

ORDINANCE ON REGULATING THE PRICES OF ELECTRIC POWER

CHAPTER ONE

GENERAL PROVISIONS

Article 1. (1) This ordinance determines the methods of regulating the electric power prices, the rules for their formation or setting and modification, the rules for provision of information, for submission of rate applications and for approval of prices.

(2) The ordinance determines how are the stranded costs and the costs resulting from public service obligations as per the Energy Law compensated.

Article 2. The following prices are regulated as per the procedure of this ordinance:

1. the prices, at which producers sell electric power to the Public Supplier and/or Public Retailers;
2. the prices, at which the Public Supplier sells electric power to the Public Retailers;
3. the prices, at which the Public Supplier sells electric power to consumers connected to the transmission network;
4. the prices, at which the Public Supplier sells electric power to the Transmission Company, respectively to a distribution company, to cover the technological costs for transmission;
5. the prices, at which the Public Retailers sell electric power to consumers connected to the respective distribution networks;
6. the prices for wheeling of electric power through the transmission and distribution networks;
7. the prices for connection to the networks;
8. the prices, at which the Public Retailers sell electric power between themselves.

Article 3. For fulfillment of its authorities related to price regulation the State Commission for Energy Regulation (the Commission) carries out regular regulatory reviews, which include:

1. analysis and assessment of reported and forecast information provided by the energy company;
2. approval of estimated revenue requirements of the energy company, including economically justifiable costs of the licensed activity and rate of return on capital;
3. approval of prices based on forecast quantities;
4. in the cases of regulation under Art. 4, para. 1, sub-paragraph 2 – setting the duration of the regulatory period and the values of the factors, on the basis of which the prices are changed during the regulatory period.

Article 4. (1) The Commission applies the following basic methods of price regulation:

1. “The rate of return on capital” (“cost-plus”) price regulation, where the Commission approves prices and monitors on current basis the actual values of the revenue requirements of the energy company and their components. The regulatory review is not shorter than one year. Follow-up regulatory review is carried out at the initiative of the commission or of the energy company in case of substantial deviations between approved and actual costs and/or return. In the course of the regulatory period the prices may be changed upon existence of circumstances, the occurrence of which could not have been foreseen at the time of approval of the prices.
2. Incentive-based regulation, where the regulatory period is from two to five years:
 - a) The “price cap” regulation, where the Commission approves prices of the energy company for the first year of the regulatory period and adjusts them at the end of every year of the regulatory period by an inflation factor, from which is deducted an efficiency improvement factor for the energy company according to the following formula:

$$P_t = P_{(t-1)} \times (1 + I - X)_t;$$

where:

- P are prices for the first year of the regulatory period;
 - I inflation index for a prior period, which influences the costs of the company;
 - t the rate period;
 - X efficiency improvement factor;
- b) The “revenue cap”, where the Commission sets revenue requirements for the energy company for the first year of the regulatory period and adjusts these at the end of every year of the regulatory period by an inflation factor, from which is deducted an efficiency improvement factor for the energy company, and by differences between estimated and actual indicators for prior rate periods, such as changes in the electric power sales, number of consumers, costs of purchased electric power according to the following formula:

$$R_{ev_t} R = R_{ev_{(t-1)}} R \times (1 + I - X)_t \pm Z;$$

where:

- R_{ev}R are the revenue requirements of the energy company;
- I inflation for a prior period;
- t the rate period;
- X efficiency improvement factor;
- Z differences between estimated and actual indicators.

(2) In addition to the methods under para. 1 the Commission applies performance based indicators (quality of energy, quality of service), where the recognized revenue requirements of the energy company are linked with achievement of targets set by the Commission. Revenues, respectively prices, thus set are based upon the achievement of indicators, beyond those related to the cost of service provided by the energy company.

(3) The Commission regulates the prices of electric power produced from renewable energy sources, incl. produced by hydro power plants with installed capacity up to 10 MW and co-generated by each plant of the producer with combined cycle for production of electricity and heat up to 50 MW per hour, by setting preferential prices for this energy.

