

PPIAF Assistance in Bulgaria

The government of Bulgaria requested support from PPIAF primarily in the design of a suitable enabling environment for private sector participation in the water, energy, and telecommunications sectors. PPIAF assistance led to significant outcomes being achieved in Bulgaria. In the water sector PPIAF assistance paved the way for the promulgation of the Water Supply and Sewerage Services Regulation Act in February 2005, which led to the establishment of the State Energy and Water Regulatory Commission in charge of regulating water supply and sewerage services. In the telecommunications sector, the Communications Regulation Commission was established in 2002 following PPIAF support, which subsequently led to the privatization of the Bulgarian Telecommunications Company. In the gas sector, PPIAF provided recommendations on the regulatory framework to support the launch of tenders for large new gas distribution regions in Bulgaria, which led to the successful tendering of seven gas distribution concessions. Finally, PPIAF provided support for the whole electricity distribution sector in Bulgaria, providing recommendations on the country's transition to a competitive wholesale market in which a significant portion of internal electricity consumption in Bulgaria was traded in the wholesale market at freely negotiated prices, approved by the regulator.

Technical Assistance in Bulgaria's Water Sector

In 2000 there were 48 water and wastewater companies in Bulgaria, of which 13 were fully state-owned, 16 jointly owned (51% state and 49% municipalities), and the remainder fully municipally-owned. The water and wastewater sector was fragmented, with insufficient resources, heavy political interference, and low quality of service. The water and wastewater companies were generally inefficient, characterized by high employment levels, high levels of non-revenue water, and poor collection rates. Reform of the sector was urgently needed, driven by two factors: i) an awareness of the need for good quality water and wastewater services, which would require improved efficiency to generate sufficient resources for operations and maintenance of existing assets, and investment in new assets; ii) the necessity to improve standards of water and wastewater quality to meet European Union accession guidelines on water quality.

The Government of Bulgaria initiated a reform program designed to improve the operational efficiency of the water companies with the aim of introducing private sector participation to the sector. As part of this reform process, the government bid out a 25-year concession for the Sofia water system, which was awarded to SofiyskaVoda in October 2000 (supported through a \$29.2 million loan from the European Bank for Reconstruction and Development). However, there was a recognition that the regulatory framework for the sector was inadequate, and it was in this context that the Government of Bulgaria requested the first of two PPIAF grants to help establish an independent regulator to ensure good quality service and affordable tariffs for citizens.

The PPIAF-funded report included a review of current sector performance, the legal framework, analysis and proposals for improving quality of service and economic regulation, and proposals for the creation, staffing, and funding of a national water regulatory body.

The specific role of the water regulatory body was analyzed within the report, and it concluded that the main function of the water regulatory body should be to encourage the development of efficient, effective, and financially sustainable water service provision, and communicate national water policy and strategy with regards to private participation in the sector. To fulfill this role, the water regulatory body would issue licenses to all water and wastewater companies that set performance standards and then monitor compliance with the license conditions, approve the tariffs charged by the water and wastewater companies based on mandatory tariff reviews, and act as an arbitrator in relation to complaints between the companies and their customers.

The report contained multiple recommendations on the regulatory framework, determining that the water regulatory body should be established as a national, single-sector regulator, formed as a commission under the Council of Ministers to give maximum independence from government interference and from water company influence. In addition, it was suggested that a new Water Services Act (or revisions to the existing Water Act) should be drafted as the mechanism for establishing the water regulatory body, and to

reflect the Government of Bulgaria's water sector strategy on encouraging private sector participation in the sector.

Two workshops were held in October and December 2001 during the finalization of the report to build consensus on the recommendations included within the final report, and to assist in the dissemination of the results of the study.

