1. **Basic Information**

1.1 CRIS Number: BG2003/004-937.06.03

1.2 Title: Strengthening the Bulgarian energy regulator

1.3 Sector: Energy and Telecommunications

Twinning Code: BG03/IB-EY-02

1.4 Location: Sofia, Bulgaria

2. **Objectives**

2.1 **Overall Objective:**

The State Energy Regulatory Commission (SERC) is a state body which role is to support the governmental policy in the energy sector and to provide balance between the participants in the energy market. The overall objectives of the project are as follows:

- To strengthen the Bulgarian energy regulator.
- To harmonize the Bulgarian energy legislation with the EU directives on the market liberalization

2.2 **Project purpose:**

Enhancing SERC's role in the development of a competitive energy market, a cross border trade and public service obligations.

As an independent regulator SERC has to play an important role in the development of the energy market. In order to achieve it the main task of the project is to strengthen the operations of SERC, and to improve its capacity particularly to:

- Development of mechanisms for implementation of the EU directives concerning the electricity and natural gas market and EU directive on renewable energy sources;
- Market rules and structures enforced for a competitive energy market;
- Introducing rules for development of cross border energy trade and to develop rules and norms. An important part of this task is the setting the prices and tariffs methodology for cross-border trade;
- Enhancing the SERC’s role in monitoring of implementation and development of rules and regulations at assignment of public service obligations to transmission and distribution utilities. Terms and mechanisms for assignment of these expenditures.
2.3 Accession Partnership (AP) and NPAA priority

Accession Partnership

The Accession Partnership 2001 with the Republic of Bulgaria sets the following priorities for the Bulgarian Energy sector:

**Economic criteria**

- ? ???? progress in energy sector restructuring;
- Put in place transparent market rules with a clear schedule for opening the market to competition. Enhance the role of State Energy Regulatory Commission in the enforcement of these rules. Further reinforce administrative capacity and the independence, including financial independence, of the State Energy Regulatory Commission.

**In Energy sector**

- Make preparations for participation in the internal market for electricity and for natural gas including with regard to alignment;
- create an independent transmission system operator (electricity);
- eliminate remaining price distortions;
- strengthen the sector regulator, and adopt timetables for market opening.

NPAA

The effective realization of the reform, the energy sector restructuring and its market orientation is to be ensured by the implementation of the regulatory framework in all its aspects. This could be achieved through strengthening SERC’s role as an independent energy regulator in aspects like the following: implementation of the permits and licenses system, implementation of cost-based pricing methodology, creating provisions and procedures for collecting data on energy companies, which shall ensure efficient monitoring on their activities in compliance with the market principles, the terms of the license and the pricing rules.

The strengthening of the regulatory body also reflects in its staff availability and finance security.

3. Description

3.1 Background and justification:

The main goals established for the energy sector contribute to the fulfillment of the main strategic national priorities for completion of the transition of the energy sector to a market economy and to European integration: Integration of the Bulgarian energy market with the European ones; Fundamental enforcement of the adequate legislation and procedures concerning
the operation of the regulator; Improvement of the proportional structure of the different energy sources. In practice, the main priority in Bulgarian energy sector is establishment of competitive energy market inasmuch as all other priorities are directly related to it.

In order to speed up reforms in the sector, a new **Energy strategy** of Bulgaria was adopted of the Council of Ministers on May 2002 and was approved by the National Assembly. It outlines the countries energy policy and the major intended reforms in the sector.

According to the Action plan for the energy sector, the restructuring of the sector requires a major part of the legislative framework to be in place. The basis for legislative alignment was established by the amendments to the EEEA adopted in November 2001. The main accents in the Draft EA are the acceleration of the electricity and gas open market process and the improvement of the legal mechanism which guarantees the institutional building and the financial independence of the SERC.

