METHODOLOGY FOR CALCULATING THE REQUIRED REVENUE OF THE HELLENIC ELECTRICITY TRANSMISSSION SYSTEM OPERATOR

CHAPTER A
GENERAL PROVISIONS

Article 1
Objective - Definitions

1. The present methodology, hereinafter "Methodology", determines how the Allowed Revenue and Required Revenue of the Hellenic Electricity Transmission System (HETS) Operator are calculated, in order to calculate the Use of System Charges for recovering the Required Revenue, according to the provisions of articles 15 and 140 of Law 4001/2011 (hereinafter "Law"), article 17 of Law 4425/2016, and sections 8, 9 and 11 of the HETS Operation Code (HETS Code).
2. The Allowed and Required Revenue of the HETS Operator includes the capital costs of the Independent Power Transmission Operator (IPTO) S.A. relating to the ownership of the assets that are built as Projects of Major Importance, according to the approved Ten-Year Network Development Plan, which are incorporated in the Operator's assets base and are monitored either through the Regulatory Assets Register and the Regulatory Asset Base, or through the HETS Special Asset Base, as determined in the present Methodology.
3. The terms used in this Methodology have the meaning assigned to them in the Law and the regulations issued under the authority of the Law. In particular, for the application of the present Methodology, additional terms are determined, as follows:

   (a) «Borrowed Funds», the Operator's total borrowed funds (short-term and long-term liabilities).

   (b) «Ten-Year Network Development Plan» («TYNDP»), HETS's Ten-Year Network Development Plan, prepared according to articles 14, 108 and 108α of Law 4001/2011 and subsection 8.3 of the HETS Code. These approved texts consist the Operator's Investment Plan.

   (c) «Operator», HETS Operator according to article 97 of the Law and article 17 of Law 4425/2016.

   (d) «Projects of Major Importance» («PMI»), the projects which, according to the cost-benefit analysis provisioned in subsection 8.3 of the HETS Code, have significant socioeconomic benefits in relation to their cost, especially towards the end consumer.

   (e) «Base Year», the reference year used to determine the individual parameters of the Transmission's activity Required Revenue.

   (f) «Year of Calculation», the year during which the Transmission's activity Required Revenue is calculated.

(g) «Code», the HETS Operation Code, provisioned in article 96 of the Law («HETS Code or HETSOC»).

(h) «Methodology», the present Methodology for the Calculation of the System's Required Revenue, provisioned in subsection 9.1 of the HETS Code.

(i) «Non-Regulated Services», the Services the HETS Operator may offer to third parties, whose pricing is not governed by the present Methodology. A percentage of these services' net profits for every year of the Regulatory Period is included in the calculations of the Required Revenue of said year, according to the provisions of article 18 of the present Methodology.

(j) «Regulated Activity», the Electricity Transmission activity and HETS Operation activity, carried out by the Operator.

(k) «Regulatory Period (RP)»: the period for which the parameters of the Operator's Allowed Revenue are determined.

(l) «Transmission System», «System» or «HETS», the Hellenic Electricity Transmission System, as defined by the Law.

Article 2

Objectives of the Methodology

1. The methodology for calculating the Allowed and Required Revenue of the HETS Operator incorporates and complies with the principles and objectives determined in the EU and national framework and in particular:

    i. The protection of System Users, so that the HETS Usage Charges reflect the reasonable cost and the efficient and reciprocal nature of services provided by the Operator.

    ii. The provision of adequate assurances to the HETS Operator, in order to have the necessary funds to cover its reasonable and efficient operating costs, to proceed with the necessary investments approved according to the provisions of HETS Code and to ensure a reasonable return on capital employed.

    iii. The provision of incentives to HETS Operator, in order to improve the efficiency and reliability of the System and the quality of services provided to the System's Users, and to promote the development of the energy market and the country's security of supply through enhancing the capacity of trans-border interconnections.

    iv. The development of a transparent framework for the calculation of the HETS Revenue.

Article 3

Scope of the Methodology

1. The present Methodology concerns the Regulated Activity of Electricity Transmission of HETS Operator, which includes the operation, management, exploitation, development and maintenance of the HETS.

2. The cost of providing the Regulated Transmission Activity is recovered by the Use of System Charges.

3. Other revenues obtained by services either not related with the Regulated Transmission Activity, or provided through other Regulated Activities but the Operator receives separate revenue from the recipients of these services, which are provided by the Operator

using assets or / and human and other resources of the Operator, are deducted from the Allowed and Required Revenue, according to articles 7 and 18, respectively.

4. Paragraph's 3 rule does not apply if the data submitted by the Operator for the calculation of the Allowed Revenue for said services, the amounts relating to the accounts of the Statement of Financial Position and Income Statement have already been deducted. In this case, the cost of the aforementioned services must be separately recorded in order to be verifiable, and the allocation of any costs shared between a) the Regulated Transmission Activity and b) other activities and services, must take into account the Accounting Unbundling Rules approved by RAE. Especially for the Non-Regulated Activities, a percentage of the net profit is to be transferred for the benefit of the HETS Users, according to the provisions of article 18.

5. If the Operator belongs to a parent or affiliated company, the latter must:

   i. Refrain from any action and ensure that any other legal entity affiliated or controlled by this company will avoid any action that may cause the breach of the Operator's obligations according to the present Methodology and the relevant institutional framework.

   ii. Take all necessary measures to ensure that, at any time, the Operator holds all necessary resources according to the present Methodology, in order to exercise all its duties according to the applicable legislation on the Transmission of Electricity Regulated Activity.

Article 4

Regulatory Period

1. Regulatory Period is the period for which all the parameters of the Operator's Allowed Revenue are determined.

2. The duration of the Regulatory Period (RP) is set at four (4) years.

Article 5

Price Basis

1. All calculations under the Methodology are carried out in nominal price terms. To this end, the figures used to calculate the Allowed Revenue are initially determined in constant price terms based on the current prices of the Year of Calculation. This concerns the following relevant parameters of the Allowed Revenue:

   i. The operating costs, controllable (parameter O_i of article 7) and non-controllable (parameter U_i of article 7),

   ii. The estimated revenues mentioned in article 3, paragraph 3 (parameter Y_i of article 7),

   iii. The new and ongoing investments, according to the provisions of article 14,

   iv. The new fixed assets expected to be created, put into commercial operation and included in the Transmission's Regulatory Assets Register (parameter A_i of article 12),

   v. The estimated value of assets about to be withdrawn due to sale or transfer from the Regulatory Assets Base (parameter F_i of article 12),

vi. The value of Contributions, Grants and available funds from Account Λ-E for trans-border interconnections projects, according to paragraph 6, article 12, and

vii. The budgeted necessary Working Capital (parameter WC_i of article 12).

2. The conversion into nominal prices of the Allowed Revenue's parameters mentioned in the above paragraph 2 for every year of the Regulatory Period is carried out using the annual Average Consumer Price Index (ACPI), as estimated by reliable domestic (Bank of Greece, Ministry of Finance) or international (European Commission, International Monetary Fund) institutions, subject each time to an agreement with RAE.

3. The difference in the Allowed Revenue for each year of the Regulatory Period due to the deviation between the forecasted and the actual annual ACPI reported by the Hellenic Statistical Authority (ELSTAT), is settled according to article 18.

Article 6

Data Verification

1. The Operator is obligated to ensure that any ex-post data used in calculations specified in the present Methodology can be derived from audited reports or from publicly available information and is based on the Accounting Unbundling rules approved by RAE, and that variables or parameters used for the same calculations are sufficiently substantiated and based on clear assumptions that can be supported by available information sources.

2. The Operator is also obligated to ensure that the data submitted in compliance to the current article have been audited or verified by the Operator's Certified Auditors or another independent person with appropriate professional qualifications, training, skills and experience related to the specified subject matter, so that he/she is able to provide a valid assessment, consultation and analysis on the specific subject assigned to him/her.

CHAPTER B

Article 7

Allowed Revenue of the Operator

1. The calculation of the Operator's Allowed Revenue (AR) shall be undertaken before the start of the RP and for each year i during that period, according to the following equation:

$$\mathbf{AR_i = O_i + U_i + D_i + R_i + X_i - Y_i}$$

Where:

O_i the forecasted reasonable and efficient annual controllable operating expenditures for reference year i, in accordance with Article 9,

U_i the estimated annual non-controllable operating expenditures for reference year i, as per Article 10,

D_i the estimated annual depreciation of the fixed assets in the Regulatory Asset Base (RAB) of the Transmission activity for the reference year i, in accordance with Article 11,

R_i the allowed return on capital employed by the Transmission activity, excluding the capital employed for Projects of Major Importance, calculated as the product of the following parameters:

i. the estimated value of the RAB in the reference year i in accordance with Article 12, and

ii. the nominal pre-tax percentage rate of return (r_{RAB}) in accordance with Article 16.

