

To:

European Commission
Directorate General for Energy
Unit C3 - Internal Energy Market
1049 Brussels, Belgium

Ref. No.: 628
Athens, 06.09.2021

SUBJECT: Consultation on Greek market reform plan

Dear Dr. Lessenich,

With this letter we submit the comments of our Association with regards to the consultation of the European Commission on the market reform plan of the Greek electricity market. The present consultation follows the one conducted by the Greek Regulator during July 2021. Unfortunately, the text of the present consultation suggests that the Greek authorities have not accepted any substantial comment submitted during the previous consultation.

The fundamental idea behind the market reform plan should be, according to the EU' Regulation 2019/943, to identify and provide a timetable for all necessary measures that will eliminate or at least will mitigate the well-known "missing money" problem. The proposed set of measures though is insufficient (in some cases even unfit) in terms of achieving this goal. On the contrary, the counter reform of the balancing market proposed by the Greek authorities is expected to worsen the problem and deteriorate the healthy competition between the market participants. In the light of the development of healthy competition, our Association would like to remind that the Public Power Corporation (PPC) today maintains its super-dominant position in the retail market - despite the obligation under Greece's Memorandum of Understanding with the European Commission (as incorporated into Law 4336/2015) to reduce its share both in the wholesale and retail market at a rate below 50%. According to the last available data, PPC still holds a 65% share in the retail market and represents more than 75% of the power meters (meaning 5.732.047 out of the 7.615.750). In fact, the prospects for a substantial change in this matter are not auspicious, considering (a) the government's expressed will to promote the public corporation into a national champion and (b) the recently announced commercial programs of the incumbent that allow the further foreclosure of the retail market.

Furthermore, as mentioned in the text submitted by the Greek authorities, the reason behind certain changes proposed in key design aspects (e.g. unit-based bidding, central dispatching & scheduling, FHR percentage) of the newly introduced power markets is -apparently- that the cost of the balancing market is considered, by the authorities, to be higher compared to the European average. For this very reason, our Association has submitted a study that examines the Irish

market, which shares common features with the Greek market, and proves that the cost is, if not lower for the Greek market (due to the short comparison period), at least commensurate. Therefore, we strongly believe that changing the key features of the Greek market is pre-mature and will constitute a counter-productive reform that will result in market foreclosure instead of enhancing competition. Power mitigation measures and enhanced surveillance mechanisms are mandatory in the Greek electricity market and must be facilitated through its market design principles.

Besides, the main reason for the "missing money" issue in the electricity market is, historically, the suppression of wholesale market prices. This situation will be maintained as long as the dominant company has the clear status of a net buyer due to its larger share in retail sales than in generation – a circumstance that, if anything, is going to be exacerbated by the foreseen closure of the lignite-fired plants. The dominant company has thus an incentive to suppress prices in short-term energy markets (DAM & IDM) - while it continues enjoying exclusive and privileged access to resources such as large hydroelectric power plants. With regards to the hydroelectric power plants, it should be noted that no substantial supervisory control can currently be exercised by the Regulatory Authority as even the calculation and publication of the minimum variable cost has been abolished, while a methodology for calculating the actual available capacity on a daily basis has never been implemented. The conclusion that the dominant company will lose market power simply because the lignite operation - which the State so far seems to selectively strengthen through a strategic reserve mechanism hence delaying the operation of an available capacity market (CRM) - is no longer competitive, does not seem to hold, taking into consideration the evolution of lignite costs and PPC's retail share over the last couple of years. Similarly, the assumption stated in the plan that the implementation of the RES-PPA schemes in the future will drastically reduce PPC's share in retail market does not sound realistic since a) PPC is announced to be the biggest investor in RES and b) PPC will still have exclusive access to non-pumping hydro power plants. Last but not least the proposed remedy for the anti-trust case AT.38700 that is anticipated to be implemented in the following months is not expected to help competition and eliminate the market power of PPC.

