

# 2017

## ANNUAL REPORT

### OF CYPRUS ENERGY REGULATORY AUTHORITY







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FOR THE YEAR **2017**



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

**30 Ιουνίου 2018**

Εξοχότατε,

Έχουμε την τιμή να σας υποβάλουμε την 14η 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 2017, 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

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# ABBREVIATIONS

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

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

In 2017, the Cyprus Energy Regulatory Authority (CERA), within the framework of the 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 the encouragement of the use of Renewable Energy Sources (RES). Moreover, CERA has taken several important decisions aimed at harmonising the regulatory framework of our country on the basis of the provisions of the Energy Union.

In summary, the Energy Union Package aims to ensure affordable, secure and sustainable energy for the citizens of the Member States of the European Union. It is a proactive policy of the European Union to tackle the climate change.

The vision of the Energy Union is an integrated energy system for all Member States of the European Union, where energy will move freely between states' borders with competition rules, with the best possible use of energy sources and with a credible European regulatory framework. Citizens are at the heart of the Energy Union, since energy prices must be affordable and competitive with greater choice of supplier.

The key points of the plan for the abolition of energy borders within the European Union are:

- the adoption of new legislation to redesign and reform the electricity market,
- the introduction of a new legislative framework to safeguard the supply of electricity and natural gas,
- greater transparency in natural gas contracts,
- the development of an integrated regional cooperation aiming to the consolidation of the market under a stronger regulatory framework,
- the increase in funding from the European Union to improve energy efficiency or a new renewable energy sources package.

Both the European Council and the European Parliament have repeatedly stressed that a well-functioning integrated internal energy market is the best tool for ensuring affordable energy prices within the European Union, to guarantee the security of energy supply and to enable the integration and development of larger quantities of energy from renewable sources in a cost-effective way.

Significant changes are also 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 so-called "demand response" solutions.

The electricity market in the next decade will be characterised by more variable and decentralised electricity generation, 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.

At the same time, the European Union's Energy Strategy has set priorities to increase the security of supply of the European Union. Particularly for natural gas, part of the strategy focuses on the development of gas production infrastructure in the countries of South-Eastern Europe, where our country belongs, and in finding alternative gas suppliers.

The European Union's Energy Strategy primarily concerns the Member States that are currently unable to negotiate and are forced to import energy on unfavourable terms and conditions in their supply contracts, due their geographical location, such as Cyprus. With respect to Member States which are supplied with energy on more unfavourable terms and at higher prices, the Energy Union is expected to deliver positive results by offering the opportunity to reduce energy costs.

In order for Cyprus to move away from the current situation to a low-carbon economy with the use of sustainable technologies, there is a need for further harmonisation of its energy regulatory framework that will lead our country to complete the internal energy market of the European Union on the basis of the provisions of the Energy Union.

During 2017, CERA, considering inter alia, the concern of the State and the House of Representatives about the delay in the full commercial operation of the new Electricity Market Model, has issued and published two Regulatory Decisions in the Official Gazette of the Republic of Cyprus. The Regulatory Decisions concern the application of a binding timetable for the full commercial operation of the new electricity market model, with the deadline set for 1 July 2019.

In order to cover the time gap inevitably created until the full commercial operation of the new electricity market model, CERA has issued a relevant Regulatory Decision including detailed transitional arrangement regulations.

At the same time, CERA, within the framework of its responsibilities and taking care, among other things, for the security of energy supply in the natural gas sector and the efficiency of the functioning of the internal natural gas market, took the initiative and proceeded with the preparation of a summary report on the options for the development of the gas market in Cyprus. In this report, a recommendation was made to the State that the import of Liquefied Natural Gas (LNG) into Cyprus should be seriously studied. The option of LNG from other sources should not be treated as an intermediate stage but as a permanent one and parallel to that of gas supply from domestic deposits, primarily for reasons of security of supply and competition in the gas market, and by extension in the electricity market, but also in order to develop the use of natural gas in other sectors. CERA also recommended the disconnection of the necessary infrastructure from the LNG supply contract.

On the basis of the above recommendation of CERA, a decision was taken by the Council of Ministers, which mandated the Natural Gas Public Company (DEFA) to proceed with a contract for the supply of LNG and at the same time in a separate procedure to proceed with the construction and operation of the required infrastructure, taking into account, inter alia, that natural gas should be available as soon as possible before 2020.

In conclusion, CERA has included in its strategic planning both short-term and long-term actions, including:

- the commencement of the transitional arrangement's regulation of the electricity market,
- the implementation of the new competitive electricity market model,
- the completion of the operational and accounting separation of the EAC,
- the modernisation of the electricity and gas licensing regulations,
- attaining the renewable energy sources targets for 2020,
- establishing an institutional framework for the natural gas market,

- determining options for the introduction and creation of a natural gas market for use in all sectors of the economy, and
- the integration of energy storage systems.

Based on the data and developments in 2017 in the field of energy and sustainable development, and bearing in mind that the successful operation of CERA is based on the following three basic principles:

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

CERA will continue to perform its work to develop a people-centred and fair energy regulation focused on the consumer. The proper functioning of the electricity and natural gas markets is crucial for the economy and the stability of our country as well as for the well-being of its citizens.

Finally, special thanks are expressed to the staff of the Office of CERA, for the conscientiousness and the diligence they have shown, and for adequately facing all the challenges that arose in 2017.



# 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 Internal 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 Regulating the Electricity Market Laws of 2003 to 2017, 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 2017 and is the fourteenth report issued by the Authority.

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

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

- the implementation of a binding timetable with binding target the 1st of July 2019 as the date for the full commercial operation of the new Electricity Market Model,
- instructions to the Owner of the Transmission System for the allocation of necessary human resources to the TSO, so that the TSO may be capable to exercise his competences and to proceed immediately to the actions required for the implementation of the tasks needed for the full commercial operation of the new Electricity Market Model according to the binding timetable mentioned above,
- the implementation of the transitional arrangements of the electricity market of Cyprus with "Bilateral Contracts between Producers and Suppliers" before the full implementation of the new Electricity Market Model, and
- the implementation of a binding timetable for the complete installation and operation of the MDMS (Meter Data Management System) by the TSO, with a binding target on 1 April 2019.

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

- the approval of the fuel adjustment coefficients and the basic purchase price of electricity from RES for the year,
- the approval of the TSO fee (T-TSO: Tariff for TSO expenses) for the year 2017 at 0,09 €/kW until the implementation of the new tariffs for the regulatory control period 2017-2021, when it will be reviewed,

- the approval of the long-term forecast of the annual maximum total electricity generation and total electricity generation for the 2017-2026 decade submitted by the TSO,
- the approval of the proposed revised Electricity Market Rules presented by the TSO,
- the approval of the revised Protocol between the TSO and DSO,
- the approval the Allowed Revenues for Generation Activities by a Dominant Producer, with ownership of the Transmission System, the Management of the Transmission, the Distribution and the Supply Management by a Dominant Supplier for the Regulatory Control Period 2017-2021 and the Tariffs of the above regulated activities for the year 2017,
- the issuance of detailed Regulations for a Transitional Arrangements period governing the Transitional Arrangements in the Electricity Market of Cyprus,
- the issuance of a methodology for calculating the monthly weighted average wholesale tariff (T-W),
- setting the threshold for participation in the Transitional Arrangements of the Electricity Market for Producers either with Power stations or with RES Units with a standard meter at 4.5 MW for a production licence for a station of net nominal power that they represent,
- setting the threshold for contracting for the supply of Energy to Consumers with a total agreed power, for participation in the Transitional Arrangement of the Electricity Market for Suppliers, at 10 MW,
- laying down the basic principles of the pricing methodology for LNG facilities to be used in setting the regulated tariffs for the use of LNG facilities,
- the approval of the procedure for changing supplier and the accompanying documents submitted by the DSO,
- taking a decision on Cross-border Cost Sharing of Project of Common Interest No 7.3.2 Removing internal bottlenecks in Cyprus to end isolation and to allow for the transmission of gas from the Eastern Mediterranean region, and
- taking a decision on Cross-Border Cost sharing of Project of Common Interest No 3.10.2 Interconnection between Kofinou (CY) and Korakia, Crete (EL) and No 3.10.3 Internal Line Between Korakia, Crete and Attica Region (EL).

It is also worth noting that during the year under review, an electronic register of licences was created with the aim of facilitating the process of recording applications for the granting of a licence to operate in the electricity sector, evaluating applications and licensing, as well recording and handling requests for applications and licences.

## 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.

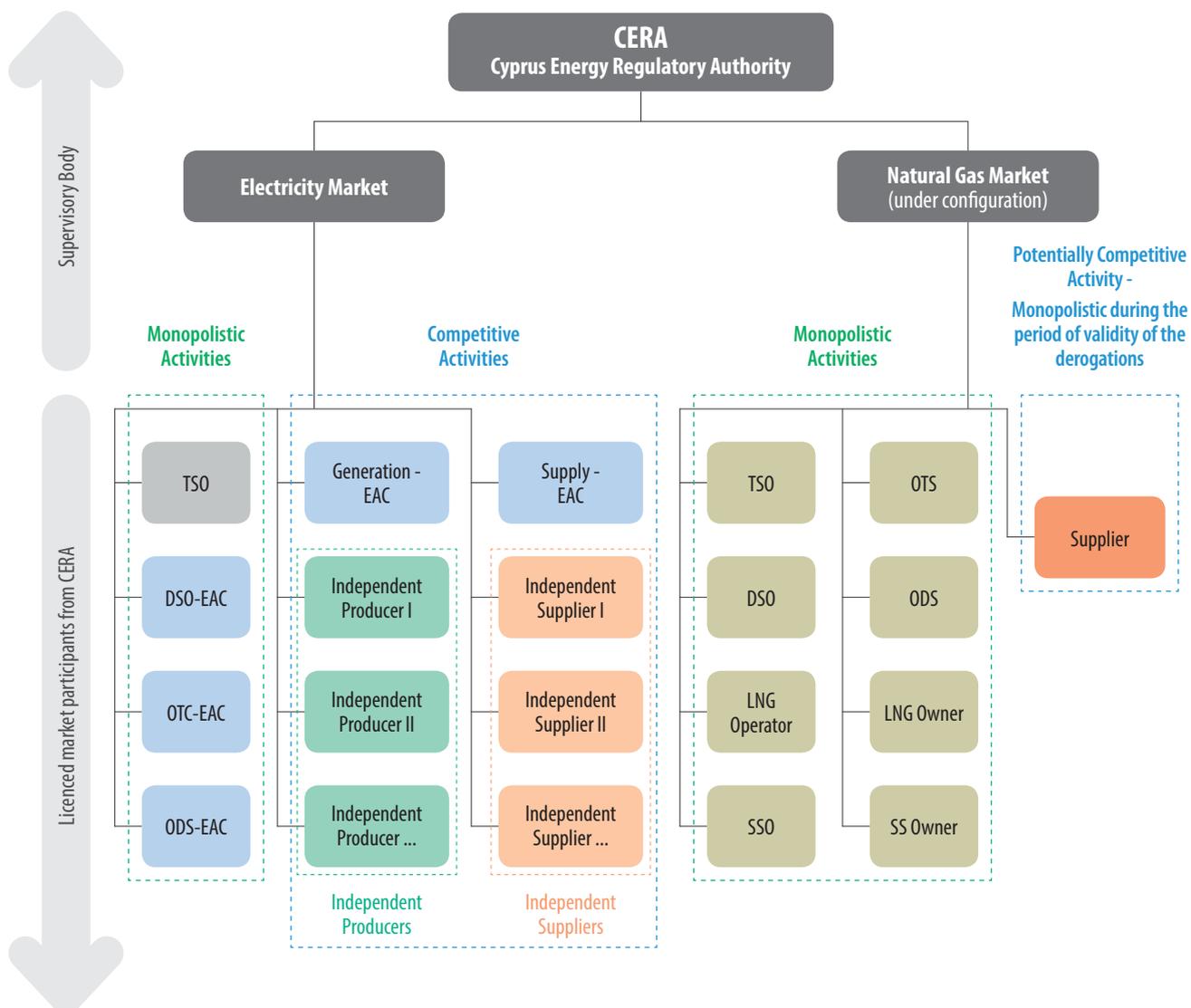
## Natural Gas - Competences and Powers of CERA

- 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.

# ELECTRICITY AND NATURAL GAS MARKET REGULATION

## LICENSING OF ACTIVITIES



<b>TSO</b>	Transmission System Operator
<b>DSO</b>	Distribution System Operator
<b>OTS</b>	Owner of Transmission System
<b>ODS</b>	Owner of Distribution System
<b>LNG Operator</b>	Liquefied Natural Gas System Operator
<b>SSO</b>	Storage System Operator
<b>LNG Owner</b>	Liquefied Natural Gas System Owner
<b>SS Owner</b>	Storage System Owner

## Organisational structure

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### MEMBERS OF CERA

#### **CHAIRMAN**

Dr Andreas Poullikkas  
Mechanical Engineer

#### **VICE CHAIRMAN**

Philippos (Alkis) Philippou  
Business Management

#### **MEMBER**

Neophytos Hadjigeorgiou  
Electrical Engineer

### ADVISORS

#### **LEGAL ADVISOR**

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

#### **ACCOUNTANTS**

Alliott Partellas Kiliaris Limited

### COMMUNICATION

#### **CYPRUS ENERGY REGULATORY AUTHORITY**

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

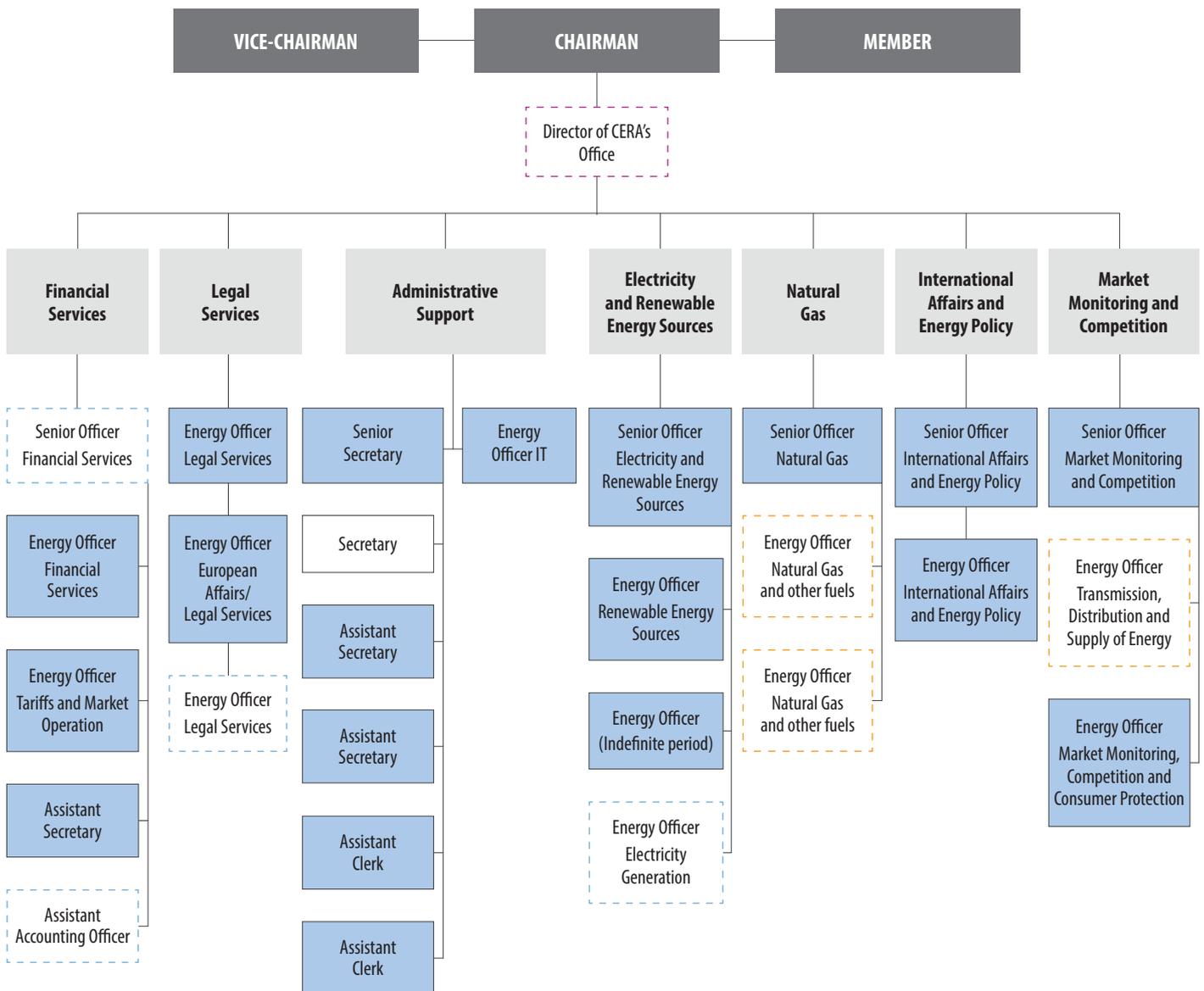
Telephone: + 357 22 66 63 63

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Website: [www.cera.org.cy](http://www.cera.org.cy)

# CERA ORGANISATIONAL CHART



**Notes:**

- The filled positions are shown with blue colour.
- The vacant positions are shown with white colour, of which:
  - The new positions, which are proposed in the 2018 budget, are shown with dashed blue line.
  - The position which awaits approval by the Council of Ministers, is shown with dashed purple line.
  - The vacant positions to be filled, are shown with continuous black line.
  - The positions which await approval by the Ministry of Finance, is shown with dashed yellow line.

## CERA OFFICE

At the beginning of 2017, the CERA office numbered 15 people on staff and by the end of 2017 19 people.

More specifically, in April 2017 CERA completed the selection process for filling two new permanent posts. One post of Energy Officer (Legal Services) and one post of Energy Officer (IT). The new officers took up their duties in May 2017.

In addition, in March 2017, CERA published two new permanent posts, a post of Energy Officer (European Affairs/Legal Services) and a post of Assistant Secretary, the selection process for which was completed in September 2017 and the new officers took up their duties in October 2017.

It is also expected that the suspension of the filling of two permanent posts of Officers will be lifted, together the Scheme of Service of the Director of the Office of CERA which were included in the Budget of CERA for 2017, so that the process of filling them may start.

Furthermore, in 2017 after all the procedures were completed, CERA proceeded to promote two Energy Officers to the post of Senior Officer and of the Secretary to the post of Senior Secretary.

It is noted that CERA is understaffed compared with all other European Energy Regulatory Authorities. 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 framework of the supervision of the electricity and gas market as well as the protection of consumers, it has requested in its Budget for 2018 the inclusion of new first appointment and promotion posts so as to complete its organisational structure.

## TRAINING

Graph 1 shows the training of CERA staff by activity area during the year 2017.

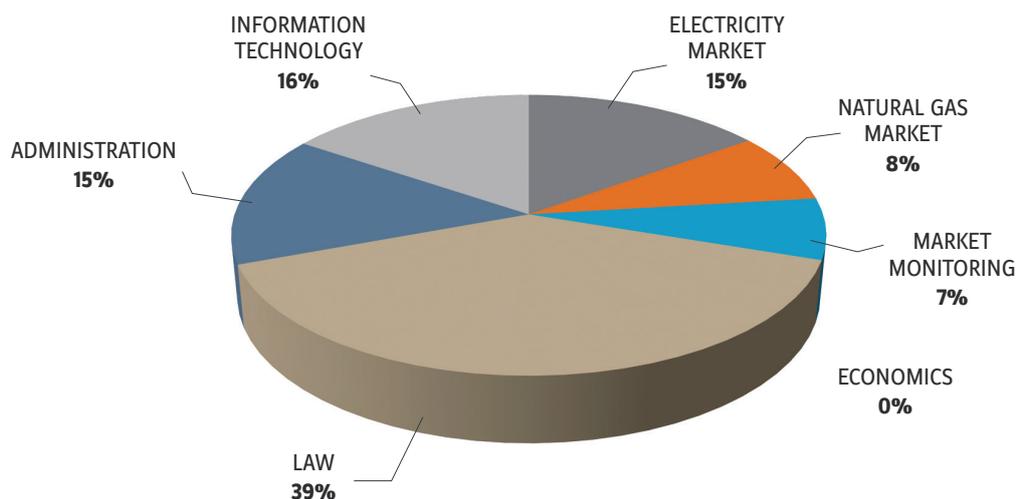


Figure 1 - Training of CERA staff in 2017

# 2

## NATIONAL LEGISLATION AND CERA DECISIONS

### National Legislation

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

### Laws and Regulations

#### **Regulating the Electricity Market Law of 2017**

In 2017, the amended Law Regulating the Electricity Market N.18(I)/2017 was passed, which allows CERA to issue a Regulatory Decision on the transitional arrangement of the electricity market, which will cease to apply from the date the Trading and Settlement Rules come into force.

