Subject: SA.55526 (2021/N) - LNG Terminal Alexandroupolis in Greece

Excellency,

1. Procedure

(1) Following pre-notification contacts, pursuant to Article 108(3) of the TFEU, the Greek authorities notified to the Commission on 22 April 2021 its intention to provide support to the construction and operation of a liquefied natural gas (LNG) terminal located in Alexandroupolis (the "Project").

(2) On 19 May 2021, the Greek authorities submitted additional information.

(3) By letter dated 13 May 2021, Greece agreed to waive its rights deriving from Article 342 TFEU in conjunction with Article 3 of Regulation 1/1958\(^1\) and to have the present decision adopted and notified in English.

2. The Project

2.1. Project description

(4) The Project involves the acquisition of a Floating Storage Regasification Unit (FSRU) for the reception, storage and regasification of LNG and the construction of permanent

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\(^1\) Regulation No 1 determining the languages to be used by the European Economic Community (OJ 17, 6.10.1958, p. 385).
offshore installations (mooring system, risers etc.), as well as a system of a subsea and an onshore gas transmission pipeline which connects the FSRU to the National Natural Gas System of Greece (NNGS).

(5) The FSRU will be stationed approximately 17.6 km from the town of Alexandroupolis in Northern Greece at an offshore distance of approximately 10 km from the nearest shore. The FSRU will have an LNG storage capacity of 170,000 cubic meters, a nominal regasification and send-out capacity of 625,000 cubic meters per hour (5.5 billion cubic meters/bcm x year) and a peak technical regasification and send-out capacity of 800 million standard cubic feet per day (mmscfd), equivalent to 944,000 cubic meters per hour (8.3 bcm/year).

(6) The subsea and onshore sections of the gas transmission Pipeline of 24km and 4km respectively will transmit the gas from the floating unit to the NNGS. The connection point of the pipeline will be the Kipi-Komotini branch of the NNGS, at a new entry point from which the natural gas from the floating unit will be transmitted to the NNGS.

(7) The Project aims at improving the gas supply and infrastructure in the region of South East Europe and is included in the 2013-2015, 2015-2017, 2017-2019 and 2019-2021 Project of Common Interest (PCI) lists. It is also a candidate for inclusion in the PCI list for 2021-2023 and is supported by the Governments of Greece, Bulgaria, Serbia, North Macedonia and Romania. In addition, the Project is included in the National Energy and Climate Plans of Greece and Bulgaria and is seen as a project of strategic importance. The final investment decision date is planned for June 2021, and the project commissioning is expected in December 2023.

(8) The Project has an expected lifetime of 30 years. As concerns the implementation, the Engineering, Procurement, Construction and Installation (EPCI), the preferred bidder is […] following a procurement tender. Regarding the tender for the supply of the FSRU, the preferred bidder, namely […] has been announced on 1 December 2020. The tender for the Mooring Design and Procurement was completed on 1 March 2021. The Preferred Bidder, namely […], was announced on 2 April 2021. The signing of the EPCI, FSRU and Mooring D&P contracts is anticipated to take place in June 2021 and will take effect following and subject to the grant approval by the Commission (stand still clause).

(9) The Greek authorities have confirmed that these tenders are conducted on the basis of national procurement rules, in line with EU public procurement principles, in application of the guidelines set by the National Managing Authority of the National Strategic Reference Framework (NSRF) and have been agreed with the National Managing Authority within the Ministry of Development & Investments and the Managing Authority of the Operational Program “Competitiveness, Entrepreneurship and Innovation”.

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2 https://ec.europa.eu/energy/topics/infrastructure/projects-common-interest/key-cross-border-infrastructure-projects_en#the pci-list


4 Ministerial Decision for the National eligibility rules for NSRF 2014-2020 programs, i.e. M.D.81986/EYΩY/712/31.07.2015 (Gov. Gazette B’ 1822/24.08.2015) “National eligibility rules for NSRF 2014-2020 programs - Public procurement audits of co-funded NSRF operations by Managing Authorities and Interim Management Entities”. As clarified by Greek Authorities, Article 36, par. 2, of the current edition of the aforementioned Ministerial Decision includes provisions for non-public contracts (i.e. contracts that are implemented by entities which do not fall within the scope of Law 4412/2016, as in the case of Gastrade.

According to the legal framework in force, all awarding procedures, for current and future tenders, are subject to approval by the Managing Authority before contract signing.

(10) Furthermore, Greek Authorities have confirmed that the overall project is carried out in compliance with any applicable EU rules.

2.2. Objectives of the project

(11) According to Greek authorities, the project pursues multiple objectives, both in the context of the domestic gas market as well as of the broader EU gas market.

2.2.1. Objective in the context of the domestic gas market

(12) The Greek authorities assert that the Project enhances the security of energy supply in Greece, that it diversifies the energy sources and increases competitiveness both for Greece and for the South East European region. According to the decision of the Greek Regulatory Authority for Energy ("RAE decision"), this is especially relevant in a situation of potential Russian gas disruption. Taking into account a change of flow in the system (from North to South) in this scenario, the Project would also help to solve internal bottlenecks.

(13) The Greek authorities provided a study⁶ aligned with the National Energy Climate Plan projections regarding renewable energy source (RES) targets, concluding that domestic demand for natural gas in Greece is expected to increase significantly in the coming years, from 5.4 bcm in 2022 to 7.1 bcm in 2029.

(14) According to this study, the peak demand in Greece is also expected to increase significantly, from 28.7 mcm/day in 2021 to 34.2 mcm/day in 2030.

(15) The study presents also the expected evolution of the total supply capacity for natural gas in Greece, taking into account the supply from the other LNG terminal in Greece in Revithoussa. This supply is expected to remain rather stable, apart from the introduction of the project.

(16) Revithoussa Terminal benefits from socialisation of tariffs considering the infrastructure’s contribution to security of supply, balancing of the transmission system and facilitation of the entry of new market players to the Greek market. According to Article 8.5 of the tariff methodology, the socialization mechanism and level is continuously assessed by the Greek Energy Regulator, Ρυθμιστική Αρχή Ενέργειας (ΡΑΕ)/Regulatory Authority for Energy (RAE) and will be re-evaluated by RAE at any point, through an extraordinary tariff revision, in case a new LNG terminal becomes operational in Greece. The Greek authorities explained that, even though the yearly average utilisation rate of Revithoussa has been low over the past years⁷, there were days in 2019 and 2020 in which the utilisation of the terminal reached 92% and 98% respectively.

(17) In order to assess the security of supply for Greece and the contribution of the Project, the peak demand per year is compared to the total gas supply capacity, without and with the Project. Without the Project, Greece will marginally (or may not be able to cover its peak demand. Moreover, the situation would be worse if a disruption in the Revithoussa

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⁶ This study is based on “ADMIE, Capacity Study for the period 2020-2030, December 2019” and on DESFA Development Study 2020-2029.

⁷ The historical utilisation rate of Revithoussa Terminal are: 12% in 2015, 16% in 2016, 19% in 2017, 25% in 2018, 50% in 2019.
infrastructure should occur. The study therefore concludes that new infrastructure is required in Greece and that the Project will significantly strengthen security of supply of Greece in the following years, by providing an alternative supply route for access to LNG.