In order to create conditions for full implementation of the requirements of EU common energy market and caring out the envisaged improvement of the energy sector prior to the end of 2002, a **new Energy act** is drafted and will be submitted in the Council of Ministers. The objective of the Draft Energy Act is to further develop the harmonization of the Bulgarian energy sector legislation through acceptance of as much as possible EU achievements; most of all the ones in the electricity and gas internal market and transit. The new Act shall give possibilities for the implementation of a chosen market model and the electricity and gas internal market to be developed and create conditions for competition in these sectors and develop a competitive internal market following an approved timetable.

It is also envisaged a formation of a legal mechanism to guarantee the financial independence and stability through SERC’s revenues (license charges etc.) and the budget, thus enabling it to cover its expenditures in performing its activities.

**Therefore, the SERC needs assistance to complete and implement its regulatory framework and to strengthen its daily operation.**

The main part of the licensing process of the existing energy sector companies has finished. After the decisions for issuing of a license has come into force, starts the real implementation of SERC’ controlling functions and it continues till the period of the license expires.

The SERC has now formally taken over responsibility for developing and implementing a tariff and price-setting methodology for electricity, gas and heating, and for approval of tariff proposals submitted by companies in the energy sector. The cost-pricing model states that each category of consumers pays the consumption of the energy product at a price reflecting the supply costs.

In June 2002 indicative schedule for the increase in electricity prices for the household sector was adopted by SERC (Table 1) and a first 20% increase made in July 2002. Increase levels are to be in compliance with the efficient social policy of the Government.
Table 1

<table>
<thead>
<tr>
<th>In force from</th>
<th>Increase %</th>
<th>Average retail price</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.07.2002</td>
<td>20%</td>
<td>0.097 lv/ ?Wh</td>
</tr>
<tr>
<td>01.07.2003</td>
<td>15%</td>
<td>0.112 lv/ ?Wh</td>
</tr>
<tr>
<td>01.07.2004</td>
<td>10%</td>
<td>0.122 lv/ ?Wh</td>
</tr>
</tbody>
</table>

Therefore at this stage harmonization of technical and trade rules, norms and standards of the participants in the regional markets has to be achieved and methodology for setting the prices and tariffs for cross-border trade elaborated.

A progress in market opening was made by the ordinances on the definition of eligible customers, for both electricity and gas, adopted in April 2002.

The preparation for the liberalization of the Bulgarian energy market is in advanced phase due to the separation of the generation and distribution activities from the transmission ones.

**Further development of market rules and structures is needed for the achievement of a sustainable competitive environment in line with the envisaged in the new Energy Act power of SERC, to enforce market rules.**

Indicative terms and stages on electricity market opening are defined as follows:

Table 2

<table>
<thead>
<tr>
<th>Terms</th>
<th>Annual electr. consumption (not lower than)</th>
<th>% opening</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>100 GWh</td>
<td>18.9%</td>
</tr>
<tr>
<td>2004</td>
<td>40 GWh</td>
<td>22%</td>
</tr>
<tr>
<td>2005</td>
<td>20 GWh</td>
<td>25%</td>
</tr>
<tr>
<td>2006</td>
<td>9 GWh</td>
<td>28%</td>
</tr>
<tr>
<td>2007</td>
<td>full opening</td>
<td></td>
</tr>
</tbody>
</table>

**Consumer protection** is a main priority in energy regulation. Under the new EA SERC has to define rules and norms for society servicing. **Consequently rules and norms for assigning obligations to the transmission and distribution system operators, related to security of supply, regularity, quality and price of electric power, heat and natural gas supply and environmental protection are to be elaborated.**

### 3.2 Linked activities:

This project aims at strengthening of the Bulgarian energy regulator’s role in a competitive energy market, a cross border trade and public service obligations.

The project develops from the BG0003.04 PHARE 2000 project “Institution Building at the State Energy Regulatory Commission (SERC)”.
Its main results expected to be achieved before the start of the current project are:

- Draft regulations to complete and implement a relevant regulatory framework in the energy sector proposed;
- Advices and support in preparing a Pricing methodology for the energy sub sectors provided;
- General Tender procedures prepared;
- Concept of Information Management System (IMS) proposed and up to five pilot software programs developed;

The following activities financed by other donors are linked to the current project:

The World Bank’s project Development of Tender Procedures for Selection of Investors for Natural Gas Distribution Networks launched in July 2002 aims at development of up-to-date tender procedure and rules for attracting investment in gas distribution networks.

