
Republic of Bulgaria

ENERGY REGULATORY DEVELOPMENT PROJECT

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COMPLETION REPORT

Prepared for:

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Local Mission for Bulgaria

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Energy Regulatory Development in Bulgaria

Project Completion Report

1. EXECUTIVE SUMMARY

Pursuant to a Task Order with USAID, Pierce Atwood served for more than three years as full-time energy regulatory development advisor to Bulgaria's independent State Energy and Water Regulatory Commission ("SEWRC"). This Completion Report highlights Pierce Atwood's accomplishments on this project, provides the final status of performance against the Task Order "Benchmarks and Tangible Results," and describes lessons learned during implementation of the Task Order, with suggestions for resolution of identified constraints.

Pierce Atwood was awarded the USAID Energy Regulatory Development Project for Bulgaria in May 2003, with project commencement in June 2003. Pierce Atwood's main counterpart was the State Energy and Water Regulatory Commission, although some support was also provided to the Ministry of Economy and Energy on primary legislative matters. Over the course of the project, Pierce Atwood provided two resident regulatory experts (a U.S.-based resident advisor and local financial analyst) and numerous specialists who assisted through 48 short-term assignments in-country. These experts included several former utility regulators from the United States and Europe as well as experienced Pierce Atwood energy attorneys.

The Task Order outlined four main project focuses: (1) legal development in the energy sector; (2) energy pricing; (3) accounting and financial reporting for the energy companies; and (4) strengthening of the energy regulator. Pierce Atwood's activities within these areas involved:

- development of draft legislation, including laws, ordinances, directions, rules and procedures
- guidance on regulatory frameworks in each sector
- formal and hands-on training
- direct assistance during the privatization processes
- development of tariff methodologies
- drafting of detailed accounting rules and procedures
- education on international best practices

Program activities have had far-reaching impacts on the SEWRC's operations. Major highlights in the four task areas of our program include:

1. Legal Development for the Energy Sector

- Passage of the Energy Law in 2003 giving the SEWRC the authority and responsibility to carry out its activities as an independent energy regulator, including the power to grant licenses, set tariffs, monitor the licensees, audit the licensees and enforce sanctions for noncompliance with license conditions.
- Secondary legislation adopted and implemented by the SEWRC, including regulations on licensing, tariff setting in all three energy sectors (electricity, gas, and natural gas), market access rules, grid codes, accounting rules, and market trading rules
- Successful privatization of the electricity distribution companies (“EDCs”) and the Varna power plant after SEWRC's active role in explaining to potential bidders the relevant regulatory framework – this resulted in the infusion of foreign investment exceeding USD \$1 billion for Bulgaria

2. Improving Tariff Setting Methodologies

- Adoption by the SEWRC of performance-based tariffs for all three sectors, with incentives to the licensee's management to hold down prices while improving service and energy quality for electricity, natural gas and district heating consumers.
- Introduction of competition, where applicable, in both the electricity and natural gas sectors
- The replacement of old uniform national electricity tariff system with the new pricing system based on the actual cost of providing service for each distribution company. Electricity market is to be fully open for competition by July 1, 2007.
- Adoption of differentiated feed-in tariffs for renewable resources to support Bulgaria's goal of 11% energy production from renewable resources by 2011.

3. Accounting

- Adoption of transparent regulations on company accounting and reporting – a huge development in implementing the rule of law in Bulgaria
- Accounting and reporting separation between non-regulated and regulated activities
- Detailed accounting and reporting that provides SEWRC the ability to monitor the licensee's activities through regular licensee reporting and auditing of licensee's accounting by the SEWRC
- Accounts that are the basis for accurate and transparent tariffs to ensure tariffs are based on the actual cost of service

4. Strengthening SEWRC's Capabilities

- SEWRC held its first open hearing on tariff setting in 2003 and now holds up to 150 hearings per year, all open to the public. Licensing and tariff setting in the energy sector are transparent and open to critique and comment from the public.
- Markets are being opened to competition with the knowledge of how to ensure security of supply through power contracting and reserve capacity.

- SEWRC has knowledge of EU energy-related legislation including the unbundling and reporting requirements of the network operators

Pierce Atwood has worked to equip SEWRC with the tools to operate as a well functioning European Union Member State national energy regulator. We have provided hands-on training in-country as well as exposure to international experience through study tours and seminars; drafted rules of practice and procedure; served as a ready resource to address controversial issues as they arose, from customer complaints on service quality to proposed legislation limiting SEWRC's authority; facilitated review of proposed tariffs; drafted rules, laws, model contracts, and licenses; and generally focused on helping SEWRC fulfill its responsibilities through effective and transparent processes and procedures. Today, when measured by prevailing regulatory standards, SEWRC presents many positive regulatory characteristics associated with autonomy, authority, accountability, core competencies and performance, and is well-positioned to successfully carry out its regulatory functions.

2. BACKGROUND

A. Status of Bulgarian Energy Sector

When Pierce Atwood began the Project in the summer of 2003, the Bulgarian energy sector was experiencing serious and chronic problems. While the sector had a basic legal and regulatory framework, it was in the process of enacting a revised primary energy law, and more work was needed to eliminate conditions hostile to reform and lacking funds for infrastructure development. Deteriorating equipment and inadequate maintenance, power theft, nonpayment for services, and political and economic uncertainties were encumbering regulatory development efforts and undermining public support for democratic and free-

market reform.

In the beginning, Pierce Atwood was able to build on the progress achieved by Energy Consultants Heidelberg (“ECH”), an EU PHARE contractor that was supporting the SEWRC in development of an overall regulatory framework. ECH had already identified issues and recommendations for a stable regulatory framework and had drafted reports on several of the tasks necessary to establish a sustainable regulatory agency, and Pierce Atwood was able to build on that knowledge in the first months of the Project.

The legal and structural foundation in place when Pierce Atwood began work on the Project was, in essence:

- An energy regulator established in September 1999 with relatively minimal tariff and licensing authority
- An energy law that was inconsistent with the National Energy Strategy but with a new energy law under development that set the stage for restructuring of all three energy sectors (electricity, gas, and heat)
- A government in negotiations with EU representatives on several of the chapters of their draft accession treaty for joining the EU
- A nuclear station, many thermal stations including several combined heat and power plants (CHPs), seven state-owned electricity distribution companies and a combined electricity transmission and dispatch company (National Electric Company)
- A recently initiated privatization process for the seven state-owned electricity distribution companies that were suffering from heavy energy losses, both commercial and technical
- In the gas sector, tenders for eight separate service territories for gas distribution underway, and the gas transmission company (Bulgargas) was also the single purchaser of gas from GasProm, although the transit pipe carrying gas through Bulgaria to neighboring countries was not under the energy regulator’s authority

- Private investor ownership (AES, Entergy) of the Maritsa East 2 thermal power plants and tenders for construction of Maritsa East 3 and Maritsa East 1 thermal power plants under negotiations
- Recent retirement (December 2002) of two units at the Koluduy nuclear power plants with two more units scheduled to be retired by December 2006
- Major exports of power by NEK throughout Southeast Europe
- Negotiations underway through the so-called Athens Process for signing of a regional energy treaty to develop single energy markets for gas and for electricity
- A design for a reformed electricity market based on bilateral contracts with a balancing market, and some of the related market documents under construction (access rules, grid codes, trading rules)
- Twenty six district heating systems in poor financial shape due to heavy commercial losses, in turn creating commercial losses for the major fuel source, the natural gas companies

B. Task Order Goals and Objectives

To maintain the momentum of reform, the initial objectives of Task Order 804 focused on activities to strengthen the regulatory framework, organization, and competency of SEWRC. The four areas of technical assistance called for by the Task Order were:

1. Improvement of the legal framework for SEWRC's activities;
2. Introduction of state-of-the-art energy tariff mechanisms;
3. Support for the implementation of transparent licensee accounting and reporting regulations; and
4. Strengthening the capabilities of both the Commission and its Staff.

Since the commencement of the Project, Pierce Atwood has prepared, submitted, and received USAID and SEWRC approval of work plans that follow these four Task Order goals and build on the previous year's work. In the next section, we describe each year's

overall work plan and Pierce Atwood's activities and achievements in furtherance of the identified work plan tasks.

3. ACCOMPLISHMENTS AGAINST THE WORK PLAN

With input from SEWRC, Pierce Atwood prepared and submitted for USAID and SEWRC approval annual and quarterly work plans, the former outlining general areas of focus for the coming year, the latter providing more specificity regarding planned activities, such as workshops, specialist TDYs and deliverables. As mentioned above, the work plans tracked the four Task Order goals of legal framework development, tariff development, accounting and regulatory reporting development, and strengthening of SEWRC.

A. Year 1 (2003 – 2004)

The initial annual work plan was submitted and approved in September 2003 for the period July 2003 through June 2004, and explicitly recognized that the schedule for completion of some of the tasks depended on passage of a draft Energy Law then pending before Bulgaria's Parliament. That Law was enacted in December 2003, which delayed some activities scheduled within the first work plan.

The revisions to the Energy Law promoted by Pierce Atwood during the parliamentary process provided the SEWRC with the autonomy, rights, and responsibilities that it needed to become a modern and effective energy regulator. Pierce Atwood brought energy regulators from Hungary and the United States to review the organizational structure of the SEWRC and to provide advice based on their experience working for energy regulators in competitive energy markets.

The SEWRC priorities then turned to drafting the ordinances and charter as required by the Energy Law and to developing the rule and procedures detailing SEWRC's activities summarized within the ordinances. These regulations pertained to licensing, tariff setting, network access rules, trading rules, and grid codes for transmission, distribution and metering.

The SEWRC was also heavily involved in the first year with the privatization of the electricity distribution companies. SEWRC requested focused support from Pierce Atwood on strengthening its capabilities relating to regulation of the newly privatized entities, supporting SEWRC on rules and procedures relating to regulatory oversight of the EDCs' operations, helping SEWRC answer over 10,000 inquiries from potential bidders, and supporting the SEWRC in numerous meetings with the potential bidders. SEWRC requested that other activities within the annual work plan be postponed until the second year of the program so that the privatization effort could stay on track.

B. Year 2 (2004 – 2005)

The second year was focused on the areas that were postponed from Year 1, as well as the privatization of three thermal power plants. The thermal power plant privatization was a high priority of the SEWRC, which Pierce Atwood actively supported in the same way as it did the privatization of the EDCs.

The SEWRC adopted of the Uniform System of Accounts (“USoA”) for the EDCs after long periods of training for both the licensees and the SEWRC on the role of the USoA on regulatory oversight. The USoA included a chart of accounts for the EDCs, the accounting rules, the annual reporting forms, and the instructions to the reporting forms. The process

developed the foundation for the next step: developing the USoAs and their adoption for the rest of the electricity sector and the natural gas sector, also accomplished in Year 2.

Training in the second year included both hands-on and formal training in numerous areas such as license and market monitoring, creditworthiness/collateral requirements in energy markets, regulatory accounting, and performance-based rates. Pierce Atwood recommended that the SEWRC visit other European regulators and USAID approved two World Learning tours of energy regulators, in Portugal and in Austria. Pierce Atwood also provided the SEWRC a workshop retreat in the Bulgarian resort of Borovetz, focused on customer protection in reformed and competitive energy markets.

Another area of focus for the SEWRC in Year 2 was the development of performance indicators for all three energy sectors. Individual indicators on energy quality and service were developed and adopted by the SEWRC for the three sectors. The SEWRC mandated the development of a program of measuring and reporting on the indicators over a two year period.

All activities that were originally planned for Year 1 were completely finished and implemented by the SEWRC by the end of Year 2 of the project. All of Year 2 activities were completed by Pierce Atwood within the program year, but the SEWRC delayed the adoption of the USoAs for the natural gas and heat sectors until Year 3.

C. Year 3 (2005 – 2006)

The remaining activities in the program were covered in the Year 3 work plan, along with support to the Ministry of Economy and Energy in developing amendments to the Energy Law to bring energy legislation compliant with EU requirements. With the passage

of the amendments to the Energy Law, Pierce Atwood provided the SEWRC with a multitude of proposed changes to existing ordinances, rules and procedures. Pierce Atwood also provided a template for development of individual feed-in tariffs for renewable resources.

Pierce Atwood provided extensive support to the SEWRC on unbundling requirements of the network operators within the electricity and natural gas sectors. Pierce Atwood provided guidance to the SEWRC as they reviewed the proposed unbundling programs submitted to the SEWRC for their approval. Pierce Atwood also supported SEWRC in meetings with licensees where the proposed restructuring programs were discussed and examined.

The SEWRC adopted all the USoAs as recommended by Pierce Atwood and requested support in development of a regulatory audit program starting in 2007. Pierce Atwood provided SEWRC with procedures for regulatory review of licensee compliance, reporting procedures, and procedures for regulatory audit and selection of a regulatory auditor.

Training in Year 3 included hands-on training, formal training in many areas including market opening and providers of last resorts. Pierce Atwood provided the SEWRC with a workshop retreat, again in Borovetz, focused on regulatory audits and unbundling of natural gas network operators and on development of open access tariffs for natural gas transmission and distribution licensees.

Appendix A describes the actual deliverables associated with these work plans, by Task. Appendix B describes activities by year, and Appendix D provides a summary of the annual work plan activities and brief description of the accomplishments associated with

performance of the work plan activities.

4. FINAL STATUS OF PERFORMANCE AGAINST THE BENCHMARKS AND TANGIBLE RESULTS

The results in all four task areas – legal development, tariff setting improvement, accounting and financial reporting, and strengthening of SEWRC’s capabilities – were impressive. In addition, Pierce Atwood also produced tangible results that were not specifically identified in the original Task Order executed in mid-2003, but nonetheless fulfilled the overall Task Order objective of strengthening SEWRC in its capabilities. For example, Pierce Atwood directly assisted the Commission in performing its role in the privatization processes for the electricity distribution companies and the electricity generating companies.

Only one task – development of a database for regulatory reporting information by licensees – was not completed during the project term. That task was fulfilled by ECH consultants under an EU PHARE project prior to the beginning of this project. The Task Order requirements and Pierce Atwood’s performance related to benchmarks and tangible results are briefly described below and in more detail in Appendix A.

