



Bosnia and Herzegovina

STATE ELECTRICITY REGULATORY COMMISSION

**REPORT ON ACTIVITIES
OF THE STATE ELECTRICITY REGULATORY COMMISSION
IN 2008**

Tuzla, December 2008

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1. INTRODUCTION

Five years have passed since the establishment of the State Electricity Regulatory Commission. As a new state institution, it has transitioned from the initial presentation of its mandate to the public in the power sector of Bosnia and Herzegovina, through its pioneering steps in the creation of the regulatory legal framework of the sector, setting of tariffs for services of also new institutions in the power system of BIH – a single Company for Transmission of Electric Power and an Independent System Operator – all the way to the full membership in international regulatory associations.

Under challenging circumstances for the Commission, in the society from which it could not be isolated and whose destiny it shared all these years, the Commission accomplished as much as possible. The current legal identity, budgetary independence, solid human and financial resources and independent management are guarantees that better results can be achieved in the future. At the same time, these are the basic characteristics of the position of regulatory bodies, the importance of which is also underlined by the legislation of the European Union. Interested in keeping and protecting its independence, the State Electricity Regulatory Commission reiterated in good faith on several occasions to different authorities and bodies that some of the latest legal solutions and interpretations were a threat to and negation of principles and practices of the functioning of the European regulatory structure.

Judicial revision of only one decision of the State Electricity Regulatory Commission has been requested up to date. Rulings upon lawsuits of two interveners in tariff proceedings were expected with great interest because in the case law of the Court of Bosnia and Herzegovina this has also been the first case of reviewing the merits of a decision of a state institution with such specific jurisdictions, competencies and responsibilities. The Court of BIH established that there had not been any violation of material regulations or rules of the proceedings and that the Regulator had applied in a proper manner the Law on Transmission of Electric Power, Regulator and System Operator of Bosnia and Herzegovina and the secondary legislation derived from it.

In addition to the positive findings of the Auditing Company “REVIK”, SERC financial reports for yet another year have also been affirmatively assessed by the Office for Auditing of the Financial Operations of the Institutions of Bosnia and Herzegovina. The Office’s recommendations were accepted unconditionally and were discussed in detail in a transparent manner also before the competent working bodies of the Houses of the Parliamentary Assembly of BIH in accordance with their newly established procedures.

According to power indicators and expected financial results, the year 2008 has been the most successful year for the power sector since 1991. After several decades for the first time the sector as a whole operated profitably. Almost 14,000 GWh were generated, the total do-

The State Electricity Regulatory Commission is an independent institution of Bosnia and Herzegovina, which acts in accordance with the principles of objectivity, transparency and equality, and has jurisdiction over and responsibility for transmission of electricity, transmission system operation and international trade in electricity.

SERC is a non-profit institution and is financed by regulatory fees which are paid by the licensed entities.

mestic consumption reached a historical maximum of 12,240 GWh while net export amounted to 1,640 GWh.

In 2008 an increase in trade transactions has been recorded on the BIH electricity market. An increased number of entities holding international trade licenses took part in these transactions while several potential traders expressed interest in obtaining licenses.

The situation pertaining to the entitlements of customers to purchase power at the market, i.e. to accept eligible customer status, has been unchanged. The possibility to purchase power on the electricity market was not used by eligible customers because wholesale prices on the South-East Europe market were practically at the level of end-user tariffs.

Aluminij Stock Company Mostar, whose consumption constitutes 20% of total consumption in Bosnia and Herzegovina, has continued to purchase some power on the market. Total purchases on the market amounted to 1,223 GWh, which makes 12% of total end-users' consumption in BIH, and, at the same time, corresponds to the percentage of real market opening in BIH.

The functionality, efficiency and transparency of the model for provision of ancillary and system services in the power system of BIH have been reviewed during the whole year due to their paramount importance for the system's safety and stability. The solution to this as well as some other key issues of the BIH power system with regard to regulation, system operation and management of transmission network has been complicated due to misunderstandings among the members of the Management as well as the Managing Board of "Elektroprijenos Bosne i Hercegovine" Banja Luka which have occurred throughout the year and still are present. At the end of this year, the President of the Council of Ministers of BIH and the prime ministers of the entity governments made some efforts to anticipate solutions to the crisis by initiatives and discussion on concrete emergency measures and activities in the power sector, especially in the field of transmission of electric power. The State Electricity Regulatory Commission insisted on unblocking of the operation of the Company through an agreement of shareholders which was reached at the subsequent Shareholders' Assembly meeting. The regulator expects all stakeholders to confirm their credibility over the next year by fulfilling the obligation they assumed.

The State Electricity Regulatory Commission closely follows the development of the European Union energy policy. Consequently, it is understandable that it followed proposals from the so-called Third Energy Package. New regulations, whose creation and adoption have been closely followed for a longer period and which should become part of EU *Acquis Communautaire*, shall create new requirements for adjustments and changes in the power sector, the economic position of regulated activities and the position of state regulators.

As a full member of several regulatory bodies, SERC provides its full contribution to the development of a stable and harmonized regulatory framework in the region and supports mutual cooperation of regulatory bodies as well as dialogs with all other market participants.

2. COMPOSITION AND ORGANIZATION OF WORK OF THE STATE REGULATORY COMMISSION

The SERC was established by the Parliamentary Assembly of Bosnia and Herzegovina by adoption of the Law on Transmission of Electric Power, Regulator and System Operator of BIH, and appointment of the Members of the Commission.

Members of the Commission from the Federation of Bosnia and Herzegovina are:

- Mirsad Salkić, with a five-year term (from July 1, 2003 to June 30, 2008), and
- Nikola Pejić, with a five-year term (from September 25, 2007 to September 24, 2012).

The Member of the Commission from the Republika Srpska is:

- Vladimir Dokić, M.A. with four-year term (from July 1, 2003 to June 30, 2007).

It is obvious that the four-year term of Mr. Vladimir Dokić, the Member of the Commission from Republika Srpska, expired on June 30, 2007 and, a year later, the five year-term of Mr. Mirsad Salkić, the member of the Commission from the Federation of BIH expired as well. In accordance with decisions of the respective entity governments, both previously elected Commission Members continue to perform their functions until the appointment/re-appointment by the Parliamentary Assembly of BIH.¹

After the appointment of the first Chairman of the Commission, Vladimir Dokić, M.A. (who was the Chairman until June 30, 2004), following the principle of rotation of the Members of the Commission in this position, the Commission was chaired as follows: by Mr. Mirsad Salkić (until June 30, 2005), by Mr. Željko Topić (until June 30, 2006), again by Mr. Vladimir Dokić (until June 30, 2007), by Mr. Mirsad Salkić for the second time (until June 30, 2008), with the current Chairman being Mr. Nikola Pejić until June 30, 2009.

The State Electricity Regulatory Commission has continued to operate in accordance with the organizational chart adopted at the beginning of its establishment, while year after year SERC employees improve their expertise to follow requirements of regulatory practice using different forms of enhancement of knowledge and experience. The improvement of knowledge is achieved by participation in different professional consultations, conferences and topical seminars, in the country and abroad, and by distance e-learning. In this regard, special emphasis should be put on the educational programs organized by the Energy

At its 15th session held on April 7, 2008, the House of Peoples unanimously adopted the Report of Activities of the State Electricity Regulatory Commission in 2007 with the following conclusion:

“The House of Peoples demands that the Council of Ministers of BIH expedite the procedure for the appointment of members of the State Electricity Regulatory Commission whose mandate expired to enable the Commission to operate in its full capacity.”

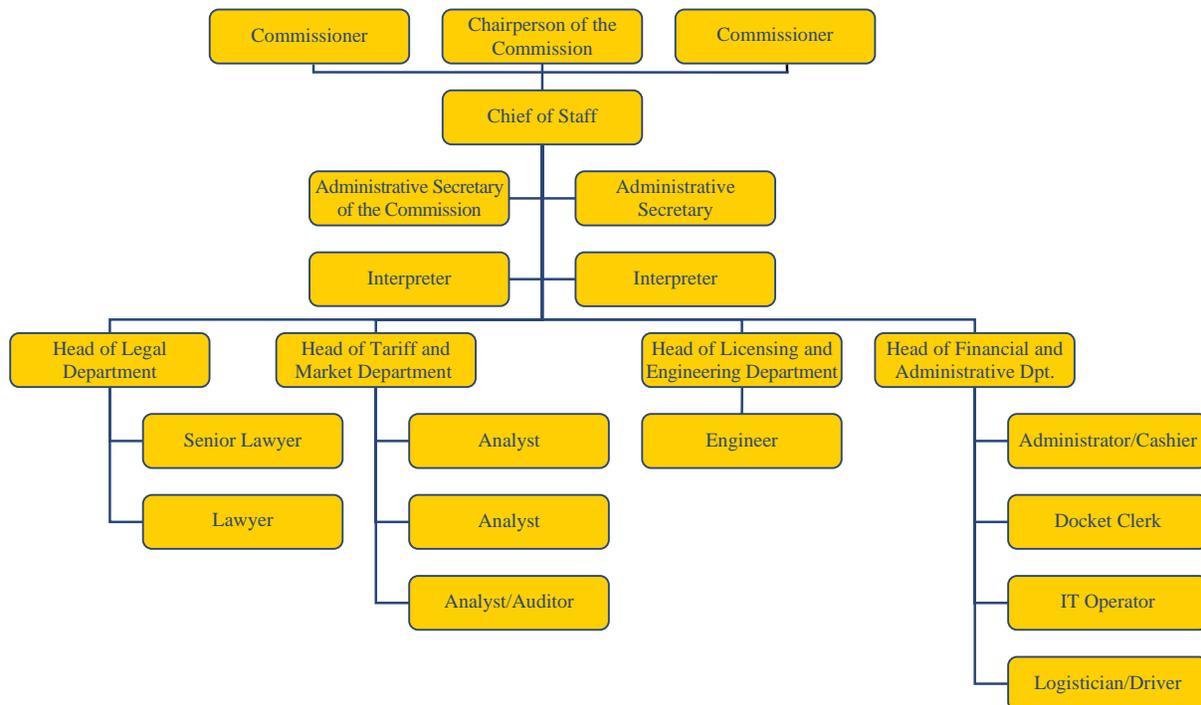
¹ At the time of the creation of this report, the procedure for appointment of the Members of the Commission is in process before the respective entity governments. After the Government's proposals are confirmed by the National Assembly of the Republika Srpska, i.e. the Parliament of the Federation of BIH, the nomination shall be submitted to the Council of Ministers of Bosnia and Herzegovina, which shall propose the appointment to the Parliamentary Assembly of Bosnia and Herzegovina.



Regulators Regional Association (ERRA) and the Florence School of Regulation (FSR). The one-year “Training Programme in the Energy Sector in South-East Europe” organized by the Governments of the United Kingdom and Slovenia provided to the countries in the region through seven modules urgently required assistance with regard to transposition of the European legal regulations. In this context, valuable support is also provided by the European Commission, through the Project of Technical Assistance to the Energy Regulation System of BIH, and by the United States Agency for International Development (USAID) through the Regulatory and Energy Assistance Project (REAP).

SERC shall continue to develop human resources through well-established as well as new training methods and the use of modern technical equipment. The justification of such approach has been confirmed by professional knowledge and experience acquired up to now, which is ever more successfully presented at regional international professional gatherings by the staff with improved information, communication and presentation skills.

