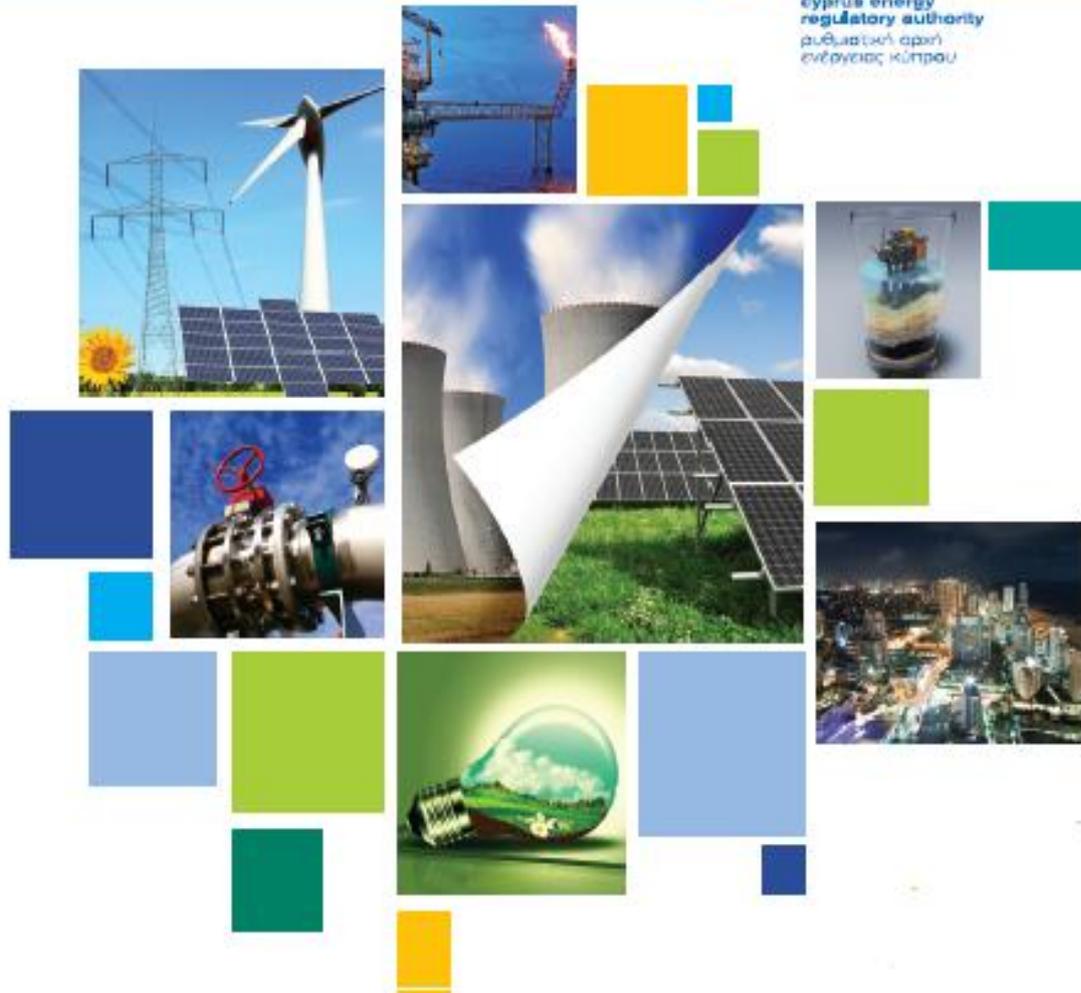




cyprus energy  
regulatory authority  
αυθαριτηκη αρχη  
ενεργειας κυπρου



# 2016 NATIONAL REPORT TO THE EUROPEAN COMMISSION

July 2015 to July 2016

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## List of abbreviations

<b>CEER</b>	<b>Council of European Energy Regulators</b>
<b>CERA</b>	<b>Cyprus Energy Regulatory Authority</b>
<b>DAM</b>	<b>Day Ahead Market</b>
<b>DSO</b>	<b>Distribution System Operator</b>
<b>EAC</b>	<b>Electricity Authority of Cyprus</b>
<b>GO</b>	<b>Guarantees of Origin</b>
<b>MO</b>	<b>Market Operator</b>
<b>NRA</b>	<b>National Regulatory Authority</b>
<b>OTC</b>	<b>Over the Counter</b>
<b>PSO</b>	<b>Public Service Obligations</b>
<b>RAG</b>	<b>Regulatory Accounting Guidelines</b>
<b>REMIT</b>	<b>EU Regulation 1227/2011 on the integrity and transparency of wholesale energy market</b>
<b>RES</b>	<b>Renewable Energy Sources</b>
<b>SRA</b>	<b>Separated Regulatory Accounts</b>
<b>TSO</b>	<b>Transmission Service Operator</b>

## 1. Foreword

Citizens are at the heart of the Energy Union as energy prices must be affordable and competitive. Energy should be secure and sustainable and there should be greater competition with more choice for every consumer.

The package of measures on the Energy Union aims to ensure affordable, secure and sustainable energy for Europe and its citizens. The specific measures cover five key areas, including energy security, energy efficiency and decarbonisation.

The vision of the Energy Union is an integrated energy system for the whole of Europe, where energy will move freely across state borders, with competition rules, making best use of resources and a reliable integrated European regulatory framework.

The purpose of the Energy Union strategy is to help attain the climate and energy targets set for 2030 and to ensure that the European Union will become the world champion in Renewable Energy Sources. Achieving these objectives requires a radical reform of the European electricity system, and a redesign of the European electricity market.

The EU Strategy for the Energy Union concerns, primarily, the Member States currently unable to negotiate and obligated to import energy under adverse conditions in the supply contracts, as a result of their geographical position, such as Cyprus. For Member States that obtain energy under less favourable conditions and at higher prices, the Energy Union is expected to yield positive results, offering the opportunity of reduced energy costs.

Having regard to the above, during the year under review, Cyprus Energy Regulatory Authority (CERA) took a series of important decisions in order to complete the regulatory framework in the energy sector that will lead our country to a new energy era. The Energy Union era.

CERA will continue to perform its duties having the same top priority, which is the charting of a people-centred and smart energy strategy focusing on the consumer. Proper operation of the Electricity and Natural Gas Markets is crucial for the economy and stability of the state as well as the welfare of the citizens.



Dr. Andreas Poullikkas  
Chairman

## 2. Main developments in the gas and electricity markets

During the year under review CERA, taking into account the trends followed at European level and bearing in mind the needs of the energy system in Cyprus, had to take a series of important decisions in order to complete the regulatory framework in the energy sector, focusing in the security of supply, the consumer protection and ensuring fair competition through the development of an economically viable and efficient electricity market and the possibility share of renewable energies in the competitive market.

At present, the energy sector in Cyprus is undergoing fundamental transformations concerning its structure and organisation, its institutional framework and the diversification of its energy mix. The Cypriot electricity sector is today 100% covered on the supply side and more than 90% on the generation side, by the state-owned Electricity Authority of Cyprus (EAC). In an effort to open up the market to new participants, CERA has proposed the Net-Pool model as being the most appropriate trading arrangement approach for the Cyprus electricity market, setting mid 2016 as the milestone for its commercial operation. The formulation of a net-pool incorporates both, a bilateral contracts market and a central Day Ahead Market. In the near future, an Intra-Day Market would be organized. The proposed design includes also a real time Balancing Mechanism that provides the Transmission System Operator (TSO) with the ability to purchase the required operational reserves, activate balancing services, and settle imbalances.

Throughout 2015, the implementation of Regulatory Decisions by the EAC related to the accounting and functional separation of activities forged ahead. The implementation and compliance of the EAC with the specific regulatory decisions is ongoing and CERA is closely monitoring the compliance of the Authority with those decisions. In September 2015, EAC submitted the first separate accounts for each activity, which are under review by CERA.

On 23 October 2015, a Law was issued amending the Electricity Market Laws 2003 – 2012 in order to add specific provisions, such as the designation of CERA as the authority responsible for ensuring compliance with the provisions of Regulation (EU) No.1227/2011 on the integrity and transparency of wholesale energy market (REMIT) and that CERA ensures that an assessment is made of the capabilities of energy efficiency potential of electricity infrastructure, specific measures and investments are determined in order to achieve cost-effective energy efficiency improvements in network infrastructure and the removal from the transmission and distribution tariffs of those incentives which are detrimental to overall efficiency.

Meanwhile, CERA for the purpose of safeguarding the rights of consumers and particularly the vulnerable groups and acting on the basis of a decision by the Minister of Energy, Commerce, Industry and Tourism, imposed Public Service Obligations (PSOs) on all electricity supply licence holders. The public service obligations apply with the inclusion of specific categories of consumers considered to be vulnerable in the special tariff code 08. Furthermore, CERA acting within its competence, had consultations with the Ministers of Energy, Commerce, Industry and Tourism and Labour, Welfare and Social Security on the redefinition of energy poverty and the determination of the critical period. As a result of this consultation a relevant Decree was issued on 4 September 2015 by the Minister of Energy, Commerce, Industry and Tourism.

For purposes of meeting the provisions of REMIT, CERA created and operated the CEREMP platform. As from 7 October 2015, CERA registers the market participants through this platform.

For the implementation of the New Market Model, CERA issued a Tender 03/2016 for the provision of consultancy services for monitoring and implementing CERA's Regulatory Decision 01/2015 "The new electricity market arrangements in Cyprus" and for supporting the relevant activities of CERA.

Furthermore, in accordance with the provisions of Article 81(4) of the Regulations of the Electricity Market Law 2003-2015, TSO set on 29 February 2016, under Public Consultation, a text modifying the Market Rules on the basis of the Regulatory Decision 01/2015. The TSO will submit the amendments of the Market Rules to the Advisory Committee within 2016.

Finally, the Members of CERA decided and issued, on 9 September 2015, the Methodology and criteria for the evaluation of investments in electricity and gas infrastructure projects and the higher risks they entail as well as the basic principles and the application procedure for provision of incentives.

## 3. The electricity market

### 3.1. Network regulation

#### 3.1.1. Unbundling

##### 3.1.1.1. Development in TSO unbundling and Report on TSO certification

The third energy package provides for **three basic models for unbundling: Ownership Unbundling (OU), the Independent System Operator (ISO) and the Independent Transmission Operator (ITO)**. When implementing the unbundling rules of the third energy package Member States have to decide whether to implement exclusively the Ownership Unbundling model, or leave to the TSO a choice between the different models. However, Cyprus according to article 44 (derogations) of the 2009/72/EC directive has obtained an exemption from article 9 on Unbundling of Transmission Systems, therefore Cyprus has maintained its present regime on TSO unbundling.

As from previous directive, a TSO has been appointed and functions independently in terms of organisation and decision making from the TSO and the Distribution System Owner and Operator (DSO) which is namely the EAC. Under current legislation, the TSO which is legally unbundled, acts independently from production, distribution and supply activities in order to safeguard third party access onto the transmission network and equal treatment of all users of the network.

Furthermore, the TSOs' Certification procedure does not apply for Cyprus due to the exemption from Article 9 of the said directive.

Currently the TSO is located separately from EAC. The TSO presents himself to customers as a separate entity with his own name, logo and website. TSO is provided with all of its employees by the single vertically integrated utility, namely the EAC.

Share of shared services adds up to 100% and shared employees likewise.

### 3.1.1.2. Development in DSO unbundling

The Owner of the distribution system has also been nominated as the DSO and although it is not independent in the sense that the TSO is, it has the same duty of safeguarding third party access to the distribution network and the equal treatment of all users of the said network.

The function of the single DSO has remained within the Network Business Unit of EAC in agreement with the relevant clauses of the Electricity Directive and the approval of the Government of Cyprus.

Cyprus as a small and isolated system has decided, according to article 26 on the unbundling of distribution system operators of the 2009/72/EC directive, not to apply the proposed unbundling regime of the DSO. In accordance with the Law regulating the electricity market EAC assigns an officer of EAC as the "Distribution System Operator Director" which is responsible for the management of the distribution system.

