

11 February 2021**EFET response to DG ENER on the Bulgarian electricity market reform plan**

The European Federation of Energy Traders¹ (EFET) welcomes the opportunity to provide our comments to DG ENER consultation on the Bulgarian market reform plan for the requirements set in Article 20 of Regulation 2019/943 on the Internal Electricity Market (IEM).

We welcome the fact that a thorough assessment has been carried out and that concrete actions have been proposed. We agree with the conclusions of the report, and fully support the implementation of these actions. All of them are needed to advance the development of the electricity market in Bulgaria, and to help it catch-up with internal energy market (IEM) framework at EU level.

However, we find that important market reforms which could deliver quick benefits to the market and customers are still missing. Below we explain in more detail the market barriers that we consider have not been addressed in the report and that are of particular importance for developing an efficient and competitive electricity market in Bulgaria. EFET is also producing an annual overview on obstacles to trading in CEE/SEE countries, covering Bulgaria (attached to this response).

1. Forward Markets**Mandatory Trading on the Bulgarian Power Exchange IBEX**

At the moment, all electricity trades involving electricity generators (including RES-E generation) having a total installed capacity over 1 MW must be concluded exclusively through the Bulgarian Power Exchange IBEX. Since this mandatory trading requirement has generated many detrimental effects, EFET has already submitted a complaint to DG ENER and DG COMP (registered under reference number CHAP(2021)00084) against Bulgaria/Mandatory Trading on IBEX (attached to this response).

Because of this requirement, electricity traders cannot conclude transactions with Bulgarian power producers without being forced to register on IBEX, and accordingly pay the IBEX entrance fee, annual fees, transaction fees, as well as the initial collateral designed to guarantee their future transactions. Without the mandatory trading on rule on IBEX, European traders would have the choice of platform/energy exchange on which to carry out their transactions with Bulgarian electricity generators. This choice is absolutely fundamental in guaranteeing cost-efficiency and liquidity on wholesale energy markets in the EU.

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.

This requirement limits the trading opportunities for the majority of market participants, imposes additional fees, centralises wholesale trading in Bulgaria through only one channel, limits export opportunities, creates a loosely regulated monopoly and overall distorts the operation of the Bulgarian electricity market. Power producers cannot efficiently hedge their output and are limited to only one option to offer long-term products – “Auctions screen” of bilateral contracts market part of IBEX.

Mandatory trading on IBEX also impedes the cross-border provision of services by electricity exchange registered/licensed in other EU Member States. Besides the distortion of competition between power exchanges, the mandatory trading requirement also reserves to IBEX an economic activity that could be carried out by brokers, thereby restricting market participants’ choice where to transact even further. The mandatory trading requirement practically forecloses brokers from the Bulgarian electricity market and gave rise to the dominance of IBEX on the broker market as well.

This monopoly position gives IBEX the power to remove trading of flexible profiles, thus eliminating the opportunity for RES-E producers to offer long-term products on the Bulgarian and EU electricity market. This prevents them from efficiently managing price volatility risks and hedging their uncertainty about future returns on investment. This is because only standard products can be traded on IBEX and no OTC contracts outside of IBEX are permitted to RES-E producers with capacity of 1 MW or over. Due to their intermittent generation, RES-E cannot always offer standard products on the IBEX bilateral market and are therefore forced to transact only on the day-ahead (DAM) and intraday (IDM) markets.

Some of the effects coming from this market distortion are increased price volatility on the DAM, increased risk for RES-E producers in servicing their loans, increased expenses due to fees and collaterals and lack of forward flexibility contracts on the market.

Lack of liquidity in the forward market

In 2020, Bulgarian power producers initiated auctions for forward contracts as follows:

- 300 MW baseload (delivery 01.06.2020 – 30.06.2020) from NPP Kozloduy
- 90 MW baseload (delivery 01.10.2020 – 31.12.2020) from TPP Varna
- 150 MW baseload (delivery 01.11.2020 – 30.11.2020) from NEK

Because of very limited participation of Bulgarian electricity producers on the “continuous trading screen” of IBEX, the service has been suspended, leaving the “Auction Screen” as the only option available for forward transactions.

