



Energy

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Contributing Editors:

Philip Thomson & Julia Derrick

CONTENTS

Preface	Philip Thomson & Julia Derrick, <i>Ashurst LLP</i>	
Albania	Genc Boga & Alketa Uruçi, <i>Boga & Associates</i>	1
Bangladesh	A.S.A. Bari & Hossain Ali Al Razi, <i>A.S & Associates</i>	8
Brazil	Fabiano Ricardo Luz de Brito & Ana Carolina Katlauskas Calil, <i>Mattos Filho, Veiga Filho, Marrey Jr. e Quiroga Advogados</i>	16
Bulgaria	Mariya Derelieva, <i>Georgiev, Todorov & Co.</i>	26
Canada	Sharon Wong & Christine Milliken, <i>Blake, Cassels & Graydon LLP</i>	34
Chile	Rodrigo Ochagavia, Ariel Mihovilovic & Vicente Allende, <i>Claro y Cia.</i>	43
China	Xiangman Shen, Kehua Zhang & Sizhe Huang, <i>Stephenson Harwood Wei Tu (China)</i>	52
Cyprus	Michael Damianos & Christina Aloupa, <i>Michael Damianos & Co LLC</i>	62
Finland	Andrew Cotton, Laura Leino & Ella Rinne, <i>HPP Attorneys Limited</i>	72
Germany	Felix Fischer, Carmen Schneider & Joyce von Marschall, <i>Chatham Partners</i>	84
Ghana	Dominic Dziewornu Kodzo Quashigah, Kweki Quaynor Ahlijah & Nana Takyiwa Ewool, <i>Reindorf Chambers</i>	96
Guatemala	Gabriela Roca, <i>QIL+4 Abogados</i>	108
India	Abhishek Khare, Prapti Kedia & Sanchita Hule, <i>Khare Legal Chambers LLP</i>	114
Ireland	Eoin Cassidy & Peter McLay, <i>Mason Hayes & Curran</i>	124
Japan	Hajime Kanagawa, <i>Kanagawa International Law Office</i>	134
Korea	Chi-Hyoung Cho & YoungWoo Kim, <i>HMP Law</i>	146
Kosovo	Genc Boga & Sokol Elmazaj, <i>Boga & Associates</i>	156
Nigeria	Jennifer Douglas-Abubakar, Fatimah Dattijo Muhammad & Oluwasimisola Salau, <i>Miyetti Law</i>	160
Portugal	Mónica Carneiro Pacheco & João Marques Mendes, <i>CMS – Rui Pena & Arnaut</i>	173
Russia	Rustam Kurmaev & Vasily Malinin, <i>Rustam Kurmaev and Partners</i>	182
Slovenia	Matjaž Ulčar & Polona Božičko, <i>Ulčar & Partnerji</i>	192
South Africa	Jackie Midlane, Lizel Oberholzer & Jarrett Whitehead, <i>Norton Rose Fulbright South Africa Inc.</i>	202
Spain	Javier Olmos & Federico Belausteguigoitia, <i>RCD</i>	209
Sweden	Markus Olsson & Bruno Gustafsson, <i>Roschier</i>	216
Switzerland	Phyllis Scholl & Jean-François Mayoraz, <i>Bär & Karrer Ltd.</i>	225
Turkey	Levent Lezgin Kılınç, <i>Kılınç Law & Consultancy</i>	232
Ukraine	Taras Dumych, Sergii Zheka & Olena Kravtsova, <i>Wolf Theiss LLC</i>	243
United Kingdom	Julia Derrick & Justyna Bremen, <i>Ashurst LLP</i>	254
USA	Robert A. James & Stella Pulman, <i>Pillsbury Winthrop Shaw Pittman LLP</i>	269
Uzbekistan	Umid Aripdjanov, <i>Centil Law Firm</i>	279
Zimbabwe	Nikita Madya, <i>Wintertons</i>	290

Bulgaria

Mariya Derelieva
Georgiev, Todorov & Co.

