

Pursuant to Articles 4.2 and 4.8 of the Law on Transmission of Electric Power, Regulator and System Operator of Bosnia and Herzegovina (Official Gazette of BiH, 7/02, 13/03, 76/09 and 1/11) and Article 33 of the Methodology for development of tariffs for services of electricity distribution in the Brčko District of Bosnia and Herzegovina (Official Gazette of BiH, 89/11 and 90/14), deciding upon the application of the Public Utility „Komunalno Brčko" d.o.o. Brčko, number 03-39-AdminE-004 of 8 November 2019, at its session held on 11 March 2020, the State Electricity Regulatory Commission adopted a

DECISION

ON TARIFFS FOR ELECTRICITY DISTRIBUTION SERVICES IN THE BRČKO DISTRICT OF BOSNIA AND HERZEGOVINA

Article 1

(Subject)

This Decision defines tariffs, that is, electricity distribution prices presented through tariff rates which are used for billing and charging electricity distribution services for customers in the Brčko District of Bosnia and Herzegovina.

Article 2

(Annual Revenue Requirement)

It is determined that the annual revenue requirement of the Public Utility „Komunalno Brčko" d.o.o. Brčko (hereinafter: Komunalno Brčko) for the electricity distribution activity shall amount to BAM 13,530,634.

Article 3

(Tariff Rates)

Tariff rates for electricity distribution services for customers in the Brčko District of Bosnia and Herzegovina shall be as follows:

Description			Tariff rates for electricity distribution services *					
			Billing demand		Active power		Excessive take-off of reactive energy	
Consumption categories and customer groups		Unit of measurement	BAM/kW/month		fening/kWh		fening/kvarh	
		Season	VS	NS	VS	NS	VS	NS
Name of category	Name of group	Time of day	(winter)	(summer)	(winter)	(summer)	(winter)	(summer)
35 kV		VT	2.69		0.73		2.40	
		MT			0.37			
10 kV		VT	6.81		1.57		3.02	
		MT			0.78			
0.4 kV – public lighting		ST			6.16			
0.4 kV – other consumers	1 TG	VT	11.50		2.22		4.19	
		MT			1.11			
	2 TG	ST	3.41	2.62	4.31	3.31		
		VT			7.67	5.90	4.30	3.31
3 TG	VT			3.84	2.95			
	MT							
0.4 kV – households	1 TG	ST	1.95	1.50	4.18	3.22		
		VT			5.57	4.29		
		MT			2.79	2.14		

* Tariff rates do not include value added tax.

Article 4
(Billing Demand)

Billing demand shall amount to 5 kW for tariff groups of customers belonging to consumption categories at 0.4 kV where billing demand is not determined by metering (2. and 3. tariff group from the category *other consumers*, 1. and 2. tariff group from the category *households*).

Article 5
(Seasonal and Time-of-Day Tariff Rates)

- (1) Tariff rates for active power shall be applied per season as follows:
 - a) in the high season (VS) from 1 October to 31 March,
 - b) in the low season (NS) from 1 April to 30 September.
- (2) Time-of-day tariff rates for active power shall be applied as follows:
 - a) high daily tariff rates (VT) from 6:00 to 22:00 hrs and 7:00 to 23:00 hrs during the winter and summer daylight saving time schemes respectively,
 - b) low daily tariff rates (MT) from 22:00 to 6:00 hrs and 23:00 to 7:00 hrs during the winter and summer daylight saving time schemes respectively.
- (3) As an exception to paragraph (2) of this Article, time-of-day tariff rates for active power for the consumption category households shall be applied as follows:
 - a) high daily tariff rates (VT) from 7:00 to 13:00 hrs and 16:00 to 23:00 hrs during the winter time and from 8:00 to 14:00 and 17:00 to 23:00 hrs during the summer daylight saving time scheme,
 - b) low daily tariff rates (MT) from 13:00 to 16:00 hrs and 22:00 to 7:00 hrs during the winter time and from 14:00 to 17:00 and 23:00 to 8:00 hrs during the summer daylight saving time scheme and on Sundays.

Article 6
(Obligation to Publish Tariffs)

Komunalno Brčko shall be obligated to publish tariff rates and the relevant provisions of this Decision in an adequate manner and make them available to any customer in the area of the Brčko District of BiH.

Article 7
(Final Provisions)

- (1) This Decision shall enter into force on the day of its adoption and it shall be applied as of 1 April 2020.
- (2) The operative part of the Decision shall be published in the Official Gazette of BiH and the official gazette of the Brčko District of BiH.

Statement of Rationale

Pursuant to the Decision establishing the Public Company "Komunalno Brčko" d.o.o., Brčko (Official Gazette of BD BiH, 20/07, 21/07, 24/08 and 33/09), Komunalno Brčko is obligated to enable electricity distribution and supply system users and customers with electricity in its area of responsibility.