Figure 1: Peak demand vs Supply capacity for the period 2017-2044

Source: Feasibility study provided by the Greek authorities

(18) Furthermore, according to the Greek authorities, the project will support local socioeconomic development, reinforcing employment through new job creation for the local workforce, by boosting many activity sectors and by providing access to competitive energy.

(19) According to the Greek authorities, the project will also contribute to the European Hydrogen strategy, since the technical design of the facility is capable of accommodate adaptation to receive and transmit Hydrogen.

2.2.2. Objective in the context of the gas market in Europe

(20) In addition of being part of the PCI lists (see recital (7)), the Project has been also included in the priority projects for the connectivity of gas infrastructures in Central and Eastern Europe (CESEC) in 2015 and 2017.

(21) The Project targets primarily the markets of Greece, Bulgaria, Serbia, Romania and North Macedonia, with potential expansion to the markets of Kosovo and Montenegro (via North Macedonia), Moldova and potentially Hungary and Ukraine – as illustrated by Figure 6.

Figure 2: Geographic map of potential target markets
According to the Greek authorities, the LNG Terminal in Alexandroupolis will be closely integrated to the supply of the South Eastern Europe markets and will offer to the region security of supply, diversification of gas routes and sources, price flexibility and will enhance competition. In particular, the Greek authorities explained that the Project will also improve security of supply for Bulgaria and for the larger South East European Region, as the Project will represent a potential source to feed into the interconnector Greece Bulgaria (IGB), which is currently under construction.

The Greek authorities provided a study of the expected demand and supply of natural gas in Bulgaria, Serbia, North Macedonia and Romania, taking into account natural gas upcoming infrastructure. The study shows that:

- In Bulgaria, the supply capacity is expected to increase significantly in the coming years thanks to the commissioning of IGB in 2022 and interconnector Bulgaria-Serbia in 2023, and the expansion of the underground gas storage Chiren in 2026.

- Natural gas supplied to the Republic of Serbia comes mainly from Russia. The interconnection between Bulgaria and Serbia improves Serbia’s security of supply by introducing a different supply route from Russia and two new supply sources: Azerbaijan and imported LNG. The Project is therefore expected to provide diversification of supply to Serbia.

- All imports from North Macedonia are from Russian origin through a single transmission line that crosses the Bulgarian border at Deve Bair. North Macedonia has entered into a long-term contract with Gazprom until 2030. The forecasted demand of North Macedonia will not surpass the capacity. The Project is expected to provide diversification of supply to North Macedonia.

- Romania is one of the least natural gas import dependent countries in Europe, thanks to its domestic production.

According to the Greek authorities, natural gas demand is anticipated to significantly increase in the South Eastern region due to the decommissioning of lignite plants, the anticipated increase of penetration in gas distribution networks as well as the introduction/increase of natural gas use for transportation (auto, marine, trucks) and off-grid customers. In their view, the Project will become a key outlet for the supply of the Greek and the SE European markets satisfying the additional gas demand in the region. In this context Greek Authorities indicate that the project contributes to a cleaner energy mix through increased utilization of gas instead of coal, hence reducing CO2 emissions.
2.3. Exemptions benefiting to the Project

(25) On 17 September 2020, RAE adopted its decision to approve the request for exemption under certain conditions and notified this decision to the European Commission on 25 September 2020.

(26) Following approval by the European Commission\(^9\), on 10 December 2020, RAE has issued the Final Exemption Decision, granting two exemptions as per Article 36 and 41 of the Gas Directive\(^10\) to the project.

2.3.1. Exemption from third party access

(27) The Project benefits from an exemption regarding article 32 of the Gas Directive regarding Third Party access (TPA) in accordance with its Article 36(9). The exemption covers only the part of the capacity that was booked through the binding phase of market test for a period of 15 years from the commercial operation and under certain obligations\(^11\).

(28) This exemption is made conditional by RAE on compliance with a number of conditions, such as to comply with Regulation (EC) 715/2009\(^12\), to issue and publish a Terminal Access Code (TAC) detailing the procedures of normal operation, anti-hoarding arrangements, provisions on allocation mechanisms that do not hamper the entry of new market participants or create undue barriers to market entry. 10% of the capacity should be offered in short-term products, i.e. of duration of less than one year, through a market-based procedure (e.g., auctions). The TAC should also contain data publication procedures on the functionality and availability of regasification capacity, gas quality minimum requirements, maximum losses and LNG for Terminal own use allowed and scheduled maintenance arrangements.

(29) RAE also requires from the project promoter, Gastrade S.A. (Gastrade), to make public non confidential detailed technical information associated with the Terminal, to inform market participants on contracted and available capacities at the Terminal on a numerical, rolling and regular basis and to ensure that services offered shall have non-discriminatory terms and conditions and be compatible with the use of the interconnected gas transportation system. Gastrade would have to offer on a regular basis the remaining available capacity through market-based arrangements, indicatively auctions or open seasons and ensure that the Terminal’s operation is not detrimental to the functioning of the interconnected system operated by DESFA SA (DESFA), the Greek Natural Gas Transmission System Operator (TSO).

\(^9\) Commission Decision of 25.11.2020 on the exemption of the Alexandroupolis Independent Natural Gas System LNG Terminal from the requirements regarding third party access and tariff regulation - C 2020/8377.


\(^11\) See RAE’s decision, p. 60.

2.3.2. Exemption from tariff regulation

(30) The Project also benefits from an exemption regarding tariff regulation in accordance with Article 36(9) of the Gas Directive. This exemption is granted for 25 years and for the total regasification capacity of the Project under certain conditions. This exemption relates to the provisions of Article 41.6, 41.8, 41.10 of the Gas Directive. In order to obtain this exemption, Gastrade demonstrated before the national regulator that tariff regulation would lead to uncompetitive initial tariffs and lower capacity reservations.

(31) At the latest 12 months before the start of the commercial operation, Gastrade has to submit to RAE the Terminal Use Agreement (TUA) and the TAC for the Project, which should be stable for the entire period of the exemption. The tariff needs to be the same for the exempted and non-exempted part of the capacity. The TAC should also include a mechanism preventing overcompensation (see section 2.8).

(32) The Greek authorities explained that the exemption regarding tariff regulation is granted for 25 years because this is the maximum period that an exemption can be granted for. They also explained that, as of year 26, the operating revenues are anticipated to evolve under the same principles as the ones applied within the first 25 years period. The tariff calculation model takes into consideration the entire operation period of the project i.e. 30 years, therefore leading to the Regulatory Asset Base to continue to evolve in the same way as it was evolving during the first 25 years of operation.

(33) The rationale for the exemption from regulated tariffs is to achieve competitive and stable tariffs to the users of the Terminal for the whole duration of the Project. The Greek authorities have explained that, in absence of such exemption, the tariff would have to be revised in every regulatory period (e.g. every 4 years). This would result to higher tariffs in the first years of operation, i.e. lower competitiveness of the terminal and would therefore have detrimental impact on the capacity reservations by users and on the results of the Market Test. Lower capacity reservations would in turn imply a further increase in the tariff, hence generating a vicious cycle that would restrict financing and the commercial viability of the project.

(34) The Greek authorities also justified the need for such an exemption to be granted for the whole duration of the Project (and not only for the years in which there are capacity reservations), in order to provide visibility of the tariffs and thus incentive to proceed with long term capacity reservations.

