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TO:

**ASSOC. PROF. IVAN IVANOV
CHAIRMAN OF ENERGY AND WATER REGULATORY COMMISSION**

Subject: An opinion on a draft on amendment and supplement to the Electricity Trading Rules (ETR)

Dear Assoc. professor Ivanov,

Bulgarian Wind Energy Association (BGWEA) is a representative organization for the wind energy sector in the country. BGWEA unites the majority of the companies actively engaged in the sector, including investors in wind energy projects. The members of BGWEA represent a significant share of the total installed wind energy capacity in Bulgaria. The association actively works towards the development of legislative and regulatory framework in order to create a favorable business and investment environment.

Hereby, BGWEA would like to express our strong disagreement with the proposed Draft on amendment and supplement to the Electricity Trading Rules (the draft; ETR).

The amendment of the regulatory framework, in particular the Electricity Trading Rules, is a key point of the proper market functioning. In the process of significant change of market conditions, BGWEA relies on a constructive dialogue with the Regulator. The proposed changes amend fundamentally the balancing market operation and their impact on traders and compatibility with the principle of liberalization should be assessed.

The proposed change in balancing market operation, and in particular – phasing out the possibility for balancing groups to merge with a common financial settlement, would have an

extremely adverse effect on all market participants. An indisputable effect of its implementation would be a significant increase in balancing costs and the respective negative aspects are as follow:

- ❖ Rising of the electricity price where the balancing costs are between 5 and 10%. Thus, the proposed amendment to ETR would inevitably lead to higher prices for consumers, at a time when the institutions declare intentions to implement mechanisms to reduce them.
- ❖ The imbalance costs for wind energy producers are significant. The shortage price is tied to the price of the Day Ahead market, which in the light of drastic increase of electricity prices, leads to about 20% reduction of the income of these producers, fixed at the start of the regulatory period.
- ❖ Trying to decrease the imbalance costs, producers would switch to a limited number of large balancing groups, which would significantly increase their concentration on the electricity market and restrict competition, both in terms of balancing market and free energy market. Balancing groups in such an environment would not have market incentive to offer competitive and fair *methodologies for* allocating imbalances. In addition, as RES producers are obliged to sell their energy through their balancing groups coordinators, the latter would not face competition in terms of trade conditions and prices at which they buy electricity from RES producers.
- ❖ All of the abovementioned aspects would create uncertainty among potential investors in the sector and in this sense the investment climate in the country would worsen. In the context of accelerated transition to carbon neutral energy, Bulgaria should make the most of its competitive advantages in terms of available wind and solar potential and offer energy at a competitive price on European markets (which was facilitated by the coupling with the Greek and Romanian "Day ahead" platform this year). It is the increase in the balancing cost that would deprive the country of this competitive advantage and would lead to a revenue loss (taxes, fees and highly skilled jobs). Last but not least, the deteriorating of the investment climate would undermine the ability to achieve the goals set out in the National Recovery and Resilience Plan and deprive Bulgaria of EU funds estimated at 7 billion Euros. The merging of balancing groups with a common financial settlement reduces balancing costs due to the diverse profiles of the participants in these groups. Adoption of the proposed amendment would mean a significant

distortion of the free market and therefore, a change that is incompatible with the liberalization process.

The same change in the operation of the balancing market was initiated through changes in the Energy Act in 2019. After consultation with stakeholders and analysis of its impact, it was withdrawn. We believe that the Regulator should be in line with the decision of the legislator not to change the law, which is a more superior rule than ETR.

In addition to the presented arguments, BGWEA believes that a reform of the balancing market is necessary, but it must occur in full transparency, a dialogue with stakeholders and in accordance with the EC Regulations. Regarding the price of balancing energy, we would encourage the Regulator to work towards the implementation of **Art. 6 (5) of Regulation 2019/943**, namely: **„the imbalances shall be settled at a price that reflects the real-time value of energy”**. In addition, a single price mechanism should be introduced to determine the imbalance (surplus and shortage). The proposed pattern is also in line with the methodology for the harmonisation of the main features of imbalance settlement, adopted by the Agency for the Cooperation of Energy Regulators (ACER) in July 2020, which provides a single imbalance price. Single pricing means that the balancing responsible party with shortage faces the same price of imbalance as with surplus.

Given the acute importance of the issue, BGWEA insists that our opinion should be taken into account and Article 57 para. 5 should be removed from the draft of ETR.

Yours sincerely,

Miglena Stoilova

Chairperson of BGWEA Supervisory Board