

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, 7 and 9 of the Rule on Tariff Proceedings (Official Gazette of BiH, 44/05), deciding upon the application of the Independent System Operator in Bosnia and Herzegovina, number 41/23 of 19 October 2023, at its session held on 20 December 2023, the State Electricity Regulatory Commission passed a

DECISION

1. It is determined that the annual revenue requirement of the Independent System Operator in Bosnia and Herzegovina in 2024 shall amount to BAM 12,338,147.
2. The tariff for operation of an independent system operator shall be set to an amount of:
 - 0.0085 fening/kWh, which is paid by generators for electricity injected into the transmission system, and
 - 0.1092 fening/kWh, which is paid by customers for electricity withdrawn from the transmission system.
3. The annual revenue requirement for 2024 is approved in accordance with the breakdown and amounts as given in the third column of the following table:

Description	2024 <i>requested</i>	2024 <i>approved</i>	Index <i>(3/2)</i>	
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	
Costs of material	82,000	75,500	0.921	
Costs of energy sources and utilities	149,000	145,000	0.973	
Costs of services	3,522,350	2,700,000	0.767	
Employees' gross salaries and allowances	6,400,000	5,496,787	0.859	
Depreciation	2,004,650	2,004,650	1.000	
Financial costs	472,000	449,000	0.951	
Travel costs	170,000	170,000	1.000	
Other taxes and charges	42,000	36,000	0.857	
Other expenditures	1,475,000	1,395,000	0.946	
A. Total costs and expenditures	14,317,000	12,471,937	0.871	
1. Surplus revenue	2,439,426			
2. Surplus expenditure				
3. Other revenues		133,790		
B. Revenues based on electricity (A+1-2-3)	16,756,426	12,338,147	0.736	
C. Energy (kWh)	generation	14,549,330,387	14,549,330,387	1.000
	consumption	10,167,041,108	10,167,041,108	1.000
D. Tariff (fening/kWh)	generators	0.0115	0.0085	0.736
	customers	0.1483	0.1092	0.736

4. Upon the expiry of each calendar month, the Independent System Operator in Bosnia and Herzegovina and Elektroprenos Bosne i Hercegovine, in cooperation with licence holders for electricity distribution, customers directly connected to the transmission system and licence holders for electricity generation in possession of generation facilities connected to the transmission system, including facilities put into trial operation, shall be obligated to prepare a report on energy volumes at all points of injection into, as well as withdrawal from the transmission system.

5. On the basis of the report referred to in point 4 of this decision, services of an independent system operator for customers connected to the transmission system and customers connected to the distribution system shall be billed to their suppliers and the distribution system operator (DOS), that is, legal person within which DOS operates, respectively. Services of an independent system operator for a generator injecting and/or withdrawing electricity into/from the transmission system shall be billed to the licensed generator, that is, legal person within which the generator operates.
6. The tariff for the operation of an independent system operator shall not be charged for energy withdrawn in the pumping mode of operation.
7. The tariff set out by this decision shall be used when setting end-customer tariffs/prices in accordance with the structure of tariff elements within individual consumption categories.
8. This decision shall enter into force on the day of the adoption and it shall be applied as of 1 January 2024.

The operative part of the Decision shall be published in the “Official Gazette of BIH” and the official gazettes of the Entities and the Brčko District of Bosnia and Herzegovina.

Statement of Rationale

The Independent System Operator in Bosnia and Herzegovina (hereinafter: the ISO BIH) is one of the regulated entities in the electric power sector with the task to manage the transmission system operation in Bosnia and Herzegovina. The ISO BIH competences and functions have been defined by 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).

The ISO BIH is a holder of the licence for performance of the activity of an independent system operator pursuant to the Decision of the State Electricity Regulatory Commission (hereinafter: SERC), number 05-28-12-17-19/19 of 27 June 2019 (Official Gazette of BIH, 45/19).

Pursuant to Article 22 of the Tariff Pricing Methodology for services of electricity transmission, an independent system operator and ancillary services – Second consolidated version (Official Gazette of BIH, 68/21), the tariff is determined on the basis of costs of performance of a regulated activity and a physical scope of services within that activity. Costs of performance of the regulated activity and physical scope of services provided by the regulated entity are determined on the basis of data included in the tariff application. When determining tariffs, SERC may also use additional data if it deems necessary.

While reviewing the tariff application through tariff proceedings, the basic principles prescribing that tariffs should 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. An applicant seeking approval of a tariff is obligated to prove that the proposed tariff meets all the requirements of BIH laws and SERC rules and regulations.

