

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 6 and 7 of the Rule on Tariff Proceedings ("Official Gazette of BiH", 44/05), deciding upon the application of Independent System Operator in Bosnia and Herzegovina number: 41/14 of 29 October 2014, at the session held on 29 December 2014, the State Electricity Regulatory Commission adopted

DECISION

1. It is determined that the annual revenue requirement of the Independent System Operator in Bosnia and Herzegovina in 2015 shall amount to 7,152,642 BAM and the tariff for its operation shall amount to 0.0592 fening/kWh.
2. In cooperation with license holders for electricity distribution, customers directly connected to the transmission network and producers taking over electricity from the transmission network for the need of production process, the Independent System Operator in BiH and the Transmission Company (*Elektroprenos BiH*) shall be obligated to prepare a report on energy volumes at all points of take-over upon the expiry of each calendar month.
3. On the basis of the report referred to in the previous Item, ISO BiH services for customers connected to the transmission network and customers connected to the distribution network shall be billed to their suppliers and distribution system operators (DOS), that is, legal person within which DOSs operate, respectively. ISO BiH services for energy taken over in the pumping mode shall be billed to holders of licenses for production.
4. The tariff as set out by this Decision shall be used when setting end-customer tariffs/prices in accordance with the structure of tariff elements for specific consumption categories.
5. This Decision shall enter into force on the day of the adoption, and it shall be applied as of 1 January 2015.

The statement 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.

Number: 04-28-5-346-29/14
29 December 2014
Tuzla

Chairman of the Commission

Nikola Pejić

Statement of Rationale

The adoption 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 the *Law Establishing an Independent System Operator for the Transmission System of Bosnia and Herzegovina* ("Official Gazette of BiH", 35/04) enabled the

formation of the Independent System Operator in Bosnia and Herzegovina (hereinafter: ISO BiH).

The ISO BiH is the holder of a license for the activity of an independent system operator, pursuant to the decision of the State Electricity Regulatory Commission (hereinafter: SERC), number: 05-28-12-30-20/12 of 3 July 2012 ("Official Gazette of BiH", 53/12). Pursuant to Article 21 of 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 – hereinafter: the Tariff Methodology), the tariff for operation of the Independent System Operator is designed to cover ISO operational costs, which are incurred by the performance of activities as prescribed by Article 2 and Article 7 of the Law Establishing the Independent System Operator for Transmission System in Bosnia and Herzegovina.

Pursuant to Article 22 of the Tariff Methodology, the tariff is set based on cost of performing the regulated activity and the physical scope of services within the regulated activity. The cost of performing the regulated activity and the physical scope of services provided by the regulated undertaking is set based on data included in the tariff application. When setting tariffs, SERC may also use additional data if deemed necessary.

Pursuant to Article 3 of the *Rule on Tariff Proceedings* ("Official Gazette of BiH", 44/05), the ISO BiH shall file a tariff application with SERC. The ISO BiH filed the tariff application number: 41/14 of 29 October 2014 (received on 3 December 2014 under number: 04-28-5-346/14). The application was filed using the forms as prescribed by the *Decision on establishing forms for submitting data in tariff proceedings* ("Official Gazette of BiH", 44/05 and 82/12) with required attachments.

Pursuant to Articles 4 and 9 of the *Rule on Tariff Proceedings*, data have to be presented clearly in order to enable their full identification and have to provide sufficient information to pass a decision.

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 applicant is obligated to prove that the proposed tariff meets the requirements as established by BiH laws and SERC rules and regulations.

The ISO BiH application provides the following costs and expenditures for 2015: costs of material amounting to 75,700 BAM, costs of services 1,320,051 BAM, labour costs 3,531,867 BAM, depreciation 1,216,598 BAM, costs of interests 53,932 BAM, other costs 83,000 BAM, license and regulatory fee costs 70,000 BAM, and other expenditures 1,394,612 BAM, totalling 7,745,760 BAM for costs and expenditures. In addition, the ISO BiH asked in its application for the approval of surplus revenues over expenditures amounting to 913,000 BAM which would enable covering a part of depreciation used to repay a loan for a business facility (654,000 BAM), repayment of an annual instalment for the business facility for 2015 (109,000 BAM), and the formation of financial reserves to enhance solvency (150,000 BAM).

