
**Ministry of Energy and Energy
Resources**
Republic of Bulgaria



Electricity Distribution Companies

An opportunity to invest in the electricity distribution sector in
Bulgaria



Introduction

The Government of Bulgaria is committed to implementing a far reaching energy sector restructuring and privatisation programme. The privatisation of the seven state owned regional electricity distribution companies is a key element in the Government's strategy.

The Government wishes to attract strategic investors able to bring the necessary management, commercial and technical experience and expertise as well as investment finance for the required technological innovations. The principal objective of the privatisation is to improve customer service through modernisation of all aspects of the electricity distribution business.

The Government appointed an Advisor (in accordance with the Contract for Consultancy Services between the Ministry of Energy and Energy Resources and BNP PARIBAS dated September 18, 2002) to support the procedure of the privatisation transactions and to assist the completion of the companies' sales within 12 months of the appointment of the advisor.

Industry and corporate structures

Currently, NEK operates as a transmission company, fulfilling the function of the single buyer.

The Bulgarian Government is going to open the electricity market in 2003 and to introduce electricity competition, with direct contracting between generators, eligible customers and suppliers, and a balancing pool arrangement.

The seven regional distribution companies have been incorporated as joint stock companies in which the State, through the Ministry of Energy, owns 100% of the equity shares.

The eighth distribution company "Zlatni piasazi – Service" AD is already in private ownership.



Business activities

Each of the eighth regional distribution companies operates under a licence for distribution of electricity, issued by the State Commission of Energy Regulation. The licences are granted for a renewable period of 30 years.

The licensed business activities and responsibilities of the distribution companies are:

- Operation and management of the electricity distribution network (a combination of lines and cables, for low, medium and high voltage);
- Distribution, supply and sale of electricity to customers connected to the network;
- Maintenance and development of the electricity distribution network in accordance with the technical requirements, perspectives of economic development and projections for the change of electricity consumption; and
- Security of quality of electricity supply and other services to the consumers.

The companies are not permitted to engage in activities other than those subject to the Licence (under art. 40 of Energy and Energy Efficiency Act).

Regional distribution company	Customers		
	Domestic	Commercial	Total
Plovdiv	716 943	129 606	846 549
Sofia Region	529 890	58 814	588 704
Gorno Oriahovitsa	501 991	56 821	588 812
Varna	502 817	71 036	573 853
Pleven	582 216	60 122	642 338
Stara Zagora	565 230	59 069	624 299
Stolichno	581 244	66 745	647 989

Source: Electricity distribution companies
Note: as of 31 September 2001

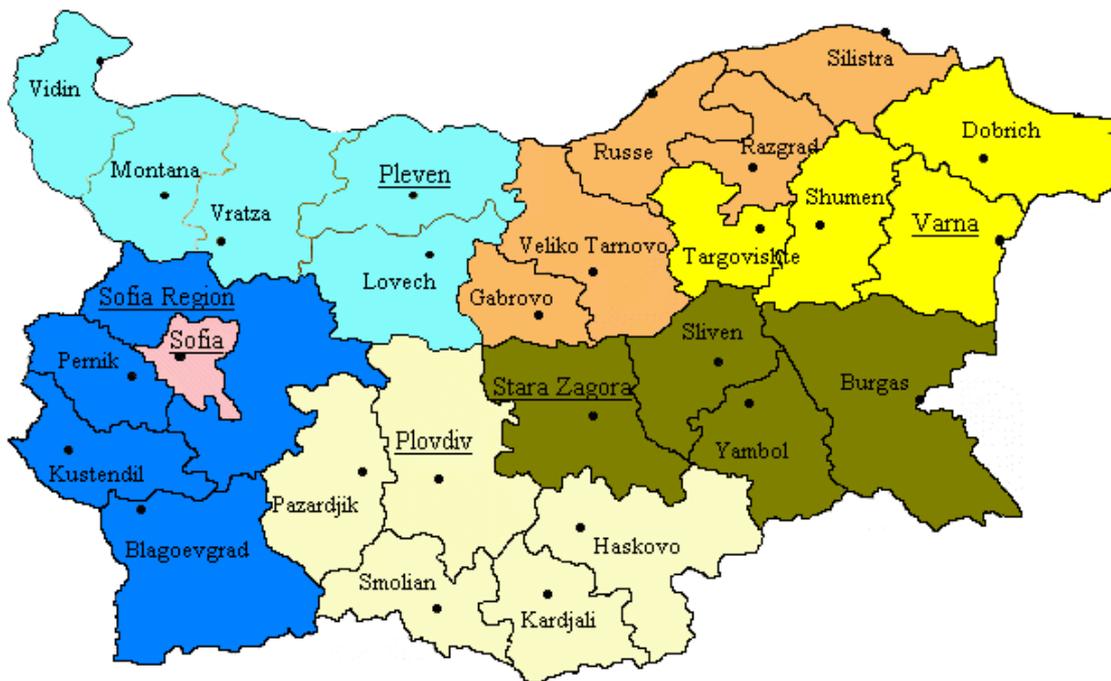


Location and facilities

The operating licences specify the territory on which the distribution companies are allowed to operate. Ownership of all distribution equipment within the area of operation was transferred from NEK to the new companies.

