
THE ENERGY REGULATION AND MARKETS REVIEW

FIFTH EDITION

EDITOR
DAVID L SCHWARTZ

LAW BUSINESS RESEARCH

THE ENERGY REGULATION AND MARKETS REVIEW

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THE ENERGY
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REVIEW

Fifth Edition

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EDITOR'S PREFACE

Our fifth year of writing and publishing *The Energy Regulation and Markets Review* has been marked by significant efforts to reduce greenhouse gases (GHGs), important infrastructure development needs and continued low oil and gas prices. We have also seen divergent positions on existing and future nuclear power generation, and further liberalisation of the energy sector.

I CLIMATE CHANGE DEVELOPMENTS

With respect to climate change efforts, 177 countries signed the Paris Agreement and 17 countries have ratified the Paris Agreement, which will enter into force after at least 55 countries representing at least 55 per cent of the global greenhouse gas emissions ratify the Agreement. Even prior to the effectiveness of the Paris Agreement, we are seeing significant carbon reduction efforts, such as increased development of renewable resources, as well as energy efficiency and demand reduction measures.

In Europe, the European Union adopted 'A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy', and it is expected that there will be a large amount of European secondary legislation to increase the amount of renewable resources. The United Kingdom announced its energy goals, which includes increasing reliance on renewables and imposing strict 'carbon budget' requirements. France adopted new energy legislation that seeks reductions of fossil energy consumption by 30 per cent, reductions of GHGs by 40 per cent by 2030 (and by 75 per cent by 2050), reduction of energy consumption by 50 per cent by 2050, and increased reliance on renewables to eventually reach 40 per cent of electricity production. Denmark established a goal of having renewable energy meet all electricity demands by 2050. The Netherlands has made significant efforts to reduce GHGs, including the shutdown of some older coal-fired power plants. Italy enacted new legislation encouraging energy efficiency, biomass, biogas and bioliquids. Germany undertook significant steps to increase reliance on renewable energy resources.

In the United States, the Environmental Protection Agency's Clean Power Plan, which is currently stayed pending further judicial proceedings, would require 32 per cent

reductions in CO₂ emissions from 2005 levels by 2030. Last year, China set out a goal to peak CO₂ emissions by 2030 and to increase reliance on non-fossil fuels to 20 per cent by 2030. Japan, Korea, and Australia are working to improve energy efficiency and conservation and to increase reliance on renewable energy supply. The United Arab Emirates continues its efforts to reduce its carbon footprint, increase energy efficiency, reduce existing energy subsidies and to develop greater renewable energy infrastructure. Dubai has established a Dubai Green Fund to assist in the development of renewable energy and energy efficiency. South Africa is looking to procure significant new renewable resources. India has set a target of 175GW of renewable energy to be installed by 2022. India's Renewable Energy Certificate programme has largely failed because of non-enforcement of Renewable Purchase Obligation goals.

II INFRASTRUCTURE DEVELOPMENT

For many countries, reliable energy supply is the key concern, regardless of fuel source. Coal still plays a dominant role in meeting energy supply for Poland, India, Turkey and China. Indonesia's primary challenge remains to reach its goal of 90 per cent electrification by 2020. The primary concern for India's energy sector remains the challenge of providing reliable, uninterruptible electricity to its population and India has begun to employ a variety of creative measures (including a transitional state financing programme) to allow distribution companies to expend greater resources on investment in procurement and infrastructure over the next five years. To meet electrification needs in Central and West Africa, the Regional Initiative for Sustainable Energy identifies over 100 generation power sector projects in countries that are members of the West Africa Economic and Monetary Union that are targeted for development prior to 2030. Mozambique similarly continues to face significant infrastructure needs to meet electricity and natural gas demand. As a result of its civil war, Angola desperately needs to rebuild infrastructure (generation, transmission and distribution). Ukraine's main focus is building infrastructure and reducing gas dependence on Russia following Russia's annexation of Crimea.

III IMPACTS OF LOW OIL AND GAS PRICES

Low oil and gas prices continue to have adverse impacts for the United Arab Emirates, Mexico, Angola and Nigeria. Exploration and production activity has slowed in the United States because of current oil and gas prices, and low gas prices have led to increases in coal plant retirements. Since the relaxation of certain US and international sanctions against Iran, Iran is now looking to attract US\$200 billion in investment in its oil and gas industries over the next five years, which may be challenging with today's low oil and gas prices. China is also looking for assistance with shale exploration in the Sichuan Basin, with mixed levels of interest from potential investors. Mexico has also sought to eliminate some of its regulatory uncertainty as a way to attract new investors.

