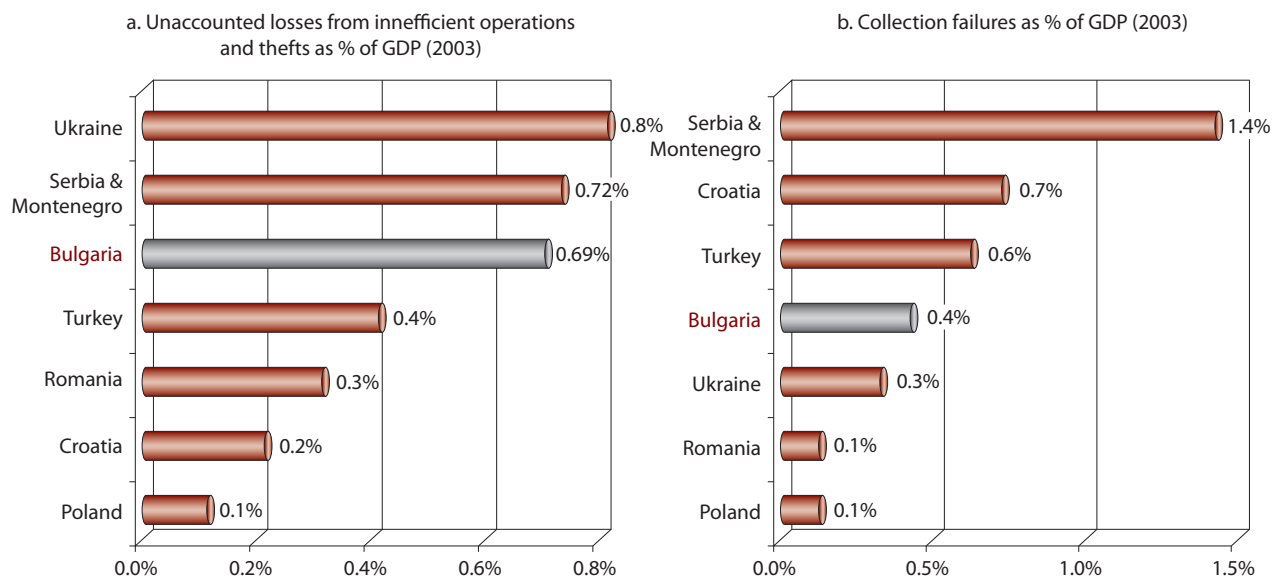


### III. COMMON ENERGY CRIMES

According to World Bank collected data, the electricity market in Bulgaria stands out as having some of the highest hidden costs among EU member and candidate states. Hidden costs include poor bill collection rates; excessive losses due to inefficient operations or theft from the power system; and losses from tariffs set below cost-recovery rates.

**FIGURE 18. HIDDEN COSTS IN THE ENERGY SECTOR**



*Source: Ebinger, J., Measuring Financial Performance and Infrastructure: An Application to Europe and Central Asia, World Bank, August 2006*

#### 3.1. NON-PAYMENT OF BILLS

The amount of unpaid bills is a result of both household and businesses indebtedness. A particular problem that electricity distributing companies (EDCs), face, due to the political and social dimensions, is the en-mass non-payment of electricity bills in neighborhoods populated by the Roma ethnic minority.

The largest such Roma neighborhood Stolipinovo, with a population of around 40,000 is in Plovdiv. The local EDC, the Austrian company EVN, has taken steps to minimize losses by supplying electricity for only a few hours a day. This policy which was started even before the purchase of the Plovdiv EDC by EVN is a result of over EUR 5 million worth

of unpaid household bills.<sup>21</sup> The electricity bills in this neighborhood (and others as well), is not only the result of the extreme poverty in which much of the population of this neighborhood lives. The electricity bills have been used by local politicians to attract votes. The problem started in 1997, while the EDC was still state-owned, when local Union of Democratic Forces (UDF) politicians promised to “subsidize” and “reduce” electricity bills if elected. When the UDF won the elections, the majority population of Stolipinovo gradually stopped paying their electricity bills. The pile-up of bills forced the EDC to cut electricity of the entire neighborhood in the winter of 2002, which led to mass unrest (the international high-way was blocked and stores were pillaged). Human rights organizations accuse the EDC of violating human rights by making even those that paid their bills to suffer from the daily power-supply disruptions.

