

2017

# Hellenic Energy Regulation Institute

## Newsletter – Issue 7, May-June 2017

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***Athens Conference on European Energy Law,  
29 September 2017***



The Athens Conference on European Energy Law is a joint initiative between the Energy Law and Policy Area of the Florence School of Regulation and the Hellenic Energy Regulation Institute, which aims to address the key issues facing Greece and the surrounding region. The conference will bring together academics, institutional representatives, and key market players to discuss;

- a) The East Mediterranean region: the geopolitical implications and prospects of regional cooperation in the exploitation of hydrocarbons.
- b) Transnational pipelines: how to play by EU rules?
- c) The EU hydrocarbon market and the EU's developing gas market design.
- d) The EU's electricity market design and the challenges of competition law and energy supply.

The Conference is proudly sponsored by HELPE, ELPEDISON, DESFA and Metaxas & Associates Law Firm.

To register, please click [here](#).

**Metaxas & Associates Law Firm sponsors the forthcoming distinguished 21<sup>st</sup> Roundtable with the Government of Greece organized by the Economist (Athens, 28-29 June, 2017)**

Metaxas & Associates Law Firm is glad to announce its role as sponsor of the forthcoming distinguished 21<sup>st</sup> Roundtable with the Government of Greece organized by the Economist “*EUROPE UNRAVELLING, GREECE UNTANGLING – Brainstorming with world leaders*” which will take place at Grand Resort Lagonissi, Athens, on 28-29 June, 2017.

Invited speakers are institution leaders and distinguished personalities from around the world, including Greece's Prime Minister Alexis Tsipras, the leader of the main opposition, President of the New Democracy Party, Mr. Kyriakos Mitsotakis, the Chairman and CEO of Mytilineos Holdings, Mr. Evangelos Mytilineos, Greece's Minister of Economy and Development, Mr. Dimitris Papadimitriou, Greece's Alternate Minister of Finance, Mr. Declan Costello, Mission Chief for Greece in the European Commission, Ms. Delia Velculescu, Mission Chief for Greece, European Stability Mechanism (ESM), Mr. George Chouliarakis, the Deputy Director of the European Investment Fund, Mr. Hubert Cottogni and many more.

Prof. Dr. Ant. Metaxas is again invited to participate in such a seminal conference as Commentator/Moderator of the Panel on the Prospects of the European and Greek Energy Market.

Business leaders and top personalities from politics and academia will once again brainstorm, openly discuss and put forward new

proposals on all the issues that this year's 21st annual Roundtable will be covering.

M&A Law Firm's participation in this leading Conference of the Economist is typical for its categorization as a distinguished leading law firm especially in the core fields of its specialization in particular energy, privatizations and legal and regulatory aspects in all network bound sectors of the economy.

You can visit the two-day Summit's website via this [link](#).

### 3

#### **M&A's Legal Update: EU and Gazprom: A legal compromise that will shape Europe's natural gas landscape?**

The compromise between the European Commission and Gazprom has been triggered by the substantial commitments made by the Russian gas giant with regard to the omission of acts breaching EU antitrust rules. More precisely, in April 2015 the European Commission addressed a Statement of Objections to Gazprom, exposing the latter's violations of antitrust rules within the Central and Eastern European gas markets, which impeded the free gas flow therein.

In those objections, the EC expressed serious concerns on the fact that, on the one hand, Gazprom imposes territorial restrictions in its supply agreements with wholesalers and industrial customers located in Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Hungary and Slovakia while, on the other, via such restrictions it is offered more leeway to impose higher charges.

In response to the Commission's objections, Gazprom has committed not only to remove all contractual barriers which either

prevent the above-mentioned Member States from re-selling gas crossing their borders to third countries or denude such operations of their profitability, but also to invalidate the “take or pay” clauses providing the company with the right to claim a share of the re-sale profit. Furthermore, Gazprom has fully guaranteed that its pricing shall be driven by the principles of competition in a free market, not by its dominant position in the gas supply market.