X_i the allowed return on the capital employed by the Transmission activity for Projects of Major Importance, as defined in Article 17,

Y_i the estimated revenues from other Regulated and non-Regulated Activities in reference year i, according to paragraphs 3 and 4 of article 3, provided that these activities have not been recorded separately according to the approved Accounting Unbundling Rules and there are no distinct costs (capitalised costs and expenditures) related to these activities that have been excluded from the estimated expenditures of the Operator for the Regulated Transmission Activities.

2. In order to smooth as much as possible the fluctuations in the Operator's Allowed Revenue or the Use of System Charges within the RP, the Allowed Revenue values for each year i may be adjusted, provided that:

   i. the sum of the present value of the initially calculated values is equal to the sum of the present value of the final values of the Allowed Revenue, using a discount factor equal to the nominal pre-tax rate of return (r_{RABi}) of the preceding paragraph, as derived from Article 16, and

   ii. the Operator's ability to finance its activities efficiently, is not undermined.

Article 8

Operating Expenditures

1. Operating Expenditures are defined as the reasonable and efficient costs of the Operator in carrying out its duties that are provisioned in the legislative framework, and which are deemed necessary for the proper operation and maintenance of the HETS in an adequate, secure, economically efficient and reliable way.

2. Operating Expenditures, depending on the degree of control by the Operator, are distinguished between expenditures which the Operator can control and determine (Controllable Operating Expenditures) and expenditures which the Operator cannot control and determine (Non-Controllable Expenditures).

Article 9

Controllable Operational Expenditures (O)

1. The determination of a reasonable and efficient level of controllable operating expenditures for the Operator's activities is undertaken before the start of the RP (ex-ante), based on forecasts, according to the criteria of par. 7, considering:

   i. The Business Plan submitted by the Operator for the entirety of the Transmission activity, where the estimated operating expenditures for all its activities as HETS' Operator are reported separately for each year of the RP.

   ii. The most recent available unbundled financial statements of the HETS Operator, whence outturn operating expenditures are derived.

   iii. The data that the Operator is obliged to submit regarding incurred controllable operating expenditures analyzed by activity, according to Annex A, and by expenditure category according to paragraph 2 of this article, and incurred Non-controllable operating expenditures according to article 10, in accordance to the Operator's independent or unbundled financial statements and with independent verification (Certified Auditor's certificate).

iv. The Operator's investment plan, according to the approved HETS Ten-Year Network Development Plan (TYNDP), as well as the investments' progress and their impact on HETS' operating and maintenance cost.

v. results of specific audits or reviews commissioned to independent Consultants.

vi. Benchmarking with the performance of other Operators, either overall or for special categories of expenses, considering the specificities of the HETS and any differences from the transmission systems of other Operators.

vii. Results from Public Consultations on specific issues that significantly affect the operating costs of the Regulated Transmission Activity.

viii. The need to continually improve the efficiency level of the Regulated Transmission Activity (relationship between the output of provided services and cost of the activity), as well the need of convergence towards economically optimal levels of the System's efficiency and the quality of provided services.

2. Controllable operating expenditures include the following categories:

   i. Payroll: payroll cost for regular and temporary staff and Administration, with each of the three categories broken down to gross regular earnings, additional remuneration, employer contributions, overtime and shifts, expenditures to cover travel away from the permanent place of work and staff benefits. Especially for the latter category, the type and estimated cost of the higher in value benefits must be reported, as well as the framework from which these obligations derive from (legal regulations, collective agreements or Management decisions.)

   ii. Third Party Payments: the cost arising from contracts concluded by the Operator with third parties in the context of the functions it performs.

   iii. Third Party Expenses: the expenses related to services received by the Operator from third parties.

   iv. Materials and consumables: all the expenses of the Operator for materials and consumables required as part of the Regulated Transmission Activity.

   v. Other expenses: expenses that do not fall under any of the above categories of this paragraph and which are inextricably linked to the function of the Operator.

3. The estimation of the controllable operating expenditures should not include:

   i. financing costs, as well as taxes or / and rents from long-term financial leases,

   ii. taxes on the Operator's profits,

   iii. unreasonable or inflated margin for services or goods that may be provided by an Affiliated Party to the Operator,

   iv. provisions to cover either risks, such as, for example, provisions for bad debts, provisions for disputed legal cases or other claims, or expenditures relating to staff compensation upon termination,

   v. expenditures that are not considered necessary for undertaking the Regulated Transmission Activitiy,

vi. the part of the operating costs financed by any type of subsidies and grants received by the Operator in connection with undertaking the Regulated Transmission Activity.

4. The determination of reasonable and efficient controllable operating expenditures for the RP will be based primarily on the Operator's revealed costs, according to the approach described in this paragraph. Using this approach, which may be used for total Controllable Operating Expenditures or for specific cost categories, and based on a detailed and substantiated proposal by the Operator regarding all parameters described below, RAE assesses the following:

   i. Data for the Controllable Operating Expenditures (base opex) of the most recent available year of the previous RP (the second year before the Year of Calculation), or another representative year, taking into account also the Operator's estimates of controllable operating expenditures for the last two years of the previous RP, and

   ii. Adjustments of the controllable operating expenditures for efficiency improvements, possible changes in the volume of the Regulated Transmission Activitiy, changes in the real prices of key resources and any discontinuous or step changes in costs that are not otherwise captured, according to the following equation:

$$\mathbf{O_i = O_{base} \times (1 - E_i) \times (1 + G_i) \times (1 + PA_i) \pm C_i}$$

Where:

O_{base} base controllable operating expenditures – they are generally equal to the outturn expenditure for the last available year of the previous RP, assessed for their reasonableness using the data and techniques discussed in paragraphs 1, 2, 3 and 5 of the present Article. The outturn expenditures can be adjusted by deducting expenses of non-reciprocal nature in relation to the Regulated Transmission Activity, as well as costs associated with one-off events unique to the previous RP.

E_i the efficiency factor for the reference year i, reflecting the cost savings that the Operator can reasonably be expected to achieve in the future due to productivity increases over time. In assessing forecast productivity, RAE may consider (among other things):

   i. the Operator's historical productivity performance, using disaggregated cost data from the Operator,

   ii. the forecast output growth for the Regulated Transmission Activity (and economies of scale),

   iii. the expected future changes in technology and the forecasted specific business conditions of the Operator,

   iv. total and/or partial productivity indices for the broader industrial sector in Greece, in the absence of easily comparable electricity transmission networks,

   v. dynamic efficiency factors set by other European and developed countries' Regulatory Authorities with a similar regulatory framework and based on the available evidence from relevant literature.

G_i The growth factor in reference year i, which takes into account any expected change in the cost of the Regulated Transmission Activity as a result of changes in demand, the number of Users or other parameters that affect the operating cost of the Regulated Transmission Activity. For the estimation of this parameter, RAE can evaluate historical data provided by the Operator regarding the relationship between the relevant cost drivers and the operating cost of the Regulated Transmission Activity.

PA_i The adjustment for any changes in real prices of key resources in the reference year i, which takes into account that the cost of these resources may change according to the ACPI that is used for the determination of the Allowed Revenue. In order to calculate the necessary adjustment of this parameter the following is required:

i. Determination of the categories of expenditure to be examined (salary costs, materials, equipment, etc.) and any required split within each category (e.g. between general and specific elements of labour cost and materials), provided that there is an appropriate inflation index for these categories of expenditure.

ii. Estimation of price inflation for each expenditure category, by reference to relevant price indices issued by an independent institution, e.g. by the Hellenic Statistical Authority.

iii. Calculation of the real price adjustment for each expenditure category by comparing the price inflation estimate to ACPI.

iv. Assigning a weighting to each expenditure category, in order to calculate an overall real price adjustment for each year of the RP.

C_i The estimated important changes in controllable operating expenditures that arise if other costs need to be added (or subtracted) that have not been captured in the $O_{base\ year}$ parameter or the rate of change (given by the product of the efficiency, productivity and real prices of key resources), but which are necessary and prudent and expected to be required at least for the entire next RP.

5. In assessing whether the cost related to services or goods potentially provided to the Operator by Affiliated Parties is reasonable and efficient, RAE may have regard to whether:

    i. The transactions with the Affiliated Parties are carried out on the basis of fair competition (‘arm’s length’), indicatively through competitive tendering.

    ii. The costs of the Affiliated Parties reflect the direct cost of providing the goods or services, including a commercially reasonable return or profit margin.

    iii. It can be demonstrated that the costs of the Affiliated Parties are comparable to market benchmarks (if there are several market service providers for the relevant goods or services).

