

# IMPACT STORIES

## PPIAF Support to Private Sector Participation in the Gas Distribution Sector in Bulgaria



PPIAF support in Bulgaria facilitated the reform of the gas distribution sector, and led to significant private sector participation and investment in the sector. In 2002 PPIAF provided assistance to increase gasification rates in Bulgaria through support to the design and implementation of a new system for gas distribution network licenses, and the design of a competitive and transparent tender process to select investors for the construction of the new gas distribution networks. Following PPIAF support, the Government of Bulgaria successfully launched tenders for seven gas distribution concessions, attracting combined private investment commitments of over \$477 million.

In July 1999 Bulgaria adopted the Energy and Energy Efficiency Act, establishing the State Energy Regulatory Commission, which was designed to provide an appropriate institutional and legislative framework for structural reform in the sector through the introduction of transparent and competitive market competition.

One of the State Energy Regulatory Commission's main functions was the issuing of licenses to gas distribution companies and permits for the construction of new gas distribution networks. The Ministry for Energy and Energy Resources had decided to move from the previous regime of licenses based on individual municipalities to eight larger regional licenses that encompassed the existing 33 gas distribution companies. It was the State Energy Regulatory Commission's responsibility to organize a transparent and competitive tender process to select investors for these new gas distribution licenses. However, the State Energy Regulatory Commission did not have the necessary experience or resources to fulfill this responsibility or examine the licensing system proposed by the Ministry for Energy and Energy Resources.

It was in the context that the Government of Bulgaria requested support from PPIAF in 2002 to improve the energy sector's regulatory framework in relation to the practical implementation of tendering and selecting investors for the construction of the new gas distribution networks, with the aim of attracting a wide range of investors.

### PPIAF SUPPORT

The overall aim of the regional licenses proposed by the Ministry for Energy and Energy Resources was to facilitate increased gasification by improving the efficiency of gas distribution operations, reducing costs, and attracting larger investors with the necessary financial strength to undertake network expansion.

The PPIAF report analyzed potential strategies for the licensing of the gas distribution sector, and recommended a tendering approach for the licensing of the new larger, regional licenses. The report noted that the proposed exclusivity rights across large regions required strong regulations to protect against investor under-performance, particularly with regard to network expansion in more remote areas. Therefore the report recommended that the State Energy Regulatory Commission retain powers to modify license areas in the case of non-performance by the investor in order to reduce the risk of leaving marginal areas ungasified.

The report also identified some legal implications to the new licensing regime, which would require amendments to the Energy and Energy Efficiency Act. These included defining the boundaries of the licensed territories and the design of the exclusivity provisions of the new licenses.

Finally, the report suggested a tender process designed to promote competition and transparency, which gave adequate incentives to fewer regional investors while protecting consumer interests. The report outlined model tender documents and the evaluation method that could be employed to select a winning bidder.

## OUTCOMES

The government and State Energy Regulatory Commission accepted the recommendations of the PPIAF-funded report to provide a framework to launch the tenders for large new gas distribution regions. Subsequently the State Energy Regulatory Commission launched the tenders to choose gas suppliers for 35-year licenses to operate gas supply systems in the identified regions. The 35-year build, rehabilitate, operate, and transfer concessions were awarded as follows:

- The Varna gas distribution concession awarded to Varnagas reached financial close in July 2003.
- The Sofia gas distribution concession awarded to Sofiagas reached financial close in July 2003.
- The Russe gas distribution 10-year concession awarded to Gasosnabdyavane Ruse reached financial close in October 2003.
- The Miziya gas distribution concession awarded to Black Sea Technology Company AD reached financial close in February 2004.

- The Dobrudja gas distribution greenfield concession awarded to Black Sea Technology Company AD reached financial close in February 2004.

Since 1999 PPIAF, a multidonor technical assistance facility, has helped developing countries use public-private partnerships to improve their infrastructure. A key focus has been upstream technical assistance to support the development of an enabling environment for such partnerships.

This series highlights how PPIAF's support has made an impact on the ground.

- The Zapad gas distribution concession awarded to RilaGas EAD reached financial close in October 2006.
- The Trakia gas distribution concession awarded to Citygas reached financial close in October 2006.

## DONOR COORDINATION

In addition to the PPIAF support, the Bulgarian energy sector also benefitted from significant support from the European Union, through its Phare and Sara programs. These programs supported the elaboration and implementation of an energy sector restructuring plan and the establishment of the State Energy Regulatory Commission. Reform of the gas distribution sector, and the energy sector in general, enabled Bulgaria to meet the European Union's accession requirements.

## IMPACTS

From 2003–2006 the seven concessions awarded by the government attracted combined private investment commitments in gas distribution networks of over \$477 million.

Since 2003 gas consumption in Bulgaria has risen by more than 20% to over 3 billion m<sup>3</sup> annually. Bulgaria's 2020 Energy Strategy, adopted in 2011, envisions a further development of gasification for household consumption, with plans for the construction of the country's first natural gas power plants and new gas interconnectors to Romania, Greece, Serbia, and Turkey. The government has also announced plans for the exploration of shale gas, and in 2011 Chevron was awarded a shale gas exploration license in the north of the country.

### RELATED PPIAF ACTIVITIES IN BULGARIA

- 1999: Structural and Regulatory Assessment of the Transportation, Telecommunications, Electricity, and Gas Sectors, **\$60,000**
- 2002: Strengthening Regulatory Framework for New Gas Distribution Networks, **\$225,220**
- 2005: Design of a Competitive Wholesale Energy Market, **\$145,000**
- 2008: Europe and Central Asia: South-East Europe Regional Gasification Study, **\$47,000**
- 2008: Europe and Central Asia: South East Europe: Legal and Institutional Framework to Support Private Sector Participation in the Gas Sector, **\$300,000**