SERC actively participates in the Energy Regulators Regional Association of the Central/Eastern European and Newly Independent States region (ERRA) and in a Partnership Program with the New Jersey Board of Public Utilities, funded by the United States Agency for International Development (USAID) in cooperation with the National Association of Regulatory Utility Commissioners (NARUC). The basic objective of the partnership is to improve national energy regulation through an exchange of experience. The January 2003 SERC’s representatives’ visit in New Jersey concentrated on licensing launched the technical part of the partnership program.

In 2002 the World Bank’s PSAL (Public Service Adjustment Loan) project “Energy Service Quality Regulation” was fulfilled. The major task of the mentioned project was creating criterions for energy service quality, so effective control on these criterions to be carried out.

### 3.3 Results:

The expected results of the project, which will strengthen the SERC and contribute to the operation of a competitive energy market, are as follows:

#### A. Development of a competitive energy market

- Market mechanism developed for implementation of Directive 2001/77/EC (renewable sources)
- Market mechanism developed for promotion of cogeneration (draft Directive 2002/0185/EC)
- Regulator's role in monitoring market development when new generation facilities are introduced in electricity, heat and gas sub-sectors
- Investment assessment model developed in electricity, heat and gas sub-sectors (distinguishing between new investment and rehabilitation)
• Prompt and effective dispute settlement mechanism between the energy market players (generators, suppliers, transmission and distribution companies, eligible costumers, non-eligible costumers) established in electricity, heat and gas sub-sectors

B. Cross border trade
Regulator’s role and powers in the electricity and gas cross-border trade defined, incl.:
• harmonization of technical and trade rules, norms and standards of the participants in the regional markets
• methodology for setting the prices and tariffs for cross border trade
• congestion management and management and planning of new investments in network development

C. Public Service Obligations enhanced in the three energy sub-sectors
• Rules and norms for assigning obligations to the transmission and distribution system operators, related to security of supply, regularity, quality and price of electric power, heat and natural gas supply and environmental protection developed

D. SERC staff trained on the relevant regulatory issues
Specific training provided at least on:
- Development of a competitive energy market
- Cross border trade
- Public Service Obligations in the three energy sub-sectors

The training programme will be developed in co-ordination with the consultant

3.4 Activities:
This project is aimed to assist SERC to become more effective as the principle means for the competitive opening of the energy market. The activities envisaged for the project components are listed below and grouped according to the results.

A. Development of a competitive energy market
• To analyze the impact of a Directive 2001/77/EC implementation on the country's energy sector, subsequently its economy. Recommendations on mechanism for implementation
• To analyze the draft Directive 2002/0185/EC (cogeneration) implementation in the country's energy sector, subsequently its economy. Recommendations on mechanism for implementation
• Recommendations on national energy regulator’s monitoring role when new generation facilities are introduced in the electricity, heat and gas sub-sectors
• To propose tested investment assessment models for electricity, heat and gas sub-sectors
• To prepare dispute settlement manual for the energy market players (generators, suppliers, transmission and distribution companies, eligible costumers, non-eligible costumers) in the electricity, heat and gas sub-sectors

B. Cross border trade
• To propose changes for harmonization of technical and trade regulations, norms and standards of the participants in the regional markets based on:
  ▪ Analysis and recommendations to ensure separate parties’ equal treatment and observation of the reciprocal principle with cross border trade
  ▪ Review and analysis of national energy markets status of neighboring countries. Introduction of EU requirements in accordance with electricity and gas internal market directives, Electricity Directive amendment (2002) and other relevant EU papers regarding cross border trade
  ▪ Specific recommendations for technical and trade rules amendment and supplement
  ▪ (to propose studies on the above issues)

• To propose methodology for setting the prices and tariffs for cross-border trade
• To propose rules for congestion management and new investments in network development
• To make recommendations on SERC’s structure in respect of its role in cross border trade realization