6. An incentive mechanism shall be established for the controllable operating expenditures, in accordance with Article 19.

Article 10

Non-Controllable Operating Expenditures (U)

1. Non-Controllable Operating Expenditures include the following predefined categories of expenditure:

    i. Regulatory fees

    ii. Local authorities’ fees

iii. Cadastral fees

iv. Indirect taxes

v. Rights of way

vi. Costs from compensation offered on retirement (if they relate to non-controllable expenses deriving from the legal framework in force).

vii. Compensation costs and expropriation fees, but only to the extent and for the part that verifiably is not under the Operator’s control. Moreover, the Operator is obliged to take action that can mitigate these expenses and that utilize cost compensating factors.

2. The list of non-controllable operating expenditures in paragraph 1 of this Article may not include all possible expenses of this kind. Therefore, the Operator may propose additional categories of non-controllable operating expenditures and their estimated levels, prior to the commencement of the RP, provided that the proposed expenditures meet all the following criteria:

   i. They are material, specifically they represent at least two percent (2%) of the total annual operating expenditures.

   ii. They are demonstrably non-controllable, according to data that the Operator is obliged to submit, and which proves that it cannot take any action that could mitigate the costs or that there are no offsetting factors at play. In particular, it is possible that the possibility of controlling these expenditures may concern only a certain part and not the entirety of the incurred costs.

   iii. They are measurable and, after their approval and realisation, they may be certified by an independent source.

3. Deviations from the approved expenditure levels in this category shall be settled while determining the Required Revenue, by means of the parameter **P5** in Article 18.

Article 11

Depreciation of Fixed Assets (D)

1. Depreciation shall be calculated for fixed assets in commercial operation during year i of the RP. Depreciation is divided into:

   i. Depreciation of existing fixed assets: refers to depreciation of fixed assets already registered in the Regulatory Assets Register (RAR) and the RAB or the SAB of Transmission during the Year of Calculation,

   ii. Depreciation of new fixed assets: refers to depreciation of fixed assets generated either by new investments in year i of the RP or by ongoing investments from previous years to be included in the RAR and the RAB or in the SAB of Transmission or separate Projects of Major Importance within the RP, on the basis of the implementation schedule of the investments under the approved TYNDP.

2. Depreciation shall be calculated ex-ante for each year of the RP, based on estimates for the value of fixed assets (new and existing). For the determination of depreciation of each year i of the RP the following apply:

   i. Depreciation of new fixed assets shall be calculated taking into consideration the useful life defined for each category of fixed assets and which has to be reflected in the RAR. In the case of Projects of Major Importance, depreciation may be calculated on the basis of a useful life which may differ from that of other fixed assets, in accordance with a relevant RAE decision. When estimating depreciation, it is assumed that new assets enter into operation in the middle of year i.

ii. Depreciation of fixed assets that existed prior to the start of the RP is calculated on the basis of their residual life, consistent with the RAR and the RAB of year i-2 or from the SAB statement, taking into account the additions to fixed assets from investments within the year of calculation (i-1).

iii. Depreciation of fixed assets which are to be withdrawn within year i of the RP shall be calculated on the assumption that the withdrawal occurs in the middle of year i and in accordance with Article 12, par. 2.

iv. In the above estimates, the depreciation corresponding to the share of the fixed assets funded by Contributions and Grants is not included, the value and depreciation of which are monitored separately in a file which should be submitted together with all the necessary data for calculating the Allowed Revenue, in accordance with Article 20.

3. Depreciation is calculated on a straight-line basis.
4. Deviations from the forecasted depreciation shall be settled while determining the Required Revenue, by means of parameter **P2** of Article 18.

Article 12

Regulatory Asset Base (RAB)

1. Regulatory Asset Base (RAB) is defined as all the capital employed in the Regulated Transmission Activity of the HETS Operator, which is compensated through Use of System Charges.
2. The RAB at the end of each year i of the RP is calculated using the following formula:

$$\mathbf{RAB_i = RAB^{\pi}_{i-1} + WIP_i + A_i + WC_i - D_i - F_i - H_i}$$

Where:

$\mathbf{RAB^{\pi}_{i-1}}$ The estimated undepreciated value of HETS' fixed assets, which are expected to be in commercial operation in year i-1, taking into account the ex-post value of fixed assets in previous years as resulted from the RAR and its estimated evolution based on the investments approved in the TYNDP, as defined in Article 13, excluding the part of the fixed assets value that was financed through Contributions or Grants.

$\mathbf{WIP_i}$ The estimated capital invested in ongoing projects (work in progress), formed by investments in year i and previous years of the current or/and previous RP, in accordance with Article 14. For capital invested in year i, it is assumed that funds are invested in the middle of that year i.

$\mathbf{A_i}$ The new fixed assets estimated to be included in the RAR of Transmission within year i, based on the timeframe for undertaking the investments of the approved TYNDP. For the year i, it is assumed that the new fixed assets are put into commercial operation and are incorporated in the RAR in the middle of year i. In case of multi-year projects which are concluded and included in the RAR within year i, it is assumed that the required capital for the conclusion of the project is invested in the middle of year i.

$\mathbf{WC_i}$ The forecasted required Working Capital. The Working Capital is defined as the average net amount of capital required for the short-term financing of the

Operator for the Regulated Transmission Activity. This amount is derived from detailed estimates and sufficient documentation based on (i) a study submitted by the Operator regarding the company's cash needs and in particular a "lead-lag" study which estimates and determines the average time difference between when expenses ("lead") should be paid and when the company's revenue ("lag") is expected to be collected, and (ii) a study of the company's necessary materials inventory.

D_i The estimated annual depreciation of the fixed assets of the RAB for the Transmission activity of the reference year i, in accordance with Article 11.

F_i The estimated value of fixed assets to be removed from the RAB due to sale or transfer in each year i of the RP under consideration, which is defined as the higher amount between the estimated potential proceeds from the sale or transfer of these assets to other parties and the fair value of these assets, assuming that the transfers or sales will take place in the middle of year i. The actual revenue from the sale of assets taking place in each year i are not factored in for the purposes of **$P6_i$** of Article 18.

H_i The estimated value of fixed assets to be removed from the RAB with the intention of being re-used by the Operator or following withdrawal from service due to failure or damage, which is defined as the undepreciated value of these fixed assets during the withdrawal year i and determined by reference to the Regulatory Assets Register (RAR), on the assumption that the withdrawals take place in the middle of year i. Cases of fixed assets withdrawn due to damage by force majeure are excluded, assuming it concerns assets of significant value and the Operator verifiably had not been able to take any action to mitigate the damage or there are no compensating factors to reclaim.

3. In cases where a large scale withdrawal of fixed assets for one or more categories in order to replace them, for the introduction of new technologies and the modernization of the System, is deemed necessary, the Operator should submit a detailed cost-benefit analysis, in accordance to the provisions of paragraph 4, article 14, in order for RAE to assess these projects separately and, based on the necessity and particular features of each investment, to decide on how to recover the value of this category of withdrawals.
4. Between RPs, the value of the RAB should be updated based on:
   i. the investments that were actually realised during the previous RP, up to and including the last year for which outturn data are available (the second year before the Year of Calculation),
   ii. the outturn (up to and including the second year before the Year of Calculation) of invested capital for projects that remain in progress,
   iii. the depreciation of fixed assets, as per the RAR for each year of the previous RP (up to and including the second year before the Year of Calculation),
   iv. the withdrawn fixed assets, either sold or transferred during the previous RP and up to the second year before the Year of Calculation (F_i), the value of which is defined as the higher amount between the revenue from the sale or transfer of said assets and their fair value.
   v. outturn data regarding the initially estimated investments, capital invested in ongoing projects, depreciations and withdrawals for the last two years of the RP prior to the previous RP.

5. For the purposes of the above revision, RAE may recognise only part of the outturn costs of certain investments, if it considers after an ex-post review of the investments in accordance with Article 15 that such costs or fixed assets are inefficient or that they include an unreasonable or inflated profit margin from an Affiliated Person.
6. The value of Contributions, Grants and available funds from Account Λ-Ε ("Λ-Ε") for Interconnection projects that financed fixed assets, as well as the fixed assets that have been separated according to RAE's approved Accounting Unbundling Rules, shall be monitored separately and are not included in the value of the RAB.
7. The RAB is not subject to any revaluation.

