

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 Independent System Operator in Bosnia and Herzegovina number: 38/16 of 28 October 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 the Independent System Operator in Bosnia and Herzegovina in 2017 shall amount to 7,156,598 BAM.
2. It is determined that the tariff for operation of the Independent System Operator shall amount to 0.0592 fening/kWh.
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 income (BAM)	Requested	Approved	Index (3/2)
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
Costs of material	117,180	60,800	0.519
Costs of energy sources and utilities	101,000	89,500	0.886
Costs of services	2,842,000	2,554,879	0.899
Employees' gross salaries and allowances	3,976,600	3,336,834	0.839
Depreciation	307,613	307,613	1.000
Financial costs	217,670	44,560	0.205
Travel costs	129,000	127,000	0.984
Other taxes and charges	36,000	24,000	0.667
Other expenditures	731,610	663,575	0.907
<b>A. Total costs and expenditures</b>	<b>8,458,673</b>	<b>7,208,761</b>	<b>0.852</b>
1. Surplus revenue in the preceding period			
2. Surplus expenditure			
2. Surplus revenue	720,662	547,837	0.760
3. Financial reserves	200,000	200,000	1.000
4. Other revenues	800,000	800,000	1.000
<b>B. Revenue requirement (A-1-2+3+4-5)</b>	<b>8,579,335</b>	<b>7,156,598</b>	<b>0.834</b>
<b>C. Total revenue (B+5)</b>	<b>9,379,335</b>	<b>7,956,598</b>	<b>0.848</b>
Energy taken over from the transmission system (kWh)	11,618,937,161	12,090,195,173	1.041
Tariff (fening/kWh)	0.0738	0.0592	0.802

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, ISO BiH 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 ISO operation.
7. The tariff 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* and the official gazettes of the Entities and Brčko District of Bosnia and Herzegovina.

#### ***Statement of Rationale***

The Independent System Operator in Bosnia and Herzegovina (hereinafter: the ISO BiH) is one of the entities in the power sector with the task to manage the transmission system operation in Bosnia and Herzegovina. The ISO BiH competences and functions have been defined by 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 an Independent System Operator for the Transmission System of Bosnia and Herzegovina* (Official Gazette of BiH, 35/04).

The ISO BiH is a holder of the licence for performance of the independent system operator activity pursuant to the Decision of the State Electricity Regulatory Commission (hereinafter: SERC), number: 05-28-12-30-20/12 of 3 July 2012 (Official Gazette of BiH, 53/12). Pursuant to Article 21 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 purpose of the tariff for ISO operation is to cover the costs of ISO BiH operation incurred by performance of the activities as set forth in Articles 2 and 7 of the *Law Establishing an Independent System Operator for the Transmission System of Bosnia and Herzegovina*.

Pursuant to Article 22 of the *Tariff Methodology*, the tariff is determined on the basis of costs for performance of a regulated activity and a physical scope of services within the regulated activity.

Costs for performance of the regulated activity and physical scope of services provided by the regulated entity are determined on the basis of data included in the tariff application. When determining tariffs, SERC may also use additional data if it deems necessary.

Pursuant to Article 3 of the *Rule on tariff proceedings* (Official Gazette of BiH, 44/05), the ISO BiH files with SERC a tariff application. The ISO BiH filed the tariff application number: 38/16 of 28 October 2016 (received on 31 October under number: 04-28-5-318-1/16). 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.

The following costs and expenditures in 2017 are given in the ISO BiH application: costs of material amounting to 117,180 BAM, costs of energy sources and utilities amounting to 101,000 BAM, costs of services amounting to 2,842,000 BAM, employees' gross salaries and allowances amounting to 3,976,600 BAM, depreciation amounting to 307,613 BAM, financial costs amounting to 217,670 BAM, travel costs amounting to 129,000 BAM, other taxes and charges amounting to 36,000 BAM, and other expenditures amounting to 731,610 BAM, making a total of 8,458,673 BAM for costs and expenditures. Furthermore, through its application the ISO BiH asked for approval of a surplus of revenue over expenditure amounting to 920,662 BAM which would ensure funds for investments (by covering part of depreciation used for loan repayment for a business facility amounting to 720,662) and forming of a financial reserve for better liquidity (200,000 BAM).

