



**REGULATORY COMMISSION FOR ENERGY
OF REPUBLIC OF SRPSKA**

**ANNUAL REPORT
FOR 2008**

Trebinje, May 2009

PREFACE

Annual report of the Regulatory Commission for Energy of Republic of Srpska gives a comprehensive overview of implementation of all of its activities aimed at achievement of objectives as defined by the business plan and financial plan (budget) of Regulatory Commission for 2008.

The basic aim of action of the Regulatory Commission is establishment and improvement of the regulatory framework, which is necessary for functioning of the energy sector in Republic of Srpska, in a way which shall, in market circumstances, provide safety of supply of energy for customers and sustainable development of this sector.

Regulatory Commission for energy, primarily established as Regulatory Commission for electricity, for the fourth year in continuity realizes its competence which is related to regulation of relationships in generation, distribution and supply of electricity. Those activities are carried out through monitoring of application of the prescribed conditions of the issued licenses for realization of the activities, i.e. by checking and directing of behavior of the licensees regarding their work transparency, necessary unbundling of bills, relationships against other market participants as well as relation towards environment and effective use of the energy resources.

In 2008, Regulatory Commission developed a very important document which defines connection of structures of the distribution system users of electricity to distribution network with the basic aim to provide for determination of the fair amount of fee for connection and create conditions for distribution network development, in order to provide safety of supply of customers with electricity.

By making regulations for regulation of tariffs and issuance of licenses, Regulatory Commission provided preconditions for conduct of proceedings for determination of tariffs for transport, distribution and supply of customers with natural gas, determination of the fee for connection of structures to distribution and transmission network, as well as conditions for issuance of licenses for realization of activities to energy sectors in the natural gas sector in Republic of Srpska.

A significant activity in the energy field for Republic of Srpska and Bosnia and Herzegovina in 2008 is related to provision of conditions for application of the Treaty on establishing Energy Community of Southeastern Europe. By this Treaty, Republic of Srpska, within BiH, committed itself to implementation and transposition, in the domestic legislation, of Acquis Communautaire of the European Union which are related to the electricity and natural gas markets, protection of environment, renewable energy sources and competition. Regulatory Commission has actively participated in the realization of the road maps as well as reporting of the competent institutions on the achieved progress and application of the mentioned Treaty.

The presented revised financial reports, according to which the revenues were achieved in the percentage of 100.41% and expenditures in the percentage of 93.39% in relation to the planned, say in the best way what the financial operation of the Regulatory

Commission in 2008 was. As far as the non-spent amount of money is concerned, the licensees for realization of the electric power activities were reduced the amount of the regulatory fee for 2009.

Regulatory Commission was strictly following, in its work, the principles which imply: acting within the framework of competences and obligations as prescribed by the law, compliance with the rules, procedures and methodologies published in advance, as well as transparency of work which necessarily include consultations with the public while making decisions.

Presenting information about its work in a way as prescribed in this Report, Regulatory Commission provides reporting on its work pursuant to Article 31 of the Electricity law of Republic of Srpska.

INTRODUCTION

Regulatory Commission for energy of Republic of Srpska (hereinafter: Regulatory Commission, RERS) was established by the Law on electricity (Official Gazette of Republic of Srpska, number 66/02) entitled Regulatory Commission for electricity of Republic of Srpska, in order to regulate the electricity market in Republic of Srpska. Change of the name resulted in Regulatory Commission for energy of Republic of Srpska and it was carried out pursuant to the Law on amendment of the electricity law (Official gazette of Republic of Srpska, number 60/07), by which this independent, specialized, non-profitable organization was extended the competence over other fields of energy by special law. The gas law (Official gazette of Republic of Srpska, number 86/07) prescribed the competences of the Regulatory commission in the gas sector. In the meantime, it was made also a cleaned text of the Electricity law (Official Gazette of Republic of Srpska, number 8/08).

This report covers information about the activities of Regulatory Commission which marked the previous year, 2008, and pursuant to provisions of Article 30 of the Electricity law of RS (Official Gazette of Republic of Srpska, 8/08) is submitted to the National Assembly of RS for adoption.

The report is divided in several parts which emphasize the most important activities of Regulatory Commission.

The initial part of the chapter on key activities contains quantitative indicators on number of the regular sessions, internal meetings and public hearings, as well as the number and type of the documents made.

Furthermore, there is a division on activities related to:

- issuance of licenses and monitoring of the prescribed license requirement compliance,
- regulation of prices of electricity and electric power services and market opening,
- protection of customers,
- settlement of disputes and complaints,
- development of documents of Regulatory Commission,
- cooperation,
- employees of the Regulatory Commission and
- financing and financial indicators of the business operations

In the second part, there is an overview of the electric power sector and market of electricity and natural gas in Republic of Srpska.

1. The legal framework for regulation of the energy sector and energy activities and competences of RERS

The Electricity law and Gas law represent the basic regulation of the energy sector, based on which Regulatory Commission made secondary legislation which, along with the mentioned laws, make legal framework for regulation of the energy sector in Republic of Srpska, based on which were conducted the activities of the Regulatory Commission in 2008.

When it is about the secondary legislation of the Regulatory Commission, its activities are conducted based on the following documents:

- Decision on appointment of the president and Decision on appointment of members of the Regulatory Commission for electricity of RS (Official Gazette of RS, number 90/03, 93/03 i 128/06),
- Statute of the Regulatory Commission for electricity of RS (Official Gazette of RS number 41/04, 67/07 i 113/07),
- Code of Ethics for members and employees of the Regulatory Commission for electricity of RS (Official Gazette of RS, number 49/04),
- Procedural Rules of the Regulatory Commission for energy of RS (Službeni glasnik Republike Srpske, broj 96/04),
- Rule on work, internal organization and systematization of the work places of the Regulatory Commission for Energy of Republic of Srpska (Official Gazette of Republic of Srpska, 49/04),
- Decision of the National Assembly of Republic of Srpska on adoption of the Budget of the Regulatory Commission for Energy of Republic of Srpska for 2008, number 01-1921/08 dated 03.12.2008 (Official Gazette of Republic of Srpska, 117/08),
- Decision on the regulatory fee for the companies dealing with generation, distribution and trade of electricity based on the approved Budget for 2008 (Official Gazette of RS, 9/09),
- Rule on issuance of licenses and consents (Official Gazette of RS, 4/09),
- Decision on the amount of one-off regulatory fee (Official Gazette of RS, 16/09),
- Rule on tariff methodology and tariff proceeding for electricity (Official Gazette of RS, 61/05),
- Decision on the content and application forms in the tariff proceeding (Official Gazette of RS, 65/05),
- Decision on determination of the application forms for approval of prices and tariffs and forms for technical and financial data (Official Gazette of RS, 65/05 and 59/07),
- Rule on public hearing and settlement of disputes and complaints (Official Gazette of RS, 71/05),
- General conditions for delivery and supply of electricity (Official Gazette of RS, 85/08),
- Rule book on getting a status of eligible customer (Official Gazette of RS, 88/06),
- Rule book on confidential information (Official Gazette of RS, number 10/07),
- Rule book on reporting (Official Gazette of RS, 61/07),

- Decision on the uniform regulatory chart of accounts (Official Gazette of RS, 17/07),
- Decision on the tariff system for sale of electricity in RS (Official Gazette of RS 28/04, 40/06, 59/07 and 114/07),
- Rule book on methodology for determination of the fee for connection to the distribution network (Official Gazette of RS, 123/08),
- Rule book on tariff methodology in the system of transport, distribution, storage and supply with natural gas (Official Gazette of RS, 9/09)

Basic competences of the Regulatory Commission in the electricity sector are as follows:

- Monitoring and regulation of relationships between generation, distribution and customers of electricity including traders of electricity,
- Prescription of the methodology and criteria for determination of price of use of the distribution network and the supply price of electricity for non-eligible customers and methodology for determination of the fee for connection to the distribution network,
- Making of the tariff system for sale of electricity and use of distribution network,
- Determination of the tariff rates for distribution system users and tariff rates for non-eligible customers,
- Issuance or revocation of the licenses for generation, distribution and trade of electricity,
- Making of general conditions for delivery and supply of electricity,
- Determination of the electricity price at the plant outlet.

Basic competences of the Regulatory Commission in the natural gas sector are as follows:

- Determination of the methodology for calculation of costs of generation, transport, distribution, storage and supply with natural gas,
- Determination of the methodology for calculation of costs of connection to the network,
- Making of the tariff system for calculation of prices for use of the system for generation, transport, distribution, storage of natural gas and tariff system for calculation of the price of natural gas for the tariff customers supply,
- Determination of the criteria and prescription of the conditions for getting, amendment and revocation of the license for realization of the activities as well as deciding upon, in the proceeding for getting, amendment and revocation of the license for realization of the activity in the natural gas sector,
- Deciding upon the complaint of the decisions of the transport and distribution system operators in the proceedings for giving consent to the network use and consent for connection to the network,
- Determination of the minimum annual consumption of the natural gas which is to be used for getting a status of the eligible customer and the status is determined and keeping of the register of eligible customers of natural gas,

- Giving consent to the rules of operation of the system operator and to the general conditions for supply with natural gas,
- Giving consent to the energy undertakings for the prices of services and the price of the natural gas supply,

2. Key activities

2.1 Sessions, meetings and public hearings

Regular sessions, internal meetings and public hearings

In 2008, Regulatory Commission held 19 regular sessions and 27 internal meetings. The issues and documents within the regulatory competence were analyzed and made in the regular session pursuant to the Law on electricity, Law on gas and prescribed competences, while the issues and documents of the organizational-administration nature were analyzed and made at the internal meetings. The structure and number of the documents adopted in the regular sessions and internal meetings is presented in the table as follows:

Regular sessions – 19		Internal meetings - 27	
Document type	Number	Document type.	Number
Minutes	19	Minutes	27
Adopted decisions	6	Adopted decisions	61
Adopted rulings	45	Adopted rulings	7
Adopted conclusions	69	Adopted conclusions	20
Press release	54	Adopted rules	1
Drafts determined	6	Guidelines	1
Rules adopted	4	Agreement on the peaceful settlement of the dispute	1
Interpretation	1		
Opinion	1		

Table 1 -Structure and number of the documents made

Regulatory Commission, complying with the principle of transparency of work, held several public hearings pursuant to the Rule on public hearings and settlement of disputes and complaints (Official Gazette of RS, 71/05). In 2008, RERS held 26 public hearings related to:

- Making of general normative documents - General conditions for delivery and supply of electricity, Rule book on tariff methodology in the system of transport, distribution, storage and supply with natural gas, Rule book on methodology for

determination of the fee for connection to the distribution network, Rule book on issuance of licenses,

- Issue for licenses for electric power activities and
- Settlement of disputes between participant in the electric energy market

The number of public hearings is as follows, in table 2:

Public hearing type	Rules and regulations	Issuance of licenses	Tariffs and market	Settlement of disputes	Total number of the hearings held
General public hearings	9	5	-	-	14
Technical hearings	7	-	-	-	7
Formal hearings	-	-	-	5	5
TOTAL					26

Table 2 - Structure and number of public hearings

2.2 Making of general normative documents

Regulatory Commission for energy of Republic of Srpska, within its competences, in 2008 made several normative documents in the sectors of electricity and natural gas.

2.2.1 General conditions for delivery and supply of electricity

Amending the Electricity law - cleaned text of the Official Gazette of RS number 8/08, the need arose to amend the General conditions for delivery and supply of electricity (hereinafter General conditions) and to comply them with provisions of the Electricity law of RS. Having conducting the prescribed procedures related to development and making of the secondary legislation, starting from the creation of the draft document, public hearing holding and given deadline for submission of public comments, Regulatory Commission in its public session which was held on 07.08.2008 made General Conditions for delivery and supply of electricity of RS number 85/08 dated 15.09.2008.

2.2.2 Rule book on the methodology of the fee for connection to the distribution network

This Rule determines the method of determination of the fee for connection of the structures of the distribution system user of electricity to distribution network.

The basic aim of this Rule is to provide determination of the fair amount of the fee for connection to the distribution network in transparent, efficient and cost-effective proceeding and creation of conditions for development of the distribution network in order to provide with safety of electricity supply for customers.

After the public hearings held and expiry of deadline for submission of the comments, RERS in its 38 regular session, analyzing all comments which are submitted in the public hearing process of this document, made Rule on methodology for determination of the

fee for connection to the distribution network, on 8 December 2008 and which was published in the Official Gazette of RS number 123/08.

2.2.3 Rule on the issuance of licenses

In order to conduct regulatory competences of RERS within the natural gas sector, pursuant to the Gas law in RS, it was made the document related to the issuance of licenses for the activities in the natural gas sector. RERS had Rule on the license issuance which was made end of December 2007 with amendments which respected amendment of the Law on electricity - cleaned text. It is decided to make one Rule which shall cover the issuance of license for activities in the sectors of electricity and gas. In that sense, RERS made, upon the completion of the procedure for making these documents, Rule on issuance of licenses in its regular session which was held on 22 December 2008, and published in the Official Gazette of RS, number 04/09.

2.2.4 Making of the rule on eligible generator and incentive for generation of electricity from the renewable energy sources and combined generation of heat and electricity

Decision on the amount of the premium of the redemption prices of electricity generated in the eligible plants and effective co-generation facilities

Draft Rule on the eligible generator and incentives of generation of electricity from renewable energy sources and combined generation of electricity and heat and draft Decision on the amount of premium and guaranteed redemption prices of electricity generated in the eligible plants and efficient co-generation plants were determined on 18 April 2008. Draft Rule and Draft Decision are in the public hearing process. In 2008, three public hearings were held. A very important precondition for making these documents is defining the energy policy for renewable energy sources which implies the defining indicative aims of the share of electricity generated from renewable sources and co-generation in the gross consumption of electricity of RS. Draft Law on energy of RS provides that RS Government gives its consent to regulations which are related to incentives for use of the renewable energy source, so that the final making of these documents is expected in 2009.

2.2.5 Rule book on tariff methodology in the system of transport, distribution, storage and supply with natural gas

This Rule determined as follows:

- Methodology for calculation of costs of transport, distribution, storage and supply with natural gas,
- Methodology with calculation of costs of connection to the network for transport and/or distribution of natural gas,

- Tariff system for calculation of the prices for access and use of the system for transport, distribution and storage of natural gas and tariff system for calculation of the price of the natural gas supply for tariff customers,
- Tariff proceeding for approval, namely giving consent to the tariff rates for use of distribution system of natural gas in RS, tariff rates for use of the transport system of natural gas in RS, tariff rates for supply of tariff customers with natural gas in RS and tariff rates for transport system operator with natural gas in RS.

The aim of making this Rule is to provide fair and cost-effective proceeding of the price regulation in the natural gas sector, introduction of the market mechanism and internationally accepted practice based on principles of the equal access and non-discrimination of transport and distribution network users and storage in the natural gas system, and clear and conditions known in advance of access and use of transport and distribution network and storage of natural gas.

In its 39 regular session, which was held on 22 December 2008, RERS, taking into account submitted comments on the draft Rule, adopted the proposal of the Rule on tariff methodology in the system of transport, distribution, storage and supply with natural gas.

i distributivne mreže i skladišta u sistemu prirodnog gasa, te jasni i unaprijed poznati uslovi pristupa i korišćenja transportne i distributivne mreže i skladišta prirodnog gasa.

Pursuant to provisions of this Rule, the companies dealing with transport, distribution and supply of end users in RS with natural gas are obliged to, within 90 days from publication of the Rule, submit to RERS, the application for the approval of prices and tariffs.

2.3. Issuance of licenses and monitoring

2.3.1. Issuance of licenses for generation of electricity

a) Application of the Fabrika glinice "Birac", a.d. Zvornik

Fabrika glinice Birac a.d. Zvornik is the licensee for generation of electricity and trade and supply of electricity on the territory of BiH. It submitted an application to RERS for interpretation of the license requirements number 01-330-04/22/07 dated 19 July 2007 for generation of electricity, points 3.1 and 5.3 and the one related to the issue of equal treatment of participants in the electricity market. Regarding this, there was a formal hearing held on 27 February 2008 with participants of the applicant, ERS, SERC and ISO. RERS in its regular session made interpretation of the stated points of the license for generation of electricity.

- 3.1. The subject of the license is generation of electricity mostly for its own uses in the plant - thermal power plant of the Fabrika glinice "Birac" a.d. Zvornik, which technical and energy data are stated in the point 1.2.2 of this license.
- 5.3. Licensee is entitled to contract the sale of surpluses of electricity generated pursuant to the law, under the legal rules and regulations of RERS and requirements of this license.

Interpretation of the stated license requirements for generation of electricity and attitude towards equal status of participants in the electricity market was published in the Official Gazette of RS and website of RERS.

b) Application of the company "Eling MHE" d.o.o. Teslic for amendment of the license for generation of electricity

ELING MHE Teslic submitted an application for amendment of the license for generation of electricity which was previously issued by RERS Decision. Having in mind that this application was not complete, RERS asked for amendment. Since the applicant did not submit requested documents in several occasions, RERS left it additionally the period of 90 days for submission of documents and the same was extended for 30 days more at the request of the applicant. Since the application was not complete within the prescribed deadline, RERS rejected this application as incomplete on 7 August 2008.

c) Application of the company "ELING MHE", d.o.o. Teslic for issuance of the license for generation of electricity

The joint stock company "ELING MHE" Teslic submitted the application to RERS for issuance of the license for generation of electricity in the plant on the Vrbanja river, municipality of Kotor Varos. The application was related to generation capacities which were covered by the first phase of the construction which the license was already issued for. RERS made decision for generation of electricity on 23.10.2008.

2.3.2. Issuance of licenses for trade and supply of electricity in BiH

a) Application of the MH ERS - Trebinje, ZP RiTE Gacko, A.D. Gacko

The company of MH ERS - Trebinje ZP RiTE Gacko, A.D. Gacko submitted an application for issuance of the license for trade and supply of electricity in BiH. The application was amended in order to complete necessary data for conduct of the process of the license issuance which was issued by RERS on 11.02.2008 with the validity period of two years.

b) Application of the Service and trade company "ENERGY FINANCING TEAM" d.o.o Trebinje

Service and trade company "ENERGY FINANCING TEAM", d.o.o.Trebinje submitted an application for issuance of the license for trade and supply of electricity in BiH. RERS made decision on 17 June 2008 which issues the requested license to the applicant with the validity period of four years.

c) Application of the company 'ELING INZENJERING" d.o.o.Teslic

The company of "ELING INZENJERING" submitted an application for issuance of the license for trade and supply of electricity in BiH. RERS made Decision on 17 June 2008 which is issued the license with the validity period of two years.

d) Application of Fabrika glinice "Birac" a.d. Zvornik

The company of Fabrika glinice "Birac" a.d. Zvornik submitted an application for issuance of the license for trade and supply of electricity in BiH. With the Decision made by RERS on 22 December 2008 it was issued the license for the validity period of four years.

e) Application of the company "ELING INZENJERING" d.o.o. Teslic
The company "ELING INZENJERING" d.o.o. Teslic submitted an application for revocation of the license for trade and supply of electricity in BiH. The applicant stated that it did not carry out the stated activity and also that it did not have an intention to do it in future. The proceeding was conducted pursuant to the Rule on issuance of licenses and RERS made decision on 22 December 2008 to revoke the license from the licensee "ELING INZENJERING" d.o.o. Teslic for trade and supply of electricity in BiH.

2.3.3. Issuance of licenses for construction of the electric power facilities

a) Application of "EFT Rudnik and thermal power plant Stanari" d.o.o.Stanari
Joint stock company for generation of electricity and generation, processing, transport and trade of coal "EFT - Rudnik and Termoelektrana Stanari" d.o.o.Stanari, submitted an application for issuance of license for construction of the electric power facility of the TPP Stanari. Upon the conducted proceeding which is related to making the license, RERS made decision on issuance of the license for construction of the TPP Stanari, capacity of 420 MW, with the validity period of 6 years.

b) Application of MH ERS ZEDP "Elektro-Bijeljina" a.d. Bijeljina
ZEDP "Elektro-Bijeljina" a.d. Bijeljina submitted an application for issuance of the license for construction of the distribution substation TS Bijeljina IV of the installed capacity of 2x8 MVA of the voltage level of 35/10 kV. The public was informed that the application was complete and deadline was give for submission of comments and date was determined for getting a status of intervener to the proceeding. RERS determined the license draft and date for general public hearing, deadline for submission of comments in writing on draft license and deadline for registration to get the status of intervener to the proceeding. The license issuance process shall continue in the next 2009.

2.3.4. Monitoring of the licensees for electric power activities

Pursuant to provisions of the Law and Rule for issuance of licenses, RERS carried out monitoring activities of the licensees of the electric power activities in 2008. The monitoring was carried out in order to follow harmonization of operation of activities, licensees with the license requirements for electric power activities.

Monitoring activities were carried out by the RERS teams, upon previously prepared program of monitoring separately for each company. Monitoring of the actual situation and harmonization of operation of the licensee with the license requirements was determined by the monitoring team by checking and taking appropriate documents, inspecting of facilities and equipment and taking the statements of the representatives of the licensee. The report of the monitoring process contains the information about the situation determined regarding compliance of the license requirements and established irregularities of the license use. The reports from the monitoring activities which essential parts are the proposal of the corrective measures for removal of failures were submitted by RERS for comments of the licensees. After the analysis f the submitted reports from the monitoring activities and comments received, RERS issued the Decision which

prescribed the measures for removal of failures determined which contains the deadline for removal of failures as well as reporting on realization of the prescribed measure in order to comply with the license requirements.

In 2008, the monitoring of the following licensees was carried out:

- Service and trade company “ENERGY FINANCING TEAM” d.o.o. Trebinje – license for trade and supply of electricity in BiH
- “ELING MHE”, d.o.o. Teslic – license for generation of electricity,
- MH ERS – Parent company a.d. Trebinje ZP “Elektrokrajina” a.d. Banja Luka – license for supply of tariff customers with electricity,
- MH ERS ZP “Elektro-Hercegovina”, a.d. Trebinje – license for supply of tariff customers with electricity,
- MH ERS ZP “Elektrodistribucija” a.d. Pale – license for supply of tariff customers with electricity

2.4. Regulation of prices and opening of the market of electricity and natural gas

Sectors of electricity and gas, usually called “grid energy” are the subject of the biggest concern of economy and citizens of each country because of importance which they have on the economic activity and living standard.

The activities which are carried out in these sectors may be divided on monopolistic (control of transport, i.e. transport and distribution network of electricity and natural gas, and storage of natural gas) and activities which may be carried out in the market conditions (generation, trade and supply of tariff customers with electricity and natural gas). Monopolistic activities are the subject of full regulation by the respective body, while “market” activities require the process of liberalization of conditions for their realization, i.e. introduction of such market mechanisms in which it will be possible to make their market nature.

Article 1 of the Electricity law prescribed the aim of the law in a sense that it “tends to promote gradual liberalization of the national electricity market following the principles of non-discrimination and equal treatment of persons and property” while RERS, by regulating prices for use of distribution network and prescribing conditions for the market opening, contribute to realization of this aim.

Also, in order to achieve as better organization, regulation and functioning of the natural gas sector and providing of the safety of supply and development of the natural gas system, the Gas law prescribed that RERS determine methodology for calculation of costs of generation, transport, distribution, storage and supply of natural gas for customers and the price of access and use of transport and distribution system or storage.

In 2008, there was no tariff proceeding but RERS, within the scope of its competences which are arising from the law, regarding regulation of the prices, made Rule book on methodology for determination of the fee for connection to the distribution network, Rule book on tariff methodology in the system of transport, distribution, storage and

supply of natural gas as well as draft Rule on eligible generator and incentives for generation of electricity from renewable energy sources and combined generation of heat and electricity and draft Decision on the amount of premium and guaranteed redemption prices of electricity generated in the eligible plants and efficient co-generation facilities.

2.4.1. Opening of market of electricity and natural gas

One of the basic aims of opening of the energy market is establishment of rights for customers to choose the supplier of electricity and natural gas and vice versa and providing equal, transparent and impartial conditions for suppliers to carry out supplying of customers with electricity and natural gas.

Regulatory bodies in BiH started with harmonized activities related to the electricity market opening in 2006, when State regulatory commission for electricity made Decision on volume, conditions and time schedule on opening of the market in BiH, while RERS and FERC, following the adopted terms from the Treaty on establishing Energy Community for the South East Europe prescribe the criteria for getting a status of eligible customers by making Rule book for getting a status of eligible customer.

For the market opening, apart from the prescribed right of the eligible customer to choose the supplier, it is also necessary to provide other assumptions. That is why RERS in 2006 and 2007 apart from making rules of status of eligible customer, gave its contribution for creation of conditions for the opening of market of electricity by giving consent to the distribution grid rules, determination of tariffs for the distribution network use, by creating assumptions for determination of tariffs for ancillary services and issuing the licenses for trade and supply of electricity. Apart from that, in 2008, there were activities related to following and analysis of the market in other European countries, and possibilities for stimulating the market opening in RS and BiH.

When it is about the natural gas market in RS, as the Gas law in RS was made on 25 September 2007, RERS started with conduct of the activities after that which are in its competences as well as the activities related to the market.

2.5. Protection of customers of electricity and natural gas

2.5.1 Regulatory framework of the protection of customers

The law on electricity and Gas law prescribed the following competences of the Regulatory Commission related to protection of customers:

- Regulation of quality of service and tariffs, taking into account the interests of customers and needs of the company for delivery of electricity and natural gas,
- Providing transparent and non-discriminatory behavior at the electricity and natural gas market,
- Making measures for prevention of the misuse of the monopolistic behavior of the licensees whose licenses were issued by Regulatory Commission,
- Participation in the settlement of disputes and achievement of agreements between customers and distributors and suppliers of electricity and between customers and transporters, distributors and suppliers of natural gas,

- Providing other indirect aims of protection of customers while prescribing the license requirements for realization of certain electric power activities,

In the Annex A of Directive 2003/54/EZ and Annex A of Directive 2003/55/EZ there are measures for protection of customers which comprise: the right to the contract which contains inter alia the supplying conditions previously defined, quality of the offered service, obligation of timely informing the customers, the right to the reimbursement and indemnification, settlement of disputes and other issues, obligation of timely informing about conditions and method of the price change, obligation to inform about the prices and tariffs under standard conditions, right to choose the method of payment, information about the right to the universal service for electricity customers.

Basic elements for providing equal treatment and non-discrimination to use distribution network and supply of end users with electricity which were the subject of operation of the Regulatory Commission in 2008 are:

- Defining terms and conditions of delivery and supply with electricity, minimum standards of services and obligatory elements of the contracted protection of electricity customers under the monopoly conditions,
- Already known, easy for benchmarking, the prices of services, determined in a clear and objective way based on the previously defined methodology and its application without discrimination,
- Providing rights in a simple, fast and effective proceeding of the protection of customers in case of violation of his rights;

For the purposes of as better as possible protection of rights of end users regarding the conditions for access to and use of the network, minimum standard of the service and contracted protection in relation with the licensee for electricity and licensee for supply, Regulatory Commission made, in 2008, new General Conditions for delivery and supply of electricity, modified due to the amendments of the Law on electricity and others in order to improve, clarify and simplify the provisions which stipulate rights and obligations of the network users and end user, licensee for distribution of electricity and licensee for supply, the connection procedures and access to the network, contract elements and information which should be delivered to the customer.

Tariff rates for the distribution system users and tariff rates for non-eligible customers of electricity pursuant to provisions of the Rule on tariff methodology and tariff proceeding, as determined by the Regulatory Commission, provides that the prices of electricity are to be determined based on the previously defined methodology, on the basis of objective criteria, published before being applied and then applied without discrimination, as prescribed by provision of the Article 3 of Directive 2003/54/EZ.

As regards the protection measure of end users with electricity, and particularly vulnerable customers, including the measure of support to avoid disconnection, as well as the measure of protection of end users in remote areas, General Conditions stipulate the conditions for disconnection of customers, disconnection procedure, and specifically the prohibition to disconnect customers on public holidays, weekend or days when the call

centre of the licensee is closed. It is also prohibited to disconnect end users that use electric-medical devices for health purposes. In case of extremely cold weather conditions, termination of delivery can be applied only as the final measure. Solving disputes and complaints, Regulatory Commission provides the end user with a simple protection procedure in a case when the customer finds that his rights are violated.

As regards the protection measure of end users with natural gas, Regulatory Commission created, by adopting Rule on licenses and Rule on tariff methodology in the system of transport, distribution, storage and supply with natural gas, initial conditions for monitoring and providing protection of end users with natural gas within its competences arising from the Gas law.

2.5.2 Settlement of disputes and complaints

In 2008, Regulatory Commission was submitted 122 applications for settlement disputes within the scope of regulatory competence.

According to the Electricity law of RS, the reasons for initiating the dispute before the Regulatory Commission are related to the following:

- the right to the electricity supply,
- the right to access to the distribution network,
- obligation of delivery of electricity,
- tariffs at which the electricity is being delivered,
- terminations in the electricity supply,
- refusal to deliver electricity and
- quality of the electricity supply;

Regulatory Commission also decides on the complaints for settlement of applications for obtaining the electric power consent for connection of the end user structures to the distribution network.

