



**ρυθμιστική αρχή  
ενέργειας κύπρου**

cyprus energy  
regulatory authority

# **ANNUAL REPORT OF THE CYPRUS ENERGY REGULATORY AUTHORITY FOR THE YEAR 2012**

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Εξοχότατο Πρόεδρο  
της Κυπριακής Δημοκρατίας  
κ. Νίκο Αναστασιάδη

25 Οκτωβρίου 2013

Εξοχότατε κ. Πρόεδρε

Έχουμε την τιμή να σας υποβάλουμε την 9η Ετήσια Έκθεση και τους Λογαριασμούς της ΡΥΘ-ΜΙΣΤΙΚΗΣ ΑΡΧΗΣ ΕΝΕΡΓΕΙΑΣ ΚΥΠΡΟΥ, που περιλαμβάνει και την Ετήσια Έκθεση του Διαχειριστή Συστήματος Μεταφοράς, για το χρόνο που τελείωσε στις 31 Δεκεμβρίου 2012, καθώς επίσης και την Έκθεση της Ελεγκτικής Υπηρεσίας της Δημοκρατίας.

Η Έκθεση αυτή και οι Λογαριασμοί υποβάλλονται σε σας σύμφωνα με τα Άρθρα 18(1), 19(3) και 61(3) των Περί Ρύθμισης της Αγοράς Ηλεκτρισμού Νόμων του 2003-2008.

Με τιμή



Γιώργος Σιαμμάς  
Πρόεδρος



Κωνσταντίνος Ηλιόπουλος  
Αντιπρόεδρος



Κύπρος Κυπριανίδης  
Μέλος





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# INTRODUCTION

**T**he Cyprus Energy Regulatory Authority was established by Law in 2003 in line with European Union Directives.

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

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

The term of the first members of CERA ended on 20/01/2010. The operation of CERA with its new composition began on 02/02/2010. The new Members of CERA are George Shammas (Chairman), Constantinos Eliopoulos (Vice Chairman) and Kypros Kyprianides (Member).

The present Annual Report on CERA's activities covers the year 2012 and is the ninth report issued by the Authority.

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

## COMPETENCES/POWERS/ OBLIGATIONS OF CERA

### Electricity

- Encourages and facilitates genuine competition in the Electricity Market, avoiding adverse discrimination and aiming ultimately at reduced prices.
- Promotes the development of an economically viable and efficient Electricity Market.
- Ensures adequacy in electricity supply for the satisfaction of all reasonable needs and demands for electricity.
- Safeguards the Continuity, Quality, Reliability and Security of electricity supply.
- Encourages the efficient use and generation of Electricity.
- Issues, controls, enforces, amends and recalls Licences or grants 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.
- Ensures that the Rules governing the operation of electricity networks and the electricity market (Electricity Transmission and Distribution Rules and the Electricity Market Rules) are prepared and approved in accordance with the Law.
- Sets the rules or the procedures under which complaints are examined which relate to services offered by the 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.
- Promotes the use of Renewable Energy Sources.
- Encourages Research and Development in the field.

## COMPETENCES/POWERS/ OBLIGATIONS OF THE CYPRUS ENERGY REGULATORY AUTHORITY

### 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 safety of people, works, installations or the integrity of the networks are threatened.
- Prepares and publishes Technical Rules determining the minimum standards of technical design and operation for the connection to the network 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.
- 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 potential of interconnection, in consultation with the appropriate authorities of the Member States with which there is interconnection.



# ORGANISATIONAL STRUCTURE

## MEMBERS OF CERA

### CHAIRMAN

**G. Shammass**

*Mechanical-Electrical Engineer*

*(since 02/02/2010)*

### VICE CHAIRMAN

**C. Eliopoulos**

*Mechanical-Electrical Engineer*

*(since 02/02/2010)*

### MEMBER

**K. Kyprianides**

*Electrical-Mechanical Engineer*

*(from 21/01/2004 until 20/01/2010 and*

*since 02/02/2010)*

## ADVISORS

### LEGAL ADVISOR

Legal Partners Orphanides, Christofides, Poutziouris & Damianou L.L.C. were appointed, following tender procedures, as CERA's Legal Advisors as from 17 January 2011.

### ACCOUNTANTS

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

### TECHNO-ECONOMIC CONSULTANTS

As from 1st October 2010, Exergia AE firm is CERA's techno-economic Consultants

## COMMUNICATION

### THE CYPRUS ENERGY REGULATORY AUTHORITY

is housed at the Jacovides Building in Nicosia

81-83 Griva Dhigeni Avenue

Jacovides Building, 3rd Floor 1080 Nicosia

P.O.Box 24936

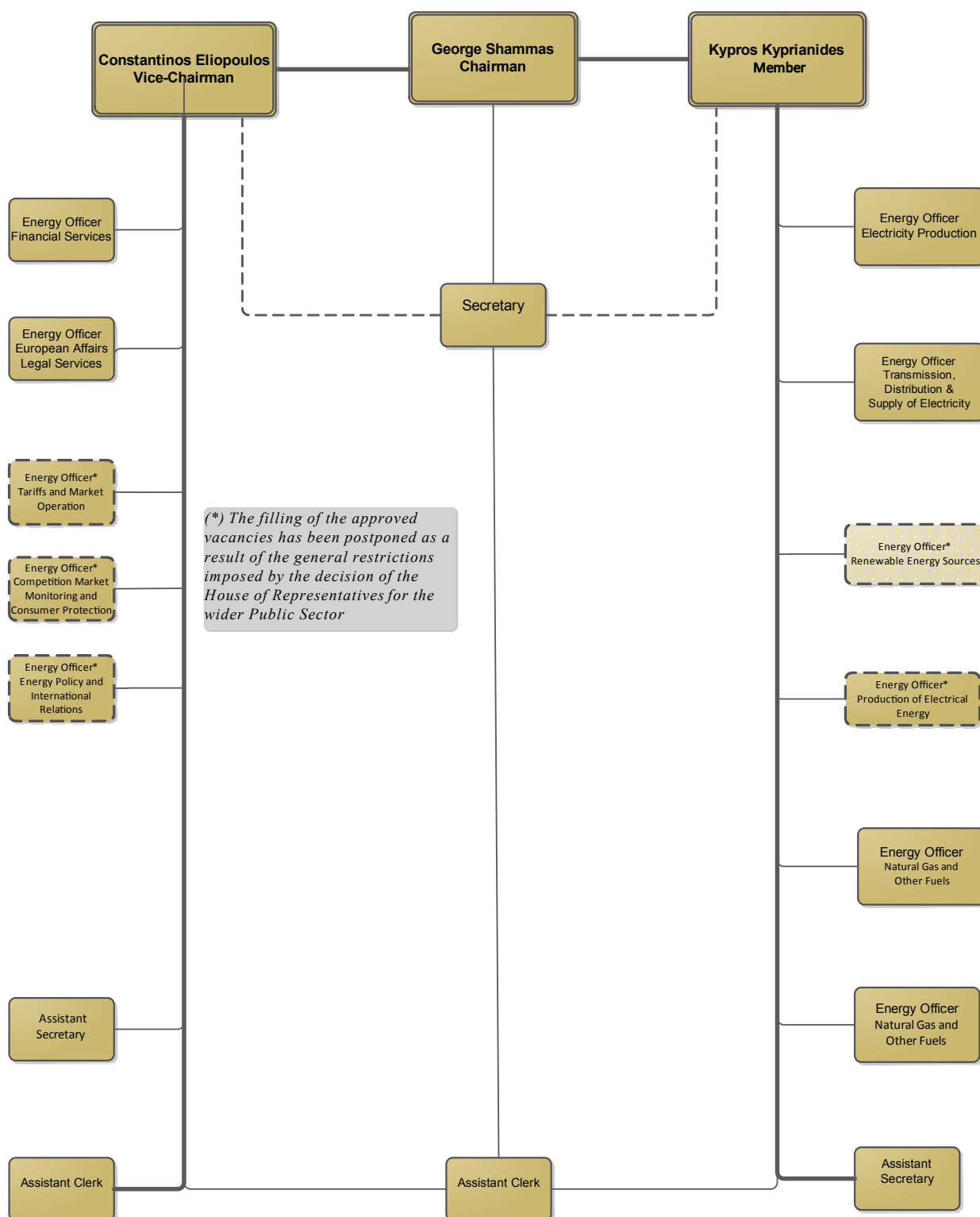
1305 Nicosia

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## Cyprus Energy Regulatory Authority – Organisational Chart 2012



# INTRODUCTORY NOTE BY THE CHAIRMAN, THE VICE CHAIRMAN AND THE MEMBER OF CYPRUS ENERGY REGULATORY AUTHORITY

Energy constitutes a crucial sector for each state, as it is directly connected with the economy, which affects the well-being of people, businesses and the environment to a great extent. 2012 was an important year which was marked by a number of significant milestones at the level of both the European and the national policy, which influenced and is expected to reshape the energy landscape of our country and of Europe in general.

The energy policy of the European Union and, by extension, of its Member States has so far been shaped by a common goal, to secure the uninterrupted supply of energy products and services to the market at a cost that all consumers, individuals and businesses can afford, contributing at the same time to the attainment of the broader social and environmental objectives of the Union. A key feature of CERA's activities in the past year

was a series of important Decisions taken by the Authority that will create the foundation and conditions for the operation of the energy market with a focus on security of supply, protection of consumers and ensuring fair competition through the development of an economically viable and efficient energy market.

A very important development was the harmonisation of national legislation with the 3rd Energy Package of the European Union. The House of Representatives approved the harmonisation amending legislation. As a result, on 28/12/2012, the Amendment Laws 211(I)/ 2012 and 219(I)/ 2012 on Regulating the Electricity Market Laws of 2003 to 2008 and on Regulating the Natural Gas Market Laws of 2004-2007, respectively, were published and came into force.

The harmonisation of legislation with the EU Acquis introduced new provisions which increase





the duties and responsibilities and strengthen the powers of National Regulatory Authorities, as well as enhance security of supply and competition and strengthen consumer rights.

CERA has produced significant work in the planning and implementation of important Decisions during 2012. The Authority promoted the invitation of a tender for the employment of an international Consultant for a study of the electricity market model so as to ensure fair competition through the operation of a transparent and efficient electricity market and the integration and participation of renewable energy sources in the electricity market. It also initiated action for the implementation of the Natural Gas Legislation and the correct Unbundling of EAC accounts according to its main activities.

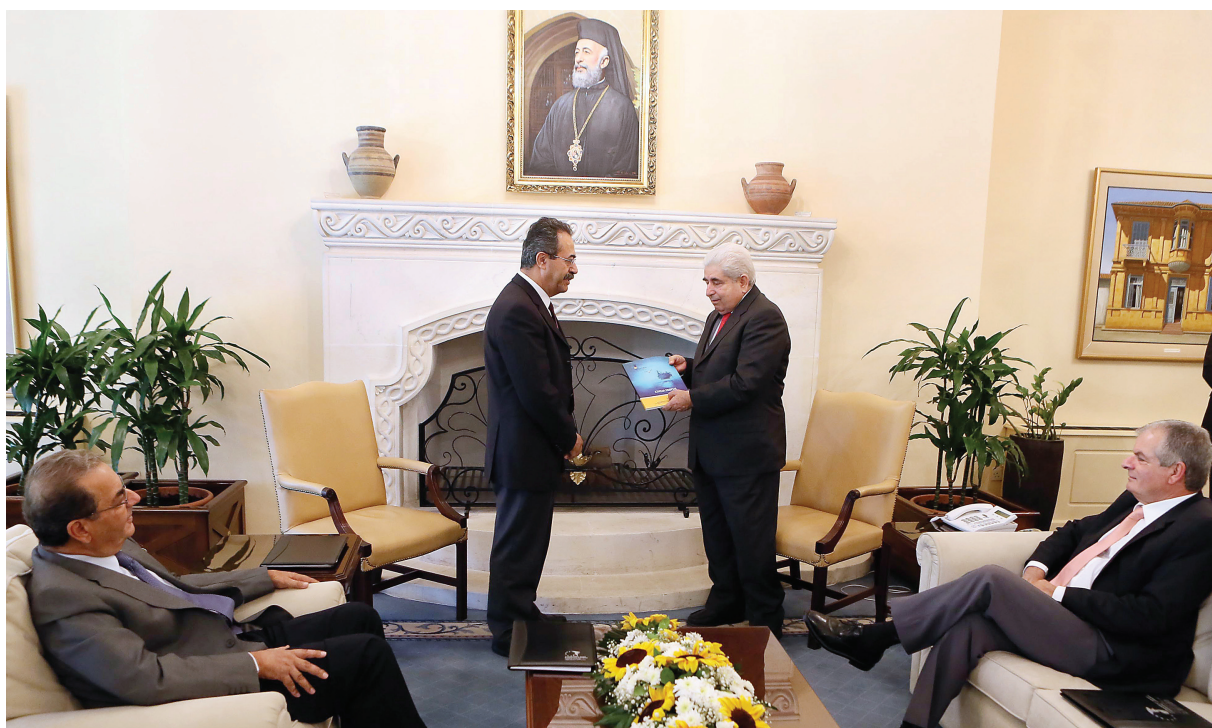
In addition to the measures taken for the implementation of the European energy policy and the continuation of the strategy at a national level, CERA continued during the year under review to manage the energy crisis created due to the Mari explosion in July 2011 and the destruction of the largest, most modern and efficient Power Station at Vassilikos. CERA, as the competent authority of the State, which is responsible for ensuring uninterrupted supply of electricity, in 2012 continued to monitor the situation and took

all the necessary decisions in order to reduce the impact of the disaster. The work for the restoration of EAC generating units at Vassilikos went ahead according to plan and thus CERA approved the release of all temporary generating units as from 15/09/2012.

Concerning the very positive developments in the energy affairs of Cyprus relating to the enormous energy prospect for Cyprus, i.e. the discovery of natural gas in the Exclusive Economic Zone of Cyprus, CERA submitted to the Government a consultative document on «Recommendations for Strategic Guidelines for the Development of the Natural Gas sector».

Based on data and developments in 2012 in the field of energy and sustainable development, CERA will continue to perform its duties having as its top priority the development of an anthropocentric and smart energy strategy focusing on the consumer. The proper functioning of the Electricity and Natural Gas Markets is critical for the economy and the stability of the State as well as the welfare of its citizens.

Finally, CERA expresses special thanks to the staff for the conscientiousness and diligence with which they have coped with the challenges arising from the energy crisis but also during the execution of their other duties.



*Handing of the Annual Report of CERA for 2011 to the President of the Republic*

## DEALING WITH THE ENERGY CRISIS IN THE YEAR UNDER REVIEW

Responding to the energy crisis created by the tragic incident of 11 July 2011, CERA took in 2012 immediate and specific Decisions.

At a meeting held on 03/12/2011 at the Presidential Palace under the chairmanship of the President of the Republic of Cyprus with all stakeholders regarding the adequacy of electricity generation for 2012, CERA submitted a detailed report on the state of the electricity system and on the timetable for restoration of the Vassilikos power station as prepared by the EAC. In addition to the necessary actions taken by the EAC to restore the Vassilikos Power Station, inter alia, upon the recommendation of CERA, the EAC was asked to prepare a negotiating framework for extending the contracts of temporary generators of a capacity of 165 MW, for six additional months up to 31/08/2012 with the right to extend the contracts until 30/09/2012, or interrupting it after four months and after giving two months' notice, and to invite tenders for the installation of 120 MW additional for the period 15/06/2012–15/09/2012.

CERA, with its Decision No. 716/2012, dated 27/03/2012, decided to approve the recommendations of the EAC Tender Committee for the supply, operation and maintenance by a contracting company of the temporary generating units.

The Energy Crisis Committee, due to deficits in available power generation, at its meeting held on 25/07/2012, after presenting comparative

scenario's by the Transmission System Operator regarding the projected and actual electricity demand, showing a decrease in demand between 17%-25%, combined with the progress made in restoration work at the Vassilikos Power Station, as it was presented by the EAC, reached the conclusion that it was not necessary to extend the contracts of the 166,6 MW temporary units, ending on 31/08/2012, and of the 120 MW temporary units expiring on 15/09/2012.

The EAC, in a letter dated 10/08/2012 to CERA, recommended that was not considered necessary, for meeting the expected electricity demand, to extend the contract for the temporary units beyond 15/09/2012.

The Members of CERA, taking into consideration the above, as well as the views of the Transmission System Operator, that, «provided that savings of at least 10% in the peak demand continue to be achieved, there would be no problem related to generation adequacy, provided also that weather conditions would be at normal levels, even in the event of a loss of the largest unit of the System», and noting that on the basis of available information, the average reduction in peak demand is clearly well above 10%, decided and approved the recommendation of the EAC for non-renewal and the termination at its expiry on 15/09/2012, for the leasing of the totalling 120 MW temporary generating units.



*The destruction caused to the building of the Vassilikos Power Plant a few hours after the 11th July 2011 explosion.*



# REGULATORY ARRANGEMENTS AND DECISIONS

## EUROPEAN ENERGY POLICY

### 3rd Energy Package of the European Union

The purpose of the Directives of the 3rd Energy Package is the completion of the internal electricity and natural gas market and the creation of a level playing field for all electricity and natural gas undertakings established in the Community.

The European Commission considered that the single energy market created and the existing rules and measures relating to the generation, transmission, distribution and supply of electricity, as well as consumer protection, and with respect to natural gas, in addition to its storage, did not provide the necessary framework for a properly functioning internal market.

The assessment was made and the decision was taken that is necessary to unbundle networks from the activities involving supply and production by vertically integrated undertakings so as to eliminate the inherent conflict of interest and to ensure the adequacy of supply and consequently three acceptable models regarding the structure of organisations and the method of certification and operation of the transmission system and distribution operators were determined.

Additionally, the new Directives reinforce the role of National Regulatory Authorities and strengthen their powers in order to be truly independent and effective in the task of regulating and supervising

the national energy markets.

For the purpose of harmonisation with the 3rd Energy Package, the House of Representatives approved the harmonising legislation with the result that Amendment Law 211(I)/ 2012 and 219(I)/ 2012 on Regulating the Electricity Market Laws of 2003-2008 and on Regulating the Natural Gas Market Laws of 2004-2007, respectively, were published on 28/12/2012 and put into effect.

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

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



*The Vassilikos Power Plant after its reconstruction.*



in response to, an emergency at Member State, regional and Union level.

Security of gas supply is a shared responsibility of natural gas undertakings, Member States, notably through their Competent Authorities, and the Commission, within their respective areas of activities and competence. Such shared responsibility requires a high degree of cooperation between them.

According to the Regulation each member state designates a competent authority to be responsible for ensuring the implementation of the measures set out in this Regulation. The Cyprus Energy Regulatory Authority has been designated by Law N.219(I)/ 2012 as the competent authority to ensure the implementation of the measures set out in the Regulation concerning measures to safeguard security of gas supply.

**Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on Wholesale Energy Market Integrity and Transparency**

Regulation 1227/2011 establishes rules prohibiting abusive practices affecting wholesale energy markets, which are coherent with the rules applicable in financial markets and with the proper functioning of those wholesale energy markets, whilst taking into account their specific characteristics. It provides for the monitoring of wholesale energy markets by the Agency for the Cooperation of Energy Regulators in close collaboration with National Regulatory Authorities and taking into account the interactions between the Emissions Trading Scheme and the wholesale energy markets.

The Agency monitors trading activity in wholesale energy products to detect and prevent trading based on inside information and market manipulation. It collects the data for assessing and monitoring wholesale energy markets. National Regulatory Authorities cooperate at regional level and with the Agency in carrying out the monitoring of wholesale energy markets in line with the above. For this purpose National Regulatory Authorities have access to relevant information held by the Agency. National Regulatory Authorities may also monitor trading activity in wholesale energy products at national level.

**Directive 2009/28/EC (National Action Plan)**

During the year under review, the special technical advisory committee set up under the supervision of CERA in 2010, which consists of representatives from various government departments, agencies, academics and others, aiming to examine the penetration of RES into the system in Cyprus in view of the mandatory targets set by Directive 2009/28/EC, was convened.

The special technical advisory committee proceeded to the second stage (Stage B) of the study, focusing on the integration of RES into the power system without subsidies, an issue that is also considered in other EU Member States and concerns the question of regulating the integration of RES in the electricity market.

The aim of CERA was to have all views on the matter, so as to subsequently be able to formulate final recommendations/ positions on the policy to be followed on this matter, in order to protect consumers, so as to achieve the targets regarding the penetration of RES and the safe and orderly operation of the electricity system.

In the context of achieving the objectives set by the EU, CERA raised the following issues for consideration by the Advisory Committee:

- Issues relating to the installation of RES without subsidies, as the main objective of the study.
- Full clarification and thorough understanding of the responsibilities regarding RES on the basis of the provisions of Directive 2009/28/EC.
- Issues relating to the security and reliability of the grid due to the integration of RES into the system. There are technical issues which concern primarily the Transmission and Distribution System Operators.

Also, CERA noted the following regulatory issues for consideration as follows:

- Impact on the balancing of the market/ operating margin/ long-term reserve etc.
- Network use charges and thermal losses in the transmission and distribution systems.
- Applications for photovoltaic systems that do not require any form of subsidy.
- Maximum capacity of each RES technology that can be connected to the Transmission and the Distribution Systems.

# REGULATORY MEASURES

## ELECTRICITY

### LEGISLATION REGULATING THE ELECTRICITY MARKET

Amendment Law N.211(I)/ 2012 on Regulating the Electricity Market 2003-2012 harmonises the new provisions of Directive 2009/72/EC concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC. In the context of harmonisation the regulatory framework of the electricity market has been changed mainly on the following points.

- Concerning the effective unbundling of networks from supply and production activities of the vertically integrated undertaking, the harmonisation has been completed in a different way for each network.

In connection with the Transmission network, the assessment was made that the model of ownership unbundling did not require modification and the current status of the Transmission System Operator should remain the same as it was with the arrangement of the first two Energy Packages.

In connection with the distribution network, where the provisions of the Directive do not require ownership unbundling as in the case of the transmission, it was envisaged that the EAC should designate a Distribution System Operator having specific powers to manage, operate and develop the network, with impartiality and non-discrimination towards any user of the system.