The debate of unpaid bills leads to the topic of energy poverty which is an area practically not analyzed in Bulgaria as of today. There is no publicly available data and the discussion is often times steered into **politics** instead of **policy**. Further policy analysis is needed to determine the best measures to increase collectability of unpaid bills without harming the extreme poor. An attractive alternative, for example, would be to provide subsidized participation in energy efficiency programs which will considerably decrease household energy bills – a much more sustainable measure than voucher schemes and other direct transfers.

### 3.2. ELECTRIC POWER THEFT

According to police statistics and independent surveys, during the 2000 – 2005 period conventional crime, including thefts, fell significantly throughout the country, as the number of crimes fell by over 30%.<sup>22</sup> Despite these trends, the electric power energy sector suffered increasing losses from thefts of electric power and cables.

The theft of electric power is the single costliest commodity theft that takes place in Bulgaria. Generally, EDCs lose between 20% – 23% of distributed electric power due to technical inefficiencies or thefts. The two are difficult to differentiate as only a part of the thefts are uncovered. Since EDCs have committed to reduce losses from inefficiencies and thefts with 2 – 4% per year, they are reluctant to publicly report figures on power theft. Some figures have been published in the media.

<sup>21</sup> *The Austrian Leave Restricted Power Supply to Stolipinovo*, 2 June 2005, *Sega Daily*.

<sup>22</sup> *Crime Trends in Bulgaria*, Center for the Study of Democracy, Sofia 2006.

TABLE 16. ELECTRIC POWER LOSSES AND COST OF THEFT

**Electric Power Losses**

	Total loss (2005)	Estimated thefts (2005)
EDC Sofia – city	23.09%	
EDC Varna	23.92%	7-10%
EDC Stara Zagora	13.52%	
National Average	20-22%	

**Cost of Thefts**

Year	Estimated cost of thefts (million euro)	
2003	56.0	
2001	53.0	
2000	50.5	

Source: Ministry of Energy, EDC<sup>23</sup>

Theft of electric power is carried out both by companies and by households (the approximate ratio is 1:5<sup>24</sup>), and is almost always facilitated by criminal groups and on occasions by “solo-players”. The dynamics of the thefts depends on the price of electric power, and reportedly thefts usually surge after electric power price hikes.<sup>25</sup> Reportedly, small energy intensive companies or production facilities, restaurants, hotels, and coffee shops are amongst the most frequent violators. Thefts often involve some level of collaboration of internal EDC employees. Technically, there are a number of ways of stealing electricity, the majority of them focused to tempering the power meters by inserting special devices or remodeling the meters all aiming to show reduced consumption.

For instance in January 2004, the National Security Service foiled a group that was offering companies to tamper their power meters (thus reducing the amount of the power actually used by 10 times) and to reseal the meters with fake seals. The group’s services were used by dozens of private, as well as state owned companies (80 companies were formally charged) in the cities of Rousse, Varna, Silistra, Vratza and Plovdiv. This particular case was brought up to the attention of the police by the EDC-Plovdiv (EVN). According to the company’s Chairman of the Board of Directors, Valentin Kirchev the cost of stolen electricity by this scheme cost only EDC-Plovdiv at least 5 million EUR.<sup>26</sup> In the following months it was reported that several criminal groups, offering similar services, were active but the police had been unable to apprehend them.<sup>27</sup> The groups usually include technically skilled individuals, often former EDC employees.

According to Plamen Denchev, Director of EDC-Gorna Oriahovitza (E.ON.), the crime groups charged companies either a one-time fee of 100 EUR – 250 EUR for tampering the power meter, or a monthly

<sup>23</sup> EDCs Incur 112 Million Leva Losses in 2003, *Pari Weekly*, 9 Jan 2004; EDC-Varna to Set up Energy Police, *Sega Daily*, 26 Jan 2006; Stara Zagora with the Least Losses, *Sega Daily*, 20 June 2006.

<sup>24</sup> Ministry of Energy data for 2003, quoted in EDCs Incur 112 Million Leva Losses in 2003, *Pari Weekly*, 9 Jan 2004, stated that out of close to 6600 thefts in 2003, 1127 were by companies.

<sup>25</sup> Plamen Denchev, Director of EDC-Gorna Oriahovitza (E.ON.), quoted in *Energomafia*, 168 Hours Weekly, 5 March 2004.

<sup>26</sup> Power-thieves for Millions Arrested, *Sega Daily*, 8 Jan 2004.

<sup>27</sup> *Energomafia*, 168 Hours Weekly, 5 March 2004.

