

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 03-02873/21 of 4 October 2021, at its session held on 15 December 2021, the State Electricity Regulatory Commission passed a

DECISION

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

Article 1 (Subject Matter)

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 13,681,368.

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 withdrawal 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	4.30	3.31
	3 TG	VT			7.67	5.90		
		MT			3.84	2.95		
	1 TG	ST	1.95	1.50	4.18	3.22		

0.4 kV – households	2 TG	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 is obligated to publish tariff rates and the relevant provisions of this Decision in an appropriate 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 January 2021.
- (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 10 of the Law on Electricity (Official Gazette of the Brčko District of BiH, 27/21), in order to perform these activities, the Company was obligated to obtain a license granted by the State Electricity Regulatory Commission (hereinafter: SERC) in accordance with the conditions, criteria and procedures as defined by SERC.

Komunalno Brčko is the holder of the license for performance of the electricity distribution activity in the area of the Brčko District of BiH, registration number: 05-28-12-216-19/20 granted pursuant to the SERC Decision on 7 October 2020 (Official Gazette of BiH, 67/20) and the licence for the activity of electricity trading and supply in territory of Bosnia and Herzegovina, registration number: 05-28-12-223-16/17 granted pursuant to the SERC Decision on 11 October 2017 (Official Gazette of BiH, 75/17).

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

On 4 October 2021, by its letter number 03-02873/21 Komunalno Brčko filed with SERC the application for setting of electricity distribution tariffs and tariffs for supply within the universal service.

On 13 October 2021, SERC adopted a Conclusion on initiating the proceedings for setting of tariff rates for electricity distribution services and tariff rates for electricity supply within the universal service in the Brčko District of Bosnia and Herzegovina, number 04-28-5-264-6/21.

The tariff proceedings were conducted pursuant to SERC rules. A public notice in tariff setting proceedings, which includes the information on the manner of acquiring intervenor status and a formal public hearing, was published in 15 October 2021. There were no entities interested in acquiring intervenor status in the proceedings. A preliminary hearing was held on 4 November 2021 via an on-line platform, while the formal public hearing was held on 10 November 2021 in Brčko. The Presiding Officer's Report was submitted to the tariff applicant on 30 November 2021 who stated in the address of 7 December 2021 that they had no comments or observations on the submitted Presiding Officer's Report.

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 regulated company is obligated to provide evidence that the proposed tariff meets the requirements under the BIH laws and SERC rules and regulations.

Two factors had a significant impact on the business operations of the regulated company in 2021: an increase in the cost of procuring electricity, which is a dominant cost with a share of more than 77% in total costs of business operations with electricity and an increase in end-customers' consumption of about 3.5% in comparison to 2019 (the year of COVID-19 pandemic outbreak). Komunalno Brčko signed an Agreement on electricity purchase and delivery for the needs of consumption in the Brčko District for 2021 and 2022. The agreed purchase price of electricity in 2022 amounts to 10.8855fening/kWh which includes the costs incurred on the basis of the tariff for electricity transmission services, tariff for operation of an independent system operator, tariff for system service and costs of balancing. By signing a two-year agreement, Komunalno Brčko has reached the purchase price for 2022 at the approximately the same level as in 2021.

Table 1 provides data for the activity of electricity distribution as follows: approved costs for 2018, 2019 and 2020, estimated costs for 2021, planned costs for 2022 and the amount of approved costs for 2022.

