STANDARD SUMMARY PROJECT FICHE

1. **Basic Information**

1.1 Désirée Number: BG 0201.10

1.2 Title: *Technical assistance in liberalizing the natural gas market and pre-privatization preparation of unbundled Bulgargaz parts*

1.3 Sector: *Energy*

1.4 Location: *Republic of Bulgaria*

2. **Objectives**

2.1 Overall Objective(s):

Establishing a market oriented, efficient and competitive energy sector adjusted to meeting the requirements of the EU for an internal energy market (The Electricity and Gas Directives).

The implementation of this project will help the development of the secondary legislation in the sector relative to the enforcement of the Energy and Energy Efficiency Act.

2.2 Project purpose:

Liberalization of the energy market through transiting from a monopoly structure to opening and completing the restructuring and privatization of unbundled Bulgargaz parts in compliance with Directive 98/30/EC and the proposal for amending it.

2.3 Accession Partnership and NPAA priority

The implementation of the project will provide technical assistance in ensuring the progress and completion of the structural reform and the development of the market liberalization conducive to competition in the gas sector as well as assisting the companies within that sector to move towards a market oriented model and get prepared for a subsequent privatization. The successful completion of the liberalization and privatization process in the natural gas sector is one of the prerequisites for Bulgaria to becoming part of the EU internal market as well as for the establishment of a transparent and cost-based pricing policy.

The following Accession partnership key concepts and NPAA priorities are relevant to the proposed project:

- market-based enterprise restructuring to promote competitiveness;
- transparent privatisation of state owned enterprises;
- preparation of reform plans (electricity and gas) and strengthening of the regulatory bodies;
- establishment of a price and tariff structure leading to cost based and transparent energy prices;
- preparation of the internal energy market, notably the electricity and gas directives (including adoption of energy prices to cost levels)

2.4 Contribution to National Development Plan

This project is connected to the following priorities outlined in the National Development Plan:

- Bringing the energy sector in compliance with the free market conditions and integration into the EU.
• Application of a structural reform strategy ensuring the energy sector’s market orientation.
• Integration of the Bulgarian energy system and natural gas market with the European ones.
• Development and preparation of a legislative basis adjusted to the EU legislation.
• Improving the competitiveness of the energy sector.
• Attracting investment for the gas distribution systems.

2.5. Transborder effect

Removal of non-technical obstacles during the development of a competitive regional gas market.

3. Description

3.1 Background and justification:

The main energy policy instruments are:
The Action Plan regarding restructuring, subsidy elimination and financial recovery of the commercial companies in the energy sector within the period 1998-2001;
The Energy and Energy Efficiency Act and the amendments to it;
The National Strategy outlining the development of the energy sector and improvement of energy efficiency until 2010 and the draft regarding its adjustment forecasting the development of the energy sector and energy efficiency until 2015. Medium-term program outlining Bulgaria’s public investment within the period 1998-2001 particularly in the energy sector;
Program and time-schedule regarding the restructuring and financial recovery of Bulgargaz adopted respectively by Council of Ministers’ Decrees 471 dated 30.06.1999 and 671 dated 27.10.1999;


At present the Bulgarian gas market is dominated by the vertically integrated national gas company Bulgargaz. Major consumers are the energy sector (thermal power plants and district heating companies), the chemical industry and ferrous metallurgy, with 34.15 per cent, 39.36 per cent and 11.36 per cent respective consumption in the year 2000. The share of gas distribution companies doubled during the period 1997 – 2000, but it is still negligible, amounting to only 2.4 per cent in 2000.

The structure of natural gas demand is as follows: 79 per cent by nine large consumers (Sofia District Heating Company, Lukoil-Neftochim, Neochem, Chimco, Agropolichim, Kremikovtsi, Stomana, Pleven District Heating Company and Plovdiv District Heating Company). Other 24 enterprises account for 17 per cent of total demand, while the remaining more than 220 enterprises represent only 7 per cent of total consumption.