C. Public service obligations in the three energy sub-sectors
• To make analysis on Bulgarian public service obligations according to the acquis communautaire requirements and review, recommendations and amendments on public service obligations regulation framework
• To draft companies expenditure assessment methodology in relation to public service obligations
• To draft rules and regulations at assignment of public service obligations to transmission and distribution utilities; terms and mechanisms for assignment of these expenditures
• To propose recommendations on national energy regulator’s role in public servicing

D. Training of SERC staff on the mentioned issues
In order to strengthen SERC qualification a targeted training to be provided through adequate on-the-job training and specific seminars and workshops on regulatory issues, including but not limited to:

- Development of a competitive energy market
- Cross border trade
- Public Service Obligations in the three energy sub-sectors
The consultant will analyse gaps in skills in these areas and will propose and co-ordinate a training plan to be developed for SERC.

The training plan will cover the concept for specific seminars, workshops and in-post task orientated training and, if relevant, training for SERC core functions operational staff in National Regulatory Authority’s departments of member states.

4. **Institutional Framework**

   The State Energy Regulatory Commission (SERC) was established under the Energy and Energy Efficiency Act (EEEA) adopted in July 1999 as a state body financed by the national budget and subordinate to the Council of Ministers. Improvement of the legal mechanism which guarantees the institutional building and the financial independence of the SERC has been reached by the EEEA amendments of October 2001.

   Currently SERC strengthens its position as an independent regulatory body and within the scope of its authority controls the energy sector companies in the following main aspects:

   - Pricing and economic regulation;
   - Licensing and control on the adherence to the terms and conditions of the issued licenses;
   - Development of secondary legislation in the energy sector including the one concerning energy market liberalization;
   - Providing conditions for gradual Open Access to the energy networks.

   In the process of preparation of secondary legislation and implementation of its other functions accordingly law; SERC has observed the following principles: balance of energy sector companies’ interests and their customers; creating incentives for more effective work of the companies; improvement of the investment environment in the country.

   The relevant regulatory framework is listed in Annex 4. - List of relevant laws and regulations.

   Ordinances on the methodology for the formation and application of prices and tariffs for power, natural gas and heating were adopted in December 2001. This provides a regulatory framework for the transition from administrative pricing of energy to standard price regulation, which is being carried out this year.

   The access to the transmission and/or distribution networks services are paid at prices formed and determined by the Ordinance. The role of the regulatory body at present consists in monitoring of the players in the energy market. In future, after the adoption of Technical and Trade rules concerning access, SERC shall monitor their status in order for them to meet adequately the market principles and trends.

   A prerequisite for implementation of effective and non-distorted competition is the availability of tariff power prices that reflect the relevant supply costs of the different categories of consumers, which will be achieved in medium-term period.

   To ensure the conditions of a competitive energy market (the new implemented market model and the envisaged new market players), with the **draft of the new EA**, the functions of SERC are enlarged regarding its powers in licensing, control and economic regulation.
In connection to the above said, the following powers of SERC have been appointed:

1. to set the rules for electricity and natural gas trade and the network technical rules and to control their observation;
2. to adopt and monitor the implementation of the balancing energy pricing methodology;
3. to set the rules for access to the electricity and gas transmission network, respectively electricity and gas distribution network;
4. to set the rules and provisions for the electricity, district heating and gas supply quality;
5. to review the of the energy companies’ inquiries about irrecoverable costs compensation;
6. to issue certificates to the electricity generators about the origin of the electricity as a commodity, generated from renewable energy sources and co-generation of both electricity and heating;
7. to issue “green certificates” to electricity generators using renewable energy sources and co-generation;
8. to set the availability and the power generation technical parameters regarding the transactions with eligible customers;
9. to set the provisions of obtaining the eligible customers status.

The draft envisages some functions of the regulatory body regarding monitoring of the non-discrimination principles observation, efficient competition and efficient operation of the electricity market. Some of the new powers of the regulator envisaged in the law (inter alia the adoption of secondary legislation) contribute to the enhancement of its independence and others to the strengthening of its role in promotion of the competitive conditions, providing a balance between the market participants’ interests and protection of consumers.