Overview of the current energy mix, and the place in the market of different energy sources

The Bulgarian energy market is dominated by electricity. Bulgaria has a diverse electricity mix, including nuclear, thermal and renewable power plants (water, wind, solar and biomass power plants). The total installed capacity of all types of electricity generation in the electricity system for 2017 was estimated at 12,070 MW. The annual gross production in 2017 amounted to 42,578,650 MWh. Gross domestic electricity consumption in 2017 was 37.7 TWh, with no significant difference compared to 2016. In 2017, the largest share in electricity generation was provided by the coal power plants – 43%; the next share, of 36%, came from nuclear power; energy from water-renewable sources represented 8%; while 8% came from wind, solar and biomass. In 2017, the largest volumes of electricity exchanged on schedules by commercial operators from Bulgaria were in the direction of Romania, with a growth of 296% compared to 2016; to Serbia, with a growth of 149%; and to Macedonia, with a growth of 112%. A drastic reduction in trade with Turkey was reported. The export to Turkey decreased five-fold, representing 21% of that in 2016, while the reverse exchange towards Bulgaria increased by 1,015%.

In the first six months of 2018, annual gross production reached 22,177,696 MWh, which is a decrease of 2.62% on an annual basis, whereas in 2017 the volume was 22,773,016 MWh. At the same time, electricity consumption dropped by 5.57%, from 20,577,364 MWh to 19,431,755 MWh. The electricity production would have been even less if the electricity export had not increased. For the first half of 2018 it reached 2,743,941 MWh, which represents a growth of almost 25%. Interestingly, the share of nuclear power plants (NPPs) and thermal (TPPs) in the energy system decreased from 84.7% in the first six months of 2017 to 80.4% in the first six months of 2018, as they generated 17,841,148 MWh.

Compensation came from hydroelectric power plants, whose production increased by more than 50% to 2,857,484 MWh. The reason for this significant increase was the high water flow of the rivers in the winter and spring. The share of HPP in the energy mix increased from 8.3% to 12.7%. After the enactment of the major legislative amendments for the liberalisation of the electricity market, the Bulgarian Independent Energy Exchange registered a record in the traded quantities of electricity on the intraday market, with a traded volume of 3,794.40 MWh with a delivery day of 01.08.2018, and on the day-ahead market for the delivery day of 19.07.2018, reaching 20,671.1 MWh, with an average hourly power of 861 MW.

In 2017, the quantity of natural gas realised by the public provider Bulgargaz EAD on the domestic market was 3,157 million m³. The public provider sells natural gas at regulated

prices and its share of sales for the year 2017 was 99.47%. The remaining 0.53% share of sales was to gas traders. The structure of consumption by individual branches was as follows: the energy industry with 946 million m³ or 30%; the chemical industry with 1,142 million m³ or 36%; other industries with 568 million m³ or 18%; and gas distribution companies with 501 million m³ or 16%. Bulgaria's energy dependence in 2017 on natural gas was very high – 98.3%. Local production is decreasing and on 01.11.2017 the local production company “Petrokertik Bulgaria” stopped production from the Galata gas field.

In 2017, the quantities of natural gas transported through the Bulgarian gas transmission network for transit traffic were 16.4 billion m³, or 12.8% more than in 2016 (14.7 billion m³) with an increase in the quantities of natural gas transited in all three directions. In 2017, the quantities of natural gas transported to Turkey were 13.2 billion m³, or 12.41% more than in 2016; for Greece, they were 2.9 billion m³, or 9.22% more than in 2016; for Macedonia they were 275 million m³, or an increase of 30.89% compared to 2016.

Changes in the energy situation in the last 12 months which are likely to have an impact on future direction or policy

Pursuant to analysis and forecast for electricity consumption made by state-owned certified independent Electricity System Operator (ESO), the country's production capacity will be sufficient by the year 2027. There is no expectation of any difficulties in the country's electricity supply under normal weather conditions and normal emergency conditions. The analysis is presented as part of the plan for the development of the transmission electricity network of Bulgaria for the period 2018–2027.

