



BULGARIAN ASSOCIATION
NATURAL GAS



POSITION STATEMENT

from

Bulgarian Natural Gas Association

Bulgarian Gas Association

Association of Traders and Producers of Natural Gas and Hydrogen

We, the members of the Bulgarian Natural Gas Association, the Bulgarian Gas Association and the Association of Traders and Producers of Natural Gas and Hydrogen, **call for an immediate halt to the wilfully destructive policy that State agencies are pursuing with regard to the Gas Supply sector.** We believe that, as a result of the policy detrimental to the Bulgarian society pursued by the State through the Ministry of Energy, the Energy and Water Regulatory Commission and the Bulgarian Parliament, the balance of interests in the Energy Sector has been significantly tipped towards cheap and primitive populism and has been determined by short-term partisan political considerations which run counter to European Union (EU) principles. The result is low efficiency, losses and close approximation of budding outright communism, reduced competition, reduced consumer choice, private sector losses, and a regrettable return to the past.

The **facts** presented below are sufficiently convincing about the right to have our voice heard:

The professional organisations listed above have membership of close to 100 companies. Their total **annual turnover** measures in billions, the **number of employees** – highly qualified staff trained mainly with investments of the companies themselves – exceeds 5,000. The **total length** of the **gas infrastructure** we have constructed in urban environments only is more than 5,000 km. The **total amount of investments** in the sector (with no involvement of public and government resources) is more than 2 billion levs. As a result of our work, the Bulgarian economy generates several million tonnes of carbon dioxide less every year, the quality of air in the Bulgarian cities and towns has improved substantially, and the Bulgarian energy consumers make significant energy, and not only, savings.

The facts described below show clearly that the institutions which are responsible for the policy in the area of energy fail to observe the Constitution of the Republic of Bulgaria and the Energy Act, many other statutory instruments in the Natural Gas sector and core principles of EU policy:



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1. The consumers of natural gas are the only energy consumers in Bulgaria who receive no support from the State.

To avoid any misunderstanding, we state that we are against any interference in market relations and fully support the foundations on which EU Competition Policy is constructed. However, since such state interference is already in place, it should be targeted fairly at the entire society. We believe that the society deserves to know that the electricity for household needs and the heat energy are highly subsidised products. The subsidy is hidden in a “specific approach” to pricing applied by the Energy and Water Regulatory Commission and it provides benefits to one type of end energy consumers at the expense of others. No such approach is applied with respect to natural gas. An example of the biased attitude towards natural gas is the attitude of the state institutions listed above towards heat energy and, more specifically, to that produced by Toplofikatsia Sofia [Sofia Central Heating Company]. Our society deserves to know the truth – namely, that the state support for this inefficient enterprise is already costing all of us more than a billion and a half levs. In other words, each child of the Republic of Bulgaria, before even being born, has already personally credited this enterprise with more than 220 levs. This also holds true for children who do not live in Sofia and those who are not born yet. Our customers are also against paying other people’s bills.

2. Despite the penalties imposed by the European Commission, Bulgargaz continues to enjoy privileges and to be the absolute hegemon in the natural gas market.

The privileged position granted to Bulgargaz wilfully ignores the European Commission Decision of 17 December 2018 (AT.39949 - BEH) on the abuse of its dominant position in the Bulgarian gas market and the €77 million in fines that were imposed as a result of the state tolerance and complicity in those abuses.

The privileges enjoyed by Bulgargaz arise not because it is the best and the most successful trader in natural gas. The Bulgarian society needs to know that the current Minister of Energy (and all of his predecessors) has a favourite in the Bulgarian gas market with no interest in having a developed and free natural gas market. Annually, our members invest several dozens of millions in development and with a view to increasing the quality of customer service. On the backdrop of this, the Bulgarian Ministers of Energy gift the market to a company whose organisational structure even lacks a unit for customer satisfaction. An example are the facts below which show clearly that the purpose of the entity to which the Minister of Energy hands the market is not to develop it but to monopolise it and, through this, to bring it down to economic activities which are insignificant in the region:



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- a. Consumption of natural gas in certain countries in the Balkans **in 1992:**
 - i. Greece – **ZERO** cubic metres;
 - ii. Turkiye – 5.5 billion cubic metres;
 - iii. Bulgaria – 7.2 billion cubic metres.
- b. Consumption of natural gas in certain countries in the Balkans **in 2022:**
 - i. Greece – **7.2 billion** cubic metres – growth bordering on infinity;
 - ii. Turkiye – close to 60 billion cubic metres – more than a tenfold increase;
 - iii. Bulgaria – **3.2 billion cubic metres – more than a twofold decrease.**

If it were not for the demand created in the segment of **natural gas distribution in Bulgaria entirely through private investments of members of our associations**, our gas market would be even more insignificant. Knowing our colleagues from neighbouring countries and the peculiarities of local customs, we could guess that they are not likely to understand less the “stupidity” they are involved in when they are developing their natural gas markets while the Bulgarian State is eliminating the one on its territory.

3. A forced reduction in the demand for natural gas as a result of the policy applied by the said officials and institutions, which certainly clears the way for environmentally dirty electric energy and other types of energy.