Article 5. (1) The accounting of the energy companies is carried out and the financial statements are drawn up in line with the provisions of the Accountancy Act and the applicable accounting standards.

(2) For the purposes of regulation the energy companies maintain accounting in accordance with Article 37 of the Energy Law.

(3) The regulatory purposes accounting rules are adopted with a decision of the Commission.

(4) The rules under par. 3 constitute a Uniform System of Accounts (USOA) for regulatory purposes, which ensures standardized approach in the accounting system of the energy companies.

(5) The format and contents of financial statements are an integral part of the USOA.

(6) The energy companies apply USOA through a Chart of Accounts adopted by the Commission.

(7) The financial statements for regulatory purposes are accompanied by reports and additional information as to demonstrate compliance with all provisions of this ordinance, and with performance indicators relating to the quality of service.

(8) The Commission issues mandatory guidelines about the format and contents of the information needed for pricing purposes.

(9) The rules are amended at the initiative of the Commission or upon proposal of the energy companies.

(10) The rules are to be applied as from the beginning of the calendar year which follows the date of their adoption or their amendment.

Article 6. (1) The Commission may approve the prices of electric power by components:

1. commodity charge in BGN per megawatt-hour or its derivatives;
2. capacity/availability charge in BGN per megawatt/megawatt-hour or their derivatives;
3. customer charge in BGN per consumer.

(2) The prices for connection to the networks may be indicated in other denominations as well.

(3) The energy companies are allowed to negotiate, propose and apply prices lower than the prices approved or prices determined by the Commission provided that this does not result in cross subsidization.

Article 7. (1) The consumers with provided electrical capacity 100 kW and more pay an allowance over the value of the active electric power depending on the reactive electric power used and released at average monthly capacity factor less than 0.9 during the day and peak daylight zone.

(2) The quantity of used reactive electric power, for which an allowance is paid under para. 1, is the positive difference between the quantity of used reactive electric power and the product of the quantity of used active electric power and a coefficient corresponding to the average monthly capacity factor, according to the formula:

$$E_{r\ alwn} = E_{r\ usd} - K \times E_{a\ usd} ;$$

where:

$E_{r\ alwn}$ is the quantity of reactive electric power for which the allowance is paid, kVarh;

$K=0.49$ coefficient, which corresponds to the average monthly capacity factor during the day and peak daylight zone equal to 0.9;

$E_{a\ usd}$ the quantity of active electric power used by the consumer by daylight zones, determined through the readings of the device for commercial metering of active electric power, kWh.

(3) The consumers under para. 1. pay an allowance for the quantity of reactive electric power ($E_{r\ alwn}$) determined according to para. 3 at a price for 1 kVarh, equal to 10 per cent of the price for 1 kWh active electric power for the respective daylight zone and the respective voltage level.

(4) The consumers under para. 1. pay an allowance for the quantity of reactive electric power released throughout the daylight, determined according to the readings of the commercial metering devices, at a price for 1 kVarh, equal to the price for 1 kWh peak active electric power for the respective voltage level.

(5) Whenever the consumers under para. 1 produce electricity and heat under combined generation cycle, they do not pay to the Transmission Company, or to the respective Distribution Company, an allowance over the released reactive electric power produced under combined generation cycle.

(6) The ways of metering the quantity of reactive electric power are provided for in Rules for metering the quantities of electric power according to Article 83, para. 1, sub-paragraph 6 of the Energy Act.

Article 8. (1) The Commission sets indicators for quality of energy and quality of service for each licensed activity and their annual target levels.

(2) The indicators for quality of energy and quality of service are elements of the license.

(3) For the purposes of price regulation achievement of each of the target indicators is a measurement for the overall performance of the licensed activity by the energy company.

Article 9. (1) The Commission adjusts the revenue requirements of the energy company for every rate period within the regulatory period depending on the performance against the indicators for quality of energy and quality of service during the preceding year.

