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Pursuant to Article IV. 4. a) of the Constitution of Bosnia and Herzegovina, the Parliament of Bosnia and Herzegovina at the 21st session of the House of Representative held on 14 July 2004 and at the 26th session of the House of People held on 16 July 2004 passed

LAW ESTABLISHING AN INDEPENDENT SYSTEM OPERATOR FOR THE TRANSMISSION SYSTEM OF BOSNIA AND HERZEGOVINA

I GENERAL PROVISIONS

Article 1

Objectives

1. This Law establishes a non-profit Independent System Operator to direct the operation of the transmission system of Bosnia and Herzegovina, the Independent System Operator in Bosnia and Herzegovina (referred to hereafter as "the ISO"), and defines its functions, powers, governance and ownership. The ISO shall perform its activities in the entire territory of Bosnia and Herzegovina.
2. The objective of the Law is to establish an independent system operator and ensure a continuous supply of electricity at defined quality standards for the enjoyment of the citizens of Bosnia and Herzegovina. The Law is intended to facilitate the creation of a competitive electricity market in Bosnia and Herzegovina and its integration into a regional electricity markets and regional energy development activities. The Law is based on existing international practices and applicable Directives of the European Union (and their implementation in EU Member States).

Article 2

Purpose and Exclusive Authority

1. The activities of the ISO shall include the operation of the transmission system to ensure reliability, operation of central control centre facilities, operation of the balancing market, provision of system services, the procurement of ancillary services, development and enforcement of reliability standards, development and administration of rules governing use of the transmission system, development and administration of market rules governing the provision of electricity and system services over the transmission system, and other activities as specified in Article 7 (Powers of the ISO) of this Law. Upon the establishment of the ISO, no other electric or other company or body shall have jurisdiction or authority in the above-described activities.
2. The ISO is prohibited from engaging in any activity that involves the following activities in any way: generation, supply, trading, or distribution of electric power, or in any other activity not authorised by this Law.

Article 3

Definitions

In this Law the following definitions shall apply:

1. "Ancillary Services" mean all services, excluding the production and transmission of electricity, supplied to the ISO for the provision of system services, including, among other things, frequency control, reserves, reactive power and voltage control and black start capability.

2. "Assets" mean all of those properties and rights that are properly entered into the accounts and balance sheets of companies in terms of a monetary value, in accordance with good accounting practices.
3. "Balancing Market" means the central market for the purchase and sale of electricity operated by the ISO for purposes of maintaining the continuous balance of supply and demand in real-time, as well as the additional market mechanisms administered by the ISO for purposes of ensuring the provision of system services.
4. "Books of Rules" are defined in Article 13 of this Law.
5. "Council of Ministers" means the Council of Ministers of Bosnia and Herzegovina.
6. "Distribution" of electricity means the transmission of electricity in medium-voltage and low-voltage distribution systems for delivery to end-users.
7. "Elektroprivredas" mean the Public Utility *Elektroprivreda Republike Srpske*, Public Utility *Elektroprivreda Bosne i Hercegovine*, and Public Utility for Generation, Transmission and Distribution of Electric Power, *Elektroprivreda Hrvatske zajednice Herceg-Bosne*, or any of their successors engaged in the supply of electricity.
8. "Entity" in the singular means the Federation of Bosnia and Herzegovina or Republika Srpska. Collectively, these are referred to as "Entities."
9. "Generation" means the production of electricity.
10. "Generator" means a company or other body that produces electricity.
11. "Good accounting practices" mean the accounting principles and practices established by the International Code of Accounting Principles and the International Accounting Standards adopted and published by the International Institute for Accounting and Auditing.
12. "Good faith" means honesty in fact in the conduct or transaction concerned; in case of a director or Management Board Member of the ISO, good faith requires the exercise of reasonable business judgment after reasonable inquiry of the facts.
13. "Grid Code" means the rules and procedures governing the technical issues relating to connection to, use and operation of the transmission system, including a provision describing exigent circumstances under which immediate action to rectify a supply incident may be taken and by whom.
14. "Independent Member" is defined in Article 25 (Management Board Appointment), Article 45 (Procedure for ISO Registration and Initial Operations), and Article 47 (Extraordinary Formation Powers of Independent Member) of this Law.
15. "ISO" means the Independent System Operator of Bosnia and Herzegovina, as described in this Law and in the Law on Transmission of Electric Power, Regulator, and System Operator of Bosnia and Herzegovina (Official Gazette of BiH, 7/02) (hereafter: "Law on Transmission").
16. "Liabilities" mean all those debts which either are known to impose a fixed obligation of payment or, if contingent, have sufficient possibility of becoming fixed as to require an estimate of their probable amount, and which should be entered in the accounts and balance sheets of the company in terms of monetary value in accordance with good accounting practices.
17. "Market Rules" mean the commercial code governing the rules and procedures of the balancing market, and the commercial conditions for connection to, use of, and operation of the transmission system.
18. "Reliability" means short-term system security.
19. "SERC" means the State Electricity Regulatory Commission as described in the Law on Transmission.

