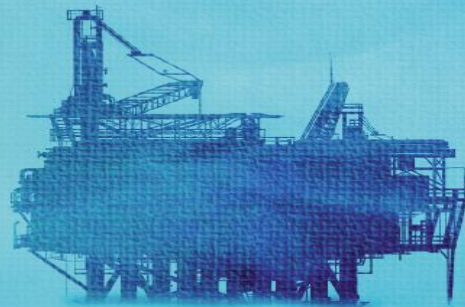


NATIONAL REPORT

CYPRUS ENERGY REGULATORY AUTHORITY (CERA)



**Report to the European Commission
in line with the Electricity and Gas Directives for the period
July 2011 to July 2012**

October 2012



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1. FOREWORD

Cyprus Energy Regulatory Authority (CERA) was established by virtue of the Law on Regulating the Electricity Market (N.122(I)/2003), which was enacted by the House of Representatives on 25 July 2003, for harmonisation purposes with the Aquis Communautaire. Also, this Law establishes CERA as the Authority responsible for Regulating the Natural Gas Market. The relevant EU Gas Directive was transposed into national Legislation by Law 183(I)/2004.

The Members of the current board of CERA were appointed on 22 January 2010 and took up their duties on 3 February 2010 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 2011 to July 2012 and is the eighth one to be issued.

The establishment of 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 Acquis 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.

In reading this Report one should bear in mind that the National Legislation of Cyprus has taken into account the derogations from the relevant provisions of the Directions granted for “small and isolated systems”.

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. Also, with effect from 1st of January 2009 the market was further liberalised including all “non domestic” consumers which are free to select their Supplier. However, there are no other Suppliers at the moment. As from 1st of January 2014 the market will be liberalised by 100%, as the ultimate target is for all consumers of electrical energy to be able to choose their Supplier.

In the field of planning and implementation of important decisions during 2011, CERA has shown noteworthy work, promoting the further safeguarding of sound competition through the operation of a transparent and efficient electricity market, which will lead to conditions of reducing the costs of electricity generation, transmission and supply.

In addition to setting in train actions for the implementation of the European energy policy and continuing this strategy at national level, the year under review has been marked by the unpleasant experience of the serious effects of the energy crisis for all the citizens of Cyprus and for the economy in general. The explosion at Mari and the serious damages to the biggest, most modern and most efficient power station of Vassilikos, pushed all state services dealing with the generation and supply of electricity to their limits. The Cyprus Energy Regulatory Authority is the state authority which has the main responsibility to ensure Generation Adequacy and Security of Supply. CERA moved immediately and, acting within the framework of the legislation, took all the necessary decisions and actions to reduce the repercussions of the catastrophe. As it was generally acknowledged the restoration work was crowned with success. The aspect of covering the financial implications of restoring electricity supplies until the completion of the repairs of the Generating Units which sustained serious damage, through the imposition of an extra-ordinary surcharge was extremely difficult due to the fact that the fuel costs shot to unheard-of heights as from July 2011 and due to the unprecedented financial crisis. One of the positive aspects of the crisis was the readiness shown by all citizens for undivided cooperation and coordinated action for the speedy redress of the problems and the minimization of the effects on each citizen individually and for the

economy of the country in general. Special mention should be made to citizens' response to appeals to keep down consumption, which led to reductions exceeding 10%.

During the period July 2011 – July 2012, there has also been a very positive development in the energy affairs of the country, which opens up a huge energy prospect for Cyprus. This was the discovery of natural gas in the Exclusive Economic Zone of the Republic. CERA has been closely following the important developments after the discovery of natural gas and has duly informed the Agency for the Cooperation of Energy Regulators of Europe (ACER).

Taking into account these positive developments, CERA has submitted to the Government a brief report with suggestions on 'The Strategic Guidelines for the Development of the Natural Gas Sector'. The report covers the issue of developing national market infrastructure as well as the new entities required in order to face successfully the new challenges. Special attention was paid to the development of the infrastructure that could assist in diversifying natural gas supplies to the European Union in line with EU policy regarding Southern Corridor.

The average selling price of electricity per kWh in all categories increased from 16,178 € cent in 2010 to 18,632 € cent in 2011 as a result of the increased fuel costs in 2011 compared to 2010 and of the surcharge imposed due to the energy crisis.

CERA participated actively in all events related to its function. On the question of renewable energy sources, on a CERA initiative, a working group was established which prepared a study on the way of attaining the targets set for the electricity sector by European Directive 2009/28 for the year 2020. The results, of the study were included in the RES National Action Plan for 2010-2020. CERA's main concern is to attain the targets set, at the minimum possible cost for the consumer, without affecting negatively the security of supply.

The planning made by CERA for 2011-2012 included the following important targets:

- Harmonising national legislation on Regulating the Electricity and the Natural Gas Market with European Directives 2009/72 and 2009/73
- Implementing the decision on the restructuring of EAC tariffs and planning their complete restructuring, after implementing a transparent unbundling of EAC accounts by activity
- Completing the decisions related to the operation of the electricity Market and undertaking a study regarding the evaluation and restructuring of the Electricity Market in Cyprus.
- Amending the Legislation on Renewable Energy Sources in such a way as to ensure their participation in the electricity system without creating distortions.
- Monitoring, in line with CERA competencies, the most speedy and financially most beneficial arrival of Natural Gas in Cyprus, mainly for electricity generation, at the first stage, bearing in mind that Natural Gas:
 - Enriches the island's energy mix,
 - Leads gradually to a decrease on dependence on oil and improves security of supply and
 - Complies with Cyprus' commitments to attain environmental targets and more specifically the gradual decrease of Greenhouse Gas Emissions in order to combat the climate change.
- Strengthening the organisational structure of CERA Office in such a way as to achieve the smooth functioning of the Authority in line with the legislation
- At the same time the support of CERA Office will be strengthened through the restructuring and modernisation of its information systems and office management systems.

Concluding this brief reference to the period concerned, we would like to express our thanks to all those who helped and cooperated with us. These definitely include CEER, ACER and ERGEG. The bridges of communication built and the cooperation and common understanding between everybody involved help greatly the work of CERA.

GEORGIOS SHAMMAS
Chairman
Cyprus Energy Regulatory Authority

2. MAIN DEVELOPMENTS IN THE GAS AND ELECTRICITY MARKETS

CERA and the Republic of Cyprus in general have been setting in train actions to fulfil the main goals of the European energy policy which are the completion of the integration of the internal market by 2014, the speeding up of harmonisation and the adoption of European Directives and Regulations on the natural gas and the electricity market, the ending by 2015 of the isolation of member states as far natural gas and electricity networks are concerned and finally the emergence of an economy characterised by low or zero carbon dioxide emissions by 2050.

In this direction, measures have been taken and it is expected that during 2012 the harmonisation of Cyprus legislation with the *acquis communautaire* will be completed through the introduction of new provisions relating to the strengthening of the powers and functions of the National Regulatory Authorities, the issues related to the security of electricity supply and the competition and the strengthening of the rights of consumers. Moreover, CERA with the support of the Agency for the Cooperation of Energy Regulators (ACER), established in the framework of the 3rd Energy Package, has been monitoring the implementation of inter-Community projects for network development and has been participating in regional cooperation aiming at lifting Cyprus' energy isolation by 2015.

In the field of planning and implementation of important decisions during 2011, CERA has shown noteworthy work, promoting the further safeguarding of sound competition through the operation of a transparent and efficient electricity market, which will lead to conditions of reducing the costs of electricity generation, transmission and supply.

In addition to setting in train actions for the implementation of the European energy policy and continuing this strategy at national level, the year under review has been marked by the unpleasant experience of the serious effects of the energy crisis for all the citizens of Cyprus and for the economy in general. The explosion at Mari and the serious damages to the biggest, most modern and most efficient power station of Vassilikos, pushed all state services dealing with the generation and supply of electricity to their limits. The Cyprus Energy Regulatory Authority is the state authority which has the main responsibility to ensure uninterrupted electricity supply. CERA moved immediately and, acting in the framework of the legislation, took all the necessary decisions and actions to reduce the repercussions of the catastrophe. As it was generally acknowledged the restoration work was crowned with success.