Next, we would like to focus on six very important issues related to the proposals for structural changes in the existing market:

1. Reference is made across various parts of the plan to the market **participation at the portfolio level and not per unit** as is currently the case. We consider it goes without saying that the decision for a unit-based market has been taken, implemented, and operated - as mentioned in the introductory part of our letter – based on a multi-year preparation and time-consuming process, through multiple consultations and active dialogue with all market participants as well as a dry-run period. The reasons for choosing central-dispatch with a unit-based approach instead of self-dispatch with a portfolio-based approach were, in a nutshell, related to the security of the system, the long experience of the TSO in central planning and the avoidance of abusive practices in view

of the position of the dominant market player, taking into account -among other things- its exclusive access to hydroelectric production and its massive share in the retail market. Apart from PPC's exclusive and privileged access to large hydro capacity and the targeted support measures notified to the Commission for the financial backing of its uneconomical lignite-fired fleet (e.g. strategic reserves, closure of uncompetitive mines etc), PPC's pivotal position in the retail markets is also constantly boosted through questionable market interventions by the State. Indicatively, as publicly acknowledged by the Ministry at the time, in September 2019 an indirect, yet fully documented, transfer of 200m€ from the RES account to PPC took place, which was to a large extent financed by RES producers. Moreover, as indicated in our Association's monthly reports to the Regulator over the past 5 years, a consistent tolerance can be observed by all monitoring authorities towards market distortive/manipulative practices by the incumbent in the wholesale market(s) (e.g systematic dispatching of lignite-fired plants, while maintaining DAM prices below even marginal costs of those plants). Said issues unfortunately fail to appear to be dealt with in the submitted reform plan. As the dominant company continues to enjoy an increased (!) market share, the reasons that led to the above strategic design choice have not vanished and any discussion on switching to portfolio-based bidding can only but include a plan of divestiture of hydroelectric production to competitors of the incumbent as well as specific measures (e.g. setting a floor price to the commercial programs allowed to be offered to consumers that do not prevent the competition to grow) to reduce the share of the dominant undertaking in the retail market. We believe that the relevant measures described in the current plan are not sufficient. Therefore, we consider that the potential of such a radical structural change in the market design - before the share of the dominant company is significantly reduced in both the wholesale and retail market (especially at the level of LV customers) - contradicts the objectives of the market opening and ask for any relevant reference to be removed from the plan. We find such a reference, within a market with such limited operating time that runs smoothly and is in line with the European design since other countries have adopted this model (e.g. Italy, Ireland), as hasty and disorienting.

2. Another very important issue is that of **redispatching**. The Greek Regulator has recently put in public consultation a proposal for the distinction between balancing energy and energy due to re-dispatching to further define the methodology for the implementation of this distinction that is followed with a change in the remuneration of the energy provided based on the purpose. The suggested market reform aims to lower down the cost of the balancing energy market and neglects the distortions it introduces in the market. This is why our Association strongly disagrees with the proposed measure (as stated in our letter to the Regulator dated 30.08.2021). Moreover, we believe that the proposed measure misinterprets two important regulatory principles. The first one refers to the energy labeled/ flagged as re-dispatching. The second one refers to the priority provided in satisfying balancing instead of system constraints.

More specifically, ADMIE refers to the Decision 16 of ACER on the methodology for classifying the activation purposes of balancing energy bids. Under the scope of this Decision, two activation purposes for balancing energy bids are defined: balancing and system constraints, considering that these are all the possible activation purposes as required by Article 29(3)(a) of the EB Regulation. Moreover -following the discussion with TSOs and regulatory authorities during the consultation of this methodology- ACER decided to distinguish between the different actions to deal with system constraints and defined the following action's types: **redispatching, countertrading, other remedial actions.**

Thus, it is clear that redispatching is just one of the possible actions to deal with system constraints. Hence, only the balancing energy bids for redispatching should be flagged and shall not set the balancing energy price.