(2) If for a given rate period the energy company's average energy and service quality performance falls short of the target indicators, the corresponding performance level is reflected as reduction of the revenue requirements for the next rate period.

CHAPTER TWO

FORMATION OF PRICES

SECTION I

PRICE FORMING ELEMENTS

Article 10. (1) The annual revenue requirements for the respective licensed activity include costs subject to approval by the Commission, and a return on the invested capital, and are calculated according to the following formula:

$$R_{ev}R = C + (RAB \times RR_c);$$

where:

$R_{ev}R$ are the annual revenue requirements;

C the allowed annual costs of operation for the licensed activity;

RAB the Regulatory Asset Base;

RR_c the rate of return on capital for the regulatory period.

Article 11. (1) The types of costs, which are directly connected to the licensed activity and may be included in the revenue requirements, are determined according to the rules under Article 5.

(2) The allowed level of costs under para. 1 is approved by the Commission.

(3) The Commission requires that the energy company submits a justification of all or some of the costs, as well as of the relevance of these costs to the performance of license conditions.

(4) Besides the costs under para. 1 the prices could include stranded costs recognized by the Commission, resulting from the transition to a competitive energy market, as well as costs resulting from meeting public service obligations, including those related to security of supply.

(5) For the purposes of price regulation the Commission does not consider as allowed the following costs:

1. costs related to power sales to eligible consumers;
2. costs not related to the performance of licensed activity;
3. costs, which the Commission reasonably considers as not in the best interest of the consumers, or those that are not needed for performance of the licensed activity;
4. taxes paid in relation to the corporate income taxation of profit.
5. penalties and/or fines imposed by governmental bodies or by the Commission, as well as interest for deferment, default and other payments related to non-performance under concluded contracts.

Article 12. (1) The stranded costs recognized by the Commission, which the Commission has found as unquestionably resulting from investments made and/or transactions concluded prior to coming into force of the Energy Law and cannot be recovered by the energy company because of the competitive energy market establishment, are recovered through the prices for all consumers and are calculated according to the following formula:

$$SC = A - B - C ;$$

where:

SC are the allowed stranded costs, which are compensated through the consumer prices;

A are the forecast annual expenses for the respective activity for the following year;

B are the forecast annual revenues from sales on the electric power market;

C is the annual level of costs, for which the Commission decides that could be justifiably reduced as a result of actions of the energy company aimed at decrease of its stranded costs.

(2) The total level of stranded costs recognized by the Commission is included with their respective share into the annual revenue requirements of the energy companies providing electric power transmission and distribution services.

(3) The costs under para. 2 are recovered as part of the cost of service by all consumers of electric power based upon their metered consumption.

(4) If the actual revenues of the energy company ensure different that the forecast level of revenues to cover the recognized stranded costs, the difference is reflected into the allowed revenue requirements of the energy company for the following year.

Article 13. (1) The costs of the energy companies recognized by the Commission resulting from imposed public service obligations are recovered through the prices for all consumers.

(2) The total level of costs recognized by the Commission, that are related to public service obligations are included with their respective share into the annual revenue requirements of the energy companies providing electric power transmission and distribution services.

(3) The costs under para. 2 are recovered as part of the cost of service by all consumers of electric power based upon their metered consumption.

(4) If the actual revenues of the energy company ensure different that the forecast level of revenues to cover the costs related to public service obligations, the difference is reflected into the allowed revenue requirements of the energy company for the following year.

Article 14. (1) The regulatory asset base (RAB) for the assets, which are directly related to the licensed activity, is the recognized value of the assets, on which the energy company earns return on the invested capital. The RAB is calculated according to the following formula:

$$RAB = A - CG - D + WC + INV ;$$

where:

RAB the Regulatory Asset Base;

A the recognized value of used and useful assets;

CG the value of assets acquired through debt;

D the accumulated depreciation for the past period of asset use to perform the licensed activity;

WC the working capital requirement;

INV the forecast average nominal amount of investments approved by the Commission, which will be invested during the regulatory period, in the cases of regulation under Article 4, para. 2.