The aspect of covering the financial implications of restoring electricity supplies until the completion of the repairs of the units which sustained serious damage, through the imposition of an extraordinary surcharge was extremely difficult due to the fact that the fuel costs shot to unheard-of heights as from July 2011 and due to the unprecedented financial crisis. One of the positive aspects of the crisis was the readiness shown by all citizens for undivided cooperation and coordinated action for the speedy redress of the problems and the minimization of the effects on each citizen individually and for the economy of the country in general. Special mention should be made to citizens' response to appeals to keep down consumption, which led to reductions of more than 10%.

During 2011, there has also been a very positive development in the energy affairs of the country, which opens up a huge energy prospect for Cyprus - this was the discovery of natural gas in the Exclusive Economic Zone of the Republic. CERA has been closely following the important developments after the discovery of natural gas and has duly informed the Agency for the Cooperation of Energy Regulators of Europe (ACER).

3. THE ELECTRICITY MARKET

3.1 Network Regulation

Unbundling

The Electricity Market was liberalised by 35% with effect from 1st May 2004 and was further liberalised by approximately 65% in total with effect from January 2009, to include all “non domestic” consumers which are able to select their Supplier according to what is in their best interest. However, currently there is no other Supplier in Cyprus apart from the Electricity Authority of Cyprus (EAC).

As from 1st of January 2014 the market will be liberalised by 100%, as the ultimate target is for all consumers of electrical energy to be able to choose their Supplier.

The essence of the set legal framework is that any enterprise, which is interested in generating and supplying electricity, may submit an application to CERA and obtain the relevant Licence if it fulfills the criteria set.

The enterprises 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 EAC, a Transmission System Operator (TSO) has been appointed and functions independently in terms of organisation and decision making from EAC and from its activities of production, distribution and supply, in order to safeguard third party access onto the transmission network and equal treatment of all users of the said network.

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

The function of the single DSO has remained within the Network Business Unit of EAC in agreement with the relevant clauses of the Electricity Directive (see Article 15) and the approval of the Government of Cyprus.

Neither the TSO nor DSO is 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 its small and isolated system nature.

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.

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

Table 3.1.1 - Summary Information on TSO & TSO Unbundling (Electricity)

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

- Unbundled corporate accounts of EAC will include separate accounts for Transmission as Owner, Distribution as Owner and Operator and any subsidies to the Transmission System 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, in spite 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.

Also, it should be noted that CERA may revoke the License.

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 (TSO's & DSO's) 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 the EAC.

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

Technical functioning

The explosion at the "Evangelos Florakis" Naval Base on Monday, 11 July 2011, with the concomitant destruction in the nearby Vassilikos Power Plant ushered Cyprus into an unprecedented Energy Crisis with long-term repercussions. The total generating capacity of 795MW of the plant was out of service. Given that the maximum demand in the month of July had been estimated at 1.160MW, there was an immediate shortfall in generating capacity of the order of 360MW. The explosion caused extensive and serious damage to the following:

1. Considerable destructive damage to the steam turbine units number 1, 2 and 3 each of 130 MW installed capacity.

2. Considerable damage to the combined cycle gas turbine installations number 4 (two 75MW gas turbines and a 70MW steam turbine) and number 5 (which was under construction), leaving available only the two gas turbines of a total connected capacity of 370MW.
3. Damage to the 37,5MW gas turbine.

The obvious need for the most efficient management of the energy crisis mobilised from the first moment the Cyprus Energy Regulatory Agency, which is responsible for ensuring the Generation adequacy and security of supply, together with other directly involved organisations, authorities and services, in order to limit as far as possible the impact on consumers and the economy of the country in general.

Special efforts were made so as to secure the soonest possible new generation capacity and make a responsible estimate of the cost and the time necessary to overturn the adverse conditions created.

The Electricity Authority of Cyprus set in operation all its available generating capacity amounting to 685MW, of which 460MW were from the Dhekelia Power Station and 225 from the Moni Power Station. These are older units and are not as reliable and efficient as the units of the Vassilikos Power Station which were out of order.

In the context of informing the public, the Cyprus Energy Regulatory Agency from the first day kept frequent contact with the mass media, through which it expressed its condolences to the families of the victims.

It also assured consumers that many people, who were tasked with ensuring the supply of electricity in our country, were working hard, calmly and in a coordinated manner, to tackle the very serious emergency in the energy market. In addition people were informed about the planning made to face the crisis.

The public was kept informed also about the consequences of the catastrophe, including the unprecedented for Cyprus sizeable and regular interruptions of electricity supply that followed suit.

It should be noted that competent services have taken various actions with a view to ensuring the uninterrupted supply of electricity as follows:

- An appeal was made to all to reduce consumption, especially during peak hours.
- Interruptions of electricity supply by rotation for a great number of consumers.
- Operation of the desalination plants at reduced capacity during periods of peak demand in such a way as to reduce to the minimum problems consumers of water would face.
- A decree issued by CERA on the day the explosion occurred for the mandatory use of generators, in cooperation with EAC and TSO, provided that the provisions of the Laws and Regulations on safety questions are complied with. To this end, owners of generators of up to 1MW capacity had to secure initially the relevant Certificate for the Inspection of an Installation. In due time the owners of generators of a capacity between 10kW up to 1MW should submit an application to CERA for Exemption from a Licence.
- A decree by the Minister on 13 July, at CERA's recommendation, which assigned to CERA the task of ensuring production capacity.
- A decision taken by CERA, pursuant to the provisions of the Law, on July 13, which entrusted EAC, under CERA's supervision, the responsibility of securing additional production capacity as the universal supplier under the Law and as the only organisation having the know-how and experienced staff to do so.
- A tender issued by EAC, on the basis of CERA's decision, of an invitation for the expression of interest for the supply of mobile generating units in order to boost production capacity. The tenders were submitted on Monday 18 July.

- Supply of electricity of the order of 100MW from third parties on 16 July
- A small number of generators from Israel of a capacity of about 12MW were delivered and connected to the transmission network.
- Generators from Greece of a total capacity of 70MW were also delivered.

In the weeks that followed,

- EAC, following tenders and CERA's approval, reached agreement with Energy International Corporation, Miami, USA for the installation, operation and maintenance for six months (1/9/2011 to 28/2/2012 period) of generating units of a total capacity of 95MW (60MW for installation in the Dhekelia Power Station and 35MW for installation in the Moni Power Station), with EAC having option to extend the contract for periods of three-months, at an estimated cost of €14,9 million, not including the cost of fuel, and in accordance with all the specific terms agreed with the company.
- With CERA's approval, EAC concluded an agreement with Damco Energy SA and Terna Overseas Ltd of Greece, which envisaged the supply, operation and maintenance for six months of generating units of a total capacity of 71,6MW (for installation in the Vassilikos Power Station - 45MW from Damco and 26,6MW from Terna) with EAC having the option to extend the contract for periods of three months, at an estimated cost of €9,5 million (€5,7 million and €3,8 million respectively), not including the cost of fuel and in accordance with the specific terms agreed with the companies.

On the day the explosion occurred, CERA immediately and duly informed about the energy crisis the Directorate-General of the EU Commission, the Agency for the Cooperation of Energy Regulators (ACER) and the Council of European Energy Regulators, requesting them to contribute their suggestions for alleviating the problem.

In order to achieve the coordination of actions in facing the crisis and more specifically the problems of facing the shortfall in generation capacity and ensuring the secure operation of the Systems of Generation, Transmission and Distribution, by a CERA decision an Emergency Committee was set up with the aim of ensuring a secure, continuous and reliable supply of electricity to all consumers to the maximum degree possible and so that CERA may be in a position to coordinate and consult with the parties directly involved for the duration of the emergency. The Emergency Committee consisted of members of CERA and representatives of EAC and TSO.

The Emergency Committee looked into all the questions relating to ensuring adequate Generation, Transmission and Distribution as well as secure and reliable operation, taking immediately the necessary decisions. Initially, it held meetings on a daily basis, until it became possible to restore normal conditions in the generation of adequate electricity.

The successful handling of the crisis resulted in stopping the interruption of electricity supplies by rotation in just five weeks after the destruction of the Vassilikos generating units.