As of the beginning of 2002 prices of energy carriers, including natural gas, are regulated by SERC. Differentiated natural gas priced by consumer groups are expected to be introduced in the second quarter of the year.

In most of the recently established around 25 gas distribution companies Overgaz has the majority stake. Only a few are companies of other private investors. Typical minority shareholders are the respective municipalities. In several cases large consumers also have shares.
The structural reform in the Bulgarian gas sector is an integral part of the overall reform in the energy sector. The latter will be in compliance with the Government program regarding the restructuring of the economy and is in compliance with the requirements of Directive 98/30/EC, with respect to the general requirements for the internal natural gas market, of the European Parliament and the Council of Ministers of 22 June 1998. The separation of accounts of the businesses: import and transportation, storage, transit and distribution of natural gas has been completed. The balance value of the long-term tangible assets of the gas pipeline branches, gas gates and other facilities outside the main pipelines has been calculated with a view to preparing for legal separation of the distribution assets. Eight gas distribution regions have been identified and included in a special list of energy facilities to be constructed with a view to securing the overall energy balance of the country. Taking account of the above the tender procedures with regard to establishing, registering and licencing joint stock companies ensuring the regional gas supply will be announced in line with the Development of the Energy Sector and Energy Efficiency Strategy until 2010. The regional distribution companies will operate in the territory of the respective eight regions. Bulgargaz will keep its functions regarding transit, transportation and storage of natural gas. Third party access for imports is foreseen to be regulated by the new Energy and Energy Act, which is to be adopted by the end of 2002. As regards third party access for domestically produced gas, it is regulated by the Energy and Energy Efficiency Act, which was adopted in June 1999.

3.2 Linked activities:

BG9107-01-01-LOO 1 - Organisation and Policy Formulation for the Energy Sector
BG9107-01-15-L009 Preparation of an Energy Sector Regulatory Framework
BG9411-03-01-LOO1 - Amendments to the Draft Energy Law
BG9508-01-03 Assistance with the establishment of an energy regulatory Authority

3.3 Results:

By the end of the project within the direct control of MEER - the recipient institution which will play the role of implementing agency the expected results are:

- Regulated third party access market model for the gas sector by the time of accession of the Republic of Bulgaria to the EU;
- Improvement of the legislative and regulatory framework for the transition from a monopoly structure to regulated third-party access in compliance with the acquis communautaire and the Energy and Energy Efficiency Act;
- A detailed concept and Action plan till 2006 regarding the gas market liberalization (timetables, definition of eligible customers, percentage of market opening) and preparing and conducting privatization of “Bulgargaz” EAD including:
  - implementing the Privatization Strategy of the unbundled Bulgargaz parts;
  - recommendations for legislation and sublegislation adjustment regarding market liberalization and privatization of unbundled Bulgargaz parts in terms of ensuring the implementation of the state policy;
- Development of low pressure gas market;
- Establishment of transparent tariffs, which fully cover costs, in order to allow third party access to the network;
- Free import and export of gas by third parties;
• Opportunity for large-scale customers to buy their deliveries on a free-market basis;
• Differentiated tariffs by consumer groups;
• Recommendations on future management of the sector (administrative capacity, staff, training).

3.4 Activities:

Regarding the establishment of well-defined legislative and regulatory basis (25 man/months):

• Development of technical, economic and legal analyses outlining gradual transit from a monopoly structure to regulated third-party access as regards gas transportation and storage, imports and exports;
• Assistance in improving the relevant legislation necessary to develop the market model, the contractual relations’ system, the planning procedures, dispatching, accounting, compensation and payment, as well as the rules regulating the activities of the Operators and market participants (Regulation on the right to access the transmission and/or distribution networks, gas sale contracts);
• Assessment and development of recommendations regarding the improvement of the relevant new codes or amendments to the old technical ones regulating actions and procedures which will be substantially different from those operating prior to introducing a competitive market;
• Assessment of the contract for supply of natural gas from Russia and its consequences on the market structure;
  - Analyses of the current legislation in terms of the state policy implementation in the energy sector upon completion of the privatization process.