However, according to current legislation the Cyprus' DSO must establish a compliance programme, which sets out measures taken to ensure that discriminatory conduct is excluded, and ensure that observance of it, is adequately monitored. The compliance programme sets out the specific obligations of employees to meet that objective. An annual report, setting out the measures taken, shall be submitted to CERA for approval by the body responsible for monitoring the compliance programme.

DSO is provided with all of its employees by the single vertically integrated utility, namely the EAC.

### 3.1.1.3. Accounting and Functional Unbundling

During the previous year, CERA issued the Accounting and Functional Unbundling Regulatory Decisions for EAC, as well as the Regulatory Accounting Guidelines (RAG) for the preparation of the Separated Regulatory Accounts (SRAs) of EAC. These decisions, set the basis for the unbundling of the four regulated activities of Generation, Transmission, Distribution and Supply and the non-regulated activities of the organisation.

Regarding the Accounting Unbundling of EAC, Article 108 (4) of the Law provides that EAC should maintain SRAs for each of its activities that were licensed by CERA according to Article 34. The same applies for the provision of PSOs and EAC's activities not related to electricity.

According to the Regulatory Decision regarding the functional unbundling of EAC, the latter is obliged to proceed with the organization of five distinct Business Units (BUs); **Generation, Supply, Transmission and Distribution** and another distinct Unit for "**Other Activities**". It calls for the discrete separation of the competencies between Distribution and Supply as well as the creation within the Distribution BU, of a Section for the Operation of the Distribution System. Within the Distribution BU, it also calls for the creation of a ring-fenced "Metering" Section. The "Other Activities" Unit will include all the non-regulated EAC Activities such as Inspection of Electrical Installations, Desalination Unit, Street Lighting Maintenance, MRTC, third party supply and installation of PV Systems, third party telecommunications, contracting activities etc. The Accounting and Functional unbundling process is underway following the agreed schedule, the compliance statements and the set milestones, with most of the steps to be undertaken according to the compliance statements, completed. On 24 September 2015, EAC submitted its first audited SRAs, for the year ended 31 December 2014, which are currently under review by CERA.

## 3.1.2. Technical functioning

### 3.1.2.1. Balancing Services

The “Trading and Settlement Rules” (Market Rules) were officially published and placed into force on 30 January 2009. In general, the Trading and Settlement Rules enable the TSO to fulfil its obligations under the Law, regulate the means by which Participants may trade Energy, allow the calculation and settlement of payments in respect of Energy and specify the way in which settlement and billing shall be carried out. The Trading and Settlement Rules provide all necessary information concerning the operation of the electricity market in the country. The balancing arrangements are also described in these.

Currently the system applied in Cyprus is based on Bilateral Agreements between producers and their customers, who must nominate their productions to the TSO 24hrs ahead of their planned production. Their production must balance within  $\pm 10\%$  of their customers’ demand. The difference between total supply and total demand is settled through the balancing market. Gate closure is applied at midnight – as provided by Trading and Settlement Rules. Settlement of imbalances will be arranged on a monthly basis. It should be noted that the balancing interval is 30min.

Participants acknowledge the following principles governing Energy Balance:

- As a bilaterally contracted market, primary Energy Balance is achieved by Participants contracting for delivery of Energy for expected Customer offtakes. Energy Contracts are for delivery of defined amounts of Energy in a Settlement Period.
- Generators will nominate their intended running position to the TSO representing their intentions to deliver the physical Energy for which they have made Energy Contracts.
- When the TSO during the settlement period believes that the net generation does not equate to net demand (adjusted for losses), then it will contract to buy or sell residual Energy to bring the two into balance according to the offers and bids received in the declarations.

Participants acknowledge the following principles governing System Balance:

- Energy Contracts are for delivery of total Energy over a Settlement Period. However, for particular minutes within a Settlement Period, the system may be long or short of Energy even when, in aggregate for the Settlement Period, the system is in balance. The TSO will need to contract to buy and sell Energy to achieve minute-by-minute Energy Balance within the Settlement Period.
- In addition to achieving Energy Balance, the TSO will contract for other services to manage system constraints, voltage control and frequency control. However, the market is not yet operating in practise since there is only one Supplier/Power Producer, namely the EAC.

CERA decided to adopt a study, which was prepared from an external consultant of CERA titled “The New Electricity Market Arrangements in Cyprus” concerning the detailed design of the Electricity Market in Cyprus and published the Regulatory Decision 01/2015. The Regulatory Decision proposes a design regarding the new electricity market arrangements in Cyprus based on the decision for implementing a Net-Pool Model as being the most appropriate trading arrangement approach for the Cyprus electricity market.

The proposed design allows bilateral, Over the Counter (OTC), contracting on a forward basis while at the day-ahead stage a central market is organised. CERA should regulate the minimum participation of the Dominant Participant in the Day Ahead Market (DAM) with a view to

enforcing adequate liquidity. Specifically, under the proposed net pool design, bilateral physical forward contracts are notified and corresponding schedules are nominated to the Market Operator (MO) by OTC market gate closure on the day ahead. Suppliers and generators provide bid curves to a DAM on a half hourly basis. Orders in the DAM are unit based in the case of generators. Suppliers submit orders based on individually forecast demand. Orders in the DAM should correspond to quantities not already covered by bilateral contracts and take into account any Replacement Reserve of type 2 commitments. The DAM is centrally managed by a MO. The MO runs a process of matching bid curves to optimise dispatch of residual volumes at the day ahead. Contracts resulting from the DAM are between market participants and the MO at the DAM clearing price. An Integrated Scheduling Process with a real time Balancing Mechanism and later a continuous intra-day trading platform will be organized to further support market operations.

For the implementation of the New Market Model, CERA issued Tender 03/2016 for the provision of consultancy services for monitoring and implementing CERA's Regulatory Decision 01/2015 "The new electricity market arrangements in Cyprus" and for supporting the relevant activities of CERA.

Also, according to this Regulatory Decision, CERA has given instructions to the TSO, to proceed immediately to the preparation of the specifications for the supply of the required systems and other arrangements needed for the proper functioning of the Electricity Market as soon as possible. It has also given instructions to the TSO, to activate the actions required by law for drafting of the new Electricity Market Rules and the revision, where necessary, of the Transmission and Distribution Rules for the full implementation of the Regulatory Decision. TSO set on 29 February 2016, under Public Consultation, a text modifying the Market Rules on the basis of the Regulatory Decision 01/2015. The TSO will submit the amendments of the Market Rules to the Advisory Committee in 2016.

### **3.1.2.2. Security and Reliability Standards, Quality of Service and Supply**

CERA monitors the compliance with and reviewing the past performance of network security and reliability rules and sets or approves standards and requirements for quality of service and supply.

Under the Laws on Regulating the Electricity Market of 2003 to 2015, CERA takes a Regulatory Decision with which it issues instructions to the TSO and the DSO to prepare and issue technical rules, which are subject to CERA's approval, on the operation of the Transmission System and the Distribution System, respectively.

The provisions of the Transmission and Distribution Rules are observed by all licensees or by persons to whom exemptions were granted, to the extent that the licences or exemptions require this, respectively.

In 2013 there was an additional revision to the Transmission and Distribution Rules. More specifically on July 2013, following CERA's approval, the revised Version 4.0.0 was published which is still in force. It is expected that in 2016, the TSO will proceed to the statutory procedure provided for by the legislation for the revision of the existing Transmission and Distribution Rules.

In general, the Transmission and Distribution Rules are designed to achieve the development, the maintenance and the operation of an efficient, coordinated and economically viable

Transmission and Distribution System whilst facilitating competition in generation and supply of electricity.

The Rules:

- govern the technical requirements and constraints that will apply wherever license holders wish to connect to the transmission system and/or distribution system or use the transmission system or distribution system for the transportation of electricity
- ensure that the technical conditions that apply to license holders who wish to connect to or use the transmission system or distribution system do not result in them being subject to undue discrimination
- foster efficiency, reliability, and economy in the use and development of the transmission system and the distribution system

The continuity of supply data is provided by the EAC to CERA on an annual basis and is based on supply interruption data available at substation level. Based on the supply interruption data for 2015, the overall minutes lost were estimated at 18 minutes per average customer.

### **3.1.2.3. Monitoring time taken to connect and repair**

CERA monitors the time taken by the TSO and EAC, to make connections and repairs. Each year the TSO has to report to CERA through its annual report regarding this issue. In general, CERA monitors the number of disconnections due to repair and the duration of these disconnections. Furthermore, CERA in 2005 enacted regulations “On regulating the electricity market - Performance Indicators - Reg. 571/2005” whereby, Performance Indicators are defined as the indicators for the supply of electricity and include the obligations of the Supplier and DSO, consumer rights, performance standards and minimum levels of performance as well as the fine automatically imposed in cases of the Supplier’s and/or the DSO failure to comply.

### **3.1.2.4. Monitoring Safeguard Measures**

In accordance with the recent Electricity Act, when the Minister of Energy, Commerce, Industry and Tourism or CERA decide that a sudden crisis in the energy market is presented, the Minister, after consultation with CERA issues a Decree under which declares the energy market under sudden crisis and determines the beginning of the energy crisis.

When the Minister or CERA decide that the reasons for which the energy market was declared under sudden crisis, have ceased, the Minister, after consultation with CERA issues a Decree under which declares the end of the sudden crisis in the energy market and determines how to restore the normal situation.

Furthermore, CERA has to issue a Regulatory Decision in order to establish the following:

- Preventive/pro-active Action Plan of the measures required to eliminate or mitigate risks and
- Emergency Plan of the measures to be taken to eliminate or mitigate the impact of a sudden crisis in the energy market.

The above plans must cause the least possible disturbance in the functioning of the internal market and must not be wider in scope than is strictly necessary to remedy the sudden difficulties which have arisen.

### 3.1.2.5. RES regulatory framework

Provided security and quality of supply requirements are met, RES-E producers have priority dispatch over conventional ones. According to the Trading and Settlement Rules generators are self-dispatched. Existing RES generators (currently only RES energy sold to EAC by the feed-in tariff regime, is injected to the system) provide their forecast to the TSO on the day-ahead on a half hour basis, and are not liable for any imbalances.

However, according to the New Market Model to be implemented in the coming years, contracts of RES generators under the Support Scheme are transferred from EAC to the TSO, acting as the RES Agent; while respective contracts of the RES generators with the RES Fund remain otherwise unaffected. The RES Agent bids the forecasted RES capacity into the DAM, where it is handled as must run. As currently practiced, curtailments of RES generation under the Support Scheme either at the day-ahead stage or later are not compensated. Existing arrangements imposing forecasting penalties are applied. The RES Agent is liable for imbalances of RES generators in the Support Scheme. The imbalance cost or benefit from the operation of the RES under the Support Scheme is fed to a special account and then through the TSO allocated to all customers as a system cost or as a PSO. To minimise the imbalance exposure of the RES Agent, it may bid the RES output on a national portfolio basis rather than a per unit basis. Other RES generators (along with conventional generators and suppliers) may enter into bilateral contracts and/or participate to the DAM. Such RES operators are subject to imbalance settlement

On 23 October 2015, the House of Representatives approved the amendment of the Promotion of Cogeneration Law. The Amending Law aligns the procedures for issuing Guarantees of Origin of electricity generated from high-efficiency cogeneration plants with the applicable procedures for issuing the Guarantees of Origin of electricity generated from RES.

The Amending Law also harmonises Article 14 and partly Article 15 of the Directive, which regulates Transmission and Distribution System issues, namely access and connection of high-efficiency cogeneration stations with the network. On condition that the requirement of maintaining the reliability and security of the electricity system, thanks to which electricity from high efficiency cogeneration may be limited / reduced, and on the basis of transparent, non-discriminatory and published criteria specified by the electricity system Operators and approved by CERA, the Operators:

- guarantee the transmission and distribution of electricity from high efficiency cogeneration
- give priority to access to energy produced from high efficiency cogeneration take all necessary steps to ensure that the distribution of load of power plants give priority to electricity distribution produced from high efficiency cogeneration.

