



Bosnia i Hercegovina

STATE ELECTRICITY REGULATORY COMMISSION

**REPORT ON ACTIVITIES
OF THE STATE ELECTRICITY REGULATORY COMMISSION
IN 2004**

Tuzla, December, 2004

1. INTRODUCTION

Resynchronization

The event of the year in the energy sector, not only in Bosnia and Herzegovina, but also in whole Europe, is resynchronization of two UCTE zones (UCTE - The Union for the Coordination of Transmission of Electricity), i.e. the reconnection of the power systems of West and Southeast Europe, which had been separated since 1991.

Since October 10, 2004 at 10:00 hours, when the reconnection was completed, all of continental Europe has become a single synchronous electricity area with 450 million people in 22 countries, and annual consumption of electricity of approx. 2.300 TWh, being one of the two biggest areas in the world.

Resynchronization was enabled by completion of reconstruction of the relevant 400 kV power lines as well as of substations financed through the Third Electric Power Reconstruction Project (Power 3).

Resynchronization is especially relevant for Bosnia and Herzegovina, as it has enabled reintegration of the power system of BiH. This has created technical conditions for functioning of a single market in Bosnia and Herzegovina, as well as for its integration into the regional and internal electricity market of the European Union (EU).

The State Electricity Regulatory Commission (SERC) is an independent and non-profitable institution of Bosnia and Herzegovina (BiH), which acts in accordance with the principles of objectivity, transparency and equality, and has jurisdiction over the transmission of electricity, transmission system operation and international trade in electricity.

The SERC was established by the Parliament of BiH by adopting the Act on Transmission, Regulator and Electricity System Operator, and appointing Mr. Vladimir Dokić, Mr. Mirsad Salkić and Mr. Željko Topić as the Commissioners.

Energy Community of Southeast Europe

Bosnia and Herzegovina, together with other countries of Southeast Europe, participates in the Athens process within which the Memoranda of Understanding for creation of the regional electricity market of electricity and natural gas were signed, which will gradually integrate into the EU energy market.

Negotiations between the European Commission and countries of Southeast Europe are in progress on the Treaty on establishment of the Energy Community of the Southeast European countries, whose conclusion is expected in the first half of 2005. It will change the political will of the parties from the non binding Memorandum of Understanding into the legal obligations of a Treaty.

Within the process of establishing the Energy Community (former Athens process), which was chaired by Bosnia and Herzegovina until the end of June 2005, the Tirana

declaration was signed with the goal of establishing of the Southeast European Regulators Board for Electricity and Gas.

Energy acts adopted in 2004

By adopting the Law Establishing the Company for Transmission of Electric Power in Bosnia and Herzegovina, and the Law Establishing an Independent System Operator for the Transmission System in Bosnia and Herzegovina, Bosnia and Herzegovina confirmed its determination to reform the power sector, liberalization of the electricity market and harmonization of its policy with the members of the European Union. This will enable practical implementation of the reform process at the state level.

Functional restructuring creates prerequisites for competitive activities of our companies in the market of the Energy Community of Southeast Europe.

2. ESTABLISHING OF THE STATE REGULATORY COMMISSION

“The mission held meetings with all three Regulatory Commissions. The mission was informed that each of the Commissions was making progress in recruiting staff and had commenced work on the preparation of rules of procedure, tariff methodology, licensing, etc. USAID-financed training was being provided to all three Commissions on pertinent issues (licensing, tariff setting, etc.). It is expected that all three Commissions will be undertaking effective regulation (including tariff setting) by the middle of 2005, with end-user tariffs for 2006 expected to be announced in the fall of 2005.”

Aide-Memoire, World Bank, October, 2004.

The Commissioners from the Federation of Bosnia and Herzegovina are

- Mr. Mirsad Salkić, with a five-year mandate
- Mr. Željko Topić, with a three-year mandate

The Commissioner from Republika Srpska is

- Mr. Vladimir Dokić, M.A., with a four-year mandate.

The Chairman of the Commission, until June 30, 2004, was Mr. Dokić. As of June 30, 2004, Mr. Salkić will be the Chairman, and thereafter, the Commission will be chaired by Mr. Topić.

As of August 1, 2004, the SERC has been operating at full capacity in accordance with the attached organizational chart.

During the initial phase, the staff of the SERC, together with the staff of the entity regulators, passed through an intensive training process on tariffs and licensing as well as on general issues in the field of regulation of a power system. The training was organized in Tuzla, Banja Luka and Mostar. In addition the key staff completed a special training program carried out by the energy regulator of the Republic of Austria (E-control), with the support of World Learning and USAID).

In the course of 2004, most of the equipment was purchased, while some of the equipment was donated by the USAID.

