



ρυθμιστική αρχή
ενέργειας κύπρου
cyprus energy
regulatory authority

CYPRUS ENERGY REGULATORY AUTHORITY

Annual Report CERA 2010

INCLUDES
THE TRANSMISSION SYSTEM
OPERATOR 2010 ANNUAL REPORT





Cyprus Energy Regulatory Authority

CERA ANNUAL REPORT 2010

**INCLUDES
THE ANNUAL REPORT 2010
of the TRANSMISSION
SYSTEM OPERATOR (TSO)**

Published
August 2011

His Excellency the President
of the Republic of Cyprus
Mr. Demetris Christofias
Nicosia

30 September 2011

Your Excellency Mr. President

We have the honour to submit the 7th Annual Report and the Accounts of the CYPRUS ENERGY REGULATORY AUTHORITY, which also includes the Annual Report of the Transmission System Operator, for the year ended 31st of December 2010, as well as the Report of the Auditor General of the Republic.


The Report and Accounts are submitted to you in accordance with Articles 18(1), 19(3) and 61(3) of the Laws on Regulating the Electricity Market of 2003 to 2008.

Respectfully,

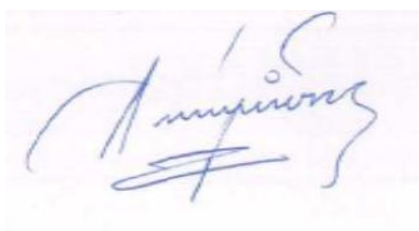
George Shammass
Chairman

A handwritten signature in black ink, appearing to be 'G. Shammass', with a long horizontal stroke extending to the right.

Constantinos Eliopoulos
Vice-Chairman

A handwritten signature in blue ink, appearing to be 'C. Eliopoulos', with a stylized, somewhat abstract form.

Kypros Kyprianides
Member

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INTRODUCTION

The CYPRUS ENERGY REGULATORY AUTHORITY was established by Law in 2003 in line with European Union Directives.

It is an independent Public Authority with the basic objective of regulating and monitoring the Electricity and Natural Gas Market, ensuring that the Energy Market operates on the basis of sound competition, that the various participants are acting with transparency and that adequate and good quality services are provided. CERA protects the interests of consumers and takes into account the environmental impact of projects.

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

The term of the first members of CERA ended on 20.1.2010. The operation of CERA with its new composition began on 2.2.2010. The new members of CERA George Shammass (Chairman), Constantinos Eliopoulos (Vice Chairman) and Kypros Kyprianides (Member) assumed their duties on 2 February 2010, after giving the prescribed affirmation for the faithful execution of their duties to the President of the Republic.

The present Annual Report on CERA's activities covers the year 2010 and is the seventh report issued by the Authority.

By virtue of the provisions of the above law (article 18), CERA submits to the President of the Republic an Annual Report on its Activities by the end of March each year, and supplies copies of the Report to the Council of Ministers and the House of Representatives.

The Annual Report of the Cyprus Energy Regulatory Authority also incorporates the Report on the Activities of the Transmission System Operator (TSO) as provided by the Law N.122(I)/2003 [Article 61(3)].

COMPETENCES/ POWERS/ OBLIGATIONS OF CERA ELECTRICITY

Encourages and facilitates genuine competition in the Electricity Market, avoiding adverse discrimination and aiming ultimately at reduced prices.

- Promotes the development of an economically viable and efficient Electricity Market.
- Ensures adequacy in electricity supply for the satisfaction of all reasonable needs and demands for electricity.
- Safeguards the Continuity, Quality, Reliability and Security of electricity Supply.
- Encourages the efficient use and generation of Electricity.
- Issues, controls, enforces, amends and recalls Licences or grants Licence Exemptions.
- Ensures that Licensees operate efficiently and are in a position to finance the business activities for which the Licence has been issued.
- Determines, publishes and imposes quality standards with which Licencees have to comply.
- Regulates tariffs, charges and other terms and conditions to be applied by licencees, for any services provided according to the terms of their Licences.

- Ensures that the Rules governing the operation of electricity networks and the electricity market (Electricity Transmission and Distribution Rules and the Electricity Market Rules) are prepared and approved in accordance with the Law.
- Sets the rules or the procedures under which complaints are examined which relate to services offered by the Licencees including, when it considers it appropriate, the carrying out of investigations and the taking of decisions for such complaints.
- Carries out investigations, either following the submission of a complaint or initiated by CERA ex officio.
- Imposes administrative fines in the event of violation of laws or regulations.
- Promotes the use of Renewable Energy Sources.
- Encourages Research and Development in the field.

COMPETENCES/ POWERS/ OBLIGATIONS OF CERA

NATURAL GAS

Monitors the issues of security of supply, and especially the balance of supply/ demand in the market, the level of the expected future demand and the availability of supply, as well as the level of competition in the market.

- Announces the measures that may be put into effect in case of unforeseeable crisis in the energy field, or when the safety of people, works, installations or the integrity of the networks, are threatened.
- Prepares and publishes Technical Rules determining the minimum standards of technical design and operation for the connection to the network installations of liquefied Natural Gas, to storage installations, to other transportation or distribution networks and to direct pipes of Natural Gas.
- Takes appropriate and effective measures for control and transparency, so as to avoid possible misuse of dominant position, and in particular of those misuses to the detriment of consumers.
- Protects the interests of the final consumers.
- Resolves disputes on access to pipes of the upstream network.
- Carries out investigations, either following the submission of a complaint or initiated by CERA ex officio.
- Imposes administrative fines in the event of a breach of any provision of the Law.
- Sets the rules for the management and the distribution potential of interconnection, in consultation with the appropriate authority or authorities of the Member States with which there is interconnection.

ORGANISATIONAL STRUCTURE

MEMBERS OF CERA

CHAIRMAN

G. Shammass

Engineer - Electrical Engineer (since 2.2.2010)

ACTING CHAIRMAN

S. Petrides

Economist (from 1.11.2009 until 20.1.2010)

VICE CHAIRMAN

C. Eliopoulos

Engineer - Electrical Engineer (since 2.2.2010)

MEMBER

K. Kyprianides

Electrical-Mechanical Engineer (from 2.1.2004 until 20.1.2010 and since 2.2.2010)

ADVISORS

Legal Adviser:

Mr Christos M. Triantafyllides was appointed following tender procedures, as CERA's Legal Advisor as from 1st July 2004.

ACCOUNTANTS

The Nexia Poyiadjis firm was appointed, following tender procedures, as CERA's Accountants as from the 19th of March 2004.

TECHNO-ECONOMIC CONSULTANTS

LDK - Technical and Development Project Consultants, in cooperation with Deloitte Touche Ltd, were appointed as CERA's Techno-economic advisors from 1st August 2007 until 30 July 2010.

As from 1st October 2010, Exergia AE is CERA techno-economic Consultants.

COMMUNICATION

The **CYPRUS ENERGY REGULATORY AUTHORITY** is housed at the Jacovides Building in Nicosia

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Telephone: +357 22 66 63

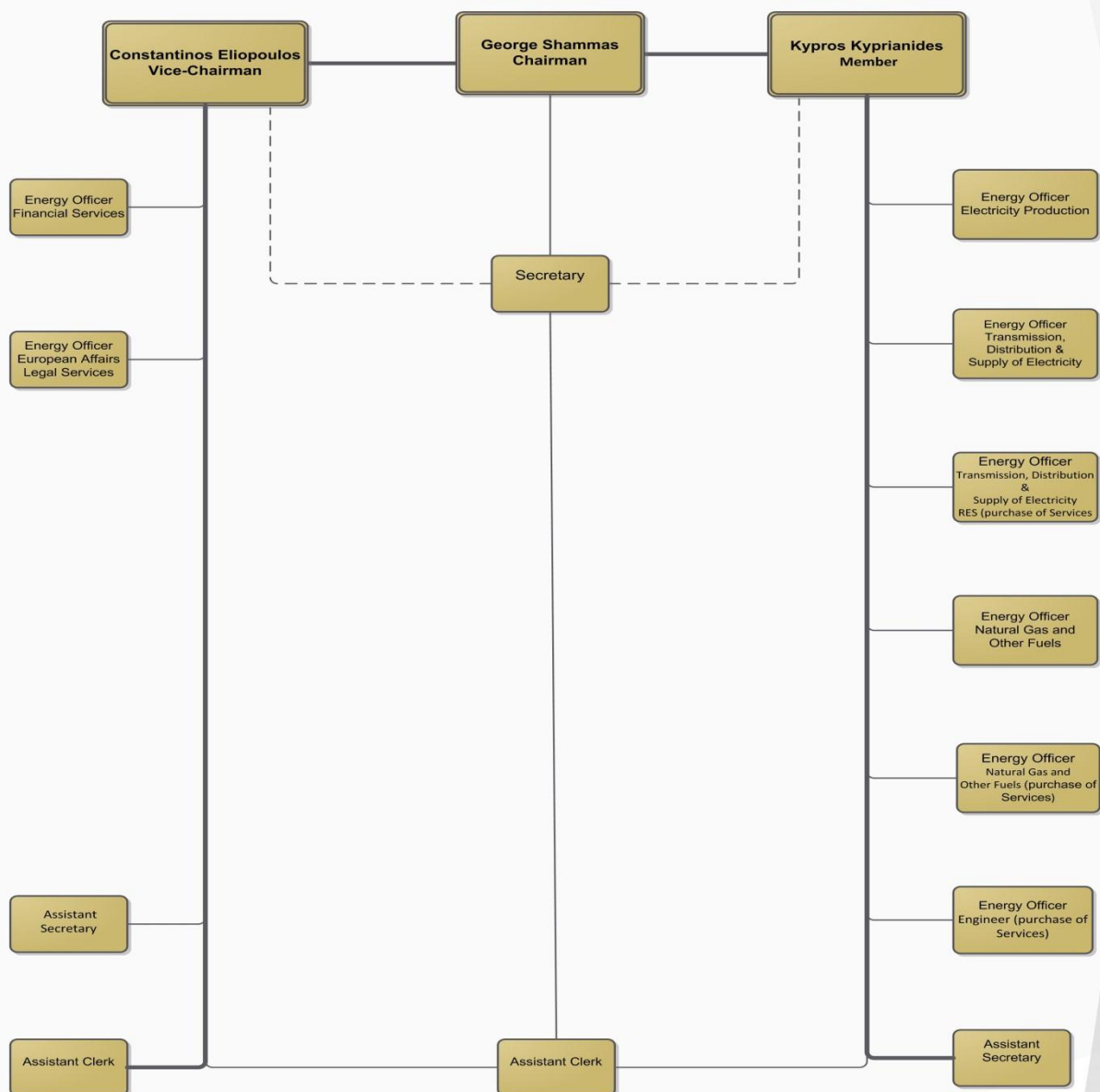
Fax: + 357 22 66 77 63

E-mail: info@cera.org.cy

Website: www.cera.org.cy

CERA'S ORGANISATIONAL STRUCTURE (2010)

Cyprus Energy Regulatory Authority – Organisational Chart 2010



THE CEREMONY FOR THE AFFIRMATION OF CERA MEMBERS

Demetris Christofias: The task of CERA members is difficult and demanding.

The President of the Republic Demetris Christofias, speaking at the Presidential Palace during the ceremony for the affirmation of the members of CERA on 2.2.2010, described the task of CERA Members as difficult and demanding. He said:

“For the government, the energy sector is of primary importance. The adequate and secure energy supply of our country at the minimum possible burden on the economy and the environment as well as the development of the energy market will contribute to the economic progress of our country.

The promotion of the Energy Centre, the fuller utilisation of renewable energy sources and the rational use of energy are some of our basic goals.

The establishment of the Cyprus Energy Regulatory Authority (CERA) is envisaged in the Law on Regulating the Electricity Market of 2003- 2008. The first six-year term since the establishment of CERA was completed in January 2010. The work performed by the first Committee has been important and the Chairman, the Vice Chairman and the Member of the outgoing committee deserve our warmest congratulations. By their activities they have laid the foundations for the balanced and creative development of the energy sector.

The new members of CERA will face during their term new and serious challenges. These challenges are linked to bringing natural gas to Cyprus and changing our energy mix as well as to the complete liberalisation of the energy market, which is planned for January 2014.

They will also face the challenges relating to the increased penetration of the renewable energy sources in Cyprus’ energy map and the promotion of new, more efficient technologies for electricity generation, which are friendlier to the environment.

The work of CERA members will be difficult and challenging. The secure supply of electricity to all productive sectors of our economy will depend on the quality of your work and the smooth functioning of the system.

I am confident that both the new CERA Members and the reappointed Member will prove worthy of the trust of the Council of Ministers and that you will perform your task successfully, carrying out your duties to the full and in the framework of the laws and regulations.

The integrity of the character of all the members of the Cyprus Energy Regulatory Authority is the guarantee for the proper performance of your duties and that you will always be guided by public interest.

I wish you success and good work.”

George Shammas: We shall work with zeal, objectivity and transparency

Responding to the President’s address, CERA Chairman George Shiammas assured the President of the Republic that all the members of CERA will work with zeal, objectivity and transparency and in the framework of the provisions of the legislation, having as their guideline the basic directions of the energy policy of the government and the European Union. More specifically, the Chairman of CERA said:

“Your Excellency Mr President, Minister, dear colleagues,

First of all I would like, on behalf of the three members of the Regulatory Energy Authority, to express to you, Mr President, and the Council of Ministers our thanks for the trust you have shown to us by this appointment.

I wish to assure you that we shall work with zeal, objectivity and transparency and in the framework of the provisions of the legislation, having as our guideline the basic directions of the energy policy of the government and the European Union. The priorities of the Energy

Regulatory Authority in the performance of their duties will be to ensure the long-term and secure supply of energy to our country and to attain the environmental goals, mainly those relating to the climate changes, and to maintain a stable and sound energy market with the lowest possible cost for consumers.

For this reason we are looking forward and we shall work hard together with all stakeholders for the implementation of projects so as to achieve during our term of office the two important goals the state has set in the energy sector:

- a) to bring natural gas to Cyprus and use it as the basic fuel for electricity generation and,
- b) to ensure the substantial penetration of renewable energy sources in the electricity market without affecting in a negative way the security of supply.

We thank you once again and we promise that we shall prove worthy of your trust.”



INTRODUCTORY NOTE

Energy constitutes a most crucial sector for Europe, the EU member states and their citizens, as it affects the welfare of people, businesses and the environment to a great extent.

The energy policy of the European Union and by extension of its members has so far been shaped by a common goal: to secure the unimpeded supply of energy products and services to the market at a cost that all consumers, individuals and enterprises can afford, contributing at the same time to the attainment of the broader social and environmental goals of the Union.

In this framework, during the year under review 2010, when the energy sector was marked by the repercussions of the global financial crisis, the main guidelines of the Cyprus Energy Regulatory Authority in the handling of energy issues were the security of supply, the protection of consumers and the preservation of a sound competition through the development of an economically viable and efficient energy market.

The basic characteristic of CERA activities in 2010 was the taking of a series of important decisions that will create the basis and the prerequisites for the functioning of the electricity market.

For the first time, the Fees for the Use of the Transmission and the Distribution Network, as well as the charges for Ancillary Services and those for the Transmission System Operator have been approved. Moreover the draft Regulatory Decision on the Methodology for the supply and compensation of Ancillary Services and Long-Term Capacity Reserve has been approved and published following a public consultation.

In addition, a decision has been issued imposing an obligation to keep minimum reserves of alternative fuel in power generation installations, which use natural gas as their fuel, in order to ensure security of supply in this respect.

A landmark decision on the rational functioning of the electricity market was the publication in November 2010 of the Draft Regulatory Decision to amend and restructure the electricity tariffs of EAC. It was followed by an extensive public consultation with a substantial number of stakeholders, with a view to implementing the decision in January 2011.

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

The planning made by CERA for 2011 includes the following important targets:

- Harmonising national legislation on Regulating the Electricity and the Natural Gas Market with European Directives 2009/72 and 2009/73
- Implementing the decision on the restructuring of EAC tariffs and planning their complete restructuring, after implementing a transparent unbundling of EAC accounts by activity
- Completing the decisions relating to the operation of the electricity Market
- Amending the Legislation on Renewable Energy Sources in such a way as to ensure their participation in the electricity system without creating distortions.
- Monitoring, in line with CERA competencies, the most speedy and financially most beneficial arrival of Natural Gas in Cyprus, mainly for electricity generation, at the first stage, bearing in mind that Natural Gas:
 - Enriches the island's energy mix,

- Leads gradually to a decrease on dependence on oil and improves security of supply and
- Complies with Cyprus' commitments to attain environmental targets and more specifically the gradual decrease of Greenhouse Gas Emissions in order to combat the climate change.
- Strengthening the organisational structure of CERA Office in such a way as to achieve the smooth functioning of the Authority in line with the legislation
- At the same time the support of CERA Office will be strengthened through the restructuring and modernisation of its information systems and office management systems.

Concluding this brief reference to 2010, we would like to express our thanks to all those who cooperated with us, individuals, organised entities and government agencies and particularly the Ministry of Commerce, Industry and Tourism and the Audit Office of the Republic of Cyprus.

We would like to express our special thanks to the members of the staff of CERA who work tirelessly to perform their work and attain the goals of CERA.

**George Shammas,
Constantinos Eliopoulos,
Kypros Kyprianides,**



REGULATORY MEASURES AND DECISIONS

EUROPEAN ENERGY POLICY

According to the EU communication on “A Strategy for Competitive, Sustainable and Secure Energy” published on 10.11.2010 over the next ten years, investments in energy infrastructure in the order of € 1 trillion will be required to replace equipment, cater for challenging and changing energy requirements, which are necessary for the creation of a pan European integrated market. For without the necessary infrastructure the current network in Europe is not in a position to absorb the volume of energy from renewable energy sources envisaged in the 2020 goals.

The Energy 2020 Communication defines the energy priorities for the coming decade and presents actions which must be taken in order to face the challenges regarding the five top European priorities, i.e. energy saving, achieving a market with affordable prices, secure supply, the promotion of technological supremacy and the effective negotiation with our international energy partners.

With regard to saving energy in particular, the Commission proposes to focus its initiatives on two sectors with the greatest potential for saving energy: transport and buildings. With a view to assisting home owners and local agencies to finance refurbishments and energy saving measures, the Commission proposes investment incentives and innovative fiscal measures up to mid-2011. The public sector during the purchasing of projects, services or products should take into account energy efficiency. In the industrial sector the energy efficiency certificates could be an incentive for companies to invest in technology requiring less energy.

Concerning Europe's pre-eminence in energy technology and innovation, four big projects will be implemented in major sectors with the aim of enhancing Europe's competitiveness, such as new technologies for smart electricity networks and for the electricity storage, the research on second-generation bio-fuels and corporate cooperation on “smart cities” that aim at promoting saving energy in urban areas.

Furthermore, in the field of natural gas, during 2010 there were some developments as far as European Union decisions are concerned.

Taking into account that natural gas consumption in Europe increased rapidly during the past ten years and that domestic production decreased, natural gas imports increased even faster, the need arose to examine the question of security of gas supply. Furthermore, some states are islanded with respect to gas supply due to lack of infrastructure interconnections with the rest of the Union.

Given the importance natural gas has in the energy mix of the European Union, the EU adopted Regulation 994/2010 on 20.10.2010 which repeals Directive 2004/67/EC. This Regulation aims at demonstrating to gas customers that all the necessary measures are taken to ensure uninterrupted supply, particularly in case of difficult climate conditions and in case of disturbance. It is recognised that these goals will be achieved by taking the most cost efficient measures, so as not to affect the relevant competitiveness of this fuel compared with the other fuels.

Regulation (EU) No 994/2010 of the European Parliament and Council of 20 October 2010, concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC

Regulation 994/2010 establishes provisions aimed at safeguarding the security of gas supply by ensuring the proper and continuous functioning of the internal market in natural gas, by allowing for exceptional measures to be implemented when the market can no longer deliver the required gas supplies and by providing for a clear definition and allocation of responsibilities among natural gas undertakings, the Member States and the Union regarding both preventive action and the reaction to certain disruptions of supply.

This Regulation also provides, in a spirit of solidarity, transparent mechanisms for the coordination of planning for, and response to, an emergency at Member State, regional and Union levels.