In 2008, two complaints were received and solved on the issuance of the electric power consent.

Structure of the dispute according to the dispute type referred to in Article 28 of the Electricity Law	Received	Completed	Ongoing
the right to be supplied with electricity	8	8	0
the right of access to the distribution network	1	1	0
refusal of delivery of electricity	15	15	0
tariffs at which electricity is delivered	37	37	0
quality of electricity supply	4	4	0
terminations in electricity supply	0	0	0
other:	57	57	0
- debt/interest write off	40	40	
- obsolescence	4	4	
- damage reimbursement	5	5	

- transfer of debt, moving in/out, complaint on the distribution work etc	8	8	
total	122	122	0

Table 3 – Structure of disputes

2.5.3 Protection of socially vulnerable customers

Although the issues of protection of socially vulnerable customers regarding the amount of expense for electricity and affordability of electricity for socially vulnerable customers do not belong to the direct regulatory competence, Regulatory Commission for Energy of RS is one of the participants to the process of defining Program of the socially vulnerable categories of electricity customers. This program was adopted by the RS Government end of 2007, within the scope of wide system program of protection measure of the socially vulnerable categories of population in RS, pursuant to the conclusion made by the National Assembly of RS.

The protection program of the socially vulnerable categories of customers of electricity in RS was realized pursuant to the program of the operation of the RS Government for 2008, and was conducted pursuant to the RS Government decision; number 04/1--12-2265/07 dated 21 December 2007 and number 04/1-012-812/08 dated 10 April 2008.

Taking into account that affordability of electricity firstly depends of the tariffs as well as inter-dependence of different mechanisms of protection of customers, RERS gave its contribution to many activities which were carried out in RS, BiH and Energy Community of South East Europe aimed at improvement of protection mechanisms of socially vulnerable end users and increase of affordability of electricity for end users in case of the social need.

It is important to mention that the respective social Program was also initiated by the Memorandum on understanding on social issues in the context of Treaty on establishment of the Energy Community of South East Europe, which signatory is BiH.

In that sense, pursuant to the Article 6 of the MoR on social issued in the context of the Energy community, Ministry of civil affairs of BiH made Decision on appointment of the Task force consisted of representatives of relevant ministries of both entities and Brcko district, which task is creation of the social action plan for BiH.

The social program of RS Government aimed at prevention of "tariff shock" for socially vulnerable categories of population which cannot afford increase of the electricity price.

The program treats the social categories of the society that are legally defined and are as follows:

1. Retired with lowest pensions,
2. Beneficiaries of financial assistance,

3. Beneficiaries of assistance and care of another person,
4. Beneficiaries of maternal assistance,
5. Beneficiaries of the assistance for children

Pursuant to the RS Government Decision on adoption of the Protection program of socially vulnerable categories of electricity customers, Ministry of industry, energy and mining, during the first half of 2008, subsidized per 100 kWh of electricity monthly/beneficiary, but the Government with its Decision increased this amount in the second half of 2008 to 150 kWh/monthly. Applying the appropriate tariffs for the category of consumption "household", Ministry of industry, energy and mining made quarter calculations and allocation of assets to the electric distribution companies in RS.

The realized amount of subsidies in 2008 was 5,560.495 BAM in total, namely in the quarter terms:

- I 30 942 beneficiaries were subsidized by the total amount of subsidy of 1 203 201 BAM,
- II 28 760 beneficiaries were subsidized by the total amount of subsidy of 873 980 BAM,
- III 31 715 beneficiaries were subsidized by the total amount of subsidy of 1 446 204 BAM
- IV 34 363 beneficiaries were subsidized by the total amount of subsidy of 2 037 108 BAM

Electric distribution company	Number of beneficiaries entitled to subsidy			
	I	II	III	IV
Elektrokrajina	12.368	11.101	12.447	13.509
Elektro Dobož	5.225	5.023	5.625	5.975
Elektro-Bijeljina	5.410	5.556	6.131	7.030
Elektro distribucija Pale	4.578	4.124	4.397	4.635
Elektro-Hercegovina	3.361	2.956	3.115	3.214
TOTAL	30.942	28.760	31.715	34.363

Table 4 – Number of the subsidized beneficiaries

Pursuant to the preliminary determined number of the possible beneficiaries of Ministry of health and social care and Ministry of work and invalid protection (about 68 thousand of possible beneficiaries), and which was used while making Program for estimate of necessary budget funds, it was planned the amount of the required budget funds of 10,000.000 BAM which was necessary to be obtained in 2008.

Although the number of possible beneficiaries according to the records of the respective ministries was about 68 thousand, the fact is that about 28-35 thousand beneficiaries quarterly applied in 2008 to be social program beneficiaries in 2008, so in this way during 2008 some 5, 560, 495 BAM were spent for subsidies. This is also one of the reasons to increase the subsidies from the mid 2008 from 100 kWh to 150 kWh/monthly.

Applying (current) tariffs for sale of electricity, the quarter amount for subsidizing one beneficiary with 150 kWh monthly, with VAT amounted to 45,59 BAM at low-summer tariff and 59.28 BAM at high/winter tariff. Taking into account the fact that the average monthly consumption of electricity in the households in RS amounts to about 300 kWh, it is considered that the subsidizing of socially vulnerable categories of customers with 150 kWh of electricity per a month, does not cancel the effects of the increase of electricity price but achieves real social assistance for more than 30 thousand beneficiaries in case of social need, so that the effect of this program is expected and positive.

2.6. Reporting

Pursuant to the Rule on reporting which became effective mid July 2007 and which was made by RERS in order to collect information required for realization of activities within the scope of its competence, there is an obligation determined for all licensees for generation of electricity, distribution of electricity and supply of tariff customers with electricity and trade and supply of electricity, namely the obligation to submit the prescribed forms with financial, technical, organization and other data as well as documents of the companies within the prescribed terms.

Submission of the prescribed forms and documents in 2008 was more complete than in the previous year, although all companies were not always reporting within the prescribed term, in the prescribed form of applications and in total. The annual reports with financial data and documents which are submitted on a yearly basis until the moment of making this report were not completely submitted. In order have effective collecting and use reliable data, the intention is to improve and complete the reporting process, whereby special emphasis shall be paid during the planned monitoring activities of the companies which carry out generation, distribution and supply of tariff customers.

2.7. Cooperation

2.7.1. Energy Community of Southeast Europe

Energy Community of Southeast Europe was established by the Treaty which signatories are the following countries: Bosnia and Herzegovina, Croatia, Serbia, Montenegro, Albania, Macedonia, Romania, Bulgaria and UNMIK from one side and European community on another.

Countries signatories are committed to establish the common market of electricity and gas which shall function applying the standards and rules of electricity market of EU that it shall be integrated with.

As invited by the Energy community secretariat, representatives of the Regulatory Commission participated in:

- 12 Athens Forum, 15/16.05 2008
- 13 Athens Forum, 02/03.12.2008

Representatives of the Regulatory Commission took part in the Second Gas forum which was held on 16 April 2008 in Maribor, as well as in the Third Gas forum which was held on 16 October 2008 in Ljubljana.

2.7.2 ERRA - Regional association of the energy regulatory bodies

Regional association of the energy regulators is an association of the regulatory bodies of countries of central and east Europe, former Soviet Union countries and Turkey with the main office in Budapest. It has got 21 full and 5 associated members. The aims of this Association are related to improvement of regulation of the energy activities in the member countries, share of information, research and experiences between members, better access to information on the world experience in regulating energy activities.

In the organization of this Association, in July 2008 it was organized the meeting on the subject New transport systems of gas in Europe and meeting of the Task force for gas in Budapest, attended by representatives of the Regulatory Commission for Energy of RS.

2.7.3. Cooperation with other regulatory commissions

Regulatory Commission for energy of RS, from its establishment till today, has realized successful cooperation with State regulatory Commission for energy (SERC) which seat is in Tuzla and Regulatory Commission for electricity in Federation of Bosnia and Herzegovina which seat is in Mostar (FERC). As it has the case earlier, Regulatory Commission for energy of RS has achieved full cooperation with other two commission while making rules and regulations within the scope of its competence, and sharing experience and knowledge from certain areas of regulatory activities.

2.7.4. Participation in the works of workshops, conferences and seminars

In 2008, members and staff of RERS participated in the work of workshops, seminars and conferences which are related to regulation of the electric power sector and which aim is to improve the work of this sector. Presence and participation of

members and staff in the work of these workshops is firstly for the purposes of building capacity and education which are related to, first of all, as follows;

- application of the EU Acquis Communautaire,
- investment and regulation in the energy sector,
- regulation school in neighborhood,
- international accounting standards,
- protection of environment and challenges of climate changes,
- renewable energy sources,
- tariffs in the electric power sector and affordability of electricity for socially vulnerable customers,
- energy efficiency,
- energy future of the Balkans,
- legislative for gas in EU

It is important to mention the participation in the work of the Training project for the Southeast Europe in organization of the Governments of GB and Slovenia.

A considerable part of all mentioned seminars and conferences was donated by the organizers, so that RERS only partly took part in financing participation in the seminars.

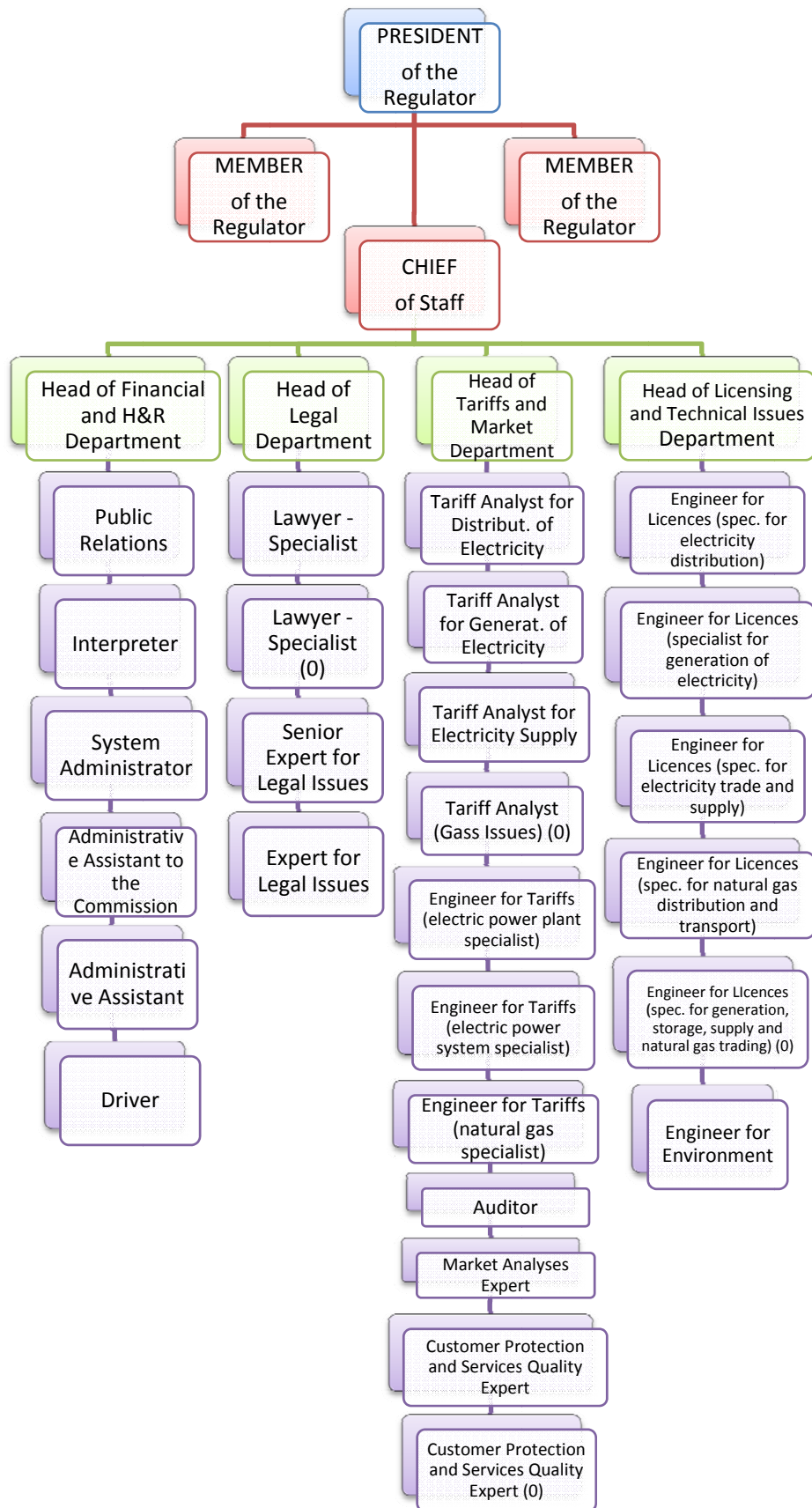
3. Employees, organization and transparency of work

3.1. Employees and organization of work of Regulatory Commission

Thirty persons are employed in the Regulatory Commission for Energy of RS, including its members.

The work of the staff is organized in four sector and all employees meet the prescribed conditions and are professionally qualified for the work they carry out.

According to the Employment project of trainees in RS, one trainee was engaged in RERS in the public competition procedure.



3.2. Transparency of work of Regulatory Commission

The public is regularly informed about the activities of Regulatory Commission which are related to its regulatory competence.

All activities of the Regulatory commission are available for the public at the website of Commission. The public can also be informed by direct contacts which is realized between members and authorized persons of Regulatory Commission from one side and representatives of the media on the other.

Regulatory Commission organizes public hearings: general, technical and formal which are open to the public. Notices on holding public hearings are published in the newspapers, website of RERS as well as its notice board.

It is a legal obligation of Regulatory Commission to publish all decisions and rulings within the scope of regulatory competence in the Official Gazette of RS.

Transparency of work aims at achievement better understanding of work and activities in the energy sector, through interactive approach between Regulatory Commission and public.

4. Financing of the Regulatory Commission

4.1. Financing

The Electricity law and Statute of the Regulatory Commission for energy of RS stipulates that financing of Regulatory Commission for energy of RS is to be done from fees and charges of the companies dealing with generation, distribution and trade of electricity, fees for licenses which are issued pursuant to the Law, as well as donation by governmental and non-governmental organizations.

Regulator, in its internal meeting which was held on 1 November 2007, determined the Budget for 2008 and it was adopted in its 16th session of the National Assembly of RS which was held on 13 December 2007 ("Official Gazette of RS", number 119/07).

This analysis of the Budget realization for 2008 is adapted to the form according to which the Budget was adopted as well.

		Budget for 2008.	Realization until 31 December 2008	Share of the planned costs	Percentage of realization
1	2	3	4	5	6
I REVENUES					
1	Revenues from fees and charges from the companies dealing with generation, distribution and trade of electricity	1.762.000	1.769.200	107,32	100,41
2	Paid one-off fee in 2008	0	32.400	1,97	0,00
3	Other revenues	3.200	2.596	0,16	81,13
	Return of the non-used regulatory fee		-155.719		
	TOTAL REVENUES	1.765.200	1.648.477	100,00	93,39
II EXPENDITURES					
A	CURRENT COSTS	1.765.200	1.648.477	100,00	93,39
1	Costs of material, fuel, energy and heating	79.000	67.049	4,07	84,87
1.1.	Costs of material	27.000	22.313	1,35	82,64
1.1.1.	Stationary and other material	27.000	22.313	1,35	82,64
2	Costs of gross salaries and material	1.196.000	1.194.035	72,43	99,84
3	Costs of generation services	214.000	189.715	11,51	88,65
3.1.	Costs of municipal services	36.500	34.105	2,07	93,44
3.2.	Maintenance costs	9.500	7.166	0,43	75,43
3.3.	Publication of documents in newspapers	50.000	31.014	1,88	62,03
3.4.	Rent of property and equipment	118.000	117.430	7,12	99,52
4	Intangible costs	206.200	129.027	7,83	62,57
4.1.	Traveling costs in the country	60.500	31.437	1,91	51,96
4.2.	Travelling costs abroad	36.800	32.199	1,95	87,50
4.3.	Insurance costs	9.000	7.134	0,43	79,27
4.4.	Costs of banking services	3.500	3.406	0,21	97,31
4.5.	Contracted and other services	96.400	54.851	3,33	56,90
5	Depreciation	70.000	68.651	4,16	98,07
	TOTAL EXPENDITURES	1.765.200	1.648.477	100,00	93,39
B.	CAPITAL EXPENDITURES	105.600	102.271	6,20	96,85
1.	PROCUREMENT OF EQUIPMENT	105.600	102.271	6,20	96,85
1.1.	IT equipment	15.000	12.816	0,78	85,44
1.2.	IT network	4.000	1.858	0,11	46,45
1.3.	Fixed telephones	1.800	1.996	0,12	110,89
1.4.	Air conditioning devices	1.800	1.392	0,08	77,33
1.5.	Furniture	23.000	24.544	1,49	106,71
1.6.	Vehicles	60.000	59.665	3,62	99,44

Table 5 - Budget realization

The paid amount in 2008 amounted to 1,804,196 BAM which is more than 2,4% compared to the planned amount of 1,762,000,00 BAM. The difference is related to the payment of the one-off regulatory fees for issuance of new licenses, submission of application for initiating the first tariff proceeding and financial revenues.

Out of total payments, 1,648,477 BAM were revenues such as:

- based on the regulatory fee 1,613,481 BAM
- based on the one-off regulatory fee 32,400 BAM

- based on the financial revenues	1,312 BAM and
- from other sources	1,284 BAM;

Total expenditures in relation to the adopted budget were realized with 93,39% in 2008.

While realizing certain costs, Regulator was analyzing its needs in cost-effective way, taking into account the respect of the adopted budget and in order not to exceed it, which is obvious from the tables.

The licensees were approved and transferred the amount of 155,719 BAM by Regulator, and which is the difference between the calculated and spent money in 2008.

4.2. Audit report

The statute of Regulatory Commission for energy of RS provides the compulsory annual audit of financial reports.

While preparing the final statement for 2008, the public invitation was published on 3 October 2008 for selection of the independent auditor, pursuant to the Law on procurement of goods, services and works.

Upon the conduct procedure, on 17 December 2008, independent auditor "EF Revizor" Banja Luka was selected which carried out the audit of financial reports following the prescribed dynamics, expressed its audit report and submitted the report on 25 March 2009 from which we present the Balance sheet, Profit and Loss Statement and Audit opinion.

ИЗВЈЕШТАЈ НЕЗАВИСНОГ РЕВИЗОРА

1. Извршили смо ревизију финансијских извјештаја РЕГУЛАТОРНЕ КОМИСИЈЕ ЗА ЕНЕРГЕТИКУ РЕПУБЛИКЕ СРПСКЕ, Требиње за 2008. годину. Ревизијом су обухваћени Биланс стања на дан 31.12.2008. године и Биланс успјеха за пословну годину која се завршава на тај дан.

За финансијске извјештаје и податке у финансијским извјештајима одговорни су чланови Регулаторне комисије за енергетику Републике Српске. Наша одговорност је да, на основу обављене ревизије, изразимо мишљење о тим финансијским извјештајима.

2. Ревизију смо обавили у складу с одредбама Закона о рачуноводству и ревизији Републике Српске („Службени гласник Републике Српске“, број 67/05), Правилника о ревизији финансијских извјештаја у Републици Српској („Службени гласник Републике Српске“, број 120/06) и Међународним стандардима ревизије. Поменути стандарди налажу да ревизију планирамо и извршимо на начин који омогућава да се, у разумној мјери, увјеримо да финансијски извјештаји не садрже материјално значајне погрешне исказе. Ревизија укључује контролисање доказа, на бази провјере узорака, који поткрепљују износе и њихова објелодањивања у финансијским извјештајима. Ревизија укључује и оцјену примијењених рачуно-водствених начела и значајних процјена извршених од стране руководства, као и оцјену опште презентације финансијских извјештаја. Сматрамо да ревизија коју смо извршили обезбјеђује разумну основу за изражавање нашег мишљења.

3. По нашем мишљењу финансијски извјештаји објективно и истинито, по свим питањима, приказују финансијско стање имовине и обавеза Регулаторне комисије за енергетику Републике Српске Требиње, на дан 31.12.2008. године, као и резултате њеног пословања за годину која се завршава на тај дан, у складу са Међународним рачуноводственим стандардима, Међународним стандардима финансијског извјештавања и рачуноводственим прописима Републике Српске.

Бања Лука, 25.03.2009. године



Овлашћени ревизор

Мр Ранко Батинић

БИЛАНС СТАЊА – скраћена шема
на дан 31.12.2008. године

у КМ

П О З И Ц И Ј А	Напомене	Текућа година			Претходна година
		Бруто	Испр.вријед.	Нето(3-4)	
1	2	3	4	5	6
A. АКТИВА					
I СТАЛНА ИМОВИНА		476.360	235.125	241.235	207.864
Лиценце		8.675	6.106	2.569	1.620
Опрема		467.685	229.019	238.666	206.244
II ТЕКУЋА ИМОВИНА		268.448	0	268.448	389.647
Краткорочна потраживања		39.535	0	39.535	43.799
Готовина		228.913	0	228.913	345.848
III ПОСЛОВНА АКТИВА		744.808	235.125	509.683	597.511
B. ПАСИВА					
I КАПИТАЛ		276.046	0	276.046	276.046
Нераспоређени вишак прихода из претходне године		276.046	0	276.046	276.046
II КРАТКОРОЧНЕ ОБАВЕЗЕ		233.637	0	233.637	321.465
Обавезе за авансе		137.325	0	137.325	247.101
Обавезе према Довољачима		16.766	0	16.766	21.153
Обавезе за зараде и накнаде		44.333	0	44.333	35.000
Обавезе за порезе и доприносе		24.449	0	24.449	18.211
Друге обавезе		10.764	0	10.764	0
ПОСЛОВНА ПАСИВА		509.683	0	509.683	597.511

БИЛАНС УСПЈЕХА – скраћена шема
у периоду од 01.01. до 31.12.2008. године

у КМ

П О З И Ц И Ј А	Напомена	Износ	
		Текућа година	Претходна година
1	2	3	4
ПРИХОДИ РЕДОВНЕ ДЈЕЛАТНОСТИ		1.645.881	1.310.283
Приходи од регулаторне накнаде		1.613.481	1.143.437
Приходи од једнократних регулаторних накнада		32.400	166.846
ОСТАЛИ ПРИХОДИ		1.284	11.267
Остали приходи		1.284	11.267
ФИНАНСИЈСКИ ПРИХОДИ		1.312	1.434
Приходи од камата		1.312	1.434
РАСХОДИ РЕДОВНЕ ДЈЕЛАТНОСТИ		1.648.268	1.322.714
Трошкови материјала		18.775	17.109
Трошкови горива и енергије		46.159	33.542
Трошкови бруто зарада и накнада		1.193.376	936.161
Трошкови производних услуга		191.517	179.158
Трошкови амортизације		68.692	58.215
Нематеријални трошкови		129.749	98.529
ОСТАЛИ РАСХОДИ		209	270
Отпис основних средстава		209	270
УКУПНИ ПРИХОДИ		1.648.477	1.322.984
УКУПНИ РАСХОДИ		1.648.477	1.322.984
ДОБИТАК		0	0
Порез на добитак		0	0
НЕТО ДОБИТАК		0	0

Frevizor

INDEPENDENT AUDITOR REPORT

1. We carried out the audit of financial reports of the Regulatory Commission for energy of Republic of Srpska, Trebinje for 2008. The audit covered Balance Sheet on 31 December 2008 and Profit and Loss Statement for the business year which is over that day.
Members of the Regulatory Commission for energy of Republic of Srpska are responsible for the financial reports and data in the financial reports. Our responsibility is to, based on the audit conducted, express our opinion on those financial reports.
2. The audit was conducted pursuant to provisions of the Law on accounting and audit of Republic of Srpska ("Official Gazette of Republic of Srpska" number 67/05), Rule on audit of financial reports in Republic of Srpska ("Official Gazette of Republic of Srpska" number 120/06) and International audit standards. The mentioned standards impose us to plan for and conduct the audit in a way which enables to, to the reasonable extent, make sure that the financial reports do not contain any materially significant wrong statements. The audit includes the evidences' control, on the basis of the random sample, which support the amounts and their publication in the financial reports. The audit includes the estimate of the applied accounting principles and significant estimated made by the management as well as the estimate of general presentation of the financial reports. We think that the audit we conducted provides the reasonable basis for expression of our opinion.
3. In our opinion, the financial reports objective and truly, in all aspects, present the financial situation of property and liabilities of the Regulatory Commission for energy of Republic of Srpska Trebinje, on 31 December 2008 as well as the results of the its operations which is completed that day, pursuant to the International Accounting Standards, International Standards of the financial reporting and accounting regulations of Republic of Srpska.

Banja Luka, 25.03.2009

Authorized auditor
signature, stamp
M. Sc Ranko Batinic

Frevizor**BALANCE SHEET - short scheme
31/12/2008**

Position	Remarks	CURRENT YEAR			Previous year
		Gross	Corr. of the value	Net (3/4)	
1	2	3	4	5	6
A. ASSETS					
I FIXED ASSETS					
Licenses					
Equipment					
II CURRENT PROPERTY					
Short-term assets					
Cash					
III COMPANY ASSETS					
B. LIABILITIES					
I CAPITAL					
Non-allocated surplus of revenues from previous year					
II SHORT-TERM LIABILITIES					
Liabilities for the advance-payment					
Liabilities towards the suppliers					
Liabilities for salaries and fees					
Liabilities for taxes and contributions					
Other liabilities					
BUSINESS LIABILITIES					

PROFIT AND LOSS STATEMENT - short scheme
01.01 - 31.12. 2008

POSITION	Remark	Amount	
		Current year	Previous year
REVENUE FROM REGULAR ACTIVITIES			
Revenue from the regulatory fees			
OTHER REVENUES			
Other revenues			
FINANCIAL REVENUES			
Revenues from the interests			
EXPENDITURES FROM REGULAR ACTIVITIES			
Costs of the material			
Costs of fuel and energy			
Costs of gross salaries and fees			
Costs of generation services			
Depreciation costs			
Intangible costs			
OTHER REVENUES			
Write-off of the fixed assets			
TOTAL REVENUES			
TOTAL EXPENDITURES			
PROFIT			
Tax on profit			
NET PROFIT			

5. Information system of RERS

In 2008, any significant changes in the structure of the information network of RERS were not made. The principle which the computer and telecommunication network was based on is sufficiently scalable and provides simple extension of the capacity, so that there were not system changes on it. The system functionality has been improved by relatively simple increase of number of computer and telephone inputs which were already foreseen by the initial system configuration.

Investment in the computer and telecommunication network of RERS was made in 2008 and can be divided in two parts:

- a) extension of the existing IT network infrastructure and
 - b) regular maintenance
-
- a) Obtaining new competences within the regulation scope (upon the adoption of the Gas law of RS in September 2007), there was a need for more significant use of the existing IT capacities in RERS and for that purpose, the extension of the existing computer and telephone network. That process included the following: creation of the additional computer and network installations in the rented premises and its connection to the existing installation; installation of 24 port router, extension and re-arrangement of the existing telephone installations in rack chamber (transfer of the existing installations of the telephone network (30 local) and dispatch of 10 locals to new DDI groups from the central switch to the telephone switching panel. This extension did not cover the procurement of new computers but the function of radio stations was taken by the existing portable computers used in sectors.
 - b) Investment in IT system which is related to regular maintenance of stability and safety of the complete computer system and includes as follows:
 - i. Maintenance of the system for registration of working hours and control of access to RERS premises,
 - ii. Maintenance related to the website of RERS: web hosting, rent of domain, re-design,
 - iii. Updating of the anti-virus software at working pages and server,
 - iv. Updating of the software for mail serve application and for anti-virus/anti-spam application which is integrated in it;

Regular maintenance is meant by replacing old or damaged parts or devices which do not carry out its functions any more or due to certain circumstances became useless (hard discs, routers, memory cards, etc). Having in mind the period of use of the network and computer equipment, it can be stated that the level of the intervention changes within the whole IT system is pretty modest.

During the last year, the contract was made with Mtel RS on use of the broadband internet connection - ADSL service, with the package which includes the flow of 2 Mb/256. In this way, internet traffic has been considerably eased and exchange of the electronic mail. This segment used to be a bottle neck before in communication between internal and external network (intranet-internet).

The connection is established through the individual applications and is not permanent which can be one of the ways to avoid permanent open status of internal network which can be misused in that way. This way of using ADSL service shall be used until procurement of professional firewall devices which shall protect internal network through the contemporary software and hardware technologies which comprise them. Internet traffic and exchange of electronic mail are filtered by appropriate software packages which are placed on the proxy server so that beneficiaries are mostly protected by the misuse which is possible through the web and email service.

With ENREG consultants, within the program of technical assistance to the regulatory system in the energy sector in BiH, it was made the study: Analysis of IKT system of RERS and for the reasons to introduce the applications for reporting and system for the document management. From this study, after several working meetings with the expert teams of RERS, two complex tendering documents:

- Tendering documents for procurement of the Document management system and
- Tendering document for the Reporting forms

These documents describe and include solutions which should enable effective and efficient running of business in Regulatory Commission with the stress on the safety and integrity of data and documents.