25 EUR fee that would involve stopping the power meter and turning it on right before EDC employee comes to check it. In some other instances, the crime groups demanded a percentage of the saved electricity expense. In 2004, an **improved meter-tampering device** that could be remotely operated was introduced at a cost of 250 EUR. This eliminated the need to use too many fake seals, as the device is installed once, and it is turned off during EDC employee inspections.<sup>28</sup>

In another case, in Plovdiv, employees of the EDC-Plovdiv, did not connect a newly built local power distribution post to the billing system. Instead they personally went to collect the payments (offering a proper discount) from the users. Several months passed before the fraud was discovered.<sup>29</sup>

Household thefts are a problem around the country. A small number of significant by volume thefts are carried out by owners of big houses, where the energy consumption could easily be around 1,000 EUR per month, as electric power is used for heating or air-conditioning. The more significant large scale problem, though, is related to thefts in the Roma neighborhoods. The thefts there include a broad range of methods, from breaking into power distribution posts, breaking and tampering power meters, and illegally connecting to the power grid. For instance, the Sofia-city EDC reported that monthly 92% of the electricity in Sofia's largest Roma neighborhood "Faculteta" is stolen. The EDC's 17 power distribution posts get 43 million KWh, while the power meters in the neighborhood show the usage of only 6 million KWh.<sup>30</sup>

The problem in Plovdiv's Stolipinovo neighborhood is similar, although daily power interruptions reduce significantly the EDC's losses. EDCs around the country took another measure that outraged minority and human rights organizations: the electricity meters were removed from inside the apartment buildings and installed onto high poles in front of the buildings – aiming to prevent tampering the meters or stealing electricity. As this did not allow residents to confirm that what their electricity bills charged corresponded to what the meters showed (as these meters could be reached only through EDCs high-platform trucks).<sup>31</sup> Such measures have been taken in the *Nadezhda* neighborhood in Sliven with around 18,000 residents, attracting the hostility of local residents. The above situations have forced the local EDC (EVN) technicians to enter Rome neighborhood, only escorted by private security companies or the police.<sup>32</sup>

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<sup>28</sup> Ibid.

<sup>29</sup> Ibid.

<sup>30</sup> Ivanov, Svilen *Power Shock*, *Capital Weekly*, 28 Feb 2004.

<sup>31</sup> Interviews with residents and minority/human rights organizations in Stolipinovo, July 2005.

<sup>32</sup> Interviews with police and residents in Sliven and Plovdiv, July 2005. Media reports and interviews with local NGOs, confirm that the situation has not changed at present.

### 3.3. POWER CABLES THEFT

Theft of electricity cables is another type of crime that affects seriously EDCs. The theft of cables is closely linked to the scrap metal market in Bulgaria and unlike the above described case of electric power theft; its dynamics is determined by the price of scrap metal. The problem affects in a significant way, not only EDCs and the NEC, but also the Bulgarian Telecommunication Company, the National Railroad Infrastructure Company, and the regional Water-piping and Sewerage Companies.

For instance, the EDCs in Sofia-city, Sofia-region and Pleven (owned by CEZ Group), suffered altogether during the first half of 2006, 619,000 EUR worth of damages. Of these, around 342,000 EUR was the value of the cables stolen or damaged, and the rest was the replacement cost. Around 46 km of stolen cables had to be replaced.<sup>33</sup> About half of them were in the capital Sofia. This data, does not take into account the additional expense that the CEZ Group has incurred by replacing copper cables, with such that have thin-layered aluminum, or extra security measures to protect its grid.

The NEC data concerns only its own network and some under-reporting is likely. Sofia City – Water-piping and Sewerage Company also presents data that shows a fall of the thefts in 2005, compared to the previous two years.

TABLE 17. THEFT OF POWER CABLES FROM NEC

	Loss (thousands of euro)	Stolen cables (km)
2000	99	N/A
2001	289	128
2002	212	93
2003	265	104
2004	86	37
2005	6	N/A

Source: Ministry of Economy, Energy and Tourism and the Bulgarian Chamber of Metallurgy representatives quoted in "Iron Pharaohs", *Capital Weekly* (21/2006).

In response to the continued high-levels of thefts, CEZ Group publicly called for a ban on the purchase of scrap color metals. Legally, the origin of the metals turned in for scrap has to be verified and stolen metals should not be accepted by the more than 15 000 scrap-yards (owned by some 600 licensed and around 300 unlicensed companies).<sup>34</sup> In practice, according to the CEZ Group director, R. Dimitrov, this does not happen. One reason is the weak control due to unclear regulation rules.<sup>35</sup> More importantly, though, on a local level, scrap companies could be well

connected and might have corrupted local police, politicians, or other

<sup>33</sup> Radoslav Dimitrov, head of EDC – Sofia, quoted in *mediapool.bg*, 16 Aug 2006.