20. "Statute" means the ISO document, approved by the Management Board, governing the ISO, and to which all other ISO documents are subject.
21. "System Services" mean all services that the ISO provides in order to secure the safe and efficient transportation of electricity over the transmission system, to solve large-scale disruptions in the transportation of electricity and to maintain or restore the energy balance in the transmission system.
22. "Transmission" means the transport of electricity on the high-voltage interconnected system for delivery to end-users, distributors and neighbouring power systems.
23. "Transmission Company" means the joint stock company for the transmission of electricity, *Elektroprenos Bosne i Hercegovine*, as described in the Law on Transmission.
24. "Vote" means, without limitation, votes, waivers, releases, consents, writings signed by Management Board Members in lieu of taking action at a meeting, and objections or dissents to the foregoing.
25. "ZEKC" means the Joint Electric Power Coordination Centre of Bosnia and Herzegovina.

Article 4

Name and Headquarters

1. The name of the Company is: "Independent System Operator of Bosnia and Herzegovina."

The headquarters of the ISO shall be in Sarajevo.

Article 5

ISO Formation and Transfer of Assets and Liabilities

1. The ISO is established as a non-profit company pursuant to this Law and shall be registered in accordance with Article 9 (ISO Registration) of this Law.
2. The assets and liabilities attaching to ZEKČ, as well as those assets and liabilities of the *Elektroprivredas* that are necessary for the operation of the ISO, including but not limited to, SCADA/EMS equipment, shall automatically be conveyed to and become the property of the ISO upon the registration of the ISO in accordance with Article 9 (ISO Registration). This automatic conveyance shall include all assets, liabilities, and ownership rights over the property, including moveable, immovable, tangible and intangible property, financial assets, as well as any other right, title, or interest in or to property. However, following transfer, the transferring *Elektroprivredas*, and their successors, shall remain jointly and severally liable with the ISO for any liabilities arising from any loans or credits made by an international financial institution to such *Elektroprivredas*, directly or indirectly through the State or Entities, unless otherwise agreed to with each relevant international financial institution.
Only for purposes of the transfer of the subject property, title shall be deemed good and merchantable. Effective on the date of conveyance of such assets, liabilities and ownership rights, the functions of ZEKČ shall become the sole authority and legal right of the ISO and ZEKČ shall cease to exist.
3. The costs of forming the ISO shall be paid by the *Elektroprivredas*, pursuant to the provisions of Articles 42 (ISO Formation Costs and Applications for SERC Approvals) and 47 (Extraordinary Formation Powers of Independent Management Board Member) of this Law.

Article 6

Non-Profit Status

The business and affairs of the ISO shall be carried on without the purpose of gain and the revenues of the ISO shall be used solely for the purpose of carrying out its objectives. The SERC shall, from time to

time, adjust the provisions of the ISO's cost-based system operation tariff to avoid the persistent over or under collection of revenues by the ISO. The status of the ISO as a non-profit legal person shall not be interpreted as to prevent the ISO from over or under collecting revenues between periods when the cost-based system operation tariff is adjusted.

Article 7

Powers of the ISO

The ISO shall undertake the following functions, in addition to the functions specified in Article 5.2 of the Law on Transmission:

1. Operate all high voltage transmission facilities in Bosnia and Herzegovina that at 110 kV or above, except that the ISO may delegate authority to appropriate parties engaged in activities related to transmission to operate specified high voltage transmission facilities that are not required to enable free electricity flows from important power sources through interconnected transmission systems;
2. Issue dispatch instructions to generators and importers;
3. Operate central control centre facilities and equipment and any remote control equipment;
4. Operate the balancing market;
5. Procure ancillary services and provide system services;
6. Prepare, modify and apply reliability standards, the market rules and grid code;
7. Ensure non-discriminatory behaviour between system users or classes of system users;
8. Develop and distribute billing invoices as provided in the Statute for the ISO's cost-based system operation tariff and for transactions in the balancing market;
9. Coordinate and approve the scheduling of planned outages of transmission and generation facilities, and coordinate and approve changes to outage schedules;
10. Review, endorse, directly revise and publish the long-term transmission development plan submitted by the Transmission Company;
11. Develop an indicative generation development plan with data supplied by the generators, distribution companies and end-use customers directly connected to the transmission system.
12. Establish appropriate policies and rules governing the treatment of confidential information, subject to review by SERC;
13. Prepare annual and quarterly reports on the operation of the transmission system and the balancing market.

Article 8

Regulation of the ISO and Interrelationship with the Transmission Company

1. The ISO shall be subject to the regulation of SERC. SERC is entitled to inspect the books and records of the ISO.
2. Except as otherwise noted in this paragraph, SERC, in accordance with its jurisdiction as defined in the Act on Transmission, shall have authority to resolve any disputes arising out of or concerning the implementation of this Law upon petition by any of the following: the State; an Entity; the ISO; the Management Board, the Transmission Company, the *Elektroprivredas*, a generator, a power trader; a supplier, or any other person who is directly connected to or relies upon the transmission system. The SERC decision is subject to judicial review pursuant to Article 14 of the Law on the Court of Bosnia and Herzegovina (Official Gazette of Bosnia and Herzegovina, 29/00). SERC shall not have authority to resolve any dispute concerning the

exercise of authorities granted in Article 47 (Extraordinary Formation Powers of Independent Member) of this Law to the Independent Member.