B. ENERGY SECTOR - MAKRET OF EELCTRICITY AND NATURAL GAS IN REPUBLIC OF SPRSKA

1. GENERATION OF ELECTRICITY

1.1. Generation of electricity - installed capacities, balance and realization

Generation of electricity in Republic of Srpska is carried out in five plants in which generation is basic (licensed) activity and four small hydro power plants which operate within the system of two distribution companies and also have the license for generation, everything within the mixed holding "Elektroprivreda Republike Srpske". Electricity is generated in small hydro power plants by independent generators "MHE Divic" and "MHE Strpci" which are privately owned, while the generated electricity is forwarded to the distribution network of Elektrokrajina and Elektrodistribucija Pale, respectively.

Plant	Installed capacity MW
HPP Trebišnjica	2x54 + 1x63
	2 x 108*
	1x8
HPP Drina	3x105
HPP Vrbas	2x55
RiTE Gacko	1x300
RiTE Ugljevik	1x300
SHPP Mesići	3
SHPP Bogatići	8
SHPP Tišča	2
SHPP Vlasenica	0,9
SHPP Štrpci	0,08
SHPP Divič	2,28

* the system of MHERS 1 generator from the HPP Dubrovnik

Table 6 - Installed capacity of the generation capacities in Republic of Srpska

All above stated plants, apart from HPP Vlasenica, HPP Strpci and HPP Divic have, according to the license requirements, the public service obligation in order to supply tariff customers in Republic of Srpska.

The realized generation of all plants in Republic of Srpska in 2008 amounted 5,006,151 MWh. In 2008, it was realized more generation than in the previous 2007, but less than in 2006 and 2005 as presented in the table.

Plant	Generation per years (GWh)			
	2005.	2006.	2007.	2008.
HPP Trebišnjica	1.252,56	1.150,40	769,42	863,91
HPP Drina	1.167,95	1.103,33	815,22	788,97
HPP Vrbas	326,59	297,27	211,31	251,28
Total hydro power plants	2.747,10	2.551,00	1.795,95	1.904,16
RiTE Gacko	1.423,87	1.527,39	1.149,42	1.532,07
RiTE Ugljevik	960,57	1.275,11	1.441,50	1.523,36
Total thermal power plants	2.384,44	2.802,50	2.590,92	3.055,43
SHPP	69,10	59,84	66,95	46,56
TOTAL GENERATION	5.200,64	5.413,34	4.453,82	5.006,15

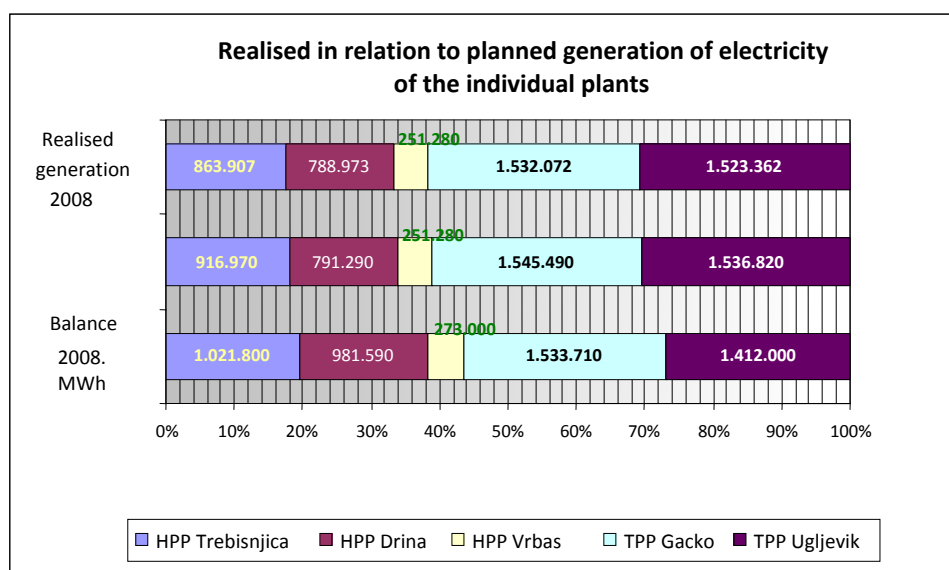
Table 7 - Generation of electricity in the period 2005 -200

Re-balance of the business plan of MH ERS for 2008 was made on the basis of realization in the first seven months of 2008 and estimate of the concrete amounts for the remaining months of 2008, so in this way it was determined the re-balance of generation in the amount of 5,098,110 MWh which is 3,5% less than the generation planned by the Electric power balance of Republic of Srpska for 2008.

Break down of generation of the companies which are obliged to offer public service in relation tot he Electric power balance of RS for 2008 and compared tot he re-balance is presented in the next table and diagram.

Plant	Balance 2008 (MWh)	Re-balance 2008 (MWh)	Realized generation 2008 (MWh)	Realization/ balance	Achieved generation/re- balance
	(1)	(2)	(3)	(4)=(3)/(1)	(5)=(3)/(2)
HPP Trebišnjica	1.021.800	916.970	863.907	84,5%	94,2%
HPP Drina	981.590	791.290	788.973	80,4%	99,7%
HPP Vrbas	273.000	251.280	251.280	92,0%	100,0%
Total hydro power plants	2.276.390	1.959.540	1.904.160	83,6%	97,2%
RiTE Gacko	1.533.710	1.545.490	1.532.072	99,9%	99,1%
RiTE Ugljevik	1.412.000	1.536.820	1.523.362	107,9%	99,1%
Total thermal power plants	2.945.710	3.082.310	3.055.434	103,7%	99,1%
SHPP Mesići	17.230	17.230	15.981	92,8%	92,8%
SHPP Bogetići	33.890	33.890	20.671	61,0%	61,0%
SHPP Tišča	5.190	5.140	5.228	100,7%	101,7%
Total small HPP	56.310	56.260	41.880	74,4%	74,4%
Total generated electricity of the plants which are obliged to provide for public service	5.278.410	5.098.110	5.001.473	94,75%	98,10%

Table 8 - Planned and realized generation in 2008



Picture 1 - Planned and realized generation in 2008

Pursuant to the submitted monthly reports it was made the following break down of sale and realized revenue from the sale of electricity of generators in Republic of Srpska, which are obliged to provide with public service for the purposes of tariff customers supply:

Plant	Sale of electricity in 2008 kWh			Revenue from the sale of electricity in 2008/BAM		
	Tariff customers	Export and other customers	Total	Revenue from tariff customers	Revenue from export	Total revenue
HET	662.742.314	201.164.762	863.907.076	27.047.368	20.660.712	47.708.080
HPP Drina	600.082.772	188.890.113	788.972.885	8.623.663	15.644.908	24.268.571
HPP Vrbas	173.365.665	77.914.335	251.280.000	8.933.638	7.588.320	16.521.958
RiTE Gacko	974.569.527	557.502.473	1.532.072.000	62.571.162	59.763.287	122.334.450
RiTE Ugljevik	996.268.532	527.093.193	1.523.361.725	73.023.643	53.547.477	126.571.119
Total big plants	3.407.028.810	1.552.564.876	4.959.593.686	180.199.474	157.204.705	337.404.179
SHPP Tišča	3.235.898	1.991.971	5.227.869	189.586	165.325	354.910
SHPP Mesići	11.067.320	4.913.662	15.980.982	591.100	514.154	1.105.254
SHPP Bogatići	14.947.680	5.723.249	20.670.929	473.895	573.330	1.047.225
TOTAL	3.436.279.708	1.565.193.758	5.001.473.466	181.454.055	158.457.513	339.911.569

Table 9 - Sale and revenue from the sale of electricity

Out of totally realized generation, 68,71% in RS is related to tariff customers and based on the sale to tariff customers, it was realized 53,38% of total revenue from the sale of electricity of the generation licensee.

31,29% is related to the export and other customers of totally generated electricity, while a share of the realized revenue from the export and sale to other customers amounts to 46,61% of total revenue.

1.2. Renewable energy sources

Renewable energy is obtained from the natural processes which are renewed permanently. In all different forms, it is obtained directly from the sun or heat generated deeply in the ground. Renewable energy is meant by renewable non-fossil energy sources which are not in the hard condition.

Renewable non-fossil energy sources are: wind, sun, geothermal, watercourses, biomass, waste area gas, gas from the waste water treatment plants and other kinds of bio-gasses.

1.2.1 Benefits from the renewable energy

The reasons for stimulating generation of electricity from renewable sources are numerous and briefly can be defined as:

- Contribution to the sustainable development (protection of environment and cost-effective use of non-renewable primary energy sources),
- Support to fulfillment of the Kyoto protocol objectives,
- Creation of favorable conditions for domestic and foreign investors,
- Possibility for engagement of domestic industry and civil engineering,
- Contribution to the sustainable development of local communities and social cohesion (employment, less migration and similar),
- Improvement of the safety of supply with electricity,
- Gradual achievement of competitiveness of electricity generated from renewable sources at the electricity market

1.2.2 Legal framework in Republic of Srpska

Article 36 of the Electricity law of RS

The company which in individual generation facility generated electricity using the waste or renewable energy sources, in cost-effective way and pursuant to the measures related to protection of environment, may gain a status of eligible generator, based on the requirements prescribed by Regulator.

The incentives for generation of electricity from renewable sources, including the waste, as well as the combined generation of heat and electricity are prescribed by

Regulator everything for the purposes of achievement of objectives of generation of electricity from renewable energy sources and energy efficiency, as defined by the electric power policy.

In the document "Basics of the energy policy of Republic of Srpska" dated November 2008, taking into account considerable non-used potentials in renewable sources as one of the specific aims in development of the energy sector it is recognized the need to increase generation of electricity from renewable sources, in order to ensure while providing availability of different energy sources safety of supply, give a considerable contribution to protection of environment and regional development as well as contribution to the total social cohesion.

The law on electricity of RS prescribes that the Government of RS is in charge of energy policy which provides for use of the renewable energy sources and possibility to use different primary sources of energy, and define indicative aim of share of electricity generated from the renewable sources in gross consumption.

The law prescribes that RERS stipulates conditions for getting a status of eligible generators and terms and conditions under which the generators of electricity from renewable sources, including the waste, may realize the right for incentives.

1.2.3. RERS activity related to creation of the secondary legislation

- Draft Rule on eligible generator and incentives for generation of electricity from renewable energy sources and combined generation of heat and electricity,
- Draft Decision on the amount of premium and guaranteed redemption prices of electricity generated in the eligible plants and effective co-generation plants

Pursuant to its competences and business plan for 2008, RERS determined by the Draft Rule prescription of the terms and conditions for incentives for generation of electricity generated from renewable energy sources and effective co-generation plants.

1.2.4. Possible incentive system in RS

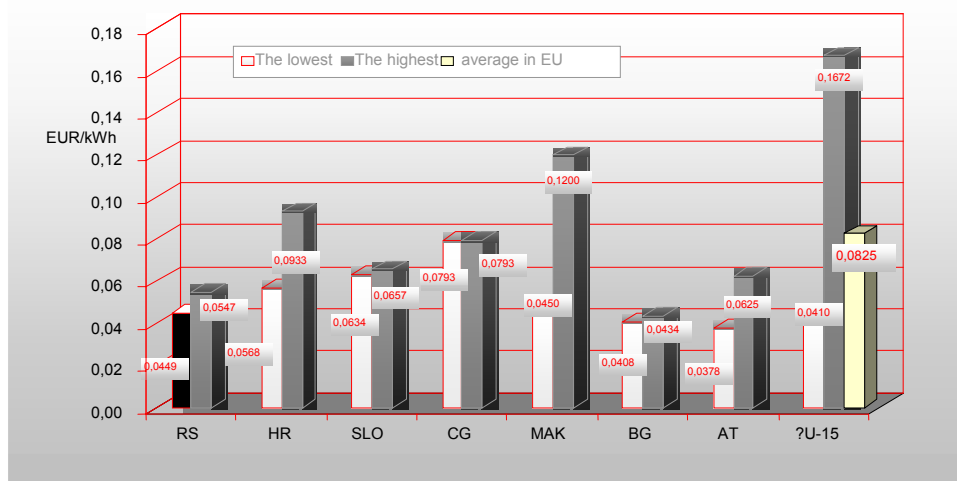
Directive on renewable energy sources 2001/77 does not oblige the member countries to use exactly determined support scheme for generation of energy from renewable sources, but it is on the countries to choose the support scheme which is the best for its specific features. The most popular support schemes in the world are as follows:

- Guaranteed redemption price ("feed-in tariffs"⁹,

- Green certificates and compulsory amounts and quotas,
- Combined support systems,
- Assistance for investing,
- Tax facilities;

The experiences of some European countries (Germany, Spain, Austria, etc) point it out that thanks to the application of the guaranteed redemption system at previously published and contracted prices ("feed-in tariffs"), they achieved a considerable progress in generation of electricity from renewable sources. Respecting the specific features of the electric power system, and level of use of the potentials in RS, RERS, while drafting secondary legislation, relied on the support mechanism which is based on the system of the guaranteed redemption price ("Feed-in tariffs").

Picture 2 - SHPP - Guaranteed redemption prices in the neighboring countries (31 December 2008) (the price for RS is the price from the Draft Decision on the amount of premium and guaranteed redemption prices of electricity generated in eligible plants and efficient co-generation facilities)



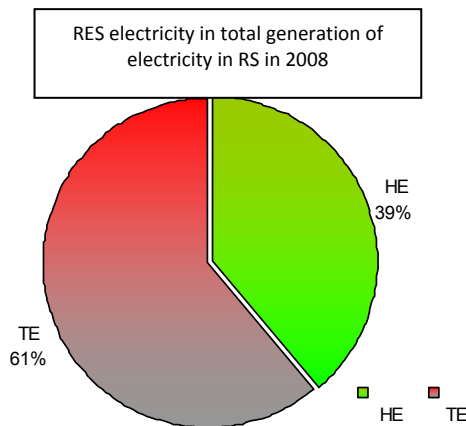
Secondary legislation which were in the form of drafts until the end of 2008, defined the methodology for determination of incentives which should achieve future stipulated objectives, followed by lowest costs for the social community. Draft Rule and incentive through the guaranteed redemption price provide also advantages while connecting to the network, advantages while dispatching, the right to get the premium while generating for one's own needs, the right to the part of premium, while generating for the market, etc.

1.2.5. Energy from renewable sources in total gross consumption of electricity in RS

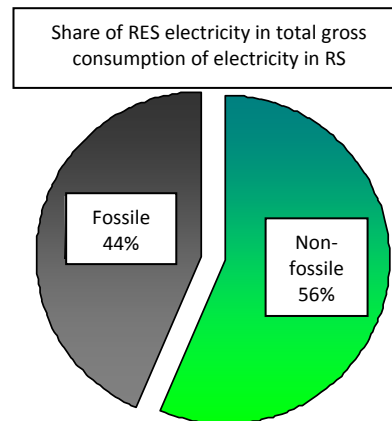
Republic of Srpska (and BiH in total), belongs to the countries with a big share of electricity generated from renewable sources. In the total structure of generation of electricity from renewable sources, there are big hydro power plants, installed capacity of more than 10 MW, which generation in 2008 amounted to 1904 GWh or 38%. Small hydropower plants, installed capacity below 10 MW achieved generation of 46,6 GWh or

1% of the total generation. These parameters are changing yearly depending on hydrology, operational availability of the thermal power plants, etc. In 2006, the realized generation in the hydro power plants was more for 30% compared to the realization in 2008. In RS, in 2008, the share of the renewable energy sources in the total gross consumption of electricity amounted 56% which is much less than the achieved share in 2006, when the share of the renewable sources in the gross consumption of electricity amounted to 76%.

Picture 3



Picture 4



1.2.6. Existing and additional capacities of SHPP in RS

Due to its natural characteristics, Republic of Srpska is one of the areas which are considered to be rich in the hydro power potential. Having in mind currently high percentage of the non-used hydro potential and the fact the energy of the watercourses is the cheapest source of energy, this form of the renewable sources in Republic of Srpska caused the biggest attention both with domestic and foreign investors (Austria, Norway, itd). The law on concession defined the method of using natural resources, and the first contracts on concession were signed. Until the end of 2008, total installed capacity of small hydro power plants for which the concession contract was signed amounted to 280 MW, and their estimated annaul generation was 1400 GWh. According to the capacity, out of total number of the granted concessions¹:

- capacity less than 1 MW 35 SHPP
- capacity from 1 to 2 MW 24 SHPP
- capacity from 2 to 5 MW 36 SHPP
- capacity from 5 to 10 MW 5 SHPP
- capacity more than 10 MW 6 SHPP

The biggest number of concession was granted to the catchment area of the Drina river (52 SHPP), then Vrbas river (38 SHPP) and (Bosna 11 SHPP).

It is sure that in this moment all SHPPs are not profitable in the economic terms and introduction of the incentive mechanism shall create more favorable economic environment for investment in the energy structures which, having in mind basis

¹ Source: Ministry of industry, energy and mining of RS

parameters which affect hteri long-term marginal cost, may provide in the system of the guaranteed redemption price the safety of redemption, cover the costs and get return on the invested means.

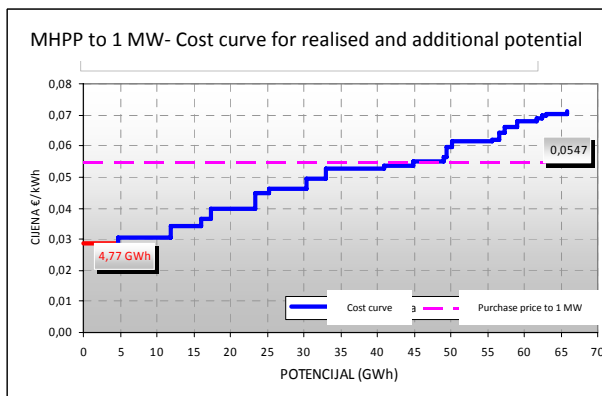
It was made the analysis of the existing and addtional potential of small hydro power plants in Republic of Srpska from the aspect of costs, and in the light of the Draft decision on amount of the redemption prices and premium. The exsiting potential of 68,0 GWh is related to the SHPP within the system of Elektroprivreda RS (Bogatici, Mesici, Tisca and Vlasenica), SHPP Divic and SHPP Strpci. For determination of the costs of the addtional potential, data available in the document of Eletkroprivreda RS "Break down of data on hydro power potential of small hydro power plants in RS" were used. From this document, data on the capacity (MW) and generation potential (GWh) were taken.

The curve of costs should present how much and at which price of electricity expressed in €/kWh (y) the additional potential of GWh (x) can be achieved in an economically justified way.

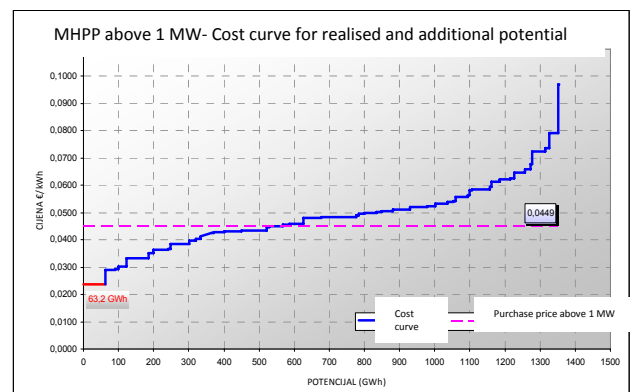
Picture 5 shows that the price of 5, 47 €/c/kWh enables the additional potential of about 45 GWh from the plants which installed capacity does not exceed 1 MW.

Picture 6 shows that the price of 4,49 €/c/kWh enable the additional potential of about 500 GWh from the plants which installed capacity is from 1 MW - 10 MW.

Picture 5 - Additional potential for SHPP up to 1 MW



Picture 6 - Additional potential for SHPP from 1 - 10 MW



1.2.7 Possible effect of fees for RES on end users

Since it was prescribed in the draft Rule that the end users should cover the costs of incentives, the analysis of effect of application of the guaranteed redemption prices of electricity from the draft Decision at the account of end user from the category of household, and for the additional potential of 504 GWh has given the following results:

- * total additional potential for the year 504,3 GWh
- * necessary for the premium annually 18.968.397 BAM
- * fee at the account of the customer 0,00632 BAM/GWh
- * annual cost of the average customer in the household (Dc 3500 kWh) 22,120 BAM

- * monthly cost at the account of the average customer in the household 1,843 BAM

1.2.7. European Union Acquis Communautaire

Acquis on the Renewable energy sources

- Directive 2001/77/EC of the European parliament and Council of 27 September 2001 on incentives for electricity generated using renewable energy sources in the internal market
- Directive 2003/30/EC of the European parliament and Council of 8 May 2003 on incentives for use bio-fuel or other renewable fuels in transport

Direktive 2001/77

- RES definitions
- general and national objectives
- support schemes
- Guarantee of origin (GO)
- Access to the network
- Administrative procedures
- Costs and subsidies

Signing and ratifying Treaty on establishment of the Energy community of South east Europe, BiH committed itself to apply EU Directive pursuant to the obligations arising from the Treaty. The title II (Acquis Communautaire), chapter five - Acquis on the renewable energy sources, commit the signatories to the Treaty to, within the year from the effective date of this Treaty, submit the implementation plan of Directive 2001/77/EC on incentives for generation of electricity from renewable sources and Directive 2003/30/EC on incentives for use of bio-fuels or other renewable fuels in transport.

Directive 2001/77/EC defines renewable energy sources as renewable non-fossil sources of energy (wind, sun, geo-thermal, watercourses, biomass, waste land gas, gas from the facilities for waste water treatment and landfill gas). Directive aims at the encouragement of generation of electricity from renewable energy source and increase of the share of energy generated from renewable energy sources in gross consumption. Directive emphasizes as follows:

- the need to make the incentive mechanism, but it does not give prejudice which mechanisms are to be used the country,
- importance of the market principles for achievement of competitiveness of the energy generated from renewable sources,
- the need to reduce administrative and non-administrative obstacles for increase of generation from renewable energy sources,
- the need to ensure objective, transparent and non-discriminatory regulations which take into account the features of different technologies,
- the need for, in order to maintain reliability and safety of the network, specifically define the rights and obligations of the network operator related to the access to the network system of generator of electricity from renewable sources,

- the need for the member countries to ensure the system of guaranteeing the electricity origin

New EU package (climate - energy)

In December 2008, EU ministries achieved an agreement on the climate - energy legislation, so-called "20-20-20".

- 20% increase of the energy efficiency,
- 20% decrease of green house emissions gases
- 20% of share of the renewable sources in total EU energy consumption up to 2020
- 10% share of bio-fuel in transport up to 2020

The Commission made proposal of new Directive with the aim to establish the measures for achievement of the stated objectives. The objective of 20% share of renewable sources in total consumption comprising: end consumption of electricity generated from renewable sources, end consumption of energy for heating and cooling and end consumption of energy from renewable energy sources (bio-fuel) in transport. Countries members freely decide on contribution of each of these three sectors on achievement of the defined national objective.

1.3. Generation of electricity - protection of environment

Regulatory Commission for energy of Republic of Srpska, within its competences, based on the conducted monitoring activities and analyses of the reports of the licensees for generation of electricity, checks also fulfillment of the requirements related to protection of the environment.

Licensees are imposed the obligations related to the protection of environments arising from the legal regulations which regulate the protection of environment and RERS competences. When it is about the laws, the most important ones are as follows:

- Law on protection of environment (Official Gazette of RS, number 28/05 - cleaned text),
- Law on protection of air (Official Gazette of RS, 53/02),
- Law on waters (Official Gazette of RS, 50/06),
- Law on waters (Official Gazette of RS, 10/98)
- Law on the waste management (Official Gazette of RS, 53/02) and other

One of the most important obligations which the licensees should meet is definitely the obligation to obtain the environmental license. Obtaining environmental licenses is, as prescribed by legal decisions, conditioned by obtaining a range of different documents and licenses which shall complete the obligations of each licensee.

When it is about hydro power plants in Republic of Srpska, all licensees obtained the environmental licenses, such as:

1. ZP "HPP Drina", a.d. Visegrad, 31 January 2008
2. ZP "HPP Trebisnjica", a.d. Trebinje, 30 March 2008
3. ZP "HPP Vrbas", a.d. Mrkonjic Grad, 12 February 2009

Environmental licenses for each licensee prescribes measures and proceedings which the licensees should meet, in order to make the impacts of its activities on environment as least as possible.

The licensee ZP "HPP Vrbas" a.d. Mrkonjic Grad has introduced and certified system of the environmental protection control pursuant to the ISO 14001, namely it possesses the internal plans developed and programs of the environmental protection control. Licensee mostly complies with all defined protection measures and improvement of environment.

The licensees ZP "HPP Trebisnjica" a.d. Trebinje and ZP "HPP Drina", a.d. Visegrad do not have the system of the environmental control introduced pursuant to ISO 14001. Also, all licensees do not have the plans and programs of development and improvement of environment introduced. However, it does not mean that there aren't significant measures undertaken in order to protect the environment.

It is necessary to emphasize the fact that the licensee ZP "HPP Drina" a.d. Visegrad has to meet a major part of its obligations related to protection of environment and arrangement of the banks in agreement with other entities, which sometime prevents appropriate fulfillment of all obligations. Namely, protection of environment and arrangement of the banks in Visegrad, requires engagement of the stated companies to meet the obligations as prescribed by the environmental licenses in the forthcoming period.

Until the end of 2008, RERS issued licenses for generation of electricity in four small hydro power plants. None of the mentioned small hydro power plants possesses the environmental license. It can be confirmed that the impact of these structures on the environment is of local nature and it is necessary to determine the environmentally acceptable flow, both for the existing structures and those ones which are planned to be built. When it is about small hydro power plants, it is necessary to emphasize that in RS, so far, more than 100 concessions for construction of the small hydro power plants were granted. Regulatory Commission for energy of Republic of Srpska is competent for issuance of the licenses for construction of the structure which capacity is more than 1 MW. Some concessions were granted for the water courses which are located in the national parks (National park Sutjeska), which requires particular attention to be paid from the environmental protection point of view. While issuing licenses, it can be noticed that the companies which submit applications for construction do not have the environmental license, which results in long period of the license issuance process for construction because the laws related to environment prescribe that the consent for approval for construction of some structures can be obtained only upon obtaining the environmental license.

Regulatory Commission issued two licenses for generation of electricity in the thermal power plants such as: ZP "Rudnik i termoelektrana Gacko" a.d. Gacko and ZP "Rudnik i termoelektrana Ugljevik", a.d. Ugljevik.

Brown coal is issued in both thermal power plants as the low calorific value fuel. The brown coal is obtained from the surface pits of coal which are located in the system of the mentioned companies.

Generation of electricity from the coal causes numerous impacts on environment, while the biggest problems that occur in the operation of these licenses, are smoke gases emissions, waste water which occur in the technological process, ash laying, and occupation of great surfaces of the land by the coal surface pits.

Smoke gases emissions, first of all particles and oxyds of nitrogen and sulphur, are defined by the law in RS (Law on protection of environment and Law on protection of air) and secondary legislation, but also by the obligations arising from the Treaty on establishment of the Energy Community of South East Europe. According to the laws of RS, all structures have to harmonize their emissions with the marginal values as prescribed by the Rule on the marginal values of emissions in air from the burning facilities (Official Gazette of RS, number 39/05) and pursuant to the Treaty on establishment of the Energy Community of South East Europe, BiH is obliged to apply, until 2017, provision of the Directive 2001/80/EC on the marginal values of the emissions in air.

In order to follow smoke gases emissions, it is necessary to provide for continual measuring of the polluting matters in the air. In 2008, TPP Gacko did not continually measure polluting matters in air. The reason for that was the lack of the equipment for measuring in TPP Gacko (the equipment was obtained beginning of 2009). The equipment for measuring polluting matters in TPP Ugljevik has already been installed, but there have been certain problems in its functioning. For TPP Ugljevik, there aren't measuring data in some periods when the measuring equipment was in operation. So called, the first measuring of the polluting matters was carried out in the TPP Gacko. The results of the first measuring for TPP Gacko, as well as data obtained by continual measuring in TPP Ugljevik in the mentioned period enables the creation, only partly, of the picture of the emissions in the air from these plants and to compare those values with the marginal values of the emissions. Emission values obtained by the mentioned measuring are presented in pictures 7, 8 and 9, and due to unreliable data, can serve only as approximate data and not as exact values. We would like to emphasise that the situation was identical in the previous year, namely that the licensees in 2008 did not meet the license requirements although the activities were initiated towards fulfillment of these obligation.

