

2018

ANNUAL REPORT

OF CYPRUS ENERGY
REGULATORY AUTHORITY





ANNUAL REPORT OF CYPRUS ENERGY REGULATORY AUTHORITY

FOR THE YEAR **2017**

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

30 Ιουνίου 2019

Εξοχότατε,

Έχουμε την τιμή να σας υποβάλουμε την 15η 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 2018, 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 2003-2018 και το άρθρο 7(1)(iv) των Περί Ρύθμισης της Αγοράς Φυσικού Αερίου Νόμων του 2004 μέχρι το 2018.

Με τιμή,



Δρ. Ανδρέας Πουλλικκός
Πρόεδρος



Φίλιππος (Άλκης) Φιλίππου
Αντιπρόεδρος



Νεόφυτος Χατζηγεωργίου
Μέλος

CONTENTS

INTRODUCTORY NOTE BY THE CHAIRMAN, VICE-CHAIRMAN AND MEMBER OF CERA	8	4. ELECTRICITY MARKET	38
1. INTRODUCTION	11	Introduction	38
Electricity - Competences and Powers of CERA	12	Granting of Licences and Exemptions from a Licence	38
Natural Gas - Competences and Powers of CERA	13	Licences for electricity supply	39
2. NATIONAL LEGISLATION AND CERA DECISIONS	20	Licences for the construction and operation of power plants	39
National Legislation	20	Exemptions from a Construction and Operation Licence of a Power Production Unit	42
Laws and Regulations	20	Data of Electricity Power Generation in 2018	45
Regulatory Decisions, Draft Regulatory Decisions and Important Decisions by CERA in 2018	21	Forecast of Annual Maximum Energy Generation (MW) and Total Annual Energy Generated (GWh) for the Decade 2018-2027	48
Actions taken on issues arising from previous Regulatory Decisions	26	Security of Electricity Supply	49
Trading and Settlement Rules	27	Electricity Prices	49
3. ENERGY POLICY, INTERNATIONAL AND LOCAL ACTIVITIES	29	5. NATURAL GAS MARKET	51
European Legislation	29	Legislative Framework for the Natural Gas Market	51
Projects of Common Interest	31	Organisation and development of the Natural Gas Market	52
International Activities	32	6. CONSUMER PROTECTION AND RESOLVING COMPLAINTS	53
Other International Activities	35	Consumer protection and resolving complaints	53
Local Activities	35	Performance Indicators	53
Technical Assistance from the Structural Reform Support Service (SRSS) of the EU Commission	37	Complaints submitted to CERA	57
		7. CERA REPORT AND FINANCIAL STATEMENTS	59

ABBREVIATIONS

ACER	Agency for the Cooperation of Energy Regulators
CEER	Council of European Energy Regulators
CEF	Connecting Europe Facility
CERA	Cyprus Energy Regulatory Authority
CYGAS/DEFA	Natural Gas Public Company
DSO	Distribution System Operator
EAC	Electricity Authority of Cyprus
ETYFA	Natural Gas Infrastructure Company
LNG	Liquefied Natural Gas
MECI	Ministry of Energy, Commerce and Industry
MEDREG	Mediterranean Energy Regulators
ODS	Owner of the Distribution System
OTS	Owner of the Transmission System
RAE	Regulatory Authority for Energy - Greece
RES	Renewable Energy Sources
PCI	Project of Common Interest
PSO	Public Service Obligations
SPV	Special Purpose Vehicle
TSO	Cyprus Transmission System Operator

LIST OF FIGURES

LIST OF FIGURES

Figure 1	Training of CERA staff in 2018	19
Figure 2	Electricity invoice analysis for a typical household consumer with consumption of 600 kWh (% of the final invoice), December 2018	27
Figure 3	Presentation and geographical distribution of installed conventional units by 2018	40
Figure 4	Applications for electricity generation licences submitted from 2004 until 2018	41
Figure 5	Applications for electricity generation licences for the period 2004-2018 submitted by EAC and other producers	41
Figure 6	Capacity (MW) of exemptions from construction licence (RES) issued for the period 2004-2018	43
Figure 7	Capacity of exemptions from operation licence (RES) issued in the period 2004-2018	43
Figure 8	Number of installed systems and installed capacity (kW) of net-metering systems for the period 2013-2018	44
Figure 9	Presentation and geographical distribution of installed RES Units with a power output of more than 20kWp by 2018	45
Figure 10	Total energy generated in 2018 - Sankey diagram	46
Figure 11	Annual RES Installed Capacity (kW)	47
Figure 12	Annual RES generation (MWh)	47
Figure 13	Forecast of Annual System Generation (MW) 2018-2027	48
Figure 14	Forecast of Annual Maximum Generation (MW) 2018-2027	48
Figure 15	Installed Operational Capacity (MWe) for the period 2014-2030	49
Figure 16	Average Tariff Rate with the exception of RES and VAT	50
Figure 17	Performance Indicators for the ODS (EAC)	55
Figure 18	Performance Indicators of EAC Supply	56
Figure 19	Consumer complaints filed with CERA in 2018	57

LIST OF TABLES

Table 1	Coefficients for Fuel Adjustment Clause for Consumers	22
Table 2	Coefficients for Fuel Adjustment Clause for Consumers	23
Table 3	Coefficients for Fuel Adjustment Clause for adjusting the Wholesale (T-W) tariff	25
Table 4	Performance Indicators for the ODS (EAC)	55
Table 5	Performance Indicators of EAC Supply	56

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

In 2018, 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 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.

CERA's main objective is to design and implement a comprehensive set of regulatory measures and actions that will prepare our country to participate in a smooth, organized and efficient way in the process of integrating the European Internal Energy Market. At the same time, it must safeguard the necessary security of energy supply in the country, both on a physical and an economic level, and to ensure energy costs accessible to the national economy and the consumer.

To this end, CERA proceeded in 2018 to issue a series of key regulatory decisions, as well as to undertake and implement relevant initiatives and actions, always within the competences prescribed by the national legislation and the Community Law. Some of these key decisions and actions of CERA in the energy sector of our country concern:

- The regulatory accounting guidelines for the preparation of separate accounts of the Electricity Authority of Cyprus (EAC) from 2021 onwards,
- The implementation of a binding timetable for the mass installation and operation of Advanced Metering Infrastructure (AMI) system by the Distribution System Operator (DSO).

CERA has also issued a draft Regulatory Decision for consultation on the installation of energy storage systems and has instructed the two Operators to redesign the power grid so as to become bi-directional in order to be able to accept large quantities of RES in combination with energy storage systems.

Regarding the adequacy of electricity supply, CERA, based on the authority provided by the law, has drafted three studies on the adequacy of the electricity power system of Cyprus for the next 10 years. The results have shown that between 2022 and 2024 there is a serious shortage of power in the electricity generation system and there is an urgent need for a new conventional capacity of around 600 megawatts due to the annual increasing demand for electricity but mainly because of the imminent withdrawal of six steam turbines of the EAC power plant in Dhekelia. Today, the total conventional power generation licensed by CERA is expected to cover up to 620 megawatts by 2024, capable of solving the problem of power capacity generated in our country between 2022 and 2024.

Regarding the functional and accounting unbundling of EAC in the core regulated activities, namely generation, transmission, distribution and supply, the second audit has been performed while the final audit for the full compliance with the provisions of the functional unbundling of EAC, is expected to take place in the beginning of 2019. The new regulated tariffs of EAC, which today holds a dominant position, have been applied, where charges for monopolistic activities, namely those of transmission and distribution networks, have been distinguished from charges for competitive activities, namely those of generation and supply. Regulated tariffs are published so that the interested independent

producers are fully aware of the EAC's wholesale price and the interested suppliers with the EAC's retail tariffs. In this way, they can offer competitive prices to the benefit of the consumers.

The electricity market reform framework for the full commercial operation of the competitive electricity market in Cyprus is shaped in such a way that it is compatible with the target model of the European Union which has been adopted by most Member States of the European Union and has been established with CERA Regulatory Decisions in previous years.

It is noted that despite the delays in the implementation of the competitive electricity market in Cyprus, which mainly concern the development of two software programs, prerequisites for the operation and monitoring of the electricity market, based on the current data, CERA looks forward to the introduction of healthy competition on the Cyprus electricity market by the end of 2020.

In order to cover the time until the full commercial operation of the new electricity market model, the relevant Regulatory Decision for the introduction of a transitory regulation in the electricity market, including detailed regulations, is in force since 2017. The transitory regulation of the electricity market concerns "Bilateral Contracts between Producers and Suppliers" and, as it appears, has already given the necessary impetus to start licensing independent suppliers. Specifically, six independent suppliers were licensed during 2018, and an appropriate framework has been created to enable already licensed independent producers to operate in the electricity sector.

Taking into consideration the above challenges, CERA has included in its strategic planning for the year 2019 both short-term and long-term actions, including the operation of the transitional phase of the electricity market, the implementation of the new competitive electricity market model, the creation of a framework purchase of natural gas, completion of EAC's functional and accounting unbundling, installation of smart meters for all electricity consumers, upgrading the electrical network to a flexible and bi-directional network for massive admission of renewables beyond 2020 and the integration of energy storage systems.

CERA will continue to perform its work to develop a people-centred and fair energy regulation focused on the consumer.

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 2018.

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, and Industry on all issues concerning the energy market.

Pursuant to the provisions of the Laws Regulating the Electricity Market of 2003 to 2018, 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 2018 and is the fifteenth (15th) 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 proceeded with the issuance of two (2) Regulatory Decisions and one (1) draft Regulatory Decision:

- Regulatory Decision no. 01/2018 on the regulatory accounting guidelines for the preparation of separate accounts of the Electricity Authority of Cyprus (EAC) from year 2021 onwards,
- Regulatory Decision no. 02/2018 on the implementation of a binding timetable for the mass installation and operation of Advanced Metering Infrastructure System, by the Distribution System Operator (DSO),
- Draft Regulatory Decision no. 03/2018 on the establishment of key principles for the operation of electricity storage facilities in-front of the meter (FtM).

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

- Approval of EAC's regulated tariffs for 2018,
- Fuel adjustment coefficients and the basic purchase prices of energy from Renewable Energy Sources (RES) for the year 2018,
- The long-term forecast of the annual maximum total electricity generation and total electricity generation for the 2018-2027 decade,
- Special domestic tariff for specific categories of vulnerable consumers - Public Service Obligations (PSO),

- Methodology for adjusting the permitted revenues and tariffs for the core regulated activities of EAC and TSO,
- Decommissioning part of the 132kV overhead transmission lines "Anatoliko-Hatzipashali" and "Moni-Vassiliko",
- Network usage charges, ancillary services and other services to be charged for the implementation of the net-billing system, self-production and net-metering using photovoltaic systems and/or biomass in industrial and/or commercial installations operated under the support schemes of the Ministry of Energy, Commerce and Industry (MECI),
- Fuel adjustment coefficients and the basic purchase prices of energy from RES for the period July 2018-June 2019,
- Appointment of the members of the Responsible Body for Electrical Certification for the period 18 October 2018 to 18 October 2021,
- Approval of the Ten-Year Transmission System Development Plan 2019-2028,
- Way of recovering the costs of installing Infrastructure for Smart Metering Systems,
- Setting threshold for production units and RES units to participate in the transitory regulation of the electricity market,
- Revise the organizational structure of the CERA Office based on best practices applicable to other European Energy Regulatory Authorities.

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 Trading and Settlement 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 of the European Parliament and of the Council of 25 October 2011 on the wholesale energy market integrity and transparency (REMIT).
- 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.

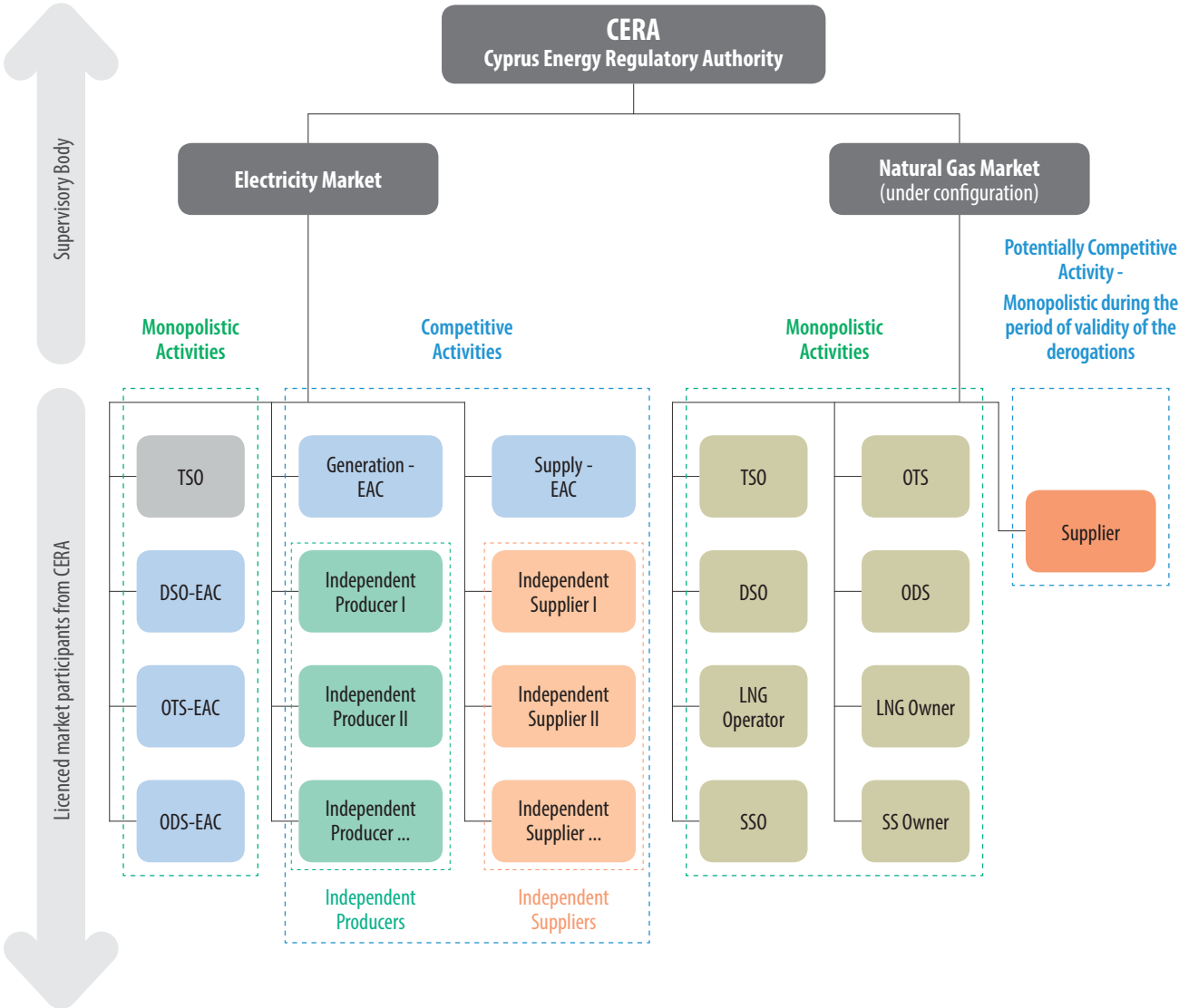
Natural Gas - Competences and Powers of CERA

- 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 transmission 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 transmission 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



TSO	Transmission System Operator
DSO	Distribution System Operator
OTS	Owner of Transmission System
ODS	Owner of Distribution System
LNG Operator	Liquified Natural Gas System Operator
SSO	Storage System Operator
LNG Owner	Liquified Natural Gas System Owner
SS Owner	Storage System Owner

CERA ORGANISATIONAL CHART

MEMBERS OF CERA

CHAIRMAN

Dr Andreas Poullikkas
Mechanical Engineer

VICE CHAIRMAN

Philippos (Alkis) Philippou
Business Management

MEMBER

Neophytos Hadjigeorgiou
Electrical Engineer

ADVISORS

LEGAL ADVISOR

Orphanides, Christofides & Partners L.L.C.

