

Pursuant to Article 4.8 of the Law on Transmission of Electric Power, Regulator and System Operator in Bosnia and Herzegovina (Official Gazette of BiH, 7/02, 13/03, 76/09 and 1/11) and Articles 6 and 7 of the Rule on Tariff Proceedings (Official Gazette of BiH, 44/05) deciding upon the application of Elektroprenos Bosne i Hercegovine a.d. Banja Luka (the Company for Transmission of Electricity in Bosnia and Herzegovina) number: 76-U-16/16 of 3 November 2016, at its session held on 3 April 2017, the State Electricity Regulatory Commission adopted

DECISION

1. It is determined that the annual revenue requirement of Elektroprenos Bosne i Hercegovine in 2017 shall amount to 107,475,788 BAM.
2. It is determined that the tariffs for electricity transmission services (network charges) shall be as follows:
 - Part of the transmission network charge pertaining to energy shall amount to 0.578 fening/kWh,
 - Part of the transmission network charge pertaining to capacity shall amount to 1.472 BAM/kW.
3. The annual revenue requirement for 2017 is approved in accordance with the structure and amounts as given in the third column of the following table:

Costs and incomes (BAM)	Requested	Approved	Index (3/2)
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
Costs of material and spare parts	4,800,000	3,450,000	0.719
Costs of services	5,500,000	4,900,000	0.891
Labour costs	57,105,500	55,587,593	0.973
Depreciation	54,799,058	54,799,058	1.000
Costs of interest	2,031,188	2,031,188	1.000
Other costs	5,160,000	5,160,000	1.000
Other and extraordinary expenditures	895,000	895,000	1.000
Regulatory fee	1,339,000	1,339,000	1.000
A. Total costs and expenditures	131,629,746	128,161,839	0.974
Gross proceeds	2,195,000	2,195,000	1.000
B. Total costs and gross proceeds	133,824,746	130,356,839	0.974
1. Income based on the ITC mechanism	4,040,184	3,780,000	0.936
2. Income based on allocation of cross-border capacities	2,100,000	3,000,000	1.429
3. Other incomes (granted assets)	2,174,776	2,174,776	1.000
4. Income based on connection charges		4,000,000	
5. Income from financial assets	2,588,400	3,000,000	1.159
6. Income based on return on equity		6,926,275	
C. Revenue requirement (B-1-2-3-4-5-6)	122,921,386	107,475,788	0.874
Energy taken over from the transmission system (kWh)	11,618,937,161	12,090,195,173	1.041

Capacity taken over from the transmission system (kW)		25,550,000	
Tariff – energy (fening/kWh)		0.578	
Tariff – capacity (KM/kW)		1.472	

4. Upon the expiry of each calendar month, the Independent System Operator in BiH and Elektroprenos BiH, in cooperation with licence holders for electricity distribution, customers directly connected to the transmission system and licence holders for electricity generation in possession of generation facilities connected to the transmission system, shall be obligated to prepare a report on energy volumes at all points of take-over from the transmission system.
5. On the basis of the report referred to in the previous Item of this Decision, electricity transmission services for customers connected to the transmission system and customers connected to the distribution system shall be billed to the relevant suppliers and the distribution system operator (DOS), that is, legal person within which DOS operates, respectively. Electricity transmission services for a generator taking over electricity from the transmission system shall be billed to the licensed generator, that is, legal person within which the generator operates.
6. For energy taken over in the pumping mode, generators shall not pay the tariff for electricity transmission services.
7. The tariffs as set out by this Decision shall be used when setting end-customer tariffs/prices in accordance with the structure of tariff elements within individual consumption categories.
8. This Decision shall enter into force on the day of the adoption while it shall be applied as of 1 May 2017.

The statement of the Decision shall be published in the Official Gazette of BiH, the official gazettes of the Entities and Brčko District of Bosnia and Herzegovina.

Statement of Rationale

The formation of the Company for the transmission of electric power was enabled by the adoption of the *Law on Transmission of Electric Power, Regulator and System Operator in Bosnia and Herzegovina* (Official Gazette of BiH, 7/02, 13/03, 76/09 and 1/11) and the *Law Establishing the Company for the Transmission of Electric Power in Bosnia and Herzegovina* (Official Gazette of BiH, 35/04 and 76/09).