IV NUCLEAR POWER GENERATION

We have seen divergent positions with respect to nuclear power. Following the Fukushima disaster, Japan has shut down all 48 of its nuclear power stations pending new detailed safety reviews. Germany has targeted 2022 as the date for phasing out all nuclear generation.

France is seeking a reduction of nuclear power generation by 30 per cent by 2030. On the other hand, Turkey is continuing with development of a nuclear power plant (expected to be operational in 2023), and the United Arab Emirates is still proceeding with construction of the Barakah nuclear power plant, which is expected to be operational next year. The United Kingdom has stated that nuclear energy will remain an important part of the country's energy future. In the United States, the early retirement of certain nuclear plants has been driven by cost considerations, rather than safety concerns.

V LIBERALISATION OF THE ENERGY SECTOR

We have seen significant energy sector regulatory reforms in many countries. Italy has opened up distribution systems to retail competition and trading, and has seen the widespread introduction of smart meters. Portugal will complete its transition to competition in the energy markets by the end of 2017. South Africa is liberalising its generation sector through a massive procurement programme from independent power producers. Australia is in the midst of restructuring its electricity sector through retail competition. Japan is seeking full retail competition this year, as well as the unbundling of the transmission sector from the generation sector, and is seeking to achieve similar reforms (retail competition and unbundling) in the gas sector. Korea announced a new energy plan to deregulate energy markets and mitigate the monopoly power of the majority state-owned utility company by, among other things, encouraging customer-side generation projects. Brazil saw an increase in retail competition as a result of higher prices, which was an indirect result of the reduced availability of inexpensive hydroelectric power due to the drought from last year. Turkey is focused on privatising state-owned generation companies. There are proposals in Norway to separate transmission grid companies from supply.

I would like to thank all the authors for their thoughtful consideration of the myriad of interesting, yet challenging, issues that they have identified in their chapters in this fifth edition of *The Energy Regulation and Markets Review*.

David L Schwartz

Latham & Watkins LLP

Washington, DC

June 2015

Chapter 9

CYPRUS

*Michael Damianos and Electra Theodorou*¹

I OVERVIEW

Cyprus is not currently producing any primary sources of energy and it is considered to be a heavily energy receiving country as over 90 per cent of its energy comes from imports. It has no electrical or natural gas interconnections with other countries and, therefore, has an isolated energy system. The country's dominant source of energy in all sectors, including transportation and electricity generation, is imported petroleum products, which contribute over 91 per cent to the country's gross final energy consumption.

The Cyprus electricity market is currently dominated by the state-owned Electricity Authority of Cyprus (EAC), which supplies 100 per cent of the electricity in Cyprus. The EAC generates 91.5 per cent of its electricity from imported petroleum products and only around 8.5 per cent² from renewable energy sources (RES), which basically relates to energy produced from wind farms, solar energy plants and biomass plants, which are all privately owned and which sell the energy they produce to the EAC.

The accession of Cyprus to the EU in 2004 has meant that the monopoly of the EAC in Cyprus should legally come to an end. In 2004 a part of the electricity market was liberalised (35 per cent) for certain non-domestic consumers. In 2009 the electricity market was fully opened in relation to all non-domestic consumers (65 per cent), with a view for full liberalisation for all consumers by 2014. Since January 2014, the electricity market has been fully liberalised to allow all consumers (both domestic and non-domestic) to choose their electricity supplier. Despite the above liberalisation no electricity company has broken into the market yet and the EAC remains the sole supplier of electricity, thus enjoying a *de facto* monopoly.

1 Michael Damianos is the founder and managing partner of Michael Damianos & Co LLC and Electra Theodorou is an associate of the firm.

