

Pursuant to Article IVa) of the Constitution of Bosnia and Herzegovina, Parliament of Bosnia and Herzegovina on 21. session of the House of Representative held on July 14, 2004 and on session Of the House of People held on July 16, 2004 passed:

LAW ESTABLISHING AN INDEPENDENT SYSTEM OPERATOR FOR THE TRANSMISSION SYSTEM OF BOSNIA AND HERZEGOVINA

I GENERAL PROVISIONS

Article 1

Objectives

1. This Law establishes a non-profit Independent System Operator to direct the operation of the transmission system in Bosnia and Herzegovina, the "Independent System Operator of Bosnia and Herzegovina" (referred to hereafter as "the ISO"), and defines its functions, powers, governance and ownership. The ISO shall perform its activities on the entire territory of Bosnia and Herzegovina.
2. The objective of the Law is to establish an independent system operator and ensure a continuous supply of electricity at defined quality standards for the enjoyment of the citizens of Bosnia and Herzegovina. The Law is intended to facilitate the creation of a competitive electric energy market in Bosnia and Herzegovina and its integration in regional energy markets and regional energy development activities. The Law is based on existing international practices and applicable Directives of the European Union (and their implementation in EU Member States).

Article 2

Purpose and Exclusive Authority

1. The activities of the ISO shall include the direction of the operation of the transmission system to ensure reliability, operation of central control center facilities, operation of the balancing market, provision of system services, the procurement of ancillary services, development and enforcement of reliability standards, development and administration of rules governing use of the transmission system, development and administration of market rules governing the provision of electricity and system services over the transmission system, and other activities specified in Article 7 (Powers of the ISO) of this Law. Upon the establishment of the ISO, no other electric or other company or body shall have jurisdiction or authority in these above-described activities.
2. The ISO is prohibited from engaging in any activity that involves the following activities in any way: generation, supply, trading, or distribution of electric power, or in any other activities not authorized by this Law.

Article 3

Definitions

In this Law the following definitions shall apply:

1. "Ancillary Services" shall mean all services, excluding the production and transmission of electrical energy, supplied to the ISO for the provision of system services, including, among other things, frequency control, reserves, reactive power and voltage control and black start capability.

2. “Assets” means all of those properties and rights that are properly entered into the accounts and balance sheets of companies in terms of a monetary value, in accordance with good accounting practices.
3. “Balancing Market” means the central market for the purchase and sale of electric energy operated by the ISO for purposes of maintaining the continuous balance of supply and demand in real-time, as well as the additional market mechanisms administered by the ISO for purposes of ensuring the provision of system services.
4. “Books of Rules” shall be as defined in Article 13 of this Law.
5. “Council of Ministers” means the Council of Ministers of Bosnia and Herzegovina.
6. “Distribution” means the transport of electricity on medium-voltage and low-voltage distribution systems for delivery to end-users.
7. “Elektroprivredas” means Public Enterprise Elektroprivreda of Republika Srpska, Public Enterprise Elektroprivreda Bosne i Hercegovine, and Public Enterprise for Generation, Transmission and Distribution of the Electric Power, Elektroprivreda Hrvatske zajednice Herceg-Bosne, or any of their successors engaged in the supply of electric energy.
8. “Entity” in the singular shall mean the Federation of Bosnia and Herzegovina or Republika Srpska. Collectively, these shall be referred to as “Entities.”
9. “Generation” means the production of electricity.
10. “Generator” means a company or other body that produces electric energy.
11. “Good accounting practices” means the accounting principles and practices established by the International Code of Accounting Principles and the International Accounting Standards adopted and published by the International Institute for Accounting and Auditing.
12. “Good faith” means honesty in fact in the conduct or transaction concerned; in case of a director or Management Board Member of the ISO, good faith requires the exercise of reasonable business judgment after reasonable inquiry of the facts.
13. “Grid Code” means the rules and procedures governing the technical issues relating to connection to, use and operation of the transmission system, including a provision describing exigent circumstances under which immediate action to rectify a supply incident may be taken and by whom.
14. “Independent Member” shall be as defined in Articles 25 (Management Board Appointment), Article 45 (Procedure for ISO Registration and Initial Operations), and 47 (Extraordinary Formation Powers of Independent Member) of this Law.
15. “ISO” means the Independent System Operator of Bosnia and Herzegovina, as described in this Law and in the *Act on Transmission of Electric Power, Regulator, and System Operator of Bosnia and Herzegovina (Official Gazette No. 7/02)* (hereafter, “*Act on Transmission*”).
16. “Liabilities” means all those debts which either are known to impose a fixed obligation of payment or, if contingent, have sufficient possibility of becoming fixed as to require an estimate of their probable amount, and which should be entered in the accounts and balance sheets of companies in terms of monetary value in accordance with good accounting practices.

