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**LICENSING IN THE ARMENIAN  
ENERGY SECTOR**

**Contract No CCN-Q-00-93-00152-00  
Delivery Order No 15  
Armenia Legal and Regulatory Reform**

*Final Report*

*Prepared for*

United States Agency for International Development  
Bureau for Europe and NIS  
Office of Environment, Energy and Urban Development  
Energy and Infrastructure Division

*Prepared by*

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Dean White

September 25, 1998

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## LICENSING IN THE ARMENIAN ENERGY SECTOR

### INTRODUCTION

Article 15 of the Armenian Energy Law (Law) establishes that an Operation License shall be required for the following activities

- ▶ export, import, transportation and distribution of natural gas and large scale construction in the natural gas sector,
- ▶ construction of power plants,
- ▶ generation, import, transmission, export and distribution of electrical energy and large scale construction,
- ▶ generation, transmission, and distribution of thermal energy as well as large scale construction

The Law authorizes the Energy Commission of the Republic of Armenia to be the body to grant the Operation License

### EXISTING MODEL LICENSES IN THE ENERGY SECTOR

As part of delivery order 15 of contract CCN-Q-00-93-00152-00, Hagler Bailly actively assisted the Commission staff in preparing licenses. To date, the following model licenses have been developed and ratified

- ▶ model license for electricity generation,
- ▶ model license for electricity distribution,
- ▶ model license for transportation of natural gas,
- ▶ model license for distribution of natural gas

The Commission has officially approved all of these model licenses

In general, each license addresses the following areas

- ▶ scope of licensed activity,
- ▶ term of the license,
- ▶ safety of operation,
- ▶ contractual agreements with other entities,
- ▶ limitations on ownership stake in any other licensed enterprise,
- ▶ reporting on licensed activity to the Commission,
- ▶ tariff setting,
- ▶ monitoring and auditing procedures, and,
- ▶ penalties for non-compliance with license terms

In order to receive a license each entity has to follow specified licensing procedures and submit financial, technical and economic data in a pre-specified format Hagler Bailly also helped prepare the format for information requests and review of the information provided

Attached are the approved model licenses for generation and distribution of electric energy Currently, the transmission license (also attached) is still in draft form Armenergo, the entity that during Soviet times was managing the generation, transmission and distribution activity as a single, vertically integrated body, is in the process of extensive restructuring The Energy Law requires that Armenergo be further subdivided into high voltage transmission operation and dispatch services This process commenced in July of this year with the formation of ArmTrans, a state-owned closed joint stock company responsible for all high voltage transmission Until all the details of the separation are fully clarified, including the responsibilities of each respective organization, no final model transmission license can be issued Hagler Bailly anticipates that this process will be concluded toward the end of October 1998

## **FUTURE ACTIVITIES**

The process of licensing will occupy the Commission for the next ten months The Energy Law requires that the entire licensing process be concluded by July 1999 The schedule of licensing has been prepared and it appears that all of the licenses will be issued before the deadline The licensing process will be one of the most intense, time and effort consuming processes ever undertaken by the Commission If conducted diligently and efficiently it will contribute to creation of a positive image for the Commission and will represent an important step forward in further defining the Armenian regulatory framework

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**ELECTRICITY DISTRIBUTION LICENSE**

Appendix 2  
Approved by the  
ERC Resolution No 41,  
dated August 31, 1998

**ENERGY REGULATORY COMMISSION OF THE REPUBLIC OF ARMENIA**

Approved by the ERC  
Resolution No \_\_\_\_\_  
dated \_\_\_\_\_

**Chairman of the Energy Regulatory Commission**

\_\_\_\_\_  
*Signature*                      *Name*

**Seal**

**LICENSE NO.**

in \_\_\_\_\_ pages

**for the Distribution of Electricity (Capacity)  
in the Republic of Armenia**

## 1 Definitions

**Commission (ERC)** - the Energy Regulatory Commission of the Republic of Armenia, which is a regulatory body in the power sector and is acting in accordance with the authorities delegated to him by the Government of Armenia and in conformance with the Energy Law of Armenia

**License** - a document issued to the legal entity by the Energy Regulatory Commission (ERC), certifying its right to carry out the specific activities on fixed terms in the energy sector,

**Licensee** - a legal entity that has been issued the right to carry out entrepreneurial activity in the power sector with this License,