### Bills in progress

#### **Regulating the Electricity Market Bill**

##### **Electricity - Bill amending the Law Regulating the Electricity Market of 2003 to 2017**

For purposes of partial harmonisation of the Law Regulating the Electricity Market of 2003 to 2017 with Directive 2009/72/EC on common rules for the electricity market, and in particular:

- Article 37(12) of the Directive, which inadvertently was not transposed in harmonising Law 211(I)/2012, and
- Article 3(3)(2) of the Directive, which allows an undertaking supplying electricity, other than EAC, to be designated by the CERA as the "supplier of last resort",

an amending bill was prepared which was under public consultation from 14 December 2017 to 11 January 2018. It is expected that the bill will be sent to the Law Office of the Republic of Cyprus for legal vetting in early 2018.

#### **Regulating the Natural Gas Market Bill**

In the year under review for harmonisation purposes with Articles 2, 9(1), 9(2), 10(2), 11(1) and 15(2) of Directive 2012/27/EU of the European Parliament and the Council of 25 October 2012, the Ministry of Energy, Commerce, Industry and Tourism (MECIT), in cooperation with CERA, prepared an amending bill, the "Regulating the Natural Gas Market (Amendment) Law".

In 2017, MECIT launched a public consultation and during the public consultation period the only comments submitted were by the Ministry of Finance. The comments of the Ministry of Finance were considered and the provisions of the bill relating to Regulation 1227/2011 were revised. The revised bill was sent to the Attorney General of the Republic of Cyprus on 7 September 2017 for legal vetting.

## Regulatory Decisions, Draft Regulatory Decisions and Important Decisions by CERA in 2017

In 2017 CERA took several Regulatory Decisions and Decisions, the most important of which are the following:

### REGULATORY DECISIONS

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#### **Regulatory Decision 01/2017 (Regulatory Administrative Act 34/2017) Implementation of a binding timetable for the full commercial operation of the new electricity market model**

Regulatory Decision 01/2017 (Regulatory Administrative Act 34/2017) sets a timetable with a binding target on 1 July 2019 as the date for the full commercial operation of the new electricity market model based on Regulatory Decision No. 01/2015 on the "Proposal regarding the new Net Pool Electricity Market arrangements in Cyprus".

#### **Regulatory Decision 02/2017 (Regulatory Administrative Act 35/2017) - Instructions to the Transmission System Owner for allocation of resources to the Cyprus TSO**

Regulatory Decision 02/2017 (Regulatory Administrative Act 35/2017) called upon the Transmission System Owner to provide, in consultation with the TSO, the necessary human resources to the TSO, so that the TSO may be in a position to take immediately the necessary actions in order to carry out the tasks required for the full commercial operation of the new electricity market model, according to the binding timetable set in CERA's Regulatory Decision No. 01/2017 (Regulatory Administrative Act 34/2017) on the "Implementation of a binding timetable for the full commercial operation of the new electricity market model".

#### **Regulatory Decision 04/2017 (Regulatory Administrative Act 223/2017) - Implementation of a transitional arrangement in the electricity market of Cyprus before the full commercial operation of the new electricity market model**

By Regulatory Decision 04/2017 (Regulatory Administrative Act 223/2017) CERA decided:

- The implementation of a transitional arrangement period in the electricity market of Cyprus with "Bilateral Contracts between Producers and Suppliers" before the full commercial operation of the new electricity market model.
- The main features of transitional electricity market arrangement.
- The drafting of transitional arrangement Regulations governing the detailed operation of the transitional arrangement in the electricity market of Cyprus with "Bilateral Contracts between Producers and Suppliers".
- The drafting of criteria for a supply license to be met by persons interested to apply for a supply licence.

- The drafting of a methodology for calculating the average monthly weighted wholesale tariff (T-W).
- Commencement of the transitional arrangement regulation of the electricity market of Cyprus through the implementation of the new EAC tariffs approved by CERA on 1 September 2017, based on Regulatory Decision No. 02/2015 (Regulatory Administrative Act 208/2015) "Regulatory Practice Statement and Electricity Tariffs Methodology", including wholesale tariff (T-W).
- CERA to start receiving applications for the issue of licences for the construction and operation of power stations as from 1 September 2017.
- CERA to start receiving applications for the issue of supply licences as from 1 September 2017.
- The transitional arrangement in the electricity market of Cyprus will be in force until the full commercial operation of the new electricity market model, where the business of all participants, EAC- Generation and EAC-Supply will be transferred to the new framework of operation of the electricity market.

### **Regulatory Decision 05/2017 (Regulatory Administrative Act 321/2017) - Implementation of a binding timetable for the complete installation and operation by the TSO of the MDMS (Meter Data Management System) software**

Regulatory Decision 05/2017 (Regulatory Administrative Act 321/2017) called on the TSO to faithfully implement a relevant timetable for the complete installation and operation of the MDMS (Meter Data Management System) software with a binding target on 1 April 2019.

## **DECISIONS**

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### **Decision 06/2017 - Adoption of internal regulations of the Licensing Body for Authorised Persons of Independent Producers and Large Consumers**

By Decision 06/2017, CERA, after reviewing and evaluating the recommendation of the representative of the TSO who chairs the Body, approved the revision of the internal regulations of the Body.

### **Decision 10/2017 - Tolerance in maximum allowable capacity for the photovoltaic systems of the net-metering category of the support schemes**

By Decision 10/2017, CERA decided to approve the application of a maximum 4% in tolerance to the maximum nominal capacity only in respect of the category of net-metering systems of the support regimes and the application of tolerance to the maximum nominal capacity of the voltage inverter up to 1kVA greater than the total installed capacity in kWp of the photovoltaic systems.

Therefore, the maximum nominal capacity of the net-metering systems of the support schemes was increased for single-phase systems from 4 kWp to 4,16 kWp and for three-phase systems from 5 kWp to 5,2 kWp.

## Decision 23/2017 - Coefficients for the Fuel Adjustment Clause and Basic Purchase Prices of RES Energy for 2017

By Decision 23/2017, CERA decided to approve the following coefficients for the fuel adjustment clause and the following basic purchase prices of RES energy for the year 2017 as shown in Table 1, setting, however, limits on the quantities of each fuel that can be used to recover fuel costs through fuel price adjustment by the EAC:

Coefficients for Fuel Adjustment Clause for Consumers		Basic Purchase Prices of RES energy	
	Fuel Adjustment Clause (for the year 2017) €/kWh/€c5c/MT		Basic Purchase Price (for the year 2017) €/kWh
Low voltage	0,00128	Low voltage	7,648
Medium voltage	0,00125	Medium voltage	7,509
High voltage	0,00122	High voltage	7,407

**Table 1** - Coefficients for Fuel adjustment clause and basic purchase prices of RES energy for 2017

In addition, CERA set out the conditions for the change in the fuel adjustment clause and the basic purchase prices of RES energy to be possible, without applying the limitations on fuel quantities mentioned above. More specifically, the following elements that the EAC needs to present to CERA were determined:

- a detailed list of actions that have been and/or will be carried out by the EAC and independent experts to identify the causes of the accident at the desulphurisation unit 3 of the Vasilikos Power Station,
- the official findings by independent experts on the causes of the accident at the desulphurisation unit 3 of Vassilikos Power Station,
- a detailed repair programme for this unit, and
- EAC Emergency Generation Plan for the year 2017.

Finally, CERA has instructed the EAC to:

- submit to CERA a timetable for the actions it intends to take so as to be able to estimate the losses due to each different factor affecting the rate of losses of the electricity system,
- submit to CERA a timetable for the actions it intends to take so as to be able to monitor the heat rate curve of each power plant,
- for the purpose of calculating the coefficients for the fuel adjustment clause, to use the data that are published in its Annual Reports.

## Decision 30/2017 - TSO fee for the year 2017

By Decision 30/2017, CERA decided that the TSO fee (Tariff T -TSO: Tariff for TSO expenses) for the year 2017 should remain at 0,09 €/kW until the implementation of the new tariffs for the regulatory control period 2017-2021, when it will be reviewed.

### **Decision 58/2017 - Electrical fault in the Turkish Cypriot community on 8 November 2016**

By Decision 58/2017, CERA requested from the TSO to rectify within 30 days of the date of notification by a relevant letter and to send the actual graph of the course of system frequency recorded from the moment the event started, i.e. from 16:00 until it was restored together with all relevant data and documents related to the fault, so that CERA would have a final complete picture. Furthermore, CERA has requested that the TSO in future refrains from such actions and/or omissions and to submit to CERA immediately all the data documented and in detail from the beginning of an event and not selectively or in a fragmentary manner.

### **Decision 60/2017 - Long-term forecast of an annual maximum generation and total annual electricity generated for the 2017-2026 decade**

By Decision 60/2017, CERA approved the long-term forecast of the annual maximum total generation and the total annual energy generated for the 2017-2026 period presented by the TSO.

### **Decision 84/2017 - Approval of the proposed revised Electricity Market Rules submitted by the TSO**

By Decision 84/2017, CERA approved, inter alia, the proposed revised Electricity Market Rules issue 2.0.0 submitted by the TSO. Given the time required by the TSO for the procurement of the relevant software and hardware for the implementation of the new revised Electricity Market Rules, as set out in Regulatory Decision No. 01/2017, (Regulatory Administrative Act 34/2017) on the "Implementation of a binding timetable for the full commercial operation of the new electricity market model", CERA will decide at a later stage on the date of publication of the new revised and approved Electricity Market Rules in the Official Gazette of the Republic of Cyprus, which according to the provisions of section 81(6) of the Law Regulating the Electricity Market will come into force. At the same time, in the context of full transparency, and timely information of all investors who are interested in becoming involved in the field of the competitive electricity market and in order to inform any other interested persons and/or participants in the electricity market, the new revised and approved Electricity Market Rules will be published on the website of the TSO without, however, coming into effect.

### **Decision 86/2017 - Approval of a Protocol Between the TSO and the DSO**

CERA by Decision 86/2017 approved the proposed revised Protocol between the TSO and the DSO.

### **Decision 92/2017 - Transmission and Distribution Rules - Chapter T14 "Generation Scheduling"**

By Decision 92/2017, CERA requested the TSO to remove from the relevant operating Instructions and in general from any other of instruction the reference to a "transitional period", as the stage up to the operation of the competitive market. Also, to inform CERA whether the existing software operated by the TSO has the capability of calculating the economic allocation of power plants. To submit to CERA an analytical methodology that records all the necessary work and/or actions to effectively perform his responsibilities concerning the control of the generation scheduling, such as the economic allocation of power plants, and consequently to ensure that the supply of energy in Cyprus is provided in an adequate, secure, cost-effective and reliable manner. To ask the TSO to refrain in future from such actions and/or omissions and to submit to CERA immediately all the data documented and in detail, so that CERA would have a complete picture.

### **Decision 95/2017 - Request for the extension of a licence and period of submitting requests for extension of a licence**

Based on Decision 95/2017, CERA will not accept and will not examine requests for extension of a licence submitted to CERA after the expiry of the licence for which the extension request is made.

### **Decision 97/2017 - Decision to approve the new EAC tariffs for the control period 2017-2021**

By Decision 97/2017, CERA decided to approve the allowed revenues for generation activities from the dominant producer, the ownership of the transmission system, the operation of the transmission system, distribution system and supply from the dominant supplier, for the regulatory control period 2017-2021 and the tariffs for the above regulated activities for the year 2017.

In this context, for the period 2017-2021, CERA decided:

- to approve the allowed revenues of each of EAC's four regulated activities,
- to approve the allowed revenues of the TSO,
- to approve the way of the recovery of allowed revenues through energy pricing,
- to approve the new tariff categories for consumers,
- to approve the tariffs' structure according to the season, day and time of the day.

CERA also decided:

- to approve the level of tariffs of the four regulated activities of the EAC and the TSO for the first year of the regulatory control period i.e. 2017,
- to maintain tariffs which, based on cost-orientation, show increases at levels existing at the time for a transitional period which ends with the operation of the electricity market or four years after the new tariffs are applied, whichever is the sooner; while with the end of that transitional period, these tariffs will be adjusted to the cost-orientation levels,
- to approve EAC's suggestion on the manner in which it will shoulder the difference in revenues from its suggestion not apply fully cost-oriented tariffs.

CERA has instructed that the implementation of new tariffs should start as follows:

- for monthly consumers, in the electricity bills, with meter readings made at end of September 2017, and
- for bi-monthly consumers, in the electricity bills, with meter readings made as from 1 November 2017 onwards.

Finally, CERA has instructed the EAC to:

- submit the detailed plans for the electricity tariffs of 2017 for approval by CERA,
- submit a recommendation to CERA on the content of the electricity bills to be issued to consumers, and
- submit to CERA each January a full report on the reactive power profile and the power factor of the electricity system for the previous year.

### **Decision 118/2017 - Regulations issued for the transitional arrangement of the electricity market according to the provisions of CERA's Regulatory Decision No. 04/2017 (Regulatory Administrative Act 223/2017)**

By Decision 118/2017, CERA proceeded to issue detailed transitional arrangement Regulations governing the transitional arrangement in the electricity market of Cyprus.

### **Decision 119/2017 - Methodology for the calculation of the Monthly Average Weighted Wholesale Tariff (T-W) according to the provisions of CERA's Regulatory Decision No. 04/2017 (Regulatory Administrative Act 223/2017)**

By Decision 119/2017, CERA proceeded to issue the methodology for the calculation of the monthly weighted average wholesale tariff (T-W). Based on this decision the methodology to be applied in a first stage will be dynamic and may be modified according to a decision of CERA.

### **Decision 120/2017 - Setting the Threshold for Production Units and RES Units for participation in the Transitional Regulation of the Electricity Market**

CERA by Decision 120/2017, decided to set the threshold for participation in the transitional arrangement of the electricity market for producers either with conventional power stations or with RES units with a standard meter at 4.5 MW for a generation licence for a station of net nominal power that they represent. This threshold is dynamic and may be modified depending on the participation in the transitional arrangement of the electricity market.

### **Decision 121/2017 - Setting a threshold for suppliers for participation in the transitional arrangement of the electricity market**

By Decision 121/2017, CERA decided to set the threshold for contracting for the supply of energy to consumers with a total agreed capacity, to participate in the transitional arrangement of electricity market for suppliers, at 10 MW. This threshold is dynamic and may be modified depending on participation in the transitional arrangement of the electricity market.

### **Decision 127/2017 - Determination of the application form, the licensing criteria and standard terms of a supply licence for final customers for the period the transitional arrangement of the electricity market will be in force**

By Decision 127/2017, CERA determined the application form, the criteria to be met by the applicant and the documents and data to be submitted together with the application for the licensing of electricity supply to final customers for the period of validity of the transitional arrangement of the electricity market. CERA also decided on the standard terms of the electricity supply to final customers licence for the period of validity of the transitional arrangement of the electricity market. Finally, the procedure for the submission and publication of the application and the examination and decision will be made in accordance with the Licensing Regulations, Regulatory Administrative Act 538/2004.

### **Decision 128/2017 - Basic Principles of the Pricing Methodology for LNG Facilities**

By Decision 128/2017, CERA decided to lay down the basic principles of the pricing methodology for LNG facilities to be used in the setting of the regulated tariffs for the use of LNG facilities.

### **Decision 145/2017 - Approval of the Procedure for Changing Supplier submitted by the DSO**

By Decision 145/2017, CERA approved the proposed procedure for switching supplier and the supporting documents submitted by the DSO. This procedure will be under evaluation by CERA and if any specific problems are identified, it may be revised.

### Decision 159/2017 - Approval of the new EAC tariffs for the year 2017

By Decision 159/2017, CERA decided to approve the new EAC tariffs for the year 2017 and to instruct the EAC to proceed with the publication of the approved tariffs so that electricity consumers and other participants in the electricity market may be adequately informed.

### Decision 160/2017 - Approval of new EAC bills

By Decision 160/2017, CERA decided to approve the contents of the columns "Meter Indications" and "Breakdown for the Period" of the new Electricity Supply Bills of the EAC and to give instructions to the EAC so that within one year, i.e. by September 2018, include in the electricity invoices comparisons of the current consumption of the final consumer with the corresponding consumption during the same period of the previous year in the form of a chart.

### Decision 161/2017 - Fuel adjustment coefficients and basic prices for purchasing energy from RES for the period August 2017-December 2017

By Decision 160/2017, CERA, taking into account the information from the EAC regarding the causes of the accident at the desulphurisation unit 3 at Vassilikos Power Station and the actions taken to rebuild the unit, decided to approve the following coefficients of the fuel adjustment clause for consumers and the following basic prices for purchasing energy from RES for the period August 2017 - December 2017 as shown in Table 2 below.

Coefficients for Fuel Adjustment Clause for Consumers		Basic Purchase Prices of RES energy	
	Fuel Adjustment Clause (08/2017 - 12/2017) €/kWh/€c5c/MT		Basic Purchase Price (08/2017 - 12/2017) €/kWh
Low voltage	0,00115	Low voltage	6,974
Medium voltage	0,00112	Medium voltage	6,829
High voltage	0,00110	High voltage	6,723

**Table 2** - Coefficients of the fuel adjustment clause for consumers and basic prices for purchasing energy from RES for the period August 2017 - December 2017

In addition, CERA decided:

- to approve the calculation of the estimated over-reimbursement amounting to €5,110,000 and the decrease in the weighted average fuel cost each month, beginning with the calculation of July 2017 weighted average fuel cost by €1,022,000 per month for 5 months,
- to instruct the EAC to proceed with the calculation of the actual over-reimbursement for the months of December 2016-July 2017, and
- to instruct the EAC to immediately notify CERA of any developments in relation to the EAC insurers' response to the damages that have occurred at the desulphurisation unit 3 at the Vassilikos Power Station.

#### **Decision 163/2017 - Clarifying changes to the transitional arrangement of the electricity market**

By Decision 163/2017, CERA proceeded with making changes of clarifying nature to the transitional arrangement and to issue the Regulations of the transitional arrangement of the electricity market - Issue 1.1.

#### **Decision 173/2017 - Approval of the parameters submitted by the TSO concerning the transitional arrangement of the electricity market**

By Decision 173/2017, CERA proceeded, among other things, to approve the parameters proposed by the TSO which are provided by the Regulations of the transitional arrangement of the electricity market.

#### **Decision 182/2017 - Documents and data to be attached to applications for a licence/exemption from a licence for the construction of an electricity generating station, with final outcome the competitive electricity market**

By Decision 182/2017, CERA decided to set out and post on CERA's website the documents and data that must accompany applications for granting a licence/exemption from a licence for the construction of an electricity generating station, with final outcome the competitive electricity market. The applications will be received by CERA, only if they are accompanied by all the documents and data included in the above-mentioned list.

#### **Decision 192/2017 - Approval of the parameters submitted by the DSO for the transitional arrangement of the electricity market**

By Decision 192/2017, CERA has proceeded with the approval of the parameters proposed by the DSO as provided for by the transitional arrangement of the electricity market.