17. “Market Rules” means the commercial code governing the rules and procedures of the balancing market, and the commercial conditions for connection to, use of, and operation of the transmission system.
18. “Reliability” means short-term system security.
19. “SERC” means the State Electricity Regulatory Commission as described in the *Act on Transmission*.
20. “Statut” means the ISO document, approved by the Management Board, governing the ISO, and to which all other ISO documents are subject.
21. “System Services” shall mean all services that the ISO provides in order to secure the safe and efficient transportation of electricity over the transmission system, to solve large-scale disruptions in the transportation of electricity and to maintain or restore the energy balance on the transmission system.
22. “Transmission” means the transport of electricity on the high-voltage interconnected system for delivery to end-users, distributors and neighboring power systems.
23. “Transmission Company” means the joint stock company for the transmission of electric energy, Elektroprenos Bosne i Hercegovine, as described in the *Act on Transmission*.
24. “Vote” means, without limitation, votes, waivers, releases, consents, writings signed by Management Board Members in lieu of taking action at a meeting, and objections or dissents to the foregoing.
25. “ZEKC” means the Joint Electric Power Coordination Center of Bosnia and Herzegovina.

Article 4

Name/Headquarters

1. The title of the Company is: “Independent System Operator of Bosnia and Herzegovina.”

The headquarters of the ISO shall be in Sarajevo.

Article 5

ISO Formation and Transfer of Assets and Liabilities

1. The ISO is established as a non-profit company pursuant to this Law and shall be registered in accordance with Article 9 (ISO Registration).
2. The assets and liabilities attaching to ZEKZ, as well as those assets and liabilities of the Elektroprivredas that are necessary for the operation of the ISO, including but not limited to, SCADA/EMS equipment, shall automatically be conveyed to and become the property of the ISO upon the occurrence of the registration of the ISO in accordance with Article 9 (ISO Registration). This automatic conveyance shall include all assets, liabilities, and ownership rights over the property, including moveable, immovable, tangible and intangible property, financial assets, as well as any other right, title, or interest in or to property. However, following transfer, the transferring Elektroprivredas, and their successors, shall remain jointly and severally liable with the ISO for any liabilities arising from any loans or credits made by an international financial institution to such Elektroprivredas, directly or indirectly through the State or Entities, unless otherwise agreed to with each relevant international financial institution.

Only for purposes of the transfer of the subject property, title shall be deemed good and merchantable. Effective on the date of conveyance of such assets, liabilities and ownership rights, the functions of ZEKC shall become the sole authority and legal right of the ISO and ZEKC shall cease to exist.

3. The costs of forming the ISO shall be paid by the Elektroprivredas, pursuant to the provisions of Articles 42 (ISO Formation Costs and Applications for SERC Approvals) and 47 (Extraordinary Formation Powers of Independent Management Board Member) of this Law.

Article 6

Non-Profit Status

The business and affairs of the ISO shall be carried on without the purpose of gain and the revenues of the ISO shall be used solely for the purpose of carrying out its objectives. The SERC shall, from time to time, adjust the provisions of the ISO's cost-based system operation tariff to avoid the persistent over or under collection of revenues by the ISO. The status of the ISO as a non-profit entity shall not be interpreted to prevent the ISO from over or under collecting revenues between periods when the cost-based system operation tariff is adjusted.

Article 7

Powers of the ISO

The ISO shall undertake the following functions, in addition to the functions specified in Article 5.2 of the *Act on Transmission*:

1. Direct the operation of all high voltage transmission facilities in Bosnia and Herzegovina that are rated at 110 kV or above, except that the ISO may delegate authority to appropriate entities engaged in activities related to transmission to direct the operation of specified high voltage transmission facilities that are not required to allow electric energy from significant power sources to move freely on the interconnected transmission system;
2. Issue dispatch instructions to generators and importers;
3. Operate central control center facilities and any remote control facilities;
4. Administer the balancing market;
5. Procure ancillary services and provide system services;
6. Prepare, modify and administer reliability standards, the market rules and grid code;
7. Ensure non-discriminatory behavior between system users or classes of system users;
8. Develop and distribute billing invoices as provided in the *Statut* for the ISO's cost-based system operation tariff and for transactions in the balancing market;
9. Coordinate and approve the scheduling of planned outages of transmission and generation facilities, and coordinate and approve changes to outage schedules;
10. Review, endorse, direct revisions to and publish the long-term transmission development plan submitted by the Transmission Company;
11. Develop an indicative generation development plan with data supplied by the generators, distribution companies and end-use customers directly connected to the transmission system.

12. Establish appropriate policies and rules governing the treatment of confidential information, subject to review by SERC;
13. Prepare annual and quarterly reports on the operation of the transmission system and the balancing market.

