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In the published version of this decision, some information has been omitted, pursuant to articles 24 and 25 of Council Regulation (EC) No 659/1999 of 22 March 1999 laying down detailed rules for the application of Article 93 of the EC Treaty, concerning non-disclosure of information covered by professional secrecy. The omissions are shown thus [...].	PUBLIC VERSION This document is made available for information purposes only.
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Subject: **State Aid SA.105781 (2022/N) - LNG Terminal Alexandroupolis in Greece -Independent Natural Gas System - Additional State Aid to SA.55526 (2021/N)**

Excellency,

1. PROCEDURE

- (1) On 30 December 2022, the Greek authorities notified to the Commission, pursuant to Article 108(3) of the Treaty on the Functioning of the European Union (TFEU), their intention to provide additional support to the construction and operation of a liquefied natural gas (LNG) terminal located in Alexandroupolis (the “Project”).
- (2) On 17 June 2021, aid for the Project was already approved by the Commission (the “existing aid measure”), in the Decision SA.55526 (2021/N) - *LNG Terminal Alexandroupolis in Greece* (the “initial decision”) ⁽¹⁾.

⁽¹⁾ Decision of 17.06.2021, C(2021) 4482 final, State Aid SA. SA.55526 (2021/N) - LNG Terminal Alexandroupolis in Greece (OJ C 460, 12.11.2021, p. 1-2). Available at: [SA.55526 Competition Case \(europa.eu\)](#)

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- (3) A request for information was sent on 28 February 2023, to which the Greek authorities replied on 29 March 2023. The Greek authorities provided additional information on 23 May 2023, 26 June, 25 July 2023 and 3 August 2023.
- (4) By letter dated 18 September 2023, Greece agreed to exceptionally waive its rights deriving from Article 342 TFEU in conjunction with Article 3 of Regulation 1/1958 ⁽²⁾ and to have the present decision adopted and notified in English.

2. DETAILED DESCRIPTION OF THE AID

2.1. The existing aid measure

- (5) The existing aid measure consists of support to the Project in the form of a direct grant of EUR 166.7 million ⁽³⁾ (see recital (51) of the initial decision), based on a business plan (“the initial business plan”). The aid is granted by Greece and financed through the European Structural and Investment Funds (ESIF), under the 2014-2020 Partnership Agreement for the Development (see recitals (55) to (58) of the initial decision).
- (6) The Project comprises the acquisition of a Floating Storage Regasification Unit (FSRU) for the reception, storage and regasification of LNG and the construction of permanent offshore installations (mooring system, risers etc.), as well as a system of subsea and onshore gas transmission pipelines which connects the FSRU to the National Natural Gas System of Greece (NNGS). 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 153,500 cubic meters ⁽⁴⁾, a nominal regasification and send-out capacity of 625,000 cubic meters per hour, equivalent to 5.5 billion cubic meters per year (“bcm/a”), 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/a). The Project was intended to be ready for the import of LNG by the end of 2023 and its commercial operation is expected to start in January 2024. The expected lifetime of the Project for the import of LNG is 27 years.
- (7) The Project promoter and beneficiary of the existing aid measure is Gastrade S.A., a company which was established in 2010 with the objective to design, develop, operate and manage infrastructure for the reception, transmission and distribution of natural gas and was granted a license for an Independent Natural Gas System complying with the requirements on establishment, operation and administration of

⁽²⁾ Regulation No 1 determining the languages to be used by the European Economic Community (OJ 17, 6.10.1958, p. 385).

⁽³⁾ The exact amount is EUR 166.684.281

⁽⁴⁾ The Greek authorities explained that the decreased LNG storage capacity of the FSRU (153.500 compared to 170.00 cubic meters), compared to the description of the Project in the initial decision (see recital (5)), is due to the awarding of the contract for the supply of the FSRU to a different undertaking than the one initially announced as the preferred bidder, following a retendering procedure (see recital (33) of the present Decision). However, the Greek authorities explained that the LNG storage capacity of the FSRU, as amended, is sufficient to accommodate the expected average yearly utilisation according to the results of the Market Test, taking into account the base case scenario of gas throughput, as well as seasonal variations in demand and the possibility of increased long-term capacity bookings.

Articles 74 to 79 of law 4001/2011 ⁽⁵⁾. The current shareholders of Gastrade are Ms. Asimina-Eleni Copelouzou (20%), founding Shareholder of Gastrade, Gaslog Cyprus Development Limited (20%), DEPA Commercial S.A. (DEPA) (20%), Bulgartransgaz EAD (20%) and DESFA S.A., the Greek Natural Gas Transmission System Operator (20%) (see recitals (60) to (65) of the initial decision) ⁽⁶⁾.

- (8) As concerns the construction of the Project, the Project promoter awards the execution of the sub-works of the Project to sub-contractors following tendering procedures. The Greek authorities confirmed that these tendering procedures are conducted on the basis of national procurement rules ⁽⁷⁾, 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 ⁽⁸⁾”. According to the legal framework in force, all awarding procedures, for current and concluded tenders, are subject to approval by the Managing Authority before contract signing.
- (9) Furthermore, the Greek Authorities confirmed that the overall project is carried out in compliance with any applicable EU rules. In particular, the Project will be developed and operated on the basis of the applicable European and Greek energy law and in line with the Final Exemption Decision of the Greek Regulatory Authority for Energy (*Ρυθμιστική Αρχή Ενέργειας*, ‘PAE’), which was adopted on 10 December 2020 ⁽⁹⁾, following the Commission exemption decision dated 25 November 2020 ⁽¹⁰⁾. The Project benefits from an exemption regarding article 32 of the Gas Directive ⁽¹¹⁾ regarding Third Party access (TPA) in accordance with its Article 36(9). This exemption covers only the part of the capacity that was booked

⁽⁵⁾ Law 4001/2011 on the Operation of Electricity and Gas Energy Markets, for Exploration, Production and Transmission Networks of Hydrocarbons and other provisions.

⁽⁶⁾ The shareholders’ structure described in recitals (60) to (64) of the initial decision was modified in December 2021, following the European Commission’s decision not to oppose and to declare compatible with the internal market and with the EEA Agreement the transaction, according to which DESFA S.A. would acquire half of Ms. Copelouzou’s shares in Gastrade, thus acquiring 20% of Gastrade’s shares (see recital (65) of the initial decision and the Commission Decision C(2021) 8778 final of 26 November 2021 on case M.10139 – DESFA / COPELOUZOU / DEPA / GASLOG / BTG / GASTRADE).

⁽⁷⁾ Ministerial Decision for the National eligibility rules for NSRF 2014-2020 programs, i.e. M.D.81986/EYΘY/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 currently in force. 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).

⁽⁸⁾ https://ec.europa.eu/regional_policy/en/atlas/programmes/2014-2020/europe/2014gr16m2op001

⁽⁹⁾ RAE Decision 1580/2020 ([Final Decision of the Greek Energy Regulator on the Exemption Application of GASTRADE SA](https://www.rae.gr/apofaseis/_5934/)). https://www.rae.gr/apofaseis/_5934/

⁽¹⁰⁾ 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. https://ec.europa.eu/energy/sites/ener/files/documents/2020_alexandroupolis_decision_en.pdf

⁽¹¹⁾ Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC (OJ L 211, 14.8.2009, p. 94).

through the binding phase of market test for a period of 15 years from the commercial operation and under certain obligations (see recitals (27) to (29) of the initial decision). The Project also benefits from an exemption regarding tariff regulation in accordance with Article 36(9) of the Gas Directive, which relates to the provisions of Article 41.6, 41.8, 41.10 of the Gas Directive. This exemption is granted for 25 years and for the total regasification capacity of the Project under certain conditions (see recitals (30) to (35) of the initial decision). The Greek authorities submitted that according to the assessment of the Greek Regulatory Authority for Energy, there are no grounds for revision of its Final Exemption Decision from December 2020.

- (10) The Project aims at improving the gas supply and infrastructure in the region of South-East Europe and has been included in the Project of Common Interest (PCI) lists up until the Project received financial support in 2021 ⁽¹²⁾. Part of the capacity of the Project has been committed through the market test not only by Greece but also by Bulgaria, Serbia, North Macedonia and Romania. It is included in the National Energy and Climate Plans of Greece and Bulgaria ⁽¹³⁾ and is seen in the region as a project of strategic importance, especially in view of cross-border interconnections. The Project's contribution in ensuring security of supply and greater diversification of supply has become extremely relevant after Russia's military aggression against Ukraine (see recitals (27) to (30)).