SERC ORGANIGRAM



3. KEY ACTIVITIES

During 2008, the State Electricity Regulatory Commission held 12 regular sessions, 25 internal meetings and organized 11 public hearings.

In the reporting period, the Commission adopted or approved several documents. This Report presents the most important ones, which, as a rule, were adopted through public hearing consultations.

Transparency towards the public through consultation and communication with all interested members of professional as well as the wider public is the fundamental orientation of the Commission, which is conducive to checking the suitability of proposed solutions before their final adoption. The practice of mutual exchange of collected public comments in the same or similar procedures is applied by all three electricity regulatory authorities in Bosnia and Herzegovina.

Regulations and proceedings from the regulatory competencies are reviewed and determined in regular sessions, in accordance with the authorities prescribed by the law; issues and documents of an organizational and administrative nature are reviewed and discussed in internal meetings.

With the view to soliciting comments of interested parties and members of the public on rules and regulations, or on any other document, SERC organizes general hearings; technical hearings, which are organized with a view to resolve technical issues during the proceedings, e.g. the processing of procedural or essential issues; and formal hearings, which are organized with the view to establish decisive facts based on which SERC might resolve certain applications or disputes.

Regular sessions and all types of public hearings are open to the public.

3.1 SERC Rules

Connection Rules

In October 2008, through Connection Rules SERC prescribed the procedure for connection of new generators' or customers' facilities to the transmission network at 400, 220 and 110 kV voltage level, connection of facilities to 35, 20, 10 and 6 kV medium voltage level at 110/x kV substations of the Transmission Company, as well as connection of the existing facilities in case of an increase in granted capacity, upgrade or reconstruction of facilities.

The realization of expressed public interest in the construction and expansion of users' generation and transmission capacities encouraged the inclusion of a higher number of entities in the preparation of adequate procedures for connection of these capacities to the transmission network of Bosnia and Herzegovina, which is operated, maintained, constructed and expanded by the Company for transmission of Electric Power – Elektroprijenos BIH.

During hearings on the draft of this document, different interests and views were presented on the methods and conditions for connection, purpose and structure of the connection fee, and delegation of rights and obligations to some entities in the newly structured power sector of BIH on the basis of construction of connections and their financing.

This very demanding, complex and responsible procedure was finalized by the adoption of the Connection Rules, whose practical implementation is yet to follow.

Decision on Modifications and Amendments to the Tariff Pricing Methodology for Services of Electricity Transmission, Operation of the Independent System Operator and Ancillary Services

The Tariff Pricing Methodology for Services of Electricity Transmission, Operation of the Independent System Operator and Ancillary Services, adopted in June 2005, enables setting the prices for services for utilization of a natural monopoly in a fair manner, and at the same time ensures revenues for regulated companies, needed for their normal operation. The power sector in Bosnia and Herzegovina is in the process of transformation towards the market model of operation. As the reform process is in progress, continuous monitoring is required to encourage and expedite it. In this respect, in January 2007, SERC made the first changes of the methodology, which enabled more efficient tariff pricing and utilization of the transmission system in BIH.

SERC recognized that a functional, efficient and transparent model of providing ancillary and system services is a major prerequisite for secure and reliable operation of the power system, quality supply of customers and further electricity market development in BIH. Thus, in order to improve the current concept and technical implementation of these very complex services in the power sector, SERC opted for the second set of changes of the Methodology. At the session held on December 11, 2008, *the Draft Decision on Modifications and Amendments to the Tariff Pricing Methodology for Services of Electricity Transmission, Operation of the Independent System Operator and Ancillary Services* was determined and forwarded for public hearings, while its adoption is expected at the beginning of 2009.

Decision on the ISO BIH Regulatory Chart of Accounts

In December 2008, SERC adopted *the Decision on the Regulatory Chart of Accounts for the Independent System Operator in Bosnia and Herzegovina* with an aim to have a unique approach to recording means, costs, revenues and expenditures of this regulated entity. The operational ISO BIH chart of accounts was used as the basis for this decision, which was harmonized with International Accounting Standards and Financial Reporting Standards.

Regulatory charts of accounts enable efficient monitoring of regulated entities' activities, including compliance with regulatory requirements, more transparent accounting records in regulated companies and facilitation of tariff proceedings.

In 2009, SERC will also adopt the regulatory chart of accounts for Elektroprijenos BIH.

Decision on Changes to the Decision Establishing the Simplified Procedure for Issuance of International Trade Licenses for Applicants with Eligible Customer Status

Following the SERC decision on market opening and adoption of the entity commissions' rules of acquiring eligible customer status, the State Regulatory Commission recognized formally in a separate decision the right of eligible customers directly connected to the transmission network to obtain international trade licenses for the import of electricity exclusively for self-consumption through a shortened procedure with a temporary two-year term.

Changes of this decision enable the same entities to obtain a new license for the same purpose through a simplified procedure with the license term up to five years.

3.2 Documents that SERC Approves

Draft Rules of Allocation of the Right to Use Cross-Border Transmission Capacities

Cross-border transmission lines are the infrastructure enabling free international trade in electricity. Congestion in these lines reduces the possibilities of free trade; consequently, it is necessary to apply congestion management rules, i.e., rules allocating available capacities in a non-discriminatory, transparent and market-oriented manner.

Explicit auctions are used for the allocation of transmission capacities at almost all borders of European countries, pursuant to Regulation 1228/2003/EC of the European Parliament and of the Council of June 26, 2003 on conditions for access to the network for cross-border electricity trade.

ISO BIH developed and submitted to SERC for approval *the Draft Rules of Allocation of the Right to Use Cross-Border Transmission Capacities*, which are based on market principles and implemented via explicit auctions, thus maximizing market value of transmission capacities.

During the public hearing on the rules, new suggestions were provided, which SERC shall try to clarify and harmonize. It is expected that the process will be finalized by the end of the first half of 2009.

The previously approved *Temporary Rules of Allocation of Cross-Border Transmission Capacities* shall be used on a monthly basis until the adoption of new rules.

Overview of entities which make payments and use funds based on charges for non-use of allocated cross-border transmission capacities in 2008

BAM (€1=BAM1.95583)

month	Entities which make payments						Fund users		Total
	RUDNAP	ERS	EPHZHB	EPBIH	Prima Beograd	EFT	NOS BIH	Transmission Company BIH	
I	53,169.0			44,149.0	44,640.0		44,149.0	97,809.0	141,958.0
II									
III	34,221.0	36,234.0						70,455.0	70,455.0
IV	47,820.0	45,465.0	18,432.0			32,598.0	47,820.0	96,495.0	144,315.0
V	63,318.0	41,664.0					41,664.0	63,318.0	104,982.0
VI	33,339.0							33,339.0	33,339.0
VII	14,718.0		16,080.0	11,754.0				42,552.0	42,552.0
VIII	89,310.0			19,765.5				109,075.5	109,075.5
IX	9,318.0							9,318.0	9,318.0
X	46,776.0							46,776.0	46,776.0
XI		390.0						390.0	390.0
XII			41,328.0				41,328.0		41,328.0
Total	391,989.0	123,753.0	75,840.0	75,668.5	44,640.0	32,598.0	174,961.0	610,855.5	744,488.5

In accordance with these Temporary Rules, in 2008, SERC issued conclusions on the allocation of funds based on charges for the non-use of allocated cross-border transmission capacities, thus determining payers and users of the funds, their purpose of investment in development and construction of BIH cross-border transmission capacities towards the neighboring countries.

Rules of Safety Zones for Overhead Power Lines of Nominal Voltage from 110 kV to 400 kV

The establishment of safety zones that are defined by these Rules ensures the protection of power transmission facilities and equipment. At the same time, power transmission facilities and lines shall be designed, constructed and used so that the consequences of their use shall not engager the health of the population, with minimal possible modifications of natural environments and values of land.

Having realized the non-uniformity and nonconformity of the relevant technical regulations pertaining to the design and construction of overhead power lines on the territory of BIH and having concluded that they are still built pursuant to the regulations of the former SFRY, until the adoption of new technical rules by the relevant state authorities, by its decision the State Electricity Regulatory Commission temporarily took over the rules from 1988 as technical rules with which construction of facilities in safety zones on the territory of BIH shall comply.

“It is suggested to the Independent System operator in Bosnia and Herzegovina to organize a public hearing on the Indicative Generation Development Plan for the period 2009-2018 in order to enable all participants in the power sector to have a possibility to provide their positions and opinions.”

(from the conclusions of the 24th session of the House of Representatives of the Parliamentary Assembly of BiH, during the adoption of the SERC Report on Activities in 2007)

The Indicative Generation Development Plan for the Period 2009-2018

The Indicative Generation Development Plan is developed for a ten-year period and is expanded on an annual basis with the following year that was not included in the plan. The goal of the plan is to inform the current and future users of the needs and existing projects for construction of new generation capacities. At the same time, this plan is used as a basis for the development of *the Long-Term Transmission Network Development Plan* for a ten-year period.

Relying on the experience acquired during preparations of two previous Indicative Plans, the Independent System Operator in Bosnia and Herzegovina started the development of the Indicative Generation Development Plan for period 2009-2018 earlier and ensured more qualitative input data, which not only updated the plan but also improved it and expanded it for one more year.

Taking into account the conclusions of the Parliamentary Assembly of Bosnia and Herzegovina, a public hearing on the Indicative Plan was conducted, which confirmed the matching of provided generation forecasts, new generation capacities and capacity and power balances on the transmission network. While approving the Plan, once again SERC took note of the crucial importance of insuring quality data for quality and applicability of this type of plan as well as proactive engagement of all entities in planning.

3.3 Procedures for License Issuance

During 2008, in several proceedings conducted mostly due to the expiration of the term of the previously issued *temporary* licenses, renewed, i.e., *new* licenses have been granted with a five-year term for the activity of international trade to:

- “Energy Financing Team” Ltd. Trebinje (June 2008),
- “Aluminiј” Stock Company Mostar – import of electricity for self-consumption (November 2008).

In addition to the aforementioned, during the year proceedings for the issuance of *temporary* licenses with a two-year term to the entities that appeared for the first time in the electricity market as international electricity traders were also conducted (international trade licenses):

- “Rudnap” Ltd. Banja Luka (January 2008),
- “Interenergo” Ltd. Sarajevo (November 2008),
- “ČEZ Bosna i Hercegovina” Ltd. Sarajevo (December 2008).

The procedure for processing of international trade license applications filed by “KORLEA” Ltd. Jajce, “GEN-I” Ltd. Sarajevo and “ATEL BH” Ltd. Sarajevo is in progress. Additionally, the procedure for processing of an application of the issuance of a new license

(replacing the previously issued temporary license) is in progress for “EZPADA” Ltd. Čapljina.

SERC had to reject the application of a member of the Holding - subsidiary company - “Rudnik i Termoelektrana” Stock Company Gacko for the issuance of a temporary license for performance of the activity of international trade in electricity because the Statute of the Mixed Holding “Elektroprivreda Republike Srpske” does not provide for the possibility to Holding members to perform the activity of international trade in electricity.