Meanwhile, Bulgaria seems to be the main beneficiary of the achieved compromise since Gazprom, by means of its above-mentioned commitments, has resolved a most troubling issue for Bulgargaz, i.e. the right to re-sale Russian gas, thus permitting the liberalization of the gas market.

In parallel, as the European Commission had expressed its concerns on the fact that Gazprom claims might arise in case it decided to abuse of its dominant position in the gas market, the fact that the Russian company has accepted to waive damage claims against its Bulgarian partners, originating in the South Stream project cancellation, has come as an important relief.

The commitments undertaken by Gazprom shall facilitate the progress of gas projects, such as IGB, even if the perspectives of natural gas supply largely depend on its price, while the interest of the Russian gas producer and supplier now turns towards its transportation via the Turkish Stream or even the TAP.

The European Commission invited all interested parties to address their comments on the commitments provided by Gazprom within seven weeks from their date of publication in the Official Journal of the European Union. According to Article 9 of the Council Regulation (EC) No 1/2003 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty

establishing the European Community, once those commitments become legally binding, upon the Commission's decision, a fine of up to 10% of Gazprom's global turnover may be imposed in case of violation of the EU antitrust rules.

Notwithstanding Gazprom's concessions on some key issues, the compromise between the company and the European Commission seems to also present considerable benefits for Gazprom itself, since the Nord Stream 2 Project, in spite of the longstanding Commission's opposition, now presents very good chances of approval. Such Pipeline shall transport Russian gas to Germany through the Baltic States, while circumventing Ukraine. Consequently, Gazprom's position in the European gas market shall be undoubtedly amplified, as the company shall not be obliged to negotiate or conclude any interconnection agreement with Ukraine, while the Russian gas shall be commercialized in more competitive prices. Nevertheless, concerns are raised on a possible abuse of Gazprom's dominant position.

Countervailing such a scenario, the Commission underpins that its main objective is to safeguard the free gas flow within the European gas market and that any measure necessary to safeguard healthy market competition shall be taken. Gazprom may, therefore, need to partly sacrifice its control over certain East European markets, mainly Bulgaria, Ukraine, Slovakia and Poland.

As a conclusion, it should be noted that pressure from the German side has played an important role in the EC's change of attitude as regards the realization of the Nord Stream 2 Project, which is expected to become the main infrastructure transporting natural gas in Europe. In any case, the decision relating to the approval of such project is expected within the next few months.

4

## **Commission opens in-depth investigation into German plans for electricity capacity reserve**

The European Commission has opened an in-depth investigation to assess whether German plans to set up an electricity capacity reserve comply with EU state aid rules. The Commission has raised concerns not only about the non-fulfillment of the state aid rules requirements, but also about the potential of the plan to distort competition and favour power plant operators over demand response operators.

Commissioner Margrethe Vestager, in charge of competition policy, said: *"Reliable electricity supplies are crucial to a functioning economy and Germany has a legitimate interest to ensure security of supply for its citizens and businesses. It is our role to ensure that companies are granted state support only when it is truly necessary and in a manner that limits distortions of competition. We currently have a number of concerns regarding the need and design of the German strategic reserve. This is why we will investigate further and invite third parties to submit their views on the measure."*

Germany has plans to introduce a capacity reserve measure (or 'Kapazitätsreserve'), which would require German network operators to procure 2 Gigawatt (GW) of capacity that would be held in reserve outside the market. Germany does not expect to experience structural capacity shortages in the future but aims to create a safeguard against unforeseen developments during its ongoing transition to a low carbon, environmentally sustainable energy supply. The extra capacity would be used as a strategic reserve for

such extreme and unforeseen circumstances, when the electricity market does not manage to deliver enough power to meet all demand.