(35) The tariff exemption has been made conditional by the Regulator on compliance with a number of conditions:
- the submission of a Tariff Access Code to RAE for approval at least 12 months before commercial operation;
- transparency and cost efficiency of the tariff for both the exempted and non-exempted capacity part;
- clear definition of the pricing mechanisms in the Tariff Code to be published on the Company’s website;
- Weighted Average Cost of Capital (WACC) of [5% - 15%] nominal pre-tax for the first 15 years and [5% - 15%] for the next 10 years until the exemption and a project Internal Rate of Return (IRR) nominal pre-tax not exceeding [5% - 15%] with a mandatory return of profit to the tariff users or in line with the state aid decision;
- The conditions also extended to the tariff model and methodologies, clear definition of bundled price for all services offered and yearly information on revenues to RAE.
2.3.3. Additional conditions for preserving competition

(36) In its exemption decision, RAE imposes a set of obligations to Gastrade in order to preserve competition on the market.

(37) With respect to dominant players in Greece and Bulgaria, RAE’s decision states that any undertaking with a share of 40% or larger in any relevant product market for the supply of gas, or on the upstream market of supplying gas into Greece or Bulgaria cannot reserve more than 25% of the regasification capacity of the Project. Similarly, RAE can impose capacity caps to undertakings that together hold a combined market share of at least 80% and each of these undertakings has a market share of more than 20% on any relevant product market for the supply of gas in Greece or in Bulgaria\(^\text{13}\). RAE can allow these caps to be exceeded on the short term in case of lack of interest.

2.4. Financial aspects of the Project

2.4.1. Project costs and revenues

(38) Total investment costs of the project (excluding VAT) amount to EUR [250-500] Million. The eligible investment costs are presented in the following Table:

<table>
<thead>
<tr>
<th>Project Capital Expenditure (€ mil)</th>
<th>Total costs (EUR Mio)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Floating Storage and Regasification Unit (FSRU)</td>
<td>[…]</td>
</tr>
<tr>
<td>FSRU Mooring System</td>
<td>[…]</td>
</tr>
<tr>
<td>Subsea &amp; onshore pipeline</td>
<td>[…]</td>
</tr>
<tr>
<td>Other Costs(^\text{14})</td>
<td>[…]</td>
</tr>
<tr>
<td>Contingencies</td>
<td>[…]</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>EUR [250-500] Million</td>
</tr>
</tbody>
</table>

*Source: the Greek authorities*

(39) The annual operating costs amount to around EUR [10-50] million\(^\text{15}\) and include the following categories: Personnel cost, closed-loop regasification energy cost, CO2 emissions cost, tug boat services, operation and maintenance cost and management fee, administration cost, general expenses and insurance cost.

(40) The operating revenues of the Project will come from the capacity use of the Terminal. Revenues from the Project were projected based on the assumed capacity booking resulting from the Binding Phase of the Market Test for […] years and a prospective gas volume of [1 - 3] bcm annually for the remaining […] years. The terminal’s capacity is 5.5 bcm/year, which means that the submitted investment plan projects roughly […]% of capacity utilization.

(41) The Project benefits from regulated tariff exemption for a period of 25 years, as explained in recital (30) above.

\(^{13}\) After consulting with the Bulgarian energy regulator.

\(^{14}\) The other costs include: […]

\(^{15}\) Value applicable for 2024 which is the first year of operation of the Project.
The tariffs applied for each year of the Project’s operation are based on the indicative Tariff used in the Binding phase of the Market Test (i.e. [10-30] €/1000 cm) adjusted by the “ay” factor provided in the Bidding Phase Notice. The “ay” factor represents a downward adjustment in the indicative tariff [...] 

The Binding Phase of the Market Test was completed on 24th March 2020. The tariff adjustment from the “ay” factor results in average projected tariffs of [10-30] eur/1000 cm over the first […] years, [10-30] eur/1000 cm during the following […] years, and [10-30] eur/1000 cm over the remaining […] years.

Figure 3: Committed and prospective volumes (bcm/year)

[...] 

Source: Cost-Benefit Analysis, provided by the Greek authorities

The Greek authorities explained that the booked volumes from [...] year of operation onwards is low due to the uncertainty regarding the market conditions beyond [...].

The results of the binding phase show that [...] shareholder(s) have booked a total capacity corresponding to [25-50%] of the entire capacity booked during year 1 to [...] under the market test. The Greek authorities explained that the shareholders of Gastrade were offered capacity in the Project within the Market Test process, under the same terms as any other Market Test participant, either for capacity booking or for price/tariffs, length and any other conditions of the contracts.

The Greek authorities have confirmed that, in case there could be a supplementary Market Test or any long- or short-term capacity auctions at the Project, the rules will be the same for all participants. All participants to the Open Season procedure will have exactly the same rights and obligations and the process will be monitored by RAE to ensure that the procedure followed does not affect competition and trade, is open, non-discriminatory and transparent and in accordance with EU and national legislation in Greece.

Specific rules for the marketing of available – not booked- capacity will be defined within the Terminal Access Code (TAC) currently under development. The TAC will be approved by RAE prior to its publication.

The breakdown of the Market Test results per country are presented in the Graph below.

Figure 4: Breakdown by country of the reserved capacity – following the Binding phase of the market test (bcm/year)

[...] 

Source: Cost-Benefit Analysis, provided by the Greek authorities

The Greek authorities explained that the majority of the entities interested to use the Alexandroupolis LNG Terminal for the transportation of their gas volumes to their corresponding places of consumption are aiming at gas sources which are different from the traditional sources of gas currently imported in the SEE region. Therefore, such entities will have the opportunity to import these gas volumes to the EU and the Balkans, thus strongly enhancing gas-to-gas competition. The results of the completed Market Test show that the Terminal will lead to enhanced competition among existing suppliers/importers in the gas sector, allowing an effective opportunity to import LNG from a variety of origins
(e.g., the US and in the future import opportunities from the Eastern Mediterranean, Middle East or Turkey) to the Greek, the Bulgarian market and SEE.

2.4.2. Financing of the Project

(50) The Project will be financed by a combination of a grant (the measure), a loan and an equity participation.

(51) As explained in recital (55), the Project will benefit from a grant of EUR 166.7 Million.

(52) Regarding the loan, Gastrade has signed with the National Bank of Greece (NBG) a Mandate Agreement, which includes the summary of the Indicative Terms and Conditions for the debt financing of the Project. The finalisation of the Terms and Conditions for the debt financing will be subject to the due diligence to be undertaken by NBG.\(^\text{16}\)

(53) The five shareholders will have each a 20% participation in the equity of Gastrade. Based on the gearing assumption above, the total equity contribution (including interest charges and financing costs during construction) is estimated at EUR [...] Mio.

(54) Finally, Greek Authorities confirmed that no special tax treatment is provided for the infrastructure, nor the promoter company assets.

2.5. The measure

(55) The measure consists in a direct grant of EUR 166.7 Million\(^\text{17}\).

(56) The aid is granted from European Structural and Investment Funds (ESIF), under the 2014-2020 Partnership Agreement for the Development. Specifically, the Project is eligible for NSRF Grant Financing 2014-2020 under the Operational Programme Competitiveness Entrepreneurship and Innovation 2014-2020 (OPCEI)\(^\text{18}\) and the granting authority is the Managing Authority of the OPCEI.

