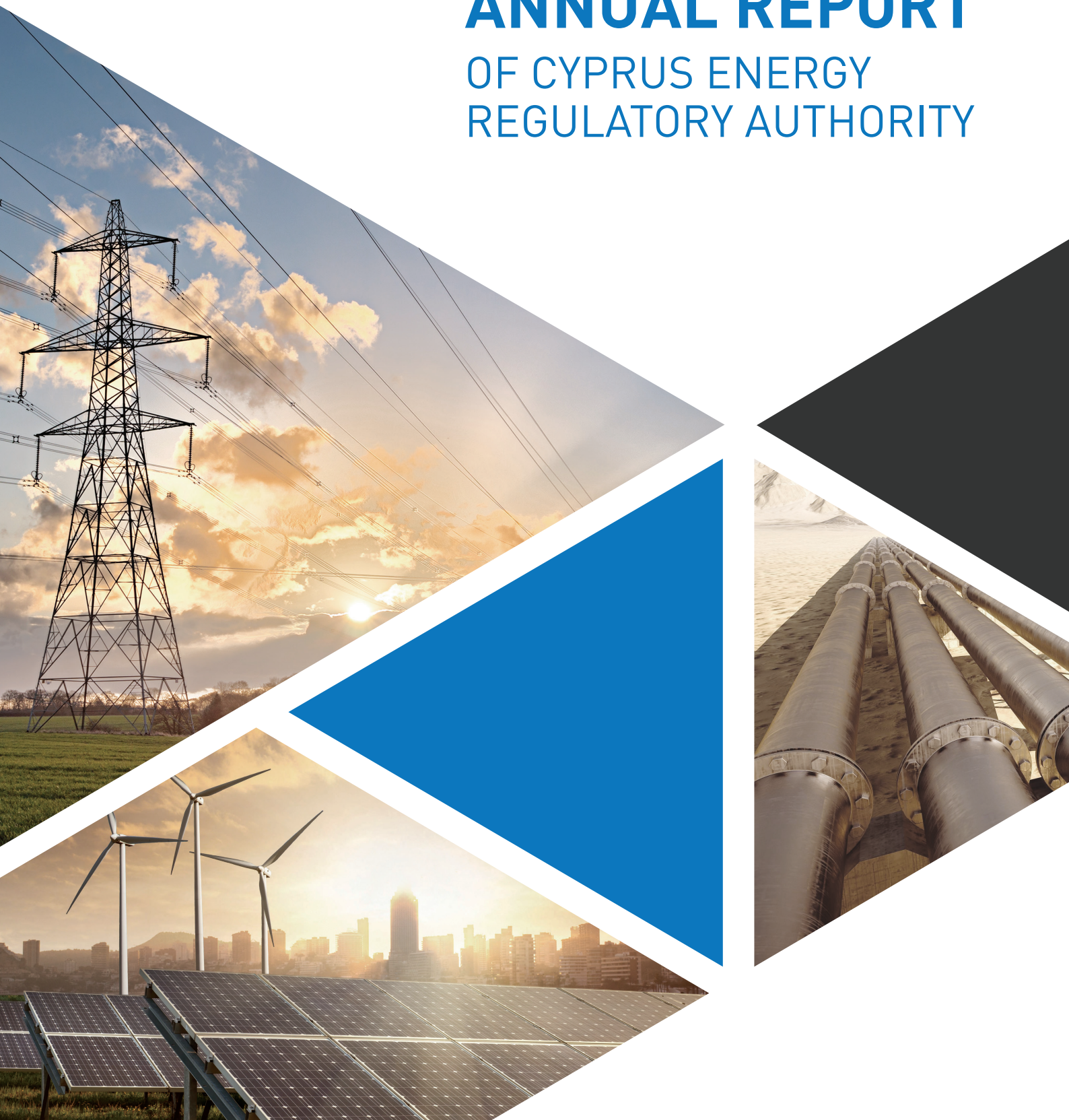


# 2015

## **ANNUAL REPORT**

### OF CYPRUS ENERGY REGULATORY AUTHORITY







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# ANNUAL REPORT OF CYPRUS ENERGY REGULATORY AUTHORITY

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**FOR THE YEAR 2015**



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

**30 Ιουνίου 2016**

Εξοχότατε,

Έχουμε την τιμή να σας υποβάλουμε την 12η Ετήσια Έκθεση και τους Λογαριασμούς της ΡΥΘΜΙΣΤΙΚΗΣ ΑΡΧΗΣ ΕΝΕΡΓΕΙΑΣ ΚΥΠΡΟΥ, που περιλαμβάνει και την Ετήσια Έκθεση του Διαχειριστή Συστήματος Μεταφοράς Κύπρου, για τον χρόνο που τελείωσε στις 31 Δεκεμβρίου 2015, καθώς επίσης και την Έκθεση της Ελεγκτικής Υπηρεσίας της Δημοκρατίας.

Η Έκθεση αυτή και οι Λογαριασμοί υποβάλλονται σε εσάς σύμφωνα με τα Άρθρα 18(1), 19(3), 61(3) και 62(3) των Περί Ρύθμισης της Αγοράς Ηλεκτρισμού Νόμων του 2003-2015 και το Άρθρο 7(1)(ιη) των Περί Ρύθμισης της Αγοράς Φυσικού Αερίου Νόμων του 2004 μέχρι το 2012.

Με τιμή,



**Δρ. Ανδρέας Πουλλικκός**  
Πρόεδρος



**Φίλιππος (Άλκης) Φιλίππου**  
Αντιπρόεδρος




**Νεόφυτος Χατζηγεωργίου**  
Μέλος

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# ANNUAL REPORT OF CYPRUS ENERGY REGULATORY AUTHORITY FOR THE YEAR 2015

## 1. INTRODUCTION

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

It is an independent public authority with the basic objective of regulating and monitoring the electricity and natural gas market. An additional aim of the Authority is to ensure a competitive, secure and environmentally sustainable internal energy market with the specific aim of protecting the rights of consumers.

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

The present Annual Report on CERA's activities covers the year 2015 and is the twelfth report issued by the Authority.

By virtue of the provisions of the above Law CERA submits to the President of the Republic an Annual Report on its activities by the end of June each year, and supplies copies of the Report to the Council of Ministers and the House of Representatives.

The Activity Report of the Cyprus Transmission System Operator (TSOC) is only available in Greek, therefore is only included in the Greek version of CERAs' Annual Report.

### 1.1 Electricity - Competences and powers of CERA

- 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 exemptions from a licence.
- Ensures that licensees operate efficiently and are in a position to finance the business activities for which the licence has been issued.
- Determines, publishes and imposes quality standards with which licensees have to comply.
- Regulates tariffs, charges and other terms and conditions to be applied by licensees, for any services provided according to the terms of their licences.

- Promotes the development of regional markets within the Community so that they operate competitively and properly in order to achieve security of supply.
- Promotes the elimination of restrictions in the electricity trade among Member States, including developing appropriate cross-border transmission capacities to meet demand and enhance the integration of national markets.
- Ensures that the rules governing the operation of electricity networks and the electricity market (transmission and distribution rules and the electricity market rules) are prepared and approved in accordance with the law.
- Sets the rules or the procedures under which complaints are examined which relate to services offered by the licensees including, when it considers it appropriate, the carrying out of investigations and the taking of decisions 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.
- Ensures the implementation of the provisions of Regulation (EU) No. 1227/2011.
- Promotes research and development in the field.
- Prepares and implements long-term planning regarding capacity for generation, transmission and distribution on a long-term basis, in order to meet the demand for electricity in the system and to secure supplies to customers and includes security of supply, energy efficiency/ demand-side management and achievement of environmental objectives and targets for energy from renewable sources.

## 1.2 Natural gas - Competences and powers of CERA

- Promotes the development of an economically robust and efficient natural gas market.
- Ensures the safety, continuity of supply, quality and efficiency in the supply of natural gas.
- Monitors the issues of the security of supply, and especially the balance of supply/demand in the market, the level of the expected future demand and the availability of supply, as well as the level of competition in the market.
- Announces the measures that may be put into effect in case of unforeseeable crisis in the energy field, or when the security of people, works, installations or the integrity of the networks are threatened.
- Prepares and publishes technical rules determining the minimum standards of technical design and operation for the connection to the network of installations of liquefied natural gas, to storage installations, to other transportation or distribution networks and to direct pipes of natural gas.
- Takes appropriate and effective measures for control and transparency, so as to avoid possible misuse of dominant position, and in particular of those misuses to the detriment of consumers.
- Protects the interests of the final consumers.
- Promotes the development of regional markets within the Community so that they operate competitively and properly so as to achieve security of supply.
- Promotes the elimination of restrictions in the natural gas trade among Member States, including developing appropriate cross-border transmission capacities to meet demand and enhance the integration of national markets.
- Ensures as competent authority the implementation of the measures laid down in Regulation 994/2010 of the European Parliament and the Council concerning measures safeguarding security of gas supply.

- Encourages research and development in connection with the transmission, distribution, supply, storage and use of natural gas.
- Resolves disputes on access to pipes of the upstream network, in connection with negotiations for access to the network.
- Carries out investigations, either following the submission of a complaint or initiated by CERA ex officio.
- Imposes administrative fines in the event of a breach of any provision of the Law.
- Sets the rules for the management and the distribution of the interconnection capacity, in consultation with the appropriate authorities of the Member States with which there is interconnection.
- Prepares and implements long-term planning regarding the planning of supply and transportation capacity of natural gas undertakings over the long term so as to satisfy the demand of the system for natural gas, achieve the diversification of sources and ensure supply to the customers, including the security of supply, energy efficiency/demand-side management and the achievement of environmental objectives and targets for energy from renewable sources.

## 2. ORGANISATIONAL STRUCTURE

### MEMBERS OF CERA

#### CHAIRMAN

Dr Andreas Poulikkas  
Mechanical Engineer  
(from 5.10.2015)

George Shammas  
Mechanical-Electrical Engineer  
(until 30.9.2015)

#### VICE CHAIRMAN

Philippos (Alkis) Philippou  
Business Management  
(from 5.10.2015)

#### MEMBER

Kypros Kyprianides  
Electrical-Mechanical Engineer

### ADVISORS

#### LEGAL ADVISOR

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

#### ACCOUNTANTS

Alliott Partellas Kiliaris Limited

## COMMUNICATION

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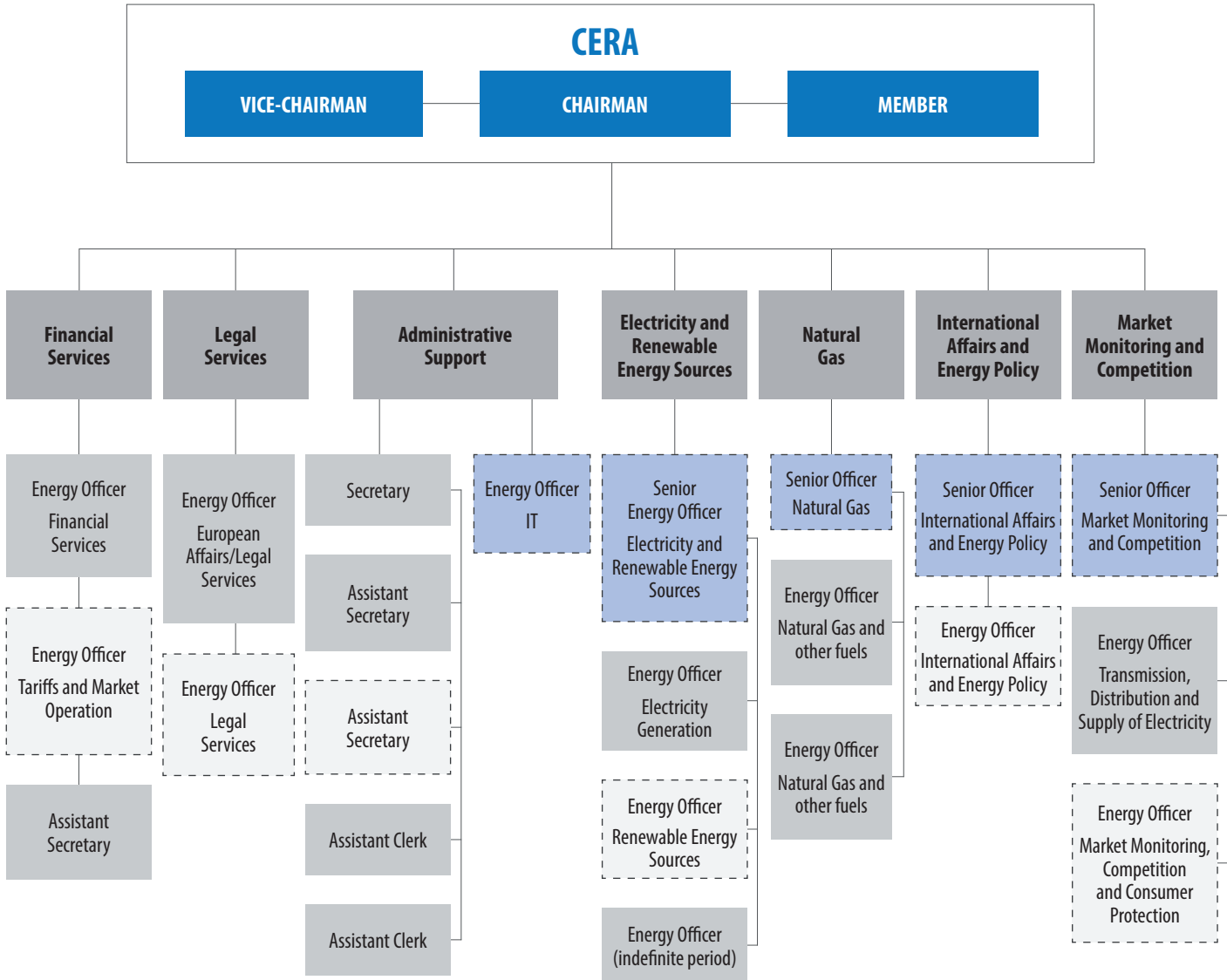
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# CERA ORGANISATIONAL CHART



**Note:**

\* ---- Vacant positions

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

The European Union (EU) early in 2015 presented its “Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy”. Citizens are at the heart of the Energy Union as energy prices must be affordable and competitive. Energy should be secure and sustainable and there should be greater competition with more choice for every consumer.

The package of measures on the Energy Union which was published on 25 February 2015 aims to ensure affordable, secure and sustainable energy for Europe and its citizens. The specific measures cover five key areas, including energy security, energy efficiency and decarbonisation.

The vision of the Energy Union is an integrated energy system for the whole of Europe, where energy will move freely across state borders, with competition rules, making best use of resources and a reliable European regulatory framework.

Furthermore, in the context of the Energy Union strategy, the Commission presented on 15 July 2015 proposals for a new agreement for energy consumers, the redesign of the European electricity market, the improvement of energy efficiency and the review of the emissions trading system. This package is an important step in the implementation of the Energy Union strategy.

The purpose of the Energy Union strategy is to help attain the climate and energy targets set for 2030 and to ensure that the European Union will become the world champion in renewable energy sources. Achieving these objectives requires a radical reform of the European electricity system, and a redesign of the European electricity market.

At the same time priorities have been set to increase the EU security of supply. More specifically, in respect of natural gas, it is stressed that EU needs differentiated and resilient suppliers. In this context, it is proposed to examine the full potential for the creation of storage facilities for natural gas and liquefied natural gas and develop a comprehensive strategy in this regard. Part of this strategy focuses on the development of gas infrastructure in Southeast Europe, to which our country belongs, and to find alternative gas suppliers.

Also, the European Commission issued a Communication expressing its intention in the context of the Energy Union to achieve an electricity interconnection target of at least 10% of installed power infrastructure by 2020. This means that each Member State must have electrical cables allowing the transmission to neighbouring Member States of at least 10% of the electricity generated by its power stations. This is the minimum required to allow the flow and energy trading among Member States.

The EU Strategy for the Energy Union concerns, primarily, the Member States currently unable to negotiate and obligated to import energy under adverse conditions in the supply contracts, as a result of their geographical position, such as Cyprus. For Member States that obtain energy under less fa-

avourable conditions and at higher prices, the Energy Union is expected to yield positive results, offering the opportunity of reduced energy costs.

Having regard to the above, during the year under review, CERA took a series of important decisions in order to complete the regulatory framework in the energy sector that will lead our country to a new energy era. The Energy Union era.

More specifically, CERA announced the new regulations concerning the electricity market of Cyprus giving, following a public consultation, the detailed design of the diversification of the operation of the market regulatory framework. The issuing of the relevant Regulatory Decision on 15 May 2015, which sets out the detailed design of the electricity market in a way that facilitates the activation of healthy competition and the integration and participation of renewable energy sources in the competitive market was a significant development in the electricity market of Cyprus. Based on the above Regulatory Decision, CERA instructed the Cyprus Transmission System Operator (TSOC) to activate the actions required by the law for the drafting of the new electricity market rules and the revision, where necessary, of the transmission and distribution rules for the full implementation of the Regulatory Decision.

Also, on 19 June 2015 the final Regulatory Decision “Statement on Regulatory Practice and Methodology of Electricity Tariffs” was published, which is based on the best European practices on the most rational way of calculation of allowed revenues and, therefore, the tariffs of the Electricity Authority of Cyprus (EAC).

At the same time, during the year under review, the implementation of Regulatory Decisions by the EAC related to the accounting and functional separation of activities forged ahead. The implementation and compliance of the EAC with the specific Regulatory Decisions is ongoing and CERA is closely monitoring the compliance of the Authority with those Decisions. For example, in September 2015 the EAC submitted the first separate accounts for each activity, which are under review by CERA.

Meanwhile, CERA for the purpose of safeguarding the rights of consumers and particularly the vulnerable groups and acting on the basis of a decision by the Minister of Energy, Commerce, Industry and Tourism, imposed public service obligations on all electricity supply licence holders. The public service obligations apply with the inclusion of specific categories of consumers considered to be vulnerable in the special tariff code 08. Furthermore, CERA acting within its competence, had consultations with the Ministers of Energy, Commerce, Industry and Tourism and Labour, Welfare and Social Security on the redefinition of energy poverty and the determination of the critical period. As a result of this consultation a relevant Decree was issued on 4 September 2015 by the Minister of Energy, Commerce, Industry and Tourism.

For purposes of meeting the provisions of the relevant EU Regulation on the integrity and transparency of wholesale energy market, CERA created and operated the CEREMP platform. This is a web platform developed by the Agency for the Cooperation of Energy Regulators in Europe (ACER) and the National Regulatory Authorities for use by participants in the energy markets in order to meet the data recording and reporting obligations under the REMIT Regulation. As from 7 October 2015, CERA registers the market participants through this platform.

Based on the data and developments of 2015 in the field of energy and sustainable growth, CERA will continue to perform its duties having the same top priority, which is the charting of a people-centred and smart energy strategy focusing on the consumer. Proper operation of the electricity and natural gas markets is crucial for the economy and stability of the state as well as the welfare of the citizens.

Finally, special thanks are expressed to the staff of the Office of CERA for the conscientiousness and diligent performance of their duties under very adverse conditions and for adequately addressing all the challenges encountered in 2015.