In order for the Commission to approve a capacity measure under EU state aid rules, in particular the Commission's 2014 Guidelines for energy and environmental state aid, the Member State must demonstrate the need for the measure, ensure that it is fit for purpose and open to all capacity providers.

At this stage the Commission has doubts as to Germany's assessment of the need for the reserve. It will now seek to better understand the assumptions and scenarios that Germany has used to calculate the development of electricity demand and supply in the years ahead, also giving interested third parties the opportunity to comment on the assessment and submit their views.

Furthermore, it appears that the measure will not be phased out once Germany's reformed electricity market is fully functional. The scheme is set to start operating in winter 2018/2019, for an initial period of two years. The initial 2GW reserve could then be renewed and enlarged in subsequent years. The Commission is concerned that, even if Germany's assessment were to be confirmed that the reserve is needed today, the measure could continue to exist even when it will no longer be necessary.

The Commission also found that the criteria for capacity providers to participate in the reserve may not be sufficiently open for demand response operators (i.e. customers ready to cut or reduce their electricity use to help balance demand with supply). Moreover, foreign capacity providers are excluded from participation.

Finally, the Commission at this stage believes that Germany may not have carried out all possible market reforms that would enable

the market to fully ensure security of supply at the lowest possible cost and without the need for state intervention. Even if capacity measures are well designed, they cannot replace the essential electricity market reform.

## 5

### **Commission confirms no aid in concession deals for Greek regional airports**

The European Commission has concluded that concessions for 14 regional airports in Greece were awarded on market terms and, therefore, they did not involve any state aid on the grounds that the terms of the concession agreements are in line with market conditions, in particular because they result from a competitive, transparent and non-discriminatory tender.

In 2014 Greece awarded two contracts granting the concession for the upgrade, maintenance, management and operation of in total fourteen Greek regional airports, to the German-Cypriot Fraport AG-Slntel Ltd consortium. In exchange, Fraport AG-Slntel Ltd will pay concession fees to the Greek State. Greece had committed to granting a concession for these airports as part of its obligations arising from the stability support program for Greece.

The concession agreements were signed in December 2015 and subsequently ratified by the Greek Parliament. Greece then notified them to the Commission in October 2016, seeking confirmation that they do not involve state aid. The Commission found that the terms of the concession agreements are in line with market conditions, in particular because they result from a competitive, transparent and non-discriminatory tender. It also found that Greece selected the best

offer submitted in this tender, i.e. the concessions were awarded to the company whose offer would generate the highest revenues for the Greek State. On this basis, the Commission concluded that the Greek State awarded the concessions under terms that a private operator would also have accepted.

The Commission also found that the provision or procurement of certain public services by the Greek State (such as air traffic, police and customs controls at the airports concerned) do not confer an economic advantage on the airport operator and therefore does not constitute State aid to the latter. The concession agreements, therefore, do not involve any state aid to the Fraport AG-Slental Ltd consortium within the meaning of EU rules.

Today's Commission decision clears one condition that needed to be satisfied before the concessions can become effective. It is now for the Greek authorities to take the final steps to complete the transfer and delivery of the airports under concession.

The 2014 Guidelines on state aid to airports and airlines clarify when the financing of activities falling within the public policy remit, or of infrastructure directly related to those activities, in general does not constitute state aid.

The non-confidential version of the decision will be made available under the case number SA.44259 in the State Aid Register on the DG Competition website once any confidentiality issues have been resolved.

## 6

### **EU Gas market design: the quiet before the storm?**

In 2009, the Third Energy Package initiated a profound re-shaping of the EU internal gas market structure – from unbundling to the invention of ACER and the ENTSOs. This legislation required the development of the gas Network Codes which have more or less smoothly carried out the implementation phase – giving the impression that, although not perfectly, the current gas market design is good enough to satisfy most of the market actors' needs and, more importantly, it seems to work. Will the “Winter Package” contribute to the effectiveness of the operation of the existing internal energy markets?