(57) The project was included in the “List of Major Projects” of the Sectoral Operational Programme (OP) ‘Competitiveness, Entrepreneurship and Innovation 2014-2020’ during its second revision, which was approved in July 2018 through the 31th written procedure of the relevant Monitoring Committee, submitted to the Directorate-General for Regional

\(^{16}\) Total debt facility amount is subject to due diligence and on the basis of specific capacity reservation commitments, tariff levels, etc. The final debt component should be such that it can be serviced by cash flows generated based on final capacity reservations and tariffs approved. In the analysis, it has been assumed a debt component, in line with similar type of operators [...]. Based on this assumption, the loan will cover up to EUR [...] million, with a repayment period of [...] years and a [...] grace period. Based on the Indicative Terms and Conditions, the interest paid will equal “Euribor 6 Months + a margin”. This margin will amount to [...]% during construction period, [...]% during Years 1- [...] of operation period, [...]% during Years [...] of operation period, [...]% during Years [...] of operation period.

\(^{17}\) The exact amount is EUR 166.684.281

\(^{18}\) (CCI: 2014GR16M2OP001) under Priority Axes 3 and 3S (Development of mechanisms to support entrepreneurship), Thematic Objective 7 (Promoting sustainable transport and removing bottlenecks in key network infrastructures), Investment Priority 7e (Improving energy efficiency and security of supply through the development of smart energy distribution, storage and transmission systems and through the integration of distributed generation from renewable sources), Specific Objective 3.7, which aims at reducing the use of oil.
and Urban Policy and approved according to C8855/12.12.18 Commission Implementing Decision.

(58) The grant will be disbursed in three tranches: EUR 58.3 Mio in 2021, EUR 11.7 Mio in 2022 and EUR 96.7 Mio in 2023. The net present value (NPV) of the grant payments amounts to EUR 137.2 Mio.

2.6. The beneficiary

(59) The project promoter (Gastrade S.A.) was established in 2010 with the objective to design, develop, operate and manage infrastructure for the reception, transmission and distribution of natural gas. Gastrade is the first company operating in Greece to be granted a license for an Independent Natural Gas System complying with the requirements on establishment, operation and administration of Articles 74 to 79 of law 4001/2011.

(60) The current shareholders of Gastrade are:

- Ms. Asimina-Eleni Copelouzos (40%), founding Shareholder of Gastrade,
- Gaslog Cyprus Development Limited (20%),
- DEPA Commercial S.A. (DEPA) (20%),
- Bulgartransgaz EAD (20%).

(61) Ms Asimina-Eleni Copelouzos is the Founding Shareholder of Gastrade. Ms Copelouzos has no other activities in the gas sector.19 Greek Authorities have further clarified that Ms. Copelouzos does not have stakes nor has roles in any company in which the other members of the Copelouzos family have interests and that she is not in any way affiliated with undertakings owned by or controlled by Dimitrios Copelouzos (father of Ms. Copelouzos) and Christos Copelouzos (brother of Ms. Copelouzos), which are active in the energy production and trading, waste management, energy works construction and provision of relevant equipment, infrastructure development, real estate management and provision of relevant services.

(62) Gaslog Cyprus Development Limited is a 100% subsidiary of GasLog ltd, a leading global provider of LNG shipping services listed in the New York Stock Exchange. Gaslog’s acquisition of its 20% in the share capital of Gastrade was concluded on 9 February 2017.

(63) DEPA is owned by the private listed company Hellenic Petroleum S.A. for 35% and by the State owned company Hellenic Republic Asset Development Fund (HRADF) for 65%. DEPA is currently the main provider of gas in Greece. DEPA completed its acquisition of 20% of the share capital of Gastrade on 9 March 2020 following the clearance from the Greek Competition Commission. DEPA’s market share has fallen sharply over the last years (see following table 2), reaching less than 40% in 2020.

Table 2: Market share of DEPA in Greece

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19 The Greek authorities provided the list of shareholdings and participations to Boards of Directors activities of Ms. Copelouzos. According to the information provided, Ms Copelouzos is active in the renewable energy sector and not active in any gas related activities, other than Gastrade. Moreover, according to the Greek authorities, no other member of the Copelouzos family participates in Gastrade's Board of Directors or to the decision-making of such company. Ms. Copelouzos does not participate in any Board of any company in which the other members of the Copelouzos family have interests.
Bulgartransgaz is the public company that manages and develops the natural gas network and infrastructure in Bulgaria. Bulgartransgaz is the Bulgarian transmission system operator and is fully owned by Bulgarian Energy Holding (BEH), a 100% state owned Bulgarian company. Bulgartransgaz EAD completed its acquisition of 20% of the share capital of Gastrade on 28 January 2021 following the clearance from the Bulgarian Commission for the protection of Competition.

Furthermore, DESFA has also signed an agreement to acquire a participation of 20% in the shareholding structure of Gastrade on 4 November 2020. The acquisition of this participation- object of pre-notification contacts with DG Competition at the date of drafting the present decision- is subject to the clearance from the European Commission.

2.7. Funding gap analysis including the measure

The Greek authorities have provided the expected IRR and the calculation of the funding gap related to the project, i.e. the net present value of the negative cash flows triggered by the project, deprived of state support. This calculation relies on financial projections and on assumptions of long-term capacity bookings (see recital (43)).

Based on the projection of the capacity booking, the Greek authorities claim that the discounted funding gap would amount to EUR 137.2 Million, which is equal to the NPV of the measure.

The calculation of the funding gap was based on the following assumptions:

- Revenues of the floating LNG terminal were projected based on the assumed capacity booking (see recital (43)) and based on tariffs as explained in recital (42).
- The total annual LNG terminal operating costs regroup mainly the following posts: energy consumption for regasification, emissions for regasification, personnel costs, management fee, maintenance costs, insurance, service boat costs, general expenses & administration and emissions for power production.
- The business plan assumes the absence of terminal value at the end of the project, as the terminal has a definite end of life and should not generate cash flows beyond its expected lifetime of 30 years.

In order to calculate the net present value of the funding gap, the Greek authorities discounted the projected cash flows using a WACC in real, pre-tax terms.

The regulator RAE has set the maximum allowed return at [5%-15%] during the first […] years and [5%-15%] for the following years. The average WACC (nominal, pre-tax)
calculated over the lifetime of the Project is therefore [5%-15%], which corresponds to a WACC (real, pretax) of [5%-15%].

(71) The WACC (nominal, pre-tax) has been defined based on the WACC of [5%-15%] approved by RAE for DESFA, applying both to the Transmission System and to the LNG terminal of Revithoussa – […]

(72) The Greek authorities justify the […] by stating that the Project faces higher commercial risk compared to the peer companies (including DESFA), because the project will operate under a non-regulated regime, i.e. without income protection. They explained that there is a risk that the volumes assumed in the business plan are not realized.

(73) They also justified this […] by the risk of tariffs increase in the next regulatory period, if Gastrade is not recovering its required revenue. If such situation would occur, Gastrade would not be able to incorporate this increase in its tariffs. According to the Greek authorities, such a tariff increase would deter users who have booked capacity in the terminal as well as incentivize them to terminate their contract. […] A loss of customers would mean that the Promoter would have to increase its tariffs even more in order to achieve its targeted return, making the project even less competitive.

(74) The Greek authorities justify the […] as an additional risk premium attributed to regulated gas systems and networks introduced by European Regulators, as an incentive to promote new investments. RAE opinions that a [0-5%] premium fairly represents the risk of investing in a new investment, which is defined as a project with no present customer base. It is seen as an incentive to increase potential project’s IRR, and is justified as being coherent with the level applied to another project in the country.