3. ADMIE's proposal is based on an "extension" of the current ISP model, in which offers selected by the ISP algorithm are labeled ex-post on the basis of the purpose of each activation (balancing vs. redispatch), and priced differently according to their purpose. We believe that while pricing differently different services could in general result in a robust and efficient market design (as there are examples in Europe), the one proposed by ADMIE would bring to adverse consequences, as discussed below.

A distinguishing feature of the ISP model currently implemented in Greece is that generators offer in the market the 'performances' of their units; the System Operator, via the ISP selection algorithm, instructs the generators to 'do something' (compatibly with each one's technical constraints) and not to provide a standardized service. Under an alternative approach, generators are required to offer 'services' (such as reserve capacity), possibly delivered by combining the performances of different units. Technical constraints, in this alternative approach, are a concern of the supplier of the service, and not addressed by the selection algorithm.

In the ISP approach, then, the generator offers a price for the performance of his unit, and the pricing rule implemented in the ISP has the role to compensate the generator based on the (marginal) value that it has to the system. This means, among the other things, that the pricing rule must make the generator neutral between selling energy (say, in the form on an Inc/Dec and providing headroom/foot-room capacity, ready to produce in case the SO needs it. ADMIE's proposed pricing rule may not meet this requirement, as it prices differently according to the reason an action was instructed for.

This might have the following adverse consequences:

- generators selected to deliver the same performance, with the same value to the system, might end up being paid differently;

- the optimal bidding strategy for generators would entail conjecturing the purpose for which their offers are likely to be accepted, and thus depart from the usual ‘incremental cost’ benchmark; this might result in offers that are ex-post inefficient, in case the guess of the generator’s turns out to be incorrect; in addition the inefficient set of units might end up being selected by the ISP algorithm to keep the system secure and balanced.

Note, incidentally, that a design that requires that generators predict the market outcome in order to identify their expected-profit maximising offer strategy, places, other things equal, more risk on generators. For this reason, it is unlikely that implementing such design will reduce the expected cost of the procurement of ancillary services for the system operator¹.

We remark that in the alternative model, these potential inefficiencies are mitigated by the possibility for the generators to offer different prices for different services. The problem with ADMIE’s proposal is that such flexibility is absent in the ISP model.

Overall, such a system:

- Would create uncertainty for investors and generators;
- Might distort the (rational) bidding behaviour in the energy and in the ISP (balancing) markets;
- Might result in less than efficient compensation for certain entities.

Therefore, any reduction of the balancing cost should not be pursued via an **ex-post** labelling system as the one proposed by RAE and ADMIE but must be the result of a market based procedure.

Regarding priority of balancing over redispatching, we believe that a plausible methodology should select ‘redispatching’ activations before balancing activations (and not vice versa as it seems to be the choice of ADMIE). It is intuitively appealing that ‘redispatching’ activations performed to resolve system constraints are performed in the context of a balanced system; should the system be found out-of-balance after the system constraints are solved, balancing activations will be selected. In the context of market designs where separate market phases are instituted to resolve system constraints (e.g., Spain), these usually take place **before** the market phases where balancing services are procured. ADMIE refers to the design of the MARI and PICASSO platforms to support the fact that redispatching activations should be selected ‘after’ balancing offers. With this respect, it is true that the design of MARI and PICASSO provides that TSOs may refrain from submitting in the platforms selected offers needed for local reasons (i.e., in the spirit of ADMIE’s proposal, for ‘redispatching’ purposes), starting from the most expensive ones. However, the reason for such design choice is not related to the fact that redispatching

¹ *This may not hold in case of congestions, unless a locational pricing rule is implemented in the ISP market.*

activations should in general be associated to more expensive offers than balancing offers. Rather, the design is aimed at removing the incentive for TSOs to submit only the higher-price offers on the MARI and PICASSO platforms – something that would clearly be detrimental to the market integration process. Hence, the interpretation of ADMIE is misleading.

The introduction of **separate tenders to meet the required reserve needs at the day-ahead level** is considered to be an extensive structural change in the market design that presupposes sufficient dialogue with the market participants before it is put in any public consultation. Our assessment is that the reserves market has been functioning smoothly so far, accurately reflecting the value of these services in the Greek electricity market. Given the volume of planned changes that the plan describes in total, we do not consider the change of a smooth market as timely.