Following the completion of the PPIAF activity, in February 2002 the Government of Bulgaria took the decision to establish a water regulatory body as a state commission under the Council of Ministers, as recommended within the PPIAF report. The Government of Bulgaria initially chose to establish the water regulatory body by modifying the existing Water Act, primarily due to expediency, given the desire of the Ministry of Regional Development and Public Works to bring the anticipated Varna and Shumen concession contract¹ immediately under the regulation of the water regulatory body. The PPIAF report had recommended that it would be preferable to establish the water regulatory body under a new law. Following further discussions, the Government of Bulgaria decided to modify the existing Water Law in relation to other matters, but to enact a new law for the establishment of the water regulatory body, with the new legislation detailing the powers and duties of the water regulatory body.

In July 2002 the Government of Bulgaria also began drafting a new water sector strategy focused on the introduction of the private sector as a means to improve operational efficiency and integrated management of water resources in the context of the European Union Water Framework Directive. The development of a national water strategy was a specific recommendation of the PPIAF-funded report. The National Strategy for Management and Development of the Water Sector (2004–2015) was subsequently approved by the Council of Ministers in 2004.

In November 2002 further PPIAF assistance was requested by the Government of Bulgaria to review draft legislation for the creation of the water regulatory body, based on the recommendations of the first PPIAF activity, with the objective of finalizing the legislation in order for its submission to Parliament.

The legislation was reviewed based on the regulatory framework for the sector recommended in the prior PPIAF report. Based on those recommendations, and the views received from the Government of Bulgaria, consensus was achieved on the establishment of an independent commission under the Council of Ministers as the most effective form of sector regulation, enabling the regulator to operate independently, regulate the quality of service, and set tariffs for all water and wastewater operators.

Following a lengthy consultative period which included two stakeholder workshops in March and May 2004, discussion continued on whether a separate regulatory body for the water and wastewater sector was needed and/or cost-effective. As a result, a compromise solution was formulated to place the regulator as part of the already existing Energy Regulation Committee, thus sharing the same logistical and technical support and achieving some cost savings.

In September 2004 parliament passed a bill on water services regulation. The bill put the proposed State Energy and Water Regulatory Commission in charge of regulating water supply and sewerage services. The regulation applied to all water companies regardless of the ownership and form of management. The Water Supply and Sewerage Services Regulation Act was promulgated on February 25, 2005.

As a result of the law's promulgation, the State Energy and Water Regulatory Commission was established, effectively adding responsibility for regulation of the water sector to the remit of what was previously the State Energy Regulatory Commission. The State Energy and Water Regulatory Commission assumed responsibility for tariff setting, licensing, and quality of services of enterprises in the gas, electric, district heating, and water supply and sewerage sectors.

¹ Ultimately the Varna and Shumen concession contract was bid out, but despite attracting five bids, the Government of Bulgaria eventually decided not to go ahead with the award of the concession.

In 2006 the government engaged the International Finance Corporation PPP Transaction Advisory team to implement a concession for the Pleven Regional Water Company. The mandate is still ongoing, but preliminary findings suggest that the concession, once implemented, will mobilize \$225 million of private investment, improving water service for 280,000 people.

In 2010, with non-revenue water in Bulgaria averaging 60% and an estimated €3.5–4.0 billion of investment required to replace and upgrade the water supply and sewerage network, the Ministry of Regional Development and Public Works announced plans to revolutionize the water sector in Bulgaria through 48 concessions modeled on the Sofia concession. The plans include the transfer of current utilities' assets from municipalities to new water associations, which would manage the infrastructure.