	DISTRIBUTION Type of costs	2018 and 2019 Approved per each year (BAM)	2020 Approved (BAM)	2021 Estimated (BAM)	2022 Requested (BAM)	2022 Approved (BAM)
1.	Tangible costs	1,260,000	1,230,000	950,000	1,360,000	1,158,000
2.	Costs of services	460,000	450,000	250,000	450,000	400,000
3.	Labour costs	4,300,000	4,400,000	4,604,000	4,700,000	4,532,000
4.	Depreciation	664,845	857,347	800,000	850,000	825,000
5.	Non-tangible costs	263,000	263,000	253,000	265,000	187,000
6.	Other expenditures	60,000	65,000	125,000	120,000	120,000
7.	Costs of interest and other financial costs	50,000	80,000	65,000	80,000	65,000
8.	Regulatory fee	61,000	70,000	79,000	78,000	78,000
A	Total costs and expenditures	7,118,845	7,415,347	7,126,000	7,903,000	7,365,000
B	Other revenues (granted assets and commercial services)		300,305			250,000
	Revenue requirement (A-B)	7,118,845	7,115,042	7,126,000	7,903,000	7,115,000

In its tariff application Komunalno Brčko requested a 6.75% increase in distribution network charge for all customer categories. Komunalno Brčko planned an amount of 7,903,000 BAM for operational and capital costs of the distribution activity in 2022, which is 11% 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 fact that there were no comments by the applicant 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 *tangible costs*, the Commission finds it reasonable to approve the tangible costs in 2022 in an amount of 1,158,000 BAM, which is an adjustment of the value of this cost to the applicable values realised in 2021.

Although the planned value of *costs of services* amounted to 450,000 BAM, it is noticeable that they were significantly reduced in 2021. In its answer to a question in the formal public hearing, Komunalno Brčko justified its request by the plan to have external providers for some services, the increased costs of telecommunication services for the AMM system and its application software expansion and for the costs of current application software maintenance. The Commission is of the opinion that this cost should be adjusted to a value lower than the one approved in the previous tariff proceedings, and consequently approved an amount of 400,000 BAM for this cost.

Komunalno Brčko requested an amount of 4,700,000 BAM for the item *labour costs* for the electricity distribution activity in 2022. In an answer to a question in the public hearing it was explained that the 2022 Business Plan includes the filling up of vacancies in line with the job classification. The Commission underlines again that the issue of the level of labour costs primarily depends on an efficient allocation of the administrative staff linked to the electricity distribution related tasks within JP Komunalno Brčko. The Commission approves an amount

of 4,532,000 BAM for the labour cost in 2022, which is a 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 company to plan the costs of employees' salaries and other remunerations within the distribution activity in line with the relevant job classification.

Komunalno Brčko asked for an amount of 850,000 BAM to be approved for the *depreciation cost* for 2022, as the result of calculating depreciation on the assets the Company uses and plans to purchase. Since the Brčko District Assembly did not adopt the 2022 Investment Plan, the Commission expresses its doubt that, due to the length of procurement process, all planned investments, once approved, would be charged against the depreciation from the beginning of 2022. Therefore, the Commission approves a total depreciation cost for 2022 in an amount of 825,000 BAM.

Having checked the category on *non-tangible costs* from the previous period, it becomes obvious that they are mostly constant. In its plan for 2022, Komunalno Brčko points out that the price of bank guarantee for electricity procurement would be increased. The Commission approves an amount of 187.000 BAM for this cost, which is at the same time the requested amount if the regulatory fee is excluded from this cost category, which is presented in this Decision separately while the regulated company enters it in this position.

Komunalno Brčko justified an increase in the cost group of *other expenditures* by an increase in the costs of judicial proceedings based on rulings, compensation claims due to failures of customers' appliances, expenditures based on sick-leave compensations etc. Furthermore, in line with an Audit Office's recommendation, after an estimation of enforceability of claims a significant amount of contested claims is planned for an indirect write-off. As it is difficult to plan this cost position precisely, the Commission finds it reasonable to approve an amount of 120,000 BAM, which is at the same time the planned amount of Komunalno Brčko for 2022.

Cost of interest and other financial costs: The Commission finds it important that Komunalno Brčko settles its obligations on a regular basis and that there were no payments of interest for delayed payments for the procurement of electricity in the past two years. Furthermore, as Komunalno Brčko is planning to take a new loan at the end of 2022 to fund the procurement of equipment and machines, the Commission approves an amount of 65,000 BAM for the *cost of interest and other financial costs*, which is at the same time an estimated value for the current year.

