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## :: Energy

### Highlights of the Energy (Electricity) Reforms in Greece

May 15, 2017

#### To be implemented under the Supplemental Memorandum of Understanding (April 2017)

The financial assistance channeled into Greece through the third economic adjustment programme is about to further amend key vital areas of the Greek economy, as numerous policies must be implemented in order to satisfy the *sine qua non* of the Institutions.

In this context and by virtue of Article 13(3) of the ESM Treaty, a Technical Memorandum of Understanding (“TMU”) accompanying the draft supplemental Memorandum of Understanding (“MoU”) to be signed in May 2017, was presented to the Greek government, with a primary focus on promoting growth, safeguarding stability and addressing everlasting market culprits in specific sectors that need to be reformed. The *a priori* actions of the Greek government were taken into account, but they had to be aligned with European norms in order to augment competitiveness and achieve the proposed objectives. Concurrently, the provision of countermeasures -subject to activation- signals the fiscal neutrality the government pursues in order to offset new austerity waves and create a sense of economic euphoria to the public and potential investors.

In light of the above, the MoU {section 4.3. under title Regulated Network Industries (Energy, Water, Transport)} recognizes the need for a wide ranging structural reform for the opening of the Greek energy market, in harmonization with the European policies and legislation; aiming at limiting monopolistic practices, promoting innovation and ensuring the transfer of benefits to the consumers. In particular and with respect to the **electricity market**, the MoU marks the pathway for measures relating to lignite-fired generation capacity, and challenges the national electricity market’s *status quo*. Therefore and pursuant to the agreement, the following pillars are most critically affected:

- i. By virtue of the recent judgments of the European Courts with regard to Commission’s decisions C (2008) 824 and C (2009) 6244 on lignite, it emerged that the divestment of PPC’s lignite fired power plants is a critical issue. Accordingly, PPC must proceed to a divestment representing around 40% (the exact percentage will be defined in agreement with the Commission) of its lignite-fired generation capacity,



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- to existing or new suppliers and other investors, having at the same time zero links or participation in any divested entity. The interested purchasers must comply with the criteria stipulated in the MoU, and more specifically they must: (a) be independent to PPC and its undertakings; (b) be qualified in terms of experience, resources and expertise to undertake required operations; and (c) not create competition issues due to access to information or delays in the implementation of the measures. It is also noted that PPC shall work together with DG COMP in drafting the portfolio of the offered units which shall be presented to interested investors, in accordance with the applicable competition procedural rules. The whole process must be completed by June 2018;
- ii. NOME auctions will be continued and the market share reduction of PPC below 50% must be materialized. At a preliminary stage, the authorities must complete the sale and commence the delivery of 8% of the total volume of electricity in 2015, in the interconnected system. RAE together with the KYSOIP will be responsible for additional quantities to be auctioned, the number of said auctions and the quantities per auction, while the reserve price will be revised in June every year. Furthermore, it is expected that the auctioned quantities shall consist equal 16% of the production of the previous year in 2017, 19% in 2018 and 22% in 2019 (as estimated by virtue of the new mechanism introduced in the MoU);
- iii. Subject to market test failure and non-completion of the targets, additional structural measures can be adopted such as the inclusion of hydro generation units in the proposed reforms;
- iv. A detailed action plan must be applied in order to address the issue of PPC arrears and clear the accumulated PSO deficit for PPC;
- v. The authorities must introduce a new capacity mechanism, in accordance with the Energy and Environmental Aid Guidelines, which will replace the current one expiring in April 2017, in order to provide thorough assessments based on reliability standards;
- vi. In the event that the transaction with respect to the sale of 24% of ADMIE's (IPTO's) share capital is not completed by the end of May 2017, the Hellenic Republic in agreement with the Institutions is entitled to launch a new tender for the sale of 100% of PPC's shares in IPTO. In addition it is stipulated that the Shareholders Agreement must be signed prior to the closing;
- vii. The competent Greek authorities must create a "toolbox" in order to regulate the day ahead, intraday,



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forward and balancing markets (by January 1<sup>st</sup>, 2018);

- viii. The authorities in agreement with the Institutions shall amend existing legislation, including the Internal Operation Rules of RAE under Article 45 of Law 4001/2011, in order to align them with the results of the horizontal review on independent agencies (by May 2017).

All aforementioned reforms which will be introduced in Greece in the electricity sector are imperative. The general axis as

in force today in conjunction with the current tendencies and the proposed adjustments have set the ground for a transition to a regime under which Greece, taking advantage of its network's strategic position in the South East Europe, will strengthen its position as an electricity hub in the region. The omnibus bill which will be soon ratified by the Hellenic Parliament will regulate the above areas pursuant to the provisions stipulated in the MoU and it is expected to further enlighten and resolve the electricity market's controversial issues, in compliance with the European standards.

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