However, after the long-lasting negotiations concerning some Network Codes' provisions (particularly the Tariffs NC) – no big controversies have lately emerged on EU gas regulation, not even after the release of last year's Security Package.

So is the current EU gas market picture the best of all possible worlds? Is this apparent calm due to a general and multilateral satisfaction with the current frame? Or are we just witnessing a short quiet before the storm?

This strange silence made me think of Oscar Wilde's famous quote: “Whenever people agree with me, I always feel I must be wrong.” And indeed, maybe just to be on the safe side, a couple of months ago the European Commission's DG Energy opened a call for a research study on future EU gas market design – called Quo Vadis? - which aims to investigate whether any piece is missing in the puzzle and, if needed, trigger a next regulatory package on EU gas market.

Meanwhile, the Annual report published by ACER in September last year shows that there's still some work to do in order to obtain a truly harmonized Single EU gas market. In particular, the binding implementation of the Congestion Management Procedures is still

pending in six Member States; also, the achievement of the Gas Target Model seems still far away, with market integration and the creation of trading regions proceeding at slow pace.

## 7

### **Can a new energy Governance fill the gaps of the EU gas market?**

With the Clean Energy Package released last November, the EU Commission proposed a new Regulation on the Governance for the Energy Union, specifically concerning the achievement of the “ambitious climate policy” targets.

The aim is to consolidate ‘the existing patchwork’ of national planning/reporting and EU legislation across energy, climate and replace the various existing sectorial plans with one comprehensive integrated plan and report: “These objectives can only be achieved through a set of coherent and coordinated actions – legislative and non-legislative – at EU and national level [...which] requires the Energy Union to establish robust Governance.”

#### **But what is energy Governance?**

The concept of Governance embraces at least three dimensions: the decision-making process, relations between actors and rules implementation.

In the energy world, physical interconnections make the debate on governance inevitable. This is particularly true if applied to the gas world, where infrastructures cross different markets, regimes, jurisdictions while keeping a strong link to the national territory.

#### **Why an Energy Governance debate now?**

Is there a need to open a chapter about Governance of the Energy Union? And if so, why now? There are at least three topics to be addressed:

- The role of the new actors: the consumers
- Regionalisation of governance
- The management of energy security, particularly the concept of solidarity in emergency situations

Regarding the first point, in recent years the “renewable energy revolution” has profoundly changed the market structure, causing a shift in the traditional roles of producers and consumers and creating new actors such as “prosumers” and aggregators. The EU debate on governance should enquire on which powers and rights these new entities might have and what their participation should be in the decision-making process on rules and future investments. What’s the minimum level of aggregation? Could/should every single prosumer participate in the political and regulatory decisions affecting his future and, if so, via which instruments?

While these questions currently concern the electricity sector more than the gas one, the shift from a national to a more regional or even local perspective is something that the gas sector too, albeit in smaller proportion, is also experiencing. While in the past the EU gas market used to have an undiscussed national – if not global – dimension, today there are already those who think about a “mirroring” exercise with the EU electricity sector to make the two markets (artificially) more alike.

The debate on solidarity originates, instead, from the gas sector. While solidarity is included as a principle in the EU Treaties, it’s only in the Review of the Security of Supply Regulation (2015) that solidarity is for the first time, in a detailed manner, provided for.

But, of course, solidarity between EU Member States doesn't arise naturally just because of economic incentives: we have also seen this on other occasions, such as the Greek economic crisis or the recent Refugees emergency. For these reasons, an attentive review of which governance should apply in case of security of supply emergencies is absolutely necessary at this point. Which rules: internal needs first and the neighbours' ones later – or a pre-established plan? Until which point should the market be left free to compensate these needs? And who should intervene?

## 8

### **Is Europe heading towards a seamless transmission system for electricity?**

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The EU claims to have an internal market for electricity already in place. Nowadays, most of the national power markets in Europe are coupled for the day-ahead transactions.

