

2019

ANNUAL REPORT OF CYPRUS ENERGY REGULATORY AUTHORITY

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ANNUAL REPORT OF CYPRUS ENERGY REGULATORY AUTHORITY

FOR THE YEAR **2019**

Προς την Αυτού Εξοχότητα
Κύριο Νίκο Αναστασιάδη
Πρόεδρο Κυπριακής Δημοκρατίας
Λευκωσία

30 Ιουνίου 2020

Εξοχότατε,

Έχουμε την τιμή να σας υποβάλουμε την 16η 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 2019, 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)(ιη) των Περί Ρύθμισης της Αγοράς Φυσικού Αερίου Νόμων του 2004 μέχρι το 2018.

Με τιμή,



Δρ. Ανδρέας Πουλλικκός
Πρόεδρος



Φίλιππος (Άλκης) Φιλίππου
Αντιπρόεδρος



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Μέλος

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Abbreviations

ACER	Agency for the Cooperation of Energy Regulators
CEER	Council of European Energy Regulators
CERA	Cyprus Energy Regulatory Authority
CRA	Core Regulated Activity
CYGAS	Natural Gas Public Company (DEFA)
DSO	Distribution System Operator
EAC	Electricity Authority of Cyprus
ECRB	Energy Community Regulatory Board
ENTSO	European Network of Transmission System Operators
ETYFA	Natural Gas Infrastructure Company
EC	European Commission
EU	European Union
EUREC	Association of European Renewable Energy Research Centre
HECHP	High Efficiency Cogeneration of Heat and Power
HVDC	High voltage direct current
KDP	Regulatory Administrative Act
LNG	Liquefied Natural Gas
LNG Operator	Liquefied Natural Gas System Operator
LNG Owner	Liquefied Natural Gas System Owner
MARDE	Ministry of Agriculture, Rural Development and Environment
MECI	Ministry of Energy, Commerce and Industry
MEDREG	Association of Mediterranean Energy Regulators
MTBF	Medium-Term Budgetary Framework
MTCW	Ministry of Transport, Communications and Works
NECAP	National Energy and Climate Action Plan
Non-RA	Non-Regulated Activity
ODS	Owner of the Distribution System
OTS	Owner of the Transmission System
PCI	Project of Common Interest
PSO	Public Service Obligations
RAVB	Regulated Asset Value Base
RES	Renewable Energy Sources
RES-E	Electricity Generation Systems from Renewable Energy Sources
RIF	Research and Innovation Foundation
SCADA	Supervisory Control and Data Acquisition
SEAPEK	Cyprus Association of Renewable Energy Enterprises
SRA	Separated Regulatory Accounts
SPV	Special Purpose Vehicle
SRSS	Structural Reform Support Service
SS Owner	Storage System Owner
SSO	Storage System Operator
TDR	Transmission and Distribution Rules
TSOC	Cyprus Transmission System Operator
TSR	Trading and Settlement Rules

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

The gradual transition to clean energy and a carbon-neutral economy is one of the greatest challenges of our time. To this end, in 2019, the European Commission has completed the reform of its energy policy framework, which (a) sets out the regulatory requirements for the transition to clean energy and (b) sets the EU on track to meet its commitments under the Paris Agreement. Also, on 22 May 2019, the EU Council of Ministers approved the four remaining envelopes of the "Clean Energy for All Europeans" package.

The new rules will strengthen the interconnections and flexibility of the European electricity market, while focusing more on consumers, putting them in the centre of the energy transition. At the same time, the new framework is expected to create growth and green jobs and allow the EU to play a leading role in fighting climate change after the Paris Agreement.

In 2019, the Cyprus Energy Regulatory Authority (CERA) within the framework of European and National legislation, took a series of decisions aimed at shaping and developing the energy market of Cyprus, in conditions of healthy competition, consumer protection and encouraging the use of Renewable Energy Sources (RES). Also, CERA made various important decisions aiming at the harmonization of the regulatory framework of our country based on 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 incorporating the integrated European 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 2019 to issue a series of key 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 practice and methodology of natural gas tariffs.
- The elaboration of a thorough techno-economic study of the redesign of the transmission system and the distribution system 2021-2030.
- The establishment of basic principles of regulatory framework for the operation of electricity storage systems in-front-of-the-meter in the wholesale electricity market.
- The regulatory accounting instructions for the preparation of Separated Regulatory Accounts (SRAs) and the submission of budgetary SRAs.
- The functional unbundling of the activities of the Electricity Authority of Cyprus (EAC).

CERA has also issued draft Regulatory Decisions which were published for public consultation on the determination of the Supplier of Last Resort in the electricity market and the functional unbundling of the EAC activities.

Regarding the adequacy of electricity supply, CERA, based on the authority provided by the law, has drafted two studies on the electricity system adequate capacity of Cyprus for the next 10 years. The results have shown that between 2022 and 2024 there is a serious shortage of capacity in the electricity system and there is an urgent need for a new conventional capacity of around 450 megawatts due to the annual increasing demand for electricity, but mainly due to the imminent withdrawal of six steam turbines of the EAC power plant in Dhekelia. Today, the total conventional generation capacity licensed by CERA is expected to cover up to 725 megawatts by 2024, capable of solving the problem of capacity generated in our country between 2022 and 2024.

Regarding the Operational and Accounting Unbundling of EAC's activities in the core regulated activities, that is Generation, Transmission, Distribution and Supply, during the reference year, the third and final audit was completed, where specific discrepancies emerged in the context of EAC's compliance with the regulatory framework. CERA, after taking into account the findings of the third audit, pointed out these findings to EAC, which responded within the timeline based on the instructions of CERA. CERA, after thoroughly studying all the data submitted, verified the compliance of EAC at the given time and the observance of the provisions of the Regulatory Decision 04/2014 (KDP 372/2014) "Functional Unbundling of the EAC Activities".

The reform framework for the electricity market for the full commercial operation of the competitive electricity market in Cyprus is designed to be compatible with the European Union's target model, which has been adopted by most European Union Member States and has been established with CERA Regulatory Decisions in previous years.

It is noted that despite the delay in the implementation of the competitive electricity market in Cyprus, which is mainly due to the delay of the implementation of two software programs, prerequisites for the operation and monitoring of the electricity market, based on the current data, CERA is looking forward to the introduction of healthy competition in the electricity market of Cyprus around the end of 2021.

In order to cover the time until the full commercial operation of the new electricity market model, a relevant Regulatory Decision for the introduction of a transitory regulation in the electricity market, including detailed Regulations, has been in force since 2017. The transitory regulation of the electricity market concerns "Bilateral Contracts between Producers and Suppliers" and it seems that it has already given the necessary impetus to start licensing independent suppliers. Specifically, during 2019, 7 independent suppliers were licensed and a total of 13 independent suppliers have been licensed for the period of validity of the transitory regulation of the electricity market.

CERA will continue to carry out its work for the formation of a human-centred and fair energy regulation with a focus on the consumer.

Finally, special thanks are expressed to the staff of the Office of CERA, for the conscientiousness and diligence shown, facing very satisfactorily all the challenges that arose in 2019.

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 by the end of June each year an Annual Report on its activities to the President of the Republic of Cyprus and supplies copies of the Report to the Council of Ministers and the House of Representatives.

This present Annual Report of CERA's activities covers the year 2019 and is the sixteenth (16th) report issued.

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

During the year under review, CERA proceeded with the issuance of five (5) Regulatory Decisions and two (2) draft Regulatory Decisions:

- Regulatory Decision 01/2019 (KDP 203/2019), regarding the declaration of regulatory practice and methodology of natural gas tariffs.
- Regulatory Decision 02/2019 (KDP 204/2019), on the elaboration of a detailed techno-economic study for the redesign of the transmission system and the distribution system 2021-2030.
- Regulatory Decision 03/2019 (KDP 224/2019), on the establishment of basic principles of regulatory framework for the operation of electricity storage systems in-front-of-the-meter in the wholesale electricity market.
- Regulatory Decision 04/2019 (KDP 324/2019), regarding the regulatory accounting instructions for the preparation of Separated Regulatory Accounts (SRAs) and the submission of budgetary SRAs.
- Regulatory Decision 05/2019 (KDP 419/2019), regarding the functional unbundling of the activities of the Electricity Authority of Cyprus (EAC).
- Draft Regulatory Decision on the determination of the Supplier of Last Resort in the electricity market.
- Draft Regulatory Decision regarding the functional unbundling of EAC activities.

At the same time CERA proceeded with the issuance of a series of Decisions, the most important of which:

- Approval of proposed amendments by the TSOC on the Electricity Trading and Settlement Rules (TSR) - Version 2.0.1.
- Permitted revenues and Regulated Basic Electricity Tariffs for the year 2019.
- Approval of the new EAC tariffs plans for 2019.
- Revision of charges for net-billing, self-generation, and net-metering.
- Approval of a compliance program of the Distribution System Operator (DSO).
- Approval of the publication of SRAs of EAC for the year 2017.
- Approval of the fee for the recovery of Public Service Obligations (PSO).
- Setting a threshold for generation units and RES units for participation in the transitory regulation of the electricity market.
- Approval of methodologies, proposed by the TSOC, for calculating the parameters of the regulations of the transitory regulation of the electricity market - Version 1.2.
- Approval of the financial statements of CERA for the year ended on 31 December 2018.
- Approval of amendments, proposed by the TSOC, on the consolidated version 4.0.0 and the amending versions 4.0.1 and 4.0.2 to the Transmission and Distribution Rules (TDR) - Version 5.0.0.
- Approval of the methodologies for calculating the projected annual exported electricity in the transmission system and the projected annual energy generation from RES submitted by the TSOC.
- Decision for the installation of an additional temporary generation capacity by EAC-Generation Directorate for the purposes of achieving the capacity adequacy of the power generation system for 2020.
- Approval of the parameters submitted by the DSO for the transitory regulation of the electricity market for the year 2019.
- Approval of agreements of EAC with companies active in the field of telecommunications.
- Approval of a methodology submitted by the TSOC for long-term forecasting of total electricity generation and capacity.
- Inclusion of investment expenditures in the Regulated Asset Value Base (RAVB) of the Generation Core Regulated Activity (CRA).
- Budget for the year 2020 and medium-term fiscal framework of CERA for the years 2020-2022.
- Approval of fuel clause coefficients and basic tariffs for purchasing RES energy for the period July-December 2019.
- Work Planning in relation to the implementation of provisions concerning the closed distribution networks.
- Approval of the TSOC's proposal for the long-term forecast of annual maximum of total electrical capacity and total electrical energy generated for the decade 2019-2028.
- Overview and revision of the statement of regulatory practice and methodology of electricity tariffs.
- Issuance of draft regulations for the repealing and replacement of the Laws Regulating the Electricity Market (Performance Indicators) Regulations of 2005.
- Instructions for the submission of data to CERA by holders of operating licences who operate electricity generation power plants with a capacity of more than 8 MW.
- Modification of standard licences terms contained in Annexes 2 to 6 of the Laws Regulating the Natural Gas Market (issuance of licences) Regulations of 2006.
- Monitoring the process for the full commercial operation of the new electricity market model.
- Monitoring the process for the full installation and operation of the Meter Data Management System (MDMS) software by the DSO.
- Approval of the publication of SRAs of EAC for the year 2018.

- Issuance of guidelines regarding the framework for modifying the licences/exceptions from licence for the construction and operation of a power plant.
- Approval of the proposed amendments by the TSOC on the Trading and Settlement Rules (TSR)- Version 2.1.0.
- Approval of the proposed amendments by the TSOC on the Transmission and Distribution Rules- Version 5.1.0.
- Approval for the use of the transmission system and the distribution system for purposes not related to electricity.

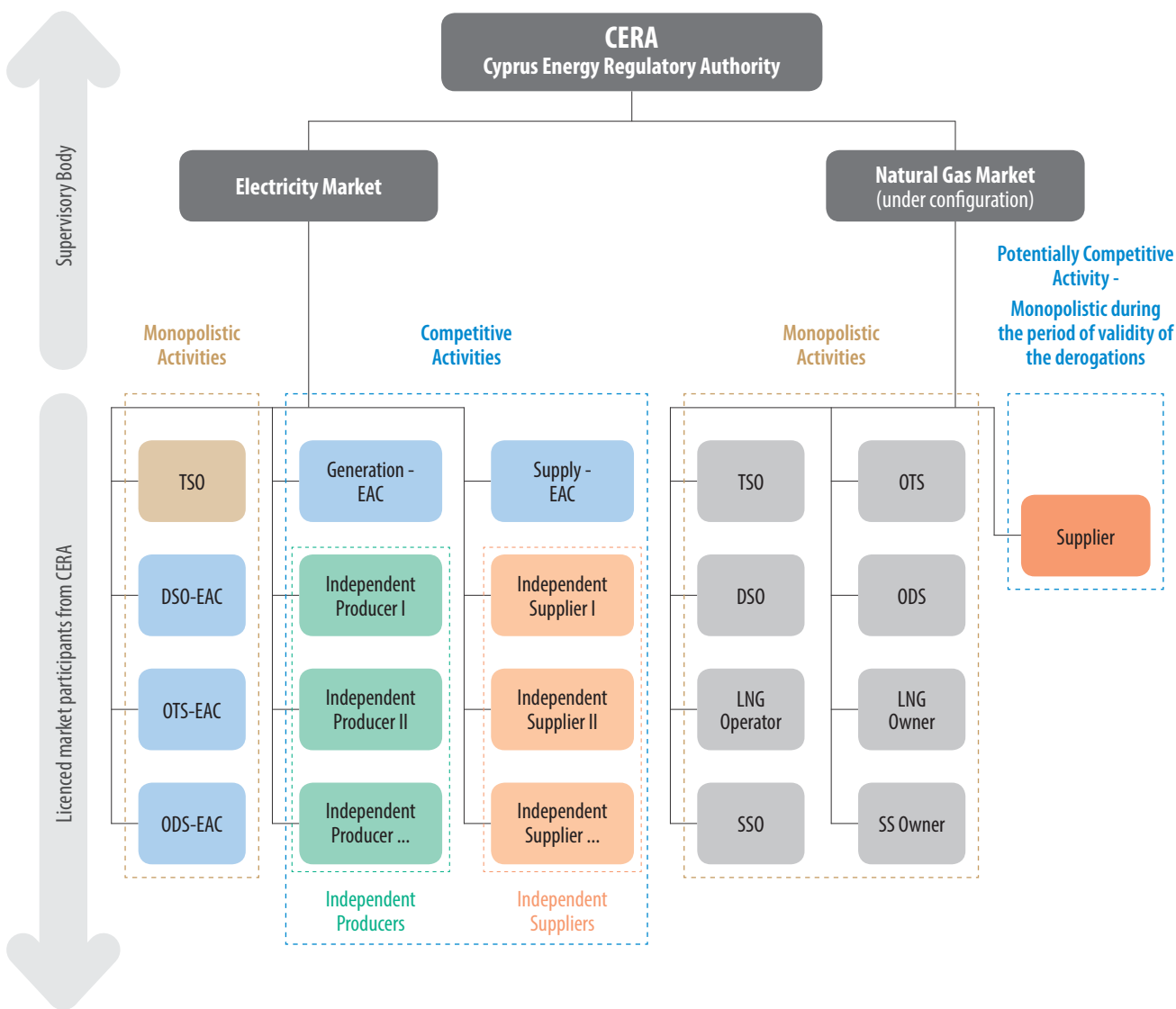
Electricity - Competences and Powers of CERA

- Ensures genuine competition in the Electricity Market by avoiding adverse discrimination and ultimate goal of reducing prices.
- Protects the interests of consumers.
- Promotes the development of an economically viable and efficient Electricity Market.
- Ensures the 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 exemption from a licence.
- Ensures that licence holders operate efficiently and are in a position to finance the business activities for which the licensed has been issued.
- Determines, publishes and imposes quality standards with which licensees have to comply.
- Regulates tariffs, charges and other terms and conditions applied by licensees for any service 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 repeal 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 (TDR and TSR) are prepared and approved in accordance with the Law.
- Sets the rules or procedures under which, complaints are examined which relate to services offered by Licensees including, when it considers it appropriate, the carrying out of investigations and the taking decision 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 violations 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).
- Encourages research and development in the energy sector.
- Prepares and implements long-term planning regarding capacity for generation, transmission and distribution on a long-term basis, in order to cover the demand for electricity in the system and to ensure 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 - Responsibilities and Powers of CERA

- Promotes the development of an economically robust and efficient gas market.
- Ensures safety, continuity of supply, quality and efficiency in the supply of natural gas.
- Monitors the issues of the security supply, and especially the balance of the supply/demand in the market, the level of 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 force 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 the Technical Rules determine the minimum standards for 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 direct pipes of Natural Gas.
- Takes appropriate and effective measures for control and transparency, so as to avoid possible misuse of a 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 in such a way that they operate competitively and orderly to achieve supply security.
- Promotes the repeal of restrictions in the natural gas trade among Member States, including developing appropriate cross-border transmission capacities to meet the demand and enhance the integration of national markets.
- Ensures as competent authority the implementation of 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 event of a breach of provision of the Law.
- Sets the rules for management and distribution of the interconnection capacity, in consultation with the competent 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 basis so as to meet the natural gas demand of the system, to achieve the diversification of sources and to meet the demand of the system for natural gas, achieve the diversification of sources and ensure supply to the customers. The long-term planning includes the security of supply, energy efficiency/demand-side management and the achievement of environmental objectives and targets related to 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 Systems
ODS	Owner of Distribution System
LNG Operator	Liquefied Natural Gas System Operator
SSO	Storage System Operator
LNG Owner	Liquefied Natural Gas System Owner
SS Owner	Storage System Owner

MEMBERS OF CERA

CHAIRMAN

Dr Andreas Poullikkas
Mechanical Engineer

VICE CHAIRMAN

Philippos (Alkis) Philippou
Business Management

MEMBER

Neophytos (Akis) Hadjigeorgiou
Electrical Engineer

ADVISORS

LEGAL ADVISOR

Christos M. Triantafillides (until 15 December 2019)
Orphanides, Christofides & Partners L.L.C. (from 16 December 2019)

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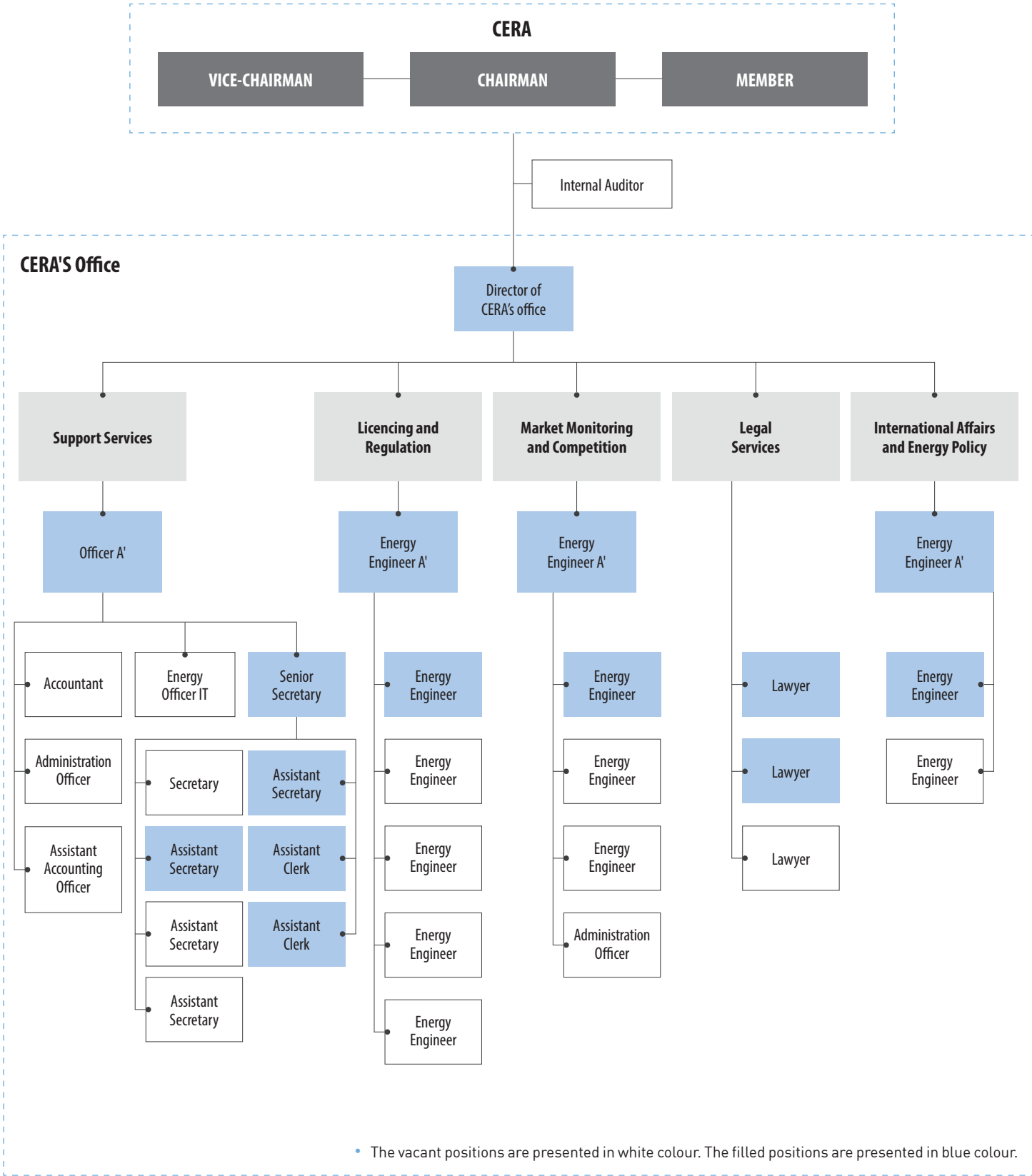
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CERA ORGANISATIONAL CHART



OFFICE OF CERA

At the beginning of 2019, the Office of CERA numbered 17 employees and by the end of the year 16 people (including an indefinite position), due to the departure of an Assistant Clerical Officer. On 1 March 2019, CERA filled the position of the Director of the Office of CERA, after completing the selection process which had begun with the announcement of the position on 19 October 2018. By filling the position of the Director of the Office of CERA, a position of Senior Energy Engineer in the field of Electricity and Renewable Energy Sources was evacuated.

With the approval of the suspension of the filling of nine (9) new first appointment posts in CERA, and the approval of the Service Plans of the positions, CERA on 7 June 2019, announced 1 position of Energy Officer (Information Technology) and 1 position of Assistant Accounting Officer, whose the filling process is expected to be completed with personal interviews of the successful candidates in early 2020.

On 6 September 2019, CERA announced 4 positions of Energy Engineers, 1 Accountant position and 1 Legal Services position, the selection process of which is expected to be completed within 2020. Also, on 18 October 2019, CERA announced 1 Administration Officer position.

In the framework of the new revised organizational structure of the Office of CERA in 2019, 13 existing positions have been renamed and 6 positions have been upgraded.

Further approval of the suspension of the filling of seven (7) new first appointment posts (3 Energy Engineers, 1 Internal Auditor, 1 Administration Officer and 2 Assistant Secretary Officers) is expected. These positions are included in the approved budget of CERA for 2019 so that the filling process can start.

