

December 2019

## BULGARIAN GAS MARKET – GAS RELEASE PROGRAM

**Following the amendments to the Bulgarian Energy Act (“Amending Act”) aiming to ensure completion of the gas market liberalization and enhance liquidity, as outlined in our [alert](#), on 15 October 2019 Bulgargaz submitted for approval to the Bulgarian energy regulatory body – EWRC, a draft Agreement for the implementation of a gas release program (GRP) as required under the Amending Act. The gas release program implementation agreement (GRPIA) is to be concluded between the Gas exchange operator Gas Hub Balkan EAD and Bulgargaz.**

The GRP imposes obligations on the Bulgarian incumbent Bulgargaz to release certain gas quantities by way of business-to-business auctions for a duration of five (5) years effective as of 1 December 2019, as follows: (i) 2 220 GWh in 2020; (ii) 4 281 GWh in 2021; (iii) 6 342 GWh in 2022; (iv) 8 720 GWh in 2023; and (v) 11 099 GWh in 2024.

On 28 November 2019, the final draft was approved by EWRC - first auctions are expected very soon.

### **The GRP segment on the trading platform**

According to the draft GRPIA, the GRP quantities will be auctioned as a separate market segment (GRP segment) at the trading platform, operated by the Gas exchange operator Gas Balkan Hub EAD. The products offered at this segment will be annual and monthly contracts for gas supplies with:

- Period of supply: 2020-2024;
- Commencement supply date: 1 January of the respective year - for annual products; the first date of the respective month - for monthly products;
- Supply profile: flat; mandatory physical supplies of 100% of the contracted quantity;
- Delivery point: Virtual trading point (VTP) of the TSO Bulgartransgaz' s entry-exit national and transit transmission system;
- Supply price: auction-based – the highest offered price is the winning bid;

## Auctions

The GRP quantities will be auctioned in two (2) stages: (i) the first stage should comprise of up to two (2) auctions intended for: a) the local end-suppliers and clients, connected to the gas transmission network if the latter are registered as participants at the VTP; as well as b) traders for those transactions that they conclude with end-suppliers and clients, connected to the gas transmission network; (ii) the remaining quantities will be auctioned at the second stage, where stakeholders outside Bulgaria can participate. Bulgargaz and its subsidiaries are restricted from participation in the GRP auctions as buyers.

All auctions for 2020 will be held in December 2019. The first two (2) auctions above will be held in the middle of December 2019 where half of the determined quantities for 2020 (i.e. 1 110 GWh) will be auctioned as an annual product and the other half – as 12 monthly products each of 92 500 MWh. None of the participants can buy more than 33% of the total offered natural gas quantities at the respective auction.

The first auction where foreign stakeholders can participate is scheduled for 23 December 2019. All gas quantities not realized at the auctions can be offered by Bulgargaz freely as flat monthly products on the gas exchange platform.

All bidders who have bought GRP gas quantities will sign a gas sale-purchase contract with Bulgargaz.<sup>1</sup>

## The base bid prices

The proposed GRPIA pricing mechanism is cost-based – considering the following costs of Bulgargaz are envisaged to be included in the initial offering price: (i) the weighted average cost of gas (WACOG), paid by the incumbent at the entry point of the gas transmission system – to be determined by EWRC for each quarter of the year; (ii) the capacity costs (in the lowest value of the annual and/or 3-monthly and/or monthly capacity products); (iii) the costs for securing the GRP quantities; as well as (iv) the compensation component – which reflect the costs for compliance of Bulgargaz with its imposed public obligations (e.g. costs related to security of supply, environmental protection and energy efficiency – this component is subject to approval by EWRC; currently it is estimated to 0,13 BGN/0,07 EUR per MWh under EWRC Decision II-31/30.09.2019).

As the Amending Act envisages that Bulgargaz will continue to supply only end-suppliers and companies licensed for production and transmission of thermal power at regulated prices, the base bid price mechanism separates the latter costs from those related to the GRP, and the base bid price will contain only a proportionate part of Bulgargaz's fixed costs.<sup>2</sup>

<sup>1</sup> Draft template to be found soon at Bulgargaz's internet site.

<sup>2</sup> Further to the draft GRP and the GRPIA, EWRC simultaneously also proposed changes to the **Ordinance for regulation of the prices of natural gas** (published in State Gazette No. 33/2013). Those changes provide for rules regarding price formation aligning them with the GRP provisions. According to the new Ordinance

Before each separate auction the base bid price will be updated to reflect the fluctuations of the costs above. The base bid price will be published on Bulgargaz's website no later than 10 days before the respective auction.

### **Participation requirements**

For a participant to qualify for the GRP auctions, it must: (i) be granted access to the gas transmission network, as required by Bulgartransgaz (i.e. have signed a transportation agreement with the TSO); (ii) has a membership agreement with the Gas exchange operator<sup>3</sup>; and (iii) be registered for participation at the auction no later than two (2) business days before the respective auction. A participant may be disqualified from an auction in the case of established market abuse or other prohibited market behavior or in the case of violation of the Energy Law or GRPIA provisions.

The participation fee in the auctions is set for 2020 for 0,05 BGN/MWh (appr. 0,025/MWh) payable to the Gas exchange operator. For the years following 2020, the participation fee will be in the amount of 0,01 BGN/MWh (appr. 0,005 EUR/MWh)

To secure liquidity of the organized market and to guarantee participation of more stakeholders than the first GRP year, none of the participants can buy more than 33% of the total offered natural gas quantities at the auctions. This purchase restriction is valid only for 2020 - for the rest of the GRP years any such restrictions will be further determined by the Gas exchange operator and Bulgargaz.

### **Capacity transfers**

All bidders who have bought GRP gas quantities should notify TSO Bulgartransgaz, and their quantities will be considered nominated for transmission from the VTP to the respective exit point determined by the bidder. For the auctioned GRP quantities transmission, the provisions of the Balancing Rules will apply. If the release of more capacity for GRP quantities is necessary, Bulgargaz will be obliged to transfer such capacity to the respective bidder on the TSO capacity platform RBP.

### **Next steps**

The GRPIA has just been approved by the EWRC. The first feedback from its implementation is expected very soon – the first auction is to be performed on 9 December 2019. We will keep readers updated through further communication.

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draft rules, the costs of Bulgargaz shall be distributed proportionally to the gas quantities from (i) public supply at regulated prices, (ii) the GRP and (iii) supplies at freely negotiated prices. The draft amendments envisage the proportionate distribution of those costs only for the respective activity, including determination of the component for compensation of the public obligation's costs. The amendments to the Ordinance for regulation of the prices of natural gas are expected to enter into force not later than 8 December 2019.

<sup>3</sup> Draft template to be found soon at the Gas exchange operator's internet site.

## About WOLF THEISS

Wolf Theiss is one of the leading law firms in Central, Eastern and Southeastern Europe (CEE/SEE). We have built our reputation on a combination of unrivalled local knowledge and strong international capability. We opened our first office in Vienna over 60 years ago. Our team now brings together over 340 lawyers from a diverse range of backgrounds, working in offices in 13 countries throughout the CEE/SEE region.

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