

23.6.2016

Speech of Mr. Panagiotakis, Chairman & CEO of PPC S.A. in the “20th Roundtable with the government of Greece – Economist 2016”

“Ladies and Gentlemen,

High expectations have been built for the further opening of the retail electricity market.

Consumers will benefit from lower prices. Companies will benefit from the lower cost and this will boost the economy.

But is this true? Is there any magic formula for the reduction of the electricity generation cost with a corresponding positive impact on consumption? Are we heading towards such a perfectly operating market?

We are close to the implementation of NOME, through which, PPC’s share in the retail market will have to gradually but also rapidly decline below 50% by the end of 2019 from 91% that it currently stands, having the obligation to sell its generation to its competitors below cost.

Some people are addressing the issue of the electricity market in Greece in a superficial manner to say the least. According to them, the only problem of the market is PPC’s high share, which needs to be reduced by all means. And the question is: at any cost?

However, reality is quite specific, and whoever insists on ignoring it is either making an inexcusable mistake or serves other purposes.

Currently, the electricity market in our country has been structured and operates as if PPC is still a quasi-monopoly, which can withstand any impact from all applied policies.

All these years, the State, through PPC, has been implementing its policies with respect to socially vulnerable customers and consumers in islands. As a result, an amount that exceeds € 600 mln has been accumulated from the provision of Public Service Obligations.

Through PPC, agricultural policy is being applied, and through PPC the Central Government is managing its payments obligations. PPC has been used as a tax collection vehicle. Especially for the years 2012-2013, PPC was burdened with the collection of significant amounts relating to the so called Property Tax, which has been the main reason for collection issues and the accumulation of overdues.

Through PPC, certain local authorities apply their own policy resulting to an accumulated debt of € 90 mln approximately that corresponds to Municipal enterprises for water supply and sewage.

PPC was also used in supporting any competition in the generation market through the financing of third party natural gas generators with more than € 1.5 bln in the previous years with the known mechanisms for the capacity payments and the recovery of the variable cost.

On top of that it is actually PPC, which funded the irrational and hasty growth of the highly expensive Renewables technologies, such as the photovoltaics.

Today, certain large categories of consumers - who are loss-making and in any case not at all "attractive", on purely business grounds - are attached to PPC.

I am referring to High Voltage customers, agricultural customers, the social tariff beneficiaries, the Public Sector and all related entities.

If on top of the aforementioned customers, we add those with accumulated dues, whether under settlement or not, then the share of the customers attached to PPC amounts to 55%, in terms of volume.

In general, there are distortions in the Greek electricity market. Electricity generation cost is considerably higher than the system marginal price – that is the wholesale price. Thus, PPC's generation has become loss making.

In the absence of all that I have already mentioned, the reduction of PPC's market share, even at the 50% level, could be done with a relatively low negative impact for PPC. However, reality is quite different. The reduction of PPC's market share and the implementation of NOME has to be done with utmost diligence and with the most appropriate way.

At the same time, it is imperative to have a roadmap the soonest possible in order to address the already mentioned situation. In any case, PPC must not suffer a crucial hit, with the market reaching a deadlock, a development which would have consequences for the national economy that are difficult to estimate.

Besides, in the next couple of years, within the framework of the EU target model, the way that the electricity market in Greece operates will undergo structural changes. We will move forward with bilateral contracts between generators and suppliers, which is by definition a more integrated market model. NOME cannot operate without taking into consideration this structural change. They need to adapt. All things considered, we are at a crossroad; one direction is real competition with investments, modernization and increased efficiency, cost reduction and providing the consumer with the option to choose amongst competitors and the other one is quick and easy profit for the few, with no risk undertaking and with short lived, and lower than their profits benefits to certain consumers, but at the same time to the detriment of the majority of the consumers, the economy and the country in the long run.

I believe that following a substantial intervention of the State, the right choice will be made.

The first issue is the starting price of NOME auctions, which will be decided by the competent Ministers following a relevant opinion of the Regulator. Let me point out that such price has to be close to the system marginal price, bearing in mind that currently this price is quite low and allows for high profit margins. This is crucial so that PPC does not lose all of its profitable customers and ends up only with the ones that are "problematic".

The second issue is the mechanism for the implementation of NOME. It should be implemented under the principle that NOME is the mean for the opening up of the market and not an end in itself.

Most importantly: it is not possible that PPC is obliged in the next three years to auction, below cost, to its competitors up to the total lignite and hydro generation.

Ladies and gentlemen,

If we really intend to create a market based on fair competition rules, it is imperative to eliminate in practice any prospect of full destabilization.

To this end, PPC undertakes specific initiatives, which I am announcing today in the ECONOMIST Conference.

We are creating electricity supply companies including customers from all categories. These companies will be provided with guaranteed wholesale prices and will be offered for sale to other suppliers via a tendering process. Our planning is that the first company, with a 6-7% share, that is 400,000 customers approximately, will be ready by September.

We believe that those suppliers who have a strategic view on the electricity market will respond to our initiative.

With this initiative, the smooth opening up of the retail market is safeguarded to a considerable extent, as it will include the largest part of consumers. Moreover, PPC will have the time to counterbalance its losses through other business activities, which are being already underway, as well as to improve its operating performance through the appropriate structural measures. Finally, the State will have the opportunity to redesign the market without today's distortions, according to best European practices.

However, this is not enough, especially in the transitional phase. Issues such as various dues to the Company (overdues by the Public Sector - Public Service Obligations, etc.), cases of unfair or unreasonable taxation (for instance the special lignite levy) should not be put off indefinitely. And obviously with respect to the restructuring of the market, it is essential to provide for the recovery of the generation cost.

Last but not least, PPC is faced with the perfect storm of fierce competition, while at the same time it is closely attached to the public sector. This has to change immediately. In order for PPC to have a sustainable future, it needs to operate as a privately run enterprise.

I would like to conclude with the comment of a senior executive of the Institutions: States fail not only because of banks but because of energy as well. So let us all Greeks assume responsibility for the development of a healthy market and at the same time may the EU assume its responsibilities by approaching the Greek Energy sector in a holistic way as it is necessary."