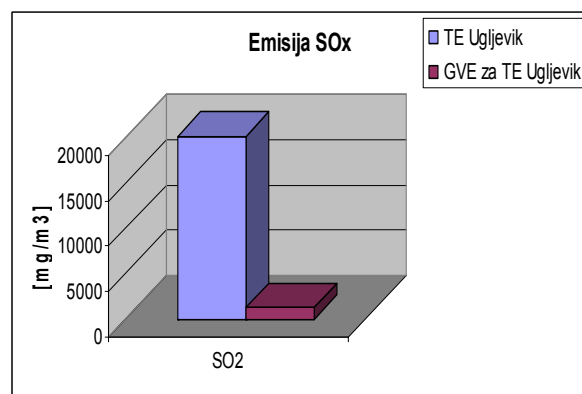
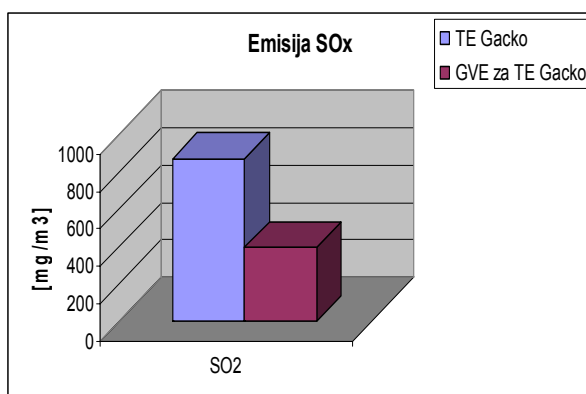
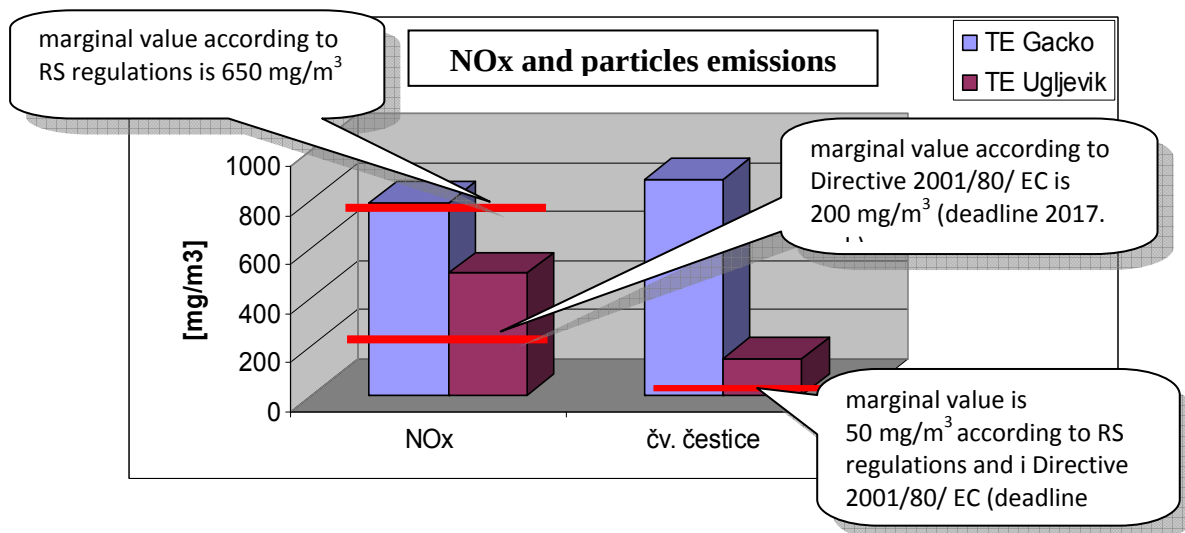
Based on this, it can be concluded as follows:

1. RITE Gacko

- Particles emissions exceed the marginal value of emissions
- Nitrogen oxide emissions exceed the marginal value of emissions a bit,
- Sulphur oxide emissions twice to three more than marginal value of emissions,

2. RiTE Ugljevik

- Sulphur oxide emissions ten times more than the value of marginal value of emissions (average values 14650-19048 mg/m³)
- Nitrogen oxide emissions are within the allowed margins (average values 540-711 mg/m³),
- Particles emissions are several times more than the marginal value of emissions (average value 65-220 mg/m³).



Picture 8

Picture 9

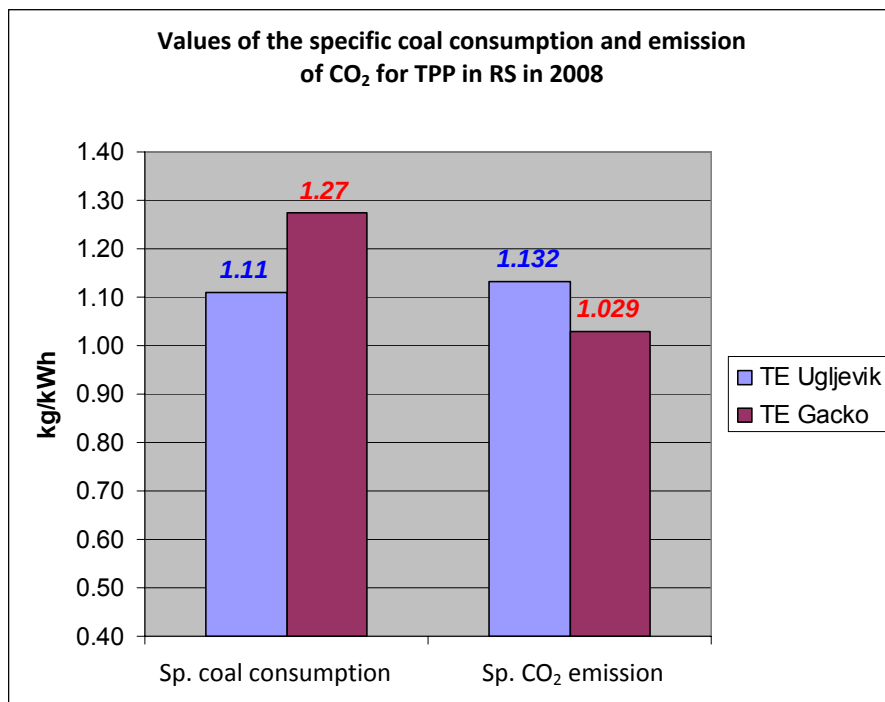
In the following table there is a break down of specific consumption of coal, water, petrol and masut in the TPP Gacko and Ugljevik.

	generation of electricity [MWh]	consumption	coal [t]	water [m3]	petrol [l]	masut [kg]
R i TE Gacko	1.563.254	total	1.993.147	6.572.808	6.244.808	2.669.975
		spec. consumption [./kWh]	1,27 [kg/kWh]	0,0042 [m ³ /kWh]	0,0040 [l/kWh]	0,0017 [kg/kWh]
R i TE Ugljevik	1.531.166	total	1.701.091	11.605.680	10.522.031	1.718.000
		spec. consumption	1,11 [kg/kWh]	0,0074 [m ³ /kWh]	0,0067 [l/kWh]	0,0011 [kg/kWh]

Table 10

In order to obtain some picture related to the emissions in air, please find as follows values of the specific emissions of the carbon dioxide from thermal power plants as well as specific coal consumption.

While calculating specific emission of the carbon dioxide emissions, there were data used of the beneficiaries and methodology as prescribed "2006 IPCC Guidelines for National Greenhouse Gas Inventories - Volume 2: Energy". It was also taken into account the consumption of basic energy items, i.e. coal but also not other energy items although their impact is negligible (less than 1%).



Picture 10

There is no system for waste water treatment in the RiTE Ugljevik, but due to obsolesce and partly non-function of the equipment, while the cleaning results are not satisfactory. It has already been stated that within the system of these beneficiaries there are surface pits of coal which occupy a big surface of the land. It was established that both mines have the project of re-cultivation made and that activities related to re-cultivation were initiated at those parts of the pit, where exploitation is complete. The re-cultivation process is necessary to be intensified in the next years.

The ash lying, which occurs in the process of the coal burning, is carried out according to the appropriate projects in both TPPs.

ZP "Rudnik i termoelektrana Gacko" a.d Gacko obtained the environmental license for the Surface pit "Gracanica" (18 June 2008) as well as the plant "Termoelektrana" Gacko (23 June 2008).

ZP "Rudnik i termoelektrana Ugljevik" a.d. Ugljevik obtained environmental license for the plant of Surface pit "Bogutovo selo" Ugljevik on 15 September 2008.

Environmental licenses of the licensees prescribe measures and activities which should be conducted within the defined terms.

Hart particles emissions are one of the factors which mostly affect environment around TPP Gacko, so we think that it is necessary to emphasize the following facts:

- Having inspected the environmental license for TPP Gacko (Decision of Ministry for spatial planning, civil engineering and ecology, number 15-96-112/08 dated 23 June 2008), it can be noticed that in point 3.2.1. it was defined the obligation of TPP Gacko to use "for emissions of particles baggy filters which shall guarantee emissions of particles less than 100 mg/m³", pursuant to Rule book on marginal values of the emissions in air from the burning plants (Official Gazette of RS, 39/05),
- The same obligation was defined as in the point 4.4.
- The mentioned Rule stipulates the marginal value of emissions of particles for the plant of the calorific capacity more than 500 MW (calorific capacity of TPP Gacko is about 900 MW) is 50 mg/m³.
- Directive 2001/80/EC on marginal values of emissions in air defines also the marginal value of emissions of particles for the plant which calorific capacity is more than 500 MW of 50 mg/m³.

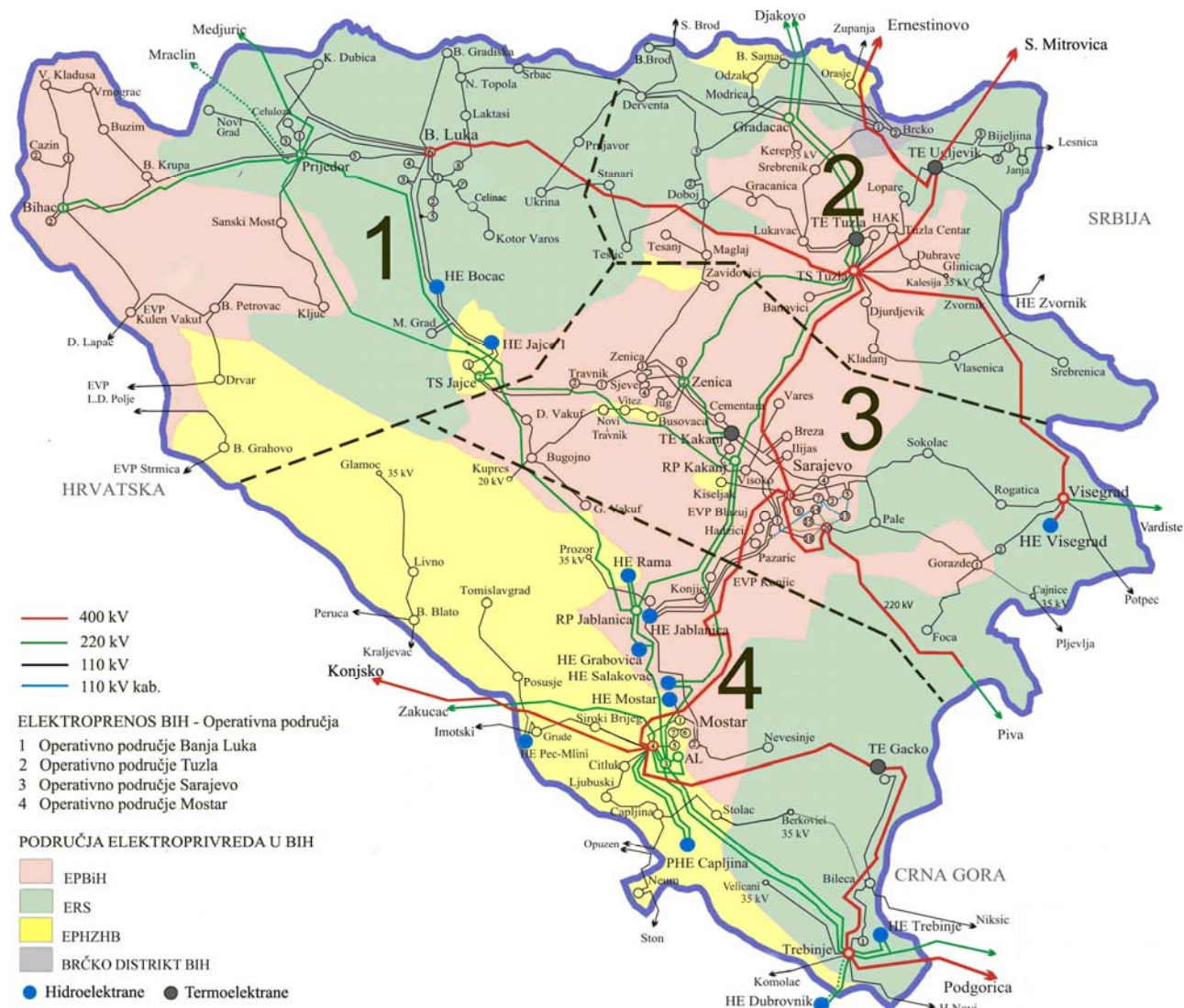
Taking into account the facts on emissions and impact of emissions of particles on environment around TPP Gacko, and obligations undertaken by signing Treaty on establishment of the Energy Community of South East Europe, we think that it is necessary in the environmental license for TPP Gacko make correction of the marginal value of particles emissions to 50 mg/m³.

Environmental licenses for thermal power plants and hydro power plants prescribe all segments which are related to protection of environment.

2. TRANSMISSION OF ELECTRICITY

Transmission of electricity is a monopolistic activity, and that is why it has to be regulated in order to provide use of the network for all beneficiaries in equal and transparent way at regulated prices. It is of special importance that the transmission activity is unbundled from other electric power activities in separate companies (managing-functional and legal unbundling) in order to provide for impartiality in the service offering. Unbundling of the transmission activity from "market" ones in RS is provided by organizing two separate companies at BiH level which are as follows: "Elektroprenos Bosne i Hercegovine" Banja Luka (Transmission company) and "Nezavisni operator sistema" Sarajevo (Independent system operator). Regulation of the transmission of electricity is within the competence of SERC.

In the following table, there is a transmission network of Bosnia and Herzegovina.



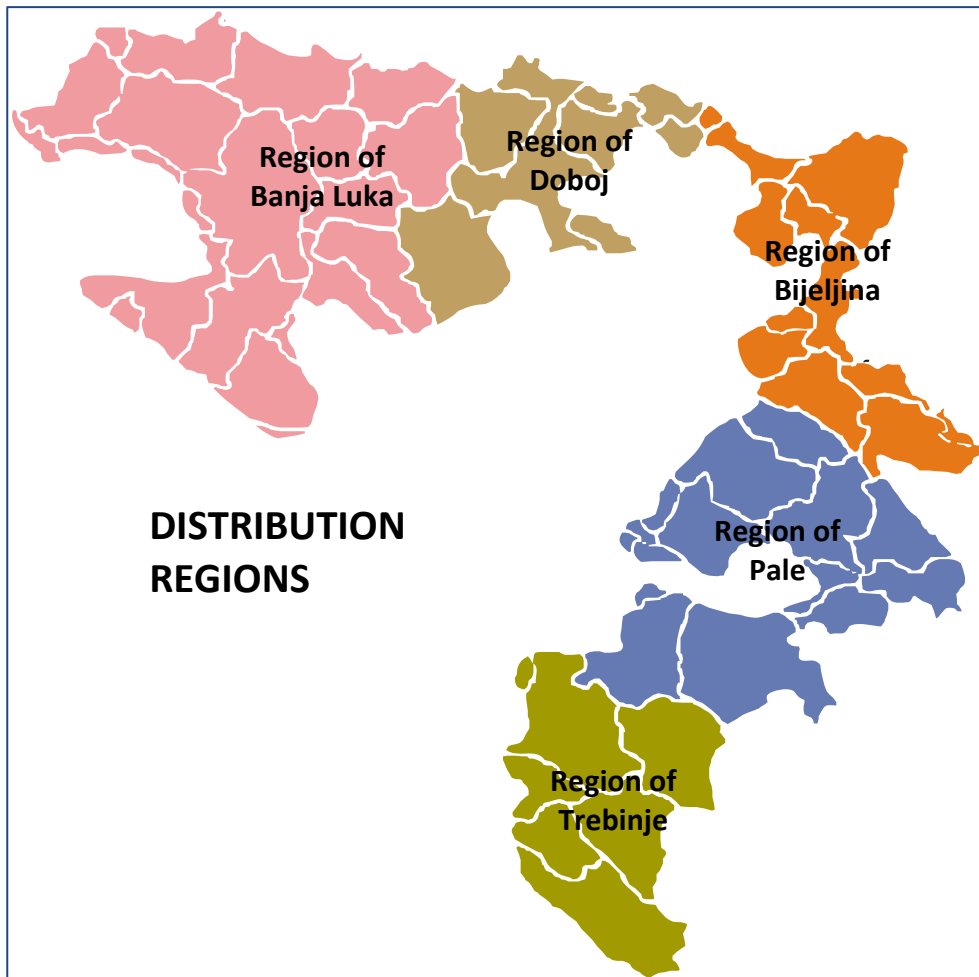
Picture 11 - Transmission network of BiH

3. DISTRIBUTION OF ELECTRICITY

3.1. Distribution system operators in RS

Distribution of electricity is transmission of electricity at middle voltage and low-voltage level for the purposes of delivery to end users and it, as it is the case with transmission at high-voltage network, a monopolistic activity which should be regulated in order not to misuse the monopolistic position of the distribution companies which are the only ones that possess capacities for these activities at certain area. When it is about unbundling of distribution activity, i.e. activities which is carried out by distribution system operator - distributor, from other commercial activities (generation and supply), unbundling is imposed as the condition of impartiality in the service offering of distributor to the distribution network users.

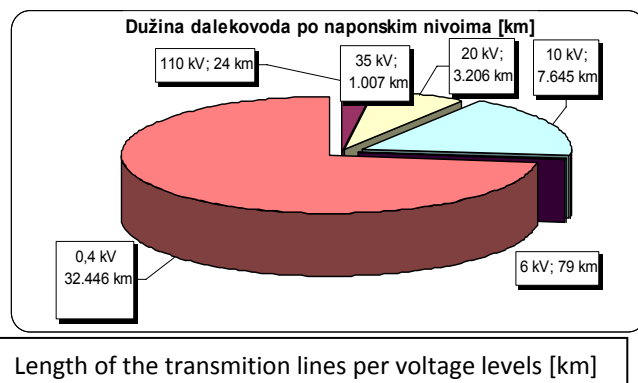
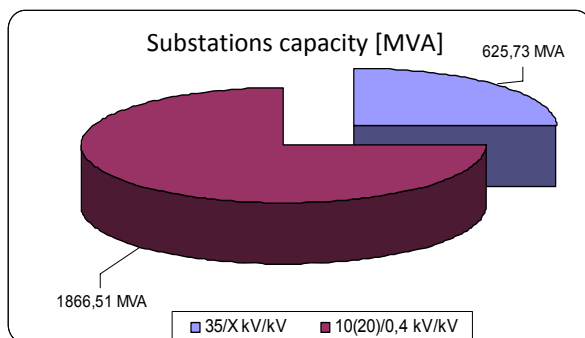
Distribution activity in RS is carried out in five distribution companies - distribution system operators (distributors) (picture number 12) within MH Elektroprivreda RS, so that each distributor is responsible for the activity at certain geographic area. Realization of the activity and determination of tariffs for the distribution network use is regulated and monitored by Regulatory Commission for energy of RS.



Picture 12 - Distribution regions in RS

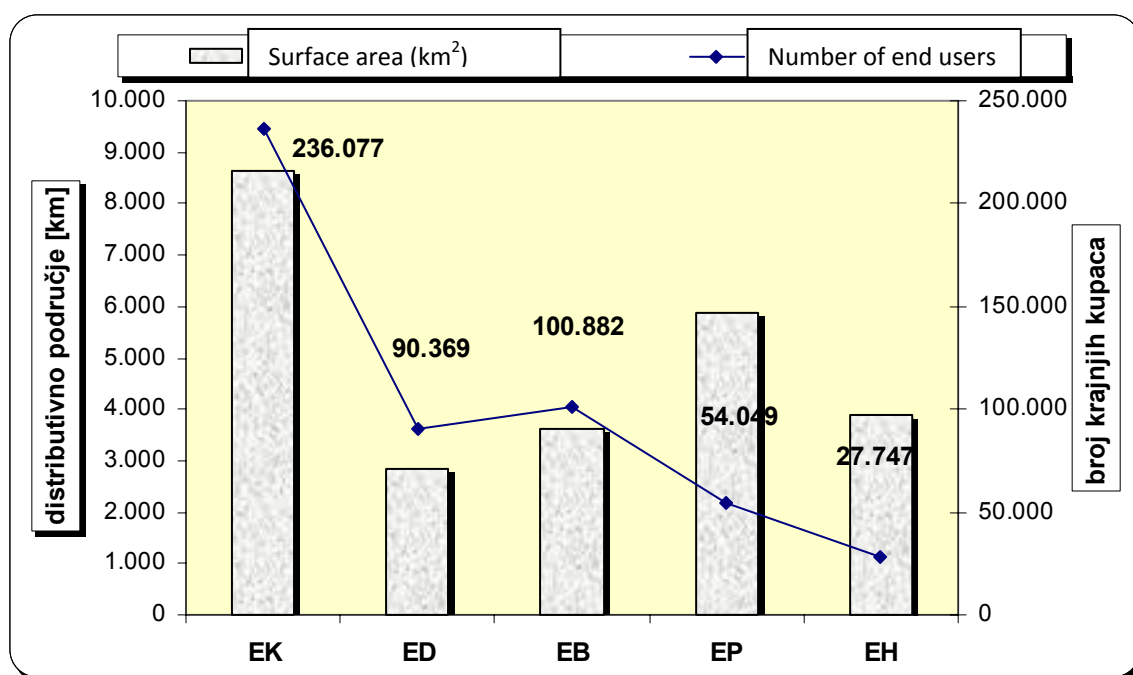
Electric distribution companies in RS are within the system of Mixed holding "Elektroprivreda Republike Srpske", i.e. within vertically integrated company which is the licensee for trade and supply with electricity. Having in mind that the electric distribution companies are separate legal undertakings, the condition for legal unbundling is met. Functional-managerial unbundling should be provided in a way that the parent company can affect the management regarding long-term planning, direction of the capital and similar, while it limits the impact on the everyday operational activities of the distribution system operator - distributor.

Basic technical data on distribution network 2 (picture 13, picture 14 and picture 15)



Picture 13 - Length of the line at voltage levels

Picture 14 - Installed apparent capacity of transformers in the substations



Picture 15 - Surface of the distribution areas and number of end users per distribution companies

3.2. Methodology for determination of tariff rates for distribution system users in RS

Tariff rates for distribution system users in RS are determined pursuant to the Rule on tariff methodology and tariff proceeding (Methodology) as determined by RERS. These tariff rates, apart from distribution price which is determined by RERS and which covers costs of distribution network and distribution losses, include also the price of the transmission network use which is determined by SERC based on the methodology and which include the costs of operation of Transmission Company of BiH, costs of operation of Independent System operator of BiH and costs of ancillary services.

RERS methodology prescribes that the following costs of the distribution network are recognized as justified costs of distribution companies:

- Costs of operation, maintenance and control of the distribution network, including the costs of maintenance of connection and metering devices, and reading of metering devices,
- Costs of the distribution network development,
- Costs for reimbursement of justified costs of electricity losses in the distribution network;

Tariff methodology is based on the calculation of the annual revenue requirement of the electric power companies, for the outputs defined by the electric power balance for the year which the tariffs are determined for.

Pursuant to the Methodology, the regulated companies - licensee for distribution of electricity submit an application to RERS for approval of prices, i.e. tariff rates based on the revenue requirement which is consisted of the justified costs increased for the return on the capital. Justification of application is determined by RERS in the tariff proceeding, and based on it final prices are determined, i.e. tariff rates. RERS makes its decision independently, i.e. independently from any other government agencies, complying with SERC prices for the transmission network use. Regulatory period is not specifically prescribed, and the tariff proceeding is initiated either at the initiative of regulated companies or RERS.

In order to calculate tariff rates, technical and financial data are used as well as the documents which distribution companies submit to RERS pursuant to the Rule on reporting within the prescribed terms and in the tariff proceeding itself. Based on these data, RERS analyzes the volume, type and quality of service which distribution companies offer to their beneficiaries, as well as the costs of their operation, i.e. its justification. Justification of costs is estimated according to the cost nature applying the appropriateness analysis, analysis of quantity and prices and benchmarking. In the tariff proceedings which have been carried out so far by RERS, benchmarking analyses of five distribution companies were carried out in order to analyze the costs of operation and maintenance of the network.

The tariff methodology prescribes the uniform tariff for all distribution system users in RS.

3.3. Equalization of the distribution grid tariff

Density of population and coverage of housing and economic structures considerably differ among the distribution regions in RS, which results in different average costs of distribution activity, per the unit of the electricity and capacity delivered. "Density of consumption" is as follows:

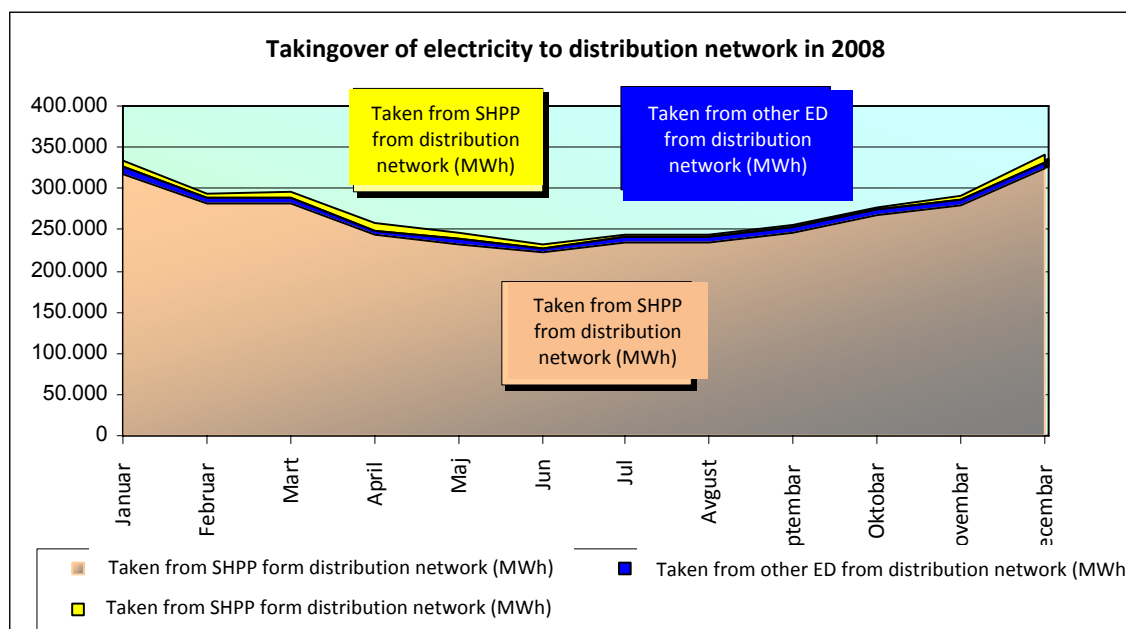
Distribution area	Surface area (km ²)	Number of end users	Number of end users per km ²
Elektrokrajina	8.629	236.077	27
Elektro-Bijeljina	3.600	100.882	28
Elektro Doboј	2.836	90.369	32
Elektrodistribucija Pale	5.883	54.267	9
Elektro-Hercegovina	3.909	27.937	7
Total	24.857	509.532	20

Table 11 - End users connected to distribution network

Pursuant to the principle of equal treatment of customers and protection of customers in remote and badly populated areas, Regulator determined the same tariff rates for all customers on the whole territory of RS. Taking into account different "density of consumption" Regulator determined coefficients for equalization of revenues between distribution companies, which bring distribution companies to the equal position regarding realization of the revenue and justified costs of realization of the activity.