Protection of consumers is one of the main objectives of regulation. It is envisaged in the law for the commission to have the power to set the parameters and rules for electricity, district heating and gas supply quality, which should be observed by the licensees.

Under the envisaged in the draft law rules and provisions the energy companies’ prices are regulated by the Commission and non-regulated, where competition is available. It is also envisaged for SERC to exempt in stages energy companies’ prices from regulation, if it assesses that they operate in the conditions of a competitive environment.

5. Detailed Budget

<table>
<thead>
<tr>
<th>Phare Support mEuro</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Support</td>
<td>Institution Building</td>
<td>Total Phare (=I+IB)</td>
<td>National Co-financing*</td>
<td>IFI</td>
<td>Phare Support mEuro</td>
<td></td>
</tr>
<tr>
<td>Contract 1 Twinning</td>
<td>-</td>
<td>1.00</td>
<td>1.00</td>
<td>*</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td></td>
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</tbody>
</table>

* National financing is from the state budget through the national fund not higher than 10 %
6. Implementation Arrangements

6.1 Implementing Agency

The beneficiary is the State Energy Regulatory Commission (SERC), 8-10 Dondukov Blvd, 1000 Sofia, Bulgaria.

All contractual and financial issues will be the responsibility of CFCU, which will be the Implementing Agency.

The SERC will appoint a high official as Senior Programme Officer. The SERC will provide necessary office space, equipment and general administrative support for a successful implementation of the project.

6.2 The inputs of the SERC will consist of the following:

**Human resources:** the SERC will provide the experts from the relevant departments necessary to support the accomplishment of the specified project components;

**Administrative and logistical support,** such as adequate office space, office equipment, communications, fax and mailing facilities;

**Contracts**

One Twinning contract is expected with a value of 1,0 m Euro.

7. Twinning

All activities mentioned before to produce the desired results can be implemented through a Twinning Arrangement with one or more interested European regulators. The recipient institution will be SERC. The contact person responsible from SERC for the implementation of the project and all project related issues is:

Mr. Toma Giortchev, Member of SERC
8-10, Dondoukov Blvd.
1000 Sofia, Bulgaria

The following experts with specific expertise in the indicated fields are needed:

**Long-term Advisor to the SERC with the following profile:**

- Extensive experience and competence in the energy field, in particular in energy - competitive market and regulatory issues;
- Extensive experience in project management
• Familiar with the institutions and practices of the main EU institutions
  • Relevant university degree
  • At least 10 years sound professional experience and not less than 5 years management experience
  • Experience with institutional development projects
  • Experience with market development projects
  • Expertise with on-the-job training and daily knowledge transfer
  • Fluency in English
  • Computer skills
  • Willingness to work in a team under considerable work pressure

**Short term experts** with relevant experience and competence to match the project components as follows:

**Development of a competitive energy market:**
  • experts in the field of a competitive energy market, in particular in the fields of investment assessment models, dispute settlement between the energy market players, monitoring market development when new generation facilities are introduced;

**Cross border trade:**
  • experts in the field of drafting and implementing methodology for setting the prices and tariffs for cross border trade, technical and trade rules, norms and standards of the participants in the regional markets, congestion management;

**Public service obligations in the three energy sub-sectors**
  • experts in the field of public service obligations, drafting and implementing companies expenditure assessment methodology in relation to public service obligations,

**Provision of Training of SERC staff on the mentioned issues:**
  • expert in the field of Development of a competitive energy market;
  • expert in the field of Cross border trade;
  • expert in the field of Public Service Obligations in the three energy sub-sectors

**General requirements for the short term experts:**
  • Relevant university degree
  • At least 5 years professional experience in the relevant field
  • Expertise with on-the-job-training and daily knowledge transfer
  • Fluency in English
  • Relevant computer skills
  • Ability to work in a team under considerable work pressure
8. Implementation Schedule

<table>
<thead>
<tr>
<th>Start of tendering /call for proposals</th>
<th>Start of project activities tender period/</th>
<th>Project completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 2004</td>
<td>September 2004</td>
<td>September 2005 (including)</td>
</tr>
</tbody>
</table>

9. Equal Opportunity

Equal participation in the project by men and women will be assured. There will be no restrictions as of gender, ethnic, religious, or political belonging.