A. Legal Development in the Energy Sector

Task Order Benchmarks and Expected Tangible Results: *Key power sector reform concepts fully communicated to responsible officials and sound draft law considered by Parliament. Secondary legislation prepared and adopted no later than November 2003. Certain pieces of secondary legislation will be given priority in view of the on-going restructuring and privatization of the sector. In this regard, it is expected that the first draft of the electricity tariff regulation be prepared by April 30, 2003. Development of final draft and adoption of the electricity tariff regulation should be planned for June 30, 2003.*

Actual Results

The Project commenced on June 9, 2003. The new Energy Law was adopted in December 2003. The Tariff Setting Ordinance for the Power Sector was tentatively adopted in September 2003 and then revised in early 2004 after all provisions of the Energy Law. Ordinances and rules were developed and modified through the SEWRC Steering Committee with nearly all key secondary legislation required by the new Energy Act adopted by June 2004. According to the then Minister of Energy, Milko Kovachev, the development and adoption of the primary and secondary legislation as well as Pierce Atwood's extensive support of the SEWRC was the most important factor in the successful privatization of the electricity distribution companies in 2004.

B. Improvement in Tariff Setting Methodologies

Task Order Benchmarks and Expected Tangible Results: *Sound tariff methodology developed in a timely fashion. Tariffs developed with sound financial data based on accepted accounting principles. SERC personnel capable of carrying out full tariff review, modification and public hearing requirements.*

Actual Results

The SEWRC adopted revenue and price cap regulations for all three energy sectors including state-of-the-art performance-based tariffs that protect vulnerable customers including performance indicators for service and energy quality. The basis of the financial information for tariffs is the Uniform System of Accounts completed in Element 3 activities of this Task Order. The reporting forms for each type of licensee for tariff applications is posted on the website of the SEWRC and all information is referenced to the adopted regulatory chart of accounts. The SEWRC initiated public hearing in 2004 and such public hearings are now common practice for the SEWRC involving key issues before them including all tariff and license approvals. The SEWRC staff has completed full tariff reviews with recommended modifications in both 2005 and 2006 under the new performance-based tariff methodology.

C. *Accounting and Reporting in the Energy Sector Licensees*

Task Order Benchmarks and Expected Tangible Results: *Sound and internationally acceptable accounting approach and regulatory reporting requirements developed by 2004.*

Actual Results

The SEWRC adopted the Uniform System of Accounts for the electricity sector in 2004, and using the same approach, later developed and adopted, respectively, individual Uniform System of Accounts for the natural gas companies and for district heating companies. The Uniform System of Accounts includes 1) regulatory chart of accounts for all license types; 2) regulatory accounting rules; 3) annual reporting forms, 4) instructions to the reporting forms, 5) financial statements for unbundled entities including income statement and balance sheets; 6) internal procedures for Staff's review and compliance of the licensee annual reports; 7) regulatory auditing procedures; and 8) selection of an independent regulatory auditor.

D. *Strengthening SEWRC's Capabilities*

Task Order Benchmarks and Expected Tangible Results: *Sound procedures and practices development and human resource capabilities sufficient to carry out SERC responsibilities. Clear plan in place and implementation underway for achievement of appropriate SERC authority, autonomy and accountability by 2006.*

Actual Results

The charter of the SEWRC was significantly revised under the new Energy Act of December 2003. The charter includes many internal procedures of the SEWRC. In 2004, Pierce Atwood supported the SEWRC in revision of their charter after the passage of the December 2003 Energy Act. Besides the procedures within the charter, the SEWRC has adopted numerous other procedures relating to licensing, tariffs, monitoring, and accounting

with the direct involvement of Pierce Atwood. Through the passage of primary legislation, the SEWRC has the appropriate authority, autonomy and accountability, even greater authority and autonomy than many EU country energy regulators. As for accountability, the rulings of the SEWRC have been appealed numerous times to the Supreme Administrative Court; in many instances the SEWRC was ordered by the court to adjust their decisions in line with proper legal procedures.

5. SUMMARY OF PROJECT ACHIEVEMENTS

All key task activities were fully completed during the project term. In addition, Pierce Atwood completed many important tasks not anticipated within the project scope. For example, Pierce Atwood directly assisted the Commission in its role in the privatization process for the electricity distribution companies and the electricity generating companies which resulted in approximately \$1 billion of foreign investment for Bulgaria.

The real success of the project is not what deliverables were provided by USAID, but by the actions of the SEWRC in implementing modern regulation and methodologies for the benefit of all Bulgarian energy consumers. The following is a list of the major project milestones achieved over the 3½ years of the project.

- ❖ June 9, 2003 Project commences
- ❖ September 2003 SEWRC approves the regulatory guidelines for the Electric Distribution Companies
- ❖ December 2003 A New Energy Law is signed by the President that provide more autonomy and authority to the Commission
- ❖ January 2004 Commission holds its first ever public hearing on tariffs
- ❖ February 2004 Commission adopts tariff setting ordinance for the electricity sector

- ❖ March 2004 Commission completes its sessions with the potential bidders for the EDCs and answers all data requests
- ❖ June 2004 Commission's Charter is adopted by the CoM
Power market trading rules are adopted by the Commission
All remaining secondary legislation related to the 2003 Energy Law is adopted
- ❖ August 2004 Commission organization is restructured with a new customer service department
SEWRC issues new licenses for the functional separation of the electricity
- ❖ September 2004 EDCs are privatized
- ❖ October 2004 State-of the art performance-based rates for the EDCs and the NGDCs go into effect – the Commission abandons uniform tariff policy across the country
CoM adopts the Ordinance on Regulatory Licensee Fees that support the independent operation of SEWRC
Several members of the Commission visited the Portugal energy regulator
SEWRC issues new licenses for the functional separation of the natural gas companies
- ❖ November 2004 Commission adopts rules for handling customer complaints and requests for voluntary settlement of disputes
- ❖ December 2004 Commission adopts the USoA for the EDCs
- ❖ January 2005 EDCs start using the new USoA
- ❖ March 2005 Commission adopts the USoA for natural gas transmission company
- ❖ April 2005 Commission completes its sessions with the potential bidders for three TPPs and answers all data requests

Commission adopts tariff directions for the heating companies that provide strong incentives to DH companies to increase their collection rates

- ❖ June 2005 Several members of the Commission visited the Austrian energy regulator
- ❖ October 2005 Bulgaria signs the ECSEE Treaty along with seven other countries thereby establishing the single energy market of Southeast East Europe and SEWRC's representative takes the lead in drafting the regional regulatory operations manual
- ❖ January 2006 Natural gas transmission company officially started to use the USoA and the natural gas distribution companies unofficially started using the USoA (officially January 2007)
- ❖ April 2006 CEZ Group signs privatization agreement for Varna TPP

Commission adopts the USoA for natural gas distribution companies
- ❖ August 2006 Commission adopts the USoA for district heating sector
- ❖ September 2006 President adopts amendments to Energy Law to bring the Law into compliance with EU legislation is adopted and clarifying regulatory uncertainties with the previous Energy Law
- ❖ November 2006 Parliament calls for energy committee hearings on regulatory audits and requests proposed amendments to the Energy Law to strengthen the SEWRC authority to audit the activities of the licensees

The numerous project achievements are provided in more detail in Appendix A. Appendix B contains a summary of project achievements by year.

6. SEWRC'S STATUS AS MEASURED BY EU REGULATORY STANDARDS

An effective and objective way to gauge SEWRC's regulatory development is to perform an assessment through the lens of prevailing regulatory standards in more advanced European Union countries. The premise for the use of such standards is that effective

regulatory authorities must meet certain basic minimum requirements in order to ensure that domestic and regional markets operate with proper oversight and guidance. Furthermore, objective standards provide guidance to developing regulatory bodies by showing them what has worked from experience in mature markets. These lessons learned identify practices that have been proven to enhance the effectiveness and efficiency of regulatory activities.

Pierce Atwood utilized selected standards derived from applicable EU Directives, work memorialized in the Athens Memorandum of Understanding for the Regional Electricity Market in South East Europe, guidance set forth by the Council of European Energy Regulators (“CEER”) in its paper on Independence of the Regulator, and other sources defining basic elements of institutional regulatory and market development (such as *Regulatory Autonomy, Authority and Accountability, Key Characteristics of Regulatory Commissions*, Robert Archer, USAID, February 23, 2001).

Overall, SEWRC demonstrates very favorable marks measured by these standards, both in terms of its competencies and its performance. The three areas that are used for measurement of SEWRC’s status are autonomy, authority and competency, and accountability.

A. Autonomy

The SEWRC is not completely independent of political influence, though that influence does not create major difficulties for the SEWRC in performing their activities as required by the Energy Law. The Commissioners have not been removed and replaced within their five year terms. New appointments are selected through the Council of Ministers and appointed by the Prime Minister. Rulings by the SEWRC cannot be

overturned by the Government. The Supreme Administrative Court can hear appeals on the SEWRC decisions, but only for errors in procedures that the SEWRC did not follow in making a decision. SEWRC develops drafts of the ordinances that cover their activities, though the Council of Ministers adopts the ordinances. To date, changes made to the drafts of ordinances developed by the SEWRC have related only to legislative correction or clarity and not related to technical issues within the legislation. All energy regulatory rules, guidelines, codes and procedures are developed and adopted by the SEWRC. The SEWRC is financed through licensee fees, though the funds are sent to the general State Budget. The Ministry of Finance allocates funds to the SEWRC which has not yet been a problem for the SEWRC in covering all of its expenses.

B. Authority and Competency

The Energy Law provides the SEWRC will all the authority it needs to complete its activities in licensing, price setting, license and market monitoring and rule making. The SEWRC has used this authority in the past three years in providing licensees across all three energy sectors and setting tariffs based on international best practices for incentive-based pricing. It has also adopted a set accounting standards and rules that require the licensees to separate out their unregulated activities from regulated activities as well as accounting separately by the different functions (generation, transmission, distribution, storage and retail sales). The areas that the SEWRC needs to re-enforce are the license and market monitoring activities and the resulting sanctioning of the licensees for violation of license conditions.

C. Accountability

The SEWRC must report annually on its activities to the Government. It also provides information to the Parliament's Energy Committee. Recent events relating to the corruption within the energy sector has resulted in public outcries for more stringent oversight of the energy licensees. The SEWRC has been called to the Energy Committee to provide insights on how the Energy Law can strengthen SEWRC's role in auditing and sanctioning licensees for improper behavior.

The SEWRC is required to provide all of its decisions on its web site and all hearing related to tariffs and licensing are open to the public. The SEWRC's activities and finances are subject to auditing by the National Audit Organization ("NAO"), government agency responsible for auditing all State agencies, ministries, and government-owned entities. The NAO is under major reform and it lacks the capability to perform a professional audit of the SEWRC.

Overall, the SEWRC has significantly improved its status in the last three years, but there remain specific areas that need to be strengthened. Appendix F provides detailed evaluation of 31 variables that measure the SEWRC's performance against regional standards for energy regulators and the areas that need to be strengthened.

7. LESSONS LEARNED DURING IMPLEMENTATION OF THE TASK ORDER, INCLUDING SUGGESTED WAYS TO RESOLVE ANY CONSTRAINTS THAT WERE IDENTIFIED

The experience of USAID's regulatory development efforts in Bulgaria teaches several lessons:

- ✓ **The project focus must be flexible** – Counterparts are not without their own skill sets and the approach to supporting the energy regulator on specific issues may vary depending on what the counterparts need to complement their existing knowledge base. Often, the Commission wished to receive international best practices and guidance on how those best practices could be tailored to Bulgaria’s situation.
- ✓ **Supporting special projects of the counterpart increases their confidence in the consultant and level of cooperation** – The counterpart often has “urgent matters’ to resolve. By supporting the counterpart in resolving these urgent matters, the consultant provides a pattern of problem solving that the counterpart can use in the future and the counterpart learns that the consultant can bring real value in the provided services.
- ✓ **Working groups provide buy-ins** – Each major issue should be resolved not independently by the consultant but through working groups of the counterpart that will take the responsibility of the recommendations to the energy regulators. This allows for graduation of the counterpart Staff to proceed without the consultant’ assistance at the end of the project. It also shows how collaborative rulemaking is an important process for the regulator.
- ✓ **Workshops allow for interactive discussion and exposure of real problems** – At the beginning of a project, formal seminars may be useful to provide necessary background information to the counterpart Staff. However, the project should move into a more interactive process, especially in trainings. Workshops allow for two-way communications between the counterpart Staff and the consultant. In these more informal trainings, the real problems in establishing reforms are exposed. Without this insight, recommendations of any value cannot be developed by the consultant.
- ✓ **Energy regulators can solidify their authority through rulemaking rather than relying on the Government to dictate specific powers in primary law** – The energy regulators may be hesitant to act beyond specific language in the primary legislation. But regulators can initiate rulemakings that go beyond the exact statements in the primary legislation when the rulemaking furthers the goals of the legislation. For example, as part of its broad power to issue trade rules, the regulator can impose conditions on imports and exports, or lead the development of market regulations when there is no specific authority assigned to such a responsibility within the primary legislation.
- ✓ **Public hearings are a useful tool to support the energy regulator in making tough decisions** – Energy regulators are typically apprehensive in

holding public hearings. But once they have experienced a few, they learn that the participants often provide support for decisions that in the past the regulators would have felt isolated in making.

CONCLUSION

Over the last three and half years, Pierce Atwood has helped SEWRC evolve from a newly formed and inexperienced body to an independent, qualified, and fully functioning national energy regulator. Although there are still areas where technical assistance would be beneficial, such as designing and implementing supplier of last resort requirements, Pierce Atwood is confident that SEWRC is armed with the knowledge, skills and resources to address emerging issues related to the transition to a regional market.

