



**State Energy and Water Regulatory Commission (SEWRC)
Bulgaria**

**Annual Report
to the European Commission**

July 2013

Table of contents

1. Foreword	3
2. Main developments in the gas and electricity markets	4
3. Electricity market	16
3.1 Networks regulation	16
3.1.1 Unbundling	16
3.1.2 Technical functioning	16
3.1.3 Network tariffs for connection and access	23
3.1.4 Cross-border issues	24
3.1.5 Compliance	29
3.2 Promoting Competition	30
3.2.1 Wholesale markets	30
3.2.2 Retail markets	34
3.3 Security of supply (if and in so far as NRA is competent authority)	38
3.3.1 Monitoring of the supply and consumption balance	38
4. Natural gas market	39
4.1 Network regulation	39
4.1.1 Unbundling	39
4.1.2 Technical functioning	40
4.1.3 Connection and access network tariffs	42
4.1.4 Cross-border issues	45
4.1.5 Compliance	46
4.2 Promoting Competition	47
4.2.1 Wholesale markets	47
4.2.2 Retail markets	51
4.2.3 Recommendations on supply prices, investigations and measures to promote effective competition.....	53
4.3 Security of supply	54
4.3.1. Monitoring of the supply and consumption balance	55
4.3.2 Expected future demand and available supplies, as well as envisaged additional capacity	55
4.3.3 Measures to cover peak demand or shortfalls of suppliers.....	56
5. Consumer protection and dispute settlement in electricity and gas	59
5.1 Consumer protection.....	59
5.2 Dispute settlement.....	60
6. Conclusions and perspectives	61

1. Foreword

The present paper represents a national report elaborated by the State Energy and Water Regulatory Commission (SEWRC) to the Agency for the Cooperation of Energy Regulators and the European Commission in compliance with the reporting obligations under art. 37(1)(e) of Directive 2009/72/EC and art. 41(1)(e) of Directive 2009/73/EC.

The most essential development in the energy sector regulations in 2012 was the amendment of the Energy Act of 17 July 2012, by which the above-cited Directives were transposed in the Bulgarian legislation. The Act is in line with the requirements of the new European legislation in the field of internal electricity and natural gas markets – the Third energy liberalization package. The amendment of the Energy Act follows the provided for in the two Directives guidelines and it transposes in details the independence requirements for the transmission networks operators and the requirements regarding the regulatory authority powers.

The key legal amendments are related to:

- Enforcement of the national regulatory authority powers;
- Enhanced consumer protection;
- Ensuring the independent realization of transmission and distribution activities separately from the production and supply activities in electricity and gas;
- Guaranteed network development including interconnections.

The amendment of the Energy Act gave SEWRC the power to adopt regulations and to draft rules, thus contributing to the enlargement of the market opening level and competition in electricity and natural gas, which in turn, will ensure the implementation of the country's duties related to the current European legislation.

By the amendments and supplement of the Energy from Renewable Sources Act (ERSA), which transposes Directive 2009/28/EC on promotion of the use of energy from renewable sources, since April 2012 SEWRC has been granted the power to fix feed-in-tariffs for the purchase of electricity from renewable sources more than once a year in case of significant deviation in the pricing components defined in ERSA.

In the context of the amendments introduced in the national legislation, the major efforts in 2012 were directed to restructuring the energy sector with the aim to ensure sustainable development of the internal energy market.

Anjela Toneva
SEWRC Chairperson

2. Main developments in the gas and electricity markets

2.1. Main developments in the electricity market

Wholesale market

In line with Directive 2009/72/EC and under the Energy Act, the electricity market in the Republic of Bulgaria has been fully liberalized since 1 July 2007.

The annual net output in the country in the reporting period – 2012 was 40.537 TWh, which is a decrease in the net generation with more than 9 % in comparison to 2011. To a greater extent, the reason for this decrease is the reduced output due to reduced consumption and exports in 2012. The share of electricity market opening in 2012, including both consumers using their right to choose a supplier and commercial exports, was 30.5 % with sales on the free market to the amount of 13.60 TWh.

Electricity end consumption in the country in 2012 was at the amount of 29.2 TWh, which is 1.2 % less to 2011.

In 2012 the regulator issued licenses to 13 new companies for the activity of “electricity trading” with which the total number of licensed traders has become 111. At the request of licensees the Commission has terminated 5 of the active licenses for the activity of “electricity trading”, thus the total number of licenses for the activity “electricity trading” in 2013 became 106.

The electricity market in Bulgaria is characterized as national and at the same time, well-integrated with the neighboring countries.

The activities and organization of the market in the country and with the neighboring countries in 2012 were regulated by “Electricity Trading Rules” and “Auction Rules for the Allocation of Capacities on the Interconnections between the Control Area of Electricity System Operator EAD - ESO EAD (TSO) and its Neighboring Control Areas for the Year of 2012”. These Rules have been agreed and approved by the national regulator State Energy and Water and Regulatory Commission (SEWRC) of the Republic of Bulgaria.

In 2012 by Decision of Protocol No 212/03.12.2012, item 17, SEWRC agreed:

- “Common Auction Rules for Allocation of Transmission Capacities on the Interconnections between the Control Areas of Electricity System Operator EAD (ESO) and the Control Areas of EMS (Serbia), MERSO (FYROM) and TEIAS (Turkey) for the year 2013”. Under these Auction Rules 50 % of the available transmission capacity is allocated for electricity transmission in both directions between the electricity system of the Republic of Bulgaria and the electricity systems of Serbia, FYROM and Turkey. Long-term and short-term allocation nominations of the whole available transmission capacity offered by ESO EAD have been introduced in the market in the form of yearly, monthly and daily auctions.

- „Rules for access to the Bulgarian-Greek interconnection electricity line (Auction Rules for Allocation of Transmission Capacities) for 2013”. For the allocation of the available transmission capacities on the Bulgarian-Greek interconnection for 2013, ESO EAD, in its capacity of an auction operator, shall bear the obligation to carry out monthly auctions in both directions and ADMIE shall carry out the yearly and daily auctions in both directions.

- “Yearly, monthly, daily and intraday auction rules for the coordinated allocation of transmission capacities on the interconnections between the control areas of ESO EAD and CN TRANSELECTRICA SA for 2013”.

The above rules are in compliance with Regulation (EC) 714/2009 of the European Parliament and of the Council on the conditions for access to the network for cross-border exchanges in electricity, regulating the terms and conditions governing the allocation of ATC in both directions on the interconnections in a transparent and equitable manner.

By Decision of Protocol No 94 of 25 Jun 2010, item 5 SEWRC adopted new “Electricity Trading Rules”, which envisage the implementation of the Third Liberalization Energy Package. The Rules were published in SG, issue 64 of 17 Aug 2010 and entered into force in August 2010. Under the aforementioned Rules a new market model has been created and the new market organization envisages:

- Introduction of hourly schedules for all transactions, notwithstanding at regulated or freely negotiated prices;
- Notification schedules on a daily basis, in the day D-1;
- Introduction of balancing groups in the market structure and a new registered procedure for the balancing groups coordinators;
- Introduction of new market relations between ESO EAD and balancing energy providers;
- Introduction of a balancing mechanism in the balancing energy market operation – separation of the energy the operator uses for regulation from the energy the generator offers on the market – regulated and/or open;
- Introduction of a separate settlement from the balancing groups coordinators and the balancing energy providers;
- Regulation of the terms and conditions for the market participation of RES generators;
- Regulation of the trading terms and conditions on exchange principle.

The Electricity Trading Rules, in force since August 2010, define the necessary period in 2011 for the gradual implementation and parallel testing of the organization and market operation. After the completion of the testing periods for the implementation of the Trade Rules in 2011 and 2012, a necessity for some feasible amendments and streamline of the provisions appeared and that was the reason for the current procedure of amendment and supplement of the latter.

By a tradition, Bulgaria is a net electricity exporter for the countries of the South East Europe region. In 2012 the share of net country exports was 8.31 TWh, which represents 20.4 % of the net electricity country output.

The electricity market in the country is organized and administered by the Electricity System Operator. In line with the Energy Act, electricity trading in the country is carried out on the basis of bilateral contracts between the trading participants: producers, traders and consumers of electricity and on a balancing market. ESO balances the energy system by technical and economical criteria, taking into consideration the received applications and bids for the balancing market.

The current trade exchanges, including day-ahead offers are carried out under the above mentioned Common Auction Rules between the system operators of Bulgaria and Romania and Greece, and under the new Electricity Trading Rules. The open electricity market in 2012 included the bigger part of the business consumers, connected to high voltage network (HV) and a part of the middle voltage (MV) consumers.

At present, there is no electricity exchange organized in the country. The adopted by the National Assembly Act for the amendment and supplement of the Energy Act in July 2012 places the national electricity sector in the necessary compliance with the provisions of Directive 2009/72/EC and Regulation (EC) № 714/2009 under the requirements of the Third liberalization package.

Retail market

In 2012 the electricity market in the country operated in line with a model, under which a part of the transactions for sale of electricity were concluded at regulated prices, approved by the regulator, and the rest was traded on the liberalized market at freely negotiated prices between the participants in the electricity market, under EA.

In compliance with the amendment and supplement of the Energy Act (SG, issue 54 of 2012) end suppliers supply and sell electricity to “protected customers” - households and non-household consumers connected to the distribution network at low voltage in the licensed territory, when those customers have no supplies from another supplier.

The amendments of the law are in accordance with Directive 2009/72/EC and the Third energy package, forming requirements aimed at the expansion of the freely negotiated prices electricity market in the medium and small business sector.

In line with the Energy Act, a certain share of the electricity output quantities generated by different producers was purchased by the Public Provider for protected consumers at regulated prices. The quantities of electricity purchased at regulated prices from the producers with the framework of the “quota” set by the regulator in respect of each producer were determined on the basis of the principles of equal treatment and transparency in line with the methodology adopted by the regulator.

The regulated price for protected consumers in the country was formed as a mix price of the electricity producers from different primary energy sources (nuclear fuel, coal, water energy, RES), which represented a prerequisite for equality of all consumers. The rest of the electricity output could be sold by the producers on the liberalized market as equal participants.

In pursuance of the Energy Act and the currently in force “Ordinance on regulating the prices of electric power”, in respect of the protected consumers, by a decision of the regulator, the following prices were set:

- prices for access to the electricity distribution networks;
- prices for transmission over the electricity distribution networks;
- prices at which the end suppliers sell electricity to household consumers and enterprises having less than 50 hired personnel and an annual turnover up to 10 million euro.

Since 2008, the price for transmission over the distribution networks has been defined separately as a price for transmission over the electricity distribution networks and a price for access to the networks. The regulated by SEWRC prices for access and transmission of the distribution companies, under the Ordinance on regulating the prices of electric power, are set based on admitted by the regulator revenue requirements for the relevant distribution network maintenance and operation.

The main consumer groups connected to the distribution networks in 2012 were as follows:

- Business consumers at middle voltage – the price for these consumers includes: a price for electricity to an end supplier, a price for transmission over the electricity distribution network and a price for access to the electricity distribution network.
- Business consumers at low voltage – the price for consumers at low voltage includes: a price for electricity to an end supplier, a price for transmission over the electricity distribution network and a price for access to the electricity distribution network.

- Household consumers connected at low voltage – the price for electricity includes: a price for electricity to an end supplier, a price for transmission over the electricity distribution network and a price for access to the electricity distribution network.

Public obligations and consumer protection

Considering the increased share of electricity output generated by renewable energy sources (RES) like photovoltaic PP, small HPP, wind energy, biomass, etc., in 2012 a charge for green energy was still added to the price of the Public Provider for transmission wheeling through the transmission network. This charge was calculated as the difference between the costs for the purchased electricity at preferential prices and the costs of basic price. These additional costs were directed to all consumers in the country, as a common obligation of the society.

In 2012, SEWRC adopted a protocol decision № 117/16.07.2012 on “Methodology on compensation of the public provider and end suppliers’ costs arising from the imposed to them public obligations to purchase electricity at feed-in-tariffs from renewable energy sources and high-efficient cogeneration of heat and electricity”. This methodology regulates the compensation for costs resulting from imposed public service obligations on energy companies which are born by all electricity consumers in a non-discriminatory and transparent manner by paying the so called “green and brown energy” charges over the price for electricity transmission. The methodology adopted takes into account the new feed-in-tariff pricing mechanism, as set out in the Renewable Sources Energy Act and the new payment system for all network services among the public provider, end supplier, consumers, producers and transmission and distribution companies under Electricity Trading Rules, adopted by SEWRC’s decision protocol № 94 of 25.06.2010. It is envisaged the public provider to make a data summary about both invoiced electricity quantities to end suppliers and invoiced electricity quantities and reported revenues of end suppliers too, classified as “green energy income” and “high-efficient cogeneration income”. The approach to identify the amount of the costs and the way to recover the energy companies, are regulated too.

Alongside with the other components of the price – for generation, transmission and distribution, the appointed by the Regulator green energy charge and the high-efficient cogeneration of heat and electricity charge too, contribute to the necessary transparency when forming the price for the end consumer.

In line with the Energy Act, the powers of the SEWRC include the review of complaints of consumers against licensees or of licensees against licensees relating to the performance of the licensed activity. The terms and procedure for lodging complaints, their review and the procedure for voluntary settlement of disputes are established in a secondary legislative act: the Ordinance on licensing the activities in the energy sector. The Commission adopted Internal Rules for reviewing complaints and requests for voluntary settlement of disputes in 2004, updated in 2008.

SEWRC makes a thematic analysis every year of the registered complaints under pre-defined indicators.

During the year 31 extraordinary inspections were carried out in the electricity distribution companies and end supplier companies regarding the fulfillment of the license terms and obligations, as well as regarding SEWRC’s decisions. As a result, finding records were drawn up and obligatory instructions were given, containing deadlines for implementation.

In relation to consumer issues and complaints with a wide public concern, SEWRC works in collaboration with the other state institutions.

The main principles governing the activities of the SEWRC in the performance of its regulatory powers are the prevention and non-admissibility of infringements relating to the competition on the energy market, as well as ensuring a balance between the interests of the energy utilities and consumers.

Infrastructure

Operational costs and transmission network maintenance costs were reimbursed through approved prices for transmission and access.

The prices approved in 2012 were as follows:

- Price for transmission to the electricity transmission network paid by all network users transmission operator NEK EAD.
- Price for access to the electricity transmission network paid to electricity system operator ESO EAD by all users of the network, without the amounts under transactions with a subject “electricity transit”.

The regulated by SEWRC prices for access paid to ESO EAD and for transmission paid to NEK EAD and for using the transmission network, were set out based on allowed by the Regulator revenue requirements for the maintenance and operation of the electricity transmission network.

In 2012 the Regulator approved technical measures and rehabilitation means of the electricity transmission system of the country with modernization of the transmission control and the transformation, realized by loan funds and own funds of the transmission company NEK EAD.

In 2012 the transmission company undertook a number of reconstructions and enlargement of the transmission network following an investment programme approved by the Regulator and constructed new substations and lines, due to the current high pace of constructing new RES capacities from wind, HPP, biomass and photovoltaic energy in certain regions of the country.

The Electricity System Operator ESO EAD performs the operational management and regulates the allocation of electricity loads of the electricity system, by taking into account the accepted and confirmed notifications for transfer capacity of the trading participants on the basis of the currently in force Electricity Trading Rules and the Auction Rules presented above.

The cross-border transfer capacity on the interconnections is allocated by the Auction Operator in the form of commercial transfer rights in line with the current agreements and agreed with the operators of the neighboring countries Auction Rules. The Auction Operator calculates and allocates the transfer capacities in line with the standards and rules of the European Network of Transmission System Operators for Electricity (ENTSO-E).

The transmission system and the interconnections with the neighboring countries ensure the needed transmission capacity for the commercial electricity exchange in the region.

Security of supply

In line with the Energy Act, ESO prepares short-term and long-term forecasts and development plans for the electricity system in order to ensure the electricity balance of the country. Based on these forecasts and plans, ESO submits to the Minister of Economy and Energy a draft electricity balance and a list of the sources needed by the country, including new production capacities and interconnection lines.

The total installed capacity in the country in 2012 was 13 759 MW. The maximum net available output capacity to the annual maximum was 9 719 MW, and the peak load in February 2012 was 7 444 MW.

At this stage of development of the domestic and regional electricity market, the electricity transmission network of the country has not faced significant problems related to security of supply and congestions in the electricity system, including the cross-border transfer capacities. As a result of the considerable in 2012 increase of the RES electricity capacities in the country, mainly solar and wind power, some difficulties occurred regarding the connection of new capacities to the transmission and distribution networks due to limited capacity. In this regard, under the currently in force EA, “Electricity Transmission Network Development Plan of Bulgaria for the period 2010 – 2020” is in process of reviewing and approval at the Ministry of economy and energy and at SEWRC. Under the current legislative framework SEWRC reviews and approves investments and schedules for the network expansion of electricity distribution companies.

Rare cases of short-term congestions occurred in the interconnectors with some of the neighbouring countries of the Republic of Bulgaria (with higher loads in the winter season).

Regulation/Unbundling

In line with the Energy Act, the Electricity System Operator (ESO) is part of a vertically integrated enterprise, the Public Provider NEK EAD. However, in line with the Act and the terms of the license, ESO’s activities are independent from a legal and organizational point of view, from a financial and accounting point of view and in view of the decision-making process in relation to the functions assigned to it by the law from the other activities of the vertically integrated enterprise.

The legal, organizational and financial unbundling of ESO from the Public Provider has been ensured.

ESO prepared a compliance program, subject to approval by the Regulator for 2012 as well, setting out the specific measures related to the performance of the license conditions and the requirements specified above. Every year, ESO submits an annual report on the fulfillment of the measures under the objectives specified in the program and the report is submitted to the regulator for review and approval.

The implementation of the compliance programme also takes into account and ensures the independence of ESO and of the persons responsible for the management, including the operational management of the electricity system.

Distribution companies in the territory of the country similarly prepare and submit compliance programs setting out the measures to ensure the independence of the Distribution System Operator. The compliance programs submitted are reviewed by the Regulator at its sessions and are either approved or, if necessary, supplemented by instructions to supplement the program in order to guarantee the independence of the operator from the other activities of a vertically integrated enterprise. Every distribution company prepares an annual report on these measures which is submitted to the Regulator for approval.

In 2012 the Regulator approved the reports for the compliance programs of ESO and of the distribution companies.

In 2012 the Electricity System Operator continues to prepare, maintain and publish on its web site the necessary general and specialized information concerning the activities on the balancing energy market and about the transactions at freely negotiated prices.

The new Auction Rules and Electricity Trading Rules ensure transparency and non-discrimination among all participants in the auctions for transmission capacities.

In 2012 organizational and technical activities continued concerning the transition to calculation and provision of transit capacities on the interconnection lines with the controlled areas of the neighboring countries by day-ahead offers.

