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Directorate D: Government Finance Statistics (GFS) and quality

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**Subject: Classification of entities - guidance request  
Operator of Electricity Market S.A (LAGIE) - final view of Eurostat**

**Ref.:** ELSTAT letter Γ1-1491 of 30/12/2015

Dear Ms. Stavropoulou,

Thank you for the letter analysing the sector classification of the Operator of Electricity Market S.A (LAGIE) and requesting Eurostat's opinion on this case. In accordance with Council Regulation (EC) No 479/2009 article 10, paragraph 1, after examining your request, please find below Eurostat's view on the sectorisation of the above-mentioned unit in the light of ESA 2010.

**1. THE ACCOUNTING ISSUE FOR WHICH A CLARIFICATION IS REQUESTED**

The issue to be analysed is the sector classification of the Operator of Electricity Market S.A, hereinafter LAGIE.

The classification of this entity was discussed in the EDP dialogue visits of September<sup>1</sup> 2015 and February<sup>2</sup>-March<sup>3</sup> 2016.

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<sup>1</sup> See action point 14 in the findings (previous 12)

<sup>2</sup> See action point 19

<sup>3</sup> See action point 7

### *1.1. Documentation provided*

Following action point 14 of the EDP dialogue visit of September 2015, ELSTAT provided a note with its analysis on this case. In its note, ELSTAT reached the conclusion that LAGIE should be classified in the general government sector (S.13).

### *1.2. Description of the case*

LAGIE is a public limited company ("societe anonyme"), which main purpose is the operation of Electric Power in Greece. It is governed by the provisions of Law 2190/1920 (for companies limited by shares) and Law N.4001/2011<sup>4</sup> on the "Operation of Electricity and Gas Energy Markets, for Exploration, Production and Transmission Networks of Hydrocarbons and other provisions".

The share capital of LAGIE is divided into 10,000 shares, the totality of which belongs to the Greek Government. According to the statute (article 23, paragraph 4), the Greek government is represented in the general assembly by the Minister of Environment and Energy. According to article 13 of the statute, the board of directors consists of seven members, one of which representing the employees and the remaining six (including the chief executive) being elected by the general assembly (the Minister).

According to article 118 of Law N.4001/2011 and article 2 of its statute, the main competences of LAGIE are the following:

1. It elaborates the Day-Ahead Scheduling (DAS) for electric power by monitoring and planning the supply and the consumption of electric power within the Hellenic System for transmission of Electric Power, by setting the limit price of the system and clearing the transactions in the framework of the DAS.
2. It collects fees from the participants, concerning the management and operation of the Electric Power Market. It allocates its operation cost to the suppliers of electric power. The price paid by each supplier is related to the quantity of electricity purchased.
3. It supports certain electric power producers<sup>5</sup> by granting guaranteed prices and it manages a special account to recover the amounts paid to such producers. LAGIE enters into contracts with those producers to be supported and pays to them the amounts (based on guaranteed prices) provided for in the contracts. In order to recover the above amounts, LAGIE keeps a special account. Article 143 of law 4001/2011 stipulates that the receipts of this special account are received from the following:
  - Receipts coming from the auctions of the unsold allowances of greenhouse gas emissions;
  - Receipts from a special levy for the renewable energy sources (collected by DEH<sup>6</sup>);

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<sup>4</sup> Law 4001/2011 transposes into national legislation EU Directives concerning common rules for the internal market in electricity and common rules for the internal market in gas that oblige EU member states to further liberalise their electricity and natural gas markets.

<sup>5</sup> Renewable generators: generating power from Renewable Energy Sources (RES) or Combined Heat and Power High Performance (CHP) units.

<sup>6</sup> The electric and public power company

- 25% of the state broadcaster (ERT) tax;
- Special levy on lignite operators;
- Solidarity levy (tax on renewable energy producers (laws 4093/2012 and 4152/2013)).

