



CYPRUS ENERGY REGULATORY AUTHORITY (CERA)

**Report to the European Commission
in line with the Electricity and Gas Directives
for the period July 2007 to July 2008**

July 2008

REPORT TO THE EUROPEAN COMMISSION IN LINE WITH ELECTRICITY AND GAS DIRECTIVES FOR THE PERIOD JULY 2007 TO JULY 2008

1 FOREWORD

The Cyprus Energy Regulatory Authority (CERA) was established by virtue of the Law on Regulating the Electricity Market of 2003 N.122(I)/2003, which was enacted by the House of Representatives on 25 July 2003, for harmonisation purposes with the Aquis Communautaire. This Law establishes CERA also as the Authority responsible for Regulating the Natural Gas Market. The relevant EU Directive was transposed into national Law by Law 183(I)/2004. The Members of CERA were appointed on 21 January 2004 and took up their duties on 4 February 2004 after giving the prescribed affirmation for the faithful execution of their duties, to the President of the Republic of Cyprus.

The present Report covers the period from July 2007 to July 2008 and is the fourth one to be issued.

In reading this Report one should bear in mind that Cyprus operates under the provisions of the Directive, for "Small Isolated Systems".

The establishment of the Cyprus Energy Regulatory Authority (CERA) and the appointment of the Transmission System Operator (TSO) during 2004 constitute two very important events in the field of Energy, a field that prior to the entry of Cyprus into the European Union (EU), had purely a monopolistic character. It was and still is among the basic priorities of Cyprus to get fully harmonised with the Aquis Communautaire in the field of Energy. This process passes through a series of actions, the most important being the one that aims at a healthy competition with the abolition of monopolistic attitudes and conduct.

One of the urgent priorities of CERA was the opening of the Electricity Market. This was achieved and the Electricity Market was liberalised by 35% with effect from 1st May 2004. This percentage now includes the 811 biggest electricity consumers in

Cyprus, each of whom consumes at least 350,000 kilowatt-hours per year. The annual electricity bill of these 811 consumers amounts to about CY£94 (€160) million. These consumers are now free to select the Supplier that will supply them with electricity. However there are no other Suppliers at the moment. In the next few years the market will be liberalised by 100% as the ultimate target is for all consumers of electrical energy to be able to select their Supplier according to what is in their best interest.

In the year under review important events took place as well as actions taken by CERA in the sectors of electrical energy, the development of a natural gas market, the materialisation of wind farms investments, and the simplification of processes for issuing licenses and other procedures.

All CERA'S efforts aimed at first and foremost to secure healthy competition in the electrical energy and natural gas sectors that affect directly the economy of the country and thousands of customers.

CERA attaches special importance to the task of overseeing the correct operation of the energy market so that it operates in a really liberalized environment where there should be no monopolies.

Without doubt the subject, which belaboured at some length all the competent authorities and dominated current affairs on a daily basis was that of natural gas and the way of its arrival into our country.

A lot has been said as well as written on the methodology that should be used. CERA'S position was and it remains that the essence of the subject is for natural gas to arrive as soon as possible, at the lowest possible price for the benefit of the customers and the Cyprus economy.

Finally in December 2007, the House of Representatives passed a Law, L.199 (I)/2007 for Natural Gas, which provides for the construction of a land based terminal as well as for the assignment of import and supply of natural gas to the Republic of Cyprus to only one company (DEFA). The intention of the Government of Cyprus to declare the Natural Gas market emergent shall establish a monopoly model and this will eventually affect competition in electricity market as well.

However, further issues related to the Natural Gas framework were pending therefore, CERA has prepared draft bills amending the Laws in order to fully transpose the Directives 2003/55/EC (Article 22- New Infrastructure) and 2004/67/EC into the national Laws, which have been forwarded to the Office of the Attorney General for their conformity to the legal, technical aspects, before they are forwarded to the Council of Ministers and the Parliament for approval. It is expected that the proposed amended Laws will be approved by the end of 2008.

Another fundamental priority of CERA during 2007 was the encouragement by means of increased subsidies for the production of electrical energy with photovoltaic systems, in co-operation with the Ministry of Commerce, Industry & Tourism. We have a common aim that the generation of electrical energy from RES should increase to 6% by the year 2010 and to this end we exert continuous and coordinated efforts.

Another important subject to which CERA has paid attention is the outcome of the New Energy Policy and the discussions on the 3rd Energy Package, which sets among other things a new and difficult target to achieve. That is, to achieve an increase in the production of Energy from RES to 13% by the year 2020, whilst the general target set by European Union for Member States is 20% by the year 2020.

Mention should also be made to the efforts of CERA for the simplification of the procedures for obtaining the necessary licences in order that we should have as soon as possible operating the first Wind Farms, for which wide interest has been expressed. The promotion and use of RES in combination with a development of generation and sufficiency of Electrical Energy remain the primary aims of CERA, along of course with the protection of the environment. At the same time, CERA does everything possible to introduce competition in the generation of electrical energy. This targeted effort is required by the provision of the Law and its obligations and it will continue with the same intensity in the current year.

In addition during 2007, the Electrical Energy Sector takes further important steps in regulating the Market. Regulatory Decisions were issued by CERA on the Methodology of Electricity Tariffs and the connection charges of the Transmission and Distribution System were finalised and published. At the same time, in depth discussions, meetings and deliberations are constantly in process with all parties

involved in the Energy Sector on various important itemised issues among which were:

- The unbundling of the EAC accounts in order to establish the actual cost of the services rendered by EAC, the vertically integrated electricity undertaking, minimise the possibility of cross subsidies between its activities resulting in eventual lowering of the prices of electricity,
- the Market Rules, which were prepared the TSO and submitted to CERA for approval. CERA gave unofficial approval but requested their simplification which is expected to be finalised in 2008,
- the Transmission and Distribution System Rules, already revised once, being further revised
- the use charges of the Transmission and Distribution System.

Equally important for CERA is the price at which electrical energy reaches the different categories of consumer. During the year under review, CERA examined thoroughly the subject of methodology for the tariffs of electricity and their structure and it is expected that during 2008 decisions will be taken regarding the electrical energy tariffs of EAC. In general, the average selling price of electricity per kWh in all categories increased from 12,418 € cent in 2006 to 12,729 € cent in 2007, an increase of 2,5% as a result of increased fuel costs and the automatic fuel cost adjustment applied to the market price.

It would be an omission not to thank all those who helped CERA in its first years by offering their cooperation and assistance. These definitely include ERGEG and CEER. The bridges of communication built and the cooperation and common understanding between everybody involved help greatly the work of CERA.

COSTAS IOANNOU
Chairman
Cyprus Energy Regulatory Authority

2 SUMMARY \ MAJOR DEVELOPMENTS IN THE LAST YEAR

2.1 Basic Organisational Structure and Competences of the Regulatory Agency

2.1.1 Composition of Regulatory Authority

The Cyprus Energy Regulatory Authority (CERA) has three Members who were appointed on 21 January 2004 for a 6-year renewable once term by the Council of Ministers. The Cyprus Energy Regulatory Authority consists of:

- | | | |
|-----|--------------------|---------------|
| (a) | Costas Ioannou | Chairman |
| (b) | Stelios Petrides | Vice-Chairman |
| (c) | Kypros Kyprianides | Member |

In accordance with the Law regulating the Electricity Market of 2003 (L.122(I)/2003) the Council of Ministers appoints, having deliberated with the House Committee on European Affairs, persons as Members of the board of CERA. The Council of Ministers appoints three board members one as the Chairman, one as the Vice-Chairman and one as the Member, as prescribed above. Before taking up their duties, the Members of CERA shall give assurance before the President of the Republic of Cyprus that they shall faithfully execute their duties.

The persons appointed to the positions of member of CERA are of the highest moral and professional level and have experience and knowledge and have also demonstrated their capabilities over one or more fields of industry and/or engineering and/or commerce and/or economics and/or law.

During their term the members of CERA:

- (a) Shall not have any financial or other interest, including shareholdings, in any company carrying on any business in the energy sector;
- (b) shall not accept or hold any other employment, office or post in respect of which it is reasonably expected that there is remuneration, irrespective of whether it is paid or not; and
- (c) shall not be a member of a political party;

The appointment of a person to hold office as member of CERA shall be for a term not exceeding 6 years in each case; and limited to a maximum of two terms of office.

Furthermore, a person holding office as member of CERA may, prior to the termination of his term of office:

- (a) resign from that office by giving notice in writing to the Council of Ministers;
- (b) be removed from that office by the Council of Ministers for one of the following reasons:
 - he is suffering from a mental or physical incapacity which renders him incapable of performing his duties and exercising his powers for the rest of his term;
 - he is behaving improperly or acting negligently in performing his duties and exercising his powers;
 - is behaving in a manner which is inconsistent with his responsibility to maintain the independence of his position as defined in subsection (2); or
 - has, prior to his appointment, failed to disclose a fact or event which may have constituted a bar to his appointment as a result of any one of the grounds set out in this subsection.
 - has been sentenced by a decision of a competent court for a criminal offence for violating this Law; or
 - has been sentenced by a decision of a competent court for a criminal offence concerning the lack of honesty or immorality.

Behaviour incompatible with the independence of the position of member of CERA includes, but is not limited to:

- (a). the acceptance of an office of employment of which the salary is subject to the control of the Republic or the acceptance or maintenance of any position or capacity in the civil service or municipality or at any legal person or organization of public law; or
- (b). the employment or acceptance of employment at the Authority, any company or organisation controlled by the Authority,
- (c). the acceptance of any office with a political party or the active connection or involvement with any political affairs; or
- (d). the acceptance or maintenance of any employment, office or position anywhere in the private sector for salary of any form or under any circumstances in the light of which it is reasonably expected that a salary will be paid, irrespective of whether a salary is actually paid or not.

In the event that the Chairman of CERA is removed from office or resigns, or in the event of permanent absence or incapacity of the Chairman of CERA, until a replacement is appointed, the Vice-Chairman of CERA shall exercise the functions, powers and duties of the Chairman of CERA. In addition, the Council of Ministers shall communicate its decision regarding the resignation or removal of any member of CERA to the House of Representatives. The members of CERA shall perform their

functions, powers and duties notwithstanding a temporary vacancy in the position of a member of CERA.

In respect to this a member of CERA shall not for a period of three (3) years following resignation, removal or retirement hold any office or employment or act as consultant where he may be liable to use or disclose information acquired by him in the exercise of his duties and powers as member of CERA. A person, who violates these provisions, shall be guilty of a criminal offence.

2.1.2 Main Statutory Objectives

The main statutory objectives of CERA are set out below:

- To encourage, promote and safeguard the healthy and essential competition in the Electricity and Natural Gas Markets.
- To protect Consumers' interests.
- To promote the development of economically viable and efficient Electricity and Natural Gas Markets.
- To ensure the Security, Continuation, Quality and Reliability of Electricity and Natural Gas Supply.
- To ensure the security of supply.
- To take into consideration the Protection of the Environment.
- To encourage the efficient generation and use of Electricity.
- To promote the use of Renewable Energy Sources (RES).

2.1.3 Main Enforcement Powers

The Cyprus Energy Regulatory Authority is an independent authority of the Republic of Cyprus and has executive powers and competences in the Energy Field.

Among others, CERA has the following powers and competences:

Electrical Energy

- Issues, controls, enforces, amends and revokes Licences to Generate and Supply of Electricity.
- Advises the Minister of Commerce, Industry and Tourism in all subjects relating to electricity.
- Ensures that the Rules for the Transmission and Distribution and the Rules for the Electricity Market are prepared and approved in accordance with the Law.

- Safeguards the adequacy in electrical energy for the satisfaction of all reasonable needs and demands for electricity.
- Regulates tariffs, charges and other conditions and presuppositions which are imposed on the Licence Holders for any services offered in accordance with the conditions of their Licences.
- Determines, publicises and enforces quality standards with which the Licence Holders must comply.
- Determines the rules and the procedures according to which complaints are examined which relate to services offered by the Licence Holders including, when it considers it appropriate, the carrying out of investigations and the taking of decisions for such complaints.
- Encourages and facilitates competition with the ultimate target of lowering of prices.
- Protects the interests of the consumers.
- Ensures the Continuation, Quality, Reliability and Security of Electricity Supply.
- Protects the Environment.
- Encourages the use of Renewable Energy Sources (RES)
- Encourages Research and Development in the field.
- Ensures that the Licence Holders operate efficiently and have the ability to finance the business activities for which they are licenced.
- Promotes the development of an economically viable and efficient electricity market.
- Takes into consideration the needs of the consumers of rural areas, the consumers who are in a disadvantageous position and the elderly.

Natural Gas

- Approves the conditions and presuppositions for the connection and access to the network, including the transmission and distribution tariffs as well as the conditions, presuppositions and tariffs for access to the installations of Liquefied Natural Gas.
- Determines the rules for the management and the distribution potential of interconnection, in consultation with the appropriate authority or authorities of the Member States with which there is interconnection.
- Sets up or approves mechanisms to face the congestion in the natural gas network.
- Protects the interests of natural gas consumers.
- Regulates tariff rates, charges and other conditions and presuppositions imposed on the Licence Holders for any offered service based on the conditions of their Licences.

- Enacts, publishes and puts into force Regulations for quality standards with which the Licence Holders must comply.
- Takes suitable and effective measures for control and transparency, so as to avoid possible misuse of dominant positions, to the detriment of consumers.
- Safeguards the observance of the competition rules in the field of transmission, distribution, storage and supply of natural gas.
- Safeguards the satisfaction of the demand for natural gas.
- Promotes the development of an economically strong and effective natural gas market.
- Safeguards the Safety, Continuity, Quality and Effectiveness in the supply of natural gas.
- Protects the environment.
- Encourages the research and development regarding the transmission, distribution, storage, supply and use of natural gas.

It is also the duty of CERA to:

- Safeguard and publicise measures which may be taken in case of unforeseeable crisis in the energy field, or when there is a danger to the safety of people, works, installations or the integrity of the networks, and
- Follow up the issues of security of the supply, and especially the balance of supply and demand in the market, the level of the expected future demand and the available plant, as well as the level of competition in the market.

During the execution of its duties, CERA takes the necessary measures to comply with the Public Service Obligations. The ultimate aim of CERA is to protect in the best possible way the interests of Energy Consumers, but at the same time to protect the public interest.

It is important to prescribe the present legal situation in Cyprus, where the Government of Cyprus, stated its intention to declare the Cyprus Natural Gas Market as emergent according to the articles 28(1)(2) of the relevant European Directive, 2003/55/EC. In relation to this intention a Law was passed and published on 31/12/07 in the Government Gazette, Law 199(I) / 2007, amending the Laws of 2004 – 2006 on Regulating the Natural Gas Market.

The amendment provides among other issues that in the event that the Council of Ministers decides to assign the import and supply of natural gas in the Republic of Cyprus in one undertaking and the creation of a land based Energy Center as the exclusive Receiving Terminal, with Storage facilities and installations for Regasification of Liquefied Natural Gas (LNG), the implementation of Articles 8 -14,

16(1-3), 18, 21, 22(5-6), 23, 27, 28, 31, 32 and 33 of the basic Law shall be suspended. Until such time as the decision by the Council of Ministers is taken, CERA shall be performing its duties derogating from the above mentioned articles, refraining from issuing licences in order to secure that the attainment of the purpose will not be put at risk.

The Council of Ministers decided on 18.6.2008 to assign the import and supply of natural gas in the Republic of Cyprus in one company. This company has already been established and is a public company called 'DEFA' (Shareholding: 56% by Government, (with option to relieve 5% to 3rd parties) 44% by Electricity Authority of Cyprus). In addition the Council of Ministers have decided the creation of a land based Energy Center as the exclusive Receiving Terminal, with Storage facilities and installations for Regasification of Liquefied Natural Gas (LNG).

It is evident that the authority and competence of CERA as well as the model of the natural gas market in Cyprus have been drastically transformed by the above decisions.

2.1.4 Independence and Accountability

The Cyprus Energy Regulatory Authority is an independent Authority of the Republic of Cyprus and has executive powers and competences in the Energy Field. CERA is appointed in office for six years by the Ministerial Council in accordance with the **Law Regulating the Electricity Market N.122 (I) of 2003** and the **Law Regulating the Natural Gas Market N.183 (I) of 2004** and through provisions in the above laws it reports directly to the President of the Republic.

As it is already mentioned above CERA is accountable for the performance of its duties, functions and powers as well as for those of the Office of CERA, to the President of the Republic and for this purpose, CERA, within three months after the end of each calendar year, submits a Report to the President of the Republic on its activities during the year. The Report includes a survey of developments in respect of matters falling within the scope of CERA's duties, functions and powers, including, in particular, developments in competition matters in the field it also includes the regulatory decisions, decisions and any enforcement measures taken by CERA during the year and finally includes a general survey of the activities during the year and a report on progress on the work plan for the year as well as an analysis on such other matters as may be deemed expedient.

CERA's annual budget, however, has to be approved firstly by the Council of Ministers (after the Council receives comments and recommendations from the

Ministry of Commerce, Industry and Tourism and the Ministry of Finance) and then by the Parliament.

Furthermore, where CERA issues a decision for the granting of a licence, has to follow such procedure as may be laid down by Regulations which are relevant to the granting of licence and has to take into consideration the following criteria and such instructions relating to government policy as the Minister of Commerce, Industry and Tourism may publish from time to time:

- the safety and security of the electricity system, installations for generating electricity and electricity lines;
- the protection of the environment including the limitation of emissions to the atmosphere, water or land;
- the siting of electricity generating stations and associated land use;
- the efficient use of energy,
- the nature of the primary source of energy to be used by a generating station,
- the qualifications of an applicant, including the technical and financial qualifications of the applicant for carrying out the activity, and
- Public Service Obligations in accordance with the relevant Law

CERA has to act in accordance with the instructions of the Council of Ministers in any event which is related to national security or the defence of the Republic of Cyprus.

Furthermore, in case that CERA believes that the electricity generating capacity being built is not sufficient to ensure security of supply of electricity in the Republic, it shall notify the Minister of Commerce, Industry and Tourism. The Minister shall, following consultation with CERA and the Transmission System Operator, issue a Decree to be published in the Official Gazette of the Republic by which he shall establish the procedure for submitting tenders, the necessary generation, as well as the manner and terms for making this new capacity available and shall require CERA to see to the carrying out of the procedure for the construction of new generating capacity.