APPENDIX A

PROJECT ACTIVITIES AND ACHIEVEMENTS BY TASK

Task I – Development of the Energy Legal Framework			
Task Order Statement of Work	Deliverables	Status	Results
Review of GOB Energy Strategy, concept papers and related documents for principles for the proposed law.	<ul style="list-style-type: none"> ▪ An extensive review of all legislation including EU energy-related Directives. 	Completed	The Energy Law adopted in December 2003 covering all the main principles from the Energy Strategy and EC documents.
Advise and assist as needed during the Parliamentary process.	<ul style="list-style-type: none"> ▪ Drafted White Paper in 2003 that proposed recommended changes to Draft before the Parliament. ▪ Drafted Addendum to White Paper addressing issue of gradual opening of export/import market. 	Completed	The MPs approved the key Energy Law articles consistent with the recommendations of Pierce Atwood (see 2003 Energy Act, Articles 11, 12, 13, 21, 37 & 76))
Provide limited advice as needed on related laws or proposed legislation that may impact the electricity sector reform and privatization.	<ul style="list-style-type: none"> ▪ Developed further amendments in 2003 to the draft Energy Law addressing accounting, reporting, licensing, and administrative procedures. ▪ Support in development of the Law on Insolvency in the energy sector ▪ Report on secondary legislation required under the 2003 Energy Law 	Completed	The privatization of the electricity distribution companies and two generation plants were successfully completed with the SEWRC providing solid regulatory frameworks for the new privatized entities.
Identify any measures that may hinder appropriate SEWRC autonomy, authority and accountability.	<ul style="list-style-type: none"> ▪ Drafted a Code of Ethics ▪ Memo - Comments On Draft Rules of Organization (Charter) ▪ Memo – Public Participation in Regulatory Proceedings and Proposed Tariff Hearing Schedule ▪ Memo – SEWRC Authority on Regulation of Municipal Water Concessions 	Completed	The SEWRC proposed and the Council of Ministers adopted their SEWRC Charter providing it with appropriate authority, autonomy and accountability.

Task I – Development of the Energy Legal Framework

Task Order Statement of Work	Deliverables	Status	Results
<p>Assist with the preparation including drafting of secondary legislation to implement energy legislation (including, among others, secondary legislation on licenses, network access and market rules).</p>	<ul style="list-style-type: none"> ▪ Commented and assisted SEWRC in drafting a licensing ordinance ▪ Advised SEWRC on licensee fee structure and procedures for collection of fees ▪ Supported development of open access rules, licensing of traders, grid codes and market monitoring ▪ Drafted tariff ordinance on electricity ▪ Drafted tariff ordinance for district heating ▪ Drafted tariff ordinance for natural gas ▪ Developed report on review and comments of electric market rules ▪ Supported the development of energy and service quality indicator program for electricity, natural gas and heat energy sectors ▪ Reviewed and commented on draft licenses for the natural gas sector. ▪ Advised on the draft electricity traders' license and provided comments on the draft license and provided draft text on several articles within the draft license ▪ In 2006, provided draft outlines for the SEWRC covering: <ul style="list-style-type: none"> – Stranded costs – Public service obligations – Supplier of last resort – Unbundled electricity transmission tariffs 	<p>Completed</p>	<p>The Council of Ministers has adopted many ordinances including:</p> <ul style="list-style-type: none"> ➤ Tariff Ordinances ➤ Licensing Ordinances ➤ SEWRC Charter ➤ Licensee Fees <p>The SEWRC has adopted many rules and procedures including:</p> <ul style="list-style-type: none"> ➤ Market rules ➤ Grid Codes ➤ Open access rules ➤ Tariff directions ➤ Regulatory accounting rules ➤ Service and Energy quality rules ➤ Draft licenses ➤ Regulatory frameworks

Task II – Tariff Development

Task Order Statement of Work	Deliverables	Status	Results
<p>Review and assess the current status of electricity tariff development including methodology, reporting requirements and process for review and approval including considerations from the GOB strategy and social factors.</p>	<ul style="list-style-type: none"> ▪ Developed a Concept Paper on tariff mechanism for Bulgaria ▪ Developed a report on key tariff issues ▪ Developed a rate proceeding schedule to include public participation ▪ Developed recommendations on service and energy performance indicators for tariffs ▪ Drafted tariff directions for electricity transmission licensee ▪ Drafted directions and tables for electricity producers ▪ Supported SEWRC and energy companies (all three sectors) to develop service and energy quality indicators and program for institutionalizing the indicators in license monitoring and tariff methodologies ▪ Developed detailed comments on pricing proposals for EDCs ▪ Developed recommendations on social safety net program for vulnerable energy consumers ▪ Drafted annual reporting forms for transmission and system operation companies, with instructions 	<p>Completed</p>	<p>The Ordinance on Tariff Setting for the Electricity Sector was drafted by the SEWRC and adopted by the Council of Ministers.</p> <p>Tariff directions and associated tariff application tables were adopted by the SEWRC for the electricity sector.</p> <p>The EDCs filed rates based on the performance-based ratemaking methodologies described within the tariff setting ordinance and the tariff directions.</p>
<p>Provide a brief paper with recommendations and an electricity tariff development plan for agreement with SEWRC.</p>	<ul style="list-style-type: none"> ▪ Developed a pricing framework with a 13 year horizon for privatized EDCs 	<p>Completed</p>	<p>The SEWRC provided comments on the paper and generally agreed with the concept of the plan.</p> <p>SEWRC adopted the EDC pricing framework</p>

Task II – Tariff Development

Task Order Statement of Work	Deliverables	Status	Results
Assist and develop as needed an electricity tariff implementation plan with timelines taking into consideration GOB, multilateral and regional market considerations.	<ul style="list-style-type: none"> ▪ Developed a detailed tariff implementation plan for generation, transmission, distribution and, retail sales 	Completed	The plan was implemented over the last three years. The last piece, separating tariffs for networks and retail supply, is nearly complete
Develop a fair and sound basis for electricity tariff methodologies and review approval process.	<ul style="list-style-type: none"> ▪ Drafted the Ordinance on Rate Setting in the Electricity Sector ▪ Drafted the EDC pricing framework ▪ Drafted the tariff directions and associated tariff application tables for the EDCs ▪ Drafted the regulatory framework for the generating companies ▪ Finalized tariff methodology for EDCs ▪ Supported the development of transmission tariffs 	Completed	New tariff structures have been adopted for the electricity sector
Assist with and develop as needed or modify as appropriate electricity tariff methodologies for distribution and transmission operations, taking into account the pending unbundling of distribution and supply.	<ul style="list-style-type: none"> ▪ Developed specific tariff directions for the electricity licensees that accounted for the unbundling of the distribution and supply functions. ▪ Provided guidelines for transmission access, system use and system services based on the amendments for the Energy Law adopted in September 2006 	Completed	SEWRC adopted separated transmission and distribution network tariffs for eligible consumers and will finalize the complete unbundling of these tariffs in the near future.

Task II – Tariff Development

Task Order Statement of Work	Deliverables	Status	Results
<p>Assist with and develop as needed wholesale electricity tariff methodology taking into consideration degree, timing and phasing in of competition.</p>	<ul style="list-style-type: none"> ▪ Provided a recommended process to be followed in review of fixed prices in LTPPAs. ▪ Provided a report on alternative options to LTPPAs ▪ Provided a report on international experience with capacity availability markets. ▪ Provided training on Hungarian experience with wholesale market reform 	<p>Completed</p>	<p>The SEWRC adopted the recommendations for capacity reserve pricing.</p>
<p>Assist with and develop as needed methodology for a compensation mechanism should a decision to maintain uniform end-user prices across the country be adopted, ensuring that cross-subsidies are not maintained among the regions.</p>	<ul style="list-style-type: none"> ▪ Uniform tariffs ceased with the sale of the electricity distribution companies to private owners. The draft tariff methodologies recommended the elimination of the uniform tariff. 	<p>Completed</p>	<p>The uniform tariff system was abandoned by the SEWRC as recommended by Pierce Atwood.</p>

Task II – Tariff Development

Task Order Statement of Work	Deliverables	Status	Results
<p>Assist with and develop as needed methodology for allocation of additional costs from purchase of electricity from RES at preferential prices so that certain market participants are not given unfair advantage.</p>	<ul style="list-style-type: none"> ▪ Provided a report on international experience with preferential pricing for renewable resources and combined heat and power stations. ▪ Provided an action plan to support LTPPAs from CHPs. ▪ Provided a report on PSO regulations ▪ Developed recommended preferential pricing mechanisms for RES ▪ Provided detailed outlines of procedures for handling stranded costs and public service obligations including additional costs for RES. ▪ Provided a proposal for separation of PSO on customer bills 	<p>Completed</p>	<p>The SEWRC has established feed-in tariffs for hydro and wind facilities. The SEWRC is currently reviewing and modifying the draft procedures for PSOs within the licensing and tariff ordinances so that the additional costs are identified on customer bills and collected/paid through new procedures.</p>
<p>Assist with and develop natural gas tariff methodologies following the same process as defined in the activities above for electricity.</p> <p>Natural Gas Sector</p> <ul style="list-style-type: none"> ○ Review and assess the current status of natural gas tariff development. ○ Provide a brief paper with recommendations and natural gas tariff development plan for agreement with SEWRC. ○ Assist and develop as needed a natural gas tariff implementation plan. ○ Develop a fair and sound basis for natural gas tariff methodologies and 	<ul style="list-style-type: none"> ▪ Developed a Concept Paper on tariff mechanism for Bulgaria. ▪ Developed a report on key gas tariff issues. ▪ Developed a rate proceeding schedule to include public participation. ▪ Detailed comments on the SEWRC natural gas tariff net present value methodology ▪ Developed recommendations on service and energy performance indicators for tariffs. ▪ Supported SEWRC and energy companies to develop service and energy quality indicators and program for institutionalizing the 	<p>Completed</p>	<p>Council of Ministers adopted the ordinance on rate setting in the natural gas sector</p> <p>The SEWRC adopted tariff directions and associated tariff application tables for the natural gas distribution companies and for the transmission, Public Provider and natural gas storage licensees.</p> <p>The SEWRC adopted the service and energy quality program for the natural gas sector.</p>

Task II – Tariff Development

Task Order Statement of Work	Deliverables	Status	Results
<p>review approval process.</p> <ul style="list-style-type: none"> ○ Assist with and develop as needed or modify as appropriate natural gas tariff methodologies for distribution and transmission operations, taking into account the pending unbundling of distribution and supply. ○ Assist with and develop as needed wholesale natural gas tariff methodology. 	<p>indicators in license monitoring and tariff methodologies.</p> <ul style="list-style-type: none"> ▪ Finalized tariff methodology for natural gas distribution companies. ▪ Developed a detailed tariff implementation plan for distribution, transmission, storage, and sales. ▪ Provided a report on the recommendations for working capital allowance for the natural gas transmission company. ▪ Advised on pricing framework for natural gas sector. ▪ Assisted with the development of tariff methodology for natural gas distribution companies. 		

Task II – Tariff Development

Task Order Statement of Work	Deliverables	Status	Results
<p>Assist with and develop of district heating tariff methodologies following the same process as defined in the activities above for electricity.</p> <p style="padding-left: 40px;">Heat Energy Sector</p> <ul style="list-style-type: none"> ○ Review and assess the current status of heat energy tariff development. ○ Provide a brief paper with recommendations and heat energy tariff development plan for agreement with SEWRC. ○ Assist and develop as needed a heat energy tariff implementation plan. ○ Develop a fair and sound basis for heat energy tariff methodologies and review approval process. 	<ul style="list-style-type: none"> ▪ Developed a Concept Paper on tariff mechanism for Bulgaria. ▪ Developed a report on heat energy sector current situation and key issues. ▪ Developed a report on key tariff issues. ▪ Developed a rate proceeding schedule to include public participation. ▪ Developed recommendations on service and energy performance indicators for tariffs. ▪ Supported SEWRC and energy companies to develop service and energy quality indicators and program for institutionalizing the indicators in license monitoring and tariff methodologies. ▪ Developed several reports on overview and key issues of district heating. ▪ Developed a tariff implementation plan for generation, transmission and sales. ▪ Updated a heat tariff implementation plan. ▪ Assisted with the development of district heating pricing framework. 	<p>Completed.</p>	<p>Council of Ministers adopted the ordinance on rate setting in the heat energy sector</p> <p>The SEWRC adopted tariff directions and associated tariff application tables for the transmission (using rate of return regulation).</p> <p>The SEWRC adopted the service and energy quality program for the heat energy sector.</p>

Task II – Tariff Development

Task Order Statement of Work	Deliverables	Status	Results
<p>Assist with the preparation, revision and implementation of regulatory reporting requirements needed to carry out tariff responsibilities.</p>	<ul style="list-style-type: none"> ▪ Developed tariff directions and associated tariff filing tables for rate application purposes for all three sectors. ▪ Developed a report on SEWRC rate application schedule. ▪ Report on development and approval process of short- and long-term investment programs submitted by energy sector licensees. 	<p>Completed</p>	<p>The SEWRC has adopted tariff directions and reporting tables for tariff applications for all three energy sectors, using price cap performance-based tariffs. The tariffs filed in 2005 and 2006 by the energy licensees were based on these directions and tables.</p>

Task III – Accounting/ Regulatory Reporting

Task Order Statement of Work	Deliverables	Status	Results
Review existing accounting methods and standards.	<ul style="list-style-type: none"> ▪ Created a report that reviewed accounting framework and policies. ▪ Provided SEWRC an analysis and review of SEWRC's accounting and reporting practices. 	Completed	The review and analysis provided the starting point for transition to regulatory accounting and reporting for the SEWRC.
Identify the proper accounting mechanisms, both substantively (the chart of accounts) and procedurally (regulations on processes for gathering and maintaining information, including protection of competitively sensitive information); and provide hands-on training so that SEWRC staff understands the accounting and information gathering system.	Provided: Hands-on training on USoA, and Charts of Accounts for each licensee type with: <ul style="list-style-type: none"> ▪ Accounting Rules ▪ Reporting forms ▪ Instructions to the reporting forms 	Completed	The SEWRC has adopted the USoAs for all three energy sectors.
Advise the SEWRC on mandating the use of a Uniform System of Accounts (USoA) developed by SEWRC or acceptable variations of USoA (endorsed by SEWRC) to all Licensees.	<ul style="list-style-type: none"> ▪ Outlined an implementation plan to place USoA for licensees. ▪ Developed Concept Paper for USoA implementation ▪ Finalized draft implementation plan for development of a USoA 	Completed	The 2006 amended Energy Law and secondary legislation provides for compliance with the USoA adopted by the SEWRC.

