

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: 03.02-13339/14 of 7 November 2014, at its session held on 29 November 2014, the State Electricity Regulatory Commission adopted

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

(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	KM/kW/month		fening/kWh		fening/kvarh	
Name of category	Name of group	Season	VS (winter)	NS (summer)	VS (winter)	NS (summer)	VS (winter)	NS (summer)
		Time of day						
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			
	3 TG	VT	3.41	2.62	4.95	3.81	4.30	3.31
		MT			2.82	2.17		
0.4 kV – households	1 TG	ST	1.95	1.50	4.40	3.39		
	2 TG	VT			4.97	3.83		
		MT			2.49	1.91		

*Tariff rates do not include value added tax.

Article 3
(Billing Demand)

Billing demand shall amount to 5 kW for customer groups belonging to consumption category at 0.4 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 4
(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 5
(Obligation to Publish Tariffs)

The Public Utility Company “Komunalno Brčko” d.o.o., Brčko Distrikt BiH 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 Brčko District BiH area.

Article 6
(Final Provisions)

- (1) This Decision shall enter into force on the day of its adoption and it shall be applied as of 1 January 2015.
- (2) The statement of the Decision shall be published in the “Official gazette of BiH” and the official gazette of 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” d.o.o., Brčko (hereinafter: the Company) 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”, br. 36/04, 28/07, 61/10 and 4/13), the Company 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.

The Company 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 (“Official Gazette of BiH”, 5/13).

Tariffs for 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 7 November 2014, the Company filed with SERC the application for setting electricity distribution tariffs and tariffs for supply within universal service number: 03.02-13339/14 (received by SERC under number: 04-28-5-358/14 on the same day).

According to the 2015 Plan, the electricity volume planned by the Company for the need of supplying end-customers in the Brčko District of BiH amounts to 258,592,836 kWh. Taking into consideration the historical data end-customers’ consumption patterns in the Brčko District, it should be stressed that this is a considerably overrated amount. End-customers’ consumption in 2013 amounted to 223,755,921 kWh, while according to the ten-month realisation in 2014, the consumption is on the same level as in 2013. Since 2009, the stagnation trend in electricity consumption has been noticed in the Brčko District of BiH. The amount planned for 2015 is 15.6% higher compared to the 2013 consumption, therefore, it cannot be considered relevant for the calculation of tariff rates for end-customers, but it may be used as the volume of electricity taken from the transmission network as it corresponds to that amount, according to historical data.

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.

Data provided by the Electricity Distribution Company present planned costs and expenditures for 2015, realisation in 2013 and estimated realisation in 2014 (Table 1).

The Commission focused its analysis on all elements in the cost structure emphasised by the Company, and based on their own observations, the Commission presents its views as follows:

Based on the submitted application, it may be noticed that the realisation of *tangible costs* in 2013 was by 25% higher than the approved realisation for 2012, and it shows an increasing tendency. The Company did not analyse the cause of the increase in detail in the application. The increase may be justified by the fact that the scope of assets used which are owned by the Company increased in the last two years, consequently, an amount on the level reached in 2013 may be approved, that is, 1,260,000 BAM.

While analysing the *cost of service* as well as the reasoning behind the increase given by the Company, it may not be concluded that there is any need for a considerable increase compared to the realisation in 2013. Taking into account a presiding officer’s proposal as well as the fact that the Company had no comments on the presiding officer’s comment, it was deemed justified to approve an amount of 460,000 BAM for the cost of service.

The Company plans to realise an amount of 4,300,000 BAM in 2015 for the *labour costs* item for the electricity distribution activity, which is close to the realisation of this cost in 2013 and 2014. In the previous tariff proceedings, the Commission approved this cost in the amount of 4,270,439 BAM. The number of employees allocated to the electricity distribution activity amounts to 201 which is 41% of total number of the employees of the Company.

As the Company does not plan to increase the number of employees in the distribution activity in 2015, and, according to forms provided with the tariff application, it plans to keep the level of earnings reached in 2013, the amount requested for labour costs in 2015, that is, 4,300,000 BAM, may be approved.

The Company did not give any specific explanation for the level of depreciation cost in the tariff application. Based on data provided during the tariff proceedings, Company's responses and provided documentation, it may be concluded that an increase in the depreciation cost in 2014 and 2015 was caused by the planned activation of fixed assets. As the Company cannot calculate depreciation on a semi-annual basis due to technical reasons, actually there is no reliable estimate of this cost in 2014.

Based on the experience from the previous proceedings, when the depreciation cost approved was considerably higher than the realisation, in accordance with the precautionary principle, the Commission approved the depreciation cost amounting to 480,000 BAM.

The group of *non-tangible costs* includes intangible costs such as: expense account, cost of property and personal insurance, membership costs, regulatory fee and other non-tangible costs (scholarships, taxes, vehicle registration etc.). Under regular conditions, this category by its structure does not depend significantly on the scope of business activities. Taking into account that the Company neither explained the requested increase, nor commented a proposal provided in the Presiding Officer's Report, the requested amount for this item cost may not be justified but it is reasonable to approve costs amounting to 320,000 BAM reduced by the regulatory fee amounting to 57,000 BAM which is approved as a separate item, therefore, 263,000 BAM is approved for non-tangible costs.