Company	Coverage	Population
Plovdiv	Plovdiv, Pazardjik, Smolian, Kardjali, Haskovo	1 700 000
Sofia Region	Sofia Region, Blagoevgrad, Pernik, Kustendil	900 000
Gomo Oriahovitsa	Veliko Tarnovo, Gabrovo, Russe, Razgrad, Silistra	1 000 000
Varna	Varna, Dobrich, Shumen, Targovishte	1 000 000
Pleven	Pleven, Lovech, Vratsa, Montana, Vidin	1 100 000
Stara Zagora	Stara Zagora, Sliven, Yambol, Burgas	1 200 000
Stolichno	Sofia – city	1 200 000

The areas covered by the distribution companies are shown on the map below:





Distribution infrastructure equipment

Regional distribution company	Sub-stations	Kiosk Switch gear	Trans-formers	HV Network (km)		MV Network (km)		LV Network (km)	
				Cables	Lines	Cables	Lines	Cables	Lines
Plovdiv	10	9 512	12 260	6	94	1 878	10 590	4 207	14 939
Sofia Region	2	4 205	-	-	-	1 361	6 682	2 234	10 229
Gorno Oriahovitsa	11	8 037	10 484	7	26	1 718	8 585	8 953	8 953
Varna	11	6 750	8 164	-	77	2 525	6 855	4 517	7 157
Peven	13	7 645	9 083	-	98	1 388	9 281	2 225	10 683
Stara Zagora	8	-	7 628	3	74	2 244	9 040	4 479	9 794
Stolichno	23	5 454	7 332	31	33	3 024	851	3 596	2 374

Metering equipment

Metering equipment is generally nearing the end or at the end of its useful operational lifespan. Investment in new equipment has been limited, although there has been some selective modernization of meters recently as part of a major 5-year investment program required by the energy law.

Regional distribution company	Meters	
	Industrial	Domestic
Plovdiv	134 696	718 512
Sofia Region	58 960	529 890
Gorno Oriahovitsa	58 456	516 999
Varna	71 036	502 817
Peven	60 122	582 216
Stara Zagora	59 059	590 456
Stolichno	76 504	581 244

The spare parts that are available to be used for the older meters are low quality, increasing the frequency and cost of repairs.

Date of installation	Before 1981	1981-85	1986-90	1991-95	1996-2001
% average	39.0	30.5	14.2	10.2	6.1

Source: PHARE Project BG 9805-01-01-04/03

The tariff switches are in a similar condition. They often fail and can give deviations from the actual time of consumption.



Operating data

The tables below set out key operating data of the companies.

Electricity supplies and losses

Regional distribution company	Electricity sales '000 kWh							
	2001				2002			
	Commercial	Domestic	Other RDCs	Total	Commercial	Domestic	Other RDCs	Total
Plovdiv	1 711 492	1 875 145	-	3 592 237	1 795 210	1 776 961	-	3 572 171
Sofia Region	940 654	1 037 906	5 041	1 983 601	918 873	976 301	5 241	1 900 416
Gorna Oriahovitsa	1 221 243	1 371 867	-	2 593 110	1 151 100	1 148 854	-	2 299 954
Varna	1 268 850	1 569 036	4 584	2 849 168	1 168 682	1 294 455	7 506	2 470 643
Pleven	1 001 561	1 239 352	1 768	2 246 754	1 036 351	1 136 528	1 517	2 174 396
Stara Zagora	1 315 559	1 431 420	578	2 751 584	1 388 921	1 338 364	551	2 727 836
Stolichno	1 722 162	1 596 076	34 546	3 356 508	1 740 145	1 654 835	42 667	3 437 647

Source: Electricity distribution companies

Regional distribution company	Total losses			
	2001		2002	
	'000 kWh	%	'000 kWh	%
Plovdiv	1 060 255	22.79	1 032 454	22.40
Sofia Region	788 281	28.44	870 412	31.38
Gorna Oriahovitsa	778 611	23.16	640 128	21.73
Varna	807 806	24.27	697 467	21.98
Pleven	586 601	20.70	597 113	21.51
Stara Zagora	687 110	19.98	672 654	19.76
Stolichno	814 907	19.54	811 369	19.08

Source: Electricity distribution companies.