The following entities have also been registered as licensees for the activity of international trade in electricity: “EZPADA” Ltd. Čapljina, “B.S.I.” Ltd. Jajce (import of electricity for self-consumption), “Birač” Stock Company Zvornik, Public Utility “Elektroprivreda Hrvatske zajednice Herceg Bosne” Stock Company Mostar, Public Utility “Elektroprivreda Bosne i Hercegovine” Stock Company – Sarajevo and Mixed Holding “Elektroprivreda Republike Srpske” – Parent Company, Stock Company Trebinje.

We would like to mention that in 2007 SERC issued licenses for the activity of an independent system operator and for transmission of electric power to the “Independent System Operator in Bosnia and Herzegovina” and “Elektroprijenos Bosne i Hercegovine” Stock Company Banja Luka, respectively.

3.4 Monitoring of Activities of Licensed Entities

Throughout the year, SERC monitors the licensed entities and compliance of their operations with the licensing conditions, especially for regulated activities performed by the ISO and Elektroprijenos BIH. Monitoring of activities is performed by analysis of regular and special reports submitted by licensed entities as well as by announced or unannounced visits to license holders. License holders submit annual, semi-annual, monthly and daily reports on individual activities, of financial as well as technical and organizational character. Reports of license holders on contingency events in the system are also available.

Visits of SERC experts to regulated entities enable direct insight in their documents and activities as well as more complex analysis of the operation and the financial position of the entity from the aspect of application of approved tariffs.

This year has been also marked by problems in the operation of “Elektroprijenos Bosne i Hercegovine” Stock Company Banja Luka whose operation has been burdened for a long period with disagreements among members of the company management on all key issues. On several occasions, the State Electricity Regulatory Commission expressed its concerns over such situation both to the entity governments – owners – and to members of the Shareholders’ Assembly of “Elektroprijenos BIH”.

Taking into account the recent activities undertaken by the governments and competent ministries and recently signed documents:

- *Agreement on Principles of Energy Policy* signed by the President of the Council of Ministers of BIH and the Presidents of the Entity Governments on November 6, 2008 in Banja Luka (the Agreement defines policy principles in the following areas: transportation and distribution of oil and oil products; transportation and distribution of gas; generation, transmission and distribution of electric power and environmentally acceptable fuels),
- *Principles agreed on an extraordinary session of the Shareholders' Assembly of Elektroprenos BIH* which was held on December 3, 2008 in Banja Luka,

SERC is convinced that the problems present in the operation of Elektroprenos BIH up to now will be resolved.

3.5 Tariff Proceedings for the Services of Electricity Transmission, ISO operation and Ancillary Services

Tariffs for the services of electricity transmission, ISO operation and ancillary services applicable as of January 2008 were approved by SERC in December 2007 following the completion of tariff proceedings described in the SERC Report on Activities in 2007.

Ancillary Services

A dry run was in effect until December 31, 2007, during which financial settlement was not effective, but as of January 1, 2008, the following tariffs were set by *the Decision on Tariffs for Ancillary Services*: tariffs for secondary and tertiary regulation by generators, a total tariff for secondary and tertiary regulation to be paid by customers and a tariff for excessive take-on of reactive power from the transmission network to be paid by eligible customers.

In February 2008, this Decision was modified and amended in order to increase its operational implementation, and the process of completion of ancillary service regulation was finalized in March 2008 by the adoption of the *Decision on Determination of Tariffs for the Ancillary Service for Covering of Losses in the Transmission Network*.

However, it must be stressed that purchasing ancillary services and providing system services has been considerably burdened by specificities of the power system in Bosnia and Herzegovina, e.g., the incompleteness of the restructuring process and different interpretations of the legal position, jurisdiction and role of individual entities in the power sector. SERC will continue to be in focus on the system and model for provision of these services and tariff-related activities due to their importance for security of supply and stability of the national power system.

New Tariff Proceedings

In November 2008, the Independent System Operator in Bosnia and Herzegovina filed an application for determination of tariffs for ISO operation and ancillary services for the forthcoming period. SERC plans to render the final decision on the application filed in March 2009.

The other regulated entity “Elektroprijenos Bosne i Hercegovine” did not file an application for modifications of the applicable tariff for the services of electricity transmission. In accordance with the Tariff Pricing Methodology for Services of Electricity Transmission, Operation of the Independent System Operator and Ancillary Services, SERC is entitled to initiate and conduct tariff proceedings on its own initiative. Even so, SERC shall not do so because it is of the opinion that at this moment there is no need to use planning documentation which is not adopted by official bodies of “Elektroprijenos BIH”.

SERC believes that the recently reached Agreement between the Government of the Federation of Bosnia and Herzegovina and Republika Srpska will instigate the adoption of documents that should enable “Elektroprijenos BIH” to continue unhindered operation and the preparation of responses to all regulatory requirements.

Rulings of the Court of BIH on Lawfulness of SERC Decisions

All SERC decisions are considered as final administrative decisions and can be appealed to the Court of Bosnia and Herzegovina. One decision is being reviewed by the Court of BIH. A judicial revision was requested two years ago by interveners in tariff proceedings based on the claim that the Regulator’s decision was in contradiction to law.

Rulings were expected with great interest because we believe that this was the first time in the case law of BIH that the merits of decisions of a completely new institution with specific goals, jurisdictions, powers and responsibilities were reviewed.

In the two resolved cases the Court of BIH established that material regulations had not been violated because in these cases the Regulator had applied properly the Law on Transmission of Electric Power, Regulator and System Operator of Bosnia and Herzegovina and secondary legislation based on it.

The Court did not find any violation of procedural rules either, because the respondent fully acted in accordance with procedural rules, thus making a proper legal conclusion from the properly established facts.

In general, SERC decisions were not disputed by any party in the proceedings in all subsequent tariff proceedings or any other proceedings before SERC.

3.6 Electricity Market

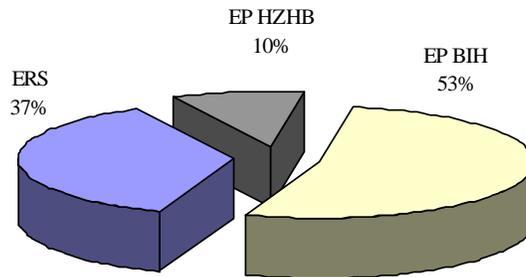
Power Indicators

According to power and financial indicators, the year 2008 has been the most successful year for the power sector since 1991. Notwithstanding lower generation in hydro power plants than expected, thermal capacities were fully operational due to considerable investments during the previous period. Coalmines also attained planned production and deliveries to thermal plants. All this influenced the financial results in the sector as well. After several decades, for the first time the power sector as a whole operated profitably with all entities making profit.

Generation amounted to nearly 14,000 GWh, of which 8,900 GWh was generated by thermal power plants, 4,800 GWh by large hydro power plants and around 200 GWh by small hydro power plants and industrial power plants. The total domestic consumption reached a historical maximum of 12,200 GWh while net export amounted around 1,700 GWh.

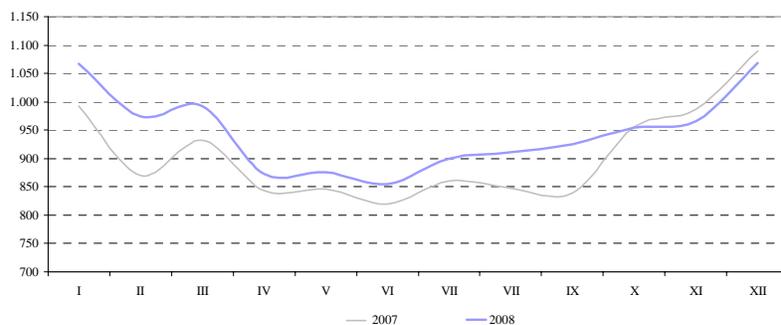
The increase in electricity consumption by domestic customers in 2008 resulted in an unprecedented maximal load of 2,117 MW on December 31, 2008 at 18:00 hrs.

The previous historical maximum was 2,078 MW, reached on December 31, 2007 also at 18:00 hrs.



Share of individual generators in total electricity generation in BIH in 2008

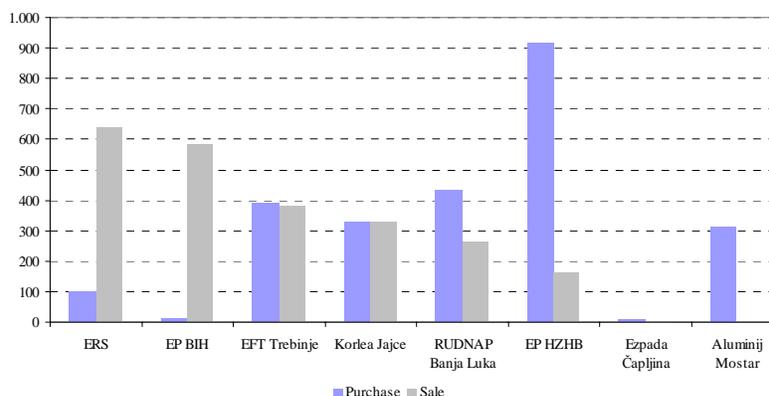
Electricity delivered from the transmission network in 2008 totaled 11,364 GWh, which makes an increase of 4.4% compared to the previous year when a total of 10,883 GWh was delivered to customers in Bosnia and Herzegovina.



Energy taken over in BIH from the transmission network in 2007 and 2008 (GWh)

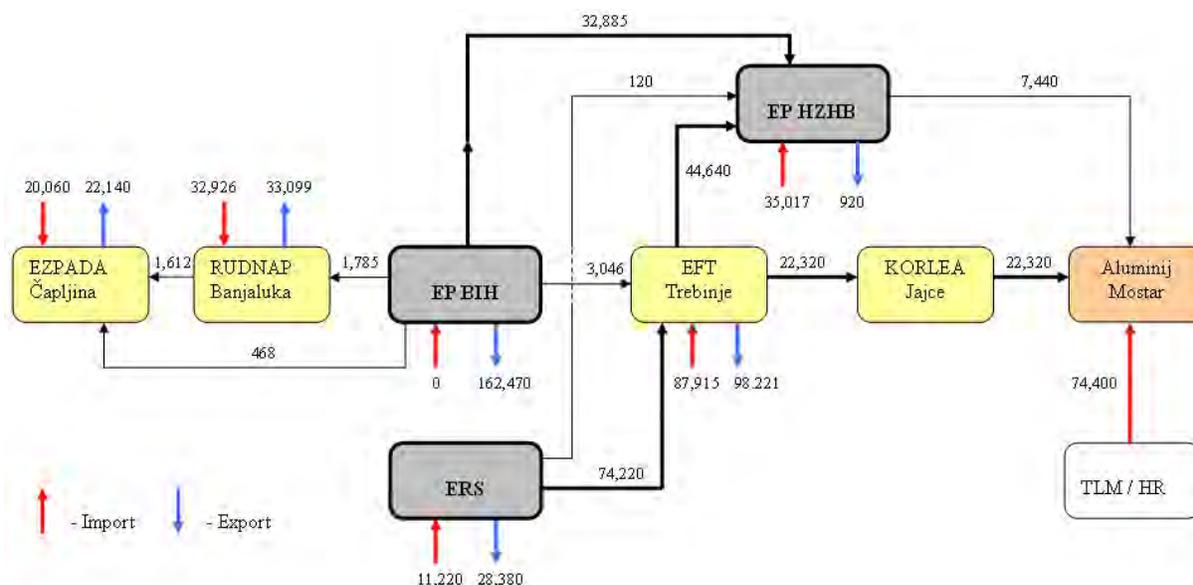
Electricity Market in Bosnia and Herzegovina

In 2008, the internal electricity market was marked by an increase in trade transactions. Electricity trade was mostly performed between the three power utilities (EP BIH, EP HZHB and ERS) on one side, and several trading companies on the other. EP BIH and ERS sold balance surpluses through annual transactions, as well as on a daily basis while most electricity in the domestic market was bought by EP HZHB. Among the trading companies, EFT Ltd. Trebinje had the highest turnover.



