

THE NEW RENEWABLE ENERGY ACT (IN FORCE AS OF 03.05.2011)

The Bulgarian Renewable Energy Act ("the **RE Act**") was published in State Gazette, issue No. 35 as of 03.05.2011, and entered into force repealing the Renewable and Alternative Energy Sources and Biofuels Act.

The following is a brief overview of the most important amendments introduced by the new Act to the previous statutory framework.

Scope of the new Act

The main issues addressed in the RE Act are related to the production and consumption of energy, gas and biofuels from renewable sources including electricity and energy for heating and cooling. The new provisions target households, business and transport sector as well, in which the security of energy supply problem is most acute.

The new Act lays down stricter regulations to the fast growing renewable energy sector and in particular, to the development and implementation of projects for generation of electricity from renewable sources. These restrictive measures were preceded by a report of the Ministry of Economy, Energy and Tourism published in March 2011 stating that a significant increase of the total amount of electricity produced from renewable energy sources in 2010 had resulted in exceeding the indicative national target share for the year with 4 percent.

Directive 2009/28/EO

The RE Act implements the new Directive 2009/28/EO of 23 April 2009 on the promotion of the use of energy from renewable sources, amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC.

The new Directive set up a 20 % target share of energy from renewable sources in European Union's gross final consumption of energy by 2020 and a 10 % share in transport sector. To this end, mandatory national target shares were defined for each Member State.

Bulgaria is required to achieve a 16 % target share of renewable energy in gross internal energy consumption by 2020. That includes a 10 % share in gross energy and fuel consumption in transport.

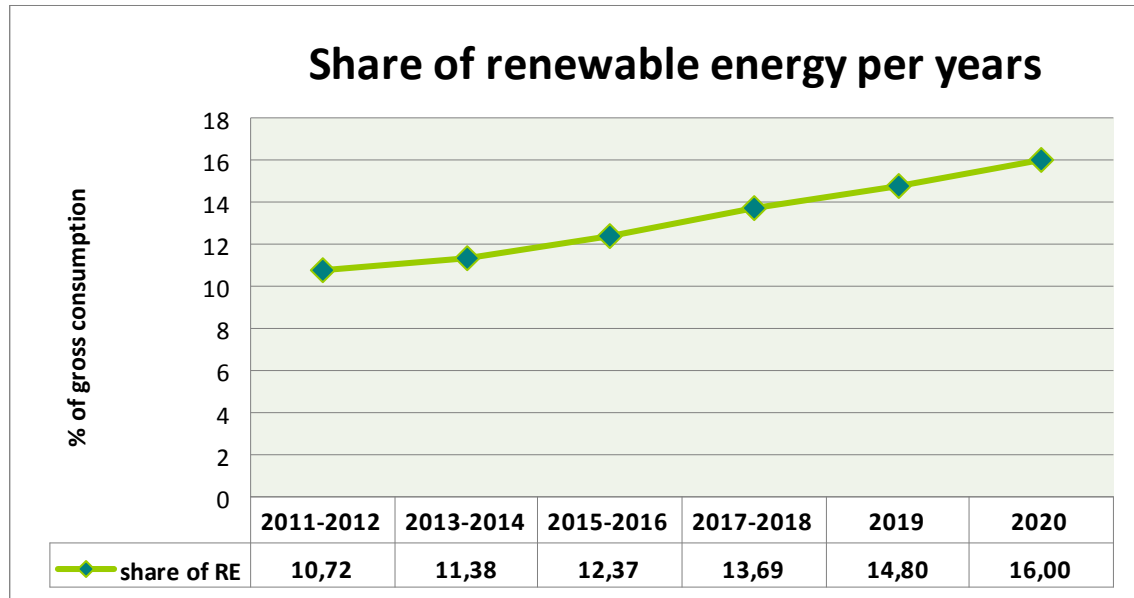
National Renewable Energy Action Plan

In compliance with the new Directive, the RE Act introduces a National Renewable Energy Action Plan which shall be developed and updated if necessary by the Ministry of Economy, Energy and Tourism. The Action plan outlines the development of renewable energy sector in

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the following 10 years at national level and contains information on national and sectoral indicative target shares of renewable energy, forecasts of gross internal energy consumption, evaluation of achievement, overview of national policies and incentives, etc.