3. The ISO and the Transmission Company shall cooperate and coordinate in order to address and resolve issues related to the implementation of this Law and other matters related to the effective operation, maintenance, construction and expansion of the transmission system, consistent with regulation by SERC as applicable.

Article 9

ISO Registration

The ISO shall be registered as a legal person of Bosnia and Herzegovina, in accordance with the Law on Registration of Legal Persons Established by the Institutions of Bosnia and Herzegovina ("Law on Registration") (Official Gazette of Bosnia and Herzegovina, 33/02). The ISO Statute shall be published in the Official Gazette of Bosnia and Herzegovina upon initial adoption, or subsequent amendment.

Article 10

Inter-Entity and State Cooperation

The State and Entity Governments shall cooperate to address and resolve issues related to the implementation of this Law and other matters related to effective operation and management of the ISO.

Article 11

Owner

1. The owners of the ISO are:
 - a. The Federation of Bosnia and Herzegovina, 71000 Sarajevo, Alipašina br. 41;
and
 - b. Republika Srpska, 78000 Banja Luka, Vuka Karadžića br. 4.
2. The ownership of the ISO is non-transferable. No stock shall be issued to the owners, and there shall be no General Assembly of Shareholders. The owners shall exercise their ownership rights through the Management Board.

Article 12

Statute

The ISO Statute shall set forth, *inter alia*, provisions to regulate ISO activities, establish general rules for the transaction of business by ISO bodies, including provisions on authorities, meeting notice, ISO organisation, decision-making, record keeping and all other matters required for the exercise of their respective duties, as well as the inventory and valuation of ISO assets and liabilities, and ISO financing.

Article 13

The Books of Rules and Code of Ethics

1. The Books of Rules shall regulate, *inter alia*, detailed procedures, rules and regulations, other than the Statute, regarding employment, finance and accounting, internal organisation and classification of employee positions, as well as detailed technical matters.
2. The Code of Ethics shall set forth the ethical obligations and duties of Management Board Members and ISO staff, and shall regulate, *inter alia*, rules prohibiting the ISO, Management Board Members, managers and employees from having an ownership or financial interest in, or participating in the administrative control of, any market participants, or their affiliates, that are licensed to participate in any activity in the electricity sector. The Code of Ethics may establish a reasonable period to waive any prohibited ownership or financial interest.

Article 14

Financing and Tariff

1. The ISO may, with approval of the Management Board, enter into contracts and agreements to provide for its financing by any means, including, but not limited to, loans, issuance of notes or bonds bearing interest at such rate as it may fix, payable at such time and place and in such manner as it may determine, in any currency, or non-reimbursable grants from international organisations, and which financing shall be subject to approval by SERC as applicable.
2. Consistent with Article 4.8 of the Act on Transmission, the ISO shall collect revenues from a cost-based system operation tariff, and other sources, as recommended by the Management Board, and as regulated and approved by SERC. At least sixty (60) days before the beginning of each year or as otherwise defined by SERC, the ISO shall submit its proposed expenditure and revenue requirements for the following year and the fees it proposes to charge under its system operation tariff to SERC for review.

Article 15

Finance, Accounting Records and Annual Report

1. Financial activities of the ISO shall be conducted in accordance with the relevant ISO's Book of Rules, which shall be in accordance with good accounting practices.
2. The Management Board shall have the ISO's annual financial statements audited by an independent accounting firm within seventy-five (75) days following the end of the ISO's fiscal year.
3. Within ninety (90) days following the end of the ISO's fiscal year, the ISO shall submit an annual report on its business affairs during that fiscal year, including the annual financial statements audited by the independent international accounting firm, to the Council of Ministers, the Governments of the Federation of Bosnia and Herzegovina and Republika Srpska and SERC, and make them available to the public. The annual report shall be signed by the President of the Management Board. The annual report shall be published in the Official Gazette of Bosnia and Herzegovina.

Article 16

Reserves

The Management Board may create and maintain a reasonable working capital reserve. The reserves may be used to stabilise revenue requirements, to avoid volatility in tariffs, to ensure that the ISO will be able to meet its financial obligations, and to ensure the long-term financial stability and liquidity of the ISO. The working capital reserve shall be deposited with, and managed by, a financial institution having a long-term corporate credit rating by Standard and Poor's of at least A- or the equivalent rating by another recognised international credit rating agency. Additional requirements of the working capital reserve shall be specified in the Statute.

