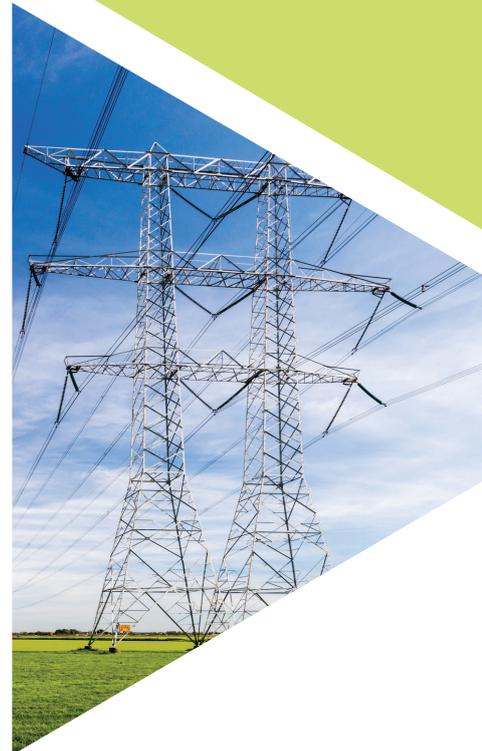


2016

ANNUAL REPORT OF CYPRUS ENERGY REGULATORY AUTHORITY





ANNUAL REPORT OF CYPRUS ENERGY REGULATORY AUTHORITY

FOR THE YEAR 2016

**Προς την Αυτού Εξοχότητα
Κύριο Νίκο Αναστασιάδη
Πρόεδρο Κυπριακής Δημοκρατίας
Λευκωσία**

30 Ιουνίου 2017

Εξοχότατε,

Έχουμε την τιμή να σας υποβάλουμε την 13η Ετήσια Έκθεση και τους Λογαριασμούς της ΡΥΘΜΙΣΤΙΚΗΣ ΑΡΧΗΣ ΕΝΕΡΓΕΙΑΣ ΚΥΠΡΟΥ, που περιλαμβάνει και την Ετήσια Έκθεση του Διαχειριστή Συστήματος Μεταφοράς Κύπρου, για τον χρόνο που τελείωσε στις 31 Δεκεμβρίου 2016, καθώς επίσης και την Έκθεση της Ελεγκτικής Υπηρεσίας της Δημοκρατίας.

Η Έκθεση αυτή και οι Λογαριασμοί υποβάλλονται σε εσάς σύμφωνα με τα άρθρα 18(1), 19(3), 61(3) και 62(3) των Περί Ρύθμισης της Αγοράς Ηλεκτρισμού Νόμων του 2003-2017 και το άρθρο 7(1)(ιη) των Περί Ρύθμισης της Αγοράς Φυσικού Αερίου Νόμων του 2004 μέχρι το 2012.

Με τιμή,



Δρ. Ανδρέας Πουλλικκάς
Πρόεδρος



Φίλιππος (Άλκης) Φιλίππου
Αντιπρόεδρος



Νεόφυτος Χατζηγεωργίου
Μέλος

CONTENTS

INTRODUCTORY NOTE BY THE CHAIRMAN, VICE-CHAIRMAN AND MEMBER OF CERA	7
1. INTRODUCTION	10
1.1 Electricity - Competences and powers of CERA	12
1.2 Natural gas - Competences and powers of CERA	12
1.3 Organisational structure	14
2. ENERGY POLICY, INTERNATIONAL AND LOCAL ACTIVITIES	17
2.1 European Legislation	17
2.2 Projects of Common Interest	19
2.3 International Activities	20
2.4 Other International Activities	24
2.5 Local Activities	24
2.6 Research and Development	25
2.7 Technical Assistance from the Structural Reform Support Service of the EU Commission	26
3. NATIONAL LEGISLATION	27
3.1 Laws and Regulations	27
3.2 Bills in progress	27
3.3 Regulatory Decisions, Draft Decisions and Important Decisions by CERA during 2016	29
3.4 Actions taken on issues arising from previous Regulatory Decisions	33
3.5 Trading and Settlement Rules	35
3.6 Transmission and Distribution Rules	36

4. ELECTRICITY MARKET	37
4.1 Licensing for the Construction and Operation of Electricity Generating Stations	37
4.2 Exemptions from a Construction and Operation Licence of Electricity Generating Stations	41
4.3 Electrical Energy Generation during 2016	42
4.4 Forecast of Annual Maximum Energy Generation (MW) and Total Annual Energy Generated (GWh) for the 2016-2025 Decade	45
4.5 Security of Electricity Supply	46
4.6 Electricity Prices	46
5. NATURAL GAS MARKET	48
5.1 Legal Framework for the Natural Gas Market	48
5.2 Organisation of the Natural Gas Market	48
5.3 Development of the Natural Gas Market	49
6. CONSUMER PROTECTION AND RESOLVING COMPLAINTS	50
6.1 Performance Indicators	50
6.2 Complaints submitted to CERA	53
7. REPORT AND FINANCIAL STATEMENTS	55

ABBREVIATIONS

ACER	Agency for the Cooperation of Energy Regulators
CEER	Council of European Energy Regulators
CERA	Cyprus Energy Regulatory Authority
CYGAS	Natural Gas Public Company
DSO	Distribution System Operator
EAC	Electricity Authority of Cyprus
ICE	Internal Combustion Engine
LNG	Liquefied Natural Gas
MEDREG	Mediterranean Energy Regulators
ODS	Owner of the Distribution System
OTS	Owner of the Transmission System
PCI	Project of Common Interest
PSO	Public Service Obligations
REMIT	Regulation on wholesale Energy Market Integrity and Transparency
RES	Renewable Energy Sources
TSO	Transmission System Operator

INTRODUCTORY NOTE BY THE CHAIRMAN, VICE-CHAIRMAN AND MEMBER OF CERA

In 2016, the Cyprus Energy Regulatory Authority (CERA), within the framework of European and National legislation, took a series of decisions aimed at shaping and developing the Cyprus energy market in conditions of healthy competition, consumer protection and encouraging the use of renewable energy sources.

In particular, the European Union (EU) published in 2016 the EU's Winter Package, entitled "Clean Energy for All Europeans". The set of initiatives contained in the Winter Package includes the key EU proposals for the implementation of the Energy Union as set out in the Roadmap for the Energy Union. It includes both legislative proposals and non-legislative initiatives to create a favourable framework that will bring tangible benefits for citizens, jobs, growth and investment.

Therefore, the main priorities of the set of initiatives are the energy efficiency priority, the leadership of the EU in the field of renewable energy sources and a fair agreement for energy consumers. The proposals for:

- the recast of the Directive on common rules for the internal market in electricity,
 - a new regulation on the electricity market, and
 - a new regulation establishing a European Union Agency for the Cooperation of Energy Regulators,
- are part of the broader set of EU initiatives "Clean Energy for All Europeans".

Both the European Council and the European Parliament have repeatedly stressed that a well-functioning integrated internal energy market is the best tool to ensure affordable and competitive energy prices within the EU, to guarantee the security of electricity supply and to enable the integration and development of larger quantities of electricity from renewable sources in a cost-effective way. Competitive prices are vital for the growth and well-being of consumers in the European Union and are therefore at the heart of the EU's energy policy.

In the light of new developments, fundamental changes in European electricity markets are necessary. The share of electricity produced from renewable energy sources has increased significantly. This switch to renewable energy for electricity generation will continue as it is a key condition for meeting the EU's obligations under the Paris climate agreement.

The natural characteristics of renewable energy sources for electricity generation, such as the changing, less predictable and more decentralised production than the traditional electricity generation, require that the rules governing the operation of the electricity market and the transmission and distribution rules be adapted to a more flexible electricity market. Moreover, government interventions, which are often designed and implemented in an uncoordinated manner, have led to distortions in the electricity wholesale market, with a negative impact on investment.

Significant changes are taking place at the level of technology. The digitisation and rapid development of online measurement and marketing tools allow industry, businesses, and even households to produce and store electricity, as well as to participate in the electricity markets through the so-called "demand response" solutions. The electricity market for the next decade will be characterised by

more and more decentralised electricity production, increased interdependence between Member States and new technological opportunities for consumers to reduce their bills and to actively participate in the electricity markets through demand response, self-consumption or storage.

Based on the above mentioned EU Winter Package “Clean Energy for All Europeans”, the design of the internal electricity market aims to adapt the current market rules to the new realities of the electricity market by enabling the free transmission of electricity where it is most needed, while strengthening the position of consumers, ensuring maximum benefits to society from cross-border competition and providing appropriate signals and incentives for the promotion of the necessary investments for the decarbonisation of the EU energy system.

In view of the above, during the year under review, CERA has taken several important decisions aiming at harmonising the regulatory framework in the energy field that will lead our country towards the completion of the EU internal energy market on the basis of the provisions of the Energy Union.

The main decisions concern:

- the determination of the Weighted Average Cost of Capital for the 2017-2021 regulatory period at 4.6%, for each of the activities of Generation, Transmission Ownership and Distribution of the Electricity Authority of Cyprus (EAC), the level of which is significantly lower compared to 6-8% which was the rate of return on Assets Employed for the previous years (the new EAC tariffs are expected to be approved by CERA in 2017),
- the revision of the Transmission System Operator fee at €c 0.09 per kWh for the year 2016, from €c 0.11 per kWh for the year 2015,
- the adoption of amendments to the Transmission and Distribution Rules,
- the inclusion of the avoidance cost of buying greenhouse gas emission allowances in the calculation of the purchase price of electricity from renewable energy sources,
- the application of provisions for the prohibition of abusive practices on the wholesale energy market and the imposition of sanctions in the event of breach of the provisions,
- the imposition of public service obligations on electricity suppliers to apply reduced tariffs to specific categories of vulnerable consumers.

In addition, CERA, taking into consideration, inter alia, the concern of the Government and the House of Representatives about the delay observed in the full commercial operation of the new Electricity Market Model, has published two draft Regulatory Decisions in the Official Gazette of the Republic of Cyprus, which at the end of 2016 were the object of public consultation. The drafts concern the implementation of a binding timetable for the full commercial operation of the new electricity market model and instructions to the Transmission System Owner to allocate resources to the Transmission System Operator. This would allow the Transmission System Operator to be adequately staffed in order to be able to exercise his responsibilities and to proceed immediately with the necessary actions to carry out the tasks required for the full commercial operation of the new Electricity Market Model, while a binding timetable is set for the full commercial operation of the new electricity market model with the deadline of 1 July 2019.

To cover the time that will inevitably pass until the full commercial operation of the new electricity market model (i.e. until 1 July 2019), CERA examined in detail the introduction of a transitional arrangement in the electricity market. A relevant draft Regulatory Decision, which will go through public consultation, is expected to be issued in early 2017.

Regarding the operational and accounting separation of EAC in four main regulated activities, i.e. generation, transmission, distribution and supply, CERA has audited the separate EAC accounts for the years 2014 and 2015 and instructions have been given to EAC for their improvement. Based on the timetable set by CERA, EAC has been functionally separated as from December 2016. In order to

check the correctness of the implementation of the EAC functional separation, CERA will carry out two compliance checks in 2017.

At the same time, CERA, within the framework of its responsibilities and taking care, inter alia, for the security of energy supply in the natural gas (NG) sector and for the efficiency of the functioning of the internal market of NG, after the failure of the Interim Solution for the supply of NG, took the initiative at the beginning of 2016 to prepare a summary report on the options for the development of the gas market in Cyprus. A recommendation was made to the Government that the introduction of NG in Cyprus through liquefied natural gas (LNG) be seriously studied. The option of LNG from other sources should not be treated as an intermediate solution but as a permanent one and parallel to that of the supply of natural gas from domestic deposits, primarily for reasons of security of supply and competition in the NG market and by extension in the electricity market, but also for the development of the use of natural gas in other sectors. On the basis of the recommendation of CERA, a decision was taken by the Council of Ministers, which instructed the Natural Gas Public Company (DEFA) to proceed with the preparation of a study and detailed planning for the implementation of LNG imports and to come up with a recommendation on the required infrastructure and structures, taking into account, among other things, that NG should be available as soon as possible, before 2020. The study and detailed planning is expected to be completed in early 2017.

Based on the data and developments during 2016 in the field of energy and sustainable development and bearing in mind that CERA's successful operation is based on the following three basic principles:

- The independence of CERA,
- The transparency in CERA decisions,
- The protection of consumers and energy investors by CERA,

CERA will continue to perform its work impartially, ignoring any interventions, to develop a people-centred and smart energy regulation focussed on the consumer. The proper functioning of the Electricity and Natural Gas Markets is crucial for the economy and stability of the state as well as for the well-being of its citizens.

Finally, special thanks are expressed to the staff of the Office of CERA, for their conscientiousness and diligent performance of their duties and for adequately addressing the challenges that arose in 2016.

1. INTRODUCTION

The Cyprus Energy Regulatory Authority (CERA) was established by Law in 2003 in line with European Union Directives.

It is an independent Public Authority with the basic objective of regulating and monitoring the Electricity and Natural Gas Market. Furthermore, CERA's goal is to ensure a competitive, secure and environmentally sustainable internal energy market with the main concern of protecting the rights of consumers.

At the same time, CERA is responsible for advising the Minister of Energy, Commerce, Industry and Tourism on all issues concerning the Energy Market.

Pursuant to the provisions of the Law Regulating the Electricity Market, CERA submits to the President of the Republic an Annual Report on its Activities by the end of June each year, and supplies copies of the Report to the Council of Ministers and the House of Representatives.

The present Annual Report on CERA's activities covers the year 2016 and is the thirteenth report issued by the Authority.

The Annual Report of CERA also includes the Activity Report of the Transmission System Operator (TSO) as provided by the relevant legislation.

During the year under review, CERA has issued a series of important Regulatory Decisions concerning:

- the revision of the TSO fee at 0.09 €/kWh for the year 2016 comparing to 0.11 €/kWh in 2015, as the TSO showed an operating surplus in 2014 and 2015;
- the implementation of provisions for the prohibition of abusive practices on the wholesale energy market and the imposition of sanctions in case of violation of the provisions; and
- the imposition of Public Service Obligations (PSO) on electricity suppliers concerning the implementation of reduced tariffs for specific categories of vulnerable consumers.

In addition, CERA decided to publish, in December 2016, draft Regulatory Decisions concerning the operation of the new electricity market model, such as:

- "The implementation of a binding timetable for the full commercial operation of the new electricity market model", and
- "Guidelines to the Owner of the Transmission System (OTS) for the allocation of resources to the TSO",

which were subject to public consultation for 30 days, as required by law.

At the same time, CERA took a series of Decisions, the most important of which were:

- the determination of the Weighted Average Cost of Capital for the 2017-2021 regulatory period at 4.6% for each of the activities of Generation, Transmission Ownership and Distribution of Electricity Authority of Cyprus (EAC),

- the inclusion of the avoidance cost of purchasing greenhouse gas emission allowances in the calculation of the purchase price of electricity from renewable energy sources (RES),
- the revision of the fuel clause used to calculate the fuel adjustment price for electricity consumers,
- the detailed description of the process of purchasing greenhouse gases emission allowances and recovering the associated costs through the monthly fuel price readjustment,
- the prior approval of EAC Allowable Income for the regulatory period 2017-2021 as submitted on 5 July 2016, subject to certain conditions, and
- approval of the amendments to the Transmission and Distribution Rules - Version 4.0.1 proposed by the TSO.

In addition, CERA fulfilling its supervisory role in the electricity and gas markets, has responded positively to the need of the Ministry of Energy, Commerce, Industry and Tourism and the Ministry of Transport, Communications and Works to establish a regulatory framework for the development of the alternative fuels' infrastructure market in the electricity and gas sectors. In this context, CERA has issued a preliminary draft Decision on the "Basic Principles of the Framework for the Development and Operation of the Electric Vehicle Recharging Infrastructure Market", which was subject of public consultation.

In December 2016, CERA activated its renewed and upgraded website. The new website provides users with comprehensive information on the powers and responsibilities of CERA, as well as on the procedures it follows with transparency. The new website provides to investors and consumers easy, direct and complete information.

The contents of the website include, among other things, the legislation related to CERA's obligations, information on the Electricity Market, Natural Gas Market and REMIT. Additionally, the public can be informed through the Announcements and the Latest News about all developments relating to CERA. It is important to note that, for transparency purposes, various issues are included, such as the methodology for calculating the purchase price of electricity from RES. Finally, new important additions to the website are the Frequently Asked Questions and electronic communication forms, forms for consumer complaints, and comments concerning public consultations.

In the context of utilising information technology and increasing its productivity, optimise activity workflow and document management, CERA with the implementation and operation of a Business Process Management tool, launched in 2016, has achieved:

- the creation and implementation of an Electronic Document Archive for efficient and secure storage and easy access,
- the operation of the Work Flow Management System,
- the modernisation and optimisation of the procedures followed,
- the creation of Registers as required by the Laws and Regulations, and
- the optimisation of the management of Applications for licences issued by CERA.

1.1 Electricity - Competences and powers of CERA

- Ensures genuine competition in the Electricity Market, avoiding adverse discrimination and ultimately aiming at reduced prices.
- Protects the interests of consumers.
- Promotes the development of an economically viable and efficient Electricity Market.
- Ensures adequacy in electricity supply for the satisfaction of all reasonable needs and demands for electricity.
- Safeguards the Continuity, Quality, Reliability and Security of electricity supply.
- Encourages the efficient use and generation of electricity.
- Issues, controls, enforces, amends and recalls Licences or grants Exemptions from a Licence.
- Ensures that Licensees operate efficiently and are in a position to finance the business activities for which the Licence has been issued.
- Determines, publishes and imposes quality standards with which Licensees have to comply.
- Regulates tariffs, charges and other terms and conditions to be applied by Licensees, for any service provided according to the terms of their Licences.
- Promotes the development of regional markets within the Community so that they operate competitively and properly in order to achieve security of supply.
- Promotes the elimination of restrictions in the electricity trade among Member States, including developing appropriate cross-border transmission capacities to meet demand and enhance the integration of national markets.
- Ensures that the Rules governing the operation of electricity networks and the electricity market (Transmission and Distribution Rules and the Electricity Market Rules) are prepared and approved in accordance with the Law.
- Sets the rules or the procedures under which complaints are examined which relate to services offered by the Licensees including, when it considers it appropriate, the carrying out of investigations and the taking of decisions on such complaints.
- Carries out investigations, either following the submission of a complaint or initiated by CERA ex officio.
- Imposes administrative fines in the event of violation of laws or regulations.
- Ensures the implementation of the provisions of Regulation (EU) No. 1227/2011 on the wholesale Energy Integrity and Transparency (REMIT).
- Promotes Research and Development in the field.
- Prepares and implements long-term planning regarding capacity for generation, transmission and distribution on a long-term basis, in order to meet the demand for electricity in the system and to secure supplies to customers which includes security of supply, energy efficiency/demand-side management and achievement of environmental objectives and targets for energy from renewable sources.

1.2 Natural gas - Competences and powers of CERA

- Promotes the development of an economically robust and efficient natural gas market.
- Ensures the safety, continuity of supply, quality and efficiency in the supply of natural gas.

- Monitors the issues of the security of supply, and especially the balance of supply/ demand in the market, the level of the expected future demand and the availability of supply, as well as the level of competition in the market.
- Announces the measures that may be put into effect in case of unforeseeable crisis in the energy field, or when the security of people, works, installations or the integrity of the networks are threatened.
- Prepares and publishes Technical Rules determining the minimum standards of technical design and operation for the connection to the network of installations of Liquefied Natural Gas (LNG), to storage installations, to other transportation or distribution networks and to direct pipes of Natural Gas.
- Takes appropriate and effective measures for control and transparency, so as to avoid possible misuse of dominant position, and in particular of those misuses to the detriment of consumers.
- Protects the interests of the final consumers.
- Promotes the development of regional markets within the Community so that they operate competitively and properly so as to achieve security of supply.
- Promotes the elimination of restrictions in the natural gas trade among Member States, including developing appropriate cross-border transmission capacities to meet demand and enhance the integration of national markets.
- Ensures as competent authority the implementation of the measures safeguarding security of gas supply.
- Resolves disputes on access to pipes of the upstream network, in connection with negotiations for access to the network.
- Carries out investigations, either following the submission of a complaint or initiated by CERA ex officio.
- Imposes administrative fines in the event of a breach of any provision of the Law.
- Sets the rules for the management and the distribution of the interconnection capacity, in consultation with the appropriate authorities of the Member States with which there is interconnection.
- Prepares and implements long-term planning regarding the planning of supply and transportation capacity of natural gas undertakings over the long term so as to satisfy the demand of the system for natural gas, achieve the diversification of sources and ensure supply to the customers. The long-term planning includes security of supply, energy efficiency/ demand-side management and the achievement of environmental objectives and targets for energy from renewable sources.

1.3 Organisational structure

MEMBERS OF CERA

CHAIRMAN

Dr Andreas Poullikkas
Mechanical Engineer

VICE CHAIRMAN

Philippos (Alkis) Philippou
Business Management

MEMBER

Neophytos Hadjigeorgiou
Electrical Engineer
(from 26.04.2016)

Kypros Kyprianides
Electrical-Mechanical Engineer
(until 01.02.2016)

ADVISORS

LEGAL ADVISOR

Legal Partners - Orphanides, Christofides & Partners L.L.C.