Article 8

Regulation of the ISO and Inter-relationship with the Transmission Company

1. The ISO shall be subject to the regulation of SERC. SERC is entitled to inspect the books and records of the ISO.
2. Except as otherwise noted in this paragraph, SERC, in accordance with its jurisdiction as defined in the Act on Transmission, shall have authority to resolve any disputes arising out of or concerning the implementation of this Law upon petition by any of the following: the State; an Entity; the ISO; the Management Board, the Transmission Company, the Elektroprivredas, a generator, a power trader; a supplier, or any other person who is directly connected to or relies upon the transmission system. The SERC decision is subject to judicial review pursuant to Article 14 of the Law on the Court of Bosnia and Herzegovina (Official Gazette of Bosnia and Herzegovina No. 29/00). SERC shall not have authority to resolve any dispute concerning the exercise of authorities granted in Article 47 (Extraordinary Formation Powers of Independent Member) of this Law to the Independent Member.
3. The ISO and the Transmission Company shall cooperate and coordinate in order to address and resolve issues related to the implementation of this Law and other matters related to the effective operation, maintenance, construction and expansion of the transmission system, consistent with regulation by SERC as applicable.

Article 9

ISO Registration

The ISO shall be registered as a legal person of Bosnia and Herzegovina, in accordance with the *Law on Registration of Legal Persons Established by the Institutions of Bosnia and Herzegovina* (“*Law on Registration*”) (Official Gazette of Bosnia and Herzegovina No. 33/02). The ISO Statut shall be published in the *Official Gazette of Bosnia and Herzegovina* upon initial adoption, or subsequent amendment.

Article 10

Inter-Entity and State Cooperation

The State and Entity Governments shall cooperate to address and resolve issues related to the implementation of this Law and other matters related to effective operation and management of the ISO.

Article 11

Owner

1. The Owners of the ISO are:
 - a. The Federation of Bosnia and Herzegovina, 71000 Sarajevo, Alipasina St. no. 41; and
 - b. Republika Srpska, 78000 Banja Luka, Vuka Karadzica St. no. 4.

2. The ownership of the ISO is non-transferable. No stock shall be issued to the owners, and there shall be no General Assembly of Shareholders. The owners shall exercise their ownership rights through the Management Board.

Article 12

Statut

The ISO *Statut* shall set forth, *inter alia*, provisions to regulate ISO activities, establish procedures for the transaction of business by ISO bodies, including provisions on authorities, meeting notice, organization, decision-making, record keeping and all other matters required for the exercise of their respective duties, as well as the inventory and valuation of ISO assets net of liabilities, and ISO financing.

Article 13

The Books of Rules and Code of Ethics

The Books of Rules shall include, *inter alia*, detailed procedures, rules and regulations, other than the Statut, regarding employment, finance, accounting, internal organization and classification of employee positions, as well as detailed technical matters.

The Code of Ethics shall set forth the ethical obligations and duties of Management Board Members and ISO staff, and shall include, *inter alia*, rules prohibiting the ISO, Management Board Members, managers and employees from having an ownership or financial interest in, or participating in the administrative control of, any market participants, or their affiliates, that are licensed to participate in any activity in the electricity sector. The Code of Ethics may establish a reasonable period for the divestiture of any prohibited ownership or financial interest.

Article 14

Financing and Tariff

The ISO may, with authorization of the Management Board, enter into contracts and agreements to provide for its financing by any means, including, but not limited to, loans, issuance of notes or bonds bearing interest at such rate as it may fix, payable at such time and place and in such manner as it may determine, in any currency, or non-reimbursable grants from international organizations, and which financing shall be subject to approval by SERC as applicable.

Consistent with Article 4.8 of the Act on Transmission, the ISO shall collect revenues from a cost-based system operation tariff, and other sources, as recommended by the Management Board, and as regulated and approved by SERC. At least sixty (60) days before the beginning of each year or as otherwise directed by SERC, the ISO shall submit its proposed expenditure and revenue requirements for the following year and the fees it proposes to charge under its system operation tariff to SERC for review.

Article 15

Finance, Accounting Records and Annual Report

1. Financial activities of the ISO shall be conducted in accordance with the ISO's Books of Rules, which shall be in accordance with good accounting practices.
2. The Management Board shall have the ISO's annual financial statements audited by an independent accounting firm within seventy-five (75) days following the end of the ISO's fiscal year.

3. Within ninety (90) days following the end of the ISO's fiscal year, the ISO shall submit to the Council of Ministers, the Governments of the Federation of Bosnia and Herzegovina and Republika Srpska and SERC, and make available to the public, an annual report on its affairs during that fiscal year, including the annual financial statements audited by the independent international accounting firm. The annual report shall be signed by the President of the Management Board. The annual report shall be published in the Official Gazette of Bosnia and Herzegovina.

Article 16

Reserves

The Management Board may create and maintain a reasonable working capital reserve. The reserves may be used to stabilize revenue requirements, to avoid volatility in tariffs, to ensure that the ISO will be able to meet its financial obligations, and to ensure the long-term financial stability and liquidity of the ISO. The working capital reserve shall be deposited with, and managed by, a financial institution having a long-term corporate credit rating by Standard and Poor's of at least A- or the equivalent rating by another recognized international credit rating agency. Additional requirements of the working capital reserve shall be specified in the Statut.