The forward market in Bulgaria is almost non-existent with very limited offering from the main power producers. This trend has worsened in 2020, which represents the year with the lowest volume of concluded forward contracts between traders and Bulgarian power producers.

The most predominantly used platform on IBEX is the DAM, on which between 48% to 53% of the total Bulgarian load are now traded.

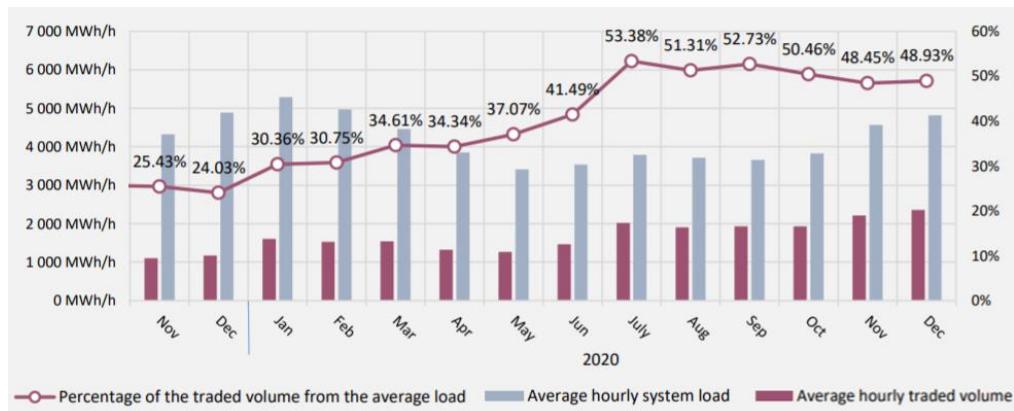


Figure 1. Share of electricity traded on IBEX's DAM as a percentage from the total load of the electricity system in Bulgaria (Source: IBEX reports: http://www.ibex.bg/bin/documents/1470_file.pdf)

The significant volumes traded on the DAM makes it the main trading instrument in Bulgaria. Traders have almost no other options but to purchase the most part of the electricity for their customers on the DAM. This brings long-term price uncertainty, impedes efficient forward hedging of market participants' positions, and makes long-term business planning particularly complex. Traders are exposed to price movements and growing price volatility making it difficult for them to offer one-year fixed price contracts to their customers.

We are surprised to observe that state-owned production (by NPP Kozloduy, NEK and TPP Maritsa East 2), accounting for 80% of the Bulgarian load, is exclusively sold on the DAM. This distorts efficient market operation and has almost eliminated the offering of forward contracts on the Bulgarian wholesale market. We believe this should be investigated by the European Commission, and that appropriate remedies should be proposed to improve forward market liquidity.

2. Balancing markets

Absence of a balancing intraday market

EFET fully agrees that a balancing intraday market must be established. We agree with the recommendations made under point 2.2 of the report. Market participants should be allowed to bid as close to real time as possible, and balancing energy gate closure times shall not be before the intraday cross-zonal transmission capacity gate closure time. (Art. 6, item 4 of Regulation 2019/943).

Lack of competition in the provision of balancing services

EFET supports the implementation plan which states that: "Bulgaria needs to consider setting a bidding process where BSPs can enter their bids for upward and downward regulation closer to the time of delivery...". The EU Balancing Guideline and the recast Electricity Regulation mandate auctions that take place one day before real time at the earliest. EFET therefore fully agrees with the recommendations made under 2.1 to implement a balancing mechanism with a short lead time.

Contracts for balancing capacity shall not be concluded more than one day before the provision of the balancing capacity and the contracting period shall not be longer than one day, unless and to the extent that the regulatory authority has approved earlier contracting or longer contracting periods, in order to ensure the security of supply or improve the economic efficiency. EFET also considers it important to facilitate the access of more BSPs to the balancing mechanism in order to increase competition. We recommend defining prequalification and monitoring requirements that allow as many technologies as possible to provide balancing services. Only shifting the bidding period close to delivery, without opening the door to new BSPs, might not bring significant results: existing BSPs are very likely to continue submitting the same bids on an even shorter-term basis.