ACCOUNTANTS

Alliott Partellas Kiliaris Limited

COMMUNICATION

THE CYPRUS ENERGY REGULATORY AUTHORITY

81-83 Griva Dhigeni Avenue
Jacovides Building,
3rd Floor
1080 Nicosia
P.O.Box 24936
1305 Nicosia

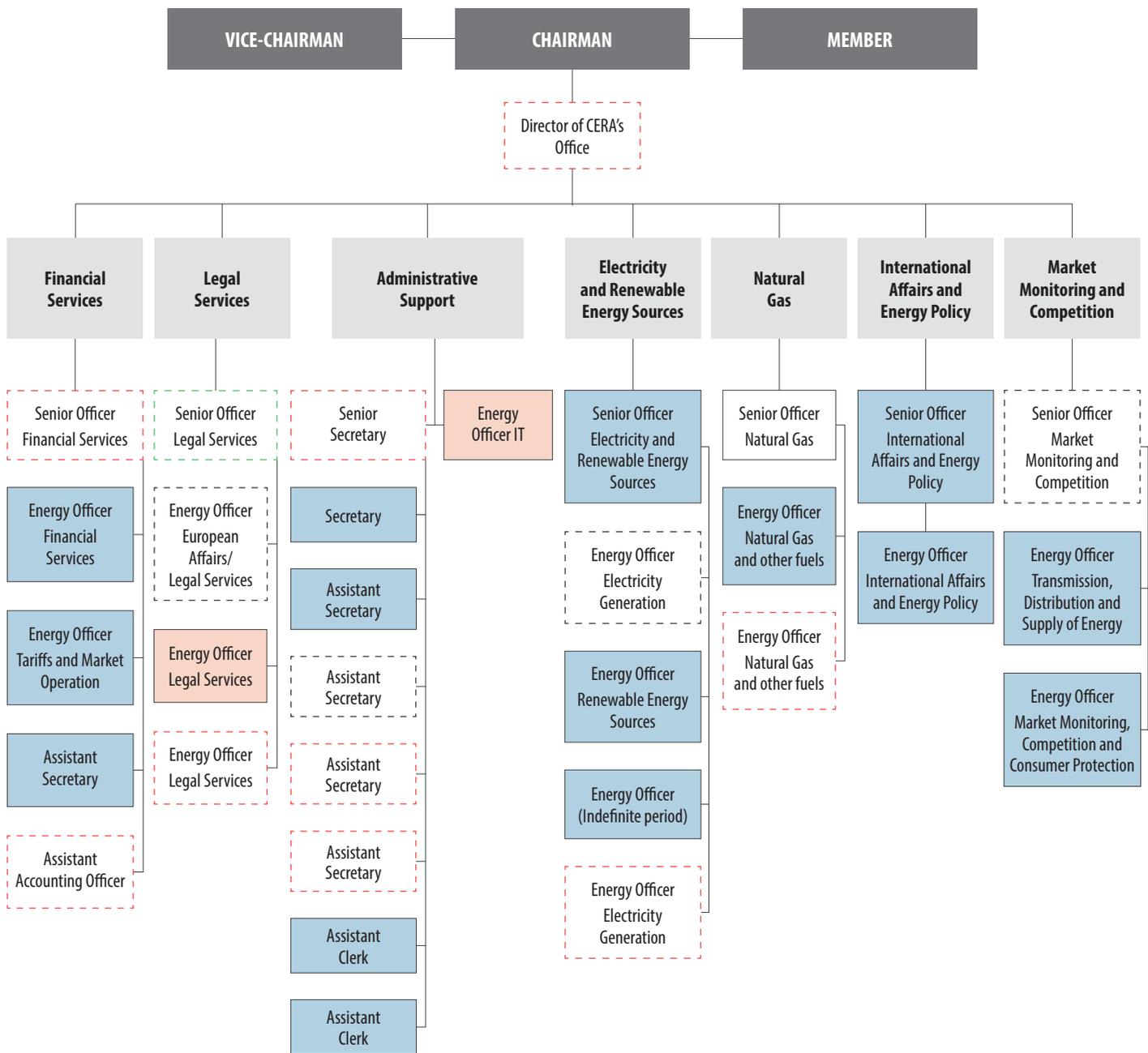
Telephone: + 357 22 66 63 63

Fax: + 357 22 66 77 63

E-mail: regulator.cy@cera.org.cy

Website: www.cera.org.cy

CERA ORGANISATIONAL CHART



Notes:

- The filled positions are shown with blue colour.
- The vacant positions which have received approval for exception from the suspension of filling and CERA is at the filling process, are shown with pink colour.
- The vacant positions are shown with white colour, of which:
 - The vacant positions that have been approved in previous budgets of CERA but the filling is currently suspended, are shown with dashed black line.
 - The new positions, which are proposed in the 2017 budget, are shown with dashed red line.
 - The vacant position to be proposed for creation when CERA's needs indicate so, is shown with dashed green line.
 - The vacant positions to be filled, are shown with continuous black line.

CERA OFFICE

At the beginning of 2016, the CERA office numbered 12 people on staff and by the end of 2016 15 people.

More specifically, in March 2016, CERA completed the selection process to fill four new permanent posts. The new Officers took over their duties in May 2016. In August 2016, one Officer retired.

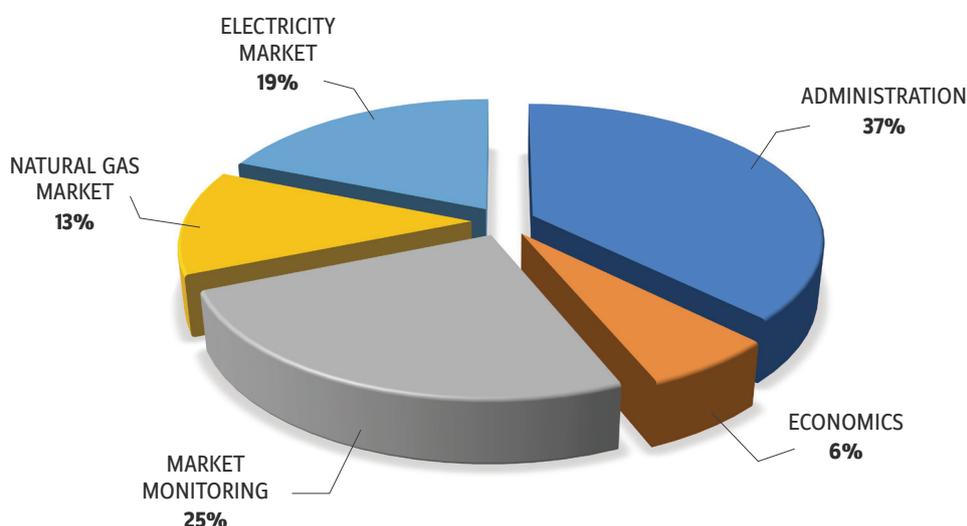
Furthermore, at the end of 2016, CERA started a process of filling two permanent posts, which is expected to be completed in 2017. Also, the approval of the Parliamentary Committee for Finance and Budget is expected, for lifting the suspension of the filling of two additional permanent posts, approved by the Council of Ministers on 12 December 2016, to initiate the filling process.

In addition, in mid-2016, the procedures for the promotion of two Energy Officers to Senior Officers were completed.

It is noted that, compared with all other Energy Regulatory Authorities, CERA is understaffed. In order to effectively perform its tasks and responsibilities as an Independent Authority, in accordance with the obligations imposed by the National and European Legislation in the context of supervision of the electricity and the gas market, as well as the protection of consumers, in its Budget for 2017 CERA requested the inclusion of new positions of first appointment and promotion to supplement its organisational structure.

TRAINING

Graph 1 represents the training of CERA staff during 2016.



Graph 1 - Training of CERA staff in 2016

Furthermore, the Members of CERA received training on subjects related to the Electricity Market, infrastructures for Natural Gas, tariff calculation and monitoring the market and consumers.

2. ENERGY POLICY, INTERNATIONAL AND LOCAL ACTIVITIES

2.1 European Legislation

Clean Energy for All Europeans (Winter Package)

The European Commission published on 30 November 2016 a package of legislative proposals entitled “Clean Energy for All Europeans”, which has three main objectives:

- to give priority to energy efficiency,
- to consolidate the leading role of the European Union in the field of renewable energy generation,
- to ensure fair trading conditions for consumers.

The European Commission’s proposals aim to show that the transition to clean energy is the future growth sector with the best prospects for smart money. Clean energy sector attracted global investment of over 300 billion euros in 2015. The EU is in a good position to use its policies in the field of research, development and innovation to turn this transition into a concrete industrial opportunity. By mobilising up to 177 billion euros of public and private investments per year from 2021 onwards, this package can generate up to 1% increase in GDP over the next decade and create 900,000 new jobs.

The Clean Energy for All Europeans legislative proposals cover energy efficiency, renewable energy, the design of the electricity market, security of supply and governance rules of the Energy Union. In addition, the Commission proposes a new way forward for Eco-design as well as a strategy for connected and automated mobility.

The package also includes actions to accelerate clean energy innovation and to renovate Europe’s buildings. It provides measures to encourage public and private investment, promote EU industrial competitiveness and mitigate the impact on society of the transition to clean energy. At the same time, it explores ways in which the EU can show further leadership in clean energy technology and services to help third countries achieve their policy goals.

Finally, the package includes a series of measures aimed at protecting the most vulnerable consumers.

Conference on the Paris Agreement

The 21st session of the Conference of the Parties (COP) took place between 30 November and 11 December 2015 in Paris. The purpose of the conference was to prepare the first agreement that would commit the entire international community to reduce greenhouse gas emissions with the goal of limiting global temperature increase to 2 degrees Celsius compared with pre-industrial times and strengthen the transition to societies with low-carbon emissions.

The text of the agreement, which will enter into force in 2020, although it does not have the binding force of an international treaty, as defined by international law, provides that:

- Global carbon emissions should start to decline as quickly as possible,
- From 2050 onwards, carbon dioxide emissions should be reduced to the levels that can be absorbed by forests so as to achieve a zero-net emissions balance,
- From 2020, developed countries will provide aid amounting \$100 billion a year to the Green Fund to help developing countries turn to clean energy and tackle the disasters caused by climate change. There is also the intention that this funding will continue also in the future,
- All countries will subscribe to a common reporting, monitoring and verification system for greenhouse gas emissions.

The decisions adopted by the 21st Conference of the Parties are of particular importance since there is a commitment to reduce greenhouse gas emissions to 40% compared to 1990. These decisions have a direct impact on the electricity and gas markets.

The Paris Climate Change Agreement was adopted on 12 December 2015 by 196 countries and on 22 April 2016 its signing ceremony was held in New York. On 5 October 2016, the threshold for the entry into force of the Paris Agreement was reached (i.e. at least 55 Parties to the Convention, accounting for at least an estimated 55% of total greenhouse gas emissions ratified the Agreement). The Paris Agreement entered into force thirty days later on 4 November 2016. The first session of the Conference of the Parties was held in Morocco from 15 to 18 November 2016.

EU Reference Scenario 2016 - Energy, Transport and Greenhouse Gas Emissions - Trends to 2050

On 20 July 2016, the European Commission published the EU Reference Scenario 2016 on Energy, Transport and Emissions developments in the EU up to 2050, focusing mainly on developments in the EU energy system, transport and greenhouse gas emissions.

The time horizon of the Reference Scenario is up to 2050 and it includes all EU28 Member States individually. The Reference Scenario acts as a benchmark of current policy and energy market trends. As such, it can help to inform future policy debate and policy making of the EU member states.

The main results of the Scenario are:

- Acceleration of RES deployment in the energy balance, but also increased EU dependence on energy imports.
- Europe's electricity mix will change significantly in favour of renewable energy in the coming years. Natural gas retains its role in electricity generation by 2030, and what is more increases its participation in the energy mix compared with 2015. The participation of other fossil fuels will decrease, while electricity generation from nuclear power plants will remain stable.
- In the field of energy efficiency there will be significant improvements, which by 2020 will be the driving force behind EU policies and directives. After 2020, the market and new technologies are expected to take the lead. The growth rate of primary demand for energy and GDP will continue to be decoupled.
- Transport will show significant growth, with the largest increase to be recorded in the period up to 2030. Investment spending on energy projects will increase significantly by 2020, mainly thanks to RES and energy efficiency.
- The total cost of energy is projected to increase from 11.2% of EU GDP in 2015 to 12.3% in 2020, with the expected rise in fossil fuel prices in the years to come expected to play a role.

The main results of the reference scenario have a projection horizon in 2050 and are divided into three time periods:

- Until 2020 (short-term),
- 2020 - 2030 (medium term), and
- 2030 - 2050 (long term).

By 2020 the main driver of developments is to achieve the 2020 climate and energy targets. This period is characterized by the increased penetration of RES and the strong improvement in energy efficiency.

In the 2020 to 2030 decade, the reference scenario does not integrate the 2030 Energy and Climate Policy Framework. However, market dynamics, ongoing policies (such as improved licensing procedures) and technology cost reduction allow further, though lower growth, of RES. In addition, energy efficiency measures implemented until 2020 continue to offer improvements during this period, as the operational life of new appliances, renovated buildings, vehicles, etc extend beyond the lifetime of policies. As is the case with RES, improvement rates are slowing down in the absence of specific new policy measures.

2.2 Projects of Common Interest

The European Commission on 18 November 2015 published a list of 195 key energy infrastructure projects, an update of the first list approved in October 2013, known as Projects of Common Interest (PCIs), which will help deliver Europe's energy and climate objectives and will enable the gradual build-up of the Energy Union by integrating the energy markets in Europe, while at the same time they will allow the end of the energy isolation of certain member states. The list of projects includes 108 electricity, 77 natural gas, 7 oil and 3 smart grid projects.

The list of PCIs is updated every two years so as to add projects that meet new needs and remove obsolete ones. The next list will be published in 2017. During 2016, Member States were called upon to review and comment on the projects but also to identify their infrastructure needs so that preparation may start for the creation of the third PCIs list.

For a project to be included in the list, it has to demonstrate significant benefits for at least two Member States; contribute to market integration and further competition; enhance security of supply, and reduce CO₂ emissions.

PCIs benefit from accelerated licensing procedures and improved regulatory conditions, while they may be eligible for financial support from the "Connecting Europe Facility (CEF)". A budget of €5.35 billion has been allocated to trans-European energy infrastructure, under the "Connecting Europe Facility" funding, from 2014-2020, contributing to the faster implementation of projects and making them more attractive to investors.

The projects which concern Cyprus and have been included in the Union list are the following:

- a. Cluster Israel - Cyprus - Greece between Hadera (Israel) and Attica region (Greece) (currently known as "EuroAsia Interconnector"). The cluster includes the following PCIs:
 - Interconnection between Hadera (Israel) and Kofinou (Cyprus)
 - Interconnection between Kofinou (Cyprus) and Korakia (Crete, Greece) and
 - Internal line between Korakia, Crete and Attica region (EL)
- b. Cluster of natural gas and related equipment for the transmission of gas from new sources from offshore Eastern Mediterranean deposits. The cluster includes one or more of the following PCIs:
 - "EastMed Pipeline" - a pipeline from offshore Cyprus to mainland Greece via Crete and

- Ending the isolation in Cyprus in order to allow the transport of gas to the Eastern Mediterranean region.

On April 24, 2016, the implementation body of EuroAsia Interconnector, notified the project in writing to the competent authority of Cyprus, the Ministry of Energy, Commerce, Industry and Tourism (MEIT). On 6 May 2016, the MEIT accepted the notification.

After the notification was accepted, the developer submitted to CERA in the course of 2016 studies related to the project's investment request.

The project is expected to bring benefits to the national systems involved and will end the isolation of Cyprus and Crete by giving them access to the European electricity grid. In addition, it is expected to make a positive contribution to the attainment of the EU goals for the integration of the internal energy market, the security of supply and backup power supply in case of an emergency.

2.3 International Activities



Agency for the Cooperation of Energy Regulators (ACER)

The **Agency for the Cooperation of Energy Regulators (ACER)** (<http://www.acer.europa.eu/>) is a Community body with legal personality and established on the basis of the provisions of Regulation 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators. ACER officially started operating in March 2011 and has its headquarters in Ljubljana, Slovenia.

The main task of the Agency is to help and coordinate at EU level the activities of national regulatory authorities, ensuring the integration of the electricity and the natural gas market and harmonising the regulatory frameworks in the context of the EU energy policy.

Moreover, ACER advises the EU Commission so as to take binding decisions on the Member States, intervenes with recommendations to solve problems between regulatory authorities and contributes to the creation of common European codes (Network Codes).

ACER plays a central role in developing a European-level network and market regulations aimed at strengthening competition. The Agency coordinates regional and interregional initiatives that contribute to market integration. It monitors the work of the European Network of Transmission System Operators (ENTSOs) and monitors the general functioning of the gas and electricity markets, and in particular the operation of wholesale energy trading.

The Agency consists of the Administrative Board, whose members are appointed by the European institutions, the Board of Regulators, composed of senior representatives of the EU Member States' regulatory authorities and the Board of Appeal, which is part of the Agency but is independent from its administrative and regulatory structures and which is dealing with complaints lodged against ACER's decisions.

Cyprus is represented in the Board of Regulators by the Chairman or the Vice Chairman of CERA. During 2016, CERA took part in the 54th, 55th, 56th, 57th, 58th, 60th, 61st and 62nd General Assembly of ACER.

Officers of CERA also participated via teleconference at the 8th meeting of the REMIT Coordination Group held on 10 November 2016 and at the 8th meeting of the REMIT Information Security Implementation Group (RISIG) held on 23 November 2016.



The Council of European Energy Regulators (CEER)

The **Council of European Energy Regulators (CEER)** (<http://www.ceer.eu/>), founded in 2000, was the first autonomously-organised community of independent energy regulatory authorities in Europe and is a non-profit organisation based in Brussels.

The overall aim of CEER is to facilitate the creation of a single, competitive, efficient and sustainable internal market for gas and electricity in Europe. Thanks to CEER, the national regulatory authorities have the opportunity to cooperate and exchange information and best practices. Furthermore, CEER provides assistance to the National Regulatory Authorities in Europe and it is their voice at EU and international level.

CEER works very closely with ACER. It is also a member of the International Confederation of Energy Regulators (ICER), which brings together similar organisations from all over the world, including NARUC (America) ERRA (Central/Eastern Europe) and MEDREG (Mediterranean Region).

The Council consists of the General Assembly and the Board of Governors. It organises its work through Working Groups (WG) which may be supported by Task Forces (TFs) and Work Streams (WSs) in charge of specific issues. CEER has established 7 working groups.

The Council meets at regular intervals, usually in Brussels. The Chairman or the Vice Chairman of CERA represent Cyprus at these meetings. During 2016 CERA participated in the 118th, 119th, 120th, 121st, 122nd, 124th, 125th and 126th General Assembly of CEER.



Association of Mediterranean Regulators for Electricity and Natural Gas (MedReg)

The **Association of Mediterranean Regulators for Electricity and Natural Gas (MedReg)** (<http://medreg-regulators.org/>) was established in 2007, under the Italian law and has its headquarters in Rome. Currently, MedReg consists of 24 Energy Regulatory Authorities (Albania (ERE), Algeria (CREG and ARH), Bosnia-Herzegovina (SERG), Croatia (HERA), Cyprus (CERA) Egypt (EgyptEra), France (CRE), Greece (RAE), Israel (PUA and NGA), Italy (AEEGSI), Jordan (EMRC and MEMR), Libya (ME), Malta (REWS), Montenegro (REGAGEN), Morocco (MEMEE), Palestine (PERC), Portugal (ERSE), Slovenia (AGEN-RS), Spain (CNMC), Tunisia (MIT) and Turkey (EMRA)).

MedReg promotes a transparent, stable and harmonised regulatory framework in the Mediterranean Region fostering market integration and infrastructure investments, as well as aiming at consumer protection and enhanced energy cooperation of stakeholders in the Mediterranean Basin, with the objective to implement the conditions for the establishment of a future Mediterranean Energy Community, based on a bottom-up approach.

MedReg is actively supported by the EU and CEER. The General Assembly of MedReg meets twice a year.

Cyprus is represented in the General Assemblies of MedReg by the Vice Chairman of CERA. In the course of 2016, CERA participated in the 21st and 22nd General Assembly of MedReg.

During the 22nd General Assembly of MedReg, elections were held for a new President and Vice President, as well as the Chairs and Vice-Chairs of the Working Groups and the Task Force. Following a vote, CERA took over as Vice-Chair of the Renewable Energy Sources and Energy Efficiency Working Group (RES WG). In addition, it was decided that CERA in its capacity as Vice-Chair of RES WG participate as a member of the Task Force on UFM Energy Platforms.



Energy Community (European Community)

The **Energy Community (European Community)** (<https://www.energy-community.org>) was established by an international treaty signed in Athens in October 2005. The Treaty brings together the European Union and countries from the South-East Europe and Black Sea region.

Its key aims are to attract investment in power generation and networks to ensure stable and continuous energy supply, create an integrated energy market, enhance the security of supply, promote the protection of the environment and strengthen regional completion.

The Energy Community is made up of 8 Contracting Parties, 1 Candidate, 4 Observers and 26 Member States of the EU.



The Energy Community Regulatory Board (ECRB)

The **Energy Community Regulatory Board (ECRB)** (<https://www.energy-community.org>) is the coordination platform for exchange of knowledge and development of best practices for regulated electricity and gas markets in the Energy Community. Its mission is to facilitate the development of competitive and integrated gas and electricity markets for the benefit of the Energy Community' business and citizens.

According to the Treaty, the Regulatory Board:

- advises the Ministerial Council or the Permanent High-Level Group on the details of statutory, technical and regulatory rules;
- issues recommendations on cross-border disputes involving two or more Regulators, at the request of any of them;
- takes measures, if so empowered by the Ministerial Council;
- adopts Procedural Acts.

