output by at least eight megawatts per minute for a minimum response duration of three hours. Compensation for eligible producers is set at €45 per kilowatt of available capacity, with a cap of €15 million per production unit. The maximum total compensation on the basis of this mechanism is €225 million. Eligible producers are open-cycle and combined-cycle gas turbines, hydropower plants and combined heat and power units (for the part that does not receive renewable energy sources support).

Apart from ensuring security of supply, the previous capacity mechanism – which obliged suppliers to buy capacity certificates from power producers – also promoted sustainable investments in new production units. The new mechanism will focus on ensuring long-term adequacy by emphasising the flexibility of the system, secured through annual auctions of flexibility services as proposed by the RAE. A provisional capacity mechanism was introduced due to the complex technical, legal and procedural aspects that needed to be clarified before proposing the permanent capacity mechanism.

*For further information on this topic please contact [Mira Todorovic Symeonides](mailto:m.todorovic@rokas.com) at Rokas Law Firm by telephone (+30 210 361 6816) or email ([m.todorovic@rokas.com](mailto:m.todorovic@rokas.com)). The Rokas Law Firm website can be accessed at [www.rokas.com](http://www.rokas.com).*

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