2.2. The notified measure

- (11) The Greek authorities notified a direct grant of EUR 106.1 million as additional aid to the aid approved by the Commission in the initial decision, with the reservation that this amount may be adjusted downwards as regards certain costs and payments, so that it reflects the additional costs that had to be incurred by the beneficiary and that the total aid amount does not exceed the funding gap. The grant will be financed from European Structural and Investment Funds (ESIF), under the 2014-2020 Partnership Agreement for the Development, on condition that the disbursement of this amount will be approved under the relevant rules. The aid will be granted only after the notification of the present Decision.
- (12) The aim of the notified measure is to account for the higher-than-expected costs described in subsection 2.4.1 of the present Decision, which were out of the beneficiary's control and were unexpected in the initial business plan. The Greek authorities reported that the beneficiary will not be able to finance these additional costs from its own (internal) resources, since the higher construction costs affect the profitability of the project and the need for the shareholders to preserve their initial equity contribution to the investment.
- (13) The notified cost increase is not covered by existing loan contracts. The beneficiary has also explored the possibility of increasing the debt financing to cover the cost increases in addition to the loans already signed in the financing structure of the project (see recital (52) of the initial decision). However, this may entail a revision of the terms of the existing loan agreement with commercial banks, which would

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

(13) https://ec.europa.eu/info/energy-climate-change-environment/implementation-eu-countries/energy-and-climate-governance-and-reporting/national-energy-and-climate-plans_en

likely result in higher interest and stricter repayment conditions, leading to higher tariffs for the terminal users.

- (14) According to the Greek authorities, failure of the Project or even a delay in the completion of the Project cannot be considered in the current circumstances, given the Project's strategic importance for gas supplies in Greece and in neighbouring countries, which is evident in the geopolitical situation following the Russian military aggression against Ukraine and the need to replace Russian energy supplies (see subsection 2.3.2).
- (15) The Greek authorities therefore submit that the Project can be completed within the envisaged timeframe only if substantial public support is provided.

2.3. Background and objectives of the notified measure

2.3.1. The unprecedented circumstances resulting in cost overruns

- (16) The Greek authorities have reported that in the context of a changed economic environment due to the Covid-19 pandemic and the Russian aggression against Ukraine, the Project has faced a steep increase in the construction costs, which is likely to jeopardise its timely completion.
- (17) In particular, both the Covid-19 pandemic and the Russian aggression against Ukraine have created significant economic uncertainties, disrupted trade flows and supply chains, and led to exceptionally large and unexpected price increases. Although the Covid-19 crisis was already underway when the initial decision was taken, the conditions on global supply chains further deteriorated in the period before the planned signature of the main contracts (namely July 2021). As an example, an increase of approximately 80% was observed in the price of steel in the international markets between January 2021 and June 2021 ⁽¹⁴⁾, indicatively the time between when the initial offers were made and when contracts were planned to be signed. Moreover, gas infrastructure projects were subject to further market pressure, which was related on the one hand, to the global increase in gas demand for the purpose of the recovery of the economy after the Covid-19 pandemic and on the other hand, to the need for new infrastructure projects for the purpose of diversification from Russian gas. In particular, the orders for the construction of new LNG carriers almost doubled from 2020 to 2022 ⁽¹⁵⁾. The increased demand for specific technical equipment, coupled with limited supply worldwide, made it necessary for the contractors to pay premiums in order to secure construction slots that would enable the timely completion of the Project.
- (18) The abovementioned circumstances led to increases in the construction costs that could not have been foreseen when the initial business plan was set up and when the Commission took its initial decision. The detailed breakdown of cost increases and the relevant reasons are presented under subsection 2.4.1 of the present Decision.

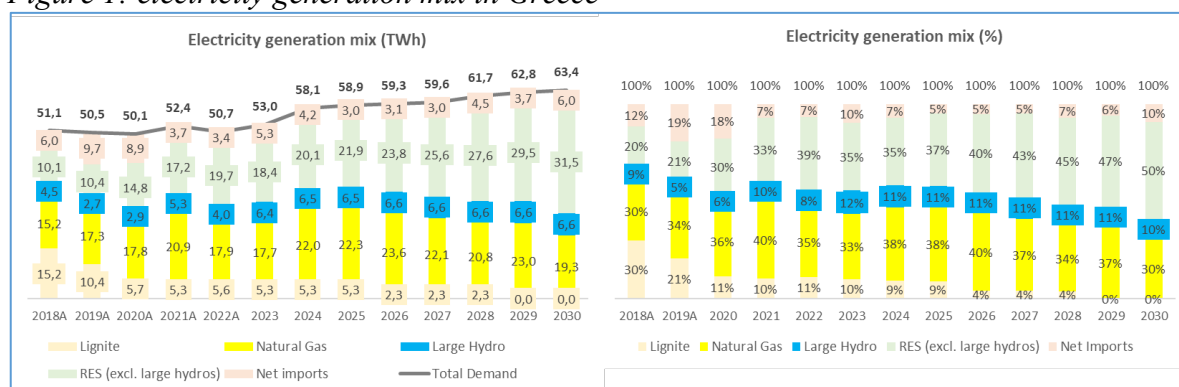
⁽¹⁴⁾ According to Platts North European Plate Index.

⁽¹⁵⁾ According to the World LNG Reports for the years 2020, 2021 and 2022, issued by the International Gas Union (available at <https://www.igu.org/resources/>).

2.3.2. The objectives of the Project in the context of the gas market in Greece and in SEE region and the urgency for its timely completion

- (19) The Greek authorities assert that the Project enhances the security of energy supply, diversifies the energy sources and increases competitiveness both for Greece and for the SEE region. The Greek authorities explained that in the context of geopolitical instability generated as a result of the Russian aggression against Ukraine, the Project is urgently needed to secure gas supply for Greece and the SEE region and support the REPowerEU strategic objective for 100% independence from Russian gas by 2027. Notably, the Greek authorities submit that due to the instability caused by the Russian aggression against Ukraine, additional volumes of up to 0.77 bcm/a have been committed following the Binding Phase of the Market Test.
- (20) The Greek authorities point out that until the security of supply through renewable energy sources is reached, natural gas is essential to meet the energy demand in Greece. The Greek authorities reported that the role of natural gas will be crucial for Greece's and Europe's security of energy supply in the near future. They explained that as a transitional fuel, gas is a key element in the efforts to reduce emissions.
- (21) According to the Greek authorities, the timely completion of the Project is needed to ensure the timely decommissioning of the lignite plants in Greece. Before Russia's invasion of Ukraine, the decommissioning of all the lignite plants in Greece was expected to be completed in 2023, apart from the Ptolemaida V lignite plant, whose decommissioning would take place by 2028 the latest. However, the completion of the decommissioning of those lignite plants had to be postponed to 2025 due to the recent energy crisis, assuming the timely completion and start of operations of the Alexandroupolis LNG Terminal. If the Project was not realised as planned, this would likely result in a further delay in lignite exit plans, as the latter rely on the gas imports from the project.
- (22) In particular, the closure of lignite plants will result in a 2.66 GW gap to meet electricity demand (currently producing 5.3 TWh per year) which will be covered partly from electricity generation from natural gas and partly from electricity generation from renewable energy sources. The Figure below shows the projected electricity generation mix in Greece.

Figure 1: electricity generation mix in Greece

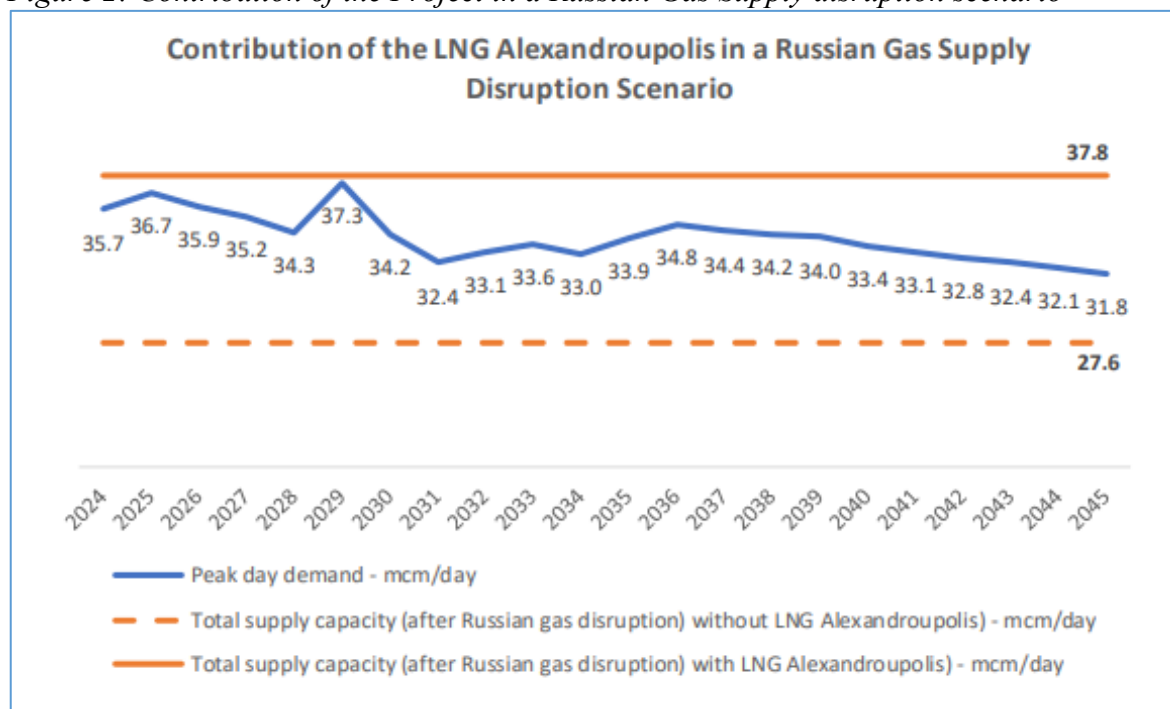


Source: Updated CBA study, Greek authorities.

