



National Report to the European Commission (Summary), July 2012

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 – 2011 is 44.11 TWh, which is an increase in the net generation with more than 6.11 % in comparison to 2010. To a greater extent, the reason for this increase is the cheaper electricity by HPP power generated during the comparatively wetter 2010 year in the country 2011. The share of opening of the electricity market for 2011 is 38.8% with sales on the free market to the amount of 15.66 TWh – in the internal market and in the region.

In 2011 17 % of the internal consumption in the country is traded in the wholesale market at freely negotiated prices, in comparison to 2010, when this share was about 18 %. The share of the quantity traded in the internal market is 5.0 TWh with annual electricity end consumption of 28,52 TWh in 2011.

In 2011 the regulator issued licenses to 15 new companies for the activity of “electricity trading” with which the total number of licensed traders has become 98, which is an increase in their number with 8,6 % to 2010.

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 2011 are regulated by the “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 2011”. These Rules have been harmonized and approved by the national regulator State Energy and Water and Regulatory Commission (SEWRC) of the Republic of Bulgaria.

In 2011 Electricity System Operator EAD of the Republic of Bulgaria and the Romanian system operator CN TRANSELECTRICA SA developed and adopted new Common Auction Rules for Allocation and Procurement of Transmission Capacities on the Interconnections between the Control Areas of Electricity System Operator EAD - «ESO» and CN TRANSELECTRICA SA (TRANSELECTRICA)”. The Auction rules have been agreed with the State Energy and Water and Regulatory Commission (SEWRC) of the Republic of Bulgaria as an immanent part of the agreed “Auction rules for Allocation of Capacities on the Interconnections between the Control Areas of Electricity System Operator EAD - «ESO» EAD (TSO) and CN TRANSELECTRICA SA (TRANSELECTRICA) for 2011” (Common/General Auction Rules). These Common Auction Rules complement the agreed Common Rules with a procedure for the allocation of intraday transmission capacities, using an Auction Office.

In 2010 by Decision of Protocol No 159 of 29 Nov 2010, item 9, SEWRC likewise 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 2011 for the interconnection between Bulgaria and Greece.

The procedures in the new 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 a process of reconciliation are Common Auction Rules for Allocation of Transmission Capacities on the Interconnections between Bulgaria and FYROM for 2011.

The auction rules with the neighboring countries – Serbia, FYROM and Turkey are in line with the effective EU rules and with the bilateral agreements and rules for cross-border exchange and electricity trading. The latter also applies to the harmonization of the interconnection transfer capacities between the Bulgarian TSO and the operators of the neighboring transmission systems. 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).

By Decision of Protocol No 94 of 25 Jun 2010, item 5 SEWRC adopted new “Electricity Trade Rules”, which envisage the implementation of the Third Liberalized 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 fro 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 new Electricity Trade Rules, which entered into force in August 2010, define the necessary period 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, a necessity for some feasible amendments and streamlines of the provisions appeared. The introduced in the new Electricity Trade Rules common principles and detailed requirements comply with the provisions of Directive 2009/72/EC and Regulation (EC) No714/2009, under the requirements of the 3rd liberalized package.

By a tradition, Bulgaria is a net electricity exporter for the countries of the South East Europe region. In 2011, the share of net country exports 10.66 TWh exceeded 24 % of the net electricity country output. The latter is mainly due to the increased cheaper hydropower in a relatively wet year for the country 2011.

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 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 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 Trade Rules. The open electricity market in 2011 includes 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 3rd liberalized package.

Retail market

In 2011 the electricity market in the country operates in line with a model, under which a part of the transactions for sale of electricity are concluded at regulated prices, approved by the regulator, and the rest is traded on the liberalized market at freely negotiated prices between the participants in the electricity market, under EA.

The Suppliers of Last Resort supply and sell electricity to the protected consumers – households and small business consumers (Directive 2009/72/EC) at regulated prices.

A certain share of the quantity of electricity output from separate producers in line with the Energy Act is 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 are 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 is formed as a mix price of the electricity producers from different primary energy sources (nuclear fuel, coal, water energy, RES), which represents a prerequisite for equality of all consumers. The rest of the electricity output can be sold by the producers on the liberalized market as equal participants.

Within the developed in 2011 Law on Amendments and Additions to the Energy Act in accordance with Directive 2009/72/EC and the third energy package, some requirements are formed and these requirements aim at the enlargement of the electricity market at freely negotiated prices in the sector of small and medium-sized economic consumers.

