

Position Statement of the Energy Working Group of DBIHK with respect to liberalization and the need of reformation of Bulgarian Energy System

The Energy Working Group of DBIHK appreciates the opportunity to support the Government as it develops reforms of the Bulgarian energy system. The energy system has been a cause of significant concern during the past few years and failure to address major “shortcomings” is having significant negative impacts on the economy – both for producers and for residential and corporate consumers, and harming Bulgaria’s investment climate.

All parties agree that a critical problem is the sizeable and growing deficit in the whole energy system. The current policy to keep energy prices artificially down is not a sustainable instrument to boost the economy and to decrease social problems. Energy prices should be liberalized to give the right price signals for a more suitable use of energy whereas social problems shall be solved via target-oriented social measures. Rather, Government should adopt a long-term holistic approach which measures and transparently address the impacts on individual actors and the entire system.

In sum, both short term and long-term reforms should be based on the fundamental principles of **sustainability, predictability and transparency** and more specifically should aim to 1) liberalize the electricity market, and 2) strengthen the regulatory environment, and 3) stabilize the energy companies, and 4) introduce a suitable social compensation scheme. The following key measures can help over the long-term to achieve these goals:

1. Liberalize the market
 - 1.1. Establish a transparent and trusty power exchange. In order to save time and to have significant liquidity it would be advisable to join forces with existing exchanges in the region like OPCOM or HUPX.
 - 1.2. Establish a real market for balancing power by abolishing the current administrative price mechanism and by allowing the formation of cost-minimizing balancing groups.
 - 1.3. Open the market for business customers on low voltage and households.
 - 1.4. Introduce an obligatory tender mechanism for purchase of energy for the suppliers of last resort instead of the current single-buyer model
 - 1.5. Ensure transparency and competition for wholesale energy purchases by conducting sales of electricity by state entities in an open and transparent manner by selling via tenders resp. via the power exchange only
 - 1.6. Effective separation of the Public provider of natural gas from the Transmission operator of natural gas
 - 1.7. Liberalize the market of natural gas by deregulating the gas delivery to all eligible customers (all customers except the public suppliers/suppliers of last resort customers), which is a direct requirement of art. 3.3. of Directive 2009/73/EC
2. Strengthen the Regulator.
 - 2.1. Establish rules guaranteeing the independency of the Regulatory Authority SEWRC from the executive influence (i.e. shifting the appointment and election mechanism for members of the Regulator from the government to the parliament where an open hearing shall be mandatory and implementing a duration different from the government’s mandate).
 - 2.2. Adopt changes in the Energy Act that SERWC has to obey clear rules that independence is not misunderstood as omnipotence. SEWRC’s primary mandate

- must be to ensure the sustainable functioning of the energy system by taking predictable, stable, transparent and non-discriminatory measures
- 2.3. Make transparent all fees paid by energy companies to SERWC and retain these fees within the Regulator to strengthen its position.
 - 2.4. Accept advisory assistance from the competent authorities of the European Union as well as other international experts and improve the administrative capacity of the administration as advised in the World Bank Report.
3. Stabilize the energy companies
 - 3.1. Limit unnecessary law changes, thereby limiting the turmoil in the system that exacerbates a challenging investment climate and avoid retroactive measures.
 - 3.2. Define the future role of NEK. When the single-buyer model is abolished the Government needs to find other ways to cover its payment obligations.
 - 3.3. Tariffs paid to electricity and gas grid operators must be sufficient to cover operational expenditures as well as necessary investment requirements and shall be non-discriminatory.
 - 3.4. Stimulate high efficiency by cogenerations and allow district heating companies to introduce market-oriented business models
 - 3.5. Introduce penalties or initiate closures for plants that do not comply with EU environmental requirements.
 - 3.6. Evaluate the formula that determines the cold reserve and decrease the size of the reserve if possible, keeping in mind that the reliability the system should be preserved. ESO shall secure the needed reserve at an optimal price obtained via competitive bidding.
 4. Introduce a suitable social compensation scheme
 - 4.1. Identify the need of social aid for energy poor households prior to implementation of the social compensation scheme
 - 4.2. Utilize the expected increase of VAT from the market liberalization for additional financing of the social compensation scheme
 - 4.3. Extend the existing energy excise also to household customers and use it exclusively for financing the social compensation scheme
 - 4.4. Establish control mechanisms for the current energy aid and prohibit misuse
 - 4.5. Collaborate with the municipalities to increase the efficiency of social rents („Zhilfond“) and to optimize the usage of the existing energy aid

We believe these recommendations are in line with a path towards a modern liberalized energy market and will improve the financial health of the sector. We ask that the Ministry of Economy and Energy includes representatives of DBIHK and business more generally in the working group which is preparing an energy strategy. DBIHK includes members with significant technical and legal resources who are prepared to offer advice and assistance. We are confident that the reforms will benefit greatly by including all stakeholders in the energy strategy preparation.