3. THE KEY ACTIVITIES

In the course of 2004, 23 official sessions of the Commission were held, the activities of which are listed in the following categories:

The adoption of the Rules of Practice and Procedure and the Arbitration Rules was preceded by one-month public hearing in Mostar, Banja Luka, Tuzla and Sarajevo.

During the hearing, for the first time in BiH, the public had an opportunity to directly participate in creation of legal acts.

Public discussions with all interested parties assisted in checking the correctness of the adopted solutions. It may be expected that the participation of the public shall be constantly increasing, and its comments shall influence the other activities and decisions of the SERC to even greater extent.

Article 4.7 of the Act on Transmission provides that all SERC decisions shall be approved by unanimous vote of all the Commissioners. In the event that the Commissioners fail to agree unanimously, all disputes shall proceed to arbitration.

Rules and regulations of the SERC

Rules of Practice and Procedure

The main reason for developing the Rules of Practice and Procedure is the creation of the basic framework and clear guidelines for prompt and efficient proceedings and fair decisions within the competence of the SERC, fully respecting the requirement of the transparency of all actions and proceedings of the SERC by enabling the receipt of necessary insight from the public.

The Rules of Practice and Procedure regulate the activities of the SERC, including the manner of convening sessions and meetings, the types of sessions and meetings, procedures for issuing rules and regulations of the SERC and issuing decisions until cases are closed and archived.

All final decisions of the Commission are made in its regular sessions, which are open to the public. The public may be present at these sessions, but without the possibility of direct participation.

Arbitration Rules

The Arbitration Rules regulate the basic framework for arbitration proceedings, the number of arbiters, the manner of their appointment, dismissal and replacement, the initiation of arbitration proceedings, the procedure for conducting arbitration proceedings, the termination of proceedings, the form and the impact of the arbiters' decisions and other issues relevant for the arbitration process.

The Arbitration Rules establish the obligation of the arbiter to quickly resolve disputable issues that emerging due to the impossibility of the Commissioners to reach a unanimous vote on a particular issue.

Temporary Licenses

The granting of temporary licenses shall be done in the interim period until the establishment of a single company for transmission of electric power.

As prescribed in Article 7.7 of the Act on Transmission of Electric Power, Regulator and System Operator of Bosnia and Herzegovina, all existing legal entities were obligated to file application for temporary licenses. The licenses would cover the period until the establishment of a single company for transmission of electric power in Bosnia and Herzegovina.

In the course of 2004, in accordance with its mandate, the State Electricity Regulatory Commission adopted the Rules on Procedure for Issuance of Temporary Licenses. Acting in accordance with these Rules, temporary licenses have been issued to the power utilities engaged in the activity of transmission of electric power in Bosnia and Herzegovina:

- JP “Elektroprivreda HZ Herceg-Bosne” d.d., Mostar
- JMDP “Elektroprivreda RS” ZDP “Elektroprenos”, Banja Luka
- JP “Elektroprivreda BiH” d.d., Sarajevo

Temporary licenses were handed over on August 25, 2004 at an appropriate ceremony at the headquarters of the SERC in Tuzla, in the presence of governmental officials, and representatives of the international community and the power sector.

Since the single company for transmission of electric power has not been established yet, the SERC extended the validity of the temporary licenses until the end of 2005.

Monitoring of activities on the transformation of ZEKČ into the ISO

This transformation is anticipated by the Act on Transmission of Electric Power, Regulator and System Operator of Bosnia and Herzegovina, and worked out in detail by the Law Establishing an Independent System Operator for The Transmission System of Bosnia and Herzegovina. Within this process, during the initial phase the SERC focused on the technical aspects of transformation in order to enable the Joint Power Coordination Center (ZEKC) to meet the obligations emanating from the aforementioned Laws.

Cross-border trade mechanism (CBT mechanism)

In the course of 2004, the SERC issued a decision approving the CBT mechanism and gave consent for its application until December 31, 2004.

The CBT mechanism is a method of compensation of costs incurred on the transmission network due to cross-border electricity flows. The former method of “contract transit path” was deemed inappropriate due to new developments in the sector (re-structuring and

CBT mechanism is applied by most of the South East European countries through its system operators: Romania (Transelectrica), Bulgaria (NEK), Serbia (EPS), Monte Negro (EPCG), Macedonia (ESM), and Albania (KËSH).

liberalization). The CBT mechanism was used for the first time in March 2002, by ETSO (the European Transmission System Operators) countries, and since then this mechanism has been constantly improving.