#### **Decision 193/2017 - Approval of the parameters submitted by the TSO for the transitional arrangement of the electricity market issue 1.1**

By Decision 193/2017, CERA proceeded, among other things, with the approval of the parameters proposed by the TSO provided for by the transitional arrangement of the electricity market.

#### **Decision 207/2017 - Approval of the revision of the transmission system protocol**

By Decision 207/2017, CERA proceeded with the approval of a proposed transmission system protocol as submitted jointly by the TSO and the Owner of the Transmission System.

#### **Decision 215/2017 - Decision on Cross-border Cost Allocation (CBCA) of Project of Common Interest (PCI) No 7.3.2. "Removing internal bottlenecks in Cyprus to end isolation and to allow for the transmission of gas from the Eastern Mediterranean region"**

By Decision 215/2017, CERA decided that:

- the PCI No.7.3.2 entitled "Removing internal bottlenecks in Cyprus to end isolation and to allow for the transmission of gas from the Eastern Mediterranean Region" has reached a sufficient degree of maturity for decision-making purposes,

- the cost sharing between the two Member States is reasonable and documented and there is a net positive impact from the project results on the parties involved, and
- taking into account the data of the investment request of the Project Implementing Body, the Republic of Cyprus is the only one of the two Member States involved to bear any investment and operating costs related to the implementation of the project while Greece/the Greek System will have zero (0) costs.

#### **Decision 216/2017 - Decision on CBCA of PCI No. 3.10.2. "Interconnection between Kofinou (CY) and Korakia, Crete (EL)" and No. 3.10.3. "Internal Line Between Korakia, Crete and Attica Region (EL)"**

By Decision 216/2017, CERA decided that:

- the PCIs No. 3.10.2. "Interconnection between Kofinou (CY) and Korakia, Crete (EL)" and 3.10.3. "Internal line between Korakia, Crete and Attica region (EL)" have reached a sufficient degree of maturity for decision purposes,
- cost sharing between the two Member States is reasonable and documented and there is a net positive impact from project outcomes on the parties involved,
- for Step 2 (Crete-Attica) of the PCI 3.10.3. "Internal line between Korakia, Crete and Attica region (EL)", the Hellenic Republic is the only one of the two Member States involved to bear any investment and operating costs associated with the implementation of the project, while the Republic of Cyprus/the Cyprus System will have zero (0) costs, and
- for the Step 3 (Cyprus-Crete) of the PCI No 3.10.2. "Interconnection between Kofinou (CY) and Korakia, Crete (EL)", the Republic of Cyprus will bear 63% of the cost of implementing the project and the Hellenic Republic 37%, provided the project is subsidized by 50% by third parties.

#### **Decision 223/2017 - Revision of form W2 submitted by wind farms to CERA**

By Decision 223/2017, CERA decided to approve the revised W2 form, which every wind farm will have to submit to CERA each year, and contains information in relation to the annual operating results of the wind farm during the previous year.

#### **Decision 233/2017 - Adoption of amendments proposed by the TSO to the Transmission and Distribution Rules Issue 4.0.2 on the consolidated Issue 4.0.0 and the amending Issue 4.0.1**

By Decision 233/2017, CERA proceeded with the approval of the TSO proposal to amend the Transmission and Distribution Rules Version 4.0.2, which concerns a modified version of the approved consolidated version 4.0.0 and the approved modified version 4.0.1.

#### **Decision 237/2017 - Adoption of the Ten-Year Transmission System Development Program 2018-2027**

By Decision 237/2017, CERA approved the revised 10-year Development Program 2018-2027 of the Transmission System submitted by the TSO.

#### **Decision 243/2017 - Rules for electricity supply to final customers under section 102 of the Law Regulating the Electricity Market**

By Decision 243/2017, CERA approved the Rules for electricity supply to final customers under section 102 of the Law Regulating the Electricity Market 122 (I)/2003, which regulate the rights and obligations of suppliers and final customers.

### **Decision 250/2017 - Methodology for calculating the minimum amount of guarantee coverage and the prudential increase in the guarantee coverage of suppliers under the transitional arrangement of the electricity market**

By Decision 250/2017, CERA proceeded with the approval of the methodology for calculating the minimum amount of guarantee coverage and the methodology for calculating the prudential increase of the suppliers' guarantee coverage under the provisions of the transitional arrangement of the electricity market.

### **Decision 260/2017 - Clarifying changes to the transitional arrangement regulations of the electricity market Issue 1.1**

By Decision 260/2017, CERA proceeded with making amendments of clarifying nature to the transitional arrangement and to issue 1.1 of the transitional arrangement regulations of the electricity market.

### **Decision 265/2017 - Approval of Electricity Tariffs for 2018**

By Decision 265/2017, CERA decided:

- to approve the tariffs for the four regulated activities of the EAC and the TSO for the year 2018,
- to continue the non-implementation of fully cost-oriented tariffs in respect of tariffs which, based on cost-orientation, show increase for a transitional period which ends with the operation of the electricity market or four years after the new tariffs are applied, whichever is the sooner, while at the end of that transitional period, the said tariffs will be adjusted to cost-oriented levels.

CERA gave instructions that the implementation of the new tariffs shall begin:

- for monthly consumers, in the electricity bills, the meter reading of which will be made at the end January 2018, and
- for bimonthly consumers, in the electricity bills, the meter reading of which will be made from 1 March 2018 onwards.

Finally, CERA:

- gave instructions to the EAC Supply to submit the detailed Electricity Tariff Plans for 2018 to CERA for approval,
- gave instructions to the EAC Distribution to submit the proposed tariffs for the use of the distribution system (Medium and Low Voltage) to CERA, irrespective of the other regulated EAC activities,
- draws the attention of the EAC Supply to the fact that it has not submitted by the scheduled date to CERA for approval the Tariff Plans and that any reduced revenue that may arise for the EAC Supply from any delay in the application of the 2018 tariffs cannot be recovered.

### **Decision 269/2017 - Monthly load factor of production units under the transitional arrangement of the electricity market**

By Decision 269/2017, CERA proceeded with the approval of the monthly load factor of the production units of the Cyprus system submitted by the TSO under the provisions of the transitional arrangement of the electricity market.

## Actions taken on issues arising from previous Regulatory Decisions

In the context of applying the provisions of Regulatory Decisions taken by CERA in previous years, various actions were taken in 2017 which are described below.

### **Implementation of the transitional arrangement in the electricity market of Cyprus before the full implementation of the new electricity market model based on Regulatory Decision 01/2015**

CERA taking into account, inter alia, the provisions of Regulatory Decision no. 01/2015 on "The proposal regarding the new pool electricity market arrangements in Cyprus", the developments regarding the operation of the new electricity market model and the time consuming procedures required, the concern of CERA and the State as well as the House of Representatives about the delay outlined in the full commercial operation of the new electricity market model, decided to take measures to fill the gap that inevitably arose in the operation of a competitive electricity market.

In this context, CERA in the year under review proceeded to issue Regulatory Decision No. 04/2017 (Regulatory Administrative Act 223/2017) "On the implementation of the transitional arrangement in the electricity market of Cyprus before the full implementation of the new electricity market model". This Regulatory Decision determined the implementation and the main features of the transitional arrangement in the electricity market of Cyprus with "producer and supplier bilateral contracts" before the full implementation of the new electricity market model. In addition, CERA decided on the drafting of transitional arrangement regulations in the electricity market governing the detailed operation of the transitional arrangement in the electricity market of Cyprus with "Producer and Supplier Bilateral Contracts", on drafting criteria for a supply licence to be met by the parties interested in applying for a license and the drafting of the methodology for calculating the monthly weighted average wholesale Tariff (T-W).

The commencement of the transitional arrangement of the electricity market of Cyprus was determined with the application of the new EAC tariffs approved by CERA on 1 September 2017, based on Regulatory Decision No. 02/2015 (Regulatory Administrative Act 208/2015) "Regulatory Practice Statement and Electricity Tariffs Methodology", including wholesale tariffs (T-W).

Also, this Regulatory Decision determined the receipt by CERA of applications for the granting of a licence for the construction and operation of power stations as from 1 September 2017 and the receipt of applications by CERA for a supply licence as from 1 September 2017.

Finally, it was determined that the transitional arrangement in the electricity market of Cyprus will have effect until the full implementation of the new electricity market model, where the business of all participants, EAC-Generation and EAC-Supply will be transferred to the new electricity market operating framework.

### **Control of the compliance of the EAC's operating method on the basis of the Operational Separation of its activities according to the Regulatory Framework**

CERA based on the provisions of Regulatory Decision 04/2014 regarding the functional unbundling of EAC's activities, commissioned in 2017, through an open procedure, external consultants tasked with carrying out audits of the degree of compliance of EAC's operations on the basis of the functional unbundling of its activities in accordance with the regulatory framework, by carrying out specialized audits to be implemented in three distinct periods of time.

In accordance with the terms of reference, in 2017 the first audit was carried out. A documented and detailed report was submitted to CERA by its external consultants, recording the audit findings and revealing specific discrepancies of EAC's compliance with the regulatory framework.

CERA, taking into account the findings of the first audit, proceeded with the appropriate actions, pointing out to the EAC's Board of Directors these findings and in particular the specific deviations, and gave instructions to the Board to correct them and fully implement and observe the provisions of the regulatory framework.

In 2018, the second and third audit by CERA will follow, aiming at the full implementation of the provisions of the regulatory framework for the functional unbundling of EAC's activities.

### **New electricity tariffs for the year 2017**

Under the Law Regulating the Electricity Market of 2003 to 2017, CERA has the power, duty and competence to regulate electricity tariffs. In this context CERA, applying Regulatory Decision No. 02/2015 (Regulatory Administrative Act 208/2015) "Regulatory Practice Statement and Electricity Tariffs Methodology", approved by its Decision No. 97/2017, the new electricity tariffs for the year 2017.

The aim of the tariffs' methodology is to align with best practices in Europe and to create the framework for a more rational method of calculating tariffs. Tariffs should meet the cost-orientation principle, i.e. reflect the actual cost of the service/product at the time it is consumed.

The regulated tariffs concern the following operations/activities: Generation by a dominant producer, Transmission System Ownership, Transmission System Operation, Ownership and Operation of the Distribution System, Supply by a dominant supplier. The final price to be paid by the consumer is the sum of the tariffs of the individual activities.

The first step determines the allowed revenues of each activity and the second stage determines the form of the new tariffs and their amount in order to correspond to the allowed revenues.

In determining the allowed revenues, CERA has determined the return of each regulated activity at 4.6% of the Regulated Fixed Asset Base for each of the activities of generation, ownership of the transmission and distribution system of the EAC (CERA's Decision 1565/2016). This return is significantly lower than the rates of return of the employed assets provided for by the previous electricity tariffs methodology (Regulatory Administrative Act 177/2006), which was 8% for generation and 6% for transmission and distribution. In addition, CERA has established a performance indicator in the controllable operating costs of the regulated activities, which reflects savings that are reasonably expected to be achieved by the EAC due to increased productivity. The performance indicator is set at 1.5% starting in the year 2018.

The new tariffs approved by CERA in Decision 97/2017 have the following main features:

- The number of EAC tariffs is reduced from 30 to 11, according to Table 3.
- The way to recover allowed revenues is through energy pricing (both marginal energy costs and marginal cost of power are included).
- With respect to tariffs differentiated depending on the season and the time of day, there are two seasons (summer and other period), two types of day (working and non-working day) and two times of the day (peak/normal and non-peak/economic) in accordance with Table 4.
- Tariffs, which on average showed increases, after approval of the relevant recommendation by the EAC, were kept at the current levels (2015 average) for a period ending with the operation of the electricity market or four years after the new tariffs are applied, whichever comes sooner, while at the end of this transitional period, the above tariffs will be adjusted to cost-orientation levels.
- Therefore, in CERA Decision, no tariff category showed an increase, on the contrary, on average, all tariff categories showed decreases (excluding fuel cost adjustment).

Tariff description	Previous code	New code	Note
Domestic use	05 06+07 06+07 08	01 04 (not applicable) 02 08	STOD*
Commercial use - low voltage	15+16+17	10	
Industrial use - low voltage	25+26+27	20	
General tariff - low voltage	28+60+61+62+70+71+72	30	STOD
Medium voltage tariff	63+64+66+73+74+75+76+78	40	STOD
High voltage tariff	83+84	50	STOD
Street lighting	35	36	
Water pumping	41	46	
Off peak - storage heaters	55	56	

\*STOD: Seasonal Time of Day

Table 3 - New EAC Codes for Supply Tariffs

Structure of STOD Tariffs					
Season	Period	Description	Season	Period	Description
Summer (June - September)	Peak	09:00 - 23:00 All days	Other (October - May)	Peak	16:00 - 23:00 All days
	Off - Peak	23:00 - 9:00 All days		Off - Peak	23:00 - 16:00 All days

Table 4 - Structure of STOD Tariffs

The application of the new tariffs began on 1 September 2017, while according to CERA estimates, the expected decreases in the basic electricity tariffs will be 6% on average.

The determination of the allowed revenues of each regulated activity and the new, cost-oriented tariffs contribute to greater transparency and set the benchmark on which stakeholders interested in participating in the electricity market will be based.

### New EAC Supply Invoices and analysis of the final invoice

CERA by its Decision No. 160/2017 approved the new EAC invoices, which show the breakdown of the electricity price to the individual charges of each regulated activity. With this additional information, the consumer will be able to make better decisions about consumption and to choose a supplier.

The new invoices which were applied together with the new tariffs, present the following charges:

- **Power consumption:** Corresponds to the generation cost of the electricity consumed.
- **Network use:** Corresponds to the cost of the transmission and distribution networks use and the expenses of the TSO.
- **Ancillary services:** Corresponds to the cost for the security and uninterrupted operation of the electricity system.
- **Consumption measurement:** Corresponds the meter reading cost.
- **Supply of electricity:** Corresponds to the cost of services of the electricity supplier for managing and servicing its customers.
- **Fuel adjustment:** Adjustment for the cost associated with the fuel used in EAC's generation.
- **Public Service Obligations (PSOs):** Recovering the costs (through the consumption of electricity) to which the EAC is subject due to the extra costs incurred by the application of the special household tariff for specific categories of vulnerable consumers.
- **Renewable Energy Sources and Energy Saving Fund:** Special charge that the EAC collects and contributes to the RES and Energy Saving Fund of the Ministry of Energy, Commerce, Industry and Tourism.
- **VAT:** Value Added Tax 19%.

Figure 2 shows the breakdown of the new bill per billing category for a typical household consumer with a consumption of 600 kWh in December 2017.

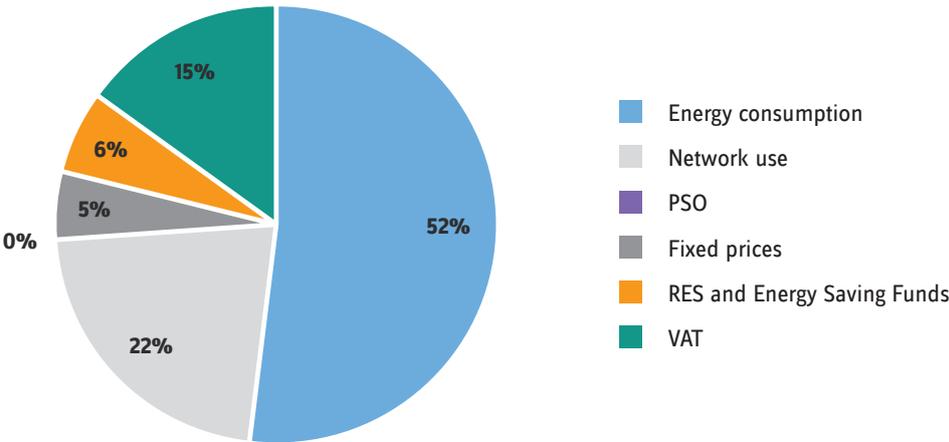


Figure 2 - Breakdown of the new bill per billing category for a typical household consumer with a consumption of 600 kWh in December 2017

## Trading and Settlement Rules

According to the Law Regulating the Electricity Market, the Trading and Settlement Rules among others:

- Govern the mechanisms, the tariffs and other terms and conditions applied by licensees whenever they wish to buy or sell electricity under arrangements made by the TSO.
- Ensure that the licensees who are asked to participate in buying or selling electricity, on the basis of these arrangements, are not subject to discrimination.

- Promote efficiency and economy and facilitate competition in the market and the sale of electricity on the basis of these arrangements.

The Trading and Settlement Rules are observed by all licensees or persons who have been granted exemptions from a licence to the extent that the licences or exemptions from a licence require it.

In the year under review, the Cyprus TSO, based on the provisions of CERA's Regulatory Decision No. 01/2015 - Regulatory Administrative Act 164/2015 on "Proposal regarding the new Net Pool Electricity Market arrangements in Cyprus" and taking into account the comments made at the meeting of the Advisory Committee on the Trading and Settlement Rules dated 17 March 2017, submitted to CERA for approval the new proposed issue 2.0.0 of the Trading and Settlement Rules.

CERA by its Decision No. 84/2017 approved the proposed issue of the Trading and Settlement Rules.

Given the period of time set by Regulatory Decision No. 01/2017 (Regulatory Administrative Act 34/2017) on "Applying a binding timetable for the full commercial operation of the new electricity market model" with the binding target of 1 July 2019 as the deadline for the operation of the electricity market, CERA will decide at a later stage on the date of publishing the said Trading and Settlement Rules in the Official Gazette of the Republic, the date on which according to the provisions of section 81(16) of the Law Regulating the Electricity Market Laws, the rules will come into effect.

Furthermore, in the context of full transparency, updating and timely information of all investors interested to be involved in the sector of the competitive electricity market as well as for the information of any other interested persons and/or participants in the electricity market, the new Trading and Settlement Rules issue 2.0. 0, according to CERA instructions are published on the website of the Cyprus TSO, without however having any effect.

## Transmission and Distribution Rules

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

- Govern the technical requirements and restrictions applied by licensees whenever they wish to connect to the Transmission System and/or the 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.

In 2017 a revision was made to the Transmission and Distribution Rules which was published by the TSO on 10 November 2017, following its approval by CERA. The Issue 4.0.2 - November 2017 is the latest amending issue of the Transmission and Distribution Rules which is in force.

# 3

## ENERGY POLICY, INTERNATIONAL AND LOCAL ACTIVITIES

### European Legislation

During 2017, the debate and consultations on the package of legislative proposals "Clean Energy for All Europeans" (Winter Package) continued. The consultation focused on the legislative proposals covering energy efficiency, renewable energy, electricity market planning, security of supply and governance rules for the Energy Union.

On November 2017 and less than three years after the publication of the framework strategy for the Energy Union, the Commission presented in its Communication entitled "Clean Energy for All Europeans" almost all the proposals needed to achieve the principle of "priority to energy efficiency", supporting the EU's global leadership in climate action and renewable energy and providing for a fair deal for energy consumers.

On March 2017, the series of initiatives in the transport sector "Europe on the move" aiming to remain competitive in a socially just transition to clean energy and digitisation, as well as the "clean mobility package" submitted in November, a decisive step forward in the implementation of the EU commitments under the Paris agreement for a binding reduction of CO<sub>2</sub> emissions by at least 40% by 2030, constitute concrete results of the completion process of the Energy Union project.

The completion of the Energy Union requires the involvement and close cooperation between the Commission, the Member States and society as a whole. This is precisely why the Member States will have to finalise by the beginning of 2018 the preliminary drafts of integrated national energy and climate plans for the period after 2020. Submission of the drafts by the beginning of 2018 is also necessary in order to highlight the strong leadership role of the Union on the world stage.

Due to geopolitical developments, energy and climate remained at the top of priorities of the agenda during 2017. The US government's intention to withdraw from the Paris Climate Agreement has led the EU to react and take a leading role by strengthening the synergies between climate and energy diplomacy. The EU will continue to reaffirm its commitment to combating global climate change and to strengthen its existing partnerships at a global level.

