

BRIEFING

GREEK RENEWABLES SUPPORT  
SCHEME PROPOSALS  
MARCH 2016

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A discussion document (the “**Proposal**”) was issued on 26 February 2016 by the Greek Ministry of Energy setting out their proposals for a new support structure for renewable energy projects in Greece following the EU Guidelines on State aid for environmental protection and energy 2014–2020 (“**EEAG 2014-2020**”)<sup>1</sup>, which requires the gradual phasing-out of subsidies and a move to a market-based system from 2016. The Proposal is expected to be finalised following its public consultation which ended on 14 March 2016. The new support scheme for renewable energy projects in Greece must be approved by the European Commission prior to any legislation being proposed to the Greek Parliament.

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“...THE REFORM OF THE ELECTRICITY MARKET MODEL IS EXPECTED TO BE COMPLETED BY THE END OF 2017.”

**Brief outline of the scheme**

According to the Proposal the reform of the electricity market model (the “**New Market Model**”) is expected to be complete by the end of 2017.

**Feed-in Premiums.**

Broadly, from 1 January 2016 until 1 January 2017 a sliding feed-in premium (“**FiP**”) will be introduced, giving a premium over market rates differentiated by type of technology and category of RES projects.

**Balancing and other obligations.**

Producers subject to the new operating aid scheme in the form of FiPs will undertake the balancing responsibilities determined for their projects upon implementation of the New Market Model, even if their projects were operating before such

<sup>1</sup> Communication from the Commission “Guidelines on State aid for environmental protection and energy 2014-2020” (published in OJEU 2014/C 200/01).

implementation. In the transitional phase, producers will take part in the current day-ahead market by providing hourly dispatch offers on zero market price and will follow the same clearing and settlement procedure as conventional power generators and importers, based on actual electricity injected to the system. On completion of the New Market Model, these projects will participate in the electricity market subject to standard balancing obligations. In the transitional phase, RES projects will be subject to a mechanism intended to improve their hourly dispatch forecasts in the day-ahead market in order to ensure a smooth transition of RES projects to the services and obligations which they will undertake on the implementation of the New Market Model. It is proposed that many of these services and obligations are carried out by RES "aggregator" service companies which will gather together a portfolio of projects and represent those projects in dealings with the Electricity Market Operator (known by its Greek initials as "LAGIE").

#### **Levelized Cost of Electricity and Reference Tariffs.**

Operating aid is to be determined on the basis of the levelized cost of producing electricity ("**LCOE**") per technology and category of RES projects. The LCOE is intended to include a reasonable return on capital. Until the implementation of competitive bidding processes the determination and calculation of the operating aid will be based solely on the regular reassessment of the LCOE for RES stations (with the exception of PV projects exceeding 500 kW); the same methodology will be applied to small installations<sup>2</sup> which may elect to be supported through a feed-in tariff "**FiT**" scheme. The LCOE will be reviewed on at least an annual basis and the results of such review shall determine the Reference Tariffs ("**RTs**") for new projects per technology and category. The FiP or FiT (as applicable) will be calculated on the basis of such Reference Tariffs.

The LCOE is determined separately by technology and category of project with reference to a typical "base case" project and taking into account the equipment supply and installation costs (**CAPEX**), the fixed and variable operating costs (**OPEX**), the anticipated generation yields, as well as all other technical and accounting factors which determine the costs and revenues of the RES stations in question (such as duty in favour of local authorities, depreciation, reducing outputs, remaining project value, etc.). A reasonable discount interest rate will also be applied to reflect the return on capital for the particular base case project. The costs of raw materials or fuel required for the operation of biomass and biogas projects will be taken into account in the calculation of the OPEX for such projects. The estimated use factor of each technology and category is also taken into account for the calculation of their returns. The Proposal contains a table (1A) setting out usual installation costs, operating costs and use factor per technology.

Based on the LCOE, RTs on a €/MWh basis for each technology type will be derived. Any investment aid or other support granted to a project will be taken into account to determine the RT for that project in line with paragraph 129 of EEAG 2014-2020.

The Proposal also sets out the RTs for each type of technology (as an example, €98/MWh for wind with a project IRR of 9%, €278/MWh for solar thermal projects with at least two hours' storage capacity, also with a project IRR of 9%). A supplemental management premium will be paid to generators taking part in the electricity market (€3/MWh for wind farms up to 10 MW capacity, and €2/MWh for

<sup>2</sup> Wind farm installations with an installed capacity of up to 3 MW, installations of other RES technologies with an installed electricity capacity of less than 500 kW.

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all other technologies and large wind projects) to take account of the additional managerial burden of market participation and related costs. The management premium will be reviewed on an annual basis and may be withdrawn in due course.

