

EAST MEDITERRANEAN AND NORTH AFRICAN GAS FORUM

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*Cyprus: Exploring the Evolution of the East Mediterranean's
New Energy Hub"*



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NATURAL GAS PUBLIC COMPANY (DEFA)**

CYPRUS ENERGY NEEDS

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an environmentally friendly
Energy System which will
ensure Security of Supply and
will provide consumers with a
reliable Energy Supply at the
Lowest Possible Cost

Energy Policy

The Cypriot long term strategic plan is aligned with the European Union Directives and energy strategy and is based on the following 3 pillars:

Security of energy supply

Increasing the competitiveness of the Cypriot economy (Currently Cypriot Consumers pay the highest Electricity Prices in Europe)

Adherence to environmental commitments

The Natural Gas Market

- ❖ According to EU Directives Cyprus qualifies and is classified as an Emerging Market for Natural Gas and also as an Isolated Market.
- ❖ Unlike the electricity sector, which has been liberalized since 2004, the gas sector, will follow a fully monopolistic model for a period of at least 10 years.
- ❖ The Natural Gas Public Company (DEFA), set up and controlled by the state, is the **Sole Distributor**, of any form of Natural Gas, in Cyprus i.e. DEFA is totally responsible for the Cyprus Internal Gas Market.

Short Term Supply of Natural Gas

1. On 27 September 2012, DEFA announced the commencement of the procedure for the Expression of Interest for the Supply of Natural Gas, for delivery to Vasilikos Power Station. The Expression of Interest remained open until Monday the 29th of October, 2012 and DEFA received 17 Expressions of Interest from Companies around the globe.
2. The Expression of interest concerns the possibility of an Intermediate Solution for a period of approximately 5 years (until our own reserves from Block 12 can be used) , for the supply of Natural Gas to be used mainly for Electricity Production.

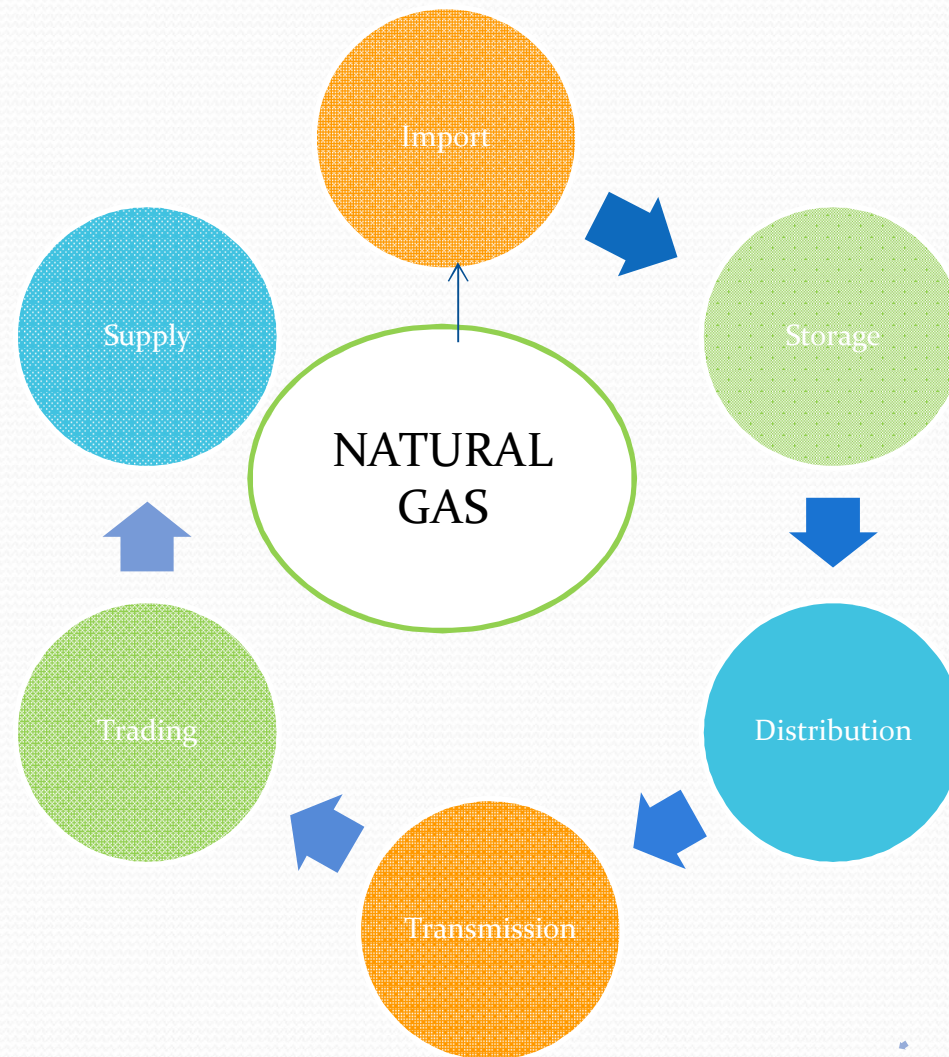
Following preliminary evaluation 14 Interested Applicants were qualified to the next stage.