The Minister may, following consultation with CERA, issue a Decree concerning eligible consumers prescribing the manner of and criteria by which the consumption of electricity is to be calculated for the purpose of establishing whether a consumer is an eligible consumer or not.

The Minister may, by a decision published in the Official Gazette of the Republic instruct CERA to impose by the issuing of a Regulatory Decision or where it is deemed necessary by the issuing of Regulations on any licence holder, Public Service Obligations which may include obligations in relation to the following:

- (a) security of supply;
- (b) regularity, quality and price of electricity supply;
- (c) environmental protection;
- (d) energy efficiency; and
- (e) use of indigenous energy sources.

The Minister may, after consultations with CERA and after notifying the House of Representatives, by a Decree define and, where necessary, establish the necessary thresholds for the opening of the electricity market of the Republic.

2.1.5 Overlapping jurisdictions with other Governmental agencies / authorities (national and supranational)

As it can be seen from previous sections CERA has almost full authority in the Electricity market and is adequately empowered to operate efficiently and to safeguard a reliable supply to all consumers of the markets. The Ministry is given through the above referred laws some competencies as far as policy issues are concerned e.g. approval of PSOs (Public Service Obligations) as well as other issues which are prescribed above. There is, however, definitely overlapping jurisdiction with the Cyprus Competition Authority and this is already creating "some difficulties". Specifically, information was exchanged on the activities of each Authority and discussion took place on each Authority's role as determined by the Laws regarding the protection of Competition in the Sectors of Electricity and Natural Gas. Representatives from both Authorities are working on issues of possible concurrent powers in an effort to prepare a code of practice whereby overlapping powers are smoothed out.

In order to be more specific and to clarify some issues, it is believed that is better to provide some information that are prescribed to the relevant Law on regulating the energy market.

In accordance with the said Laws CERA may take such measures, without prejudice to the provisions of the Law for the Protection of Competition, as it considers necessary in order to:

- prevent or remedy the abusive exploitation of a dominant position by any licensee
- prohibit or declare invalid, as the case may be, the intentional conclusion or attempt to conclude an agreement by any licensee which has the object or result or will have the result of limiting, obstructing or falsifying competition in the electricity market.

For the purpose of exercising its functions prescribed above, CERA:

- (a) Shall not be permitted to prohibit or declare invalid any concentration:
- (i) Falling within the category of concentrations which has been exempted from those concentrations which are prohibited by virtue of the provisions of the Law for the Protection of Competition of 1989 to (No. 2) of 2000, by order of the Council of Ministers or by publication of a relevant notice by the Commission for the Protection of Competition, by virtue of the said Law;
 - (ii) Which has been exempted from the said prohibited concentrations by a decision of the aforementioned Commission by virtue of the said Law or in relation to which the Commission is examining an application for exemption;
- (b) May not prohibit, acts of abusive exploitation of dominant position that are prohibited by the for the Protection of Competition of 1989 to (No. 2) of 2000 or concentrations which have been concluded or carried out for the purpose of obstructing, limiting or falsifying competition within the meaning of the said Law;
- (c) May prohibit the intended carrying out of acts of abusive exploitation of dominant position or the intended conclusion or conclusion of agreements that have as their object or shall have the result of obstructing, limiting or falsifying competition, provided that they have not been the subject of a decision in any manner of the Cyprus Competition Authority and are not pending before the Cyprus Competition Authority for the taking of a decision in relation thereto;
- (d) May declare invalid such acts of abusive exploitation of dominant position that have already been committed or concentrations that have already been concluded or carried out and have as their object or shall have the result of obstructing, limiting or falsifying competition, provided that, on the one hand, the Cyprus Competition Authority has not already taken a decision following an own initiative examination or an examination following a complaint, to the effect that there is no abusive exploitation of a dominant position or obstruction, limitation or falsification of competition and, on the other hand, provided that such matter is not pending for examination thereof by the Cyprus Competition Authority;
- (e) Issue an order only following consultations and deliberations with the Cyprus Competition Authority.

2.1.6 Stages of Appeal

In the case somebody believes that CERA's Regulatory Decision or Decision is not justifiable, he has the right to file/submit an application for judicial review to the Supreme Court of Cyprus within seventy-five (75) days from the date the decision of CERA came to his knowledge.

In other words and without prejudice to the provisions of Article 146 of the Constitution and of the jurisprudence pertaining thereto, decisions, orders and administrative fines which may be issued or imposed by CERA, as the case may be, by virtue of the provisions of the Law or the Regulations issued under it, including the decisions on the granting, amendment or revocation of licences, may be declared void by the Supreme Court under the said Article following a judicial review by the filing of a recourse to the Supreme Court in accordance with Article 146 of the Constitution against the decision or order or the imposition of a fine; the said recourse may be exercised by the licensee or by a person who has been granted an exemption or by any consumer or any person in general whose any existing legitimate interest is adversely and directly affected within the meaning of Article 146.

2.1.7 Decisional Power

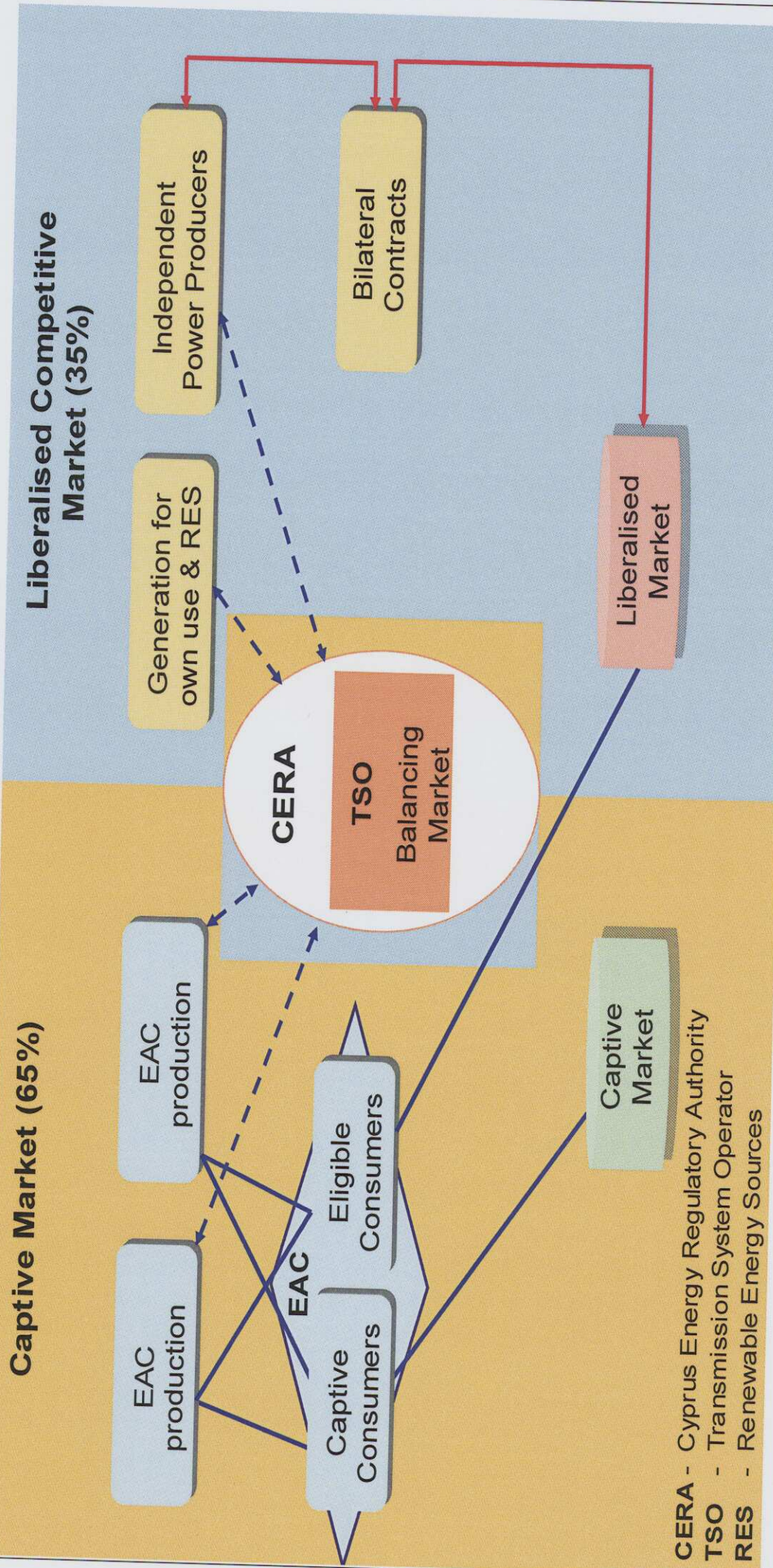
The Supreme Court has decisional power over CERA's Regulatory Decisions or Decisions and can either cancel or confirm such Decisions.

2.1.8 Cooperation with other national authorities

As it is already mentioned above CERA is closely cooperating with the Cyprus Competition Authority in order to resolve issues of common interest and whenever seems necessary or prior taking a Decision or a Regulatory Decision and especially in issues related to consumer protection and rights a public consultation with all the interested parties is being followed/conducted.

2.2 Main developments in the gas and electricity markets

2.2.1 ELECTRICITY MARKET



CERA - Cyprus Energy Regulatory Authority
TSO - Transmission System Operator
RES - Renewable Energy Sources

In accordance with the above diagram it can be seen that the market is characterised by the following:

- Market Regulation: CERA (with almost full authority)
- Operation of System & Market: Manager TSO (independent in legal and management terms).
- Basic Trading Arrangement: Bilateral Agreements
- Balancing Market: 2% to 3% of energy traded through TSO
- Captive Market: EAC, 65% (small industrial, commercial and domestic)
- Eligible Market*: 35% (big industrial and commercial)
- Competition in generation: EAC, IPPs, RES and Producers for own Use

In more detail any enterprise which is interested in generating and supplying electricity may submit an application to the Energy Regulatory Authority and obtain the relevant Licence if it fulfils the criteria set. The companies that will obtain such a Licence have the right to use the existing electricity transmission and distribution network. Although these networks remain the property of the EAC, a Transmission System Operator has been appointed and functions independently in terms of organisation and decision making from the EAC, and its activities of production, distribution and supply, in order to safeguard access onto the Transmission network and the equal treatment of all users of the said network. The Owner of the Distribution System has also been nominated as the Distribution System Operator and although he is not independent in the sense that the Transmission System Operator is, he has the same duty of safeguarding access to the Distribution network and the equal treatment of all users of the said network.

As far as the Market Rules are concerned they are based on the operating model of the liberalised electrical energy market.

The Electricity Market was liberalised by 35% on 1st May 2004. This percentage includes the 811 biggest electricity consumers in Cyprus, each of whom consumes at least 350,000 kilowatt-hours per year. The annual electricity bill of these 811 consumers is estimated to amount to about CY£94 (€160) million. These consumers are now free to select their Electricity Supplier. With effect from January 1st 2009 the market will be liberalised for all "non domestic" consumers, and with effect from January 1st, 2014 all consumers of electrical energy will be able to select their Supplier according to what is in their best interest. It is worth to note that, a public consultation is being scheduled at the end of 2008 in order to discuss further opening of the electricity market.

Following the procedures which arise out of the harmonisation of the existing legislation with the European Acquis, EAC, at the instigation of CERA, proceeded to comply with the unbundling of its accounts for the year 2006. Specifically, EAC prepared separate accounts for the generation, transmission, distribution and supply of electricity. The first phase of Unbundling of the Accounts of the EAC is being completed.

Within the framework of its responsibilities, CERA prepared the necessary amendment in the Legislation concerning the regulation of Natural Gas Market in order to secure an adequate level of security in the supply of Natural Gas and to attain the smooth operation of the domestic Gas market, as provided in the relevant European Directive, 2004/67/EC of the Council, of the 26th of April, 2004, concerning measures to safeguard security of Natural Gas supply.

PRICE DEVELOPMENT- TARIFFS

During the year under review, CERA examined thoroughly the subject of methodology for the tariffs of electricity and their structure and it is expected that during 2008 decisions will be taken regarding the electrical energy tariffs of EAC.

In general, the average selling price of electricity per kWh in all categories increased from 12,418 € cent in 2006 to 12,729 € cent in 2007, an increase of 2,5% as a result of increased fuel costs and the automatic fuel cost adjustment applied to the market price. Further details are provided in the next paragraphs of the Report related with the Methodology of Tariffs.

RETAILING

Number of electricity suppliers to final customers

Please, provide the following two figures:

Total number of electricity suppliers to final customers	ONE
Number of electricity suppliers selling <u>at least 5%</u> of total electricity consumed by final customers	ONE

Final customers switching their supplier or renegotiating contracts

For this indicator, two groups of figures are requested:

- Percentage of final customers switching from one supplier to another during the year 2005 and volume of consumption represented by those customers (in GWh).
- Percentage of final customers renegotiating contracts with their supplier during the year 2005 and volume of consumption represented by those customers (in GWh).

If possible, these figures should be presented broken down by domestic (households) and non-domestic customers.

	Non-domestic customers		Domestic customers (households)	
	Percentage (%)	Volume (GWh)	Percentage (%)	Volume (GWh)
Customer switching	N/A	N/A	N/A	N/A
Customer renegotiating	N/A	N/A	N/A	N/A

2.2.2 The Gas Market

Unlike the electricity sector which is characterised by ownership differentiation, 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.

Cyprus will establish its gas industry by granting a supply permit to a single legal entity, which will be controlled by the state (Shareholding: 56% by Government with option to release 5% to 3rd parties, 44% by Electricity Authority of Cyprus), called 'DEFA'. In general 'DEFA' would have the sole right to import gas into Cyprus and to sell gas to all gas consumers. Aggregating gas demand through DEFA could also facilitate Cyprus' ability to acquire a relatively small quantity of gas on the best terms to satisfy demand. In addition the Council of Ministers have decided the creation of a land based Energy Center as the exclusive Receiving Terminal, with Storage facilities and installations for Regasification of Liquefied Natural Gas (LNG).

2.2.3 Conclusions Related to 3rd Package

The energy package proposed by the EU emphasizes the objective of a single competitive energy market. It is indeed, a proper functioning and competitive market with adequate infrastructure, including storage, gas pipelines and a developed electricity grid, that is required.

In general we support the Commission's proposal concerning the measures proposed for strengthening the powers and independence of National Regulators which are substantial in harmonising and leveling up the powers of National Regulators.

However, it is believed that since the NRAs are particularly and specifically vested with the powers of regulating the energy market in competition issues as well, it is believed that it is not advisable to introduce a new provision in which monitoring of competition issues should be done in cooperation with the national competition authorities. Therefore it is believed that it should be left to NRAs alone to monitor the competition issues in the energy market as is the Authority having the expertise in this field. This way the NRAs shall be the one and only responsible authority monitoring the level of market opening and competition at wholesale and retail levels, including on electricity exchanges, household prices, switching rates, disconnection rates and household complaints in an agreed format, as well as any distortion or restriction of competition as well as the only authority responsible to carry out investigations of the functioning of the electricity markets, and to decide, in the absence of violations of competition rules, of any appropriate measures necessary and proportionate to promote effective competition and ensure the proper functioning of the market, including virtual power plants.

Furthermore, we support in general the spirit of the proposal for the establishment of an Agency for the Cooperation of Energy Regulators (ACER). We support however that ACER should not intervene with or substitute the NRAs in the execution of their powers and competences already established by Law.

It is recognized that the unbundling of ownership could be more effective towards free competition in an open market. However, the prevailing conditions in an isolated state could drive towards increased administrative costs which eventually will be borne by the end customer and without any tangible benefit. The other option of the Independent System Operator (ISO) shall only create complexity and added costs through duplication and complex management systems especially in isolated

systems like Cyprus. Therefore, CERA fully endorses the intention of the Council to provide a nominative derogation for Cyprus for both sectors (Gas D.Art.28(1),(2) and (6) and Electricity D.Art.26(3)), for both proposals a particular provision should be inserted enabling countries with isolated systems to implement this at their discretion, by means of exemption. In order to avoid any conflicts with the previous provisions of already established legislation and framework the existing provisions for derogations of the 2nd line of Directives should be respected, and all derogations/exemption options should be left at the discretion of the beneficiary country to decide.

In this respect, CERA strongly supports the focus that the package gives to the development of investments, the diversification of sources and routes as well as the determination and implementation of measures towards safeguarding security of supply. But as the Green Paper entitled 'A European Strategy for Sustainable, Competitive and Secure Energy' quite rightly states, there can be no truly competitive and single European energy market, when islands such as Cyprus, is totally dependent remain 'energy islands' isolated from the rest of the Community. This poses a challenge for Cyprus whose isolated energy network and small market make it difficult to achieve the objective of a secure and competitive energy supply. This is even more so given that our limited market is not conducive to economies of scale or scope.

Having said that, we do not want to detract from the importance of a sustainable energy policy which not only aims to ensure a secure, competitively priced and environmentally sound energy supply, but also seeks to reduce dependence on imported energy and to replace it by indigenous renewable energy sources. Initiatives to reduce energy demand coupled with investment in clean and more eco-efficient technology also contribute to this objective, as well as, to reduce greenhouse gas emissions.

2.3 Major issues dealt with by CERA

2.3.1 Market

2.3.1.1 Electricity Market

CERA, since its appointment in January 2004, has been actively involved in the preparation of all the legislation. Furthermore, CERA moved quickly to acquire and organize the necessary independent office facilities and has done all that was required to appoint basic support staff.