ECRB consists of the representatives of the regulatory authorities of the eight contracting parties (Albania (ERE), Bosnia-Herzegovina (SERC) Former Yugoslav Republic of Macedonia (ERC), Montenegro (REGAGEN), Serbia (AERS), Moldova (ANRE), Ukraine (NEURC) and Kosovo (ERO)). ECRB also includes ten representatives of regulatory bodies, without having a right to vote, the so-called Participants (Austria (E-Control), Bulgaria (SEWRC), Croatia (HERA), Cyprus (CERA), Germany (BNetzA), Greece (RAE), Hungary (MEKH), Italy (AEEGSI), Romania (ANRE) and one representative of ACER). Moreover, two regulatory authorities, those of Georgia (GNERC) and Turkey (EMRA), were given the status of observer.

European Commission Fora

In 1998, the European Commission set up the **European Electricity Regulatory Forum (Florence Forum)** for the creation of a common electricity market inside the internal market of the EU. A year later the **European Gas Regulatory Forum (Madrid Forum)** was established, a Forum similar to that of Florence but for the gas sector. These regulatory Fora, which are convened once or twice a year with the participation of the Commission, Member States, Members of the European Parliament, representatives of energy regulators and transmission system operators, representatives of organisations of traders, consumers, transmission system operators as well as organised energy markets, have today become the informal advisory bodies of the Community and the fora where the problems of the internal market are discussed and solutions to these problems are promoted. The European Regulatory Fora of Florence and Madrid formed the basis for the establishment of the **Citizens' Energy Forum in London (London Forum)** providing support to consumers facing problems in the energy market and trying to find solutions. Furthermore, they were the basis for the establishment of the **European Regulatory Forum for Sustainable Energy (Bucharest Forum)** which deals with the promotion of renewable energy.

CERA systematically attends the European Energy Fora and participates in their work. In February 2016, it participated in the 8th European Citizens' Energy Forum and in March 2016 participated in the European Electricity Regulatory Forum. In October 2016, CERA participated in the 29th European Gas Regulatory Forum.

Fora of the Energy Community

The creation of the Fora of the Energy Community reflects the development of the Energy Community. Energy Fora bring together all relevant stakeholders. Under the chairmanship of a representative of the European Union, the Fora adopt conclusions and transmit them to the Permanent High-Level Group. The first Energy Forum, the **Athens Regulatory Forum**, was convened in 2002, before the Treaty was signed. Its meetings paved the way for the signing of the Athens Memorandum in 2002, and later to the drafting of the Treaty establishing the Energy Community. It operated on the basis of the model of the Florence Forum in the European Union. The Forum meets once a year in Athens. The **European Gas Regulatory Forum** is held once a year in Slovenia. The provisions of the Forum were part of the Athens process, even before the Treaty entered into force. The Treaty makes explicit reference to the creation of the Natural Gas Forum. The **Oil Regulatory Forum** was created by a decision of the Council of Ministers in 2008 to help implement the Energy Community acquis on Oil. Its first meeting took place in 2009 and since then it meets once a year in Belgrade. The **Regulatory Forum on Social Policy** completes the Fora system of the Energy Community. It used to meet every year from 2007 to 2014. It was set up to review the implementation of the principles set out in the Memorandum of Cooperation on Social Issues adopted in 2007.

2.4 Other International Activities

During the year under review, CERA also participated in the following international activities:

- 1st, 2nd, 3rd, 4th, 6th, 7th and 8th European Regulators Forum (ERF) Meetings,
- Athens Energy Forum, held between 1-3 February 2016 in Athens,
- EU-US Energy Regulators Roundtable, held between 24-28 April 2016 in Madrid,
- 2nd MedReg - CEER Roundtable, held on 19 May 2016 in Malta,
- 12th meeting with LAGIE SA, visit to Agios Stefanos and attendance of “The Eurasian Natural Gas Infrastructure Conference”, which took place between 20-23 June 2016 in Athens,
- Meeting with DG ENER of the European Commission,
- ACER Public Debriefing, which took place between 10-14 July 2016 in Brussels,
- London Gas, LNG Forum and a meeting at the ESCP Europe University on LNG issues in Cyprus held between 25-29 September 2016 in London,
- The European Electricity Ancillary Services and Balancing Forum, which took place between 25 September and 1 October 2016 in Barcelona,
- 1st MMR TF Workshop, held between 9-13 October 2016 in Brussels,
- 2016 Power Project Financing & Technologies Forum, which took place between 27 November - 2 December 2016 in Vienna.

2.5 Local Activities

During the year under review, CERA accepted invitations for speeches and presentations in Cyprus on various subjects related to energy in its effort to contribute to global and seamless information sharing on the topics of electricity, natural gas, licensing etc.

Specifically, CERA participated in a number of events/ presentations, the most important of which are:

- Presentation by CERA Chairman, entitled “Future Sustainable Energy Systems”, on 12 April 2016, at the Cyprus University of Technology, organised by the Rectorate Authorities;
- Presentation by CERA Chairman, entitled “Renewable and Sustainable Energy Futures” at the “5th International Conference on RES and Energy Efficiency - New Challenges” on 5 May 2016, organised by the Cyprus Chamber of Commerce and Industry (CCCI);
- Presentation by a CERA Officer entitled “Regulation of Renewable Energy Sources for the Future” on 11 May 2016, organised by the FOSS Research Centre of the University of Cyprus;
- Address on behalf of CERA Chairman at an event entitled “New Electricity Market Regulations in Cyprus, New Rules of the Competitive Electricity Market” on 31 May 2016, organised by the CCCI;
- Address by the CERA Chairman at the annual General Assembly of SEAPEC on 30 June 2016, organised by the Cyprus Employers and Industrialists Federation (OEB);
- Presentation by CERA Chairman, entitled “Future Energy Systems - Challenges and Necessary Actions”, on 20 September 2016, to the Parliamentary Committee on Energy, Commerce, Industry and Tourism in the House of Representatives;
- Presentation by the President of CERA on “Moving towards the New Energy Age” on 24 October 2016 at the EU House in Nicosia;
- Presentation by the CERA Chairman entitled “Towards future sustainable energy systems”, on 17 November 2016, at the Russian - Cyprus Business and Investment Forum in Limassol;

- Presentation by a CERA Officer entitled “Operation and Competences of the Cyprus Energy Regulatory Authority”, on 28 and 30 November 2016, at the Frederick University Nicosia and Limassol, respectively;
- Presentation by the CERA Chairman entitled “Towards sustainable energy systems”, on 5 December 2016, at the University of Nicosia, organised by the Law Department of the University;
- Presentation by the President of CERA entitled “Towards sustainable energy systems” on 5 December 2016, at the University of Nicosia organised by the Law Department of the University.

2.6 Research and development

Co-funded projects

In the context of promoting research and development in the energy sector, CERA makes proposals in collaboration with other agencies and participates in projects funded either from EU Programs and Funds or from national funds.

One of the projects in which CERA participates is the project entitled “Smart net-metering for promotion and cost-efficient grid-integration of PV technology in Cyprus”, with the acronym “LIFE + SmartPV”, which is funded by the EU LIFE+ program under the theme “Environment Policy and Governance”.

The above mentioned project proposes pilot programs for net-metering photovoltaic systems and smart meters in Cyprus. The project involves the design, evaluation and promotion of a simple, timely and promising energy policy on smart net metering and through the sample of consumers to be involved in the project it is expected that a demand response price policy will be applied for a year in order to draw conclusions for further study of the pricing policy.

This project proposes pilot programs for net metering for photovoltaic systems and smart meters in Cyprus. The project involves the design, evaluation and promotion of a simple, timely and promising energy policy on smart net-metering and through a sample of consumers who will participate in the project, it is expected that a pricing response to demand policy will be applied for a year, in order to draw conclusions for further study of the pricing policy. The project has a total budget of €1,219,838, with co-financing from the EU amounting to €568,464. Work on the project started on 1 July 2013 and is expected to be completed in 2018. The project involves a total of five partners (University of Cyprus, CERA, Deloitte, EAC, Department of Environment) who allocate the cost depending on the tasks assigned to each partner.

More information about the project is available on the website: <http://www.smartpvproject.eu/>.

Cooperation with the “KIOS” Research Centre for Intelligent Systems and Networks at the University of Cyprus

Also, during the year under review CERA, taking into account the work for the implementation of new Electricity Market Rules on the basis of the provisions of Regulatory Decision No. 01/2015 - Regulatory Administrative Act 164/2015 “Proposal regarding the new Net Pool Electricity Market arrangements in Cyprus” and the need to obtain for research and development purposes a specialised software model that will contribute significantly to the extraction of data and information on the operation of the power generation units, commissioned the “KIOS” Research Centre for Intelligent Systems and Networks at the University of Cyprus, to implement the specialised software model “Optimal Integration of Units and Economic Dispatch” known as “Unit Commitment and Economic Dispatch software”. This specialised software is expected to be delivered to CERA in the first quarter of 2017.

Licensing status and process for examining innovative and/or pioneering and/or model RES stations for electricity generation.

In the context of encouraging research and development in the fields of electricity and gas markets, CERA has issued a decision on the procedure for the examination and evaluation of applications for **innovative and/or pioneering and/or model RES stations for electricity generation**. As the total installed capacity of such technologies will not exceed 200 kW, an Exemption from a Licence will be granted under certain conditions.

2.7 Technical Assistance from the Structural Reform Support Service of the EU Commission

Within the framework of technical assistance from the Structural Support Service of the European Commission a study was launched entitled “Technical Assistance for preparing a study to assess the energy efficiency potentials of the Cypriot electricity infrastructure according to the provisions of Article 15(2) of Directive 2012/27/ EU on Energy Efficiency”. At first, the study involves the evaluation of the potential of the energy efficiency infrastructure of the energy system in Cyprus, including the responsiveness and flexibility of the demand side. Subsequently, it includes the identification of specific actions that may be taken (legislative and regulatory) as well as investments that may be accomplished to achieve improved energy efficiency of the network infrastructure.

This study was undertaken by the consulting firm Ricerca sul Sistema Energetico - RSE S.p.A. through the Structural Reform Support Service and is expected to be completed in the first half of 2017.

Moreover, the Structural Reform Support Service of the European Commission has also approved the provision of technical assistance to CERA on issues related to the organisation of the electricity market, consumer complaint information management, issues related to PCIs, training of CERA Officers, as well as on issues concerning pricing and charges.

Furthermore, CERA has submitted a new request which is under consideration by the Structural Reform Support Service of the European Commission concerning the provision of technical assistance for long-term planning in the electricity and natural gas sectors.

3. NATIONAL LEGISLATION

The following section presents the Laws and Regulations which have been amended, the bills under discussion, the most important Regulatory Decisions and Decisions of CERA and finally the developments in the Market Rules and the Transmission and Distribution Rules.

3.1 Laws and Regulations

The Promotion and Encouragement of the Use of RES (Fixing the Amount of Excise Tax) Regulations of 2016

The Council of Ministers, exercising the powers granted to it under paragraph (f) of section 44 of the Promotion and Encouragement of the Use of RES Laws of 2013 to 2015, has issued Regulatory Administrative Act 375/2016 on the Promotion and Encouragement of the Use of RES (Fixing the Amount of Excise Tax).

These Regulations concern the determination of the amount of the excise tax and the date of its enforcement, and in addition include a provision for reimbursement of the amount paid by the RES producers in 2015.

3.2 Bills in progress

Regulating the Electricity Market Bill

During 2016, a dialogue between the Ministry of Energy, Commerce, Industry and Tourism and CERA started for the purpose of preparing the amendment Bill of the Law Regulating the Electricity Market, in order to include provisions that allow the electricity market to operate in accordance with the new Market Model, as provided for in CERA's Regulatory Decision 01/2015 on the detailed planning to change the regulatory framework for the operation of the electricity market.

It is expected that the Bill will be put to public consultation in 2017.

Regulating of the Natural Gas Market Bill

In the year under review for the purpose of alignment with articles 2, 9(1), 9(2), 10(2), 11(1) and 15(2) of Directive 2012/27/EU of European Parliament and the Council of 25 October 2012 on Energy Efficiency, the Ministry of Energy, Trade, Industry and Tourism, in cooperation with CERA, prepared an amending Bill of the Law Regulating the Natural Gas Market.

The amending Bill, in addition to the specific provisions of the above Directive, includes new provisions for harmonisation with Article 3(5) and Annex I of Directive 2009/73/EC of the European Parliament

and of the Council of 13 July 2009 concerning the internal market in natural gas. At the same time, the process of harmonisation with the provisions of Regulation (EU) No.1227/2011 on wholesale energy market integrity and transparency regarding the imposition of sanctions on market participants is in progress and is expected to be completed by 2017.

Bill on the Promotion and Development of Alternative Fuel Infrastructures

During the year under review, for the purpose of harmonisation with Directive 2014/94/EU of the European Parliament and of the Council of 22 October 2014 establishing a common framework for measures on the deployment of alternative fuels infrastructure in the European Union, in order to minimise dependence on oil and reduce the environmental impact of the transport sector, a harmonising bill was prepared by the Ministry of Transport, Communications and Works which was subject to public consultation. CERA was actively involved in the public consultation and expressed its views on the issues that concerned it. This Bill lays down minimum standards for the development of alternative fuel infrastructure, including recharging points for electric vehicles and gas and hydrogen refuelling points to be implemented through the national policy framework as well as common technical specifications for such recharging and refuelling points, and specifications for information to be given to users.

Furthermore, CERA recognising its supervisory role in the electricity and gas markets has responded positively to the need of the Ministry of Energy, Commerce, Industry and Tourism and the Ministry of Transport, Communications and Works to set up a regulatory framework for the development of the alternative fuel infrastructure market in the electricity and gas sectors.

Bill on the Issuance of Court Orders for the Protection of Collective Interests of Consumers (Amendment)

For the purpose of harmonising with Directive 2013/11/EU of the European Parliament and of the Council of 21 May 2013 on alternative dispute resolution for consumer disputes, the Ministry of Energy, Trade, Industry and Tourism has prepared a harmonising bill which was put under public consultation. CERA expressed its views in the public consultation on the issues concerning it and is in touch with the competent Department of the Ministry for further discussion on the matter.

The amending Bill is to be applied to procedures for out-of-court resolution of domestic and cross-border disputes over contractual obligations arising from sales contracts or service contracts between a trader established in the Republic and a consumer residing in the Republic or in a Member State through the intervention of an alternative dispute resolution agency which proposes or imposes a solution or brings the parties together in order to facilitate an amicable settlement.

3.3 Regulatory Decisions, Draft Decisions and Important Decisions by CERA during 2016

In 2016 CERA took several Regulatory Decisions and Decisions, the most important of which are the following:

REGULATORY DECISIONS

Regulatory Decision 01/2016 - TSO fee (Tariff T-TSO) for the year 2016

The Members of CERA decided that the TSO fee (Tariff T-TSO: Tariff for TSO expenses) be revised to 0.09 €/kWh for the year 2016, from 0.11 €/kWh for the year 2015, as the TSO showed an operating surplus in 2014 and 2015.

Regulatory Decision 02/2016 - Prohibitions of Abusive Practices in the Wholesale Energy Market and Imposition of Sanctions

With this Regulatory Decision, the Members of CERA decided to apply provisions prohibiting abusive practices affecting the wholesale energy markets, which are in line with the rules applicable to the financial markets and the proper functioning of those wholesale energy markets, taking into account at the same time their specific characteristics.

In particular, this Regulatory Decision introduces more specific legislative and regulatory arrangements that are deemed necessary for the issues related to Regulation (EU) No. 1227/2011 on the prohibition of insider trading, the obligation to publish inside information, the prohibition of market manipulation, implementation of prohibitions against market abuse and the imposition of related sanctions.

Regulatory Decision 03/2016 - Imposition of Public Service Obligations (PSOs) - Tariffs for specific groups of consumers

The Members of CERA, based on the Decision of the Minister of Commerce, Industry and Tourism dated 7 October 2016 [Regulatory Administrative Act 286/2016], which contains instructions to CERA for the imposition of PSOs and under Articles 89(1), 90 and 26 of the Law Regulating the Electricity Market and, taking into account the comments received following the publication of the Draft Amendment of Regulatory Decision 03/2015, dated 31 July 2015 [Regulatory Administrative Act 264/2015], issued Regulatory Decision 03/2016.

With this Regulatory Decision, CERA imposed on all electricity supply Licensees PSOs with respect to specific vulnerable groups of consumers, by including them in the special tariff (code 08) of EAC, which compared to the normal tariff (code 05) has reduced charges.

DRAFT REGULATORY DECISIONS

Draft Regulatory Decision 04/2016 - Implementing a Binding Timetable for the full commercial operation of the new Electricity Market Model

The Members of CERA decided to publish in December 2016 Draft Regulatory Decision 04/2016 and to launch a public consultation for 30 days, the content of which concerned the immediate implementation

of the Binding Timetable for the Full Commercial Operation of the new Electricity Market Model, on the basis of Regulatory Decision No 01/2015 - Regulatory Administrative Act 164/2015 “Proposal regarding the new Net Pool Electricity Market arrangements in Cyprus”.

Draft Regulatory Decision 05/2016 - Instructions to the Owner of the Transmission System (OTS) for allocation of resources to the TSO

The Members of CERA decided to publish in December 2016 Draft Regulatory Decision 05/2016 and to launch a public consultation for 30 days, the content of which concerned instructions to the OTS for the allocation of funds to the TSO.

DECISIONS

Decision 1435/2016 - Ten-year Development plan of the Transmission System for the period 2016-2025

By its Decision 1435/2016, CERA after reviewing and evaluating the relevant recommendation of the TSO on the above-mentioned subject for the period 2016-2025, decided to approve the proposed Ten-year plan for the development of the Transmission System.

Decision 1458/2016 - Long-term forecast of annual maximum generation and total annual energy generated for the 2016-2025 decade

By Decision 1458/2016, CERA after reviewing and evaluating the relevant recommendation of the TSO on the long-term forecast of annual maximum generation and the total annual energy generated for the period 2016-2025, decided to approve this recommendation.

Decision 1469/2016 - Pilot Implementation of Demand Response Pricing (DPR) in the context of the LIFE + Smart PV Research Project

By Decision 1469/2016, CERA at its meeting regarding the evaluation of the recommendation of the Team of the Project with the acronym “Smart PV” for pilot implementation of demand response pricing decided:

- The implementation of the recommendation of the Team of the Project with the acronym “Smart PV” for pilot demand response pricing (0.1085 €/kWh off-peak, 0.1485 €/kWh shoulder, 0.1885 €/kWh peak) in the project’s sample of the consumers for a period of six (6) months in the first phase,
- The Smart PV Project Team should submit to CERA five (5) months after the new pricing starts a report assessing the results of new tariffs and should consider adopting and implementing nine (9) DRP tariffs instead of three (3) for the next six (6) months of pilot pricing. CERA will then make a reassessment of the data on the type of new pricing for the next six (6) months,
- If CERA evaluating the Project Team’s report decides to apply the three (3) new tariffs for a consecutive year, then it will consider applying nine (9) new tariffs for one more year (this year is not included in the commitment of Smart PV towards the specific sample of consumers),
- If there are income losses for the EAC, these will be assessed by CERA and it will be examined whether part of the cost or the whole amount can be included in non-regulated activities (R&D), so as not to burden consumers.

Decision No 1490/2016 - Process of purchasing greenhouse gas emission allowances and recovery of related cost through Monthly Fuel Price adjustment

By Decision 1490/2016, CERA decided to approve the detailed description of the process of purchasing greenhouse gases emission allowances and recovering the relevant costs through the monthly fuel price readjustment submitted by EAC at the request of CERA, with effect for the year 2016 and possible revision of the process in 2017.

Decision 1494/2016 - Licensing status and procedure for the examination of innovative and/or pioneering and/or model RES stations for electricity generation

By Decision 1494/2016, CERA decided the procedure for receiving, examining and evaluating applications for Exemptions from a Licence for innovative electricity generation technologies from RES, the total installed capacity of which does not exceed 200 kW.

This Decision was taken in view of the interest shown in the development of innovative and/or pioneering and/or model RES technologies for electricity generation, aimed only or mainly at exploring the functionality of a new technology or innovative technology methods or other pioneering methodologies/ technologies, combined or not, and their technical capabilities for electricity generation, with the ultimate goal of drawing conclusions on their effectiveness, promoting in this way research and development.

Decision 1500/2016 - Fuel Adjustment Clause for 2016 and Electricity Purchase Price from RES for 2016

By Decision 1500/2016, CERA decided to revise the fuel adjustment clause used to calculate the consumer fuel price readjustment as follows:

- The fuel adjustment clause for consumers connected to low voltage shall remain at 0.00126 €/kWh/5€/c/MT.
- The fuel adjustment clause for consumers connected to medium voltage is revised from 0.00123 €/kWh/5€/c/MT to 0.00124 €/kWh/5€/c/MT.
- The fuel adjustment clause for consumers connected to the high voltage is revised from 0.00120 €/kWh/5€/c/MT to 0.00122 €/kWh/5€/c/MT.
- The application of the above revised fuel clauses should be done for the calculation of the fuel price adjustment in electricity bills for consumers on monthly meter readings as from the end of June 2015 and for electricity bills for consumers on bi-monthly meter readings as from the 1st of July 2015 onwards.

Furthermore, CERA decided that the fuel adjustment clause used to calculate the purchase price of RES electricity as well as the baseline prices for purchasing energy from RES will not be revised at present, since these are subject to a detailed study by CERA.

