



Cyprus Energy Regulatory Authority, CERA

Electricity Prices in Cyprus

Regulatory Measures in relation to Electricity Prices

April 2015

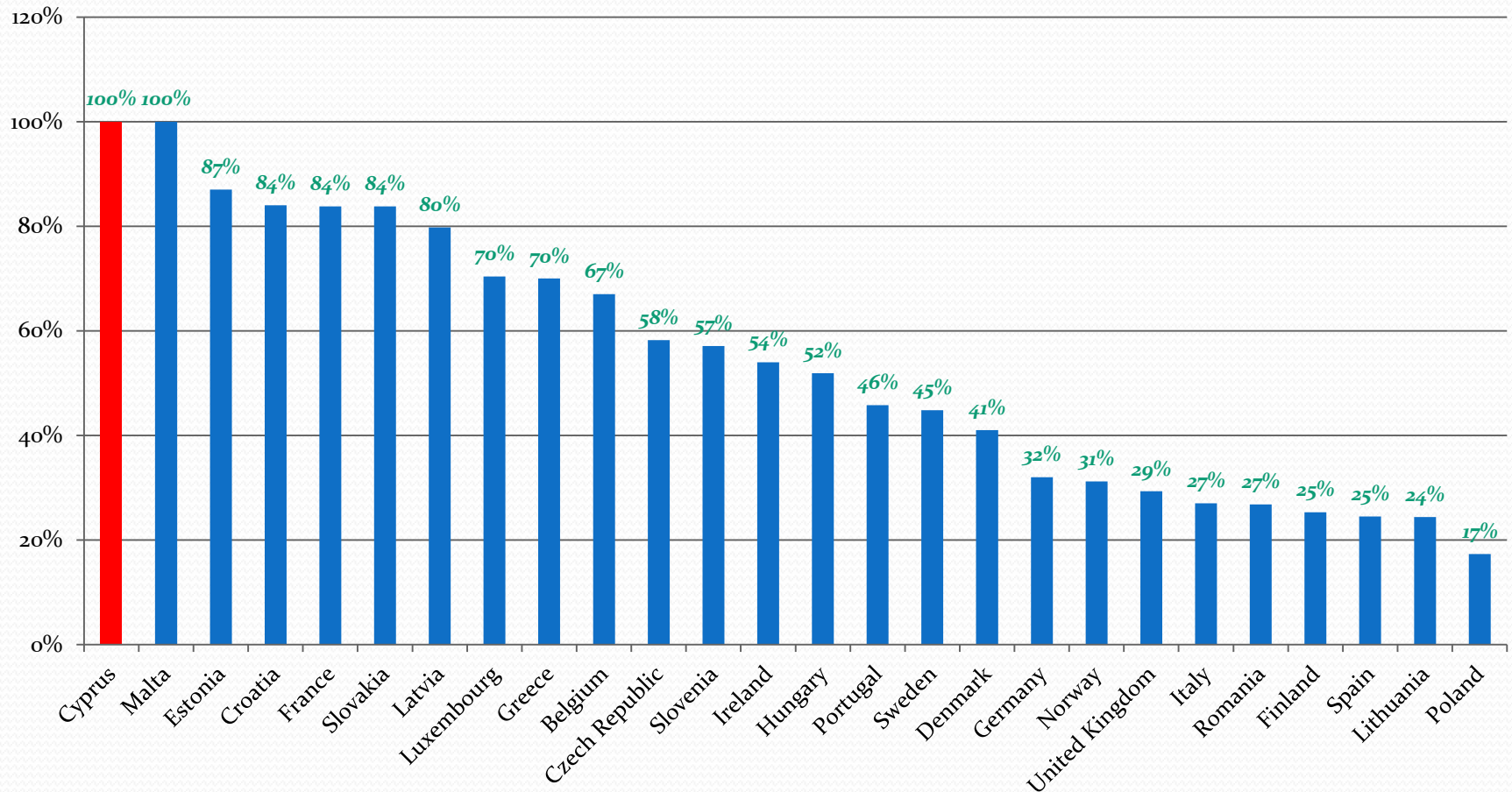
Cyprus is a small country with an isolated energy grid

