

Pursuant to Articles 4.1, 4.2, 5.3 and 9.7 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 Article 36 of the Rules of Procedure of the State Electricity Regulatory Commission ("Official Gazette of BIH", number 2/05), at the session held on 18 November 2014, the State Electricity Regulatory Commission adopted

DECISION
ON A TEMPORARY REGIME FOR THE PROVISION OF ANCILLARY SERVICES
AND BALANCING OF THE POWER SYSTEM OF BOSNIA AND HERZEGOVINA

Article 1
(Objectives)

With a view to achieving uninterrupted, safe and reliable supply with electricity and continuing the electricity market liberalisation, in the function of wholesale and retail electricity market development, this Decision regulates the method of ensuring and providing ancillary services and balancing of the power system of Bosnia and Herzegovina on a temporary basis until the adoption of new Market Rules.

Article 2
(Ancillary services and Balancing)

The provision of ancillary services and balancing of the BiH power system is carried out on the market for purchase and selling of electricity for the purpose of maintaining a constant real-time supply and demand balance. This process is operated and managed by the Independent System operator in Bosnia and Herzegovina (hereinafter: ISO) as one of the parties in each transaction.

Article 3
(Principles of Operation)

The activities referred to in Article 2 shall be carried out pursuant to the principle of supply and demand for secondary and tertiary control capacity and balancing energy with transparent, fair and non-discriminatory treatment of all participants.

Article 4
(Participants)

- (1) Within limits as stipulated by law, producers, suppliers, distribution system operators, the ISO and end-customers, as participants in this process (hereinafter: Participants) shall be organised within balancing groups.
- (2) The balancing group is obligated to have one participant that is defined as a balance responsible party.

Article 5
(Organisation)

- (1) The registration of market participants, their rights and obligations, the balancing groups' formation and registration and rights and obligations thereof, shall be governed by a procedure adopted by ISO.
- (2) In addition, the procedure referred to in Paragraph (1) of this Article defines the nomination of daily schedules, contract notifications, off-take points in the transmission and distribution systems, associating off-take points with market participants, that is, balance responsible parties, submission and exchange of data from off-take points and congestion management within the BiH control area.

Article 6
(Method of Work)

The provision of ancillary services of secondary and tertiary control shall be governed by a procedure for the method of providing ancillary services and balancing adopted by the ISO in accordance with Guidelines for development of procedures referred to in the Concept of ancillary services for the balancing of the power system of Bosnia and Herzegovina and the Tariff Pricing Methodology for services of electricity transmission, operation of ISO and ancillary services – consolidated version ("Official Gazette of BiH", 93/11 and 61/14).

Article 7
(Contracts)

- (1) The ISO shall enter into purchase and balance responsibility contracts with ancillary service providers and balance responsible parties respectively.
- (2) The standardised contracts referred to in Paragraph (1) of this Article and necessary forms shall be developed by the ISO.

Article 8
(Transmission System Losses)

- (1) Balance Responsible Parties shall separately provide energy to cover losses in the transmission system in proportion to the value of related consumption whereby these amounts are reported in the daily schedule.
- (2) The application of the provisions of Para (2), (3) and (4) of Article 31 of the Tariff Pricing Methodology for services of electricity transmission, operation of ISO and ancillary services shall be ceased on a temporarily basis.

Article 9
(Imbalances)

- (1) Imbalances of balance responsible parties, as the difference between planned and realised balance during a settlement period, shall be calculated by the ISO.
- (2) The ISO shall develop a procedure for determining imbalances which includes terms for settlement of both positive and negative balancing energy, settlement of imbalance costs and imbalance payments with all required details.

- (3) The procedure referred to in Paragraph (2) of this Article also includes losses from the daily schedule as defined in Paragraph (1) of Article 8 of this Decision.

Article 10
(Settlement and Reporting)

- (1) The ISO shall develop a procedure for settlement of ancillary services and deviations by balance responsible parties. The procedure shall define settlement intervals, settlement parties, reporting, users of reports, reporting periods, formats, information within the report, a method of distribution and other details.
- (2) Pursuant to the procedure referred to in Paragraph (1) of this Article, the ISO shall prepare reports on settlement of ancillary services and deviations by balance responsible parties.

