

CRONY CAPITALISM AND POLITICAL INFLUENCE THREATEN ENERGY SECURITY IN BULGARIA

How two Bulgarian politicians became key players in the energy sector

Context

Good governance in the energy sector remains highly problematic¹. The development of the energy sector continuously suffers from lack of strategic vision, direct political influence over the management of core resources and facilities, as well as a high degree of public procurement manipulation.



Until recently, the privately-owned Varna TPP was the second-biggest facility of its kind in Bulgaria. Constructed by the socialist regime, it played a key role in maintaining the energy system of the country.

The management boards of state-owned power plants are often dominated by political appointees and/or private interest networks which extract public resources via dubious public procurement tenders.² The biggest thermal power plant (TPP) in Bulgaria is the state-owned Maritsa-Iztok 2 TPP. It suffers from rapidly increasing financial problems (more than BGN 900 mln. in debt as of early 2019) due to rising carbon offset prices³, aging technologies and mismanagement of the facility. In order to produce electricity (its working cycle is fully dependent on locally mined lignite coal), the TPP has to offset its large carbon footprint by purchasing sufficient carbon quotas. This closes the vicious circle – working more means accruing more debt to obtain the quotas, negatively affecting public resources invested in the facility.

Within this context, the so-called cold reserve (reserve capacity which is turned on only at times of peak demand and paid for by the state) guarantees millions of euros in revenues without any expenditure to purchase carbon credits. Cold reserve contracts are allocated by the Electricity System Operator (ESO). These contracts guarantee the availability of capacity only activated at times of peak electricity demand. Maritsa-Iztok 2 TPP was one of the main recipients of these contracts ensuring cold reserve capacity at a total of 324 MW for the period 1.10.2017-31.07.2018, valued at BGN 20 mln. approximately.⁴

Until recently, the privately-owned Varna TPP was the second-biggest facility of its kind (with six energy generating blocks and a total capacity of 1,260 MW). Constructed by the socialist regime – between 1964 and 1979, the TPP had a key role in maintaining the energy system of the country. Between 2006 and 2017, it was owned by CEZ Group.

Varna TPP was sold by CEZ Group, in late December 2017, to a private Bulgarian corporation (SIGDA Ltd) with no previous experience in the energy sector. At the time of the deal, the company belonged to **Danail Papazov** – former Minister of Transportation, Information Technologies and Communications from the Movement for Rights and Freedoms party in the government of Plamen Oresharski (May 2013 – August 2014) and Mr. Papazov's family

1 CSD (2018). CSD Policy Brief No. 81: Energy Security in Southeast Europe: the Greece-Bulgaria Interconnector. Sofia: Center for the Study of Democracy.

Shentov, O. et al. (2014). *Energy Sector Governance and Energy (In)Security in Bulgaria*. Sofia: Center for the Study of Democracy

2 Stanchev, I. "The State-owned "Maritsa-Iztok 2" TPP will pay 7,6 mln leva for Cyber-security" (29.11.2018), *Capital Weekly*:

https://www.capital.bg/politika_i_ikonomika/bulgaria/2018/11/29/3353912_durjavnata_tec_marica_iztok_2_shte_plati_76_mln_lv_za/

Filipova, I. "Debt-Ridden State-owned TPP offered public procurement tender valued 30 mln leva to "Vodstroy-98" (8.03.2016), *Capital Weekly*:

https://www.capital.bg/biznes/kompanii/2016/03/08/2719199_gubesh_turjaven_tec_dade_poruchka_za_30_mln_lv_na/