An amount of 78,000 BAM is recognised as a justified cost to the applicant based on the obligation to pay the regulatory fee as defined in the Decision on payment of the regulatory fee for 2022 (Official Gazette of BiH, 58/21).

Other revenues: Komunalno Brčko makes significant revenues within its business operations based on the activities which are related to the activity of distribution and supply: network connection, an increase in connection capacity, issuance of approvals, services to citizens etc. As the services of public lighting maintenance and services to citizens in the Brčko District of BiH may be considered the services provided on a commercial basis, the Commission finds it justified to reduce the value of total operational and capital costs of distribution by an amount of 250,000 BAM.

Having analysed the submitted documentation and answers provided in the formal public 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 7,115,000 BAM for the purpose of covering operational and capital costs of the distribution activity in 2022.

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, hereinafter: the Methodology).

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 the 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 9.4467 fening/kWh, taking into account the contracted electricity purchase price for 2022 amounting to 10.8855 fening/kWh, reduced by transferred-in costs. Pursuant to Article 12 paragraph (3) of the Methodology, SERC approves a percentage of losses in the distribution network. The losses realised in 2020 amounted to 10.65% of total electricity purchased while in the first nine months of 2021 they amounted to 9.96%. In spite of an observed reduction trend, the distribution losses are still higher than the BiH average which in 2020 amounted to 9.13%. With a view to cutting distribution losses and gradually reducing them to the level of BiH average, and taking into consideration operational measures for the reduction thereof continuously implemented by Komunalno Brčko, losses of 10 % are approved, which amounts to 27,900,000 kWh whose value is 2,635,629 BAM.

Pursuant to the SERC Decision number 04-28-5-333-46/16 of 3 April 2017 (Official Gazette of BiH, 28/17), *costs of transmission system* for distribution system users are set on the basis of the unit prices of 0.578 fening/kWh and 1.472 BAM/kW for electricity and capacity respectively withdrawn from the transmission system, and taking into consideration that it is planned to take over 279,000,000 kWh of electricity and 518,703 kW of capacity in 2022, they amount to 2,376,151 BAM.

Pursuant to the SERC Decision number 04-28-5-357-42/20 of 29 December 2020 (Official Gazette of BiH, 1/21), based on the tariff for ISO operation amounting to 0.0783 fening/kWh which is paid by customers for electricity withdrawn from the transmission system and the planned withdrawal of 279.000.000 kWh of energy, *costs of operation of an independent system operator* amount to 218,457 BAM.

Pursuant to the Decision on tariffs for system and ancillary services (Official Gazette of BiH, 1/21), *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) are calculated in accordance with a single tariff of 0.4789 fening/kWh and they amount to 1,336,131 BAM.

The total revenue requirement (total costs) for the calculation of the tariff for electricity distribution service in the Brčko District of BiH amounts to 13,681,368 BAM and comprises operational and capital costs of the distribution activity amounting to 7,115,000 BAM, costs of electricity losses in the distribution system amounting to 2,635,629 BAM and transferred-in costs (electricity transmission services, services of an independent system operator and system service) amounting to 3,930,739 BAM.

Pursuant to Articles 26 and 28 of the Methodology, total costs of the Brčko District of BiH distribution system are allocated to the 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 5.45 fening/kWh, which is slightly lower than the average distribution price approved in the previous period which amounted to 5.57 fening/kWh.

As the tariff rates for electricity distribution in the Brčko District of BiH are lower than the tariff rates of other distribution system operators in Bosnia and Herzegovina, which is the consequence of the relatively low scope of the fixed assets owned by the company and consequently a low depreciation cost, and the impossibility to register ownership of the fixed assets which are used for the distribution activity, the Commission decided not to reduce the tariff rates for electricity distribution any further, keeping the level of the tariff rates at the achieved level.

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: 04-28-5-264-18/21
15 December 2021
Tuzla

Chairwoman
Branislava Milekić