- (23) As shown in the figure, the share of electricity produced from natural gas in Greece is expected to first increase from 35% in 2022 to 40% in 2026 and then to gradually decrease to 30% by 2030. At the same time, electricity production from RES is expected to increase from 39% in 2022 to 50% in 2030.
- (24) In order to ensure security of supply, greater diversification of supply sources through direct import opportunities in Greece from the global LNG market is of considerable importance. In particular, Russian pipeline gas covered 52% of the Greece's natural gas imports in 2022, amounting to 2.8 bcm/a. The Greek authorities explain that with a regasification capacity of 5.5 bcm/a after its operational start in 2024, the Project will contribute to the Greek gas supply, allowing to replace former Russian gas imports. As the Project's capacity was determined in 2021, Greece further refers to its explanations described in Section 2.2. of the initial decision.
- (25) The Greek authorities submit that the Project contributes to security of supply for Greece in a Russian gas supply disruption scenario. The Greek authorities argue that despite the enhancement of the total supply capacity through infrastructure projects that aim at the diversification of gas supplies ⁽¹⁶⁾, Greece could not cover its peak demand without the Project. Greece provided the Figure below in the Updated Cost Benefit Analysis, in which it is assumed that all remaining gas supply infrastructure in the country supply gas operates at full capacity.

⁽¹⁶⁾ In 2021, the Trans-Adriatic pipeline became operational, through which Greece can receive natural gas of Azerbaijani origin (maximum total capacity of 4.1 mcm/day).

Figure 2: Contribution of the Project in a Russian Gas Supply disruption scenario



Source: Updated CBA study, Greek authorities.

- (26) The Greek authorities point out that the Project will moreover provide infrastructure to supply other Member States. In addition to being part of the PCI lists (see recital (10)), 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 ⁽¹⁷⁾. In the context of the current geopolitical situation, the war in Ukraine and the REPowerEU plan, the benefits derived from the implementation of the Project have gained additional importance and urgency.
- (27) Greece points out that in March 2022, EU leaders agreed in the European Council ⁽¹⁸⁾ to phase out Europe's dependency on Russian energy imports as soon as possible. The REPowerEU Plan put forth by the Commission on 18 May 2022 set out actions to structurally transform the EU's energy system, namely to save energy, to diversify supplies, to quickly substitute fossil fuels by accelerating Europe's clean energy transition, and to smartly combine investments and reforms. While gas is a transitional fuel, the Commission considered in its REPowerEU Plan that shifting away from Russian fossil fuels will also require targeted investments for security of supply in gas infrastructure.
- (28) The REPowerEU Communication ⁽¹⁹⁾ referred to an assessment carried out by the European Network of Transmission System Operators for Gas ('ENTSOG'), showing that in Central and South – East Europe, including the Energy Community, most of the countries show significant dependence on Russian gas. The

⁽¹⁷⁾ [Appendix to the CESEC Action Plan_pre-HLG_rev.pdf](https://ec.europa.eu/energy/sites/default/files/documents/Appendix%20to%20the%20CESEC%20Action%20Plan_pre-HLG_rev.pdf) (europa.eu) - https://ec.europa.eu/energy/sites/default/files/documents/Appendix%20to%20the%20CESEC%20Action%20Plan_pre-HLG_rev.pdf

⁽¹⁸⁾ European Council Conclusions (24 and 25 March 2022)

⁽¹⁹⁾ Communication from the Commission to the European Parliament, the European council, the Council, the European Economic and Social Committee and the Committee of the Regions REPowerEU plan, COM/2022/230 final, available at EUR-Lex - 52022DC0230 - EN - EUR-Lex (europa.eu).

REPowerEU Communication made explicit reference to the Project ⁽²⁰⁾, stating that “*LNG terminals in Cyprus (2 bcm/year) and Alexandroupolis Greece (5 bcm/year) are due to be operational in 2023.[...] It is thanks to these projects, many of which have benefitted from financial support through the Connecting Europe Facility, that Member States are able to react to recent supply cuts in a spirit of solidarity.*”. The Project is identified as a project that that will help Europe and the Balkans become less reliant on Russian gas supplies. The REPowerEU communication called on Member States to ensure that “*the identified projects are implemented as quickly as possible in line with the needs and timeline of the REPowerEU Plan. In particular, identified projects, alongside PCIs, should be allocated the status of projects of highest national significance and priority ensuring rapid implementation. The Commission will be ready to facilitate this.*”.

- (29) According to Greece, the limitation of Russian gas supplies could lead to a supply gap of the wider region of up to 27 bcm. [...] ⁽²¹⁾ ⁽²²⁾
- (30) The contribution of the Project in the security of supply of the SEE region will be facilitated by new infrastructure and interconnection projects, such as the interconnector Greece Bulgaria (IGB), which was commissioned on 1 October 2022 ⁽²³⁾.

2.4. Financial aspects of the Project

- (31) The Greek authorities provided an updated calculation of the funding gap and the aid element, based on the latest revised Cost Benefit analysis of the Project from 31 October 2022, whereby the Greek authorities provided a revised detailed business plan. The updates relevant to the financial analysis concern notably: updated estimates of construction costs, updated estimates of operating costs, updated revenue estimations following additional expected capacity bookings and financial return of the Project. The updated financial model assumes a business operation period of 27 years for the import of LNG.

2.4.1. Updated Project costs

- (32) The initial total investment costs were estimated at EUR [250-500] million (see recital 38 of the initial decision). As the funding gap was estimated at EUR 166.7 million, this implies that an amount of EUR 197 million (in nominal terms) was to be contributed by external funds. Of those external funds, Gastrade

⁽²⁰⁾ See Section 4.1-European interconnection and infrastructure needs and Annex 3 of the Communication from the Commission to the European parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions REPowerEU plan”, available at EUR-Lex - 52022DC0230 - EN - EUR-Lex (europa.eu).

⁽²¹⁾ Based on current demand outlook, Gastrade has provided information about the committed volumes per country in the wider region and other countries that constitute possible markets of the project and also aim at the diversification of their supply sources.

⁽²²⁾ In 2020, natural gas demand in Bulgaria amounted to 3.0 bcm of which 2.96 bcm were imported from Russia and 0.03 bcm was sourced from local production. The domestic annual natural gas demand is expected to increase from 3.7 bcm in 2024 to 4.9 bcm in 2045.

⁽²³⁾ The interconnector has an initial forward transportation capacity of 3 bcm/y of natural gas from Greece to Bulgaria (Phase 1) and no physical reverse flow (i.e. from Bulgaria to Greece) is anticipated in Phase 1 of the project.

was to contribute EUR [...] million in equity (see recital 55 of the initial decision), the remainder would be debt-financed.