ACCOUNTANTS

Alliott Partellas Kiliaris Limited

COMMUNICATION

CYPRUS ENERGY REGULATORY AUTHORITY

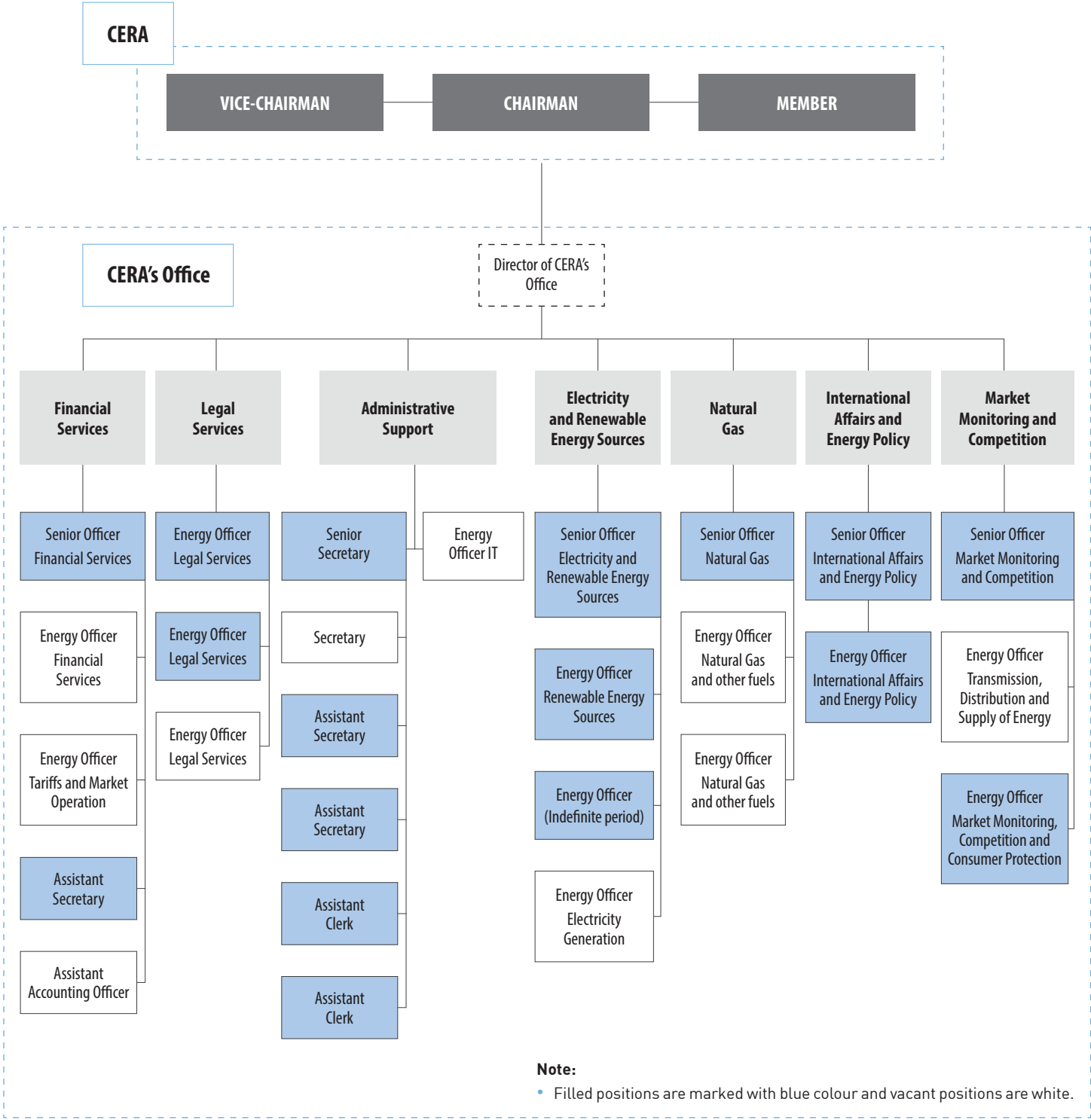
81-83 Griva Dhigeni Avenue
Jacovides Building,
3rd Floor
1080 Nicosia
P.O.Box 24936
1305 Nicosia

Telephone: + 357 22 66 63 63

Fax: + 357 22 66 77 63

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

Website: www.cera.org.cy



CERA OFFICE

At the beginning of 2018, the CERA office numbered 19 employees and by the end of the year 17 people, due to the departure of the Energy Officer (IT) and the Energy Officer (Tariffs and Market Operation).

On 19 October 2018, CERA announced the position of Director of the CERA Office, whose selection process for filling is expected to be completed in early 2019.

Also, the approval of the suspension of the filling of 7 Officers' posts included in CERA's Budget for 2018 and the approval and modification of the Service Plans to begin the filling process are expected.

With a view to implement a new revised Organizational Structure in order to resolve the staffing problems faced by CERA and to be able to cope with its statutory duties and responsibilities as an Independent Authority, in accordance with the obligations imposed by both national and European legislation, under the electricity and gas market surveillance and consumer protection, two independent studies have been conducted by external consultants and are based on the best practices of other European Energy Regulatory Authorities, rather than the Public Service Standards.

Specifically, after the suggestion of the Directorate General of Energy of the European Commission in a letter dated 11 July 2014 to the Permanent Representative of Cyprus in the European Union, on the need to accelerate the CERA adequate staffing process in order to be able to cope with the duties, in January 2015, the Austrian Energy Regulator, Energie-Control Austria (E-Control), conducted an independent study on «The organizational structure and organizational design of the CERA Office» on the issue of the required resources for efficient execution of CERA's duties in line with the acquis communautaire and practices in other European Energy Regulatory Authorities.

Furthermore, in December 2017, CERA, through a specialized external consultant, carried out an additional study for the evaluation of the extent of implementation of the E-Control study, as well as the update to the new data, and the identification of the optimal organizational restructuring of CERA's Office structure.

By Decision 96/2018, CERA adopted the results of the above study aiming at optimizing the efficiency of the CERA Office in order to adequately and effectively support CERA in the fulfilment of its competences. The revised organizational structure of the CERA Office is based on best practices applied to other European Energy Regulatory Authorities.

As part of the implementation of the new revised Organizational Structure, according to the results of the above studies, CERA has requested through the Budget of 2019 the inclusion of 6 new first appointment posts to complete its organizational structure, the renaming of 13 existing posts and the upgrading of 6 posts.

TRAINING

Figure 1 shows the training of CERA staff by activity area during the year 2018.

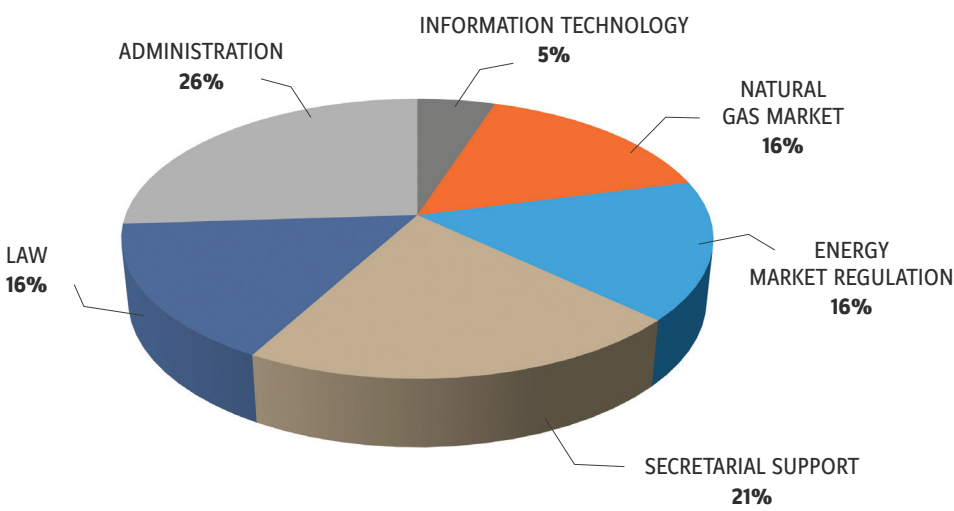


Figure 1 - Training of CERA staff in 2018

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

Law Regulating the Electricity Market of 2018

In 2018, the amended Law N.145(I)/2018 Regulating the Electricity Market was voted, for the purposes of full harmonization with Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning the common rules for the internal electricity market. The relevant amendment introduced specific provisions for the ultimate supplier and in addition became aligned with Article 37(12) of the Directive according to which each affected person has the right to object to a decision of CERA on the methodology of tariffs within 2 months at the latest from the time of publication of the decision or regulatory decision or of the draft decision or regulatory decision.

Law Regulating the Natural Gas Market of 2018

In 2018, the amended Law N.148(I)/2018 Regulating the Natural Gas Market was voted for the purposes of full harmonization with Directive 2009/73/EC of the European Parliament and of the Council of 25 October 2012 concerning the common rules for the internal gas market. With the relevant amendment, CERA was designated as the Competent Authority to ensure the application of the provisions of Regulation (EU) No. 1227/2011 of the European Parliament and of the Council of 25 October 2011 on the integrity and transparency of the wholesale energy market and additionally, other specific provisions of this Regulation have been established, as well as criminal sanctions and administrative fines. In addition, specific provisions have been introduced concerning smart metering systems.

Regulatory Decisions, Draft Regulatory Decisions and Important Decisions by CERA in 2018

In 2018 CERA took several Regulatory Decisions and Decisions, the most important of which are the following:

REGULATORY DECISIONS AND DRAFT REGULATORY DECISIONS

Regulatory Decision No. 01/2018 - Act 106/2018 - Regulatory Accounting Instructions for the Preparation of Separate Accounts (SA)

With the Regulatory Decision 01/2018 (Act 106/2018) the second paragraph of Article 4.2 of Annex 1 of the Regulatory Decision 02/2014 (Act 370/2014) has been replaced, so that the SA are submitted by the Responsible Organizations until the 31st of May of the year following the end of the financial reference year, both in electronic and printed form.

The Regulatory Decision 01/2018 applies to EAC's SA for the year 2021 onwards.

Regulatory Decision 02/2018 - Act 259/2018 - Implementation of a binding timetable for mass installation and operation by the DSO of Advanced Metering Infrastructure

By the Regulatory Decision 02/2018 (Act 259/2018) CERA invited the DSO to proceed with the appropriate actions to initiate the required procedures for the complete and massive installation of smart metering systems by setting the date of commencement of operations the 1 January 2019 and completion within 8 years, which includes individual actions with the ultimate goal of installing 400,000 smart meters.

Draft Regulatory Decision for establishing key principles of the electricity storage facility regulatory framework in Front-of-the-Meter (FtM)

With the preliminary draft Regulatory Decision 03/2018, CERA launched a public consultation on the conditions for the participation of electricity storage facilities in Front-of-the-Meter (FtM) in the electricity market and electricity storage facilities in FtM in the transmission system and distribution system. In addition, it has set a timetable inviting the TSO to proceed with all necessary actions to modify, where necessary, the Transmission and Distribution Rules and the Trading and Settlement Rules and submit to CERA for approval a final proposal to amend the Rules by 31 December 2019.

DECISIONS

Decision 12/2018 - Approval of the EAC's new Tariffs for 2018

By Decision 12/2018, CERA approved the Electricity Tariffs for the year 2018 and instructed EAC to publish the approved Tariffs, to adequately inform the electricity consumers and other participants in the electricity market.

Decision 30/2018 - Coefficients for the fuel adjustment clause and basic purchase prices of RES energy for 2018

By Decision 30/2018, CERA approved the following coefficients for the fuel adjustment clause and the following basic purchase prices of RES energy for the period January - June 2018.

Coefficients for fuel adjustment clause for consumers		Coefficients for fuel adjustment clause for electricity from RES		Basic purchase prices of RES energy	
	€/kWh/1€c		€/kWh/1€c		€/kWh
Low voltage	0,00024438	Low voltage	0,00023933	Low voltage	7,393
Medium voltage	0,00023933	Medium voltage	0,00023503	Medium voltage	7,264
High voltage	0,00023503	High voltage	0,00023074	High voltage	7,135

Table 1 - Coefficients for Fuel Adjustment Clause for Consumers

In addition, CERA instructed EAC to immediately inform CERA about any developments in relation to the EAC insurers' response to the damages that have arisen at the unit 3 desulphurization of Vassilikos Power Plant. CERA will monitor the security developments from which the calculation of the final cost of the weighted average fuel cost will be dependent.

Decision 39/2018 - Amendment of documents and data that must be attached to applications for licence/exemptions from a licence for construction of a power station with the final destination the competitive electricity market

By Decision 39/2018, CERA decided that for the submission and examination of an application for a licence/exemption from a licence for the construction of a power station with the final destination the competitive electricity market, it is not necessary to submit preliminary positive opinions from the Department of Urban Planning and Housing.

Decision 47/2018 - Long-term forecast of an annual maximum generation power and total electricity generated for the 2018-2027 decade

By Decision 47/2018, CERA approved the long-term forecast of the annual maximum total generation and the total energy generated for the 2018-2027 period presented by the TSO.

Decision 91/2018 - Special domestic tariff for specific categories of vulnerable consumers - PSO

By Decision 91/2018, CERA decided to approve the tariff for the recovery of the expenses of PSO at €0.00083/kWh.

Decision 97/2018 - Methodology for the adjustment of allowed revenues and tariffs for the core regulated activities of EAC and TSO

By Decision 97/2018, CERA, after assessing that following the Regulatory Decision No. 02/2015 (Act 208/2015) "Statement of Regulatory Practice and Methodology of Electricity Tariffs", there is a need

to issue a mechanism for adjusting the allowed revenues that are approved at the beginning of the regulatory audit period for every regulated activity that will determine how the allowed revenues will be differentiated for each year of the regulatory audit period and how diversification in the EU will be transferred in the electricity tariffs, and after receiving feedback from all affected parties, approved and published the document «Methodology of adjustment of allowed revenues and tariffs for the core regulated activities of EAC and TSO». The Decision adds, that since this methodology for adjusting the allowed revenues and tariffs for the core regulated activities of EAC and TSO will be applied for the first time for the regulatory period 2017-2021, if there is a need for modification, the affected parties will be able to request an amendment to the relevant point.

Decision 111/2018 - Decommissioning Part of the Overhead Transmission Lines 132 kV "Anatoliko-Hadjipaschalis" and "Moni-Vasiliko"

By Decision 111/2018, CERA approved the TSO's request to proceed with the necessary procedures for the decommissioning of the above overhead transmission lines in the context of the smooth operation of the electrical system.

Decision 127/2018 - Coefficients for Fuel Adjustment Clause and Basic Purchase Prices of RES Energy for the Period July - December 2018

By Decision 127/2018, CERA approved the following Coefficients for Fuel Adjustment Clause for Consumers and the following Basic Purchase Prices of RES energy for the period July - December 2018:

Coefficients for fuel adjustment clause for consumers		Coefficients for fuel adjustment clause for electricity from RES		Basic purchase prices of RES energy	
	€/kWh/1€c		€/kWh/1€c		€/kWh
Low voltage	0,00025557	Low voltage	0,00024971	Low voltage	7,725
Medium voltage	0,00024971	Medium voltage	0,00023911	Medium voltage	7,407
High voltage	0,00023911	High voltage	0,00023464	High voltage	7,273

Table 2 - Coefficients for Fuel Adjustment Clause for Consumers

Decision 180/2018 Revision of network usage, ancillary services and others which will be imposed for the implementation of net-billing, self-production and net-metering using photovoltaic systems and/or biomass in domestic, and/or industrial and/or commercial facilities, respectively, operating within the framework of the support schemes of MECI

By Decision 180/2018, CERA decided the following:

1. The revision of the billing and credit analysis chart for net-billing and self-production, which is included in Decision No. 919/2013. The revised charges are due to the differentiation in the transmission and distribution network usage fees set by CERA's Decisions No. 97/2017, and 265/2017, and are presented in Annex 1 of the Decision.
2. The revision of the net-metering billing and credit analysis chart, which is included in Decision No. 909/2013. The revised charges are due to the differentiation in the transmission and distribution network usage fees set by CERA's Decisions No. 97/2017 and 265/2017, and are presented in Annex 2 of the Decision.

3. The implementation of the revised charges as presented in Annexes 1 and 2, retroactively from the date of implementation of the new EAC tariffs (September 2017).

The Decision also states that the above charges for the net-billing and net-metering plans may be reviewed by CERA upon the completion of the relevant CERA consultancy study on the rational and cost-oriented calculation of the network usage charges and ancillary services of the three above categories.

Decision 191/2018 - Appointment of the Members of the Responsible Body for Electrical Certification

By Decision 191/2018, CERA approved the proposal of the TSO for the appointment of certain officers of TSO and EAC as the new members of the Body for the period 18 October 2018 to 18 October 2021.

Decision 207/2018 - Producing and publishing a draft Regulatory Decision for establishing key principles for the regulation of the operation of electricity storage facilities in Front-of-the-Meter (FtM)

By Decision 207/2018, CERA decided:

1. To publish a draft Regulatory Decision regarding the establishment of key principles for the operation of electricity storage facilities in FtM.
2. The publication of this draft Regulatory Decision in the Official Gazette of the Republic of Cyprus, the publication of the relevant announcement on CERA's website, including the draft Regulatory Decision, as well as the notification of the announcement to the media in the context of the launch of a public consultation in accordance with the provisions of the legislation requiring licensees, licence applicants or other interested parties to submit written comments, objections and/or representations to CERA within 30 days from the date of publication of the draft Regulatory Decision in the Official Gazette of the Republic of Cyprus.

