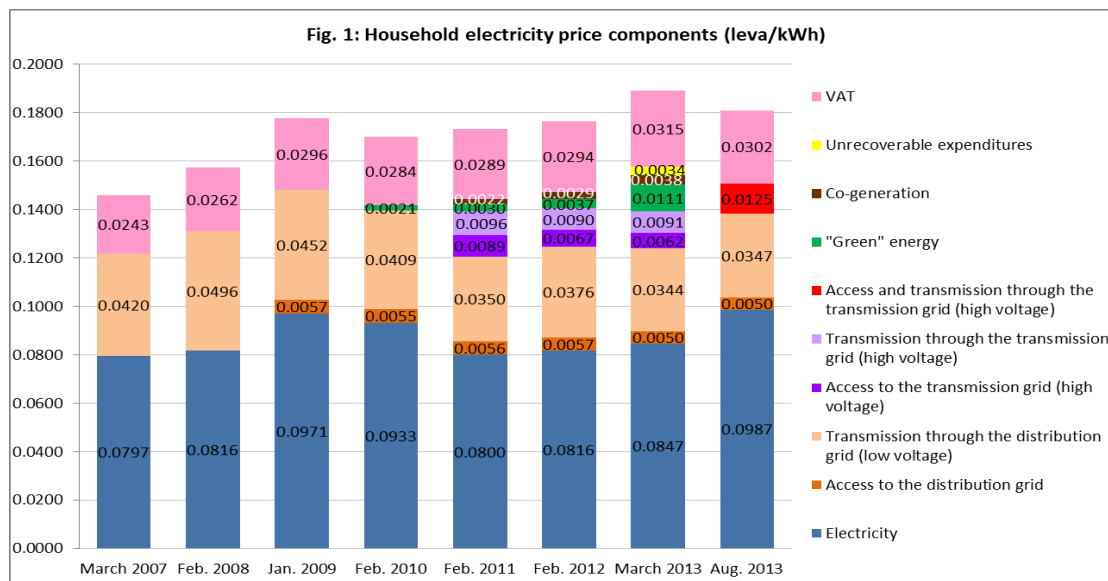


## Shedding More Light on the New “Simplified” Electricity Bills

Media note

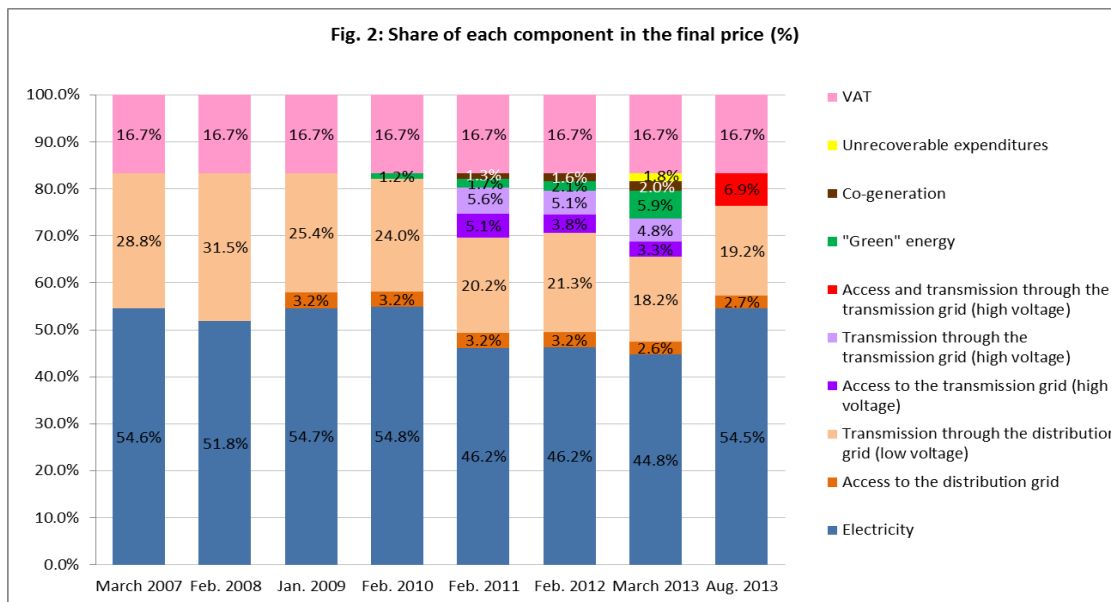
The decision to decrease by 5% the retail electricity prices as of 1 August 2013 is among the topics at the heart of political debates in Bulgaria this autumn. A similar move in 2010 clearly showed that such a politically mandated price decrease was not sustainable in the long run. It ended in the sharp increase (13% y-o-y) of electricity prices in 2012, and subsequent social unrest, which brought down the Bulgarian government in February 2013. The focus on the final consumer bill reduction in the public debate overshadows some of the other structural effects of the decision, which are worth mentioning:

- Reducing the number of items reported in the final household consumer bills might as well make them simpler, but it also renders them more non-transparent. Three tariff add-ons for supporting specific types of energy – renewables (or “green”), co-generation, and refurbishment of coal fired power plants have been integrated into the larger “electricity generation” item. This hides important information from the consumers and the public, for example the proportion of the final price, which covers for different types of energy sources (Fig. 1) and how revenues are distributed among the producers of different types of energy, the transmission grid operator, and the suppliers (Fig 2.).

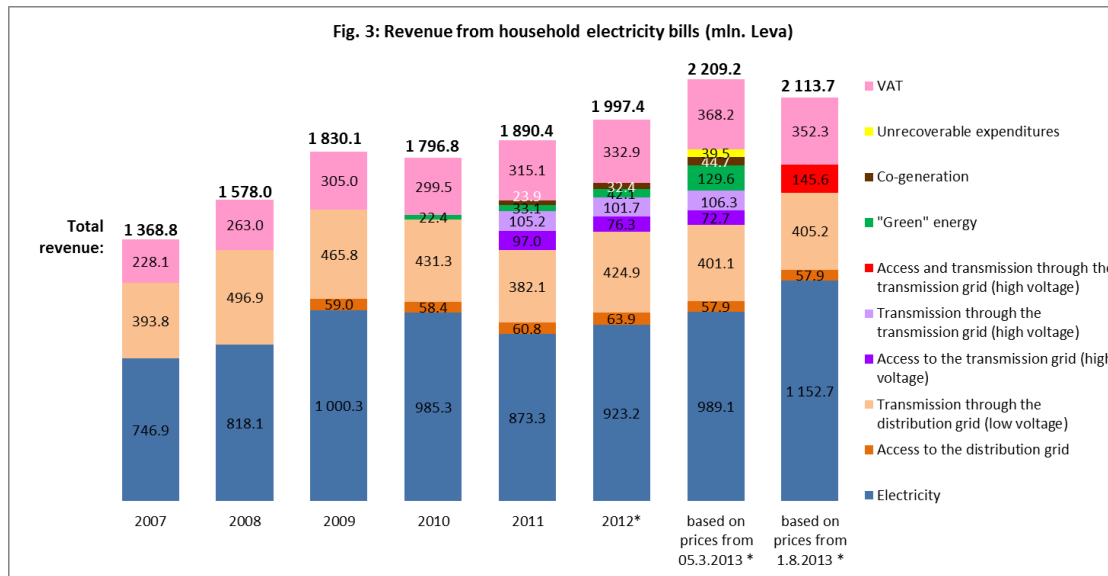


*Note:* The “Unrecoverable expenditures” tariff refers to the costs of refurbishing the two coal-fired power plants Maritsa East I and III, which are repaid through long-term electricity purchase contracts, covered by a pledge on final consumer electricity bills. The “Green energy” tariff refers to the share of the price, which covers the subsidy to the producers of energy generated from new renewable energy sources – wind and photovoltaic. The “co-generation” tariff refers to the shares of the price, which covers subsidies for the production of energy from highly efficient co-generation.