- (33) According to the updated business plan, the total investment costs of the project (excluding VAT) amount to EUR [350-600] million (compared to [250-500] million reported at the time of the adoption of the initial decision). The Greek authorities provided a detailed breakdown of the costs exceeding the initial estimate. The additional financing needs are presented in the following Table:

Table 1: Investment costs of the Project

Project Capital Expenditure	Initial total costs (EUR Mio)	Updated total costs (EUR Mio)
Floating Storage and Regasification Unit (FSRU)	[...]	[...]
FSRU Mooring System	[...]	[...]
EPCI Contract (Subsea & onshore pipeline)	[...]	[...]
Commissioning cargo	[...]	[...]
Connection to the National Natural Gas Transmission system	[...]	[...]
Contingencies	[...]	[...]
Other Costs ⁽²⁴⁾	[...]	[...]
Total	[250-500]	[350-600]

Source: the Greek authorities

- (34) The circumstances described in subsection 2.3.1 affected different categories of construction costs of the Project as compared to the business plan. Greece submitted as reasons the sharp increase in input prices (in particular steel prices), in the orders for the construction of FSRUs, as well as the global increase in gas demand after the Covid-19 pandemic and the Russian military aggression.
- (35) The cost item linked to the commissioning LNG cargo refers to the net cost of commissioning the cargo minus the compensation received by the company from the downstream operator for the regasification of the LNG cargo. The cost increase is driven by both the cost of LNG on international markets and a revised volume required to initialize the project (following the updated FRSU design finally selected). The sharp rise in gas prices for the delivery period (fourth quarter of 2023) between the initial project and the updated business plan explain the expected increase.
- (36) The amount earmarked for 'contingencies' has increased in the business plan from EUR [...] million to EUR [...] million. The contingency buffer is foreseen for technical detail modifications that may turn out necessary in the course of the engineering works but that cannot be fully assessed ex ante in the contracts. For the avoidance of doubt, should, by the completion of the construction phase of the

⁽²⁴⁾ The other costs include [...]

project, the full amount of the contingencies not have been used, the beneficiary will not receive a payment for the part of the contingencies not used.

- (37) The updated annual operating costs amount to around EUR [40-80] million ⁽²⁵⁾ 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. The increase in the operating costs compared to the amount referred in the initial decision (EUR [10-50] million) is due to updated estimations regarding the closed-loop regasification energy cost, the CO2 emissions cost and the tug boat services costs.

2.4.2. Updated Project revenues

- (38) As regards the operating revenues of the Project, the Greek authorities explained that following the Russian aggression against Ukraine and the need for diversification from Russian gas, additional capacity has been booked for the first 10 years of operation (0.77 bcm/a for the first 3 years of operation, gradually decreasing to 0.57 bcm/a), following the conclusion of the Binding Phase of the Market Test (see recitals (43), (45) and (48) of the initial decision). Those additional volumes represent additional discounted revenues of EUR [...] million for the period 2024-2033.
- (39) The Greek authorities explained that the beneficiary considers that further capacity booking requests might arise and has thus assumed additional regasification volumes of [...] bcm/a for the first 10 years, on top of the actual additional capacity bookings. Those additional volumes represent additional discounted revenues of EUR [...] million for the period 2024-2033. For the remaining 20 years, revenues from the Project were projected based on prospective gas volume of [...] bcm/a annually.

Figure 3: Updated committed and prospective volumes (bcm/year)
[...]

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

- (40) As explained to the initial decision, the Project benefits from regulated tariff exemption for a period of 25 years, see recital (9) above. The tariffs applied for each year of the Project's operation remain the same as reported in the initial decision (see recitals (42) and (43)).
- (41) The updated breakdown of the committed capacity per country based on the Market Test results and the additional capacity bookings is presented in the Graph in Figure 4 below.

⁽²⁵⁾ Value applicable for 2024 which is the first year of operation of the Project.

Figure 1: Breakdown by country of the reserved capacity – following the Binding phase of the market test (bcm/year) and the additional capacity bookings.

[...]

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

2.5. Additional Funding gap following cost increases

- (42) The Greek authorities have provided updated estimations of the expected IRR and the calculation of the funding gap related to the project, i.e., the net present value of the cash flows triggered by the project, excluding additional state support. This calculation relies on financial projections and on assumptions of long-term capacity bookings (as shown above by graph in recital (39)).
- (43) Based on the projection of the capacity booking, the Greek authorities estimate that the current discounted funding gap would amount to EUR 106.1 million.
- (44) The calculation of the funding gap was based on the assumptions described in subsection 2.4.1 and 2.4.2 above. Greece submits that the WACC remains unchanged for Gastrade in line with the RAE's decision.
- (45) Based on committed and prospective volumes (as shown above by graph in recital (39)), the project, without the additional aid, would yield an IRR of [0-5]% in real, pre-tax terms, instead of the targeted [5-15]% in real, pre-tax terms (see recital (75) of the initial decision).
- (46) Over a reference period of 27 years, the project has an additional negative Financial Net Present Value of EUR 106.1 million, which is equivalent to the additional funding gap of the project. This indicates that the expected revenues do not cover the total investment costs of the project.
- (47) The updated financial analysis demonstrates that based on the assumed volume, investment costs and operational costs, the project requires a tariff of [...] million EUR/bcm 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 neighboring terminals, resulting in no long-term capacity reservations by the users, thus making the Project non-feasible.

2.6. Mechanism preventing overcompensation

- (48) The Greek authorities explained that specific provisions governing the eligible costs under the European Structural and Investment Funds (ESIF) and the 2014-2020 Partnership Agreement for the Development⁽²⁶⁾ guarantee that the beneficiary may receive contribution from the Funds only for expenditure that it has actually incurred within specific deadlines and on the basis of supporting

⁽²⁶⁾ See articles 63 and 53 of the Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy (OJ L 231, 30.6.2021, p. 159–706).

documentation. The Managing Authority (see recital (56) of the initial decision) will ensure the compliance with those provisions.

- (49) In addition, the Greek authorities confirmed that should the Project turn out to be more profitable than expected in the business plan, e.g., due to additional capacity bookings, excess revenues will be returned according to the mechanism described in recitals (79) to (85) of the initial decision. This mechanism aims at ensuring that the project IRR nominal pre-tax will not exceed [...] % and that any revenues from capacity bookings that increase the IRR above [...] % will be returned either to the terminal users in the form of tariff reduction or to the Granting Authority.

2.7. Avoidance of lock-in effect of natural gas and contribution to the Union's 2030/2050 climate targets

- (50) As for the Project's contribution to the climate targets, The Greek authorities argue that natural gas will be the bridging fuel to a fully decarbonized energy system. To this end, the Project contributes to a cleaner energy mix through increased utilization of gas instead of lignite, hence reducing CO₂ emissions in line with the lignite decommissioning plans of the Southern East European countries. Specifically:
- In Greece, full decommissioning of lignite plants is set by 2028.
 - In Bulgaria, the decommissioning plan will be completed by 2040.
 - North Macedonia has committed to shift away from solid fuel power production by 2030.
- (51) In particular for Greece, its decommissioning plan prior to the recent energy crisis provided for a full decommissioning of all lignite units by 2023, with the exemption of Ptolemaida V which was planned for decommissioning in 2028. This plan was moved backwards due to Russian's invasion to Ukraine and decommissioning is now planned for 2025 ⁽²⁷⁾. The full decommissioning, when realized, will reduce power production from lignite in Greece by 2.66 GW of installed production capacity which will be partly replaced by new Natural Gas fired units.
- (52) The Greek authorities explain that the operation of the Alexandroupolis LNG Terminal and the availability of the associated regasification capacity have been considered as key factors for the Greek State when deriving its lignite decommissioning plan. Failure in commissioning the LNG Terminal in Alexandroupolis as initially planned, will reduce available gas volumes for the supply of the Regional market (including Greece). This will impact gas supply availability for coal substitution in the region, in particular in the context of moving away from Russian gas, as was the case for winter 2022, which resulted in the delay of the lignite phase-out plans.
- (53) Specifically, the Greek authorities estimate that one additional year of delay in the lignite decommissioning plan of Greece would result in approximately 4 million tons additional CO₂ emissions. As shown in Figure 1 the closure of lignite plants will result in a 2.66 GW gap to meet electricity demand which will be covered partly from electricity generation from natural gas and partly from electricity

⁽²⁷⁾ (except for Ptolemaida V whose decommissioning is still planned for 2028).

generation from renewable energy sources. The Greek authorities therefore explain that the Project will contribute to reaching the 2030 decarbonisation targets by providing the possibility of importing gas to substitute lignite in electricity generation.