(75) The WACC calculated has led to a targeted Project IRR (in nominal, pre-tax terms) of [5%-15%] for the whole duration of the project. Based on committed and prospective volumes (as shown above by graph in recital (43)), the project, including the measure, would yield an IRR of [5%-15%] in nominal, pre-tax terms, which is the maximum allowed return. This IRR is translated to [5%-15%] in real, pre-tax terms which is equal to the WACC (real, pre-tax) used to discount the cash flows.

(76) The above targeted Project IRR is also the cap of the project’s return: an overcompensation mechanism has been designed that will be applied automatically from the first Euro of overcompensation in order for the Project IRR never to exceed the IRR cap, as explained in section 2.8.

(77) The business plan also shows that the expected IRR would be equal to [0%-5%], in case only the committed volumes of the Market Test are reserved in the Project and no volume is booked as from the […] year.

(78) Financial analysis demonstrates that based on the assumed volume, investment costs and operational costs, the project requires a tariff of […] EUR/1,000 m3 for the full implementation of the "user-pays" principle. According to the Greek authorities, such tariff would render the project non-competitive given the existing tariffs of neighbouring terminals, resulting in no long-term capacity reservations by the users, thus making the Project non-feasible.

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20 Assumption of inflation rate of 0.80%
2.8. Mechanism preventing overcompensation

(79) While the Tariff Access Code has not yet been submitted\(^2\)\(^1\), the Greek authorities provided firm commitments regarding the features of the mechanism to avoid overcompensation. In its exemption decision, RAE clarified that the project IRR nominal pre-tax should not exceed [5%-15%] and that any revenues from capacity bookings that increase the IRR above [5%-15%] will be returned following a mechanism to be proposed and approved in line with the present decision\(^2\)\(^2\).

(80) The proposed overcompensation mechanism allows for a fraction of any overcompensation to be returned in the form of tariff reduction whilst the majority of the overcompensation will be returned to the Granting Authority.

(81) The Greek authorities explained that it is important to allow at least a […] part of the overcompensation mechanism to take the form of tariff reduction, in the interest of users and of the regional market, and to avoid decreasing the Project strategic role by favouring existing alternative pipeline supply options in the region. They explained that, should the overcompensation mechanism result into tariffs reduction, this reduction will be applied to all the Users of the terminal at the time that the recalculation occurs in a uniform, non-discriminatory manner.

(82) The mechanism to avoid overcompensation will entail the following features:

- It will apply automatically from the first Euro of overcompensation.
- It foresees a 3 years revision period, applied until Year 25.
- Within 6 months from the end of the final year of each Revision Period, Gastrade will identify and submit to RAE the actual values of the following items for each Year of such Revision Period based on the approved financial statements: a) the asset base (less grants) b) the assets’ depreciation (less amortization) c) the operating expenses. Based on the above values, Gastrade will calculate and submit to RAE the Actual Required Revenue – based on the WACC- and the Actually Obtained Revenue for each Year of the revision period.
- The possible recoverable difference for each revision period is defined as the difference between: i) the sum of the Actually Obtained Revenues for each Year of the Revision Period (adjusted for inflation) and ii) the sum of the Actual Required Revenues for each Year of the Revision Period (adjusted for inflation)

(83) If the recoverable difference is negative, Gastrade has the option to increase tariffs within the limitations included within the Terminal Use Agreements to be concluded with the prospective users.

(84) If the recoverable difference - as included in the Financial Model - is positive, the Greek authorities explained that any revenues from capacity reservations that increase the IRR (in nominal, pre-tax terms) above [5%-15%] will be returned to the granting authority and to terminal users through tariff reductions of the following periods.

\(^{21}\) As per the Exemption Decision and the national License Code in place, the Tariff Access Code should be submitted at the latest 12 months before starting of the commercial operation.

\(^{22}\) See also Article 4 of the Commission Decision approving the Exemption Decision.
The Profit Return Fund (funded from revenues from the use of the terminal which increase the said IRR) returns to the Granting Authority and to the market through tariff reductions as follows:

<table>
<thead>
<tr>
<th>Profit Return Fund attributed to the Granting Authority</th>
<th>Profit Return Fund attributed to the market</th>
</tr>
</thead>
<tbody>
<tr>
<td>If Profit Return Fund &lt;= [0 - 25]% of the Actual Required Revenue</td>
<td></td>
</tr>
<tr>
<td>If [0-25]% of the Actual Required Revenue &lt; Profit Return Fund &lt;= [10-50]% of the Actual Required Revenue</td>
<td></td>
</tr>
<tr>
<td>If Profit Return Fund &gt; [10-50]% of the Actual Required Revenue</td>
<td></td>
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2.9. Legal basis

The rules and conditions for the application of the measure are provided for in (EU) Regulations No 1303/201323 and No 1301/201324, supplemented by (EU) Regulation No 480/201425.


(87) With regard to national legislation, the main legal basis are the Law 4314/2014 “Management, control and implementation of development projects for the programming period 2014-2020”\(^{26}\), as well as the Ministerial Decision regarding financial corrections imposed by the Committee for financial control for the implementation of co-financed projects\(^{27}\) and the Ministerial Decision for the National eligibility rules for NSRF 2014-2020 programs\(^{28}\).

(88) With regard to national legislation, the Greek authorities have provided also the following legal basis:

- Articles 74 to 79 of L.4001/2011 “For the operation of electricity and Natural Gas market, Research, Production and distribution Networks Hydrocarbons and additional provisions”, as amended by L. 4047/2012, L. 4546/2018, L.4602/2019 and L.4643/2019, as far as the Independent Natural Gas Systems are concerned.
- Articles 1, 2 and 19a of L. 4014/2011 “Environmental licensing of projects and activities” (GG A '209/21.09.2011)
- L. 2971/2001 “Access to SEASHORE”
- Articles 17 and 40 of L. 3982/2011 “Simplification of licensing of manufacturing and processing activities and other provisions”
- Article 45 of L. 4277/2014 “Setting of Independent Natural Gas Systems issues/Right of Way”
- Article 8 of L. 4271/2014 “Ratification of investment declarations of Law 3908/2011 and other provisions (Greek PCIs)”
- M.D. 178065 (GG B’ 3430/17.08.2018) Regulation for Licenses of Natural Gas
- Joint Ministerial Decision No. 24676/759/12.03.2021 “Subsea Routing and installation of the Subsea section of the pipeline and the floating structure and classification unit of the INGS of Alexandroupolis”
- Law 4555/2018, art. 267 and Ministerial Decision for the FSRU Classification, Statutory & Manning Requirements

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\(^{26}\) Article 22 of Law 4314/2014 (Gov. Gazette A 265/23.12.2014)).

\(^{27}\) M.D. 286/01.2017 (Gov. Gazette B 466/17.02.2017).

(89) Greek Authorities have confirmed that they will not implement the support measure before the European Commission non-objection decision.

2.10. Cumulation and Transparency

(90) Greece has confirmed that the aid measure would not be cumulated with other forms of support to cover the same eligible costs.

(91) Greece confirmed that it will publish on the website https://webgate.ec.europa.eu/competition/transparency and on www.antagonistikotita.gr: the notified measure, the identity of the granting authority; the identity of the beneficiary, the aid instruments and amount of aid granted to the beneficiary; the objective of the aid, the date of granting, the type of undertaking; the Commission's aid measure reference number; the region where the beneficiary is located and the principal economic sector of the beneficiary.