NEW DIRECTIVE 2009/28/EC ON RES AND MANDATORY NATIONAL TARGETS FOR 2020

National Action Plan on Renewable Energy in line with Directive 2009/28/EC

Article 4 of Directive 2009/28/EC provides that each Member State shall adopt a national renewable energy action plan which should be submitted by 30 June 2010. The national renewable energy action plans specify Member States' national targets for the share of energy from renewable sources consumed in transport, electricity and heating and cooling in 2020, taking into account the effects of other policy measures relating to energy efficiency on final consumption of energy, and adequate measures to be taken to achieve those national overall targets.

Achieving the targets set by the EU for the member states for 2020 regarding the penetration of renewable energy sources in the electricity market, as well as meeting the targets to reduce greenhouse gas emissions with the operation of the Emissions Trading Scheme, is one of the main challenges Cyprus is facing in the field of energy.

Due to the great importance of this issue, coupled with the development of an economically viable, secure and efficient electricity market, CERA went ahead with the establishment in May 2010 of a special advisory committee, with the participation of representatives of the Ministries of Commerce, Industry and Tourism, Interior, Finance, Agriculture and Natural Resources, the Planning Bureau, the Electricity Authority of Cyprus, the Transmission System Operator, the Scientific and Technical Chamber and the Federation of Employers and Industrialists.

The Committee worked under CERA supervision to help tackle the challenges posed by the penetration of renewable energy sources in electricity generation, as well as the targets on the reduction of greenhouse gas emissions which have an impact on electricity generation enterprises.

The study, inter alia, took into account Cyprus contractual obligation, as an EU member state, to achieve the targets set for 2020, with the minimum possible economic burden on the consumer and without affecting security of electricity supply, which are the following:

- The contribution of Renewable Energy Sources in the final energy consumption by 13%
- The contribution of Renewable Energy Sources in energy consumption in road transport by 10%
- The reduction of greenhouse gas emissions by 5% compared with 2005, in the various categories, outside the scope of the Emissions Trading Scheme.

The study examined a number of scenarios on the penetration of Renewable Energy Sources in electricity generation by 2020, with an analysis of the economic aspect of each scenario as well as the question of security of supply.

As a result of the study, an optimal strategic plan was formulated for the inclusion of the necessary mix of electricity generation technologies from RES into the existing electricity system of the island. The main purpose of the analysis was to evaluate and calculate the increase in the cost of electricity in Cyprus' electricity generation system, due to the gradual integration of renewable energy sources, so as to achieve the national energy target concerning the penetration of Renewable Energy Sources.

Following the final consultations between the members of the special advisory technical committee and the Ministry of Commerce, Industry and Tourism, in the context of completing the structure of the national action plan, the proposed final scenario on RES penetration in

electricity generation in 2020 was prepared, which envisages a penetration of RES by 16% in total energy consumption (with a 300 MWe maximum penetration of wind power installed capacity), which is based solely on the local capacity of renewable energy sources for electricity generation. Under these preconditions, the national target of RES penetration in electricity generation in Cyprus is achievable. The approved scenario is shown in Table 1.

Table 1: Proposed scenario of RES penetration in electricity generation at 16% of total electricity consumption

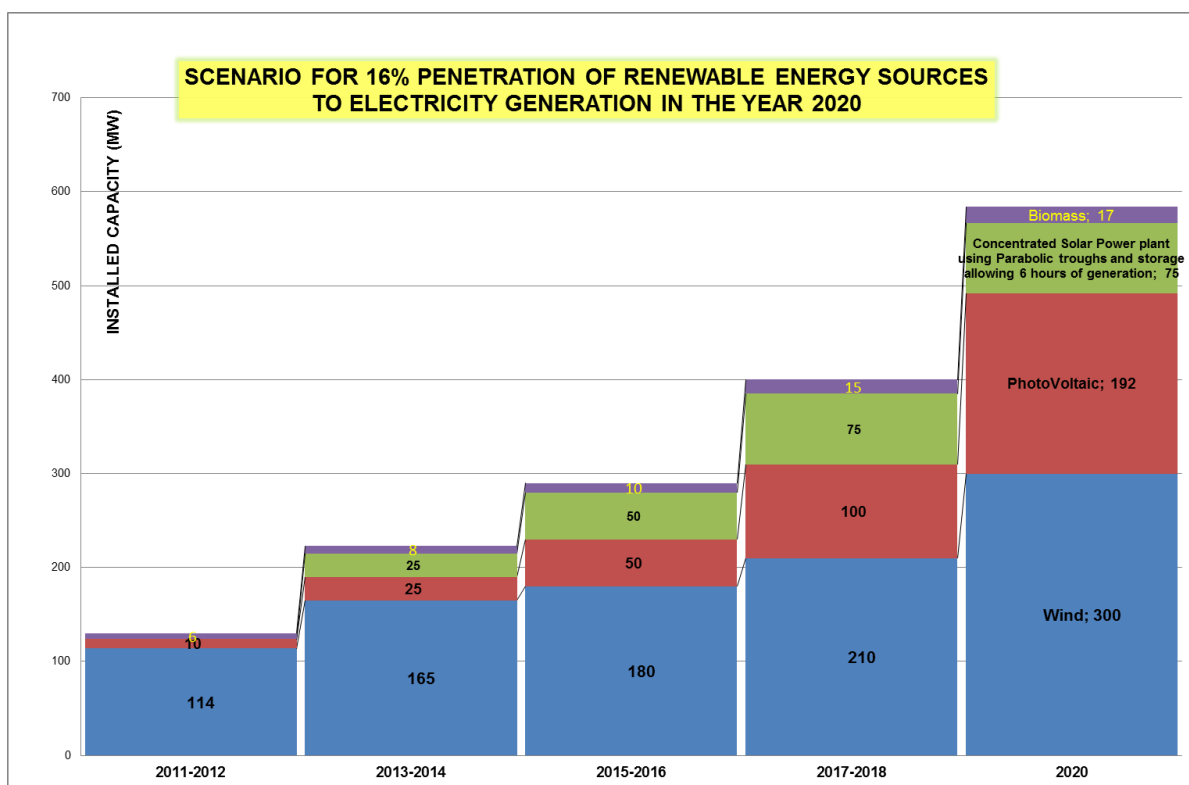
RES TECHNOLOGY	INSTALLED CAPACITY (MW)						ANNUAL ENERGY GENERATION (GWh)					
	2005	2011-2012	2013-2014	2015-2016	2017-2018	2020	2005	2011-2012	2013-2014	2015-2016	2017-2018	2020
Wind	0	114	165	180	210	300	0	189	275	300	350	499
PhotoVoltaic	0	10	25	50	100	192	0	16	40	81	161	309
Concentrated Solar Power plant using Parabolic troughs and storage allowing 6 hours of generation	0	0	25	50	75	75	0	0	74	149	223	223
Biomass	0	6	8	10	15	17	0	50	67	84	126	143
Total RES Electricity Generation (MW/ GWh)	0	130	223	290	400	584	0	255	456	614	860	1.174
Total Electricity Generation to Meet System Demand (GWh)							4.376	5.780	6.175	6.565	6.950	7.365
Share of Energy produced employing RES in the Total Electrical Production (%)							-	4%	7%	9%	12%	16%
Minimum Indicative Trajectory as defined in Annex I.B of Directive 2009/28/EC												
Total Electricity Generation from RES (GWh)							-	185	296	473	723	1.178
RES share in Total Electricity Generation (%)							-	3%	5%	7%	10%	16%
RES share in Total Primary Electricity Generation (%)							-	1,0%	1,5%	2,3%	3,3%	5,0%

The study has shown the important economic impact on the cost of electricity that the gradual penetration of Renewable Energy Sources in electricity generation as well as the change in the Emissions Trading Scheme after 2013 will have.

The report on the first stage of the Study was completed and submitted on 14 July 2010 to the Minister of Commerce, Industry and Tourism, with a copy to the Ministers of the Interior, Finance, Agriculture, Natural Resources and the Environment, the leaders of Parliamentary Parties, the Presidents of the Parliamentary Committees of Commerce and European Affairs, the Presidents of the Cyprus Chamber of Commerce and Industry and the Cyprus Employers and Industrialists Federation, as well as other agencies and associations.

The following graph shows the proposed participation in electricity generation during the period 2011-2020 of RES by category, including the intermediary targets every two years.

The Committee will continue the work assigned to it in line with the directions given to it during a meeting of the Inter-Ministerial Committee on Renewable Energy Sources in order to complete the second stage of the Study. The aim at this stage is to complete the study of the remaining important issues related to the substantial integration and participation of renewable energy sources in the electricity market as follows:



- Finding the optimum way for the integration and participation of Renewable Energy Sources in the electricity market management system on the basis of the model of market operation chosen by the Republic of Cyprus, in line with the international practice for avoiding distortions in the market and for the equal treatment of Suppliers of Electricity. To this end there is need for a political decision to be taken to separate the management of renewable energy sources in electricity generation from the rest including the measures for encouraging energy saving resulting to the amendment in the Legislation on the operation of the Special Fund.
- Taking a political decision to strengthen the system of subsidising the renewable energy sources in electricity generation by providing from 2013 onwards a large proportion of the income from the emissions trading scheme, aiming the reduction of significant economic burdens on electricity consumers.
- Carrying out a special study on the impact on security of supply after the integration of wind farms into the electricity system and on the occasion of the operation of the first wind farm. Relevant instructions will be given to the Transmission System Operator.
- Carrying out a detailed simulation study on the operation of the system in order to calculate the marginal price to be used for the calculation of the avoidance cost as a result of the operation of RES. Relevant instructions will be given to the Electricity Authority of Cyprus.

REGULATORY MEASURES AND DECISIONS

Bills

Draft bills on Natural Gas

The 3rd Energy Package and Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC.

The goal of 3rd Energy Package and the specific directive is the completion of the internal market and the creation of equal competition terms for all natural gas undertakings established within the Community. It was considered that the existing regulations and measures do not provide the necessary framework for the operation of a smooth functioning internal market and that without the effective separation of networks from the activities of supply and production the inherent clash between interests will not be avoided and the security of supply cannot be safeguarded. It was also considered that the Regulatory Authorities established under the two previous Directives need to be given increased powers so as to be truly effective in the task of regulating the natural gas market.

More specifically, Cyprus,

- convinced the Commission and so it is noted in Directive 2009/73/EC that in the case of Cyprus the mandatory separation of networks is not applicable.
- it was described in the Directive as “emergent market” article 49 (2) of the Directive and “isolated” (article 49(1) of the Directive) and was granted derogations from the specific chapters for as long as it is described as such. An Isolated Market is the Market which is not interconnected to the system of another member state and having only one main external supplier with a percentage of at least 75% of the natural gas supply. Any such derogation shall automatically expire where at least one of the conditions referred to no longer applies, i.e. when it is interconnected with another member state or when there is another supplier, who supplies at least 25% of the total quantity of natural gas.

A market described as “emergent” is the market of a member state in which the first commercial supply of the first long-term contract for the supply of natural gas took place during the last ten years.

In the light of the above and for the purpose of harmonisation with the Directive, studies, discussions and consultations were carried out, so as to address the issue of harmonisation specifically and to interpret the derogations and their impact on the harmonisation of national legislation. The consultations were held as from mid-2010 by the Ministry of Commerce, Industry and Tourism, the Cyprus Energy Regulatory Authority, the National Gas Public Company (DEFA), the Electricity Authority of Cyprus and the market players involved. CERA undertook to prepare an Amending Law on the Natural Gas Market Regulation of 2004-2007 on the basis of what has been agreed during the consultations. The bill was completed in December 2010 and was sent by the Ministry to the Law Office of the Republic for legal checking.

Cyprus in line with the other states has the obligation to conform to the above Directive, putting into force the legislative, regulatory and administrative provisions by 3rd March 2011 at the latest.

Electricity Trading & Settlement Rules and Transmission & Distribution Rules

Trading & Settlement Rules

Following a long and thorough investigation and study of all relevant recommendations prepared by the Transmission System Operator and all other stakeholders and after getting further clarifications in separate meetings, CERA decided to adopt TSO's recommendations and on 23.12.2008 adopted the First Issue of the Electricity Trading and Settlement Rules on

a trial basis initially for a three-year period. Subsequently, in accordance with the provisions of the relevant legislation, CERA forwarded the said issue to the Ministry of Commerce Industry and Tourism for approval by the Minister.

On 22.1.2009, the Minister of Commerce, Industry and Tourism approved the Electricity Trading and Settlement Rules and Issue 1.0.0. January 2009 came into force.

Attaining the objective set for a unanimous adoption of the Electricity Trading and Settlement Rules, is considered to be a successful result and a substantial step forward for the promotion of fair competition in the electricity market in Cyprus.

The Electricity Trading and Settlement Rules:

- govern the mechanisms, the tariffs and other terms and conditions applying in cases where licensees buy or sell electricity on the basis of arrangements made by the TSO.
- ensure that licensees who are asked to participate in buying or selling electricity, on the basis of these arrangements, will not be subject to discrimination.
- promote efficiency and energy saving and facilitate competition in the market and the sale of electricity on the basis of these arrangements.

In the year under review no need emerged to convene the respective Advisory Committee for revisions and the original Issue 1.0.0. of the Electricity Trading and Settlement Rules remains in force.

Transmission & Distribution Rules

Under the Laws on Regulating the Electricity Market of 2003 to 2008, CERA takes a Regulatory Decision with which it issues instructions to the Transmission System Operator and the Distribution System Operator to prepare and issue technical rules, which are subject to CERA's approval, on operation of the Transmission System and the Distribution System, correspondingly.

The provisions of the Transmission and Distribution Rules are observed by all licensees or by persons to whom exemptions were granted, to the extent that the licences or exemptions require this, correspondingly.

The first edition of the Transmission and Distribution Rules, Version 1.1.1, was approved by CERA and came into force upon its publication on 15.10.2004. Thereafter, the Rules were revised, CERA's approvals to amendments were granted and Version 2.0.0 -June 2006 -of the Transmission and Distribution Rules came into force upon its publication on 19.6.2006, and is still in force until to date.

The Advisory Committee on the Transmission and Distribution Rules met once in 2010 and discussed and studied in depth specific issues.

CERA DECISIONS

CERA decisions are classified into Regulations, Regulatory Decisions and Decisions. During the year under review the Cyprus Energy Regulatory Authority took the following Regulatory Decisions and a number of Decisions. The most important of these which are of wider interest are the following:

Regulatory Decisions

The Imposition of Public Service Obligations – Tariff for Large and Needy Families-Regulatory decision 01/2010 [AR 238/2010]

The Cyprus Energy Regulatory Authority, exercising the powers given it by Articles 26, 88, 89 of the Laws on Regulating the Electricity Market of 2003 to 2008 and following the relevant instructions given by the Minister of Commerce, Industry and Tourism, issued a

Regulatory Decision under which the special tariff for large and needy families been reduced by € cent 0,21 per kW, an amount which corresponds to the cost of greenhouse emissions.

This Regulatory Decision also defines the method of cost recovery by all holders of Electricity Supply Licences emanating from the imposition of Public Service Obligation concerning the special tariff for large and needy families. The cost will be recovered through the readjustment of the remaining tariffs.

The Procedures for the Issue, Management and Mechanism of Safeguarding the Guarantees of Origin of Electricity from Renewable Energy Sources Regulatory Decision 02/2010 [AR 398/2010].

The Cyprus Energy Regulatory Agency, exercising its powers and functions under Article 21 of the Promoting and Encouraging the Use of Renewable Energy Sources and Energy Saving Laws of 2003-2010 decided, published and after a public consultation, issued Regulatory Decision 02/2010, which specifies the procedures to be followed by issuing authorities in order to issue and manage the Guarantees of Origin of Electricity from Renewable Energy Sources.

The charges for the use of Transmission and Distribution Networks, the Expenses of the Transmission System Operator, the Supplementary Service and the Long-term standby in the Electricity System Regulatory Decisions 03/2010 and 04/2010 [AR 455/2010 and AR 538/2010 respectively]

The Cyprus Energy Regulatory Authority, exercising the powers given it by Article 26 of the Law On Regulating the Electricity Market 2003-2008 specified the conditions under which the Cyprus Electricity Authority will impose the following charges on billed energy for the period 2010-2012

The application of these charges for the year 2012 is subject to the following prerequisites:

- (a) Preparation of a transparent unbundling of the Cyprus Electricity Authority Accounts according to its regulated activities and its submission to CERA by 31.7.2011 in order to secure approval.
- (b) Rationalisation of the Organisational Structure of the Cyprus Electricity Authority with the aim of increasing productivity and substantially reducing the costs chargeable to consumers, as stipulated in studies of external consultants.
- (c) Implementation of a compulsory programme for the substantial reduction of operational expenses, giving emphasis to the reduction of the administration cost which is apportioned to regulated activities as well as on subjects in respect of which the Cyprus Electricity Authority during its consultations with CERA in 2009 undertook the obligation to make savings.
- (d) Suspension of non-productive capital expenses.
- (e) Carrying out a detailed study by a specialist firm of consultants on the financial condition of the Electricity Authority of Cyprus in relation to the ten year development plan and submission of the study to CERA by 31.7.2011.

Table 2 Charges for the Use of Networks and Other Operational Expenses

USE of SYSTEM CHARGES AND OTHER OPERATIONAL EXPENSES	2010	2011	2012
	€/kWh	€/kWh	€/kWh
Transmission System Operator Expenses	0,07	0,08	0,08
Ancillary Services	0,18	0,20	0,21
Long-Term Reserve	0,46	0,46	0,46
Sub-total	0,71	0,74	0,75
Producer connected to High Voltage Network			
High Voltage Network Expenses	0,81	0,83	0,86
Total for Producers Connected to High Voltage	1,52	1,57	1,61
Producer connected to Medium Voltage Network			
High Voltage Network Network Expenses	0,81	0,83	0,86
Medium Voltage Network Expenses	1,24	1,28	1,33
Total for Producers Connected to Medium Voltage	2,76	2,85	2,94
Producer connected to Low Voltage Network			
High Voltage Network Network Expenses	0,81	0,83	0,86
Medium Voltage Network Expenses	1,24	1,28	1,33
Low Voltage Network Expenses	1,43	1,45	1,47
Total for Producers Connected to Low Voltage	4,19	4,30	4,41

The Statement on Regulatory Practice and Methodology of Electricity Tariffs Amendment – Regulatory Decision 05/2010 [AR 537/2010]

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

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

IMPORTANT CERA DECISIONS

Institution of Recovery of the Cost for Greenhouse Gas Emissions - Decision 409/2010

CERA, taking into account its previous relevant Decisions no 326/2009 and 394/2009 dated 15.5.2009 and 29.12.2009, respectively, with which approval was granted to the Cyprus Electricity Authority to recover the cost for greenhouse gas emissions and, after a thorough study of all the relevant data, decided to amend the above decisions as follows:

- The calculation of the monthly cost due to deficiencies in the greenhouse gas emissions allowance, to be included in the fuel cost of the Cyprus Electricity Authority and will be recovered through the automatic adjustment of tariffs on the basis of the fuel cost adjustment, based on the average monthly weighted price of allowances in the European market.
- The accumulated greenhouse gas emissions allowances in the first two months of 2010 will be added to the accumulated cost of greenhouse gas emissions allowances for the years 2008 and 2009, which under decision 394/2009 will be allocated and will be recovered in the next seven years. The total accumulated rights will be recovered in the next seven years from the date the institution will come into effect.
- The requirement that the Cyprus Electricity Authority should submit at the end of each year, comparative data on the cost of allowances to be recovered through the fuel cost adjustment clause and the total amount which will be spent during the year to purchase greenhouse gas emissions allowances.
- The requirement that EAC should regularly inform CERA on the measures it takes to minimise greenhouse gas emissions from its generating stations.
- The start of the implementation of the institution for the recovery of greenhouse gas emissions allowances as from 1.1.2010.

The above arrangements are subject to amendments by CERA whenever the Authority deems it necessary.

Temporary suspension in receiving applications for installations of electricity generation units from Renewable Energy Sources. – Decision 423/2010.

CERA, exercising the powers given it by the Laws on Regulating the Energy Market, decided to suspend as from 22.3.2010 and until further notice receiving applications for installations of electricity generation units from RES, in view of the preparation of the National Action Plan on the penetration of Renewable Energy Markets until 2020.