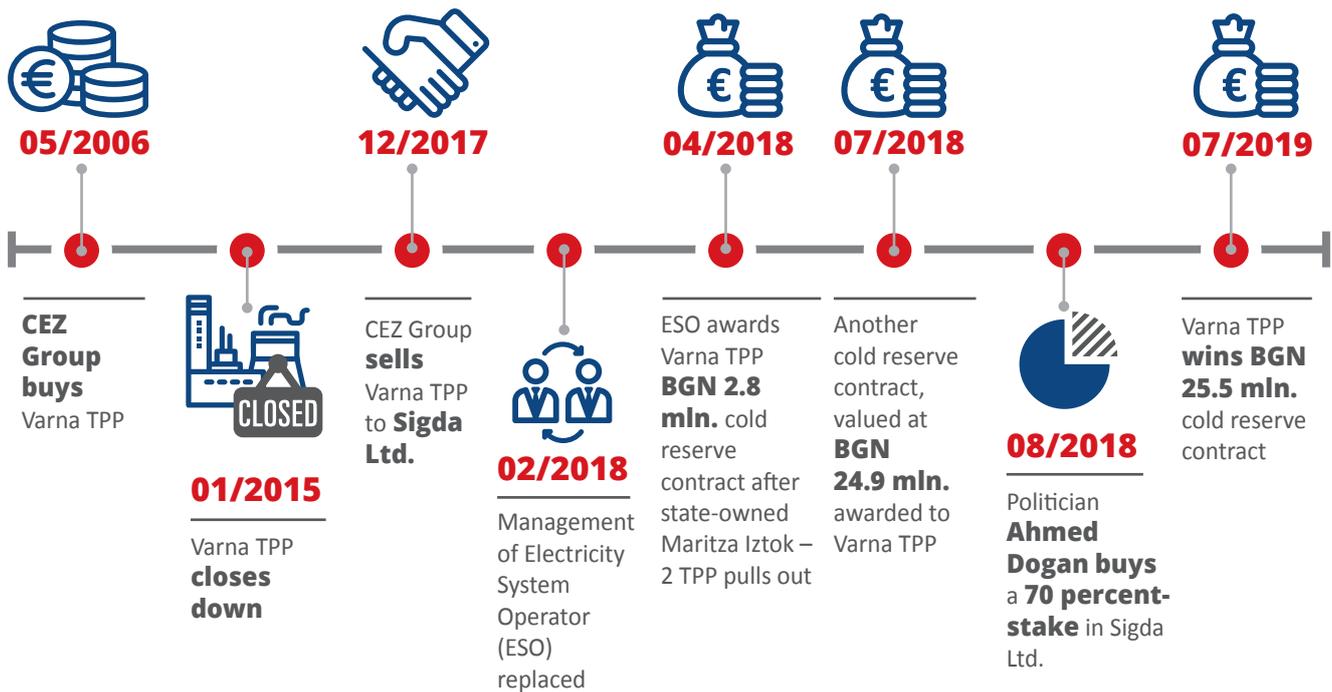
3 Vladimirov, M., T. Galev, R. Stefanov (2019) *Stifled Decarbonisation: Assessing the Bulgarian National Energy and Climate Plan*. Sofia: Center for the Study of Democracy, p. 31-32

4 ESO database of cold reserve contracts: <http://www.eso.bg/?did=147>

members (his son and daughter). The price paid by SIGDA Ltd. was EUR 48.5 mln., whereas half of the price (EUR 24.25 mln.) was secured by bank loan from the Bulgarian-owned FIBank⁵. Furthermore, at the time of the acquisition, more than EUR 20 mln. in cash had been deposited in Varna TPP's bank accounts.

The ultimate ownership and beneficiary behind this acquisition became clear only a few months later. **In August 2018, Dr. Ahmed Dogan** acquired a majority stake in SIGDA Ltd, paying a price which was several times lower than the market value of the shares. Dr. Dogan was previously longtime acting chairman of a political party – the Movement for Rights and Freedoms (MRF) – and an MP (1990-2013). He still holds the actual decision-making power in the party, though his formal position is honorary chairman. After acquiring majority shares in SIGDA Ltd., Dr. Dogan was elected Chairman of the Board of Directors of Varna TPP (of which SIGDA Ltd. is a single owner).⁶

The story line



The story line: coordination or coincidence?

In early 2018, the Management Board of “Maritza-Iztok 2” TPP took a decision to withdraw from a cold reserve contract it had already been awarded (thus foregoing millions in revenue) in favor of Varna TPP.

In February 2018, the high-level management of ESO was replaced without clear explanation. The new management announced a tender for 570 MW of cold reserve capacity – a record amount – for the summer of 2018. In comparison, winter-time cold reserve capacity is usually 700 MW. Following the sudden decision by the state-owned Maritza Iztok – 2 TPP to give up its cold reserve contract, **ESO chose Varna TPP as the replacement**. As a result of this and subsequent tenders, in 2018, the power plant was paid BGN 2.8 mln. for the period May – June and another BGN 24.9 mln. for the period August – October, just to guarantee the cold reserve capacity. Additional unknown sums were paid for the periods when the cold reserve capacity had been activated.

⁵ FIBank is well known to be close to the government and those in power. It holds various interests in the energy sector. The 7.5% interest and the technical and financial state of Varna TPP suggests that the loan was rather made as a favour to Mr. Dogan or as a form of trading in influence with his party.

⁶ **In September 2018**, the Board of Varna TPP took a decision to acquire Delta Epsilon JSC, the owner of a luxurious Sofia property (in Sofia's Boyana district) where Dr. Dogan is known to be residing. The deal was completed in February 2019.

