

Energy Regulatory Partnership Program

Low-Income Customers and Role of the Regulator in Energy Affordability

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Energy Reform in Bulgaria

Initiated by the Energy Strategy of 2002

Commercialization

Restructuring of utilities

Modern legal and regulatory framework

Advanced management and technology

Involvement of the private sector

Market development

Reliable energy supplies

Investment

Cost reflective tariff

Why Social Safety?

Achievement of cost reflective tariff is **a major element** of the energy reform



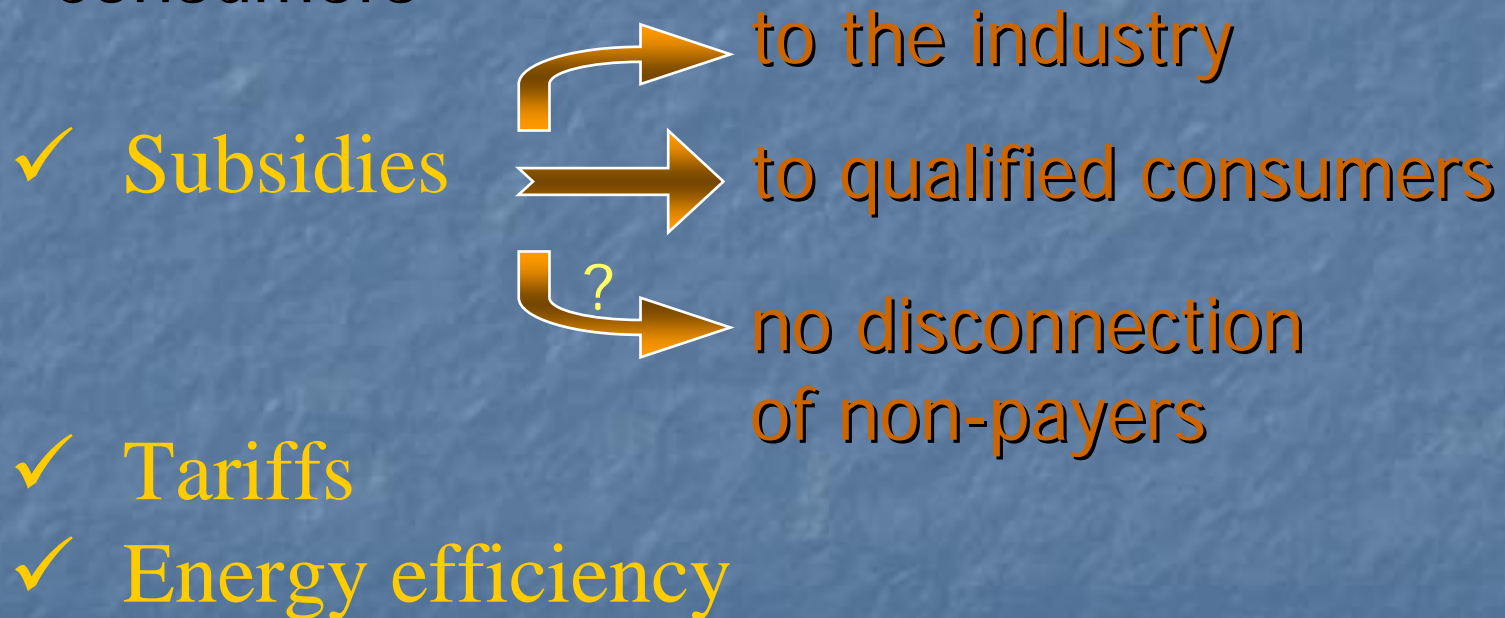
The energy reform **must go in tandem** with social safety program



If not, there could be a **backlash**

Approaches

- ☞ **Three approaches** to accompany the price reform and address impact on vulnerable consumers



Subsidies to the Industry

- In place for the heat sector until 2005
- Disadvantages
 - Not targeted (Benefit all consumers, not only vulnerable)
 - Budget constraints lead to de-capitalization of the companies
 - Not transparent mechanism of subsidy allocation between companies
- Considered as less effective

Subsidies to Qualified Consumers

- Best known because of its universality
- Budget constraints are significant problems
- Subsidy delivery mechanism to consumers is critical:
 - Cash
 - May delay or not reach the consumers if it is a part of the municipality budget
 - May not be used for bill payment
 - Vouchers (secondary market is possible)
 - Payments to the company (probably the best)

Subsidies - What is Needed?

- State **policy**
- Clear determination of the **responsibilities** of different institutions involved in the process
- Building and maintaining of **data base**
- Simple **administration**
- **Targeting...**

Tariff Approaches

- Tariff reform is one of the most difficult decisions
 - If there is a political will to start a tariff reform



Two options for the Regulator

To adopt tariffs that reflect costs with
mean or no social protection

or

To adopt such a tariff system,
that addresses the needs of vulnerable households,
including stage by stage cost reflective tariff
achievement

Tariff Approaches cont.