Increases in the amounts of customers' deposits - Decision 418/2010

CERA, after studying a relevant decision of the Electricity Authority of Cyprus and having evaluated the supporting documents, decided to increase the amounts of deposits by new customers.

Charges for the Registration and Issue of Guarantees of Origin in accordance with Law 174 (I)/2006 on the Promotion of Cogeneration of Heat and Power - Decision 441/2010

Following a recommendation by the Transmission System Operator, CERA approved the following fees which should be paid by registered Producers Cogeneration of Heat and Power to whom the Transmission System Operator will issue Guarantees of Origin for Electricity Generation from Renewable Energy Sources for large capacity or Cogeneration installations, regardless of the level of voltage interconnection:

- € 3000 as the fee for the Registration in the Electronic Register of Electricity Producers from Renewable Energy Sources or the Register of Producers of Cogeneration of Heat and Power.
- € 300 as the fee for issuing the monthly Certificate of Origin of Electricity generation from Renewable Energy Sources
- € 3.600 as the fee for issuing the annual Certificate of Origin of Cogeneration of Heat and Power.

Electricity Authority of Cyprus Tariffs, Fuel Adjustment Clause – Decision 444/2010

CERA, following a thorough study, approved the recommendation made by the Electricity Authority of Cyprus to keep the **co-efficient** of the fuel adjustment clause for the second half of 2010 at the same level i.e. (0,0014 €/c/kWh for each increase by 5 €/c per metric tonne.

Procedure for the Amendment of an Exemption from a Licence - Decision 452/2010

CERA decided that the procedure for the amendment of the Exemption from a Licence is the following:

- Holders of an Exemption from a Licence may request the amendment of the Exemption from a Licence given to them. The new data and documents required must be submitted by the licence holder together with the application for amendment.
- CERA may request from the holder of an Exemption from a Licence within two months from the date of the application for an amendment of the Exemption from a Licence to supply any additional information.
- CERA may amend the Exemption from a Construction or Operation or Supply Licence of a Generating Energy Plant, by mutual agreement with the holder of the Exemption from a Licence.
- CERA may, responding to information it has received, or for any other reason it thinks fit, to amend any Exemption from a Construction, or Operation or Supply Licence, giving prior notice to the Licence holder.
- It is understood that the fees for the amendment of the Exemption from a Licence by mutual agreement are payable only in case the responsibility for the amendment lies with the holder of the Exemption from a Licence.
- The amendment of Exemptions from a Licence is notified to interested parties through the CERA website.

Handling of Existing Applications for Photovoltaic Systems - Decision 463/2010

CERA, taking into account the new National Action Plan on Renewable Energy Sources and Article 35 of the Law “On Regulating the Electricity Market” Amending Law N 239(I) 2004, has issued a Decision concerning the handling of existing applications for Photovoltaic Systems, which gives priority to Photovoltaic Systems installed on the roof of premises/factories/houses and on plots in which there is already a connection to the electricity grid, so that consumers may not bear additional expenses.

These additional criteria were set by CERA aimed at serving the applicants themselves and in general the electricity consumers from projects which possibly are not economically viable.

Approval of the Internal Regulations of the Temporary Competent Committee for Electricity Supply Licences – Decision 475/2010

CERA, taking into account, amongst others, the pending issue concerning the establishment and operation of the *Competent Body for Electricity Certification*, which affects the implementation and observance of the provisions of Chapter T12 of the Security Rules and the Transmission and Distribution Rules, as well as the need to settle the above pending

issue, approved the settling up of a special Temporary Committee (*Competent Body for Electricity Certification*). The Committee has undertaken the obligations of the said Body, in the context, amongst others, of the start of operation of the Orites Wind Farm, so as not to cause any delay to the schedule of works in the Wind Farm and in any other project.

CERA decided to give its approval for the Internal Regulations of the Temporary Committee, until the relevant amendments to the Transmission and Distribution Rules are made.

Security of Electricity Supply, Imposing an Obligation to Maintain a Minimum Stock of Reserve of Alternative (Secondary) Fuel in Generation Plants having Natural Gas as Primary Fuel - Decision 486/2010

CERA decided to impose a minimum obligation on all Electricity Producers to maintain stocks of alternative (secondary) fuel in all Generation Plants having natural gas as their primary fuel, stocks which will be enough to maintain production of at least eight days at the maximum power of each Unit, as this is achieved through the use of natural gas.

On the basis of this decision, which was published in the Official Gazette of the Republic all relevant existing Licenses were amended.

Annual Fees payable by holders of an Exemption from a License to Operate Generating Plants for Commercial Purposes – Decision 504/2010

Regarding the Annual Fees payable by holders of an Exemption from a Licence to Operate Electricity Generating Power Plants for commercial purposes, CERA Members decided that all holders of an Exemption from a Licence for the operation of a generation station for commercial purposes and not for own-use, they are obliged to pay the Annual Fees envisaged in the Laws on Regulating the Electricity Market, Fees, AR467/2004.

Costing the Dismantling of a Wind Farm – Decision 507/2010

CERA decided that every licence holder should deposit for purposes of dismantling a Wind Farm, under the terms set by the Department of Town Planning and Housing, at a special account of the Ministry of Commerce, Industry and Tourism, the amount to be decided by CERA for the dismantling of the Wind Farm.

CERA, taking into account that a large part of the cost of dismantling can be recovered from the sale of the materials of the installation for recycling, the amount to be deposited in the special account of the Ministry of Commerce, Industry and Tourism, will be a fixed sum of € 20,000 to which the sum of € 2.500 for each wind-turbine will be added. This amount will bear interest for the benefit of the Ministry of Commerce, Industry and Tourism and will be used for the dismantling for a period equal to the duration of the Operation Licence of the Wind Farm. As it is impossible to calculate the value of the equipment used for the installation of the Wind Farm for recycling purposes, the members of CERA note that, in addition to the amount to be deposited at the Ministry of Commerce, Industry and Tourism, the condition included in the Licence of the Wind Farm providing that the Licence holder is responsible under the Laws of the Republic of Cyprus to restore the area to its former condition will continue to apply.

Fuel Adjustment Clause – Decision 514/2010

CERA, after studying the suggestion of Electricity Authority of Cyprus, decided to approve to keep the coefficient of the Fuel Adjustment Clause as it is, i.e. €c 0,0014 until 30 June 2011.

Temporary suspension of receiving applications for the installation of electricity generation units from RES - Decision 520/201

CERA, at a meeting of its members, decided that:

- any Corporate body or natural person who submitted an application for the Construction of Electricity Generating Unit from RES before 22.3.2010 and

- has secured or will secure from CERA a Licence to Construct the Unit, will be entitled to submit an application for a Licence to Operate the same Electricity Generating Unit from RES, for as long as decision No. 413/2010 remains in force.

Policy Statement on the Method of Billing the Services of the Liquefied Natural Gas Terminal – Decision 531/2010

CERA has prepared and published a Draft Policy Statement on the Method of Billing of the Services of Liquefied Natural Gas Terminal, which inter alia specifies the principles for the calculation of the regulated tariff and the rates of return of the investor's own capital.

Amendment and Rebalancing of the Electricity Authority of Cyprus Tariffs - Decision 539/2010

CERA had prepared a draft Regulatory decision (Draft Regulatory Decision 509/2010) for the amendment and rebalancing of EAC tariffs, on the basis of its previous decision dated 27.10.2009 providing a general increase by 1,5% on all tariffs, in an effort to reduce as far as possible the cross subsidisations which may be observed, with a view to their gradual elimination. In the same draft proposal, CERA proposed, inter alia, the imposition of conditions on the Electricity Authority of Cyprus which will lead to a transparent unbundling of its accounts and to a programme of reducing its expenses for the benefit of consumers. The draft was published in the Official Gazette of the Republic on 26.11.2010 and called on all interested persons to submit possible comments within 30 days from the date of publication.

Following consultations, CERA decided that the approved general increase in tariffs by +1,5% as from 1.1.2011 and 1,5% as from 1.1.2012 on the basic price of €309,78/MT which is envisaged in its Decision No 385/2009, be amended as follows:

On the basis of the above changes relating to the basic price of €309,78/MT, the Electricity Authority of Cyprus will be called upon to set its new tariffs which will be valid from the date they come into force at a rounded up price of €300/MT, so as to make it easier for consumers to check the fuel readjustment clause.

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

It is clarified that on the basis of this Decision, the revenues of the Electricity Authority of Cyprus are estimated to be reduced by about € 3.700.000, compared with those approved by CERA's previous decision No 385/2009, however, the rebalancing of tariffs is achieved to a satisfactory degree with the ultimate aim of abolishing smoothly and gradually all the cross-subsidies observed.

The changes in tariffs apply as from the dates shown in the above tables. However, the implementation of changes as from 1.1.2012 is subject to the following conditions:

- a) Preparation of a transparent unbundling of the EAC accounts on the basis of the regulated activities and its submission to CERA by 31.7.2011 for approval.
- b) Rationalisation of the Organisational Structure of the Electricity Authority of Cyprus with a view to increasing productivity and substantially reducing costs for consumers.
- c) Implementation of a compulsory programme for the substantial reduction of operational expenses, with emphasis on administration expenses which are apportioned to regulated activities as well as on the issues in respect of which the Electricity Authority of Cyprus undertook to make savings during its consultations with CERA on various occasions.
- d) Suspension of non-productive capital expenses.

- e) Carrying out of a detailed study by a specialised firm of consultants on the financial situation of the Electricity Authority of Cyprus in relation to its ten-year development plan and its submission to CERA by 31.7.2011.

Table 3 –Approved increase in EAC Tariffs by category

CONSUMER CATEGORY	TARIFFS	PRICE INCREASE (Fuel Price €309,78/MT)	
		As from 1.1.2011	As from 1.1.2012
Domestic	05,06,07,08	1,50%	1,50%
Small Commercial	15,16,17	1,50%	1,50%
Commercial above 70 kVA	60,61,62	1,50%	1,50%
Industrial above 70 kVA	70,71,72	0,50%	0,50%
Small Industrial	25,26,27	3,50%	3,50%
Industrial connected to Medium Voltage	73,74,75	3,50%	3,50%
Street Lighting	35	3,50%	3,50%
Pumping	41	3,50%	3,50%
Storage Heaters	55	3,50%	3,50%
Commercial connected to Medium Voltage- Large Commercial (i) Load Factor (LF) between 30 and 60% (ii) LF> 60%	63,64	0%	0%
	66*	-1,25% *	-1,25% *
		-1,75% *	-1,75% *
Large Industrial LF above 30%	76**	-1,25%**	-1,25%**
Connected to High Voltage	83	-3,00%	-3,00%

Notes:

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

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

Table 4 – Approved Increases in Fixed Charge in EAC Tariffs per category

CONSUMER CATEGORY	TARIFFS	Sub-category	Fixed Charge		
			Existing	Revised	
			2010	1.1.2011	1.1.2012
Domestic	5	0-120 kWh.	1,84	2,06	2,28
		121-320 kWh	1,90	2,12	2,35
		321-500 kWh	3,12	3,49	3,86
		501-1000 kWh	4,75	5,30	5,87
		>1001	5,98	6,68	7,39
	6		4,00	4,47	4,94
	7		4,00	4,47	4,94
	8	0-1000	1,30	1,32	1,34
		1001-2000	4,16	4,22	4,28
		>2001	5,20	5,28	5,36
Commercial	15	1Φ	3,93	4,59	5,27
		3Φ	4,71	5,50	6,31
	16		4,71	5,50	6,31
	17		4,71	5,50	6,31
Commercial above 70 kVA	60		53,14	62,03	71,18
	61		9,72	11,35	13,03
	62		11,66	13,60	15,61
Industrial above 70 kVA	70		46,19	53,91	61,85
	71		9,72	11,35	13,03
	72		11,66	13,60	15,61
Small Industrial	25	1Φ	3,60	4,29	5,02
		3Φ	4,33	5,16	6,04
	26		4,33	5,16	6,04
Industrial connected to Medium Voltage	27		4,33	5,16	6,04
	73		23,09	27,48	32,15
	74		125,12	148,92	174,24
Street Lighting	75		125,12	148,92	174,24
	35		4,07	4,84	5,67
Pumping	41		14,82	17,64	20,64
Storage Heaters	55		2,18	2,60	3,04
Commercial Connected to Medium Voltage	63		27,91	32,10	36,28
	64		143,89	165,47	187,05
Large Commercial	66		27,91	31,70	35,38
Large Industrial	76		23,09	26,22	29,27
Connected to High Voltage	83		23,79	26,67	29,40

CERA'S PARTICIPATION IN INTERNATIONAL BODIES FOR ENERGY ISSUES



The Council of European Energy Regulators (CEER) is a coordinating body to which the Energy Regulatory Authorities of the Members States of the EU and of other European countries take part.

The basic aim of this Council is the promotion and development of a healthy competitive market in Electricity and Natural Gas through appropriate and efficient mechanisms. All the Regulatory Authorities cooperate via this Council for the establishment of a common policy on matters of Electrical Energy and Natural Gas and advise the European Commission on these matters.

The Council meets at regular intervals, usually in Brussels. Cyprus is represented by the Chairman of CERA. During 2010 CERA participated in the 60th, 62nd, 63rd, 64th and 68th General Assembly of CEER.



The European Regulators Group for Electricity and Gas (EREGG) acts as an advisory Group to the European Commission in consolidating the internal market for electricity and gas. Its members are the heads of the national energy regulatory authorities from the 27 EU Member States. The European Commission is represented at a high level at the meetings of the

EREGG and also provides the Secretariat to EREGG.

EREGG was set up on 11.11.2003 by European Commission Decision 2003/796 to "give regulatory cooperation and coordination a more formal status, in order to facilitate the completion of the internal energy market" and ensure a consistent application of the new legal framework in all EU member states.

It should be noted that the European Regulators Group meets at regular intervals usually in Brussels. Cyprus is represented by the Chairman of CERA. During 2010 Cyprus participated in the 28th, the 29th and the 31st Assembly of EREGG. It is expected that, following a transitional period, EREGG will be fully replaced by ACER.

Agency for the Cooperation of Energy Regulators (ACER)



The Agency for Cooperation of Energy Regulators is a community body with legal personality which was established on the basis of the provisions of Regulation EC 713/2009 of the European Parliament and of the Council of 13 July 2009 on the establishment of an Agency for the Cooperation of Energy Regulators.

The task of the Agency is to coordinate the activities of regulatory authorities concerning the common rules for the internal electricity market and Article 39 of Directive 2009/73/EC of the European Parliament and the Council of 13 July 2009, on the common rules for the internal market of natural gas, in the exercise at Community level of their regulatory functions in the Member States. It will advise the EU Commission so as to take binding decisions on the Member States. It will intervene with recommendations to solve problems between regulatory authorities and will contribute to the creation of common European codes.

The Agency will fill the regulatory framework gap at Community level and will contribute towards the effective functioning of the internal markets in electricity and natural gas. The Agency would also enable national regulatory authorities to enhance their cooperation at Community level and participate, on a mutual basis, in the exercise of Community-related functions.

ACER comprises an Administrative Board, a Board of Regulators, a Director and a Board of Appeal.

Cyprus is represented by the Chairman of CERA at the Board of Regulators. The first Board of Regulators was convened in Brussels between 3 and 6.5.2010 and the second in Florence on 12.6.2010. In both meetings CERA was represented by its Chairman.

The Energy Community Regulatory Board was established on 1.7.2006 by virtue of the Energy Community Treaty entered into by the European Union and the countries of Southeast Europe.



By the terms of the Treaty, any Member State of the EU may be represented in the Ministerial Council, the Permanent High Level Group and the Regulatory Board and participate

in the discussions of these Bodies/ Fora.

Cyprus is represented by the Chairman of CERA

During 2010 CERA participated in the 16th Congress on Electricity issues held in Athens.



The International Energy Regulation Network (IERN) is a web platform aimed at facilitating information exchange and analysis of market rules for electricity and natural gas for the benefit of regulators, and other interested users.



The Mediterranean Working Group on Electricity and Natural Gas Regulation MEDREG was established in May 2006 as a Working Group and is currently a non-profit organisation under Italian Law that was published in Rome in November 2007. Non-Profit Organisation MEDREG is

supported by the European Union. The main purpose of MEDREG is to promote a stable and harmonised regulatory framework in the Euro-Mediterranean Energy Market, leading to the provision of maximum benefits to energy consumers in both regions, respectively. This requires continuous cooperation and information exchange between MEDREG Members, creating in this way the basis for further discussion and elaboration of different regulatory frameworks.

CERA participated in the 9th General Assembly of MEDREG which was held between 27 and 29.5.2010 in Malta.

INTERNATIONAL AND LOCAL ACTIVITIES

INTERNATIONAL ACTIVITIES

Second Meeting of the Technical Committee on Natural Gas – 24.3.2010

The 2nd Meeting of the Technical Committee on Natural Gas was held in Brussels on 24.3.2010. An exhaustive discussion was made the meeting on the application of the provisions of Regulations 1755/2005 and 715/2009 and particularly the guidelines on transparency. CERA was represented by a competent officer.

Participation in European Programmes

The Cyprus Energy Regulatory Authority (CERA) acts and operates in the framework of the basic strategic aims of the energy policy and the provisions of the existing legislation attaching emphasis on, amongst others, the encouragement of the efficient use of energy and energy saving measures, to the promotion of the use of RES and the encouragement of research and development in energy matters.

To this end CERA encourages international co-operation within the framework of European Programmes concerning the Energy Sector, in order to promote its activities and to meet its obligations under the legal framework.

More specifically CERA during 2010 completed successfully a project with the acronym “STORIES”, which was financed by the “Intelligent Energy for Europe” project.



stories

“STORIES” - Addressing regulations for Storage Technologies for Increasing the Penetration of Intermittent Energy Sources.

The main objective of the project STORIES is to arrive at specific proposals for the modification of policy and regulatory direction regarding installation of RES in island networks, as well as to promote energy

storage technologies and increase RES penetration in islands.

The main objectives are: To address electrical grid access and stability issues related to the low penetration of RES in islands. Also to study the economic parameters, e.g. the cost of conventional power systems in comparison to hybrid RES-energy storage power systems. Through various studies and their results it aims at engaging local key market actors in the implementation of RES electricity installations in remote or secluded regions.

The total duration of the Project was two years (1.11.2007-30.4.2010) and there were ten participants from various countries such as Spain, Italy, Croatia, England, Portugal, Greece and Cyprus. STORIES was supported by the “Intelligent Energy- Europe Programme” of the EU Commission.

On 25 and 26 March 2010, the Final Congress on the Project was held with great success in Estonia, Portugal. During the Congress the overall results of the project were presented and the question of possible future cooperation was discussed.

Participation in European Training Programmes



Tariff”

On 2 November 2010 a CERA officer attended a four day training course organised in Hungary by ERRA – “The Energy Regulators Regional Association- on the subject: “Advanced Training Course: Price Regulation &

ERRA’s main objective is to increase the exchange of information and experience among its members and to expand access to energy regulatory experience around the world.

The course was attended by 51 representatives of various organisations around the world, such as regulatory authorities, private electricity generation/ supply firms, owners of transmission and distribution systems and others.

The aim of the Course was to equip students with the core concepts, objectives and techniques of designing and evaluating rate structures in the energy sector which guarantee fair rate of return for the regulated companies as well as increase their productivity and efficiency.

In addition to the formal presentations, the course featured group exercises and simulations.

It should be noted that at the end of the programme the representative of CERA came first in a multiple choice test and both he and CERA were congratulated by the Organiser.

LOCAL ACTIVITIES

Annual Report 2009

On 25th August 2010 the Members of the Cyprus Energy Regulatory Authority presented to the President of the Republic Mr. Demetris Christofias the Annual Report of CERA for 2009.

During the meeting the Members of CERA briefed the President on the basic issues Cyprus is facing in the energy sector, such as the arrival of Natural Gas, the integration of Renewable Energy Sources to the electricity market, the protection of consumers, the adequacy and security of supply as well as the question of the gradual liberalisation of the electricity market through the inclusion of new producers into the system.

The President of the Republic expressed his full support for the work performed by CERA and made suggestions about the way the Authority may continue to fulfil the task entrusted to it by the state.