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, CERA has requested through the budget of 2020 the inclusion of 1 post of Energy Engineer, and will request through supplementary budget for 2020, the repeal of 1 position of Administration Officer and the creation of 1 new first appointment post of an Economist who will be responsible of the tariffs.

Until the filling of the above position of Economist, CERA within the framework of executing its duties in accordance with the relevant legislation and consumer's protection, will proceed with the purchase of consulting services.

TRAINING

Figure 1 shows the training of CERA staff by activity area during the year 2019.

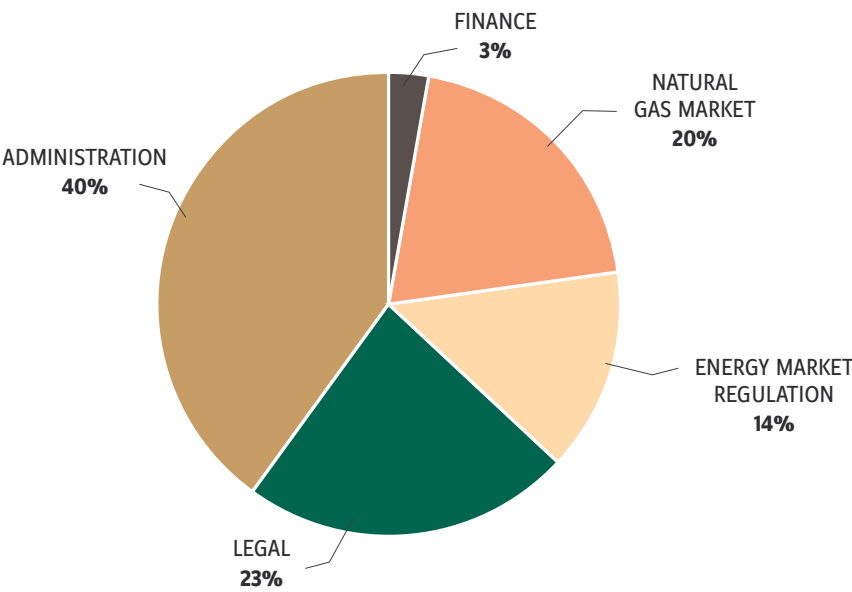


Figure 1 - Training of CERA staff in 2019

National Legislation

The following section presents the Laws and Regulations that have been amended, the Bills 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

Laws Regulating the Electricity Market 2003-2018

From 25 February 2019 to 5 April 2019, the Ministry of Energy, Commerce and Industry (MECI) conducted a public consultation on the draft amending legislation entitled "Regulating the Electricity Market (Amending) Regulation of 2019". CERA took a written position during the public consultation.

The draft of amending legislation was aiming at:

- the better harmonization of the main law with Directive 2009/72/EC of the European Parliament and of the Council of the 13 July 2009 concerning the common rules for the internal electricity market,
- the effective implementation of the European Union Act entitled "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",
- a more efficient operation of the electricity market,
- ensuring the full independence of the TSOC from EAC.

At this stage, the amending legislation is at the Legal Service for legislative check.

Draft Regulations for the repeal and replacement of the "Laws Regulating the Electricity Market (Performance Indicators) Regulation of 2005" (KDP 571/2005)

CERA with the Decision 199/2019 published for public consultation a draft Regulation for the repeal and replacement of the "Laws Regulating the Electricity Market (Performance Indicators) of 2005" (KDP 571/2005), which lasted from 2 August 2019 until 2 September 2019. The content of the Regulations concerns the modernization of the Performance Indicators which include the obligations of the Supplier and the DSO, consumer rights, performance standards and their minimum performance levels, as well as the fine imposed, in case of failure to comply, to the Supplier and/or the DSO.

Regulatory Decisions, Draft Regulatory Decisions and Important Decisions by CERA in 2019

CERA in 2019 took Regulatory Decisions and Decisions of which the most important are the following:

REGULATORY DECISIONS, DRAFT REGULATORY DECISIONS

Regulatory Decision 01/2019 - KDP 203/2019 - Declaration of Regulatory Practice and Methodology of Natural Gas Tariffs

By Regulatory Decision 01/2019 (KDP 203/2019), CERA issued a statement of regulatory practice and methodology of gas tariffs, which include those in force during the period of the emerging gas market. The Regulatory Decision also determines, in which way each Operator will report to CERA, which will approve, the required revenue for the use of the facilities belonging to the Operator's jurisdiction and the way in which the sole supplier will report to CERA the way of allocating the cost of use of all natural gas installations in the various categories of consumers which will be taken into consideration by CERA when approving the natural gas supply tariffs.

Regulatory Decision 02/2019 - KDP 204/2019 - On the Preparation of an In-Depth Techno-Economic Study for Redesigning of the Transmission System and Distribution System 2021-2030

By Regulatory Decision 02/2019 (KDP 204/2019), CERA called on TSOC and DSO to jointly proceed with the drafting a detailed techno-economic study of the redesign of the Transmission System and Distribution System for the period 2021-2030 and submit it to CERA until 31 March 2021. The aim of the study is, among other things, to be able to install more electricity generation systems from RES (RES-E) and to eliminate the problems of lack of capability to absorb the capacity by new RES-E units and to eliminate the possibility that the Transmission System and/or the Distribution System may become an inhibitory factor to the significant increase in the expansion of RES-E.

Regulatory Decision 03/2019 - KDP 224/2019 - On the Establishment of Key Principles of Regulatory Framework for Operating Electricity Storage Facilities In-Front-Of-The-Meter in the Wholesale Electricity Market

By Regulatory Decision 03/2019 (KDP 224/2019), CERA decided that, participation in the wholesale electricity market of electricity, storage facilities in-front-of-the-meter, which are not combined with on-site electricity consumption, except the one necessary for the operation of the facility, have licensed facilities, which meet the technical requirements of the TDR, their operation is planned and determined by their participation in the wholesale electricity market based on the provisions of TSR and have the ability to both discharge electricity to the electrical system and store electricity from the electrical system. In addition, TSOC was instructed to proceed with all necessary modifications of the TSR and/or the TDR, and to submit to CERA for approval a final proposal of modifications of the TDR and the TSR until 31 July 2020, so that the participation of the electricity storage facilities in-front-of-the-meter in the operation of the electricity market to be possible without discrimination. Finally, it decided that in-front-of-the-meter storage facilities would not pay network usage fees during their charging cycle.

Regulatory Decision 04/2019 - KDP 324/2019 - Regulatory accounting instructions for the preparation of Separated Regulatory Accounts (SRAs) and the submission of budgeted SRAs

By Regulatory Decision 04/2019 (KDP 324/2019), CERA estimated that, for better information of CERA and for the facilitation of its supervisory role, the data included in the budgeted SRAs of the year following the current one, needs to be available sooner than expected.

Therefore, it has been decided that the budgeted SRAs for the year following the current year (two years after the reporting year) are submitted to CERA by 30 June.

In addition, if there are amendments to the budgeted SRAs or the consolidated budget of the Compulsory Organizations, the budgeted SRAs will be re-submitted to CERA.

The Regulatory Decision 04/2019 will be implemented by the budgeted SRAs of the year 2020 and beyond.

Regulatory Decision 05/2019 - KDP 419/2019 - Functional Unbundling of EAC Activities

By Regulatory Decision 05/2019 (KDP 419/2019), CERA decided to amend the Regulatory Decision 04/2014 (KDP 372/2014) "Functional Unbundling of EAC Activities", with the deletion of the provision "Inspections of electrical installations" from paragraph B.1.6 so that the inspection/testing of consumer electrical installations is carried out by the Owner of the Transmission System (OTS) or the Owner of the Distribution System (ODS) depending on the case, as provided for by the Electricity Law (Chapter 170) and the Regulations issued under it, until they are amended. In addition, any costs incurred to the OTS or the ODS from the above activity are not recoverable from the regulated tariffs approved by CERA based on the provisions of Regulatory Decision 02/2015 (KDP 208/2015) "Statement of Regulatory Practice and Tariffs Methodology" as this activity does not in itself concern the range of activities of the electricity market.

Draft Regulatory Decision - Functional Unbundling of EAC Activities

On 20 December 2019, CERA announced the publication in the Official Gazette of the Republic of Cyprus, a draft Regulatory Decision entitled "Functional Unbundling of EAC Activities" and notified the licensees, applicants for licences or other interested persons that they can submit in writing, any comments, objections and/or representations on the draft Regulatory Decision.

According to the draft Regulatory Decision, CERA decided to amend the Regulatory Decision 04/2014 (KDP 372/2014) "Functional Unbundling of EAC Activities", with the removal, in the whole text, the term Business Unit (BU) and replace it with the term Core Regulated Activity (CRA) and delete the provision "MRTC" from paragraph B.1.6.

Therefore, the activities of the Meter Repair & Testing Centre (MRTC) remain within the responsibilities of the ODS instead of the responsibilities of the Non-Regulated Activities (Non-RA) of EAC and concern:

- meter verification (accuracy control),
- meter programming and configuration,
- construction and control of measuring devices (medium and low voltage),
- investigating damage/failures in meters/receivers,
- meter management (storage, issuance, withdrawal, etc.),
- training and support of distribution personnel on meter matters,

- the planning and control of remote-control receivers, and
- the management of sealing channels and seals.

CERA called on the EAC to comply immediately with this amendment until the amendment of the Electricity Law (Chapter 170) and the Regulations issued under it accordingly.

Draft Regulatory Decision - On the Determination of the Supplier of Last Resort in the Electricity Market

On 20 December 2019, CERA announced the publication in the Official Gazette of the Republic of Cyprus of a draft Regulatory Decision entitled "On the Determination of the Supplier of Last Resort in the Electricity Market" and notified the holders of licences, applicants for licences or other interested parties that they can submit in writing, any comments, objections and/or representations on the draft Regulatory Decision.

According to the draft Regulatory Decision, CERA decided to designate EAC-Supply as the Supplier of Last Resort in the electricity market, until the full implementation of the new model of the electricity market in Cyprus.

Tariffs at which consumers will enjoy the right of a universal service under the status of the Supplier of Last Resort are defined as the respective tariff categories of EAC-Supply and will be invoiced on the basis of the approved adjustable tariffs according to Regulatory Decision 02/2015 (KDP 208/2015) "Declaration of Regulatory Practice and Methodology of Electricity Tariffs" and its respective amendments or revisions that apply to the other customers of EAC-Supply, who belong to the same category of consumers.

Guidelines were also set for the selection of the Supplier of Last Resort in the electricity market by CERA, following an invitation for expression of interest and after the full implementation of the new model of the electricity market in Cyprus.

DECISIONS

Decision 1/2019 - Approval of the proposed amendments by the TSOC to the Trading and Settlement Rules (TSR) - Version 2.0.1

By Decision 1/2019, CERA approved the proposed revised TSR submitted by the TSOC. Given the time required by TSOC to procure the appropriate software and hardware for the implementation of the new revised approved TSR, which is set out in Regulatory Decision 01/2017 (KDP 34/2017) "On the Implementation of a Binding Timetable for the Full Commercial Operation of the New Electricity Market", CERA will decide at a later stage the date of publication of the new revised approved TSR in the Official Gazette of the Republic of Cyprus, a date on which, in accordance with the provisions of Article 81 (6) of the Laws Regulating the Electricity Market of 2003 to 2018, they will enter into force. In the context of full transparency, briefing and timely information to all interested investors for any activity in the field of competitive electricity market but also for updating any other interested persons and/or participants in the electricity market, the new revised and approved TSR to be published on the TSOC website without being in force.

Decision 05/2019 - Permitted Revenues and Regulated Basic Electricity Tariffs for the Year 2019

By Decision 05/2019, CERA approved the permitted revenues and the regulated basic electricity tariffs for the year 2019, as presented in Table 1. The permitted revenues of the year 2019, include accounting adjustments of the year 2017, based on the Revenue Adjustment Methodology issued by CERA, according to which there was a decrease of 0.1%, on average, in the total of the Regulated Basic Tariffs, for the year 2019.

Recovery from Tariff	2019 Permitted Revenue submitted by Regulated Activities	Accounting adjustments	2019 Permitted Revenue approved by CERA
Wholesale electricity tariff (T-W) at basic price	€ 374.727.438	8.394.154	383.121.592
Purchase of RES energy at basic price	€ 45.084.441	-	45.084.441
Use of Transmission System Tariff (36kV and above) (T-NH)	€ 39.732.523	(3.332.918)	36.399.605
Use of Distribution System Tariff (medium and low voltage), which includes a charge component related to the DSO (T-NM, T-NL)	€ 83.510.465	(8.079.353)	75.431.112
Tariff for Business Management Services provided to customers (invoicing, etc) (T-BM)	€ 17.011.738	(114.784)	16.896.953
Tariff for the provision of Ancillary Services and long-term reserve (T-AS)	€ 28.957.168	(736.744)	28.220.424
Tariff for the recovery of expenses of the TSO (T-TSO)	€ 9.037.000	(1.467.000)	7.570.000
Tariff for the recovery of expenses of metering incurred by the DSO (T-MET)	€ 3.571.523	-	3.571.523
Supply tariffs and electricity market charges to the end consumer (T-RET)	€ 601.632.296	-5.336.646	596.295.650

Table 1 - Approved Permitted Revenue of Regulated Activities for the Year 2019

Decision 15/2019 - Approval of the New Tariff Plans of EAC for 2019

By Decision 15/2019, CERA approved the Electricity Tariff Plans for the year 2019, as they have been submitted by EAC Supply, and gave instructions as the EAC publishes the approved Tariffs Plans for the proper notification of electricity consumers and other electricity market participants.

Decision 16/2019 - Revision of network usage charges, ancillary services and other services that will be imposed for the implementation of net-billing, self-generation and net-metering using photovoltaic systems and/or biomass in homes, and/or industrial and/or commercial facilities accordingly, operating under the support regimes of the Ministry of Energy, Commerce and Industry for 2019.

By Decision 16/2019, CERA approved the revision of the analysis table of charges and credits for net-billing and self-generation, included in Decision 919/2013, and the revision of the analysis table

of charges and credits for net-billing included in Decision 909/2013, as of 1 January 2019. The revised charges arose due to differences between tariffs for the usage of transmission (T-NH) and distribution of medium and low voltage (T-NM, T-NL) systems with the Decision of CERA 05/2019. The Decision also states that the methodology for calculating charges and credits for net-billing, self-generation and net-metering will remain the same as that followed in the Decisions of CERA 909/2013 and 919/2013, until it is reviewed after the completion of a relevant study by CERA regarding the rational and cost-effective calculation of the network usage fees and ancillary services of the above three categories.

Decision 59/2019 - SRAs of EAC for the year 2017

By Decision 59/2019, CERA instructed EAC to publish the SRAs audited and approved by its Board, for the year that ended on 31 December 2017, on the EAC's website, with explanations on how to calculate the performance based on the average RAVB for the CRA of Generation, Transmission and Distribution and the Margin Cost based on the account management costs for the CRA of Supply. Also, CERA gave specific instructions to EAC concerning the preparation of the SRAs of the year 2018 and thereafter.

Decision 81/2019 - Estimation for the recovery of PSO expenditures

By Decision 81/2019, CERA approved the tariff for the recovery of the expenditures of PSO (T-PRC) at € 0.00071 / kWh (previously it was at € 0.00083 / kWh), and instructed that the revised tariff T-PRC is implemented by the consumer's invoicing on May 2019.

Decision 96/2019 - Setting a limit (threshold) for conventional generation units and RES units for participation in the transitory regulation of the electricity market

By Decision 96/2019, CERA amended the Decision 234/2018 regarding the threshold for participation in the transitory regulation of the electricity market for producers either with conventional generation units or with RES units and set a new threshold for participation in its transitory regulation of the electricity markets for producers either with conventional generation units or with RES units, with a normal meter at 50 kW for a generation licence for the station of net nominal capacity that they represent.

Decision 107/2019 - Submission of methodologies for calculating the parameters of the regulations of the transitory regulation of the electricity market - Version 1.2

By Decision 119/2019, CERA approved the parameters specified in the transitory regulation of the electricity market (version 1.2).

Decision 119/2019 - Approval of proposed amendments by the TSOC on the consolidated Version 4.0.0 and the amending Versions 4.0.1 and 4.0.2 in the Transmission and Distribution Rules (TDR) - Version 5.0.0

By Decision 119/2019, CERA approved the proposal of the TSOC for modification of the TDR - Version 5.0.0, which concerns an amending version of the approved consolidated Version 4.0.0 and the approved amended Versions 4.0.1 and 4.0.2. Given the time required by the TSOC to supply the relevant software and hardware for the implementation of the new revised and approved TSR, CERA will decide at a later stage the date of publication of the TDR Version 5.0.0 in the Official Gazette of the Republic and in daily newspapers (according to Article 76 of Laws Regulating the Electricity Market of 2003 to 2018), as the TDR Version 5.0.0 cannot be put into force before the publication of the new revised and approved TSR in the Official Gazette of the Republic of Cyprus. Also, in the context of full transparency, updating and

timely information of all interested investors for possible involvement in the competitive electricity market but also for the information of any other interested persons and/or participants in the electricity market, TDR Version 5.0.0 will be published on the website of the TSOC and will state in a prominent place that they "have been approved by CERA and will come into force with their publication by CERA".

Decision 120/2019 - Methodology for calculating the predicted annual exported electricity in the transmission system and projected annual energy generation by RES

By Decision 120/2019, CERA approved the methodology for calculating the predicted annual electricity exported to the transmission system and the predicted annual energy generation from RES submitted by the TSOC. It also instructed all CRAs whose revenues and tariffs are regulated, to use the methodology for calculating the projected annual electricity exported to the Transmission System and the projected annual energy generated from RES for the purposes of calculating the regulated tariffs submitted to CERA for approval, from the 2020 tariffs and thereafter.

Decision 125/2019 - Capacity adequacy of the electricity generation system for 2020

By Decision 125/2019, CERA decided the installation of an additional temporary generation capacity of 130MWe by EAC-Generation, which should be available from the period of 1 June 2020 to 5 September 2020 in case its existing licensed generation units which meet the requirements of the legislation in relation to emissions, are not sufficient to meet the demand for electricity and the margin of operational reserve during this period.

Decision 131/2019 - Approval of the parameters submitted by the DSO for the transitory regulation of the electricity market for the year 2019

By Decision 131/2019, CERA approved the distribution losses coefficients of the distribution system (medium and low voltage) for 2019.

Decision 136/2019 - EAC agreements with companies that are active in the telecommunications sector

By Decision 136/2019, CERA approved the agreements between ODS and Non-RA and between OTS and Non-RA. CERA also approved the unbundling of revenues from the EAC agreements with companies operating in the telecommunications sector, which have been unbundled from 1 January 2017 between OTS and ODS on one part and the Non-RA on the other, in the ratio 90%:10% and the unbundling of 90% of revenue between the ODS and the OTS at 50%:50% respectively, based on the actual revenue on the use of each network. Finally, he instructed the ODS to resubmit its request for the use of the distribution system for other non-electricity-related activities, in particular concerning the conclusion of agreements with telecommunications service companies, taking into account the agreement between the ODS and the Non-RA which was approved by the current Decision.

Decision 142/2019 - Inclusion of investment expenditures in RAVB of CRA of Generation

By Decision 142/2019, CERA decided that the investment costs for the installation of a combined cycle electricity generation unit, with capacity 160MWe, at the Vassilikos Power Plant, the installation of desulfurization units and particle retention in Steam Power Units No 1 & 2 of the Vassilikos Power Plant, and the upgrade of the existing Particle Detention Unit to Steam Power Unit No 3 of

Vassilikos Power Plant, are considered reasonable, and therefore their inclusion in the RAVB of the CRA of EAC-Generation is approved.

The accelerating costs for the installation of desulphurisation and particle retention units in Steam Power Units 1 & 2 of the Vassilikos Power Plant, would be considered reasonable only if the work is completed in time within the schedule submitted. A possible delay in the delivery of either of the two Units, regardless of duration and cause, means that from the accelerating cost paid does not imply any benefit, so it cannot be considered reasonable.

Decision 158/2019 - Coefficients for Fuel Adjustment Clause and Basic Prices for energy purchase from RES for the period July to December 2019

By Decision 158/2019, CERA determined the Coefficients for Fuel Adjustment Clause and the Basic Prices for the purchase of energy from RES for the period July-December 2019, as presented in Table 2.

Coefficients for fuel adjustment clause for consumers		Coefficients for fuel adjustment clause for RES electricity purchase		Basic purchase prices of RES energy	
	€/kWh/1€c		€/kWh/1€c		€/kWh
Low voltage	0,00023718	Low voltage	0,00023173	Low voltage	7,185
Medium voltage	0,00023173	Medium voltage	0,00022711	Medium voltage	7,046
High voltage	0,00022711	High voltage	0,00022313	High voltage	6,927

Table 2 - Coefficients for Fuel Adjustment Clause for Consumers

It also instructed the CRA EAC-Generation to deduct from the calculation of the Weighted Average Fuel Cost of June 2019, and afterwards, until the Steam Power Unit No. 3 of Vassilikos Power Plant is fully operational, the monthly additional operating costs from the unavailability of the Vassilikos Steam Power Unit on electricity generation system, which was estimated at €1.840.155 per month.

Decision 169/2019 - Long-term forecast of annual maximum generation power and total electricity generated for the decade 2019-2028

By Decision 169/2019, CERA approved the long-term forecast of annual maximum generation power and total electricity generated for the decade 2019-2028 submitted by TSOC.

Decision 198/2019 - Overview and revision of the regulatory practice statement and methodology of electricity tariffs

By Decision 198/2019, CERA, after estimating that with the implementation of the new TSR and the new electricity market, which according to the latest information from the TSOC, will be in operation on 7 October 2021, a regulatory practice statement and methodology of electricity tariffs which is in line with the new electricity market rules needs to be in force, decided to hold an open tender for the recruitment of consultants for the overview and revision of the regulatory practice statement and methodology of electricity tariffs. The relevant contract has been signed and the task for the possible revision of the statement of regulatory practice and methodology of electricity tariffs has begun.

Decision 199/2019 - Draft for the repeal and replacement of the "Laws Regulating the Electricity Market (Performance Indicators) Regulations of 2005" (KDP 571/2005)

By Decision 199/2019, CERA issued a draft for the repeal and replacement of the "Laws Regulating the Electricity Market (Performance Indicators) Regulations of 2005" (KDP 571/2005), the content of which concerns the modernization of the Performance Indicators which include the obligations of the Supplier and the DSO, consumer rights, performance standards and their minimum performance levels, as well as the fine imposed in case of compliance failure from the Supplier and/or the DSO.

Decision 204/2019 - Submission of data to CERA by holders of operating licences who operate electricity generation plants with a capacity of more than 8 MW

By Decision 204/2019, CERA gave instructions to all licensees who operate electricity generation plants with a capacity of more than 8 MW, as they submit each year, within the scheduled time, the Form E100 to CERA (which includes information on the financial results of the year). The CRA EAC-Generation was exempted from the above obligation, due to the fact that it submits Unbundled Accounts based on the Regulatory Decision 02/2014 (KDP 370/2014) "Regulatory accounting instructions for the submission of unbundled accounts".