In an effort to create the necessary financial conditions which would allow EAC to respond to its obligations for the facing of the crisis, CERA by its Decision 635/2011 on 31/08/2011,

- approved as reasonable the EAC request to recover the estimated additional
- variable cost by EAC amounting to €53,3 resulting from:
 - the increased cost of fuel due to the use of units with lower efficiency and
 - the increased cost of buying electricity from third parties
- approved as reasonable the EAC request to recover the cost of leasing temporary generating units, amounting to € 24,1 million. With respect to this cost, the declared position of the Government that it would undertake the cost of leasing these units, was taken into consideration and consequently, the surcharge approved did not include this cost

- did not approve the EAC request to recover an amount of €29,6 million as loss of net revenue due to the decrease in sales. CERA considered that EAC should face this question through a comprehensive emergency plan of keeping in check and curtailing expenditure, in addition to savings which it has achieved so far under the commitments it has undertaken following CERA's Decision 539/2011 which approved the rebalancing of tariffs
- did not approve the EAC request to recover an amount of €1,1 million which represents the deductible amounts of insurance cover.

On the basis of the above assumptions a 6,96% emergency surcharge before VAT was imposed on the final electricity bills of all consumers. This measure applies for ten consecutive calendar months for all consumers.

EAC on its part undertook the obligation to present calculations on the additional cost of electricity generation for the months of March to August 2012.

The aim was to submit these data so that CERA may take a decision on a possible extension of the additional emergency surcharge in the bills of consumers, due to the outbreak of the Energy Crisis.

The calculation of the real additional costs for EAC for the months of July 2011 – February 2012 was evaluated by CERA and it proved to be in line with the decision on the emergency surcharge of 6,96% in customers' bills.

Despite the economic repercussions, the measures taken proved to be effective, thus, after the summer months and until the end of the year under review, no electricity interruptions were observed due to supply deficiency. The repair of the gas turbine in the Vassilikos Power Station just four weeks after the tragedy was seen as an outstanding technical achievement.

Consequently CERA by a new Decree, as from 23/9/2011, cancelled its previous Decree about the "mandatory operation of generators to face the emergency following the July 11 accident", as it assessed that the reasons for which the above mentioned Decree was issued no longer existed and the situation could be faced effectively with the other measures which were taken to cover the shortfall created in generating capacity. However, as the condition of energy crisis still existed, the owners of generators, particularly those having a large capacity, were asked to keep them in working condition.

Furthermore, EAC, following tenders and CERA's approval, reached agreement with the APR Energy (USA) for the installation, operation and maintenance for three months (15/6/2012 to 15/9/2012 period) of generating units of a total capacity of 120MW in order summer 2012 peak demand to be met.

Meeting the summer 2012 peak demand was made easier by an unexpected considerable drop of power and energy consumer demand reaching up to 17% of the normally expected.

CERA after taking into consideration the progress for the repairs of the Vasilikos Power Station and the reduced energy consumer demand due to achieved savings is examining the possibility of not extending the rental agreement for the emergency units of a total capacity of 166,6MW employed for facing the energy crisis.

The progress for the repairs of the two Gas Turbines of total capacity 150MW, part of the No 5 Combined Cycle Plant advanced very satisfactorily, which enabled their commission on time for meeting the 2012 summer peak.

At the same time, CERA took action to integrate into the generating capacity of the Republic a number of generators, by giving a corresponding exchange to their owners in the framework of a scheme called "Virtual Generating Plant". The dispersed generators which will be included in this plan will act in a coordinated manner as one standby generating station, which will provide standby capacity in the future whenever it is called upon to cover shortfalls in generation.

In addition, in the context of CERA Long-Term Planning, the Authority is re-examining the whole question of expanding the generating capacity system with conventional and renewable energy units, taking into account the need to create pumped storage and dispersed generation.

As far as Renewable Energy Sources (RES) are concerned, due to the emergency created by the energy crisis following the tragic event of 11 July 2011, and for as long as the emergency continues, CERA has decided that the price at which EAC will purchase RES generated electricity will remain unchanged, as it applied on 11 July 2011, i.e. on the day the accident occurred and the start of the emergency energy crisis, until the return to economic stability at a satisfactory level. The validity of this decision was terminated by a new CERA's Decision on 31/12/2012.

Network tariffs for connection and access

Cyprus, being a small isolated system, has opted through the Law of 2003 on Regulating the Electricity Market, N.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.

Network Tariffs

For the network tariffs, in close cooperation with the TSO and EAC, reports have been prepared using external consultants (from Greece, UK, Ireland and Netherlands) which have already been approved. 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
 - 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.

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.

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 abuse of the dominant position.

In addition the goal of CERA is to encourage, via the tariff 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 rapid changes which may cause uncertainty to investors and consumers.

The Electricity Market Law of 2003 adequately covers 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 Transmission System Charges.

The proposal for the Use of System Charges was under consideration by CERA for their final approval. Finally, after a serious efforts, extensive calculations, meetings and studies, CERA has approved the tariffs to be used for the purpose of Use of System and Ancillary Service Charges for the years 2010-2012.

The proposal for the Transmission and Distribution Use of System Charges were scrutinised by CERA and after long deliberations, comparisons with other countries, specific analyses they were finally approved for the years 2010-2012.

CHARGES FOR THE USE OF NETWORKS AND OTHER OPERATIONAL EXPENSES	2011	2012
	€cent/kWh	€cent/kWh
Expenses of the Transmission System Operator	0,08	0,08
Ancillary Services	0,20	0,21
Long-term Standby	0,46	0,46
Sub-Total	0,74	0,75
User interconnection to the High Voltage		
Transmission Network Use charges	0,83	0,86
Expenses of the High Voltage Network		
Total for Users Interconnected to High Voltage	1,57	1,61
User interconnection to Medium Voltage		
Expenses of the High Voltage Network	0,83	0,86
Expenses of the Medium Voltage Network	1,28	1,33
Total for Users Interconnected to Medium Voltage	2,85	2,94
User interconnection to the low voltage		
Expenses of the High Voltage Network	0,83	0,86
Expenses of the Medium Voltage Network	1,28	1,33
Expenses of the Low Voltage Network	1,45	1,47
Total for Users Interconnected to Low Voltage	4,30	4,41

Table 3.1.3- Charges for the use of networks and other operational expenses Table

The Cyprus Energy Regulatory Authority, exercising its powers under Article 26 of the Regulating the Electricity Market Laws for the purposes of implementing the provisions of the Law on Energy End-Use Efficiency and Energy Services decided to amend the Statement of Regulatory Practice and Methodology on Electricity Tariffs, with the addition of supplementary targets which must be attained by Electricity Tariffs and which include the provision of information to consumers on:

- comparisons between the current consumption of the end user and consumption during the corresponding period of the previous year, preferably in the form of a graph.
- comparisons with some normal or model energy consumer of the same category.
- addresses etc of consumer associations, energy organisations, or similar organs including website addresses providing information on available measures to improve energy performance, comparisons of various categories of end users and/or objective technical specifications for energy consuming equipment.

Balancing

An important itemised and very complicated issue that CERA had to carry out was the finalisation of the document of the "Trading and Settlement Rules" (Market Rules). The above document was proposed by the TSO to CERA on 15 October 2008. CERA approved it and submitted it to the Minister on 23 December 2008. Subsequently, the Minister gave his approval on 22 January 2009 when the Trading and Settlement Rules were officially published and placed into force on 30 January 2009.

Furthermore, the Trading and Settlement Rules:

- Enable the TSO to fulfill its obligations under the Law.
- Regulate the means by which Participants may trade Energy.
- Allow the calculation and settlement of payments in respect of Energy.
- Specify the way in which settlement and billing shall be carried out.
- Deliver the Electricity Trading Rules as envisaged in the Law.

The Trading and Settlement Rules provide all necessary information concerning the operation of the electricity market in the country. The balancing arrangements are also described in these.

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

Participants acknowledge the following principles governing Energy Balance:

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

Participants acknowledge the following principles governing System Balance:

- Energy Contracts are for delivery of total Energy over a Settlement Period. However, for particular minutes within a Settlement Period, the system may be long or short of Energy even when, in aggregate for the Settlement Period, the system is in balance. The Transmission System Operator will need to contract to buy and sell Energy to achieve minute-by-minute Energy Balance within the Settlement Period.
- In addition to achieving Energy Balance, the Transmission System Operator will contract for other services to manage system constraints, voltage control and frequency control.

The market is not yet operating in practise since there is only one Supplier/Power Producer, namely the EAC.