- Concerning the strengthening of the powers of the Cyprus Energy Regulatory Authority several provisions have been added defining, in line with the Directive, the minimum tasks/ competences of the Cyprus Energy Regulatory Authority and the mandatory measures for the effective regulation and supervision of the market. The number of these minimum tasks is indeed increased, they are more specific and broader when compared to those already legislated. In this respect, a report on their effectiveness is

required to be submitted to the Agency for the Cooperation of Energy Regulators (ACER). For example, some of the additional tasks of the Cyprus Energy Regulatory Authority are given selectively below:

- Long-term planning for security of supply, energy efficiency/ demand-side management and the achievement of environmental objectives and targets relating to renewable energy sources.
- Monitoring the level of transparency, including the prices of the wholesale electricity market.
- Monitoring competition in the wholesale market, including cross-border transactions.
- Concerning the protection of the interests of customers, this has been upgraded into defined, explicit and distinct clients' rights, which guarantee high levels of protection, with appropriate measures taken by the Cyprus Energy Regulatory Authority. Especially for vulnerable consumers, the Cyprus Energy Regulatory Authority ensures that the rights and obligations associated with them are respected and sees that there are adequate safeguards. The required changes in the regulatory framework necessitate amendments in the secondary legislation as well, such as of the Transmission and Distribution Network technical rules and the Electricity Market commercial rules. To this end studies by consultants both for potentially a new electricity market model and for the amendments of the Regulations have been set in train.

## LAWS ON THE PROMOTION OF RENEWABLE ENERGY SOURCES

During the year under review, the Ministry of Commerce, Industry and Tourism prepared a bill titled «The Promotion and Encouragement of the Use of Renewable Energy Sources Law of 2012», for purposes of partial harmonisation with the Directive 2009/28/EC of the European Parliament and Council of 23 April 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC.

The Ministry of Commerce, Industry and Tourism organised a public consultation on this bill from 10 August until 18 September 2012. On September 4, 2012 a Public Hearing open to the public at large was held.

Although CERA's involvement in the preparation of this bill was not requested, CERA, considering this issue as very serious, submitted and brought to the Ministry's attention a large number of reservations/ observations and comments on specific points of the proposed bill.

First, CERA noted the long delay observed in the harmonisation of national legislation with Directive 2009/28/EC.

It also noted the failure to conduct a meaningful consultation with the stakeholders directly involved in the electricity market such as CERA, the TSO and the EAC as the DSO. CERA expressed the view that the harmonisation of the national law with European Directive 2009/28/EC should be done with the submission and approval by the House of Representatives of a bill amending the existing Law 33(I)/ 2003, for the reasons CERA explained extensively to the Ministry. CERA expressed the view that amendments to laws, as a rule, are made through an amending bill rather than submitting a new one. The only reason that would justify a new bill is a radical change of the specific issue addressed by the Law, provided of course that such a change is imposed by the Directive.

Consequently, the position of CERA was that an amendment bill of the existing law should be submitted and that there is no reason to submit to the Council of Ministers and the House of Representatives for approval, a new law to replace the existing one.

CERA expected that in the coming year 2013, this question would be resolved so that the national legislation is harmonised in line with obligations under this European Directive 2009/28/EC.

## ELECTRICITY TRADING AND SETTLEMENT & TRANSMISSION AND DISTRIBUTION RULES

### TRADING AND SETTLEMENT RULES

The Electricity 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 the TSO.

- ensure that the licensees who are asked to participate in buying or selling electricity, on the basis of these arrangements, will not be subject to discrimination.

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

CERA, exercising its powers under the law and in the context of the continuous improvement of the said Rules, in the year under review launched an open competition for the recruitment of a consultant for the evaluation and restructuring of the electricity market in Cyprus. The aim is to evaluate and restructure the Electricity Market in Cyprus on the basis of the new conditions prevailing with regard to the energy resources of the country (natural gas and renewable energy sources capacity) and also possible investments in cross-border infrastructures for the transmission of electricity.

In the year under review, there was no amendment of the Trading and Settlement Rules and the first issue 1.0.0 of the Electricity Trading and Settlement Rules continues to be in force. It is likely that in 2013, after the completion of the results of the above competition, to convene the Advisory Committee on Market Rules.

### TRANSMISSION AND DISTRIBUTION RULES

Under the Laws on Regulating the Electricity Market of 2003 to 2012, CERA takes a Regulatory Decision with which it issues instructions to the Transmission System Operator and the Distribution System Operator to prepare and issue technical rules, which are subject to CERA's approval, on 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 require this, respectively.

In 2013 there were two additional revisions to the Transmission and Distribution Rules. More specifically on 01/06/2012, following CERA's approval, the revised Version 3.0.1 was published, and subsequently on 26/10/2012, Version 3.0.2, which is the latest version of the Transmission and Distribution Rules in force was published.

## NATURAL GAS

### LAW REGULATING THE NATURAL GAS MARKET

Amendment Law N.219(I)/ 2012 on Regulating the Natural Gas Market of 2004 to 2012 harmonises legislation with the new provisions of Directive 2009/73/EC concerning the common rules for the internal natural gas market and repealing Directive 2003/55 / EC, completing the establishment of common rules relating to the transportation, distribution, supply and storing of natural gas and organising in a mandatory way the operation of the natural gas sector, access to the market, the criteria and procedures for granting licences, tariffs for services supplied and consumer rights. Below, a concise description is given of the points of harmonisation with the mandatory provisions of the Directives, taking into account the fact that these are identical to the provisions regulating the electricity market.

• Regarding the effective unbundling of transmission networks from the other activities of the vertically integrated undertaking, it was assessed that the harmonisation with the Directive of the Third Energy Package did not necessitate a modification of the existing arrangement. In general, the environment of the Transmission System Operator remained regulated and under the supervision of the Regulatory Authority, which can intervene to resolve disputes between licensees. Some mandatory provisions of the Directive defining the minimum tasks of a "compliance officer" and a supervisory body which shall submit to the Cyprus Energy Regulatory Authority regular and detailed reports on the effectiveness of measures to ensure the independence and impartiality of the

transmission system operator from the vertically integrated undertaking and its interests were added.

The appointment of transmission, storing and natural gas liquefaction operators has remained mostly unchanged.

• Regarding the distribution network, the provisions of the Directive do not require ownership unbundling as in the case of transmission and consequently the status remained unchanged.

• Regarding the mandatory strengthening of the powers of the Cyprus Energy Regulatory Authority provisions have been added setting the minimum tasks and powers of the Cyprus Energy Regulatory Authority and the statutory measures for the effective regulation and supervision of the market. These minimum tasks are indeed more, more specific and broader than those already legislated, in respect of which a report on their effectiveness must be submitted to the Agency for the Cooperation of Energy Regulators (ACER).

• With regard to the protection of the interests of customers this has turned into well-defined, explicit and distinct customers' rights safeguarded by high levels of protection with appropriate measures taken by the Cyprus Energy Regulatory Authority. Especially for vulnerable customers the Cyprus Energy Regulatory Authority ensures that the rights and obligations associated with them are respected and sees that there are adequate safeguards.

Harmonisation with the Directive has imposed significant changes in the existing legal framework of the natural gas market.

More specifically, the mandatory provisions of Directive 2009/73/EC in general, but also those which provide for clients' rights and the minimum powers of the Cyprus Energy Regulatory Authority in particular, through the harmonisation imposed changes to the existing regulatory framework. They imposed the consumer's right for a choice of supply with natural gas from more than one supplier, irrespective of the Member State they may be established, as well as the existence and functioning of a wholesale energy market. At the same time, they imposed CERA's obligation to submit regular reports on the progress and efficiency of operation of the wholesale market to the Agency for the Cooperation of Energy Regulators.

For purposes of compliance with the mandatory provisions of the Directive, there was a deletion of the provisions restricting the powers of the Regulatory Authority which had been inserted in Amendment Law N.199(I)/ 2007 and which envisaged the suspension of the powers/ duties of the Cyprus Energy Regulatory Authority to examine applications for licenses, to license and supervise general undertakings operating or intending to operate in the natural gas sector, in case the Council of Ministers decides to assign the import, supply, transmission and distribution exclusively to one undertaking. The Council of Ministers took such a Decision in June 2008 and consequently the powers of CERA were suspended. The provisions of the Amendment Law of 2012 restored these powers, which are now enhanced in the form of minimum powers/ duties, to the Cyprus Energy Regulatory Authority. Harmonisation with Directive 2009/73/EC has also introduced a significant, although typical amendment, to the regulatory framework for the natural gas market. More specifically, article 49 of the Directive of the 3rd Energy Package expressly provides in paragraphs 1 and 2 that Cyprus may derogate from the application of specific articles for the period that Cyprus qualifies as an “isolated market” and/ or an “emergent market”. This reference shows that Cyprus fulfils the necessary conditions for derogation, without the need of further proof or demarches and now it is up to the Member State to decide on the scope of the derogation i.e. if it will be partial or total derogation from the specific articles.

It should be noted that a thorough and in-depth assessment of the actual situation in the natural gas market is a precondition for the announcement by the Member State of the extent of the derogation and the relevant notice to the Commission. Derogation is not justified if there is no real reason for not opening the market or for not licensing participants for the existence of the investment.

Furthermore, it is noted that the volatility and speed of developments in the natural gas market due to the discovery of hydrocarbon deposits in the Exclusive Economic Zone of the Republic of Cyprus have changed to a great extent the importance of specific derogations and the reasons to invoke them, with the result that they have a rational role in the harmonisation with the Directive.

## IMPORTANT DECISIONS TAKEN BY THE CYPRUS ENERGY REGULATORY AUTHORITY IN 2012

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

### DECISION 691/2012 - 11 JANUARY 2012

#### PRICE AT WHICH THE ELECTRICITY AUTHORITY (EAC) BUYS ELECTRICITY PRODUCED FROM RENEWABLE ENERGY SOURCES (RES)

CERA, by its Decision on 28/07/2011, had decided that as a result of state of emergency energy crisis in which the Cyprus found itself as from the morning of July 11, 2011 the purchase price paid by EAC for electricity generated from RES shall be stable as it was in force on 11 July 2011, i.e. the day of the accident and of the start of the state of emergency energy crisis. That is, from 11 July 2011 onwards, the purchase price paid by EAC for electricity generated from RES and supplied to the EAC grid shall be stable and independent of changes in fuel prices. CERA, having found that the management of Emergency Energy Crisis allowed the revocation of the above Decision, decided that this purchase price shall no longer be stable but would represent the actual weighted average marginal cost of generation as calculated on the basis of the last revision of the coefficient of the fuel price adjustment clause for 2011, decided by CERA and applied since 1 May 2011, as follows:

Purchase from the Network	EAC Purchase Price* (€ cent/kWh)	Fuel Price Adjustment Clause € cent/kWh/5 €cent/MT on the basic fuel price
High Voltage (132/66kV)	5,886	0,00125
Medium Voltage (22/11kV)	5,975	0,00127
Low Voltage (400/230kV)	6,093	0,00130

\* On basic fuel price of €187,95/MT

#### Table 1 \* EAC Tariffs- Fuel Adjustment Clause

The above Decision is in force since 1st January 2012.

#### DECISION 694/2013- 13 JANUARY 2012

##### APPROVAL OF APPLICATIONS FOR LICENCE OR EXEMPTION FROM A LICENCE FOR ELECTRICITY GENERATION UNITS FROM RES, OF WHICH THE SELLING PRICE OF ENERGY GENERATED WILL NOT BE SUBSIDISED

CERA, taking into account its Decision 584/2011, dated 19/04/2011, which accepted applications for a Licence or Exemption From a License for electricity generation units from RES, for projects which sell electricity generated at the current price of the authorised Provider (avoidance cost), i.e. which will not be subsidised, in order to promote RES projects but at the same time not burden the consumer, reached the conclusion that the approval of such applications is in the public interest, because it promotes electricity generation from RES without burdening the consumer, saving at the same time fossil fuels and valuable foreign exchange for Cyprus. CERA decided that, from then on, applications submitted to CERA which state clearly that no subsidy is requested or required and therefore the payment of the energy generated will only be the avoidance cost will be accepted and approved by CERA provided that

(a) the avoidance cost on the date of approval will not be greater than the avoidance cost valid on 13/01/2012 and

(b) all the requirements envisaged by the legislation or set by CERA are met.

It should be noted that payment for the energy generated, i.e. the avoidance cost, will be limited between a maximum, which is the avoidance cost that will be in force on the day of signing the contract, increased by 10% and a minimum of minus 10%. The holder of the Licence or Exemption From a License will have the right to terminate the above provision and request CERA to be allowed to join in and participate as a producer in the electricity market.

#### DECISION 695/2012 - 13 JANUARY 2012

##### APPLICATIONS FOR THE AMENDMENT OF LICENCES OR EXEMPTION FROM A LICENCE FOR ELECTRICITY GENERATION UNITS FROM PHOTOVOLTAIC PARKS WITH A FIXED MOUNTING BASE TECHNOLOGY AND A REQUEST TO CHANGE INTO CONCENTRATED PHOTOVOLTAICS (CPV) OR THE USE OF TRACKER TECHNOLOGY

The Cyprus Energy Regulatory Authority decided

to examine and evaluate such requests and approve them wherever in its judgment this is correct, taking into account the provisions of the Regulating the Electricity Market Laws of 2003 to 2008, the Licensing Regulations of 2004 and the relevant Decisions of CERA, as well as the fact that, by using the same space and with equal renewable source of energy, the generation of more energy is achieved,.

#### DECISION 696/2012 – 17 JANUARY 2012

##### CHARGES FOR THE USE OF TRANSMISSION AND DISTRIBUTION NETWORKS, EXPENDITURE OF TSO, ANCILLARY SERVICES AND LONG-TERM RESERVE IN THE ELECTRICITY GENERATION SYSTEM FOR 2012

CERA by a Regulatory Decision taken at its Meeting No. 03/2010 dated November 12, 2010, on the charges for the use of the Transmission and Distribution Networks, the Expenditure of TSO, Ancillary Services and Long-Term Reserve of the Electricity Generation System set specific conditions for implementing revised charges as from 01/01/2012.

CERA decided to implement the Regulatory Decision taken at its Meeting No. 03/2010 and the adjustment of charges as from January 1, 2012, as set out in this Decision on the basis of the commitments undertaken by the EAC and the terms and conditions set by CERA in its Decision 688/2011 dated 30 December 2011, concerning the re-adjustment of tariffs and the rebalancing of EAC tariffs for the year 2012, as well as the commitments undertaken by the EAC on the terms and conditions set by CERA for approval of the tariffs of 2012.

#### DECISION 702/2012 -15 FEBRUARY 2012

##### ELECTRICAL GENERATION CAPACITY AVAILABILITY TO COVER PEAK ELECTRICITY DEMAND. INSTRUCTIONS TO THE DSO FOR THE ORGANISATION AND OPERATION OF A VIRTUAL POWER STATION CONSISTING OF THE ALREADY INSTALLED BACK-UP GENERATORS

##### & DECISION 730/2012 – 17 MAY 2012

##### ORGANISATION AND OPERATION OF A VIRTUAL POWER STATION CONSISTING OF THE ALREADY INSTALLED BACK-UP GENERATORS AND A MODEL TEXT OF THE CONTRACT

CERA taking into account the shortfalls in

electricity generation capacity resulting from the accident of 11 July 2011, decided to organise and run a “Virtual Power Station” for a trial period of two years and instructed the Distribution System Operator to organise it and run it, specifying the selection criteria for generators that will operate in the «Virtual Power Station», the total capacity, which would be of the order of 100MW, the compensation to be given to those participating in the «Virtual Power Station» and the model contract for the cooperation of the Distribution System Operator with the owners of the emergency generators.

**DECISION 707/2012 - 29 FEBRUARY 2012**  
**ESTABLISHMENT OF THREE WORKING GROUPS FOR SETTING APART THE RENEWABLE ENERGY SOURCE AND THE ENERGY CONSERVATION FUNDS OF THE GRANT SCHEME FOR ENERGY CONSERVATION AND THE PROMOTION OF RENEWABLE ENERGY SOURCES (RES) UTILISATION**

Following the taking by the competent Ministerial Committee for RES of a political decision in principle to separate the existing Grant Scheme for Energy Conservation and the Promotion of Renewable Energy Sources (RES) Utilisation into two separate Funds, where the one fund will focus exclusively on grants for investments in RES electricity generation (by RES units connected to the EAC network), and the second will involve the sectors of Heating/ Cooling, Transport and Energy Conservation. CERA and the Energy Service of the Ministry of Commerce, Industry and Tourism, in the context of adopting the said policy decision, agreed to preserve at this stage for 2012 the status quo, i.e. a combined RES and Energy Conservation Fund. However, various suggestions were made to separate the financial part concerning the field of RES generated electricity from the other activities, as well as the more active involvement of CERA in the design, planning and supervision of the management of the Fund, at least in the sector of RES generated electricity (RES connected to the EAC network).

It was deemed necessary that, during the year under review, all necessary actions should be taken so as to achieve the goal of separation of the RES Fund and the Saving Energy Fund in

time, in order to fully implement as from 1 January 2013 the political decision taken in principle.

To this end, the Members of CERA decided to set up three working groups composed of staff of the Office of CERA and the CERA partners.

(a) A «Working Group for the amendment of the relevant legislation», tasked with the amendment of the Law for the creation of two Funds, one for RES electricity generation and the other for Heating/ Cooling, Transportation and Energy Conservation.

(b) A «Working Group to review CERA’s authorisation procedures», aimed at reviewing the entire process of receiving applications and issuing a Construction Licence up to the connection to the EAC network as well as the issuing of the Operation Licence.

(c) A «Working Group on Budgetary Control and the Grants’ Schemes for 2013», aimed at checking and making recommendations for any modifications in the budget and the Grants’ Schemes for 2013, prepared by the Energy Service.

**DECISION 710/2012 – 14 MARCH 2012**  
**FUNDING OF THE EAC NETWORKS’ FIXED ASSETS AND THE REGULATED ASSET VALUE BASE**

With this Decision, CERA approved the issuing of a draft Decision on the Funding the EAC networks’ fixed assets and the Regulated Asset Value Base as follows:

- For purposes of proper regulation of allowable revenue of the network owner and the rational billing for network users, a Regulated Asset Value Base will be created/ formulated in connection with the regulated activities of Transmission and Distribution.
- The Regulated Asset Value Base will not include the value of fixed assets, or part of the value of the assets, in respect of which there was a capital contribution of producers or consumers.

**DECISION 711/2012 - 19 MARCH 2012**  
**COMPLAINTS BY EAC CONSUMERS ANTONIS KOUMETTOU AND ADELAIS BAY HOTEL, SUBMITTED TO CERA ON 15 MARCH AND 19 MARCH, RESPECTIVELY**

CERA, taking into account complaints made by consumers, appointed two officers of the CERA Office to investigate the two complaints.



### DECISION 714/2012 – 26 MARCH 2012

#### DECISION PURSUANT TO THE DECREE OF THE MINISTER OF COMMERCE, INDUSTRY AND TOURISM, DATED 13/07/2011

CERA due to the emergency situation created on July 11, 2011 and pursuant to the Decree of the Minister of Commerce, Industry and Tourism, dated 13/07/2011, decided to authorise EAC to take all necessary steps for the installation of additional temporary generation units of a capacity of 120MW.

### DECISION 716/2012 – 27 MARCH 2012

#### ELECTRICITY ENERGY SUPPLY AVAILABILITY DURING THE STATE OF EMERGENCY CREATED ON 11TH JULY 2011 - EAC TENDER 192/2011 FOR THE SUPPLY, OPERATION AND MAINTENANCE OF TEMPORARY GENERATING UNITS - EVALUATION AND AWARD OF TENDERS

The Cyprus Energy Regulatory Authority, at its meeting of 27 March 2012, exercising the powers conferred to it by Law N.122 (I)/ 2003 and its subsequent amendments, and pursuant to the Order of the Minister of Commerce, Industry and Tourism ΚΔΠ4507 with effect as from 13/07/2011, and taking into account the Decisions of CERA 617/2011, dated 13/07/2011, 629/2011, dated 29.07.2011 and 631/2011, dated 02/08/2011, the EAC letter EAC ref.no YA2/864/192/11 dated 27/03/2012 and all attachments thereto, as well as the adoption by all those who attended the meeting held on 03/12/2011 at the Presidential Palace under the chairmanship of the President of the Republic with all stakeholders regarding the adequacy of electricity generation for 2012 and the fact that the Ministry of Finance has undertaken to pay the extra cost for the installation of additional generating units of a capacity of 120MW for the period 15/06/2012 to 15/09/2012, issued the Decision «On electricity supply availability during the emergency created on July 11, 2011 - EAC Tender 192/2011 for securing additional temporary generating units of a capacity totalling 120 MW - Evaluation and Award of Tender».

CERA after studying all the relevant documents submitted with the EAC letter ref. no YA2/864/192/11, dated 27/03/2012 and the Decision of the EAC Board of Directors approving in principle the recommendation by the Tender

Committee, subject to CERA ratification, as well as the fact that the Accountant General and the Auditor General of the Republic, were informed accordingly and did not express any objection, and, in addition, noting that all the evaluation criteria approved by CERA were applied, decided to approve the recommendations of the EAC Tender Committee.

Additionally, it authorised the EAC General Manager to send a Letter of Acceptance to the APR Energy, USA, the firm for the installation, operation and maintenance of generating units of a total capacity of 120MW for three months (the 15/06/2012-15/09/2012 period), with EAC having the right to extend the contract for three monthly periods at an estimated total cost, based on the assumptions taken into account in the evaluation, amounting to € 7.053.439, excluding fuel costs and in accordance with any special terms agreed with the company.

### DECISION 724/2012 – 2 MAY 2012

#### APPLICATIONS FOR THE CONSTRUCTION AND OPERATION OF ELECTRICITY GENERATING UNITS WITHIN THE BRITISH BASE AREAS

CERA decided that with regard to applications to build and operate generation units within the British Base areas, it will not seek the approval and / or permission of the Commander of British Base areas, at the stage of examining and evaluating applications.

