

1. CYPRUS AND ITS DISTORTED RENEWABLES MARKET

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Cyprus' distorted RES market

The island does reasonably well against its own clean targets because so far it has set the bar very low

By Charles Ellinas

CYPRUS' distorted renewables market was laid bare by Etek last month. Soon after, published statistics by Eurostat showed Cyprus to be one of Europe's laggards in terms of transition to renewables and reduction of greenhouse gas emissions.

Combined with the delays in the LNG import project and the switch of power generation from oil to natural gas, as well as the continued delays in opening Cyprus' energy market to competition, these can only be of serious concern.

DEBUNKING MYTHS

We have often been told that Cyprus is doing well in the implementation of renewables and transition to clean energy, exceeding its targets. But unfortunately, this appears to be based on partial truths. Cyprus is doing well against its own lowly targets, but within Europe it is near the bottom of the list.

Actually, second from last in terms of contribution of renewables in electricity consumption. Statistics published by Eurostat for 2020 show Cyprus achieved a 12 per cent share, against an EU average of 37.5 per cent.

But it did better in terms of share of renewables in gross final energy consumption, ranked 23rd, achieving just under 17 per cent in 2020, against EU's average of 22 per cent. This benefited from roof-top solar water heating installations, routinely used in Cyprus for decades now, and not as a result of deliberate policy.

Cyprus is also one of the highest greenhouse

gas emitters in Europe, ranked fourth in 2019 with 11.2tonnes/capita against a European average of 8.4tonnes/capita.

In terms of the share of renewable fuels in transport Cyprus is just off the bottom within the EU, occupying the 22nd position in 2020 with 7.4 per cent. The EU target for 2030 is 14 per cent, but expectations are it will be increased substantially, possibly to 26 per cent. Without pro-active measures, that may prove to be even more daunting.

Cyprus is also marked consistently low in terms of sustainable development. In SDSN's 2019 report, Cyprus was ranked 27th among EU countries.

On the other hand, Cyprus got close to the top of the list in terms of electricity prices to consumers, ranked as the 7th most expensive country in Europe, with €0.21/kWh in 2020.

Cyprus does reasonably against its own clean energy targets because so far it has been setting the bar very low, even though it has one of the higher renewables potential in Europe. In reality, it is doing badly compared to other European countries, even countries with lower renewables potential. We are simply not making good use of it.

With Europe adopting a 55 per cent cut in emissions by 2030 and net-zero by 2050, and planning to raise the renewables target to 40 per cent by 2030, Cyprus will no longer be able to get away with such low targets. Doing better by 2030 will need a major policy change in the adoption of clean energy.

Etek brought the problem into the open last month. According to Etek, failure of the plans for photovoltaic (PV) parks implemented



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Specifically, the price of purchasing electricity from these projects is €0.18/kWh, in comparison to the 2013 auction that led to prices of €0.08-€0.09/kWh. Even more galling is that similar competitions in Portugal and Spain in 2019 produced prices below €0.02/kWh.

CORRECTIONS

It is not surprising then that these projects recouped their investments within record time, running on very high profits since then at the expense of the Cypriot consumer.

Etek made specific and detailed recommendations on how to correct these distortions.

The ministry of energy avoided responding to the substance of Etek's revelations. Instead, it said that these plans contributed "to the achievement of the binding goals of our country" in terms of renewables

contribution to final energy consumption. This statement implies that achieving this low target was more important than bringing renewables prices down.

The ministry also said that the liberalised energy market - to come into effect this autumn - will eventually take care of these distortions. But it then went on to say that there are legal issues related to these contracts, and that, as a result, legal advice has been sought from the Legal Service.

In effect, this admits there were indeed market distortions during the last 3-5 years. Even more worrying, referral to the legal service implies that it is not certain that liberalization of the market will deal with these. It remains to be seen.

The ministry added that it is considering new commercial renewables plans, with project to be awarded through a competitive bidding process. This begs the question why such a process was not implemented in 2017-2019, resulting in high prices, adding to the already exorbitant electricity prices in Cyprus.

Energy market competition

Unfortunately, Cyprus is still going through a protracted preparatory period before it reaches full liberalization of the energy market, even though the Cyprus Energy Regulatory Authority (Cera) first published decisions to do in 2014. After many postponements, CERA published a binding timetable, committing that the electricity market in Cyprus would be liberalised on July 1, 2019.

NOT YET READY

Of course this did not happen. After years of delays, and with full knowledge of what should happen and by when, Cyprus is not yet ready to do so.

However, in September last year the House of Representatives passed the legal framework needed to achieve this, but only because it is a pre-requisite for the release of the EU Resilience and Recovery Funds to Cyprus.

According to the latest announcements, the deadline to actually do that is autumn this year. But will it happen. Like everything else, it remains to be seen.

What should be done

The priority for Cyprus energy should be the development of more effective and up-to-date energy plans and policies, based on completing the liberalisation of the electricity market, with functional TSO and DSO, including significant improvements in electricity systems, functions, market design, business models and regulations, so that renewables adoption receives the priority and support it needs, backed up by electricity storage, interconnectors and natural gas from Cyprus' EEZ. All this must be part of a coherent energy plan, supported by the necessary policies and regulations.

We must learn from other EU countries, such as Portugal and Spain, and implement a competitive auction-based system open to any bidders that satisfy technical and financial criteria and benefit from the very low prices they have achieved - and at the same time actually open the energy market to real competition.

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