In 2012, with the active participation of SEWRC, a draft of the new Renewable Energy Law was developed, in compliance with and implementing the principles and formulations of the Third energy package. The Law was passed by the National Assembly of Bulgaria in July 2012.

2.2. Main developments in the gas market

By the amendment of the Energy Act, promulgated in State Gazette, issue 54 of 17 July 2012, the Third Energy Liberalization Package was transposed, particularly Directive 2009/72/EC of the European Parliament and the Council of 13 July 2009, on the common electricity internal market rules, Art. 39, §5 and Directive 2009/73/EC of the European Parliament and the Council of 13 July 2009, on the common natural gas internal market rules.

The above cited Directives stipulate new rules in relation to the National Regulatory Authorities (NRA). The provisions of art.35 of the Electricity Directive and art.39 of the Natural Gas Directive enhance Regulators' independence. Articles 36 and 37 of the Electricity Directive and articles 40 and 41 of the Natural Gas Directive empower the NRA with new aims, obligations and powers.

In EA art.21, § 1, item 27, it is stipulated that SEWRC acquires the power to certify the natural gas transmission system operators about the completion of the independence requirements and also to monitor their compliance. It is envisaged that within six months of the EA's entrance into force, Bulgartransgaz EAD must submit at SEWRC a certification application for an independent transmission operator and in 2012 the operator started the preparation of certification application.

The implemented amendments of the administrative and penal provisions were dictated by the need for the control SEWRC carries out to be bind with the possibility to impose appropriate and proportionate to the breaches sanctions.

Wholesale market

In 2012 there were no essential changes in the organization and operation of the natural gas market.

Under the EA, Rules for provision of access to the gas transmission and/or gas distribution networks, in compliance with the European Directive for full natural gas market liberalization, all consumers since 01 July 2007 have the right to choose their natural gas supplier, or the market is 100 % liberalized.

Natural gas supply on the territory of the Republic of Bulgaria is carried out over the gas transmission network owned by Bulgartransgaz EAD and over gas distribution networks owned by the respective gas distribution companies. In the territory of the country, a transit gas pipeline has also been constructed, owned by Bulgartransgaz EAD and it transports natural gas through the respective sections of the territories of Greece, Macedonia and Turkey. The activity of public provision is carried out by Bulgargaz EAD. The natural gas on the entry of the gas transmission network is provided based on agreements with foreign providers.

In accordance with the Energy Act natural gas public provision and supply are public

interest services and as such are performed by specially licensed companies. The needs of the Bulgarian market are met almost exclusively by Russian natural gas supplied in the country on the basis of contracts between the public provider Bulgargaz EAD on one side and Overgas Inc., WIEE and Gazprom Export OOO on the other. The share of domestic production in satisfying these needs is negligible. Bulgartransgaz EAD owns and manages the transmission and transit gas pipelines at high pressure as well as the underground gas storage of Chiren.

The activities of the gas transmission network operator - Bulgartransgaz EAD are unbundled legally, functionally and financially from the other activities in the vertically integrated enterprise.

The gas transmission network operator provides:

- integrated management and reliable functioning of the gas transmission network;
- transmission of natural gas over the gas transmission network and its measurement/reporting;
- maintenance of the sites and facilities of the gas transmission network in line with the technical requirements and the safety at work standards;
- development of the gas transmission network in line with the long-term forecasts and plans for development of the gas supply and outside of them, when it is economically justified;
- maintenance and the development of the auxiliary networks.

With respect to the activities of the gas transmission system operator, as part of a vertically integrated enterprise, effective mechanisms have been set in place to guarantee its independence, while the persons responsible for managing, including the operational management of the gas transmission system:

- are not allowed to participate in the management of the other companies of the vertically integrated enterprise, which carry out extraction, distribution, public provision, public supplies and trade in natural gas;
- take independent decisions in the performance of the tasks entrusted to them;
- are obliged not to allow discriminatory treatment in the performance of their tasks.

The activity of public provision is carried out by Bulgargaz EAD, which is a license holder of a license for the activity of natural gas public provision, issued by SEWRC. Bulgartransgaz EAD is a license holder of a license for the activity of natural gas transmission, transit transportation and storage.

The natural gas on the entry of the gas transmission network is provided by three foreign suppliers (Overgas Inc., WIEE and Gazprom Export OOO) and one local supplier (Melrose Resources OOD). Bulgartransgaz EAD owns the transmission gas network, gas distribution companies are connected to this network and also about 250 directly connected consumers. Gas supply in the territory of Bulgaria is carried out over the gas transmission network owned by Bulgartransgaz EAD and over gas distribution networks owned by the respective gas distribution companies. In the territory of the country, a transit gas pipeline has also been constructed, owned by Bulgartransgaz EAD, which transports natural gas through the respective sections to the territories of Greece, Macedonia and Turkey.

Import is carried out by a single importer – Bulgargaz EAD, which is part of Bulgarian Energy Holding (BEH EAD). BEH EAD was established in September 2008 with 100% state share and with a subject of activity generation, extraction, transmission, transit

transportation, storage, operation, distribution, sales and/or purchase of natural gas, electricity, heat energy, coals, as well as all kind of energy and resources for the energy generation. BEH EAD comprises larger energy companies, like Bulgartransgaz EAD (operating as combined operator carrying out the activities of natural gas storage, transmission, transit transportation) and Bulgargaz EAD, operating as natural gas public provider.

Under art.176, para.1 of EA, extractive companies or natural gas traders, on one hand, and the natural gas public provider, suppliers of last resort, storage facilities operators, liquid natural gas facilities operators, natural gas traders or customers – on the other, conclude natural gas transactions among each other at freely negotiated prices. For the reported 2012 the quantities, traded at freely negotiated prices by natural gas traders under gas transmission contracts with the gas transmission system operator, were: 15 million m³ under a contract with Deksia Bulgaria OOD, supplied by the extractive company Melrose Resources Sarl; 180 million m³ under a contract with Agropolihim AD.

As was mentioned above, in 2012 the natural gas supplies for the needs of the Bulgarian consumers were realized by the Public provider Bulgargaz EAD under the contracts with Overgas Inc., WIEE and Gazprom Export OOO. The local production share in meeting the cited needs is negligible and the Public provider purchases natural gas volumes from the local extracting company Melrose Resources OOD. Bulgartransgaz EAD owns and operates the transmission and transit gas pipelines – high pressure, as well as the UGS Chiren.

Bulgargaz EAD is the sole Public Provider that carries out wholesale trade at prices regulated by the SEWRC, with an import market share of 87.1 % for 2012 and the remaining 12.9 % from domestic extraction. The maximal hourly imported flow of natural gas was 0.0051 TWh/h. Local extraction in 2012 was 336 million m³, realized by Melrose resources OOD and Exploration and extraction of oil and gas AD. To compare, the extraction in 2010 was only 54 million m³. The significant increase of the extracted natural gas in the country was due to the newly developed by Melrose Resources Sarl two deposit fields in Kaliakra and Kavarna. The Bulgarian country operates the underground gas storage Chiren, with a capacity of the active gas about 450 million m³/per year. In 2012, 222 million m³ natural gas were pressurized in there, and the amount of the drawn quantity was 347 million m³.

Retail market

SEWRC performs monitoring and current control of the natural gas distribution companies concerning the fulfillment of their approved business plan target parameters, connected with their obligations under their licenses for natural gas distribution and supply. After analysis was made, it was found that the fulfillment of the business plans was at a satisfactory level, on the background of the general economic situation in the region of Southeast Europe.

Natural gas distribution companies, 2012 г.	Constructed network	Investment	Number of consumers		Consumed natural gas, tpm3	
	M	thousand BGN	industrial	households	industrial	households
Total	217 427	44 853	5 705	64 418	416 574	65 687

When regulating the distribution and supply prices, SEWRC takes into account the specific features of the market, including the fact that the needed natural gas distribution

infrastructure of the country is still in process of construction and the connected to the natural gas distribution network consumers are still few. The applied by SEWRC regulatory mechanism provides balanced incentives for the natural gas distribution companies to continue the network development and to connect new customers with the purpose to gradually increase their consumption, where among the others, a higher rate of equity is set for the activities of distribution and end supply, the forming of the regulatory period prices as annuity prices and the adoption of cost-formulated tariff structures.

18.4 % of natural gas consumption (including the local extraction quantities) in the country is realized by 30 natural gas distribution companies, servicing 5 natural gas distribution regions (Dounav, West, Trakia, Mizia, Dobrudja) and 66 municipalities outside these regions.

In order to stimulate investments for the gas distribution companies, SEWRC applies the “price cap” method of regulation. As an investment incentive for the gas distribution companies, the Commission approves the rate on equity on an individual base for each company.

The regular monitoring of the natural gas market carried out by SEWRC is an incentive to encourage retail competition in order to ensure non-discrimination between all participants in the market and between the participants of one and the same category contributing to efficient competition and proper functioning of the market. In this regard, the SEWRC in the performance of its control powers carried out scheduled inspections of the energy companies, as well as extraordinary inspections on the occasion of received warnings and complaints. As an illustration of the activity encouraging competition in the market, it could be pointed out the fact that SEWRC approves price cap for the sale of natural gas, the gas distribution companies being entitled to sell to end consumers at prices lower than the ones approved.

Under EA provisions and the Rules for provision of access to the gas transmission and/or gas distribution networks of 1 July 2007, all consumers have the right to choose their supplier of natural gas, which right is guaranteed in the issued in 2009 licenses for the activity of “natural gas supply by an end supplier”.

Infrastructure

The tariff model applied in respect of the transmission company is “post stamp”. It is envisaged the “entry-exit” tariff model to be introduced in pursuance of the Third energy liberalization package by Bulgartransgaz EAD as a part of the developing entirely new tariff policy of the company. With the support of a consultant team, the operator drafts Methodology for access and transmission pricing of natural gas over the gas transmission networks, which methodology SEWRC shall approved in pursuance of art. 30, para. 1, item 12 of EA.

The price of natural gas at the entry of the gas transmission network is formed by the Public Provider as a weighted average value taking into account the quantities of natural gas notified for delivery from imports for the domestic market and from local extraction enterprises for the purposes of sales in a subsequent period, the terms and conditions under the contracts for transit of natural gas to the Bulgarian border and the exchange rate set by the Bulgarian National Bank of the US dollar or any other foreign currency to the Bulgarian lev, in which the natural gas imported in the country is paid. To the price thus formed, a margin of 2% is added, pursuant to Art.17, para.6 of the Ordinance on regulation of natural gas prices (ORNGP). Upon approval of the periodic changes, prices can be adjusted by the Commission

based on extra loss/extra profit due to the difference between estimated and reported values of the pricing elements of previous period/periods.

On 30 Dec 2009 Decree № 325 of Council of Ministers an amendment was adopted of the Ordinance on regulation of natural gas prices (ORNGP) adopted by Decree № 131 of Council of Ministers of 2004 (Promulgated, SG. 55 of 2004, as amended and supplemented. No. 64 of 2007) and entered into force on 01 Jan 2010. This Decree amends Art. 17 of ORNGP, which concerns the manner the sales price of natural gas by public provider, are determined. In 2012, after the entry into force of EA, a procedure for the amendment of ORNGP was initiated, in pursuance of § 199. (1) of EA, under which provision “secondary legislative acts and general administrative acts for the implementation of this Act shall be adopted or enforced in compliance with this Act within one year of its entry into force”.

In line with the currently effective contract of Bulgargaz EAD with the external supplier, the entry price is changed every quarter, i.e. four times per year.

The prices for end consumers connected to the gas distribution network are formed by adding to the natural gas price at the entry of the gas transmission network and the charge for transit (19.73 BGN/1000 m³) the price for distribution and supply of the specific group or subgroup of consumers.

For the improvement and development of the gas distribution networks in 2012, 44 853 thousand BGN have been invested, a total of 217,427 km of distribution pipelines having been constructed.

Security of supply

The State has determined as the competent authority in charge of the security of supply to be the Ministry of economy, energy and tourism. Under art.72 (a) of EA, the Minister of economy, energy and tourism after consultations with SEWRC and with the natural gas undertakings and organizations, representing the interests of natural gas supplied households and industrial consumers, introduces at national level:

1. Preventive action plan, consisting of the measures needed for the eliminating or reducing of the identified risks impact, in line with the risk assessment, approved by Order №ПД-16-1662/30.11.2012 of the Minister of economy, energy and tourism.

2. Emergency action plan, consisting of the measures needed for the eliminating or mitigating of the impact resulting from the cut off natural gas supply, approved by Order №ПД-16-1663/30.11.2012 of the Minister of economy, energy and tourism.

Risk Assessment was carried out on the basis of elements pointed out in Regulation (EU) № 994/2010 of the European Union and the Council of 20 October 2010, by MEET in cooperation with SEWRC experts and representatives of the energy companies.

Regulation/ Unbundling

With the amendment of EA, (promulgated in State Gazette, issue 54 of 17 July 2012) art.21, para.1, item 27, the power of SEWRC to certify the transmission system operators is envisaged: to certify the electricity transmission network operators and the natural gas networks for compliance with the independent requirements, to monitor their observance and send the appropriate notifications to the European Commission. Art.81 (a), para.1 stipulates that SEWRC shall certify each transmission network operator for the fulfillment of the

independence requirements and monitor their observance by the certified operator. SEWRC shall open procedures for the certification under para.1 on its own initiative, upon the request of the transmission operator or upon the motivated request by the European Commission. SEWRC adopts a draft for a decision for certification or for the rejection of certification within 4 months of the application submission date for certification or of the initiation of proceedings by it or by the request of the European Commission. In case that in this period SEWRC does not act expressly, it is considered that the draft for a decision for certification has been adopted.

Regarding the natural gas distribution undertakings, para 1, 2 and 3 of art.26 of the Directive do not apply in the Republic of Bulgaria, due to the fact that all 27 distribution companies serve less than 100 000 connected consumers.

Conclusions

In performing its powers, SEWRC is guided by the principle of balancing between the interests of energy enterprises and consumers and it creates a competitive environment and equal treatment for access to the service of gas supply.

In 2012, SEWRC reinforced monitoring and control on the licensed companies in the sector in order to improve the capacity of the gas distribution networks, to encourage investments in the improvement of the gas infrastructure and the right of access to the service under transparent procedures and rules.

Being a part of the requirements of the Third energy liberalization package and to provide an unimpeded and non-discriminatory approach in the provision of access to the gas networks and their development in the interest of the natural gas market participants, Independent Transmission Operator has been chosen as the optimal decision for ensuring non-discriminatory access to the natural gas network and provision of transparency and efficiency of the activities of the transmission operator.

3 Electricity market

3.1 Networks regulation

3.1.1 Unbundling

Article 9 of Directive 2009/72/EC requires the guaranty of the unbundled activities of transmission, supply and generation of electricity, and any form of control between the companies performing these activities to be excluded. In 2012 National Electricity Company EAD was still a license holder of a license for the activities of public provision, transmission and generation of electricity. In connection to the transposition of Directive 2009/72/EC, SEWRC actively took part in the work groups on amendment of the Energy Act and in that Act new chapter was drafted stipulating the transmission network operators' certification procedure and investment realization rules.

In 2012 the Energy Act envisaged a certification procedure for the transmission network operators, however certification was not performed. By the transposition of Directive

2009/72/EC with the amended EA¹ Art.21, para.1, item 27 the power of SEWRC to certify the transmission system operators was regulated: it shall certify the electricity distribution network operators for compliance with the independence requirements, to monitor fulfillment of these requirements and to send the respective notifications to the European Commission. In art.81 a, para.1, SEWRC's power is further developed by introducing the possibility to open a certification procedure officially or at the request of the transmission operator, as well as at the motivated request of the European Commission. Certification or the reject of certification is adopted by a regulator's draft decision within four months of the certification application submission date or of the proceedings initiating at the operator's request or at the request of the European Commission. In case the Commission does not act expressly in the cited period, it shall be considered that the draft decision for the certification is adopted.

Regarding the certification of transmission systems owners or distribution systems operators, which are controlled by person or persons by third states, Directive 2009/72/EC in art.49 „Transposition“ delays this process, as the procedure under art. 11 of the Directive is due to be applied as of 3 March 2013. In the light of the foregoing, SEWRC has not performed certification of such entities. Despite this fact, the certification procedure of such entities and the grounds for applied rejection are expressly envisaged in the legislation (art. 81 b of EA²).

3.1.2 Technical operation

Electricity market operation in the country is regulated by the Electricity Trading Rules (in force since 2010). Since mid 2011 and in 2012 these rules have been applied, and by means of these rules total unbundling of the network services from the electricity price was practically achieved and thus conditions for the electricity market competitive development have been provided. The implemented general principles of the Electricity Trading Rules contain also some concrete requirements connected to the provisions performance of Directive 2009/72/EC and Regulation (EC) № 714/2009 according to the requirements of the Third liberalization package.

In 2012 the public provider National Electricity Company EAD remained almost the sole electricity provider on the balancing market. Independent generators are still not sufficiently economically interested in participating on the electricity market. The total volume of the traded balancing energy was comparatively small and the traded shortage volumes amount at 239 469 MWh (about 0.008 % of the net country's consumption), and the traded surplus volumes amount at 65 673 MWh (about 0.003 % of the net country's consumption). In 2012 average reported balancing energy price in the country at shortage was about 80.19 EUR/ MWh, average surplus balancing energy price – 13.7 EUR/ MWh and it remained unchanged to the previous year. In the table below, concrete electricity price values traded on the balancing market are presented for 2012 r.

¹ Published in State Gazette , issue 54 of 17 July 2012

² Published in State Gazette 54 of 17 July 2012

Shortage balancing energy	
Minimum price, EUR/MWh	66.59
Maximum price, EUR/MWh	80.51
Average price, EUR/MWh	80.19

Surplus balancing energy	
Minimum price, EUR/MWh	12,79
Maximum price, EUR/MWh	14,00
Average price, EUR/MWh	13,70

The legal, organizational and financially accounting unbundling of the Transmission System Operator (TSO) and of the Distribution System Operators (DSOs) within the vertically integrated enterprises, respectively, the Public Provider and the public suppliers was realized in 2008.

At present, the Electricity System Operator (ESO) is still a part of the vertically integrated enterprise of the Public Provider. However, under the law and the licensing terms its operation is independent, in legal and organizational form, in finance and accounting aspect and in decision making in functions, assigned by law, from the other operations of the vertically integrated enterprise.

The legal, organizational and financial unbundling of ESO from the Public Provider was implemented.

ESO prepares a compliance programme, subject to review and approval by the regulator, which presents specific actions fulfilling the licensing terms and the above requirements. The programme includes specific obligations of employees. ESO prepares an annual report on fulfilling the measures for objectives, set out in the programme, which is then sent to the regulator for approval.

According to adopted in July 2012 Energy Act amendments related to Regulation (EC) № 714/2009, and the application of measures of the Third energy package, the separation of the transmission and supply of electricity activities in the Bulgarian electricity market received the necessary legal basis. The selected model for separation of the transmission system operator is independent transmission operator.