The following Laws and Regulations have been enacted and are in force regarding the Electricity Market:

LAWS				
No.	TITLE OF LAW	NUMBER OF LAW	NUMBER OF GAZETTE	DATE OF PUBLICATION
ELECTRICITY				
THE LAWS ON REGULATING THE ELECTRICITY MARKET OF 2003 - 2006				
1.	The Law on Regulating the Electricity Market of 2003	L.122(I)/2003	3742	25/07/03
2.	The Law on Regulating the Electricity Market of 2004 – AMENDMENT	L.239(I)/2004	3918	05/11/04
3.	The Law on Regulating the Electricity Market of 2005 – AMENDMENT	L.143(I)/2005	4057	09/12/05
4.	The Law on Regulating the Electricity Market of 2006 - AMENDMENT	L.173(I)/2005	4105	29/12/06
THE LAWS ON THE PROMOTION OF ELECTRICITY PRODUCED FROM RENEWABLE ENERGY SOURCES OF 2003-2006.				
THE LAW ON THE PROMOTION OF COGENERATION OF 2006 AND OTHER LAWS.				
RENEWABLE ENERGY SOURCES.				
1.	The Law on the promotion and encouragement of the use of Renewable Energy Sources (RES) and of Energy Saving of 2003.	N.33(I)/2003	3706	18/04/03
2.	The Law on the promotion and encouragement of the use of Renewable Energy Sources (RES) and of Energy Saving of 2004 - AMENDMENT	N.234A(I)/2004	3915A	02/11/04
3.	The Law on the promotion and encouragement of the use of	N.139(I)/2005	4055	02/12/05

	Renewable Energy Sources (RES) and of Energy Saving of 2005 - AMENDMENT			
4.	The Law on the promotion and encouragement of the use of Renewable Energy Sources (RES) and of Energy Saving of 2006 - AMENDMENT	N.162(I)/2006	4103	22/12/06

COGENERATION

1.	The Law on the promotion of Cogeneration of Electricity and Heat of 2006	N.174(I)/2006	4105	29/12/06
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OTHER LAWS

1.	The Law on the Implementation of European Regulations relevant to the Energy Sector.	N.278(I)/2004	3940	31/12/04
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REGULATIONS

No.	TITLE	NUMBER OF REGULATION	NUMBER OF GAZETTE	DATE OF PUBLICATION
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REGULATIONS ISSUED BY VIRTUE OF THE PROVISIONS OF THE LAWS ON REGULATING THE ELECTRICITY MARKET OF 2003 – 2006

ELECTRICITY

1.	The Regulations of 2004 on Regulating the Electricity Market (INVESTIGATIONS PROCEDURE)	Reg. 465/2004	3851	30/04/04
2.	The Regulations of 2004 on Regulating the Electricity (LICENCE REGISTER)	Reg. 466/2004	3851	30/04/04
3.	The Regulations of 2004 on Regulating the Electricity Market (LICENCE FEES)	Reg. 467/2004	3851	30/04/04

4.	The Regulations of 2004 on Regulating the Electricity Market (ADMINISTRATIVE FINES)	Reg. 468/2004	3851	30/04/04
5.	The Regulations of 2004 on Regulating the Electricity Market (ELECTRICITY TARIFFS)	Reg. 472/2004	3851	30/04/04
6.	The CERA STAFF Regulations of 2004 (APPOINTMENT, PROMOTION, SERVICE AND DISCIPLINARY CODE)	Reg. 528/2004	3853	30/04/04
7.	The Regulations of 2004 on Regulating the Electricity Market (ISSUE OF LICENCES)	Reg. 538/2004	3853	30/04/04
8.	The Regulations of 2005 on Regulating the Electricity Market (PROCEDURE FOR SUBMITTING COMPLAINTS)	Reg. 570/2005	4058	16/12/05
9.	The Regulations of 2005 on Regulating the Electricity Market (PERFORMANCE INDICATORS)	Reg. 571/2005	4058	16/12/05

OTHER REGULATION

DECREES / DIRECTIVES / DECISIONS

1.	The Decree of 2004 on Consumers Eligible to Select their Supplier	Reg. 340/2004	3847	30/04/04
2.	The Directive of 2006 stipulating natural gas as the primary source of Energy for sizeable new investments.	Reg. 115/2006	4088	17/03/06
3.	The Decision of 2006 imposing a Public Service Obligation regarding the price of electricity supply to	Reg. 200/2006	4098	28/04/06

multi-member and low-income families.

REGULATORY DECISIONS

No.	TITLE OF DECISIONS	NUMBER OF DECISION	NUMBER OF GAZETTE	DATE OF PUBLICATION
1.	Declaration of Regulatory Practice and Methodology of Electricity Tariffs.	Reg.177/2006	4096	14/04/06
2.	Declaration of Regulatory Practice and Methodology of Electricity Tariffs - AMENDMENT	Reg.404/2006	4142	23/10/06
3.	Declaration of Regulatory Practice and Methodology of Electricity Tariffs - AMENDMENT	Reg.105/2007	4178	02/03/07
4.	Declaration of Regulatory Practice and Methodology of Electricity Tariffs - AMENDMENT	Reg.227/200	4200	25/05/07

RULES / PROTOCOLS

1.	The "Electricity Transmission / Distribution Rules"	APPROVAL 07/10/2004	IN FORCE FROM 15/10/05
2.	The "Electricity Transmission / Distribution Rules" – AMENDMENT	09/06/06	19/06/06
3.	The "Electricity Market Rules"	Approval granted in principle in 2005. Requested simplification work to be carried out and be completed in 2008.	

CHARGES

⇒	New Charges for Customer Services by EAC	Approved on 01/11/2005 In force from 01/01/2006
⇒	New EAC Tariff Charges	Approval due in 2009
⇒	Charges for the Use of the	Approval due in 2008

	Transmission System	
⇒	Charges for the Use of the Distribution System	Approval due in 2008
⇒	Charges for the Connection to the Transmission Network	Approval due in 2007
⇒	Charges for the Connection to the Distribution Network	Approval due in 2007

The table below shows the proposed Laws and Regulations regarding Electricity Market that are in progress:

PROPOSED LAWS AND REGULATIONS		
REGULATION OF ISSUES PERTAINING TO TRANSFER OF LICENCES		
ELECTRICITY		
	The Law on Regulating The Electricity Market – AMENDMENT	Approval due in 2007
	The Regulations of 2004 on Regulating the Electricity Market (LICENCE FEES)	Approval due in 2007
	The Regulations of 2004 on Regulating the Electricity Market (ISSUE OF LICENCES)	Approval due in 2007

Apart from the above, one of the urgent priorities of CERA was the opening of the Electricity Market. This was achieved and the Electricity Market was liberalised by 35% since 1st May 2004. This percentage includes to date the 811 biggest electricity consumers in Cyprus, each of whom consumers at least 350,000 kilowatt-hours per year. These consumers are now free to select the company that will supply them with energy. In the next few years the market will be liberalised 100% as the ultimate target is to allow all consumers of electrical energy to select their Supplier according to what is in their best interest.

A Regulatory Decision was issued on 01/12/04, on the basis of which Generation for own use Units up to 1MW, Generation Units from RES (Renewable Energy Sources) up to 5MW and the Supply of electricity up to 500KW are issued with exemption from

Licence. The decision exempts these categories from the obligation to own and renew various licences, provided that an application for exemption has been submitted and approved through a simplified procedure. The Regulatory Decision included also the provision that no licence or exemption issue from Licence is needed for RES systems up to 10KW.

A Decision was issued on 15/06/07 which included also the provision that no licence or exemption issue from Licence is needed for PV and Biomass Systems up to 20KW and Wind Systems up to 30KW.

CERA has also decided that small generating units, for domestic use, up to 10 kW, in isolated areas where there is still no distribution network, do not require a licence to operate. In addition a simplified procedure has been introduced for the licensing of stand-by generating units.

CERA has done a lot of preparatory work in order to be able to issue the various licences to the TSO, the network owners and previously existing generators.

2.3.1.2 Natural Gas market

Natural Gas is still not available on the island. In spite of this, natural gas was defined by a Ministerial Direction as the basic fuel for the production of electricity with regards to future installations of sizeable capacity.

Nevertheless, the Natural Gas Sector has been put in line with the relevant EU Directive 2003/55/EC, relating to the common rules of the internal natural gas market. The provisions of the Directive have been incorporated into the Laws on Regulating the Natural Gas Market of 2004-2007.

Additionally, CERA has prepared draft bills amending the Laws in order to fully transpose the Directives 2003/55/EC (Article 22–New Infrastructure) and 2004/67/EC into the national Laws, which have been forwarded to the Office of the Attorney General to check their conformity to the legal, technical aspects, before they are forwarded to the Council of Ministers and the Parliament for approval.

Furthermore, the Government of Cyprus, after numerous discussions and meetings with all the competent authorities stated its intention to declare the Cyprus Natural Gas Market as emergent according to the articles 28(1)(2) of the relevant European Directive, 2003/55/EC. In relation to the above a Law was passed and published on

31/12/07 in the Government Gazette, Law 199(I) / 2007, amending the Laws of 2004 – 2006. “On Regulating the Natural Gas Market”.

This Law states that in the event that the Council of Ministers decides to assign the import and supply of natural gas to the Republic of Cyprus to only one company and the creation of one land terminal as the exclusive station for the delivery, storage and regasification of liquefied natural gas to the Republic of Cyprus, the application of the following articles of the basic Law is suspended: Articles 8-14, 16(1)(2) and (3), 18, 21, 22 (5) and (6), 23, 27, 28, 31,32 and 33. In addition, it states that until such time as the Council of Ministers takes that Decision, CERA should act deviating from the above articles by not issuing licences in order not to endanger achieving that goal.

It should be noted that the Council of Ministers have already decided (Decision on 18.6.2008) to assign the import and supply of natural gas to the Republic of Cyprus to only one company, called ‘DEFA’ (more details were given above). In addition the Council of Ministers have decided the creation of a land based Energy Center as the exclusive Receiving Terminal, with Storage facilities and installations for Regasification of Liquefied Natural Gas (LNG).

At the same time investors that have submitted applications to CERA in order to proceed to the construction and operation of off-shore Floating Storage Station and Regasification of Liquefied Natural Gas, have been informed by CERA for the intention of the Government to declare Cyprus market as emergent market and the last amendment of the Law Regulating Natural Market has been forwarded to them. In accordance with the last amendment of the Law Regulating Natural Gas Market CERA cannot grant any licences in natural gas field.

The following Laws and Regulations have been enacted and are in force concerning Natural Gas Market:

LAWS				
No.	TITLE OF LAW	NUMBER OF LAW	NUMBER OF GAZETTE	DATE OF PUBLICATION
NATURAL GAS				
THE LAWS ON REGULATING THE NATURAL GAS MARKET OF 2004 - 2007				
1.	The Law on Regulating the Natural Gas Market of 2004	L.183(I)/2004	3852	30/04/04

2.	The Law on Regulating the Natural Gas Market of 2006 - AMENDMENT	L.103(I)/2006	4088	21/07/06
3	The Law on Regulating the Natural Gas Market of 2007- AMENDMENT	L.199(I)/2007	4154	31/12/2007

REGULATIONS

No.	TITLE	NUMBER OF REGULATION	NUMBER OF GAZETTE	DATE OF PUBLICATION
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NATURAL GAS

REGULATIONS ISSUED BY VIRTUE OF THE PROVISIONS OF THE LAWS ON REGULATING THE NATURAL GAS MARKET OF 2004 – 2007

1.	The Regulations of 2006 on Regulating the Natural Gas Market (INVESTIGATIONS PROCEDURE)	Reg.297/2006	4122	21/07/06
2.	The Regulations of 2006 on Regulating the Natural Gas Market (ISSUE OF LICENCE)	Reg.298/2006	4122	21/07/06
3.	The Regulations of 2006 on Regulating the Natural Gas Market (FEES)	Reg.299/2006	4122	21/07/06

OTHER REGULATION

DECREES / DIRECTIVES / DECISIONS

1.	The Directive of 2006 stipulating natural gas as the primary source of Energy for sizeable new investments.	Reg. 115/2006	4088	17/03/06
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The table below shows the proposed Laws and Regulations regarding Natural Gas Market that are in progress:

PROPOSED LAWS AND REGULATIONS

NATURAL GAS

The Law on Regulating the Natural Gas Market – AMENDMENT (2004/67/EC	Approval due in 2008
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	Directive to be transferred)	
	The Law on Regulating the Natural Gas Market – AMENDMENT (2003/55/EC Directive Article 22 to be transferred)	Approval due in 2008

2.3.2 Retail/Consumer Protection

With the opening of the energy markets through European legislation, consumers are offered further possibilities to become more proactive in relation to their electricity and gas supplies. They choose a new supplier or renegotiate their present contracts.

Electricity and gas are services of general interest: they are essential to satisfy basic needs and therefore possible risks deriving from unaccompanied market opening have to be eliminated through consumer rights and universal service obligations. All consumers, including the most vulnerable ones¹, are entitled to electricity and, once they are connected to the network, to gas. Under certain conditions, special tariff options and minimum supply mechanisms can be set up. All customers have the right to access the electricity and gas markets without discrimination.

European legislation protects consumers against disconnection or interruption of the service. They also have protection against any hazardous process harming their life and are guaranteed a healthy environment through high standards of services.

Customers have the right to be informed of who supplies them with electricity and gas. To avoid dishonest practices or misleading advertisements, suppliers must pass on to their clients' information about current legislation, codes of conduct, terms and conditions of contracts and about applicable tariffs.

In case of complaints, consumers have the right to transparent, simple and inexpensive procedures.

CERA have already issued Regulations concerning the protection of consumers of electricity requiring that suppliers and the Distribution System Owner, within a prescribed time period, propose and implement procedures for the submission of

¹ Vulnerable customers are defined by national laws as persons to be protected in their relations with energy suppliers (for example: the disabled, the chronically sick, pensioners, those living on low incomes and those living in remote areas).

complaints by consumers that allow consumers to register complaints and prescribing how suppliers and the Distribution System Owner shall respond to complaints received by consumers. These Regulations among other issues includes requirements on suppliers and the Distribution System Owner relating to:

- (a) Procedures for the submission and, where appropriate, re-submission of proposed complaints procedures for approval;
- (b) the timetable for the implementation of the complaints procedures;
- (c) penalties for failure to comply with the consumer complaints regulations relating to the preparation or implementation or review of complaints procedures;
- (d) a requirement that suppliers and the Distribution System Owner review their complaints procedures at intervals of not more than five years; and
- (e) establishing procedures to deal with complaints from consumers that are not settled through complaint procedures to the satisfaction of consumers.

Briefly, consumer rights include:

Knowing who the supplier is: CERA has decided that the names of the Eligible Consumers will be given to the Independent Suppliers of Electrical Energy, only when the Eligible Consumers have given their consent to this effect, as is provided by the relevant Law on the Protection of Personal Data. Undertaking of a campaign by CERA, informing eligible customers on the procedures and conditions in choosing electricity suppliers. Soon after its establishment in the year 2004 CERA has launched a campaign informing the eligible consumers (who have continued over 350.000 kWh in the last 12 months period) on the procedures to be followed in order to choose their Electricity Suppliers. The campaign consisted of direct contacts with each and every one of them, of seminars, publications and informing them via the website. This has had a positive impact as a great interest has been expressed by a substantial number of them. Informing the eligible consumers is an ongoing process. Furthermore, CERA has created an environment on which Eligible Consumers will be direct informed by the Independent Suppliers of Electricity. The eligible consumers to date number 811. The new eligible consumers have been informed in the same way as the other consumers. Furthermore, all consumers are informed via internet and seminars which are held by CERA of their possible Suppliers. At this point we have to say that inspite the fact that the eligible consumers are informed on the procedures and conditions in choosing electricity suppliers, at the moment there is no other Electricity Supplier except from the Electricity Authority of Cyprus.

As from 1.1.2009 all non-domestic consumers will be eligible to choose their supplier.

Transparent and easily comparable terms and conditions in contracts and

tariff: CERA is to safeguard and ensure that easily comparable terms and conditions in Contract and tariffs are available to the consumers however, as yet since no project/investment has materialized we have not proceeded with those terms and conditions specifically.

Wide choice of methods for the payment of the bill: cash, post, direct debit, through the bank

Right to have a Contract: In general, consumers have the right to a contract which specifies the identity and address of the supplier, the services provided, the types of maintenance service offered, the means on how to obtain up-to-date information on applicable tariffs and maintenance charges, the duration of the contract, the conditions for renewal and termination of services and of the contract, the existence of any right of withdrawal. The Electricity Authority of Cyprus (EAC) already informs the consumer in detail of applicable service charges, as well as duration of the Contract.

Protection against unfair or misleading selling methods: CERA has the final word on the statement of Regulatory Practice and the Methodology of Electricity Tariffs and follows up the compliance of the approved tariffs

Right to redress mechanisms with prompt settlement, to compensation and reimbursement claim: CERA has enacted regulations on the procedure of Consumer complaints imposing time limits within which the Supplier should respond to the complaint. If this fails, the consumer may entered his complaint with CERA who has the power to investigate it, listen to both parties and decide on the complaint imposing fines on the Licence holders. Furthermore, CERA has enacted Performance Indicators through which the Supplier automatically pays a fine to the consumer if his response/ service to certain services offered is delayed

Right to have your collective interests as consumers represented: By virtue of the Law consumers are represented in two Consultative Committees in order to expres their opinion in the preparation of the Technical Rules on Transmission and Distribution and on the TSR (Trading and Settlement Rules). Furthermore they are given the chance to comment within the prescribed time on all draft Regulatory Decisions

Access to electricity services without discrimination and including remote areas: wherever they live, all consumers have access to electricity.

Choice of the energy supplier and possibility to switch supplier: the category of consumers entitled to select their Supplier in Electrical Energy (Eligible Consumers) includes all those whose total consumption for the last 12 months was, or exceeded 350.000kWh. Furthermore the Eligible Consumers are not charged for changing supplier.

Uninterrupted supply of electricity and gas: CERA takes appropriate measures to avoid any interruption of supply such as the quality of the network is of high standard avoiding outages, the network is supervised and any repairs are effected immediately.

Safety of supply in a healthy environment: protection against processes and services that are hazardous to life or health are ensured to all consumers. The use of climate-friendly, clean and renewable energies is also encouraged for the protection of the environment and human health. CERA has issued several licences for the production of electricity from RES and is involved in research for the development and promotion of RES.

Vulnerable Consumers: CERA has the obligation to take into consideration the needs of consumers in rural areas of consumers who are in disadvantageous position and of the elderly. A Committee has been set up to investigate and agree the procedure to be followed by the Suppliers when the Supplier is presented with Vulnerable Consumers, with the prospect that such procedure is incorporated in the Suppliers charter of Consumer Rights

2.3.3 Infrastructure

Article 7 of Directive 2003/54/EC -Tendering Procedure for New Generating Capacity

If, at any time, CERA is satisfied, that the electricity generating capacity being built is not sufficient to ensure security of supply of electricity in the Republic, it shall notify the Minister.

