

2021 Energy Price Crisis impacts on Energy Poverty in Cyprus

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How has the crisis affected energy costs for households?

The COVID-19 pandemic in Cyprus triggered responses similar to those of other European countries, including working from home directives, distance learning, restricted movement and prolonged periods of time spent indoors, as well as lockdowns. Subsequently, the time spent at home increased substantially for the majority of households in Cyprus, with manifold impacts on physical and mental health (Kolokotroni et al. 2021). Moreover, the amount of final electricity used in Cyprus decreased overall, reaching an all-time low in April 2020, for the period 2015-2021 (up to August), similarly to OECD European countries, as observed in Figure 1 (IEA 2021). For Cyprus, this decrease possibly reflects the halt in activities that resulted from the first lockdown implemented between 15th March and 21st May 2020. By the summer of 2020, electricity consumption returned to normal levels and in August 2021, the maximum amount of electricity consumption was recorded for the period January 2015 – August 2021.

Households in Cyprus rely mostly on electricity for energy services, since there is no natural gas grid, and the energy market is essentially a monopoly, with the Electricity Authority of Cyprus (EAC) being the sole energy supplier. Power plants employ heavy fuel oil combustion to generate electricity (EAC 2019), therefore prices are highly influenced by the price fluctuations of this fossil fuel, especially due to Cyprus being an isolated energy island. Electricity prices between 2015 and the first half of 2021 for Cyprus and for the EU 27 (from 2020 onwards) are also presented in Figure 1, indicating that just before the pandemic, Cyprus had a

higher electricity cost than the EU average. On the first half of 2020, prices were identical, but in the second half, the cost for household electricity in Cyprus decreased significantly, relative to the EU average. In fact, Cyprus was amongst the countries with the largest drops in electricity prices (Eurostat 2021a). This was a consequence of globally decreased prices for oil, as well as a 10% discount applied by the EAC on all electricity bills for a period of six months.

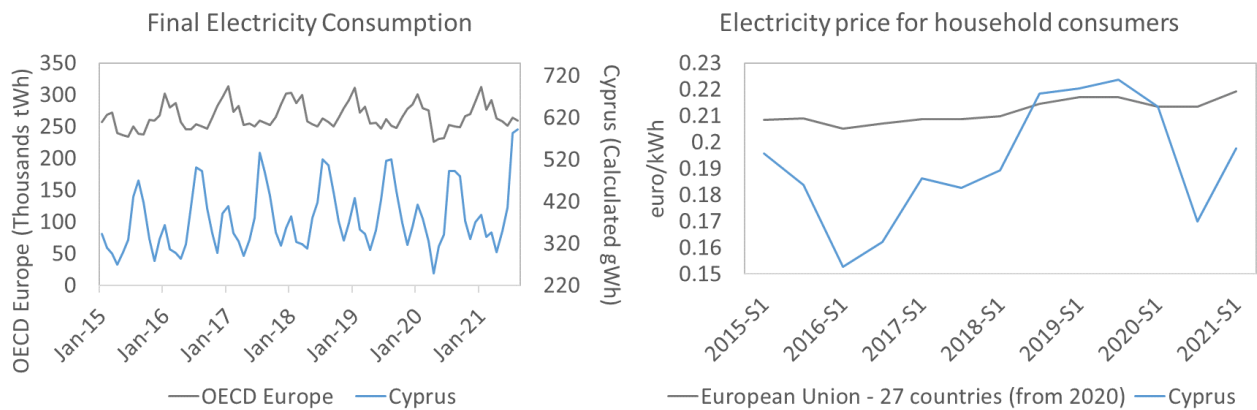


Figure 1. Final electricity consumption in OECD Europe and Cyprus (left) and Electricity price for household consumers in Cyprus and EU 27 (right) (IEA 2021; Eurostat 2021b).

What do we know on the current impacts in terms of energy poverty?

