

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 53/19 of 28 October 2019, at its session held on 25 March 2020, 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 2020 shall amount to BAM 8,150,000.
2. The tariff for operation of an independent system operator shall be set to an amount of:
 - 0.0050 fening/kWh, which is paid by generators for electricity injected into the transmission system, and
 - 0.0676 fening/kWh, which is paid by customers for electricity withdrawn from the transmission system.
3. The annual revenue requirement for 2020 is approved in accordance with the breakdown and amounts as given in the third column of the following table:

Description	2020 <i>requested</i>	2020 <i>approved</i>	Index <i>(3/2)</i>	
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	
Costs of material	87,000	61,000	0.701	
Costs of energy sources and utilities	150,000	118,000	0.787	
Costs of services	2,160,815	1,759,241	0.814	
Employees' gross salaries and allowances	4,200,000	3,550,000	0.845	
Depreciation	933,083	933,083	1.000	
Financial costs	508,993	489,536	0.962	
Travel costs	160,000	145,000	0.906	
Other taxes and charges	36,000	31,500	0.875	
Other expenditures	1,177,036	1,062,640	0.903	
A. Total costs and expenditures	9,412,927	8,150,000	0.866	
1. Surplus revenue	1,779,000			
2. Surplus expenditure				
3. Other revenues		200,000		
4. Revenues based on electricity (A+1–2–3)	11,191,927	7,950,000	0.710	
Surplus revenue from the preceding period				
B. Total revenues (3+4)	11,191,927	8,150,000	0.728	
C. Energy (kWh)	generation	15,969,642,361	15.969.642.361	1.000
	consumption	10,576,887,535	10.576.887.535	1.000
D. Tariff (fening/kWh)	generators	0.0070	0.0050	0.714
	customers	0.0952	0.0676	0.710

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, services of an independent system operator 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. Services of an independent system operator for a generator injecting and/or 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 the operation of an independent system operator 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 and it shall be applied as of 1 April 2020.

The operative part 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 activities pursuant to the Decision of the State Electricity Regulatory Commission (hereinafter: SERC), number: 05-28-12-17-19/19 of 27 June 2019 (Official Gazette of BiH, 45/19). Pursuant to Article 21 of 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 – hereinafter: Tariff Methodology), the purpose of the tariff for operation of an independent system operator is to cover the costs of the 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.

While reviewing the tariff application through 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. An applicant seeking approval for a tariff application is obligated

to prove that the proposed tariff meets all the requirements of BIH law and SERC rules and regulations.

The tariff proceedings for setting of the tariff for operation of an independent system operator and the tariffs for system and ancillary services were initiated at the request of ISO BIH, number 53/19 of 28 October 2019 (received on 31 October under number 04-28-5-383-1/19).

The following costs and expenditures for 2020 are stated in the ISO BIH application: costs of material amounting to BAM 87,000, costs of energy sources and utilities amounting to BAM 150,000, costs of services amounting to BAM 2,160,815, employees' gross salaries and allowances amounting to BAM 4,200,000, depreciation amounting to BAM 933,083, financial costs amounting to BAM 508,933 BAM, travel costs amounting to BAM 160,000, other taxes and charges amounting to BAM 36,000, and other expenditures amounting to BAM 1,177,036, making a total of BAM 9,412,927 for costs and expenditures. Furthermore, the ISO BIH asked for approval of a surplus of revenues over expenditures amounting to BAM 1,778,969 which would ensure funds for investments, loan repayments and covering of losses in 2019.

The ISO BIH states that the financial operations in 2020 will be influenced by several factors, in particular ensuring funds to cover losses in 2019, the implementation of new SCADA/EMS system, investments for which depreciation funds are not ensured, and the issue of collecting receivables from Aluminij d.d. Mostar.

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 application also includes the planned physical scope of services in the transmission network in 2020, which relies on the data from the Power Balance In the BIH Transmission Network for 2020 (received by SERC on 29 October 2019 under number 04-28-5-382-1/19) according to which the planned delivery of electricity from the transmission system in 2020 amounts to 10,576,887,535 kWh while planned generation in the transmission network amounts to 15,969,642,361 kWh.