Task III – Accounting/ Regulatory Reporting

Task Order Statement of Work	Deliverables	Status	Results
<p>Assist SEWRC in developing regulatory reporting formats and in implementing system for monitoring the performance of licensees.</p>	<ul style="list-style-type: none"> ▪ Developed EDCs Chart of Account, reporting forms, and instructions ▪ Finalized instructions for completion of annual reporting forms for gas sector ▪ Finalized annual reporting forms and regulatory reporting forms for EDCs, with instructions ▪ Developed Chart of Accounts, instructions to Chart of Accounts, draft licensee reporting forms and instructions to reporting forms for the electricity sector ▪ Finalized Chart of Accounts for electricity generation and transmission companies ▪ Finalized Chart of Accounts for natural gas sector ▪ Commenced work on Chart of Accounts for district heat sector 	<p>Completed</p>	<p>The reporting forms are adopted for all three sectors and SEWRC along with Pierce Atwood completed a compliance review of the licensee reports.</p>
<p>Assist with organization and management of the Utility Performance Database (UPD): Make necessary recommendations on the hardware, software and staffing needed for SEWRC to properly manage the accounting and reporting obligations of licensees and the monitoring of utility performance.</p>	<p style="text-align: center;">--</p>	<p style="text-align: center;">--</p>	<p>During coordination meeting between USAID and the EU, it was learned that this system was developed by ECH, a consulting firm hired under a predecessor EU PHARE program to support the SEWRC. The SEWRC requested that Pierce Atwood and USAID replace this activity with an activity on credit worthiness and collateral requirements for the competitive the competitive markets. Pierce Atwood developed a detailed report on the subject and provided multiple trainings to the SEWRC as well.</p>

Task III – Accounting/ Regulatory Reporting

Task Order Statement of Work	Deliverables	Status	Results
Review the quality of the reports submitted by the licensees each reporting period for the first year: the quality of SEWRC's data entry, financial modeling and analysis, and actions taken/recommended, and suggest possible improvements.	Along with the Staff from the SEWRC Finance Division, reviewed and assessed several reports from licenses from all three sectors.	Completed	The analysis was performed and changes were recommended.
Work with both SEWRC and regulated utility companies to facilitate adoption of accounting and regulatory reporting requirements needed for SEWRC to carry out its responsibilities.	Met multiple times with SEWRC and energy companies relating to regulatory accounting including reporting to the SEWRC in each of the three energy sectors	Completed	The USoA is now in place in all companies except for small natural gas distribution companies and heating companies which will all begin using the USoA on January 1, 2007.
Advise and assist SEWRC in the development and monitoring of quality standards.	The standards are part of the Accounting Manual developed by Pierce Atwood for all sectors. The monitoring of the standards is incorporated into the regulatory audit procedures developed by Pierce Atwood.	Completed	The SEWRC has adopted the accounting manuals for all three sectors and the regulatory accounting procedures are in final review at the SEWRC and are anticipated to be adopted before the end of 2006.

Task IV – Strengthen SEWRC

Task Order Statement of Work	Deliverables	Status	Results
<p>Review existing SEWRC structure, staffing, practices and procedures and prepare an organizational development plan phased over 30 months including a staff training plan.</p>	<ul style="list-style-type: none"> ▪ Conducted an analysis and drafted a report on recommendations of SEWRC organizational structure, staffing, roles, and communication and presented to SEWRC ▪ Report on SEWRC Charter ▪ Review and assessment of the existing organization to meet future requirements for regulating the power sector 	<p>Completed</p>	<p>The SEWRC submitted the draft Charter for the SEWRC to the Council of Ministers based on Pierce Atwood recommendations and the Charter was adopted by the Council of Ministers as drafted by the SEWRC.</p>
<p>Provide advice, assistance and training to implement organizational development measures.</p>	<ul style="list-style-type: none"> ▪ Recommended new organizational design and work flows ▪ Assessed Management Information Systems ▪ Provided training on the staffing requirements for licensee and market monitoring ▪ Provided extensive training to Staff on tariff development, licensing, license monitoring and market monitoring ▪ Finalized draft SEWRC Rules of Organization ▪ Met several times with the Commissioners to discuss organizational design options ▪ Commented on the proposed Water Regulatory Act to protect the interest of energy consumers from expanding SEWRC responsibilities and lack of resources to meet those responsibilities 	<p>Completed</p>	<p>The SEWRC Charter was adopted by the Council of Ministers</p>

Task IV – Strengthen SEWRC

Task Order Statement of Work	Deliverables	Status	Results
<p>Assist with the development of policies, procedures and practices to carry out effectively SEWRC responsibilities.</p>	<ul style="list-style-type: none"> ▪ Developed licensing application procedures ▪ Recommended open hearing procedures ▪ Provided a detailed description of recommended internal policies ▪ Provided recommendations on procedures for analyzing utility mergers. ▪ Provided a report on the creditworthiness and collateral requirements procedure ▪ Provided recommendations on the level of detail in Decisions ▪ Credit policy procedures for the power market ▪ Stranded cost and PSO proceedings ▪ Restructuring analysis ▪ Market monitoring procedures ▪ Regulatory audit procedures ▪ Procedures for determining suitability for competition of energy services 	<p>Completed</p>	<p>The Council of Ministers adopted</p> <ul style="list-style-type: none"> ▪ the Licensing ordinance that included license application procedures, ▪ the SEWRC Charter that includes work flows within the SEWRC and open hearing processes and many internal procedures; <p>The SEWRC adopted the rules of practice for customer complaints and dispute resolution.</p>

Task IV – Strengthen SEWRC

Task Order Statement of Work	Deliverables	Status	Results
<p>Provide targeted training and assistance in quality standards development and incentives for improved operations.</p>	<ul style="list-style-type: none"> ▪ Supported World Learning in providing two tours of Western European Regulators – Portugal and Austria. – to learn the responsibilities to the EU by a national energy regulator ▪ Conducted separate trainings on: <ul style="list-style-type: none"> – Incentives for improved operations of energy companies – Regulatory written decisions – Met numerous times with working groups from each sector Divisions to discuss types of standards and their use in tariffs and license monitoring 	<p>Completed</p>	<p>The SEWRC adopted the service and energy quality programs for all three energy sectors.</p>
<p>Provide targeted training and assistance in monitoring and enforcement of license conditions.</p>	<ul style="list-style-type: none"> ▪ Conducted separate trainings on: <ul style="list-style-type: none"> – Effective licensing control – Electricity licensing and monitoring – Providing incentives for improved licensed operations – License and Market Monitoring workshop – Regulatory auditing workshop 	<p>Completed</p>	

Task IV – Strengthen SEWRC

Task Order Statement of Work	Deliverables	Status	Results
<p>Provide targeted training and assistance in competitive electricity market concepts and role of the regulator.</p>	<ul style="list-style-type: none"> ▪ Conducted separate trainings on <ul style="list-style-type: none"> – Role of regulator in competitive market – Power Exchange (3 sessions) – Long-term PPAs – Tools & Resources Used in Competitive Markets – Capacity Mechanisms in Power Markets – Hungarian Power Market Reform and its Relevance to Bulgaria – Provided a report on Ancillary services in power markets and discussed with several SEWRC personnel and NEK personnel 	<p>Completed</p>	<p>The SEWRC has adopted the rules and procedures of the power market and is periodically changing the rules and procedures based on advice of consultants.</p>
<p>Provide targeted training and assistance in harmonization with regional regulatory arrangements and role of the regulator with respect to electricity exports and imports.</p>	<ul style="list-style-type: none"> ▪ Conducted separate trainings on: <ul style="list-style-type: none"> – Harmonization of Bulgaria's energy regulations with regional energy regulations – Creditworthiness and collateral requirements – Market monitoring and energy market reporting – Power system operator – Role of energy efficiency in regulated energy markets – Financial clearing and settlements in the power markets – Supported SEWRC in development of a presentation on USoA concepts for SEE regulatory bodies 	<p>Completed</p>	<p>The SEWRC is taking an active part in the development of the regional market, with a good possibility of taking the chair of the regional energy regulatory body.</p>

Task IV – Strengthen SEWRC

Task Order Statement of Work	Deliverables	Status	Results
<p>Provide targeted training and assistance in treatment of technical and commercial losses in tariff development.</p>	<ul style="list-style-type: none"> ▪ Conducted separate trainings on: <ul style="list-style-type: none"> – Provided a report on technological methodologies for the three energy sectors – Providing training on commercial and technical losses in tariffs – Supported the development of the energy losses for distribution network in the EDC regulatory framework – Drafted the tariff directions for the transmission and distribution network licensee that included pricing of energy losses on the networks 	<p>Completed</p>	<p>The SEWRC has adopted the methodology for technological costs of the three energy sectors</p>
<p>Provide training of SEWRC in accounting and tariff methodology, as well as an overall focus on institutional strengthening to develop an underlying structure that brings sustainability to tariff and accounting development.</p>	<ul style="list-style-type: none"> ▪ Conducted separate trainings on: <ul style="list-style-type: none"> – Accounting systems in gas sector – Accounting unbundling – Regulatory accounting for gas companies – Regulatory accounting for electricity distribution companies – For Overgas on regulatory accounting principles in the natural gas distribution companies 	<p>Completed</p>	<p>The electricity, natural gas and district heating personnel divisions attended numerous trainings and working group meetings and now handle all tariff methodology issues. USoA issues are handled by the Finance and Customer Affairs department. The new methodologies have not only been adopted by the SEWRC, they have also been implemented by the licensees in their accounting, tariff and regulatory reporting activities.</p>

Task IV – Strengthen SEWRC

Task Order Statement of Work	Deliverables	Status	Results
Define, based on GOB Strategy and Energy Law, SEWRC role in dispute resolution.	<ul style="list-style-type: none"> ▪ Dispute resolution was defined in the Rules of Organization after the adoption of the 2003 Energy Law. ▪ Advised the SEWRC to move the customer complaint and dispute resolution department into the technical side of the Staff and provide higher level expertise in the department. ▪ Developed a specific program to follow for one of the Staff members while visiting the New Jersey Energy Regulator for two weeks to learn about dispute resolution. 	Completed	SEWRC handles literally hundreds of complaints a year through its adopted dispute resolution procedures.
Strengthening SEWRC's autonomy by identifying legal and administrative measures to achieve appropriate autonomy.	<ul style="list-style-type: none"> ▪ Strongly recommended to the Ministry of Energy and to Parliament Members that SEWRC be a financially independent agency to be specified in the Energy Act. ▪ Recommended a licensee fee structure for the SEWRC that would fund a SEWRC budget ▪ Recommended that SEWRC draft all relevant Ordinances for CoM review related to energy regulation ▪ Recommended that Commissioners' terms would be staggered thus reducing political appointments all at one time 	Completed	The SEWRC is not completely independent, but it has reached a level of autonomy that rivals any existing EU regulator.

Task IV – Strengthen SEWRC

Task Order Statement of Work	Deliverables	Status	Results
Define clearly SEWRC authorities to provide clear scope for regulatory work.	<ul style="list-style-type: none"> ▪ SEWRC conducted its first public hearing ▪ Recommended that SEWRC only provide general information in Ordinances adopted by the CoM and for SEWRC to adopt regulatory guidelines, detailed directions, rules and procedures for all regulatory matters ▪ Public Service Obligations under Bulgarian and EU legislation. ▪ Provided a report on the need for strong regulatory framework for attracting investors in the energy sector. ▪ Several regulatory frameworks were drafted 	Completed	The adopted 2003 Energy Law provides the general authorities of the SEWRC, the adopted SEWRC Charter provides more details, and other secondary legislation provides even further detail (tariff setting, licensing, and license fees).
Identify and recommend steps to assure appropriate SEWRC accountability including but not limited to annual audit and reporting, public access, transparency of procedures and decisions, code of ethics and appeal of decisions.	<ul style="list-style-type: none"> ▪ Annual reporting to CoM required by the Energy Law adopted in December 2003 and in the Rules of Organization adopted in February 2004 and January 2005. ▪ Public can attend tariff and licensing hearings and provide written comments, NGOs representing end-users can actively participate in hearings ▪ All regulations and decisions are posted on the website of the SEWRC. ▪ Developed a draft code of ethics for the Commissioners. 	Completed	<p>Public access is at a high level for decision-making process and decisions.</p> <p>Media takes an active role in the decision-making process and providing access to the public</p> <p>There is an average of 20 appeals per year of SEWRC decisions, which normally require the SEWRC to modify their decisions.</p> <p>The SEWRC website is updated each week on pending cases and decisions. All relevant secondary legislation is on website, many of the acts in English. Tariffs and licenses are also posted on the site.</p> <p>The SEWRC develops an annual report and is subject to audit by the National Auditing Office.</p>

Task IV – Strengthen SEWRC

Task Order Statement of Work	Deliverables	Status	Results
<p>Advise Commissioners and staff on economic issues related to electricity market design and operations and on electricity trade and transit and related issues.</p>	<ul style="list-style-type: none"> ▪ Conducted separate trainings on: <ul style="list-style-type: none"> – Modifying the capital asset pricing model for Bulgaria – Load data required for rate design purposes – Cost allocation methodologies for utility pricing – Local characteristics in designing utility rates for electricity and natural gas – Treatment of technical and commercial energy losses in tariff development – Methodologies used in determining cost equity – Tariff setting under revenue cap method – Modifying the capital asset pricing model obligation – Using a modified capital asset pricing model – Framework for price cap regulation in heat sector – Natural gas tariff concepts – Cost allocation for natural gas – Credit Worthiness and collateral requirements for market players – Customer load characteristics – Power market financial clearing settlement – Load research and load profiling – Power system operator – Methods of control in various market structures – International experience on market 	<p>Completed</p>	<p>The market rules, open access rules and grid code were adopted in 2004 and revised periodically.</p>