Moreover, the State of the Union underlines that while global changes in energy production pose serious challenges for Europe, they create at the same time unique opportunities for Europe to strengthen its world leadership in the transition to clean energy and, at the same time, to provide energy security for all its citizens. Demonstrating ambition on issues such as renewable energy, energy efficiency, climate action and innovation in the field of clean energy as well as the right signals to the market concerning prices are a prerequisite for attracting investment for the modernisation of the entire EU economy for the benefit of citizens.

The Energy Union has already borne fruit, but continued commitment is key to achieving the remaining goals. All legislative proposals on energy union presented by the Commission should be dealt with as a matter of priority by the European Parliament and the Council.

On 24 November 2017 and as part of the work on the Energy Union, the following were approved by the EU:

- The 3rd report on the state of the Energy Union and Annex 1: Updated Roadmap for Energy Union; Annex 2: Policy observations; Annex 3: State of Progress towards national energy and climate plans; Annex 4: Progress in accelerating innovation in the field of clean energy; Newsletters of the 28 Member States on Energy Union
- Third list of Projects of Common Interest
- Communication on Infrastructure (concerning the implementation of the electricity interconnection target of 15%)
- Energy efficiency progress report
- Report on the functioning of the European carbon market
- Report on the Covenant of Mayors
- Trends and projections report of the European Environment Agency
- Study of residential energy prosumers

### **Proposal to revise Directive 2009/73/EC on the common rules for the internal gas market**

In order to improve the functioning of the EU internal energy market and strengthen solidarity among Member States, the Commission proposed on 8 November 2017 the amendment of the EU directive on natural gas.

The aim of the amendment is to complement the existing Gas Directive (2009/73/EC) and to clarify that the basic principles of EU energy law (third party access, tariff regulation, ownership unbundling and transparency) shall apply to all gas pipelines and also to pipelines from third countries to the borders of EU jurisdiction. This will ensure that all major pipelines entering the EU territory comply with EU rules, operate with the same degree of transparency, are accessible to other operators and operate effectively. Once the amendment is adopted by the European Parliament and the Council, these changes will be an important step towards the completion of the Energy Union.

This clarification will also contribute to the achievement of the EU gas market objectives, including increasing competition between gas suppliers and enhancing energy security in the EU. Making sure that all major pipelines, which are wholly or partly on the EU territory, operate effectively under transparent regulatory supervision will reduce conflicts of interest between infrastructure operators and gas suppliers and will guarantee the determination of duties without discrimination.

In addition, the Commission proposes to allow Member States to grant, where appropriate, certain existing derogations from implementation to existing cross-border pipelines, provided that such derogations are not detrimental to competition or security of supply.

The proposed changes must be agreed by the European Parliament and the Council before they become laws. The Commission calls on the co-legislators to work closely together to ensure the swift adoption and implementation of these proposals.

### **Regulation (EU) 2017/1938 on security of gas supply**

On 25 October 2017, revised Regulation (EU) 2017/1938 on measures to safeguard the security of natural gas supply and repealing Regulation (EU) No 994/2010 was published. This Regulation establishes the provisions aiming to safeguard the security of gas supply in the Union by ensuring the proper and continuous functioning of the internal market in natural gas, by allowing for exceptional measures to be implemented when the market can no longer deliver the gas supplies required, including solidarity

measures of a last resort, and by providing for the clear definition and attribution of responsibilities among natural gas undertakings, the Member States and the Union regarding both preventive action and the reaction to concrete disruptions of gas supply. This Regulation also establishes transparency mechanisms concerning, in a spirit of solidarity, the coordination of planning for, and response to, emergencies at national, regional and Union level.

## Projects of Common Interest

On 24 November 2017, the European Commission adopted the third list of 173 key energy infrastructure projects, which is an update of the second list approved in November 2015, known as Projects of Common Interest (PCIs), which will help deliver Europe's energy and climate goals and enable the gradual build-up of the Energy Union by integrating Europe's energy markets, while at the same time they will allow the end of the energy isolation of certain Member States. 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 2019. During 2017, 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 List of PCIs.

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

PCIs benefit from accelerated licensing procedures and more favourable regulations, 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 for the period 2014-2020, contributing to the faster implementation of projects of common interest and making them more attractive to investors.

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

- 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 electric line between Korakia - Crete and Attica region (EL).
- 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:
  - › East Med Pipeline - Natural Gas Pipeline from offshore Cyprus to mainland Greece via Crete, and
  - › Development of gas infrastructure in Cyprus called "Cyprus Gas2EU".

The Implementing Body of Project 7.3.2 "Removing internal bottlenecks in Cyprus to end the isolation and allow the transmission of gas from the Eastern Mediterranean region" submitted a request for investment to the Energy Regulators of Cyprus (CERA) and of Greece (RAE) on 28 August 2017. Following consultations between CERA and RAE, an agreement on the cross-border sharing of investment costs was reached on 9 October 2017.

CERA issued a relevant decision on 10 October 2017 which adopted and decided the following:

- the Project of Common Interest 7.3.2 "Removing internal bottlenecks in Cyprus to end the isolation and allow the transmission of gas from the Eastern Mediterranean region" has reached a sufficient degree of maturity for decision-making purposes,

- the sharing of costs between the two Member States is reasonable and documented and there is a net positive impact of project results on the parties involved, and
- taking into account the investment application request of the Project Implementing Body, the Republic of Cyprus is the only one of the two Member States involved to bear any investment and operating costs related to the implementation of the project while Greece/the Greek System will have zero (0) costs.

The Implementing Body of the EuroAsia Interconnector project submitted an investment request to the Regulatory Authorities of Cyprus and Greece on 5 September 2017 for the first stage of project 3.10.2 "Interconnection between Kofinou (CY) and Korakia, Crete (EL)" with a total capacity of 1000MW and for the first phase of the project 3.10.3 "Internal line between Korakia, Crete and Attica region (EL)" with a total capacity of 1000MW. Following consultations between CERA and RAE, an agreement was reached on 10 October 2017 on the cross-border sharing of investment costs.

CERA proceeded to issue a decision on 10 October 2017 in which it adopted and decided the following:

- that Projects of Common Interest no 3.10.2 "Interconnection between Kofinou (CY) and Korakia, Crete (EL)" and 3.10.3 "Internal line between Korakia, Crete and Attica region (EL)" have reached a sufficient degree of maturity for decision purposes,
- that cost sharing between the two Member States is reasonable and documented and there is a net positive impact from project outcomes on the parties involved,
- that for Step 2 (Crete-Attica) of Project 3.10.3 Internal line between Korakia, Crete and Attica region (EL), the Hellenic Republic is the only one of the two Member States involved to bear any investment and operating costs associated with the implementation of the project, while the Republic of Cyprus/the Cyprus System will have zero (0) costs, and
- that for the Step 3 (Cyprus-Crete) of project No 3.10.2, Interconnection between Kofinou (CY) and Korakia, Crete (EL) the Republic of Cyprus will bear 63% of the cost of implementing the project and the Hellenic Republic 37%, provided the project is subsidised by 50% by third parties.

## 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 2017, CERA took part in the 63rd, 64th, 65th, 66th, 67th, 68th, 69th, 70th and 71st General Assembly of ACER.

### **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 2017 CERA participated in the 127th, 128th, 129th, 130th, 131st, 132nd, 133rd, 134th and 135th 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.

In the course of 2017, CERA participated in the 23rd General Assembly of MedReg at 24 May 2018 in Athens. CERA hosted the 24th General Assembly at 29 November 2018 in Cyprus.

CERA participated in the 22nd meeting of the MedReg Electricity Working Group and in the 21st meeting of the MedReg Renewables Working Group in April in Milan. CERA hosted the 23rd meeting of the MedReg Electricity Working Group and the 22nd meeting of the MedReg Renewables Working Group in October in Cyprus.



### 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 May 2017 participated in the European Electricity Regulatory Forum. In October 2017, CERA participated in the 30th 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.

## Other International Activities

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

- "EU 2050 energy strategy towards sustainable energy systems" on 12 June 2017, at the 4th International Conference on Energy, Sustainability and Climate Change in Santorini,
- "Future sustainable energy systems - Moving towards 2050" on 29 August 2017, at the 52nd International Universities' Power Engineering Conference in Crete.

## Local Activities

During the year under review CERA accepted invitations for speeches and presentations 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.

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

- A lecture by CERA Chairman, entitled "Fundamentals of electricity systems and economics", organised by the Federation of Employers and Industrialists (OEB) on 8 February 2017 in Nicosia.
- A presentation by CERA Chairman entitled "Future sustainable EU energy systems and the case of Cyprus" at the 8th Mediterranean Oil and Gas Forum 2017 on 2 March 2017 in Nicosia.
- A presentation by CERA Chairman, entitled "Moving towards the new energy age - Challenges in the Electricity Market", co-organised by the Institute of Environment and Sustainable Development of the Democratic Rally party (DISY) and Frederick University on 6 April 2017 at the premises of Frederick University in Nicosia.
- A presentation by CERA Chairman on "Powers and Functions of the Cyprus Energy Regulatory Authority" on 26 April 2017 to the Parliamentary Committee on Institutions, Merit and the Commissioner for Administration at the House of Representatives in Nicosia.
- A presentation by CERA Chairman, entitled "Transitional Regulation for the Electricity Market of Cyprus", on 23 May 2017, to the Parliamentary Committee on Energy, Trade, Industry and Tourism at the House of Representatives in Nicosia.
- An address by CERA Chairman at the Annual General Meeting of the Association of Renewable Energy Sources of Cyprus on 22 June 2017 at the offices of the Federation of Employers and Industrialists in Nicosia.
- A presentation by CERA Chairman at the 5th Energy Symposium on 1 November 2017 at the Hilton Hotel in Nicosia.
- A presentation by a CERA Officer entitled "Energy Environment - Present and Future" organised by the Association of Graduates of Technical Education of Cyprus on 1 December 2017 at the AJAX Hotel in Limassol.

## 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 + Smart PV", 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. 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 was completed at the end of 2017. The project involved a total of five partners (University of Cyprus, CERA, Deloitte, EAC, Department of Environment). 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

CERA, taking into account the work for the implementation of new Trading and Settlement 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 drawing 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 a specialised software which was delivered to CERA in the first quarter of 2017.

## Technical Assistance from the Structural Reform Support Service (SRSS) of the EU Commission

As part of the technical assistance provided by the Structural Reform Support Service of the EU Commission the following studies were launched:

- Support to CERA on regulatory topics related to the organisation of the energy market, which includes issues related to the organisation of the electricity market, gas pricing issues and topics related to information and on handling consumer complaints.
- Provision of expertise to CERA concerning the revision of the RES-E purchase tariff calculation methodology.
- Tailored training support to the Cyprus Energy Regulatory Authority.
- Development of a methodology for evaluating the network charges for CERA's use and the needed adjustments in the future support schemes.
- Technical Support to CERA concerning the fulfilment of obligations under the European Regulation 347/2013 on the trans-European energy infrastructure.

# 4

## ELECTRICITY MARKET

### Introduction

CERA was established based the provisions of the Law Regulating the Electricity Market of 2003. It is an independent public authority which is competent for the granting of licences to participants involved in the generation, transmission, distribution and supply of electricity.

The activities of electricity generation and supply concern competitive activities, meaning that the opportunity is given to interested persons, after obtaining the relevant licences, to be involved and participate on a competitive basis in the electricity market and in accordance with the regulations set by CERA as independent producers and/or as independent electricity suppliers.

Although the generation and supply activities belong to the competitive part of the electricity market, the EAC as a producer and supplier occupies at this stage a dominant position on the market, i.e. it holds its biggest part and therefore CERA exercises control over it and regulates its economic parameters, so as to achieve a healthy environment allowing the entry in the market of new independent producers and suppliers who can compete on an equal footing.

The activities of electricity transmission and distribution are by nature monopolistic activities. These activities concern the operation and ownership of the transmission and the distribution systems. The transmission and the distribution systems are overhead lines and/or underground cables for the transmission and distribution of electricity from power plants (power plants from conventional generating stations and renewable energy stations) to final consumers for consumption.

The ownership of the transmission and the distribution systems belongs to the EAC, which holds the relevant licences from CERA as the Owner of the Transmission System and the Owner of the Distribution System, respectively.

The transmission system is managed by the Cyprus TSO, following the granting of the relevant licence by CERA. Cyprus TSO is a legal entity governed by public law. The operation of the distribution system belongs to the DSO, following the granting of the relevant licence by CERA. The DSO is part of the EAC.

### Granting of Licences and Exemptions from a Licence

Licences granted by CERA, based on section 34 of the Regulating the Electricity Market Law concern:

1. The construction and operation of generating stations using conventional fuels for commercial purposes.
2. The construction and operation of generating stations using conventional fuels with generating capacity more than 1MW for self-production or reserve purposes.
3. The construction and operation of RES stations with generating capacity of more than 5 MW.

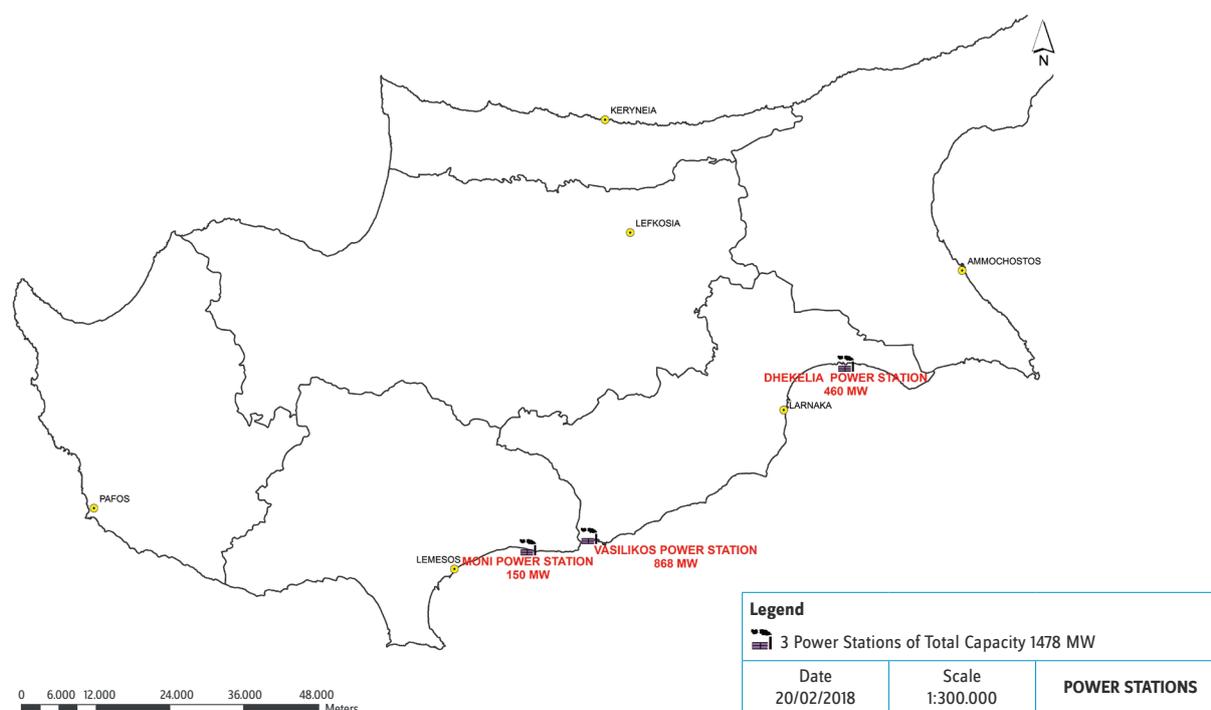
4. The supply of electricity.
5. The execution of the responsibilities of the TSO.
6. The execution of the responsibilities of the DSO.
7. The execution of responsibilities of the Owner of the Transmission System.
8. The execution of responsibilities of the Owner of the Distribution System.

Exemptions from a licence granted by CERA under section 35 of the Law Regulating the Electricity Market concern the following:

1. Construction and operation of RES generating stations with generating capacity up to 5MW.
2. Construction and operation of generating stations using conventional fuels with a capacity of 1 MW for self-production or for reserve purposes.

### Conventional Generating Stations

During the year under review three licences for the construction and operation of generating stations for self-production using Internal Combustion Engines (ICEs) with total generating capacity of 3,96 MWe were issued.



**Figure 3 - Presentation and geographical distribution of licences for conventional generating stations up to 2017**

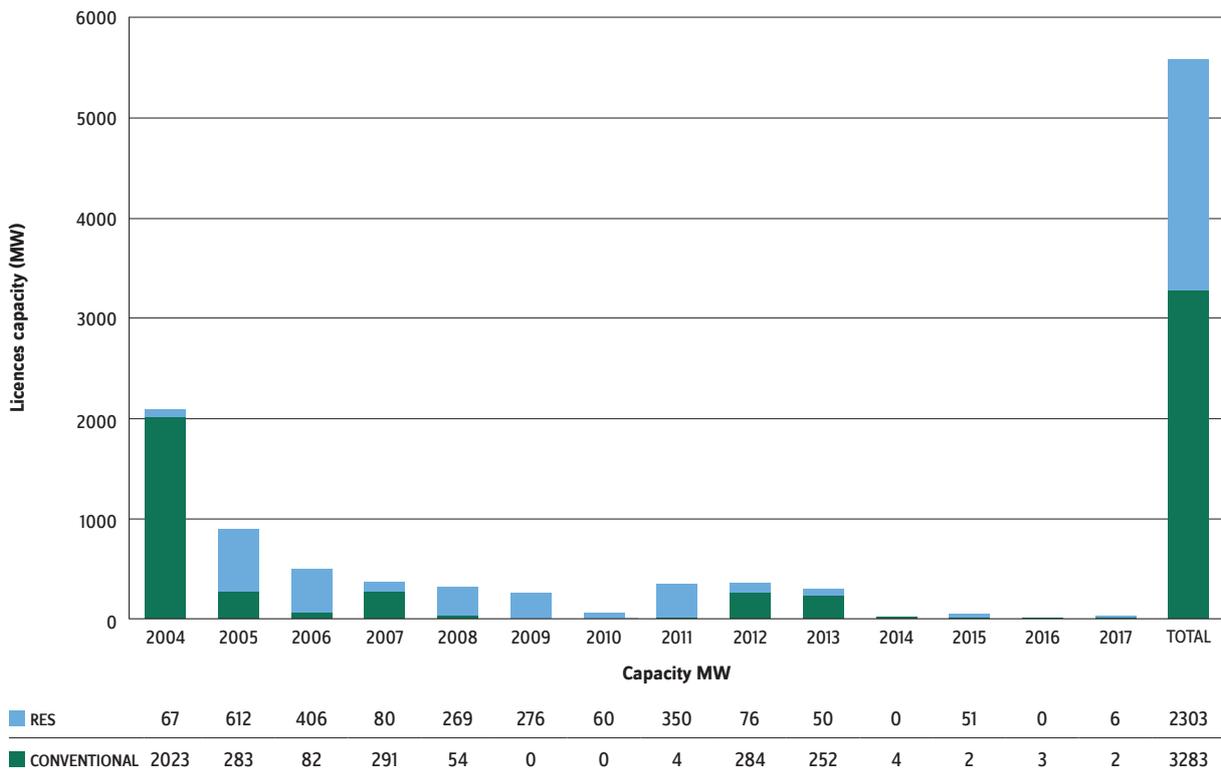
## Renewable Energy Sources (RES)

In 2017, 53 licences for the construction and 85 licences for the operation of Photovoltaic Parks with a total capacity of 47,44 MW and 68,94 MW, respectively, were issued.

At the same time 2 licences for the construction of generating stations using biomass/biogas of a capacity of 3,27 MW were issued.