Article 17

ISO Bodies

The governing bodies of the ISO are:

1. Management Board;
2. Management.

Article 18

Advisory Council

1. The Management Board shall establish and appoint the members of an Advisory Council. The purpose of the Advisory Council shall be to provide information, feedback and assistance to the Management Board on matters relating to the operation of the transmission system and the balancing market. The Advisory Council shall not have oversight responsibilities with respect to decisions of the Management Board but rather shall serve as an information resource and a means for providing the viewpoints of a broad spectrum of parties with an interest in the operation of the transmission system and balancing market and the development of a competitive electricity market. The Advisory Council shall be composed of approximately 12 members representing a broad spectrum of interests, including for purposes of illustration but not by way of mandate or limitation individuals representing the following viewpoints:
 - a. residential consumer;
 - b. commercial or industrial consumer;
 - c. market participants;
 - d. economic;
 - e. engineering;
 - f. legal;
 - g. academia.

2. The Management Board shall establish a Book of Rules for the Advisory Council providing for, among other things, the appointment of a Chair and requiring not less than three (3) meetings per year between the Management Board and the Advisory Council. The ISO shall provide the Advisory Council with such administrative support as may be necessary for the council to perform its functions. The Advisory Council shall have no staff or budget and the members shall serve without pay, provided, however, that the ISO shall reimburse Advisory Council members for reasonable out-of-pocket expenses incurred in attending Advisory Council meetings. The reasonableness of out-of-pocket expenses shall be determined by the ISO at its sole discretion.

Article 19

Technical Committees

The ISO shall establish technical committees for purposes of providing market participants the opportunity to review and comment on the preparation and modification of the grid code and market rules. The ISO shall provide public notice of technical committee meetings and such meetings shall be open to all market participants. The ISO may not, except in the event of exigent circumstances requiring immediate action, implement changes to the grid code and market rules without prior consultation with the applicable technical committee.

Article 20

General Meeting of Management Board

A general meeting of the Management Board shall be convened annually at the direction of the President of the Management Board. The time and place for holding the general meeting shall be fixed in accordance with the *Statut* and Books of Rules. Public notice of the general meeting shall be issued at least twenty (20) business days before the date of the meeting.

Article 21

Inspection of ISO Records

The owners of the ISO and SERC are entitled to inspect the books and records of the ISO, as are other parties upon approval of the Management Board and in accordance with the *Statut*.

Article 22

Management of the ISO

Subject to the provisions of this Law, the business and affairs of the ISO shall be supervised by a Management Board and managed by a General Director and his or her designees.

Article 23

Authority of the Management Board

The Management Board shall have the following authorities:

1. Issuance of the *Statut* and changes to the *Statut*;
2. Approval or rejection of annual financial statements;
3. Appointment of the General Director and on his proposals members of Management;
4. Decision-making on increase or decrease of the level of working capital reserves;
5. Decision-making on investments of more than 500,000 Euros;

6. Approval of the long-term transmission development plan submitted by the Transmission Company;
7. Approval and issuance of the ISO's annual report;
8. Development of guidelines to the General Director regarding performance of business policy and duties;
9. Approval or rejection of financial reports other than the annual financial statements;
10. Approval, issuance and implementation of annual plans regarding the operation of the ISO;
11. Decision-making on issues presented by the General Director and other high level ISO members of Management;
12. Approval of the ISO Books of Rules and Code of Ethics;
13. All filings for ISO registration under the *Law on Registration*, as well as all actions necessary for ISO formation, as provided by this Law;
14. Proposals with regard to tariff filings with the SERC; and
15. Other issues within its authorities in accordance with the *Statut*.

Article 24

Decision-making of the Management Board

A simple majority vote of those Members of the Management Board present and voting at a Management Board meeting conducted in accordance with Article 29 (Management Board Meetings) of this Law shall constitute decisions and acts of the Management Board, except that decisions on approval of the long-term transmission development plan prepared by the Transmission Company must be unanimous. In the event that a unanimous decision on approval of the system plan is not achieved, a deadlock shall be declared automatically, and the Independent Member, as identified in Article 25 (Management Board Appointment) of this Law shall cast the single deciding vote in order to resolve the deadlock.

Article 25

Management Board Appointment

1. The Management Board shall consist of seven (7) full voting Members with equal representation of constitutional people in BiH and one (1) Independent Member,
2. The one (1) Independent Member with voting powers as set forth in Article 24 (Decision-making of the Management Board) of this Law shall be nominated by the Entity Government and appointed by the Council of Ministers. Article 48 (Independent Member Appointment and Status During Transition Period) shall control the appointment of the initial Independent Member. After the transition period, the Independent Member may be a citizen of any country. The term of the Independent Member shall be five years.
3. The seven full voting Management Board Members shall be nominated by the Entities. The allocation of Management Board appointments between the Entities shall be proportional to the assets net of liabilities contributed by each Entity to the Transmission Company, as determined in the Statut of the Transmission Company.
4. The Government of the Federation of Bosnia and Herzegovina shall nominate the Management Board Members from the Federation of Bosnia and Herzegovina. The