2 In accordance with statistical data provided for the year 2015 by the TSO (as defined below).

As far as gas is concerned, the legal regime is there, but there is currently no production or imports to supply the market (and there is no infrastructure for this). The most significant development in Cyprus's energy history, however, is the fact that in December 2011 it discovered large natural gas reserves in its exclusive economic zone (EEZ). Despite the natural gas discoveries, according to commentators, natural gas from the Cyprus EEZ will not be available to the Cyprus market at least until 2020 and exports are not expected to commence before 2024. The Council of Ministers of the Republic of Cyprus has, therefore, decided to import natural gas for the production of (mainly) electricity (to decrease the cost of production), and any power station or unit of considerable capacity is to be fuelled with natural gas as soon as this is feasible. As will be seen in this chapter, however, the supply of gas to the Cyprus market will also be a clear monopoly for a number of years.

Finally, the current economic and financial developments in Cyprus and its current commitments to its lenders mean that the government should proceed with the denationalisation of certain profit-making state-owned organisations. Legislation was passed in March 2014 to allow for this, and the Council of Ministers subsequently approved a government plan for the period from 2014 to 2016, dealing, *inter alia*, with the denationalisation of the EAC. Even though the denationalisation of the EAC is likely to have a significant impact on the unbundling of the Cyprus electricity market (as is further discussed in this chapter) this is not expected to occur before the end of 2017. The Cyprus parliament has recently approved a draft bill that postpones the entry into force of the denationalisation legislation in relation to the EAC until 31 December 2017.

II REGULATION

i The regulators

The Cyprus Energy Regulatory Authority (CERA) is the sole regulator for the electricity and (emerging) gas market in Cyprus. It was established by the Law on Regulating the Electricity Market of 2003 (as amended) (the Electricity Market Law), which was enacted for the purpose of harmonisation of Cyprus law with the (now repealed and replaced by EU Directive 2003/54/EC, which itself was repealed and replaced by EU Directive 2009/72/EC) EU Directive 96/92/EC concerning common rules for the internal market in electricity.

CERA was established aiming to liberalise the electricity market (which has been, at least legally, fully liberalised since January 2014), and is the body responsible for ensuring that electricity prices determined by (the current monopoly of) the EAC reflect the actual costs of the services provided with a reasonable profit.

In addition to the above, by virtue of the Law Regulating the Natural Gas Market of 2004 (as amended) (the Natural Gas Market Law), which transposes EU Directive 2003/55/EC (now repealed and replaced by EU Directive 2009/73/EC) concerning common rules for the internal market in natural gas into Cyprus law, CERA is also responsible for regulating the Cyprus gas market.

CERA is legally separate from and operationally independent of any other public or private body. Its main objective is to effectively regulate and monitor the electricity and (emerging) gas market. It is required to ensure that the energy market as a whole operates on the basis of sound competition, that the various participants are acting with transparency, that high-quality services are provided, and that the interests of consumers are protected. It is entrusted with various statutory powers and duties that mainly derive from the Electricity Market Law and the Natural Gas Market Law.

One of CERA's main powers is to investigate any infringement of the law, breach of the terms of any authorisation granted (i.e., a licence, order, prior permit or exemption), or breach of any regulatory or other decision issued by it. It has the power to issue orders to remedy any such infringement or breach by an authorisation holder, and if the relevant authorisation holder fails to remedy the infringement or breach, CERA has the power to impose administrative fines on it, depending on the nature, seriousness and duration of the infringement or breach, and even revoke an authorisation granted to the relevant authorisation holder.

CERA has also been granted extensive powers to protect competition. The highest authority in Cyprus in relation to the protection of competition, however, is the Commission for the Protection of Competition (the Commission), which was established in accordance with the provisions of the Law for the Protection of Competition of 1989 to 2000 (now repealed and replaced by the Law for the Protection of Competition of 2008 to 2014). This basically means that although CERA has the power to protect competition itself, its actions must be aligned with the competition law provisions and with the practice of the Commission.

ii Regulated activities

Under both the Electricity Market Law and the Natural Gas Market Law, it is prohibited to carry out a licensable activity without an authorisation. Authorisations can take the form of either a licence or an exemption. Licences are issued by CERA in accordance with the relevant law, the regulations issued by CERA, and any government policy guidance published by the Minister of Energy, Commerce, Industry and Tourism, from time to time. Licences may be granted to both physical and legal persons.

Article 34 of the Electricity Market Law provides that CERA may issue a licence with regard to the following activities:

- a* constructing a generating plant or generating electricity;
- b* supplying electricity to eligible consumers;
- c* supplying electricity to non-eligible consumers;
- d* discharging any of the functions of the transmission system operator;
- e* discharging any of the functions of the distribution system operator;
- f* discharging any of the functions of the transmission system owner; and
- g* discharging any of the functions of the distribution system owner.

