

2021 National Report

to the European Commission for the year 2020

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List of abbreviations

ACER	Agency for the Cooperation of Energy Regulators
CEER	Council of European Energy Regulators
CEF	Connecting Europe Facility
CERA	Cyprus Energy Regulatory Authority
CRA	Core Regulated Activity
DEFA	Natural Gas Public Company Ltd (CYGAS)
DSO	Distribution System Operator
EAC	Electricity Authority of Cyprus
EastMed	Eastern Mediterranean
ETYFA	Natural Gas Infrastructure Company Ltd
FtM	Front-of-the-Meter
HDVC	High Voltage Direct Current
ICE	Internal Combustion Engines
LNG	Liquefied Natural Gas
LNG Operator	Liquefied Natural Gas System Operator
LNG Owner	Liquified Natural Gas System Owner
MDMS	Meter Data Management System
MECI	Ministry of Energy, Commerce and Industry
MRTC	Meter Repair & Testing Centre
ODS	Owner of the Distribution System
OTS	Owner of the Transmission System
PCI	Project of Common Interest
PSO	Public Service Obligations
PV	Photovoltaic
RAVB	Regulated Asset Value Base
RES	Renewable Energy Sources
RES-E	Electricity Generation Systems from RES
SGC	Southern Gas Corridor
SRA	Separated Regulatory Accounts
TDR	Transmission and Distribution Rules
TSO	Transmission System Operator
TSOC	Transmission System Operator of Cyprus
TSR	Trading and Settlement Rules
TYNDP	Ten Year National Development Plan

1. Foreword

Energy is a very critical sector for any State, closely entwined with the economy, which affects the well-being of people, businesses as well as the environment.

The year 2020 was an important year in both European and National policy, which affected, and is expected to reshape the energy landscape of our country and of Europe in general.

The COVID-19 pandemic had significant economic and social repercussions all over the world. These repercussions affected, also, the energy sector, which, however, showed its resilience. The measures for the containment of the COVID-19 pandemic have led to economic contraction and a significant reduction in energy consumption, but the energy system has nevertheless continued to function smoothly.

There are many examples of how economic recovery measures support sustainable energy development. Incentives based on clean energy projects can serve both purposes, namely economic recovery and energy transition.

At the beginning of 2020, the European Commission submitted a proposal to enshrine in law the European Union's political commitment to climate neutrality by 2050. The European Union proposes a legally binding zero greenhouse gas emission by 2050. Achieving this goal requires increasing the use of renewable energy sources, increasing energy efficiency and, in order to complete the internal market for electricity, increasing the capacity of electricity interconnections between Member States.

The main goal of CERA is to design and implement a comprehensive package of regulatory measures and actions that will prepare our country to participate, in a smooth, organized and efficient way, in the process of completing the integrated European energy market. At the same time, CERA should ensure security of energy supply to the extent required for the country, both physically and economically, and the affordable energy cost for the national economy and the consumers.

In this regard, in 2020 CERA published a series of key decisions, and undertook and implemented related initiatives and actions, always within the framework of the competencies specified by national and community law. Some of these key decisions and actions of CERA regarding the energy sector of our country concern:

- the designation of the supplier of last resort in the electricity market;
- the establishment of the basic principles for the formulation of the Ten-Year National Development Plan;
- the accounting unbundling of activities of natural gas undertakings;
- the regulatory accounting instructions for the preparation of separate accounts of natural gas undertakings; and
- the functional unbundling of the activities of the Electricity Authority of Cyprus (EAC).

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

It is noted that despite all the delays that exist until today for the implementation of the competitive electricity market in Cyprus, which mainly concern the development of two software programs, that are prerequisites for the operation and monitoring of the electricity market, CERA anticipates, based on current data, the introduction of a healthy competition in the electricity market of Cyprus around the end of 2021 and the beginning of 2022.

To cover the time until the full commercial operation of the new electricity market model, a relevant Regulatory Decision is in force since 2017 for the introduction of a transitory regulation in the electricity market, including detailed Regulations. The transitory regulation in the electricity market refers to “Bilateral contracts between producers and suppliers” and, as it seems, it has already given the impetus that is required to start the licensing of independent suppliers. Specifically, during 2020, 3 independent suppliers were licensed, while a total of 16 independent suppliers have been licensed for the period of validity of the transitory regulation of the electricity market.

In the context of ensuring security of energy supply to the extent required for the country, CERA, noting that for the period from 1 June 2020 until 15 September 2020 there was a possibility of an electricity crisis in the Republic of Cyprus, and recognizing that, as competent authority, should take measures to prevent the electricity crisis, issued an early warning to the European Commission and successfully took the appropriate measures to prevent the energy crisis.

Besides the electricity sector, CERA gives high priority to the establishment of the regulatory framework of the natural gas market, which will guarantee its proper operation and the protection of consumers, as well as the smooth transition to a healthy market. To that end, CERA, by means of a relevant Decision, informed the Minister for Energy, Commerce and Industry how, according to CERA, should the natural gas market and the participants in the market operate for the period of validity of the derogations. During this period, the natural gas market in the Republic of Cyprus will be under a state monopoly status.

CERA also monitors the progress of the electrical interconnections EuroAsia Interconnector and EuroAfrica Interconnector. The implementation of these interconnections will provide to our country the infrastructure which is required so that the energy isolation be lifted and at the same time Cyprus become a hub for electricity transmission to and from Europe and to and from Israel and Egypt.

CERA will continue to work for the development of a human-centered and fair energy regulation, focusing on the consumers.



Dr. Andreas Poullikkas
Chairman

2. Main developments in the gas and electricity markets

This Report covers the annual reporting obligation, required by the Article 59(1)(i) of the Directive (EU) 2019/944 on common rules for the internal market in electricity and Article 41(1)(e) of the Directive 2009/73/EC concerning common rules for the internal market in gas.

The Report concerns the calendar year 2020 and follows the reporting structure recommended by the Council of European Energy Regulators (CEER).

Due to the fact that there is no natural gas market in Cyprus, the report focuses mainly on the internal electricity market and covers this sector for the year 2020.

During the year under review, CERA, taking into account the trends followed at European level and bearing in mind the needs of the energy system in Cyprus, had to take a series of important decisions in order to complete the regulatory framework in the energy sector, focusing on the security of supply, the consumer protection and ensuring fair competition through the development of an economically viable and efficient electricity market and the possibility of increasing the share of RES in the competitive market.

The energy sector in Cyprus is undergoing fundamental transformations concerning its structure and organisation, its institutional framework and the diversification of its energy mix. The Cypriot electricity sector until the end of 2020 is 100% covered on the supply side and 90,78% (the rest % is covered by RES generators) on the generation side, by the state-owned Electricity Authority of Cyprus (EAC). In an effort to open up the market to new participants, CERA has proposed the net-pool model as being the most appropriate trading arrangement approach for the Cyprus electricity market. The formulation of a net-pool incorporates both, a bilateral contracts market and a central Day Ahead Market. In the near future, an Intra-Day Market will be organized. The proposed design includes also a real time balancing mechanism that provides the Transmission System Operator (TSO) with the ability to purchase the required operational reserves, activate balancing services and settle imbalances.

Due to the delays in the implementation of the competitive electricity market in Cyprus, which mainly concern the installation of two software programs, prerequisites for the operation and monitoring of the electricity market, CERA decided on a transitory regulation of the electricity market in Cyprus, prior the full implementation of the new electricity market model. The transitional arrangement permits bilateral contracts between producers and suppliers (above a threshold set by CERA – (i) for producers with a production license above 4.5 MW and (ii) for suppliers with contract for supply of energy to consumers with total agreed power above 10 MW) where clearing will be done on a monthly basis. The contracts involve only the provision of energy, and a simple arrangement would require no extra software for its implementation by the TSO and DSO. CERA, with a new Decision, to enable larger number of producers to participate in the transitional arrangement, decided to reduce the threshold for producers to 1 MW. This threshold has been further reduced (April 2019) to 50 kW to allow for the participation of more producers in the transitional market. The transitory regulation will be based on bilateral contracts between producers and suppliers for the supply of a standard quantity of electricity (kWh) on a monthly basis. The transitory regulation of the electricity market in Cyprus started on 1 September 2017 and will be in force until the full implementation of the new electricity market model.

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

- Regulatory Decision 01/2020 regarding the functional unbundling of the activities of EAC.
- Regulatory Decision 02/2020 designating the supplier of last resort in the electricity market.
- Regulatory Decision 03/2020 on the establishment of basic principles for the formulation of the Ten-Year National Development Plan.
- Regulatory Decision 04/2020 regarding the accounting unbundling of the activities of natural gas undertakings.
- Regulatory Decision 05/2020 regarding the regulatory accounting instructions for the preparation of separate accounts of natural gas undertakings.

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

- Decision 01/2020 - Consumer Fuel Clause Coefficients for the period January – June 2020
- Decision 05/2020 - Allowed Revenues and Regulated Basic Electricity Tariffs for the Year 2020
- Decision 28/2020 - Charges for ancillary services, network use and other services for generation of electricity from Renewable Energy Sources for self-consumption under support scheme
- Decision 33/2020 - Basic Tariffs and Fuel Clause Coefficients for the purchase of energy from RES for the period January – June 2020
- Decision 34/2020 – Adjusted Electricity Tariff Plans for the year 2020 and 112/2020 – Revised Adjusted Electricity Tariff Plans for the year 2020
- Decision 73/2020 - Long-Term Annual Forecast of Maximum Total Electricity Capacity and Total Generated Electricity for the decade 2020 – 2029
- Decision 76/2020 - Conclusion of an agreement between the Electricity Authority of Cyprus and Primetel Ltd for the use of the distribution system for activities of telecommunication
- Decision 91/2020 - Supply Rules according to Article 46 of the Laws Regulating the Natural Gas Market of 2004 to 2018 (L. 183(I)/2004)
- Decision 92/2020 - Proposed draft of the Regulations on Regulating the Natural Gas Market (Operation of the Natural Gas Market for the Validity Period of Derogations)
- Decision 98/2020 – Tariff for the recovery of the Public Service Obligations
- Decision 104/2020 – Reduction in the final price of electricity
- Decision 105/2020 - Ten-Year National Development Plan 2020-2029
- Decision 174/2020 – Early warning and measures for the prevention of the electricity crisis
- Decision 190/2020 - Fuel Clause Coefficients and Basic Tariffs for the purchase of energy from RES for the period July - December 2020
- Decision 228/2020 – Charging points for Electric Vehicles
- Decision 285/2020 – Tariff for the recovery of the Public Service Obligations
- Decision 309/2020 - Parameters of Trading and Settlement Rules defined by CERA
- Decision 374/2020 - Separate Accounts of EAC for the year 2019
- Decision 432/2020 - Determination of National Crisis Scenarios in accordance with Regulation 2019/941 on risk-preparedness in the electricity sector

Figure 1 presents the licensing of activities of the electricity and natural gas markets.

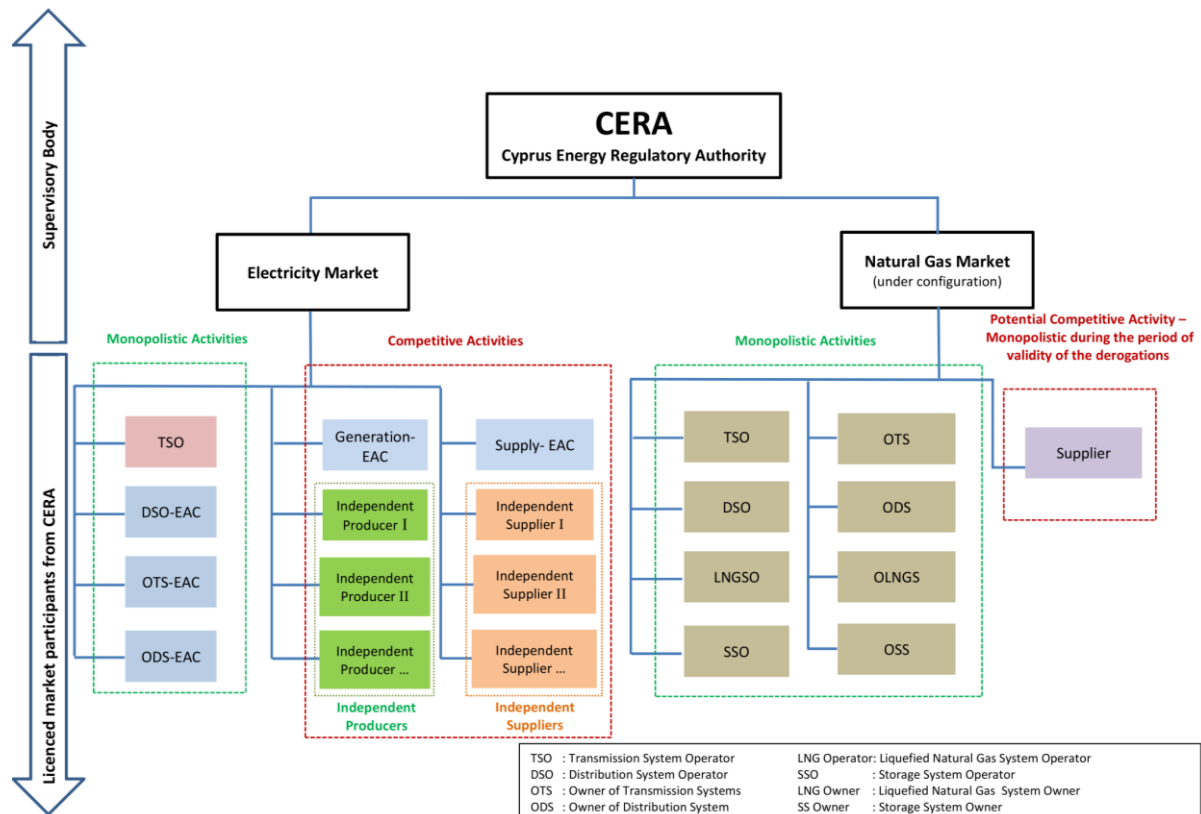


Figure 1. Licencing of activities

2.1. Evaluation of the market development and regulation

In light of the long-term nature of policy goals on energy security, mitigation of climate change, and environmental protection, the applied range of regulatory measures may provide a transparent environment for the long-term development of new technologies.

For storages and other technologies offering flexibilities the previous legislative framework and the market design in Cyprus seem to create barriers for upcoming investments related to energy storage technologies and flexibility services. In 2020 several Regulatory Decisions were taken and necessary amendments in the TSR were identified in order to mitigate this situation and enhance the deployment of such technologies and allow further integration of intermittent resources. CERA’s decisions are based on the fact that storage technologies - and also other measures as demand-side and generation management - will need a flexible market and a sophisticated regulatory design in order to significantly add value to the future energy system.

In this respect it is considered that CERA's Regulatory Decisions and Decisions that were taken in 2020 open the way towards a functional and reliable energy market.

Actions to address the repercussions of the COVID-19 virus in the energy sector

In the context of addressing the COVID-19 virus pandemic, CERA took all the measures required to ensure the reliability and adequacy of the electricity system, after inviting all stakeholders to prepare specific staffing plans for their core services, in order to ensure the continuous and safe operation of their facilities and the uninterrupted supply of electricity to consumers.

Additionally, CERA, taking into account the political decision on reducing electricity prices and considering the cash reserves of EAC, decided to reduce by 10% the final electricity prices, for two months, without a right to future recovery. This reduction was extended for another four months, following a relevant recommendation from EAC.

In this context, CERA issued Decisions 104/2020, 141/2020 and 222/2020, by which it decided to reduce by 10 % the final electricity price, excluding VAT and RES and Energy Saving (ES) fee for a total period of 6 months. The aim was to support all consumers of electricity and the economy of Cyprus during the emergency caused by the COVID-19 virus.

The 10% reduction on all regulated electricity tariffs and fuel clause coefficients to adjust the wholesale tariff (T-W) was applied for six months, as follows:

- for monthly consumers, on the electricity bills where the corresponding consumption was measured at the end of March 2020 until the end of August 2020; and
- for bi-monthly consumers, on the electricity bills where the corresponding consumption was measured from 1 April 2020 until 30 September 2020.

The reduction that EAC has suffered in its revenue, resulting from the implementation of the above Decisions, and the reduction of regulated electricity tariffs and fuel clause coefficients for the adjustment of the wholesale tariff (T-W) will not be recovered during the rest of the current regulatory control period, nor during the next regulatory control period. However, they will be covered by cash revenues of EAC.

In addition to the above, CERA, following the emergency measures implemented by the competent bodies to deal with the COVID-19 virus and to limit its spread by any means necessary, adapted its operation in order to protect public health, employees and consumers or representatives of undertakings that come into contact with its services, while serving its mission.

Given the need to continue to operate in order to ensure the public purposes that it pursues and serves, CERA adopted measures for the provision of electronic services to the public, shiftwork and remote work of the staff, during the period that emergency measures and restrictions in view of the COVID-19 virus pandemic were in force. During that period, no meetings of employees/executives of CERA with executives of companies or other bodies or consumers or any third party not belonging to the workforce of CERA were held inside or outside the building of CERA, apart from exceptional and urgent cases and after the Members of CERA evaluated and approved the necessity thereunder.

Members of CERA as well as the staff of CERA held meetings, taking appropriate security measures to prevent the spread of the COVID-19 virus, using a video conferencing platform.

In addition, CERA participated in online discussions both at European and Mediterranean level, in order to exchange views, good practices and know-how with other Member States and third countries regarding the measures that were and are taken to address the COVID-19 virus pandemic and the assessment of the repercussions in the energy sector.

2.2. Report on the implementation of the Clean Energy Package

It should be noted that Articles 3, 5 and 6, Article 7(1), points (c) and (g) of Article 7(2)) Articles 8 to 17, Article 18(5) and (6), Articles 19 and 20, Article 21(1), (2) and (4) to (8), point (c) of Article 22(1), points (b) and (c) of Article 22(2), the last subparagraph of Article 22 (2), Articles 23 to 27, Article 34(1), (2) and (3), Articles 35 to 47, Article 48(2) and Articles 49 and 51 of Regulation (EU) 2019/943 do not apply to Cyprus until its transmission system is connected to other Member States' transmission systems via interconnections.