Activities related to electricity supply and operational management of distribution networks by the distribution network operator (DSO) in 2009 were also split into separate entities, which have separate accountings. The functional unbundling of DSOs in the vertically integrated enterprise based on the compliance program ensures the independence of the DSO.

In view of the above, the four distribution enterprises on the territory of the country prepare and submit compliance programmes, specifying measures ensuring the independence of the distribution system operator. These compliance programmes are reviewed at regulator's meetings, and approved, or, if needed, the regulator sets guidelines for amendment of the programme, in order to guarantee the independence of the operator from other operations in the vertically integrated enterprise. Compliance programmes contain specific responsibilities of employees, in order to achieve the targets, and assign employees, responsible for

programmes' follow-up. The Distribution operator prepares an annual report on these measures, to be approved by the regulator.

Security and reliability Standards, quality of services and supplies

Regarding the security of supply and guaranteeing the compliance with the requirements of services quality and electricity supplies, SEWRC monitors and yearly carries out a review of the fulfillment of the adopted in 2010 „Methodology for reporting the fulfillment of the target indicators and electricity quality indicators control and service quality of network operators, public providers and end suppliers“. To guarantee the consumers interests it is envisaged for SEWRC to adjust the revenue requirements of the energy company every price period of the regulatory period depending on the energy quality indicators fulfillment and on service quality during the previous year. In 2010 for the first time a correction factor was applied, reflecting the fulfillment of the adopted energy quality and service quality target indicators.

The indicators for non-interruption of supply are the System Average Interruption Duration Index – SAIDI and the System Annual Interruption Frequency Index – SAIFI.

When determining and reporting the indices for non-interruption, the periods of interruption longer than 3 minutes are taken into account and these periods fall into:

- scheduled interruptions (determined in minutes per year), for which the consumers are previously informed by the companies;
- non-scheduled interruptions, which are due to stable or incidental failures of the facilities, incorrect manipulations, etc., for which it is not possible to notify previously consumers.

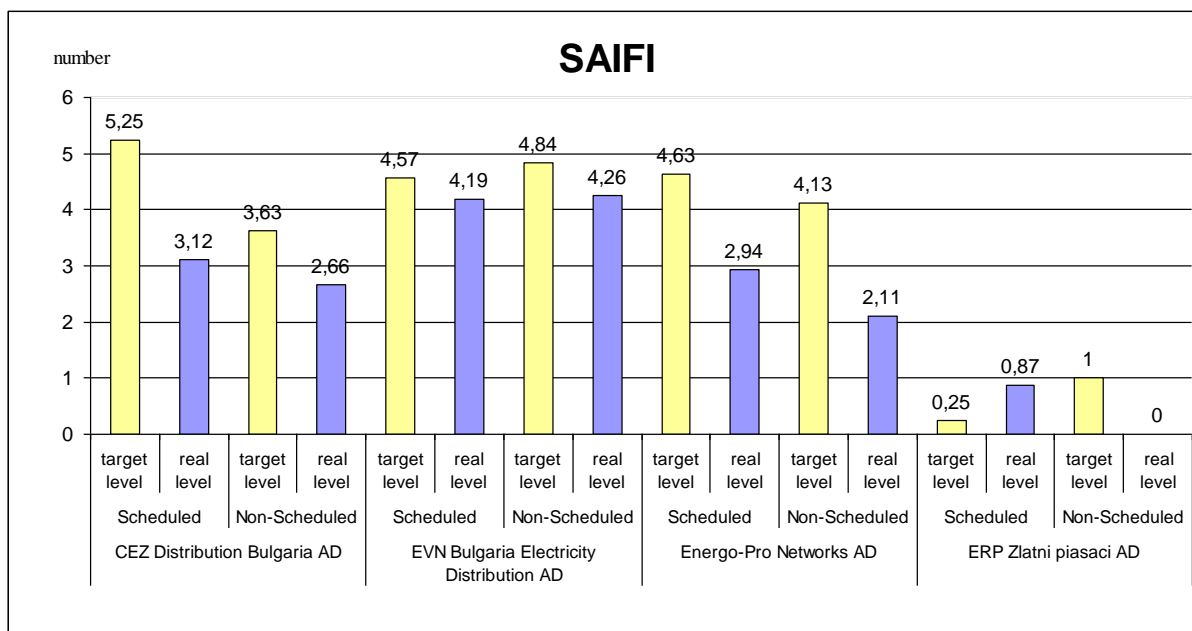
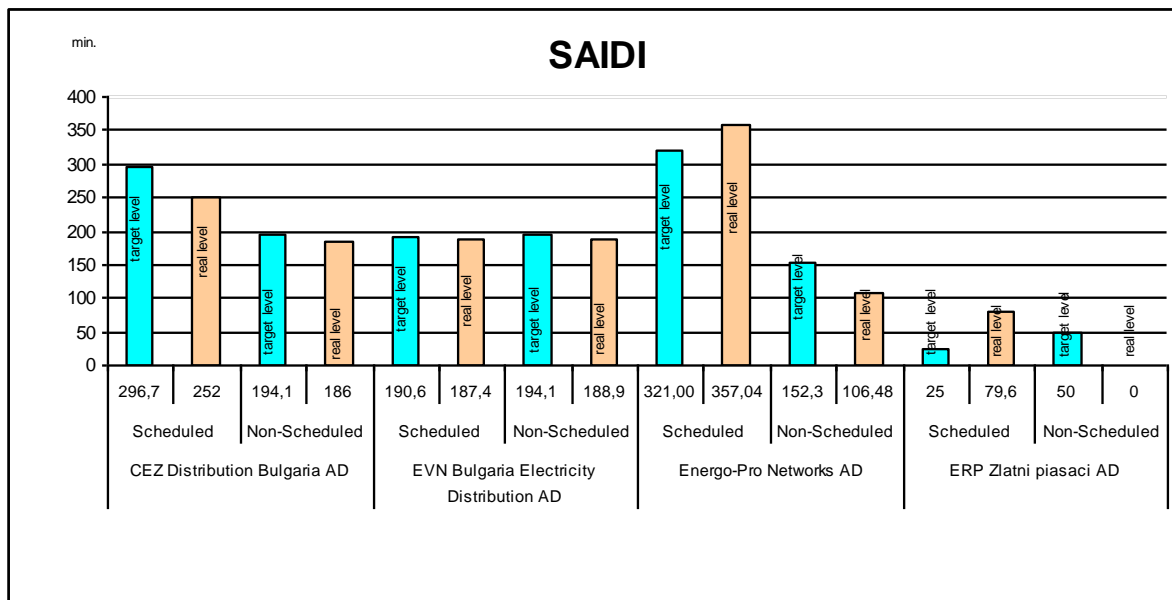
Interruptions due to third parties and force majeure (unforeseen or inevitable event of an extraordinary nature) are excluded.

The achieved values of the four electricity distribution companies in the country according to the SAIFI and SAIDI indices in the case of scheduled and non-scheduled interruptions in 2012 were as follows:

Non-interruption of supply indicators SAIFI и SAIDI for 2012									
Indices	types	CEZ		EVN		Energopro		Zlatni piasaci	
		Target levels-Methodology	reported	Target levels-Methodology	reported			Target levels-Methodology	reported
SAIFI	Scheduled	5,25	3,12	4,57	4,19	4,63	2,94	0,25	0,87
	Non-scheduled	3,63	2,66	4,84	4,26	4,13	2,11	1,00	0
SAIDI	Scheduled	296,7	252,0	190,6	187,4	321	357,04	25,00	79,6
	Non-scheduled	194,1	186,0	194,1	188,9	152,3	106,48	50,00	0

The two graphics below show the achieved reports of the electricity distribution companies at lower levels of the power quality target indicators (SAIFI-number and SAIDI-duration of interruptions) defined in the Methodology approved by SEWRC.

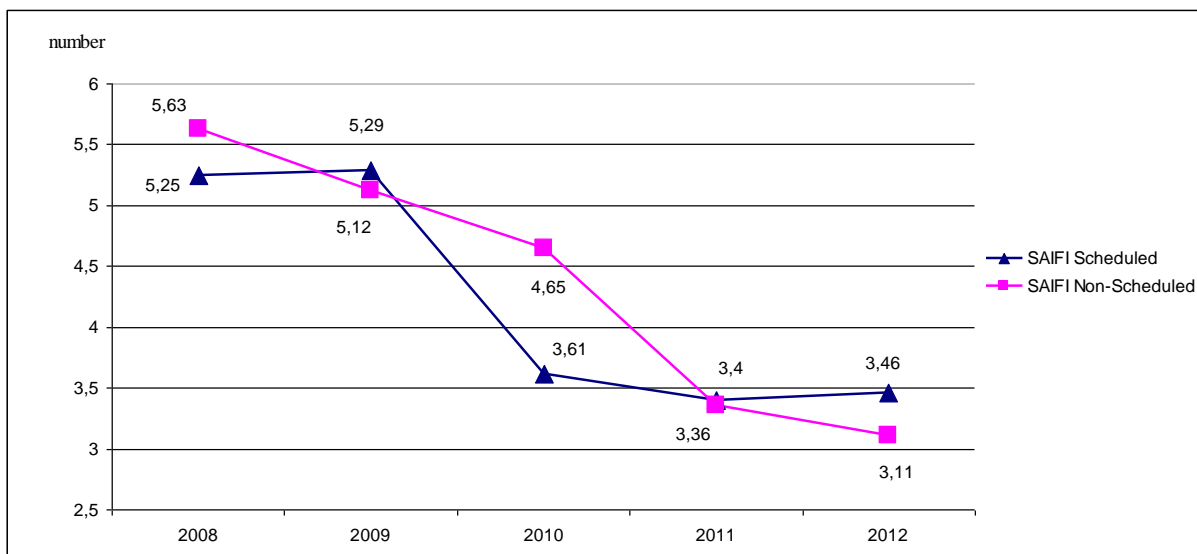
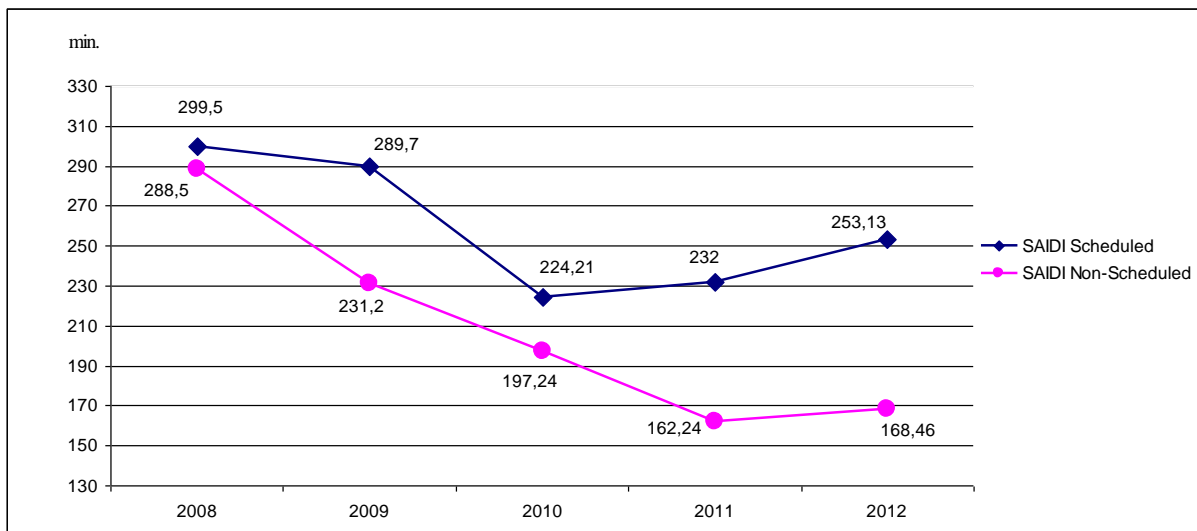
The only higher than the envisaged in the Methodology values were the reported values of scheduled SAIDI of „ERP Zlatni piyasaci” AD and Energo-pro Networks AD, which was due to the larger scope and respectively duration of the performed scheduled outages and network reconstruction.



The average reported values of the four electricity distribution companies in the country according to the SAIFI and SAIDI indices in the case of scheduled and non-scheduled interruptions in 2012 were as follows:

Average values of the continuity of supply indicators SAIFI and SAIDI for 2012		
Indices	Types	Values
SAIFI	Scheduled, number	3,46
	Non-scheduled, number	3,11
SAIDI	Scheduled, minutes	253,13
	Non-scheduled, minutes	168,46

The longer duration of the scheduled SAIDI is due to the higher number of extensions and scheduled outages of the network, aiming for the long-term capacity of the distribution network to meet the requirements of secure, reliable and efficient operation, maintenance and development. The average values of the continuity of supply indicators for the period 2008-2012 are shown in the graphics below:



The indicators for quality of commercial services defined in the Methodology are directly linked to the results and relations between the electricity distribution companies, end suppliers and the consumers.

As an indicator of the quality in these relations, the response time or the time for taking the necessary corrective measures by the energy utilities is taken into consideration, the same being divided into: general indicators for quality of commercial services and guaranteed indicators. The guaranteed indicators have been laid down as commitments in the Common Conditions of the contracts for sale of electricity and Common Conditions of the contracts for transmission of electricity to consumers over the electricity distribution networks of the end supplier approved by the Commission.

In applying the Ordinance on regulating the prices of electric power, a generalized adjustment ratio is applied, including the performance of the target values for quality of energy, for non-interruption of supply and for the quality of service specified in the Methodology.

In case of non-fulfillment of the target values, the revenue requirements of the companies are reduced by a maximum negative adjustment set by a decision of the Commission for each year of the regulatory period.

The implemented regulatory mechanism for adjustments in the revenue requirements of the distribution companies and according to the achieved fulfillment of the power quality indicators applied since 2010 represents an incentive for the companies to improve the electricity supply quality.

The value of the maximum negative adjustment is linked to the expected return which the company will have on the investments made in order to improve the indicators.

Thus the Methodology provides incentives for the distribution companies to develop and invest in their networks, and the monitoring of the regulator for the fulfillment of service and supply quality requirements is in compliance with Article 37 (1) (h) of Directive 2009/72/EC.

Monitoring time taken to connection and repair

The Energy Act regulates the duties of the transmission and distribution companies to connect all generation and user entities to the relevant network. Under art.116, para.7 of EA (SG, issue 54 of 17 July 2012) the terms and conditions for connection, suspension of connection or supply and the limits of property between electrical facilities, are defined by an Ordinance of SEWRC. In 2012 opened a procedure for the drafting of this secondary legislative document and it is expected to be completed in 2013. Instructions for the price-formation of connecting consumers to the electricity distribution network, general conditions of the contracts for electricity supply and distribution and the rules for work with consumers are approved by SEWRC and are publicly available. They are placed at a prominent place at the centres servicing clients of the companies and on the web pages of the suppliers and distribution companies. Due to the considerable increase of the electricity capacities in the country in 2012, mainly coming from renewable energy, certain difficulties arose concerning the connection of new capacities to the transmission and distribution networks due to limited capacity. Total number of connected RES generating in 2012 was 705 with total installed capacity around 800 MW. Average time needed for the elaboration of a preliminary contract and written statement about the conditions for connection of a consumer according to the grounded target indicators in the Methodology is 30 days. In 2011 average time for the issuance of a connection permit was increased to 24 days to reported 18 days in 2011.

Information regarding connection complaints of new consumers enters SEWRC every year. It represents mainly complaints concerning rejection or delay of connection to the distribution network, incorrectly set price or connection conditions.

Complaints concerning the consumer's right to be connected in order to be supplied with electricity, are reviewed by SEWRC under the current Internal rules for work with consumers in submitted to the Commission complaints and signals and for amicable settlement of disputes.

Monitoring safeguard measures

The relation between the electricity system operator with the neighbouring operators concerning the technical cooperation and the application of protection measures for physical safety and security of the system are regulated through agreements and rules for joint work and cooperation.

Every year SEWRC agrees Auction rules for the allocation and procurement of transmission capacity on the interconnections in the control area of Electricity System Operator EAD and the control areas of the neighbouring countries.

The interconnection cross-border transmission capacity in the form of commercial transmission rights is allocated and agreed bilaterally by the auction operators of the neighbouring systems based on the electricity system managing rules and the current Auction rules approved by the regulator and the European network of transmission system operators (ENTSO-E) rules. ESO EAD is a full member of ENTSO-E and works in a regime of parallel work with the European EEC. Parallel work is carried out in compliance with "Operation Handbook" of ENTSO-E and is based on the mutual benefit principles, solidarity and mutual support in case of emergencies to ensure the safe, qualitative and effective electricity supply of consumers.

Maintenance programmes of the system electricity lines, which concern cross-border transmission between Bulgaria and the neighbouring countries – Greece, Romania, Serbia, FYROM and Turkey, are a subject of agreement between the operators. In 2012 there were no circumstances to make the imposition of curtailments necessary due to: force majeure, extension of the period scheduled outage, unscheduled disconnection of an interconnection or some other reasons concerning the security and safety of the power system.

Through the established regional cooperation and the operational arrangements for the coordinated allocation of cross-border capacity, as well as the coordinated mutual support in emergencies, the safe and secure operation of both the internal and international electricity markets is guaranteed.

3.1.3 Connection and access network tariffs

In accordance with the adopted method of regulation, the Commission uses a different approach in assessing the economic effectiveness of the price components and the network tariffs regulation of the transmission network and of the distribution networks.

In the regulation of the network tariff for transmission through the transmission network, where the Commission uses the method "rate of return" regulation without incentives, all price components are assessed annually when the new tariff is being approved. Due to the fact that in the country there is only one regulated HV electricity transmission company, there is no comparable basis on which costs evaluation to be done. Regarding the last, SEWRC uses as an assessment criterion of the annual costs level the annually collected information and in addition, taking into consideration the specific circumstances concerning the legal requirements for security and technical security of supply.

In the regulation of the network tariffs for the electricity distribution companies and end suppliers, the Commission applies incentive-based regulation. Through the application of the "revenue cap" method, the Commission approves the revenue requirements of the energy utility for the first year of the regulatory period and analyses them and adjusts them for each subsequent year of the regulatory period. The envisaged adjustments of the revenue requirements are related to the inflation rate, the efficiency ratio, the performance of the target quality indicators, the difference between forecast and actual expenses for the purchase of energy, as well as expenses incurred by the change in the structure of consumption. In addition, indicators are applied to the methods, reflecting the quality of performance of the activity (the quality of electricity, the quality of service), in accordance with which the recognized revenue requirements of the energy utility are adjusted in view of the performance of the target indicators specified by the Commission. The difference in the performance of the forecast investments and actual investments is also taken into account. The revenue requirements are reduced in accordance with the difference between the reported non-performance of the target indicators for quality and allowed deviation.

