UNOFFICIAL TRANSLATION FROM GREEK

To
RAE
132 Peiraios Ave.,
118 54, Athens
Attn: Mr. President, Dr. N. Boulaxis

Cc
Ministry of Environment and Energy
119 Mesogeion Ave.
101 92, Athens
Attn: Mr. Minister, Prof. G. Stathakis

SUBJECT: RAE's Public Consultation on the draft Proposal to the Minister for the Environment and Energy on the methodology for calculating and imposing a penalty in the event of delay in the implementation of the projects for the interconnection of the Non-Interconnected Islands with the mainland's Interconnected Electric System

Athens, 12.10.2018

Dear Mr. President,

In the context of public discussions and consultations, the Hellenic Association of Independent Power Producers (HAIPP) has repeatedly highlighted the gravity of interconnecting the Aegean Sea islands with the mainland's Interconnected Electric System (see in particular HAIPP's letter 31.10.2013/172 to ADMIE re TYNDP 2014-2023, HAIPP's presentation on 23.04.2015 at SEV/Eur. Commission's workshop, HAIPP's letter 09.03.2016/378 to ADMIE and RAE re TYNDP 2017-2026 and HAIPP's letter 29.01.2018/467 to ADMIE and RAE re TYNDP 2019-2028).

The 600-700 million Euro of additional annual cost for the electricity supply of the Non-Interconnected Islands is a severe barrier towards the reduction of households' energy poverty and the increase of Greece's businesses competitiveness (see Ministry of Energy's measures for tackling energy poverty in December 2017 by reforming Public Service Obligation (PSO) charges).

The non-interconnection of the Aegean Islands – in particular the non-interconnection of Crete- is expected to have a particularly negative impact on the security of supply of these islands from 2020 onwards as oil-fired units will be allowed to operate for a very limited number of hours per year as a consequence of the Directives 2010/75 / EU (IED) and 2015/2193 / EU (MCPD) implementation regarding air pollutants emission reduction. The findings of the recent pan-European capacity adequacy study MAF 2018, conducted by ENTSO-E, show that Crete (GR03 bidding zone in MAF 2018) will have a Loss of Load Expectation (LOLE) index of ca. 59 hours/year in 2020, when ADMIE has set an acceptable upper limit for the Greek Interconnected System at 3 hours/year. It is understood by everyone that what is described in the ENTSO-E's MAF 2018 study for Crete

is a situation with a much increased probability of load shedding, which highlights the need for immediate action by the State and the enforcement of penalties that will act as a disincentive to delays.

Furthermore, the interconnection of the Aegean Islands is also crucial in achieving Greece's energy and environmental goals in the context of the European Union's energy policy towards 2030. More specifically, the adoption by the Council of the EU, the European Parliament and the European Commission -in the context of the amendment of the Renewable Energy Directive – of a minimum 32% RES share in the final gross energy consumption of the European Union in 2030 means for Greece that renewable energy will participate in the energy mix of final net electricity consumption at levels above 60% (from ca. 30% at present). It is obvious that, the achievement of this level of RES electricity production in Greece is only possible by exploiting the rich potential of RES in Greece's island regions.

All the reasons set out above demonstrate the urgency of the electrical interconnections of the Aegean islands (Crete, Dodecanese, North Aegean and Cyclades Islands) with the mainland's Interconnected System. This urgency is further enhanced by the favorable economic climate regarding the construction of these interconnections. In particular, the interconnection of Crete with Attica has been included in the EU's Projects of Common Interest (PCI) list and can receive a significant part of construction costs from the European Union's Connecting Europe Facility (CEF). In addition, the interconnections between the Dodecanese and the North Aegean islands can be subsidized through the revenues collected by auctioning up to 25 million EUAs (i.e. more than 600 million Euros for EUA prices higher than 24 Euro/tn after 2020); This aid has been made available to Greece by the recently revised EU Directive 2003/87 (Article 10a, paragraph 9) aiming at the decarbonization of the Greek islands' electricity supply.

It is clear that both the implementation of the projects (Crete, Cyclades) included in the current ADMIE's Ten Year Network Development Program (TYNDP) as well as the design and interconnection of the Dodecanese Islands and the North Aegean Islands must be promptly implemented without having any further delay. A strong incentive to achieve this goal is the adoption and implementation of a clear and robust framework for imposing a penalty in the event of delays. The rules of this framework must be clear and easily applicable and at the same time the penalty -which should be paid by the interconnection's implementing body - should be at the level of the unavoidable cost paid by electricity consumers due to PSO charges. This is also implied by the European Commission's decision 2014/536 / EC - to which RAE's statement refers - when it explicitly states "... the Greek authorities are seeking compensation for the unrealized cost savings.". The Greek legislation (see No. 108A, paragraph 9 of Law 4001/2011) also reflects the spirit of this decision by providing that "... The calculation should take into account the PSO costs that would had been avoided in the event of materializing this interconnection." It is thus clear both from the European Commission's decision and from Law 4001/2011 that the penalty cannot: (a) be equal only to a fraction of the unrealized cost savings, for which fraction there is no real basis for determining its arithmetic value and (b) be related to factors that either make no reference to the judgment of the Eur. Commission or the law. In particular, the penalty cannot be equal with a fraction of the cost of constructing the interconnection, as this kind of correlation is directly contrary to the requirement of the regulatory and legislative framework which requires that in case of delay, the interconnection's implementing body should face a penalty of the same level as the PSO costs that were not saved precisely because of the delay caused. Therefore, HAIPP believes that any reference to the introduction of a penalty's upper limit, defined as a percentage of the unavoidable expenditure and moreover

defined as a percentage of the interconnection's construction costs should be eliminated from RAE's proposal to the Minister for Environment and Energy.

We think that, the proposed by RAE introduction of bimonthly monitoring of the project progress as well as the determination of certain tasks' milestones in accordance with the approved project implementation timetable can indeed serve as an early detection and warning system towards limiting possible delays. But this fact – i.e., the introduction of bimonthly rather than annual audits- should by no means lead to a relative limitation of the disincentive to avoid delays in completing the interconnection. In particular, if a thorough audit reveals that there will be one (or more) year(s) delay in the implementation of the interconnection, the penalty should be equal to the PSO cost of one (or more) year(s) for the Island(s) concerned by this interconnection. If a delay of some months arises, then the penalty should be equal to the PSO cost over this period.

Finally, a further point that needs to be clarified in RAE's proposal is in point E of the text under consultation which states that "... a compensation clause may be imposed ... if it is established that the delay is not due to force majeure or judicial suspension or other objectionable deficiency.. ». HAIPP considers that the methodology should explicitly provide that if a delay is demonstrated at the fault of the interconnection's implementing body then a penalty corresponding to the electricity consumers' burden by PSO charges should be imposed in each case.

Sincerely,

Giorgos Stamtsis
General Manager