Decision 238/2019 - Amendment of standard licensing terms contained in Annexes 2 to 6 of the Laws Regulating the Natural Gas Market (Issuance of Licences) Regulations of 2006

By Decision 238/2019, CERA, after taking into account, among other things, the fact that the Laws Regulating the natural gas market (Issuance of Licences) were issued in 2006 and that it must be ensured that the standard terms of licences are in line with Directive 2009/73 / EC on the common rules for the internal gas market issued in 2009, of the Laws Regulating the Natural Gas Market of 2004 to 2018 as well as the framework for the natural gas market, decided to amend the standard licensing terms contained in Annexes 2 to 6 of the Laws Regulating the Natural Market, of 2006 (Issuance of Licences).

Decision 251/2019 - Monitoring the process for the full commercial operation of the new electricity market model

By Decision 251/2019, CERA after thoroughly examining and studying all the relevant documents and data presented to it, and considered that the reason that probably contributed to the impossibility of implementation and completion of the schedule for the full commercial operation of the new electricity market model, as required by Regulatory Decision 01/2017 (KDP 34/2017) "On the implementation of a binding schedule for the full commercial operation of the new electricity market model", seems to be mainly related to the legislation on Public Procurement and its implementation by the TSOC, whose audit does not fall within the scope of responsibilities and powers of CERA, decided as it continues to closely monitor the actions of the TSOC towards the full commercial operation of the new electricity market model and intervenes where it has jurisdiction by the Law. In addition, CERA decided that the TSOC will continue to inform CERA with monthly reports on any progress made for the full commercial operation of the new electricity market model.

Decision 252/2019 - Monitoring the process for the full installation and operation of the MDMS software by the DSO

By Decision 252/2019, CERA, after thoroughly examining and studying all the relevant documents and data presented to it, and considered that the reason that probably contributed to the impossibility of

implementation and completion of the full installation and operation of MDMS, as required by the Regulatory Decision 01/2017 (KDP 34/2017) "On the implementation of a binding schedule for the full commercial operation of the new Electricity Market model", it seems to be mainly related to the legislation on Public Procurement and its implementation by the DSO, whose audit does not fall within the scope of responsibilities and powers of CERA, decided as it continues to closely monitor the actions of the DSO towards the full installation and operation of the MDMS and intervenes where it has jurisdiction by the Law. In addition, CERA decided, as the DSO informs CERA with monthly reports, for any progress made for the full installation and operation of MDMS.

Decision 264/2019 - Issuance of guidelines regarding the framework for modifying the licences/exceptions from licence for the construction and operation of a power plant

By Decision 264/2019, CERA issued guidelines regarding the framework for modifying the licences/exceptions from licence for the construction and operation of a power plant.

Decision 304/2019 - SRAs of EAC for the year 2018

By Decision 304/2019, CERA gave instructions to the EAC to publish, by 1 December 2019 at the latest SRAs audited and approved by its Board, for the year ended on 31 December 2018, on EAC's web-site, with explanations on how to calculate the performance based on the average RAVB for the CRA of Generation, Transmission and Distribution and the cost margin on the expenses for the logistics management for the CRA of Supply.

Decision 315/2019 - Approval of the amendments of the TSR proposed by the TSOC - Version 2.1.0

By Decision 315/2019, CERA approved the proposed revised TSR Version 2.1.0 submitted by the TSOC. Given the time required by the TSOC for the procurement of the appropriate software and hardware for the implementation of the new revised approved TSR, which is set out in Regulation Decision 01/2017 (KDP 34/2017) "On the implementation of a binding schedule for the full commercial operation of the new electricity market model", CERA will decide at a later stage the date of publication of the new revised approved TSR in the Official Gazette of the Republic of Cyprus, a date on which, based on the provisions of Article 81(6) of the Laws Regulating the Electricity Market of 2003 to 2018, will come into force. In addition, in the context of full transparency, information and timely update of all interested investors for any activity in the sector of competitive electricity market but also for the update of any other interested persons and/or participants in the electricity market, the new revised approved TSR will be published on the TSOC's website, without however being in force.

Decision 316/2019 - Approval of the amendments of the TDR proposed by the TSOC - Version 5.1.0

By Decision 316/2019, CERA approved the proposed revised TDR Version 5.1.0 submitted by the TSOC. Given the time required by the TSOC for the supply of the relevant software and hardware for the implementation of the new revised and approved TSR, which is set out in the Regulatory Decision 01/2017 (KDP 34/2017) "On the implementation of a binding schedule for the full commercial operation of the new electricity market model", CERA will decide at a later stage the date of publication of the new revised and approved TDR in the Official Gazette of the Republic of Cyprus, a date on which the provisions of Article 76 of the Laws Regulating the Electricity Market of 2003 to 2018 will enter into force. In addition, in the context of full transparency, information and timely update of all interested investors for any activity in the sector of competitive electricity market but also for the update of any other interested persons and/or participants in the electricity market, the new revised and approved TDR to be published on the TSOC's website, without however being in force.

Decision 319/2019 - Dismantling of a series of capacitors at the substation "Orounta 132 kV"

By Decision 319/2019, CERA approved the request of the OTS for the dismantling of a series of capacitors in the substation "Orounta" 132 kV, in the context of the smooth operation of the electricity system.

Decision 325/2019 - Approval for the use of the transmission system and the distribution system for purposes not related to electricity

By Decision 325/2019, CERA decided to give instructions to ODS and OTS, that their request for approval by CERA for the use of transmission and distribution systems for purposes not related to electricity in accordance with Articles 49 and 51, is sent at least three months before the estimated date of signing the relevant Contract with the telecommunications service provider. Also, CERA decided to give instructions to ODS and OTS, as each of their requests in accordance with Articles 49 and 51, must be accompanied by a written certificate from the competent Operator that the use of the system for which approval is requested by CERA, does not affect the fulfilment of obligations of OTS and TSOC or ODS and DSO respectively.

Decision 342/2019 - Exemption from provision of TDR

By Decision 342/2019, CERA gave an exception to the TSOC and DSO from the provisions of paragraph T16.6.1 of the current TDR (Version 4.0.0 and Amendments 4.0.1 and 4.0.2). This exception is given so that the pilot connection of a number of Photovoltaic Parks with an installed capacity equal or greater than 0.5 MW in the Supervisory Control And Data Acquisition (SCADA) of the Distribution System will be possible, for the purposes of performing necessary operational audits, and in the event of the success of such operational audits, a request for exemption will be made which will apply to all Photovoltaic Parks with an installed capacity equal to or greater than 0.5 MW, while at the same time a proposal will be forwarded to modify the relevant provisions in the next review of the TDR.

Actions taken resulting from previous Regulatory Decisions and the Implementation of the European legislation

Announcement - Obligations of market participants with regards to the reporting of data to the Agency for the Cooperation of Energy Regulators (ACER)

On 22 November 2019, CERA, exercising its powers provided by the Laws Regulating the Electricity Market of 2003 to 2018 and the Laws Regulating the Natural Gas Market of 2004 to 2018, in the context of ensuring the implementation of the provisions of the Regulation (EU) 1227/2011 of the European Parliament and the Council of 25 October 2011 on the integrity and transparency of the wholesale energy market, issued a relevant Announcement, by which it drew the attention of the market participants to the provisions of the Regulation with regards to the obligation of reporting data.

According to the Announcement, effective oversight of wholesale energy markets requires regular monitoring of the contract details, including trading orders, as well as data on the capacity and use of power generation, storage, consumption or transmission of electricity and natural gas. According to Article 8 (Data Collection) of Regulation (EU) 1227/2011, the market participants or, on their behalf, person or authority have the obligation to provide to ACER a record of transactions in the wholesale energy markets, including trading orders.

Compliance audit on the operational methods of EAC, based on the functional unbundling of its activities, according to the regulatory framework

CERA, based on the provisions of the Regulatory Decision 04/2014 "Functional Unbundling of EAC Activities", hired through an open tender process external consultants on the terms of carrying out checks on the compliance level on the operational methods of the EAC, based on the functional unbundling of its activities, according to the regulatory framework, with the implementation of specialized audits that will be implemented in three distinct time periods.

According to the terms of reference, during the reporting year, the third and final audit was carried out, where a relevant in-depth and detailed report was submitted to CERA by its external consultants, in which the findings of this audit were recorded and specific exclusions were highlighted in the context of the compliance of EAC with the regulatory framework.

Subsequently, CERA, after taking into account the findings of the third audit, took the appropriate actions, pointing out to the Board of Directors of EAC 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 with a time milestone the 30 November 2019.

EAC responded within the above timeframe based on CERA's instructions. CERA, after thoroughly studying all the data submitted to it, determined the compliance of EAC at the given time to the provisions of the Regulatory Decision 04/2014 (KDP 372/2014) "Functional Unbundling of the EAC Activities".

Electricity tariffs for the year 2019

By Decision 05/2019, dated 8 January 2019, CERA approved the regulated basic electricity tariffs for the year 2019, which are based on the same principles and characteristics as the electricity tariffs for the year 2017. Also, in 2019, the "Methodology for the calculation of the predicted annual exported electricity in the transmission system and predicted annual energy generation from RES" was issued, which sets out the principles by which the Regulated Activities must calculate the predicted annual electricity exported to the transmission system and the predicted annual energy generation from RES for the purposes of calculating the tariffs submitted to CERA for approval, from the 2020 tariffs and thereafter (CERA Decision 120/2019).

Trading and Settlement Rules

According to the Laws Regulating the Electricity Market of 2003 to 2018, the TSR:

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

TSR are complied with by all licensees 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, CERA approved (Decision 1/2019, dated 4 January 2019) the new Version 2.0.1 of the TSR proposed by the TSOC in the context of inclusion and participation of High Efficiency Cogeneration of Heat and Power (HECHP).

Subsequently, taking into account that the TSR is a dynamic document, CERA approved (Decision 315/2019, dated 26 November 2019) the Version 2.1.0 of TSR proposed by TSOC. This revision was submitted following instructions from CERA and implements the demand response in the competitive electricity market. These TSR, given the time period required by TSOC for the procurement of the appropriate software and hardware for their implementation, will be published in the Official Gazette of the Republic of Cyprus, a date on which, in accordance with the provisions of Article 81(6) of the Laws Regulating the Electricity Market of 2003 to 2018, will come into force, by a decision of CERA at a later stage.

Based on the provisions of the Laws Regulating the Electricity Market of 2003 to 2018 and specifically of Article 80, until the publication in the Official Gazette of the Republic of the revised TSR, the provisions of Regulatory Decision 04/2017 (KDP 223/2017) "On the application of transitory regulation in the Cyprus electricity market before the full implementation of the new electricity market model" apply, as well as the Regulations of the transitory regulation in the electricity market which came into force based on the Decision of CERA 118/2017.

Transmission and Distribution Rules

According to Laws Regulating the Electricity Market of 2003 to 2018, the Transmission and Distribution Rules:

- Govern the technical requirements and restrictions applicable by the licensees at any time wishing to connect to the transmission system and/or distribution system or to use the transmission system or the distribution system for the transmission or distribution of electricity.
- Ensure that the technical terms applicable to licensees wishing to connect or use the transmission system or distribution system do not discriminate against licensees.
- Promote efficiency, reliability and economy in the use and development of the transmission system and the distribution system.

The provisions of the TDR are compiled by all licensees or by persons granted exemptions from licence, to the extent required by the licences or exceptions from licence.

During the reporting year, the consolidated Version 5.0.0 of the TDR, which is the harmonisation of the TDR with the TSR proposed by the TSOC was approved (CERA Decision 119/2019 of 9 May 2019).

Subsequently, the consolidated Version 5.1.0 of the TDR, proposed by the TSOC, was approved (CERA Decision 316/2019, dated 26 November 2019), which introduces relevant provisions to support the demand response service.

Given the time required by the TSOC to procure the appropriate software and hardware for the implementation of the new revised approved TSR, CERA will decide at a later stage the date of publication of the new revised approved TDR in the Official Gazette of the Republic of Cyprus, a date on which in accordance with the provisions of Article 76 of the Laws Regulating the Electricity Market of 2003 to 2018 will come into force.

Version 4.0.2 - November 2017 is the latest amending version of the TDR in force.

European Legislation

In 2019, the dialogue and consultations on the package of legislative proposals "Clean Energy for All Europeans (Winter Package)" were completed. With the publication of Regulation 2019/941, on the risk preparedness in the electricity sector, Regulation 2019/942, on the establishment of the European Union Agency for the Cooperation of Energy Regulators, of the Regulation 2019/943, on the internal electricity market and the Directive 2019/944, on the common rules for the internal electricity market, all 8 legislative acts of the package have been completed.

The "Clean Energy for All Europeans" package sets the right balance between EU and the national and local decision-making. Member States will continue to choose their own energy mixture, but must abide to new commitments to improve energy efficiency and utilise RES in the mixture by 2030. The new rules for the electricity market, make it easier to integrate RES in the network and encourage interconnection and cross-border trade. Also, it requires the Member States to carry out plans to prevent, prepare and manage potential crisis situations in the supply of electricity in coordination with the neighboring Member States and strengthen the role of the Agency for the Cooperation of Energy Regulators (ACER).

Regulation (EU) 2019/941 of the European Parliament and of the Council of 5 June 2019 on risk preparedness in the electricity sector and the abolition of Directive 2005/89/EC (OJ L 158, 14.6.2019, pp. 1-21)

This Regulation establishes rules for the cooperation between Member States for the prevention, risk preparedness and management of electricity crisis in a solidarity and transparency spirit, taking into account the requirements of a competitive internal electricity market. It requires Member States to cooperate, at regional level and, where applicable, bilaterally, in a spirit of solidarity. It also sets out a framework for the effective monitoring of security of electricity supply in the Union via the Electricity Coordination Group (ECG), which was set up by the Commission Decision of 15 November 2012, as a forum in which to exchange information and foster cooperation among Member States, in particular in the area of security of electricity supply. Member State cooperation and the monitoring framework are intended to achieve better risk-preparedness at a lower cost. This Regulation should also strengthen the internal electricity market by improving trust and confidence across Member States and ruling out inappropriate state interventions in electricity crises, in particular avoiding undue restriction of cross-border flows and trans-zonal transmission capabilities, thus reducing the risk of unfavourable secondary effects on neighbouring Member States.

According to the Regulation, each Member State designates a national entity or regulatory authority as its competent authority. The competent authorities are responsible for carrying out the duties provided for by the Regulation and are cooperating with each other for this purpose. Each competent authority is ensuring that all relevant risks associated with the safety of electricity supply are assessed in accordance with the rules set out in the Regulation.

Based on the regional and national electricity crisis scenarios set out in the Regulation, the competent authority of each Member State shall produce a risk preparedness plan after consultation with market participants. The risk preparedness plan consists of national, regional and, where necessary, bilateral measures.

Regulation (EU) 2019/942 of the European Parliament and of the Council of 5 June 2019 establishing a European Union Agency for the Cooperation of Energy Regulators (OJ L 158, 14.6.2019, pp. 22-53)

The Agency for the Cooperation of Energy Regulators (ACER) was established with the third package of energy measures in 2009. Initially, the role of ACER was limited to the coordination, advice and monitoring. With the increase in cross-border cooperation, in the context of the new design of the electricity market for the Clean Energy Package, ACER was given additional responsibilities in areas where uncoordinated national decisions of cross-border importance could affect the functioning of the internal energy market.

The new regulation sets out ACER's responsibility for overseeing the ENTSO for Electricity, the ENTSO for Natural Gas, the EU DSO, the regional coordination centers and the designated electricity market operators and assists the relevant national regulatory authorities in the performance of their duties. ACER will also be involved in the development of network codes as well as the guidelines and methodologies and monitoring their implementation. ACER may adopt further decisions on the sufficiency assessment, methodologies on risk preparedness as well as cross-border participation in capacity mechanisms.

Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (OJ L 158, 14.6.2019, pp. 54-124)

Regulation 2019/943 establishes rules to ensure the functioning of the internal market for electricity and includes requirements related to the development of RES and environmental policy, in particular specific rules for certain facility types of electricity generation from RES, concerning balancing responsibility, allocation and reallocation, as well as a threshold for CO2 emissions of new generation capacity where such capacity is subject to temporary measures to ensure the necessary level of resource adequacy, that is to say, capacity mechanisms framework.

RES-E from small power plants should be allocated prioritised either via a specific priority order in the allocation methodology or via legal or regulatory requirements so that market operators provide this electricity in the market. Prioritised allocation which has been granted in the system operation services under the same economic conditions should be considered to comply with this Regulation. In any case, prioritised allocation should be deemed to be compatible with the participation in the electricity market of power-generating facilities using RES.

The purpose of the Regulation is to:

- set the basis for an efficient achievement of the objectives of the Energy Union and in particular the climate and energy framework for 2030 by enabling market signals to be delivered for increased efficiency, higher share of RES, security of supply, flexibility, sustainability, decarbonisation and innovation,
- set fundamental principles for well-functioning, consolidated electricity markets, which allow all resource providers and electricity customers non-discriminatory market access, empower consumers, ensure competitiveness on the global market as well as demand response, energy storage and energy efficiency, and facilitate aggregation of distributed demand and supply, and enable market and sectoral integration and market-based remuneration of electricity generated from RES,

- set fair rules for cross-border exchanges in electricity, thus enhancing competition within the internal market for electricity, taking into account the particularities of national and regional markets, including the establishment of a compensation mechanism for cross-border flows of electricity, the setting of harmonised principles on cross-border transmission charges and the allocation of available capacities of interconnections between national transmission system,
- facilitate the emergence of a well-functioning and transparent wholesale market, to contribute in a high level of security of electricity supply, and predict mechanisms to harmonise the rules for cross-border exchanges of electricity.

Directive (EU) 2019/944 of the European Parliament and of the Council of 5 June 2019 on common rules for the internal market for electricity and amending Directive 2012/27/EU (OJ L 158, 14.6.2019, pp. 125-199)

Directive 2019/944 aims to remove the remaining barriers to the completion of the internal electricity market. It establishes common rules for the generation, transmission, distribution, energy storage and supply of electricity, together with consumer protection provisions, with a view to creating truly integrated competitive, consumer-centred, flexible, fair and transparent electricity markets in the Union.

Using the advantages of an integrated market, this Directive aims to ensure affordable, transparent energy prices and costs for consumers, a high degree of security of supply and a smooth transition towards a sustainable low-carbon energy system. It lays down key rules relating to the organisation and functioning of the Union electricity sector, in particular rules on consumer empowerment and protection, on open access to the integrated market, on third-party access to transmission and distribution infrastructure, unbundling requirements, and rules on the independence of regulatory authorities in the Member States.

This Directive also sets out modes for Member States, regulatory authorities and DSOs to cooperate towards the creation of a fully interconnected internal market for electricity that increases the integration of electricity from RES, free competition and security of supply.

This Directive aims to recognise certain categories of citizen energy initiatives at the Union level as 'citizen energy communities', in order to provide them with an enabling framework, fair treatment, a level playing field and a well-defined catalogue of rights and obligations. Citizen energy communities constitute a new type of entity due to their membership structure, governance requirements and purpose.

This Directive empowers Member States to allow citizen energy communities to become DSOs either under the general regime or as 'closed distribution system operators'. Once a citizen energy community is granted the status of a DSO, it should be treated as, and be subject to the same obligations as, the DSOs.

Household customers should be allowed to participate voluntarily in community energy initiatives as well as to leave them, without losing access to the network operated by the energy community initiative or losing their rights as consumers. Access to a citizen energy community's network should be granted on fair and cost-reflective terms. The provisions of this Directive on citizen energy communities provide for rights and obligations, which are possible to deduce from other, existing rights and obligations, such as the freedom of contract, the right to switch supplier, the responsibilities of the DSO, the rules on network charges, and balancing obligations.

Directive (EU) 2019/692 of the European Parliament and of the Council of 17 April 2019 amending Directive 2009/73 / EC concerning the common rules for the internal natural gas market (Text EEA relevance)

The purpose of Directive 2019/692 is to address the obstacles to the completion of the internal natural gas market, which result from the non-application of the Union market rules to gas transmission lines to and from third countries. The amendments introduced by this Directive are intended to ensure that the rules applicable to gas transmission lines connecting two or more Member States are also applicable, within the Union, to gas transmission lines to and from third countries.

This will establish the consistency of the legal framework within the Union, while avoiding the distortion of competition in the Union's internal energy market and negative impacts on the security of supply. It will also enhance transparency and provide legal certainty to market participants, especially to the gas infrastructure investors and the system users, as regards the applicable legal regime.

National Energy and Climate Action Plan

In October 2014, the European Council approved the European Union's (EU) strategic framework for the energy and climate by 2030, which sets out the EU's long-term transition strategy to an economy of low levels of carbon emissions (gradual independence from fossil fuels). The Council set out the following four binding EU targets for achieving the strategy:

- reduction of greenhouse gas emissions by at least 40% by 2030, compared to 1990,
- consumption of at least 32% energy from renewable sources in 2030,
- improving energy efficiency by at least 32.5% by 2030,
- support the completion of the internal energy market by achieving the goal of 15% electricity interconnection by 2030.

To support these goals, the European Commission designed the Energy Union Strategy in 2015, which is based on the following five areas or dimensions:

- Safety of energy supply, including the promotion of RES.
- Expansion of the integrated internal energy market, which allows the free flow of energy in the EU across borders through interconnections.
- Increase energy efficiency.
- Reduction of emissions and exemption of the economy from carbon emissions.
- Promoting research and innovation to achieve climate goals, including the promotion of innovative low carbon dioxide technologies.

To achieve the goals of the Energy and Climate Package for 2030 and the goals of the Energy Union, all Member States are called upon to establish their National Energy and Climate Action Plan (NECAP), which will define national goals, strategies, policies and programs that will be implemented for the period 2021 to 2030, for each of the five dimensions/sectors of the Energy Union.

On January 23, 2019, the Council of Ministers approved the Cyprus' draft NECAP for the period 2021-2030. The NECAP of Cyprus has set, among other things, the following objectives:

- reduction of greenhouse gas emissions by 24% at least by 2030, compared to 2005,
- consumption of at least 19% energy from RES in 2030.

The preparation of the NECAP is done through the National Governance System for Energy and Climate, which has been operating, by decision of the Council of Ministers, since 2017. This National Governance System, among others, is responsible for monitoring the progress towards achieving

national energy and climate targets and, in addition to the relevant Ministries (Agriculture, Rural Development and Environment (MARDE), Energy, Commerce and Industry (MECI), Transport, Communications and Works (MTCW), and Finance), a set of experts and services from various Ministries are involved.

The draft NECAP was submitted by the Republic of Cyprus to the European Commission in January 2019. The EC, following an evaluation of the NECAP, notified the relevant Ministries (MECI, MARDE) its comments and suggestions to be included in the final NECAP.

In the context of the Public Consultation for the NECAP, a public hearing was held, in the context of which various bodies had the opportunity to submit written comments, suggestions and comments. CERA participated in the public consultation and submitted comments on the NECAP draft.

Projects of Common Interest (PCI)

On 31 October 2019, the EC submitted to the European Parliament and the Council the fourth consecutive list of 195 key energy infrastructure projects, which is an update on the third list approved in November 2017, known as Projects of Common Interest (PCI), which will contribute to the achievement of European energy and climate goals and will allow the gradual build-up of the Energy Union with the integration of energy markets in Europe, while at the same time, allowing the termination of energy isolation of some Member States.

The delegated act containing the fourth list of PCIs has been submitted for a period of two months, which may be extended once.

The list of PCIs is updated every two years, so that projects that meet new needs are added and the outdated ones are deleted.