Decision 1524/2016 - Preliminary Approval of Allowable EAC Revenue for the Regulatory Control Period 2017-2021

By Decision 1524/2016, having taken into consideration Regulatory Decision No. 02/2015 (Regulatory Administrative Act 208/2015) "Regulatory Practice Statement and Electricity Tariffs Methodology" and the calculations on allowable revenue submitted by EAC, CERA decided to preliminarily approve the Allowed Revenue of EAC for the 2017-2021 regulatory period provided that these will be differentiated on the basis of the 10 remarks that CERA has set in its Decision.

Finally, during the process of verifying the calculations of Allowed Revenue submitted by EAC, it emerged that the volume of work for the preparation of the Allowed Revenue calculations was concentrated on a very small number of employees in the EAC Financial Services Unit. CERA urged EAC to proceed with the training and re-training of more officers involved in the subject of Allowed Revenue in order to perform more efficiently and effectively the work related to the calculation of Allowed Revenue.

Decision 1548/2016 - Auditing of wind farm accounts for 2015

By Decision 1548/2016, CERA decided to invite a tender for the analysis of the audited financial statements of the wind farms in operation, pursuant to section 90(1)(b) of the Law Regulating the Procedures for Public Procurement and Related Issues of 2016 (L. 73(I)/2016).

Decision 1549/2016 - Status of Exceptions from a Licence for power plants using RES, with a capacity of 1kW to 20kW

By Decision 1549/2016, CERA decided to determine the procedure for Exemption from a Licence for RES generating stations with a capacity of 1 kW to 20 kW and at the same time repealed Decision 145A/2007.

Decision 1557/2016 - Purchase price for Electricity from RES for the year 2016

By Decision 1557/2016, CERA decided to give instructions to EAC to include in the calculation of the purchase price of electricity from RES the avoidance cost of purchasing greenhouse gas allowances, which EAC does not incur due to the generation of electricity from RES.

CERA also decided that the base prices and the fuel adjustment clause for the purchase of electricity produced from RES, including the following:

- Fuel Cost Avoidance,
 - Variable Maintenance Cost Avoidance,
 - Greenhouse gas emissions purchasing cost avoidance, and
 - Contribution to the Cyprus Organisation for Storage and Maintenance of Oil Stocks cost avoidance,
- should be submitted to CERA for approval.

Furthermore, the Decision states that the purchase price of electricity from RES is under detailed scrutiny and will change on the basis of the results that will emerge.

Decision 1559/2016 - Consultation between CERA, TSO and EAC on the budget of the TSO for 2017

By Decision 1559/2016, CERA, in view of the fact that some issues emerged concerning the budget of the TSO for 2017, decided, inter alia, that within the framework of section 61 of the Law Regulating the Electricity Market, to keep the post of Director of the Electricity Market in the Organisational Structure of the TSO, as this post is deemed to be crucial for the functioning of the electricity market.

Decision 1565/2016 - Weighted Average Cost of Capital of the EAC for the calculation of Allowable Revenues for EAC during the 2017-2021 Regulatory Control Period

By Decision 1565/2016, CERA decided to set the Weighted Average Cost of Capital for the 2017-2021 regulatory period at 4.6% for each of the activities of Generation, Transmission Ownership and Distribution of EAC.

The Weighted Average Cost of Capital may change during the regulatory period 2017-2021 only if there are significant changes in its specific parameters, and following consultation between EAC and CERA.

Decision 1584/2016 - Decision approving the amendments of the Transmission and Distribution Rules proposed by the TSO - Version 4.0.1.

By Decision 1584/2016, CERA decided to partially approve the amendments of the Transmission and Distribution Rules proposed by the TSO and their revision in the new Version 4.0.1.

Decision 1585/2016 - Acceptable Wind Energy Measurements to be submitted to CERA together with the application for a Wind Farm Construction Licence

By Decision 1585/2016, CERA decided to determine the certified entities, the minimum time period and the manner in which the wind power measurements of an area, accepted by CERA, should be carried out in accordance with the current International Standards.. At the same time, this decision repealed Decision 83/2006 on acceptable wind energy measurements.

Decision 1586/2016 - Basic Principles of the Framework for the Development and Operation of the Electric Vehicles Charging Infrastructure Market, under sections 15, 25(13) and 26 of the Law Regulating the Electricity Market

By Decision 1586/2016, CERA exercising its supervisory role in the electricity and gas markets has responded positively to the need of the Ministry of Energy, Commerce, Industry and Tourism and the Ministry of Transport, Communications and Works to establish a regulatory framework for the development of the alternative fuels infrastructure market in **Electricity and Gas sectors** and decided to issue a Draft Decision on the Basic Principles of the Framework for the Development and Operation of the Electric Vehicles Charging Infrastructure Market.

3.4 Actions taken on issues arising from previous Regulatory Decisions

In the context of applying the provisions of Regulatory Decisions taken by the CERA in previous years, various actions were taken in 2016 which are described below.

Investigating the possibility of applying transitional arrangements in the electricity market of Cyprus before the full implementation of the new Electricity Market Model based on Regulatory Decision 01/2015

Recognising the delay occurring in putting into effect and in the full implementation of the new Electricity Market Model, CERA has decided to take measures to fill the gap created in the operation of the market. These measures concern the investigation of implementing a transitional arrangement in the Cyprus electricity market before the full implementation of the new Electricity Market Model. For this purpose, an external consultant was commissioned to prepare a relevant Technical Report.

The Technical Report, submitted to CERA in November 2016, took into account the current situation regarding the processes applied by the TSO and the Distribution System Operator (DSO), Regulatory Decision No. 01/2015 (Regulatory Administrative Act 164/2015) and the concerns expressed by the TSO and other stakeholders about the timetable for the implementation of the new electricity market. At the same time, it took into account the concerns of CERA regarding the regulation of the new

framework for the operation of the market, the possible options regarding the transition stage of market operation, in accordance with the requests of stakeholders to CERA concerning their integration into the electricity market, as well as the regulatory criteria set by CERA for the assessment of possible options.

Revision of EAC Electricity Tariffs on the basis of Regulatory Decision 02/2015 “Regulatory Practice Statement and Electricity Tariffs Methodology”

On 19 June 2015, Regulatory Decision 02/2015 - “Regulatory Practice Statement and Electricity Tariffs Methodology” [Regulatory Administrative Act 208/2015] was published. The objective of the revision of the Regulatory Practice Statement and Electricity Tariffs Methodology is to harmonise with the best practices in Europe, and to achieve a more rational method of calculating the Allowed Revenue and therefore the electricity tariffs.

The primary objectives of the regulation of tariffs is the maximisation of the long-term competitiveness of Cyprus economy, the short term and long term protection of the consumers’ interests against prices formed on a monopoly basis, fulfil the PSOs, secure energy supply and promote cost efficient and quality energy services provided by the Licensees.

The determination of the level of new tariffs can be divided into two stages: (a) the determination of the Allowed Revenues and (b) the determination of the structure of new tariffs.

In the process of setting the new EAC tariffs, EAC submitted summary calculations of the Allowed Revenues for the regulatory period 2017-2021. After processing and verifying the submitted data, CERA decided on 13 July 2016 to preliminary approve EAC Allowed Revenues for the regulatory period 2017-2021 (Decision No. 1524/2016), provided that these would be differentiated on the basis of ten remarks and provided that the six outstanding issues stated in the Decision will be resolved as soon as possible.

EAC, taking into account the instructions of CERA related to the preliminary approval of Allowed Revenues, submitted to CERA on 10 October 2016 the study of its Economic Consulting Associates on the proposed new structure of wholesale electricity tariffs and the tariffs for the supply of electricity to final consumers, as well as the level of tariffs resulting from the Allowed Revenues as they have been previously approved by CERA.

In addition, following the instructions of CERA, EAC launched a public consultation on the proposed structure of the new tariffs from 27 October to 27 November 2016. The comments received by EAC through the public consultation have been submitted to CERA, as well as EAC’s replies to these comments.

CERA has the authority to regulate the tariffs, charges and other terms and conditions applicable by Licensees for any service provided under the terms of their licences, including the setting or approval of transmission or distribution tariffs or their methodology.

CERA is currently in the process of examining in depth the proposed new electricity tariffs (Wholesale Tariffs, Network Tariffs, Supply Tariffs, Metering Tariffs, etc.) under the Law Regulating the Electricity Market and the Tariffs Methodology. CERA has employed external consultants for this purpose (Frontier Economics Ltd).

The objective of the new tariffs is to be compatible with the principles and provisions of the Tariffs Methodology issued by CERA and to follow the principle of cost reflectiveness and avoidance of cross-subsidisation between different categories of electricity consumers. Some tariff categories will show an increase, while other tariff categories will show a decrease, compared with the current tariffs. CERA examines EAC’s proposals and will accordingly decide whether it will approve them or not.

The goal is that the new electricity tariffs will be applied in 2017.

EAC Operational and Accounting Separation, Separate EAC Accounts, based on Regulatory Decisions 02/2014, 03/2014 and 04/2014

In July 2014, CERA issued the following Regulatory Decisions:

- Regulatory Decision No. 02/2014 regarding the Regulatory Accounting Instructions for the preparation of Separate Accounts of EAC.
- Regulatory Decision No. 03/2014 regarding the Accounting Separation of EAC Activities.
- Regulatory Decision No. 04/2014 regarding the Operational Separation of EAC Activities.

with the aim of facilitating the supervision and control of EAC by CERA.

In 2015 and 2016, EAC implemented the above regulatory decisions under the continuous monitoring of CERA.

The Operational Separation of EAC's activities is formally in effect as from 1 December 2016, and CERA is in the process of employing consultants to review the implementation of the regulatory separation. The review will last for more than 18 months and will take place in three stages: April 2017, December 2017 and December 2018.

In September 2016, the Separate Accounts for each activity for the year 2015 were submitted by EAC and were examined by CERA and its consultants, and comments and observations were sent.

3.5 Trading and Settlement Rules

In accordance with the Law Regulating the Electricity Market, the Trading and Settlement Rules, inter alia:

- Govern the mechanisms, the tariffs and other terms and conditions applying in cases where Licensees buy or sell electricity under arrangements made by TSO;
- Ensure that the Licensees who are asked to participate in buying or selling electricity, on the basis of these arrangements, shall not be subject to discrimination;
- Promote efficiency and energy saving and facilitate competition in the market and the sale of electricity on the basis of these arrangements.

The Electricity Market Rules are observed by all Licensees or persons who have been granted exemptions to the extent that the licences or exemptions from a licence require it.

In the year under review, there was no amendment to the Trading and Settlement Rules and the first issue 1.0.0 of the Electricity Trading and Settlement Rules continues to be in force.

However, the TSO based on the provisions of CERA Regulatory Decision No. 01/2015 - Regulatory Administrative Act 164/2015 "Proposal regarding the new Net Pool Electricity Market arrangements in Cyprus", prepared a draft of the new Electricity Market Rules in English, which was subject to public consultation between 29 February 2016 and 22 April 2016.

Subsequently, the TSO after taking into account the comments received during the public consultation, as well as the comments of the two meetings of the Advisory Committee on Trading and Settlement Rules, submitted to CERA on 29 December 2016 a revised draft of the new Trading and Settlement Rules in English.

In 2017, the TSO will complete the translation of the new Trading and Settlement Rules in the Greek language, which will be the official text and will be submitted to CERA for approval.

3.6 Transmission and Distribution Rules

According to the Law Regulating the Electricity Market, the Electricity Transmission and Distribution Rules, among others:

- Govern the technical requirements and restrictions applied by Licensees whenever they wish to connect to the Transmission System and/or Distribution System or to use the Transmission System or the Distribution System for the transmission of electricity.
- Ensure that the technical conditions applicable to Licensees wishing to connect or use the Transmission System or the Distribution System do not create unjustified discrimination against Licensees.
- Promote efficiency, reliability and economy in the use and deployment of the Transmission System and the Distribution System.

The provisions of the Transmission and Distribution Rules are complied with by all Licensees or persons to whom exemptions from a licence were granted, to the extent that these licences or exemptions, respectively, require it.

During the year under review, a revision of the Transmission and Distribution Rules was published by the TSO on 21 October 2016, after approval by CERA. The Version 4.0.1. - October 2016 is the latest amending version of the Transmission and Distribution Rules.

4. ELECTRICITY MARKET

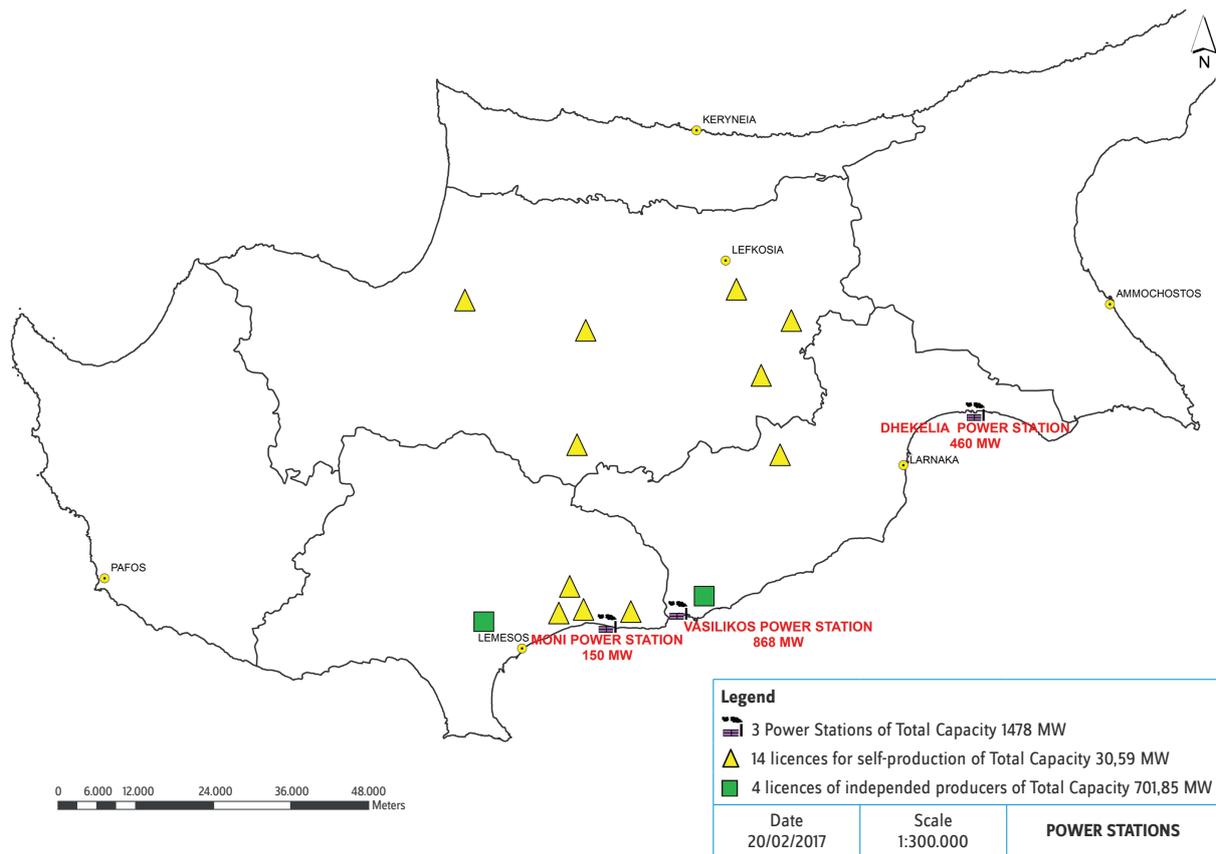
4.1 Licensing for the Construction and Operation of Electricity Generating Stations

Conventional Generating Stations

During the year 2016:

- One application for the construction and operation of a generating station for self-production, using Internal Combustion Engines (ICEs), with total generating capacity of 2,8 MWe, was submitted,
- One licence for the operation of a commercial power plant with generating capacity of 49,9 MWe using conventional fuels in ICEs was revoked, and
- Two licences for the operation of generating stations for self-production with total generating capacity of 11 MWe, using conventional fuels in ICEs, were revoked.

Today, the total capacity licensed by CERA for Conventional Generating Stations is 2.210,44 MW for twenty-eight licences, of which seven with a capacity of 1.478 MW belong to EAC and sixteen with a capacity of 30,59 MW, belong to self-producers. The remaining five, with a capacity of 751,85 MW, belong to independent power producers. Graph 2 shows the geographical distribution of licences for conventional stations.



Graph 2 - Presentation and Geographical Distribution of Licences for Conventional Generating Stations up to 2016

Renewable Energy Sources

Wind Farms

In 2016, no application or licence was granted for the construction and/or operation of a Wind Farm. Also, three Wind Farm licences with a total capacity of 59 MW were revoked. As a result, installed capacity has not changed in the year 2016 and remains at 157,5 MW, as it did in the previous year 2015.

Photovoltaic Systems

In 2016, a construction and operation licence of a Photovoltaic Park with a capacity of 5,58 MW was granted in the context of the operation of the Competitive Electricity Market. The total installed capacity of PV systems for 2016 amounted to 85,7 MW, compared with 76,5 MW in 2015.

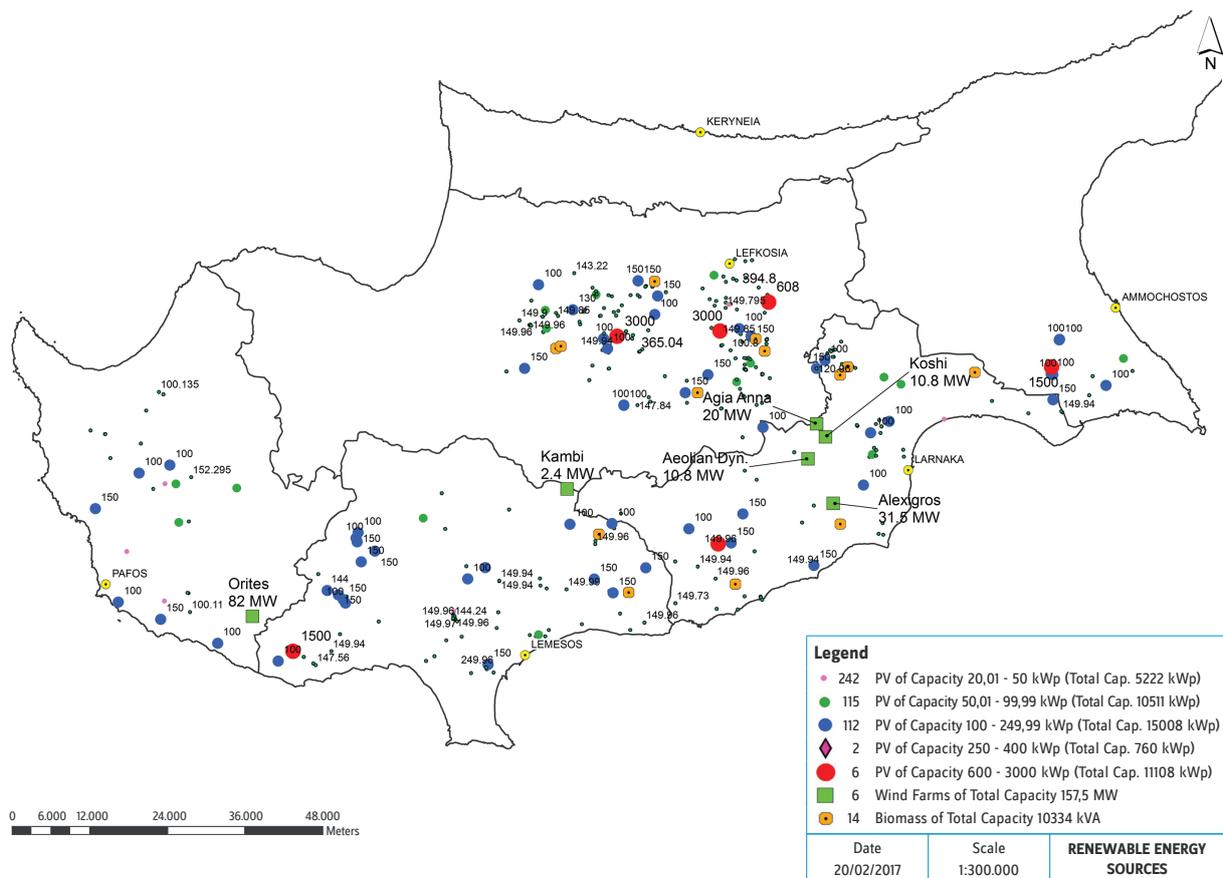
Solar Thermal Stations - EU Financial Program NER300

Under the EU's NER300 initiative to fund innovative projects of RES technologies that are mature enough for demonstration but not yet commercially implemented, two Cypriot power projects have been approved by the EU. The Council of Ministers has approved for each of these projects an Individual Support Measure.

CERA in the framework of the NER300 program and the Individual Support Measure approved by the Council of Ministers granted in 2016:

- a licence to construct and operate a Solar Thermal Park with a capacity of 50 MWe, storing thermal energy and consisting of small towers and mirrors,
- a licence for the construction of a Solar Thermal Power Station of a capacity of 50 MWe with Stirling machines storing electrical energy.

Graph 3 below shows the geographical distribution of licensed power plants using RES with a capacity of more than 20 KWp.

