

PPC AND ADMIE PRIVATISATION UPDATE

A NEW DRAFT LAW HAS BEEN PUBLISHED

The electricity privatization is running behind schedule beset by the same type of problems that have affected other major structural reforms. Poor preparation combined with slack implementation, lack of political willingness and European Commission lengthy consultation processes are the main factors behind the delays.

The draft law on ADMIE has been published for consultation and is expected to be submitted in Parliament within the next 3-4 weeks. The law is addressing issues related to the complete separation of the organization from PPC, especially regarding the fixed assets. The draft law does not contain any reference to the other major issue regarding the transfer to LAGHE of all the financial transactions of the market with the aim of relieving ADMIE from debts. These changes will pave the way for privatization.

As anticipated the two phases of privatization will now be combined and the 100% of ADMIE will be sold by PPC. A private investor is expected to acquire 66% while the state will acquire 34% so that it retains some influence over future decisions. The whole procedure is expected to be completed by the second quarter of 2014.

The study assigned by the Energy Regulator regarding the return on regulated assets has not yet been made public. Indications are that ADMIE must have a return of 10-12% for private investors to start becoming interested. Heavy investment requirements over the next 10 years especially regarding the connection with the islands cannot be financed without a generous increase on regulated income which will push electricity prices upwards.

ADMIE's privatization is also affected by previous arrangements regarding pension rights of employees. Legal challenges already

submitted have to be dealt with by the government by amending the existing law.

The funding of the 34% acquisition by the state is also a thorny issue for the government. The draft law envisages the possible offsetting of the cost of acquiring the 34% with outstanding taxes or other obligations of PPC towards the state.

The preparation for the creation of the small PPC is also underway and the legal framework for the break up is expected to be submitted for consultation sometime in January 2014. Small PPC is expected to absorb a number of major assets including the lignite units of Meliti, Amyntaio I and II and 4-5 hydroelectric units in the river Nestos. The list of the small PPC units has already been submitted to the European Commission for approval. Small PPC will absorb 30% of the employees and 30% of the existing customer base.

Up to now the Italians (TERNA and ENI) have expressed a preliminary interest for ADMIE. It remains to be seen whether the changes will satisfy prospective investors regarding the soundness of the legal framework and the attractiveness of the return on investment.

In conclusion new major developments are not expected before early January when the government will clarify its position regarding both ADMIE and the small PPC. The published draft law on ADMIE is largely of a procedural character and does not complete the full puzzle of the electricity market structure, but at least it shows that some movement is taking place. The intention of the government is to keep the timetable announced earlier this year and complete the PPC restructuring procedures and initiate privatization by June 2014.