

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 7 and 9 of the Rule on Tariff Proceedings (Official Gazette of BiH, 44/05), deciding upon the application of the Independent System Operator in Bosnia and Herzegovina, number 87/18 of 26 October 2018, at its session held on 19 February 2019, the State Electricity Regulatory Commission adopted a

DECISION

1. It is determined that the annual revenue requirement of the Independent System Operator in Bosnia and Herzegovina in 2019 shall amount to 7,720,147 BAM.
2. The tariff for operation of the Independent System Operator shall be set to an amount of:
 - 0.0047 fening/kWh, which is paid by generators, and
 - 0.0563 fening/kWh, which is paid by customers.
3. The annual revenue requirement for 2019 is approved in accordance with the breakdown and amounts as given in the third column of the following table:

Description	2019 <i>requested</i>	2019 <i>approved</i>	Index <i>(3/2)</i>	
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	
Costs of material	87,500	61,000	0.697	
Costs of energy sources and utilities	185,760	118,000	0.635	
Costs of services	1,853,419	1,549,894	0.836	
Employees' gross salaries and allowances	4,306,982	3,513,974	0.816	
Depreciation	972,629	924,099	0.950	
Financial costs	460,675	386,280	0.839	
Travel costs	160,000	130,000	0.813	
Other taxes and charges	41,330	29,500	0.714	
Other expenditures	1,089,041	1,007,400	0.925	
A. Total costs and expenditures	9,157,336	7,720,147	0.843	
1. Surplus revenue	500,000			
2. Surplus expenditure				
3. Other revenues		200,000		
4. Revenues based on electricity (A+1–2–3)	9,657,336	7,520,147	0.779	
Surplus revenue from the preceding period				
B. Total revenues (3+4)	9,657,336	7,720,147	0.843	
C. Energy (kWh)	generation	15,533,974,278	16.090.000.000	1.036
	consumption	12,031,320,192	12.031.320.192	1.000
D. Tariff (fening/kWh)	generators	0.0062	0.0047	0.752
	customers	0.0722	0.0563	0.779

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 including facilities put into trial operation, shall be obligated to prepare a report on energy volumes at all points of injection/withdrawal into/from the transmission system.
5. On the basis of the report referred to in point 4 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. ISO BiH services for a generator injecting/withdrawing electricity into/from the transmission system shall be billed to the licensed generator, that is, legal person within which the generator operates.

6. The tariff for ISO operation shall not be charged for energy withdrawn in the pumping mode of operation.
7. The tariff 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 March 2019.

The disposition 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 tariff proceedings for determination of the tariff for ISO operation and the tariffs for system and ancillary services were initiated at the request of the Independent System Operator in Bosnia and Herzegovina (hereinafter: ISO BiH), No. 87/18 of 26 October 2018 (received on 30 October 2018 under No. 04-28-5-427-1/18). The Decision on tariffs for system and ancillary services (Official Gazette of BiH, 8/19) was passed on 24 January 2019, and all procedural actions were summarised in its statement of rationale. This is the reason why the State Electricity Regulatory Commission (hereinafter: Commission) makes reference to the relevant parts of the statement of rationale of Decision No. 04-28-5-427-52/18 of 24 January 2019, in which the Commission determined the tariffs for system and ancillary services and whose integral text is available on the Commission's official website, instead of repeating the description of the course of the proceedings, reference documents, regulatory principles and the relevant legal framework in the statement of rationale of this Decision.

The Commission concludes that the Presiding Officer's Report provided reasonable grounds for the Commission to pass its final decision on the tariff for ISO operation after careful review and assessment of the data, arguments and explanations provided in the Report as well as comments of the ISO BiH and third parties made on the proposal of this Report. Regarding the subject-matter of this Decision, intervener "EFT - Rudnik i Termoelektrana Stanari", d.o.o. Stanari had no comments on the Presiding Officer's Report while the comments of the ISO BiH and interveners 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, "R-S Silicon", d.o.o. Mrkonjić Grad and "Aluminij", d.d. Mostar are summarised in a nutshell as follows:

The ISO BiH denies all statements and reviews in the Presiding Officer's Report and insists on approval of the requested amounts for all costs, expecting the Commission to consider with the utmost seriousness and responsibility their comments and accept the data provided both in the planning documents and additional replies given during the public hearing.

In their comments Intervener JP "Elektroprivreda Bosne i Hercegovine" d.d. Sarajevo, state that they agree with the proposal not to approve a significant increase in the labour costs. They also state that the requested levels of increase in some other costs are not justified but

that the proposed increase in the total sum of costs of 17.9% is acceptable taking into consideration all well-known circumstances. They also think that it is not the right moment to apply the “G” component so the whole tariff for ISO operation should continue to be expressed through the “L” component.