Decision 227/2018 - Approval of the Ten-Year Transmission System Development Plan 2019-2028

By Decision 227/2018, CERA approved the revised 10-year Transmission System Development Plan 2019-2028, submitted by TSO, except for projects with S/N 112 - Movement of a section of the «Alhambra-Athalassa» overhead line in Dali and with S/N 126 - New connection «Triklikli-Tembria» MK UPAS 300mm² 1x150MVA and decommissioning of 66kV «Tempria-Carvuna-Trimiklini», for which there is a dispute between the TSO and the OTS, giving the relevant instructions.

Coefficients for fuel adjustment clause and basic purchase prices of RES energy for the period January - June 2019

By Decision 230/2018, CERA approved the following coefficients for fuel adjustment clause for consumers and the following basic energy prices for RES energy for the period January-July 2019:

Coefficients for fuel adjustment clause for adjusting the T-W tariff		Coefficients for fuel adjustment clause for electricity from RES		Basic purchase prices of RES energy	
	€/kWh/1€c		€/kWh/1€c		€/kWh
Low voltage	0,00024665	Low voltage	0,00024156	Low voltage	7,466
Medium voltage	0,00024156	Medium voltage	0,00023722	Medium voltage	7,336
High voltage	0,00023722	High voltage	0,00023290	High voltage	7,206

Table 3 - Coefficients for Fuel Adjustment Clause for adjusting the Wholesale (T-W) tariff

Also, CERA decided not to approve the recovery of the additional operating cost of €11,040,932 (as calculated by the TSO as an independent Public Legal Entity) from the core regulated activity of generation of EAC, which is expected to arise from the unavailability of the steam power unit No. 3 of the Vassilikos Power Plant, in the power system from December 2018 until May 2019. This was decided to be implemented by reducing the average fuel cost by €1,840,155 per month for six months, starting with the calculation of the estimated average fuel cost of the month December 2018.

If the steam power unit No. 3 of the Vassilikos Power Plant continues to be inoperative after May 2019, the additional operating costs estimated after May 2019 will not be approved for recovery by the core regulated activity of generation of EAC.

It is expected that the average electricity price for an average household consumer will fall by 3.6% in February 2019 compared to December 2018, provided that the average estimated fuel cost will remain as it was on consumer invoices with a bi-monthly count of December 2018.

Decision 231/2018 - Recovery of the costs of the installation of infrastructure for smart metering systems

By Decision 231/2018, CERA decided to invite the DSO to proceed with the necessary actions so that 50% of the expenses for the implementation of the aforementioned project provided by the Regulatory Decision No. 02/2018 (Act 259/2018), are recovered from the surplus/reserves of the EAC's core regulated activity of distribution.

Decision 232/2018 - Decommissioning T3 transformer at the Moni Power Station

By Decision 232/2018, CERA approved the application of the TSO to proceed with the necessary procedures for the decommissioning of the T3 transformer at the Moni Power Station, always in the context of the smooth operation of the electrical system.

Decision 234/2018 - Threshold definition for the production units and RES units for participation in the transitory regulation of the electricity market

By Decision 234/2018, CERA decided to amend Decision 120/2017 on the threshold for participation in the transitory regulation of the electricity market for producers either with production units or with RES units and to set a new threshold for participation in the transitory regulation of the electricity market for producers either with production units or with RES units with standard meter at 1MW for production licence for the net rated power station they represent.

Actions taken on issues arising from previous Regulatory Decisions

Compliance audit of EAC operation on the basis of the functional unbundling of its activities under the regulatory framework

CERA based on the provisions of the Regulatory Decision No. 04/2014 «Functional Unbundling of EAC’s Activities», hired through an open tender procedure, external consultants on terms of reference to review the degree of compliance of EAC’s operation on the basis of the functional unbundling of its activities according to the regulatory framework by carrying out specialized audits to be implemented in three distinct periods of time.

In accordance with the terms of reference, during the year under review, the second audit was carried out, where a thorough and detailed report was submitted to CERA by its external consultants recording the findings of the audit and it reveals specific discrepancies in EAC’s compliance with the regulatory framework.

In addition, CERA taking into account the findings of the second audit, took appropriate actions by pointing out to the EAC’s Board of Directors these findings and in particular the specific deviations, with instructions for their correction and full implementation and compliance with the provisions of the regulatory framework.

The next year, 2019, will be the third and final audit by CERA aiming at the full implementation of the provisions of the regulatory framework for the functional unbundling of EAC’s activities.

Electricity tariffs for the year 2018

Under the Laws Regulating the Electricity Market in Cyprus of 2003 to 2018, CERA has the power, duty and competence to regulate electricity tariffs. In this context, CERA, through the application of Regulatory Decision 02/2015 (Act 208/2015) «Statement on Regulatory Practice and Methodology of Electricity Tariffs», approved by its Decision No. 97/2017, the new electricity tariffs for the year 2017. Within the same Decision, the authorized revenue for the regulatory period 2017-2021 has been approved.

By Decision No. 265/2017 dated 12 December 2017, CERA approved the electricity tariffs for the year 2018, which are based on the same principles and characteristics as the electricity tariffs for the year 2017. Also, in 2018, the «Revaluation method of allowed revenues and tariffs for the core regulated activities of EAC and TSO», was issued, which provides guidelines and instructions on how to modulate the allowed revenues for each year of the regulatory period and the way on how diversification into the EU will be transferred on the electricity tariffs (CERA Decision 97/2018).

New EAC Supply Invoices and Final Invoice Analysis

CERA, by Decision 160/2017, approved the new tariffs of EAC, which show the separation of the electricity price in the individual charges of each regulated activity. With the additional information, the consumer will be able to make better decisions about consumption and choose a supplier.

Figure 2 shows the electricity invoice breakdown per billing category for a typical household consumer with a consumption of 600 kWh in December 2018 at the basic price (excluding fuel adjustment).

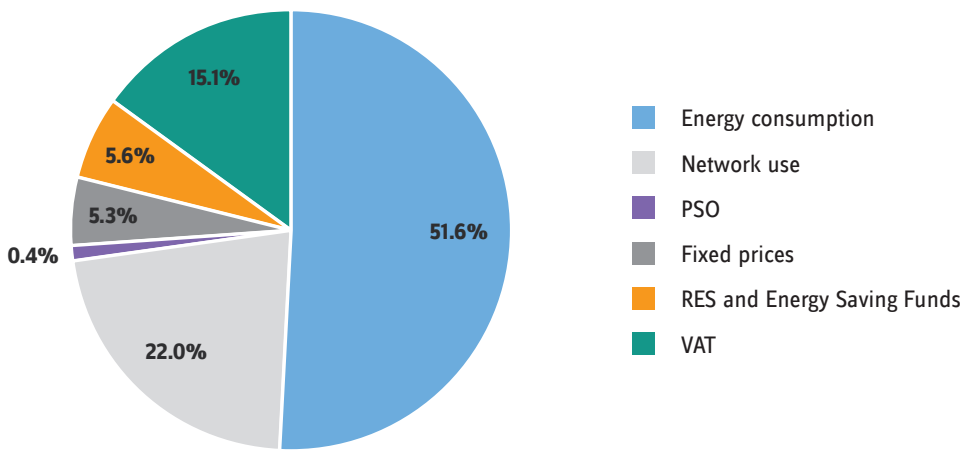


Figure 2 - Electricity invoice analysis for a typical household consumer with consumption of 600 kWh (% of the final invoice), December 2018

Trading and Settlement Rules

According to the Laws Regulating the Electricity Market of 2003 to 2018, the Trading and Settlement Rules:

- Determine the mechanisms, pricing, and other terms and conditions that apply when licensees buy or sell electricity on the basis of arrangements made by the TSO.
- Ensure that licensees who are asked to participate in the purchase and sale of electricity on the basis of these arrangements are not subject to discrimination.
- Promote efficiency and the economy and facilitate the competition in the purchase and the sale of electricity on the basis of these arrangements.

Trading and Settlement Rules are complied with by all licence holders or persons who have been granted exemption from licence to the extent required by their licences or exemptions from licence.

In the year under review, the TSO, taking into account the comments of the Advisory Committee of the Trading and Settlement Rules, dated 27 November 2018, submitted to CERA for approval a proposed new version 2.0.1 of the Trading and Settlement Rules.

Pursuant to the provisions of the Laws Regulating the Electricity Market of 2003 to 2018 and in particular article 80, until the publication of the revision and the amendments of the Trading and Settlement Rules in the Official Gazette of the Republic of Cyprus, the provisions of the Regulatory Decision No. 04/2017 (Act 223/2017) "On the implementation of a transitory regulation in the electricity market in Cyprus before the full implementation of the new electricity market model" are in force and the Regulations of the transitory regulation in the electricity market which came into force by Decision No. 118/2017.

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 or distribution 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 licence holders or persons who have been granted exemption from licence to the extent required by their licences or exemptions from licence.

During the year under review, taking into account the comments of the Regulatory Committee on Transmission and Distribution Rules, dated 6 November 2018, the proposed Version 5.0.0 of the Transmission and Distribution Rules was submitted by the TSO for approval.

Version 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 2018, the debate and consultations on the package of legislative proposals "Clean Energy for All Europeans" (Winter Package) continued.

With the publication of Regulation (EU) 2018/1999 on the governance of the energy union and climate action, Directive (EU) 2018/2001 on the promotion of the use of energy from renewable sources, Directive (EU) 2018/2002 on the energy efficiency and the Directive (EU) 2018/844 on the energy efficiency of buildings, four (4) of the eight (8) legislative acts of the Clean Energy for All Europeans package have now entered into force.

Also, a political agreement was reached on the remaining four (4) proposals concerning the electricity market planning (Electricity Directive, Electricity Regulation, Risk Preparedness Regulation in the Electricity Sector, and Regulation establishing the Agency for the Cooperation of Energy Regulators). However, the scripts are checked in all EU languages and their official adoption is expected in the first half of 2019.

Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018 on the governance of the Energy Union and Climate Action

Regulation (EU) 2018/1999 sets the necessary legislative foundation for reliable, comprehensive, cost-effective, transparent and predictable governance of the Energy Union and Climate Action (governance mechanism) which ensures the achievement of the 2030 and long-term objectives and targets of the Energy Union in accordance with the 2015 Paris Agreement on climate change following the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change ("Paris Agreement"), with complementary, coherent and ambitious efforts by the Union and its Member States, while limiting administrative complexity.

The implementation of the provisions of Regulation (EU) 2018/1999, ensures the achievement of the framework agreed by the European Council for Energy and Climate for 2030, focusing on four key objectives at Union level:

- A reduction of at least 40% in economy-wide greenhouse gas emissions (GHG),
- Improving energy efficiency by at least 32.5%;
- Share of renewable energy consumed in the Union of at least 32%;
- Electricity interconnection of at least 15%.

Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources

In accordance with the Article 194 paragraph 1 of the Treaty on the Functioning of the European Union (TFEU), the promotion of renewable forms of energy is one of the objectives of the Union's energy policy. This objective is pursued through Directive (EE) 2018/2001.

Directive (EE) 2018/2001 establishes a common framework for the promotion of energy from renewable sources. It sets a binding and unifying target for the total share of energy from renewable sources in the Union's gross final consumption of energy in 2030 to at least 32%. It also defines rules on financial support for electricity produced from renewable energy sources, self-consumption of similar electricity energy, for the use of energy from renewable sources in the heating, cooling and transportation, regional cooperation between Member States and third countries, guarantees of origin, administrative procedures, information and training. It also establishes sustainability and greenhouse gas emission reduction criteria for biofuels, bioliquids and biomass fuels.

Directive (EU) No 2018/2002 of the European Parliament and of the Council of 11 December 2018 amending Directive 2012/27/EU on energy efficiency

Directive 2012/27/EU is an element of progress towards the achievement of the Energy Union, whereby energy efficiency is to be treated as an independent source of energy. The principle of priority for energy efficiency should be taken into account when defining new rules for the supply side and other policy areas.

The European Council of 23 and 24 October 2014 endorsed a 27% energy efficiency target for 2030 at Union level, having in mind a Union-level target of 30%. In its resolution of 15 December 2015 entitled "Towards a European Energy Union", the European Parliament called on the Commission to further assess the viability of the 40% energy efficiency target for the same timeframe. It was therefore considered appropriate to amend Directive 2012/27/EU, in order to be adapted to the prospect of 2030.

Directive 2018/2002 establishes a common framework of measures to promote energy efficiency within the Union in order to ensure the achievement of the Union's 2020 headline targets for 20% on energy efficiency and its 2030 headline targets of at least 32.5% on energy efficiency with a possible upward revision in 2023 and it is paving the way for further energy efficiency improvements beyond these dates.

Directive (EE) 2018/2002 sets out rules to remove barriers in the energy market and eliminate market failures hampering efficiency in the supply and use of energy and provides for the establishment of indicative national energy efficiency targets and contributions for 2020 and 2030.

Directive (EU) 2018/844 of the European Parliament and of the Council of 30 May 2018 for amending Directive 2010/31/EU on the energy performance of buildings and Directive 2012/27/EU on energy efficiency

Directive 2010/31/EU promotes the improvement of the energy performance of buildings within the Union taking into account external climatic and local conditions as well as indoor climatic requirements and cost/benefit ratio.

Directive (EU) 2018/844 introduces the term of the long-term renovation strategy, according to which each Member State adopts a long-term strategy for the renovation of the national potential of buildings, whether public or private, for residential use or for private use and transformation into high energy efficiency and carbon-free building potential by 2050, facilitating the cost-effective conversion of existing buildings into nearly zero-energy buildings. Member States shall also ensure that, prior to

the construction of new buildings, the technical, environmental and economic feasibility of installing high-efficiency alternative systems is taken into account, provided that they are available and that the new buildings meet the minimum energy performance requirements which are set out in the Directive.

In its long-term national renovation strategy, each Member State presents a road map with measures and measurable national progress indicators, in view of the 2050 long-term target of 80-95% reduction of greenhouse gas emissions in the Union compared to 1990, in order to ensure a highly energy efficient and decarbonised national building stock and to facilitate the cost-effective conversion of existing buildings into nearly zero-energy buildings.

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 2018, 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 fourth list of PCIs.

PCIs benefit from accelerated licensing procedures and more favourable arrangements, and can be eligible for financial support from the "Connecting Europe Facility (CEF)". Funds of €5.35 billion are available for trans-European energy infrastructure under the CEF for the period 2014-2020, contributing to the faster implementation of PCIs 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 line between Korakia - Crete and Attica region.
- 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 7.5 "Development of Gas Infrastructure in Cyprus (CyprusGas2EU)" submitted an investment request to the Cyprus Energy Regulators (CERA) and Greece (RAE) on 28 August 2017. Following consultations between CERA and RAE an agreement was reached on 9 October 2017 on the cross-border sharing of investment costs.

According to the European Commission, on 25 January 2018, the Member States agreed to invest a total of €873 million in energy infrastructure, including around €200 million in gas projects. The project 7.5 "CyprusGas2EU", which applied for a grant, was allocated €101 million by the CEF, which represents 40% of its total cost.

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

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 2018, CERA took part in the 72nd, 73rd, 74th, 75th, 76th, 77th and 79th Board of Regulators' meeting 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. CERA Members represent Cyprus at these meetings. During 2018, CERA participated in the 136th, 137th, 139th, 140th, 141st and 143rd 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 Milan. Currently, MedReg consists of 27 Energy Regulatory Authorities from 22 countries (Albania (ERE), Algeria (CREG and ARH), Bosnia-Herzegovina (SERC), Croatia (HERA), Cyprus (CERA) Egypt (EgyptEra and GASREG), France (CRE), Greece (RAE), Israel (PUA and NGA), Italy (ARERA), Jordan (EMRC and MEMR), Lebanon (LCEC), Libya (ME), Malta (REWS), Montenegro (REGAGEN), Morocco (ANRE and MEM), Palestine (PERC), Portugal (ERSE), Slovenia (AGEN-RS), Spain (CNMC), Tunisia (MEMER) 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 2018, CERA participated in the 25th General Assembly of MedReg on 5 July 2018 in Lisbon.

CERA was represented at the 24th and 25th meeting of the MedReg Electricity Working Group, which was held in Paris in March 2018 and in Madrid in October 2018 respectively. At the same time, CERA, which is the Co-Chairman of the Environment, Renewable Energy Sources And Energy Efficiency Working Group, was represented at the 23rd and 24th Meetings of this MedReg Working Group, which were organized in parallel with the meetings of the Electricity Working Group in March 2018 in Paris and in October 2018 in Madrid respectively.