<sup>34</sup> Bulgarian Chamber of Metallurgy representatives quoted in *Iron Pharaohs*, *Capital Weekly* 21/2006.

<sup>35</sup> *Ibid.*

regulatory institutions into inaction.<sup>36</sup> Some politicians/businessmen, such as Tzvetelin Kanchev are known to have engaged even in more direct actions, such as organizing large-scale theft of metals from companies by forcing Roma employees of such companies to steal metals or hiring Roma thieves to commit such thefts.

### 3.4. CRIME AND CORRUPTION IN THE OIL SECTOR

Organized Crime (OC) structures are primarily present in the import and retail distribution of oil. Grey imports provide some 35-40% savings on excise and VAT taxes. Small proprietors or smaller chains of gas stations often rely on smuggled gasoline to remain competitive. According to estimates of the Ministry of Finance such gas stations bring about an average of 150 million EUR in losses to the state budget. Duty-free gas stations, situated on Kapitan Andreevo and Kalotino border crossings, and duty free zones near the towns of Svilengrad, Vidin and Rousse were also estimated in 2006 to result in close to 50 million EUR of state budget losses. As duty-free zones were abolished in 2008, this no longer presents a fiscal problem.

It is hard to say what portion of small gas stations that are connected with OC structures is due to the fact that throughout most of the 1990s on the local level, gas stations were considered an easy way to invest criminal profits. Companies, such as „Interpetroleum and Partners“ (founded by SIC during the Yugoembargo) and „Litex“, are involved in wholesale supply of oil and refined fuels, particularly to small gas stations. Another company Gaztrade, is one of the largest importers of propane (a fuel with an increasing importance in Bulgaria – as many cars switch to propane due to high oil prices). In 2006, the company attracted media attention, as one of the owners embezzled over 3 million EUR.<sup>37</sup> In addition, Gaztrade has been one of the companies that participated in corruption schemes of the Sofia Heating Plant.<sup>38</sup>

Along with the petrol stations a significant source of income for the OC is the market of propane-butane. The main reason here is the very large, and growing, percentage of automobiles running on propane butane, as being a much cheaper fuel. Some 70% of the propane-butane is imported and often smuggled. Until 2002-2003 import frauds with propane-butane were very substantial. The most prominent name, according to a police source, is Tzetzto Hafti, whose structure managed to smuggle entire trainloads of propane-butane through the Varna ferry from Ukraine. In the period 2004 – 2005 the grey import of propane-butane was seriously curbed, still excise and VAT savings continues to attract criminals, and demand for smuggled fuels from small gas stations has not subsided.

<sup>36</sup> Interviews with police officers in Plovdiv, Sofia, Sliven, Kazanlak, Varna, Botevgrad, and Kyustendil (July 2005).

<sup>37</sup> *Strike for 3.5 million Against Gaztrade-Varna, 24 Hours*, 5 June 2006.

<sup>38</sup> Sofia Municipality Internal Affairs (Inspectorate) report quoted in *SHP Loses 4 Million Leva [€2 million] from a Scheme, Sega Daily*, July 1, 2006.

### 3.5. A CASE: CORRUPTION IN SOFIA HEATING PLANT

The highlight case of Bulgaria's fight against corruption has been the arrest in February 2006 of Valentin Dimitrov, the head of Sofia Heating Plant (SHP) – Toplofikacia Sofia. The case could be used as a 'manual' to corruption as it reveals a wide range of corrupt practices, and it illustrates the possible range of practices that could be encountered in other state owned (but not only) companies.

In the years preceding 2006 the debt of SHP grew to 55 million euros, while uncollected receivables from unpaid heating bills, reached 78 million euros. The Internal Affairs department (Inspectorat) of Sofia Municipality detected frauds for up to 15 million EUR that took place only in the course of 2005. Tipped off by the Austrian authorities, the Agency for Financial Intelligence found at least 4.4 million EUR stashed in 16 bank accounts and treasury safes in Austria and Bulgaria belonging to the director of the SHP, Valentin Dimitrov and his 82-year-old mother. The suspicions were raised as 7 off-shore companies have been transferring money to Mr. Dimitrov's Austrian bank accounts. The Bulgarian prosecution found that the offshore companies were related to Bulgarian companies that have received contracts from SHP. In addition, money was laundered, as Swiss bank accounts belonging to Mr. Dimitov transferred funds to Bulgarian companies.