The tariffs for transmission and distribution of electricity to the end consumers are approved by the Commission upon the proposal of the companies within the time limits and format specified in the Ordinance on the regulation of prices of electric power and the Instructions adopted thereto. The separate groups of consumers and tariff structures are specified upon the proposal of the companies and the same are grouped in accordance with the voltage level and by zones in the 24-hour period.

For the application of a general approach in approving the prices for the second regulatory period, the Commission took into account the conclusions of the analysis of the achieved results of the regulated companies and the objective of the applied regulation method – creating conditions under which the companies reduce their operating expenses and at the same time ensuring the necessary investments in order to improve the quality of service.

In determining the revenue requirements of electricity distribution companies, the amount of technological costs is determined in accordance with Instructions of SEWRC for electricity transmission through the distribution networks price-formation, accepted currently at the amount of 15 %, which is close to the reported real technological costs over the past several reporting periods.

3.1.4 Cross-border issues

Cross-border infrastructure access, including capacity allocation and congestion management procedures

Regarding the operational management and the allocation of the available transmission capacity on the interconnections between ESO EAD in its role as an electricity system operator of the Republic of Bulgaria and the neighbouring electricity system operators, Memorandums of cooperation have been signed between them. The procurement and allocation of the available transmission capacity on the interconnections is coordinated and carried out through the application of auction rules developed jointly by the Bulgarian electricity system operator ESO EAD and the neighbouring electricity system operators. Auction rules are agreed with the regulatory authorities of the countries. In 2012 the available transmission capacity was allocated by the relevant auction operator in the form of commercial transfer rights on annual, monthly and with some of the neighbouring operators shown below – daily basis. Performing an auction for the interconnection transmission capacity achieves the creation of a transparent governance method of the network peak loads, obligation procedures and non-fulfillment consequences procedures too. In pursuance of the

provisions of Regulation (EC) № 714/2009, the following are regulated in the current auction: different types of auctions, tender procedure organization, participation requirements and registration, determination of auction outcomes and provision of commercial transfer rights (CTR), secondary CTR market and their transfer, interconnection transmission capacity utilization rules and obligations arrangements (settlement) and payments.

In connection to the signed agreement between ESO EAD and CN Transelectrica SA, ESO EAD submitted a request at SEWRC and the Commission approved:

- „Yearly and monthly auction rules for the coordinated allocation of transmission capacities on the interconnections between the control areas of CN TRANSELECTRICA SA and ESO EAD for 2013”. Under these auction rules the parties have agreed to share the responsibilities and ESO EAD shall be engaged in the conduct of yearly and monthly auctions in both directions.

- “Daily auction rules for the coordinated allocation of transmission capacities on the interconnections between the control areas of CN TRANSELECTRICA SA and ESO EAD (Annex 2 of the Agreement), (daily auctions rules), version 1.0 for 2013”. By this document the terms and conditions are set for auctions of booking available transmission capacity on the interconnection, which capacity is offered jointly by CN TRANSELECTRICA SA and ESO EAD. The aim is to achieve maximum transparency in the allocation of available transmission capacity and in order to prevent discrimination in the allocation of available capacity the latter are elaborated in compliance with the provisions laid down in the European legislation.

- “Intraday auction rules for the coordinated allocation of transmission capacities on the interconnections between the control areas of ESO EAD and CN TRANSELECTRICA SA for 2013”. Under these rules the available transmission capacity (ATC) shall be allocated by CN TRANSELECTRICA SA.

Approved and agreed by SEWRC were “Rules for access to the Bulgarian-Greek interconnection electricity line (Auction Rules for Allocation of Transmission Capacities) for 2013”. For the allocation of the available transmission capacities on the Bulgarian-Greek interconnection for 2013, ESO EAD, in its capacity of an auction operator, shall bear the obligation to carry out monthly auctions in both directions and ADMIE shall carry out the yearly and daily auctions in both directions.

In pursuance of the requirements of Regulation (EC) № 714/2009 the agreed by SEWRC Common Auction Rules govern the terms and conditions for the available transmission capacity (100 % capacity) allocation through auctions in both directions between the control areas of the Bulgarian electricity operator and respectively the operators of Romania and Greece. The procedures included in the Common Auction Rules between the Bulgarian and the Romanian, respectively Bulgarian and Greek system operator, aim at the guaranty of a transparent physical congestions management method and meet the requirements of Regulation (EC) № 714/2009.

The cross-border exchange of electricity of the Republic of Bulgaria with some neighbouring countries like Serbia, FYROM and Turkey continues to be carried out on the basis of drafted and updated for 2012 “Common Auction Rules for the Allocation of Capacities on the Interconnections between the Control Area of Electricity System Operator EAD and the Control Areas of EMS (Serbia), MERSO (FYROM) and TEIAS (Turkey) for the Year of 2013”. Under these Auction Rules 50 % of the available transmission capacity is allocated for electricity transmission in both directions between the electricity system of the Republic of Bulgaria and the electricity systems of Serbia, FYROM and Turkey. Long-term and short-term allocation nominations of the whole available transmission capacity offered by ESO EAD have been introduced in the market in the form of yearly, monthly and daily auctions.

The presented Auction Rules regulate all issues related to the allocation and procurement of the available transmission capacities in both directions on the interconnections of the Bulgarian electricity system for 2012 with the cited above neighbouring electricity systems.

The cross-border transmission capacity on the interconnection is allocated by the Auction Operator in the form of commercial transfer rights. The Auction Operator calculates and allocates the transmission capacities according to the standards and rules of the European Network of Transmission System Operators – Electricity (ENTSO-E).

The interconnections of the Republic of Bulgaria with its neighboring countries – Greece, Romania, Serbia, Macedonia and Turkey – ensure the necessary conditions for the realization of electricity market under bilateral contracts as well as mutual help in case of emergencies.

For the allocation of the capacities on the Bulgarian interconnections for the region of South East Europe, a monthly allocation model is elaborated. Every month, the net transfer capacities (NTC) are calculated, including week and day ahead. These capacities are harmonized bilaterally with the neighboring system operators on the basis of bilateral contracts and the current auction rules. For the harmonized NTC, public auctions are announced for transmission capacities.

Electricity System Operator (ESO) prepares, maintains and publishes on its website its operational rules, general and specialized information on its balancing energy market activities and on the transactions at freely negotiated prices.

The rules ensure transparency and non-discrimination of all participants in the transmission capacities auctions.

At this stage of development of the internal and regional electricity markets the country's transmission network does not face serious troubles concerning the security of supply and the electricity system congestion including cross-border transmission capacities. As a consequence of the RES essential increase in the country in 2012, mainly solar and wind energy, certain difficulties occurred in the connection of new capacities to the transmission and distribution networks due to limited capacity. In this respect, "Plan for the development of the electricity transmission network in Bulgaria for the period 2010 -2020" is being reviewed at the Ministry of economy, energy and tourism and at SEWRC, pursuant to the current Energy Act. In compliance with the current legal and normative base SEWRC reviews and approves investments and network enlargement schedules of the electricity distribution companies.

Rare cases of short-time congestion occur on the interconnections with some of the neighbouring countries (mainly during peak loads in the winter period).

Utilizing revenues for the interconnections

In pursuance of the provisions of art.16, para 6 of Regulation (EC) № 714/2009 of the European Parliament and the Council of 13 July 2009 on conditions for access to the network for cross-border exchange in electricity and repealing Regulation (EC) № 1228/2003 (in force since 3 March 2011), any revenues resulting from the allocation of interconnection shall be used for the following purposes:

- a) guaranteeing the actual availability of the allocated capacity; and/or
- b) maintaining or increasing interconnection capacities through network investments, in particular in new interconnectors.

In cases, where revenues cannot be efficiently used for the purposes set out in the above mentioned items, they may be used, subject to approval by the regulatory authorities of

the Member States concerned, up to a maximum amount to be decided by those regulatory authorities, as income to be taken into account by the regulatory authorities when approving the methodology for calculating network tariffs and/or fixing network tariffs. In this regard, in 2012 SEWRC applied these regulatory powers by approving the revenues resulting from the allocation of interconnection at the amount of 14.4 million EURO to reduce the network services values, in particular electricity network access price.

Cooperation

In 2012 SEWRC realized cooperation with the regulatory authorities of the neighbouring countries regarding issues connected with the cross-border exchange in the region. The main direction was the negotiation of agreements with the regulatory authorities of the neighbouring countries, which ensure the security of electricity and electricity supply.

The liberalized market operation and organization in the country and with the neighbouring countries in 2012 were regulated by “Electricity trading rules” and by “Auction Rules for the Allocation of Capacities on the Interconnections between the Control Area of Electricity System Operator EAD and its Neighboring Control Areas for the Year of 2012”. The same are approved by the State Energy and Water Regulatory Commission (SEWRC) of the Republic of Bulgaria.

The cross-border transmission capacity on the interconnection in the form of commercial transfer rights is allocated and agreed bilaterally by the Auction Operators of the neighbouring systems based on the electricity system managing rules and the current Auction rules approved by the regulator and in compliance with the rules of the European Network of Transmission System Operators – Electricity (ENTSO-E). ESO EAD is a full member of ENTSO-E and works in a regime of parallel work with the European EEC. Parallel work is carried out in compliance with “Operation Handbook” of ENTSO-E and is based on mutual benefit principles, solidarity and mutual support in case of emergencies to ensure the safe, qualitative and effective electricity supply of consumers.

In 2012 Electricity System Operator EAD of the Republic of Bulgaria and the system operator of Romania CN TRANSELECTRICA SA worked under new “Intraday Capacity Allocation Auction Rules for the allocation of capacities on the interconnection between the control areas of ESO and TRANSELECTRICA”.

In 2012 SEWRC also agreed “Common Auction Rules for Allocation of Transmission Capacities on the Interconnections between the Control Areas of Electricity System Operator EAD - ESO and “Hellenic Transmission System Operator” SA (HTSO) for 2012” for the interconnection between Bulgaria and Greece. These rules also complement the agreed Intraday Capacity Allocation Auction Rules.

These Intraday Capacity Allocation Auction Rules between the Bulgarian and Romanian and respectively, Bulgarian and Greek electricity system operators increase electricity market flexibility, including balancing market flexibility among Bulgaria, Romania and Greece.

The procedures in the newly agreed Common Auction Rules between the Bulgarian and Romanian system operators, respectively between the Bulgarian and Greek system operators comply with the requirements of the new Regulation (EC) No714/2009.

In the end of 2012 Common Auction Rules for Allocation of Transmission Capacities on the Interconnections between Bulgaria and FYROM, Serbia and Turkey were agreed, which likewise comply with Regulation (EC) No714/2009, regarding the cooperation and coordination between the operators of neighbouring transmission networks.

Interconnectors Scheme of Bulgaria and the neighbouring countries



3.1.5 Compliance

In EA, art. 21, para. 1, item 31, the obligation of the regulatory authority under art. 37, § 1, d of Directive 2009/72/EC is transposed to apply and control the fulfillment of legally binding decisions of the European Commission and the Agency for the Cooperation of Regulators.

The main principles leading SEWRC's activities in 2012 regarding the fulfillment of its regulatory powers were prevention and non-admission of energy market competition distortion, as well as guarantee the balance between energy companies' interests and consumers.

In exercising its powers, the Commission analyses the performance of controlled energy companies, in order to create an environment preventing abuse of monopoly and limiting/violating the competition on the energy market in Bulgaria. Within the territory of the country, in view of its special competence, there is only one authority which is in charge of the application of the Community legislation in the field of competition, namely Competition Protection Commission (CPC). To that end, SEWRC has the right, pursuant to art. 21, para. 6 of EA, to inform the Competition Protection Commission, which in turn reviews the information and on a case by case basis may start a procedure under the Competition Protection Act.

National legislation guarantees that the regulatory authority takes independently its decisions and the later are not a subject of control by the Government, but pursuant to art. 13 of EA, only to the Court in terms of their legality. The activities of the Commission and its administration are financed by revenues from fees, taxes and property sanctions and donations by persons not a subject of licensing and/or control by the regulatory authority or persons connected to them.

In view of exercising its powers in the pricing regulation, the Commission every year obtains information on the annual financial reports of licensees, their annual audit reports, as well as the reporting information by types of activities. Apart from this, the Commission may require other accountant documentation, technical and economic information, including concluded contracts. In 2011 it was explicitly envisaged in a normative administrative act, that the regulator may request from the energy companies any information and documentation concerning its functions. At present, by the amendments of EA, a particular text is envisaged in the law, not as it has been before - in a normative act, the regulator to request from the energy companies any information and documentation concerning the functioning of the energy market, including supply, transmission, distribution and storage contracts, as well as all further agreements and may provide some market participants with parts of this information, under the condition that no confidential information presenting a trade secret or protected by the law shall be revealed.

Within the calendar year 2012 the certification Directive provisions were transposed, however, as it was cited above, certification was not carried out.

A certification procedure for an independent transmission operator is to be performed. § 192 of the Transitional and Final provisions of the amended EA stipulates, that in a six months period since its coming into force the owner of the transmission network must submit at SEWRC a certification application, and within the legally established period of four months SEWRC is obliged to issue the respective certificate. After the completion of the certification process, the Commission may practically realize its power of art.21, para.1, item 27 of EA to monitor the obligation implementation of the independent transmission operator. In case of non-implementation of the obligation the independent transmission operator pursuant to art. 21, para. 3 of EA within its regulatory powers, the Commission:

1. imposes sanctions for a discriminatory behaviour of the operators to the benefit of the vertically integrated undertaking;
2. monitors the communication between the operator and the vertically integrated undertaking, to guarantee that the operator implements its duties;
3. acts as an authority for the dispute resolving between the vertically integrated undertaking and the operator;
4. requests information and documentation concerning trade and financial relations, including loans between the vertically integrated undertaking and the operator;
5. approves trade and financial agreements between the vertically integrated undertaking and the operator in cases when they influence the conditions of market development;
6. requires justification of the vertically integrated undertaking regarding the presented by the compliance responsible decision concerning network development plan or certain investments of the operator, including the compliance of the non-discrimination behaviour requirement to the benefit of the vertically integrated undertaking;
7. performs inspections at the entities of the vertically integrated undertaking and the operator;
8. approves ten-year transmission network development plan, monitors and controls its execution at the terms and conditions of the Ordinance pursuant to art. 60;
9. assigns all or certain tasks of the independent transmission operator to the independent system operator, at the proposal of the network owner, in case the operator violates habitually its duties regarding the independence requirements, pursuant to chapter eight (a), section II, including habitual discriminatory behaviour to the benefit of the vertically integrated undertaking.

3.2 Promoting competition

3.2.1 Wholesale market

3.2.1.1 Monitoring the level of prices, the level of transparency, the level and effectiveness of market opening and competition

Wholesale electricity market is regulated by the adopted in August 2010 by the Commission Electricity Trading Rules. The market model in force for the reported 2012 was characterized as follows:

- Schedules notification on a daily basis, on the day D-1 and allocation of transmission capacity on an auction base;
- Introduction of balanced groups in the market structure within the current testing period of Electricity Trading Rules and new licensing procedure for balancing group coordinators;
- Stepwise introduction of hourly schedules for all transactions, nonetheless at regulated prices or concluded at freely negotiated prices;
- Market mechanism upgrading in the balancing energy market operation;
- Introduction of a separate settlement for the balancing groups coordinators and balancing power suppliers;
- Regulating the conditions for participation in the market for renewable energy producers;
- Creation of trading conditions based on power exchange principle.

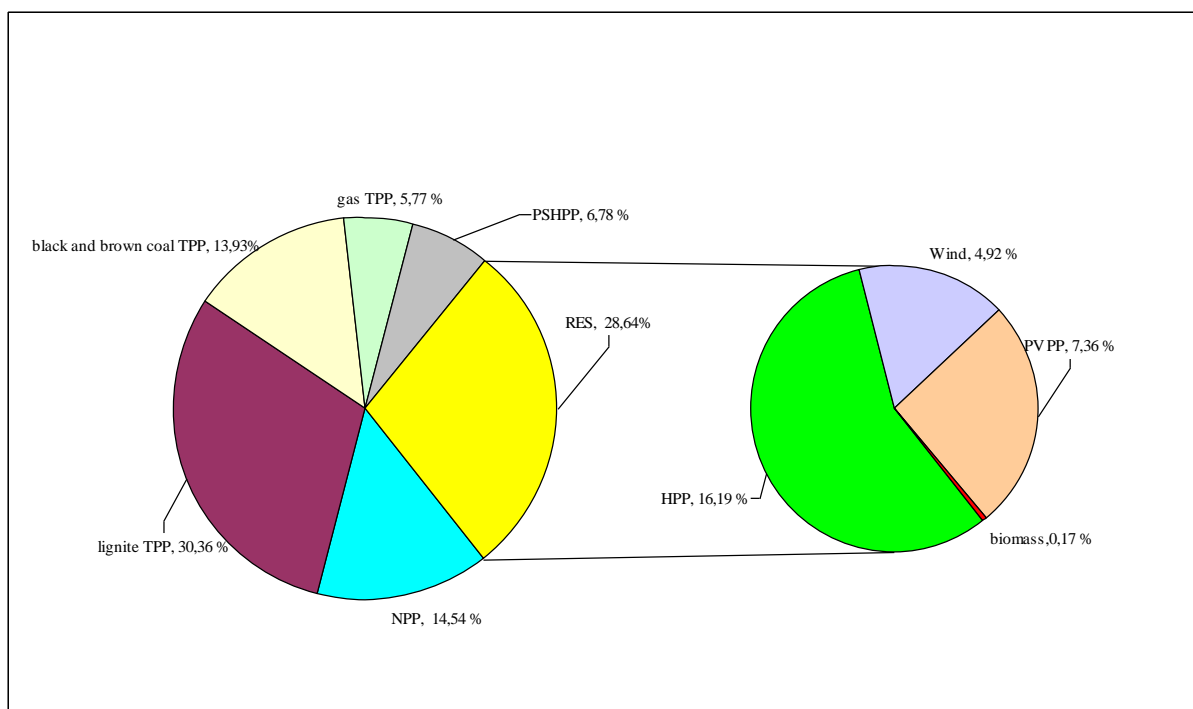
When regulating the network tariff for transmission through the transmission network, where the Commission uses the method “rate of return” regulation without incentives, all price components are assessed annually when the new tariff is being approved. Due to the fact that in the country only one regulated HV electricity transmission company exists, there is no comparable basis on which costs evaluation could be done. Regarding the last, SEWRC uses as an assessment criterion of the annual costs level the annually collected information and in addition, taking into consideration the specific circumstances concerning the legal requirements for security and technical security of supply.

In 2012 the public provider „Nationalna Electriccheska Kompania” EAD remained almost the sole electricity supplier on the balancing market. Independent generators are not yet economically interested in participation on the electricity balancing market.

Currently in the country there is no organized power exchange and electricity trading is performed mainly at bilateral contracts between the market participants and on a balancing market organized by ESO. That is why, at this stage objective average price and margin between buy and sell prices on the Bulgarian electricity market cannot be defined.