Energy Community



The **Energy 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), Republic of North 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 October 2018 CERA participated in the 31st 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:

- Presentation by the Chairman of CERA entitled "EU Energy Strategies Towards Sustainable Energy Systems" at the conference "The Future of Energy, EU and UAE Cases" on 6 February 2018 at the Rochester Institute of Technology University in Dubai, United Arab Emirates (UAE)
- Presentation by the Chairman of CERA entitled "Moving towards a new energy era" at the "5th International Conference on Energy, Sustainability and Climate Change" on 5 June 2018 in Mykonos.

Local Activities

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

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

- Presentation by CERA's Head Officer entitled "Electricity market in Cyprus", at a lecture on 28 February 2018, at the Employers and Industrialists Federation,

- Presentation by CERA's Head Officer entitled "Energy Consumers' Rights", at a lecture on 7 March 2018, at the School of Consumer Affairs at the University of Nicosia,
- Address by the Chairman of CERA in the public presentation of the rules of the transitory regulation of the electricity market in Cyprus, on 21 March 2018 at Frederick University in Nicosia,
- Presentation by the Chairman of CERA, entitled "Electricity Market and EU Winter Package" at the seminar "Energy Efficiency: Latest Developments", on 23 March 2018, at the Cyprus University of Technology in Limassol,
- Presentation by the Chairman of CERA, entitled "The role of Natural Gas to Sustainable Energy Systems" at the "9th Mediterranean Oil & Gas Forum 2018" on 28 March 2018 at the Hilton Park Hotel in Nicosia,
- Presentation by the Chairman of CERA, entitled "Electricity Market and Prices in Cyprus" at the conference "Investment and Investment Finance: The Cypriot Case", co-organized by the European Investment Bank (EIB) and the Cyprus Chamber of Commerce and Industry (CCCI), on 31 May 2018, at the Hilton Hotel in Nicosia,
- Address by the Chairman of CERA at the Annual General Meeting of the Association of Renewable Energy Sources of Cyprus (CEDAP) on 27 June 2018, in Nicosia,
- Presentation by CERA's Head Officer, entitled "Clean Energy for All Europeans", at a lecture on 24 July 2018, at the 1st Academic Forum of the European Youth Parliament in Nicosia,
- Participation of CERA at the 1st and 2nd Workshop on the Financing of RES Projects, dated 31 July 2018 and 24 September 2018, respectively, organized by the MECL in Nicosia,
- Presentation by the Chairman of CERA, entitled "CERA: Activities - Objectives - Challenges" at the meeting with journalists of 23 October 2018, at the Journalists' House, in Nicosia,
- Presentation by the Chairman of CERA, entitled "Development of energy strategies for sustainable future" at the 6th Scientific Conference of Renewable Energy Sources and Energy Saving, 1 November 2018, at the Cyprus University in Nicosia,
- Presentation by the Chairman of CERA, entitled "Energy Regulatory Challenges Towards 2050" at the Nicosia Risk Forum 2018, on 14 November 2018, at the Cultural Centre of the European University of Cyprus in Nicosia,
- Presentation by a CERA Officer entitled "Operation and Regulation of the Electricity Market", on 28 November 2018, to students of the School of Economics and Management under an undergraduate course in Nicosia,
- Presentation by the Chairman of CERA, entitled "Large Scale Integration of Renewable Energy Systems in Electricity Markets" at the International Conference CSP4Climate 2018, 29 November 2018 at the Cyprus Institute in Nicosia,
- Presentation by the Chairman of CERA, entitled "The Role of Natural Gas towards Sustainable Energy Systems" at the 6th Energy Symposium on 4 December 2018 at the Hilton Park Hotel in Nicosia,
- Presentation of a CERA Officer, entitled "Electricity Market in Cyprus" at the 6th Energy Symposium on 4 December 2018 in Nicosia.

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:

1. Provision of technical assistance to CERA for the reorganization of the energy market (Support to the Cyprus Energy Regulatory Authority (CERA) on regulatory topics related to the organisation and restructuring of the energy market), which includes issues related to the electricity market, gas pricing issues and consumer information and complaint handling. The program as well as all the necessary deliverables were completed by the end of 2018.
2. Provision of technical assistance to CERA for the revision of the methodology for calculating the electricity purchase price of RES (Provide expertise to the Cyprus Energy Regulatory Authority (CERA) concerning the revision of the RES-E purchase tariff calculation methodology). The program as well as all the necessary deliverables were completed in the beginning of 2018.
3. Provision of technical assistance to CERA for the identification of training needs of CERA's personnel and conduct relevant training (Tailored training support of the Cyprus Energy Regulatory Authority).

The Energy Regulators Regional Association (ERRA) was selected by SRSS to identify training needs and conduct training for CERA staff.

In 2018, training at the offices of CERA was carried out on areas related to:

- Fundamentals of Energy Regulation
- Regulation of Renewables
- Electricity markets
- Price Regulation and Tariffs
- Natural gas

The program as well as all the necessary deliverables were completed in 2018.

4. Provision of technical assistance to CERA for the development of a methodology for the calculation of network charges for RES projects covered by grant/support schemes (Development of a Methodology for evaluating the network charges for CERA's use and the needed adjustments in the future support schemes). The program and all the necessary deliverables are expected to be completed in the middle of 2019.

Introduction

CERA was established based on 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

The licences issued by CERA in accordance with Article 34 of the Laws Regulating the Electricity Market of 2003 to 2018 concern:

1. The construction and operation of electricity generation stations using conventional fuels for commercial purposes.
2. The construction and operation of electricity generation 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 OTS.
8. The execution of responsibilities of the ODS.

Exemptions from a licence granted by CERA under Article 35 of the Laws Regulating the Electricity Market of 2003 to 2018, 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.

Licences for electricity supply

Licences for electricity supply to the end customers for the period of validity of the Transitory Electricity Market Regulation

In 2018, 10 applications for the supply of electricity to end customers were submitted for the period of validity of the Transitory Electricity Market Regulation and 6 licences for the supply of electricity to final customers were issued for the period of validity of the Transitory Regulation of the Electricity Market.

Licences for the construction and operation of power plants

Conventional Units for commercial use

In 2018, 2 applications for a licence for the construction of power plants for commercial use of a total power of 164.5MWe were submitted and 1 application for licence for operation of a commercial power plant of a total power output of 4.5MWe. In 2018, 2 licences for the construction and operation of a power plant for commercial use of a total power of 21.99MWe have been granted.

Conventional units for own use

In 2018, 3 applications for the construction and operation of power generating plants for their own use, self-production, with Internal Combustion Engines (ICE) were submitted for a total generating capacity of 4.39MWe and 2 licences were issued for the construction and operation of power generating plants for their own use, self-production, with ICE, for a total generating capacity of 3.34MWe.

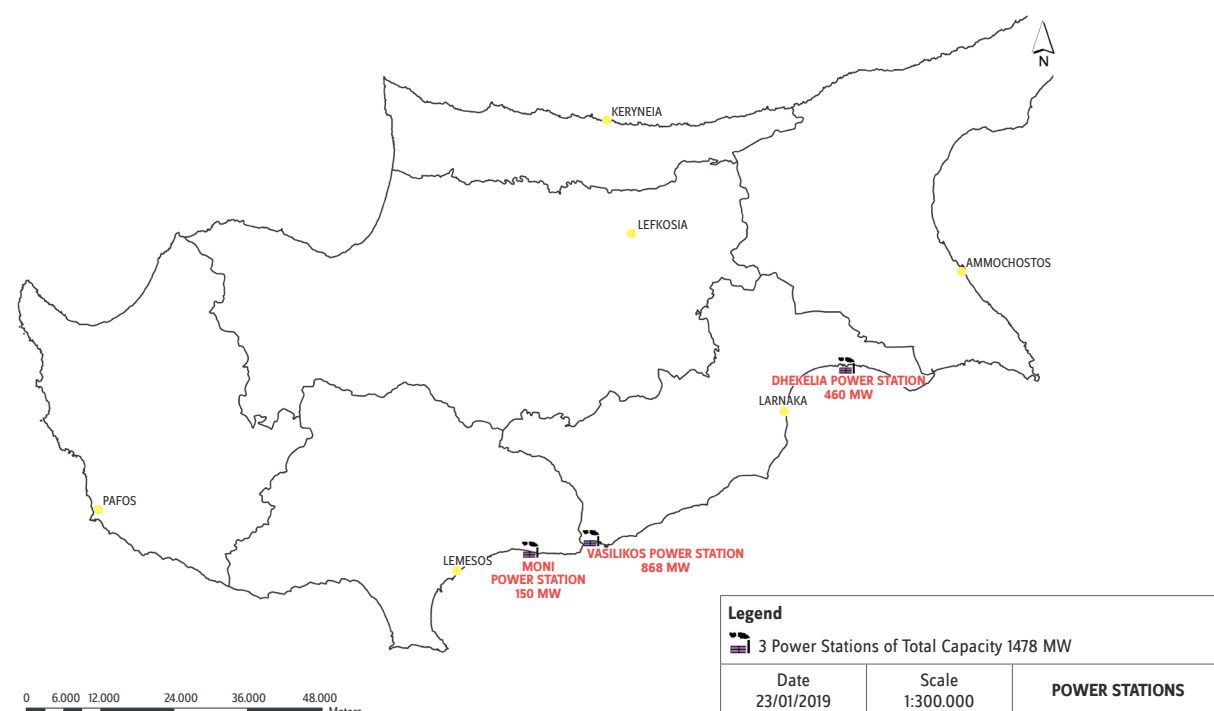


Figure 3 - Presentation and geographical distribution of installed conventional units by 2018

Renewable Energy Sources (RES)

Wind farms

In 2018 no licences have been issued for the construction and operation of wind farms. The installed capacity has not changed in the year 2018 and remains the same as in the previous year.

Biomass/Biogas

In 2018 no licences have been issued for the construction and operation of power stations using biomass/biogas. The installed capacity has not changed in the year 2018 and remains the same as in the previous year.

Photovoltaic systems

In 2018, 7 licences were issued for the construction of power stations for commercial use, with a total power of 52MWe.

Solar Thermal Stations - NER300

Under the EU's NER300 program to fund demonstration projects for innovative renewable energy technologies from RES that are suitable for demonstration but are not yet commercially implemented, two Cypriot power generating projects have been approved by the EU. The Council of Ministers has approved for each of the two projects an individual support measure.

In 2018, CERA revoked the one licence for the construction of a solar thermal park with Sterling machines, with power generating capacity of 50.76MWe.

The following figures 4 and 5, present the statistics for applications and licences for electricity generation from conventional units and RES units from the time of establishment of CERA until the end of 2018.

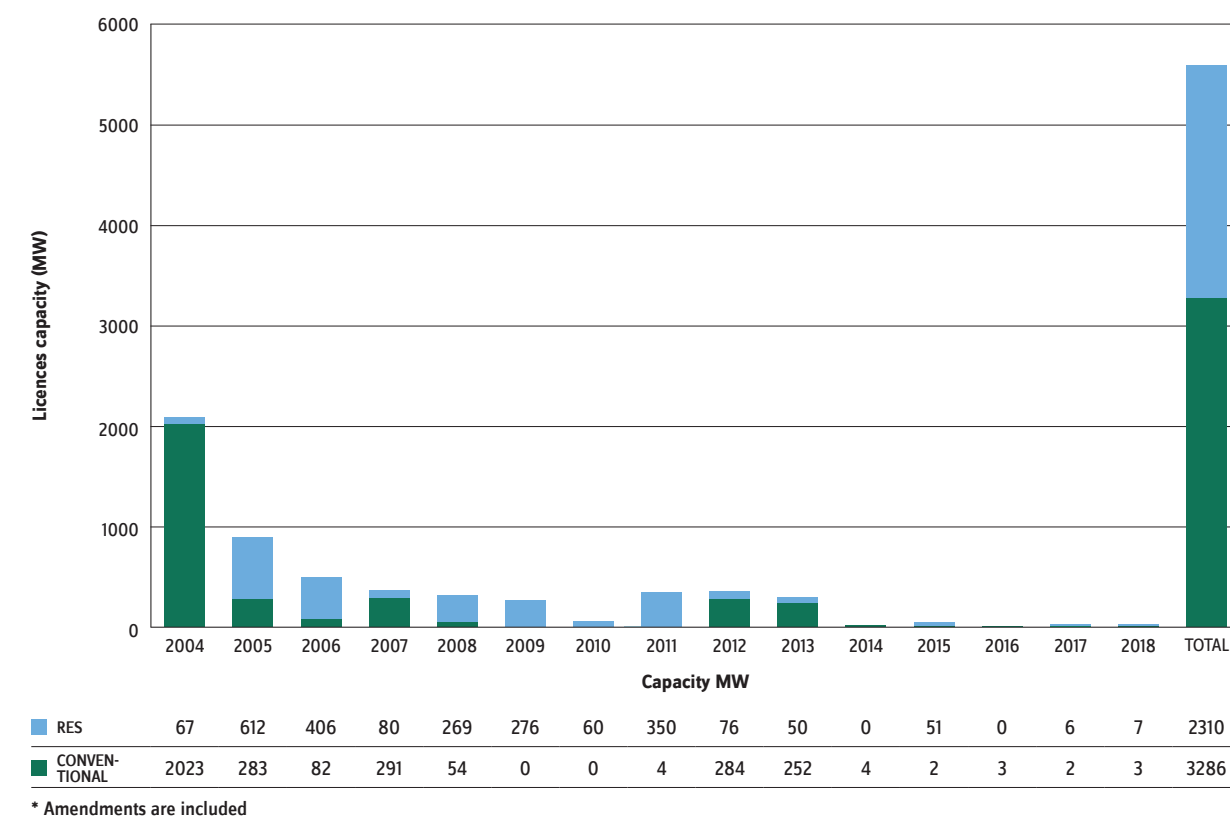


Figure 4 - Applications for electricity generation licences submitted from 2004 until 2018

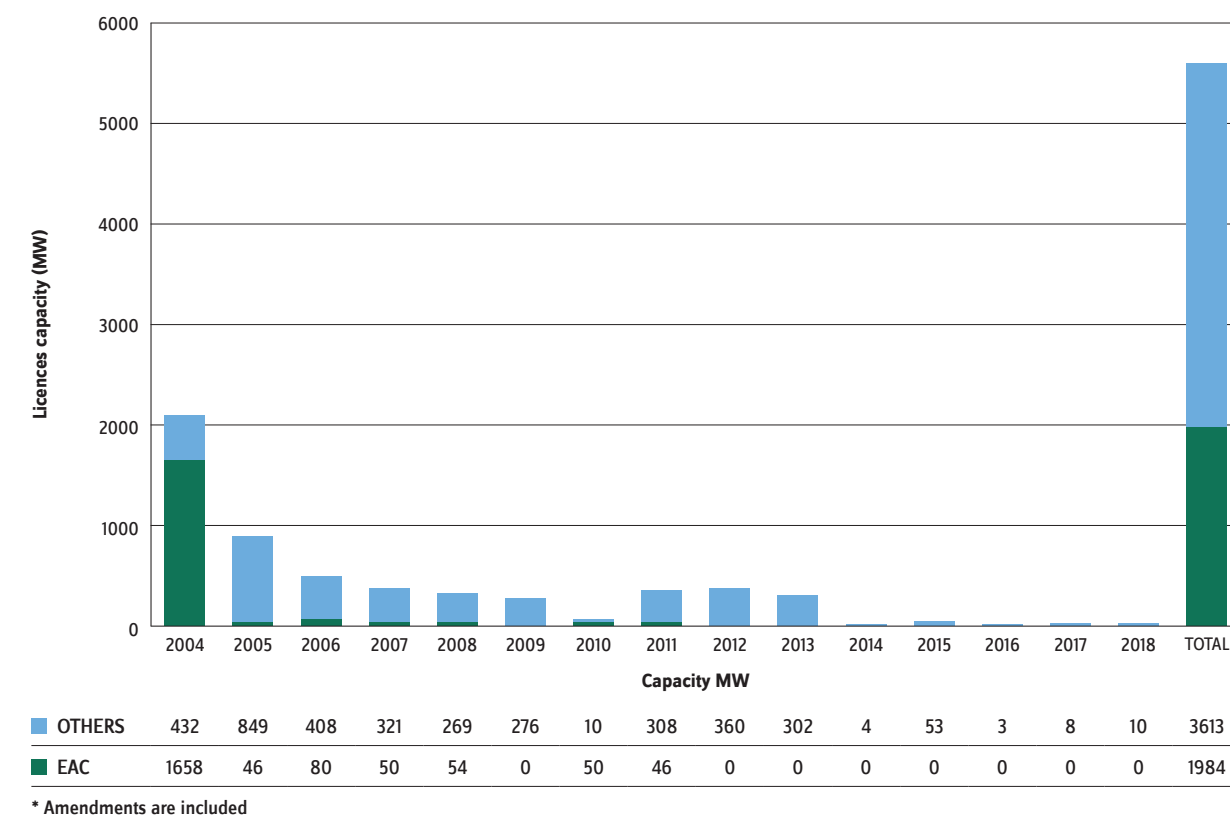


Figure 5 - Applications for electricity generation licences for the period 2004-2018 submitted by EAC and other producers

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

CONVENTIONAL UNITS

In 2018, 86 applications for exemptions from a licence for the construction and operation of conventional power plants for self-production, reserve purposes and/or autonomous systems, and 75 exemptions from a construction and/or operation licence, of a total installed capacity of 17.39MWe were submitted.