Task IV – Strengthen SEWRC

Task Order Statement of Work	Deliverables	Status	Results
	transformations <ul style="list-style-type: none"> – Tools and resources used in mature competitive power markets – Bidding strategies for generating companies in competitive markets – Long-term power purchase agreements – International practice in capacity mechanisms – Power Exchange Design and Development – Relationship between Power Exchanges and ETSOs 		
Advise SEWRC on regulatory issues related to Bulgarian participation in regional electricity markets.	<ul style="list-style-type: none"> ▪ Advised on and provided training: <ul style="list-style-type: none"> – Alternative Proposals to long-term power purchase agreements – International experience with capacity mechanisms – EU Directives relating to energy markets – Harmonization of Bulgaria's energy regulations with regional energy regulations ▪ Reviewed and commented on the Cross-border trader rules for SEE. ▪ Supported Commissioner Vlatchkov in SEE regional market documents review ▪ Supported the SEWRC in an international conference on market opening that included several SEE energy regulators 	Completed	<p>Commissioner Vlatchkov was elected as the leader of the working group on development of the rules of practice for SEE regional energy board</p> <p>The cross border trade rules for SEE were adopted by all the ETSOs in SEE.</p> <p>Commissioner Vlatchkov has been selected as Bulgaria's representative on the SEE Regional Energy Regulatory Body and may become its first chairman.</p>

APPENDIX B

SUMMARY OF ACHIEVEMENTS BY YEAR

Task	Year 1 July 2003 – June 2004	Year 2 July 2004 – June 2005	Year 3 July 2005 – June 2006	Year 4 July 2006- Dec. 2006
<p>Development of Legal Framework</p>	<p>Primary Legislation: Pierce Atwood was actively involved in the Parliamentary process on review and adoption of the Energy Law in 2003. The law was under significant debate in the Parliamentary Commission over an extended period of time. Three issues particularly demanded attention: extension of the existing Commissioners' mandates; authority to issue secondary legislation; and sources of funding. Several meetings were held with the Parliamentary Committee to discuss each of these issues.</p> <p>As adopted, the 2003 Energy Law provided for the extension of the existing mandates for all Commissioners (Article 12) and retained staggered terms (an important feature for Commission continuity and stability) (see Article __ of the Energy Act.). The law did require Council of Minister approval of ordinances drafted by the Commission, although in practice the Council of Ministers has never made any change of significance to the draft ordinances submitted to them. The Law called for a new licensee fee ordinance that removed the Commission funding from the State General Budget, with any excess funds released to the State Budget as recommended by Pierce Atwood.</p>	<p>Primary Legislation: The key piece of new legislation impacting the Commission was the new Water Regulation Act. Pierce Atwood reviewed the draft Act and provided comments on the impact that the Act may have on the Commission's ability to effectively regulate the energy sector. Relevant issues included the number of total Commissioners and balanced voting on water and energy issues, changes in the Commission's Charter, the number of staff and their allocation to energy matters, required experience to be a Commissioner, and the transfer of staff (knowledge) from energy divisions to the water division.</p> <p>Secondary Legislation: The Commission requested that Pierce Atwood provide comments on the draft licenses developed by the Commission for energy traders in the electricity and natural gas sectors. Pierce Atwood's comments focused on collateral requirements in the power market, protection of confidential information, fair and non-discriminatory access to customer account information, and annual regulatory reporting requirements.</p> <p>Other legal areas covered by Pierce Atwood in the second year included the draft</p>	<p>Primary Legislation: Pierce Atwood in early 2006 attended several meetings of the Working Group formed by the Ministry of Economy and Energy to develop recommended amendments to the Energy Law. Pierce Atwood provided comments directly to the Working Group as well as through written documents explaining the need to encourage real market opening in both the gas and electricity markets, harmonize the terminology between Bulgarian energy legislation and EU energy legislation, harmonize legislation with the ECSEE Treaty, and provide consumer protection with energy regulations. Though the Ministry of Economy and Energy Staff did not disagree with Pierce Atwood's comments, due to the time constraint to pass the amendments to the Energy Law to bring it into compliance with EU legislation, other issues such as those brought up by Pierce Atwood would be incorporated into another round of amendments in 2007.</p> <p>Secondary Legislation: The third year's focus on license issues covered unbundling of services to be provided by the legally separated entities of the vertically integrated companies and the conditions for providing those services. These entities included NEK, Bulgargas, the EDCS and natural gas</p>	<p>Primary Legislation: New amendments to the Energy Law were adopted in September 2006. The intent of the amendments was to bring the Energy Law into compliance with EU legislation. The Law also provided clarification on several administrative issues particularly beneficial to the Commission in its dealings with the Supreme Administrative Court on appeals of tariff applications. Another change was to provide the Commission with the authority to determine what information from the licensees is confidential (previously the Ministry of Economy and Energy had that authority).</p> <p>The Ministry of Economy and Energy recognizes that the Law still requires additional changes and more amendments to the law are expected to be developed and adopted in 2007. Pierce Atwood provided detailed recommended amendments to the Law on numerous topics which will be a good basis for the next set of amendments.</p> <p>Secondary Legislation: The Commission late 2006 requested Pierce Atwood's support in development of the amendments to the Licensing Ordinance based on the recent adoption of the amendments to the Energy Law. Pierce Atwood developed recommended amendments to the licensing ordinance with specific focus on default</p>

Task	Year 1 July 2003 – June 2004	Year 2 July 2004 – June 2005	Year 3 July 2005 – June 2006	Year 4 July 2006- Dec. 2006
<p>Development of Legal Framework</p>	<p>Also, although the law mitigated NEK's import-export monopoly by opening up of cross border trade if Bulgaria signed a reciprocity agreement with one of its neighbors providing the same conditions to apply, unfortunately, Bulgaria has not yet signed a reciprocity agreement.</p> <p>Secondary Legislation: SEWRC's Legal Division requested support from Pierce Atwood in drafting several sections of the Ordinance on Licensing. These topics included description of business plans to be filed by the licensees to the Commission and the issues to be considered by the Commission during the process of evaluating mergers and acquisitions within the energy sector.</p> <p>Pierce Atwood provided written documents as well as hands-on training for development of internal procedures of the SEWRC. A good example of this in the first year was the development of procedures for holding public hearings on tariff applications. Pierce Atwood met many times with the SEWRC working group on tariff applications to discuss the aspects of public hearings. The Commission was not in favor of public hearings but after encouragement by Pierce Atwood's team, it held its first public hearing on tariff applications in January 2004.</p> <p>Pierce Atwood provided support to the Commission on development of other energy-related secondary legislation. These included among many others the tariff ordinances for the natural gas and district heating sectors, power market rules, electricity system access rules, electricity</p>	<p>procedures for creditworthiness checks and collateral requirements for the power market, memo on issues relating to utility mergers, overview of power market monitoring procedures, and guidelines for calculation and recovery of stranded costs and public service obligations.</p>	<p>distribution companies. The power and gas markets must have, according to EU legislation, a supplier of last resort which needs to be licensed by the energy regulator. Bulgaria is proposing to supply regulated retail energy service (default service) to households and small business that decide not to enter the competitive energy markets. In addition to these concerns, Pierce Atwood provided details the Commission on compliance programs by the system operators to ensure open and non-discriminatory access to their networks. Pierce Atwood recommended to the Commission that all of the above issues should be incorporated into the licensing ordinances for the system operators and the retail energy suppliers.</p>	<p>service requirements, supplier of last resorts requirements, unbundling of the system operators and protection of vulnerable consumers.</p> <p>The Commission also requested outlines or written guidance on numerous issues that would need to be covered in secondary legislation once the amendments to the Energy Law were approved in September 2006. These documents included outlines on legislation for supplier of last resort, default service, market settlement procedures, market monitoring procedures, stranded cost calculation and cost recovery procedures, public service obligations cost calculation and cost recovery procedures, customer switching rules, and a vulnerable customer protection plan.</p> <p>At the request of the Commission's legal division, Pierce Atwood provided a detailed outline for a communications plan for the Commission to educate the public on power market opening. On seeing the draft Communications Plan, the Chairman of the Commission asked for a similar plan for natural gas market opening which Pierce Atwood also developed and provided to the Commission.</p>

Task	Year 1 July 2003 – June 2004	Year 2 July 2004 – June 2005	Year 3 July 2005 – June 2006	Year 4 July 2006- Dec. 2006
	grid codes and electricity metering code.			
Development of Tariff Methodologies	<p>The initial tariff development work for the Commission was on the development of a framework for the electric distribution companies. This framework was completed and adopted by the Commission by September 2003. This tariff framework or guidelines provided the first step for the Commission in introducing performance-based energy tariffs for Bulgaria. The tariff guidelines provided for a tariff mechanism that included an efficiency improvement variable (so-called X-factor), incentives to reduce losses (technical and commercial), incentives to improve collections, and minimum standards of service and energy quality performance. The tariff mechanism also included the concept of regulatory periods that lasted up to five years with an annual cap on revenue requirements. The guidelines were used in the privatization process for the EDCs, used in development of the Ordinance on Tariff Setting in the Electricity Sector that was adopted by the Council of Ministers and for development of the detailed tariff direction that were adopted by the Commission.</p> <p>The tariff ordinances for each energy sector (electricity, gas and district heating) were developed and adopted in the first year of the project.</p>	<p>In the second year of the project, detailed tariff direction (instructions or methodologies) were developed by Pierce Atwood for the electricity and natural gas sectors. Each set of directions included a set of template forms that are to be provided with tariff applications for a licensee. The Commission approved these directions within the second year for both sectors.</p> <p>The Commission and the Electricity Market Operator requested Pierce Atwood to provide international practices on introducing ancillary services into power markets. Pierce Atwood provided several documents from the US and Western Europe, provided informal training to both the Commission Staff and the EMO staff on these best practices and provided a proposal framework for introducing ancillary services into the Bulgarian power market.</p>	<p>In the third year of the project, detailed tariff direction (instructions or methodologies) were developed by Pierce Atwood for the district heating sector. The set of directions included a set of template forms that are to be provided with tariff applications for a licensee. The Commission approved these directions within the third year of the project.</p> <p>Pierce Atwood provided a discussion paper on separating functional services on electric retail company bills. The paper was later followed up with a workshop on the same subject. Pierce Atwood also provided several documents at the request of the Commission including Promotion of CHPs in Bulgaria, Establishing Retail Electricity Service Charges, Comments on the Commission-developed Renewable Resource Pricing Guidelines and Proposed Feed-in Tariffs for Wind-power Projects.</p>	<p>The EU-mandated unbundling of the system operators requires an unbundling of the accounting information and unbundling of the services of the vertically integrated companies for the newly created legally separate companies. Pierce Atwood provided: international experience on unbundled tariffs including an EC benchmark report on electricity transmission tariffs in the EU; draft guidelines on electricity transmission tariffs; proposed transitional plan for natural gas transmission tariffs; recommendations on amending the tariff ordinance for the natural gas sector; and met with Bulgargas several times to develop a plan for the accounting and functional unbundling of the integrated utility.</p> <p>Pierce Atwood provided the Commission with a draft set of criteria to be used in determining the top-up price (the added amount above the minimum price of 70% of the previous year's average retail electricity rate) for renewable resources. Pierce Atwood provided a second set of similar criteria for combined heat and power plants. The Commission used these criteria as the basis for updating the Tariff Setting ordinance for the Electricity Sector.</p>
Accounting and Reporting Requirements	<p>The concepts of the regulatory Uniform System of Accounts ("USoA") were completely foreign to the Commission when this project started. The USoA provides a detailed set of financial accounts for meeting the information requirements for the energy</p>	<p>The Commission adopted the first USoA for the energy sector in the second year of the project. This USoA was for the EDCs that were ordered to change their accounting system starting January 1, 2005.</p> <p>Pierce Atwood worked extensively with the</p>	<p>Pierce Atwood worked with the Commission staff and accounting personnel of the Sofia and Plovdiv district heating systems in the development of the USoA for the district heating sector. By the end of the third year, the USoA for the district heating sector was</p>	<p>Pierce Atwood developed two key documents relating to license monitoring: a draft set of regulatory audit procedures and a draft procedure for selection of a regulatory auditor. Pierce Atwood also examined the filings from the electricity and</p>