## 4. EUROPEAN ENERGY POLICY

The following section will mention the main developments in the energy sector at European level, within the CERA sphere of interest. It should be noted that special reference will be made to the package of measures announced by the Commission for the Energy Union.

Specifically, on 25 February 2015 the Commission published a package of measures on the Energy Union which aims to ensure affordable, secure and sustainable energy for Europe and its citizens. Specific measures cover five key areas including energy security, energy efficiency and decarbonisation.

The package of measures on energy union consists of three Communications:

- A strategic framework for energy union, detailing the Energy Union objectives and the specific measures to be taken to achieve them.
- A Communication indicating the EU's expectations on the new global climate agreement.
- A Communication setting out the measures needed to achieve the 10% target for the electricity interconnection by 2020.

As part of the Energy Union strategy, the Commission presented in July 2015 proposals (known as the summer package of measures), for a new deal for energy consumers, the redesigning the European electricity market, the improvement of the energy efficiency label and the revision of the EU emissions trading scheme.

This package is an important step in implementing the Energy Union strategy through a long-term policy on climate change, which is one of the political priorities set by the Commission in February 2015. These proposals emphasise the principle of “priority on energy efficiency” and place households and businesses as consumers at the heart of the European energy market.

In the following paragraphs we shall refer among others in greater detail to the above-mentioned Commission proposals.

### 4.1 European legislation

#### Framework strategy for a resilient Energy Union with a forward-looking policy on climate change - COM(2015)80

A Communication presented the Commission's framework strategy for the Energy Union based on the three long-term goals of EU energy policy:

- security of supply
- sustainability
- competitiveness.



It is based on the framework of the policies on climate and energy up to 2030 and the Strategy for Energy Security of 2014, while it incorporates various policy areas into a single coherent strategy.

The strategy is structured around five closely inter-related areas:

**a. Energy security, solidarity and mutual trust**

This priority is based on the strategy of the Commission for energy security, which was adopted in May 2014. The aim is to make the EU more resilient to external energy shocks and to reduce dependence on particular fuels, energy suppliers and routes. The proposed measures are intended to ensure the diversification of supply (energy sources, suppliers and routes), to encourage Member States and the energy sector to work together to ensure security of supply and to increase the transparency of natural gas supplies - especially concerning the agreements for the purchase of energy from countries outside the EU.

**b. The internal energy market**

The aim is to give a new impetus to the completion of the internal energy market. Therefore, the priorities include improving energy interconnections, ensuring the full implementation and enforcement of existing legislation relating to energy, improving cooperation among Member States in formulating energy policies and facilitating citizens when they choose energy suppliers.

**c. Energy efficiency as a contribution to the moderation of energy demand**

The EU should work in the direction of the objective set by the European Council in October 2014 for improving by at least 27% of energy efficiency by 2030. The measures include increasing energy efficiency in the building sector, in particular by improving heating and cooling systems and improving emissions and fuel efficiency in the transport sector.

**d. Decarbonisation of the economy**

The strategy for Energy Union is based on the ambitious EU climate policy, in accordance with the commitment of an at least 40% domestic reduction in greenhouse gas emissions compared to 1990. The EU emissions trading system should fully play its role as a technology neutral, cost-effective and EU-wide driver for low-carbon investments.

The strategy sets a goal of the EU to become a world leader in renewable energy and be the global hub for developing the next generation of technically advanced and competitive renewable energies.

**e. Research, innovation and competitiveness**

The goal is to place research and innovation at the very heart of the Energy Union. The EU should be at the forefront of smart grid and smart home technology, clean transport, as well as clean fossil fuels and the world's safest nuclear generation. The new approach to research and innovation in the energy sector will be based on "Horizon 2020" and should accelerate the transformation of the energy system.

The strategic framework also describes in detail the 15 action points that will lead to the creation of the Energy Union.

The Commission also intends to propose a dynamic and comprehensive process of governance and monitoring to ensure that measures taken at all levels contribute to the objectives of the Energy Union.

## [The Paris Protocol - A blueprint for tackling global climate change beyond 2020 - COM\(2015\)81](#)

A Communication from the Commission defines the vision of the EU on the new global agreement on the climate (The Paris Protocol), which was approved in Paris in December 2015. In particular, it formalises the objective of reducing by 40% greenhouse gas emissions by 2030, set by the European Council in October 2014, as the proposed EU emissions target in the context of the Paris Protocol. The

targets which are also known as “Intended Nationally Determined Contribution” or INDC should be submitted to the UNFCCC by the end of March 2015.

The Communication also:

- describes the objectives, which should be implemented by the Paris Protocol, including emissions reduction, sustainable development and investment in low emissions growth which is resilient to climate change,
- stresses the need to establish a procedure for reviewing and strengthening the commitments made under the Paris Protocol,
- underlines the importance of strong rules for monitoring, reporting, verification and accountability for all parties to the Paris Protocol,
- analyses ways to promote the implementation and cooperation, such as the mobilisation of public and private financial resources and support for the development and deployment of climate technologies,
- stresses the need to mobilise climate change through other policies such as the research and development policy.

The Communication explains also the next steps of the EU before the December 2015 meeting in Paris.

### [Achieving the 10% electricity interconnection target. Making Europe’s electricity grid fit for 2020 - COM\(2015\)82](#)

The Communication examines the means of achieving 10% electricity interconnection by 2020, a target approved by the European Council in October 2014. More specifically, the Communication focuses on:

- improving the situation in the 12 Member States with an interconnection level below 10% (Ireland, Italy, Romania, Portugal, Estonia, Latvia, Lithuania, United Kingdom, Spain, Poland, Cyprus and Malta),
- the projects planned under the TEN-E Regulation and the “Connecting Europe” facility, which will contribute to achieving the objective of interconnection,
- the available financial instruments and how they can be fully exploited to support electricity interconnection projects,
- ways to strengthen regional cooperation.

### [Renewable energy progress report - COM\(2015\)293](#)

In accordance with the requirements set in the Directive on renewable energy sources 2009/28/EC, an interim evaluation is made of progress achieved in the EU and the Member States in achieving the objectives on renewables for 2020, including an assessment of the feasibility of the target for 10% share of renewable energy in transport, the sustainability of biofuels and bio-liquids consumed in the EU, and the effects of the said consumption according to the requirements of this Directive. Furthermore, based on a thorough assessment of the Directive on renewable energy sources in the framework of the Regulatory Fitness and Performance Programme (REFIT) launched in 2014, the report provides a preliminary assessment of the Directive on renewable energy based on the requirements of the Communication on REFIT.

It appears that most Member States have shown satisfactory performance in achieving the objectives on renewables set out in the Renewable Energy Directive. As for the EU as a whole, the outlook is positive for the achievement of the target for 2020. However, it appears that several Member States will find it difficult to achieve their objectives mainly due to more uphill implementation process in front of

them and the obstacles that remain in the market. It is necessary to make optimum use of the opportunities offered by cooperation mechanisms laid down in the Renewable Energy Directive. Achieving the target for 10% renewable energy consumption in the transport sector for 2020 is challenging, but still possible, as is confirmed by the progress made in some Member States. The key is still to ensure significant progress in respect of advanced biofuels, and an integrated approach to the decarbonisation of transport sector, including decisive steps to increase the share of energy from renewable sources in transport.

The evaluation of the Directive on renewable energy sources carried out in 2014 in the framework of the REFIT program indicates that the Directive is effective and achieves its objectives, but its implementation could be improved at national level.

### Proposal for a Directive amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments - COM (2015)337

A centrepiece of the 2030 policy framework is the binding target to reduce overall EU greenhouse gas emissions by at least 40% domestically below 1990 levels by 2030. To achieve this target cost-effectively, the sectors covered by the EU Emissions Trading System (EU ETS) will have to reduce their emissions by 43% compared to 2005 while non-ETS sectors will have to reduce their emissions by 30% compared to 2005. The European Council outlined the main principles to achieve the reduction in the EU ETS. This proposal creates the necessary legal framework for the implementation of the said principles set out by the European Council, addressing three main issues:

- The proposal translates the 43% greenhouse gas reduction target in 2030 in the ETS into a cap declining by 2.2% annually from 2021 onwards, corresponding to an additional reduction of around 556 million tonnes of carbon dioxide in the period 2021-2030 compared to the current annual decline of 1.74%.
- The proposal builds on the positive experience with the harmonised rules implemented since 2013, by further developing predictable, robust and fair rules for free allocation of allowances to industry to address the potential risk of carbon leakage in an adequate manner.
- The proposal contains several funding mechanisms to support economic actors in the power sector and industry in the innovation and investment challenges they face in the transition to a low-carbon economy. More specifically, the proposal supplements existing support for demonstration of innovative technologies and extends this to breakthrough innovation in industry. Free allocation of allowances continues to be available to modernise the power sector in lower-income Member States and a dedicated fund is established to facilitate investments in modernising the energy systems and improve energy efficiency so as to contribute to emission reductions.

### Delivering a new deal for energy consumers - COM(2015)339

Recognising that citizens should be at the core of the Energy Union, the Commission presented a Communication on a new deal for energy consumers based on a three pillar strategy:

- helping consumers save energy and money through better information,
- giving consumers a wide choice in their participation in energy markets, and
- maintaining full protection of consumers.

Consumers should be equally informed and in the same position of power with buyers and sellers who are active in the wholesale markets; this will be achieved through clearer pricing and advertising rules, reliable price comparison tools and through the use of high bargaining power available to them through collective schemes (such as team switching and energy cooperatives).

Finally, consumers should be free to produce and consume their own energy on fair terms, to save money and to contribute to environmental protection and energy security.

### [Launching the public consultation process on a new energy market design - COM\(2015\)340](#)

The aim of the Energy Union strategy is to help achieve the climate and energy targets set for 2030 and to ensure that the European Union will become the world leader in renewable energy sources. Achieving these objectives requires a radical reform of the European electricity system and the redesign of the European electricity market.

This consultative Communication launched a public consultation on how the new electricity market should look like in order to meet consumer expectations, to advantageously utilise the new technology, to facilitate investments, mainly in renewables and low carbon energy as well as to recognise the interdependence of European Member States when it comes to energy security.

Thus, it is expected that maximum benefits will be derived from cross-border competition and the way for decentralised electricity and self-generation will open up, while the emergence of innovative enterprises in the field of provision of energy services will be supported.

### [Proposal for a Regulation on European statistics on natural gas and electricity prices and repealing Directive 2008/92/EC concerning a Community procedure to improve the transparency of gas and electricity prices charged to industrial end-users - COM\(2015\)496](#)

One of the actions of the Energy Union Package under the chapter of the internal energy market provides that an analysis of energy prices and costs should be carried out in 2016 and every 2 years thereafter.

An additional set of sub-components on taxes and levies and network prices on natural gas and electricity has been drawn up in order to reflect the goals of the Energy Union Package and, in particular, addresses the need for greater transparency on energy costs and prices referred to in action point 8 of the Package.

In this context a proposal for a Regulation was made establishing a common framework for the development, production and dissemination of comparable European statistics on natural gas and electricity prices for household and final non-household customers in the EU.

### [The state of Energy Union in 2015 - COM\(2015\)572](#)

The state of the Energy Union presents key building blocks for an implementation mechanism leading to more predictable, transparent and stable policies. The guidance on integrated national energy and climate plans provides the basis for Member States to start developing their integrated national energy and climate plans for the period from 2021 to 2030. The proposed methodology on key indicators is the first step towards measuring and monitoring the delivery of the Energy Union.

In recent months, the Commission has visited many Member States to discuss the Energy Union with a wide range of stakeholders. In addition, technical discussions have taken place with all Member States. These contacts have enabled the Commission to produce an Energy Union assessment for each Member State and to identify policy conclusions for all five dimensions of the Energy Union.

According to the Communication, it is essential to maintain the ambition, balance and momentum created by the launch of the Energy Union framework strategy in February 2015. 2016 will be an important year, a year of delivery, in which the strategic vision set out in the Energy Union strategy will

be translated in EU-level to legislative initiatives at EU level and the Energy Union will be developed further and implemented.

### [Evaluation of progress made by Member States towards their national energy efficiency targets for 2020 and the implementation of the Directive on energy efficiency 2012/27/EU as defined in Article 24, paragraph 3 of the Directive on energy efficiency 2012/27/EU - COM\(2015\)574](#)

The report gives an evaluation of progress towards the achievement of this objective and on the implementation of Directive 2012/27/EU on energy efficiency. It includes a number of recommendations to Member States and is based on annual national reports and national action plans for energy efficiency. The report is accompanied by a working document prepared by services of the Commission containing a detailed description of the performance indicators.

The report showed that the Member States, in combination with a number of EU policy measures (e.g. eco-design, labelling, the EU emissions trading system, car models), have introduced energy efficiency measures in industry, housing, services, transport and production. It also showed that most Member States have increased their efforts and have either enhanced existing energy efficiency measures or have introduced new measures.

### [Towards an integrated Strategic Energy Technology \(SET\) Plan: Accelerating the European energy system transformation - COM\(2015\)6317](#)

On 15 September 2015, the Commission announced an integrated Strategic Energy Technology Plan. The aim of the Commission is to build on the ambition to achieve in a cost-effective way a fundamental transformation of Europe's energy system.

This Communication takes stock of the Plan and outlines areas for future consultation and work. Since 2007, the SET Plan has been at the forefront of European energy technology policy. In that time, it has had success on several fronts.

The new integrated SET Plan must identify those strategic priorities and actions needed to accelerate the EU energy system transformation in a cost-effective way.

### [Commission Delegated Regulation \(EU\) dated 18.11.2015 amending Regulation \(EU\) No 347/2013 as regards the Union list of projects of common interest - COM\(2015\)8052](#)

This Delegated Regulation lays down the Union list of Projects of Common Interest (PCIs) which will replace the list prepared under the Commission Delegated Regulation (EU) No 1391/20131 dated 14 October 2013.

Under Article 3 Paragraph 4 of Regulation (EU) 2013 No 347/2013 on the guidelines for Trans European Energy Network (Regulation TEN- E) the Commission is required to issue every two years a delegated act that will establish the Union list of projects of common interest. The Union list shall be established on the basis of the regional lists of PCIs adopted by the decision-making bodies of the regional groups as established by Regulation TEN-E. The present Delegated Regulation shall take the form of an annex to the TEN-E Regulation.

The PCIs are specific energy infrastructure projects which are necessary to implement the twelve priority corridors and areas defined in the TEN-E Regulation. They are of crucial importance for the completion of the European internal energy market and the achievement of the Union's energy policy objective for economic, safe and sustainable energy.

## Paris Conference on climate change - New global agreement

From 30 November to 12 December 2015, Paris hosted the 21st meeting of the Conference of the Parties (COP 21) to the UN Framework Convention on Climate Change (UNFCCC) and the 11th session of the Conference of the Kyoto Protocol Parties (CMP 11).

On 12 December 2015 the parties reached a new global agreement on climate change. The agreement represents a balanced result and includes an action plan to reduce global warming “well below” 2°C.

The main elements of the new Paris Agreement are:

- Long-term goal: governments agreed to hold the increase in global average temperature well below 2°C compared to pre-industrial levels and to continue efforts to limit it to 1.5°C.
- Contributions: before and during the Paris conference the countries submitted comprehensive national action plans on climate aimed at reducing their emissions.
- Ambition: Governments have agreed to announce every five years their contributions in order to set more ambitious goals.
- Transparency: Governments also agreed to notify each other and to inform the public about progress made towards the targets, in order to ensure transparency and supervision.
- Solidarity: the EU and other developed countries will continue to provide climate financing to help developing countries reduce emissions and protect themselves against the effects of climate change.

## EU public consultation

On 24 November 2015, the European Commission launched a public consultation to gather views on the preparation of the new framework for renewable energy sources for the period 2020-2030. The results of this consultation as well as the results of the public consultation the Commission launched in July 2015 in relation to the market design will be used for purposes of preparation of the new directive on renewable energy sources (REDII).

## 4.2 Projects of common interest

The European Commission on 18 November 2015 published a list of 195 key energy infrastructure projects - known as Projects of Common Interest (PCIs) - which will help deliver Europe’s energy and climate objectives and form key building blocks of the EU’s Energy Union. The projects will enable the gradual build-up of the Energy Union by integrating the energy markets in Europe, by diversifying the energy sources and transport routes. In addition, the PCIs adopted in the second Union List will help bring an end to the energy isolation of some Member States. They will also boost the level of renewables on the grid, bringing down carbon emissions. PCIs benefit from accelerated permitting procedures and improved regulatory conditions and may be eligible for financial support from the Connecting Europe Facility (CEF). A budget of €5.35 billion has been allocated to trans-European energy infrastructure under the CEF from 2014-20, helping projects of common interest to get implemented faster and making them more attractive to investors.

The list of projects is an update of the PCIs list adopted in October 2013. The list includes 108 electricity, 77 gas, 7 oil and 3 smart grid projects. A good balance between electricity and gas projects was achieved also thanks to the identification of clear priority projects in the regional context.

The projects will benefit from a number of advantages:

- strengthened transparency and improved public consultation,
- accelerated permit granting procedures (binding three-and-a-half-years’ time limit),

- improved, faster and better streamlined environmental assessment,
- a single national competent authority will act as a one-stop-shop for permit granting procedures,
- improved regulatory treatment by allocating costs according to the net benefits, and regulatory incentives,
- possibility of receiving financial assistance under the Connecting Europe Facility (CEF) in the form of grants and innovative financial instruments.

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

In principle, energy infrastructure should be financed by the market and through tariffs paid by users. However, to meet the huge investment challenge, the EU has set up funds like the Connecting Europe Facility (CEF) and the European Fund for Strategic Investment (EFSI) which will help leverage the investment needed. Under this mechanism in 2014 and 2015, an amount of €797 million has been allocated to co-finance studies and construction works to help implement the PCIs.

Since the adoption of the first PCIs list in 2013, 13 projects have been completed. Furthermore, some 62 projects are expected to be completed by the end of 2017.

The Commission has played a key role in getting many of these projects off the ground, either through political action and facilitating common agreement between two countries on the way forward or by providing technical and/or financial support to the projects.

The list of PCIs is updated every two years with the aim to integrate projects covering new needs and remove obsolete ones.

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

- a. Cluster Israel - Cyprus - Greece between Hadera (Israel) and Attica region (Greece) (currently known as "EuroAsia Interconnector") with the DEH Quantum Energy Ltd as the implementing agency. The cluster includes the following PCIs:
  - Interconnection between Hadera (IL) and Vasiliko (CY),
  - Interconnection between Vasiliko (CY) and Korakia (Crete, Greece) and
  - Internal line between Korakia, Crete and Attica region (EL).
- b. Cluster of natural gas and related equipment for the transmission of gas from new sources from offshore Eastern Mediterranean deposits. The cluster includes one or more of the following PCIs:
  - "EastMed Pipeline" a pipeline from offshore Cyprus to Greece mainland via Crete,
  - Ending the isolation in Cyprus in order to allow the transmission of gas to the Eastern Mediterranean region.