We also request the adaptation of the price limit to the provisions of the EBGL and Electricity Directive, to reflect the value of lost load.

Gap between the negative and positive imbalance prices

In 2020 the average price for negative imbalances was 172.08 BGN/MWh and for positive imbalances was 12.45 BGN/MWh or a difference of 13.8 times. Similar is the gap also in the previous years 2019 and 2018. The reason is that the price for negative imbalances is linked to the hourly price on IBEX, while the positive imbalances is not. The price floor for positive imbalances is fixed at 0 BGN/MWh.

An imbalance price must reflect the value of energy in real time. To do that, short-term procurement and activation of balancing services close to real time is needed. The removal of bidding caps on BSP offers and the establishment of an imbalance price limit at the value of lost load accompanied by appropriate measures to ensure fair and balanced competition on the electricity market and in the balancing mechanism should further ensure that the imbalance price correctly reflects the value of energy in real time.

We also highly recommend applying a single imbalance price model relevant for the Bulgarian balancing market. Negative welfare effect arises due to the fact that the imbalance price(s) do not reflect the value of energy in real time.

Lack of transparency in the balancing market

Market participants are missing the publication of the current system balance, the estimated imbalance prices and the estimated balancing energy prices, as close to real time as possible, with a delay after delivery of no more than 30 minutes (as described under 2.4).

The biggest impacts of this lack of transparency are limitations of competition, improper market functioning as a result of low liquidity, and inefficient pricing. All this results in a highly inefficient balancing mechanism.

We recommend increasing overall transparency of balancing energy settlement process and data including details on what is taken into account in the calculation of the imbalance price(s).

3. Regulatory Obstacles

Regulatory period starting mid of the year

Market tariffs (network tariffs, fees, premiums, regulated market tariffs, etc.) are changed every year on 1 July. This makes it difficult for market participants to make strategic planning on annual basis, because they do not know the tariffs for the second half of the year. We recommend aligning the regulatory period on calendar years.

Burdensome reporting requirements and removing the additional reporting to FSC

We request that the reporting to EWRC be harmonized, simplified and performed on an annual basis. Information already provided to the TSO as a result of the Transparency Regulation, or to ACER as a result of REMIT, should not be requested again by EWRC. The duplication of reporting to Energy and Financial regulators is particularly time and resources consuming. We request better coordination between Bulgarian institutions and removing double reporting obligations.

Further, the regulator should accept Audited Financial Statements of the companies and should not require additional financial statements for activities in specific countries.

EWRC has also introduced complex additional requirements in the licensing ordinance for storing and recording information on transactions and orders on the energy market. The obligation duplicates reporting requirements under REMIT Regulation, but also broadens the scope of REMIT significantly, meaning that traders will have to record almost every actions they take. This has so far proved impossible to comply with and puts administrative barriers to new and existing participants in the Bulgarian market.

Lack of transparency, language barriers and high frequency of regulatory changes

It is difficult for market participants to follow market developments in Bulgaria, because they are very frequent and often abrupt. Fundamental changes in the legislative and regulatory framework of the Bulgarian electricity market are frequently introduced, without the necessary publicity or consultation of market participants. To put this into perspective: the Bulgarian Energy Act has been amended 15 times in the past 3 years; there were also many amendments in relevant legislative documents – ordinances, rules, regulatory decisions. Such changes are usually accompanied with insufficient information regarding market operation, demand forecast, plans for operation of generation and transmission.

Frequent updates and translation into English of the main documents are recommended as many non-domestic companies are active on the Bulgarian wholesale market. Establishing a harmonised platform for data publication and data consistency will help market participant access the most relevant regulatory and legislative information. Improving information disclosure in English would also be necessary.