Cross – border issues

At present, the electricity system of Cyprus operates without cross-border links. An interconnection through an underwater cable with Greece and Israel is currently under study from a private company. CERA is monitoring closely this issue in line to EU directives.

Compliance

Directive 2009/72/EC establishes common rules for the generation, transmission, distribution and supply of electricity, together with consumer protection provisions, with a view to improving and integrating competitive electricity markets in the Community. It lays down the rules relating to the organisation and functioning of the electricity sector, open access to the market, the criteria and procedures applicable to calls for tenders and the granting of authorisations and the operation of systems. It also lays down universal service obligations and the rights of electricity consumers and clarifies competition requirements.

In connection with the application of the provisions of the Directive, Cyprus does not implement article 9 of the Directive concerning the unbundling of the transmission systems and the owners of transmission systems and consequently the three models of ownership are not applicable in its case. Therefore, the status of the Transmission System Operator in Cyprus remains as it was established under EU directive 2003/54.

Concerning the above and with a view to achieving harmonisation with the Directive, studies were carried out and consultations were held both for making it specific and for the interpretation of derogations and their impact on the harmonisation of national legislation.

CERA has undertaken the task of preparing an Amending Bill of the Laws on Regulating the Electricity Market of 2003-2008 on the basis of whatever has been agreed during the consultations. The bill was finalised in February 2011 and sent to the Ministry of Commerce, Industry and Tourism.

Cyprus, like all the other members of the EU, had an obligation to comply with the said Directive, and put in force the legislative and administrative actions and rules by 3 March 2011. Even though there has been a delay in the above-mentioned harmonisation the Ministry of Commerce, Industry and Tourism has conducted a consultation with all stakeholders and the Law is currently in the process of being finalised.

Dispute settlement

In many cases CERA as required intervenes for the settlement of disputes for example between the TSO and the Supplier.

Regarding consumers complaints please refer to paragraph 3.3 “Consumers Protection”.

3.2 Promoting Competition

3.2.1 Wholesale markets

The Electricity Market was liberalised by 35% with effect from 1st May 2004 and was further liberalised by approximately 65% in total with effect from January 2009, to include all “non domestic” consumers which are able to select their Supplier according to what is in their best interest. However, currently there is no other Supplier in Cyprus apart from the Electricity Authority of Cyprus (EAC). Furthermore and as mentioned before, the Trading and Settlement Rules (Market Rules) have been officially published and placed into force on 30 January 2009. 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.

As from 1st of January 2014 the market will be liberalised by 100%, as the ultimate target is for all consumers of electrical energy to be able to choose their Supplier.

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

- Market Regulation: CERA (with almost full authority).
- System & Market Operation: Director TSO (independent in legal and management terms).
- Basic Trading Arrangement: Bilateral Agreements.
- Balancing Market: Balancing energy requirements through TSO.
- Captive Market: EAC, ~33% (domestic consumers only).
- Eligible Market: ~67% (all non domestic consumers).
- Competition in generation: EAC, IPPs, RES and Producers for Own Use.

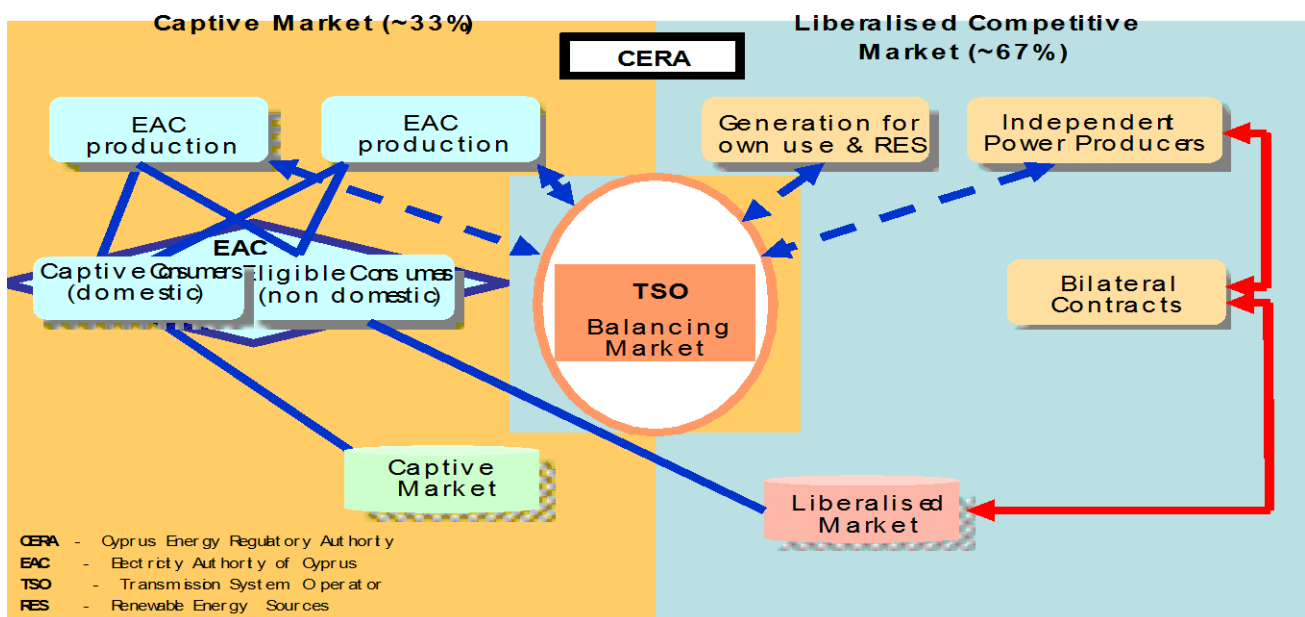


Figure 2.1.1. - Electricity Market Model

A brief description of the generation structure of Cyprus is as given below:

The installed generating capacity was after the restoration measures 964 MW by the generating plants of EAC plus 21,6 MW by the independent producers for own use and 167,6 MW from RES (Photovoltaics, Wind Energy, Biomass and Biogas).

Cyprus is currently operating a national electricity market that is totally dominated by EAC who is the providing all of ancillary service requirements. 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 no active participation in demand side management as yet.

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

3.2.1.1 Price Monitoring

Currently, there is no wholesale electricity market operating in Cyprus therefore price monitoring is not yet applicable.

3.2.1.2 Monitoring the level of transparency, including compliance with transparency obligations, and the level and effectiveness of market opening and competition

Currently, there is no wholesale electricity market operating in Cyprus therefore monitoring the level of transparency is not yet applicable.

3.2.1 Retail markets

As already pointed out, Cyprus has opened the Electricity Market on the 1st May 2004 for the 35% of the annual consumption and on 1st January 2009 extended up to 67%. 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 licensed have been put into operation.

EAC is currently supplying the following groups of consumers:

- Households and small commercial sector: 540.310 consumers (less than 70 kVA) share 100%.
- Medium sized industrial and commercial sector: 3.003 consumers (above 70 kVA, LV metering) – 100% share.
- Large and very large industrial customers: 597 consumers (MV and HV metering) – 100% share.