Elektroprenos Bosne i Hercegovine a.d. Banja Luka (hereinafter: the Company) is a holder of the licence for performance of the electricity transmission activity pursuant to the Decision of the State Electricity Regulatory Commission (hereinafter: SERC), number: 05-28-12-341-20/12 of 17 January 2013 (Official Gazette of BiH, 5/13).

Pursuant to Article 12 of the *Tariff pricing methodology for services of electricity transmission, operation of independent system operator and ancillary services – Consolidated text* (Official Gazette of BiH, 93/11 and 61/14 – hereinafter: *Tariff Methodology*), the Company is financed by providing its services to customers and generators which are calculated and billed based on the

approved network charge and from other sources, such as transmission network connection charges.

The Company filed the tariff application number: 76-U-16/16 of 3 November 2016, received on 9 November 2016 under number: 04-28-5-333/16. The tariff application was filed using the forms as set forth by the *Decision establishing forms for submitting data in the tariff proceedings* (Official Gazette of BiH, 44/05), with required attachments.

Pursuant to Articles 4 and 9 of the *Rule on tariff proceedings*, the provided data have to be presented in a clear manner, so as to enable their full identification and have to provide sufficient information to enable passing of a decision.

While considering the tariff application in the tariff proceedings, the basic principles prescribing that tariffs will be just and reasonable, non-discriminatory, based on objective criteria and justified costs and set in a transparent manner have to be respected to the maximum extent possible. The applicant is obligated to prove that the proposed tariff meets the requirements of BiH laws and SERC rules.

In its application for approval of incomes and expenditures for 2017, the Company asks for modification of the tariffs for electricity transmission services and proposes an average tariff for electricity transmission (average network charge) amounting to 1.058 fening/kWh. The Company's revenue requirement which would be ensured by the application of the tariff for electricity transmission services amounts to 122,921,386 BAM.

In its application the Company provides the basic positions and facts used to define the tariff application for 2017 as follows:

"a) Total investment funds have been earmarked for the concrete facilities from the Investment Plan for the period 2016-2018.

b) The costs of investments from the Company's own resources also for 2017 equal to the costs of available depreciation of the Company for 2017 (depreciation of the Company reduced by the repayment of loan principal), that is, no new loans are planned for investments in 2017 either.

c) The Company developed the Business Plan for the period 2016-2018 in compliance with the applicable tariff.

d) Following the completion of the tariff proceedings and once a new tariff is set for 2017, the Company will revise the Business Plan for 2017.

e) The volume of electricity transferred in the transmission network planned for 2017 amounts to 11,618,937,161 kWh. The data are taken over from the ISO BiH and as such they were used when setting the tariff for ISO BiH operation for 2017.

f) Total expenses planned for 2017 have been increased in comparison to the expenses estimated for 2016 as well as in comparison to total expenses approved by SERC for 2015.

g) The Company planned the costs of material for 2017 at the level as approved by SERC for 2015, i.e., 4,800,000 BAM.

h) The amount of costs for generation services for 2017 has been planned at the same level as approved by SERC for 2015, i.e., 5,500,000 BAM.

i) Having analysed the labour cost of the Company for 2017, it was determined that the amount approved for 2015 would not suffice to cover the same costs for 2017. The reason for this is the fact that some amendments to primary and secondary legislation had been made in the field of income tax in the Federation of BiH. The given facts were explained in-depth in the enclosed Analysis of impacts of proposed tariff on business operations of the regulated Company and its customers. Therefore, we ask for a 2.73 increase in the labour cost in comparison to those approved by tariff for 2015, that is, an amount of 57,105,500 BAM.

j) The costs of depreciation for 2017 have been planned with an 18.37 % increase in comparison to the amount approved for 2015, that is, in an amount of 54,799,058 BAM. In addition, the depreciation estimated for 2016 is 14.57 % higher than the amount approved for 2015 amounting to 53,054,734 BAM. In 2015 and 2016 the level of this cost was considerably higher than approved, due to the fact that the effects of evaluation of the Company's property had been entered into books, as mentioned in the enclosed Analysis of impacts of proposed tariff on business operations of the regulated Company and its customers.