### DECISION 733/2012 – 23 MAY 2012

#### DECISION TO APPROVE THE PROPOSED BY THE TSO AMENDMENTS TO THE TRANSMISSION AND DISTRIBUTION RULES - VERSION 3.0.1

The Members of CERA have decided to approve the proposed by the TSO amendments to the Transmission and Distribution Rules and their revision in the new version 3.0.1

### DECISION 741/2012 - 5 JUNE 2012

#### DIRECTIONS TO THE TSO TO PROCEED AT AN INITIAL PHASE WITH THE IMMEDIATE PROMOTION OF THE PART OF HIS SUGGESTION, AS SUBMITTED TO CERA IN A LETTER DATED 15/03/2012, WHICH INVOLVES EXCLUSIVELY THE ALLOCATION OF THE CONNECTION COSTS BETWEEN THE RES

### **PRODUCER AND THE TRANSMISSION AND DISTRIBUTION SYSTEM OWNER**

The Members of CERA decided to ask the Transmission System Operator to take appropriate actions for the holding of consultations with all stakeholders in order to consider the relevant proposals submitted by the Transmission System Operator and EAC on the allocation of the expenditure for connection costs between RES producers and the Transmission and Distribution System owner.

### **DECISION 742/2012 - 6 JUNE 2012**

#### **APPROVAL OF THE EAC PROPOSAL DATED 24/05/2012 RELATING TO THE CHARGE FOR THE ISSUING OF THE EAC PRELIMINARY AND FINAL TERMS AND CONDITIONS, FOR CONNECTING RES SYSTEMS TO THE DISTRIBUTION SYSTEM**

The Members of CERA decided to approve a proposal by EAC regarding the charge for the issuing of the EAC preliminary terms and conditions and the final terms and conditions for the connection of renewable energy units to the distribution system.

Specifically, they approved the following:

- With the submission of the application by the Applicant/RES Producer for the issuing of Preliminary Terms and Conditions, the Applicant/RES Producer will pay to EAC the amount of € 150 for the preparation of the Preliminary Study and the issuing of the Preliminary Terms and Conditions. This amount is based on the analysis that EAC has attached to its letter.
- With the submission of the application for the issuing of the Technical Terms for the connection of the Applicant/ RES producer to the Distribution System, the Applicant/ RES Producer will pay 5% of the cost of the Preliminary Study. After the payment of this amount, EAC will proceed with the preparation of the final Techno-economic Study and will notify the Applicant/ RES Producer the final terms for the connection. Once the Applicant/ RES Producer accepts the final terms for the connection, the above amount (5% of the cost of the Preliminary Study) which has already been paid, will be calculated as an advance payment on the amount payable. Otherwise, the amount will be retained by EAC to offset the cost of preparing

the Techno-economic Study and for securing the necessary government approvals and consents.

### **DECISION 743/2012- 8 JUNE 2012**

#### **AMENDMENT AND REBALANCING OF THE ELECTRICITY AUTHORITY TARIFFS AS FROM 1ST JULY 2012**

CERA by its Decision 539/2011 dated 07/01/2011, decided to amend and rebalance the EAC tariffs for the year 2011, and subject to certain conditions for 2012, in an effort to reduce as far as possible cross-subsidies that may be observed between tariff categories. In the same Decision, CERA decided to impose conditions on the Electricity Authority of Cyprus, which aim at the transparent unbundling of its accounts and at drawing a programme to reduce its cost for the benefit of consumers.

Subsequently, by its Decision 688/2011 dated 30 December 2011 concerning the amendment and rebalancing of EAC tariffs under certain conditions for 2012, CERA decided to implement the Decision taken at its Meeting 539/2011 as from 1/1/2012, with some amendments, based on the commitments and assurances given by EAC regarding the transparent unbundling of accounts, the reduction of its operating costs, the preparation of a new study on tariffs and the rationalisation of the organisational structure of EAC.

CERA, taking into account the information received from time to time on the measures and actions of EAC to meet the above requirements, but also the delays in the implementation of some EAC commitments, as for example the obligation for transparent unbundling of accounts according to the regulated activities of EAC, the preparation of a new comprehensive study on tariffs with the new data on operating expenses and capital expenditures, including the designation of the first internal production tariff as from 01/01/2013 and the conduct and completion of the World Bank study on EAC finances, decided to suspend the provision of the Decision to implement increases in tariffs as from 01/07/2012, taken at its meeting 688/2011. That is, there will be no further increase in tariffs for consumers, and all tariffs will remain as they were with the increase imposed as from 01/01/2012.

**DECISION 754/2012 – 28 JUNE 2012****EAC CLAIM FOR THE RECOVERY OF INCREASED COST OF ELECTRICITY FOR THE PERIOD MARCH-DECEMBER 2012, RESULTING FROM ITS ACTIONS TO ASSURE ELECTRICITY SUPPLY AVAILABILITY DURING THE ENERGY CRISIS PERIOD CREATED AFTER 11 JULY, 2011**

After the accident at Mari on 11 July 2011 and due to the extensive damage done to the installations of the Vassilikos power station, the EAC asked to recover the additional cost of electricity for the March to December 2012 period which it had to bear after the accident of 11 July 2011. CERA approved as reasonable the claim for the recovery of the estimated additional variable cost of the EAC for the period March to December 2012, amounting to €46.086.263 (after deducting savings in elastic expenditures amounting to €9.154.416), and the EAC claim for the recovery of the cost of the temporary rental of generating units amounting to €25.359.606 (which was expected to be covered through governmental funding). CERA did not approve the request of EAC to recover an amount of €27.244.185, representing loss of net income due to declining sales, as it considered that EAC should address this issue through a comprehensive emergency programme of limiting and containing expenses in addition to the savings achieved so far, on the basis of the commitments it has undertaken as per CERA Decisions 539/2011 and 688/2011 for securing CERA's approval of the rebalancing of tariffs.

In view of the above:

- a) a revised extra-ordinary surcharge in the final bills of all electricity consumers before the imposition of 5,75% (before imposing VAT), instead of 6,96%, imposed by Decision No. 635/2012.
- b) the application of the revised surcharge will be applied to tariffs of consumer categories with monthly recordings of their consumption which will start to be recorded as from the end of July 2012, and of consumers on bimonthly recordings of their consumption which will start as from 1 on August.
- c) the new measure will be valid for ten (10) consecutive calendar months for all and for each consumer individually, regardless of the date of recording of the readings of each consumer.
- d) The previous CERA Decision 635/2011 dated 31/08/2011 is terminated for each consumer

separately as from the implementation date of the new emergency surcharge on the specific consumer. The terminated Decision regards «the EAC Claim to Recover the Increased Cost of Electricity Resulting from its Actions to Assure Availability of Electricity Supply during the Period of Energy Crisis Created after 11 July 2011», which concerns the increased cost of electricity for the period of 11 July 2011 to 29 February 2012, and in respect of which it the 6,96% on the final bill of all electricity consumers extra-ordinary surcharge (before imposing a VAT) was decided.

CERA will monitor and check on a continuous basis the implementation of this Decision and reserves the right to change the amount of the surcharge and extend or shorten the period of the implementation of the Decision according to the results and conditions which will prevail.

**DECISION 755/2012 – 28 JUNE 2012 - ΚΑΠ 06/2012****RECEIVING APPLICATIONS FOR EXEMPTION FROM A CONSTRUCTION LICENCE FOR THE INSTALLATION OF ELECTRICITY GENERATING UNITS, FROM PHOTOVOLTAIC SYSTEMS OF AN INSTALLED CAPACITY OVER 20kW AND UP TO 150kW**

The Cyprus Energy Regulatory Authority taking into account the provisions of the Regulating the Electricity Market Law of 2003 to 2008, the Licensing Regulations of 2004 and

- a) its previous Decision 419/2010 dated 18/03/2010, which had temporarily suspended receiving Applications for the installation of electricity generating units from RES
- b) the National Action Plan for energy from RES until 2020, which was prepared and submitted to the European Commission in June 2010,
- c) the CERA study conducted for the purpose of updating the National Action Plan to accelerate the penetration of photovoltaic systems in the electricity system,
- d) the schemes to encourage and use renewable energy and saving energy for the year 2012,
- e) the views of stakeholders, agencies and services, as well as interested parties as these were expressed, decided that from 23/07/2012 and until 15/10/2012 it will receive applications for Exemption from a Construction Licence for the installation of electricity generation units from



photovoltaic systems of an installed capacity over 20kW and up to 150kW.

**DECISION 757/2012 – 29 JUNE 2012 – ΚΑΠ 06 /2012**

**a) HANDLING EXISTING EXCEPTIONS FROM A CONSTRUCTION LICENCE FOR PHOTOVOLTAIC SYSTEMS**

**b) AMENDMENTS TO EXCEPTIONS FROM A CONSTRUCTION LICENCE FOR PHOTOVOLTAIC SYSTEMS**

The Cyprus Energy Regulatory Authority, taking into account the provisions of the Regulating the Electricity Market Laws of 2003 to 2008, the Licensing Regulations of 2004 and

- a) its Decision No. 755/2012 dated 28/06/2012, by which it decided to receive applications for the installation of electricity generating units from photovoltaic systems over 20kW and up to 150kW,
- b) the National Action Plan for RES Energy up to 2020, which was prepared and submitted to the European Commission in June 2010,
- c) the study conducted by CERA for the purpose of updating the National Action Plan in order to accelerate the penetration of photovoltaic systems in the electricity system,

d) the grants' schemes aimed to encourage the use of renewable energy and for saving energy for the year 2012, decided address a letter to all holders of an Exemption From a Licence for the construction of photovoltaic systems asking them to put in writing their intentions concerning the implementation or not of the systems for which they have obtained a license, the course of the project and its implementation phase, and also to certify that the funding of the project is guaranteed. Furthermore, CERA decided that in the same letter that the reduction in the validity period of their licence will be mentioned.

**DECISION 763/2012 - 9 JULY 2012**

**LONG-TERM FORECAST OF THE ANNUAL MAXIMUM TOTAL POWER GENERATION AND ANNUAL ELECTRICAL ENERGY FOR THE PERIOD 2012 - 2021**

The Members of CERA, having studied and evaluated the relevant recommendation of the TSO on the Long Term Forecast of the annual maximum total power generation and annual electrical energy for the period 2012-2021, decided to approve this recommendation.



**DECISION 768/2012 – 31 JULY 2012**

DECISION PURSUANT TO THE DECREE OF THE MINISTER OF COMMERCE, INDUSTRY AND TOURISM, DATED 13/07/2011 –

TERMINATION OF THE CONTRACTS FOR THE LEASING OF TEMPORARY GENERATING UNITS WITH DAMCO ENERGY SA, TERNA OVERSEAS LTD KAI ENERGY INTERNATIONAL INCORPORATION

AND DECISION 772/2012 – 14 AUGUST 2012

DECISION PURSUANT TO THE DECREE OF THE MINISTER OF COMMERCE, INDUSTRY AND TOURISM, DATED 13/07/2011 –

TERMINATION OF THE CONTRACT FOR THE LEASING OF TEMPORARY GENERATING UNITS WITH THE APR ENERGY COMPANY

CERA considering the forecast and actual demand presented by the TSO at a meeting of the Energy Crisis Committee, in combination with the progress made for the restoration works at Vassilikos Power Station, decided to approve the proposal made by EAC for the non-renewal and termination of the leasing of temporary generating units of a total capacity of 166,6 MW and 120 MW.

**DECISION 769/2012 – 6 AUGUST 2012**

EXCESS REACTIVE POWER IN THE POWER SYSTEM

The Members of CERA, taking account, among other things, of the need to ensure the security, continuity, quality and reliability of electricity supply, and having studied and evaluated the relevant recommendation of the Transmission System Operator concerning the excess reactive power in the system, decided and approved his recommendation, which provided for:

EAC to proceed immediately to invite tenders for:

- The conversion the two gas-turbines in the Moni Power Station, in order to enable the absorption of 50MVar.
- The purchase of an iron-core reactor of 50MVar capacity to be connected directly to the «Athalassa» substation 132kV busbars, to be put into operation in 2013.
- The purchase of 80-90MVar Static Voltage Compensators (SVCs), for installation at the “Tseri” substation with a timetable that can be extended in order to provide for the installation and operation of this system in the period 2014-2015.

In this CERA Decision it was pointed out that

for the implementation of the third part of the recommendation (SVCs), the approval of CERA must be obtained before taking the final Decision for their installation.

**DECISION 773/2012 – 14 AUGUST 2012**

INSTRUCTIONS TO THE TRANSMISSION SYSTEM OPERATOR TO PROCEED TO THE AMENDMENT OF CHAPTER T16.7.2 OF THE TRANSMISSION AND DISTRIBUTION RULES CONCERNING THE ALLOCATION OF THE CONNECTION COST BETWEEN A RES PRODUCER AND THE OWNER OF THE TRANSMISSION AND DISTRIBUTION SYSTEMS

CERA, taking into account inter alia the instructions given to the Transmission System Operator, the Minutes of the meeting of the Advisory Committee on the Transmission and Distribution Rules of 20 July 2012, decided that CERA should ask the TSO to proceed with the amendment of Chapter T16.7.2 of the Transmission and Distribution Rules relating to the allocation of the connection cost between the producer of RES and the Transmission and Distribution Owner, so that the RES producer would bear the full charges for the connection of RES units to the transmission or distribution system. The implementation and application of this amendment will be effective as from 01/01/2013.

It is clarified that for photovoltaic systems between 20-150kW, which secured from CERA an exemption from a licence in 2012, as well as for systems up to 20kW addressed to the Management Committee of the Grant Scheme for Energy Conservation and the Promotion of Renewable Energy Sources (RES) Utilisation, which will be included in the Schemes for 2012, fifty per cent of the connection costs will be borne by the RES producer and the additional fifty per cent by the Owner of the Distribution System regardless of the time of implementation of the investment.

For the connection of the remaining systems of up to 150kW capacity which did not secure an Exemption from a Licence in 2012 and also of the systems with an installed capacity greater than 150kW to be selected through competitive tendering, the Transmission and Distribution Rules in force will be applied during the connection of the system with the network.

**DECISION 788/2012 - 20 SEPTEMBER  
& DECISION 802/2012 – 19 OCTOBER 2012  
COMMISSIONING THE CERA ACCOUNTANTS  
TO MAKE AN ANALYSIS OF THE FINANCIAL  
STATEMENTS OF A RES PRODUCER (D.K.  
WINDSUPPLY LTD OF THE ORITES WIND  
FARM)**

The Cyprus Energy Regulatory Authority requires the submission of Accounts by licensed companies generating electricity from Wind Farms under the provision of Article 102(9) so as, among other things, to be able to evaluate the current capacity of the Licensed Company to operate the wind park in a commercially viable framework, on a short-term, medium-term and long-term horizon, as its production directly affects the energy planning of CERA (in terms of energy coverage and not of capacity).

In this context, it requested and received the Annual Report and Financial Statements of DK Windsupply Ltd for the year 2011 and assigned to its Accountants to make an Analysis of the Financial Statements of the Company and submit a relevant report.

**DECISION 790/2012 -20 SEPTEMBER 2012 -  
ΚΑΠ 09/2012  
RECEIVING APPLICATIONS FOR THE  
GRANTING OF A LICENCE FOR ELECTRICITY  
GENERATION FROM RES, IN RESPECT OF  
WHICH THE SELLING PRICE OF ENERGY  
GENERATED WILL NOT BE SUBSIDISED**

CERA decided to amend its Decision 584/2011 and repeal its Decision 694/2012, so that CERA may accept for examination purposes at the present stage Applications for Licence or Exemption from a Licence for renewable energy projects that will be installed without any subsidy or guarantee about the sale of electricity from various RES facilities. CERA will receive, review and evaluate the applications to be submitted, as applications for inclusion of a new producer in the competitive electricity market on the basis of the existing legislation and regulations and on the basis of the Electricity Trading and Settlement Rules in force. The market price of electricity will be determined by the way the electricity market will function, according to the Trading and Settlement Rules in force.

**DECISION 798/2012 - 16 OCTOBER 2012  
DECISION REGARDING THE APPROVAL OF  
THE AMENDMENTS PROPOSED BY THE  
TRANSMISSION SYSTEM OPERATOR TO THE  
TRANSMISSION AND DISTRIBUTION RULES -  
VERSION 3.0.2**

CERA decided to approve in part the amendments to the Transmission and Distribution Rules proposed by the TSO and their revision in the new 3.0.2.version.

**DECISION 817/2012 – 20 NOVEMBER 2012  
DECISION ON THE APPROVAL OF BYLAWS  
OF THE LICENCING BODY OF AUTHORISED  
PERSONS, INDEPENDENT PRODUCERS AND  
LARGE CONSUMERS**

CERA, following the revision of the Transmission and Distribution Rules and taking into account the recommendation by the representative of the Transmission System Operator chairing the Agency to revise the Bylaws of the Licencing Body, decided to approve the said recommendation to revise the Bylaws of the Body.

**DECISION 821/2012 – 30 NOVEMBER 2012  
CERA DECISION ON THE PROCEDURE  
FOR THE CONCLUSION OF A CONTRACT  
BETWEEN THE TRANSMISSION SYSTEM  
OPERATOR AND AN APPLICANT AND BASIC  
PRINCIPLES OF THE CHARGING POLICY**

CERA approved the proposal by the TSO regarding the Procedure for the conclusion of a contract between the Transmission System Operator and an applicant (Producer or Consumer), as well as the Basic Principles of the Charging Policy for the connection of RES Producers, Conventional Producers and Consumers, to the Transmission and Distribution Systems, which was accompanied by a thorough study on the subject. The charging policy for connections to the Transmission System related to applications requesting a capacity greater than 8MW for Producers and 12MW for Consumers. Decision 821/2012 apply as from 01/01/2013.

### DECISION 834/2012 – 13 DECEMBER 2012 - ΚΑΠ 12/2012

#### EVALUATION OF APPLICATIONS FOR EXEMPTION FROM A CONSTRUCTION LICENCE FOR THE INSTALLATION OF ELECTRICITY GENERATING UNITS

i. FROM PHOTOVOLTAIC SYSTEMS HAVING  
AN INSTALLED CAPACITY OF 20kW AND UP  
TO 150kW

ii. GRANT EXEMPTIONS FROM A  
CONSTRUCTION LICENCE FOR ELECTRICITY  
GENERATING UNITS USING PHOTOVOLTAIC  
PANELS

The Cyprus Energy Regulatory Authority, after taking into account the report of CERA titled 'Issue of Exemptions from a Construction Licence for 20kW-150kW Photovoltaic Systems', the opinion of its Legal Advisor concerning the examination and evaluation of applications and the Grants' Scheme NMΦ1 (for Energy Conservation and the Promotion of Renewable Energy Sources (RES) Utilisation) for 2012 approved by the Council of Ministers decided:

- The withdrawal of 21 applications at the request of the applicants themselves
- The study on the further handling of 181 applications which were found not to be complete
- The issuing of Exemptions from a License for the first eighteen applications for units of a total capacity of 1,7 MW of the hierarchical established list following the examination and evaluation of applications
- To Send letters to Applicants informing them of the result of the examination and/or the evaluation of their application.

### DECISION 835/2012 - December 21, 2012

#### REDUCTION TO THE OFF PEAK TARIFFS FOR STORAGE HEATERS (EAC TARIFF CODE 55) AS FROM 01/01/2013

With this Decision, CERA approved the recommendation of EAC to reduce the price of the off-peak tariff for Storage Heaters (tariff code 55) by 2 €cents/kWh (at a basic fuel price €300/MT), with effect as from 1/1/2013.





## STUDIES AND OFFICE UPGRADING

### **RECRUITMENT OF CONSULTANT TO MAKE A STUDY ON THE IMPLEMENTATION OF THE ELECTRICITY AUTHORITY OF CYPRUS ACCOUNTING AND FUNCTIONAL UNBUNDLING, THE CREATION OF REGULATED ASSET VALUE BASE AND THE REVIEW OF THE EAC ALLOWABLE REVENUE**

A tender was invited for the employment of a Consultant to make a study on the implementation of accounting and functional unbundling, the creation of a Regulated Asset Value Base and the review of an appropriate Return on Capital Employed in the EAC. The aim of the study is to have the Consultant's recommendations on the implementation of the accounting and operational unbundling of the four activities of the EAC (Generation, Transmission, Distribution and Supply) so as to achieve a better control and supervision of the EAC by CERA and in addition to enable a rational, transparent and accurate calculation of the internal tariffs of EAC.

The study will also address the establishment of

a Regulated Asset Value Base (RAVB), using the practices and experiences in countries employing developed RAVB and a review on an appropriate return on capital employed for each of the four EAC activities.

Finally, it will train officers of CERA Office in the control and supervision of the unbundled accounts so as to enable them to make a rational evaluation of the financial standing of a regulated organisation such as the EAC.

The Consultant will also make an assessment of the previous CERA Decision according to which:

- Depreciation on Capital Contributions will not be included when calculating Use of the Transmission System (TUoS) and Use of the Distribution System (DUoS) Charges.
- The Regulated Asset Value Base will include separately asset elements of the Transmission and Distribution Networks. Equipment units and the constituent components will be adopted according to the recommendations of a Consultant of similar experience.

- For control purposes, the Return on Capital Employed for each EAC activity will be calculated based on the Regulated Asset Value Base, and will be compared with the performance envisaged in the Declaration on Regulatory Practice and Methodology for Electricity Tariffs for this activity as well as the Weighted Average Cost of Capital for the period.
- EAC will calculate and notify CERA at the end of each year the Weighted Average Cost of Capital (WACC) for each of the Generation, Transmission, Distribution and Supply activities.

#### **SUPPLY, INSTALLATION, CONFIGURATION AND MAINTENANCE OF A DOCUMENT MANAGEMENT SYSTEM, WORK FLOW MANAGEMENT, CREATION OF RECORDS, SAFE-KEEPING AND DESTRUCTION RECOVERY TO MEET THE NEEDS OF CERA OFFICE**

CERA recognised the need for maximising the utilisation of information technology, to enable the carrying out of its mission more effectively.

For this reason tenders were invited for the supply, installation, configuration and maintenance of a document management system, workflow management, creation of records and data banks, security, stored safely and enabling system recovery after destruction.