3. ASSESSMENT

3.1. The existence of State aid according to Article 107(1) TFEU

(92) According to Article 107(1) TFEU, the qualification of a measure as State aid requires the following conditions to be met cumulatively:

- the measure is financed by the State and through State resources;
- it grants a selective advantage liable to favour certain undertakings or the production of certain goods;
- the measure distorts or threatens to distort competition;
- it has the potential to affect trade between Member States.

3.1.1. Imputability and the involvement of State resources

(93) By granting EUR 166.7 million to the Project under the Operational Programme “Competitiveness, Entrepreneurship and Innovation 2014-2020” (OPCEI), Greece intends to use resources from the European Structural and Investment Funds (ESIF). Resources from the European Structural and investment Funds are considered as State resources since Member States have discretion to decide on the use of these resources.

(94) As explained in recital 56, the aid originates from ESIF funds, which once awarded, would be directly controlled by the Greek State and the granting authority is the Managing Authority of the OPCEI. The measure is therefore imputable to the State.

3.1.2. Economic Advantage

(95) The Commission notes that the notified measure will provide an economic advantage to Gastrade, because the company will obtain a grant for the purchase of the FSRU. Therefore, that grant confers an economic advantage to its beneficiary which it would not have had under normal market conditions.

3.1.3. Selectivity

(96) The advantage granted by the measure is selective, since it is awarded only to Gastrade.
3.1.4. Impact on competition and on trade between Member States

(97) The Commission observes that there is already an operating LNG terminal in Revithoussa (Greece), and several other sources of gas in the region. Favouring a particular LNG terminal’s operator may strengthen Gastrade position on the EU gas market.

(98) Moreover, the aid measure may establish a strong position of Gastrade as a new entrant to natural gas transmission. Furthermore, the notified measure may strengthen the positions of the shareholders of Gastrade in that same market.

(99) The Project will also allow bringing gas across Greek borders to Bulgaria via the IGB, which may reinforce the position of Gastrade and of its shareholders in the market.

(100) Gas is a product traded between Member States, and Greece is currently connected to the EU grid, with competition among alternative suppliers. The measure therefore affects trade between Member States, since the beneficiary is active in the Gas sector, in which intra-Union trade exists.

(101) It follows that the measure is therefore likely to distort or threaten to distort competition and affect trade between Member States.

3.1.5. Conclusion regarding existence of State aid

(102) Based on the above-mentioned elements, the Commission concludes that the measure constitutes State aid within the meaning of Article 107(1) TFEU.

3.2. Lawfulness of the aid

(103) By notifying the aid measure before its implementation, the Greek authorities have respected the notification and standstill obligation laid down in Article 108(3) TFEU.

3.3. Compatibility

3.3.1. Legal basis for assessment

(104) The notified aid measure aims to finance the construction of an LNG terminal regasification station in Greece. Support for LNG/gas infrastructure fall within the scope of the Commission Guidelines on State aid for environmental protection and energy 2014-2020 (“EEAG”), section 3.8 "Aid to energy infrastructure”. The project constitutes a gas energy infrastructure in line with paragraph (19), point 31(b), of the EEAG.

(105) In established Commission practise the aid measure can be declared as compatible under Article 107(3)(c) TFEU, if it contributes to the development of an economic activity; and if it does not unduly affect trading conditions to an extent contrary to the common interest.

3.3.2. The aid must facilitate the development of an economic activity

(106) The notified aid measure aims at developing the trade in LNG and natural gas in Greece and in the South East European region. This activity is fully aligned with the EU objectives for secure energy supply, also enshrined in Article 194 TFEU. In this respect,

29 This should however be minimised by a number of conditions introduced by RAE in its exemption decision
the Commission has already decided that aid to the construction or expansion of LNG Terminals may contribute to improving the security of supply in the Union and the functioning of the internal energy market\textsuperscript{32}.

(107) The LNG Terminal, whose construction is to be supported by the measure, aims at increasing security of supply of gaseous fuels to Greece by diversifying sources of supply and therefore improving the stability and continuity of the supply of gaseous fuels to final customers in Greece and in the South East Europe region, hence reducing the risk of an interruption in supply.

(108) In line with point 202 of the EEAG, the Commission presumes that energy infrastructure is a precondition for a functioning energy market. It enhances the integration of different energy sources and energy supplies in under-developed networks. The Commission therefore considers that aid to energy infrastructure contributes to enhance the development of the trade and competition on the LNG and gas markets.

(109) As shown in recital (78), the aid measure enables the development of a new LNG Terminal, which would not have taken place in the absence of aid.

(110) Considering the above, the Commission concludes that the notified aid measure contributes to the development of trade in LNG and natural gas, in a manner that improves the energy infrastructure network and security of supply in Greece and in neighboring countries.

3.3.3. Compliance with other provisions of EU law

(111) State aid, which contravenes provisions or general principles of EU law, cannot be declared compatible\textsuperscript{33}. The Commission has assessed in particular whether the measure contravenes any relevant EU legislation in the energy sector.

(112) Following such assessment (see recitals (128) to (133)), the Commission concludes that the measure does not contravene any relevant provision or general principles of EU law, in the sense of the abovementioned case law.

3.3.4. The aid measure does not unduly affect trading conditions to an extent contrary to the common interest

(113) The measure affects mainly the gas market in Greece, where several suppliers are in competition with each other. The measure will also affect competition with the other LNG terminal in the country in Revithoussa.

(114) As explained in recital (22), the measure also affects the gas markets in neighboring countries, because the project, once in operation, will be able to deliver gas to these countries thanks to interconnector between Greece and Bulgaria.

3.3.4.1. Positive effects of the aid

(115) The aid will facilitate the development of a new LNG Terminal, thereby developing the trade in LNG and natural gas and improving energy security of supply in Greece and in the South East Europe region. The project will indeed improve access to the global LNG


\textsuperscript{33} Judgment of 22 September 2020, Austria v Commission, C-594/18 P, EU:C:2020:742, paragraph 44.
market in Bulgaria, Serbia, Romania and North Macedonia\textsuperscript{34}, and hence, bring an additional source of gas supply in these countries.

(116) The aid will allow the project to provide several neighboring countries with an additional source of gas supply, thereby improving the diversification of energy sources and increasing the integration of the regional gas market in southeastern Member States of the EU.

3.3.4.2. Limited negative effects: the aid measure cannot unduly affect trading conditions to an extent contrary to the common interest

(117) The aid will have an impact on competition in the Greek gas markets, and on gas markets of its neighbouring countries. In particular, the aid might also affect competition with the other LNG terminal in Greece (Revithoussa).

(118) In the next section, the Commission will assess how the aid measure minimizes the distortions on competition and trade, by assessing the necessity of the aid, appropriateness, incentive effect, and proportionality.

i) Need for state intervention

(119) In order to demonstrate the necessity of the measure, it has to be established that the measure is targeted towards a situation where aid can bring about a material improvement that the market alone cannot deliver.

(120) Pursuant to paragraph 205 of the EEAG, the granting of State aid is a way of overcoming the market failure other than by means of compulsory user tariffs. Therefore, to demonstrate of the need of State aid in the field of energy infrastructure, the principles described in paragraphs 206 and 207 of the EEAG apply.