The ISO BiH stated that the tariff application was based on the real needs for 2017 (Financial Plan and Investment Plan) as well as on the Tariff Methodology.

The ISO BiH financial operations in 2017 will be determined by the similar conditions and assumptions as those which marked the business year 2016. The financial operations refer primarily to already standardised structures of tangible and non-tangible costs and services, the existing human resources including hiring seven new employees, and material and already achieved technical level at which the ISO BiH performs its activity.

The ISO BiH stated that it expected that the realisation of the power balance in 2016 would be below the planned level, which directly affects the total revenue of the ISO BiH.

The application also includes the planned physical scope of services in the transmission network in 2017, which relies on the data from the Power balance in the BiH transmission network for 2017 (received by SERC on 28 October 2016 under number: 04-28-5-314-1/16) according to which the planned delivery of electricity from the transmission system in 2017, as determined on the basis of preliminary information provided by the market players in BiH, would amount to

12,009,428,603 kWh. However, according to the ISO BiH estimates, the projected volumes of electricity withdrawn from the transmission system would amount to 11,618,937,161 kWh, which is approximately 3.4 % or 390,491,442 kWh less than the volumes determined on the basis of information provided by the market players. Furthermore, this is a significantly smaller volume than the one achieved in 2016 which amounted to 11,948,365,012 kWh.

Following the documentation review, the completeness of the ISO application was confirmed by the SERC act number: 04-28-5-318-2/16 of 16 November 2016, of which the ISO BiH was informed accordingly by the letter number: 04-28-5-318-3/16 of 16 November 2016 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 ISO BiH 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 intervener status, by the conclusion number: 04-28-5-318-13/16 of 30 November 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, MH "Elektroprivreda Republike Srpske", Parent Company, a.d. Trebinje, JP "Elektroprivreda Bosne i Hercegovine" d.d. Sarajevo and JP "Elektroprivreda Hrvatske zajednice Herceg Bosne" d.d. Mostar. 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 ISO BiH tariff application was held on 1 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 6 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: 04-28-5-318-31/16 of 15 December 2016 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 ISO BiH (number: 01-1561-3/16 of 21 December 2016) and interested parties (MH "Elektroprivreda Republike Srpske", Parent Company, a.d. Trebinje

comments under number 1.1/03/2-1750-9/16 of 22 December 2016 and JP “Elektroprivreda Bosne i Hercegovine” d.d. Sarajevo, comments under number: 01-05-39736/2016 of 22 December 2016), provided on the proposal of this report.

In its comments on the Presiding Officer’s report on the tariff proceedings for the tariff for ISO BiH operation, the ISO BiH emphasised the following: the costs of SCADA system maintenance and other softwares were unjustifiably reduced and they should be approved in the amount as requested; the amount approved for the labour cost was not sufficient to keep the achieved level of average net salaries; it was necessary to accept the ISO BiH arguments regarding the interest rates on the new EBRD loan and it expected that the more realistic projection of the power balance as prepared by the ISO BiH would be taken into consideration when making a final decision on the tariff.

In its comments, MH “Elektroprivreda Republike Srpske”, Parent Company, a.d. Trebinje opposed to the abolition of paying the tariff for ISO BiH operation for energy taken over in the pumping mode of generation plants as they think that it would also bring into question the payment of transmission tariff for energy taken over by thermal power plants.

In its comments on the Presiding Officer’s report, Intervener JP “Elektroprivreda Bosne i Hercegovine” d.d. Sarajevo states that it agrees with the recommendation not to approve a significant increase in labour costs and to approve a considerably lower amount than requested on the basis of costs of services and interest. It disagrees with the Presiding Officer’s recommendation regarding the approved surplus of expenditures over revenues of the ISO BiH and that the liquidity issue should be resolved in some other manner. It is their opinion that the ISO BiH management should consider the justifiability of remunerating members of commissions for technical analysis of connection. They conclude that the existing level of the tariff should not be increased and that the G component should not be introduced in the tariff for ISO BiH operation at this moment.