RENEWABLE ENERGY SOURCE (RES)

Photovoltaic Systems 21-150kWe within grant schemes

According to the catalogues published on the CERA website, the status of the 21-150kW photovoltaic systems within the grant schemes has not changed in 2018, it remains the same as in the previous year.

Photovoltaic Systems larger than 150kWe within grant schemes - tender

CERA taking into consideration the grant schemes for the encouragement of the use of RES, the government's policy for RES and the call for a tender by the Management Committee of the RES and Energy Saving Fund in 2018, proceeded with the issuance of 1 exemption from licence for the operation of a photovoltaic park in the framework of the tender procedure, with a total installed capacity of 3.049MWe.

Photovoltaic systems, net-billing/auto-generating biomass stations in commercial and industrial buildings, for own use

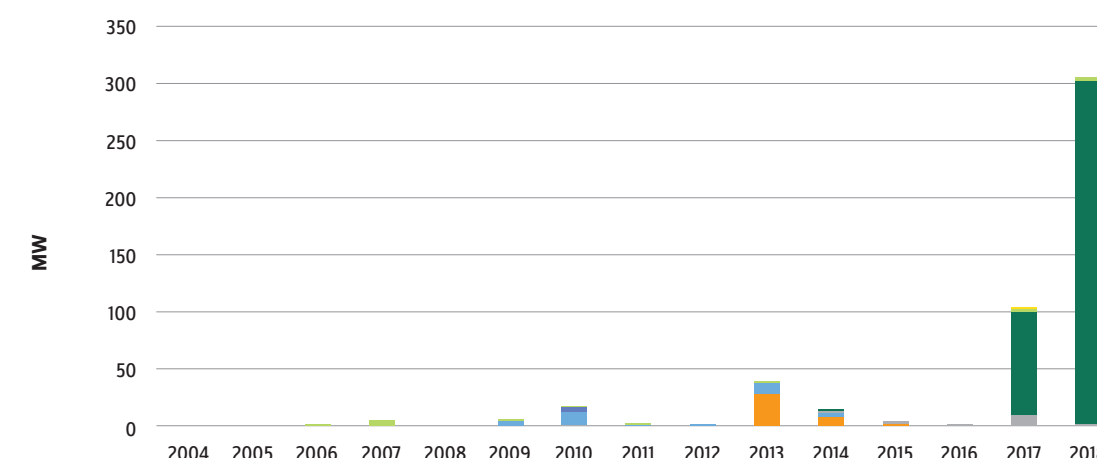
In the year 2018, CERA issued 36 exceptions from licences for the construction of photovoltaic systems and biomass/biogas systems with a total installed capacity of 1.61MWe and 22 exceptions from licence for a total installed capacity of 4.61MWe.

Photovoltaic Systems for commercial use

In 2018, 195 exemptions from a licence for the construction of power stations of 301.52MWe for commercial use were granted.

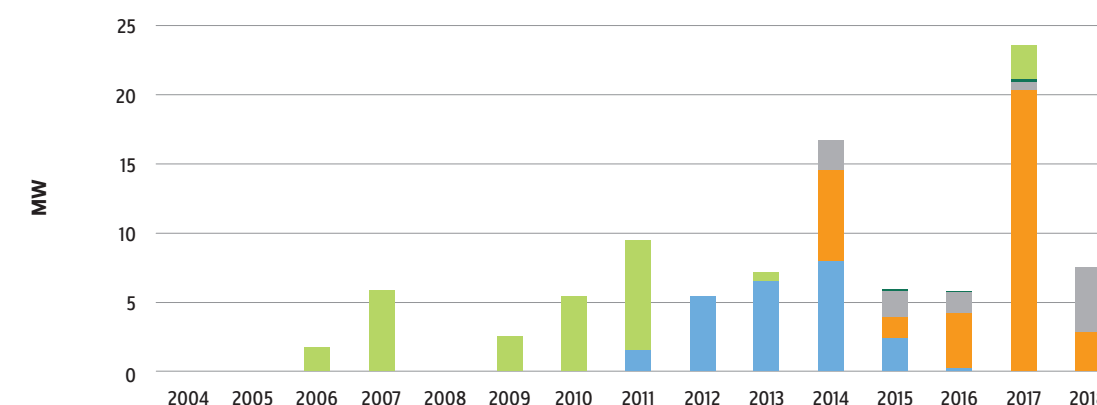
Biomass/Biogas systems for commercial use

In 2018 1 exemption from a licence for a biomass/biogas station was granted for the generation of electricity of 2.27MWe for commercial use.



Biomass-Commercial use																1	
Biomass/Biogas			1.75	5.33		0.75	0.5	1.4		0.6						2.4	2.27
Wind							4.25										
PV-Commercial										0.1	0.942					90.93	301.52
PV-Self-production											2.06	2.02	0.36			9.56	1.61
PV-FIT						5.19	12.81	0.97	1.69	9.55	4.09						
PV-Public tender										28.28	7.76	2.49	1.5				

Figure 6 - Capacity (MW) of exemptions from construction licence (RES) issued for the period 2004-2018



Biomass/Biogas			1.75	5.93		2.54	5.46	7.9		0.6						2.4	
PV-Commercial												0.1	0.07	0.32			
PV-Self-production											2.15	1.87	1.46	0.78	4.61		
PV-Public tender											6.61	1.5	4	20.35	3.049		
PV-FIT								1.58	5.45	6.6	7.98	2.48	0.3				

Figure 7 - Capacity of exemptions from operation licence (RES) issued in the period 2004-2018

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 10kWe is installed. According to this method, the difference between the electricity imported from the grid, to meet the needs of the facility and the generating electricity from the photovoltaic system which is injected into the grid is calculated for every two months.

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 2018, the installation of 1253 Photovoltaic Systems, with a total installed capacity of 5.39MW, was completed.

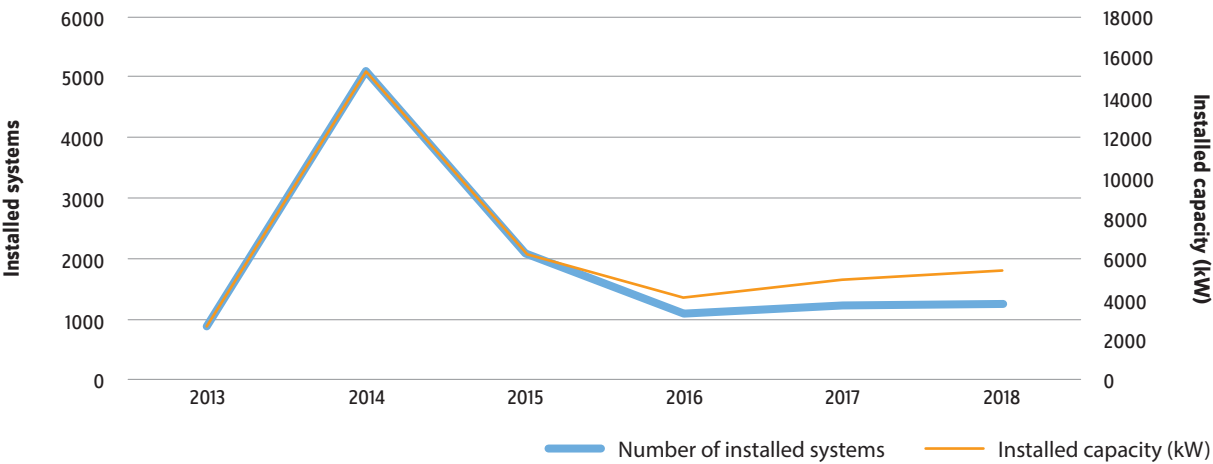


Figure 8 - Number of installed systems and installed capacity [kW] of net-metering systems for the period 2013-2018

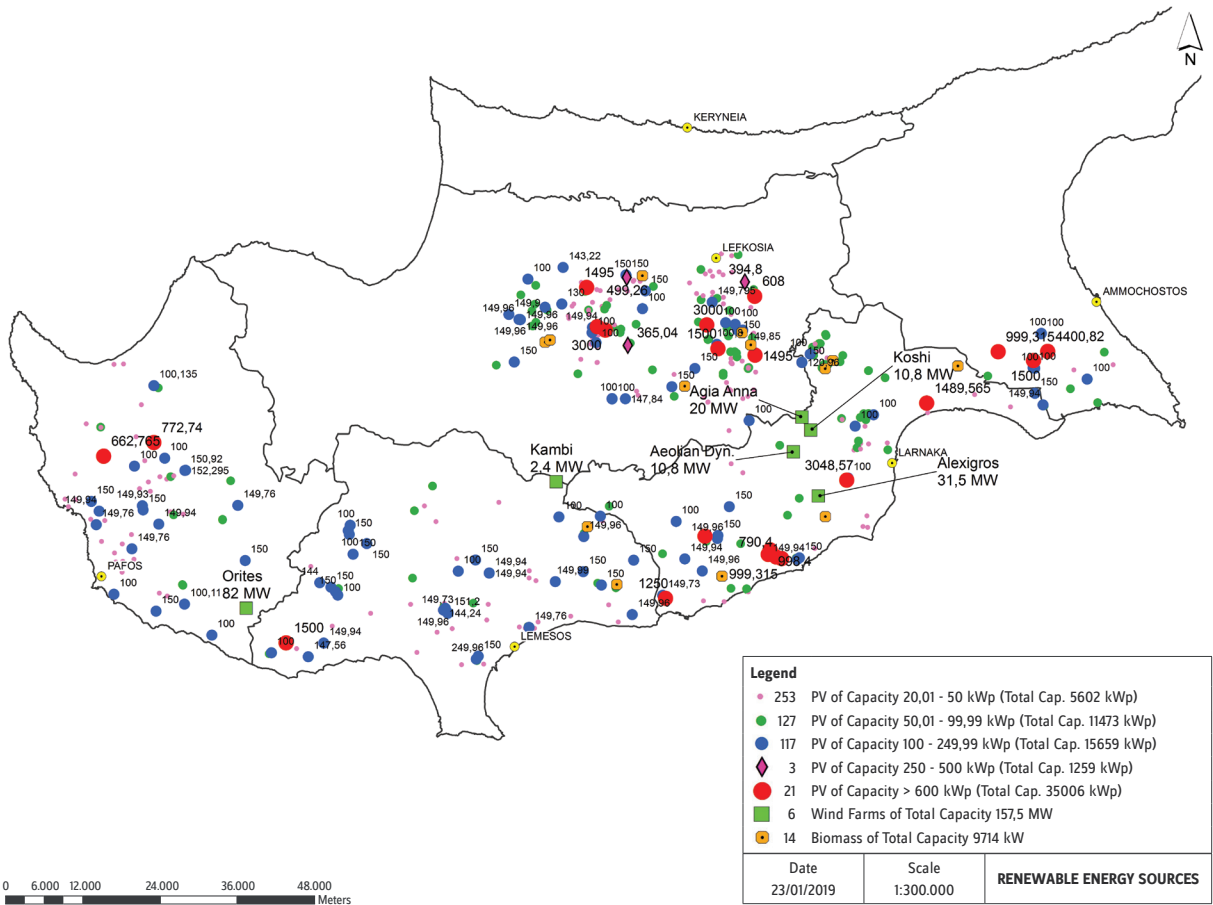


Figure 9 - Presentation and geographical distribution of installed RES Units with a power output of more than 20kWp by 2018

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's website, www.cera.org.cy.

Data of Electricity Power Generation in 2018

Maximum Total Power Generation

Maximum power demand for 2018 occurred on Monday 23 July 2018, at 14:30 hours, when the maximum total power rose to 1074 MW.

Total Energy Production (GWh)

The following important data concerning total electrical energy generated during 2018 have been recorded.

- EAC contributed with 4,574,978 MWh.
- RES producers generated 452,008 MWh.

- EAC generating stations produced 233,286 MWh, for their local needs.
- The energy sent out to the transmission system from the EAC power stations reached 4,341,692 MWh.
- The energy sent out to the distribution system from EAC sub-stations reached 4,544,202 MWh.
- Recorded energy losses in the transmission system amounted to 62,226 MWh or 1.35% of energy sent out to the transmission system.
- Recorded energy losses in the distribution system amounted to 96,400 MWh, or 2.1% of energy sent out to the distribution system.

Load Factor

The Load Factor of conventional generating stations was 53.4% in 2018 compared to the Load Factor for the year 2017 which was 52.1%.

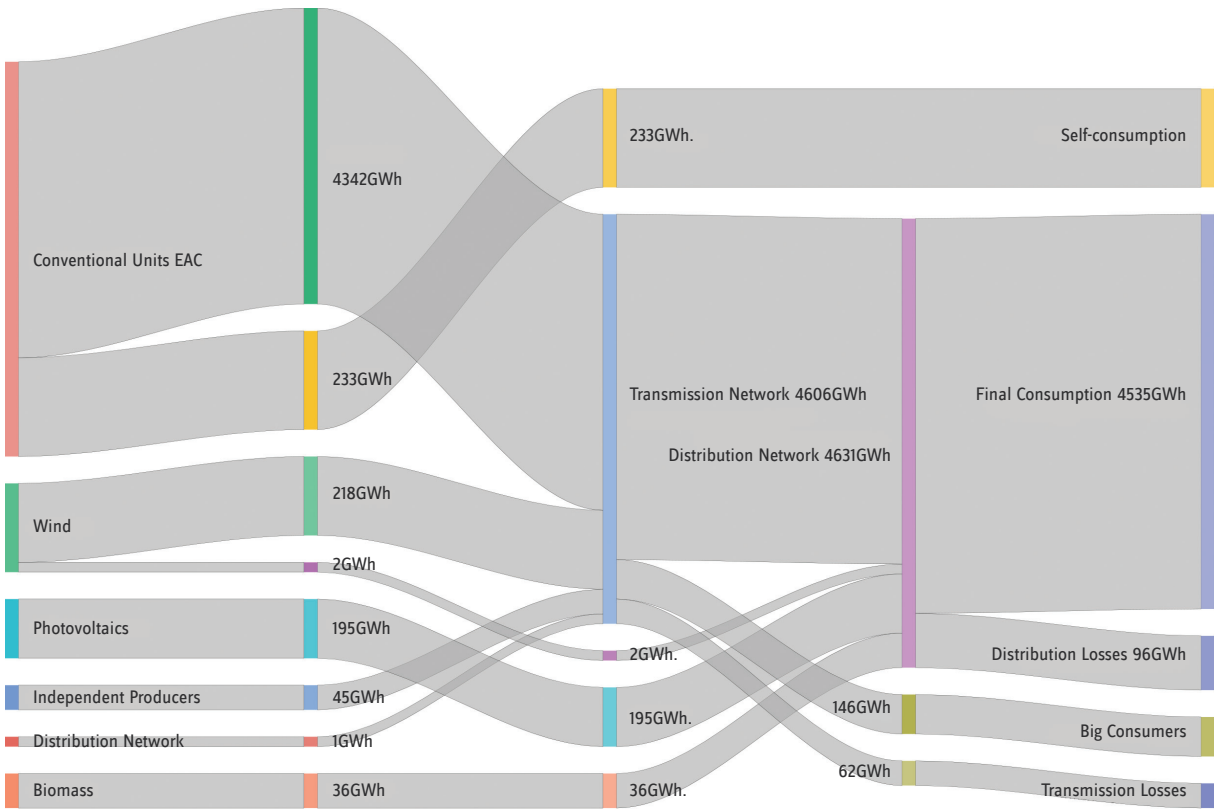


Figure 10 - Total energy generated in 2018 - Sankey diagram

Figures 11 and 12 present historic production data from RES which are connected to the network.