- Pressure on the regulator to extend the area of support
- Considered as a less desirable approach
- Should only be used if alternatives are not effective
- If use, it should be transitional with a phase-out target

Energy Efficiency

- Energy efficiency often is addressed only to “supply” side not to “demand” side
- One time costs to implement – the benefits go on year after year
- The advantage of energy efficiency approach is obvious compared to the subsidy and tariff approach, but...



Efficiency - What is Needed?

- Targeting: efforts have to be targeted to vulnerable consumers
- Metering is critical, but insufficient, to achieve significant savings
- Offers grate chance for big benefits over time
- Significant efforts: it is the last understood option to address the impact on vulnerable consumers

Bulgarian Experience - Heating

Combination of the 3 approaches:

❑ Subsidies

- Direct subsidies to the companies
 - ✓ Decreasing subsidy amount year by year
 - ✓ Transitional period ended 2005
- Subsidies to qualified consumers

❑ Block tariff

- Transitional period ended 2005

❑ Energy efficiency

Heating cont.

Authorities

- Council of Ministers approves the guaranteed minimum income as a basis for determining the monthly subsidy for heating
- Ministry of Labor and Social Policy:
 - Maintains a database of all vulnerable consumers
 - Proposes each year a monthly subsidy to be provided from the State Budget for vulnerable customers
- Ministry of Economics and Energy determines the monthly assistance as the amount of energy used to heat one room (3.5 x 4 meters with standard ceiling height)

Heating cont.

- **Criteria** for receiving budget subsidies:
 - level of family income
 - size of the lodging
 - savings level and others
- The subsidies for heating are **differentiated by the type of energy used** – electricity, district heating, coal, briquettes, wood and recently gas
- There are no targeted programs for the ethnic or other specific consumer groups

Heating_{cont.}

Subsidies by the type of energy used:

- **Electricity and Central Heating** – Monthly subsidy is equivalence in money of 450 kWh electricity (300 kWh day and 150 kWh night) according to actual prices of the electricity at the beginning of the heating period
- **Coal and wood** – Subsidy is equivalence in money of 1,2 t briquettes for the whole heating season according to the average end user price of the briquettes
- **Gas** - Monthly subsidy is equivalence in money of 50 m³ according to the average end user price of the gas

Heating cont.

Mechanisms

- In the past - vouchers
- Now:
 - ☞ Heating and gas companies receive the monthly funds directly from the budget
 - ☞ Coal and wood traders receive the annual funds after delivery the whole amount of fuel to the consumer

Heating cont.

Tariff

- Uniform prices (until November 2005)
 - Monthly capacity payment - 3.75 USc/m³ heat space
 - Energy payment (Two block tariff):
 - ☛ Up to 250 kWh monthly consumption – 2.27 USc/kWh
 - ☛ Over 250 kWh monthly consumption – 3 USc/kWh
- Regional prices (In force from November 2005)
 - Monthly capacity payment
 - Energy payment (Two block tariff)
- From October 2006:
 - Monomial tariff
 - Flat tariff

Bulgarian Experience - Electricity

Tariff Policy Priorities

- Short term (2002-2004)
 - ✓ Tariff re-balancing
- Medium term (2005-2007)
 - ✓ Cost reflective tariffs
 - ✓ Incentive regulation
- Long term (after 2007)
 - ✓ Set of tariffs for consumer choice

Electricity cont.

Short Term Tariff Policy

- Three-year period with indicative increases of household tariffs with:
 - ✓ dates
 - ✓ levels
- Introducing of block tariff for households
 - ✓ First block – 75 kWh/month – stable price for the whole period
- Block tariff removal – October, 2006

Bulgarian Experience - Energy Efficiency

- **Energy Efficiency Agency** (EEA) is in charge to provide policy and technical support for development of methods for increase of Energy Efficiency.
- The EEA is a branch of the Ministry of Economics and Energy.

Energy Efficiency

Special programs

- Program to provide low-income families with high efficient light bulbs in order to reduce the energy consumption.
- Other targeted programs for the vulnerable consumers such as building insulation and window replacement (e.g. low interest loans).
- Brochures for domestic consumers with simple manners to save energy.

Lessons Learned

- Political will is essential
- Approaches are country specific
- Communication and exchange of experience among the three communities are critical:
 - ✓ Regulator
 - ✓ Ministry of Labor and Social Policy and Ministry of Economics and Energy
 - ✓ Energy efficiency organizations including non-governmental organizations (NGOs)
- Further efforts are needed in the circumstances of the liberalized market

Thank you!