The Minister of Commerce, Industry and Tourism shall, following consultation with CERA and the Transmission System Operator, issue a Decree to be published in the Official Gazette of the Republic by which he shall establish the procedure for submitting tenders, the necessary generation, as well as the manner and terms for making this new capacity available and shall require CERA to monitor and secure the carrying out of the procedure for the construction of new generating capacity.

As soon as possible, following the publication of the Decree referred to above, CERA shall prescribe by a Decision which will be published in the Official Gazette of the Republic, the terms, conditions and criteria that applicants to the tendering procedure shall have to meet.

CERA shall open the tendering procedure and invite applications for the construction of new generating capacity in the Republic in accordance with the procedures specified in the Decree.

Article 22 of Directive 2003/54/EC – Direct Lines

As far as article 22 of the Directive 2003/54/Ec is concerned according to the Law on Regulating the Electricity Market of 2003 and 2004 and as per Article 86:

- Where access to the transmission system or distribution system for holders of authorisations or permits or eligible consumers is refused by the Transmission System Operator or the Distribution System Owner respectively due to lack of capacity, CERA may authorise the electricity undertaking to whom such refusal is made to construct a direct line or an eligible consumer to connect with an existing direct line.
- An authorisation to construct a direct line granted by CERA under this subsection shall require the person to whom the permission was granted to comply with such technical and other conditions specified in the authorisation issued by CERA.
- Where there is a connection made between a direct line and the transmission or distribution systems, on the application of the Transmission System Operator and the Distribution System Owner respectively, CERA shall direct the owner of a direct line constructed under subsection (1) to transfer the ownership of the direct line to the Transmission System Owner or Distribution System Owner on such terms, including terms as to compensation, as may be agreed between the Transmission System Operator and the Distribution System Owner and the owner of the direct line.
- In default of agreement between the Transmission System Operator or the Distribution System Owner and the owner of the direct line as to compensation, such compensation shall be assessed under the provisions of the Expropriation of Property Laws of 1962 to 1999.

It should be noted that in practice such an incident whereby the TSO or the Owner of the Distribution System has refused access to the respective system due to non availability of capacity on the systems and whereby undertaking has been authorized by CERA to construct a direct line has not arisen as yet.

Article 22 of Directive 2003/55/EC – New Infrastructure

Article 22 of the Directive 2003/55/EC is not transposed to National Law, until now. However, CERA has prepared draft bill amending the Law on Regulating the Natural Gas Market in order to fully transpose the Directive 2003/55/EC (Article 22–New Infrastructure) into the national Laws. The said draft bill had been forwarded to the Office of the Attorney General to check their conformity to the legal, technical aspects, before they are forwarded to the Council of Ministers and the Parliament for approval.

Tariff Methodology & Promotion of New Investments

A Regulatory Decision was published on 14/04/06 regarding the Methodology of Tariffs, and several amendments followed in 2006 and 2007 in order for the Methodology of Tariffs to be more precise to the current factual status of the Electricity Market.

A summary of the principles of the Methodology is given below:

All tariffs and charges for the services provided by the licence holders must reflect the costs of providing those services and should not unduly discriminate between different purchasers of those services. CERA requires a licensee or holder of an exemption, to set prices in a way that he will be recovering all costs incurred in accordance with the Law. Charges concerning eligible and non-eligible consumers should not lead to abuse of the dominant position of the Authority or of any other licensee.

Persons that have been granted a licence or an exemption, shall ensure that the tariffs or charges they levy for the services they provide under the terms of those licences or exemptions have been:

- (a) set in accordance with Regulations and the methodology that is relevant thereto which is prescribed by CERA reflecting costs including reasonable profit;
- (b) approved by CERA; and
- (c) are publicly notified in accordance with CERA's requirements.

The procedure for reviewing and approving tariffs and charges is specified in the methodology. This procedure includes among other matters the following:

- (1) A timetable for the consideration by CERA of any submission for approval; and
- (2) Opportunity for customers and other persons to comment on such submissions.

(3) CERA shall ensure that licensees or holders of exemptions, are permitted to recover all reasonable costs incurred in the operation of the business on an efficient basis, including but not limited to:

- The costs of fuel, wages and salaries, other operating and maintenance costs;
- A reasonable percentage for capital depreciation;
- A reasonable return on the capital employed; and
- The costs of Public Service Obligations imposed on the licensee in accordance with the Law, and
- The costs arising from ancillary services.

(4) In deciding on the appropriate level of tariffs or other charges, CERA shall also have regard to the following, in addition to the consideration provided by subsections (1), (2) and (3) above:

- The protection of consumers against monopolistic prices; and
- Encouraging efficiency and quality of services in the operations of the holder of the licence or exemption.

2.3.4 Sanctions

Article 12 Regulation 1228/2003/EC

The Regulation 1228/2003/EC on conditions for access to the network for cross-border exchanges in electricity is not applicable in case of Cyprus, due to the fact that Cyprus is an isolated island not interconnected in any way with other member states or other countries in general. In this respect there are no penalties procedures implemented for failure to comply with the requirements of the above regulation.

Article 13 Regulation 1775/2005/EC

The Regulation 1775/2005/EC on conditions for access to the natural gas transmission networks is not actually implemented in Cyprus, due to the fact that Natural Gas is not as yet available in the island and a Monopolistic type of market is promoted through the emergent market derogation. However, CERA after getting technical assistance, is preparing the appropriate documents in order to adopt the necessary regulations, measures, mechanisms, standards and rules for the access conditions to natural gas transmission systems taking into account the specificities of national and regional markets with a view to ensuring the proper functioning of the internal gas market. The objective of the above mentioned technical assistance included the setting of harmonized principles for tariffs, or the methodologies underlying their calculation, for access to the network, the establishment of third party

access services and harmonised principles for capacity allocation and congestion management, the determination of transparency requirements, balancing rules and imbalance charges and facilitating capacity trading.

In this respect there are no penalties procedures for failure to comply with the requirements of the above regulation.

2.3.5 Transparency Reports

In order to define market transparency requirements, attention was given to ensure that arrangements implemented for market transparency do not:

- undermine or distort competition
- reveal commercially confidential data
- Place undue burdens on market participants
- Incur excessive cost relative to the benefits

There is no special Transparency Report prepared by CERA, although a general Transparency Policy is being followed in relation, but not limited, to the following issues:

A. Connection Issues (transparent methods on connection charges and terms & conditions)

Within such time as CERA may direct, the Transmission System Operator shall following consultation with the Transmission System Owner prepare a statement for the approval of CERA setting out the basis upon which charges shall be imposed:

- (a) for use of the transmission system; and
- (b) for connection to the transmission system.

Within such time as CERA may direct, the Distribution System Owner shall prepare a statement for the approval of CERA setting out the basis upon which charges shall be imposed:

- (a) for the use of the distribution system; and
- (b) for connection to the distribution system.

In respect to the above, Regulatory Decisions taken by CERA provide for:

- (a) the methods of charging to be included in the statements to be prepared by the Transmission System Operator and Distribution System Owner;
- (b) the form and the extent of the information to be provided by the Transmission System Operator and Distribution System Owner to applicants;
- (c) the form of charges and information about those charges to be included in the statement to be prepared by the Transmission System Operator and Distribution System Owner; and

(d) the procedure to be adopted in the submission to CERA by the Transmission System Operator and Distribution System Owner of a statement of charges and the approval by CERA of such statement.

- B. Contract details, terms and conditions
- C. Prices, Tariffs, and Monitoring
- D. Details on possible Supplier choices
- E. Information about supply and demand (e.g. Capacity margin supply-demand)
- F. Actual System load
- G. Available Generation Capacity
- H. Installed Generation Capacity by fuel type
- I. Social Measures
- J. Commercial Practices
- K. Forecast Statement by the TSO

At such intervals as CERA may require by Decision, the Transmission System Operator shall prepare a forecast statement, to be referred to as a “forecast statement” based on the information available to it, in a form approved of by CERA. A forecast statement shall include forecasts in respect of capacity, forecast flows and loading on each part of the transmission system and fault levels for each electricity transmission node together with:

- (a) such further information as shall be reasonably necessary to enable any person seeking use of the transmission or distribution systems to identify and evaluate the opportunities available when connecting to and making use of the transmission or distribution systems;
 - (b) a statement identifying those parts of the transmission system most suited to new connections and to the transport of further quantities of electricity;
 - (c) the generating capacity which is likely to be connected to the transmission system;
 - (d) the demand for electricity on a national and regional basis in the period to which the statement relates; and
 - (e) a statement on the demand for electricity generated from renewable, sustainable or alternative sources generally and a statement on arrangements for the supply of electricity to customers who have opted to purchase such electricity.
- L. Active consideration is been given to further opening up of public consultation on selected topics.
 - M. The publication of an Annual Report of all market players (CERA, MCIT, TSO, DSO etc).

In addition, CERA may proceed with the publication of such information and documents as it may deem appropriate for the purposes of promoting awareness and understanding by the public on electricity matters.

As it can be concluded the issues of transparency appear to have shifted away from a narrow focus on index development toward other issues like access to information about term contract prices, understanding the relationship between physical and financial trading, and getting more information about supply and demand.

2.3.6 Market Coupling Projects

There are no Market Coupling Projects in the energy market of Cyprus due to the fact that Cyprus is an isolated island with no cross-border issues to deal with Cyprus is not interconnected in any way with any other member state therefore, there is no need to use the Market Coupling method to manage cross-border grid congestions, power trading and allocating cross-border transmission capacity issues.

2.3.7 Others

Energy Efficiency

In order to perform its duties, CERA :

- a. secures that the licencees are operating efficiently
- b. promotes the development of an economic and efficient energy industry;
- c. promotes the security, safety, continuity, quality, and reliability of supplies of energy;
- d. encourages the efficient use and production of electricity;
- e. encourages research and development into the generation transmission, distribution, and use of electricity; and
- f. promotes the use of renewable energy sources and energy conservation systems

The achievement of a satisfactory percentage of energy conservation is a rather important and difficult goal, for this purpose several measures are taken by certain departments. Therefore, CERA taking into account the importance and need of the existence of energy efficiency measures has already introduced certain provisions under licences for production of electricity, in order to secure that all market players are taking the appropriate energy efficiency measures. CERA is promoting the development and improvement of energy end-use efficiency by introducing special provisions to the licencees in order to exploit and implement potential cost-effective energy savings in an economically efficient way and in order to move towards more energy-efficient technologies.

Furthermore, a new draft bill is being prepared in order to harmonise National Legislation with the directive 2006/32/EC on energy end-use efficiency and energy services. In accordance with the draft bill CERA will set a **supply-side obligation** for energy distributors and retailers to offer efficiency improvement measures to their customers. At the moment the Electricity Authority of Cyprus is taking such type of measures but they are not obligatory.

In addition, the Government of Cyprus is implementing a Support Scheme for the promotion of RES and energy conservation systems. The aim of this scheme is to provide financial incentives in the form of Governmental Grants or/and Subsidy for the materialization of investments in the field of Energy Conservation (EC) and the promotion of the Renewable Energy Sources (RES) utilization. CERA is advising and sending her comments and suggestions to the Ministry of Commerce, Industry and Tourism on every draft Scheme.

Role and Powers of CERA to promote CHP and RES-E

In order to harmonise the National Legislation with the directive 2004/8/EC of the European Parliament and of the Council of 11 February 2004 on the promotion of cogeneration based on a useful heat demand in the internal energy market a relevant Law **L.174(I)/2006** is in force since 2006. According to the said Law the TSO shall be the Issuing Authority of the Certificates of the Origin of Energy from Cogeneration and CERA shall monitor the whole process and the compliance of the TSO with the Law.

In addition, another Law on the Promotion and Encouragement of the Use of Renewable Energy Sources (RES) and Energy Conservation, **L.162(I)/2006** was enacted.

The main purpose of both Laws is to regulate certification of electrical energy generated by Renewable Sources and Cogeneration of high efficiency by issuing the so called guarantee of origin of electrical energy by renewable sources and cogeneration, and by taking measures to ensure such electrical energy's priority of access to the network system.

A. Guarantee of Origin of Electrical Energy

The certification, “Guarantee of Origin of Electrical Energy” is done on the basis of objective, transparent and non-discriminatory criteria by the issuing authorities, the Transmission System Operator and /or the Owner of the Distribution System acting in his capacity as the Distribution System Operator in accordance with the authorization given by CERA. The Supervision of the Guarantees procedures is effected by CERA, within the competence of which falls the resolution of any disputes that may arise between the Issuing Authorities and the Applicants for certification.

The Guarantee of Origin of Electrical Energy certifies certain particular information such as the location of production, the commencement and the ending of the production time period, the quantity of electrical energy to which the certification refers, the name and details of the producer, and the installed capacity of the Power Station.

The Guarantee of Origin of Electrical Energy is transferable.

CERA cooperates with the competent Authorities of other Member States and deals with issues of mutual acceptance of the Guarantees, which are issued by other Member States.

B. Priority Access to the Network System of Electrical Energy Produced by RES & Co-generation

Both the above-mentioned Directives, apart from the issue of the Guarantee of Origin of Electricity Energy, provide for the priority access of the energy produced by Renewable Energy Sources and Cogeneration to the Network System.

The priority of access to the network System of the electricity produced by renewable sources of energy and cogeneration was regulated by amending the Transmission and Distribution Rules. The said amendment together with other amendments were approved by CERA on the 9th of June, 2006 and came into force on the date of their publication by CERA on the 19th of June, 2006.

The Transmission Systems Operator and / or the Owner of the Distribution System in his capacity as the Distribution System Operator, guarantees the transmission and distribution of the energy produced by Renewable Energy Sources and Cogeneration of high efficiency, subject only to maintaining the safety and efficiency of the Transmission and Distribution Systems.

The priority of access to the network System of the electricity produced by cogeneration was regulated by virtue of the Law 174(I)/2006.

C. The process of granting licenses for electricity production

It was realized that is very important to set up simple and clear processes for the granting of licenses for electricity production. The complexity of the process and the absence of co-operation between the different public services that are involved in the process have been an obstacle for the development of RES in different countries. In order to accelerate these processes, CERA has set simple procedures and criteria (which are described in section 5 below) and acts as a reference point by issuing of Licences for both RES and Co-generation investments.

D. Conditions for the transportation and distribution of electricity

The Electricity Authority of Cyprus (EAC) has committed itself to purchase all electricity that is produced by RES. Clear conditions of the connection between the RES producers and the electricity grid, have been defined.

E. Supporting Schemes

Furthermore, a grant scheme for energy conservation and the utilization of renewable energy sources is been operated by the Energy Service under Law N.33(I)/2003 since February 2004. The scheme covers a large spectrum of investments in energy conservation, co-generation and utilization of RES. Under the grant scheme there is a specific provision for funding investments for the promotion of co-generation by subsidising capital cost.

- Mechanisms of Supporting Investments in RES

The most important factors in order to promote investments in RES are the existence of stable and clear market conditions, as well as the provision of satisfactory profits for investors. The system of support to RES includes the following components:

- Definition of the price of kWh in the market
- Provision of long-term contracts (15+5 years)
- Definition of financial incentives

3. REGULATION AND PERFORMANCE OF THE ELECTRICITY MARKET

3.1 Regulatory Issues [Article 23(1) except “h”]

3.1.1 General

As already mentioned, one of the urgent priorities of CERA was the opening of the Electricity Market. This was achieved and the Electricity Market was liberalised by 35% on 1st May 2004. This percentage includes the 811 biggest electricity consumers in Cyprus, each of whom consumes at least 350,000 kilowatt-hours per year. The annual electricity bill of these 811 consumers is estimated to amount to about CY£96 million (approximately €160 million). These consumers are now free to select their Electricity Supplier. Cyprus has obtained a derogation with effect from January 1st 2009 the market will be liberalised for all “non domestic” consumers, and with effect from January 1st, 2014 all consumers of electrical energy will be able to select their Supplier according to what is in their best interest.

Table 3.1.1

Electricity Market Opening Table

YEAR	THRESHOLD GWH/YEAR	% MARKET OPEN
1995		0
1997		0
1999		0
2001		0
2003		0
2004	0,35	35
2005	0,35	35
2006	0,35	35
2007	0,35	35
2008	0,35	35

3.1.2 Management and Allocation of interconnection capacity and mechanisms to deal with congestion

At present, Cyprus, as an island, operates without cross-border links. Thus, cross-border congestion management rules are not applicable. In the primary legislation, there is a clear definition of the role of the TSO to observe and record on an annual basis an assessment regarding expected flows and other conditions related to transmission capacity and ensuring that measures are taken to avoid breaching security of supply standards. According to the primary legislation, the TSO is obliged to publish a ten-year development plan which is approved by CERA and is available to all market participants. The above mentioned development plant is revised at least once a year.

3.1.3 The regulation of the tasks of transmission and distribution companies

Cyprus, being a small isolated system, has opted through the Law of 2003 on Regulating the Electricity Market, L.122(I)/2003, (further down referred to as the Law) for,

- (a) a single TSO unbundled in legal and management terms from the System Owner.
- (b) a common, bundled distribution network, Owner & DSO, as part of the Electricity Authority of Cyprus (EAC) which is the vertically integrated utility of Cyprus involved in all the functions of the electricity market.