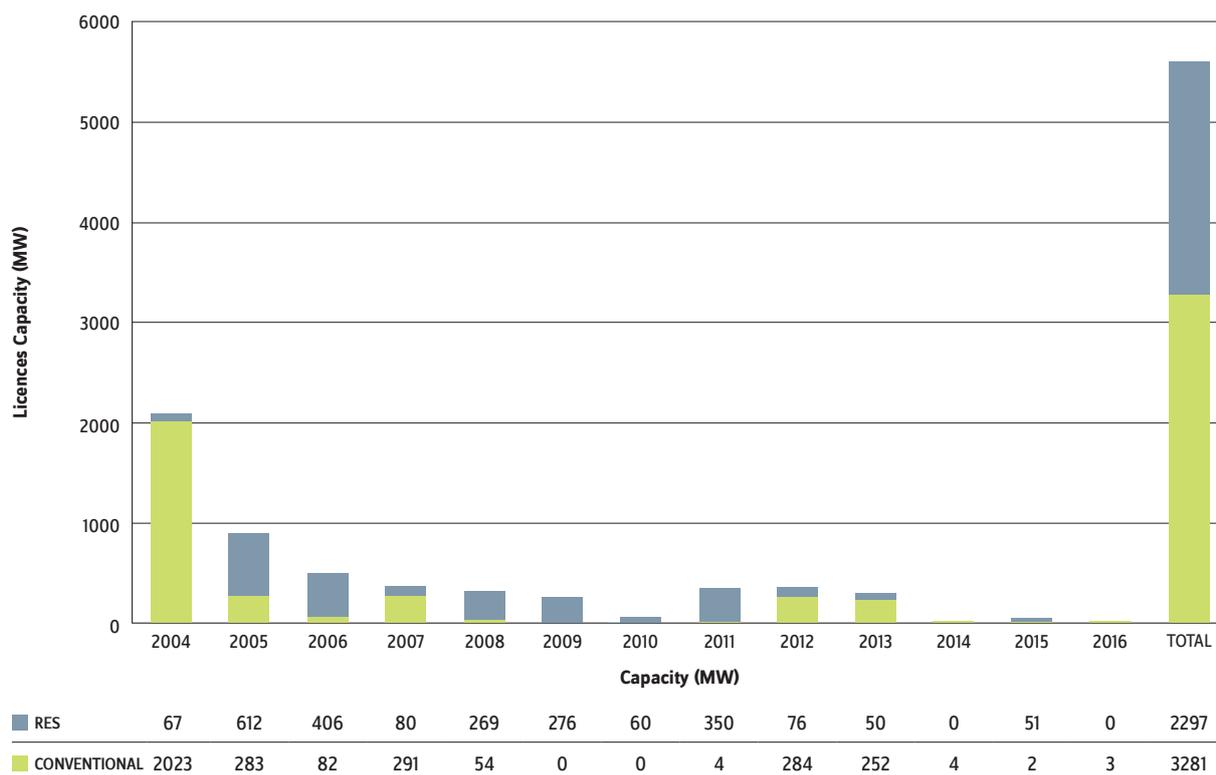


Graph 3 - Presentation and Geographical Distribution of Licences for RES Units by 2016

Register of Applications for a Licence and Licences issued

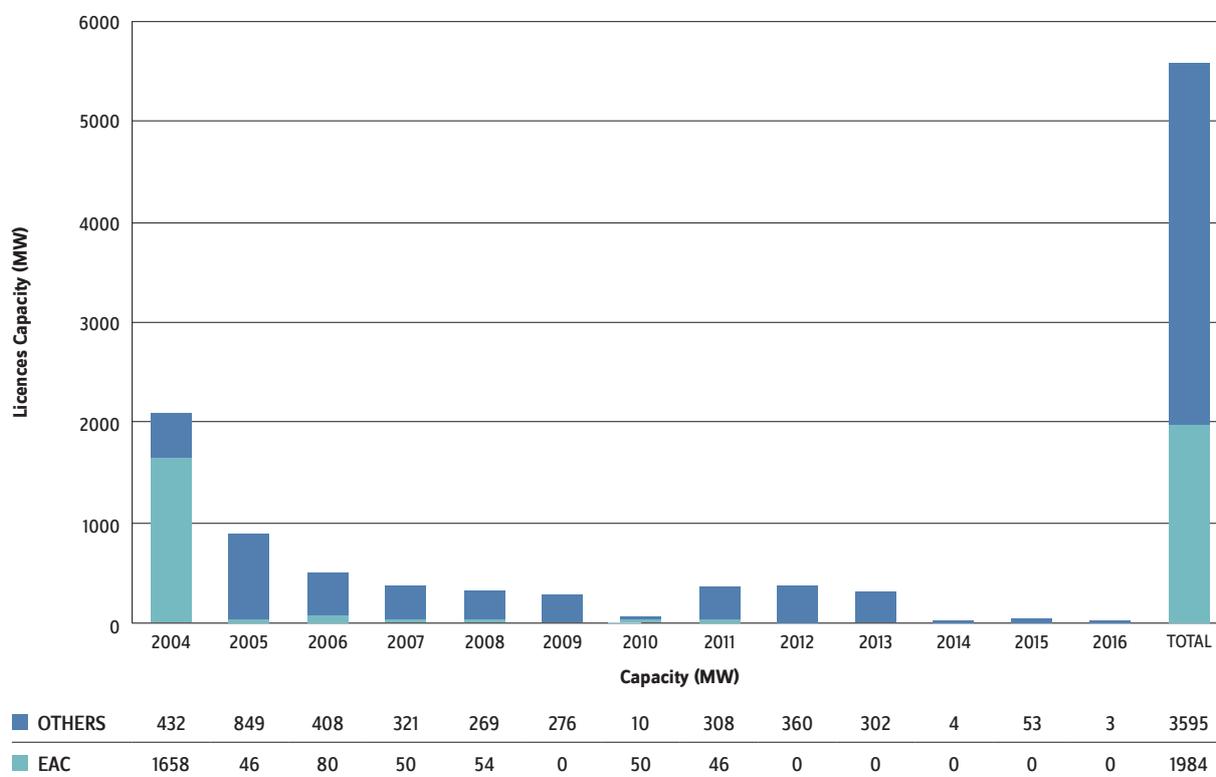
All lists of Applications for a Licence, as well as Licences Issued, can be found in CERA's website at <http://www.cera.org.cy>.

Graphs 4 and 5 below show the statistics for applications and licences for electricity generation from conventional units and RES units from the establishment of CERA until the end of 2016.



* Licences amendments are included

Graph 4 - Applications for electricity generation licences submitted in the 2004-2016 period



* Licences amendments are included

Graph 5 - Applications for electricity generation licences for the period 2004-2016 submitted by EAC and other producers

4.2 Exemptions from a Construction and Operation Licence of Electricity Generating Stations

Electricity Generating Stations Using Conventional Fuel

In 2016, 75 applications for exemptions from a licence for the construction and operation of conventional power plants for self-production and/or stand-by purposes and/or autonomous systems were submitted and 147 exemptions from a construction and/or operation licence of a total installed capacity of 36,1 MWe were granted.

Photovoltaic Systems with a capacity of 21-150 kW

CERA, taking into account the National Action Plan for energy coming from RES by 2020, the Grant Schemes to promote the use of RES and the study of CERA conducted for the purpose of updating the National Action Plan which envisages, on the basis of the Council of Ministers' Decision, the speeding up of the penetration of photovoltaic systems in the electricity system, during 2016 received and granted one exception from a licence to operate a photovoltaic power station, having a total installed capacity of 75 KW.

Photovoltaic Systems with a capacity of over 150 kW within the Grant Schemes (Tender Offer)

CERA, taking into consideration the Grant Schemes for the encouragement of the use of RES, the Government policy on RES and the invitation of tenders by the Management Committee of the Special Fund for RES and Energy Saving in 2016, in the framework of the tender, proceeded to issue 2 exemptions from a licence to operate Photovoltaic Parks with a total installed capacity of 4 MW.

Photovoltaic net-metering and self-production Systems within the Grant Schemes

Installation of Photovoltaic Systems using the net-metering method

For the purposes of the Scheme, "Net-Metering" is defined as the method that concerns all consumers in whose premises a small Photovoltaic System of a capacity of up to 5 kW is installed. This method calculates every two months the difference between the electricity imported from the grid to meet the premise's needs and the electricity generated by the photovoltaic system which is injected into the grid.

The DSO was designated by CERA as the Implementing Agent of net-metering scheme and according to the information the DSO sent to CERA in the year 2016, the installation of 1.090 Photovoltaic Systems, with a total installed capacity of 4,09 MW, has been completed.

Installation of Photovoltaic Systems with the self-production method in commercial and industrial premises

"Self-production" for the purposes of the Scheme is defined as the generation of electricity from power plants located in lawfully constructed premises located within the same block and/or adjacent to the premises of the commercial or industrial consumer. Energy is not injected into the grid but is used at all times for the sole purpose of own consumption and not for economic exploitation through network use. It is also possible to install a direct line to the premises in accordance with the provisions of the electricity legislation. In any case, the cost of the direct line will be borne by the applicant.

In 2016 CERA received 14 applications of a total installed capacity of 0,46 MW for the installation of photovoltaic systems with the method of self-production in commercial and industrial premises and

issued 18 exemptions from a licence for the construction of photovoltaic systems of a total installed capacity of 0,34MW and 38 exemptions from a licence of a total installed capacity of 1.75 MW.

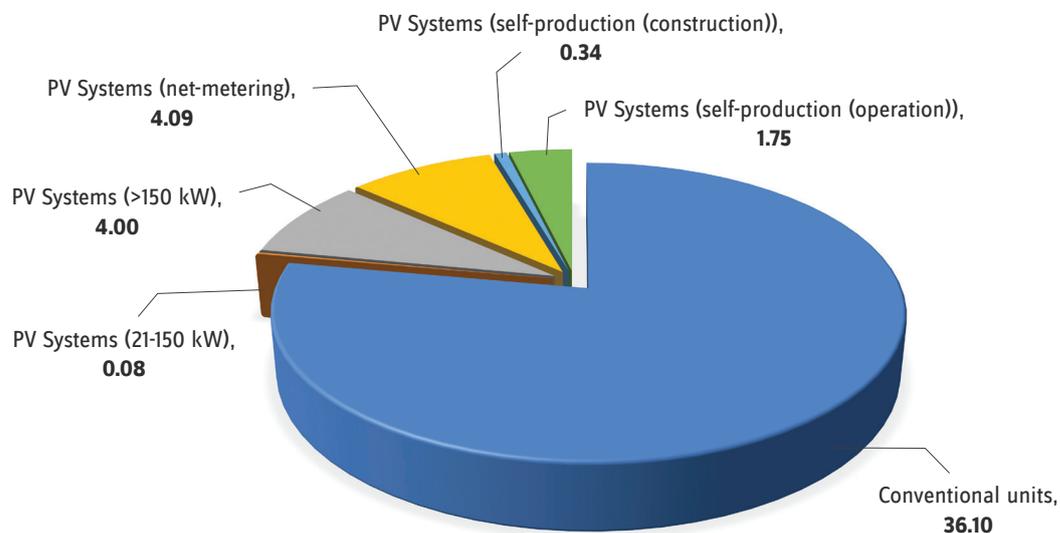
Biomass/ Biogas

In 2016 no applications for exemptions from a licence for Biomass/ Biogas power generation were submitted. Consequently, the installed capacity of Biomass/ Biogas power stations has not changed in 2016 and remains at 9,81 MW, as it was in the previous year 2015.

Individual wind turbines

In 2016, no applications were submitted for exemptions from licence for power generation using wind turbines. Consequently, the licensed power remains at 4,2 MW, as in previous years.

Graph 6 below shows the total power generation of exemptions from a licence issued in 2016.



Graph 6 - Electricity generation (MW) of exemptions from a licence issued in 2016

4.3 Electrical Energy Generation during 2016

Maximum Total Power Generation (MW)

The Maximum Total Power Generation amounted to 996 MW on Tuesday 2 August 2016 at 14:30 hours, when the maximum total demand occurred.

Total Electrical Energy generated (GWh)

The following important data, concerning Total Electrical Energy generated during 2016, have been recorded.

Total gross Electrical Energy generated reached 4.863.163 MWh.

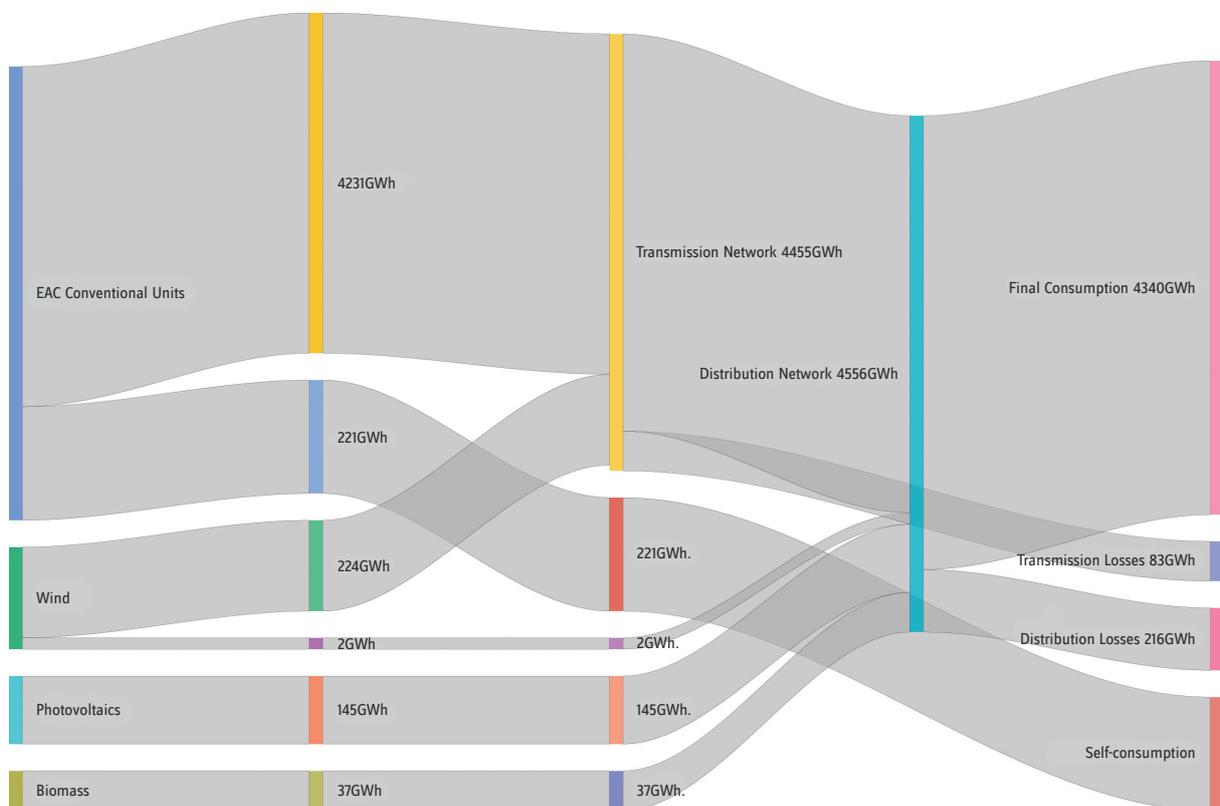
- EAC contributed with 4.455.189 MWh.

- RES producers generated 407.974 MWh.
- EAC generating stations produced 220.576 MWh for their local needs.
- The energy sent out to the transmission system from the EAC power stations, reached to 4.231.195 MWh.
- Recorded energy losses in the transmission system amounted to 82.590 MWh, or 1,84% of energy sent out to the transmission system.

Load Factor

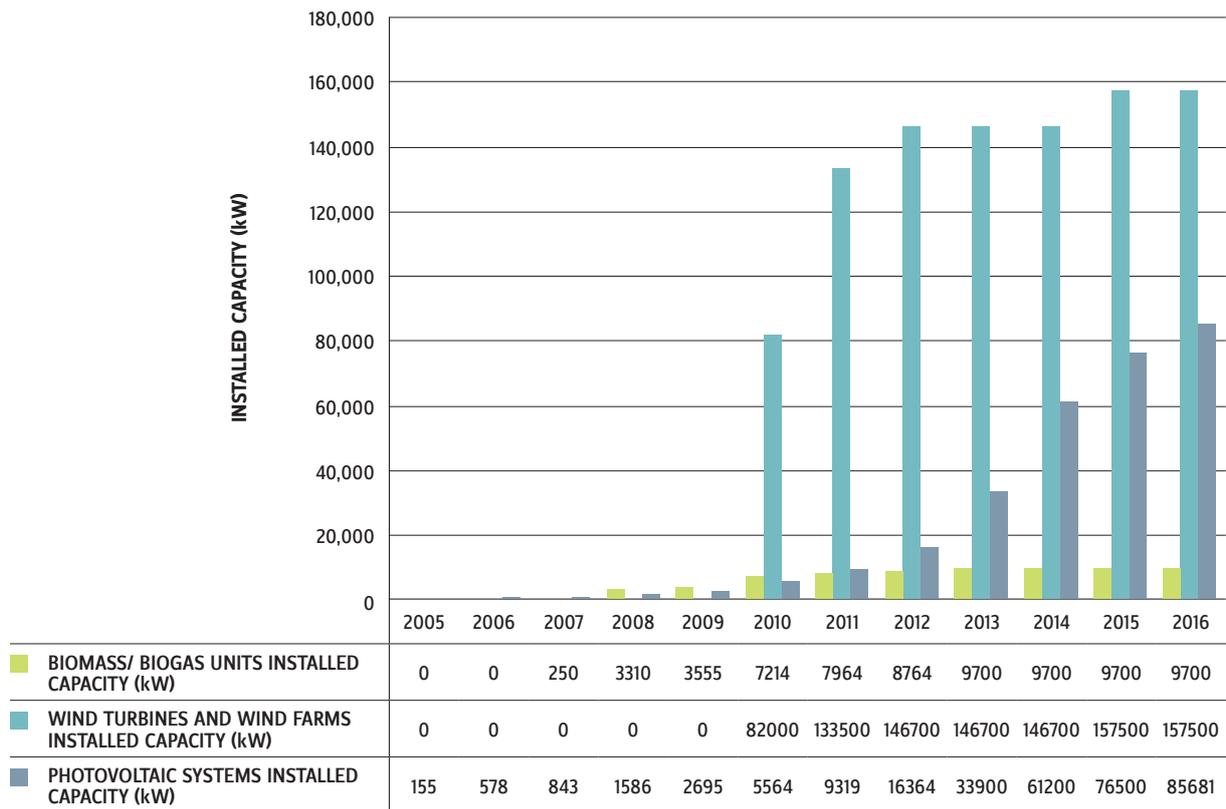
The mean value of the Annual Load Factor of conventional generating stations was 54,0% in 2016, compared with 51,1% in 2015. At the time of peak demand there was no contribution of self-production.

The following Graph 7 presents the total energy generated in 2016.

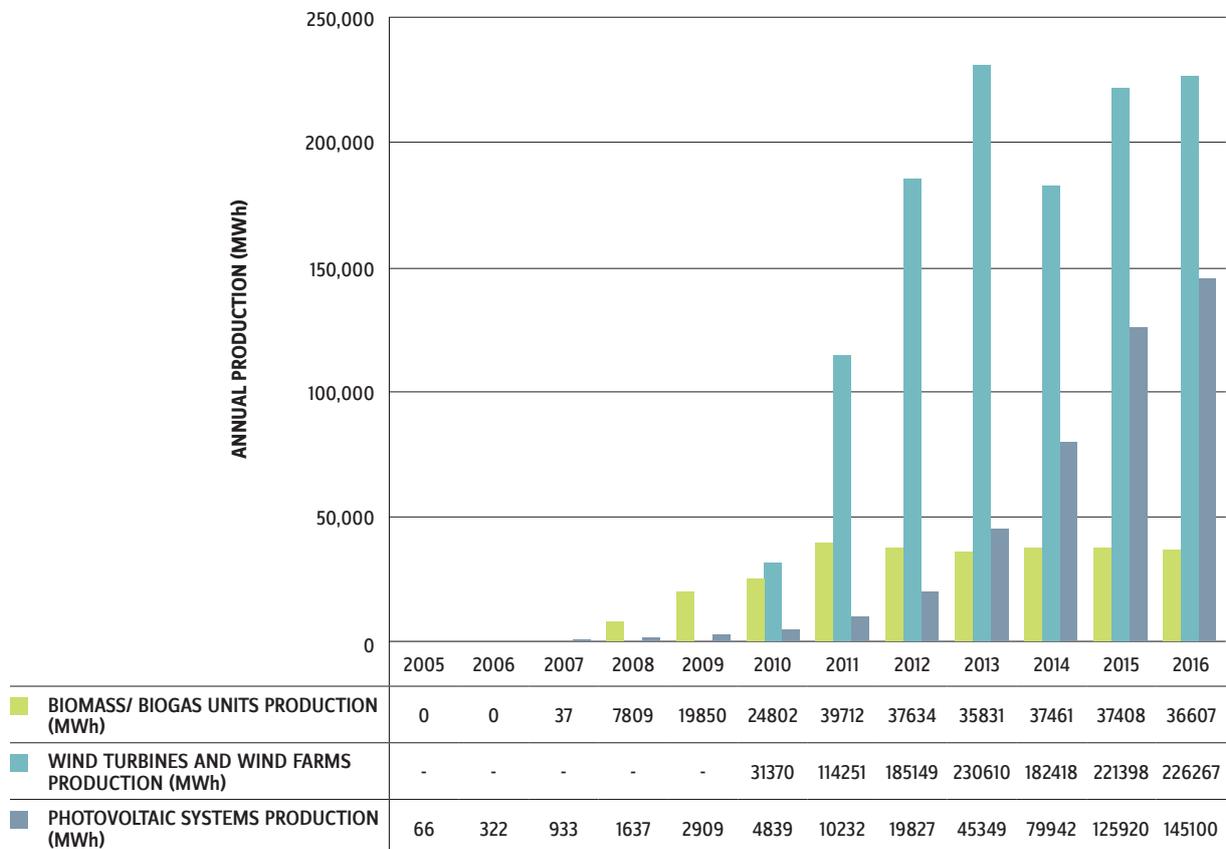


Graph 7 - Sankey Diagram for the overall electricity generation in 2016

Graphs 8 and 9 below, show historical data of generation from RES connected to the grid.