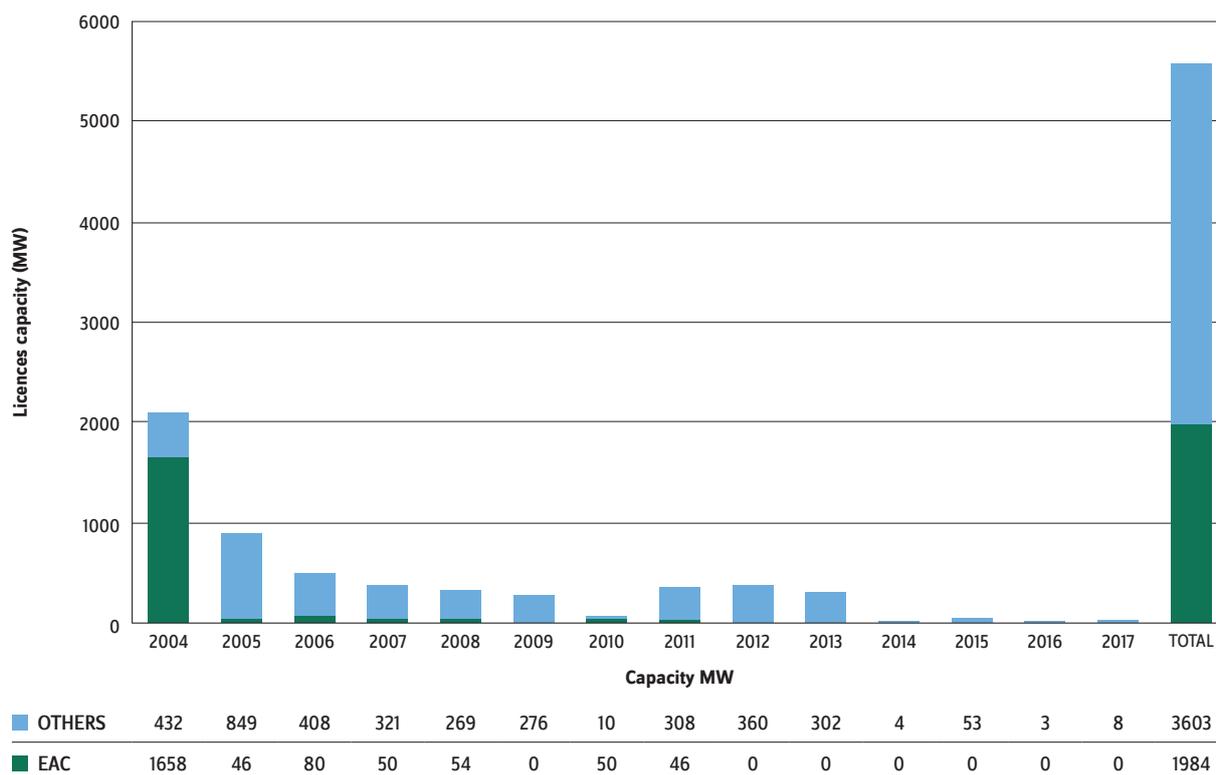
In 2007 no licence for the construction and operation of Wind Farms was issued.

Figures 4 and 5 below show the statistics for applications and licenses for electricity generation from conventional units and RES units from the time of establishment of CERA until the end of 2017.



\* Amendments are included

Figure 4 - Applications for electricity generation licences submitted from 2004 until 2017



\* Amendments are included

Figure 5 - Applications for electricity generation licences for the period 2004-2017 submitted by EAC and other producers

## Exemptions from a Construction and Operation Licence of a Power Production Unit

### Conventional power plants

In 2017, 63 applications for exemptions from a license for the construction and operation of conventional power plants for self-production, reserve purposes and/or autonomous systems, and 76 exemptions from a construction and/or operation licence, of a total installed capacity of 16,07 MWe were submitted to CERA.

### Photovoltaic Systems - Public Tender

CERA, taking into consideration the Grant Schemes to encourage the use of RES, the RES policy of the Government and the Public Tender invited by the Management Committee of the RES and Energy Saving Fund in the year 2017, proceeded to issue of 13 Exemptions from a Licence for the Operation of Photovoltaic Parks, within the framework of the Public Tender, of a total installed capacity of 20,34 MWe.

## Installation of Photovoltaic Systems, Biomass Stations with Self-Production Method in Commercial and Industrial Buildings

"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 2017, the Cyprus Energy Regulatory Authority issued 33 Exceptions from a Licence for the Construction of Photovoltaic Systems and Biomass/Biogas Systems, of a total installed capacity of 9.57MWe and 15 Exceptions from a Licence to Operate systems of a total installed capacity of 3,19MWe.

### Photovoltaic Systems for commercial use

In 2017, 35 Exemptions from a Licence for Construction of Generating Stations with a capacity of 90,93 MWe were granted in the framework of the operation of the Competitive Electricity Market and 4 Exemptions from Operating Licence for power plants of a capacity of 0,319 MWe.

### Biomass/Biogas systems for commercial use

In 2017 an Exemption from a Licence was granted for the Construction of a Biomass/Biogas power station with a capacity of 1 MWe.

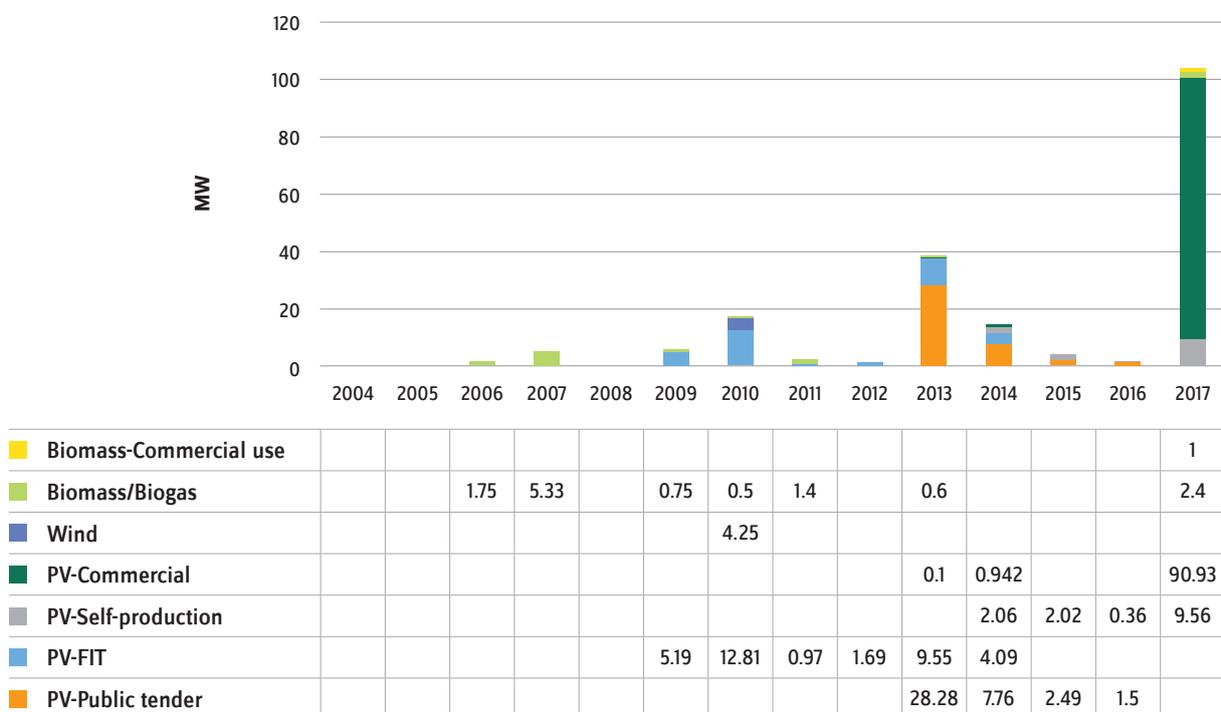


Figure 6 - Capacity of exemptions from construction licence (RES) for 2004-2017

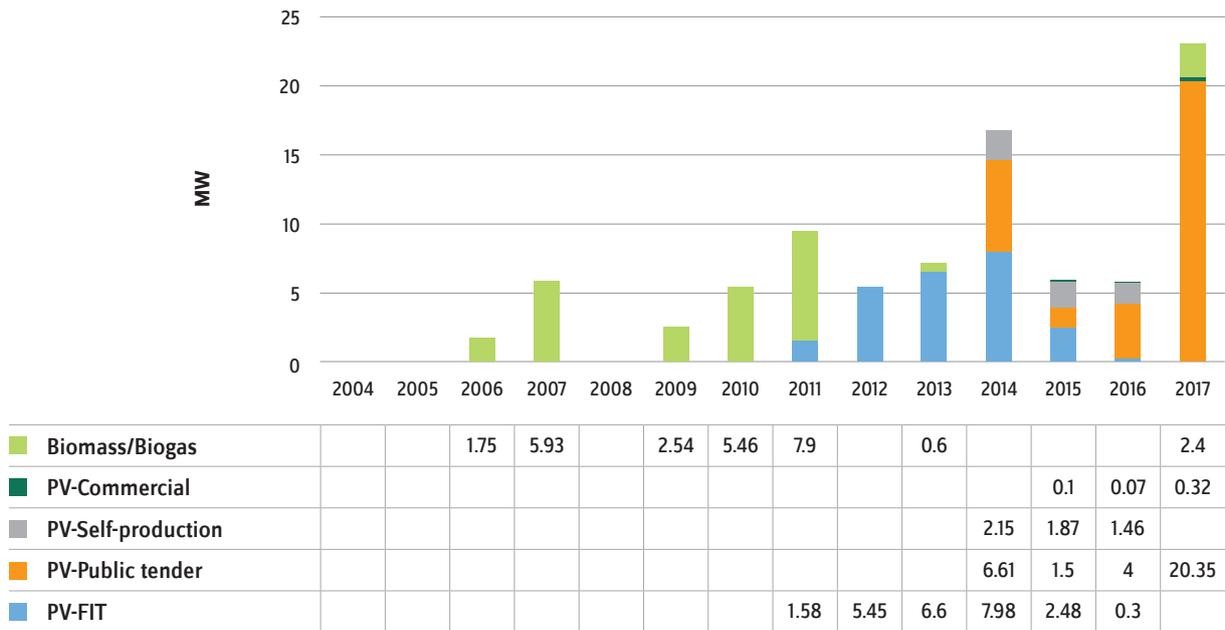


Figure 7 - Capacity of exemptions from operation licence (RES) for 2004-2017

### 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 5kWe is installed. This method calculates every two months the difference between the electricity imported from the grid to meet the premises' 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 the net-metering scheme and according to the information the DSO sent to CERA in the year 2017, the installation of 1225 Photovoltaic Systems, with a total installed capacity of 4,96MW, was completed.

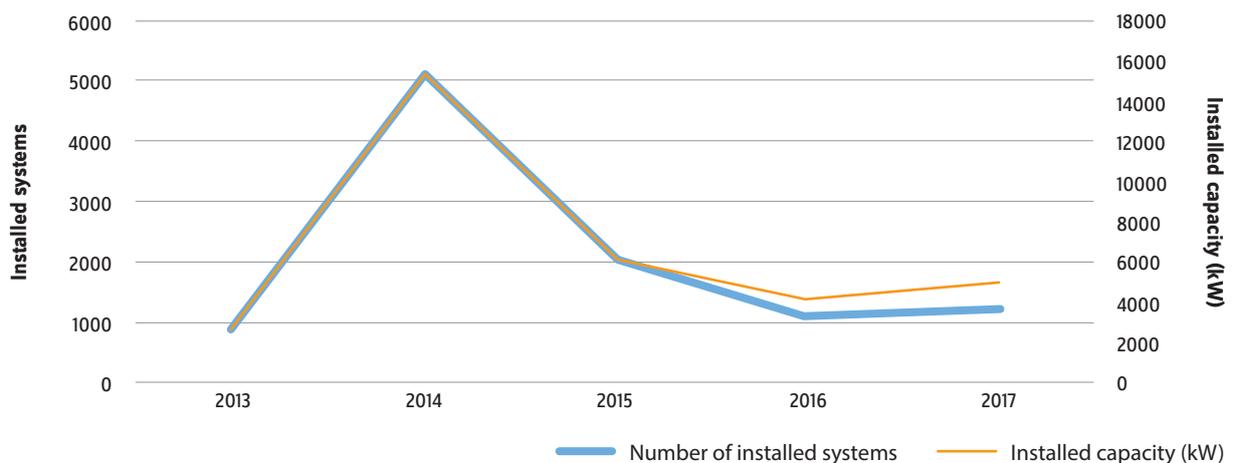


Figure 8 - Number of installed systems and installed capacity (kW) of net-metering systems for the period 2013-2017

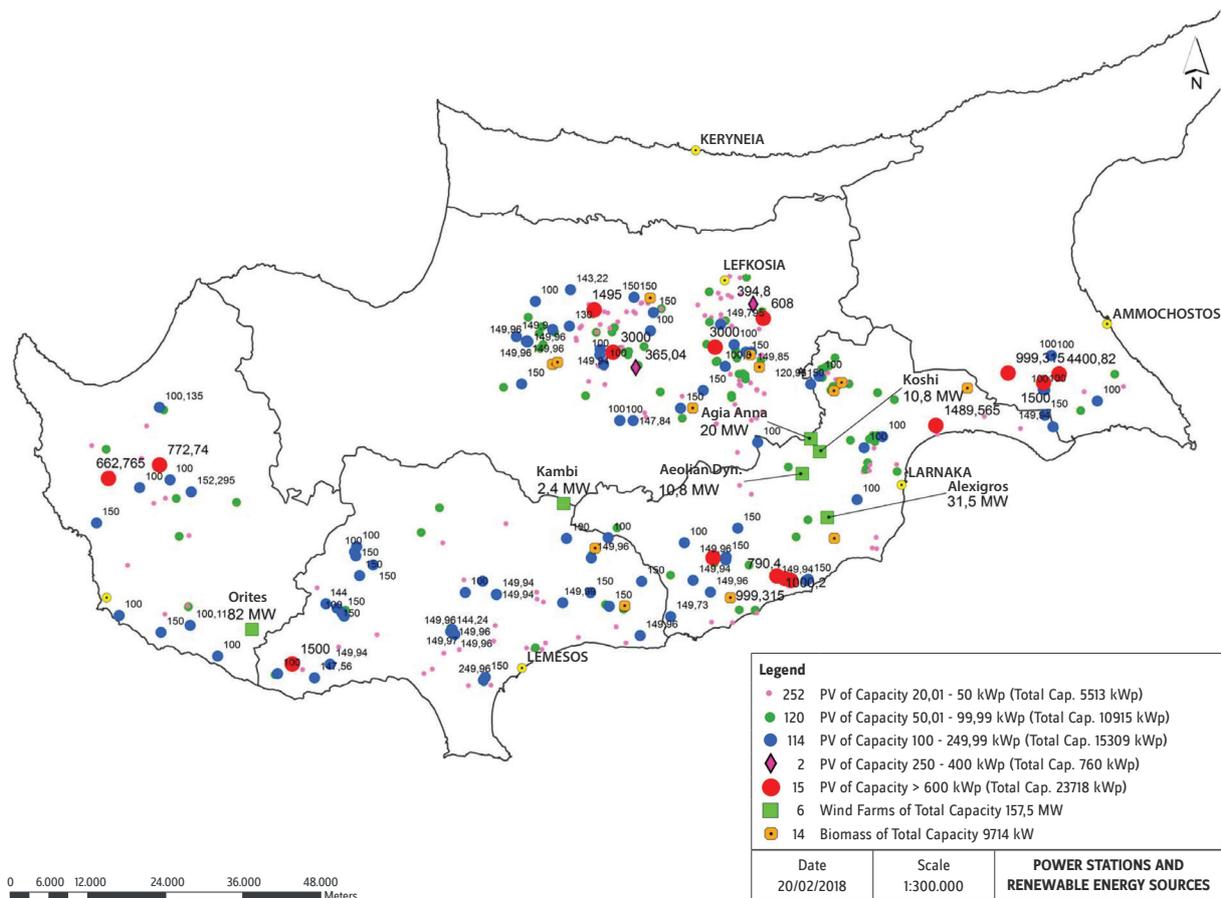


Figure 9 - Presentation and Geographical Distribution of Licences for RES Units by 2017

### Register of Applications for a Licence and Licences Issued

All lists of applications for a licence, as well as the licences issued are posted on the CERA website [www.cera.org.cy](http://www.cera.org.cy).

## Electrical Energy Generation during 2017

### Maximum Total Power Generation (MW)

Maximum power demand for 2017 occurred on Monday 3 July 2017, at 14:30 hours, when the maximum total power rose to 1.090 MW.

Total gross electricity production for 2017 was 4.973.572 MWh.

### Total Energy Production (GWh)

The following important data concerning Total Electrical Energy generated during 2017 have been recorded.

- Total gross Electrical Energy Generated reached 4.974.392 MWh.
- EAC contributed with 4.559.098 MWh.
- RES producers generated 415.294 MWh.
- EAC generating stations produced 226.085 MWh, for their local needs.
- The energy sent out to the transmission system from the EAC power stations reached 4.333.013MWh.
- The energy sent out to the distribution system from EAC sub-stations reached 4,323.927 MWh.
- Recorded energy losses in the transmission system amounted to 66.130 MWh, or 1,44% of energy sent out to the transmission system.
- Recorded energy losses in the distribution system amounted to 132.218 MWh, or 3% of energy sent out to the distribution system.

### Load Factor

The mean value of Annual Load Factor of conventional generating stations was 52,1% in 2017, compared with 54,0% in 2016.

Figure 10 presents the total energy generated in 2017.

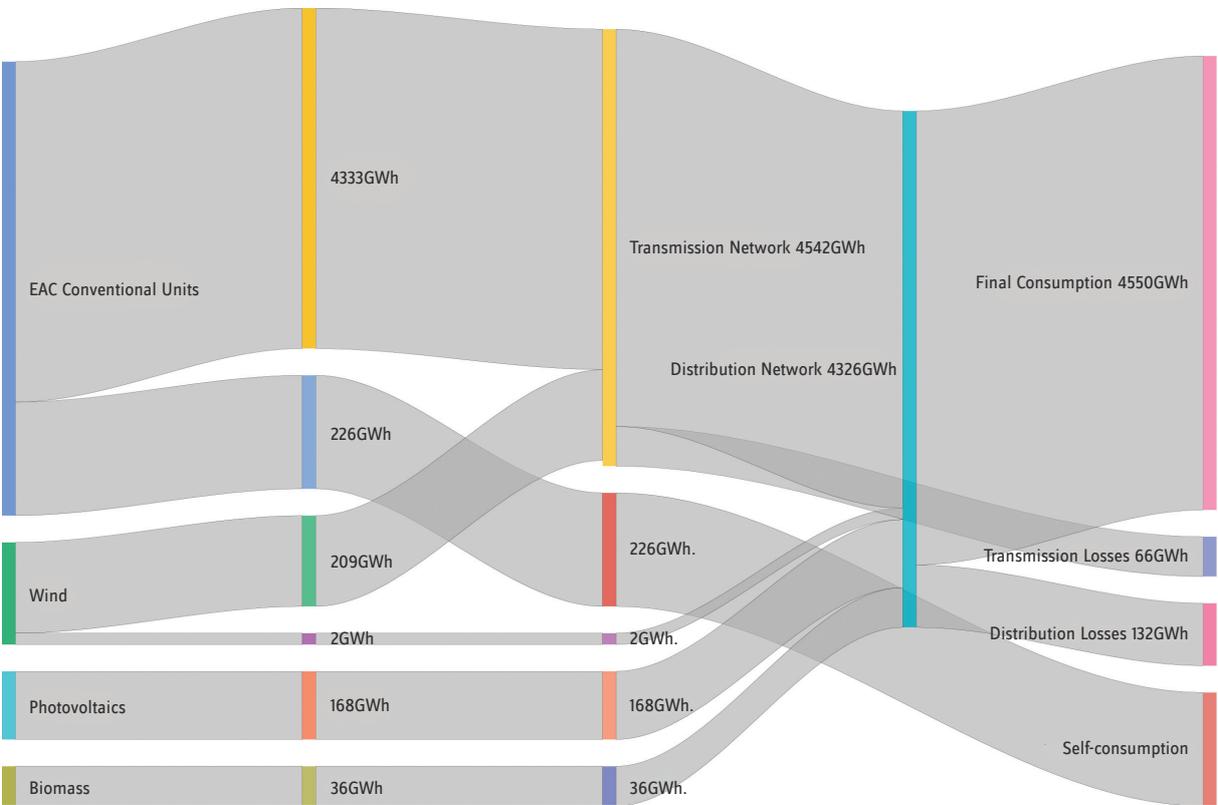


Figure 10 - Total energy generated in 2017

Figures 11 and 12 present historic data RES production connected to the system.