The organization of South East Transmission System Operators (SETSO) has been applying this mechanism as of 1st of January 2004, first in a virtual dry-run form during the period January 1- June 30, 2004, and as a real CBT mechanism from July 1- December 31, accompanied by actual financial transactions between the parties which were signatories to the agreement. BiH has been represented in the SETSO CBT mechanism through ZEKC.

Because of its geographic position, BiH is considered a transit country in the region, and the CBT mechanism provides for the financial remuneration of such position.

Preparations for signing the CBT mechanism for the year 2005 are in progress, and it is expected that in 2006, the South East European countries may join the single ETSO CBT mechanism.

Creation and adoption of the rules on the tariff procedure, tariff methodology and public hearings

The Draft of the Rule on Tariff Procedure, Draft of the Methodology for Tariff Design for transmission of electricity and system services and the Draft of the Rule on Public Hearings have been presented to the public to receive the remarks, comments and opinions of interested persons.

In order to provide an understanding of the tariff methodology which the SERC intends to establish for the purpose of the activities of the regulated companies, and with the view to encourage public comments, the SERC prepared a Concept of Tariff Methodology paper.

Creation and adoption of the Licensing Rule

Unlike the Rule on Temporary Licensing, which is solely based on the electricity transmission activity, this Rule represents an overall solution for issuance of all licenses as provided in Article 7.1 of the Law on Transmission.

4. INTERNATIONAL ACTIVITIES

Membership in the ERRA

The goals of the ERRA are improvement of energy regulation in member countries, fostering development of independent and stable regulators, improvement of cooperation between the regulators, information, research and experience exchange between the members, better access to energy regulatory information and the sharing of experience around the world.

General Assembly of the Energy Regulators Regional Association (ERRA), in its session held on May 19, 2004 in Budapest, by unanimous vote accepted the SERC as a full member.

As of this date, the SERC has actively participated in the work of this Association, its Standing Committees and Working Groups.

Energy Regulators Regional Association is an organization composed of independent energy regulatory bodies in Central and East Europe and newly independent states in the region. ERRA has 22 full and 4 associated members.

The main goal of the Association is to increase the exchange of information and experiences between its members, and to expand access to international experiences related to energy regulation.

Energy Community of the South East Europe

Upon signing of the Memoranda on Understanding of 2002 and 2003, negotiations on establishing the Energy Community of the South East Europe between the European Commission and the countries of South East Europe are in progress, and completion of negotiations is expected in the first half of the 2005. By that, the political will of the parties from the non-binding Memoranda of Understanding develops into the legal obligations of Treaty.

The primary goals of this Treaty are creation of the stable regulatory and market framework which will be able to attract investments into the natural gas and electricity sectors of the region, and ensure reliable power sources.

Upon conclusion of this Treaty, the signatories will be obliged to establish a joint electricity and gas market, which will function based on the standards of the EU electricity market, with which it will be integrated. This will be achieved with the gradual implementation of the EU *acquis communautaire*, which relates to energy, environmental protection and competition. Energy and environmental protection refer to the implementation of the relevant directives and regulations of the EU in accordance with prescribed requirements, taking into consideration certain countries' specific circumstances.

Establishment of a single electricity and natural gas market and its integration into the international market is one of the priorities of the energy section of the Poverty Reduction Strategy Paper for Bosnia and Herzegovina,.

*Mr. Andris Piebalgs,
Commissioner responsible
for energy issues of the EU:
“The progressive integration
of South-East Europe,
including Turkey, into the
European Union energy
markets, on reciprocal
conditions in terms of trade
and environment, benefits
the whole of Europe. A lot of
work has been done since the
Athens Conference in 2002
and this represents a major
step forward in bringing
lasting stability and growth
to the region, as well as its
progressive integration into
the European Union.”
Ministerial Conference,
Athens, December 14, 2004.*

Within the process of the establishment of the Energy Community of South East Europe, for which Bosnia and Herzegovina shall be the presiding country until June 2005, the Tirana Declaration was signed with the view to establish the Regulatory Board of South East Europe for electricity and gas.

The work of the State Electricity Regulatory Commission, which plays one of the crucial roles in the establishment of the Energy Community, has been taking place along with the relevant cooperation of the Ministry of Foreign Trade and Economic Relations of BiH, through activities performed by the Working Group of the South East European Energy Regulators (SEEER), which is led by the Council of European Energy Regulators (CEER), and through an adequate participation in realization of various projects which are part of the establishment of the regional market.

During 2004, as part of the activities of the SEEER working groups, the Fourth Benchmarking of the SEEER was prepared, covering all aspects of the regulatory activities of the signatories of the Athens Memoranda of Understanding. This analysis serves as an excellent guideline and offers the possibility to detect which activities need to be improved. The document confirms that Bosnia and Herzegovina is on the right track to establish and develop regulatory activities.