In accordance with the Regulation (EU) 2019/943, in the event the transmission system of Cyprus is not connected to other Member States' transmission systems by means of interconnections by 1 January 2026, Cyprus shall assess the need for derogation from those provisions and may submit a request to prolong the derogation to the Commission. The Commission shall assess whether the application of the provisions risks causing substantial problems to the operation of the electricity system in Cyprus or whether their application in Cyprus is expected to provide benefits to the functioning of the market. Based on that assessment, the Commission shall issue a reasoned decision to prolong the derogation in full or in part.

CERA in order to fulfil its duties concerning the monitoring of the implementation of rules relating to the roles and responsibilities of transmission system operators, distribution system operators, suppliers, customers and other market participants pursuant to Regulation (EU) 2019/943 (for the articles that derogations do not apply for Cyprus); is in close cooperation with the Ministry of Energy, Commerce and Industry (MECI), concerning the harmonisation of the relevant legislation.

With regards to the harmonisation procedure MECI conducted a public consultation from 14 September 2020 until 19 October 2020 on the draft bill entitled “The Law regarding the establishment and operation of the Cyprus Energy Regulatory Authority of 2020”. The draft bill was prepared in order for the national legislation to get aligned with:

- Article 57 of the European Union act entitled “Directive (EU) 2019/944 of the European Parliament and of the Council of 5 June 2019 on common rules for the internal market for electricity and amending Directive 2012/27/EU” and
- Article 39 of the European Union act entitled “Directive (EU) 2009/73/EC of the European Parliament and of the Council of 13 July 2009, on common rules for the internal market in natural gas and repealing directive 2003/55/EC”.

At the current stage, the bill is at the House of Representatives for consultation and voting.

MECI also conducted a public consultation from 14 September 2020 until 19 October 2020 on the draft bill entitled “The Law Regulating the Electricity Market of 2020”. MECI states that the draft bill was prepared for the following purposes:

- Harmonization with the European Union act entitled “Directive (EU) 2019/944 of the European Parliament and of the Council of 5 June 2019 on common rules for the internal market in electricity and amending Directive 2012/27/EU (recast)”,
- Partial harmonization with Articles 2, 15, 16, 17, 21 and 24 of the European Union act entitled “Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018, on the promotion of the use of energy from renewable sources”,
- Effective implementation of the European Union act entitled “Regulation (EU) 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency” and
- Independence of the existing legal person governed by public law, known as “Transmission System Operator - Cyprus” from the Electricity Authority of Cyprus.

At the current stage, the bill is at the House of Representatives for consultation and voting.

With respect to the harmonisation procedure of the European Directive 2018/2001 several steps were taken. More precisely, at the request of MECI on 4 December 2020 and in the context of a relevant preliminary consultation between CERA and MECI, CERA started to consider and prepare its preliminary views on the preliminary draft bill entitled “Law on the Promotion and Encouragement of the Use of Renewable Energy Sources of 202..”.

The preliminary draft bill was prepared in order to partially align the national legislation with the European Union act entitled “Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources”. The proposed Law will replace the “Laws on the Promotion and Encouragement of the Use of Renewable Energy Sources of 2013 to 2018”.

The MECI conducted, from 10 February 2021 until 10 March 2021, a public consultation on the draft bill entitled “Law on the Promotion and Encouragement of the Use of Renewable Energy Sources of 2021” and the results have been announced.

With regards to the implementation of the Regulation (EU) 2019/941, the Council of Ministers by Decision ref.no. 88.943, dated 18 February 2020, have designated CERA as the competent authority to perform the duties provided by Regulation (EU) 2019/941. Taking into account this , CERA by decision 432/2020, having verified that the national electricity crisis scenarios submitted by TSOC are consistent with the regional electricity crisis scenarios of the ENTSO for electricity, and having identified the need to publish the national electricity crisis scenarios of Cyprus until 7 January 2021, decided the following:

- To approve scenarios of the national electricity crisis.
- To instruct the Office of CERA to publish them on the website of CERA.
- To instruct the Office of CERA to inform the Electricity Coordination Group (ECG) and the European Commission about their publication, in accordance with the provisions of Regulation (EU) 2019/941.

3. The electricity market

3.1. Network regulation and technical functioning

Unbundling

Article 43 of the Directive 2019/944 provides for the ownership unbundling of transmission systems and transmission system operators. However, Cyprus, according to Article 66 (Derogations) of the Directive 2019/944, has obtained an exemption from Article 43 and therefore Cyprus has maintained its present regime on TSO unbundling.

The Cyprus TSO (TSOC) is legally unbundled and functions independently in terms of organisation and decision making from the Owner of the Transmission System (OTS), the Owner of the Distribution System (ODS) and the Distribution System Operator (DSO) which is the Electricity Authority of Cyprus (EAC).

TSOC is located separately from EAC. TSOC presents himself to customers as a separate entity with his own name, logo and website. However, TSOC is provided with all of its employees by EAC.

Towards the smooth implementation of the electricity market model, further legal arrangements were required to upgrade the legal unbundling of the TSO and to achieve an advanced independence. In this respect, as mentioned in chapter 2.2., MECI following consultation with CERA prepared a draft bill which was under public consultation from 14 September 2020 until 19 October 2020. The draft bill includes provision concerning the independence of TSOC from EAC.

The ODS has also been nominated as the DSO and although it is not independent in the sense that the TSOC is, it has the same duty of safeguarding third party access to the distribution network and the equal treatment of all users of the said network. DSO is also provided with all of its employees by EAC.

According to current legislation, after the approval of CERA, the DSO established a compliance programme, which sets out measures taken to ensure that discriminatory conduct is excluded, and ensure that observance of it, is adequately monitored. The compliance programme sets out the specific obligations of employees to meet that objective. An annual report, setting out the measures taken, shall be submitted to CERA for approval by the body responsible for monitoring the compliance programme.

Accounting Unbundling

Regarding the accounting unbundling of EAC, Article 108(4) of the Laws Regulating the Electricity Market of 2003 to 2018, provide that EAC should maintain Separated Regulatory Accounts (SRAs) for each of its activities that were licensed by CERA as well as the non-regulated activities.

By Decision 374/2020, on 13 November 2020, CERA approved the SRAs submitted by EAC for the year 2019 and instructed EAC to publish the audited and approved by its Board of Directors SRAs for the year ended on 31 December 2019 on its website, with explanations on how to calculate the return on average Regulated Asset Base (RAB) for the Core Regulated

Activities (CRAs) of Generation, Transmission and Distribution and the Cost Margin on the commercial and accounting management for the CRA of Supply.

Functional Unbundling

Based on the provisions of Regulatory Decision 04/2014 “Functional unbundling of the activities of EAC”, CERA hired under an open tender procedure, external consultants. The terms of mandate were to check the degree of compliance of the EAC operation mode based on the functional unbundling of its activities in accordance with the regulatory framework, by carrying out specialized controls in three different time periods.

All three (3) audits were carried out and completed based on the provisions of the tender procedure. The external consultants submitted to CERA a relevant comprehensive and detailed report, in which the findings of this audit were recorded.

Based on the above, the first phase of the evaluation of the functional unbundling was completed in accordance with the legal and regulatory framework, and it was found that the compliance of EAC was achieved.

In 2020, procedures were launched for the transition to a second phase where the implementation of functional unbundling of EAC is examined by an external consultant of CERA. This phase is expected to be completed by mid-2021. The aim of this project is to establish and confirm that the functional unbundling is still valid.

By Regulatory Decision 01/2020, published in the Official Government Gazette on 14 February 2020, CERA decided to amend Regulatory Decisions 04/2014 and 05/2019 regarding functional unbundling of the activities of EAC, by removing entirely the term “Business Unit (BU)” and replacing it with the term “Core Regulated Activity (CRA)”, as well as deleting the provision “MRTC” from paragraph B.1.6.

Moreover, according to the Regulatory Decision, the activities of the Meter Repair & Testing Centre (MRTC) remain within the responsibilities of the ODS instead of the responsibilities of the non-regulated activities of EAC and concern:

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

Network extension and optimization

According to the Laws Regulating the Electricity Market of 2003 to 2018, CERA, by a Regulatory Decision, gives instructions to the TSOC and the DSO 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.

In general, the Transmission and Distribution Rules (TDR) are designed to achieve the development, the maintenance and the operation of an efficient, coordinated and economically viable transmission and distribution system whilst facilitating competition in generation and supply of electricity.

The Rules:

- govern the technical requirements and constraints that will apply wherever licence holders wish to connect to the transmission system and/or distribution system or use the transmission system or distribution system for the transportation of electricity,
- ensure that the technical conditions that apply to licence holders who wish to connect to or use the transmission system or distribution system do not result in them being subject to undue discrimination,
- foster efficiency, reliability, and economy in the use and development of the transmission system and the distribution system.

The provisions of TDR shall be complied by all licensees or by persons to whom exemptions have been granted, to the extent required by their licenses or exemptions respectively.

During the year under review, by Decision 127/2020 of 28 April 2020, CERA approved the proposed by TSOC new integrated TDR version which is aligned with the national legislation and the High Efficiency Combined Heat and Power Cogeneration Plants (HECHP). In addition, TSOC started the revision of TDR, complying with the provisions of the Regulatory Decision 03/2019, regarding the establishment of basic regulatory principles of the operation of electricity storage facilities in front of the meter in the wholesale electricity market. This work is expected to be completed within 2021.

By Regulatory Decision 03/2020 on 15 April 2020, CERA decided that each Ten-Year National Development Plan (TYNDP), should include, besides the provisions of the Law, the most important transmission infrastructure that have to be built or upgraded in the next ten years. This includes the infrastructure that is required for the penetration of RES and electricity storage systems, all the investments that have already been included in previous TYNDP and new investments, the implementation of which is expected to start within the next three years, techno-economic analysis of the feasibility of the transmission projects and detailed timetables for the implementation of the transmission projects, as well as corresponding estimated cash flows of the transmission projects.

Table 1 shows the basic features of the transmission and distribution networks for the last 5 years.

Table 1. Basic features of the transmission and distribution networks

Indicator	2016	2017	2018	2019	2020
Number of TSOs	1	1	1	1	1
Extension of TSO grid (Km)	1,320	1,320	1,320	1,359	1,362
Sum of all TSO investments and expenditures in networks (Mill EUR)	9	32.4	38.3	42.6	14.0
Number of DSOs	1	1	1	1	1
Extension of DSO grid (Km)	25,709	24,875	26,363	26,708	27,130

Sum of all DSO investments and expenditures in networks (Mill EUR)	26	16	115	88	40
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Network tariffs

CERA, as the regulator, has the duty and the authority to approve the methodologies used to calculate the connection fees and the network use charges, and establish the terms and conditions for connection and access to the transmission and distribution system. The regulator may also require from the TSO and DSO to change the tariffs or methodologies used for determining the transmission and distribution tariffs to ensure that these are proportional and non-discriminatory.

By Decision 28/2020, which entered in force on 1 March 2020, CERA reviewed the method of calculating the fees for network use for customers participating in net-metering or net-billing schemes.

The new charging method eliminates completely the fee for network use on self-generated energy. The fees for network use shall be paid only for incoming energy, ensuring cost orientation, because it will not rise any discrimination between consumers operating net-metering systems and the rest, as the fees for network use are charged based on actual interaction with the network. This is also referred in Article 15(2)(e) of Directive 2019/944 on common rules for the internal market for electricity and amending Directive 2012/27/EU, “subject to cost-reflective, transparent and non-discriminatory network charges that account separately for the electricity fed into the grid and the electricity consumed from the grid.” Sub-paragraph 4 states that “Member states that have existing schemes that do not account separately for the electricity fed into the grid and the electricity consumed from the grid, shall not grant new rights under such schemes after 31 December 2023. In any event, customers subject to existing schemes shall have the possibility at any time to opt for a new scheme that accounts separately for the electricity fed into the grid and the electricity consumed from the grid as the basis for calculating network charges.

The method of charging and allocation of the network charges through the network use fees is based on the interaction of each consumer with the grid. This interaction is calculated per phase since if at the same time a specific energy amount is discharged into the grid in a single phase and the same amount of energy is consumed by the other two phases, the interaction with the grid is not zero but equal to the energy consumed from the grid. The new charging method results in the rationalization of network use charges for all consumers regardless of whether they have a photovoltaic system or not, based on the principle applicable in this case that depending on the actual network use there is a corresponding charge.

Furthermore, the charges for the use of network for the year 2016 - 2020, as approved by CERA are shown in Table 2.

Table 2. Charges for the use of networks and other operational expenses

CHARGES FOR THE USE OF NETWORKS AND OTHER OPERATIONAL EXPENSES		2016 €cents/ kWh	2017 €cents/ kWh	2018 €cents/ kWh	2019 €cents/ kWh	2020 €cents/ kWh
Use of Transmission System Tariff (T-NH) for consumers connected to:	High Voltage	0.86	0.54	0.51	0.51	0.50
	Medium Voltage	0.86	0.86	0.81	0.81	0.79
	Low Voltage	0.86	0.88	0.82	0.82	0.80
Use of Distribution System Tariff (T-NM) for consumers connected to:	High Voltage	-	-	-	-	-
	Medium Voltage	1.33	1.00	0.93	0.93	0.90
	Low Voltage	1.33	1.02	0.95	0.95	0.92
Use of Distribution System Tariff (Low Voltage) (T-NL) for consumers connected to:	High Voltage	-	-	-	-	-
	Medium Voltage	-	-	-	-	-
	Low Voltage	1.47	1.14	1.08	1.08	1.05
Tariff for the recovery of expenses of the Cyprus TSO (T-TSO)		0.09	0.09	0.15	0.15	0.11
Tariff for the provision of Ancillary Services and long-term reserve (T-AS) for consumers connected to:	High Voltage	0.65	0.65	0.61	0.61	0.63
	Medium Voltage	0.67	0.67	0.62	0.62	0.64
	Low Voltage	0.67	0.67	0.64	0.64	0.65

Figure 2 presents the network usage fees for consumers connected to low voltage (includes T-NH, T-NM, T-NL, T-TSO and T-AS). It is noted from the figure, that the network usage fees decreased by 21.5% since 2016.

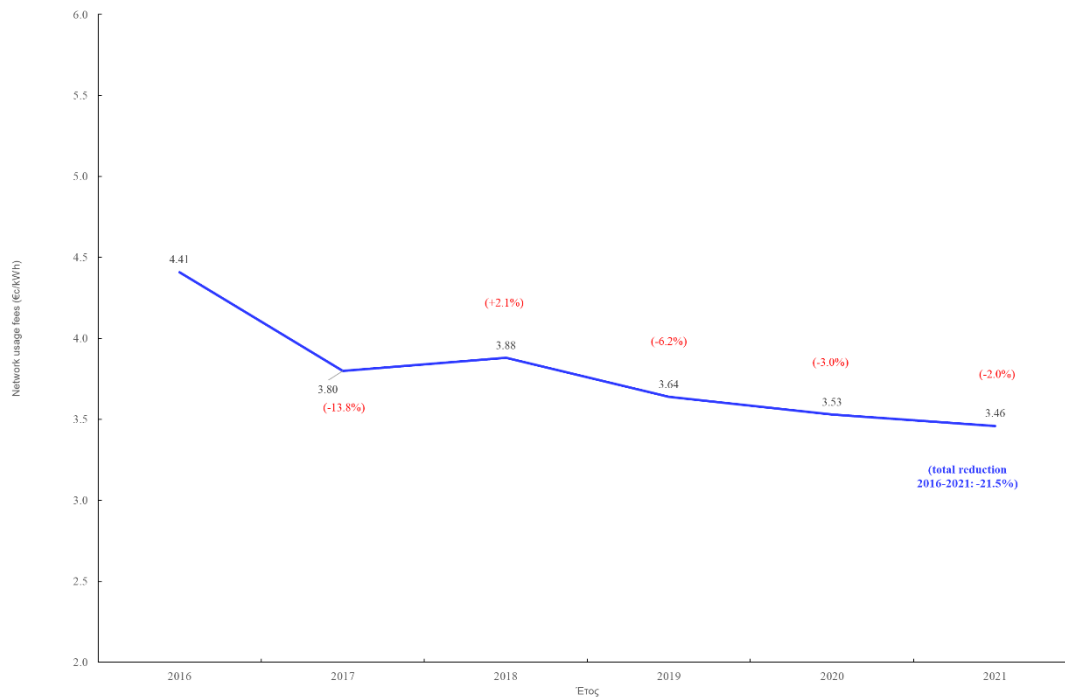


Figure 2. Network usage fees for consumers connected to low voltage

Monitoring balance of supply and demand

Adequacy of electricity supply

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

As shown in Figure 3, during the year under review, the adequacy is at sufficiently high levels and within the reserve margin of installed capacity, between 20% - 40%, as provided by the Decision 144/2017 of CERA, dated 17 July 2017, regarding the methodology for the calculation of the installed capacity reserve margin.

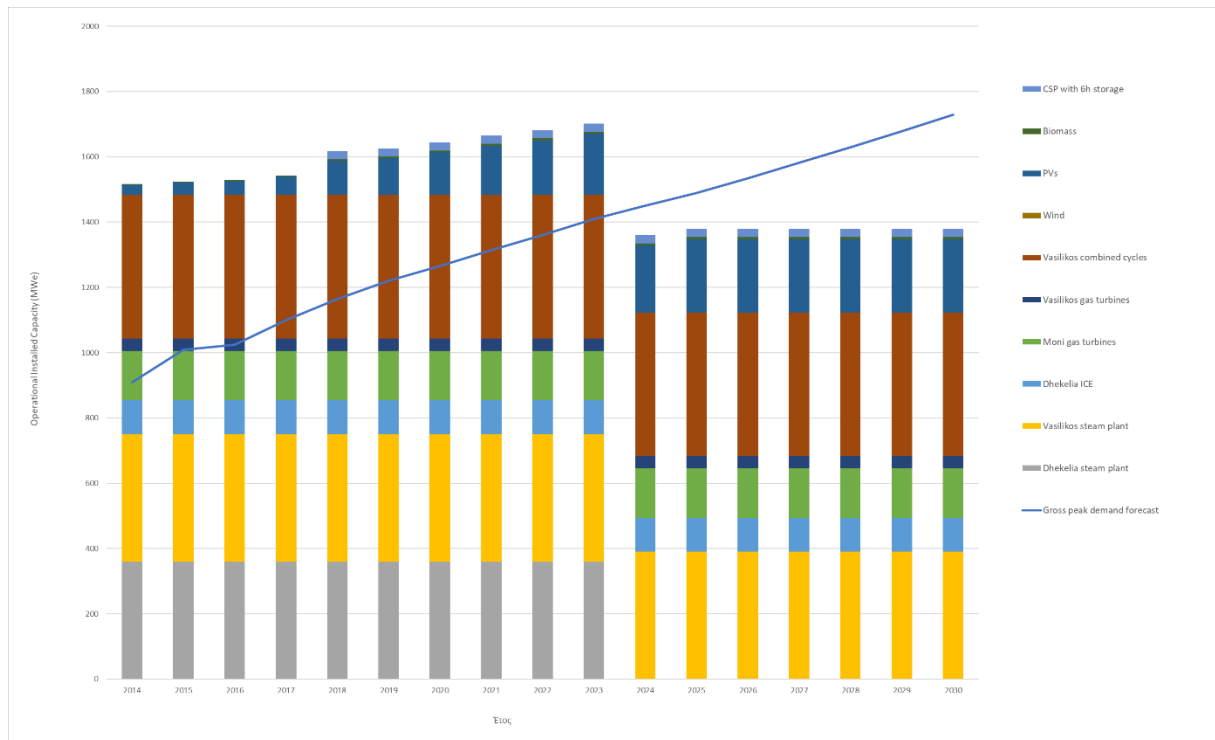


Figure 3. Installed Operational Capacity (MWe) for the period 2014 - 2030

During the summer period of 2020 measures were initially taken to satisfy the maximum capacity and to maintain the operating margin for the uninterrupted supply of electricity to consumers during the summer period. However, due to the adverse conditions caused by the pandemic the possibility of an electricity crisis was identified.