Article 15. (1) The rate of return on capital for the regulatory period is equal to the estimated weighted average cost of capital (WACC). The WACC is the approved rate of return on debt and on equity for the energy company, weighted according to the share of each of these financing sources in the approved target capital structure.

(2) The rate of return on capital is estimated on a real, pre-tax basis from the following formula:

$$RR = C_{EP} \times \left(\frac{RR_{EQ}}{1 - \frac{TR}{100}} \right) + C_{DP} \times RR_D$$

where:

RR is the rate of return on capital, before taxation;

C_{EP} the equity portion of capital;

RR_{EQ} the rate of return on equity, after taxation;

TR the corporate profit tax rate in compliance with the Corporate Income Tax Act, %;

C_{DP} the debt portion of capital;

RR_D is the rate of return on debt;

SECTION II

ALLOCATION OF REVENUE REQUIREMENTS BY CONSUMER GROUPS

Article 16. (1) The energy company proposes to the Commission for approval the consumer groups separated based upon similar patterns of consumption and/or by other characteristics.

(2) The prices for each separate consumer group may be different if justified by the cost-of-service study.

Article 17. (1) The prices for the initial pricing period are initial prices and are based upon the cost-of-service study presented by the energy company, where the costs are justifiably allocated to each consumer group.

(2) The initial prices for transfer of electric power over the transmission and distribution networks are formed based upon justified allocation of costs to each consumer group. The level of technological costs approved by the Commission is included in the cost of service.

(3) The Public Supplier calculates the monthly charges for all deliveries based upon the actual cost to serve. Captive consumers connected to the transmission network and Public Retailers pay their allocated share of electric power purchase costs from the Public Supplier on the basis of the respective consumed quantities.

Article 18. (1) The tariff prices are designed so as to reflect the costs of providing the service by the energy company.

(2) The tariff prices may include components: a commodity charge, a capacity charge and a charge for delivery or for supply.

(3) The energy company demonstrates in its tariff filing that each of the price components is justified and can be properly accounted for in the calculation of the final prices.

SECTION III

FORMATION OF PRICES

Article 19. (1) The prices of electric power sold by producers to the Public Supplier or the Public Retailers are formed on the basis of annual revenue requirements pursuant to Article 10, and of the cost of service pursuant to Article 17.

(2) The price may include the components: a capacity charge and a commodity charge.

(3) The prices of producers with long-term contracts for power sales and availability concluded prior to coming into force of the Energy Act are formed in accordance with the conditions of the long-term contracts.

(4) Until establishment of a system for issue and trade with green certificates the Commission determines as preferential the prices of electric power produced by plants:

1. utilizing renewable energy sources, incl. hydro power plants with installed capacity less than 10 MW;
2. with combined generation of heat and electric power, produced by each plant of the producer with less than 50 MW for one hour.

(5) The prices of electric power under para. 4 are not lower than 80 % of the average sale price to domestic consumers in the country for the previous calendar year.

(6) The Commission sets the prices under para. 4, by taking into account the condition and tendencies of development of the electric power market, the primary energy source and observing the principles of Article 23, para. 1, sub-paragraphs 2, 3 and 4 of the EA.

Article 20. (1) The prices of electric power when sold by the Public Supplier to the Public Retailers and to captive customers connected to the transmission network are based upon the annual revenue requirements in accordance with Article 10 and upon the cost of service pursuant to Article 17.

(2) The prices may include the components: a capacity charge, a commodity charge and a charge for delivery.

(3) The price of electric power when sold by the Public Supplier to the Transmission Company and to the Distribution Companies to cover the technological costs related to transmission, is based upon the costs of the Public Supplier for purchase of electric power.

Article 21. (1) The price for the transmission service is based upon the annual revenue requirements in accordance with Article 10 and upon the cost of service pursuant to Article 17.