Informing the Mass Media

After the meeting, CERA Chairman Mr. George Shammas, referring to the Annual Report of the Authority, informed journalists about the basic activities of the Authority during 2009 and about the National Action Plan which was submitted to the European Union by the Ministry of Commerce, Industry and Tourism on attaining the target for 2020 and which envisages a 16% penetration of renewable energy sources to total consumption. On the question of natural gas, the Chairman clarified that "other competent authorities are dealing with this question". "We are not involved in the negotiation procedures, but as supervisory authority, CERA has a role to play in questions of transparency, consumer protection, adequacy and security of supply and will exercise its role in accordance with the legislation in force".

CERA Communication with organised entities

CERA meetings with Parliamentary Parties

The members of the Cyprus Regulatory Authority, on taking up their duties held a series of meetings with all parliamentary parties in an effort to inform them about a number of important issues in the sector of energy.

Among the issues discussed at these meetings were the competencies, the responsibilities and the role of CERA in energy questions, the operation of the electricity market as it is today, the harmonisation of the Legislation with the Third Energy Package of the EU, the arrival of Natural Gas in Cyprus and the challenges faced in the penetration of Renewable Energy Sources in electricity generation.

CERA meetings with Organised Entities

In the context of exchanging views with public and private sector stakeholder organisations in the field of energy, CERA held a series of meeting with them.

Some of the meetings held by CERA during 2010 included meetings with the Minister of Commerce, Industry and Tourism and the Permanent Secretary of the Ministry, Ambassadors, the Cyprus Chamber of Commerce and Industry, the Organisation of Employers and Industrialists, the Commissioner for State Aid Control, the Cyprus Energy Agency, the Pancyprrian Organisation of Families with Many Children, the Cyprus Consumers' Union, the Water Development Department, the Board of the Electricity Authority of Cyprus, DEFA, the EAC Trade Unions, the Natural Gas Public Company (DEFA), the Cyprus Association for the promotion of Renewable Energy Sources, the Cyprus Wind Energy Association, the Cyprus Biomass Producers Association and applicants and licence holders of generation stations.



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nd Presentations by the Chairman of CERA

On many occasions, the Chairman of CERA was invited by various organisations to present energy related issues or address Seminars. Some examples are the address made at the Conference on "Association for the Cogeneration of Heat and Power" in Cyprus" (25.5.2010), the address at the laying of the foundation stone of the Wind Farm of Rokas Aeoliki at Ayia Anna (17.11.2010) and the opening ceremony of the "model" photovoltaic park of the Pachni Services Ltd (5.11.2010). The Chairman spoke on the subject "The Cyprus Energy Regulatory Authority: Strategic Targets for the Development of the Cyprus Electricity Market" as a guest speaker at the MedPower 2010 International Conference (8-10 November 2010).

On 11 November the Chairman presented the topic: "Energy Challenges for Cyprus" in the framework of a public discussion organised by the Technological University of Cyprus and the "ΣΕΠΑΗΚ" trade union of the EAC. He expounded the subject by presenting the European policy on the subject and the historic evolution of the liberalisation of the Energy Markets, Cyprus' harmonisation with the European policy and competencies, CERA powers and functions as well as its responsibilities in the field of electricity and natural gas. In the conclusions, he stressed the need for the creation of a market model which will ensure a stable investment climate so that the investments and the harmonious operation of the market work for the benefit of consumers, the need for transparency in the fixing of tariffs and charges for the use of the network, coupled with sensitivity for the needs of consumers and especially the vulnerable groups as well as the use of innovative energy services.

The Chairman always stresses the emphasis given by CERA to the use of Renewable Energy Sources and the taking of measures to implement the goals of the state.

Participation in Informative Activities

Seminar on the Subject of Autonomous and Interconnected Photovoltaic Systems

An officer of CERA represented the Authority to a seminar organised by Conergy Ltd, under the auspices of the Cyprus Employers and Industrialists Federation, and the Cyprus Association for the promotion of Renewable Energy Sources on 15-16 April 2010 in Limassol on the subject "Autonomous and Interconnected Photovoltaic systems".

Training Programme of the Technical and Scientific Chamber Training Centre

A training programme organised by the Technical and Scientific Chamber Training Centre on “Analysis of Photovoltaic and Thermal- Solar Systems in Electricity Generation” was held on 24.4.2010 in Nicosia.



The aim of the programme was to introduce participants to the basic principles of analysing photovoltaic and thermal-solar systems in electricity generation. Special emphasis was given to the techno-economic analysis of these systems.

The targets of the programme included the familiarisation of participants with the policy of the European Union on future energy programmes and an analysis of alternative energy sources, the familiarisation with dispersed production technologies, renewable energy sources, the EU environmental legislation and the hydrogen economy. Furthermore, they included an introduction to the basic principles of technical, financial and environmental analysis, with emphasis on photovoltaic and thermal-solar systems for electricity generation, as well as comparison of production cost as a result of the use of photovoltaic and thermal-solar systems for electricity generation with the cost of the existing generation system of the Electricity Authority of Cyprus.

CERA was represented by competent officers of the Authority.

Workshop on the Cogeneration of Heat and Power in Cyprus

The Cyprus Energy Regulatory Authority in cooperation with the Greek Association of Cogeneration of Heat and Power and the support of the Electricity Authority of Cyprus and the Cyprus Energy Agency organised a workshop on 25.5.2010 on Cogeneration of Heat and Power in Cyprus at the EAC Head Offices.

The Chairman and the Members of CERA, the Commissioner for the Environment, Members of the Board and representatives of EAC , the President and the Members of the Board of the Hellenic Association for the Cogeneration of Heat and Power, the Cyprus Energy Agency, representatives of the Ministry of Commerce, Industry and Tourism, the Ministry of Agriculture, the Ministry of Education, the Transmission System Operator, the Greek National Polytechnic, the University of Cyprus, the Technological University of Cyprus, the Cyprus Association of RES Companies and the Association of Mechanical Engineers, the Association of Chemical Engineers, the Cyprus Institute, several consultancy/ advisory firms as well as Electricity producers from Biomass/ Biogas, who represent the practical application of cases of Cogeneration of Heat and Power in Cyprus attended the workshop.

In the context of the workshop, participants were informed about the practices followed in other countries, as well as about support mechanisms and the progress made so far in this field. At the end of the workshop, a discussion was held aiming at drawing useful conclusions on the future of Cogeneration of Heat and Power in Cyprus and at first sight it emerged that the capacity of biomass as regards animal and industrial waste has already been covered by the cogeneration units from biomass/biogas stations licensed by CERA.

Consequently, the future of Cogeneration of Heat and Power lies in the utilisation of the technical capacity from EAC power plants, from the industry and the tertiary sector. Furthermore, it emerged that the utilisation of the technical capacity of Cogeneration of Heat and Power from the Sanitary Burial of Waste Parks should be studied more thoroughly. At the same time other means will have to found (such as a possible teleheating of nearby communities) for the utilisation of unused thermal load created at biomass stations during the winter months and in addition means for the utilisation of unused thermal load created at biomass stations during the summer months.

Informative Meeting on the Electricity Market and the RES



On 30.6.2010 the Technical Schools Alumni Association, with the support of CERA, organised a meeting in a Limassol hotel which aimed informing the public on questions relating to the electricity market and particularly the renewable energy sources. CERA Member Mr. K. Kyprianides addressed the meeting.

Informative Meeting – Financing Opportunities from European Programmes

On 20.10.2010 the Planning Bureau in cooperation with the Deloitte Firm organised a meeting in a Nicosia hotel in an effort to educate the public on Financing Opportunities from current European Projects. CERA was invited to present to the public as an example of a Successful Proposal the project with the acronym EXPLORER.

CERA Presentation at the Department of Economics of the University of Cyprus



On 2.12.2010 the annual presentation of CERA to the students of the Economics Department of the University of Cyprus was held. During the presentation, a discussion took place on the broader regulatory policy and practice in the energy sector both at the level of the European Union and at the national level.

LICENSING OF ELECTRICITY GENERATION

DETAILS OF APPLICATIONS AND LICENCED ELECTRICITY GENERATION

Conventional Generating Stations

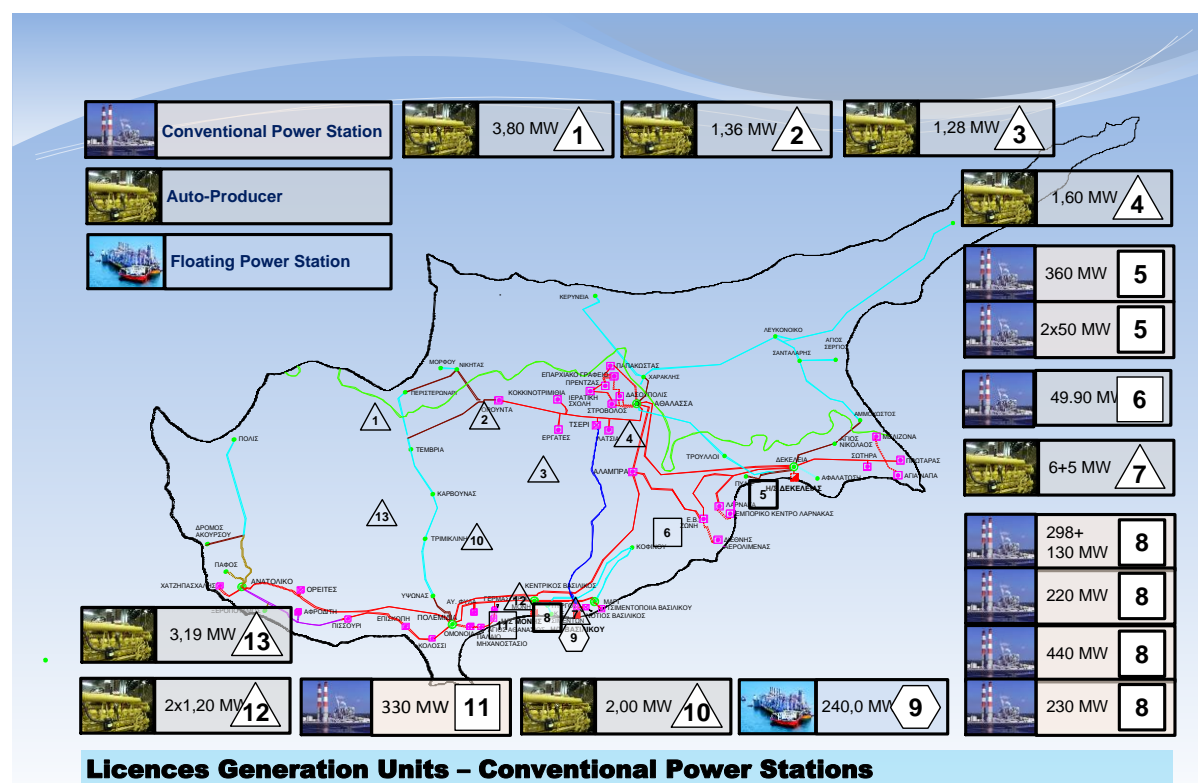
Since the establishment of CERA and until the end of 2010, a total of twenty-three (23) licences for the construction of Conventional Generating Stations were issued.

Of these, by a CERA decision, one such licence of a generating capacity of 230MW has been revoked.

Today the total Capacity Licenced by CERA for Generating Stations is 2.424,5MW in twenty-two licences, nine of which of a capacity of 1.878 MW belong to the Electricity Authority of Cyprus (EAC), ten of a capacity of 26,6 MW belong to own producers and the remaining three, of a capacity of 519,9MW belong to independent producers.

Until the 31th December 2010 there has been no pending application.

Presentation and Geographical Distribution of Licences for Conventional Generating Stations



Photovoltaic Systems

At the end of 2010, the total number of applications submitted to CERA for the Construction of Photovoltaic Systems, with a total capacity of 35,4MW, was two hundred and four. Five applications representing a total capacity of 12,5MW were rejected.

Of those, one hundred and fifty seven licences, of a total capacity of 18,0MW, were issued and forty-two applications, representing a total capacity of 4,8MW, were under consideration by CERA. Photovoltaic units having a capacity under 20kW are not included in these figures, as they are exempted from a licence.

Solar-Thermal stations

In all eight applications, with a capacity of 175 MW, were submitted to CERA. Two licences, with a capacity of 25 MW were granted, while five applications of a total capacity of 100 MW, have been rejected.

Until 31st December one application of 50 MW capacity was under consideration.

Wind Farms

By the end of 2010, a total of fifty applications for the Construction of Wind Farms have been submitted to CERA. Thirty two applications for the Construction of Wind Farms have been granted.

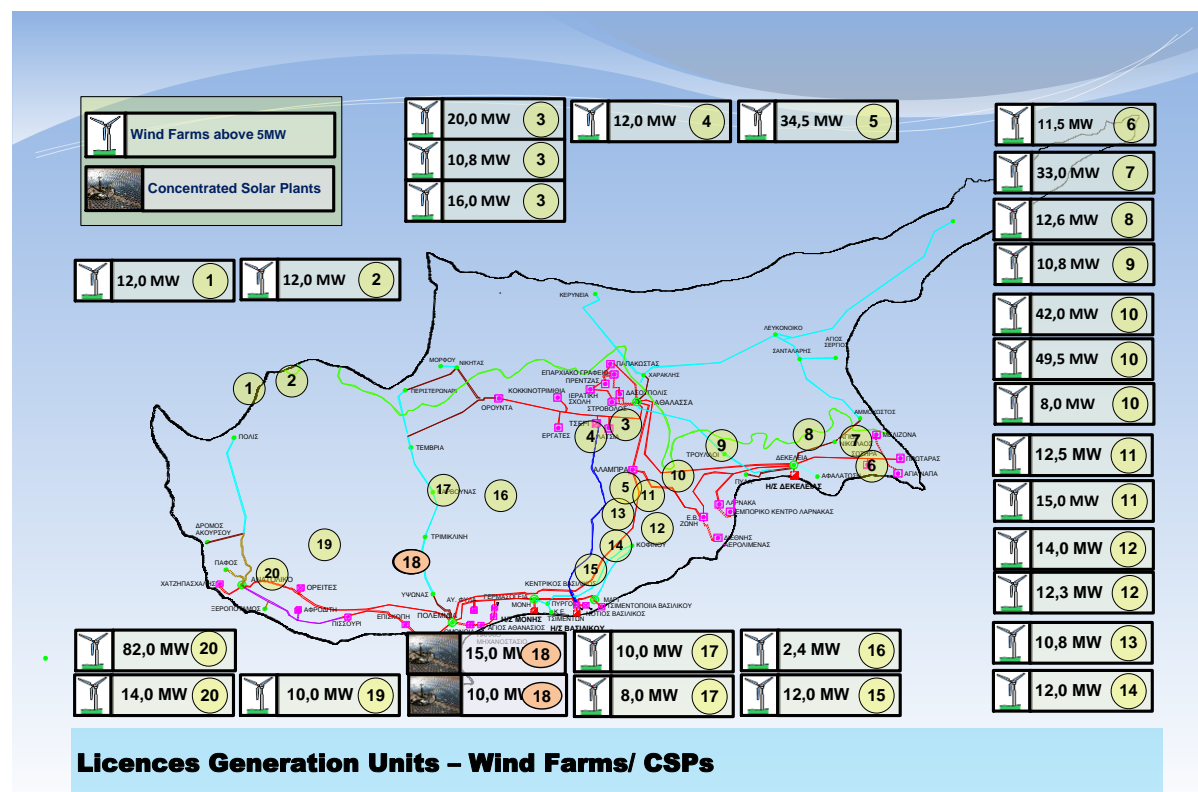
Of those, five licences of a total capacity of 138,0 MW (53,8 MW in Phase (1) have been revoked by CERA decisions. Also fourteen applications of a capacity of 315,4 MW for the Construction of Wind Farms for Electricity Generation have been rejected.

By the end of 2010, the total capacity licenced by CERA for implementation in the first phase was 503,9 MW, and if approved by CERA, an additional capacity of 492,1 MW in the second phase. These figures do not include Wind Farms with a capacity below 30 kW as these are exempted from a licence by CERA.

In the year under review CERA granted two licences of a total capacity of 23,4 MW (12,6 MW and 10,8 MW) and two exemptions from a licence of a total capacity of 4,2 MW (4,0 MW and 0,2 MW).

Until the 31rd December four applications for the construction of wind farms of a total capacity of 60 MW were under consideration, of which two applications (8,5 MW) were for licence exemption

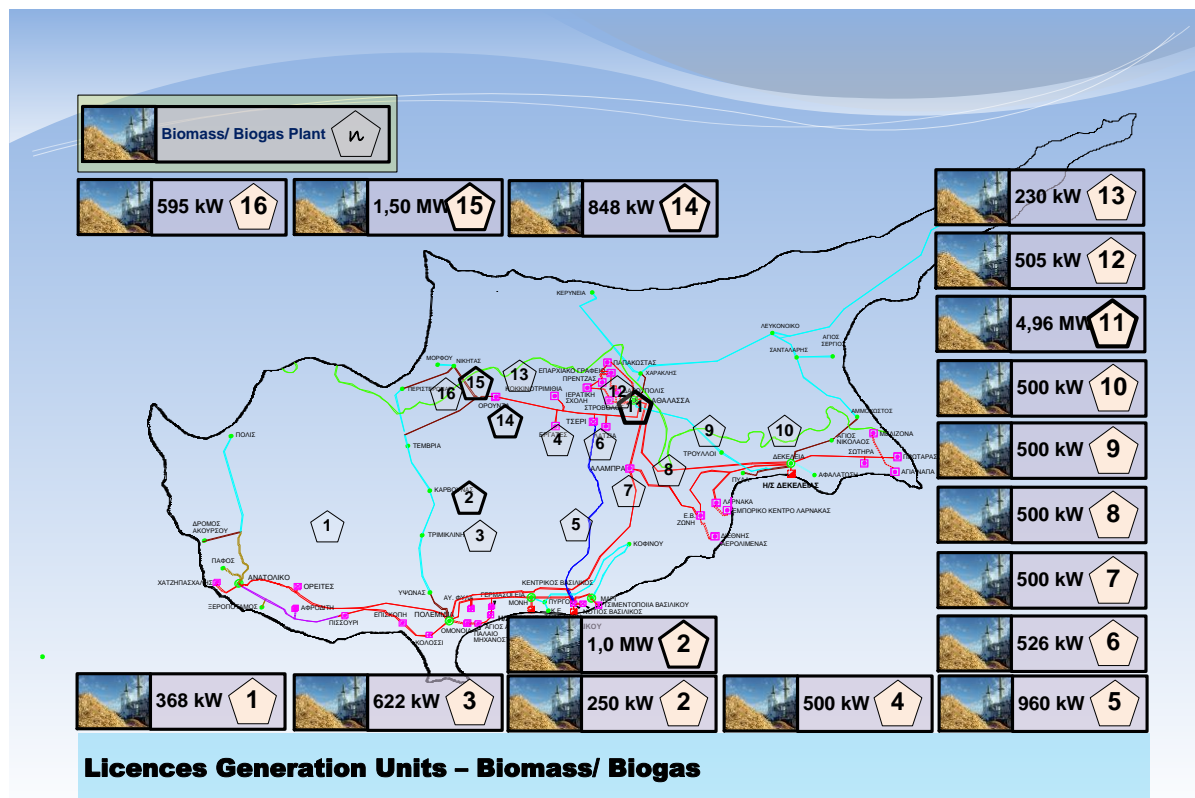
Presentation and Geographical Distribution of Licences for Wind Farms and Solar-Thermal Stations



Biomass/Biogas

CERA has issued seventeen licences for the Construction of Generating Stations from Biomass/ Biogas, of a total capacity of 14,6MW and is examining another two applications of a total capacity of 3,2MW. In addition to the above, two licences of a total capacity of 1,0MW have been revoked and one application of a capacity 5,0MW has been rejected.

Presentation and Geographical Distribution of Licences for Biogas/ Biomass Stations



Hydroelectric Stations

Two applications of a total capacity of 330 kW were submitted to CERA.