Overview of annual trading by licensed entities (GWh)

A share of electricity bought from domestic public utilities was placed in the market of neighboring countries while a larger share was delivered to customers in BIH. Trade transaction flows in August 2008 are shown as an illustration of internal market trade.



Trade transactions (MWh) in August 2008

The situation pertaining to the entitlement of customers to purchase power on the market, i.e., to accept eligible customer status, is unchanged. The possibility to purchase power in the electricity market was not used by eligible customers because wholesale prices in the market of South-East Europe were practically at the level of end-user tariffs. Aluminij Stock Company Mostar, whose consumption constitutes 20% of total consumption in Bosnia and Herzegovina Aluminij, continued to purchase some power in the market. Total purchases in the market amounted to 1,223 GWh, which makes 12% of the total end-users' consumption in BIH, and, at the same time, corresponds to the percentage of real market opening in BIH.

It should be observed that as of January 1, 2007, end-use customers with annual electricity consumption higher than 10 GWh have the option of acquiring eligible customer status (the nominal level of market opening is 33%). According to the following time schedule for market opening, this option is available to:

- All customers, except households, as of January 1, 2008 (nominal market opening of 57.5%),
- All customers as of January 1, 2015.

Pursuant to the relevant documents of the entity regulatory commissions, the transition period during which all customers are entitled to choose the manner of supply (as tariff or eligible customers) will last until January 1, 2012.

The creation of a single market will be significantly supported by the mutual standardization and compatibility of conditions and criteria that are to be implemented by the competent regulatory commissions as binding in the process of the market liberalization. Therefore, SERC will continue to monitor this process and analyze all its impacts.

Cross-Border Trade

Compared to the previous year, an increase in international trade in electricity (export and import) was recorded in 2008, primarily due to the increase in generation. The scope of international trade in 2008 achieved by licensed entities can be seen from the data in the following table:

	<i>MWh</i>	
<i>licensed entities</i>	<i>export</i>	<i>import</i>
<i>EP BIH</i>	1,900,949	
<i>ERS</i>	624,646	25,432
<i>EP HZHB</i>	126,026	269,454
<i>ALUMINIJ</i>		909,120
<i>EZPADA</i>	99,596	95,802
<i>EFT</i>	990,919	981,572
<i>RUDNAP</i>	433,900	254,423
<i>Total</i>	4,176,036	2,535,803

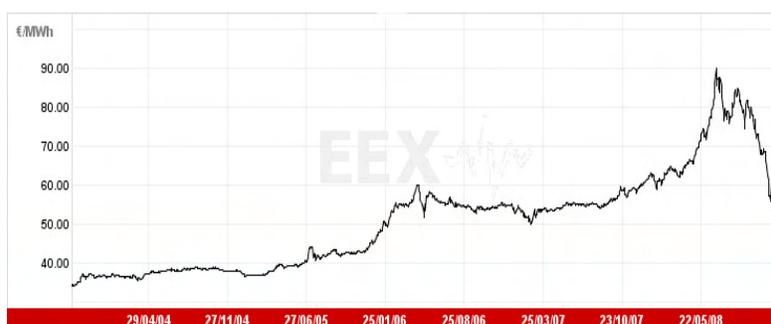
The largest exchange of electricity was realized with Croatia, mostly due to long-term contracts on delivery of electricity, and the smallest one with Serbia, which managed to close its balance from its own generation. In 2008, considerable export of 1,700 GWh was realized by Montenegro, which has a lack of generating capacities and an increase in consumption. Realized trade by country is provided in the following table:

(MWh)

<i>country</i>	<i>export</i>	<i>import</i>
Croatia	2,214,010	1,739,283
Serbia	262,520	566,437
Montenegro	1,699,506	230,083
Total	4,176,036	2,535,803

Regional Market

In general, when observing European electricity exchanges, it becomes obvious that electricity prices have followed the trends of primary energy sources, in the first place oil. Prices reached a maximum of 90 €/MWh in the first half of the year and a trend of constant decrease has been recorded since, with the price level in December being under 60 €/MWh.



Price of annual base load for 2009 from the commencement of trade with this product until the end of 2008 at the European Energy Exchange, Leipzig

Moreover, it is evident that wholesale electricity prices in South East Europe are higher than at the referent exchange in Leipzig (*EEX – European Energy Exchange*), but they are also higher compared to other regional exchanges in Europe. The reasons can be found in a significant balance deficit recorded in most countries of the region (Croatia, Albania, Montenegro, Greece, Macedonia, UNMIK) and in a moderate deficit (Slovenia, Serbia). Practically, the only net exporters in the region are Bulgaria, Romania and Bosnia and Herzegovina. It can be concluded that the balance deficit in the region is of a long-term nature, which could be mitigated by a consumption decrease caused by the present economic crisis and construction of new generation capacities which would increase supply. In this context, a large number of proposed new generation facilities can be observed in the whole region, but the level of feasibility of their construction is disputable due to limitations of spatial, environmental and economic reasons.

Subsidization programs for most vulnerable electricity consumers are established in:

- *Republika Srpska (electricity),*
- *Brčko District of BIH, and*
- *Sarajevo Canton (during winter months).*

Since their establishment, the State Electricity Regulatory Commission, the Regulatory Commission for Electricity in the Federation of BIH and the Regulatory Commission for Energy of the Republika Srpska have cooperated and harmonized their activities.

3.7 Customer Protection

Customer protection is an important issue of regulatory policy in all countries where the process of deregulation and liberalization of the power sector is in progress. To this end, regulatory authorities are even more responsible in the open electricity market to consider and achieve the main goals of customer protection, protection of power entities and the environment through a transparent and impartial solution to the issues occurring in the regulatory field.

The subsidization of the most vulnerable energy consumers has become a widely accepted practice in most European countries. The main problems in this area are the identification of subsidy beneficiaries, the level of subsidization, funds and the manner of implementation. Lack of initiative and coordination has been the major shortcoming of up-to-date activities related to the provision of assistance to the most vulnerable categories of consumers of electricity and other energy sources. It seems logical that the main initiators of these activities would be the ministries competent for social protection with the support of other competent authorities, including the regulatory commissions.

In 2008, SERC continued to make efforts to protect electricity customers, especially vulnerable categories of the population, by active participation in all initiatives of the institutions at the state level within their legal vested authorities. Among them the development of the Social Action Plan for BIH has significant importance, which is being prepared by a Working Group of the BIH Ministry of Civil Affairs, gathering together representatives of the relevant ministries at the state and entity levels as well as representatives of regulators, employers, unions and others. The finalization of the plan is expected by 2009.

SERC representatives also actively participated in regional customer protection-related activities, among which in 2008, included the establishment of a Social Forum as the third institutional forum of Energy Community should be singled out (see Chapter 4.1).

3.8 Other Issues

Besides the aforementioned activities, in 2008 SERC has exchanged data with a number of state institutions (the BIH Council of Ministers, the Directorate for Economic Planning of the BIH Council of Ministers, the Council of Competition of BIH, the Foreign Investments Promotion Agency of in BIH and others) and prepared different types of information they needed.

Information on Availability of Electric Power from Hydro Power Plants on Common Water Flows with the Republic of Serbia and the Republic of Croatia – adopted at the 21st session of the Committee for Economy of the BIH Council of Ministers – should be emphasized here.

“A real challenge to the establishment of stable power systems in the countries in the region is the institutional development and establishment of adequate policies. For energy reforms to be effective and successful, they need to be part of an overall energy strategy.”

From the address speech of Mr. Mladen Zirojević, BIH Minister of Foreign Trade and Economic Relations at the Crans Montana Forum.

Moreover, SERC representatives had a significant role in representing the BIH power sector before the Parliament of the Federation of BIH and the National Assembly of the Republika Srpska. It is to be expected that the power sector will be presented to representatives and delegates of the House of Representatives and the House of Peoples of the Parliamentary Assembly of BIH during 2009.

SERC representatives also had a noteworthy role at *Crans Montana Forum* which was organized for the first time in BIH in October 2008 under the auspices of the President of the Council of Ministers and Entity Prime Ministers. During this very important politic and economic event in our country, different infrastructural issues were addressed at the regional level, among which a focus was put on energy issues.

Among important activities in the power sector during 2008, the completion of *the Energy Sector Study* also needs to be mentioned. After the findings by thematic units of the Study had been presented at three workshops at the beginning of the year, the final report was submitted in April 2008. Unfortunately, there were no activities on the development of *the BIH Energy Strategy* which should have been done based on the Study according to the Terms of Reference for the Development of the Study and the Terms of Reference for TASED (Strengthening of the Energy Department at the Ministry of Foreign Trade and Economic Relations of BIH).

It should be mentioned that the power sector reform in Bosnia and Herzegovina continues to be supported by the United States Agency for International Development (USAID) through the Regulatory and Energy Assistance Project (*REAP*) and by the European Commission through the Technical Assistance to the Energy Regulation System of BIH Project (*EnReg Project*).

The key areas of support within the REAP project, which will last from 2007 to 2011, are as follows: (i) continuous support to the Independent System Operator in BIH, including further development of the Grid Code and the Market Rules with further integration of BIH market into the regional and internal EU markets pursuant to the obligations from the Treaty Establishing the Energy Community, (ii) Monitoring of and assistance with the implementation of action plans, and (iii) Further assistance with the unification of regulations, including the completion of all activities pertaining to the development of a new gas law and necessary modifications of the state and entity electricity laws.

The aim of the EnReg project is to strengthen the institutional and professional capacity of the three regulatory commissions, to improve the effectiveness of the existing regulatory system's performance and to facilitate BIH compliance with the obligations from the Treaty Establishing the Energy Community.

4. INTERNATIONAL ACTIVITIES

4.1 Energy Community



The Treaty Establishing the Energy Community, which was signed in Athens on October 25, 2005, and came into effect on July 1, 2006, provides for the creation of the biggest internal market in the world for electricity and gas, with effective participation of 34 parties: 27 members of the European Union and Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, Serbia and UNMIK – Kosovo.

The main goals of the Treaty are the creation of a stable and single regulatory framework and market space that ensures reliable energy supply and attracts investments in the electricity and gas sectors. In addition, it assumes the development of alternative sources of gas supply and improvement of the condition of the environment, with the implementation of energy efficiency and the utilization of renewable sources.

By signing the Treaty, the contracting parties from the region are obligated to establish a common electricity and gas market that will operate in accordance with the standards of the EU energy market with which it will integrate. It is to be achieved by gradual transposition of the EU *Acquis Communautaire* pertaining to energy, environment and competition, which means the implementation of the relevant EU directives and regulations pertaining to energy and environment.