CERA considers certain criteria when evaluating an application for a licence under the Electricity Market Law, including the safety of the system, the protection of the environment, the location of the generating plant (if the application relates to a generating licence) and the protection of public health and public safety.

Article 35 of the Electricity Market Law provides that CERA has the power to grant exemptions, following a relevant application, from the requirement to hold a licence to carry out any of the activities in (a) and (b) above. Any person who auto-generates electricity of a capacity of less than 1MW can be granted an exemption. CERA may also grant exemptions in relation to electricity generation from RES of a capacity of less than 5MW and electricity supply by a specific person of a total capacity of less 0.5MW per generating plant.

In exercising its powers, CERA may take regulatory decisions setting out how it shall regulate the different segments of the electricity market and which authorisation holders shall be bound by these regulatory decisions. A regulatory decision was issued by CERA in

2013,³ pursuant to which CERA is not currently accepting applications for a licence or an exemption regarding the construction of a generating plant that will use conventional fuels or RES to generate electricity (excluding any licences that fall under any government-backed or European support scheme). CERA based its decision, principally, on the need to amend certain regulations and market rules and to reconsider the country's national plan on RES before proceeding with the acceptance of any applications of new generating plants. This decision effectively means that, in practice, a big part of the production segment of the electricity market is, currently, not open to competitors and that the EAC is still a monopoly.

The Natural Gas Market Law is structured along the same lines. Article 8 of the Natural Gas Market Law 2004 provides that CERA may issue a licence with regard to the following activities:

- a* building and operating, or only operating, natural gas facilities, storage facilities, pipeline networks or combinations thereof, and pipelines and associated equipment;
- b* discharging any of the functions of the owner of natural gas facilities, storage facilities or pipeline networks, or combinations thereof, and pipelines and associated equipment;
- c* discharging any of the functions of the network operator;
- d* supplying natural gas to, among others, wholesale customers;
- e* supplying natural gas to eligible customers;
- f* supplying natural gas to non-eligible customers;
- g* discharging any of the functions of the operator of natural gas importation, storage, transmission or distribution; and
- h* discharging any of the functions of the owner of the natural gas importation, storage, transmission or distribution network.

As far as natural gas is concerned, it should be noted that despite the transposition of EU Directive 2009/73/EC into Cyprus law, Cyprus, being an isolated and emerging market, has obtained derogation from a number of its provisions. As a result, it is planned that the supply of natural gas to the Cyprus market will be a clear monopoly for a number of years. The Natural Gas Public Company (NGPC), which is fully controlled by the state, was established to become the body responsible for the development of the internal gas market and network. The NGPC is responsible, among others, for the import, storage, distribution, transmission, supply, and trading of natural gas, as well as the management of the distribution and supply system of natural gas in Cyprus. It will, once Cyprus is able to import natural gas as mentioned in the introductory section of this chapter, be the sole importer and distributor of natural gas in Cyprus, therefore making it a monopoly. The NGPC has to proceed with securing the necessary natural gas quantities, at the most favourable commercial terms, to cover Cyprus's needs for electricity power generation (phase A) and supply industries, hotels and households (phases B and C) with natural gas. It has to develop an efficient gas network, which will initially (phase A) consist of three pipelines that will themselves be connected to the gas import hub and to the three existing downstream power stations (all owned and controlled by the EAC). The estimated cost for phase A is approximately €65 million and a €10 million grant has been secured from the European Economic Programme for Recovery. Phases B and C, which will connect the receiving terminal to industries, hotels and households, are expected to cost over €500 million.

3 Regulatory Decision of the Cyprus Energy Regulatory Authority 856/2013.

iii Ownership and market access restrictions

As mentioned above, it is currently legally impossible to enter the natural gas market. As far as the electricity market is concerned, a person is eligible to apply for a licence only if:

- a* being a natural person, he or she is a citizen of the EU and resides in an EU Member State; or
- b* being a legal person (which includes a company, partnership, municipality, club, foundation, or any other union or any other union or association of persons with or without legal personality), it is established in an EU Member State, and, if a company, it has been incorporated in accordance with the laws of an EU Member State and it has its statutory place of establishment, central management or main place of establishment within the EU.

iv Transfers of control and assignments

Under the Issue of Licences Regulations (Electricity Market) of 2004, a licence holder who wishes to transfer or assign his, her or its licence to a third party, needs to make an application to CERA at least three months before the proposed transfer or assignment takes place stating who the transferee or assignee is and the reason for making the transfer or assignment. The transferee or assignee then needs to follow an almost identical procedure to that required when applying for a new licence.