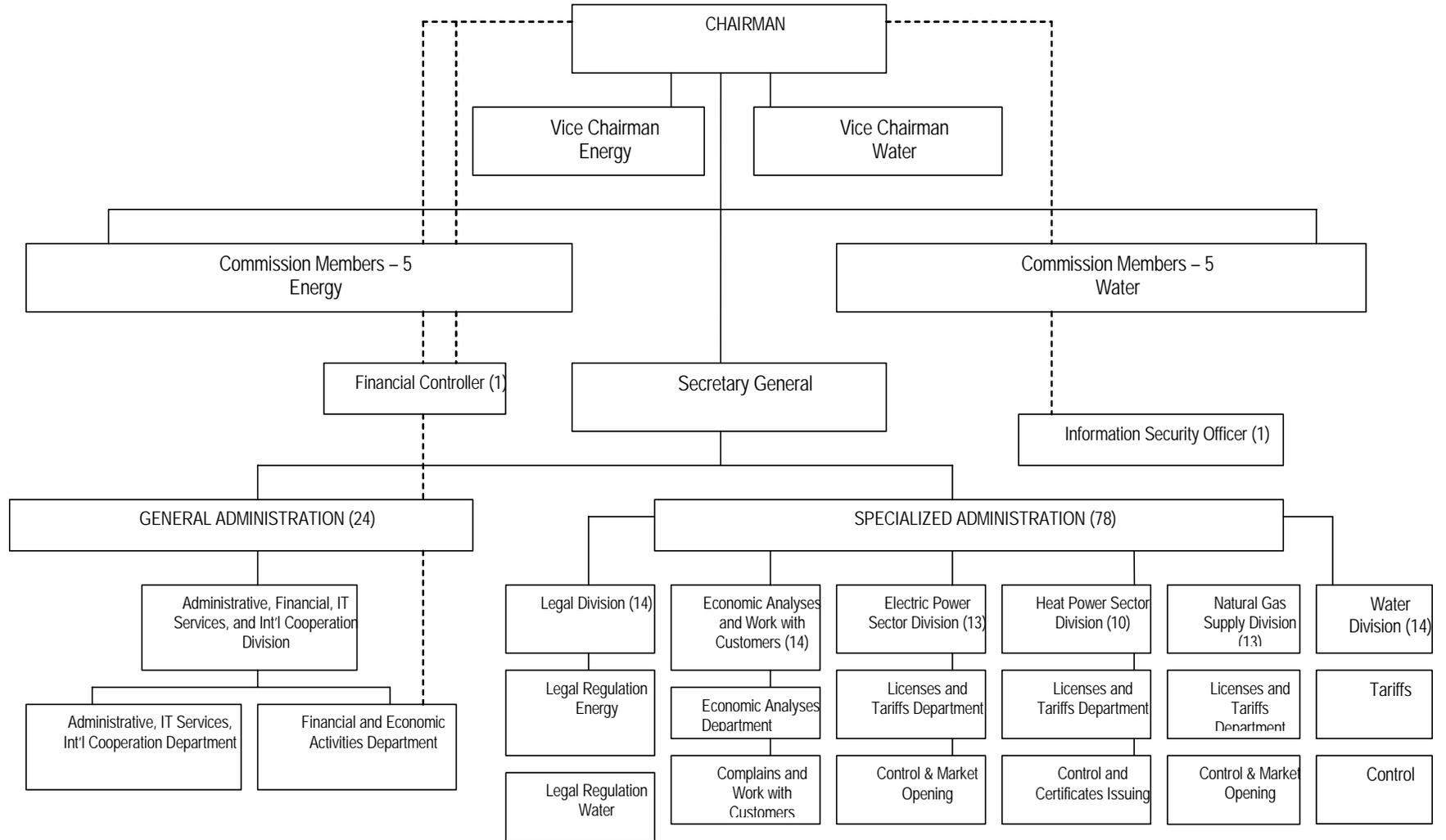
Task	Year 1 July 2003 – June 2004	Year 2 July 2004 – June 2005	Year 3 July 2005 – June 2006	Year 4 July 2006- Dec. 2006
Accounting and Reporting Requirements	<p>regulator. Each licensee type has a separate USoA. During the first year of the project, Pierce Atwood focused on strengthening the Commission's knowledge of the USoA concepts and development of the USoA for the Electric Distribution Companies.</p> <p>Within the USoA for the EDCs, Pierce Atwood developed several draft documents: chart of accounts, regulatory accounting rules, annual reporting forms, instructions to the annual reporting forms and several template financial statement – balance sheet, income statement and cash flow statement. Pierce Atwood provided several trainings to the Commission and visited several EDCs to introduce these new concepts and to gain acceptance of them as useful regulatory tools.</p> <p>During this first year, Pierce Atwood also created draft USoA documents for the electricity generating plants and provided these documents to the Commission.</p>	<p>Commission's staff and with the accounting personnel of the natural gas companies to develop the USoAs for both the natural gas transmission companies and for the natural gas distribution companies. Bulgargas and Overgas, the largest distribution company, converted their accounting systems based on the draft USoA even though the USoAs were not adopted until March 2005. By the natural gas companies doing so, the natural gas sector and the electricity sector were under USoA systems for all of 2005. The result of such action was to provide invaluable information and experience to the Commission on the implementing USoAs in the energy sector.</p>	<p>in its final draft form ready for Commission approval.</p> <p>Pierce Atwood finalized the draft USoA for the transmission company, NEK and submitted the draft to the Commission. At this time, no final decision has been made by the Commission on the adoption of the USoA for NEK. Once the unbundling of the TSO from NEK occurs at the beginning of 2007, the Commission is expected to approve the USoA for the TSO.</p>	<p>natural gas companies to ensure that the licensees had complied with the USoA requirements.</p> <p>The Commission adopted the USoA for the district heating system that will become effective on January 1, 2007. This action by the Commission means that they have adopted USoAs for all three energy sectors, the first country in the region to do so.</p>
Strengthening SEWRC	<p>Organizational Development: The 2003 Energy Law provided for a change in the organization of the Commission and a new Charter to be drafted and approved by the Council of Ministers. Pierce Atwood invited Ron Eachus (ex-US energy regulator) and Gabor Szorenyi (Hungarian energy regulator) to review, assess and recommend changes to the Commission's organization. After several meetings with Pierce Atwood's resident advisor, the Commission developed a significantly different organization.</p> <p>There is a heightened focus on customer relations with a new department focused on</p>	<p>Organizational Development: Pierce Atwood attended several Commission working group meetings on the re-organization of the Commission to regulate both the energy and water sectors. A major concern with the new responsibilities of the Commission was that the focus of the Commission attention would be diverted from energy issues to the water sector. Pierce Atwood recommended that the energy sector divisions' staffing level be left alone and that the legal and financial staff supporting both water and energy would increase. These recommendations were</p>	<p>Training: Pierce Atwood provided targeted training on topics requested by the Commission including green energy trading in the US, green energy trading in Western Europe, stranded costs and PSO cost recovery procedures, and the role of the supplier-of-last resort and default service.</p>	<p>Training: The training in the fourth year of the project focused on power market reform, unbundling of the system operators, regulatory auditing, tariffs for system operators, and consumer protection. Pierce Atwood and the Commission held two workshops in Borovets, one on customer protection in competitive energy markets and the other on natural gas unbundling and tariff development for the system operators.</p> <p>A major accomplishment during the fourth quarter for the project was the strengthened</p>

Task	Year 1 July 2003 – June 2004	Year 2 July 2004 – June 2005	Year 3 July 2005 – June 2006	Year 4 July 2006- Dec. 2006
<p>Strengthening SEWRC</p>	<p>customer complaints and dispute resolutions. Personnel assigned to tariff reviews were aligned with license monitoring within each sector division. Administration was consolidated within one division. The Chief Secretary was given higher level of responsibility to cover administrative activities to relieve the Chairman of day to day administrative duties. The new Commission organization also included new departments in the electricity and natural gas divisions that are responsible for competitive market development and monitoring.</p> <p>Privatization: The Commission requested support from Pierce Atwood in their role within the privatization process for the EDCs. This support included development of the tariff guidelines for the EDCs, draft accounting rules for the EDCs, preparation of the Commissioners on issues that the bidders would ask for clarification, supporting the Commission on answering a multitude of written inquiries from the potential bidders and supporting the Commission during several meetings with each potential bidder. In the end, the Commission with Pierce Atwood's support answered over 10,000 questions. The EDCs were privatized and the payment from the finalist exceeded €700 million. The Minister of Energy wrote to the resident advisor stating that the sole reason that the privatization was so successful was the significant contribution made by Pierce Atwood in supporting the Commission.</p> <p>Training: The formal training in the first year</p>	<p>accepted by the Commission and the new Charter including these recommendations was adopted by the Council of Ministers in early 2005. Appendix C provides the existing organizational chart for the Commission.</p> <p>Privatization: The privatization of three thermal power plants received significant attention by the project Team during the second year of the project. The Commission Staff supporting the privatization process was quite different from the Staff that supported the EDCs privatization process, thus requiring repeat training but, on the other hand, providing invaluable experience to more members of the Staff. Personnel from the legal, finance, electricity and district heating divisions participated in the process. Similar to the EDCs privatization process, Pierce Atwood developed draft guidelines on the regulatory framework for generating plants including combined heat and power plants, answering a multitude of inquiries from potential bidders and supporting the Commission during multiple meetings with each potential bidder. Unlike the EDCs the number of active bidders exceeded 10 thus requiring the equivalent of weeks of meetings with the potential bidders. The result of the privatization process was the sale of the Varna power plant to the CEZ Company. The sale of Bobov Dol power plant was tied up in court for two years, but the negotiations with the finalist and the government are not active and will most likely result in the sale of the plant. The other plant, Ruse thermal station, was removed from the privatization process due to lack of interest but has since been put</p>		<p>capability of the Commission on the process for evaluating and approving the restructuring plans for licensees. Pierce Atwood provided the Commission a detailed matrix of unbundling requirements for NEK, Bulgargas and the EDCs as well as a proposal for internal review and evaluation of the restructuring plans. The resident advisor made a long presentation to Bulgargas on the unbundling requirements for gas TSO per the EU regulations and based on the comments included in the EC annual reports on gas market openings. At the Borovets workshop in November 2006 Pierce Atwood provided detailed information on the accounting unbundling and unbundled services for the transmission and distribution companies in the natural gas sector.</p>

Task	Year 1 July 2003 – June 2004	Year 2 July 2004 – June 2005	Year 3 July 2005 – June 2006	Year 4 July 2006- Dec. 2006
<p>Strengthening SEWRC</p>	<p>reinforced the issues developed in the legal, tariff and accounting. The informal training within numerous working groups also supported these issues. After the first year, the Staff was knowledgeable of performance-based price regulation, regulatory accounting and its role in supporting the activities of the Commission, the role of the public hearing as a useful tool for regulating the energy sectors, and basic competitive market concepts.</p>	<p>into a new privatization process where three investors have submitted bids for the plant.</p> <p>Training: There were several aspects to training support in the second year. There was formal training relating to harmonization of the regulatory procedures in the EU, regulatory accounting in the natural gas and district heating sectors, EU directives, competitive power market concepts, modern tariff concepts, and licensee and market monitoring processes. During the year the project team members spent many days attending working group meetings providing guidance on numerous issues, especially those related to tariff, regulatory accounting and privatization.</p> <p>Through USAID, the Project Team requested a study tour financed by World Learning for the energy regulator. Portugal was selected and ten members of the Commission visited the Portugal energy regulator in October 2004. After this successful trip, the Project Team requested a second study tour for the Commission to Austria. In June 2005, seven members of the Commission visited the Austrian energy regulator, E-Control. Both of these study tours brought tremendous insight on a modern and mature energy regulator as well as insights on the transformation of the energy regulators in meeting the EU energy legislation requirements.</p>		

APPENDIX C

SEWRC ORGANIZATIONAL CHART



APPENDIX D

ACCOMPLISHMENT AGAINST THE WORK PLAN

Work Plan Task	Accomplishments
<p><u>YEAR ONE</u></p> <p><u>Legal Development</u></p> <ul style="list-style-type: none"> ▪ Support the enactment of the draft Energy Law in 2003 ▪ Assist with Secondary Legislation ▪ Assist in development of Secondary Legislation <p><u>Tariff Development</u></p> <ul style="list-style-type: none"> ▪ Support SEWRC in developing a sound and comprehensive tariff methodology for the entire electricity sector ▪ Support SEWRC in the development of a tariff methodology for the EDCs ▪ Support SEWRC in the development of a tariff methodology for the natural gas distribution companies during the tendering process for two regions ▪ Continue support of SEWRC in promoting tariff methodologies for the entire electricity sector <p><u>Accounting and Regulatory Reporting</u></p> <ul style="list-style-type: none"> ▪ Review and assess the methods and standards for the Chart of Accounts, specified within the Law on Accountancy ▪ Assess the current accounting practices within the energy sector for accounting and regulatory reporting ▪ Assess the existing reporting requirements by the SEWRC from each of the licensees in the energy sector ▪ Develop implementation plan ▪ Advise SEWRC on Accounting System ▪ Develop chart of accounts and instructions ▪ Revise financial reporting requirements ▪ Provide hands-on training <p><u>Strengthen SEWRC</u></p> <ul style="list-style-type: none"> ▪ Review SEWRC structure and prepare organizational development plan ▪ Organize Study Trip ▪ Provide follow-up training ▪ Provide targeted training programs ▪ Advise SEWRC on power market design and market rules 	<p><u>Legal Development</u></p> <ul style="list-style-type: none"> ▪ Passage of an Energy Law in 2003 that provides for an independent energy regulator and is consistent with EU legislation and the Athens MoU ▪ Adoption of several key ordinances by the Council of Ministers (electricity tariff, heat supply tariff, natural gas tariff, charter of the SEWRC, licensing) ▪ Adoption of several key rules by the SEWRC (power market rules, power market open access rules, power market grid code and metering rules) ▪ Initial opening of the competitive power market <p><u>Tariff Development</u></p> <ul style="list-style-type: none"> ▪ Adoption of tariff methodologies for the electricity sector by the SEWRC ▪ Strong support of the EDC privatization by developing a performance-based price regulation and assisting the Commission in meetings with the bidders to the EDCs privatization tender <p><u>Accounting and Regulatory Reporting</u></p> <ul style="list-style-type: none"> ▪ Adoption of a Uniform System of Accounts for the electricity sector by the SEWRC ▪ Adoption of service and energy quality performance indicators for the entire energy sector by the SEWRC <p><u>Strengthen SEWRC</u></p> <ul style="list-style-type: none"> ▪ Restructuring of SEWRC to focus on customer service and the opening of competitive energy markets ▪ Continued growth of Commissioner and Staff competence in regulating the energy sector ▪ First public hearings with public participation accepted as a normal part of the energy regulatory process

Work Plan Task	Accomplishments
<p><u>YEAR TWO</u></p> <p><u>Legal Development</u></p> <ul style="list-style-type: none"> ▪ Assist with Secondary Legislation ▪ Support of Open Access Legislation ▪ Support of Market Related Documents <p><u>Tariff Development</u></p> <ul style="list-style-type: none"> ▪ Support SEWRC in finalizing a sound and comprehensive tariff methodology for the entire electricity sector ▪ Support SEWRC in finalizing of the tariff methodology for the natural gas distribution companies ▪ Support SEWRC in developing and finalizing a sound and comprehensive tariff methodology for the heat supply sector ▪ Support SEWRC in finalizing a sound and comprehensive tariff methodology for the entire heat supply sector ▪ Support SEWRC in review and analysis of energy company rate application filings ▪ Support SEWRC in modifications of rules and procedures relating to tariffs ▪ Support SEWRC in review and analysis of energy company rate application filings <p><u>Accounting and Regulatory Reporting</u></p> <ul style="list-style-type: none"> ▪ Finalize the Regulatory Chart of Accounts (RCA), the related instructions, and regulatory reporting forms and instructions for the generation and transmission Companies within the electricity sector ▪ Finalize chart of accounts and regulatory reporting forms for gas sector ▪ Develop Draft Regulatory Chart of Accounts and instructions for the heating sector ▪ Develop draft regulatory reporting forms and related instructions for heating sector ▪ Finalize the Regulatory Chart of Accounts and regulatory reporting forms for the heating sector ▪ Provide hands-on training ▪ USoA Assessment ▪ Regulatory Audit Procedures and Internal Control ▪ Review of the Annual Reports for the First Year 	<p><u>Legal Development</u></p> <ul style="list-style-type: none"> ▪ Adoption of the SEWRC Licensee Fee Ordinance by the Council of Ministers ▪ Adoption by the SEWRC of a model license for energy traders and the issuance of the first energy trader license ▪ Adoption of model supply license and model distribution license for the electricity distribution companies and the approval of supply and distribution licenses for EDCs in Bulgaria ▪ Further opening of the competitive power market ▪ Successful completion of the electricity distribution companies privatization ▪ Completion of the award process for the privatization of three large thermal power plants and several heat transmission companies ▪ Completion of the award process for concessions to three natural gas distribution service territories <p><u>Tariff Development</u></p> <ul style="list-style-type: none"> ▪ Adoption of the methodology for determining allowable energy losses in tariffs for electricity transmission and distribution ▪ Adoption of the tariff methodologies for the electricity transmission companies ▪ Adoption of tariff methodologies for the natural gas sector by the SEWRC ▪ Adoption of temporary tariff methodologies for the heat energy sector using rate of return price regulation <p><u>Accounting and Regulatory Reporting</u></p> <ul style="list-style-type: none"> ▪ Adoption of the regulatory framework for the heat energy sector that includes performance-based pricing to begin by 2007 ▪ Adoption of a Uniform System of Accounts for the natural gas sector by the SEWRC