- One vertically integrated electricity company
- Fuel for electricity production used: Gas Oil and Heavy Fuel Oil, which bear a high cost when compared to sources available at other European countries.
- Isolated energy grid with no interconnections to neighboring systems
- IPPs are currently active only on RES (Wind & PV), with feed-in-tariffs applying

➔ High electricity prices

EAC is the sole generator of electricity in Cyprus

MARKET SHARE AS AT 2013 OF LARGEST GENERATOR IN THE ELECTRICITY MARKET, % (source:Eurostat)



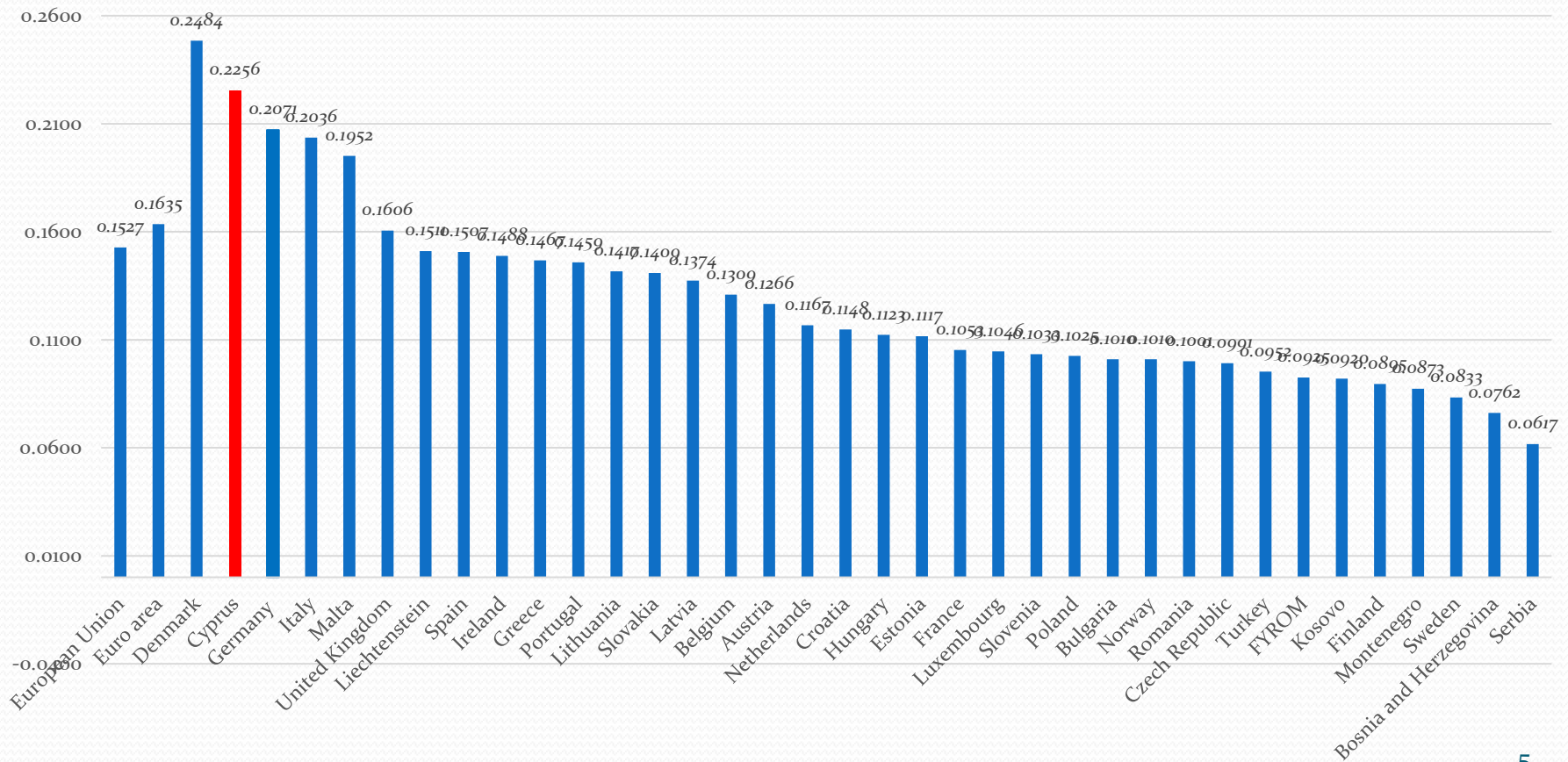
In 2012 the Cypriot industries and households paid among the highest electricity prices in Europe.