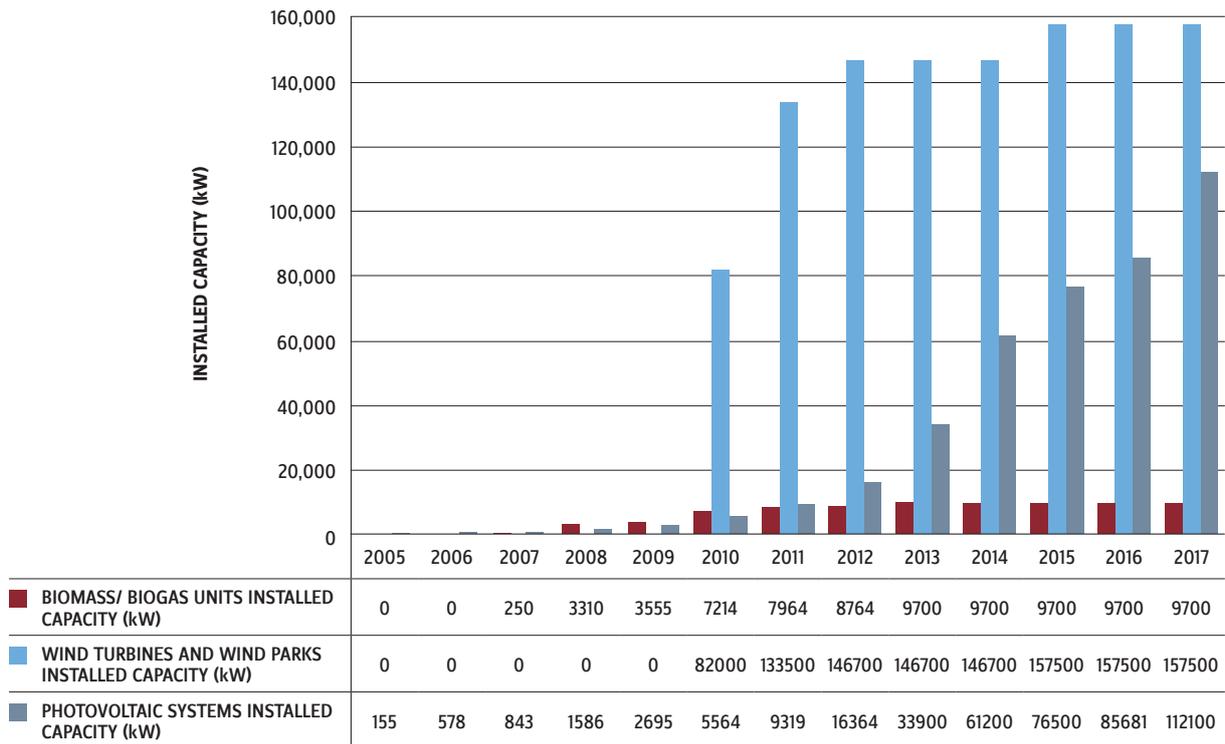


Figure 11 - Annual RES Installed Capacity (kW)

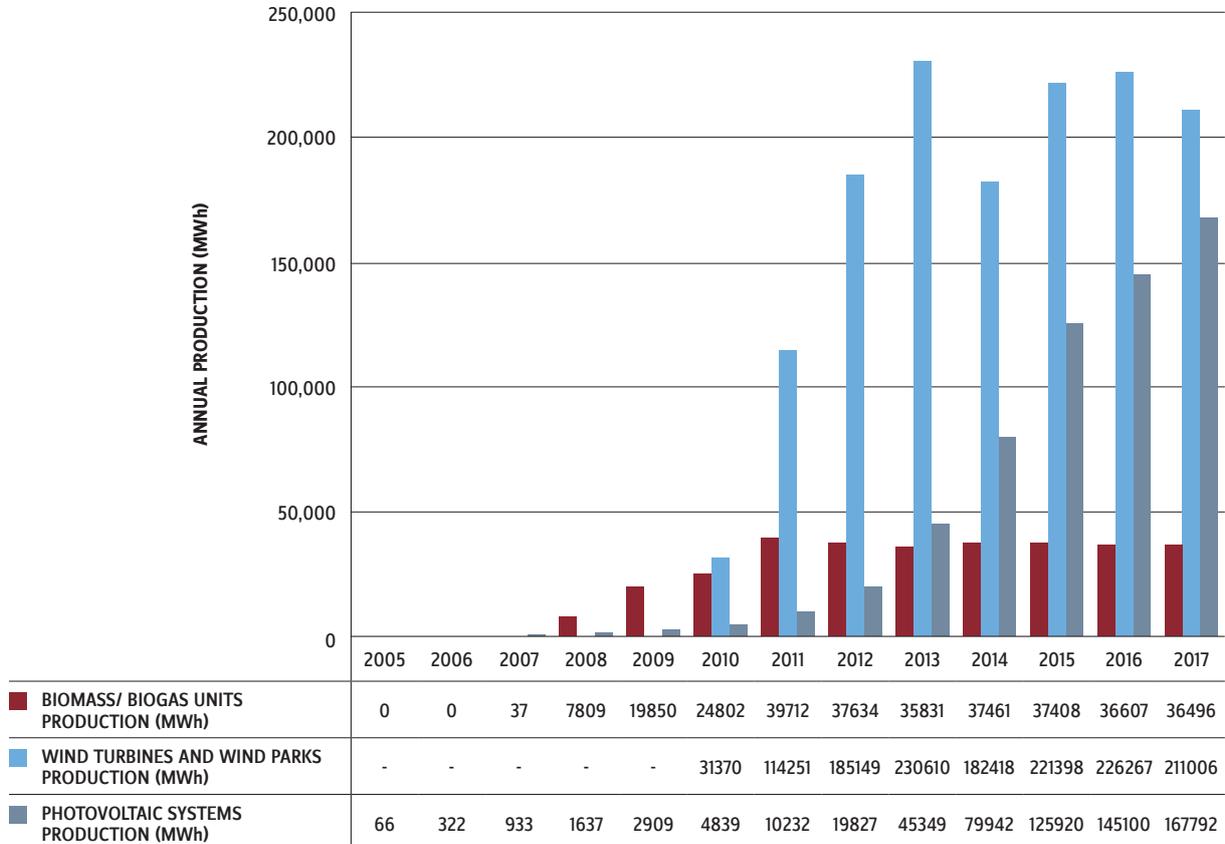


Figure 12 - Annual RES generation (MWh)

# Forecast of Annual Maximum Energy Generation (MW) and Total Annual Energy Generated (GWh) for the 2017-2026 Decade

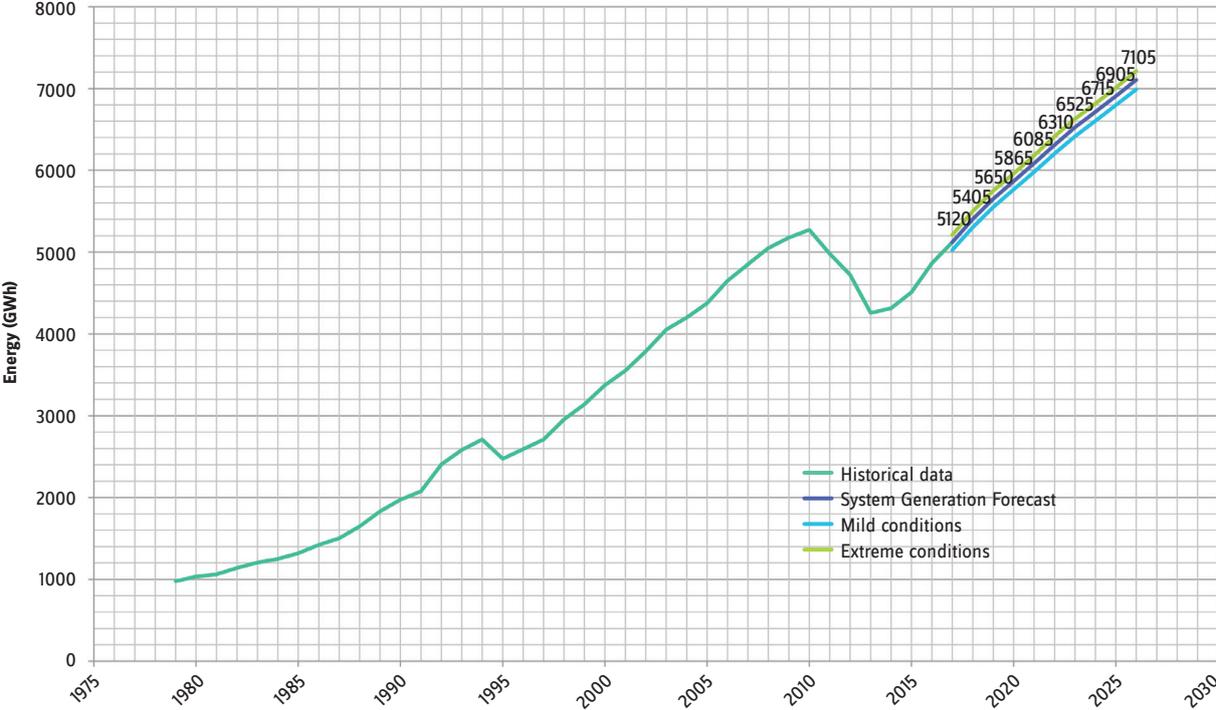


Figure 13 - Forecast of Annual System Generation (MW) 1975-2026

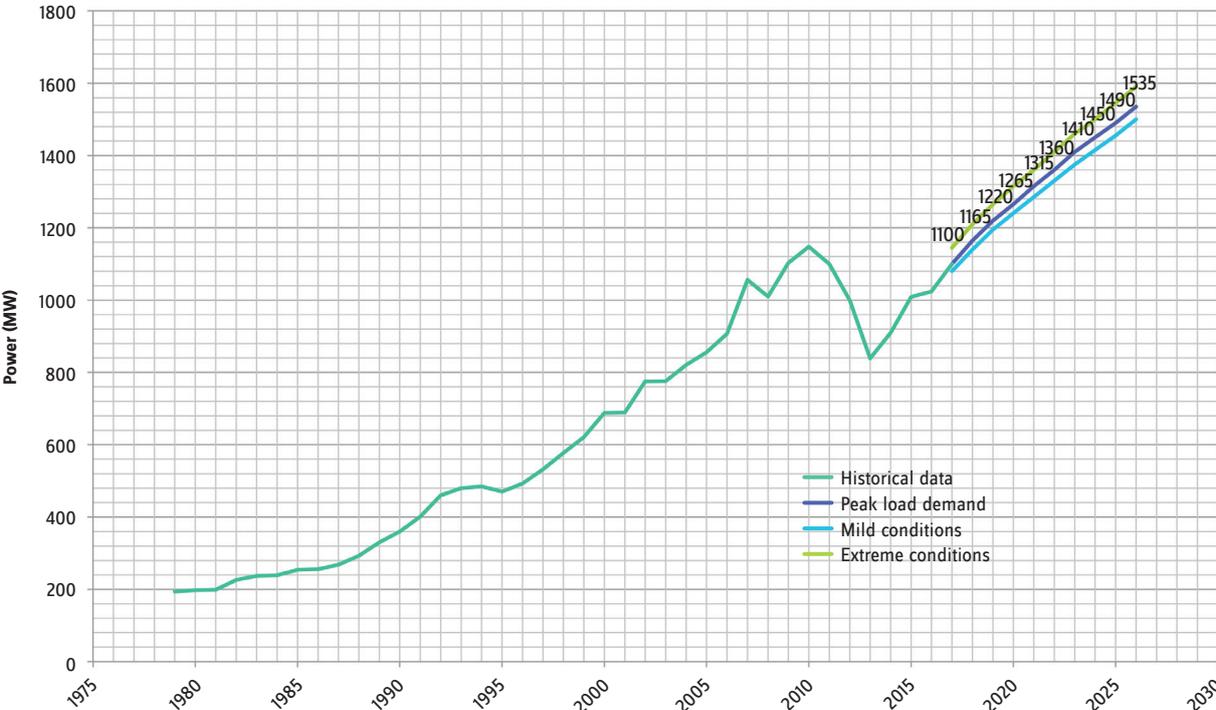


Figure 14 - Forecast of Annual Maximum Generation (MW) 1975-2026

## 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 15, during the year under review, security of supply is at a sufficiently high level.

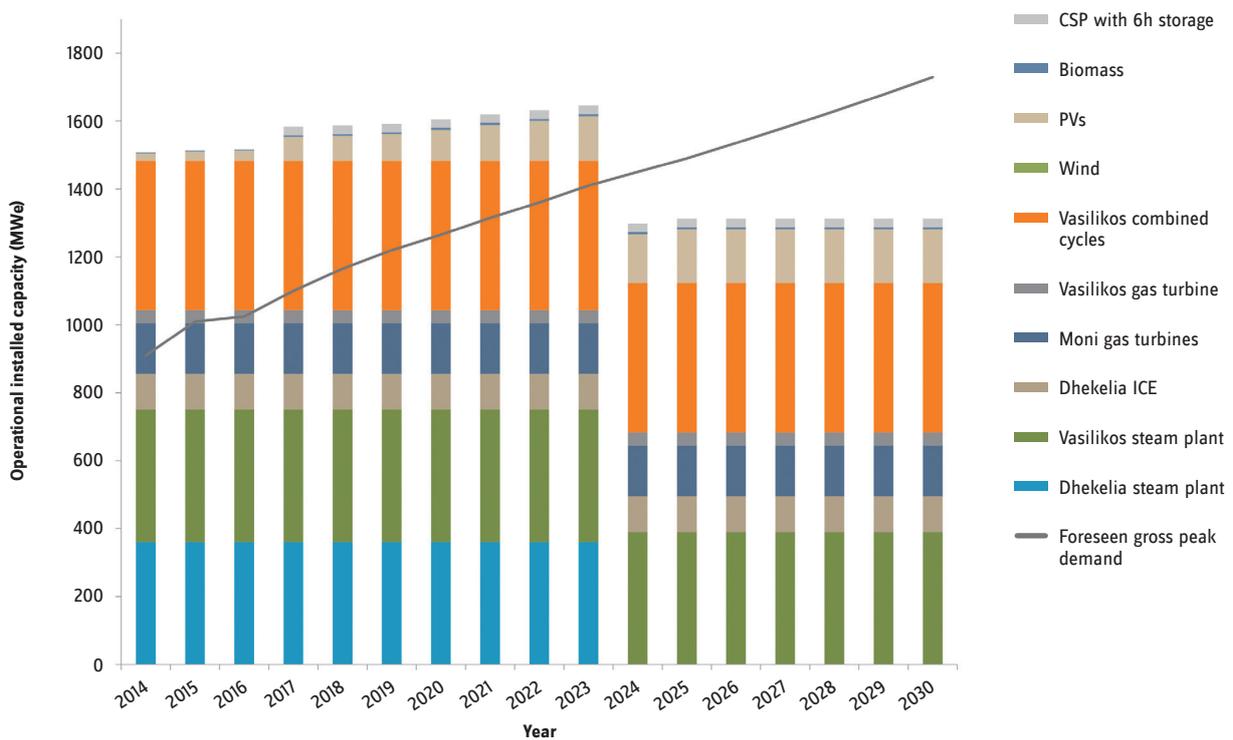


Figure 15 - Installed Operational Power (MWe) for the period 2014-2030

## Electricity Prices

Figure 16 shows the average electricity price per kWh sold, excluding the RES levy and the VAT, for the years 2011 to 2017 for the tariffs with the most sales in kWh (the comparison is made with the old tariff codes):

- 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 above)
- 76 - Bi-monthly Medium Voltage Maximum Demand Three-Rate Industrial Use Tariff
- 83 - Bi-monthly High Voltage Maximum Demand Three-Rate Industrial Use Tariff

This comparison is made for old tariff codes because no statistics are available for the new tariffs applied on 1 September 2017. For the year 2017, data for the above tariff codes are included from January to August.

Figure 16 shows that code 15 and 25 tariffs (low voltage commercial use and low voltage industrial use, respectively) are at higher levels than the other tariffs, while code 76 and 83 tariffs (medium voltage and high voltage industrial use, respectively) are at lower levels.

Over the years, changes in the amount of each tariff follow the same pattern, as they depend mainly on changes in fuel prices. From Graph 16, we notice that 2016 presents the lowest energy prices over the past five years due to lower fuel costs.

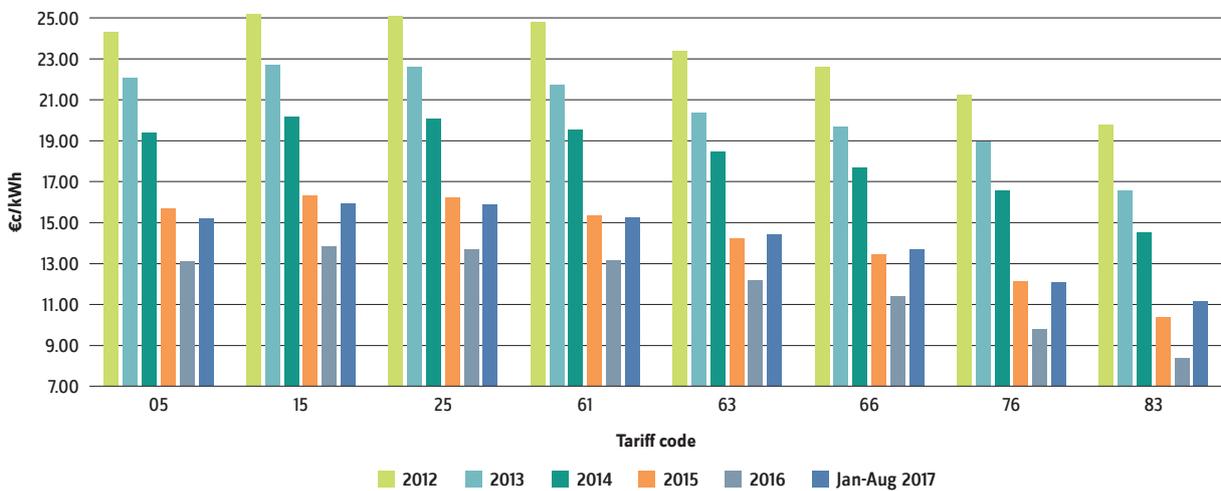


Figure 16 - Average Electricity Price per kWh sold (€/kWh)

# 5

## NATURAL GAS MARKET

### Introduction

The entry of Natural Gas (NG) in the energy balance of the Republic of Cyprus, within the framework of the energy policy objectives for the diversification of the country's energy sources and protection of the environment, is an important decision in the field of energy.

Given that the NG market in Cyprus is under development, the key objective is to create an organised market, on the model of advanced international markets, but also in line with the best practice of the European NG industry, with the proper functioning of all market participants, whether they are NG undertakings, or statutory bodies.

The Law Regulating the Natural Gas Market 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 organisational framework to be used for its development. Furthermore, the Law provides for the possibility of derogations, on the basis of the isolated or emerging market, without determining the specific derogations, but allowing the Council of Ministers to determine them.