The Issue of Licences Regulations (Electricity Market) of 2004 also provides that a company that has obtained an electricity production licence must immediately notify CERA of any (proposed) change of control in that company and request CERA's written consent for that. The licensee shall also notify CERA of any intention to sell, transfer or create a charge against any of its electricity generation assets (at least one month prior to the sale, or transfer of the asset, or creation of the charge) and request its written consent for that. Similar restrictions apply to any company that has obtained an electricity supply licence.

III TRANSMISSION/TRANSPORTATION AND DISTRIBUTION SERVICES

i Vertical integration and unbundling

The Cyprus electricity market has long been dominated by the vertically integrated EAC. The EAC is currently engaged in all segments of the Cyprus electricity market. It is the sole supplier of electricity, it owns and operates the distribution network and also owns the transmission network (i.e., the only segment of the electricity market that is independent from the EAC is the operation of the transmission network). For this reason the EAC is required under the Electricity Market Law to keep separate accounts for its electricity production, supply, transmission and distribution processes.⁴ CERA issued a number of regulatory decisions requiring the EAC to do this. In accordance with CERA, steps have been taken by the EAC to implement the accounting separation, but the EAC has yet to fully comply with these regulatory decisions.

⁴ Article 108(1) of the Law on Regulating the Electricity Market of 2003 (as amended).

It should be noted that Cyprus has been one of the last EU Member States to transpose the unbundling provisions of the EU Third Energy Package into national legislation, and having a small isolated system it has obtained certain exemptions, as discussed below:

Unbundling of distribution system operators

Cyprus decided to opt out from the provisions of the EU Directive 2009/72/EC on the unbundling of distribution system operators on the basis that its integrated electricity undertaking serves a small isolated system.⁵ It has, therefore, maintained its existing distribution system regime and the function of the distributor system operator (DSO) is still within the network business unit of the EAC. The DSO is provided with all of its employees from the EAC and it is not an independent body. The DSO is required to safeguard third party access to the distribution network and equal treatment of all users of the said network.

Unbundling of transmission systems

Cyprus has obtained an exemption from Article 9 (unbundling of transmission systems) of the EU Directive 2009/72/EC and has, therefore, maintained its existing regime on transmission unbundling. Under the current regime, the transmission system operator (TSO), which was established pursuant to a decision of the government of the Republic of Cyprus for harmonisation with EU Directive 2003/54/EC (which was repealed and replaced by EU Directive 2009/72/EC), acts independently in terms of organisation and decision-making from the EAC, which is the transmission system owner and distribution system owner and operator. Under the Electricity Market Law of 2003 (as amended),⁶ the TSO is legally unbundled and is prohibited from being engaged in production, distribution or supply activities in the Republic of Cyprus.

The TSO's main functions and responsibilities are to secure the operation of the electricity transmission system and to manage the electricity market on an objective, non-discriminatory basis in a competitive environment, while at the same time supporting and promoting electricity generation from RES. It ensures access and equal treatment of all users of the transmission network. Both CERA and the TSO have a significant role to play and their role will be even more significant if electricity companies do break into the Cyprus market in the next few years.

As mentioned in the overview of this chapter, if the denationalisation of the EAC proceeds, it will have an impact on the unbundling of the Cyprus electricity market. In accordance with the denationalisation plan, which was approved by the Council of Ministers in March 2014, the activities of the EAC (electricity production, transmission, distribution and supply) should have been unbundled into separate legal entities by 30 June 2015 (first stage of the denationalisation process). The second stage of the denationalisation process was to involve the transformation of the EAC, by 31 December 2015, from a body governed by public law to one or more companies limited by shares, of which the Cypriot government would be the sole shareholder. By 31 March 2016, a decision should also have been reached in relation to the percentage of share capital that would be offered to employees of the EAC on an individual or collective basis (provident or pension fund) in the company, or companies. The next stage of the denationalisation process was to involve the search for one

