



## Why Electricity Bills in Bulgaria Spoiled the Party

### Media Note

A number of market factors caused an increase of electricity bills in Bulgaria during the last year:

- the pricing boom of non-renewable energy sources on a global scale;
- the high preferential prices encouraging the inclusion of new energy sources to the mix;
- the sizable investments necessary for renovating the outdated grids and energy systems;

Yet there are also the considerable expenses, directly resulting from:

- the bad management of the state-owned enterprises;
- negotiated rents or rents guaranteed through monopolies;
- financial abuse, waste of energy, etc.

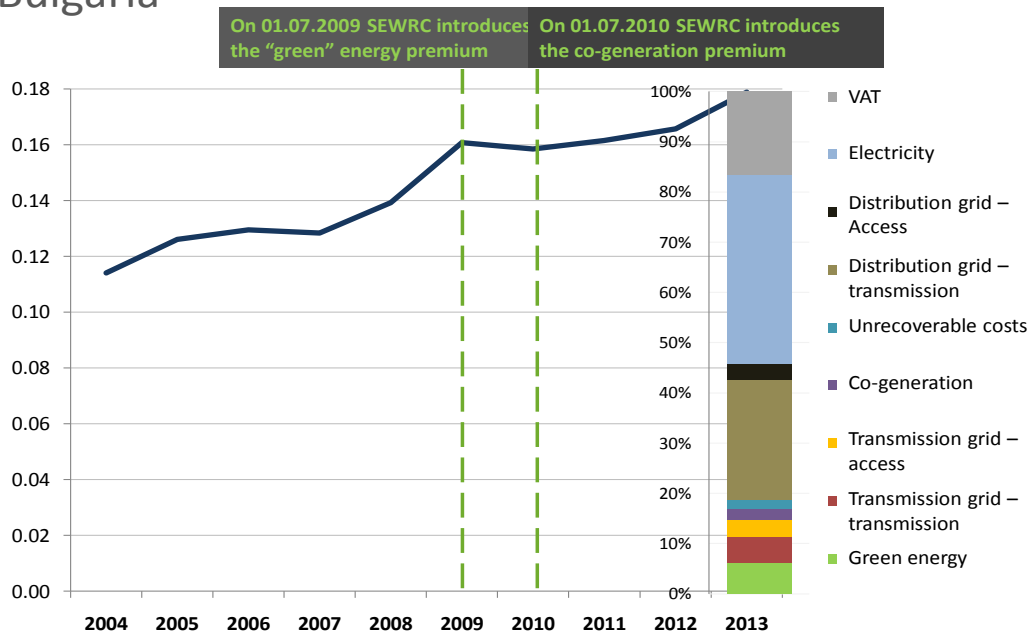
The so-called “green” premium - a market entry subsidy for renewable energy sources - was used as a convenient explanation for recent increases to the electricity bills in 2012. However, as time went by, consumers realized that a substantial part of their bills has been determined by another expense - the **”bad governance premium”**, which, together with the forthcoming parliamentary elections and the increase of energy consumption during the winter, led to the ascent of social discontent and a search for new culprits for the surge in prices.

The bad news is that, as energy prices in Bulgaria are the lowest in the European Union, the liberalization of the market will likely lead to a further increase in electricity prices for Bulgarian households. The good news is that price escalation can be delayed through extending the life of currently existing capacities, while the negative effects of future price increases can be decreased by a massive state campaign for refurbishment and

boosting the energy efficiency of the housing sector and the industry. In addition, it is paramount that the waste of resources in public procurement and energy transmission and distribution is decreased.

There is also an **untapped potential** to further reduce natural gas prices, which would ensure lower bills for the end-users and allow the industry to catch its breath.

## Electricity Price Trends in Bulgaria



Source: Calculations of the Center for the Study of Democracy, 2013, using data from Eurostat, NSI, and SEWRC.

Electricity prices in Bulgaria have been rising steadily since 2004 – way before the introduction of the “green energy premium” and the co-generation premium. As the separate elements of electricity bills became more visible to the consumers (in line with EU requirements), the latter became more sensitive to the costs of each element. In addition, consumers’ sensitivity to pricing was boosted by a 5-year **stagnation** of household incomes that severely limited consumers’ ability to cover their energy expenses. In the cities, the cold winters of 2011 and 2012 led to serious health threats related to the increased consumption of wood and coal for heating. Assessments of the Center for the Study of Democracy show that, at the beginning of the crisis in 2009 – 2010, **more than 60% of the Bulgarian households have used wood for heating, and more than one third of the Bulgarian families have experienced energy poverty**, i.e. were not able to heat their homes adequately.

Discussions preceding the Bulgarian referendum on nuclear energy revealed a staggering amount of expenses incurred as a result of poor governance decisions and political corruption. These expenses are covered by consumers through their monthly electricity bills and, yet again, through their taxes. One-sided explanations of electricity price surges and political or administrative replacements are commonly offered by Bulgarian politicians, instead of reliable fact-based solutions. Until the latter takes precedence and massive measures for **energy diversification and energy efficiency** are not in place, social discontent will keep rising, together with calls to radical anti-market actions.

