

Bulgargaz
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22 November 2019

Subject: EFET¹ comments on the draft agreement for the implementation of gas release programme in Bulgaria

EFET welcomes the opportunity to comment on the proposed gas release programme (GRP) implementation for the period 2020 to 2024. EFET has recommended that such a programme could be highly beneficial to development of the Bulgarian gas market, for example in the response to the consultation on amendments to the Energy Act² and are grateful to the authorities for pursuing this. However, we believe that there are important changes that could be made to make the programme more successful, and suggest these as follows:

Section II

The purpose of Gas Release Programmes is typically to kick-start competition in supply to consumers until new entrant suppliers are able to obtain gas in the market that they can supply competitively. A programme would normally start with larger release volumes in the initial years which reduce over time as replacement volumes are found. This is the reverse of the Bulgarian proposals which increase the volumes to be released, which would in turn increase reliance on the gas release programme and create a greater cliff-edge at the end.

In this spirit of enhancing liquidity and developing the Bulgarian gas market, we recommend selling gas in lots of 5 000 MWh in order to allow participation of smaller companies as well.

The volumes to be released are to be flat volumes of gas with even daily delivery. Yet the base price for the auctions (see section III) is based on an average price of Bulgargaz contracts, which includes a level of swing and take or pay i.e. a level of flexibility or optionality. The base price therefore overvalues the flat gas, and leaves the optionality with Bulgartransgaz, making the release programme uncompetitive. Either the price should be set lower to reflect the lack of flexibility or the release profiles should include an equivalent level of optionality as the average of the Bulgargaz portfolio.

¹ The European Federation of Energy Traders (EFET) promotes competition, transparency and open access in the European energy sector. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and a competitive economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org.

² Please refer to our [letter](#) dated 11.06.2019 for further reference

Section III

All auctions for 2020 are to take place in December 2019 and require bidders to have signed transportation agreements to be eligible to participate

The first two auctions (one for annual, one for monthly contracts) are for Bulgarian consumption only – either directly to consumers or through traders. It is not clear how this will be enforced, e.g. whether a show of contracts will be required prior to participation in the auction or afterwards. This would prevent suppliers buying gas in advance of gaining customers with the expectation of building a market share. It would also prevent speculative activity that contributes to a reliable wholesale market and appears to prevent onward sales of gas to other traders.

In any case, an award of annual gas in the second week of December leaves little time to conclude supply contracts for 1 January 2020, meaning that bidders would need to factor in the risks that they could not take the gas in the period between 1 January and supply contract start date. Additional optionality would be welcome here.

In developing traded markets, the two products that are most used initially are day-ahead and month-ahead contracts. In order to take advantage of this, the monthly contracts should all be sold month-ahead, rather than in a one-off auction before the start of the year. This would also allow prices to be updated monthly such that they better reflect market conditions.

The second two auctions (for annual and monthly capacity, but this time eligible for export) are less clear about whether exit capacity will be released to allow export and how this would fit with bundled products. It is also difficult to see how a portfolio of gas purchased under the first auctions, the second auctions and freely traded could be aggregated such that restrictions on exports could be policed, without restricting tradability. (If I buy gas on the secondary market, do I need to know if this is exportable gas or not? If a consumer buys gas in auction 1 but decides not to consume it, can he retrade it at the VTP for export?)

At the same time, there is no clear reason for the proposed price increase under the two subsequent auctions. Insufficient demand in the first two auctions should motivate reducing the base price, so the option to do so in line with previous demand and market conditions should be allowed. Otherwise, it must assume some kind of intent to maintain differential prices between Bulgaria and neighbouring markets.

The programme would be more effective if all gas is equally available for consumption, supply, onward trading or export.

We would also appreciate more explicit reference to the role of the EWRC in reviewing and approving the starting auction price, as established under Section IV of the draft agreement.

Section IV

Paragraph 13 suggests that the price would be updated quarterly, which would make it more costly to offer fixed prices to consumers. If a fixed price option is not to be allowed, then publication of details of the embedded indexation would allow successful bidders to anticipate changes and hedge them appropriately.

Section V

There are many types of auctions and tenders which could be used, and therefore the tender mechanism requires greater description. An ascending bid clock auction would be most appropriate, but the proposal does not rule out other techniques such as open outcry or single round sealed bid auctions.

In the event of a bidder's quantity being partially fulfilled, it is normal to offer the bidder the opportunity to refuse a partial allocation ("fill or kill").

Section VII

Bidders must be signed up to transportation agreements in advance of the auction, which could discourage participation in later months, if the monthly products are not changed to be sold month-ahead as per our suggestion above. This could be reduced to a commitment to sign up ahead of taking the gas.

Section IX

Where gas is purchased under auctions 3 and 4, and the required exit capacity is into a neighbouring system (e.g. Transgaz of Romania), then greater clarity would be appreciated on what provision will be made for release of exit capacity which is bundled with entry capacity in another system.

Section XI

The intended supply contract should be published in advance to allow potential bidders to obtain the necessary legal clearance. The EFET master contract terms and conditions could be considered, although a suitable appendix may be required to be developed. This would have the advantage of promoting a standard contract for trading at the Bulgarian VTP.

Section XII

Furthermore, we would like to draw your attention to the level of the participation fee, which has been set to 0,10 BGN/MWh. We note that this rate is relatively high and may have a negative impact on the natural gas prices. We would therefore like to suggest a provision in the GRP agreement that this fee is reduced as the programme progresses.



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Finally, there should be clarification of the ultimate responsibility for the gas sales, as it is not clear whether it will be Balkan Gas Hub EAD or Bulgargaz or a central counterparty at a future exchange, who will act as a counterparty to the sales under the GRP. Would you please also reconfirm that the auction price will be a pay-as-bid price to each participant and not clearing price.

To conclude, we believe that the gas release programme will be an important milestone in the development of a liquid gas hub in Bulgaria. We are convinced that improved flexibility offered through the auction process will attract new market participants willing to develop business activities in the country and contribute to the Bulgarian gas market.

Kind Regards,
On behalf of EFET TF CSEE-G

Davide Rubini,
Chairman of EFET TF CSEE-G

Doug Wood,
Chair of Gas Committee, EFET