3.4. Taking over and consumption of electricity in the distribution network

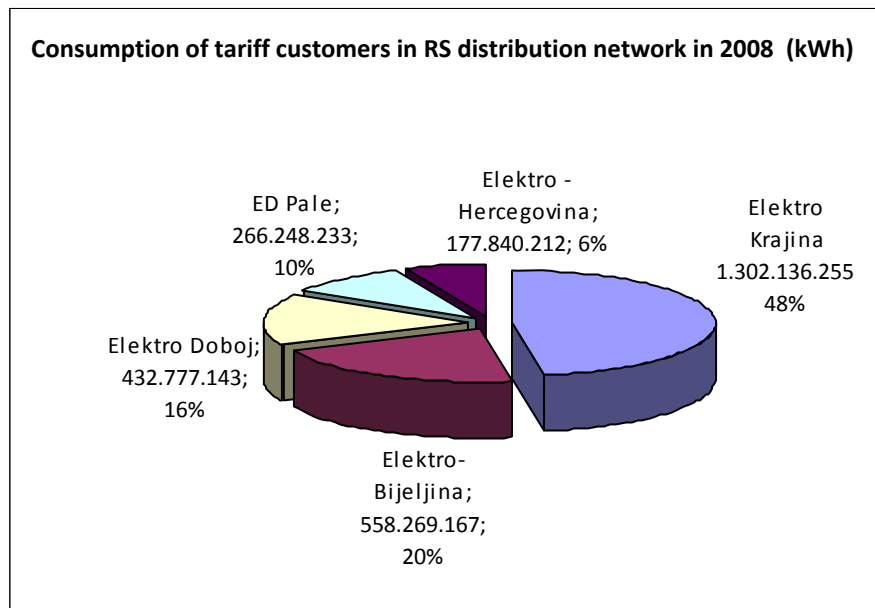
Electricity in the distribution network in 2008 in RS was taken over from the transmission network of Elektroprenos BiH, from the hydro power plants connected to the distribution network and from other distribution systems from Bosnia and Herzegovina and neighboring countries. The structure of the taken over electricity is presented in the table as follows:



Picture 16 - Electricity taken over to the distribution network

Out of totally taken over electricity to the distribution network in the amount of 3,305 GWh, the end users in 2008 were delivered 2,737 GWh while 568 GWh of electricity

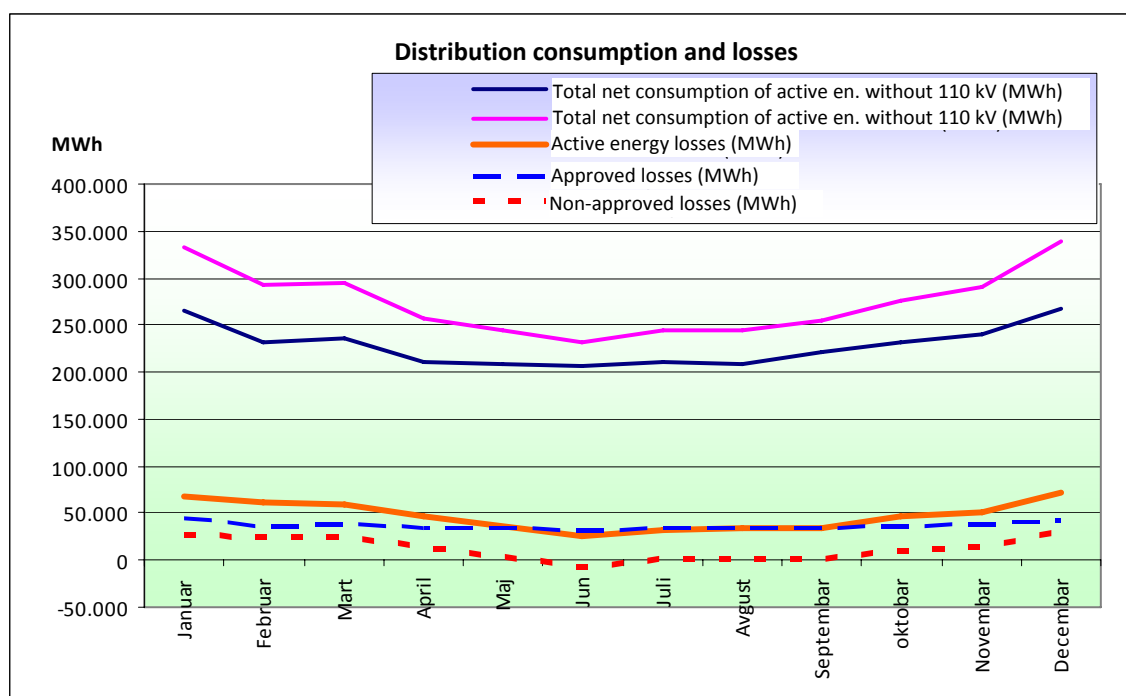
was lost in the distribution network. There is a structure of the net consumption per distribution companies in the following picture.



Picture 17 - Net distribution consumption in 2008

3.5. Losses of electricity in distribution network

A big problem of the distribution companies in RS is still the level of losses of electricity in the distribution network. RERS policy is to motivate the licensees to reduce these losses determining the approved amount of costs in the name of electricity losses in the tariff proceeding, with the obligation of the licensee for distribution of electricity to make new plans of measures and activities related to reduction of distribution losses and to submit reports about their conduct.

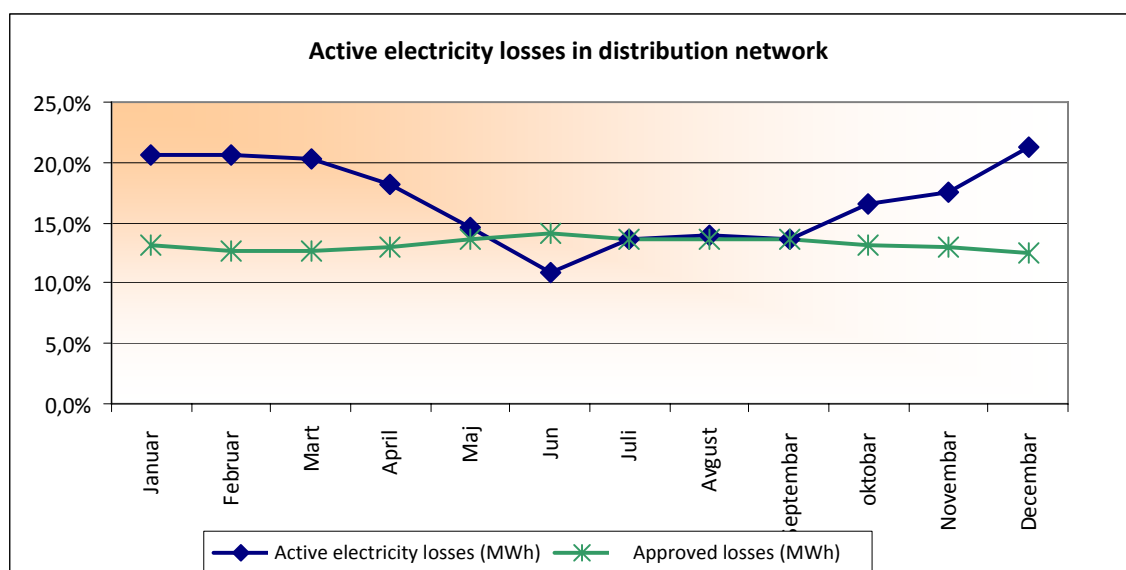


Picture 18 - Realized consumption and losses of electricity in the distribution network in RS in 2008

RERS approves, in the tariff proceeding, the percentage amount of losses for each voltage level and only that approved amount (approximately 14% on average) is included in the tariff rates for use of the distribution network while less or more realization of losses is the advantage or disadvantage of the distributor.

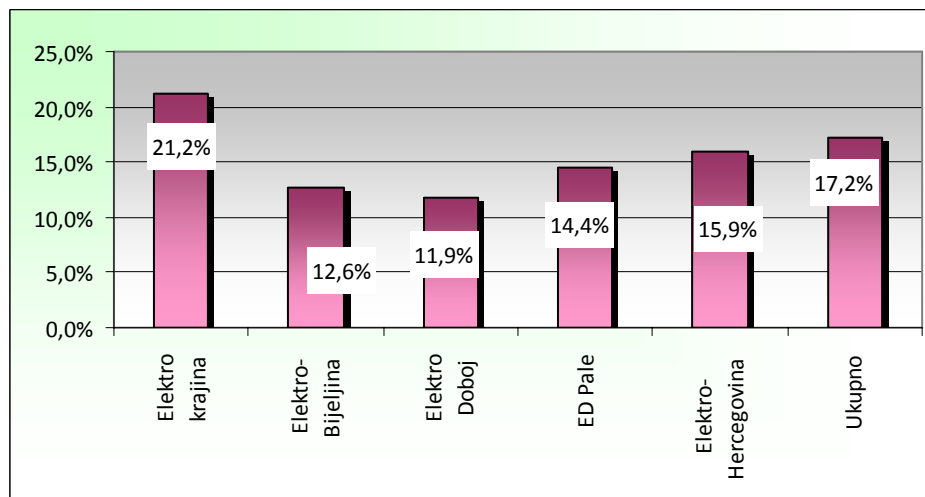
According to the records submitted by distribution companies, the realized losses of electricity in 2008 were 17,18% i.e. 142,840 MWh more than approved.

The realized losses of electricity in the distribution network per months are presented in the following picture.



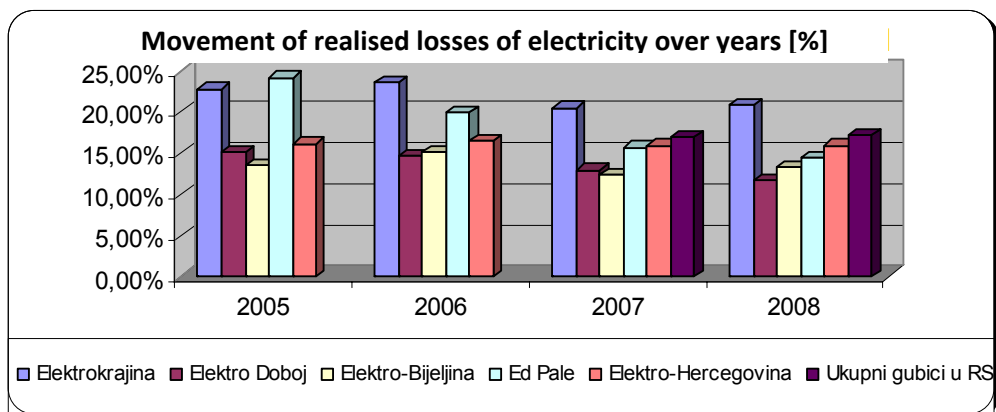
Picture 19 - Realized losses of active electricity in the distribution network per months in 2008

The level of electricity losses in the distribution network per the distribution regions, expressed as percentage ratio of the realized electricity losses and totally taken over electricity in the distribution network, varies from 11,9% in Elektro Doboј to 21,2% in Elektrokrajina, as presented in the following table.



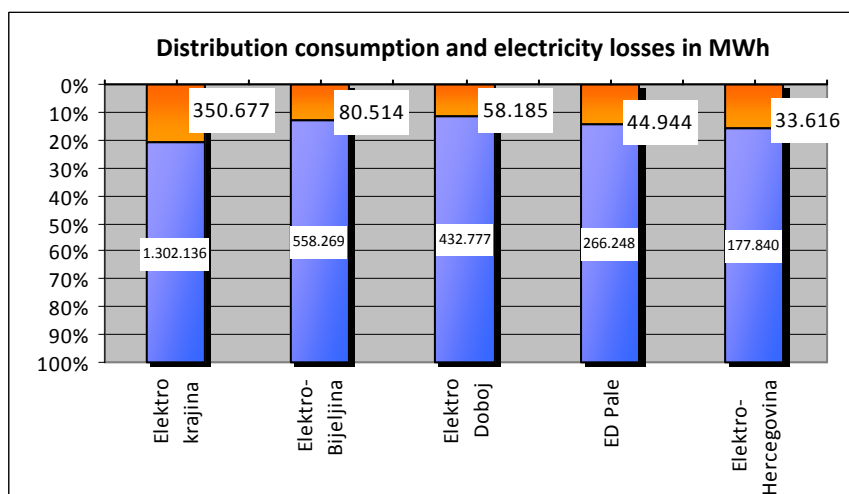
Picture 20 - Realized electricity losses in 2008

In the following picture, there is benchmarking of realized distribution losses in the electric distribution companies in the period 2005 - 2008.



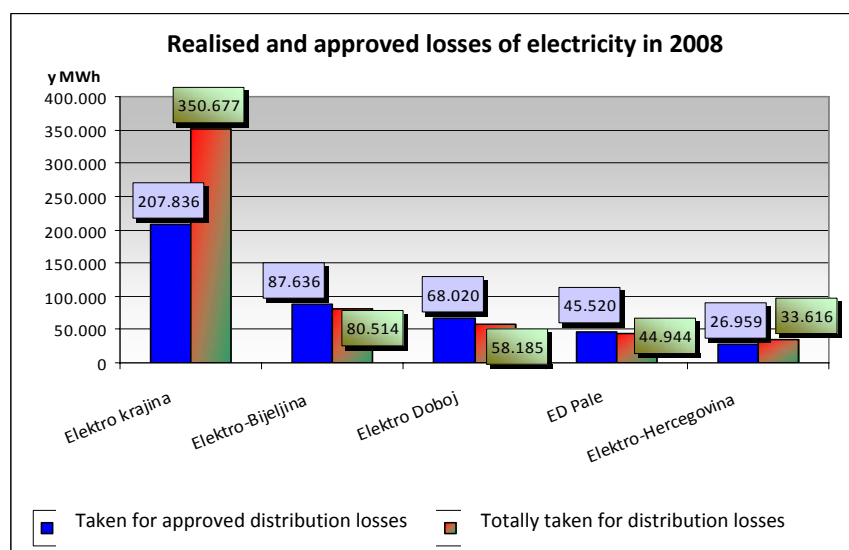
Picture 21 - Benchmarking of realized distribution losses 2005 - 2008

Energy values of distribution losses and totally taken over electricity are presented in the picture as follows:



Picture 22 - Ratio of losses and totally taken electricity in 2008

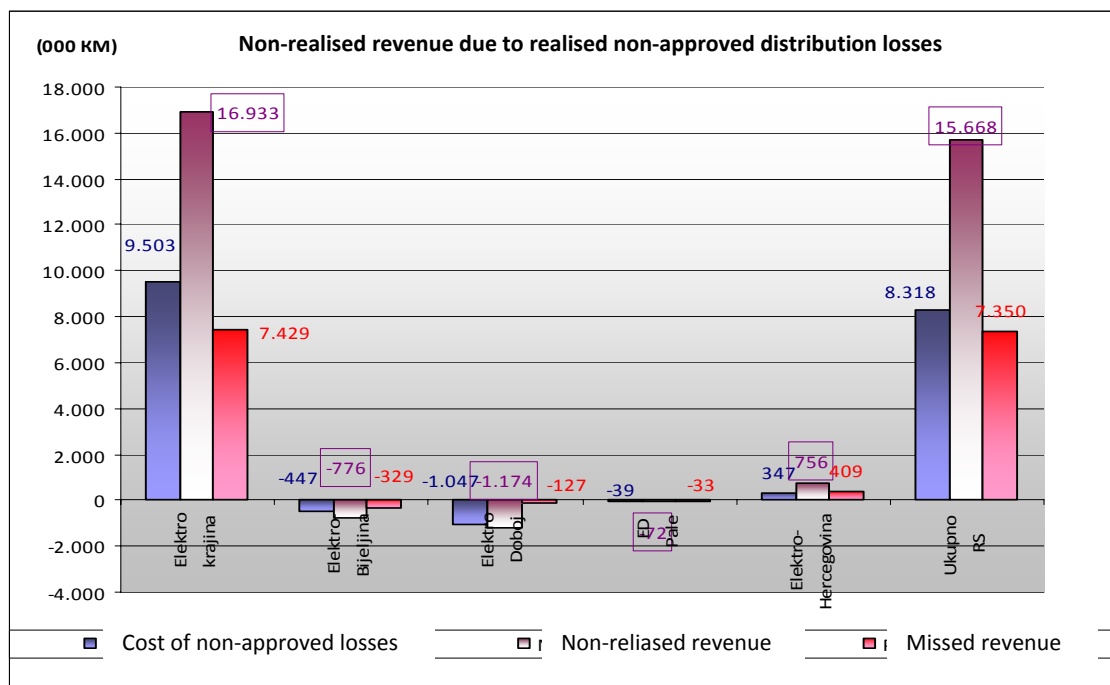
Approved and realized amounts of electricity for distribution losses per companies are as follows:



Picture 23 - Break down of realized and approved losses of electricity per distribution regions

Picture 24 presents:

- costs of procurement of electricity for non-approved losses which include the costs of transmission of that energy,
- non-realized/lost revenue, namely the revenue which might have been obtained if the electricity of the non-approved distribution losses had been invoiced and paid at the average realized price for end users and
- missed earning namely the revenue which was not realized by the electric distribution companies which had higher losses than the approved one, as well as the realized revenue, i.e. earning for those electric distribution companies which had less distribution losses than approved



Picture 24 - Break down of the realized costs due to non-approved distribution losses and non-realized revenue due to realized non-approved distribution losses in 2008

3.6. Service quality

Regulation of the service quality and improvement of the system reliability for distribution of electricity arises from the legal competence of RERS. General conditions for delivery and supply of electricity define the quality of supply as follows:

- continuity of delivery of electricity (capability, appropriateness of the electric power network to ensure the continuity of electricity supply in certain period, expressed by indicators of continuity in delivery),
- quality of commercial service (level of offering service distributor/supplier as prescribed by General Conditions) and

- quality of the supply voltage (standard for the quality of the supply voltage are optimum voltage levels in the supplying point and deviation from the nominal values, nominal values of frequency and allowed deviation, and other characteristics of voltage (wave form, symmetric value of the phases and similar) following the prescribed allowed deviations

RERS prescribed the obligation and form of reporting on the quality of supply with electricity, in General Conditions and Rule book on reporting, while the license requirements for distribution of electricity obliged the licensees to ensure reliable and quality supply of end users with electricity, take all necessary measure in order to improve all necessary measures which should improve indicators of reliability and quality, keep the records and create the databank on indicators of continuity of electricity delivered and quality of offered service, make regular annual reports about all indicators which should be available to the public through the website.

The mentioned prescribed obligations have "general" nature, while effective regulation of the service quality is a very complex task which is meant by the previously establishment of quality standard based on the data on indicators which define quality of electricity delivery. It is of special importance to continually collect reliable data on continuity of delivery and indicators of commercial service in the representative time which precedes determination of the quality standard and after that introduction of incentives, namely penalties while determination of tariffs and introduction of payment of the fee directly to customers based on the established standards.

The records which are presented here are totally collected data at the annual level which are recorded from the service provider. The process of collecting data on the quality of supply is an interactive process, the data are checked and it is very important that the rules (and obligations) are established of their recording, publication and submission to Regulator which are, to the large extent, being respected from the very beginning.

Licensees for distribution with some exception submit the reports in the prescribed form in 2008.

Three licensees submit the report in the prescribed form, and two in the simplified one.

Keeping records of the electricity supply quality indicators is carried out using:

- indicator of continuity of the delivery supply,
- indicators of the commercial quality

and quality of the supply voltage is for use one of the significant parameters of the supply quality and its checking is carried out by making appropriate measuring at the taking over place and in some parts of the distribution network.

Continuity of delivery is expressed using two indicators:

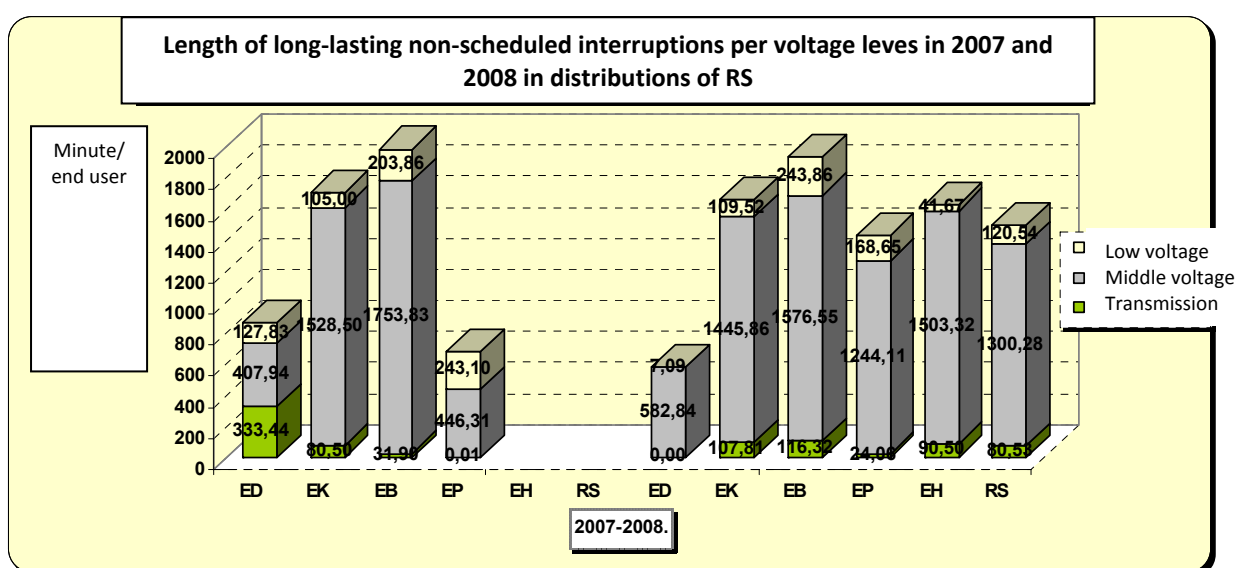
SAIDI - Average length of delivery termination per end user is mostly taken at the annual level (System average interruption duration index, expressed in minutes per end user)

SAIFI - Average number of delivery termination per end user is mostly taken at the annual level (System average interruption frequency index)

Terminations in delivery are divided in planned (announced) and non-planned (non-announced).

Long-lasting terminations are treated in this report; they are the terminations which are longer than three minutes and short-lasting terminations which are terminations, less than three minutes.

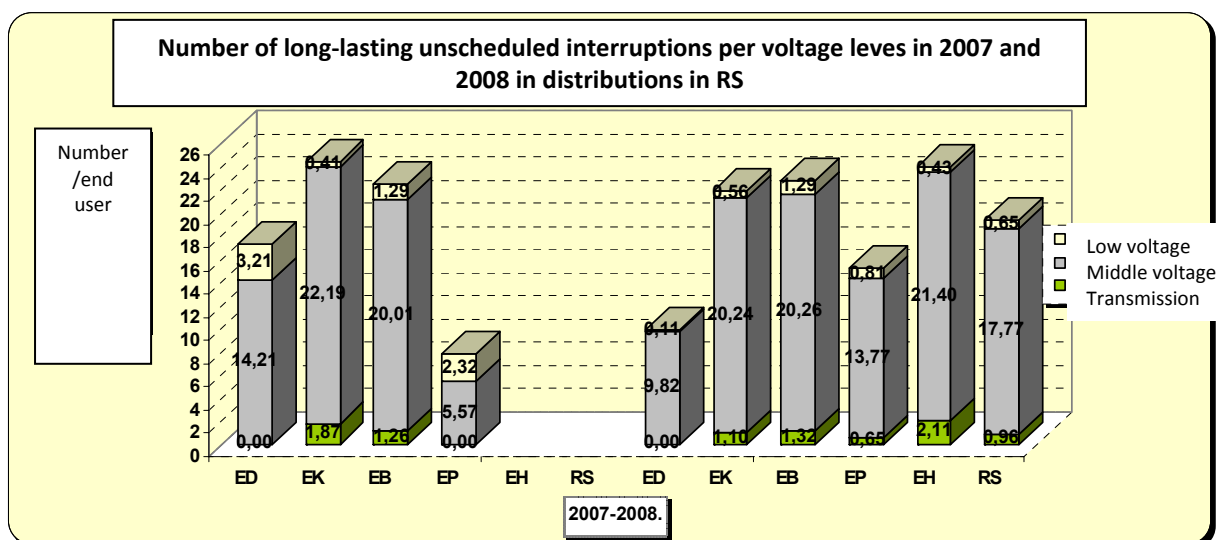
Usual values for the non-planned SAIDI are from 50 to 250 minutes per end user annually²



Picture 25 - Indicator of the non-planned SAIDI 2007-2008 per voltage levels per distribution companies in RS

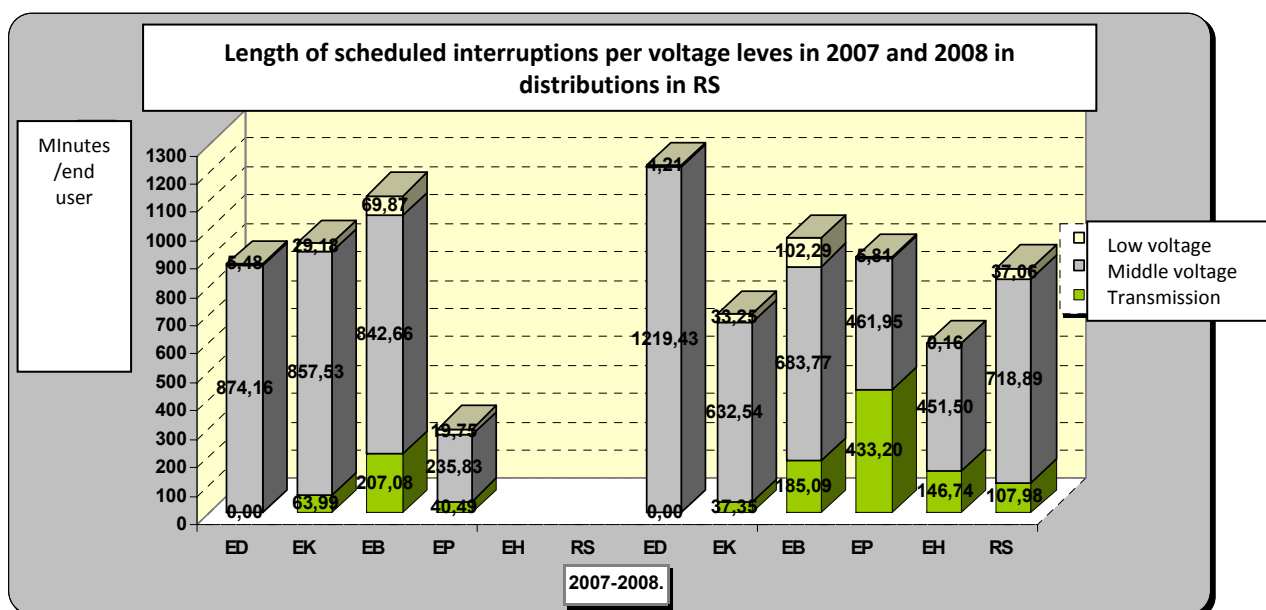
Usual values for non-planned SAIFI vary from 0,5 to 4 terminations per end user annually.

² Source: Fourth Benchmarking Report on Quality of electricity supply, ERRR, December 2008



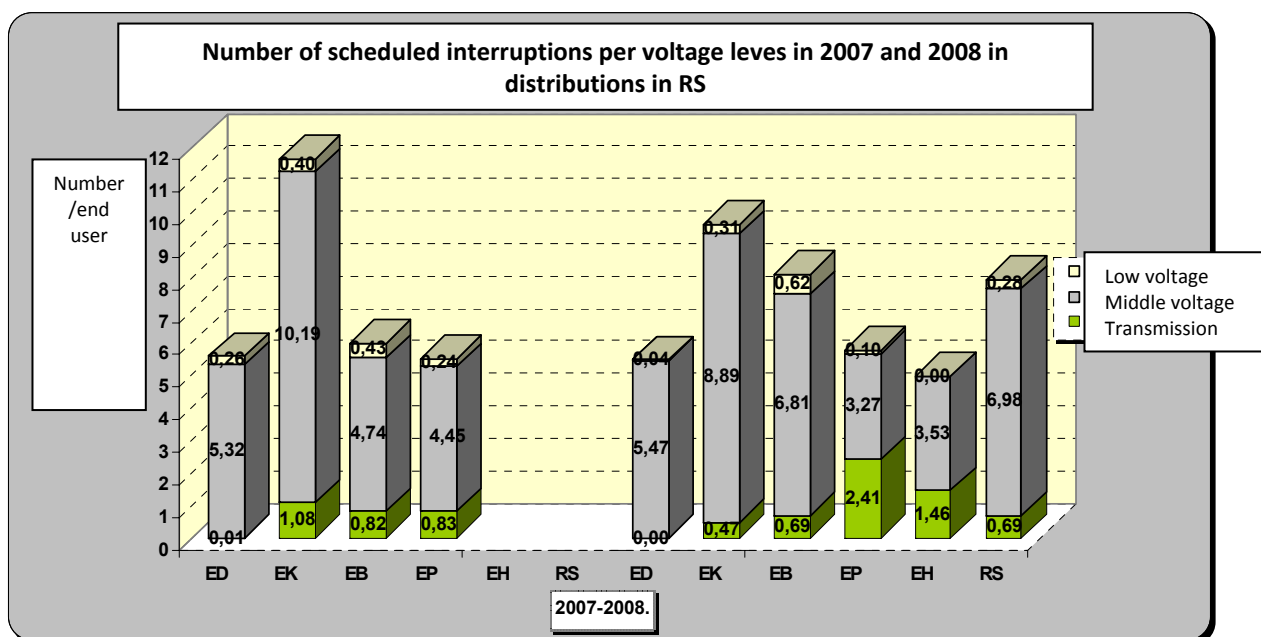
Picture 26 - Non-planned SAIFI in RS 2007 - 2008

Usual values for planned SAIDI vary from 10 to 200 minutes per end user annually.