Furthermore, the Members of CERA decided to issue the Decision 1351/2015 dated 28 September 2015, on the Period of Final Clearing of the Electricity Surplus of Consumers under the Net Metering Scheme for Photovoltaic Systems, by defining the period of February - March as the electricity clearing period that will be made by Suppliers every two months. According to this method, every two months the difference is calculated between electricity received from the network in the premises of the Producer / Consumer to meet his needs and the electricity generated by the PV system which is injected into the Grid. Any surplus will be transferred to the next two months, while any deficits will be invoiced. A final clearing will be made in the last invoice for a period covering twelve months. Currently, as the final bill for net-metering each year is deemed to be the bill of the Producer / Consumer which was recorded in February or March. Any surpluses cannot be transferred from one year of clearing to the next one.

Finally, the TSO, applying CERA’s Decision 1279/2015 on the Calculation Methodology of the Electricity Energy Mixture of Cyprus and the Energy Mixture of Suppliers, publishes with this announcement, the Final National Preliminary Energy Mixture and the National Electricity Energy Mixture for Cyprus for the period 1.1.2015 – 31.12.2015. Due to the fact that during the examined period, there were not any cancellations of Guarantees of Origin (GOs) of energy by RES, which according to the Calculation Methodology, are the only approved evidence of the origin of electricity supplied to consumers, the National Energy Mixture is identical to the Final National Residual Energy Mixture. The composition of the two mixtures is the following:

**Table 1. Final National Residual Energy Mixture/ National Energy Mixture for 2015**

Final National Residual Energy Mixture/ National Energy Mixture for 2015	
High Voltage (HV)	0,81
Medium Voltage (MV)	1,24
Low Voltage (XT)	1,43

### 3.1.3. Network tariffs for connection and access

#### 3.1.3.1. Report on New tariff regulation provisions

CERA, as the regulator, has the duty and the authority to approve the methodologies used to calculate the connection fees and the network use charges, and establish the terms and conditions for connection and access to the transmission and distribution system. The regulator may also require the TSO and DSO to change the tariffs or methodologies used for determining the transmission and distribution tariffs to ensure that these are proportional and non-discriminatory.

The methodology developed and followed concerning network tariffs is based on the following principles:

- Unbundling of EAC accounts under the following broad categories:
  - Generation
  - Transmission Network
  - Transmission System Operator
  - Distribution
  - Supply
  - Other business
- Re-evaluation of generation and network assets.
- Identification of ancillary services and cost valuation of each one separately.
- Identification of PSOs.
- Benchmarking of various activities with reference to published performance indices of European Utilities.

CERA has been vested through the Law with the responsibility of approving tariff methodologies and actual tariffs and charges of the Monopoly Sectors of the industry and all activities of EAC who is the dominant participant in the Electricity Market (Generation and Supply of electricity). On the 19<sup>th</sup> of June 2015, CERA published the revised Statement of Regulatory Practice and Electricity Tariffs Methodology, Reg. 208/2015.

The overarching objectives of tariff regulation are to maximise the long term competitiveness of the Cypriot economy, protect the interests of consumers in the short and long term against prices established on a monopoly basis, meet public service obligations, safeguard the security

of electricity supply and promote energy efficient and quality of the services provided by the licensees. The tariffs are determined on the basis of a methodical and consistent application of the principles set out in the methodology; and the proposals and decisions about tariffs are evidence-based and are formulated after thorough consultation with the parties concerned.

The objectives of the regulated tariffs are that they:

- reflect the cost of service so as to enhance economic efficiency;
- allow the reasonable prospect of recovery of efficient costs;
- be fair and non-discriminatory unless justified on the grounds of other tariff objectives such as enhancing economic efficiency;
- avoid cross subsidies between different electricity sector activities (i.e. generation, transmission system ownership, transmission system operation, distribution system ownership, distribution system operation and supply);
- be simple, transparent and predictable;
- encourage efficient consumption decisions by consumers;
- be compatible with the clear environmental objectives set by the Republic of Cyprus;
- allow the recovery of efficiently incurred costs related to public service obligations and the promotion of generation of electricity from renewable energy sources and high-efficiency cogeneration;
- encourage security of electricity supply;
- provide incentives to regulated firms to operate efficiently; and
- promote efficiency and quality of the service provided by licensees.

CERA has approved the following charges for the use of networks (decisions 04/2015, 02/2013, 03/2010 and 04/2010):

**Table 2. Charges for the use of networks and other operational expenses**

<b>CHARGES FOR THE USE OF NETWORKS AND OTHER OPERATIONAL EXPENSES</b>	<b>2010 €cents/ kWh</b>	<b>2011 €cents/ kWh</b>	<b>2012 €cents/ kWh</b>	<b>2013 €cents/ kWh</b>	<b>2014 €cents/ kWh</b>	<b>2015 €cents/ kWh</b>
<b>High Voltage (HV)</b>	0,81	0,83	0,86	0,86	0,86	0,86
<b>Medium Voltage (MV)</b>	1,24	1,28	1,33	1,33	1,33	1,33
<b>Low Voltage (XT)</b>	1,43	1,45	1,47	1,47	1,47	1,47
<b>TSO</b>	0,07	0,08	0,08	0,11	0,11	0,11
<b>Ancillary Services</b>	0,18	0,20	0,21	0,21	0,21	0,21
<b>Long Term Reserve/Stand by</b>	0,46	0,46	0,46	0,46	0,46	0,46
<b>TOTAL HV</b>	1,52	1,57	1,61	1,61	1,61	1,61
<b>TOTAL MV</b>	2,76	2,85	2,94	2,94	2,94	2,94
<b>TOTAL LV</b>	4,19	4,30	4,41	4,41	4,41	4,41

By Regulatory Decision 01/2016, the Members of CERA decided and approved that the TSO fee (D-TSO: Tariff for TSO expenditure) for 2016 onwards should remain, until it is reviewed, at 0,09 €cent/kWh.

According to the Laws on Regulating the Electricity Market of 2003 - 2015, CERA acting within the framework conferred by Articles 26(1), 31 and 32, decided and approved on the 26<sup>th</sup> of September, 2013 with its Regulatory Decision 03/2013, the New Charging Policy of the EAC for

connection to the Distribution System. CERA notes that the competent department of EAC for Publishing, Managing and Implementing the Charging Policy is the DSO.

### 3.1.3.2. Prevention of cross-subsidies

By its decision 688/2011, CERA approved the rebalancing of the EAC's tariffs which involves increases and reductions in various customer categories. The purpose of these is the gradual removal of cross-subsidies among consumer categories which do not provide any financial benefit to the EAC. In accordance with CERA's decision, the EAC revised its existing tariffs and introduced new charges based on a basic fuel cost of €300 per metric ton in compliance with the above decision. The new tariffs were approved by CERA and published in the official Gazette of the Republic.

### 3.1.4. Cross-border issues

At present, the electricity system of Cyprus operates without cross-border links. An interconnection project through an underwater cable with Greece and Israel is currently under study, the so called "EuroAsia Interconnector Project", which is promoted as a Project of Common Interest (PCI).

The EuroAsia Interconnector was proposed for the electricity interconnection between Israel, Cyprus and Greece. It was approved by the European Commission and was included in EU list as a Cluster consisting of three distinct projects: Israel - Cyprus, Cyprus - Crete and Crete - Attica. The project consists of a DC subsea cable (HVDC) 600 kV with a total capacity of 2000 MW, and the required electrical equipment, i.e. power plants to convert the electrical current from DC to alternating current (AC) and vice versa, and for its transmission from and to the countries concerned. The total length of the submarine cable is estimated at around 820 nautical miles/about 1518 km (329 miles between Cyprus and Israel, 879 km between Cyprus and Crete, and 310 km between Crete and Attica). It is estimated that the laying of the cable on the seabed in some places between Cyprus and Israel will exceed the depth of 2000 meters and 2500 meters between Cyprus and Greece. Pursuant to the provisions of the Regulation, implementing bodies for the Projects of Common Interest are being determined. The Implementing Body of this project is set to be ΔEH - Quantum Energy.

With the implementation of this project, Cyprus will cease to be a system isolated from the European network, which is one of the main pillars set by the EU. It is also expected to contribute positively to the achievement of EU goals for the integration of the internal electricity market, security of supply, energy efficiency and better backup supply in emergencies.

In order to comply with the Article 13(6) of the the Infrastructure Regulation (EU) No 347/2013 the Members of CERA decided and issued, on 9 September 2015, the Methodology and criteria for the evaluation of investments in electricity and gas infrastructure projects and the higher risks they entail as well as the basic principles and the application procedure for provision of incentives (Decision 1344/2015).

### 3.1.5. Compliance

#### **Ensuring compliance with binding decisions of the Agency and the Commission, and with the Guidelines**

Under the Third Package, NRAs are required to ensure compliance with and implement binding decisions of ACER and of the European Commission. In order to enable CERA to do this, the

Electricity Act has been amended so as to provide the Authority with the necessary powers to carry out its functions in the manner that it considers is best calculated to implement or ensure compliance with any binding decision of ACER or of the European Commission.

### **Compliance of transmission and distribution companies, system owners and electricity undertakings with relevant Community legislation, including cross-border issues**

CERA has the power to investigate compliance of transmission and distribution, electricity undertakings with relevant Community legislation. If a breach is found, CERA has the power to impose penalties. Furthermore, Cyprus has obtained an exemption from article 9 of the new Directive on the unbundling of transmission systems, therefore TSOs' certification compliance does not apply.

## **3.2. Promoting Competition**

### **3.2.1. Wholesale markets**

The Electricity Market was liberalised by 35% with effect from 1st May 2004 and was further liberalised by approximately 65% in total with effect from January 2009, to include all “non-domestic” consumers which are able to select their Supplier according to what is in their best interest. From 1<sup>st</sup> of January 2014 the market is fully liberalised and all consumers of electrical energy are able to choose their Supplier. However, currently there is no other Supplier in Cyprus apart from EAC.

The current Market Model is based on bilateral contracts between the producers and the suppliers, however the proposed New Market Model is expected to be implemented in the coming years.

As regards the degree of integration of the market with neighbouring Member States, it was previously mentioned that Cyprus constitutes a small isolated system.

After public consultation, CERA decided to adopt a study, which was prepared by an external consultant of CERA titled “The New Electricity Market Arrangements in Cyprus” concerning the detailed design of the Electricity Market in Cyprus and published the Regulatory Decision 01/2015 whose content was the actual study. The study proposes a design regarding the new electricity market arrangements in Cyprus based on the decision for implementing a Net-Pool Model as being the most appropriate trading arrangement approach for the Cyprus electricity market([http://www.cera.org.cy/main/data/articles/electricitymarketarrangements17\\_06\\_2015.pdf](http://www.cera.org.cy/main/data/articles/electricitymarketarrangements17_06_2015.pdf)).

In brief, the above market design, is aiming at creating the appropriate market environment to enable market participants to operate in the electricity sector of Cyprus. Special arrangements and mechanisms have been included in the design in order to allow RES generators (not operating under government support schemes) to benefit by their direct participation in the competitive electricity market either through a day ahead pool or through bilateral contracts with suppliers.

Specifically, under the proposed net pool design (which extends and improves the existing bilateral contracts model), bilateral physical forward contracts are notified and corresponding schedules are nominated on a half hourly basis to the MO on the day ahead of real time. Orders in the DAM are unit based in the case of generators (or per RES plant or per aggregators of smaller size RES plant). Suppliers submit demand orders based on individually forecast half-

hourly demand. Orders in the DAM correspond to residual quantities not already covered by the nominated bilateral contracts. The DAM is centrally managed by the MO by processing matching bid curves in order to optimise dispatch. Contracts resulting from the DAM are between market participants and the MO at the DAM clearing price. Through a centralised approach, the crucial ancillary services are allocated using a co-optimising Integrated Scheduling Process prior to gate closure on the day ahead of real time. A real time Balancing Mechanism is used for optimised real time dispatch actions.