- Government of Republika Srpska shall nominate the Management Board Members from Republika Srpska. The Council of Ministers shall vote to accept or reject the nominees. All initial Management Board Member appointments shall be completed consistent with Article 40 (Appointment and Initial Meeting of the Board).
5. The allocation of initial Management Board appointments and terms between the Entities shall be staggered as follows:
 - a. Two Members, one nominated by the Government of the Federation of Bosnia and Herzegovina and one nominated by the Government of Republika Srpska, for five (5) years
 - b. Two Members, one nominated by the Government of the Federation of Bosnia and Herzegovina and one nominated by the Government of Republika Srpska, for four (4) years
 - c. Two Members, one nominated by the Government of the Federation of Bosnia and Herzegovina and one nominated by the Government of Republika Srpska, for three (3) years
 - d. One Member nominated by the Government of the Federation of Bosnia and Herzegovina, for two (2) years
 6. Successor Management Board Members shall be appointed promptly in the manner set forth in this Article.
 7. The nominations and appointments shall be made in accordance with the applicable Law on Ministerial and other Government Appointments (Official Gazette of Bosnia and Herzegovina, 07/03).
 8. The provisions of Article 5.1 of the Act on Transmission providing for representatives of the owners of Transmission Company to be Members of the ISO's Management Board are repealed.

Article 26

Terms of the Members of the Management Board

1. The terms of the initial appointments of Management Board Members shall be staggered, as set forth in Article 25 (Management Board Appointment) of this Law.
2. Each Member of the Management Board shall hold office until the expiration of the term for which he is appointed or until the appointment of his or her successor, or until removal in accordance with Article 28 (Removal of Management Board Members and General Director) of this Law.
3. After the initial term, Management Board appointments shall be for a term of five (5) years. No Management Board Member shall serve for more than two (2) terms.

Article 27

Qualifications of Members of the Management Board and General Director

1. Management Board Members shall have a University Degree in technical, economic or legal fields or its equivalent, and shall have demonstrated significant experience and professional competence in the area of electrical transmission, electrical services, electric sector legal restructuring, electric sector reform, privatization, finance, accounting, competition, markets, regulation, or the electrical services needs of the users of the transmission system.

2. A person shall not be qualified to serve as a Management Board Member or the General Director if he or she:
 - a. has been convicted of criminal acts and offences incompatible with the duty of a Management Board Member or a General Director;
 - b. is barred by law from performing other duties;
 - c. is over sixty-five (65) years of age on the day of appointment or any renewal thereof;
 - d. has a conflict of interest as defined in the Code of Ethics, or has violated the Code of Ethics.
3. Members of the professional management of the ISO, including the General Director, may not serve simultaneously as Members of the Management Board of the ISO.

Article 28

Removal of Management Board Members and General Director

1. A Management Board Member or the General Director of the ISO may be recalled or his or her resignation accepted by the appointing body before the Member's term has expired in the following cases:
 - a. Illness, death or incapacity rendering individual unable to perform his or her duties;
 - b. Conviction of a crime punishable by imprisonment;
 - c. Conflict of interest, as defined in the Code of Ethics or Law on Conflict of Interests in Governmental Institutions of Bosnia and Herzegovina (Official Gazette of Bosnia and Herzegovina, 16/02), or other violation of the Code of Ethics;
 - d. Non-performance of duties, or illegal or gross negligent behaviour.
2. A Member of the Management Board may submit a voluntary resignation.

Article 29

Management Board Meetings

1. The time and place for holding meetings of the Management Board shall be fixed in accordance with the Statut and Books of Rules, but shall be held at least quarterly.
2. Meetings of the Management Board may be convened by the President of the Management Board, or by any two Members. A meeting must be attended by a quorum of four (4) Management Board Members, other than the Independent Member, at all times in order to transact business. Notice of the meeting shall be given at least three (3) business days before the meeting, unless a Member signs a waiver of notice before or during such meeting, in which case prior notice is not required.

Article 30

Duty of Management Board Members

1. The Members of the Management Board of the ISO shall exercise their powers and discharge their duties in good faith with a view to the interest of the ISO and of the owners and with that degree of diligence, care and skill which ordinarily prudent

- persons would exercise under similar circumstances in like positions. The Members of the Management Board have a fiduciary duty to the ISO. In discharging their duties, the Management Board Members may in all cases rely upon financial statements of the ISO certified in writing by an independent international accounting firm to reflect fairly the ISO's financial condition, or reported to the Management Board by the General Director or the director with primary responsibility for financial issues.
2. Members of the Management Board shall notify the board of their personal interests in any other institution, whether by ownership or position, or any other personal interests, whether or not those interests would bring them into conflict with those of the ISO. The non-disclosing Members of the Management Board shall determine if the interests require withdrawal of the disclosing Member from voting on any matter. An annual report on this matter shall be sent to the Prime Ministers of the Federation and Republika Srpska Governments, the Prime Minister of the Government of Bosnia and Herzegovina, and SERC.
 3. The Members of the Management Board cannot be sued by reason of official acts done in good faith in the exercise of their functions. The ISO shall indemnify, in accordance with the Statut and Books of Rules, a Member of the Management Board or qualifying director for any legal action arising out of such person's services, executed in good faith, as a Member or qualifying director, in accordance with the Statut and Books of Rules.