ESO prepared two main scenarios for the development of electricity consumption: maximum and minimum. The maximum scenario for gross electricity coincides with the trend of the European Union's final electricity consumption reference for the period 2015–2025. A delay in the implementation of energy efficiency measures has been set. By 2027, gross consumption is expected to reach 40,510,000 MWh. The minimum scenario provides for the maintenance of the level of electricity consumption over the entire period compared to 2018, due to more intensive implementation of energy efficiency measures. By 2027, gross consumption is expected to reach 37,960,000 MWh.

The forecast made by ESO for the development of Bulgaria's production capacities by 2027 is conservative and only based upon approved investment intentions. The forecast envisages the extension of the operation of the units of NPP Kozloduy with a gradual increase in their capacity and the renewable and cogeneration producers with contracted grid connections. The restarted NPP Belene project is not included in the forecast due to lack of certainty of its realisation.

The Bulgarian electricity grid is part of the integrated transmission network of the countries of Europe and its development is closely related to the development of the neighbouring countries' networks. All planned-for construction or rehabilitation of 400kV power lines are recognised by the European Commission as projects of common interest. For them, a thorough cost-benefit analysis has been carried out, according to the ENTSO-e methodology. By the end of 2018 the trilateral Bulgaria-Greece-Turkey project will be completed, allowing assessment of the possibilities for building a third interconnection between Bulgaria and Turkey. The construction of a second interconnector with Serbia, and a third with Turkey, are planned to take place after 2027. ESO has also taken into account the influence of Turkey on the electricity distribution network in the region. The Turkish operator's forecasts are for a large growth of new generating sources (over 140 gigawatts

by 2040) and year-round export opportunities. This could lead to increased transit through the Bulgarian electricity transmission network.

Developments in government policy/strategy/approach

The year 2018 was marked by the Bulgarian Presidency of the Council of the European Union. Significant resolutions in the energy sector were reached by the Presidency, which emphasised the solidarity of the Bulgarian government with the two main European strategies – to endorse renewable energy, and to enhance cross-border integration of the energy infrastructure and market.

Negotiators of the Bulgarian Presidency reached a deal with the European Parliament at a trilogue meeting for revision of the Renewable Energy Directive. The agreement sets a headline target of 32% energy from renewable sources at EU level for 2030. The revision of the directive is one of the eight legislative proposals of the Clean Energy Package which the Commission presented in November 2016. However, the promotion of renewables has struggled in Bulgaria, whereas the country's 2020 renewable energy goal was met prematurely. The subsidy model by feed-in-tariffs encouraged investments in the sector, but also led to a steep increase of energy prices in the regulated segment of the market. This triggered legislative measures in order to balance the interests of investors and consumers. The ensuing legislation aggravated the business climate, but at least it did not provoke investment disputes against the Bulgarian state such as happened in the Spanish and Czech arbitration cases. In light of the above, it is to be expected that the Bulgarian government will follow an appropriate and consistent policy and framework for the promotion of renewable energy for its next binding 2030 target.

During the Bulgarian Presidency, the Council of EU agreed its position on the need to amend the regulation on the functions, role and remit of ACER, the EU Agency for the Cooperation of Energy Regulators. Market integration and cross-border energy infrastructure call for further coordination of national energy policies. The aim is to strengthen the tasks and competences of ACER in order to improve coordination on cross-border matters, to pave the way for increased market integration and to prevent market abuse.

To integrate the Bulgarian energy market with neighbouring European markets has also been the objective of the Bulgarian government and the steps towards this are being firmly followed. First, the proposed measures by the World Bank for further liberalisation of the Bulgarian electricity market have been implemented in the Bulgarian legislation. The day-ahead and intraday energy markets were implemented by the independent energy exchange which, pursuant to the European Commission recommendation, was transferred from the state-owned Bulgarian Energy Holding to the Bulgarian Stock Exchange in 2017.