k) The planned costs of interest rates are lower than those approved by SERC for 2015 as well as those estimated for 2016.

l) The total revenue to be ensured for the Company (to cover costs) for 2017 excluding profits amount to 131,629,746 KM.

m) The total revenue of the Company for 2017 plus planned profit amounts to 133,824,746 KM.

n) The mentioned total revenue is reduced by an amount of ITC-based income, the planned amount of which is 4,040,184 BAM.

o) The total revenue is reduced by the income based on the cross-border capacities amounting to 2,100,000 BAM.

p) The total revenue is reduced by a planned amount of other incomes (granted assets) amounting to 2,174,776 BAM.

r) The total revenue is reduced by financial expenses amounting to 2,588,400 BAM.

s) The revenue requirement of the Company for 2017 less the aforementioned income in concretely stated amounts is to be ensured by the application of tariff for electricity transmission services on consumption of the customers taking over electricity from the transmission network in BiH amounting to 122,921,386 BAM.

t) The costs of the Company for 2017 do not include taxes – VAT.”

SERC made an in-depth review of the documentation so the tariff proceedings could proceed through evaluation of all submitted proofs with SERC keeping the right to ask for additional data and information if deemed necessary.

The Company's application was resolved by conducting a formal public hearing pursuant to the provisions of the *Rules of hearing procedures* (Official Gazette of BiH, 38/05), in accordance with Article 45 of which by a short notice in the daily newspapers and on its website SERC informed the public of a summary of the filed application and the possibility to get familiarised with the application directly and submit comments on the subject of the tariff proceedings in writing. The public notice invited the persons interested to participate in the formal hearing as

interveners and to provide the evidence of their interest in writing beforehand and announced the formal hearing on the application.

After the submission of requests for intervenor status, by the conclusion number: 04-28-5-333-15/16 of 15 December 2016 in order to hear their respective positions and interests SERC allowed the following entities to participate in the proceedings in the capacity of interveners: "Aluminij" d.d. Mostar, JP "Elektroprivreda Bosne i Hercegovine" d.d. Sarajevo, MH "Elektroprivreda Republike Srpske", parent Company, a.d. Trebinje, JP "Elektroprivreda Hrvatske zajednice Herceg Bosne" d.d. Mostar and R-S Silicon d.o.o Mrkonjić Grad. The interveners did not use the right to have a direct insight into the complete documentation of the tariff application at the SERC premises.

A preliminary hearing on the tariff application was held on 20 December 2016 in Tuzla. At the preliminary hearing a list of questions to be discussed and the course of the formal hearing were defined. At the formal hearing held on 27 December 2016 the parties to the proceedings presented their respective proofs for the purpose of determining all relevant facts. Every question from the list defined was elaborated by a successive reply of the applicant and comments by the interveners and the Presiding Officer.

The Presiding Officer's report describes the course of the proceedings, offered proofs and established facts, relevant legal provisions and recommendations to the Commissioners (hereinafter: Commission) and it was delivered to the party to the proceedings by the SERC act number: 04-28-5-333-15/16 of 13 January 2017 and the interveners whose status was legally acknowledged by SERC. An analysis of costs and revenues as presented in the Presiding Officer's report confirmed, rejected or adjusted the individual items, values or methods used while preparing the tariff proposal in accordance with the SERC discretionary rights in the tariff proceedings.

The report is to provide the reasonable grounds for the Commission to make its final decision on the application after its careful consideration and evaluation of the presented data, arguments and explanations as well as comments by the Company number: 06-421/17 of 20 January 2017 on the proposal of this report and comments by interveners.

Hence, the Commission has to focus its analysis on all elements of the cost structure as pointed out by the applicant, the analysis of costs and incomes as presented in the Presiding Officer's report as well as on the interveners' comments presented during the whole proceedings and decide on the application after careful consideration. In line with these obligations, the Commission presents the following points of view:

On the basis of the *cost of material* the Company requests an amount of 4.8 million BAM in its application, which is 60% more than the realisation estimated for 2016, that is, 40% more than the realisation in 2015. At the formal hearing, the Company justified the amount requested by the fact that in the previous period old supplies were used with a view to reducing them and the ongoing issue of the public procurement procedures. In the past several years, the realisation of this cost was considerably lower than the approved amounts, which was highlighted by the interveners at the hearing, which is the reason why extra caution was used to determine this cost. Taking into consideration the achieved and approved values in the preceding period, and the

arguments presented during the proceedings, the Commission approves an amount of 3,450,000 BAM for the cost of material.