**National Electric Network (NEN)** - as defined by the Energy Law of the Republic of Armenia (RoA),

**Central Dispatch Service (CDS)** - an organizational and technical system of dispatch and operative management in the structure of the National Electric Network

**Importer** - a legal entity that has been issued a License of electricity (capacity) import into Armenia by the ERC

**Consumer** - a physical or legal entity which has signed an electricity (capacity) supply contract (power purchase agreement) with the Licensee, or the Distributor, or the Transmitter, and is connected to a corresponding electric network, and has electricity consuming devices in his belonging

**Transmitter** - a legal entity that has been issued a License for the transmission of electricity (capacity),

**Distributor** - a legal entity that has been issued a License for the distribution of electricity (capacity),

**Generator** - a legal entity that has been issued a License for the generation of electricity (capacity),

**Exporter** - a legal entity that has been issued a License for the export of electricity (capacity) from Armenia,

**Effective date** - the date of registration of the License by the Commission,

**Force Majeure** - an uncontrollable set of circumstances (natural calamities, military activities major accidents in the power system, restrictions provided by the RoA

Legislation), occurred regardless of the Licensee's will, which make the implementation of the Licensed Activity partially or completely infeasible

## **2 Effective Period of the License**

- 2 1 This License becomes effective from the moment of its registration
- 2 2 This License is issued for an unlimited period of time

## **3 Area of the Licensed Activity**

- 3 1 With this License, the Licensee is given the right to carry out the Licensed Activity in the area specified in Appendix 1

## **4 Installations**

- 4 1 With this License, the Licensee shall carry out the Licensed Activity with the help of the energy installations specified in Appendix 2

## **5 Essence of the Licensed Activity**

- 5 1 With this License, and starting the effective date, the Licensee is given the right to carry out the following activities within the area specified in Item 3 1 of this License
  - a) distribution of electricity (capacity) to the Customers,
  - b) Purchase of electricity (capacity) from electricity transmission, generation and import Licensees, and sale,

- 5 2 The Licensee does not have the right to transfer (sell) by contract or otherwise the functions of dispatch, operative management and operation (which are the essence of the Licensed Activity) to other entities

## **6 Provisions of the Licensed Activity**

- 6 1 In the Area described in Item 3 1, the Licensee shall be given the franchise to implement the activities specified in Item 5 1(a) for a time period of at least 15 years

- 6 2 In order to protect the rights given to the Licensee with this License, the ERC assumes the obligation to forbid the implementation of the franchise activity by any other entities, within the service Area of the Licensee, and for the time period specified in Item 6 1
- 6 3 The Licensee's activity should be consistent with the requirements of this License, the normative standard documents established by the ERC, and the RoA Legislation
- 6 4 The Licensee shall be required to carry out the licensed activity in conformance with the principles of economic expediency, the active standards of the Republic of Armenia, the safety and reliability standards
- 6 5 The Licensee shall be required to provide power supply for the new customers in his service Area, in procedures provided by the RoA Legislation
- 6 6 If technically feasible, the Licensee shall be required to wheel the electricity belonging to the transmitter, Generator and Importer and/or the Customer via his distribution network, at tariffs set by the ERC
- 6 7 While carrying out his activity, the Licensee is required to ensure the safety of people's life and health, as well as their property, in compliance with the RoA Legislation
- 6 8 Without the ERC's consent, the Licensee cannot become a shareholder or a stakeholder of other energy sector Licensees or merge with the above entities
- 6 9 A shareholder or stakeholder, owning more than 35 % of the Licensee's charter fund cannot obtain shares or stocks of, or have partnership in, another energy sector Licensee, without an authorization from the ERC
- 6 10 The Licensee shall be required to ensure the state testing of all commercial metering devices
- 6 11 All power supply contracts (power purchase agreements) between the Licensee and other entities should be consistent with the model contracts developed by the ERC
- 6 12 All power supply contracts (power purchase agreements) between the Licensee and other power sector are subject to registration with the ERC
- 6 13 The Licensee shall be required to submit reports and information to the ERC, in forms and procedures established by the ERC on the following

- his bank accounts,
- inspections and results of the inspections conducted by technical monitoring and supervision bodies,
- previous activities,
- technical and economic forecasts for the next accounting period,
- long-term and short-term loan programs,
- long-term and short-term technical restructurization, rehabilitation and modernization projects, as well as financial investments,

The presented financial and economic projects should be supported with corresponding calculations and should be coordinated with the ERC

