



Republic of Bulgaria  
ECONOMIC  
AND SOCIAL COUNCIL

## **RESOLUTION**

on

**"EUROPEAN ENERGY UNION: IMPACT AND IMPLICATIONS  
FOR CIVIL SOCIETY IN BULGARIA"**

(own-initiative resolution)

Sofia, 2017



ESC's Action Plan included the development of resolution on: **"European Energy Union: Impact and Implications for Civil Society in Bulgaria"**.

The President Board appointed Mr. Vassil Velev and Mr. Kiril Domuschiev - members of the ESC Group I - Employers, and Mr. Plamen Dimitrov and Mr. Dimitar Manolov - members of the ESC Group II - Trade Unions - co-rapporteurs on the resolution.

The draft resolution was considered by the President Board and adopted by the Plenary Session in a meeting held on 24 February 2017.

## **1. CONCLUSIONS AND RECOMMENDATIONS**

- 1.1. The Economic and Social Council (ESC) assesses the importance that the project for European Energy Union (EEU) has for Bulgaria as well as its positive impact not only on the energy sector, but also on businesses and on all citizens. ESC emphasizes that Bulgaria, as part of the European energy alliance, has its chance to be an active participant in the energy policy of the European Union (EU) and in the common European energy market and to build a free and competitive internal energy market.
- 1.2. At the same time, ESC recognizes that building the European energy market is a complex and lengthy process and requires maximum consensus, coordination and cooperation both between EU Member States and between all stakeholders, stressing the important role of social partners and civil society organizations in the dialogue process.
- 1.3. ESC emphasizes that the establishment of the European Energy Union will be based on solidarity between Member States, will outline the fields for mutual cooperation between them, and will enhance security of supply of energy, while also ensuring social protection for vulnerable consumers.
- 1.4. ESC appreciates the efforts aimed at liberalization of the energy market in the country, improving the regulatory framework, solving the problems of the debt of state-owned energy companies, and to build interconnections with neighbouring countries.
- 1.5. ESC notes that efforts for steady control over the Bulgarian energy industry in order to overcome the basic structural and management problems in the energy sector in terms of energy security.
- 1.6. ESC notes that the energy strategy and policy of Bulgaria must combine national interests and features, regional specificities of Southeast Europe and the Black Sea basin, and the objectives set by the EU in the context of the European energy market. ESC recognizes that this task will be difficult to implement, but it is necessary to find the right balance of interests in the name of security and development in Bulgaria.
- 1.7. ESC calls for continued efforts to improve the management of the energy sector in Bulgaria, including the functioning of state-owned energy companies and for timely undertaking at least of the following measures:

- 1.7.1. Completing the liberalization of the electricity market and starting the liberalization of the gas market.
- 1.7.2. Using all opportunities that will be created from the integration of energy markets in the region and in the EU and adapting the energy strategy of Bulgaria.
- 1.7.3. Acceleration and activation of all opportunities for free trade in natural gas and creating a gas hub "Balkans".
- 1.7.4. Discussing and adopting of policies that work, providing access to information and implementing effective strategic control over the activities of state-owned energy companies.
- 1.7.5. To achieve compliance of the national energy policy with the objectives of the EU, it is necessary to focus on ensuring the security and stability of energy supply, reducing energy poverty and improving energy efficiency.
- 1.7.6. Thorough analysis of the impact of EES on all major sectors of the economy and its impact on households, small and medium enterprises (SMEs) and innovation. It is also necessary to explore opportunities to exploit the potential of new forms of involvement in the energy market, such as the so-called "proconsumers" - households based on renewable power producing and consuming energy at the same time.
- 1.7.7. Introduction of mandatory standards for corporate governance of state companies in the energy sector in line with the best internationally recognized principles such as the "Guidelines on corporate governance of state-owned enterprises" of the Organization for Economic Cooperation and Development.
- 1.7.8. Reviewing all options to resolve the exploration of unconventional gas extraction, in the areas of enhanced control according to the highest environmental standards of the EU. Encouraging and increasing exploration conventional gas in the Black Sea.
- 1.7.9. Reviewing the models for pricing and buying electricity, including developing and enforcing a market model of pricing with a view to ending the practice of subsidizing some participants at the expense of others.
- 1.7.10. Developing and implementing a sustainable model of welfare state policies for targeted assistance to vulnerable energy consumers.