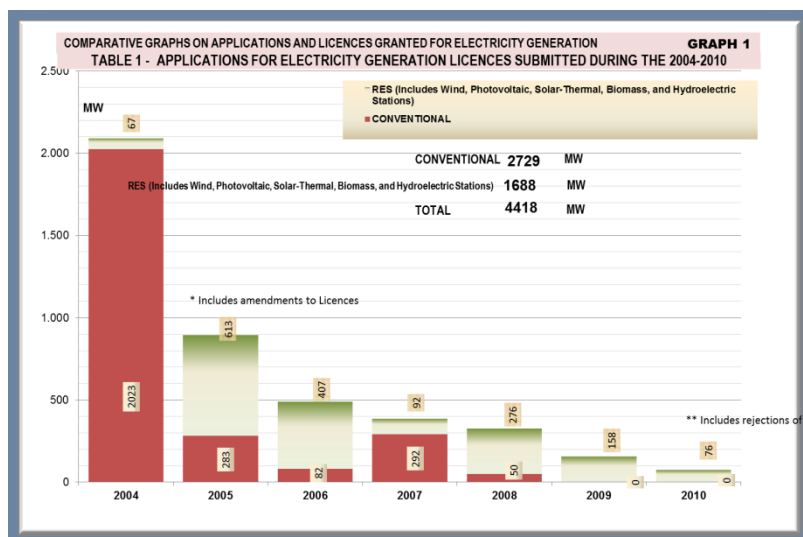
REGISTRY OF APPLICATIONS FOR A LICENCE AND LICENCES GRANTED

All the lists of Applications for a Licence as well as of Licences granted are recorded in CERA website:
<http://www.cera.org.cy>.

COMPARATIVE GRAPHS ON APPLICATIONS AND LICENCES GRANTED FOR ELECTRICITY GENERATION

Applications

GRAPH 1 Applications for Electricity Generation Licences Submitted in the 2004-2010 Period



COMPARATIVE GRAPHS ON APPLICATIONS AND LICENCES GRANTED FOR ELECTRICITY GENERATION

TABLE 1 - APPLICATIONS FOR ELECTRICITY GENERATION LICENCES SUBMITTED DURING THE 2004-2010 PERIOD

	CAPACITY MW	
	CONVENTIONAL	RES (Includes Wind, Photovoltaic, Solar-Thermal, Biomass, and Hydroelectric)
2004	2023	67
2005	283*	613*
2006	82*	407*
2007	292	92
2008	50	276
2009	0	158
2010	0	76
TOTAL	2729	1688

* Includes amendments to Licences

** Includes rejections of Licences.

GRAPH 2 Applications for Electricity Generation Licences Submitted During the 2004-2010 Period by EAC and Other Producers

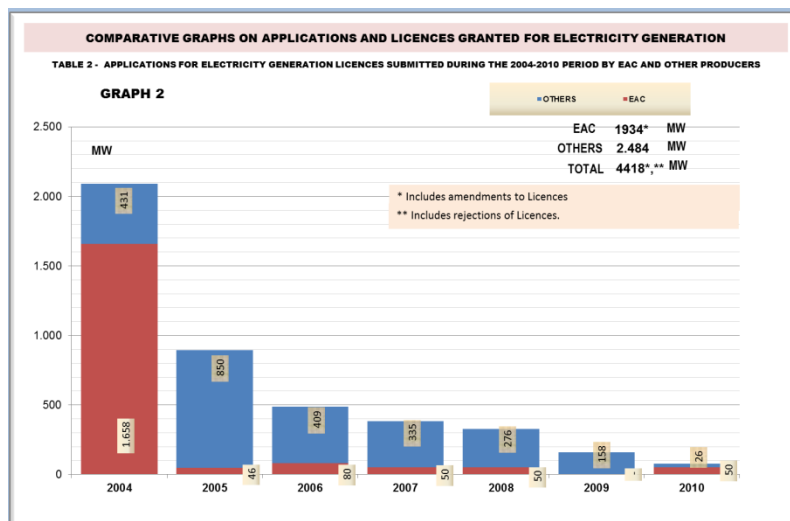


TABLE 2 - APPLICATIONS FOR ELECTRICITY GENERATION LICENCES SUBMITTED DURING THE 2004-2010 PERIOD BY EAC AND OTHER PRODUCERS

	CAPACITY MW	
	EAC	OTHERS
2004	1658	431
2005	46*	850*
2006	80*	409*
2007	50	335
2008	50	276
2009	-	158
2010	50*	26
TOTAL	1934*	2484

* Includes amendments to Licences

** Includes rejections of Licences.

Licences

GRAPH 3 Total Licenced Capacity on 31.12.2010

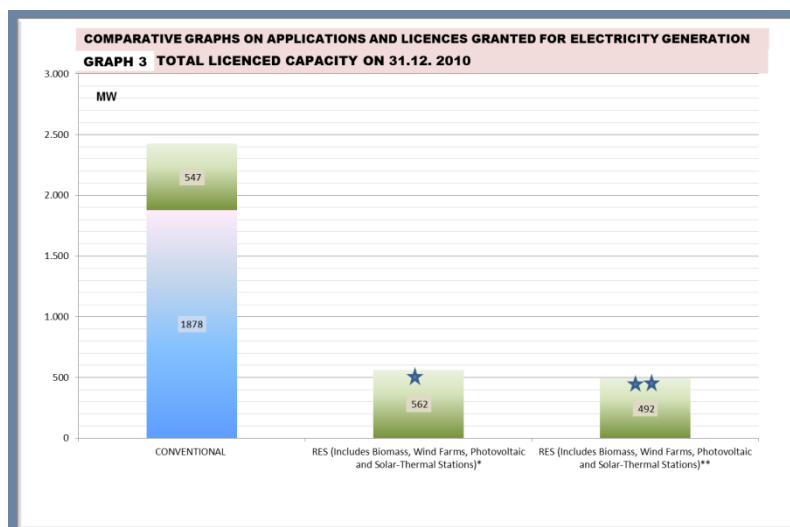


TABLE 3 - TOTAL LICENCED CAPACITY ON 31.12. 2010

	CAPACITY MW		
	EAC	OTHERS	TOTAL
CONVENTIONAL	1878***	547	2425 ***
RES (Includes Biomass, Wind Farms, Photovoltaic and Solar-Thermal Stations)*	0 *	562 *	562 *
	0 **	492 **	492 **
CONVENTIONAL TOTAL	1878 ***	1601 ***	3479 ***

* For immediate installation – Phase A'

** For Future Installation (if approved by CERA) – Phase B'

*** Includes Revocations and Amendments of Licences

GRAPH 4 Proportions of Electricity Generation from Conventional Units and RES for the Period 1.5.2004-31.12.2010

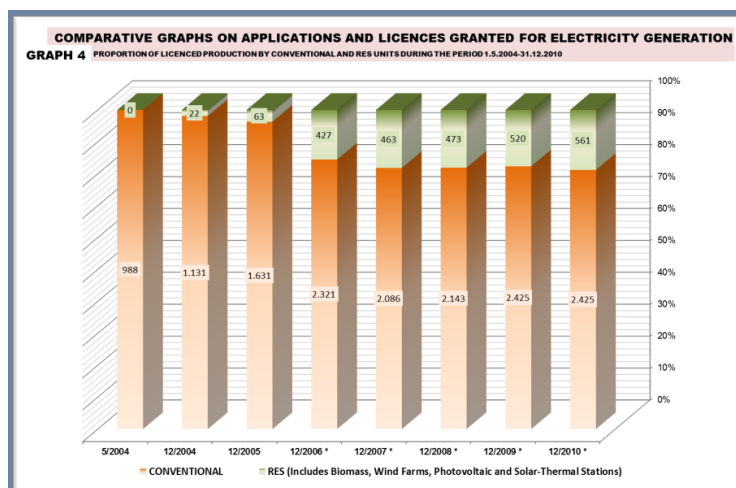


TABLE 4 - PROPORTION OF LICENCED PRODUCTION BY CONVENTIONAL AND RES UNITS DURING THE PERIOD 1.5.2004-31.12.2010

	CAPACITY MW		
	RES	CONVENTIONAL	TOTAL
5/ 2004	0	988	988
12/ 2004	22	1.131	1.153
12/ 2005	63	1.631	1.694
12/ 2006 *	427*	2321	2.748*
12/ 2006 **	412**		412**
12/ 2007 *	463*	2086	2.549*
12/ 2007 **	401**		401**
12/ 2008 *	473*	2143	2.617*
12/ 2008 **	370**		370**
12/ 2009 *	520*	2425	2.945*
12/ 2009 **	395**		395**
12/ 2010 *	561*	2425	2.986*
12/ 2010 **	492**		492**

* For immediate installation – Phase A'

** For Future Installation (if approved by CERA) – Phase B'

Note: Includes Revocations and Amendments of Licences

GRAPH 5 Proportions of EAC Licenced Capacity for the Period 1.5.2004-31.12.2010 for Immediate Installation

COMPARATIVE GRAPHS ON APPLICATIONS AND LICENCES GRANTED FOR ELECTRICITY GENERATION
GRAPH 5 - EAC PROPORTION IN TOTAL LICENCED CAPACITY FOR THE PERIOD 1.5.2004-31.12.2010 FOR IMMEDIATE INSTALLATION

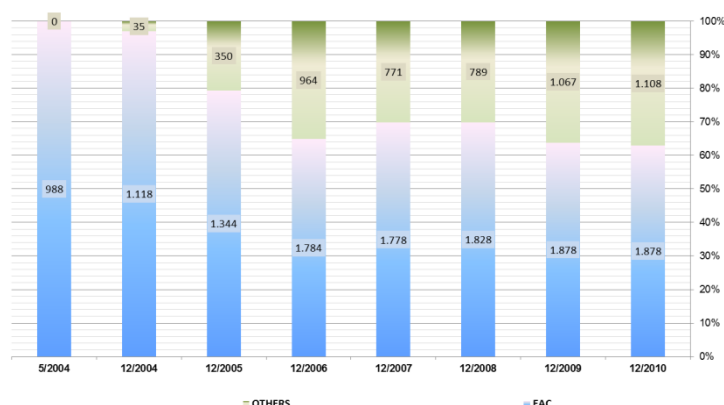


TABLE 5 - EAC PROPORTION IN TOTAL LICENCED CAPACITY FOR THE PERIOD 1.5.2004-31.12.2010 FOR IMMEDIATE INSTALLATION

	CAPACITY MW		
	EAC	OTHERS	TOTAL
5/2004	988	0	988
12/2004	1.118	35	1.153
12/2005	1.344	350	1.694
12/2006	1.784	964	2.748
12/2007	1.778	771	2.549
12/2008	1.828	789	2.617
12/2009	1.878	1.067	2.945
12/2010	1.878	1.108	2.986

EXEMPTIONS FROM A CONSTRUCTION AND OPERATING LICENCE OF A POWER PRODUCTION UNIT

CERA, by means of continuous and persistent efforts, through announcements on its website and continuing the efforts of previous years, managed to inform interested parties that it is necessary to obtain for all installations for the production of electricity a Licence or an Exemption from a Licence by CERA.

Units Generating Using Conventional Fuel

During 2010 the submission of applications from Exemptions from a Licence as well as the granting of Exemptions from a Licence continued as shown in Table 5

NUMBER OF APPLICATIONS FOR GENERATORS		EXEMPTIONS FROM LICENCE FOR GENERATORS		NUMBER OF GENERATORS		TOTAL LICENCED CAPACITY OF GENERATORS (MW)
2010	TOTAL	2010	TOTAL	2010	TOTAL	
29	323	39	300	46	495	91

TABLE 5 – Licenced Generators

Units Generating from Renewable Energy Sources

The Cyprus Energy Regulatory Authority, after the issuing of an information bulletin on the procedure for an Exemption from a Licence for a generating station with the use of photovoltaic panels, continued to exert intense efforts towards all the competent agencies and services, in order to remove unnecessary obstacles and promote a simpler and easy to use procedures, so as to avoid bureaucracy, in order to expedite applications and complete at the shortest possible time.

Subsequently, in line with the Law on Regulating the Electricity Market of 2003 to 2008 and in view of the formulation of a binding National Action Plan on the penetration of Renewable Energy Sources by 2020, which the Republic of Cyprus should have submitted by 30.6.2010, decided that as from 22.3.2010 and until further notice, suspend receiving applications for the installation of electricity generating units from Renewable Energy Sources.



This decision was deemed necessary in order to allow the rational planning of the penetration of electricity generating units employing Renewable Energy Sources for achieving the targets set by the European Union for 2020 and ensuring a viable, efficient and secure operation of the Energy Market.

At a later stage, the Cyprus Energy Regulatory Authority, taking into account the new National Action Plan on Renewable Energy Sources and also Article 35 of the Law

on Regulating the Electricity Market, issued a decision on the handling of the existing applications for Photovoltaic Systems (CERA decision 463/2010).

During the year under review, two Exemptions from a Licence for Wind Farms of a total capacity of 4,2 MW (4,0 MW and 0,2 MW) were issued by CERA. Also one hundred and sixteen Exemptions from a Licence for the Construction of Photovoltaic Parks, corresponding to 12,8 MW were issued. More specifically, 10,9 MW correspond to applications for the installation of photovoltaic systems on the roofs of buildings.

Table 6, shows the situation of applications /licences of Photovoltaic Systems during 2010.

NUMBER OF PHOTOVOLTAIC PARKS		EXEMPTIONS FROM LICENCE FOR PHOTOVOLTAIC PARKS		TOTAL LICENCED CAPACITY OF PHOTOVOLTAIC PARKS (MW)
2010	TOTAL	2010	TOTAL	
127	204	116	157	18

TABLE 6 – Licenced Installations of Photovoltaic Systems

Units Generating Using Biogas/ Biomass

Biogas production facilities not only provide the ability to utilise the energy potential of biogas, but also participate in the overall treatment of organic waste, solving the problem of waste management. Biogas production has interdependent environmental, economic and agricultural benefits.

The Combined Production of Heat and Power from biogas, licenced by CERA and put into operation, use for the production of biogas municipal waste, animal waste, slaughterhouse and pig-farm waste as well as other organic waste. The biogas product burns in Internal Combustion Engines (ICE) and generates electricity from the generator as well as heat.

Table 7 shows the number of applications submitted to CERA, the total licenced capacity and the installed capacity of the combined production of heat and power units from biomass/ biogas.

NUMBER OF APPLICATIONS FOR BIOGAS/ BIOMASS GENERATION		TOTAL LICENCED CAPACITY OF BIOGAS/ BIOMASS GENERATORS (MW)	TOTAL INSTALLED CAPACITY OF BIOGAS/ BIOMASS GENERATORS (MW)	
TOTAL	IN FORCE		2010	IN FORCE
22	17	14,6	0,7	7,8

Table 7 – Licenced Installations for Electricity Generation from Biogas/ Biomass





ELECTRICITY GENERATION INSTALLATIONS AND ELECTRICITY GENERATION DATA

INSTALLED CAPACITY OF POWER STATIONS AND CONSTRUCTION WORKS IN 2010

Installed Capacity and Construction Works in Conventional Generation Units

Installed Capacity of Conventional units in 2010

Electricity Authority of Cyprus Installations (1.438 MW)

- Moni Power Station (330 MW)
6 Steam Units of 30 MW nominal capacity each
4 Gas Turbines of 37,5 MW nominal capacity each
- Dhekelia Power Station (460 MW)
6 Steam units of 60 MW nominal capacity each
Internal Combustion Engines of 100 MW total nominal capacity
- Vassilikos Power Station (647 MW)
3 Steam Units of a nominal capacity of 130 MW each
1 Gas Turbine of a nominal capacity of 37,5 MW each
1 Combined Cycle Plant of a total nominal capacity of 220 MW (2x72,5 MW+75 MW)

Self-Producer Installations exceeding 1 MW (21,6 MW)

- Vassilikos Cement Works Power Plant
6 Internal Combustion Engines of a total nominal capacity of 11 MW
- Skouriotissa Mines Power Plant
Internal Combustion Engines of a total nominal capacity of 3,8 MW
- Farmakas Quarry Power Plant
Internal Combustion Engines of a total nominal capacity of 2,0 MW
- Vasa Gravel, Monagroulli Power Plant
Internal Combustion Engines of a total nominal capacity of 3,2 MW.
- Elmeni Quarry, Ayios Sozomenos Power Plant
Internal Combustion Engines of a total capacity of 1,6 MW.

Construction Works of Conventional Units in 2010

During the year under review the Combined No 5 Plant at the EAC at Vassilikos Power Station, of a total nominal capacity of 220 MW, was under construction. The combined cycle is expected to become operational in 2011.

Installed Capacity of Wind Potential and Construction Works

Installed Capacity of Wind Potential

The year 2010 can be regarded as a landmark year in the promotion of large scale Energy Projects from Renewable Energy Sources. Following the start of operation in the previous years, of small but important electricity generating units from Biogas, in 2010 important

strides were made in the penetration of Wind and Solar Energy in the electricity system of Cyprus.

Total Installed Capacity of Generating Stations using the wind energy potential interconnected with the electricity grid amounted to 82 MW in 2010. By the end of the year only the Wind Farm at Orites locality was operational and interconnected to the Grid. On 21 July 2010 the 41 wind turbines of the Wind Farm were gradually interconnected to the electricity Grid, following the necessary commissioning tests.

Construction Works of Wind Energy Potential during 2010

CONSTRUCTION AND OPERATION OF THE FIRST WIND FARM



In 2010 works for the installation of 41 wind turbines, of a total capacity of 82 MW, at the Orites Forest were completed, earlier than scheduled. In July commissioning testing of the first Wind Turbines started and continued gradually for all Wind Turbines until the end of November. The total output of the Wind Farm in 2010 amounted to 31.4 GWh. It should be noted that this output is not representative due to the gradual integration of the Turbines of the Wind Farm in the Transmission System.



A snapshot of the construction of a wind turbine at Orites

CONSTRUCTION WORKS IN THE OTHER THREE WIND FARMS

At the end of the year under review works started for the construction of the following three Wind Farms:

Snapshot of construction works for the Wind Park in the area of Ayia Anna-Psevdas-Koshi



- In the area of Tersephanou, Klavdia and Alethriko, construction is under way for the installation of twenty-three Wind Turbines of a total capacity of 34,5 MW.
- In the area of Ayia Anna-Psevdas-Koshi construction works are carried out for the installation of ten Wind Turbines of a total capacity of 20 MW.
- In the area of Kambi-Farmakas construction work is going on for the installation of three Wind Turbines of a total capacity of 2,4 MW

Furthermore, two Wind Park, of a total capacity of 21,6 MW have secured all the necessary licences and approvals and are expected to start soon construction works.

Installed Capacity of Solar Energy Potential and Construction Works

Investors' interest in the installation of Photovoltaic Systems for commercial purposes, of a 150kW maximum capacity, continued to be quite strong in 2010 too, exceeding the provisions of the grants scheme.

In 2010 the installation of Photovoltaic Systems on public buildings, schools and camps, of a total capacity 0,7 MW, was completed while work started for the installation of Photovoltaic Systems for commercial purposes, both on the ground and on the roofs of industrial and other buildings.

Total Installed Capacity, with the use of Photovoltaic Systems in 2010, amounted to 5,6MW produced by six-hundred and forty-seven Photovoltaic Systems for Electricity Generation. It should be noted that a number of additional systems of a total capacity of 0,7MW, which are not interconnected to the EAC Electricity Distribution Network, have been installed.

The first Photovoltaic system of a capacity of 4,8 kW was interconnected to the EAC network on 17.2.2005.



A rooftop installation of a Photovoltaic Park in Larnaca

Installed Capacity of Biogas/ Biomass Units and Construction Works



Generation Station with the Use of Biomass

During 2010 two Units for the Cogeneration of Heat and Power with the use of biogas produced from anaerobic digester process of animal waste at Marki and at Athienou and an electricity generation unit with the use of biomass in the area of Eptagonia of a total installed capacity of 1,2 MW.

The Total Installed Capacity of Generation Plants using Biomass/ Biogas for 2010, according to figures supplied by the Electricity Authority of Cyprus, amounted to 7,2MW, which was produced at ten Cogeneration of Heat and Power.

The first unit of a capacity of 250 kW was connected to the EAC grid on 10.12.2007



A Photovoltaic Park in Orounda

ANNUAL MAXIMUM POWER GENERATION AND TOTAL ENERGY GENERATION IN 2010 FORECASTS FOR THE DECADE 2011-2020

Electrical Energy Production in 2020

Maximum Power Generation in 2010

Maximum Total Power Generation (MW)

The maximum demand for 2010 was recorded on Tuesday 3 August at 14.10 hours, when Total Power Generation rose to **1.148 MW**.