CERA through the implementation and operation of a Document Management System aims at:

- the creation and implementation of an Electronic Documents Archive (including incoming and outgoing correspondence) for efficient and secure storing as well as easy access
- the operation of a Workflow Management System
- the modernisation and optimisation of the procedures being followed by CERA with the use of information technology
- the creation of an electronic register as required by laws and regulations, and the replacement of the existing manually based and
- the optimisation of managing applications for licences handled by CERA .

#### **EMPLOYMENT OF SPECIALIST CONSULTANTS FOR THE EVALUATION AND RESTRUCTURING OF THE ELECTRICITY MARKET IN CYPRUS**

The latest developments concerning the advent of natural gas to Cyprus, which significantly influence any investment decisions concerning generation potential, but also the need to facilitate the entry of new participants in the electricity market and the most effective integration and participation of Renewable Energy Sources (RES) in the electricity market, the preparation of a revised National Plan for RES penetration and the review of existing grants' schemes, CERA re-examines the design of the Electricity Market, in order to comply with the overall requirements of the 3rd Energy Package.

For this reason tenders were invited for the employment of Consultants to evaluate and restructure the electricity market in Cyprus. The study will:

- assess the existing market model and its suitability to support the electricity system of Cyprus to operate according to basic principles, such as security of supply, consumer protection, increased penetration of renewable energy sources, ensuring the safety and reliability of the Transmission and Distribution Systems etc.
- compare the existing market model with other electricity market models
- suggest improvements to the existing market model or the adoption of an entirely new market model
- for the transitional period recommend the implementation of amendments to the existing model or the implementation of a new model and related provisions.

On the basis of the results of the project and the consultation that will follow with all stakeholders, CERA will decide whether there is need to amend the legislative framework and change the design of the market and will instruct the Transmission System Operator to develop new detailed Market Rules in accordance with the provisions of the law or to amend the existing Rules.



## PARTICIPATION IN INTERNATIONAL BODIES FOR ENERGY ISSUES



**The Council of European Energy Regulators (CEER)** is a coordinating body to which the Energy Regulatory Authorities of the Member States of the EU and of other European countries take part. The basic aim of this Council is the promotion and development of a healthy competitive market in Electricity and Natural Gas through appropriate and efficient mechanisms. All the Regulatory Authorities cooperate via this Council for the establishment of a common policy on matters of

Electrical Energy and Natural Gas and advise the European Commission on these matters. The Council meets at regular intervals, usually in Brussels. The Chairman of CERA represents Cyprus. During 2012 CERA participated in the 79th, 82nd, 83rd, 85th, 86th and 87th General Assembly of CEER.



**The 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 will advise the EU Commission so as to take binding decisions on the Member States. It will intervene with recommendations to solve problems between regulatory authorities and will contribute to the creation of common European codes.

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

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

Cyprus is represented by the Chairman of CERA at the Board of Regulators. During 2012, CERA took part in the 15th, 18th, 19th, 20th and 23rd General Meeting of ACER.



**The Energy Community Regulatory Board** was established on the 01/07/2006 by virtue of the Energy Community Treaty entered into by the European Union and the countries of Southeast Europe.

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

The Chairman of CERA represents Cyprus.



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



**The Mediterranean Working Group on Electricity and Natural Gas Regulation MEDREG** was established in May 2006 as a Working Group and is currently a non-profit organisation under Italian Law that was published in Rome in November 2007. Non-Profit Organisation MEDREG is supported by the European Union. The main purpose of MEDREG is to promote a stable and harmonised regulatory framework in the Euro-Mediterranean Energy Market, leading to the provision of maximum benefits to energy consumers in both regions, respectively. This requires continuous cooperation and information exchange between Members of MEDREG, creating in this way the basis for further discussion and elaboration of different regulatory frameworks. CERA participated in the 13th General Assembly of MEDREG which was held in Istanbul.

## INTERNATIONAL AND LOCAL ACTIVITIES



*CERA's meetings in Israel , 21-24/10/12*

### INTERNATIONAL ACTIVITIES

During the reporting year, CERA participated through a representative in the 5th session of the electricity priority corridor “Electricity interconnections North-South in Central Eastern and South Eastern Europe (NSI East Electricity)”: interconnections and internal lines in North-South and East-West directions to complete the internal market and integrate generation from renewable energy sources. The participating countries are Austria, Bulgaria, Czech Republic, Cyprus, Germany, Greece, Hungary, Italy, Poland, Romania, Slovakia and Slovenia.

This meeting took place in Brussels on 15 November 2012 under the chairmanship of DG Energy of the European Commission.

The main objective of the meeting was the continuation of the preparatory work to identify Projects of Common Interest in electricity power in Eastern Europe, as envisaged by relevant Regulation Proposal.

Specifically, the European Commission has issued a Proposal for a Regulation on 19/10/2011 on guidelines for trans-European energy infrastructure in the context of implementation of its core energy policy objectives of competitiveness, sustainability and security of supply. The main objective of this Proposal is to ensure the coordination between the Member States to optimise the development

of energy infrastructure (gas, electricity, oil and carbon dioxide) across Europe. More specifically, the objective of this Proposal for a Regulation directly concerning Cyprus is the full integration of the internal energy market, ensuring inter alia that no Member State is isolated from the European network. In the context of attaining these targets, the Proposal for a Regulation provides for the submission to the European Commission of projects involving interconnection between Member States and third countries, referred to as «Projects of common interest». The Commission shall establish a Union-wide list of projects of common interest. The list shall be reviewed and updated as necessary every two years. The first list shall be adopted by 31 July 2013 at the latest. The projects selected will receive financial assistance from the European Union in the form of grants.

In the context of implementing the provisions of the above Proposal for Regulation, Cyprus has submitted a total of 4 projects (2 for gas and 2 for electricity) for evaluation as potential projects of common interest. The proposed projects for electricity were (a) the EuroAsia Interconnector and (b) a Pumped Storage Plant in Cyprus.

During the meeting ECORYS, the technical advisor of the European Commission, presented the preliminary results of an evaluation of the projects proposed by the Member States in the context of the eligibility assessment. In the case



of Cyprus, the project «EuroAsia Interconnector» was deemed eligible, while the project «Pumped Storage in Cyprus» was rejected because it did not meet the criteria for the Proposal for a Regulation. To be eligible a Proposed Project of Common Interest shall meet the following general criteria:

- the project is necessary for the implementation of the energy infrastructure priority corridors as set out in the Proposal for a Regulation
- the project displays economic, social and environmental viability
- the project involves at least two Member States, either by directly crossing the border of one or more Member States or by being located on the territory of one Member State and having a significant cross-border impact.

In addition, a project falling under the electricity category shall contribute significantly to at least one of the following specific criteria:

- market integration, competition and system flexibility;
- sustainability, inter alia through transmission of renewable generation to major consumption centres and storage sites;
- interoperability and secure system operation

The next step was the submission of non-binding opinions by the National Regulators on eligible projects that concern them. These views shall be an important benchmark of the European Commission for the preparation of the final list of projects to be selected as Projects of Common Interest.

Based on the Proposal for a Regulation, ACER undertakes, with respect to electricity and natural gas, an advisory role for the evaluation and selection of Projects of Common Interest, and

subsequently the responsibility of monitoring and evaluating the implementation of these projects, in collaboration with National Regulatory Authorities. In the context of the above ACER, as the first phase for the evaluation of projects proposed for inclusion in the list of Projects of Common Interest, prepared and sent to the National Regulatory Authorities a checklist, both for natural gas and for electricity, with the request to be completed separately for each individual project and submitted electronically in respect of the projects relating to each Regulatory Authority no later than the end of November 2012. This checklist will then assist in the preparation of the opinion to be prepared by the National Regulatory Authorities.

Based on the above obligations, CERA immediately presented all the necessary information which was requested, as well as its non-binding opinion to ACER related to the EuroAsia Interconnector. CERA, among other things, said that with the completion of this project, Cyprus will cease to be an isolated from the European network system, which is one of the most important pillars set by the Proposal for a Regulation. It will also contribute positively to the achievement of the objectives set by the EU concerning, amongst others, the completion of the internal electricity market, security of supply, improved energy efficiency and the reserve provision in emergency situations. Also, CERA expressed the opinion that this project fully satisfies the general criterion for trans-boundary impact and, therefore, CERA has given a positive opinion on this project, mentioning that some studies are still in progress, so there is a lack of information about certain issues, such as the results of a cost/ benefit analysis.



*Snapshot of the 23<sup>rd</sup> Board of ACER and the 87<sup>th</sup> General Assembly of CEER in Limassol, 06-07/11/12*



**IMPORTANT LOCAL ACTIVITIES****07 SEPTEMBER 2012****CERA'S ANNUAL REPORT FOR 2011 PRESENTED TO THE PRESIDENT OF THE REPUBLIC OF CYPRUS**

Members of the Cyprus Energy Regulatory Authority on 7 September 2012 presented to President of the Republic, Mr Demetris Christofias the Annual Report of the Authority for 2011.

During the meeting, CERA's Chairman, Mr George Shammass, assured inter alia, that "the Government has implemented or promoted for implementation the decisions for the creation of a liquefaction terminal, the establishment of state-owned hydrocarbons company and a national fund to manage hydrocarbons' revenue."

Speaking to reporters after his meeting with the President of the Republic, CERA's Chairman said: "Today we presented to the President of the Republic the Annual Report of the Authority for 2011 which covers all our activities in the past year relating to management of the energy market, electricity and natural gas. It also describes the actions of CERA and its partners on the issue of the management of the crisis in 2011 and other important issues concerning the legislation on natural gas, the recommendations of CERA regarding the issue of gas management and CERA's involvement and participation in European bodies, such as the Agency for the Cooperation of Energy Regulators".

Continuing he said: "We also informed the President that as part of the Cyprus Presidency of the EU Council, CERA has undertaken to organise the General Assembly and the Council of European Energy Regulators on 6 and 7 November in Limassol".

Replying to a relevant question, CERA's Chairman said that "on the question of the price of electricity there is no intention or plan to increase tariffs. Any existing fluctuations are due to the price of fuel. In the past two months we have seen a reduction in the EAC fuel costs, which is automatically passed on to the consumers. The other item on the news concerns the greenhouse gases, the cost for which is already included in electricity bills. I state that there is no way that there will be an increase



*Meeting between CERA and former Ministers of Commerce, Industry and Tourism, 03/01/12*

of the order of 4,5 % as from 2013, as has been reported in the press".

In response to another question, he replied that "the extraordinary surcharge (on the final electricity bill of consumers) expires in May 2013 and the percentage of 5,75 % will be terminated permanently, so there will be an additional reduction".

Asked to speak about the suggestions of CERA on natural gas, the Chairman of the Authority said: "The suggestions on natural gas were made in the context of the formulation of the strategy of the state following the discovery of hydrocarbon deposits in the Exclusive Economic Zone of Cyprus and concern the guidelines on the strategy for which we expressed our satisfaction because the Government has implemented or promotes the implementation of several of our recommendations, such as the decision to create a liquefaction terminal, the decision to establish a state hydrocarbons company and a national fund to manage revenue from hydrocarbons".

**26 AND 27 APRIL 2012****TWO-DAY SEMINAR ON THE RECOMMENDATION OF THE EUROPEAN COMMISSION ON ADOPTING A HARMONISED METHODOLOGY TO CLASSIFY CONSUMER COMPLAINTS AND DEMANDS**

CERA was represented by an Officer to the above mentioned two day Seminar which took place on 26 and 27 April 2012 in a hall of the Pedagogical Institute of Cyprus.

The Seminar was organised by the Competition and Consumer Protection Service of the Ministry of Commerce, Industry and Tourism in cooperation

with the European Commission in order to promote the adoption of the relevant recommendation of the European Commission by organisations which receive and handle consumer complaints and requests. The relevant Recommendation aims at using a harmonised methodology for classifying and reporting consumer complaints and requests via an electronic database aimed at improving consumer protection.

The Seminar included, amongst other, presentations by participants regarding the mission and work of the organisations they represented, the method used for the collection and classification of complaints, the existing tools to record and classify complaints and expectations from the Seminar. There was also a presentation by a representative of the European Commission on the provisions and advantages of the relevant Recommendations and the presentation of specific software used by the European Commission.

#### 18 MAY 2012

#### **SIGNING OF A MEMORANDUM OF COOPERATION BETWEEN THE CYPRUS ENERGY REGULATORY AUTHORITY AND THE REGULATORY AUTHORITY FOR ENERGY OF GREECE**

A Memorandum of Cooperation between the Cyprus Energy Regulatory Authority and the Regulatory Authority for Energy of Greece, for the purpose of consolidating and strengthening

their cooperation, was signed during a special ceremony in Cyprus in the presence of the Minister of Commerce, Industry and Tourism, the Ambassador of Greece to Cyprus, the Deputy Presidents of the Parliamentary Committees for Commerce and Industry and Foreign and European Affairs and various other individuals and institutions involved in energy issues.

#### 28 MAY 2012

#### **CONDUCT OF A PUBLIC CONSULTATION ON THE ISSUE OF THE TREATMENT OF APPLICATIONS FOR THE ISSUING OF LICENCES FOR PHOTOVOLTAIC SYSTEMS OF A CAPACITY BETWEEN 20kW AND 150kW**

A public consultation was held in order to give all stakeholders and interested parties the opportunity to express their views on the application process, the conditions that must be met and the criteria to be applied during the evaluation aimed at the optimal and proper treatment of applications.

#### 6 NOVEMBER and 7 NOVEMBER 2012

#### **HOLDING OF THE 23RD COUNCIL OF THE AGENCY FOR THE COOPERATION OF ENERGY REGULATORS (ACER) AND THE 87TH GENERAL ASSEMBLY OF THE COUNCIL OF EUROPEAN ENERGY REGULATORS (CEER) IN LIMASSOL**

In the course of the above mentioned events it was stressed that the future exploitation of natural



*Snapshot of the signing of the Memorandum of Cooperation between the Cyprus Energy Regulatory Authority and the Regulatory Authority for Energy of Greece , 18/05/12*



gas in Cyprus will turn the country into a hub for the EU energy market, something which may exert pressure on Turkey over its stance on the matter. As the President of the Board of Directors of the Council of European Energy Regulators Lord John Mogg said, developing a European energy market is of crucial importance, as is the contribution to this end of Energy Regulators. He added that the region where Cyprus is situated is of utmost importance “due to future ties in relation to the electricity and natural gas and the development of renewable energy sources and any contribution to the self-sufficiency of the European energy market and supplies to consumers and the industry is vital and this will further integrate Cyprus into the EU”. For his part, the Director of the Agency for the Cooperation of Energy Regulators, Alberto Pototschnig, expressed gratification for being on the island “because Cyprus in the future will play a key role in the energy market in Europe, among the energy-producing countries in the Middle East and Central Asia and the energy dependent

countries in Central Europe. “He further noted that “the diversity of sources and routes is a very important aspect to ensure energy supplies and this is a strategic objective of the EU”, he said and concluded by adding that “Cyprus has a bright future in the European energy scene”.

For his part, CERA’s Chairman, George Shammas, said that the choice of Cyprus for the organisation of the 23th Council of the Agency for the Cooperation of Energy Regulators of Europe and the 87th Assembly of the Council of European Energy Regulators was a great honour and that it promoted the completion of the Single Market by 2014. There was also discussion concerning the regulation on energy infrastructure in Europe and the promotion of projects of common interest. It is expected that through this Regulation gradually various projects will be integrated which will help to transport natural gas from the South-Eastern Mediterranean to Europe.

Finally, the Assembly elected the new President and Vice-Presidents of the Board of Directors of the Council of European Energy Regulators. They are : Lord John Mogg (Ofgem) President, Walter Boltz (E-Control) - Vice President, Annegret Groebel (BnetzA) - Vice President, Valeria Termini (AEEG) - Vice President, Michel Thiollie (CRE) - Vice President and Marek Woszczyk (URE) - Vice President.

#### CERA’s COMMUNICATION WITH ORGANISED ENTITIES

The Members of the Cyprus Energy Regulatory Authority, in the context of providing information on a number of important issues relating to the Energy Sector, held meetings with the President of the Republic, the Archbishop of Cyprus, the leaders of parliamentary parties, and various Ministers.

Also CERA held a series of meetings with various organisations and departments of the public and the private sector exchanging views with on a number of energy issues.

CERA’s contacts in 2012 included meetings with the Minister of Commerce, Industry and Tourism and the Permanent Secretary of the Ministry, with all former Ministers of Commerce, Industry and Tourism, with the Minister of Commerce of Greece, with several ambassadors, the Under-Secretary to the President, the Nobel laureate Professor





Christopher Pissarides, with Municipalities and Communities, the Auditor General of the Republic, the Cyprus Chamber of Commerce and Industry (CCCI), the Organisation of Employers and Industrialists (“OEB”), the University of Cyprus, the Cyprus Investment Promotion Agency (CIPA), the Cyprus Hoteliers Association, the “ΣΕΚ” and “ΠΕΟ” trade unions, with Members of the Board and managers of Banks, the Cyprus Telecommunications Authority (CYTA), the Cyprus Consumers Association, the Department of Labour Inspection, the Civil Defence, the Cyprus Scientific and Technical Chamber (“ΕΤΕΚ”), the Expert Group on Natural Gas, the Water Development Department, the Department of the Environment, the EAC Board, the EAC Trade Unions, the Natural Gas Public Company (“ΔΕΦΑ”), the Cyprus Association for the Promotion of Renewable Energy Sources, delegations of Noble Energy, as well as with Applicants for Generation Licences and Generating Stations Licensees. Furthermore, CERA participated in several meetings of Parliamentary Committees in the House of Representatives.

### SPEECHES AND PRESENTATIONS BY CERA

During the year under review, CERA accepted invitations for speeches and presentations in Cyprus and abroad to present various issues related to energy and contribute to comprehensive and seamless information sharing around the issues of electricity, natural gas, licensing etc. More specifically, CERA participated in a number of events/ presentations with the most prominent being:

- **“1st Cyprus Energy Symposium”** on 26 January 2012 in Nicosia on Cyprus energy resources and the new energy situation created in the Eastern Mediterranean.
- **Investment Energy Summit Greece, Cyprus, Israel “Market structure-Impact of increased penetration of renewable energy sources”** on 28 March 2012 in Athens.
- **‘Major European policies and targets - Cyprus Presidency of the European Council, Europe 2020 Action against Climate Change and Regulatory Authorities’** on 11 April 2012.
- **‘Mare Forum’** on 12 June 2012 in Limassol.
- **‘The 55th Annual General Meeting of “ΣΕΠΑΗΚ”** on 23 June, 2012 in Nicosia.

- **‘Wave Energy Potential in the Eastern Mediterranean Sea - Qualification and Exploitation’** on 9 July 2012 at the University of Cyprus.
- **‘European Energy Market: redesigning the framework-The Cyprus-EU Presidency Summit (The Economist)’** on 8-9 October 2012 in Nicosia.
- **Presentation at the ‘Trilateral Meeting between Energy Regulators of Israel, Greece and Cyprus’** on 22 October 2012 in Jerusalem.
- **17th National Conference on Energy ‘Energy and Development 2012’** on 30-31 October 2012 in Athens.
- **‘The challenges of the island energy market of Cyprus (meeting between energy regulators of Denmark and Cyprus)’** on 16 November 2012 in Copenhagen.
- **Welcoming Address to the POEM Congress** on 19 November 2012 in Limassol.
- **‘Gas and Oil Energy: sharing strategic experiences for a prosperous future’** on 20 November 2012 at the European University Cyprus.

CERA also attended the inauguration of the “Alexigros” and “Ayia Anna” wind farms, as well events organised by the Cyprus Union of Physicists, “ΠΕΟ”, “ΔΕΟΚ”, “ΣΑΜΕΤΕΚ” and the University of Cyprus while, in its efforts to inform the public and the Mass Media, it issued a number of press releases and interviews.



# LICENCING OF ELECTRICITY GENERATION

## DETAILS OF APPLICATIONS AND LICENCED ELECTRICITY GENERATION

### Conventional Generating Stations

Since the establishment of CERA and until the end of 2012, a total of twenty-six licences for the Construction of Conventional Generating Stations were issued.

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

Today the total Capacity Licensed by CERA for

Generating Stations is 2.652,8 MW in twenty-five licences, of which nine of a capacity of 1.878 MW belong to the Electricity Authority of Cyprus and twelve of a capacity of 30,9 MW, belong to self-producers. The remaining four, of a capacity of 743,9 MW, belong to independent power producers.

On 31 December 2012, only one application by a self-producer of a capacity of 1,28 MW was under consideration.

### Presentation and Geographical Distribution of Licences for Conventional Generating Stations

#### Licensed Generation Units-Conventional Power Stations



## Wind Farms

At the end of 2012, a total of fifty applications for the Construction of Wind Farms were submitted to CERA. Thirty three applications for the Construction of Wind Farms have been granted. Of these, five licences of a total capacity of 138,0 MW (53,8MW in Phase 1) have been revoked by CERA's decisions. Four Licences of a capacity of 141 MW (52,3 MW in Phase 1) have expired and five wind farms of a total capacity of 146,7 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 2012, total capacity licenced by CERA for implementation was 281,4MW. These figures do not include Wind Farms with a capacity below 30kW as these are exempted from a licence by CERA.

On 31 December 2012, one application for the construction of a wind farm of a capacity of 4 MW, which concerned Exemption From a Licence, was under consideration.