- By the end of 2014 electricity prices for an average household with a consumption of 4000 kWh/ year were reduced by around **25%** compared to the end of 2012.
- By April 2015 , electricity prices for an average household were reduced by around **35%** compared to the end of 2012.
- The reasons for these decreases are:
 - CERA regulatory decisions:
 - The extra charge on the final bill of the consumers to cover the additional variable cost of production that EAC incurred as a result of the Mari blast in July 2011 (of 5,75% from August 2012) was scrapped 2 months earlier than originally planned (i.e. in March 2013).
 - The fuel adjustment clause was recalculated, resulting in a reduction of 2,65% to the final electricity bill.
 - CERA decided to impose a special temporary reduction to the electricity prices of 5% on the basic tariffs (increased to 8% from December 2013 onwards).
 - Fuel prices
 - Fuel prices (heavy fuel oil and diesel) were reduced in 2013 and 2014.
 - Also, the fuel mix that EAC uses has changed from mid-2013 onwards since all power plants were repaired.

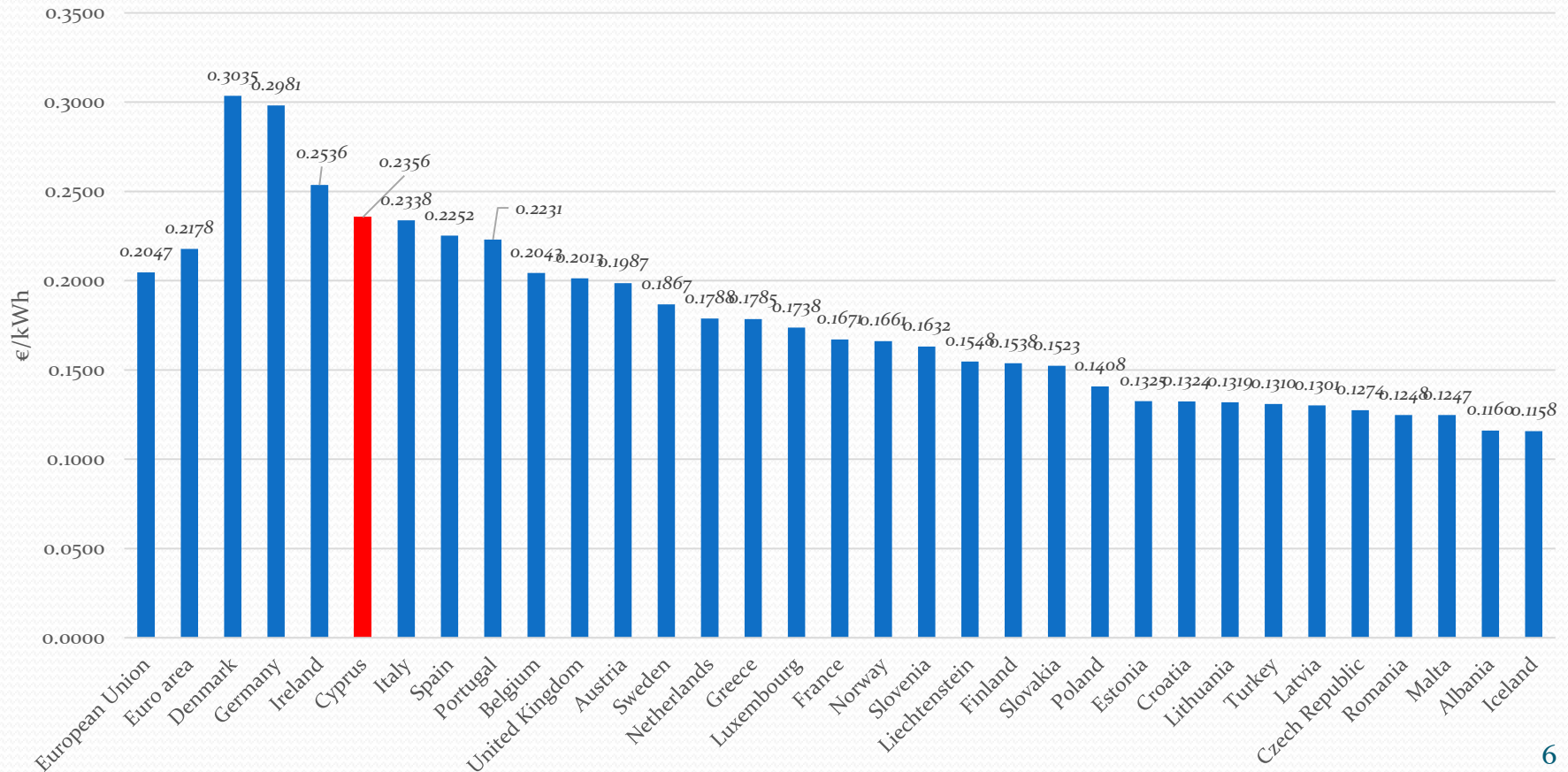
2014 Electricity prices for industrial consumers – comparison between EU member states

