Overview

Bosnia and Herzegovina (BiH) has a GDP of USD 18.452 million and a population of 3.77 million. The total primary energy supply in 2007 was 5.60 Mtoe (million tons of oil equivalent), of which 6.1% is hydro power, 62.1% is coal/peat, 3.2% is combustible renewable and waste (including biomass, biogas and waste), 6.1% is natural gas and 22.5% is oil. Net imports are around 1.65 Mtoe (million tons of oil equivalent). CO₂ emissions from fuel combustion are 17.99 (measured as Mt of CO₂). A signatory of the Energy Community Treaty, BiH has committed to implementing the Energy Community acquis. BiH also has adopted a Stabilisation and Association Agreement (the first step before applying for membership) with the European Union (EU) in June 2008.

1. Institutional structure

As a consequence of BiH’s unique political structure, the country has multiple energy regulatory bodies, making their work complicated and less efficient. The 1995 Dayton Agreement established a national government, as well as a second tier of two Entity governments – the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS). The regulatory structure follows this political structure, meaning that one regulator exists at the national level, and one at each Entity level.

On the national level, the ministry with primary responsibility over the energy sector is the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina (MOFTER). Regulatory implementation is the responsibility of the State Electricity Regulatory Commission (SERC), which has jurisdiction over the electricity transmission, transmission system operation and international trade. SERC has three commissioners appointed to five-year terms (two from the FBiH, one from the RS, rotating annually as chairman) and a staff of 15. Commissioners are appointed by the National Parliament. Transition of SERC commissioners following expiry of term has been an issue. While the four-year term of the RS commissioner on SERC expired in 2007 and the term of one of the FBiH commissioners expired in 2008, they were not replaced in a timely manner and so continued to serve. In April 2008, the Parliament asked the Council of Ministers to expedite appointment procedures to enable SERC to operate in its full capacity. Prior to the end of a term of service, dismissal of commissioners is only based upon on cause. Standard conflict of interest rules apply.

SERC’s budget (currently EUR 1,190,000) is financed out of regulatory fees, with no requirement of parliamentary approval. All SERC decisions can be appealed to the Court of Bosnia and Herzegovina, and remain in effect pending appeal. Through 2008 only a few appeals have been filed, in them, SERC’s decisions have been upheld by the Court. Notably, the time an appeal takes is a lengthy two years.

On the Entity level, the two corresponding ministries are the Ministry of Energy, Mining and Industry of Federation of Bosnia and Herzegovina (FMEMI); and the Ministry of Industry, Energy and Mining of the Republika Srpska (MIEMRS). The

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54 Information herein is drawn primarily from the regulatory bodies, from answers to questionnaires provided by this project, and from the Energy Community Regulatory Board National Report, Version 4, 4 September 2008.

55 The procedure for appointment of the Members of the Commission starts in the respective entity governments. After the Government’s proposals are confirmed by the National Assembly of the Republika Srpska, i.e. the Parliament of the Federation of BiH, the nomination shall be submitted to the Council of Ministers of Bosnia and Herzegovina, which shall propose the appointment to the Parliamentary Assembly of Bosnia and Herzegovina (National Parliament).
FBiH Electricity Regulatory Commission (FERK) and the RS Energy Regulatory Commission (RERS) implement regulation of generation, distribution and supply of electricity within their respective Entities. FERK has three commissioners; RERS has five, each approved by their respective Entity Parliaments. FERK has a staff of 31, RERS 27. Like SERC, FERK and RERS are funded outside central budgets. In September 2009 the international community’s High Representative in BiH amended state and entity laws on electricity to provide the necessary legal framework for electricity supply to Brcko District of BiH and extended SERC jurisdiction to the matters of electricity generation, distribution and supply of customers in the District.

With respect to gas, a regulatory agency for gas has not yet been established on the national level or within the FBiH. Within the RS, RERS has had jurisdiction over the gas sector since the end of 2007.

There is a separate Council on Competition which consults with the relevant energy regulators on issues relating to competition, although the Council only has the power to provide opinions and recommendations on aspects of competition, either ex officio or at the request of the state authorities, undertakings or associations.

2. Electricity sector

a. Market framework

Market participants are an Independent System Operator in Bosnia and Herzegovina (ISO BiH), a single company for transmission, three separate vertically integrated utilities engaged in generation, distribution and supply, each of which are Entity owned, traders and eligible customers.