Following the documentation review, the completeness of the ISO BIH application was confirmed by the SERC act number 04-28-5-383-2/19 of 13 November 2019, of which the ISO BIH was informed accordingly by the letter number 04-28-5-383-2/19 of 13 November 2019 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, in compliance full with 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 also 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 its Conclusion number 04-28-5-383-13/19 of 27 November 2019, in order to hear their respective positions and interests SERC allowed the following entities to participate in the proceedings in the capacity of interveners: MH "Elektroprivreda Republike Srpske" Matično preduzeće a.d. Trebinje, JP

“Elektroprivreda Bosne i Hercegovine” d.d. Sarajevo, JP “Elektroprivreda Hrvatske zajednice Herceg Bosne” d.d. Mostar, R-S Silicon d.o.o. Mrkonjić Grad and B.S.I. d.o.o. Jajce.

None of the five mentioned interveners used 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 3 December 2019 in Tuzla. At the preliminary hearing a list of questions to be discussed at the hearing and the course of the formal hearing were defined. At the formal hearing held on 16 December 2019 the parties to the proceeding presented their respective proofs for the purpose of determining all relevant facts. Every question from the defined list was elaborated by a successive reply of the applicant and comments thereon by the interveners and the Presiding Officer.

The Presiding Officer’s report describes the course of the proceeding, offered proofs and established facts, relevant legal provisions and recommendations to the Commissioners (hereinafter: Commission) and it was delivered to the applicant 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 Commission concludes that the Presiding Officer’s Report provided reasonable grounds for the Commission to pass its final decision on the tariff for operation of an independent system operator 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, interveners “JP “Elektroprivreda Hrvatske zajednice Herceg Bosne” d.d. Mostar and “BSI” d.o.o. Jajce 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 and “R-S Silicon”, d.o.o. Mrkonjić Grad are summarised in a nutshell as follows:

The ISO BIH denies the 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 on the Presiding Officer’s Report, intervener JP “Elektroprivreda Bosne i Hercegovine” d.d. Sarajevo, state that they agree with the proposal not to approve a significant increase in the cost of services and labour costs in 2020. They are of the opinion that the ISO BIH would have to rationalise its major costs due to non-acceptance of the increase in costs by SERC at the requested level.

In the comments of MH “Elektroprivreda Republike Srpske”, Parent Company, a.d. Trebinje it is pointed out that any modification of the tariff for operation of an independent system operator and the tariff for transmission services is directly reflected on the revenues of distribution companies. The intervener highlights the need for these tariffs to be separately presented in electricity bills for end customers. Furthermore, they propose that the application of the new decision of the tariff for operation of an independent system operator be postponed.

The comments of intervener “R-S Silicon” d.o.o. Mrkonjić Grad highlight the established practice of the ISO BIH to exceed approved cost, which is unacceptable and unjustified. In this context, they question the purpose of holding tariff proceedings and the adoption of decisions on tariffs if they are not respected by the regulated company. In principle, they

support the proposal for the level of the individual costs as presented in the Presiding Officer's Report pointing out the need to continuously monitor the realisation thereof.

When passing a decision in the tariff proceedings for setting of the tariff for operation of an independent system operator, 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 applicant's and interveners' comments presented during the whole proceedings and make a decision about the submitted application after a comprehensive analysis. 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 BAM 61,000 for the costs of material in 2020. Furthermore, the Commission supports the Presiding Officer's arguments when analysing the items of planned ISO BIH's costs for energy sources and utilities and approves the proposed amount of BAM 118,000.

The cost of services is the second largest cost in the breakdown of total costs of the ISO BIH. The Commission pays special attention to individual costs in this category which are dominant in terms of their amounts and relevance. The Commission accepts the Presiding Officer's proposal with regard to the cost of services for maintaining the SCADA system and approves the amount of BAM 275,000 which has been constant for several years. With a rational approach to the realisation of the cost of software equipment maintenance, the Commission accepts the arguments of the applicant to a certain extent, and approves it in an amount of BAM 350,000. The Commission fully supports joining of the BIH power system the IGCC platform (IGCC - International Grid Control Cooperation), which is a very important mechanism for the imbalance netting process, and approves the requested amount of BAM 122,000 for this cost.

Acknowledging ISO BIH's effort to improve operation of the power system as a whole by developing planned studies and analyses, and in line with the previous practice, the Commission finds it justified to approve an amount of BAM 45,000 for this purpose. The requested amount of the annual costs for financing the work of the Coordination Auction Office in South East Europe (SEE CAO) and the Security Coordination Centre (SCC) are recognised and approved.