Article 17

ISO Bodies

The governing bodies of the ISO are:

1. Management Board;
2. Management.

Article 18

Advisory Council

1. The Management Board shall establish and appoint the members of an Advisory Council. The purpose of the Advisory Council shall be to provide information, feedback and assistance to the

Management Board on matters relating to the operation of the transmission system and the balancing market. The Advisory Council shall not have oversight responsibilities with respect to decisions of the Management Board but rather shall serve as an information resource and a means for providing the viewpoints of a broad spectrum of parties with an interest in the operation of the transmission system and balancing market and the development of a competitive electricity market. The Advisory Council shall be composed of approximately 12 members representing a broad spectrum of interests, including for purposes of illustration but not by way of mandate or limitation, individuals representing the following viewpoints:

- a) residential consumer;
 - b) commercial or industrial consumer;
 - c) market participants;
 - d) economic;
 - e) engineering;
 - f) legal;
 - g) academic.
2. The Management Board shall establish a Book of Rules for the Advisory Council providing for, among other things, the appointment of a Chair and requiring not less than three (3) meetings per year between the Management Board and the Advisory Council. The ISO shall provide the Advisory Council with such administrative support as may be necessary for the Council to perform its functions. The Advisory Council shall have no staff or budget and the members shall serve without pay, provided, however, that the ISO shall reimburse Advisory Council members for reasonable out-of-pocket expenses incurred in attending Advisory Council meetings. The reasonableness of out-of-pocket expenses shall be determined by the ISO at its sole discretion.

Article 19

Technical Committees

The ISO shall establish technical committees for purposes of providing market participants the opportunity to review and comment on the preparation and modification of the grid code and market rules. The ISO shall provide public notice of technical committee meetings and such meetings shall be open to all market participants. The ISO may not, except in the event of exigent circumstances requiring immediate action, implement changes to the grid code and market rules without prior consultation with the applicable technical committee.

Article 20

A Special Annual Session of Management Board

A special session of the Management Board shall be convened annually under the chairmanship of the President of the Management Board. The time and place for holding the session shall be fixed in accordance with the Statute and Rules of Procedures. A public notice of the session shall be issued at least twenty (20) business days before the date of the meeting.

Article 21

Inspection of ISO Records

The owners of the ISO and SERC are entitled to inspect the books and records of the ISO, as are other parties upon approval of the Management Board and in accordance with the Statute.

Article 22

Management of the ISO

Subject to the provisions of this Law, the business and affairs of the ISO shall be supervised by a Management Board and managed by a General Director and his or her designees.

Article 23

Authority of the Management Board

The Management Board shall have the following authorities:

1. Adoption of the Statute and amendments thereof;
2. Approval or rejection of annual financial statements;
3. Appointment of the General Director and, on his proposal, members of Management;
4. Decision-making on increase or decrease of the level of working capital reserves;
5. Decision-making on investments of more than 500,000 EUR;
6. Approval of the long-term transmission development plan submitted by the Transmission Company;
7. Approval and issuance of the ISO's annual report;
8. Development of guidelines to the General Director regarding performance of business policy and duties;
9. Approval or rejection of financial reports other than the annual financial statements;
10. Approval and implementation of annual plans regarding the operation of the ISO;
11. Decision-making on issues presented by the General Director and other high level ISO members of Management;
12. Adoption of the ISO Books of Rules and Code of Ethics;
13. All filings for ISO registration under the Law on Registration, as well as all actions necessary for ISO formation, as provided by this Law;
14. Proposals with regard to tariff filings with the SERC; and
15. Decision-making on other issues within its authorities in accordance with the Statute.

Article 24

Decision-making of the Management Board

A simple majority vote of those Members of the Management Board present and voting at a Management Board meeting conducted in accordance with Article 29 (Management Board Meetings) of this Law shall constitute decisions and acts of the Management Board, except that decisions on approval of the long-term transmission development plan prepared by the Transmission Company must be unanimous. In the event that a unanimous decision on approval of the transmission development plan is not achieved, a deadlock shall be declared automatically, and the Independent Member, as identified in Article 25 of this Law shall cast the single deciding vote in order to resolve the deadlock.

Article 25

Management Board Appointment

1. The Management Board shall consist of seven (7) full voting Members with equal representation of constituent peoples in BiH and one (1) Independent Member,
2. The one (1) Independent Member with voting powers as set forth in Article 24 (Decision-making of the Management Board) of this Law shall be nominated by the Entity Government and appointed by the Council of Ministers. Article 48 (Independent Member Appointment and Status during Transition Period) shall control the appointment of the initial Independent Member. After the transition period, the Independent Member may be a citizen of any country. The term of the Independent Member shall be five years.
3. The seven full voting Management Board Members shall be nominated by the Entities. The allocation of Management Board appointments between the Entities shall be proportional to the net value of assets contributed by each Entity to the Transmission Company, as determined in the Statute of the Transmission Company.
4. The Government of the Federation of Bosnia and Herzegovina shall nominate the Management Board Members from the Federation of Bosnia and Herzegovina. The Government of Republika Srpska shall nominate the Management Board Members from Republika Srpska. The Council of Ministers shall vote to accept or reject the nominees. All initial Management Board Member appointments shall be completed consistent with Article 40 (Appointment and Initial Meeting of the Board).
5. The allocation of initial Management Board appointments and terms between the Entities shall be staggered as follows:
 - a. Two Members, one nominated by the Government of the Federation of Bosnia and Herzegovina and one nominated by the Government of Republika Srpska, for five (5) years
 - b. Two Members, one nominated by the Government of the Federation of Bosnia and Herzegovina and one nominated by the Government of Republika Srpska, for four (4) years
 - c. Two Members, one nominated by the Government of the Federation of Bosnia and Herzegovina and one nominated by the Government of Republika Srpska, for three (3) years
 - d. One Member nominated by the Government of the Federation of Bosnia and Herzegovina, for two (2) years
6. Successor Management Board Members shall be appointed promptly in the manner set forth in this Article.
7. The nominations and appointments shall be made in accordance with the applicable Law on Ministerial, Council of Ministers and other Appointments (Official Gazette of Bosnia and Herzegovina, 07/03).
8. The provisions of Article 5.1 of the Law on Transmission providing for representatives of the owners of Transmission Company to be Members of the ISO's Management Board are repealed.