Subsequently CERA, instructed the Cyprus TSO, as the competent and responsible organisation, to prepare, according to the detailed description of the high level design, the new Trading and Settlement Rules (known as the Market Rules) and take all necessary steps leading to the implementation of the market according to the agreed plan and timetable. TSO set on 29 February 2016, under Public Consultation, a text modifying the Market Rules on the basis of the Regulatory Decision 01/2015. The TSO will submit the amendments of the Market Rules to the Advisory Committee in 2016.

#### **3.2.1.1. Monitoring the level of prices, the level of transparency, the level and effectiveness of market opening and competition**

On 23 October 2015, in the context of the amendment of the Electricity Market Laws 2003 – 2012, CERA was designated as the authority responsible for ensuring compliance with the provisions of REMIT.

Additionally, the Members of CERA, with the Decision 1353/2015 on 28 September 2015, decided and issued the modalities and guidelines for the implementation of REMIT in order to update market participants.

According to the guidelines, all market participants in Cyprus which are required to be reported to ACER are obliged to register with CERA. For purposes of meeting the provisions REMIT, CERA created and operated the CEREMP platform. As from 7 October 2015, CERA registers the market participants through this platform.

#### **3.2.2. Retail market**

As already pointed out, Cyprus has opened the Electricity Market on the 1<sup>st</sup> May 2004 for the 35% of the annual consumption, on 1<sup>st</sup> January 2009 extended up to 67% and finally on 1<sup>st</sup> of January 2014 the market is fully liberalised and each customer is able to choose his own supplier. Currently EAC is the only supplier of electricity, as no new players already being licensed have been put into operation. It is expected that with the establishment of the New Market Model the competition will start developing.

The total consumption of customers and the consumption by sector is given below:

**Table 3. Consumers, total and average sales and prices**

<b>CONSUMERS, TOTAL &amp; AVERAGE SALES &amp; AVERAGE PRICES</b>						
<b>As at 31 December</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>NUMBER OF CONSUMERS</b>						
Domestic	415 150	422 655	427184	428616	433072	437577
Commercial	84 800	85 325	85198	84695	85188	85525
Industrial	11 391	11 255	10805	10222	9836	9712
Agricultural	14 209	14 692	14978	15280	15536	15748
Public Lighting	9 500	9 983	10333	10635	10942	11138
<b>TOTAL</b>	<b>535 050</b>	<b>543 910</b>	<b>548 498</b>	<b>549448</b>	<b>554574</b>	<b>559700</b>
<b>SALES TO CONSUMERS (thousands kWh)</b>						
Domestic	1 737 474	1 721 663	1671095	1435231	1407656	1475972
Commercial	1 990 994	1 854 782	1836756	1655761	1630789	1659588
Industrial	816 074	796 187	631829	581860	656097	685864
Agricultural	152 642	136 747	128590	129129	135680	129447
Public Lighting	84 788	85 502	87330	87807	85257	85211
<b>TOTAL</b>	<b>4 781 972</b>	<b>4 594 881</b>	<b>4 355 600</b>	<b>3889788</b>	<b>3915479</b>	<b>4036082</b>
<b>AVERAGE SALES PER END YEAR CONSUMER (kWh)</b>						
Domestic	4 185	4 073	3912	3349	3250	3373
Commercial	23 479	21 738	21559	19550	19143	19405
Industrial	71 642	70 741	58476	56922	66703	70620
Agricultural	10 743	9 308	8585	8451	8733	8220
Public Lighting	8 925	8 565	8452	8256	7792	7650
<b>AVERAGE REVENUE PER UNIT BILLED kWh (€cent)</b>						
Domestic	16,192	18,644	22,271	20,743	18,663	14,654
Commercial	16,905	19,352	22,645	20,840	18,923	14,731
Industrial	14,982	17,123	20,868	19,127	16,824	12,531
Agricultural	15,440	18,268	21,929	20,013	18,168	14,127
Public Lighting	14,711	17,416	20,909	19,393	17,353	13,366
<b>ALL CONSUMERS</b>	<b>16,232</b>	<b>18,632</b>	<b>22,188</b>	<b>20,488</b>	<b>18,418</b>	<b>14,281</b>

As there is only one supplier operating at present, switching procedures for customers to change suppliers are not possible. Regarding the average (typical) contract duration for households, this for the time being is not applicable in Cyprus. As a general assessment to whether the market is seen to be active, it could be said that the market seems to become active. By considering the above conditions under which Cyprus has to act, i.e. small isolated system, the progressively opening of the electricity market where it constitutes a contemporary activity for the island, the above situation can be justified.

**Table 4. Market share of 3 largest companies & supplier switching**

Year	Market share of three largest companies (Producers)						Cumulative % customers having changed supplier (by volume)		
	Total consumption (TWh)	No. of companies with >5% retail market	Number of fully(1) independent suppliers	Large and very large industrial	Small-medium industrial and business	Very small business and household	Large and very large industrial	Small-medium industrial and business	Very small business and household
2003	3,66	1	0	n/a	n/a	n/a	0	0	0
2004	3,74	1	0	n/a	n/a	n/a	0	0	0
2005	3,93	1	0	n/a	n/a	n/a	0	0	0
2006	4,14	1	0	n/a	n/a	n/a	0	0	0
2007	4,30	1	0	n/a	n/a	n/a	0	0	0
2008	4,56	1	0	n/a	n/a	n/a	0	0	0
2009	4,66	1	0	n/a	n/a	n/a	0	0	0
2010	4,78	1	0	n/a	n/a	n/a	0	0	0
2011	4,59	1	0	n/a	n/a	n/a	0	0	0
2012	4,35	1	0	n/a	n/a	n/a	0	0	0
2013	4,26	1	0	n/a	n/a	n/a	0	0	0
2014	4,32	1	0	n/a	n/a	n/a	0	0	0
2015	4.51	1	0	n/a	n/a	n/a	0	0	0

### 3.2.2.1. Monitoring the level of prices, the level of transparency, the level and effectiveness of market opening and competition

CERA taking into account, inter alia, its previous related decision, in February 2014 has decided with its decision 1034/2014 an 8% permanent decrease on all basic tariffs.

In June 2015 CERA, exercising the powers provided by Articles 24, 25, 26(1), 31, 32, 34 and 108 of the Law on Regulating the Electricity Market of 2003 to 2015 and Regulations 2 and 4 of the Regulating the Electricity Market (Procedures for Charging Electricity Tariffs) Regulations of 2004 and Regulations 472/2004, has issued a Decision with which has adopted and a Statement/Declaration on Regulatory Practice and Methodology of Electricity Tariffs.

The purpose of this Decision on Electricity Tariff Methodology was to set out:

- how CERA shall determine allowed revenues for each regulated activity; and
- how regulated tariffs shall be set.

With an amendment of the Electricity Market Laws 2003 – 2012, on 23 October 2015, CERA ensures the removal from the transmission and distribution tariffs of those incentives which are detrimental to overall efficiency.

CERA ensures the implementation of smart metering systems when this is possible and economically feasible. Where smart metering is applied, the meters allow accurate billing based

on actual consumption. Also, CERA ensures that end users have the possibility of easy access to supplementary information allowing them to make a detailed check of their consumption. The supplementary information includes aggregate data for at least the previous three years and detailed data for the current year for any day, week, month and year.

Regardless of whether smart meters have been installed or not, to the extent that data are available on energy billing and historical background of consumption, the choice is offered of electronic information on tariffs and billing and, if customers request it, they receive clear and comprehensible explanations on how their account came about, free of charge and on time for comparison to other similar offers.

The Members of the CERA with the Decision No.1524 / 2016 gave preliminary approval to the EAC for Permitted Revenue for the regulatory control period 2017-2021 as submitted on 5 July 2016, provided that they will differentiate in accordance to the points and pending issues specified in the Decision. For this decision the Members of CERA have taken into account that:

- End of July 2016 the EAC will submit to CERA a draft report on the new tariffs on the basis of the Regulatory Practice Statement and Methodology of Electricity Tariffs, KDP 208/2015,
- In September 2016, the EAC will proceed to public consultation of the draft report of the new tariffs, and
- In November 2016, the EAC will submit its final new tariffs for the five years from 2017 to 2021 for approval by CERA, part of which will be the Permitted Revenues.

The final approval for the Permitted Revenues for the regulatory control period 2017-2021 will be issued by CERA in December 2016.

The levies and taxes included in tariffs for domestic consumers in 2015 were:

- RES: 0.005 €/KWh
- PSO: 0.00136 €/KWh
- VAT: 0.0028 €/KWh

### **3.2.2.2. Recommendations on supply prices, investigations and measures to promote effective competition**

The average selling price of electricity in €cent / kWh for all categories is given below:

**Table 5. Average Selling Price of Electricity**

AVERAGE SELLING PRICE OF ELECTRICITY (€cent / kWh)						
Year	2010	2011	2012	2013	2014	2015
Domestic	16,192	18,695	22,271	20,743	18,663	14,654
Commercial	16,905	19,377	22,645	20,840	18,923	14,731
Industrial	14,982	17,148	20,868	19,127	16,824	12,531
Agricultural	15,440	18,293	21,929	20,013	18,168	14,127
Public Lighting	14,711	17,481	20,909	19,393	17,353	13,366
Average Selling Price (€cent / kWh)	16,232	18,668	22,188	20,488	18,418	14,281

With regards to investigations and measures to promote effective competition CERA may on its own initiative or after receiving a complaint to investigate whether a licence holder is infringing or omitting to comply with any condition of the licence or any Regulatory Decision or Decision.

After carrying out such an investigation, CERA shall notify a notice to the aforementioned persons by which it shall determine:

- The term of the license or exemption or the regulatory decision or decision which, in CERA's opinion may be infringed at first sight or which is likely to be infringed by the licensee.
- The acts or omissions which in CERA's opinion may or are likely to constitute an infringement of the relevant term, Decision or Regulatory Decision of CERA.
- The deadline within which the licensee may submit objections in writing, which deadline shall not exceed the 30-day time limit from the date that the notice is notified.
- CERA shall examine any objections submitted. In examining any objection, CERA may issue a decision by which, it shall order the licensee to take such measures as may be necessary for remedying the infringement or preventing future infringements.
- In the event that the licensee fails to remedy the infringement within one month from being notified of the decision of CERA, or within a reasonable period of time as CERA may prescribe by its decision, CERA may:
- Impose an administrative fine on the licensee depending on the nature, seriousness and duration of the infringement or omission as may be prescribed by Regulations issued under the relevant Law; and/or,
- Decide that an administrative fine depending on the seriousness of the case, shall be owed for each day on which the infringement or omission is continuing as referred to above; and/or,
- Revoke an authorisation, exemption, order or prior permit in accordance with the procedure prescribed by Regulations issued by CERA.

CERA's decision to impose an administrative fine or to revoke a license must be in writing and duly reasoned.

CERA's reasoned decision to impose an administrative fine shall be notified to the person who has been considered to be responsible for the infringement or omission. Such person may, after being notified of the decision, make written representations to CERA which must be lodged within 30 days of the notification of the decision. CERA shall collect the administrative fine if the 75-day time limit for filing a recourse before the Supreme Court of Justice has passed without any action being taken from the date of notification of the decision to impose such administrative fine, or, in the event that the recourse has been filed, following the issuing of a court decision which does not annul the fine.

If a fine imposed by CERA in accordance with the Law and the Regulations issued under it is not paid, CERA shall initiate court proceedings and shall collect the sum as a civil debt due to the Fund of the Office of CERA.

### **3.3. Security of supply (if and insofar as NRA is competent authority)**

#### **3.3.1. Monitoring balance of supply and demand**

CERA in accordance with the Law on Regulating the Electricity Market has the responsibility, for the adequacy of electricity supply in Cyprus, the reliability and security of the Generation, Transmission and Distribution system and the quality of electricity supply.

CERA systematically monitors the adequacy, quality and reliability of supply and whenever it ascertains possible shortfalls informs the Minister of Commerce, Industry and Tourism, who after consulting with CERA, takes the indicated corrective measures.