Nonetheless, are we sure that the European set of grids and power plants is operated as a single seamless system? Are national borders disappeared for market operators? Are all plants in all countries of the continent not discriminated when the market's merit order is defined? Is operation of the European interconnected grid for electricity promoting the efficient use of all available resources, included the renewables installed in the last few years? And finally,

are we sure that extreme events like the cold spell of January 2017 are already addressed with the highest levels of service reliability?

These questions must be taken into account because an electric market of European size can work well only if:

- the system is coordinated well enough across borders;
- there is a clear enough framework for the allocation of the costs and benefits of a European-wide coordination;
- there is a real spirit of solidarity expanding beyond day-to-day cost and benefit responsibility.

The Florence School of Regulation is investigating these fascinating topics in the context of the Winter Package released last November and will soon come out with a new research report.

## 9

### **Commission introduces new anonymous whistleblower tool**

Complementary to the “leniency mechanism” used to allow businesses to report their own involvement in a cartel in exchange for a reduction of the fine imposed on them, a new tool has been introduced by the Commission which provides individuals with the right to alert the Commission about secret cartels and other antitrust violations while maintaining their anonymity.

Individuals can now help anonymously in the fight against cartels and other anti-competitive practices. These practices include agreeing on prices or procurement bids, keeping products off the market or unfairly excluding rivals and can cause immense damage to Europe's economy. They can deny customers access to a wider

choice of goods and services at reasonable prices, stifle innovation and put companies out of business.

Commissioner Margrethe Vestager, in charge of competition policy, said "If people are concerned by business practices that they think are wrong, they can help put things right. Inside knowledge can be a powerful tool to help the Commission uncover cartels and other anti-competitive practices. With our new tool it is possible to provide information, while maintaining anonymity. Information can contribute to the success of our investigations quickly and more efficiently to the benefit of consumers and the EU's economy as a whole".

Until now, most cartels have been detected through the Commission's leniency programme, which allows businesses to report their own involvement in a cartel in exchange for a reduction of the fine imposed on them.

The Commission's new tool gives an opportunity also to individuals who have knowledge of the existence or functioning of a cartel or other types of antitrust violations to help end such practices.

The new system increases the likelihood of detection and prosecution and so stands to further deter businesses from entering or remaining in cartels or carrying out other types of illegal anti-competitive behaviour. It therefore complements and reinforces the effectiveness of the Commission's leniency programme.

The new tool protects whistleblowers' anonymity through a specifically-designed encrypted messaging system that allows two way communications. The service is run by a specialised external service provider that acts as an intermediary, and which relays only the content of received messages without forwarding any metadata that could be used to identify the individual providing the

information. More specifically, it allows individuals to provide information, gives them the option of asking for the Commission to reply to their messages, allows the Commission to seek clarifications and details, preserves the individual's anonymity through encrypted communications and the use of an external service provider and aims to increase the likelihood that the information received will be sufficiently precise and reliable to enable the Commission to follow up the leads with an investigation.

Individuals that are willing to reveal their identity can contact the Commission's competition department directly through a dedicated phone number and e-mail address.

## 10

### **Commission presents White Paper on the future of Europe: Avenues for unity for the EU at 27**

As announced in President Juncker's 2016 State of the Union speech, the European Commission has presented a White Paper on the Future of Europe, which forms the Commission's contribution to the Rome Summit of 25 March 2017. The White Paper offers a glimpse into the potential state of the Union in 8 years from now by looking at how Europe will change from the vehement impact of new technologies on society and jobs, the rapid pace of globalisation, security concerns and the rise of populism.

As we prepare to mark the 60th anniversary of the EU, we look back on a peace spanning seven decades and on an enlarged Union of 500 million citizens living in freedom in one of the world's most prosperous economies. At the same time, the EU has to look forward at how it will carve a vision for its own future at 27. The White Paper

sets out the main challenges and opportunities for Europe in the coming decade. It presents five scenarios for how the Union could evolve by 2025 depending on how it chooses to respond.