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 are set:

- prices for access to the electricity distribution networks;
- prices for transmission over the electricity distribution networks;

- prices at which the suppliers of last resort 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 2011 were as follows:

- Business consumers at middle voltage – the price for these consumers includes: a price for electricity to a supplier of last resort, 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 a supplier of last resort, 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 a supplier of last resort, 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 small HPP, wind energy, biomass, etc., a charge for green energy is added to the price of the Public Provider for transmission wheeling through the transmission network. This charge is calculated as the difference between the costs for the purchased electricity at preferential prices and the costs of basic price. These additional costs are directed to all consumers in the country, as a common obligation of the society.

In 2009 SEWRC adopted with a Decision protocol No 78 of 22 June 2009 a “Methodology for compensation of the costs of the Public Provider and the Suppliers of last resort coming from the imposed to them obligation to purchase electricity at preferential prices from renewable energy sources”. The Methodology has been developed with the aim to formulate standard and transparent rules, ensuring equitable assignment of costs from the purchase at preferential prices to all consumers.

Alongside with the other components of the price – for generation, transmission and distribution, the appointed by the Regulator green energy top-up and the highly effective co-generation of heat and electricity top-up 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 sub-regulatory act: the Ordinance on licensing the activities in the energy sector. The Commission has 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 received complaints under pre-defined indicators.

In 2011 1570 complaints were registered in SEWRC's Electricity sector in a total of over 5.9 million consumers, which means they reduced by 4.7 % to 2010. According to the reported by the companies' data, about 18 % of the complaints were resolved absolutely or partially and a considerable part of remaining share was unfounded. To carry out the control on the distribution companies' and end suppliers' work with the consumers, the Commission requires from the companies reported information regarding the solving of the received complaints. The adopted SEWRC's decision for each separate case is sent to the stakeholders and respective institutions. In 2011 the Commission issued complaint Decisions at the total of 154.

During the year 15 extraordinary inspections were carried out in the electricity distribution companies and end suppliers 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 are reimbursed through approved prices for transmission and access.

The prices approved in 2011 were as follows:

- Price for transmission to the electricity transmission network is paid by all network users transmission operator NEK EAD.

- Price for access to the electricity transmission network was 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 for using the transmission network, are set based on admitted by the regulator revenue requirements for the maintenance and operation of the electricity transmission network.

In 2011 the regulator approved technical measures and means for the rehabilitation of the electricity transmission system of the country with the modernization of transmission control and the transformation, realized by loan funds and own funds of the transmission company NEK EAD.

In 2011 the Regulator approved an investment programme and the transmission enterprise undertook a number of reconstructions and enlargement of the transmission network, as well as construction of 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 carries out the operational management and regulates the allocation of electricity loads of the electricity system, by taking into account the accepted and confirmed applications for transfer capacity of the trading participants on the basis of the then in force Electricity Trading Rules and the Auction Rules.

The cross-border transfer capacity on the interconnections is allocated by the Auction Operator in the form of commercial rights for transfer 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 norms 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 necessary transit 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. On the basis of the forecasts and the 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 2011 is 12 228 MW. The maximum net available output capacity to the annual maximum is 9432 MW, and the peak load in January 2011 is 7300 MW.

At this stage of development of the domestic and regional electricity market, the electricity transmission network of the country is not faced with 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 2011 increase of the RES electricity capacities in the country, mainly wind power in north-east Bulgaria, some difficulties occur 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.

Rare cases of short-term congestions occur 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. But 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 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 2011 as well, setting out the specific measures related to the performance of the conditions of the license 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 performance of the compliance program also takes into account and ensures the independence of ESO, of the persons responsible for the management, including the operational management of the electricity system.

The 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. The distribution enterprise prepares an annual report on these measures which is submitted to the regulator for approval.

In 2011 the regulator approved the reports for the compliance programs of ESO and of the distribution companies.

In 2011 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 between all participants in the auctions for transfer capacities.

In 2011 continued the organizational and technical activities for transition to calculation and provision of transit capacities on the interconnection lines with the controlled areas of the neighboring countries by day-ahead offers.

Since the end of 2010 the above mentioned Auction Rules have entered into force between “ESO” EAD and the Romanian system operator CN TRANSELECTRICA SA for allocation of the transit capacities on the interconnection lines by day-ahead offers. In pursuance of the requirement of item 3.1 of the Guidelines, Appendix I of Regulation (EC) 714/2009 “ESO” EAD, at the end of 2010, by SEWRC’s Decision of Protocol No 159 of 29 Nov 2010, the agreement of the „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 2011 was completed.

