



## Press Release

# Energy (in)security in Bulgaria: state capture and energy poverty

On 25 July 2014, the Center for the Study of Democracy (CSD) presented the report *Energy Sector Governance and Energy (In)Security in Bulgaria* at a policy forum discussion with Bulgarian policy-makers and business leaders, as well as representatives of the diplomatic corps in Sofia, Bulgaria. One of the main findings of the report is that there are clear signs of state capture of the national energy policy by private local and foreign (state) interests. The resulting loss of policy independence, lack of predictability and integrity has been exacerbated by the existence of systemic corrupt practices in the energy sector, poor corporate governance of the state-owned energy enterprises, as well as violation of the fundamental rules of free market competition in the planning and implementation of large energy infrastructure projects in the country. The report concludes that these characteristics of the national energy policy-making have contributed to reducing Bulgaria to the most energy poor and insecure EU member state.

## Energy (In)security and State Capture

The report presents the results for Bulgaria of the reputable *International Index for Energy Security Risks* of the Institute for 21<sup>st</sup> Century Energy. The Index, which is considered one of the best existing tools for benchmarking and managing energy security risks, reviews the performance of the 75 largest energy consumers in the world, based on 8 groups of indicators. According to the index results, in 2014, Bulgaria is the most vulnerable country from the point of view of energy security among all analyzed economies. CSD's report summarizes and analyses the top three risks for Bulgaria:

- Widespread energy poverty;
- High dependence on one source and one route for the supply of crude oil and natural gas;
- High energy intensity of the economy.

The negative impact on Bulgaria of traditional energy security risks is exacerbated by poor governance and state capture, which have made public energy policy illogical, unpredictable, and highly volatile. CSD's analysis reveals the existing systemic inability of the public authorities to design and implement transparent and efficient energy policy solutions. The most obvious examples in this regard are the planning and implementation of large infrastructure projects such as HPP "Tsankov Kamak", NPP "Belene", "South Stream" gas pipeline, and the construction of a 7<sup>th</sup> reactor in NPP "Kozloduy".

## **Poor Corporate Governance of State-Owned Energy Enterprises**

The current financial position and the management of the state-owned energy enterprises, part of the Bulgarian Energy Holding (BEH), have gone from bad to worse. The main financial indicators of the National Electric Company (NEC) point to a short-term debt spiral, which, sooner or later, will put pressure on the company's assets and/or will call for government guarantees on its liabilities. By the end of the first half of 2014, the company's debt (mostly short-term) stood at EUR 1.5 billion. CSD's report identifies three main risks for the current and future development of state-owned enterprises:

- the overall legal and regulatory instability and unpredictability in the energy sector in Bulgaria, created by frequent changes in the country's energy policies;
- the companies have been dragged by the Bulgarian government into large, long-term, capital-intensive, investment projects with doubtful economic and strategic benefits;
- constant political meddling in the management of the state-owned companies and lack of proper reporting and management control.

## **Recommendations for Improving Energy Sector Governance**

CSD's report provides a list of recommendations to national and European authorities. Some of the key recommendations for improving the national energy policy include:

- Introduction of an annual Parliamentary energy review, which should include a specific focus on energy security, based on a periodic assessment by the relevant national intelligence and security services of the undue interest and activities of third countries in the Bulgarian energy sector.
- Discontinuing political interference in the current management of state-owned energy enterprises with the goal of ensuring independence and transparency of the corporate decision-making process.
- Review and use of all the options for exploration and production of local natural gas reserves in line with the strictest environmental standards.
- Improving the administrative capacity of the state energy regulator in order to ensure its independence from political and economic interests.
- Prioritizing energy efficiency and the expansion of the scope of household gasification under the condition of diversification of gas supply, with the goal of decreasing final consumer gas prices and the share of inefficient use of electricity for heating purposes.
- Adopting the practice of carrying out detailed fact-based cost/benefit analyses before committing public resources in energy infrastructure projects.

Strengthening's the country's energy sector governance requires that Bulgaria takes an active part in shaping the initiative for the creation of a European Energy Union proposed by Poland. Political leaders and policy-makers should strive to reach a broad consensus on the long-term priorities in the Bulgarian energy sector, linking the national energy strategy with the strategic and regulatory framework of the European Union in this area.