Electricity prices for industrial consumers - 2014S2, with all taxes €/kWh (source: Eurostat)



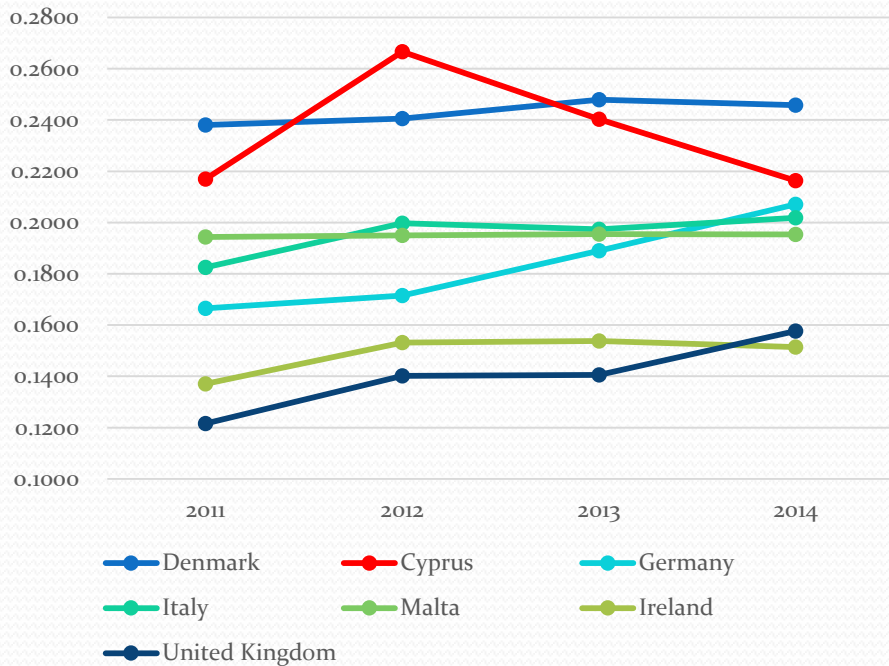
2014 Electricity prices for domestic consumers – comparison between EU member states

Electricity prices for domestic consumers - 2014^{S2}, with all taxes €/kWh (source: Eurostat)