A key element of the new framework for the operation of the NG markets as this is reflected in a very detailed manner in the European legislative framework (3rd Energy Package), is the separation of the activities of the production and the supply of gas, which must take place in conditions of fair competition, from those of transport and distribution, in respect of which it is envisaged that there should be regulated access of third parties, under the supervision of regulatory authorities.

Specifically, the Law provides that Cyprus may deviate from some specific articles, as it can be regarded either as an isolated or emerging market. In this case, it is possible, on the one hand, to deviate from applying competition in the supply of natural gas 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 supply, in the manner prescribed in the Directive, for example in the transportation installations, with ownership unbundling.

The activities for which, under the Law, the licence of CERA is required and which are under its regulatory supervision are the following:

- construction and/or operation (ownership) of the transmission system,
- construction and/or operation (ownership) of the distribution system,
- construction and/or operation (ownership) of an LNG facility,
- construction and/or operation (ownership) of a storage facility,
- management of the transmission system,
- management of distribution system,
- management of an LNG facility,

- management of a storage facility,
- supply of NG.

It is noted that at this stage there is no entity licensed by CERA active in the NG market.

## Legislative Framework for the Market for Natural Gas

The Law Regulating the Natural Gas Market of 2012, which is in force, 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 transportation, distribution, supply and storage of natural gas. In addition, it sets out the rules on the organisation and operation of the gas sector, market access, exploitation of the networks and the criteria and procedures for granting licences for the transport, distribution, supply and storage of natural gas. The Law also describes the tasks and responsibilities of CERA and fully defines the range of activities and its role.

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 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 provisions of the Directive, without specifying those derogations, but allowing the Council of Ministers to determine them.

A key element of the new framework for the functioning of the gas markets and of electricity, as this is reflected in a very detailed manner in the European legislative framework (3rd Energy Package), is the unbundling of the activities of the production and the marketing of gas, which now must take place in conditions of fair competition, from those of transport and distribution, in respect of which it is envisaged that there should be regulated access of third parties, under the supervision of the national regulatory authorities, the ACER and the European Commission.

The Law provides that Cyprus may deviate from some specific sections, 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, for example in the transportation installations, with ownership unbundling.

The choice of derogations does not necessarily involve all the possibilities provided for 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 a 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.

## Organisation and development of the Natural Gas Market

In June 2016, following the report submitted by CERA on the options for the development of the natural gas market in Cyprus, a decision was taken by the Council of Ministers on the arrival of LNG in Cyprus as soon as possible and before the 2020. LNG would initially be the exclusive supply option of

the internal market with gas and then, after supplying the market from Cypriot gas deposits, it would be an alternative option to ensure the security of energy supplies.

Further to the study carried out by the Public Gas Corporation Company (DEFA Ltd) on the development of the natural gas market in Cyprus in order to exploit the most suitable solution for the import of liquefied natural gas by 2020 at the latest, a Decision of the Council of Ministers assigned DEFA LTD in June 2017 to invite two tenders for long-term LNG supply and for a strategic investor for the required infrastructure.

The entry of NG into the energy balance, in the context of the energy policy objectives of diversifying the country's energy sources and protecting the environment, is an important decision in the field of energy.

As the gas market in Cyprus is under development, the key objective is to create an organised market, on the model of advanced world markets, as well as in the best practice of the European gas industry, with the proper functioning of all market players, whether they are natural gas undertakings, or whether they are statutory bodies.

CERA attaches a high priority in serving the objective of rapid and efficient gas penetration with competitive conditions in the Cypriot market.

CERA's obligations regarding the NG market and the regulatory scope of its jurisdiction are set out in the Law Regulating the Natural Gas Market. CERA in the period up to the arrival of NG has to shape the regulatory framework of the market, being aware that it will be the guarantor of proper operation and consumer protection for the period of validity of the derogations and of the smooth transition to a healthy and open market.

# 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 <https://www.ceer.eu>



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.

### Performance Indicators

According to Regulatory Administrative Act 571/2005, "Performance Indicators" are defined as the indicators for power supply which 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 owner of the distribution system fail to comply.

CERA, exercising its powers under the Law Regulating the Electricity Market and its amendments, has issued, with the approval of the Council of Ministers and after they were tabled and approved by the

House of Representatives, the Regulating the Electricity Market (Performance Indicators) Regulations of 2005 - Regulatory Administrative Act 571/2005.

Based on these Regulations, "Performance Indicators" are defined as the electricity supply indicator and include the supplier and/or the owner of the distribution system obligations, consumer rights, performance standards and minimum performance levels, as well as the fine imposed in the event of a failure of the supplier and/or the owner of the distribution system to comply.

In the context of the implementation and observance of the above provisions, the amounts paid as a fine to electricity consumers by the EAC as the distribution system owner and as licensed supplier recorded for the period 1 January 2017 until 31 December 2017 are given below. Similar results from previous years are also presented for comparison purposes.

**PERFORMANCE INDICATORS FOR THE OWNER OF THE DISTRIBUTION SYSTEM (EAC)**  
COMPARATIVE TABLE FOR THE YEARS 2007-2017

Fine paid by EAC (€) to electricity consumers

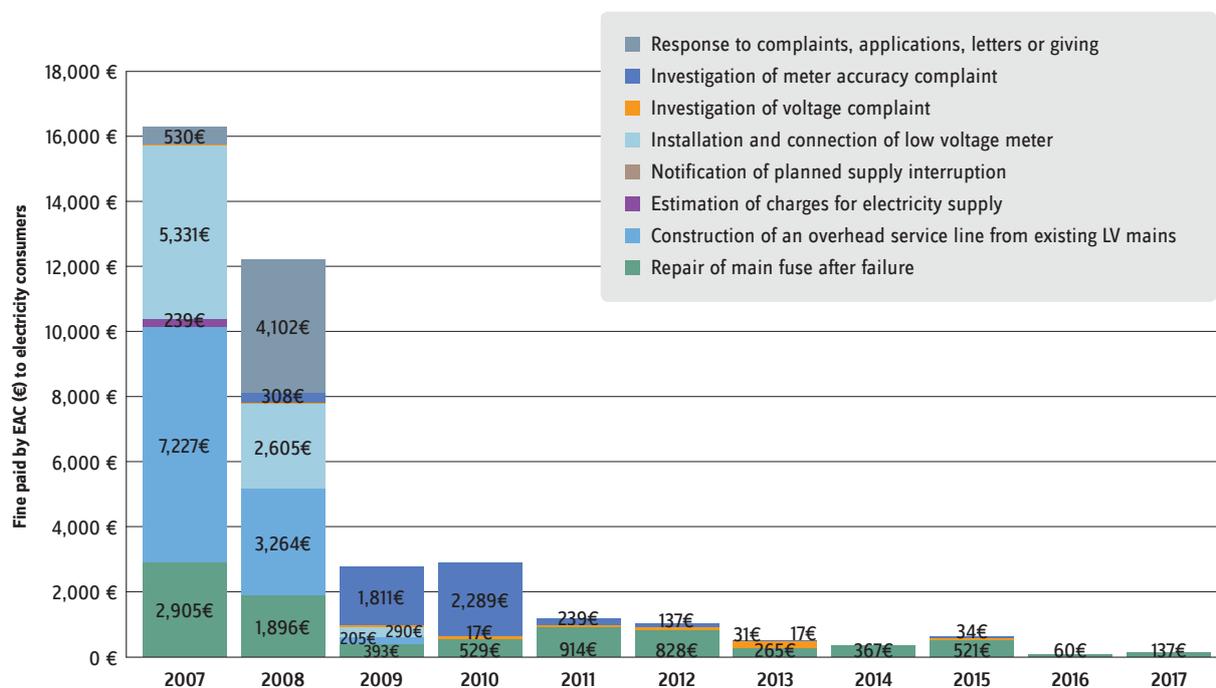


Figure 17 - Performance Indicators for the owner of the distribution system

PERFORMANCE INDICATOR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1 Repair of main fuse after failure	2.905€	1.896€	393€	529€	914€	828€	265€	367€	521€	60€	137€
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 5 - Performance Indicators for the owner of the distribution system

## PERFORMANCE INDICATORS FOR THE SUPPLIER (EAC)

COMPARATIVE TABLE FOR THE YEARS 2007-2017

### Fine paid by EAC (€) to electricity consumers

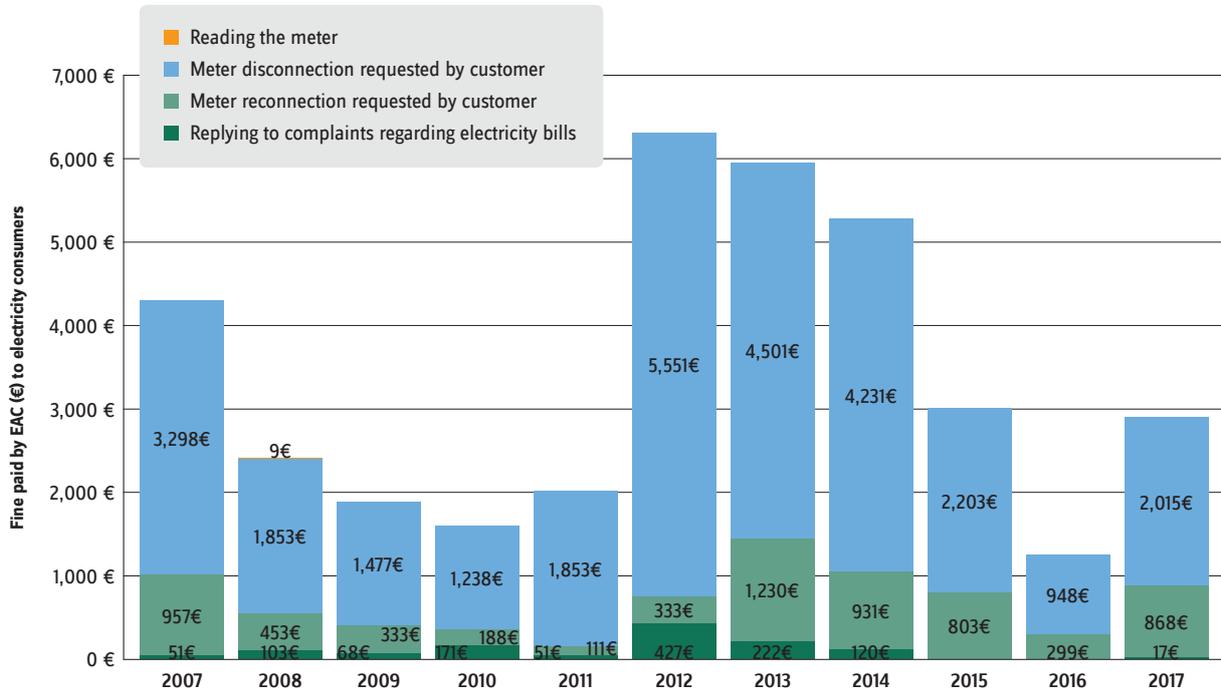


Figure 18 - Performance Indicators of Supplier EAC

PERFORMANCE INDICATOR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1 Replying to complaints regarding electricity bills	51€	103€	68€	171€	51€	427€	222€	120€			17€
2 Arrangement of appointments											
3 Meter reconnection requested by customer	957€	453€	333€	188€	111€	333€	1.230€	931€	803€	299€	868€
4 Meter disconnection requested by customer	3.298€	1.853€	1.477€	1.238€	1.853€	5.551€	4.501€	4.231€	2.203€	948€	2.015€
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 6 - Performance Indicators of Supplier EAC

From the above tables it is evident that during the year under review EAC performance, both as owner of the distribution system and as a supplier, improved compared to previous years and consequently is deemed satisfactory. However, CERA will continue to carry out, in the exercise of the powers granted to it by the legislation, all appropriate actions so that the performance of the EAC can be further improved.

# Complaints submitted to CERA

In graph 19 below the type and number of complaints submitted to CERA in 2017 are presented. It should be noted that all complaints and/or requests have been examined and consumers have been informed accordingly.

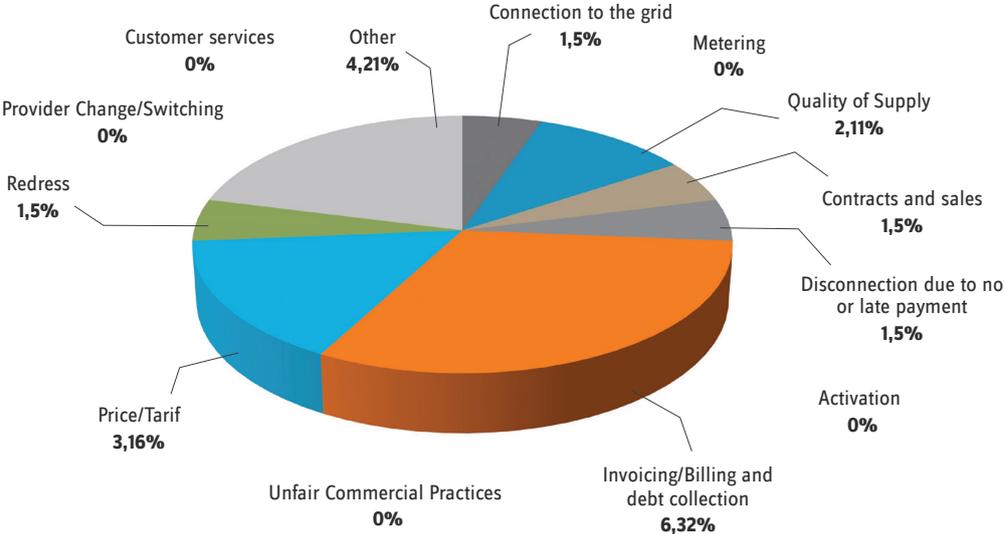


Figure 19 - Consumer complaints filed with CERA in 2017





# REPORT AND FINANCIAL STATEMENTS

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# MEMBERS OF THE AUTHORITY

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**Members:** Andreas Poulikkas - Chairman (appointed on 5 October 2015)  
Philippos Philippou - Vice Chairman (appointed on 5 October 2015)  
Neophytos Hadjigeorgiou - Member (appointed on 26 April 2016)

**Independent Auditors:** Cyfexpo Ltd  
Certified Accountants and Registered Auditors  
110, Eleftheriou Venizelou and Santorinis  
MAISPA Center, 1st floor  
8062 Paphos  
Cyprus

**Financial Advisers:** Alliot Partellas Kiliaris Ltd  
Chartered Accountants and Chartered Auditors  
Strovolou 77  
Strovolos Center, Office 201  
2018 Strovolos  
Nicosia, Cyprus

**Legal Advisers:** Orphanides, Christofides & Co LLC  
Themistoclis Dervis 41, Hawaii Tower  
Offices 301-303, 3rd floor  
1066 Nicosia, Cyprus

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

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# REPORT OF THE MEMBERS OF THE AUTHORITY

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The Members of the Cyprus Energy Regulatory Authority (CERA) presents their report and audited financial statements of CERA for the year ended 31 December 2017.

## **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.

## **Principal risks and uncertainties**

The principal risks and uncertainties faced by the Company are disclosed in notes 3 and 4 of the financial statements.

## **Results**

CERA's results for the year are set out on page 71.

## **Members of the Authority**

The Members of the Authority as at 31 December 2017 and at the date of this report are presented on page 66.

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 Auditor of the Authority is the Auditor General of the Republic who has assigned the independent auditors, Cyfexpo Ltd, the audit of the financial statements of the Authority and, will continue to provide their services for the next year.



**Andreas Poulikkas**

Chairman

Nicosia, 11 May 2018

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# INDEPENDENT AUDITOR'S REPORT

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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 71 to 94 and comprise the statement of financial position as at 31 December 2017, 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 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

### 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.

**Other Matter**

This report, including the opinion, has been prepared for and only for the members of the Authority as a body in accordance with Article 69 of the Auditors Law of 2017 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.



Nicos Kouvaros BSC, ACA  
Certified Accountant and Registered Auditor  
for and on behalf of

**CYFEXPO Limited**  
**Certified Accountants and Registered Auditors**

Paphos, 11 May 2018

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

31 December 2017

	Note	2017 €	2016 €
<b>Income</b>	5	<b>2,008,954</b>	1,964,088
Other operating income	6	<b>34,745</b>	33,210
Selling and distribution expenses		<b>(628)</b>	-
Administration expenses		<b>(1,726,534)</b>	(1,430,615)
Other expenses	7	<b>(35,951)</b>	(17,341)
<b>Operating surplus</b>	8	<b>280,586</b>	549,342
Finance income	11	<b>81,103</b>	35,949
Finance costs	11	<b>(1,703)</b>	(904)
<b>Surplus before tax</b>		<b>359,986</b>	584,387
Tax	12	<b>(24,331)</b>	(10,730)
<b>Net surplus for the year</b>		<b>335,655</b>	573,657
<b>Other comprehensive income</b>			
Actuarial gain or losses on defined benefit plans		<b>61,191</b>	(170,018)
<b>Other comprehensive income for the year</b>		<b>61,191</b>	(170,018)
<b>Total comprehensive income for the year</b>		<b>396,846</b>	403,639

The notes on pages 75 to 94 form an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

31 December 2017

	Note	2017 €	2016 €
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	87,316	59,320
Intangible assets	15	267	533
Available-for-sale financial assets	16	260,128	296,079
		<b>347,711</b>	<b>355,932</b>
<b>Current assets</b>			
Trade and other receivables	17	68,376	55,078
Refundable taxes	23	-	19,050
Cash at bank and in hand	18	8,635,804	6,083,601
		<b>8,704,180</b>	<b>6,157,729</b>
<b>Total assets</b>		<b>9,051,891</b>	<b>6,513,661</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Reserves</b>			
Retained surplus		5,512,527	5,121,949
<b>Total reserves</b>		<b>5,512,527</b>	<b>5,121,949</b>
<b>Non-current liabilities</b>			
Deferred income	22	-	2,939
Provisions for other liabilities and charges	20	1,398,937	1,321,126
		<b>1,398,937</b>	<b>1,324,065</b>
<b>Current liabilities</b>			
Trade and other payables	21	72,642	62,335
Deferred income	22	2,050,051	1,402
Borrowings	19	7,499	3,910
Current tax liabilities	23	10,235	-
		<b>2,140,427</b>	<b>67,647</b>
<b>Total liabilities</b>		<b>3,539,364</b>	<b>1,391,712</b>
<b>Total equity and liabilities</b>		<b>9,051,891</b>	<b>6,513,661</b>

On 11 May 2018, the Members of the Cyprus Energy Regulatory Authority (CERA) authorised these financial statements for issue.

  
Andreas Poullikkas-Chairman

  
Philippos Philippou-Vice Chairman

  
Neophytos Hadjigeorgiou-Member

The notes on pages 75 to 94 form an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

31 December 2017

	Note	Retained surplus €
<b>Balance at 1 January 2016</b>		<b>4,726,212</b>
<b>Comprehensive income</b>		
Net surplus for the year		573,657
Defence contribution on deemed dividend distribution	13	(7,902)
<b>Other movements</b>		
Actuarial loss for the year		<u>(170,018)</u>
<b>Balance at 31 December 2016/ 1 January 2017</b>		<b>5,121,949</b>
<b>Comprehensive income</b>		
Net surplus for the year		335,655
Defence contribution on deemed dividend distribution	13	(6,268)
<b>Other movements</b>		
Actuarial profit for the year		<u>61,191</u>
<b>Balance at 31 December 2017</b>		<b><u>5,512,527</u></b>

Companies 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 17% will be payable on such deemed dividends to the extent that the ultimate shareholders are both Cyprus tax resident and Cyprus domiciled. 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 Company 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 has been calculated on interest receivable.

The notes on pages 75 to 94 form an integral part of these financial statements.