- 1.7.11. Supporting notified mechanism to support electricity-hit industries in charge of renewable energy sources (RES) in full compliance with the guidelines of the European Commission.
- 1.7.12. Introducing of long-term assistance programmes for gasification and energy efficiency in households, which together with the diversification of sources of natural gas to ease social tensions in the process of pricing the electricity market for households as well as completing the liberalization of the electricity market.
- 1.7.13. Introducing mechanisms of prioritization and pre-selection of large investment projects based on clear and transparent procedures and analyses based on facts, in accordance with EU objectives.
- 1.7.14. Ensuring full transparency of the Commission for Protection of Competition and by the Bulgarian administrative courts in the investigation of cartel practices on the market of fuels, natural gas and electricity.
- 1.7.15. Strengthening and developing the capacity of the national energy regulator (Energy and Water Regulatory Commission - EWRC), its independence from political and economic interests and transparency and reporting of its activities to the National Assembly and the public.
- 1.7.16. Achieving political and public consensus on long-term priorities in the field of energy and combining them into a national energy strategy to be approved by the main political parties contingent on its alignment with EEC objectives.

## **2. THE "EUROPEAN ENERGY UNION" CONCEPT**

- 2.1. ESC perceives the Energy Union within the EU primarily as an integration project, intended to find common and sustainable solutions in the energy sector.
- 2.2. ESC supports the goal of a unified and independent energy union in Europe to reduce the vulnerability to external shocks in supply and dependence on specific fuels, energy suppliers and routes.
- 2.3. ESC finds it positive that this project also aims to encourage Member States and the energy industry to work together to ensure security of supply and enhance transparency in the agreements for the purchase of energy resources from outside the EU.

- 2.4. A unified Energy Union will ensure improvement of electricity interconnection, ensuring the introduction and full implementation of existing legislation on energy or need to create new legislation, improving cooperation between Member States in developing energy policies to assist citizens in their choice of suppliers.
- 2.5. As the EU is the largest energy importer in the world (annually worth about 400 billion Euros) EEC will reduce the current 53-percent dependence of the EU 28 on external suppliers.
- 2.6. Aging energy infrastructure in Europe, poorly integrated energy markets, particularly across borders, as well as uncoordinated national policies in the field of energy lead to the fact that consumers (industrial and domestic) in the EU do not benefit from a greater variety of suppliers or lower energy prices.
- 2.7. ESC supports the improvement of interconnections between Member States in the field of energy and modernization of the infrastructure, as it would help to minimize disruptions in supplies and energy dependence.
- 2.8. ESC believes that completion of the internal energy market would provide scope for easier cross-border access to national energy markets and therefore this would make energy more affordable and improve the competitiveness of energy prices for individuals and businesses.
- 2.9. The EU faces the following challenges in the energy sector:
- climate change and transition to a low carbon economy;
  - introduction of competition and market relations in the sector; Transition from the model of preferential prices to market prices plus a premium;
  - integration of energy markets;
  - security of supply;
  - balancing the energy system;
  - energy efficiency in the full cycle of the sector - generation, transmission, distribution and consumption;