To ensure that the mandatory national targets are achieved, Bulgarian authorities shall follow an indicative trajectory stipulated in the Action plan tracing a path through the years towards securing the final 16 % objective set by 2020, as shown below:



Statistical transfers, Joint projects and Joint support schemes

A major moment in Directive 2009/28/EO is the appearance of new flexible mechanisms for cross-border cooperation, which each EU Member State may use for optimizing their national targets. The European Commission shall be duly notified in case such mechanisms are used.

The RE Act lays down the general statutory framework applicable for each of the mechanisms:

- (i). **Statistical transfers** of amounts of renewable energy between EU Member States may be used by a country that has exceeded its national targets in order to transfer some amount of produced renewable energy contributing to the target share of another EU country in insufficiency.
- (ii). **Joint projects** between Bulgaria and one or more EU Member States. Third (non-EU) countries may also be involved. The objective of such projects is renewable energy produced by installations located in partnering (EU or non-EU) countries to be contributed to the Bulgarian national target share. A mandatory requirement for installations to participate in the projects is that they should have become operational or have been reconstructed after 25th of June, 2009.
- (iii). **Joint support schemes** may be developed by Bulgaria and one or more EU Member States for fostering the production and consumption of renewable energy through joining or coordinating the existing national schemes.

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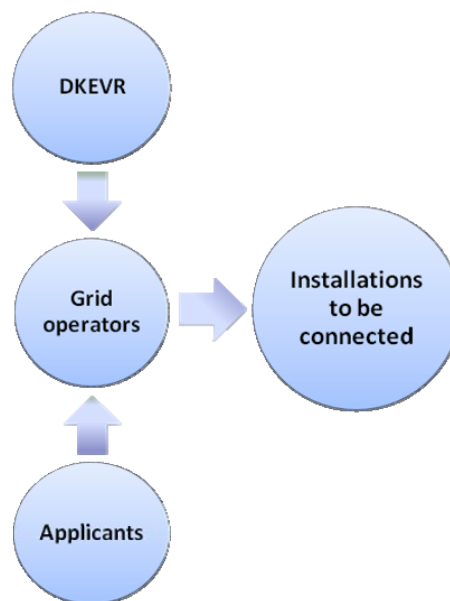
New grid access procedure

The RE Act establishes a new restrictive mechanism for connection of renewable energy installations to the electricity grid. The new procedure, applicable as of 01 January 2012, shall run through several stages aimed at ultimately limiting the intended grid connections with respect to the available grid capacity.

The procedure starts having grid operators analyze the existing grid capacities for connection of new renewable energy producers and annually provide such information to the State Energy and Water Regulatory Commission (DKEVR). Then, the Commission determines the maximum grid connection capacities allowed for renewable energy installations within the following one-year period. These quotas shall be allocated depending on different connection regions and voltage levels.

The procedure continues with a grid access application filed by the renewable energy producer to the grid operators conforming to the quotas announced. At this stage, the applicant shall provide a participation guarantee in the amount of BGN 5 000 per 1 MW capacity to be installed.

Eligibility assessment of the applications is the final stage. Grid operators shall approve the eligible applications following their order of filing and strictly observing the available connection quotas determined by DKEVR. Once the maximum grid capacity for the respective year is reached, any further applications shall be rejected.



The new quota-based mechanism shall not be applicable for the following projects:

- roof-top installations with total capacity of 30 kW in urban territories;
- roof-top installations with total capacity of 200 kW in production areas;
- plants with total installed capacity of 1 MW for electricity production from biomass;
- producers who declare to give up the mandatory off-take of produced energy at fixed prices (the so-called "feed-in-tariff").