10. Conditionality and sequencing

Conditionality

1. The new Energy Law will be adopted before the project starts.

2. A legal mechanism in place to guarantee the financial independence and stability to the SERC through its revenues (license fees etc.) and the budget.

3. The Government should maintain its commitment on the restructuring of the energy sector.

Sequencing

The project will be a logical continuation of previous assistance financed by PHARE and other donors.

Linkages shall be established with other PHARE-supported activities in the energy sector.

Annexes:

1. Logical Frame Matrix

2. Detailed Implementation Schedule

3. Contracting and Disbursement Schedule

4. List of relevant Laws and Regulations

5. Presentation on SERC’s structure and key activities
Annex 1

<table>
<thead>
<tr>
<th>LOGFRAME PLANNING MATRIX FOR</th>
<th>Project</th>
<th>Programme name and number:</th>
<th>2003 PHARE National Programme</th>
</tr>
</thead>
<tbody>
<tr>
<td>ENHANCING SERC’S ROLE IN THE DEVELOPMENT OF A COMPETITIVE ENERGY MARKET, A CROSS BORDER TRADE AND PUBLIC SERVICE OBLIGATIONS</td>
<td>Contracting period expires Nov 2005</td>
<td>Disbursement period expires: Nov 2006</td>
<td></td>
</tr>
</tbody>
</table>

| Project Number | Total Budget: 1,00 (MEUR) | Phare contribution: 1,00 (MEUR) |

<table>
<thead>
<tr>
<th>Overall Objective</th>
<th>Objectively variable Indicators</th>
<th>Sources of verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening the Bulgarian energy regulator</td>
<td>Analysis and proposals for changes in the existing legislation and for a new secondary legislation</td>
<td>EU Commission opinion Regular Reports of the EC EU Commission through reports on the screening of the acquis Government of Bulgaria through its NPAA</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Harmonization of the Bulgarian energy legislation with the EU directives on the market liberalization</th>
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</table>

<table>
<thead>
<tr>
<th>Project Purpose</th>
<th>Objectively variable Indicators</th>
<th>Sources of Information</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhancing SERC’s role in the development of a competitive energy market, a cross-border trade and public service obligations</td>
<td>Effective regulatory body in the competitive energy market</td>
<td>EC Benchmarking Reports on electricity and gas market opening</td>
<td>Delays in project implementation Bulgaria’s continuing implementation of the acquis communautaire</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Results</th>
<th>Objectively variable Indicators</th>
<th>Sources of verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development of a competitive energy market</td>
<td>Market rules and structures enforced Legal framework of rules and structures proposed Harmonization with EU directives Permissions issued Investment assessment models suitable for the national conditions Balance between the interests of market players</td>
<td>Decisions of the Council of Ministers Official publications, State Gazette Official publications, energy sector companies reports Technical reports approved by SERC</td>
<td>New Energy Act adopted Governmental policy to sustain an independent and effective regulator continued</td>
</tr>
</tbody>
</table>
### Cross border trade

Regulator’s role and powers in the electricity and gas cross-border trade defined, incl.:
- Harmonization of technical and trade rules, norms and standards of the participants in the regional markets
- Methodology for setting the prices and tariffs for cross border trade
- Congestion management and new investments in network development

### Public Service Obligations enhanced in the three energy sub-sectors

- Rules and norms for assigning obligations to the transmission and distribution system operators, related to security of supply, regularity, quality and price of electric power, heat and natural gas supply and environmental protection developed

### SERC staff trained on the relevant regulatory issues

- Specific training provided at least on:
  - Development of a competitive energy market
  - Cross border trade
  - Public Service Obligations in the three energy sub-sectors