In their comments, MH “Elektroprivreda Republike Srpske”, Parent Company, a.d. Trebinje propose that the tariff for ISO operation be fully expressed through the “L” component, i.e., that the “G” component which is paid by generators should amount to 0. Furthermore, they propose that the tariff for ISO operation should amount up to 0.0592 fening/kWh, which is the rate approved by the Regulatory Commission for Energy of Republika Srpska to “Elektroprivreda Republike Srpske” in the latest Decision on tariff rates for users of distribution systems in the Republika Srpska.

JP “Elektroprivreda Hrvatske zajednice Herceg Bosne”, d.d. Mostar is of the opinion that the estimates and conclusions provided in the Presiding Officer’s Report were made in a realistic and objective manner and it supports the option in which the “G” component exists for the calculation of the tariff for ISO operation.

In the comments of Intervener “R-S Silicon” d.o.o. Mrkonjić Grad it is stated that this company opposes the established practice of the ISO BiH to exceed approved costs and that this behaviour should be penalised by SERC. They disagree with the proposal in the Presiding Officer’s Report that the cost of depreciation should be approved in an amount of 924,099 BAM for 2019, as they are of the opinion that it would not be fair to charge end customers for consequences of wrong or unauthorised decisions. They support the proposal that the tariff for ISO operation be divided into the “G” and “L” components in accordance with the Tariff Pricing Methodology for services of electricity transmission, operation of independent system operator and ancillary services – consolidated version (Official Gazette of BiH, 93/11, 61/14 and 95/16).

Intervener “Aluminij”, d.d. Mostar is of the opinion that the “G” component should be increased if electricity exports from Bosnia and Herzegovina remain at the current level or increase. Furthermore, they propose that based on these tariff proceedings, SERC should initiate amendments to the Tariff Pricing Methodology in terms of better assessment of impacts of a large customer with constant consumption.

When passing a decision in the tariff proceedings for setting of the tariff for ISO operation, 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 revenues as presented in the Presiding Officer’s report as well as on the interveners’ comments presented during the whole proceedings and make a decision about the submitted 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 61,000 BAM for the costs of material in 2019. Taking into consideration that 2019 will be the year of experience when it comes to more precise planning for this group of costs, which is the reason why 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 118,000 BAM.

When determining the costs of services, as in the previous tariff proceedings, the Commission pays special attention to the amount of the cost of services for maintaining the SCADA system and software equipment and, accepting the applicant’s arguments increases the amounts in comparison to the Presiding Officer’s proposal. The requested amount of 275,000

BAM is approved for the cost of services for maintaining the SCADA system while for the services for software equipment maintenance an amount of 300,000 BAM is approved. Furthermore, the intervener's suggestion is 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 useful life, which is the manner in which the planned cost of the EBRD loan is treated within this group. Having regard to the reasonable explanations of the Presiding Officer and the importance of topics '*Studies of techno-economic justification for joining the IGCC cooperation*' and '*Studies of options to integrate unmanageable electricity sources*', the Commission finds it justified to recognise and approve the proposed amount of 45,000 BAM for this purpose. In particular, the Commission emphasises the need for reduction of all costs which may be controlled by the regulated company, and with the situation of a general economic crisis reduces entertainment expenses of the ISO BiH to an amount of 30,000 BAM. 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.

The cost of regulatory fee and the cost of licence issuance for 2019 totalling 73,000 BAM are recognised and justified. Considering that the ISO BiH may influence on amounts of other individual cost items (costs of equipment maintenance, advertising services and other services) without jeopardising the functionality and its operation, and monitoring the previous implementation, the Commission approves the cost of services totalling 1,549,894 BAM.

Having analysed the previous realisation of the labour costs compared to the approved ones, some significant deviations are evident. In its tariff application the ISO BiH planned the labour cost based on the average net cost increased by 5 % compared to the realisation in 2018 and an increase in the number of employees by six employees. The Commission is of the opinion that the level of this cost has to be adapted to the current economic situation in Bosnia and Herzegovina, and taking into consideration the aforesaid and the fact that currently with approval of the ISO BiH Board of Directors three employees are on an unpaid leave of absence, of whom two for one-year period, the Commission approves an amount of 3,513,974 for labour costs in 2019. It is considered that the ISO BiH has also the possibility to hire new employees under the approved funds with the aim of performing its tasks.