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:

When determining the *costs of material*, the Commission accepts the Presiding Officer’s proposal and finds it reasonable to approve an amount of 60,800 BAM for the costs of material in 2017.

Having in mind that there are no significant increases in prices of energy sources and utilities, the Commission supported the Presiding Officer’s arguments when analysing the items of planned ISO BiH’s costs for *energy sources and utilities* and approved the proposed amount of 89,500 BAM.

When determining the *costs of services*, as in the previous tariff proceedings, the Commission pays special attention on the amount of the cost of services for maintaining computer equipment and software and accepts the Presiding Officer’s arguments and orientation regarding a total cost of these services and determines it at the level of an amount as approved in the previous tariff proceedings. The highest increase in this group of costs, compared to the previous period, was

planned in close relation with activation of a new EBRD loan and pertains to the cost of consulting services for the new SCADA system (800,000 BAM), and as this cost is funded by a 'grant' (the same amount is presented as part of income) and does not have affect the tariff, it may be fully accepted as such.

The intervener's suggestion was also accepted that all costs and interest rates for a loan calculated and/or paid until the moment of putting an asset into use should be assigned to the acquisition cost and included into the purchase value of a fixed asset which is then depreciated during an estimated lifespan, which is the manner in which the planned cost of the EBRD loan is treated within this group. Having regard to the previous dynamics of developing studies related to the BiH power system operation and the importance of topics '*An analysis of balancing market operation and comparison of balancing with the neighbouring TSOs*' and '*Mechanisms of providing the ancillary service of Q-V regulation and evaluation of reactive power generation/consumption costs for the needs (support) of the BiH power system (working title)*' which would be elaborated by the studies, the Commission finds it justified to accept and approve an amount of 65,000 BAM for this purpose.

Without challenging the relevance of and the need for professional training of ISO BiH employees, the Commission is of the opinion that the amount of cost for this purpose may be reduced by defining relevant priorities and using various modalities in practice. Assuming that the ISO BiH may influence on amounts of some cost items (entertainment expenses, services for fixed asset maintenance and other services) without jeopardising the functionality and its operation, and monitoring the previous implementation, the Commission approves the cost of services totalling 2,554,879 BAM.

Having analysed the previous realisation of the *labour costs* compared to the approved ones, some significant deviations are evident, except in 2013. Although in its tariff application for 2017 the ISO BiH planned an amount for labour costs based on average levels from the previous period and an increase in the number of employees due to an increased scope of operations and replacement of employees due to retirement, the Commission is of the opinion that the amount of this cost has to be adapted to the existing economic situation in Bosnia and Herzegovina.

Having regard to the aforementioned, for 2017 the Commission approves an amount for labour costs at the level approved for 2016 of 3,336,834 BAM, with the opinion that within the approved funds the ISO BiH also has the possibility to hire new employees with the aim of completing all its tasks.

The ISO BiH asked for approval of the *depreciation cost* for 2017 amounting to 307,613 BAM as the result of calculating depreciation for all assets used by the ISO BiH including the part pertaining to the depreciation cost for new equipment purchased during 2017. Although it may be expected that the depreciation cost of newly purchased equipment will not be realised as planned, the Commission approves the depreciation cost for 2017 as requested in an amount of 307,613 BAM, having in mind that these funds are used to repay loans and liabilities while any possible remaining amount is used for investments.