Results of PPIAF's Support in Bulgaria's Water Sector

Category	Outputs
Enabling environment reform	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> • Report on the regulatory framework in the water and wastewater sector in Bulgaria, July 2002 • Support for Varna and Shumen Municipalities in the Private Sector Participation in the Water Sector, July 2003
<i>Policies prepared or legal or regulatory changes recommended</i>	<ul style="list-style-type: none"> • Support for the establishment of Water Sector Regulator, including a draft Law on Regulation the Water Supply and Wastewater Services, January 2004
Capacity and awareness building	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> • Project steering committee workshop, October 23, 2001 • Dissemination workshop, December 12, 2001 • Stakeholder workshops to discuss the draft water and wastewater sector legislation, March 25, 2004 and May 27, 2004

Category	Outcomes
Enabling environment reform	
<i>Plans/strategies adopted</i>	<ul style="list-style-type: none"> • National Strategy for Management and Development of the Water Sector (2004–2015), January 2004
<i>Policies adopted, legislation passed/amended, or regulations issued/revised</i>	<ul style="list-style-type: none"> • Water Supply and Sewerage Services Regulation Act promulgated, February 2005
<i>Institutions created or strengthened</i>	<ul style="list-style-type: none"> • State Energy and Water Regulatory Commission established, February 2005
Capacity and awareness building	
<i>Consensus achieved</i>	<ul style="list-style-type: none"> • Consensus achieved on the drafting of new legislation to enable the establishment of a regulator for the water and wastewater sector in Bulgaria, February 2002

Technical Assistance for a Structural and Regulatory Assessment of Bulgaria's Network Utilities

The Privatization Act was passed by the Bulgarian parliament in 1992, allowing the privatization of state-owned enterprises for the first time. The first state-owned enterprise was privatized in February 1993, but following the initial momentum, progress slowed due to an enabling environment that was not conducive for private investment in the country. By 1999 Bulgaria's infrastructure sectors were still organized according to the monolithic model of state-owned monopoly. The Government of Bulgaria was interested in restructuring and potentially privatizing various infrastructure sectors in order to boost entrepreneurial activity, increase competition, and contribute to improved growth and prosperity in the country.

The Government of Bulgaria was aware that the sustainable success of privatization would be dependent on the efficacy of the post-privatization market and the regulatory structures that would govern this new market. However, major decisions about the structure and regulation of these sectors were yet to be made, and thus the Government of Bulgaria requested PPIAF support in 1999 to analyze options for restructuring the telecommunications, electricity, oil, gas, and transportation sectors in ways that would enhance their efficiency, market responsiveness, and fiscal responsibility by increasing private sector participation.

PPIAF provided support to analyze options for the horizontal and vertical restructuring of the network utilities to enhance their efficiency, market responsiveness, and fiscal responsibility. The resulting report identified the major post-privatization regulatory issues that needed to be addressed and proposed strategies for addressing these issues, compliant with European Union accession guidelines, based on a review of relevant international experience in the competitive restructuring and deregulation of the network utilities. In doing so, the structural and regulatory assessment of the telecommunications, electricity, oil, gas, and transport sectors provided the government with options for pro-competitive restructuring, and proposed appropriate regulatory strategies to create a sustainable post-privatization market across the various infrastructure sectors. A workshop was held in June 2000 to discuss the findings and recommendations of the report.

The recommendations from the PPIAF-funded report formed an integral part of the government's action plan to strengthen the structural and regulatory framework for the network utilities, based on the government's view that effective regulatory governance frameworks were an indispensable precondition to attract sustained large-scale private investments in the infrastructure sectors. Accordingly, the government embarked on a strategy of creating an investment climate that encouraged private investment, increased productivity, and sustained growth.

In November 2000 the government passed amendments to the existing Privatization Act to increase the transparency of the privatization process. The amendments included changing the management and structure of the Privatization Agency, increasing parliamentary oversight of privatization deals, and reducing incentives for insider deals. Subsequently the government passed the Privatization and Post-Privatization Control Act of 2002 to increase the transparency of privatization sales by making the Privatization Agency the only body responsible for selling state assets, removing preferential treatment of management buyouts and preventing sales through negotiations with preferred buyers. The enforcement of the Act enabled the privatization of some 1,600 public enterprises.