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

CONSUMERS, TOTAL & AVERAGE SALES & AVERAGE PRICES					
As at 31 December	2007	2008	2009	2010	2011
NUMBER OF CONSUMERS					
Domestic	366 799	386 489	402 671	415 150	422 655
Commercial	78 294	80 913	83 160	84 800	85 325
Industrial	11 299	11 792	11 618	11 391	11 255
Agricultural	12 117	12 796	13 546	14 209	14 692
Public Lighting	7 991	8 499	9 035	9 500	9 983
TOTAL	476 500	500 489	520 030	535 050	543 910
SALES TO CONSUMERS (thousands kWh)					
Domestic	1 607 048	1 682 327	1 720 777	1 737 474	1 721 663
Commercial	1 783 885	1 881 173	1 918 932	1 990 994	1 854 782
Industrial	699 746	757 803	791 640	816 074	796 187
Agricultural	137 339	156 930	143 971	152 642	136 747
Public Lighting	70 301	77 596	80 426	84 788	85 502
TOTAL	4 298 319	4 555 829	4 655 746	4 781 972	4 594 881

AVERAGE SALES PER END YEAR CONSUMER (kWh)					
Domestic	4 381	4 353	4 273	4 185	4 073
Commercial	22 784	23 249	23 075	23 479	21 738
Industrial	61 930	64 264	68 139	71 642	70 741
Agricultural	11 334	12 264	10 628	10 743	9 308
Public Lighting	8 798	9 130	8 902	8 925	8 565
AVERAGE REVENUE PER UNIT BILLED kWh (€cent)					
Domestic	12,746	15,988	13,321	16,192	18,644
Commercial	13,328	16,982	14,196	16,905	19,352
Industrial	11,458	14,955	12,325	14,982	17,123
Agricultural	11,675	15,296	12,697	15,440	18,268
Public Lighting	11,233	14,554	12,129	14,711	17,416
ALL CONSUMERS	12,719	16,178	13,473	16,232	18,632

As there is one supplier operating at present, switching procedures for customers to change suppliers are not possible. Regarding the average (typical) contract duration for households, this for the time being is not applicable in Cyprus. Domestic consumers constitute non-eligible electricity customers. However, domestic customers will continue to be supplied only by EAC until the 1st of January 2014 where the 100% opening of the market is expected and all consumers will be able to choose their producer-supplier according to their interest. As a general assessment to whether the market is seen to be active or dormant, it could be said that the market seems to become active. By considering the above conditions under which Cyprus has to act, i.e. small isolated system, the progressively opening of the electricity market where it constitutes a contemporary activity for the island, the above situation can be justified.

Year	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
2008	4,56	1	0	n/a	n/a	n/a	0	0	0
2009	4,66	1	0	n/a	n/a	n/a	0	0	0
2010	4,78	1	0	n/a	n/a	n/a	0	0	0

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

Table 3.2.2 - Development of Retail Market

As far as the “Trading and Settlement Rules” (Market Rules) are concerned, they are based on the bilateral agreements operating model of the liberalised electrical energy market. A special character of the Cyprus market is that every supplier must own his own generation.

3.2.2.1 Price Monitoring

CERA taking into account, inter alia, its previous decision dated 27/10/2009 providing for a general increase by 1,5% annually on all EAC tariffs from 1/1/2010 to 1/1/2012, in January 2011, proceeded to publish a decision in an effort to reduce as far as possible the cross subsidizations, which are observed among the various tariffs and consequently the various categories of consumers. The said decision envisaged the following:

CATEGORY OF CONSUMERS	TARIFF Codes	INCREASE (Fuel Price Euro 309,78/MT) As from 1.1.	INCREASE (Fuel Price Euro 309,78/MT) As from 1/1/2012
		1,50%	1,50%
		1,50%	1,50%
	5	1,50%	1,50%
		1,50%	1,50%
Domestic		1,50%	1,50%
	6	1,50%	1,50%
	7	1,50%	1,50%
		1,50%	1,50%
	8	1,50%	1,50%
		1,50%	1,50%
	15	1,50%	1,50%
Commercial connected to Low Voltage		1,50%	1,50%
	16	1,50%	1,50%
	17	1,50%	1,50%
	60	1,50%	1,50%
Commercial > 70kVA		1,50%	1,50%
	61	1,50%	1,50%
	62	1,50%	1,50%
	70	0,50%	0,50%
Industrial > 70kVA		0,50%	0,50%
	71	0,50%	0,50%
	72	0,50%	0,50%
	25	3,50%	3,50%
Industrial connected to Low Voltage		3,50%	3,50%
	26	3,50%	3,50%
	27	3,50%	3,50%
	73	3,50%	3,50%
Industrial connected to Medium Voltage		3,50%	3,50%
	74	3,50%	3,50%
	75	3,50%	3,50%

Street Lighting	35	3,50%	3,50%
Pumping	41	3,50%	3,50%
Storage Heaters	55	3,50%	3,50%
Commercial connected to Medium Voltage	63	0%	0%
Commercial connected to Medium Voltage	64	0%	0%
Commercial connected to Medium Voltage	66*	-1,25%*	-1,25%*
(i) Load Factor 60%>(LF)>30%		-1,75%*	-1,75%*
(ii) Load Factor >60%			
Large Industrial L.F>30%	76**	-1,25%**	-1,25%**
Connected to High Voltage	83	-3,00%	-3,00%

Notes:

* A new tariff for large commercial consumers with approved power of 1000kVA and above. The decrease depending on the load factor shown on the table is as compared to tariff 63 of 2010

** A new tariff for large industrial consumers with approved power of 1000kVA and above. The decrease depending on the load factor shown on the table is as compared to tariff 73 of 2010

Furthermore, for purposes of greater convergence towards the desirable cost-orientation, CERA decided that the fixed charge for all categories of consumers be increased (including the general increase/decrease in tariffs above).

It is clarified that, on the basis of the above decision, it is estimated that EAC revenue for 2012 will be reduced by about €3,7 million, compared with those approved by the previous Decision in 2009. However, it achieves, to a satisfactory degree, the desirable rebalancing of the tariffs, with the final aim of smooth and gradual elimination of any cross-subsidisations being observed.

The proposed changes in the tariffs apply as from the dates appearing in the above tables. However, the application of these changes as from 1/1/2012 is subject to the following conditions:

- (a) Preparation of a transparent unbundling of the Electricity Authority of Cyprus Accounts according to its regulated activities and its submission to CERA by 31/7/2011 for approval
- (b) Rationalisation of the Organisational Structure of the Electricity Authority of Cyprus with the aim of increasing productivity and substantially reducing costs chargeable to consumers
- (c) Implementation of a compulsory programme for the substantial reduction of operational expenses, giving emphasis to the reduction of the administration cost which is apportioned to regulated activities as well as to subjects in respect of which the Electricity Authority of Cyprus, in the course of its consultations with CERA at various times, undertook the obligation to make savings
- (d) Suspension of non-productive capital expenses
- (e) Carrying out a detailed study by a specialist firm of consultants on the financial condition of the Electricity Authority of Cyprus in relation to the ten year development plan and its submission to CERA by 31/7/2011.

Later in the year, in December 2011, CERA, taking into account, amongst others, its previous decisions, according to which general increases were approved on the EAC tariffs on the basis of current at the time fuel price of €309,78 MT by +1.5% as from 1/1/2010, +1.5% as from 1/1/2011 and +1.5% as from 1/1/2012, decided that its abovementioned Decision in January 2011 should be implemented with the following changes:

- The increase in the Low Voltage Commercial Tariffs (codes 15, 16 and 17) shall be 0,5% instead of 1,5%

- The increase in Low Voltage Industrial Tariffs (codes 25, 26 and 27) shall be 2,0% instead of 3,5%
- The increase in Medium Voltage Industrial Tariffs (codes 73, 74 and 75) of Street Lighting (code 35), of Water Pumping (code 41) and Storage Heaters (code 55) shall be 2,0% instead of 3,5%.

The above-mentioned reduced prices shall apply for a period of six months. Thus, as from 1st July 2012 the increases shall apply, as they have been fixed the Decision in January, with the exception of the Low Voltage Commercial Tariffs (codes 15, 16 and 17) in respect of which the increase shall be 1,0% instead of 1,5% and the Low Voltage Industrial (codes 25, 26 and 27) in which the increase shall be 2,5% instead of 3,5%.

With respect to tariffs, EAC has committed itself on the following:

1. To study the question of preparing a transparent separation of its accounts according to its regulated activities, with the aim of completing and implementing this study by 31 May 2012,
2. To prepare a new comprehensive study on tariffs with the new data about operating costs and capital expenses. The aim is for the new tariffs to come in force as from 1st January 2013. An obligation has also been undertaken to determine for the first time the internal tariff for EAC generation as from 1st January 2013,
3. To reduce the real elastic operating expenses in connection with its Budget, implementing in this way the condition set by CERA to reduce its operating expenses,
4. To proceed to the rationalisation of the organisational structure of the Authority, with the aim of increasing productivity and reducing the cost which is transferred to the consumers,
5. To prepare soon a study by the World Bank on the EAC finances, keeping CERA informed,
6. To implement a programme for the gradual reduction of its staff at an average rate of about 2% per year and a target of 10% in five years, by applying a specific plan of targeted early retirements in combination with regular retirements. The EAC Board committed itself to include by the end of 2012 the first stage of reductions.

The above commitments are under the control of CERA, which will oversee their implementation as it has been agreed.