Article 11
(Compensations)

- (1) The settlement between the BiH control area and the external control areas (compensation program) shall be done in energy (in-kind) for each tariff period pursuant to the ENTSO-E Operation Handbook (ENTSO-E - *European Network of Transmission System Operators for Electricity*). The compensation program for the BiH control area is developed by the coordinator of the SHB Control Area (SHB - *Slovenia-Croatia-Bosnia and Herzegovina*) which is approved by the ISO following a review.
- (2) The ISO shall allocate obligations for compensation of unintentional deviations of the BiH control area during the period of unintentional deviations to balance responsible parties in proportion to their cumulative deviations during the period of unintentional deviation occurrence, separately for each tariff period.
- (3) Balance responsible parties are obligated to report allocated obligations concerning compensations through daily schedules during compensation periods.
- (4) The method and format of communicating compensations to balance responsible parties, nomination of compensations in daily schedules and other details shall be set forth by the procedure referred to in Article 6 of this Decision.

Article 12
(Transparency)

- (1) The ISO is obligated to present any information and data concerning the provision of ancillary services and balancing which are not deemed confidential to market participants through its website in a transparent, unbiased and non-discriminatory manner.
- (2) No later than eight working days after the observed market day, the ISO is obligated to publish the following data for each settlement interval: total volumes of balancing energy engaged in tertiary control, total volumes of balancing energy engaged in secondary control and the settlement price for deviations by balancing groups.
- (3) For each settlement interval, the ISO BiH is obligated to publish on its website on day $D+1$ a preliminary settlement price for day- D deviations by balancing groups, and on Mondays for weekend days.

Article 13
(Cross-Border Capacities)

- (1) Market participants holding international trading licenses that want to import or export electricity are obligated to ensure their right to use cross-border transmission capacity. The ISO shall accept daily schedule nominations for cross-border transactions only by those market participants that have the right to use cross-border capacities.
- (2) The procedure for acquiring the right to use cross-border transmission capacity is defined by separate rules which are published on the ISO website.
- (3) During the congestion management procedure, the ISO may issue an order to any market participant to adjust volumes of any export/import transactions due to system safety.

Article 14
(Access to Procedures)

The ISO shall make publicly available on its website all procedures as provided for by this Decision no later than 15 days following the adoption of this Decision.

Article 15
(Dry-Run)

- (1) A dry-run of implementing rules and procedures provided for by this Decision will be performed until 31 December 2014 before the effective application thereof commences.
- (2) At the request of the ISO, SERC may prolong the dry-run period by its decision.

Article 16
(Transitional Provisions)

Following the completion of the dry-run referred to in Article 15 of this Decision, the application of the provisions of Market Rules as approved by the SERC decision ("Official Gazette of BiH", 48/06) and of the Grid Code approved by the SERC decisions ("Official Gazette of BiH", 48/06 and 35/11) shall be ceased on a temporary basis until the harmonisation thereof with the Concept of Ancillary Services for the balancing of the power system of Bosnia and Herzegovina, without any limits for the purpose of further improvement and development of the Concept.

Article 17
(Entry into Force)

The Decision shall enter into force on the day of the adoption and be published in the "Official Gazette of BiH".

Number 04-28-7-369/14
18. November 2014
Tuzla

Chairman of the Commission

Nikola Pejić

**Rationale of
Decision on a Temporary Regime for the Provision of Ancillary Services and Balancing of
the Power System of Bosnia and Herzegovina**

- 1) An approach presented in a document titled "Proposed Solutions for Improving Ancillary Services Provision and Balancing Mechanism in BiH" (document prepared by DNV KEMA Energy & Sustainability/KEMA Consulting GmbH) had a positive impact on the whole BiH power sector which encouraged and justified a SERC's idea of translating the basic solutions by further elaboration into rules governing these issues on new principles.

In this context, SERC hired the same consultant, in September 2013. The SERC's intention was to ensure stable, reliable and safe operation of the power system and the fulfilment of BiH's international obligations.

