

NEW RULES REGULATING NATURAL GAS TRADING IN BULGARIA

INTRODUCTION

On 4 August 2015 the new Natural Gas Market Rules ('Gas Market Rules') were published in the State Gazette (SG, No 59/2015) after the Bulgarian energy Regulator ('EWRC') took final decision for their adoption on 7 July 2015.

The new Rules come into force after more than a year' discussion how the current natural gas trading rules should be revised to answer the requirements of the developing Bulgarian natural gas market. The new Rules repeal entirely the existing Natural Gas Market Rules adopted in 2007 and become effective as of the date of their publication in State Gazette.

WHAT IS NEW?

The major changes the new Gas Market Rules introduce are related to the development of the natural gas balancing market. A brief outlook of the main changes is provided below:

- **A new market stakeholder** – 'the balancer', i.e. the entity to perform the gas balancing of the system is introduced as a new market stakeholder. Although in the repealed gas trading rules it was envisaged the balancer to be the transmission system operator 'Bulgartransgaz' EAD ('TSO'), the new Gas Market Rules provide for the possibility for an easy change of the balancing entity with a third party (e.g. the incumbent public supplier 'Bulgargaz' EAD or a trader);
- **Daily balancing regime** - this usual market-based concept was the necessary step missing so far in the Bulgarian gas market, hindering the trade and regional market integration. However, the specific rules for the balancing system and its methodology are not provided in the Gas Market Rules, but will be elaborated in another document ('Balancing Rules'), adopted solely by the TSO and approved by EWRC; No approximate dates for those rules are set though;
- **More clearly defined responsibilities between stakeholders** - The balancing responsibilities between the TSO and the network users are better defined and allocated. This should have a positive effect on the wholesale natural gas trading market; however, the change does not cover the distribution network users (mainly - the end suppliers). Thus, the practical issues related to remedies for imbalances at the distribution level are still to be addressed;
- **TSO's information provision obligations**- The balancer's information provision obligations are more clearly defined with respect to:
 - The list of all network users who have concluded balancing contracts with the balancer will be publicly available in a register, maintained by the TSO;

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- Network user input and off-take information will be provided in real time;
- Network users will be able to operate their own balancing accounts and will be aware of their balancing portfolios on an hourly basis; they will also be aware of the actions related to buying and selling of gas between network users, provided that the TSO provides them with such data in a timely and reliable manner;
- Regular information will be provided on the balancing price as well (at the beginning of the respective gas day);

However, no specifics as to the manner in which all of the above information would be obtained are provided in the Gas Market Rules.

- **Imbalances charges methodology** - It is envisaged that the methods for estimating the daily imbalance and the imbalance charges will be provided in a methodology to be proposed by the TSO and approved by the regulator. However, this new methodology for the imbalance charges is not proposed and approved yet.

Despite the provisions in the old gas trading rules, where it was stipulated that TSO would not be profiting from the balancing services, the new Gas Market Rules do not provide for such an explicit limitation. Thus, TSO would be able to procure and sell balancing services once it develops the necessary resources and know-how for such balancing e.g. setting prices reflecting the necessary TSO's investments for administrating the balancing transactions, implementation of software, development of balanced standard contracts. As a natural consequence, one can eventually expect additional costs for the network users.

The Gas Market Rules also envisage application of interim balancing measures in accordance with *Regulation (EU) No 312/2014 of the European Commission from 26 March 2014 for establishing a Network Code for Balancing the Gas Transmission Networks*, until the Bulgarian gas market liquidity become sufficient for the establishment of a gas exchange. According to the Rules, in case such measures are taken, the imbalance charges could be set by EWRC, instead of being determined in accordance with the methodology above.

- **Reporting and financial settling provisions** - Logical changes in the Gas Market Rules introduce additional reporting and financial settling of the balancing transactions, e.g. the balancing transactions are to be reported at 8 a.m. on the day following the report day, instead of 8 o'clock on the first day of the month following the report month as it used to be the case under the repealed gas trading rules.
- **Virtual Trading Point** - the virtual trading point concept is introduced for the first time in a Bulgarian legislative act. At this VP gas quantities may be traded between network users. The Virtual Trading Point will enable the purchase or sale of gas quantities without booked capacities, as well as the transfer of gas quantities among them for balancing purposes.

Apart from the rules setting the new framework for the natural gas balancing market, the Gas Market Rules introduce more detailed provisions related to the market participants and the types of contracts they can enter into. Although this approach may seem pragmatic, it turns out not to be the best tailored outcome, as much of the newly introduced texts reiterate the Energy Act text, and this could potentially create room for misinterpretations.

The upside of the new stipulations is the introduction of the minimum required content of the natural gas transmission contracts and the gas delivery contracts. Unilateral termination by the customer without additional charges and/or sanctions imposed by the counterparty is explicitly required to be included as an option in each gas delivery contract as well.

The Gas Market Rules anticipate that network users will enter into several contracts with the TSO for each of the transmission services provided by the latter (i.e. transmission/capacity services and balancing services), although the one-stop-shop model is widely considered in Europe as an easier approach from administrative perspective.

The Gas Market Rules also envisage regulations for the allocation of measured gas quantity between network users in cases where the gas flow of all users is measured jointly. Balancing network user/s may be appointed in such cases. If more network users become balancing users at one entry or exit point, the measured gas quantity above the nominations of all users will be proportionally allocated among them. These regulations are tailored to the current status of the transmission system operated by TSO where some entry and exit network points are still equipped with one metering device only.

WHAT IS STILL MISSING?

The TSO's impartiality based on the non-discriminatory behaviour requirements is not yet fully guaranteed by the new Gas Market Rules, as the financial aspects of the balancing activities are still vague. As a function of the non-discriminatory behaviour of the TSO, the accurate and timely provision of information on balancing related matters is not yet secured either. It is also important that the Rules keep network users informed about the possibility for TSO to buy and sell gas from them or other TSOs.

Even though the Gas Market Rules purport to provide detailed rules regulating transmission services, they do not contain sufficient information regarding accessing the virtual point (VP) for the market participants. It should be noted that, without a real operating VP, the system cannot facilitate its key functionality, i.e. the free exchange of gas between different network users within the system.

Hence, the natural gas rules need to be further elaborated to guarantee that network user input and off-take information is made available by the TSO on the same timescale to all network users. This will incentivize all users to take the necessary actions to correct their imbalances without being charged at the end of the gas settlement period.

THE PUBLIC OPINION

The TSO and the majority of the natural gas market stakeholders expressed their confidence in the necessity of the new Gas Market Rules, commenting that these are a positive step towards the full liberalization of the Bulgarian gas market. The same applies for the gas consuming industry which only insisted on preserving their long lasting relations with the TSO, but not to enter in contractual relations related to balancing with a third party. However, all parties agreed that these new rules will not significantly change the current situation on the natural gas market and they expect this to be only the beginning of a steady process of improvement of the Bulgarian gas market liquidity.

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