Article 13

Regulatory Assets Register

1. The Regulatory Asset Register (RAR) is the statement which includes all the operating assets of the Transmission activity, including the long-term leases / fixed assets use rights. It is maintained for regulatory purposes by the Operator of the Transmission Network and is not subject to revaluation, other than the updates taking place between RPs.
2. The abovementioned statement, which is audited by a Certified Auditor for its correctness and completeness, provides the required detailed information regarding:
    i. the categories of fixed assets (existing and new), the cost (acquisition and undepreciated at the end of the year) of fixed assets, the year of acquisition and the year in which the fixed assets are put into operation, as well as the lifetime of fixed assets (economically useful and remaining), based on which depreciation is calculated,
    ii. the undepreciated value of the fixed assets at the end of each year of the Regulatory Period,
    iii. the amount of annual and cumulative depreciation per fixed asset category,
    iv. the referencing of the fixed assets to the corresponding project codes of the TYNDP and
    v. the long-term leases / asset use rights.
3. The capitalized interest is not included in the opening value of the assets that are registered in the RAR, except in cases referred to in article 22 of this Methodology.

Article 14

Investments

1. Investments, refer to capital expenditures incurred during the RP, which are forecasted and monitored separately for each year i, in accordance with the latest approved TYNDP of the HETS and the Business Plan of the Operator submitted to RAE in accordance with article 20.
2. Subject to the provisions of article 17, par. 3, the investments included in the RAB are divided into two categories:
    i. new investments: investments planned within a given year i of the RP, which are not to become operational and are not to be included in the RAR within that year; and

ii. ongoing investments: investments commenced in previous years and which remain in progress in year i of the RP.

3. For the assessment of investment expenditures in accordance with the provisions of the HETS Code and this Methodology and in order to monitor more effectively investments in relation to parameters affecting their level, investment costs shall be distinguished, depending on the activity they relate to, into the general categories described in Annex B. In terms of their type, investment costs are further divided, indicatively, into:

   i. Operator's payroll costs,

   ii. Cost of materials,

   iii. Contract costs and other costs.

4. For a significant investment in budgetary terms relating to the reinforcement or replacement and refurbishment of the Network, particularly where it replaces fixed assets with a remaining useful life, and which have therefore not been fully depreciated in the RAB, the Operator must substantiate the investment and the need to withdraw or replace the existing fixed assets by submitting a cost-benefit analysis according to the provisions of subsection 8.3, par. 1. C) of the HETS Code.

5. Furthermore, for a more detailed monitoring of cost elements constituting the outturn investment expenditures and the establishment of a database of investment costs, it might be necessary to further categorise and/or analyse investment expenditures (indicatively, outturn expenditure per project, distinction between System reinforcement projects and System expansion projects for Users' connection, distinction between procurement and equipment installation costs relating to the installation of registered meters, analysis of other direct costs such as studies, permits, land and expropriations, civil engineering works, supervision-acceptance of works, contract costs with affiliated). The additional categorisation and analysis of investment costs is combined with corresponding quantitative data for the projects and is determined by a RAE decision following a public consultation.

6. Any deviations from approved investments in previous years shall be settled in accordance with Article 18 (parameter **P2** of the Revenue Requirement), and subject to Article 15.

7. In the case of ongoing projects for which there is a deviation of more than one year in relation to the approved completion schedule in the TYNDP, the Operator is obliged to submit a report documenting the causes of this deviation, in order for RAE to consider whether or not these projects should be included in the RAB.

Article 15

Ex post Investment Review

1. When determining the investments to be included in the RAB in accordance with Article 12, paragraph 5, RAE may undertake an ex-post review of realised investments to assess their efficiency and whether said investments were prudent, in accordance with the specific provisions of this Article.

2. The ex-post review of realised investments is undertaken based on outturn data for a period which is equal to the RP and ends two years before the end of the previous RP. The assessment is generally limited to cases where there is material overspending compared to the total forecasted costs for the period in question. The materiality threshold will be considered to have been met where the overspend is equal to five percent (5%) of the cumulative capital expenditure of the Operator during the review period, as determined based on the approved Investment Plan.

3. Subject to the materiality threshold of the previous paragraph, the nature and scope of the ex-post review are determined by whether the overspend relates to investment plans previously identified and approved in the Ten-Year Network Development Plan and were included in the Operator's approved Investment Plan.

    i. For material overspends on investments that are included in the approved Investment Plan (TYNDP), the review shall entail a cost assessment. This review must consider any procurement procedures employed by the Operator for the implementation of the investment projects, it must examine the causes of the cost overruns, and it must determine whether these causes can be ascribed to the Operator's actions or to external factors outside Operator's control.

    ii. For projects that were not included in the approved Investment Plan (projects other than those forecasted and approved in the TYNDP), with the exception of Users' connection projects, the ex post assessment may focus on both the need and cost of the investment. To evaluate the effectiveness of such investments and their contribution to System's efficiency, RAE takes into consideration the circumstances prevailing at the time of the investment decision, and the factors that could have reasonably been considered at the time the relevant capital expenditure was undertaken. The Operator must also demonstrate why the realised expenditure could not have been predicted at the time of developing the TYNDP.

4. Without limiting the factors that RAE may consider in assessing the prudency and efficiency of realised investments, RAE may also take into consideration:

    i. Whether the expenditure was related to the requirements set by RAE or under relevant laws and regulations.

    ii. Whether alternative ways of addressing the requirements and needs were considered and justifiably excluded by the Operator.

    iii. Whether accepted good or best practices were followed by the Operator.

    iv. The degree to which the costs associated with improved performance indicators that are regulated through financial incentives are considered effective in relation to the improvement they achieve.

    v. Whether the Operator acted prudently in procuring goods, works and services at a reasonably low cost, including whether an appropriate competitive tendering process was followed.

    vi. Whether the construction timeframe was appropriate, considering the current and projected demand and Quality of Service.

5. RAE, after revaluating and assessing the investments, conveys its conclusions to the Operator, to submit any comments within a set deadline.

6. If, after consulting with the Operator, RAE determines that certain expenditures are not in accordance with the criteria of paragraphs 2 and 4 of this article, it reduces the value of the investment to be added to the RAB by such amount as corresponds to part or total of these expenditures.

Article 16

Calculation of Return on the Regulatory Asset Base

1. The percentage rate of return on the RAB (r_{RAB}) is uniform for the duration of the RP (subject to article 18, par. 1) and is calculated on the basis of the Weighted Average Cost of Capital in nominal pre-tax terms ($WACC_{pre\text{-}tax,\ nominal}$), according to the following formula:

$$\boxed{WACC_{pre\text{-}tax,nominal} = g \times r_d + (1 - g) \times r_e / (1 - t)}$$

   Where:

   g gearing ratio

   r_d cost of debt

   r_e cost of equity, post-tax nominal

   t corporate tax rate on profits applicable for the first year of the RP.

2. **Gearing ratio.** The level of gearing to be used in the Weighted Average Cost of Capital calculation is determined by RAE prior to each RP. The level of gearing is set based on RAE's assessment of an efficient financing structure and need not be equal to the actual ratio of Debt to the sum of Debt and Equity of the Operator, that is, it is a notional gearing ratio.
3. The notional gearing ratio, with the exception of the first RP (which is defined in accordance with article 22, par. 1), must be within a range from 45% to 60%.
4. In setting the level of notional gearing within the scope of par. 3 of this article, RAE will take into consideration the following:
   i. Setting a gearing level that does not lead nor is likely to lead to difficulties in financing the Regulated Transmission Activity or to financing costs that create an unfair burden on System Users, considering the Operator's investment programme.
   ii. The level of gearing applied to other regulated businesses in the energy sector in Greece.
   iii. The European practice and the decisions of regulatory authorities in countries with similar regulatory frameworks and economic environments to those of Greece.
5. In any case and in order to ensure capital adequacy in undertaking the Regulated Transmission Activity, the ratio of Debt to the sum of Debt and Equity of the Operator cannot be greater than 0.7.
6. **Cost of debt**. The estimated cost of debt is equal to the risk-free rate (which may differ from the one used for the cost of equity) plus a debt premium. The debt premium is the estimated premium over the risk-free rate that the Operator must pay to finance its debt and reflects the additional risks of the Operator, taking into account its credit rating (if so rated) and the gearing ratio.
7. In calculating the debt premium, RAE will take into consideration the following:
   i. The historical and estimated weighted cost of debt of the Operator for the Regulated Transmission Activity as to the outstanding balance of loans.

ii. The historical (5-10 years) average yield on medium to long term corporate bonds issued by companies of the energy sector, in Greece and elsewhere in Europe, which operate in similar business and regulatory environments, and risks, and have similar credit ratings to the Operator's. In addition, estimates of the borrowing risk of companies with a direct or indirect relationship with the Operator shall be considered.

iii. Assessments for other regulated companies in the energy and infrastructure sectors in Greece.