Taking into account the defined objectives, the Consultant realised the given project through cooperation with representatives of SERC and the Independent System Operator.

- 2) Based on a number of exclusive rights and obligations of SERC to regulate ancillary services and resolve the issue of capacity overloads in the system for the transmission of electric power in accordance with Articles 4.1 and 4.2 of the Law on Transmission of Electric Power, Regulator, and System Operator in Bosnia and Herzegovina as well as Article 5.3 of the same Law to approve grid codes, market rules and system operating rules and ISO BiH procedures, on 26 March 2014 SERC adopted the Decision defining a concept of ancillary services for the balancing of the power system of Bosnia and Herzegovina (hereinafter: the Concept of Ancillary Services or the Concept).

The adoption of the Decision took into account the fact that the current model of the ancillary service market as regulated by the Market Rules of 2006 is not a market model of the ancillary service provision, that it seriously falls behind the real needs and that the ancillary service market design on new principles may not be postponed any longer. The Concept of Ancillary Services is the resultant of agreement between SERC and the ISO BiH that the document provides stable, reliable and safe operation of the power system and the fulfilment of international obligations of BiH primarily under the Treaty Establishing the Energy Community and towards the European Network of Transmission System Operators for Electricity (ENTSO-E) and its Regional Group of Continental Europe, that is, the Control Block SHB.

The Concept was prepared by a joint team comprising Consultants, SERC and the ISO BiH which used the documents prepared within the USAID Regulatory and Energy Assistance Project (USAID/REAP) while developing the Concept.

- 3) The Concept of Ancillary Services with illustrations of a considerable number of procedures which had to be developed paved the way for further trends in urgent completion of the existing regulatory framework for the provision of ancillary services for balancing of the BiH power system and the commencement of its operational functioning. Until 1 January 2015 as the commencement date of its effective implementation, a coherent, consistent and functional set of documents remains to be created, primarily new Market Rules with rules and procedures for the balancing market operation.

Those parts of the Tariff Pricing Methodology pertaining to ancillary services had to be adjusted to the new Concept.

A six-month dry run is planned initially to test the Concept of Ancillary Services, from 1 July 2014 to 31 December 2014. This period should be used to create and test the required technical preconditions with regard to metering and meter reading, information and data exchange, formats and deadlines for submission of data, hardware, software etc.

Furthermore, for the last quarter of 2014 it is planned to set tariffs for ancillary and system services and other numerical values. Finally, in November 2014, the public procurement of annual capacity for secondary and tertiary reserves should be initiated, while in December the monthly procurement should be carried out if the annual procurement does not provide sufficient volumes.

- 4) In order to reach these objectives, through the public consultation process SERC amended the Tariff Pricing Methodology for services of electricity transmission, operation of ISO and ancillary services – consolidated version ("Official Gazette of BiH", 93/11 and 61/14). SERC expected that the ISO BiH would harmonise the existing Market Rules and Grid Code pursuant to the SERC Decision of 26 March 2014 and made them compatible with the solutions provided in the Concept, together with additional procedures required to implement the rules. For the same purpose, the ISO BiH should have used the outcomes of the Technical Assistance Project for development of an EU-acquis-compliant legislative framework in the field of electricity in BiH within the European Union's IPA 2008 National Program for BiH.
- 5) A Draft of new Market Rules, in the preparation of which market participants were given an opportunity to provide their comments through the relevant Technical Committee, was submitted to the ISO BiH Management Board for consideration on 1 August 2014. However, it was followed by several unsuccessful attempts by the members of the ISO BiH Management Board to meet and adopt the Market Rules before SERC's approval. Furthermore, the subsequent negative reception by the BiH power undertakings was surprising and discouraging in the sense that the Market Rules adoption on new principles would be early and inapplicable in practice. On the contrary, the general public hearing held with regard to the aforementioned amendments to the Methodology publicly confirmed the soundness of market-oriented model for ancillary service provision which was promoted by the Concept and emphasised the expectations of participants in the public hearing to define and complete the whole model with related processes and relationships through the development of Market Rules and ISO procedures based on the same principles.