- creating an appropriate legal framework for the integration of markets. With respect to the free passage of energy between the different national borders there is a legal vacuum and absent synchronization between national regulators and national laws;
  - transition to intelligent management of energy, development of smart grids, creating opportunities for energy storage;
  - innovation in the energy sector and preserving the leading role of the EU in this area.
- 2.10. The review of EU targets for reducing carbon emissions by 20% by 2020, together with the Climate and energy package, shows that in 2014 the decrease was 23% compared to the levels of 1990<sup>1</sup> 17.6% decreased aggregate consumption of primary energy in the Member States at 20% target for energy efficiency by 2020 Therefore, ESC considers that the objectives in the field of energy efficiency and ecology should be complemented by targets for ensuring the sustainable diversification of energy sources.
- 2.11. ESC supports the Package, prepared in the light of the new global agreement on climate change, adopted on 12 December 2015 in Paris.<sup>2</sup> At the same time, ESC supports the package of measures to reduce energy demand, increasing energy production in Europe (including renewable energy), further development of well-functioning and fully integrated European internal energy market and the diversification of energy sources, suppliers and routes provided greater transparency in the European energy market and the strengthening of solidarity between Member States.
- 2.12. The European Commission (EC) pays particular attention to the importance of natural gas as an energy carrier in the transition to a low carbon economy and its place in the EU energy mix.<sup>3</sup> Emphasis is placed on the following points:
- 2.12.1. The dependence of the Member States on import should be hedged by disruptions. The Commission proposes to overcome this challenge by addressing national issues regionally and overcoming the risk of interruption of supplies of natural gas.

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<sup>1</sup> See fact sheet from 18 November 2015 on the website of the EU.

<sup>2</sup> ESC Opinion on "Challenges and Opportunities facing the European Union and Bulgaria following the negotiations on climate change in Paris," 31 October 2016.

<sup>3</sup> Communication from the Commission "Framework strategy for sustainable Energy Union with a forward-looking policy on climate change", adopted on February 25, 2015 (COM(2015)80).

- 2.12.2. The principle of solidarity between Member States in a serious crisis and a minimum insurance of households and basic social services (health) of natural gas supply.
- 2.12.3. It provides for more transparency of the signed national contracts for the supply of natural gas. These contracts will be examined by the Commission before signing for compliance with EU legislation.
- 2.12.4. Europe is the largest importer of natural gas in the world, with about 43% of its demand being satisfied by liquefied natural gas (LNG). Access to LNG terminals, however, is limited in some regions of the EU. It is preparing a plan to overcome these differences by building new terminals and their combined use of Member States.

### **3. BULGARIA AS A PART OF THE "EUROPEAN ENERGY UNION "**

- 3.1. ESC appreciates the efforts of the Bulgarian government for the expansion of the interconnected energy grids in Bulgaria, diversification of energy supply, the development of the national energy market, the financial sector and strengthen the social protection of vulnerable groups of users as targeted actions to achieve the objectives of European Union energy.
- 3.2. ESC expresses its concern that the energy sector in Bulgaria has to overcome some management problems such as:
- discrepancy between European commitments and some national practices;
  - frequent changes in the regulatory and legal environment;
  - lack of publicly accessible information about the parameters and analyses of the implementation and results of policies and measures in the energy sector;
  - opportunities for abuse of dominant position of companies at the expense of consumers;
  - privileged position of some energy projects through preferential guaranteed prices.

- 3.3. ESC is convinced that the management of risks to the energy security of Bulgaria requires an understanding of national characteristics, regional characteristics of South-eastern Europe and the Black Sea region and the place of our country within the general framework of the energy policy of the European Union.
- 3.4. ESC emphasizes that any strategy for energy security of the country should reflect the key importance of the Bulgarian energy sector for the development of the national economy. In this regard, ESC observes that Bulgaria's exports and imports of energy constitute an average of 13% and 21%, respectively, of incoming and outgoing trade flows, and each of the four signed contracts for procurement is related to the energy sector, which makes it one of the largest cost centres in the state.
- 3.5. According to ESC, key risks to the energy security of our country can be reduced to the following factors, which determine policy options to limit the negative impacts:
- 3.5.1. High level of energy poverty. Over one third of Bulgarian households cannot afford to heat their homes adequately and more than 60% still use mainly coal and wood for heating. Economic stagnation has led to further impoverishment of the most socially vulnerable groups after 2009, which effectively made politically impossible rising electricity prices and hence ensuring return on investment in the sector. Extremely high share of the population dependent on social allowances and other state means a very serious risk load on public finances due to the energy dependence of the country. By keeping electricity prices this burden shifts from the state budget to balance public and private companies, but ultimately remains a burden to taxpayers.
- 3.5.2. Inefficient use of energy by households. Very high losses in transformation, transmission and redistribution of energy. Although energy efficiency is constantly increasing over the last decade, the country's economy remains times more energy intensive compared to the EU average. This energy intensity coupled with the high dependence of Bulgarian economy on imported non-renewable resources, resulting in very low elasticity of costs for energy and raw materials to significant fluctuations in aggregate energy costs.
- 3.5.3. Except for the local production of low-quality coal, Bulgaria is completely dependent on imports of non-renewable energy sources. Especially acute is this dependence on gas supplies as the market has not been liberalized, and practically only rely on one vendor in a single pipeline. Therefore, the country pays some of the highest prices for gas supply in Europe, and only 3% of households use gas for heating. The lack of

