



**COMMENTS DRAFT OF RESPONSE TO ROAD MAP DRAFT  
REAP 11-30-07**

BiH has made an effort in this response to be realistic in its responses. In some instances, it is recommended that the colors indicate a lower level of compliance than originally colored, reflecting the realities in the country's electricity and gas sectors.<sup>1</sup>

General Rules

- 1.1 Imposition on undertakings. Complete. The color is properly green.
- 1.2 Customer protection. This color should be yellow, and the situation will not be resolved by June 2008. The vulnerable customer portion of the requirements is key, and the Federation is not yet considering any vulnerable customer program. [The eligible customer portions of the requirement are less than critical as the cost of supply is so low in BiH that no customers will choose another supplier.]
- 1.3 PSO. Complete. The color should be green.
- 1.4 Security of Supply. This section should be yellow, and there should be no commitment that the necessary actions will be taken by June 2008. Not only are there no institutions deemed responsible for monitoring, but the supply situation in the Federation is less than satisfactory.
  - This year EPBiH sold surplus before it knew what the supply requirements were.
  - For several years, the EPs have sold ancillary service quantities on the market.
  - For 2008, in the Federation no surpluses are being sold to HZHB, HZHB did not bid in the EPBiH tender, and EPHZHB appears to be refusing to supply Aluminij as a tariff customer.
  - The project development activities have not been transparent and what authorization legal requirements exist have not been implemented effectively.
  - In the near future, it is possible that the Federation will not have sufficient supply both because of the normal project development lag time and the fact that currently demand is outstripping the manufacture of equipment for power plants, further lengthening the lag time for project development.

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<sup>1</sup> Since the coloring of the "Period for the development and respectively implementation of the provisions" indicates when a task will be completed, where there is no color, then Bosnia and Herzegovina will need more time than June 2008 to complete the task. Other than for item 5.2, it is estimated that BiH may need longer than until June 2008 in order to complete the tasks discussed in these comments.



- 1.5 Technical Rules. This task will not be completed by June 2008. Only half of what is required have been completed: while the Transmission Grid Code and Market Rules have been issued, the SERC has yet to approve the Connection Rules, and RSERC and FERC have yet to issue the distribution grid codes.

## Generation

- 1.6 Authorisation. This task will not be remedied by June, and the color should be yellow. The generation authorization procedures exist in the currently-existing laws. When a developer approaches the government with a development project, the concession laws apply; but if more capacity is necessary than the Governments' strategy requires, then tendering procedures should be used. Even given the existence of the authorization procedure, the process continues to be opaque and not according to the prescriptions in the laws.
- 1.7 Tendering Rules. The color yellow is correct. Tendering procedures exist in the Concession Laws and Procurement Laws; however, the process of generation project development continues to be opaque.

## Transmission and Distribution System Operators

- 1.8 Designation (TSO and DSO). The color should be yellow, and this task will not be completed by June 2008. There are no legislative requirements for the development of DSOs in either the RS or Federation electricity laws.
- 1.9 Tasks (TSO and DSO). As 1.8 properly should be yellow, so should 1.9 be yellow. This is because the DSOs must first be required and then created. It will not happen in six months.
- 1.10 Unbundling (TSO and DSO). The yellow color should remain. The Federation's integrated utilities have not unbundled, other than transmission; and the DSO requirements do not exist.
- 1.11 Dispatching and Balancing. This color should be yellow. The technical pre-conditions have not yet been met, and the balancing market has not been designed.
- 1.12 Confidentiality. Complete.
- 1.13 Combined Operators. Combined Operators are not applicable. It can remain green.



## Unbundling /transparency of accounts

- 1.14 Rights of access to Accounts. This can be green instead of blue. All regulators have the right to access accounts of regulated companies.
- 1.15 Unbundling of accounts. The RS accounts are unbundled and charts of accounts are issued. However, while neither FERC nor SERC has issued its chart of accounts, the EP HZHB has fully unbundled generation, distribution and supply. EPBiH has unbundled generation but has not separated distribution from supply. Once EPBiH unbundles distribution and supply, this item can be moved to a green status.

## Organisation of access to the system

- 1.16 Third Party Access. The RSERC has embedded its third party access rules in the General Conditions of Supply; the SERC has issued a third party access rule; but the FERC has neither issued the General Conditions of Supply or a third party access rule.
- 1.17 Market Opening and Reciprocity. The color yellow should remain. While Rules on obtaining eligible customer status have been issued by RSERC and FERC, the issue of reciprocity has not been addressed.
- 1.18 Direct Lines. Complete.
- 1.19 Regulatory Authorities. The color blue is correct. The three regulators generally work together on a high level.

## Final Provisions

- 1.20 Safeguard measures. The color blue is correct. ISO must develop another rulebook regarding safeguard measures, but it is not likely that this will be completed and approved by June 2008.
- 1.21 Monitoring Imports. Complete.
- 1.22 Derogations. The color blue appears to be correct. No coordinated specific criteria have been developed for derogations, but this will not be completed by June 2008.
- 1.23 Missing.