### Activities

**Development of a competitive energy market**

- To analyze the impact of a Directive 2001/77/EC implementation on the country’s economy. Recommendations on mechanism for implementation
- To analyze the draft Directive 2002/0185/EC (cogeneration) implementation in the country’s economy. Recommendations on mechanism for implementation
- Recommendations on national energy regulator’s monitoring role when new generation facilities are introduced in the electricity, heat and gas sub-sectors
- To propose tested investment assessment models for electricity, heat and gas sub-sectors, analyze them and develop a model to comply with the national conditions
- To prepare dispute settlement manual for the energy market players (generators, suppliers, transmission and distribution companies, eligible costumers, non-eligible costumers) in the electricity, heat and gas sub-sectors

### Means

**Twinning contract**

### Assumptions

- The ongoing TA-projects results
- SERC operational skills reach level to fulfill required tasks
- Trained staff remain with the public administration
Cross border trade

- To propose changes for harmonization of technical and trade regulations, norms and standards of the participants in the regional markets based on:
  - Analysis and recommendations to ensure separate parties’ equal treatment and observation of the reciprocal principle with cross border trade
  - Review and analysis of national energy markets status of neighbouring countries. Introduction of EU requirements in accordance with electricity and gas internal market directives, Electricity Directive amendment (2002) and other relevant EU papers regarding cross border trade
  - Specific recommendations for technical and trade rules amendment and supplement (to propose studies on the above issues)
- To propose methodology for setting the prices and tariffs for cross-border trade
- To propose rules for congestion management and new investments in network development
- To make recommendations on SERC’s structure in respect of its role in cross border trade realization

Public service obligations in the three energy sub-sectors

- To make analysis on Bulgarian public service obligations according to the acquis communautaire requirements and review, recommendations and amendments on public service obligations regulation framework
- To draft companies expenditure assessment methodology in relation to public service obligations
- To draft rules and regulations at assignment of public service obligations to transmission and distribution utilities; terms and mechanisms for assignment of these expenditures
- To propose recommendations on national energy regulator’s role in public servicing

Training of SERC staff on the mentioned issues

- Targeted training to be provided through adequate on-the-job training and specific seminars and workshops on regulatory issues, including but not limited to:
  - Development of a competitive energy market
  - Cross border trade
  - Public Service Obligations in the three energy sub-sectors

Preconditions

The clear commitment of the beneficiary on the key project tasks

* Duration of the project – app. 13 months (Start of project September 2004; Project completion - September 2005 including)
### Annex 2: Detailed Implementation Schedule

<table>
<thead>
<tr>
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#### Implementation of investments

1. Start of tendering
   /call for proposals, tender period/

2. Project implementation

### 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</th>
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<tbody>
<tr>
<td></td>
<td>I</td>
<td>II</td>
</tr>
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<td>Twinning</td>
<td>2003</td>
<td>2004</td>
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### CUMULATIVE QUARTERLY DISBURSEMENT SCHEDULE in MEuro/€

<table>
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<th>Projects Sub-Projects</th>
<th>Disbursement (Payment) Schedule (Quarters)</th>
<th>Budget Allocation</th>
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Annex 4  
*LIST OF RELEVANT LAWS AND REGULATIONS*

✓ Energy and energy efficiency act;

✓ Competition act;

✓ Ordinance of the Terms and Procedures for Granting Permits and Licenses for the Execution of Activities in the Energy Power Sector;

✓ Ordinance of the Terms and Procedure for Access of Eligible Customers and Independent Producers to the Electricity Transmission and Distribution Networks; Ordinance of the Terms and Procedure for Providing Access to Gas Transmission and/or Distribution Networks to Eligible Customers and Gas Producers.

✓ Ordinance of Formation and Application of Electric Energy Prices and Tariffs;

✓ Ordinance of Formation and Application of Heat Energy Prices and Tariffs;

✓ Ordinance of Formation and Application of Natural Gas Prices and Tariffs;

✓ Ordinance of District Heating Supply;

✓ Ordinance of Connection of Customers and Producers to the Electricity Transmission and Distribution Networks;

✓ Regulations for the organization of the state energy regulatory commission and its administration

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Annex 5

Power Point Presentation