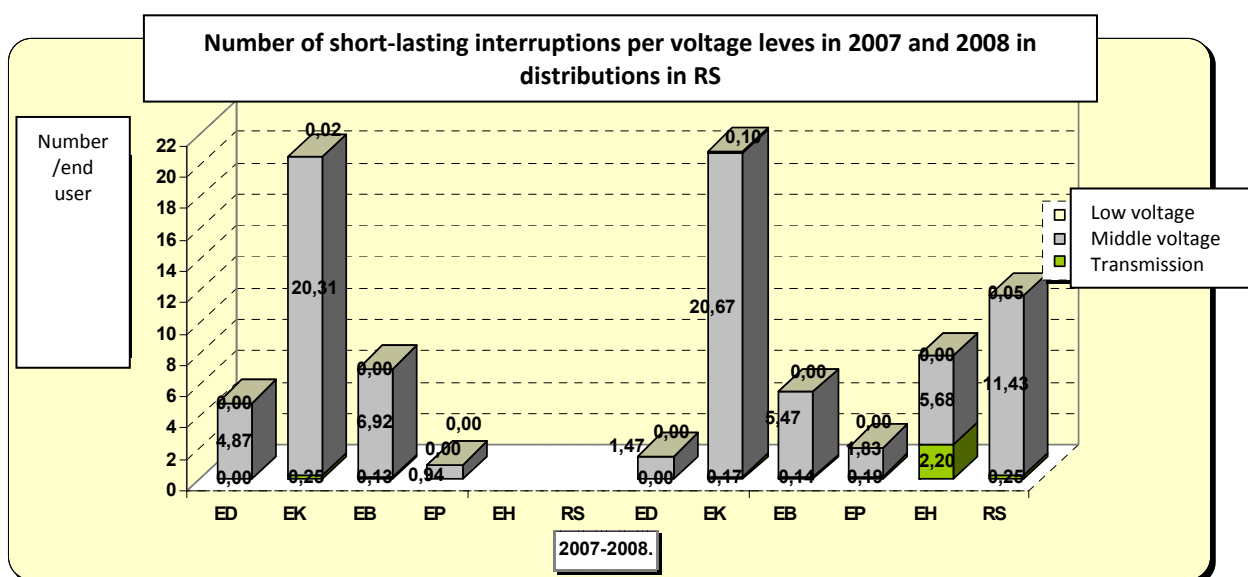
Picture 27 - Indicator planned SAIDI in RS 2007 - 2008

Usual values for the planned SAIFI are about one interruption per end user annually.



Picture 28 - Planned SAIFI in RS 2007 - 2008

Number of short-lasting interruptions varies from 1.5 to even 20 interruptions per end user annually.



Picture 29 - Number of the short-lasting interruptions in RS 2007 - 2008

Overview of all data and graphic and table ones, it can be concluded that the interruptions of delivery at the middle-voltage network affect mostly end users, and the length and number of delivery interruptions have several times bigger values in rural areas than in the towns. It is necessary to emphasize the Rule on reporting and General

conditions did not determine the criterion for qualification of distribution companies on city, outskirts and rural areas.

Distribution network in rural areas is of radial nature, with the remote areas, long lines, mostly consisted of old network structures of unsatisfactory technical characteristics. Damages in such network are the causes of interruptions of electricity supply of a lot of end users in rural areas, with more considerable duration.

A part of the supply quality is also quality of commercial service and is related to valuation of service which distributor/supplier offers to end users of electricity (e.g. deadline for connection of structures to distribution network, information about connection and amount of the connection fee), renewal of supply in case of damage which only affects only one end user (e.g. replacement of the fuse of the end user connection), settlement of complaints related to quality of voltage and measuring of electricity, contact with end users (directly, in writing, by phone - waiting time), reading of meters and delivery of bills (frequency - annually).

There is a break down of usual terms in the following table, amount of the fee for end user if the deadline is exceeded and average realized time:

Table 12 - Break down of the most frequently used indicators of commercial quality (quality of offered services) in majority of European countries

Quality indicators		Deadline (day)	Fee (Penalty) (€)	Realized time	
Estimate of costs of material and services (LV)		Average time for estimate	6-20.	8-60.	0-30
Estimate of costs for complex tasks (MV)		Average time for estimate	21-90.	30-130.	
Connection	Number of the LV connections made	Average time	3-20.	25-65	1-120
	Average time of the connection creation				
	Number of the MV connections made	Average time	45-80.	30-65.	1-120
	Average time of the connection creation				
Re-connection after disconnection due to non-payment		Average time of connection	1	15-120.	
Intervention for damage of the supplying fuse of the end user		Average time of intervention	3-6 sati	8-35.	0,72-2
Settlement of complaint related to the voltage quality		Average time of the complaint solving	10-16	8-75	
Response to the measuring problem		Average time of the problem solving	10-15	15-75	
Notice on the supply interruption		Average time of	24-48	3,8-300	

	notice	sati		
Average time of response to the enquiry of end user		5-20.	1,9-30	
Average waiting time for the response in the phone centre		20-60 seconds (80%)		15-70 seconds
Number of complaints	On 100 end users	less than 1		
Average time of response to the complaints to the end users		15	15-30	3-15
Average time of meters reading of end users		2-12		1,3-3,72

Table 13 -Break down of indicators of commercial quality (quality of offered services) in RS

Indicators of commercial quality for 2008			Elektro Doboj	ElektroKrajina	Elektro-Bijeljina	ED Pale	Elektro-Hercegovina	Unit of measure
Estimate of costs of material and service (LV)	Total number		1.188		1.675			
	Average time for estimate		1		6,30			day
Estimate of costs for complex tasks (MV)	Total number		6		0			
	Average time for estimate		2,16		0			day
Connections	Number of the LV connections made	Total number	1.834		1.959	1.952		
	Average time for the connection creation	Average time	2,57		7,80	5,79		day
	Number of the MV connections made	Total number	2		2	3		
	Average time for the connection creation	Average time	1		3	3		day
Re-connection, after disconnection due to non-payment	Number of connection		3.536		1.180	827		
	Average time of connection		0/22		1/0	1		day/hour
Interventions for the damage of the supplying fuse of the end user	Number of interventions		1.950		1.468	412		
	Average time of interventions		1		2,97	3,3		hour
Settlement of complaints for the voltage quality	Number of complaints		65		84			

	Average time of the complaint settlement	5,18		8,40			day
Response to the measuring problems	Number of registrations	224		568	55		
	Average time of the problem solving	1,66		8,50	2		day
Notice on the supply interruptions	Total number of notices	860		1.458			
	Average time of notice	2,64		2,60	2		day
Average time of response to the enquiry of end user		1,62		2,75	10		day
Average waiting time for response in the phone centre		0,5		1,5	-		minute
Number of complaints	on 100 end users	1,96		7,70	0,47		
Average time of response to complaints of end users		1,37		11,3	9,23		day
Average time of meters reading of end users		12		11,6	12		

Comparing realized values of the indicators of the offered services in distribution companies with the values in the table "Break down of the most frequently used indicators of the commercial quality", it can be concluded that they are similar. Follow up of these services which are by their nature mostly public services sometimes have more important role than indicators of the delivery continuity, especially for end users from the category of households. The proposal is to introduce valuation criteria of these services by estimating quality, for example, extraordinary, acceptable and non-appropriate depending on compliance with some determined deadlines in the documents which regulate that field and benchmarking values in neighborhood.

4. SUPPLY OF TARIFF CUSTOMERS WITH ELECTRICITY

Distribution companies in RS supply tariff customers with electricity, but the license requirements oblige them to provide accounting unbundling of these activities, in order to provide clear identification of costs of the network use, i.e. determination of tariffs for use of the distribution network. In order to meet obligations, distribution companies adopt their operational-information systems to new organization which is imposed by the de-regulation process.

The activity of distribution and supply of tariff customers in RS is carried out in the public service obligation system.

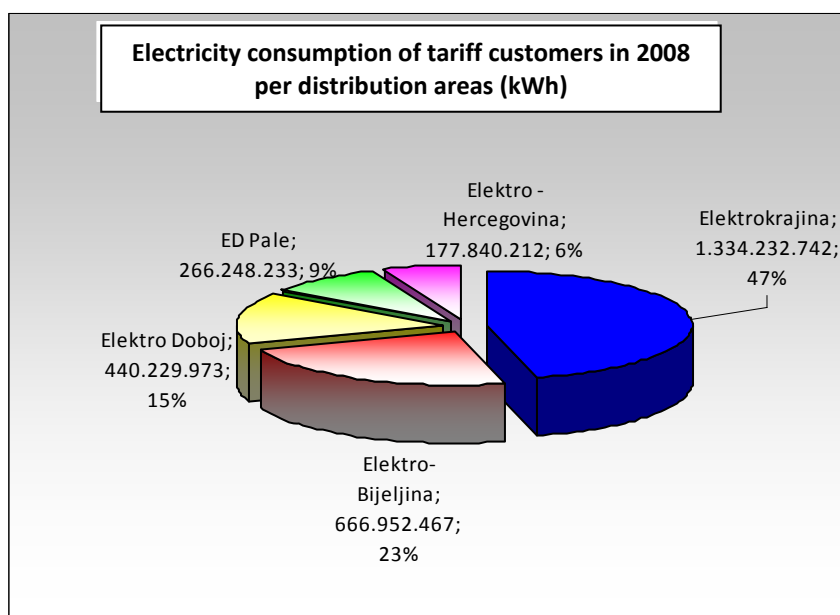
4.1. Consumption of electricity

In the following table, there is a number of tariff customers in RS in 2008 per categories of consumption.

Category of consumption	Elektro krajina	Elektro-Bijeljina	Elektro Doboј	ED Pale	Elektro-Hercegovina	Total
110 kV	2	1	2	0	0	5
35 kV	3	4	6	5	5	23
10 (20) kV	236	138	79	60	30	543
0.4 KV Other consumption	16.028	5.768	5.229	4.538	2.314	33.877
Households	219.705	94.916	85.025	49.428	25.382	474.456
Public lighting	103	55	28	236	206	628
Total	236.077	100.882	90.369	54.267	27.937	509.532

Table 14 - Number of end users in RS on 31 December 2008

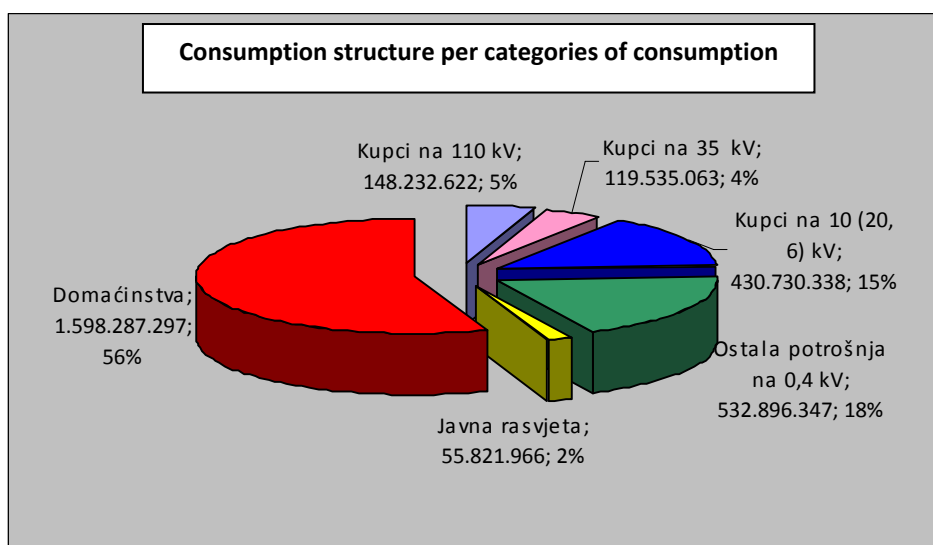
Picture 30 presents net consumption of tariff customers per distribution regions, i.e. per companies - suppliers of tariff customers in RS, while picture 31 presents the structure of total consumption of electricity in RS per categories of consumption.



Picture 30 - Consumption of tariff customers in 2008

Out of total consumption of end users in RS in 2008, 5% belongs to the end users which structures are connected at high voltage (110 kV), i.e. at the transmission network.

All end users in RS in 2008 were supplied as tariff customers, at tariff rates determined by RERS.

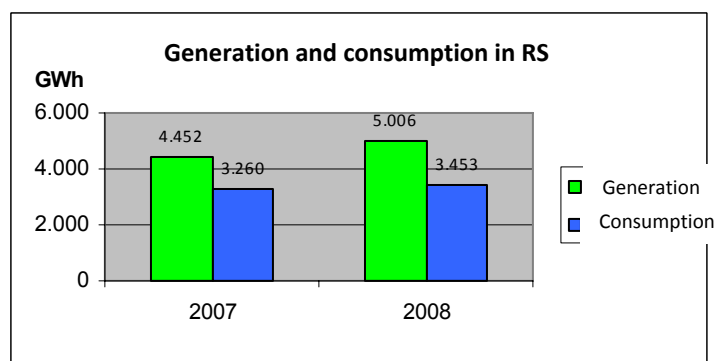


Picture 31 - Structure of consumption per categories of consumption in 2008

4.2. Safety of supply - generation and consumption of electricity

One of indicators of the safety of supply is the level and availability of the generated capacities viewed in relation to the level of consumption of electricity.

RS belongs to the group of major net exporters of electricity in the region and in 2008 it achieved a high coefficient of providing consumption of electricity from its own consumption, as presented in the following diagram.



Picture 32 - Generation and consumption of electricity in RS in 2007 and 2008

4.3. Revenue from distribution and supply of tariff customers

In the following table, there is a break down of the revenue realized from supply of non-eligible customers with electricity, as well as transferred costs to distribution and supply when the equalization is made (costs of procurement of electricity and costs of the transmission network use). Having in mind that RERS were not submitted the revised

financial reports for all electric distribution companies, the records are given based on the data from the regular monthly reporting.

(000 KM)	Elektro krajina	Elektro- Bijeljina	Elektro Doboj	ED Pale	Elektro- Herceg.	Total RS
Total realized revenue from tariff customers	158.164	72.642	52.536	33.382	20.209	336.934
Transferred costs of procurement of electricity and transmission network use	112.783	46.488	34.342	19.902	10.295	223.911
Revenue from distribution and supply from tariffs	45.382	26.155	18.194	13.480	9.914	113.023

Table 15 - Revenue from distribution and supply from tariff rates for supply of non-eligible customers in 2008

5 INFORMATION ON PRICES AND MARKET IN 2008

5.1. Electricity market

Electricity market, as any other market, is the place where offer and demand are met. Opening of the electricity market, the electricity became the commodity and it has got its quality, purpose, sale conditions and price. Participants to the market are generators, traders, suppliers and eligible customers. Electricity goes from generator to end user over transmission and distribution network, which operation is controlled by transmission and distribution network operators.

Electricity market in RS is a part of BiH market, i.e. a part of the market consisted of the South East European countries. Basically it is divided on:

- wholesale market and
- retail market;

5.2. Wholesale electricity market

Electricity is traded at the wholesale market which is not intended for end consumption but for further sale. Participants to the wholesale market of electricity are generators, traders and suppliers provided that they have the appropriate license for the respective activity. The wholesale also includes all forms of the cross border trade of electricity. Trading can be carried out at the 'organized market' (exchange) and 'bilateral market' (based on the bilateral contracts). Trading of electricity at the wholesale market in Bosnia and Herzegovina is carried out based on the bilateral contract on the sale of electricity concluded between generators and traders or suppliers of electricity.

5.2.1. Generators

Generator of electricity is the energy undertaking which carries out generation of electricity. In RS, generators of electricity are within the system of MH "Elektroprivreda Republike Srpske" and are one of leaders of public service for supply of tariff customers of electricity (except two small hydro power plants which are privately-owned).

Generation of electricity in RS is carried out in five plants which installed capacity is more than 10 MW. It is about three hydro power plants, total installed capacity of 715 MW and two thermal power plants which installed capacity is 600 MW. Generation is also carried out in 6 small hydro power plants which total installed capacity is 16.26 MW.

In 2008, total generation in RS was 5.006,15 GWh out of which 3.436.3 GWh was sold to tariff customers in RS at regulated prices, while the rest was realized at the market.

5.2.2. Traders

Traders of electricity are energy undertakings, licensees for trade and supply of electricity in BiH, which licenses are issued by RERS, i.e. the licensees for supply of tier II which licenses are issued by Commission for electricity in Federation of Bosnia and Herzegovina (FERC) and licensees for international trade which licensees are issued by State Regulatory Commission (SERC).

In 2008, licensees for trade were dealing with procurement and sale of electricity at the internal market of BiH, on the basis of the contracts concluded in advance with generators within the system of three existing companies in BiH (MR ERS, EP BIH and EP HZ HB) and with other traders and cross border trade pursuant to the license for this activity.

These traders are, at the same time, the traders at the retail market, i.e. suppliers of eligible customers.

5.3. Retail market of electricity

At the retail market of electricity, all participants to the market unlike the wholesale market there are end users - customers of electricity.

5.3.1. Suppliers

Suppliers of electricity are undertakings dealing with supplying. Suppliers of electricity is carried out pursuant to the General Conditions for delivery and supply of electricity, Tariff system for sale of electricity in RS and contract concluded between supplier and customer.

There are two categories of suppliers of electricity:

- suppliers of non-eligible (tariff) customers
- suppliers of eligible customers

Suppliers of non-eligible (tariff) customers in RS are licensee for supply of tariff customers, the license issued by RERS, and which provide end users with electricity in a regulated way.

There are five companies in RS within the system of MH "Elektroprivreda Republike Srpske" which have licenses for supply of tariff customers which are, at the same time, distribution system operators in that region. Individual part of any of them in the RS market is described in part 4 of this Report.

Suppliers of eligible customers are licensees for trade and supply of electricity on the territory of Bosnia and Herzegovina, the license issued by RERS, as well as licensees for supply of tier II issued by Commission for electricity in Federation of Bosnia and Herzegovina (FERC). These licenses imply the sale including the re-sale of electricity. This license is granted to the following licensees:

No.	Licensee	Seat and address of the licensee
1.	Service and trade company "Energy Financing Team " d.o.o. Trebinje	Trebinje, Obala Luke Vukalovića bb
2.	Fabrika glinice "Birač" a.d. Zvornik	Zvornik, Karakaj bb
3.	D.o.o. " Rudnap " Banja Luka	Banja Luka, Jevrejska bb, Tržni centar Vidović
4.	Mixed holding "Elektroprivreda Republike Srpske" - Parent company a.d. Trebinje	Trebinje, Ul. Stepe Stepanovića bb
5.	MH ERS-Trebinje ZP RiTE Gacko, A.D. Gacko	Gacko, Gračanica bb
6.	" EZPADA " d.o.o, Čapljina	Čapljina, Ante Starčevića 5
7.	"Intrade-energija" d.o.o.	Sarajevo, Zmaja od Bosne 44
8.	"Korlea" d.o.o. Jajce	Jajce, Hrvoja Vukčića Hrvatinića b.b.
9.	JP Elektroprivreda Bosne i Hercegovine d.d. – Sarajevo	Sarajevo, Vilsonovo šetalište broj 15
10.	JP "Elektroprivreda Hrvatske zajednice	Mostar, Zagrebačka br. 1

	Herceg Bosne" d.d. Mostar	
11.	"Interenergo" d.o.o, Sarajevo	Sarajevo, fra Anđela Zvizdovića 1
12.	"ČEZ BiH" d.o.o. Sarajevo	Sarajevo, Fra Anđela Zvizdovića 1
13.	"GEN-I" d.o.o. Sarajevo	Sarajevo, Hamdije Kreševljakovića br. 7c
14.	"Atel BH" d.o.o. Sarajevo	Sarajevo, Mehmeda Spahe 26

Table 16 - Suppliers of eligible customers

5.3.2 Customers

There are two categories of end users of electricity:

- non-eligible or tariff customers
- eligible customers

Non-eligible or tariff customers are supplied with electricity at the regulated prices in the public service system. Regulated prices are determined by RERS pursuant to the valid legislation.

Eligible customers are those customers that obtained such a status pursuant to the Rule on getting a status of eligible customers and prescribed dynamics of the market opening. As of 1 January 2008, all customers, except those from the category of household have got such a status. In the transitional period of the market opening, eligible customers are entitled to choose the supply method and are entitled to be supplied as tariff customer if previously supplied as eligible customer. The transitional period is until 1 January 2012.

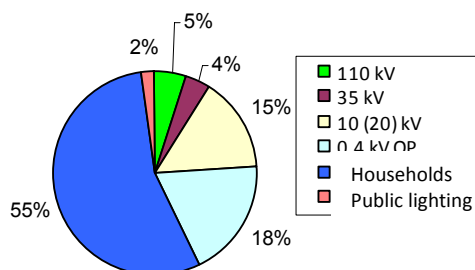
From the moment of the market opening, no customer has used the possibility to buy electricity at the market, so all eligible customers are still supplied as tariff ones, i.e. at regulated prices.

The market size, according to indicators from 2008, from the aspect of consumption of eligible customers that were supplied as tariff ones amounted to 1,287 GWh.

Consumption category	Number of customers at the end of the year	Net consumption GWh	Share in the total consumption
110 kV	5	148,23	5%
35 kV	23	119,53	4%
10 (20) kV	543	430,73	15%
0.4 kV OP	33.877	532,90	18%
Domaćinstva	474.456	1.598,20	55%
Javna rasvjeta	628	55,82	2%
Ukupno	509.532	2.885,50	100%

Table 17 - Structure of consumption of electricity in RS per categories of consumption

Share of some categories of consumption in total consumption in 2008



Picture 33

5.4. Opening of the electricity market

In the following table, there is a level of the market opening of some European countries, which is the percent of total consumption in the electric power system of one country which can be contracted at the competitive market.

ZEMLJA	Tržište otvoreno %	Potrošnja (TWh/god)
Estonija	13%	8,5
Mađarska	22%	37,3
Kipar	32%	4,9
BiH/ R. Srpska	45%	1,29
Total BiH	55%	5,0
BiH/ Federation	60%	3,71
Litvania	74%	9,1
Greece	90%	55,3
Austria	100%	61,7
Belgium	100%	90,1
Bulgaria	100%	34,7
Czechs	100%	72,0
Denmark	100%	35,7
Finland	100%	90,3
France	100%	480,3

Germany	100%	569,2
Ireland	100%	28,9
Italy	100%	339,9
Latvia	100%	7,7
Luxemburg	100%	6,8
Norway	100%	125,8
Poland	100%	154,2
Portugal	100%	50,1
Romania	100%	54,1
Slovaks	100%	29,6
Slovenia	100%	13,9
Spain	100%	276,3
Sweden	100%	157,4
Netherlands	100%	112,0
Great Britain	100%	350,1

Table 18 - Level of the market opening

According to the established dynamics of the market opening, all customers, except those from the category of "household" have the possibility to buy electricity at the market at their own choice, viewed in general, BiH market is according to realization for 2008 55% open³. Republic of Srpska market is 45% open and BiH Federation market is 60% open.

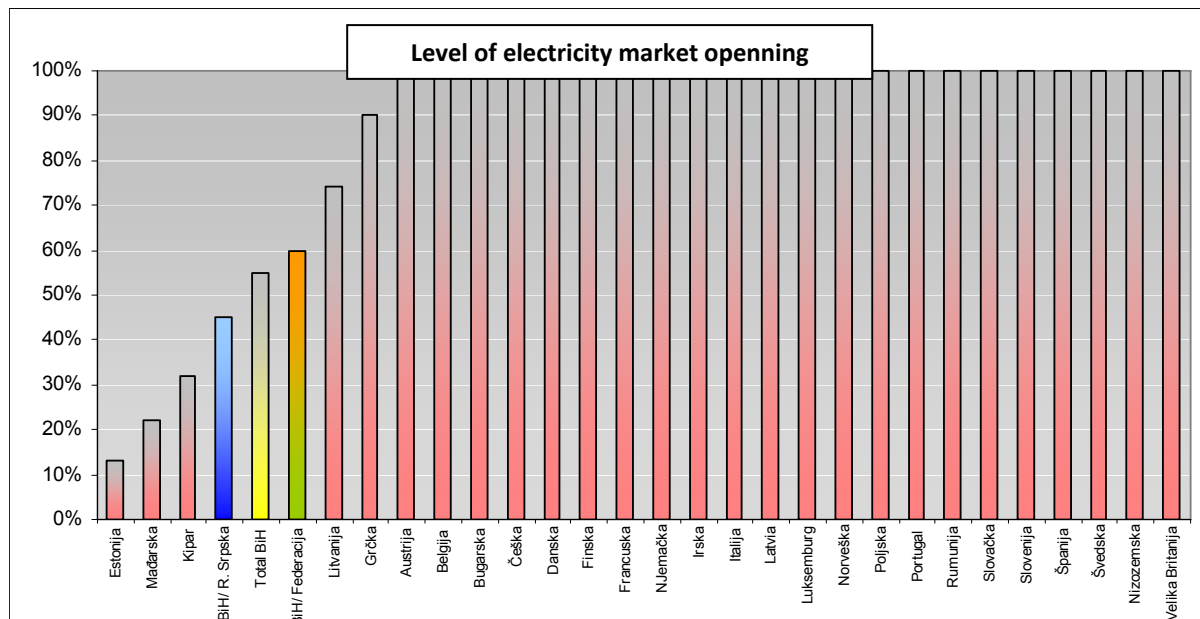
According to the dynamics of the market opening as of 1 January 2015, all customers including the households will have the possibility to enter the market.

MARKET AND CONSUMPTION	Total net consumption TWh	Household consumption TWh	Open for the market TWh	Open market %
Republika Srpska	2,89	1,60	1,29	45%
EP BiH	4,22	1,80	2,42	57%
EP HZHB	1,96	0,67	1,29	66%
Federacija	6,18	2,47	3,71	60%
Total BiH	9,07	4,07	5,00	55%

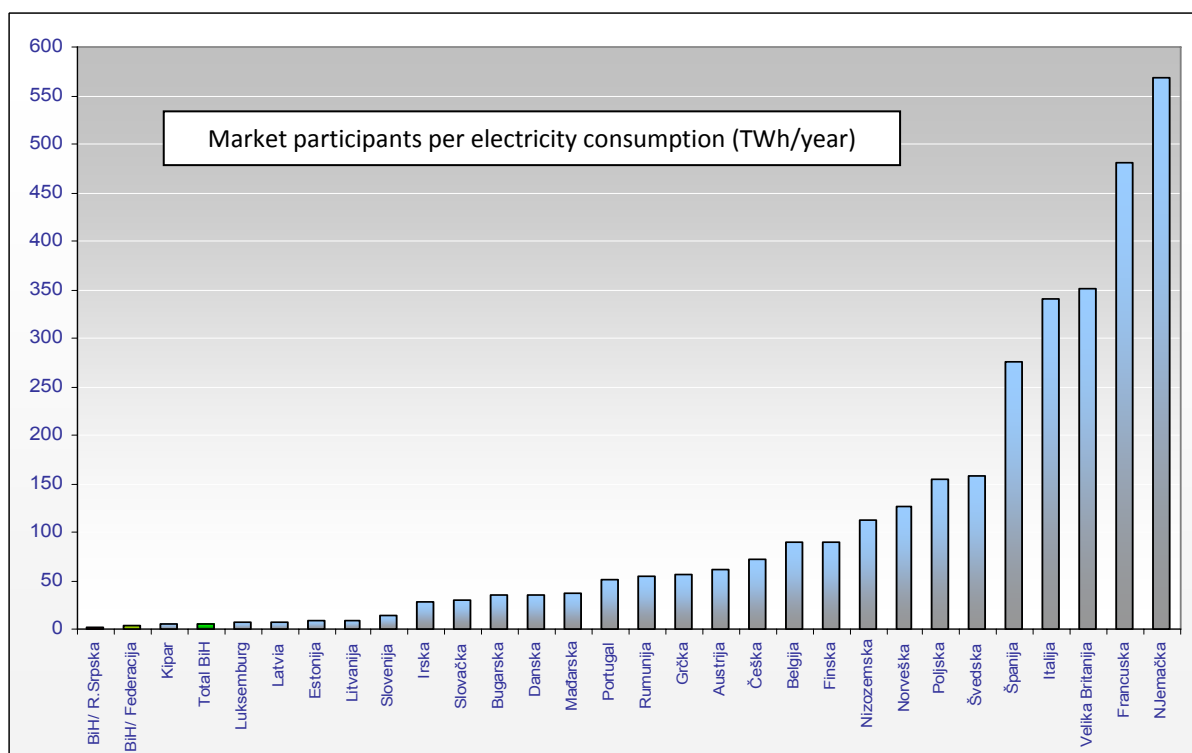
Table 19 - Level of the market opening and consumption⁴

³ Source: For data from the Federal part of BiH - Annual report of FERC, 2008

⁴ Source: ERGEG, "2008 Annual Report"



Picture 34 - Level of the market opening of electricity in the European countries



Picture 35 - Annual consumption of electricity in TWh, available at the competitive market in the European countries and RS and BiH Federation

5.5. Average price of electricity in Republic of Srpska

5.5.1. Price of the distribution network use according to the Eurostat methodology

Pursuant to its competences and determined Methodology, at the request of distribution companies, RERS determined tariff rates for distribution system users in RS, at first in March 2006 and then, for the second time in December 2007 which are still effective. Tariff rates for the distribution network users, determined on the basis of justified costs and allocated on end users in a way that each customer pays the price which is related to the costs that he causes to the system, are published on the RERS website and are valid for eligible customers of electricity. In the following table, there is price of the distribution network use for end user from the category of "industry", calculated according to the Eurostat methodology.