Following the recommendations on the regulation of the telecommunications sector from the PPIAF-funded report, the Bulgarian Communications Regulation Commission was established in 2002 in accordance with European Union telecommunications requirements. The Communications Regulation Commission was formed as a specialized independent state authority, entrusted with the functions of regulation and control over electronic communications. One of the Communications Regulation Commission's key roles was defined as promoting competition in the telecommunications markets with the aim of increasing private sector investment and protecting consumers.

On February 20, 2004, following the legislative and regulatory changes recommended in the PPIAF-funded report, the Government of Bulgaria agreed to the sale of a 65% stake in the Bulgarian

Telecommunications Company to Viva Ventures, a vehicle for US-based fund Advent International, for €230 million (approximately \$292 million), as well as another BGN 54 million (approximately \$35 million) for a GSM license to establish a third mobile operator in Bulgaria. The Government of Bulgaria sold its remaining stake in Bulgarian Telecommunications Company, which became known as Vivacom, on the Bulgarian stock exchange. From 2004–2011 Vivacom invested \$1.129 billion in infrastructure/network improvements for fixed access, mobile access, and long-distance telecommunications.

However, the privatization of Bulgarian Telecommunications Company has not gone entirely smoothly. A year after the initial sale to Viva Ventures, Vivacom was acquired by Icelandic billionaire Thor Bjorgolfsson, who bought out Advent International’s stake for €620 million and increased his stake in Bulgarian Telecommunications Company to 90% by buying traded stock. In 2007 Bjorgolfsson then sold his stake to American International Group’s asset management arm. The cost of the latest leveraged buy-out by American International Group, €1.3 billion in senior and subordinated debt and a further €325 million owed to mezzanine lenders, was placed onto Vivacom.

American International Group's bankruptcy in 2008 led to another change of ownership after the acquisition of American International Group Investments by Chinese telecoms and media tycoon Richard Li, chairman of Asian telecommunication firm PCCW. Subsequently another round of restructuring talks for Vivacom has taken place, which culminated in the hiring of Morgan Stanley to advise on the sale of Vivacom. It was reported that several bidders were interested in the takeover of Vivacom, but no deal has yet gone through.

Results of PPIAF’s Support for a Structural and Regulatory Assessment of Bulgaria’s Network Utilities

Category	Outputs
Enabling environment reform	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> Structural and regulatory assessment of the telecommunications, electricity, oil, gas, and transport sectors, 2002
Capacity and awareness building	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> Stakeholder workshop to discuss findings of the report, June 2000

Category	Outcomes
Enabling environment reform	
<i>Policies adopted, legislation passed/amended, or regulations issued/revised</i>	<ul style="list-style-type: none"> Amendments to the Privatization Law, November 2000 Privatization and Post-Privatization Control Act passed, 2002
<i>Institutions created or strengthened</i>	<ul style="list-style-type: none"> Bulgarian Communications Regulation Commission established, 2002
Project cycle-related assistance	
<i>Transactions facilitated</i>	<ul style="list-style-type: none"> Privatization of the Bulgarian Telecommunications Company, February 2004 GSM license to establish a third mobile operator in Bulgaria, February 2004

Capacity and awareness building	
<i>Consensus achieved</i>	<ul style="list-style-type: none"> • Consensus achieved on the need to create effective regulatory governance frameworks as a precondition to privatization of network utilities, 2000–2002

Category	Impacts
<i>Additional private sector investment in sector</i>	<ul style="list-style-type: none"> • Private investment of \$1.129 billion from Vivacom for infrastructure/network improvements for fixed access, mobile access, and long-distance telecommunications, 2004–2011

Technical Assistance for Bulgaria’s Gas Sector

In July 1999 Bulgaria adopted the Energy and Energy Efficiency Act, which established the State Energy Regulatory Commission. The Energy and Energy Efficiency Act was designed to provide an appropriate institutional and legislative framework for structural reform in the energy sector through the introduction of market competition, to be regulated by the State Energy Regulatory Commission.