The details on the length of the network in Cyprus in km both for the transmission and distribution system are given below:

Generation, transmission & distribution equipment

Description	Unit	In Commission on 31.12.06	Commissioned in 2007	Taken out of Commission in 2007	In Commission 31.12.07
GENERATION PLANT					
Dhekelia "B" Power Station					
Steam Turbines		6	-	-	6
Capacity		360	-	-	360
Moni Power Station:			-	-	

Description	Unit	In Commission on 31.12.06	Commissioned in 2007	Taken out of Commission in 2007	In Commission 31.12.07
Steam Turbines		6	-	-	6
Capacity		180	-	-	180
Gas Turbines		4	-	-	4
Capacity		150	-	-	150
Vasilikos Power Station:					
Gas Turbines		1	-	-	1
Capacity		38	-	-	38
Steam Turbines		2	-	-	2
Capacity		260	-	-	260
TRANSMISSION EQUIPMENT:					
220kV Transmission Lines operated at 132kV					
Route Length	km	1,40	-	-	1,40
Circuit Length	km	2,80	-	-	2,80
132kV Transmission Lines					
Route Length	km	408,15	5,85	5,00	409,00
Circuit Length	km	761,51	11,70	10,01	763,20
132kV Underground Cables					
Route Length	km	63,53	0,05	0,04	63,54
Circuit Length	km	91,60	0,05	0,04	91,61
132kV U/G Cables-Operated at 66kV					
Route Length	km	8,33	-	-	8,33
Circuit Length	km	8,33	-	-	8,33
66kV Underground Cables					
Route Length	km	1,68	-	-	1,68
Circuit Length	km	1,68	-	-	1,68
132kV Transmission Lines operated at 66kV					
Route Length	km	168,81	4,96	4,86	168,91
Circuit Length	km	267,35	9,92	9,72	267,55
66kV Transmission Lines					
Route Length	km	291,78	-	-	291,78
Circuit Length	km	291,78	-	-	291,78

Description	Unit	In Commission on 31.12.06	Commissioned in 2007	Taken out of Commission in 2007	In Commission 31.12.07
132/66kV Interbus Transformers	No.	12	-	-	12
	MVA	603	-	-	603
132/11kV Step Down Transformers	No.	67	3	-	70
	MVA	2 119	96	-	2215
132/6,6kV Step Down Transformers	No.	2	-	-	2
	MVA	58	-	-	58
132/3,3kV Step Down Transformers	No.	2	-	-	2
	MVA	20	-	-	20
66/11kV Step Down Transformers	No.	68	1	-	69
	MVA	668,5	15	-	683,5
66/3,3kV Step Down Transformers	No.	2	-	-	2
	MVA	5	-	-	5
15,75/132kV Step Up Transformers	No.	2	-	-	2
	MVA	330	-	-	330
11/132kV Step Up Transformers	No.	13	-	-	13
	MVA	741	-	-	741
11/66kV Step Up Transformers	No.	4	-	-	4
	MVA	150	-	-	150
Substations	No.	50	1	-	51

Substations: Energization of "Omonia" S/Station
No De-energization

DISTRIBUTION EQUIPMENT:

MV Overhead Lines	km	5 059,07	111,43	29,13	5 141,37
MV Underground Cables	km	2 499,81	182,76	23,12	2 659,45
LV Overhead Lines	km	8 362,05	215,26	36,24	8 541,07
LV Underground Cables	km	2 559,68	460,44	0,14	3 019,98
22000-11000/433/250V P.M. Transformers	No.	8 190	312	98	8 404
	kVA	740 127	54 428	29 514	765 041
22000-11000/433V G.M. Transformers	No.	4 208	316	7	4 517
	kVA	2 253 505	218 800	30 105	2 442 200

For network tariffs, in close cooperation with the TSO and EAC, reports have been prepared using outside consultants (from Greece, UK, Ireland, and Netherlands) and these are currently under consideration for approval. The methodology developed in the reports is based on the following principles:

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

The above referred reports are currently under review for final approval. These will facilitate the formulation of network tariffs that will guarantee the following pre-requisites:

- Economic Efficiency/cost reflectivity
- Cost recovery
- Efficient Regulation
- Simplicity, transparency and stability
- Non-discrimination
- Facilitation of competition

The Cyprus Energy Regulatory Authority (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.

What is important to mention is that the philosophy behind the structuring of the tariffs for which CERA has the final word, is to protect the consumers against monopolistic prices.

The goal of CERA is also to encourage, via the tariffs structure, the efficiency and the quality of services which need to be provided to the consumers by the licence holders for generation and supply of electrical energy.

The regulation of the Electricity Tariffs is applied with the aim of maximising the long term benefit of competitiveness in the Cyprus economy, the protection of the consumers, the performance of the Obligations of Public Service and the securing of continuous and normal energy supply.

Within this framework the regulation of Electricity Tariffs seeks to achieve the following main goals:

- Tariffs to reflect the real cost plus reasonable profit for every sector of the electrical energy.
- Unnecessary consumption not to be encouraged, but, on the contrary, energy savings should be encouraged.
- Sufficient incentives to exist for the participants in the Electrical Energy Market, so that they improve the cost of the services they provide.
- The competitiveness of the services provided to be secured.
- Not to create discrimination between consumers.
- Not to distort competition.
- Electricity bills to show in a transparent and clear way the consequences that application of other Policy decisions (e.g. Renewable Sources of Energy) may have on electricity tariffs.
- The structure of the bills and the items comprising them to be as clear and understandable as possible.
- Changes in prices to be anticipated so as to avoid up rupt changes which may cause uncertainty to investors and consumers.

The Electricity Market Law of 2003 covers adequately the requirements of the Electricity Directive under Article 3 for consumer protection and performance standards that affect the quality of supply to all consumers with particular emphasis to vulnerable consumers. Regulations were enacted pursuant to Article 88 of the Law laying down demanding obligations on the network owner and on suppliers to meet such quality standards that will safeguard the quality and continuity of electricity supply to all consumers.

The TSO in close cooperation with EAC has drafted proposals for the Use of System Charges and Connection Charges. The proposal for the Use of System Charges is under consideration by CERA for final approval. Once these are approved they shall

be made public and accessible to all interested parties. Furthermore, the proposal for Connection Charges is finalized, approved by CERA and published.

What is important to mention is that ongoing discussions are being carried out in order to assess the optimum charges for the use of the Transmission and Distribution System. The procedure is expected to be finalised in 2008 and before new entrance of Independent Power Producers (IPPs).

The current electricity consumption charges using the tariffs in force are as follows using the corresponding Eurostat definitions. For further details see attached table of electricity prices:

- Dc : Price all taxes included: 15,72 € cent
- lb : Price all taxes included: 17,08 € cent
- lg : Price all taxes included: 12,86 € cent.

In addition EAC has produced a study through the support of an outside consultant that takes into consideration the unbundled accounts and revalued assets referred to above and through this report the proposed national average network costs are estimated as shown in the table below (these costs have not yet been approved by CERA):

ITEM	MAX. DEMAND CHARGE €/MW/MONTH *	ENERGY CHARGE €/MWH	AVERAGE KWHR CHARGE €CENT/KWHR **
High Voltage (66-132kV)	3689,23	-	0,909
Medium Voltage (11kV)	3586,61	8,83	1,767
Low Voltage (400 Volts)	-	14,45	1,445
Transmission System Operator	-	0,73	0,073
Ancillary Services	-	2,82	0,282
Long term cold reserve	-	4,63	0,463
Average Total € cent/kW hr			4,939

* MW sent out

**kWh sold

From the above the following average network costs can be deduced:

- Consumers fed from low voltage network: 4,939 € cent / kWhr
- Consumers fed from medium voltage network: 3,494 € cent / kWhr
- Consumers fed from high voltage network: 1,727 € cent / kWhr

EAC is preparing a proposal for submission to CERA, which will be soon under scrutiny for consideration and final approval. On the basis of the above study EAC will proceed to analyse the current tariff structure and propose to CERA new consumption tariffs for approval.

It is worth noting that the procedures and conditions for connection to the transmission or distribution system are included in the Transmission and Distribution Rules, which have been approved by CERA in October 2004 and the revised version was approved on 19/06/06. All information regarding connection charges are published on the TSO's website.

Table 3.1.3

Regulation of network companies

	NUMBER OF REGULATED COMPANIES	APPROX NETWORK ACCESS CHARGE (EURO/MWH)			INTERRUPTIONS MINUTES LOST PER CUSTOMER PER YEAR
		Ig	Ib	Dc	
TRANSMISSION	1	*	*	*	No data available at present
DISTRIBUTION	1	*	*	*	No data available at present

Balancing

The Market Rules are proposed by the TSO, approved by CERA and the Ministry, and published by the TSO. They provide all necessary information concerning operation of the electricity market in the country. The balancing arrangements are also described in the Transmission and Distribution Rules.

The balancing interval is 30min. 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 Market Rules. Settlement of imbalances will be arranged on a monthly basis.

The market is not yet operating in practise since there is only one Power Producer and Supplier, namely EAC. In general the principles incorporated in the “Electricity Market Rules” were approved by CERA, however further simplification of the Rules is in process for better implementation. The Market Rules will be published on the TSO’s website once they are approved. Currently, they are under review and they provide that EAC, as the dominant and last resort producer, supports small market participants in absorbing “spilling” or provide “topping up” as well as supplying customers of IPPs during any short time weaknesses to support their customers.

3.1.4 Effective unbundling

As already indicated in paragraph 3.1.3 above:

- Cyprus has established a single TSO, independent in legal terms (the Manager of TSO’s Office being appointed by the Council of Ministers), in management terms (organization and decision making) as per Law L.122(I)/2003.
- 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 (see Article 15) and the approval of the Government of Cyprus.
- Neither the TSO or DSO are ownership unbundled, and according to the 3rd Energy Package (amendments on the Directives for gas and electricity) Cyprus is exempted from this provision due to the small and isolated characteristics.
- Although the DSO has no legal independence, the accounts of this activity are unbundled and all medium and low voltage installations of the Distribution System are among the assets allocated as own.

Table 3.1.4

Summary Information on TSO & DSO Unbundling (Electricity)

GENERATION SUPPLY AND TRANSMISSION ACTIVITIES	TSO	DSO
Separate Headquarters (Y/N)	Yes	No
Separate corporate presentation (Y/N)	Yes	No
Unbundled regulatory accounts as per guidelines (Y/N)	Yes	Yes
Audit of unbundled accounts (Y/N)	No	No
Publication of unbundled accounts (Y/N)	No	No
Separate board of Directors without Directors from other group companies? (Y/N)	No	No

On the basis of the above the following are adhered to:

- Unbundled corporate accounts of EAC will include separate accounts for Transmission as Owner, Transmission as Operator and Distribution as Owner and Operator.
- The unbundling methodology of EAC has been prepared by reputable consultants (ESBI Ireland) and the Board of EAC has given its preliminary approval. The methodology has been submitted to CERA together with historic accounts and these are currently in the final stages of clarifications and approval.
- It was agreed with EAC that unified accounts should be acceptable for the time being. In the future however, its intended that unbundled accounts will be issued and separately audited by external auditors.
- In accordance with article 27 of Law 122(I)/2003, sanctions available to the Regulator for Companies failing to comply with management or accounts unbundling vary in accordance with the seriousness of the breach, from fines of a minimum of €1,710 up to 10% of the gross annual income of the enterprise.

In the event that the breach continues, inspite of the fine imposed, CERA may additionally impose an administrative fine of €85.50 to €8,550 for each day that the breach continues taking into consideration the seriousness of the breach.

In the event that the person/legal entity responsible for the breach has obtained illegal gain due to the breach, CERA has the power to impose a fine which may reach a sum double that of the proven sum illegally gained.

CERA may also revoke the Licence.

TSO is located separately from EAC. The TSO presents himself to customers as a separate entity with his own name, logo and website.

Employees directly employed by network operators (TSOs & DSOs) as share of employees of the total electricity sector approximates to 39,6%.

Employees also providing services to other parts of the group as percentage of the total employees in the network business (the denominator includes the shared employees & the exclusive network employees) approximates to 96,8%.

TSO and DSO are provided with all of their employees by the single vertically integrated utility, namely EAC.

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

3.2 Competition Issues [Article 23(8) and 23(1)(h)]

3.2.1 Description of the wholesale market

Cyprus has opened the electricity market by 35% of the annual consumption as from 1st May 2004 and up to now only one generator (EAC) is operating in Cyprus covering all the needs of the country. Furthermore, the Trading and Settlement Rules (Market Rules) have been approved in 2005 subject to further reviewing and simplification procedures to be undertaken. The Law allows a retail market to operate for participants that own and operate enough generation for the needs of their customers.

In this respect no wholesale market is envisaged to function in Cyprus in the near future.

The installed generating capacity in Cyprus is 1168 MW with a recorded maximum demand of 907 MW in July 2006, 1056 MW in July 2007 and 1005 MW in July 2008 and an annual consumption of 4.135 GWh for 2006 and 4.298 GWh for 2007.

Cyprus is currently operating a national electricity market that is totally (100%) dominated by EAC who is the provider of ancillary services as well. In the future, market participants, with generating capacity exceeding 50MW can participate in the market for ancillary services.

Although demand side management is covered in the approved Transmission and Distribution Rules there is not yet any active participation in demand side management.

Since there is no whole-sale market in Cyprus the Table 3.2.1 is not applicable. Furthermore, there is only one supplier the Electricity Authority of Cyprus (EAC) and trading is carried out only through bilateral agreements (by choice of available tariffs). Hence Table 3.2.1(a) is not applicable.

Table 3.2.1

Development of wholesale market – NOT APPLICABLE

	Demand		Installed capacity (GW)	No. of companies with >5% generation	Share of largest three generation companies	HHI (where available)	
	Total (TWh)	Peak (GW)				All plant, by capacity	All plant, by volume
	2002	N/A	N/A	N/A	N/A	N/A	N/A
2003	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2004	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2006	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2007	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Table 3.2.1a

Volume of electricity traded (TWh) – NOT APPLICABLE

	Total consumption	traded in spot PX market	traded in forward PX market	bilateral OTC trading

2003	N/A	N/A	N/A	N/A
2004	N/A	N/A	N/A	N/A
2005	N/A	N/A	N/A	N/A
2006	N/A	N/A	N/A	N/A
2007	N/A	N/A	N/A	N/A

3.2.2 Description of the retail market

As already pointed out, Cyprus has opened the Electricity Market on the 1st May 2004 for the 35% of the annual consumption. Before May 2004, EAC was the sole licensee to produce and sell electricity in Cyprus and the situation remains the same up until today, as no new players already being Licenced have been put into operation. EAC is currently supplying the following groups of consumers:

- Households and small commercial sector: 480.432 consumers (less 50 kW) - 100% share
- Medium sized industrial and commercial sector: 2.691 consumers (above 50 kW, LV metering) – 100% share
- Large and very large industrial customers: 498 consumers (MV and HV metering) – 100% share

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

CONSUMERS, TOTAL & AVERAGE SALES & AVERAGE PRICES

As at 31 December	2004	2005	2006	2007
NUMBER OF CONSUMERS				
Domestic	318 640	332 338	348 394	366 799
Commercial	72 941	74 916	76 272	78 294
Industrial	10 595	10 956	11 198	11 299
Agricultural	10 400	10 931	11 597	12 117
Public Lighting	6 771	7 138	7 581	7 991
TOTAL	419 347	436 279	455 042	476 500
SALES TO CONSUMERS (thousand kWh)				
Domestic	1 324	1 431	1 500	1 607
	774	792	511	048
Commercial	1 518	1 587	1 713	1 783
	582	196	921	885
Industrial	722 850	726 059	723 038	699 746
Agricultural	117 478	120 062	128 701	137 339
Public Lighting	58 146	67 793	68 851	70 301
TOTAL	3 741	3 932	4 135	4 298
	830	902	022	319
AVERAGE SALES PER END YEAR CONSUMER(kWh)				
Domestic	4 158	4 308	4 307	4 381
Commercial	20 819	21 186	22 471	22 784
Industrial	68 226	66 270	64 568	61 930
Agricultural	11 296	10 984	11 098	11 334
Public Lighting	8 589	9 497	9 082	8 798
AVERAGE REVENUE PER UNIT BILLED kWh (€ cent)				
Domestic	9,701	11,017	12,502	12,757
Commercial	10,397	11,758	13,019	13,339
Industrial	8,275	9,602	11,120	11,467
Agricultural	8,644	10,115	11,443	11,684
Public Lighting	8,443	9,306	10,990	11,243
ALL CONSUMERS	9,655	10,997	12,418	12,729

All tariffs and charges are regulated and they are currently under a process of re-adjustment to gradually overcome any remaining cross subsidies.

It should be noted that according to the Law, suppliers should own at least adequate generating capacity to satisfy the needs of their consumers aggregate demand, thus integrating producers with supply activities.

No switching procedures are as yet into force for customers to change suppliers, since there are no other suppliers.

The retail prices are split as shown in the attached tables referred to in paragraph 3.1.3 above.

Table 3.2.2

Development of retail market

	Total consumption (TWh)	No. of companies with >5% retail market	Number of fully independent suppliers (1)	Market share of three largest companies (Producers)			Cumulative % customers having changed supplier (by volume)		
				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
2001	3,13	1	0	N/A	N/A	N/A	0	0	0
2002	3,40	1	0	N/A	N/A	N/A	0	0	0
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

(1) i.e. fully independent from Production companies

Table 3.2.2a

Breakdown of currently prevailing price levels

	Ig	Ib	Dc	
Network charges (excl. levies)	3,494	3,494	4,939	
Levies included in network charges	0,220	0,220	0,220	
Energy costs and supply margin	7,466	11,136	8,511	
Taxes (15% V.A.T.)	1,677	2,229	2,051	
Total (including all taxes)	12,86	17,08	15,72	Prices as on 31/12/07

* Note: Primary Fuel is Heavy Fuel Oil (HFO)

In accordance with the New Methodology for the collection of electricity prices for industrial and household consumers (Council Directive 90/377/EEC –Eurostat) there are some differentiations.

The factors affecting the charges of Industrial Consumers are the following:

- supply voltage (Low 500 volts or less, Medium 11/22 KV, High 66/132 KV)
- usage
- maximum demand
- load factor
- time of day
- fuel adjustment clause for kWh charged *

The factors affecting the charges of Domestic Consumers are the following:

- usage
- time of day
- fuel adjustment clause for kWh charged *

* Fuel Adjustment Clause is included in the basic price (price exclusive of taxes)
 The Published Tariff Rates are based on the cost of fuel of €85,43 per metric tonne. Hence there is a "fuel adjustment clause" in our tariffs to make provisions for the variations in the fuel price. The "fuel adjustment clause" states that the unit price should be increased or decreased by 0,00138 cent for every 5 cent variation of the fuel cost above or below €85,43/metric tonne, ie

$$\text{Fuel adjustment cost per kWh} = \frac{(\text{current fuel price €} - \text{€85,43})}{\text{€0,05}} \times 0,00138$$

The average Load Factors for Industrial end-users are the following:

Industrial end-user	Annual electricity consumption in MWh		Average Load Factors
	Lowest	Highest	
Band - IA	<20		0,05-0,10
Band - IB	20	< 500	0,11-0,20
Band - IC	500	<2 000	0,21-0,30
Band - ID	2 000	<20 000	0,31-0,50
Band - IE	20 000	<70 000	0,51-0,70
Band - IF	70 000	<=150 000	0,71-0,90
Band - IG	> 150 000		

The Voltage Limits are:

- 230/400V – Low Voltage
- 11000V – Medium Voltage
- 66000V – High Voltage

With regards to the Standing Charges (Consumer Related Costs – Meter Rentals – Meter Reading - Other Charges) for both categories the following details are given:

Industrial Consumers

- Low Voltage up to 50kVA Load Entitlement – bi-monthly bills
 - 3,55 cent for 1-phase (230V)
 - 4,27 cent for 3-phase (400V)
- Low Voltage over 50kVA Load Entitlement – monthly bills
 - 9,58 cent for each monthly period for 1-rate tariffs
 - 11,49 cent for each monthly period for 2-rate tariffs

- Medium Voltage 11KV – monthly bills
 - ♦22,75 cent for each monthly period for 3-rate tariffs
- High Voltage 66KV – monthly bills
 - ♦23,44 cent for each monthly period for 3-rate tariffs

Domestic Consumers

- 1,81 – 5,89 cent for bi-monthly period

Note: The standing charges for domestic consumers are varying according to consumption bands (e.g. 0-120, 121-320, etc)

The electricity Taxes include:

- VAT at a rate of 15% and
- Levy for the promotion of renewable energy sources and energy conservation at a rate of 0,22 cent per kWh.