## Presentation and Geographical distribution of Licences for Wind Farms Graph

### Wind farms and Solar-Thermal stations



#### WIND FARMS

1	12,0	MW
2	12,0	MW
3	20,0	MW
	10,8	MW
	16,0	MW
4	6,0	MW
5	34,5	MW
6	11,5	MW
7	33,0	MW
8	12,6	MW
9	10,8	MW
10	42,0	MW
	18,0	MW
	8,0	MW
11	12,5	MW
	15,0	MW
12	12,5	MW
13	12,0	MW
14	2,4	MW
15	10,0	MW
	8,0	MW
16	10,0	MW
17	82,0	MW
19	50,0	MW



#### SOLAR - THERMAL POWER STATION

18	15,0	MW
	10,0	MW



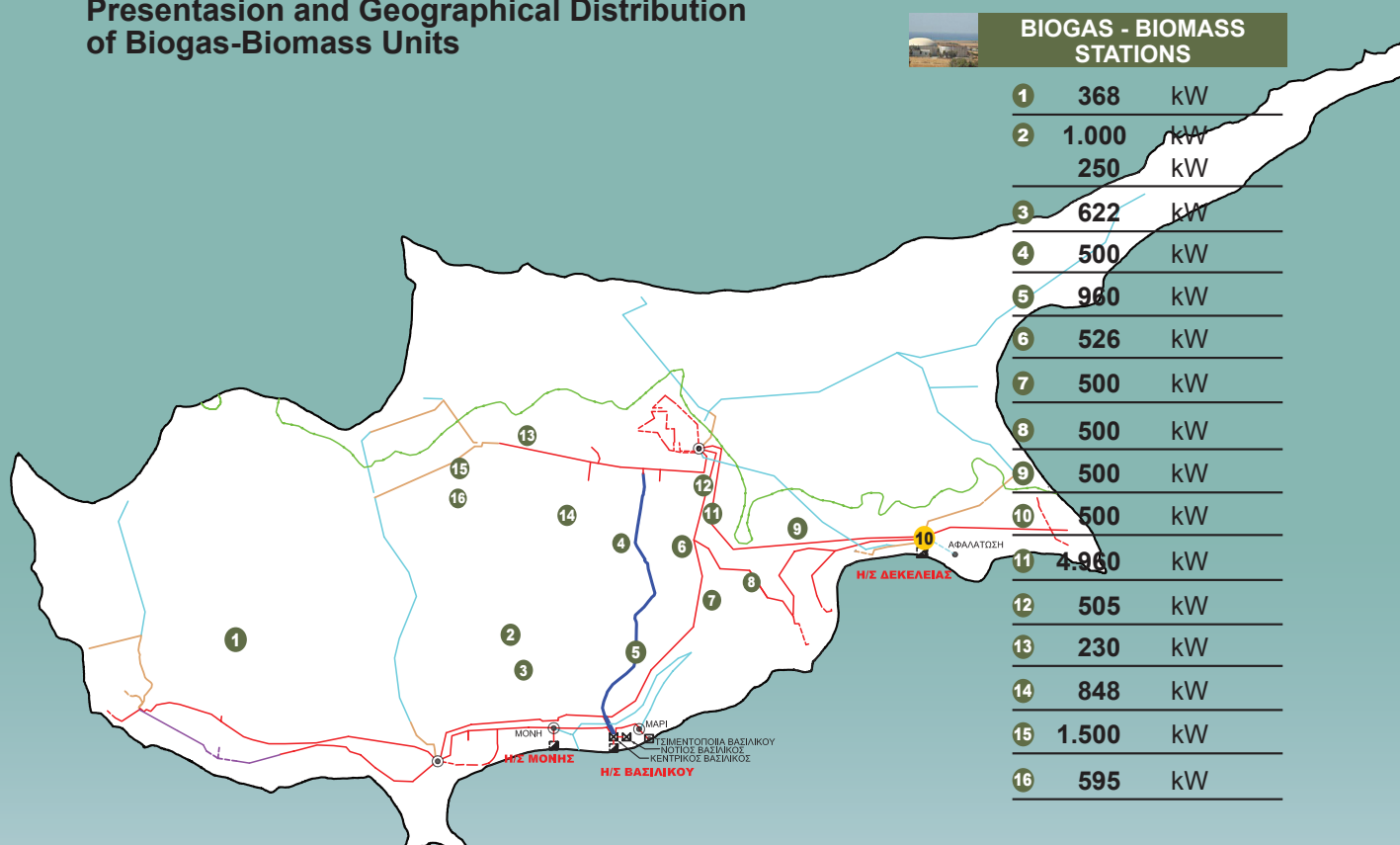


### Biomass/ Biogas

CERA has issued twenty-one Licences for the Construction of Generating stations from Biomass/ Biogas of a total capacity of 21,88 MW and is examining two additional applications of a total capacity of 2,45 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 34,96 MW have been rejected. These figures 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.

### Presentation and Geographical Distribution of Biogas-Biomass Units



### Photovoltaic Systems

At the end of 2012, the total number of applications submitted to CERA for the Construction of Photovoltaic Systems was 758 for applications under the Grants' Scheme (Grant Scheme for Energy Conservation and the Promotion of Renewable Energy Sources (RES) Utilisation) and 28 applications outside the Grants' Scheme. Thirty-nine applications of total capacity of 16,42 MW under the Grants Scheme and one application of a capacity of 7,35 MW, outside the Grants'

Scheme were rejected. Also, 21 applications of a capacity of 2,1MW have been withdrawn.

Of these, 184 Licences of a total capacity of 20,57 MW were issued and one License, of a capacity of 100 kW has been revoked. Some 514 applications of a total capacity of 53,547 MW under the Grants' Scheme and 28 applications, of a total capacity of 63.373,56 kW outside the Grants' Scheme are under study.

Photovoltaic units of a capacity below 20 kW are not included in these figures as they are as exempted from a license.

### Solar Thermal Stations

In all nine applications, of a total capacity of 190 MW, have been submitted. Three Licences of a total capacity of 75 MW have been granted and five applications of a total capacity of 100 MW have been rejected.

On 31 December 2012 there was no application under study.

### REGISTER OF APPLICATIONS FOR A LICENCE AND LICENCES ISSUED

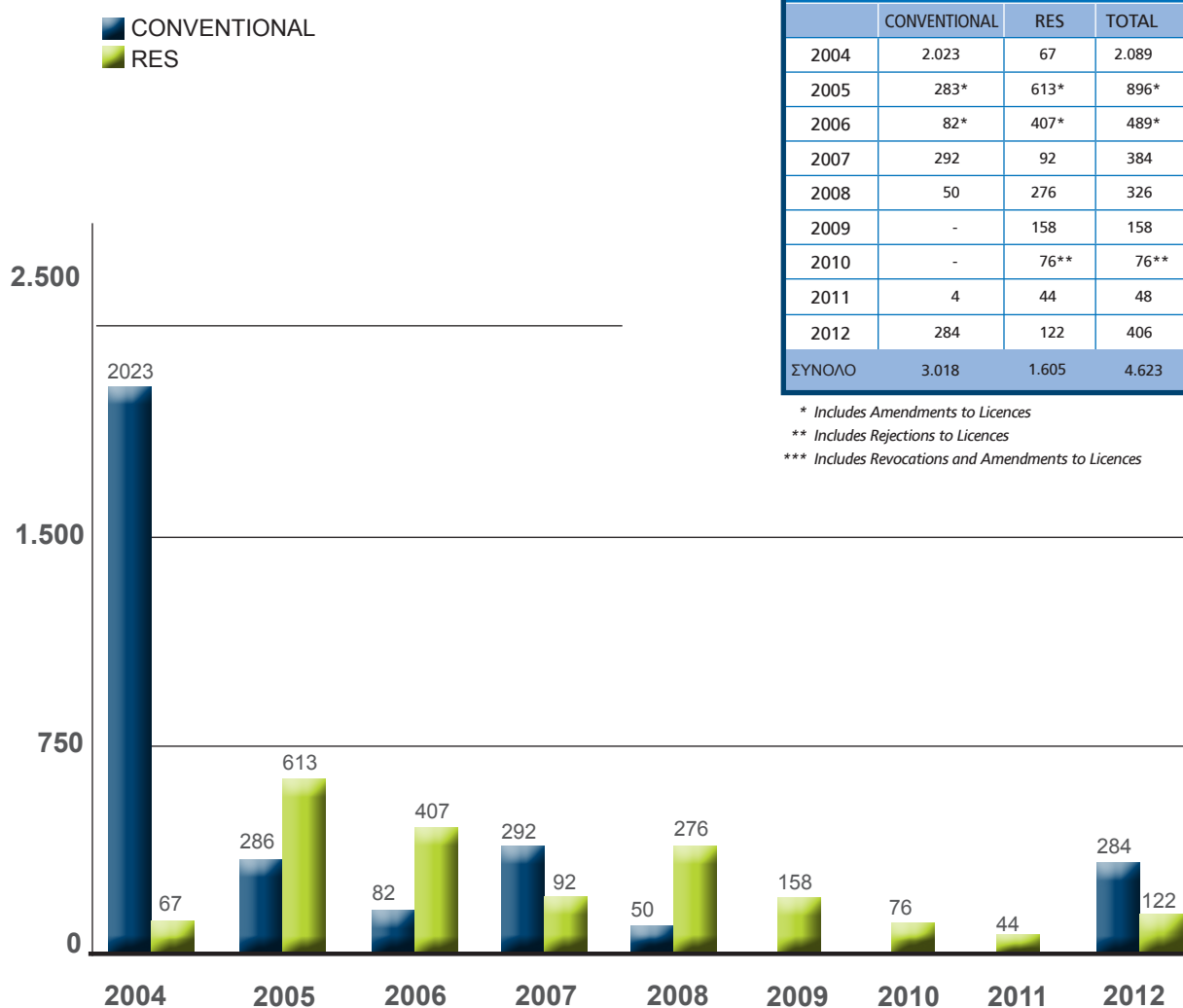
All lists of Applications for a License, as well as Licences Issued, can be found in CERA's website at <http://www.cera.org.cy>.

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

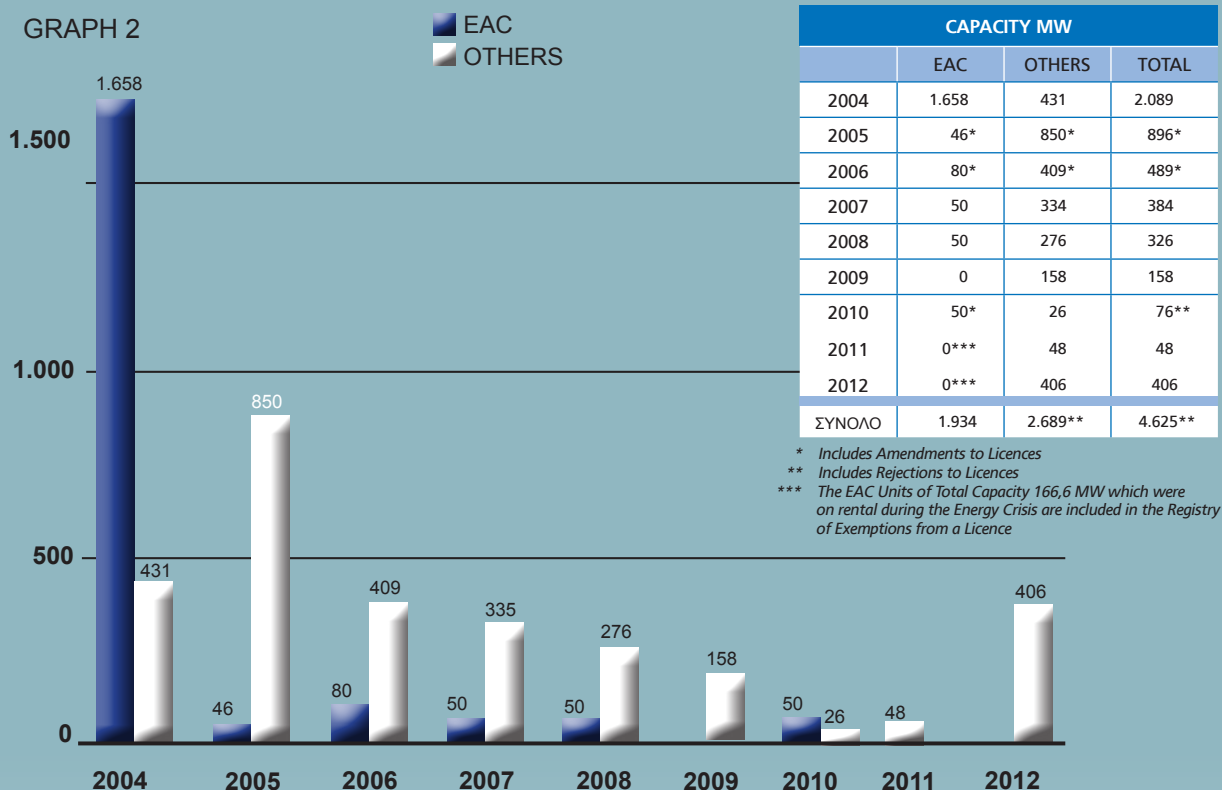
Applications for Electricity Generation Licences

### Submitted during the 2004-2012 period

GRAPH 1



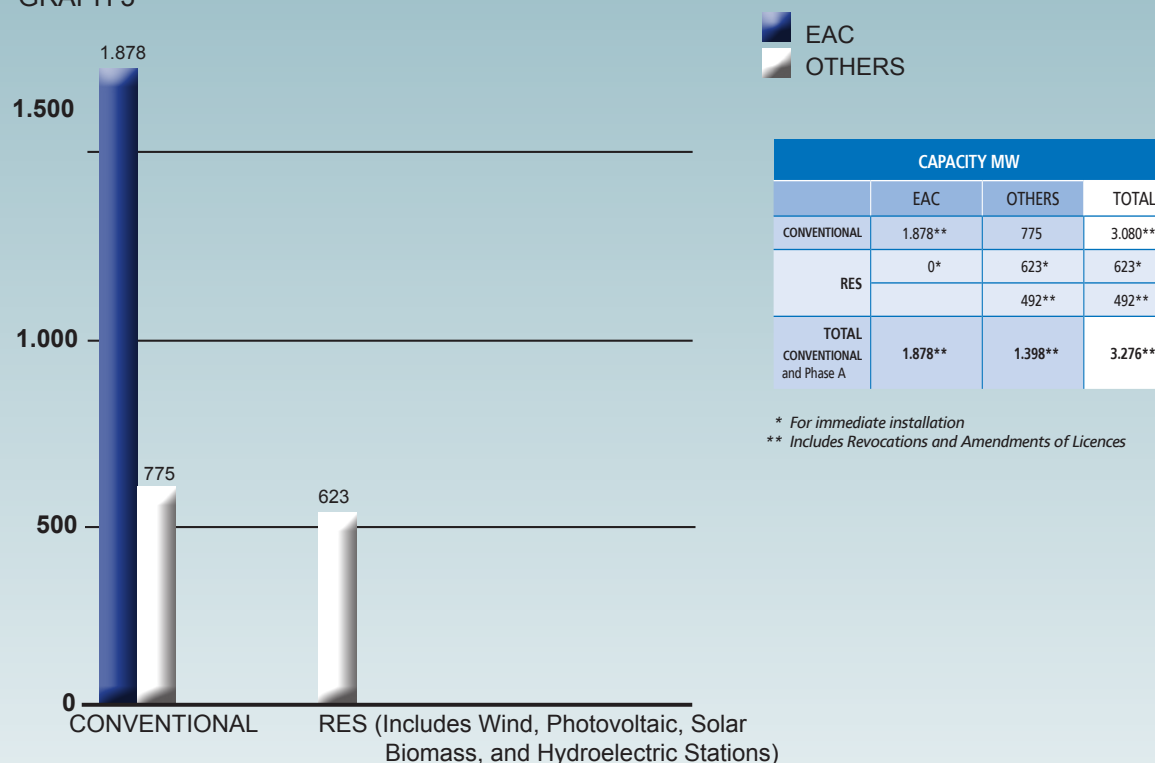
## Submitted during the 2004-2012 period



## LICENCES

## Total Licenced capacity on 31/12/2012

GRAPH 3





## 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, managed to inform interested

public that for the installation and operation of a generator, of a capacity exceeding 10 kW, it is necessary to obtain a License or an Exemption from a Licence by CERA.

During 2012 the submission of applications for the granting of an Exemption from a Licence continued as shown in the following Table.

Number of Applications of Generators		Exemptions from a Licence Issued by CERA for Generators		Exemptions from a Licence (In force*)	Number of Generators (In force*)		TOTAL (In force*) Licenced Power of Generators (MW)
2012	TOTAL	2012	TOTAL		2012	TOTAL	
104	529	42	416	355	382	491	251

TABLE 2 – LICENCED GENERATORS

### Electricity Generation from Renewable Energy Sources Under the Grants' Scheme (for Energy Conservation and the Promotion of Renewable Energy Sources (RES) Utilisation)

The Cyprus Energy Regulatory Authority, taking into account its previous Decision to temporarily suspend receiving applications for the installation of electricity generating units from Renewable Energy Sources (RES), the National Action Plan for RES energy until 2020, the Grants' Schemes aimed at encouraging the use of RES and the study of CERA, conducted for the purpose of updating the National Action Plan, in accordance with the relevant Decision of the Council of Ministers to speed up the penetration of photovoltaic systems in the electricity system, decided to launch a consultation process with all agencies and services involved as well as with the interested public.

Subsequently, the Cyprus Energy Regulatory Authority (CERA) had consultations with all stakeholders and services involved at its Offices on 09/05/2012 and by phone with all stakeholders

on 28/05/2012 and after hearing and recording all opinions, prepared the necessary documents and data and announced that it will start receiving applications for photovoltaic systems of a capacity exceeding 20 kW and up to 150 kW from 23/07/2012 up to 15/10/2012.

During 2012, the Cyprus Energy Regulatory Authority received 553 applications, of which 21 applications were withdrawn at the request of the applicants, 181 applications were incomplete and 351 applications were complete and were evaluated by preparing a hierarchical list based on their score. Then, CERA taking into account the percentage of photovoltaic systems envisaged in the Grants' Scheme approved by the Council of Ministers, issued 18 Exemptions from a License for the construction of Photovoltaic Parks of a total capacity of 1,7 MW.







The following table shows the status of Applications/ Licenses for Photovoltaic Systems by the end of the year under review:

NUMBER OF APPLICATIONS		LICENCES ISSUED by CERA		TOTAL LICENCED CAPACITY OF BIOGAS/ VIOMASS GENERATORS MW	TOTAL LICENCED CAPACITY OF BIOGAS/ VIOMASS GENERATORS MW
2012	TOTAL	2012	TOTAL		
553	758	18	184	20,66	6,85

TABLE 3 – Licenced Installations of Photovoltaic Systems

Table 4 shows the number of Applications submitted to CERA, the total licenced capacity and the installed capacity of electricity generation from biomass/ biogas.

### Electricity Generation from Biomass/ Biogas

NUMBER OF APPLICATIONS electricity generation from biomass/ biogas		TOTAL CAPACITY OF BIOGAS/BIOMASS GENERATORS MW	TOTAL CAPACITY OF BIOGAS/BIOMASS GENERATORS MW	
TOTAL	IN FORCE		2012	TOTAL
32	47,59	21,88	0,8	9,39

TABLE 4 – Licenced Installations of Biomass/ Biogas Electrical Production



# ELECTRICITY GENERATION INSTALLATIONS AND ELECTRICITY GENERATION DATA

## INSTALLED CAPACITY OF POWER STATIONS AND CONSTRUCTION WORKS IN 2012

### Installed Capacity of Conventional Units in 2012

#### Electricity Authority of Cyprus Installations

##### • Moni Power Station (300 MW plus 155 MW temporary)

5 Steam Units of 30MW nominal capacity each  
4 Gas Turbines of 37,5MW nominal capacity each  
Temporary small Internal Combustion Engines (ICE generators) of a total capacity 35MW, to meet the needs after the accident at Mari, from 01/01/2012 until 31/08/2012, when the lease and installation of temporary Internal Combustion Engines was terminated

Additional Temporary small ICE generators of a total capacity of 120MW to meet the needs due to the accident at Mari, from 18/06/2012 until 18/09/2012, when the lease and installation of temporary ICEs was terminated.

##### • Dhekelia Power Station (460MW plus 60MW temporary)

6 Steam units of 60MW nominal capacity each  
6 Internal Combustion Engines of 100 MW total nominal capacity

Small temporary ICE generators of a total capacity of 60MW, to meet the needs due to the accident at Mari, from 01/01/2012 until 31/08/2012, when the lease and installation of temporary ICEs was terminated.

##### • Vassilikos Power Station (330 MW plus 72MW temporary)

1 Gas Turbine of a nominal capacity of 37,5 MW  
1 Gas Turbine of Combined Cycle Plant number 4 of nominal capacity of 72,5MW was available as from November 2012

2 Gas Turbines of Combined Cycle Plant number 5 of total nominal capacity of 145MW were available as from November 2012. In November 2012 Plant no 5 operated in combined cycle at its full capacity

of 220MW.

Temporary small Internal Combustion Engines of a total capacity of 71,6MW, to meet the needs due to the accident at Mari, from 01/01/2012 until 31/08/2012, when the lease and installation of temporary ICEs was terminated.

3 Steam Units of 130MW nominal capacity each were under repair and remained inoperative during 2012.

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

##### • Vassilikos Cement Works Ltd Power Station 6 Internal Combustion Engines of total nominal capacity of 11 MW

##### • Skouriotissa Mines Power Plant, Hellenic Copper Mines Ltd

Internal Combustion Engines of a total nominal capacity of 3,8 MW

##### • Farmakas Quarry Power Plant

Internal Combustion Engines of a total nominal capacity of 2,0 MW

##### • Vasa Gravel, Monagroulli Power Plant

Internal Combustion Engines of a total nominal capacity of 3,19 MW

##### • Elmeni Quarry, Ayios Sozomenos Power Plant

Internal Combustion Engines of a total capacity of 1,6 MW

##### • Medcon Quarry Power Plant

Internal Combustion Engines of a total nominal capacity of 2,24 MW

##### • Gennadios Theologou Power Plant

Internal Combustion Engines of a total capacity of 2,05 MW

### Construction Works of Conventional Units in 2012

During the year under review, the only construction works in progress were those for the restoration of the damage done to Vassilikos Power Plant which were caused by the accident at Mari.

### Installed Capacity of Wind Farm Projects and Construction Works

During 2012 the construction of another four Wind Farms was completed and the total installed capacity of Wind Farms in 2012 in commercial operation amounted to 146,7 MW.

- DK Winsupply Ltd, 82 MW, 01/02/2011
  - Rokas Aeoliki (Cyprus) Ltd, 20 MW, 01/01/2012
  - Moglia Trading Ltd, 10,8 MW, 01/07/2012
  - Aerotricity Ltd, 2,4 MW, 14/05/2012
  - Ketonis Developments Ltd, 31,5 MW, 15/05/2012.
- Total capacity of Wind Farms for 2012 stood at 185 GWh.