Pursuant to Article 7 of the Law on Transmission of Electric Power, Regulator and System Operator of Bosnia and Herzegovina (Official Gazette of BiH, 7/02, 13/03, 76/09 and 1/11, hereinafter: Law on Transmission) and Article 107a. of the Law on Electricity (Official Gazette of BD BiH, 36/04, 28/07, 61/10 and 4/13), in order to perform these activities

Komunalno Brčko is obligated to obtain a license granted by the State Electricity Regulatory Commission (hereinafter: SERC) in accordance with conditions, criteria and procedures as defined by SERC.

Komunalno Brčko is the holder of a license for performance of the electricity distribution activity in the area of Brčko District of BiH, registration number: 05-28-12-413-28/12 granted pursuant to the SERC Decision number 05-28-12-413-27/12 of 17 January 2013 (Official Gazette of BiH, 5/13) and the licence for performance of the electricity trading and supply activities in the territory of Bosnia and Herzegovina, registration number 05-28-12-223-16/17 granted pursuant to the SERC Decision number 05-28-12-223-16/17 of 11 October 2017 (Official Gazette of BiH, 75/17).

Tariffs for electricity generation, distribution and supply services in the Brčko District of BiH are regulated and approved by SERC pursuant to the aforementioned laws.

On 8 November 2019, by its letter number 04-28-5-391-1/19 Komunalno Brčko sent SERC the application for setting of tariffs for electricity distribution services and tariffs for supply within the universal service number: 03.02-13339/14 (received by SERC under number: 04-28-5-358/14 on the same day).

The commencement of the tariff proceedings followed the adoption of SERC Conclusion on setting of tariff matters for electricity distribution services and tariff rates for electricity supply within the universal service number 04-28-5-391-2/19 of 13 November 2019.

The tariff proceedings were conducted pursuant of SERC rules. A public notice on initiating the proceedings and a press release were issued on 15 November 2019. There were no entities interested in acquiring intervener status in the proceedings. A preliminary hearing was held on 3 December 2019 in Tuzla while a formal public hearing was held on 11 December 2019 in Brčko. The Presiding Officer's Report was submitted to the tariff applicant on 27 December 2019. Komunalno Brčko sent its comments on the Presiding Officer's Report on 9 January 2020.

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 Company's business operations in 2019 were marked by a significant fluctuation of the electricity purchase cost, which is the dominant cost with a 70% share in total costs of electricity related business operations. During 2019 Komunalno Brčko signed power purchase agreements two times with its supplier, and the significant changes of purchase costs were the consequence of an electricity price increase both on domestic and regional markets. Notwithstanding this, Komunalno Brčko maintained a positive business result. On 4 October 2019, this regulated company signed a new power purchase agreement for 2020 for the consumption by customers in the Brčko District of BiH, under which the purchase electricity price amounted to 10.2318 fening/kWh including the costs based on payments for the tariff for transmission services, the tariff for operation of an independent system operator and the tariff for system service. Through an annex to the agreement this amount increased to 10.2874 fening/kWh taking into account an increase in the tariff for system service.

Table 1 presents data for the electricity distribution activity which include approved costs for 2017 and 2018, realised costs for 2018, estimated costs for 2019, planned costs for 2020 and an amount of approved costs for 2020.

Table 1.

Operational and capital costs and expenditures (BAM)	2017 Approved (BAM)	2018 Approved (BAM)	2018 Realised (BAM)	2019 Estimated (BAM)	2020 Planned (BAM)	Approved (BAM)
Tangible costs	1,260,000	1,260,000	1,210,058	1,230,000	1,250,000	1,230,000
Costs of services	460,000	460,000	423,433	430,000	450,000	450,000
Labour costs	4,300,000	4,300,000	4,254,504	4,560,000	4,550,000	4,400,000
Depreciation	614,248	664,845	697,968	810,000	900,000	857,347
Non-tangible costs	263,000	263,000	319,099	300,000	270,000	263,000
Other expenditures	175,000	60,000	58,412	70,000	70,000	65,000
Costs of interest and other financial costs	50,000	50,000	180,142	40,000	80,000	80,000
Regulatory fee	57,000	61,000	61,000	74,000	74,000	70,000
A – Total costs and expenditures	7,179,248	7,118,845	7,204,616	7,514,000	7,644,000	7,415,347
B –Other revenues (donations)						59,068
C –Other revenues (commercial services)						241,237
D –Revenue requirement (A-B-C)	7,179,248	7,118,845	7,204,616	7,514,000	7,644,000	7,115,042

In its tariff application for 2020 Komunalno Brčko requested a 6.97% increase in distribution network fee for all customer categories. Komunalno Brčko planned an amount of 7,644,000 BAM for operational and capital costs of the distribution activity in 2020, which is 7.4% more than the amount approved in the previous tariff proceedings.