Article 26

Terms of the Members of the Management Board

1. The terms of the initial appointments of Management Board Members shall be staggered, as set forth in Article 25 (Management Board Appointment) of this Law.
2. Each Member of the Management Board shall hold office until the expiration of the term for which he or she is appointed or until the appointment of his or her successor, or until removal in

accordance with Article 28 (Removal of Management Board Members and General Director) of this Law.

3. After the initial term, Management Board appointments shall be for a term of five (5) years. No Management Board Member shall serve for more than two (2) terms.

Article 27

Qualifications of Members of the Management Board and General Director

1. Management Board Members shall have a university degree in technical, economic or legal fields or its equivalent, and shall have demonstrated significant experience and professional competence in the area of electricity transmission, electricity services, electricity sector legal restructuring, electricity sector reform, privatisation, finance, accounting, competition, markets, regulation, or the electricity services needs of the users of the transmission system.
2. A person shall not be qualified to serve as a Management Board Member or the General Director if he or she:
 - a) has been convicted of criminal acts and economic offences incompatible with the duty of a Management Board Member or a General Director;
 - b) is barred by law from performing other duties;
 - c) is over sixty-five (65) years of age on the day of appointment or any renewal thereof;
 - d) has a conflict of interest as defined in the Code of Ethics, or has violated the Code of Ethics.
3. Members of the professional management of the ISO, including the General Director, may not serve simultaneously as Members of the Management Board of the ISO.

Article 28

Removal of Management Board Members and General Director

1. A Management Board Member or the General Director of the ISO may be recalled or his or her resignation accepted by the appointing body before the Member's term has expired in the following cases:
 - a) Illness, death or incapacity rendering individual unable to perform his or her duties;
 - b) Conviction of a crime punishable by imprisonment;
 - c) Conflict of interest, as defined in the Code of Ethics or Law on Conflict of Interests in Governmental Institutions of Bosnia and Herzegovina (Official Gazette of Bosnia and Herzegovina, 16/02), or other violation of the Code of Ethics;
 - d) Non-performance of duties, or illegal or gross negligent behaviour.
2. A Member of the Management Board may submit a voluntary resignation.

Article 29 Management

Board Meetings

1. The time and place for holding meetings of the Management Board shall be fixed in accordance with the Statute and Rules of Procedures, but shall be held at least quarterly.
2. Meetings of the Management Board may be convened by the President of the Management Board, or by any two Members. A meeting must be attended by a quorum of four (4) Management Board Members, other than the Independent Member, at all times in order to

transact business. Notice of the meeting shall be given at least three (3) business days before the meeting, unless a Member signs a waiver of notice before or during such meeting, in which case prior notice is not required.

Article 30

Duty of Management Board Members

1. The Members of the Management Board of the ISO shall exercise their powers and discharge their duties in good faith with a view to the interest of the ISO and of the owners and with that degree of diligence, care and skill which ordinarily prudent persons would exercise under similar circumstances in like positions. The Members of the Management Board have a fiduciary duty to the ISO. In discharging their duties, the Management Board Members may in all cases rely upon financial statements of the ISO certified in writing by an independent international accounting firm to reflect fairly the ISO's financial condition, or reported to the Management Board by the General Director or the director with primary responsibility for financial issues.
2. Members of the Management Board shall notify the Board of their personal interests in any other institution, whether by ownership or position, or any other personal interests, whether or not those interests would bring them into conflict with those of the ISO. The non-disclosing Members of the Management Board shall determine if the interests require withdrawal of the disclosing Member from voting on any matter. An annual report on this matter shall be sent to the Prime Ministers of the Federation and Republika Srpska Governments, the Prime Minister of the Government of Bosnia and Herzegovina, and SERC.
3. The Members of the Management Board cannot be sued by reason of official acts done in good faith in the exercise of their functions. The ISO shall indemnify, in accordance with the Statute and Books of Rules, a Member of the Management Board or qualifying director for any legal action arising out of such person's services, executed in good faith, as a Member or qualifying director, in accordance with the Statute and Books of Rules.