PCIs benefit from rapid licensing procedures and more favourable arrangements, and can be eligible for financial support from the "Connecting Europe Facility". Funds of €5.35 billion are available for trans-European energy infrastructure under the "Connecting Europe Facility" for the period 2014-2020, contributing to the faster implementation of PCIs and making them more attractive to investors.

The projects that concern Cyprus which are included in the union catalogue are as follows:

- Israel - Cyprus - Greece cluster (currently called "EuroAsia Interconnector"). The cluster includes the following PCIs:
 - › Electrical Interconnection between Hadera (Israel) and Kofinou (Cyprus) and
 - › Electrical Interconnection between Kofinou (Cyprus) and Korakia (Crete, Greece).
- Cluster of natural gas infrastructure and related equipment for the transmission of new gas sources from the offshore deposits of the Eastern Mediterranean which includes the following PCI:
 - › East Med Pipeline - Natural Gas pipeline offshore from Cyprus to mainland Greece via Crete, and
- Development of gas infrastructure in Cyprus, called "CyprusGas2EU".

In addition to the PCIs included in the fourth list of key energy infrastructure projects, the implementation of the 2000MW electricity interconnection between Egypt and Cyprus of the so-called 'EuroAfrica Interconnector' project is in progress. The project envisages the implementation of the Egypt-Cyprus

electricity interconnection using submarine cables of high voltage direct current (HVDC), with a capacity of 2000MW. In addition, the project envisages that the interface will be completed in two phases, with the first phase providing the ability to transfer 1000MW. The EuroAfrica Interconnector project has completed the cost-benefit studies and is expected to offer significant economic and geopolitical benefits to the states involved and will contribute to the goal of lifting energy isolation.

International Activities

Agency for the Cooperation of Energy Regulators (ACER)



The Agency for the Cooperation of Energy Regulators (ACER) (<https://www.acer.europa.eu>) is a Community body with legal personality and was established under 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 started operating in March 2011 and has its headquarters in Ljubljana, Slovenia.

The main task of ACER, is to help and coordinate at an 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 EC, 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-wide 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, the Vice Chairman and the Member of CERA. During 2019, CERA took part in the 80th, 82nd, 84th, 85th, 86th and 87th Board of Regulators' meetings 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 which may be supported by Task Forces and Work Streams in charge of specific matters. CEER has established 7 Working Groups.

The Council meets at regular intervals, usually in Brussels. CERA Members represent Cyprus at these meetings. During 2019, CERA participated in the 144th, 146th, 148th, 149th, 150th and 151st General Assembly of CEER.



Association of Mediterranean Energy Regulators (MEDREG)

The Association of Mediterranean Energy Regulators (MEDREG) (<http://medreg-regulators.org/>) was established in 2007, under the Italian law and has its headquarters in Rome. Currently, MEDREG consists of 27 Energy Regulatory Authorities from 22 countries, [Albania (ERE), Algeria (CREG and ARH), Bosnia-Herzegovina (SERG), Croatia (HERA), Cyprus (CERA) Egypt (EgyptEra and GASREG), France (CRE), Greece (RAE), Israel (PUA and NGA), Italy (AEEGSI), 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 (MIT) and Turkey (EMRA)].

MEDREG promotes a transparent, stable and harmonised regulatory framework in the Mediterranean Region with emphasis on market integration and infrastructure investments, as well as aiming at consumer protection and the 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.

During 2019, CERA participated in the 27th and 28th General Assembly of MEDREG.

CERA was represented at the 26th meeting of the MEDREG Electricity Working Group, which took place in March 2019 in Milan. At the same time, CERA, which is the Co-Chairman of the Working Group on RES and Energy Efficiency, was represented at the 25th meeting of this Working Group, which was organized in parallel with the meeting of the Working Group on Electricity in March 2019 in Milan. CERA organized the 26th meeting of the Working Group on RES and Energy Efficiency, which took place in October 2019, at CERA's offices in Nicosia.

As part of the organization of the 26th meeting of the Working Group on RES and Energy Efficiency, CERA organized a workshop on the "Implementation of the new Directive on RES and new RES schemes - auction mechanisms".



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, to contribute in the creation of an integrated energy market, enhance the security of supply, promote the environmental protection 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 natural gas markets in the Energy Community. Its mission is to facilitate the development of competitive and integrated gas and electricity markets for the benefit of the Energy Community' business and citizens.

According to the Treaty, the Regulatory Board:

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

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

European Commission Fora

In 1998, the EC 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 EC, Member States, Members of the European Parliament, representatives of energy regulators and TSOs, representatives of organisations of traders, consumers 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 2019, CERA participated in the 33rd 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 EU, 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 EU. 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:

- Speech by Dr. Andreas Poullikkas, Chairman of CERA, entitled "Natural Gas strategies for sustainable energy systems", at the Athens Energy Forum 2019, on 28 January 2019.
- Speech by Dr. Andreas Poullikkas, Chairman of CERA, entitled "Future sustainable energy systems towards 2050", at the "Global summit on power & energy engineering", in Dubai, on 18 February 2019.
- Opening speech by Dr. Andreas Poullikkas, Chairman of CERA, entitled "Development of future sustainability energy systems and strategies towards 2050, at the" International conference on innovative applied energy", in Oxford, on 14 March 2019.
- Speech by Dr. Andreas Poullikkas, Chairman of CERA, entitled "The European energy transition regulatory matters and new business solutions - future technologies for sustainable energy system", at the "4th annual symposium of the Hellenic Association for Energy Economics (HAEE)", in Athens, on 8 May 2019.
- Presentation by Senior Energy Engineer of CERA, entitled 'RES Auctions in Med Region' as part of the workshop co-organized by MEDREG and ECRB in Tirana on 18 June 2019
- Speech by Dr. Andreas Poullikkas, Chairman of CERA, entitled "Large scale integration of renewable energy systems into electricity markets", in Chania, on 3 June 2019.
- Speech by Dr. Andreas Poullikkas, Chairman of CERA, entitled "Strategies towards clean energy for islands" at the "European forum on clean energy for islands", in Rhodes, on 3 October 2019.

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 Dr. Andreas Poulikkas, Chairman of CERA, during the tripartite meeting of the presidents of the parliaments of Cyprus, Greece and Egypt, in the House of Representatives, on 11 February 2019.
- Address by Dr. Andreas Poulikkas, Chairman of CERA, during the foundation stone laying ceremony of the new PEC power plant, on 15 February 2019.
- Speech by Dr. Andreas Poulikkas, Chairman of CERA, entitled "Energy challenges towards 2050 - The case of Cyprus", at the Institution of Civil Engineers and at the Institution of Mechanical Engineering, in Nicosia, on 20 March 2019.
- Presentation by CERA's Senior Energy Engineer, entitled "Regulatory Perspectives for Energy Communities" as part of the workshop co-organized by the Association of European Renewable Energy Research Centre (EUREC), the European Energy Research Alliance - JP Smart Grids (EERA) and University of Cyprus, in Nicosia on 8 May 2019.
- Speech by Dr. Andreas Poulikkas, Chairman of CERA, at the annual general meeting of the Cyprus Association of Renewable Energy Enterprises (SEAPEK), at the headquarters of the Cyprus Employers and Industrialists Federation (OEB), in Nicosia on 26 June 2019.
- Opening speech by Dr. Andreas Poulikkas, Chairman of CERA, as part of the workshop of the Association of Mediterranean Energy Regulators (MEDREG) entitled "The implementation of the new RES Directive and RES schemes - auction mechanisms", organized at the offices of CERA, in Nicosia, on 17 October 2019.
- Presentation by CERA's Senior Energy Engineer entitled "RES-E auctions in the Mediterranean region", as part of the workshop of the Association of Mediterranean Energy Regulators (MEDREG) entitled "The implementation of the new RES Directive and RES schemes - auction mechanisms", organized at the offices of CERA, in Nicosia, on 17 October 2019.
- Presentation by CERA's Energy Engineer entitled "Cyprus' Electricity Market Developments", as part of the workshop of the Association of Mediterranean Energy Regulators (MEDREG) entitled "The implementation of the new RES Directive and RES schemes - auction mechanisms", organized at the offices of CERA, in Nicosia, on 17 October 2019.
- Speech by Dr. Andreas Poulikkas, Chairman of CERA, entitled "Regulation of electricity & natural gas markets in Cyprus", at the Frederick University, in Nicosia, on 25 November 2019.
- Speech by Dr. Andreas Poulikkas, Chairman of CERA, entitled "Challenges and strategies for the electricity and natural gas markets", at the 7th energy symposium entitled "Cyprus: the next steps on the energy chessboard", on 5 December 2019.

Research and development

Technical Assistance from the Structural Reform Support Service (SRSS) of the EC

Providing technical assistance to CERA for the development of a methodology for calculating network charges for the cases of RES projects that fall under 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 project and all the necessary deliverables were completed within 2019.

European Programs in which CERA participates

Integrated Platform for Increased FLEXibility in smart TRANSmision grids with STORage Entities and large penetration of Renewable Energy Sources (FLEXITRANSTORE)

The FLEXITRANSTORE research project is an EU-funded project, part of HORIZON 2020 (Grant Agreement No. 774407), which started on 1 November 2017 and will last 48 months, that is until 31 October 2021.

The project joint venture consists of 30 partners, including transmission and distribution systems operators, energy regulators, market operators, service providers and manufacturers. The partners of Cyprus are the TSOC, the DSO, the University of Cyprus and CERA.

The FLEXITRANSTORE research program is essentially a platform that will offer flexibility to smart network grids with storage and large penetration of RES. The program aims to contribute to the development of a pan-European transmission network with high flexibility and high levels of interconnection.

Through the program, innovative smart network technologies, control and storage methods and new market approaches will be developed, installed and tested through 8 pilot facilities (Greece, Bulgaria, Cyprus, Slovenia and Spain). One of these facilities will be installed at the Athienou substation in Cyprus. It is an Active Distribution Node (ADN) at the Athienou substation, with a 1MW storage system capacity and up to 2MWh energy, in combination with additional facilities related to hardware and software at various points for the integration, monitoring and control of the systems, most of which are installed at the substation as the border point between the transmission and distribution systems with the aim of utilizing the substation as ADN by the system operators (TSOC and DSO). The installation is expected to take place in early 2020, while its operation will continue at least until the end of the FLEXITRANSTORE program (31 October 2021).

Empowering the Cyprus power system with sustainable and intelligent technologies (EMPOWER)

The EMPOWER program is one of the RESTART 2016-2020 programs of the Research and Innovation Foundation (RIF), for Research, Technological Development and Innovation.

THE EMPOWER brings together all the key stakeholders of the electricity sector in Cyprus with the aim of developing sustainable and intelligent technologies and tools for the electricity system of Cyprus. EMPOWER aims to improve the effectiveness of Research, Technological Development and Innovation in Cyprus, focusing on the priority area of energy.

The general objectives of EMPOWER are:

- Development of the electricity system of Cyprus.
- Increase of the share of RES in the energy mix of Cyprus.
- Development of important links and cooperation between members of the quadruple helix (research centres, higher education institutions, businesses, policy makers and other stakeholders).

Integration of innovative green technologies on existing public transportation buses for 5% to 30% fuel savings (BUSFUELSAVINGS)

The BUSFUELSAVINGS program is one of the RESTART 2016-2020 programs of RIF for Research, Technological Development and Innovation.

Cyprus's public transport consists of 2,600 buses, which consume about 60,000,000 liters of diesel per year. High fuel consumption is a significant cost for transport companies, which are struggling to survive through government subsidies. In addition, the mass use of diesel causes environmental pollution with all the negative impacts on the quality of life of society.

The aim of the BUSFUELSAVINGS project, is to reduce this problem by reducing bus fuel consumption by 5-30% and reducing emissions (particles, non-combustible hydrocarbons, CO₂, CO, NO_x) by >20%. The only way to achieve this, is to increase the efficiency of the existing buses by integrating them into the existing machines of an innovative, green technology, such as the HHO gas generator.

The project is a large-scale, interdisciplinary collaboration, which aims to enhance the effectiveness of the Technological Development and Innovation Research System and to link with the productive base in transportation. It will produce specific results to strengthen the competitiveness of the economy and will have an impact on the economic growth and the quality of life. It will also create new businesses and jobs that are expected to contribute positively to tackling unemployment.

Innovative storage methods for improving the balance of RES in Cyprus - Storage and Renewables Electrifying Cyprus (SREC)

The SREC program is one of the RESTART 2016-2020 programs of RIF for Research, Technological Development and Innovation.

Energy storage is a methodology that necessarily accompanies the conversion and use of energy from RES. It is an important parameter in trying to increase the share of RES injected into networks. In isolated networks such as that of Cyprus, the need for storage is a high priority for reasons such as security of supply, utilization of infrastructure, inflow of RES, reduction of emissions, domestic added value and sustainability.

During the implementation of the SREC project, storage/hybridization technologies with RES will be explored, new storage/hybridization combinations suitable for Cyprus will be developed, will examine the possibility and consequences of storage on various scale sizes and applications in combination with "smart networks" and will quantify the results of storage/hybridization in their cooperation with the networks, energy costs, utilization and development of infrastructure, domestic added value and sustainability.

In addition, the purpose of the SREC project is the development and implementation of a regulatory framework that will allow the operation and integration into the network of aggregation projects so that projects can be implemented. Also, the goal is to locate storage infrastructures throughout Cyprus in order to select 2 medium scale of them as prototypes. These two prototype projects will be studied and licensed utilizing the processes that will be developed in this project and will eventually be presented for implementation and operation to stakeholders.

At the end of the proposed project, it is expected that there will be specific available energy storage and hybridization technologies suitable for implementation in Cyprus, proposals for their location, regulatory framework, and two prototype projects ready for construction and operation.

4

ELECTRICITY MARKET

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 interested persons are given the opportunity, after obtaining the relevant licences, to be involved and participate on a competitive basis in the electricity market and according to the regulations set by CERA, as Independent Power 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 because it occupies at this stage a dominant position on the market, is regulated by CERA. More specifically 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 Power 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 RES stations) to the end consumers for consumption.

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

The transmission system is managed by the TSOC, following the granting of the relevant licence by CERA, who is the 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 who belongs to the EAC.

Licensing and Exemption 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 the:

- Construction and operation of a power plant with conventional fuels for commercial purposes.
- Construction and operation of a power plant with conventional fuels for self-consumption and reserve purposes with a generating capacity greater than 1MW.

- Construction and operation of a power plant using RES with a generating capacity of more than 5MW.
- Electricity supply.
- Execution of the responsibilities of the TSOC.
- Execution of the responsibilities of the DSO.
- Execution of responsibilities of the OTS.
- Execution of the responsibilities of the ODS.

Exceptions from a licence granted by CERA under Article 35 of the Laws Regulating the Electricity Market of 2003 to 2018, concern the:

- Construction and operation of a power plant using RES with generation capacity of up to 5MW.
- Construction and operation of a power plant with conventional fuels up to 1MW for self-consumption or for reserve purposes.

Licence for electricity supply

In 2019, 3 applications were submitted for the issuance of electricity supply licences to end customers for the period of validity of the transitory regulation of the electricity market, 7 licences have been granted for the supply of electricity to the end customers for the period of validity of the transitory regulation of the electricity market and one application has been rejected.

CERA, for the period of validity of the transitory regulation of the electricity market has granted a total of 13 electricity supply licences to end customers and has rejected 1 application.

Licence for the construction and operation of power plants for commercial use

Conventional Units

In 2019, 2 applications were submitted for a licence for the construction of a power plant for commercial use, with total electrical capacity of 235MWe and 3 licences were issued for the construction of power plants for commercial use, with total electrical capacity of 269.5MWe. One operation licence was issued, for a power plant for commercial use, with total electrical capacity of 4.5MWe.

The installed electrical capacity of conventional units for commercial use has not been differentiated during the year 2019, it remains at 1478MWe, as it was in the previous year 2018. The geographical distribution of the Power Plants for commercial use is presented in Figure 2.

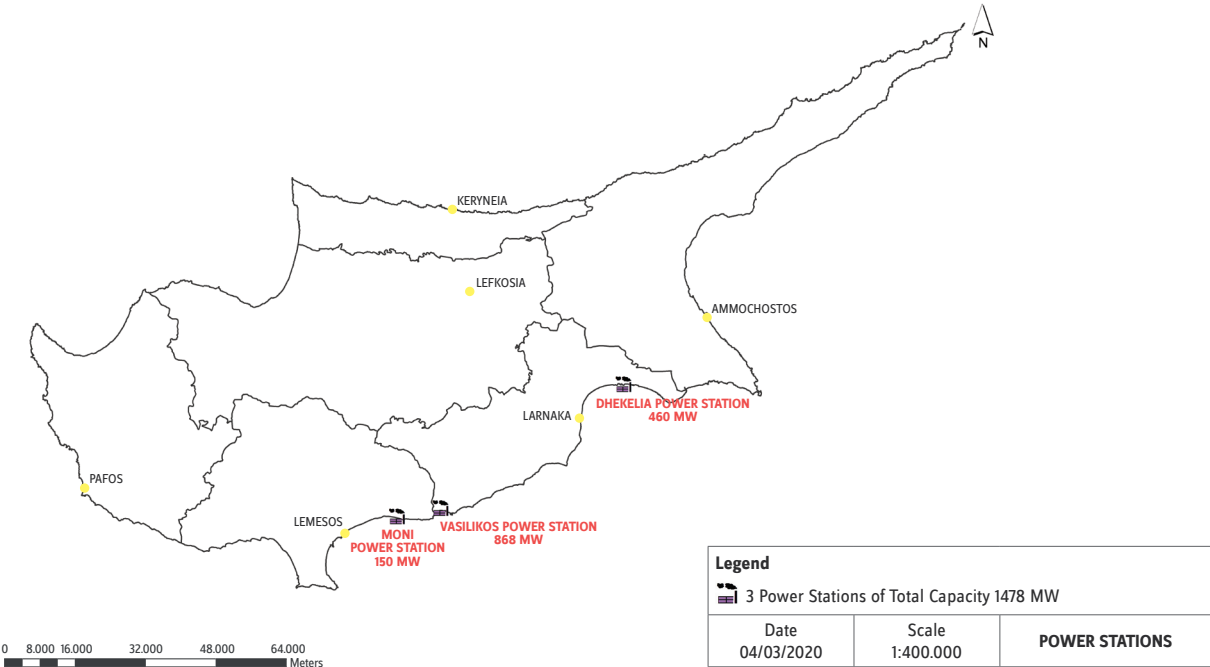


Figure 2 - Descriptive presentation and geographical distribution of installed conventional units for commercial use until 2019

Renewable Energy Sources

Wind farms

In 2019, no licences have been granted for the construction and operation of Wind Farms. The installed capacity of Wind farms for commercial use has not been differentiated in the year 2019, it remains at 157.5MWe, as it was in the previous year 2018.

Photovoltaic Systems

In 2019, 3 applications were submitted for the issuance of a licence for the construction of power plants for commercial use, with total electrical capacity of 20.19MWe and one application for a licence for the operation of a power plant for commercial use, with total electrical capacity of 8MWe. In 2019, 3 licences were issued for the construction of a power plant for commercial use, with a total electrical capacity of 20.19MWe.

Solar Thermal Units

In 2019, one application was submitted for the issuance of a licence for the construction of a solar thermal unit and natural gas combustion, for the generation of electricity for commercial use, with a total electrical capacity of 50MWe.

Kinematic-magnetic Units

In 2019, 2 applications were submitted for the issuance of a construction licence for commercial use power plants, using kinematic-magnetic energy, with total electrical capacity of 6MWe.

The following Figures 3, 4, 5 and 6 present statistical data on construction and operation licences granted by CERA for electricity generation, from conventional units and RES units for the period starting from the establishment of CERA until the end of 2019.

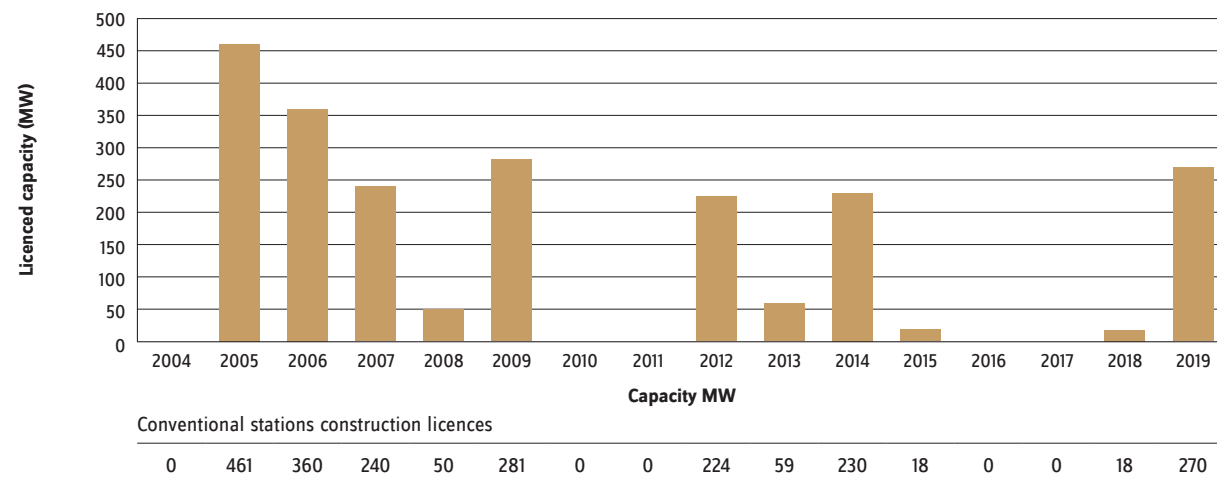


Figure 3 - Construction Licences for conventional power plants granted between 2004 and 2019

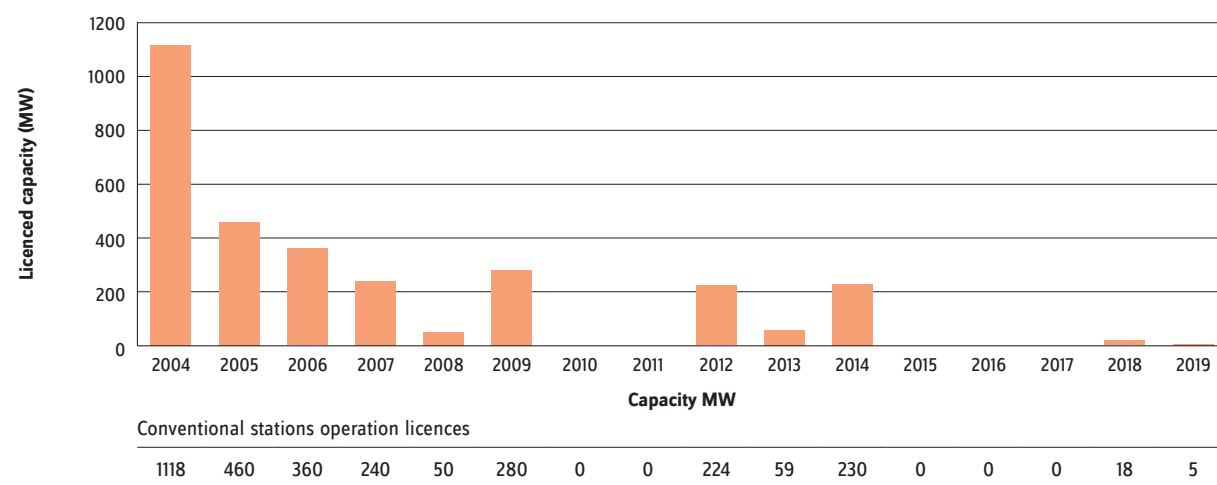


Figure 4 - Operation Licences for conventional power plants granted between 2004 and 2019