CERA as the competent authority to ensure the supply and implement the provisions of Regulation (EU) 941/2019, after evaluating the data, found, among others, that:

- The temporary generating potential of installed capacity of 130MWe could not practically operate commercially by the EAC-Generation for the critical period before 20 July 2020, due to the measures taken against the COVID-19 pandemic. The position of the TSOC was that this potential could not be installed and put into operation later than 20 July 2020 because, based on historic data, a decrease in demand of electricity is expected in August if the highest probability of maximum demand for electricity for the summer period is in July. Therefore, there is no reason for the EAC-Generation to continue the effort to install the temporary generation potential of installed capacity of 130MWe.
- According to historical data on the consumption of electricity, the highest probability of occurrence of the maximum total electricity capacity during the summer period is in July.
- Based on the approved forecast of maximum total capacity of electricity for extreme conditions, without the installation of the temporary generating potential and considering that the Steam Units 2 and 3 of the Vasilikos Power Plant are fully available, there will be marginal adequacy in the system, which will operate as in the previous years.
- If the temporary units and Unit 2 of the Vasilikos PP are not available, even with the reduction of the forecast of maximum capacity of electricity, there will be a problem of adequacy in the system of electricity. This is stated in the study for the adequacy of electricity of the TSOC based on the preliminary forecast that was drafted in the framework of the emergency action plan for the summer season 2020.
- Taking account of the fact that the additional generating potential of installed capacity of 130MW, which was decided to be installed for the period from 1 June 2020 to

15 September 2020 in case the existing licensed generating units of the EAC-Generation, which meet the requirements of the legislation regarding emissions of pollution, would not be sufficient to meet the demand for electricity and the operating reserve margin would not be available and given that Steam Unit 1 of the Vasilikos PP with an installed capacity of 130MW is not in operation due to the suspension of work on the construction sites of Vasilikos PP from 18 March 2020 to reduce the risk of infection of the personnel by the COVID-19 virus, while it is not expected to operate in the summer season of 2020, it is established based on Regulation (EU) 2019/941 that for the period 1 June 2020 until 15 September 2020 there is a possibility of an electricity crisis in the Republic of Cyprus.

Considering the above, CERA, as a competing authority under Regulation (EU) 2019/941 by Decision 174/2020 decided to issue an early warning to the Commission and to plan and take measures to prevent the electricity crisis. It is noted that measures for the prevention of the electricity crisis taken by CERA, are not expected to have any impact on the internal energy market of Europe, because the electricity system of Cyprus is not interconnected with any other system of a Member State, nor are they expected to have any impact on the national electricity market because they do not affect the competition in any way.

With respect to the maximum demand for 2020, this was recorded on Friday, 4 September 2020, at 14:22 hours, when the total maximum power rose to 1160MW.

The following important records concern the recorded total electrical energy generated during 2020:

- The total gross electricity generated reached 4,807,110 MWh.
- The EAC-Generation contributed with 4,246,106 MWh.
- The producers using RES generated 561,004 MWh.
- The power plants of EAC generated 198,885 MWh for their local needs.
- The energy from the conventional units of EAC-Generation, which was injected to the transmission system, reached 4,047,221 MWh.
- The energy that was exported from the transmission system to the substations of EAC and the large producers reached 4,275,959 MWh.
- The reported losses during the transmission amounted to 63,063 MWh, or 1.45%, of the energy that was imported in the transmission system.
- The reported losses during the distribution amounted to 176,700 MWh, or 4.0%, of the energy that was imported in the distribution system.

The Load Factor of conventional generating stations was 47.4% in 2020 compared to the Load Factor for the year 2019 which was 52.6%.

Figure 4 shows the total electricity generation in 2020.

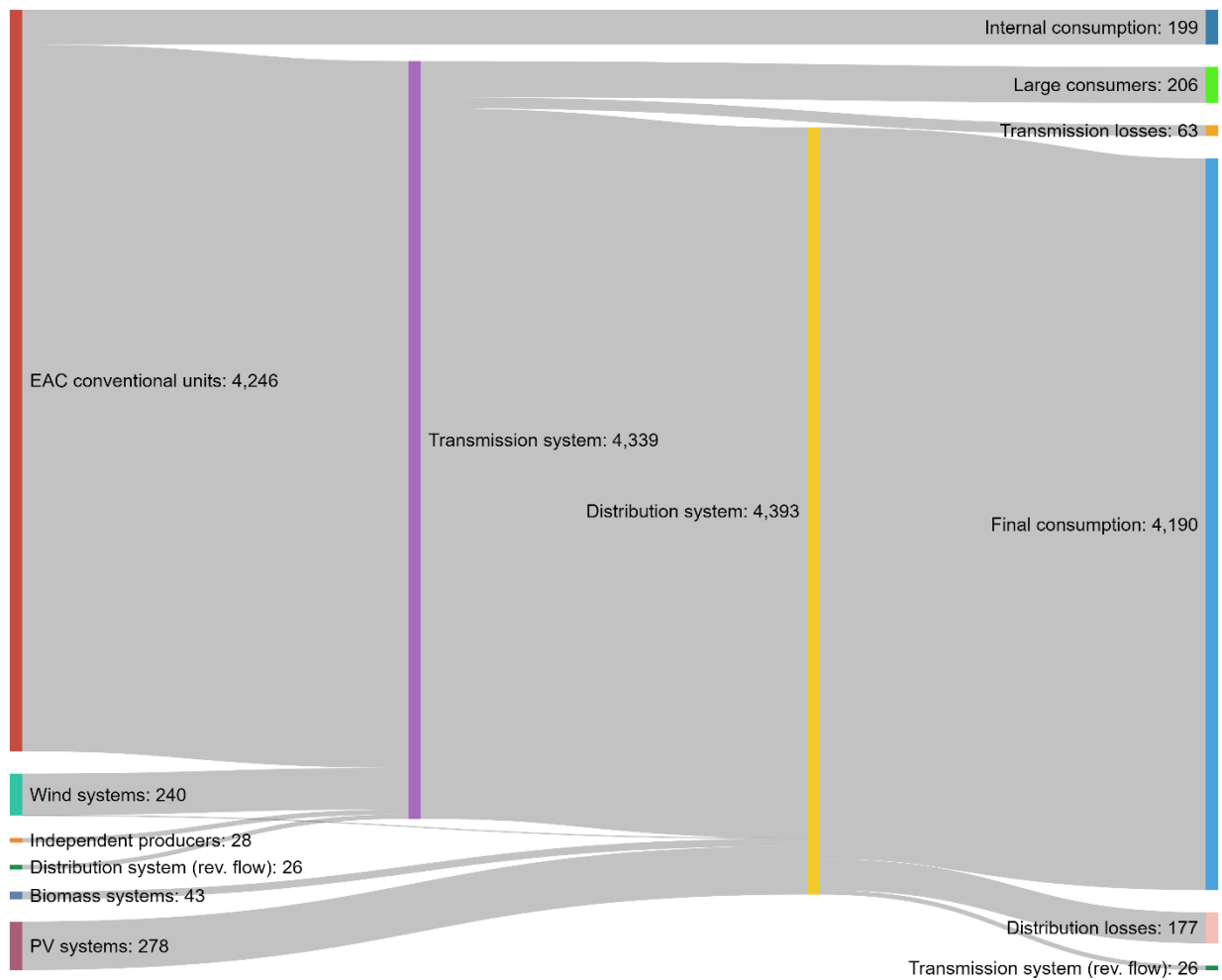


Figure 4. Sankey diagram for the total electricity generation in 2020

Monitoring investments in generation

Cost reflective market prices and transparent market mechanisms operated by independent operators under rules and regulations of an independent regulator should provide relevant signals for investors to timely respond to such needs. However, the combination of a small system size, without interconnections and natural gas availability, as in the case of Cyprus, reduces the margins for the effective response to such market signals to critical levels.

In line with the spirit of the Directive, the Law assigns priority to the market in offering the appropriate signals to investors to construct the most appropriate type and size of generation capacity, in order to meet the various needs of the market. To that effect, the Law adopts and prescribes a licensing procedure, implemented through licences issued by CERA to interested prospective investors, subject to various criteria which are only supposed to safeguard participants rather than prescribe specific solutions.

Moreover, recognising the specificities of electricity and its importance for the economy, the Law introduces a safety valve, in the form of a tendering process, by which CERA may justifiably intervene when the licensing process appears to be unable to timely bring about the needed generation capacity. For the specification of the need based on which the tendering process may be initiated the Law refers to the mandate of CERA to act so as to ensure security,

continuity, quality and reliability of electricity supply. CERA is thus enabled to require from the TSOC timely information on the expected needs of the system, and may provide the appropriate regulatory signals, where necessary; or, CERA may commence the tendering process described by the Law where CERA considers that despite such signals, or due to unforeseen circumstances, the market is unable or unwilling to bring about the needed investment. Clearly, the process should be directed to resolve the specific problem identified by the TSOC, which the market cannot address in a timely manner, i.e. it should specify characteristics of new generation corresponding to the requirements of the TSOC.

Figures 5 and 6 present historical generation data from RES which are connected to the network.

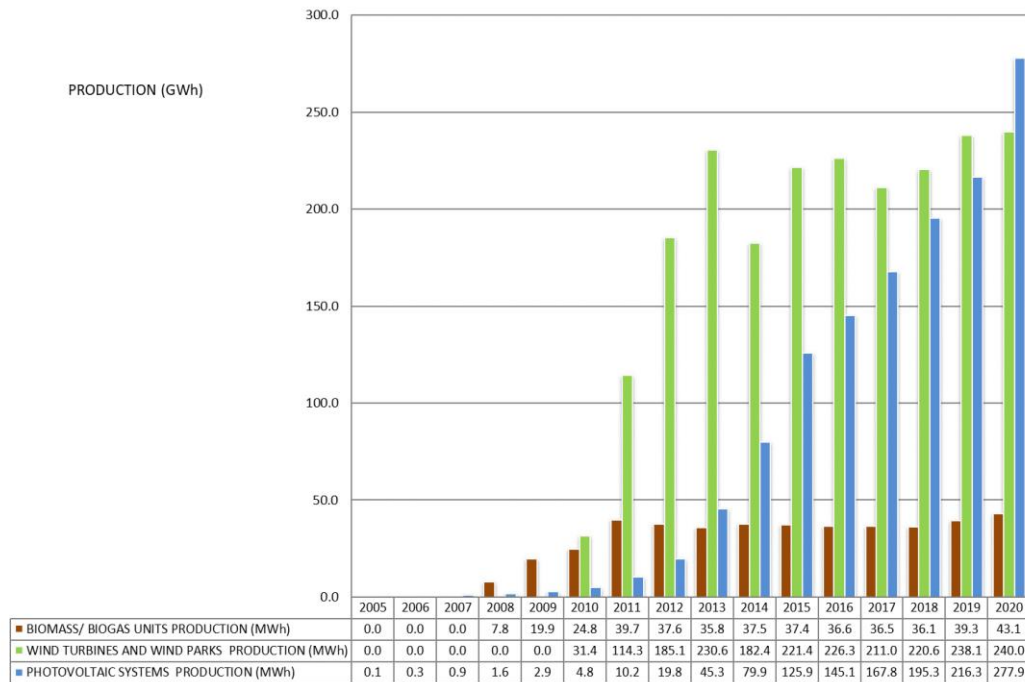


Figure 5. Annual RES generation (MWh) 2005-2020

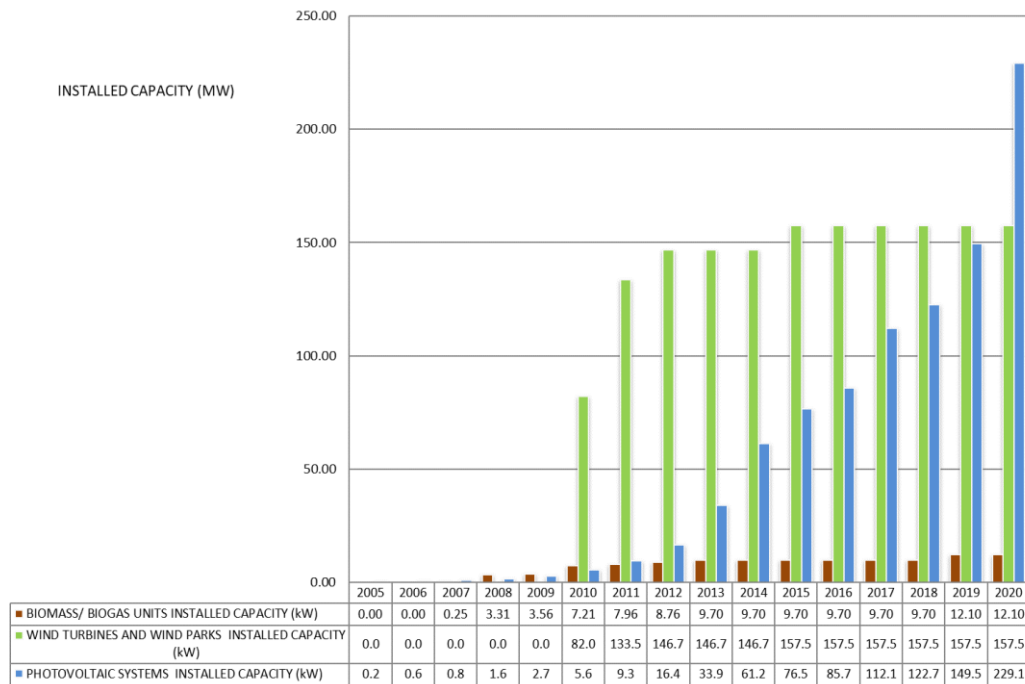


Figure 6. Annual Installed Capacity (kW) RES 2005-2020

Operational Network Security

The activities of electricity generation and supply concern competitive activities, meaning that the interested persons are given the opportunity, after obtaining the relevant licences from CERA, to participate on a competitive basis in the electricity market according to the Regulations set by CERA, as independent producers and / or as independent electricity suppliers.

Although the generation and supply activities belong to the competitive part of the electricity market, EAC as a producer and supplier, occupies at this stage a dominant position in the market and thus is regulated by CERA. More specifically, CERA exercises control over EAC and regulates its economic parameters, so as to achieve a healthy environment allowing the entry in the market of new independent producers and suppliers who can compete on an equal footing.

The activities of electricity transmission and distribution are by nature monopolistic activities. These activities concern the operation and ownership of the transmission and the distribution systems.

The licences issued by CERA, in accordance with Article 34 of the Laws Regulating the Electricity Market of 2003 to 2018, concern the:

- Construction and operation of power plants with conventional fuels for commercial purposes.
- Construction and operation power plants with conventional fuels for self-consumption and reserve purposes with a generating capacity greater than 1MW.
- Construction and operation power plants using RES with a generating capacity of more than 5MW.
- Electricity supply.
- Execution of the responsibilities of the TSOC.
- Execution of the responsibilities of the DSO.

- Execution of responsibilities of the OTS.
- Execution of the responsibilities of the ODS.

Conventional Units for commercial use

In 2020, no applications were submitted for a License for the construction of a power plant for commercial use. However, 1 License for the construction of a power plant for commercial use, with total electricity capacity of 130MWe was granted.

This License concerns the additional generating potential, which was decided to be installed for the period from 1 June 2020 to 15 September 2020. It was installed in case the existing licensed generation units would not be sufficient to meet the demand for electricity and the operational reserve margin would not be available and since Steam Unit 1 of the Vasilikos Power Plant (PP), with an installed capacity of 130MWe is not in operation due to the suspension of work on the construction sites of Vasilikos PP from 18 March 2020 to reduce the risk of infection of the personnel by the COVID-19 virus.

The installed electrical capacity of conventional units for commercial use has not been differentiated during the year 2020, it remains at 1478MWe, as it was in the previous year 2019. Table 3 below shows the total installed capacity of EAC’s conventional units for 2020 and the geographical distribution of the power plants is presented in Figure 7.