(121) Pursuant to paragraph 206 of the EEAG, the Commission presumes that for infrastructure investments which fall in the approved list of PCIs (see recital (7)), the market failures in terms of positive externalities and coordination problems are such that financing by means of tariffs may not be sufficient and State aid may be granted.

(122) As explained in Section 2.3 above, the Project will enjoy an exemption from certain provisions of the internal energy market legislation. Therefore, the Commission needs to examine if the conditions of paragraph 207 of the EEAG are also present.

(123) Pursuant to paragraph 207 of the EEAG, the Commission will carry out a case-by-case assessment of the need for State aid, for projects falling under paragraph 206 of the EEAG that are partially or wholly exempted from internal energy market legislation. In its assessment, the Commission will consider the following factors:

i) to what extent a market failure leads to a sub-optimal provision of the necessary infrastructure;

ii) to what extent the infrastructure is open to third party access and subject to tariff regulation; and

\textsuperscript{34} With potential expansion to Kosovo / Montenegro (via North Macedonia), Moldova and potentially Ukraine.
iii) to what extent the project contributes to the Union’s security of energy supply.

- Market failure leading to sub-optimal provision of the necessary infrastructure

(124) Major infrastructure projects like the construction of an LNG Terminal are capital intensive. The financial analysis provided by the Greek authorities (see Section 2.7 above) reveals that the project would not be financially profitable without the aid measure. Calculated over the lifetime of the project (30 years), the revenues generated by the project would not be sufficient to cover the expenses incurred with a sufficient return on investment.

(125) The absence of the project would lead to sub-optimal results not only on the Greek market, where demand is deemed to rise in the following years, but also on the regional market where gas demand is increasing with the development of gas transmission infrastructure and transition from coal (see recital 23). The security of supply for the region is also significantly enhanced through the diversification of gas sources.

(126) The existence of a market failure is furthermore justified by the funding gap of the Project, which amounts to EUR 137.2 Million. The Greek authorities consider that the Project would not have been developed without the notified aid measure. Gastrade, nor any other private investor, would not have invested in the Project if the latter were not awarded a grant, because the Project would not have been sufficiently profitable in absence of the investment aid (see section 2.7 above).

(127) It can therefore be concluded that the notified measure contributes to address a market failure, resulting in a positive development of the economic activity at issue, which would had been sub-optimal absent the measure.

- Third party access and tariff regulation

(128) As explained in sections 2.3.1 and 2.3.2, the Project benefits from the following exemptions:

- Exemption from Article 32 of the Gas Directive (Third Party Access) for the part of its regasification capacity that has been booked through the Market Test for a period of […] years starting from the Commercial Operation Date, and

- Exemption from Article 41, paragraphs 6, 8 and 10, of the Gas Directive (Tariffs) for a period of 25 years starting from the beginning of the Commercial Operation Date for 100% of the Project’s regasification capacity.

(129) The Greek authorities have clarified that the third party access exemption is needed for allowing the binding market phase to lead to the conclusion of long-term contracts with stable tariffs. Furthermore, the third party access exemption is strictly limited, both in volumes and in time, and it has been clarified that the LNG terminal services will be open in a transparent and non-discriminatory manner. The RAE has conditioned the granting of this exemption to a number of criteria (see recitals (36)(37), which ensure that the overall impact on competition is positive.

(130) Regarding the tariff exemption, it has been demonstrated in recital (75) that, in case there would be no exemption, the tariff would be significantly higher. Higher tariffs in the first years of operation would have a detrimental effect on the competitiveness of the project by deterring users. Lower capacity reservations would in turn imply a further increase in the tariff, hence generating a vicious cycle that would restrict financing and the commercial
viability of the project. The revenues for Gastrade will however be monitored by the RAE, which will apply a claw-back mechanism to prevent any overcompensation. Therefore, the positive effects on competition are enabled by providing the exemption while limiting its negative effects through the establishment of a claw back mechanism in case of overcompensation (see section 2.8).

(131) In order to render the project an attractive lending investment opportunity, it is required to have a degree of predictability as regards the returns over the lifetime of the project. However, based on the financial data presented in Section 2.7, sufficient grounds exist to assume that even with exemptions approved by the Commission's Exemption Decision, the Project would not be attractive/possible insofar it could not secure reasonable return to investors.

(132) Additionally, as for the exemption of tariff regulation, it should be emphasized that the Project tariff remains subject to annual revenue reporting and monitoring by RAE that all the conditions of the exemption decisions are met. Furthermore, the tariff exemption is subject to an overcompensation revision period of three years.

(133) Finally, it is to be recalled that according to recital (46), the Open Season Procedure is open to third parties, which will pay the same fees per unit of Gas as the shareholders of the project.

- Contribution to the Union’s security of supply

(134) The Commission notes that, as seen above in recitals (12) and (22), the Project will contribute to the security of energy supply of the European Union since it will enhance the security of gas supply and avoid potential future gas disruptions in Greece and diversify the sources of imported gas in several neighbouring countries by providing an additional entry route to the SEE region as a whole.

(135) The Commission therefore concludes that within the meaning of paragraphs 206 and 207 of the EEAG the notified aid measure – in addition to the exemptions from internal gas market rules – is necessary for the construction of the Project for the following reasons:

(i) The project is identified as a PCI;

(ii) The absence of aid would lead to a sub-optimal provision of the Project as the financial parameters show that the return on investment would not have been sufficiently profitable in the absence of the measure. Therefore, a rational investor would not undertake the project without the support from the notified aid measures.

(iii) Although the project will enjoy an exemption from tariff regulation as well as a partial exemption from TPA, the tariffs applied for the use of the Terminal alone would still remain insufficient to cover the financing of the Project;

(iv) The project, as a PCI, clearly contributes to the European Union's security of supply for the reason set out in recital (20).

ii) Appropriateness

(136) To determine whether a measure is appropriate, it needs to be assessed whether other, less distortive policy instruments or types of aid can achieve the same objective.
The Commission recalls that, in accordance with paragraph 209 of the EEAG, it is presumed that in the case of PCIs, such as the construction of an LNG Terminal, State aid may be considered an appropriate instrument to partially or wholly finance that infrastructure if recouping the investment exclusively via tariffs is not feasible.

The Commission notes that, in line with paragraph 209 of the EEAG, the full implementation of the ‘user pays’ principle, on which tariff regulation is based, is not possible in the present case, because the tariffs needed to finance the construction of the LNG Terminal would be so high that they would deter potential customers from using the infrastructure (see recital (78)).

The Commission also notes that, based on the information provided by the Greek authorities, under normal market conditions, no market investor would invest in the project without the aid measure, due to the high funding gap of the Project. In such case, the benefits of the Project (e.g. security of supply, increase of competition within the Greek and the Regional Markets by means of diversification of sources, routes and counterparts) would not materialize.

Given the PCI status of the project and the need for a grant in order to finance the Project funding gap, the Commission considers that the notified measure constitutes an appropriate instrument to bring the LNG project forward.

iii) Incentive effect

An aid has an incentive effect if it incentivises the beneficiary to change its behaviour towards the development of a certain economic activity pursued by the aid and if the change in behaviour would not occur without the aid.