The ISO BiH asked for approval of the depreciation cost for 2019 amounting to 972,629 BAM as the result of calculating depreciation for all assets used by the ISO BiH. The Commission accepts interveners' arguments and objections regarding some depreciation rates and estimated useful life of some assets and supports the Presiding Officer's position to reduce the total cost of depreciation by the difference of depreciation costs of the Reserve Centre facility with a useful life of 20 and 35 years, and consequently, to approve an amount of depreciation cost for 2019 totalling 924,099 BAM. At the same time, it is suggested to the ISO BiH to reassess its accounting policies with regard to the assessment of a useful life of fixed assets taking into consideration the manner of their use so that they would correspond to the SERC's approach when justifying costs.

With its tariff application, the ISO BiH also submitted loan repayment plans which should be operational in 2019. According to the documentation, total interest rates for all loans amount to 423,640 BAM, while the requested costs of insurance amount to 37,035 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 useful life. In this context, it is considered logical to

divide and recognise the interest on unwithdrawn funds from the new EBRD loan 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 2019, the cost of the related portion 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* (Official Gazette of BiH, 35/04), meaning that any loan debt, a loan or acceptance of grants is preceded by the adoption of an investment plan, an investment decision of management structures while SERC is informed in a timely manner and, if deemed necessary, SERC approval is obtained in accordance with the powers defined by law. Taking into consideration the aforesaid, the Commission recognises financial costs in an amount of 386,280 BAM.

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 have some influence, it seems reasonable to approve an amount which is close to the amount approved in 2018, so the Commission approves an amount of 130,000 BAM for this item in 2019.

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 29,500 BAM for 2019.

With regard to determining the level of other expenditures, the Commission takes into account the fact that the ENTSO-E membership fee is high and approves it at the requested level of 805,400 BAM. At the same time certain cost savings may be achieved within this group, so an amount of 1,007,400 BAM in total is approved for other expenditures.

Taking into consideration the reviews and approval of individual costs above, justified costs of the ISO BiH for 2019 amount to 7,720,147 BAM in total. The revenue of the ISO BiH should cover all mentioned justified costs of the regulated entity, that is, it should equal the amount of these costs. However, it has to be taken into consideration that in 2019 the ISO BiH will have some revenues from the review of project analyses and its participation in the CROSSBOW project. The Commission supports the Presiding Officer's proposal that this revenue, based on the realisation in 2018, may be estimated to an amount of 200,000 BAM and total revenue requirement may be reduced by that amount, having in mind that, according to the accounting rules, the ISO registers the same amount for labour costs so the effect is neutral from the aspect of income statement.

By putting into relation total justified costs to other revenues of the ISO BiH, the revenue requirement for 2019 amounting to 7,520,147 BAM is obtained which should be achieved from the tariff for ISO operation. Having analysed the requested costs, expenses and other revenues of the applicant, the State Electricity Regulatory Commission sets and approves an amount of 7,720,147 BAM in total for the annual revenue requirement of the Independent System Operator in Bosnia and Herzegovina in 2019.

Taking into account the realisation of the power balance in BiH for 2018 and the volumes of energy withdrawn at the beginning of 2019, it may be assessed that the estimate of electricity withdrawal from the transmission network amounting to 12,031,320,192 kWh from the Balance for 2019 created by the ISO BiH, is more realistic than the Presiding Officer's proposal (12,100,000,000 kWh), while, at the same time, in accordance with the Presiding Officer's proposal, electricity generation in the transmission network may be realistically estimated at 16,090,000,000 kWh.

The tariff for ISO operation is determined by putting into relation the revenue requirement to be achieved from the tariff to energy injected into the transmission network and withdrawn by customers from the transmission network. The same as in the previous tariff proceedings, pursuant to the Methodology, a part of the ISO BiH revenue requirement pertaining to the tariff paid by generators is determined in an amount of 10% of the revenue requirement from the tariff. Taking into consideration the aforesaid in this rationale, the tariff for ISO operation is set as provided in the disposition of this Decision.

Furthermore, taking into consideration the interveners' request for non-application of the tariff for ISO operation with regard to energy taken over in the pumping mode of operation and the existing practice already established, the Commission decides that the tariff for ISO BiH operation would not be charged to generators for energy withdrawn in the pumping mode of operation.

The same as in the previous tariff proceedings, the Commission will continuously monitor the application of determined tariff and make its adjustment if deemed necessary. SERC will continuously monitor the application of 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 possibility of realising all projected costs and expenditures, having comprehensively considered all the proofs as pointed out in the submitted documentation, Presiding Officer's report and by the interested parties (intervenors), the Commission decided as provided in the disposition of the Decision.

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 of receipt of this Decision.

Number: 04-28-5-427-59/18
19 February 2019
Tuzla

Chairman of the Commission
Milorad Tuševljak