### Installed Capacity of Solar Energy Projects and Construction Works

Investors' interest in the installation of Photovoltaic Systems for commercial purposes of a capacity of up to 150 kW continued to be very strong in 2012.

Total Installed Capacity, with the use of Photovoltaic Systems in 2012 amounted to 16,4MW produced from 1.093 Photovoltaic Systems for Electricity Generation, with total generation amounting to 19,8 GWh, which represents an increase by 95%. It should be noted that in addition a number of systems, of a total capacity of 0,7 MW, which are not interconnected to the EAC Electricity Distribution Network, have been installed and have been operating.

The first Photovoltaic System, of a capacity of 4,8 kW, was interconnected to the EAC network on 17/2/2005.

### Installed Capacity of Biomass/ Biogas Units and Construction Works

During 2012, one additional unit for the Cogeneration of Heat and Power, of 800 kW capacity, was put in commercial operation.

The total installed capacity of units for the cogeneration of heat and power, autonomous or interconnected to the electricity system, for 2012 amounted to 9,4 MW.

## ANNUAL MAXIMUM POWER GENERATION AND TOTAL ENERGY GENERATION IN 2012 AND FORECASTS FOR THE 2013-2022 DECADE

### ELECTRICAL ENERGY PRODUCTION IN 2012

#### Maximum Total Power Generation (MW)

The Maximum Demand for 2012 was recorded on Thursday 19/7/2012 at 14:15 hours, when the Total Power Generation rose to 997 MW. The energy crisis has adversely affected both maximum power generation of the year, as well as the annual energy generation.

#### Total electrical energy generated (GWh)

The following important records concern the

recorded Total Electrical Energy Generated during 2012.

Total gross electrical energy generated reached 4 723 700 MWh.

EAC contributed with 4 443 100 MWh or 94,1%, while generation by self-producers was 4 900 MWh, or only 0,1%. RES producers generated 242 510 MWh in 2010 or 5,1%.

The EAC Generating Stations produced 161 200 MWh or 4,2% for their local needs.

Total units sent out to the Transmission System from the EAC Power Stations, reached 4 281 900 MWh.

Recorded energy losses in the Transmission System amounted to 71 400 MWh or 1,6% of the energy flowing into the transmission network.

#### Load Factor

The mean value of the Annual Load Factor rose to 53,4% compared with 52,0% in 2011.

#### Total Energy Generation from Wind Farms in 2012

The total Installed Capacity connected to the network in 2012 of generating wind farm stations rose to 146,7 MW, with the annual recorded electricity generation by the end of the year reaching 184 000 MWh.

#### Total Energy Generation from Photovoltaic Systems in 2012

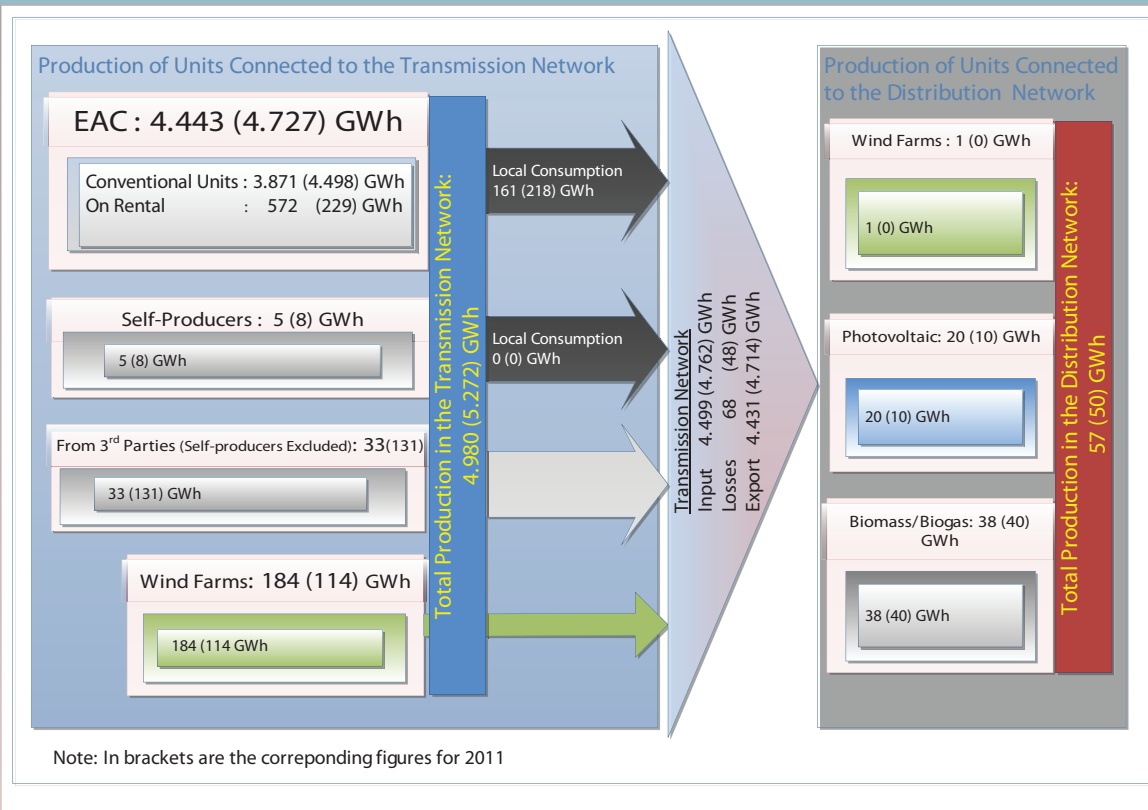
The total Installed Capacity of Production Plants with the use of Photovoltaic Systems in 2012, which are connected to the Distribution Network, amounted to 16,4 MW from 1 039 Photovoltaic Systems for electricity generation, with annual

recorded electricity generation amounting to 19 800 MWh.

#### Total Energy Generated from Biomass/ Biogas in 2012

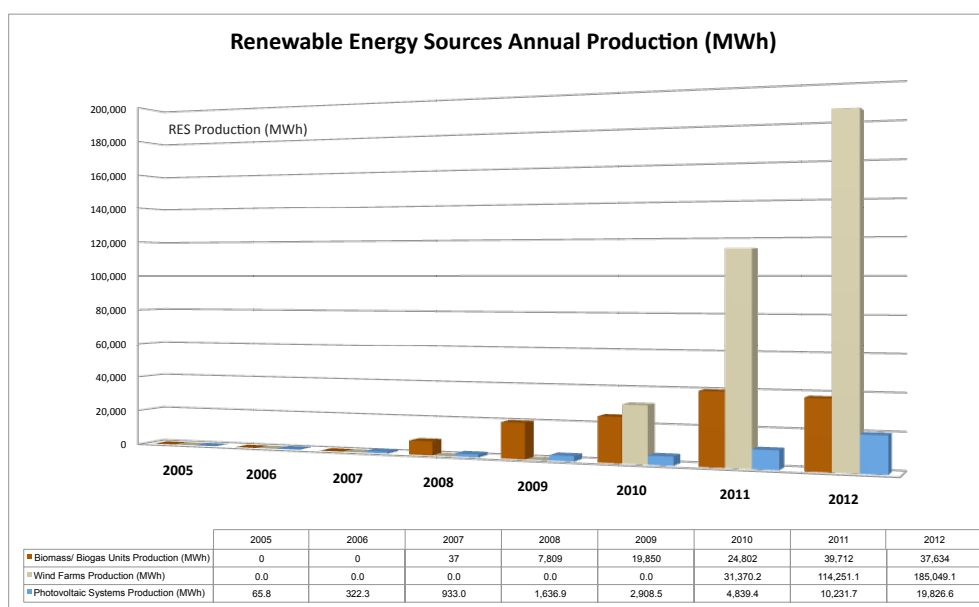
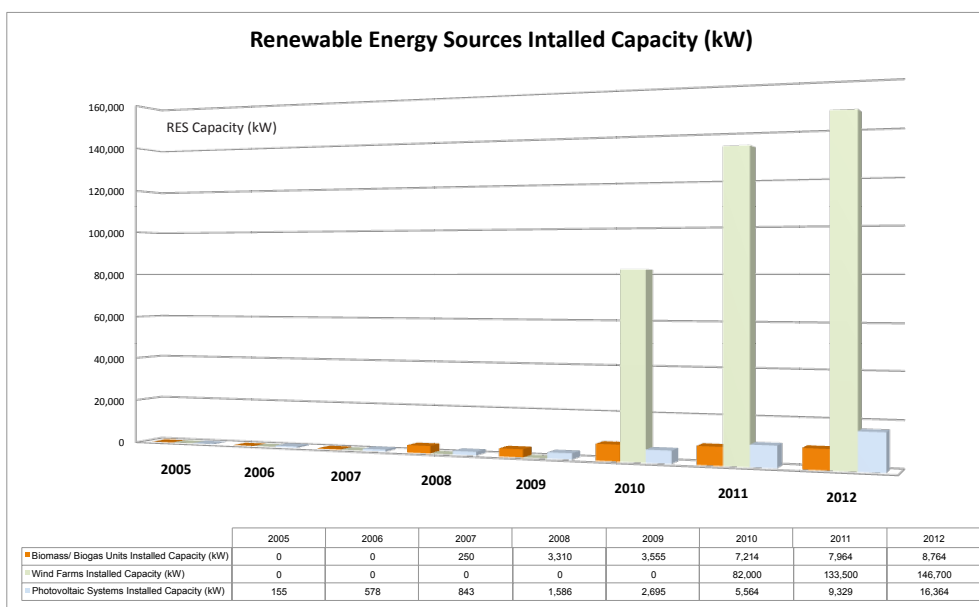
The total Installed Capacity of stations using Biomass/ Biogas in 2012, which are connected to the Distribution Network, according to data supplied by the Electricity Authority of Cyprus, amounted to 9,4 MW from the 12 Generating Stations of Cogeneration of Heat and Power (in respect of which thirteen Construction and Operation Licences were issued). To this number a producer having a capacity of 0,6 MW who is not connected to the electricity grid should be added. The total electricity production from Biomass/ Biogas units which has been supplied to the EAC Distribution System in 2012 showed a small increase compared with 2011 and amounted to 37 600 MWh. It should be noted that Total Electricity Generation by these units is considerably higher due to consumption of a significant part of energy generated for the internal requirements of generating stations.

TOTAL ELECTRICAL ENERGY PRODUCTION 2012 4.723 (5.030) GWh





## ANNUAL RES GENERATION

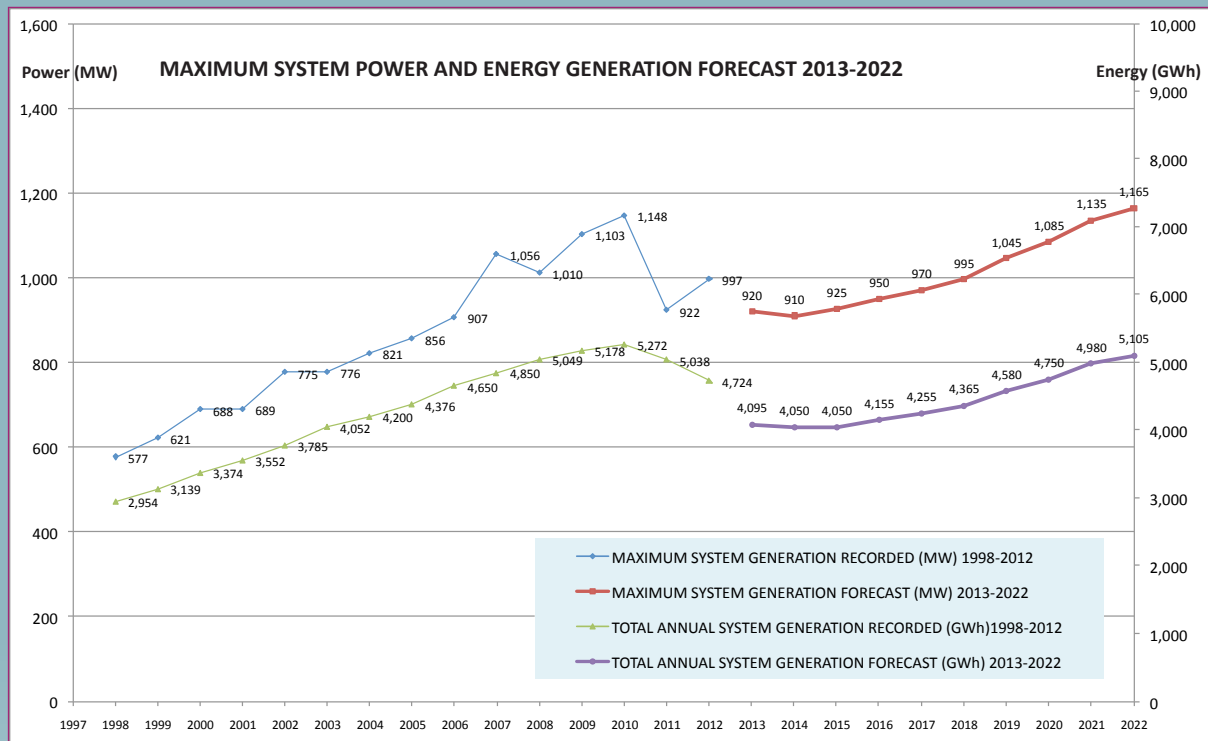


RES Technology	Installed Capacity (MW)				Energy Produced Annually (GWh)				Percentage of the RES Produced Energy to the Total (5.037 GWh) (%)
	2009	2010	2011	2012	2009	2010	2011	2012	
Wind	0.0	82.0	82.0	146.7	0.0	33.3	114.3	185.0	3.9%
Photovoltaic	2.7	5.6	9.3	16.4	3.0	4.8	10.2	19.8	0.4%
CONCENTRATING SOLAR POWER (CSP) TECHNOLOGIES Parabolic troughs with storage for 6 hour production	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
Biomass/ Biogas	3.6	7.8	8.0	9.4	19.8	24.8	39.7	37.6	0.8%
Total (MW / GWh)	6.30	95.40	99.30	172.50	22.80	62.90	164.20	242.40	5.1%

Comparative Data of Generation from Renewable Energy Sources

## Forecast of Annual Energy Generated for the 2013-2022 Decade

### Forecast of Annual Maximum Generation (MW) and Total Annual Energy Generated (GWh)



## Forecast of Annual Energy Generation from RES for the year 2013

It is forecasted that next year energy generation from RES will increase substantially as shown in Table 5:

RES Technology	National plan provision	Installed Capacity (MW)							National plan provision	Annual Energy Production (GWh)						
	2018	2011	2012	2013	2014	2015	2016	2017	2018	2011	2012	2013	2014	2015	2016	2017
Aelian	210	82	147	165	165	175	175	175	350	114	185	210	240	240	240	240
Photovoltaic	100	9	16	84	131	176	191	201	161	10	20	118	184	247	268	282
Contrecated Solar Power Parabolic Mirror with 6-hour production storage facility	75	0	0	0	0	25	25	25	223	0	0	0	0	75	75	75
Biomass	15	8	9	10	10	15	15	15	126	40	38	40	40	60	60	60
Total Electrical Energy Production employing RES (MW/ GWh)	2,418	99	172	259	306	391	406	416	860	164	243	368	464	622	643	657
Recorded and Forecast Total System Electrical Energy Production (MW/ GWh)	995	922	977	920	910	925	950	970	4,365	5,038	4,724	4,095	4,050	4,050	4,155	4,255
RES share of Total Energy Production (%)									20%	3%	5%	9%	11%	15%	15%	15%

### Electrical Energy Supply Availability

Table 6 demonstrates the anticipated Maximum Demand (MW) for the period 2013-2017 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.

### Electrical Energy Supply Availability

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EAC Development Plan							+50MW (ICEII)	-30MW Decommissioning of 1 unit Moni PS-390 (Vas PS) -220 (Vas PS) +166,6 (ICE)***	+145MW (CCGT(A)S) +120 (ICE) +145 (Vas PS)***	+150MW (CCGT 4&5) +390 (Vas PS) -286,6(ICE) -150 (Moni)****			
Installed Capacity in MW	988	988	988	1,118	1,318	1,388	1,437	964	1,374	1,478	1,478	1,478	1,478
Maximum Generation Demand in MW	821	856	907	1,056	1,010	1,103	1,437	922	997	920	910	925	950
Available Reserve	20%	15%	9%	6%	30%	26%	0%	964-1.100*****	38%	61%	62%	60%	56%

ICE Internal Combustion Engines

CCGT (O) Combined Cycle Gas-Turbine Plant

CCGT (O) Open-Cycle CCGT

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

(\*\*) Inclusion of the new 220MW CCGT unit in 2016 will depend on the rate of increase of demand

(\*\*\*) Summ.2012-Availability Reduction as compared to 2010: 1 unit at Moni PS, 3x130+1x220MW at Vass. PS. Increase renting ICE 50 MW:166,6+120MW and repair of the CCGT5 Gas Turbines 145MW

(\*\*\*\*) Summ.2013-Availability Reduction as compared to 2010: 1 unit at Moni PS, 1x130 at Vass. PS. Increased by completing repairs of CCGT5 MW, 2011 summer production estimate without considering the 11/7/2011 incident

CERA in accordance with the Law 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 system 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 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.

As mentioned above, 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.

The Table shows that all the consequences of the energy crisis after the tragic event at Mari in July 2011, end in 2013, earlier than originally estimated, due to both the adequacy and the swift repair period achieved in restoring Vassilikos Power Station, and due to the demand reduction.



# INSTALLATIONS AND NATURAL GAS SUPPLY



## GUIDELINES FOR THE DEVELOPMENT OF THE GAS SECTOR

The existence of hydrocarbon reserves on the island may transform Cyprus into an International Energy Corridor and place it on the global Energy Map. For the inclusion of Cyprus into the large energy networks of oil and natural gas there is need for a strategy and proper planning. CERA had its own contribution to this end by submitting to the Government in March 2012, a study with its recommendations on the guidelines for strategic management of the gas sector.

For the preparation of CERA's recommendations on energy strategy formulation, and proper management of our natural wealth, the Authority held consultations with all stakeholders in Cyprus. The study included, amongst others, the key strategic goals, the need for the establishment of new agencies and institutions for the successful attainment of the strategic goals such as a state hydrocarbons company and a national hydrocarbons fund, the necessary technical infrastructure of the gas sector, the basic design

of the domestic natural gas market and the distinct roles of stakeholders, as well as the required transparent and stable regulatory framework. Finally, the study resulted in a Roadmap for the development of the gas sector with the necessary decisions and actions for its implementation.

In the context of the Roadmap, amongst others, CERA recommended that certain decisions should be taken as follows:

- to set as key objective the transformation of Cyprus into a Regional Energy Hub in the Southern Eastern Mediterranean through the development of a natural gas liquefaction plant.
- for the immediate establishment of a State Hydrocarbons Company. Best practices which were followed successfully by similar companies in other hydrocarbons producing countries, adapted to the socio-economic conditions of Cyprus, should be followed. The Ministries of Finance and Commerce, Industry and Tourism, in cooperation with the Attorney General, should prepare the

framework for its operation and gradual staffing, so as to be able to take action as soon as possible.

- to establish the soonest a National Hydrocarbons Fund. The Ministry of Finance should prepare the institutional framework which must receive the approval of the Council of Ministers and the House of Representatives.

- To prepare a specialised long-term planning for natural gas (Gas Master Plan) which will present scenarios for domestic consumption and exports of natural gas and facilitate future decision making. It should be noted that such planning could be undertaken by the independent Energy National Regulatory Authority, CERA, together with the Ministries of Commerce, Industry and Tourism, Finance, the State Hydrocarbons Company, DEFA, and by securing the services of specialized consultants where necessary.

- If it is deemed necessary, to adopt an interim solution for the supply of the electricity generation sector with natural gas until the indigenous natural gas reserves are made available, aiming at the substantial reduction to the cost of electricity. DEFA should undertake the preparation of a study, under the supervision of CERA, and submit the relevant recommendations to the Council of Ministers for decision taking. The process for the possible interim solution should be rapid and it would be desirable that any infrastructure to be constructed to be either part of the long-term solution or capable to be used both as an alternative solution for purposes relating to security of supply and for competition.

#### INTERIM SOLUTION FOR NATURAL GAS SUPPLY

The Council of Ministers at its meeting dated 20/06/2012 decided to authorise the Minister of Commerce, Industry and Tourism to take the necessary steps to start a processes/ negotiations for an interim solution for the supply of natural gas to the domestic market of Cyprus before 2017-2018, which is the timetable set by NEIL (Noble Energy International Ltd) for the transportation of natural gas in the domestic market from reserves in Block 12.

Subsequently, the Cabinet, with a new Decision,

dated 13/08/2012, authorised DEFA and EAC to prepare the relevant documents for the announcement of the Expression of Interest for the supply of natural gas to Cyprus, without specifying the technology to be used. For the purposes of the Expression of Interest the period of supply was set at 4-5 years.

DEFA, in collaboration with external consultants and the EAC, after receiving comments from CERA and the Ministry of Commerce, Industry and Tourism, published on 27/09/2012 an invitation for the Expression of Interest for the supply of natural gas to Cyprus. The deadline for the submission of proposals was set for 29/10/2012.

The substantial reduction in electricity generation costs was set as a pre-requisite for the implementation of the Interim Solution.

Seventeen applications were submitted and a detailed evaluation for the short-listed candidates was subsequently made.

CERA was not in any way involved in the procedure followed by DEFA for the evaluation of the submitted technical and financial proposals. On the basis of its competence under the Regulating the Natural Gas Market Laws and the Regulating the Electricity Market Laws, CERA should, in case the procedure leads to a successful bidder, ensure the security of gas supply and, as a consequence, the security of electricity supply, as well as the smooth, safe and reliable operation of both the gas and electricity systems.

In addition, in the context of consumer protection, the Authority to assess the result of the procedure for the interim solution for natural gas supply, by estimating the electricity generation cost with the use of natural gas as a fuel.