Average price of the network use for end user form the category of "industry" (Ie-2000 MWh)					
Year	consumption kWh	for capacity KM	for energy KM	total KM	average network price pf/kWh
2007	2.000.000	40.608	8.250	48.858	2,44
2008	2.000.000	33.342	25.896	59.238	2,96

Table 20

Tariff rates determined for distribution system users are inserted in the price for supply of tariff customers with electricity in RS for all categories of consumption, except for customers from the category of "other consumption" at low voltage which capacity charge is determined by measuring and customers from the category of "households", because there is still cross-subsidy between them, which RERS attempts to gradually eliminate.

According to the established tariff rates for distribution system users, applying Eurostat methodology, the price which the standard customers should pay, from the category of "household" unless being subsidized, would be as follows:

Average price of the network use for end user from the category of "households" (Dc-3500 kWh annual consumption out of which 1300 kWh noću)						
one-phase	Year	kWh	for capacity KM	for energy KM	total KM	average price of the network pf/kWh
	2007	3500	82,96	143,850	226,8	6,48
	2008	3500	73,85	162,750	236,6	6,76
two-phase	2007	3500	108,26	146,315	254,6	7,27
	2008	3500	116,38	159,665	276,0	7,89

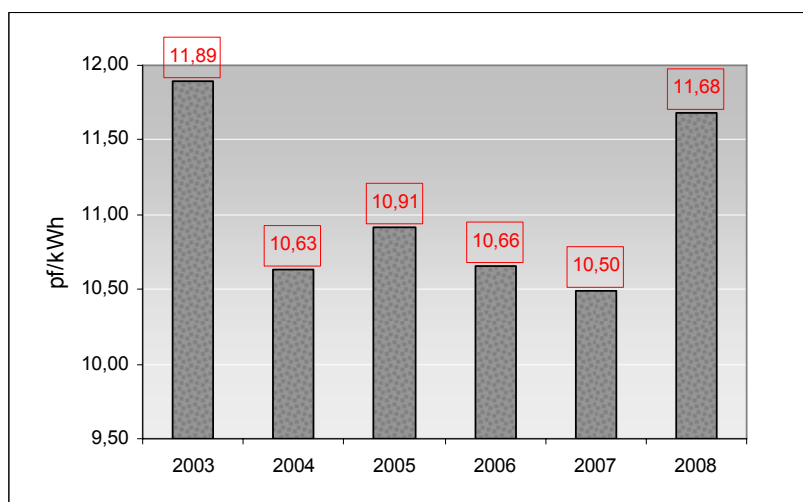
Table 21

5.5.2 Movement of average prices of electricity for end users in Republic of Srpska

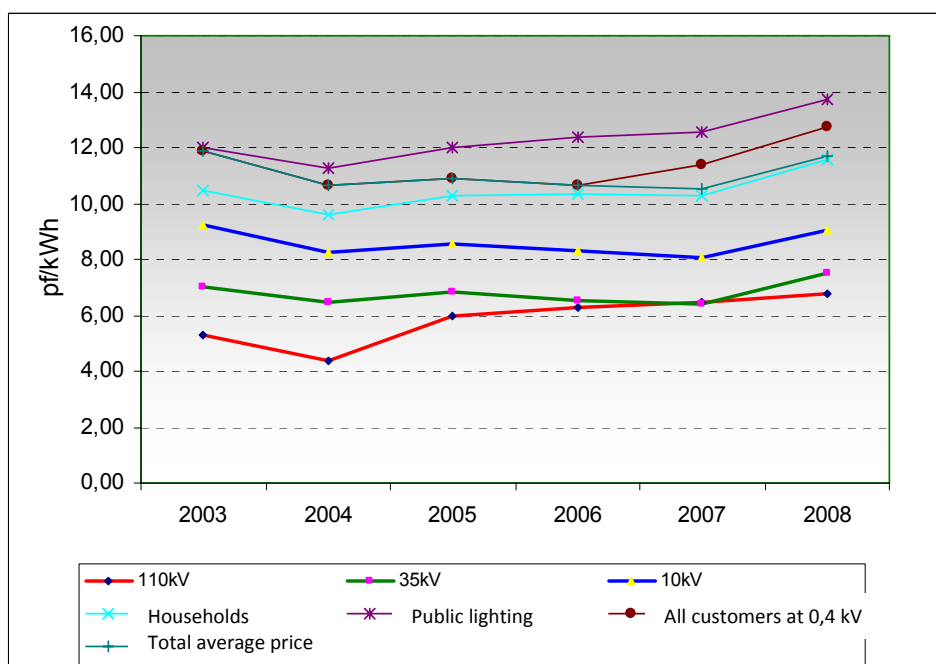
In the following tables and pictures there is movement of the realized average prices of categories of consumption and tariff groups of end users in Republic of Srpska for the period 2003-2008.

AVERAGE PRICES IN REPUBLIC OF SRPSKA							
Category of consumption	average realized price (pf/kWh)						
	tariff group	2003.	2004.	2005.	2006.	2007.	2008.
110 kV	110 kV	5,26	4,39	5,99	6,30	6,44	6,75
35 kV	35 kV	7,04	6,46	6,83	6,55	6,42	7,48
10 kV	10 kV	9,22	8,27	8,57	8,30	8,05	9,05
0,4 kV -other consumption	I TG	13,56	12,48	12,85	12,17	11,59	12,58
	II TG	23,99	22,32	20,53	18,14	16,16	18,78
	III TG	23,44	21,67	20,54	18,18	16,93	18,13
	VI TG			11,01	10,61	10,97	12,66
	VII TG			12,64	9,78	9,84	11,05
0,4 kV- households	I TG	10,94	9,98	10,49	10,41	10,41	11,80
	II TG	8,95	8,82	9,85	10,05	9,95	10,97
	III TG	33,79					
households - total		10,43	9,59	10,28	10,31	10,29	11,60
household - winter		11,90	11,04	12,01	12,09	11,99	12,84
households - summer		8,65	7,82	8,19	8,26	8,28	10,15
public lightning		11,99	11,27	12,00	12,39	12,53	13,74
all customers at 0,4 kV		11,89	10,63	10,91	10,66	11,36	12,73
Total average price		11,89	10,63	10,91	10,66	10,50	11,68

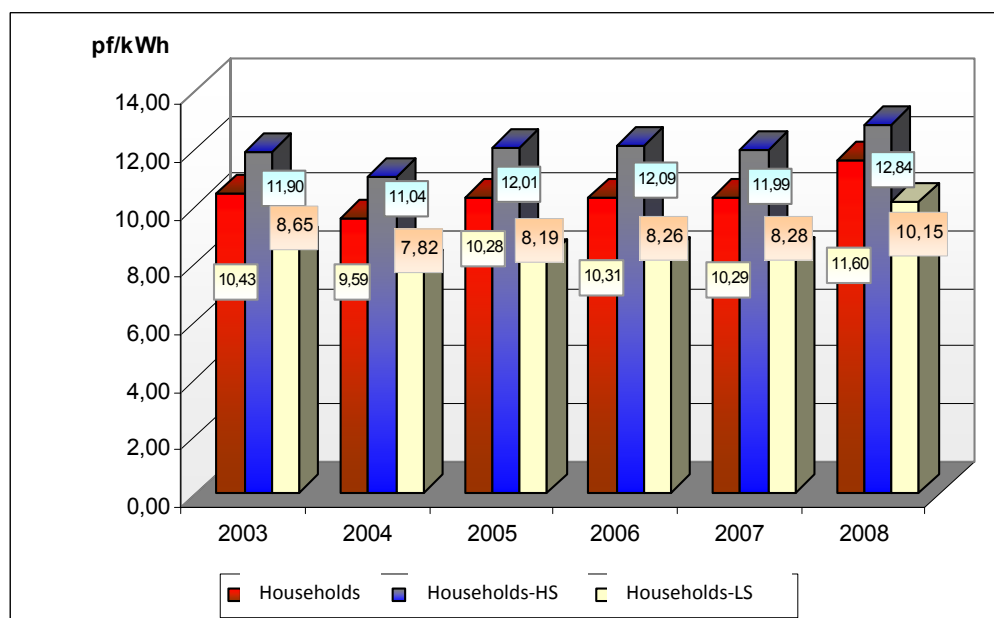
Table 22 - Trend of changes of average electricity prices 2003 - 2008 in RS



Picture 36 - Average realized total prices of electricity in RS



Picture 37 - Movement of average prices in ph/kWh in the period 2003 - 2008 (110 kV, 35 kV, 10 kV, households, public lightning, all customers at 0.4 kV voltage and total average price)



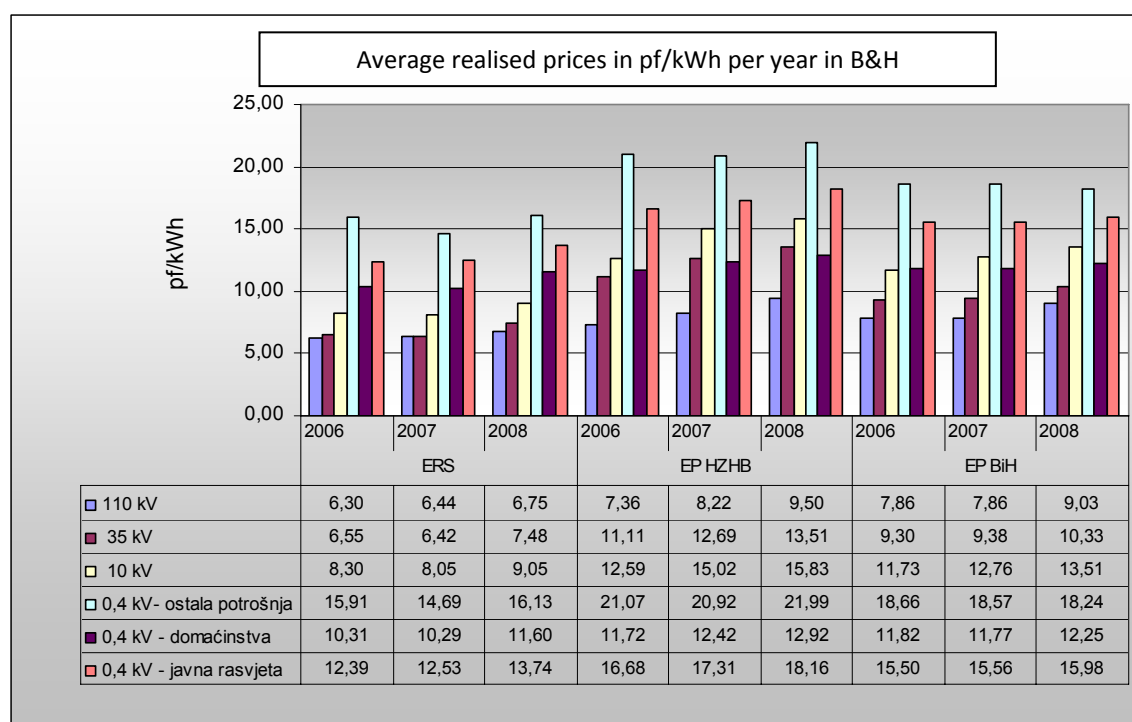
Picture 38 - Movement of average prices in ph/kWh for "households" in the year and per seasons

5.5.3 Average prices of electricity for end users in Bosnia and Herzegovina

There are benchmarking of the realized average prices of electricity in the following table in RS and Federation BiH.

	ERS			EP HZHB			EP BiH		
	2006	2007	2008	2006	2007	2008	2006	2007	2008
110 kV	6,30	6,44	6,75	7,36	8,22	9,50	7,86	7,86	9,03
35 kV	6,55	6,42	7,48	11,11	12,69	13,51	9,30	9,38	10,33
10 kV	8,30	8,05	9,05	12,59	15,02	15,83	11,73	12,76	13,51
0,4 kV - other consumption	15,91	14,69	16,13	21,07	20,92	21,99	18,66	18,57	18,24
0,4 kV - households	10,31	10,29	11,60	11,72	12,42	12,92	11,82	11,77	12,25
0,4 kV - public lighting	12,39	12,53	13,74	16,68	17,31	18,16	15,50	15,56	15,98

Table 23 - Benchmarking break down of average prices (pf/kWh)



Picture 39 - Benchmarking break down of electricity price in BiH for the period 2006 -2008.

5.6. Benchmarking data on electricity prices in Republic of Srpska and surrounding for the standard customer

5.6.1. A new approach to data processing and presentation of the electricity prices

Collection and processing of the statistical data on the electricity prices was defined by the Directive 90/377/EC dated 29 June 1990. The European Commission adopted a uniform methodology of the statistical data processing from generation, consumption, prices and exchange (import - export) of electricity. With the electricity market development, there was a need to innovate Directive 90/377/EC in a way that the impact

of the market participants should be taken in to account while reporting about average prices for certain groups of customers.

Statistical treatment of the average prices of electricity pursuant to the Eurostat methodology is made for two basic categories of customers: households and industry. Within these two groups, customers are grouped in several typical groups depending on the annual consumption and maximum capacity. In June 2007, EU Commission adopted amendment of the methodology for collection of these data. The essence of this methodology is as follows:

- the prices should represent the average for the last half-a-year,
- typical standard customers should be replaced by the consumption in band,
- it is necessary to present separately the costs of energy and supply as well as the network costs in the electricity price,
- the prices do not include the VAT, but include the work of agencies, compulsory redemption of electricity, keeping the records of contracts and excise tax

The electricity prices - HOUSEHOLDS

Unlike the method of collecting data on prices for industrial customers which was prescribed by Directive 90/377/EEC and through new methodology innovated, data grouping on electricity prices for the households was based on the voluntary agreement of the EU members states, according to which groups of customers in the households from Da to De are defined by the annual consumption as presented in the table:

Table 24 - Typical groups of customers of electricity of "households"

Da	(<1000 kWh)
Db	(1000 <2500 kWh)
Dc	(2500 <5000 kWh)
Dd	(5000 <15000 kWh)
De	(>= 15000 kWh)

Reporting period:

H1 - first half of the current year (January - June)

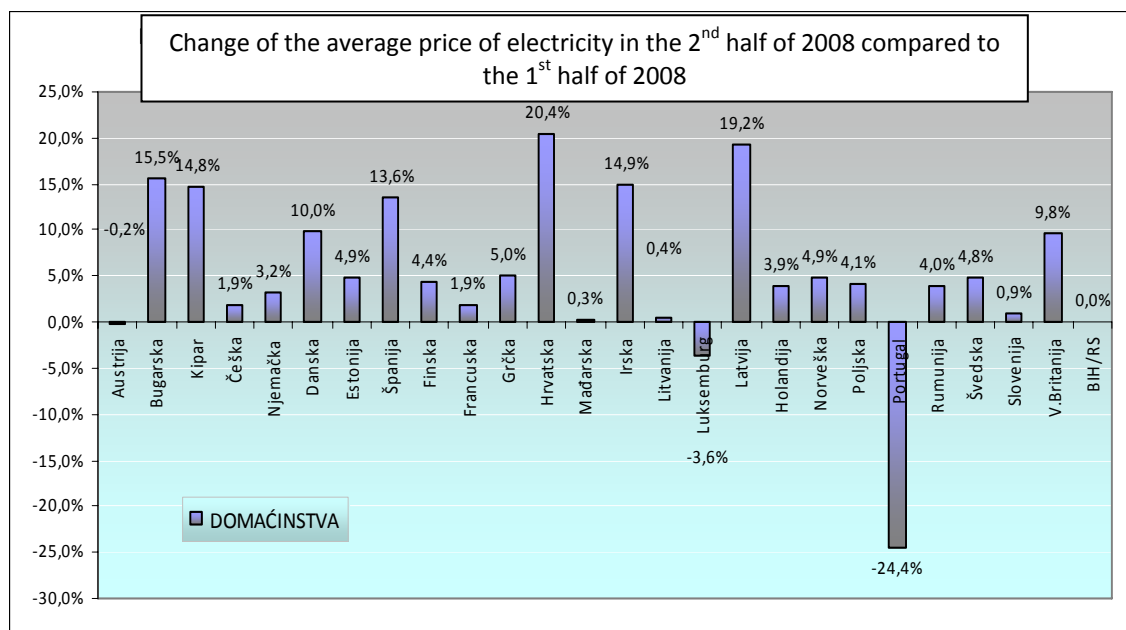
H2 - second half of the current year (July - December)

The prices for households should represent the total average price, respecting the market share of the electricity supply, if the market factor is present while

supplying end users in households.

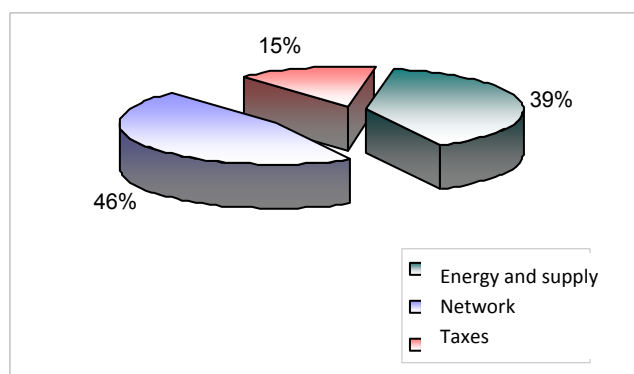
There is a price change presented in the next picture for end users from the category of households in the second in relation to the first part of 2008. The prices are without tax and for the standard customers in households (Dc) with the annual consumption between 2500 and 5000 KWh⁵.

⁵ Source: Eurostat



Picture 40 - Change of the average price of electricity in "households" in the second half in relation to the first one

The price structure for the average customer in the households which consumes between 2500 and 5000 kWh annually is presented in the following picture.



Picture 41 - Structure of the average price for households in RS that consume between 2500 and 5000 kWh expressed in percentages

The prices of electricity - INDUSTRY

New methodology, which Eurostat bases the data collecting on prices for end users in the industry and which became effective in June 2007, is based on the data for several categories of industrial customers, put in different groups (band) depending on consumption.

Table 25 - Typical groups of electricity customers of "industry"

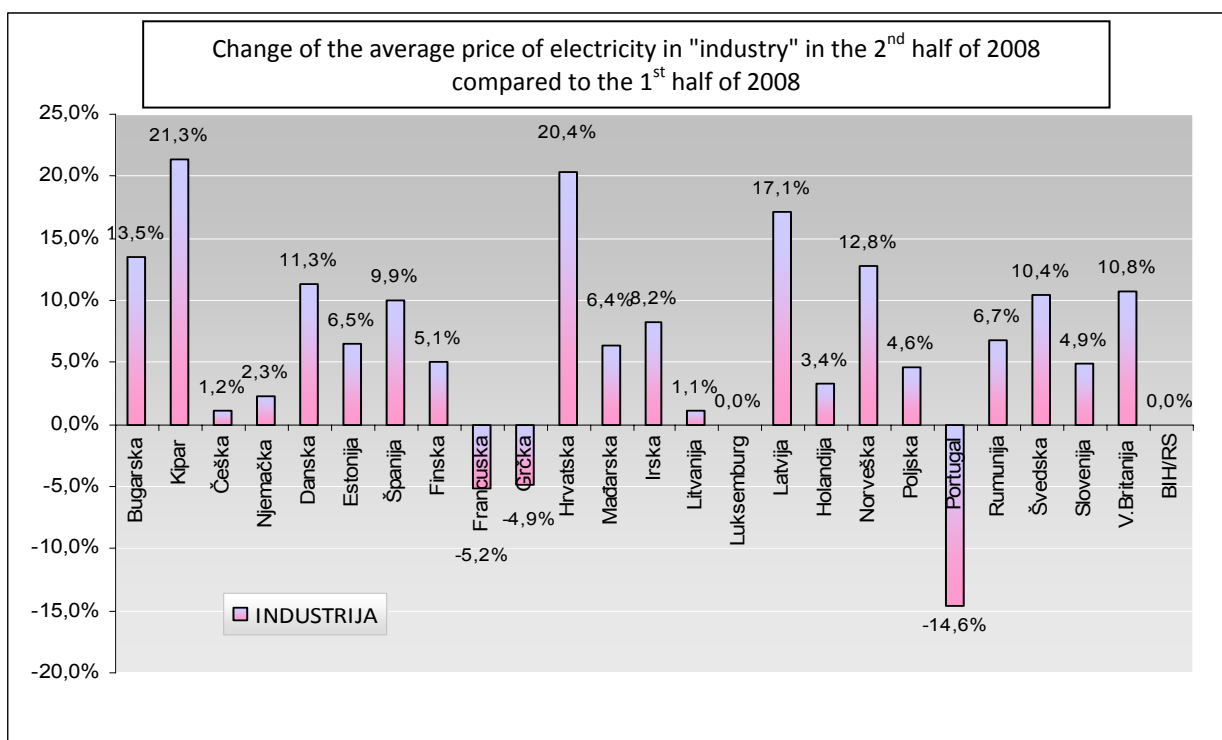
la	< 20 MWh
lb	20 < 500 MWh
lc	500 < 2000 MWh
ld	2000 < 20.000 MWh
le	20.000 < 70.000 MWh
lf	70.000 < 150.000 MWh

Reporting period:

H1 - first half of the current year (January - June)

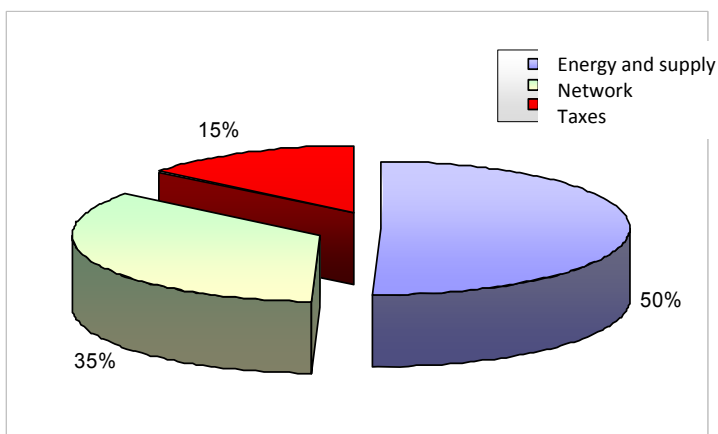
H2 - second half of the current year (July - December)

There is a price change presented for end users from the category of "industry" in the following picture in the second compared to the first half of 2008 for lc group of customers that consume between 500 and 2000 MWh annually.



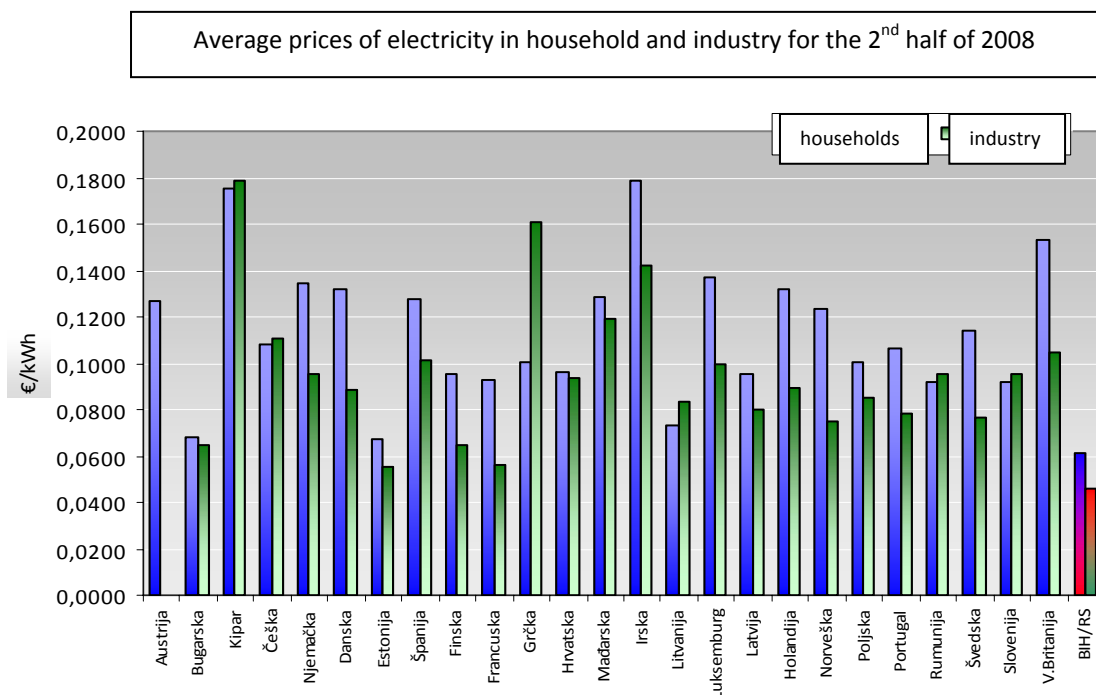
Picture 42 - Change of the average price of electricity in the "industry" in the second half of 2008 in relation to the first one

The price structure in RS for the typical customer in industry which is connected to 10 kV voltage level is presented in the following picture.



Picture 43 - Structure of the average price for industrial customer in RS

In the following picture, there are benchmarking prices of electricity for the second half, without tax for customers in the households (Dc) with the annual consumption between 2500 and 5000 kWh and customers in Industry (Ic) with the annual consumption between 500 and 2000 MWh⁶.



Picture 44 - Benchmarking prices for standard industrial customers (Ic) and standard customers in household (Dc)

5.6.2 The electricity prices in RS and surrounding - old methodology of the data processing

In this part of the report, there are data for 2008 processed pursuant to the old Eurostat methodology which was effective until 31 December 2007. Having in mind that data on the electricity prices were based on the new methodology for data processing, not easily available for many countries from the direct neighboring, and since it is about these countries particularly, because of their specific features and facts that they belong to the Energy Community like BiH as well, a more realistic indicator for us, in this part of report, it is presented the price analysis for typical customers in households and industry following the "old" methodology.

Households - categories of electricity customers

It is standardized according to the old methodology to define several groups of customers for the category of households as presented in the following table.

⁶ Ic: Source Eurostat (the price for industrial customer in RS is an average realized price for customers connected to 10 kV voltage level)

Table 26 - Standardized groups of customers of electricity from the category of "households"

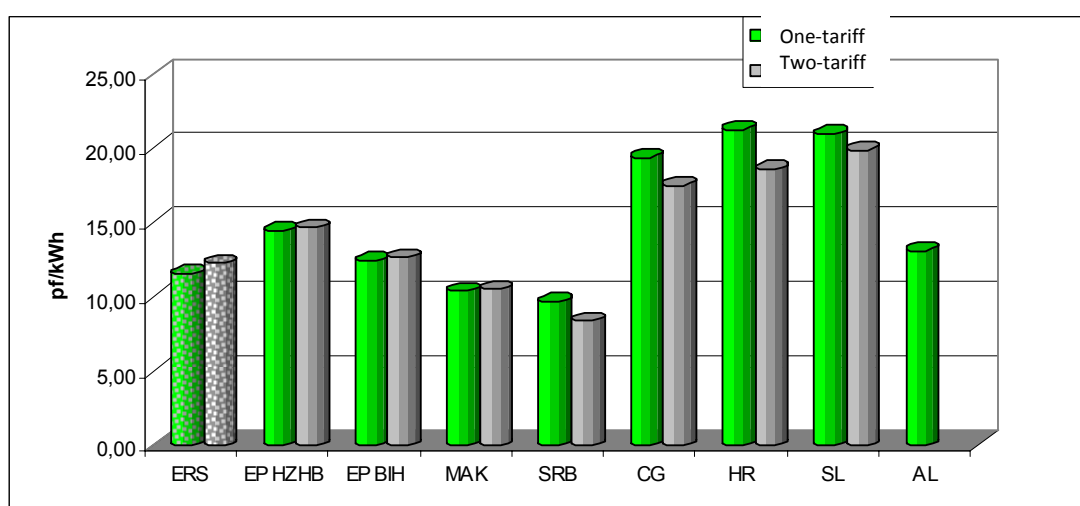
Standard customer in the households following the old Eurostat methodology	Annual consumption	
	Total	Out of which at night
Da	600 kWh	
Db	1200 kWh	
Dc	3500 kWh	1300 kWh
Dd	7500 kWh	2500 kWh
De	20000 kWh	15000 kWh

Benchmarking data are usually presented for the household of the category of Dc for which the typical annual consumption of 3500 kWh, out of which 1300 kWh at night, with the assumption of equal consumption in high and low season.

In the following table, there is benchmarking break down of the average price of electricity for the typical customer from the category of households (Dc) in Republic of Srpska and surrounding countries. For calculation of the average price in RS and in the neighboring countries for the standard customers of electricity, the tariff rates for non-eligible customers of electricity from the category of "households" which were effective on 1 December 2008 were used.