Short Term Supply of Natural Gas

1. On the 4th of January 2013 DEFA issued a Request for Proposal (RFP) to the 14 Applicants requesting them to submit complete solution proposals only.
2. Eight proposals were received, and following Technical and Economic Evaluation, a short list of 3 proposals was created and the 3 proposals qualified to the next stage of the process which was held 18-20 February 2013
3. At the next stage of the process, interested parties will have to submit their final bids on March 1st 2013.
4. The deciding factor for the short term solution to be chosen if any, ***will be the realization of a substantial reduction in the Cost of Electricity Production*** for the period up to the end of 2018.

The target date for the first delivery of Natural Gas is 1st January 2015 the latest.

DEFA's Role in Developing the Internal Natural Gas Market



DEFA Main Objectives

- i. To secure sufficient Natural Gas supplies, at the lowest possible prices, to cover the needs for Electricity Power Generation (Phase “A”) and subsequently supply Industries, Hotels and Households.
- ii. DEFA is also responsible for developing the necessary GAS NETWORK infrastructure

The Gas Network will initially consist of 3 pipelines connecting the Gas Import Hub with the three existing downstream Power Stations. The estimated cost for “Phase A” of this project is around €65m. Towards this cost DEFA has managed to Secure a €10m grant from EU under the European Economic Programme for Recovery (EEPR).

Vasilikos Power Station	Moni Power Station	Dhekelia Power Station
• ≈0.6 km pipeline	• ≈12 km pipeline	• ≈65 km pipeline

The Selected Route (For Phase “A”)





The Way Forward

- Regardless of the Supply Source of Natural Gas, technical work on the Pipeline Network Puninterruptedly.
- The strategic planning regarding the Gas Infrastructure Network remains unaffected and a Public Consultation with all the 22 involved local communities, took place in June 2012.
- The gasification of the Island (Phases “B” and “C” connecting the Receiving Terminal to Industries, Hotels and Households) will be an on-going process and it is expected to cost over €500 million.
- Apart from Technical work, DEFA is in close contact with European Investment Bank (EIB) and other Commercial Banks regarding the funding of the Pipeline Network Project.

Investment Opportunities

The recent Natural Gas Discoveries in Cyprus Block 12 opened up a range of possible Investment Opportunities in the Cyprus Energy Sector:

1. Exploration
2. Submarine Pipeline(s)
3. Liquefaction Plant(s)
4. Cyprus Internal Natural Gas Distribution Network
5. Electricity Power Generation
6. Use of Natural Gas in Transport (buses, cars, etc.)