Work Plan Task	Accomplishments
<ul style="list-style-type: none"> ▪ Develop license monitoring procedures for accounting and regulatory accounting <p><u>Strengthen SEWRC</u></p> <ul style="list-style-type: none"> ▪ Targeted Training ▪ Advise SEWRC on regional power market development 	<p><u>Strengthen SEWRC</u></p> <ul style="list-style-type: none"> ▪ Adoption of rules for handling complaints and requests for voluntary settlement of disputes ▪ Over one hundred sessions held by the SEWRC including many sessions open to the public ▪ Continued growth of Commissioner and staff competence in regulating the energy sector ▪ The thermal power plants (TPPs) privatization supported by Pierce Atwood in developing a performance-based price regulation for electricity generating plants and assisting the SEWRC in meetings with the bidders to the TPPs privatization tender that resulted in winning bids far greater than expected.
<p><u>YEAR THREE</u></p> <p><u>Legal Development</u></p> <ul style="list-style-type: none"> ▪ Modifications in the Energy Law ▪ Assist with Secondary Legislation ▪ Support in modifying and enhancing the Rules for the conditions and terms for access to the electricity transmission and distribution networks. ▪ Support changing and modifying the rules, adopted by the Commission regarding the operation of the electricity markets ▪ Licensee and Market Monitoring Procedures ▪ Natural Gas Market Rules <p><u>Tariff Development</u></p> <ul style="list-style-type: none"> ▪ Support SEWRC in finalizing a sound and comprehensive tariff methodology for the entire heat energy sector. ▪ Support the SEWRC in Finalizing the Procedures for Inclusion of Stranded Costs and Public Service Obligation Costs into Energy End-User Tariffs ▪ Methodology for Differential Pricing for Natural Gas Transmission Wheeling ▪ Support the SEWRC in tariff application reviews and adopting of price ▪ Support SEWRC in modifications of rules and procedures relating to tariffs <p><u>Accounting and Regulatory Reporting</u></p> <ul style="list-style-type: none"> ▪ Develop Draft Regulatory Chart of Accounts and instructions for the heating sector ▪ Develop draft regulatory reporting forms and related instructions for the heating sector ▪ Provide training for the heat energy sector ▪ Finalize the Regulatory Chart of Accounts (RCA), the related instructions, and regulatory reporting forms and instructions for the Companies in the Heat Supply Sector ▪ USoA assessment ▪ Regulatory Audit Procedures and Internal Control ▪ Review of the Annual Reports for the First Year 	<p><u>Legal Development</u></p> <ul style="list-style-type: none"> ▪ Development of a draft decision on production quotas through the end of the year related to the power market opening. ▪ Further opening of the competitive power market ▪ Commenced drafting revisions to the Energy Law to achieve compliance with the EU Directive ▪ Prepared final recommendations for Energy Law amendments and submitted them to the Ministry of Economy and Energy. ▪ Progress on separating the TSO and NEK Holding Company functions, unbundling the DSO Distribution System Operator, and restructuring of Bulgargas. <p><u>Tariff Development</u></p> <ul style="list-style-type: none"> ▪ Completed the draft tariff directions and tables for the district heating sector ▪ SEWRC has established feed-in tariffs for hydro and wind facilities. ▪ SEWRC adopted tariff directions and associated tariff application tables for the natural gas distribution companies and for the transmission, Public Provider and natural gas storage licensees ▪ SEWRC adopted the service and energy quality program for the natural gas sector <p><u>Accounting and Regulatory Reporting</u></p> <ul style="list-style-type: none"> ▪ Finalized the electricity generation regulatory Chart of Accounts and regulatory accounting manual ▪ Finalized the natural gas transmission regulatory Chart of Accounts and regulatory accounting manual ▪ Finalized the natural gas distribution regulatory Chart of Accounts, regulatory accounting manual and reporting forms ▪ Finalized the heat sector regulatory accounting manual

Work Plan Task	Accomplishments
<ul style="list-style-type: none"> ▪ Develop license-monitoring procedures for accounting and regulatory accounting <p><u>Strengthen SEWRC</u></p> <ul style="list-style-type: none"> ▪ Provide targeted training programs. ▪ Advise SEWRC on regional power market development ▪ Tour of a European Regulator 	<p><u>Strengthen SEWRC</u></p> <ul style="list-style-type: none"> ▪ SEWRC staff trained on the appropriate responsibility for setting technical parameters of plant operations ▪ SEWRC has adopted the rules and procedures of the power market and is periodically changing the rules and procedures based on advice of consultants
<p><u>YEAR FOUR</u></p> <p><u>Legal Development</u></p> <ul style="list-style-type: none"> ▪ Draft Energy Law amendments consistent with EU Directives and EC Treaty for considerations by Parliament ▪ Draft General Conditions of Supply ▪ Prepare recommendation for SOLR and default supplier ▪ Draft proposed rule on stranded cost recovery ▪ Methodology for setting prices of RES and co-generated electricity ▪ Develop price setting methodology for transmission and system services ▪ Develop rules governing billing payments and settlement procedures among relevant participants <p><u>Tariff Development</u></p> <ul style="list-style-type: none"> ▪ Methodology for purchased gas cost adjustment and differential pricing for natural gas transmission ▪ Unbundled tariffs (methodology, cost calculations and decision on final tariffs) ▪ Recommendations for price regulation and methodology for pricing for SOLR ▪ Complete district heat tariff methodologies and provide analyses of various pricing mechanisms in the gas sector <p><u>Accounting and Regulatory Reporting</u></p> <ul style="list-style-type: none"> ▪ Assessment Report of Licensees' compliance with USoA ▪ Regulatory Audit Procedures Manual ▪ Training in regulatory audit procedures and enforcement ▪ Finalize heat sector USoA ▪ Assess implementation of USoA by electric distribution companies <p><u>Strengthen SEWRC</u></p> <ul style="list-style-type: none"> ▪ Seminar of market opening issues ▪ Seminar of consumer protection and renewable energy ▪ Seminar on SOLR rights and responsibilities 	<p><u>Legal Development</u></p> <ul style="list-style-type: none"> ▪ Energy Law was amended for EU compliance. In addition, several administrative changes were made for clearing up uncertainties in regulatory processes that were causing problems for SEWRC at the Courts. ▪ Provided the SEWRC with draft outline of settlement procedures for inclusion in the power market rules. ▪ Provided draft outline of procedures covering stranded costs and PSO-related costs calculation, settlement, billing and payment. ▪ Provided SEWRC with specific actions to create and administer a Supplier of Last Resort within the power market ▪ Provided the criteria for determining the feed-in tariffs for types of renewable resources and cogeneration plants ▪ Provided several trainings to the SEWRC on general conditions of supply <p><u>Tariff Development</u></p> <ul style="list-style-type: none"> ▪ Completed review and comments on the transmission proposal by Bulgargas and provided proposal for unbundled natural gas transmission service including the use of the transit gas lines. ▪ Provided SEWRC with a recommended pricing mechanism for the SOLR ▪ Provided SEWRC with options for natural gas pricing ▪ Provided guidance to SEWRC as they attempted to implement district heating methodologies using service and energy quality indicators. <p><u>Accounting and Regulatory Reporting</u></p> <ul style="list-style-type: none"> ▪ Completed the assessment of the licensees compliance with USoA ▪ Regulatory auditing manual was drafted and provided to the SEWRC ▪ Training was provided to the SEWRC on audit procedures ▪ The heat sector USoA was adopted by the SEWRC ▪ The assessment of the EDCs compliance was included in the assessment report <p><u>Strengthen SEWRC</u></p> <ul style="list-style-type: none"> ▪ Provided a several seminars on market opening ▪ Provided a retreat with several presentations on consumer protection and renewable energy ▪ Provided a workshop on SOLR

Work Plan Task	Accomplishments
<ul style="list-style-type: none">▪ Seminar on gas tariffs▪ Training in audit procedures	<ul style="list-style-type: none">▪ Held a retreat on natural gas pricing and regulatory auditing for the energy sector

<u>Task Order Requirements</u>	<u>Actual Results</u>
<p style="text-align: center;">LEGAL DEVELOPMENT</p> <p>Key power sector reform concepts fully communicated to responsible officials and sound draft law considered by Parliament. Secondary legislation prepared and adopted no later than November 2003. Certain pieces of secondary legislation will be given priority in view of the ongoing restructuring and privatization of the sector. In this regard, it is expected that the first draft of the electricity tariff regulation be prepared by April 30, 2003. Development of final draft and adoption of the electricity tariff regulation should be planned for June 30, 2003.</p>	<p>The Project commenced on June 9, 2003. The new Energy Law was adopted in December 2003. The Tariff Setting Ordinance for the Power Sector was tentatively adopted in September 2003 and then revised in early 2004 after enactment of the new Energy Law. Ordinances and rules were developed and modified through the SEWRC Steering Committee with nearly all key secondary legislation required by the new Energy Act adopted by June 2004. According to then Minister of Energy, Milko Kovachev, the development and adoption of the primary and secondary legislation as well as Pierce Atwood's extensive support of the SEWRC was the most important factor in the successful privatization of the electricity distribution companies.</p>
<p style="text-align: center;">TARIFF DEVELOPMENT</p> <p>Sound tariff methodology developed in a timely fashion. Tariffs developed with sound financial data based on accepted accounting principles. SEWRC personnel capable of carrying out full tariff review, modification and public hearing requirements.</p>	<p>The SEWRC adopted revenue and price cap regulations for all three energy sectors, including state-of-the-art performance-based tariffs that protect vulnerable customers and include performance indicators for service and energy quality. The basis of the financial information for tariffs is the Uniform System of Accounts (USoA). The reporting forms for each type of licensee for tariff applications are posted on the website of the SEWRC and all information is referenced to the regulatory chart of accounts. The SEWRC initiated public hearings in 2004 and such public hearings involving key issues such as tariff and license approvals are now common practice. The SEWRC staff has completed full tariff reviews with recommended modifications in both 2005 and 2006 under the new performance-based tariff methodology.</p>
<p style="text-align: center;">ACCOUNTING/REGULATORY REPORTING</p> <p>Sound and internationally acceptable accounting approach and regulatory reporting requirements developed by 2004.</p>	<p>The SEWRC adopted the USoA for the electricity sector in 2004, and using the same approach, later developed and adopted, respectively, individual USoA for the natural gas companies and for district heating companies. The USoA includes 1) regulatory chart of accounts for all license types; 2) regulatory accounting rules; 3) annual reporting forms and instructions, 4) financial statements for unbundled entities including income statement and balance sheets; 5) internal procedures for Staff's review and compliance of the licensee annual reports; 6) regulatory auditing procedures; and 7) selection of an independent regulatory auditor.</p>
<p style="text-align: center;">STRENGTHENED SEWRC</p> <p>Sound procedures and practices development and human resource capabilities sufficient to carry out SEWRC responsibilities. Clear plan in place and implementation underway for achievement of appropriate SEWRC authority, autonomy and accountability by 2006.</p>	<p>In 2004, Pierce Atwood supported the SEWRC in a significant revision of their charter after the passage of the December 2003 Energy Act. Besides the procedures within the charter, the SEWRC has adopted numerous other procedures relating to licensing, tariffs, monitoring, and accounting, with the direct involvement of Pierce Atwood. Through the passage of primary legislation, the SEWRC has far greater authority and autonomy than many EU country energy regulators. As for accountability, the rulings of the SEWRC have been appealed numerous times to the Supreme Administrative Court, and in many instances the SEWRC was ordered by the court to adjust their decisions in line with proper legal procedures.</p>

APPENDIX F

SEWRC'S STATUS AS MEASURED BY REGULATORY STANDARDS

A. SEWRC's Autonomy	
1. Legal Independence/Enabling Legislation	Pursuant to the Energy and Water Laws, SEWRC is a permanent public body with the status of a legal entity that is not subordinated in any way in its activity to any other government or private agency or institution. The Energy Law (Article 21) gives the SEWRC broad responsibilities including licensing authority, power to set tariffs and service quality standards. The Law also provides for fee structures for licensees to support the SEWRC's activities, SEWRC's responsibility to adopt all energy market related documents, SEWRC's authority to monitor/audit both the license activities as well as energy market activities, and SEWRC's dispute resolution authority. Ordinances relating to the energy sector are adopted by the Council of Ministers or the Ministry of Economy and Energy. The ordinances relating to energy regulation are drafted by the SEWRC and adopted by the Council of Ministers. In practice, no meaningful changes have ever been made to these ordinances by the Council of Ministers after SEWRC finalized the draft ordinances for the Council's adoption.
2. Financial Independence	SEWRC's budget, as specified in the energy and water laws, is covered by annual license fees applied to regulated companies. SEWRC needs to submit its annual financial reports to the Government, and seek budget approval for the following year's fiscal cycle to the Government. In accordance with Bulgaria legal procedures on agency fees, SEWRC receives about 50% of the fees collected each year. For the most part, SEWRC does not have difficulty meeting its financial needs. The remaining revenues from the fees are added to the general fund of the Government.
3. Functional Independence	The 2003 Energy Law (Article 13) provides that the Government does not have authority to approve, reject or change a SEWRC decision. The mechanism for appealing SEWRC decisions is an appeal to the State Administrative Court ("SAC"). The scope of the State Administrative Court's review is limited to procedural or legal error, and decisions remain in effect pending appeal. In practice, several SEWRC decisions have been appealed, many of which involved challenges to SEWRC's procedures for analyzing rate applications and the adoption of retail rates. Many of these difficulties have been settled through clarity in specific administrative procedures specified in the recent amendment (September 2006) to the Energy Law. To date none of the cases before the SAC resulted in a mandate that SEWRC lower retail energy prices, but the Court has required the SEWRC to improve on its process for rate application review and energy price decisions.

