

Position of Za Zemiata on Bulgarian market reform plan

To
The European Commission, DG Energy, Unit C3 Internal Energy Market
Regarding

“Consultation on Bulgarian market reform plan” published under:

https://ec.europa.eu/energy/consultations/consultation-bulgarian-market-reform-plan_en

The document has achieved a good and comprehensive listing of the current plans to reform the system.

On top of the listed Directive (EU) 2019/944 requirements,...

- “(a) removing regulatory distortions;
- (b) removing price caps in accordance with Article 10;
- (c) introducing a shortage pricing function for balancing energy as referred to in Article 44(3) of Regulation (EU) 2017/2195;
- (d) increasing interconnection and internal grid capacity with a view to reaching at least their interconnection targets as referred in point (d)(1) of Article 4 of Regulation (EU) 2018/1999;
- (e) enabling self-generation, energy storage, demand side measures and energy efficiency by adopting measures to eliminate any identified regulatory distortions;**
- (f) ensuring cost-efficient and market-based procurement of balancing and ancillary services;**
- (g) removing regulated prices where required by Article 5 of Directive (EU) 2019/944”

... we from Za Zemiata always measure proposed policies, strategies, measures and concrete projects against three main principles for the development of a carbon neutral economy which are:

1. No lock-in projects threatening carbon neutrality beyond 2050 should take place - in this case it has to be assessed whether the proposed strategy effectively prevents such projects?
2. Enabling the highest possible share of renewables as cost efficient market based capacity development - in this case does the reform enable this?
3. Allow the decentralization of the energy sector to happen in a democratic manner - in this case does the reform support the interest of prosumers and energy cooperatives in Bulgaria?

We are strongly supporting the listed reforms and the commitment to more competition in the power sector.

We approve the commitment to technological neutrality when it comes to provision of FRR and FCR reserve capacities - this is necessary to get the new market mature technologies in the competition as currently only polluting (mostly coal based) powerplant receive this support. We

believe this will enable more clean energy and storage supporting the clean energy into the system. We did not get an impression how and when this commitment will become reality from this plan. We assume that this means no later than 2025 but we see no reason why the process shouldn't take off asap and be piloted right away and broadly adopted prior to 2025 ensuring a smooth integration and not an overnight introduction in a rush. In point 2.1 of the final table there is a mention of when the auctioning for balancing capacity the deadline is end July 2021 but there is no reference to technological neutrality. **We would appreciate it if the Commission insisted on such an engagement!**

We noted that the document has focused only on the formal requirements of the Directive (EU) 2019/944 and contains no reference to the NECP or other strategic documents of Bulgaria except for a brief mention. There are other European directives that contain requirements for the production and the use of energy and the reform has to take a more holistic approach. For example there is no reference and deadline to the transposition of Directive (EU) 2018/2001 which opens the door for RES citizens and energy cooperatives.

2025 is stated as the date of complete market liberalisation. What is the leverage for EC to ensure this will happen in a timely manner and will not be postponed again?

The analysis lacks overview of the fossil fuel energy subsidies in Bulgaria which are a substantial amount of the GDP of the country.

The analysis doesn't really contain an assessment of who is losing from the current situation of regulations.

The document states a commitment to end the PPAs of two coal TPPs - namely Maritsa East 1 and 3. These contracts have an end date anyway and only one of those contracts expires beyond the full liberalization date of 2025. The commitment stated by Bulgaria is only to have negotiations to preliminary terminate these contracts but nothing more. We do not see a real result oriented effort here. Could this be explained further.

Number of transparency issues regarding transactions in the Independent Bulgarian Energy Exchange (IBEX) have been rizen previously. This document does not tackle those concerns and ensure the real independence and resilience of the exchange. If we do not speak openly about the weaknesses of a system we cannot fix a system.

Further the document does not explore the existence of players that are not obliged to follow certain rules which creates the main distortions. We can collect numerous examples for EC and we believe these corrupt practices in Bulgaria should not be ignored and it should not be assumed that they will disappear just with the introduction of the new legislation.

The reform doesn't contain a promise that the business climate in the power sector will no longer be subject to legislative U-turns. In the previous years last minute legislative and regulative changes, implementation of new rules overnight and retrospective sanctions were poisoning the investment climate in the RES sector and in the energy sector in general. As the list of reforms is comprehensive but not full we would like to see a commitment that such U-turns will no longer happen. Could a follow-up version of the paper include also a "stress-test" analysis how likely it is that such actions can be taken again by the government in the future.

The document doesn't consider the decision making process and the modeling of energy needs in the future that is necessary for wise and efficient decision making and avoidance of lock-in projects and taking long-term decisions at the expense of the public. In this regard

certain other trends are missing in the document - currently what we consider very likely lock-in type of projects are in the field of nuclear energy and large gas projects - those are being aggressive and intrasparantly promoted by the government. When the set of reforms listed in this document is at place if these projects are online their footprint on the economics of the energy sector and the environment will influence the energy sector for a very long time.

