Bulgaria: Crisis in Greece may influence Bulgarian exports and regional SEE balance

Categories : SEE Energy News

Date : July 20, 2015

About 45-50% of the Bulgarian electricity export goes to Greece, therefore crisis in Greece affects Bulgaria energy market.

Baseload power is exported to Greece, which leads to covering the whole market available, while other markets like Romania, Serbia and Macedonia seek peak power (i.e. for the hours when consumption is the highest). As a whole there's a deficit on the Greek market, which leads to higher electricity prices in recent years.

By now the crisis has already reflected negatively on trade, especially from a technical perspective because the imposed ban on international bank transactions doesn't allow buyers in Greece to pay Bulgarian exporters for the supplies. In Greece there is a list of goods that are strategic for the country and exempted from restrictions on imports. Electricity is on that list and the payments for it could only be made after a special approval by a commission with the Greek finance ministry. We have no observations yet on how this commission works and how long the payment approval takes. Regular maturities of payments are on the 20th of every month. In rare cases in which companies had interim payments show the approval by the commission takes about 10 days.

The Greek Eurozone exit itself won't be fatal for electricity trade. The solvency of Greek buyers is important. In any case the situation will get complicated because all contracts are in EUR and there is no clarity on what follows if another currency is introduced in the country.

700MW is the maximum capacity for Greece. Last week there was about 50 MW unused capacity. What is specific about Greece, is that the price of imported capacity is very high, e.g. for the opportunity to import from Bulgaria in July is paid EUR 12.5/MWh. So if it doesn't get used, traders suffer huge losses. The rules for distribution of capacities at the Bulgarian-Greek border allow unused capacity to be sold to the system operators in daily auctions but because of the uncertain economic and financial situation in Greece there's not a lot of interest from buyers and during the first week of July due to the low demand it was sold at about EUR 1.5-2 B. Thus traders who bought monthly capacity but didn't use it lost over EUR 10/MWh for that period.

If the export to Greece ceases at some point it would have an incredibly negative impact on the Bulgarian energy sector. These are up to 5 TWh power that won't be exported from Bulgaria and won't be made by Bulgarian plants. This will have a strongly negative effect on their revenues of around 255MEUR a year. On the other hand, the energy balance of the entire region will change. The surplus energy will increase, which will probably lead to a decline in prices in the region. In fact at the moment about 1,300-1,500 MW are exported to Greece from Bulgaria, Macedonia, Albania and Turkey, which will cease.

Greece may be left without electricity at some point. There will be some understanding from suppliers but it will be temporary. There's no way private companies will finance deals without any guarantee they will get paid.

In case of lower demand for electricity companies like the Bulgaria state-owned TPP Martisa East 2, which is one of the main producers, may be affected with damage. They claim earlier their electricity is already uncompetitive. At the moment the regional price is about EUR 40. Excluding grid fees, which are EUR 4, adding capacity costs of EUR 1-2 for the region, leaves about EUR 34-35, which is below the production costs of that power plant. Bulgarian producers are facing serious competition in the region, mostly from Serbia, Hungary and Romania that don't charge grid fees for exports. By mid-2014 there were such fees in Romania but once they were removed, the competitiveness increased significantly and so did the production and export of electricity.

Some believe the introduction of export fee will increase the incomes in the energy sector. Given the low regional prices, this would rather have the opposite effect. For example TPP Maritsa East 2, even with the present fee it can still not export. Any introduction of fees reduces the competitiveness of Bulgarian electricity, which leads to reduced amounts of exported power and lower revenues from export. The Bulgarian energy system has a huge surplus and the export is important because it has always been an important factor for financial stability in the sector.The potential revenue from export is up to around 511MEUR year and a very small part of that – under 1% remains for traders. The rest is income for the ESO (51MEUR) and the power producers.

It is important to note that the fees are against the EU directive for the establishment of a single power market because that way are created serious territorial divisions between countries and fragmentation of the single European market.

BG government thinks on introducing 5% income tax for all power producers. As a whole the imposition of any tax or fees reduces liquidity and usually deviates the market. Traders have learned from their experience that the less the administrative burden, the better markets work and self-regulate.The producers on the free market will try to include that tax in their sales price because they could hardly compensate the additional expenditure otherwise. If that happens, the prices for consumers on the free market will increase, which will increase the electricity costs for clients on the open market.

At the end of the year the power exchange is supposed to start operating. However traders complain on the transparency of the exchange creation. The information that is being published isn't enough for traders to have a good assessment of what they should expect from the exchange. For example, one of the discussed ideas foresees making the exchange mandatory and letting all the energy made be traded there. This experiment was carried out about a year and a half ago in Romania and caused the market to block completely and proved to be a wrong model, which was changed after that.

Traders say that they fully support the establishment of the exchange but the participation in it must be a voluntary choice and an addition to bilateral contracts. This is the model in all developed countries. On well developed power exchanges is traded 10% more electricity. It

is an additional trade channel that functions along with bilateral contracts. At the moment daily positions are cleared on foreign exchanges, which causes significant operational difficulties and additional expenditure.

Market powers tend to regulate the market ever more. Now all producers sell through auctions and online platforms that can be accessed by all interested parties. The tenders are public for the participants and the results of the bidding are published after the auction. , transmits Serbia-energy.eu