## 5. NATIONAL LAWS AND REGULATIONS

The following section will present the Laws which were amended, the main Regulatory Decisions and Decisions of CERA and finally the developments in the market rules and the transmission and distribution rules.

### 5.1 Bills in progress

During the year under review for the purpose of harmonisation with Directive 2012/27 / EU of the European Parliament and the Council of 25 October 2012 On Energy Efficiency, the following laws were prepared and approved by the House of Representatives:

- The Promotion of Cogeneration (Amendment) Law N.150(I)/2015, dated 23.10.2015
- The Energy Efficiency in the final use and Energy Services (Amendment) Law N.149(I)/2015, dated 23.10.2015
- The Law amending the Regulating the Electricity Market Laws of 2003-2012, N.206(I)/2015, dated 12.23.2015.

#### **The Promotion of Cogeneration (Amendment) Law, N150(I)/2015, dated 23.10.2015**

The Amending Law aligns the procedures for issuing guarantees of origin of electricity generated from high-efficiency cogeneration plants with the applicable procedures for issuing the guarantees of origin of electricity generated from renewable energy sources.

The Amending Law also harmonises Article 14 and partly Article 15 of the Directive, which regulates Transmission and Distribution System issues, namely access and connection of high-efficiency cogeneration stations with the network. On condition that the requirement of maintaining the reliability and security of the electricity system, thanks to which electricity from high efficiency cogeneration may be limited/reduced, and on the basis of transparent, non-discriminatory and published criteria specified by the electricity system Operators and approved by CERA, the Operators:

- guarantee the transmission and distribution of electricity from high efficiency cogeneration
- give priority to access to energy produced from high efficiency cogeneration
- take all necessary steps to ensure that the distribution of load of power plants give priority to electricity distribution produced from high efficiency cogeneration.



## **The Energy Efficiency in the Final Use and Energy Services (Amendment) Law, N.149(I)/2015, dated 23.10.2015**

CERA consulted at length with the Ministry of Energy, Commerce, Industry and Tourism in the preparation of the relevant bill and agreed on the content of the Law during its presentation in the House of Representatives. The provisions of the amending law regulate the energy performance of buildings, and have no relation or connection with the provisions of the Regulating the Electricity Market Laws.

## **Law amending the Regulating the Electricity Market Laws of 2003-2012, N.206(I)/2015, dated 23.12.2015**

Articles 2, 9, 10,11,12,14 and 15 of Directive 2012/27/EC on energy efficiency refer specifically to the instructions of the 3rd Energy Package, where the Member State which has the obligation to harmonise with the Directive, has by law designated CERA as the competent authority, and consequently these articles are already harmonised with the existing law, where energy efficiency is one of the factors to be taken into account by CERA in the performance of its regulatory powers. Energy efficiency has always been one of the criteria taken into account by CERA in the exercise of its powers, which with the harmonisation law with the 3rd Energy Package has become a duty of CERA to take into account, as for example is its duty to establish and implement long term planning, taking into account, inter alia, energy efficiency.

According to the Regulating the Electricity Market Laws 2003-2012 which were in force before the amending Law, the measures to be taken for energy efficiency are the same as those set out in Articles 2,9,10,11,12, 14 and 15 of Directive 2012/27/EC. However, the Ministry of Energy, Commerce, Industry and Tourism considered - and CERA agreed with it - that some issues required more detailed regulation than the existing one and there was need to add specific provisions, so that the harmonisation of the legislation could be accepted by the EU and for this reason the specific amending Law was prepared.

These issues are:

- CERA requires from the TSOC and DSO during the fulfilment of the requirements for balancing and ancillary services to treat the energy demand response service providers, including demand response aggregators, in an impartial manner and on basis of their technical capabilities
- CERA promotes the access and participation of demand response in the balancing, the reserve and other service purchases, requiring the TSOC and the DSO, to define technical arrangements for their participation in these markets, on the basis of the technical requirements of the specific markets and the demand response capabilities they will establish after consultation with all market participants.
- CERA ensures that:
  - An assessment is made of the capabilities of energy efficiency potential of electricity infrastructure, especially regarding transmission, distribution, load management and interoperability, and connection to the power plants.
  - Specific measures and investments are determined in order to achieve cost-effective energy efficiency improvements in network infrastructure, with a timetable for their introduction.
- CERA ensures the removal from the transmission and distribution tariffs of those incentives which are detrimental to overall efficiency.
- CERA ensures the implementation of smart metering systems when this is possible and economically feasible. Where smart metering is applied, the meters allow accurate billing based on actual consumption. Also, CERA ensures that end users have the possibility of easy access to supplementary information allowing them to make a detailed check of their consumption. The supplementary information includes aggregate data for at least the previous three years and detailed data for the current year for any day, week, month and year.

- Regardless of whether smart meters have been installed or not, to the extent that data are available on energy billing and historical background of consumption, the choice is offered of electronic information on tariffs and billing and, if customers request it, they receive clear and comprehensible explanations on how their account came about, free of charge and on time for comparison to other similar offers.

In addition, in the amending Law, CERA was designated as the authority responsible for ensuring compliance with the provisions of Regulation (EU) no.122/2011 on the integrity and transparency of wholesale energy market.

## 5.2 Regulatory Decisions, Draft Decisions and Important Decisions by CERA during 2015

In 2015 CERA took several Regulatory Decisions and Decisions, the most important of which are the following:

### REGULATORY DECISIONS

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#### Regulatory Decision 01/2015 - The New Electricity Market Arrangements in Cyprus

The CERA Members decided to adopt the relevant study, which was prepared from an external consultant of CERA titled “The new electricity market arrangements in Cyprus” concerning the detailed design of the electricity market in Cyprus and publish the Regulatory Decision 01/2015 whose content was the actual study.

The Regulatory Decision is referred to as “The New Electricity Market Arrangements in Cyprus” which is posted on the CERA website and, inter alia, has been published in the Official Gazette of the Republic as (Administrative Regulation) [Regulatory Administrative Act 164/2015], dated 15 May 2015.

Also, according to this Regulatory Decision, CERA has given instructions to the TSOC, to proceed immediately to the preparation of the specifications for the supply of the required systems and other arrangements needed for the proper functioning of the Electricity Market as soon as possible. It has also given instructions to the TSOC, to activate the actions required by law for drafting of the new electricity market rules and the revision, where necessary, of the transmission and distribution rules for the full implementation of the Regulatory Decision.

#### Regulatory Decision 02/2015 - Regulatory Practice Statement and Electricity Tariffs Methodology

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

- a. the manner in which the CERA shall determine the allowable revenue for each regulated activity,
- b. the manner in which regulated tariffs shall be determined.

The primary objectives of the regulation of tariffs is to maximise the long-term competitiveness of Cyprus economy, protect the interests of consumers in the short term and in the long term against prices formed on a monopoly basis, fulfil the public service obligations, secure energy supply and promote cost efficient and quality energy services provided by the licensees. The tariffs are determined on the basis of a methodical and consistent application of the principles contained in the methodology and the proposals and decisions on tariffs are based on hard data and formulated after thorough consultation with stakeholders.

### Regulatory Decision 03/2015 - Imposition of public service obligations - Tariff for large families and disadvantaged families

The Members of CERA, based on the Decision of the Honourable Minister of Energy, Commerce, Industry and Tourism dated 19 June 2015 [Regulatory Administrative Act 209/2015], which contains instructions to CERA for the imposition of public service obligations and under Articles 89(1), 90 and 26 of the Regulating the Electricity Market Laws of 2003 to 2012, imposed on all electricity supply licensees public service obligations in connection the groups of consumers mentioned below, by including them in the special tariff (code 08) of the EAC, which compared to the normal tariff (code 05) has reduced charges. The consumer groups are:

- Public assistance recipients from the Social Welfare Services of the Ministry of Labour, Welfare and Social Insurance.
- Beneficiaries of guaranteed minimum income provided by the Welfare Benefits Administration Service of the Ministry of Labour, Welfare and Social Insurance.
- Large families or families of five members that receive child benefit from the Welfare Benefits Administration Service of the Ministry of Labour, Welfare and Social Insurance for three or more dependent children and with annual combined family income up to €51,258. The income criterion of €51,258 for annual combined gross family income is increased by €5,126 for each additional child over the number of fourth.
- Beneficiaries of severe motor disability allowance provided by the Department of Social Inclusion of Persons with Disabilities, of the Ministry of Labour, Welfare and Social Insurance.
- Beneficiaries of care allowance for quadriplegic persons from the Department of Social Inclusion of Persons with Disabilities of the Ministry of Labour, Welfare and Social Insurance.
- Beneficiaries of care allowance for paraplegic persons from the Department of Social Inclusion of Persons with Disabilities, Ministry of Labour, Welfare and Social Insurance.

According to the Regulatory Decision the imposition of public service obligations will continue to exist until the electricity supply licensee fully recovers its actual costs which:

- it sustained from the implementation of previous Decisions, according to the actual number of vulnerable consumers, of the categories referred to in paragraph 1 above, who have already joined the special electricity tariff with code 08,
- it will sustain from the implementation of this Decision, according to additional actual number of vulnerable consumers, the categories referred to in paragraph 1 above, which, gradually will join the special electricity tariff with code 08.

This Decision came into effect as from 1 August 2015.

## Regulatory Decision 04/2015 - TSOC fee (TSOC - tariff D) for the year 2015

By this Regulatory Decision, the Members of CERA decided and approved that the TSOC fee (D-TSOC: Tariff for TSOC expenditure) for 2015 onwards should remain, until it is reviewed, at 0,11 €cent / kWh, as it was in 2014.

## DECISIONS

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### Decision 1243/2015 - Study titled: "Taking on the Cypriot Regulatory Challenge"

The Members of CERA decided that the study titled: "Taking on the Cypriot Regulatory Challenge", prepared by the Austrian Regulatory Energy Authority - Energie-Control Austria (E-Control) in the framework of the provisions of the contract which had been signed in July 2014 on the basis of CERA Decision 1115/2014, has been completed in accordance with the terms and contractual obligations of the Consultants. The study concerned the organisational structure and the organisational design of the CERA Office and examined in particular issues of human resources' development, so that CERA may be in a position to efficiently perform its tasks in accordance with the National Legislation and the *acquis communautaire*.

### Decision 1279/2015 - Methodology for calculation of the national energy mix of electricity and electricity suppliers' energy mix

With this decision, CERA approved the methodology for the calculation of the national energy mix of electricity and the electricity suppliers' energy mix as well as the technical manual on the procedure of calculating the energy mix of electricity in Cyprus and suppliers and the disclosure of the energy mix of electricity suppliers.

### Decision 1285/2015 - Non-interruption of electricity connection to vulnerable customers at critical periods

The Members of CERA for the purpose of securing the rights of vulnerable consumers decided to give instructions to the EAC, in its capacity as supplier, not to interrupt connection at critical periods and to:

- apply the measure of non-interruption to all categories of vulnerable consumers, as they are defined by the Decree of the Minister of Energy, Commerce, Industry and Tourism [Regulatory Administrative Act 218/2013], as of 28 May 2015 and until the Decree of the Minister comes into force.
- reconnect vulnerable consumers whose supply has been interrupted due to non-payment of their bills.

Provided that vulnerable consumers are required to pay their debts to the supplier regardless of the right for non-interruption at critical times. Those debts are not included in the public service obligations.

### Decision 1288/2015 - Transmission system ten-year development plan for the decade 2015-2024

The Members of CERA, after studying and evaluating the relevant recommendation of the TSOC on the above matter, decided and approved with this decision the proposed transmission system ten year development plan 2015-2024.

### Decision 1292/2015 - Recommendation by the TSOC for approval of the requirements and the fee for ancillary services costing for the period 2014 and for the conduct of a study for the period 2015-2016

The Members of CERA with this Decision approved the proposal made by the TSOC that the fees of ancillary services and long term reserve be consolidated and the total charge to be maintained for 2014 at the level of 0.67€cent/kWh.

### Decision 1310/2015 - Long-term forecast of annual maximum total power generation and total electrical energy generated for the period 2015-2024

After studying and evaluating the relevant recommendation by the TSOC on the long term forecast of annual maximum total power generation and total energy generated for the period 2015-2024, the Members of CERA decided to approve the recommendation.

### Decision 1311/2015 - Revision of the fuel adjustment clause - used for calculating the automatic fuel adjustment

As a study conducted by CERA showed that the fuel adjustment clause of 0,00119 € c / kWh / 5 € c / MT, which was implemented in calculating the fuel price adjustment on electricity bills in February 2013 for consumers on monthly meter readings and on electricity bills in March 2013 for consumers on two-monthly meter readings needs revision and updating, CERA issued Decision no. 1311/2015 dated 25 June 2015, on the revision of the fuel adjustment clause- used in calculating the automatic fuel adjustment at €c 0.00125 for calculating the automatic fuel adjustment price on electricity bills for consumers on monthly meter readings as from the end of June 2015 and for electricity bills for consumers on two-monthly meter readings as from the 1st of July 2015, and instructed the EAC to readjust its software system so as to be possible to apply a differentiated fuel adjustment clause, depending on the voltage at which the consumer is connected as follows:

- The fuel adjustment clause for consumers connected to low voltage is set at 0,00126 € c / kWh / 5 € c / MT.
- The fuel adjustment clause for consumers connected to medium voltage set is at 0,00123 € c / kWh / 5 € c / MT.
- The fuel adjustment clause for consumers connected to the high voltage is set at 0,00120 € c / kWh / 5 € c / MT.

Also the fuel adjustment clause used in the calculation of electricity purchase price from RES is revised as follows:

- The fuel adjustment clause for RES producers connected to low voltage is set at €c 0.00124.
- The fuel adjustment clause for RES producers connected to the middle voltage is set at €c 0.00121 in.
- The fuel adjustment clause for RES producers connected to high voltage is set at €c 0.00119.

Finally, instructions were given to the EAC that the basic prices for the purchase of energy from RES (with basic fuel price of €300), which were approved by CERA on 28.03.2013, be readjusted by the EAC on the basis of the new fuel clause, and to include the variable maintenance costs, as calculated on an annual basis.

## Decision 1315(b)/2015 on purchases of electricity from RES for the year 2015

Following the above decision, no 1311/2015, CERA approved the following revised basic purchase prices of RES energy, by its Decision no. 1315(b)/2015 dated 1.7.2015.

Revised basic price of purchase of RES	
	€/kWh
Low voltage	7.572
Medium voltage	7.392
High voltage	7.272

## Decision 1344/2015 - Regulation (EU) No.347/2013 on guidelines for trans-European energy infrastructure - Methodology and investment evaluation criteria

The Members of CERA decided and issued the methodology and criteria for the evaluation of investments in electricity and gas infrastructure projects and the higher risks they entail as well as the basic principles and the application procedure for provision of incentives.

## Decision 1351/2015 - Concerning the period of final clearing of electricity surplus of consumers under net-metering schemes for PV systems

The Members of CERA decided to issue a Decision on the period of final clearing of the electricity surplus of consumers under the net metering scheme for photovoltaic systems, by defining the period of February - March as the electricity clearing period that will be made by suppliers every two months.

According to this method, every two months the difference is calculated between electricity received from the network in the premises of the producer/consumer to meet his needs and the electricity generated by the PV system which is injected into the grid. Any surplus will be transferred to the next two months, while any deficits will be invoiced. A final clearing will be made in the last invoice for a period covering twelve months. Currently, as the final bill for net-metering each year is deemed to be the bill of the producer/consumer which was recorded in February or March. Any surpluses cannot be transferred from one year of clearing to the next one.

## Decision 1353/2015 - CERA obligations under Regulation 1227/2011 on wholesale energy market integrity and transparency (REMIT) - Completion of CEREMP platform -Registration of market participants

The Members of CERA decided and issued the modalities and guidelines for the implementation of Regulation 1227/2011 in order to update market participants.

## Decision 1392/2015 - Arrangements for the protection of photovoltaic systems in the distribution system. Costs of modifying the voltage converter settings

With this decision, the Members of CERA in order to avoid any misinterpretation, gave clear instructions to the EAC as a DSO, which is the competent organ for issuing the terms of connection of applicants

to the distribution system, to deal immediately with the issue that has arisen with the changes made to the voltage converter settings of affected photovoltaic systems. Also, with this decision CERA gave clear instructions that any cost, including third parties' cost, relating to the rehabilitation and restoration of the operation of the voltage converters to the settings required by the transmission and distribution rules of affected owners of photovoltaic systems be borne in full by the EAC budget as DSO.

### 5.3 Trading and settlement rules

In accordance with the Regulating the Electricity Market Laws of 2003 to 2015, the trading and settlement rules, inter alia:

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

The electricity market rules are observed by all licensees or persons who have been granted exemptions to the extent that the licences or exemptions from a licence required it.

In the year under review, there was no amendment to the trading and settlement rules and the first issue 1.0.0 of the electricity trading and settlement rules continues to be in force.

However, CERA during the current year, after the completion of the statutory procedure and after thoroughly studying and taking into account all comments, objections, observations and suggestions received from a big number of stakeholders, interested parties and electricity market participants on the relevant Draft Regulatory Decision, on 11 May 2015 by its Decision, formulated the final study of its external consultant titled: "The new arrangements in the electricity market of Cyprus" for the detailed design of the differentiation of the regulatory framework of the operation of the electricity market in Cyprus, and issued Regulatory Decision No. 01/2015 [Regulatory Administrative Act 164/2015], which was published in the Official Gazette of the Republic on 15 May 2015 and immediately entered into force.

Based on the above Regulatory Decision, CERA instructed the TSOC to proceed immediately to the preparation of the specifications for the supply of the required systems and other arrangements needed for the proper functioning of the electricity market the soonest possible. It also gave instructions to the TSOC to activate the actions required by law for the drafting of new electricity market rules and to review where necessary the transmission and distribution rules for the full implementation of this regulatory decision.

Consequently, and as CERA has completed the relevant work on the proposed detailed design for the amendment of the framework regulating the functioning of the electricity market in Cyprus, it is expected that in 2016 the TSOC will proceed with the legal procedures provided for by legislation for the preparation of the new electricity market rules.

### 5.4 Transmission and distribution rules

Under the Laws on Regulating the Electricity Market of 2003 to 2015, CERA takes a Regulatory Decision with which it issues instructions to the Cyprus Transmission System Operator and the Distribution System Operator to prepare and issue technical rules, which are subject to CERA's approval, on the operation of the transmission system and the distribution system, respectively.

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 from a license require this, respectively.

In the year under review there was no revision of the transmission and distribution rules and the 4.0.0 issue of the transmission and distribution rules is still in force.

It is expected that in 2016, as CERA has already completed the relevant work it carried out concerning the detailed design for the amendment of the regulation framework of the operation of the electricity market in Cyprus, the TSOC will proceed to the statutory procedure provided for by the legislation for the revision of the existing transmission and distribution rules.



## 6. INTERNATIONAL AND LOCAL ACTIVITIES

### 6.1 International activities

The following section makes a brief reference to the international collective instruments as well as to the European fora on energy issues. At the same time, it records the participation of CERA to conferences and meetings as well as to CERA activities in research & development.