The Bulgarian society deserves to know the truth. And it is that none other than the state institutions with their deliberate actions deprive it of all benefits that the partnership between natural gas and renewable energy sources can produce. It is clear to everyone that energy industry based entirely on RES is a utopia, and will remain so at least for the next 100 years! Therefore, the most sustainable combination between different types of energy should be sought. The aggression towards gas and private enterprise, which is contained in all elements of the policy implemented by the state institutions in the field of energy, misleads and harms everyone. LET US REMIND YOU THAT THE GASIFICATION OF ONE MILLION BULGARIAN HOUSEHOLDS WILL SAVE MORE CARBON DIOXIDE EMISSIONS THAN THE POSSIBLE CLOSURE OF COAL ENERGY IN THE COUNTRY.



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Our proposal:

We, the representatives of the gas industry in Bulgaria, on our behalf and on behalf of nearly 500,000 Bulgarian citizens using natural gas in their homes, district heating companies using natural gas as their main fuel, as well as nearly 10,000 small, medium and large enterprises, administrative buildings and sites in the service sector and others that are part of the regulated market, **DEMAND THAT THE MINISTER OF ENERGY, IN HIS CAPACITY AS RESPONSIBLE PERSON FOR THE IMPLEMENTATION OF THE POLICY IN THE BULGARIAN ENERGY SECTOR, IMMEDIATELY:**

1. PROPOSE TO THE COUNCIL OF MINISTERS AND THE COUNCIL OF MINISTERS IS TO ADOPT THE NECESSARY SUPPORT PROGRAMS TO ENSURE FULL COMPENSATION OF THE DIFFERENCE BETWEEN THE CURRENT REGULATED GAS PRICE AND BGN 100/MWH. We use the occasion to recall that he personally made this commitment to all of us and the market expects this action;
2. PROPOSE A PROGRAM OF MEASURES IN THE SECTOR TO ENSURE THE LIMITATION OF BULGARGAZ EAD'S MARKET SHARE to a minimum acceptable to society, including a new procedure and measures for fair distribution of the opportunities provided by UGS Chiren, as well as the costs of its use. It is time for the Bulgarian Ministers of Energy to realize that, according to the Constitution, they are not Ministers of Bulgargaz EAD, BEH or any other commercial company, but are part of the Bulgarian executive power;
3. PROPOSE A SET OF MEASURES TO STIMULATE the development of gas distribution networks (urban gas infrastructure), including the development of gas transmission network to all municipal centers. Please note that the entire gas distribution network in the country is technically ready to transport significant amounts of hydrogen in a mixture with natural gas and this is the most efficient and direct way to achieve the goals of carbon neutrality. **We use the occasion to recall that, in the last 15 years, at least three times the Ministry of Energy has received a draft program for accelerated gasification of the country. It contains solutions that are still relevant today;**
4. To introduce a compensation mechanism for the amounts of natural gas stored at UGS Chiren injected there by us in implementation of the European Commission policy (an obligation for a minimum of 90% filling). The mechanism is to provide for either purchasing by Bulgargaz EAD or a compensation up to the amount of the full costs incurred by companies with an injection and storage obligation. Otherwise, the gas market participants will suffer fatal damage and losses (including bankruptcy) due to the implementation of a political decision in order to guarantee the security of natural gas supplies. The security of supplies is an important



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goal but it cannot be a service to society free of charge and, let alone, at the expense only of the most responsible companies in the market. UGS Chiren is unusually full in the middle of the heating season precisely because we have all fulfilled our obligations for natural gas injection regardless of the high market prices during the summer season. If such a compensation mechanism is not adopted, we will interpret this as omission again in the interest of Bulgargaz EAD with a view to monopolizing the gas market and will take any action necessary to protect ourselves against the state policy in the sector.

And last but not least, we would like to draw attention to the fact that the **Bulgarian Energy Industry Development Strategy**, which we happen to understand is being prepared for submission to the Bulgarian Parliament, should be subjected to a wide (at least expert) discussion. We call on the Minister of Energy and the Council of Ministers not to repeat the painfully familiar mistake and start the development of the said Strategy with an answer to the question: from what to produce electricity in Bulgaria. The initial question is **how much and what final energy does our society need under the new conditions of the social contract with the State of Bulgaria.**

The experts of the Bulgarian Natural Gas Association, the Bulgarian Gas Association and the Association of Traders and Producers of Natural Gas and Hydrogen are ready to make proposals for the formulation of the above programs.

Risks:

We, the representatives of the gas industry in the country, warn that in case of lack of action on the part of the responsible officials and institutions in the country to change the policies imposed in the Gas Supply Sector, the Bulgarian society will soon witness the filing of numerous complaints and claims before the relevant competent institutions for:

- Illegal state aid;
- Suffered damages and lost profits;
- Unconstitutionality of certain acts, etc.

These complaints will be on behalf of both end customers and representatives of the gas industry. The analysis of the current case law and other practice cases resulting from the policy harmful to the gas sector shows that there is a high degree of probability of success in each of the possible disputes described above: with the Bulgarian Parliament, the Ministry of Energy and the Council of



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Ministers, the Energy and Water Regulatory Commission, Bulgargaz EAD, and others.

Unfortunately, the price of all such negative consequences will again be paid by the Bulgarian citizens, but they deserve to know who stands behind all the adverse actions described above because they are to the citizens' detriment and are caused by those for whom they vote.

BNGA:

BGA:

ATPNGH:

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Date: January 16, 2023