The Commission puts the focus of 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 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:

While setting the *costs of materials*, the Commission accepts the Presiding Officer's proposal and finds it reasonable to approve the costs of materials in 2020 in an amount of 1,230,000 BAM which, at the same time, is an estimate of the realisation of the regulated company Komunalno Brčko for 2019.

An amount of 450.000 BAM was planned for *costs of services*. The more significant items in this cost pertain to providing *CRM* and *Billing* software maintenance services and maintaining the SCADA and AMM systems, which Komunalno Brčko explained in more detail in its reply at the public hearing. The Commission is of the opinion that this cost is realistic and approves it at the level of the requested amount of 450,000 BAM.

Komunalno Brčko plans an amount of 4,550,000 BAM for *labour costs* for the electricity distribution activity in 2020. In an answer to a question in the public hearing it was explained that the 2020 Business Plan includes the filling up of all vacancies in line with the existing job classification, keeping the staff hired on a temporary basis until the end of June 2020 and financial incentives for the employees of the Work Unit Elektrodistribucija as the trend of leaving the Komunalno Brčko Company was noticed. Considering that the issue of the level of labour costs depends primarily on the number of hired staff, that is, an efficient allocation of administrative staff linked with electricity distribution activities, the Commission approves an amount of 4,400,000 BAM for the labour cost position in 2020, which is a 2.3% increase

in comparison to the amount approved in the previous tariff proceedings, and is of the opinion that this increase leaves sufficient space for the regulated entity to plan employees' salaries and other remunerations within this activity.

Komunalno Brčko asked for an amount of 900,000 BAM to be approved for the *depreciation cost* for 2020, as the result of calculating depreciation on assets the Company uses and plans to purchase in accordance with the adopted 2020 Procurement Plan which was submitted afterwards. In its comment on the Presiding Officer's Report, Komunalno Brčko rectified its request to an amount of 840,932 BAM, reducing its initial request by the value of depreciation on granted assets of 59,068 BAM. As the most important items in the Procurement Plan, Komunalno Brčko emphasised the procurement of smart meters and the introduction of AMM systems amounting to 460,000 BAM, the procurement of special operational equipment (660,000 BAM), and the procurement of metering transformers. The expected lifespan of special operational equipment (four years, depreciation rate of 25%) is found by the Commission to be unjustifiably reduced and taking into consideration the duration of procurement procedures the Commission approves the depreciation cost for 2020 totalling 857,347 BAM taking into account that an amount of 59,068 BAM is depreciation on granted assets which is treated as a deductible item in the calculation of the revenue requirement for the electricity distribution activity as presented in Table 1.

Taking into consideration that Komunalno Brčko did not explain the requested increase of *non-tangible costs* in more detail, or make any comment on the proposal presented in the Presiding Officer's Report, the requested amount cannot be justified for this cost position, so it is reasonable to approve the cost equalling the amount approved in 2018, that is, an amount of 263,000 BAM.

Komunalno Brčko justified an increase in the cost group of *other expenditures* by ever more frequent requests for damages due to failures of customers' appliances, damages due to destruction of crops and/or pastures while making access to or performing works on power facilities, and the costs of judicial proceedings based on rulings. As it is difficult to determine this cost position, the Commission finds it reasonable to approve an amount of 65,000 BAM, which is 5,000 BAM higher than the amount approved in the previous tariff proceedings.

An amount of 80,000 BAM is approved for *costs of interest and other financial costs* as Komunalno Brčko, in addition to interest on revolving loans, will also have obligations based on interest on a long-term loan, the purpose of which the Commission finds justified, taking into consideration that the funds will be used for the procurement of equipment for billing and metering of electricity consumption, procurement of a substation, a vehicle etc.

An amount of 70,000 BAM is also recognised as a justified cost to the regulated entity Komunalno Brčko based on the obligation to pay the regulatory fee as defined in the Decision on the payment of the regulatory fee for 2020 (Official Gazette of BiH, 63/19).

Having reviewed the submitted documentation and answers provided in the formal hearing and explanations related to depreciation on granted assets which were submitted later, the Commission fully accepts the Presiding Officer's argument when setting the amounts of individual costs provided in Table 1, and approves an amount of 7,415,347 BAM for the purpose of covering operational and capital costs of the distribution activity in 2020, taking into account that the amounts of 59,068 BAM and 241,237 BAM are to be treated as deductible items while calculating the revenue requirement in accordance with the Methodology.

In this regard it should be taken into account that Komunalno Brčko achieves some revenue based on the electricity distribution related activities (connection of new customers, increase

of maximum capacity, issuance of power permits, services for citizens, public lighting maintenance etc.). The projection of other revenues based on the performance of the aforementioned activities in 2020 amounts to 716,000 BAM. As services for citizens and public lighting maintenance in the Brčko District may be considered commercial services, the Commission decided to reduce an amount of total operational and capital costs of distribution by the value of 241,237 BAM.