By participation in this process, Bosnia and Herzegovina confirms its commitment to the reform of the energy sector, liberalization of the energy market and harmonization of its policy with EU members.

To ensure an adequate process of establishing and functioning of the Energy Community, the Treaty establishes the Ministerial Council, the Permanent High Level Group, the Regulatory Board, the Electricity Forum (Athens Forum), the Gas Forum (Maribor Forum) and the Secretariat.

In accordance with the interest expressed, the following countries participate in the work of the Energy Community bodies: Austria, Bulgaria, Czech Republic, Cyprus, France, Germany, Greece, Hungary, Italy, the Netherlands, Romania, Slovakia, Slovenia and the United Kingdom. These fourteen countries, the so-called Participants from the European Union, directly participate in the work of the Energy Community bodies, and in the voting procedure their positions are expressed by votes of the European Commission.

Georgia, Moldova, Norway, Turkey and Ukraine have observer status in Energy Community bodies. In November 2008, negotiations on joining were initiated with Ukraine and Moldova, while the commencement of formal negotiations with Turkey is expected at the beginning of 2009.

Acquis communautaire taken over by signing of the Treaty

Acquis on Energy

- Directive 2003/54/EC of the European Parliament and of the Council of June 26, 2003 concerning common rules for the internal electricity market
- Directive 2003/55/EC of the European Parliament and of the Council of June 26, 2003 concerning common rules for the internal natural gas market
- Regulation 1228/2003/EC of the European Parliament and of the Council of June 26, 2005 on conditions for access to the network for cross-border electricity trade

The deadline for implementation of these directives is July 1, 2007, ensuring that all customers but households have the eligible customer status by January 1, 2008 at the latest, and as of January 1, 2015 all customers.

By the decision of the Energy Community Ministerial Council of December 2007, *acquis on energy* (Articles 10 and 11 of the Treaty) has been expanded by:

- Directive 2005/89/EC of the European Parliament and of the Council of 18 January 2006 concerning measures to safeguard security of electricity supply and infrastructure investment; implementation - December 31, 2009
- Council Directive 2004/67/EC of 26 April 2004 concerning measures to safeguard security of natural gas supply; implementation - December 31, 2009
- Regulation 1775/2005/EC of the European Parliament and of the Council of 28 September 2005 on conditions for access to the natural gas transmission networks; implementation - December 31, 2008

Acquis on Environment

- European Community Council Directive 85/337/EEC of June 27, 1985 on assessment of the effects of certain public and private projects on environment, with subsequent amendments of March 3, 1997 (Directive 97/11/EC) and Directive 2003/35/EC of the European Parliament and the Council of May 26, 2003; implementation after entry into force of the Treaty
- Directive 2005/53 of the European Parliament and of the Council of July 6, 2005, amending Directive 199/32 of April 26, 1999 relating to the reduction of sulfur content of certain liquid fuels; implementation by December 31, 2011.
- Directive 2001/80/EC of the European Parliament and of the Council of October 23, 2001 on limitation of emissions of certain air pollutants by large combustion plants ($\geq 50\text{MW}$); implementation by December 31, 2017.
- Article 4(2) of the European Community Council Directive 79/409/EEC of April 2, 1979 on conservation of wild birds; implementation after entry into force of the Treaty
- Endeavour to accede to the Kyoto Protocol and implementation of the Directive 96/61/EC of September 24, 1996 on pollution prevention and control

Acquis on Competition

The following activities are not allowed and shall be assessed pursuant to Article 81, 82 and 87 of the Treaty Establishing the Energy Community:

- Prevention, restriction or distortion of competition,
- Abuse of dominant position,
- Any public aid which distorts or threatens to distort competition.

In particular, with regard to public undertakings and undertakings to which special rights have been granted, six months following the date of entry into force of the Treaty, provisions of the Treaty Establishing the Energy Community, in particular Article 86, shall be upheld.

Acquis on Renewable Energy Sources

- Directive 2001/77/EC of the European Parliament and of the Council of September 27, 2001, on promotion of electricity generated by using renewable sources in the internal market
- Directive 2003/30/EC of the European Parliament and of the Council of May 8, 2003 on promotion of use of bio-fuels or other renewable fuels in transportation

The deadline to prepare a plan for implementation of the *acquis* on renewable energy sources was July 1, 2007.



The Ministerial Council, as the highest body of the Energy Community, ensures the achievement of goals that are determined by the Treaty Establishing the Energy Community. The Ministerial Council consists of one representative of each Contracting Party and two representatives of the European Union.

In 2008, the priorities in the Energy Community work included the implementation of the *Acquis* (EU *Acquis Communautaire*) included in the Treaty, further development of the social dimension (after the 1st Conference on Social Aspect of the Energy Community in accordance with the Memorandum of Understanding on Social Issues in the Context of Energy Community was held on October 18, 2007), security of supply, promotion of investment and energy efficiency.

The development of the European Union policy in the field of energy and climate change is of particular importance for the Energy Community. The adoption of the 3rd Package for Energy Market Liberalization of EU has been announced for the first half of 2009, and taking into consideration the fact these new energy directives will become a part of EU *Acquis Communautaire*, through the Treaty Establishing the Energy Community, they will become binding for the countries in the region as well.

In addition to the previously established Athens and Maribor Fora, i.e., the Electricity Forum and the Gas Forum respectively, in November this year the Social Forum was established, while the establishment of an Oil Forum was announced for the next year with the seat in Belgrade.

Bosnia and Herzegovina will take over the Presidency of the Energy Community in the first half of 2009, having the following priorities on the agenda:

- Regional market development with a focus on security of supply,
- Promotion of concrete investments in the power sector,
- Energy efficiency and renewable energy sources,
- Social dimension of the Energy Community in line with the Memorandum of Understanding on Social Issues, taking into consideration the correlation of efficient programs for vulnerable customers and possibilities of a higher level of market opening,

- Preparation of the Energy Community 2010-2011 Work Program.

At the end of March 2009 in Sarajevo, the European Bank for Reconstruction and Development and the Energy Community will jointly organize the Regional Energy Forum focusing on investing in electricity generation and renewable energy sources.

The work of the State Electricity Regulatory Commission in this field was carried out with the good cooperation of the Ministry of Foreign Affairs and Economic Relations of Bosnia and Herzegovina, through participation in the achievement of different projects supporting the establishment of the Energy Community, and in particular, through work in different groups which include energy regulators from the region and the European Union.

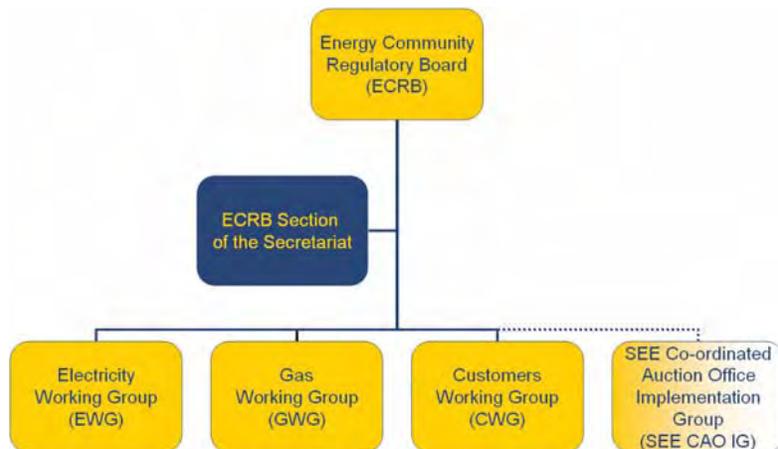


In the beginning of 2008, the ECRB decided to evaluate the gas and electricity markets development in the region of South East Europe on the basis of national reports from each Contracting Party to the Treaty on Energy Community.

Following the structure developed by the Energy Regulators Group for Electricity and Gas (ERGEG) for EU member states, the First National report for BIH was prepared during the year. The BIH report together with other regional reports was approved by ECRB and published on its web site at the end of September 2008.

The Energy Community Regulatory Board (ECRB), seated in Athens, is comprised of representatives of the regional state regulatory bodies, and the European Union is represented by the European Commission, with the assistance of one regulator of the EU participants and one representative of the European Energy Regulators Group for Electricity and Gas (ERGEG). ECRB considers the issues of regulatory cooperation and may become a body issuing regional regulatory decisions and serving as a dispute resolution institution. The Regulatory Board has a key role in the expanded market operation. According to the opinion of the European Commission, this supranational body may become a role model for other parts of the world.

The formal establishment of the Regulatory Board of the Energy Community, in which Bosnia and Herzegovina was represented by the State Electricity Regulatory Commission, took place on December 11, 2006 in Athens. During 2008, the Regulatory Board held four meetings.



Regulatory Board Structure

From the structure of the Regulatory Board, it is obvious that some ECRB activities are organized through several working

groups with the support of the relevant Energy Community Secretariat Section. The State Electricity Regulatory Commission continuously participates in the work of the Regulatory Board and working groups, while the Customers Working Group is chaired by a SERC representative.

During 2008, **the Electricity Working Group (EWG)** was focused on the monitoring of ITC mechanism of European Union countries and countries of South East Europe, monitoring of the congestion management mechanism – simulation of coordinated auctions based on real time flows, establishment of the regional balancing mechanism in reference to the harmonization of national legal frameworks, issues of regional market design taking into account the development of national electricity markets, support mechanisms for generation capacities, proposals to harmonize market rules and the opening of wholesale markets, regional planning of transmission network development and creation of a market monitoring mechanism. By establishing a few sub-groups in the operational organization of its work, EWG prepared several important reports and benchmarks, among which of special importance are *the Overview of Cross-Border Transmission Capacity Allocation Methods* and *the Role of the Regulator in the Process of Approval of Investments in Cross-Border Transmission Capacities*.

EWG prepares overviews of the regulatory environment, identifies legal and financial obstacles and proposes solutions at regional and national levels for the implementation and functioning of new mechanisms within the regional market of South East Europe. The area of activities of the Working Group requires a wide range of skills including technical, legal and financial issues.

During 2008, **the Gas Working Group (GWG)** finalized activities on the Survey of the Gas Market in South East Europe, prepared a draft of *a Consultation Paper on a Common Regulatory Approach for the Development of the Energy Community Gas Ring*, launched activities on the *Study on the Improvement of Interconnection, Inter-operability, Transparency and Harmonization of Operational Rules for Natural Gas Transportation in the Energy Community*, and participated in the organization of Gas Distribution Conference which was held in September 2008 in Zagreb.

It should be noted that the gas market in South East Europe is less developed than the electricity market. Only a few countries have developed their gas markets, while the others use gas within a limited scope or not at all. Currently, there is a large number of projects aimed at regional gas market development.

In addition to the continuation of previously initiated activities and development of national and regional gas market reports for

2008, in the forthcoming period the GWG will focus especially on the issues of the future common gas market structure in the Energy Community, mutual license recognition and further work on gas distribution issues.

In 2008 the most important activities of the **Customers Working Group (CWG)** included the preparation of the *Report on the Implementation of the Best Practice Guidelines on the Protection of Vulnerable Households Customers, Interim Report on Quality of Electricity Service – Standards and Incentives in Quality Regulation* and the development of the *Study on Tariff Methodologies and Impact on Prices and Energy Consumption Patterns in the Energy Community*.