EUROSTAT Energy Price Reporting Sheet (Households → 1.7.2007-31.12.2007)

Household end-user	Annual electricity consumption in kWh		Prices in cent / kWh		
	Lowest	Highest	All taxes excluded*	VAT excluded	All taxes included
			(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Band - DA	<1 000		14.36	14.58	16.73
Band - DB	1 000	<2 500	13.32	13.54	15.54
Band - DC	2 500	<5 000	13.48	13.70	15.72
Band - DD	5 000	<15 000	13.52	13.74	15.77
Band - DE	≥15 000		13.61	13.83	15.87

*Level 1 prices exclude all taxes, levies and VAT

EUROSTAT Energy Price Reporting Sheet (Industry → 1.7.2008-31.12.2008)

Industrial end-user	Annual electricity consumption in MWh		Prices in cent / kWh		
	Lowest	Highest	All taxes excluded*	VAT & other excluded**	All taxes included***
			(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Band - IA	<20		14.50	14.72	16.90
Band - IB	20	< 500	14.66	14.88	17.08
Band - IC	500	<2 000	13.69	13.91	15.96
Band - ID	2 000	<20 000	12.61	12.83	14.72
Band - IE	20 000	<70 000	10.99	11.21	12.86
Band - IF	70 000	<=150 000	11.29	11.51	13.20

Voluntary basis :

Band - IG	> 150 000			
-----------	-----------	--	--	--

*Level 1 prices exclude all taxes, levies and VAT

**Level 2 prices exclude VAT and all other recoverable taxes and levies

***Level 3 prices include all taxes, levies and VAT (also in case it is refunded)

With regards to consumer complaints there are basically three (3) types of complaints

Type of Complaint	Number of complaints received
High Consumption	642
Entangled tree brunches with overhead conductors	3344
Blown Street Lighting	4428
Total (3 basic types)	8414
Total Complaints of 2007	9843

3.2.3 Measures to avoid abuses of dominance

All information regarding generation, planned and actual, together with all the necessary transmission system developments is published on CERA's and TSO's websites. Furthermore, the current vertically integrated utility (EAC) is going to be totally regulated both for the network activities, but also for generation and supply with fully unbundled accounts to the requirements of the Directive and its tariffs and other charges will be approved by CERA. This situation will continue until competitive conditions are established after new entrance come into operation. In addition, as already pointed out in other sections of the report:

- The TSO is independent from the vertically integrated Utility (EAC) in management (organisation and decision making) terms and is totally responsible for the operation of the electricity transmission system and the market as far as generation, supply, the balancing market and the provision of ancillary services.
- Performance quality indices are already in effect for all critical factors of the electricity network with penalties on the provider so that actual service to electricity consumers is closely monitored.
- All applications for connection to the Transmission network shall be totally the responsibility of the TSO as far as the issuing of terms for connection to the network and furthermore to oversee that the system owner (EAC) shall take all the necessary steps to construct the necessary network without delay.
- The TSO is vested with the responsibility of submitting the Transmission Use of System Charge to CERA for approval.
- CERA is the responsible Authority to regulate and monitor conditions of the market, so that abuses of dominance as well as other breaches of the Rules of the free Market are avoided. To this effect CERA takes appropriate and effective measures through the approvals of the above itemised issues for control and transparency, so as to avoid possible misuse of dominant positions and in particular of those misuses to the detriment of consumers.

4. REGULATION AND PERFORMANCE OF THE NATURAL GAS MARKET [Article 25(1)]

4.1 Regulatory Issues [Article 25]

4.1.1 General

Natural Gas is still not available on the island. In spite of this, natural gas was defined by a Ministerial Direction as the basic fuel for the production of electricity with regards to future installations of sizeable capacity.

Nevertheless, the Natural Gas Sector has been put in line with the relevant EU Directive 2003/55/EC, relating to the common rules of the internal natural gas market. The provisions of the Directive have been incorporated into the Laws on Regulating the Natural Gas Market of 2004-2007.

Additionally, CERA has prepared draft bills amending the Laws in order to fully transpose the Directives 2003/55/EC (Article 22-New Infrastructure) and 2004/67/EC into the national Laws, which have been forwarded to the Office of the Attorney General for their conformity to the legal, technical aspects, before they are forwarded to the Council of Ministers and the Parliament for approval.

Unlike the electricity sector which is characterised by ownership differentiation, 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 fully monopolistic, as prescribed in detail in previous paragraphs.

Cyprus will establish its gas industry by granting a supply monopoly to a single legal entity, which will be controlled by the state (Shareholding: 56% by Government, 44% by Electricity Authority of Cyprus), called 'DEFA'. In general 'DEFA' would have the sole right to import gas into Cyprus and to sell gas to all gas consumers. Aggregating gas demand through DEFA could also facilitate Cyprus' ability to acquire a relatively small quantity of gas on the best terms to satisfy demand. In addition the Council of Ministers have decided the creation of a land based Energy Center as the exclusive Receiving Terminal, with Storage facilities and installations for Regasification of Liquefied Natural Gas (LNG).

It is evident that the authority and competence of CERA as well as the model of the natural gas market in Cyprus are drastically transformed setting in real terms a monopoly model in gas market which will eventually affect competition in electricity market as well.

In case all the necessary procedures and steps are materialised in the planned timeschedule, it is expected that Natural Gas will be available in the island by 2013. An indicative forecast share of gas in primary energy supply is given below:

Year	Total LNG demand in bcm
2013	1,28
2014	1,41
2015	1,47
2016	1,59
2017	1,65
2035	3,42

The above forecasts are indicative, it is expected that the numbers (total LNG demand) will change due to the fact that Natural Gas will be used mainly for electricity generation. In this respect if the electricity demand increases so as the LNG demand.

The table below gives the type of gas usage, distinguishing among industrial, residential, power generation and commercial. For each kind of usage also provides the level and percentages of total levels of consumption for the next 10 years.

Natural gas consumption by sector (MSmc)											
Year	Industry		Residential		Commercial		Power Generation		Others		Total
		%		%		%		%		%	
2008		0		0		0		0		0	0
2009		0		0		0		0		0	0
2010		0		0		0		0		0	0
2011		0		0		0		0		0	0
2013		0		0		0		100		0	100
2015		0		0		0		100		0	100
2017		0		0		0		100		0	100

Furthermore, the seasonality of natural gas demand it is expected to be affected by the seasonality of electricity demand (maximum demand in summer time- usually July).

4.1.2 Management and allocation of interconnection capacity and mechanisms to deal with congestion

Cyprus, as an island, will operate without any cross-border links. Thus, cross-border congestion management rules are not applicable.

In view of the fact that the gas market is still non-existent in Cyprus Tables 4.1.1, 4.1.3, 4.1.4, 4.2.1, 4.2.1a, 4.2.2 and 4.2.2a are not applicable.

Table 4.1.1

Gas Market Opening Table – NOT APPLICABLE

YEAR	THRESHOLD GWH/YEAR	% MARKET OPEN
1997	N/A	N/A
1999	N/A	N/A
2001	N/A	N/A
2003	N/A	N/A
2005	N/A	N/A
2006	N/A	N/A
2007	N/A	N/A
2008	N/A	N/A

Table 4.1.3

Regulation of network companies – NOT APPLICABLE

	Number of regulated companies	Approx network access charge Euro/cubic metre			Interruptions minutes lost per customer per year
		I4	I1	D3	
Transmission	N/A	N/A	N/A	N/A	N/A
Distribution	N/A	N/A	N/A	N/A	N/A

Table 4.1.4

Summary Information on Unbundling (Gas) – NOT APPLICABLE

	Transmission	Distribution
Separate Headquarters (Y/N)	N/A	N/A
Separate corporate presentation (Y/N)	N/A	N/A
Unbundled regulatory accounts with guidelines (Y/N)	N/A	N/A
Audit of unbundled accounts (Y/N)	N/A	N/A
Publication of unbundled accounts (Y/N)	N/A	N/A
Separate board of Directors without Directors from other group companies? (Y/N)	N/A	N/A

Table 4.2.1

Development of wholesale market – NOT APPLICABLE

	Demand		Production (bcm)	Import capacity (bcm/year)				No. of companies with >5% production and import capacity	No. of companies with >5% available gas	Share of largest three gas wholesalers
	Total (bcm)	Peak (bcm/year)		total	reserved transit	reserved other LT	unreserved			
	2002	N/A	N/A	N/A	N/A	N/A	N/A			
2003	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
2004	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
2006	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
2007	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	

Table 4.2.1a

Volume of gas traded (bcm) – NOT APPLICABLE

	Total consumption	traded in spot hub market	traded in forward hub market	bilateral OTC trading
2003	N/A	N/A	N/A	N/A
2004	N/A	N/A	N/A	N/A
2005	N/A	N/A	N/A	N/A
2006	N/A	N/A	N/A	N/A
2007	N/A	N/A	N/A	N/A

Table 4.2.2

Development of retail market – NOT APPLICABLE

	Total consumption (bcm)	No. of companies with >5% retail market	Number of fully independent suppliers (1)	Market share of three largest companies				Cumulative % customers having changed supplier (by volume)			
				power plants	large and very large industrial	small-medium industrial and business	very small business and household	power plants	large and very large industrial	small-medium industrial and business	very small business and household
2002	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2003	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2004	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2006	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2007	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(1) i.e. fully independent from network companies

Table 4.2.2a
Breakdown of currently prevailing price levels – NOT APPLICABLE

	I4	I1	D3
Network charges (excl. levies)	N/A	N/A	N/A
Levies included in network charges	N/A	N/A	N/A
Energy costs and supply margin	N/A	N/A	N/A
Taxes	N/A	N/A	N/A
Total (including all taxes)	N/A	N/A	N/A

5 SECURITY OF SUPPLY

5.1 Electricity [Article 4]

In 2007 the Power Maximum Demand recorded was on the 30th of July 2007 and reached a level of 1056 MW, (vis -à-vis a Demand Forecast of 945MW), 9MW of which were derived from “OWN USE” installations.

The total Energy generated for the whole of the year was of the order of 4.650GWh (vis-à-vis a forecast of 4.640GWh) 32.17GWh of which were the result of “OWN USE” Generation, while 40.59GWh, were consumed for the needs of own occupied areas. The load factor for the year was of the order of 0.585.

Until July 2007 the Power Maximum Demand recorded was on the 26th of July 2007 and reached a level of 1021MW, (vis -à-vis a Demand Forecast of 945MW).

In recent years the average annual rate of increase in Power Maximum Demand was of the order of 5.85% and the average annual rate of increase in generated energy was of the order of 5.65%.

The levels of annual maximum demand as well as the annual energy generated are expected to continue a similar increasing trend.

The forecasted maximum demand for electricity is as follows:

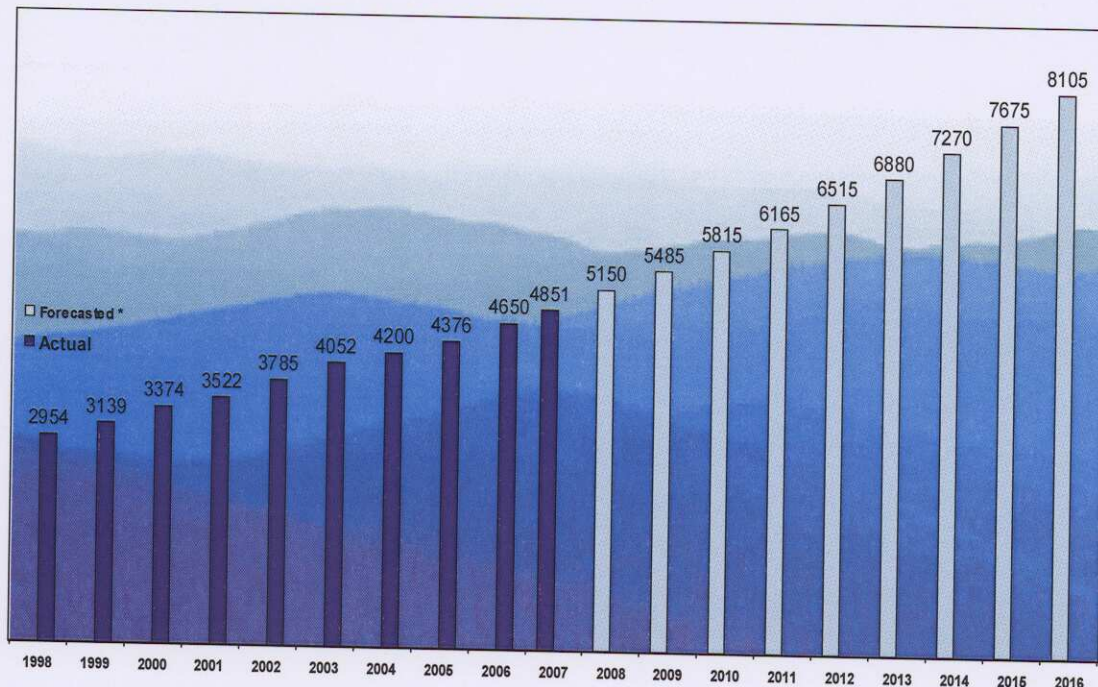
- ⇒ 2008 (forecasted) 1065MW
- ⇒ 2009 (forecasted) 1130MW

- ⇒ 2010 (forecasted) 1200MW
- ⇒ 2011 (forecasted) 1275MW
- ⇒ 2012 (forecasted) 1350MW
- ⇒ 2013 (forecasted) 1435MW
- ⇒ 2014 (forecasted) 1520MW
- ⇒ 2015 (forecasted) 1615MW
- ⇒ 2016 (forecasted) 1710MW

The currently available generation capacity is 1168MW however in real terms due to a number of reasons among of which high temperatures the said figure is de-rated at levels of 1106MW.

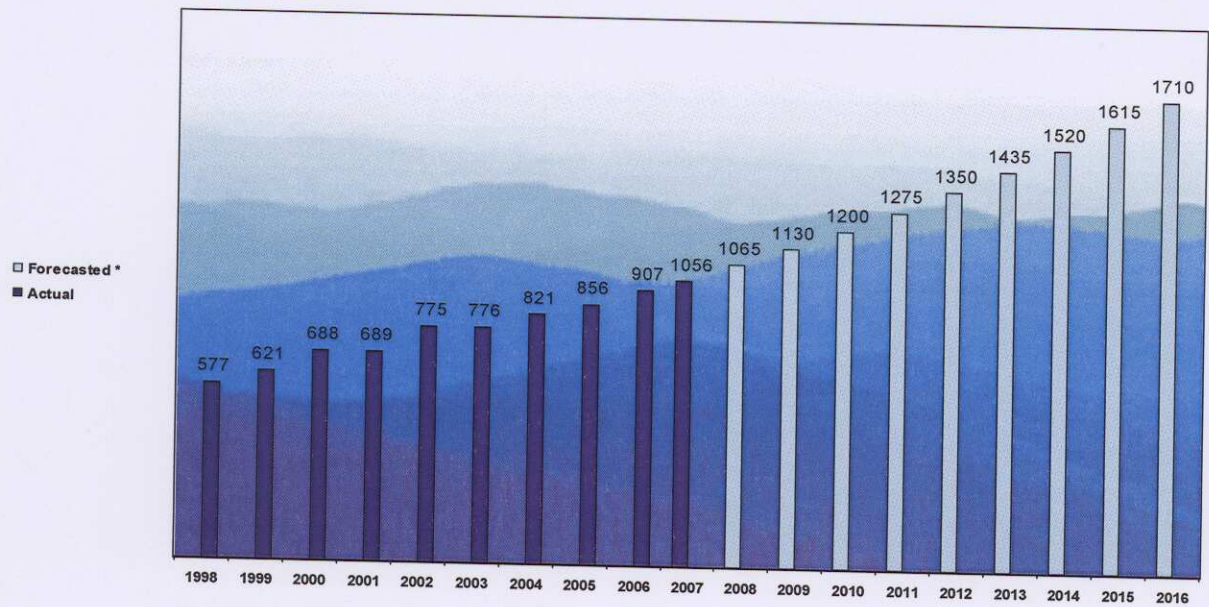
Graphs below present historical data for the period 1999-2007 and the forecasted quantities for the period 2008 to 2016.

TOTAL ANNUAL GENERATION OF ELECTRICAL ENERGY IN GWh until the Year 2016



* With a Variation of $\pm 1.5\%$ for 2008 up to $\pm 3.5\%$ for the year of 2016

Annual Maximum Demand in MW until the Year 2016



* With a Variation of $\pm 1.5\%$ for 2008 up to $\pm 3.5\%$ for the year of 2016

The table below is the Energy Balance of Cyprus for the year 2006 in toe, where there are some details on the fuel mix by source and by consumer.

