



“Hellenic – Bulgarian Cooperation in the Energy Sector”

One-Day Conference in association with the Hellenic Business Council in Bulgaria

Sofia, April 29th 2010

Synopsis

The ongoing progress and future outlook of the energy relations between Greece and Bulgaria were reviewed in a one-day conference which IENE, in association with the Hellenic Business Council in Bulgaria (HBCB), organized in Sofia on April 29 2010,. High ranking government officials, senior executives and eminent engineers and scientists of both countries representing major energy companies and organizations took part in this unique bilateral event.

The first session opened with remarks by the Chairman of IENE Dr. John Desypris and by the Executive Director of the Institute, Mr. Costis Stambolis. The Deputy Chairman of HBCB Mr. Nikos Georgopoulos outlined his organization’s strong interest in investing in Bulgaria especially in the energy field. On behalf of the Minister of Economy and Energy of Bulgaria Mr. Traycho Traykov, who was unable to participate personally, the head of the projects department at the Ministry, Mr. Lyubomir Petkov, delivered the Minister’s message, whereas the Ministry of Environment, Energy & Climate Change of Greece was represented by the Secretary General, Prof. Konstantinos Mathioudakis. Prof. Mathioudakis stressed the Greek government’s strong interest and commitment in strengthening an already established co-operation between the two countries in the energy sector.

Dr. George Koutzoukos, Special Advisor to the Greek Regulatory Authority for Energy (RAE), focused on the need for regulatory co-operation between the two countries and the whole SE European region, followed by Mr. Plamen Denchev, representing the State Energy & Water Regulatory Commission of Bulgaria. The broad strategic aspects and foreign policy implications from the two countries' co-operation in the energy field and the need of developing a common front on key energy issues were summed up by the Ambassador at Large for Energy Security and Climate Change and Coordinator for the EU Nabucco Project, Ministry of Foreign Affairs, Bulgaria, H.E. Dr. Peter Poptchev.

In the second session, Mr. Spyros Paleoyannis, Deputy Chairman of DEPA, thoroughly described the latest developments with regards to energy security and the natural gas interconnectors project (between Greece – Bulgaria) in particular issues. This was followed by a presentation by Ms. Victoria Popovska, Head of Electricity Market Operator (ESO) of Bulgaria, who focused on the current situation of the electricity market in her country, as well as the plans for further compliance to ENTSO- E policies. A presentation was also made by Dr. John Kampouris (Director of System Planning, HTSO, Greece) on electricity transmission priorities in Greece, while the Bulgarian energy expert, Mr. Rosen Simitchiev, presented an all round picture of latest developments in the Bulgarian natural gas sector. Mr. Christos Dimas, General Director of Transbalkan Pipeline S.A., Greece, underlined the importance of the Burgas – Alexandroupolis oil pipeline which still remains an important strategic project for both countries.

The key issues related with the development of the RES sector in Bulgaria were the subject of the speech of Mr. Velizar Kiriakov, President of the Association of Producers of Ecological Energy of Bulgaria, while Mr. Kaloyan Kanev, Deputy Chairman of the Bulgarian PV Association & Managing Director, 2EC Ltd focused on the administrative obstacles and potential for the development of the Bulgarian PV market. Dr. Kostas Daniilidis, President of the Greek Association of PV Producers of Greece referred to possible solutions on the problems faced by this sector and Mr. George Ftikas, Lawyer, KLC Law Firm underlined the regulatory and legal aspects of the investment challenges in RES projects in Bulgaria. Finally, the EU-funded Geofar

project with special reference to Bulgaria was the topic of a presentation by Mr. Nicholas Sofianos, European Projects Coordinator of IENE.

IENE's "Hellenic-Bulgarian Co-operation in the Energy Sector" conference was sponsored by Greece's national gas company DEPA and supported by EKO Bulgaria, the KLC Law Firm and Athens board web site Energia.gr

Conclusions

IENE's One-Day Conference on April 29, 2010 in Sofia provided the opportunity for a thorough review of the Bulgarian side's intentions concerning energy projects marking the bilateral relations with Greece. Despite the wish to move on further with the materialization of key infrastructure projects, like the natural gas interconnection pipeline and the possibility of constructing an LNG terminal in Kavala, in Northern Greece (which will also service some of the main gas needs of Bulgaria, there was no reference whatsoever either to the Burgas-Alexandroupolis oil pipeline or the South Stream Pipeline Project. On the contrary, the Bulgarian government's interest on Nabucco, which is considered to be antagonistic to South Stream, and that is bypassing Greece, was more than evident.

Thus, the subsequent announcement of Bulgaria's withdrawal from the Burgas-Alexandroupolis project on June 11 by the country's Prime Minister himself due to lack of economic interest did not come exactly as a surprise. Mr. Borisov repeated his decision in an interview with the "Financial Times" on July 6, referring to the possibility of an oil spill similar to the one after the Deepwater Horizon accident in the Gulf of Mexico. – Although no deep sea water drilling is anticipated anywhere as part of the project!

However, it appears that it is geopolitical planning and not financial calculations or environmental concerns that imposed this shift. Mr. Borisov is striving to move Bulgaria away from the Russian influence and Burgas-Alexandroupolis pipeline is easier to sacrifice in order to mark this turn more emphatically. Although Mr. Traikov, the Bulgarian Minister of Economy, Energy and Tourism, claimed that there was no decision on the subject on behalf of the Bulgarian cabinet, Mr. Borisov

seemingly manages to engage his country's politics to the above choice. The promotion of a more intimate relation between Bulgaria and the US appears to be the ultimate goal of Mr. Borisov which of course is acting against a closer energy ties with Greece.