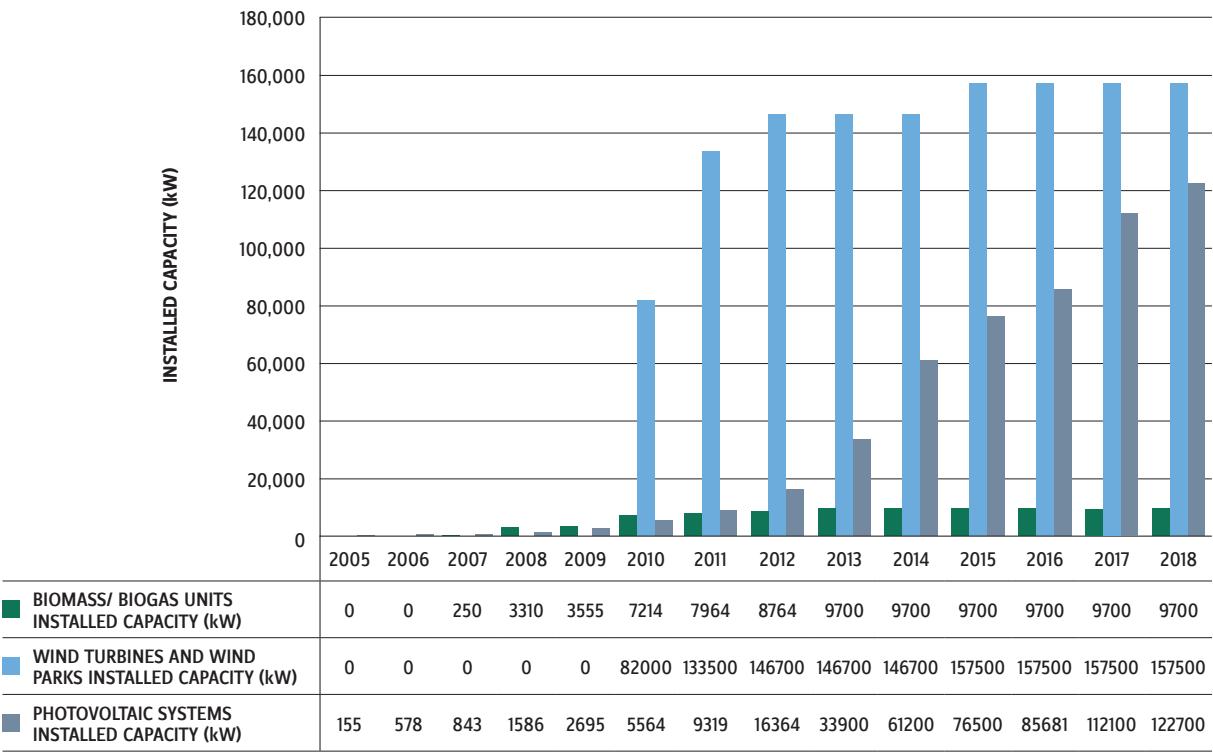


Figure 11 - Annual RES Installed Capacity (kW)

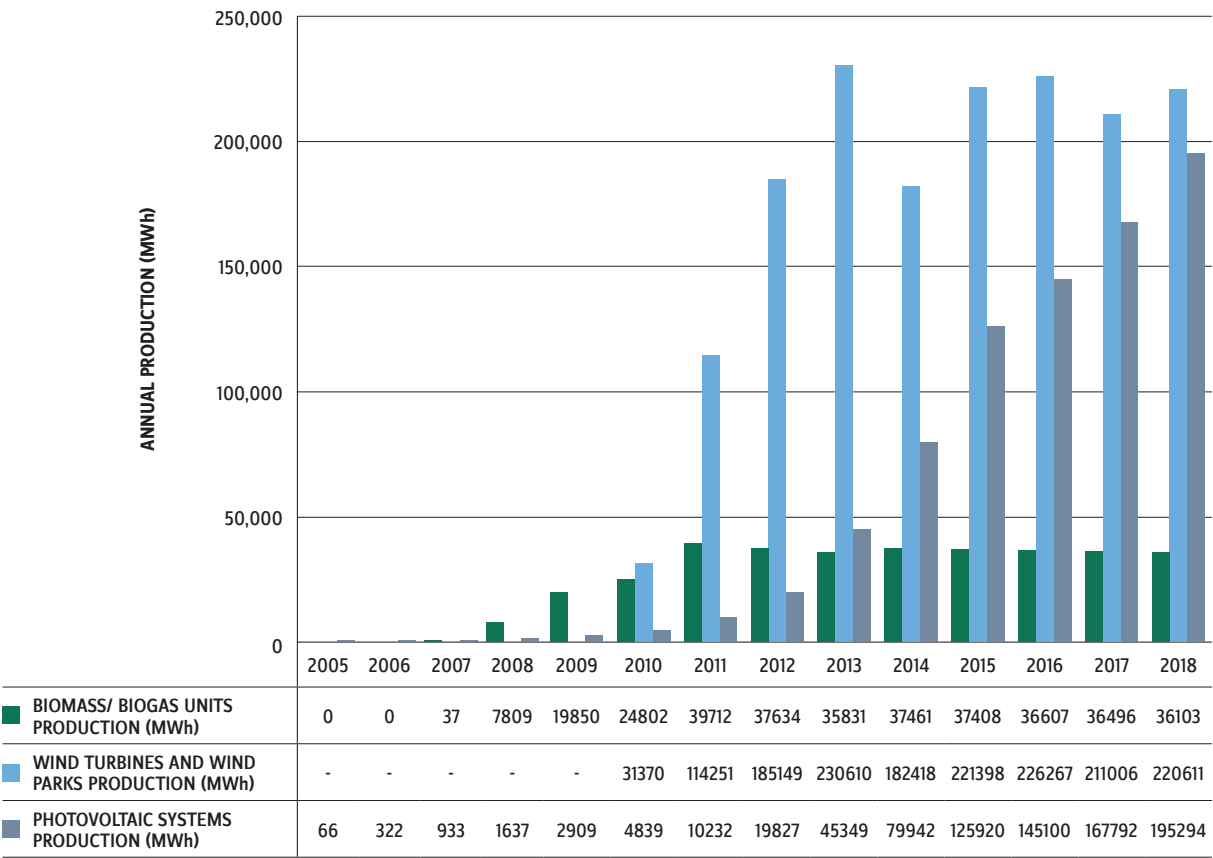


Figure 12 - Annual RES generation (MWh)

Forecast of Annual Maximum Energy Generation (MW) and Total Annual Energy Generated (GWh) for the Decade 2018-2027

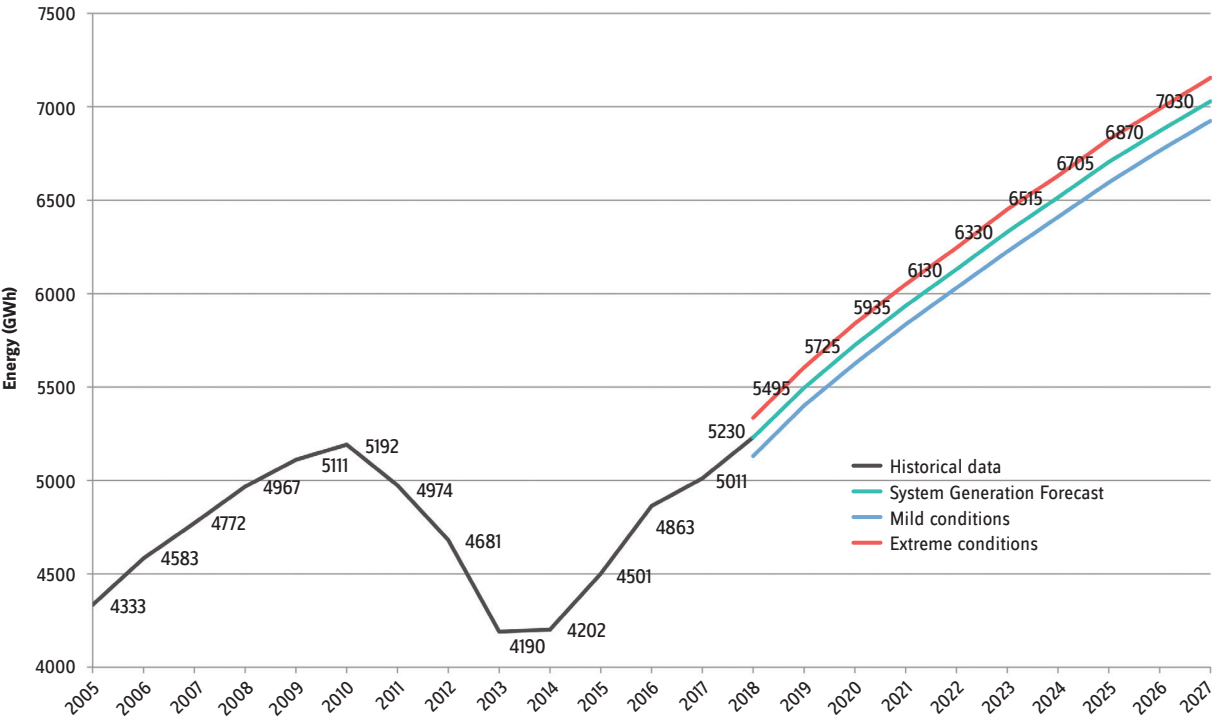


Figure 13 - Forecast of Annual System Generation (MW) 2018-2027

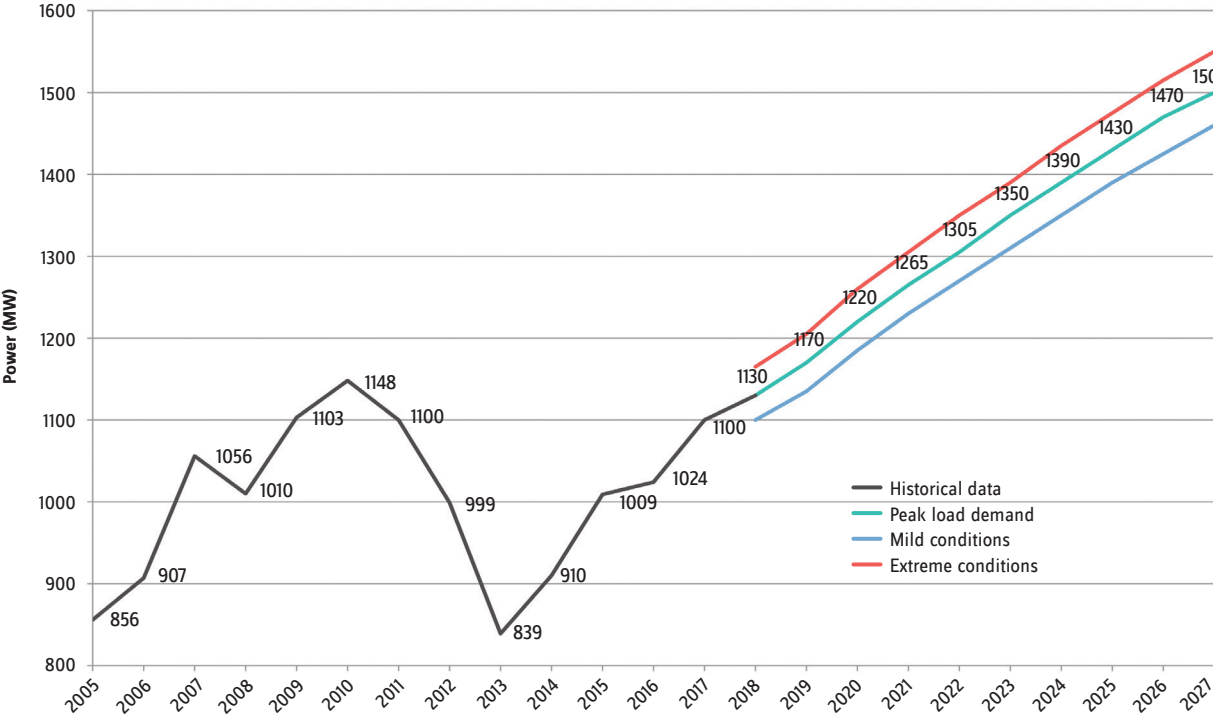


Figure 14 - Forecast of Annual Maximum Generation (MW) 2018-2027

Security of Electricity Supply

CERA in accordance with the Laws Regulating the Electricity Market of 2003 to 2018 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 and Industry, who, after consultation with CERA and the TSO, takes the indicated corrective measures.

As shown in Figure 15, during the year under review, security of supply is at a sufficiently high level.

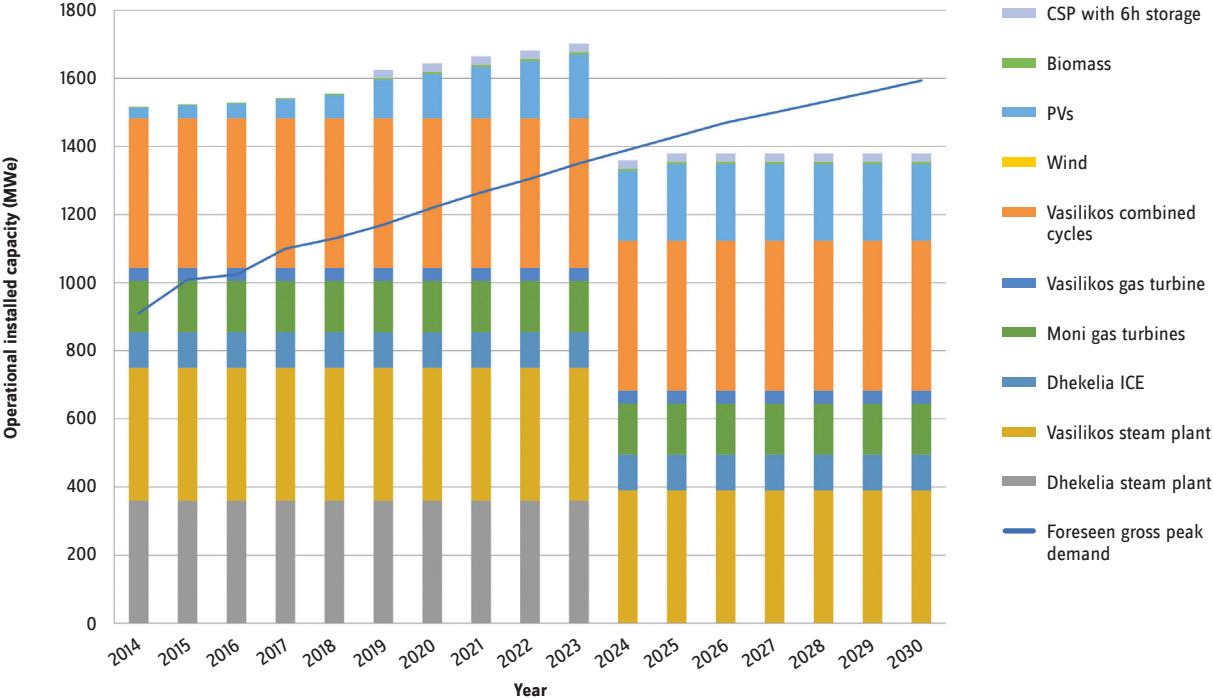


Figure 15 - Installed Operational Capacity (MWe) for the period 2014-2030

Electricity Prices

Figure 16 shows the average electricity price per kWh sold, excluding the RES levy and the VAT, for the years 2015 to 2018:

- 01: Single Rate Domestic Use Tariff
- 10: Bi-monthly Low Voltage Single Rate Commercial Use Tariff
- 20: Bi-monthly Low Voltage Single Rate Industrial Use Tariff
- 30: Monthly Low Voltage Seasonal Two-Rate Commercial and Industrial Use Tariff
- 40: Monthly Medium Voltage Seasonal Two-Rate Commercial and Industrial Use Tariff
- 50: Monthly High Voltage Seasonal Two-Rate Commercial and Industrial Use Tariff

Figure 16 shows that the 01, 10 and 20 code prices (domestic, commercial low voltage and industrial low voltage, respectively) are higher than other tariffs, while the 30, 40 and 50, which are Seasonal Time of Day (STOD) prices (low, medium and high voltage commercial and industrial respectively) are

at a lower level. For years prior to 2017, where more than one old pricing codes have been included in a new pricing code, the average value of the old code's pricing has been taken into account.

The increase in the average price of 2018 tariffs is due to the increase in fuel prices.



Figure 16 - Average Tariff Rate with the exception of RES and VAT

5

NATURAL GAS MARKET

Legislative Framework for the Natural Gas Market

The current Laws Regulating the Natural Gas Market of 2004 to 2018, which adopt the important features of the Third Energy Package, provide for the regulation of the gas market in the Republic of Cyprus and among other things, set the rules for transmission, distribution, supply and storage of natural gas. In addition, they define the rules on the organization and operation of the gas sector, market access, exploitation of the networks and the criteria and procedures for granting licences for the transmission, distribution, supply and storage of natural gas. They also describe the duties and responsibilities of CERA and fully define the range of activities and its role.