This year's maximum demand compared with that of the previous year showed an increase by 4%. This increase is considered to be within the expected levels of annual increase.

Total electrical energy generated (GWh)

The following important data should be noted concerning the recorded Total Electrical Energy during 2010.

The total gross electrical energy generated reached 5.272.365 MWh.

EAC contributed with 5.204.879 MWh whilst self-producers with 34.152.MWh or 0,6 %. The recorded generation of RES producers was 62.958 MWh or 1,2 %.

The Generating Plants (EAC and Self-Producers) generated 269.382MWh or 5,2 % for their local needs.

Total units sent out to the Transmission System from EAC Power Stations, reached the level of 4.935.515 MWh.

Recorded energy losses in the Transmission System amounted to 87.235 MWh or 1,8 %.

Load Factor

The mean value of annual Load Factor (of EAC and the Independent producers) was further reduced to 52,0 %, compared with 53,4 % in 2009.

Total Energy Generation from Wind Farms (MWh) in 2010

The total Installed Capacity connected to the network in 2010 of Electrical Plants with the use of wind energy rose to 82 MW, with the annual recorded electricity generation by the end of the year reaching 33.286 MWh.

Total Energy Generation from Photovoltaic Systems (MWh) in 2010

The total Installed Capacity of Production Plants with the use of Photovoltaic Systems in 2010, which are connected to the Distribution Network, amounted to 5,6 MW from six hundred and forty-seven Photovoltaic Systems for electricity generation, with the annual recorded electricity generation amounting to 4.840 MWh. Fifty-five of these systems were connected in 2010 in Public Buildings, Schools and Army Camps,. (EU Structural Funds) generating 250 MW.

Total Energy Generated from Biogas/ Biomass Units (MWh) in 2010

The total Installed Capacity of Production Plants with the use of Biomass/ Biogas in 2010, according to data supplied by the Electricity Authority of Cyprus amounted to 7,2 MW from the ten Generating Stations of Cogeneration of Heat and Power (in respect of which twelve Construction and Operation Licences were issued). To this number a producer having a capacity of 0,6 MW who is not connected to the electricity grid should be added.

Total electricity production from Biomass/ Biogas which have been connected to the EAC Distribution System in 2010 increased by 25 % compared with 2009 and amounted to

24.802MWh. It should be noted that Total Electricity Generation was considerably higher due to consumption for the internal requirements of generating stations.

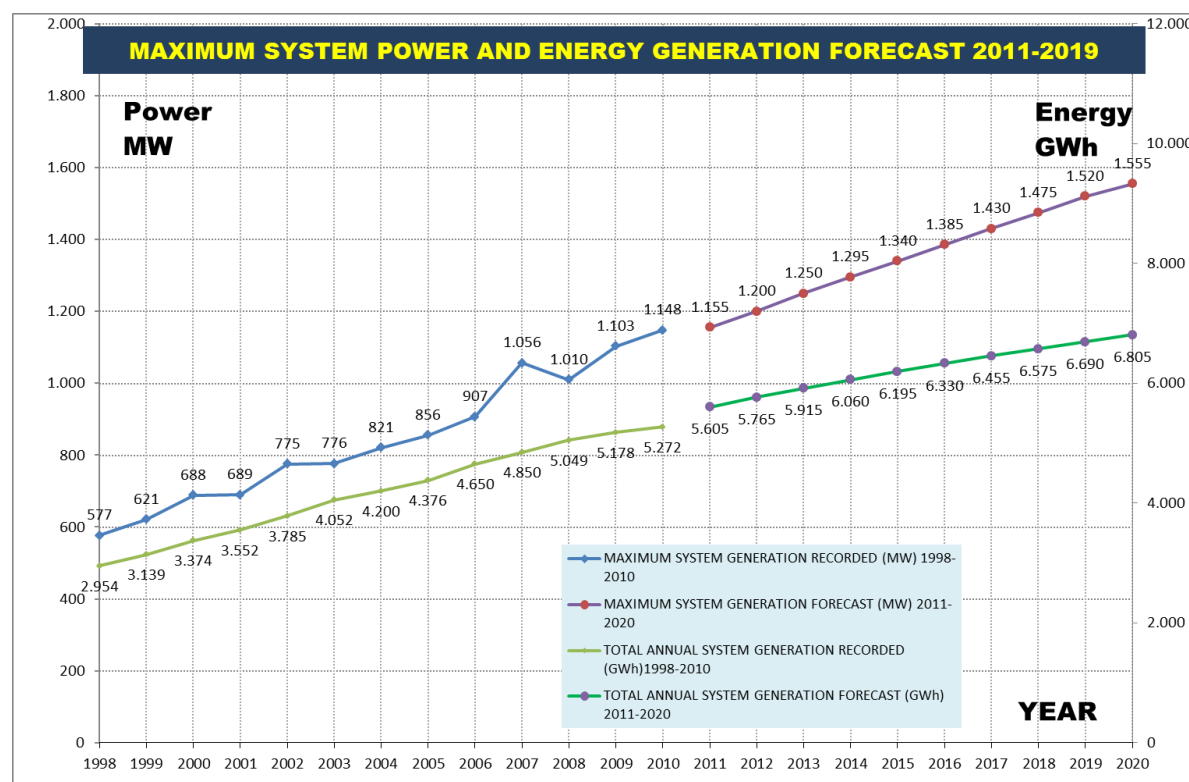
Comparative Data of Generation from Renewable Energy Sources

Renewable Energy Sources Technology	INSTALLED CAPACITY (MW)		ANNUAL ENERGY PRODUCTION (GWh)	
	2009	2010	2009	2010
Wind	0	82,0	0	33,3
Photovoltaic	2,7	5,6	3,0	4,8
Concentrated Solar- Thermal Power Plant using Parabolic Trough of six hour generation storage	0	0	0	0
Biomass/ Biogas	3,6	7,8	19,8	24,8
Total Electricity Generation from RES	6,3	95,4	22,8	62,9

Table 8 Comparative Data of Generation from Renewable Energy Sources

Table 8 shows the rapid increase in the installed capacity of generation installations from Renewable Energy Sources during 2010 and almost triple generation recorded in the year under review which was approximately 63 GWh.

Forecast of Annual Maximum Power Generation and Total Annual Energy Generated for the 2011-2020 Decade



Forecast of Annual Energy Generation from RES for the Period 2011-2012

It is forecasted that in the next two years energy generation from Renewable Energy Sources will increase substantially, as shown in the forecast of Table 9.

Renewable Energy Sources Technology	INSTALLED CAPACITY (MW)			ANNUAL ENERGY PRODUCTION (GWh)		
	2010	2011	2012	2010	2011	2012
Wind	82,0	137	161	33,3	160	190
Photovoltaic	16	25	4,8	15	20	16
Concentrated Solar- Thermal Power Plant using Parabolic Trough of six hour generation storage	0	0	0	0	0	0
Biomass/ Biogas	7,8	9	10	24,8	80	90
Total Electricity Generation from RES	95,4	162	196	62,9	255	300

Table 9 Recorded and Forecasted Generation from Renewable Energy Sources

Total generation from RES will be three times more the recorded generation in the year under review, with the substantial contribution from energy generated at wind farms and biogas/ biomass installations. Their contribution in electricity generation in 2010 was of the order of 1,2 % which is expected to rise to 5 % by the end of 2012, exceeding the targets of the period set in the National Action Plan.

ELECTRICAL ENERGY SUPPLY AVAILABILITY

Table 10 below shows the anticipated maximum demand and available production and reserve for the coming years up to 2016, in accordance with the studies of CERA and the EAC Development Programme. It should be noted that electricity generation from RES, because of its nature, cannot be included in the Power Capacity requirements, at least for the existing low levels and the size of the island.

Table 10- Available Generation Capacity and Reserve

MAXIMUM EEEECTRICITY DEMAND AND AVAILABLE PRODUCTION AND RESERVE													
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EAC Development Plan							+50MW (ICE II)	-60MW Απ όσυρη 2 Μονάδων Μονής + 150MW ΕΣΚ(Α) 5	-60 MW Decommissioning of 2 Units at Moni in cold reserve* + 70MW CCGT 5			-120MW Decommissioning of 4 Units at Moni on 31.12.2015 + 220MW CCGT 6**	
Installed Capacity in MW	988	988	988	1.118	1.318	1.388	1.438	1.528	1.598	1.598	1.598	1.818	1.698
Maximum Generation Demand in MW	820	856	904	1.041	991	1.103	1.105	1.155	1.200	1.250	1.295	1.340	1.385
EAC Development Plan	20,5%	15,4%	9,3%	7,4%	33,0%	25,8%	30,1%	32,3%	33,2%	27,8%	23,4%	35,7%	22,60%

ICE Internal Combustion Engines

CCGT (O) Combined Cycle Gas-Turbine Plant

CCGT (O) Open-Cycle CCGT

(*) Units in Cold Reserve are taken into account in calculating availability

(**) Inclusion of the new 220MW CCGT unit in 2015 will depend on the rate of increase of demand

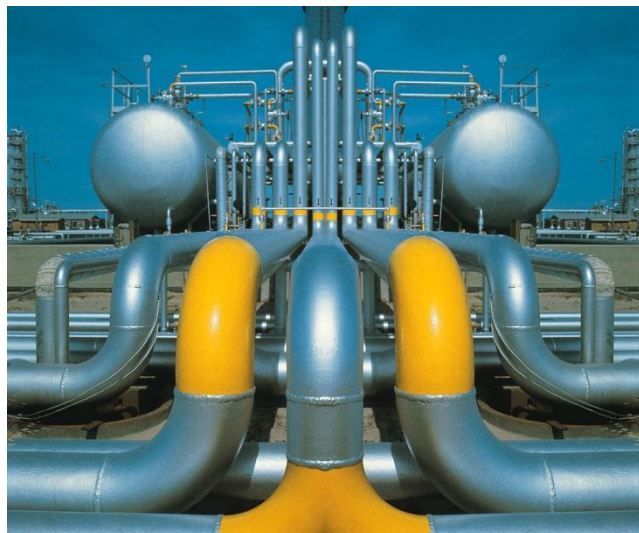
CERA in accordance with the Law on Regulating the Electricity Market has the responsibility for the adequacy of electricity supply in our country, the reliability and security of the Generation, Transmission and Distribution systems and the quality of electricity supply.

Table 10 shows the adequacy in electricity generation in the coming years. CERA systematically monitors the adequacy, quality and reliability of electricity supply and, whenever it observes any shortfalls it informs the Minister of Commerce, Industry and Tourism, who, in consultation with CERA and the TSO, takes all the indicated corrective measures.

According to the EAC Development Programme, which was studied and approved by CERA, the average citizen can feel safe on the question of the adequacy of electricity in the coming years.

INSTALLATIONS AND SUPPLY OF NATURAL GAS

INTRODUCTION



In accordance with the Law on Regulating the Natural Gas market of 2004-2007, CERA has, inter alia, the responsibilities and duties to:

- Protect the interests of the Natural Gas consumers.
- Take into consideration the needs of vulnerable consumers, the elderly and consumers with special needs.
- Ensure that all reasonable demands and needs relating to Natural Gas are satisfied.
- Ensure the security, continuation and reliability of Natural Gas supply, as

well as its quality.

- Take into consideration the Protection of the Environment.
- Encourage the research and development of Transmission, Distribution, Storage and Use of Natural Gas.
- Safeguard and publish measures which may be put into effect in case of unforeseeable crisis in the energy field, or when the safety of people, works, installations or the integrity of the networks, are threatened.
- Follow up the issue of the security of supply, and especially the balance of supply and demand in the market, the level of the expected future demand and the availability of supply, as well as the level of competition in the market.
- Determine the rules for the management and the distribution potential of interconnection, in consultation with the appropriate authority or authorities of the Member States with which an interconnection exists.
- Take appropriate and effective measures for control and transparency, so as to avoid possible misuse of dominant position, and in particular of those misuses to the detriment of consumers.
- Prepare and publishes Technical Rules determining the minimum standards of technical design and operation for the connection to the network installations of liquefied Natural Gas, to storage installations, to other transportation or distribution networks and to direct pipes of Natural Gas.
- Carry out investigations, either following the submission of a complaint or initiated by CERA ex officio.
- Advise the Minister of Commerce, Industry & Tourism on all issues relating to Natural Gas.

It is worth mentioning that the powers and functions of CERA are reinforced, as per the provisions of the new Directive 2009/73/EK, in order to strengthen the transparency and consumer protection.

DRAFT REGULATORY DECISION ON THE POLICY STATEMENT CONCERNING THE METHODOLOGY TO BE FOLLOWED IN THE BILLING OF THE SERVICES OF THE LIQUEFIED NATURAL GAS TERMINAL

On 31.12.2010 CERA published a Draft Regulatory Decision on the Policy Statement Concerning the Methodology to be followed in the Billing of the Services to be provided by the Liquefied Natural Gas Terminal (LNG) and is awaiting the submission of comments/ objections/ demarches within 30 days from the date of publication. CERA taking into account the provisions of Directive 2009/73/EC, the derogations granted to the Republic of Cyprus in the natural gas sector as well as the stated government policy on the issue, has prepared and published the said Draft.

More specifically, CERA suggests, inter alia, that the billing of the services of the LNG terminal be prepared and approved on an annual basis and be independent of the use of the capacity of the terminal and the annual conveyed or stored volume of natural gas of LNG. Furthermore, it proposes that the sole user be liable to pay the price to the main LNG terminal which will be envisaged in a relevant bill approved and notified by CERA.

Generally, the proposed principle of calculating the bill should be based on the principle of Cost Recovery of Allowable Expenses for the activity of the LNG terminal. The Allowable Expenses be calculated on an annual basis and include the cost of capital (depreciation and return on Capital Employed) and the operating cost of the LNG terminal.

SUPPLY AND NATURAL GAS NETWORKS

On 18/6/08 the Council of Ministers took the relevant Decision, Decision No 667/08. The relevant extract of the Decision provides the following:

For the purpose of expediting the creation of this most important and multifold Project of the Energy Centre at Vassilikos, the Council of Ministers decided, inter alia, to:

- Approve EAC's participation in the commercial structure of the Natural Gas Public Company DEFA by 44%. In such a case, the remainder percentage of 56% will be retained by the State, which will have the option to assign part of the percentage (5%) to others at a time and manner of its choice.
- Approve the assignment of import and supply of natural gas within the Republic to Natural Gas Public Company DEFA and in accordance with the above sub-paragraph, to empower the Minister of Commerce, Industry and Tourism to take any immediate action necessary for the submission to the Council of Ministers of a proposal concerning the manning of DEFA and its Board of Directors, in order to enable DEFA to exercise the competences assigned to it".

During 2009 DEFA had announced the start of the Expression of Interest procedure for the purchase of Natural Gas which ended on 11/12/2009. In all fifteen tenders were submitted and after the completion of the first round of negotiations with prospective Natural Gas Suppliers their number was reduced to seven.

Subsequently, negotiations were held, inter alia, on the basis of the methodology of evaluating the new quotations. After this procedure only three companies submitted new quotations. The DEFA Negotiating Team and the Support Group, in cooperation with the specialised Consultants started a new round of negotiations with the three remaining Suppliers in connection with the terms of the Heads of Agreement of SPA and a change in the purchase price. The round of negotiations ended in December 2010 with DEFA's Negotiating Team to decide on a particular Supplier, submitting a relevant recommendation to the DEFA Board. It was expected that DEFA Board will take a decision on the subject during 2011.

As to the issue of constructing the natural gas network, the Natural Gas Public Company in mid-2010 appointed technical consultants for the provision of consultancy services for the

development of a pipeline distribution network and intends to proceed to the construction of transport/ distribution pipelines, at the first stage from the Terminal to the Three Power Stations; the ownership of the pipelines will belong to the Natural Gas Public Company. At the second stage independent producers of electricity may be connected with these pipelines as well as big industrial consumers. At a third stage, domestic consumers may also be connected.

It should be noted that on 19.8.2010 a grant amounting to € 10 million was approved for Cyprus from the European Energy Programme (EEPR) for the construction of part of the natural gas networks.

At the same time consultations between the Natural Gas Public Company and the Electricity Authority of Cyprus have been continuing for the conclusion of a Natural Gas General Sales Agreement (GSA) to the Cyprus Electricity Authority.

LIQUEFIED NATURAL GAS TERMINAL



The Council of Ministers, by its Decision No 667/08 dated 18.6.2008 approved, inter alia, the creation of a land terminal as the exclusive station for the delivery, storage and regasification of liquefied natural gas to the Republic of Cyprus.

During 2009, the Electricity Authority of Cyprus accepted applications for Expression of Interest in participation and investment in the Liquefied Natural Gas Terminal which would be responsible for the development, financing, operation and management of the LNG Terminal at Vassilikos. The procedure for the submission of Expressions of Interest aimed at using it by the Electricity Authority of Cyprus for:

- The prequalification of applicants before the start of the official procedure for the submission of proposals.
- Attracting/ taking views and proposals by applicants on the levels of participation, the technical parameters of the project, the

commercial and legal structure of the project as well as any other views concerning the planning and development of the LNG Terminal and the establishment of the LNG Terminal Company.

On 26.2.2010 the prequalified perspective candidates submitted applications to the Electricity Authority of Cyprus for the selection of the Strategic Partner for the LNG Terminal. The proposals submitted included well-known companies involved in Liquefied Natural Gas Terminals and also in the supply of LNG.

The candidates were selected on 25.5.2010, through the Proposal Evaluation process and on 21.6.2010 direct negotiations started among the prevalent candidates for a Strategic Partner for the Liquefied Natural Gas Terminal at Vassilikos. The aim of the negotiations between the Electricity Authority of Cyprus and the most prevalent candidates for a Strategic Partner was the improvement of the Documents of Cooperation (Joint Development and Partners' Agreement) of their Proposal and the selection of the preferred Strategic Partner for the joint development, construction and operation of the Liquefied Natural Gas Terminal at Vassilikos.

On 12.7.2010 the second round of negotiations started, the object of which was to determine issues which touch upon the planning, the budget, the financing, the manning and the award of contracts for the LNG Terminal.

At a meeting on 30.12.2010, the Board of the Electricity Authority of Cyprus examined the question of selecting a Strategic Partner to participate in the Joint Venture, which will undertake the development, financing, operation and management of the Liquefied Natural Gas Terminal at Vassilikos. The Board of the Electricity Authority unanimously agreed with the recommendation of the Independent Consultants, the Managing Committee and the Negotiating Team of the Electricity Authority of Cyprus, on the ranking of Strategic Partners, as well as the selection of the Strategic Partner with whom the Electricity Authority should consult. This decision has been notified to CERA and the competent Minister.

EXPRESSION OF INTEREST IN PURCHASING NATURAL GAS FROM END USERS

The first stage the "Open Season" process was completed in 2009. The specific process Open Season 2nd Step involved Request for Expression of Interest from end users to buy regasified LNG so as to make the necessary estimate of demand and by extension the LNG market capacity. In all three companies –Electricity Authority of Cyprus, Golar Energy and Vouros Power Industries showed an interest to buy Natural Gas for electricity generation.

After the end of the first stage of "Open Season" there follows the second stage during which CERA, after briefing accordingly the Natural Gas Public Company on 11.3.2010., authorised them to proceed to contact the interested parties so as to further inform them. The whole process followed the relevant guidelines of the Council of European Energy Regulators (CEER) on "Open Season" process.

CONSUMERS' RIGHTS

CERA'S ACTIVITIES ON INFORMING THE CONSUMER

The liberalisation of the energy market creates enormous possibilities for consumers concerning the prices, the choice of supplier, innovation and the quality of services. The Energy Policy aims at ensuring a secure and sustainable energy supply to all businesses and households in the European Union at affordable prices. The interests of consumers are at the heart of the New Energy Strategy and the quality of service has now become a basic responsibility of energy companies.

European citizens are entitled to enjoy public service obligations particularly concerning the security of supply and affordable prices. A basic aspect of customer supply is access to objective and transparent data on consumption. Therefore, customers have the right to have access to their consumption data, the relevant prices and service charges, so as to be in a position to request quotations from competitors. Customers have the right to be correctly informed about the energy they consume. Prepayments should reflect possible electricity consumption and the various systems of payment should not be discriminatory. In this way, the regular provision of information as to energy charges will create incentives to save energy, as it will give customers immediate information on the results of their investments in energy efficiency.