Regarding the *cost of services*, the Company asked for an amount of 5,500,000 BAM, which is the amount identical to the one approved in the previous tariff proceedings. Similar to the costs of material, it is obvious that the realisation in the past years is below the approved values.

Through their questions at the formal public hearing, the interveners found the justification of the amount for this cost disputable referring to employment of a high number of new employees as an argument. In its reply the Company stated: "*Services by third persons pertain to narrowly specialised business activities for which we do not have adequate labour force. This cost does not increase*".

Although the Company does not project any increase in the cost of services in comparison to the approved values, the previous realisation points to overestimation in planning values, which is the reason why the approved costs for 2017 amounts to 4,900,000 BAM.

On the basis of *other costs* the Company specified an amount of 5.16 million BAM which equals the estimated realisation for 2016. In the past several years, the increase in this group of costs is noticeable which is primarily caused by amounts of communal taxes paid by the Company to units of local self-government (municipalities) in the territory of which the Company's assets (transmission lines and substations) are located. Taking into account the fact that the Company uses all available legal remedies to challenge the imposition of this type of public charges, and that the Company cannot influence on the amount thereof, it is proposed to approve the amount of 5,160,000 BAM for this cost.

The Company asked for an amount of 895,000 BAM for *other and extraordinary expenses*, while in 2015 SERC approved an amount of 1,000,000 BAM for this group of costs. In the preceding years, two significant deviations were noticed with regard to the realisation of these costs, namely, in 2011 when the payment of costs was made on the basis of rulings made upon employees' claims, and in 2015 due to the expenses on the basis of correction of the value of receivables by Aluminija d.d. Mostar, and revalorisation of material and equipment stocks as a consequence of entering into books the estimated property of the Company. With regard to these expenses, the Presiding Officer's proposal to approve an amount of 895,000 BAM for other and extraordinary expenses is acceptable.

The *labour cost* is the highest cost in the Company's business operations and its realisation (estimated) for 2016 amounts to 55,905,212 BAM. The Company asked for approval of the labour cost amounting to 57,105,500 BAM which would be a 2.7% increase in comparison to the amount approved for 2015. The following argumentation is given as the reason of the increase: "*Having analysed the labour cost of the Company for 2017, it was concluded that the amount approved for 2015 would not suffice to cover the same costs in 2017. The reason for this is the fact that some amendments to primary and secondary legislation had been made in the field of income tax in the Federation of BiH.*"

Since 1 August 2015, the Company reduced meal allowance from 15 BAM to 12 BAM per day, while in 2016 meal allowance amounted to 8.5 BAM. Annual leave allowance in 2015 amounted to 500 BAM per employee while in 2016 it amounted to 600 BAM.

The same as in the previous tariff proceedings at the formal hearing the issue of labour cost drew most attention of the interveners who tried to point out that Elektroprenos BiH had already reached and got ahead of other entities in the power sector with regard to the level of average salaries. As it was emphasised at the hearing but also stated in the application, the Company did not ask for further increase in salaries of its employees but exclusively additional means to keep salaries at the existing level with compensation of additional burdens caused by amendments to legal regulations in the field of income tax in the Federation BiH.

Through some corrective measures (e.g. reduction of meal allowance) the Company keeps the level of labour cost within the limits of the approved amount which may be concluded on the basis of the average net salary without benefits per employee which in 2015 amounted to 1,780.72 BAM, while for the first 11 months in 2016 it amounted to 1,792.33 BAM. Furthermore, in 2015 and 2016 the Company hired 31 and 134 employees respectively. Taking into account the aforementioned, in particular the reached levels of salaries as well as the fact that on 15 December 2016 the Company had 1,316 employees, which is 29 less than the number planned for 2017, it seems reasonable to approve for the labour cost for 2017 an amount identical to the one for 2015, that is, 55,587,593 BAM.