On the way to market-coupling, the Bulgarian Independent Energy Exchange signed bilateral memorandums with neighbouring system operators in order to introduce separate export zones as an interim stage to full market integration. Second, the interconnection projects in the gas market with neighbouring countries have been promoted by the government. Bilateral agreements and projects have been reached and developed at a different pace at the borders of Bulgaria–Greece (ICGB), Bulgaria–Serbia (IBS), and Bulgaria–Macedonia. The Bulgaria–Greece (ICGB) interconnector is in the lead with a construction permit issued on Bulgarian territory and the public procurement procedure opened for design and construction. The project company has filed an application for the interconnector to be exempted from obligations under Article 36 of Directive 2009/73/EC as major new gas infrastructure which enhances competition in gas supply and security of supply.

In June 2018, the Bulgarian government presented to the European Commission the preliminary results of the feasibility study of the Balkan hub project (gas trading platform). According to Klaus-Dieter Borchardt, Director of the Internal Energy Market at the European Commission Directorate General for Energy, the project is commercially feasible and qualifies as a project of common interest for the EU. Therefore, opportunities to attract private investors, as well as international financial institutions such as the European Investment Bank, the Juncker Plan, and pension funds are deemed to be available. The concept of the gas hub has reached a review of possible entry points (13) and exit points (11) on which to move flows in the Bulgarian gas transmission network, and a business model.

The survey also assessed the potential for increasing gas demand in the European Union. Russia's natural gas, local extraction from Bulgaria and Romania, and natural gas from the Southern Gas Corridor (TAP and TANAP) are considered as the main sources for the Balkan hub. Existing and emerging liquefied natural gas terminals in Greece and Turkey could provide natural gas to be traded within the hub. The final study results conducted by Bulgarian-Swiss Consortium "AF-EMG Consult" are expected in September.

Developments in legislation or regulation

Major legislative amendments were adopted and in force as of 1 July, 2018 in order to further liberalise the Bulgarian energy market. The implemented amendments follow the transitional mechanism with contracts for differences (CfD) recommended by the report of the World Bank on financial recovery and market liberalisation. The model is deemed sustainable and was successfully introduced with the reform of the electricity market reform in the United Kingdom from 2014.

Pursuant to the new provisions of the Bulgarian Energy Act, the electricity produced by power plants with a capacity of 4 MW or over have to be traded on the independent energy exchange. The electricity necessary for technical grid losses must also be traded on the non-regulated segment of the market by the operators of transmission networks. It is envisaged that the producers of renewable and co-generation energy will be compensated through CfD. The compensation is paid by the "Security of Electrical Power System" fund, which receives on a monthly basis contributions amounting to 5% of the income by electricity producers, electricity traders, the operators of electric transmission networks and the operators of gas transmission networks. Thus, the new legislation provides for a new support scheme for renewables and cogeneration energy producers which have to be notified to the European Commission. Further amendments have provided for new competences of the energy regulator in order to investigate, detect and prevent market abuse and manipulations, and to strictly monitor the liberalised market for REMIT and transparency compliance.

Several events in the energy sector triggered legislative initiatives. The first and more debated one, was in regard to the newly introduced power of the Bulgarian energy regulator to permit share transfers of more than 20% of the capital of commercial companies performing licensing activities in the transmission, supply and distribution of electricity, heat or gas in order to ensure security of supply, the protection of national security and the public order. The considerations for the legislative initiative were connected to the sale of the Bulgarian subsidiaries of the Czech utility CEZ, including the largest electricity supply and distribution company in North-western Bulgaria. The supporters of the new competence of the Bulgarian energy watchdog argue that the regulatory framework must support strategic investors in order to guarantee security of supply and distribution; moreover, having in mind the natural monopoly of the distribution network operators. The amendments are

deemed to ensure transparency of the transactions with the assets of energy companies. The opponents argue that powers to monitor compliance with the issued licences are available to the energy regulator, including for the required technical and financial capacity, human and organisational powers for carrying out the activity under the licence. Since the activity of the licensed company is regulated, the regulatory powers should be limited in respect to the licensed company, but not to its shareholders.

