

Council of Ministers

Mr. Stefan Yanev, Prime Minister

Ministry of Energy

Mr. Andrey Zhivkov, Minister of Energy

Energy and Water Regulatory Commission

Mr. Ivan Ivanov, Chairman

CC:

Bulgarian Electricity System Operator

Mr. Angelin Tsachev, Executive Director

19 November 2021

Dear Sirs

The European Federation of Energy Traders¹ (EFET) would like to express its concerns regarding the amendments to the Electricity Trading Rules (ETR) recently proposed by the Bulgarian Energy and Water Regulatory Commission (EWRC)². More specifically, we oppose the proposal to remove the possibility for netting of imbalances across balancing groups (see § 25, point 3; § 26, point 4; § 29, points 1,2.).

Netting of imbalances with and across Balancing Groups lowers costs for end-consumers

Multiple market participants (producers, traders, end-consumers) in Bulgaria can unite in one balancing group. In such cases, the balancing group acts as a Balance Responsible Party (BRP) for all members of the group, under the oversight of a Balancing Group Coordinator. Inside the group, the imbalances of different participants are netted so that only the long or short position of the group as a whole is considered by the TSO, and not individual positions of the group's members³. Balancing groups comprising members with diverse generation and consumption profiles are usually very efficient at reducing individual imbalances in the Bulgarian electric system.

Moreover, when a coordinator oversees multiple balancing groups, they have the possibility to net imbalances across these balancing groups. This increases netting efficiency and allows coordinators of smaller balancing groups to offer competitive services to their members.

Netting of imbalances, within and across balancing groups, limits the extent to which individual market participants are individually exposed to the imbalance price and hence the cost of imbalances that is

¹ The European Federation of Energy Traders (EFET) promotes competition, transparency and open access in the European energy sector. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and a competitive economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org.

² <https://www.dker.bg/uploads/CGCalendar/2021/proekt-pid-ptte-27oct2021.pdf>

³ For instance, if member 1 is 3MWh in long for hour X and member 2 is 3 MWh short during the same hour, the total imbalance of the balancing group comprising only those two members will be 0, because -3MWh + 3MWh = 0MWh.

eventually borne by end-consumers. In short, imbalance netting within and across balancing groups considerably lowers the exposure of market participants to the imbalance price in terms of volume. Fewer imbalances for market participants enable them to provide electricity at more competitive prices to end-consumers.

Removing imbalance netting across balancing groups threatens RES-E production

The current proposal of EWRC foresees the removal of imbalance netting across balancing groups. This means that netting possibilities will be restricted to imbalances within single balancing groups.

In addition to the benefits explained above in terms of balancing costs, imbalance netting across balancing groups is the sole mechanism that enables the optimisation of RES-E production and consumption on a portfolio basis in Bulgaria. Indeed, Bulgarian RES-E producers with generation capacity equal to or higher than 500 kW are obliged to sell their output exclusively on the Bulgarian power exchange IBEX – both for forward and spot transactions⁴. Balancing group coordinators managing multiple balancing groups are able to offer favourable contracting conditions to RES-E generators, as they can more easily manage the output of multitude of intermittent generation units. Aggregation of RES-E output via a single coordinator across multiple balancing groups is hence a widespread practice in Bulgaria, rather than direct bidding on IBEX which is too costly and impractical for the majority of RES-E generators.

With a limit in the ETR of 30% of the annual RES-E generation can be accommodated in a single balancing group, the negative effects of removing the possibility to net imbalances across balancing groups would be further increased.

The enactment of the amendments proposed by EWRC will mean that system balancing will be de-optimised, and that balancing cost will rise for the majority in Bulgaria. For RES-E producers that have so far relied on balancing group coordinators to net imbalances within and across balancing groups, the changes will be even more harmful by reducing their ability to optimise output on a portfolio basis. The removal of imbalance netting across balancing groups will also likely lead to the migration of RES-E producers to bigger balancing groups, hence reducing competition and raising the barrier to entry into the Bulgarian market for small RES-E operators. Moreover, diminish the opportunities of many traders who are usually the coordinators of balancing groups to attract RES-E generators and other clients, due to the inability of providing efficient balancing services.

In summary

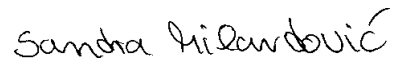
- We fail to understand EWRC's rationale to remove the possibility to net imbalances across balancing groups. Imbalance netting within and across balancing groups does not have a negative effect on system security, and actually has numerous advantages
- Lower costs of balancing for the industry, domestic customers, and electricity producers
- Smoothing effect on energy prices overall, by keeping imbalances charges low
- Ability for RES-E installations to optimize the sale of their output and comply with the ill-designed exchange trading obligation on IBEX

Imbalance netting within and across balancing groups has been working successfully for the past 5 years. It has proven its added value for the system and the market, and it has already survived an attempt by the Parliament to do away with it in 2019. The model is also fully in line with Article 5.1 of Regulation (EU) 2019/943, which allows contractual delegation of balancing responsibility to a balance responsible party of choice.

⁴ [EFET response 2021 02 11 Bulgaria market reform.pdf](#)

In light of all this, EFET urges EWRC to withdraw their proposal and keep the current model allowing imbalance netting across balancing groups.

Yours sincerely,
On behalf of the European Federation of Energy Traders

A handwritten signature in black ink that reads "Sandra Milardovic". The signature is written in a cursive style with a distinct flourish at the end of the name.

Sandra Milardovic,
Manager
EFET TF Eastern Europe Electricity