The following table shows a drop in electricity capacity during 2011 due to the energy crisis after the tragic event at Mari in July 2011. The consequences of the energy crisis ended in 2013, earlier than originally estimated, due to both the adequacy and the swift repair period achieved in restoring Vassilikos Power Station, and due to the demand reduction. It also shows that the generation availability since 2013 is very high and it is expected to continue over the coming years.

**Table 6. EAC Development Plan**

MAXIMUM ELECTRICITY DEMAND AND AVAILABLE PRODUCTION AND RESERVE												
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EAC Development Plan							+50MW (ICE II)	-30MW Withdrawal of 1 unit at Moni 390 -220 (Vass.) +166,6 (ICE)*	+145 MW (OCGT) +145 MW (OCGT)+120 (MEK)**	+Repair 150MW +390 (Vass.) -286,6 (ICE) -150MW Withdrawal units at Moni***		
Installed Capacity in MW	988	988	988	1.118	1.318	1.388	1.437	964	1.374	1.477	1.477	1.477
Maximum Generation Demand in MW	821	856	907	1.056	1.010	1.103	1.437	922	997	840	910	915
Available Reserve	20%	15%	9%	6%	30%	26%	0%	964-1.100* ***	38%	76%	62%	61%
<p><b>ICE:</b> Internal Combustion Engines  <b>CCGT:</b> Combined Cycle Gas Turbine Plant  <b>OCGT:</b> Open Cycle Gas Turbine Plant  <b>(*)</b> Summer 2011 – Availability reduction as compared to 2010: 1 unit at Moni PS, 3x130+1x220MW at Vasilikos PS. Increase renting ICE 166,6MW  <b>(**)</b> Summer 2012 – Availability reduction as compared to 2011: 290MW at Vasilikos PS. Increase renting ICE 120 MW  <b>(***)</b> Summer 2013 – Availability increase as compared to 2012: 2x75MW + 3x130 MW at Vasilikos PS and withdrawal of 5x30 MW at Moni PS. Renting ICE 287 MW  <b>(****)</b> 1.100 MW, Summer 2011 Production Assessment excluding the event of 11/7/2011</p>												

The Maximum Demand for 2015 was recorded on Tuesday 4/8/2015 at 14:30 hours, when the Total Power Generation rose to **1009 MW**. The energy crisis has adversely affected both maximum power generation of the year, as well as the annual energy generation.

The following important records concern the recorded Total Electrical Energy Generated during 2015. The total gross electrical energy generated reached **4512 GWh**. EAC contributed with **4128 GWh**, while generation by self-producers was **2.95 GWh** and RES producers generated **38.45 GWh**. The EAC Generating Stations produced **22.08 GWh** for their local needs. Total units sent out to the Transmission System from the EAC Power Stations, reached **3907 GWh**. Recorded energy losses in the Transmission System amounted to **7.71 GWh** of the energy flowing into the transmission network. It should be noted that the mean value of the Annual Load Factor declined to 51,1% compared to 54,2% in 2014. Figure 1 below shows the annual generation produced from each type of RES for the period 2005-2015:

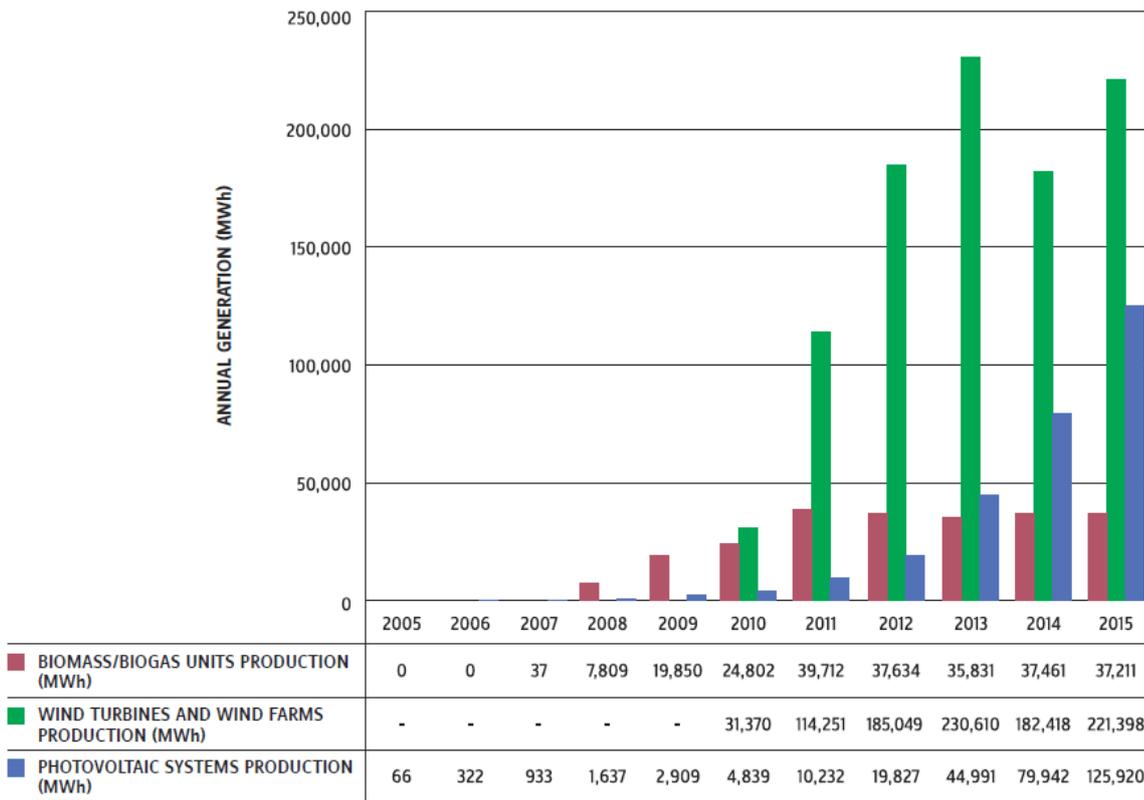


Figure 1. Annual installed capacity - Production (MWh) RES 2005-2015

Figure 2 below shows the total installed capacity of each type of RES-E for the period 2005-2015:

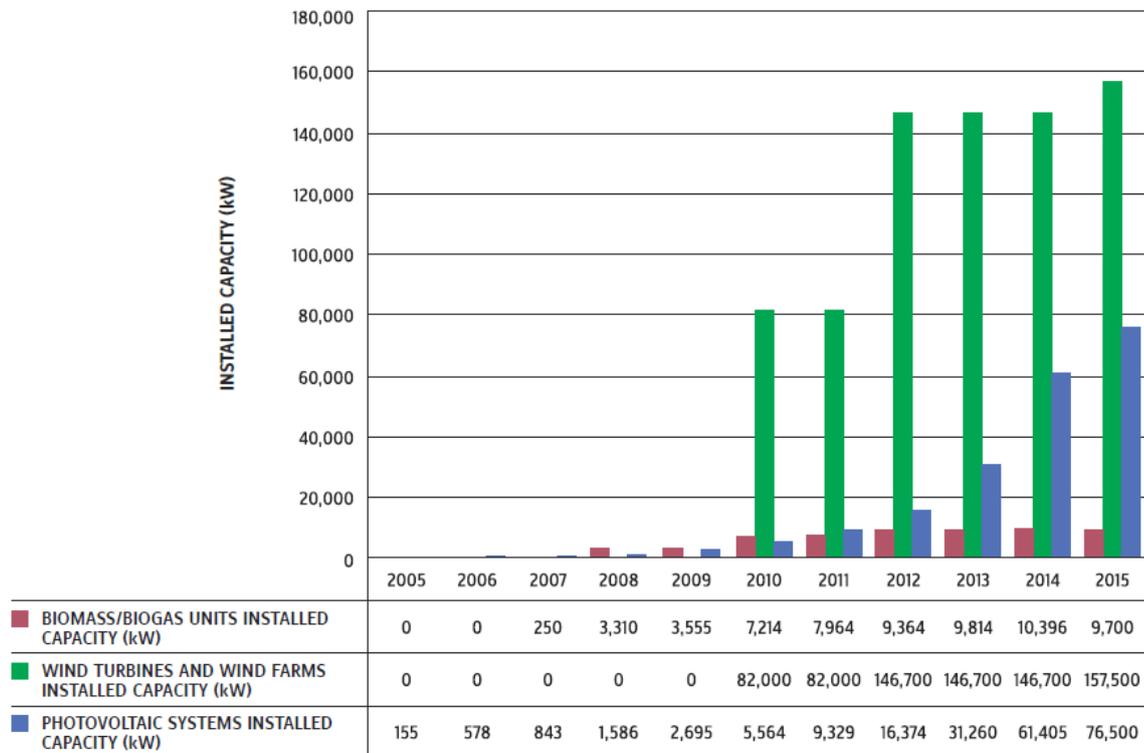
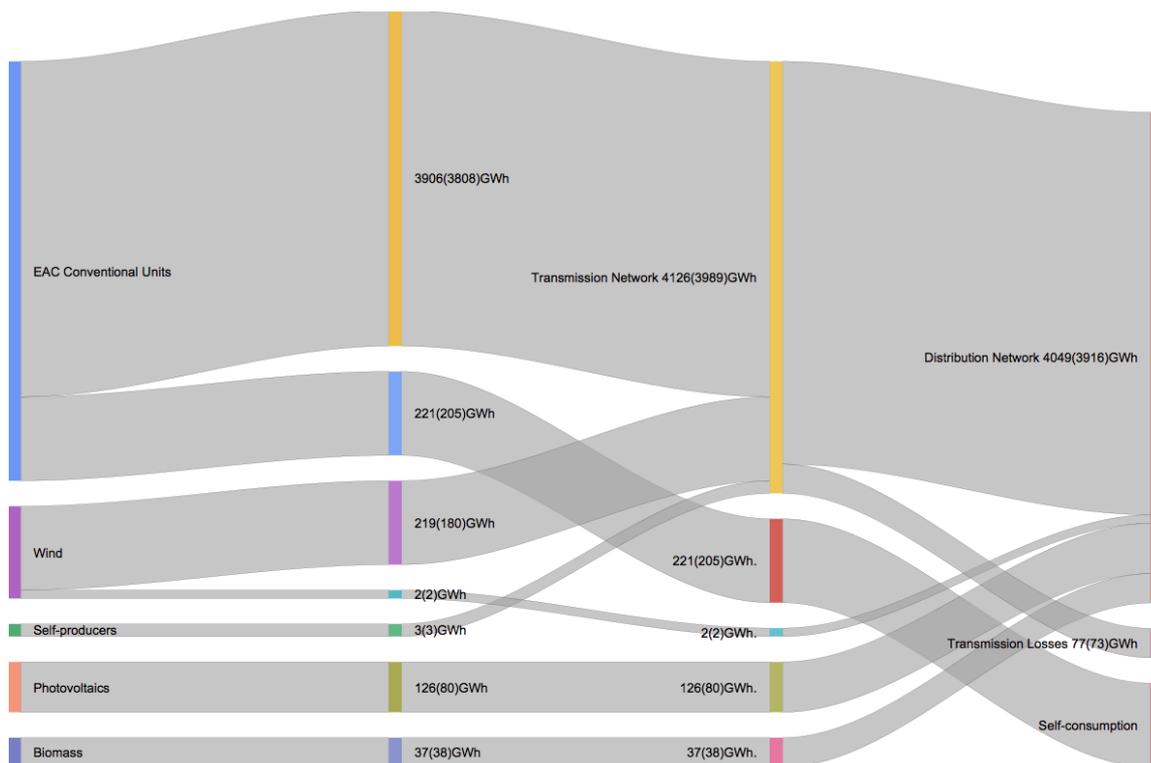