**The Council of European Energy Regulators (CEER)**, founded in 2000, was the first autonomously-organised community of independent energy regulatory authorities in Europe, which set the goals, on the one hand of achieving cooperation between European Regulators and, on the other hand, of single representation before the Community Institutions, particularly the Commission.

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. The Chairman of CERA represents Cyprus. During 2015 CERA participated in the 108th, 110th, 112th, 114th, 116th and 117th General Assembly of CEER.



**Agency for the Cooperation of Energy Regulators (ACER)** 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 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 also advises the EU Commission so as to take binding decisions on the Member States. It also intervenes with

recommendations to solve problems between regulatory authorities and contributes to the creation of common European codes.

The Agency will fill the regulatory 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 in the Board of Regulators. During 2015, CERA took part in the 44th, 46th, 48th, 50th, 52nd and 53rd General Assembly of ACER.



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

Cooperation in the energy sector between the European Union and its Mediterranean partners (Algeria, Cyprus, Egypt, Israel, Jordan, Malta, Morocco, Lebanon, the Palestinian Authority, Syria, Tunisia, Turkey and Libya) was developed by adopting the multilateral process of Euro-Mediterranean Partnership.

In 2006 a regional regulatory body was founded, with the support of the European Union, by way of a permanent working group on electricity and natural gas, called "Mediterranean Working Group on Electricity and Natural Gas Regulation".

The ultimate goal is the gradual harmonisation with the *acquis communautaire* on energy, so as to consolidate the regulatory environment and to facilitate the financing and integration of the Euro-Mediterranean energy market.

The Association of Mediterranean Regulators for Electricity and Gas (MedReg) is now an organisation based in Rome, which promotes and organises systematic cooperation between regulators in the Mediterranean basin and is actively supported by the EU and the Council of European Energy Regulators. The General Assembly of MedReg meets twice a year.

## **EUROPEAN FORA**

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### **European Energy Fora**

In 1998, the European Commission set up the Electricity Regulatory Forum (Florence Forum) and a year later the European Gas Regulatory Forum (Madrid Forum), the main purpose of which is to promote regulatory cooperation and hence, the completion of the internal energy market in the Community through the integration of national markets. These regulatory fora, which are basically convened twice a year with the participation of the Commission, Member States, Members of the European Parliament, representatives of energy regulators and transmission system operators, representatives of organisations of traders, consumers, users and system operators as well as organised energy markets, have today become the informal advisory bodies of the Community and fora where the problems of the internal market are discussed and solutions to these problems are promoted. They also formed the basis for setting up the corresponding European Regulators' Fora - the Forum of London (for consumer protection) and the Forum of Bucharest (for renewable energy). CERA monitors systematically the European energy fora and participates in their work.

## Fora of the Energy Community

The full harmonisation of the Energy Community with the Community model of regulatory cooperation, in order to extend the single European regulatory space, is being promoted through the regulatory conferences on electricity and natural gas, established by the Energy Community Treaty. The Athens Forum of the Energy Community for the electricity market in South East Europe is envisaged by the Energy Community Treaty and operates on the model of the Florence Forum in the European Union. The Regulatory Forum of the Energy Community on Natural Gas is held in Maribor, Croatia. The Forum on Social Policy and the Belgrade Forum on Oil complete the system for the regulatory conferences of the Energy Community.

## Other international activities

During the year under review, CERA participated in the following conferences and seminars:

- Athens Energy Forum, which was held between 10-14 March 2015 in Athens,
- 6th World Forum on Energy Regulation (WFER), which was held between 24-29 May 2015 in Istanbul,
- “Technology Challenges and Regional Approaches”, which took place between 26-28 May 2015 in Brussels,
- “CEER Training on Retail Markets Monitoring Competition”, which was held between 22-25 June 2015 in Brussels,
- “Global Oil and Gas Black Sea and Mediterranean Conference”, which was held between 18-27 September 2015 in Athens,
- “The Energy Summit”, which took place between 3-6 November 2015 in London,
- “Electricity Coordination Group”, which was held between 14-17 November 2015 in Brussels,
- “Nice-Grid networking”, as part of the Smart PV activities, which took place between 5-8 November 2015 in Nice.

## Research and development

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

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

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

This project proposes pilot programs for net metering photovoltaic and smart meters in Cyprus. The project involves the design, evaluation and promotion of a simple, timely and promising energy policy on smart net-metering and through the sample of consumers to be involved in the project it is expected that a pricing response to demand policy will be applied for a year, in order to draw conclusions for further study of the pricing policy. The project has a total budget of €1,219,838, with co-financing from the EU amounting to €568,464. Work on the project started on 1 July 2013 and is expected to be completed in 2017. The project involves a total of five partners (University of Cyprus, CERA, Deloitte,

EAC, Department of Environment) who allocate the cost depending on the tasks assigned to each partner. More information about the project is available on the website: <http://www.smartpvproject.eu/>

## 6.2 Local activities

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

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

- Address by CERA Chairman at the formal part of the 58th Annual General Meeting of SEPAIK on 28 March 2015 in Nicosia.
- Presentation by a CERA officer, titled: “Electricity Prices in Cyprus. Regulatory Measures in relation to Electricity Prices”, during the visit of a team of the General Directorate of Internal Market, Industry and Entrepreneurship of the European Commission on 17 April 2015 in Nicosia.
- Address by a Member of CERA at a meeting on “Photovoltaic Systems: Good and Bad Choices” on 6 May 2015 at the University of Cyprus, in Nicosia.
- Address by the CERA Chairman at a meeting held in the context of the Sustainable Energy Week, organised by Deloitte on 5 June in Nicosia.
- Address by CERA Chairman at the 4th Cyprus Energy Symposium on 8 December in Nicosia.

# 7. ELECTRICITY MARKET

## 7.1 Licencing of electricity generation

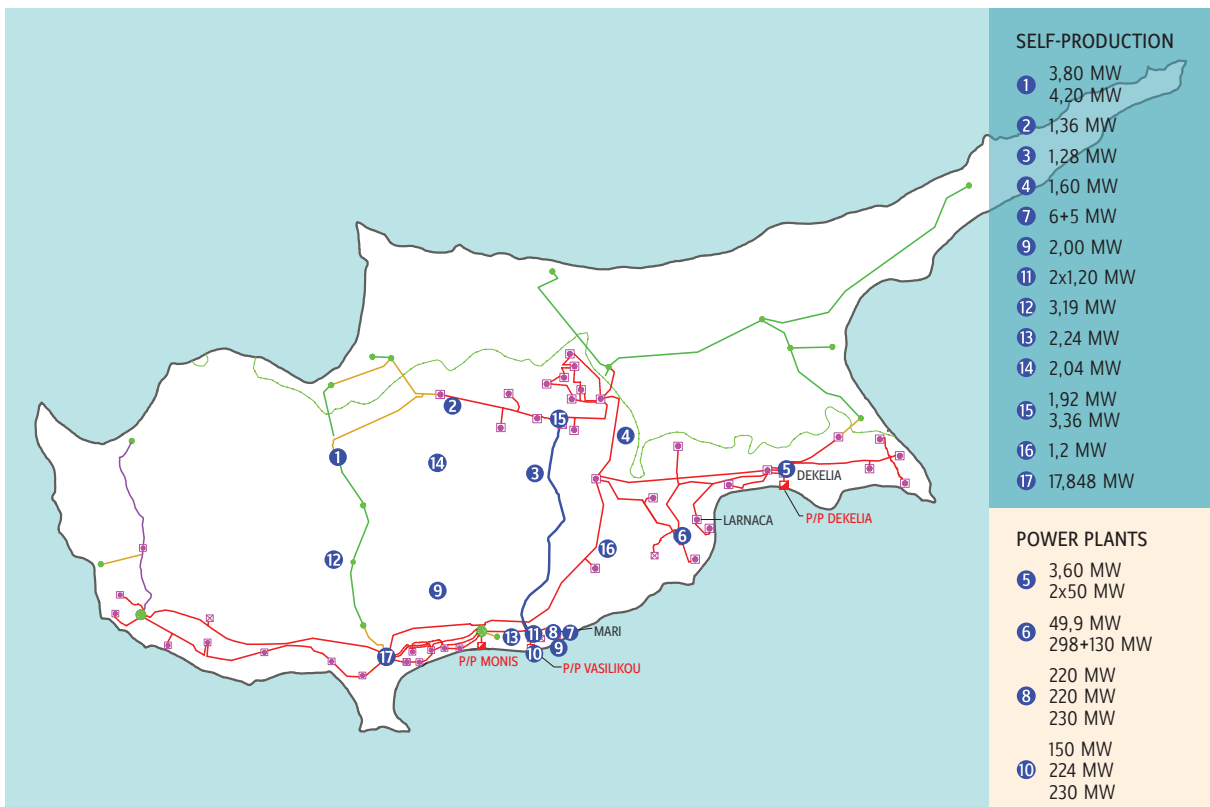
### Details of applications and licenced electricity generation

#### Conventional generating stations

Since the establishment of CERA and until the end of 2015, a total of thirty-three (33) licences for the construction of conventional generating stations were issued.

Of these, by a CERA Decision, two such licences of a generating capacity of 288,6 MW have been re-vo- ked, while the validity of three licences of a generating capacity of 467 MW (7 MW + 240 MW + 220 MW) have expired.

Today the total capacity licensed by CERA for generating stations is 2.271,338 MW in twenty-eight licences, of which seven of a capacity of 1.478 MW belong to the Electricity Authority of Cyprus (EAC)



Map 1 - Presentation and geographical distribution of licences for conventional generating stations up to 2015

and sixteen of a capacity of 41,59 MW, belong to self-producers. The remaining five, of a capacity of 751,748 MW, belong to independent power producers.

On 31 December 2015 there were no applications under consideration.

## Renewable energy sources

### Wind farms

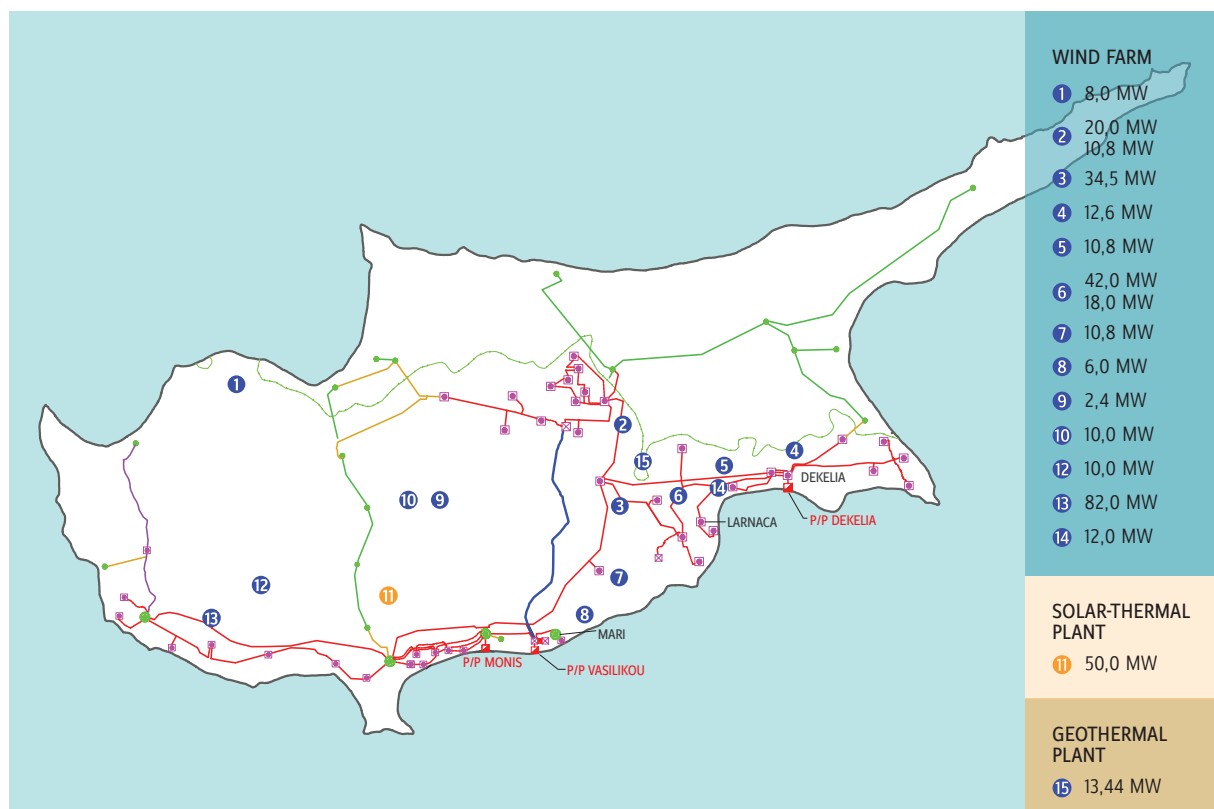
At the end of 2015, a total of fifty applications for the construction of wind farms were submitted to CERA. Thirty-four applications for the construction of wind farms have been granted.

Of these, five licences of a total capacity of 138,0 MW (53,8 MW in Phase 1) have been revoked by CERA's decisions. Eleven licences of a capacity of 323 MW (165,8 MW in Phase 1) have expired and six wind farms of a total capacity of 157,5 MW have been operating. Also sixteen applications of a total capacity of 359 MW for the construction of wind farms for electricity generation have been rejected.

By the end of 2015, total capacity licenced by CERA for implementation was 113,4 MW. These figures do not include wind farms with a capacity below 30kW, as these are exempted from a licence by CERA.

In 2015 work for the installation of another wind farm of a capacity of 10,8 MW in Ayia Anna, Larnaca area, was completed, so today a total of six wind farms of a total installed capacity of 157,5 MW are in commercial operation.

On 31 December 2015, no application for the construction of a wind farm was under consideration.

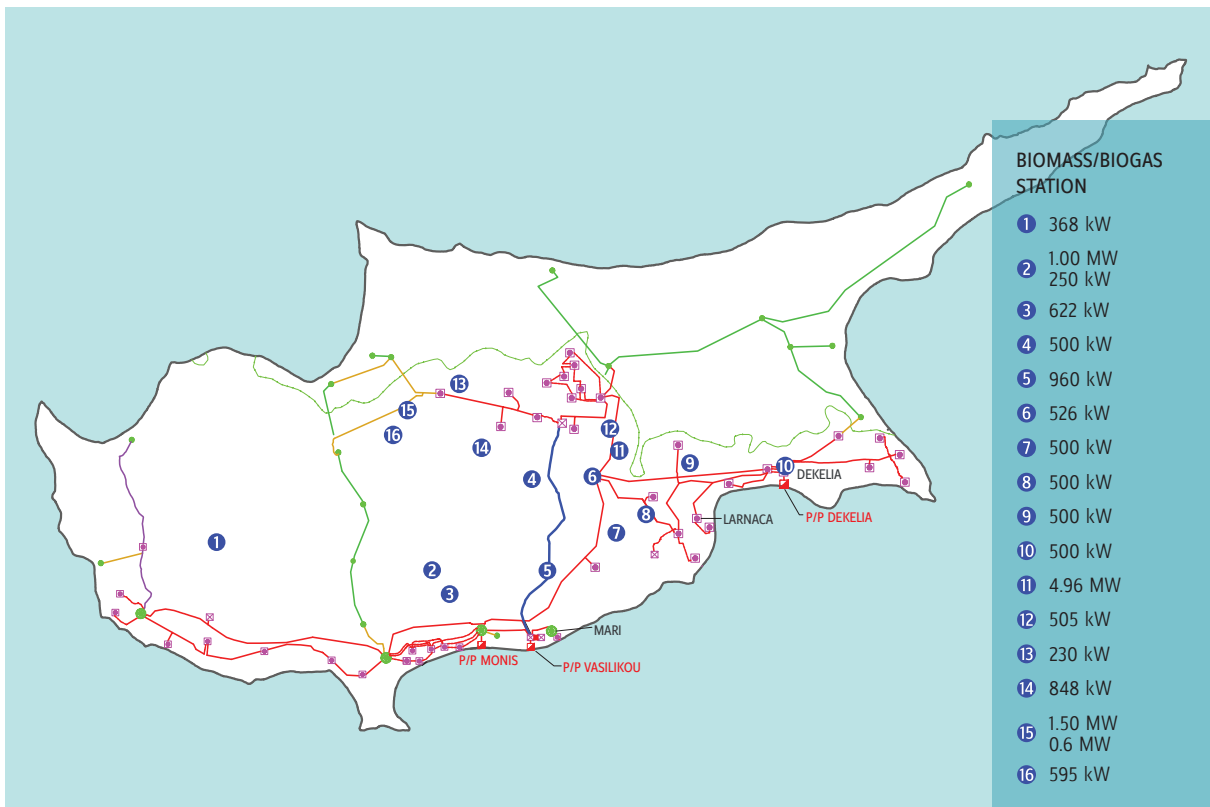


Map 2 - Presentation and geographical distribution of licences for wind farms, solar-thermal plants and geothermal plants up to 2015

## Biomass / biogas

CERA has issued twenty-two Licences for the construction of generating stations from biomass/biogas of a total capacity of 22,48 MW and has examined two additional applications of a total capacity of 2,05 MW. In addition to the above, three licences of a total capacity of 1,51 MW have been revoked and nine applications of a total capacity of 34,963 MW have been rejected. It should be noted that these figures do not include units using biomass/biogas of a capacity below 20 kW, as they are exempted from the requirement to obtain a licence from CERA.

In 2015 a biomass unit of a capacity of 184 kW shut down and thus the total installed capacity of biomass units, either autonomous or linked to the grid, is 9,81MW.



Map 3 - Presentation and geographical distribution of licences for biomass/biogas units up to 2015

## Photovoltaic systems

According to the Regulating the Electricity Market Laws of 2003-2015 RES systems of a capacity up to 5 MW are examined and evaluated by CERA under article 35 of the Law. RES installations of a capacity of over 5 MW are examined and evaluated under article 34 of the Law.

The construction licence for a P/V park of a capacity of 10 MW granted by CERA in 2013 under article 34 of the Law, as part of the tender of the Ministry of Energy, Commerce, Industry and Tourism, expired without the realisation of proposed project.

### **Solar thermal stations**

Eight applications of a total capacity of 175 MW were submitted. Three licences of a total capacity of 75 MW were granted, while five applications of a total capacity of 100 MW were rejected. Two of these licences of a capacity of 25 MW have expired without the construction of the stations.

On 31 December 2015 there was no application under study.

### **Geothermal stations**

One application for a geothermal station of a total capacity of 13,44 MW was submitted and one licence of a total capacity of 13,44 MW was granted.

On 31 December 2015 there was no application under study.

