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To: Ministry of Environment & Energy
Mesogeion str. 119
GR-11526, Athens, Greece

Subject: Public consultation on draft Capacity Remuneration Mechanism (CRM)

The Hellenic Association of Independent Power Companies (HAIPP) consistently advocates for the completion of the electricity market design in Greece by expanding the marketplace in all possible timeframes (i.e. forward, day-ahead, intraday and balancing). In addition to the electrical energy and ancillary services markets, a competitive capacity market must also be in place in order to ensure that the revenues received by capacity providers are sufficient enough to ensure the targeted level of security of supply.

Therefore, our Association wishes to welcome the draft proposal of your Ministry with regard to the design and operation of a long-term capacity market in Greece which aims to succeed, from 2020 onwards, the current Transitory Flexibility Remuneration Mechanism (that hopefully will be reactivated very soon).

According to the provisions of the recast Electricity Market Regulation, any decision to introduce a capacity market should be thoroughly based on the findings of adequacy studies conducted both by ENTSO-E and the national TSO. As far as ENTSO-E is concerned, the recent Mid-Term Adequacy Forecast (MAF) 2018 indicates that Greece is among the five mainland Europe's countries with the highest LOLE values for 2020. However, we have to stress that ADMIE has not published its adequacy study in 2018 despite the fact that ENTSO-E's 2018 MAF includes explicit references to this document

The Ministry's draft document draws on international, mainly European, experience with reliability-option-based capacity markets. European Commission has recently approved such CRM measures in Italy and Ireland but due to some characteristics of the Greek electricity market (such as the PPC's (super-) dominant position, the reservoir-depended hydro units and the opt-out lignite units) makes it absolutely necessary to pay extreme attention at some basic features of this draft proposal, in order to avoid unexpected unpleasant surprises during the implementation of the mechanism. .

To this end, HAIPP wishes to submit the following remarks of great importance on the draft proposal under consultation:

1) Sections 1.2 & 6.2: The Capacity Market has to be established without interfering with the rules of the energy markets (Forward, DAM, IDM, Balancing). This means that once a capacity provider is granted the right of a Reliability Option (RO), this capacity provider assumes the obligation to offer its volume to the energy market as well. However the volume of the RO can be offered to any of the markets, as the capacity provider selects, without the establishment of new rules in the energy markets. The Reference

Price of each market should be compared to the uniform Strike Price, and the Payback Obligation should be established separately, in each market, relative to the volume offered and finally settled in this market This Obligation should be imposed only on the volumes of RO that are exercised in the market where the Reference Price has exceeded the Strike Price.

This fundamental principle has to be reflected throughout the draft CRM and especially in the details regarding the Payback Obligation. For example, under para 1.2 it is stated that the settlement takes place taking into consideration the volumes sold by each Supplier in any of the two markets (DAM and IDM) with the remaining capacity up to the reliability option being considered as sold to the Balancing Market. We can only assume this is counted irrespectively of what has been the actually sold quantity in the BM in either direction. For generation capacity providers the participation in the Day Ahead Market is mandatory and the quantities sold under OTC bilateral contracts are included in this market as priority-taken-orders. In case that any such OTC quantities are not settled at the Day-Ahead clearing price, they should not be penalized with Payback Obligation as well.

2) Section 1.3 & 6.5: The draft document states that the Strike Price will be determined on monthly basis taking into consideration the fuel cost and probably additional operational cost (start up, transmission tariffs) of a hypothetical peak unit. However, the new CRM will be open to demand response as well. The draft document itself recognizes that demand response (of load-shedding type) has high marginal cost. Most probably, these costs will be higher than the Strike Price (if this will be calculated as the draft document proposes), e.g. ENTSO-E's MAF considers a price of 500 €/MWh for demand response to be triggered at. Thus, the demand response providers will be asked to deliver capacity at a loss, since they will be obliged to pay back the difference between their high marginal cost (setting, at least, the reference price if they are called) and the Strike Price. Thus, we believe that the Strike Price issue must be thoroughly reviewed in the final design of the CRM. It's important to note that the European Commission has already acknowledged this issue in its approval decision for the Irish Capacity Mechanism (*C(2017)7789 final, concerning SA.44464*). In order to solve this issue and ensure that DSR providers are not required to deliver capacity at a loss, the uniform Irish strike price is calculated using *"a formula that takes into account fuel costs, carbon cost and the cost of reference of a demand response unit of 500 EUR/MWh which reflects the cost incurred by demand side when switching off"* (Irish Capacity Mechanism approval decision, *C(2017)7789 final*, para. 58). The formula for the calculation of the Irish strike price is described in detail in the SEM Committee's Third Consultation Paper on the Detailed Design of the Capacity Remuneration Mechanism (11.03.2016), which is available online at the following link (p.89 onwards): https://www.semcommittee.com/sites/semcommittee.com/files/media-files/SEM-16-010%20CRM%203%20Consultation%203_1.pdf.