Table 3. Total Installed Capacity of EAC’s Conventional Units (MW)

Total Installed Capacity of EACs’ Conventional Units (MW)					
Power Station	CCGT units (MW)	Steam units (MW)	Gas Turbines (MW)	Internal Combustion Engines (ICE) (MW)	Installed Capacity per Station (MW)
Moni	-	-	4x37.5=150	-	150
Dhekelia	-	6x60=360	-	2x50=100	460
Vassilikos	2x220=440	3x130=390	1x38=38	-	868
Installed Capacity per type of unit	440	750	188	100	1478

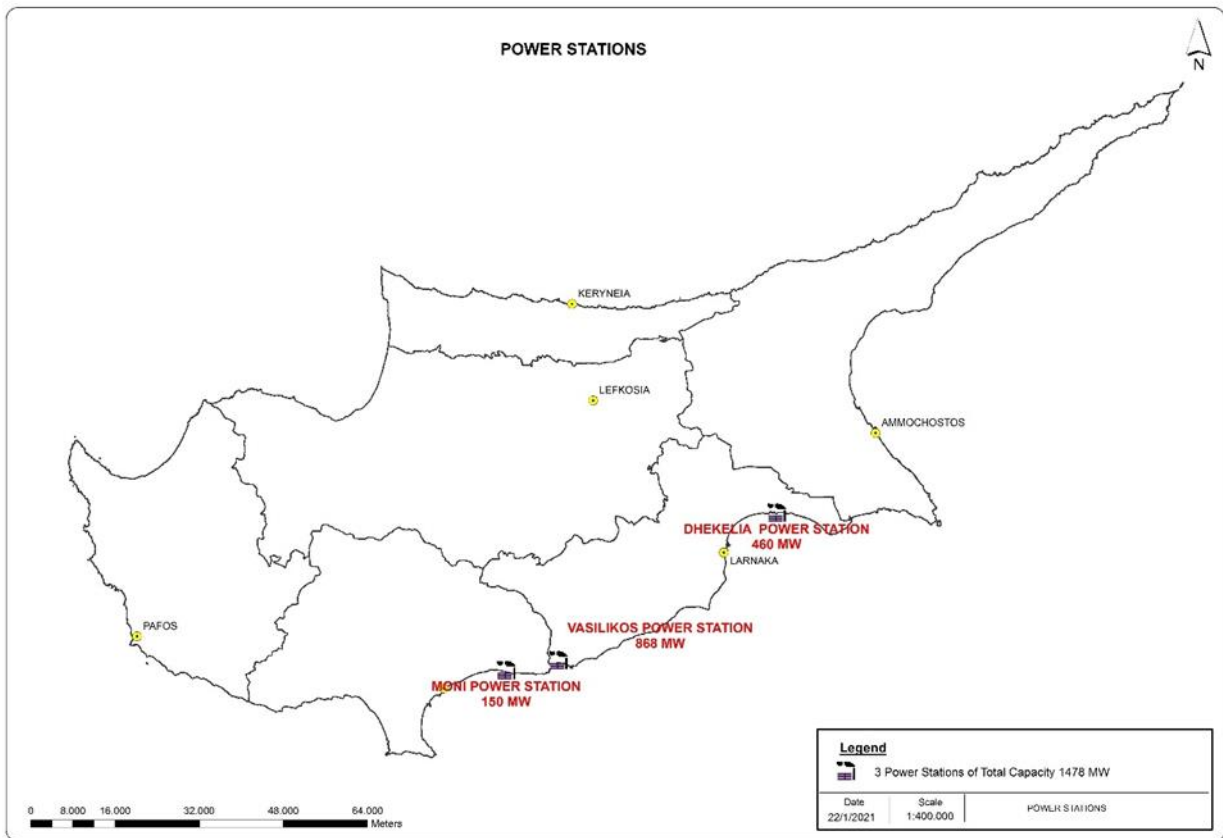


Figure 7. Geographical distribution of installed conventional units for commercial use until 2020

Renewable Energy Sources (RES)

Wind Farms:

In 2020, no Licenses have been granted for the construction and operation of wind farms. The installed capacity of wind farms did not change in the year 2020, it remains at 157.5MWe, as it was in the previous year 2019.

Photovoltaic Systems:

In 2020, 11 applications were submitted for the issuance of a License for the construction of power plants for commercial use, with total electricity capacity of 163.12MWe. In 2020, 4 Licenses for the construction of a power plant for commercial use, with total electricity capacity of 108.2MWe and 1 License for the construction of a power plant for commercial use, with total electricity capacity of 8MWe were granted.

Solar Thermal Plants:

In 2020, one application was submitted for the issuance of a License for the construction of a solar thermal plant, for the generation of electricity for commercial use, with total electricity capacity of 65MWe and 1 License for the construction of a solar thermal unit and combustion of natural gas, for the generation of electricity for commercial use, with total electricity capacity of 50MWe.

Kinematic-magnetic Plants:

In 2020, 1 application was submitted for the issuance of a License for the construction of a power plant for commercial use, using kinematic-magnetic energy, with total electricity capacity of 2.5MWe and 1 application for the issuance of a License for the construction of a power plant for commercial use, using kinematic-magnetic energy, with total electricity capacity of 3,5MWe was rejected.

The following Figures 8, 9, 10 and 11 show statistical data on Licenses for the construction and operation granted by CERA for the generation of electricity from conventional units and RES units for the period starting from the establishment of CERA until the end of 2020.

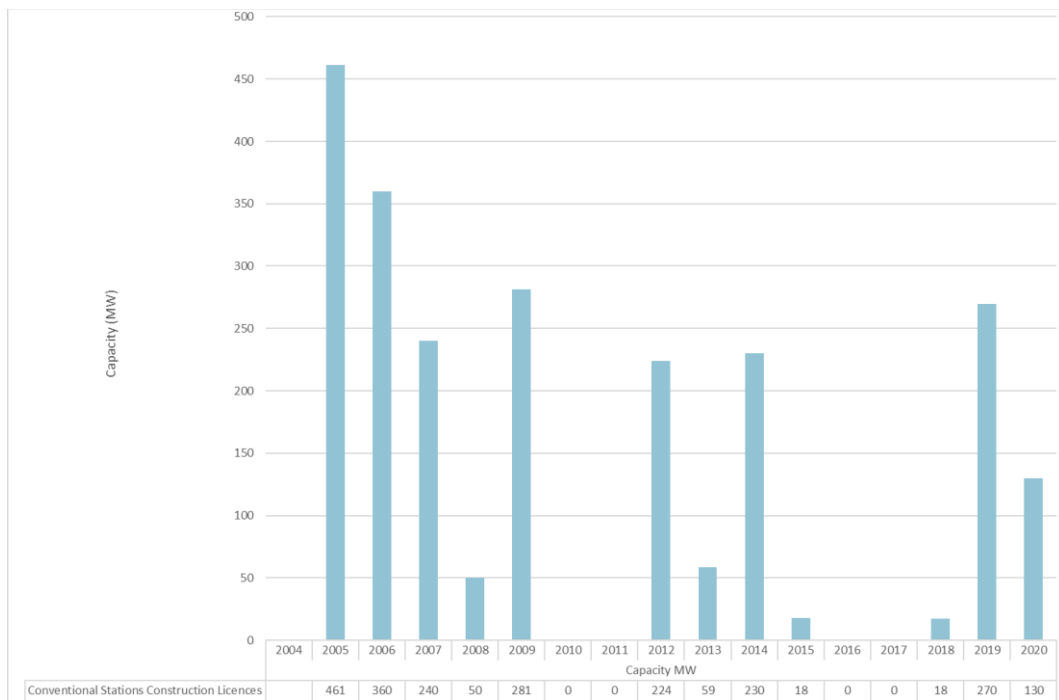


Figure 8. Construction licences for conventional power plants issued from 2004 to 2020

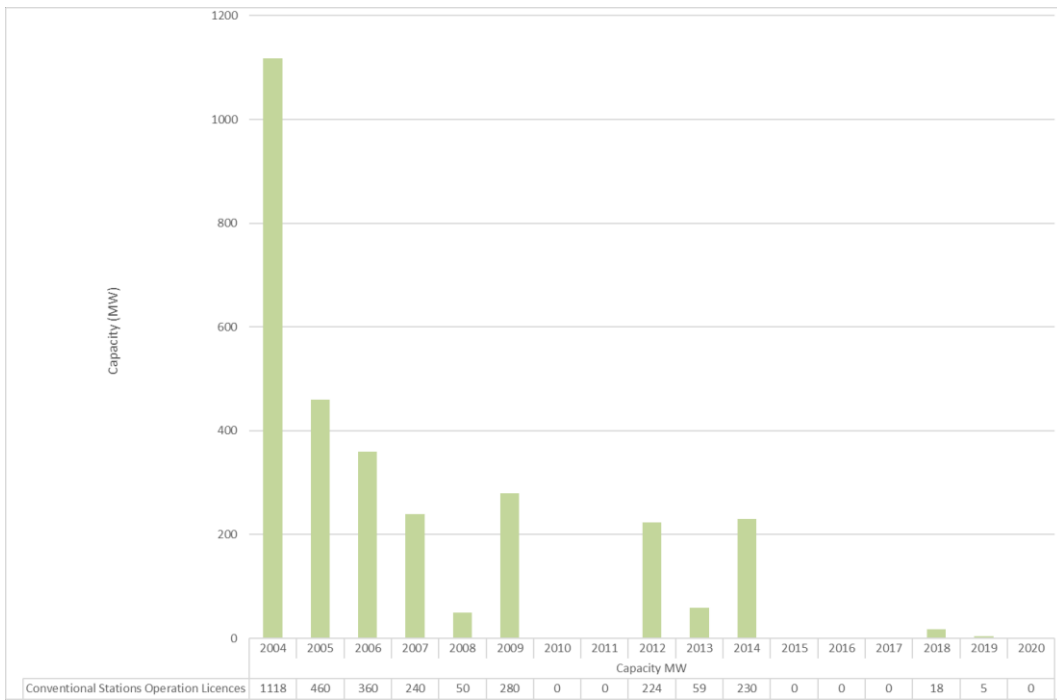


Figure 9. Operation licences for conventional power plants issued from 2004 to 2020

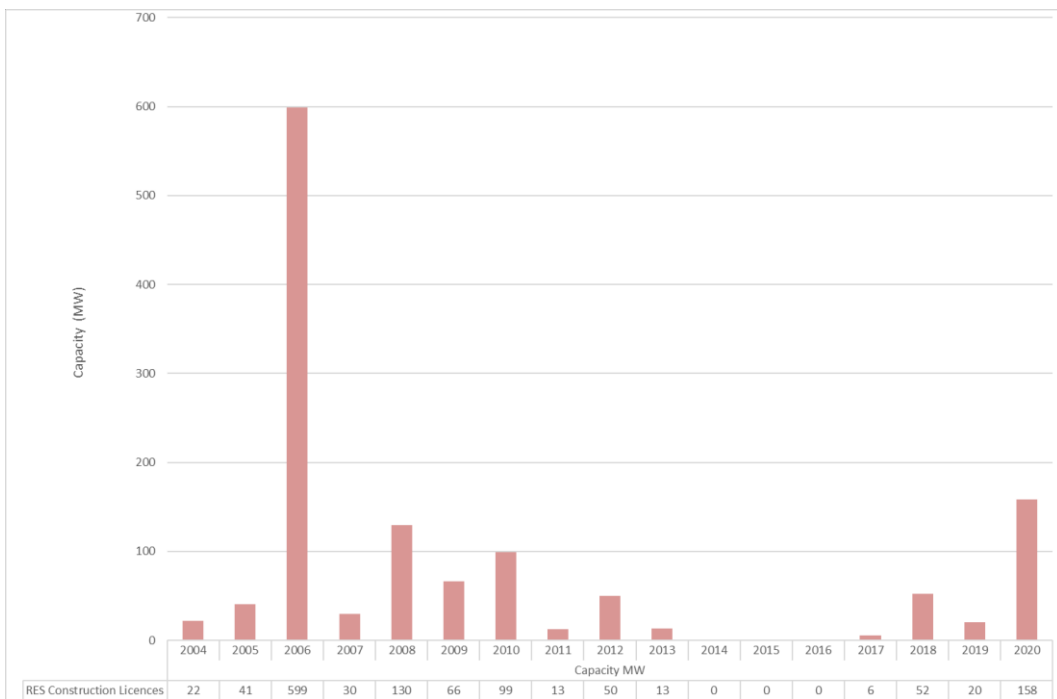


Figure 10. Construction licences for RES power plants issued from 2004 to 2020

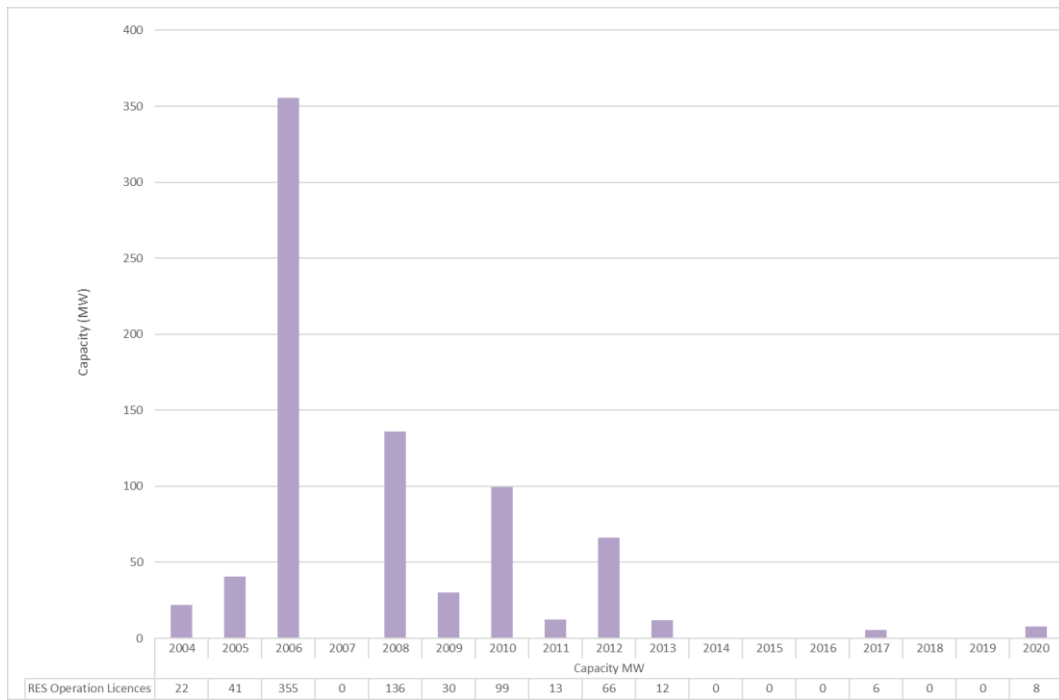


Figure 11. Operation licences for RES power plants issued from 2004 to 2020

License for the construction and operation of power plants for self-consumption

Conventional units for self-consumption

In 2020, 3 Licenses for the construction and operation of power plants for self-consumption (self-generation), with conventional fuels, with total electricity capacity of 4MWe were granted and 2 Licenses for the construction and operation of power plants for self-consumption (self-generation), with conventional fuels, with total electricity capacity of 5.2MWe were revoked. The installed capacity of conventional units for self-consumption has been reduced in 2020 and is at 27.5MWe.

Renewable Energy Sources

No Licenses were granted for the construction and/or operation of power plants from RES for self-consumption in 2020.

Exemption from License for the construction and operation of power plants

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

In 2020, 114 Exemptions from Licenses for the construction and operation of power plants using conventional fuels for reserve purposes and autonomous systems of self-generation, with a total installed capacity of 21.44MWe were granted.

The total installed capacity of conventional units for reserve purposes and autonomous systems of self-generation is 223.54MWe.

Renewable Energy Sources (RES)

Commercial use

Wind Farms:

1 Exemption from License for the construction of a power plant, wind farm, with a capacity of 4.2MWe was granted in 2020.

Photovoltaic Systems:

In 2020, 32 Exemptions from Licenses for the construction of photovoltaic systems, with capacity of 52.1MW and 30 Exemptions from Licenses with a total installed capacity of 42.2MW were granted.

The total installed capacity of photovoltaic systems for commercial use, which are included in the Support Schemes of MECl is 138.1MWe.

Biomass/Biogas Systems:

In 2020, no Exemptions from Licenses for the construction and operation of power plants using biomass/biogas were granted. The installed capacity of biomass/biogas plants for commercial use did not change in the year 2020, it remains at 9.7MWe, as it was in the previous year, 2019.

Self-consumption

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

In 2020, 89 Exemptions from Licenses for the construction of power plants, photovoltaic systems, with capacity of 12.5MWe and 74 Exemptions from Licenses with a total installed capacity of 7.26MWe were granted.

The total installed capacity of photovoltaic system with the method of self-generation/net-billing is 15MWe.

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

No Exemption from License for the construction of biomass/biogas systems was granted in 2020.

The installed capacity of biomass/biogas plants for commercial use did not change in the year 2020. It remains at 3.1MWe, as it was in the previous year 2019.

Figures 12 and 13, present the capacity of the exceptions from RES construction licence and from RES operation licence respectively, which were issued in the period 2004 - 2020.