As a result of the organization and market operation parallel tests under the Electricity Trading Rules, a necessity for some feasible amendments and streamline of the rules appeared. The Commission has opened a procedure of amendment and supplement of the latter, in line with the common principles and specific requirements pursuant to the formulations of Directive 2009/72/EC and Regulation (EC) № 714/2009.

The total electricity output potential of the country based on primary energy sources and generated power for 2012, is structured as follows:



The total installed capacity in the country was 13 759 MW. The maximum net output capacity was 9 719 MW, and the peak load in February 2012 amounted to 7 444 MW. The annual net output in the country for the reporting period was 44.113 TWh. Out of free market (internal and regional) sales of 13.60 TWh, the share of open electricity market, including both consumers using their right to choose a supplier and the commercial export, was about 30.5 %.

The total installed capacity of wind energy in the country in 2012 amounted to 677 MW at annual output of about 1 218 GWh. In 2012 photovoltaic installed capacity (PV) amounted to about 1 013 MW at output of 800.7 GWh. In 2012 biomass installed capacity amounted to about 23 MW at output of 31.7 GWh.

Net commercial exports in 2012 amounted to 8.307 TWh.

Index	Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
PP gross output fed into transmission grid	42 514	41 539	44 259	45 710	43 093	44 831	42 573	46 260	50 070	47 195
PP consumption and auxiliary services	6 176	6 146	6 233	5 890	6 067	5 890	5 307	4 689	5 957	6 658
Net generation fed into transmission grid	36 338	35 393	38 026	39 730	37 026	38 941	37 266	41 571	44 113	40 537
Physical import	1 283	741	799	1 139	3 058	3 097	2 662	1 168	1 450	2 353
Total net generation fed into transmission grid	37 621	36 134	38 826	40 869	40 084	42 038	39 928	42 739	45 563	42 890
Losses in transmission grid	761	742	844	881	872	905	847	895	951	916
Gross consumption from transmission grid	36 860	35 392	37 982	39 988	39 212	41 133	39 081	41 844	44 612	41 974
PSPP consumption	483	289	549	471	590	718	927	988	1 199	1 103
Physical export	6 772	6 620	8 380	8 391	7 538	8 441	7 731	9 613	12 111	10 660
Net consumption from transmission grid	29 605	28 483	29 053	31 126	31 084	31 974	30 423	31 243	31 302	30 211

With annual domestic consumption of electricity of 30.2 TWh ppe3 2012, the share of traded quantity on the domestic market amounted to 5.3 TWh. This quantity was directly

negotiated by 105 large and medium economic consumers of high and medium voltage with six large producers as market participants.

The electricity market in the Republic of Bulgaria is fully liberalized as of 1 July 2007. Cross-border transfer capacity on the interconnections is allocated by the Auction Operator in the form of commercial rights for transfer. The Auction Operator calculates and allocates the transfer capacities in line with the norms and rules of the European Network of Transmission System Operators for Electricity (ENTSO-E).

The electricity market in the country is operated by a model where part of the transactions for electricity sale are concluded at regulated prices, approved by the Regulator, and the remaining part is traded on the liberalized market at freely negotiated prices between the parties on the market. Under the Energy Act producers, traders in electricity and consumers are parties in transactions on the liberalized market of electricity.

A certain share of the quantity of electricity output by individual (mainly large) producers, under the Energy Act and Directive 2003/54/EC, is sold to the Public Provider for protected consumers at regulated prices. The quantity of electricity purchased at regulated prices from producers, within a regulator-defined 'quota' for each producer, is determined on the basis of the principles of equality and transparency. Within this model, the regulated price for protected consumers is calculated as an average weighted mix of prices of electricity producers from various primary energy sources (nuclear, coal, water). Producers may, under the law, sell the rest of electricity output on the liberalized market as equal participants.

In 2012 the operation and implementation of two long-term contracts continued, signed between the Public Provider NEK EAD and electricity output companies TPP AES Maritsa Iztok 1 EOOD and ContourGlobal Maritsa Iztok 3 EOOD.

For producers using renewable energy sources, the regulator annually defines preferential prices (feed-in tariffs) for their electricity output. The Public Provider and the public suppliers are obliged to purchase the electricity output of these producers at the respective preferential prices.

In July 2012 the new Law on renewable energy was adopted in accordance with Directive 2009/28/EC and implementing the principles and provisions of the Third Energy Package.

At this stage, in line with the Energy Act, electricity trade in the country is based on bilateral contracts between participants – producers, traders in electricity and consumers.

Electricity System Operator (ESO) performs the operational management and regulates the distribution of electricity loads of the electricity system, by accounting for accepted and confirmed requests for transfer capacities of traders, based on the Electricity Trading Rules and Auction Rules.

Simultaneously, ESO balances the energy system using technical and economic criteria, considering the bids and offers for the balancing market.

The effective cold reserve and ancillary services market is regulated by the Energy Act. Cold reserve and additional services transactions are concluded by ESO under the terms of Electricity System Management Rules and Electricity Trading Rules. Quantities of purchased availability for cold reserve are determined on the basis of the necessary level of reliability of electricity supply, decided by Ordinance of the Minister of Economy and Energy. Under the provisions of the Electricity Trading Rules, producers and operator sign contracts for cold reserve and ancillary services at a regulated price of availability. In 2012 the Regulator licensed 13 new companies for 'trade in electricity', which increased the total number of licensed traders to 106. The number of active traders on the electricity market in 2012 was 48.

To facilitate consumers in their choice of a supplier, the regulator maintains a list of all licensed electricity traders and their addresses on its website.

There is no market monopolist among the 48 active traders on the domestic market in 2012. The largest share of purchased/sold energy by a trader was about 15 % of the total traded market volume.

At present the country does not have an organized power exchange and trade is done based on bilateral contracts at freely negotiated prices on a market, organized by ESO. Therefore, an objective sell/buy price margin for electricity cannot be determined.

The electricity market in the Republic of Bulgaria is national and well integrated with the neighbouring countries; therefore the country plays the role of a net exporter in the region.

At this stage of development of the domestic and regional electricity market, the transmission network in the country does not have major problems with congestion in the electricity system, including the cross-border transfer capacities. Some congestion appears in interconnections with some neighbouring countries, mostly during the winter.

Under the Energy Act the Regulator has powers to control issues relating to possible denial of access to networks by the electricity system operator or the distribution system operator.

All disputes relating to the implementation of the provisions of Electricity Trading Rules are referred to the Regulator for resolution under the procedure of the Energy Act.

In the event of denial of registration by the operator, the trader has the right to dispute the denial in writing before the Regulator within fourteen days of receipt of denial. In 2012 complaints of trade participants concerning this matter were not filed in SEWRC.

Trading Rules with neighbouring countries are in compliance with the effective European rules and bilateral agreements and the Auction rules for cross-border exchange and trade in electricity. The latter refers inclusively to the coordination of interconnection transfer capacities between the Bulgarian TSO and neighbouring transmission systems.

In 2012 the electricity sector in the country and the participants on the electricity market did not register any significant mergers and acquisitions, influencing market competition. During the reported year the number of electricity traders grew, including such active on the market.

The electricity market in the country is organized and administered by the Electricity system operator. In compliance with the Energy Act, electricity trade in the country is carried out mainly on the base of bilateral contracts between the market participants – electricity generators, traders and consumers, as well as on the balancing market. ESO balances the electricity system according to technical and economic criteria taking into consideration the submitted bids and offers for the balancing market.

In 2012 free electricity market in the country encompassed the bigger part of the industrial consumers connected to high voltage (HV) networks and part of middle voltage (MV) network consumers.

3.2.2 Retail markets

At this stage electricity market in the country operates following a model where part of the sales transactions are concluded at regulated prices approved by the regulator. The remaining part, under the current EA, is traded on the liberalized market at freely negotiated prices between the parties participating on the market.

End suppliers provide and sell electricity to protected consumers – households and non-household consumers connected at low voltage (pursuant to Directive 2003/54/EC) at regulated prices. With the amendment of EA (SG, issue 54 of 17 July 2012) MV industrial consumers are separated and directed to the open market and from the beginning of 2013 it is expected only households and non-household consumers connected at low voltage to remain on the regulated market.

A certain share of the generated electricity from different resources, in pursuance of the Energy Act, is bought by the public provider for protected consumers at regulated prices, within the defined by the regulator “quota” for each producer. Producers’ quotas are defined on the basis of equal treatment and transparency principles according to a methodology adopted by the Commission.

Regulated price for protected consumers in the country is formed as a price mix of the different primary energy sources (nuclear, coal, HPP, wind, PV plants and biomass) electricity producers and they are in accordance with the relevant quantities needed to cover the regulated market needs. This, in turn, provides satisfactory level of equality among all consumers. The remaining part of the electricity generation (outside the defined quota), producers have the right to sell in the free market as equal participants.

Within the provisions of the amended EA in compliance with Directive 2009/72/EC and the Third Energy Package, some requirements are formed aiming power market enlargement in the sector of middle and small industrial consumers.

In pursuance of the EA and the currently in force *Ordinance for the electricity prices regulation* for protected consumers by a decision of the Regulator the following prices are approved:

- prices of access to the electricity distribution networks;
- prices of transmission through the distribution networks;
- prices of end suppliers selling to household consumers and small businesses with less than 50 employees and annual turnover below €10 million.

The price of network services through the distribution networks is differentiated into transmission through the distribution networks price and access to the electricity distribution networks price. The regulated by SEWRC access and transmission prices of the distribution companies, in pursuance of *Ordinance for the regulation of electricity prices*, are defined based on the allowed by the Regulator revenue requirements for maintenance and operation of the relevant distribution network.

After the access tariff setting in 2011 and the introduction of an access price for industrial consumers in the territory of South-east Bulgaria, in 2012 access tariff was introduced for industrial consumers in the territory of West Bulgaria. The tariff was formed based on contractual available capacity (firm capacity), in BGN/kWh/day. The introduction of this new tariff was in connection to the application of the principle of „fair prices“, i.e. every customer to pay the costs which he/she incurs. By this change in the tariff structure it is expected an effective utilization of the firm capacities to be achieved, which concerns also the distribution network operational and maintenance costs optimization. What is more, the aim is a better security and network development to be achieved in reply to the real needs of consumers.

Main consumers groups connected to the electricity distribution networks in 2012, were as follows:

- Economic consumers of medium voltage;
- Economic consumers of low voltage;
- Household consumers connected at low voltage.

End prices paid by these consumers in the regulated market include apart from the energy and network prices the following:

- price of access to the electricity transmission system;
- transmission price of electricity through the transmission network;
- price of access to the electricity distribution network;

- price of transmission to the electricity distribution network, split into voltage levels – respectively MV and LV.
- “green energy” charge to the transmission price and
- “high-effective combined generation” charge to the transmission price.

Prices approved in 2012 were as follows:

The price of access to the electricity transmission network paid to ESO by all users of the network was 0.00357 EUR/kWh.

The price of transmission through the transmission network paid to the Transmission Operator by all users of the network was 0.00477 EUR/kWh.

The green energy charge to the transmission price, which was paid to the transmission company by all consumers as a public obligation was 0.001902 EUR/kWh.

The the high-effective combined generation charge to the transmission price paid to the transmission company by all consumers as a public obligation was 0.001462 EUR/kWh.

HV end - consumers purchase electricity only in the free market.

In pursuance of the requirements of the Electricity Trading Rules, in 2012 a complete unbundling of the energy price from the network services was achieved for the regulated market consumers, thus certain prerequisites for the enlargement of the free market share were created. In the table below some average values of the different tariffs by consumers groups are presented, approved in 2012.

Approved by SEWRC prices in 2012 in EUR/kWh				
Tariffs	Economic consumers	MV	Economic consumers LV	Households
Average energy price	0,0394		0,0496	0,0355
Network services MV and LV	0,0072		0,0232	0,0232
Network services HV	0,0080		0,0080	0,0080
Green energy to-up	0,0019		0,0019	0,0019
Highly effective combined generation top-up	0,0015		0,0015	0,0015
Common average sell price	0,0580		0,0842	0,0702

* The presented price values are without VAT and excise duty for economic consumers.

MV and LV network services values include the access price to the distribution network and the transmission price for the relevant voltage price.

HV network services include the access price to the distribution network and the transmission to the transmission network.

Green energy and highly effective co-generation charges are classified as public obligation duty costs and are paid by all consumers in the country, electricity traders and export.

3.2.2.1. Monitoring the level of prices, the level of transparency and the level and effectiveness of market opening and competition

By the EA amendment in art.21, para.1, item 29 the SEWRC’s power to contribute for the compliance of the data exchange processes concerning the most important market processes on a regional level, is explicitly stipulated, guaranteeing also the necessary information confidentiality level.

Regarding the later, SEWRC monitors weather limiting contractual practices and provisions for exemption exist, which may set an obstacle for households to conclude contracts simultaneously with more than one supplier or to limit their choice of suppliers.

The key principles underlying SEWRC activities in fulfilling the regulatory powers of the Commission are prevention and avoidance of limitation or violation of competition on the energy market, as well as balancing the interests of energy companies and consumers.

In exercising its powers, the Commission analyses the performance of controlled energy companies, in order to create an environment preventing abuse of monopoly and limiting/violating the competition on the energy market in Bulgaria. To that end, SEWRC has the right to inform the Competition Protection Commission, which in turn reviews the information and on a case by case basis may start a procedure under the Competition Protection Act.

The Ordinance on licensing the activities in the energy sector provides for another important power and obligation of a SEWRC in issuing a license and/or a permit or consent. If in the course of administrative proceeding, a need of permit from CPC is identified, the energy regulator suspends the proceedings, informs the applicant and notifies CPC on starting a procedure under the Competition Protection Act. Only after the entry into force of the CPC decision, SEWRC renews the proceedings on issuing the respective administrative document.

In addition, in exercising its powers for giving consent for transformation of licensees, permitting transactions, and management of unfinished construction site or property, or permission for pledge/mortgage on a property which is involved in licensing operations, SEWRC has the right to demand for the opinion of CPC on the specific case before making a decision or issue a permit.

Under the Energy Act, energy enterprises managing the electricity system, transmission of electricity or distribution of electricity, which provide a commonly offered service and have dominance on the market within the meaning of the Competition Protection Act, comply with the provisions of this act, unless it thwarts actually or legally the performance of their obligations.

SEWRC continuously monitors the market in view of the guaranteeing equal treatment among all market participants, as well as among the participants belonging to one and the same group and contribution to the effective competition and correct market functioning. In this regard, SEWRC applying its controlling functions, performs scheduled inspections of the energy companies, as well as unscheduled inspections on submitted complaints and signals.

Concerning its controlling powers, SEWRC is in close cooperation with the Consumers Protection Commission, and with a range of other non-governmental organizations for consumer protection likewise.

At this stage of electricity market opening in the country, public/end suppliers provide and sell at regulated prices power mainly to protected consumers. Supply contracts are concluded with consumers based on „Electricity supply common conditions”. Common conditions are elaborated and proposed by the electricity supply companies and are approved by the regulatory authority.

3.3 Security of supply (if and in so far as NRA is competent authority)

Implementation of safeguard measures Article 42

By a tradition, Bulgaria is a net electricity exporter for the region and in 2012 the share of net exports in the regional market amounted at about 20 % of the net electricity output of the country.

The presented in the previous sections of the report established regional cooperation and operational agreements for the coordinated allocation of transmission capacity with the

neighbouring system operators, as well as the agreed mutual support at emergencies, ensure the safe and reliable operation on the internal and external electricity markets.

3.3.1 Monitoring balance of supply and demand

In pursuance of EA, ESO EAD elaborates short-term and long-term forecasts and electricity system development plans aiming the provision of the electricity balance of the country. Based on the forecasts and plans, ESO EAD provides to the Minister of the economy, energy and tourism an electricity balance project and a list of the needs for the country resources, including the needed new generating capacities and interconnection lines.

At this stage of development of the domestic and regional electricity market, the electricity transmission network of the country does not face significant problems related to security of supply and congestions in the electricity system, including the cross-border transfer capacities. As a result of the considerable in 2012 increase of the RES electricity capacities in the country, mainly solar and wind power, some difficulties occurred regarding the connection of new capacities to the transmission and distribution networks due to limited capacity. In this regard, in the Ministry of economy, energy and tourism, under the currently in force EA, and in SEWRC an Electricity Transmission Network Development Plan of Bulgaria for the period 2010 – 2020 is in process of reviewing and approval. Under the current legislative framework SEWRC reviews and approves investments and schedules for the network expansion of electricity distribution companies.

Natural gas market

4.1 Network regulation

4.1.1 Unbundling

A decision of SEWRC allowed transformation of Bulgargaz EAD representing the unbundling of Bulgargaz EAD and Bulgartransgaz EAD into independent economic entities, thus enforcing the legal, functional, and accounting unbundling of natural gas transmission and public provision of natural gas. The transformation is in compliance with the main provisions of Directive 2009/73 of the EU, namely achieving a domestic market with non-discriminatory access to gas transmission systems and fair pricing of natural gas.

The Directive requirement for independence of the operators was satisfied after the TSO Bulgartransgas EAD was unbundled in an independent legal entity within the vertically integrated undertaking Bulgargas-holding EAD.

In relation to the implemented amendments of the Energy Act and the *Ordinance for licensing the activities in the energy sector*, after the accession of Bulgaria to the European Union, SEWRC has approved the independence programme of Bulgartransgas EAD. The requirement for independence of the operators has been satisfied, for the persons in charge of the management, including the operational management, are not allowed to participate in the management of the other companies in the vertically integrated undertaking. The activities down the chain are unbundled horizontally: extraction, import, transmission, storage, distribution, supply and trade of natural gas. The liberalized market requires a further

deployment of the provided for in the EA possibilities for direct contracts between consumers and gas suppliers – whether traders or distribution companies and direct suppliers.

By the amendment of EA, published in State Gazette issue 54 of 17 July 2012, art.21, para. 1, item 27, the power of SEWRC is regulated to certify the transmission system operators: it certifies the electricity and natural gas distribution network operators for compliance with the independence requirements; to monitor fulfillment of these requirements and to send the respective notifications to the European Commission. In art.81 a, para.1, SEWRC's power is further developed by introducing the possibility to open a certification procedure officially or at the request of the transmission operator, as well as at the motivated request of the European Commission. Certification or the reject of certification is adopted by a draft decision by the regulator within four months of the date of submission of the certification application or of the proceedings initiating at the operator's request or at the request of the European Commission. In case the Commission does not act expressly in the cited period, it shall be considered that the draft decision for the certification is adopted.

In view of the legal requirements, within six months since the EA entry into force, the gas transmission system operator Bulgartransgas EAD is to submit at SEWRC a certification application for independent transmission operator and in 2012 the operator started the preparation of a certification application.

