TO: Temenuzhka Petrova, Minister of Energy
Valentin Aleksiev Nikolov, **Chairperson, Standing Energy Committee**

02 April 2020

Subject: EFET[1] letter regarding retroactive gas price changes

In this letter, the European Federation of Energy Traders (EFET) highlights inadvertent impacts of the recently announced plans for a retroactive change to the regulated gas price applying back to August 2019. While we recognize the desire of the Bulgarian government to help its citizens during the current crisis, a retroactive measure affecting past agreements will be administratively complex, slow, costly and may lead to protracted negotiation or legal action. Instead we strongly recommend a more forward-looking approach to allow benefits of reduced prices on long term import contracts to feed through to consumers without a wider damaging effect on Bulgarian industry.

1. Administrative price setting below cost forces suppliers into loss-making positions and does not encourage consumers to use energy efficiently or invest in energy saving at an economic level. In this way overall energy costs to the country are likely to be higher, but hidden through losses in intermediaries. Ultimately, this deters suppliers and external investors from participating in Bulgaria, to the cost of the wider economy.
2. Significant efforts of the Bulgarian authorities over past years have made it possible to import gas from different suppliers. The recent contract settlement does not apply to these new contracts. Therefore, many of the companies who have invested in making use of the alternative import routes remain unaffected by the negotiations but will nonetheless have the new regulated price for the consumers imposed upon them. Consequently, a lot of the positive developments arising from the increased connectivity of the Bulgarian gas transmission system will be lost.
3. Without a liquid balancing market or functioning gas exchange, many of the TSO's balancing actions in 2019 were valued using the regulated price. A retroactive change of that price would require a recalculation and resettlement of past imbalance charges. For parties with minimal imbalances this will require a large administrative effort for no redistributive effect; for larger imbalance repayments, recovery of costs is unlikely to be straightforward and some participants may simply be unable to pay. Imbalance and cashout prices should be treated as fixed and not changed retroactively, irrespective of discussions about regulated end-user tariffs.

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[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.

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4. The government may instead choose to apply the reduction to regulated end-user prices prospectively. This brings relief to consumers during this difficult time but also allows competing suppliers to seek new import contracts at levels comparable to the revised benchmark price resulting from the recent government negotiations. In this way, the market will be better able to offer discounted prices on a sustainable basis. Bulgaria will continue to benefit from diversity of contracts, routes and supplies that the new gas hub was intended to deliver.

To conclude, we believe that the intended retroactive change of the regulated gas price will bring lesser benefits to consumers with greater long-term costs. The abovementioned side effects of that decision will likely result in company failures and market exit, leading to a further drop in liquidity and competition.

We hope that you will take our remarks under consideration and we remain at your disposal should you wish to discuss these matters further.

Kind Regards,
On behalf of EFET TF CSEE-G

Davide Rubini,
Chairman of EFET TF CSEE-G

Doug Wood
Chai of Gas Committee, EFET