In its tariff application the ISO BiH states that the 2015 tariff is calculated on the basis of real needs (Financial Plan and Investment Plan) as well as on the basis of the Tariff methodology.

The 2015 ISO BiH business operations will be defined by the conditions and preconditions similar to those which marked the 2014 business operations. Financial operations pertain primarily to the previously standardised structure of tangible and non-tangible costs and services, the existing human resources including employment of two new probationary employees, and the material and achieved technical levels on which the ISO BiH carries out its activities.

The ISO BiH points out that it expects the 2014 power balance realisation to fall below the plan and problems with "Aluminij" d.d. Mostar with regard to collection of receivables, which directly affects total income and solvency of the ISO BiH. Furthermore, the ISO BiH expects the expenses related to operation of the SEE CAO to increase and plans to become a member of the Regional Security Coordination Initiative in South East Europe (RSCI SEE).

The application also includes a planned scope of services in the transmission network in 2015, which is based on data from the Power balance in the BiH transmission network for 2015 (received by SERC on 31 October 2014 under number 04-28-13-344/14), according to which the planned delivery of electricity from the transmission network in 2015 amounts to 12,091.4 GWh.

After a review of documentation, the completeness of ISO BiH application was confirmed by the SERC act number: 04-28-5-346-1/14 of 18 November 2014 of which the ISO BiH was informed accordingly by the act number: 04-28-5-346-2/14 of 19 November 2014, which enabled the evaluation of all submitted proofs in continuation of the tariff proceedings with SERC reserving the right to ask for additional data and information if deemed necessary.

The ISO BiH application was decided upon by conducting a formal hearing, fully implementing the provisions of the *Rules of Hearing Procedures* ("Official Gazette of BiH", 38/05) and Article 45 thereof pursuant to which SERC informed the public through a short notice in daily newspapers and on its internet site of a summary of the application filed and the possibility of interested persons to have a direct insight into the application and submit written comments related to the subject of the tariff proceedings. The public notice also invited the persons interested to participate in the formal hearing as interveners to first demonstrate their interest in writing and announced the formal hearing regarding the application.

After applications for intervener status had been submitted, in order to obtain evidence of positions and interests, by its conclusion number: 04-28-5-346-10/14 of 27 November 2014, SERC granted intervener status in the proceedings to the following undertakings: Public Utility "Elektroprivreda Hrvatske zajednice Herceg Bosne" d.d. Mostar, Mixed Holding "Elektroprivreda Republike Srpske", Parent Company, a.d. Trebinje and Public Utility "Elektroprivreda Bosne i Hercegovine" d.d. Sarajevo. The interveners did not use the right to have a direct insight into the complete documentation of the tariff application at the SERC premises.

A preliminary hearing on the application for tariffs and ancillary services filed by the ISO BiH was held on 2 December 2014 in Tuzla. A list of issues for discussion and the formal flow of discussion were defined at the preliminary hearing. At the formal hearing held on 4 December 2014, parties to the proceedings presented their evidence to determine all relevant facts. Every issue on the list was elaborated successively by the applicant's response and comments by the interveners and Presiding Officer.

The Presiding Officer's report described the course of the proceedings, offered evidence and established facts, relevant legal regulations and recommendation to the members of the Commission (hereinafter: the Commission) and was delivered to the party to the proceedings by the SERC act number: 04-28-5-346-25/14 of 12 December 2014 as well as the interveners that were lawfully granted that status by SERC. A cost and revenue analysis presented in the Presiding Officer's report confirms, rejects or adjusts individual items, values or methods used for preparation of the tariff proposal in line with the SERC's discretionary rights in the tariff proceedings.

The report was to provide a sound basis to SERC to make its final decision upon the application based on the presented data, arguments and explanations as well as ISO BiH comments (number: 01-3491-1/14 of 16 December 2014) and comments by interested parties (MH "Elektroprivreda Republike Srpske", Parent Company, a.d. Trebinje, comments under number: 1-1/03/2-1699-6/14 of 17 December 2014) made on the basis of this report.

In the comments on the Presiding Officer's final report in the tariff proceedings for ISO operation, the NOS BiH emphasises the following: *travel costs* should be increased by 10% minimum, the full amount of cost for commencement of RSCI SEE operation should be approved, it is necessary to increase the labour costs by approximately 150,000 BAM and highlights the problem of repaying the loan for the purchased business facility.