RTs will be granted to a project as applicable when it is commissioned and will differ according to technology and type of RES project. RTs will be set out in a ministerial decision which will be issued within the first half of each calendar year and will determine the RTs for the following calendar year. Especially, with respect to wind farms and small hydroelectric stations, the RTs set out in the ministerial decision will apply to projects entering into trial operation within the following two calendar years due to their longer construction period. Especially for 2016, the RTs will be set out in the legislation introducing the new support scheme and will apply to RES projects entering into trial operation by the end of 2017 (or by the end of 2018 in respect of wind farms and small hydroelectric stations).

During calendar year 2016, the decision will be made as to which technologies, categories, and installed capacity thresholds will also be supported through competitive bidding processes from 2017. Such decision will be based on the outcome of pilot tenders among other factors.

#### **Exemptions from new support scheme.**

Initially, wind farms with an installed capacity of up to 3 MW, facilities using other RES technologies with an installed electricity capacity of less than 500 kW and demonstration projects<sup>3</sup> may elect to be funded on the basis of a fixed feed-in tariff ("FiT") and not participate in the electricity market.

#### **Duration.**

Operating aid will be granted for the same period as the previous scheme (*i.e.* 25 years for rooftop PV projects subject to the special programme (PVs up to 10 kWp installed on buildings) and solar thermal plants, and 20 years for all other technologies).

#### **Entry into effect.**

The new operating aid scheme will be effective as of 1 January 2016.

#### **Photovoltaic projects**

Operating aid for all new photovoltaic projects above 500kW will be granted from the first half of 2016 solely through competitive bidding process which will take place on a pilot basis (see section entitled "Competitive bidding process from 2017" below). The plan provides for two such auctions to take place in each half of 2016 in order to cover at least 10% of all projected new PV installations until 2020. The RT, which will be the basis for the calculation of the FiP for these projects, will derive from the competitive bidding process.

#### **Transitional provisions**

According to the Proposal, projects which signed power purchase agreements prior to the end of 2015 will be entitled to elect to be supported through a FiT scheme, provided that these projects enter into trial operation by 31 December 2017 (or 31 March 2018 for wind and small hydroelectric projects). Projects will be able to

<sup>3</sup> According to EEAG 2014-2020 and the Proposal the term "demonstration project" has been defined as a project demonstrating a technology as first of its kind in the European Union and representing a significant innovation that goes well beyond the state of the art.

move to the market-based system and the FiP scheme and will be encouraged to do so.

#### **Non-interconnected islands**

Due to Greece's geography, it has 32 isolated electricity systems not connected to the mainland grid. No intra-day electricity markets are in place on these islands. However, the implementation of the new support scheme for RES projects requires the existence of intra-day electricity markets. Such markets will operate on these islands after completion of the appropriate infrastructure which is expected in a gradual manner by the end of 2019. For these reasons, new projects built on these islands will not be able to participate in market-based mechanisms and will therefore continue to be remunerated under a FiT scheme for as long as the local electricity market so requires, based on the RT for each type of technology applicable on the date on which each project connects to the local grid. If an island is connected to the mainland or electricity generated on such island's electricity system participates in the market, new projects<sup>4</sup> will be supported under the market-based system applicable to new mainland projects (and be subject to balancing responsibilities and other obligations due to their participation in the market), but still based on the RT applicable at the time the projects entered into operation.

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“THE GREEK STATE INTENDS TO INTRODUCE A SCHEME FOR GRANTING OPERATING AID ON THE BASIS OF COMPETITIVE BIDDING PROCESSES IN 2017.”

#### **Competitive bidding process from 2017**

The Greek State intends to introduce a scheme for granting operating aid on the basis of competitive bidding processes in 2017. The competitive bidding processes will be introduced provided that such scheme will not result in circumstances similar to those set out in paragraph 126 of EEAG 2014-2020<sup>5</sup>.

This procedure will be further assessed and defined in the course of 2016 based also on the pilot competitive processes which will take place for PV stations exceeding 500 kW (see “photovoltaic projects” above).

<sup>4</sup> Other than projects which may be exempted from the new support scheme, as mentioned in the “Brief outline of the scheme” above.

<sup>5</sup> The circumstances referred to in paragraph 126 of EEAG 2014-2020 are: (a) only one or a very limited number of projects or sites could be eligible; or (b) a competitive bidding process would lead to higher support levels (for example to avoid strategic bidding); or (c) a competitive bidding process would result in low project realisation rates (avoid underbidding).

## FOR MORE INFORMATION

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Should you like to discuss any of the matters raised in this Briefing, please speak with a member of our team below or your regular contact at Watson Farley & Williams.



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