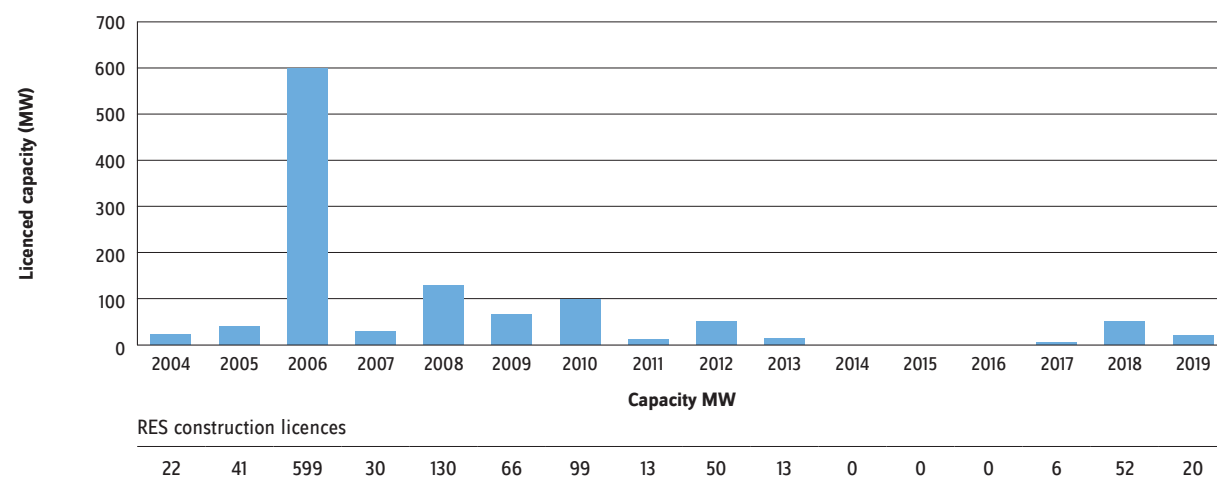


Figure 5 - Construction Licences for RES power plants granted from 2004 to 2019

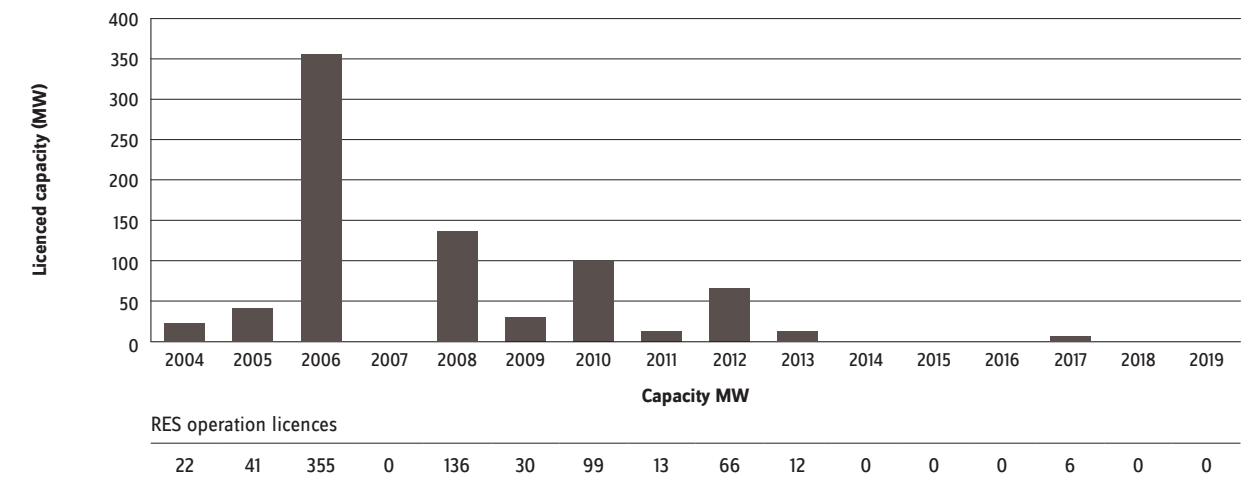


Figure 6 - Operation Licences for RES power plants granted from 2004 to 2019

Licences for construction and operation of self-consumption power units

Conventional units for self-consumption

In 2019, no licences have been granted for the construction and operation of power units for self-consumption (self-generation), with conventional fuels. The installed capacity of conventional units for self-consumption has not been differentiated during the year 2019, it remains at 32.7MWe, as it was in the previous year 2018.

Renewable Energy Sources

In 2019, no licenses have been granted for the construction and/or operation of power units from RES for self-consumption.

Exceptions from construction and operation licences of power units

Conventional units for self-consumption, autonomous self-generating systems or reserve purposes

In 2019, 123 exemptions have been granted from construction and operation licences, for power units using conventional fuels for reserve purposes and autonomous self-generation systems with a total installed capacity of 30.04MWe.

The total installed capacity of conventional units for reserve purposes and autonomous self-generation systems is 218.2MWe.

Renewable Energy Sources

COMMERCIAL USE

Photovoltaic Systems

In 2019, 106 exceptions were granted for the construction of Photovoltaic Systems, with a capacity of 147.89MWp and 29 exceptions for operation licences, with a total installed capacity of 10.1MWp.

The total installed capacity of Photovoltaic Systems for commercial use, which are included in the Support Schemes of MECl is 87.52MWe.

Biomass/Biogass Systems

In 2019 no exemptions from licence have been granted for the construction and operation of power units using Biomass/Biogass. The installed capacity of Biomass/Biogass units for commercial use has not been differentiated during the year 2019, it remains at 9.7MWe as it was in the previous year 2018.

SELF-CONSUMPTION

Photovoltaic systems with the method of self-generation/net-billing in commercial and industrial premises

In 2019, 144 exceptions were granted from the construction licences of photovoltaic systems, with a capacity of 23.3 MWe and 34 exceptions from operation licence, with a total installed capacity of 1.5 MWe.

The total installed capacity of photovoltaic systems with the method of self-generation/net-billing is 9.6MWe.

Biomass/biogass systems with the method of self-generation/net-billing

In 2019, no exceptions were granted for a construction licence of Biomass/Biogass Systems.

The installed capacity of Biomass/Biogass Systems with the method of self-generation/net-billing has not been differentiated in the year 2019, it remains at 3.1MWe as it was in the previous year 2018.

Figures 7 and 8, present the capacity of the exceptions from RES construction licence and from RES operation licence respectively, which were issued in the period 2004-2019.

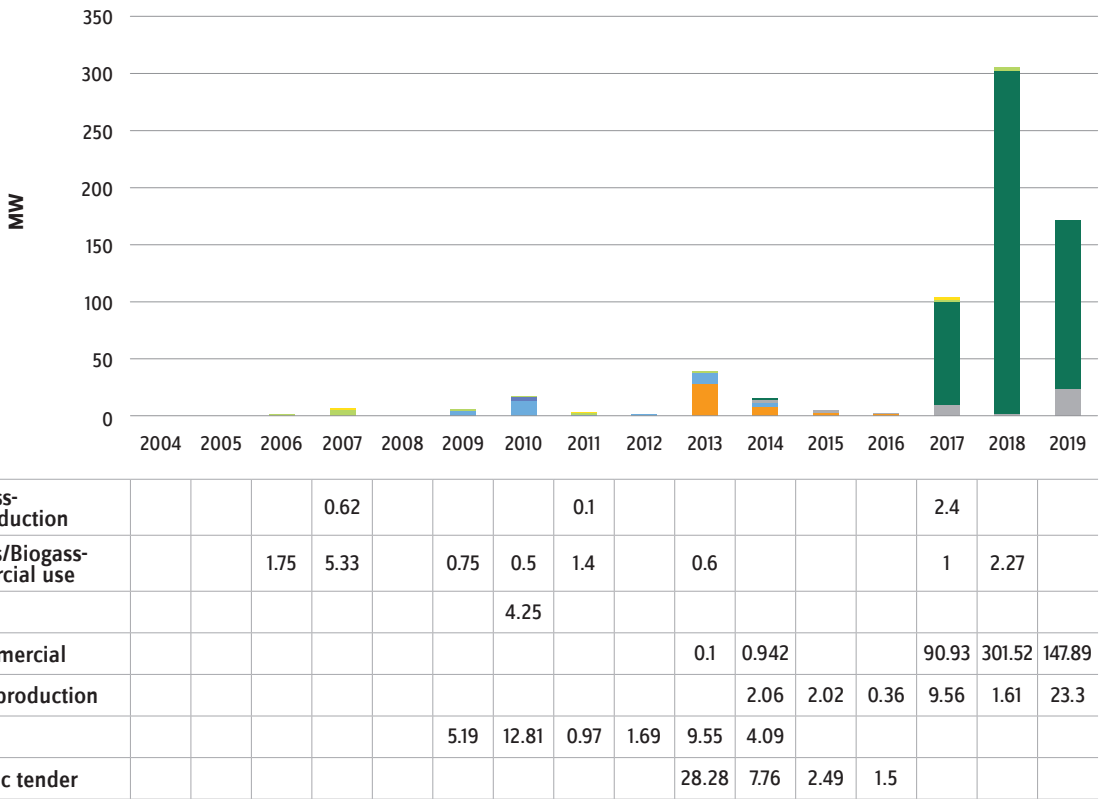


Figure 7 - Capacity (MW) of exceptions from RES construction licence for the period 2004-2019

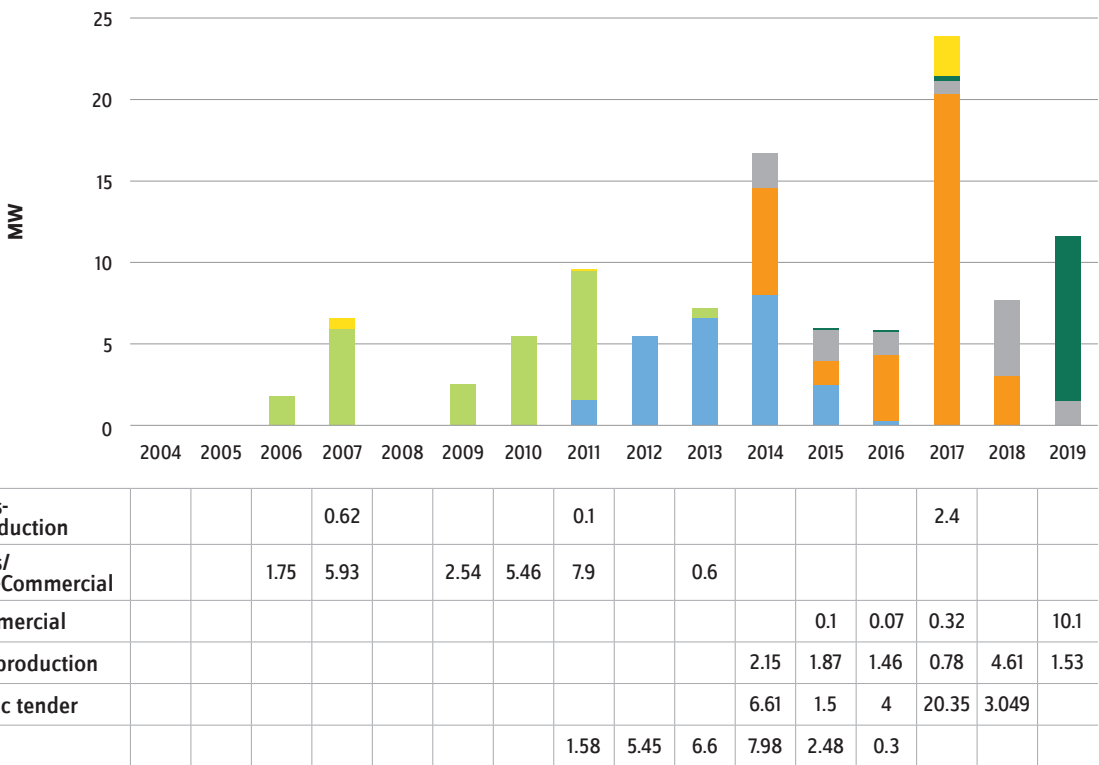


Figure 8 - Capacity (MW) of exceptions from RES operation licence issued in the period 2004-2019

Photovoltaic Systems with the method of net-metering

"Net-metering" is addressed to all consumers in whose premises' a small photovoltaic system is installed with capacity of up to 10kWe. According to this method, the difference is calculated between the generated electricity from the Photovoltaic System which is installed on the premises of the consumer and it's injected to the grid, and the electricity imported from the grid to meet the needs of the premise.

The DSO was designated by CERA as the implementing body for the net-metering Scheme. During the year 2019, the installation of 3166 Photovoltaic systems, with a total installed capacity of 15,396MWe, has been carried out.

The total installed electrical capacity of the Photovoltaic Systems of the net-metering category during the year 2019 is 53.99MWe.

Figure 9 shows the number and capacity of installed photovoltaic systems with the method of net-metering for the period 2013-2019.

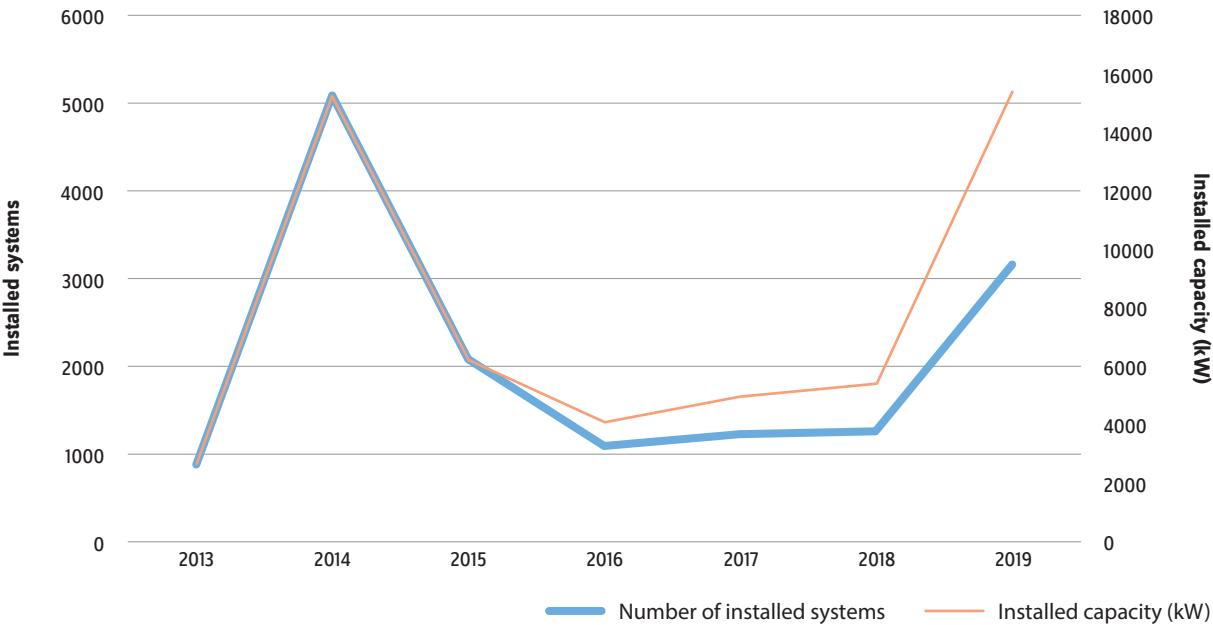


Figure 9 - Number of installed systems and installed capacity (kW) of net-metering systems for the years 2013-2019

Pilot/innovative systems

In 2019, in the context of CERA's Decision No. 1494/2016, one exemption from a construction licence for the generation of electricity with the use of kinematic-magnetic energy, with a total electrical capacity of 20kWe, was submitted and granted.

Figure 10 shows the geographical distribution of the installed RES units, with a capacity of more than 20kWp, until 2019. The Figure shows the uniform distribution of RES units in the territory of the Republic of Cyprus.

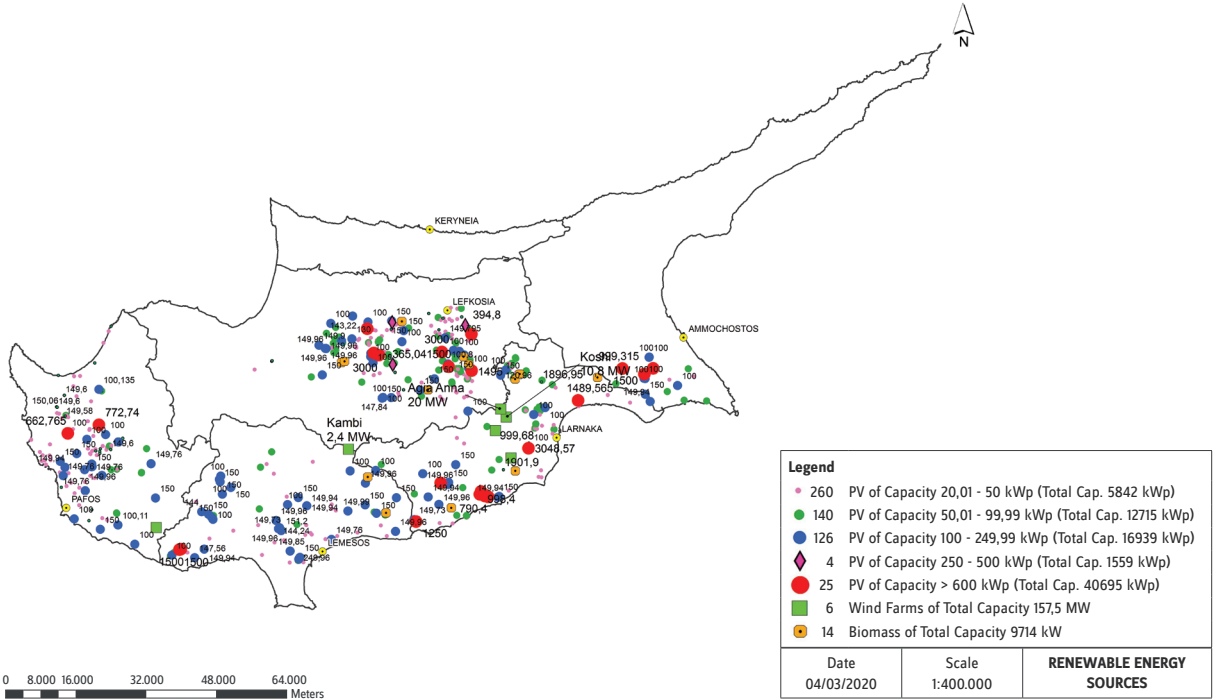


Figure 10 - Descriptive Presentation and Geographical Distribution of Installed RES Units with a capacity of more than 20kWp by 2019

Registry of Applications for Licence and Issued Licences

All the catalogues of applications for licences, as well as the issued licences/exceptions from licence, are registered on the website of CERA.

Data of Electricity generation in 2019

Total maximum capacity and electricity generation

The maximum demand for electricity for the year 2019 occurred on Thursday, 11 July 2019 at 14:45, when the total maximum capacity rose to 1,076 MW.

Total Energy Generation (GWh)

Regarding the recorded total electricity generation, during the year 2019, the following important data have been recorded:

- The total gross electricity generated reached 5,112,723 MWh.
- EAC-Generation contributed with 4,619,130 MWh.
- Res producers contributed with 493,748 MWh.
- EAC stations generated 227,703 MWh for their local needs.

- The energy from conventional units of the EAC-Generation injected to the transmission system reached 4,391,427 MWh.
- The energy imported from the transmission system to the EAC substations and the large producers reached 4,603,483 MWh.
- The recorded losses of the transmission system amounted to 62,855 MWh, or 1.35%, of the injected energy to the transmission system.
- The recorded losses of the distribution system amounted to 128,000 MWh, or 2.8%, of the energy injected to the distribution system.

Load Factor

The Load Factor of conventional power plants was 52.6% in 2019 compared to the Load Factor for the year 2018 which was at 53.4%.

Figure 11 shows the total electricity generation for 2019.

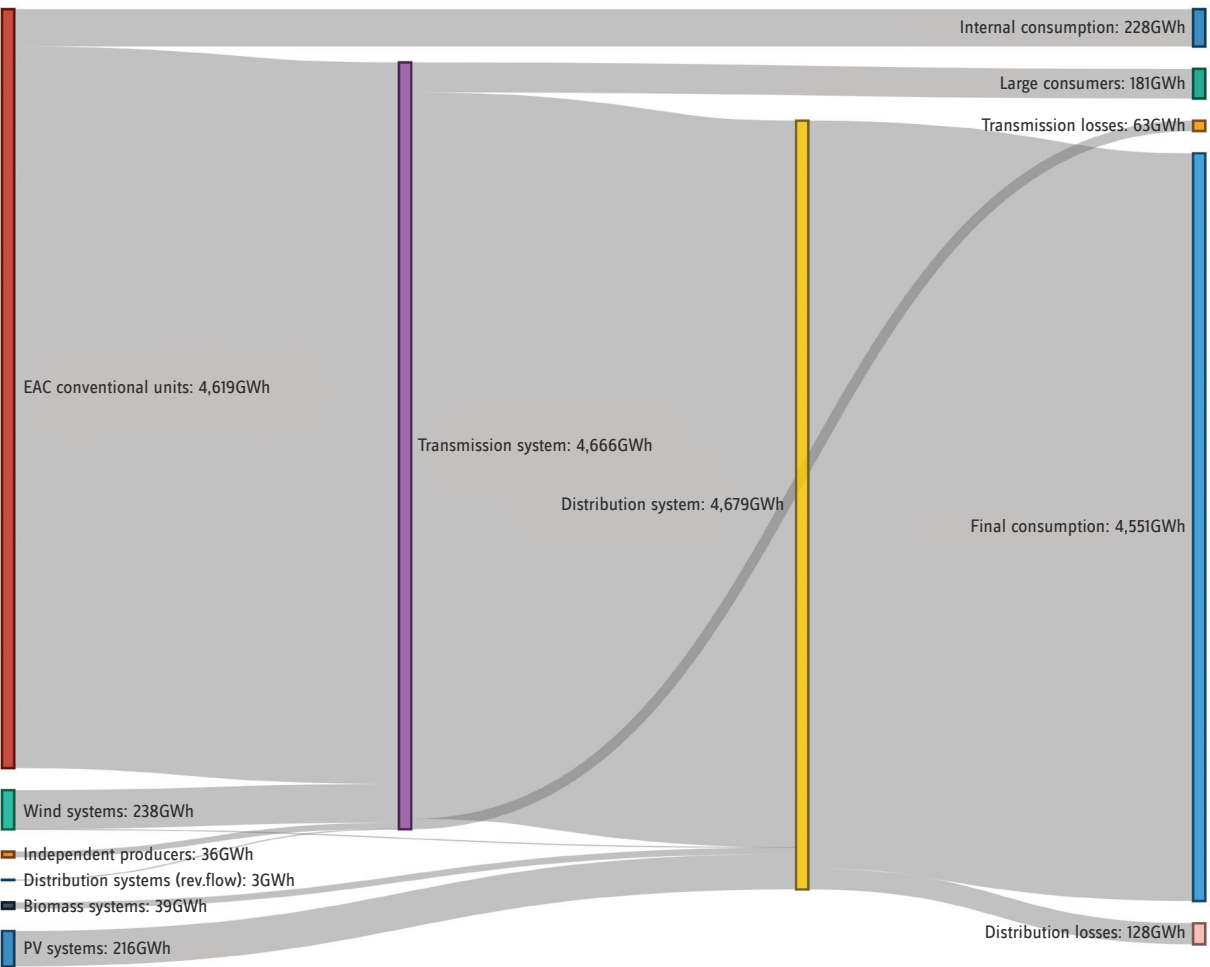


Figure 11 - Sankey diagram for the total electricity generation in 2019

Figures 12 and 13 present historical generation data from RES which are connected to the network.