Article 31

Committees and Positions of Management Board Members

1. The Management Board, by majority vote, may appoint from among its Members an executive committee and other committees, each consisting of two or more Members. The Management Board may delegate to such committee or committees any part or all of the authority of the Board, except as otherwise provided by the Statute. The structure, composition and duties of such committees or the functions of individual Management Board Members shall be set forth in the Rules of Procedures.
2. The President of the Management Board shall be elected by the Management Board Members by simple majority vote, and all other positions on the Board shall be elected by vote of the Management Board Members, as set forth in the Statute.

Article 31a

Management of ISO

Management of ISO is made up of the General Director and Members of Management, in which there is equal representation of the constituent peoples in Bosnia and Herzegovina.

Responsibility and work methods of the Management are regulated by the Statute and ISO Books of Rules.

Article 32

General Director Appointment Process

The Management Board shall appoint a General Director of the ISO on the basis of an open competition and transparent hiring process.

The General Director and President of the Management Board cannot be from the same group of constituent peoples.

Article 33

Authority of the General Director

1. The General Director is responsible for:
 - a) Management of the ISO's programs, services and staff.
 - b) Organisation and management of business activities;
 - c) Issuance of business policies;
 - d) Direction and supervision of legal work;
 - e) Direction and implementation of business plans and development;
 - f) Development of the proposed Books of Rules and Code of Ethics to be submitted to the Management Board for approval;
 - g) Implementation of Management Board decisions;
 - h) Decision-making on organisational matters, including the appointment and release of directors of the ISO, in accordance with the Statute and Books of Rules;
 - i) Preparation of the quarterly and annual report on business activities, for review by the Management Board;
 - j) Issuance of the Books of Rules and other corporate acts and rules other than the Statute;
 - k) Representation of the ISO in legal disputes;
 - l) Carrying out duties the Board considers appropriate and which are activities required for effective functioning of the ISO, in accordance with this Law, the Statute and the Books of Rules.
2. The General Director is assisted by Members of the Management in managing and conducting business activities.
3. The General Director shall exercise his or her powers and discharge his or her duties in good faith with a view to the interest of the ISO and of the owners and with that degree of diligence, care and skill which ordinarily prudent persons would exercise under similar circumstances in like position.
4. The General Director shall notify the Management Board whenever his or her personal interests in another business, whether by ownership or position, or any other personal interest, conflict with that of the ISO. The Management Board shall determine if the potential conflict requires the General Director to delegate all decision-making responsibility for matters related to that potential conflict of interest to another director of the ISO.

Article 34

Term of General Director

The General Director shall serve for four (4) years, unless removed in accordance with Article 28 (Removal of Management Board Members and General Director) or Article 35 (Removal), and may be reappointed for one additional consecutive four (4) year term. No individual may serve more than eight (8) years as General Director.

Article 35

Removal

The General Director may be removed from his or her position by the Management Board for the reasons set forth in Article 28 (Removal of Management Board Members and General Director).

Article 36

Dissolution

1. The Council of Ministers, the Government of Republika Srpska or the Government of the Federation of Bosnia and Herzegovina may initiate dissolution of the ISO. The approval of SERC shall be required prior to the commencement of the process to dissolve the ISO.
2. Within three (3) days following the initiation of dissolution and receipt of approval from SERC for such dissolution, a notice of the ISO's intent to dissolve shall be filed in accordance with the Law on Registration.
3. Subsequent to filing the notice of intent to dissolve, the ISO shall be dissolved in accordance with the procedures established by the Management Board and the applicable legislation governing the dissolution of companies registered under the Law on Registration.

II TRANSITIONAL PROVISIONS

Article 37

Relationship to other Laws

1. This Law is based on provisions of the Law on Transmission. All provisions set forth in this Law supersede dates, schedules and requirements in the Law on Transmission, or any other laws or regulations existing prior to the passage of this Law, which may conflict directly with provisions herein.
2. Except as otherwise provided by this Law, until such time as the laws and regulations of Bosnia and Herzegovina on issuance and registration of shares, dissolution, and other legal issues necessary for the effective functioning of the ISO are enacted, the laws and regulations of the Federation of Bosnia and Herzegovina and Republika Srpska shall apply, in accordance with the Statute. In the event of a conflict of laws in matters arising from contract, the Statute will designate the governing legal regime. In the event of conflict of law in non-confidential matters, *inter alia*, taxation and expropriation, the principle of territoriality shall apply.
3. Upon the entry into force of laws governing the issues referenced in paragraph 2 of this Article, Entity laws and regulations shall cease to apply.

Article 38

Transitional Operation

During the period beginning on the date of entry into force of this Law and ending on the date of ISO registration under Article 5 (ISO Formation and Transfer of Assets and Liabilities) of this Law, ZEKC may exercise the obligations and responsibilities assigned to the ISO under this law.