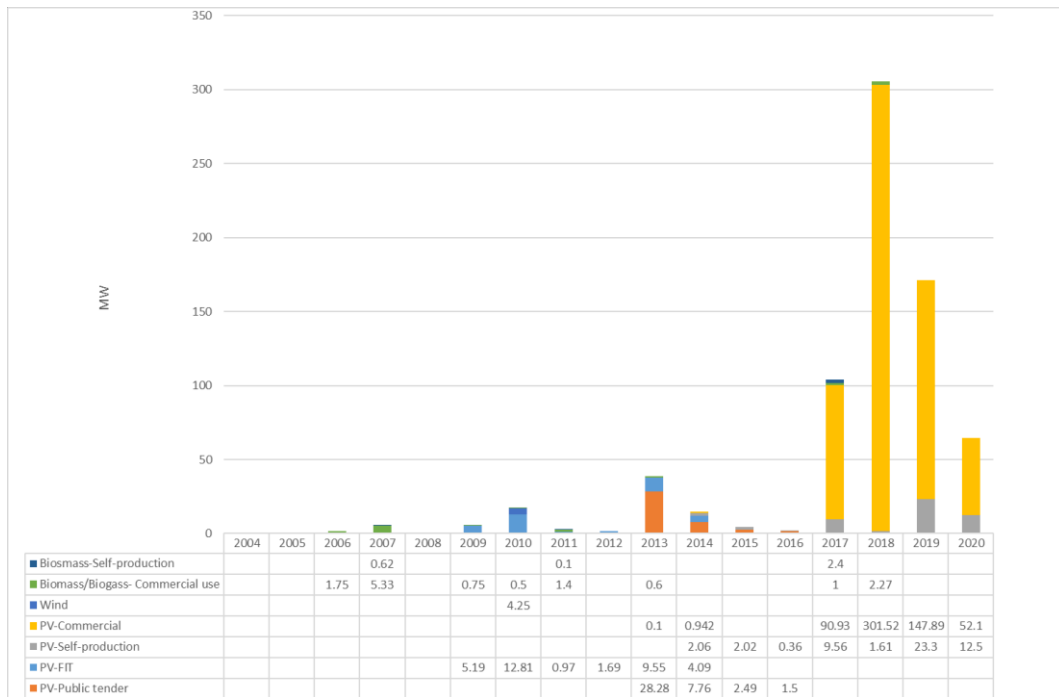


Figure 12. Capacity (MW) of exceptions from RES construction licence issued for the period 2004 – 2020

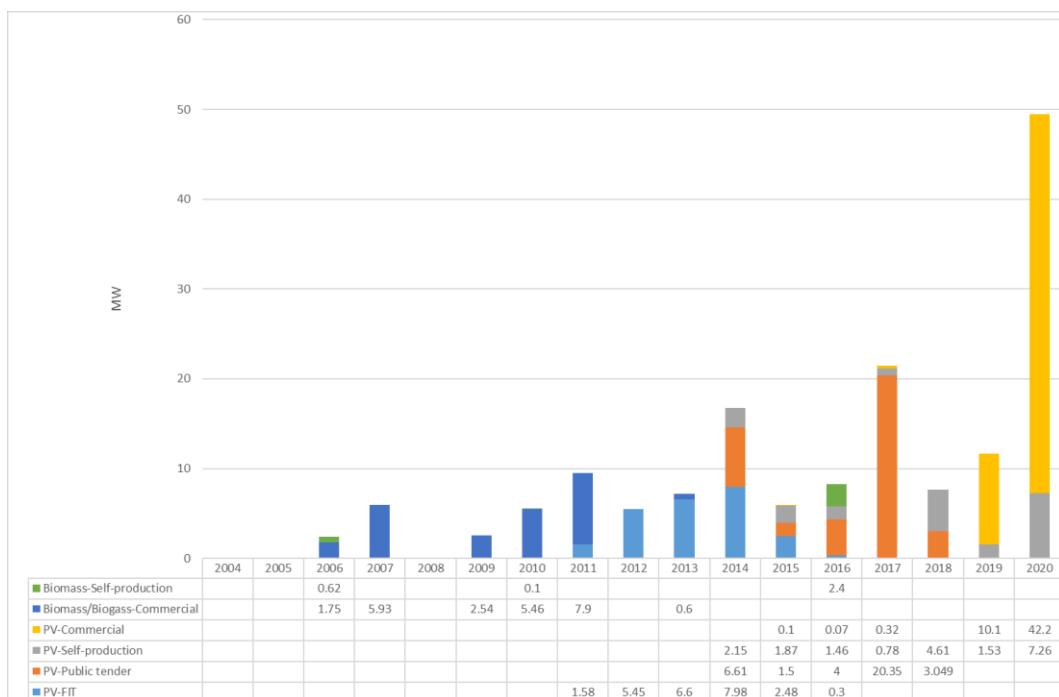


Figure 13. Capacity (MW) of exceptions from RES operation licence issued in the period 2004 – 2020

PV Systems with the method of net-metering

During the year 2020, the installation of 4989 PV systems, with a total installed capacity of 23.41MWe, has been carried out. The total installed electrical capacity of the PV systems of the net-metering category during the year 2020 is 77.40MWe.

Figure 14 shows the number and capacity of installed PV systems with the method of net-metering for the period 2013 - 2020.

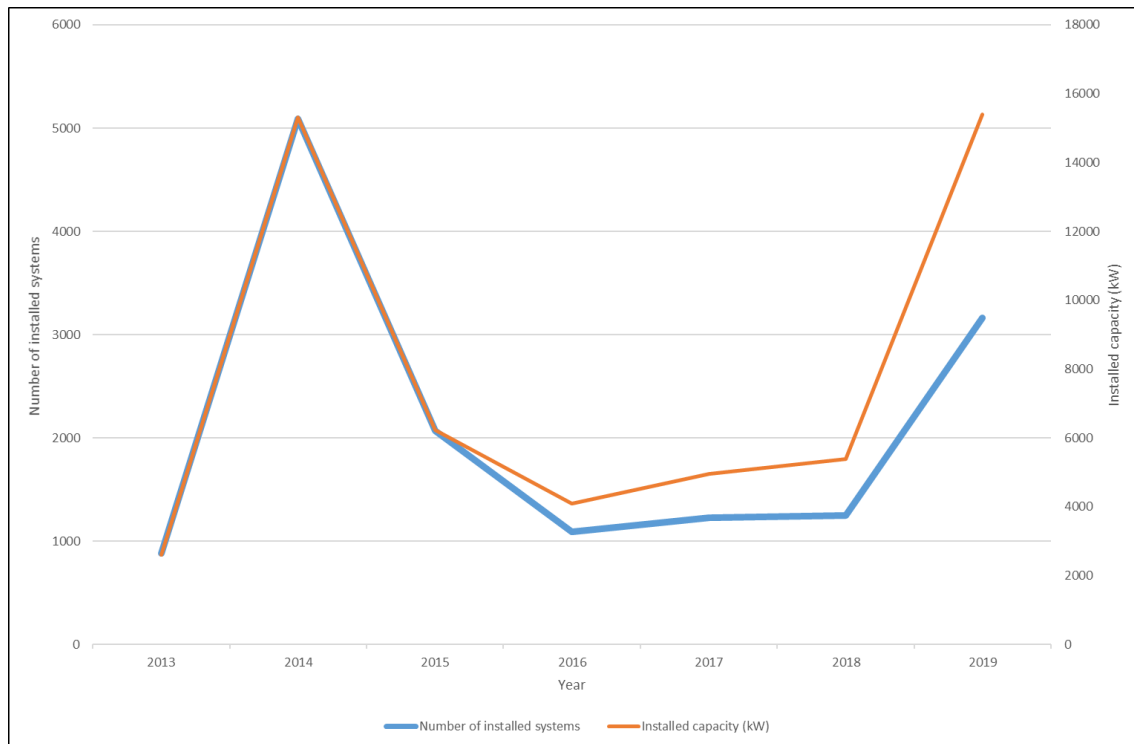


Figure 14. Number of installed systems and installed capacity (kW) of net-metering systems for the years 2013 – 2020

Pilot / innovative systems

In 2020, no application was submitted in the context of the Decision 1494/2016 of CERA.

Figure 15 presents the geographical distribution of installed RES units with a capacity of more than 20kWp, until 2020. The Figure shows the equable distribution of RES units in the territory of the Republic of Cyprus.

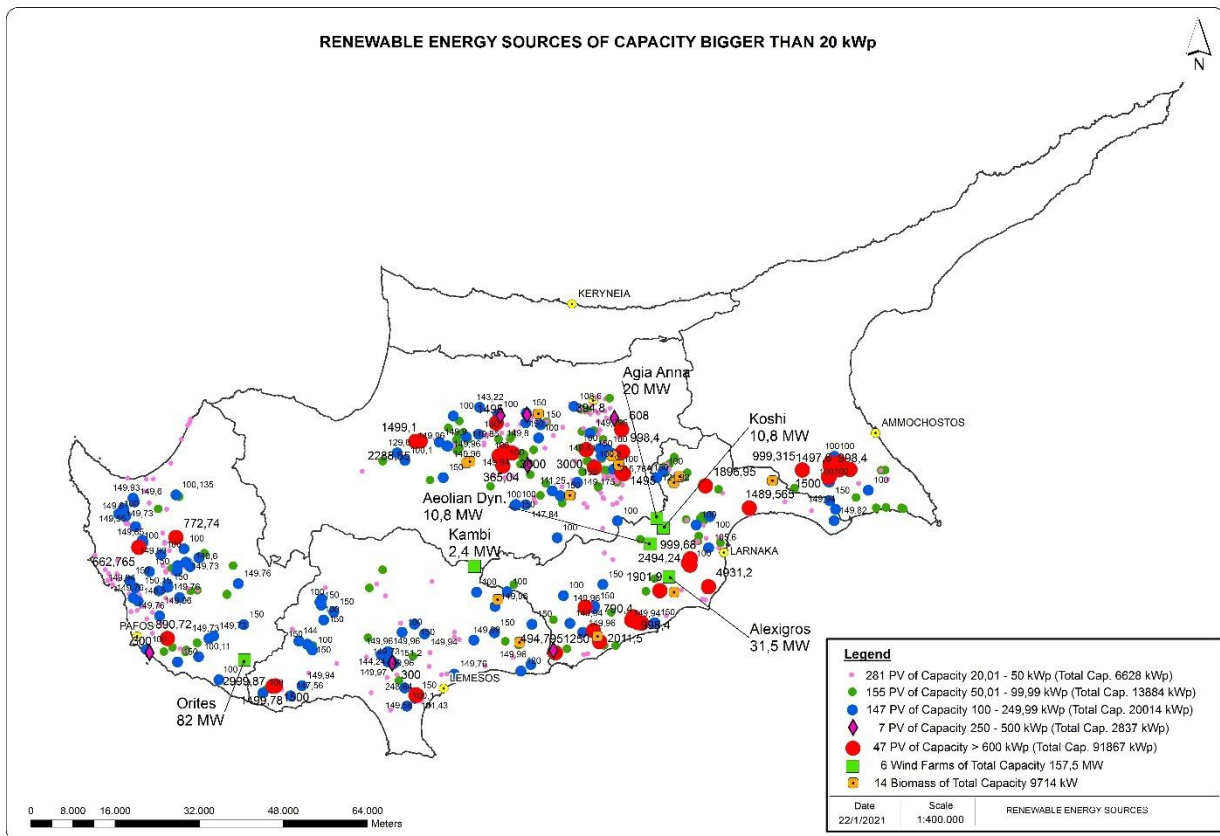


Figure 15. Geographical Distribution of installed RES Units with a capacity of more than 20kWp by 2020

Forecast of total maximum capacity (MW) and total generated energy (GWh) for the decade 2020 – 2029

On 4 June 2019, CERA approved the methodology submitted by the TSOC, concerning the long-term forecasting of electricity generation and capacity.

This methodology concerning the long-term forecasting of electricity generation and capacity, aims at the long-term forecasting of electricity generation as a function of the projected change in Gross National Product (GDP) and the change in the selling price of electricity to the consumer. The method of multiple linear regression is followed, with the dependent variable the normalized electricity generations and as independent variables the change in GDP, the change in the selling price of electricity to the consumer and the degree-days of heating and cooling. The changes in these prices are calculated in relation to the previous corresponding period.

Then, based on the calculated coefficients, the energy consumed by the final consumer in the distribution system (low voltage), is initially provided and then the total generation of the system (conventional generation and RES) is estimated, taking into account the losses at each voltage level and the self-consumption of the generating stations. In this way, the decreasing percentage of conventional generation in the energy mix is taken into account, due to the increasing penetration of generation by RES

Figures 16 and 17 present the forecast of total generated energy (GWh) and total maximum capacity (MW) for the period 2020 - 2029. These forecasts were submitted on 13 February

2020 by the TSOC to CERA. CERA approved this proposal by Decision 73/2020.

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

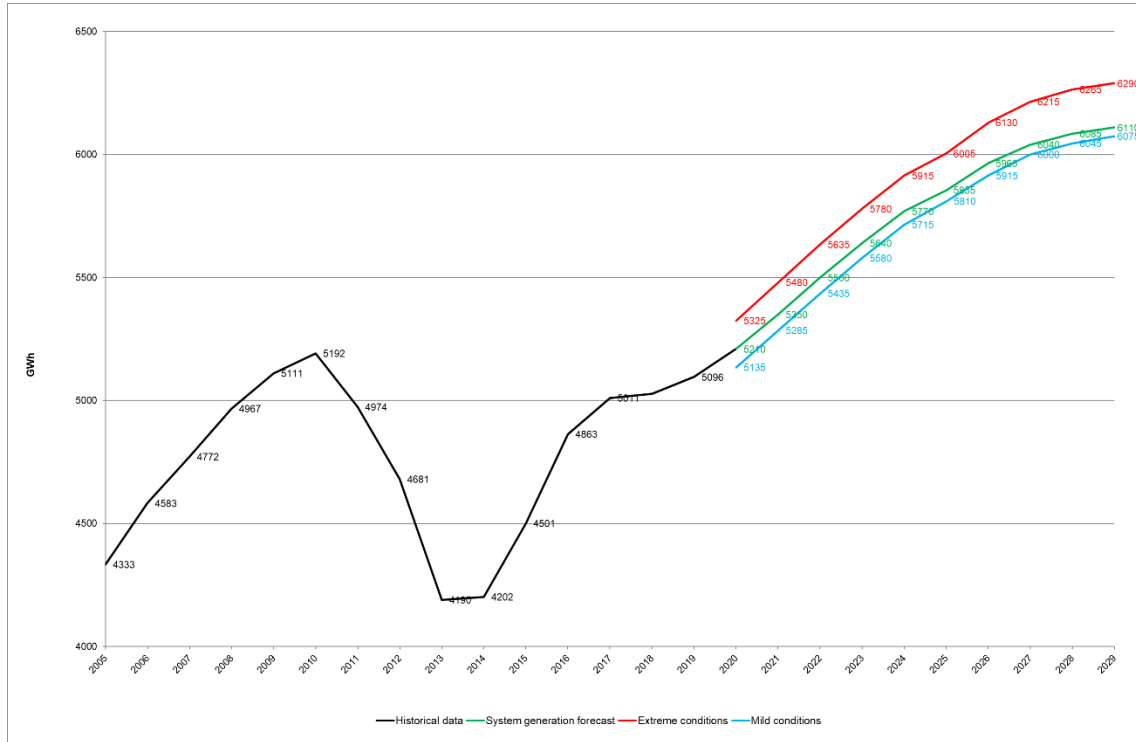


Figure 16. Forecast of total generated energy (GWh) 2020 – 2029

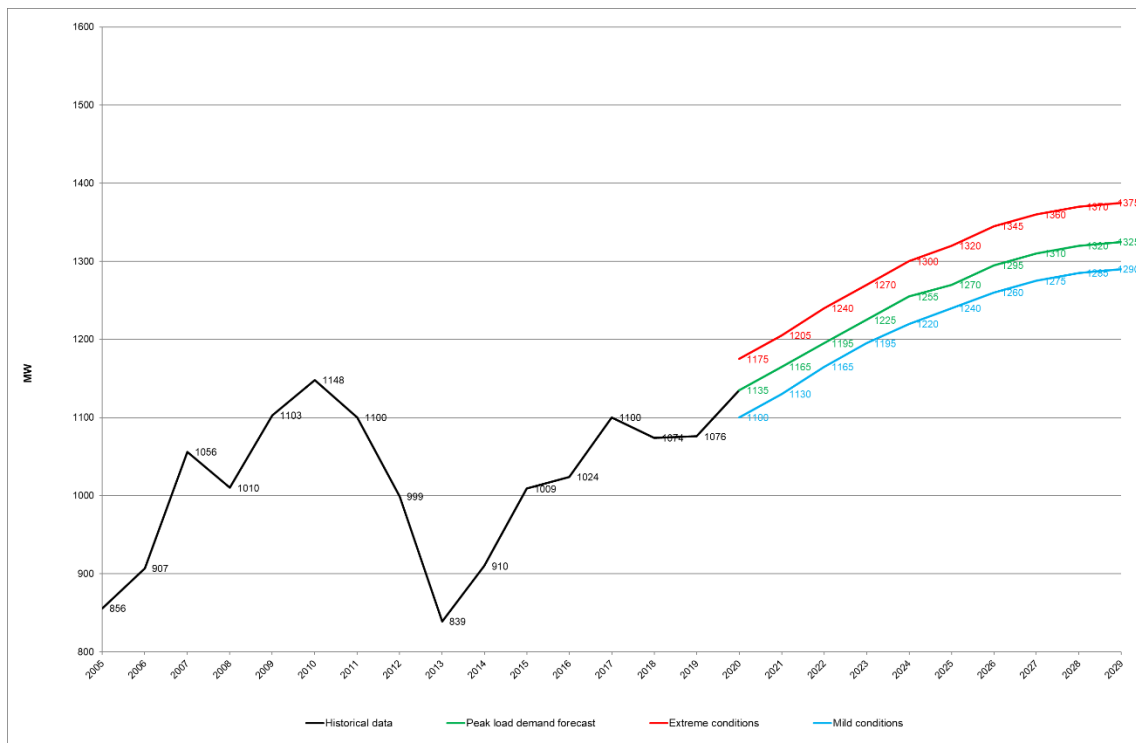


Figure 17. Forecast of maximum total capacity (MW) 2020 – 2029

It is noted that, the approved long-term forecast of annual maximum total capacity and total generated electricity of TSOC for the decade 2020-2029, was drafted before the COVID-19 pandemic, so it was not considered that the pandemic would impact on the summer demand. In order to manage the adequacy, TSOC drafted a new preliminary forecast of maximum total capacity for the summer period of 2020, based on the data of the Ministry of Finance for the expected reduction of the Gross Domestic Product (GDP) due to the COVID-19 pandemic. According to the preliminary forecast of the TSOC the upper forecasted limit for extreme weather conditions was reduced by 125MW, i.e. from 1175MW to 1050MW.

Cross-border issues

In April 2020, the European Commission published the technical document for the 4th list of Projects of Common Interest (PCI), which provided a technical description of all 149 projects (100 for the transmission and storage, 6 for smart network development, 32 for natural gas, 6 for oil and 5 for cross-border dioxide transmission networks) as well as other information such as project start-up dates.

PCIs are benefited from faster licensing procedures and more favourable arrangements and may be eligible for financial support from the Connecting Europe Facility. The amount of 5.35 billion euros is available for trans-Europe energy infrastructure under the Connecting Europe Facility for the period 2014 - 2020, contributing to the faster implementation of PCIs and making them more attractive to investors.

In total, 998 million euros were allocated by the Connecting Europe Facility to 10 PCIs in 2020 (2 for electricity transmission, 1 for smart networks, 6 for cross-border carbon transmission (including 5 studies) and 1 for natural gas).

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

On 25 November 2020, a call for proposals for electricity and natural gas PCI candidates was announced, which will last until 7 January 2021. Calls for PCI candidates for smart networks, transmission networks of cross-border carbon dioxide and oil will follow.

Eligible projects will be evaluated by the European Commission to be determined if they meet a European need that can be addressed through infrastructure development. The 5th PCI list will be approved by the European Commission by the end of 2021 in accordance with the current Regulation 347/2013, on the guidelines for trans-European energy infrastructure. At the end of 2020, the European Commission submitted legislative proposals for the revision of Regulation 347/2013, but the new rules will enter in force in time for the 6th PCI list.