All tariff rates are calculated pursuant to the Methodology for development of tariffs for services of electricity distribution in the Brčko District of Bosnia and Herzegovina (Official Gazette of BiH, 89/11 and 90/14).

With a view to setting distribution network charges, that is, tariff rates for electricity distribution services in the Brčko District of BiH, in addition to the operational and capital costs it is also necessary to set other costs which are an integral part of total costs of the distribution activity (the so-called transferred-in costs which include: *cost of distribution losses, costs of transmission system, costs of operation of an Independent System Operator and costs on the basis of tariff for system service*).

The cost of distribution losses is set based on the electricity purchase price which does not include transferred-in costs (tariff for transmission services, tariff for ISO operation and tariff for system service) and approved volumes of electricity to cover losses. A calculative price for calculation of costs to cover losses in the distribution network amounts to 8.6643 fening/kWh, taking into account the contracted electricity purchase price for 2020 amounting to 10.2874 fening/kWh, reduced by transferred-in costs. Pursuant to the Methodology, SERC is competent to approve a percentage of loss in the distribution network. The losses realised in 2018 and 2019 amounted to 11.23% and 10.72% respectively of total electricity purchased. In spite of an observed reduction trend, the distribution losses are still higher than the BiH averages for 2018 and 2019 which amounted to 9.37% and 9.20% respectively. With a view to cutting distribution losses and gradually reducing them to the level of BiH average, and taking into consideration operational measures continuously implemented by Komunalno Brčko in order to cut distribution losses, the cost of these losses is approved in an amount of 10.5%, or 28,770,000 kWh, which finally results in 2,492,719 BAM.

Costs of transmission system for distribution system users are set on the basis of the unit prices of 0.578 f/kWh and 1.472 BAM/kW for electricity and capacity respectively taken over from the transmission system taking into consideration that it is planned to take over 274,000,000 kWh of electricity and 518,600 kW of capacity in 2020, which amounts to an absolute value of 2,347,099 BAM.

Costs of operation of an Independent System Operator based on the tariff for ISO operation paid by customers in an amount of 0.0563 fening/kWh and active power taken over from the transmission network amount to 154,262 BAM.

Costs on the basis of the tariff for system service (costs of providing capacity reserve for secondary and tertiary control and costs of losses in the transmission system), pursuant to the Decision on tariffs for system and ancillary services (Official Gazette of BiH, 8/19, 26/19 and 2/20) are calculated in accordance with a single tariff of 0.5188 fening/kWh applied as of 1 January 2020, and they amount to 1,421,512 BAM.

The total revenue requirement (total costs) to calculate the tariff for electricity distribution service in the Brčko District BiH amounts to 13,530,634 BAM and comprises operational and capital costs of the distribution activity amounting to 7,115,042 BAM, costs of electricity losses in the distribution system amounting to 2,492,719 BAM and transferred-in costs

(electricity transmission services, ISO services and system service) amounting to 3,922,873 BAM.

Pursuant to the Methodology, total cost of the Brčko District of BiH distribution system are allocated to consumption categories of distribution system users by tariff elements and rates. Taking into consideration the approved costs of electricity distribution and the existing energy values in the area managed by Komunalno Brčko as the distribution system operator, an average electricity distribution tariff amounts to 5.52 fening/kWh, which is slightly lower than the average distribution tariff in the previous tariff period which amounted to 5.57 fening/kWh.

Taking into account that the tariff rates for electricity distribution have not changed for a longer period while in the meantime the characteristics of consumption patterns by customers at the distribution level, and consequently energy values per tariff groups of customers, have changed significantly, the Commission decided to reset the tariff rates for active power in some tariff groups of customers in the consumption categories of *other consumers* and *households*, without changing average prices of electricity distribution within these consumption categories.

It is the opinion of the Commission that the proposed tariff rates provide the realistic basis for the Company to realise the revenue requirement in the electricity distribution activity which would enable its unhindered functioning.

In accordance with the aforementioned views of the Commission, 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 and to approve tariffs taking into account also the concrete circumstances at the time of filing a tariff application all the way to the concretisation of conditions for a more precise tariff setting, using its competences defined by the Law on Transmission to also regulate electricity distribution issues for customers in the area of the Brčko District of BiH, the Commission decided as provided in the operational part.

SERC will continuously monitor the effects of applying the adopted tariffs while keeping the right to adjust tariff rates if deemed necessary.

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 this Decision by filing a lawsuit within sixty (60) days of receipt thereof.

Number: 04-28-5-391-21/19
11 March 2020
Tuzla

Chairman of the Commission

Suad Zeljković