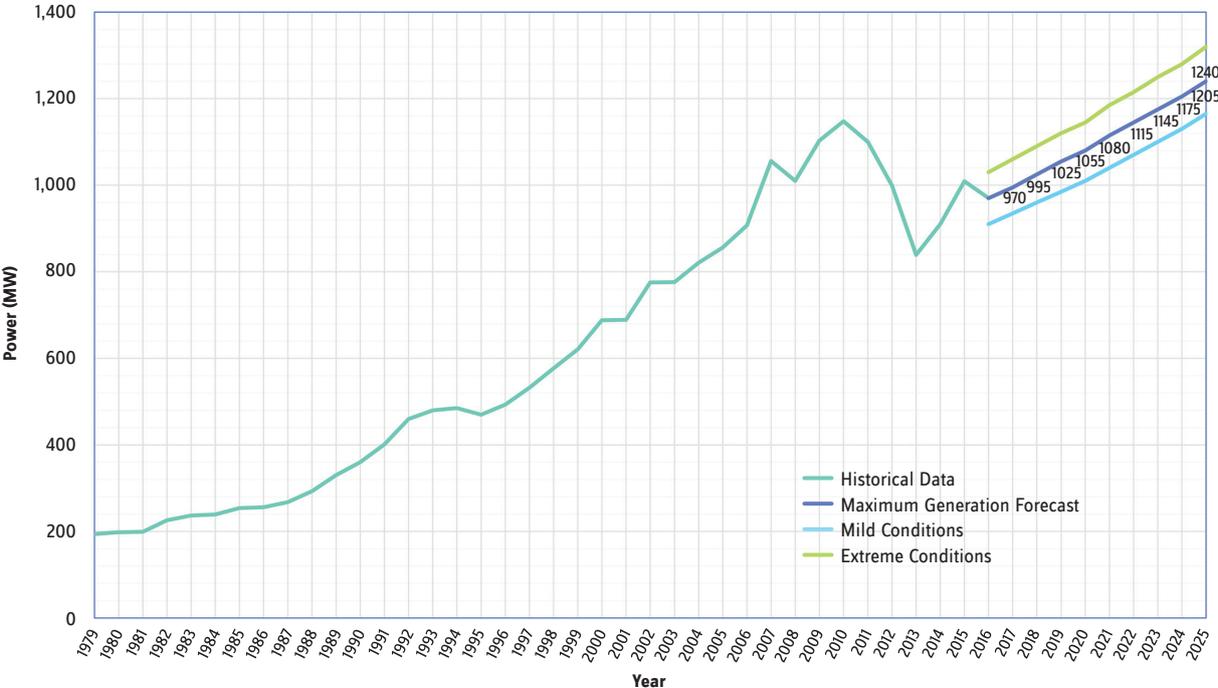
Graph 8 - Annual RES Installed Capacity (kW)



Graph 9 - Annual RES generation (MWh)

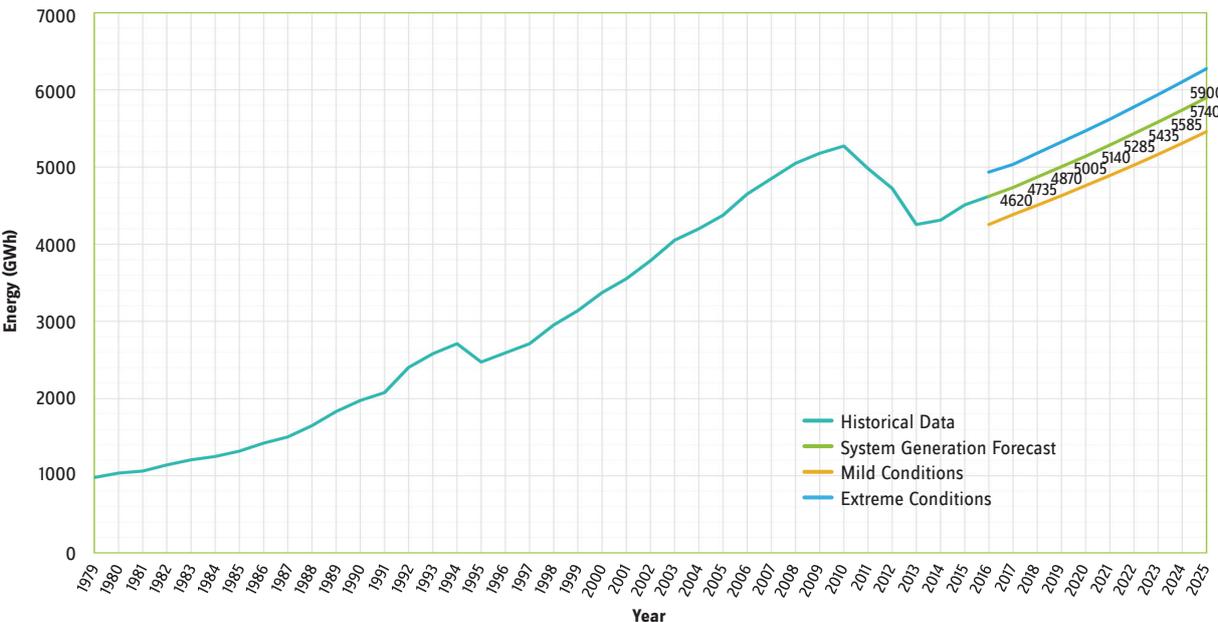
4.4 Forecast of Annual Maximum Energy Generation (MW) and Total Annual Energy Generated (GWh) for the 2016-2025 Decade

Graph 10 shows the forecast of annual maximum energy generation for the 2016-2025 decade and of the actual annual maximum energy generation.



Graph 10 - Forecast of Annual Maximum Generation (MW) 2016-2025

The Graph 11 below shows the forecast of total energy generated for 2016-2025 decade and of the actual total energy generated in the previous years.



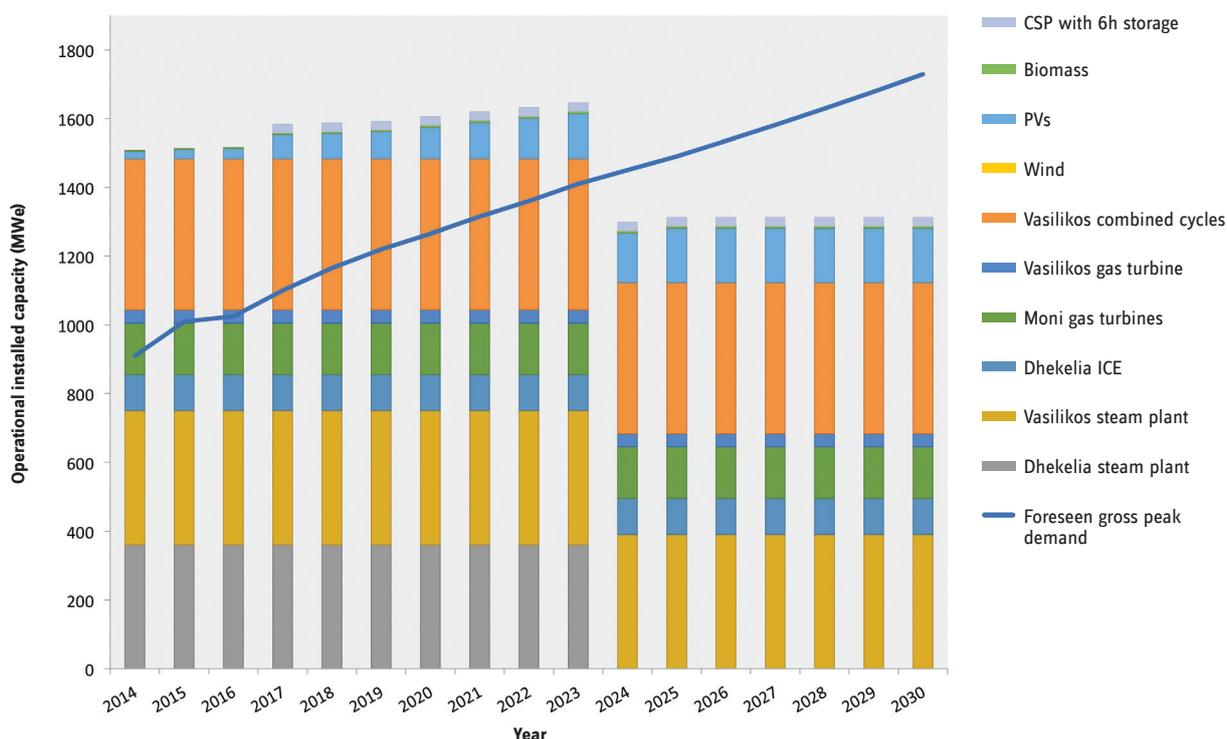
Graph 11 - Forecast of Annual System Generation (MW) 2016-2025

4.5 Security of Electricity Supply

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

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

As shown in Graph 12, during the year under review, security of supply is at a sufficiently high level.



Graph 12 - Installed Operational Power (MWe) for the period 2014-2030

4.6 Electricity Prices

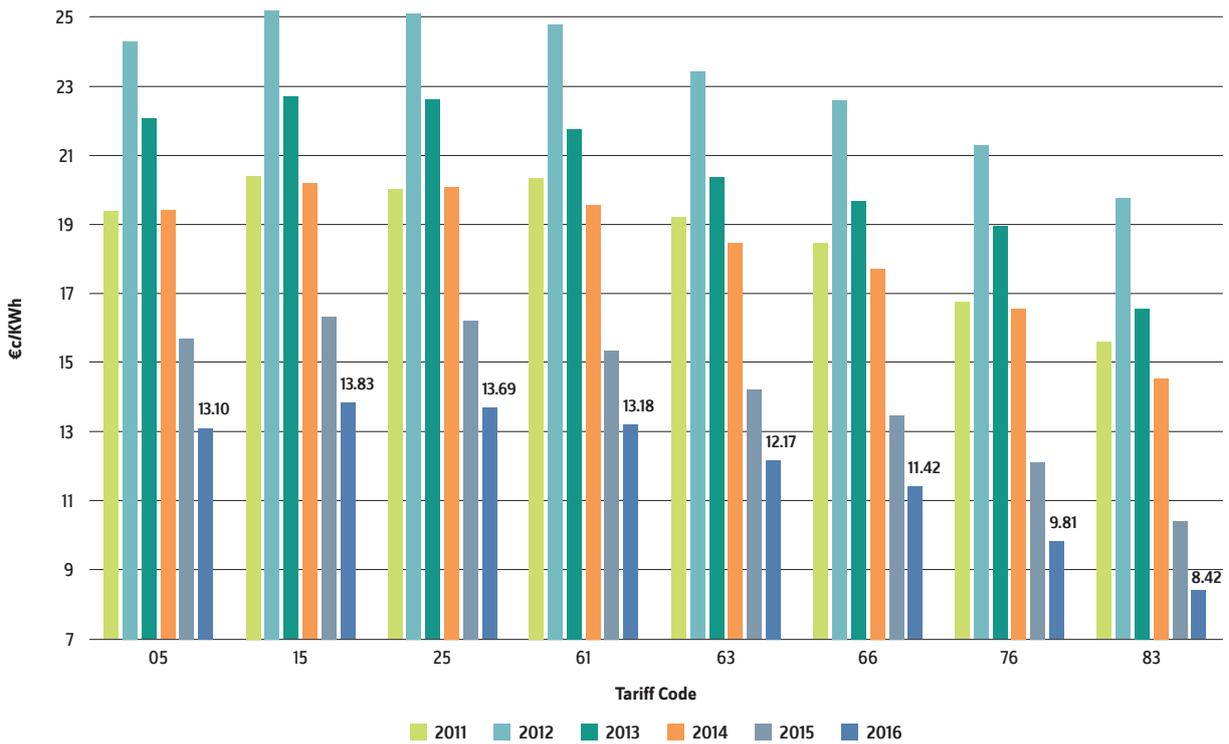
Graph 13 shows the average electricity price per kWh sold for the years 2011 to 2016 for the tariffs with the most sales (in kWh):

- 05: Single Rate Domestic Use Tariff
- 15: Bi-monthly Low Voltage Single Rate Commercial Use Tariff
- 25: Bi-monthly Low Voltage Single Rate Industrial Use Tariff
- 61: Monthly Low Voltage Maximum Demand Single Rate Commercial Use Tariff
- 63: Monthly Medium Voltage Maximum Demand Three-Rate Commercial Use Tariff
- 66: Monthly Medium Voltage Maximum Demand Three-Rate Commercial Use Tariff (for 1000 kVA and over)

- 76: Bi-monthly Medium Voltage Maximum Demand Three-Rate Industrial Use Tariff
- 83: Bi-Monthly High Voltage Maximum Demand Three-Rate Industrial Use Tariff

The above average electricity price does not include the fee for the RES and Energy Saving Fund, nor the VAT.

Over the years, changes in the amount of each tariff follow the same pattern, as they depend mainly on changes in international fuel prices. From Graph 13, we note that 2016 presents the lower energy prices over the past five years due to lower fuel costs.



Graph 13 - Average Electricity Price per kWh sold (€/kWh)

5. NATURAL GAS MARKET

5.1 Legal Framework for the Natural Gas Market

The Law Regulating the Natural Gas Market, which adopts the important features of the 3rd Energy Package has provisions for the regulation of the natural gas market in the Republic of Cyprus and among others sets the rules for the transportation, distribution, supply and storage of the natural gas.

It should be noted that the Law contains the key provisions in view of the imminent introduction of natural gas in the energy balance of Cyprus, but it does not specify the market model and the organisational framework to be used for the development of the market, allowing in this way reasonable discretion to decision-makers to determine the appropriate options.

Furthermore, the law provides the possibility of derogations from the Directive, without specifying those derogations, but allowing the Council of Ministers to determine them.

The above mentioned Law provides that Cyprus may deviate from some specific articles, as it can be regarded either as an isolated or emerging market. In the case of Cyprus, it is possible, on the one hand, to deviate from applying competition in the wholesale market and in the supply of natural gas to final consumers, particularly as long as the Cyprus natural gas market is deemed to be emerging and, on the other hand, it is possible not to separate the activities of the natural gas operators (transportation, distribution, storage, LNG, etc.) from the activities of marketing and supply, in the manner prescribed in the Directive 2009/73/EC, for example in the transportation installations, with ownership unbundling.

The choice of derogations does not necessarily involve all the possibilities provided by the institutional framework; on the contrary, an appropriate selection should be made based mainly on the criteria of economy and smooth operation of the market during the initial period, as well as the possibility of smooth transition to the regime of a fully liberalised market. Undoubtedly, their implementation should not prevent the effective regulation and control of the gas market and the companies operating in it.

5.2 Organisation of the Natural Gas Market

Given that the natural gas market in Cyprus is under development, the main aim is the creation of an organised market, on the model of corresponding markets in the world, but also according to the best practices of the European Natural Gas Industry with proper operation of all those involved in the market e.g. companies or statutory institutions.

Unfortunately, the experience of other countries having similar specific characteristics with Cyprus is minimal, i.e. the combination of a non-existent market, which needs some “triggering”, under the status of emerging or isolated market, according to the European framework. The only countries that can be described as partly corresponding cases are Portugal and Greece - as they too started under

an exactly similar regime in the 1990s - while Ireland is slightly similar and then the Western Balkan countries, as they do not have natural gas yet and are in the process of introducing it in the energy system.

5.3 Development of the Natural Gas Market

CERA report on the options for the development of the gas market in Cyprus

The adoption of a temporary solution for the supply of natural gas until domestic gas is made available has been examined for a long time. The recent failure to reach a result in the latest open tender procedure of the Natural Gas Public Company (DEFA) for the supply of natural gas to DEFA for a period of up to 5 years should not discourage nor stop the development of the gas market in the Republic of Cyprus. On the contrary, the experience gained in the agencies involved in the relevant design in recent years should be utilised so as to make a possible redesign that will lead to better end results.

CERA, recognising the need for an immediate re-evaluation of the strategy to be followed for the cost-effective implementation of the gas import policy in Cyprus, has prepared a Report analytically presenting the parameters which should be taken into account in the planning of future actions aiming at achieving a final synthesis comprising a series of steps that could be taken to turn the apparent slowdown of progress in the gas market into a starting point for the fruitful conclusion of the whole effort as soon as possible.

According to the Report, the option of introducing Liquefied Natural Gas (LNG) in Cyprus' energy balance should not be seen as an intermediate situation, but as a permanent one and parallel to that of the gas supply from the deposits of South-Eastern Mediterranean, primarily for reasons of security of supply and also for the development of gas use in other sectors such as shipping and small-scale LNG.

The Report was submitted by CERA to the Minister of Energy, Commerce, Industry and Tourism in February 2016.

Arrival of LNG and awarding a study on the options for the development of the gas market in Cyprus

On the basis of the CERA Report and recommendations, in June 2016 a Decision was taken by the Council of Ministers for the arrival of LNG in Cyprus the soonest possible as an exclusive supply option and then as an alternative to ensuring the security of energy supply. In addition, DEFA was commissioned to prepare a study on the options for the development of the gas market in Cyprus in order to use the most suitable solution for the introduction of LNG by 2020 at the latest.

DEFA, following a competitive procedure, commissioned a consulting firm to prepare the study, the results of which are expected in February 2017.

6. CONSUMER PROTECTION AND RESOLVING COMPLAINTS



CEER, in cooperation with all National Regulatory Authorities, promotes measures to protect and inform energy consumers. A key measure is the support of CEER by the National Regulatory Authorities, which disclose the setting up of its website dedicated solely to informing energy consumers.

The website contains CEER publications on subjects relating to the rights of energy consumers, on supplies, tariffs and accounts, smart metering, change of supplier and other topics.

The CEER website which focuses exclusively on energy consumers is

http://www.energy-regulators.eu/portal/page/portal/EER_HOME/ENERGY_CUSTOMERS



CERA in order to ensure that consumers have available all necessary information concerning their rights, the current legislation and the means of redress available in case of dispute,

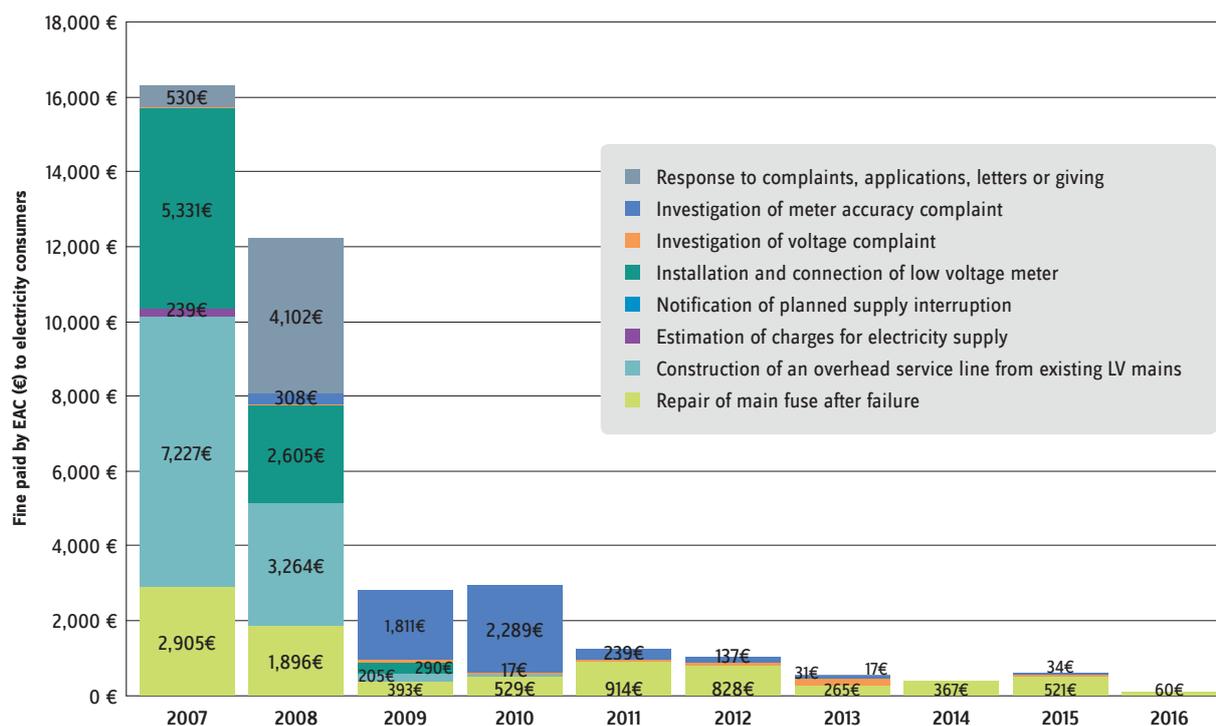
issues on an annual basis an "Informative Kit" which is available in an electronic format in the Citizen Service Centres, in the District Offices of the Ministry of Energy, Commerce, Industry and Tourism and the EAC District Offices.

According to relevant provisions of the Law, the Office of CERA, the Citizen Service Centres and the Ministry of Commerce, Industry and Tourism are the single contact points for consumer information.