### **The NER 300 initiative of the European Commission**

As part of Phases A and B of the European NER 300 initiative for innovative RES projects, two projects from Cyprus in the category of solar thermal parks were selected. CERA, taking into account, in addition to other criteria for the evaluation of applications,

- the positive evaluation which the proposed projects received from the European Investment Bank,
- the approval and funding by 50% of their innovative technology from the financial plan NER300,
- the practical support of the Government of Cyprus with the approval by the Council of Ministers of individual support measures in order to overcome any problems presented in the integration of RES in the electricity market under the existing electricity market rules and in order to enable both companies implement immediately their projects and to start commercial operation,

granted in December 2015 a licence to construct and operate a solar thermal park of a capacity of 50 MW. In this project electricity generation will be made exclusively from the exploitation of solar energy from 300 small towers and each tower will be surrounded by 110 metallic mirrors. Each tower will have a thermal energy storage system of graphite, and the stored thermal energy will be used to generate steam that will be channelled to the steam turbine, to generate electricity, and the condensation of steam will be accomplished by air-cooled condensers.

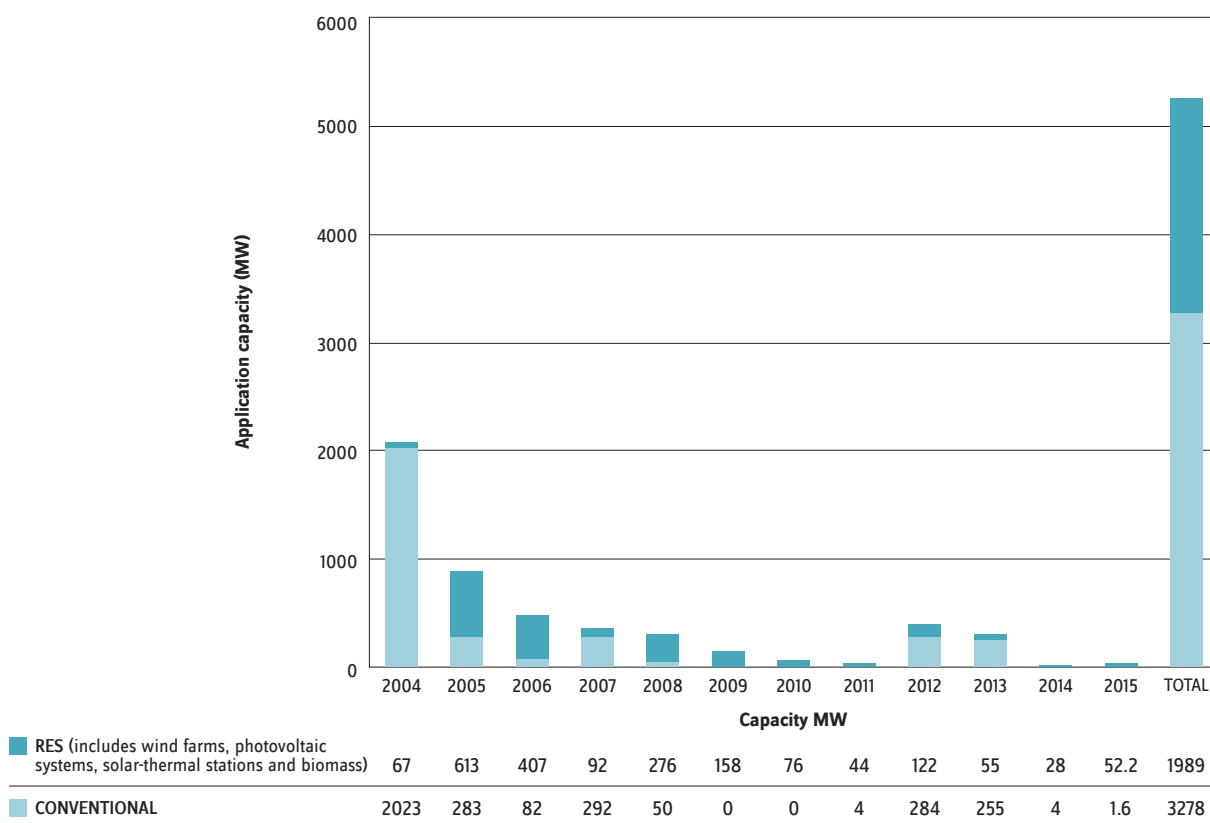
In addition, an application for the construction of a solar thermal park with a maximum total installed capacity of the 50,76 MW is under consideration. According to the application the park will consist of 6.768 Sterling engine machines of a capacity of 7,5 kW each.

### **Register of applications for a licence and licences issued**

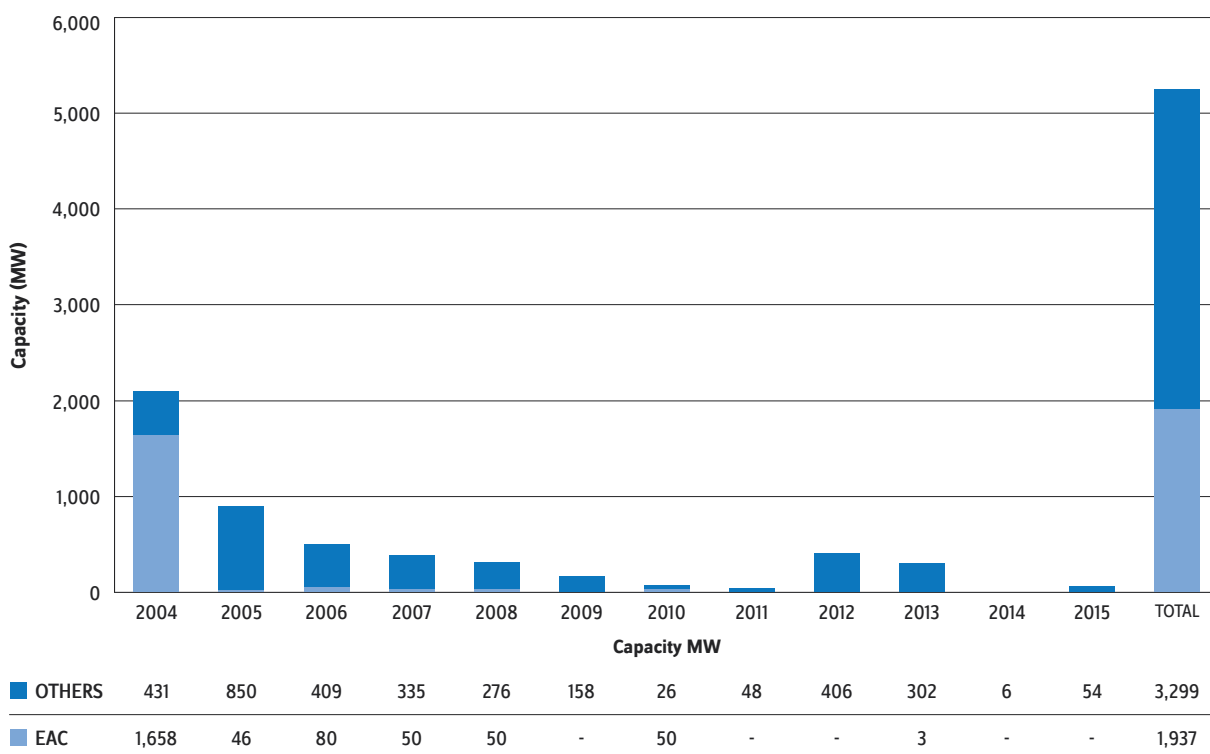
All lists of applications for a licence, as well as licences issued, can be found in CERA's website at [www.cera.org.cy](http://www.cera.org.cy).



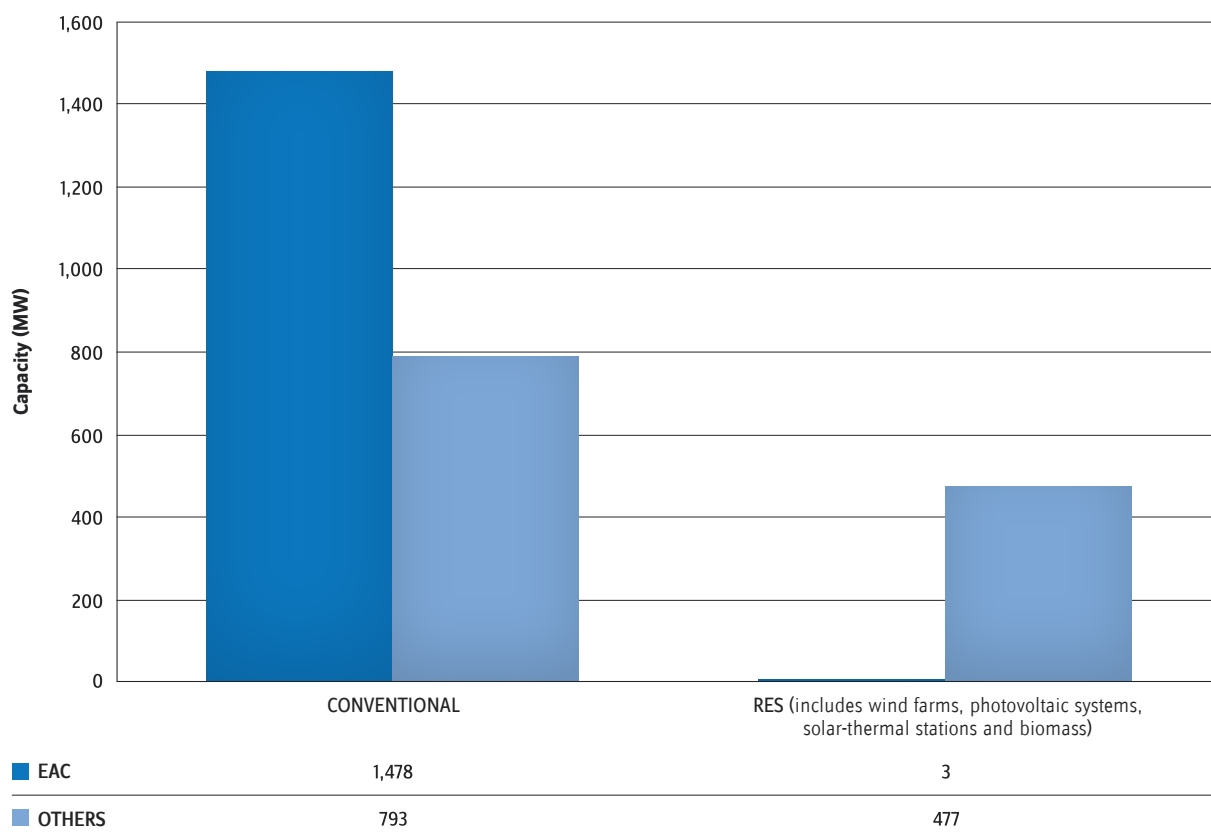
## COMPARATIVE GRAPHS ON APPLICATIONS AND LICENCES GRANTED FOR ELECTRICITY GENERATION



Graph 1 - Applications for electricity generation licences submitted in the 2004-2015 period



Graph 2 - Applications for electricity generation licences for the period 2004-2015 submitted by the EAC and other producers



Graph 3 - Total licensed capacity on 31.12.2015

## Exemptions from a construction and operating licence of a power production unit

### Generating units using conventional fuel

CERA, by means of continuous and persistent efforts through announcements on its website, in the daily press and the Official Gazette of the Republic for the information of the public at large as well as by sending circulars to all departments, government services and various other organised entities concerned, succeeded in informing the interested public that for the installation and operation of a generator, of a capacity exceeding 10 kW, it is necessary to obtain a licence or an exemption from a licence by CERA.

During 2015 the submission of applications for the granting of an exemption from a licence and the issuing of exemptions from a licence continued as shown in the following Table.

NUMBER OF APPLICATIONS FOR GENERATORS		EXEMPTIONS FROM A LICENCE FOR GENERATORS ISSUED BY CERA		EXEMPTIONS FROM A LICENCE FOR GENERATORS (IN FORCE*)	TOTAL GENERATION LICENCED (IN FORCE* (MW))
2015	TOTAL	2015	TOTAL		
74	603	23	613	455	294,31

\* IN FORCE: Licences which have not been revoked or expired.

Table 1 - Applications for exemption from a licence and exemption from a licence issued up to 2015

## Electricity generation from photovoltaic systems

### Photovoltaic systems with a capacity of 21-150 kW

The following table shows the status of applications/licences for photovoltaic systems of a capacity of 21-150 kW up to the end of 2015:

NUMBER OF PV APPLICATIONS		EXEMPTIONS FROM A PV LICENCE ISSUED		TOTAL PV GENERATION LICENCED IN FORCE (MW)	TOTAL PV GENERATION INSTALLED (MW)
2015	TOTAL	2015	TOTAL		
-	758	26	357	35,69	18,57

**Table 2** - Applications for licences to generate electricity from photovoltaic systems of a capacity of 21-150 kw issued up to 2015

### Photovoltaic systems with a capacity of 151 kW- 10 MW (tender offer)

CERA during the year 2013, after taking into account the Grants' Schemes to promote the use of RES, the invitation to a tender offer by the Management Committee of the RES and Energy Conservation Fund, and the study of CERA conducted for the purpose of updating the National Action Plan which envisages, on the basis of the Council of Ministers' Decision to speed up the penetration of photovoltaic systems in the electricity system decided to start receiving applications of PV systems of a capacity exceeding 151 kW and up to 10 MW and which comply with the provisions of the tender offer.

During 2015, CERA after reviewing and evaluating the remaining applications, proceeded to issue two exemptions from a licence for the construction of photovoltaic farms, as part of the tender offer, having a total installed capacity of 2,49 MW.

The following table shows the status of applications/licences for photovoltaic systems of a capacity of 151kW-10MW up to the end of 2015:

NUMBER OF PV APPLICATIONS		EXEMPTIONS FROM A PV LICENCE ISSUED FOR				TOTAL PV GENERATION LICENCED IN FORCE (MW)	TOTAL PV GENERATION INSTALLED (MW)
2015	TOTAL	CONSTRUCTION		OPERATION			
		2015	TOTAL	2015	TOTAL		
0	24	2	24	1	4	49,23	8,11

**Table 3** - Applications and licences for photovoltaic systems of a capacity of 151 kW - 10 MW up to 2015

### Installation of photovoltaic systems in houses and buildings which are the seat of Local Authorities under the net metering method

A total of 1.458 applications were received in 2015 at the district offices of the Cyprus Transmission System Operator who was designated by CERA as the implementing agency of this scheme, and the installation of 2.139 photovoltaic systems in houses and buildings which are the seat of local authorities was completed.

NUMBER OF PV APPLICATIONS		CONNECTED PV INSTALLATIONS		TOTAL PV INSTALLED CAPACITY
2015	TOTAL	2015	TOTAL	
1.458	8.700	2.139	8.113	24,37

**Table 4** - Total number of applications and connected PV installations under the net metering method up to 2015

### Installation of photovoltaic systems with the self-production method in commercial and industrial premises

In 2015 CERA received 38 applications of a total installed capacity of 1,43 MW for the installation of photovoltaic systems with the method of self-production in commercial and industrial premises.

The following table shows the status of applications/licences for photovoltaic systems with the method of self-production:

NUMBER OF PV APPLICATIONS		EXEMPTIONS FROM A PV LICENCE ISSUED FOR				TOTAL PV GENERATION LICENCED IN FORCE (MW)	TOTAL PV GENERATION INSTALLED (MW)
2015	TOTAL	CONSTRUCTION		OPERATION			
		2015	TOTAL	2015	TOTAL		
38	109	46	96	8	36	4,352	2,215

**Table 5** - Applications and licences for PV systems with the method of self-production up to 2015

## 7.2 Electrical energy production in 2015

### Maximum total power generation (MW)

The maximum total power generation amounted to 1009 MW on Tuesday 4/8/2015 at 14:30 hours, when the maximum total demand occurred.

### Total electrical energy generated (GWh)

The following important data, concerning the total electrical energy generated during 2015, have been recorded.

Total gross electrical energy generated reached 4.512.405 MWh.

EAC contributed with 4.127.876 MWh, while generation by self-producers was 2.950 MWh. RES producers generated 384.529 MWh.

The EAC generating stations produced 220.805 MWh for their local needs.

Total units sent out to the Transmission System from the EAC power stations, reached 3.907.071 MWh.

Recorded energy losses in the Transmission System amounted to 77.124 MWh, or 1,9% of energy sent out to the transmission system.

**Load factor**

The mean value of the annual load factor of conventional generating stations was 51,1% in 2015, compared with 54,2% in 2014. At the time of peak demand there was no contribution of self-production. However, the electricity produced by a conventional self-producer in 2015 is taken into account for the calculation of load factor.

The following Graph shows total energy generated in 2015.