On the positive side we approve the suggestions in the entire section "Options for Bulgaria".

The high threshold to participate on the energy exchange in Bulgaria is a barrier for the RES producers who want to sell their energy at the exchange. We are not sure that this issue has been recognized in the document thus also there is no consideration how this could be resolved. Resolving it is crucial for the higher share of cost efficient RES in the energy mix of Bulgaria.

We did not see GoOs (Guarantees of Origin) mentioned anywhere in the document. There are companies, mostly international, that have internal policies requiring them to consume energy from RES only. GoOs could be a way to support RES producers and help develop the forward market, as well. Is by now everything with GoOs fully resolved in Bulgaria as it was also an issue until quite recently?

Last but not least before we dive into a few details in the very plan, we apologize for the bulky way our comment arrived. But we learned about this consultation at a very late stage. Despite the fact that EC had published it at the end of January, the Bulgarian institutions in the face of the Ministry of Energy published the plan for consultation on the 8th of February - just three days prior to the end date. All stakeholders in Bulgaria are once again in the situation where they learn for steps undertaken by the Bulgarian government from the European Commission. This approach is fully unacceptable and in violation of the law and is a common approach on the government of Bulgaria. So common that we tend to believe it is on purpose to bypass the public debate. And that hurts the partnership and trust.

This also hurts the name of the consultant involved in the development of the plan.

In the document there is a great deal of quoting EU law and rules and describing how an efficient power market should look like but there is not enough interpretation of what this means in the local context of Bulgaria and the immediate and broader region.

We strongly believe that no reforms can happen in a fruitful manner unless there is a deep reform on the Bulgarian Energy Holding and the management practices there. Such plans are nowhere to be seen in this plan!

The document states that:

"When developing the plan, Member States shall take into account the principles set out in para. 3 of the Regulation and consider application of the following measures:

- (a) removing regulatory distortions;
- (b) removing price caps in accordance with Article 10;
- (c) introducing a shortage pricing function for balancing energy as referred to in Article 44(3) of Regulation (EU) 2017/2195;
- (d) increasing interconnection and internal grid capacity with a view to reaching at least their interconnection targets as referred in point (d)(1) of Article 4 of Regulation (EU) 2018/1999;
- (e) enabling self-generation, energy storage, demand side measures and energy efficiency by adopting measures to eliminate any identified regulatory distortions;**

(f) ensuring cost-efficient and market-based procurement of balancing and ancillary services:

(g) removing regulated prices where required by Article 5 of Directive (EU) 2019/944”

Comment: We did not see sufficient evidence that the planned measures on (e) and (f) are sufficient to ensure actual results.

Absence of distortions to the (generation) merit order

Comment: We did not see convincing justification how the merit order will be guaranteed considering that RES are usually the highest in the merit order as their opex are lowest.

Efficient cross-border trade - 5% of revenue contribution currently levied on domestic generators should be phased out

Comment - We strongly approve!

Demand response, storage and autogeneration - Technology-neutrality in reserve procurement should be ensured (see above – already planned)

Comment: We strongly approve!

A cost-benefit analysis of smart meter roll-out should be carried out Other commonly-identified barriers including ending “double taxation” of electricity storage, should be addressed

Comment: We are glad to see that but it contains no commitment as it becomes also clear further on in the document.

“Bulgaria **will try to ensure** that any consumers on regulated prices are offered smart meters at no cost to them and should be directly informed of the possibility of installing smart meters and provided with appropriate assistance to do so”.

Comment - “Will try to ensure” is a very weak language and means not sure that the state will be able. There has to be a plan B.

“In addition, investors face a number of other uncertainties in the Bulgarian market, including those related to politically driven environmental and self-sufficiency decisions by countries in the region. These issues may be **exacerbated by the difficulty in understanding the implications of any given environmental policy on closure given the nature of the power station assets in the country, and positioning of the Bulgarian market compared to the overall market for international power sector investment.**”

“Risks associated with renewables policy: The incentive to invest in conventional thermal generation is being undermined by uncertainty related to the pace of renewables deployment, in particular intermittent technologies such as wind and solar which have a very low SRMC. Increasing renewables penetration is likely, other things being equal, to reduce the profitability of new baseload thermal plant. Investors in potential new capacity are unable to hedge or diversify what is fundamentally a policy driven risk, and this will (other things being equal) lead to investors seeking a higher return before investing. In the limit, it could dissuade investors from making any investment”

Comment: not all renewables are subject to intermittency - there are dispatchable renewables such as conventional and pump hydro, geothermal and there is now an increasing amount of various storage technologies. The amount of renewables in the energy mix of Bulgaria is not planned to exceed 30% in 2030 - that is a very easy to handle share and arguably below the capability of such a well connected system like the Bulgarian one. While neighbouring Greece is aiming for nearly 60% of RES in the mix by the same year. With serious pump hydro like

Chaira, with potential of more conventional to pump hydro upgrades, with a well connected system to the neighbours (exceeding the EU requirements already) and being in the middle of the Balkans it is puzzling to see the renewables constantly described as a “risk, problem or obstacle”, with no detailed argumentation, modeling and graphs to convince the public in this theory.