The tariff proceedings for setting of the tariff for operation of an independent system operator and the tariffs for system service and ancillary services were initiated at the request of the ISO BIH, number 41/23 of 18 October 2023 (received on 31 October 2023 under number 04-28-5-336-1/23).

The following costs and expenditures for 2024 are stated in the ISO BIH application: costs of material amounting to BAM 82,000, costs of energy sources and utilities amounting to

BAM 149,000, costs of services amounting to BAM 3,552,350, employees' gross salaries and allowances amounting to BAM 6,400,000, depreciation amounting to BAM 2,004,650, financial costs amounting to BAM 472,000 BAM, travel costs amounting to BAM 175,000, other taxes and charges amounting to BAM 42,000, and other expenditures amounting to BAM 1,475,000, making a total of BAM 14,317,000 for costs and expenditures.

Furthermore, the ISO BIH asked for approval of a surplus of revenues over expenditures amounting to BAM 2,439,426 which would ensure funds for investments.

The ISO BIH states that the financial operations in 2024 will be significantly influenced by several factors, in particular emphasising loan repayment, the costs of services incurred by participation in activities and projects of the European Network of Transmission System Operators for Electricity (ENTSO-E), managing of the whole transmission network at 110 kV and higher, and investments for which depreciation funds are not ensured.

The application also includes the planned physical scope of services in the transmission network in 2024, which relies on the data from the Power Balance in the BIH Transmission Network for 2024 according to which the planned delivery of electricity from the transmission system in 2024 amounts to 10,167,041,108 kWh, while planned generation of the power plants connected to the transmission network amounts to 14,549,330,387 kWh.

Following the documentation review, the completeness of the ISO BIH application was confirmed by the SERC Conclusion on initiating tariff proceedings for the operation of an independent system operator and tariffs for system service and ancillary services number 04-28-5-336-2/22 of 8 November 2023, of which the ISO BIH was informed accordingly by the letter number 04-28-5-336-3/23 of 8 November 2023, so it was possible to proceed with the tariff proceedings through evaluation of all submitted proofs with SERC keeping the right to ask for additional data and information if deemed necessary.

The ISO BIH application was resolved by conducting a formal public hearing pursuant to the Rules of Hearing Procedures (Official Gazette of BIH, 38/05), in accordance with the provision in Article 45 thereof, by a short notice in the daily newspapers and on its website SERC informed the public of a summary of the submitted application and the possibility to get familiarised with the application directly and submit comments on the subject of the tariff proceedings in writing, while the entire documentation of the tariff application was published on the SERC website. By the public notice the persons interested to participate in the formal hearing as interveners were also invited and asked to provide the evidence of their interest in writing beforehand, and the formal hearing on the application was announced.

After the submission of requests for intervener status, by its Conclusion number 04-28-5-336-10/23 of 15 November 2023, in order to hear their respective positions and interests SERC allowed the following entities to participate in the tariff proceedings in the capacity of interveners: MH "Elektroprivreda Republike Srpske" Parent Company a.d. Trebinje, JP "Elektroprivreda Bosne i Hercegovine" d.d. Sarajevo and JP "Elektroprivreda Hrvatske zajednice Herceg Bosne" d.d. Mostar.

None of the mentioned interveners used the right to have a direct insight into the complete documentation of the tariff application at the SERC premises.

A preliminary hearing on the submitted ISO BIH tariff application was held on 20 November 2023. At the preliminary hearing a list of questions to be discussed at the hearing was specified and the course of the formal hearing was defined. At the formal public hearing, which was held on 27 November 2023, the parties to the proceeding presented their respective proofs for the purpose of determining all relevant facts. Every question was processed by

dividing the questions into thematic groups and by a successive reply of the applicant and comments thereon by the interveners and the Presiding Officer.

The Presiding Officer's report describes the course of the proceeding, offered proofs and established facts, relevant legal provisions and recommendations to the Commissioners (hereinafter: the Commission) and it was delivered to the applicant and the interveners whose status as such was legally acknowledged by SERC. An analysis of costs and revenues as presented in the Presiding Officer's Report confirmed, rejected or adjusted the individual items, values or methods used while preparing the tariff proposal in accordance with the SERC discretionary rights in the tariff proceedings.