The State Energy Regulatory Commission's role under the Energy and Energy Efficiency Act was to enable a transparent, competitive, and stable business-friendly regime. One of the State Energy Regulatory Commission's main functions was the issuing of licenses to gas distribution companies and permits for the construction of new gas distribution networks. Under the Energy and Energy Efficiency Act the construction of new energy facilities was organized according to projects identified by the State Agency for Energy and Energy Resources. It was the State Energy Regulatory Commission's responsibility to organize the tender process to select investors to construct the new gas distribution projects selected by the State Agency for Energy and Energy Resources. However, the State Energy Regulatory Commission did not have the necessary experience or resources to fulfill this responsibility to ensure an efficient licensing system and transparent tender procedure that would provide the necessary conditions for competition.

It was in the context that the Government of Bulgaria requested support from PPIAF in 2002 to improve the energy's sector regulatory framework in relation to the practical implementation of tendering and selecting investors for the construction of new gas distribution networks, with the aim of attracting a wide range of investors. The starting point for the PPIAF study was the decision by the Government of Bulgaria, under the responsibility of the Ministry of Energy and Energy Resources, to move from the previous regime of licenses based on individual municipalities to larger regional licenses. The Ministry of Energy and Energy Resources defined and published eight large regional license areas that encompassed the existing 33 gas distribution companies. A number of critical issues were raised as a result of this decision, and this led the State Energy Regulatory Commission to request PPIAF support to examine the approach and other options.

The report set out the background to the gas distribution sector, presented potential investors' views received during premarketing consultations, discussed possible strategies for the licensing of the sector, and recommended a tendering approach for licensing larger, regional companies rather than small, municipal-based gas distribution companies for the eight new regions. The overall aim was to enable the government to increase the rate of gasification by reducing costs and improving the efficiency of gas distribution operations and attract larger investors with the necessary financial strength to undertake network expansion wherever it is economic. Given that exclusivity across large regions could be detrimental for network development if the regulations did not sufficiently protect against the under-performance of the investor towards its obligations, the report recommended that the State Energy Regulatory Commission retain powers to modify license areas in the case of non-performance by the investor in order to reduce the risk of leaving marginal areas ungasified.

The report also included a suggested tender process and procedures designed to introduce fair and transparent tendering processing based on a rational approach to licensing, which gave adequate incentives to fewer regional investors while protecting consumer interests. The report outlined recommendations for tendering, including an indicative content of the tender documents, the required submissions by potential bidders, and the evaluation method that could be employed to select a winning bidder.

Finally the report identified some licensing issues that could have legal implications, which might require changes to the legal framework, such as the boundaries of the licensed territories, exclusivity of licenses, competent bodies to carry out tenders, and competent bodies to approve the planning and construction process. The report made recommendations on how the necessary legal changes could be introduced through amendments to the Energy and Energy Efficiency Act.

The government and State Energy Regulatory Commission accepted the recommendations of the PPIAF report to provide a framework to launch the tenders for large new gas distribution regions. Subsequently the State Energy Regulatory Commission launched the tenders to choose gas suppliers for 35-year licenses to operate gas supply systems in the identified regions. From 2003–2006 seven concessions were awarded by the government with combined private investment commitments of over \$477 million. The awarded concessions are listed below:

- The Varna gas distribution project reached financial close in July 2003. The 35-year build, rehabilitate, operate, and transfer concession was awarded to Varnagas, who agreed to undertake commitments of \$36 million to upgrade the gas network.
- The Sofia gas distribution project reached financial close in July 2003. The 35-year build, rehabilitate, operate, and transfer concession was awarded to Sofiagas, who agreed to undertake commitments of \$60 million to upgrade the gas network.
- The Russe gas distribution project reached financial close in October 2003. The 10-year build, rehabilitate, operate, and transfer concession was awarded to Gasosnabdyavane Ruse, who agreed to undertake commitments of \$13.3 million to upgrade the gas network.
- The Miziya gas distribution project reached financial close in February 2004. The 35-year build, rehabilitate, operate, and transfer concession was awarded to Black Sea Technology Company AD, who agreed to undertake commitments of \$46.5 million to upgrade the gas network.
- The Dobrudja gas distribution project reached financial close in February 2004. The 35-year build, operate, and transfer greenfield concession was awarded to Black Sea Technology Company AD, who agreed to undertake commitments of \$46.5 million to upgrade the gas network.
- The Zapad gas distribution project reached financial close in October 2006. The 35-year build, rehabilitate, operate, and transfer concession was awarded to RilaGas EAD, who agreed to undertake commitments of \$71.5 million to upgrade the gas network.
- The Trakia gas distribution project reached financial close in October 2006. The 35-year build, rehabilitate, operate, and transfer concession was awarded to Citygas, who agreed to undertake commitments of \$192 million to upgrade the gas network.

Results of PPIAF’s Support for Bulgaria’s Gas Sector

Category	Outputs
Enabling environment reform	
<i>Plans/strategies prepared</i>	<ul style="list-style-type: none"> • Supporting the development of gas distribution networks in Bulgaria, 2003

Category	Outcomes
Enabling environment reform	
<i>Plans/strategies adopted</i>	<ul style="list-style-type: none"> The government used the PPIAF-funded report to provide a framework to launch the tenders for the new large gas distribution regions. From 2003–2006 seven concessions were awarded by the government.

Project cycle-related assistance	
<i>Transactions facilitated</i>	<ul style="list-style-type: none"> The Varna gas distribution project reached financial close in July 2003. The 35-year build, rehabilitate, operate, and transfer concession was awarded to Varnagas, who agreed to undertake commitments of \$36 million to upgrade the gas network. The Sofia gas distribution project reached financial close in July 2003. The 35-year build, rehabilitate, operate, and transfer concession was awarded to Sofiagas, who agreed to undertake commitments of \$60 million to upgrade the gas network. The Russe gas distribution project reached financial close in October 2003. The 10-year build, rehabilitate, operate, and transfer concession was awarded to Gasosnabdyavane Ruse, who agreed to undertake commitments of \$13.3 million to upgrade the gas network. The Miziya gas distribution project reached financial close in February 2004. The 35-year build, rehabilitate, operate, and transfer concession was awarded to Black Sea Technology Company AD, who agreed to undertake commitments of \$46.5 million to upgrade the gas network. The Dobrudja gas distribution project reached financial close in February 2004. The 35-year build, operate, and transfer greenfield concession was awarded to Black Sea Technology Company AD, who agreed to undertake commitments of \$46.5 million to upgrade the gas network. The Zapad gas distribution project reached financial close in October 2006. The 35-year build, rehabilitate, operate, and transfer concession was awarded to RilaGas EAD, who agreed to undertake commitments of \$71.5 million to upgrade the gas network. The Trakia gas distribution project reached financial close in October 2006. The 35-year build, rehabilitate, operate, and transfer concession was awarded to Citygas, who agreed to undertake commitments of \$192 million to upgrade the gas network.

Category	Impacts
<i>Additional private sector investment in sector</i>	<ul style="list-style-type: none"> Private investment commitments of over \$477 million following seven gas distribution concessions

Technical Assistance for Bulgaria's Wholesale Electricity Distribution Sector

Following the successful privatization of three electricity distribution companies in 2004, the Government of Bulgaria took the decision to undertake a restructuring and privatization strategy for the wholesale power sector in Bulgaria, as part of a reform process in line with European Union accession guidelines, which required the unbundling of the power sector into generation, transmission, and distribution. The European Union also required the unbundling of the distribution business into the “wires business” (distribution) and the “commercial business” (supply).

