

4. WHERE TO: CONCLUSIONS AND POLICY RECOMMENDATIONS

In 2011, CSD published the *Energy and Good Governance in Bulgaria: Trends and Policy Options* report, highlighting the risks of widespread corruption practices, coupled with mismanagement of energy companies and the irregularities in public procurement contracts, as the main challenges for the development of the energy sector in Bulgaria.¹²⁹ The findings of the current report also underline the lack of adequate progress in the 2011 – 2014 period in implementing the values of transparency and good governance and widespread state-capture deficiencies. The report illustrates the major structural and governance problems in the management of the energy sector from an energy security standpoint and concludes that adequately tackling **energy security is a challenge that has not been strategically approached in Bulgaria**. Instead, systematic failure to act as per best market and good governance practices and address long-term energy security risks highlights anti-social policy making, resulting from the implications of widespread political corruption and state capture deficiencies in the country as precise understanding of national specificities, regional characteristics (South-East Europe and the Black Sea Region), and the position of the country as per EU's strategic energy policy is frequently absent. Adequate realization of national priorities and sustainability of development of Bulgaria's energy sector have been undermined by subpar decision making and self-reinforcing cycle of crunches, raising questions about the motivation of the systematic governance failure and the possible **capture of national priorities by third-party interests and wide-spread rent-seeking behavior**. Some of the major conclusions and policy recommendations are listed below.

Conclusions:

- The biggest threats to Bulgaria's energy security are the high level of energy poverty, the lack of supply diversification, and the energy efficiency challenges occurring from outdated energy and residential infrastructure. Low-levels of access to callable energy resources undermine efficiency and independence of policy making in the energy area in Bulgaria.
- Large-scale undertakings in the last 10-15 years, including big investment projects, involvement in international pipelines and renewable energy development have not been managed efficiently and have led to loss of social wealth. They have often been the result of state-capture deficiencies of policy-making in the sector.
- Bulgaria's government is overwhelmed by third party initiated projects, sidelining its own planning and investment needs and leading to subordinate treatment of energy security focus projects such as interconnectors and storage facilities, gas and power exchange, energy efficiency and energy saving.
- Legislative volatility and state capture have led to subpar policy decisions and loss of investment security. The independence of the national energy

¹²⁹ CSD, (2011), *Energy and Good Governance in Bulgaria: Trends and Policy Options*.

Regulator from both political and economic interests has been compromised. Involvement of political leaders in the operational and strategic management of state-owned energy enterprises has been widespread.

- There has been excess of electricity production on the back of consistently low levels of electricity demand in the 2009 – 2014 period, which has not precluded the government from furthering new generation projects.
- State-owned energy enterprises are not ready to meet liberalization challenges. BEH's financial situation has been worsening in the last years. Within BEH NEC EAD is financially insolvent while Bulgargaz' financial situation is also particularly challenging in regards to servicing its short-term obligations.
- The current model of centralized administration and excess electricity production creates strong incentives for corruption and financial abuses at the expense of state-owned enterprises and, ultimately, end users. The current model should give way to decentralized production, sensible liberalization of the energy market, and adequate mechanisms to cushion vulnerable energy poor groups against the transition.
- Despite certain improvement, the share of non-competitive public procurement contracts awarded in the energy sector is systematically higher than the share of non-competitive contracts for the rest of the economy.
- Decisions to commence large energy infrastructure projects need to be based on clear fact-based analyses (incl. feasibility, sustainability, cost-benefit, ROI, etc.) that are publicly available. In light of recent social unrest, it is paramount that the current practice of signing contracts and agreements for large energy projects in the absence of information about the total costs (i.e. the South Stream and NPP Belene) be discontinued.
- The government should adopt responsible approach to promoting indigenous production capacities in its efforts for breaking energy dependence, including local communicates support and development schemes.
- Each new energy project has to be assessed in terms of its potential to resolve the most urgent energy issues in the country. The latter necessitates a viable and universally accepted national energy strategy with reliable priorities and locally-specific action tools. Moreover, it involves clearly defining what constitutes energy security for Bulgaria – i.e. reducing import independence, boosting sustainability and system stability, as well as the potential of large energy infrastructure investments to undermine the financial security of the country, which should not be understated.
- Capture practices, which bind together political, administrative and economic interests at the expense of the public interest are still palpable in most energy markets, including some, which are fully liberalised. For example, the inability of the Bulgarian Customs Agency to adequately enforce its regulations on excise duties and measurement is particularly alarming, as it demonstrates that liberalisation alone is not sufficient to guarantee free market.
- Diversification is still being paid only lip service by Bulgarian politicians, who have demonstrated in a number of cases that they are not in a position to oppose strong industry or foreign interests to defend public interests and the end users. Among the many examples are the choice of large transit pipelines at the expense of interconnectors, the ban on alternative gas exploration, the protracted handling of excessive green subsidies, etc.