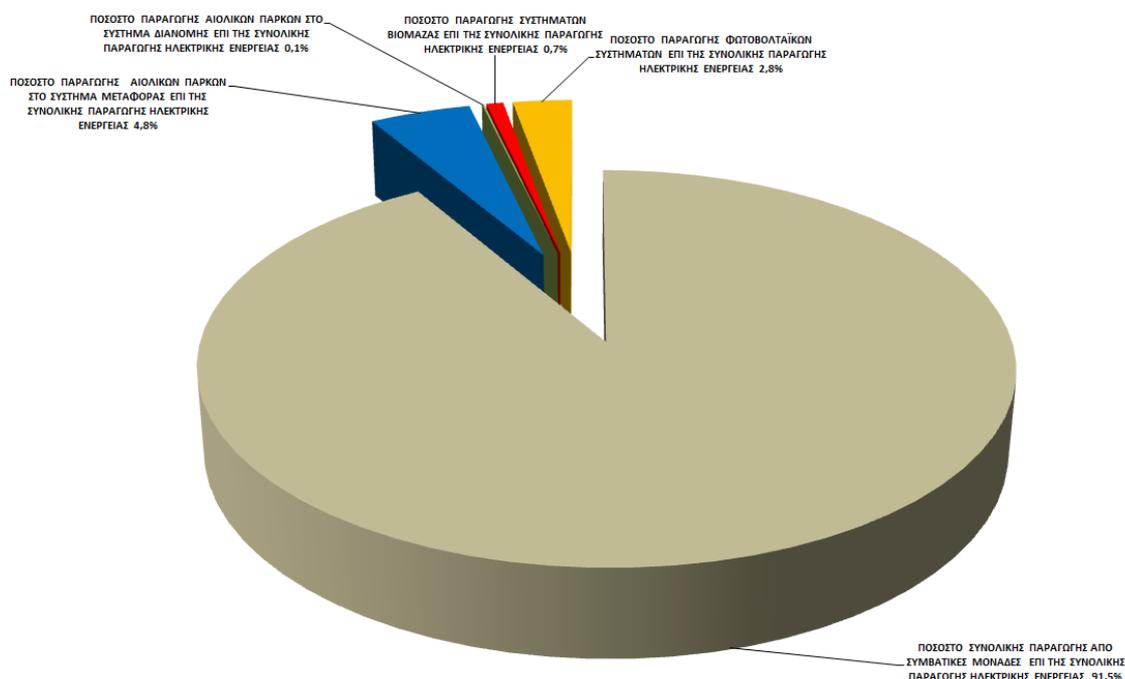
Figure 2. Annual Installed Capacity (kW) RES 2005-2015

Figure 3 below shows the total electrical energy production in 2014:



**Figure 3. Sankey Diagram for overall electricity production in 2015**

Figure 4 below gives the RES penetration levels into the Cyprus electrical system for the year 2015. The average RES penetration reached 8.5 % of the Total Generation in Cyprus for 2015:



**Figure 4. RES penetration levels into the Cyprus electrical system for the year 2015**

Cost reflective market prices and transparent market mechanisms operated by independent operators under rules and regulations of an independent regulator should provide relevant signals for investors to timely respond to such needs. However, the combination of a small system size, without interconnections, as in the case of Cyprus reduces the margins for the effective response to such market signals to critical levels.

In line with the spirit of the Directive, the Law assigns priority to the market in offering the appropriate signals to investors so as to construct the most appropriate type and size of generation capacity, in order to meet the various needs of the market. To that effect, the Law adopts and prescribes an authorisation procedure, implemented through licences issued by CERA to interested prospective investors, subject to various criteria which are only supposed to safeguard participants rather than prescribe specific solutions.

Moreover, recognising the specificities of electricity and its importance for the economy, the Law introduces a safety valve, in the form of a tendering process, by which CERA may justifiably intervene when the authorisation process appears to be unable to timely bring about the needed generation capacity. For the specification of the need based on which the tendering process may be initiated the Law refers to the mandate of CERA to act so as to ensure security, continuity, quality and reliability of electricity supply. CERA is thus enabled to require from the TSO timely information on the expected needs of the system, and may provide the appropriate regulatory signals, where necessary; or, CERA may commence the tendering process described by the Law where CERA considers that despite such signals, or due to unforeseen circumstances, the market is unable or unwilling to bring about the needed investment. Clearly, the process should be directed to resolve the specific problem identified by the TSO, which the market cannot address in a timely manner, i.e. it should specify characteristics of new generation corresponding to the requirements of the TSO.

### 3.3.2. Monitoring investment in generation capacities in relation to SoS

#### 3.3.2.1. Operational Network Security

The Table 7 below shows the total installed capacity of EACs' conventional units for 2015:

**Table 7. Total Installed Capacity of EACs' Conventional Units (MW)**

Total Installed Capacity of EACs' Conventional Units (MW)					
Power Station	CCGT units	Steam units	Gas Turbines	Internal Combustion Units (ICE)	Installed Capacity per Station
<b>Moni</b>	-	-	4x37,5=150	-	150
<b>Dhekelia</b>	-	6x60=360	-	2x50=100	460
<b>Vassilikos</b>	2x220=440	3x130=390	38	-	868
<b>Installed Capacity per type of unit</b>	<b>440</b>	<b>750</b>	<b>188</b>	<b>100</b>	<b>1478</b>

During 2015, the total capacity licensed by CERA for Generating Stations was 2,271.338 MW, of which 1478 MW belong to EAC, 41.59 MW belong to self-producers and 751.748 MW, belong to independent power producers. The total installed capacity of Wind Farms in commercial operation amounted to 157.5 MW. The total installed capacity of units for the cogeneration of heat and power, autonomous or interconnected to the electricity system amounted to 9.7 MW. Finally, the total installed capacity of PV systems was 76,5 MW.

### 3.3.2.2. Investment in Interconnection capacity for the next 5 years or more

There are no interconnection projects at the moment but an interconnection project through an underwater cable with Greece and Israel is currently under study, the **'EuroAsia Interconnector'**. The project consists of a 600 kV DC underwater electric cable and any essential equipment and/or installation for interconnecting the Cypriot, Israeli and the Greek transmission networks (offshore). The project will have a capacity of 2000 MW and a total length of around 820 nautical miles/around 1518 km (329 km between Cyprus and Israel, 879 km between Cyprus and Crete and 310 km between Crete and Athens) and allow for reverse transmission of electricity. The dumping depth of the cable will exceed the 2000 m under the sea in some areas between Israel and Cyprus. The dumping depth of the cable will exceed the 2000 m under the sea in some areas between Israel and Cyprus and will exceed the 2500 m under the sea in some areas between Cyprus and Greece.

According to the Project Promoter the date of commissioning of the Euro Asia Interconnection Project is the following:

- Interconnection between Hadera (IL) and Vasilikos (CY) - 2017
- Interconnection between Vasilikos (CY) and Korakia, Crete (EL) - 2020
- Internal Line between Korakia, Crete and Attica region (EL) - 2018

CERA, among other things, believes that with the completion of this project, Cyprus will cease to be isolated from the European network system, which is one of the most important pillars set by the Proposal for a Regulation. It will also contribute positively to the achievement of the objectives set by the EU concerning, amongst others, the completion of the internal electricity market, security of supply, improved energy efficiency and the reserve provision in emergency situations. This project fully satisfies the general criterion for trans-boundary impact and, therefore, CERA has given a positive opinion on this project, mentioning that some studies are still in progress, so there is a lack of information about certain issues, such as the results of a cost/ benefit analysis.

### 3.3.2.3. Expected future demand and envisaged capacity for the next 5 years and 5-15 years

According to the Electricity Market Laws 2003 – 2015, Long Term Forecast of Annual Total Generated Energy (GWh) and Long Term Forecast of Annual Maximum Generation (MW) for the Years 2016 – 2025 were prepared by the TSO Cyprus and approved by CERA on the 30th of April 2016.

The results of the Long Term Forecast of Annual Total Generated Energy (GWh) and Long Term Forecast of Annual Maximum Generation (MW) for the Years 2016 – 2025, along with the recorded generation from 1996 until today, are shown below:

### Approved Long Term Forecast of Annual Maximum Generation (MW) for the Years 2016-2025

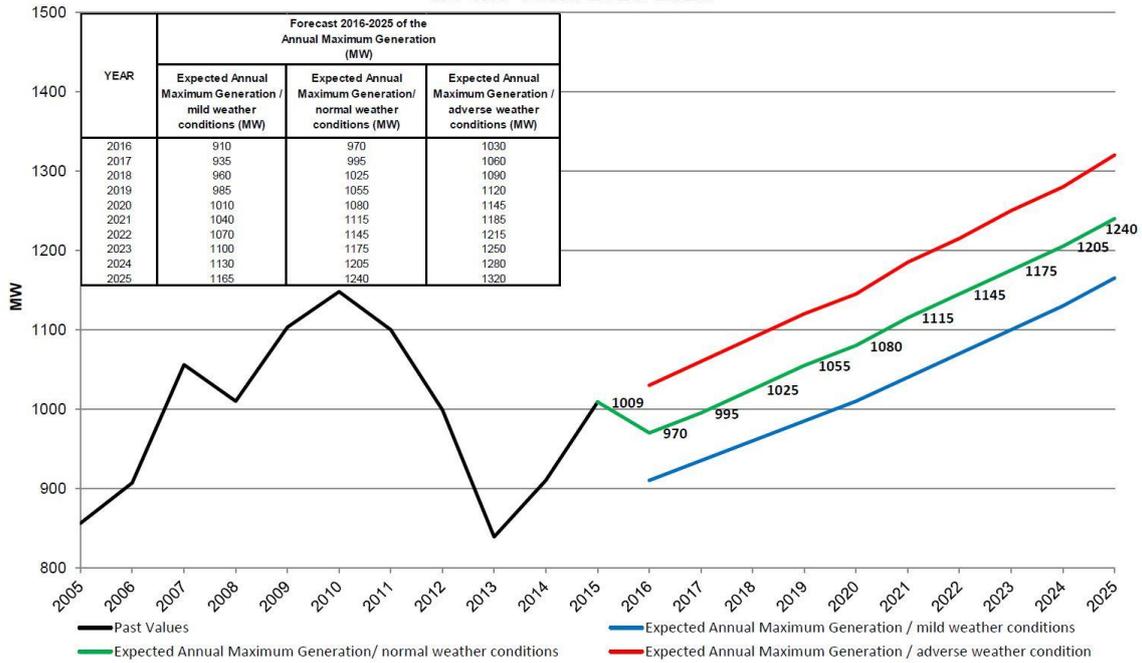


Figure 5. Expected future maximum generation

### Approved Long Term Forecast of Annual Total Generated Energy (GWh) for the Years 2016-2025

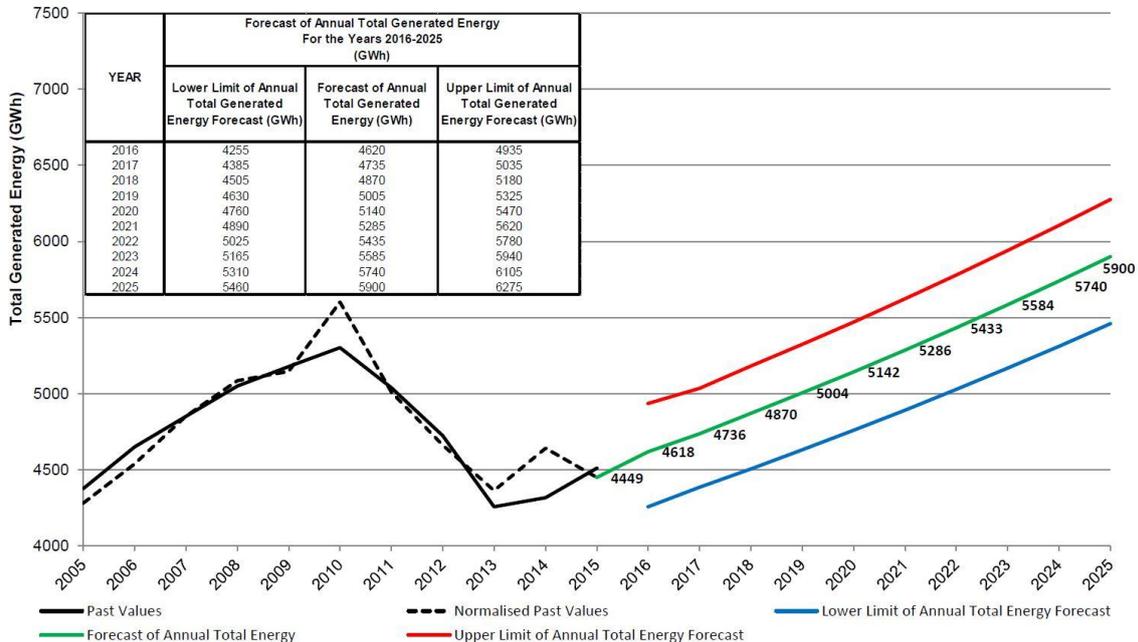


Figure 6. Expected future total generated energy

Cyprus has an obligation to reach 13% contribution from renewable energy sources in the final use of energy by 2020. The National Renewable Energy Action Plan submitted by the Government projected that by 2018 the electricity generation capacity from renewable energy sources would

reach 425MW. This capacity is expected to reach 21.7% share of renewable energy in the gross energy consumption.