This explanation becomes more obvious, if one thinks of another of Mr. Borisov's statements, according to which his government considers the Nabucco gas pipeline project to be more profitable for Bulgaria than South Stream. It must be further noted that Mr. Borisov names Nabucco "an American pipeline", although it is an EU-funded project. What is more, compared to South Stream, which is an explicitly Russian project, Nabucco falls behind in terms of both financing and, most important, the necessary funds. The Bulgarian side's intention is to signal a friendlier stance towards Washington.

The natural gas crisis of early January 2009 might serve as an explanation for the change of Bulgaria, considering the fact that the country was severely hit by the halt of Russian natural gas supplies, but it is obvious that this marks a more general policy. One cannot but take into account that the abandonment of the Burgas-Alexandroupolis project was announced on the same day with the freezing of construction of the second nuclear power plant at Belene, which was supposed to be constructed by the Russian Atomstroyexport.

The relationship between Bulgaria and Greece in the field of energy, as IENE's Seminar testified, covers a wide range of sectors (e.g. oil, natural gas, electricity, RES) and furthermore promises much potential. However, the impact of the above mentioned decisions that concern projects of mutual interest will certainly have a negative overall effect.

Bulgaria right now faces an ever increasing dependence on hydrocarbon imports, primarily from Russia, while natural gas is playing a dominant role in terms of the region's electricity generation capacity. In recent years the link between energy security and broader economic security has come to the fore. The major challenge for the Balkan Peninsula and especially for Bulgaria which is characterized by this highly

energy dependency is energy integration, a key concept that will provide reliability and efficiency in the energy sector.

In spite of the important steps taken over last years with regards to the establishment of an energy cooperation between Greece and Bulgaria in the electricity and gas sector the advancement of energy cooperation needs to be further refined as the region is likely to emerge as an important energy transit hub, given not only the possible construction of the Burgas-Alexandroupolis Pipeline, but also of the GBI (Greece- Bulgaria Interconnector) and the Nabucco gas pipelines, which would impede Russia's near-monopolization of European gas imports.

In the gas sector the main conclusion was that there is an urgent need for investment in order to upgrade the existing capacity of the system (both in Greece and Bulgaria), not to mention the clear need of constructing a series of inter-connections starting with Bulgaria and Greece (GBI). Those inter-connections are of vital importance if the region is to develop as a critical European transit hub for natural gas imports.

In conclusion the cooperation and coordination of the Bulgarian and Greek energy regulatory authorities need to be strengthened. Regulatory cooperation is necessary not only regarding the operation of existing interconnections of the electricity and gas systems of both countries, and the promotion of cross border trade, but also for regulating the construction and operation regime of the planned new infrastructure projects, that will enhance security of supply, improve market liquidity and enhance competition.

In the electricity sector, despite the rapid harmonization of national legislations to E.U. norms, the most promising development so far has been the formulation of strategic synergies between regional, national and private corporations. In particular Power Generation investments should go hand in hand with investment in the technical upgrading of the grid system and the improvement of intra-regional exchange flexibility, especially during a crisis period.

The general trend for market liberalization follows a partial liberalization (already evident in both countries) that will continue to secure a dominant role for both countries as the sole operator of the transmission/distribution system and the major stakeholder in the “decoupled” generation system. The integration of the region’s electricity markets will not merely create investment opportunities but it will establish interdependencies that can significantly reduce the region’s energy price volatility. On the other hand, in Bulgaria, the process of liberalization has been much more prolonged and with more mixed results while the market seems to be opening up at an increasing pace.

The “binding” character of the goals adopted by the European Council concerning the “penetration” of RES up to 20% of E.U.’s Total Primary Energy Supply by 2020 constitutes a major political/institutional and prospectively regulatory challenge. Regarding the RES sector in Bulgaria the most promising and simultaneously untapped Renewable Energy Sources are wind and to a certain extent solar energy (PV, solar thermal). One of the main strategies that the Bulgarian government needs to adopt is the need to decrease investment risk for investors as well as for lenders (financial intermediaries) by the promotion of a stable FIT system.

Solar thermal collectors for water heating are being well developed in Greece and in recent years there is a market penetration for solar thermal energy sector in Bulgaria too with local manufacturing facilities. High interest for RES projects for power generation in the region is now evident and some key steps have been proposed to accelerate Greek RES companies expansion in Bulgaria. The clear commercial and political commitment to the expansion mainly of the PV industry means that the current surge of activity in the solar electricity sector in Bulgaria represents merely a foretaste of the massive transformation and expansion expected to occur over the coming decade. At present industrial activities for PV cells and module manufacturing are being developed in both countries.

Attractive Feed in Tariff programmes need also to be adapted in order to provide realistic incentives. The conference concluded that well-adapted feed-in tariff regimes is the most efficient way together with effective support schemes for promoting renewable electricity in Bulgaria. Investors in Bulgaria and especially

foreign investors need to take under consideration the offtake capacity of the energy grid for each region. Consequently, grid operators and national electricity companies from both countries need to clearly define for investors the amount of power the grids can handle in each region.