#### STATE HYDROCARBONS COMPANY

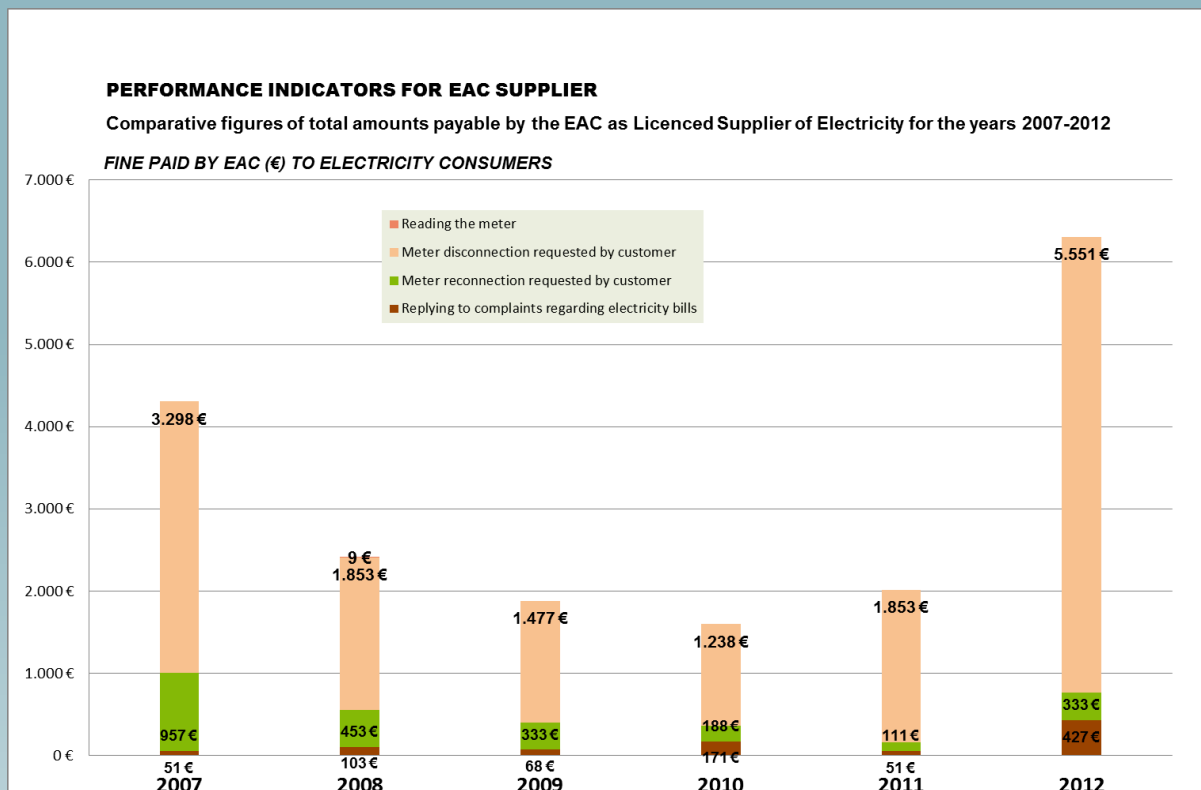
In October 2012 the National Hydrocarbons Company of Cyprus Ltd (KR.ET.Y.K.) was established as a private entity. KR.ET.Y.K.'s main task is the participation in the necessary natural gas infrastructure and the representation of the State in the commercial exploitation of hydrocarbons with the prospect of future engagements in international activities.

# CONSUMER RIGHTS

## PERFORMANCE INDICATORS

CERA exercising the powers under the Regulating of the Electricity Market Law and amendments thereto, after obtaining the approval of the Council of Ministers and the House of Representatives, has issued the “Regulating the Electricity Market” (Performance Indicators) Regulations of 2005 ΚΔΠ 571/2005.

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



**TABLE 8 PERFORMANCE INDICATORS FOR EAC SUPPLIER**

**FINE PAID BY EAC (€) TO ELECTRICITY CONSUMERS**

Indicator	2007	2008	2009	2010	2011	2012
1 Replying to complaints regarding electricity bills	51 €	103 €	68 €	171 €	51 €	427 €
2 Arrangement of appointments						
3 Meter reconnection requested by customer	957 €	453 €	333 €	188 €	111 €	333 €
4 Meter disconnection requested by customer	3,298 €	1,853 €	1,477 €	1,238 €	1,853 €	5,551 €
5 Reading the meter		9 €				
6 Response to complaints, applications, letters or giving information	*	*	*			

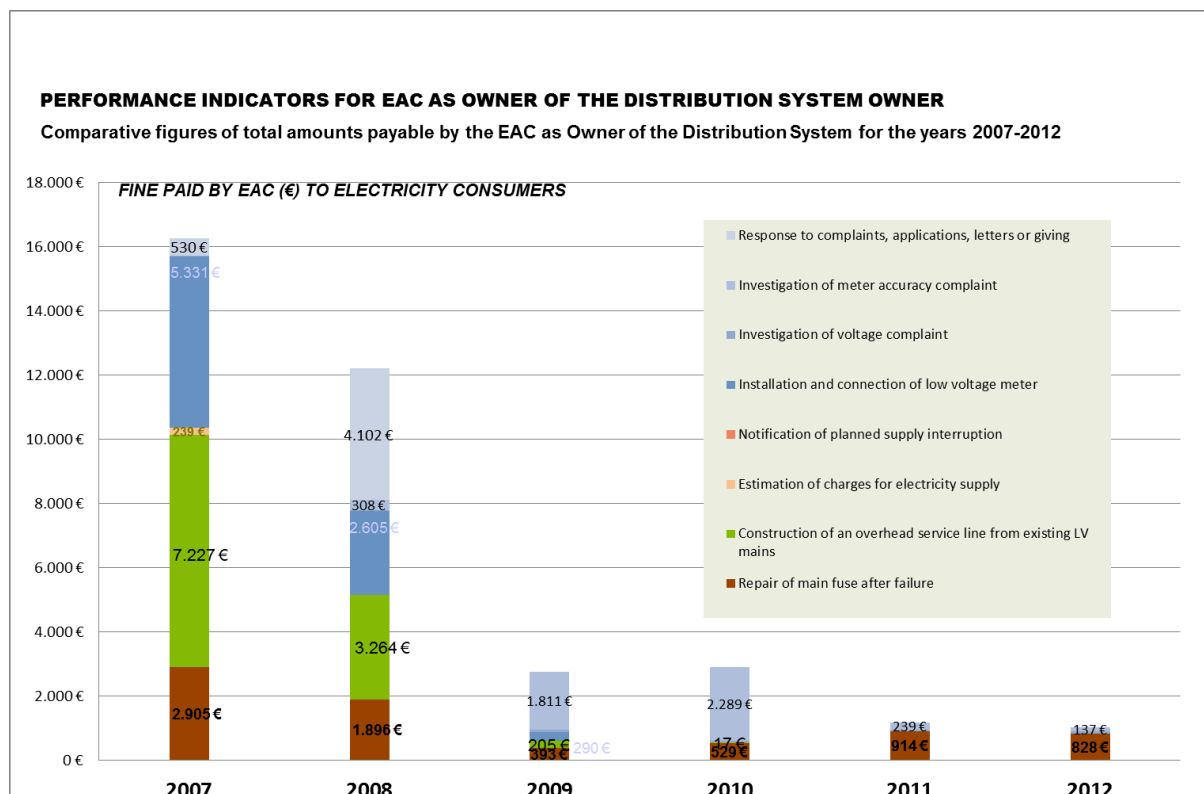
\* This Indicator is included in Indicator (8) of EAC

Comparative figures of total amounts payable by the EAC as Licenced Supplier of Electricity for the years 2007-2012



In the implementation and enforcement of the above provisions, the amounts paid to consumers as fines by the Electricity Authority of Cyprus as Owner of the Distribution System and as a Licenced

Supplier of electricity for each Performance Indicator are given below. These fines were recorded for the period 01/01/2012 to 31/12/2012. Also the corresponding results of previous years are shown for comparison purposes.



**TABLE 7 PERFORMANCE INDICATORS FOR EAC AS OWNER OF THE DISTRIBUTION SYSTEM**

FINE PAID BY EAC (€) TO ELECTRICITY CONSUMERS

Indicator	2007	2008	2009	2010	2011	2012
1 Repair of main fuse after failure	2,905 €	1,896 €	393 €	529 €	914 €	828 €
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 €
7 Investigation of meter accuracy complaint		308 €	1,811 €	2,289 €	239 €	137 €
8 Response to complaints, applications, letters or giving	530 €	4,102 €				

Comparative figures of total amounts payable by the EAC as Owner of the Distribution System for the years 2007, 2008, 2009, 2010, 2011 and 2012

From the above Tables it is evident that, in the year under review, EAC performance, as the Owner of the Distribution System, appear to have improved when compared to the previous year. However, in the case of performance indicators for the EAC as Supplier, a notable regression is observed when

compared with the previous year. For this reason, CERA acting, on the basis of the powers given it by the Legislation, is undertaking all the necessary activities, so that the EAC performance improves in the sector too.











# REPORT AND FINANCIAL STATEMENTS

**For the year ended 31 December 2012**

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ΚΥΠΡΙΑΚΗ ΔΗΜΟΚΡΑΤΙΑ  
ΕΛΕΓΚΤΙΚΗ ΥΠΗΡΕΣΙΑ ΤΗΣ ΔΗΜΟΚΡΑΤΙΑΣ

**ΕΚΘΕΣΗ ΓΕΝΙΚΟΥ ΕΛΕΓΚΤΗ ΤΗΣ ΔΗΜΟΚΡΑΤΙΑΣ**  
**ΠΡΟΣ ΤΗ ΡΥΘΜΙΣΤΙΚΗ ΑΡΧΗ ΕΝΕΡΓΕΙΑΣ ΚΥΠΡΟΥ**

Έχω ελέγξει τις συνημμένες οικονομικές καταστάσεις της Ρυθμιστικής Αρχής Ενέργειας Κύπρου, οι οποίες αποτελούνται από την κατάσταση χρηματοοικονομικής θέσης στις 31 Δεκεμβρίου 2012, τη κατάσταση συνολικών εισοδημάτων, τις καταστάσεις μεταβολών καθαρής θέσης και ταμειακών ροών του έτους που έληξε την ημερομηνία αυτή, καθώς και περίληψη σημαντικών λογιστικών πολιτικών και λοιπές επεξηγηματικές πληροφορίες.

*Ευθύνη της Ρυθμιστικής Αρχής Ενέργειας για τις Οικονομικές Καταστάσεις*

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

*Ευθύνη Γενικού Ελεγκτή*

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

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

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

*Γνώμη*

Κατά τη γνώμη μου, οι οικονομικές καταστάσεις δίνουν αληθινή και δίκαιη εικόνα της χρηματοοικονομικής θέσης της Ρυθμιστικής Αρχής Ενέργειας στις 31 Δεκεμβρίου 2012, και της χρηματοοικονομικής της επίδοσης και των ταμειακών ροών της για το έτος που έληξε την ημερομηνία αυτή σύμφωνα με τα Διεθνή Πρότυπα Χρηματοοικονομικής Αναφοράς όπως αυτά υιοθετήθηκαν από την Ευρωπαϊκή Ένωση και τις απαιτήσεις των περί Ρύθμισης της Αγοράς Ηλεκτρισμού Νόμων.

*Έμφαση θέματος*

Επισύρουμε την προσοχή στη σημείωση 21 επί των οικονομικών καταστάσεων που δείχνει ότι η Αρχή στα ταμειακά διαθέσιμά της ύψους €6.838.112 υπέστη ζημιά απομείωσης κατά τη διάρκεια του έτους που θα λήξει στις 31 Δεκεμβρίου 2013. Ο παράγοντας αυτός, μαζί με άλλα θέματα που εξηγούνται στη σημείωση 21, υποδηλώνουν τον κίνδυνο ρευστότητας. Η γνώμη μας δεν έχει επιφύλαξη σε σχέση με αυτό το θέμα.

  
**Ανδρέας Κουρτέλλης**  
για Γενικό Ελεγκτή  
της Δημοκρατίας

Λευκωσία, 9 Σεπτεμβρίου 2013



## MEMBERS OF THE AUTHORITY AND OTHER OFFICIALS

**Members**

George Shammass  
Constantinos Eliopoulos  
Kypros Kyprianides

*Chairman*  
*Vice-Chairman*  
*Member*

**Auditors:**

Auditor General of the Republic of Cyprus  
6 Deligeorgi str.  
1406 Nicosia

**Legal Advisors:**

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

**Financial Advisers**

Nexia Poyiadjis  
Chartered Accountants and Chartered Auditors  
2 Sophouli Street  
Chanteclair Building, 8th Floor  
1096 Nicosia,  
Cyprus

**Office Address:**

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





## REPORT OF THE MEMBERS OF THE AUTHORITY

The Members of the Cyprus Energy Regulatory Authority (CERA) present their report together with the audited financial statements of CERA for the year ended 31 December 2012.

### Principal activity

The establishment of CERA arises from the obligations of Cyprus towards the European Union. CERA's basic mission is the supervision of the operation of the Energy Market (Electricity and Natural Gas) in a new and liberalised environment without monopolies. On 2 February 2010 the Members of CERA gave their prescribed affirmation to the President of the Republic of Cyprus for the faithful execution of their duties according to the provisions of Law 122(I) of 2003.

### Results

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

### Members of the Authority

The Members of the Authority as at 31 December 2012 and at the date of this report are shown on page 1. All of them were Members of CERA throughout the year ended 31 December 2012.

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

By order of the Members of CERA,



George Shammas  
Chairman

Nicosia, Cyprus 12 August 2013

**INCOME STATEMENT****Year ended 31 December 2012**

	Note	2012 €	2011 €
<b>Revenue</b>	4	1.958.228	1.722.595
Other income	5	261.444	224.357
Administration expenses		<u>(1.214.236)</u>	<u>(1.295.144)</u>
<b>Operating Surplus</b>	6	1.005.436	651.808
Net Finance Costs		<u>(671)</u>	<u>(647)</u>
<b>Surplus before tax</b>		1.004.765	651.161
Tax	10	<u>(39.217)</u>	<u>(34.188)</u>
<b>Net Surplus for the year</b>		965.548	616.973
<b>Other income</b>		-	-
<b>Income for the year</b>		965.548	616.973



## STATEMENT OF FINANCIAL POSITION

31 December 2012

	Note	2012 €	2011 €
<b>ASSETS</b>			
<b>Non-current Assets</b>			
Property, plant and equipment	12	60.116	50.891
Intangible assets	13	<u>1.147</u>	<u>1.009</u>
		<u>61.263</u>	<u>51.900</u>
<b>Current Assets</b>			
Trade and other receivables	14	126.813	123.121
Tax receivable	18	10.197	9.810
Cash at bank and in hand	15	<u>7.932.519</u>	<u>6.932.493</u>
		<u>8.069.529</u>	<u>7.065.424</u>
<b>Total Assets</b>		<u>8.130.792</u>	<u>7.117.324</u>
<b>RESERVES AND LIABILITIES</b>			
<b>Reserves</b>			
Retained surplus		<u>7.511.013</u>	<u>6.570.203</u>
Total reserves		<u>7.511.013</u>	<u>6.570.203</u>
<b>Non-current liabilities</b>			
Other non-current liabilities	17	<u>521.796</u>	<u>479.131</u>
		<u>521.796</u>	<u>479.131</u>
<b>Current liabilities</b>			
Trade and other payables	16	<u>97.983</u>	<u>67.990</u>
		<u>97.983</u>	<u>67.990</u>
<b>Total reserves and liabilities</b>		<u>619.779</u>	<u>547.121</u>
<b>Total reserves and liabilities</b>		<u>8.130.792</u>	<u>7.117.324</u>

On 12 August 2013 the Members of the Cyprus Energy Regulatory Authority authorized these financial statements for issue.



**George Shammas**  
Chairman



**Constantinos Eliopoulos**  
Vice-Chairman



**Kypros Kyprianides**  
Member

Notes on pages 72-86 are an integral part of the consolidated financial statement

## STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Retained Surplus €
<b>Balance- 1 January 2011</b>	<b>5.973.267</b>
Net surplus for the year	616.973
Special Defence Contribution on deemed dividend	<u>(20.037)</u>
<b>Balance 31 December 2011/1 January 2012</b>	<b>6.570.203</b>
Net surplus for the year	965.548
Special Defence Contribution on deemed dividend	<u>(24.738)</u>
<b>Balance 31 December 2012</b>	<b><u>7.511.013</u></b>

As from 2009 organisations which do not distribute 70% of their profit after tax, as specified in the Special Contribution for Defence Law, within two years from the end of the tax year in which the profits were made, shall be deemed that they have distributed this amount as dividend. A 20% special contribution for the years 2012 and 2013 (until 31 August 2011 the percentage was 15% and subsequently increased to 17% for the period up to 31 December 2011) shall be payable on deemed dividend distribution applicable to shareholders (individuals and companies) who at the end of the

two years from the end of the tax year in which the profits were made are tax residents of Cyprus. Deemed distribution is reduced with payments of actual dividends, which have already been paid in the year in which the profits relate to. The special defence contribution is paid by the Company on 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.

## CASH FLOW STATEMENT

Year ended 31 December 2012

		2012 €	2011 €
	Note		
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
<b>Surplus before tax</b>		<b>1.004.765</b>	<b>651.161</b>
Adjustments for:			
Depreciation of property, plant and equipment	12	16.864	14.030
Amortization of software	13	1.279	1.224
Interest income	5	<u>(261.444)</u>	<u>(223.617)</u>
<b>Cash flow from operations before working capital changes</b>		<b>761.464</b>	<b>442.798</b>
Increase in trade and other receivables		(3.692)	(43.176)
Increase/(Decrease) in trade and other payables		5.255	(180.867)
Increase in deferred liabilities		<u>42.665</u>	<u>147.504</u>
<b>Cash Flow from operations</b>		<b>805.692</b>	<b>366.259</b>
<b>Tax paid</b>		<b><u>(39.604)</u></b>	<b><u>(24.342)</u></b>
<b>Net cash from operating activities</b>		<b><u>766.088</u></b>	<b><u>341.917</u></b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Payment for the purchase of intangible assets	13	(1.417)	(606)
Payment for the purchase of property, plant and equipment	12	(26.089)	(10.447)
Interest received		261.444	223.617
<b>Net cash from investing activities</b>		<b>233.938</b>	<b>212.564</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>—</b>	<b>—</b>
<b>Net increase in cash and cash equivalents</b>		<b>1.000.026</b>	<b>554.481</b>
Cash and cash equivalents:			
At the beginning of the year		<u>6.932.493</u>	<u>6.378.012</u>
<b>At end of the year</b>	<b>15</b>	<b><u>7.932.519</u></b>	<b><u>6.932.493</u></b>

Notes on pages 72-86 are an integral part of the consolidated financial statement



## NOTES ON FINANCIAL STATEMENTS

### Year ended 31 December 2012

#### 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, Iakovides Building, 3rd Floor, P.O.Box 24936, 1355 Nicosia, Cyprus.

##### Principal activity

The establishment of CERA arises from the obligations of Cyprus towards the European Union. CERA's basic mission is the supervision of the operation of the Energy Market (Electricity and Natural Gas) in a new liberalised environment with no monopolies. On 2 February 2010 the members gave their prescribed affirmation to the President of the Republic of Cyprus for the faithful execution of their duties according to the provisions of Law 122(I) of 2003.

#### 2. Accounting policies

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

##### Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial statements have been prepared under the historical cost convention.

At the date of the approval of these financial statements, all the International

Financial Reporting Standards which have been issued by the International Financial Reporting Standards Board (IFRSB) and are applicable as from 1 January 2012 have been adopted by the EU through the adoption procedure approved by the European Commission, with the exception of the following:

##### Adoption of new and revised IFRS's

During the current year CERA adopted all the new and revised International Financial Reporting Standards (IFRSs) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2012. This adoption did not have a material effect on the accounting policies of the CERA.

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

##### (i) Standards and Interpretations adopted by the EU

##### New standards

- IFRS 10 "Consolidated Financial Statement" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 12 "Disclosure of Interests in other entities" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013).

##### Amendments

International Financial Reporting Interpretation Committee

- Amendment to IAS 1 "Presentation of Items

of Other Comprehensive Income" effective for annual periods beginning on or after 1 July 2012).

- Amendment to IAS 12 'Deferred Tax: Recovery of Underlying Assets' (effective for annual periods beginning on or after 1 January 2013).
- Amendment to IAS 19 "Employee Benefits" (Amendment) (effective for annual periods beginning on or after 1 January 2013).
- IAS 17 (Revised): "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2014).
- IAS 28 (Revised): "Investments in Associates" (effective for annual periods beginning on or after 1 January 2013).
- Amendment to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2014).
- IFRS 7 (Amendment) "Financial Instruments Disclosures- Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2013).

#### New Interpretations

- IFRIC 20: "Stripping Costs in the production phase of a Surface Mine" (effective for annual periods beginning on or after 1 January 2013).

### (ii) Standards and Interpretations not adopted by the EU

#### New Standards

- IFRS 9 "Financial Instruments", which was issued in November 2009 and amended in October 2010, introduces new requirements on the classification and measurement of financial assets and financial liabilities as well as for impairment (effective for annual periods beginning on or after 1 January 2015).

#### Amendments

- Improvements to IFRS 2009-2011 issued in January 2012 (effective for annual periods beginning on or after 1 January 2013).
- Amendments to IFRS 1: Government Loans (effective for annual periods beginning on or after 1 January 2013).
- IFRS 9 "Financial Instruments" issued in

November 2009 and subsequent amendments (amendments to IFRS 9 and IFRS 7 issued in December 2011) (effective for annual periods beginning on or after 1 January 2015).

- Transition Guidance Amendments for IFRS 10, 11 & 12 (effective for annual periods beginning on or after 1 January 2013).
- Investment Entities Amendments to IFRS 10, IFRS 12 and IFRS 27 (effective for annual periods beginning on or after 1 January 2014).