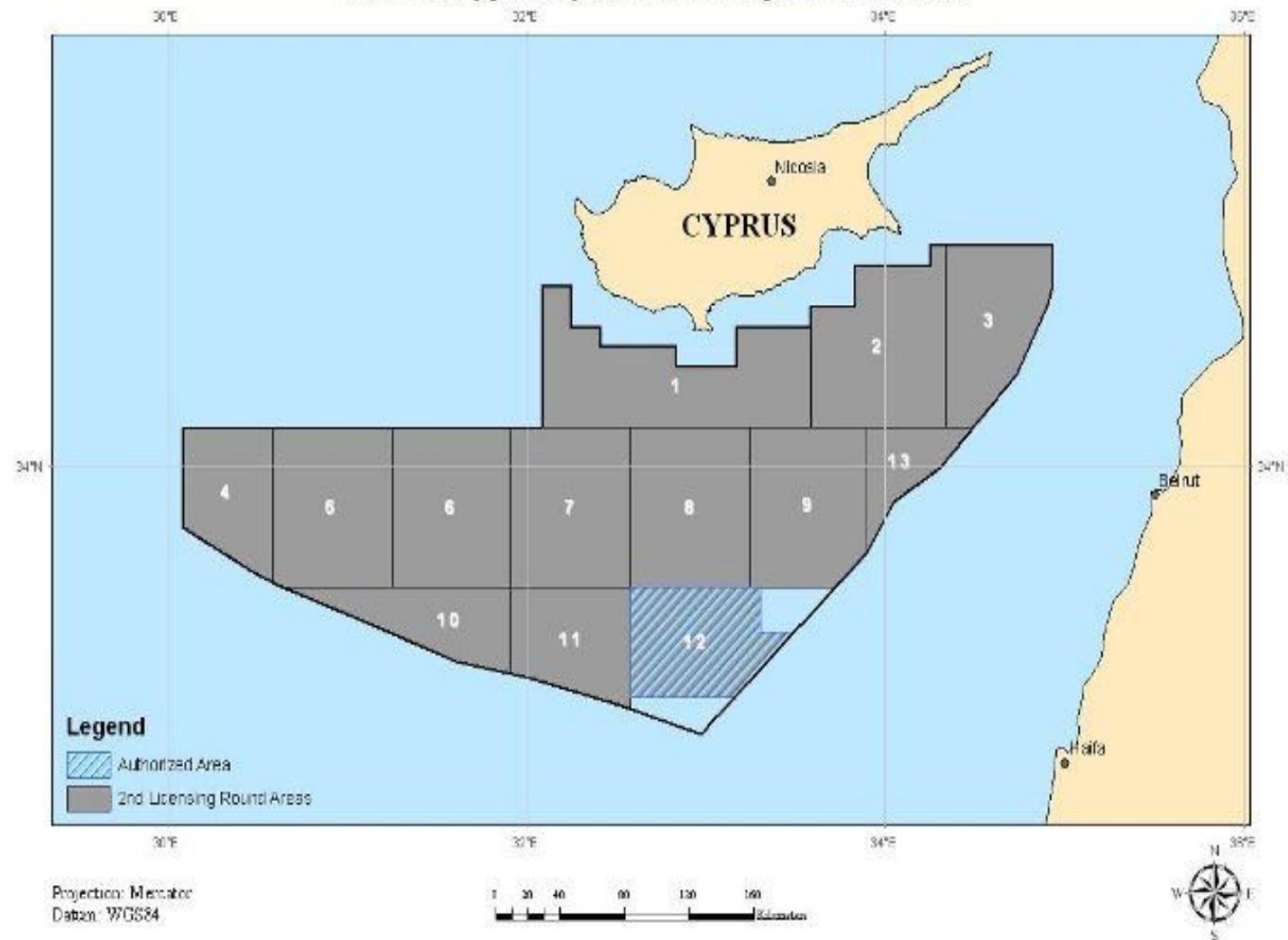
Why Invest in Cyprus

1. *European Union Member State since 2004 and a Euro Zone Member State since 2008*
2. *Highly Qualified and Multilingual Labour Force.*
3. *Lowest EU Corporate Tax Rate (10%)*
4. *Very Good Foreign Direct Investment (FDI) Track Record*
5. *Efficient Legal, Accounting and Banking Services*
6. *Strategic Location in Middle East with Proximity to Suez Canal.*
7. *Advanced Telecommunications Network and Infrastructure*
8. *Reputable International Shipping Centre (currently boasts one of the biggest fleets worldwide)*
9. *Good Living and Working conditions round the year*

1. Exploration

- Block No 12 was awarded to Noble Energy during the 1st Licensing Round. Another 12 Blocks were the subject of the Second Licensing Round, offering big investment possibilities.
- 15 Proposals were received and the Government of Cyprus awarded 5 further Blocks to the following parties.
- Blocks 2, 3 & 9 to the Consortium of ENI (Italy) & KOGAS (Korea), and Blocks 10 & 11 to TOTAL (France)

2nd Licensing Round Offshore Cyprus Hydrocarbons Exploration Blocks



2. Submarine Gas Pipelines

- In order to transport the Natural Gas to Cyprus, from the Gas Fields, a 200km + submarine gas pipeline will be necessary. Estimated cost up to US\$2Billion.
- There is an opportunity for the Production, Laying, Operation and Maintenance of this pipeline, which is bound to have “third party access”.

3. Liquefaction Plant(s)

- Necessary to set up 1-3 Liquefaction trains 5MT/y each, (in modular form), in Cyprus, in order to liquefy gas reserves and export them to Europe, Asia, etc, as LNG (Liquefied Natural Gas).
- The estimated cost of establishment of such an LNG plant is in the region of US\$10Billion.

4. Cyprus Internal Natural Gas Distribution Network

- The Government of Cyprus has created the Natural Gas Public Company of Cyprus (DEFA) which will be the sole importer and distributor of Natural Gas in Cyprus.
- DEFA is currently designing the inland gas distribution network. Very soon it will announce tenders for this Project. The gasification of the Island will be an on-going process and it is expected to cost over €500 million.

5. Electricity Power Generation

- The Electricity Market of Cyprus has been liberalized (following EU Directives) and is open to competition.
- The Electricity Power Generation needs of Cyprus are quite high and increasing, while the Sector is still a monopoly!
- It is anticipated that the first Independent Power Producers will appear soon.

6. Use of Natural Gas in Transport

- The use of Natural Gas in internal Transportation i.e. Buses, other Vehicles running on Natural Gas and Gas Stations, opens up a new opportunity that needs to be addressed and exploited. This subject is one of the priorities that DEFA itself has set.
- *Thank you*

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