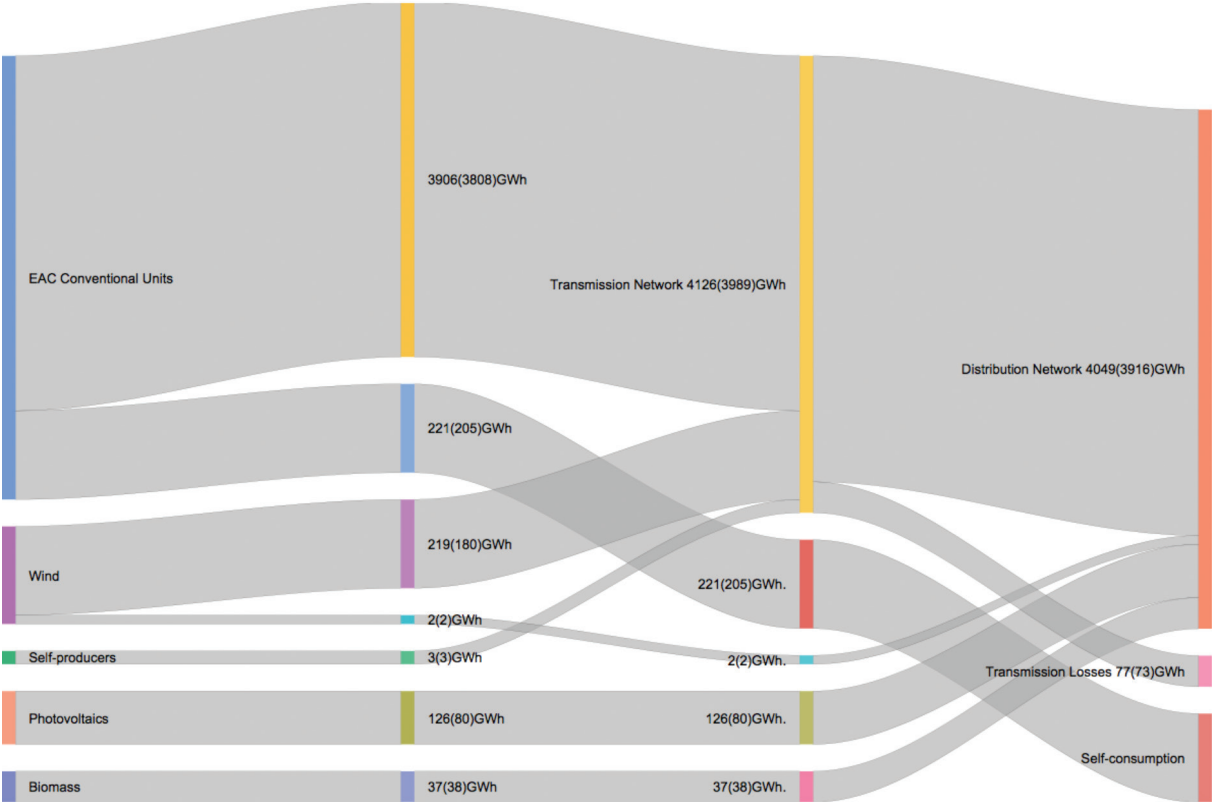
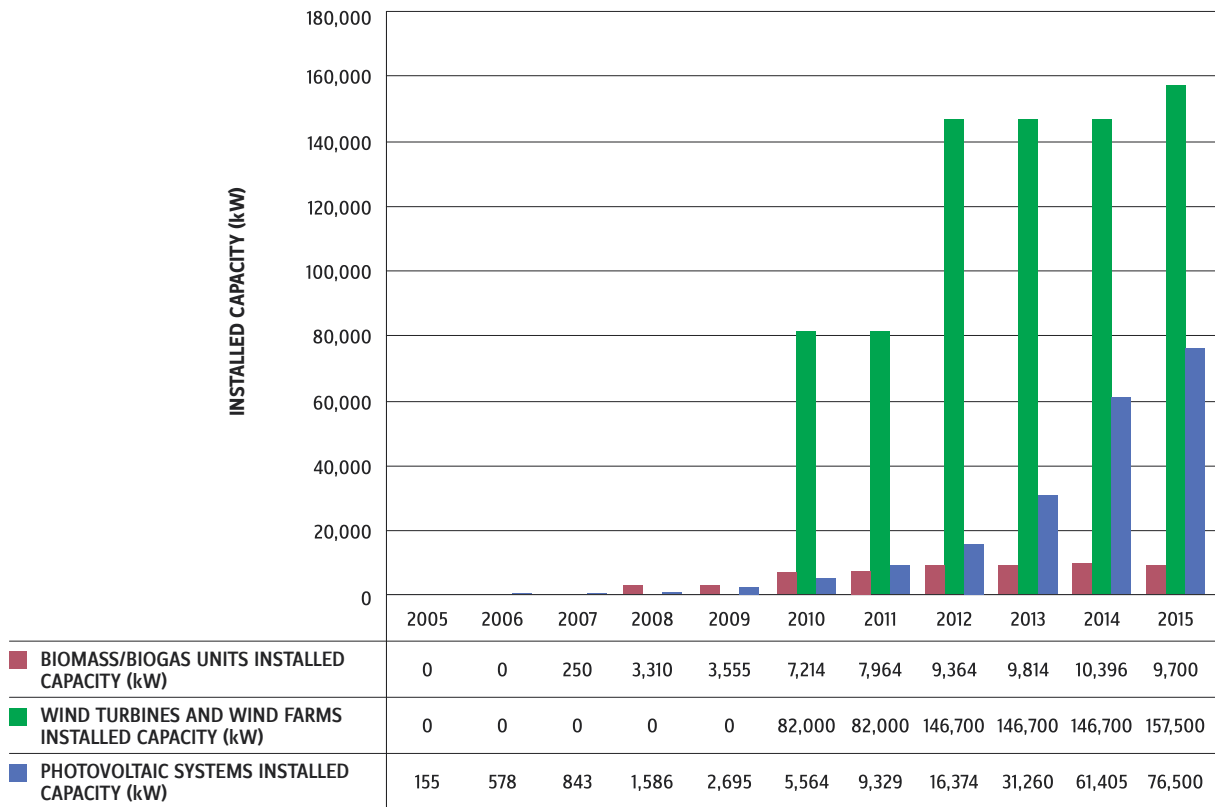
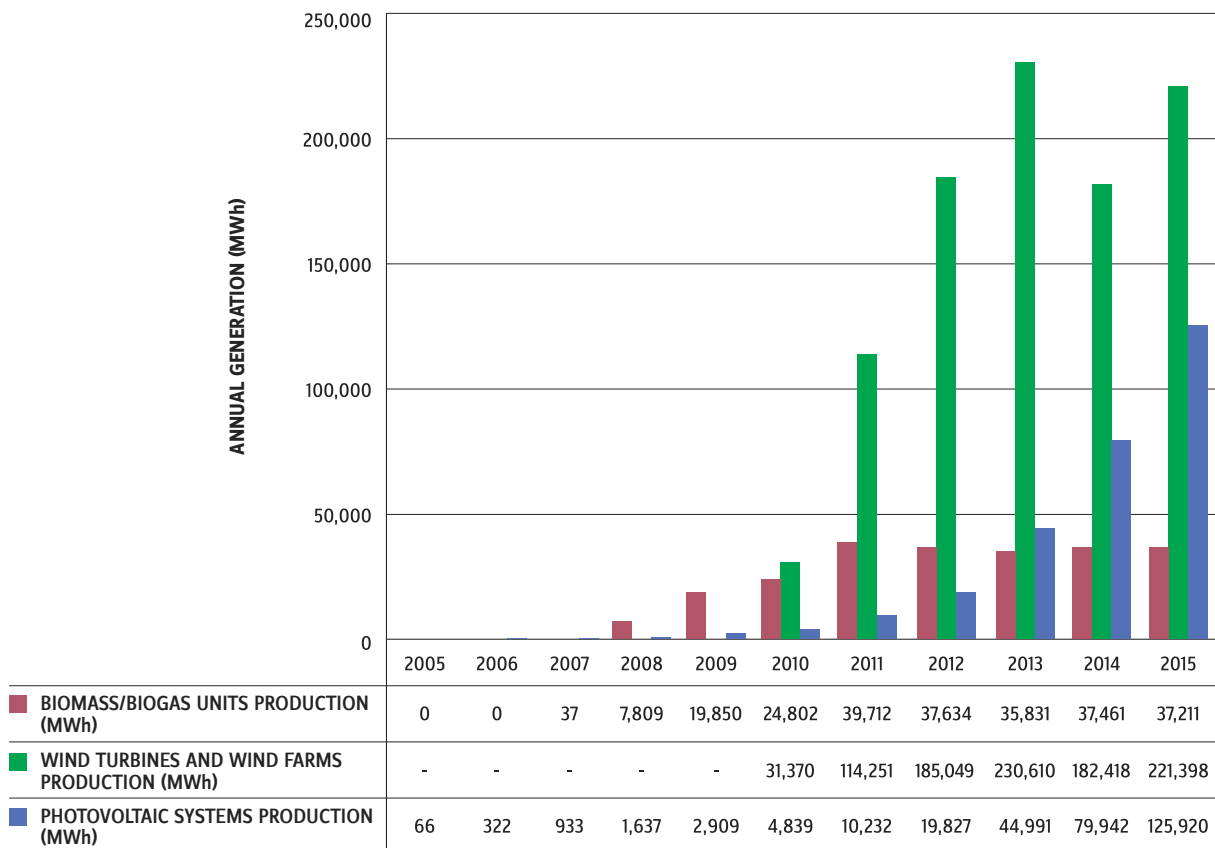


Figure 1 - Sankey Diagram for overall electricity production in 2015

## COMPARATIVE FIGURES FOR RES GENERATION

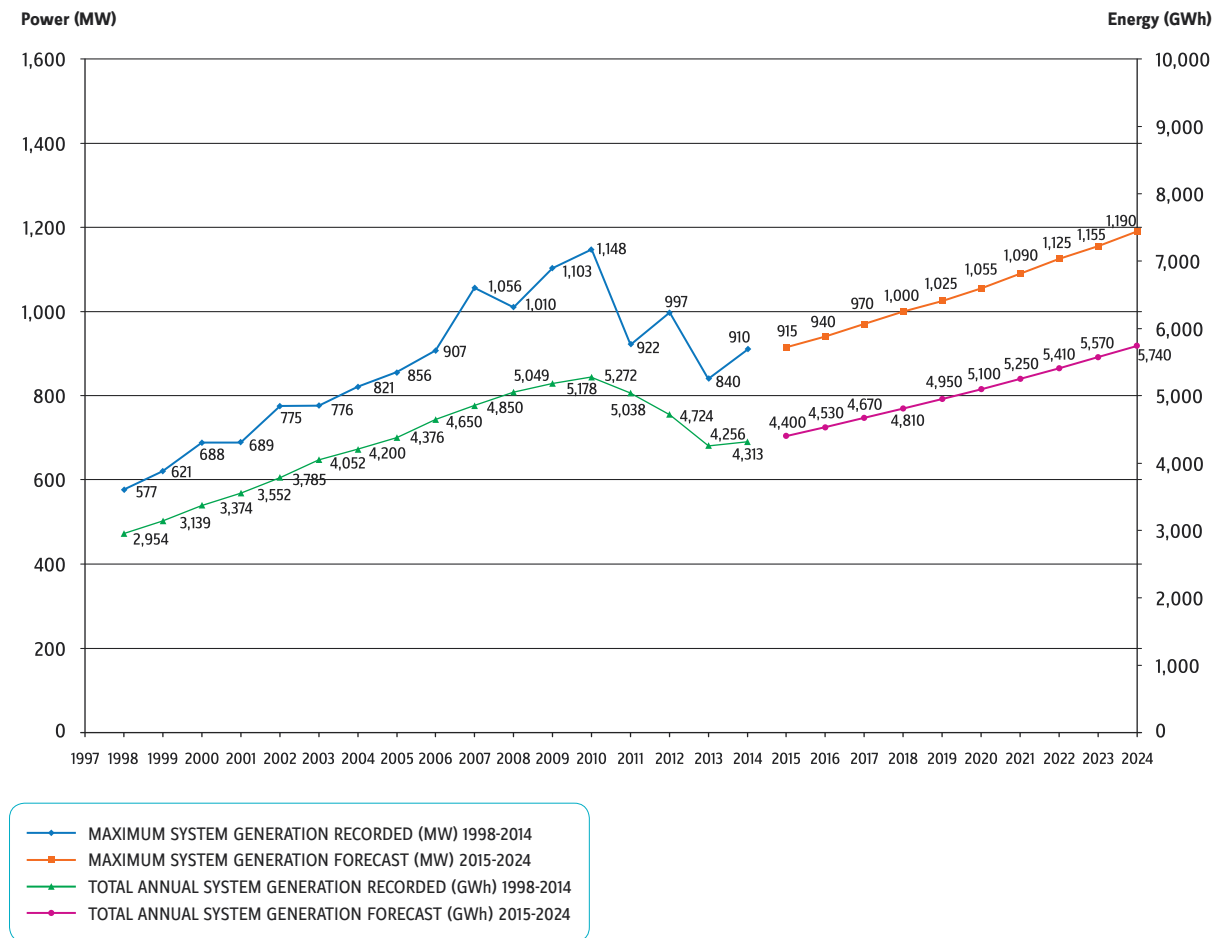


Graph 4 - Annual installed capacity (kW) RES 2005-2015



Graph 5 - Annual installed capacity - Production (MWh) RES 2005-2015

## FORECAST OF ANNUAL MAXIMUM ENERGY GENERATION (MW) AND ANNUAL ENERGY GENERATED (GWh) FOR THE 2015-2024 DECADE



Graph 6 - Forecast of total maximum energy generated 2015-2024

### 7.3 Security of electricity supply

#### Electrical energy supply availability

Table 6 shows the anticipated Maximum Total Generation (MW) for the period 2004-2015 and the available reserve, according to studies and the EAC current development programme. It should be noted that electricity generation from RES, and in particular from Wind Farms, because of their intermittent and unpredictable nature, cannot be included in the future power capacity requirements.

MAXIMUM ELECTRICITY DEMAND AND AVAILABLE PRODUCTION AND RESERVE												
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EAC Development Plan							+50MW (MEK II)	-30MW Decommissioning of 1 unit Moni PS -390 (Vass PS) -220 (Vass PS) +166,6(ICE)*	+145 MW (CCGT(A)5), +145 MW (CCGT(A)4) +120(ICE)**	+Repair (CCGT(A)5) and CCGT5) + 390 (1-3 Vass PS) -286,6(ICE) -150MW withdrawal of steam units at Moni***		
Installed Capacity in MW	988	988	988	1.118	1.318	1.388	1.437	964	1.374	1.477	1.477	1.477
Maximum Generation Demand in MW	821	856	907	1.056	1.010	1.103	1.437	922	997	840	910	915
Available Reserve	20%	15%	9%	6%	30%	26%	0%	964-1.100****	38%	76%	62%	61%

ICE Internal Combustion Engine  
 CCGT Combined Cycle Gas Turbine - Plant  
 CCGT (O) Open Cycle Gas Turbine  
 (\*) Summer 2011 - Availability Reduction as compared to 2010: 1 unit at Moni PS, 3x130+1x220MW at Vass. PS. Increase renting ICE 50MW:166,6MW  
 (\*\*) Summer 2012 - Availability Increase as compared to 2011: 290 MW at Vass. PS + renting ICE: 120 MW  
 (\*\*\*) Summer 2013 - Availability Increase as compared to 2012: +2x75MW +3x130 MW at Vass. PS. Withdrawal 5x30 MW at Moni PS. Increase renting ICE: 287 MW  
 (\*\*\*\*) 1.100 MW, summer production estimate without considering the 11/7/2011 incident

**Table 6** - Available capacity of annual production and reserve

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

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

After the sharp drop in electricity demand and capacity during the year under review, the generation availability is very high. This is expected to continue over the coming years.

In calculating the Available Capacity, the possibility of meeting it in part from renewable energy sources, such as for example photovoltaic systems, which may be in a position to satisfy it, is not taken into account.



## 8. GAS MARKET

The following section will make a brief reference to the legal framework of the gas market as well as to organisational and market development issues.

### 8.1 Legal framework for the natural gas market

The current Law on Regulating the Natural Gas Market (2012) which adopts the important features of the 3rd Energy Package has provisions for the regulation of the natural gas market in the Republic of Cyprus and among others sets the rules for the transportation, distribution, supply and storage of the natural gas. Additionally, it defines the rules concerning the operation and functioning of the natural gas sector, the access to the market and the exploitation of the networks as well as the criteria and the procedures for the granting of licences for the transportation, distribution, supply and storage of natural gas. The law describes the duties and responsibilities of CERA and defines in a complete manner its role and range of activities.

It should be noted that the Law contains the key provisions in view of the imminent introduction of natural gas in the energy balance of Cyprus, but it does not specify the market model and the organisational framework to be used for the development of the market, allowing in this way reasonable discretion to decision-makers to determine the appropriate options. Furthermore, the law provides the possibility of derogations from the Directive, without specifying those derogations, but allowing the Council of Ministers to determine them.

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

The Regulating the Natural Gas Market Law of 2012 provides that Cyprus may deviate from some specific sections, as it can be regarded either as an isolated or emerging market. In the case of Cyprus, it is possible, on the one hand, to deviate from applying competition in the wholesale market and in the supply of natural gas to final consumers, particularly as long as the Cyprus natural gas market is deemed to be emerging and, on the other hand, it is possible not to separate the activities of the natural gas operators (transportation, distribution, storage, LNG, etc.) from the activities of marketing and supply, in the manner prescribed in the Directive, for example in the transportation installations, with ownership unbundling.

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

## 8.2 Organisation of the natural gas market

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

Unfortunately, the experience of other countries with similar specific characteristics with Cyprus is minimal, i.e. the combination of a non-existent market, which needs some “triggering”, under the status of emerging or isolated market, according to the European framework. The only countries that can be described as partly corresponding cases are Portugal and Greece - as they too started under an exactly similar regime in the 1990s - while Ireland is slightly similar and then the Western Balkan countries, as they do not have natural gas yet and are in the process of introducing it in their the energy system.

It is expected that the natural gas market will be developed in phases, which in addition to their time-lines, will be of evolutionary character, i.e. they will provide for the important steps to be made so that Cyprus may have within a reasonable time a market harmonised with the European acquis and a market which will operate in an efficient and cost-effective way for its consumers.

It is expected to start with electricity generation and then to expand to other sectors, mainly the commercial sector (e.g. hotels), small industrial and business units, and finally households.

CERA has already submitted a study with recommendations regarding the Framework for the Design and Operation of the natural gas market in Cyprus. This study includes basic parameters for the functioning of the natural gas market both in the initial and the maturity stage, as well as during the start-up and development phase, records the specific competences of the players involved, (e.g. network operators and owners, suppliers and others), defines the various market development phases, describes in general lines the regulatory framework, and finally analyses CERA's suggestions on the choice of the market-model and by extension the derogations which should apply, giving full reasons for them.

## 8.3 Development of the natural gas market

### **Indigenous natural gas**

The confirmation of the existence of hydrocarbons in Cyprus' Exclusive Economic Zone and their potential production in the future provides an interesting parameter regarding the development of the Cypriot natural gas market, as there is the possibility of supplying the island with local natural gas.

The development of the Aphrodite Block affords Cyprus its first opportunity for the supply of natural gas, while undoubtedly the arrival of indigenous natural gas will be an important landmark for the people of Cyprus. However, the development of infrastructure designed for the supply of the Cypriot natural gas to the local market is interwoven with the development of the infrastructure which is necessary for exports. Thus, now we are waiting for the development plan of the Aphrodite block which will include, inter alia, the timeline for the implementation of options.

At the same time, we expect with optimism the developments in the other exploration blocks.

### **Interim solution for natural gas supply**

The possible adoption of an interim solution for natural gas supply until the local natural gas is available is an option which is currently being examined. Therefore, in continuation of the previous, and

unsuccessful, tender by the Natural Gas Public Company (DEFA), the Council of Ministers with a new decision, instructed DEFA in November 2013 to invite an open tender for the supply of natural gas for an extended period of up to 10 years and, consequently, for higher volumes of gas, compared with the last tender.

On this basis, DEFA in January 2014, announced an open tender for the supply of natural gas for a period of up to 10 years, starting on 1 January 2016. The gas should be delivered to the Vasilikos power plant. It was requested that the tenders should be complete, meaning that they should cover all the commercial and infrastructure requirements for the delivery of natural gas at Vasiliko, i.e. the supply of natural gas, transportation and processing. The procedure is still ongoing.

Pursuant to its competences under the Regulating the Natural Gas Market Laws of 2004 to 2012 and also of the Regulating the Electricity Market Laws of 2003 to 2012, CERA should, in case the procedure leads to a successful bidder, ensure the security of gas supply and by extension the security of electricity supply, as well as the smooth, secure and reliable operation of both the gas and the electricity systems.

In addition, in the context of consumer protection, CERA will check, as it did in the past, the result of the procedure by estimating once again the electricity generation cost with the use of natural gas and will evaluate the pros and cons from its use.

## 9. CONSUMER PROTECTION AND RESOLVING COMPLAINTS



The Council of European Energy Regulators (CEER), in cooperation with all national regulatory authorities, promotes measures to implement the above efforts. A key measure is the support given to the Council of European Energy Regulators (CEER) by the National Regulatory Authorities, which publicise the launch of CEER's new website which aims exclusively at informing energy consumers.

The new website with focus on energy consumers is [http://www.energy-regulators.eu/portal/page/portal/EER\\_HOME/ENERGY\\_CUSTOMERS](http://www.energy-regulators.eu/portal/page/portal/EER_HOME/ENERGY_CUSTOMERS)



CERA in order to ensure that consumers have available all necessary information concerning their rights, the current legislation and the means of redress available in case of dispute issued in 2015 an "informative kit" which is available in an electronic format in the Citizen Service Centres, in the District Offices of the Ministry of Energy, Commerce, Industry and Tourism and the District Offices of the EAC.