In a process of reconciliation are Common Auction Rules for Allocation of Transmission Capacities on the Interconnections between Bulgaria and FYROM for 2011, which likewise comply with the new Regulation (EC) No714/2009 regarding the cooperation and coordination between both operators of neighbouring transmission networks.

In 2011 with the active participation of SEWRC, a draft of the new Renewable Energy Law was developed, under Directive 2009/28/EC and implementing principles and formulations of the third energy package. The Law was passed by the National Assembly of Bulgaria in May 2011.

Given the new responsibility activities and competences of the national regulatory authorities, resulting from the introduction and implementation of the principles and provisions of the third energy package, SEWRC developed and adopted the Rules of Procedures of the Commission, which is to be the pre-condition for adequate structure, expertise and budget to ensure the Commission's activities.

2.2. Main developments in the gas market

By the amendment of the EA, promulgated in State Gazette, issue 54 of 17 July 2012, the Third Energy Liberalization Package was transposed, and more precisely Directive 2009/72/EC of the European Parliament and the Council of 13 July 2009, concerning 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, concerning 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 the new EA in 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.

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

Wholesale market

In 2011 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 chose 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, which transports natural gas through the respective sections of the territories of Greece, Macedonia and Turkey. The activity of public supply 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.

Wholesale trade in natural gas is carried out by the regulated access of third producer countries. The import of natural gas is carried out on the basis of long-term agreements with Gazprom OAO for internal consumption and for transit over the transit pipelines. The supply of natural gas to the consumers from South Western Bulgaria over the transit gas pipeline to Greece and Macedonia is carried out on the basis of an agreement with Gazexport OOO. 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 requirements;
- 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., Wintershall and Gazexport) and two local suppliers („Melrose resources” OOD and „Exploration and extraction of oil and gas” AD). Bulgartransgaz EAD owns the transmission gas network, gas distribution companies are connected to this network and also about 400 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. In BEH EAD are included larger energy companies, like „Bulgartransgaz” EAD (operating as combined operators carrying out the activities of natural gas storage, transmission, transit transportation) and Bulgargaz EAD, operating as natural gas public provision.

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 2011 the quantities, traded at freely negotiated prices by the sole country natural gas trader – „Deksia Bulgaria“ OOD, are 32 million. m³, supplied by the extractive company „Melrose resources” OOD.

Wholesale trade in natural gas is carried out by the regulated access of third producer countries. The import of natural gas is carried out on the basis of long-term agreements with Gazprom OAO for internal consumption and for transit over the transit pipelines. The supply of natural gas to the consumers from South Western Bulgaria over the transit gas pipeline to Greece and Macedonia is carried out on the basis of an agreement with Gazexport OOO. Bulgartransgaz EAD owns and manages the transmission and transit gas pipelines at high pressure as well as the underground gas storage of Chiren.

Bulgargaz EAD is the sole Public Provider that carries out wholesale trade at prices regulated by the SEWRC, with a market share of 84,16% of the total resource in 2011, and the remaining 15.84% is from domestic extraction. The maximal hourly flow of imported natural gas is 0, 0048 TWh/h. Local extraction in 2011 was 406 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 is due to the newly developed by „Melrose resources” OOD 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 2011 349 million m³ natural gas were pressurized in it, and the amount of the drawn quantity was 368 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 is at a satisfactory level, on the background of the general economic situation in the region of Southeast Europe.

Natural gas distribution companies, 2011	Constructed network	investment	Number of consumers		Consumed natural gas, tpm ³	
	M	thousand BGN	industrial	households	industrial	households
Total	304 832	51 732	5 370	57 427	437 694	69 227

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.

16.71% of natural gas consumption (including the local extraction quantities) in the country is realized by 33 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 likewise and to contribute 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 the Rules for the 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 3rd energy liberalized package by Bulgartransgaz EAD as a part of the developing entirely new tariff policy of the company.

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 to regulate 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 was adopted amending the Ordinance to regulate 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 line with the currently effective contracts of Bulgargaz EAD with external suppliers, 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 2011, 51 732 thousand BGN have been invested, a total of 304.832 m 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;

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.

Assessment of the risk 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) in 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. In art.81 a, para.1, it is stipulated 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 then 100 000 connected consumers.

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 2011, 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 liberalized 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.