4. A very significant reform, which is not touched upon within the plan, is the reduction of PPC's share in the retail market so that the gap from the corresponding percentage in the production side and imports becomes smaller. Only through such structural reform will the impact, of the net buyer position that PPC holds in the wholesale market, be reduced. The specific position in the market forms an irresistible incentive for PPC to suppress prices in the wholesale market(s), which in turn hinders new investments in RES, storage and thermal production units with low CO₂ emissions. The plan states that PPC's share in the retail market will be reduced since its share in the production side will decrease: but it's not a question of absolute figures but of the relevant market position. A decrease in PPC's generation market share (through the eventual decommissioning of lignite fired capacity) would have to be preceded by a steep drop in its retail share creating a "healthier" market environment. There is hardly any indication that an "automated" process such as the one described in the reform plan might take place in the future (it never has thus far). Therefore, the final reform plan should include specific measures – including an analysis for 2023, 2025, 2028 and 2030 - to reduce not just PPC's (absolute) share in retail but also the difference between its shares in production / imports and retail. At the same time, our Association considers that the measures proposed in the context of Case AT.38700 of the European Commission will have very little effect on the opening of the retail market, while we remain in doubt as to whether they will contribute to increasing the liquidity of the electricity futures market that HENEX is operating.

5. The draft plan states that the State intends to establish an organized non-mandatory wholesale market for bilateral private RES-PPA contracts. Taking into consideration that mature RES technologies (solar and onshore wind) have reached market parity (at least in terms of LCOE), we fail to see the reasoning and added-value behind this proposed market intervention, whereas we believe that -if implemented- it would be counter-productive as far as the liquidity of the (existing) forward market is concerned, particularly considering the key role of RES in the coming years. RES should be encouraged to participate in the newly created markets, be it through PPAs or through

direct marketing of their output in the wholesale markets, rather than forming a stand-alone/dedicated trading platform which would produce separate market signals, possibly impacting those of the existing electricity markets. On point 4.5.2 of the proposed market reform plan, the HAIPP does not -in principal- object to introducing measures supporting the competitiveness of the energy-intensive industry as long as they do not distort electricity markets and addressing, in a targeted manner, the documented decarbonization challenges faced by those industries and the economy in general.

6. The draft plan describes some actions regarding the reinforcement of the transmission system. However, it does not touch upon the most critical and difficult infrastructure issue in the Greek electricity market. That is, both the transmission and distribution networks are not fit to connect and integrate the vast amount of RES capacity and energy foreseen by the Greek NCEP. Moreover, the current situation regarding the network's ability to absorb RES energy has not been properly assessed. For this reason, HAIPP has repeatedly asked the Greek authorities to impose an obligation on ADMIE and DEDDIE to deliver every two years a common study that will depict the current networks' situation (regarding RES integration potential) and the actions needed towards 2030.

In addition to the above, we have the following remarks, in which we quote the chapter, the page and the excerpt from the announced implementation plan:

i. 2 / Pages 3 - 11.

While several measures are presented with relatively complete time schedules, the Milestones for some of them are incomplete. Indicatively, we mention that an important mechanism, such as the "scarcity pricing mechanism", does not refer to any date as a milestone. However, the design of a shortage price function for balancing is necessary in accordance with the provisions of the European Regulation 2019/943.

ii. 3.1.2 / Page 12: *«A new lignite plant of 660MW (Ptolemaida V) owned by PPC is under construction, expected to start operation testing in the second half of 2022 and probably start commercial operation in 2023.»*

Considering the previous test periods of the new PPC units, the amount of time set as a test period for the new Ptolemaida V unit is deemed as too short. At the same time there is no reference in the text to the expected extended transition period from one operating fuel to another, where the unit will not be in operation.

iii. 3.2.1 / Page 15: *«Thus, the existing lignite plants are systematically outside the merit order and outside the plant scheduling. Furthermore, due to their inherent technological characteristics (warm-up time above 12 hours), there is no way for IPTO to activate them during the intra-day timeframe markets to provide balancing and reserves. If IPTO could*

call upon them beforehand and irrespectively of the day-ahead merit order, lignite plants could contribute to reserves. However, this is not possible under the current market rules.»