The information made available about each component of the final household consumer price allowed those who protested against the rise in their electricity bills in February 2013 to easily identify where that extra money was going, and why prices increased in 2012: a third went to “green energy” producers, another third went towards financing the costs of the long-term contracts for the purchase of electricity from the Maritza Iztok 1 and 3 power stations, and the final third was used to offset the investments of the National Electricity Company (NEK). This final third has been dubbed “the bad-governance tariff”, as it mostly covers debts of the National Electricity Company, which resulted from unsound investments in new generation capacity, e.g. the Belene Nuclear Power Plant. As a result of the new methodology, which was proposed by the Bulgarian government and the State Energy and Water Regulatory Commission (SEWRC) and implemented surprisingly quickly in August this year, three of the components, namely the “green energy tariff”, the “co-generation tariff” and the “unrecoverable expenditures tariff”, are now included in the “electricity generation” component, while the “access to” and “transmission through” the transmission grid have been merged into a single item.



- The removal of these tariffs from the invoice does not mean that the subsidies for these types of energy have been eliminated. But it allows the National Electricity Company (NEK) and the Electricity System Operator (ESO) to have much more discretion when collecting and distributing the financial resources needed to fund electricity generation. For example, the old electricity invoices allowed consumers to calculate that the annual “green energy” subsidy has increased from 22.4 mln. leva in 2010 to 130 mln. leva in 2013 (1 euro = 1.95583 leva). This subsidy is still in place, but while before it was easily identifiable by the consumers and SEWRC’s decisions to alter it were reflected in the components of their bills, now that is no longer the case. What is more, the new invoice structure allows for these subsidies to be funded from other sources, i.e. cross-subsidies (e.g. electricity import, sale of greenhouse gas emissions, state-owned enterprises’ profits, etc.), and not by the consumers, which further decreases the energy sector’s transparency and distorts market incentives. This will also allow NEK, ESO and SEWRC to distribute these revenues as they see fit.



The results for 2012 and 2013 are calculated using linear regression on the data regarding "final energy consumption in households" for the period 2007-2011 (Source: Eurostat [nrg\_105a]; downloaded on 30.07.2013; last updated on 26.06.2013)

- Hiding information from consumers and the public gives even more importance to and increases the responsibility of SEWRC. And the 2010 – 2013 energy prices crisis in Bulgaria clearly showed that the Bulgarian regulator is subordinate to the executive branch. Furthermore, members of the government also act as owners of the state-owned energy enterprises, including ESO, which operates the electricity network and has the power to decide how much electricity each generation power can feed into the grid. This functional overlap goes directly against the European Union's market liberalization requirements, which Bulgaria has transposed in its legislation, and it is effectively an open invitation for abuse and corruption. Moreover, this change is a step backwards in the difficult market liberalization process, which Bulgaria has been undergoing over the last decade, and it may lead to financial sanctions from Brussels for failing to comply with its formal commitments, which will affect directly the Bulgarian taxpayer.

Given the very low income levels of Bulgarian households, and the very high social insecurity in the wake of the economic crisis, keeping electricity prices, and in particular their effects on incomes, under check is of paramount importance to the Bulgarian energy and overall security. The reports of the World Bank and the European Commission from April 2013 both show that the rise in electricity prices in 2012 have had a very tangible negative effect on household incomes, which were particularly pronounced among the most vulnerable groups of society. However, decreasing electricity prices should not be achieved at the expense of the transparency of the decision-making process and the distortion of market signals. There are three possible options which would lead to lower household consumer prices, while reducing the enormous revenue deficit in the energy system: a) significantly reducing the subsidies for selected power plants, distributors and suppliers, both existing and planned; b) reducing their profits; or c) increasing the price for other users (e.g. industrial consumers). Each of these options has its negative effects. So these reforms would only be acceptable if they were performed openly and if the regulator

could guarantee the transparency of the process, underpinned by clearly defined outcomes for all power-plant operators, distributors and suppliers. The currently proposed solution to energy poverty relies on reducing final consumer prices without clarity how this reduction will be pushed down the generation and supply chain. It relies on the collection of funds in one coffer, under one roof, which then have to be distributed in a way to reduce the overall deficit in the system. As there are no clear criteria who and how will make the distribution, chances are this will breed tensions and will increase integrity risks. The bitter reality of recent years shows that ultimately it is the consumers who will pay the (high) price for such practices.