Regarding the natural gas distribution companies, paragraphs 1, 2 and 3 of art.26 of the Directive are not applied in Bulgaria, due to the fact that all 27 of them provide services to less than 100 000 connected consumers.

Each gas distribution company must apply separate accounting by types of operations within the company, under the provisions of the Energy Act. For the purposes of unbundled accounting in gas distribution companies, the Uniform Chart of Accounts was adopted, which provides separate accountability for regulatory purposes of the activities – distribution, supply and non-regulated. Subject to regulation by the State Energy and Water Regulation Commission are the activities of natural gas distribution and supply.

Each activity has special characteristics which allow their accounting unbundling. This allows their monitoring, measurement and control, by the accounting mechanisms for the purpose of regulation. The consolidation of regulated activities allows comprehensive management of the process and control.

All gas distribution companies are legally unbundled. Activities related to natural gas distribution may be unbundled by ownership and organizations from natural gas supply to end consumers from other activities of gas distribution companies, when the gas distribution system connects at least 100 000 end consumers of natural gas.

4.1.2 Technical functioning

In pursuance of the requirements of art.41, § 6, (b) of Directive 2009/73/EC, by a Decision №P-119/26.08.2010, SEWRC approved Methodology on determining the price of imbalance of the gas transmission operator, which Bulgartransgaz EAD has announced to the public, under the requirements of Article 7, § 3 of Regulation. Prices of imbalance reflect as accurately as possible costs, providing at the same time appropriate incentives for the network users to balance the filling and withdrawal of gas from the system and prevent mutual subsidization among network users and do not obstacle the entrance of new market participants. Natural gas market balancing is carried out through the available in the system gas bought at regulated prices by the Public Provider. The filling and withdrawal possibilities of the underground storage facility Chiren are used when to compensate the season

consumption unevenness when the gas is possessed by entities other than the operator, in line with the contracts conditions.

Balancing gas market functioning in Bulgaria is in process of development and harmonization with the European Regulation (EC) № 715/2009 on conditions for access and with the developed by ERGEG “Guidelines for best practices for gas balancing”, as well as with the Comitology on establishing Network Code for balancing the transmission system. Requirements on balancing the transmission system are to be included in the Natural gas Trading Rules. In 2012, after the EA entry into force, a procedure on the amendment of the Natural gas Trading Rules started, pursuant to § 199. (1), under which provision “secondary legislation acts and general administrative acts for the implementation of this Law shall be adopted or put in compliance with this Law within one year of its entry into force”.

By the amendment of EA, published in State Gazette issue 54 of 17 July 2012, art.21, para. 1, item 36, the power of SEWRC to promote market integration and to support the related research activities is regulated.

In compliance with the provisions of art.21, para.1, item 9 and 10 of the amended and entered into force EA, at the proposal of the energy companies SEWRC adopts Electricity Trading Rules and Natural Gas Trading Rules, as well as Technical Rules of the Relevant Networks and Systems, including Security and Reliability Rules, controls their observance and carries out a review and control of the outcomes of previous periods; the Commission also adopts and controls the observance of the electricity supply by end suppliers rules and the last resort suppliers and natural gas supply by public provider and end suppliers as a part of the rules under item 9, including service and supply quality standards, as well as rules for the district heating supply, including service and supply quality standards.

In 2012, after the EA entry into force, a procedure started on the amendment of the Natural gas Trading Rules and as well as Technical Rules of the Relevant Networks and Systems, including Security and Reliability Rules, pursuant to § 199. (1), under which provision “secondary legislation acts and general administrative acts for the implementation of this Law shall be adopted or put in compliance with this Law within one year of its entry into force”.

At this stage of market development, there is no system congestion, neither on national, nor on cross-border level, since the transmission system projected capacity is 8 billion m³. The actual annual consumption does not exceed 50 % of the maximum projected consumption. The allocation of available capacities is on the ‘first come first served’ principle.

Transit transmission is carried out by the Transmission System Operator on the basis of long-term contracts. There are old contracts with priority access to cross-border capacities. The ratio of capacity needed to serve old contracts to total cross-border capacity is 100 %. These contracts are valid until 2030.

In the new EA, as part of the Third energy package, the natural gas transit transmission license, issued to Bulgartransgaz EAD, is amended into a natural gas transmission license till the term of the natural gas transit transmission license expires.

- The obligation under art. 41, §1 (m) of the Directive is transposed into the new EA, namely in art. 76, para. 4, items 10, 11 and 12 as part of SEWRC’s controlling powers: the Commission continuously monitors the fulfillment compliance of the licensed activity with the license conditions, including: timing period in which electricity and natural gas transmission/distribution networks operators complete connections to the networks, maintenance and interconnection lines; observance of the rules for work with energy services

consumers; observance of the requirements defined in Regulation (EC) № 714/2009 and Regulation (EC) № 715/2009;

- In regard to the requirement of art. 41, §1 (n) of the Directive, art. 76, para. 4, item 2 of EA stipulates the continuous control of the network access provision obligation observance, access to the storage and services facilities concerning the temporary natural gas storage, as well as the correct application of the conditions for provision of access.

The operator of UNS Chiren developed in 2011 „Rules for the provision of access to underground natural gas storage Chiren“, which arranged the terms and conditions for the provision of access according to art.172 б, para.1 of Energy Act and were adopted by a decision of the Board of directors of Bulgartransgaz EAD.

Applying the Rules should not result in obstruction of the storage’s users and is based on the following principles: storage’s users equal treatment; transparency and non-discrimination at the provision of a storage access.

4.1.3 Network and LNG tariff for connection and access

The price of transmission through the system is calculated by the method “rate of return on capital”. The tariff model applied to the transmission company is “post stamp”. It is expected the TSO to implement the tariff model “entry-exit”, in pursuance of the requirements of the Third energy liberalization package.

In the new EA art.197, para.9, the access and the terms for the usage of foreign gas facilities is regulated. The connected to the gas transmission network customers (in case of technical possibility and free capacity) may provide their own facilities to the relevant distribution network operator, a license holder, for the purposes of natural gas distribution to other customers in the territory defined in the license. The usage is to be provided after the concluding of a contract at a negotiated price defined through methodology approved by the Commission. In the contract with the licensee the terms and conditions of the usage are negotiated, including the terms and conditions of the operative management and natural gas metering, supplied to each of the customers, including the person providing usage, to guarantee the unified operative management and metering of the supplied to the customers natural gas. At the absence of consent, the Commission shall order provision of usage and payment of the price defined by SEWRC following the methodology.

In the Additional provisions of EA the set time limits for the price formation are: within 6 months since the EA entry into force the Commission shall issue Guidelines for the access and transmission network price formation or approves an access and transmission network price formation methodology, in case at the date of entry into force of the law such prices or methodology are not established, as in compliance with the requirements of Regulation (EC) № 715/2009, in pursuance of art. 41, §1 a. The Operator, supported by a Consultant team, currently is drafting a Methodology on access and transmission network price formation, which SEWRC is to approve at the grounds of art. 30, para. 1, item 12 of EA.

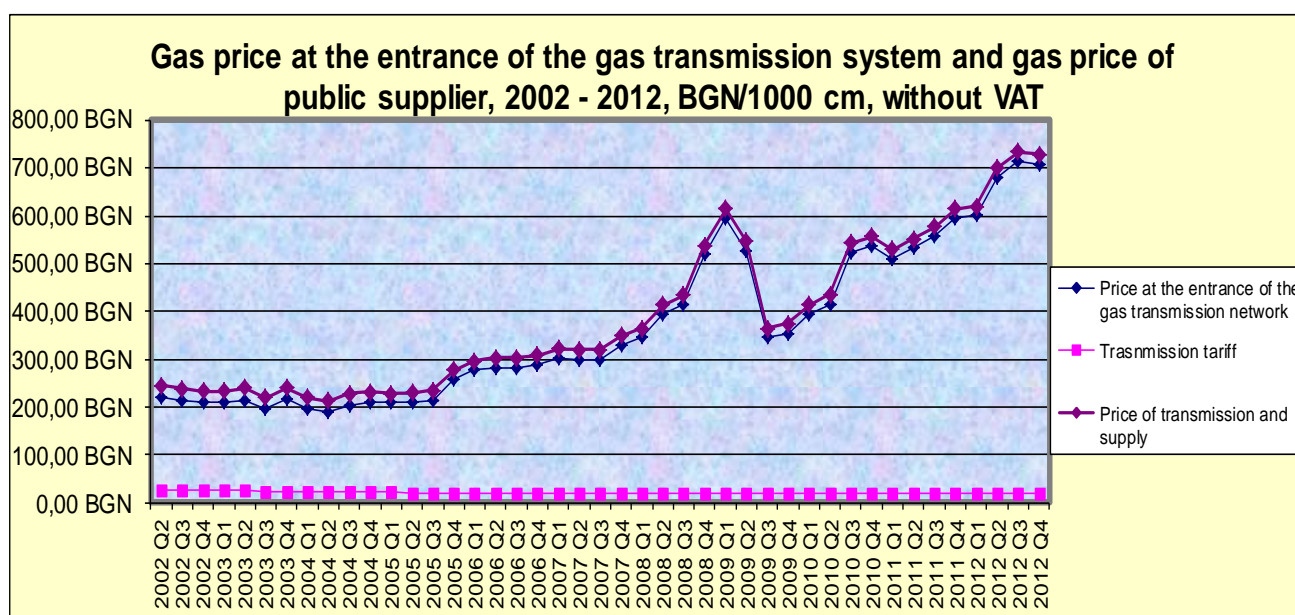
The price of natural gas at the network entry is calculated by the Public Provider as average weighted value taking into account the notified quantity of natural gas from import to the domestic market and from local extraction enterprises to sell in a future period, the contract terms for transmission of natural gas to the Bulgarian border, and the exchange rate of the Bulgarian National Bank for USD or another foreign currency paying for the imported natural gas. On this price a charge of up to 2% is calculated.

On 30 Dec 2009 a Decree No 325 of the Council of Ministers was adopted for the

amendment and supplement of *Ordinance on regulation of the natural gas prices*, adopted with Decree No 131 of the Council of Ministers of 2004 (promulgated SG issue 35 of 2004; amended and supplement SG issue 64 of 2007.), and entered into force on 01 Jan 2010. Art.17 of the Ordinance was amended with that DCM, which article concerns the method used in defining the natural gas purchase prices when buying from the Public Provider.

Under the amendment the natural gas purchase prices, when end suppliers and consumers connected to the gas transmission network buy from the Public Provider, are formed based on cost estimates for the supply of quantities of natural gas imports for the domestic market, domestic extract enterprises, natural gas storage and a charge within 2%.

Under the effective contracts of Bulgargas EAD with external suppliers, the entry price changes every quarter, which is four times per year and reflects in the prices of the whole chain of connected consumers.



The price for end consumers connected to the gas distribution network is calculated by adding the price for distribution and supply for the specific consumer group or subgroup to the price of natural gas at the entry of gas transmission system and the transmission tax (BGN 19.73).

For consumers connected to the transmission network, the price for 1000 m³ is equal to the entry price of the gas transmission system, to which the transmission tax (BGN 19.73) is added.

The natural gas price for distribution and supply in the gas distribution systems is calculated by the ‘price cap’ method.

The ‘price cap’ method involves approval by the Commission of prices set by the gas distribution companies for natural gas transmission through the gas distribution network and for natural gas supply from end supplier for the first year of the defined regulatory period and it adjusts them at the end of each year of the regulatory period by an inflation index, reduced by efficiency improvement rate.

The Commission may adjust approved prices at the end of each year of the regulatory period based on shortage or excess revenue, due to difference between projected and actual quantity of natural gas from the previous pricing period and investments.

With regard to the above, incentive regulation is applied to companies holding licenses for the activities gas distribution and gas supply by end supplier.

The regulatory period for which prices of gas distribution companies are defined, is in accordance with the business plan of the respective company, usually five years.

When regulating the prices for natural gas distribution and supply SEWRC takes into account the characteristics of the market, including the fact that the needed natural gas distribution infrastructure in the country is still in process of construction and the consumers connected to the natural gas distribution network are few. SEWRC applies a regulatory mechanism, which ensures balanced incentives for the natural gas distribution enterprises to continue the development of the networks and the connection of new consumers aiming the increase of consumption. One of the incentives is the defined higher rate of equity for the activities distribution and end supply, the price formation of the regulatory period as annuity prices and the establishment of cost tariff structures. The tariff structure is part of the pricing application, where the company may propose differentiation of consumers into groups and subgroups, depending on similar characteristics of consumption and/or another feature, for which it may request approval of separate prices. The companies justify and prove individual tariffs in front of the Commission where the highest price is paid by those groups of consumers whose natural gas end supply costs are highest. The in-force types of tariffs of the gas distribution companies end consumers are separated depending on the type of consumption (industrial, publicly administrative and households), evenness and unevenness of consumption and the relevant consumption.

The prices are formed under the binding “Guidelines of the State Energy and Water Regulation Commission for pricing of natural gas transmission through gas distribution networks and natural gas supply by end supplier” and “Guidelines for pricing of natural gas transmission and natural gas storage and the form and content of information needed for pricing”. The Guidelines constitute both the general and specific requirements of SEWRC regarding the price calculation methods, types of costs, assets incl. investments and all other pricing factors.

Annual data is collected to report the operations of licensed companies regarding investments, constructed network, number of consumers and consumption and these data are compared with data in the approved business plans.

Annual information is collected from all licensees regarding: number of interruptions, durations of interruptions, number of complaints, complaints response time, and time for correction of metering errors.

At this stage, tariffs do not reflect the quality of supply.

Transmission and distribution system operators submit updated information regarding effective tariffs for transmission, provision, storage, distribution, supply and connection.

Average gas distribution network prices for connection, 2012:

Non-household consumers: 1309 EUR/ consumer

Household consumers: 283 EUR/ consumer

Average gas distribution network prices for distribution, 2012:

Non-household consumers: 68.58 EUR/1000 m³

Household consumers: 106.59 EUR/1000 m³

In the new Bulgarian legislation, particularly art.30 of EA, in line with the requirements of the Third package, SEWRC’s obligation to regulate the natural gas access and storage in a storage facility prices is established and supplemented. In art.21, para.1, item

13 it is stipulated that SEWRC determines electricity and natural gas transmission network access rules, respectively electricity and natural gas distribution network and storage facilities access rules, including supplies and services quality standards, and if necessary, revises them to ensure the effective access. According to art.22, para.1, it is stipulated the obligation of the Commission to review network and facilities users complaints against transmission and distribution networks operators, extraction enterprises, gas storage facilities operators and LPG facilities operators, regarding the fulfillment of their obligations under the law. In relation to its controlling powers SEWRC monitors the fulfillment of the obligations for the provision of access to the storage facilities and gas temporary storage services, as well as the correct application of the conditions for provision of access.

4.1.4 Cross-border issues

The transmission system operator has the duty to provide sufficient cross-border capacity aiming the European gas transmission infrastructure satisfying all economically feasible and technically realistic capacity requests keeping in mind the observance of gas supply security requirements. SEWRC has the power to establish cooperation concerning cross-border issues with regulatory authorities of other countries – Member states and with ACER, and to conclude cooperation agreements with NRAs. For the reported 2012, no cooperation agreements were signed.

At this stage of market development, there is no system congestion, neither on national, nor on cross-border level, since the transmission system projected capacity is 8 billion m³. The actual annual consumption does not exceed 50% of the maximum projected consumption. The allocation of available capacities is on the ‘first come first served’ principle”, and under the new Rules on the provision of access to the natural gas transmission and/or distribution networks and access to the natural gas storage facilities approved by a decision of SEWRC of 14 March 2013, the possible overall available capacity allocation mechanisms of each entry/exit point and to the network as a whole, could be as follows:

- 1.proportionate allocation;
- 2.auction procedure;
- 3.opened request (in case of new gas infrastructure)

Transit transmission is carried out by the Transmission System Operator on the basis of long-term contracts. There are old contracts with priority access to cross-border capacities. The ratio of capacity needed to serve old contracts to total cross-border capacity is 100 %. These contracts are valid until 2030.

In the new EA, in line with the Third energy liberalization package, the natural gas transit transmission license, issued to Bulgartransgaz EAD, is amended into a natural gas transmission license till the term of the natural gas transit transmission license expires.

After the new EA came into force, pursuant to the provision of art. 21, para. 1, item 30, SEWRC acquired the power to monitor the fulfillment of the gas transmission network operators’ investment plans and to present in its annual report an assessment of the operators’ investment plans regarding their compliance with the ten-year network development plans in the European Union. Bulgartransgaz EAD submitted at SEWRC a ten-year transmission network development plan for approval for the period 2013-2022, and SEWRC in turn returned it back to be put in line with the legal requirements.

4.1.5 Compliance

The power of the Regulator under art.41, §1 d of the Directive is transposed in art.21, para. 1, item 31 of EA, namely to comply with and implement any relevant legally binding decisions of the Agency and the Commission. The Regulator also, has the duty to ensure the compliance of the transmission and distribution system operators, as well as of all natural gas undertakings in their obligation under the Directive, under Regulation (EC) № 715/2009 and under any relevant Community legislation.

A certification procedure is to be done for the independent transmission operator model, and within six months of the entrance into force of EA, Bulgartransgaz EAD is obliged to submit at SEWRC a certification application and within the statutory time limit of four months SEWRC has the duty to issue the relevant certificate. After the completion of the certification process, a monitoring procedure concerning the ITO duties shall start, as well as the imposing penalties procedure in case of duties' non-compliance. Under art.21, para.3, concerning the power to regulate the independent transmission operator activities, SEWRC shall:

1. impose sanctions about a discrimination conduct of the operators in benefit of the vertically integrated undertaking;
2. monitor the communications between the operator and vertically integrated undertaking, to ensure the duties fulfillment of the operator;
3. act as an authority to settle disputes between vertically integrated undertaking and the operator;
4. ask information and documentation relating to commercial and financial relations, including loans between vertically integrated undertaking and the operator;
5. approve commercial and financial agreements between vertically integrated undertaking and the operator in case they affect the market development conditions;
6. ask justification by the vertically integrated undertaking concerning the presented by the compliance responsible decisions about the network development plan or particular operator's investments, including in relation to the non-discrimination conduct of the operators in benefit of the vertically integrated undertaking;
7. carry out on-site inspections in the vertically integrated undertaking and the operator;
8. approve ten-year transmission network development plan, monitors and control its fulfillment at the terms and conditions of the Ordinance under art. 60;
9. assign all and certain tasks to the independent transmission operator from the tasks of the independent system operator, by the proposal of the network owner, in case the operator systematically breaks its independence duties, according to chapter eight „a“, section II, including systematic discrimination conduct in benefit of the vertically integrated undertaking.

4.2 Promoting competition

4.2.1 Wholesale markets

4.2.1.1 Monitoring the prices levels, the level of transparency, the level and effectiveness of the market and the competition

In pursuance of art.21, para.1, item 35 of the new EA, respectively art. 41, §1, item (i) and (j) of the Gas Directive, the Commission monitors the level and efficiency of opening of

the market and the competition in the wholesale and retail market, and monitors the integration with other energy markets of other countries – Member States.