Another significant amendment of the Energy Act was introduced shortly before the start of the new annual regulatory period when the Bulgarian energy regulator determines the quantities and prices on the regulated segment of the electricity market. The amendment provides for the discretion of the energy regulator to exclude from the regulated electricity market, producers whose energy has a value exceeding 10% of the estimated market price for the regulatory period, with the exception of renewable and cogeneration producers and producers with long-term power purchase agreements. This has enabled the regulator to reject applications from major electricity producers to operate on the regulated segment with non-market prices for public supply.

The Bulgarian energy regulator approved a new pricing structure for access and transmission through the gas transmission network owned by the state-owned Bulgartransgaz EAD on all entry points/zones and exit/zones, based on the necessary annual revenues of the company. The new pricing model was adopted in compliance with the Commission Regulation (EU) 2017/460 of 16 March 2017 for establishing a network code on harmonised transmission tariff structures for gas. The first gas year during which the new tariff model applied was 01.10.2017 – 30.09.2018.

Judicial decisions, court judgments, results of public enquiries

Unquestionably the largest deal in the Bulgarian energy sector for the sale of CEZ assets resulted in legislative amendments and a debatable decision by the Bulgarian Commission for the Protection of Competition. In June 2018, the Commission refused to approve the acquisition of CEZ subsidiary companies by the Bulgarian company, Inercom Bulgaria EAD. Thus, it was not the energy regulator with its newly introduced powers, but the competition regulator that froze the most-debated deal on the Bulgarian energy market.

The withdrawal of Czech utility CEZ from its Bulgarian investments was announced in 2017; back then, the rumoured shortlisted bidders were said to be from Central and Eastern Europe, amongst them a Sofia-based energy consortium, Czech energy company Energo-Pro, Romanian company Electrica, and a consortium of Turkish engineering holding STFA Yatirim and a Bulgarian-based motor oils producer. Therefore, the small player Inercom caught everyone by surprise, including the Bulgarian government, which openly proclaimed it would intervene in the deal in order to protect the strategic energy infrastructure and ensure security of supply. Before public attention became focused on this particular part of the deal, CEZ managed to sell the defunct Varna thermal power station separately to a Bulgarian investor, and the deal was approved by the Competition Commission. The thermal plant is the second-largest in Bulgaria, but was stopped from working as of January, 2015, due to environmental restrictions.

The decision of the Bulgarian Commission for the Protection of Competition for rejection of approval of the CEZ deal is highly debatable, as it does not provide convincing economic arguments. Under competition law, the Commission has the power to prohibit an intended concentration when it leads to the establishment or strengthening of a dominant position, which may significantly prevent effective competition on the relevant product

and geographic market. The considerations of the Bulgarian competition regulator relate to the market position of Inercom as a renewable energy producer, whereas the regulator elaborates that the concentration would lead to an increase of the market power of Inercom. The decision has been appealed before the Supreme Administrative Court and the court case is pending.

Another significant proceeding for the Bulgarian energy sector is the one against the state-owned Bulgartransgaz, initiated by a complaint of the Bulgarian company Overgas before the European Commission. The proceeding, which threatens to conclude with a fine for the Bulgarian state of up to €330m, has been comfortably delayed by the Bulgarian Presidency, but is on the forthcoming agenda of the European Commission. The Bulgarian Parliament assigned and instructed the Minister of Energy to negotiate and reach an agreement on Case COMP / B1 / AT.39849 – BEH Gas. The Bulgarian government should agree to complete the proceeding by undertaking specific commitments for organisational and restructuring measures of the state-owned companies and taking corrective actions.

The core of the complaint is in regard to denied access to the gas transmission network due to reserved capacity under an agreement between Bulgartransgaz and Gazprom. Therefore, it will be a pretty peculiar development if Bulgaria is fined because of the conditions of the commercial contracts of Bulgartransgaz while the Gazprom investigation ends without a fine for the Russian company, by assuming obligations towards the affected parties. Moreover, it is to be suspected that the proceeding will be used by the European Commission to force the Bulgarian state to privatise the lucrative Bulgartransgaz, owner of the national gas transmission network. In light of the above, the task of the Bulgarian government in the forthcoming negotiations will not be an easy one.