REBIS (Regional Balkans Infrastructure Study Electricity) represents a regional project which is being conducted in Albania, BiH, Croatia, Serbia and Monte Negro, Kosovo and Macedonia. The project is financed by the European Commission through the CARDS project for the Balkans. There are two phases of organization of the regional electricity market:

- initial regional market of simple design whose implementation is expected by the end of 2005
- full regional market, implemented in the year 2008.

5. AUDITING REPORT

“In our opinion financial reports realistically and objectively show the financial standing of the SERC in all significant aspects on December 31, 2003, business results and cash flows for the period of time concluded at that point, in accordance with the international accounting standards.”(REVIK).

In accordance with Article 4.9 of the Law on Transmission, a financial audit of the operation of the State Electricity Regulatory Commission was done, with December 31, 2003 being the closure date. Auditing was performed by the authorized auditing firm “REVIK” d.o.o. Sarajevo.

The report of the independent auditor confirmed that the SERC accounts were in order.

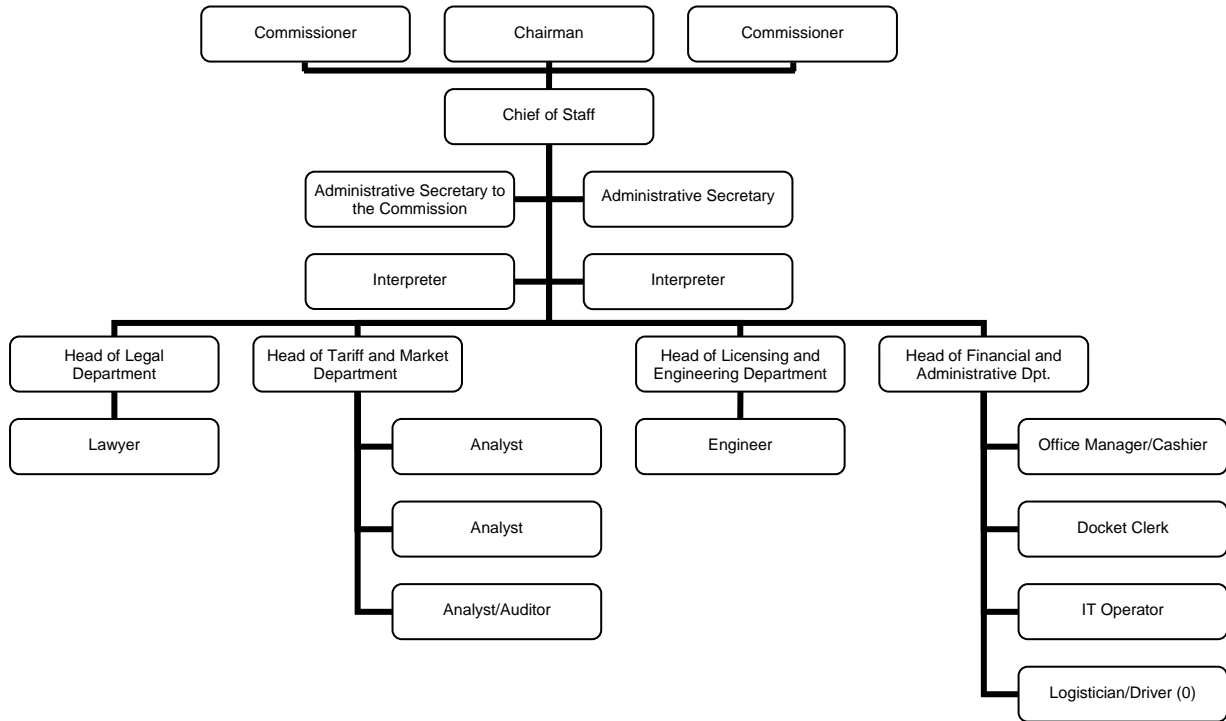
6. MAIN ACTIVITIES FOR THE 2005

The State Electricity Regulatory Commission expresses gratitude to USAID and the law firm Pierce Atwood.

The State Electricity Regulatory Commission continues with its activities on creating conditions for free trade and continuous supply of electricity by previously defined quality standards for the benefit of the BiH citizens, while obeying the appropriate EU Directives. In that sense, the activities of the SERC for the next year shall be focused on:

- monitoring of the establishment of the transmission company and the ISO,
- design of the transmission tariffs and system services,
- licensing of the activities of transmission, system services and international trade,
- monitoring the CBT mechanism,
- regulation of third party access to the transmission network,
- definition and regulation of eligible customer categories,
- international activities which relate to the regulation of the electricity market.

ORGANIZATIONAL CHART OF THE SERC



Total number of employees: 20