

ENERGY

The Cyprus energy industry is dominated by the Electricity Authority of Cyprus (EAC) which is the incumbent energy provider. Therefore, with no significant alternative energy provider the Cyprus market is effectively captive. Having said this, however, the Republic of Cyprus is pursuing an aggressive market opening policy and giving active encouragement to renewable energy initiatives in the form of attractive subsidies. The credit crunch has adversely affected both the EAC in terms of demand and those prospective IPPs seeking credit for the establishment of power plants in the renewable energy sector, which is currently limited to wind and solar.

Undoubtedly the most significant development that has taken place in the Cyprus energy industry in recent years is the entry of Cyprus into the EU, which has necessitated the opening up of the electricity market to competition. This has led to the establishment of the first IPP project, an 82MW wind farm (which is currently in phase one).

Another key development in Cyprus' energy sector is the proposed switch from using Heavy Fuel Oil (HFO) at its power stations to the cheaper option of Liquefied Natural Gas (LNG) by 2014. Following these plans the government is in the process of developing an Energy Centre at the Vasilikos area in the city of Larnaca. This will comprise an onshore LNG import, storage and regasification terminal; and an oil products import, storage (both operational and strategic reserves) and handling/distribution depot. The two aforementioned terminals will be located adjacent to the Vasilikos Power Station, which is owned and operated by the EAC.

Foreign investors are expected to play a major role in this process as the EAC has invited applications for expression of interest, for participation and investment in the LNG company responsible for the development, financing, operation and management of the Vasilikos LNG terminal. A separate entity, DEFA (the Greek acronym for Public Company for Natural Gas), which is jointly owned by the EAC and the Cypriot government, will be responsible for import and distribution of the gas.

Cyprus' energy industry is already home to numerous foreign investors and there has been constant interest from potential foreign strategic partners to co-operate with Cypriot license holders, particularly for the establishment of wind farms and solar power plants, which enjoy a preferential tariff, take up and subsidy.

The economic downturn will undoubtedly continue to play its part in the development of the energy industry, as the reduced availability of funds will slow

down the establishment of renewable energy projects. The recession will also play its role in reducing demand as consumers conserve electricity due to rising cost and static wages.

Ioannides Demetriou is the foremost firm in Cyprus in the Energy sector. As well as advising the Electricity Authority of Cyprus, the firm also advises the Government of the Republic of Cyprus on its hydrocarbon exploration and extraction activities and has worked on the only concluded wind farm deal in Cyprus, acting for the lenders in close co-operation with Norton Rose. The firm is currently involved in a number of potential independent power production projects in fields of energy wind and solar energy production.

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