The new energy strategy focuses inter alia to the improvement of the retail market, so that it may bring real benefits to consumers both in the sector of natural gas as well as the sector of electricity.

A European Union study on the functioning of retail electricity markets for consumers in the European Union, which was published on 15.11.2010 found that consumers do not make full use of the opportunities to achieve savings created from the liberalisation of the energy market. More specifically, the study shows that EU consumers could save about €13 billion in total if they switched to the cheapest electricity tariff they could find. Individually, consumers could save about € 100 if they chose the cheapest available tariff in their category. Furthermore, the study showed that consumers present a low level of awareness in the field of energy consumption and more specifically it showed that:

- 31% of EU consumers have compared offers from various suppliers
- 47% of consumers do not know how much electricity they consumed at home
- Just 10% of consumers have chosen the lowest tariff in their category and this only in 7 EU member states
- 41% of consumers are not aware that they have the right to choose lower tariffs in their categories
- 28% of consumers were satisfied with the handling of their complaints.

As mentioned earlier, the consumers have the right to clear and easily understand information on the energy sector. To this end the intention of the Committee in the framework of the new energy strategy is to prepare, in consultation with stakeholders, including member states, national regulatory authorities, consumers' organisations, electricity companies, and capitalising on the progress achieved so far, of social partners, a clear and comprehensive Questionnaire for the Consumer of Energy, with practical information relating to the rights of energy consumers. It must be ensured that the necessary measures are taken, in order to convey to all consumers a copy of the Questionnaire for the Consumer of Energy.

Taking into account the above and for the purpose of protecting consumers, avoiding abuse of dominant position of producers and also ensuring the proper provision of quality services, consumers:

- have the right of energy supply access , which means:
 - access to uninterrupted supply of electricity services without discrimination and regardless of geographical location
 - possibility to choose supplier as well as possibility to change supplier easily without economic cost
 - access to client services as well as maintenance services in case of interruption of supply or any other problem in the supply of electricity
 - a wide range of choices in the payment of bills
- have the right to information in choosing or changing a supplier, which means:
 - complete and clear provision of information, before the signing of the contract, the quality of commercial and technical services provided, as well as the prices and the terms of charging they propose. A right to conclude a contract which expressly mentions the identity and the address of the provider, the services offered, details about informing consumers on the applicable tariffs and maintenance charges, the duration of the contract, the terms for renewal and termination of contract and of the provision of services, as well as the right of backing out.
 - right to be informed about the general and specific contract terms (or their subsequent amendment) as well as about the procedures in force concerning compensation or settling of differences.
 - transparency and easy comparison of the general and specific terms of contracts as well as of the bills
 - possibility to choose among many and different methods of payment of bills (cash, by post, automatic charging of bank account).
- have the right of protection of their interests, which means:
 - protection from unfair or misleading trade practices
 - right to recourse to mechanism for the speedy arrangement of demands for compensation and money back with the use of established Performance Indicators.
 - right of collective representation of consumer rights
 - right to claim their rights and seek compensation, under certain conditions, through transparent, but simple and inexpensive legal procedures. Wherever necessary they have the opportunity to have recourse to CERA for the protection of their interests.

In the light of the wider practice and the legislation followed in the European Union, CERA in the past, in exercising its functions for the protection of consumers, to avoid abuse of dominant position, for the correct provision of quality services and the proper information of the public about its rights and benefits, went ahead with the enactment of Regulation 571/2005 (Performance Indicators). These Indicators include the supply of electricity and the obligations of the Supplier and the Distribution System Owner, consumer rights, performance standards and minimum levels of performance and fines automatically imposed in case of the Supplier's or the Distribution System Owner's failure to comply. It should be mentioned that CERA, through seminars and various events, informs consumers on Performance Indicators (through printed material) and more generally on their rights.

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

- Consumer Information Campaign



(http://ec.europa.eu/energy/energy_policy/consumers/index_en.htm)

- “You Choose” Campaign” (www.agathepower.eu)
- Individual Consumer Information supplied to Eligible Consumers either electronically or by mail.

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

PERFORMANCE INDICATORS

CERA, after obtaining the approval of the Council of Ministers and the House of Representatives, enacted the Regulations of 2005 “On Regulating the Electricity Market” (Performance Indicators), Reg. 571/2005.

Based on these Regulations, "Performance Indicators" are defined as the indicators for the supply of electricity and include the obligations of the Supplier and Distribution System Owner, consumer rights, performance standards and minimum levels of performance and the fine automatically imposed in cases of the Supplier's and/or Owner's of the Distribution System failure to comply.

In the implementation and enforcement of the above provisions, the amounts paid to consumers as fines by the Electricity Authority of Cyprus as Owner of the Distribution System and as a Licenced Supplier of Electricity for each Performance Indicator are given below. These fines are recorded for the period 1.1.2010 to 31.12.2010. The corresponding results of previous years are shown for comparison purposes.

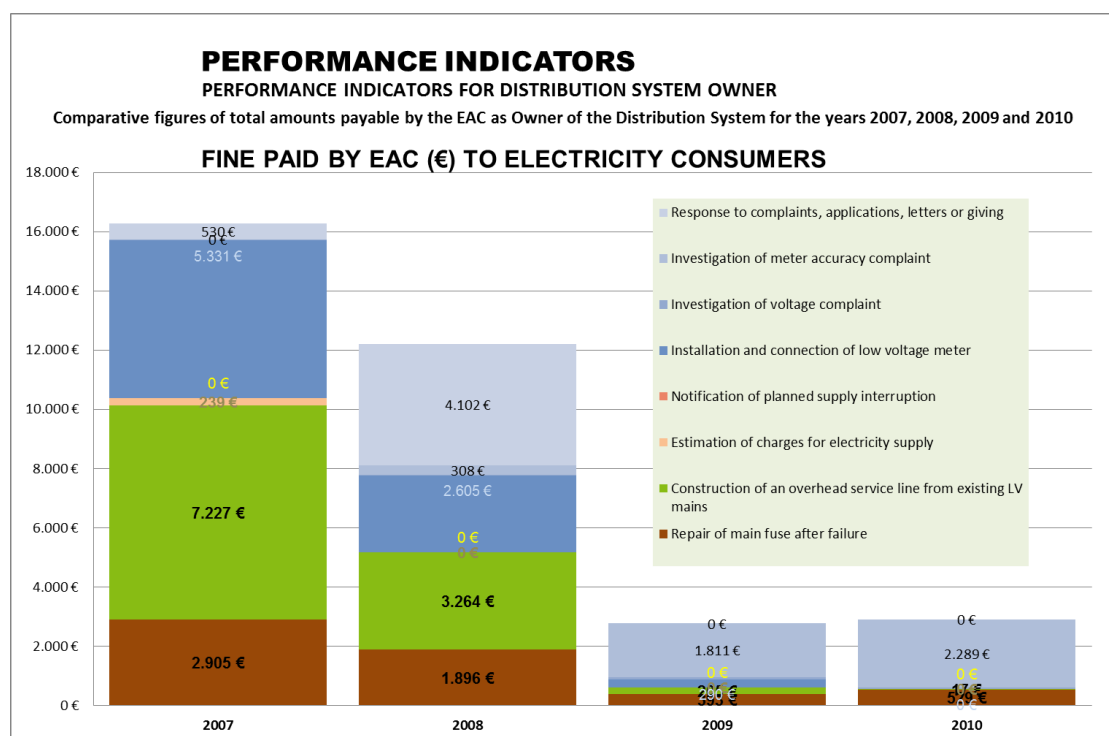


TABLE 11

PERFORMANCE INDICATORS

FOR DISTRIBUTION SYSTEM OWNER

PERFORMANCE INDICATORS FOR DISTRIBUTION SYSTEM OWNER

Comparative figures of total amounts payable by the EAC as Owner of the Distribution System for the years 2007, 2008, 2009 and 2010

FINE PAID BY EAC (€) TO ELECTRICITY CONSUMERS

Indicator	2007	2008	2009	2010
1 Repair of main fuse after failure	2 905 €	1 896 €	393 €	529 €
2 Installation and connection of low voltage meter	5 331 €	2 605 €	290 €	0 €
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 €	0 €	0 €	0 €
5 Notification of planned supply interruption	0 €	0 €	0 €	0 €
6 Investigation of voltage complaint	34 €	34 €	68 €	68 €
7 Investigation of meter accuracy complaint	0 €	308 €	1 811 €	2 289 €
8 Response to complaints, applications, letters or giving	530 €	4 102 €	0 €	0 €

PERFORMANCE INDICATORS

PERFORMANCE INDICATORS FOR EAC SUPPLIER

Comparative figures of total amounts payable by the EAC as Licensed Supplier of Electricity for the years 2007, 2008, 2009 and 2010

FINE PAID BY EAC (€) TO ELECTRICITY CONSUMERS

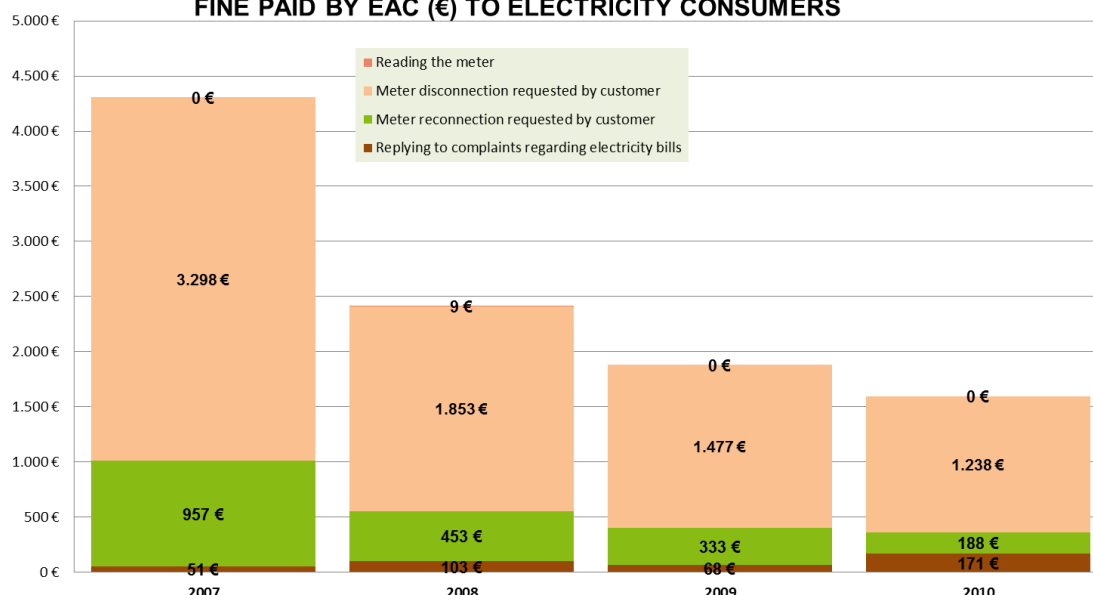


TABLE 12

PERFORMANCE INDICATORS

FOR EAC SUPPLIER

PERFORMANCE INDICATORS FOR EAC SUPPLIER

Comparative figures of total amounts payable by the EAC as Licensed Supplier of Electricity for the years 2007, 2008, 2009 and 2010

FINE PAID BY EAC (€) TO ELECTRICITY CONSUMERS

Indicator	2007	2008	2009	2010
1 Replying to complaints regarding electricity bills	51 €	103 €	68 €	171 €
2 Arrangement of appointments	0 €	0 €	0 €	0 €
3 Meter reconnection requested by customer	957 €	453 €	333 €	188 €
4 Meter disconnection requested by customer	3 298 €	1 853 €	1 477 €	1 238 €
5 Reading the meter	0 €	9 €	0 €	0 €
6 Response to complaints, applications, letters or giving information	*	*	*	0 €

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

From Tables 11 and 12 it is evident that EAC performance in 2010 compared with the previous years, both as Owner of the Distribution System as well as a Supplier, may be considered quite satisfactory, showing a gradual improvement of the Performance Indicators with every passing year.

It should be noted that Table 11 shows a very small increase in the total amount paid by the EAC as Owner of the Distribution System compared with 2009, in respect of which CERA intends, on the basis of Legislation, to take the necessary action, so that EAC performance improves in the sectors where this is required.

REPORT AND FINANCIAL ACCOUNTS

CYPRUS ENERGY REGULATORY AUTHORITY

For the year ended 31 December 2010

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MEMBERS OF THE AUTHORITY AND OTHER OFFICIALS

MEMBERS

George Shammias	Chairman (<i>appointed on 02/02/2010</i>)
Constantinos Eliopoulos	Vice-Chairman (<i>appointed on 02/02/2010</i>)
Stelios Petrides	Vice-Chairman (<i>left on 20/01/2010</i>)
Kypros Kyprianides	Member (<i>left on 20/01/2010 and was reappointed on 02/02/2010</i>)

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REPORT OF THE MEMBERS OF THE AUTHORITY

The Members of the Cyprus Energy Regulatory Authority (CERA) present their report together with the audited financial statements of CERA for the year ended 31 December 2010.

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 with no monopolies. On 2 February 2010 the Members of CERA gave their prescribed affirmation to the President of the Republic of Cyprus for the faithful execution of their duties according to the provisions of the Law 122(I) of 2003.

Results

CERA's results for the year are set out on page 3. The Members of the Authority decided to transfer the surplus of income over expenses for the year to reserves.

Members of the Authority

The Members of the Authority as at 31 December 2010 and at the date of this report are shown on page 1. Not all of them were Members of CERA throughout the year ended 31 December 2010. Mr. Stelios Petrides took over as Acting President of CERA on 1 November 2009 and stayed on this post until the day he left on 20 January 2010. Mr. Kypros Kyprianides had been a member of CERA until January 2010, a post from which he withdrew but was reappointed on 2 February 2010.

The new members of CERA, Mr. George Shammās—Chairman, and Mr. Constantinos Eliopoulos—Vice Chairman, were appointed on 2 February 2010.

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

By order of the Members of CERA,

A handwritten signature in black ink, appearing to be "G. Shammās", with a long horizontal line extending to the right.

George Shammās
Chairman

Nicosia, Cyprus, 8 June 2011

THE REPORT OF REPUBLIC'S AUDITOR GENERAL

ΚΥΠΡΙΑΚΗ ΔΗΜΟΚΡΑΤΙΑ
ΕΛΕΓΚΤΙΚΗ ΥΠΗΡΕΣΙΑ ΤΗΣ ΔΗΜΟΚΡΑΤΙΑΣ**ΕΚΘΕΣΗ ΓΕΝΙΚΟΥ ΕΛΕΓΚΤΗ ΤΗΣ ΔΗΜΟΚΡΑΤΙΑΣ
ΠΡΟΣ ΤΗ ΡΥΘΜΙΣΤΙΚΗ ΑΡΧΗ ΕΝΕΡΓΕΙΑΣ ΚΥΠΡΟΥ**

Έχω ελέγξει τις συνημμένες οικονομικές καταστάσεις της Ρυθμιστικής Αρχής Ενέργειας Κύπρου, οι οποίες αποτελούνται από την κατάσταση οικονομικής θέσης στις 31 Δεκεμβρίου 2010, τη κατάσταση συνολικών εισοδημάτων, τις καταστάσεις αλλαγών στα αποθεματικά και ταμειακών ροών του έτους που έληξε την ημερομηνία αυτή, καθώς και περίληψη σημαντικών λογιστικών πολιτικών και λοιπές επεξηγηματικές πληροφορίες.

Ευθύνη της Ρυθμιστικής Αρχής Ενέργειας για τις Οικονομικές Καταστάσεις

Η Ρυθμιστική Αρχή Ενέργειας είναι υπεύθυνη για την κατάρτιση οικονομικών καταστάσεων που δίνουν αληθινή και δίκαιη εικόνα σύμφωνα με τα Διεθνή Πρότυπα Χρηματοοικονομικής Αναφοράς όπως αυτά υιοθετήθηκαν από την Ευρωπαϊκή Ένωση και τις απαιτήσεις των περί Ρύθμισης της Αγοράς Ηλεκτρισμού Νόμων και για εκείνες τις εσωτερικές δικλίδες που η Ρυθμιστική Αρχή καθορίζει ως απαραίτητες ώστε να καθίσταται δυνατή η κατάρτιση οικονομικών καταστάσεων απαλλαγμένων από ουσιώδες σφάλμα, οφειλόμενου είτε σε απάτη είτε σε λάθος.

Ευθύνη Γενικού Ελεγκτή


Η δική μου ευθύνη είναι να εκφράσω γνώμη επί αυτών των οικονομικών καταστάσεων με βάση τον έλεγχό μου. Έχω διενεργήσει τον έλεγχό μου σύμφωνα με τα Διεθνή Πρότυπα Ελέγχου. Τα Πρότυπα αυτά απαιτούν να συμμορφώνομαι με κανόνες δεοντολογίας καθώς και να σχεδιάζω και διενεργώ τον έλεγχο με σκοπό την απόκτηση λελογισμένης διασφάλισης για το εάν οι οικονομικές καταστάσεις είναι απαλλαγμένες από ουσιώδες σφάλμα.

Ο έλεγχος περιλαμβάνει τη διενέργεια διαδικασιών για την απόκτηση ελεγκτικών τεκμηρίων σχετικά με τα ποσά και τις γνωστοποιήσεις στις οικονομικές καταστάσεις. Οι επιλεγόμενες διαδικασίες βασίζονται στην κρίση του ελεγκτή, περιλαμβανομένης της εκτίμησης των κινδύνων ουσιώδους σφάλματος των οικονομικών καταστάσεων, οφειλόμενου είτε σε απάτη είτε σε λάθος. Κατά τη διενέργεια αυτών των εκτιμήσεων κινδύνων, ο ελεγκτής εξετάζει τις εσωτερικές δικλίδες που σχετίζονται με την κατάρτιση οικονομικών καταστάσεων της οντότητας που δίνουν αληθινή και δίκαιη εικόνα με σκοπό το σχεδιασμό ελεγκτικών διαδικασιών κατάλληλων για τις περιστάσεις, αλλά όχι με σκοπό την έκφραση γνώμης επί της αποτελεσματικότητας των εσωτερικών δικλίδων της οντότητας. Ο έλεγχος περιλαμβάνει επίσης την αξιολόγηση της καταλληλότητας των λογιστικών πολιτικών που χρησιμοποιήθηκαν και του λελογισμένου των λογιστικών εκτιμήσεων που έγιναν από την Αρχή, καθώς και την αξιολόγηση της συνολικής παρουσίασης των οικονομικών καταστάσεων.

Πιστεύω ότι τα ελεγκτικά τεκμήρια που έχω αποκτήσει είναι επαρκή και κατάλληλα για να παράσχουν βάση για την ελεγκτική μου γνώμη.

Γνώμη

Κατά τη γνώμη μου, οι οικονομικές καταστάσεις δίνουν αληθινή και δίκαιη εικόνα της χρηματοοικονομικής θέσης της Ρυθμιστικής Αρχής Ενέργειας στις 31 Δεκεμβρίου 2010, και της χρηματοοικονομικής της επίδοσης και των ταμειακών ροών της για το έτος που έληξε την ημερομηνία αυτή σύμφωνα με τα Διεθνή Πρότυπα Χρηματοοικονομικής Αναφοράς όπως αυτά υιοθετήθηκαν από την Ευρωπαϊκή Ένωση και τις απαιτήσεις των περί Ρύθμισης της Αγοράς Ηλεκτρισμού Νόμων.



