



National Report to the European Commission (Summary), July 2016

2. Main developments in the gas and electricity markets

2.1. Main developments in the electricity market

The requirements of the European Union Third Liberalization Energy Package and the Bulgarian legislation stipulate that the electricity market is to be liberalized and gradually integrated with those in other European Union (EU) member states. In line with Directive 2009/72/EC and under the Bulgarian Energy Act (EA), the electricity market in the Republic of Bulgaria has been fully liberalized since 1 July 2007 with a stepwise liberalization process and currently electricity trade in Bulgaria is realized in two market segments – freely negotiated prices and regulated prices. In 2015 the Bulgarian electricity market operated under a hybrid model, where part of low voltage customers trades were concluded at regulated prices approved by EWRC and the rest was traded in the liberalized market at prices negotiated with customers connected to middle and high voltage and part of low voltage industrial customers.

In 2015 EWRC took a number of measures to solve market problems and the first step was aimed at equitable distribution of public service obligations costs on all end customers. Thus the large difference in free and regulated market prices was balanced, as that was an obstacle to full market liberalization and, at the same time, the current deficit of the public provider NEK EAD was covered.

EWRC initiated amendments in Electricity Market Rules (EMR) related to the operation of the organized energy exchange, the rights and obligations of the power exchange operator and the market participants and the establishment of conditions for free market access of household and small non-household customers by regulating the terms and ways to develop and implement standardized load profiles. In this connection, a special Instruction has been developed on switching terms and conditions for the above mentioned customers, which is to facilitate at the utmost the free choice of a supplier and the transition to the liberalized market segment by only filling out a template application form. Although it is necessary to take some additional steps in order to achieve the ultimate goal of market opening for the smallest customers and to create conditions for the electricity power exchange functioning, still prerequisites for the electricity market liberalization process finalization are in place.

With the approved EMR amendments market participants have been indicated in terms of their obligation to bear the costs arising from the imposed by EA duties to the publics, in

order to achieve a transparent equitable costs distribution among end customers connected to the electricity system, including TSO and distribution networks operators.

A number of measures seeking disciplinary effect on market participants have also been regulated. With the advancement of the full electricity market liberalization process and the increasing free market share, financial stability and security of transactions should be ensured, in order to avoid debt in the sector.

The introduction of an efficient organized power exchange is an additional opportunity for market participants to trade on the basis of market principles in order to increase transparency and competition in the electricity market in Bulgaria. The availability of energy exchange will lead to market coupling with neighbouring electricity markets.

On 11 Dec 2015 IBEX EAD, holding license № JI -422-11 of 31 March 2014 for the activity "organization of electric power exchange", started test operation with real market players and in early 2016 it launched the actual power exchange operation. According to the preliminary plans of IBEX EAD, the power exchange will offer three types of products:

- hourly – submitting offers at every delivery interval (one hour);
- block – submitting offers for a certain number of delivery intervals and
- flexible – submitting offers for flexible products.

It is envisaged initially only hourly products to be offered and the minimum buy and sell amount that can be traded on power exchange to be 100 kWh. Power exchange operation started in the day-ahead segment, at a later stage an intraday market platform will be launched, as well as one for signing long-term deals.

In December 2015 EWRC signed an Amended Multilateral Memorandum of Understanding between the Agency for the Cooperation of Energy Regulators (ACER) and National Regulatory Authorities concerning cooperation and coordination of market monitoring under Regulation (EU) № 1227/2011 of the European Parliament and the Council on wholesale energy market integrity and transparency (REMIT).

2.2. Main developments in the gas market

By the amendment of EA as of 17 July 2012 the Third Energy Liberalization Package was transposed into the national legislation, particularly Directive 2009/73/EC and Regulation (EC) 715/2009. The energy market liberalization requirements - to promote fair competition and easy access for different suppliers - are intended to allow consumers to benefit fully from the opportunities of a liberalized internal natural gas market.

In this context, in 2015 EWRC took a number of important steps to ensure the gas market opening as part of the EU market and efficient market access for all market players, including new entrants by establishing transparent, market-based mechanisms for natural gas delivery and sale.

