



Energy Market Integration and Transition in South-East Europe
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Thank you for your invitation to participate in this panel discussion on the domestic and regional electricity market dynamics and to present the prospects of PPC.

PPC SA is a vertically-integrated electricity company, from mining to electricity supply, established since 1950. It is controlled by the State, while 48.5% are private shareholders among which more than 30% are foreign capitals. It is listed into the Athens and London Stock Market.

PPC is activating in an intense competitive market, in Electricity Generation and Trade, according to EU legislation. The monopoly status has been abolished for more than 16 years now.

The Greek electricity market has been faced with changes to facilitate transition to the target model from the current mandatory pool, in line with European Union's directives and energy integration system. The electricity market should be free of distortions and over-taxation, providing visibility to all participants.

PPC fully supports the intention of the government to have this transition concluded by 2018.

The adoption and implementation of "Regulated Forward Electricity Products Auctions" (NOME type auctions), for lignite-fired and

hydro generation is in progress, with the objective to open the market by lowering the retail and wholesale market shares of PPC, to bring them at below 50% by 2020.

The regulated prices of the Greek NOME auctions are based on the variable costs of PPC's lignite and hydro generation. This means that PPC's lignite and hydro generation business will not be able to cover the full cost, nor achieve any reasonable return on capital investment.

Besides, the electricity purchased through such auctions can be exported, while, access to such purchases is not allowed for industrial consumers.

Related to the above auction system is the question of the market share. A considerable part of the Retail market is practically impervious to opening up given the challenging profitability profile (Agricultural and HV clients) or the very high amount of non performing clients (public).

It means that while PPC's nominal market share in the whole Retail market was ~91% in 2016 (about 46 TWh), it is in fact smaller closer to 63% (about 31 TWh) if calculated on the basis of the actual open Retail market.

This market share becomes even smaller, if the high number of non performing clients (i.e., more than 1 year arrears) is taken into account.

Just to mention that the market share in Generation is already less than 50%.

PPC argues and has requested that any reduction in PPC's market share should come from all customer segments and not only from those with low risk.

We insist that lignite needs to continue to be a strategic fuel with a significant contribution to the country's energy mix. (Close to 30% for the next two decades).

This is necessary, in order to ensure stable electricity cost not subject to commodity volatility, as well as security of supply and less reliance on imported fuel. This would make more attractive investments in operational and environmental upgrade of aged generation units. It will also ensure the steady passage to the other national dynamic advantage which is the Renewable Energy Sources (RES).

The experience of the energy crisis of December and January 2017 points out what should have happened if there were not available the lignite fired plants.

In that sense, the divestment of 40% of the lignite fired units accompanied with the assorted lignite mines may be incorporated in the national energy long term planning which is in progress, for the first time in Greece. Ultimate target should be the competitive electricity cost and pricing of electricity for the benefit of the end consumer and the national economy. We also expect that the divestment will put aside the former NOME type auctions.

We believe that PPC can and will continue to play a leading role in the Greek electricity market and in the broader region.

Our strategy is to build on PPC's strengths and proceed with investments, which add value to our company but also the national economy.

During the last six years, although in the period of economic crisis, we have invested close to 5 billion euros for projects in mining, generation, distribution and transmission network, aiming at:

- the renewal of our generation fleet
- the security of supply in the islands
- the modernization of Distribution networks

Almost 1.6 billion euros, out of this amount, has been invested in Generation projects such as, the construction of the Aliveri V natural gas unit (427 MW) which is already in commercial operation, the Hydro Power Plant Ilarion (157 MW) and the Megalopolis V natural gas unit (832 MW), which are currently in trial operation.

Apart from setting them into full commercial operation, our pipeline includes an oil plant in South Rhodes, (with a capacity of 120 MW), two large hydro power plants, (with a total capacity of 191 MW), and the new lignite unit in Ptolemais with a capacity of 660 MW.

The above mentioned investments replace capacity that has already been decommissioned in the period 2010-2015 or to be set to cold reserve within the next period.

Our investment and decommission strategy is aimed at the reduction of both our fuel and CO₂ emissions costs, due to improved thermal efficiency, lower fuel consumption and lower emissions.

On top of that, we are proceeding with a capex program for new generation projects in non-interconnected islands, which are estimated to be concluded by 2021. (For 290 MW of total capacity)

Our network capex strategy also includes the reinforcement of our Distribution networks and the installment of smart meters, as well as the reinforcement of the Transmission System in Peloponnese.

We are actively interested in creating and operating the Energy Stock Exchange, for our broader region, within the framework of the Target Model. We have already established electricity trading companies in Bulgaria, Turkey and Albania.

We are looking at opportunities to expand our activities in foreign markets also through Joint Ventures. We are also searching into re-tapping the international capital markets, when conditions are favorable for us.

Last, but not least, we place significant importance on enhancing corporate governance and promoting organizational adaptability in order to best position the Company in an evolving and challenging environment. Thank you for your attention.