The cost of depreciation is the second largest cost in business operations of the Company. According to the application for 2017, the Company plans to realise the cost of depreciation in an amount of 54,799,058 BAM which is 3.3% more than the estimated realisation for 2016 (53,054,734 BAM). This increase is justified by putting newly built facilities and equipment into use.

In 2014, the Company evaluated the property while the results of the evaluation were used in reports and financial statements as of 1 January 2015. The property evaluation resulted in an increase of property value to the value of 1.17 billion BAM where the item of real estate, facilities and equipment increased from 595.030 million BAM to 815.197 million BAM, that is, 220.67 million more. The evaluation of assets was initiated by the 2014 audit report when the Company was given an opinion with reserve because the evaluation of fixed assets and stocks was not made.

The evaluation of the Company's property resulted in a significant reduction of purchase value of fixed assets and a significant increase in the present (net) value of the property after the evaluation, which, at the formal hearing, raised the issues of the validity of depreciation rates applied before the evaluation. The evaluation report states that it was an accelerated depreciation rate. At the hearing, the Company provided the following explanation: *"The increased property is the result of determining fair value of the property of Elektroprenos on the market, the difference is the result of failing to evaluate the property of this Company for the full ten years not the result of depreciation rates determined in an inadequate manner as you say. The reason behind the increase in the property value as determined by evaluation is the result of property value determined in an inadequate manner at the moment of the Company's formation, on which we also could not influence."*

Considerably lower purchase value of the assets (about 958 million BAM) presented after the property evaluation in financial statements (Financial Report for 2015) of the Company has no adequate explanation of depreciation rates the value of which is now 5.7% on average, while before the evaluation those rates amounted to 2.4% on average. In this manner, assets are

depreciated in an accelerated manner because an average lifespan of assets is only 17 years while the Company has no adequate explanation of such accounting policy. In addition, after the evaluation only small difference occurred between the current (net) value (900.8 million BAM) and purchase (gross) value of assets (958.5 million BAM), which implies that the level of fixed assets write-off is only 6%, while it amounted to 70 % before the evaluation.

Besides the property evaluation resulting in an increase in the cost of depreciation, it affected the income though the presented unallocated profit on the basis of elimination of revalorisation reserves (capital gains) which amounted to 6,334,668 BAM.

Considering the previous practice and principles for approval of this cost, taking into account the fact that the effects of property evaluation have been entered into business books of the Company, and the fact that new assets (facilities and equipment) will be activated in 2017 due to the investment cycle, the cost of depreciation is approved at the requested level, that is, 54,799,058 BAM, with reserve by SERC to treat capital gains as a deductible item in calculation of the revenue requirement.

For 2017 the Company planned the *cost of interest* in accordance with the repayment plan of loan debts. The projection of this cost amounts to 2,031,188 BAM with the continuous downward trend due to the reduction of payables in the structure of Company's liabilities. The cost of interest is approved within the revenue requirement of the Company, amounting to 2,031,188 BAM as requested by the Company, and as the cost of debt within the weighted average cost of capital pursuant to the Tariff Methodology.

Pursuant to Article 17 of the *Tariff Methodology*, an amount of 1,339,000 BAM is approved to the Company as a justified cost based on the obligation to pay the regulatory fee as laid down in the Decision on the regulatory fee for 2017 (Official Gazette of BiH, 75/16).

In the preceding period the Company made some profit on a regular basis. Taking into account the results achieved in business operations, in the proposed tariff for 2017 the Company estimated its profit in an amount of 2,195,000 BAM.

Taking into account the value of Company's capital on 31 December 2014 amounting to 802,462,760 BAM, SERC approved the profit in an amount of 2,195,664 BAM 2015, which is 0.27% return on capital of the Company. On 31 December 2015, the total value of the Company's property amounted to 1.17 billion BAM with a share of fixed assets of 75% (918,584,000 BAM) while current assets amounted to 25 % (251,581,000 BAM). A 21.2 % increase in the fixed assets, in comparison to 2014, is the result of estimated property which was entered into books. As far as liabilities are concerned, the property estimation resulted in an increase in capital of the Company amounting to 1,016,992,000 BAM, of which 228,720,000 BAM pertains to revalorisation reserves and 32,330,000 BAM to unallocated profit from the previous period. Taking into account the aforementioned, profit for 2017 is approved in the requested amount of 2,195,000 BAM.