alternative supplies closes our country into the trap of energy dependence, as the population replaces expensive gas to electricity for heating.

**3.5.4.** The National Electricity Company (NEC) plays a central role in the electricity market as a public service. At the same time, NEC is responsible for all payments with preferential manufacturers - renewables, cogeneration and long-term contracts. The accumulated debt in the electric company began to melt, which will affect the financial position of all other participants in the system.

#### **4. NATURAL GAS MARKET IN BULGARIA**

- 4.1. Bulgaria is heavily dependent on a single supplier for the import of gas, as noted above. Bulgarian gas production comes to an end due to the depletion of the deposit. The annual consumption in Bulgaria is 3 billion cubic meters of gas. About 1 billion is the annual consumption for central heating and the rest is mainly industrial consumption. Domestic consumption is only 3%.
- 4.2. Deliveries are made on a single pipeline connecting Bulgaria with Russia by land, which passes through Ukraine and Romania. Bulgaria is a transit country for imports of natural gas to Greece and Turkey. After the crisis in 2009 and interrupted natural gas supplies from Russia to Bulgaria, several projects to overcome the heavy dependence were initiated. These are interconnectors: Bulgaria - Romania, Bulgaria - Greece, Bulgaria - Serbia Bulgaria - Turkey. The most advanced is the construction of the interconnector with Romania. The next project with a signed final investment decision is that with Greece.
- 4.3. Another project that is underway is that of expanding the gas storage in Chiren to 1 billion cubic meters - which at the moment has storage capacity of 550 million cubic meters. In 2014 a project was finalized for physical reverse flow from Greece to Bulgaria under the existing interconnector with the ability to carry up to 1 billion cubic meters of gas annually in the event of another supply crisis. In 2016 a technical agreement was negotiated between the two transmission operators ("Bulgartransgaz" and "DESFA") for virtual reverse flow of natural gas from Greece to Bulgaria.
- 4.4. ESC believes that the natural gas market should be liberalized by providing access to the spot market through so-called "virtual reverse flow." "Bulgargaz" is a company that negotiates with "Gazprom" the delivery of gas to Bulgaria. The country has a developed grid. The transmission system operator is "Bulgartransgaz". A distribution network of licensed companies is also developed. Licenses are issued by EWRC pursuant to territorial principle.

4.5. ESC identifies the security of supply for Bulgaria as an issue that is also in the focus of the European Commission. To solve the problem of security of supply and the integration of markets the Commission is reviewing numerous projects proposed by Member States. The idea was to obtain the status of projects of common interest. In the spirit of the EES Package there are nominated projects in Bulgaria to reduce its dependence on imports of natural gas. They can apply to receive EU funding, and will be implemented according to simplified administrative procedures. Some of them are:

- Expanding the storage in Chiren;
- Modernization of the Bulgarian transmission system, so it can be used as part of the Southern Gas Corridor project and BRHA (connectivity to Bulgaria, Romania, Hungary and Austria);
- Interconnectors with our neighbours - Romania, Serbia, Greece and Turkey.

## **5. ELECTRICAL ENERGY IN BULGARIA**

5.1. Electricity production in Bulgaria is relatively diversified. About 42% of the electricity is produced from coal, about 33% is atomic, approximately 17% - RES, about 6% - from heating plants (coal and gas), including a small share of factory plants, or nearly half of the generation is produced by nuclear energy, renewable energy and a little bit from natural gas. The remaining half of the generation is produced from coal.