3) Section 1.3: The recently adopted EU Regulation for the Electricity Markets (EMR) requires that CRMs have limited specific duration. Thus, HAIPP believes that the document to be notified should envisage a duration of 10 years.

4) Section 3:3: As far as the eligible resources are concerned, HAIPP strongly believes that any lignite unit that operates under the limited life-time derogation (Art. 33, Directive 2010/75/EU) should not be eligible to participate in the new CRM, if the remaining number of hours (at the beginning of a capacity contract's delivery period) is not enough to allow the plant to offer its capacity 24/7 during the contract's period.

   Regarding hydro units, their actual availability is conditional upon the availability of the water resources in the reservoirs. Two EC's decisions on the current and the past TFRM state that, from a system security perspective, it is imperative to incorporate the hydro units reduced availability so as to reflect their actual contribution in terms of capacity. Of course, the need to determine the hydro actual availability applies to the flexible capacity adequacy and global capacity adequacy purposes as well.

This is why HAIPP believes that a methodology similar to the one used in the current TFRM framework should be developed in order to calculate the hydro availability for the new CRM too. The only difference will be in the set of the hours that will be taken into consideration in the respective calculations.

5) Section 4.1 & 5.2.2: New power units have to be offered a level-playing field, otherwise suboptimal investments may be materialized resulting in higher costs for the consumers in the long-term. Therefore, it is absolutely necessary to establish a common contract duration for the new units and abolish the proposed three-length approach included in the draft document which actually lacks any economic rationale. Instead of that, we would propose a 7-year contract for any type of new capacity provider.

6) Section 4.1: Recalling that the new EU Directive for the electricity markets will have to be transposed into national legislation by end 2020, it has to be clarified that until load aggregators are established and can operate to the electricity market, demand response can be offered by consumers having the technical capability to follow dispatch orders and participate in the energy market. Also up to the target model implementation, a methodology allowing demand response participation in the CRM should be established.

7) Section 6.1: In addition to our comments in (4), we do not agree with the draft document's proposal that the hydro units may bid within a range of capacity and not for their determined actual available capacity. TSO should treat any type of market participant in the capacity market on equal conditions and thus different bidding options shall be avoided. The only reason to introduce special rules is for market power mitigation purposes, but the hydro units in Greece are actually part of dominant player's fleet. Thus, any additional rule applying on the hydro units should contribute to the mitigation of their market power and should not make even worse an existing problematic situation (from a competition point of view).

Furthermore, HAIPP would like to add some comments that could be elaborated by the Ministry towards the implementation phase of the new CRM:

8) Section 1.2: Information shall be given on how the IDM reference price will be calculated in case of continuous intra-day trade when this type of IDM trading will be available for participants in the Greek market.

9) Section 2.1: It must be clarified which authority will set the target LOLE. Since the security of supply and the market design are part of a government's core competences in energy, we assume that the Ministry will be responsible for that task.

10) Section 2.1: Crete is expected to be connected with the mainland system in 2020 with the limited capacity interconnection Peloponnese-Crete and fully interconnected in 2023 through the Attica-Crete subsea cable. The ENTSO-E's 2018 MAF already considers Crete as a future second bidding zone in Greece and thus, some more clarifications on the formulation of separate demand curves and auctions would be needed.

11) Section 2.2: We propose to update all parameters of WACC's calculation methodology according to the most recently available data.

12) Section 4.2.2: The second bullet-point should read ".This simulation apparently will lead to a higher LOLE value than LOLEreal."

13) Section 4.2.3: In the definition of SET B periods, HAIPP believes that energy transits (i.e. simultaneously transacted import and export programs) should be excluded.

14) Section 5.1: The necessity of a certain percentage of capacity volume auctioned at T-4 to be reserved for the T-1 auctions must be explained and in any case such a reservation has to be based on TSO's needs.

15) Section 6.7: The role and the funding of the Socialization Fund is not clearly defined in the draft CRM document.

We remain at your disposal for any further discussion on the design and the implementation of the new Capacity Remuneration Mechanism.

Yours sincerely,

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General Manager