8. **Cost of equity post-tax, nominal**. The estimated cost of equity **(r_e)** of the Transmission Activity is calculated at nominal prices after tax according to the following formula:

$$\boxed{r_{e\text{ - post-tax, nominal}} = r_f + \beta_{equity} \times MRP + CRP}$$

Where:

r_f risk-free rate

β_{equity} beta factor

MRP Market Risk Premium

CRP Country Risk Premium

9. **Risk-free rate**. In estimating the risk-free rate, RAE will primarily rely on the historical and current average yields on 10-year government bonds of Eurozone Member States and in particular the 10-year government bond of that Eurozone Member State with the lowest yield. Specifically, when examining this parameter, the following are considered:

i. historical data on government bond yields,

ii. temporary or unique circumstances (for example, and without limitation, the actions of the monetary authorities, such as quantitative easing and other monetary policies) impacting the calculated risk-free rate.

10. **Beta factor.** Relates to the volatility factor (sensitivity) of the return on equity of the Operator in comparison with the Market. The beta factor estimation takes into consideration:

i. Historical data regarding the covariance of the stock performance of the Operator's parent company, ADMIE HOLDING S.A., and the performance of the General Index of the Athens Stock Exchange, for at least the last five years with the exemption of RP 2022-2025, where the calculation is made according to article 22, par. 1).

A) The estimated beta factor has to be adapted in order to reflect the systematic risk associated only with the Operator.

B) The directly estimated beta factor has to be adjusted in order to reflect the notional gearing ratio.

ii. Beta estimates for comparable companies to the Operator overseas, adjusted for the different levels of gearing and considering the systematic risk of the Operator in relation to the companies under comparison.

iii. The beta estimates determined by European regulatory authorities in countries with similar regulatory frameworks and business risks.

11. **Market Risk Premium**. This concerns the return (risk) premium of the Market based on both historical data and future estimates of the evolution of stock market returns against government bonds. For its estimation, RAE takes into account historical and current stock

market data, as well as estimates of other regulatory authorities in countries with similar regulatory frameworks and special reports from reputable international organisations (for example, Council of European Energy Regulators - CEER, or Agency for the Cooperation of Energy Regulators - ACER). Also, it may take into consideration data from relevant reports from recognized financial institutions, universities and relevant international literature.

12. **CRP– Country Risk Premium.** This refers to a factor that is added to the standard formula of the 'Capital Asset Pricing Model' (CAPM), in order to take into account any significant risks that arise for the Operator due to uncertainties in the Greek economy. In determining this parameter, RAE may consider the following:
    i. the current and historical values of the 10-year Greek government bond and the spread compared to government bonds of other Eurozone Member States of equivalent duration and in particular the 10-year government bond of that Eurozone Member State with the lowest yield, which is among the parameters considered for determining the risk-free rate (rf),
    ii. the current and historical prices in financial markets for bonds issued by corporate entities in Greece, in the context of assessing an overall reasonable cost of equity which takes into account the risks associated with uncertainties in the Greek economy,
    iii. the special characteristics of the regulatory framework and revenue methodology and whether these may affect the Operator's exposure to these risks and,
    iv. data from relevant reports of recognized financial institutions, universities and relevant international literature.
13. It is noted that the percentage rate of return on the RAB determined under this Article may be reset as part of the calculation of the Required Revenue, in accordance with Article 18.

Article 17

Projects of Major Importance - Special Asset Base – Return

1. For projects that, based on an approved TYNDP, have been designated as Projects of Major Importance, according to the procedure provisioned in subsection 8.3 of the HETS Code, special conditions can be determined, following a recommendation of the Operator and by RAE decision, regarding the duration of the depreciation, the approved rate of return and any other parameter deemed necessary to be differentiated from the framework applicable under Article 14 for other investments. All these projects compose the Special Asset Base (SAB) of each year i of the RP or constitute a distinct SAB for a specific project.
2. For the above Projects of Major Importance, the HETS Operator must keep a separate record to monitor the fixed assets created as part of these investments, which should contain all the necessary data regarding their value and depreciation (annual and cumulative), in accordance with the special conditions approved as part of the decision in par. 1.
3. For investments relating to Projects of Major Importance in accordance with the approved TYNDP and the special RAE decision mentioned in par. 1, the following shall apply:
    i. During the construction stage, the capital employed on these projects is calculated and a reasonable return based on a specific cost of capital is recognised according to the specific conditions of each such project

(indicatively, a cost of capital calculated according to the cost of debt for that particular project and the specific proportion of debt and equity for that project, if relevant). This return will be calculated and attributed during the construction period and will not be included in the final cost of the project. For the capital of year i, it is assumed that it is invested in the middle of year i.

ii. Investments are included in the SAB in their year of their commercial operation and from that year they receive the Weighted Average Cost of Capital calculated in accordance with Article 16 for the relevant RP. For year i it is assumed that the project becomes commercially operational in the middle of year.

iii. If a Project of Major Importance is put into commercial operational within the projected timeframe, it receives an additional return ranging from zero (0) to two (2) percentage points and for 4 to 7 years, in accordance with RAE's decision mentioned in par. 1, as an incentive for the Operator to incur the cost of undertaking this project and to complete it on time, taking into account the overall benefit of the implementation of the project to Users and assessing its impact on the Use of System Charges.

iv. If the approved timeframe for the implementation of a Project of Major Importance is not achieved, RAE will proceed with the activation of the disincentive mechanism, which consists of the gradual reduction of the additional return, by reducing the percentage of additional return up to 1% for every year of delay and without postponing the original approved timeframe for granting the additional return, according to RAE's decision mentioned in par. 1, beyond the year of completion and operation originally taken into account in the approved TYNDP.

4. The provisions of this article apply to Projects of Major Importance under the special terms and conditions determined in RAE's decision in par. 1, until the 31st December 2025. From 2026 onwards, a new Project of Major Importance may not be eligible for additional return (beyond the one provisioned in article 16) and will fall within the applicable framework based on article 14 for other investments.

CHAPTER C

REQUIRED REVENUE

Article 18

Required Revenue

1. Required Revenue (RR) is defined as the amount that must be recovered through Use of System Charges as defined in Section 9.0 of the HETS Code and is calculated for each year i of the RP based on the following equation:

$$\mathbf{RR_i = AR_i \pm K_i \pm P1_i \pm P2_i - P3_i \pm P4_i \pm P5_i \pm P6_i \pm P7_i}$$
$$\mathbf{\pm INF_i \pm EFF_i - LD_i - UP_i \pm INC_i}$$

Where:

AR_i The Allowed Revenue (AR) regarding the Regulated Transmission Activity for year i of the RP, which is calculated in accordance with article 7 of the Methodology.

K_i The cost of HETS projects (positive or negative sign) implemented by third party funding, according to the provisions of article 109, par. 7 and 8 of the

Law or by special terms determined in relevant RAE decisions, according to subsection 8.12 of the HETS Code. This parameter is determined in nominal prices for year i of the RP, taking into account the ACPI between the Base Year and year i, based on ELSTAT data and available estimates, according to par. 3 article 5.

$P1_i$ The settlement amount due to the under-recovery or over-recovery (positive or negative sign, respectively) of the Required Revenue from the application of the approved Use of System Charges of the Base Year (defined as year i-2) and resulting from differences between projected and realised demand or consumption, in accordance with Article 20. This parameter is adjusted to nominal values for year i of the RP, using the ACPI between the Base Year and year i, according to ELSTAT data and available estimates, according to par. 3 of article 5. The amount of under-recovery or over-recovery may be divided into several years within the RP when this is deemed necessary due to its significant size and for purposes of smoothing and avoiding significant fluctuations in Use of System Charges between the years of the RP. In this case, the amounts are apportioned between the years of the RP or beyond and the estimated inflation for each year i of the RP is considered.

$P2_i$ The settlement amount due to deviations from the approved Allowed Revenue of the Base Year (i-2) with respect to depreciation and the approved return on capital employed due to over-investment or under-investment (positive or negative sign), following a proposal from the Operator according to article 20. This parameter is determined in nominal values for the year i of the RP, using the ACPI between the Base Year and the year i, according to data from ELSTAT and available estimates, according to par. 3 of article 5. For the ex-post determination of depreciation of the Base Year, the following are considered:

i. Depreciation of the new fixed assets of the Base Year, calculated on the assumption that they are invested in the middle of the year in question and with these amounts resulting from the RAR.

ii. Depreciation of the remaining fixed assets, which are determined ex-post from the Regulatory Assets Register.

In any case, overspending beyond the approved investment budget, which relates to improvements of indicators regulated by financial incentives, are not settled. In addition, the settlements are of a temporary nature and may be amended and finalised following an ex-post review of investments in accordance with Article 15, for the period in which the Base Year (i-2) falls.