MH "Elektroprivreda Republike Srpske", Parent Company, a.d. Trebinje suggests in the comments that the tariff for ISO BiH operation remains unchanged compared to the tariff approved in 2014 (0.0558 fening/kWh).

Thus, the Commission had to focus its considerations on all elements of the cost structure as emphasised by the applicant, the cost and revenue analysis as presented in the Presiding Officer's report and interveners' comments made during the whole proceedings and consequently decide on the application through a thorough assessment. Pursuant to its obligation, the Commission provides its views as follows:

When deciding on the *cost of material*, the Commission fully accepted the Presiding Officer's proposal and found it reasonable to approve the amount of 64,000 BAM for the costs of material in 2015.

When deciding on the *cost of services*, similarly to the previous tariff proceedings, the Commission paid special attention to the cost of SCADA system maintenance and software maintenance services and accepted the Presiding Officer's arguments and orientation regarding an estimate of total cost of services and set them in the amount approximate to the request for 2015. Without prejudice to the relevance and need for professional improvement of ISO BiH employees, the Commission was of the opinion

that the amount of cost for this purpose may be reduced by prioritising and using different modalities in practice. Taking into account the previous dynamics of developing power system operation related studies, the Commission recognised an amount of 40,000 BAM as approved amount. Considering that the ISO BiH may influence the amount of individual cost items (expense account, fixed asset maintenance services and other services) without jeopardising the functionality and its operation, and observing the previous realisation, the Commission approved the cost of services amounting to 1,229,811 BAM.

Considering the previous realisations of the *labour costs* in relation to the approved ones, the significant differences were obvious with the exception of 2013. Although the ISO BiH in the 2105 tariff application planned an amount of labour cost based on the average cost in the two preceding years and an increase in the number of employees to replace the staff that was going to retire, the Commission was of the opinion that the amount of this cost had to be adjusted to the current economic situation in Bosnia and Herzegovina.

Taking into account the aforementioned, while keeping other parameters at the achieved level, the Commission approved an amount of 3,280,277 BAM for the labour costs assuming that, with the approved funds, the ISO BiH has the possibility of employing new staff with the aim to conduct an increased scope of activities in the field of balancing and full market opening.

The ISO BiH asked for approval of the cost of depreciation for 2015 amounting to 1,216,598 BAM as the result of calculating depreciation for all assets used by the ISO BiH including part pertaining to the SCADA system which was paid by the three public power utilities in BiH using an EBRD loan. The amount of depreciation for that part of the SCADA system amounts to 274,976 BAM. The Commission decided to approve the cost of depreciation for 2015 amounting to 1,216,598 BIH as requested, while at the same time the amount of 274,976 BAM is booked as income and presented as income based on granted assets.

With the tariff application the ISO BiH submitted loan payment schedules which would be operational in 2015. Total interests for all loans amount to 36,432 BAM, while the *insurance* costs are estimated to be at the level of 2014 amounting to 17,500 BAM. The Commission approved the *financial costs* amounting to 53,932 BAM.

The Commission fully supported the Presiding Officer's arguments when elaborating items of planned costs of the ISO BiH for energy sources and overhead expenses which are included in the group *other costs* and approved an amount of 83,000 BAM as proposed.

When setting the level of *other expenses*, the Commission noticed that they had the highest increase individually (around 65%) compared to the estimated realisation for 2014. The Commission took into account a significant increase in ENTSO-E membership fees and the need for financing the SEE CAO operation and covering its losses in 2014 and consequently approved the full amount for this purpose.

While reviewing the membership application for the Regional Security Coordination Initiative in South East Europe (RSCI SEE), the Commission was of the opinion to approve the level of this cost amounting to 191,106 BAM for the purpose of covering the

commencement of its operation and a semi-annual membership fee with adequate implementation of procedures and subsequent submission of documentation and costs related to the operation of this Centre. The ISO may start using the funds for RSCI SEE operation only after all relevant elements, conditions and procedures required for the commencement of the Centre's operation become known and after the ISO presents the Centre's constitutional documents with projected costs of its functioning.

As far as the level of other expenses was concerned, the Commission took the similar position as when setting the labour costs and found it appropriate to reduce those cost on which on the undertaking itself may have an influence (allowance for the work of steering board and daily allowances).

The Commission approved an amount of 1,230,000 BAM for the purpose of funding the item *other expenses* in 2015.