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Guarantee of origin system

Guarantees of origin are electronic documents used by end suppliers for proving to a final consumer that a given share or quantity of energy in the supplier's energy mix was produced from renewable sources. No significant changes to the regime are brought in by the new Act.

Guarantees of origin shall be issued to the producers of renewable energy at request. Any use of a guarantee of origin shall take place within 12 months of production of the corresponding renewable energy unit. A guarantee of origin is cancelled, once it has been used or has expired.

The issuance, transfer and cancellation of guarantees of origin shall be performed by the newly established Sustainable Energy Development Agency. The guarantee of origin system is envisaged to function electronically only.

Feed-in-tariff

The so-called "feed-in-tariff" (FIT) is a policy mechanism designed to promote investment in renewable energy sector by offering long-term power purchase agreements (PPAs) to renewable energy producers at fixed prices, typically based on the cost of generation for each different technology.

The RE Act preserves and furthermore introduces some significant amendments to this incentive measure in comparison to the previous provisions.

Energy suppliers are still obliged to purchase from producers connected to the grid the whole amount of renewable energy certified with a guarantee of origin, except for the share used by the producer for his own needs if any.

FIT shall not be applicable for producers who are beneficiaries under national support schemes for their projects or who have previously declared to give up the FIT in order to be connected to the grid.

Once the Bulgarian Ministry of Economy, Energy and Tourism reports that the national target share of 16 % renewable energy is achieved, any further projects shall not be able to benefit from any incentives, including FIT.

▪ FIT levels

One of the most important changes is that the prices for mandatory off-take of energy to be generated by new installations shall be fixed for the entire term of the power purchase agreement (PPA) at the respective levels defined by DKEVR and effective at the time of completion of the construction works.

The existing installations that have become operational prior to the new RE Act shall stick to the prices applicable upon its entering into force.

▪ PPA terms

The RE Act reduces the mandatory off-take periods for new renewable energy projects. The long-term PPAs concluded between energy suppliers and new producers shall contain fixed mandatory off-take periods, as follows:

- 20 years for solar, geothermal and biomass projects (as opposed to 25 years);
- 12 years for wind projects (as opposed to 15 years);
- 15 years for hydro- and other renewable energy projects (remains the same).

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Renewable energy in transport

The RE Act addresses key issues associated with securing energy supply in transport sector through introduction of incentive measures fostering the use of first- and second-generation biofuels and other renewable energy sources.

From 2012 onwards, blending of bioliquids in common oil fuels used in transport shall be mandatory. The new Act furthermore ensures the placing on the market of higher blends than those previously envisaged. Bioliquid quantities are gradually rising through years as follows:

- minimum share of biodiesel in diesel fuel starts at 5 % and reaches 6 % as of 01.06.2012;
- minimum share of bioethanol in petrol fuel starts at 2 % and reaches 9 % as of 01.03.2016.

Moreover, the maximum threshold of 5 % share of bioliquids in all oil fuel blends is now abolished tracing a path to achieving adequate market share of biofuels.

Excise duty reductions for biofuels are preserved.

It should be highlighted that biofuels favoured by the new Act, are required to fulfill certain sustainability criteria limiting the negative impact on biodiversity and agricultural food products.

The mandatory 10 % target share of final energy consumed in transport which is to be achieved at national level shall be however contributed from renewable sources as a whole, and not from biofuels alone.

Renewable energy in construction

The RE Act facilitates the use of renewable energy through laying down “green” regulations in construction sector related to energy efficiency.

The new Act requires that in the event of construction of new buildings or major renovation of existing ones, renewable energy installations shall become operational ensuring at least 15 % of total energy consumption for heating and cooling where technically possible and economically reasonable.

This measure shall be applicable for public buildings as of 01.01.2012, and for residential and other buildings – as of 31.12.2014.

Renewable energy in education

The RE Act provides that installation and maintenance of facilities for renewable energy production shall be performed by certified workers only, who have obtained special professional qualification.

In relation to the above, vocational training programmes shall be developed and implemented.

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