$P3_i$ The amount from Interconnection Usage Charges included in the Special Reserve Account Λ-Ε (subsection 11.11 of the HETS Code) and is determined by RAE to be allocated for the reduction of the Required Revenue, according to the provisions of articles 19§3 and 19§4 of Regulation 943/2019, after deducting the costs of auction offices for the provision of services related to the assignment of electricity transmission rights to HETS' Interconnections with neighboring countries. This cost concerns outturn data for the same period as the reference period of revenues from Interconnection Usage Charges. In this parameter and with separate mention to the Required Revenue's approval decisions, are included revenues from Extraordinary Imports of Excess Energy included in Account Λ-Β (subsection 11.8 of the HETS Code).

$P4_i$ The amount that derives from participation in the Compensation Mechanism between Transmission Systems Operators for the infrastructure use component in previous years, which corresponds to charge or credit (positive or negative sign) for the System Operator and which is reduced or increased by any cost recovery under subsection 7.17 par. 2 of the HETS Code.

$P5_i$ The settlement amount due to deviations from the approved Allowed Revenue of the Base Year (i-2) in terms of the non-controllable Expenditures (positive or negative sign), following a proposal by the Operator according to article 20 and based on RAE's relevant audit. This parameter is determined in nominal prices for year i of the RP, taking into account the ACPI between the Base Year and year i, based on ELSTAT data and available estimates, according to par. 3 article 5.

$P6_i$ The settlement amount (positive or negative sign) due to deviations between forecasted and outturn revenues of the Base Year (i-2) from other regulated or non-regulated Activities provided by the Operator, as well as any subsidies related to exploitation and in general any revenue of the Operator from other activities, regulated or non-regulated, the cost of which is not subject to accounting unbundling and is included in the calculation of the Allowed Revenue based on par. 1 article 7. The adjustment is implemented following a proposal by the Operator, according to article 20 and based on RAE's relevant audit. This parameter is determined in nominal prices for year i of the RP, taking into account the ACPI between the Base Year and year i, based on ELSTAT data and available estimates, according to par. 3 article 5.

$P7_i$ The amount to be settled due to differences arising in the Allowed Revenue of the Base Year (i-2), due to a redefinition of the reasonable return within the Regulatory Period, due to significant change in the individual value of parameter t (tax rate) of par. 1 article 16. This parameter is determined in nominal prices for year i of the RP, taking into account the ACPI between the Base Year and year i, based on ELSTAT data and available estimates, according to par. 3 article 5.

INF_i The amount to be settled due to the differences arising in the Allowed Revenue of the Base Year (i-2) due to the difference between estimated and actual inflation (based on ELSTAT data) for that year. This parameter is set in nominal prices for year i of the RP, using the ACPI between the Base Year and year i, according to data from ELSTAT and available estimates, according to para. 3 of article 5.

EFF_i The incentive mechanism for controllable operating expenditures, in accordance with Article 19.

LD_i The amount from the activation of the disincentive mechanism for the untimely implementation of major investment projects (over 50 mil €), except for Project of Major Importance described in article 17. The level of the activated disincentive is determined by RAE per case, based on the examination of various factors, indicatively the assessment of possible damages to the Users due to the delay of a particular project (including the assessment of the project's estimated benefits by the Operator, in the time of its approval), the delay clauses the Operator negotiates and concludes with the contractors, as well as industry benchmarks for delay clauses in similar projects. Moreover, the activation of the disincentive mechanism for the untimely implementation is initiated based on the following:

i. The level of the activated disincentive for each project, as well as other relevant conditions (indicatively, time milestones of required works and a binding schedule of implementation and commissioning of the project), are determined in advance by RAE decision.

ii. The activation takes place after a timely notification is given to the Operator, where the delay is indicated and the necessary clarifications are requested within a specific deadline and if it is proven that the delay is due to the Operator.

iii. An approach is followed that allows reasonable changes to the project's timeline, in case this would facilitate its timely commissioning, in which case any deductions that have been imposed in between after the activation of the disincentive mechanism, are returned to the Operator without interest.

iv. It is determined based on a monthly price, subject to a predetermined total annual maximum per project, which is equal to ten percent (10%) of the total approved cost of the specific project.

v. The value of the disincentive is adjusted to current prices for year i of the RP, taking into account the ACPI between the Base Year and year i, according to ELSTAT data and available estimations, according to par. 3 articlе 5.

UP_i The percentage of net profits from Non-Controllable Services which is transferred in favour of HETS Users. The Operator's net profit percentage from Non-Controllable Services is determined as follows:

i. A percentage of twenty (20%) to fifty (50%) on net profits, for the Non-Controllable Services provided by the Operator without the need for the use of fixed assets already included in the HETS RAB nor additional new investments. This percentage is transferred in favour of HETS Users, reducing the relevant Allowed Revenue of the Transmission of year i. This parameter is set in nominal prices for year i of the RP, using the ACPI between the Base Year and year i, according to data from ELSTAT and available estimates, according to par. 3 of article 5.

ii. A percentage of zero (0%) to twenty percent (20%) on the net profits, for the Non-Controllable Services provided by the Operator without the need for the use of fixed assets already included in the HETS RAB, but the provision of which requires new investments that will not be included in the HETS RAB. This percentage is transferred in favour of HETS Users, reducing the relevant Allowed Revenue of the Transmission of year i. This percentage within the range of zero (0%) to twenty percent (20%) is determined depending on the type of service following a relevant decision by RAE, which is issued after examination of the request submitted by the Operator, invoking the specific reasons justifying the different treatment of this service for this specific percentage. This parameter is set in nominal prices for year i of the RP, using the ACPI between the Base Year and year i, according to data from ELSTAT and available estimates, according to par. 3 of article 5.

INC_i The amount derived for inclusion in the Required Revenue of year i as a result of the application of incentives in order to ensure the efficient and safe operation of the System and the Operator, the stability of the System, as well as the reliable, quality and continuous supply of electricity for a period, taking into account efficiency indices determined and specialized in a special manual issued by RAE. The amount to be included in the Required Revenue is calculated according to the methodology as defined for each case in the manual or in a special RAE decision and the Decision of approval of the

Required Revenue. The amount may have a positive (increase) or negative (decrease) or zero impact to the Operator's revenue. This parameter is set in nominal prices for year i of the RP, using the ACPI between the Base Year and year i, according to data from ELSTAT and available estimates, according to par. 3 of article 5.

2. The Required Revenue for each year of the RP shall be recovered in accordance with the provisions of Section 9.0 of the HETS Code.

Article 19

Incentive mechanism for Controllable Operating Expenditures (EFFi)

1. An incentive mechanism is established that seeks to ensure that, on the one hand, the Operator strives to improve the efficiency of its controllable operating expenditures compared to forecasted controllable operating expenditures in any given year of the RP, while remaining indifferent to the timing of implementing the efficiency improvements of the controllable operating expenditures, and on the other hand, that users benefit from improved efficiency.

2. For the avoidance of doubt, the following is noted:

   i. the incentive mechanism shall not apply to non-controllable expenditures settled in accordance to Article 18, and

   ii. the incentive mechanism does not apply to changes in the level of controllable operating expenditures that are not considered permanent, such as those arising from emergencies.

3. The incentive mechanism operates in accordance with the steps set out in paragraphs 4 to 7 of this article.

4. **Step 1: Calculation of Incremental Efficiency Gain or Loss (IEGL)**

   i. For each year k preceding Base Year (year i-2) up to a total of four years, under or overspending on controllable operating expenditures is calculated in relation to those included in the determination of the Allowed Revenue, as the difference (positive or negative) between the forecast and outturn controllable operating expenditures for those years respectively, i.e. according to the formula:

   $ES_k = FCOE_k – OCOEk$

   Where:

   ES_k: The saving (or overspend) on controllable operating expenditures in year k.

   $FCOE_k$: Forecast controllable operating expenditures in year k.

   $OCOE_k$: Outturn controllable operating expenditures in year k.

   k: years i-3, i-4, i-5 και i-6

   ii. For each year k preceding the Base Year (year i-2) up to a total of four years, the Incremental Efficiency Gain or Loss (positive or negative) is also calculated as the difference between (i) the difference between the forecasted and outturn controllable operating expenditures, and (ii) the difference between the forecasted and outturn controllable operating expenditures of the previous year (excluding the first year of an RP where the Incremental Efficient Gain or Loss is equal to ES_{i-2}), according to the following formula:

$IEGL_k = ES_k – ES_{k-1}$

Where:

$IEGL_k$: Incremental Efficient Gain or Loss in year k.

k: years i-3, i-4, i-5 και i-6.