# STATEMENT OF CASH FLOWS

31 December 2017

	Note	2017 €	2016 €
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Surplus before tax</b>		<b>359,986</b>	584,387
Adjustments for:			
Depreciation of property, plant and equipment	14	<b>27,372</b>	20,139
Amortisation of computer software	15	<b>266</b>	266
Loss from the sale of property, plant and equipment		-	422
Actuarial (Loss)/Gain		<b>61,191</b>	(210,149)
Impairment charge - available-for-sale financial assets	16	<b>35,951</b>	16,919
Amortization of receivables from European programs	11	<b>(81,103)</b>	(35,949)
Interest income		-	(4,341)
Other operating expenses		-	10,172
		<b>403,663</b>	381,866
<b>Changes in working capital:</b>			
(Increase)/decrease in trade and other receivables		<b>(13,298)</b>	27,706
Increase in trade and other payables		<b>10,307</b>	16,677
Increase/(decrease) in deferred income		<b>2,045,710</b>	(4,341)
Increase in provisions	20	<b>77,811</b>	170,018
<b>Cash generated from operations</b>		<b>2,524,193</b>	591,926
Tax refunded/(paid)		<b>4,954</b>	(10,730)
<b>Net cash generated from operating activities</b>		<b>2,529,147</b>	581,196
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment for purchase of intangible assets	15	-	(799)
Payment for purchase of property, plant and equipment	14	<b>(55,368)</b>	(16,115)
Proceeds from disposal of property, plant and equipment		-	364
Interest received		<b>81,103</b>	37,092
<b>Net cash generated from investing activities</b>		<b>25,735</b>	20,542
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Defence contribution on deemed distribution paid		<b>(6,268)</b>	(7,902)
<b>Net cash used in financing activities</b>		<b>(6,268)</b>	(7,902)
<b>Net increase in cash and cash equivalents</b>		<b>2,548,614</b>	593,836
Cash and cash equivalents at beginning of the year		<b>6,079,691</b>	5,485,855
<b>Cash and cash equivalents at end of the year</b>	18	<b>8,628,305</b>	6,079,691

The notes on pages 75 to 94 form an integral part of these financial statements.

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# NOTES TO THE FINANCIAL STATEMENTS

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31 December 2017

## 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. CERA is headed, supervised and controlled by the CERA Office. Its registered office is at 81-83 Griva Digeni Avenue, Jakovides building, 3rd Floor, 1080 Nicosia, P.O.Box 24936, 1305 Nicosia. The financial statements concern CERA and the Cera Office.

### 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

In the current year, the Authority adopted all the following IFRSs and International Accounting Standards (IAS), which are relevant to its operations and are applicable for accounting periods beginning on 1 January 2017. 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 expect 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:

#### **i. Adopted by the European Union**

##### **New standards**

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018).

#### **ii. Not adopted by the European Union**

##### **New standards**

- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019).
- IFRS 16 "Insurance contracts" (effective for annual periods beginning on or after 1 January 2021).

##### **Amendments**

- Amendments to IFRS2: Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4: Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018).
- Clarifications to IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016) (effective for annual periods beginning on or after 1 January 2018)
- Amendments to IAS 40: "Transfers of Investment Property" (effective for annual periods beginning on or after 1 January 2018).

##### **New IFRICs**

- IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2018).

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 CERA.

### **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 profit or loss. 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 profit or loss.

### **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.

Amortisation is calculated on the straight-line method so as to write off the cost of each intangible asset to its residual value over its estimated useful life. The annual amortisation rate used is 33.33%.

### **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.

## Prepayments from clients

Payments received in advance on sale contracts for which no revenue has been recognised yet, are recorded as prepayments from clients as at the reporting date and carried under liabilities.

## 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.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in profit or loss as gains and losses on available for sale financial assets.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Authority's right to receive payments is established.

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.

## Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

# 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 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.

### 3.2 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:

	2017	2016
	€	€
<b>Fixed rate instruments</b>		
Financial assets	<b>8,636,732</b>	6,083,540
	<b>8,636,732</b>	6,083,540

## Sensitivity analysis

An increase of 100 basis points in interest rates at 31 December 2017 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.

	<b>Results</b>	
	<b>2017</b>	2016
	<b>€</b>	€
Variable rate instruments	<b>86,367</b>	60,835

## 3.3 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 2017 were as follows:

	<b>2017</b>	2016
	<b>€</b>	€
Trade and other receivables	<b>52,147</b>	47,570
Cash at bank	<b>2,323,422</b>	2,806,929
Bank notice accounts	<b>6,311,280</b>	3,276,612
	<b>8,686,849</b>	6,131,111

### 3.3.1 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:

	<b>2017</b>	2016
	<b>€</b>	€
<b>Cash at bank and short term bank deposits <sup>(1)</sup></b>		
Caa1	<b>6,629,964</b>	-
Caa2	<b>1,006,768</b>	6,083,541
Caa3	<b>1,000,000</b>	-
	<b>8,636,732</b>	6,083,541

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 Authority's bank deposit by the credit rating of the bank in which they are held:

<b>Bank group based on credit ratings by Moody's</b>	<b>No of banks</b>	<b>2017</b> <b>€</b>	<b>2016</b> <b>€</b>
Caa1	2	<b>4,306,542</b>	-
Caa2	2	<b>1,006,768</b>	3,276,612
Caa3	1	<b>1,000,000</b>	-
		<b><u>6,313,310</u></b>	<b><u>3,276,612</u></b>

### 3.4 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.

<b>31 December 2017</b>	Carrying amounts €	Within 3 months €
Bank overdrafts	7,499	7,499
Trade and other payables	46,256	46,256
	<b><u>53,755</u></b>	<b><u>53,755</u></b>

<b>31 December 2016</b>	Carrying amounts €	Within 3 months €
Bank overdrafts	3,910	3,910
Trade and other payables	46,113	46,113
	<b><u>50,023</u></b>	<b><u>50,023</u></b>

### 3.5 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 their carrying amounts as presented on the Statement of Financial Position.

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, judgements and assumptions

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.

### Judgements

he 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. Income

	<b>2017</b>	2016
	<b>€</b>	€
Annual fees	<b>1,959,312</b>	1,931,043
Fees from the rendering of services	<b>49,642</b>	33,045
	<b><u>2,008,954</u></b>	<u>1,964,088</u>

## 6. Other operating income

	<b>2017</b>	2016
	<b>€</b>	€
Impairment for the year of receivables from European Programs	<b>4,341</b>	4,341
Sundry operating income	<b>30,404</b>	28,869
	<b><u>34,745</u></b>	<u>33,210</u>

## 7. Other expenses

	<b>2017</b>	2016
	<b>€</b>	€
Loss on disposal of property, plant and equipment	-	422
Impairment charge on available-for-sale financial assets (Note 16)	<b>35,951</b>	16,919
	<b><u>35,951</u></b>	<u>17,341</u>

## 8. Operating surplus

	2017	2016
	€	€
Operating surplus is stated after charging the following items:		
Amortisation of computer software (included in "Administration expenses") (Note 15)	266	266
Depreciation of property, plant and equipment (Note 14)	27,372	19,871
Staff costs including Members in their executive capacity (Note 9)	975,365	843,315
Auditors' remuneration	3,497	4,000
Trade receivables - impairment charge for bad and doubtful debts	628	-

## 9. Staff costs

	2017	2016
	€	€
Salaries	753,559	675,457
Social security costs	89,182	85,001
Pensions cost	-	2,691
Expenses related to defined benefits plan (Note 10)	132,624	80,166
	<b>975,365</b>	<b>843,315</b>

## 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, annually.

The most recent actuarial valuation was made as at 31 December 2017 and it was based on the following assumptions:

	2017	2016
	€	€
Discount rate	2.09%	1.80%
Inflation	1.50%	1.50%
General salary increase	0.50%	0.50%
Total salary increase	2016: 0%	2016: 0%
	<b>2017+: 1.25%</b>	2017+: 1.25%
	<b>for inflation and the</b>	for inflation and the
	<b>general increase of</b>	general increase of
	<b>salaries plus</b>	salaries plus
	<b>increment promotions</b>	increment promotions
Percentage increase in pensions	1%	1%

Increase of pension insurable earnings	1.5%	1.5%
Increase of basic insurable earnings	2.5%	2.5%
Mortality table	60% of PA90	60% of PA90

During the year an amount of €132,624 (2016: €80,166) was charged to profit or loss based on the above actuarial valuation. Amounts charged to profit or loss are analysed as follows:

	2017	2016
	€	€
Current service costs	107,816	52,169
Interest on obligation	24,808	27,997
	<u>132,624</u>	<u>80,166</u>

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

	2017	2016
	€	€
Balance at 1 January	1,321,126	1,190,649
Provision for the year	132,624	80,166
Actuarial Loss/(Gain) on obligation	(61,191)	170,018
Payments to resigned members	(9,247)	(153,604)
Contributions by Members	15,625	33,897
<b>Balance at 31 December</b>	<u>1,398,937</u>	<u>1,321,126</u>

At 31 December 2017 the actuarial position in respect of the defined benefit plan was as follows:

	2017	2016
	€	€
Present value of accrued plan obligations	1,398,937	1,321,126
<b>Provision for plan liabilities recognised in the statement of financial position</b>	<u>1,398,937</u>	<u>1,321,126</u>

## 11. Finance income/cost

	2017	2016
	€	€
Interest income	<u>81,103</u>	<u>35,949</u>
<b>Finance income</b>	<u>81,103</u>	<u>35,949</u>
Sundry finance expenses	<u>(1,703)</u>	<u>(904)</u>
<b>Finance costs</b>	<u>(1,703)</u>	<u>(904)</u>
<b>Net finance income</b>	<u><u>79,400</u></u>	<u><u>35,045</u></u>

## 12. Tax

	2017	2016
	€	€
Defence contribution - current year	<u>24,331</u>	<u>10,730</u>
<b>Charge for the year</b>	<u><u>24,331</u></u>	<u><u>10,730</u></u>

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

	2017	2016
	€	€
Defence contribution on deemed distribution	<u>6,268</u>	<u>7,902</u>
	<u><u>6,268</u></u>	<u><u>7,902</u></u>

## 14. Property, plant and equipment

	Computer Hardware	Plant and machinery	Motor vehicles	Furniture, fixtures and office equipment	Books	Total
	€	€	€	€	€	€
<b>Cost</b>						
Balance at 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)
<b>Balance at 31 December 2016/ 1 January 2017</b>	<b>81,600</b>	<b>76,654</b>	<b>22,844</b>	<b>77,518</b>	<b>5,401</b>	<b>264,017</b>
Additions	15,267	6,689	24,968	8,444	-	55,368
<b>Balance at 31 December 2017</b>	<b>96,867</b>	<b>83,343</b>	<b>47,812</b>	<b>85,962</b>	<b>5,401</b>	<b>319,385</b>
<b>Depreciation</b>						
Balance at 1 January 2016	42,517	53,622	22,844	61,932	4,106	185,021
Charge for the year	11,612	4,687	-	3,178	396	19,873
On disposals	-	(197)	-	-	-	(197)
<b>Balance at 31 December 2016/ 1 January 2017</b>	<b>54,129</b>	<b>58,112</b>	<b>22,844</b>	<b>65,110</b>	<b>4,502</b>	<b>204,697</b>
Charge for the year	14,214	4,380	4,994	3,477	307	27,372
<b>Balance at 31 December 2017</b>	<b>68,343</b>	<b>62,492</b>	<b>27,838</b>	<b>68,587</b>	<b>4,809</b>	<b>232,069</b>
<b>Net book amount</b>						
<b>Balance at 31 December 2017</b>	<b>28,524</b>	<b>20,851</b>	<b>19,974</b>	<b>17,375</b>	<b>592</b>	<b>87,316</b>
<b>Balance at 31 December 2016</b>	<b>27,471</b>	<b>18,542</b>	<b>-</b>	<b>12,408</b>	<b>899</b>	<b>59,320</b>

## 15. Intangible assets

	<b>Computer software</b>
	<b>€</b>
<b>Cost</b>	
Balance at 1 January 2016	13,534
Additions	799
<b>Balance at 31 December 2016/ 1 January 2017</b>	<b>14,333</b>
<b>Balance at 31 December 2017</b>	<b>14,333</b>
<b>Amortisation</b>	
Balance at 1 January 2016	13,534
Amortisation for the year (Note 8)	266
<b>Balance at 31 December 2016/ 1 January 2017</b>	<b>13,800</b>
Amortisation for the year (Note 8)	266
<b>Balance at 31 December 2017</b>	<b>14,066</b>
<b>Net book amount</b>	
<b>Balance at 31 December 2017</b>	<b>267</b>
<b>Balance at 31 December 2016</b>	<b>533</b>

## 16. Available-for-sale financial assets

	<b>2017</b>	2016
	<b>€</b>	€
Balance at 1 January	<b>296,079</b>	312,998
Impairment charge	<b>(35,951)</b>	(16,919)
<b>Balance at 31 December</b>	<b>260,128</b>	296,079

Available-for-sale financial assets comprising 105.743 Shares Class A of nominal value €19.9999 each in Bank of Cyprus Public Company Ltd.

The above mentioned shares are listed in Cyprus Stock Exchange and on 31 December 2017 their fair value was €2.46 each share.

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

	<b>2017</b>	2016
	<b>€</b>	€
Impairment charge	<b>(35,951)</b>	(16,919)
Net loss on available-for-sale financial assets	<b>(35,951)</b>	(16,919)

## 17. Trade and other receivables

	2017	2016
	€	€
Trade receivables	16,989	15,552
Deposits and prepayments	16,229	19,391
Accrued income	34,115	19,092
Grant receivable from European programmes	1,043	1,043
	<u>68,376</u>	<u>55,078</u>

The Authority has recognized a loss of €628 (2016: € - ) for the impairment of its trade receivables during the year ended 31 December 2017. The loss has been included in selling and distribution costs in profit or loss.

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

Cash and cash equivalents by type:

	2017	2016
	€	€
Cash in hand	1,102	60
Cash at bank	2,323,422	2,806,929
Bank deposits	6,311,280	3,276,612
	<u>8,635,804</u>	<u>6,083,601</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. Borrowings

	2017	2016
	€	€
<b>Current borrowings</b>		
Bank overdrafts (Note 18)	<u>7,499</u>	<u>3,910</u>

## 20. Provisions for other liabilities and charges

	<b>Pension and other post retirement obligations</b>
	<b>€</b>
Balance at 1 January 2016	1,190,649
Charged/(credited) to the results	80,166
Payments of benefits	(153,604)
Members contributions	33,897
Actuarial loss	170,018
<b>Balance at 31 December 2016/ 1 January 2017</b>	<b>1,321,126</b>
Charged/(credited) to the results	132,624
Payments of benefits	(9,246)
Members contributions	15,624
Actuarial gain	(61,191)
<b>Balance at 31 December 2017</b>	<b>1,398,937</b>

## 21. Trade and other payables

	<b>2017</b>	2016
	<b>€</b>	€
Trade payables	<b>4,366</b>	18,681
Prepayments from clients	<b>138</b>	130
VAT	<b>20,116</b>	8,316
Accruals	<b>16,725</b>	15,302
Other creditors	<b>25,029</b>	12,004
Defence tax on deemed distribution	<b>6,268</b>	7,902
	<b>72,642</b>	62,335

## 22. Deferred income

	<b>2017</b>	2016
	<b>€</b>	€
Prepayment from clients	<b>2,050,051</b>	-
Grants from European Programs	-	4,341
	<b>2,050,051</b>	4,341
Deferred income after more than one year	-	(2,939)
<b>Deferred income within one year</b>	<b>2,050,051</b>	1,402

## 23. Current tax liabilities/(current tax assets)

	2017	2016
	€	€
Corporation tax	-	(24,778)
Special contribution for defence	<b>10,235</b>	5,728
	<b>10,235</b>	(19,050)

## 24. Contingent liabilities

CERA had no contingent liabilities as at 31 December 2017.

## 25. Commitments

### Operating lease commitments

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

	2017	2016
	€	€
Within one year	<b>201,533</b>	153,390
Between one and five years	<b>2,993</b>	174,763
	<b>204,526</b>	328,153

## 26. 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 68 and 70**

# DETAILED INCOME STATEMENT

31 December 2017

	Page	2017 €	2016 €
<b>Income</b>			
Annual fees		<b>1,959,312</b>	1,931,043
Fees from rendering of services		<b>49,642</b>	33,045
<b>Other operating income</b>			
Sundry operating income		<b>30,404</b>	28,869
Deletion for the year of receivables from European Programs		<b>4,341</b>	4,341
		<b>2,043,699</b>	1,997,298
<b>Operating expenses</b>			
Administration expenses	96	<b>(1,726,534)</b>	(1,430,615)
Selling and distribution expenses	96	<b>(628)</b>	-
		<b>316,537</b>	566,683
<b>Other operating expenses</b>			
Loss on disposal of property, plant and equipment		-	(422)
Impairment charge on available-for-sale financial assets		<b>(35,951)</b>	(16,919)
<b>Operating surplus</b>			
Finance income	97	<b>81,103</b>	35,949
Finance costs	97	<b>(1,703)</b>	(904)
<b>Net profit for the year before tax</b>		<b>359,986</b>	584,387

# OPERATING EXPENSES

31 December 2017

	2017	2016
	€	€
<b>Administration expenses</b>		
Members' remuneration	258,410	240,479
Staff salaries	495,149	434,978
Social security costs	89,182	85,001
Pensions fund	-	2,691
Expenses related to defined benefits plan	132,624	80,166
Rent	76,800	76,800
Common expenses	2,249	1,973
Nightguard expenses	50	70
Electricity	15,536	13,437
Water supply and cleaning	5,125	5,193
Insurance	1,657	1,510
Repairs and maintenance	1,789	4,252
Sundry expenses	294	1,727
Telephone and postage	3,075	3,295
General expenses for European programs	19,830	1,426
Stationery and printing	6,764	8,470
Subscriptions and contributions	18,183	16,825
Newspapers and publications	-	44
Equipment maintenance	4,866	2,935
Employee training costs	26,397	10,953
Other operating expenses	-	10,172
Computer software	6,549	3,755
Auditors' remuneration	3,497	4,000
Legal fees	24,038	29,521
Other professional fees	5,200	-
Fines	-	15
Overseas travelling	55,731	57,064
Inland travelling and accommodation	448	475
Irrecoverable VAT	80,810	54,486
Entertaining	7,545	5,851
Motor vehicle running costs	3,045	2,907
Carriage costs	2,210	1,083
Advisory service fees	283,424	188,214
Announcements-Publications	10,421	9,151
Sundry allowances and representation	20,910	19,284
Staff medical expenses	31,442	32,275
Events costs	5,646	-
Amortisation of computer software	266	266
Depreciation	27,372	19,871
	<u>1,726,534</u>	<u>1,430,615</u>
<b>Selling and distribution expenses</b>		
Bad debts written off	628	-
	<u>628</u>	<u>-</u>

## FINANCE INCOME/COST

31 December 2017

	2017	2016
	€	€
<b>Finance income</b>	<b>81,103</b>	35,768
Bank interest	-	181
Interest on trade balances	<u>81,103</u>	<u>35,949</u>
<b>Finance costs</b>		
<b>Sundry finance expenses</b>		
Bank charges	<u>1,703</u>	904
	<u>1,703</u>	<u>904</u>

## COMPUTATION OF DEFENCE CONTRIBUTION

31 December 2017

	Income €	Rate	Defence € c
<b>INTEREST</b>			
Interest that was subject to deduction at source	<u>81,103</u>		
	<u>81,103</u>	30%	24,330.90
Less: deductions at source			<u>(24,330.90)</u>
<b>DEFENCE CONTRIBUTION DUE TO IRD</b>			<u>-</u>

# COMPUTATION OF CORPORATION TAX

31 December 2017

	Page	€	€
Surplus per income statement	95		359,986
<b>Add:</b>			
Depreciation		27,638	
Impairment charge on available-for-sale financial assets		<u>35,951</u>	
			<u>63,589</u>
			423,575
<b>Less:</b>			
Interest income		81,103	
Other non-taxable income		<u>342,472</u>	
			<u>(423,575)</u>
<b>Chargeable income for the year</b>			<u><u>-</u></u>