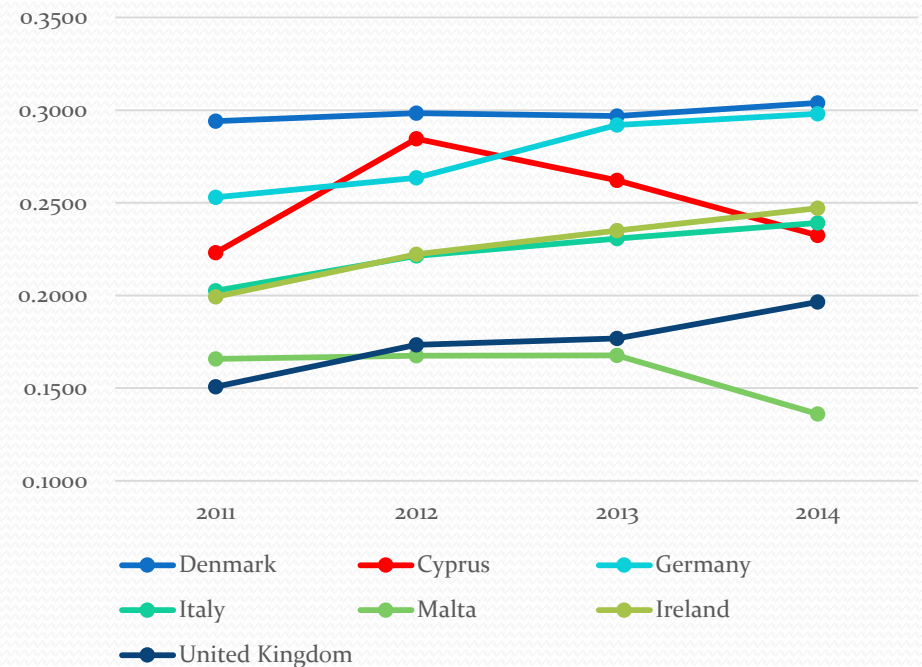


Trend of the electricity prices of 7 EU countries in the last 4 years

Industrial consumer prices - trend (€/kWh)

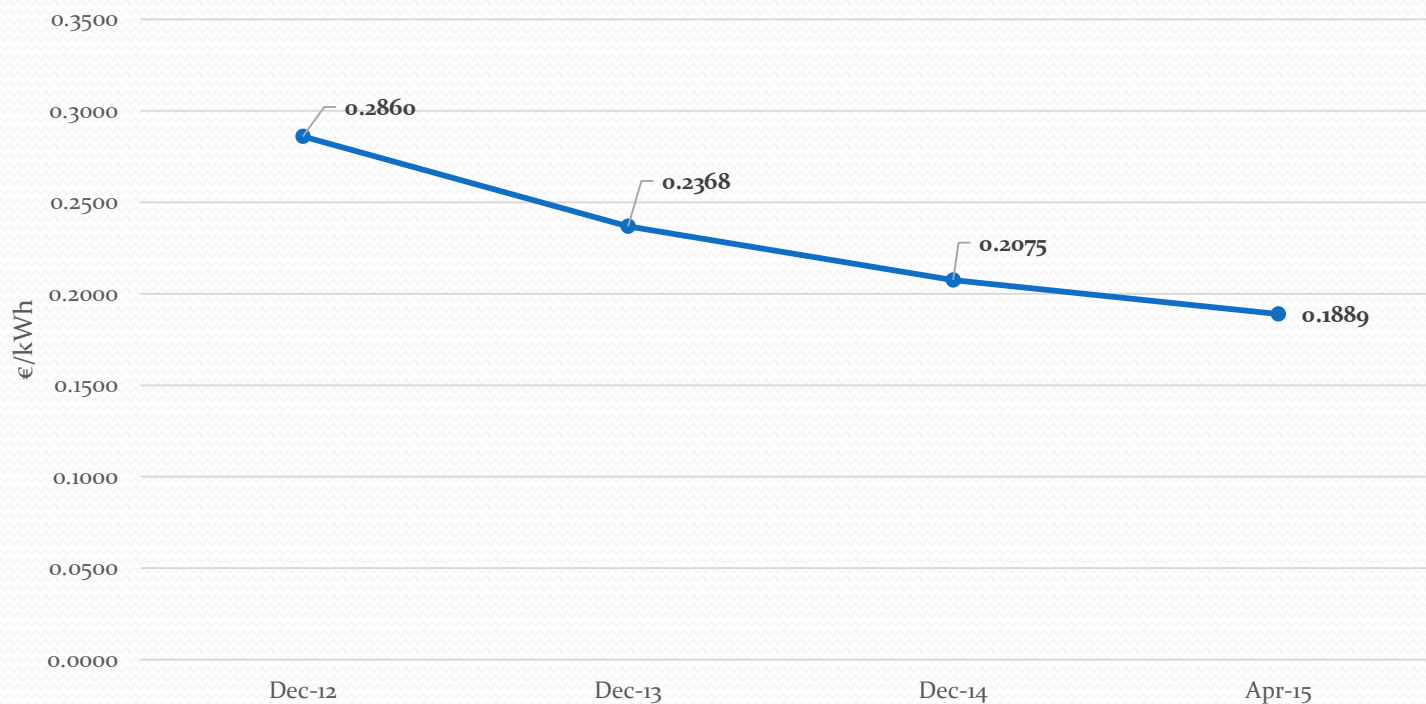


Household consumer prices - trend (€/kWh)