Regarding the creation of conditions for an effective market economy in the energy sector (15 man/months):

• Using the experience of member-states and applicants to the EU in liberalizing the natural gas market and studying the restructuring and privatization stages comparing those with liberalization and privatization stages in the Bulgarian energy sector, i.e. benchmark against MS experience;
• Development of criteria for the selection of eligible consumers;
• Development of detailed mechanisms relative to the stage-wise opening of the market, ensuring competition and the basic principles regulating the operation of the liberalized market.

Organizational activities (10 man-months):

• Assistance in the preparation and the updating of the Action Plan regarding the liberalization of the gas market and privatization of unbundled Bulgargaz parts;
• Assessment and proposal regarding the establishment of respective administrative and service structures necessary for the implementation of a stage-wise natural gas market opening.

4. Institutional Framework

The institution – recipient of the project is the Ministry of Energy and Energy Resources (MEER). The coordination of the implementation of the project will be carried out by the “European Integration and International organisations and programs” Directorate, “International organisations and programs” (IOP) Department which has the relevant administrative potential. During the implementation of the project IOP will work in close cooperation with qualified experts from MEER, the State Energy Regulatory Commission (SERC) and “Bulgargaz” EAD. SERC, which is the competent authority inter alia as regards licensing of low pressure gas distribution companies.
and establishment of transparent tariffs for third party access, will be fully integrated into the execution of the project. To this end, a Steering committee, consisting of a Chairman, a Deputy Chairman, a Secretary, 6 members (2 representing MEER, 2 representing SERC and 2 representing Bulgargaz EAD) and an observer of the EC Delegation, will be set up, having the following responsibilities and tasks:

**Responsibilities:**
- approval of a draft terms of reference;
- observation of the implementation of the project to be in compliance with the Terms of Reference;
- proposal to review the scope of work and the volume of tasks set out in the Terms in line with the changes that have taken place during the course of the project.

**Tasks:**
- sets up working groups consisting of Bulgarian experts from MEER, SERC and Bulgargaz;
- observes that the proposals and views of the Bulgarian side are taken account of by the contractor;
- coordinates the whole scope of activities among the working groups as well as between the project being implemented and other such similar projects;
- ensures that the materials which as per contract are the responsibility of the Bulgarian side are made available;
- proposes Bulgarian experts for relevant training programs within the framework of this project;
- ensures control over the implementation of the project with respect to schedule and quality;
- proposes to the Minister of MEER a draft decision on the approval of the interim and final results of the project;
- ensures the dissemination and implementation of the project results.

5. **Detailed Budget**

<table>
<thead>
<tr>
<th></th>
<th>Phare Support</th>
<th>Total Phare (I+IB)</th>
<th>National Cofinancing</th>
<th>IFT*</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Contract - 50 man months</td>
<td>-</td>
<td>1.0</td>
<td>-</td>
<td>-</td>
<td>1.0</td>
</tr>
</tbody>
</table>

6. **Implementation Arrangements**

6.1 Implementing Agency

The Implementing Agency will be the CFCU.

The project will be managed in compliance with the decentralized system of PHARE.

The beneficiaries of the project are MEER, SERC and Bulgargaz.

The recipient-institution is MEER which will play the role of implementing agency.
The financial management of the project will be carried out by a Central unit in charge of financing and contractual arrangements to the Ministry of Finance.

The National coordinator of the project is the Ministry of Foreign Affairs.

6.2 Twinning – no

6.3 Non-standard aspects - no

6.4 Contracts

The amount of the contract for services according to PHARE procedures is 1.0 MEURO.