The amounts paid to renewable generators and received in the special accounts are already recorded by ELSTAT in government accounts respectively as subsidies (when they are due to be paid) and as taxes (when received). In the past, there used to be a gap between expenditures and revenues, generating a deficit that impacted government accounts.

In the EDP dialogue visit of September 2015, ELSTAT explained that the mismatch was financed by LAGIE; by delaying the payments to beneficiaries and that the entity never incurred debt. In 2014 government introduced a Law (4254/2014) which reduced the guaranteed prices ‘cutting’ the accumulated deficit, which is expected to disappear in the near future.

LAGIE does not purchase or sell electricity, it operates as an intermediary between sellers and buyers of electric power (charging fees for this) and is the manager of a special account used to provide subsidies and financed by taxes. In the EDP dialogue visit of September 2015, ELSTAT explained that 99% of the revenue and expenditure<sup>7</sup> from LAGIE is related exclusively to tax and subsidies and that 1% is related to its role of regulator (for which electric operators pay fees).

## **2. METHODOLOGICAL ANALYSIS**

### *2.1. Accounting provisions*

The general rules to be applied when analysing the sector classification of a unit are described in ESA 2010 chapter 2 (Units and groupings of units). ESA 2010 chapter 20 (The government accounts) defines in detail the general government sector (20.05-20.67).

### *2.2. Eurostat's analysis*

ESA 2010 20.05-20.06 partitions units of general government between

- a) ‘government units’;
- b) non-market NPI controlled by government; and
- c) 'other non-market public producers'.

‘Government units’ are specific “*entities established by political process which have legislative, judicial or executive authority over other institutional units*” (ESA 2010 20.06). For these entities, it is not necessary to check the institutional unit criteria or the 50% criterion, as they will be automatically classified in the general government sector<sup>8</sup> (even in case they would not be considered as institutional units).

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<sup>7</sup> Excluding the value of electricity used by the system.

<sup>8</sup> By definition, they are providing goods and service to the community and households on a non-market basis and redistributing income and wealth.

Following the above, the way in which an entity set by government is established, its main functions and the nature of its activities may be enough to consider it as a 'government unit', triggering its automatic classification in the general government sector without undertaking further analysis.

LAGIE is a public entity, operating in the context of public policy, established by government and governed by specific legislation. An important part of its activity<sup>9</sup> is, in practice, the payment of subsidies which are financed by different taxes (redistribution of income and wealth). Therefore, LAGIE fully meets the definition of a 'government unit' as defined in ESA 2010 20.06.

ESA 2010 20.17 explicitly indicates that the decision tree as set in ESA 2010 Diagram 20.1 applies only to the third type of unit (c) mentioned above: the "other public producers". For these entities, all the three criteria (institutional unit, control and market/non-market nature) should be checked and fulfilled in order to be classified outside the general government sector.

### **3. CONCLUSION**

Based on the elements above, Eurostat considers that LAGIE fully meets the definition of a 'government unit' as defined in ESA 2010 20.06 and should therefore be classified in the government sector. This is in line with the conclusion reached by ELSTAT in its analysis.

The same conclusion would be reached by considering that LAGIE is a unit providing ancillary services to government.

### **4. PROCEDURE**

This preliminary view of Eurostat is based on the information provided by the Greek authorities. If this information turns out to be incomplete, or the implementation of the operation differs in some way from the information currently available and the assumptions made above, Eurostat reserves the right to reconsider its view.

In this context, we would like to remind you that Eurostat is committed to adopt a fully transparent framework for its decisions on debt and deficit matters in line with Council Regulation 479/2009 and the note on ex-ante advice. Eurostat therefore publishes all official methodological advice (ex-ante and ex-post) given to Member States on its website.

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<sup>9</sup> See section 1.2: "99% of the revenue and expenditure from LAGIE (excluding the value of the electricity used by the system) is related exclusively to tax and subsidies and that 1% is related to its role of regulator".

Yours sincerely,

*(e-Signed)*

Eduardo Barredo Capelot  
Director