5. **Step 2: Calculation of the carryover adjustment in year i-2**

    i. The Carryover Adjustment is equal to the sum of the Incremental Efficiency Gain or Loss for the k years (years i-3, i-4, i-5 and i-6), which fall under the RP that precedes the RP that the Base Year (i-2) falls under and provided that it is not a Year of Calculation, according to the following formula:

$$CA_{i-2} = \sum_{k=i-3}^{i-6} IEGL_k$$

    Where:

    CA_{i-2}: Carryover Adjustment in year i-2.

    k: years i-3, i-4, i-5 and i-6 that fall within the RP preceding the RP in which Year i-2 falls and is not a Year of Calculation.

    ii. For the avoidance of doubt, it is noted that Incremental Efficiency Gain or Loss calculated for years that fall in the same RP as Year i-2, as well as Incremental Efficiency Gain or Loss of the Year of Calculation are not included in the Carryover Adjustment.

6. **Step 3: Calculation of Sharing Adjustment in year i-2**

    i. The sum of the Incremental Efficiency Gain or Loss is calculated for the years preceding the Base Year (year i-2) and up to four years, regardless of whether these years fall in the same RP as Base Year (i-2) or in the previous RP.

    ii. The Sharing Adjustment is calculated based on the sum of the Incremental Efficiency Gain or Loss for the k years (i-3, i-4, i-5 και i-6) and a Sharing Factor between the Operator and System Users. The Sharing Factor ranges between 40% and 70% in favour of the Operator and its value for one RP shall be determined in the Regulatory Decision. Specifically, the Sharing Adjustment is calculated according to the formula:

$$SA_{i-2} = \sum_{k=i-3}^{i-6} IEGL_k \times (1 - SF_k)$$

    Where:

    SA_{i-2}: Sharing Adjustment in year i-2

    SF_k: Sharing Factor in year k.

7. **Step 4: Calculation of the combined adjustment EFF**

    i. The combined adjustment for the calculation of the EFF_{i-2} is equal to the sum of the Carryover Adjustment and the Sharing Adjustment.

ii. The parameter EFF_i in Article 18 is the addition or deduction of the incentive amount in the previous paragraph (i) and is determined in nominal prices for year i of the RP, taking into account the ACPI between the Base Year and year i, according to ELSTAT data and available estimates, according to par. 3, article 5.

CHAPTER D

PROCEDURE FOR DETERMINING REVENUE AND RE-OPENING OF REVIEW

Article 20

Procedure for Determining Allowed Revenue and Required Revenue

1. The calculation of the Allowed Revenue shall be conducted in the year before the start of the RP (Year of Calculation). For the calculation of the Allowed Revenue for each year i of the RP, the Operator shall submit to RAE by the 30th of June of the year preceding the Year of Calculation (Year of Submission), inter alia, the following:
    i. Business Plan, with detailed estimates of the parameters composing the Operator’s Allowed Revenue for each year i of the RP separately, according to the requirements of this Methodology. This should include a detailed proposal for the requested rate of return (based on the WACC methodology according to Article 16), accompanied by an analysis of the individual parameters that comprise the WACC. Especially in the case of Projects of Major Importance, which were included as investments in the RAB before the start of the RP, detailed data on the cost of capital employed (equity and debt) must be submitted in order to re-evaluate the previously approved rate of return. The above estimates are made based on the nominal prices of the Year of Calculation.
    ii. Outturn data for controllable operating expenditures up to and including the second year prior to the Year of Calculation, as well as estimates for the year preceding the Year of Calculation, together with justification of the parameters referred to in article 9, par. 4.
    iii. The Regulatory Assets Register and the record of the Special Asset Base, as established in the last financial year at the time of the submission of documentation (i.e. the second year before the Year of Calculation), accompanied by additional data necessary for the calculation of the value of the RAB that is taken into account for the Allowed Revenue of the Operator (estimated level of investment for the last two years of the previous RP, new investments, archive of Contributions and Grants, Withdrawals archive, etc.).
    iv. Forecast data for the amount resulting from the Operator’s revenue from other, Regulated and Non-Regulated Activities, where the capital employed and operating expenses of these Non-Regulated Activities have been included in the above estimates.
2. For the calculation of the Required Revenue of each year i of the RP, as well as for the monitoring of the evolution of the level of revenues and expenditures, the Operator shall submit to RAE by the 30th of April of each year the following data:

i. Outturn data regarding the cost of HETS projects being developed with third parties' financing during the year i-2, for the determination of the relevant settlement amount for the Required Revenue (parameter $\mathbf{K}_i$).

ii. Outturn data regarding the difference between the amount received by the Network Operator from Use of System Charges and the approved Network Required Revenue during year i-2 (parameter $\mathbf{P1}_i$).

iii. Complete and detailed information on the calculation of the deviation of the Operator's Allowed Revenue during year i-2 due to deviation from the planned investments and a substantiated recommendation for determining the relevant settlement amount for the Required Revenue (parameter $\mathbf{P2}_i$).

iv. Outturn data for the amount deriving from the Operator's revenues from Interconnections Usage Charges included in the Special Reserve Account Λ-E (article 11.11 of the HETS Code) during the year i-2 for the determination of the relevant settlement amount of the Required Revenue (parameter $\mathbf{P3}_i$).

v. Outturn data from the amount deriving from the participation in the Compensation Mechanism between Operators of Transmission Systems for the infrastructure use component during year i-2 and a substantiated proposal for the determination of the relevant settlement amount of the Required Revenue (parameter $\mathbf{P4}_i$).

vi. Complete and detailed data for the calculation of the deviation of the Operator's Allowed Revenue in year i-2 due to deviation from the forecasted non-controllable operating expenditures as well as expenditures concerning formed provisions that are expensed and a substantiated recommendation for determining the relevant settlement amount for the Required Revenue (parameter $\mathbf{P5}_i$).

vii. Outturn data regarding the Operator's revenue from other activities, in case the operating expenses of these other activities have been included in the calculation of the Operator's Required Revenue (parameter $\mathbf{P6}_i$).

viii. Outturn data for the controllable operating expenditures in year i-2, accompanied by documentation as to why the deviations between estimated and outturn expenditures constitute permanent changes and do not relate to non-recurring events during year i-2, for the determination of the relevant incentive amount (parameter $\mathbf{EFF}_i$).

ix. The Regulatory Assets Register and the record of the Special Asset Base, as developed for the last financial year, accompanied by records necessary to determine the value of the RAB (Contributions and Grants file, Withdrawals archive, etc.).

x. Outturn data for the parameters that comprise the Operator's Allowed Revenue for the previous year and an updated forecast for the current year.

xi. Outturn data for controllable and non-controllable operating expenditures and for investment costs, in accordance with articles 9, 10 and 14 and Annexes A and B, as well as outturn data on the size and volume of Regulated Transmission Activity and for the factors affecting their costs (cost drivers), as these data are defined by RAE's decision after consultation with the Operator and/or Public Consultation.

xii. Published financial statements for the previous year and extract of the Regulatory Assets Register with the total undepreciated value of fixed assets and depreciation (cumulative and annual) shown in the financial statements.

3. Taking into account the data submitted by the Operator in accordance with paragraphs 1 and 2, RAE shall determine the Allowed Revenue of the Operator for each year of the RP and the Required Revenue of the first year of the RP, by the 31st of October of the Year of Calculation, in accordance with Articles 7 and 18, respectively. RAE's decision determining the Allowed Revenue of an Operator's RP in accordance with paragraph 1 shall be published after:
   i. The examination of the submitted data and proposals of the Operator. RAE may turn to experts for an independent assessment of the expenditures and other information submitted by the Operator.
   ii. Publication and public consultation on RAE's initial assessment of the level of the Allowed Revenue and the basic parameters of which it comprises.
4. The Required Revenue for each of the following years of the Regulatory Period shall be approved by RAE by the 31st of October of the previous year, based on the data submitted in accordance with paragraph 2.
5. The Operator, as part of the need to separate expenditure and capital employed by activity, should apply the approved accounting unbundling rules in the submitted Business Plan for the calculation of the Allowed Revenue.
6. At the end of each RP, RAE shall re-evaluate all the parameters of the Allowed Revenue, updating the estimates of those parameters that are not reviewed during its duration.