7. Implementation Schedule

7.1 Start of tendering/call for proposals – December 2002
7.2 Start of project activity – February 2003
7.3 Project completion – June 2003

8. Equal Opportunity

Men and women have equal right to participate in the implementation of the project. There are no restrictions with regard to ethnical origin, religious or political allegiance

9. Environment

The implementation of the project will not have hazardous environmental impact

ANNEXES TO PROJECT FICHE

1. Logical framework matrix in standard format
2. Detailed implementation chart
3. Contracting and disbursement schedule by quarter for full duration of programme (including disbursement period)
4. Reference to feasibility /pre-feasibility studies.
### LOGFRAME PLANNING MATRIX FOR

**Project**

**Technical assistance in liberalizing the natural gas market and pre-privatization preparation of unbundled Bulgargaz parts**

<table>
<thead>
<tr>
<th>Programme name and number</th>
<th>2002 Phare National Programme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracting period expires:</td>
<td>30 November 2004</td>
</tr>
<tr>
<td>Disbursement period expires:</td>
<td>30 November 2005</td>
</tr>
<tr>
<td>Total budget:</td>
<td>1.0 MEURO</td>
</tr>
<tr>
<td>Phare budget:</td>
<td>1.0 MEURO</td>
</tr>
</tbody>
</table>

### Overall objective

Establishing a market oriented, efficient and competitive energy sector adjusted to meeting the requirements of the EU for an internal energy market (The Electricity and Gas Directives).

<table>
<thead>
<tr>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Bulgarian legislation for liberalized gas market in compliance with the acquis communautaire in force</td>
<td>• Official Journal</td>
</tr>
<tr>
<td>• Market oriented, efficient and competitive energy sector</td>
<td>• Bulgargaz” EAD official publications and reports</td>
</tr>
</tbody>
</table>

### Project purpose

Liberalization of the energy market through transiting from a monopoly structure to opening and completing the restructuring and privatization of unbundled Bulgargaz parts in compliance with Directive 98/30/EC and the proposal for amending it.

<table>
<thead>
<tr>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Legislation for liberalized gas market adopted</td>
<td>• Bulgargaz” EAD official publications and reports</td>
<td>• Policy stability at national, regional and European levels</td>
</tr>
<tr>
<td>• Provisions for regulated third party access</td>
<td>• Phare programme monitoring reports</td>
<td>• Government policy and strategy</td>
</tr>
<tr>
<td>• Completed restructuring and readiness for privatization of unbundled Bulgargaz parts</td>
<td>• European Delegation by monitoring and reporting</td>
<td></td>
</tr>
</tbody>
</table>

### Results

- Regulated third-party access market model for the gas sector by the time of accession of Bulgaria to EU;
- Legislative and regulatory framework during the transition from a monopoly structure model to regulated third-party access in compliance with Directive 98/30/EC and the proposal for amending it;
- A detailed concept and Action plan till 2006 regarding the gas market liberalization (timetables, definition of eligible customers, percentage of market opening) and preparing and conducting privatization of “Bulgargaz” EAD.
- Development of low pressure gas market;
- Establishment of transparent tariffs, which fully cover costs, in order to allow third party access to the network;
- A specific market model for the gas sector elaborated;
- Elaborated proposals for the secondary legislation for the transition from a monopoly structure to a regulated third-party access;
- Action plan for the gas market liberalization ready;
- Readiness for the implementation of the Privatization Strategy of the unbundled Bulgargaz parts;
- Low pressure gas market developed;

<table>
<thead>
<tr>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• &quot;Bulgargaz” EAD official issues and reports</td>
<td>• Government policy and strategy</td>
<td></td>
</tr>
<tr>
<td>• MEER - Minutes of meeting of the Steering Committee</td>
<td>• Contractor’s ability</td>
<td></td>
</tr>
</tbody>
</table>
Free import and export of gas by third parties;
Opportunity for large-scale customers to buy their deliveries on a free-market basis.

- Transparent tariffs, which fully cover costs established;
- Opportunity for large-scale customers to buy their deliveries on a free-market basis created.

