

RES market in Bulgaria: A “market” approach to the current situation

George Ftikas

Senior Associate, KLC Law Firm



RES sector in Bulgaria: Simply “Booming” or Deeply Problematic?

- Applications for grid connection of around **12 000 MW**;
- Stated ‘**demand**’ for RES projects, **much higher** than what is needed to meet quota of 16% (or 2 000 MW according to NEK) by 2020, in compliance with **Directive 2009/28/EC**;
- NOTE: **NEK** claims that **3 000-4 000MW** suffices, while RES producers claim **5 000-6 000MW**

Regulation

- Energy regulator to participate actively while drafting of 'Bulgarian National Energy Strategy';
- Proposed energy mix for RES, clearly defined in that strategy;
- Market approach re "feed-in" tariffs and transmission & distribution tariffs;

Target: To ensure balanced 'feed-in' tariff
between certain technologies
(over stimulated at the expense of others), and that
incentives for grid operators are in line with overall

National Energy Strategy

Market: Problematic issues

- **Tariff unpredictability** (increases projects' risk profiles and decreases risk adjusted rates of return);
- **Grid connection unavailability;**
- **Inadequate financial and supervisory intervention** by government;
- **Underutilisation of suitable public property**, which results in **forgone public income;**
- **Increasing number of RES projects presented in protected zones.**

Tariff unpredictability

Legislative “oxymoron”: Art. 9 Vs Art. 21

- **Art.9** of the *Law on Renewable and Alternative Energy Sources and Biofuels*, encourages energy production from renewable sources, via preferential pricing mechanisms;
- **Art.21**: preferential price, *which is denominated in Bulgarian LEVA*, consists of two components: A) 80 percent of the average end supplier price for the previous calendar year and B) a mark-up determined by the State Energy and Water Regulatory Commission.

**The mark--up may decline annually by up to 5%
of the preceding year mark-up**

Results of tariff unpredictability

- **Variable pricing mechanism**, and renders revenues subject both to prior year prices and to a mark-up determined by a regulatory body;
- Currency risk of a **LEVA-denominated tariff**, which basically renders any hedging attempt, nearly impossible;
- **Discouragement** of investors and lenders (IFI's, private, etc.)

Remedy:

Clear 'grid development' strategy

Stakeholders

- **State:** strategy is not supported by action, tariff policy discourages investments, thus Banks unwilling to lend;
- **RES industry:**
 - A) Small/high-risk 'developers':** undertake projects with uncertain revenue streams, valuable land assets are tied up by developers lacking resources;
 - B) Sophisticated Developers & Investors:** cannot predict cash flows due to tariff mechanism, thus shelve big projects, which are subject to highly unfavourable financing terms.

How to reverse the situation?

1. EUR-denominated, long-term EPCs:

- A) Terms to correspond to duration of the off-take obligations for each technology as specified in Law;
- B) Renewable premium portion of the tariff for each project should be fixed for the full duration (15-25 yrs, depending on technology) while investor signs preliminary interconnection contract, rendering project cash flows predictable and stable.

How to reverse the situation?

2. Grid availability & development:

- A) Government should get involved with grid development and supervision;
- B) Electricity transmission and distribution grid should definitely have its capacity increased;
- C) Funding, through excise tax on electricity;
- D) Allow NEK and electricity grid owners/operators a higher return on assets, correlated to expansion of infrastructure.

How to reverse the situation?

3. Government to:

- A) **promote consistency in connection requirements** imposed by grid companies on RES;
- B) **guarantee the strict application of the *Law***, as often grid companies do not comply with its provisions, and RES developers are forced to build themselves infrastructure to connect their projects to the grid, in cases when the legal obligation lies with the grid companies.

How to reverse the situation?

- 4. Legal mechanism** ensuring **predictability** of the **total connection cost** and **timeframe** for the execution of the necessary connection infrastructure at a very early stage of project development;
- 5. Amendments to Regulation No 6** on 'grid connection' need to be adopted, to establish a fair and efficient mechanism;
- 6. Information** about **grid connection applicants** should be made **transparent** and **correlated** to **infrastructure availability**;

How to reverse the situation?

7. Procedure for an indicative schedule of implementation and consecutive connection following strict timelines, with increasing financial commitment for the developer as the connection procedure progresses;
8. Introduction of the **green premium on end users' bills** and the **reimbursement scheme** applied by NEK but a more precise and transparent mechanism still needs to be enforced;
9. NEK to get involved in the **horizontal load equalisation** across grid operators, as well as wind production forecasting, to improve **grid quality** and **flexibility**.

Latest Developments

■ End of January 2010:

- A) Government yielded to investors' demands and **abandoned** the idea of a '**temporary moratorium**' on RES projects in general;
- B) **Minister on Environment and Waters**, announced that "new applications for RES facilities shall not be rejected, but the requirements on their execution shall be much stricter and some new requirements to investors shall be introduced";
- C) **Deputy Minister**, clarified that "instead of a moratorium on all projects, there will be a **moratorium on a piece-rate basis**".

Latest Developments

■ April 2010:

- A) **Government approved** the enforcement of limitations on the construction of solar panels and wind turbine parks on agricultural land;
- B) Control will be **central** from now on, and **not** *at a local or municipal level*;
- C) **EBRD** to **finance** 9 small **hydro power plants** in Iskar river.

The Market expects
the National Plan for Energy by mid 2010.