UNOFFICIAL TRANSLATION FROM GREEK

To:

Regulatory Authority for Energy
Mr. Chairman, N. Vassilakos

SUBJECT: Second Public Consultation regarding the final proposal of RAE for the restructuring of the Capacity Adequacy Mechanism in the interconnected electricity system of the country.

Athens, 26/01/2015

Dear Mr. Chairman,

HAIPP, representing its member-companies, supports the process for the liberalization of the Greek electricity market in accordance with the European strategy for energy. In the case of Greece this means the creation of more than one vertically integrated companies with full portfolios including lignite-fired units, hydroelectric power plants and gas-fired units. In an actually liberalized electricity market there will be no need for interim regulatory mechanisms, and this constitutes a core position of our Association, as the entire spectrum of market mechanisms will reveal and remunerate the real value of energy (in every time level), of capacity, of flexibility and of reserves. As though the Greek electricity market remains closed and actually monopolistic, it is still required to have regulatory interventions in order to make up for the missing market mechanisms, as well as to balance the maximum market power of the dominant company.

It is commonly accepted now that the great penetration of RES in power production has drastically increased the System's needs for flexible capacity, needs that in the future will continue to increase. Therefore it is required to have a market mechanism which through the remuneration of flexibility capacity will guarantee the adequate flexibility levels to the System.

In this context HAIPP views the establishment of a flexibility market in Greece as a positive development and deems appropriate the immediate implementation of the proposed mechanism since the beginning of the current year.

We are already on the 26th of January 2015 and the Regulatory Authority for Energy has yet to establish a remuneration mechanism for the adequacy and flexibility capacity services rendered by the producers-members of HAIPP, while the former Capacity Remuneration Mechanism (which included also the remuneration for the aforementioned service) has been abolished since the 1st of January 2015. Nevertheless, adequacy and flexibility services continue to be offered by the producers-members of HAIPP **obligingly and seamlessly,** as acknowledged also at RAE's public consultation text. We consequently view that through the establishment of a relevant flexible capacity mechanism, RAE should guarantee the remuneration for the provision of the respective services already since the 1st of January 2015.

With regards to the remuneration for the flexibility service, we view that the proposed method of calculation is underestimating the value of the service rendered, since it is cost-based rather than based on the opportunity cost included in its provision.

Based on our knowledge, the cost avoided or opportunity cost is the usual and most applicable method for the calculation of the value of a new service. Therefore the calculation of the value of flexibility via the unambiguous calculation of the fixed cost for the provision of the service is hiding the full extent of the value of the flexibility service, as this is rendered by the CCGT plants.

We expect that following the establishment of the flexibility mechanism the Greek market will be completed as soon as possible with a forward, an intra-day and a balancing market. Additionally, the operation of the reserves market will have to be drastically reformed in order to comply with the international practice. Without these needed changes the gas-fired units, which do not belong to a vertically integrated company, are utterly deprived of any ability to secure through whatever market mechanism the required revenues in order to cover their fixed and variable costs.

Our Association views also as a negative development the abolishment from the market design of the pillar related to availability, especially since the Greek market was a pioneer towards this direction, being one of the first on a European level to adopt a capacity market mechanism. We wish to underline that this negative for the market liberalization process move, is taking place at a moment when more and more European countries are incorporating in their energy markets, capacity markets, while international organizations such as IEA, ENTSO-E and CEER highlight and design the opening of capacity markets on a regional level in order to harmonize this new reality with the standard target for the creation of an internal energy market.

We believe that this development is a result of the utterly false perception of 'overcapacity' cultivated in the Greek System. Nevertheless, within the next years demand for electricity will recover in Greece, as the economy will return to positive growth rates and the interconnection of Cyclades and Crete afterwards will further increase demand in the Interconnected System. Additionally, a series of lignite-fired plants will be put in limited operation, due to emissions' limits foreseen in European regulation from 2016 onwards, while other old ones will be withdrawn. In parallel, RES participation percentage in the energy mix will increase in an effort to achieve the 2020 targets as well as the ones set by the E.U. towards 2030. These expected developments will further impact the challenge both for adequate coverage of demand peaks, as well as flexibility needs in the Greek market within the next decade. Moreover, already in the last months gas-fired units are called on a daily basis to operate, offering the required flexibility, but also contributing to the coverage of demand, especially since the severe damage in the two lignite-fired units of Ptolemaida power plant.

Consequently, it is made clear that this false perception is not based upon the conclusions and the analyses of most of capacity studies undertaken over the last years, nor on the daily demands and operation of the electricity System, but rather upon a special, problematic and short-sighted, in our view, interpretation of the studies. Indicative of this is the recent adequacy study presented in the context of the current public consultation, which notes that especially from 2018 the Greek electricity system will begin to experience yet again severe issues of capacity adequacy and will definitely need imports during peak hours in order to respond to demand, with whatever that means, taking into consideration the reliability issues observed frequently in the past in relation to imports from the neighboring countries.

In relation to studies also, we would like to underline the necessity for the maintenance of a stable direction amongst adequacy studies. An abrupt and not sufficiently justified change in methods and conclusions with regards to capacity adequacy amongst consecutive studies, creates confusion to the market participants as well as the pertinent authorities (Greek and European), which may lead to misperceptions, false estimations and thus wrong decisions.

From the aforementioned points is therefore apparent that in the future the design of the Greek market should be completed by an availability mechanism, which of course should be open to cross-border participation, in order for the Greek market to be incorporated in the best possible way to the EU's internal electricity market.

In conclusion, we would like to underline the significant importance of a stable regulatory framework in the electricity market, which by definition entails long-term investments. For this reason it is crucial to avoid discontinuity and abrupt and arbitrary changes in the regulatory framework, as in this way the investors' trust is jeopardized and thus the implementation of new and the maintenance of current investments in electricity production is hindered, putting at risk the country's security of supply.

Our Association maintains its commitment to contribute through substantive and constructive dialogue with the market participants, both on Greek and European level, to the actual liberalization of the electricity market and its incorporation in the European energy regularity.

Sincerely,

Anastassios Kallitsantsis

President