<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regarding the establishment of well-defined legislative and regulatory basis:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development of technical, economic and legal analyses outlining gradual transit from a monopoly structure to regulated third-party access as regards gas transportation and storage, imports and exports;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assistance in improving the relevant legislation necessary to develop the market model, the contractual relations’ system, the planning procedures, dispatching, accounting, compensation and payment, as well as the rules regulating the activities of the Operators and market participants (Regulation on the right to access the transmission and/or distribution networks, gas sale contracts);</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assessment and development of recommendations regarding the improvement of the relevant new codes or amendments to the old technical ones regulating actions and procedures which will be substantially different from those operating prior to introducing a competitive market;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assessment of the contract for supply of natural gas from Russia and its consequences on the market structure;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Analyses of the current legislation in terms of the state policy implementation in the energy sector upon completion of the privatization process.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regarding the creation of conditions for an effective market economy in the energy sector:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Using the experience of member-states and applicants to the EU in liberalizing the natural gas market and studying the restructuring and privatization stages comparing those with liberalization and privatization stages in the Bulgarian energy sector;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development of criteria for the selection of eligible consumers;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development of detailed mechanisms relative to the stage-wise opening of the market, ensuring competition and the basic principles regulating the operation of the liberalized market.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organizational activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Assistance in the preparation and the updating of the Action Plan regarding the liberalization of the gas market and privatization of unbundled Bulgar Gaz parts;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Assessment and proposal regarding the establishment of respective administrative and service structures necessary for the implementation of a stage-wise natural gas market opening.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Means**
- Technical assistance contract

**Assumptions**
- Contractor’s ability to carry out the Contract at high quality
- Effective cooperation with the relevant to the project activities institutions

**Preconditions**
Government policy in compliance with the acquis communautaire towards liberalization of the gas market through transiting from a monopoly structure towards opening and completing the restructuring of “Bulgar Gaz” EAD
Annex 2 – Detailed implementation chart

Technical assistance in liberalizing the natural gas market and pre-privatization preparation of unbundled Bulgargaz parts

<table>
<thead>
<tr>
<th>Components</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Tendering</td>
<td>x</td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>2. Project implementation – technical assistance</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>3. Project completion</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Annex 3

CUMULATIVE QUARTERLY CONTRACTING SCHEDULE in MEuro/€

<table>
<thead>
<tr>
<th>Projects Sub-Projects</th>
<th>Expected Contractual Commitments (Quarters)</th>
<th>Budget Allocation (Phare Funds)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>I II III IV V VI VII VIII IX X XI XII</td>
<td>2001 2002 2003</td>
</tr>
<tr>
<td>Technical assistance – 50 man/months</td>
<td>0 0 0 0 0 0 0 0 1.0 1.0 1.0 1.0</td>
<td>1,0</td>
</tr>
<tr>
<td>Total (Phare funds)</td>
<td>0 0 0 0 0 0 0 0 1.0 1.0 1.0 1.0</td>
<td>1,0</td>
</tr>
</tbody>
</table>

CUMULATIVE QUARTERLY DISBURSEMENT SCHEDULE in MEuro/€

<table>
<thead>
<tr>
<th>Projects Sub-Projects</th>
<th>Disbursement (Payment) Schedule (Quarters)</th>
<th>Budget Allocation (Phare Funds)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>I II III IV V VI VII VIII IX X XI XII</td>
<td>2001 2002 2003</td>
</tr>
<tr>
<td>Technical assistance - 50 man/months</td>
<td>0 0 0 0 0 0 0 0 0.6 0.8 1.0 1.0</td>
<td>1,0</td>
</tr>
<tr>
<td>Total (Phare funds)</td>
<td>0 0 0 0 0 0 0 0 0.6 0.8 1.0 1.0</td>
<td>1,0</td>
</tr>
</tbody>
</table>
Annex 4 - Reference to feasibility / pre-feasibility studies

The following projects under Phare programme have been completed:

BG9107-01-01-LO0 1 - Organisation and Policy Formulation for the Energy Sector
BG9107-01-15-L009  Preparation of an Energy Sector Regulatory Framework
BG9411-03-01-LOO1 - Amendments to the Draft Energy Law
BG9508-01-03 Assistance with the establishment of an energy regulatory Authority