5.2. ESC believes that from an environmental perspective the biggest polluter in Bulgaria are coal plants. Only thermal power station "Maritsa Iztok 2" releases in the atmosphere about 10 million tons of carbon emissions per year. Coal power stations, including heating companies, require substantial investment to reduce their carbon footprint. The heating of the population in places where there is no central heating, also has a huge contribution to atmospheric pollution by the so-called particulate matter. There is little presence in the Bulgarian energy mix of plants in natural gas - one of the most environmental friendly fuels among the known conventional options to date.

5.3. According to ESC, electricity in the country is in a transition stage to market relations. Despite the mixed ownership of state and private stations, competition and the formation of market prices are still lacking. In this sector of the economy is dominated by subsidies in the form of preferential prices for renewables (excluding hydropower), cogeneration (the two new facilities in the Maritsa basin) through long-term contracts. In the fuel sector coal price is determined by the Minister of Energy and not as it should be in a market economy by means of market principles (linked to the international stock index). On the demand

side, electricity prices for households are subject to government policy and are kept low due to low incomes. Due to low electricity prices, the price of heating must also be kept lower in cities with central heating in order to prevent migration to heating with electricity. The reason is that the distribution networks are not designed for such high loads as they would have to bear if households opt for electric heating.

- 5.4. In recent years legislative changes created conditions for industrial energy consumption to move to the free market. In conditions of consumption on a liberalized segment of the market there are over 12,000 companies buying electricity. The market has a well developed and competitive segment of electricity traders. There are basically three main producers - Thermal Power Plant "Maritsa Iztok 2" Nuclear Power Plant "Kozloduy" and the National Energy Company. Since 2015 in the last 2-3 months of the year, the open market has also been offering electricity from renewable sources, after having exhausted the hours of compulsory annual purchase of solar and wind power at preferential prices. The transition from this asymmetrical and partial liberalization to genuinely free market remains to be made.
- 5.5. Nonmarket pricing provoked by preferential prices for purchase of electricity from RES, cogeneration - production and central heating, as well as long-term disadvantageous contracts with "AES Galabovo" and "Contour Globul Maritsa Iztok 3" led to exceptionally high fixed share of the final price of electricity - i.e. price component - "obligations to society".
- 5.6. At the current levels of the "obligations to society" price component Bulgaria is an example of a country with one of the highest ratios of non-market formed allowance / market price, which strongly contrasts with the economic capacity of the Bulgarian economy and the state of both domestic and industrial electricity consumers.
- 5.7. For full and sustainable functioning of the liberalized electricity market it is particularly important to overcome as rapidly as possible the non-market part of the final price of electricity, i.e. limiting participation of the price component "obligations to society" of the preferential purchase of cogeneration production, long-term contracts for the purchase of electricity with two stations - "AES Galabovo" and "Contour Globul Maritsa Iztok 3", as well as subsidizing heating services.
- 5.8. On 19 February 2016 in Bulgaria there is a functional Energy Exchange (BIEM - Bulgarian independent energy market), which trades only with electricity. The offered product is "market a day forward." It is traded with the submission of bids to 12 pm every day minus one day for each hour within 24 hours of the next day. The formed electricity prices for the

peak hours of the system (peak load), price for base load (base load) and load price for a night (off-peak load). A recent development is a platform of exchange for trade under bilateral agreements. In early 2017 the development of the service intraday market (intraday) is expected.