3.2.2.2 Monitoring the level of transparency, including compliance with transparency obligations, and the level and effectiveness of market opening and competition

The Trading and Settlement Rules have been drafted by TSO and approved by the Minister and CERA in accordance with section 79 of the Law.

As mentioned above, the main objectives of the Rules are to:

- Enable the Transmission System Operator to fulfil its obligations under the Law.
- Regulate the means by which Participants may trade Energy.
- Allow the calculation and settlement of payments in respect of Energy and Ancillary Services.
- Specify the way in which settlement and billing shall be carried out and
- Deliver the Electricity Trading Rules as envisaged in the Law.

Also, TSO shall in accordance with section 81 of the Law establish the Trading and Settlement Rules Committee which shall be a standing body constituted to:

- Generally review and discuss the Trading and Settlement Rules and its workings.

- Review and discuss suggestions for amendments to the Trading and Settlement Rules which the TSO, the Regulator or any Party may wish to submit for consideration by the Trading and Settlement Rules Committee from time to time, and
- Publish recommendations and encourage Parties to discuss such recommendations.

The Trading and Settlement Rules, as described above, constitute, inter alia, one of the major factors to achieve transparency between licensed electricity producers/suppliers and to ensure consumer protection.

The Electricity Market was liberalised by 35% with effect from 1st May 2004 and was further liberalised by approximately 65% in total with effect from January 2009, to include all “non domestic” consumers which are able to select their Supplier according to what is in their best interest. However, currently there is no other Supplier in Cyprus apart from the Electricity Authority of Cyprus (EAC).

As from 1st of January 2014 the market will be liberalised by 100%, as the ultimate target is for all consumers of electrical energy to be able to choose their Supplier.

Market integration results in decreasing electricity bill for consumers in countries enjoying large power generation capacities at low cost. Generally, the rationale for opening-up the market makes sense if adequate freedom of choice exists so that considerable effects of production reallocation can be expected. When there are too many restrictions in the system, market opening leads to redistribution without any reallocation. In the case of Cyprus where currently there is only one Supplier of electricity, the Regulator secures that the electricity prices of the “dominant” enterprise reflect the actual cost of the services offered with a reasonable profit.

Even though, CERA has provided an investment friendly framework, involving stable regulatory system and fair incentives for investments on a transparent and non-discriminatory basis, market integration has still not developed to a sufficient extent and this is due to the fact that several licenced (by conventional units) projects are delaying their materialisation awaiting Natural Gas to be introduced to the island. Thus, the main bottleneck in the development and integration of the electricity market is the absence of Natural Gas.

It is worth noting that 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. CERA has decided that sizeable capacity has to be over 50MW.

3.2.2 Recommendation on supply prices

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

AVERAGE SELLING PRICE OF ELECTRICITY (€cent / kWh)							
Year	2005	2006	2007	2008	2009	2010	2011
Category							
Domestic	11,009	12,492	12,746	15,988	13,321	16,192	18,644
Commercial	11,748	13,009	13,328	16,982	14,196	16,905	19,352

Industrial	9,594	11,111	11,458	14,955	12,325	14,982	17,123
Agricultural	10,106	11,434	11,675	15,296	12,697	15,440	18,268
Public Lighting	9,298	10,981	11,233	14,554	12,129	14,711	17,416
Average Selling Price (€cent / kWh)	10,988	12,408	12,719	16,178	13,473	16,232	18,632

Table 2.2.3 - Average Selling Price

3.2.3 Carry out investigations and imposing measures to promote effective competition

CERA may on its own initiative or after receiving a complaint to investigate whether a licence holder is infringing or omitting to comply with any condition of the licence or any Regulatory Decision or Decision.

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

- The term of the license or exemption or the regulatory decision or decision which, in CERA's opinion may be infringed at first sight or which is likely to be infringed by the licensee.
- The acts or omissions which in CERA's opinion may or are likely to constitute an infringement of the relevant term, decision or regulatory decision of CERA.
- The deadline within which the licensee may submit objections in writing, which deadline shall not exceed the 30 day time limit from the date that the notice is notified.

CERA shall examine any objections submitted. In examining any objection, CERA may issue a decision by which, it shall order the licensee to take such measures as may be necessary for remedying the infringement or preventing future infringements.

In the event that the licensee fails to remedy the infringement within one month from being notified of the decision of CERA, or within a reasonable period of time as CERA may prescribe by its decision, CERA may:

- Impose an administrative fine on the licensee depending on the nature, seriousness and duration of the infringement or omission as may be prescribed by Regulations issued under the relevant Law; and/or,
- Decide that an administrative fine depending on the seriousness of the case, shall be owed for each day on which the infringement or omission is continuing as referred to above; and/or,
- Revoke an authorisation, exemption, order or prior permit in accordance with the procedure prescribed by Regulations issued by CERA.

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

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

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

3.3 Consumer Protection

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

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

- Procedures for the submission and, where appropriate, re-submission of proposed complaints procedures for approval.
- The timetable for the implementation of the complaints procedures.
- Penalties for failure to comply with the consumer complaints Regulations relating to the preparation or implementation or review of complaint procedures.
- A requirement that suppliers and the DSO review their complaints procedures at intervals of not more than five years.
- Establishing procedures to deal with complaints from consumers that are not settled through complaint procedures to the satisfaction of consumers.

Specifically, the following Regulations relevant to the above mentioned were enacted:

- Regulations on Regulating the Electricity Market (Procedure for Submitting Complaints) of 2005.
- Regulations on Regulating the Electricity Market (Performance Indicators) of 2005.

The first of the above mentioned Regulations determine the procedure for submission of complaints by consumers in cases where suppliers of electricity and/or the Owner of the Distribution System, or both, are in breach of their obligations or duties and/or are acting outside the scope of their prescribed by the Law jurisdiction.

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

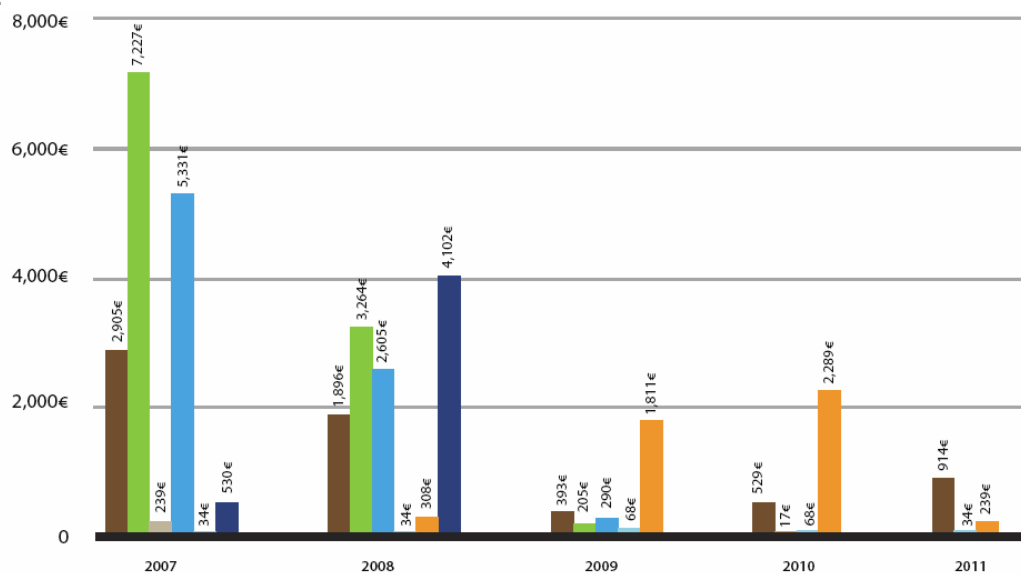
- Consumers' right to submit complaints to the Suppliers and/or the Owner of the Distribution System.
- The obligation of the Supplier and/or Owner of the Distribution System to respond to the complaints.
- The right to submit complaints to CERA and the procedure for examining complaints by CERA.
- The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