Article 31

Committees and Positions of Management Board Members

1. The Management Board, by majority vote, may appoint from among its Members an executive committee and other committees, each consisting of two or more Members. The Management Board may delegate to such committee or committees any part or all of the authority of the board, except as otherwise provided by the Statut. The structure, make-up and duties of such committees or the functions of individual Management Board Members shall be set forth in the Books of Rules.
2. The President of the Management Board shall be elected by the Management Board Members by simple majority vote, and all other positions on the Board shall be elected by vote of the Management Board Members, as set forth in the Statut.

Article 31a

Management of ISO

Management of ISO is made up of the General Director and Members of Management, in which there is a same number of members of three constitutional people in BiH.

The authorities and manner of Management activities shall be defined by the *Statut* and Rules of the ISO.

Article 32

General Director Appointment Process

The Management Board shall appoint a General Director of the ISO on the basis of an open competition and transparent hiring process.

The General Director and President of the Management Board cannot be from the same group of constitutional people.

Article 33

Authority of the General Director

1. The General Director is responsible for:
 - a. Management of the ISO's programs, services and staff.
 - b. Organization and management of business activities;
 - c. Issuance of business policies;
 - d. Direction and supervision of legal work;
 - e. Direction and implementation of business plans and development;
 - f. Development of the proposed Books of Rules and Code of Ethics to be submitted to the Management Board for approval;
 - g. Implementation of Management Board decisions;
 - h. Decision-making on organizational matters, including the appointment and release of directors of the ISO, in accordance with the Statut and Books of Rules;
 - i. Preparation of the quarterly and annual report on business activities, for review by the Management Board;
 - j. Issuance of the Books of Rules and other corporate acts and rules other than the Statut;
 - k. Representation of the ISO in legal disputes;
 - l. Carrying out duties the Board considers appropriate and which are activities required for effective functioning of the ISO, in accordance with this Law, the Statut and the Books of Rules.
2. In conducting of the organization and management of business activities the General Director has the assistance of members of Management.
3. The General Director shall exercise his or her powers and discharge his or her duties in good faith with a view to the interest of the ISO and of the owners and with that degree of diligence, care and skill which ordinarily prudent persons would exercise under similar circumstances in like position.
4. The General Director shall notify the Management Board whenever his or her personal interests in another business, whether by ownership or position, or any other personal interest, conflict with that of the ISO. The Management Board shall determine if the potential conflict requires the General Director to delegate all decision-making responsibility for matters related to that potential conflict of interest to another director of the ISO.

Article 34

Term of General Director

The General Director shall serve for four (4) years, unless removed in accordance with Article 28 (Removal of Management Board Members and General Director) or Article 35 (Removal), and may be reappointed for one additional consecutive four (4) year term. No individual may serve more than eight (8) years as General Director

Article 35

Removal

The General Director may be removed from his or her position by the Management Board for the reasons set forth in Article 28 (Removal of Management Board Members and General Director).

Article 36

Dissolution

1. The Council of Ministers, the Government of Republika Srpska or the Government of the Federation of Bosnia and Herzegovina may initiate dissolution of the ISO. The approval of SERC shall be required prior to the commencement of the process to dissolve the ISO.
2. Within three (3) days following on the initiation of dissolution and receipt of approval from SERC for such dissolution, a notice of the ISO's intent to dissolve shall be filed in accordance with the Law on Registration.
3. Subsequent to filing the notice of intent to dissolve, the ISO shall be dissolved in accordance with the procedures established by the Management Board and the applicable legislation governing the dissolution of companies registered under the Law on Registration.

II TRANSITIONAL PROVISIONS

Article 37

Relationship with other Laws

1. This Law is based on provisions of the *Act on Transmission*. All provisions set forth in this Law supersede dates, schedules and requirements in the *Act on Transmission*, or any other laws or regulations existing prior to the passage of this Law, which may conflict directly with provisions herein.
2. Except as otherwise provided by this Law, until such time as the laws and regulations of Bosnia and Herzegovina on issuance and registration of shares, dissolution, and other legal issues necessary for the effective functioning of the ISO are enacted, the laws and regulations of the Federation of Bosnia and Herzegovina and Republika Srpska shall apply, in accordance with the *Statut*. In the event of a conflict of laws in matters arising from contract, the *Statut* will designate the governing legal regime. In the event of conflict of law in non-privy matters, *inter alia*, taxation and expropriation, the principle of territoriality will apply.
3. Upon the passage by the Parliament of Bosnia and Herzegovina of laws governing the issues referenced in paragraph 2 of this Article, Entity laws and regulations shall cease to apply.

Article 38

Transitional Operation

During the period beginning on the date of entry into force of this Law and ending on the date of ISO registration under Article 5 (ISO Formation and Transfer of Assets and

Liabilities) of this Law, ZEKC may exercise the obligations and responsibilities assigned to the ISO under this law.