Article 39 Transition

of Employment

1. Effective upon the date of registration of the ISO, all employees employed to perform activities related to ZEKC, an association of the *Elektroprivredas*, shall become employees of the ISO.
2. Nothing in this Article shall limit the discretion of the Management Board or General Director to terminate or to modify job responsibilities, benefits and compensation for any ISO employee, consistent with the provisions of this Law.

Article 40

Appointment and Initial Meeting of the Management Board

1. Initial appointments to the Management Board shall be made no later than ninety (90) days after the entry into force of this Law.
2. The Management Board shall meet within ten (10) days of its appointment.
3. The oldest Member of the Management Board shall serve as temporary President for the purpose of convening the initial meeting of the Management Board and will serve until the Management Board elects a President. At the first meeting, the Management Board shall: (i) take all necessary actions to finalise the inventory, employment and valuation decisions, and (ii) set an initial budget for all costs that will be incurred by the Management Board to form the ISO prior to registration and shall submit this budget to SERC for approval consistent with Article 42 (ISO Formation and Application for SERC Approval) of this Law.

Article 41

Appointment of General Director

The General Director shall be appointed by the Management Board no later than 45 days following the initial meeting of the Board.

Article 42

ISO Formation Costs and Application for SERC Approval

1. No later than thirty (30) days following the initial meeting of the Management Board, the Management Board shall submit a proposed invoice for costs of ISO Formation, with a proposed formation budget, to the Public Utility *Elektroprivreda Bosne i Hercegovine*, the Public Enterprise *Elektroprivreda Republike Srpske* and Public Utility for Generation, Transmission and Distribution of the Electric Power, *Elektroprivreda Hrvatske zajednice Herceg-Bosne*. The *Elektroprivredas* shall be responsible for payment of the costs of ISO formation, to be allocated in proportion to the relative value of the assets, net of liabilities, contributed by that *Elektroprivreda* to the ISO. If the proportional contribution amounts are uncertain, then the proposed invoice may be a one-third share for each of the three *Elektroprivredas*, so long as an appropriate final adjustment of costs is made following completion of ISO formation. The Management Board may submit a revised invoice for costs to the three *Elektroprivredas* for supplemental costs in order to address cost increases due to delay or any other reasonable cause.
2. If the three *Elektroprivredas* agree with the invoice for costs, they promptly shall pay their respective share of the formation costs.
3. If the three *Elektroprivredas* do not pay their proportional share of the Invoice for Costs presented by the ISO Management Board within thirty (30) days of submittal, the dispute shall be referred promptly to the expedited arbitration procedure described in this Article. This arbitration procedure shall be the exclusive remedy for any dispute concerning formation costs under this Article.
4. To initiate expedited arbitration concerning formation costs, the ISO Management Board or the *Elektroprivredas* shall submit the invoice for costs to the Minister of Energy, Industry and Mining of the Federation of Bosnia and Herzegovina and the Minister of Industry, Energy and Development of Republika Srpska. The two Ministers shall select a mutually agreeable third arbitrator within a period of 30 days from the filing of the first application for arbitration following the end of the transition period. If the two Ministers have not selected the third arbitrator in a timely manner, then the Council of Ministers of Bosnia and Herzegovina will have an additional 30 days to choose the third arbitrator. In the event that the Council of Ministers does not choose the third arbitrator in a timely manner, then the High Representative may decide to appoint the third arbitrator. The Management Board and the *Elektroprivredas* shall cooperate fully as a party in the arbitration proceedings. The arbitration shall be concluded on an expedited

basis within 30 days of appointment of the third arbitrator. The arbitration decision shall be based upon a majority vote of the three arbitrators. The decision shall be final and binding on the ISO and the *Elektroprivredas* and their generation or distribution successors, and there shall be no right of judicial appeal against the arbitration decision.

5. Within sixty (60) days of the initial meeting of the Management Board, the Board shall file with SERC an application for approval of initial tariffs. SERC shall issue a decision setting an interim tariff within sixty (60) days of filing of the application, and that decision may include conditions for future adjustments of the tariff.

Article 43

Adoption of the Statute

Within forty-five (45) days of the issuance of the final SERC decision with respect to the application for approval of initial tariff, the Management Board shall approve the Statute. The Statute and any amendment thereto shall be published in the Official Gazette of Bosnia and Herzegovina.

Article 44

Approval of the Books of Rules and Code of Ethics

Within ninety (90) days of the appointment of the General Director, the General Director shall propose and the Management Board shall approve the Books of Rules and the Code of Ethics of the ISO, to promote the effective functioning of the ISO.

Article 45

ISO Registration and Initial Operations

1. Within ten (10) days of approval of the Statute, the Management Board shall file an application for registration of the ISO. Such application shall comply with all requirements of the Law on Registration.
2. The Management Board shall take all actions reasonably necessary to assure that the *Elektroprivredas* and Transmission Company cease activities that are delegated exclusively to the ISO pursuant to Article 7 (Powers of the ISO) of this Law after registration and commencement of operations of the ISO. In addition, the Management Board shall take all actions reasonably necessary to assure that all assets, liabilities and employees necessary for the ISO to operate are transferred to the ISO from the *Elektroprivredas* as intended by Article 5 (ISO Formation and Transfer of Assets and Liabilities) and Article 39 (Transition of Employment) of this Law.