The market orientation of the model has become the only option as the input calculation elements in accordance with which ancillary service prices have been formed so far do not exist any longer. This is also confirmed by draft documents of both entity regulatory authorities on which public consultation in the electricity sector is in progress. With the principle of gradual change of electricity purchase prices from regulated towards market-based prices, these documents certainly put an end to regulation of production as an energy activity. With this, the electricity price on the market becomes the reference price also for ancillary service prices in the electricity sector.

On this occasion, yet again SERC emphasises that the provision of ancillary services using the currently fully regulated method does not meet the needs of the BiH power system, in particular when it comes to secondary control. In its current role, the ISO BiH cannot purchase the missing reserves and balancing energy. Due to irresponsibility of the power utilities and lack of possibility to impose sanctions for such behaviour through market-based mechanisms, the current model based on a strictly regulated mechanism does not provide an adequate response to the permanent lack of reserve and frequent substantial deviations towards the SHB Control Block to which ELES as its leader points.

SERC cannot set aside for some other time the effects of developing the initial idea, its-months-long conceptualisation which required significant efforts and energy of several expert teams, due to which the renowned consulting house was hired and paid as well as the progress achieved so far and the results of that process, thus making the full market opening more difficult and participating in breach of international obligations.

- 6) SERC notes that the authority and responsibilities of the Management Board and management/General Director as stipulated by Article 23 and 33 of the Law Establishing an Independent System Operator for the Transmission System of Bosnia and Herzegovina ("Official Gazette of BiH", 35/04), that is, Articles of 26 and 35 of the ISO BiH Statute ("Official Gazette of BiH", 71/05) pertaining to the adoption of documents similar to Market Rules or Grid Code, are rather vague thus leaving some space for different interpretations. Irrespective of this, SERC does not intend to deviate from the current ISO practice to have documents as Market Rules adopted by the Management Board before they are submitted to SERC for approval or its own practice to approve such documents at the proposal of the same management body. So, not wishing to substitute this phase in the Market Rules development on its own, that is, the role and authority practised by the ISO Management Board in this process so far, SERC is determined to ensure the improvement of the regulatory framework, establish a new content and method of providing ancillary services and power system balancing, as the condition of wholesale and retail electricity market functioning by adopting the decision with temporary effect.
- 7) Pursuant to the power referred to in Article 9.7 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) to adopt such rules and regulations as may be necessary in order to ensure the implementation of the objectives of this Law, in addition to the specific rules and regulations referenced in this Law, taking into consideration that the organisation of the balancing market indisputably creates the conditions for unlimited and free trade and a continuous supply of electricity, that is, expedites the creation of the electricity market in BiH as the general objective of the Law referred to in Article 1, Paragraph 2 and Article 4.1, Paragraph 2 of the Law, based on a number of powers taken individually or cumulatively as referred to in Article 4.2 and Article 5.3 of the Law to establish, regulate, adopt or monitor rules and regulations, mechanisms and methods, standards or conditions, as well as prices, tariffs and labour costs pertaining to electricity transmission and ancillary services, congestion management of transmission system capacities, creation of feasible and competitive markets, SERC has adopted a decision regulating the method of providing ancillary services and balancing of the power system of Bosnia and Herzegovina on a temporary basis until the adoption of new Market Rules.

- 8) This Decision of SERC is also based on the possibility referred to in Article 42 of the Rules of Procedure of the State Electricity Regulatory Commission ("Official Gazette of BIH", number 2/05) to adopt decisions through a shortened procedure without holding a general public hearing in the regular procedure as stipulated by Article 38-41 of the Rules of Procedure. All the more so because the professionals community had and used the opportunity to familiarise itself with, comment on and influence the method of providing ancillary services and balancing of the power system of Bosnia and Herzegovina in the previous phases of the creation of a number of the aforementioned documents ("Proposed Solutions for...", "Concept of Ancillary Services...", "Tariff Pricing Methodology for transmission services...", documents from the projects "Regulatory and Energy Assistance..." and "Development of an EU-acquis-compliant legislative framework...").