Note: columns "%" gives the percentage of losses of the total purchased electricity



Key financial information

Regional distribution company	Gross revenue BGN'000		Income from electricity sales BGN'000		Profit before tax BGN'000	
	2001	2002	2001	2002	2001	2002
Plovdiv	271 957	299 863	264 330	284 809	5 126	13 999
Sofia Region	147 080	159 074	143 731	154 253	-320	4 884
Gorna Oriahovitsa	171 056	184 545	168 865	181 694	8847	12 898
Varna	180 810	192 436	178 515	188 684	932	10 857
Pleven	164 090	175 273	161 035	170 528	4406	8158
Stara Zagora	208 111	223 795	203 164	215 731	6436	10 889
Stolichno	246 710	271 634	243 898	266 382	5294	22 883

Source: Electricity distribution companies

Regional distribution company	Fixed assets BGN'000		Receivables BGN'000	
	2001	2002	2001	2002
Plovdiv	60 268	57 336	48 896	45 801
Sofia Region	46 842	52 182	33 727	32 195
Gorna Oriahovitsa	36 294	43 113	27 163	27 983
Varna	38 071	41 961	35 899	33 672
Pleven	34 501	40 438	28 206	30 552
Stara Zagora	42 415	51 561	36 747	23 994
Stolichno	68 378	78 349	32 568	37 032

Source: Electricity distribution companies

Regional distribution company	Total liabilities BGN'000		Suppliers BGN'000	
	2001	2002	2001	2002
Plovdiv	64 588	53 132	36 856	16 620
Sofia Region	41 550	48 309	19 769	25 545
Gorna Oriahovitsa	29 125	34 664	20 442	23 956
Varna	38 831	34 196	27 526	17 130
Pleven	25 845	33 850	19 979	19 116
Stara Zagora	34 790	34 980	20 096	22 141
Stolichno	35 810	36 973	25 392	16 640



Organisation, management and personnel

The distribution companies are managed by a Board of directors of five members appointed by the Minister of Energy for a period of one year.

The distribution companies are divided into organisational units – a head office and branches, which cover the districts of the companies' area of operations. Each company has established an Enterprise Unit, which covers the head office district but acts as a branch. The only exception is Stolichno (Sofia city), which does not have branches.

Each company has an executive director, who is responsible for developing the company's strategy and policy. The branches and the Enterprise Unit are run by managers, responsible for operating and managing the electricity distribution network, and supplying and selling electricity to customers.

The personnel of the companies is as follows:

Company	Personnel	Employment costs (‘000 BGN)
Stolichno	1 380	11 651
Sofia Region	1 598	14 721
Plovdiv	2 383	21 583
Stara Zagora	1 830	17 505
Pleven	1 898	17 059
Varna	1 814	16 694
Gorna Oriahovitsa	1 832	16 747

The main business objectives of the distribution companies' management are:

- Continuous improvement the quality of the services
- Raise the quality of the personnel
- Guarantee for financial stability and corporate management of the distribution companies.

Environmental issues

Environmental impact assessments on the electricity distribution companies have not been carried out. Electricity distribution activities are exempted, under Article 20 of the Environment Law, from the requirement to undertake an environmental impact assessment.



Electricity prices and tariffs

Tariff-setting mechanism and authority

Under current regulation, prices charged by Independent Power Producers (IPPs), the transmission grid and the distribution companies are approved by the SCER, which is given the authority to define regulatory periods, rates of return and the required revenues.

Tariff adjustment

An indicative 15% increase in 2003 and 10% increase in 2004 have been further planned. This would lead to an average household price of BGN 0.11 per KWh, eliminating cross subsidies.

Eligible customers

The Government of Bulgaria envisages rapid liberalisation of the market, initially opening (in 2003) it to consumers with over 100 GWh, and to all non-household consumers by 2007.

Availability of alternative energy sources

Under the circumstances gas distribution does not present a serious alternative to electricity in the medium term due to underdeveloped network. District heating, while competing with electricity, is largely constrained in the bigger cities with no plans for expansion.

Tariffs overview

Government policy currently is to have a uniform consumer tariff across the country. Because of the differences in Discos' cost levels, there is a differentiation in the bulk electricity tariffs charged to them by NEK. The future of these arrangements will have to be clarified.



Contact information

For further information on the privatisation of the electricity distribution companies please contact:

Mr Angel Minev
Deputy Minister
Ministry of Energy and Energy Resources
8 Triaditsa Street
Sofia 1000

Tel: 359 2 5490 306
Fax: 359 2 988 5931
Email: minev@doe.bg