The projects that concern Cyprus and have been included in the PCI list are the following:

- Israel - Cyprus - Greece cluster (currently referred to as the “EuroAsia Interconnector”). The cluster includes the following PCIs:
 - Electrical Interconnection between Hadera (Israel) and Kofinou (Cyprus) and
 - Electrical Interconnection between Kofinou (Cyprus) and Korakia (Crete, Greece).
- Cluster of natural gas infrastructure and related equipment for the transmission of new gas resources from the offshore deposits of the Eastern Mediterranean, which includes the following PCI:

- EastMed Pipeline - Natural gas pipeline outside Cyprus (offshore) to the mainland Greece via Crete.
- Development of gas infrastructure in Cyprus, the so-called “Cyprus Gas2EU”.

Regarding the Euroasia Interconnector project and in particular the electric interconnection between Israel and Cyprus, it is worth mentioning that in 2020 systematic consultations started between CERA and Israeli Authorities, in order to determine the basis for the evaluation of this project and to delimit the discussion under the European framework, wherever this is possible.

In addition to the PCIs, which are included in the fourth list of key energy infrastructure projects, the implementation of the 2000MW electricity interconnection between Egypt and Cyprus of the so-called ‘EuroAfrica Interconnector’ is in progress. The project provides the implementation of the Egypt-Cyprus electricity interconnection, using high voltage continuous flow submarine cables (HVDV) with a transmission capacity of 2000MW. In addition, the project provides that the interconnection will be completed in two phases, with the first phase providing the capacity of 1000MW. The project EuroAfrica Interconnector has completed the preliminary cost-benefit studies and is expected to provide significant economic and geopolitical benefits to the countries involved and contribute to the goal of removing the energy isolation. In 2020, CERA was in close contact with the Egyptian Energy Regulatory Authority “EGYPTERA” in order to track all the required actions and define the necessary procedures at the level of regulatory supervision, so that the implementation of this project will be promoted.

3.2. Competition and market functioning

3.2.1. Wholesale markets

The Electricity Market was liberalised by 35% with effect from 1 May 2004 and was further liberalised by approximately 65% in total with effect from January 2009, to include all “non-domestic” consumers which are able to select their supplier according to what is in their best interest. From 1 January 2014 the market is fully liberalised and all consumers of electrical energy are able to choose their supplier. However, during 2020 there was no other active supplier in Cyprus apart from EAC.

Monitoring the level of prices, the level of transparency, the level and effectiveness of market opening and competition

In 2015, CERA published the Regulatory Decision 01/2015 by which CERA decided to adopt a study titled “The new electricity market arrangements in Cyprus”. The study proposes a design regarding the new electricity market arrangements in Cyprus, based on the decision for implementing a net-pool model as being the most appropriate trading arrangement approach for the Cyprus electricity market, which is fully compliant with the EU target model.

Following the above decision, in 2017, by Regulatory Decision 04/2017, CERA decided on the implementation of transitory regulation of the electricity market in Cyprus prior the full implementation of the new electricity market model. The transitional period is based on bilateral contracts between producers and suppliers for the supply of a standard quantity of electricity (kWh) on a monthly basis. The implementation and operation of transitory regulation does not require a market software, due to the fact that the related tasks are relatively simple and can be implemented with simple spreadsheets.

The transitory regulation of the electricity market in Cyprus started on 1 September 2017 and will be in force until the full implementation of the new electricity market model where the work of all market participants, EAC-Generation and EAC-Supply will be transferred to the new electricity market.

Monitoring the level of prices

By Decision 05/2020, CERA approved the Allowed Revenues and the regulated basic electricity tariffs for the year 2020, as presented in Table 6 (next section 3.2.2.).

The following Table 4 presents the Wholesale Tariff (T-W) for Year 2020 which concerns wholesale electricity selling prices of EAC-Generation at the basic fuel price (€300/Metric Ton).

Table 4. Wholesale Tariff (T-W)

Period	Summer (1 June – 30 September)	
	Weekday	Weekend/Holidays
Peak Hours (09:00 - 23:00)	13.73	8.59
Off Peak Hours – All Days (23:00 – 09:00)	8.34	8.14
Period	Other Seasons (1 January – 31 May / 1 October – 31 December)	
	Weekday	Weekend/Holidays
Peak Hours (16:00 - 23:00)	8.69	8.35
Off Peak Hours – All Days (23:00 – 16:00)	7.79	7.40

The Wholesale Tariff (T-W) is adjusted based on the Weighted Average Fuel Price, which is announced by EAC every month, and the Fuel Adjustment Coefficient for Customers at the High Voltage, which is approved by CERA every 6 months adjusted with the loss adjustment factor at high voltage for each month. The approved Fuel Adjustment Coefficient at High voltage and the monthly loss adjustment factor at high voltage as set by CERA's Decision 107/2019 is shown at the Table 7 (next section 3.2.2.).

Specifically, the Adjusted T-W at a particular hour equals with the T-W at the Basic Fuel Price (i.e. with fuel cost 300€/MT) adjusted by the product of the difference between the Weighted Average Fuel Price and the Basic Fuel Price times the approved Fuel Adjustment Coefficient for Customers at the High Voltage, which applies for that particular month divided by the loss adjustment factor at high voltage (i.e. multiplied with the modified Fuel Adjustment Coefficient at High Voltage for Customers).

Figure 18 presents the average price of the basic Wholesale Tariff (T-W) per unit exported for the years 2016 to 2021 (in €c / kWh).

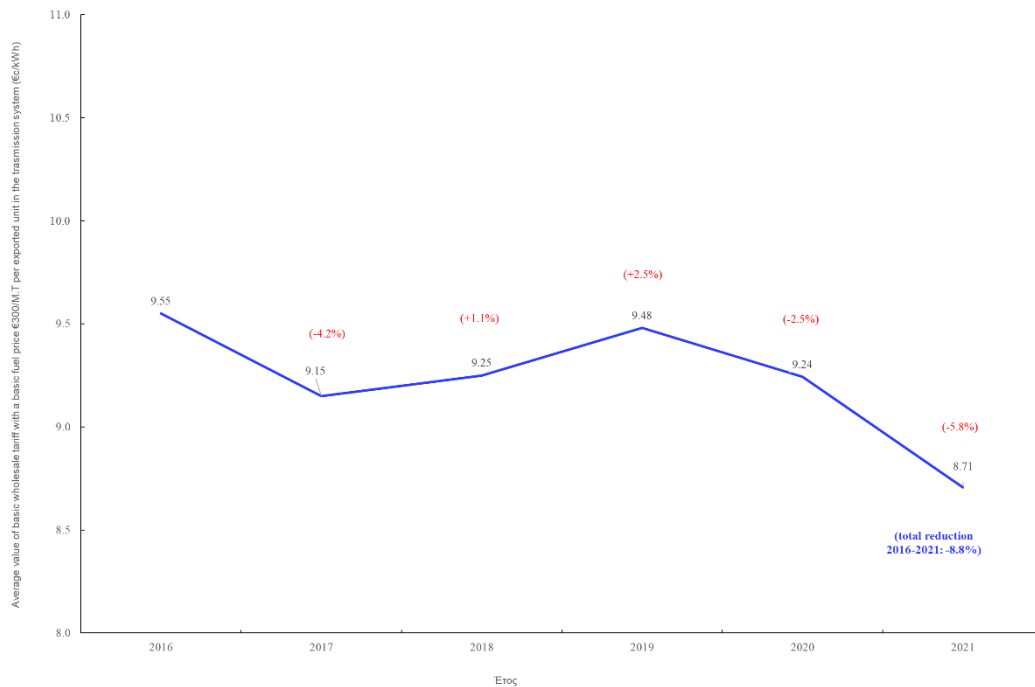


Figure 18. Average value of the basic wholesale tariff

3.2.2. Retail market

Monitoring the level of prices, the level of transparency, the level and effectiveness of market opening and competition

Market opening and competition

During 2020 EAC was the only active supplier of electricity. However, in 2020, 4 applications for the supply of electricity to final customers were submitted for the period of validity of the transitory regulation of the electricity market. In 2020, 3 independent suppliers were licensed and a total of 16 independent suppliers have been licensed for the period of validity of the transitory regulation of the electricity market.

As a general assessment to whether the market is seen to be active, it could be said that the market seems to become active. By considering the conditions under which Cyprus has to act, i.e. small isolated system, the progressively opening of the electricity market where it constitutes a contemporary activity for the island, the situation can be justified.

Trading and Settlement Rules

According to the Laws Regulating the Electricity Market of 2003 to 2018, Trading and Settlement Rules (TSR):

- Govern the mechanisms, prices and other terms and conditions that apply in cases where licensees buy or sell electricity based on arrangements made by TSO.
- Ensure that licensees, who are required to participate in the purchase and sell of electricity, under these arrangements, will not be subject to discrimination.
- Promote efficiency and economy and facilitate competition in the purchase and sale of electricity under these arrangements.

TSR shall be complied by all licensees or by persons to whom exemptions have been granted, to the extent required by their licenses or exemptions.

During the year under review, TSOC started the revision of TSR, complying with the provisions of the Regulatory Decision of CERA 03/2019 (KDP 224/2019), regarding the establishment of basic regulatory principles of the operation of electricity storage facilities in front of the meter in the wholesale electricity market. This work is expected to be completed within 2021.

The total consumption of customers and the average consumption by type of consumer is given in Table 5.

Table 5. Consumers, total and average sales

CONSUMERS, TOTAL & AVERAGE SALES						
As at 31 December	2015	2016	2017	2018	2019	2020
NUMBER OF CONSUMERS						
Domestic	437,577	442,293	444,895	450,318	454,490	459,482
Commercial	85,525	86,494	87,065	88,152	88,999	89,294
Industrial	9,712	9,596	9,760	9,975	10,209	10,422
Agricultural	15,748	15,886	15,902	16,194	16,239	16,337
Public Lighting	11,138	11,287	10,878	11,584	11,771	11,935
TOTAL	559,700	565,556	568,500	576,223	581,708	587,470
SALES TO CONSUMERS (MWh)						
Domestic	1,475,972	1,567,312	1,641,033	1,622,544	1,686,934	1,723,002
Commercial	1,659,588	1,728,200	1,755,094	1,816,143	1,854,824	1,572,008
Industrial	685,864	819,693	856,422	883,962	848,901	761,327
Agricultural	129,447	155,638	156,453	154,878	138,786	147,670
Public Lighting	85,211	87,648	86,578	91,137	85,937	68,511
TOTAL	4,036,082	4,358,491	4,495,580	4,568,664	4,615,382	4,272,518
AVERAGE SALES PER CONSUMER (kWh)						
Domestic	3,373	3,544	3,689	3,603	3,712	3,750
Commercial	19,405	19,981	20,158	20,602	20,841	17,605
Industrial	70,620	85,240	87,748	88,618	83,152	73,050
Agricultural	8,220	9,797	9,839	9,564	8,546	9,039
Public Lighting	7,650	7,765	7,959	7,867	7,301	5,740

On 13 March 2020, by Regulatory Decision 2020, CERA designated EAC-Supply as the Supplier of Last Resort in the electricity market, until the full implementation of the new model of the electricity market in Cyprus.

Tariffs at which consumers will enjoy the right of a universal service under the status of the Supplier of Last Resort are defined as the respective tariff categories of EAC-Supply and will be invoiced on the basis of the approved adjustable tariffs according to Regulatory Decision 02/2015 "Declaration of Regulatory Practice and Methodology of Electricity Tariffs" and its

respective amendments or revisions that apply to the other customers of EAC-Supply, who belong to the same category of consumers.

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

Switching procedure

As there is only one supplier operating at present, switching procedures for customers to change suppliers are not possible. However, CERA with its Decision 145/2017 dated 17 July 2017 has approved the process of switching supplier as submitted by the DSO.

Moreover, according to the Laws Regulating the Electricity Market in Cyprus of 2003 to 2018, when customers wish, subject to the terms of the contracts, to change supplier, the change will be made by the interested supplier within three weeks (15 working days) and customers have the right to receive all relevant information for their consumption. These rights are granted to all customers without discrimination in relation to cost, effort or time. In addition, customers are not charged for the change of supplier.

Monitoring the level of prices

By Decision 05/2020, CERA approved the permitted revenues and the regulated basic electricity tariffs for the year 2020, as presented in Table 6. The permitted revenues of the year 2020, include accounting adjustments of the year 2018, based on the revenue adjustment methodology issued by CERA, according to which there was a decrease of 2.9%, on average, in the total of the regulated basic tariffs, for the year 2020.

Table 6. Approved Permitted Revenue of Regulated Activities for the Year 2020

Recovery from Tariff	Initial allowed revenues (€)	Ex-post adjustments (€)	2020 allowed revenues approved by CERA (€)
Wholesale electricity tariff (T-W) at basic price	357,285,246	20,081,562	377,366,808
Purchase of RES energy at basic price	46,236,097	-	46,236,097
Use of Transmission System Tariff (36kV and above) (T-NH)	40,898,681	(4,184,968)	36,713,713
Use of Distribution System Tariff (medium and low voltage), which includes a charge component related to the DSO (T-NM, T-NL)	84,833,359	(9,397,683)	75,435,676
Tariff for Business Management Services provided to customers (invoicing, etc) (T-BM)	16,946,802	349,396	17,296,198

Tariff for the provision of Ancillary Services and long-term reserve (T-AS)	31,225,457	(1,596,880)	29,628,577
Tariff for the recovery of expenses of the TSO (T-TSO)	7,391,000	(1,971,000)	5,420,000
Tariff for the recovery of expenses of metering incurred by the DSO (T-MET)	3,644,509	-	3,644,509
Supply tariffs and electricity market charges to the end consumer (T-RET)	588,459,151	3,280,427	591,739,577

The determination of the allowed revenues of each regulated activity and the new, cost-oriented tariffs contribute to greater transparency and set the benchmark on which stakeholders interested in participating in the electricity market will be based.

By Decision 34/2020, CERA approved the electricity tariff plans for the year 2020, as they have been submitted by EAC-Supply, and gave instructions to EAC-Supply to publish the approved tariffs plans for the proper notification of electricity consumers and other electricity market participants.

By Decision 112/2020, CERA approved the revised Electricity Tariff Plans which show the basic cost of purchasing energy from RES, RES with basic fuel price of €300/MT, at €c/6.28/kWh, as approved by CERA based on the Allowed Revenue Model of EAC.

Figures 19 and 20 present historical data for each of the years 2016 to 2019 (in €c / kWh) for:

- The EAC permitted revenues per unit sold.
- The average price of the basic Low Voltage Tariff (Single Rate Domestic Use Tariff - Code 01).

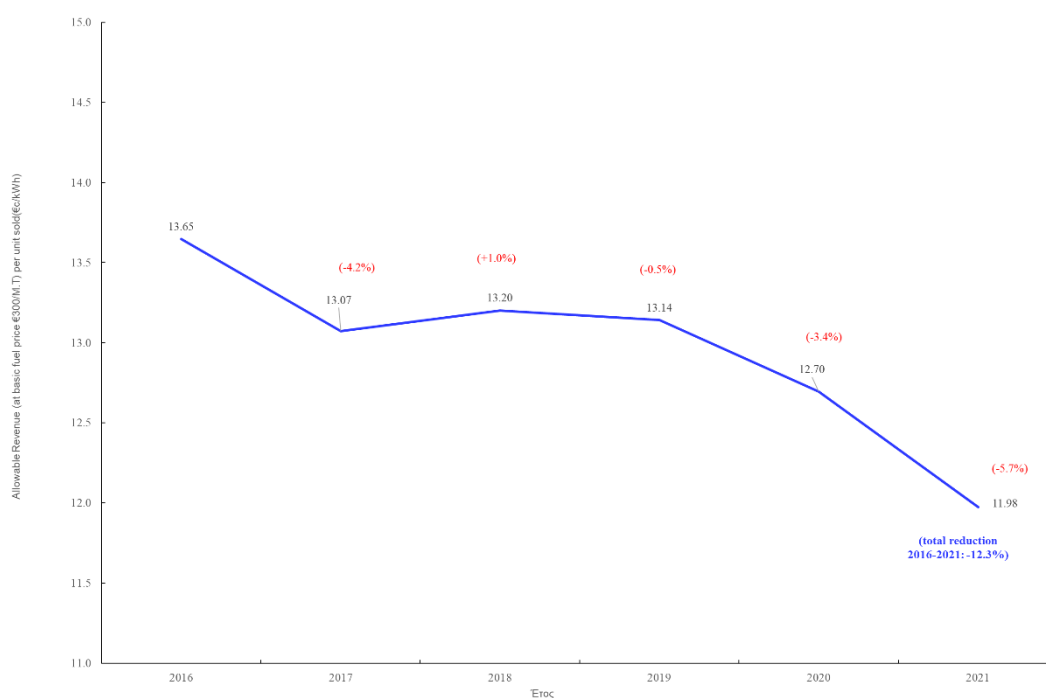


Figure 19. Allowed EAC Revenue per unit sold, for the years 2016 to 2021

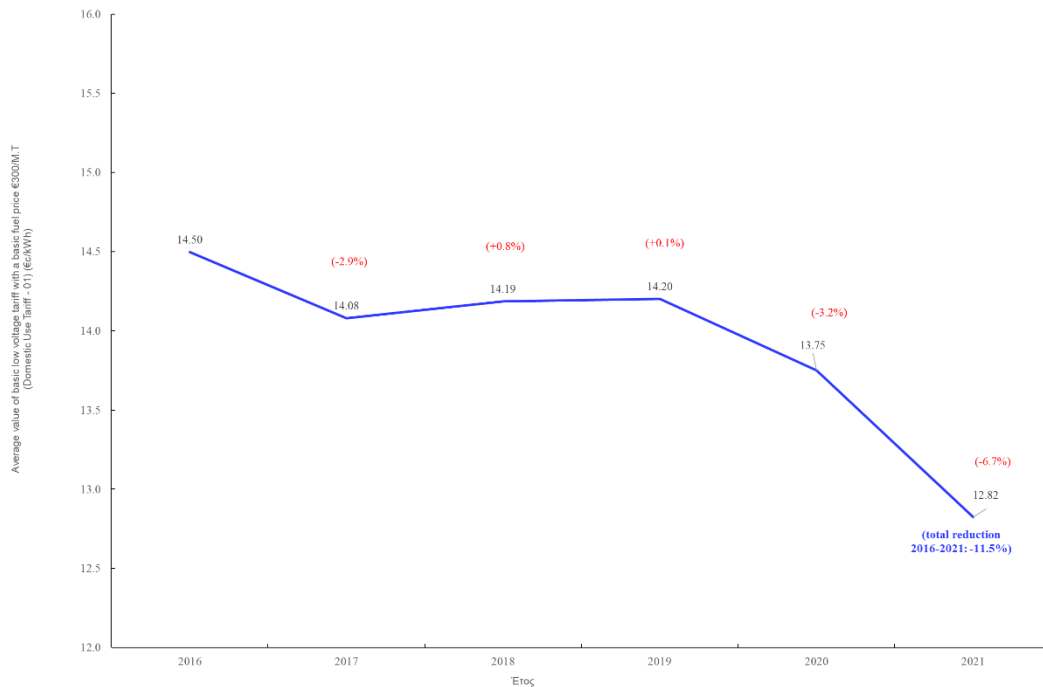


Figure 20. Average value of the basic low voltage tariff (Domestic Tariff Single User Registration - Code 01) for the years 2016 to 2021