Article 46

Duration of Transition Period

1. The transition period shall commence on the effective date of this Law and shall end when: (i) all transfers of assets, liabilities and employees necessary for the ISO to operate contemplated by Articles 5 (ISO Formation and Transfer of Assets and Liabilities) and Article 39 (Transition of Employment) of this Law have been completed; (ii) the ISO has been registered under Article 8 (Registration of the ISO and Inter-Relationship with the Transmission Company) of this Law; and (iii) four Management Board Members, in addition to the Independent Member, have been appointed pursuant to Article 25 (Management Board Appointment) of this Law. After that termination date, the Independent Member shall serve on the Management Board consistent with

the authorities outlined in Articles 24 (Decision-making of the Management Board) and 25 (Management Board Appointment) of this Law.

2. When the requirements of this Article for termination of the transition period have been met, the Management Board shall formally declare the end of the transition period and shall publish public notice of the declaration in the Official Gazette of Bosnia and Herzegovina.

Article 47

Extraordinary Formation Powers of Independent Member

1. In the event that any of the following actions are not completed within the timeframes stipulated below, the Independent Member shall assume exclusive jurisdiction for the formation of the ISO under this Article, pre-empting any exercise of authority for the formation of the ISO by the Management Board members.
 - a) within a period of one hundred sixty (160) days after the entry into force of this Law: all appointments to the Management Board (Article 25); initial meeting of the Management Board (Article 40); appointment of General Director (Article 41); submission of invoice for ISO formation costs and filing of application for SERC approval (Article 42);
 - b) within the time period specified in Article 43: adoption of the Statute;
 - c) within the time period specified in Article 44: approval of the Books of Rules and Code of Ethics; and
 - d) within the time period specified in Article 45: application for registration of the ISO.
2. Throughout the remainder of the transition period under Article 46 (Duration of Transition Period), the Independent Member shall exercise all Management Board authorities and powers for ISO formation and operations. During this period, the Management Board Members shall continue to use their best efforts to assist the Independent Member in completion of the remaining tasks required for ISO formation. The Independent Member shall use his best efforts to regularly convene and consult with the Management Board Members who have been appointed in order to develop consensus concerning ISO formation implementation decisions.
3. Following the termination of the transition period under Article 46 (Duration of Transition Period), all powers shall revert to the Managing Board.
4. If the Independent Member assumes exclusive jurisdiction for the formation of the formation of the ISO the under this Article, then the Independent Member shall have all of the powers of the Management Board under this Law, as well as the following extraordinary power:
 - a) To the extent necessary to assure the formation of the ISO, the Independent Member shall exercise all authorities of the owners of the ISO until termination of the transition period. This exercise of ownership rights by the Independent Member shall be exclusive, and shall pre-empt any exercise of authority by the owners, but the Independent Member shall provide reasonable information to the owners concerning actions taken pursuant to the powers of this Article.
5. During the transition period, the Independent Member shall not be held criminally or civilly liable for any act carried out within the scope of his duties pursuant to this Law.

Article 48

Independent Member Appointment and Status during Transition Period

1. Notwithstanding the provisions of Article 25 (Management Board Appointment), during the transition period referenced in Article 46 (Duration of Transition Period) the Independent

Management Board Member shall be appointed in accordance with the applicable Law on Ministerial, Council of Ministers and other Appointments (Official Gazette of Bosnia and Herzegovina, 07/03), but in any event he shall be appointed no later than sixty (60) days after entry into force of this Law. The Independent Member shall be nominated by the Entity Prime Ministers and appointed by the Council of Ministers of Bosnia and Herzegovina only for the term of the transition period. In the event that the Independent Member is not appointed in a timely manner under this Article, the High Representative may decide to appoint the Independent Member. The Independent Management Board Member shall not be a citizen of Bosnia and Herzegovina.

2. During the transition period, the Independent Member shall provide monthly reports to the Prime Minister of Republika Srpska, Prime Minister of the Federation of Bosnia and Herzegovina, and the Chairman of the Council of Ministers of Bosnia and Herzegovina, with copies of such reports to the Minister of Foreign Trade and Economic Relations, the Minister of Energy, Industry and Mining of the Federation of Bosnia and Herzegovina and the Minister of Industry, Energy, and Development of Republika Srpska.
3. At the conclusion of the transition period, the Council of Ministers may appoint a successor Independent Member in accordance with the provisions of Article 25 (Management Board Appointment). The original Independent Member shall continue to serve until replaced.

III FINAL PROVISIONS

Article 49

Entry into Force

This Law shall enter into force (8) days after publication in the Official Gazette of Bosnia and Herzegovina and it shall also be published in the Official Gazettes of Republika Srpska and the Federation of Bosnia and Herzegovina and Brčko District.

PA BiH No. 74/04

16 July 2004

Sarajevo

Chairman of the House of Representatives, Martin Raguž

Chairman of the House of Peoples, Goran Milojević