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

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

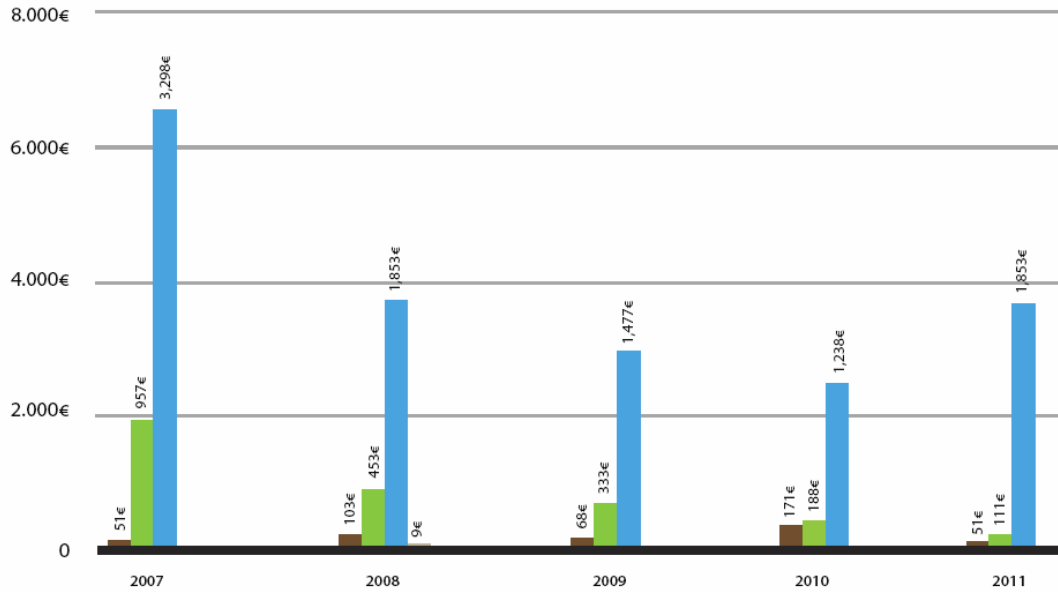
By the implementation of these Regulations the rights of the consumers are safeguarded, their protection is secured, the procedure for the submission of consumer complaints is regulated in the event that Suppliers of Electrical Energy and/or the Owner of the Distribution System or both are in breach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

The following tables show the results for the years 2007, 2008, 2009, 2010 and 2011 of the penalties (€) imposed to EAC as DSO and as a Supplier for failure to comply with the customer complaints regulation relating to the preparation or implementation or review of complaints procedures.



	2007	2008	2009	2010	2011
REPAIR OF MAIN FUSE AFTER FAILURE	2,905€	1,896€	393€	529€	914€
CONSTRUCTION OF AN OVERHEAD SERVICE LINE FROM EXISTING LV MAINS	7,227€	3,264€	205€	17€	
ESTIMATION OF CHARGES FOR ELECTRICITY SUPPLY	239€				
NOTIFICATION OF PLANNED SUPPLY INTERRUPTION					
INSTALLATION AND CONNECTION OF LOW VOLTAGE METER	5,331€	2,605€	290€		
INVESTIGATION OF VOLTAGE COMPLAINT	34€	34€	68€	68€	34€
INVESTIGATION OF METER ACCURACY COMPLAINT		308€	1,811€	2,289€	239€
RESPONSE TO COMPLAINTS, APPLICATIONS, LETTERS OR GIVING INFORMATION	530€	4,102€			

Table 3.3.(a) – Performance Indicators Regulations of EAC as DSO



	2007	2008	2009	2010	2011
REPLYING TO COMPLAINTS REGARDING ELECTRICITY BILLS	51€	103€	68€	171€	51€
METER RECONNECTION REQUESTED BY CUSTOMER	957€	453€	333€	188€	111€
METER DISCONNECTION REQUESTED BY CUSTOMER	3,298€	1,853€	1,477€	1,238€	1,853€
READING THE METER		9€			
RESPONSE TO COMPLAINTS, APPLICATIONS, LETTERS OR GIVING INFORMATION	*	*	*		*

Table 3.3(b) – Performance Indicators Regulations of EAC as a Supplier

From Tables 3.3.(a) and (b) it is evident that EAC performance in 2011 compared with the previous years, both as Owner of the Distribution System as well as a Supplier, may be considered quite satisfactory.

It should be noted that Table 3.3.(a) shows a very small increase in the total amount paid by the EAC as Owner of the Distribution System compared with 2010, in respect of which CERA intends, on the basis of Legislation, to take the necessary action, so that EAC performance improves in the sectors where this is required.

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

Consumer Enquires/Complaints							
2008		2009		2010		2011	
Enquiries/ advice	Formal complaints	Enquiries/ advice	Formal complaints	Enquiries/ advice	Enquiries/ advice	Enquiries/ advice	Enquiries /advice
10	3	2	8	4	8	11	34

Table 3.3(c) – Customer enquiries / advice or complaints presented or submitted to CERA

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

With regards to consumer complaints there are basically four (4) types of complaints, as given in the table below:

Type of Complaint	Number of complaints received in 2010
High Consumption	2.137
Entangled tree brunches with overhead conductors	3.687
Blown Street Lighting Lamps	4.911
Blown fuses	17.111
Total Complaints for 2010	28.026

Table 3.3(d) – Customers Complaints 2010

Furthermore, CERA, in addition to the mechanisms (through events and seminars) at its disposal for informing the public, in recent years participates in the “Informing the Public Campaigns” conducted at European Level and organised with the initiative of CEER and ERGEG as, for example, the following campaigns:

- Consumer Information Campaign
 - (http://ec.europa.eu/energy_policy/consumers/index_en.htm)
- You Choose Campaign
 - (www.agathepower.eu)
- Individual Consumer Information supplied to Eligible Consumers either electronically or by mail.



It should be noted that in all cases, printed information material was distributed to the public.

3.4 Security of supply

For the purpose of harmonisation with the directive of the European Union entitled as “Directive 2005/89/EC of the European Parliament and of the Council of 18 January 2006, concerning measures to safeguard security of electricity supply and infrastructure investments”, all necessary amendments were effected to our National Law on Regulating the Electricity Market. On 29 October 2008 the new amending Law 92(I)/2008 has been published and placed into force.

In 2011 the Power Maximum Demand recorded was on the 3rd of February 2011 and reached a level of 922 MW, (vis-à-vis a Demand Forecast of 1100MW). The energy crisis has adversely affected both maximum power generation of the year, as well as the annual energy generation due, on the one hand, to the extensive cutbacks and, on the other, due to public response to appeals made to save energy. It should be noted that the maximum demand for the year was recorded during the winter period of 2011.

For the reasons given above, the total consumption for 2011, compared with that of the previous year showed a decrease by 4%. The reduced use of electrical installations continued also in the months after the end of the compulsory interruptions probably for limiting expenses by consumers.

The total Energy generated for the whole of the year was of the order of 5.030 GWh (includes total generation by EAC, generation by third parties and generation from Renewable Energy Sources connected to the Transmission and Distribution networks), compared with 5.272 GWh in 2010 (includes total EAC generation, self-producers and generation from RES connected to the Transmission Network).

The mean value of annual Load Factor (of EAC and third parties) was further reduced to 50,5%, compared with 52,1% in 2010.

The installed generating capacity was after the restoration measures 964 MW by the generating plants of EAC plus 21,6 MW by the independent producers for own use and 167,6 MW from RES (Photovoltaics, Wind Energy, Biomass and Biogas).