According to point 210 of the EEAG, the incentive effect of the aid will be assessed on the basis of the conditions set out in Section 3.2.4 - points 49 and following of the EEAG. In line with point 49 EEAG, the incentive effect occurs if the aid induces the beneficiary to change its behaviour to increase the level of environmental protection or to improve the functioning of a secure, affordable and sustainable energy market, a change in behaviour which it would not undertake without the aid. The aid must not subsidize the costs of an activity that an undertaking would anyhow incur.

The business plan provided by Greece shows that without the aid measure, the LNG terminal would not be constructed because its high funding gap could not be recouped from the application of higher tariffs. The project would thus not be carried out in the absence of the notified measure and would therefore not deliver its contribution to ensure security of supply. Taking into account the above considerations, it can be concluded that the aid has an incentive effect, in accordance with sections 3.8.4 and 3.2.4 of the EEAG, as it provides the necessary incentive for Gastrade to construct the LNG Terminal.

iv) Proportionality

Firstly, as specified in paragraph 211 of the EEAG, a State aid regarding aid to infrastructure is proportional if it is designed in a way that it is kept to the minimum necessary to achieve the objective sought.
Pursuant to paragraph 211 in conjunction with paragraph 212 of the EEAG, an aid measure in support of infrastructure should not exceed an aid intensity of 100% of the eligible costs, defined as the funding gap.

As analysed in section 2.7, the estimated funding gap rate of the Project is EUR 137.2 Million. Greece explained that the discounted value of the aid of EUR 137.2 Million, is equal to 100% of the funding gap (see recital (67)). The Commission notes that this calculation is based on detailed business projections (see section 2.4) which the Commission has reviewed and concludes that the aid does not exceed the funding gap.

In addition, the Commission verified that the profitability of the project, measured by the internal rate of return, does not exceed the remuneration required by the market, measured by the WACC, as explained by Greece (see recital (75)).

The Commission concludes that the assumptions made to calculate the WACC are sufficiently justified by the specificities of the market at stake and the investment made in this particular project, and that those specificities are satisfactorily captured by the WACC computed by the Greek authorities.

In particular, the Commission notes that the base WACC is in line with the base WACC applied to the other LNG terminal in the country. The Commission considers that the inclusion of a […] is justifiable in the context of the construction of a new LNG terminal. As highlighted by RAE in its exemption decision, such premiums are consistently applied by EU energy regulators and are adapted as new projects have no consistent customers yet. The Commission also considers as appropriate the inclusion of a […], since the project will not benefit from income protection, as opposed to the other LNG Terminal in the country (see recital 72).

The Commission concludes that the IRR of the project, as projected in the business plan submitted by the Greek authorities, would be close to – but not exceed- the WACC.

Monitoring and clawback mechanism: As explained in section 2.8, the Greek Authorities will put in place a claw-back mechanism to avoid overcompensation above the rate of return of [5%-15%]. This mechanism will be reviewed by the RAE. It will guarantee that direct beneficiaries cannot generate unreasonably excessive profits.

The claw-back mechanism foresees that any excess return will be partly returned to the terminal users through tariff reductions, and […] returned to the granting authority, in order to avoid overcompensation. As shown in section 2.8, the RAE shall closely monitor the internal rate of return during the entire duration of the Project.

Transparency and reporting: Member States are required under Section 3.2.7 of the EEAG to publish as of 1 July 2016 certain information related to the beneficiaries of aid. As seen in the recital (91) of this Decision, the Greek authorities have committed to complying with these provisions.

For the reasons above mentioned, the Commission concludes that the measure does not entail overcompensation and that the aid measure is proportionate.
3.3.4.3. Identifying the outstanding distortions of trading conditions which cannot be avoided (despite the aid being necessary, appropriate, proportionate)

(155) As it is referred in section 2.3 of this Decision, the project is exempted from the internal market legislation concerning the requirements for third party access; therefore, paragraph 215 of the EEAG is applicable.

(156) Pursuant to paragraph 215 of the EEAG, the Commission will carry out a case-by-case assessment of the potential distortions of competition taking into account, in particular, the degree of third party access to the aided infrastructure, access to alternative infrastructure and the market share of the beneficiary.

(157) As regards to the degree of third party access, the exemption granted to the project is limited solely for to capacity booked through the binding phase of market test. Third parties will have access to the project via the Open Season Procedure and will pay the same fees per unit of Gas as the shareholders of the project. Furthermore, the capacity caps imposed by RAE in the exemption decision (see recital (37)) limit the potential negative effects resulting from increasing the market power of players active in the gas market.

(158) Therefore, the Commission considers that the distortive effects on competition resulting from the Project are limited and justified.

(159) As regards access to alternative infrastructure, the Commission notes the potential impact on competition the realisation of the Project will have on the other LNG Terminal in Greece in Revithoussa. Moreover, should the Project be more successful than expected, the claw-back mechanism foresees a tariff decrease, which might be detrimental to competition by advantaging the Project over the alternative LNG terminal of the country. However, the Commission notes that the claw-back mechanism also foresees a return of excess profitability to the granting authority, thereby limiting the distortive effect mentioned here above.

(160) As regards the market share of the beneficiary, the Commission notes that, as stated in recital (37), also based on the capacity limits set by the RAE, no player would be able to increase its market share and ultimately distort competition, as a result of the capacity at the new LNG Terminal for the Greek market.

(161) The Commission takes note of the fact that currently several countries in the region (among others Serbia and North-Macedonia, see recital (23)) rely strongly on gas imports from Russia. The Commission considers that the project will have substantial beneficial effects by further diversifying the upstream gas market in the region. The Commission therefore considers that the project will actually contribute to improve the competition, by diversifying the gas supply sources in Greece and its neighbouring countries.

(162) In the light of the above arguments, it can be concluded that the aid has limited undue negative effect on competition and trade within the meaning of paragraph 214 of the EEAG.
3.3.4.4. Weighing up the positive effects of the aid with its negative effects on the internal market

(163) A carefully designed aid measure should ensure that the overall balance of the effects of the measure is positive in terms of avoiding adversely affecting trading conditions to an extent contrary to the common interest.

(164) As shown in section 0, the aid will facilitate the development of a new LNG Terminal, thereby improving energy security of supply in Greece and in South East Europe. By providing an additional source of gas supply, in Greece and in several neighbouring countries, the aid will lead to the diversification of energy sources and increasing the integration of the regional gas market in eastern Member States of the EU.

(165) In addition, as shown above, in section 3.3.3.2., the Greek Authorities have designed the notified measure in such a way as to minimise the potential distortion of competition arising from the measure. Furthermore, by granting access to the project to all interested parties as described in recital (46), the measure will contribute to additional competition in the gas markets in the region. The overall impact on competition is deemed to be positive. The negative effects on competition are limited.

(166) Therefore, the positive impact of the aid measure in developing the economic activity at issue outweighs any potential negative effects on competition and trade. On balance, the measure is in line with the objectives of Article 107(3)(c) TFEU as it facilitates the development of an LNG terminal and hence the development of trade in LNG and natural gas in Greece and in the South East European region, and does not adversely affect competition to an extent contrary to the common interest.

4. CONCLUSION

(167) In light of the above, the Commission has decided not to raise objections to the aid granted for the LNG Terminal Alexandroupolis in Greece on the grounds that it is compatible with the internal market pursuant to Article 107(3)(c) of the Treaty on the Functioning of the European Union.

Yours faithfully
For the Commission

Margrethe VESTAGER
Executive Vice-President