A corrected value of receivables from Aluminij d.d. Mostar amounting to 7.56 million BAM which was entered into books as an expense in 2015, will be presented as an income in the forthcoming period, taking into consideration an agreement between Elektroprenos BiH and Aluminij on repayment of the debt in 48 equal instalments. According to the information provided at the public hearing, one instalment was repaid, while the Company's income

requirement on this basis will amount to 1.575 million BAM. For the sake of the principle of fairness, this income has not been treated as a deductible item while the Company's profit will be increased by the presented amount once collected.

The revenue requirement for performance of the regulated activity is reduced by an amount of *income from financial assets* which the Company will receive by making fixed-term deposits with part of funds on the Company's accounts. In its application, the Company specified an amount of 2,588,400 BAM on the basis of income from financial assets it plans to achieve in 2017. In the past several years, the Company has received significant incomes from financial assets primarily from long-term financial investments. The Financial Statement for the first nine months of 2016 presented the realisation of this income amounting to 4,673,579 BAM, of which 3,777,645 BAM pertained to the interest income from fixed-term deposits, 836,753 BAM pertained to the income from positive foreign exchange rates, while the remaining part amounting to 59,181 BAM pertained to the income from demand deposit interest rates.

In their answers to the questions raised at the formal hearing pertaining to this income the Company provided an overview of fixed-term deposits and terms thereof. It is evident that the Company has 150 million BAM on fixed-term deposit accounts for a two-year period and an interest rate ranging from 1.2 to 2.69 %. Furthermore, the Company presented 10 million BAM on fixed-term deposit accounts with an interest rate of 3.6% at Banke Srpske which is under liquidation, but the amount is included in the liquidation value. Taking into account that in the previous years the realisation of this income was considerably higher than the planned projections, the amount on fixed-term accounts as well as a significant income from positive foreign exchange rates, it seems more realistic to approve this income for 2017 in an amount of 3,000,000 BAM.

The ITC mechanism is a compensation mechanism enabling the coverage of costs in the transmission network which occur due to cross-border flows. Pursuant to Article 16 of the *Tariff Methodology*, the revenue requirement for performance of the regulated activity is reduced by the amount of other incomes pertaining to the regulated activity including the net amount (income - expenses) achieved from cross-border flows. In the beginning, BiH participated in the ITC mechanism of the countries in South-East Europe. The joint European ITC mechanism, encompassing 26 countries and 31 transmission system operators entered into force on 1 June 2007. In 2015 the income on this basis amounted to 4,559,917 BAM while the estimated realisation for 2016 as well as the plan for 2017 amounted to 4,040,184 BAM. Taking into account the realisation for the first nine months of 2016, which was lower than in the previous years, this income for 2017 is approved in an amount of 3,780,000 BAM.

The income from auctions, that is, allocation of cross-border transmission capacities is a type of income which is treated pursuant to Article 16 of the *Tariff Methodology*. The Company has been receiving these incomes since 2010, and in line with the data from the previous years and results of 2017 annual auction, a total income for 2017 from the allocation of cross-border transmission capacities for 2017 is approved in an amount of 3,000,000 BAM.

As explained above, the effects of evaluation of the property were entered into books by the Company as of 1 January 2015. As the result of evaluation, besides an increase in the cost of depreciation the income, that is, *capital gain* occurs as a counterbalance. The mentioned income in 2015 amounted to 6,334,668 BAM while the estimated realisation for 2016 amounts to

6,926,274.54 BAM. The amount at the level of 2016 is approved for 2017, that is, 6,926,274.54 BAM, on the basis of capital gain.