The impacts of the public health and energy crises on energy poverty have not been assessed; all household consumers of electricity were granted a period of discounted energy during 2020. Consumers still have to pay their bills, however, the EAC examines how to best support low-income households and the ones with financial hardships on a case by case basis (Financial Mirror 2020). Although the decrease in electricity cost during 2020 was remarkable, prices are hiking in the second half of 2021. The cost of energy in November 2021 was at its highest since 2012, with a 90% increase from the previous November (Financial Mirror 2021). This is partly due to the once again increasing fossil fuel prices globally, but also due to higher costs of purchasing greenhouse gas emission rights by the State. Cyprus is one of the EU member states which has failed to reach renewable energy targets, and the population now has to bear the penalties on their energy bills. Moreover, with the new Green Deal, Cyprus' targets for 2030, outlined in the Integrated National Energy and Climate Plan in 2020, are already outdated (European Commission 2020; Mesimeris et al. 2020).

What are the impacts on supply conditions and suppliers?

The Electricity Authority of Cyprus (EAC), the sole electricity supplier, has implemented discounts on the price of energy at times and has decreased the Public Service Obligations (PSO) fee, which is used to fund the lower energy tariff applicable to vulnerable consumers (Marlies Hesselman et al. 2020). Due to the limited nature of the energy market, no large-scale changes have occurred in relation to contracts and supply conditions of electricity consumers. A Recovery and Resilience plan for 2021-2026 has been developed by the government, which includes strategic components for a green transition, the opening up of the electricity market and the introduction of competition, with consumers being able to choose between suppliers and contract types.

Which policy responses have been implemented or debated?

The discounted electricity bills of 2020 were applied by the EAC, which is an independent, profitable organisation, as a response to the COVID-19 crisis. Energy prices are now increasing at an alarming rate due to high costs related to GHG emission rights. The combined effects of the pandemic and this augmented energy cost have not been assessed, but as of November 2021, the government of Cyprus has reduced the VAT on electricity bills from 19% to 9%. This reduction is applied for a period of three months, in line with the European Commission's suggestions to tackle escalating energy bills and energy poverty. Vulnerable consumers are entitled further reduction, to 5%, for a period of six months (Charalambous 2021b). Although this is a temporary measure, opposing parties are calling for an indefinite reduction to a lower VAT rate (9%) for all households, something which has been vetoed by the President of the Republic (Charalambous 2021a). Moreover, vulnerable consumer groups, as stipulated by relevant legislation, are entitled to grants for replacement of old and energy inefficient home appliances under a new scheme, accepting applications until the end of 2022 (RES and Energy Conservation Fund 2021; MECIT 2015).

To what extent have the energy poverty impacts of the crisis affected the national debate on energy poverty?

The topic of energy poverty has been unusually highlighted in national strategic planning and in the responses of the government and the electricity supplier to the public health crisis. For instance, the Cyprus Recovery and Resilience plan emphasises the need to reduce water and energy bills and to improve the affordability of housing and living conditions, while improving the energy efficiency of the building stock (Republic of Cyprus 2021). Although the pandemic undoubtedly has a role in this integration of energy poverty in national policy plans, the EU has also emphasised the importance of detection and mitigation of energy poverty during the past two years. Therefore, the government's consideration of energy poverty may be a result of both COVID-19 and the EU's new Green Deal, especially since there has been no re-assessment of the current methodology for energy poverty detection in Cyprus, which has been criticised (Kyprianou and Serghides 2020).

Conclusion

The public health crisis Cyprus has been facing since early 2020 has stirred manifold reactions from private and public entities. While Cyprus endures chronically high energy prices as a result of energy isolation, fossil fuel dependence and penalties from GHG emissions during critical periods, the entire population of this island was offered discounted energy as a temporary managing tool. While the reduced VAT measures are indeed intended as a temporary solution to the escalating energy prices, the Republic of Cyprus has currently no plans how to reach the required GHG emissions targets. Moreover, energy consumers in Cyprus have been locked in a monopoly with a sole electricity supplier (EAC) for decades; the enactment of the liberalisation of the energy market has been expected for years, and still is not within sight. On the one hand, for the time being, and for the foreseeable future, it seems like the population in Cyprus may be facing continual significant increases in energy bills, with no immediate relief. On the other hand, in times of need, energy consumers have been supported; either by the government, or by private entities. Due to this essential level of intermittent protection up to the second half of 2021, the energy crisis in Cyprus has been successfully moderated, but what follows is unpredictable.

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