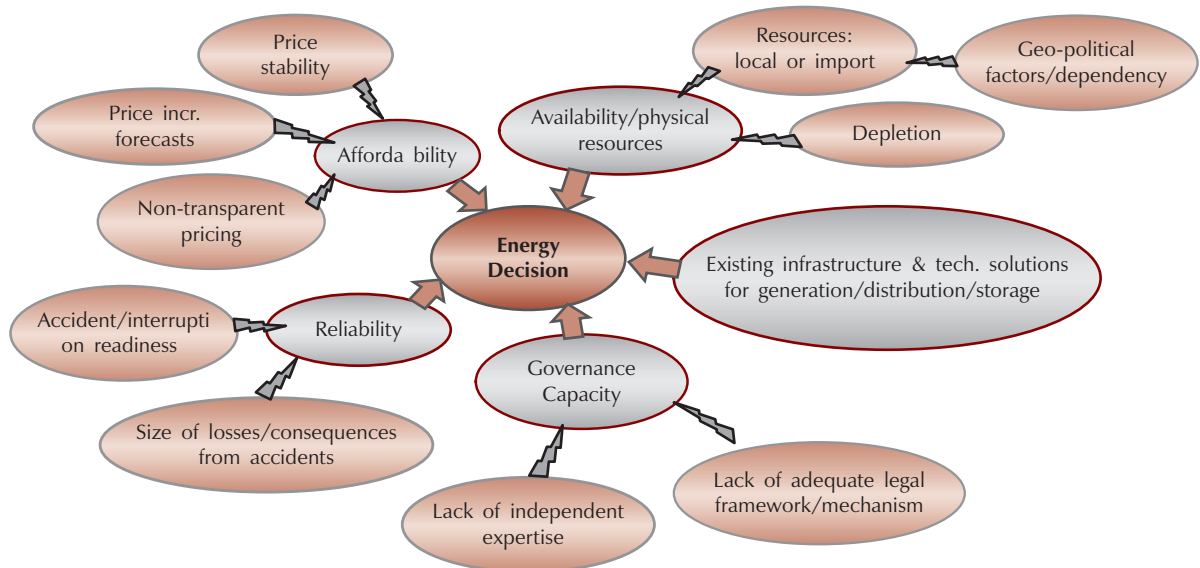
Policy Recommendations:

Improving the governance of the energy sector, including the functioning and management of state-owned energy companies entails, as a minimum, the implementation of the following actions:

- The political leadership should reduce their direct involvement in the operational management of energy enterprises and instead focus on policy development, the provision of public information, and control functions. The compliance with EU priorities and directives, necessitates a shift in national energy policy away from its excessive focus on adding generating capacities towards ensuring the stability and security of energy supply, reducing energy poverty, and improving energy efficiency.
- Introducing compulsory corporate governance standards for energy sector state-owned enterprises following the best international principles such as the OECD Guidelines on Corporate Governance of State-Owned Enterprises. The standards shall ensure reporting and disclosure of data and information regarding:
 - Financial results, implementing the existing practices and methods, used by publicly traded companies;
 - Key financial indicators for monitoring and assessment of the operational management performance;
 - Consistent and comparative over time reporting of implemented programs and policies, including key indicators for monitoring their implementation and for allowing ex-ante, mid-term and ex-post impact assessment.
- Focus on socially positive measures as opposed to retroactive punitive actions against enterprises that have taken advantage of feed-in-tariffs. The introduction of new direct or indirect taxes on specific sub-groups of private enterprises, e.g. 20 % tax on the revenue of renewable energy producers, imposed on January 1st 2014, should be directed towards development programs in the sector that will benefit all actors (e.g. technological development, research, innovation, etc.) and not for ensuring financial resources for the state-owned enterprises and/or the state budget.
- Consider all options for Introducing shale gas exploration under scrutinized procedures, in line with the highest EU environmental standards. In the meantime stimulate and expand conventional exploration in the black sea.
- An external independent annual energy policy review should be commissioned by an interparty committee in the Bulgarian parliament, which includes the following: a) an assessment of energy policy performance vis-a-vis the stated priorities for the year, the programming budget, and the strategic goals; b) an evaluation of the financial state of state-owned energy enterprises and an identification of the risks to the sector's development, including required state guarantees and risks of hidden privatization; c) an outline of the priority areas of development of the energy policy for the next year.
- Introduce large-scale and long-term subsidized programs for gasification and energy efficiency in the residential sector, which coupled with gas sources diversification can ease the social pressure on electricity prices.
- Introduce prioritization and selection of large investments projects in the decision-making process, based on clear and transparent procedures and fact-based analyses, synchronized with the EU priorities.

- The Commission for Protection of Competition and the Bulgarian Administrative Courts should ensure full transparency on the judicial process of investigating cartelization practices in the downstream fuel, gas, and electricity markets.
- Increase the administrative capacity of the national energy regulatory body (SEWRC), their independence from political and economic interests and their transparency and accountability to both the National Parliament and the public.
- Build consensus on long-term priorities, backed-up with national energy strategy, approved by major political parties, in line with the EU priorities. Implement as fast as possible the EU Third liberalisation package in terms of both regulatory changes and institutional practices.

Figure 28. Factors for Decision-Making from an Energy Security Perspective



Source: CSD.