<p>4. Commissioner Appointment and Removal</p>	<p>Pursuant to the Energy and Water Laws, the Government appoints the thirteen SEWRC Commissioners. The Government also designates one of the Commissioners as Chairman and two others as Deputy Chairmen, one for energy and one for water. The Chairmen, the Deputy Chairman and the members of the Commission are elected and released by a decision of the Council of Ministers and appointed by an order of the Prime Minister. The Energy Law limits the reasons for removal to establishing incompatibility with the requirements of this law for occupying the position; failure to fulfill his/her duties for a period longer than 6 months, appointment to another position, or conviction to imprisonment for a deliberate crime of general nature by an enacted law. The Commissioners have set terms (5 years) pursuant to the law. (see Article 12). In practice, no Director has been removed by the Government since the start of this Project. Out of the last five Commissioners whose terms had expired, four of them including the Chairman were asked to serve another 5-year term.</p>
<p>5. Appointment Criteria</p>	<p>The Energy Law specifies appointment criteria for qualifications as an energy Commissioner. These criteria include Bulgarian citizenship, a minimum of ten years' work experience with five of the Commissioners having at least three years experience in the energy field, and academic requirements demonstrated by a university degree (at least Master's level). At least one Commissioner must have a degree in economics and one Commissioner must have a degree in law.</p>
<p>6. Commissioner Terms</p>	<p>Staggered term lengths of five years apply to the Chairman and other Commissioners, who can serve consecutive terms. In practice, most Commissioners' terms have been renewed.</p>
<p>B. SEWRC Authority and Competency</p>	
<p>1. Structure of the Regulatory Authority</p>	<p>SEWRC is the only regulatory agency for the energy sector except for a very limited role for the Commission on Competition relating to abuses of power in the energy sector. The scope of SEWRC's regulatory authority covers licensing, tariff approval, competitive market development and quality of service regulation for electricity, gas, and heat generation from CHP, and centralized heat supply from state companies. Economic regulatory oversight of the water industry was added to the SEWRC in January 2005.</p>
<p>2. Staff Employment</p>	<p>The SEWRC has authority to select and hire its staff. The Chairman both hires and removes staff in coordination with the Secretary of the Staff. SEWRC staff is subject to civil service rules. SEWRC staff salaries are higher than in other government departments and comparable to salaries offered, for example, by the industry for comparable skills.</p>
<p>3. Information Access (Regulated Entities)</p>	<p>The Energy Law provides that SEWRC has regulatory authority to obtain financial and technical information from licensees, and has the authority to prescribe timing, form and content. SEWRC has the power to penalize a licensee if information is not provided. The SEWRC has the right to audit the license activities (management, technical, financial) including visits to the premises of the licensees. The SEWRC also has the power to penalize a licensee if the licensee refuses to provide access to his premises and installations.</p>

<p>4. Security of Supply Oversight</p>	<p>With respect to the monitoring of medium- and long-term supply/demand balance on the national market, SEWRC and the Ministry of Economy and Energy both play roles. The Government, through the Minister of Energy, is responsible for energy security and strategy for the development of power sources (which covers long-term supply/demand), while the Commission is responsible for monitoring the short- and medium-term supply/demand and requiring the transmission and dispatch licensee to perform studies on short- and medium-term development of a power system. The TSO and then the MEE are responsible to determine if and what kind of new capacity is required. The SEWRC has full responsibility for tendering for new generating capacity.</p> <p>With respect to monitoring the quality and level of maintenance of the networks, SEWRC and the Ministry of Economy and Energy Inspection share authority. The MEE is responsible for compliance of the energy companies with the established technical and safety regulations and rules for the design, construction, operation and maintenance of the electrical systems and equipment; it also communicates with network owners regarding poor maintenance of the facilities. Through quality and performance standard rules, SEWRC requires the respective licensee to comply with existing technical and safety rules for maintenance.</p>
<p>5. Market Opening and Monitoring</p>	<p>The Energy Law mandated that the power and natural gas market must be gradually opened and reformed by July 1, 2007. SEWRC has been charged with implementation of the liberalization of the power and natural gas markets. SEWRC has adopted trading rules, grid codes and access rules for both the power and natural gas markets. Both markets are on track to be fully open by mid-2007, but in practice most eligible customers have decided to not to enter the competitive energy markets and preferring instead to be served under regulated energy tariffs.</p> <p>The SEWRC has two separate departments for monitoring the competitive power and the natural gas markets development. These departments are responsible for: the development of market-related documents, to provide dispute resolution for market members and to analyze the performance of markets on a periodic basis.</p>
<p>6. Tariff Setting</p>	<p>SEWRC has responsibility for setting tariffs for electricity, gas and heat transmission service, electricity and gas distribution service, ancillary market services, public provider services, retail heat sales, retail default service in electricity and natural gas sectors, connection charges in all three energy sectors, and feed-in electricity tariffs for combined heat and power plants and for renewable resource plants. The Council of Ministers adopts the ordinances on tariff setting for the energy sectors. These ordinances provide the general overview of tariff setting procedures. The exact methodologies for each sector are adopted by the SEWRC in tariff directions. The SEWRC uses three types of tariff regulations: rate of return, price cap and revenue cap.</p> <p>The SEWRC rejected pleas from the Ministry of Energy in 2003 to maintain the uniform retail tariff system in electricity. The SEWRC abolished this system and replaced it based on the actual cost of service for each separate distribution company thereby ridding Bulgaria of socialized tariffs. The SEWRC also abolished the electricity life line rate in 2005 in accordance with the World Bank loan conditions. The life line rate was a temporary tariff mechanism to help vulnerable customers overcome the huge retail rate increases that were needed for retail rates (2002 through 2005) to cover both short and long term costs for the electricity sector.</p>

<p>7. Tariff Enforcement</p>	<p>SEWRC does have the power to require performance-based components within the tariff methodologies. In fact, the existing tariffs for distribution companies provide many incentives. The incentive mechanisms include incentives to: reduce energy losses (both technical and commercial), increase economic efficiency of the company, improve service and energy quality performance, and reduce the cost of energy purchases. The tariff mechanisms also provide incentives to invest into the infrastructure or else face tariff reductions in future years. If the licensees fail in fulfilling the investment as agreed in the approved 5-year business plans, the licensees may also face secondary penalties with not meeting the annual performance targets set within the service and energy quality performance recognition mechanism.</p>
<p>8. Licenses</p>	<p>SEWRC has the authority to issue and modify licenses for activities in the sector. It also has power to monitor for compliance and penalize licensees for violations of license conditions.</p>
<p>9. Dispute Settlements</p>	<p>SEWRC's dispute settlement authority is complete, extending to access issues, including third-party access and cross-border disputes where such disputes result in the interruption of supplies to domestic consumers. The primary dispute resolution role of SEWRC is for resolving complaints and disputes between retail customers and the licensees. SEWRC created a new department for customer complaints in early 2004 and then approved in November 2004 specific internal procedures for the handling of customer complaints and dispute resolution.</p>
<p>10. Sector and Procedural Rulemaking</p>	<p>Pursuant to the Energy Law, SEWRC approves regulations and rules regarding all activity in the power market, including the market rules, licensing and tariff regulations, and metering code. While the regulatory authority does have the power to set or approve rules regarding the management and allocation of interconnection capacity, this power has yet to be put into effect, given the poor condition of the system.</p>
<p>11. Internal Procedures</p>	<p>All regulations and rules drafted by the regulatory authority are submitted to interested participants for comments and input. The public, which is notified of drafts, proceedings, and other regulatory activities via mass print media, web site and radio, may participate in the issuance or updating of regulations by providing comments, proposals, or objections to proposed drafts by giving adequate arguments. Consumer non-governmental associations may also represent the public interests.</p>
<p>12. Complaints and Dispute Resolution</p>	<p>Pursuant to SEWRC Rules on Handling Customer Complaints and Dispute Resolution, any injured party may file a request with SEWRC for assistance with settlement of complaints by consumers and disputes between licensees. The procedures provide for an informal settlement and resolution process. In this phase, the SEWRC consumer protection department may get the parties together to resolve the dispute without bringing the matter formally before SEWRC.</p>
<p>13. Confidential Information</p>	<p>The recent amendments to the Energy Law provide for new procedures for the protection of confidential information in the energy sector including State secrets and commercially sensitive information. The Commission, after coordination with the State Information Security Commission, with a decision shall approve, amend and supplement the list of confidential information. All information, however, must be turned over to the courts if requested.</p>

14. SEWRC Decisions	Pursuant to the Energy Law, the decision of SEWRC shall be taken by a majority of votes. For decisions relating to the energy sector, at least five energy Commissioners must be present (for water-related decisions, at least five water Commissioner must be present). All voting must have at least 7 Commissioners present and voting.
15. Publication of SEWRC Activities	SEWRC has a web site (www.dker.bg). The information provided on the web site is in Bulgarian and English and includes laws, regulations, decisions, tariffs, license activity, reports, projects for discussion, international relationship, and other relevant materials. It is updated regularly including when SEWRC approves a new document or has new information to report.
16. International Activities	SEWRC is a member of ERRA and actively participates in two standing committees, the tariff group and the licensing group. SEWRC also participates occasionally in ERRA temporary working groups. The Commission is actively involved in the Athens Process and a representative normally attends the Florence and Madrid Forums. SEWRC is currently active in the decision-making processes of the South East Europe regional energy regulator with an excellent possibility that the SEWRC's representative will be the first chairman of the regulatory group. The SEWRC is not an associate member of the European Regulators Gas and Electricity Group (ERGEG) and will be an active member starting January 1, 2007 when Bulgaria joins the EU.
17. Quality of Service Standards	SEWRC has approved Performance Standards for electricity gas and heat supply. SEWRC also has authority to impose sanctions according to the approved Performance Standards by reducing tariffs by an established amount.
18. Connections and Repairs	SEWRC has the power to monitor, intervene, and sanction sector participants for unacceptable time taken to make connections and repairs. The established time for new consumer connections is ten days after request and fulfillment by the requester of all conditions as set in the SEWRC-approved Conditions for Working with Consumers.
19. Sector Investments	The Council of Ministers is responsible for the national energy strategy in Bulgaria. That strategy encompasses facility development, resolution of financial impediments, appropriate incentives for investment, and implementation of other national energy policies. SEWRC, on the other hand, has an oversight role for investment planning and cost recovery. Prudent and reasonable domestic investments made by licensees are to be included in the regulated tariffs for production, transmission, or distribution, as set by SEWRC.
20. Anti-Monopoly Oversight	SEWRC has responsibility for compiling information on market dominance within the energy sector. Bulgaria has an anti-monopoly authority separate from SEWRC, the Commission for Competition Protection. If the SEWRC determines that the abuse of market power has occurred in the energy sector, it will report such findings to the CCP who will analyze and decide on the SEWRC findings.
21. Enforcement Authority, Sanctions	SEWRC has a variety of enforcement powers. It may condemn violations through issuance of orders or directives. It may recommend penalties on the licensees as well as the responsible individuals of the licensee. The SEWRC has the power to revise tariffs and reduce rates of return and the power to modify, suspend, and revoke licenses. In practice, these powers have not been effectively used.

<p>22. Internal Organization/Staffing</p>	<p>The Energy and Water Laws stipulate that the SEWRC Commissioners shall consist of thirteen Commissioners with one designated as the Chairman and two of them as deputy chairman, one for energy and one for water. The Laws do not contain requirements for staffing levels or organization. The SEWRC's organization and general internal procedures are included in the SEWRC's Charter. The Council of Ministers is responsible for adopting the SEWRC Charter, while the Charter is drafted by the SEWRC. In practice, the Council of Ministers has not made any significant changes to the Charter when submitted to them for adoption.</p> <p>The staff organization went through a major re-organization after the Energy Law was adopted in 2003 and again when the Water Code was adopted in January 2005. The Administration of the staff is headed by a Chief Secretary who reports to the Chairman. There are six technical divisions (electricity, gas, district heating, water, legal, and financial/customer relations) and two administrative departments. The legal and financial/ customer relations divisions provide support to the four sector divisions. The Staff are civil servants and must conform to the Government's Code of Ethics for Civil Servants. Each staff member is paid a monthly salary with opportunities to receive monthly bonuses for exceptional performance.</p>
<p>23. Technical Resources</p>	<p>There are sufficient technical resources available for the Directors and staff members. Resources include desktop and laptop computers, an LED projector, Internet access, car, office, furniture, video, television, and overhead projector. However, SEWRC does not have an on-line information technology system that allows it to monitor data from energy sector participants.</p>
<p>C. SEWRC Accountability</p>	
<p>1. Ethical Criteria</p>	<p>Ethical standards for the Staff are set forth in the Ethical rules and procedures for civil servants. The Energy Law (article 12, ¶ 2), provides that Commissioners are prohibited from holding any office or position other than a research or academic position; they are similarly prohibited from being a shareholder, sole trader, partner, manager, procurator, or member of management or supervisory body as well as liquidator or consultant of commercial companies engaged in activities subject to licensing under the Energy Law. Commissioners, according to the Energy Law, may be discharged when sentenced to a prison term for a pre-meditated offense.</p>
<p>2. Annual Reports, Audits</p>	<p>SEWRC is required to prepare and submit annual reports to the Government. SEWRC also publishes these reports on the official Commission web site. Periodic audits of the SEWRC budget and economic activity are conducted by the National Audit Organization, an independent agency of the Government.</p>