Trend of the electricity prices for an average household customer - Cyprus

Electricity Household Prices for an average household consumer with an annual consumption of 4,000 kWh



Measures aiming to result in the reduction of electricity prices

In last year's meeting the following measures were mentioned:

1) Transparency in tariff setting via:

- Unbundling of accounts in EAC into the four activities (generation, transportation, distribution and sale of electricity)
- Determination and application of a separate Regulated Asset Base for each activity in EAC

Update: CERA has issued Regulatory Decisions as regards the operational and accounting unbundling of EAC's regulated activities and the RAB.

EAC has committed itself in adopting these decisions, and the implementation is underway. Separated Regulatory Accounts will be submitted to CERA for the first time for the fiscal year 2014.

2) Evaluation and restructuring of the electricity market in Cyprus to be performed, with the aim to enhance competitiveness with the contribution of renewables

Update: The study has been completed and a draft Regulatory Decision was issued by CERA in December 2014 for Consultation. The Consultation was completed, numerous comments were received, and CERA is in the process of finalising the document outlining the operation of the new market arrangements.

CERA will soon issue the final regulatory decisions on the new market model which will aim to assist the entrance in the Electricity Market of new market players (in the competitive activities).

Further actions to be taken by the Regulator for the rationalization of the electricity bills

- **Revision of Tariff Methodology**

The Tariff Methodology has been reviewed and revised by CERA together with Consultants to ensure that the T.M. meets the regulatory objectives of CERA to ensure electricity tariffs are cost reflective and/or incentive based, non-discriminatory and thus;

- enable fair economic competition between EAC and potential new market entrants in generation, and supply;
- ensure economic efficiency in costs borne by Cyprus consumers for investment in and operation of transmission and distribution

The draft revised Tariff Methodology has been issued, and the final Regulatory Decision will be issued after the Market Model has been completed.

Measures taken by EAC, at the request of CERA, with the aim to reduce costs

- 1) Increase of outsourcing at EAC for loss making activities, e.g. inspections

Update: At the request of CERA, all activities which are not directly linked to the regulated activities of EAC (e.g. inspections, MRTC etc) will be transferred to a non-regulated department which will function separately and will not affect the tariffs. This is part of CERA's decision on the Accounting & Functional Unbundling of EAC.

- 2) EAC had tried to persuade the Government to allow a decrease in ports fees charged to EAC by the Ports Authorities for imports of oil.

Update: This has not been successful so far.

Measures taken by EAC, at the request of CERA, with the aim to reduce costs

- 4) Decrease in capital expenditure – only productive investments to be promoted

Update: Capital expenditure has been reduced significantly. In 2011 capex amounted to €260m (2012: €100m, 2013 (budget) €71m), where in the 2014 budget capex is budgeted at €81m, which relates mainly to network investments, and the 2015 budget for capex is €70m.. EAC's total loans have also decreased.

- 5) Decrease in operational costs as requested by CERA has already been performed, resulting in savings

Update: The controllable opex were reduced by €22m in 2014 compared to 2011. The total normal opex (including fuel and depreciation) were reduced by €99m in 2014 compared to 2011. These savings are transferred to the customers..

- 6) Decrease in the number of staff by 10% in the next 5 years.

Update: The above requirement is obsolete and CERA requires the decrease in number of staff by a higher %. The number of staff in EAC has been reduced by 100 employees in 2013 (4,3%) and by a further 110 in 2014.

Natural Gas in Cyprus

- Effort are being made by the relevant officials to succeed as soon as possible to the introduction of NG to Cyprus since it is of paramount importance to the economy.
- Currently, the first NG to Cyprus from Block 12 is envisaged to be supplied not earlier than 2021 but this is expected to be confirmed by the Ministry of Energy and Noble Energy.

INTERIM SOLUTION

- The initial process which was issued in September 2012 has been concluded by DEFA in October 2013, unsuccessfully.
- A new tendering procedure with improved parameters (mainly duration and quantities) is currently underway.
- We expect DEFA to conclude the assessment of the interim solution soon.