(2) The price may include the components: a capacity charge, a commodity charge and a charge for ancillary services and cold reserve.

(3) The transmission company is allowed to recover, through the transmission price, the approved level of technological costs associated with electric power transmission.

Article 22. (1) The prices of electric power when sold by a Public Retailer to captive customers connected to the distribution networks are based upon the annual revenue requirements in accordance with Article 10 and upon the cost of service pursuant to Article 17.

(2) The prices may include the components: a capacity charge, a commodity charge and a charge for supply.

(3) The revenue requirements are adjusted every year of the regulatory period by an inflation factor, from which is deducted an efficiency factor, and by differences between forecast and actual indicators for prior price periods.

Article 23. (1) The price for distribution of electric power over the distribution network is based upon the annual revenue requirements in accordance with Article 10 and upon the cost of service pursuant to Article 17.

(2) The price may include the components: a capacity charge and a commodity charge.

(3) The revenue requirements are adjusted every year of the regulatory period by an inflation factor, from which is deducted an efficiency factor, and by differences between forecast and actual indicators for prior price periods.

(4) The Electricity Distribution Companies are allowed to recover, through the price for electric power distribution, the levels of technological costs determined by the Commission for the respective distribution network.

Article 24. The prices under Articles 20 and 22 are adjusted annually in line with the changes in the electric power purchase prices.

Article 25. (1) The prices for connection of producers are individual and include the actual costs of constructing the facilities for connection to the network of the transmission or the distribution company. If connection of a producer requires expansion and reconstruction of the transmission or distribution network, the connection price for the producer includes also the costs of such expansion and reconstruction.

(2) The price for connection of consumers is determined by groups of consumers depending on the requested maximum capacity and voltage level and the respective recognized costs for the group. The costs of additional equipment for connection at the consumer's will are at his expense.

(3) The prices for connection of a network of a distribution company to the network of the transmission company are individual and include the actual costs for building the facilities for connection to the network of the transmission company.

Article 26. The price for sale of electric power between neighboring Public Retailers is equal to the sale price of the Public Supplier.

CHAPTER THREE

PROCEDURE FOR SUBMISSION OF PROPOSALS FOR APPROVAL OF PRICES. PRICE APPROVAL, DETERMINATION AND CHANGING

Article 27. (1) The energy companies submit applications to the Commission in approved Sample Formats for approval of:

1. revenue requirements and prices, along with any related indicators and factors for their adjustment during the regulatory period;
2. change in the rate structure;
3. change in prices currently in effect;
4. other issues related to the Commission's authority in relation to price regulation.

(2) The applications under para. 1 are to be submitted not later than four months prior to expiry of the old rate period or coming into effect of the proposed change of enforced prices and/or tariff structures.

(3) Energy companies for which the Commission applies "rate of return on capital" method of regulation, are allowed to file in applications for changing the approved prices before expiry of the rate period upon existence of circumstances, the occurrence of which could not have been foreseen at the time of approval of prices, but has resulted in substantial increase of the estimated costs.

(4) In case that the prices changed according to the preceding paragraph have effect on prices of other energy companies, the Commission may issue instructions to these companies to file an application for change of their approved prices. Upon non-fulfillment of the instructions the Commission may change these prices ex officio.

Article 28. (1) The application and its attachments contain information about a 12-month reporting period referred to as test year, for the purpose of reviewing all cost and revenue elements relevant to the setting of their respective levels for the next regulatory or rate period.

(2) The following documents are attached to the application:

1. audited certified financial statement with all its attachments, in line with the requirements of the Accountancy Act and the applicable Accounting Standards;
2. financial-accounting information for the test year, in accordance with Article 5, paras. 5, 7 and 8 for the test year;

3. technical-economic data, including monthly reports for the sales during the test year, as well as any other information related to the prices proposed for approval, which is required in accordance with Article 5, para. 8.
4. information by consumer groups for the test year, including number of consumers, energy sales, revenues and billing information;
5. other data considered relevant by the energy company in support to the submitted application or requested by the Commission;
6. a document for a paid fee for examination of the application.