- (54) As explained in recital (19) above, the Greek authorities point out that until the security of supply through RES is reached, natural gas is essential to meet the energy demand in Greece. The Greek authorities reported that the role of natural gas will be crucial for Greece's and Europe's security of energy supply in the near future. They explained that as a transitional fuel, gas is a key element in the efforts to reduce emissions.
- (55) Nonetheless, Greece explained that the main pillars for achieving climate neutrality by 2050 will be the rapid development of RES, energy storage, energy efficiency, electrification of light transport and gradual use of renewable gases. Greece intends to intensify its efforts to meet decarbonization of the electricity sector sooner than foreseen. Regarding natural gas phase out, while Greece has not committed to a specific date, since such date depends on the development of RES and the achievement of intermediate milestones, however Greece submits that in case any natural gas unit will be in operation, it will be equipped with an auxiliary carbon capture and storage facility by 2050.
- (56) In addition, the Greek authorities explain that while natural gas will be the transitional fuel for the medium term, the Project is compatible with the Union's long term climate goals. This is because the Project's technical design will enable swift adaptation to receive and transmit hydrogen, green ammonia and/or alternative gases (e.g., bio-methane).
- (57) In particular, the authorities explain that the terminal will be constructed taking into account the technical specifications necessary to facilitate a later conversion to hydrogen and ammonia and to allow the use of parts of the facility even after the conversion. The FSRU, the cryogenic storage tanks, the pumps and the high-pressure pipelines can be retrofitted for this purpose:
- The FSRU tanks have a favorable surface to volume ratio, hence they are suitable for retrofitting the insulation to withstand lower temperatures which are necessary for liquefied hydrogen. The LNG tanks can be converted for hydrogen by adding additional (membrane) insulation panels on the inside walls in combination with a recondenser. Such a recondenser is already installed on the FSRU and can be retrofitted with available technology.
 - For future re-qualification of the pipelines for hydrogen use, design verification and integrity management, a repurposing of (i) the pipeline and spools, (ii) the valves and the external valve protectors, (iii) the risers and (i) PLR components ⁽²⁸⁾ will be required. It is estimated, based on the current technology and market conditions, that a percentage between 10% - 35% of the CAPEX of a new hydrogen pipeline will be necessary for repurposing such pipelines.

⁽²⁸⁾ Permanent equipment onshore, located at the Metering & Regulating Station that is being used for the maintenance of the pipeline.

- (58) Further, the terminal will be able to operate at 100% with biomethane, considering that biomethane has similar properties to LNG (e.g, liquefaction temperature and density) subject to fewer retrofits required and using technology that is already proven and used in LNG bunkering carriers.
- (59) The Greek authorities thereby explain that should the terminal be reconverted for the import of hydrogen or alternative green energy carriers, at the latest in 2050, it is anticipated that a significant share of the initial CAPEX investment would not be lost as the asset would be repurposed. The Project will not be directly ready for the import of hydrogen and/or other renewable energy carriers as the technology is not ready yet and in order to ensure that the most suitable technology is chosen, the project promotor will assess at the time of conversion which alternative energy carrier to convert the terminal based on the development of technology and the future market outlook. In case of reconversion to the import of hydrogen by 2050, such hydrogen could directly be blended with natural gas in the existing natural gas pipelines.
- (60) In any event, the Greek authorities and the beneficiary commit to cease the import of natural gas from the LNG Terminal Alexandroupolis in 2050 at the latest, therefore the Project contributes and does not undermine the 2050 climate targets and the Project will not result in a lock-in of natural gas.

a. Legal basis

- (61) The rules and conditions for the application of the measure are provided for in (EU) Regulations No 1303/2013 ⁽²⁹⁾ and No 1301/2013 ⁽³⁰⁾, supplemented by (EU) Regulation No 480/2014 ⁽³¹⁾.
- (62) With regard to national legislation, the Greek authorities submitted that there will be no amendments to the legal basis described in recitals (87) and (88) of the initial decision.
- (63) Greek Authorities have confirmed that they will not implement the notified measure before the notification of the Commission's decision authorising the measure.

⁽²⁹⁾ Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006 (OJ L 347, 20.12.2013, p. 289).

⁽³⁰⁾ Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, p. 320).

⁽³¹⁾ Commission Delegated Regulation (EU) No 480/2014 of 3 March 2014 supplementing Regulation (EU) No 1303/2013 of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund (OJ L 138, 13.5.2014, p. 5).

b. Cumulation and Transparency

- (64) Greece has confirmed that the aid measure would not be cumulated with other forms of support to cover the same eligible costs.
- (65) 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

- (66) 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.
- (67) In recitals (92) to (102) of the initial decision, the Commission has found the grant of EUR 166.7 million to the Project under the Operational Programme “Competitiveness, Entrepreneurship and Innovation 2014-2020” (OPCEI) to constitute State aid. The Greek authorities have notified an additional grant of EUR 106.1 million as being distinct from the aid assessed under the initial decision.
- (68) In order to conclude on whether state aid is present, it must therefore be assessed whether the cumulative criteria listed in Article 107(1) TFEU, i.e., transfer of State resources, selective advantage as well as potential distortion of competition and effect on trade between Member States, are met for the notified measure.

3.1.1. Imputability and the involvement of State resources

- (69) By granting EUR 106.1 million to the Project, Greece intends to use resources from the European Structural and Investment Funds (ESIF) (recital (10)). As explained in recitals (93) to (94) of the initial decision, 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. Once awarded, the aid will 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

- (70) The Commission notes that the notified measure will provide an economic advantage to Gastrade, because the company will obtain a grant for covering additional costs related with the construction of the Project. The Commission notes that the financing gap of EUR 106.1 million established for the completion of the Project is the result of the increase of construction expenditure. This financing gap could not be covered by the beneficiaries, the financial institutions or any other private investor (see recitals (12) to (14)). Therefore, that grant confers an economic advantage to its beneficiary which it would not have had under normal market conditions.

3.1.3. Selectivity

- (71) 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

- (72) As explained in recitals (97) to (101) of the initial decision, favouring a particular LNG terminal's operator may strengthen Gastrade's position on the EU gas market.
- (73) 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.
- (74) 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 (32).
- (75) Gas is a product traded between Member States, and Greece is connected to the EU grid, with competition among alternative suppliers. The measure therefore affects trade between Member States.
- (76) 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

- (77) 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

- (78) By notifying the aid measure before its implementation (see recital (63)), the Greek authorities have respected the notification and standstill obligation laid down in Article 108(3) TFEU.

(32) This should however be minimised by a number of conditions introduced by RAE in its exemption decision

3.3. Compatibility

3.3.1. *Legal basis for assessment*

- (79) Article 107(3)(c) TFEU provides that the Commission may declare compatible with the internal market aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest. Therefore, compatible aid under that provision of the Treaty must contribute to the development of a certain economic activity. Furthermore, the aid should not distort competition in a way contrary to the common interest.
- (80) The measure aims to finance the timely completion of an LNG regasification terminal in Greece, the construction of which the Commission has already assessed in its initial decision. The additional support for this gas infrastructure falls within the scope of the Commission Guidelines on State aid for climate, environmental protection and energy ("CEEAG"). The Project constitutes a gas energy infrastructure in the meaning of recital 19, point 36(b), of the CEEAG.
- (81) The Commission has therefore assessed the compatibility of the measure on the basis of the general compatibility provisions of the CEEAG (set out in section 3 of the CEEAG) and the specific compatibility criteria for aid for energy infrastructure (section 4.9 of the CEEAG).

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

3.3.2.1. Identification of the economic activity, which is being facilitated by the measure, its positive effects for society at large and, where applicable, its relevance for specific policies of the Union

- (82) In line with points 23 to 25 of the CEEAG, Member States must identify the economic activities that will be facilitated as a result of the aid and describe if and how the aid will contribute to the achievement of Union policies and targets.
- (83) As already stated in recitals (7) of the initial decision, the Project aims at developing the trade in LNG and natural gas in Greece and in the South East European region. As also stated by the Commission already, this is fully aligned with the EU objectives for secure energy supply, also enshrined in Article 194 TFEU. In this respect, the Commission has already decided that aid to LNG Terminals may contribute to improving the security of supply in the Union and the functioning of the internal energy market ⁽³³⁾.
- (84) The measure aims at increasing security of supply of gaseous fuels to Greece by diversifying sources of supply, notably away from Russia, and therefore improving the security of supply of gaseous fuels to final customers in Greece and in the South East Europe region.

⁽³³⁾ SA.31953 (2011/N) Construction of a LNG Terminal in Świnoujście, Poland, SA.35165 (2013/NN) and SA.35977 (2012/N) – Greece: Upgrade of the Liquefied Natural Gas (LNG) Terminal in Revithoussa – SA.102163 (2023/N) Aid for the construction and operation of the Brunsbüttel on-shore LNG Terminal, Germany.

- (85) In line with point 371 of the CEEAG, the Commission considered that modern energy infrastructure is crucial for an integrated energy market that meets climate targets while ensuring security of supply in the Union. Adequate energy infrastructure is a necessary element of an efficient energy market. Improving energy infrastructure enhances system stability, resource adequacy, integration of different energy sources and energy supply in under-developed networks.
- (86) 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 neighbouring countries.