**Table 8. National RES Plan provisions**

RES Technology	Estimation of total contribution expected from each RES technology in Cyprus				
	2016	2017	2018	2019	2020
Onshore Wind	180	210	210	260	300
Photovoltaic	63	75	125	145	192
Concentrated Solar Power	50	75	75	75	75
Biomass	10	15	15	17	17
<b>Total Installed Capacity (MW)</b>	<b>303</b>	<b>375</b>	<b>425</b>	<b>497</b>	<b>584</b>
<b>Total Gross Electricity Generation (GWh)</b>	<b>635</b>	<b>820</b>	<b>900</b>	<b>1033</b>	<b>1175</b>

### 3.3.3. Measures to cover peak demand or shortfalls of suppliers

CERA, during the energy crisis in 2011 and 2012 has taken immediate and effective steps to alleviate interruption of suppliers and to terminate shortfalls at the shortest possible time and at the same time at the lowest possible cost. Details are given in paragraph 3.1.2.4. “Monitoring Safeguard Measures” above.

## 4. The gas market

### 4.1. Network regulation

#### 4.1.1. Unbundling

The gas sector according to the last amendment of the Law regulating the Natural Gas market as well as the relevant Ministerial Decision, shall be monopolistic.

Today, the natural gas market in Cyprus is non-existent due to factors such as geographical isolation, small size of the market and lack of interconnections with other gas networks. This has adverse effects on the cost of electricity generation, as well as lack of energy source diversity for the industry in general. Moreover, the environmental cost associated with the extensive use of heavy fuel oil for power generation is significant, as it affects emission targets required by EU legislation.

A political decision has been taken to investigate the introduction of natural gas in Cyprus’ energy market, as an interim solution and until Cyprus gets its own gas, for the following principal reasons:

- The reduction of electricity generation cost and as a result the decrease of electricity prices to the end consumer; and
- The introduction of competition in the electricity generation market.

The Gas Directive (2009/73/EC) allows derogations for a limited duration from certain provisions, in the case of isolated and emergent natural gas markets, which are provided for assisting such markets in their transition in becoming functional and competitive. Since natural gas will be introduced in the Cyprus market for the first time, it is at the Governments' discretion to decide whether to invoke these derogations, fully or partially.

The long term goal is the establishment of a functioning, competitive gas market in Cyprus with a level playing field and absence of conflicts of interest. This strategy is heavily fuelled by the strong interrelation between the gas and electricity markets and the decisive effects that a mature gas market will have on the introduction of competition in the electricity sector. Therefore, all necessary measures will be taken in order to ensure equal access to gas for potential IPPs, as well as other gas consumers.

Such strategy also necessitates the development of any network infrastructure, storage facilities and ancillary systems necessary for a fully functional and open market, able to utilize natural gas as part of the country's energy mix. Evidently, a backbone network for the supply of natural gas to the main industrial areas of the island, either via pipelines or through a system of transport and storage, would not only provide a geographical spread of electricity generation units (a strategic advantage against acts of terrorism, grand scale accidents or force majeure), but would also encourage, at a later stage, the use of natural gas by the transport sector, or by the heat intensive industries. In due course, large hotels, hospitals, or even domestic and office units will also be in position to utilise natural gas to cover their energy needs in heating, cooling and electricity through cogeneration and tri-generation technology.

In case the interim solution pursued by Natural Gas Public Company (known by its Greek Acronyms as DEFA - a private company which is not licenced by CERA in any way and is not appointed by the Government as TSO) with the bidders and EAC is successful, the Minister of Energy is planning to propose to the Council of Ministers to declare the Cyprus Natural Gas Market as an emergent market for the duration of this solution. This means that DEFA will be granted monopoly status in buying (importing), selling, transmitting, distributing and storing natural gas. This will be instated by selective use of certain derogation provisions of Directive 2009/73/EC. It will ensure stable introduction of natural gas in the market and gradual transition to an open competitive market. CERA has prepared a study which describes the evolution and functioning of the emergent market and also suggests the specific derogations to be invoked.

#### **4.1.2. Technical functioning**

Currently, natural gas is not available in the island, therefore is not applicable as yet.

#### **4.1.3. Network and LNG tariffs for connection and access**

Currently, natural gas is not available in the island, therefore is not applicable as yet.

#### **4.1.4. Cross-border issues**

At present there are no cross - border gas links in Cyprus; however specific interconnection projects are promoted as PCIs. The European Commission has declared several energy projects, which are of strategic importance for Cyprus and Greece, as potential PCIs. The projects which concern Cyprus and have been included in the Union list in the cluster of natural gas and related equipment for the transmission of gas from new sources from offshore Eastern Mediterranean deposits are the following:

- “EastMed Pipeline” a pipeline from offshore Cyprus to Greece mainland via Crete
- Ending the isolation in Cyprus in order to allow the transmission of gas to the Eastern Mediterranean region.

#### 4.1.5. Compliance

##### **Ensuring compliance with binding decisions of the Agency and the Commission, and with the Guidelines**

Under the Third Package NRAs are required to ensure compliance with and implement binding decisions of ACER and of the European Commission. In order to enable CERA to do this, the Gas Act has been amended so as to provide the Authority with the necessary powers to carry out its functions in the manner that it considers is best calculated to implement or ensure compliance with any binding decision of ACER or of the European Commission.

##### **Compliance of transmission and distribution companies, system owners and natural gas undertakings with relevant Community legislation, including cross-border issues**

CERA has the power to investigate compliance of transmission and distribution, natural gas undertakings with relevant Community legislation. If a breach is found, CERA has the power to impose penalties.

## 4.2. Promoting Competition

### 4.2.1. Wholesale markets

Currently, natural gas is not available in the island, therefore is not applicable as yet.

#### 4.2.1.1. Monitoring the level of prices, the level of transparency, the level and effectiveness of market opening and competition

On 23 October 2015, in the context of the amendment of the Electricity Market Laws 2003 – 2012, CERA was designated as the authority responsible for ensuring compliance with the provisions of REMIT.

Additionally, the Members of CERA, with the Decision 1353/2015 on 28 September 2015, decided and issued the modalities and guidelines for the implementation of REMIT in order to update market participants.

According to the guidelines, all market participants in Cyprus which are required to be reported to ACER are obliged to register with CERA. For purposes of meeting the provisions REMIT, CERA created and operated the CEREMP platform. As from 7 October 2015, CERA registers the market participants through this platform.

### 4.2.2. Retail market

Currently, natural gas is not available in the island, therefore is not applicable as yet.

#### 4.2.2.1. Monitoring the level of prices, the level of transparency, the level and effectiveness of market opening and competition

Currently, natural gas is not available in the island, therefore is not applicable as yet.

### 4.2.3. Recommendations on supply prices, investigations and measures to promote effective competition

Currently, natural gas is not available in the island, therefore is not applicable as yet.

## 4.3. Security of supply

Regarding the security of Natural Gas Supply, the Regulation (EU) No 994/2010 Regulation concerning measures to safeguard security of gas supply is automatically applicable in the event a gas market exists and therefore any implementing measures are not required. Furthermore, CERA according to the Law regulating the Natural Gas Market is appointed as the competent Authority to ensure implementation of the measures laid down in Regulation (EU) No 994/2010.

CERA is currently taking part to the dialogue on the proposal on the draft SoS regulation concerning measures to safeguard the security of gas supply which refers to Regulation 994/2010.

### 4.3.1. Monitoring balance of supply and demand

Currently, natural gas is not available in the island, therefore is not applicable as yet.

### 4.3.2. Expected future demand and available supplies as well as envisaged additional capacity

Currently, natural gas is not available in the island, therefore is not applicable as yet.

### 4.3.3. Measures to cover peak demand or shortfalls of suppliers

Currently, natural gas is not available in the island, therefore is not applicable as yet.

## 5. Consumer protection and dispute settlement in electricity and gas

### 5.1. Consumer protection

The **consumer protection measures**, including those set out in Annex I of the directives 2009/72/EC and 2009/73/EC, are **effective and enforced** through the Law N.211(I)/2012 on Regulating the Electricity Market and N.219(I)/2013 on Regulating the Gas Market respectively, which transposed the provisions of the said directives.

CERA has also been granted the power to contribute to ensuring high standards of universal and public service in compliance with market opening, to the protection of vulnerable customers, and to the full effectiveness of consumer protection measures.

CERA ensures that consumers are provided with all necessary information concerning their rights, current legislation and the means of dispute settlement available to them in the event of a dispute.

CERA has prepared and issued in electronic and hard copy format all the information needed regarding consumer's rights. This information is available at CERA's Premises, at Citizens Service Centre and at the local district offices of the Ministry of Energy, Commerce, Industry and Tourism.

The Office of CERA, the Citizens Service Centre and the Ministry of Energy, Commerce, Industry and Tourism shall constitute the **single points of contact** for consumer information purposes.

In summary, the energy consumers' rights that are covered by national legislation and comply with relevant EU directive can be classified in six categories:

- Universal service (i.e. the right to be supplied with electricity/gas of certain quality and price)
- Customer Information Requirements
- Change of supplier without imposing any charges
- Complaints handling and out-of-court settlement of disputes
- Protection of vulnerable consumers
- Fair commercial practices and general consumer rights

Furthermore, CERA is designated as the body (energy ombudsman or consumer body) which acts as an **independent mechanism** in order to ensure efficient treatment of complaints and out-of-court dispute settlements.

According to the law CERA shall ensure that electricity or natural gas suppliers or DSOs, in cooperation with CERA, take the necessary steps to provide all consumers with a copy of the **Energy Consumer Checklist** which contains practical information relating to energy consumer rights, which the Commission shall prepare in consultation with relevant stakeholders, including Member States, the national regulatory authorities, consumer organisations and undertakings, and shall ensure that the said Checklist is available to the public.

The Minister of Energy, Commerce, Industry and Tourism following consultation with CERA has issued a Decree K.D.P.218/2013 on 26 June 2013 whereby energy poverty is defined. According to the said decree energy poverty is related to the condition of consumers who may be in a difficult position because of low income, as evidenced by tax declarations in conjunction with their professional status, marital status and special health conditions, and therefore they are unable to meet the costs of the reasonable need of electricity supply, as these costs represent a significant proportion of their income.

Furthermore, this Decree has defined vulnerable customers as follows:

- The recipients of public assistance provided by the Social Welfare Services of the Ministry of Labour, Welfare and Social Insurance
- The Recipients of Severe motor disability allowance provided by the Department for Social Inclusion of Persons with Disabilities, Ministry of Labour, Welfare and Social Insurance
- The recipients of the allowance to pensioners with low incomes provided by the Grants and Benefits Service, Ministry of Finance
- The recipients of care allowance in paraplegic individuals granted by the Department for Social Inclusion of Persons with Disabilities, Ministry of Labour, Welfare and Social Insurance
- The recipients of care allowance in tetraplegic individuals granted by the Department for Social Inclusion of Persons with Disabilities, Ministry of Labour, Welfare and Social Insurance
- The Recipients of the grant to blind granted by the Department for Social Inclusion of Persons with Disabilities, Ministry of Labour, Welfare and Social Insurance.