It should be noted that the Laws Regulating the Natural Gas Market of 2004 to 2018 contain the key provisions in view of the imminent introduction of natural gas in the energy balance of Cyprus, but they do not specify the market model and organisational framework to be used for its development. Furthermore, the Laws provide 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 operating framework for the gas and electricity markets, as reflected in a very detailed way in the European legislative framework, is the separation of the activities of the production and the supply of gas, which must now take place under conditions of fair competition, from those of transmission and distribution, for which regulated third party access is foreseen under the supervision of national regulatory authorities, ACER and the European Commission.

The Laws Regulating the Natural Gas Market of 2004 to 2018, provide that Cyprus may deviate from some specific articles of Directive 2009/73/EC, 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 (transmission, distribution, storage, LNG, etc.) from the activities of production and supply, in the manner prescribed in the Directive, for example in the transmission 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 supply.

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

Following a Decision of the Council of Ministers in April 2018, a Special Purpose Vehicle (SPV) was established under the name of Natural Gas Infrastructure Company Ltd (ETYFA LTD), which will implement the necessary LNG facilities.

DEFA Ltd, acting on behalf of ETYFA, published in October 2018 a tender for the design, construction and operation of the LNG terminal in Vassilikos bay. Tender submissions are pending for 2019.

The entry of natural gas 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 gives high priority in serving the objective of rapid and efficient gas penetration with competitive conditions in the Cypriot market.

CERA's obligations regarding the natural gas market and the regulatory scope of its jurisdiction are set out in the Laws Regulating the Natural Gas Market of 2004 to 2018. CERA in the period up to the arrival of natural gas, 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

Consumer protection and resolving complaints



The Council of European Energy Regulators (CEER), in cooperation with all National Regulatory Authorities, is promoting measures to implement the protection and upgrading of the rights of energy consumers and, in particular, vulnerable consumers. The key measure is

the support of CEER by the National Regulatory Authorities, which disclose the setting up of its new website dedicated solely to informing energy consumers.

The CEER website which focuses exclusively on energy consumers is:
https://www.ceer.eu/energy_customers



CERA in order to ensure that consumers have available all necessary information concerning their rights, the current legislation and the means of redress available in case of dispute, issued in 2016 an "Informative Kit" which is available in an electronic format in the Citizen Service Centres, in the District Offices of the MECI and the EAC District Offices.

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

Performance Indicators

CERA exercising its powers under the Laws Regulating the Electricity Market of 2003 to 2018, has issued, with the approval of the Council of Ministers and after being submitted 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 indicators and include the obligations of the supplier and/or the Owner of the Distribution System (ODS), 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 ODS 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 ODS and as licensed supplier recorded for the period 1 January 2018 until 31 December 2018 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 2007-2018

Fine paid by EAC (€) to electricity consumers

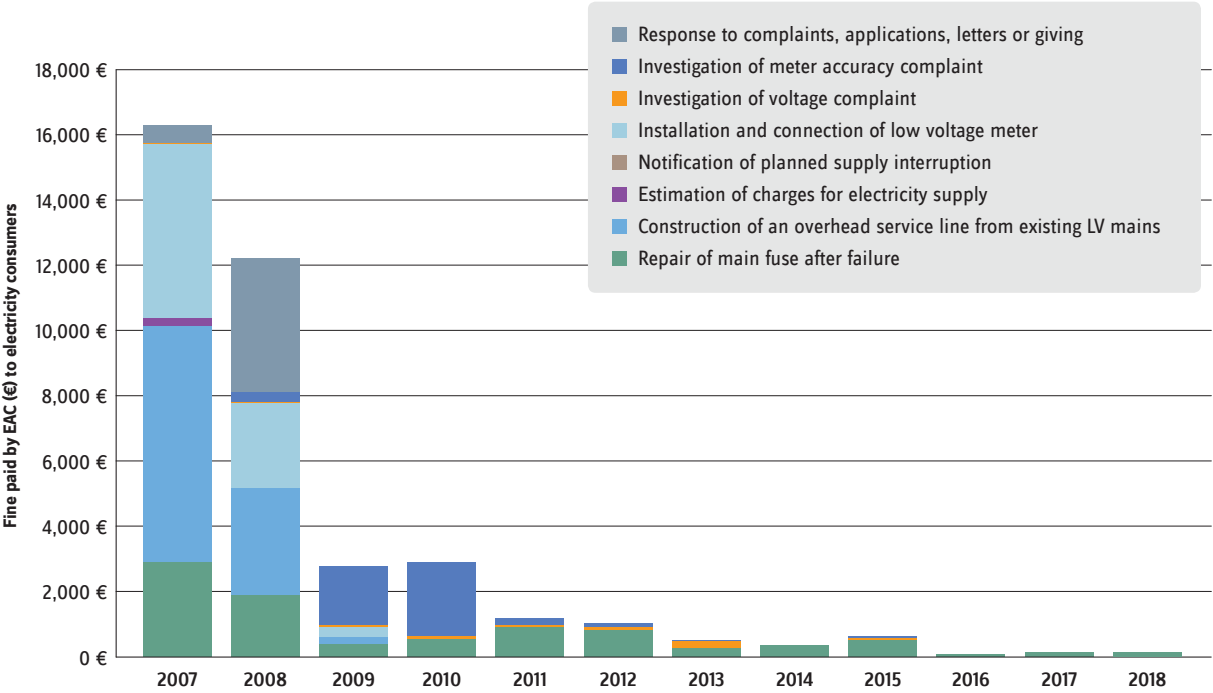


Figure 17 - Performance Indicators for the ODS (EAC)

PERFORMANCE INDICATOR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1 Repair of main fuse after failure	2.905€	1.896€	393€	529€	914€	828€	265€	367€	521€	60€	137€	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 4 - Performance Indicators for the ODS (EAC)

PERFORMANCE INDICATORS FOR THE SUPPLIER (EAC)
COMPARATIVE TABLE FOR THE YEARS 2007-2018

Fine paid by EAC (€) to electricity consumers

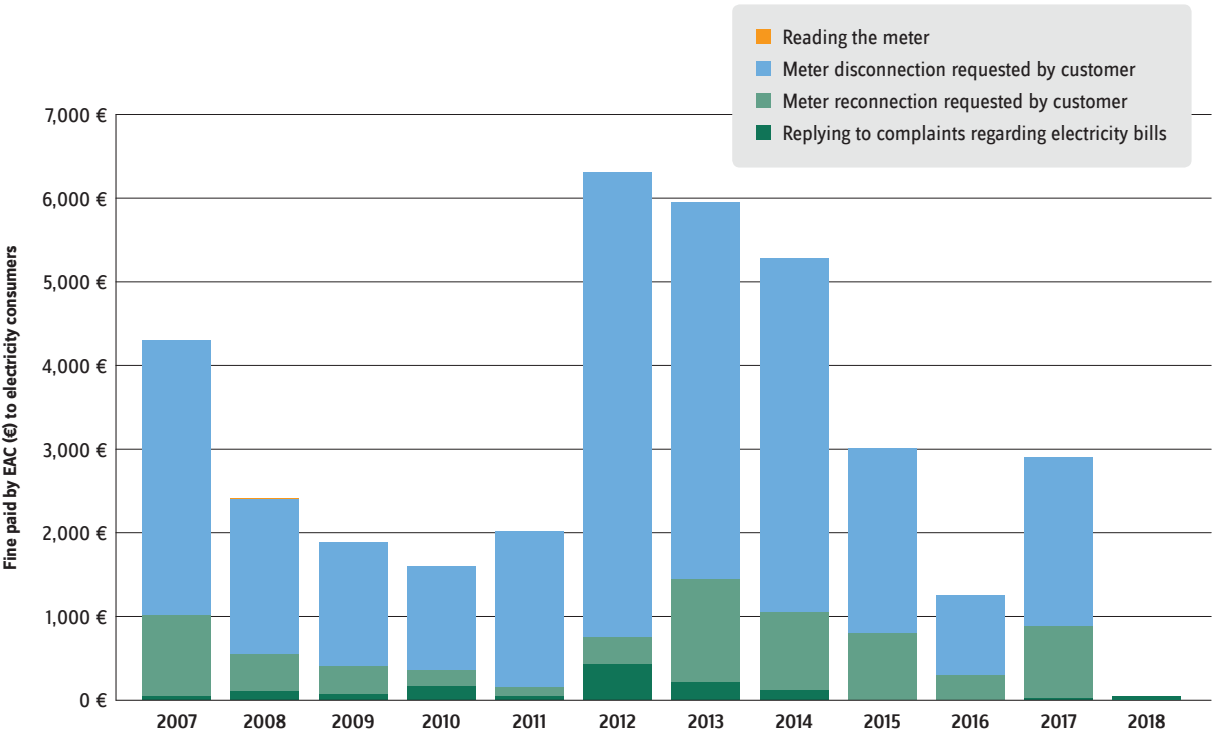


Figure 18 - Performance Indicators of EAC Supply

PERFORMANCE INDICATOR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1 Replying to complaints regarding electricity bills	51€	103€	68€	171€	51€	427€	222€	120€			17€	51€
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 ODS

Table 5 - Performance Indicators of EAC Supply

From the above tables it is evident that during the year under review EAC performance, both as the ODS 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, to undertake all appropriate actions so that the performance of EAC can be further improved.

Complaints submitted to CERA

In figure 19 below, the type and number of complaints submitted to CERA in 2018 are presented. It should be noted that all complaints have been examined and consumers have been informed accordingly.

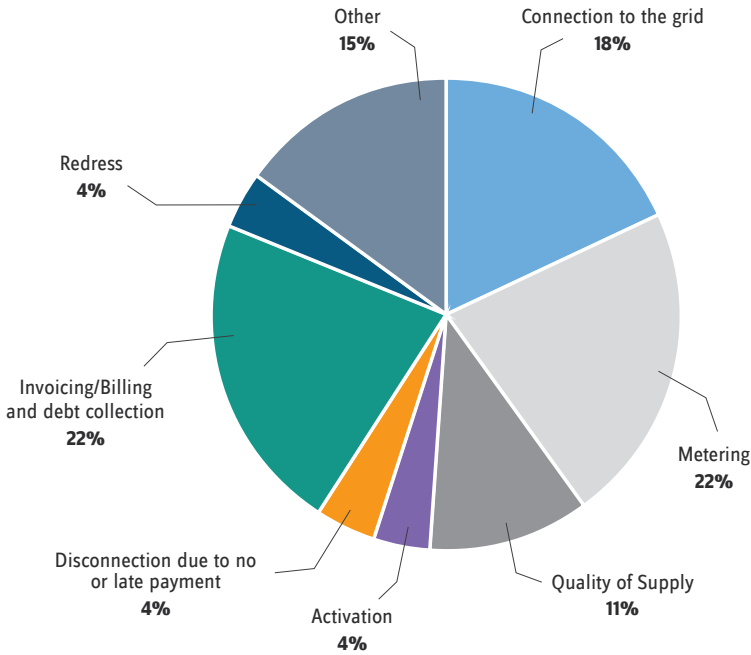


Figure 19 - Consumer complaints filed with CERA in 2018

CONTENTS

Members of the Authority	60
Report of the Members of the Authority	61
Independent auditor's report	62
Statement of profit or loss and other comprehensive income	65
Statement of financial position	66
Statement of changes in equity	67
Statement of cash flows	68
Notes to the financial statements	69
Additional information to the statement of profit or loss and other comprehensive income	90

MEMBERS OF THE AUTHORITY

Members:

Andreas Poullikkas - 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 Centre, 1st floor
8062 Paphos
Cyprus

Financial Advisers:

Alliott Partellas Kiliaris Ltd
Certified Public Accountants
77, Strovolou
Strovolos Center, Office 201
2018 Strovolos
Nicosia, Cyprus

Legal Advisers:

Orphanides, Christofides & Co LLC
41, Themistoclis Dervis
Hawai Tower, Offices 301-303, 3rd Floor
1066 Nicosia, Cyprus

Christos M. Triantafillides
27, Evagorou, Irene Tower
Suites 30 & 54
1065 Nicosia, Cyprus

Registered office:

81-83 Griva Digeni Avenue
Jakovides building, 3rd Floor, 1080 Nicosia
P.O.Box 24936
1355 Nicosia

REPORT OF THE MEMBERS OF THE AUTHORITY

The Members of the Cyprus Energy Regulatory Authority (CERA) present their report and the audited financial statements of CERA for the year ended 31 December 2018.

Principal activity

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 business

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 Authority are disclosed in note 3 of the financial statements.

Results

The Authority's results for the year are set out on page 65.

Members

The members of the Authority as at 31 December 2018 and at the date of this report are presented on page 60.

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.

By order of the Members of the Authority,



Andreas Poullikkas

Chairman

Nicosia, Cyprus, 25 April 2019

Independent Auditor's Report To the Members of CYPRUS ENERGY REGULATORY AUTHORITY

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cyprus Energy Regulatory Authority (CERA) (the "Authority"), which are presented in pages 65 to 89 and comprise the statement of financial position as at 31 December 2018, 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 2018, 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 law regulating the Electricity Market.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Authority in accordance with the "International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants" (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit 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 and the additional information to the statement of profit or loss and other comprehensive income in pages 90 to 93, 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 Members of the Authority 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 judgment and maintain professional scepticism 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 use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

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

Report on Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

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

Other Matter

This report, including the opinion, has been prepared for and only for the Authority's members as a body in accordance with Section 69 of the Auditors Law of 2017 and for the Auditor General of the Republic 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 Chr. Kouvaros BSC, ACA
Certified Public Accountant and Registered Auditor
for and on behalf of

CYFEXPO Limited
Certified Accountants and Registered Auditors

Paphos, Cyprus, 25 April 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Note	2018 €	2017 €
Revenue	5	2,210,881	2,008,954
Other operating income	6	39,321	34,745
Selling and distribution expenses		-	(628)
Administration expenses		(1,624,397)	(1,726,534)
Other expenses	7	(96,226)	(35,951)
Operating surplus	8	529,579	280,586
Finance income	11	66,338	81,103
Finance costs	11	(3,499)	(1,703)
Surplus before tax		592,418	359,986
Tax	12	(19,863)	(24,331)
Net surplus for the year		572,555	335,655
Other comprehensive income			
Remeasurements of post-employment benefit obligations		75,920	61,191
Other comprehensive income for the year		75,920	61,191
Total comprehensive income for the year		648,475	396,846

The notes on pages 69 to 89 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

31 December 2018

	Note	2018 €	2017 €
ASSETS			
Non-current assets			
Property, plant and equipment	14	70,697	87,316
Intangible assets	15	-	267
Available-for-sale financial assets	16	163,902	260,128
		<u>234,599</u>	<u>347,711</u>
Current assets			
Trade and other receivables	17	53,658	68,376
Cash at bank and in hand	18	9,487,783	8,635,804
		<u>9,541,441</u>	<u>8,704,180</u>
Total assets		<u>9,776,040</u>	<u>9,051,891</u>
EQUITY AND LIABILITIES			
Reserves			
Retained surplus		6,156,724	5,512,527
Total reserves		<u>6,156,724</u>	<u>5,512,527</u>
Non-current liabilities			
Provisions for other liabilities and charges	20	1,444,425	1,398,937
		<u>1,444,425</u>	<u>1,398,937</u>
Current liabilities			
Trade and other payables	21	97,849	72,642
Deferred income	22	2,066,349	2,050,051
Borrowings	19	6,012	7,499
Current tax liabilities	23	4,681	10,235
		<u>2,174,891</u>	<u>2,140,427</u>
Total liabilities		<u>3,619,316</u>	<u>3,539,364</u>
Total equity and liabilities		<u>9,776,040</u>	<u>9,051,891</u>

On 25 April 2019 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 69 to 89 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Note	Retained surplus €
Balance at 1 January 2017		5,121,949
Comprehensive income		
Net surplus for the year		335,655
Defence contribution on deemed distribution	13	(6,268)
Other movements		
Actuarial profit for the year		<u>61,191</u>
Balance at 31 December 2017/ 1 January 2018		5,512,527
Comprehensive income		
Net surplus for the year		572,555
Defence contribution on deemed distribution	13	(4,278)
Other movements		
Actuarial profit for the year		<u>75,920</u>
Balance at 31 December 2018		<u>6,156,724</u>

Organisations which do not distribute 70% of their profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 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 Authority for the account of the shareholders.