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

### Performance indicators

Exercising the powers conferred to it by the Regulating the Electricity Market Law and the amendments thereto, CERA issued with the approval of the Council of Ministers, the Regulating the Electricity Market (Performance Indicators) Regulations of 2005 [Regulatory Administrative Act 571/2005], which were tabled and approved by the House of Representatives.

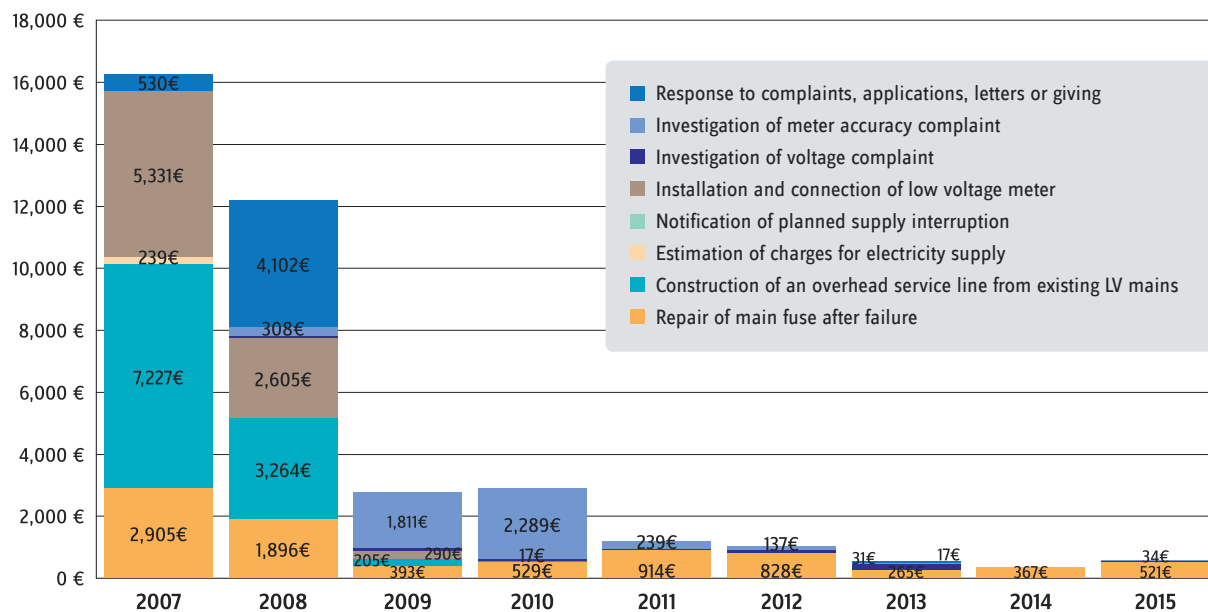
Under these Regulations, "performance indicators" are defined as the indicators for power supply and include the obligations of the supplier and the owner of the distribution system, the rights of consumers, performance standards and minimum levels for this performance as well as the fines to be imposed if the supplier and/or the distribution system owner fails to comply.

In the context of implementation and observation of the above provisions, the amounts are given below which were paid as fines in respect of each performance indicator to electricity consumers by the Electricity Authority of Cyprus, as distribution system owner and licensed supplier, and which were recorded for the period 1.1.2015 until 31.12.2015. Also for comparison purposes, we give the corresponding results of previous years.

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

COMPARATIVE TABLE FOR THE YEARS 2007 - 2015

Fine paid by EAC (€) to electricity consumers



Graph 7 - Performance indicators for the owner of the distribution system (EAC)

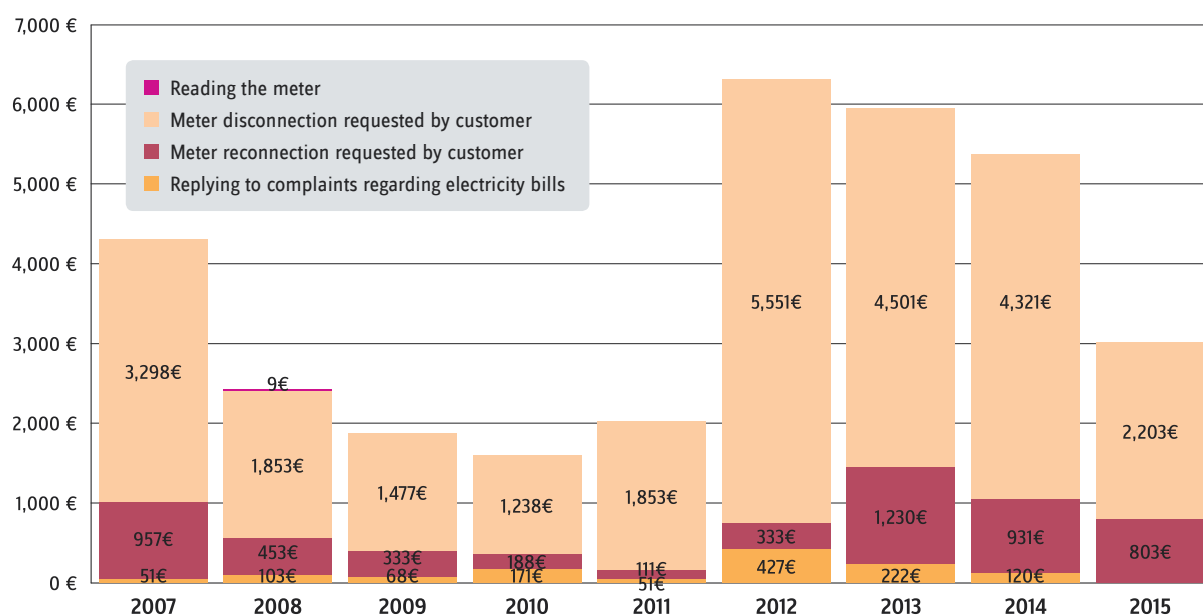
Indicator		2007	2008	2009	2010	2011	2012	2013	2014	2015
1	Repair of main fuse after failure	2.905 €	1.896 €	393 €	529 €	914 €	828 €	265 €	367 €	521 €
2	Installation and connection of low voltage meter	5.331 €	2.605 €	290 €						
3	Construction of an overhead service line from existing LV mains	7.227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

Table 7 - Performance indicators for the owner of the distribution system (EAC)

## PERFORMANCE INDICATORS FOR THE SUPPLIER (EAC)

COMPARATIVE TABLE FOR THE YEARS 2007 - 2015

Fine paid by EAC (€) to electricity consumers



Graph 8 - Performance indicators for the supplier (EAC)

## PERFORMANCE INDICATORS FOR THE SUPPLIER (EAC)

COMPARATIVE TABLE FOR THE YEARS 2007 - 2015

Fine paid by EAC (€) to electricity consumers

Indicator	2007	2008	2009	2010	2011	2012	2013	2014	2015	
1	Replying to complaints regarding electricity bills	51 €	103 €	68 €	171 €	51 €	427 €	222 €	120 €	
2	Arrangement of appointments									
3	Meter reconnection requested by customer	957 €	453 €	333 €	188 €	111 €	333 €	1.230 €	931 €	803 €
4	Meter disconnection requested by customer	3.298 €	1.853 €	1.477 €	1.238 €	1.853 €	5.551 €	4.501 €	4.321 €	2.203 €
5	Reading the meter		9 €							
6	Response to complaints, applications, letters or giving information	*	*	*						

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

Table 8 - Performance indicators for the supplier (EAC)

From the above tables it is evident that, in the year under review, EAC performance, both as owner of the distribution system and as supplier, appears to have improved and consequently is deemed to be satisfactory. However, CERA will continue, in the exercise of its powers granted by the legislation, to undertake all necessary activities so that the EAC performance improves further.

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# 10. REPORT AND FINANCIAL STATEMENTS

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31 December 2015

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# MEMBERS OF THE AUTHORITY

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## Members:

Dr. Andreas Poullikkas - Chairman (appointed on 5 October 2015)  
George Shammias - Chairman (resigned on 30 September 2015)  
Philippou Philippos - Vice Chairman (appointed on 5 October 2015)  
Neophytos Hadjigeorgiou - Member (appointed on 26 April 2016)  
Kypros Kyprianides - Member (end of service on 1 February 2016)

## Independent Auditors:

InterTaxAudit  
Navarinou 18  
NAVARINO BUSINESS CENTER  
Agios Andreas  
1100 Nicosia, Cyprus

## Financial Advisers:

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

## Legal Advisers:

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

## Office Address:

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



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# REPORT OF THE MEMBERS OF THE AUTHORITY

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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 2015.

## **Principal activities**

The establishment of CERA arises from the obligations of Cyprus towards the European Union. CERA's basic mission is the supervision of the operation of the energy market (electricity and natural gas) in a new and liberalised environment without monopolies.

## **Review of current position, future developments and significant risks**

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

Additional details that relate to the operating environment of the Authority as well as other risks and uncertainties are described in notes 3 and 25 of the financial statements.

## **Results**

CERA's results for the year are set out on page 58.

## **Members of the Authority**

The Members of the Authority as at 31 December 2015 and at the date of this report are presented on page 54. Mr. George Shammas who was the Chairman of the Authority submitted his resignation on 30 September 2015 which was accepted. Dr. Andreas Poullikkas was appointed as the new Chairman on 5 October 2015. Mr. Philippos Philippou was appointed as Vice Chairman also on 5 October 2015. Mr. Kypros Kyprianides withdrew as Member after the end of his term of office on 1 February 2016. Mr. Neophytos Hadjigeorgiou was appointed as Member on 26 April 2016.

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

## **Events after the reporting period**

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

## **Independent Auditors**

The Independent Auditors, InterTaxAudit, have been appointed by the General Auditor of the Republic to continue to provide their services for the next year.

By order of the Members of CERA,

**Dr. Andreas Poullikkas**  
Chairman

Nicosia, Cyprus, 3 May 2016

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# INDEPENDENT AUDITOR'S REPORT

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## To the Members of Cyprus Energy Regulatory Authority

### **Report on the financial statements**

We have audited the financial statements of Cyprus Energy Regulatory Authority (CERA) (the "Authority") on pages 58 to 81 which comprise the statement of financial position as at 31 December 2015, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Responsibility of the Members of the Authority for the financial statements**

The Members of the Authority are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Members of the Authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Members of the Authority, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of Cyprus Energy Regulatory Authority (CERA) as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

## Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Authority, so far as appears from our examination of these books.
- The Authority's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Members of the Authority is consistent with the financial statements.

## Other matter

This report, including the opinion, has been prepared for and only for the members of the Authority as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

## Erodotos Kasapis

Certified Public Accountant and Registered Auditor  
for and on behalf of

### InterTaxAudit

### Certified Public Accountants

Navarinou 18  
NAVARINO BUSINESS CENTER  
Agios Andreas  
1100 Nicosia, Cyprus

Nicosia, Cyprus, 3 May 2016

# STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

	Note	2015 €	2014 €
<b>Revenue</b>	5	<b>1,973,572</b>	1,947,204
Other income	6	<b>46,846</b>	29,961
Administration expenses		<b>(1,269,117)</b>	(1,680,669)
Other expenses	7	<b>(144,115)</b>	(71,905)
<b>Operating surplus</b>	8	<b>607,186</b>	224,591
Finance income	11	<b>52,673</b>	66,401
Finance costs	11	<b>(2,620)</b>	(968)
<b>Surplus before tax</b>		<b>657,239</b>	290,024
Tax	12	<b>(15,800)</b>	(19,920)
<b>Net surplus for the year</b>		<b>641,439</b>	270,104
<b>Other comprehensive income</b>			
Actuarial gain or losses on defined benefit plans		<b>40,131</b>	(185,430)
<b>Other comprehensive income for the year</b>		<b>40,131</b>	(185,430)
<b>Total comprehensive income for the year</b>		<b>681,570</b>	84,674

The notes on pages 62 to 81 form an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

31 December 2015

	Note	2015 €	2014 €
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	63,864	48,433
Intangible assets	15	-	355
Available-for-sale financial assets	16	312,998	456,807
		<b>376,862</b>	505,595
<b>Current assets</b>			
Trade and other receivables	17	106,720	127,952
Refundable taxes	24	13,645	15,544
Cash at bank and in hand	18	5,487,905	4,625,674
		<b>5,608,270</b>	4,769,170
<b>Total assets</b>		<b>5,985,132</b>	5,274,765
<b>EQUITY AND LIABILITIES</b>			
<b>Reserves</b>			
Actuarial reserve for personnel fund	19	40,131	-
Retained earnings		4,686,080	4,060,106
<b>Total reserves</b>		<b>4,726,211</b>	4,060,106
<b>Non-current liabilities</b>			
Deferred income	23	2,939	20,565
Provisions for other liabilities and charges	21	1,190,649	1,101,558
		<b>1,193,588</b>	1,122,123
<b>Current liabilities</b>			
Trade and other payables	22	45,657	66,981
Deferred income	23	17,626	17,626
Borrowings	20	2,050	7,929
		<b>65,333</b>	92,536
<b>Total liabilities</b>		<b>1,258,921</b>	1,214,659
<b>Total equity and liabilities</b>		<b>5,985,132</b>	5,274,765

On 3 May 2016, the Members of the Cyprus Energy Regulatory Authority (CERA) authorised these financial statements for issue.



  
 Dr. Andreas Poullikkas-Chairman    Philippos Philippou-Vice Chairman    Neophytos Hadjigeorgiou-Member

The notes on pages 62 to 81 form an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Note	Retained earnings €
<b>Balance at 1 January 2014</b>		<b>4,006,552</b>
<b>Comprehensive income</b>		
Net surplus for the year		270,104
Defence contribution on deemed dividend distribution	13	(31,119)
<b>Other movements</b>		
Actuarial loss of the year		(185,430)
<b>Balance at 31 December 2014 / 1 January 2015</b>		<b>4,060,106</b>
<b>Comprehensive income</b>		
Net surplus for the year		641,439
Defence contribution on deemed dividend distribution	13	(15,464)
<b>Other movements</b>		
Actuarial gain of the year		40,131
<b>Balance at 31 December 2015</b>		<b>4,726,212</b>

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

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

The notes on pages 62 to 81 form an integral part of these financial statements.

# STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Note	2015 €	2014 €
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Surplus before tax</b>		<b>657,239</b>	290,024
Adjustments for:			
Depreciation of property, plant and equipment	14	<b>18,215</b>	14,682
Amortisation of computer software	15	<b>355</b>	827
Loss from the sale of property, plant and equipment		<b>306</b>	-
Actuarial loss/(gain)		<b>40,131</b>	185,430
Impairment charge - available-for-sale financial assets	16	<b>143,809</b>	71,905
Credit to results for provisions	21	<b>(17,626)</b>	(17,626)
Interest income	11	<b>(52,673)</b>	(66,401)
Interest expense	11	<b>1,879</b>	-
		<b>791,635</b>	478,841
<b>Changes in working capital:</b>			
Decrease/(increase) in trade and other receivables		<b>168,080</b>	(103,043)
(Decrease)/increase in trade and other payables		<b>(21,324)</b>	6,042
Decrease in deferred income		<b>(17,626)</b>	(17,626)
(Decrease)/increase in provisions	21	<b>(40,131)</b>	185,430
<b>Cash generated from operations</b>		<b>880,634</b>	549,644
Tax paid		<b>(13,901)</b>	(15,461)
<b>Net cash generated from operating activities</b>		<b>866,733</b>	534,183
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment for purchase of property, plant and equipment	14	<b>(33,646)</b>	(4,674)
Proceeds from disposal of property, plant and equipment		<b>(307)</b>	-
Interest received		<b>52,673</b>	66,401
<b>Net cash generated from investing activities</b>		<b>18,720</b>	61,727
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Interest paid		<b>(1,879)</b>	-
Defence contribution on deemed distribution paid		<b>(15,464)</b>	(31,119)
<b>Net cash used in financing activities</b>		<b>(17,343)</b>	(31,119)
<b>Net increase in cash and cash equivalents</b>		<b>868,110</b>	564,791
Cash and cash equivalents at beginning of the year		<b>4,617,745</b>	4,052,954
<b>Cash and cash equivalents at end of the year</b>	18	<b>5,485,855</b>	4,617,745

The notes on pages 62 to 81 form an integral part of these financial statements.

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# NOTES TO THE FINANCIAL STATEMENTS

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Year ended 31 December 2015

## 1. Incorporation and principal activities

### Country of incorporation

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

### Principal activities

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

## 2. Accounting policies

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

### Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113. The financial statements have been prepared under the historical cost convention.

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

### Adoption of new and revised IFRSs

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 2015. This adoption did not have a material effect on the accounting policies of the Authority.



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

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

##### **Amendments**

IFRS Interpretations Committee

- IAS 19 (Amendments) “Defined Benefit Plans: Employee Contributions” (effective for annual periods beginning on or after 1 February 2015).
- Annual Improvements to IFRSs 2010–2012 Cycle (issued on 12 December 2013) (effective for annual periods beginning on or after 1 February 2015).
- Annual Improvements to IFRSs 2012–2014 Cycle (issued on 25 September 2014) (effective for annual periods beginning on or after 1 January 2016).
- IAS 1 (Amendments) Disclosure initiative (effective for annual periods beginning on or after 1 January 2016).
- Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016).
- IAS 27 (Amendments) “Equity method in separate financial statements” (effective for annual periods beginning on or after 1 January 2016).

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

##### **New standards**

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

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

##### **Revenue recognition**

Revenues of the Authority are recognized on the following bases:

##### **• Revenue from fees**

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

##### **• Interest income**

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

## **Employee benefits**

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

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

## **Debtors and provisions for bad debts**

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

## **Finance income**

Finance income includes interest income which is recognised based on an accrual basis.

## **Finance costs**

Interest expense and other borrowing costs are charged to the results as incurred.

## **Foreign currency translation**

### **1. Functional and presentation currency**

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

### **2. Transactions and balances**

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

## **Tax**

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

## Property, plant and equipment

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

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

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

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

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

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

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

## Deferred income

Deferred income represents income receipts which relate to future periods.

## Computer software

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

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

## Financial instruments

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

### Trade receivables

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

### Financial assets

#### 1. Classification

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

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

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

#### 2. Recognition and measurement

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

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

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

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

of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

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

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

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

For financial assets measured at amortised cost, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

### **Cash and cash equivalents**

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

### **Trade payables**

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

## **Derecognition of financial assets and liabilities**

### **Financial assets**

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

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

### **Financial liabilities**

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

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

### **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).

### **Offsetting financial instruments**

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

### **Provisions**

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

## **3. Financial risk management**

### **Financial risk factors**

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

#### **3.1 Market price risk**

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

### 3.2 Interest rate risk

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

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

	2015	2014
	€	€
<b>Fixed rate instruments</b>		
Financial assets	<u>5,487,900</u>	<u>4,625,310</u>
	<u>5,487,900</u>	<u>4,625,310</u>

### Sensitivity analysis

An increase of 100 basis points in interest rates at 31 December 2015 would have increased/(decreased) equity and the results by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. For a decrease of 100 basis points there would be an equal and opposite impact on the profit and other equity.