The Commission concludes that the Presiding Officer's Report provided reasonable grounds for the Commission to pass its final decision on the tariff for operation of an independent system operator based on the data provided, arguments and explanations as well as the comments of the applicant made on the proposal of this report. Regarding the subject-matter of this Decision, JP "Elektroprivreda Bosne i Hercegovine", d.d. Sarajevo in the capacity of intervener provided comments on the Presiding Officer's Report which, essentially, come to the assessment of the Report as fully objective supporting the solutions proposed therein. The ISO BIH focuses on five cost items in its comments, insisting on approval of the costs in accordance with the amounts provided in the tariff application, and expects the Commission to consider their comments with ultimate seriousness and responsibility and accept the facts provided both in the planning documents and in additional replies during the public hearing and their comments on the Report.

When passing a decision for setting of the tariff for operation of an independent system operator, the Commission has to focus 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 and interveners' comments presented during the whole proceedings and pass a decision about the submitted application after a comprehensive analysis. In line with these obligations, the Commission presents the following points of view:

When determining the costs of material, the Commission accepts the Presiding Officer's proposal and finds it reasonable to approve an amount of BAM 75,500 for the costs of material in 2024, taking into consideration the increase in prices in this category.

With regard to the costs of energy products and utilities, in its application the ISO BIH pointed out that a trend of increasing prices of energy products, primarily of electricity, would be present in 2024. Having regard to the Presiding Officer's arguments presented when analysing the planned cost items and the positions expressed by the interveners regarding the supply of electricity to the ISO BIH, the Commission approves an amount of BAM 145,000 for the costs of energy products and utilities in 2024.

The cost of services is the second largest cost in the breakdown of total costs of the ISO BIH. The Commission pays special attention to the individual costs in this category which are dominant in terms of their amounts and relevance. In the tariff application, the services of physical and software equipment maintenance and the services of SCADA/EMS system and telephone switchboard maintenance totalling more than 1.8 million BAM are noticed in particular within the cost of services due to the level of cost.

With the need to optimise the service procurement by the applicant, without prejudging the amounts per individual cost items, the Commission is of the opinion that the maintenance services may be realised within the total amount approved for the cost of services.

The costs of financing the work of the Coordination Auction Office in South East Europe (SEE CAO) and the Security Coordination Centre (SCC) on an annual basis amounting to

BAM 133,000 and BAM 690,000 respectively are recognised and approved as well as the cost of joining the IGCC platform amounting to BAM 158,000. The cost of regulatory fee for 2024 totalling BAM 98,000 is recognised and justified.

Considering that the ISO BIH may also influence on amounts of other individual cost items (costs of equipment maintenance, advertising services, other services and professional development) without jeopardising the functionality of its operation, and monitoring the previous realisation, the Commission approves the cost of services totalling BAM 2,700,000.

Labour costs are the highest costs in business operations of the ISO BIH in absolute value. The Commission accepts the arguments provided by the ISO BIH regarding the request for an increase in salaries to match the current inflation. At the same time, the tariff applicant's argumentation for the realistic need to hire new employees in the dispatch centre due to the increase in the scope of activities as a result of taking over the management of the whole transmission network. In this context, the Commission increases the amount for the position of labour costs (employees' gross salaries and allowances) and approves a total of BAM 5,496,787 for this cost in 2024. It is considered that the level of approved funds, with a rational approach to hiring new employees, is sufficient for efficient business operations of the ISO BIH in 2024.

The ISO BIH asked for approval of the depreciation cost for 2024 amounting to BAM 2,004,650. As in the previous tariff proceedings, the Commission suggests to the ISO BIH to define its accounting policies with regard to the assessment of a useful life of fixed assets so that they would correspond to the SERC's approach when justifying costs. Furthermore, taking into consideration the 2024 investment cycle and the related procurement and activation of new fixed assets, the cost of depreciation amounting to BAM 2, 004,650 is approved.

With its tariff application, the ISO BIH also submitted loan repayment plans which should be operational in 2024. According to these data, the principal of the existing loans to be paid totals BAM 1,946,196. The difference between the amount of approved depreciation and the amount of principal of the existing loans amounting to BAM 58,454 may be used for principal payment of the loan which will be used by the ISO BIH for the procurements of new assets in 2024 in line with its investment priorities.

With regard to the above, the Commission continues to expect the applicant to fully comply with the provisions of the Law Establishing an Independent System Operator for the Transmission System of Bosnia and Herzegovina, meaning that any loan debt, a loan or acceptance of grants is preceded by the adoption of an investment plan, an investment decision of the ISO BIH management structures while SERC is informed in a timely manner and, if deemed necessary, SERC approval is obtained pursuant to the competences defined by law.