The transmission price on the transmission network is calculated by the method “rate of return”. The tariff model applied to the transmission company is “post stamp”. It is expected the TSO to implement the tariff model “entry-exit”, in pursuance of the requirements of the Third energy liberalization package.

In Additional provision of EA the time limits for the new price formation are set: up to 6 months after the entry into force of the Act, the Commission issues Guidelines for access and transmission over the natural gas transmission network or approves a methodology for the prices of access and transmission over the natural gas transmission network, when on the date of entry into force such prices were not set or methodology was not implemented, which to be in line with the requirements of Regulation (EC) № 715/2009, in pursuance of art. 41, §1 a.

As it is laid down in art.21, para.1, item 29 of EA, SEWRC shall contribute to the compliance of the data exchange processes concerning the most important market processes on regional level, guarantying the necessary information confidentiality level.

Under the EA, the Rules for provision of access to the natural gas transmission and /or distribution networks, and in pursuance of the European Directives about the full electricity and natural gas market liberalization, since 01 July 2007 all consumers have the right to chose their natural gas supplier, or the market is 100 % liberalized.

The new controlling powers of SEWRC, namely art.76, para.4, item 9, comprise of monitoring the presence of limiting contractual practices and exemption provisions, which may hinder household consumers to conclude contracts at one and the same time with more than one supplier or to hinder their choice of suppliers.

The activity of public provision is carried out by Bulgargaz EAD, which is a license holder of a license for the activity of natural gas public provision, issued by SEWRC. Bulgartransgaz EAD is a license holder of a license for the activity of natural gas transmission, transit transportation and storage. The natural gas on the entry of the gas transmission network is provided by three foreign suppliers (Overgas Inc., WIEE and Gazprom Export OOO) and one local supplier (Melrose Resources OOD). Bulgartransgaz EAD owns the gas transmission network, gas distribution companies are connected to this network and also about 250 directly connected consumers. Gas supply in the territory of Bulgaria is carried out over the gas transmission network owned by Bulgartransgaz EAD and over gas distribution networks owned by the respective gas distribution companies. In the territory of the country, a transit gas pipeline has also been constructed, owned by Bulgartransgaz EAD, which transports natural gas through the respective sections to the territories of Greece, Macedonia and Turkey.

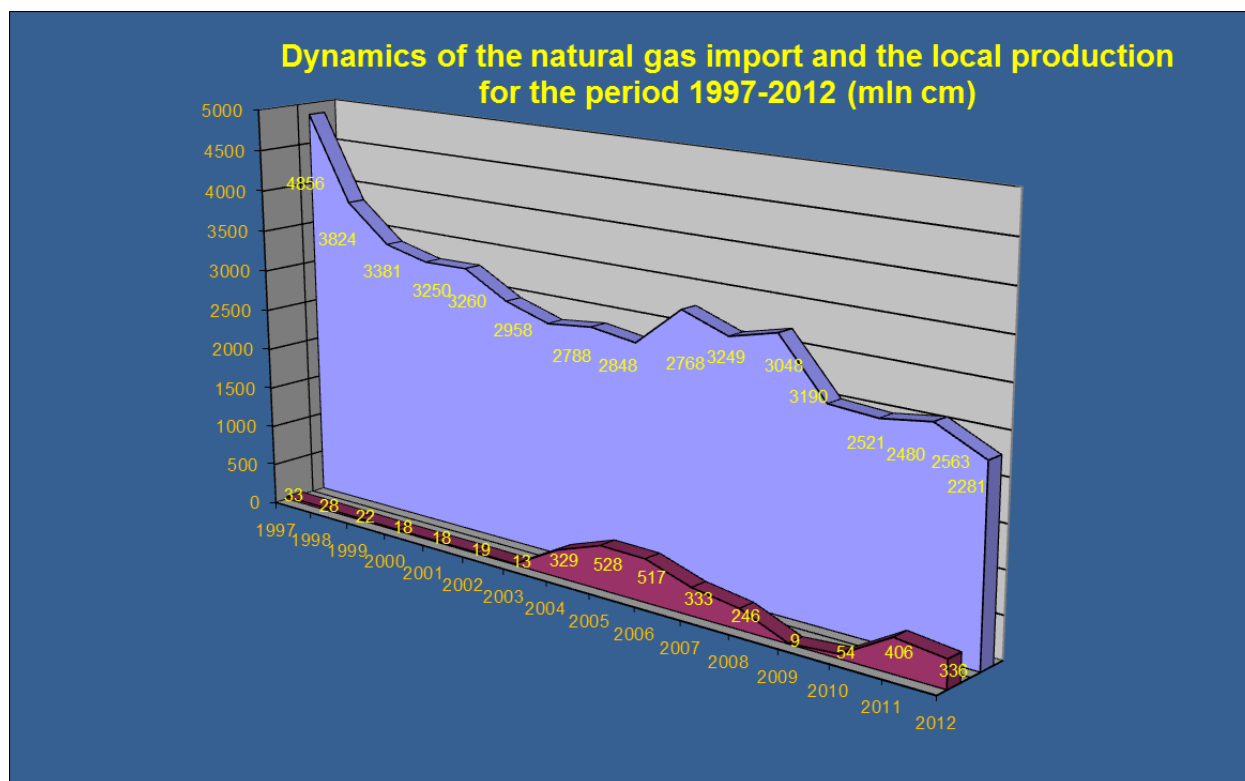
Import is carried out by a single importer – Bulgargaz EAD, which is a part of the Bulgarian Energy Holding (BEH EAD). BEH EAD was established in September 2008 with 100% state share and activities comprising generation, production, transmission, transit transmission, storage, management, distribution, sale and/or purchase of natural gas, electric power, heat energy, coal, as well as all kinds of energy and resources for the generation of energy. BEH EAD encompasses the bigger energy companies including Bulgartransgaz EAD (functioning as combined operator performing the activities of storage, transit transmission and transmission of natural gas) and Bulgargaz EAD, acting as a natural gas public provider.

Under art.176, para.1 of EA, extractive companies or natural gas traders, on one hand, and the natural gas public provider, suppliers of last resort, storage facilities operators, liquid natural gas facilities operators, natural gas traders or customers – on the other, conclude natural gas transactions among each other at freely negotiated prices. For the reported 2012. the quantities, traded at freely negotiated prices by natural gas traders under gas transmission contracts with the gas transmission system operator, were: 15 million m³ under a contract

with Deksia Bulgaria OOD, supplied by the extractive company Melrose Resources Sarl; 180 million m³ under a contract with Agropolihim AD.

As was mentioned above, in 2012 the natural gas supplies for the needs of the Bulgarian consumers were realized by the Public provider Bulgargaz EAD under the contracts with Overgas Inc., WIEE and Gazprom Export OOO. The local production share in meeting the cited needs is negligible and the Public provider purchases natural gas volumes from the local extracting company Melrose Resources OOD. Bulgartransgaz EAD owns and operates the transmission and transit gas pipelines – high pressure, as well as the UGS Chiren.

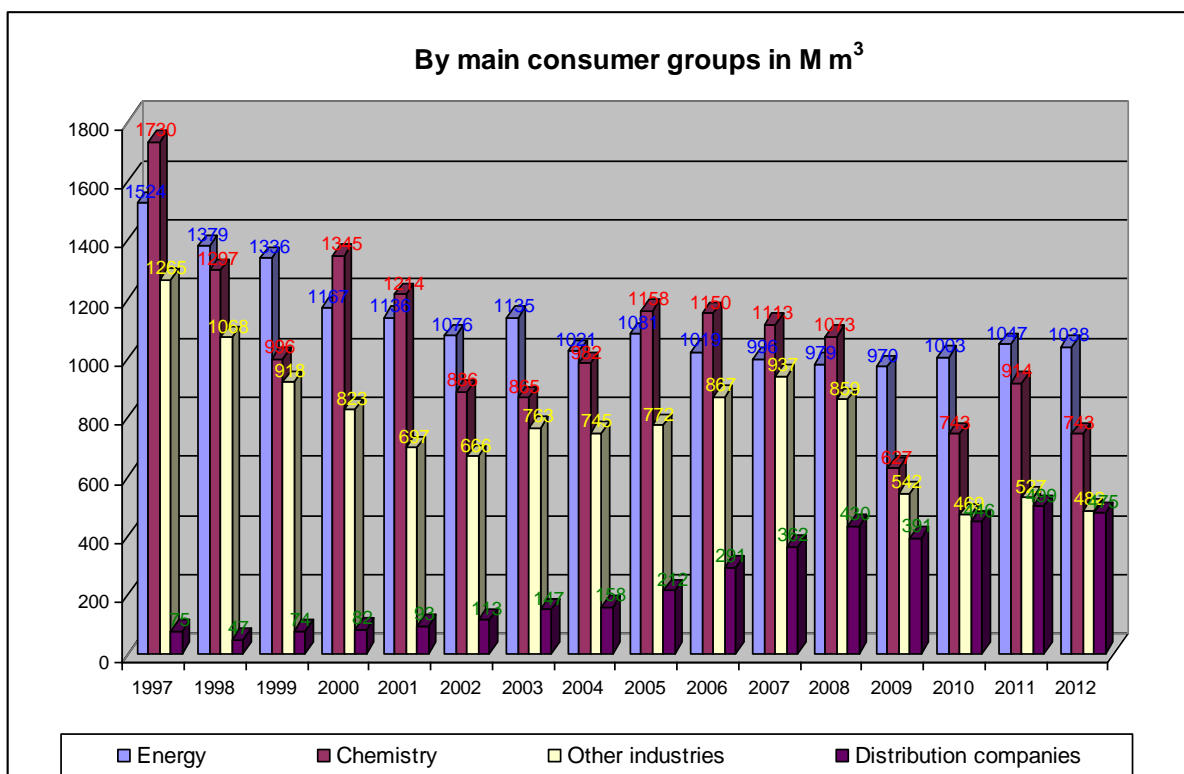
Bulgargaz EAD is the sole Public Provider that carries out wholesale trade at prices regulated by the SEWRC, with an import market share of 87.1 % for 2012 and the remaining 12.9 % from domestic extraction. The maximal hourly imported flow of natural gas was 0.0051 TWh/h. Local extraction in 2012 was 336 million m³, realized by Melrose resources OOD and Exploration and extraction of oil and gas AD. To compare, the extraction in 2010 was only 54 million m³. The significant increase of the extracted natural gas in the country was due to the newly developed by Melrose Resources Sarl two deposit fields in Kaliakra and Kavarna. The Bulgarian country operates the underground gas storage Chiren, with a capacity of the active gas about 450 million m³/per year. In 2012, 222 million m³ natural gas were pressurized in there, and the amount of the drawn quantity was 347 million m³.



18,4% of natural gas consumption (including local production quantities) in the country is realized by 30 natural gas distribution companies, servicing 5 natural gas distribution regions (Dunav, West, Thracia, Mizia, Dobroudja) and 66 municipalities outside these regions.

Total natural gas consumption by consumers of Bulgargaz EAD was 2 738 M m³, and the consumption structure by sectors in 2012 was the following:

- Energy sector – 1038 M m³, or 37.91 %
- Chemical industry – 743 M m³, or 27.13 %
- Other industries – 482 M m³, or 17.6 %
- Distribution companies – 475 M m³, or 17.34 %



Active natural gas maximum volume for 2012 in the only one at present usable gas storage amounted at 303 M m³ (within a year varied from 181 M m³ to max 518 303 M m³), and the buffer gas volume was 749.954 483 M m³. Active natural gas quantity was about 11 % of total annual consumption in the country. Maximal extracting capacity from the storage was 160 000 m³/hour. Storage capacities are reserved only by the public provider Bulgargaz EAD, and in past periods by other industrial consumers as well. There are two methods for allocation of available storage capacities, namely ‘first come first served’ and the proportionate method of allocating bids and offers according to quantities. The second method is in process of amendment as part of the Natural Gas Trading Rules. There is no storage capacities trade on the secondary market.

The five gas distribution companies with largest market share in sales to end consumers were the following:

- Overgaz East AD – 16 %
- Overgaz North EAD – 16 %
- Sofiagaz EAD – 15 %
- Citygaz Bulgaria EAD – 14 %
- Overgaz South AD – 4 %

For gas distribution companies, shares of consumer groups were as follows:

- Industrial consumers –8.1 %, 5 705 consumers;
- Household consumers –91.8 %, 64 418 consumers.

In compliance with the European directives for full liberalization of electricity and

natural gas markets as of 01 July 2007 all consumers have the right to select their natural gas supplier. However, there are practically no procedures yet for switching the end supplier. This is caused by the fact that each gas distribution company has a price, approved by SEWRC, for transmission of natural gas through the gas distribution networks, owned by the companies. In switching the end supplier, the consumer is to pay additional transmission price of each 1 000 m³ transmitted natural gas to the gas distribution company, whose licensed territory it crosses.

In 2012 SEWRC approved natural gas transmission prices through the gas distribution networks, prices of natural gas supply by end supplier, and prices of connecting consumers of 6 (six) licensed companies, according to the pricing method ‘price cap’.

Average weighted prices of natural gas for 2012 (without VAT and transportation fee)

Dimension	BGN/1000	BGN/	BGN/	Euro/KWh	ct/KWh
	m3	GJ	KWh		
2012 sale price by Public Provider	637.87	19.04	0.069	0.035	3.522
Industrial consumers	793.08	23.68	0.086	0.044	4.379
Public and commercial	869.62	25.96	0.094	0.048	4.802
Households	877.4	26.20	0.095	0.048	4.845

SEWRC conducted scheduled inspections and concluded that companies have made considerable efforts to improve the quality of services they offer and to achieve rapid solution of consumers’ complaints.

In 2012 total of 7 inspections were carried out at the gas distribution companies, one of which a surprise inspection regarding consumers’ complaint. The main themes of complaints were price, measurement of consumed natural gas volumes and problems with connection of new consumers. In some cases the problem was about non-compliance with the license conditions or contractual conditions. The inspections drew up statements and made binding instructions with time limits for implementation.

4.2.2 Retail market

4.2.2.1 Monitoring the prices levels, the level of transparency, the level and effectiveness of the market opening and the competition

When regulating the prices for natural gas distribution and supply SEWRC takes into account the characteristics of the market, including the fact that the needed natural gas distribution infrastructure in the country is still in process of construction and the consumers connected to the natural gas distribution network are few. SEWRC applies a regulatory mechanism, which ensures balanced incentives for the natural gas distribution enterprises to continue the development of the networks and the connection of new consumers aiming the increase of consumption. One of the incentives is the defined higher rate of equity for the activities distribution and end supply, the price formation of the regulatory period as annuity prices and the promotion cost tariff structures. The tariff structure is part of the pricing application, where the company may propose differentiation of consumers into groups and subgroups, depending on similar characteristics of consumption and/or another feature, for which it may request approval of separate prices. The companies justify and prove individual tariffs in front of the Commission where the highest price is paid by those groups of

consumers whose natural gas end supply costs are the highest. The types of tariffs in force of the gas distribution companies end consumers are separated depending on the type of consumption (industrial, publicly administrative and households), evenness and unevenness of consumption and the relevant consumption.

The prices are formed under the “Guidelines of the State Energy and Water Regulation Commission for pricing of transmission of natural gas through gas distribution networks and natural gas supply by end supplier” and “Guidelines for pricing of transmission of natural gas and natural gas storage and the form and content of information needed for pricing”. The Guidelines constitute both the general and specific requirements of SEWRC regarding the price calculation methods, types of costs, assets incl. investments and all other pricing factors.

Annual data is collected to report the activities of the licensed companies regarding investments, constructed network, number of consumers, consumption; and are compared with data in the approved business plans.

Annual information is collected from all licensees regarding: number of interruptions, durations of interruptions, number of complaints, complaints response time, and time for correction of metering errors.

At this stage, tariffs do not reflect the quality of supply.

Transmission and distribution system operators submit updated information regarding effective tariffs for transmission, provision, storage, distribution, supply and connection.

Average gas distribution network prices for connection, 2012:

Non-household consumers: 1309 EUR/ consumer

Household consumers: 283 EUR/ consumer

Average gas distribution network prices for distribution, 2012:

Non-household consumers: 68.58 EUR/1000 m³

Household consumers: 106.59 EUR/1000 m³

The Energy Act regulates the obligation of the transmission undertaking to connect to its network at a defined by it point the distribution companies, extraction companies and companies for natural gas storage. The obligation of distribution companies to connect and provide the gas supply to consumers at conditions of equal treatment is regulated in EA, with complying with the technical requirements of reliability and safety. Conditions of connecting to the transmission and distribution networks, general conditions of contracts, natural gas prices and rules for work with consumers are approved by SEWRC and are publicly available, and are placed at a prominent place in the clients’ centers of the companies and on the internet pages of the gas transmission and gas distribution companies.

The Law does not require issuance of a license for trade with natural gas, thus giving a full freedom for traders. Natural gas trade market is 100 % opened.

SEWRC permanently monitors the market with the view to ensure non-discrimination between all market participants, as well as between the participants of one and the same category and to promote efficient competition and correct market operation. Regarding the latter, when exercising its controlling powers, SEWRC carries out scheduled inspections of the energy companies, as well as surprise inspections in case of filed complaints and signals.

Regarding its controlling powers, SEWRC is in a close cooperation with the Consumer Protection Commission and with some other non-governmental organizations for consumer protection.

SEWRC monitors the energy companies' obligations related to provision of information about: ways of payment, disconnection or restoring of supply prices, prices for maintenance services and other services prices concerning licensed activities; change of supplier procedure and information about the lack of additional payments for energy services consumers when shifting supplier; real consumed quantities and costs incurred and no additional payments owed for this service; elaboration of final equalizing bill at each supplier shift; every energy source share in the total supplied energy by the supplier during the previous calendar year in a comprehensible and clearly comparable way.

Complaints submitted at the Commission, Gas supply sector were 27 or 0.85 % of total number of filed complaints.

The Commission monitors and inspects the gas distribution companies regarding the compliance of the set in their approved business plans parameters connected with their duties under the licenses for the activities of natural gas distribution and supply. After an analysis it was found out that the business plans' performance was satisfying, at the background of the general economic situation in the region of South-East Europe.

Gas distribution companies 2012	Constructed network	Investment	Number of consumers		Natural gas consumed, thousand norm m ³	
	m	Thousand BGN	Non-households	Households	Non-households	Households
Total	217 427	44 853	5 705	64 418	416 574	65 687

4.2.3 Recommendation on supply prices, investigations and measures to promote effective competition

In the past 2012 the Bulgarian regulatory authority did not give any recommendations concerning the prices of the supplied natural gas. However, SEWRC published information on the approved actual marginal prices, statistics and analyses.