	<b>Results</b>	
	2015	2014
	€	€
Variable rate instruments	<u>54,879</u>	<u>46,253</u>
	<u>54,879</u>	<u>46,253</u>

### 3.3 Credit risk

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

The trade and other receivables per counterparty type on 31 December 2015 were as follows:

	<b>Net book amount</b>	
	2015	2014
	€	€
Trade and other receivables	91,241	112,183
Cash at bank	2,832,442	3,172,099
Bank deposits	<u>2,655,459</u>	<u>1,453,234</u>
	<u>5,579,142</u>	<u>4,737,516</u>

### 3.3.1 Credit quality of financial assets

The credit quality of financial 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:

	2015 €	2014 €
<b>Cash at bank and short term bank deposits</b>		
Caa3	<u>5,487,900</u>	<u>4,625,233</u>
	<u><b>5,487,900</b></u>	<u><b>4,625,233</b></u>

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

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

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

<b>Bank group based on credit ratings by Moody’s</b>	<b>No of banks</b>	2015 €	2014 €
Caa3	2	<u>2,655,459</u>	<u>1,453,234</u>
		<u><b>2,655,459</b></u>	<u><b>1,453,234</b></u>

### 3.4 Liquidity risk

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

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

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



31 December 2014

	Carrying amounts €	3 months or less €
Bank overdrafts	7,929	7,929
Trade and other payables	11,823	11,823
	<b>19,752</b>	<b>19,752</b>

### 3.5 Other risks

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

## 4. Critical accounting estimates and judgements

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

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

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

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

- **Retirement benefits**

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

- **Impairment of non-financial assets**

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

- **Impairment of intangible asset**

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

## 5. Revenue

	2015	2014
	€	€
Annual fees received	<b>1,921,253</b>	1,847,065
Fees from the rendering of services	<b>52,319</b>	100,139
	<b><u>1,973,572</u></b>	<u>1,947,204</u>

## 6. Other income

	2015	2014
	€	€
Impairment for the year of receivables from European programs	<b>17,626</b>	17,626
Sundry operating income	<b>29,220</b>	12,335
	<b><u>46,846</u></b>	<u>29,961</u>

## 7. Other expenses

	2015	2014
	€	€
Loss on disposal of property, plant and equipment	<b>306</b>	-
Impairment charge on available-for-sale financial assets	<b>143,809</b>	71,905
	<b><u>144,115</u></b>	<u>71,905</u>

## 8. Operating surplus

	2015	2014
	€	€
Operating surplus is stated after charging the following items:		
Amortisation of computer software (included in "Administration expenses") (Note 15)	355	827
Depreciation of property, plant and equipment (Note 14)	18,215	14,683
Staff costs including Directors in their executive capacity (Note 9)	732,910	965,257
Auditors' remuneration - current year	2,000	3,600
Auditors' remuneration - prior years	-	1,400
	<u>          </u>	<u>          </u>

## 9. Staff costs

	2015	2014
	€	€
Wages and salaries	570,049	603,916
Social insurance costs and other funds	72,856	75,603
Expenses related to defined benefits plan (Note 10)	90,005	285,738
	<u>          </u>	<u>          </u>
	<u>732,910</u>	<u>965,257</u>

## 10. Employee benefits

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

The most recent actuarial valuation was made as at 31 December 2015 and it was based on the following assumptions:

	2015	2014
	€	€
Discount rate	2.42%	2.35%
Inflation	2.50%	2.50%
General salary increase	0.25%	0.25%
Total salary increase	2016: 0%	2015-2016: 0%
	2017+: 1.50%	2017+: 1.50%
	<b>for inflation and the general increase of salaries plus increment promotions</b>	for inflation and the general increase of salaries plus increment promotions

Percentage increase in pensions	<b>1.25%</b>	1.25%
Increase of basic insurable earnings	<b>2%</b>	2%
Mortality table	<b>75% of PA90</b>	75% of PA90

During the year an amount of €90,005 (2014: €285,738) was charged to the results based on the above actuarial valuation. Amounts charged to the results are analysed as follows:

	<b>2015</b>	2014
	<b>€</b>	€
Current service costs	<b>62,918</b>	44,299
Interest on obligation	<b>27,087</b>	21,290
Service costs	<b>-</b>	220,149
	<b><u>90,005</u></b>	<u>285,738</u>

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

	<b>2015</b>	2014
	<b>€</b>	€
Balance at 1 January	<b>1,101,558</b>	615,636
Provision for the year	<b>90,005</b>	285,738
Contributions by Members	<b>39,217</b>	14,754
Actuarial loss/(gain) on obligation	<b>(40,131)</b>	185,430
<b>Balance at 31 December</b>	<b><u>1,190,649</u></b>	<u>1,101,558</u>

At 31 December 2015 the actuarial position in respect of the defined benefit plan was as follows:

	<b>2015</b>	2014
	<b>€</b>	€
Present value of accrued plan obligations	<b><u>1,190,649</u></b>	<u>1,101,558</u>
	<b><u>1,190,649</u></b>	<u>1,101,558</u>
<b>Provision for plan liabilities recognised in the statement of financial position</b>	<b><u>1,190,649</u></b>	<u>1,101,558</u>

## 11. Finance income/cost

	2015	2014
	€	€
Interest income	52,673	66,401
<b>Finance income</b>	<b>52,673</b>	<b>66,401</b>
Interest expense	(1,879)	-
Sundry finance expenses	(741)	(968)
<b>Finance costs</b>	<b>(2,620)</b>	<b>(968)</b>
<b>Net finance income</b>	<b>50,053</b>	<b>65,433</b>

## 12. Tax

	2015	2014
	€	€
Defence contribution - current year	15,800	19,920
<b>Charge for the year</b>	<b>15,800</b>	<b>19,920</b>

The corporation tax rate is 12,5%.

Under certain conditions interest income may be subject to defence contribution at the rate of 30%. In such cases this interest will be exempt from corporation tax. In certain cases, dividends received from abroad may be subject to defence contribution at the rate of 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter.

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

## 13. Dividends

	2015	2014
	€	€
Defence contribution on deemed distribution	15,464	31,119
	<b>15,464</b>	<b>31,119</b>

Deemed dividends are subject to special contribution for defence at 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter for shareholders that are residents of Cyprus.

## 14. Property, plant and equipment

	Computer hardware	Plant and machinery	Motor vehicles	Furniture, fixtures and office equipment	Books	Total
	€	€	€	€	€	€
<b>Cost</b>						
Balance at 1 January 2014	43,860	66,630	22,844	72,367	4,864	210,565
Additions	1,103	3,293	-	278	-	4,674
<b>Balance at 31 December 2014/ 1 January 2015</b>	<b>44,963</b>	<b>69,923</b>	<b>22,844</b>	<b>72,645</b>	<b>4,864</b>	<b>215,239</b>
Additions	29,458	2,665	-	1,523	-	33,646
<b>Balance at 31 December 2015</b>	<b>74,421</b>	<b>72,588</b>	<b>22,844</b>	<b>74,168</b>	<b>4,864</b>	<b>248,885</b>
<b>Depreciation</b>						
Balance at 1 January 2014	26,688	43,325	22,844	56,132	3,134	152,123
Charge for the year	5,654	5,678	-	2,865	486	14,683
<b>Balance at 31 December 2014/ 1 January 2015</b>	<b>32,342</b>	<b>49,003</b>	<b>22,844</b>	<b>58,997</b>	<b>3,620</b>	<b>166,806</b>
Charge for the year	10,175	4,619	-	2,935	486	18,215
<b>Balance at 31 December 2015</b>	<b>42,517</b>	<b>53,622</b>	<b>22,844</b>	<b>61,932</b>	<b>4,106</b>	<b>185,021</b>
<b>Net book amount</b>						
<b>Balance at 31 December 2015</b>	<b>31,904</b>	<b>18,966</b>	<b>-</b>	<b>12,236</b>	<b>758</b>	<b>63,864</b>
<b>Balance at 31 December 2014</b>	<b>12,621</b>	<b>20,920</b>	<b>-</b>	<b>13,648</b>	<b>1,244</b>	<b>48,433</b>

## 15. Intangible assets

	Computer software €
<b>Cost</b>	
Balance at 1 January 2014	13,534
<b>Balance at 31 December 2014/ 1 January 2015</b>	<b>13,534</b>
<b>Balance at 31 December 2015</b>	<b>13,534</b>
<b>Amortisation</b>	
Balance at 1 January 2014	12,352
Amortisation for the year (Note 8)	827
<b>Balance at 31 December 2014/ 1 January 2015</b>	<b>13,179</b>
Amortisation for the year (Note 8)	355
<b>Balance at 31 December 2015</b>	<b>13,534</b>
<b>Net book amount</b>	
<b>Balance at 31 December 2015</b>	<b>-</b>
<b>Balance at 31 December 2014</b>	<b>355</b>

## 16. Available-for-sale financial assets

	2015 €	2014 €
Balance at 1 January	456,807	528,712
Impairment charge	(143,809)	(71,905)
<b>Balance at 31 December</b>	<b>312,998</b>	<b>456,807</b>

The following are included in the results with respect to available-for-sale financial assets:

	2015 €	2014 €
Impairment charge	(143,809)	(71,905)
<b>Net loss on available-for-sale financial assets</b>	<b>(143,809)</b>	<b>(71,905)</b>

## 17. Trade and other receivables

	2015	2014
	€	€
Trade receivables	20,216	42,621
Deposits and prepayments	15,552	15,770
Accrued income	37,111	30,783
Receivables from European programs	12,926	38,778
Other receivables	20,915	-
	<u>106,720</u>	<u>127,952</u>

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

## 18. Cash at bank and in hand

	2015	2014
	€	€
Cash in hand	4	341
Cash at bank	2,832,442	3,172,099
Bank deposits	2,655,459	1,453,234
	<u>5,487,905</u>	<u>4,625,674</u>

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

	2015	2014
	€	€
Cash at bank and in hand	2,832,446	3,172,440
Bank overdrafts (Note 20)	(2,050)	(7,929)
	<u>2,830,396</u>	<u>3,164,511</u>

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

## 19. Other reserves

	Actuarial reserve	Total
	€	€
Balance at 1 January 2014	-	-
<b>Balance at 31 December 2014/ 1 January 2015</b>	-	-
Actuarial gain	40,131	40,131
<b>Balance at 31 December 2015</b>	<u>40,131</u>	<u>40,131</u>



## 20. Borrowings

	2015	2014
	€	€
<b>Current borrowings</b>		
Bank overdrafts (Note 18)	<u>2,050</u>	<u>7,929</u>

## 21. Provisions for other liabilities and charges

	<b>Pension and other post retirement obligations</b>
	€
Balance at 1 January 2014	615,636
Charged/(credited) to the results	300,492
Actuarial loss	<u>185,430</u>
<b>Balance at 31 December 2014/ 1 January 2015</b>	<b>1,101,558</b>
Charged/(credited) to the results	129,222
Actuarial gain	<u>(40,131)</u>
<b>Balance at 31 December 2015</b>	<b><u>1,190,649</u></b>

## 22. Trade and other payables

	2015	2014
	€	€
Trade payables	<b>13,845</b>	11,823
VAT	<b>3,424</b>	10,707
Accruals	<b>12,917</b>	13,332
Defence tax on deemed distribution	<b>15,471</b>	31,119
	<u><b>45,657</b></u>	<u>66,981</u>

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

## 23. Deferred income

	2015	2014
	€	€
Grants from European programs	<u>20,565</u>	38,191
	<b>20,565</b>	38,191
Deferred income after more than one year	<u>(2,939)</u>	(20,565)
<b>Deferred income within one year</b>	<b><u>17,626</u></b>	<b><u>17,626</u></b>

## 24. Refundable taxes

	2015	2014
	€	€
Corporation tax	<b>(24,778)</b>	(24,778)
Special contribution for defence	<b>11,133</b>	9,234
	<b><u>(13,645)</u></b>	<u>(15,544)</u>

## 25. Operating environment of the Company

The Cyprus economy has been adversely affected from the crisis in the Cyprus banking system in conjunction with the inability of the Republic of Cyprus to borrow from international markets. As a result, the Republic of Cyprus entered into negotiations with the European Commission, the European Central Bank and the International Monetary Fund (the “Troika”), for financial support, which resulted into an agreement and the Eurogroup decision of 25 March 2013. The decision included the restructuring of the two largest banks in Cyprus through “bail in”. During 2014 the Cyprus economy contracted further with a decrease in the Gross Domestic Product.

Following the positive outcome of the reviews of Cyprus’s economic programme by the European Commission, the European Central Bank and the International Monetary Fund during 2013 and 2014, the Eurogroup endorsed the disbursement of the scheduled tranches of financial assistance to Cyprus.

The uncertain economic conditions in Cyprus, the unavailability of financing, the restructuring of the banking sector through “bail in” for Laiki Bank and Bank of Cyprus, and the imposition of capital controls together with the current situation of the banking system and the continuing overall economic recession, have affected:

- The ability of CERA’s trade and other debtors to repay the amounts due to the Authority.
- The cash flow forecasts of CERA in relation to the impairment assessment for financial and non financial assets.

The economic conditions described above, together with the impact of the Eurogroup decision of 25 March 2013 on Cyprus, had an adverse impact on the Authority’s debtors (inability to meet their obligations towards CERA), suppliers (inability to continue trading), real estate valuation, bankers (inability to provide adequate finance), and revenue (decreased demand for the Authority’s products or services due to decreased purchasing power of consumers).

The Members of CERA have assessed:

1. Whether any impairment allowances are deemed necessary for financial assets carried at amortised cost by considering the economic situation and outlook at the end of the reporting period. Impairment of trade receivables is determined using the “incurred loss” model required by International Accounting Standard 39 “Financial Instruments: Recognition and Measurement”. This standard requires recognition of impairment losses for receivables that arose from past events and prohibits recognition of impairment losses that could arise from future events, no matter how likely those future events are.

The Members of CERA are unable to predict all developments which could have an impact on the Cyprus economy and consequently, what effect, if any, they could have on the future financial performance, cash flows and financial position of CERA.

On the basis of the evaluation performed, the Members of the Authority have concluded that no provisions or impairment charges are necessary.

## 26. Contingent liabilities

CERA had no contingent liabilities as at 31 December 2015.

## 27. Commitments

### Operating lease commitments

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

	<b>2015</b>	2014
	<b>€</b>	€
Within one year	<b>198,155</b>	259,920
Between one and five years	<b>59,046</b>	48,152
	<b><u>257,201</u></b>	<u>308,072</u>

## 28. Events after the reporting period

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

**Independent auditor's report on pages 56 and 57**

# DETAILED INCOME STATEMENT

Year ended 31 December 2015

	Page	2015 €	2014 €
<b>Revenue</b>			
Annual fees received		<b>1,921,253</b>	1,847,065
Fees from rendering of services		<b>52,319</b>	100,139
<b>Other operating income</b>			
Other Revenue from European projects		<b>29,220</b>	12,335
Deletion for the year of receivables from European programs		<b>17,626</b>	17,626
		<b>2,020,418</b>	1,977,165
<b>Operating expenses</b>			
Administration expenses	83	<b>(1,269,117)</b>	(1,680,669)
		<b>751,301</b>	296,496
<b>Other operating expenses</b>			
Loss on disposal of property, plant and equipment		<b>(306)</b>	-
Impairment charge on available-for-sale financial assets		<b>(143,809)</b>	(71,905)
<b>Operating surplus</b>			
Finance income	84	<b>52,673</b>	66,401
Finance costs	84	<b>(2,620)</b>	(968)
<b>Net surplus for the year before tax</b>		<b>657,239</b>	290,024

# ADMINISTRATIVE EXPENSES

Year ended 31 December 2015

	2015	2014
	€	€
<b>Administration expenses</b>		
Directors' remuneration	202,826	248,136
Staff salaries	367,223	355,780
Social insurance etc.	72,856	75,603
Expenses related to defined benefits plan	90,005	285,738
Rent	76,800	78,300
Common expenses	1,753	2,052
Electricity	13,360	16,809
Water supply and cleaning	4,885	5,142
Insurance	1,355	1,314
Repairs and maintenance	3,001	3,660
Sundry expenses	560	261
Telephone and postage	4,589	4,903
General expenses for European programs	11,187	12,654
Stationery and printing	14,157	14,080
Subscriptions and contributions	16,270	15,998
Newspapers and publications	205	247
Equipment maintenance	2,467	2,561
Staff training	2,212	393
Computer software	2,741	4,037
Auditors' remuneration - current year	2,000	3,600
Auditors' remuneration - prior years	-	1,400
Accounting fees	-	238
Legal fees	16,764	17,017
Stamps	-	670
Fines	189	200
Overseas travelling	35,109	57,175
Inland travelling and accommodation	307	294
Irrecoverable VAT	50,448	62,339
Entertaining	2,763	4,449
Motor vehicle running costs	3,197	2,283
Carriage and clearing	6,405	776
Advisory service fees	173,210	300,722
Announcements-publications	3,445	143
Sundry allowances and representation	15,533	19,981
Staff medical expenses	40,125	35,964
Conferences	-	5,041
Services rendered by third parties	12,600	25,200
Amortisation of computer software	355	827
Depreciation	18,215	14,682
	<u>1,269,117</u>	<u>1,680,669</u>

## FINANCE INCOME/COST

Year ended 31 December 2015

	2015 €	2014 €
<b>Finance income</b>	<b>52,663</b>	66,401
Bank interest	<u>10</u>	-
Interest on trade balances	<u><b>52,673</b></u>	<u>66,401</u>
<b>Finance costs</b>		
<b>Interest expense</b>		
Interest on taxes	<b>1,879</b>	-
<b>Sundry finance expenses</b>		
Bank charges	<u>741</u>	968
	<u><b>2,620</b></u>	<u>968</u>

## COMPUTATION OF DEFENCE CONTRIBUTION

Year ended 31 December 2015

	Income €	Rate	Defence € c
<b>INTEREST</b>			
Interest that was subject to deduction at source	<u>52,663</u>		
	<u>52,663</u>	30%	15,798.90
Deductions at source			<u>(15,798.90)</u>
<b>DEFENCE CONTRIBUTION DUE TO IRD</b>			<u><u>-</u></u>

# COMPUTATION OF CORPORATION TAX

Year ended 31 December 2015

	Page	€	€
Net surplus per income statement	82		
	58		657,239
<b>Add:</b>			
Depreciation		18,570	
Loss on disposal of property, plant and equipment		306	
Impairment charge on available-for-sale financial assets		143,809	
Fines		189	
Interest on taxes		1,879	
			<u>164,753</u>
			821,992
<b>Less:</b>			
Interest income		52,663	
Other non-taxable income		769,329	
			<u>[821,992]</u>
<b>Chargeable income for the year</b>			<u><u>-</u></u>







PIO 220/2016-electronic edition ISSN 2421-8480  
Published by the Press and Information Office

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Digital Printing:  
Government Printing Office of the Republic of Cyprus