(3) In their applications for approval of prices energy companies are allowed to apply formally for recognition and compensation of stranded costs and of costs resulting from imposed public service obligations.

(4) The energy company is allowed to adjust and submit separately, with a justification, known and measurable cost and revenue elements from the test year, where the justification includes financial data and data about the activity. Each adjustment in the test year data must be supported by information, which proves the need for it, and may include:

1. new assets that will be useful and commissioned during the next rate period;
2. increase of the forecast number of consumers, which will result in extra costs for provision of the service;
3. increases of costs, which have not been accounted for in the test year;
4. changes in payables to the state (fees, taxes, etc.), which result in changes in the levels of costs or rate of return;
5. normalization of sales from the test year, for which extraordinary meteorological conditions have occurred, whenever these conditions have had an effect on the power sales;
6. covering differences between forecast and actual directly pass-through costs from the previous period.

(7) The documents under the preceding paragraph are submitted to the Commission on paper media, signed and sealed by the energy company. The information under para. 2, subparagraphs 2, 3 and 4 is provided in electronic format as well.

Article 29. (1) Within one month before submitting the application to the Commission the energy company announces in the mass media its proposal for new prices or for change of enforced prices.

Article 30. (1) The Commission sets a date for holding an open session for discussion of the application for prices within 2 months after completing the examination of the application and announces it on its Web page and through a press release to mass media.

(2) Along with the announcement under the preceding paragraph the Commission publishes the application along with a report regarding the case file by the respective official.

Article 31. Within 10 days as from the date of the open session the Commission holds a closed session to approve the draft decision on the application and make a decision for implementing a public discussion under Article 14 of the EA.

Article 32. (1) The draft decision includes:

1. the duration of the regulatory period for price cap or revenue cap regulation;
2. the revenue requirements for the first year of the regulatory period;
3. the efficiency factor;
4. the value of the regulatory asset base for regulatory purposes;
5. the allowed rate of return on capital;
6. the stranded costs and costs associated with public service obligations and their recovery;
7. the consumer groups;
8. the tariff structure;
9. the tariff prices.

Article 33. Implementation of the procedure under Article 14 of the EA starts by announcing the draft decision on the Web page of the Commission and through a press release to mass media.

Article 34. (1) After completion of the procedure for public discussion at a closed session the Commission makes a motivated decision.

(2) The decision is handed over to the applicant and is published on the Web page and in the bulletin of the Commission.

(3) The energy companies publish the approved prices in one central and/or one local daily newspaper within 7 days after handing over the decision of their approval by the Commission.

(4) The new prices take effect for the next month, unless a change in tariff structure is required. When the Commission makes a decision for a change in tariff structure, through its application the energy company may request setting a later date for the new set of tariffs to take effect. In this case with its decision the Commission determines the date for commencing with the new tariff structure.

ADDITIONAL PROVISION

§ 1. Within the meaning of this ordinance:

1. “Test Year” is the preceding calendar year or a twelve-month period that precedes the application submission, for which the energy company provides information about the licensed service, which is used as basis to set rates.
2. “Electric power” is the active electric power.
3. “Reactive electric power” is the energy produced and delivered by the generators for a given period of time and capable of maintaining the voltage and electromagnetic field, measured in Varh and its derivatives.
4. “Efficiency improvement factor” is a target set by the Commission for improvement of the energy company efficiency.