The largest part of financial costs pertains to interest rates on loans, while a smaller part pertains to insurance premiums. According to the loan repayment plans for the existing loans, total interest rates for 2024 amount to BAM 409,000. The requested costs of insurance and leasing amount to BAM 45,000 and BAM 18,000 respectively. Taking into consideration the aforesaid and the fact the amount of interest on loans is known beforehand so it is possible to realistically assess this cost, the financial costs are recognised in an amount of BAM 449,000 KM.

Travel costs are a group of costs with rather equal realisation during the previous years. When determining this cost the Commission accepts the Presiding Officer's proposal and the presented argumentation and approves an amount of 170,000 BAM for this cost.

Other taxes and charges are a group of costs which primarily includes charges and taxes that do not depend on business results. During the public hearing there was no discussion or

interveners' comments. The Commission finds it reasonable to approve an amount of BAM 36,000 for this cost item for 2024.

With regard to determining the level of other expenditures, the Commission takes into account the fact that the ENTSO-E membership fee is high and approves it at the requested level of BAM 1,233,000. However, having regard to the fact that the ISO BIH may exercise some control over certain costs within these costs, the Commission approves an amount of BAM 1,395,000 for other expenditures.

Taking into consideration the aforementioned reviews and approval of individual costs, the justified costs of the ISO BIH for 2024 amount to BAM 12,471,937 in total. The revenue of the ISO BIH should cover all mentioned justified costs of the regulated entity, that is, it should equal the amount of these costs. Furthermore, in 2024 the ISO BIH will have some revenues from donation funds (international projects) in an amount of BAM 133,790 which pertain to the EBRD grant for consultancy services related to the implementation of the office building reconstruction project and procurement of a new SCADA/EMS system and TK, and the donation of the European Commission through the CROSSBOW project for the WAMS system procurement. The Commission supports the Presiding Officer's proposal for reducing the total revenue requirement by that amount (BAM 133,790), having in mind that, according to the accounting rules, the ISO BIH enters the same amount as expenditures, so the effect is neutral from the aspect of income statement.

By putting into relation total justified costs to other revenues of the ISO BIH, the revenue requirement for 2024 amounting to BAM 12,338,147 is obtained which should be achieved from the tariff for ISO operation. Having analysed the requested costs, expenditures and other revenues of the applicant, the State Electricity Regulatory Commission sets and approves an amount of BAM 12,338,147 in total for the annual revenue requirement of the Independent System Operator in Bosnia and Herzegovina in 2024.

The tariff for operation of an independent system operator is set by putting into relation the revenue requirement to be achieved from the tariff to the energy injected into the transmission network by generators and withdrawn from the transmission network by customers, taking into consideration the 90%:10% ratio of L and G component. The same as in the previous tariff proceedings, pursuant to the Tariff Methodology, a part of the ISO BIH revenue requirement pertaining to the tariff paid by generators for electricity injected into the transmission system is determined in an amount of 10% of the revenue requirement realised from the tariff. Taking into consideration all the aforesaid, the tariff for operation of an independent system operator operation is set as stated in the operative part of the Decision.

The same as in the previous tariff proceedings, the Commission will continuously monitor the application of determined tariff and the realisation of the Power Balance in the BIH Transmission Network and make its adjustment if deemed necessary. The ISO BIH is obligated to finance the individual elements of the revenue requirement within the values as approved by this decision.

It is the opinion of the Commission that the tariff set in the stated amount ensures the revenue requirement for efficient, safe and reliable operation of the ISO BIH, that is, it enables covering of all costs and expenditures reasonably incurred in its business activities. Within the reasonable discretionary right of the Commission to confirm the representativeness and validity of all submitted data and statements, to estimate the level of possibility of realising all projected costs and expenditures, having comprehensively considered all the proofs pointed out in the application, Presiding Officer's Report and comments of the applicant and the interested parties (interveners), the Commission decided as stated in the operative part of the decision.

Pursuant to Article 14 of the Rule on Tariff Proceedings, the applicant as a regulated entity is obligated to enable public access to the officially approved tariff by making tariffs approved by a decision accessible to the public at its main business office during working days and publishing them 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 against this Decision by filing a lawsuit within sixty (60) days of receipt thereof.

Number: 04-28-5-336-28/23
20 December 2023
Tuzla

Chairman of the Commission
Nikola Pejić