5 Article 26 of EU Directive 2009/72/EC.

6 Article 64(1).

or more strategic investors in respect of one or more of the above-mentioned activities of the EAC by 30 September 2017. As mentioned above, however, the denationalisation and the unbundling of the EAC has recently been put on hold and none of the aforementioned time frames have been adhered to. It remains to be seen, therefore, whether the plan will be brought back to the table at a later stage (if at all).

ii Rates

As far as rates and terms of access to the transmission and distribution network are concerned, these are regulated by CERA, which may require the TSO and the DSO to amend the methodologies they use for determining their tariffs. As mentioned above, given the fact that the electricity market is currently dominated by the EAC, CERA must protect consumers from being adversely affected by any abuse of the EAC's dominant position in the electricity market. It shall, therefore, ensure that the electricity prices determined by the EAC reflect the actual costs of the services offered plus a reasonable profit.

IV ENERGY MARKETS

The monopolies of the EAC and NGPC mean that there are no real or actual energy markets operating in Cyprus. Despite that, there are certain energy market rules and regulations that are worth mentioning for future reference, as follows:

i Electricity Transmission and Distribution Rules

Pursuant to the Electricity Market Law, CERA has the power to issue regulatory decisions instructing the TSO and the DSO to draft and publish certain transmission (as far as the TSO is concerned) and distribution (as far as the DSO is concerned) system rules. The publication of these rules is subject to CERA's consultation with an advisory committee on transmission and distribution (which has not yet been formed) and CERA's prior approval. The Transmission and Distribution Rules of 2004 (as amended) set out the technical conditions and constrains that will apply to licensees who wish to connect to the transmission or distribution network, or both, or use these two networks for electricity transportation. The imposed conditions should not be discriminatory. The said rules also ensure that the transmission and distribution system will be used and developed in an efficient and reliable manner.

ii Electricity Trading and Settlement Rules (Market Rules)

Under the Electricity Market Law, CERA instructs the TSO to draft and publish certain electricity market rules. The publication of these rules is subject to CERA's consultation with an advisory committee on market rules and the written approval of CERA and the Minister of Energy, Commerce, Industry and Tourism. The Trading and Settlement Rules (Market Rules) of 2009 set out the mechanisms, tariffs and various terms and conditions subject to which licensees buy or sell electricity, in accordance with arrangements made by the TSO, and ensure that market participants who buy or sell electricity pursuant to these arrangements should not be subject to discrimination. The said rules also promote energy efficiency and energy saving and facilitate competition in the electricity market.

It should be noted that CERA has recently undertaken a study on the reorganisation of the Cyprus electricity market and the amendment of its regulatory framework. The current Market Rules will need to be amended, among other things, to be in line with the market reorganisation proposed by CERA.

V RENEWABLE ENERGY AND CONSERVATION

RES contribute only marginally to Cyprus's energy mix, as they (currently) have a share of less than 10 per cent of the country's gross final energy consumption. They are, however, now more significant in the country's energy mix than they were 10 years ago (when their contribution was not much above zero). RES are used in Cyprus, as follows:

- a* Solar energy: solar energy is used by domestic and industrial solar thermal systems. Cyprus ranks first in the world in terms of the use of solar energy for domestic heating (through solar thermal systems). Photovoltaic grids are also used and they are either connected (currently) to the EAC, or are stand-alone and used in other ways.
- b* Wind energy: there are currently six wind farms in operation and they all generate electricity that they sell in its totality to the EAC. Wind energy is also used through wind turbines for water pumping.
- c* Biomass: the total capacity of biomass plants is insignificant, generated through manure and organic animal waste and, again, sold to the EAC.

Cyprus's energy policy is aligned with the energy policy of the EU. The three main goals set by Cyprus are (1) the development of indigenous energy resources, (2) the enhancement of security of energy supply and competitiveness, and (3) the protection of the environment. In this respect, Cyprus has recently transposed the Renewable Energy Directive 2009/28/EC into Cyprus law by enacting the Law for the Promotion and Encouragement of the Use of Renewable Energy Sources of 2013. In accordance with the above, Cyprus is bound to achieve certain targets by 2020, such as a share of 13 per cent of RES in its gross final energy consumption (after adjustment for aviation consumption) and a share of 10 per cent of RES in the final energy consumption of transportation.