- 5.9. The European Commission publishes projects of common interest (PCI - Project of Common Interest) in the spirit of the creation of the EEC. There are such projects in the area of electricity and Bulgaria participates in five of them. In Central and Eastern Europe they focus on the constructions of interconnectors Slovakia - Hungary, Germany - Poland, Bulgaria - Greece and Bulgaria - Romania. These projects will enhance the capabilities of the transmission system and increase transit capacity required for the integration of renewable energy sources. They also include projects to improve connectivity of the transmission system in south-eastern Bulgaria. The biggest electric energy project is the extension of the hydropower complex "Chaira" with a new stage - the "Yadenitsa" dam.
- 5.10. ESC recognizes important positive trends in the energy sector, which open the possibility of stabilizing the power generation sector and achieve the security and reliability of the sector:
- The amendments to the Energy Act 2015 limited uncontrolled purchase of high-efficiency power.
  - Regulations were introduced for mandatory purchase of renewable energy which was limited to the statutory hours within a calendar year.
  - The Minister of Energy has made renegotiation of long-term contracts between NEC and two thermal power plants ( "AES Galabovo" and "Contour Globul Maritsa Iztok 3"). As a result, the government announced savings of 97 million. BGN per annum.
  - An Energy Security Fund was established which includes revenues from the price element "obligations to society", revenue from sales of emissions and 5% of the revenues of energy companies. This creates prerequisites for the transition from the system of preferential prices to the system market price plus premium.
  - The government launched a programme for energy efficiency of Bulgarian homes with grant funding, which must be developed and implemented in the future as a basic tool for improving energy efficiency and reducing the risk of fuel poverty.
  - The Bulgarian Independent Energy Market (BIEM).

- Preparing agreements between transmission system operators for a "virtual reverse flow" for natural gas with neighboring countries.
- Accelerating the construction of the interconnector with Greece.

## **6. OPPORTUNITIES AND RISKS FOR BULGARIA**

- 6.1. The Connecting Europe Facility provides 5.35 billion EUR to 195 nominees for projects of common interest, including projects related to Bulgaria.
- 6.2. ESC believes that with regard to natural gas Bulgaria needs more opportunities for free trade - access to more sources of gas, better connectivity with neighbouring countries and connectivity to Eastern and Central Europe. In addition to interconnectors it is necessary to negotiate technical agreements between transmission operators, which will create rules for virtual commerce in the region without physical transfer of natural gas. Thus it will be possible to buy gas - for example from Greece and pay only for transmission costs. At the end of the day, transmission operators produce net settlement for the actually exported/imported amounts. The connectivity will help to more easily balance the system and overcome peak loads. In Romania at certain times of the year there are surpluses. They can be traded on the spot market in the country and the region. In Greece there are also surpluses. In Bulgaria at different times there are conditions for both export and import. The connectivity will improve and increase the use of the gas storage facility "Chiren". Development of trade would create competition and market conditions in the natural gas sector. Bulgaria will have access to LNG terminals in Levituza (albeit with smaller capacity) and natural gas mined in Romania. It is expected soon to realize a project for a floating LNG terminal near the Greek town of Alexandroupolis, where our country will also be able to import natural gas.
- 6.3. ESC has identified the following significant challenges, opportunities and risks in the field of natural gas in Bulgaria:
- Creating conditions for liberalization of the market.
  - The market price formation will lead to greater volatility in the price (the influence of supply and demand on price). Due to increased demand in the region there will be pressure for price increase in Bulgaria. In a market economy, however, it is definitely better to have competition.
  - Market relations will create conditions for the development of products that will result from supply and demand.

- Development of gasification at competitive prices of gas compared to other energy sources.
- Physical import of natural gas of lower quality (e.g. lower calorific value).
- Increase of the transfer fee as a result of investment in the extension of interconnectors, etc. A possibility to avoid such effects are projects of common interest which receive European funding. It is especially important if investment as an interconnector or LNG terminal is shared by all Member States benefiting from such infrastructure.
- Investment in mining and exploration activities at market risk.