Given that during the hours that a lignite plant that participates in a Strategic Reserve mechanism will be put into operation, the values of the Balancing and the Reserves energy will automatically be set to their maximum allowed price (VOLL), the way and the timing of the relevant dispatch orders to the inflexible lignite plants will need to be examined to ensure that there is no market distortion.

At this point we wish to reiterate the firm position of our Association in favor of the immediate notification of the capacity remuneration mechanism (CRM) in Greece. It goes without saying that the large penetration of RES in the Greek energy system during the current decade can only be achieved if flexible gas units, energy storage units and demand side response are available to respond to the stochastic RES production by offering firm/controllable capacity and ensuring the country's security of supply. On the contrary, RES in combination with lignite plants, that cannot adapt to the stochastic nature and rapid variability of non- dispatchable RES production, is equivalent to a recipe for failure and a system with significantly increased balancing costs.

Considering that lignite plants will remain in the market until the end of 2023 (with the exception of Ptolemaida V), we deem as appropriate for the Greek government to focus on the promotion of the new market-wide CRM, which, after all, is the mechanism needed to safeguard lignite units' withdrawal as scheduled, i.e. by end of 2023, without -in fact- prohibiting their participation either (in line with the EMR).

In any case, if the government proceeds with a NCEP update in order to provide for the withdrawal of specific lignite plants from the market already within 2021, a parameter that is considered as a prerequisite for notifying a strategic reserve scheme for the specific units, then this option should be reflected in the IPTO resource adequacy assessment. It is imperative to ensure that the notification process of the new CRM mechanism which is called to play a catalytic role in the future security of supply of our country, is not endangered and / or delayed by any means.

iv. **3.3.1 / Page 21 / Figure 5**

To better illustrate the huge needs and requirements in flexible dispatchable units due to the "duck shape" effect, creating a sample of several days with the highest Net Load in the left graph of Figure 5 is suggested, instead of the average for the whole year. It will contribute further to the development of the correct argument stated in the text.

v. **6 / Page 64:** *«The hydropower plants have received revenues of 88.3 €/MWh produced and incurred costs estimated at 80.6 €/MWh produced».*

The above cost estimate of the existing hydropower plants is deemed as high - as it refers almost exclusively to the annualized capital cost - and requires justification. In addition, a number of shortcomings have been observed since the entry into operation of the new market(s), related to the production of electricity from hydropower plants (HPPs). We briefly mention that:

- a) the minimum variable cost of HPPs is not calculated and is not published on a daily basis, nor is the detailed calculation file containing important information, as was the case in the previous market structure.
- b) there is still no method for calculating the actual available capacity of the HPPs due to the reservoirs' natural constraint
- c) the weekly nomination of mandatory production by HPP is not published although it is provided under the new regulatory framework also being in contrast to what happened in the previous market structure.

The above lack of information constitutes a significant distortion and lack of transparency of the market that hinders the participation of the other market Participants, except for the public company which is the sole owner of large HPPs.

In conclusion, HAIPP wishes to emphasize that the issues referred to in points 1, 2 and 3 of our letter constitute structural changes that have not been discussed and processed by all market participants and that are presented in a fragmented manner. Therefore, their inclusion in such an important document as the consulted "Market Reform plan for Greece" is expected to lead to significant delays and to jeopardize the timetable for the adoption and implementation of capacity remuneration mechanisms. But such delays could not be accepted because the country is in an urgent need to proceed with the lignite phase-out and the very high penetration of RES, while ensuring price stability for consumers, a process that can be achieved through **the appropriate and timely implementation of capacity mechanisms.**

Yours sincerely,

Giorgos Stamtsis

General Manager