To achieve the above-mentioned 2020 targets, the Ministry of Energy, Commerce, Industry and Tourism has issued certain support schemes. The support schemes aim to provide financial incentives in the form of government grants for the promotion and penetration of RES into the market, and both individuals and companies or organisations are eligible for participation. The support schemes cover investments for thermal insulation on existing residential buildings, heating and cooling from RES, and electricity generation from RES. They address mature technologies rather than technologies currently under research and development and are being reviewed and, if required, updated on an annual basis, so that the incentives provided ensure the viability of RES systems. Furthermore, any support scheme revision is done taking into account any changes in the energy policy of the country.

In 2013, the government announced and implemented certain support schemes for the promotion of electricity generation using RES. One of these schemes involved the provision of state grants to vulnerable households for the installation of 2,000 photovoltaic systems of 3kW each and their connection to the grid of the EAC via net metering. The electricity consumption of the household is offset by the electricity generated by its photovoltaic system into the grid, with the household being billed for the difference. This is estimated to save each participating household 80 per cent on its electricity bill. A second

scheme for the installation of a further 3,000 photovoltaic systems of 3kW each (but without a grant) was also announced and implemented in 2013 and similar schemes are expected to be announced soon. In 2014, the Ministry of Energy, Commerce, Industry and Tourism announced similar support schemes for the installation of photovoltaic systems of 3kW each by vulnerable households (with a state grant) and by non-vulnerable households and local government authorities (without a state grant). Another support scheme was announced in 2014 for auto-generating photovoltaic systems of 500kW each to be installed on commercial and industrial units.

As far as energy efficiency is concerned, measures have been implemented to promote the energy efficiency of buildings, such as minimum energy performance requirements, energy performance certificates, and regular inspections of heating and air conditioning installations.

VI THE YEAR IN REVIEW

As mentioned above, the commitment of the Cyprus government to denationalising the state-owned EAC is currently on hold and the Cyprus parliament recently approved a draft bill postponing the entry into force of the denationalisation legislation in relation to the EAC until 31 December 2017. If it is eventually denationalised, this will definitely have an impact on the Cyprus electricity market as it will almost certainly result in the end of the EAC monopoly. If this is the case, the activities of the EAC will be unbundled into separate legal entities to be offered to potential investors. It is, therefore, likely that different investors will acquire different activities of the EAC, which will result in the actual disintegration of the electricity market.

Although discussion of this is beyond the scope of this chapter, the government of Cyprus is rapidly moving towards exploiting the country's natural gas reserves, despite current global economic conditions and oil prices. The discovery of natural gas in the Cyprus EEZ will surely affect the country's energy policy. However, natural gas from the Cyprus EEZ will, according to commentators, not be available to the Cyprus market before 2020 at the earliest.

VII CONCLUSIONS AND OUTLOOK

One can conclude that Cyprus is a heavily energy receiving country with a monopolised electricity market and a (currently) inexistent gas market. The EAC's monopoly in the electricity market is likely to end in the years to come with the EAC's proposed denationalisation, while the gas market, once this actually evolves, will be a monopoly of the NGPC for a good few years.

For the electricity market to be practically liberalised (as it is only legally fully liberalised to date) electricity companies need to enter the market. Although the legal and regulatory framework is there, this has yet to attract any new players, but it is anticipated that this will change in the next few years.

Appendix 1

ABOUT THE AUTHORS

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Michael Damianos is the founder and managing partner of Michael Damianos & Co LLC. He is a law graduate of the University of Southampton (with first-class honours) and has an LLM from Fitzwilliam College, University of Cambridge. He is dually qualified, in Cyprus and in England and Wales (as a solicitor). Before practising in Cyprus he qualified as a solicitor at the London office of Simmons & Simmons and then moved on to the London office of Lovells LLP (now Hogan Lovells), working for the then energy, power, utilities and infrastructure department.

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Electra Theodorou is an associate at Michael Damianos & Co LLC. She is a law graduate of the University of Leeds, has obtained an LLM in international commercial law from the University of Nottingham and graduated from the Legal Practice Course (LPC) at BPP Law School. She is a qualified Cypriot lawyer and a member of the Cyprus Bar Association. She has lectured at an international conference on cybersecurity in the oil and gas industry, held under the auspices of the Ministry of Communication and Works of the Republic of Cyprus.

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