3.3.2.2. Incentive effect

- (87) According to point 26 of the CEEAG, aid can be considered as facilitating an economic activity only if it has an incentive effect. An incentive effect occurs when the aid induces the beneficiary to change its behaviour, to engage in an additional economic activity or in a more environmentally-friendly economic activity, which it would not carry out without the aid or would carry out in a restricted or different manner. The aid must not support the costs of an activity that the aid beneficiary would anyhow carry out and must not compensate for the normal business risk of an economic activity (point 27 of the CEEAG).
- (88) Proving an incentive effect entails the identification of the factual scenario and the likely counterfactual scenario in the absence of aid (point 28 of the CEEAG).
- (89) Greece submitted that in the absence of the notified aid, the construction and operation of the Project would not continue as planned, as due to a large cost increase beyond the control of the beneficiary and unexpected at the time of the initial decision (see subsection 2.4.1), an additional funding gap materialized (see recitals (43) to (48)). As the Greek authorities explained, the beneficiary is not able to finance the additional costs from its own resources.
- (90) The initial decision specified that the Project to finish construction work is envisaged at the end of 2023. The Commission agrees to the Greek argument that following the Russian military invasion of Ukraine and the need to diversify away from Russian energy sources, abiding by the initial timeline is crucial. However, without the additional aid under the notified measure, the Project would not have been completed as planned. Given that the Project would have a negative Net Present Value without the additional aid, it would have been difficult to find an alternative interested investor, if any. Therefore, without the additional aid, the Project could not contribute to ensuring security of supply and the development of trade, diversifying away from Russian natural gas supplies, in Greece and in the EU. The notified aid measure will thus allow the completion of the benefitting Project as planned.
- (91) According to point 29 of the CEEAG, aid does not have an incentive effect for the beneficiary in cases where the start of works on the project or activity took place prior to a written aid application by the beneficiary to the national authorities. In cases where the beneficiary starts implementing a project before applying for aid, any aid granted in respect of that project will, in principle, not be considered compatible with the internal market.

- (92) In 2021 the Commission approved the aid on the basis of the funding gap calculated under the assumption that the construction contracts would have been signed with the preferred bidders at the agreed price (see initial decision recital 9). As explained by the Greek authorities, the original contracts could not be signed as initially expected by the beneficiary due to circumstances which were out of the beneficiary's control and were unexpected in the initial business plan (see recital (9)).
- (93) The Commission acknowledges that the notified measure continues to serve the purpose of financing the construction of the LNG terminal. At the same time, the Commission notes that the economic and geopolitical circumstances today are very different from those prevailing in the first half of 2021, when the business plan for the Project was made and the initial funding gap was calculated. The funding gap calculated at the time was based on market estimates and was credible given the economic and geopolitical circumstances prevailing at the time, but those have fundamentally changed since then. First, global supply chain bottlenecks from the Covid-19 pandemic materialized in the second half of 2021. Second, the Russian invasion of Ukraine has made it imperative to finalise the Project as planned, despite cost increases. This situation could not be foreseen at the time of the initial Commission decision.
- (94) The construction of the Project has a number of sub-workstreams with sub-contracts, tendered to the market. The prices that the project promoter could obtain reflect the changed, unforeseen economic circumstances. Together with the political imperative to complete the Project as planned, the project promoter cannot avoid incurring higher cost. However, in order for the project promoter to maintain its incentive to participate in the Project and to continue organizing the different sub-workstreams, the Commission accepts the Greek argument that the project promoter needs to receive the notified aid, preserving the initial incentives to participate.
- (95) The Commission accepts Greece's argument that terminating the relationship with the current promoter Gastrade and searching for other potential promoters would not have reduced the costs given the project timeline. Any other project promoter would have also had to tender the subworks or inputs (such as the commissioning LNG), while the change of promoter would have resulted in delays by itself. The Commission has no indications that the cost did not reflect prevailing market conditions.
- (96) The Commission acknowledges that the specific risks that have materialized in this case and that have created cost overruns do not constitute business risks that the State or the project promoter should have anticipated in view of their ordinary risk assessment. In this context it also needs to be considered that not continuing the Project as planned is not an acceptable option in view of the political consequences and cross-border importance of this project. In its REPowerEU Communication of 8 March 2022, the Commission called on all European actors, *the sooner and more decisively we diversify our supply, accelerate the roll out of green energy technologies and reduce our demand of energy, the earlier we can substitute Russian gas. [...]* In its conclusions of 24-25 March 2022, the European Council stated that *the European Union will phase out its dependence on Russian gas, oil and coal imports as soon as possible*. In its REPowerEU Plan Communication of 18 May 2022, the Commission made that call again: *This is the time to implement*

many long pending projects, with a particular focus on cross-border connections to build an integrated energy market that secures supply in a spirit of solidarity.

- (97) At the time of the Russian invasion of Ukraine, works had already started for the Alexandroupolis LNG terminal, and precisely for this reason the Commission considered the merits of this terminal in this context: *Very recently, a number of key projects co-financed by the EU were completed or launched, such as [...] a new liquefied natural gas terminal in Northern Greece that will help Europe and the Balkans become less reliant on Russian supplies* ⁽³⁴⁾ The diversification away from Russian sources has been one of the motives for the Project from the outset, as the Commission positively noted in the initial decision (recitals 23 and 161).
- (98) Greece has argued that the additional aid would preserve the project promoter's incentives to carry through the project, i.e., maintain the envisaged rate of internal return which ensures completion of the project in the relevant timeline.
- (99) According to point 32 CEEAG, the Commission considers that aid granted merely to cover the cost of adapting to Union standards has, in principle, no incentive effect. The Commission notes that the Project entails the construction of a new energy infrastructure, which is not in any way related to adapting to Union standards.
- (100) In view of the above considerations, the Commission concludes that the measure has an incentive effect, as it induces the beneficiary to continue the economic activity, which it would not carry out without the aid, in the timeline and with the urgency that the changed economic circumstances require.

3.3.2.3. No breach of any relevant provision of Union law

- (101) According to point 33 of the CEEAG, if the supported activity, or the aid measure or the conditions attached to it, including its financing method when it forms an integral part of the measure, entail a non-severable violation of relevant Union law, the aid cannot be declared compatible with the internal market.
- (102) The Commission notes that the Project has received the Commission's approval of the terminal's exemption from the requirements regarding third party access and tariff regulation (see recital (8)), in line with Article 36 of Directive 2009/73/EC. The Greek Regulatory Authority for Energy adopted the Final Exemption Decision on 10 December 2020, following the Commission exemption decision dated 25 November 2020. According to Article 36 of Directive 2009/73/EC, one of the conditions that needs to be fulfilled in order for new gas infrastructure to be exempted from certain internal market provisions is that the level of risk must be such that the investment would not take place unless an exemption is granted. Greece submits that no review of the exemption that was given in 2020 is necessary. In this regard, the Commission notes that its 2020 exemption decision ⁽³⁵⁾ has taken into consideration that the exempted Project may receive aid and makes a reference to the claw back mechanism (see point 75 of the Commission's 2020 exemption

⁽³⁴⁾ REPowerEU Plan Communication, section 4.1., 18.5.2023

⁽³⁵⁾ 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 final. Available at: https://energy.ec.europa.eu/system/files/2020-12/2020_alexandroupolis_decision_en_0.pdf

decision). The Commission therefore considers that its assessment of the additional aid in the present decision is not affected.

- (103) In relation to compliance with national and EU public procurement rules, the Commission's assessment on compatibility of State Aid could be affected by a possible incompliance with EU public procurement rules if it produces additional distortion of competition and trade on the market for the provision of LNG regasification services, on which the beneficiary will be active.
- (104) The Commission notes that Greece has submitted that the tenders for the sub-works of the Project were conducted on the basis of national procurement rules, in line with EU public procurement rules. In any event, a potential breach of public procurement rules might have produced distortive effects on the respective markets in which the sub-contractors are active. However, the object of the State support to the beneficiary is to enable them to offer LNG regasification services. Therefore, no additional distortive effect on the competition and trade on the market for LNG regasification services has been identified that would be created by a potential non-compliance with Directive 2014/25/EU, as regards the selection of the sub-contractors. Therefore, in absence of an "indissoluble link" between EU public procurement rules as regards the tenders for the construction sub-works and the object of the aid, the compatibility assessment of the aid cannot be affected by a potential infringement.
- (105) Therefore, the Commission notes that the lawfulness of its State Aid decision does not depend on compliance with national and EU public procurement rules, as the choice of another undertaking for the delivery of sub-works for the construction of the Project would not alter the assessment under the State aid rules (see recital (9)).
- (106) The Commission therefore has no indication that the measure contravenes any relevant provision or general principles of Union law and is in line with point 33 of the CEEAG.

