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Hellenic Association of Independent Power Producers

*UNOFFICIAL TRANSLATION FROM GREEK*

**To:**

**Regulatory Authority for Energy**
**Mr. Chairman, N. Boulaxis**

**SUBJECT: Public Consultation regarding the modification of article 237 of the NII Code – "Timetable for the Transition to the status of the current Code" of the Non-Interconnected Islands (NII) Management Code.**

Athens, 07/09/2015

Dear Mr. Chairman,

Regarding the proposed extension of the timetable related to the implementation of the required infrastructure and procedures for the electricity Systems of the Non-Interconnected Islands (NII), as foreseen by the NII Code and the relevant modification of article 237 of the NII Code, we do not have any special comments.

Nevertheless, on the occasion of the current consultation, we would like to underline some important issues that have been identified regarding the recent market opening of the NII Market related to the electricity systems of Crete and Rhodes, within the context of the NII Code, as well as the foreseen opening of the Market in the rest of the NII.

More specifically, according to the existing framework, Suppliers active in a NII System are obliged to pay the full production cost of the relevant NII System for the energy absorbed by the consumers they represent, while at the same time they are obliged to offer the respective energy in the same tariff, per consumer category, with the one of the Interconnected System. The extra cost that the Suppliers who operate in the NII face versus their pertinent operation in the Interconnected System, is recovered in theory through the designated for them return of the Public Service Obligations (PSO). Since though the annual cost of PSO, which is paid on a monthly basis to the Suppliers, is determined by budgeted data with regards to production costs in every NII System, it is also foreseen to conduct an annual settlement of the cost data on the basis of which this return was calculated, in order to avoid burdening Suppliers with non-sensible costs. A potential deficit or surplus of the PSO return that may occur at the end of the calendar year is calculated in the formation of PSO costs of the next years, in order for the Suppliers operating in a NII System to be able to recover additional costs, within the context of the non-geographically diversified tariff policy.

As it is well known, from 2012 onwards, for the approval of the annual PSO return, a law provision is required. Currently, the last calculation for the provision of PSO at the NII, which is still in effect today, dates back to 2011. Moreover, according to the settlement of the production cost data in every NII System for the years 2012 and 2013 (Regulatory Authority for Energy 356/2014), the actual production cost that Suppliers would have to pay under the current provisions of the NII Management Code, would be considerably higher from the respective budgeted, according to which they would be compensated (a difference of €128 mil and €134 mil respectively). This difference between the budgeted and the real annual PSO return for the last three years, has not yet been balanced, as since 2012 a new relevant law provision determining the annual owed PSO return is pending. Indicatively, the aforementioned difference for one year alone represents almost 30% of the average tariff that Suppliers offer end consumers. It becomes evident that both the high institutional and financial risk related to this activity, constitutes a significant obstacle for the entrance of alternative suppliers to the NII Market and makes the market opening practically impossible.

In this context and taking into consideration all the above, a rational alternative proposal, which would allow the gradual opening of the NII Market, is to impose on the supply of electricity for the NII, similar costs to the those of the Interconnected System and to pay the PSO return directly to the producers of the NII Systems. Moreover, producers, due to the stability of their operation in the long-term, can balance the deficits and the surplus which occur as a result of the difference between the budgeted and the real cost of production. On the contrary, suppliers, given also the mobility of the consumers, are in no position to balance these differences, making their entrance to the NII Market impossible.

Acknowledging the importance of this issue as well as the extent of the changes in the legal framework that the above mentioned proposal entails, we consider it an imperative to start a relevant public consultation immediately, dedicated exclusively to the review of the structure of the NII Market and its re-organization, with the aim to rapidly promote competition.

Sincerely,

Anastassios Kallitsantsis

President