

## **KEYNOTE SPEECH**

**BY THE CHAIRMAN OF THE CYPRUS ENERGY REGULATORY AUTHORITY**

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**given at the 1<sup>ST</sup> MARE FORUM**

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**Mr Chairman,**

**Distinguished Guests**

On behalf of the Cyprus Energy Regulatory Authority I would like to thank the Mare Forum Organizers for giving us the opportunity to say a few words on the new energy developments in the area and to welcome also the participants to this event.

It becomes evident, especially when we look at the map of the eastern Mediterranean, that the oil and gas prospects could provide tremendous growth in the area.

The discovery in late 2010 of the huge natural gas reserve off Israel's Mediterranean shores triggered other neighboring countries to look more closely at their own potential. The results revealed that the entire eastern Mediterranean has in accordance to the forecasts of the specialists huge untapped oil and gas reserves. That discovery is having enormous political, geopolitical as well as economic consequences.

Cyprus launched the First Licensing Round in its exclusive economic zone in 2007, which resulted in the granting of a hydrocarbon exploration license to Noble Energy International Ltd for Exploration Block No. 12.

In December 2011 the Government of Cyprus and Noble Energy announced the success of the first well offshore Cyprus in a field estimated to hold at least 7 trillion cubic feet of natural gas.

The confirmation of the presence of significant quantities of natural gas reserves in the Exclusive Economic Zone of Cyprus, signals the start of a new era for Cyprus, an era during which Cyprus can claim a key position in the regional energy map and transform into a regional energy hub. This is why we believe that the effective and transparent management of this critical national issue is the only way towards the effective exploitation of this unique opportunity by the Republic of Cyprus.

In the context of the development of indigenous natural gas deposits, the possibility of installing a subsea pipeline for the transportation of natural gas from Block 12 to Cyprus, so that it can then be distributed for domestic use, is of utmost importance and is currently under examination. If delays are anticipated alternative solutions could be examined the soonest possible.

With gas gaining increasing importance as the fuel of choice, the Economist Intelligence Unit forecasts that demand for natural gas will outstrip demand for oil in the coming years. The European Union is confronted by major challenges in the face of energy dependency and increasing energy prices. With only 3% of global reserves in Europe and three countries supplying more than 80% of the EU's imports, diversification of energy sources remains a strategic priority. Cyprus is likely to have a role to play in the energy strategy of the EU, especially with regards to diversification and security of supply. According to a Goldman Sachs research report, Cyprus may help fast-track EU-based liquefied natural gas development and may boost the EU's ambitious energy objectives.

These developments create tremendous opportunities as well as challenges for Cyprus of financial, geostrategic and political nature. Cyprus, being a long established and successful international business and financial centre and one of the main gateways for investment to and from Eastern Europe, could be on the verge of a natural gas revolution. The gas find could strengthen its economy for decades to come and could turn the island into Mediterranean's regional energy hub.

It is estimated that Cyprus internal market would consume around 1 bcm of gas per year. This would allow Cyprus to exploit its reserves by developing an LNG export terminal with an initial capacity of 5 million tonnes of LNG per year with a prospect of future expansion to 15 mtpa after we prove that additional reserves exist in the EEZ of Cyprus. This ambitious project presents technical, financial and commercial challenges that have to be handled professionally in order to be successful. Other alternative export options from the region could be considered in the future and are examined by certain companies such as pipeline to Greece despite its extreme technical difficulties, CNG export scheme, floating LNG terminal etc. However the main priority and strategic goal of Cyprus in accordance to CERA's view is the onshore Liquefaction plant. LNG terminals offer flexibility to the exporter in terms of the destination of the exports, and access to the markets worldwide.

These new developments necessitate the creation of new national entities, such as a National Fund and also a National Hydrocarbons Company. This company should allow for the representation and participation of the public sector in the exploitation of the natural gas reserves and in the development of the new energy infrastructures. However, the organization and operation of this National Company should avoid the bureaucratic models of the public sector and the older management models of the semi-governmental sector. Instead, the new Company must adopt and combine the advantages of both the public sector such as transparency and regulatory control, and of the private sector such as flexibility, speed decision-making, creativity and innovation. In addition setting now a transparent legal framework related to the proposed National fund will ensure a transparent way of handling the future flow of natural gas revenues. With the right strategy, considering both opportunities and risks, our newly found wealth can launch Cyprus into economic reform, investment in research and innovation, and development of our solar energy potential, towards a sustainable future. CERA has already submitted to the Government its proposals regarding the strategic guidelines in respect to the Cyprus Gas Sector Development.

With respect to the Regulators' role in the Natural Gas and H/C field, focus should be given to its core duties that include among other duties the following:

- duties in relation to the general oversight of energy companies: ensuring compliance of transmission and distribution system operators, system owners (where relevant) and electricity or gas undertakings with their obligations under the EU Directive and other relevant European Union legislation, including as regards cross-border issues;
- duties in relation to consumer protection: helping to ensure, that the consumer protection measures, are effective and enforced,
- duties in relation to unbundling: ensuring that there are no cross-subsidies between transmission, distribution, liquefied natural gas, storage, and supply activities of the natural gas undertakings;
- duties in relation to security of supply,
- duties in relation to energy market integrity and transparency

In conclusion, Ladies and Gentlemen, I am sure that the findings of this Forum will help move a step forward in respect to the development of an oil and gas sector of Cyprus and Eastern Mediterranean.

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*Cyprus Energy Regulatory Authority (CERA)*