5. "Revenue Requirements" is the revenue level required by the energy company to supply a specified level of service and earn an allowed rate of return.
6. "Rate of Return on capital" is return on invested capital, expressed as a percentage of that capital.
7. "Cost of Service Study" is a study of the costs of the energy company in providing the regulated services by consumer groups, in relation to the actual or estimated revenues collected from each consumer group under existing or proposed rates.
8. "Regulatory Asset Base" is the value of the tangible and intangible assets that are both used and useful for the provision of the services within the licensed activities.
9. "Useful life" is the term, for which the Commission assumes that a given asset can be depreciated.
10. "Regulatory Period" is the period between two regulatory reviews.
11. "Capital Structure" is the proportion of relative shares of equity and debt in the capitalization of the energy company.
12. "Average sale price for domestic consumers" is the average price of the electric power when sold to domestic consumers for a given period of time, weighted according to the relative share of the consumption at the respective tariff prices in the total consumption.
13. "Tariff structure" is a system of prices for sale of electric power or for provision of service, the revenues from which correspond to the revenue requirements for the respective activity.
14. "Tariff price" is each individual price in the tariff structure.
15. "Commodity charge" is the price through which are recovered the variable costs of the energy company (the costs that depend on the volume of production, transmission, distribution, supply or delivery of electric power).
16. "Capacity/availability charge" is the price through which are recovered the fixed costs of the energy company (the costs that do not depend on the volume of production, transmission, distribution, supply or delivery of electric power) and return on capital.
17. "Charge for delivery or supply" is the price, which reflects the costs of electric power meter reading, billing and collection.
18. "Rate Period" is the period throughout which the rates remain unchanged by the Commission – usually a calendar year.

TRANSITIONAL AND FINAL PROVISIONS

§ 2. Entry into force of this Ordinance revokes the Ordinance for formation and application of prices and tariffs of electric power adopted with Decree No. 53/06.03.2002 of the Council of Ministers.

§ 3. Upon entry into force of the Ordinance the "rate of return on capital" method of regulation is applied to the prices of all energy companies, except for the preferential rates.

§ 4. Till 31 December 2004 the prices of electric power for the consumers are to be brought in line with the costs of production, transmission and distribution of electric power, by applying the following provisions:

1. the prices of electric power when sold by the Public Supplier to captive customers connected to the transmission network, and the prices of electric power when sold by the Public Retailers to industrial needs customers connected to the distribution networks, are the enforced prices.
2. the Commission sets prices of electric power for household needs by the Public Retailers according to the sample three-year timetable adopted by the Commission for changing the prices for household needs.
3. the Public Supplier sells electric power to the Public Retailers at individual prices according to the following formula:

$$P_I = \frac{R_S - C_O - R - C_{PR}}{E_{PS}},$$

where:

- P_I is the individual price of a Public Retailer, BGN/MWh;
 R_S the revenues from sales to consumers connected to the respective distribution network, BGN;
 C_O costs of operation of the Electricity Distribution Company, BGN;
 R return on equity, BGN;
 C_{PR} costs of the Public Retailer for purchase of energy at preferential prices, BGN;
 E_{PS} the forecast quantity of purchased energy from the Public Supplier, MWh.

4. the price of electric power when sold between neighboring Public Retailers is equal to the average selling price of the Public Supplier, determined according to the following formula:

$$P_{AV} = \frac{C_E + C_{TE} - R_C - R_{EXPORT}}{E_{PR}},$$

Where:

- P_{AV} is the average sale price of the Public Supplier, BGN/MWh;
 C_E the costs of the Public Supplier for electric power purchased from producers, BGN;
 C_{TE} the approved costs and return of the transmission company, BGN;
 R_C the revenues from consumers connected to the transmission network, BGN;
 R_{EXPORT} the revenues from export, according to concluded contracts, BGN;
 E_{PS} electric power for sale by the Public Supplier to the Public Retailers, MWh.

§ 4. From 1 January 2005 will be applied the “revenue cap” method of regulation for the energy companies which have a license for electric power distribution and supply of consumers connected to the distribution networks on the respective territory.

§ 5. For the remaining energy companies the Commission makes a decision for application of incentive-based methods of regulation.

§ 6. The Commission adopts the accounting rules under Article 5 within six months after entry into force of the Ordinance.

§ 7. The ordinance is adopted on the grounds of Article 36, para. 3 of the Energy Act.