6.1 Performance indicators

According to Regulatory Administrative Act 571/2005, "Performance Indicators" are defined as the indicators for power supply and include the obligations of the Supplier and the Owner of the Distribution System, the rights of consumers, performance standards and minimum levels for this performance as well as the fines to be imposed if the Supplier and/or the Distribution System Owner fail to comply.

In the context of implementation and observation of the above provisions, Graphs 14 and 15 below show, for each Performance Indicator, the amounts which were paid as fines to electricity consumers by EAC, as Distribution System Owner and as a Licenced Supplier, and which were recorded for the period 1 January 2016 until 31 December 2016. Also, for comparison purposes, we give the corresponding results of previous years.



Graph 14 - Performance Indicators for the Owner of the Distribution System (ODS)

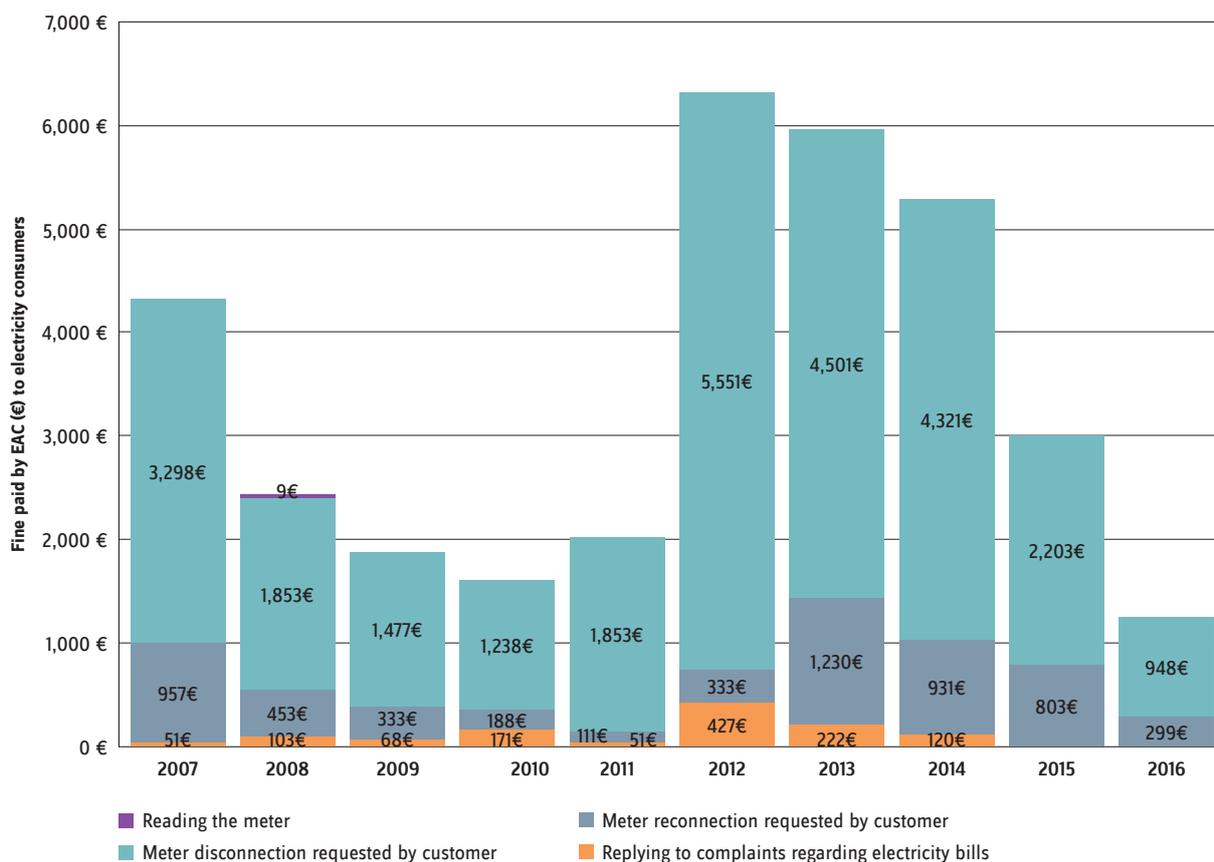
PERFORMANCE INDICATORS FOR THE OWNER OF THE DISTRIBUTION SYSTEM (EAC)

COMPARATIVE TABLE FOR THE YEARS 2007-2016

Fine paid by EAC (€) to electricity consumers

	INDICATOR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1	Repair of main fuse after failure	2.905 €	1.896 €	393 €	529 €	914 €	828 €	265 €	367 €	521 €	60 €
2	Installation and connection of low voltage meter	5.331 €	2.605 €	290 €							
3	Construction of an overhead service line from existing LV mains	7.227 €	3.264 €	205 €	17 €						
4	Estimation of charges for electricity supply	239 €									
5	Notification of planned supply interruption										
6	Investigation of voltage complaint	34 €	34 €	68 €	68 €	34 €	68 €	205 €		34 €	
7	Investigation of meter accuracy complaint		308 €	1.811 €	2.289 €	239 €	137 €	31 €		34 €	
8	Response to complaints, applications, letters or giving	530 €	4.102 €					17 €			

Table 1 - Performance Indicators ODS



Graph 15 - Performance Indicators of Supplier EAC

PERFORMANCE INDICATORS FOR THE SUPPLIER (EAC)

COMPARATIVE TABLE FOR THE YEARS 2007-2016

Fine paid by EAC (€) to electricity consumers

	INDICATOR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1	Replying to complaints regarding electricity bills	51 €	103 €	68 €	171 €	51 €	427 €	222 €	120 €		
2	Arrangement of appointments										
3	Meter reconnection requested by customer	957 €	453 €	333 €	188 €	111 €	333 €	1,230 €	931 €	803 €	299 €
4	Meter disconnection requested by customer	3,298 €	1,853 €	1,477 €	1,238 €	1,853 €	5,551 €	4,501 €	4,321 €	2,203 €	948 €
5	Reading the meter		9 €								
6	Response to complaints, applications, letters or giving information	*	*	*							

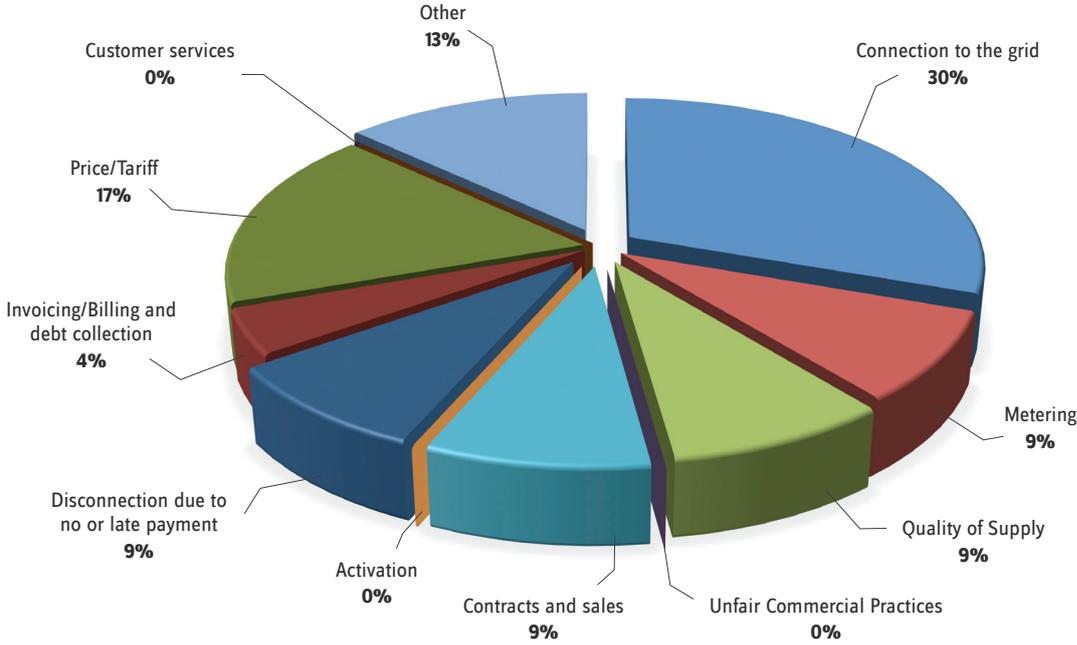
* This Indicator is included in Indicator (8) of EAC as DSO

Table 2 - Performance Indicators of Supplier EAC

From the above Tables it is evident that, in the year under review, EAC performance, both as Owner of the Distribution System and as Supplier, appears to have improved and consequently is deemed to be satisfactory. However, CERA will continue, in the exercise of the powers granted to by the legislation, to undertake all necessary activities so that the EAC performance improves further.

6.2 Complaints submitted to CERA

In Graph 16 below, the type and number of complaints submitted to CERA in 2016 are presented. It is noted that all complaints have been examined and consumers have been informed accordingly.



Graph 16 - Consumer complaints filed with CERA in 2016

7. REPORT AND FINANCIAL STATEMENTS

31 December 2016

CONTENTS

Members of the Authority	56
Report of the Members of the Authority	57
Independent auditor's report	58
Statement of profit or loss and other comprehensive income	61
Statement of financial position	62
Statement of changes in equity	63
Statement of cash flows	64
Notes to the financial statements	65
Additional information to the statement of profit or loss and other comprehensive income	85

MEMBERS OF THE AUTHORITY

Members:

Andreas Poulikkas - Chairman
Philippos Philippou - Vice Chairman
Neophytos Hadjigeorgiou - Member (appointed on 26 April 2016)
Kypros Kyprianides - Member (end of service on 1 February 2016)

Independent Auditors:

InterTaxAudit
Chartered Accountants and Chartered Auditors
Navarinou 18
NAVARINO BUSINESS CENTER
Agios Andreas
1100 Nicosia, Cyprus

Financial Advisers:

Alliott Partellas Kiliaris Ltd
Chartered Accountants and Chartered Auditors
Strovolou 77
Strovolos Center, Office 201
2018 Strovolos
Nicosia, Cyprus

Legal Advisers:

Orphanides, Christofides, Poutziouris & Damianou L.L.C.
Themistoclis Dervis 41, Hawaii Tower
Offices 301-303, 3rd floor
1066 Nicosia

Registered office:

81-83 Griva Digeni Avenue
Jakovides building, 3rd Floor, 1080 Nicosia
P.O.Box 24936
1305 Nicosia

REPORT OF THE MEMBERS OF THE AUTHORITY

The Members of the Cyprus Energy Regulatory Authority (CERA) presents their report and audited financial statements of CERA for the year ended 31 December 2016.

Principal activities

The establishment of CERA arises from the obligations of Cyprus towards the European Union. CERA's basic mission is the supervision of the operation of the Energy Market (Electricity and Natural Gas) in a new and liberalised environment without monopolies.

Review of current position, future developments and performance of the Authority's operations

The Authority's development to date, financial results and position as presented in the financial statements are considered satisfactory.

Results

CERA's results for the year are set out on page 61.

Members of the Authority

The Members of the Authority as at 31 December 2016 and at the date of this report are presented on page 56.

Mr. Kypros Kyprianides ended his service as a member after the termination of his office on 01 February 2016. Mr. Neophytos Hadjigeorgiou was appointed as member on 26 April 2016.

In accordance with Law 122(I) of 2003 all of CERA's current Members have been appointed for 6 years.

Events after the reporting period

There were no material events after the reporting period, which have a bearing on the understanding of the financial statements.

Independent Auditors

The Independent Auditors, InterTaxAudit, after the end of their predetermined term ending with the completion of this audit will not continue in office to provide their services.



Andreas Poulikkas

Chairman

Nicosia, Cyprus, 11 April 2017

INDEPENDENT AUDITOR'S REPORT

To the Members of Cyprus Energy Regulatory Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cyprus Energy Regulatory Authority (CERA) (the "Authority"), which are presented in pages 61 to 84 and comprise the statement of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the law regulating the Electricity Market.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Authority in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Members of the Authority are responsible for the other information. The other information comprises the information included in the report of the members of the authority, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the Financial Statements

The Members of the Authority are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements according to the law regulating the Electricity Market, and for such internal control as the Members of the Authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Members are responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern of the Authority and using the going concern basis of accounting unless the Members intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

The Members of the Authority are responsible for overseeing the Authority's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Members of the Authority.
- Conclude on the appropriateness of the Members of the Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with the Members of the Authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal Requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.

- In our opinion, proper books of account have been kept by the Authority, so far as appears from our examination of these books.
- The Authority's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the law regulating the Electricity Market.
- In our opinion, the members' report, has been prepared in accordance with the requirements of the law regulating the Electricity Market, and the information given is consistent with the financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Authority and its environment obtained in the course of the audit, we have not identified material misstatements in the report of the Members of the Authority.

Other Matter

This report, including the opinion, has been prepared for and only for the Authority's members as a body and Auditor General of the Republic in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Erodotos Kasapis

Certified Public Accountant and Registered Auditor
for and on behalf of

InterTaxAudit

Chartered Accountants and Chartered Auditors

Navarinou 18
NAVARINO BUSINESS CENTER
Agios Andreas
1100 Nicosia, Cyprus

11 April 2017

*(Consultants: Savvas Christodoulou, Erodotos Kasapis, Aris Theophanous
Andreas Kazamias, Charalambos Votsis, Marios Fedonos)*

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

31 December 2016

	Note	2016 €	2015 €
Revenue	5	1,964,088	1,973,572
Other operating income	6	33,210	46,846
Administration expenses		(1,430,615)	(1,269,117)
Other expenses	7	(17,341)	(144,115)
Operating surplus	8	549,342	607,186
Finance income	11	35,949	52,673
Finance costs	11	(904)	(2,620)
Surplus before tax		584,387	657,239
Tax	12	(10,730)	(15,800)
Net surplus for the year		573,657	641,439
Other comprehensive income			
Actuarial gain or losses on defined benefit plans	19	(210,149)	40,131
Other comprehensive income for the year		(210,149)	40,131
Total comprehensive income for the year		363,508	681,570

The notes on pages 65 to 84 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

31 December 2016

	Note	2016 €	2015 €
ASSETS			
Non-current assets			
Property, plant and equipment	14	59,320	63,864
Intangible assets	15	533	-
Available-for-sale financial assets	16	296,079	312,998
		<u>355,932</u>	<u>376,862</u>
Current assets			
Trade and other receivables	17	55,078	106,720
Refundable taxes	24	19,050	13,645
Cash at bank and in hand	18	6,083,601	5,487,905
		<u>6,157,729</u>	<u>5,608,270</u>
Total assets		<u>6,513,661</u>	<u>5,985,132</u>
EQUITY AND LIABILITIES			
Reserves			
Actuarial Reserve for Personnel Fund	19	(170,018)	40,131
Retained earnings		5,291,968	4,686,080
Total reserves		<u>5,121,950</u>	<u>4,726,211</u>
Non-current liabilities			
Deferred income	23	2,939	2,939
Provisions for other liabilities and charges	21	1,321,126	1,190,649
		<u>1,324,065</u>	<u>1,193,588</u>
Current liabilities			
Trade and other payables	22	62,334	45,657
Deferred income	23	1,402	17,626
Borrowings	20	3,910	2,050
		<u>67,646</u>	<u>65,333</u>
Total liabilities		<u>1,391,711</u>	<u>1,258,921</u>
Total equity and liabilities		<u>6,513,661</u>	<u>5,985,132</u>

On 11 April 2017, the Members of the Cyprus Energy Regulatory Authority (CERA) authorised these financial statements for issue.



Andreas Poulikkas - Chairman



Philippos Philippou - Vice Chairman



Neophytos Hadjigeorgiou - Member

The notes on pages 65 to 84 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

31 December 2016

	Note	Retained earnings €
Balance at 1 January 2015		4,060,106
Comprehensive income		
Net surplus for the year		641,439
Defence contribution on deemed dividend distribution	13	(15,464)
Other movements		
Actuarial profit of the year		40,131
Balance at 31 December 2015/ 1 January 2016		4,726,212
Comprehensive income		
Net surplus for the year		573,657
Defence contribution on deemed dividend distribution	13	(7,902)
Other movements		
Actuarial loss of the year		(170,018)
Balance at 31 December 2016		5,121,949

Organisations which do not distribute 70% of their profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter will be payable on such deemed dividends to the extent that the shareholders (companies and individuals) are Cyprus tax residents. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. This special contribution for defence is payable by the organisation for the account of the shareholders.

In the case of public bodies, the term profit is limited to profits arising from the conduct of business. In the case of CERA deemed distribution is calculated on interest receivable.

The notes on pages 65 to 84 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

31 December 2016

	Note	2016 €	2015 €
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus before tax		584,387	657,239
Adjustments for:			
Depreciation of property, plant and equipment	14	20,139	18,215
Amortisation of computer software	15	266	355
Loss from the sale of property, plant and equipment		422	306
Actuarial Loss/ (Gain)		(210,149)	40,131
Impairment charge - available-for-sale financial assets	16	16,919	143,809
Credit to results for provisions	21	(4,341)	(17,626)
Interest income	11	(35,949)	(52,673)
Interest expense	11	-	1,879
Other operating expenses		10,172	-
		381,866	791,635
Changes in working capital:			
Decrease in trade and other receivables		27,706	168,080
Increase/ (Decrease) in trade and other payables		16,677	(21,324)
Decrease in deferred income		(4,341)	(17,626)
Increase/ (Decrease) in provisions	21	170,018	(40,131)
Cash generated from operations		591,926	880,634
Tax paid		(10,730)	(13,901)
Net cash generated from operating activities		581,196	866,733
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for purchase of intangible assets	15	(799)	-
Payment for purchase of property, plant and equipment	14	(16,115)	(33,646)
Proceeds from disposal of property, plant and equipment	14	364	(307)
Interest received		37,092	52,673
Net cash generated from investing activities		20,542	18,720
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		-	(1,879)
Defence contribution on deemed distribution paid		(7,902)	(15,464)
Net cash used in financing activities		(7,902)	(17,343)
Net increase in cash and cash equivalents		593,836	868,110
Cash and cash equivalents at beginning of the year		5,485,855	4,617,745
Cash and cash equivalents at end of the year	18	6,079,691	5,485,855

The notes on pages 65 to 84 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

1. Incorporation and principal activities

Country of incorporation

The Cyprus Energy Regulatory Authority was incorporated in Cyprus on 21 January 2004 as a public law legal entity, according to Law 122(I)/2003. On the same date and under the same law the Office of CERA was incorporated, which operates as a separate legal entity. The CERA supervises and controls the Office of CERA. Cera and its office are housed at 81-83 Griva Digeni Avenue, Jakovides building, 3rd Floor, 1080 Nicosia, P.O.Box 24936, 1305 Nicosia. The financial statements related to CERA and the Office of Cera.

Principal activities

The establishment of CERA arises from the obligations of Cyprus towards the European Union. CERA's basic mission is the supervision of the operation of the Energy Market (Electricity and Natural Gas) in a new and liberalised environment without monopolies.

2. Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented in these financial statements unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Law regulating the Electricity Market. The financial statements have been prepared under the historical cost convention as modified by the revaluation of and available-for-sale financial assets.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires Management to exercise its judgment in the process of applying the Authority's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the best knowledge of the Management of the Authority with respect to current events and actions, actual results may differ from these estimates.

Adoption of new and revised IFRSs

As from 1 January 2016, the Authority adopted all the following IFRSs and International Accounting Standards (IAS), which are relevant to its operations. The adoption of these Standards did not have a material effect on the financial statements.

At the date of approval of these financial statements, standards and interpretations were issued by the International Accounting Standards Board which were not yet effective. Some of them were adopted by the European Union and others not yet. The Members expects that the adoption of these accounting standards in future periods will not have a material effect on the financial statements of the Authority.

Standards issued but not yet effective

At the date of approval of these financial statements the following accounting standards were issued by the International Accounting Standards Board but were not yet effective:

Until the date of approval of these financial statements, new standards, interpretations and amendments of existing standards have been issued, for which the application is not compulsory for the current accounting period and the Authority did not apply yet, as below:

i. Adopted by the European Union

Amendments

IFRS Interpretations Committee

- IAS 1 (Amendments) Disclosure initiative (effective for annual periods beginning on or after 1 January 2016).
- Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016).
- IAS 27 (Amendments) "Equity method in separate financial statements" (effective for annual periods beginning on or after 1 January 2016).

ii. Not adopted by the European Union

New standards

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016).
- IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019).

Amendments

- Clarifications to IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018).
- IAS 7 (Amendments) "Disclosure Initiative" (effective for annual periods beginning on or after 1 January 2017).
- IAS 12 (Amendments) "Recognition of Deferred Tax Assets for Unrealised Losses" (effective for annual periods beginning on or after 1 January 2017).

The Members of the Authority expect that the adoption of these standards in future periods will not have a material effect on the financial statements of the Authority with the exception of the following:

Revenue recognition

Revenues of the Authority are recognized on the following bases:

• Revenue from fees

Income from fees consist of the invoiced amount for charges relating to granting of license. Fee income is recognized in the period to which the relevant license has been granted.

- **Interest income**

Interest income from a financial asset is recognised to the extent that the economic benefits are likely to accrue to CERA and income can be reliably calculated. Forecast for interest income is made on the basis of the year, the amount due and effective interest rate applied, which is the interest discounting the forecast future cash receipts, through the expected life-span of the financial asset and the net accounting value of the said financial asset on its initial recognition.

Employee benefits

CERA operates a defined benefit plan which will be funded as in the Public Sector, via the Annual Budget. Benefits will be paid on retirement, death or resignation of an employee. The amount of the benefit will depend on the duration of service and the level of income of the employee.