3.3.3. Negative condition: the aid measure must not unduly affect trading conditions to an extent contrary to the common interest

- (107) Distortions of competition and trade are minimised if the aid is necessary, appropriate and proportionate, and the cumulation and transparency requirements are met.

3.3.3.1. Necessity and appropriateness of the aid

- (108) The Commission recognised in point 372 of the CEEAG that where market operators cannot deliver the infrastructure needed, State aid may be necessary in order to overcome market failures and to ensure that the Union's considerable infrastructure needs are met.
- (109) Energy infrastructure is typically financed through user tariffs and the granting of State aid is a way to overcome market failures which cannot be fully addressed by means of compulsory user tariffs (points 379-380 CEEAG).
- (110) As explained in recital (8) of the present Decision, the Project will enjoy an exemption from certain provisions of the internal energy market legislation. Under point 380(b) CEEAG, for projects of common interest which are partially or fully

exempted from internal energy market legislation, and for other infrastructure categories, the Commission will carry out a case-by-case assessment of the need for State aid. In its assessment, the Commission will consider to what extent a market failure leads to a sub-optimal provision of the necessary infrastructure, to what extent the infrastructure is open to third party access and subject to tariff regulation; and to what extent the Project contributes to the Union's security of energy supply or to the climate neutrality objectives of the Union. In the following, the Commission will assess these points, whereby the security of supply and the sub-optimal provision of infrastructure are considered jointly against the background of the measure.

- *Market failure leading to sub-optimal provision of the necessary infrastructure; contribution to security of energy supply and contribution to the climate neutrality objectives of the Union.*
- (111) 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.
- (112) The Commission notes that Russia's military aggression against Ukraine has disrupted the world's energy system. It has caused hardship as a result of high energy prices and it has heightened energy security concerns, bringing to the fore the EU's over-dependence on gas, oil and coal imports from Russia. In March 2022, EU leaders agreed in the European Council ⁽³⁶⁾ to phase out Europe's dependency on Russian energy imports as soon as possible.
- (113) The REPowerEU Communication ⁽³⁷⁾ referred to an assessment carried out by the European Network of Transmission System Operators for Gas ('ENTSOG'), showing that in Central and South – East Europe, including the Energy Community, most of the countries show significant dependence on Russian gas. The REPowerEU Communication made explicit reference to the Project ⁽³⁸⁾, as a project that that will help Europe and the Balkans become less reliant on Russian supplies. The REPowerEU communication called on Member States to ensure that the identified projects are implemented as quickly as possible in line with the needs and timeline of the REPowerEU Plan. In particular, identified projects, alongside PCIs, should be allocated the status of projects of highest national significance and priority ensuring rapid implementation.
- (114) The Commission positively notes that, on the basis of the information provided by the Greek authorities (see recitals (23) and (24)), the Project is needed by Greece to replace a part of gas imports from Russia and that the Project will not lead to higher import capacity of gas than before Russia's invasion of Ukraine.

⁽³⁶⁾ European Council Conclusions (24 and 25 March 2022)

⁽³⁷⁾ Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions REPowerEU plan, COM/2022/230 final, available at EUR-Lex - 52022DC0230 - EN - EUR-Lex (europa.eu).

⁽³⁸⁾ See Section 4.1-European interconnection and infrastructure needs and Annex 3 of the Communication from the Commission to the European parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions REPowerEU plan", available at EUR-Lex - 52022DC0230 - EN - EUR-Lex (europa.eu).

- (115) The Commission also finds the project to contribute to the climate neutrality objectives of the Union, as explained in recitals (145) to (151).
- (116) Major infrastructure projects like the construction of an LNG Terminal are capital intensive. The financial analysis provided by the Greek authorities (see Section 2.5 above) reveals that the project would not be financially profitable without the aid measure. Calculated over the lifetime of the project, the revenues generated by the project would not be sufficient to cover the expenses incurred with a sufficient return on investment.
- (117) The absence of the project would lead to sub-optimal results not only on the Greek market, where the terminal is critical to replace Russian gas (see Figure 2), but also on the regional market.
- (118) The existence of a market failure is furthermore justified by the funding gap of the Project, which amounts to EUR 106.1 million. The Greek authorities consider that the Project would not have been carried out as planned without the notified aid measure. Gastrade, nor any other private investor, would have invested in the Project if the latter were not awarded a grant, because the financial parameters show that the return on investment would not have been sufficiently profitable in the absence of the measure (see section 2.5 above).
- (119) 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.

- *Third party access and tariff regulation*

- (120) The Commission has assessed the exemption from tariff regulation as well as the partial exemption from TPA, which the Project enjoys, and its overall impact on competition (see recitals (128) to (133) of the initial decision). The Greek authorities have demonstrated that the tariffs applied for the use of the Terminal alone would still remain insufficient to cover the financing of the Project.
- (121) In view of the considerations with regard to point 380(b) CEEAG (see recital (110)), the Commission considers that the notified measure alleviates a market failure, thereby contributing to the security of supply, while the Project is largely open to third party access (taking into account the conditions by the Commission exemption decision). Therefore, the aid is necessary and appropriate.

3.3.3.2. Proportionality and cumulation

- (122) Aid is considered to be proportionate if the aid amount per beneficiary is limited to the minimum needed for carrying out the aided project or activity (point 47 of the CEEAG).
- (123) In accordance with point 381 of the CEEAG, the proportionality of the investment grant is assessed on the basis of the funding gap principle as set out in points 48, 51, and 52 of the CEEAG.
- (124) According to point 48 of the CEEAG, aid is considered as limited to the minimum needed for carrying out the aided project or activity if the aid corresponds to not more than the net extra cost ('funding gap') necessary to meet the objective of the

aid measure, compared to the counterfactual scenario in the absence of aid. The funding gap is determined by the difference between the economic revenues and costs (including the investment and operation) of the aided project and those of the alternative project which the aid beneficiary would credibly carry out in the absence of aid.

- (125) According to point 51 of the CEEAG, where the aid is not granted under a competitive bidding process, the funding gap must be determined by comparing the profitability of the factual and counterfactual scenarios.
- (126) To determine the funding gap in such cases, the Member State must submit a quantification, for the factual scenario and a credible counterfactual scenario, of all main costs and revenues, the estimated WACC of the beneficiaries to discount future cash flows, as well as the net present value ('NPV') for the factual and counterfactual scenarios, over the lifetime of the project. The Commission will verify whether this counterfactual is realistic. The Member State must provide reasons for the assumptions used for each aspect of the quantification and explain and justify any methodologies applied. The typical net extra cost can be estimated as the difference between the NPV for the factual scenario and for the counterfactual scenario over the lifetime of the reference project.
- (127) As analysed in section 2.5, the estimated additional funding gap of the Project is EUR 106.1 million. Greece explained that the discounted value of the aid of EUR 106.1 million, is equal to 100% of the additional funding gap (see recital (43)). The Commission notes that this calculation is based on detailed business projections which the Commission has reviewed and concludes that the aid does not exceed the funding gap and is limited to the minimum necessary.
- (128) In particular, in relation to the main assumptions underlying the business plan for the operating life of the terminal for the import of LNG, the Commission notes that:
- Cost increases are reasonable and duly justified in regard to the specific context and the necessity to achieve the project in due time. As every cost item has been competitively tendered, no other option was available to mitigate the cost increase.
 - The revenue increase by EUR 55.8 million linked to the extra commercial risk born by the investor impact positively the computation of the funding gap (see recital (39)). Additional commercial revenues of EUR 72.9 million linked to newly committed capacities have also been integrated in the business plan.
 - All other assumptions such as the WACC, OPEX and technical specifications remain unchanged from the initial decision as argued by Greece.
- (129) 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 (45)).
- (130) In particular, the Commission notes that the base WACC remain identical to the initial decision and is in line with the base WACC applied to the other LNG terminal in the country.

- (131) 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.
- (132) According to point 55 of the CEEAG, where a competitive bidding process is not used and future developments in costs and revenues are surrounded by a high degree of uncertainty and there is a strong asymmetry of information, the Member State may be required to introduce compensation models that are not entirely ex ante. Instead, these models will be a mix of ex ante and ex post or introduce ex post claw-back or cost monitoring mechanisms, while keeping incentives for the beneficiaries to minimize their costs and develop their business in a more efficient manner over time.
- (133) Particularly, for the costs that have not yet been incurred (e.g the commissioning cargo and provision taken for contingencies), if the actual costs turn out lower than those estimated, the aid amount will be adjusted downwards by the difference, thus ensuring that the total aid amount does not exceed the funding gap.
- (134) Furthermore, point 381 of the CEEAG on the proportionality of the aid for energy infrastructure further specifies that the introduction of monitoring and claw-back mechanisms may be necessary where there is a risk of windfall profits, e.g., when the aid is close to the maximum allowed, while keeping incentives for the beneficiaries to minimise their costs and develop their business in a more efficient manner over time.
- (135) As explained in section (42), the Greek Authorities will put in place a claw-back mechanism to avoid overcompensation above the rate of return of 10.50%. This mechanism will be reviewed by the RAE. It will guarantee that direct beneficiaries cannot generate unreasonably excessive profits.
- (136) The claw-back mechanism foresees that any excess return will be partly returned to the terminal users through tariff reductions, and mostly returned to the granting authority, in order to avoid overcompensation. As shown in section (42), the RAE shall closely monitor the internal rate of return during the entire duration of the Project.
- (137) For the reasons above mentioned, the Commission concludes that the measure does not entail overcompensation and that the aid measure is proportionate.