Article 39

Transition of Employment

1. Effective upon the date of registration of the ISO, all employees employed to perform activities related to ZEKC, an association of the Elektroprivredas, shall become employees of the ISO.
2. Nothing in this Article shall limit the discretion of the Management Board or General Director to terminate or to modify job responsibilities, benefits and compensation for any ISO employee, consistent with the provisions of this Law.

Article 40

Appointment and Initial Meeting of the Board

1. Initial appointments to the Management Board shall be made no later than ninety (90) days after the entry into force of this Law.
2. The Management Board shall meet within ten (10) days of its appointment.
3. The oldest Member of the Management Board shall serve as temporary President for the purpose of convening the initial meeting of the Management Board and will serve until the Management Board elects a President. At the first meeting, the Management Board shall: (i) take all necessary actions to finalize the inventory, employment and valuation decisions, and (ii) set an initial budget for all costs that will be incurred by the Management Board to form the ISO prior to registration and shall submit this budget to SERC for approval consistent with Article 42 (ISO Formation and Application for SERC Approval) of this Law.

Article 41

Appointment of General Director

The General Director shall be appointed by the Management Board no later than 45 days following the initial meeting of the Board.

Article 42

ISO Formation Costs and Application for SERC Approval

1. No later than thirty (30) days following the initial meeting of the Management Board, the Management Board shall submit a Proposed Invoice for Costs of ISO Formation, with a proposed formation budget, to the Public Enterprise Elektroprivreda of Republika Srpska, Public Enterprise Elektroprivreda Bosne i Hercegovine, and Public Enterprise for Generation, Transmission and Distribution of the Electric Power, Elektroprivreda Hrvatske Zajednice Herceg-Bosne. The Elektroprivredas shall be responsible for payment of the costs of ISO formation, to be allocated in proportion to the relative value of the assets, net of liabilities, contributed by that Elektroprivreda to the ISO. If the proportional contribution amounts are uncertain, then the Proposed Invoice may be a one-third share for each of the three Elektroprivredas, so long as an appropriate final adjustment of costs is made following completion of ISO formation. The Management Board may submit a revised Invoice for Costs to the three Elektroprivredas for supplemental costs in order to address cost increases due to delay or any other reasonable cause.

2. If the three Elektroprivredas agree with the Invoice for Costs, they promptly shall pay their respective share of the formation costs.
3. If all three Elektroprivredas do not pay their proportional share of the Invoice for Costs presented by the ISO Management Board within thirty (30) days of submittal, the dispute shall be referred promptly to the expedited arbitration procedure described in this Article. This arbitration procedure shall be the exclusive remedy for any dispute concerning formation costs under this Article
4. To initiate expedited arbitration concerning formation costs, the ISO Management Board or the Elektroprivredas shall submit the Invoice for Costs to the Minister of Energy, Industry and Mines of the Federation of Bosnia and Herzegovina and the Minister of Industry, Energy, and Development of Republika Srpska. The two Ministers shall select a mutually agreeable third arbitrator within a period of 30 days from the filing of the first application for arbitration following the end of the Transition Period. If the two Ministers have not selected the third arbitrator in a timely manner, then the Council of Ministers of Bosnia and Herzegovina will have an additional 30 days to choose the third arbitrator. In the event that the Council of Ministers does not choose the third arbitrator in a timely manner, then the High Representative may decide to appoint the third arbitrator. The Management Board and the Elektroprivredas shall cooperate fully as a party in the arbitration proceedings. The arbitration shall be concluded on an expedited basis within 30 days of appointment of the third arbitrator. The arbitration decision shall be based upon a majority vote of the three arbitrators. The decision shall be final and binding on the ISO and the Elektroprivredas and their generation or distribution successors, and there shall be no right of judicial appeal from the arbitration decision.
5. Within sixty (60) days of the initial meeting of the Management Board, the Management Board shall cause to be filed with SERC an Application for Approval of Initial Tariff. The SERC shall issue an order setting an interim tariff within sixty (60) days of filing of the Application, which order may include conditions for future adjustments of the tariff.

Article 43

Adoption of the Statut

Within forty-five (45) days of the issuance of the final SERC order with respect to the Application for Approval of Initial Tariff, the Management Board shall approve the Statut. The Statut shall be published in the Official Gazette of Bosnia and Herzegovina upon initial adoption or subsequent amendment.

Article 44

Approval of the Books of Rules and Code of Ethics

Within ninety (90) days of the appointment of the General Director, the General Director shall propose and the Management Board shall approve the Books of Rules and the Code of Ethics of the ISO, to promote the effective functioning of the ISO.