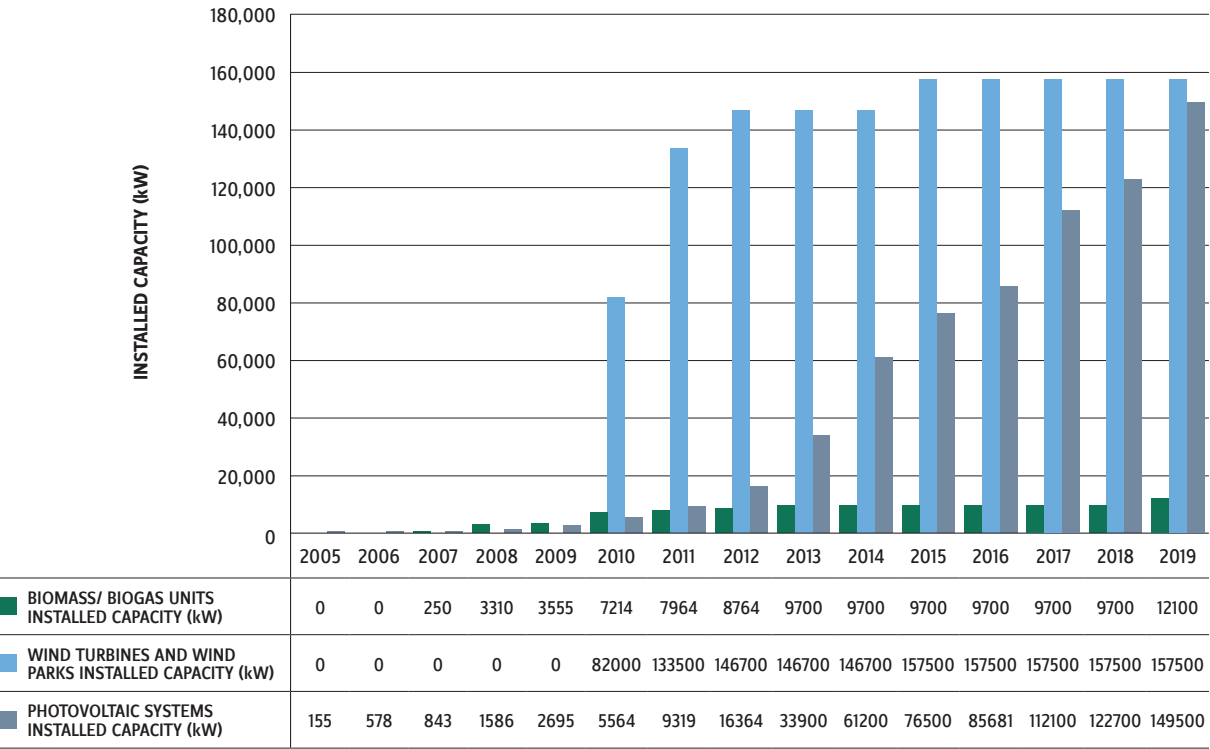


Figure 12 - Annual Installed RES Capacity (KW)

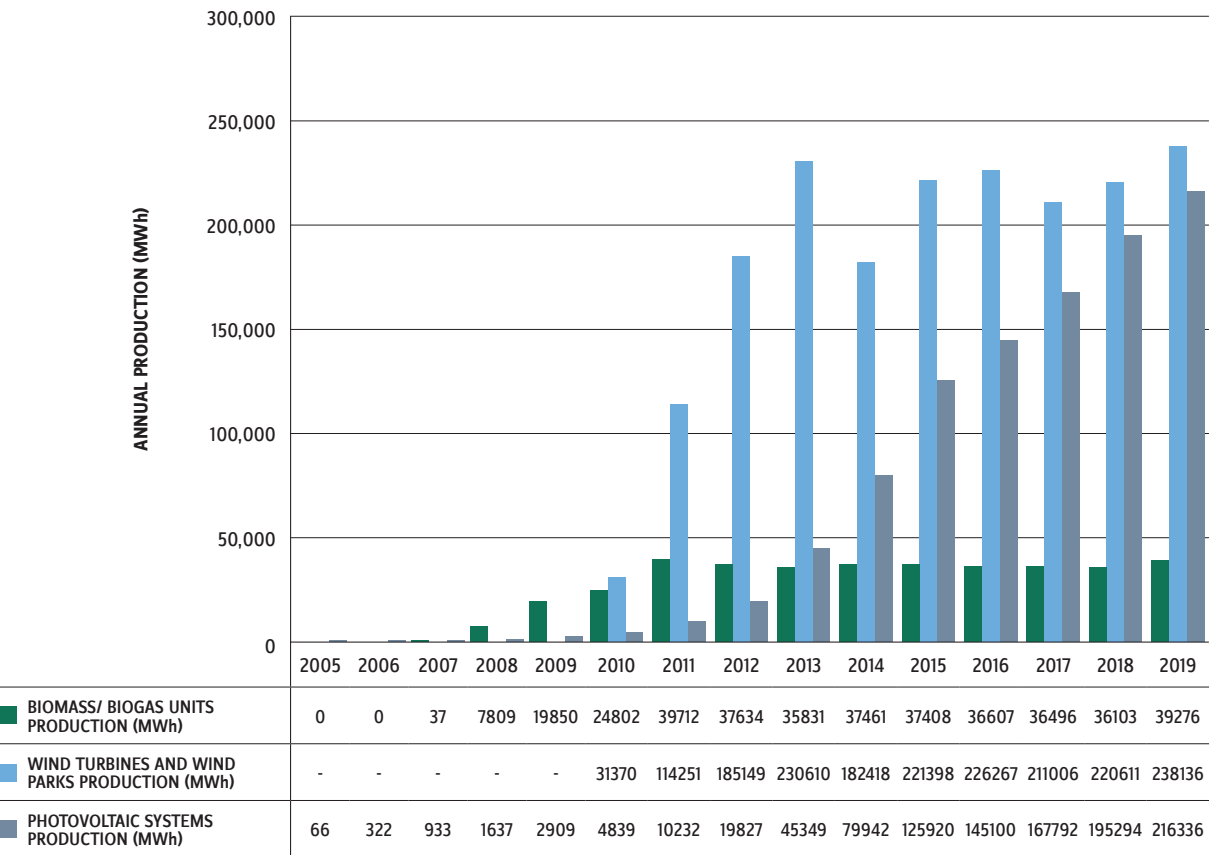


Figure 13 - Annual RES Generation (MWh)

Forecast of Total Maximum Capacity (MW) and Total Generated Energy (GWh) for the decade 2019-2028

Figures 14 and 15 present the forecast of total generated energy (GWh) and total maximum capacity (MW) for the period 2019-2028. These forecasts were submitted on 24 June 2019 by the TSOC to CERA. CERA approved this proposal by Decision 169/2019.

The upper limit represents the expected demand in extreme conditions, that is conditions of prolonged heat wave in summer and low temperatures in winter. The lower limit represents the expected demand in mild temperatures.

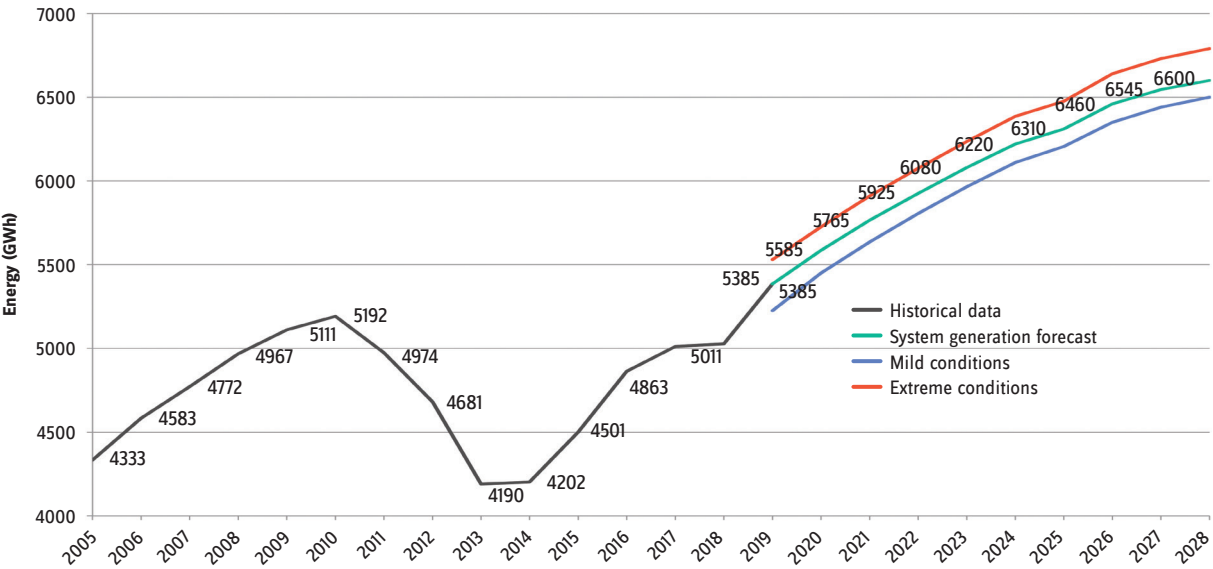


Figure 14 - Forecast of Total Generated Energy (GWh) 2019-2028

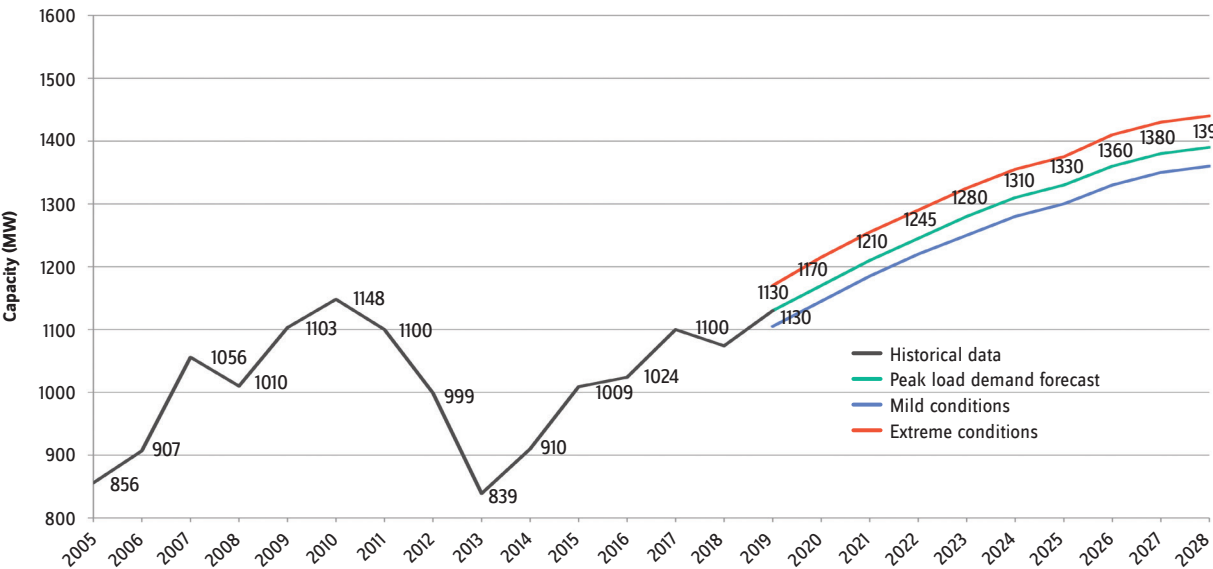


Figure 15 - Forecast of Total Maximum Capacity (MW) 2019-2028

Adequacy of Electricity Supply

CERA, in accordance with the Laws Regulating the Electricity Market of 2003 to 2018, is responsible for the electricity adequate supply in Cyprus, the reliability and security of the generation, transmission and distribution system, as well as the quality of electricity supply. CERA systematically monitors the adequacy, quality and reliability of electricity supply and, whenever it finds any shortfalls, it informs the Minister of Energy, Commerce, and Industry who, after consultation with CERA and the TSOC, takes all indicated corrective measures.

As shown in Figure 16, during the year under review, the adequacy is at sufficiently high levels and within the reserve margin of installed capacity, between 20%-40%, as provided by the decision 144/2017 of CERA, dated 17 July 2017, regarding the methodology for the calculation of the installed capacity reserve margin.

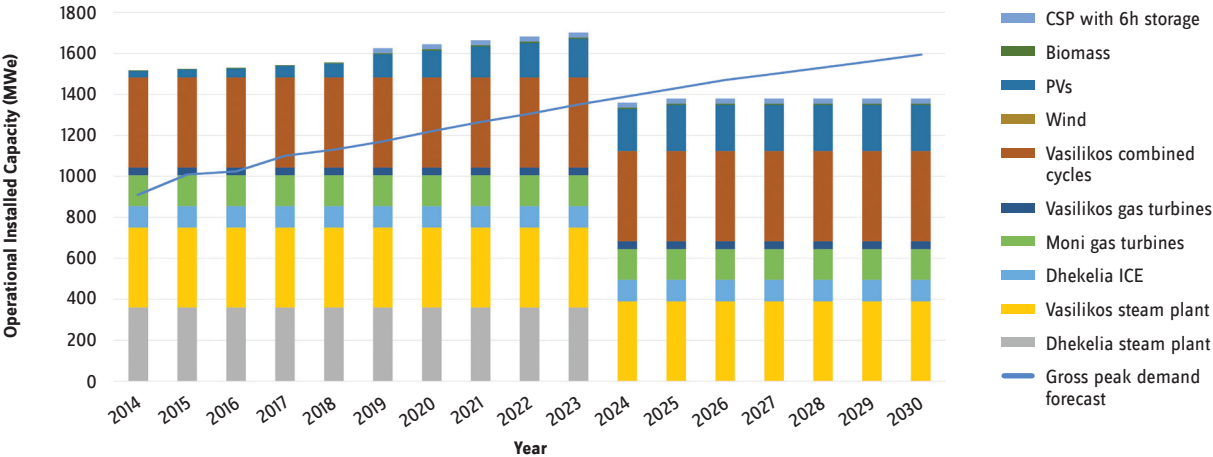


Figure 16 - Security of Electrical Energy Supply

Electricity Prices

Figures 17, 18, 19 and 20 present historical data for each of the years 2016 to 2020 (in €c / kWh):

- Network usage fees for consumers connected to Low Voltage (includes the Transmission System Tariff, Medium Voltage Distribution System Tariff, Low Voltage Distribution System Tariff, Tariff for the Recovery of Expenses of the TSOC and the Tariff of Auxiliary Services and Long-Term Reserve).
- The EAC Permitted Revenues per unit sold.
- The average price of the basic Wholesale Tariff (T-W) per unit exported.
- The average price of the basic Low Voltage Tariff (Single Rate Domestic Use Tariff - Code 01).

It is noted that in 2017 the new regulated electricity tariffs of the EAC, which are based on the State-ment on Regulatory Practice and Methodology of Electricity Tariffs (Regulatory Decision 02/2015, KDP 208/2015) have entered into force.

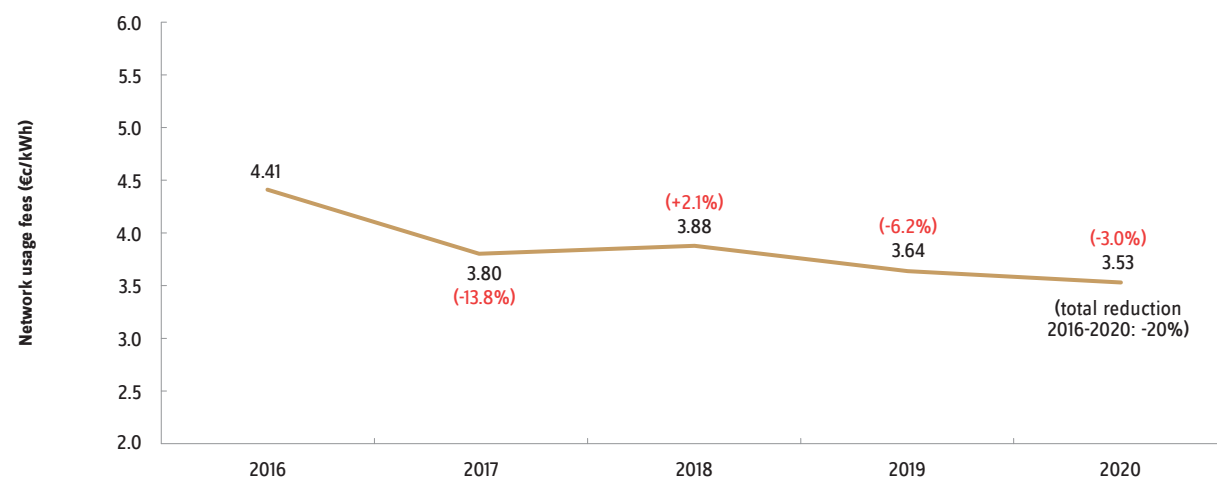


Figure 17 - Network usage fees for consumers connected to Low Voltage, for the years 2016 to 2020

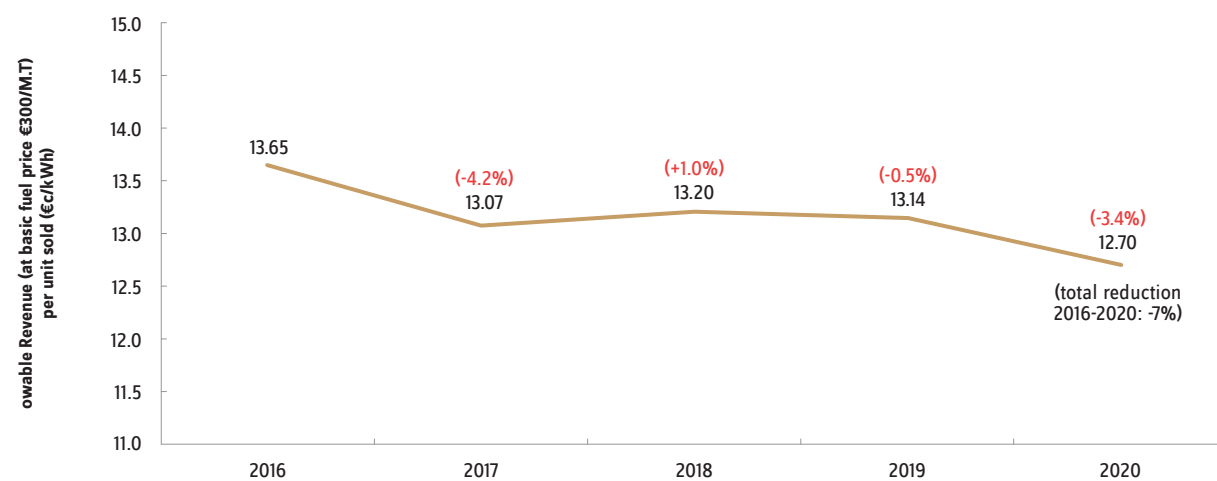


Figure 18 - Allowed EAC Revenue per unit sold, for the years 2016 to 2020

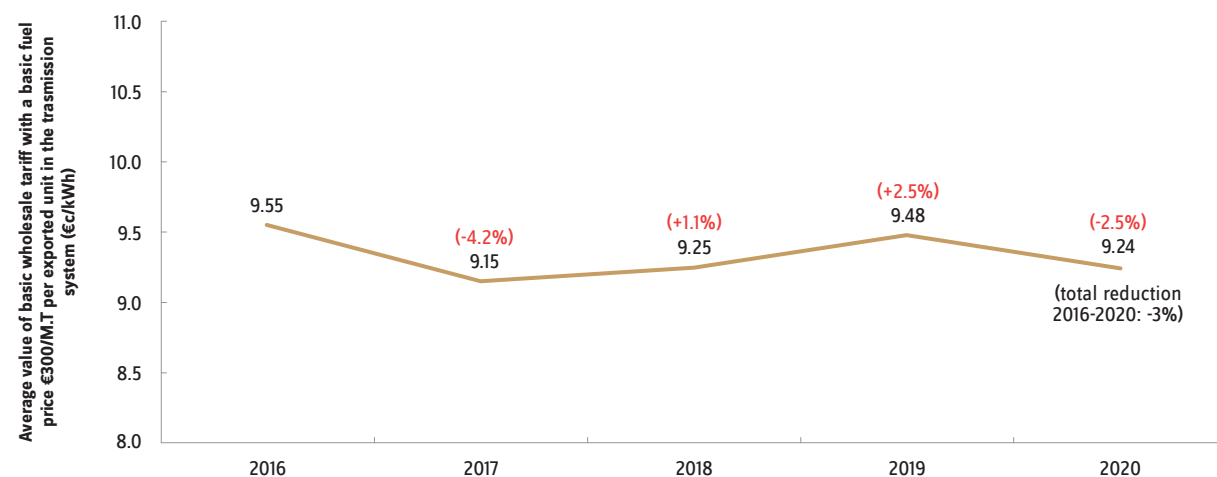


Figure 19 - Average value of the basic wholesale tariff

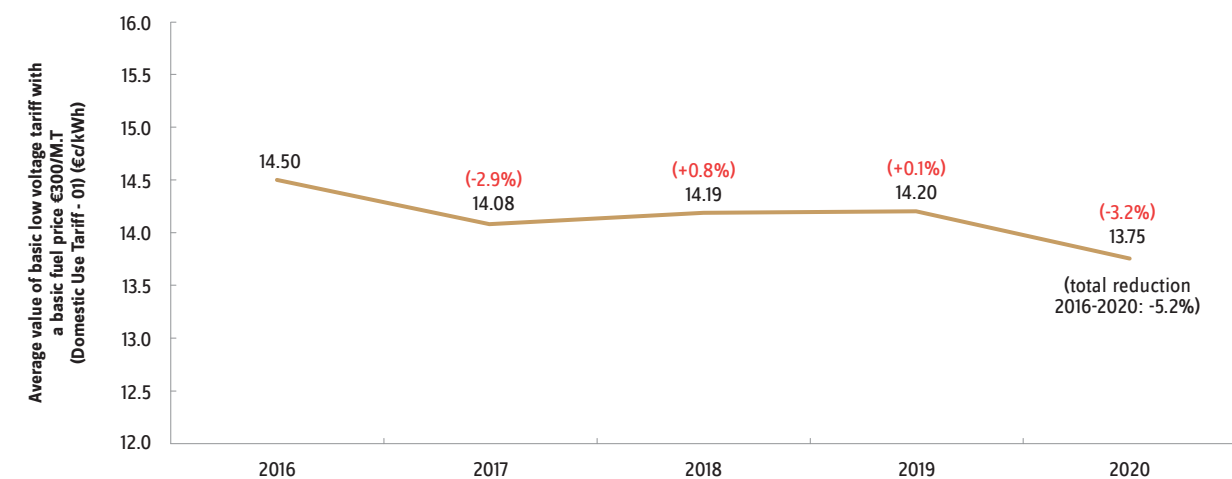


Figure 20 - Average value of the basic low voltage tariff (Domestic Tariff Single User Registration - Code 01) for the years 2016 to 2020

Figure 21 presents the average price per kWh sold, excluding RES fee and VAT, for the years 2012 to 2019:

- 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 Commercial and Industrial Use of Seasonal Double Rate Tariff
- 40: Monthly Medium Voltage Commercial and Industrial Use of Seasonal Double Rate Tariff
- 50: Monthly High Voltage Commercial and Industrial Use of Seasonal Double Rate Tariff



Figure 21 - Average Tariff Rate Excluding RES fee and VAT

From Figure 21, we observe that the tariffs with codes 01, 10, 20 and 30 (for domestic use, low voltage commercial use and low voltage industrial use respectively) are at higher levels than other tariffs, while the tariffs coded 40 and 50, which are Seasonal Time of Day (STOD) for industrial uses of medium voltage and high voltage respectively are at lower levels.