Energy balance for the year 2006 in toe

Production of primary energy	Crude oil	LPG	Unleaded 95	Unleaded 98	Unleaded 100	Kerosene	Diesel S 0.005%	Gas oil S 0.2 %	Marine gas oil	LFO S≤1%	LFO S>1%	HFO S≤1%	HFO S>1%	Electricity	Bitumen	Pet-coke	Coal	Tyres	Solar Thermal	Electricity from PV systems	Biomass	Electricity from Biomass	total	
Net imports	0	68561	316192	49670	2749	328712	349784	259214	104706	9550	38307	477117	695145		49237	112040	45910	1759	43244	75	3212		48290	
Change stocks	0	-8340	-15141	-13684	-205	-7193	-6394	-27515		831	178	-12092	14669		-12849	-5400	-7225					3290		2910184
Bunkers																								-100159
Primary Energy Conversion	0	60221	301052	35986	2545	321519	343390	183376	0	10381	38485	465025	660812	0	36388	106641	36685	1759	43244	75	6501	0	2656083	
Refinery	0																							0
Electricity																								0
Non energy use								-6999				465025	621073	354122										0
Occupied area by Turkish army																				-10811				-738975
Final consumption	0	60221	301052	35986	2545	321519	343390	176376	0	10381	38485	0	39739	350001	0	106641	36685	1759	32433	75	6488	13	1865788	
Eligible consumers																								
Cement industry													16309			106641	36685	1759						1864
Road transport			301052	35986	2545		343390							5863										
Air transport						304988																		
Households (Heating)		38275				14448		76500						128042						24325	75	2226		
Agriculture		1728						29427						10966								108	13	
Commerce, Industry & Hotels		20218				2083		70449		10381	31323		23430	205129					8108			2290		

GENERATION LICENCES ISSUED

Until July 2008, CERA issued Licences for existing and new Electrical Energy Generating Stations (Conventional Units of Generation) as follows:

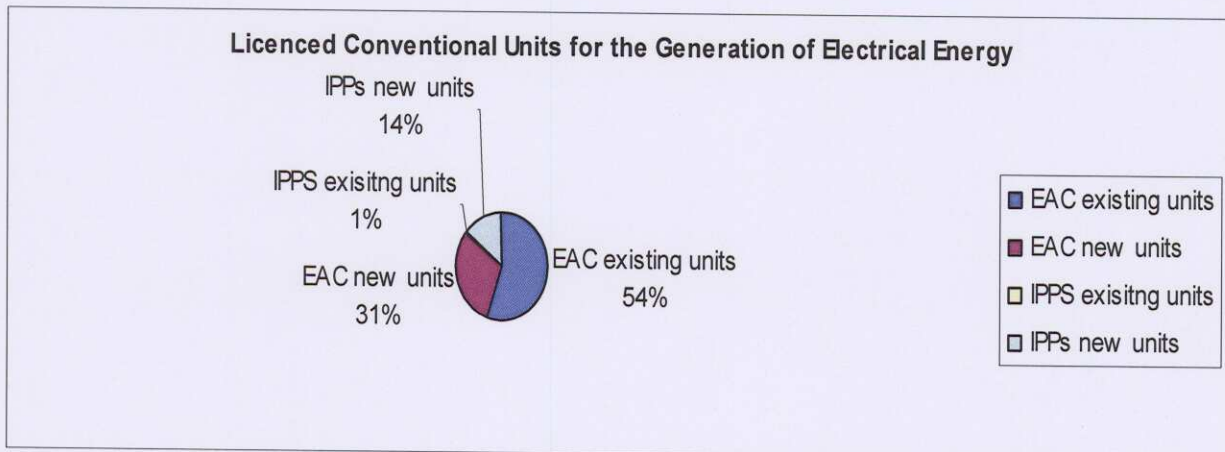
S/N	COMPANY NAME	TYPE OF LICENCE	MW
1	EAC (Heavy Fuel Oil & Diesel)	Operation of Power Plant at Vasilikos (Existing Units)	298
2	EAC (Heavy Fuel Oil)	Construction and Operation of Power Plant at Vasilikos (Unit No.3)	130
3	EAC (Heavy Fuel Oil)	Operation of Power Plant at Dhekelia (Existing Units)	360
4	EAC (Heavy Fuel Oil & Diesel)	Operation of Power Plant at Moni (Existing Units)	330
	EAC (HFO& DIESEL)	Construction & Operation of Power Plant at Vasilikos, Unit 3	130
5	Vasilikos Cement Works Ltd	Operation of Power Plant (Existing Unit – own use generation)	6
6	Vouros Power Industries Ltd (Heavy Fuel Oil)	Construction and Operation of Power Plant (ICE)	49,9
7	EAC	Construction and Operation of Power Plant at Vasilikos – Unit No.4 (CCGT)	220
8	EAC	Construction and Operation – Unit No.5 at Vasilikos (CCGT)	220
9	EAC	Construction and Operation – Unit No.6 at Vasilikos (CCGT)	220
10	Vasilikos Cement Works Ltd	Construction and Operation (ICE – own use generation)	5
11	Elmeni Quarries Ltd	Construction and Operation (ICE – own use generation)	1,6
12	Golar Energy Ltd	Construction and Operation of a Floating Power Plant- Vassilikos (CCGT)-Natural Gas	240
13	Latomia Farmakas Ltd	Operation & Generation of Electrical Energy (Existing Unit-own use generation)	2
14	Hellenic Copper Mines Ltd	Operation & Generation of Electrical Energy (ICE-for own use generation)	3,8
15	Sewerage Board of	Operation & Generation of	1,2

	Limassol-Amathus	Electrical Energy – for own use generation	
16	Sewerage Board of Limassol-Amathus	Operation & Generation of Electrical Energy – for own use generation	1,2
17	EAC (Diesel)	Construction & Operation of Electrical Energy (ICE-for own use generation) Dekhelia	50
TOTAL (100%)			2138,7
EAC (85,56%)			1828,0
OTHERS(14,44%)			310,7

- EAC - Electricity Authority of Cyprus
 RES - Renewable Energy Sources
 IPPs - Independed Power Producers
 CCGT - Combined Cycle Gas Turbine
 ICE - Internal Combustion Engine

By conventional means, 2138,7MW which include:

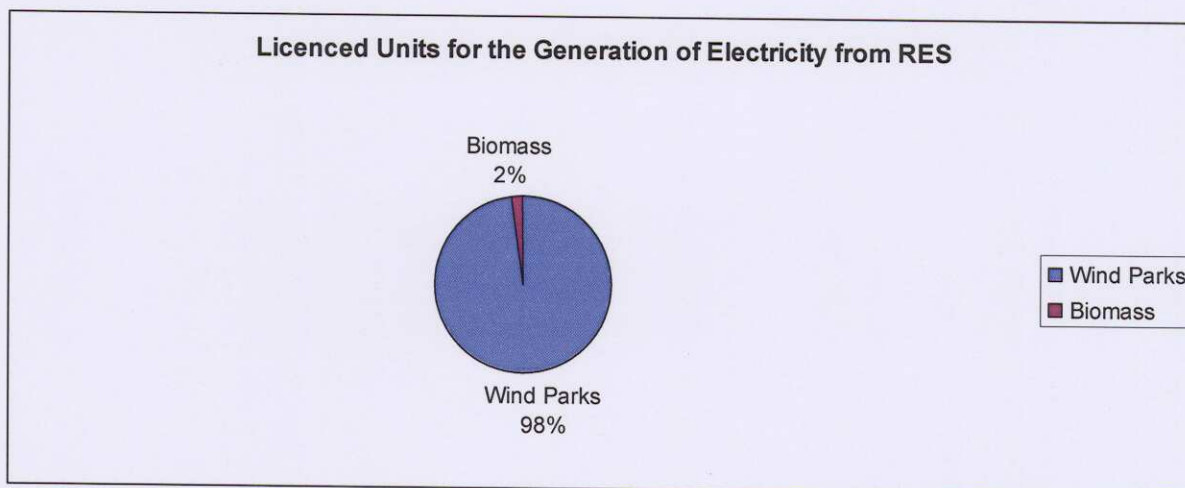
- ✓ EAC: 1168MW (54%) existing units
- ✓ EAC: 660MW (31%) new units
- ✓ Two IPPs 14,2MW (1%) existing units
- ✓ Four IPPs 296,5MW (14%) new units



Until July 2008, CERA issued Licences for new Electrical Energy Generating Stations (Electricity Production from RES) as follows:

By Renewable Energy Sources 471,897MW which include:

- ✓ Wind Parks: 463,2MW (98%)
- ✓ Biomass: 8,697MW (2%)



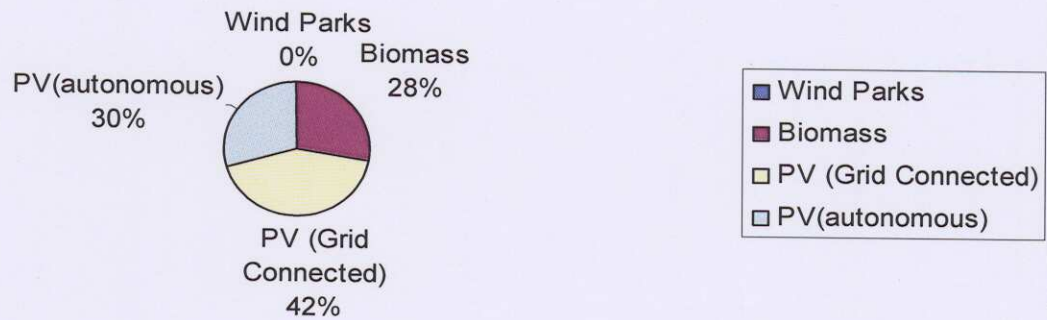
Having in mind the already licenced electricity generation installations from RES and the prospective investments as well as the submitted timetables of the investors, it is believed that the projects will materialise and operate in the next 2-3 years, if of course the time consuming other bureaucratic procedures with respect to obtaining all the necessary approvals for the operation of the said installations are limited or abolished.

However, until now a small number of investments (biomass and small PV systems) have been materialized. The relevant details are given below:

Installed RES Units of a total capacity of 2,69MW

- ✓ Wind Parks: 0MW (0%)
- ✓ Biomass: 0,75MW (28%)
- ✓ PV Systems (grid connected): 1,14MW (42%)
- ✓ PV Systems (autonomous): 0,8MW (30%)

RES-E Installations



APPLICATIONS UNDER CONSIDERATION

In July 2008 CERA is examining the following applications for the purpose of authorising new generation investments (conventional units of generation).

S/N	COMPANY NAME	TYPE OF APPLICATION	MW
1	M.S. (Skyra) Vassas Ltd	Operation & Generation of Electrical Energy (for own use generation)	3,19
2	P.E.C.Powerenergy Cyprus Ltd	Construction & Operation of Power Station (CCGT)	230
3	Cyprus Telecommunication Authority	Construction & Operation of Power Station (CCGT – for own use generation)	1,36
4	JCC Payment Systems Ltd	Construction & Operation of Power Station (CCGT)	1,28
TOTAL (100%)			235,83

In July 2008 CERA is examining the following applications for the purpose of authorising new generation investments (electricity generation from RES).

RES Applications under review of a total capacity of 358,63MW

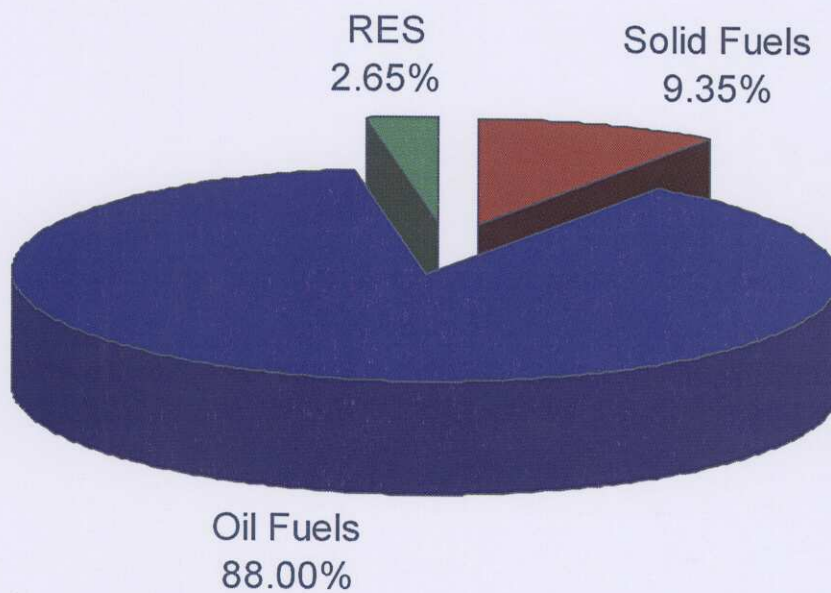
- ✓ Wind Parks: 345,65MW (97%)
- ✓ Biomass: 5,15MW (1%)
- ✓ PV Systems (grid connected): 7,5MW(2%)
- ✓ Hydroelectric Systems: 0,33MW (0,01%)

RES Applications under review



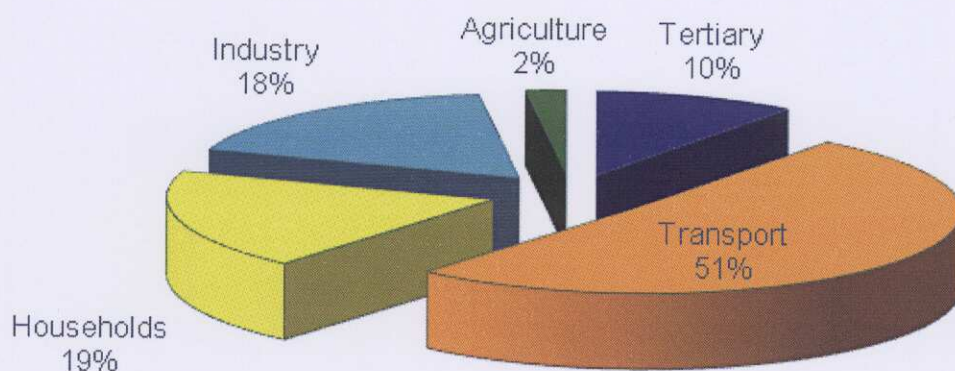
Currently Cyprus is totally dependent on Heavy Fuel Oil and Diesel, which are 100% imported. It is expected that there will be a better generation mix in the near future that shall include renewable generation sources (wind, solar, animal waist etc) and natural gas.

The total Energy Demand of Cyprus for 2006 was 1954ktoe with RES contribution (mainly solar energy) up to 128ktoe.



The Energy Demand per sector is given below where we can conclude that transport and building are the largest energy consuming sectors.

Energy Demand



The TSO, in close cooperation with EAC, (the Transmission network owner) has the legal responsibility of preparing a ten year plan for the network requirements to satisfy the secure flow of energy from the generators to the distribution network and customers connected to the transmission network.

The ten-year plan has already been submitted to CERA and has been approved. Same will be under annual review.

The **authorisation procedure and criteria for new generation investments** are as follows:

1. For the purpose of acquiring a License for the Construction and Operation of Electricity Generating Units for the purpose of Supplying Electricity to Eligible Consumers, or for generation for Own Use, a specific Application should be submitted, in accordance with Law No. 112(I)/2003 and the Relevant Regulations. The Application must be accompanied by the prescribed Fees and all necessary supporting documents that would allow CERA to complete a detailed examination of the Application and reach a decision.
2. The original "Form of Application of Licence" Part I of the relevant Regulation in accordance to Article 97(2)(d) of the Law of 2003 on Regulating the Electricity Market accompanied with all documents as required by Part II of the same Regulation must be filled in and submitted.
3. The Application Fee covers the registration, examination, evaluation and decision taking process regarding the Application and is not refundable.
4. In addition to other issues, the following are considered important and integral parts of the application:
 - ☐ Designation of the specific proposed erection location (plot of land) which must be accompanied with the written and binding consent of the owner, referring to memos on the title deed, if it is the case
 - ☐ General site planning drawings for the installation of the Units
 - ☐ Environmental Study, carried out by an independent specialist, in which it should be clearly concluded that all criteria for the protection of the Environment will be met and an explicit written undertaking, by the Applicant, of fulfilling these criteria during the Construction and Operation of the Units if the requested licence is granted

- Comprehensive and binding time schedule indicating monthly progress of the Project
 - Financial and/or other Guarantees for the Completion of the Project
5. Applications are examined according to the order of receipt once they are considered as being COMPLETE (i.e. all required documents and information have been submitted).
 6. In its decision regarding the issue of Licences and the size of the new Units that will be licensed, CERA seriously takes into consideration, among other criteria, the following:
 - The Adequacy, Reliability and Security of Supply for the following years
 - The Safety of the electricity system, installations and associated equipment
 - The Protection of the Environment
 - The Protection of public Health and Safety
 - Energy Efficiency
 - The introduction and continuation of a healthy Competition for the best interest of the Consumers
 - The Viability of the Project
 - The Fuel to be used
 - The repercussions in the Price of the kilowatt-hour (kWh)
 - The Time Schedule for the completion of the Project
 - Guarantees for the Completion of the Project
 7. CERA has the right to cancel the issued Licence in case the agreed timetable, for the completion of the Project, is unduly delayed at any stage beyond three (3) months.
 8. In accordance to Law N.122(I)/2003, Article 34(3), the issue of a Licence for the Construction and Operation of a Power Station does not exempt the holder of such licence from the obligation of obtaining other approvals and authorizations (e.g. a Building Permit and a Planning Permit) as required by any other Law.
 9. The relevant Law provides, that the Applicant, in the case of an Individual, must be a citizen of the European Union and be resident in a Member State, and in the case of a Legal Entity must be based and have a Registered Company in a Member State of the European Union.

The flowchart below shows the process for the examination of application towards granting a licence.

Flowchart process for examination of application towards granting a licence .