The cost of regulatory fee and the cost of application fee for the licence issuance for 2020 totalling BAM 70,000 are recognised and justified. Considering that the ISO BIH may influence on amounts of other individual cost items (costs of equipment maintenance, advertising services, other services and entertainment expenses) without jeopardising the functionality and its operation, and monitoring the previous realisation, the Commission approves the cost of services totalling BAM 1,759,241.

Labour costs are the dominant costs in business operations of the ISO BIH. According to the 2020 business plan, these costs account for 44% of total costs. Having analysed the previous realisation of labour costs compared to the approved ones, some significant deviations are evident, which in the Commission's opinion, additionally jeopardise business liquidity of the ISO BIH. The interveners also pointed out this deviation, which is the reason why particular attention was paid to this issue at the formal public hearing. The Commission finds the arguments for exceeding labour costs presented by the ISO BIH unacceptable and insists on the consistent implementation of adopted decisions on approval of revenues, that is, costs for operation of an independent system operator. In this context, the Commission readapts the amount proposed by the Presiding Officer and approves a total of BAM 3.550.000 for labour

costs. It is considered that the level of approved funds, with a rational approach to hiring new employees, is sufficient for efficient business operations of the ISO BIH.

The ISO BIH asked for approval of the depreciation cost for 2020 amounting to BAM 933,083 as the result of calculating depreciation for all assets used by the ISO BIH. At the formal public hearing the interveners did not challenge justification of this request. As in the previous tariff proceedings, the Commission suggests to the ISO BIH to arrange its accounting policies with regard to the assessment of a useful life of fixed assets so that they would correspond to the SERC's approach when justifying costs. The Commission approves the depreciation cost in the amount as requested.

With its tariff application, the ISO BIH also submitted loan repayment plans which should be operational in 2020. According to the application, total interest rates for all loans amount to BAM 480,993 while the requested costs of insurance amount to BAM 27,700. The breakdown of interest rates also includes a planned amount of BAM 55,000 pertaining to interest rates on the so-called overdraft loan. When defining this cost category, the Commission continues to expect 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, 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 BAM 489,536.

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, and at the same time increased international activities of the ISO BIH which are covered under this cost, the Commission approves an amount of BAM 145,000 for 2020.

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 BAM 31,500 for 2020.

With regard to determining the level of other expenditures, the Commission takes into account the fact that the ENTSO-E (European Network of Transmission System Operators for Electricity) membership fee is high and approves it at the requested level of BAM 903,000 BAM. At the same time, certain savings may be achieved within some cost items of this group such as remunerations for the Managing Board and the Advisory Council, remunerations for ad hoc and temporary jobs, so an amount of BAM 1,062,640 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 2020 amount to BAM 8,150,000 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 2020 the ISO BIH will have some revenues from the review of project analyses and its participation in the CROSSBOW project (Cross Border Management of Variable Renewable Energies and Storage Units Enabling a Transnational Wholesale Market). The Commission supports the Presiding Officer's proposal that this revenue, based on the realisation in 2019, may be estimated to an amount of BAM 200,000 in total and the total revenue requirement may be reduced by that amount, having in mind that, according to the accounting rules, the ISO BIH 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 2020 amounting to BAM 7,950,000 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 BAM 8,150,000 in total for the annual revenue requirement of the Independent System Operator in Bosnia and Herzegovina in 2020.

The tariff for operation of an independent system operator is set by putting into relation the revenue requirement to be achieved from the tariff to the energy injected into the transmission network by generators and withdrawn from the transmission network by customers, taking into consideration the 90%:10% ratio of L and G component. 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 for electricity injected into the transmission system is determined in an amount of 10% of the revenue requirement realised from the tariff. Taking into consideration all the aforesaid in this statement of rationale, the tariff for operation of an independent system operator operation is set as stated in the operative part of the Decision.

The same as in the previous tariff proceedings, the Commission will continuously monitor the application of determined tariff and the realisation of the Power Balance in the BIH Transmission Network 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 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 pointed out in the application, Presiding Officer's Report and comments of the applicant and the interested parties (interveners), the Commission decided as stated in the operative part 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 the Decision on approval of tariffs by filing a lawsuit within sixty (60) days of receipt thereof.

Number: 04-28-5-383-39/19
25 March 2020
Tuzla

Chairman of the Commission
Suad Zeljković