In the forthcoming period, the CWG plans to continue its activities launched in 2008, paying special attention to the more active participation of social partners in the regulatory process for better customer protection. Additionally, the analysis of energy source quality supply is planned with a focus on natural gas supply.



The South East Europe Co-ordinated Auction Office Implementation Group (SEE CAO IG) is comprised of representatives of regulatory authorities and transmission system operators, with regulators having a leading role. This composition takes into account the fact that continuous and close cooperation between regional system operators and regulators is required to deal with the issues of coordinated auctions.

The establishment of the Coordination Auction Office is of major significance for further expansion of opportunities in international trade, since the current allocation method has become a limiting factor to further market development. According to the initial Action Plan, the establishment of the Office was expected by February 2009. However, due to several pending issues, including the method of revenue allocation, definition of regional borders that will be covered by the Office, the existence of legal barriers in national legislations of participant countries and the choice of the Office's location, its establishment was postponed until 2010.

In June 2008, the Energy Community Ministerial Council defined the region that will be covered by the Office: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Hungary, Italy (interconnection with the remainder of the region), Macedonia, Montenegro, Romania, Slovenia, Serbia and UNMIK-Kosovo.

At the end of 2008, the Energy Community Ministerial Council welcomed the principles and objectives of the Memorandum of Understanding between transmission system operators and gave its full support to the establishment of the Office in Montenegro.

4.2 Energy Regulators Regional Association – ERRA



The goals of ERRA are improvement of energy regulation in the member countries, development of independent and stable energy regulators, improvement of cooperation among regulators, exchange of information, research and experience among the members, better access to energy regulatory information and the sharing of experience around the world.

The Energy Regulators Regional Association (ERRA) is an organization composed of independent energy regulatory bodies in Central and East Europe and newly independent states in the region. ERRA has 24 full and 2 associate members, all established at the national level. In addition, four affiliate members are engaged in ERRA activities, including the National Association of Regulatory Utility Commissioners (NARUC).

The State Electricity Regulatory Commission is a full ERRA member as of May 19, 2004, since when SERC actively participates in the work of the General Assembly and Investment Conference, as well as in the work of standing committees and working groups with particular emphasis on the Standing Licensing/Competition Committee, Standing Tariff/Pricing Committee and Legal Regulation Working Group.

The most important topics elaborated in 2008 include the demand-side management, the method of providing ancillary services in the power system, economic issues pertaining to tariff development, issues of regulatory independence and international cooperation of regulators in projects for cross-border transmission capacity development.

Besides active participation in ERRA bodies, by providing the relevant information on the power sector of Bosnia and Herzegovina, in particular on the applicable regulatory practice, the State Electricity Regulatory Commission fulfills its role acquired by full ERRA membership.



ERRA Membership

4.3 Mediterranean Working Group on Electricity and Natural Gas Regulation – MEDREG



The Mediterranean Working Group on Electricity and Natural Gas Regulation-MEDREG, created in May 2006 as a working group, is today a non-profit Association under Italian law established in Rome in November 2007. MEDREG gathers regulatory authorities, coming from Albania, Algeria, Bosnia and Herzegovina, Croatia, Cyprus, Egypt, France, Greece, Italy, Israel, Jordan, Lebanon, Libya, Malta, Montenegro, Morocco, the Palestinian Authority, Portugal, Slovenia, Spain, Syria, Tunisia and Turkey.

Its organisation is structured around a biannual General Assembly, as well as around four permanent Ad Hoc Groups: (1) on Institutional Issues (chaired by France), (2) on Electricity (chaired by Egypt), (3) on Gas (chaired by Morocco) and (4) on Environment, Renewable Energy Sources and Energy Efficiency (chaired by Spain). Ad Hoc Groups meet at least twice a year.

The main objective of MEDREG is to promote a stable, harmonized regulatory framework in the Euro-Mediterranean energy market, providing the maximum benefits to energy consumers in both regions. Moreover, MEDREG fosters co-operation, information exchange and mutual assistance among members.

MEDREG is supported by the Italian Government, REMEP (Rome Euro-Mediterranean Energy Platform) and CEER (Council of European Energy Regulators).

The Ministerial Declaration signed in Cyprus in December 2007 by energy ministers from Euro-Mediterranean countries acknowledged the unique and strategic role of MEDREG in establishing and enhancing cooperation among energy regulators, reinforcing transparency, enhancing mutual knowledge and contributing to the harmonization of the regulatory framework in the Euro-Mediterranean energy market.

As opposed to the regular participation in General Assembly meetings, the representatives of the State Electricity Regulatory Commission in Ad Hoc Groups were not able to attend working groups' meetings due to the scope of SERC activities, but they participated in their work by preparing and circulating requested information and comments on draft documents.

4.4 International Energy Regulation Network – IERN



International Energy Regulation Network – (IERN) is a web platform (www.iern.net) that aims to facilitate information exchange on electricity and natural gas market regulation, to the benefit of regulators, but also of other interested users. Through IERN, regulators and other energy market stakeholders exchange information about themselves, the sectors they are involved in and the way these sectors are regulated.

IERN is also a place where regulators can exchange information about training courses, conferences and online resources on energy regulation. Longer term, IERN aims to become not only a vector for exchanging existing information, but also a producer of in-house working papers on best practices.

In order to guarantee the quality of the data to be found in the website, IERN is supported by the main regional associations of regulators worldwide, individual energy regulators and by some international institutions. SERC directly participated in the creation of the Network, which made the data on the power sector and regulatory practice in BIH accessible.

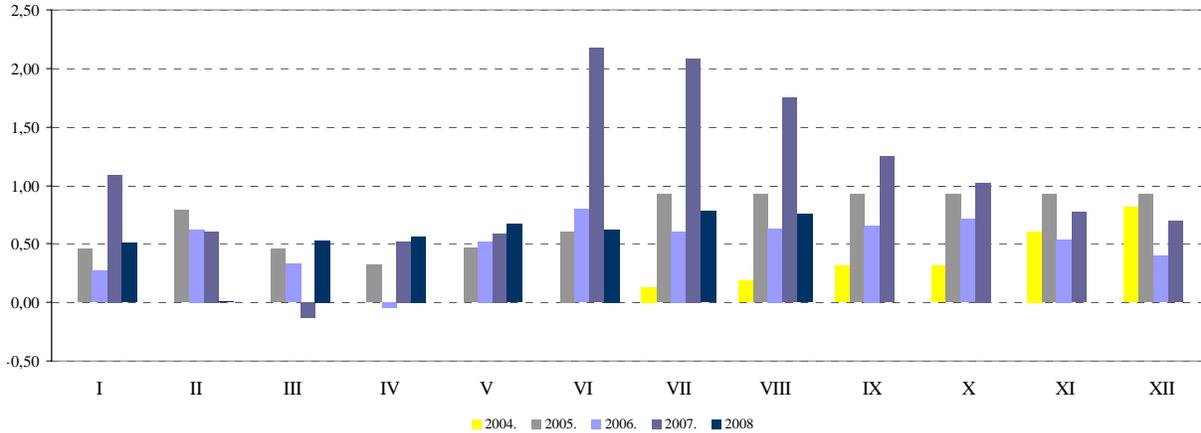
4.5 Inter-TSO Compensation Mechanism (ITC Mechanism)

“The Independent System Operator in BIH”, as a representative of Bosnia and Herzegovina, is a full member of the European Network of Transmission System Operators for Electricity (ENTSO-E) which was established on December 19, 2008. The establishment of the new organization shall lead to the gradual closing down of the existing associations at the European level during an interim period which will last the first six months of 2009 (such as the Union for Coordination of Transmission of Electricity – UCTE and the European Transmission System Operators – ETSO).

The Inter-TSO Compensation Mechanism (ITC Mechanism) is a method of compensation for costs on the national transmission network caused by electricity flows due to cross-border trade. In this manner, an important platform has been created that enables electricity trade in the region of South East Europe, as well as between the region and the European Union.

The mechanism of inter-TSO compensation (ITC mechanism) has been implemented in Western Europe since 2002, and in South East Europe since 2004, under the previously-used term CBT mechanism (cross-border trade mechanism). In June 2007, the planned merger of the ITC mechanisms of SETSO and ETSO countries, i.e. of ITC funds, was achieved, thus creating a single ITC mechanism encompassing 29 European countries. The complex procedure of calculation and harmonization of data on electricity flows is performed on a monthly basis in the administrative center in Switzerland.

It is in the jurisdiction of the regulator to approve the implementation of the mechanism, which involves the implementation of Regulation EC 1228/2003 of the European Parliament and of the Council of June 26, 2003, on conditions for access to the network for cross-border electricity trade.



ITC mechanism revenue by months in millions of BAM (€1 = BAM 1.95583)

Due to its geographic position as a transit country in the region and the structure of the transmission network, Bosnia and Herzegovina realizes regular revenue based on the ITC mechanism implementation. In 2004 the net revenue of BAM 2,354,004 was realized, while in 2005, 2006, 2007, it amounted to BAM 8,664,199, BAM 6,055,467 and BAM 12,432,071 respectively. In the first eight months of 2008, for which the calculations were completed, the realized net revenue amounted to BAM 4,440,622.

5. AUDITING REPORT



“The financial reports of the Commission for 2007 realistically and objectively show its financial standing on December 31, 2007...”

(From the opinion of the Office for Auditing of the Institutions of Bosnia and Herzegovina, May 23, 2008)

“In our opinion, the financial reports show objectively the financial standing of the State Electricity Regulatory Commission (SERC) on December 31, 2007, in all materially relevant aspects, as well as its business results and changes in cash flows for the year which ended at that point, in accordance with the International Financial Reporting Standards (“IFRS”).

(“REVIK”, March 18, 2008)

Pursuant to the Act on Transmission of Electric Power, Regulator and System Operator of BIH, the State Electricity Regulatory Commission is obligated to prepare accounting reports in accordance with international accounting standards, have them audited, and publish the report of an independent auditor on the auditing performed, with a view to provide information to interested persons and a wider public. SERC selects an independent auditor in accordance with a public invitation for auditing services published in the “Official Gazette of BIH” taking into account its reputation and references.

In 2007, the audit of SERC financial reports was performed by the Auditing, Accounting and Consulting Company “REVIK” Ltd. Sarajevo, in accordance with international auditing standards applicable to auditing of financial reports (IAS).

Evaluating the overall presentation of the financial reports, recognizing and measuring transactions and business occurrences, this independent auditing company determined that SERC’s financial reports for 2007 objectively and authentically present the state of play of assets, liabilities, capital and financial results of performance.

In 2007, the auditing of SERC financial reports was also performed by the Office for Auditing of the Financial Operations of the Institutions of Bosnia and Herzegovina in accordance with auditing standards of the International Organization of Supreme Audit Institutions (ISSAI).

The Office for Auditing of the Institutions of Bosnia and Herzegovina also affirmatively appraised SERC financial standing on December 31, 2007, and concluded that SERC expenditures were used for the purpose determined by the Parliamentary Assembly of Bosnia and Herzegovina in all materially relevant aspects.

In 2008, SERC concluded a contract on provision of insurance services and a framework agreement on provision of petrol for passenger vehicles, which, in accordance with the recommendation of the Office for Auditing, rectified discrepancies noticed in the application of the Law on Public Procurements when selecting a provider for that type of services.