The general trend of rising energy prices is a Europe-wide tendency. Since 2000, the energy prices for European households have increased with 40%. This increase is directly related to the higher prices of non-renewable energy sources all around the world: the price of natural gas has doubled (excluding the US, where it has decreased); the price of coal has tripled; and the price of oil has quadrupled. For example, the Czech Republic witnessed a significant energy price surge due to a surge in gas prices; corresponding increases in Poland are attributed to the surge of coal prices, etc.<sup>1</sup>

As the Bulgarian energy sector depends largely on conventional energy sources, price trends resemble the general EU trends. The connection between the price of conventional energy sources and consumers' electricity bills becomes obvious when we take a look at the energy balance of the country: with the exception of a modest local extraction of brown coal, Bulgaria imports all its raw materials for energy production and transformation. About two-thirds of the imported energy sources are used by plants generating electricity and thermal energy.

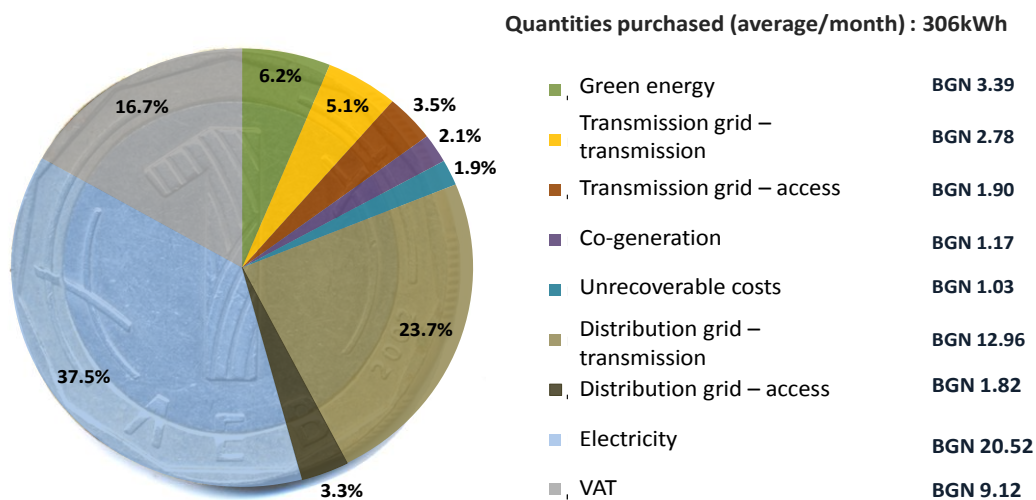
Therefore, when prices of raw materials soar, this is inevitably reflected in households' energy bills (e.g., not only electricity bills, but also food costs and even its packaging, which production is based on oil products). Moreover, every new investment in a large generating capacity, taking into account the sizable capital costs, translates into higher prices. This happens despite of regulated pricing policies for electricity in Bulgaria, and liberalization of the market will make this link more visible.

On the other hand, the **liberalization of the market would decrease the politicization of pricing issues**, and would illustrate more clearly vulnerable groups that are in need of social protection. The oil market is a good example of the latter. The rise of oil prices, although greater, did not trigger the same social reaction as the rise in electricity prices.

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<sup>1</sup> As per data from Enerdata for 2012.

## How are Electricity Bills Formed:



Source: Calculations of the Center for the Study of Democracy, 2013, using data from Eurostat, NSI, and SEWRC.

Most current data by the National Statistical Institute show the average monthly consumption of a household in Bulgaria to be about 306 kWh/month. The price of these 306 kWh is BGN 54.70, incl. VAT, which is an increase of about 12% compared to the previous year.<sup>2</sup> On average, the “green energy” premium was BGN 3.39 lv, and the co-generation premium was BGN 1.17 lv. About 40% of the electricity bills are actually expenses for transmission and access to the transmission and distribution networks (including losses), and almost the same share of the bill is formed by the actual electricity consumption, which, however, includes company profits and **expenses related to bad governance**. Thus, the main pricing issue is how to cover nearly BGN 2 billion spent on poorly governed projects like HPP Tsankov kamak and NPP Belene, if not from consumers’ and taxpayers’ bills? Moreover, covering the overwhelming number of irregular or unnecessary expenses, owing to manipulations or avoidance of public procurements in the energy sector becomes an issue. Another issue is covering the expenses incurred due to poor regulation (or lack of thereof) of renewable energy sources and corrupt licensing practices.

<sup>2</sup> The calculations are of the Center for the Study of Democracy, based on the data by NSI for 2011, and represent an averaged household consumption for the whole year.

Electricity price increases will continue to build up social pressure, as long as clear energy strategy is missing in Bulgaria, the pricing mechanisms are non-transparent, the market is regulated, and the poor management of state-owned enterprises remains unpunished. One thing is, though, certain: just as energy itself, vast energy expenses will not be lost, but instead transformed. These will be paid by the consumers and businesses through their energy bills and taxes.