Tariff rates for non-eligible customers of electricity from the category of "households" - calculation of the average price for the standard customer according to Eurostat Dc 3500 (out of which 1300 at night) - Winter - Summer in relation of 50:50										
Category	Group	ERS	EP HZHB	EP BiH	MAK	SRB	CG	HR	SL	AL
households	one-phase	11,54	14,43	12,43	10,36	9,68	19,36	21,21	20,93	13,07
	two-phase	12,27	14,64	12,63	10,51	8,37	17,45	18,54	19,85	

Table 27



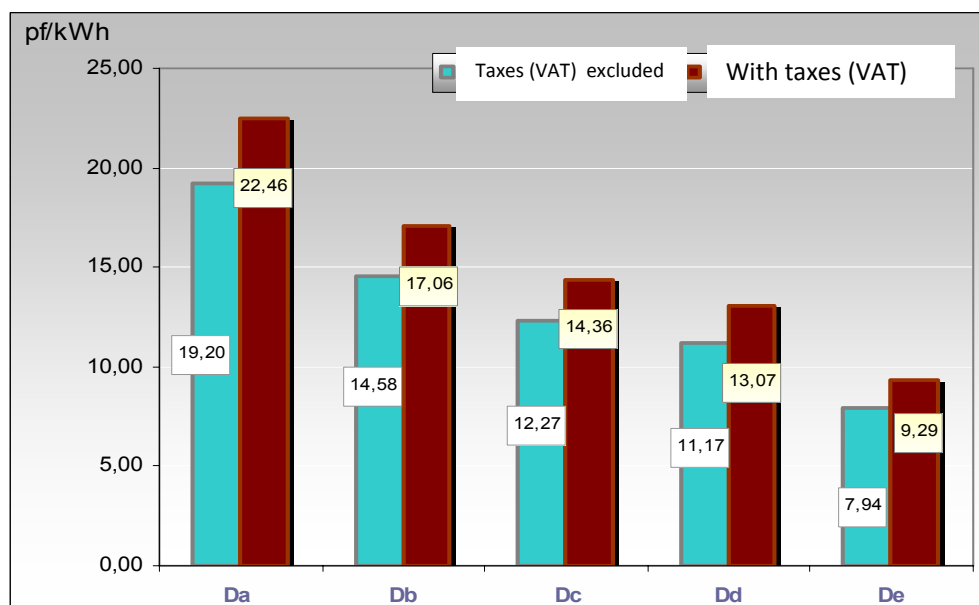
Picture 45 - Benchmarking break down of the average price in pf/kWh for one-phase and two-phase measuring for the standard customer of Dc 3500 (out of which is 1300 at night)

Winter - summer in relation of 50:50⁷



Picture 46 - Average price of electricity in €/kWh (the tax is included) for the standard customer in the households (Dc) in the period 1999 - 2008

In the following picture there are average prices with and without tax (VAT 17%) for other standard customers from the group of households in a way as being grouped by Eurostat depending on the annual consumption.

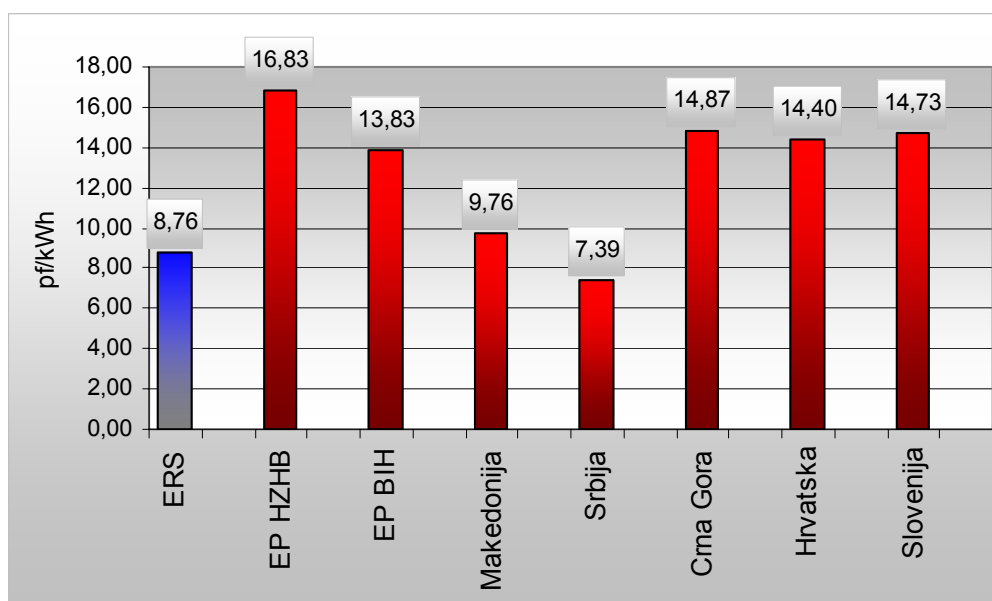


⁷ For calculation of the average price in the neighboring countries for the standard customers of electricity, tariff rates for non-eligible customers of electricity from the category of "households", which were effective on 1 December 2008 were used, they were published at the website of regulator or electric power companies in the respective countries.

Picture 47 - Benchmarking break down of average price for the households with and without tax for group of customers following the old methodology of the data processing

Industry - category of the electricity customers

The old Eurostat methodology defines several typical customers for industrial customers. Benchmarking data are usually given for the industrial customer of the category 1e for which the typical annual consumption is 2000 MWh and maximum capacity is 500 kW. In the following picture, there is benchmarking break down of average prices for customers in the industry in BiH and surrounding countries. The prices were made on the basis of the valid tariff rates on 1 June 2008 for customers at 10 kV voltage level.



Picture 48 - The electricity price for industrial customer in ph/kWh

5.7. Affordability of electricity for customers from the category of "households"

Fuel poverty - affordability of electricity for end users

European countries use the term "energy poverty" for estimating and benchmarking of electricity affordability to end users from the category of households.

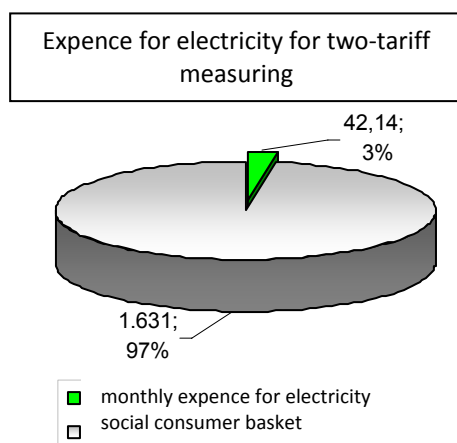
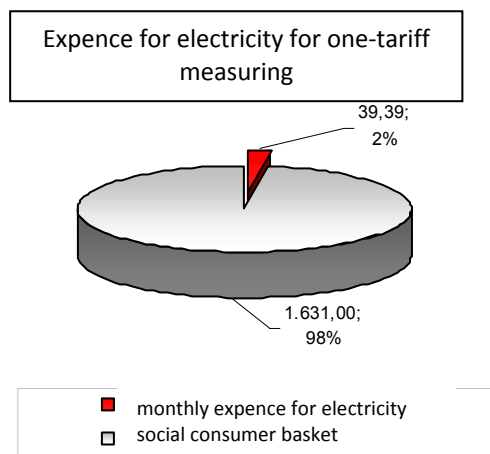
The threshold of the energy poverty is determined by each country based on its own criteria which depends on average prices of different forms of the energy sources for households, availability of the different types of energy sources for use in the households, and national income per the inhabitant, minimum and average income of the households.

In some European countries, the household is determined to be energy poor if the monthly bill for consumption of electricity and gas in the household is more than 10 % of total monthly income of the household.

For its own analyses, RERS used the benchmarking break down of the ratio between the electricity bill and "social consumer basket" published by The Association of trade unions of RS and it represents the value of goods and services necessary for keeping the level of living standard.

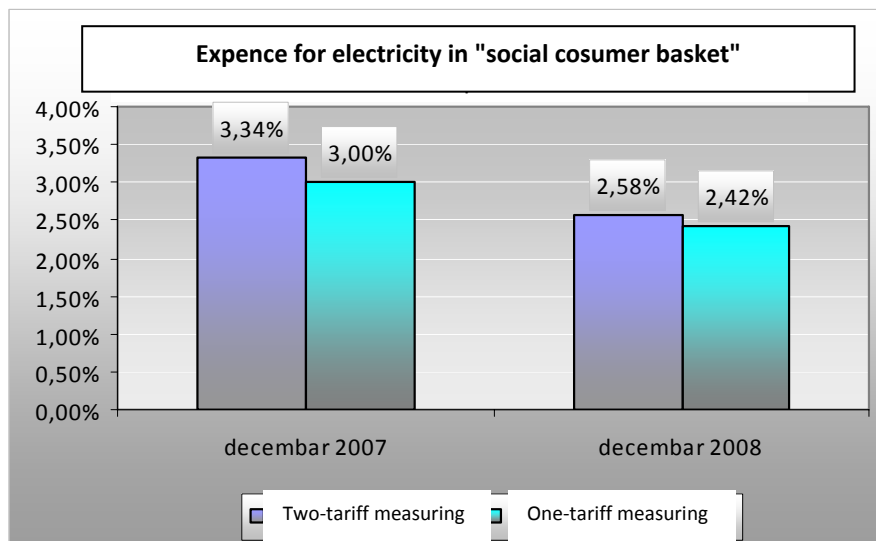
Expenses for electricity for end users in the category of household in 2008 in relation to 2007 increased, because the electricity price increased which amounted to, on average, around 12% for households. "Social consumer basket" was 1,149,57 BAM in December 2007, and in December 2008 it was 1.631,00 BAM (more than 42%). In total nominal increase of the consumer basket value of 481 BAM, the increase the electricity price for 3,7 BAM in monthly bill for the respective household amounts to 0,8% (the standard customers from the category of households - customer that consumes 3500 kWh electricity annually)⁸.

Picture 49 - Share of electricity costs in the consumer basket for the standard customer in 2008



⁸ According to the methodology applied by EUROSTAT, end users from the category of households are classified in 5 groups of standard customers, while the standard customer from the group of "Dc" is the end user that annually consumes 3500 KWh of electricity, out of which is 1300 kWh at night, namely while applying low daily tariff

Share of electricity costs (including the VAT) in the "social customer basket" in 2008 was 2,42 % for one-tariff customer from the category of households and 2,58% for two-tariff customer which is graphically presented as follows.



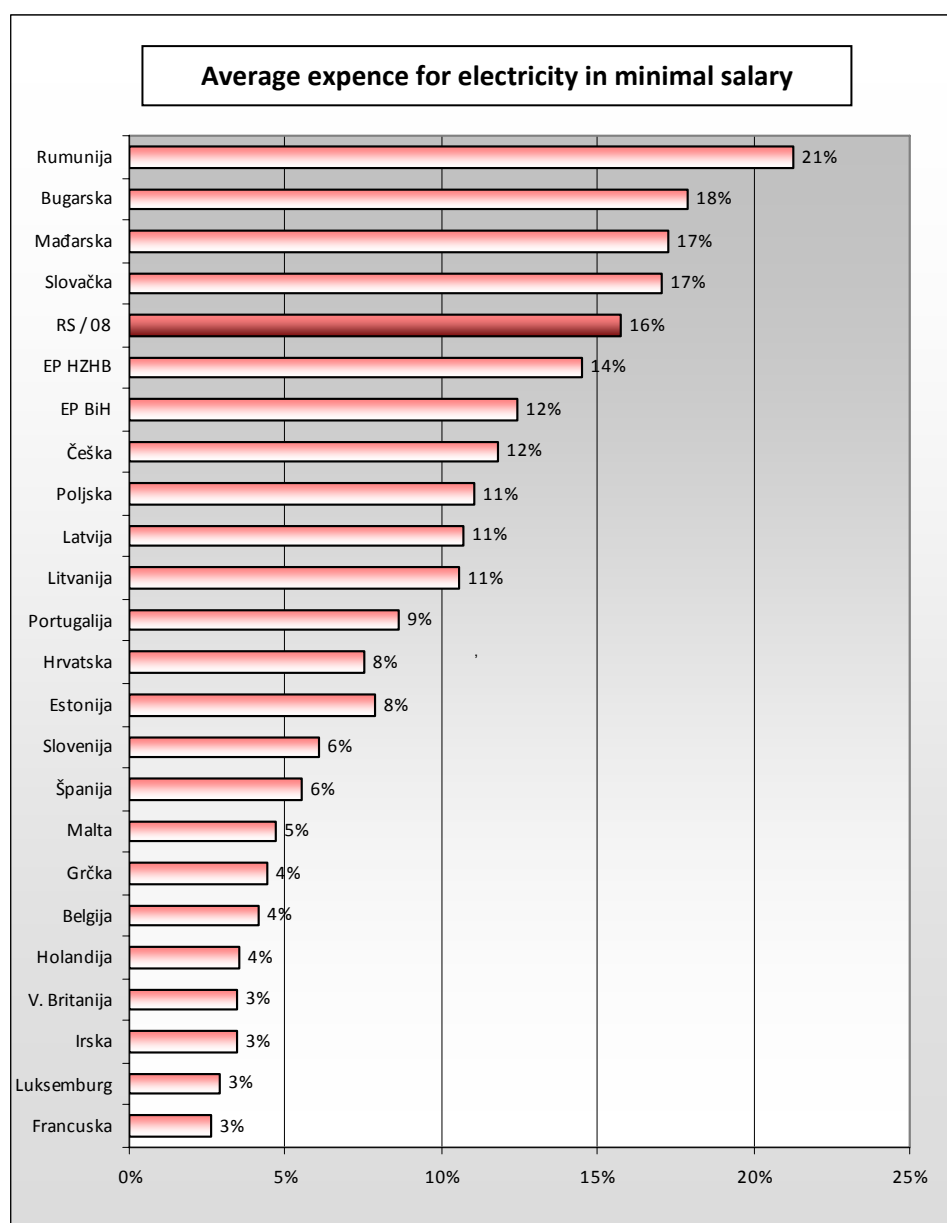
Picture 50 - Share of the electricity costs in the "social customer basket" in 2007 and 2008

Another datum is the share of the electricity expense, for the volume of consumption of the standard customer (Dc) from the category of households, with the calculated tax on the added value, in the minimum guaranteed monthly salary⁹.

According to the tariff rates for supply of tariff customers for 2008 and determined minimum salaries, the share of the expense for electricity in minimum salary in 2008 amounted to 16%.

Comparing to other countries in Europe, this share is relatively high, whereby it should be taken into account that the lowest guaranteed salary of the employee is not primarily statistical datum but that amount is determined pursuant to the economic and social policy of the country.

⁹ Minimum salary: Source Eurostat



Picture 51 - Benchmarking break down of the share of the electricity expense in the minimum salary

5.8. Natural gas market

The following energy undertakings take part in the sector of natural gas in RS, with the activities as follows:

"GAS PROMET" A.D. Pale - transport and transport system operator of natural gas,
 "SARAJEVO-GAS" A.D. Istocno Sarajevo - transport, distribution and supply with natural gas
 A.D. "ZVORNIK-STAN" Zvornik - distribution and supply with natural gas

Currently, at the natural gas market in Bosnia and Herzegovina, there is one gas importer and it is "Energoinvest" from Sarajevo which is signatory to the contract on the gas import over years with the Russian "Gasprom". The gas supplier of the biggest gas customer in Republic of Srpska, Fabrika glinice "Birac" from Zvornik annual consumption is approximately 215 m³ in case that natural gas is used in full capacity which is 40% of total consumption of natural gas in Bosnia and Herzegovina, is "BH gas" from Sarajevo.

The estimate of the annual consumption of gas in RS is approximately 220 million m³.

The Rule on tariff methodology in the system of transport, distribution, storage and supply with natural gas determined that the supply of tariff customers with natural gas is related only to the category of consumption of the households, which is arising from the Gas law and Treaty on establishment of the Energy Community of the South-East European countries, according to which all end users of natural gas, apart from customers from the category of households should have the right to be supplied as eligible customers as of 1 January 2008. So, according to this Rule in 2009 there will be the tariff proceeding conducted which shall determine the tariff rates for supply of tariff customers - households with natural gas, while for other categories of costumers there will not be the tariff rates prescribed, i.e. they will be supplied as eligible customers. At the same time, tariff rates for the natural gas network use shall be determined, and the licensee issued for the activities pursuant to the Rule on the license issuance, which should create the initial assumptions for the natural gas market functioning in RS.

5.9. Information on the natural gas prices

5.9.1. Natural gas prices in RS

The procedure related to determination of the natural gas price in RS which was effective in 2008 was that the local communities approved the natural gas prices determined by the companies from the gas sector. In December 2008, RERS determined the methodology for calculation of prices in the energy activities from the gas sector and its application shall follow in 2009.

In the table below, there are prices of the natural gas in RS valid as of 1 November 2008. Gas distributors in RS submitted to RERS the prices expressed in BAM/Sm³ which represent the increase in relation to the previous period of 35% for the household and 21.9% for the commercial customers. In the rationale for decision related to the increase, the company of "SARAJEVO-GAS" a.d. it is stated that there was a modification of the procurement price of the natural gas based on the BiH Federation Government Decision on the increase of the natural gas price from 0,61 to 0.80 for 1 Sm³.

The natural gas prices which are give in the table are expressed in three units of measure Sm³, GJ and kWh, in order to enable comparison to the prices in the region and EU countries.

Gas prices in RS without VAT (15°C; 1,01325 bar; low calorific value 34.075,60 kJ/Sm ³)	"SARAJEVO-GAS" a.d.			"ZVORNIK -STAN" a.d.		
Consumption category	KM/Sm ³	KM/GJ	KM/kWh	KM/Sm ³	KM/GJ	KM/kWh
Households	0,900	26,41	0,0951	0,991	29,096	0,1047
Commercial customers	1,000	29,35	0,1056	0,991	29,096	0,1047

Table 28 - Gas prices in RS, on 1 December 2008

In the following table, in the example of the company for natural gas "SARAJEVO-GAS" a.d, there is a structure of costs of the natural gas prices for end user from the category of households and commercial consumption which became effective on 1 November 2008. The metering point is calculated in the bill of the end user of natural gas in the amount of 3.0 BAM monthly.

Structure of the gas price for end user "SARAJEVO-GAS"-a a.d	Households	Commercial consumption
	KM/Sm ³	KM/Sm ³
Procurement price from "BH GAS"	0,80	0,80
Transport services	0,03	0,03
Procurement price	0,83	0,83
Distribution and supply costs	0,07	0,17
Gas price	0,90	1,00
Gas price with VAT	1,053	1,17

Table 29 - Structure of the natural gas price for end user

5.9.2. Benchmarking of the natural gas prices

The legal basis for collection and processing statistical data based on the electricity price was defined by Directive 90/377/ECC dated 29 June 1990. The European Commission adopted uniform methodology of the statistical processing of data related to generation, consumption and price of gas. Due to liberalization of the gas market, the methodology adopted then related to collection of data on the gas prices became obsolete, so in June 2007 a new methodology was established. The essence of the change is as follows:

- Prices are published in the national currency,
- Prices should represent the average for 6 months,
- Typical standard customer was replaced by the customer in "band"

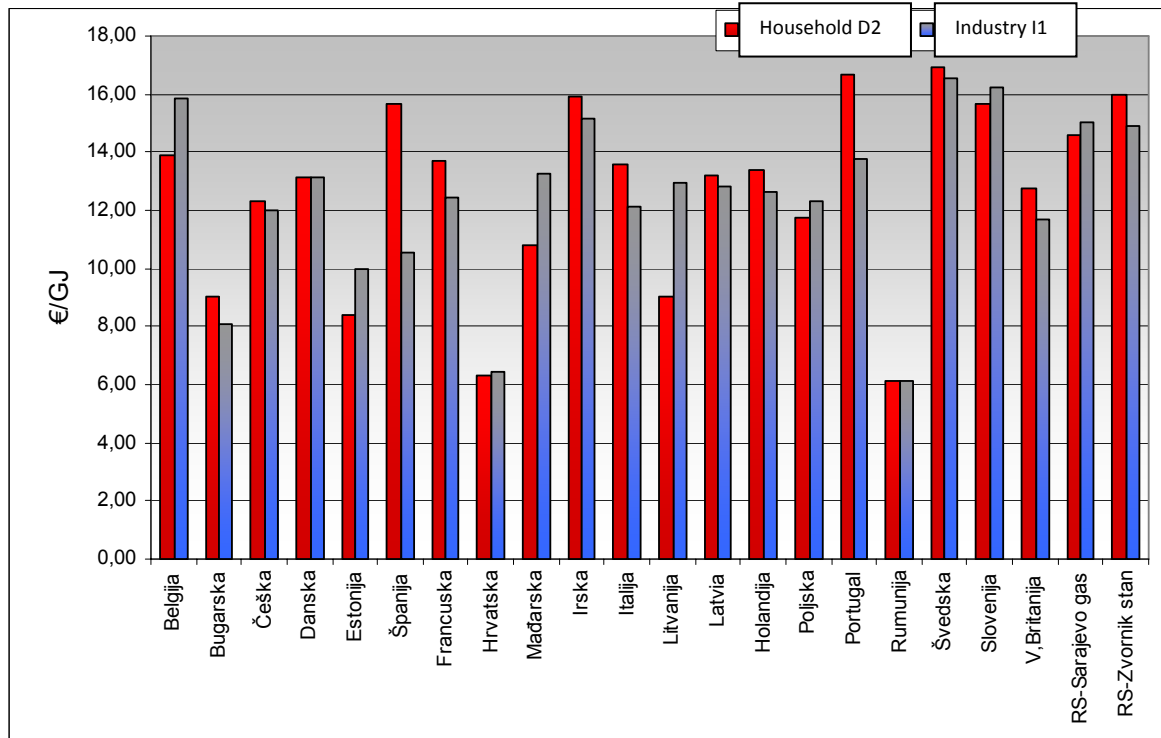
Statistical processing of the average gas prices pursuant to this methodology is carried out for basic categories of customers both for households and industry. Within these two groups, customers are grouped in several typical groups depending on the annual consumption and maximum capacity.

Table30 - Typical groups of customers of natural gas

Annual consumption of gas (GJ)					
Industrial end users			Households - end users		
Group	lowest	highest	Group	lowest	highest
Band I ₁		<1.000	Band D ₁		<20
Band I ₂	1.000	<10.000	Band D ₂	20	<200
Band I ₃	10.000	<100.000	Band D ₃	>200	
Band I ₄	100.000	<1.000.000			
Band I ₅	1.000.000	<4.000.000			

There is a benchmarking break down of the average prices of gas in some European countries for end user in the category of "households" which annual consumption is between 20 and 200 GH and for end user from the category of "industrial customer" which annual consumption is between 10.000 and 100.000 GJ. The prices are without tax and are related to the second half of 2008.¹⁰

The prices for end users of "Sarajevo-Gas" and "Zvornik Stan" in Republic of Srpska which are for the benchmarking purposes included in the table, calculated on the basis of the valid tariff rates for natural gas and measuring place on 1 November 2008, without any taxes. Calculation of the average price is related to customers in the "households" which annually consumes 500 Sm³ and customers from the category of "commercial consumption" which annually consumers 12.284 Sm³ of gas.



¹⁰ Source: Eurostat

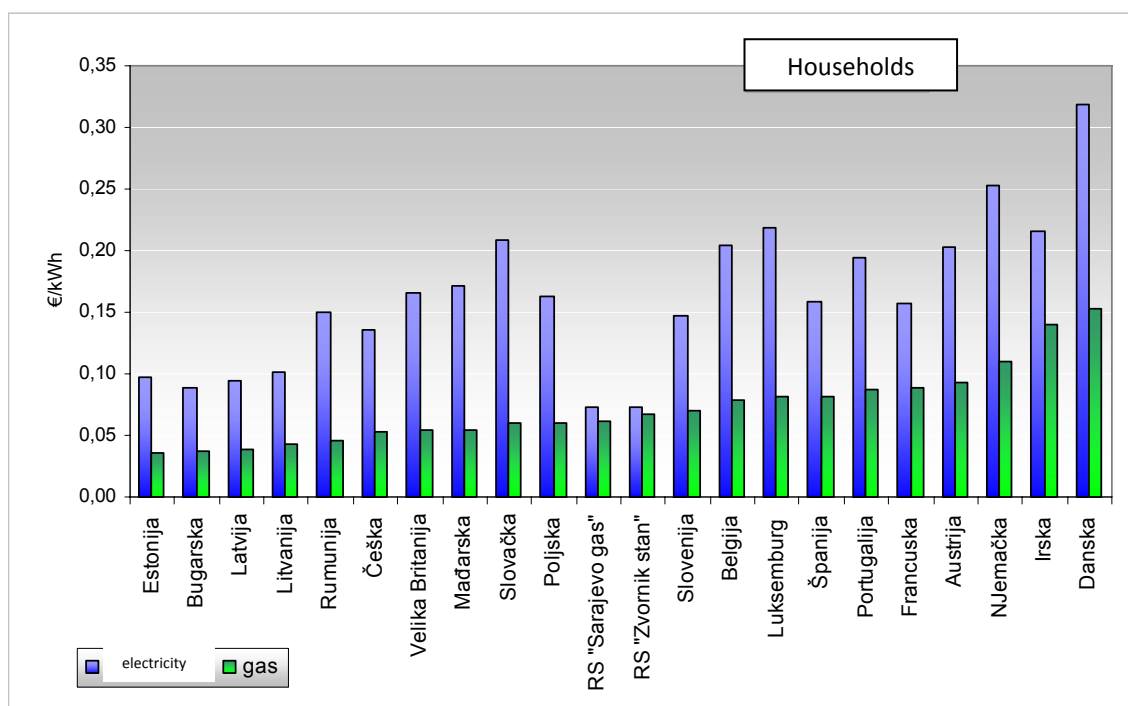
Picture 52 - Average prices of gas for the second half of 2008 - customers from the category of "D2 - households" and "I1 - industry".

5.9.3 Electricity and natural gas - the prices, benchmarking break down

This chapter gives the benchmarking break down of average prices of electricity in €/Kwh for electricity and gas in the "households" and "industry". Groups of the standard customers of electricity and natural gas are defined pursuant to the Eurostat methodology. The prices are calculated with the supporting taxes on 1 June 2008 in the EU countries, and for RS on 1 November 2008.¹¹

The benchmarking was made for the typical customer of electricity from the category of "households" and typical customer of natural gas from the category of "households" namely, for the typical customer of electricity from the category of "industry" and typical customer of natural gas from the category of "industry" as presented in the following pictures.

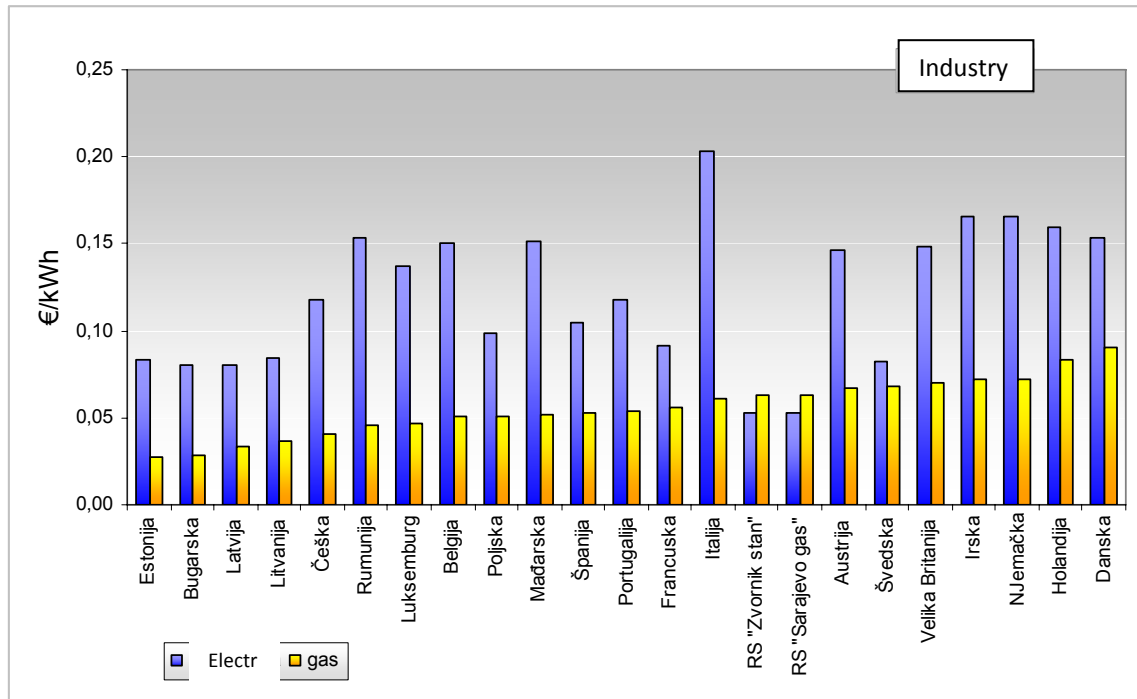
HOUSEHOLDS	
Electricity	Gas
Consumption: 3500 kWh/year (30% at night)	Consumption: 500 m ³ /year



Picture 53 - Benchmarking break down of average prices in €/kWh for electricity and gas for typical "households"

¹¹ Source: Europe's Energy Portal/www.energy.eu

INDUSTRY	
Electricity	Gas
Consumption: 2000 MWh/annually (max. 500 kW, annual load: 4000 h)	Consumption: 418.6 GJ/annually $\approx$ 116 MWh $\approx$ 11000 m ³



Picture 54 - Benchmarking break down of the average prices in €/kWh for electricity and gas for typical customer in the "industry"