Ανδρέας Κουρτέλλης, FCCA,
για Γενικό Ελεγκτή
της Δημοκρατίας

Λευκωσία, 29 Ιουλίου 2011

INCOME STATEMENT

Year ended 31 December 2010

	Note	2010 €	2009 €
Revenue	4	1.892.358	1.814.733
Other income	5	176.703	168.457
Administration expenses		(1.098.488)	(1.189.517)
Other expenses	6	-	(2.105)
Operating Surplus	7	970.573	791.568
Finance Costs	10	(642)	(571)
Surplus before tax		969.931	790.997
Tax	11	(17.461)	(16.837)
Net Surplus for the year		952.470	774.160
Other income		-	
Income for the year		952.470	774.160

Notes on pages 71 to 85 are an integral part of the consolidated financial statements

STATEMENT OF FINANCIAL POSITION

31 December 2010

	Note	2010 €	2009 €
ASSETS			
Non-current Assets			
Property, plant and equipment	12	54.474	59.223
Intangible assets	13	1.627	833
		56.101	60.056
Current Assets			
Fees and other receivables	14	79.945	66.786
Tax receivable	18	19.656	20.720
Cash at bank and in hand	15	6.378.012	5.331.958
		6.477.613	5.419.464
Total Assets		6.533.714	5.479.520
RESERVES AND LIABILITIES			
Reserves			
Retained surplus		5.973.627	5.020.797
Total reserves		5.973.627	5.020.797
Non-current liabilities			
Other non-current liabilities	17	331.627	443.562
		331.627	443.562
Current liabilities			
Trade and other payables	16	228.820	15.161
Total liabilities		560.447	458.723
Total reserves and liabilities		6.533.714	5.479.520

On 8 June the Members of the Cyprus Regulatory Authority authorised these financial statements for issue.

George Shiammas
Chairman

Constantinos Eliopoulos
Vice-Chairman

Kypros Kyprianides
Member

Notes on pages 71 to 85 are an integral part of the consolidated financial statements

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Retained Surplus €
Balance- 1 January 2009	4.246.637
Net surplus for the financial year	744.160
Balance 31 December 2009	5.020.797
Net surplus for the year	952.470
Balance 31 December 20	5.973.267

Companies which do not distribute 70% of their profit after tax, as specified in the Special Contribution for Defence Law, within two years from the end of the tax year in which the profits were made, shall be deemed that they have distributed this amount as dividend. A 15% special contribution shall be payable on deemed dividend distribution applicable to shareholders (individuals and companies) who at the end of the two years from the end of the tax year in which the profits were made are residents of Cyprus. Deemed distribution is reduced with payments of actual dividends, which have already been paid during the two years following the year in which the profits relate to.

Notes on pages 71 to 85 are an integral part of the consolidated financial statements

CASH FLOW STATEMENT

Year ended 31 December 2010

	Note	2010 €	2009 €
CASH FLOW FROM OPERATING ACTIVITIES			
Surplus before tax		969.931	790.997
Adjustments for:			
Depreciation of property, plant and equipment	12	13.403	17.876
Amortisation of software	3	1.023	417
Loss from the sale of property, plant and equipment		-	2.030
Interest income	5	(176.703)	(168.382)
Cash flow from operations before working capital Changes		807.654	642.938
(Increase)/decrease in fees and other receivables		(13.159)	951
Increase in trade and other payables		213.659	302.584
(Decrease)/Increase in deferred income		(111.935)	1.881
Cash Flow from operations		896.219	948.354
Tax paid		(16.397)	(47.398)
Net cash from operating activities		879.822	900.956
CASH FLOW FROM INVESTING ACTIVITIES			
Payment for the purchase of intangible assets	13	(1.817)	(1.250)
Payment for the purchase of property, plant and equipment	12	(8.654)	(4.578)
Revenue from the sale of property, plant and equipment		-	76
Interest received		176.703	168.382
Net cash from investing activities		166.232	162.630
CASH FLOW FROM INVESTING ACTIVITIES			
Net increase in cash and cash equivalents		1.046.054	1.063.586
Cash and cash equivalents:			
At the beginning of the year		5.331.958	4.268.372
At end of the year	15	6.378.012	5.331.958

Notes on pages 71 to 85 are an integral part of the consolidated financial statements

NOTES ON FINANCIAL ACCOUNTS

Year ended 31 December 2010

1. INCORPORATION AND PRINCIPAL ACTIVITIES

Country of incorporation

The Cyprus 00Energy Regulatory Authority was incorporated in Cyprus on 21 January 2004 as a public law legal entity, according to Law 122(I)/2003. On the same date and under the same law the Office of CERA was incorporated, which operates as a separate legal entity. The CERA supervises and controls the Office of CERA. Its registered office is at 81-83 Griva Digeni Avenue, Iakovides Building, 3rd Floor, P.O.Box 24936, and 1355 Nicosia, Cyprus.

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 liberalised environment with no monopolies. On 4 February 2010 the members gave their prescribed affirmation to the President of the Republic of Cyprus for the faithful execution of their duties according to the provisions of Law 122(I) of 2003.

2. ACCOUNTING POLICIES

The principal accounting policies followed in the preparation of these financial statements are mentioned below. These policies have been consistently applied in all the years presented in these financial statements, unless it is otherwise expressly stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Law on Regulating the Electricity Market. The financial statements have been prepared under the historical cost convention.

At the date of the approval of these financial statements, all the International Financial Reporting Standards which have been issued by the International Financial Reporting Standards Board and are applicable as from 1 January 2010 have been adopted by the EU through the adoption procedure approved by the European Commission.

Adoption of new and revised IFRSs

During the current year CERA 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 2010.

This adoption did not have a material effect on the accounting policies of the CERA.

At the date of approval of these financial statements the following Financial Reporting Standards have been issued by the International Financial Reporting Standards Board, but have not yet come into force:

(i) Adopted by the European Union

New standards

- IAS 24 (Revised) "Related Party Disclosures (effective for annual periods beginning on or after 1 January 2011)
- IFRS 3 (Revised): "Business Combinations (effective for annual periods beginning on or after 1 July 2009)
- IAS 27 (Revised): "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after the 1 July 2009)
- IFRS 1: (Revised) "First-time adoption of IFRSs (effective for annual periods beginning on or after the 1 January 2009).

Amendments

IFRS 1 (Amendment) "Limited exceptions to First time Adoption in relation to comparative disclosures IFRS 7 (effective for annual periods beginning on or after 1 July 2010)

IAS 32 (Amendment) "Financial Instruments: Presentation: Classification of Rights Issues" (effective for annual periods beginning on or after 1 February 2010)

- IAS 39 (Amendment) "Financial Instruments: Recognition and Measurement": Eligible Hedged Items" (effective for annual periods beginning on or after the 1 July 2009)
- IFRIC 9 and IAS 39 (Amendment) relating to embedded derivatives (effective for annual periods on or after 30 June 2009)
- Annual Improvements to IFRS 2009 (effective for annual periods beginning on or after the 1 July 2010).
- Annual Improvements of IFRS 2010 (effective for annual periods beginning on or after the 1 January 2011).
- Amendments to IFRIC 14 "Prepayments of a Minimum Funding Requirements (effective for annual periods beginning on or after the 1 January 2011).
- Annual Improvements of IFRS (2008) for IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" (effective for annual periods beginning on or after 1 July 2009)
- Amendments to IFRS 2 "Group cash-settled share-based payment transactions, (effective for annual periods beginning on or after the 1 January 2010).

New Interpretations

- International Financial Reporting Interpretations Committee (IFRIC)12 "Service Concession Arrangements" (effective for annual periods on or after 1 January 2008, EU: 30 March 2009)
- IFRIC 15 "Agreements for the Construction of Real Estate" (effective for periods on or after 1 January 2009, EU 31 December 2009)
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation (effective for periods on or after 1 October 2008, EU 30 June 2009)
- IFRIC 17 "Distributions of Non-cash Assets to Owners" (effective for periods on or after 1 July 2009)

- IFRIC 18 “Transfers of Assets to Customers (effective for periods on or after 1 July 2009)
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments (effective for periods on or after 1 July 2009)

(ii) Not adopted by the European Union

New standards

- IFRIC 9 “Financial Instruments” (effective for periods on or after 1st January 2013)

Amendments

- Amendment to IAS 12 “Income Taxes” (effective for annual periods on or after 1 January 2012)
- Amendments to IFRS 7 “Financial Instruments: Disclosures (effective for annual periods on or after 1 July 2011)
- Amendments to IFRS 1 “First Time Adoption of International Financial Reporting Standards (effective for annual periods on or after 1 July 2011)

CERA members expect that the adoption of these accounting standards or interpretations in future years will not have a significant impact on CERA's financial statements.

Revenue recognition

Revenue comprises the invoiced amount for the fees concerning the granting of licenses. Income from fees is recognised according to the time period that the relevant permission for grants refers to. Revenues earned by the CERA are recognised on the following bases:

- **Interest income**

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

Employees' 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. Any surpluses or deficits that arise from changes in the interest rate by which estimated future cash outflows and other actuarial gains/losses are discounted are directly posted to other total income for the year.

Finance costs

Interest expense and other borrowing costs are charged to the total income statement as incurred.

Taxation

The fees received from CERA according to the Law regulating the Electricity Market and the relevant Regulations, as a result of executing its supervisory role, are not considered as income, as it is defined in article 55(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, are subject to taxation with the tax rate of 10%, 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 of property, plant and equipment to its residual value over its estimated useful life. The annual depreciation rates used are as follows:

	<u>%</u>
Computer Hardware	20
Machinery Equipment	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 balance sheet date.

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

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

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amount and are included in profit from operations.

Computer software

Costs that are directly associated with identifiable and unique computer software products controlled by CERA which 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 programmes 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 programmes 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 and is included in administrative expenses.

Impairment of 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).

3. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

3.1 Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. CERA's income and operating cash flows are substantially independent of changes in market interest rates. CERA is exposed to interest rate risk in relation to its non-current borrowings. Borrowings issued at variable rates expose CERA to cash flow interest rate risk. Borrowings issued at fixed rates expose CERA to fair value interest rate risk.

CERA's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

On the date of the presentation of the financial statement, the analysis of interest bearing financial instruments in connection with interest rates was as follows:

	Note	2010 €	2009 €
Financial Instruments of variable rates		6.378.012	5.331.959
Financial Instruments of Assets		6.378.012	5.331.959

Sensitivity analysis

An increase of 100 basis points in interest rates at 31 December 2010 would have increased/ (decreased) 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 profit or loss.

	2010 €	2009 €
Financial Instruments of variable interest rates	63.780	53.320
	63.780	53.320

3. Financial risk management (continued)

3.2 Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. CERA has policies in place to ensure that the provision of services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. Cash balances are held with high credit quality financial institutions and CERA has policies to limit the amount of credit exposure to any financial institution.

The book value of financial assets represents the maximum exposure to credit risk. The maximum exposure to credit risk at the balance sheet date was as follows:

	2010 €	2009 €
Receivables	62.675	47.806
Cash at bank	910.336	978.295
Short term-bank deposits	5.467.565	3.519.752
	6.440.576	4.545.853

3.2.1 Credit quality of financial assets

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

	2010 €	2009 €
Cash at bank and short-term bank deposits ¹	3.021.999	4.497.887
Baa2	3.328.244	160
Baa3	27.658	-
Ba3	6.377.901	4.498.047

The other element of the financial position "Cash and cash equivalents" is cash in hand. None of the financial assets which are not mature or impaired have been renegotiated.

3.3 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. CERA 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.

3. Financial risk management (continued)

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 2010

	Book value €	Conventional cash flows €	within 3 months €
Trade and other creditors	215.496	215.706	215.706
	215.496	215.706	215.706

31 December 2009

	Book value €	Conventional cash flows €	within 3 months €
Trade and other creditors	4.606	4.606	4.606
	4.606	4.606	4.606

The fair values of CERA's financial assets and liabilities approximate their carrying amounts at the Statement of Financial Position date.

4. REVENUE

	2010 €	2009 €
Annual fees received	1.831.228	1.697.381
Fees from the rendering of services	46.547	96.799
Revenue from European Programmes	14.583	20.553
	1.892.358	1.814.733

5. OTHER INCOME

	2010 €	2009 €
Interest Income	176.703	168.382
Profit from the sale of property, plant and equipment	-	75
	176.703	168.457

6. OTHER EXPENSES

	2010 €	2009 €
Loss on disposal of property, plant and equipment	-	2.105
	-	2.105

7. SURPLUS FROM OPERATIONS

	2010 €	2009 €
Operating surplus is stated after charging the following items:		
Amortisation of software (Note 13)	1.023	417
Depreciation of property, plant and equipment (Note 12)	13.403	17.876
Staff costs	589.602	630.656
Auditor's fee – current year	2.500	-
Auditor's fee- previous years	2.500	5.500

8. STAFF COSTS

	2010 €	2009 €
Salaries of staff and Members	530.092	575.501
Social insurance costs and other funds	59.510	55.155
	589.602	630.656

9. EMPLOYEE BENEFITS

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

The most recent actuarial valuation was made as at 31 December 2010 and it was based on the following assumptions:

	Percentage %
Discount rate	5,05% (2009:5,47%)
Inflation	2,00% (2009:2,00%)
General salary increase	1,00% (2009:1,00%)
Total salary increase	3,00% (2009:3,00%) for inflation and general salary increase, plus scale for promotions and increments
Percentage increase in pensions	3,00% (2009:3,00%)
Increase of basic insurable earnings	3,50% (2009:3,50%)
Mortality table	85% of PA(2009:85% of PA 90)

During the year an amount of € 49.043 (2009: € 150.944) was charged to the total income statement based on the above actuarial valuation. Amounts charged to the income statement are analysed as follows:

	2010 €	2009 €
Service cost	63.675	81.982
Interest	15.849	7.162
Recognition of service	-	61.800
Realised actuarial profit	(30.481)	-
	49.043	150.944

Movements in provisional reserves for retirement plan obligations as included in other liabilities:

	2010 €	2009 €
On 1 January	294.181	143.237
Provision for the financial year	49.043	150.944
Payment to Members who left	(13.430)	-
Contributions by Members	1.833	-
At 31 December	331.627	294.181

9. Employee benefits (continued)

The estimated actuarial position as at 31 December 2009 was as follows:

	2010 €	2009 €
Plan obligation value	381.928	263.700
Fund assets at market value	-	-
	381.928	263.700
Deficits recognised at employees' remaining service	-	-
Unrealised valuation profit/ (loss)	(50.301)	30.481
Provisional reserves for the retirement plan obligation as in the Statement of Financial Position	331.627	294.181

10. FINANCE COSTS

	2010 €	2009 €
Finance costs		
Other finance expenses		
Bank fees	642	571
	642	571

11. TAXATION

	2010 €	2009 €
Defence contribution- current year	17.670	16.837
Defence contribution –previous years	(209)	-
Charge for the year	17.461	16.837

The corporation tax rate is 10%.

On the basis of the Income Tax Law article 8 (19) as from 1 January 2009, the entire interest income of persons is exempted from Income Tax.

The obligation of persons to pay the Special Defence Contribution, at the rate of 10% on interest income received or credited continues to exist.

12. PROPERTY, PLANT AND EQUIPMENT

	Computer & Equipment	Machinery & Equipment	Motor Vehicles	Furniture Fixtures & Office Equipment	Books	Total
Cost						
Balance-						
1 January 2009	17.490	47.507	22.844	55.486	3.615	146.94
Additions	690	2.413	-	320	1.155	4.578
Disposals	(1.484)	(2.927)	-	-	-	(4.411)
At 31 December						
1 January 2010	16.696	46.993	22.844	55.806	4.770	147.10
Additions	6.847	1.311	-	496	-	8.654
At 31 December	23.543	48.304	22.844	56.302	4.770	155.76
Depreciation						
Balance-						
1 January 2009	13.039	16.117	18.275	24.144	740	72.315
Charge for the year	2.550	4.669	4.569	5.581	477	17.876
On sales/ disposals	(1.484)	(821)	-	-	-	(2.305)
At 31 December 2009/						
1 January 2010	14.105	19.995	22.844	29.725	1.217	87.886
Charge for the year	2.465	4.831	-	5.630	477	13.403
At 31 December 2010	16.570	24.826	22.844	35.355	1.694	101.28
Net book amount						
At 31 December 2010	6.973	23.478	-	20.947	3.076	54.474
At 31 December 2009	2.591	26.998	-	26.081	3.553	59.223

13. INTANGIBLE ASSETS

	Computer Software €	Total €
Cost		
Balance - 1 January	7.381	7.381
Additions	1.250	1.250
At 31 December	8.631	8.631
Additions	1.817	1.817
At 31 December 2010	10.448	10.448
Amortisation		
Balance - 1 January 2009	7.381	7.381
Charge for the year (Note 7)	417	417
At 31 December 2009/1	7.798	7.798
Charge for the year (Note 7)	1.023	1.023
At 31 December 2010	8.821	8.821
Net book amount		
At 31 December 2010	1.627	1.627
At 31 December 2009	833	833

14. FEES AND OTHER RECEIVABLES

	2010 €	2009 €
Fees receivable	9.383	5.138
Deposits and prepayments	17.270	18.980
Interest receivable	53.292	42.668
	79.945	66.786

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

15. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement cash and cash equivalents include:

	2010 €	2009 €
Cash at bank and in hand	910.447	1.812.206
Short term bank deposits	5.467.565	3.519.752
	6.378.012	5.331.958

The effective interest rate on short-term bank deposits was 2,98% (2009: 3.70%) and these deposits have an average maturity between 6 months and 2 years,

16. TRADE AND OTHER PAYABLES

	2010 €	2009 €
Trade payables	8.978	4.606
Clients deposits	200.746	-
Provisions	-	209
Provisions for pension benefits for employees who left	5.772	-
Accruals	13.324	10.346
	288.820	15.161

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

CERA decided on 22/1/2010 that for the purpose of securing the dismantling of all the installations of a Wind Farm, including wind generators, and the restoration of the area to its former condition, when the operation of the wind farm ceases for any reason, that the licensee should, according to the terms set by the Town Planning and Housing Department, deposit at a special account of the Ministry of Commerce, Industry and Tourism (MCIT) the necessary amount to be decided by CERA to cover the cost of dismantling the Wind Farm. Before the above mentioned decision, there was another decision in force taken by CERA, dated 26/9/08 in accordance with which licencees should deposit a corresponding amount to CERA's account. The Ministry of Commerce Industry and Tourism in a letter dated 21/2/2011 asked that the amounts already collected by CERA be transferred to the Special Account of the MCIT.

17. OTHER NON CURRENT OBLIGATIONS

	2010 €	2009 €
Client deposits	-	149.381
Pension Fund	331.627	249.181
Deferred obligations for more than a year	331.627	443.562

18. TAX (RECEIVABLE)/CURRENT TAX LIABILITIES

	2010 €	2009 €
Corporate tax	(24.778)	(24.778)
Special Defence Contribution	5.122	4.058
	(19.656)	(20.720)

19. PROBABLE CONTINGENCIES

CERA had no contingent liabilities as at 31 December 2010.

20. COMMITMENTS

Commitments for operating leases

The total of minimum future payments for leases in accordance with non-cancelable operational leases is as follows:

	2010 €	2009 €
Within a year	79.872	73.320
Between one and five years	196.170	276.042
	276.042	349.362

21. POST BALANCE SHEET EVENTS

There were no material post balance sheet events, which have a bearing on the understanding of the financial statements.

OPERATING EXPENSES

Year ended 31 December 2010

	2010 €	2009 €
Administration Expenses		
Members' remuneration	254.417	263.094
Staff salaries	275.675	312.407
Social Insurance etc.	59.510	55.155
Rent	73.320	71.197
Common expenses	1.568	1.537
Presents	593	4.153
Electricity	11.951	9.086
Water supply and cleaning	4.736	4.615
Insurance	1.015	815
Repairs and maintenance	5.414	9.626
Sundry expenses	520	456
Telephone	4.146	4.228
European Programmes' expenses	1.045	-
Stationery and printing	26.386	23.746
Subscriptions and contributions	13.393	14.226
Sponsorship of conferences and studies	4.120	13.000
Newspapers and publications	1.139	1.300
Equipment maintenance	500	1.085
Staff training	11.032	2.099
Computer software	2.976	2.373
Auditors' fees –current year	2.500	-
Auditor's fees- past years	2.500	5.500
Legal fees	14.342	11.238
Events' expenses	-	11.777
Overseas traveling	66.838	38.833
Inland traveling	234	195
Irrecoverable VAT	11.873	10.852
Entertainment	4.006	3.329
Advisory services fees	30.384	15.881
Transport and postage	390	374
Announcements – publications	12.939	9.753
Sundry allowances and representation expenses	23.435	23.237
Staff medical expenses	18.559	18.646
Services rendered	85.279	73.782
Amortisation of computer software	1.023	417
Depreciation	13.403	17.876
Motor vehicle expenses	2.512	2.685
Staff Pension Fund	49.043	150.944
Lump-sum benefit	5.772	-
	1.098.488	1.189.517