6.4. With regard to electricity production in Bulgaria, ESC emphasizes that Bulgaria is a major exporter of electricity in the region. However, import was often limited because of insufficient capacity of transmission facilities. In recent years there has been a change and noticeable growth and imports of electricity because electricity from renewable sources create rapid changes in generation and our system needs speedy compensation and balancing. The ratio of import-export is about 1:3. As a result of closer integration the following opportunities and risks are expected:

6.4.1. So far, the import of electricity was impeded. Imports would be carried out at more favourable prices in the region. Bulgaria will no longer be "island" and will be integrated with neighbouring countries. This will create more difficulties for conventional producers and mainly plants burning local coal and making insufficient investment in environmental protection - for example, TPP "Maritsa Iztok 2". The plant is exposed to greater risk also because it uses coal the price of which is determined according to a non-market mechanism. A similar fate would have also "AES Galabovo" and "Contour Global Maritsa Iztok 3" if long-term contracts are discontinued.

6.4.2. Possible increases in the prices of hazardous emissions in international ETS markets will necessitate investment in reducing emissions from coal-fired power plants in Bulgaria for which they are not ready.

6.4.3. Market participants will work in conditions of competition.

6.4.4. Investments in generation capacities will be carried out at real market risk borne by the investor. In the EU there are precedents for very large investments - e.g. Contract

for Difference (CFD) to build a nuclear plant Hinkley Point in the UK following notification to the Commission.

- 6.4.5. Market relations will create conditions for the development of products that will result from supply and demand. This is already happening with the opening of the stock exchange (BIEM), which is kind of revolutionary change for the free market in this country. It is possible to say today that the spot market has been launched, albeit with some flaws (e.g. no intraday market).
- 6.4.6. Risk of manipulation in transition from preferential rates to market price plus premium. Cogeneration, renewable energy producers and long-term contracts will enter the free market and there will be real competition in generation.
- 6.4.7. Risk of appreciation of electricity for households. Losses in transmission and distribution (largest responsibility for them have Electricity Distribution Companies) will be paid by the free market.
- 6.4.8. A possible decision of the European Commission that the Bulgarian state is providing inadmissible state aid to the energy sector may lead to payment of penalties by Bulgaria in termination of long-term contracts.
- 6.4.9. The market price formation will lead to greater volatility in the price (the influence of supply and demand on price). Due to increased demand in the region there will be pressure for price increase in Bulgaria.
- 6.4.10. More efficient use of energy.
- 6.4.11. Decline in the cost of system balancing and improving prices for imbalances.
- 6.5. ESC does not accept the new limits on emissions of mercury, nitrogen oxides and sulphur oxides listed in the final draft report of the European Commission, and defines them as inapplicable in our economy. Adopting the reference document on Best Available Techniques for Large Combustion Plants (LCP BREF) with suggested values will endanger energy security and industrial competitiveness both in Europe and Bulgaria. The most affected will be thermal coal plants and, according to industry experts, the projected values are impossible to achieve in our country. Currently 45% of the electricity in the Bulgarian energy mix comes from thermal power plants. Stopping them will dramatically affect the electricity market in the country. New requirements will have a negative social impact.

## **7. ENERGY VULNERABILITY AND PROTECTION OF VULNERABLE HOUSEHOLD CONSUMERS THROUGH DIRECT INSTRUMENTS**

- 7.1. ESC has emphasised in numerous acts the utmost importance of the fight against poverty and especially the so-called "energy poverty", and shares the concern that this is a growing problem not only in Bulgaria but also in Europe. ESC proposes measures and policies to combat energy poverty in the country and prevention of risk.<sup>4</sup>
- 7.2. The term "energy vulnerability" has no precise definition in Bulgarian legislation, suggesting its consideration in the context of the social policies of the state. In its opinion<sup>5</sup> ESC recommended before taking basic measures for implementation of EU energy policy and its corresponding national reforms Bulgarian government to clearly define the problem of vulnerable consumers and energy poverty and to identify it by means of an appropriate system of statistical indicators. ESC notes that the Ministry of Energy, the Ministry of Labour and Social Policy, Water and Energy Regulation Commission, with the expert assistance of the World Bank, presented in mid-2016 the preliminary version of the mechanism for protection against energy poverty of vulnerable populations, which provides both financial and non-financial schemes to protect these groups in a liberalized energy market. Criteria for identifying vulnerable energy poverty groups are being developed.
- 7.3. ESC considers appropriate<sup>6</sup> the number of measures to reduce the risk of fuel poverty in the new structure of the electricity market proposed in the EESC opinion of 19 October 2016. Such as: improving access to information on electricity prices offered by different providers, removing administrative barriers to switching energy services, training and education customers with active involvement of social partners and local authorities, termination of unfair trade practices and ensure access to information for their own consumption, etc.