To achieve these objectives, EWRC firstly adopted new Natural Gas Market Rules (NGMR, the Rules), which replaced the Natural Gas Trading Rules as of 2007. The NGMR provisions aim at promoting fair competition, which in turn creates prerequisites for the free

negotiation of prices at market conditions and eliminating the need for these prices to be regulated by EWRC. The Rules introduce the following principles, whose application shall lead to the realization of the above-mentioned objectives, namely:

- introduction of a virtual trading point, which is necessary in order to provide the possibility of network users to transfer natural gas ownership to one another and to minimize their daily imbalances, which will increase gas market liquidity;

- envisaged responsibility of gas transmission network users to maintain the balance between natural gas inputs and off-takes in the transmission network, which is a prerequisite for minimizing residual balancing actions by the balancing entity, which will have a positive effect on the natural gas market;

- regulated natural gas switching procedure, enabling natural gas customers connected to the transmission and distribution networks to freely choose their supplier, which is a prerequisite for creating competition in the gas market.

NGMR comply with Regulation (EU) № 312/2014 establishing a Network Code on gas balancing of transmission networks and the introduction of interim measures in the absence of sufficient liquidity in short-term gas wholesale market. The rules govern the possibility of applying interim measures by the transmission system operator, which may grant a derogation from the application of Balancing Network Code in case of low liquidity of the short-term gas market. In this regard, at the proposal of the transmission network operator, in 2015 EWRC adopted a decision approving the application of interim measures for a period of five years, i.e. no later than 15 April 2019, given the lack of liquidity in the internal natural gas market. The decision was taken by EWRC as a national regulatory authority in strict compliance with the requirements of the Regulation and in cooperation with the regulatory authorities of Greece and Romania. Such interim measures have been approved by the Greek and Romanian regulatory authorities at the proposal of their national transmission system operators.

Competition in the gas markets requires transparent and non-discriminatory access to the gas transmission infrastructure for all users. The lack of an equal and transparent access to transmission capacity is an impediment to effective competition in the wholesale market.

In this regard, another important step was taken by EWRC with the adoption of amendments to the Rules for providing access to transmission and distribution networks and access to natural gas storage facilities. They ensure that there is no a requirement for the potential natural gas traders to prove the existence of a valid supply contract and / or contracted capacity in the networks of neighbouring TSOs. At the same time, these amendments ensure the application of the non-discrimination and equality principles among the gas market participants in the country, consistent with Regulation (EU) № 984/2013 of the Commission of 14 October 2013 establishing a Network Code on capacity allocating mechanisms in gas transmission systems (Regulation (EU) № 984/2013). This Regulation provides for a tender procedure about interconnection points within the EU and standard products for cross-border capacity to be offered and allocated.

In 2015 EWRC adopted a decision approving a list of relevant points in the transmission system of Bulgartransgaz EAD, in compliance with the transparency requirements in term of TSOs under Regulation (EC) № 715/2009. Thus the transmission system operator fulfils the obligation to make public the information on technical, contracted and available capacities of all relevant points, regularly and periodically and in a standardized and user-friendly way.

Achieving competition, which creates conditions for the free negotiation of gas prices under market conditions, as well as the efficient market opening, could be realized by building the necessary infrastructure and implementing the projects of common interest, which will contribute to the diversification of natural gas sources and supply routes. These projects are crucial for the development of gas infrastructure, the provision of security of supply in the region and the contribution to the national economy of Bulgaria.

In this regard, in 2015 EWRC adopted the decisions necessary for the successful implementation of priority infrastructure projects - approval of the Ten Year Network Development Plan of Bulgartransgaz EAD for the period 2015 - 2024 and approval of papers for the Market test, Phase I: Invitation to interested parties to express interest in booking capacity in the IGB project - gas interconnection Greece – Bulgaria.

Actions taken by EWRC in the performance of its regulatory powers aimed at opening, proper functioning and development of a competitive, secure and sustainable internal gas market by creating incentives for the development of efficient competition, ensuring a balance between the interests of energy companies and customers, equality and non-discrimination between different categories of energy companies and between customer types.