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

The notes on pages 69 to 89 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Note	2018 €	2017 €
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus before tax		592,418	359,986
Adjustments for:			
Depreciation of property, plant and equipment	14	23,386	27,372
Amortisation of computer software	15	266	266
Actuarial (Loss)/Gain		75,920	61,191
Impairment charge - available-for-sale financial assets	16	96,226	35,951
Interest income	11	(66,338)	(81,103)
Interest expense	11	1,505	-
		723,383	403,663
Changes in working capital:			
Decrease/(increase) in trade and other receivables		14,719	(13,298)
Increase in trade and other payables		25,207	10,311
Increase in deferred income		16,298	2,045,710
Increase in provisions	20	45,488	77,811
Cash generated from operations		825,095	2,524,197
Tax (paid)/refunded		(25,417)	4,954
Net cash generated from operating activities		799,678	2,529,151
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for purchase of property, plant and equipment	14	(6,767)	(55,368)
Interest received		66,338	81,103
Net cash generated from investing activities		59,571	25,735
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(1,505)	-
Defence contribution on deemed distribution paid		(4,278)	(6,268)
Net cash used in financing activities		(5,783)	(6,268)
Net increase in cash and cash equivalents		853,466	2,548,618
Cash and cash equivalents at beginning of the year		8,628,305	6,079,687
Cash and cash equivalents at end of the year	18	9,481,771	8,628,305

The notes on pages 69 to 89 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

1. Incorporation and principal activities

Country of incorporation

The Cyprus Energy Regulatory Authority (the "Authority") was incorporated in Cyprus on 21 January 2004 as a public law legal entity, according to Law 122(I)/2003. On the same date and under the same law the Office of CERA was incorporated, which operates as a separate legal entity. The CERA supervises and controls the Office of CERA. 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 relate to CERA and the Office of Cera.

Principal activity

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 Management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Adoption of new and revised IFRSs

As from 1 January 2018, the Authority adopted all the following IFRSs and International Accounting Standards (IAS), which are relevant to its operations. The adoption of these Standards did not have a material effect on the financial statements.

At the date of approval of these financial statements, standards and interpretations were issued by the International Accounting Standards Board which were not yet effective. Some of them were adopted by the European Union and others not yet. The Members of the Authority 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

- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on 12 October 2017) (effective for annual periods beginning on or after 1 January 2019).

ii. Not adopted by the European Union

New standards

- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021).

Amendments

- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017) (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018) (effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 Cycle (issued on 12 December 2017) (effective for annual periods beginning on or after 1 January 2019)
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020)
- IFRS 10 (Amendments) and IAS 28 (Amendments) "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date postponed indefinitely).

New IFRICs

- IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).

The Members of the Authority expect that the adoption of these standards or interpretations in future periods will not have a material effect on the financial statements of the Authority.

Revenue recognition

Revenues earned by the Authority are recognised 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 entity 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 profit or loss 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 the Authority. 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 either individually or at the cash generating unit level. 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 the Authority 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). Non financial assets, other than goodwill, that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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 profit or loss 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. Management determines 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 management intends 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. Investments 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 entity 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 profit or loss.

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

The Authority 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. The Authority's income and operating cash flows are substantially independent of changes in market interest rates as the Authority has no significant interest-bearing assets. The Authority is exposed to interest rate risk in relation to its non-current borrowings. Borrowings issued at variable rates expose the Authority to cash flow interest rate risk. Borrowings issued at fixed rates expose the Authority to fair value interest rate risk. The Authority's management monitors 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:

	2018	2017
	€	€
Fixed rate instruments		
Financial assets	9,487,178	8,636,732
	9,487,178	8,636,732

Sensitivity analysis

An increase of 100 basis points in interest rates at 31 December 2018 would have increased/ (decreased) equity and profit or loss 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.

	Profit or loss	
	2018	2017
	€	€
Variable rate instruments	94,872	86,367

3.3 Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Authority has no significant concentration of credit risk. The Authority has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables.

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 2018 were as follows:

	Net carrying amount	
	2018	2017
	€	€
Trade and other receivables	36,083	52,147
Cash at bank	3,717,794	2,323,422
Bank deposits	5,769,384	6,311,280
	9,523,261	8,686,849

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:

	2018 €	2017 €
Cash at bank and short term bank deposits ⁽¹⁾		
B3	3,715,132	-
Caa2	-	2,323,422
Ba1	2,662	-
	<u>3,717,794</u>	<u>2,323,422</u>

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

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

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

Bank group based on credit ratings by Moody's	No of banks	2018 €	2017 €
Caa1	2	-	4,306,542
Caa2	2	-	1,006,768
Caa3		1,009,410	1,000,000
B3	1	3,559,974	-
Ba1	1	1,200,000	-
		<u>5,769,384</u>	<u>6,313,310</u>

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.

31 December 2018	Carrying amounts €	3 months or less €
Bank overdrafts	6,012	6,012
Trade and other payables	91,082	91,082
	<u>97,094</u>	<u>97,094</u>

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

3.5 Other risks

The general economic environment prevailing in Cyprus and internationally may affect the Authority's operations to a great 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 the Authority's financial assets and liabilities approximate their carrying amounts at the reporting date.

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.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Authority uses a variety of methods, such as estimated discounted cash flows, and makes assumptions that are based on market conditions existing at the reporting date.

4. Critical accounting estimates and judgments

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 Member's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Estimates and judgments 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.

Critical accounting estimates and assumptions

The Authority makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- **Provision for bad and doubtful debts**

The Authority reviews its trade and other receivables for evidence of their recoverability. Such evidence includes the customer's payment record and the customer's overall financial position. If indications of irrecoverability exist, the recoverable amount is estimated and a respective provision for bad and doubtful debts is made. The amount of the provision is charged through profit or loss. The review of credit risk is continuous and the methodology and assumptions used for estimating the provision are reviewed regularly and adjusted accordingly.

Critical judgements in applying the Authority's accounting policies

- **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 judgment. In making this judgment, the Authority evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

- **Retirement benefits**

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

- **Impairment of non-financial assets**

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

- **Impairment of intangible asset**

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

5. Revenue

	2018 €	2017 €
Annual fees	2,099,956	1,959,312
Rendering of services	110,925	49,642
	<u>2,210,881</u>	<u>2,008,954</u>

6. Other operating income

	2018 €	2017 €
Gain from sale of property, plant and equipment	2,800	-
Impairment for the year of receivables from European Programms	-	4,341
Sundry operating income	36,521	30,404
	<u>39,321</u>	<u>34,745</u>

7. Other expenses

	2018 €	2017 €
Impairment charge on available-for-sale financial assets (Note 16)	96,226	35,951
	<u>96,226</u>	<u>35,951</u>

8. Operating surplus

	2018 €	2017 €
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)	23,386	27,372
Staff costs including Members in their executive capacity (Note 9)	1,020,318	975,365
Auditors' remuneration - current year	3,497	3,497
Auditors' remuneration - prior years	(5,600)	-
Trade receivables - impairment charge for bad and doubtful debts	-	628

9. Staff costs

	2018 €	2017 €
Salaries	816,472	753,559
Social security costs	97,623	89,182
Expenses related to defined benefits plan (Note 10)	106,223	132,624
	1,020,318	975,365

10. Employee benefits

The Authority 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 2018 and it was based on the following assumptions:

	2018 €	2017 €
Discount rate	2.20%	2.09%
Expected return on assets	2.20%	2.09%
Inflation	1.50%	1.50%
General salary increases	0.50%	0.50%
Total salary increase	2017: 1.25% 2018+: 1.25% for inflation and the general increase of salaries plus incremental promotions	2016: 0% 2017+: 1.25% for inflation and the general increase of salaries plus incremental 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 €106,223 (2017: €132,624) was charged to profit or loss based on the above actuarial valuation. Amounts charged to profit or loss are analysed as follows:

	2018 €	2017 €
Current service costs	76,032	107,816
Interest on obligation	30,191	24,808
	106,223	132,624

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

	2018 €	2017 €
Balance at 1 January	1,398,937	1,321,126
Provision for the year	106,223	132,624
Actuarial Loss/(Gain) on obligation	(75,920)	(61,191)
Payments of benefits	(2,852)	(9,247)
Contributions by Members	18,038	15,625
Balance at 31 December	1,444,425	1,398,937

At 31 December 2018 the actuarial position in respect of the defined benefit plan was as follows:

	2018 €	2017 €
Present value of accrued plan obligations	1,444,425	1,398,937
Provision for plan liabilities recognised in the statement of financial position	1,444,425	1,398,937

11. Finance income/(costs)

	2018 €	2017 €
Interest income	66,338	81,103
Finance income	66,338	81,103
Interest expense	(1,505)	-
Sundry finance expenses	(1,994)	(1,703)
Finance costs	(3,499)	(1,703)
Net finance income	62,839	79,400

12. Tax

	2018 €	2017 €
Defence contribution	19,863	24,331
Charge for the year	19,863	24,331

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

	2018	2017
	€	€
Defence contribution on deemed distribution	4,278	6,268
	4,278	6,268

14. Property, plant and equipment

	Computer hardware	Plant and machinery	Motor vehicles	Furniture, fixtures and office equipment	Books	Total
	€	€	€	€	€	€
Cost						
Balance at 1 January 2017	81,600	76,654	22,844	77,518	5,401	264,017
Additions	15,267	6,689	24,968	8,444	-	55,368
Balance at 31 December 2017/ 1 January 2018	96,867	83,343	47,812	85,962	5,401	319,385
Additions	116	6,391	-	260	-	6,767
Balance at 31 December 2018	96,983	89,734	47,812	86,222	5,401	326,152
Depreciation						
Balance at 1 January 2017	54,129	58,112	22,844	65,110	4,502	204,697
Charge for the year	14,214	4,380	4,994	3,477	307	27,372
Balance at 31 December 2017/ 1 January 2018	68,343	62,492	27,838	68,587	4,809	232,069
Charge for the year	10,624	4,516	4,994	3,073	179	23,386
Balance at 31 December 2018	78,967	67,008	32,832	71,660	4,988	255,455
Net book amount						
Balance at 31 December 2018	18,016	22,726	14,980	14,562	413	70,697
Balance at 31 December 2017	28,524	20,851	19,974	17,375	592	87,316

15. Intangible assets

	Computer software €
Cost	
Balance at 1 January 2017	14,333
Balance at 31 December 2017/ 1 January 2018	14,333
Balance at 31 December 2018	14,333
Amortisation	
Balance at 1 January 2017	13,800
Amortisation for the year (Note 8)	266
Balance at 31 December 2017/ 1 January 2018	14,066
Amortisation for the year (Note 8)	266
Balance at 31 December 2018	14,333
Net book amount	
Balance at 31 December 2018	-
Balance at 31 December 2017	267

16. Available-for-sale financial assets

	2018 €	2017 €
Balance at 1 January	260,128	296,079
Impairment charge	(96,226)	(35,951)
Balance at 31 December	163,902	260,128

Available-for-sale financial assets comprise 105.743 Class A shares 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 2018 their fair value was €2.46 each share.

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

	2018 €	2017 €
Impairment charge	(96,226)	(35,951)
Net loss on available-for-sale financial assets	(96,226)	(35,951)

17. Trade and other receivables

	2018 €	2017 €
Trade receivables	19,436	16,989
Deposits and prepayments	17,575	16,229
Accrued income	15,604	34,115
Grant receivable from European Programms	1,043	1,043
	53,658	68,376

The Authority has not recognized a loss for the impairment of its trade receivables during the year ended 31 December 2018 (2017: €628).

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

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

18. Cash at bank and in hand

Cash balances are analysed as follows:

	2018 €	2017 €
Cash in hand	605	1,102
Cash at bank	3,717,794	2,323,422
Notice accounts	5,769,384	6,311,280
	9,487,783	8,635,804

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

	2018 €	2017 €
Current borrowings		
Bank overdrafts (Note 18)	6,012	7,499

20. Provisions for other liabilities and charges

	Pension and other post retirement obligations
	€
Balance at 1 January 2017	1,321,126
Charged/(credited) to profit or loss	132,624
Payments of benefits	(9,246)
Contributions by Members	15,624
Actuarial gain	(61,191)
Balance at 31 December 2017/ 1 January 2018	1,398,937
Charged/(credited) to profit or loss	106,223
Payments of benefits	(2,852)
Contributions by Members	18,037
Actuarial gain	(75,920)
Balance at 31 December 2018	1,444,425

21. Trade and other payables

	2018	2017
	€	€
Trade payables	18,086	4,366
Prepayments from clients	191	138
VAT	2,484	20,116
Sponsorship returned for staff training	20,635	-
Accruals	15,186	16,725
Other creditors	36,989	25,029
Defence tax on deemed distribution	4,278	6,268
	97,849	72,642

22. Deferred income

	2018	2017
	€	€
Client advances	2,066,349	2,050,051
	2,066,349	2,050,051

23. Current tax liabilities

	2018	2017
	€	€
Special contribution for defence	4,681	10,235
	4,681	10,235

24. Contingent liabilities

The Authority had no contingent liabilities as at 31 December 2018.

25. Commitments

Operating lease commitments

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

	2018	2017
	€	€
Within one year	272,018	201,533
Between one and five years	14,989	2,993
	287,007	204,526

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 62 to 64

DETAILED INCOME STATEMENT

Year ended 31 December 2018

	Page	2018 €	2017 €
Revenue			
Annual fees		2,099,956	1,959,312
Rendering of services		110,925	49,642
Other operating income			
Sundry operating income		36,521	30,404
Gain from sale of property, plant and equipment		2,800	-
Write off for the year of receivable from European programmes		-	4,341
		2,250,202	2,043,699
Operating expenses			
Administration expenses	91	(1,624,397)	(1,726,534)
Selling and distribution expenses	91	-	(628)
		625,805	316,537
Other operating expenses			
Impairment charge on available-for-sale financial assets		(96,226)	(35,951)
Operating surplus		529,579	280,586
Finance income	92	66,338	81,103
Finance costs	92	(3,499)	(1,703)
Net surplus for the year before tax		592,418	359,986

OPERATING EXPENSES

Year ended 31 December 2018

	2018 €	2017 €
Administration expenses		
Directors' remuneration	259,135	258,410
Staff salaries	557,337	495,149
Social security costs	97,623	89,182
Expenses related to defined benefits plan	106,223	132,624
Rent	76,800	76,800
Common expenses	3,164	2,249
Gifts and samples	67	50
Electricity	14,420	15,536
Water supply and cleaning	4,996	5,125
Insurance	1,522	1,657
Repairs and maintenance	2,345	1,789
Sundry expenses	598	294
Telephone and postage	2,290	3,075
General expenses for European programmes	-	19,830
Stationery and printing	7,685	6,764
Subscriptions and contributions	38,357	18,183
Equipment maintenance	4,345	4,866
Staff training	38,653	26,397
Computer software	5,846	6,549
Auditors' remuneration - current year	3,497	3,497
Auditors' remuneration - prior years	(5,600)	-
Legal fees	32,906	24,038
Other professional fees	45,160	5,200
Fines	51	-
Overseas travelling	71,379	55,731
Inland travelling and accommodation	249	448
Irrecoverable VAT	50,516	80,810
Entertaining	7,334	7,545
Motor vehicle running costs	1,661	3,045
Carriage and clearing	879	2,210
Advisory service fees	112,778	283,424
Announcements - Publications	2,736	10,421
Sundry allowances and representation	20,910	20,910
Staff medical expenses	32,179	31,442
Events costs	1,204	5,646
Parking rent (vatable)	1,500	-
Amortisation of computer software	266	266
Depreciation	23,386	27,372
	1,624,397	1,726,534
Selling and distribution expenses		
Bad debts written off	-	628
	-	628

FINANCE INCOME/COST

Year ended 31 December 2018

	2018 €	2017 €
Finance income	66,212	81,103
Bank interest	<u>126</u>	-
Interest on trade balances	<u>66,338</u>	<u>81,103</u>
Finance costs		
Interest expense		
Interest on taxes	1,505	-
Sundry finance expenses		
Bank charges	<u>1,994</u>	<u>1,703</u>
	<u>3,499</u>	<u>1,703</u>

COMPUTATION OF CORPORATION TAX

Year ended 31 December 2018

	Page	€	€
Net surplus per income statement	90		592,418
Add:			
Depreciation		23,652	
Impairment charge on available-for-sale financial assets		96,226	
Fines		51	
Interest on taxes		<u>1,505</u>	
			<u>121,434</u>
			713,852
Less:			
Gain from sale of property, plant and equipment		2,800	
Interest income		66,212	
Other non-taxable income		<u>644,840</u>	
			<u>(713,852)</u>
Chargeable income for the year			<u><u>-</u></u>

COMPUTATION OF DEFENCE CONTRIBUTION

Year ended 31 December 2018

	Income €	Rate	Defence € c
INTEREST			
Interest that was subject to deduction at source	<u>66,212</u>		
	<u>66,212</u>	30%	19,863.60
Less: deductions at source			<u>(19,863.60)</u>
DEFENCE CONTRIBUTION DUE TO IRD			<u><u>-</u></u>