The present value of obligations and the cost of current service for the defined benefit plan are estimated annually with the projected unit credit method. Actuarial gains or losses result from changes in the interest rate by which estimated future cash outflows for benefits and other actuarial assumptions are discounted. Non-recorded actuarial gain or loss is recognized by CERA at the beginning of the year.

Debtors and provisions for bad debts

Bad debts are written off to profit or loss and a specific provision is made, where it is considered necessary. No general provision for bad debts is made. Trade debtors are stated after deducting the specific provision for bad and doubtful debts, if any.

Finance income

Interest income is recognised on a time-proportion basis using the effective method.

Finance costs

Interest expense and other borrowing costs are charged to profit or loss as incurred.

Foreign currency translation

1. Functional and presentation currency

Items included in the Authority's financial statements are measured using the currency of the primary economic environment in which the Authority operates ('the functional currency'). The financial statements are presented in Euro (€), which is the Authority's functional and presentation currency.

2. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the results. Translation differences on available-for-sale financial assets are recognised in other comprehensive income and then included in the fair value reserve in equity. Translation differences on available-for-sale debt securities are recognised in profit or loss.

Tax

The fees received by CERA under the Law regulating the Electricity Market and the relevant Regulations, as a result of executing its supervisory role, are not deemed to be income as this is defined in

article 5 (1)(a) of the Income Tax Law and are not subject to taxation. This also applies to government grants that CERA has received in order to be able to exercise its supervisory role. Income from interest, rent or any other source, is subject to taxation with the tax rate of 12.5% and to defense contribution, after deducting any allowable deduction as provided by the Law.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the straight-line method so as to write off the cost of each asset to its residual value over its estimated useful life. The annual depreciation rates used are as follows:

	%
Computer Hardware	20
Plant and machinery	10
Motor vehicles	20
Furniture, fixtures and office equipment	10
Books	10

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, the asset is written down immediately to its recoverable amount.

Expenditure for repairs and maintenance of property, plant and equipment is charged to the results of the year in which it is incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to CERA. Major renovations are depreciated over the remaining useful life of the related asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the the results.

Deferred income

Deferred income represents income receipts which relate to future periods.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption

of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Computer software

Costs that are directly associated with identifiable and unique computer software products controlled by CERA and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Subsequently computer software is carried at cost less any accumulated amortisation and any accumulated impairment losses. Expenditure which enhances or extends the performance of computer software programs beyond their original specifications is recognised as a capital improvement and added to the original cost of the computer software. Costs associated with maintenance of computer software programs are recognised as an expense when incurred. Computer software costs are amortised using the straight-line method over their useful lives, not exceeding a period of three years. Amortisation commences when the computer software is available for use.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Financial instruments

Financial assets and financial liabilities are recognised in the Authority's statement of financial position when the Authority becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the results when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Financial assets

1. Classification

The Authority classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. The Members of the Authority determine the classification of financial assets at initial recognition.

- **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets, unless the Members of the Authority intend to dispose of the investment within twelve months of the reporting date.

2. Recognition and measurement

Regular way purchases and sales of financial assets are recognised on trade-date which is the date on which the Authority commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Authority has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in profit or loss in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss when the Authority’s right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Authority establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on Authority specific inputs. Equity investments for which fair values cannot be measured reliably are recognised at cost less impairment.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss, while translation differences on non-monetary securities are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

The Authority assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets the cumulative loss which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in profit or loss.

For financial assets measured at amortised cost, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after

the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available for sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of available for sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts. In the statement of financial position, bank overdrafts are included in borrowings in current liabilities.

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Authority retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Authority has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the results.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Provisions

Provisions are recognised when the Authority has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Authority expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

3. Financial risk management

Financial risk factors

CERA is exposed to market price risk, interest rate risk, credit risk, liquidity risk and other risks arising from the financial instruments it holds. The risk management policies employed by the Authority to manage these risks are discussed below:

3.1 Credit risk

Trade and other receivables

The Authority's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the maximum credit exposure without taking account of the value of any collateral obtained:

The trade and other receivables per counterparty type on 31 December 2016 were as follows:

	Net carrying amount	
	2016	2015
	€	€
Trade and other receivables	47,570	91,241
Cash at bank	2,806,929	2,832,442
Bank deposits	3,276,612	2,655,459
	<u>6,131,111</u>	<u>5,579,142</u>

3.1.1 Credit quality of financial assets

The credit quality of financials assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if applicable) or to historical information about counterparty default rates:

	2016	2015
	€	€
Cash at bank and short term bank deposits ⁽¹⁾		
Caa3	-	5,487,900
Caa2	6,083,541	-
	<u>6,083,541</u>	<u>5,487,900</u>

The rest of the statement of financial position item “Cash and cash equivalents” is cash in hand.

None of the financial assets that are fully performing has been renegotiated.

The table below shows an analysis of the Company’s bank deposit by the credit rating of the bank in which they are held:

Bank group based on credit ratings by Moody’s	No of banks	2016 €	2015 €
Caa3	2	-	2,655,459
Caa2	2	3,276,612	-
		3,276,612	2,655,459

3.2 Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Authority has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

The following tables detail the Authority’s remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Authority can be required to pay. The table includes both interest and principal cash flows.

31 December 2016	Carrying amounts €	3 months or less €
Bank overdrafts	3,910	3,910
Trade and other payables	46,113	46,113
	50,023	50,023

31 December 2015	Carrying amounts €	3 months or less €
Bank overdrafts	2,050	2,050
Trade and other payables	26,759	26,759
	28,809	28,809

3.3 Market price risk

Market price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices. The Authority’s available for sale financial assets and financial assets at fair value through profit or loss are susceptible to market price risk arising from uncertainties about future prices of the investments.

3.3.1 Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates exposes CERA to cash flow interest rate risk. Borrowings issued at fixed rates expose CERA to fair value interest rate risk. The Members of CERA monitor the interest rate fluctuations on a continuous basis and acts accordingly.

At the reporting date the interest rate profile of interest- bearing financial instruments was:

	2016	2015
	€	€
Fixed rate instruments		
Financial assets	<u>6,083,540</u>	<u>5,487,900</u>
	<u>6,083,540</u>	<u>5,487,900</u>

Sensitivity analysis

An increase of 100 basis points in interest rates at 31 December 2016 would have increased/ (decreased) equity and the results by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. For a decrease of 100 basis points there would be an equal and opposite impact on the profit and other equity.

	Results	
	2016	2015
	€	€
Variable rate instruments	<u>60,835</u>	<u>54,879</u>
	<u>60,835</u>	<u>54,879</u>

3.4 Other risks

The general economic environment prevailing in Cyprus and internationally may affect the Authority's operations to a limited extent. Economic conditions such as inflation, unemployment, and development of the gross domestic product are directly linked to the economic course of every country and any variation in these and the economic environment in general may create chain reactions in all areas hence affecting the Authority.

Fair value estimation

The fair values of CERA's financial assets and liabilities approximate to their carrying amounts at the reporting date except as disclosed in note 20.

The fair value of financial instruments traded in active markets, such as publicly traded trading and available for sale financial assets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Authority is the current bid price. The appropriate quoted market price for financial liabilities is the current ask price.

4. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires Management to exercise its judgement in the process of applying the Authority's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Member's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- **Impairment of available for sale financial assets**

The Authority follows the guidance of IAS 39 in determining when an investment is other than temporarily impaired. This determination requires significant judgement. In making this judgement, the Authority evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health and near term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

- **Retirement benefits**

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rate of return on plan assets, future salary increases, mortality rates and future pension increases where necessary. The Authority sets these assumptions based on market expectations at the reporting date using best estimates for each parameter covering the period over which obligations are to be settled. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

- **Impairment of non financial assets**

The impairment test is performed using the discounted cash flows expected to be generated through the use of non financial assets, using a discount rate that reflects the current market estimations and the risks associated with the asset. When it is impractical to estimate the recoverable amount of an asset, the Authority estimates the recoverable amount of the cash generating unit in which the asset belongs to.

- **Impairment of intangible asset**

Intangible assets are initially recorded at acquisition cost and are amortized on a straight line basis over their useful economic life. Intangible assets that are acquired through a business combination are initially recorded at fair value at the date of acquisition. Intangible assets with indefinite useful life are reviewed for impairment at least once per year. The impairment test is performed using the discounted cash flows expected to be generated through the use of the intangible assets, using a discount rate that reflects the current market estimations and the risks associated with the asset. When it is impractical to estimate the recoverable amount of an asset, the Authority estimates the recoverable amount of the cash generating unit in which the asset belongs to.

5. Revenue

	2016	2015
	€	€
Annual fees received	1,931,043	1,921,253
Fees from the rendering of services	33,045	52,319
	<u>1,964,088</u>	<u>1,973,572</u>

6. Other operating income

	2016	2015
	€	€
Impairment for the year of receivables from European Programs	4,341	17,626
Sundry operating income	28,869	29,220
	<u>33,210</u>	<u>46,846</u>

7. Other expenses

	2016	2015
	€	€
Loss on disposal of property, plant and equipment	422	306
Impairment charge on available-for-sale financial assets (Note 16)	16,919	143,809
	<u>17,341</u>	<u>144,115</u>

8. Operating surplus

	2016	2015
	€	€
Operating surplus is stated after charging the following items:		
Amortisation of computer software (included in "Administration expenses") (Note 15)	266	355
Depreciation of property, plant and equipment (Note 14)	19,871	18,215
Staff costs including Directors in their executive capacity (Note 9)	836,410	732,910
Auditors' remuneration	4,000	2,000
	<u>881,547</u>	<u>883,580</u>

9. Staff costs

	2016	2015
	€	€
Wages and salaries	675,457	570,049
Social security costs and other funds	80,787	72,856
Expenses related to defined benefits plan (Note 10)	80,166	90,005
	<u>836,410</u>	<u>732,910</u>

10. Employee benefits

CERA provides to its staff retirement benefits on a lump sum basis and an annual pension according to a defined benefit retirement plan. It is CERA's policy to conduct an independent actuarial valuation of the obligations for the provision of retirement benefits, every three years.

The most recent actuarial valuation was made as at 31 December 2016 and it was based on the following assumptions:

	2016	2015
	€	€
Discount rate	1.80%	2.42%
Inflation	1.50%	2.50%
General salary increases	0.50%	0.25%
Salary increase	2016: 0%	2016: 0%
	2017+: 1.25% for inflation and the general increase of salaries plus increment promotions	2017+: 1.25% for inflation and the general increase of salaries plus increment promotions
Percentage increase in pensions	1%	1.25%
Increase of basic insurable earnings	2.5%	2%
Mortality table	60% of PA90	75% of PA90

During the year an amount of €80,166 (2015: €90,005) was charged to profit or loss based on the above actuarial valuation. Amounts charged to profit or loss are analysed as follows:

	2016	2015
	€	€
Current service costs	52,169	62,918
Interest on obligation	27,997	27,087
	<u>80,166</u>	<u>90,005</u>

Movement in the accumulated provision with respect to the retirement plan liabilities as shown in other liabilities is as follows:

	2016 €	2015 €
Balance at 1 January	1,190,649	1,101,558
Provision for the year	80,166	90,005
Contributions by Members	33,897	39,217
Payments to resigned members	(153,604)	-
Actuarial Loss/ (Gain) on obligation	170,018	(40,131)
Balance at 31 December	1,321,126	1,190,649

At 31 December 2016 the actuarial position in respect of the defined benefit plan was as follows:

	2016 €	2015 €
Present value of accrued plan obligations	1,321,126	1,190,649
Provision for plan liabilities recognised in the statement of financial position	1,321,126	1,190,649

11. Finance income/ cost

	2016 €	2015 €
Interest income	35,949	52,673
Finance income	35,949	52,673
Interest expense	-	(1,879)
Sundry finance expenses	(904)	(741)
Finance costs	(904)	(2,620)
Net finance income	35,045	50,053

12. Tax

	2016 €	2015 €
Defence contribution - current year	10,730	15,800
Charge for the year	10,730	15,800

The corporation tax rate is 12,5%.

Under certain conditions interest income may be subject to defence contribution at the rate of 30%. In such cases this interest will be exempt from corporation tax.

According to the Laws Regulating the Electricity Market and related Regulations, the fees collected by the Authority by practising its supervisory role are not considered an income under the Law of Income Taxation and article 5 (1)(a), and are not subject to taxation. The same applies for the government grants the Authority receives in order to be able to perform its supervisory duties. Income from rent or other sources are subject to taxation at the rate of 12.5% and the Special Defence Contribution, after the discount deductions provided by the Legislation.

13. Dividends

	2016	2015
	€	€
Defence contribution on deemed distribution	<u>7,902</u>	<u>15,464</u>
	<u>7,902</u>	<u>15,464</u>

14. Property, plant and equipment

	Computer Hardware	Plant and machinery	Motor vehicles	Furniture, fixtures and office equipment	Books	Total
	€	€	€	€	€	€
Cost						
Balance at 1 January 2015	44,963	69,923	22,844	72,645	4,864	215,239
Additions	29,458	2,665	-	1,523	-	33,646
Balance at 31 December 2015/ 1 January 2016	74,421	72,588	22,844	74,168	4,864	248,885
Additions	7,179	5,049	-	3,350	537	16,115
Disposals	-	(983)	-	-	-	(983)
Balance at 31 December 2016	81,600	76,654	22,844	77,518	5,401	264,017
Depreciation						
Balance at 1 January 2015	32,342	49,003	22,844	58,997	3,620	166,806
Charge for the year	10,175	4,619	-	2,935	486	18,215
Balance at 31 December 2015/ 1 January 2016	42,517	53,622	22,844	61,932	4,106	185,021
Charge for the year	11,611	4,686	-	3,178	396	19,871
On disposals	-	(197)	-	-	-	(197)
Balance at 31 December 2016	54,129	58,112	22,844	65,110	4,502	204,697
Net book amount						
Balance at 31 December 2016	27,471	18,542	-	12,408	899	59,320
Balance at 31 December 2015	31,904	18,966	-	12,236	758	63,864

15. Intangible assets

	Computer software €
Cost	
Balance at 1 January 2015	13,534
Balance at 31 December 2015/ 1 January 2016	13,534
Additions	799
Balance at 31 December 2016	14,333
Amortisation	
Balance at 1 January 2015	13,179
Amortisation for the year (Note 8)	355
Balance at 31 December 2015/ 1 January 2016	13,534
Amortisation for the year (Note 8)	266
Balance at 31 December 2016	13,800
Net book amount	
Balance at 31 December 2016	533

16. Available-for-sale financial assets

	2016 €	2015 €
Balance at 1 January	312,998	456,807
Impairment charge	(16,919)	(143,809)
Balance at 31 December	296,079	312,998

The following are included in profit or loss with respect to available-for-sale financial assets:

	2016 €	2015 €
Impairment charge	(16,919)	(143,809)
Net loss on available-for-sale financial assets	(16,919)	(143,809)

17. Trade and other receivables

	2016	2015
	€	€
Trade receivables	15,552	20,216
Deposits and prepayments	19,391	15,552
Accrued income	19,092	37,111
Grant receivable from European programmes	1,043	12,926
Other receivables	-	20,915
	<u>55,078</u>	<u>106,720</u>

The fair values of trade and other receivables due within one year approximate to their carrying amounts as presented above.

18. Cash at bank and in hand

	2016	2015
	€	€
Cash in hand	60	4
Cash at bank	2,806,929	2,832,442
Bank deposits	<u>3,276,612</u>	<u>2,655,459</u>
	<u>6,083,601</u>	<u>5,487,905</u>

For the purposes of the statement of cash flows, the cash and cash equivalents include the following

	2016	2015
	€	€
Cash at bank and in hand	2,806,989	2,832,446
Bank overdrafts (Note 20)	<u>(3,910)</u>	<u>(2,050)</u>
	<u>2,803,079</u>	<u>2,830,396</u>

The exposure of the Authority to credit risk and impairment losses in relation to cash and cash equivalents is reported in note 3 of the financial statements.

19. Other reserves

	Actuarial reserve for personnel fund	Total
	€	€
Balance at 1 January 2015	-	-
Profit for the year	40,131	40,131
Balance at 31 December 2015/ 1 January 2016	<u>40,131</u>	<u>40,131</u>
Actuarial loss	(210,149)	(210,149)
Balance at 31 December 2016	<u>(170,018)</u>	<u>(170,018)</u>

20. Borrowings

	2016	2015
	€	€
Current borrowings		
Bank overdrafts (Note 18)	<u>3,910</u>	<u>2,050</u>

21. Provisions for other liabilities and charges

	Pension and other post retirement obligations
	€
Balance at 1 January 2015	1,101,558
Charged/ (credited) to the results	129,222
Actuarial gain	<u>(40,131)</u>
Balance at 31 December 2015/ 1 January 2016	1,190,649
Charged/ (credited) to the results	114,063
Payments of benefits	(153,604)
Actuarial loss	<u>170,018</u>
Balance at 31 December 2016	<u>1,321,126</u>

22. Trade and other payables

	2016	2015
	€	€
Trade payables	18,681	13,845
VAT	8,316	3,424
Accruals	15,431	12,917
Other creditors	12,004	-
Defence tax on deemed distribution	7,902	15,471
	<u>62,334</u>	<u>45,657</u>

23. Deferred income

	2016	2015
	€	€
Grants from European Programms	<u>4,341</u>	20,565
	4,341	20,565
Deferred income after more than one year	<u>(2,939)</u>	(2,939)
Deferred income within one year	<u>1,402</u>	<u>17,626</u>

24. Refundable taxes

	2016	2015
	€	€
Corporation tax	(24,778)	(24,778)
Special contribution for defence	5,728	11,133
	<u>(19,050)</u>	<u>(13,645)</u>

25. Contingent liabilities

CERA had no contingent liabilities as at 31 December 2016.

26. Commitments

Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2016	2015
	€	€
Within one year	153,390	198,155
Between one and five years	174,763	59,046
	<u>328,153</u>	<u>257,201</u>

27. Events after the reporting period

There were no material events after the reporting period, which have a bearing on the understanding of the financial statements.

Independent auditor's report on pages 58 and 60

DETAILED INCOME STATEMENT

31 December 2016

	Page	2016 €	2015 €
Revenue			
Annual fees received		1,931,043	1,921,253
Fees from rendering of services		33,045	52,319
Other operating income			
Sundry operating income		28,869	29,220
Deletion for the year of receivables from European Programs		4,341	17,626
		1,997,298	2,020,418
Operating expenses			
Administration expenses	86	(1,430,615)	(1,269,117)
		566,683	751,301
Other operating expenses			
Loss on disposal of property, plant and equipment		(422)	(306)
Impairment charge on available-for-sale financial assets		(16,919)	(143,809)
Operating surplus			
Finance income	87	35,949	52,673
Finance costs	87	(904)	(2,620)
Net profit for the year before tax		584,387	657,239

ADMINISTRATIVE EXPENSES

31 December 2016

	2016	2015
	€	€
Directors' remuneration	240,479	202,826
Staff salaries	434,978	367,223
Social insurance etc.	80,787	72,856
Expenses related to defined benefits plan	80,166	90,005
Rent	76,800	76,800
Common expenses	1,973	1,753
Night guard expenses	70	-
Electricity	13,437	13,360
Water supply and cleaning	5,193	4,885
Insurance	1,510	1,355
Repairs and maintenance	4,252	3,001
Sundry expenses	1,727	560
Telephone and postage	3,295	4,589
General expenses for European programs	1,426	11,187
Stationery and printing	8,470	14,157
Subscriptions and contributions	16,825	16,270
Newspapers and publications	44	205
Equipment maintenance	2,935	2,467
Staff training	10,953	2,212
Other operating expenses	10,172	-
Computer software	3,755	2,741
Auditors' remuneration	4,000	2,000
Legal fees	29,521	16,764
Fines	15	189
Overseas travelling	57,064	35,109
Inland travelling and accommodation	475	307
Irrecoverable VAT	54,486	50,448
Entertaining	5,851	2,763
Motor vehicle running costs	2,907	3,197
Carriage and clearing	1,083	6,405
Advisory service fees	188,214	173,210
Announcements Publications	16,056	3,445
Sundry allowances and representation	19,284	15,533
Staff medical expenses	32,275	40,125
Services rented by third parties	-	12,600
Amortisation of computer software	266	355
Depreciation	19,871	18,215
	1,430,615	1,269,117

FINANCE INCOME/ COST

31 December 2016

	2016	2015
	€	€
Finance income	35,768	52,663
Bank interest	<u>181</u>	<u>10</u>
Interest on trade balances	<u>35,949</u>	<u>52,673</u>
Finance costs		
Interest expense		
Interest on taxes	-	1,879
Sundry finance expenses		
Bank charges	<u>904</u>	<u>741</u>
	<u>904</u>	<u>2,620</u>

COMPUTATION OF DEFENCE CONTRIBUTION

31 December 2016

	Income €	Rate	Defence € c
INTEREST			
Interest that was subject to deduction at source	<u>35,768</u>		
	<u>35,768</u>	30%	10,730.40
Less: deductions at source			<u>(10,730.40)</u>
DEFENCE CONTRIBUTION DUE TO IRD			<u><u>-</u></u>

COMPUTATION OF CORPORATION TAX

31 December 2016

	Page	€	€
Net profit per income statement	85		584,387
Add:			
Depreciation		20,137	
Loss on disposal of property, plant and equipment		422	
Impairment charge on available-for-sale financial assets		16,919	
Fines		15	
			<u>37,493</u>
			621,880
Less:			
Interest income		35,768	
Other non-taxable income		586,112	
			<u>(621,880)</u>
Chargeable income for the year			<u><u>-</u></u>