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

- IFRS 9 (Financial Instruments). This standard is the first part of replacement of IFRS 39: Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for the classification and measurement of financial instruments and possibly it could influence the accounting treatment of CERA's financial instruments. This standard is not applicable until January 2013 and has not been adopted by the European Union. CERA has not made an analysis of the effect of IFRS 9 on the Authority.
- Amendments to IAS 19 "Employee Benefits" (Amendment) (effective for annual periods beginning on or after 1 January 2013). Amendments to IAS 19 change the calculation for defined benefit plans and termination benefits. The most important change concerns the calculation of changes in the liabilities of the defined benefits and assets of the plan. The amendments require the recognition of changes in defined benefit liabilities and of the fair value of the assets of the plan, as they occur, and therefore the elimination of the "corridor method" allowed under the previous version of IAS 19 and speeds up the recognition of the cost of previous service. The amendments require all actuarial gains and losses to be recognized immediately, through other total revenue, so that the net pension asset or liability recognized in the statement of financial position may reflect the full value of the deficit or surplus of the plan. Moreover, the cost of interest and the expected yield of assets of the plan used

in previous versions of IAS 19 have been replaced by a “net interest “ amount, calculated by applying the discounted interest rate in the net defined liability or asset of the benefits.

The amendments of IAS 19 must be implemented retroactively. CERA has not yet analysed the effect of the amendments of IFRS 19.

### **Revenue recognition**

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

#### **• Interest income**

Interest income from a financial asset is recognized 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.

### **Employees' Benefits**

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

The present value of obligations and the cost of current service for the defined benefit plan are estimated annually with the projected unit credit method. Any surpluses or deficits that arise from changes in the interest rate by which estimated future cash outflows and other actuarial gains/losses are discounted are directly posted to other total income for the year. Non- recorded actuarial profit or loss is recognized by CERA at the beginning of the year.

### **Debts and provisions for doubtful debts**

Bad debts are written off to profit or loss and a specific provision is made, where it is considered necessary. No general provision for bad debts is

made. Trade debtors are stated after deducting the specific provision for bad and doubtful debts, if any.

### **Finance costs**

Interest expense and other borrowing costs are charged to profit or loss as incurred.

### **Foreign currency translation**

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

(2) Transactions and balances Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

### **Tax**

The fees received by CERA according to the Law regulating the Electricity Market and the relevant Regulations, as a result of executing its supervisory role, are not considered as income, as this is defined in article 55(1)(a) of the Income Tax Law and are not subject to taxation. This also applies to government grants that CERA has received in order to be able to exercise its supervisory role. Income from interest, rent or any other source, is subject to taxation with the tax rate of 10%, and to defense contribution, after deducting any allowable deduction as provided by the Law.

### **Property, plant and equipment**

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

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



	%
Computer Hardware	20
Machinery Equipment	10
Motor vehicles	20
Furniture, fixtures and office equipment	10
Books	10

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

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

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

A property, plant and equipment asset is written down on its disposal or when no future economic benefits are expected to accrue in the future from the continued use of this asset. Gains or losses on the sale or withdrawal of a property, plant and equipment asset are determined as the difference between receipts from sale and the carrying amount and is shown in the income statement.

### Computer software

Costs that are directly associated with identifiable and unique computer software programmes controlled by CERA which will probably generate economic benefits exceeding costs beyond one year are recognized as intangible assets. Subsequently computer software is carried at cost less any accumulated amortisation and any accumulated impairment losses. Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognized as a capital improvement. Costs associated with maintenance of computer software programmes are recognized as an expense when incurred. Computer software costs are amortised using the straight line method

over their useful lives, not exceeding a period of three years. Amortisation commences when the computer software is available for use and is included in administrative expenses.

An intangible asset is written down on disposal or when no economic benefits are expected to accrue in the future from its use or disposal. Gains or losses from writing down an intangible asset are determined as the difference between receipts from sale and the carrying amount of the asset and is shown in the income statement, at the time it is written down.

### Trade receivables

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

### 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).

### Comparative amounts

Wherever necessary, comparative amounts are readjusted so as to conform to changes in the presentation of the current year.

## 3. Financial risk management

### Financial risk factors

CERA is exposed to interest rate risk, credit risk

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

### 3.1 Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. CERA's income and operating cash flows are substantially independent of changes in market interest rates. CERA's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

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

	2012 €	2011 €
Financial Instruments of variable rates		
Financial Instruments of Assets	<u>7.932.519</u>	<u>6.932.493</u>
	<u>7.932.519</u>	<u>6.932.493</u>

### Sensitivity analysis

An increase of 100 basis points in interest rates on 31 December 2012 would have increased/ (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates remain constant. For a decrease of 100 basis points there would be an equal and opposite impact on profit or loss.

	Results	
	2012 €	2011 €
Financial Instruments of variable interest rates	<u>79.325</u>	<u>69.325</u>
	<u>79.325</u>	<u>69.325</u>

Due to the events and developments which took place on 29 March 2013, CERAs deposits after the reporting period were adversely affected. The negative effects on deposits are described in note 21 of the financial statements.

### 3.2 Credit risk

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

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

	2012	2011
	€	€
Receivables	108.784	103.323
Cash at bank	323.399	298.678
Short term-bank deposits	<u>7.608.992</u>	<u>6.633.805</u>
	<u>8.041.175</u>	<u>7.035.806</u>

Due to the events and developments which took place on 29 March 2013, CERAs deposits after the reporting period were adversely affected. The negative effects on deposits are described in note 21 of the financial statements.

#### 3.2.1 Credit quality of financial assets

The credit quality of the financial assets that are neither past nor impaired can be assessed by reference to external credit ratings (if applicable) or to historical information about counterparty fault rates.

	2012	2011
	€	€
<b>Cash at bank and short-term bank deposits 1</b>		
Ca	4.553.255	3.658.218
Without rating	<u>3.379.136</u>	<u>3.274.265</u>
	<u>7.932.391</u>	<u>6.932.483</u>

(1) The other element of the financial position "Cash and cash equivalents" is cash in hand.

None of the financial assets which are not past or impaired have been renegotiated.

The table below shows an analysis of CERA's deposits on the basis of the credit rating of the banking organizations where the deposits are held.



		2012	2011
		€	€
Bank group based on credit ratings by Moody's	No of Banks		
Ca	1	4.229.897	3.359.672
Without rating	2	<u>3.379.095</u>	<u>3.274.135</u>
		<u>7.608.992</u>	<u>6.633.807</u>

### 3.3 Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. CERA has procedures with the object of minimizing 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 undiscounted cash flows of financial liabilities based on the earliest date on which the Authority can be required to pay.

31 December 2012	Book value	Conventional cash flows	Within 3 months
	€	€	€
Trade and other creditors	<u>213</u>	<u>213</u>	<u>213</u>
	<b><u>213</u></b>	<b><u>213</u></b>	<b><u>213</u></b>

31 December 2011	Book value	Conventional cash flows	Within 3 months
	€	€	€
Trade and other creditors	<u>30.205</u>	<u>30.205</u>	<u>30.205</u>
	<b><u>30.205</u></b>	<b><u>30.205</u></b>	<b><u>30.205</u></b>

Due to the events and developments which took place on 29 March 2013, CERAs deposits after the reporting period were adversely affected. The

negative effects on deposits are described in note 21 of the financial accounts.

### 3.4 Other risks

The general economic environment prevailing in Cyprus and internationally may significantly affect the activities of CERA. Concepts such as inflation, unemployment, and the development of the gross domestic product (GDP) are directly linked to the economic course of any country and any change in them, and the overall economic environment may create chain reactions in all areas, affecting CERA accordingly.

#### CERA Operating environment

The Cypriot economy has been adversely affected in recent years by the international credit crisis and the volatility in financial markets. During 2012 there was a significant reduction of the liquidity available for lending by the Cyprus financial institutions, mainly due to financial instability in relation to the crisis of the Greek public debt, including the impairment of Greek Government Bonds and the impact on the Cypriot economy. Moreover, the ability of the Republic to raise loans from international financial markets has declined significantly following the downgrading of its credit rating.

The Cypriot government entered into negotiations with the European Economic Commission, the European Central Bank and the International Monetary Fund (the “Troika») for financial support. Negotiations resulted in an agreement and a decision by the Eurogroup on the main elements necessary for a future macroeconomic adjustment program, which includes providing financial assistance to the Republic of Cyprus up to €10 billion. The program aims to address the unusual economic challenges facing Cyprus and to restore the viability of its financial sector in order to restore sustainable economic growth and the consolidation of public finances in the coming years.

The decision of the Eurogroup on Cyprus includes plans to restructure the financial sector and guarantees deposits of less than 100,000, according to the legislation of the European Union. According to available information, the uninsured deposits in the Laiki Bank will be impaired, while of uninsured deposits in the Bank of Cyprus 47.5 % will be converted into shares, 15,1% will remain available, while the remaining amount will be

converted into three equal bills having a duration of 6, 9 and 12 months. The Bank of Cyprus has the right to renew these bills at maturity for a period equal to the original duration of each bill.

On 12 April 2013, the Eurogroup welcomed the agreement reached between Cyprus and the Troika on a macroeconomic adjustment program for Cyprus, and stated that the necessary elements were in place to launch the relevant national procedures required for approval of the financial support agreement by the European Stability Mechanism.

On 22 March 2013, the House of Representatives passed legislation concerning restrictive measures in respect of transactions executed through banks operating in Cyprus. The extent and duration of the restrictions are decided by the Minister of Finance and the Governor of the Central Bank of Cyprus and have come into effect on March 28, 2013. The Members of CERA monitor developments in relation to these restrictive measures and evaluate the impact on the activities of the Authority.

The Members of CERA are not in a position to predict all the developments which could have an impact on the Cyprus economy and consequently what effect, if any, they could have on the future financial performance, the cash flows and the financial position CERA .

Based on the evaluation made, the members of CERA have concluded that there is no need for any provisions or impairment charges.

The Members of CERA take all necessary measures which in their opinion are necessary in order to maintain the viability of CERA and expand its operations in the current business and economic environment.

#### Fair value estimation

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

**4. Revenue**

	2012	2011
	€	€
Annual fees received	1.647.108	1.620.856
Fees from the rendering of services	225.821	87.081
Revenue from European Programmes and other revenue	<u>85.299</u>	<u>14.658</u>
	<u>1.958.228</u>	<u>1.722.595</u>

**5. Other income**

	2012	2011
	€	€
Interest Income	261.444	223.617
Discount received	<u>-</u>	<u>740</u>
	<u>261.444</u>	<u>224.357</u>

**6. Surplus from operations**

	2012	2011
	€	€
Operating surplus is stated after charging the following items:		
Amortisation of software (included in the Administration Expenses) (Note 13)	1.279	1.224
Depreciation of property, plant and equipment (Note 12)	16.864	14.030
Cost of Staff and Members (Note 7)	729.333	759.057
Auditor's fee – current year	3.200	3.200
Auditor's fee- previous years	<u>-</u>	<u>700</u>

## 7. Staff Costs

	2012	2011
	€	€
Salaries of staff and Members	620.595	550.183
Social insurance costs and other funds	73.921	64.176
Expenses under the defined benefit retirement Plan (Note 8)	34.817	144.698
	<u>729.333</u>	<u>759.057</u>

## 8. Employee benefits

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

provision of retirement benefits, every year. The most recent independent actuarial valuation was made as at 31 December 2012 and it was based on the following assumptions:

		2012	2011
Discount rate		3,15%	4,98%
Inflation		1,50%	2,50%
General salary increase		0,25%	0,50%
Total salary increase	<b>1.75% for inflation and general increase, plus promotions and increments</b>	3,00% for inflation and general increase plus promotions and increments	
Percentage increase in pensions		1,50%	3,00%

Increase of basic insurable earnings

**2,00%**

3,00%

Mortality table

80% of PA 90

80% of PA 90

During the year under review an amount of € 34.817 (2011: € 144.698) was charged to the total income statement based on the above actuarial valuation. Amounts charged to the income statement are analysed as follows:

	2012	2011
	€	€
Current service cost	87.166	73.191
Interest expense	22.499	21.206
Realized actuarial loss/(profit)	<u>(74.848)</u>	<u>50.301</u>
Total recorded to staff cost	<u>34.817</u>	<u>144.698</u>



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

	2012	2011
	€	€
On 1 January	479.131	331.627
Provision for the financial year	34.817	144.698
Contributions by Members	<u>7.848</u>	<u>2.806</u>
At 31 December	<u>521.796</u>	<u>479.131</u>

The estimated actuarial position as at 31 December 2012 was as follows:

	2012	2011
	€	€
Plan obligation value	<u>636.253</u>	<u>404.283</u>
	636.253	404.283
Unrealised valuation profit/(loss)	<u>(114.457)</u>	<u>74.848</u>
Provisional reserves for the retirement plan obligation as in the Statement of Financial Position	<u>521.796</u>	<u>479.131</u>

## 9. Finance Costs

	2012	2011
	€	€
Other finance expenses		
Bank fees	<u>671</u>	<u>647</u>
	<u>671</u>	<u>647</u>

## 10. TAXATION

	2012	2011
	€	€
Defence contribution- current year	39.217	33.988
Defence contribution—previous years	<u>-</u>	<u>200</u>
<b>Charge for the year</b>	<u>39.217</u>	<u>34.188</u>

The corporation tax rate is 10%.

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

be subject to the Special Defence Contribution, at the rate of 15% (10% until 30 August 2011). In such cases interest is exempted from corporate tax.

## 11. Dividends

Defence Contribution on deemed  
distribution of dividends

2012	2011
€	€
<u>24.738</u>	<u>20.037</u>
<u>24.738</u>	<u>20.037</u>

Dividends deemed to paid to persons who are residents of Cyprus for tax purposes are subject to special defence contribution at the rate of 20% for the years 2012 and 2013 (until 31 August 2011 this percentage was 15% and increased to 17% for the following time period and until 31 December 2011).

## 12. Property, Plant and Equipment

	Computers	Machinery & Equipment	Motor vehicles	Furniture Fixtures & Office Equip.	Books	Total
	€	€	€	€	€	€
<b>Cost</b>						
Balance- 1 January 2011	23.543	48.304	22.844	56.302	4.770	155.763
Additions	-	3.501	-	6.946	-	10.447
At 31 December 2011/						
1 January 2012	23.543	51.805	22.844	63.248	4.770	166.210
Additions	2.264	14.825	-	9.000	-	26.089
At 31 December 2012	25.807	66.630	22.844	72.248	4.770	192.299
<b>Depreciation</b>						
At 31 December 2011						
1 January 2011	16.570	24.826	22.844	35.355	1.694	101.289
Charge for the year	2.047	5.181	-	6.325	477	14.030
At 31 December 2011/						
1 January 2012	18.617	30.007	22.844	41.680	2.171	115.319
Charge for the year	2.500	6.663	-	7.224	477	16.864
At 31 December 2012	21.117	36.670	22.844	48.904	2.648	132.183
<b>Net Book Amount</b>						
At 31 December 2012	4.690	29.960	-	23.344	2.122	60.116
At 31 December 2011	4.926	21.798	-	21.568	2.599	50.891

**13. Intangible Assets**

	Computer Software €	Total €
<b>Cost</b>		
Balance- 1 January 2011	10.448	10.448
Additions	<u>606</u>	<u>606</u>
<b>At 31 December 2011/1 January 2012</b>	11.054	11.054
Additions	<u>1.417</u>	<u>1.417</u>
<b>At 31 December 2012</b>	<u>12.471</u>	<u>12.471</u>
<b>Amortisation</b>		
Balance- 1 January 2011	8.821	8.821
Charge for the year (Note 6)	<u>1.224</u>	<u>1.224</u>
<b>Balance-31 December 2011/ 1 January 2012</b>	10.045	10.045
Charge for the year (Note 6)	<u>1.279</u>	<u>1.279</u>
<b>At 31 December 2012</b>	<u>11.324</u>	<u>11.324</u>
<b>Net book amount</b>	<u>1.147</u>	<u>1.147</u>
<b>At 31 December 2011</b>	<u>1.009</u>	<u>1.009</u>

**14. Trade and Other Receivables**

	2012 €	2011 €
Fees receivable	5.571	2.417
Deposits and prepayments	18.029	19.798
Other receivables	<u>103.213</u>	<u>100.906</u>
	<u>126.813</u>	<u>123.121</u>

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

## 15. Cash at Hand and in Cash

	2012	2011
	€	€
Cash at bank and in hand	323.527	298.686
Short term bank deposits	7.608.992	6.633.807
	7.932.519	6.932.493

The effective interest rate on short term bank deposits was 4.01% ( 2011: 2,06%) and these deposits have an average maturity between 6 months and 2 years.

Due to the events and developments which took

place on 29 March 2013, CERAs deposits after the reporting period were adversely affected. The negative effects on deposits are described in note 21 of the financial accounts.

## 16. Trade and Other Payables

	2012	2011
	€	€
Trade payables	213	766
Clients' deposits	-	29.439
VAT	-	3.123
Interest on deposits received in advance	30.132	-
Accruals	22.863	14.625
Special Defence Contribution on deemed dividend distribution	<u>44.775</u>	<u>20.037</u>
	<u>97.983</u>	<u>67.990</u>

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

## 17. Other Non Current Obligations

	2012	2011
	€	€
Pension Fund	<u>521.796</u>	<u>479.131</u>
	521.796	479.131
Deferred obligations for more than a year	<u>(521.796)</u>	<u>(479.131)</u>

## 18. Tax Receivable

	2012	2011
	€	€
Corporate tax	(24.778)	(24.778)
Special Defence Contribution	<u>14.581</u>	<u>14.968</u>
	<u>(10.197)</u>	<u>(9.810)</u>



## 19. Contingent Liabilities

CERA had no contingent liabilities as at 31 December 2012.

## 20. Commitments

### Commitments for operating leases

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

	2012	2011
	€	€
Within a year	87.725	102.499
Between one and five years	<u>12.888</u>	<u>126.173</u>
	<u>100.613</u>	<u>228.672</u>

## 21. Post balance sheet events

Post balance sheet events are presented in note 3 to the financial statements.

In addition, on the 18 April 2013 the House of Representatives voted to increase the corporate tax from 10% to 12.5 % with effect as from 1 January 2013. It also voted to increase the rate of special defense contribution from 15% to 30% on interest not arising from the ordinary course of business or closely linked to it.

On 29 March 2013 the Central Bank of Cyprus issued a Decree concerning the Laiki Bank and the Bank of Cyprus, implementing measures for these two banks under the Consolidation of Credit Institutions Law of 2013.

CERA's cash at banks affected by the above measures amounted to € 6.838.112 including interest at the date of implementation of decisions. Based on the information available up to the day of issuing the financial statements for the year ending 31 December 2013 an impairment loss in respect of deposits in the Laiki Bank totaling € 2.385.802, under Note 3 will be recognised. According to the decision on the final percentage of deposits to be converted into shares in the Bank of Cyprus, from unsecured deposits at the Bank of Cyprus: a) an

amount of € 2.114.847, which is 47.50 % will be converted into shares of the bank, b) an amount of € 1.665.164 will be converted into three equal bills of 6 , 9 and 12 months , and c) an amount of € 672.299 will remain available for CERA. As Bank of Cyprus shares have no market value and their value at this stage cannot be determined with reasonable accuracy, the members of CERA are not able to calculate any potential impairment in costs on CERA's cash conversion into equity.

CERA has prepared a projected cash flow for the next 12 months from the date of signing these financial statements. Based on projected cash flows, in December 2013 there will not be enough cash balances in the funds of CERA to cover expenses to be incurred by the end of 2013. In this case, CERA intends to take measures to increase the cash available by using part of the funds available for the pension benefits of the staff of the Office of CERA. In case part of the amount available for the pension benefits of staff of the Office of CERA is used, then this is expected to be covered with the gradual release of CERA deposits in the Bank of Cyprus and by collecting the annual charges of CERA at the end of 2013.

## OPERATING EXPENSES

### Year ended 31 December 2012

	2012 €	2011 €
<b>Administration expenses</b>		
Members remuneration	254.478	256.782
Staff salaries	366.117	293.401
Social Insurance	73.921	64.176
Rent	102.499	79.872
Common expenses	2.257	2.580
Presents	-	437
Electricity	19.045	13.207
Water supply and cleaning	4.768	5.158
Insurance	1.565	959
Repairs and maintenance	892	4.499
Sundry expenses	543	516
Telephone	4.732	4.174
Stationery and Printing	25.634	19.719
Subscriptions and contributions	19.039	17.239
Newspapers and publications	444	1.004
Equipment maintenance	4.740	1.005
Staff training	927	685
Examination expenses for the employment of staff	-	8.538
Computer software	1.534	1.015
Auditors' fees –current year	3.200	3.200
Auditor's fees –past year	-	700
Legal fees	15.990	20.306
Stamp duties	189	-
Overseas travelling	53.530	76.601
Inland travelling	545	300
Irrecoverable VAT	16.767	12.363
Entertainment	3.487	6.038
Transport and postage	1.434	1.197
Advisory services fees	28.670	73.080
Announcements-Publications	6.294	6.901
Sundry allowances and representation expenses	24.600	24.604
Staff medical expenses	27.188	19.528
Congresses	19.457	-
Services rendered by third parties	74.219	112.584
Software amortization	1.279	1.224
Depreciation	16.864	14.030
Motor vehicle expenses	2.571	2.824
Staff pension fund	34.817	144.698
	1.214.236	1.295.144

## ESTIMATION OF DEFENCE CONTRIBUTION

Year ended 31 December 2012

	Income Percentage €		Defence Contribution € cent
INTEREST			
Interest on which defence contribution has been withheld at source	<u>261.444</u>		
	<u>261.444</u>	15%	39.216,60
Minus: contributions deducted at source			<u>(39.216,60)</u>
<b>SPECIAL DEFENCE CONTRIBUTION PAYABLE TO</b>			<u>-</u>

## ESTIMATION OF CORPORATE TAX

Year ended on 31 December 2012

	Page	€	€
Profit as at income statement	3		1.004.765
Plus:			
Expenses not deductible for tax Purposes		<u>18.143</u>	
Depreciation			<u>18.143</u>
			1.022.908
Minus			
Deductions for annual wear and tear	25	14.001	
Interest income		261.444	
Other non- taxable income		<u>747.463</u>	
			<u>(1.022.908)</u>
<b>Net taxable profit for the year</b>			<u>-</u>

Estimation of corporate tax	Income €	Percentage %	Total € cent
Tax at normal tax rates:			
TAX PAYABLE	<u>-</u>	10	<u>-</u>