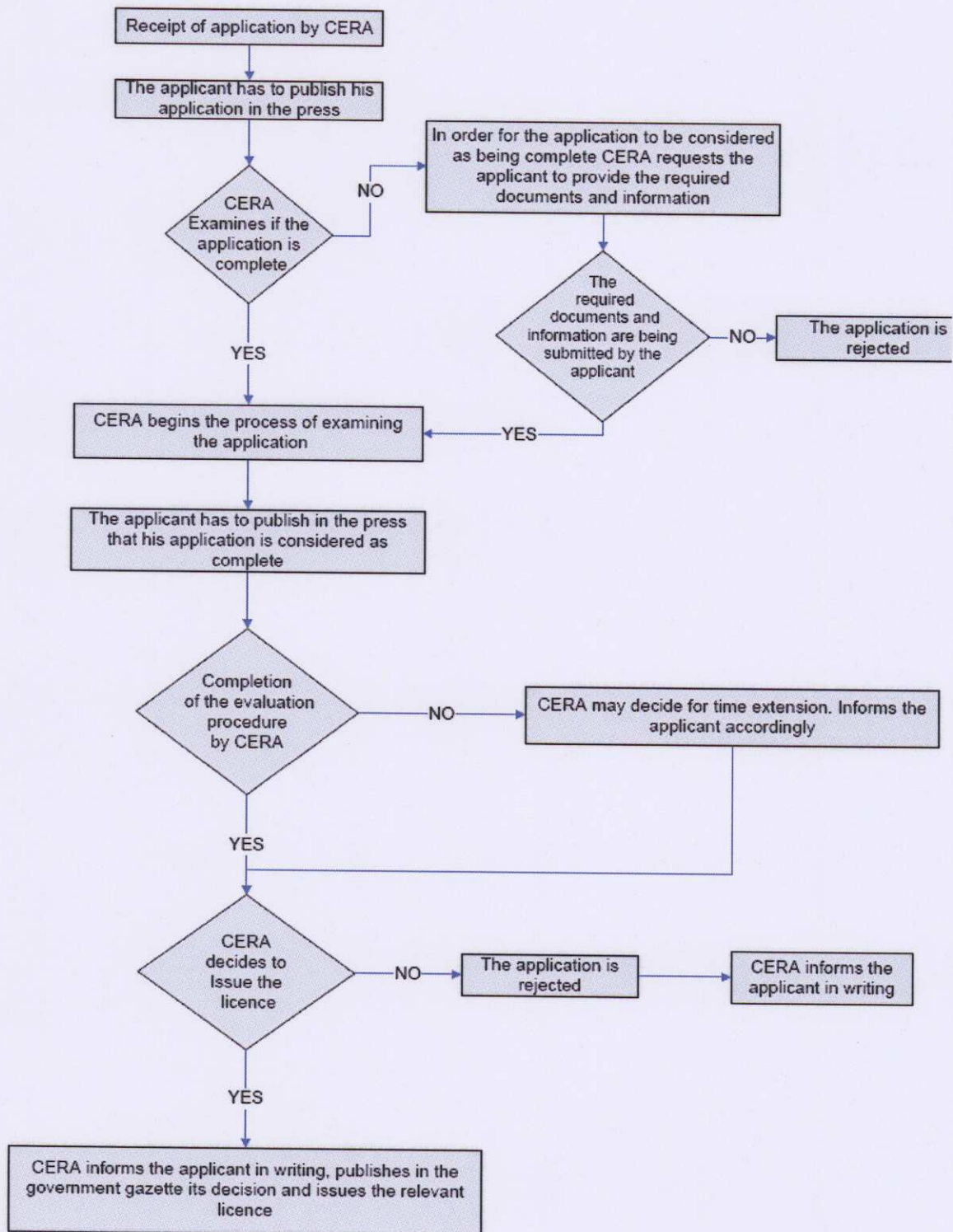


Table 5.1**Security of supply evolution**

	Peak electricity demand (GW)	Available capacity (GW)	For next three (3) years Forthcoming new plant (GW)		Plant completed minus plant closed in the year (GW)				
			authorised	under construction	coal and oil	gas	RES	CHP	nuclear
2000	0,688	0,988			0,988	0	0	0	0
2001	0,689	0,988			0,988	0	0	0	0
2002	0,775	0,988			0,988	0	0	0	0
2003	0,776	0,988		0,130	0,988	0	0	0	0
2004	0,821	0,988	0,310	0,130	0,988	0	0	0	0
2005	0,856	1,118	0,246*	0,180	1,118	0	0	0	0
2006	0,910	1,118	-	-	1,118	0	0.0008	0	0
2008	1,065	1,184.89*	2,610.6	1,207.647	1,182.2**	0	0.00269	0	0
2009 est.	1,130	1,413.74***	2,623.58****	1,161.877	1,408.8	0	0.00494	0	0

*Includes 2,69MW from RES & 14,2MW from own use generation units

**Includes 1168MW from EAC & 14,2MW existing units of IPPs

***Includes 4,94MW from RES & 20,8MW from IPPs (own use generation)

**** Includes 12,98MW from RES

MAJOR INFRASTRUCTURE PROJECTS- TRANSMISSION NETWORK

With regards to major Infrastructure projects in the Transmission Network as we have already mentioned there are no interconnection projects, however the construction work in national transmission network projects during the last twelve (12) months (June 2007-June 2008) is described below:

New substations**Commissioning of new substations**

- GIS 132kV/11kV Omonia s/s in Limassol with a capacity of 80MVA (2x40MVA).
- GIS 132/22-11kV Ayios Athanasios s/s in Limassol with a capacity of 80MVA(2X40MVA)
- GIS 220/132 kV Tseri s/s (switching s/s)

UPGRADES TO SUBSTATIONS

Completed upgrades

66/11kV Kophinou substation

Upgrading work on the 66/11kV Kophinou substation was completed in November 2007 following the commissioning of a 2nd 10,5/15MVA transformer circuit. The reinforcement included the construction of 132kV links, the replacement of 2x5 MVA transformers by 2x15MVA, the construction of a control room and the installation of automatic 132kV και 11kV circuit breakers.

132/11kV Dhekelia substation

Due to the installation of additional alternators driven by IC engines in the Dhekelia substation in order to meet generation requirements, the new GIS equipment commissioned at 132kV instead of 66kV as originally scheduled and two new 40MVA, 132/23-11.5kV transformers were installed.

132/11kV Alambra substation

Extensions to the substation's 132kV busbars have been completed as well as a 3rd 16 MVA transformer circuit has.

132/11kV Episkopi substation

The existing 66/11kV Episkopi s/s has been totally renovated and upgraded to 132/22-11kV. The upgrade includes the construction of 132kV busbars, the replacement of transformers, the construction of a control room and the installation of automatic 132kV and 11kV circuit breakers.

66/11kV Karvounas substation

The existing 66/11kV Karvounas s/s has been totally renovated and upgraded with 2X16MVA transformers in replacement of 2X5MVA transformers.

66/11kV Akoursos substation

The existing 66/11kV Akoursos s/s has been upgraded with the replacement of one 10MVA with one 16MVA transformer, keeping the other 2X10MVA transformer in position.

132/66/11kV Anatoliko substation

The existing 132/66/11kV Anatoliko s/s has been upgraded with the installation of an additional interbus transformer and extension of busbars.

OVERHEAD POWER LINES

New construction

Vassilikos-Tseri 220/132kV overhead power line

The project for the interconnection of the Vassilikos Power Station with the new switching Tseri s/s involved double circuit 220kV overhead transmission line with two Ribus conductors per phase. The 132kV system was connected to the overhead transmission network of the interconnecting Athalassa and Orounta substations. For both lines underground cables emanate from Tseri s/s to the terminal towers of the lines.

UPGRADES/RELOCATIONS OF OVERHEAD POWER LINES

Relocation of the Dhekelia-Ayios Nicolaos and Dhekelia-Protaras 132kV overhead power lines

Work involved relocating sections of above transmission lines outside residential areas in the Ormidhia district.

Kolossi-Anatoliko 132kV overhead power line

The work was on relocating section of the above transmission lines outside residential areas in the Timi district.

UNDERGROUND POWER CABLES

New Construction

Interconnection of new Ayios Athanasios substation with the 132kV underground system

The work involved the installation of a double circuit 132kV XLPE 800mm² cable connected onto the existing "Yermasoyia – Old Power station" cable to energise the new Ayios Athanasios s/s.

Interconnection of new Omonia substation with the 132kV underground system

The work involved the installation of a double circuit 132kV XLPE 630mm² cable connected onto the existing "Old Power station - Polemidhia" cable to energise the new Omonia s/s.

Interconnection of new Dhekelia 132/11kV

Phase one of the project involved the installation of a double circuit 132kV XLPE 800mm² underground cable to interconnect temporarily the existing local 132kV s/s with the new the new Dhekelia 132/11kV substation.

5.2 Gas [Article 5] and 2004/67/EC [Article 5]

Natural Gas is still not available in Cyprus. In spite of this, Natural Gas was defined by a Ministerial Decision as the basic fuel for the production of electricity by future installations of sizeable capacity.

CERA has already proceeded with harmonisation of the Cyprus legislation with EU Directive 2003/55/EC, relating to the common rules of the internal Natural Gas market. The provisions of the Directive have been incorporated into the Law on Regulating the Natural Gas Market of 2004 as amended in 2007.

After a review of security of supply measures adopted by other EU member states CERA has identified a number of themes to address the security of supply issue:

- The production of some form of National Emergency Plan to address roles, responsibilities and actions to be taken by participants in the gas market;
- Interruption / curtailment of gas supplies to specific customer groups to protect more vulnerable end-users;
- Requirement, typically on suppliers, to keep a number of days of typical gas demand in gas storage facilities;
- Requirement, typically on large end-users or suppliers to large end-users, to have, or make, available quantities of an alternative fuel to gas, usually gas oil or fuel oil, in the event that gas supply is curtailed;
- Requirement, typically on gas suppliers or a policy for the country as a whole to ensure, through gas contracts, a diversity of supply sources.

The measures adopted by some EU member states will not be applicable to Cyprus, since Cyprus is not connected to the EU gas transmission network. The situation Cyprus is in, therefore, is similar only to some of the outlying EU member states where there is effectively only one source of gas supply. These would include member states such as Finland, the Baltic states of Estonia, Latvia and Lithuania and Ireland.

CERA is currently under an ongoing process of adopting measures to safeguard Natural Gas security of supply and determine corresponding emergency plans and actions. CERA has already prepared and submitted a draft bill amending the basic Law on Regulating the Natural Gas Market in order to incorporate the provisions of the Directive 2004/67/EC into National Law. The said draft bill is under consideration and deliberation is being conducted with other interested bodies.

In this respect, it must be noted that the primary parameter to be taken into consideration when assessing security of Natural Gas supply in Cyprus is the fact that Cyprus is an island, isolated from the Natural Gas networks of any other EU or non-EU country.

This unique parameter implies that in Cyprus, both in the long-term and in the short-term, Natural Gas supply issues should always be considered in relation to any other primary energy source utilised in the country (i.e. oil and LPG).

In Cyprus natural gas is envisaged to be used exclusively for power production, at least for the first 10 years from the date it is delivered for the first time to the island. Later, and upon development of the corresponding networks, Natural Gas will become available for use, first by the industrial sector, then the commercial sector, and finally households in case this option is economically feasible.

In view of the above, a condition should be adopted to protect security of electricity supply by providing alternative arrangements for electricity generation in the event of Natural Gas supply interruption in the island. Generators should have the capability and relevant infrastructure on-site, in order to be able to utilise an alternative fuel for power generation, as well as store the required quantities of secondary fuel for that purpose. In the event of a disruption or shortage of supply of the primary fuel, i.e. Natural Gas, the Cyprus TSO can then call on generators to run on the secondary fuel, at short notice, for a specified period of time.

Furthermore, in view of the gas market development in Cyprus for the next decade (2011-2020) a specific number of measures is under consideration taking into account the following important parameters:

- No indigenous gas resources.
- No interconnections with other gas systems.
- No underground or undersea gas storage.
- Supply only by LNG because of Cyprus being an isolated island.
- Brand new and small market which will be based on the power generation (90% of total gas consumption).
- The gas demand growth is expected to reach “the plateau” within 10 years because of the political decision to convert almost all existing oil fired power plants to gas fired.
- The other gas consumption sectors (industrial and residential/commercial) are very small compared to the power generation sector (0,23 bcm/y to 2,0 bcm/y at “the plateau”) and these will probably be developed much later.
- No big linepack because the main city-capital (Nicosia) is in the center of the island and the Power Generation is in the south.
- Significant diesel oil storage quantities in existing reservoirs which will not be dismantled.
- Gas Market model: A Gas Company is the sole importer and supplier of all natural gas quantities in Cyprus, also undertaking the transmission system operation. A different company will invest for an LNG terminal, possibly undertaking as well the terminal’s operation.

The following measures have been identified but not finalized, in view of enhancing security of supply:

- interruptible contracts;
- interruption under a priority list;
- temporary storage kept by the Network Operator;
- supply sources diversification;
- long term supply contracts;
- reserve fuel arrangements for gas fired power plants;
- elaboration of an Emergency Plan;
- security of supply being responsibility of the Regulator;
- SoS monitoring performed by the Regulator;
- monetary penalties (e.g. for cases of non-delivery by the producer or in cases of non-delivery by the shipper or in cases of LNG terminal operator failure).

It was also noted that the measures adopted by some EU member states would not be applicable to Cyprus, since Cyprus is not connected to the EU gas transmission network. The situation Cyprus is, therefore, similar only to some of the outlying EU member states (e.g. Finland, the Baltic states of Estonia, Latvia, Lithuania and Ireland) where there is effectively only one source of gas supply.

In order to ensure an adequate level of security of supply, the measures would fall into the following broad categories:

- the strategy for purchasing LNG for delivery to the Cyprus terminal, including supply sources diversification and long term supply contracts;
- the policy on sales contracts to end users, including the use of interruptible contracts and the requirement for alternative fuel arrangements at key customers such as gas-fired power plants; and
- the implementation of a National Emergency Plan incorporating the relevant roles, responsibilities and procedures.

As far as infrastructure development is concerned the Government of the Republic of Cyprus is proposing an Energy Centre at Vasilikos that will include facilities for the importation, storage, pumping and vaporisation of liquefied natural gas (LNG), and the export of that natural gas to power plant users. It's really import to mention that both storage facilities and LNG terminal project are in a preliminary stage, however details are given below in order to provide some indicative information.

Storage Facilities- Loading –Uploading - Regasification

The LNG Storage Facility will be based around the sizing of commonly available LNG Carriers in order to ensure that Government of Cyprus has flexibility of supply and can cope with future demand growth. It is hence envisaged that initially LNG carriers around 75,000m³ P would supply the facility with carriers increasing to around 135,000m³ P in future years. The vessels would be unloaded through three unloading arms with a vapour return, through a cryogenically insulated unloading line. This is maintained at -160°C by recirculation of product through a smaller recirculation line, except during unloading when it provides additional unloading capacity. The vessel would typically be unloaded in no more than 14 hours to allow a 24 hour turnaround time commonly used in LNG shipping.

Table 5.2

Security of supply evolution (gas)

	Total gas demand (bcm)	Production capacity * (bcm)	Pipeline import capacity (bcm)	LNG import capacity (bcm)	Forthcoming new capacity (bcm)	
					authorised	under construction
2007	N/A	N/A	N/A	N/A	N/A	N/A
2008	N/A	N/A	N/A	N/A	N/A	N/A
2009	N/A	N/A	N/A	N/A	N/A	N/A
2010	N/A	N/A	N/A	N/A	N/A	N/A
2011	N/A	N/A	N/A	N/A	N/A	N/A
2012	N/A	N/A	N/A	N/A	N/A	N/A
2013 est	1,28	-	-	-	-	-

* *Annual Capability of Supply Gasified and Depressurised Natural Gas under Usual Conditions ISO m3 x 10⁶*

In order to estimate the needs in natural gas, which at least at first will only be used for the generation of electricity, the Electricity Authority's Development Plan was taken into consideration as well as the assumptions that the Independent Producers of Electricity will contribute by 10% at least to the needs of the Electricity Market and that the natural gas will be available by the year 2013.

The Table that follows shows the total installed capacity in MW, as well as the total demand in LNG required for the development programme and of existing electricity generating units to be converted so as to use LNG. In addition all the above is expressed as a percentage of total energy needs of the whole of the island for the period of 2010-2016.

Percentage Penetration of Natural Gas into the Cyprus Electricity Market

Year	Total installed capacity in MW of anticipated new projects (LNG use by EAC and IPPs)	Total installed capacity in MW of existing units to be converted	Total installed capacity in MW using NG as fuel	Total LNG demand in bcm	Annual Maximum demand in MW
2013	800	390	1190	1.28	1435
2014	809	390	1199	1.41	1520
2015	818	510	1328	1.47	1615
2016	827	510	1337	1.59	1710

6 PUBLIC SERVICE ISSUES [Article 3(9) for electricity and 3(6) for gas]

As already pointed out in section 3.1.3 above legislation both primary and secondary, has been enacted covering all the requirements of the Electricity Directive regarding consumer protection complaints procedure, treatment of vulnerable consumers and performance indices that are intended to safeguard quality of service and supply to all consumers.

All Public Service Obligations (PSO's) that EAC had before liberalization are still in force such as universal electricity service provider, and the supplier of last resort, by virtue of the Law 122(I)/2003, and EAC, the Ministry and CERA are currently discussing the PSO regime that will be applicable in the future. Already a Public Service Obligation regarding energy produced by RES has been imposed by the Law, L.33(I)/2003 on EAC whereby EAC or any other supplier shall buy from RES Producers all energy produced at a price defined by CERA.

Furthermore, a decree regarding relief from the price of electricity for multimember families over six (6) members and for disadvantaged families has been issued in April 2006.

Preparatory work is being carried out for the treatment of vulnerable consumers which is expected to be finalized in 2008.

Regarding labeling, at present Electricity bills, apart from basic information, only identify the “extra” amount billed for funding an ongoing “RES Incentive Plan”. Future bills will give details for primary energy sources, etc.

EAC is the only licensed supplier in Cyprus supplying the following categories of consumers (April 2007):

• Domestic	372.746
• Commercial	79.050
• Industrial	11.448
• Agricultural	12.261
• Public lighting	8.116
TOTAL	<u>483.621</u>

Table 6

Regulation of end user prices

	Electricity			Gas			
	large and very large	medium industrial and commercial	small commercial and household	power plants	large and very large	medium industrial and commercial	small commercial and household
Existence of regulated tariff (Y/N)	Y	Y	Y				
% customers still on tariff	100	100	100	NOT APPLICABLE			
possibility to switch back to regulated tariff (Y/N)							
Number of suppliers covered by the obligation to supply at tariff (could be all suppliers)	1	1	1				

Due to non-payment 14.146 consumers were disconnected in 2007. Approximately 87% (12.307 consumers) of those disconnected were re-connected after settling their accounts. Performance indicator refers to 24 hours as the time of response.

EAC as the dominant supplier in the electricity market of Cyprus has been nominated as the Supplier of Last Resort in line with the requirements of the Electricity Directive.