An amount of 70,000BAM was approved as a justified cost to the applicant based on the obligation to pay the regulatory fee as stipulated by the *Decision establishing a regulatory fee for 2015* ("Official gazette of BiH", 84/14).

Furthermore, within the revenue requirement, an amount of 200,000 BAM was approved for the formation of required financial reserves the purpose of which would be to maintain solvency and more stable financial operations of the regulated undertaking having in mind uncollected receivables from "Aluminij" d.d. Mostar which significantly affect the financial stability of ISO BiH.

Based on the completed analysis of costs and expenditures as requested by the applicant, the State Electricity Regulatory Commission confirmed and approved an amount totalling 7,152,642 BAM as the revenue requirement of the "Independent System Operator in Bosnia and Herzegovina" for 2015, and based on this revenue requirement and energy taken over from the transmission network amounting to 12,091,355,319 kWh pursuant to the Power balance in the transmission network for 2015, the Commission set the tariff for ISO operation amounting to 0.0592 fening/kWh.

The ISO BiH is obligated to finance individual components of the revenue requirement within the values approved by this decision as follows:

Description	2012 <i>approved</i>	2012 <i>realised</i>	2013 <i>approved</i>	2013 <i>realised</i>	2014 <i>approved</i>	2014 <i>estimated</i>	2015 <i>requested</i>	2015 <i>approved</i>
Costs of material	70,000	53,715	61,000	52,596	65,000	62,000	75,700	64,000
Costs of services	1,141,456	1,044,309	1,100,000	1,074,502	1,184,550	1,055,695	1,320,051	1,229,811
Labour costs	3,270,000	3,403,255	3,147,455	3,175,448	3,164,455	3,361,593	3,531,867	3,280,277
Depreciation	1,349,960	1,329,992	1,263,274	1,232,237	1,183,853	1,173,077	1,216,598	1,216,598
Costs of interest	117,990	117,951	86,130	67,696	67,194	67,194	53,932	53,932
Cost of license and reg. fee	70,000	75,000	75,000	75,000	73,000	73,000	70,000	70,000
Other expenditures	591,000	729,661	681,000	661,413	912,722	843,115	1,394,612	1,230,000
Other costs	146,000	94,109	135,000	79,995	98,000	78,432	83,000	83,000
A. Total costs and exp.	6,756,406	6,847,992	6,548,859	6,418,887	6,748,774	6,714,106	7,745,760	7,227,618
1. Surplus expenditure	80,000	0	182,000	0	57,849			
2. Surplus revenue	-355,834						913,000	
3. Financial reserves					100,000			200,000
4. Other revenues	269,876	315,891	274,976	275,373	274,976	274,976	274,976	274,976
5. Electricity revenues (A+1-2+3-4)	6,210,696	5,833,571	6,455,883	6,348,041	6,631,647	6,439,130	7,470,784	7,152,642

B. Total revenues (4+5)		6,149,462	6,730,859	6,623,414	6,906,623	6,714,106	7,745,760	7,427,618
C. Surplus revenue (B-A)			182,000	204,527		0	913,000	0
D. Surplus expenditure (A-B)		698,530						
E. Uncovered surplus expenditure from the previous period		-141,025						
F. Energy (kWh)							12,091,355,319	12,091,355,319
G. Tariff (fening/kWh)	0.0435/ 0.0514		0.0538		0.0558		0.0693	0.0592

It is the opinion of the Commission that the tariff as set in the aforementioned amount, provides the revenue requirement for efficient, safe and reliable operation of the ISO BiH, that is, it is sufficient to cover all costs and expenditures reasonably incurred in its business operations.

Within the reasonable discretionary rights of the Commission 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 (Article 21 of the *Tariff Methodology*), based on comprehensive consideration of proofs as highlighted in the application, Presiding Officer's report, comments of the applicant and interested persons (interveners), the Commission decided as given in the statement of the Decision.

Pursuant to Article 14 of the *Rule on tariff proceedings*, the applicant as a regulated undertaking is obligated to make the approved tariff publicly available, by making the tariff approved by the decision available to the public at its main business office during regular business hours, and by posting it 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 by filing a lawsuit within sixty (60) days from the day of publishing this decision.

Number: 04-28-5-346-29/14
29 December 2014
Tuzla

Chairman of the Commission

Nikola Pejić