The decrease in the price of the tariffs from 2017 onwards is due to CERA's Decisions on the new regulated electricity tariffs based on the Regulatory Decision 02/2015 "Statement of Regulatory Practice and Methodology of Electricity Tariffs" (KDP 208/2015). The upward trend in the average price of the 2018 and 2019 tariffs is due to the increase in fuel prices.

EAC Supply Invoice Analysis

Figure 22 shows the analysis of the electricity supply invoice per charge category, for a typical household consumer with bi-monthly consumption of 600 kWh in December 2019, at the basic price (i.e. excluding fuel adjustment).

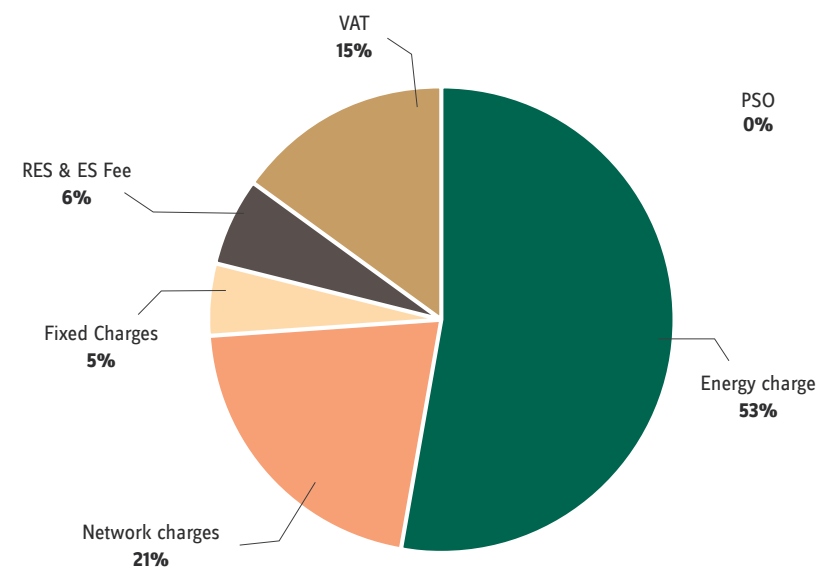


Figure 22 - Electricity supply invoice analysis for a typical household consumer with bi-monthly consumption of 600 kWh (% on the final invoice), December 2019

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 EU Energy Package, provide for the regulation of the gas market in the Republic of Cyprus and, among other things, establish rules for transmission, distribution, supply and storage of natural gas. In addition, they set out the rules on the organization and operation of the natural gas sector, market access, network exploitation, and the criteria and procedures for issuing 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 is noted that the Laws Regulating the Natural Gas Market of 2004 to 2018 contain the key provisions for the imminent introduction of natural gas into the country's energy balance, but do not specify the market model and organizational framework to be used for the market development, thus providing reasonable flexibility to decision makers. In addition, the possibility of derogations is provided, according to the provisions of the relevant European Directive, but without specifically institutionalizing them, leaving to the discretion of the Council of Ministers the full determination of these derogations.

A key element of the new operating framework for the natural gas and electricity markets, as reflected in a very detailed way in the European legislative framework, is the unbundling of natural gas production and trade activities, which must now take place in a competitive environment, from those of transmission and distribution, for which the regulated access of third parties is provided under the supervision of the national regulatory authorities, the ACER and the European Commission.

The Laws Regulating the Natural Gas Market of 2004 to 2018, provide for the possibility for Cyprus to deviate from specific articles, as it can be considered either as isolated or emerging market. In the case of Cyprus, it is possible, on one hand, to deviate from applying competition in wholesale trade and in the supply of natural gas to end consumers, especially as long as the Cyprus natural gas market is deemed as emerging, and on the other hand, it is possible not to unbundle the activities of the natural gas operators (transmission, distribution, storage, LNG, etc.) from the activities of trade and supply, in the manner prescribed in the Directive, for example in the transmission installations, with ownership unbundling.

The Council of Ministers, in the decision No. 87.649 dated 5 June 2019, on the basis of the provisions of the Laws Regulating the Natural Gas Market of 2004 to 2018, determined the operating framework of the gas market for the period of validity of the emerging market or until a decision is taken to end the deviations from the Council and the appointed operators. More specifically, the Decision applies, inter alia, a deviation from the implementation of competition in the supply of natural gas to end consumers throughout the emerging market regime, in which case the supplier becomes responsible for concluding all relevant natural gas import contracts, including of the LNG import contracts, as well as all supply contracts for natural gas supply to consumers of all categories. In addition, this Decision designated the Natural Gas Public Company (DEFA - CYGAS) as the TSO, DSO and LNG Operator for a period of thirty years from the date of issuance of the relevant licences from CERA.

CERA, with its Decision No. 238/2019, dated September 3, 2019, decided to amend the standard licensing terms contained in Annexes 2 to 6 of the Laws Regulating the Natural Gas Market (Issuance of Licences) of 2006.

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 2020. The LNG will initially be the exclusive supply option of the internal market with natural gas and then, after supplying the market from Cypriot gas deposits, it will be an alternative option to ensure the security of supply.

Further to the study conducted by CYGAS Ltd, regarding the development of the natural gas market in Cyprus, in order to take advantage of the most suitable solution for the introduction of LNG at the latest by 2020, with the Decision of the Council of Ministers, it was assigned to CYGAS Ltd in June 2017 the announcement of two tenders for long-term supply of LNG 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 required infrastructure for the arrival of LNG.

CYGAS Ltd, acting on behalf of ETYFA Ltd, published in October 2018 a tender for the design, construction and operation of the LNG terminal in Vassilikos bay. The tender was awarded to an international consortium in December 2019.

The entry of natural gas into the energy balance, within the energy policy objectives for the diversification of the country's energy sources and the protection of the environment, is an important decision in the energy sector.

Given that the gas market in Cyprus is under development, the main goal is to create an organized market, according to the standards of previous advanced respective markets worldwide, but also in the best practice of the European natural gas industry, with proper operation of all market players, whether they are natural gas companies or law enforced agencies.

CERA gives great priority in serving the goal of fast and efficient penetration of natural gas on competitive terms in the Cypriot market.

CERA's obligations regarding the natural gas market and its regulatory jurisdiction are set out in the Laws Regulating the Natural Gas Market of 2004 to 2018. During the period elapsing until the arrival of natural gas, CERA is working towards the formation of the market regulatory framework, knowing that it will be the guarantor of its proper operation and consumer protection for the period of validity of the derogations and the smooth transition to a healthy open market.

In this context, CERA, in June 2019 issued the Regulatory Decision 01/2019 (KDP 203/2019), which concerns the Statement of a regulatory practice and methodology of natural gas tariffs for the validity period of the derogations, on the basis of the emerging market, where all the activities of supply, transmission, distribution, regasification and storage of natural gas are regulated. The primary goals of the regulation of tariffs is to facilitate the easier import of natural gas into the energy mix of the Republic, to protect the consumers and the environment, to maximize the long-term competitiveness

of the Cypriot economy, to protect the consumers' interests in the short and long term against the prices formed in monopolistic basis, the public service obligations, the provision of energy supply and the promotion of energy efficient and quality services provided by licence holders. The tariffs are determined on the basis of a methodical and consistent implementation of the principles included in the methodology and the proposals and decisions of the tariffs are based on substantiated evidence and are formulated after thorough consultation with the stakeholders. According to the Statement, the supplier is responsible for the delivery of the natural gas at the entrance of the installation of each consumer. The respective procurement contracts will set a price, which, for each consumer category, will cover both the cost of supply of the quantity of natural gas and the cost of using the natural gas installations, while allowing the supplier a reasonable profit. The final supply tariff in each consumer category will be approved by CERA, following a recommendation from the supplier, in accordance with the provisions of the Statement. The sole supplier will suggest to CERA how to allocate the cost of using all the natural gas installations in the various consumer categories, according to the Statement, while CERA will be taking into account the supplier's recommendation when approving the supply tariffs.

Applications submitted to CERA

On 23 September 2019, an application was submitted to CERA by ETYFA Ltd, for the issuance of a construction, ownership and operation licence for an LNG installation, according to the Laws Regulating the Natural Gas Market of 2004 to 2018 and of the Laws Regulating the Natural Gas Market (Issuance of Licences) of 2006.

On 19 November 2019, an application was submitted to CERA by Energean International Ltd for the issuance of a gas supply licence to wholesale customers, according to the Laws Regulating the Natural Gas Market of 2004 to 2008 and the Laws Regulating the Natural Gas Market (Issuance of Licences) of 2006.

On November 19, 2019, an application was submitted to CERA by Energean International Ltd for the issuance of an ownership, construction and operation licence of a natural gas installation facility, according to the Laws Regulating the Natural Gas Market of 2004-2008 and the Laws Regulating the Natural Gas Market (Issuance of Licences) of 2006.

6

CONSUMERS PROTECTION AND COMPLAINTS RESOLUTION

In the context of the implementation and compliance of the above provisions, the amounts paid as a fine to the electricity consumers by the EAC as the ODS and as the licensed supplier recorded for the period of 1 January 2019 until 31 December 2019 are presented in Figures 23 and 24 as well as in Tables 3 and 4. Similar results from previous years are also presented in these Figures and Tables for comparison purposes.

Consumers Protection and Complaints Resolution

CEER in cooperation with all National Regulatory Authorities, are 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 ways of appeal available in case of dispute, issued in 2016 informative material which is available in 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 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 Laws Regulating the Electricity Market (Performance Indicators) Regulations of 2005 - KDP 571/2005.

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

PERFORMANCE INDICATORS FOR THE OWNER OF THE DISTRIBUTION SYSTEM (EAC)
COMPARATIVE TABLE FOR THE YEARS 2007-2019

Fine paid by EAC (€) to electricity consumers

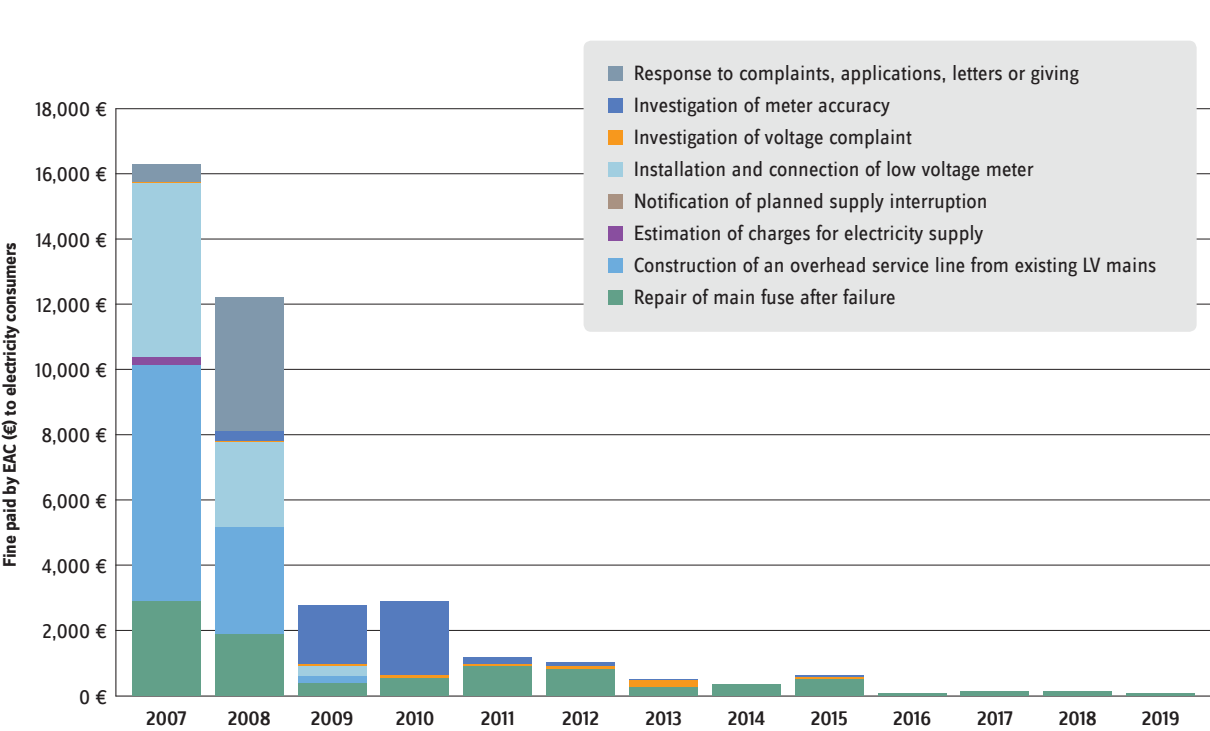


Figure 23 - ODS Performance Indicators (EAC)

PERFORMANCE INDICATOR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1 Repair of main fuse after failure	2.905€	1.896€	393€	529€	914€	828€	265€	367€	521€	60€	137€	137€	94€
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		308€	1.811€	2.289€	239€	137€	31€		34€				
8 Response to complaints, applications, letters or giving	530€	4.102€					17€						

Table 3 - ODS Performance Indicators (EAC)

PERFORMANCE INDICATORS FOR THE SUPPLIER (EAC)
COMPARATIVE TABLE FOR THE YEARS 2007-2019

Fine paid by EAC (€) to electricity consumers

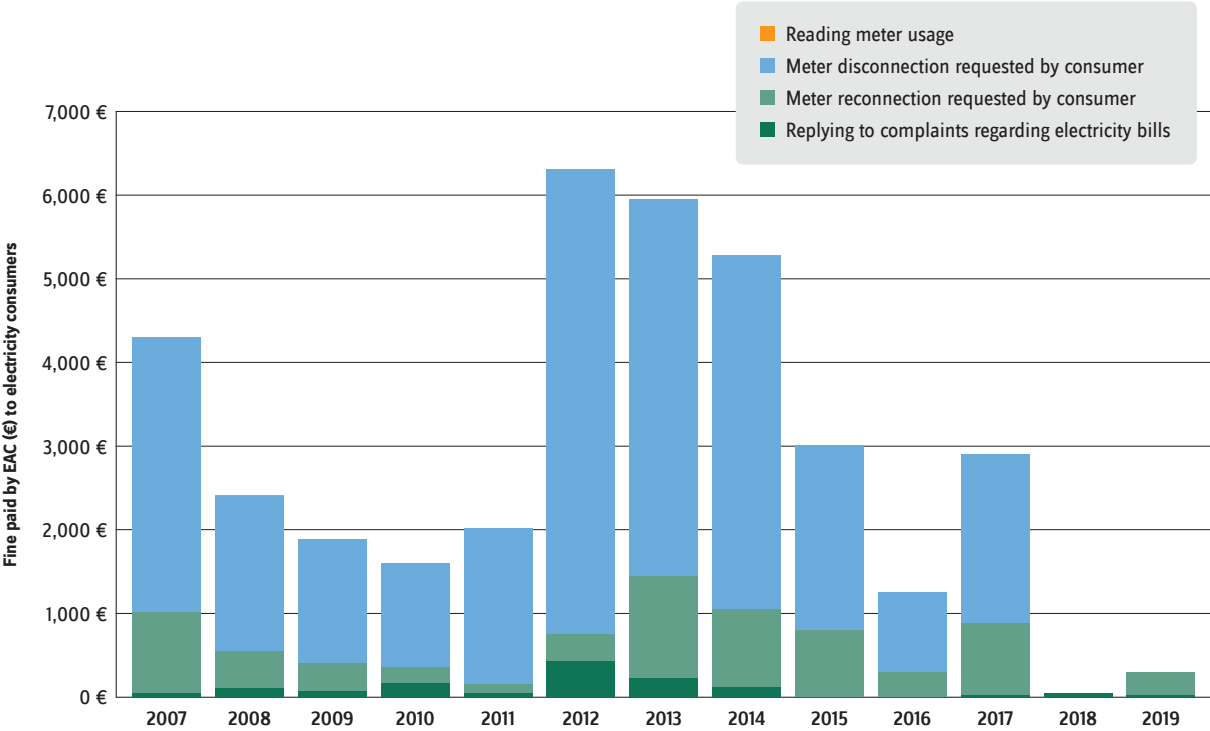


Figure 24 - Supplier Performance Indicators EAC

PERFORMANCE INDICATORS	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1 Replying to complaints regarding electricity bills	51€	103€	68€	171€	51€	427€	222€	120€			17€	51€	34€
2 Arrangement of appointments													102€
3 Meter reconnection requested by consumer	957€	453€	333€	188€	111€	333€	1.230€	931€	803€	299€	868€		273€
4 Meter disconnection requested by consumer	3.298€	1.853€	1.477€	1.238€	1.853€	5.551€	4.501€	4.231€	2.203€	948€	2.015€		
5 Reading meter usage		9€											
6 Response to complaints, applications, letters or giving informations	*	*	*										

* This indicator is included in indicator (8) of EAC as ODS

Table 4 - Supplier Performance Indicators EAC

Tables 3 and 4 show that during the year under review, EAC's performance, both as the ODS and Supplier, improved over previous years and are therefore considered satisfactory. However, CERA will continue to proceed according to the powers provided to it by the Legislation, in all appropriate actions so that the performance of EAC will be further improved.

Complaints submitted to CERA

In figure 25 below the type and number of complaints submitted to CERA in 2019 are analysed. It should be noted that all complaints have been examined and consumers have been informed accordingly.

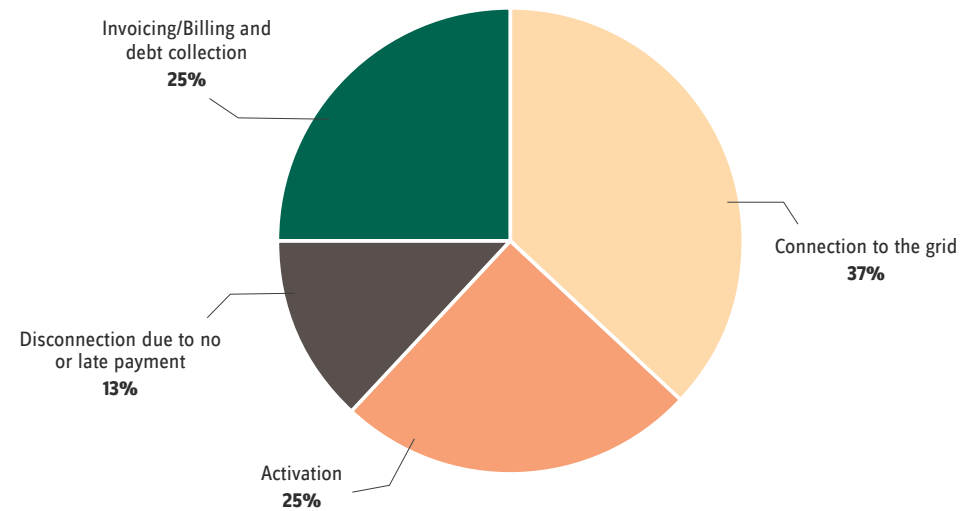


Figure 25 - Complaints submitted to CERA in 2019

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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: Assertus Limited - Contractor of the agreement EY 1/2017
Coordinating Contracting Authority: Audit Office of the Republic of Cyprus
Certified Accountants and Registered Auditors
13, Tepeleniou
Tepelenio Business Center, 1st floor
8010 Paphos
Cyprus

Financial Advisers: Alliot Partellas Kiliaris Ltd
Certified Public Accountants
77, Strovolou Ave.
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

Registered office: 20, Agias Paraskevis
P.O.Box 24936
2002 Strovolos

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 the Authority for the year ended 31 December 2019.

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 notes 6 and 7 of the financial statements.

Results

The Authority's results for the year are set out on page 75.

Members

The members of the Authority as at 31 December 2019 and at the date of this report are presented on page 70.

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, Assertus 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, 10 April 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CYPRUS ENERGY REGULATORY AUTHORITY (CERA)

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 75 to 102 and comprise the statement of financial position as at 31 December 2019, 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 2019, 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' International Code of Ethics for Professional Accountants (including International Independence Standards) (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 103 to 106, 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 of 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 of the Authority are responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Members either 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:

- 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 to the Members of the Authority and to the Auditor General of the Republic of Cyprus.