Major events or developments

One of the significant events of the last year is the announced 2018 restart of the Belene project, due to supposed investment interest. The Bulgarian Parliament adopted a decision to support the project on market principle and instructed the Minister of Energy to resume efforts to build Nuclear Power Plant Belene together with a strategic investor. The Parliament restricted the Ministry of Energy and gave very clear instructions on its understanding of the requirements for the development of the project – without mandatory energy purchase contracts, without preferential prices, without CfD, without state or corporate guarantees and/or other non-market mechanisms to guarantee the investment, and separating the assets and liabilities of the NPP Belene into a separate project company. It has been rumoured that there is investment interest by the China National Nuclear Corporation and Russia's Rosatom, but it is not to be reasonably expected that either of these companies will be ready to invest without any guarantees.

The Belene project continues to have a controversial status which cannot be easily overcome. Only two years ago, in 2016, the Bulgarian state provided state aid to the Bulgarian National Electricity Company in order to pay its debt to Atomstroyexport JSC in the amount of €601m under an arbitration award. The Bulgarian National Electricity Company was sued before the International Court of Arbitration at the International Chamber of Commerce in Geneva in order to fulfil its payment obligations under the contract for equipment delivery for the NPP Belene.

Since their signing, the long-term PPCs between the Bulgarian National Electricity Company and the coal power plants AES Maritsa East 1 and Contour Global Maritsa East 3 have been ongoing subjects of public and political debate. There is no formal infringement

procedure, but at the end of last year the European Commission recommended to the Bulgarian government to re-negotiate relations with investors so that they comply with Community rules. The Minister of Energy announced that the preferred starting point of the negotiations by the Bulgarian government will be a proposal for a one-time compensation mechanism for return on investment. The aim is for the electrical energy produced by the power plants (which are owned by the USA corporations Contour Global and AES) to be traded on the independent energy exchange at market prices. The government has already presented its methodology for compensation and the reply of investors is to be expected. The agreement between the Bulgarian state and the investors has to be carefully settled so that the Bulgarian state will be not threatened by investment arbitration disputes.

Proposals for changes in laws or regulations

After the enactment of major legislative amendments in force as of 1 July, 2018, the legislator promptly prepared new provisions in order to fine-tune the newly introduced model. The proposed amendments are in response to the criticism by the electricity trading companies, upon which have been imposed heavy new obligations – higher bank guarantees, energy efficiency investments and pre-payment of VAT. In order to enable access to the liberalised electricity market, the legislator reduced the required amount of the bank guarantee, and introduced incentives for the market participants with no due debts. The amendments were supposed to be adopted urgently and therefore were presented within the legislative procedure of another existing bill. However, the manoeuvre to expedite the enactment failed, as the president vetoed the bill for reasons outside of the proposed amendments of the Energy Act. The amendments are expected to be enacted as soon as possible in order not to burden or prevent electricity traders from participation in the free market segment.

**Mariya Derelieva****Tel: +359 2 937 65 40 / Email: mderelieva@georg-tod.com**

Mariya Derelieva is a Senior Associate at Georgiev, Todorov & Co. law firm and part of its energy team. Before joining the firm, Mariya was a regulatory expert with the Bulgarian Energy Regulatory Commission where she consulted on licence proceedings, price regulation and provided court representation. As a regulatory expert she was involved with the implementation of the Third Energy Package in Bulgarian legislation. Mariya also worked as legal counsel at the Ministry of Finance where she handled international arbitration cases initiated under the ICC, UNCITRAL rules and the Energy Charter. At the law firm, Mariya represents large energy producers, co-generation and renewable producers before courts for the appeal of price decisions and administrative acts, as well as in commercial disputes for unpaid energy prices.

Georgiev, Todorov & Co.

27 Parchevich Str., Sofia 1000, Bulgaria

Tel: +359 2 937 65 00 / Fax: +359 2 937 65 25 / URL: www.georg-tod.com

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