3.3.3.3. Transparency, reporting and monitoring

- (138) Member States are required committed to comply with the transparency requirements laid down in points 58 to 61 of the CEEAG. As seen in the recital (65) of this Decision, the Greek authorities have committed to complying with these provisions.

3.3.3.4. Avoidance of undue negative effects on competition and trade

- (139) Pursuant to point 382 CEEAG, the Commission will carry out a balancing test on the positive effects of the aid against negative effects on competition and trade.

- (140) In the present case, point 382(b) and (c) are relevant for this balancing test. For infrastructure projects which are exempted, in whole or in part, from internal energy market legislation, the Commission will take into account, in particular, the degree of third-party access to the aided infrastructure, access to alternative infrastructure, crowding-out of private investment and the competitive position of the beneficiary or beneficiaries. For natural gas infrastructure investments, the Member State further needs to demonstrate the following positive effects capable of off-setting the negative effects on competition: (i) whether the infrastructure is ready for the use of hydrogen and leads to an increase of the use of renewable gases, or alternatively the reason why it is not possible to design the project so that it is ready for the use of hydrogen and how the project does not create a lock-in effect for the use of natural gas; and (ii) how the investment contributes to achieving the Union's 2030 climate target and 2050 climate neutrality target.
- (141) As regards to the degree of third-party access, access to alternative infrastructure, and the competitive positioning of the beneficiaries, the Commission notes that the assessment it had originally carried out in the initial decision remains valid. In particular, the project remains subject to the same exemption decision ⁽³⁹⁾ and a number of other LNG Terminal Projects that could potentially enter the market are planned ⁽⁴⁰⁾, further improving access to alternative infrastructure and diminishing the beneficiaries market shares in the market for LNG Terminal services. Therefore, the Commission considers that the distortive effects on competition resulting from the exemption are limited.
- (142) In addition, it was concluded above (see recital (118)) that the notified measure contributes to addressing a market failure, thereby alleviating the sub-optimal provision of infrastructure. The measure is therefore not expected to crowd-out private investment. On the contrary, the assessment above has shown that, absent the measure, private investors would not have pursued the Project. The measure, by de-risking the Project for the private investors, has incentivised the investment in the Project by investors other than the Greek State.
- (143) Overall, as already expressed in the initial decision ⁽⁴¹⁾, the Commission takes note of the fact that currently several countries in the region (among others Serbia and North-Macedonia) 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.
- (144) The Commission therefore considers that the project will actually contribute to diversifying the gas supply sources, thereby increasing competition in Greece and its neighbouring countries.
- (145) The Commission notes positively that the preconditions are created at the outset for the terminal to be converted for the import of hydrogen, green ammonia or biomethane (see recital (57)). Specifically, at the time of construction, the technical specifications needed for the future conversion have been taken into account to build the storage tanks and pipelines. Absent these initial technical design choices,

⁽³⁹⁾ See recitals 157 and 158 of the initial commission decision.

⁽⁴⁰⁾ However, none of the Projects have taken the Final Investment Decision.

⁽⁴¹⁾ See recitals 161 of the initial commission decision.

it would not be possible to reconvert the terminal at a later date without incurring in a loss of the initial CAPEX invested in the project.

- (146) The Commission acknowledges that subsequent investments at the time of conversion of the terminal will be necessary for the import of hydrogen, green ammonia or biomethane, but considers this reasonable as the market for hydrogen and alternative energy carriers is still developing and technology advancements could materialise (62).
- (147) The Commission therefore considers that, while the terminal is not practically operational for the use of green energy carriers at inception, Greece has demonstrated that the necessary upfront investments are undertaken, so that equipment components that cannot be retrofitted retrospectively or only at disproportionate costs are already suitable from the outset for the import of hydrogen, green ammonia or biomethane. Therefore, the Project is capable of leading to an increase in the use of renewable gases in the future.
- (148) In addition, the Commission notes that Greece and the beneficiary have committed to cease the import of natural gas from the LNG Terminal Alexandroupolis in 2050 at the latest (see recital (62)), therefore the Project does not undermine the 2050 Union's target for climate neutrality and the Project will not result in a lock-in of natural gas.
- (149) The Commission notes that the Project is not expected to have an indirect effect on CO₂ emissions in the downstream market as gas imported through the terminal will contribute to replacing the gas volumes previously imported from Russia (see recital (23)). It is noted further that the business case for the terminal is based on capacity booking contracts, which do not necessarily imply an actual full use of the capacity.
- (150) Greece's 2030 climate targets rely on increased renewables penetration and on early lignite exit which depend on gas imports available as a transition fuel. Given the loss of Russian's gas imports following Russia's war against Ukraine, the Project will contribute to these plans. In this regard, Greece explained that due to Russia's invasion of Ukraine its lignite phase-out plans have been postponed (see recital (54)). The revised lignite phase-out plans rely on the Project being operational by the end of 2023 and a failure or delay in its completion would negatively impact the lignite phase-out plans of Greece (see recital (55)). Therefore, the terminal will contribute to reaching the 2030 climate targets against the current background and potential harm to the environment is mitigated, also through its overall policy effort.
- (151) The Commission furthermore notes that, by the commitment to stop the import of LNG by 2050 through the Terminal, and the possibility of converting the terminal for the import of hydrogen, green ammonia or biomethane, the Project will contribute to the 2050 carbon neutrality targets.
- (152) When performing this balancing exercise, the Commission should take due account of the geopolitical situation with Russia's unprovoked and unjustified military aggression against Ukraine. In March 2022, EU leaders agreed in the European Council to phase out Europe's dependency on Russian energy imports as soon as possible. The REPowerEU Plan put forth by the Commission on 18 May 2022 set out actions to structurally transform the EU's energy system, namely to save

energy, to diversify supplies, to quickly substitute fossil fuels by accelerating Europe's clean energy transition, and to smartly combine investments and reforms. A number of measures are necessary to contribute to these actions. While gas is a transitional fuel, the Commission considered in its Plan that shifting away from Russian fossil fuels will also require targeted investments for security of supply in gas infrastructure.

- (153) The notified measure clearly contributes to the diversification away from Russian energy imports. The Commission notes the positive cross-border effects, as the majority of the capacity of the Terminal has been booked by Bulgaria, Romania, Serbia, North Macedonia and Hungary (see recital (42)). The Project is expected to become operational by the end of 2023 thus well before 2030, addressing immediate security of supply needs of the Union to enable diversification of supply in the interest of the Union. The Commission considers that these considerations must be given a significant positive weight in the balancing exercise it has to perform.
- (154) With regard to point 72 CEEAG, the Commission notes that the measure will provide safeguards against the use of even more polluting fossil fuels. It will also contribute to the security of supply, reducing Union's dependency on Russian fossil fuel imports in line with the European Green Deal and the climate objectives for 2030 and 2050. As part of the required balancing, the Commission also takes note of the particular importance of energy infrastructure acknowledged by the co-legislators ⁽⁴²⁾.
- (155) Therefore, on balance, the Commission concludes that undue negative effects on competition and trade from the measure are avoided.

3.3.4. Weighing the positive effects of the aid against the negative effects on competition and trade

- (156) 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.
- (157) As shown in section (27), the aid will facilitate the timely development of a new LNG Terminal, thereby improving energy security of supply in Greece and in South East Europe. As explained in recital (28), the Commission has already identified in the REPowerEU communication the Project as needed to ensure security of gas supply of the Union and Greece. 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.

⁽⁴²⁾ Investments necessary to improve energy infrastructure and facilities to meet immediate security of supply needs for gas should be eligible for financial support under the Recovery and Resilience Facility (RRF) even if they do not comply with the principle of 'do no significant harm' (Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC, OJ L 63, 28.2.2023, p. 1–27).

- (158) In addition, as shown above, in subsection 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) of the initial decision, 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.
- (159) 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

- (160) 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

Didier REYNDEERS
Member of the Commission