The Government of Bulgaria announced plans to privatize three generation companies and six district heating assets prior to the June 2005 parliamentary elections. As part of this process the Ministry of Energy and Energy Resources requested PPIAF assistance in 2005 to validate the proposed privatization structure, taking into account the required European Union accession power directives on wholesale competition, and the long term sustainability of the sector. The activity was therefore designed to ensure the creation of a transparent and competitive regulatory framework designed to encourage the participation of foreign investors in the management, operations, and infrastructure development of the Bulgarian power sector.

The report provided an analysis of the wholesale electricity market in Bulgaria as the country prepared for the introduction of wholesale and retail competition in electricity markets, and reviewed planned amendments to the Electricity Market Rules for the Bulgarian wholesale electricity market and the Energy and Energy Efficiency Act. The report also looked at the proposed wholesale electricity market in Bulgaria and its positioning in the proposed South-East Europe regional market.

The reports noted that the Electricity Market Rules followed very closely the structure of the British electricity market, although with some simplifications and omissions, and therefore largely reflected standard international practice. A key area of uncertainty in the report was the future role of the public provider as the body obliged to contract for sufficient capacity to meet demand. The report recommended a different arrangement in which this obligation would be decentralized to other market participants even if current imbalance prices did not provide an adequate incentive for investment. However, there was a concern that the price for deficit imbalances may not rise high enough to encourage investments in new capacity, and that there may be a need for further measures that oblige retailers to pay for investment in capacity or reward generators directly for investing in capacity to avoid or reduce fluctuations in wholesale prices.

The report concluded that once competition was introduced into retail electricity markets, regulators would face a new set of issues as retail tariffs could either be regulated or unregulated, and were constrained only by competition among retailers. The report set out a transitional scheme to reflect the expectation that Bulgaria would switch from a regulated tariff scheme to an unregulated tariff scheme once competition allowed, based on its commitment to achieve full market liberalization by July 1, 2007.

Based on the expected switch to an unregulated tariff regime, the report focused on the concept of a “supplier of last resort” to protect vulnerable customers who cannot find, or who lose through supplier bankruptcy, their supplier, so that these customers in more remote areas would not be forced to pay higher prices through lack of choice or competition, while also creating a level playing field for competition between suppliers. The report recommended that the supplier of last resort should be selected from all eligible suppliers based on a competitive bidding process to ensure that the prices set for the supplier of last resort service reflect competitive cost levels.

Following the delivery of the final report, there was a strong commitment from the Government of Bulgaria to introduce additional competition into the power sector. The government settled on a transition model in which the regulated market was administered on the basis of firm contracts with the public upplier and/or public providers at prices regulated by the State Energy and Water Regulatory Commission. The non-regulated market was based on free price negotiating between the participants (within the quotas of the independent producers determined by the State Energy and Water Regulatory Commission every year).

As recommended in the PPIAF report, the supplier of last resort would supply and sell electricity to the protected consumers (households and small business consumers) at regulated prices.

By 2011, the electricity market in Bulgaria operated under a model in which about 18% of the internal electricity consumption in Bulgaria was traded in the wholesale market at freely negotiated prices, approved by the regulator, a decline on previous years when electricity supplied at negotiated prices took a 25% market share. This decline was attributed to the effects of the global financial crisis. In the same year, the State Energy and Water Regulatory Commission issued licenses to 15 new companies for the activity of “electricity trading,” taking the total number of licensed electricity traders to 82.

Results of PPIAF’s Support for Bulgaria’s Wholesale Electricity Distribution Sector

Category	Outputs
Enabling environment reform	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> • Review of the Bulgarian Wholesale Electricity Market, 2006 • Report on cost pass-through and "supplier of last resort" issues in the Bulgarian wholesale electricity market, 2006
Category	Outcomes
Capacity and awareness building	
<i>Consensus achieved</i>	<ul style="list-style-type: none"> • Consensus achieved on the transition process for the unbundling of the electricity distribution section in Bulgaria