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<sup>4</sup> ESC Opinion on "Measures to tackle energy poverty in Bulgaria", 11 December 2015.

<sup>5</sup> ESC Opinion on "Measures to tackle energy poverty in Bulgaria", 11 December 2015.

<sup>6</sup> EESC opinion "The new structure of the electricity market and the potential impacts on vulnerable consumers," 19 October 2016.

- 7.4. ESC believes that it is imperative to conduct a precise analysis of the distribution of the economic impact of these measures on different categories of users (depending on income, household composition and type of heating). On this basis, a long-term effective strategy should be developed to overcome this problem that requires building an effective methodology defined according to objective criteria.
- 7.5. The main problems that catalyse the process of "energy poverty" in the country are: low income levels, the dynamic rise in energy prices, low energy efficiency of buildings. The pace of increase in the prices of energy is faster than the pace of income growth. This imbalance is steadily increasing, and so is the proportion of affected customers.
- 7.6. ESC believes that it is necessary to achieve the optimum combination of expenditure on energy efficiency and incomes. Amortization of most residential buildings in Bulgaria is extremely high, which puts the thermal comfort of users to a serious test, which in turn leads to problems in the very efficiency of the heating system. Current practice of granting social benefits for heating, enabling a majority of users to survive through the winter heating one or two rooms in order to save on costs is insufficient and ultimately ineffective.
- 7.7. ESC is concerned that in conditions of full liberalization of the energy market it is likely that not only households but also some small and even medium-sized companies will experience "energy poverty", which will have a negative effect on unemployment, earnings and the economy as a whole. Therefore, it is necessary to specifically analyse the impact of the new model of the energy market on small and medium-sized enterprises, and if necessary - to design a package of measures for prevention.
- 7.8. ESC recommends to develop and upgrade tools and to adopt a coordinated institutional long-term programme that contains a mix of policies and instruments in different directions:
- 7.8.1. Preventing and combating energy poverty:
- increasing the scope and volume of energy assistance in order to gradually limit the group of vulnerable citizens expanding access to guaranteed universal services;
  - implementing good European practices: introducing the status of "protected customers", use of social tariffs, electricity meters with prepaid cards, guaranteed supplies, etc.;
  - providing consultancy services in the regions on energy market liberalization, choice of suppliers, methods to improve energy efficiency.

### 7.8.2. Pricing policy and supporting the consumers

- targeted state policies: diversified supplies, negotiating preferential rates with regional suppliers;
- development of a national voucher scheme to support the replacement of appliances with higher energy efficiency;
- developing a subsidized scheme, directed only to vulnerable consumers, maintenance and replacement of equipment for commercial metering - electricity, gas and heating;
- subsidized prices for supply and installation of "smart meters" for vulnerable consumers with a view to maximum transparency and utility of the reported consumption.

### 7.8.3. Improving the state of housing, increasing energy efficiency and introducing new standards:

- use of Structural Funds so as to address better the problem of energy poverty and the need for more funding for energy efficiency and renewable energy;
- expanding the government programme for rehabilitation of housing units in order to prolong their life, improve insulation and reduce energy costs for households;
- determining the standard threshold of thermal insulation for rented residential premises and gradual withdrawal from the market of rental property of buildings not conforming to this standard;
- introducing tax incentives for owners investing in energy efficiency and energy savings based on certificates issued energy performance of buildings.

7.9. ESC is convinced that the changes occurring with the liberalization of the energy market on a national level, the creation of a European energy market, the transition to the new structure of the energy market is a challenge not only for government, but for the entire civil sector and all stakeholders, including local authorities and social partners, and progressing towards the common objectives depends on mutual commitment, dialogue and confidence that should accompany the whole process.

(signed)

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