In 2014, the Company received *an income on the basis of connection charges amounting to 23,418,080 BAM* while the estimation for 2016 amounts to 2,689,525 BAM. For 2017 the Company did not plan any income from connection charges which drew particular attention of SERC and the interveners. The Company highlights in its answer the uncertainty with regard to the realisation of this income and further explains: *"An income from connection charges must not be a deductible item. The exclusive purpose of the income from connection charges is to be invested in the transmission network, not to cover any costs. It is clearly laid down in the Tariff Methodology and the regulator has to comply with it, Article 14, paragraph (4). According to the existing acts, it is not possible to project whether any income may be expected on the basis of new connections in the forthcoming period."*

The statement of the Company on the treatment of this income and its impact on total income is a liberal interpretation of the *Tariff Methodology* provision. Namely, pursuant to Article 14, paragraph (4) of the *Tariff Methodology*, the connection charge is not paid through the network charge but it is charged separately to the system users. In this manner, the income from connection charges is included in financial statements of the Company as part of income in the income statement and it is treated as a deductible item when calculating the revenue requirement. Taking into account the information on activities on construction of new connections, primarily, of wind farms, and also taking into account the result of dispute as proposed in the draft Decision on dispute resolution in application of the Connection Rules (HPP Mostarsko Blato), for 2017 an amount of 4,000,000 BAM is approved on the basis of income from connection charges.

The revenue requirement for performance of the regulated activity is reduced by depreciation on granted assets which amounts to 2,410,208 BAM, which is in line with the well-established principles and practice implemented by SERC on a regular basis when setting tariffs for the regulated entities under its competence.

Having analysed the Company's application, the Commission estimated that a realistic amount of total costs and expenditures of the Company amounts to 128,161,839, that is, 107,475,788 BAM after deduction of the aforementioned incomes from cross-border trade, depreciation on granted assets, income from financial assets, capital gains and income from connection charges.

Energy used to calculate the transmission tariff, pursuant to the *Tariff Methodology*, is estimated on the basis of realisation for 2016 amounting to 11,948,365,012 kWh. The value from the Power balance in the transmission network for 2017 amounting to 11,618,937,161 may be considered significantly underestimated taking into consideration the realisation for 2016, which is the reason why an amount of 12,090,195,173 kWh is taken as a realistic estimation for 2017.

Pursuant to the *Tariff Methodology*, the transmission charge for capacity and the transmission charge for energy are calculated according to the ratio of capacity to energy of 35 %:65 %.

The transmission charge for capacity amounts to 1.472 KM/kW and is billed on a monthly basis to customers based on a total of non-simultaneous peak loads at the take-over points. Based on the Power balance in the transmission network for 2017 and the ratio of energy and capacity taken over from the transmission system in 2016, a total amount of billed capacity on an annual level is determined in an amount of 25,550,000 kW.

The transmission charge for energy amounts to 0.578 fening/kWh as the ratio of the revenue requirement collected from customers reduced by the share pertaining to capacity and energy taken over from the transmission system amounting to 12,090,195,173 kWh.

SERC is determined to ensure an equal approach and correlation when passing decisions on tariffs for operation of the Independent System Operator in BiH and Elektroprenos BiH. Accordingly, regarding energy taken over in the pumping mode of operation, the Commission decides that the tariff for transmission services would not be charged to generators for energy taken over in the pumping mode of operation.

It is the opinion of the Commission that the aforementioned tariffs ensure the revenue requirement for efficient, safe and reliable operation of the Company, that is, they enable covering of all costs and expenditures reasonably incurred in its business activities.

Within the reasonable discretionary right of the Commission to confirm the representativeness and validity of all submitted data and statements, to estimate the level of possibility to realise all projected costs and expenditures, having comprehensively considered all the proofs as pointed out in the application, Presiding Officer's report and by the interested parties (interveners), the Commission decided as provided in the statement of the Decision.

SERC will continuously monitor the effects of applying the determined tariffs keeping the right to adjust them if deemed necessary.

Pursuant to Article 14 of the *Rule on tariff proceedings*, the applicant as a regulated entity is obligated to enable public access to the officially approved tariff so as to enable the tariff as approved by the decision to be at disposal to the public at its main business office during working days and published on its website.

Pursuant to Article 9.2 of the *Law on Transmission of Electric Power, Regulator and System Operator of Bosnia and Herzegovina*, proceedings may be initiated before the Court of Bosnia and Herzegovina against a decision on approval of tariffs by filing a lawsuit within sixty (60) days from the day of receiving this Decision.

Number: 04-28-5-333-46/16

3 April 2017

Tuzla

Chairman of the Commission

Suad Zeljković