The ISO BiH also enclosed to the tariff application loan repayment plans which should be operational in 2017. According to the application, total interest rates for all loans amount to 198,170 BAM, while *the costs of insurance* are at the level of the previous realisation amounting to 19,500 BAM. The same as when considering individual costs of services, the intervener's

suggestion was accepted that interest rates calculated and/or paid until the moment of putting an asset into use should be assigned to the acquisition cost and included into the purchase value of a fixed asset which is then depreciated during an estimated lifespan. In this context, it is considered logical to divide and approve the interest on the new EBRD through the depreciation cost for the period in which a fixed asset funded from that loan would be used. As the fixed asset will not be activated in 2017, the cost of the related part of this interest will not occur. At the same time, the Commission expects the applicant to fully comply with the provisions of the *Law Establishing an Independent System Operator for the Transmission System of Bosnia and Herzegovina*, meaning that any loan debt, taking a loan or accepting grants is preceded by the adoption of an investment plan, an investment decision of ISO BiH management while informing SERC in a timely manner accordingly and, if deemed necessary, obtaining SERC approval pursuant to the authorities as defined by law. Taking all previously mentioned into consideration, the Commission approves an amount of 44,560 BAM for *financial costs*.

*Travel costs* are a group of costs with rather equal realisation during the previous years. Taking into consideration that these are the costs on which the regulated entity may influence, it seems reasonable to approve an amount at the level as approved in 2016, so the Commission approves an amount of 127,000BAM for this item.

*Other taxes and charges* are a group of costs which primarily includes charges and taxes that do not depend on business results. Having analysed the realisation of these costs in the previous period, the Commission finds it reasonable to approve an amount of 24,000 BAM for 2017.

With regard to determining the level of *other expenses*, the Commission takes into consideration the fact of high ENTSO–E membership fees, but at the same time it takes into account the fact that certain cost savings may be achieved within this group, and approves an amount of 663,575 BAM for *other expenses*.

Furthermore, within the revenue requirement an amount of 200,000 BAM is approved to the ISO BiH to establish the necessary financial reserve the purpose of which would be to maintain liquidity and more stable business operations of the regulated entity.

In addition to the financial reserve, taking into account the realised surplus of incomes over expenditures in the previous period, as well as the income from the EBRD ‘grant’ (800,000 KM), a surplus of incomes over expenditures in 2017 amounting to 547,837 BAM is additionally projected. The ISO BiH has to inform SERC in advance of the purpose of the projected surplus of incomes over expenditures in order to keep records of this purpose and take it into account when approving costs in the future.

Based on the performed analyses of requested costs and expenditures of the applicant, the State Electricity Regulatory Commission determines and approves a total of 7,156,598 BAM as the revenue requirement of the Independent System Operator in Bosnia and Herzegovina for 2017, and on the basis of this approved revenue requirement and in accordance with the realistic estimate of energy taken over from the transmission network in BiH for 2017 of 12,090,195,173 kWh (taking into account the realisation in 2016), determines the tariff for operation amounting to 0.0592 fening/kWh.

The Commission is of the opinion that in the current situation with low wholesale prices in the electricity market and unfavourable economic and financial position of the electricity generation

activity, it is not the right time to introduce the G component of the tariff for the ISO BiH operation which would be paid by electricity generators.

Furthermore, referring to the request of interveners to abolish the tariff for ISO operation with regard to energy taken over in the pumping mode of operation, and support of the regulated entity to this approach, the Commission decides that the tariff for ISO BiH operation would not be charged to generators for energy taken over in the pumping mode of operation.

The same as before, SERC will continuously monitor the effects of applying the determined tariff and make its adjustment if deemed necessary.

The ISO BiH is obligated to finance the individual elements of the revenue requirement within the values as approved by this Decision.

It is the opinion of the Commission that the tariff as set in the stated amount ensures the revenue requirement for efficient, safe and reliable operation of the ISO BiH, that is, it enables covering of all costs and expenditures reasonably incurred in its business activities.

Within its discretionary rights to confirm the representativeness and validity of all submitted data and statements, to estimate the level of likelihood 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.

Pursuant to Article 14 of the *Rule on tariff proceedings*, the applicant 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: 04-28-5-318-37/16

3 April 2017

Tuzla

Chairman of the Commission

Suad Zeljković