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 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.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Note	2019 €	2018 €
Revenue	8	2,197,264	2,210,881
Other operating income	9	126,346	39,321
Administration expenses		(1,808,498)	(1,624,397)
Net impairment profit/(loss) on financial and contract assets		-	(96,226)
Other expenses	10	(41,655)	-
Operating surplus	11	473,457	529,579
Finance income	14	28,479	66,338
Finance costs	14	(1,945)	(3,499)
Surplus before tax		499,991	592,418
Tax	15	(8,469)	(19,863)
Net surplus for the year		491,522	572,555
Other comprehensive income			
Remeasurements of post-employment benefit obligations		(347,609)	75,920
Other comprehensive income for the year		(347,609)	75,920
Total comprehensive income for the year		143,913	648,475

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

Assertus Limited
Certified Accountants and Registered Auditors

Nicosia, Cyprus, 10 April 2020

The notes on pages 80 to 102 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

31 December 2019

	Note	2019 €	2018 €
ASSETS			
Non-current assets			
Property, plant and equipment	17	85,598	70,697
Intangible assets	18	1,672	-
Available-for-sale financial assets	19	-	163,902
Financial assets at fair value through profit or loss	21	124,777	-
		<u>212,047</u>	<u>234,599</u>
Current assets			
Trade and other receivables	20	155,805	53,658
Cash at bank and in hand	22	10,020,394	9,487,781
		<u>10,176,199</u>	<u>9,541,439</u>
Total assets		<u>10,388,246</u>	<u>9,776,038</u>
EQUITY AND LIABILITIES			
Reserves			
Retained surplus		6,291,082	6,156,727
Total reserves		<u>6,291,082</u>	<u>6,156,727</u>
Non-current liabilities			
Provisions for other liabilities and charges	13, 24	1,906,179	1,444,425
		<u>1,906,179</u>	<u>1,444,425</u>
Current liabilities			
Trade and other payables	25	109,256	97,844
Deferred income	26	2,073,216	2,066,349
Borrowings	23	5,522	6,012
Current tax liabilities	27	2,991	4,681
		<u>2,190,985</u>	<u>2,174,886</u>
Total liabilities		<u>4,097,164</u>	<u>3,619,311</u>
Total equity and liabilities		<u>10,388,246</u>	<u>9,776,038</u>

On 10 April 2020 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 80 to 102 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Note	Retained surplus €
Balance at 1 January 2018		
		5,512,529
Comprehensive income		
Net surplus for the year		572,555
Defence contribution on deemed distribution	16	(4,278)
Other movements		
Actuarial profit for the year		<u>75,920</u>
Balance at 31 December 2018/ 1 January 2019		
		6,156,727
Comprehensive income		
Net surplus for the year		491,522
Defence contribution on deemed distribution	16	(9,651)
Other movements		
Actuarial profit for the year		<u>(347,517)</u>
Balance at 31 December 2019		
		<u>6,291,082</u>

Companies which do not distribute 70% of their profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 17% will be payable on such deemed dividends to the extent that the ultimate shareholders are both Cyprus tax resident and Cyprus domiciled. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. This special contribution for defence is payable by the 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 80 to 102 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Note	2019 €	2018 €
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus before tax		499,991	592,418
Adjustments for:			
Depreciation of property, plant and equipment	17	27,739	23,386
Amortisation of computer software	18	836	266
Loss from the sale of property, plant and equipment		2,530	-
Fair value losses on financial assets at fair value through profit or loss		39,125	-
Actuarial (Loss)/Gain		(347,517)	75,920
Impairment charge - available-for-sale financial assets	19	-	96,226
Interest income	14	(28,479)	(66,338)
Interest expense	14	-	1,505
		<u>194,225</u>	<u>723,383</u>
Changes in working capital:			
(Increase)/decrease in trade and other receivables		(102,147)	14,718
Increase in trade and other payables		11,412	25,204
Increase in deferred income		6,867	16,298
Increase in provisions	24	461,755	45,488
Cash generated from operations		<u>572,112</u>	<u>825,091</u>
Tax paid		(10,159)	(25,417)
Net cash generated from operating activities		<u>561,953</u>	<u>799,674</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for purchase of intangible assets	18	(2,508)	-
Payment for purchase of property, plant and equipment	17	(45,170)	(6,767)
Interest received		28,479	66,338
Net cash (used in)/generated from investing activities		<u>(19,199)</u>	<u>59,571</u>

The notes on pages 80 to 102 form an integral part of these financial statements.

(continued)

	Note	2019 €	2018 €
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		-	(1,505)
Defence contribution on deemed distribution paid		(9,651)	(4,278)
Net cash used in financing activities		<u>(9,651)</u>	<u>(5,783)</u>
Net increase in cash and cash equivalents		<u>533,103</u>	<u>853,462</u>
Cash and cash equivalents at beginning of the year		9,481,769	8,628,307
Cash and cash equivalents at end of the year	22	<u>10,014,872</u>	<u>9,481,769</u>

The notes on pages 80 to 102 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

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 20, Agias Paraskevis, P.O.Box 24936, 2002 Strovolos. 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. 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, financial assets at fair value through other comprehensive income, and financial assets and financial liabilities at fair value through profit or loss.

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.

3. Adoption of new or revised standards and interpretations

During the current year the Authority adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2019. This adoption did not have a material effect on the accounting policies of the Authority.

4. 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.

Revenue

Recognition and measurement

Revenue represents the amount of consideration to which the Authority expects to be entitled in exchange for transferring the promised goods or services to the customer, excluding amounts collected on behalf of third parties (for example, value-added taxes); the transaction price. The Authority includes in the transaction price an amount of variable consideration as a result of rebates/discounts only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Estimations for rebates and discounts are based on the Authority's experience with similar contracts and forecasted sales to the customer.

The Authority recognises revenue when the parties have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations, the Authority can identify each party's rights and the payment terms for the goods or services to be transferred, the contract has commercial substance (i.e. the risk, timing or amount of the Authority's future cash flows is expected to change as a result of the contract), it is probable that the Authority will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer and when specific criteria have been met for each of the Authority's contracts with customers.

The Authority bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. In evaluating whether collectability of an amount of consideration is probable, the Authority considers only the customer's ability and intention to pay that amount of consideration when it is due.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimates are reflected in the statement of profit or loss and other comprehensive income in the period in which the circumstances that give rise to the revision become known by management.

Identification of performance obligations

The Authority assesses whether contracts that involve the provision of a range of goods and/or services contain one or more performance obligations (that is, distinct promises to provide a service) and allocates the transaction price to each performance obligation identified on the basis of its stand-alone selling price. A good or service that is promised to a customer is distinct if the customer can benefit from the good or service, either on its own or together with other resources that are readily available to the customer (that is the good or service is capable of being distinct) and the Authority's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (that is, the good or service is distinct within the context of the contract).

• 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.

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.

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 assets - Classification

From 1 January 2018, the Authority classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification and subsequent measurement of debt financial assets depends on: (i) the Authority's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset. On initial recognition, the Authority may irrevocably designate a debt financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

For investments in equity instruments that are not held for trading, classification will depend on whether the Authority has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Authority has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

Financial assets - Recognition and derecognition

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date when the Authority commits to deliver a financial instrument. All other purchases and sales are recognised when the entity becomes a party to the contractual provisions of the instrument.

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 the risks and rewards of ownership.

Financial assets - Measurement

At initial recognition, the Authority measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets - impairment - credit loss allowance for ECL

From 1 January 2018, the Authority assesses on a forward-looking basis the ECL for debt instruments (including loans) measured at AC and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Authority measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The carrying amount of the financial assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of profit or loss and other comprehensive income within "net impairment losses on financial and contract assets".

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantee contracts, a separate provision for ECL is recognised as a liability in the statement of financial position.

For debt instruments at FVOCI, an allowance for ECL is recognised in profit or loss and it affects fair value gains or losses recognised in OCI rather than the carrying amount of those instruments.

Expected losses are recognised and measured according to one of two approaches: general approach or simplified approach.

For trade receivables including trade receivables with a significant financing component and contract assets and lease receivables the Authority applies the simplified approach permitted by IFRS 9, which uses lifetime expected losses to be recognised from initial recognition of the financial assets.

For all other financial asset that are subject to impairment under IFRS 9, the Authority applies general approach - three stage model for impairment. The Authority applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1.

Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Authority identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to note 6, Credit risk section, for a description of how the Authority determines when a SICR has occurred. If the Authority determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Authority's definition of credit impaired assets and definition of default is explained in note 6, Credit risk section.

Additionally the Authority has decided to use the low credit risk assessment exemption for investment grade financial assets. Refer to note 6, Credit risk section for a description of how the Authority determines low credit risk financial assets.

Financial assets - Reclassification

Financial instruments are reclassified only when the business model for managing those assets changes. The reclassification has a prospective effect and takes place from the start of the first reporting period following the change.

Financial assets - write-off

Financial assets are written-off, in whole or in part, when the Authority exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Authority may write-off financial assets that are still subject to enforcement activity when the Authority seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets - modification

The Authority sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Authority assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (e.g. profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Authority derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Authority also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Authority compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Authority recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate, and recognises a modification gain or loss in profit or 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. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Financial assets at amortised cost

These amounts generally arise from transactions outside the usual operating activities of the Authority. These are held with the objective to collect their contractual cash flows and their cash flows represent solely payments of principal and interest. Accordingly, these are measured at amortised cost using the effective interest method, less provision for impairment. Financial assets at amortised cost are classified as current assets if they are due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non current assets.

Financial liabilities - measurement categories

Financial liabilities are initially recognised at fair value and classified as subsequently measured at amortised cost, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Trade payables

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

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.

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, in which case they are recognised at fair value. The Authority holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Trade receivables are also subject to the impairment requirements of IFRS 9. The Authority applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. See note 6, Credit risk section.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Authority, and a failure to make contractual payments for a period of greater than 180 days past due.

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.

5. New accounting pronouncements

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 expects that the adoption of these accounting standards in future periods will not have a material effect on the financial statements of the Authority.

6. Financial risk management

Financial risk factors

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

6.1 Market price risk

The Authority is exposed to equity securities price risk because of investments held by the Authority and classified on the statement of financial position either as fair value through other comprehensive income or at fair value through profit or loss. The Authority is not exposed to commodity price risk.

6.2 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 Members of the Authority monitor the interest rate fluctuations on a continuous basis and acts accordingly.

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

	2019	2018
	€	€
Fixed rate instruments		
Financial assets	10,020,394	9,487,178
	10,020,394	9,487,178

Sensitivity analysis

An increase of 100 basis points in interest rates at 31 December 2019 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	
	2019	2018
	€	€
Variable rate instruments	100,204	94,872
	100,204	94,872

6.3 Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVTPL), favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and contract assets.

i. Risk management

Credit risk is managed on a group basis.

For banks and financial institutions, only independently rated parties with a minimum rating of 'C' are accepted. If customers are independently rated, these ratings are used.

Otherwise, if there is no independent rating, the Members of the Authority assesse the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual credit limits and credit terms are set based on the credit quality of the customer in accordance with limits set by the Members of the Authority. The utilisation of credit limits is regularly monitored.

ii. Impairment of financial assets

The Authority has the following types of financial assets that are subject to the expected credit loss model:

- trade receivables
- cash and cash equivalents

Trade receivables and contract assets

The Authority applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables (including those with a significant financing component, lease contracts and contract assets).

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The Authority defines default as a situation when the debtor is more than 90 days past due on its contractual payments. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Authority has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2019 or 1 January 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Authority has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Authority, and a failure to make contractual payments for a period of greater than 180 days past due.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. A provision for impairment of trade receivables was established when there was objective evidence that the Authority will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or delinquency in payments (more than 120 days overdue) were considered indicators that the trade receivable was impaired. The amount of the provision was the difference between the carrying amount and the recoverable amount, being the present value of estimated future cash flows, discounted at the effective interest rate.

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

Bank group based on credit ratings by Moody's	No of banks	2019	2018
		€	€
Ba1	1	-	1,200,000
B2	1	2,004,000	-
B3	1	-	3,559,974
Caa1	2	2,621,720	-
Caa3		-	1,009,410
	2	1,512,134	-
		6,137,854	5,769,384

6.4 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 2019	Carrying amounts	3 months or less
	€	€
Bank overdrafts	5,522	5,522
Trade and other payables	82,108	82,108
	87,630	87,630

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

6.5 Other market price risk

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 (GDP) 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.

7. Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires the Members of the Authority to exercise their judgment in the process of applying the Authority's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Members of the Authority 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.

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.

Critical judgements in applying the Authority's accounting policies

- **Fair value of financial assets**

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Authority uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting date. The fair value of the financial assets at fair value through other comprehensive income has been estimated based on the fair value of these individual assets.

- **Impairment of financial assets**

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Authority uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Authority's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in note 6, Credit risk section.

- **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 assets**

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.

8. Revenue

	2019 €	2018 €
Annual fees	2,015,577	2,099,956
Rendering of services	181,687	110,925
	<u>2,197,264</u>	<u>2,210,881</u>

9. Other operating income

	2019 €	2018 €
Gain from sale of property, plant and equipment	-	2,800
Sundry operating income	126,346	36,521
	<u>126,346</u>	<u>39,321</u>

10. Other expenses

	2019 €	2018 €
Loss on disposal of property, plant and equipment	2,530	-
Fair value losses on financial assets at fair value through profit or loss	39,125	-
	<u>41,655</u>	<u>-</u>

11. Operating surplus

	2019 €	2018 €
Operating surplus is stated after charging the following items:		
Amortisation of computer software (included in "Administration expenses") (Note 18)	836	266
Depreciation of property, plant and equipment (Note 17)	27,739	23,386
Staff costs including Directors in their executive capacity (Note 12)	1,045,571	1,020,318
Auditors' remuneration - current year	3,497	3,497
Auditors' remuneration - prior years	-	(5,600)

12. Staff costs

	2019 €	2018 €
Salaries	829,140	816,472
Social security costs	118,374	97,623
Expenses related to defined benefits plan (Note 13)	98,057	106,223
	1,045,571	1,020,318

13. Employee benefits

CERA provides retirement benefits in the form of lump sum amounts based on a fixed benefit retirement plan to its employees. The Authority's policy is to carry out every year an independent actuarial valuation of the liabilities with regard to the retirement benefit scheme.

The most recent actuarial valuation was made as at 31 December 2019 and it was based on the following assumptions:

	2019	2018
Discount rate	1.28%	2.20%
Expected return on assets	1.28%	2.20%
Inflation	1.50%	1.50%
General salary increases	0.50%	0.50%
Total salary increase	2018: 1.25%	2017: 1.25%
	2019+: 1.25% for inflation and the general increase of salaries plus increa- mental promotions	2018+: 1.25% for inflation and the general increase of salaries plus increa- mental promotions
Percentage increase in pensions	1%	1%
Increase of pension insurable earnings	1.5%	1.5%
Increase of basic insurable earnings	2%	2.5%
Mortality table	60% of PA90	60% of PA90

During the year an amount of €98,057 (2018: €106,223) was charged to profit or loss based on the above actuarial valuation. Amounts charged to profit or loss are analysed as follows:

	2019 €	2018 €
Current service costs	65,382	76,032
Interest on obligation	32,675	30,191
	98,057	106,223

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

	2019 €	2018 €
Balance at 1 January	1,444,425	1,398,937
Provision for the year	98,057	106,223
Actuarial Loss/(Gain) on obligation	(347,517)	(75,920)
Payments of benefits	(2,674)	(2,852)
Contributions by Members	15,852	18,038
Balance at 31 December	1,906,179	1,444,425

At 31 December 2019 the actuarial position in respect of the defined benefit plan was as follows:

	2019 €	2018 €
Present value of accrued plan obligations	1,906,179	1,444,425
Provision for plan liabilities recognised in the statement of financial position	1,906,179	1,444,425

14. Finance income/(costs)

	2019 €	2018 €
Interest income	28,479	66,338
Finance income	28,479	66,338
Interest expense	-	(1,505)
Sundry finance expenses	(1,945)	(1,994)
Finance costs	(1,945)	(3,499)
Net finance income	26,534	62,839

15. Tax

	2019 €	2018 €
Defence contribution	8,469	19,863
Charge for the year	8,469	19,863

Under certain conditions interest income may be subject to defence contribution at the rate of 30%.

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.

16. Dividends

	2019 €	2018 €
Defence contribution on deemed distribution	9,651	4,278
	9,651	4,278

17. Property, plant and equipment

	Computer hardware	Plant and machinery	Motor vehicles	Furniture, fixtures and office equipment	Books	Total
	€	€	€	€	€	€
Cost						
Balance at 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/ 1 January 2019	96,983	89,734	47,812	86,222	5,401	326,152
Additions	13,298	10,463	-	21,319	90	45,170
Disposals	(3,908)	(1,027)	-	-	-	(4,935)
Balance at 31 December 2019	106,373	99,170	47,812	107,541	5,491	366,387
Depreciation						
Balance at 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/ 1 January 2019	78,967	67,008	32,832	71,660	4,988	255,455
Charge for the year	12,282	5,218	4,993	5,174	72	27,739
On disposals	(2,302)	(103)	-	-	-	(2,405)
Balance at 31 December 2019	88,947	72,123	37,825	76,834	5,060	280,789
Net book amount						
Balance at 31 December 2019	17,426	27,047	9,987	30,707	431	85,598
Balance at 31 December 2018	18,016	22,726	14,980	14,562	413	70,697

18. Intangible assets

	Computer software €
Cost	
Balance at 1 January 2018	14,333
Balance at 31 December 2018/ 1 January 2019	14,333
Additions	2,508
Balance at 31 December 2019	16,841
Amortisation	
Balance at 1 January 2018	14,066
Amortisation for the year (Note 11)	266
Balance at 31 December 2018/ 1 January 2019	14,333
Amortisation for the year (Note 11)	836
Balance at 31 December 2019	15,169
Net book amount	
Balance at 31 December 2019	1,672

19. Available-for-sale financial assets

	2019 €	2018 €
Balance at 1 January	163,902	260,128
Impairment charge	-	(96,226)
Transfer to Financial assets at fair value through profit or loss (Note 21)	(163,902)	-
Balance at 31 December	-	163,902

20. Trade and other receivables

	2019 €	2018 €
Trade receivables	27,301	19,436
Deposits and prepayments	117,274	17,575
Accrued income	9,971	15,604
Grant receivable from European Programms	1,043	1,043
Other receivables	216	-
	155,805	53,658

The Authority does not hold any collateral over the trading balances.

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 6 of the financial statements.

21. Financial assets at fair value through profit or loss

	2019 €	2018 €
Balance at 1 January	-	-
Transfer from Available-for-sale financial assets (Note. 19)	163,902	-
Change in fair value	(39,125)	-
Balance at 31 December	124,777	-

Financial assets at fair value through profit or loss represent 105.743 Class A shares of nominal value €19.9999 each in Bank of Cyprus Public Company Ltd.

The financial assets at fair value through profit or loss are marketable securities and are valued at market value at the close of business on 31 December by reference to Stock Exchange quoted bid prices. Financial assets at fair value through profit or loss are classified as current assets because they are expected to be realised within twelve months from the reporting date.

The above mentioned shares are listed in Cyprus Stock Exchange and on 31 December 2019 their fair value was €1.18 per share.

In the statement of cash flows, financial assets at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital. In the statement of profit or loss and other comprehensive income, changes in fair values of financial assets at fair value through profit or loss are recorded in operating income.

22. Cash at bank and in hand

Cash balances are analysed as follows:

	2019	2018
	€	€
Cash in hand	2,390	603
Cash at bank	3,880,150	3,717,794
Notice accounts	6,137,854	5,769,384
	<u>10,020,394</u>	<u>9,487,781</u>

The exposure of the Authority to credit risk and impairment losses in relation to cash and cash equivalents is reported in note 6 of the financial statements.

23. Borrowings

	2019	2018
	€	€
Current borrowings		
Bank overdrafts (Note 22)	<u>5,522</u>	<u>6,012</u>

24. Provisions for other liabilities and charges

	Pension and other post retirement obligations
	€
Balance at 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	<u>(75,920)</u>
Balance at 31 December 2018/ 1 January 2019	1,444,425
Charged/(credited) to profit or loss	98,057
Payments of benefits	(2,673)
Contributions by Members	18,853
Actuarial loss	<u>347,517</u>
Balance at 31 December 2019	<u>1,906,179</u>

25. Trade and other payables

	2019	2018
	€	€
Trade payables	27,205	18,086
Prepayments from clients	454	191
VAT	1,805	2,484
Sponsorship returned for staff training	5,409	20,635
Accruals	15,692	15,181
Other creditors	49,040	36,989
Defence tax on deemed distribution	9,651	4,278
	<u>109,256</u>	<u>97,844</u>

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

26. Deferred income

	2019	2018
	€	€
Client advances	2,073,216	2,066,349
	<u>2,073,216</u>	<u>2,066,349</u>

27. Current tax liabilities

	2019	2018
	€	€
Special contribution for defence	2,991	4,681
	<u>2,991</u>	<u>4,681</u>

28. Contingent liabilities

The Authority had no contingent liabilities as at 31 December 2019.

29. Commitments

Operating lease commitments

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

	2019 €	2018 €
Within one year	318,620	272,018
Between one and five years	46,817	14,989
	<u>365,437</u>	<u>287,007</u>

30. 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.

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DETAILED INCOME STATEMENT

Year ended 31 December 2019

	Page	2019 €	2018 €
Revenue			
Annual fees		2,015,577	2,099,956
Rendering of services		181,687	110,925
Other operating income			
Sundry operating income		126,346	36,521
Gain from sale of property, plant and equipment		-	2,800
		<u>2,323,610</u>	<u>2,250,202</u>
Operating expenses			
Administration expenses	104	(1,808,498)	(1,624,397)
		<u>515,112</u>	<u>625,805</u>
Other operating expenses			
Loss on disposal of property, plant and equipment		(2,530)	-
Fair value losses on financial assets at fair value through profit or loss		(39,125)	-
Impairment charge on available-for-sale financial assets		-	(96,226)
		<u>473,457</u>	<u>529,579</u>
Operating surplus			
Finance income	105	28,479	66,338
Finance costs	105	(1,945)	(3,499)
Net surplus for the year before tax		<u>499,991</u>	<u>592,418</u>

ADMINISTRATIVE EXPENSES

Year ended 31 December 2019

	2019	2018
	€	€
Administration expenses		
Directors' remuneration	261,098	259,135
Staff salaries	568,022	557,337
Benefits in kind	20	-
Social security costs	104,973	97,623
Medical fund-General Healthcare System	13,401	-
Expenses related to defined benefits plan	98,057	106,223
Rent	164,000	76,800
Common expenses	1,393	3,164
Gifts and samples	1,776	67
Electricity	16,812	14,420
Water supply and cleaning	24,123	4,996
Insurance	2,085	1,522
Repairs and maintenance	9,373	2,345
Sundry expenses	776	598
Telephone and postage	2,159	2,290
Stationery and printing	6,723	7,685
Subscriptions and contributions	33,618	38,357
Equipment maintenance	5,113	4,345
Staff training	30,290	38,653
Computer software	7,380	5,846
Certification and legalisation expenses	3,287	-
Auditors' remuneration - current year	3,497	3,497
Auditors' remuneration - prior years	-	(5,600)
Legal fees	6,105	32,906
Other professional fees	11,630	45,160
Revenue stamps	583	-
Fines	85	51
Overseas travelling	75,072	71,379
Inland travelling and accommodation	124	249
Irrecoverable VAT	70,046	50,516
Entertaining	6,532	7,334
Motor vehicle running costs	1,628	1,661
Carriage and clearing	840	879
Advisory service fees	191,155	112,778
Announcements - Publications	8,162	2,736
Sundry allowances and representation	20,910	20,910
Staff medical expenses	26,700	32,179
Events costs	1,625	1,204
Parking rent (vatable)	750	1,500
Amortisation of computer software	836	266
Depreciation	27,739	23,386
	1,808,498	1,624,397

FINANCE INCOME/COST

Year ended 31 December 2019

	2019	2018
	€	€
Finance income	28,232	66,212
Bank interest	247	126
Interest on trade balances	28,479	66,338
Finance costs		
Interest expense		
Interest on taxes	-	1,505
Sundry finance expenses		
Bank charges	1,945	1,994
	1,945	3,499

COMPUTATION OF DEFENCE CONTRIBUTION

Year ended 31 December 2019

	Income €	Rate	Defence € c
INTEREST			
Interest that was subject to deduction at source	28,232		
	28,232	30%	8,469.60
Less: deductions at source			(8,469.60)
DEFENCE CONTRIBUTION DUE TO IRD			-

COMPUTATION OF CORPORATION TAX

Year ended 31 December 2019

	Page	€	€
Surplus per income statement	103		499,991
Add:			
Depreciation		28,575	
Loss on disposal of property, plant and equipment		2,530	
Fair value losses on financial assets at fair value through profit or loss		39,125	
Fines		85	
			70,315
			570,306
Less:			
Interest income		28,232	
Other non-taxable income		542,074	
			(570,306)
Chargeable income for the year			-