Figure 21 presents the average price per kWh sold, excluding RES fee and VAT, for the years 2012 to 2020:

- 01: Single Rate Domestic Use Tariff
- 10: Bi-monthly Low Voltage Single Rate Commercial Use Tariff
- 20: Bi-monthly Low Voltage Single Rate Industrial Use Tariff
- 30: Monthly Low Voltage Commercial and Industrial Use of Seasonal Double Rate Tariff
- 40: Monthly Medium Voltage Commercial and Industrial Use of Seasonal Double Rate Tariff
- 50: Monthly High Voltage Commercial and Industrial Use of Seasonal Double Rate Tariff

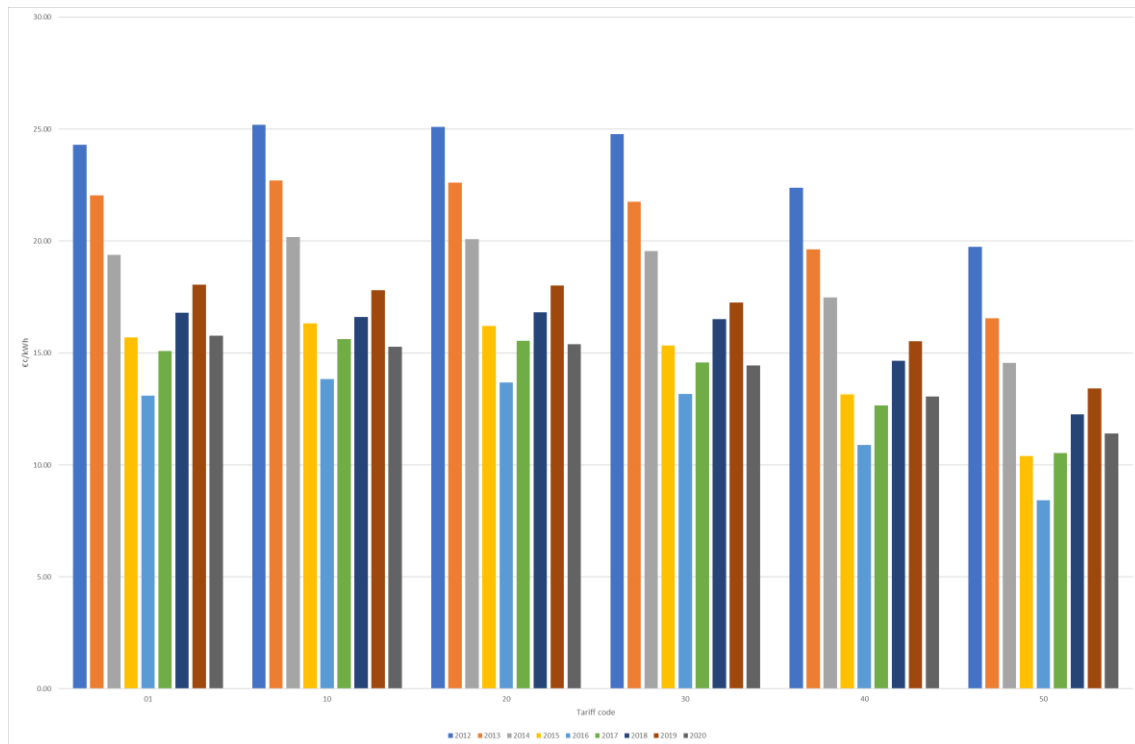


Figure 21. Average Tariff Rate Excluding RES fee and VAT

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

The decrease in the average price of all tariffs in 2020 is caused by the following:

- Reduction in the basic tariffs for the year 2020 compared to 2019 (CERA's Decision 05/2020).
- 10 % reduction in regulated tariffs for six months of 2020, because the emergency caused by the spread of COVID-19 continued in the Republic (CERA's Decisions 104/2020, 141/2020, 222/2020).
- Reduction in the cost of fuels in generation of electricity due to the reductions of costs globally.
- Slight reduction in the price for the recovery of expenditures of PSOs (CERA's Decisions 98/2020 and 285/2020).

EAC Supply Invoice Analysis

Figure 22 shows the analysis of the electricity supply invoice per charge category, for a typical household consumer with bi-monthly consumption of 600 kWh in December 2020, at the basic price (i.e. excluding fuel adjustment).

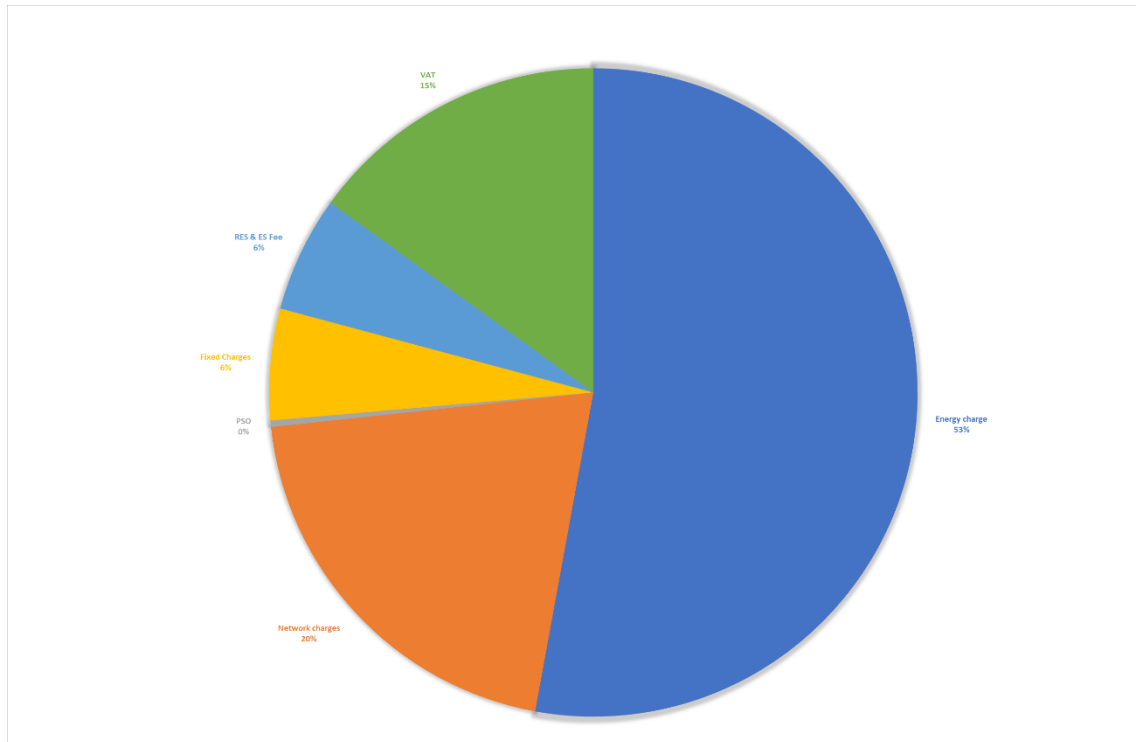


Figure 22. Electricity supply invoice analysis for a typical household consumer with bi-monthly consumption of 600 kWh (% on the final invoice), December 2020

Fuel clause coefficients

By Decisions 33/2020 and 190/2020, CERA determined the coefficients for fuel adjustment clause and the basic prices for the purchase of energy from RES for the year 2020. The fuel clause coefficients and basic prices, are summarised in Table 7:

Table 7. Fuel clause coefficients and base prices, for 2020

Coefficients for fuel adjustment clause for consumers		
	January – June 2020	July – December 2020
	€/kWh/ 1€	€/kWh/ 1€
Low voltage	0.00024665	0.00022690
Medium voltage	0.00024156	0.00022351
High voltage	0.00023722	0.00022058
Coefficients for fuel adjustment clause for electricity from RES		
	€/kWh/ 1€	€/kWh/ 1€
Low voltage	0.00023291	0.00022351
Medium voltage	0.00023001	0.00022058
High voltage	0.00022603	0.00021712
Basic purchase prices of RES energy		
	€/kWh	€/kWh
Low voltage	7.256	7.016
Medium voltage	7.169	6.928
High voltage	7.050	6.824

Smart Metering

According to the Laws Regulating the Electricity Market in Cyprus of 2003 to 2018, CERA ensures the implementation of smart metering systems, if economically feasible, which help to actively engage consumers in the electricity market. The implementation of these systems may be subject to an economic assessment of all the long-term cost and benefit elements of the market and the individual consumers. CERA also sets the timeframe in which the spread of systems is feasible.

Consumer protection and dispute settlement

The consumer protection measures, are effective and enforced through the Laws Regulating the Electricity Market of 2003 to 2018.

CERA has also been granted the power to contribute to ensuring high standards of universal and public service in compliance with market opening, to the protection of vulnerable customers, and to the full effectiveness of consumer protection measures.

CERA ensures that consumers are provided with all necessary information concerning their rights, current legislation and the means of dispute settlement available to them in the event of a dispute.

CERA has prepared and issued in electronic and hard copy format all the information needed regarding consumer's rights. This information is available at CERA's premises, at Citizens Service Centre and at the local district offices of the MECI. The Office of CERA, the Citizens Service Centre and the MECI shall constitute the single points of contact for consumer information purposes.

In summary, the energy consumers' rights that are covered by national legislation and comply with relevant EU directive can be classified in six categories:

- Universal service (i.e. the right to be supplied with electricity/gas of certain quality and price)
- Customer information requirements
- Change of supplier without imposing any charges
- Complaints handling and out-of-court settlement of disputes
- Protection of vulnerable consumers
- Fair commercial practices and general consumer rights

Moreover, the Members of CERA, based on the Decision of the Minister of Energy, Commerce and Industry, issued a Regulatory Decision (03/2016), by which CERA imposed on all electricity supply licensees, PSOs with respect to specific vulnerable groups of consumers, by including them in the special tariff (code 08) of EAC, which compared to the normal domestic tariffs (codes 01 and 02) has reduced charges and their supply of electricity cannot be cut off due to no payment. They are also provided with financial incentives for participating in a plan for setting up a PV system at their house with the net-metering method. The amount of the grant will be € 900/kW, with a maximum amount of €2,700 per system and per beneficiary, even if the applicant chooses to install a system beyond 3kW.

The categories of vulnerable consumers defined in the Regulatory Decision are:

- The recipients of public assistance provided by the Social Welfare Services of the Ministry of Labour, Welfare and Social Insurance,
- The beneficiaries of guaranteed minimum income provided by the Welfare Benefits Administration Service of the Ministry of Labour, Welfare and Social Insurance,
- Families with more than 3 dependent children with an annual gross family income up to € 51,258. The income criterion of €51,258 for annual combined gross family income is increased by €5,126 for each additional child over the number of fourth,
- The recipients of severe motor disability allowance provided by the Department for Social Inclusion of Persons with Disabilities, Ministry of Labour, Welfare and Social Insurance,
- The recipients of care allowance in paraplegic individuals granted by the Department for Social Inclusion of Persons with Disabilities, Ministry of Labour, Welfare and Social Insurance,
- The recipients of care allowance in quadriplegic individuals granted by the Department for Social Inclusion of Persons with Disabilities, Ministry of Labour, Welfare and Social Insurance,
- The recipients of the grant to blind granted by the Department for Social Inclusion of Persons with Disabilities, Ministry of Labour, Welfare and Social Insurance,
- Hemodialysis renal patients who receive a mobility allowance from the Department of Social Inclusion of Persons with Disabilities of the Ministry of Labour, Welfare and Social Insurance, and
- Individuals suffering from multiple sclerosis who are registered members of the Cyprus Multiple Sclerosis Association.

CERA has the power to issue Regulations concerning the protection of the interests of the consumers of electricity requiring that any supplier of electricity and the ODS, within a prescribed time period, propose and implement procedures for the submission of complaints by consumers, which allow consumers to register complaints and prescribing how any supplier and the ODS shall respond to complaints received by consumers.

The Regulations may impose requirements on suppliers and the ODS relating but not limited to:

- Procedures for the submission and, where appropriate, re-submission of proposed complaints procedures for approval.
- The timetable for the implementation of the complaint's procedures.
- Fines for failure to comply with the consumer complaints Regulations relating to the preparation or implementation or review of complaint procedures.
- A requirement that suppliers and the ODS review their complaints procedures at intervals of not more than five years.
- Establishing procedures to deal with complaints from consumers that are not settled through complaint procedures to the satisfaction of consumers.

Specifically, the following Regulations relevant to the above mentioned were enacted:

- Laws Regulating the Electricity Market (Complaint Submission Procedure) Regulations of 2005.
- Laws Regulating the Electricity Market (Performance Indicators) Regulations of 2005. Currently the amended Regulation is under legal vetting.

The first of the above-mentioned Regulations, determines the procedure for the submission of complaints by consumers in cases where suppliers of electricity and/or the ODS, are in breach

of their obligations or duties and/or are acting outside the scope of their prescribed by the Law jurisdiction.

Specifically, the above-mentioned Regulations provide for the following, inter alia:

- Consumers' right to submit complaints to the suppliers and/or the ODS.
- The obligation of the supplier and/or ODS to respond to the complaints.
- The right to submit complaints to CERA and the procedure for examining complaints by CERA.
- The omission of the supplier and ODS to comply with CERA's' Decisions.
- The fines.

The Laws Regulating the Electricity Market (Performance Indicators) Regulations of 2005, set the minimum level of performance in relation to the performance indicators of the supply of electricity, which must be achieved by the supplier and the ODS. The Regulation sets the time limit within which a supplier and the ODS must respond, determines the fines, the procedure of payment and the time at which the fines are to be paid in cases where the supplier or the DSO fail to comply with the performance indicators set out therein.

By the implementation of these Regulations, the rights of the consumers are safeguarded, their protection is secured, the procedure for the submission of consumer complaints is regulated in the event that suppliers of electrical energy and/or the ODS are in breach of their obligations, competences and duties, the end result being the improvement of the services offered to consumers.

The following figures show the results from 2007 to 2020 of the fines (€) imposed to EAC as the ODS and as the supplier, for failure to comply with the customer complaints regulation relating to the preparation or implementation or review of complaints procedures.

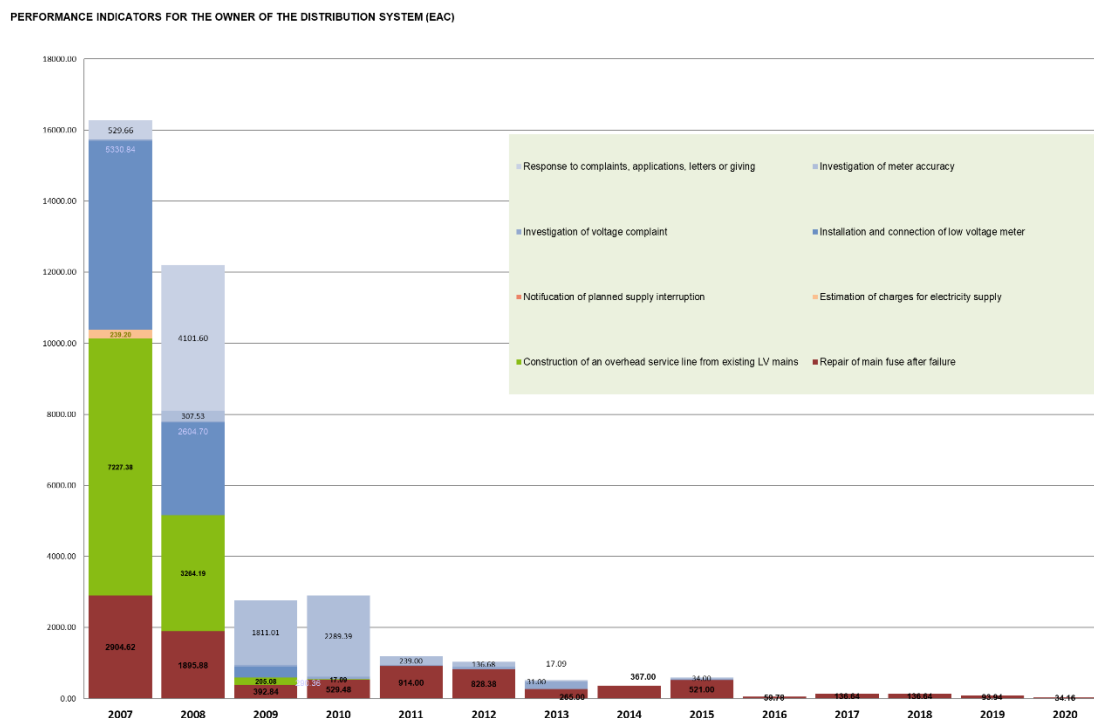


Figure 23. Performance Indicators of EAC as ODS

PERFORMANCE INDICATORS FOR THE SUPPLIER (EAC)

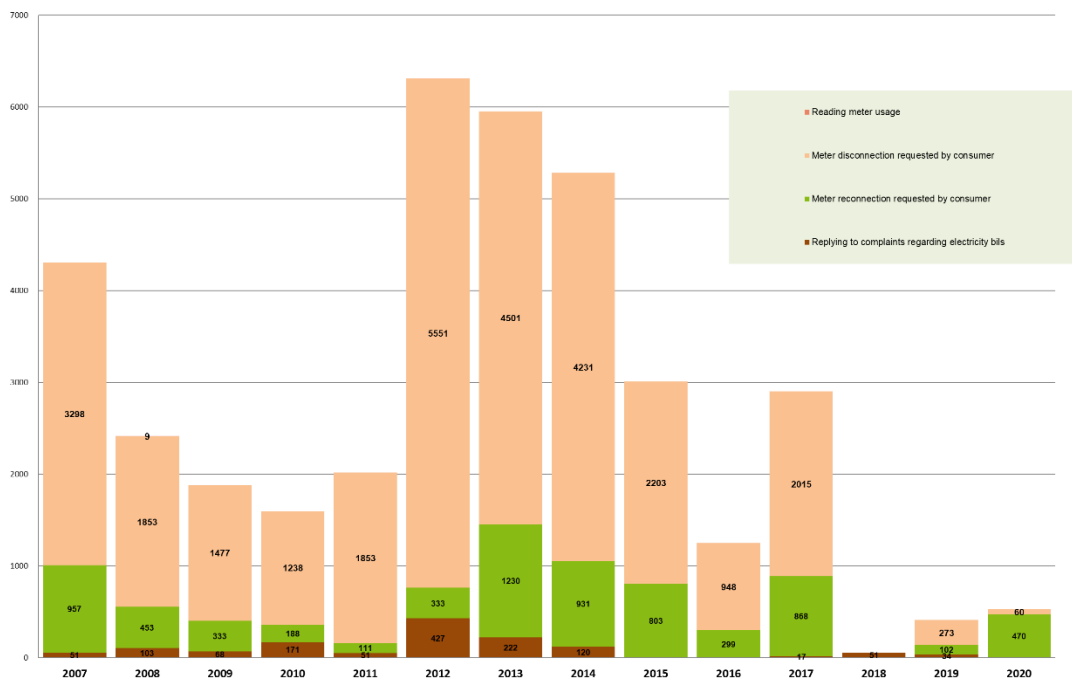


Figure 24. Performance Indicators of EAC as the supplier

Both Figures indicate that there is a major decrease in the total amount paid by EAC as the ODS and as the supplier in 2020 comparing with the previous years. Therefore, its performance is considered satisfactory.