Article 21

Re-opening of the Operator's Allowed Revenue Determination

1. An extraordinary revision of the Allowed Revenue may be carried out at the request of the Operator or by RAE's decision, in one or more of the following circumstances:
   i. Where the Operator during the RP is required to undertake unplanned and material operating and maintenance expenditures, which could not have been foreseen when developing the Business Plan and the relevant forecasts for the Allowed Revenue of the years of the RP. Similarly, an equivalent case is that of a significant reduction in operating expenditures during the RP, due to external factors. Such cases are generally limited to non-controllable expenditures arising from force majeure events and changes to the Operator's obligations that are legally binding.
   ii. Where the financial, legal or actual data considered for the approval of the Allowed Revenue have changed significantly.
2. In the event that the procedure for the extraordinary review begins following a request from the Operator, the request shall be submitted in writing and shall include:
   i. Detailed justification for the necessity of the revision (data on the evolution of the Allowed Revenue parameters, as well as an indication of the deviation of these from the originally approved values).
   ii. Data that prove or support the fact that expenditures could not have been foreseen when determining the Allowed Revenue and that, in the absence of the revision, the financial impact would exceed two percent (2%) of the annual Allowed Revenue.
   iii. Detailed recommendation with the proposed values of the Allowed Revenue to be revised.

iv. Assessment of the impact on the smooth functioning of the Operator, in case the request for a revision is not accepted.

3. The Operator's request for the revision is assessed by RAE. The formal completeness of the request does not deprive RAE of the right to request additional information or clarifications related to the examination of the request. RAE will reach a decision within a reasonable timeframe and certainly no more than five (5) months from the date the Operator's request was formally considered complete. A rejection of the Operator's request must be fully justified by RAE. Non-issuance of a decision by RAE does not imply tacit acceptance of the request.

CHAPTER E

FINAL PROVISIONS

Article 22

Transitional Provisions

1. For the RP 2022-2025 the weighted average capital cost of Article 16 shall be calculated separately for each year, based on a gearing ratio starting at the current rate and changes toward an ideal rate at least 40% up to 2025 and taking into account mainly the Operator's current weighted cost of debt in relation to the outstanding balance of its loans.
2. For the RP 2022-2025 and for the estimation of the covariance of the performance of the Operator's parent company's share, ADMIE HOLDING SA, and the performance of the General Index of the Athens Stock Exchange while calculating the beta factor of article 16 par. 10, the historical data from the date that the company was listed on the Athens Stock Exchange are taken into account.
3. Article 17 is not implemented on Projects of Major Importance which are approved by RAE until the implementation of this Methodology and for which the provisions of article 11 of RAE's Decision 340/2014 are implemented.
4. The efficiency incentives and their incorporation in the Required Revenue according to parameter INC_i of article 18 shall be implemented from the 1st January 2024, based on the outturn data of 2022. The incentives may concern all or part of the efficiency indices which will be specified in a RAE manual based on the Operator's proposal.
5. The obligation derived from this methodology for the submission of data based on the Accounting Unbundling Rules (article 3 par. 4, article 6 par. 1, article 7 par. 1, article 9 par. 1 sub. i and ii, article 12 par. 6, and article 20 par. 5) is valid from the approval of these rules by RAE. In the meantime, the required data are submitted based on the current provisions of RAE's Decision 340/2014.

ANNEX A

CATEGORIES OF CONTROLABLE OPERATING EXPENDITURES

1. For evaluating forecasts of the Operator's operating expenditures and in order to more effectively monitor the expenditures in relation to factors affecting their level, operating expenditures shall be divided, according to the individual activity they relate to, into the following general categories:

   A) **System Operation:** This category includes costs related to the supervision, operation control and day-to-day management of the System, activities including, for example, the monitoring and recording of the System's status, the operation of the energy control centre, the planning and execution of operations in the System for the execution of works and rearrangements (development, maintenance, response to important events), as well as the collection and processing of data from operation, for further analysis with a view to more effective operation of the System.

   B) **Scheduled System Maintenance:** This category includes costs related to the planning and execution of maintenance work on System components, excluding maintenance carried out after the occurrence of a fault (suppressive maintenance or repair of System faults). The scheduled maintenance may consist of:

      1. Preventive maintenance: Maintenance carried out at regular intervals, regardless of the occurrence of anomalies or wear and tear of the components, with the aim of maintaining their good condition, so as to limit the incidence of faults, the duration of non-availability and the cost of repair. Preventive maintenance consists mainly of an inspection of System data with a view to assessing its condition and plan further necessary maintenance, as well as carrying out small-scale (routine) maintenance work. The frequency and magnitude of the maintenance are determined usually for different categories of components of the System considering proposed equipment manufacturers' maintenance programs, operating and environmental conditions, as well as empirically.

      2. Predictive maintenance: Maintenance carried out with the aim of reducing the likelihood of a default and based on an assessment of the condition of the components as determined by the application of appropriate diagnostic methods or models, also taking into account other relevant factors such as age and equipment specifications, operating and environmental conditions and the rate of occurrence of defaults.

      3. Identified maintenance: Maintenance carried out following an inspection and limited to those components which are found by the inspection to need maintenance in order to reduce the risk of failure. If differs from the repairing of faults in that the maintained components have not already defaulted and an immediate action to restore their normal operation is not required.

   C) **Repair of System Faults:** This category includes costs related to the Operator's response to incidents on the System, which have an impact on the supply of users and more generally on the operation of the System, and which require immediate action to restore the normal operation of the System. This category also includes separate costs of materials and equipment that are installed in the System in the context of fault repair if, according to the current capitalisation policy, the relevant costs are expensed.

   D) **Supporting System Operation Services:** This category includes costs to support the Operator's business operation with respect to the Regulated Transmission

Activity. These costs relate qualitatively and, to a certain extent, quantitatively to individual activities and tasks in the context of the operation of the HETS, but do not relate to the day-to-day operation and management of the System. These include, indicatively, design (specifications & studies) of development and utilisation of the System, supply and management of materials, transport, staff training, safety & hygiene at work, IT and telecommunications services.

E) **General Support Services and Management:** This category includes general expenditure for supporting the Operator's business operations, which are not directly related to the Regulated Transmission Activity or individual tasks and generally do not change as a function of their volume. Indicatively, these include management costs, financial services, legal support, administrative support, housing services and human resources management.

F) **Other Expenditures:** This category includes the operating expenditures of the Operator which are not specifically related to any of the individual activities and which do not fall into any of the above categories.

ANNEX B

CATEGORIES OF INVESTMENT EXPENDITURES

1. In the context of an assessment of the Operator's forecasts for capital expenditures and with a view to more effective monitoring of expenditure in relation to parameters affecting their level, capital expenditures are divided, according to the individual activity they relate to, into the following general categories:

   A) **<u>System reinforcement</u>:** This category includes projects for the construction of new networks or the reinforcement of existing networks, which are scheduled and implemented by the Operator who is responsible for their completion according to the scheduling included in the TYNDP, are not related to specific requests for new users connection, aim to increase the network’s capacity to serve load, driven primarily by the spatial and temporal evolution of demand for electricity transmission services and permit the increased penetration of Renewable Energy Sources in the country’s electrical system, as determined in the National energy and climate plan for 2030 and the long-term strategy for 2050.

   The reinforcement projects may concern necessary in-depth reinforcements, such as new Transmission Lines (T.L.), T.L. upgrades, new High Voltage Centres (HVC) and Substations (S/S), extensions of existing HVC or S/S, T.L. variations, as well as replacements of obsolete equipment, which are required for the safe handling of power provided for a specific period of time. In addition, they concern projects for the improvement of the operation of the System and interconnection transmission lines with neighboring countries. In particular, the reinforcement projects concern the improvement of the level of security of supply and the increase of the transmission capacity and the stability limit of the System as well as technological improvements, the removal of the technical limitations set by the operating limits of the System components, the strengthening of the transmission capacity of the existing interconnections and the development of new interconnections. The category of reinforcement projects also includes projects implemented with the objective of reducing the technical losses of the system.

   B) **<u>System extension projects for the connection of Users</u>:** This category includes the projects required to connect Users (Producers and Consumers) and the Network to the System, which can be implemented either by the respective Producer or Consumer, or by the HETS Operator. These projects concern the construction of new transmission system infrastructure, which is required due to the connection of new Users with their participation in the cost of the System extension projects, as specified in the System Operation Code. In particular, the extension projects required for the connection of new Users to the HETS include all the facilities and equipment required for the connection from the boundary of the User's facilities to the existing HETS.

   C) **<u>Other System Projects</u>:** This category includes projects related to the development of the necessary infrastructure, such as measurement collection systems (SCADA), backbone telecommunications network, telecommunication links between S/S and Power Control Centres (PCC), development and installation of software tools, according to the requirements for a safe and efficient operation of the System and the requirements of the electricity market.

D) **Investments to Support Regulated Activities:** This category includes investments by the Operator to support the activities of managing the HETS, which, indicatively, relate to land, building facilities & equipment, vehicles, machinery, systems/equipment and IT & telecommunication, network crews' equipment and tools, office equipment, etc. These investments are forecasted and monitored separately.