As the Company nether provided a detailed analysis of the *other expenditures* item not explained this group of costs, it was deemed reasonable to approve an amount of 175,000 BAM.

Financial costs cover costs of loan interest rates and bank charges for loan processing and approving. In the previous tariff proceedings, this cost was not included in total costs. Although through the monitoring of Company's operations conducted on 24 April 2014 it was concluded that the Company had not taken any loan, it planned the cost of interests amounting to 250,000 BAM for 2015. Having reviewed the submitted documentation it became clear that the Company had a revolving loan approved amounting to a million BAM for the purpose of making payments in foreign currency, but the monthly cost of interest was considerably lower than the planned one, which is the reason why the Commission approved this cost amounting to 50,000 BAM.

Furthermore, an amount of 57,000 BAM is approved to the Company as a justified cost based on the obligation to pay the regulatory fee as prescribed by the *Decision determining the regulatory fee for 2015* ("Official Gazette of BiH", 84/14).

As far as the profit in the distribution activity is concerned, taking into consideration the timing and overall circumstances of the electricity supply for customers in the Brčko District of BiH, the Commission's view is that the profit should not be approved in order to mitigate the impact on end-customer electricity prices and avoid price shocks.

Taking into account the aforementioned, the revenue requirement for 2015 amounting to 7,045,000 BAM was approved, which includes operational and capital costs.

The following table presents data of the Company for the electricity distribution activity as well as values approved for 2015.

Table 1.

Costs and expenditures (BAM)	2013 (realised)	2014 (estimated)	2015 (requested)	2015 (approved)
Tangible costs	1,261,440	1,300,000	1,355,000	1,260,000
Costs of services	481,597	490,000	520,000	460,000
Labour costs	4,357,321	4,331,136	4,300,000	4,300,000
Depreciation	386,210	500,000	600,000	480,000
Non-tangible costs	391,147	410,000	487,000	263,000
Other expenditures	227,090	250,000	310,000	175,000
Costs of interests and other financial costs	139,158	170,000	250,000	50,000
Regulatory fee				57,000
Total costs and expenditures	7,243,963	7,451,136	7,822,000	7,045,000

Costs of distribution losses are set based on the electricity purchase price which does not include transferred costs (tariff for transmission services, tariff for ISO operation and tariff for system services which includes costs of ancillary services and costs of losses in the transmission network) and approved volumes of electricity to cover losses. A calculative price for calculation of costs to cover losses in the distribution network amounts to 6.70 fening/kWh. Pursuant to the *Methodology for development of tariffs for services of electricity distribution in the Brčko District of BiH*, SERC is competent to approve a percentage of loss in the distribution network. The loss realised in 2013 amounted to 13.05% of total electricity purchased and are higher than the BiH average which amounts to 11.55%. To gradually reduce the distribution network loss in the Brčko District of BiH to the level of BiH average, the Commission approves the level of loss of 12.5%, that is, 32,324,105 kWh, which finally results in the cost amounting to 2,169,273 KM.

With a view to setting distribution network charges, that is, tariff rates for electricity distribution services in the Brčko District of BiH, it is also necessary to set other costs which are an integral part of total costs of the distribution activity (the so-called transferred costs).

Costs of electricity transmission services for distribution system users are set based on unit prices of 0.578 fening/kWh and 1.519 KM/kW for planned withdrawal of electricity from the transmission network (258,592,836 kWh planned withdrawal of energy and 495,381 kW planned withdrawal of capacity in 2015) and as an absolute amount of 2,247,150.34 KM

Costs of operation of the Independent System Operator are set based on the price of 0.0592 fening/kWh and take-on of active power from the transmission network, and amount to 153,086.96 KM.

Costs of ancillary services (cost of providing reserve capacity for secondary and tertiary control) in the tariff for distribution system users are set based on a total price of 0.2176 fening/kWh and take-on of active power from the transmission network, and amount to 562,698.01 BAM.

Costs of transmission losses in the tariff for distribution system users amount to 434,953.15 BAM, and are set based on electricity taken over from the transmission network and a price of 0.1682 fening/kWh, which is applicable to the balance responsible party within which the Company operated in 2014.

The total revenue requirement (total costs) for calculation of tariffs for electricity distribution services in the Brčko District of BiH amounts to 12,612,162 BAM and comprises operational and capital costs of the distribution activity amounting to 7,045,000 BAM, costs of distribution system losses amounting to 2,169,273 BAM and transferred costs (electricity transmission services, ISO services and system services) amounting to 3,397,888 BAM.

Pursuant to the *Methodology for development of tariffs for services of electricity distribution in the Brčko District of BiH*, total cost of the Brčko District of BiH distribution system are allocated to consumption categories of distribution system users by tariff elements and rates. 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 in 2015 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 concrete circumstances from the time of filing a tariff application all the way to the concretisation of conditions for a more precise tariff setting, using its extended competences as 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 given in the statement of the Decision.

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 by filing a lawsuit within sixty (60) days from the day of publishing this decision.

Number: 04-28-5-358-22/14
29 December 2014
Tuzla

Chairman of the Commission
Nikola Pejić