

Bulgaria: energy poverty is the foremost challenge for social inclusion policy, due to the war in Ukraine

ESPN Flash Report 2022/20

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JUNE 2022

Addressing energy poverty has emerged as one of the main challenges for the Bulgarian social inclusion policy since the new Bulgarian government took office in December 2021. Although energy poverty has been a hot topic on the policy agenda for years, until recently little had been undertaken to address it. The government set itself the target of agreeing a definition of energy poverty and designing tools to alleviate it. The impact of the war in Ukraine on the supply and prices of hydrocarbon fuels has made the addressing of energy poverty an even more urgent task.

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Description

Although some indicators related to energy poverty in Bulgaria, such as the ability of households to keep their homes adequately warm, improved in the 2010s, energy poverty remains a challenge. According to the most recent (2020) data from the EU Statistics on Income and Living Conditions (EU-SILC), 27.5% of households cannot keep their homes adequately warm, while 22.2% are in arrears on their utility bills. In addition, also in 2020, the Bulgarian National Statistical Institute reports that 1.66 million Bulgarians (23.8%) live below the poverty line of BGN 451.00 (€230.60) per month; of this group only about 250,000 receive heating subsidies. On 16 December 2021, the Bulgarian parliament approved a moratorium on price rises for electricity, central heating, and water. As originally announced, the moratorium was lifted on 1 April 2022 (prolonging it would probably have been financially crippling for electricity providers). Although the Energy and Water Regulatory Commission (EWRC), the special independent body that regulates utility prices for households, did not expect substantial price increases at that stage, costs for the production of electricity remain highly unpredictable. At the same time, natural gas prices rose by more than 25% in April, an increase that was approved by the EWRC. In view of the situation, the government may have to extend further support to households affected by energy poverty.

Electricity prices for businesses on the free market had already increased dramatically. In late summer of 2021, electricity was traded at the Independent

Bulgarian Energy Exchange (IBEX) at prices of around 200 BGN/mWh (€102.26/mWh), with some transactions at prices as low as 130 BGN/mWh (€66.47/mWh), which were still affordable for businesses. Record prices for electricity were registered in March 2022, exceeding 800 BGN/mWh (€409/mWh) and even 1000 BGN/mWh (€511.30/mWh) on specific days, probably influenced by fears for oil and gas supplies.

This sparked discontent among employers, employer associations and trade unions, which feared potential bankruptcies and rising unemployment. The government responded by extending capped subsidies for businesses, i.e. the state provides compensation amounting to 75% of the difference between the current market price on the Independent Bulgarian Energy Exchange and the real market price for July 2021 (185.59 BGN/mWh, i.e. €94.89), up to a set maximum of 250 BGN/mWh (€127.82/mWh). On 1 June, the government decided to extend the measures until the end of June and increase the compensation to 80%. As part of the same package of measures, it also decreased VAT on heating and hot water to 9% and subsidised fuel prices for private consumers.

In Bulgaria there is not yet any official definition of energy poverty. The plan, outlined in the programme of the government, is to adopt a definition by mid-June 2022. Based on this, the government would then introduce an energy poverty line and design eligibility rules for receipt of targeted support. Energy poverty is included in the government's legislative agenda, indicating that substantial policy reforms are intended that will require amendments

to the existing legislation on social benefits.

In parallel the government aims to expand the scope and funding of the current programme for energy-poor households, i.e. the heating allowances which provide additional cash support to eligible households in wintertime. Presently, there is no new legislation or proposals for policies in this direction.

Outlook and commentary

Bulgaria's Recovery and Resilience Plan (approved by the European Commission in April 2022) directs 59% of the total amount allocated to measures in support of climate goals and use of clean energy. This includes significant investments to accelerate the decarbonisation of the energy sector, tripling the production of electricity from renewable sources by 2026, building significant capacity for electricity storage, reducing greenhouse gas emissions from the energy sector by 40% by 2025, and establishing a framework for the gradual phasing out of coal. The approved Plan also includes support for renovating the building stock to increase energy efficiency, as well as targeted reforms to facilitate such investments.

Bulgaria is dependent on Russian natural gas to cover about 75% of its needs; it also imports from Russia a large volume of coal for electricity generation in thermal power plants, which accounts for more than half of Bulgaria's electricity output. As reported by Statista, in 2019, 100% of the Bulgaria's hard coal imports came from Russia. The potential effect of disruption of supplies could push the already rising electricity prices still higher. Possible shortages of coal and natural gas have made it

urgent to address the issue of energy poverty. With the end of the heating season of 2021-2022 the energy needs of households will drop, providing temporary relief, but a sharp increase in prices for electricity would still have an immediate impact on many vulnerable households. In addition, a further price shock on the free market for electricity could force many businesses to close, dealing a further blow through unemployment to households already affected by inflation.

The heating allowances programme has been criticised by environmental NGOs for supporting the use of solid fuel for heating and not offering any long-term solution to energy poverty. In the new situation, the programme should be reviewed and redesigned in ways that would move it away from dependency on hydrocarbons and integrate it into the emerging policy for addressing energy poverty.

Furthermore, there are a few months left until the planned completion of a pipeline (interconnector) linking Bulgaria's network with Greece, which is designed to enable Bulgaria to diversify away from Russian gas, and to improve connections between the EU and Middle Eastern and Central Asian gas producers. According to the Bulgarian Energy Minister, the project is expected to allow Bulgaria to ramp up its gas capacity from 3 billion to 5 billion cubic metres of gas imports annually. The Prime Minister announced the purchase of two large shipments of liquefied natural gas (LNG) from the US at prices that do not exceed those for Russian gas, and which are expected to arrive later in June. He also declared that the government is working on securing a contract for the long-term supply of US LNG.

Further reading

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Quoting this report: Bogdanov, G., Zahariev, B., (2022), *Bulgaria: energy poverty is the foremost challenge for social inclusion policy, due to the war in Ukraine*, ESPN Flash Report 2022/20, European Social Policy Network (ESPN), Brussels: European Commission.