The provision of Article 30, para.2 of EA stipulates that the prices of electricity, natural gas and services provided by energy companies are not subject to regulation by the Commission when the later finds out the existence of competition, which creates pre-conditions for the free negotiation of prices under market conditions for each energy sector activity.

In this respect, as far as natural gas sector is concerned, pre-conditions for the existence of competition in the market are provided by the legislature through the provision of art.180, para.1 of EA: "Every customer connected to the gas transmission and / or gas distribution network may choose a natural gas supplier, regardless of the European Union member state in which the supplier is registered, provided the supplier complies with the rules under art. 173, para.1 and the security of supply requirements".

In line with art.181 of EA, natural gas contracts are concluded at regulated by the Commission prices for services of public interest regarding transmission, distribution and supply and at freely negotiated prices among the parties – prices outside the public interest services.

SEWRC continuously monitors the market with the aim to ensure non-discrimination between the market participants and between the members of one and the same category as well and to contribute to the efficient competition and correct market functioning.

In view of its regulatory powers, SEWRC is in close cooperation with the Commission of consumer protection and other non-governmental organizations protecting consumers too.

To achieve the existence of competition, which is a prerequisite for free negotiation of electricity and natural gas prices at market conditions, an effective market opening is needed, an establishment of a single electricity and natural gas market in EU, which is in the interest of citizens and industry. This can be achieved through the implementation of the interconnection projects, which will enable the electricity and natural gas supply from other sources and will increase competition and the possibilities to choose a supplier. The interconnection projects are a priority for Bulgaria and have significant influence regarding the security of supply in the region.

4.3. Security of supply

Bulgarian State has defined the Ministry of economy, energy and tourism to be the competent authority concerning the security of supply. In line with art.72 a of EA, the Minister of economy, energy and tourism after consultations with natural gas companies and organizations representing the household and non-household customers' interests and with the commission, introduces at national level:

1. preventive action plan containing the measures needed for the removal or limitation of the identified risks impact in compliance with the risk assessment, approved by an Order № ПД-16-1662/30.11.2012 of the Minister of economy, energy and tourism;

2. emergency action plan containing the measures needed for the removal or mitigation of natural gas supply interruption impact, approved by an Order № ПД-16-1663/30.11.2012 of the Minister of economy, energy and tourism.

Risk assessment has been carried out based on components defined in Regulation (EC) № 994/2010 of the European Parliament and the Council of 20 Oct 2010 by MEET in collaboration with SEWRC's experts and energy companies' representatives.

4.3.1. Monitoring balance of supply and demand

Natural gas supplies for the Bulgarian gas market are guaranteed by contracts concluded with:

- Overgas Inc. AD
- WIEE
- Gazpromexport OOO
- Melrose resources OOD

Contract conditions grant some possibilities for Bulgargaz EAD to obtain quantities amounting at the volumes needed to meet clients' consumption, including daily and monthly. The period of the contracts with Overgas Inc. AD, WIEE and Gazpromexport OOO expired in the end 2012. Since the beginning of the present year Bulgargaz EAD buys natural gas based on a new contract with Gazpromexport OOO.

At this stage, natural gas supplies are made by sole supplier (Russian Federation) on one route – through the territories of Ukraine, Moldova and Romania. Bulgargaz EAD in its role of public provider has at its disposal gas reserves stored at UGS Chiren available in UGS, owned by Bulgargaz EAD to 1 Jan 2009 - 563 M m³, 1 Jan 2010 - 523 M m³, 1 Jan 2011 - 397 M m³, към 1 Jan 2012 – 379 M m³.

4.3.2 Expected future demand, available supplies and envisaged additional capacity

FORECASTS for the expected natural gas consumption in the Republic of Bulgaria in the period 2012-2017

PERIOD	Milliard m ³	Including by sectors							
Sector	Annual	Energy		Chemistry	Metallurgy	Building materials and cement	Glass and porcelain	Distribution companies	Others and non-material sector
Year	volume	Total:	Including electricity					Total	
2012	2.900	1.081	0.442	0.763	0.093	0.045	0.188	0.455	0.275
Average daily in M m ³	7788.414	2903.198	1187.062	2049.159	249.646	120.884	505.785	1221.975	737.767
2013	3.100	1.098	0.443	0.835	0.103	0.045	0.263	0.493	0.262
Average daily in M m ³	8415.373	2980.671	1202.584	2266.721	279.567	122.674	715.209	1338.316	712.215
2014	3.300	1.237	0.590	0.853	0.133	0.041	0.268	0.533	0.235
Average daily in M m ³	9067.449	3398.920	1621.150	2343.798	366.344	112.785	736.019	1464.530	645.053
2015	3.900	1.565	0.951	1.056	0.140	0.042	0.268	0.572	0.257
Average daily in M m ³	10639.068	4269.267	2594.296	2880.732	381.604	113.582	731.461	1560.397	702.026
2016	4.000	1.622	1.035	1.052	0.143	0.042	0.268	0.623	0.250
Average daily in M m ³	10988.877	4455.990	2843.372	2890.075	392.333	115.938	737.326	1711.518	685.698
2017	4.300	1.802	1.216	1.066	0.147	0.043	0.268	0.675	0.299
Average daily in M m ³	11656.942	4885.072	3296.475	2889.837	398.190	116.290	726.645	1829.869	811.039

4.3.3 Measures to cover peak demand or shortfalls of suppliers:

- *Configuration of network, real gas flows, including possibilities of physical flows in both directions*

There are possibilities for reverse physical flow of natural gas from Greece and Turkey (2.4 M m³/day in the event of complete interruption of supplies of Russian gas). Reverse flow from Greece was realized at the end of the gas crisis of January 2009, based on signed agreement. Correspondence has been exchanged and a technical agreement is to be signed with Turkey.

- *Natural gas storage*

Natural gas storage activities are realized in the underground gas storage facility Chiren and the available stored natural gas at the beginning of the autumn – winter period 2011 —2012 amounts at 504 m³. These amounts are intended mainly for compensating the intermittent consumption as well as for guaranteeing security of supplies in the event of deficit.

- *Natural gas role in producing heat and power and in the proper industrial sector functioning*

The main part of natural gas realization is for industrial purposes, within 60 % to 70 %, and this share we expect to be the same in the next years. The share of the energy sector consumption is from 30 % to 40 % of the total realized natural gas and the trend is for increase the share of electricity output. Household sector consumption is very low and the expected growth for the period 2012-2017 is from 1.9 to 2.5 % of total natural gas consumption in the country.

Measure: billion m³						
Year	2012	2013	2014	2015	2016	2017
Total:	3.200	3.300	3.800	3.900	4.000	4.300
Industry and others	3.140	3.233	3.725	3.804	3.903	4.192
Household	0.060	0.067	0.075	0.096	0.097	0.108
% household share	1.88	2.03	1.97	2.47	2.44	2.51

Big part of the consumers does not maintain reserve and permanent or prolonged interruption of supplies would negatively impact these consumers in the country.

- *Interconnections construction projects*

- *Gas Interconnection Bulgaria - Greece*

The construction of a natural gas interconnection Bulgaria - Greece /planned route (about 160 km) of the interconnection is Stara Zagora – Dimitrovgrad – Komotini/ will be realized by a mixed company with the participation of Bulgarian Energy Holding EAD and IGI Poseidon (50 % Depa and 50 % Edison). On 14 July 2009 a Memorandum of Understanding at corporate level was signed. In addition, after the approval from the relevant Ministries of the three countries, on 15 July 2009, a collaborated proposal for grants was sent within the European Energy Programme for Recovery. In line with a decision of EC, a grant up to 45 million Euros shall be provided to realize the project, which total value amounts at proximally 160 million Euros. The feasibility study provided by Jacobs Consultancy UK Ltd., showed that the project was economically, technically and ecologically feasible. At the end of 2010 a project company was established – ICGB AD and at the beginning of 2011 a two-stage procedure was announced for the selection of a technical project contractor, EIA and Detailed plot plan. In August 2011 a design contract was signed. The Environment Impact Assessment has started and the on – site activities were realized for the period autumn - winter. A preliminary detailed plot plan (DPP) project has been completed and also a selection of route for further detailed studies. The envisaged capacity of the facility is up to 3 billion m³ with possible future enlargement of up to 5 billion m³ per year. In accordance with the elaborated

road map about the project realization, it is expected for the interconnector to be launched into operation in Dec 2014.

➤ Gas Interconnection Bulgaria - Romania

The project envisages construction of a natural gas interconnection between Bulgaria and Romania. The total length of the pipeline will be 25 km and its construction will cost about 28 M Euros. The project is developed by Bulgartransgaz EAD and S.N.T.G.N. Transgaz S.A. – Romania. The proposal for a grant within the European Energy Programme for Recovery was done on 13 July 2009. EC approved the grant of up to 8.9 M Euros about the project. The envisaged capacity of the pipeline is 1.5 billion m³ per year. At present, the terrestrial part of the project has validated version of DPP by the Ministry of agriculture, coordinated with the municipalities and the operation companies under the Law on territory planning. The first stage of the compulsory archeological investigations has been done and a second stage is being prepared. A contractor for the underwater part of the project has been selected – the transition under the bottom of the Danube river. Under the internal procedure of the company, it is expected a draft contract with the selected contractor to be introduced for approval by the Board of Directors of BEH EAD. According to the elaborated road map for the realization of the project, it is envisaged the interconnector to be put into operation in Feb 2013.

➤ Gas Interconnection Bulgaria - Serbia

Interconnector Pipeline Bulgaria - Serbia shall provide possibilities for the natural gas supplies from other resources (different from Russia) through the Bulgarian national gas transmission system, which is to be rehabilitated, modernized and enlarged till the countries of Central and East Europe (CEE). The project is a priority for Bulgaria and also has a significant impact on ensuring the security supplies in the region. The interconnection pipeline is about 50 km long on Bulgarian territory and 100 km on Serbian territory. Technical capacity of the facility is envisaged to be at the range of 1.8 – 4.5 billion m³ per year. The cost of the Bulgarian territory segment is expected to amount about 48 M Euros. In the period July 2011 – Nov 2011, a procedure had been carried out under the Law on Public Procurement with the following subject: “Selection of a consultant for the feasibility study for the interconnection pipeline Bulgaria - Serbia on Bulgarian territory”. In Jan 2012, a contract was signed with the selected consultant who is to draft the feasibility study for a period of maximum 12 months. Meanwhile, with a view to ensure the financing of the project, as well as compliance with the deadlines for its realization, actions were taken for the transfer of the project to OP “Competitiveness Development of Bulgarian Economy”. According to the draft road map for the realization of the project, it is envisaged the interconnector to be put into operation in the end of 2015.

➤ Gas Interconnection Bulgaria - Turkey

The main benefit of the Interconnector Pipeline Bulgaria - Turkey (ITB) project is that the Bulgarian country shall obtain direct access to the Turkish national gas transmission system – the main transit country of the Caspian natural gas, which possesses six entry points and two more is expected to be constructed. ITB would supply Bulgaria with natural gas by alternative sources and entry points like Azerbaijan and LNG terminals “Marmara Eleglisi” and “Aliaga” (with possible supplies from the LNG spot market) and in future – from Egypt, Iraq, Turkmenistan and others. On 29 Jan 2010 Bulgaria and Turkey signed a Memorandum of Understanding supporting the realization of the project. A preliminary study of the Bulgarian segment of the pipeline has been developed by Interagency working group established by the Minister of economy, energy and tourism. The overall preliminary study for the whole project is in process of preparing in collaboration between Bulgartransgaz EAD and Botash. On 01

Feb 2012 Minister Traicho Traikov sent to Minister Taner Yildiz a proposal for the signing of a Memorandum of Cooperation at the construction of a new interconnection pipeline between the two countries. The length of the pipeline shall be 75 km on Bulgarian territory. Maximum technical capacity in the first stage of the project is to be up to 3 billion m³ per year (possible enlargement up to 9 billion m³ per year within the second stage of the project). The cost of the Bulgarian territory segment is expected to amount about 50-80 M Euros for the first stage of the project development. It is envisaged the interconnector to be put into operation in the end of March 2014.

5. Consumer protection and dispute settlement in the electricity and gas sectors

5.1 Consumer protection

Commercial metering devices, including the devices ruling the tariffs, are located in a way that the consumer has the opportunity to observe the figures displayed in the commercial metering devices. In cases where it is needed to guarantee the life and health of citizens, property, power quality, continuity of supply and the security and reliability of the energy system, commercial metering devices are put in place with difficult access, the electricity distribution company shall be obliged to provide at its own account the possibility of visual inspection within three (3) days following a written request. Apart from that, energy companies have established in every major city of their licensed territory customer service centres and have their own internet sites for each user to have an access to them.

Another key direction of the electricity distribution companies' investment policy is related to the improvement of the customer service. A significant portion of these investments were directed towards the implementation of a unified information system for all companies, which enables the customers to use the services of the customer service centres and to pay electricity bills from any point in the territory of Bulgaria, regardless of the consumption location. The companies run uniform call centres for information and references that serve all customers in each licensed area.

In the EA a new section has been created Section VI – Measures to protect the end consumers, in pursuance of the requirement of art. 41 of the Directive and it defines:

- Agreements between energy services consumers and the energy companies providing services of public interest, which compulsorily contain: data identifying the energy company, including address; the services provided and the conditions and terms of their provision; the means used to receive the up-to-date information for all applied prices of the proposed services; duration of agreement, conditions on temporary suspension, termination of their provision and of the agreement; terms on the unilateral termination of contract by the user of the energy services and the possibility of such termination without additional payment; terms and conditions on set-off and recovery of amounts at non-compliance with the quality requirements of the contracted services, including incorrect or delayed invoicing; energy services consumers rights, including information on procedures of handling and solving complaints; other terms as provided for in this law.

The amended EA stipulates that energy companies provide to their energy services consumers information on: ways of payment, prices for disconnection and restoration of supply, service prices for maintenance and other service prices connected to the licensed activity; the supplier shifting procedure and information on lack of obligations of the consumers about additional payments when making the shift; real consumed quantities and costs incurred without obligation of additional payments owed for this service; elaboration of final equalizing bill at each supplier shift; every energy source share in the total supplied

energy by the supplier during the previous calendar year in a comprehensible and clearly comparable way; existing resources of public information about the environment impact concerning at least the carbon dioxide emissions and radio active waste – a result of the different energy sources power generation in the total supplied energy provided by the supplier in the previous year.

Work with customers in 2012 again was a key priority for SEWRC, especially their protection in respect of the service quality and right of information. SEWRC has a public telephone for customers' queries and signals, where customers can obtain replies to their problems or the filing a complaint procedure can be clarified.

For the reported period 1515 electricity complaints were filed at SEWRC:

- 25 % of them were requests for compensation of damages caused by network accidents, problems regarding servicing at the consumer service centers, corrective bills for used but unpaid electricity after a found undue intervention in the commercial metering device (CMD) and bills content.
- 32 % errors in billing
- 17 % supply conditions and service quality standards
- 4 % requests for CMD checkup
- 16 % consumers' right to be connected
- 5 % licensee's right to stop the supply
- 1 % errors in metering and billing of electricity.

In 2012 experts from "Regulation and control – electricity and heat energy" Department of SEWRC took part in 29 inspections at the occasion of filed complaints and in two of the cases amicable settlement of the disputes were achieved between the energy company and the applicant, дадени са десет броя ten (10) binding guidelines for removal of violations were issued and two (2) acts for found administrative breach were issued. As a result of the rest 15 inspections carried out by SEWRC it was found out that the filed at the Commission complaints were not of the authority's competence or were groundless as no violations by the licensees were found.

In 2012, 22 complaints of licensees-gas suppliers were filed at SEWRC. The majority of the complaints in gas was of customers concerning delay in connection to the gas transmission network, disagrees with the accrued amounts and gas disruption.

177 of the total number of complaints were closed with a Commission decision.

For the reported 2012 consumers requests registered on the phone at the General Department of the Regulator were average 30 per day.

User sessions at the Regulator, asking for advice, consultations and explanations were on average 25 per week.

5.2 Dispute settlement

Arrangements for amicable settlement of disputes are regulated by the Energy Act (EA) and the Ordinance on licensing the activities in the energy sector (OLAES).

Within two months as of the complaint filing under art. 22, para.1, item 1, 2 and 3 and para.2 of EA, the Commission may assist for a voluntary settlement. The time limit may be extended by another two months if the dispute nature requires the collection of additional data and information by the Regulator. Should an amicable settlement was not achieved or some of the parties rejected an amicable settlement, the Regulator shall make a decision on the

complaint within two months as of receiving it. This period may be extended by two months if the dispute nature requires the collection of additional data and information by the Regulator. The extended period may be extended by another two months with the applicant's consent.

An amicable procedure has been carried out under OLAES in relation to the dispute between EON Bulgaria Networks EAD and Energy Invest EAD regarding a delay in connection of a wind power plant to the distribution network. An agreement has been achieved where EON Bulgaria Networks EAD should ask NEK EAD to agree an increase of the transformation capacity of substation "Nona" and new connection conditions to be fixed.

An on-site and in documents inspection has been carried out on filed at SEWRC complaint ref. № E-11M-00-123/23.11.2011 submitted by Nicolay Bonchev against CEZ Bulgaria Distribution AD regarding material damages of electrical appliances caused by power cuts. Under the provision of art.51, para.3 of the Common Conditions, an amicable settlement of the dispute has been achieved between the parties.

6. Conclusions and perspectives

Currently in the Republic of Bulgaria, electricity and natural gas trade is being performed in a regulated market and in an open market and the existence of a regulated market is conditioned by the current legal framework in the country and by the end consumer protection obligations.

Being a part of the end consumers' protection measures, the existence of regulated electricity and natural gas prices is deemed necessary in order to regulate the so called natural monopolies – transmission and distribution companies providing network services related to the electricity and natural gas transmission and distribution and these services will continue to be regulated in price as services of public interest.

In order to achieve the consumers' protection measures in performing its regulatory powers, SEWRC is led by the following general principles: ensuring a balance between the interests of the energy companies and the consumers; guaranteeing equal playing field among the different categories energy companies and types of customers; creating incentives for the competitive market development related to energy activities, where it is appropriate.

At present, an active process of drafting, supplement and amendment of the secondary legislative acts and common administrative acts on the implementation of the Energy Act is in place, connected with the energy market liberalization. Some of the major documents are the Electricity Trading Rules and Natural Gas Trading Rules, which shall regulate the operation of a power exchange and a balancing market, as well as the rights and duties of the market participants on the electricity, respectively natural gas market.

SEWRC monitors continuously the market in order to ensure non-discrimination of all market participants and among participants of one and the same category and to contribute to the efficient competition and correct market functioning.

In view of its regulatory powers, SEWRC is in close cooperation with the Consumer Protection Commission and other non-governmental consumer protection organizations.

In order to achieve competition that creates prerequisites of free negotiation of electricity and gas prices at market conditions, an effective market opening is needed and establishment of a single market of electricity and gas in EU, which shall be in the interest of citizens and industry.