By the Financial Plan for 2009, the Decision of Determination of the Regulatory Fee and the status which was eventually defined in accordance with the Law on Transmission of Electric Power, Regulator and System Operator of Bosnia and Herzegovina, the system of SERC internal controls was also improved in terms of planning and implementation of the financial plan.

The Auditing Reports were published in the “Official Gazette of BIH” as well as on the web-sites of the Office for Auditing and SERC.

6. MAIN ACTIVITIES IN 2009

Additional information on the operation and procedures conducted by the State Electricity Regulatory Commission may be obtained on the internet at www.derk.ba, or by phone on 035 302060 and 302070, fax 035 302077, e-mail info@derk.ba or at the seat of the SERC in Tuzla, M. Jovanovića Street 4/II.

The State Electricity Regulatory Commission will continue its activities on the creation of conditions for free trade and unhindered electricity supply in accordance with previously defined quality standards to the benefit of the citizens of Bosnia and Herzegovina, and in compliance with the relevant European directives and the rules of internal electricity market.

In 2009, SERC will continue to cooperate with the Parliamentary Assembly of Bosnia and Herzegovina (PA BiH), in particular with the Commission for Traffic and Communication of the House of Representatives of PA BiH and the Commission for Foreign and Trade Policy, Customs, Traffic and Communication of the House of Peoples of PA BiH. Of particular importance is the continuation of information exchange and harmonization of key regulatory activities with the Ministry of Foreign Trade and Economic Relation of BiH, which is competent for policy creation in accordance with the Law on Transmission of Electric Power, Regulator and System Operator of Bosnia and Herzegovina.

Moreover, all modalities of mutual follow up and harmonization of activities will be continued in 2009, with the Regulatory Commission for Electricity in the Federation of BiH and the Regulatory Commission for Energy of the Republika Srpska, as well as with other regulatory bodies established at the state level, primarily the Council of Competition of BiH.

Through its activities SERC will be focused on:

- Setting tariffs for services of electricity transmission, the operation of the Independent System Operator and ancillary services,
- Issuance of licenses,
- Monitoring of licensed entities (the Independent System Operator in BiH, the Company for Transmission of Electric Power, international trade licensees),
- Analysis of regulatory rules and practice,
- Creation of regulatory rules,
- Design of a single electricity market,
- Capacity building in terms of the fulfillment of international obligations with regard to regulatory reporting to the ER-GEG structure,
- Social aspect within the field of regulatory practice,
- Monitoring the implementation of the ITC mechanism and establishment of the mechanism for coordinated explicit capacity auctions,

- Approving and monitoring of rules developed by ISO BIH,
- Monitoring the development of *the Indicative Generation Development Plan for the Period 2010-2019* and approving *the Long-Term Transmission Network Development Plan for a ten-year period* as well as annual investment plan of Elektroprijenos BIH,
- Sharing information on regulatory practice with the regulated entities and the public.

SERC will also focus on the activities of international bodies pertaining to the regulation of the electricity market, primarily those in whose activities SERC participates:

- ECRB – the Energy Community Regulatory Board (including the Electricity Working Group, Gas Working Group, Customers Working Group, South East Europe Co-ordinated Auction Office Implementation Group),
- ERRA – the Energy Regulators Regional Association (including the Standing Licensing/ Competition Committee, Standing Tariff/Pricing Committee and Legal Regulation Working Group),
- MEDREG – the Mediterranean Working Group on Electricity and Natural Gas Regulation (including Ad Hoc Working Groups on institutional issues, electricity, gas and environment, renewable energy sources and energy efficiency),
- IERN – International Energy Regulation Network.

Furthermore, SERC will continue to follow up the work of CEER (Council of European Energy Regulators) and ERGEG (European Regulators' Group for Electricity and Gas), as well as the analysis of the content and activities related to the adoption of the 3rd package for energy market liberalization, taking into account the fact that the new energy directive will be a part of the *EU acquis* and, as such, will become mandatory for Bosnia and Herzegovina through the Treaty Establishing the Energy Community.

ATTACHMENT A.1: Basic Data on the Power System of Bosnia and Herzegovina

(used data provided by ISO BIH, public power utilities and the Company for Transmission of Electric Power of BIH)

Major generation facilities

Hydro power plants	Capacity of power unit (MW)	Total installed capacity (MW)
Trebinje I	3×60	180
Trebinje II	8	8
Dubrovnik (BIH+Hr.)	2×108	216
Čapljina	2×210	420
Rama	2×80	160
Jablanica	1×25+5×30	175
Grabovica	2×57	114
Salakovac	3×70	210
Mostar	3×24	72
Jajce I	2×30	60
Jajce II	3×10	30
Bočac	2×55	110
Višegrad	3×105	315
Peć-Mlini	2×15	30

Thermal power plants	Installed capacity (MW)	Available capacity (MW)
TUZLA	715	635
G3	100	85
G4	200	182
G5	200	180
G6	215	188
KAKANJ	450	398
G5	110	100
G6	110	90
G7	230	208
GACKO	300	276
UGLJEVIK	280	250

Basic data on the transmission system

transmission lines

No.	Nominal voltage of transmission lines	Length (km)
1	400 kV	864.73
2	220 kV	1525.50
3	110 kV	3888.82
4	110 kV – cable line	31.35

interconnectors

No.	Nominal voltage of transmission lines	No. of interconnections
1	400 kV	4
2	220 kV	10
3	110 kV	22
	Total	36

transmission sub-stations

No.	Type of sub-station	No. of sub-stations	Installed capacity (MVA)
1	TS 400/x kV	9	5924.5
2	TS 220/x kV	7	1427.0
3	TS 110/x kV	119	4693.5

transformers

No.	Transmission ratio of transformers	No. of transformers	Installed capacity (MVA)
1	TR 400/x kV	14	4900
2	TR 220/x kV	14	2100
3	TR 110/x kV	219	5045

ATTACHMENT A.2: Basic Power Indicators in Bosnia and Herzegovina

(GWh)

Estimate for 2008	EP BIH	ERS	EP HZHB	Brčko District BIH	BIH
Generation	7,453.00	5,108.00	1,381.00		13,942.00
Generation in hydro power plants	1,501.00	1,942.00	1,375.00		4,818.00
Generation in thermal power plants	5,837.00	3,096.00			8,933.00
Generation in small and industrial PPs	115.00	70.00	6.00		191.00
Consumption	4,855.00	3,484.00	3,300.00	290.00	12,241.00
Distribution consumption	4,205.00	3,310.00	1,370.00	290.00	8,885.00
Transmission losses					312.00
Large consumers	650.00	160.00	1,930.00*		2,740.00
Pumping and mines consumption		14.00			14.00

* Including the amount of 1223.04 GWh which the "Aluminij" Company purchased as an eligible customer.

Realization in 2007	EP BIH	ERS	EP HZHB	Brčko District BIH	BIH
Generation	6,592.61	4,454.41	1,128.10		12,175.12
Generation in hydro power plants	1,120.10	1,780.31	1,124.09		4,024.50
Generation in thermal power plants	5365.00	2,607.16			7,972.16
Generation in small and industrial PPs	107.51	66.94	4.01		178.46
Consumption	4,358.74	3,310.97	3,363.83	257.02	11,602.56
Distribution consumption	3,809.38	3,109.09	1,307.60	257.02	8,226.07
Transmission losses					312.00
Large consumers	549.36	156.77	2,045.37*		2,751.50
Pumping and mines consumption		45.11	10.86		55.97

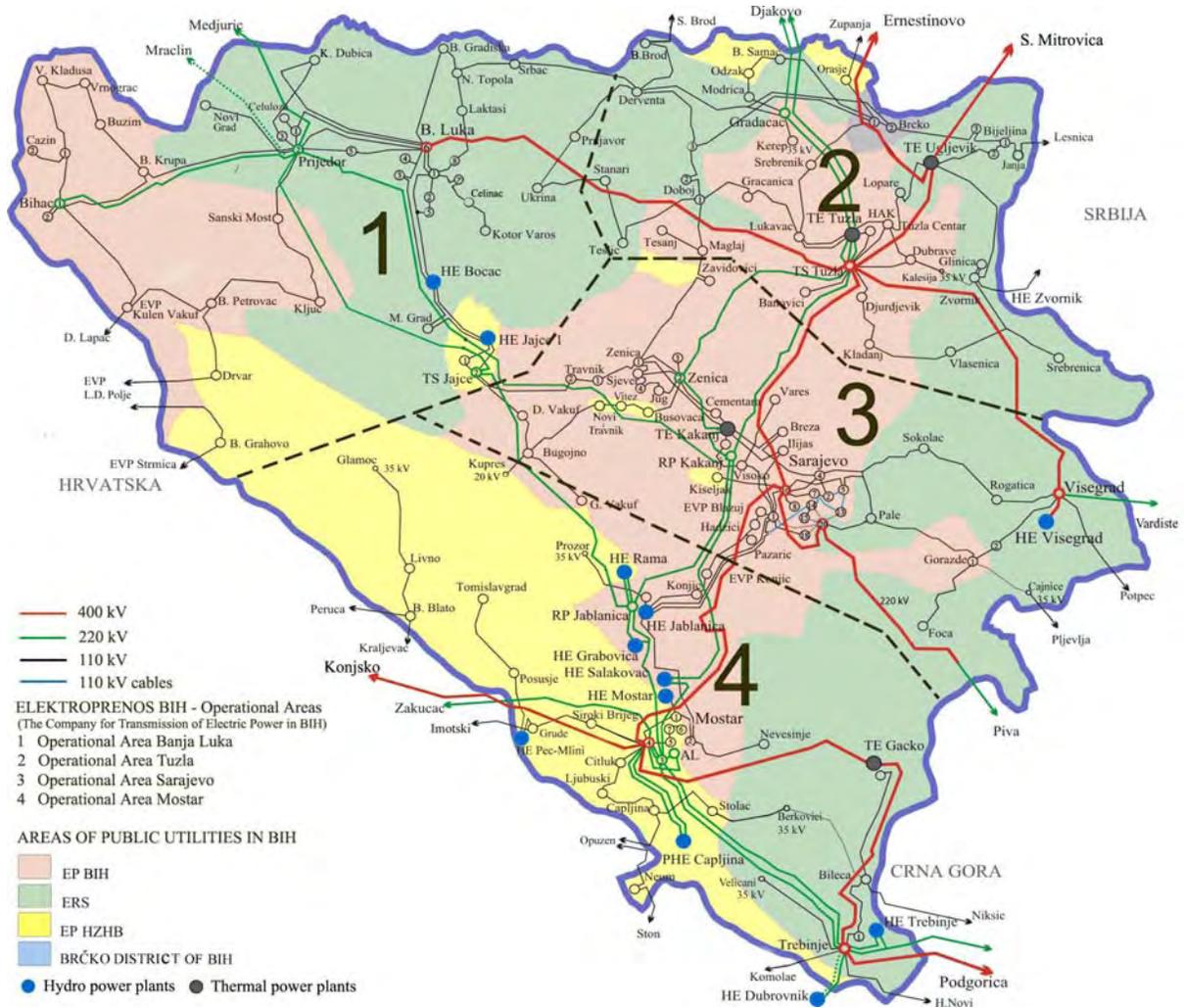
* Including the amount of 547.78 GWh which the "Aluminij" Company purchased as an eligible customer.