The graph below present historical data for the period 2000 - 2008 and the forecasted quantities for the period 2011 – 2020:

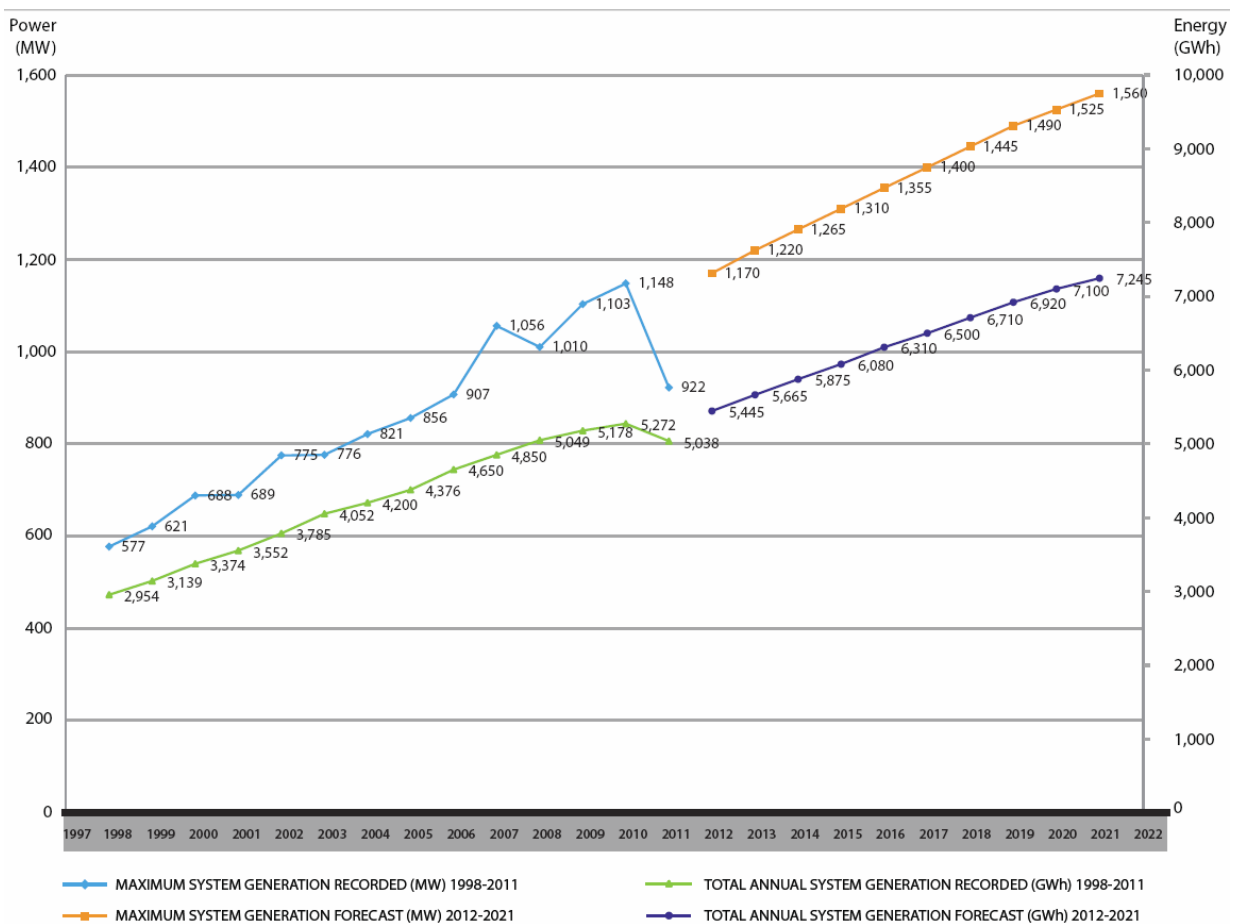


Figure 3.4 Forecast of Annual Maximum Generation (MW) and total Annual Energy Generated (GWh)

3.4.1 Monitoring balance of supply and demand

CERA closely monitors on a regular basis the balance of supply and demand in order to ensure short-term, mid-term and long-term adequacy.

3.4.2 Monitoring investment in generation capacities in relation to SoS

CERA closely monitors expenditures on production facilities.

3.4.3 Measures to cover peak demand or shortfalls of suppliers

CERA, as has been proven during the energy crisis, has taken immediate and effective steps to alleviate interruption of supplies and terminate shortfalls at the shortest possible time and at the lowest cost possible. Details are provided in paragraph 3.1.2 “Technical functioning”.

4. THE GAS MARKET

4.1 Network regulation

4.1.1 Unbundling

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 (DEFA), which will be controlled by the state (Shareholding: 56% by Government with option to release 5% to 3rd parties, 44% by EAC). In general DEFA would have the sole right to import gas into Cyprus and to sell gas to all gas consumers.

❖ Derogations secured by the Republic of Cyprus

In accordance with the new Directive 2009/73/EC in connection with the common rules for the internal market of natural gas and the repealing of Directive 2003/55/EC, Cyprus secured derogation from article 9 on the new Directive on the unbundling of transmission systems and transmission systems operators.

Furthermore, Cyprus may deviate from the application of articles 4 (Authorisation Procedure), 9 (Unbundling of transmission systems and transmission system operators), 37 (Market opening and reciprocity) or/and 38 (Direct lines). The deviation will end from the moment Cyprus will cease to be regarded as an isolated market.

Also Cyprus may deviate from the application of Articles 4 (Authorisation Procedure) and 9 (Unbundling of transmission systems and transmission systems operators), article 13 (Tasks of transmission, storage and/or LNG system operators), paragraphs 1 and 3, articles 14 (Independent system operators), 24 (Designation of distribution system operators), 25 (Tasks of distribution system operators) paragraph 5, 26 (Unbundling of distribution system operators) 31(Unbundling of accounts), 32 (Third party access), 37 (Market opening and reciprocity) paragraph 1 and/or article 38 (Direct lines). This derogation will end the moment Cyprus will cease to be described as an emerging market.

CERA strongly supports the partial use of derogation in order to be able to ensure security of supply, adequacy of gas supply, transparency, consumer protection and sustainability of investments by proper licensing and supervising the operation of Natural Gas undertakings.

4.1.2 Technical functioning

Currently, natural gas is not available in Cyprus therefore not yet applicable

4.1.3 Network and LNG tariffs for connection and access

Currently, natural gas is not available in Cyprus therefore not yet applicable

4.1.4 Cross-border issues

Not yet applicable

4.1.5 Compliance

The discovery of deposits changes radically the strategy we have followed so far on natural gas. The new data orient our energy strategy towards the production of natural gas from Cyprus deposits and using part to meet domestic consumption and exporting the rest, most probably in liquefied form to the European and the international market.

In the light of the new data, the need emerged to change the Legal Framework, with a view to restoring the articles of the Law providing for the Licencing, monitoring and control of natural gas undertakings with a view to ensuring transparency, security of supply, consumer protection and regulation of activities in the natural gas market for the benefit of consumers and public interest. A relevant amending bill, which is not related to Directive 2009/73/EC, was submitted to the House of Representatives and was approved.

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 and CERA has prepared and submitted a draft bill to the Government of Cyprus, in order to transpose the provisions of the new relevant EU Directive 2009/73/EC into the national law. The bill, taking into account any new facts and developments in the hydrocarbon field has been under consultation by the Ministry of Commerce, Industry and Tourism and is currently in the process of being finalised.

4.1.6 Dispute settlement

Currently, natural gas is not available in Cyprus therefore not yet applicable

4.2 Promoting Competition

4.2.1 Wholesale and Retail Markets

As mentioned before, natural gas is still not available on the island, therefore there is no wholesale or retail market operating in Cyprus. Consequently issues such as technical functioning, network and LNG tariffs for connection and access, price monitoring etc. which are among CERA's responsibilities and under its supervision are not yet applicable.

It has to be noted that even though, natural gas is still not available, it was defined by a Ministerial Direction as the basic fuel for the production of electricity with regards to future installations of sizeable capacity.

4.2.2 Recommendations on supply prices

Currently, natural gas is not available in Cyprus therefore not yet applicable

4.2.3 Carry out investigations and imposing measures to promote effective competition

Currently, natural gas is not available in Cyprus therefore not yet applicable

4.3 Consumer protection

Currently, natural gas is not available in Cyprus therefore not yet applicable

4.4 Security of supply

Regarding the security of Natural Gas Supply, the 994/2010 Regulation concerning measures to safeguard security of gas supply is automatically applicable in the event a gas market exists and therefore any implementing measures are not required. It should be noted that N-1 formula in the event of a disruption of the single largest gas infrastructure, is considered not to be applicable in the case of Cyprus. Further more it has to be noted that CERA has prepared strategic guidelines for the development of the natural gas sector which deal inter alia with means of safeguarding, in general terms, the security of gas supply.

4.4.1 Monitoring balance of supply and demand

Currently, natural gas is not available in Cyprus therefore not yet applicable

4.4.2 Expected future demand and available supplies as well as envisaged additional capacity

Currently, natural gas is not available in Cyprus therefore not yet applicable

4.4.3 Measures to cover peak demand of shortfalls of suppliers

Currently, natural gas is not available in Cyprus therefore not yet applicable