



TO : European Commission

Athens, February 11th, 2011

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Subject: Greek Lignite and Electricity Markets, Reference Number COMP/B-1/38.700

**Opinion on the proposed SWAP Drawing Rights Agreements
By the Institute of Energy for S.E. Europe (IENE)**

We are pleased to submit the following Opinion to the referenced Public Consultation, which was elaborated by the Institute's Committee on Electricity market.

A. Background

Over the last 40 years or so, lignite has emerged as the most competitive source of electricity generation in the Greek market. PPC clearly enjoys a competitive advantage in the wholesale electricity market by having monopoly access to this primary energy source.

In 2010, Greece's total electricity consumption reached 52,366 GWh's of which 27,440 GWh's (52.4%) were produced lignite, 6,703 GWh's (12.8%) from Hydros, 113 GWh's (0.2%) from Fuel Oil, 2,037 GWh's (3.9%) from RES and 5,706 GWh's or 10.9% from electricity imports. From these figures, which were provided by HTSO, lignite's supremacy as the national energy fuel becomes all the more apparent.

PPC's use of lignite gives the PPC major benefits, such as direct advantage in building a balanced generation portfolio, and its competitors have no possibility for developing lignite generation in Greece.

Access by independent market participants to the lignite generated electricity, is of major importance for the balanced operation of the market and the enhancement of the actual competition in the Greek electricity market. In order for this to happen, independent economic operators should be in a position to acquire the control directly or indirectly (energy management in the market) of at least 40% of the lignite plants.

B. Are the measures proposed by the Hellenic Republic adequate to remedy the competitive advantage enjoyed by PPC based on its access to lignite-fired generation on the Greek wholesale electricity market?

Our Institute has reached the following conclusions:

1. Whether or not the foreseen auctions will be attractive to PPC competitors will mainly depend on the level of “reserve price” for availability payments. This “reserve price” is not specified in the documents, neither for its level nor for the methodology of its definition.
2. It is not at all clear who (the Buyer or PPC) will bid the Drawing Right to the wholesale market, and it is not clear who will get the producer surplus (i.e. System Marginal Price - SMP minus variable cost) from the wholesale market and who will get the capacity payment which is foreseen for all generation plants in Greece. In case PPC gets this money obviously the Drawing Right is not attractive. It is also important that the bidding is controlled by the Buyer.
3. The Drawing Right cannot be understood as a Contract for Difference because in that case it should specify a strike price in relation to SMP, which is not the case in the consultation documents.
4. The Drawing Right cannot be used to support bilateral contracts because the Buyer, as a load serving entity, will still have the obligation to buy electricity from the wholesale market under the existing Law and Electricity Codes.
5. In other words the Buyer, having already paid the availability payments and variable costs for the Drawing Right, will still have the obligation to pay the SMP and other charges in order to sell to customers the electricity corresponding to the Drawing Right. Therefore it is not attractive.
6. The proposed Drawing Right Contract is a very long term contract of fifteen years, and has no provisions for risk management. The risks are very high, concerning ETS CO₂ prices, unforeseen additional investment in the power plant, variable costs for improving plant efficiencies, costs for improving compliance with Large Combustion Plant Directive, and Regulatory regime changes.

7. The case of paying for Availability through a “swap” procedure is unclear regarding the criteria for accepting a swap proposal. Issues such as whether generation capacity installed in Greece is accepted as a swap, or whether a futures contract is accepted as swap, or whether a Buyer should own the capacity corresponding to the swap proposal, or again an answer of how a swap proposal is monetized in order to be considered against availability payment, have to be considered and assured. Many other uncertainties surround the swap arrangements in the Consultation Documents.

Therefore, in our opinion, the current proposal in the Consultation Documents requires major revision in order to attract necessary competition in the Greek Electricity market.

For the Institute of Energy for South East Europe (IENE)

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