The ISO BiH began operation in July 2005. The single transmission company, Elektroprenos Bosne I Hercegovine, began operations in February 2006. The ISO and transmission company have been legally unbundled. The three separate vertically integrated utilities, Elektroprivreda BIH Sarajevo, Elektroprivreda HZHB Mostar and Elektroprivreda RS Trebinje, engage in generation, distribution and supply in their regions, while distribution and supply in the Brcko District are carried out by a separate entity (Komunalno Brcko) and owned by the local government. Accounting unbundling is required under law, with SERC adopting a chart of accounts for the ISO in December 2008 and an expectation of the adoption of a chart of accounts for the transmission company in 2009. Further unbundling is needed.

The law provides for phased market opening, with opening as of 1 January 2008 for all non-household customers (57.5% of the market) and after 1 January 2015 for all customers. Aluminij Stock Company Mostar, whose consumption constitutes 20% of total BiH consumption, was the first customer that used the right to purchase electricity in the market as an eligible customer. Other customers did not use their eligibility option to purchase energy in the market, with wholesale market prices at practically the level of end-user tariffs. While competition is thus allowed as a matter of law, the overall market structure is still not sufficiently unbundled, and the legal framework not comprehensively developed to support competitive supply. SERC enacted new connection rules in October 2008 and simplified its licensing for international trade, but supply remains Entity-centric within the RS and FBiH; lack of metering and billing support also hinders development of a competitive market framework.
b. Network access and tariffs

SERC’s tariff methodology was adopted in June 2005, with amendments in February 2007 and January 2009 with the transparent proceedings including public hearings. The methodology applied is based on cost of service, without incentive components.

Development of ancillary service tariffs and providing system services remain burdened by the logistics of the BiH power system, including the incomplete nature of the restructuring process and differing interpretations of the legal rights of participants in the power sector.

There is a grid code in which operation rules for the transmission system are well defined. Temporary rules of allocation of cross-border transmission capacity are being used until the adoption of auction rules anticipated in 2009. The ISO is responsible for security of transmission system operation including security reserve.

SERC licenses and monitors the licensed activities within its authority – the ISO, transmission and international trade – while the Entity regulators license and monitor generation, distribution, trade and supply within their regions. The generation licence holders are Elektroprivreda BIH Sarajevo; Elektroprivreda HZHB Mostar; the five generation subsidiaries of Elektroprivreda RS Trebinje, which are licensed separately; and 20 licensed distributed generators. Twelve companies are licensed for international trade (including the three large utilities – Elektroprivreda BIH Sarajevo, Elektroprivreda HZHB Mostar, and Elektroprivreda RS Trebinje). In addition, the aluminium company (Aluminij JSC Mostar) and B.S.I Jajce are licensed to import electricity for their own needs. Licensees for tariffed supply are Elektrprivreda BIH Sarajevo and Elektroprivreda HZHB Mostar in the Federation of BiH and five subsidiaries of Elektroprivreda RS Trebinje, in the Republika Srpska. The three large utilities are also licensed to for competitive supply of eligible customers; along with 11 other licensed traders.

c. Operational environment

For the first time in several decades, in 2008 the sector as a whole operated profitably, with 14,000 GWh generated (8900 GWh thermal, 4800 GWh large hydro, 200 GWh small hydro and industrial power plant), with domestic consumption of 12,240 GWh and net export of 1640 GWh. BiH is one of the few exporters of power in the region.

With respect to cross-border exchange, inter-connection capacities are contracted by the ISO with the neighbouring countries on yearly basis and maintained monthly. The ISO is obliged to prepare 10-year indicative development plans, including the need for new generation capacity. The Transmission Company is required to provide a long-term plan for development of transmission network.

Only the three large utilities have been partly privatised (approximately 10% in FBiH and 20% in the RS).
Establishment and elaboration of public service obligations, standards of service and security of supply are complicated by the political structure and environment, and make development of any State-wide policy problematic. Despite the lack of progress at the State level, the adoption in the RS of a new Energy Law and amendments to the Law on Electricity improved the legal framework of this entity in areas such as public service obligations, energy policy and energy development planning.