Article 45

ISO Registration and Initial Operations

1. Within ten (10) days of approval of the Statut, the Management Board shall file an application for registration of the ISO. Such application shall comply with all requirements of the Law on Registration.
2. The Management Board shall take all actions reasonably necessary to assure that the Elektroprivredas and Transmission Company cease activities that are delegated exclusively to the ISO pursuant to Article 7 (Powers of the ISO) of this Law after registration and commencement of operations of the ISO. In addition, the Management Board shall take all actions reasonably necessary to assure that all assets, liabilities and employees necessary for the ISO to operate are transferred to the ISO from the Elektroprivredas as intended by Article 5 (ISO Formation and Transfer of Assets and Liabilities) and Article 39 (Transition of Employment) of this Law;

Article 46

Duration of Transition Period

1. The transition period shall commence on the effective date of this Act and shall end when: (i) all transfers of assets, liabilities and employees necessary for the ISO to operate contemplated by Articles 5 (ISO Formation and Transfer of Assets and Liabilities) and Article 39 (Transition of Employment) of this Law have been completed; (ii) the ISO has been registered under Article 8 (Registration of the ISO and Inter-Relationship With the Transmission Company) of this Law; and (iii) four Management Board Members, in addition to the Independent Member, have been appointed pursuant to Article 25 (Management Board Appointment) of this Law. After that termination date, the Independent Member shall serve on the Management Board consistent with the authorities outlined in Articles 24 (Decision-making of the Management Board) and 25 (Management Board Appointment) of this Law.
2. When the requirements of this Article for termination of the Transition Period have been met, the Management Board shall formally declare the end of the Transition Period and shall publish public notice of the declaration in the Official Gazette of Bosnia and Herzegovina.

Article 47

Extraordinary Formation Powers of Independent Member

1. In the event that any of the following actions are not completed within the timeframes stipulated below, the Independent Member shall assume exclusive jurisdiction for the formation of the ISO under this Article, pre-empting any exercise of authority for the formation of the ISO by the Management Board members.
 - a. within a period of one hundred sixty (160) days after the entry into force of this Law: all appointments to the Management Board (Article 25); initial meeting of the Management Board (Article 40); appointment of General Director (Article 41); submission of invoice for ISO formation costs and filing of application for SERC approval (Article 42);
 - b. within the time period specified in Article 43: adoption of the Statut; or
 - c. within the time period specified in Article 44: approval of the Books of Rules and Code of Ethics; and

- d. within the time period specified in Article 45: application for registration of the ISO.
2. Throughout the remainder of the transition period under Article 46 (Duration of Transition Period), the Independent Member shall exercise all Management Board authorities and powers for ISO formation and operations. During this period, the Management Board Members shall continue to use their best efforts to assist the Independent Member in completion of the remaining tasks required for ISO formation. The Independent Member shall use his best efforts to regularly convene and consult with the Management Board Members who have been appointed in order to develop consensus concerning ISO formation implementation decisions.
3. Following the termination of the transition period under Article 46 (Duration of Transition Period), all powers shall revert to the Managing Board.
4. If the Independent Member assumes exclusive jurisdiction for the formation of the under this, then the Independent Member shall have all of the powers of the Management Board under this Law, as well as the following extraordinary power:
 - a. To the extent necessary to assure formation, the Independent Member shall exercise all authorities of the owners of the ISO until termination of the transition period. This exercise of ownership rights by the Independent Member shall be exclusive, and shall pre-empt any exercise of authority by the owners, but the Independent Member shall provide reasonable information to the owners concerning actions taken pursuant to the powers of this Article.
5. During the transition period, the Independent Member shall not be held criminally or civilly liable for any act carried out within the scope of his/her duties pursuant to this Law.

Article 48

Independent Member Appointment and Status During Transition Period

1. Notwithstanding the provisions of Article 25 (Management Board Appointment), during the transition period referenced in Article 46 (Duration of Transition Period) the Independent Management Board Member shall be appointed in accordance with the applicable Law on Ministerial and other Government appointments (Official Gazette of Bosnia and Herzegovina, 07/03), but in any event he shall be appointed no later than sixty (60) days after entry into force of this Law. The Independent Member shall be nominated by the Entity Prime Ministers and appointed by the Council of Ministers of Bosnia and Herzegovina only for the term of the transition period. In the event that the Independent Member is not appointed in a timely manner under this Article, the High Representative may decide to appoint the Independent Member. The Independent Management Board Member shall not be a citizen of Bosnia and Herzegovina.
2. During the transition period, the Independent Member shall provide monthly reports to the Prime Minister of Republika Srpska, Prime Minister of the Federation of Bosnia and Herzegovina, and the Chairman of the Council of Ministers of Bosnia and Herzegovina, with copies of such reports to the Minister of Foreign Trade and Economic Relations, the Minister of Energy, Industry and Mines of the Federation of Bosnia and Herzegovina and the Minister of Industry, Energy, and Development of Republika Srpska.
3. At the conclusion of the transition period, the Council of Ministers may appoint a successor Independent Member in accordance with the provisions of Article 25

(Management Board Appointment). The original Independent Member shall continue to serve until replaced.

III FINAL PROVISIONS

Article 49

Effectiveness of the Law

This Law shall become effective eight (8) days after publication in the Official Gazette of Bosnia and Herzegovina. The Law shall also be published in the Official Gazettes of Republika Srpska and the Federation of Bosnia and Herzegovina and Brčko District.