Regarding consumer’s complaints, which have been presented or formally submitted to CERA, it could be said that they were maintained within acceptable levels. Registered consumer complaints are shown in Figure 25. Most of the complaints were based on bill issues and connection to the grid. CERA handled with care the complaints, with the collaboration of EAC and TSOC, leaving the consumers in most cases satisfied.

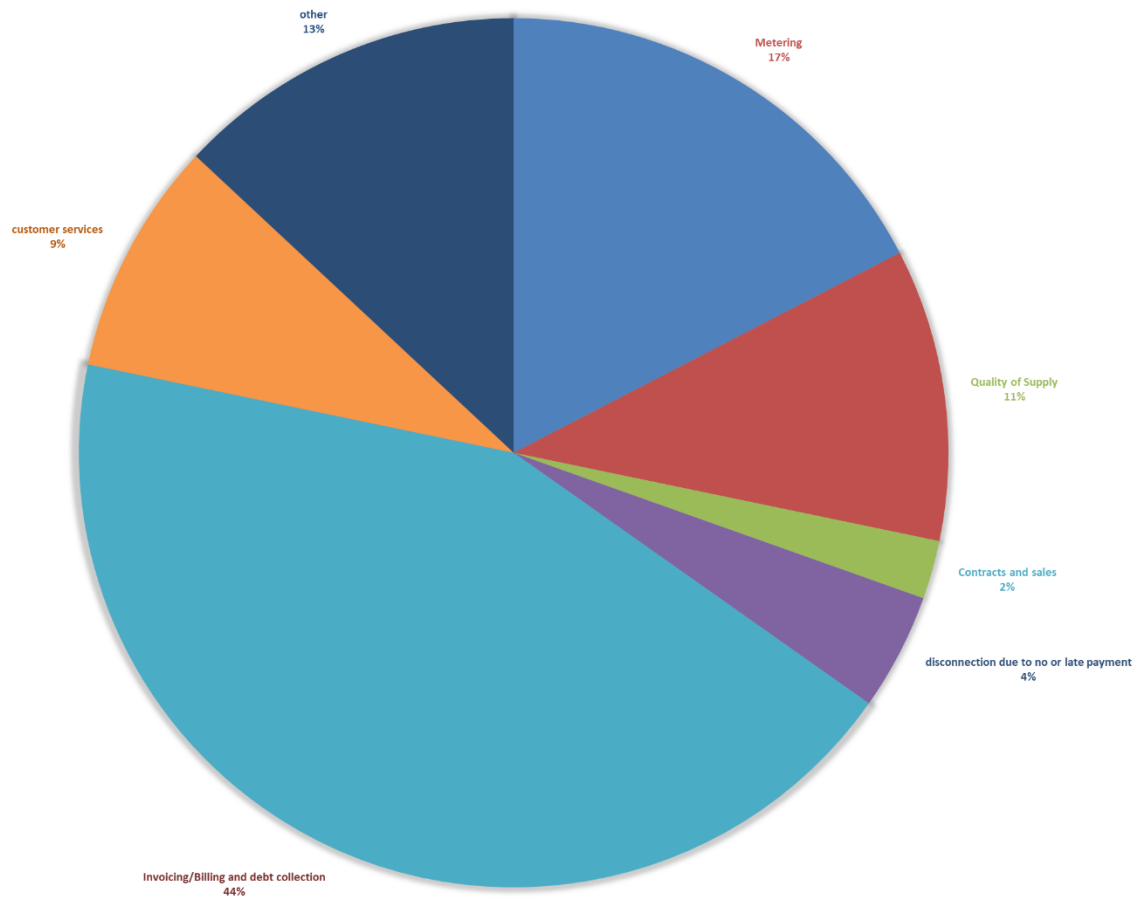


Figure 25. Complaints submitted to CERA in 2020

4. The gas market

Currently, the natural gas market in Cyprus is non-existent since natural gas is not yet available in the country's energy mix. This has adverse effects on the cost of electricity generation, causing also a lack of energy source diversity for the country in general. Moreover, the environmental cost associated with the extensive use of heavy fuel oil for power generation is significant, as the country's ability to meet emission targets and limits laid down by EU legislation is affected.

4.1. Legislative Framework

The current Laws Regulating the Natural Gas Market of 2004 to 2020, which embrace the important features of the Third Energy Package, provide for the regulation of the natural gas market in the Republic of Cyprus and, among others, establish rules for the transmission, distribution, supply and storage of natural gas. In addition, they specify the rules for the organization and operation of the natural gas sector, the access to the market, the exploitation of the networks and the criteria and procedures required to issue licenses for the transmission, distribution, supply and storage of natural gas. The Laws Regulating the Natural Gas Market of 2004 to 2020 describe also the duties and responsibilities of CERA and specify the range of activities and its role.

It is noted that the Laws Regulating Natural Gas Market of 2004 to 2020 contain the key provisions for the imminent introduction of natural gas in the energy balance of the country. However, they do not specify the model of the market and the organizational framework that will be used for the development of the market, providing, therefore, reasonable flexibility to decision-makers to make the right choices. Furthermore, they provide the possibility of derogations, in accordance with the provisions of Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas. However, they do not establish such derogations and leave to the discretion of the Council of Ministers the full definition of these derogations.

A key element of the new operating framework of natural gas and electricity markets, as it is described in the European legislative framework (Third Energy Package), is the separation of activities of generation and trade of natural gas. These activities should take place within a competitive environment, like the activities of transmission and distribution, for which the regulated access of third parties is allowed under the supervision of national regulatory authorities, ACER and the European Commission.

The Laws Regulating the Natural Gas of 2004 to 2020 provide for Cyprus the possibility of derogation from certain articles, because it can be considered either an isolated or an emerging market. In the case of Cyprus, it is possible, on one hand, to derogate from applying the competition in the supply of natural gas to end consumers, especially as long as the natural gas market of Cyprus is considered emerging. On the other hand, it is possible not to separate the activities of the operators of natural gas (transmission, distribution, storage, LNG, etc.) from those of trade and supply, in the manner described in the Directive 2009/73/EC, for example, as regards ownership unbundled transmission facilities.

By Decision 87.649 of 5 June 2019, the Council of Ministers, in accordance with the provisions of the Laws Regulating Natural Gas Market of 2004 to 2020, specified the operating framework of the natural gas market for the period of validity of the emerging market or until the Council decides to terminate the derogations, and appointed Operators. More specifically, according

to the Decision, the competition is not applied in the supply of natural gas to the end consumers for the period that the market is considered as an emerging market. The supplier is, therefore, responsible for concluding all the relevant contracts of natural gas import, including the LNG, as well as all contracts of supply of natural gas to consumers of all categories. In addition, by this Decision, the Natural Gas Public Company (DEFA LTD) was appointed as a TSO, a DSO and an LNG Operator for thirty years, starting from the date of issuance of the corresponding licenses by CERA.

The Law regarding the Natural Gas Public Company of 2020

The Ministry of Energy, Commerce and Industry (MECI) conducted a public consultation from the 8 May 2020 until 8 June 2020 on the draft bill entitled “The Law regarding the Natural Gas Public Company of 2020”. The purpose of the bill is to adopt legislation which establishes a Legal Person governed by Public Law under the name “Natural Gas Public Company”. This is necessary because the company, established under this form, will be able to exercise a monopoly activity of supply of natural gas for as long as the emerging market lasts and to pursue its purpose which is mainly:

- to import natural gas to meet the needs of the Republic in natural gas;
- to ensure the transmission, storage and distribution of natural gas in the territory of the Republic;
- to ensure the supply of natural gas to customers;
- to develop, operate and manage all the relevant infrastructure that is required to exercise its duties.

Until the end of 2020, the public consultation of the bill has been completed and the results have been announced.

Important Regulatory Decisions and Decisions

By Regulatory Decision 04/2020, published in the Official Government Gazette on 7 August 2020, CERA, having considered that the separate accounts by activity of natural gas undertakings are the basis for calculating the tariffs of the natural gas, based on which their customers are charged and therefore such undertakings are required to create, maintain and implement separate accounts, issued instructions and guidelines regarding the accounting unbundling of the activities of natural gas undertakings.

By Regulatory Decision 05/2020, published in the Official Government Gazette on 7 August 2020, CERA issued regulatory accounting instructions for the preparation of separate accounts of natural gas undertakings. These instructions provide guidelines to the liable organizations on preparing separate accounts, to ensure unhindered approval of tariffs by CERA and avoiding discrimination among consumers of the same category. More specifically, it was specified how the liable organizations should prepare, monitor and submit the separate accounts and what information to include in these separate accounts.

By Decision 91/2020 of 5 March 2020, CERA, recognizing the need for effective regulation of natural gas market in the Republic, issued the rules for supplying natural gas. These rules regulate the rights and obligations that natural gas suppliers and customers have, during negotiation and conclusion of contracts, as well as when fulfilling their contractual obligations, in accordance with the Articles 23 and 46 of the Laws Regulating the Natural Gas Market of 2004 to 2020.

CERA prepared and notified the MECI of the proposed Regulation on the operation of the market for natural gas during the period of derogations (CERA's Decision No 92/2020 of 6 March 2020). The Regulations concerned, lay down provisions on how, according to CERA, should the gas market and the participants of the market operate for the period of validity of the derogations. In this period the gas market in the Republic of Cyprus will be under a state monopoly status. The Ministry of Energy, Commerce and Industry (MECI) conducted a public consultation from the 13th of June 2020 until the 13th of July 2020.

4.2. Competition and market functioning

In June 2016, following the report submitted by CERA regarding the options for the development of the natural gas market in Cyprus, the Council of Ministers decided on the arrival of LNG in Cyprus as soon as possible and before 2020. LNG will initially be the exclusive option of supplying the internal market with natural gas. In the case that the internal market will be supplied at a later stage with gas from indigenous deposits, the LNG will remain as an alternative option ensuring the security of the energy supply.

Following the study conducted by DEFA LTD regarding the development of natural gas market in Cyprus, in order to make good use of the most suitable solution to import liquified natural gas by 2020 at the latest, the Council of Ministers decided, in June 2017, to assign to DEFA LTD the announcement of two invitations to tender for long-term supply of LNG and for a strategic investor for the required infrastructure.

Following a decision of the Council of Ministers of April 2018, a Special Purpose Vehicle - SPV under the name Natural Gas Infrastructure Company (ETYFA LTD) was established. This company will implement the required infrastructure for the arrival of LNG.

DEFA LTD, acting on behalf of ETYFA LTD, published in October 2018, an invitation to tender for the design, construction and operation of the terminal station of import of LNG in the bay of Vasilikos. The tender was awarded to an international consortium in December 2019.

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

Considering that the natural gas market in Cyprus is developing, the main goal is to create an organized market, according to the standards of the advanced global markets, and the best practices of the European natural gas market.

CERA gives high priority to the fast and effective penetration of natural gas on competitive terms in the market of Cyprus.

In the period leading up to the arrival of natural gas, CERA is working towards setting up the regulatory framework of the market, knowing that it will guarantee the operation of the market and the protection of the consumers during the derogations, as well as the smooth transition to a healthy open market.

In this context, CERA, following Regulatory Decision 01/2019, regarding the Regulatory Practice Statement and Gas Pricing Methodology during the validity period of the derogations on the basis of an emerging market, where all activities of supply, transmission, distributions,

de-liquefaction and storage of natural gas are regulated, issued Regulatory Decisions 04/2020 and 05/2020, that concern the accounting unbundling of the activities of natural gas undertakings and regulatory accounting instructions for the preparation of separate accounts of these undertakings. These Decisions concern the issuance of instructions and guidelines regarding the accounting unbundling of the activities of natural gas undertakings, the provision of guidelines to the liable organizations on preparing their separate accounts, in order to ensure unhindered approval of tariffs by CERA and avoiding discrimination among consumers of the same category. More specifically, it was specified how the liable organizations should prepare, monitor and submit the separate accounts and what information to include in these separate accounts.

Applications submitted to CERA

Application of ETYFA LTF for a License for the construction, ownership and exploitation of an LNG facility.

On 23 September 2019, ETYFA LTD submitted an application to CERA for a License for the construction, ownership and exploitation of an LNG facility, based on the Laws Regulating the Natural Gas Market of 2004 to 2018 and the Regulations Regulating the Natural Gas Market (Issuance of Licenses) of 2006.

After evaluating the undertaking's application for a License to supply natural gas to wholesale customers, and considering Decision 88.671 of the Council of Ministers, of 4 December 2019, which provided to ETYFA LTD right to derogate from the licensing procedure for the construction, ownership and exploitation of an LNG facility, CERA, by Decision 77/2020 of 28 February 2020, decided not to grant the License to the applicant.

Application of Energean International Ltd for a License for the construction, ownership and exploitation of an LNG facility

On 19 November 2019, Energean International LTD submitted an application to CERA for a license for the construction, ownership and exploitation of an LNG facility, based on the Laws Regulating the Natural Gas Market of 2004 to 2018 and the Regulations Regulating the Natural Gas Market (Issuance of licenses) of 2006.

After evaluating the undertaking's application for a License for the construction, ownership and exploitation of a LNG facility, CERA, by Decision 15/2020 of 14 January 2020, decided not to grant the License to the applicant.

Application of Energean International Ltd for License for the supply of natural gas to wholesale customers

On 19 November 2019, Energean International LTD submitted an application to CERA for a license for the supply of natural gas to wholesale customers, based on the Laws Regulating the Natural Gas Market of 2004 to 2018 and the Regulations Regulating the Natural Gas Market (Issuance of licenses) of 2006.

After evaluating the undertaking's application for a License to supply natural gas to wholesale customers, CERA, by Decision 236/2020 of 21 July 2020, decided not to grant the license to the applicant.

Application of Hoegh LNG Ltd for a license for the construction, ownership and exploitation of a LNG facility

On 31 March 2020, Hoegh LNG Ltd submitted an application to CERA for a license for the construction, ownership and exploitation of an LNG facility. CERA evaluated the application as to its completeness under regulation 4 of the Licensing Regulations and requested from the applicant to submit additional information in order the application to be considered as completed.

Application of DEFA Ltd for a License for operating an LNG facility.

On 24 April 2020, DEFA Ltd submitted an application for a License for operating a natural gas facility. CERA evaluated the application as to its completeness under regulation 4 of the Licensing Regulations. The application was completed and it is currently being examined.

Application of DEFA Ltd for a License for the construction, ownership, exploitation and operation of a natural gas transmission system.

On 6 November 2020, DEFA Ltd submitted to CERA an application for a License for the construction, ownership, exploitation and operation of a natural gas transmission system. CERA evaluated the application as to its completeness under regulation 4 of the Licensing Regulations. The application was then completed and the examination had commenced.

Cross-border issues

Currently, there are no cross - border gas interconnections in Cyprus, however specific interconnection projects are promoted as PCIs. The European Commission has declared several energy projects, which are of strategic importance for Cyprus and Greece, as potential PCIs.

The projects which concern Cyprus and have been included in the Union list in the cluster of natural gas and related equipment for the transmission of gas are the following:

- “EastMed Pipeline” - A pipeline from indigenous resources offshore Cyprus to the island and then to Greece mainland via Crete
- “CyprusGas2EU” - Ending the isolation of Cyprus.

The CyprusGas2EU project, is a PCI project that ends the energy isolation of an EU Member State and it is essential for the Southern Gas Corridor (SGC). The project is included in the latest Ten-Year National Development Plan (TYNDP) of ENTSOG (TRA-N-1146) and in the 4th PCI list (No. 7.5). The project is promoted by MECI.

The project promoter submitted a request for investment to the Energy Regulators of Cyprus (CERA) and of Greece (RAE) on 28 August 2017. Following consultations between CERA and RAE, an agreement on the cross-border cost-allocation was reached on 9 October 2017.

The EastMed pipeline project relates to an offshore/onshore natural gas pipeline. This PCI's importance is especially focused on creating a direct and permanent connection of newly discovered gas reserves in the Levantine basin (Cyprus and Israel) with European markets, through other diversified routes (such as Poseidon Pipeline and IGI). The project is included in

the latest TYNDP of ENTSOG (TRA-N-330) and in the 4th PCI list (No. 7.3.1). The project is promoted and operated by the Natural Gas Submarine Interconnector Greece-Italy Poseidon S.A.

In addition, it is noted that regarding the 'EastMed Pipeline' on 6 December 2019, the Implementing Body (IB) I.G.I. Poseidon S.A. notified the project to the Ministry of Energy, Commerce and Industry, which is the National Competent Authority under Regulation (EU) 347/2013 for Cyprus. Following the consultation with the competent authorities, including CERA, on 2 September 2020 the National Competent Authority accepted the notification of the project. It is, also, worth mentioning that the National Competent Authority of Greece accepted the notification on 4 March 2020.