PROPOSED FRAMEWORK

FOR THE REPLACEMENT/ADAPTATION OF THE SUPPLIERS' SURCHARGE

1 March 2018

The Supplemental Memorandum of Understanding within the 3rd review of the Program introduced requirements related to the replacement and the reduction of the existing Supplier' Surcharge.

For these issues, the BoD of HWEA/ELETAEN has endorsed a framework of alternative proposals, the basic principles of which are presented here below.

A] For the replacement/adaptation of the Supplier' Surcharge after the Target Model

We consider that the fundamental principle introduced by L.4414/2016 should be maintained i.e. the suppliers should reimburse to the RES Special Account the benefit they gain thanks to RES penetration. This will lead to lower costs for the consumers and will shorten payment delays for RES, as the experience of the last 1,5 years indicates.

According to our understanding, as long as it is considered that the existing mechanism of the Suppliers' Surcharge is not fully compatible with the target model, what should be changed - after the full application of the target model - is the methodology for the calculation of the suppliers' benefit.

In light of the above, we present two alternative proposals:

Basic proposal

i) The special levy paid directly by the consumers (ETMEAR) should reflect exclusively the additional cost of RES and should not contain components which are irrelevant to RES, whether these relate to suppliers' cost subsidies in the years preceding L.4414/2016 or new subsidies from now on.

ii) Instead of the hourly calculation of the Suppliers' Surcharge by solving the wholesale market twice (with and without RES-s), the following is proposed: **At regular intervals (e.g. quarterly), the Regulatory Authority for Energy will calculate ex-post, the benefit of the suppliers deriving from RES penetration**. The calculation should be based on the actual facts creating this benefit within the previous period (e.g. savings of payments to conventional IPPs beyond the SMP if any, merit order effect, substitute conventional energy per fuel, generation costs, etc.). **This benefit will be reimbursed by the Suppliers to the RES Special Account through a special surcharge that will be charged to them for the next period and which will remain constant in €/MWh for that period.**

iii) On a monthly basis, the administrator of the RES Special Account will determine the balance of the account, taking into account all cash flows (e.g. possible additional income from the concept of guarantee of origin, if applicable).

iv) There should be a definitive measurement (quantification) of the suppliers' benefit from the funding mechanism of the RES Special Account in the years before 2016. For that reason, RAE should draft a relevant review study based on the same principles as it has so far incorporated into its methodology for the Suppliers' Surcharge. In this way, it will determine which part of the previous deficit is not due to RES. This amount should be recorded to be known.

As long as it is considered non-realistic (and perhaps non-reasonable) that this amount should be borne directly by the suppliers, the consumers should continue being burdened through a new levy and an equal reduction of ETMEAR. Essentially, it is proposed that the existing ETMEAR should be divided into two distinct fees: one that includes the "real" ETMEAR and will reflect the actual additional cost of RES, and a new fee (which will continue to be borne by consumers), which will reflect the cumulative subsidies of suppliers' costs until 2016 and will have a neutral name (e.g. levy for balancing of suppliers' cost) in order to avoid unfair defamation of RES. It is expected that this new fee will initially be significantly larger than the actual ETMEAR, but it will disappear when meeting the suppliers' accumulated subsidies. In any case, the overall result for the consumer is neutral.

The above proposal (and especially its clause ii) has the following characteristics:

- It maintains the benefits gained by the consumers,
- It increases the competition margin among the suppliers, since it eliminates their cost subsidy existing before L. 4414/2016,
- It leads to the reduction of the payments delays to RES,
- It strengthens the viability of the RES Special Account and its administrator, increasing the investment security,
- It is compatible with the expected new market design,
- It is compatible with other alternative ideas for additional inflows to the RES Special Account. These ideas -if finally adopted- may act complementary to the present proposal,
- It is simple and can be easily applied when the target model will be fully operational in Greece.

<u>Alternative Proposal</u>

The alternative proposal includes the full incorporation of ETMEAR into the suppliers' cost. In practice this could be done by replacing the ETMEAR with a charge automatically calculated by the administrator of the Special RES Account at the end of each period (e.g. yearly) and imposed on the suppliers, so that the Account remains in balance, with an adequate margin of safety. In this simple way, the need to produce technically correct and fair calculations of the real additional cost of RES is avoided. It is important that this new charge will be imposed automatically and immediately by the administrator (in a manner similar to the invoicing for the capacity availability payments or the cost recovery payments when existing) in order to reduce the regulatory risk that exists when such decisions depend upon Ministers' or RAE's actions.

B] For the decrease of the existing Suppliers' Surcharge

It is obvious that when calculating the amount of this decrease, all the factors that affect or are expected to affect the inflows and outflows of the RES Special Account and the period of the payments delays to RES producers should be considered. Among other things, the following should be taken into account:

i) The cash deficit which leads to delays in payments. The remaining accounting surplus should be sufficient to continue the progressive reduction of the payments' delays. In order to achieve this, the decrease of the existing Suppliers' Surcharge should follow the expected reduction of the unpaid bills to the suppliers. Such reduction (if achieved) will increase the total inflows in the electricity market chain (and subsequently in the RES Special Account) and it will balance the opposite pressure due to the reduction of the existing Suppliers' Surcharge.

ii) The outstanding issues from the final winding up of ETMEAR of the previous years.

iii) The risks related with the demands for default interests due to the payments delays.

In any case, we consider that the assumptions on which these calculations will be based should be announced and discussed before the decisions are finalized.