Realization in 2006	EP BIH	ERS	EP HZHB	Brčko District BIH	BIH
Generation	6,401.13	5,390.49	1,883.55		13,675.17
Generation in hydro power plants	1,488.03	2,528.13	1,883.55		5,899.71
Generation in thermal power plants	4,811.56	2,802.50			7,614.06
Generation in small and industrial PPs	101.54	59.86			161.40
Consumption	4,265.62	3,30.89	3,352.60	252.60	11,491.81
Distribution consumption	3,722.72	3,061.31	1,279.49	252.60	8,316.12
Transmission losses					311.10
Large consumers	542.90	199.50	2,053.79		2,796.19
Pumping and mines consumption		49.08	19.32		68.40

Realization in 2005	EP BIH	ERS	EP HZHB	Brčko District BIH	BIH
Generation	5,778.53	5,200.64	1,768.69		12,747.86
Generation in hydro power plants	1,477.69	2,747.10	1,768.69		5,993.47
Generation in thermal power plants	4,218.88	2,384.44			6,603.32
Generation in small and industrial PPs	81.97	69.10			151.07
Consumption	4,190.57	3,458.33	3,469.83	252.47	11,371.20
Distribution consumption	3,641.86	3,254.65	1,232.47	252.47	8,128.98
Transmission losses	163.78	136.47	83.72		383.97
Large consumers	384.93	20.77	2,133.31		2,539.01
Pumping and mines consumption		46.43	20.33		66.76

Realization in 2004	EP BIH	ERS	EP HZHB	Brčko District BIH	BIH
Generation	6,113.02	4,960.19	1,669.49		12,742.70
Generation in hydro power plants	1,610.52	2,699.14	1,669.49		5,979.15
Generation in thermal power plants	4,435.17	2,189.87			6,625.04
Generation in small and industrial PPs	67.33	71.18			138.51
Consumption	3,847.00	3,291.60	3,351.78	229.58	10,719.96
Distribution consumption	3,529.50	3,117.7	1,463.17	229.58	8,339.95
Transmission losses	143.33	119.17	59.17		321.67
Large consumers	174.17		1,829.44		2,003.61

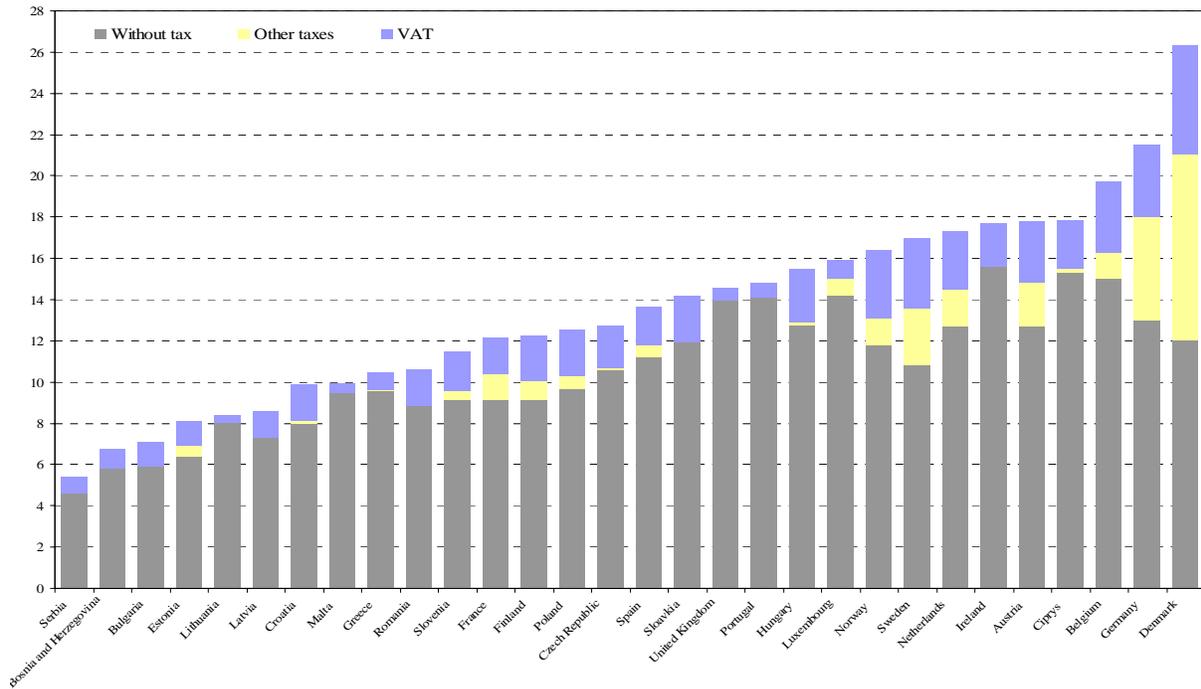
ATTACHMENT A.3: Map of the Power System of Bosnia and Herzegovina with Operational Areas of “Elektroprijenos BIH” (the Company for Transmission of Electric Power in BIH) and Areas of Public Utilities (December 2008)



ATTACHMENT B.1: Benchmarking Data on Electricity Prices for Households and Industrial Consumers²

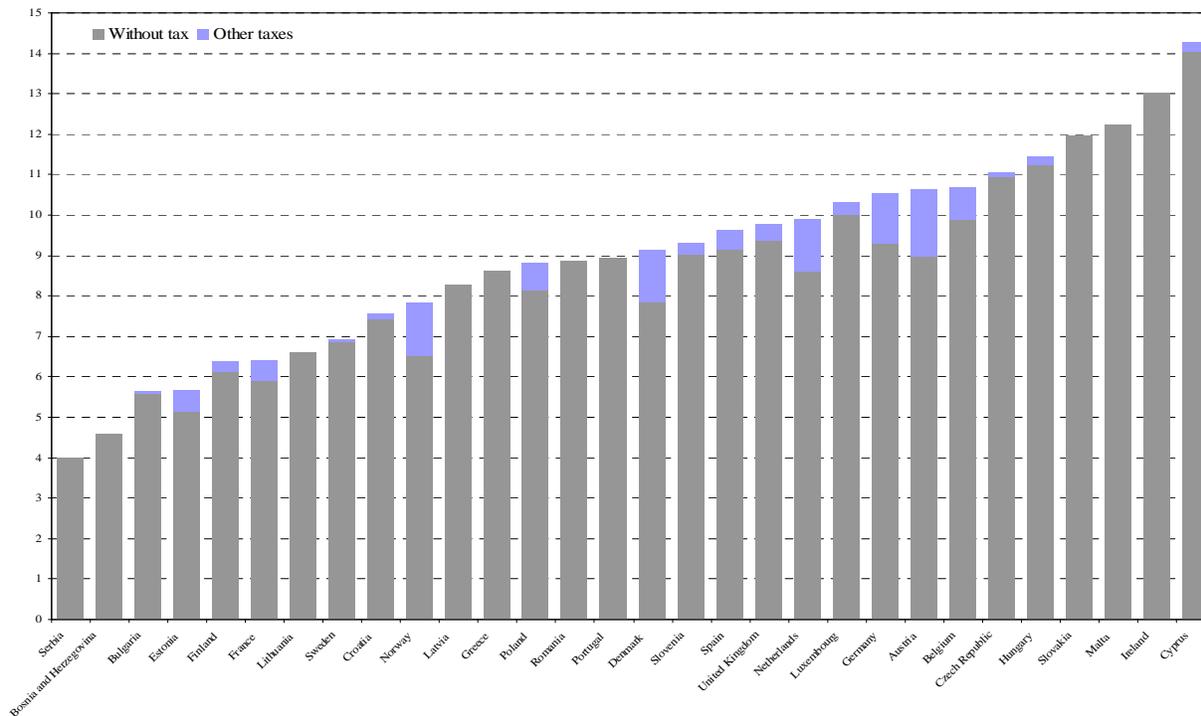
Electricity price for household Dc in € per 100 kWh for the first half of 2008

Source: Eurostat 45/2008



Electricity price for industrial customer Ic in € per 100 kWh for the first half of 2008

Source: Eurostat 45/2008

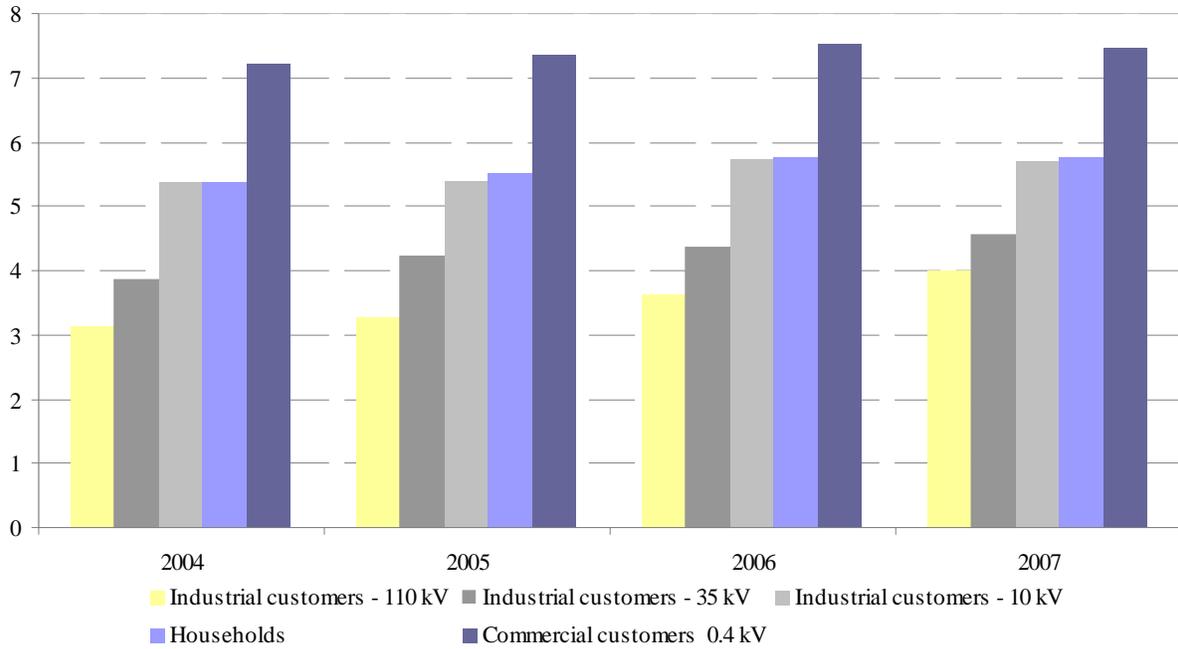


² According to the Eurostat methodology - In the Eurostat methodology since June 2007 customers have been ranked by the scope of consumption, and benchmarking data are usually provided for the household category Dc, with annual consumption between 2,500 and 5,000 kWh, and industrial customer Ic with annual consumption between 200 and 2,000 MWh.

ATTACHMENT B.2: Average Regulated Price Trends and Consumption Patterns in BIH

Average Regulated Price Trends in BIH by End-Use Category

(€ per 100 kWh)



Consumption Patterns in Bosna and Herzegovina during 2007