3. Gas sector

As noted, the gas market is in its nascent stages. Market participants include the transmission owners, distribution and supply. Bosnia and Herzegovina has no domestic production and imports all gas needs from Russia via Ukraine, Hungary and Serbia. Gas consumption is limited (about 363 Mcm in 2006), and concentrated in two large industrial plants (about 55% of sales). There is no storage. Only about 10-15% of the population is reached by natural gas. The transmission infrastructure consists of a single 192 Km, 406 mm pipeline from the Serbian border (Šepak) to Zvornik, Sarajevo and Zenica, with a nominal capacity of 1 Bcm/year. Its ownership is split between three different companies: BH-Gas Sarajevo, Gaspromet Pale and Sarajevo-gas Lukavica. It is operated by Gaspromet Pale in the RS and by BH-Gas in FBiH, with BH-Gas, owned by FBiH, the sole wholesale supplier and biggest gas carrier within BiH, operating 68% of the transmission pipelines. Four gas distributors, two in each Entity, serving different municipalities, are responsible for the distribution and retail sale of gas: Sarajevogas Sarajevo (serving 93.8% of distribution customers), Zvornik Stan Zvornik (2.2%), Sarajevo-gas Istocno Sarajevo (1.4%) and Visokogas Visoko (2.6%). Part of the RS transmission company (Gaspromet) has been privatised.

End user prices are currently regulated by the Ministry and by local authorities, as integrated supply tariffs. Distribution margins for the largest company (Sarajevogas Sarajevo) have not changed for the last five years and may now be lower than costs. No access tariffs are available.

Future development depends upon a harmonised legal framework and coordinated development plans. To date, there is no single plan for development of the gas transmission network in BiH. Import capacity is underutilised, also due to consumption seasonality and lack of storage.

Development of Bosnia and Herzegovina’s legal and regulatory gas framework is in its nascent stages, with only the RS establishing a regulator and little gas legislation in place. The RS law anticipates that RERS will define a threshold for the status of eligible customer, and that after 1 January 2008 such status was to be given to all non-household customers, but the regulatory framework to implement market opening has not yet been established. Third Party Access is negotiated and there is no capacity allocation mechanism.

4. Renewable energy sources/energy efficiency

The Ministry of Foreign Trade and Economic Relation acts as the responsible institution on the State level in the area of renewable energy and energy efficiency. As in electricity and gas, the complicated Entity structure impedes development of State-wide policies and implementation of State-wide programmes, and BiH currently lags behind its neighbours in this area. There is no national law on combined heat and power, energy efficiency and renewable energy, only legislation on the Entity level. Draft versions of Entity legislation contemplate feed in tariffs. The public utilities in both Entities are obliged to off-take all electricity produced from renewable energy, but only plants less than 5 MW are deemed renewable. Generation facilities using
renewable sources pay only 50% of the fixed part of connection fee; facilities using hydro power obtain this benefit if their granted capacity does not exceed 10 MW.

BiH ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change in 2007. A Designated National Authority for a clean development mechanism has yet to be established or identified.

5. Conclusion

Bosnia and Herzegovina performs satisfactorily overall and with respect to its grouping (Group B), slightly above the average for Energy Community contracting parties and observers, but below the average for fellow Energy Community contracting parties. Moreover, within its Group, Bosnia and Herzegovina has an electricity sector score of 0.849 relative to an Energy Community average of 0.860 for Energy Community contracting parties only and 0.827 for Energy Community contracting parties and observers.

Bosnia and Herzegovina’s primary challenge is its unique political structure, which complicates and slows development of the regulatory framework and operations thereunder. Within the electricity sector, phased market opening is underway, but while competition is allowed as a matter of law, only the very largest customer has chosen eligibility, the legal framework is not yet comprehensively developed sufficient to support competitive supply, and a lack of metering and billing support present further obstacles to the development of a competitive market framework. Nonetheless, in 2008 the sector as a whole operated profitably for the first time in decades, and BiH is one of the few exporters of power in the region.

The gas market is in its nascent stages, with development of the regulatory framework underway, but only the RS establishing a regulator and little gas legislation as yet in place. With BiH lacking any domestic production and all exports coming from Russia via Ukraine, Hungary and Serbia, development of a wholesale market will be a challenge. Current consumption is concentrated in two large industrial plants, only about 10-15% of the population is reached by natural gas and there is no gas storage. Future development will depend an ability for the entities to work together to establish a harmonised legal framework and coordinate their development plans.
Electricity spider graph – Bosnia and Herzegovina

Note: The diagram presents the electricity sector results of Bosnia and Herzegovina, in accordance with the benchmarks and indicators identified in the assessment model. The extremity of each axis represents an optimum score of 1.0, that is, full compliance with international best practices. The fuller the “web”, the closer the overall electricity regulatory framework approximates international best practices. The results for Bosnia and Herzegovina are represented by the thick bold line. For comparison purposes, the shaded area presents the electricity sector average of the Group B countries.

Electricity Sector - Comparative view of Group B countries (contracting parties and observers)

Notes: (O) stands for observers of the Energy Community Treaty. The results for Serbia do not include Kosovo.