European Commission President Jean-Claude Juncker said: "60 years ago, Europe's founding fathers chose to unite the continent with the force of the law rather than with armed forces. We can be proud of what we have achieved since then. Our darkest day in 2017 will still be far brighter than any spent by our forefathers on the battlefield. As we mark the 60th anniversary of the Treaties of Rome, it is time for a united Europe of 27 to shape a vision for its future. It's time for leadership, unity and common resolve. The Commission's White Paper presents a series of different paths this united EU at 27 could choose to follow. It is the start of the process, not the end, and I hope that now an honest and wide-ranging debate will take place. The form will then follow the function. We have Europe's future in our own hands."

The White Paper looks at how Europe will change in the next decade, from the impact of new technologies on society and jobs, to doubts about globalisation, security concerns and the rise of populism. It spells out the choice we face: being swept along by those trends, or embracing them and seizing the new opportunities they bring. Europe's population and economic weight is falling as other parts of the world grow. By 2060, none of our Member States will account for even 1% of the world's population – a compelling reason for sticking together to achieve more. A positive global force, Europe's prosperity will continue to depend on its openness and strong links with its partners.

The White Paper sets out five scenarios, each offering a glimpse into the potential state of the Union by 2025 depending on the

choices Europe will make (see Annex). The scenarios cover a range of possibilities and are illustrative in nature. They are neither mutually exclusive, nor exhaustive.

**Scenario 1: Carrying On -** The EU27 focuses on delivering its positive reform agenda in the spirit of the Commission's New Start for Europe from 2014 and of the Bratislava Declaration agreed by all 27 Member States in 2016. By 2025 this could mean:

Europeans can drive automated and connected cars but can encounter problems when crossing borders as some legal and technical obstacles persist.

Europeans mostly travel across borders without having to stop for checks. Reinforced security controls mean having to arrive at airports and train stations well in advance of departure.

**Scenario 2: Nothing but the Single Market –** The EU27 is gradually re-centred on the single market as the 27 Member States are not able to find common ground on an increasing number of policy areas. By 2025 this could mean:

Crossing borders for business or tourism becomes difficult due to regular checks. Finding a job abroad is harder and the transfer of pension rights to another country not guaranteed. Those falling ill abroad face expensive medical bills.

Europeans are reluctant to use connected cars due to the absence of EU-wide rules and technical standards.

**Scenario 3: Those Who Want More Do More –** The EU27 proceeds as today but allows willing Member States to do more together in specific areas such as defence, internal security or social matters. One or several "coalitions of the willing" emerge.

**Scenario 4: Doing Less More Efficiently -** The EU27 focuses on delivering more and faster in selected policy areas, while doing less

where it is perceived not to have an added value. Attention and limited resources are focused on selected policy areas. By 2025 this could mean

A European Telecoms Authority will have the power to free up frequencies for cross-border communication services, such as the ones used by connected cars. It will also protect the rights of mobile and Internet users wherever they are in the EU.

A new European Counter-terrorism Agency helps to deter and prevent serious attacks through a systematic tracking and flagging of suspects.

**Scenario 5:** Doing Much More Together – Member States decide to share more power, resources and decision-making across the board. Decisions are agreed faster at European level and rapidly enforced. By 2025 this could mean:

Europeans who want to complain about a proposed EU-funded wind turbine project in their local area cannot reach the responsible authority as they are told to contact the competent European authorities.

Connected cars drive seamlessly across Europe as clear EU-wide rules exist. Drivers can rely on an EU agency to enforce the rules.

*The Hellenic Regulation Institute is a scientific multidisciplinary forum founded by Metaxas & Associates Law Firm ([www.metaxaslaw.gr](http://www.metaxaslaw.gr)) in an effort to host a well-founded dialogue between energy experts and people interested in the energy field.*

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