

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

CC: Ivan Nikolayev Ivanov
Chairman, EWRC
Markus Backes
DG Energy, European Commission
Kiril Ravnachki
Managing Director, Balkan Gas Hub

23 March 2020

Subject: EFET¹ letter regarding the exchange trading obligations in Bulgaria

In this letter, we would like to express our concerns regarding the exchange trading obligations that have been introduced through art. 176 of the Energy Act, obliging all transactions with a delivery period under one year to be either concluded or registered on an organized market. We believe that bilateral, non-standardized transactions are an indispensable element of a functioning gas market and there are no reasons to restrict them. Below we highlight why we believe that the obligation to trade over the exchange is particularly harmful in Bulgaria.

To begin with, we note that the rules governing trading at Balkan Gas Hub EAD are incomplete, creating uncertainties for the market participants. This uncertainty is further enhanced by the fact that the regulatory oversight over the exchange appears to be missing, since no license has been issued by the EWRC until now.

We further note that obligatory exchange-based transactions do not promote trading, nor do they increase market transparency. Costs associated with trading via the exchange (subscription fees, transaction costs, collaterals) will prevent new market entries, while at the same time the obligation will complicate the conclusion of cross-border swap transactions. At the same time, we note that bilateral transactions are already subject to different reporting obligations that ensure the necessary oversight, primarily through the European Regulation on Wholesale Energy Market Integrity and Transparency (REMIT).

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.

Finally, we note that prohibition of tailor-made transactions will limit the flexibility of the market participants and act to the disadvantage of developing a liquid market. In this context we note that under the existing obligation, flexible gas supply contracts with the end-customers will become particularly complex, since any re-nomination may require concluding an additional transaction via the exchange, which implies additional transaction costs.

The new obligations hinder Bulgarian gas market's development and integration with the rest of the EU, ultimately resulting in higher costs to end-customers. We therefore believe that the Energy Act needs to be amended in a way that will ensure the freedom to choose between bilateral and exchange-based transactions. We remain at your disposal should you wish to discuss this matter further.

Kind Regards,
On behalf of EFET TF CSEE-G



Davide Rubini,
Chairman of EFET TF CSEE-G



Doug Wood
Chair of Gas Committee, EFET