The corruption practices included:

- **Purchase of unnecessary parts and supplies.** Purchase of construction steel for 50 – 400 thousand EUR without public procurement bid. Such bids could be avoided only if there are less than 3 qualified suppliers (i.e. very specialized companies) which was not the case with construction steel producers. A public procurement bid is required for all purchases in excess of 10,000 EUR. SHP though, was billed through **multiple invoices** not exceeding this amount by a single company. In addition, the amounts paid were often twice or more than the real value of the equipment or supplies purchased. There are different companies, in effect related to the same individuals that appear in multiple contracts with SHP. For instance, 2 million EUR worth of contracts were awarded to the companies Shiber, Prostreemgroup, and Hidromontaj, in all of which Ms. Maya Stoilova has a stake. Similarly, Ms. Teodora Treneva is in charge (possibly nominally) of the companies MakoTel Trading and Broker Company OOD (owned by a Cyprus registered off-shore Zadberg Ltd.), which received 1 million in construction steel orders.<sup>39</sup> In another instance an entire **crane** was billed as a delivery of parts, while in fact the entire machine was purchased by SHP.
- **Fraudulent invoicing.** A more direct approach was the entering in the accounting system of invoices and delivery confirmation for machinery and parts that were in fact never delivered. So far the investigation has unveiled 10 million EUR worth of such fraudulent invoices.
- **Inflating the price of procured products and services.** Another

<sup>39</sup> *Heating with Versace, Capital Weekly, 28/2006.*

approach was the purchase of fuels through multiple intermediaries. Thus, instead of directly purchasing gas from an importer, SHP would use up to 3 intermediaries and eventually purchasing the good at much higher than the market price.<sup>40</sup> In one instance described, SHP which has on its premises a storage site of mazut (heating oil) for the government's strategic reserve (State Reserve) and periodically could buy certain quantities from it. Instead, of paying directly to the State Reserve Directorate, the State Reserve sold it first for 114 EUR per ton to a company called "Dameks", which in turn sold it to **Himimport (TIM)**, which then sold it to Gaztrade, which finally sold it SHP at 200 EUR per ton. All this happens when in fact the oil is at SHP's premises. The head of the State Reserve was also under investigation.<sup>41</sup>

- **Using public resources to purchase goods and services for personal use.** Probably the most shocking to the public aspect has been the openly posh lifestyle of Mr. Dimitrov – wearing Versace suits, expensive cars, and a wide range of luxurious goods in his office, house, etc. The majority of these were purchased for the company needs. In such way luxurious spa rooms on the company premises were supposedly for use by employees as a health center, but in effect for his personal use. Mr. Dimitrov's also had signed a contract with J-Models, a modeling/advertisement agency.

The **Frontier** connection: One of the key aspects of the corruption scandal has been the 50% ownership of Mr. Dimitrov's mother in the company "Bansko Property Partners 2", where the other 50% is held by Grik LLC and Metaconsult LLC (the Bahamas-registered company that owns 30% of Frontier). Director of Bansko Property Partners 2, along with Dimitrov's mother is Krassimir Georgiev. In addition, **Frontier, Risk Engineering, and Grozdan Dobrev** are co-owners of the KMK company (which is said to provide telecommunication and cable equipment).<sup>42</sup> Neither of the above companies seems to be active, as Mr. Georgiev has pursued all of his investments in the ski resorts of Bansko with his company Bansko Property Partners 3.<sup>43</sup> Nevertheless, the Frontier connection has raised numerous questions as to why the inspection appointed by Mr. Ovcharov several months before Dimitrov was arrested found little trace of corruption. **Risk Engineering** was also among the SHP suppliers.

<sup>40</sup> *The SHP Boss Stole in Two Ways*, *Monitor Daily*, 17 July 2006.

<sup>41</sup> Sofia Municipality Internal Affairs (Inspectorate) report quoted in *SHP Loses €4 Million Leva [€2 million] from a Scheme*, *Sega Daily*, 1 July 2006.

<sup>42</sup> *The Lawyer who Needs a Lawyer*, *Capital*, 35/2006.

<sup>43</sup> *Bansko Property 3 is Famous, Bansko Property 2 with Dimitrov's Mother – Isn't*, *24 Hours*, 11 July 2006, Interviews with the head of the Canadian firm as well as high-level former government officials familiar with the case. (April – May 2006).