ESO's decision to award the cold reserve contracts to Varna TPP raises numerous suspicions, as a number of facts clearly indicate that Varna TPP was not technically capable to reliably fulfil its obligations under its contracts with ESO:

1. On 5 September 2017, the Energy and Water Regulatory Commission allowed the decommissioning of blocks 1, 2, and 3 of Varna TPP. At present, the power plant is only licensed to generate electricity via the remaining three blocks (with total capacity of 630 MW).
2. Only for block 6 public information exists that it has passed all necessary testing and can function safely as cold reserve capacity. When asked by media whether it had carried out any on-the-spot tests to check the power plant's operational suitability before awarding the cold reserve contract, ESO replied that it had not performed such tests as it was not legally obliged to do so.
3. In early 2019, Varna TPP initiated a public procurement procedure for repair services for block 6. As mentioned in the tender documents, the **repair works were extremely urgent** because of significant damage to parts of the boiler system, which had already forced the system to stop on three occasions. The power plant's management admitted in the tender documents that the above-mentioned facts pointed to **poor operational suitability** and possible risk of repeated failure of the boiler system in future. According to the management, Varna TPP was unable to meet its contractual obligations for the provision of cold reserve capacity. Subsequently, the power plant's management postponed the repair works for 2020 on economic grounds.⁷
4. Replying to an official access to public information request, ESO disclosed that it had levied sanctions amounting to BGN 2 mln. to Varna TPP for failing to start operation of block 6 when requested under the cold reserve contract.⁸

ACF actions: reports to competent authorities

The Anti-Corruption Fund (ACF) has submitted four reports to the competent authorities about the Varna TPP deal, calling for thorough investigations into the decisions to award multi-million-lev cold reserve contracts to the power plant with questionable operational capacity.

ACF has filed reports with the **State Agency for National Security**, the **Ministry of Energy**, and the **Energy and Water Regulatory Commission** and calls on them to investigate how and why the cold reserve contracts were awarded to a facility with technical operational problems, a fact which could threaten Bulgaria's energy security and, subsequently, the country's national security. According to documents publicly available on Varna TPP's website, there are ongoing and unresolved technical issues with the power-generating installations. However, until the ACF reports, it seems that the relevant authorities have not exercised their preventive and ex-post control and oversight competences to check the operational capacity of this important facility.

A report was also filed to the **National Revenue Agency**, citing suspicions of tax evasion, related to the deals through which Dr. Dogan acquired a 70 per cent stake in Varna TPP. The only publicly known information was the nominal value of the shares of SIGDA Ltd. – BGN 3,500 paid by the new owner Dr. Dogan. After ACF's report, the power plant's executive director, Mr. Danail Papazov, revealed the real price of the shares acquired by Dr. Dogan – BGN 1,4 mln. It remains unclear whether due taxes have been paid by the participating stakeholders, what are the sources of the money, paid by Dr. Dogan, and have they been fully declared and taxed during the years.

⁷ Varna TPP public procurement tenders related to block 6 – PPN№19-02: <https://varna-tpp.com/remont-elektroob-orudvane-blok6/>

PPN№ 19-03: <https://varna-tpp.com/remont-ka-6/>

PPN№19-05: <https://varna-tpp.com/peshstostroitelni-izolatsionni-raboti-blok6/>

⁸ https://www.capital.bg/biznes/energetika/2019/05/17/3906762_tec_varna_-_milioni_bez_pokritie/

ACF's activities have triggered an initiative by Czech legislators (Senator Lukas Wagenknecht) to start a parliamentary inquiry and hearing as regards the CEZ Group business practices in Bulgaria, including checking into corruption allegations. Regarding the sale of Varna TPP by CEZ, the senator has questioned the transparency of the deal and the declared price, given that the Czech company sold the power plant for a price much lower than what it had paid for it. The senator has submitted a report to the Czech Prosecution Office to investigate CEZ management decisions. ACF also hosted the senator and discussed possible joint activities.⁹

Concluding observations

- It is still unclear how Varna TPP plans to meet the requirements of its cold reserve contract for the period ending 31 July 2019, considering that the only block which could have made this happen is – as the management themselves qualify it – “impossible to operate”. It is also unclear how the plant will meet the licensing requirement for safety and environmental standards.
- The results of a new tender to allocate cold reserve capacity for the following one year have been announced and Varna TPP is to be awarded EUR 13.3 mln. Considering that ESO does not carry out any pretesting and that the urgent repair works of block 6 of Varna TPP have been postponed for 2020, the risk for Bulgaria's energy security, is even more significant.

An online a video, outlining the most interesting aspects of the ACF investigation of the case is available [here](#).

⁹ <https://acf.bg/en/btv-sdelkata-za-chez-evrohold-sa-opitali/>



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