“Risks associated with technology compliance - There is uncertainty regarding whether lignite and coal plants will be able to obtain an exemption from ‘BREF’ limits or whether they will need to decide between incurring additional investment and/or operating costs or early closure. If existing plants become exempt or make investments, this will impact on the profitability of new thermal plants. Again, this is a policy-driven risk which investors in potential new capacity are unable to hedge or diversify.”

Comment: No, there is not uncertainty here, there is actually high probability. It is quite certain at that stage they cannot comply and we are getting more than late to cushion their phase out from the system. The situation is further aggravated by the extensive record that the Bulgarian government is not treating the plants with the same scrutiny. We believe that closures have to start gradually. Regional markets and cooperation will be crucial to decrease the need for storage coming otherwise with the higher RES penetration and will also prevent excessive investment in fossil fuel based new capacity which is likely to turn into stranded assets.

“Risks associated with broader environmental policy: Beyond this, further environmental constraints may be anticipated. In the context of President von der Leyen’s priorities for the incoming European Commission, which include increasing Europe’s emission reduction target for 2030 from 40% to 50%, these could include: potential for significant increase in the price of carbon; and potential for limitations or planned phase out of coal and/or lignite stations.”

Comment - again there is no uncertainty but rather a certainty on the European and ever more global policy trajectory that has been undertaken and the Bulgarian government should move fast considering how to handle a high RES share in the system, minimum or no new conventional fossil fuel capacity and relying to a reasonable extent of the existing nuclear power plant as a baseload.

“In our adequacy assessment, we identify that given current capacity the vast majority of thermal plants is expected to be loss-making today and in the future, and hence we would expect some level of closure across the region for economic reasons. However, we note that in Bulgaria market participants will find it hard to take a consistent view in evaluating the least economic plants, and hence which plants should close first.

Key reasons for this uncertainty stem from the cost structure of thermal capacity in Bulgaria: The three large lignite plants (ME1, ME2, and ME3) collectively account for nearly 70% of Bulgarian thermal capacity. These plants are all relatively similar and use the same fuel (lignite from the Maritsa East basin). As a result, they have very similar costs. As ME1 and ME3 are currently subject to Power Purchase Agreements (PPAs), it is not possible to use market outcomes as a guide to the underlying economics of the plants. The impending termination of these agreements leads to further uncertainties around future market conditions.”

Comment: Once again we strongly disagree with the above statement - all this can be modeled! Outsource it, make the debate public! And yes, a market is uncertain - that is how the market is supposed to be in order to get the best conditions for everyone - both consumers and producers;

“Even with detailed information available from these plants, it is difficult to assess the economic order in which they would close. Plant investors, with access only to statutory accounts (from



which it is not possible to obtain figures consistent with the detailed data provided to us by companies), would be subject to even greater uncertainty.”

Comment: It should be easy to choose based on other criteria - list out the plants and operators who have systematically breached the rules and who are making the biggest loss on the back of the public for example! This report like other similar documents simply doesn't dare to name the problems with their real names - the government once again is turning a blind eye to certain players and keeps protecting them at the expense of the ones that try fair-play! This is not a recipe for change - that is how we will be losing precious time once again risking the entire energy system of Bulgaria.

“This situation will be even more difficult to assess by market participants, because some plants have higher efficiency, but also a higher fixed price. For example, although ME1 is the most modern of the lignite power plants in the Maritza complex, fixed costs remain well above those of its older neighbors. This situation is complicated by volatility in the carbon price.”

Comment: see our previous suggestion! All this is irrational and actually means that the government is incapable of taking decisions in favour of the consumers and in favour of the operators who keep to follow the rules and do business with integrity.

“These uncertainties not only make it difficult for existing plant owners to make efficient closure decisions, which could result in uncoordinated and excessive closure, but they also make it hard for new investors to determine the timing of when new capacity will be required.”

Comment: That is why other countries develop a political solution - a planned coal phase-out. Again start with the biggest loss and trouble makers in the country and have an end date so the business can get more predictable for everyone in the game. State owned assets are not a subject of such uncertainty but the decisions regarding their closure are a matter of political will and leadership.

Second comment!!! There is no mention if any privatisation of state owned assets will be attempted. This is a big threat and may lead to further complications. State owned assets in coal should close gradually and not move to private hands which can at that stage of the global policies be only based on speculative intentions.

“Regulation 2019/943 does not provide further details as to which issues need addressing in respect of the demand-side response, storage, auto generation and energy efficiency”

Comment: And this is one of the most crucial areas actually which is left with little planning and the failure may result in the further postponement of coal phase out, which may derail the reforms at some stage.

Sincerely,

Genady Kondarev

Environmental Association “Za Zemiata” – Friends of the Earth Bulgaria