Families with more than 3 dependent children with an annual gross family income up to € 51.258.

The measures that have been enforced through the Decree for the protection of vulnerable customers are the following:

- Reduced prices on electricity tariffs

- Financial incentives for participating in a Plan for setting up a Photovoltaic system at their house, with a capacity up to 3kW with the net-metering method

The Minister has also issued a Decision K.D.P.223/2013 on 27 June 2013 whereby he gives instructions to CERA to impose PSOs to Electricity Suppliers in order to enforce the measure on providing reduced electricity tariff to vulnerable customers. To this effect, CERA has issued a Regulatory Decision in August 2013.

On 22 April 2016, the Members of CERA, considering the above, with the Decision 1479/2016 decided:

- The approval of the revised PSO tariff at €0,00065/kWh for all EAC customers. The new tariff will apply from 1 May 2016 for consumers on monthly meter readings and from the end of May for consumers on two-monthly meter readings.
- The authorisation of the recovery of actual costs, which will arise from the implementation of the Decision of the Minister of Energy, Commerce, Industry and Tourism dated 11 June 2015, which included recipients of the Guaranteed Minimum Income as beneficiaries of the Special Domestic Tariff, according the additional actual number of vulnerable consumers who will gradually fall into a special tariff with code 08. Based on the statistics of June and December of each year the additional number of beneficiaries included in the last six months shall be reported by EAC to CERA for approval.

On the 25 May 2015, CERA has decided to renew its Decision on the prohibition of disconnection, which was issued in 22 December 2014, since the consultations between the involved parties was not finalized. According to CERA's new Decision (1285/2015) the critical time started on 28 May 2015 and lasts until the entry into force of the Decree of the Minister of Energy, whereby the critical time is set individually for each vulnerable customer.

On 11 June 2015, the Minister of Energy has given instructions to CERA in order to include in vulnerable customers' category the beneficiaries of the guaranteed minimum income scheme. This new category will enjoy the right to have reduced prices on electricity tariffs. The Minister has also given instructions to CERA to impose PSOs to Electricity Suppliers in order to enforce the said measure on providing reduced electricity tariff to the new type of vulnerable customers.

Consequently, CERA, with its Regulatory Decision 03/2015 which came into effect as from 1 August 2015, imposed on all electricity supply licensees PSOs in connection the groups of consumers mentioned above, by including them in the special tariff (code 08) of the EAC, which compared to the normal tariff (code 05) has reduced charges.

## **5.2. Dispute settlement**

### **5.2.1. Electricity Market**

CERA has the power to issue Regulations concerning the protection of the interests of the consumers of electricity requiring that any Supplier of electricity and the DSO, within a prescribed time period, propose and implement procedures for the submission of complaints by consumers, which allow consumers to register complaints and prescribing how any Supplier and the DSO shall respond to complaints received by consumers.

The Regulations may impose requirements on Suppliers and the DSO relating but not limited to:

- Procedures for the submission and, where appropriate, re-submission of proposed complaints procedures for approval.

- The timetable for the implementation of the complaints procedures.
- Penalties for failure to comply with the consumer complaints Regulations relating to the preparation or implementation or review of complaint procedures.
- A requirement that Suppliers and the DSO review their complaints procedures at intervals of not more than five years.
- Establishing procedures to deal with complaints from consumers that are not settled through complaint procedures to the satisfaction of consumers.
- Specifically, the following Regulations relevant to the above mentioned were enacted:
- Regulations on Regulating the Electricity Market (Procedure for Submitting Complaints) of 2005.
- Regulations on Regulating the Electricity Market (Performance Indicators) of 2005.
- The first of the above mentioned Regulations determine the procedure for submission of complaints by consumers in cases where Suppliers of electricity and/or the DSO, are in breach of their obligations or duties and/or are acting outside the scope of their prescribed by the Law jurisdiction.

Specifically, the above mentioned Regulations provide for the following, inter alia;

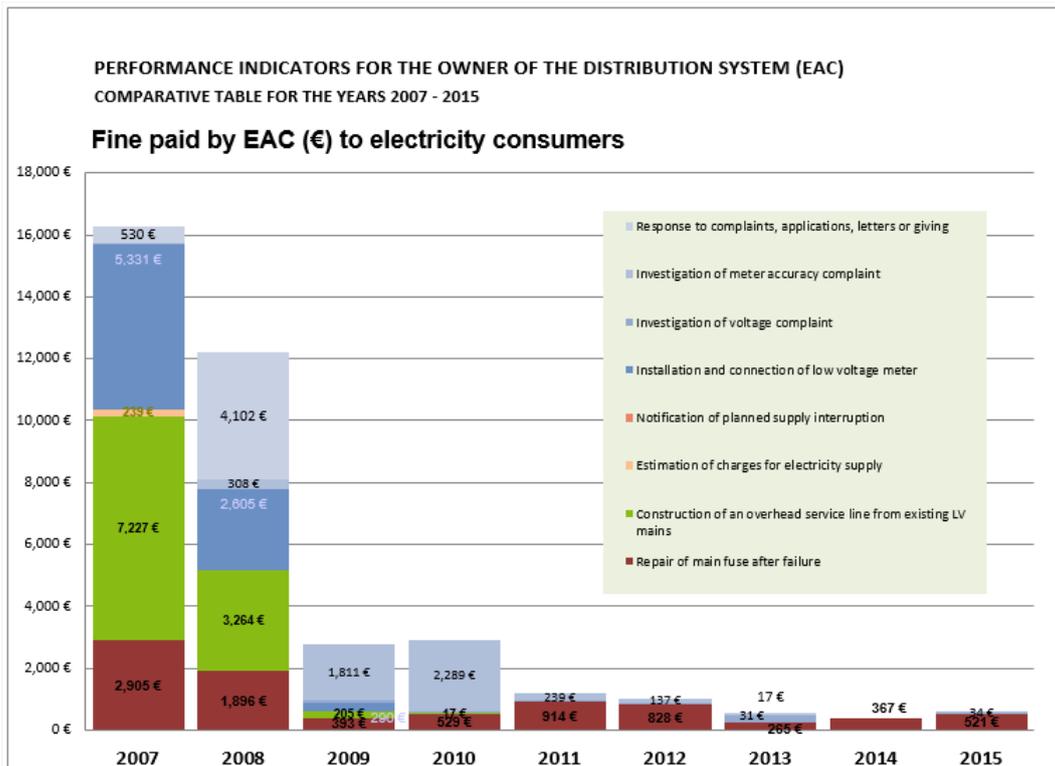
- Consumers' right to submit complaints to the Suppliers and/or the DSO.
- The obligation of the Supplier and/or DSO to respond to the complaints.
- The right to submit complaints to CERA and the procedure for examining complaints by CERA.
- The omission of the Supplier and DSO to comply with CERA's' decisions.
- The penalties provided for in the Regulations.

The second of the Regulations mentioned above, sets the minimum level of performance in relation to the performance indicators of the Supplier of electricity, which must be achieved by the Supplier and the DSO.

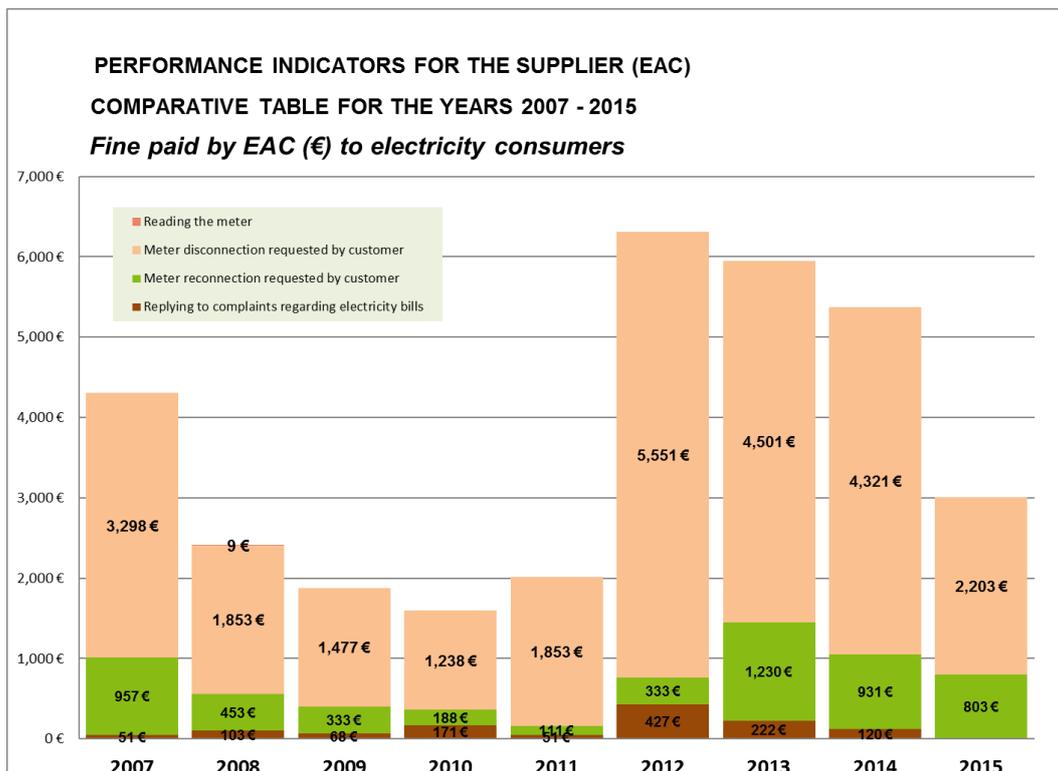
Furthermore, this Regulation provides for a Charter of Consumer Rights and sets the time limit within which a Supplier and the DSO must respond, determines the fines, the procedure of payment and the time at which the fines are to be paid in cases where a Supplier or the DSO fails to comply with the performance indicators set out therein.

By the implementation of these Regulations the rights of the consumers are safeguarded, their protection is secured, the procedure for the submission of consumer complaints is regulated in the event that Suppliers of Electrical Energy and/or the DSO are in breach of their obligations, competences and duties, the end result being the improvement of the services offered to consumers.

The following tables show the results from 2007 to 2015 of the penalties (€) imposed to EAC as DSO and as a Supplier for failure to comply with the customer complaints regulation relating to the preparation or implementation or review of complaints procedures.



**Figure 7. Performance Indicators Regulations of EAC as DSO**



**Figure 8. Performance Indicators Regulations of EAC as a Supplier**

It should be noted that figure 8 shows a decrease in the total amount paid by the EAC as a Supplier in 2015 comparing with previous years, which may be considered quite satisfactory. On the other hand EAC paid more money in 2015 as a DSO comparing to 2013 and 2014 mainly due to repairs on fuse failure.

Regarding consumer complaints, which have been presented or formally submitted to CERA, it could be said that they were maintained within acceptable levels. Registered consumer complaints are shown in the table below:

**Table 9. Customer enquiries / advice or complaints presented or submitted to CERA**

Consumer Enquires/Complaints		
	Enquiries / Advice	Formal complaints
2010	4	8
2011	11	34
2012	4	31
2013	2	34
2014	4	27
2015	4	43

The majority of the above complaints were based on bill issues. CERA handled with care the above complaints, with the collaboration of EAC and TSO, leaving the consumers in most cases satisfied.

### 5.2.2. Gas Market

Even though there is no gas market in Cyprus, the provisions of the directive 2009/73/EC regarding dispute settlement are in place. Therefore, any party having a complaint against a transmission, storage, LNG or distribution system operator in relation to that operator's obligations under this Directive may refer the complaint to CERA which, acts as dispute settlement authority, and issues decisions within a specific period after receipt of the complaint. CERA's decision shall have binding effect unless and until overruled on appeal.

As mentioned above CERA is designated as the body (energy ombudsman or consumer body) which acts as an **independent mechanism** in order to ensure efficient treatment of complaints and out-of-court dispute settlements.