## Regulation 1228/2003

- 1.24 Inter-TSO Compensation Mechanism (ITC). Complete.



- 1.25 Charges for access to the networks. The color should be changed to blue. FERC has yet to issue network charges.
- 1.26 Transparency. The color yellow is appropriate as there has been no determination as to who is the beneficiary of the funds. It is questionable as to when this will be done.
- 1.27 Congestion Management. The color yellow is appropriate. The ISO has not received authorization to hold congestion auctions and there is no secondary market for capacity.
- 1.28 New interconnectors. The color here should be red. The ISO has submitted a rule on auctions and award of inter-connect capacity to SERC, but no approval has been forthcoming since May.
- 1.29 Penalties. The color here should be red as the issue of penalties is not under the purview of the ISO. The regulator penalty jurisdiction is quite limited, and the regulators themselves cannot impose penalties.

## Market Structure

- 2.1 Generation/Supply – Assessment of market concentration in the electricity industry. The color of this item should be red. It is thought that all matters with regard to regulating market concentration fall within the BiH competition council; however, this issue has not yet been addressed by any authorities.
- 2.2 Generation/Supply – Adopt measures to remedy Market Concentration. See above comment.
- 2.3 Transmission System Operation – Unbundling and implementation of Technical Rules. The color blue is appropriate. There is no transmission third party access instructions or contract, although the SERC has issued a third party access rule.
- 2.4 Distribution System Operation – Unbundling, Implementation of Technical Rules, consolidation of Distribution Companies. The color of this task should remain yellow. While there are provisions for third party access, there is no unbundling in the Federation integrated utilities, and there is no legislative requirement to form a DSO. Third party access is required, however, on the distribution system.

## Wholesale Market

- 3.1 Market design and liquidity. The color red is appropriate. The country is without a legitimate market design, although a bilateral contract with balancing market prescription is contained in the Action Plan.



- 3.2 Market Rules, Balancing Market. The yellow color is appropriate. While the market rules are written and improved, the ISO is still not in full function, and there is no competitive balancing market.
- 3.3 Market Transparency. The blue color is correct. Once the SCADA system is installed and fully functional, the required data will be available for publication.
- 3.4 Market Monitoring. The yellow color is appropriate. Even though the regulators monitor the licensees operations and business activities, as the market design has not yet been defined, this activity is on hold.
- 3.5 Licensing and Authorization. The color blue is correct. Whereas the three regulators have licensed all regulated companies, generation project development authorization procedures are not as yet being utilized transparently as explained for 1.6.

### Retail Market

- 4.1 Eligibility thresholds. Completed. This item should be green.
- 4.2 Payment reform. The color for this item should be yellow. Particularly through RSERC, measures have been taken in licensing to improve payments and diminish losses.
- 4.3 Customer switching. Complete. Measures are prescribed with regard to customer switching by RSERC and FERC.
- 4.4 Customer protection. The appropriate color for this item is yellow, as RSERC has prescribed rules for quality of supply and connection to the distribution, although FERC has not.

### Tariff Reform and Affordability

- 5.1 All-inclusive regulated retail tariffs (cost-reflectivity, cross-subsidies). RSERC and FERC have issued Rules on Tariff Methodology: FERC is in the process of its third rate proceeding, while RSERC is working on its second. Whereas tariffs are not fully cost-reflective and cross-subsidies are not fully removed, the process has begun.
- 5.2 TPA tariffs for transmission, distribution and ancillary services. The color blue is appropriate. Ancillary Service tariffs remain to be clarified, and it is expected that this issue will be completed prior to June 2008.
- 5.3 Other regulated tariffs (e.g., Wholesale Tariffs) compatibility. The yellow color is correct. The generation price remains regulated, and the costs of generation are



- very low. A step-wise approach, moving the tariffs toward market prices is needed; until that occurs, customers will never choose to become eligible.
- 5.4 Affordability, protection of Vulnerable Customers. The red color is correct. The Republika Srpska is current discussing a vulnerable customer program; however, the Federation has not yet begun.

### Market Integration

- 6.1 Interconnection capacity – Market-based mechanisms at the borders. The color should be blue. The ISO has a filing made at the SERC, and all that remains for completion of this item is for SERC to issue an approval.
- 6.4 Inter TSO Compensation. See Item 1.24.

### NOTE ON GAS SECTOR

There has been progress on the restructuring of the BiH gas sector as follows:

- The Republika Srpska has passed legislation that is consistent with the EU Gas Directive.
- The Federation Government has issued a Gas decree, which is consistent in some areas with the EU Gas Directive. Legislation has not been issued by the Federation, pending any developments regarding any agreement with regard to a State Law.
- An expert group has been named to convene in consideration on what authorities will be given to a state regulator.

Much additional work needs to be completed, such as, *inter alia*, the expert group making a decision regarding state authorities, if any, and adoption of the same by the two Entity and State governmental authorities, adjustment of the Republika Sprska law as a result thereof, drafting of and passage of the Federation gas law.

In addition, the regulators must be created, convened and trained, and secondary legislation must be issued. Finally, licensing and tariff proceedings must be held by the regulator(s) according to their authorities.