- 6 14 The financial accounting and reporting on the licensed activity must be consistent with the accounting requirements established by the RoA Legislation
- 6 15 The financial accounting and reporting must be kept separately from the accounting and reporting of other types of activities carried out by the Licensee
- 6 16 Each year, before April 30, the Licensee shall be required to publish the Financial and Economic Activity Report for the previous year in the national printed press, in accordance with the forms provided by the ERC. The published reports should not contain information of commercial or state confidentiality
- 6 17 Upon the Commission's demand, the Licensee shall carry out an independent auditing of his financial and economic activity
- 6 18 The Licensee is responsible for the accuracy of reports on the licensed activity and any other information submitted to the ERC, in accordance with procedures provided by the RoA Legislation
- 6 19 The ERC shall be the one setting the maximum tariffs for electricity(capacity). The Licensee can use lower tariffs than the ERC-established ones, in accordance with the RoA Energy Law. The Licensee's possible losses occurred due to the application of the tariffs lower than the ones set by the Commission, shall not be taken into consideration during the tariff review process
- 6 20 Tariffs for those services rendered to the Customers which can be carried out solely by the Licensee, should be coordinated with the ERC

- 6 21 At any moment during the effective period of the License, at his own initiative, the Licensee can forward a petition for the Commission's review, pertaining the revision of the active tariffs, in forms and procedures established by the Commission
- 6 22 At its own initiative and in accordance with its own procedures, the Commission can revise the active tariffs
- 6 23 The Licensee shall carry out the costs associated with the Licensed Activity in accordance with corresponding cost articles included in tariffs, ensuring the safety and reliability of operation. In the event of a necessity to change the cost structure, the Licensee shall submit corresponding justifications to the Commission for coordination
- 6 24 The ERC retains the right to include in tariffs only those costs which are justified and essential for the implementation of the licensed activity
- 6 25 The Licensee shall be required to abide by the operative instructions and directions of the Central Dispatch Service (CDS) of the National Electric Network, in accordance with the provisions of the signed contracts and acting regulations
- 6 26 Any unforeseen circumstances that lead or may lead to compelled restrictions of electricity (capacity) intake/distribution by the Licensee, should be immediately reported to the ERC and the CDS
- 6 27 All circumstances which lead or may lead to a breach of the provisions of this License, should be immediately reported to the ERC
- 6 28 In the event of power supply interruptions or restrictions, the Licensee must notify the Commission about that via corresponding services, in accordance with the procedures set by the ERC, the requirements of the power purchase agreements and the RoA Legislation

## **7 Monitoring of the Licensed Activity**

- 7 1 The ERC shall carry out a monitoring of compliance with the provisions of this License in procedures set by the ERC
- 7 2 In order to ensure the monitoring of compliance with the License provisions, the ERC and its authorized representatives shall have the right of free access to the premises of the Licensee. In the course of such inspections, the Licensee is required to be cooperative with and render assistance to the ERC and its authorized representatives

7 3 On the premises of the Licensee, the ERC and its authorized representatives shall observe the company's internal rules and regulations, the safety and firefighting regulations, as well as the standards of the RoA Legislation

## 8 Penalties, License Suspension and Revocation

8 1 The ERC shall be the one carrying out the monitoring of compliance with the License provisions, in cooperation with other authorized government bodies

8 2 In the event of inappropriate compliance, noncompliance or violation of the License provisions, the ERC is authorized to exercise the following penalties, in accordance with Article 27 of the RoA Energy Law

- a) a notice to the Licensee with instructions to rectify the violation,
- b) License suspension,
- c) License revocation

The procedures of application of the above penalties shall be determined by the ERC. The ERC can penalize the Licensees in accordance with the procedures provided by the RoA Legislation

8 3 In the event of penalizing the Licensee, the ERC and the Licensee shall be guided by Article 37 of the RoA Energy Law, as well as the RoA Legislation

8 4 A License can be terminated at the initiative of the Licensee, based on his application in writing. Until the issuance of a corresponding ERC resolution on suspension or revocation of the License, the Licensee shall be required to continue his activity, in accordance with the License provisions

8 5 Item 8 2 of this License shall not apply to the Licensee, if the recorded noncompliance with the License provisions was provoked by Force Majeure circumstances

**9 Amendments to the Provisions and Terms of the License**

9 1 Amendments to the Operation License can be introduced at the initiative of both, the ERC and the Licensee, in accordance with procedures set by the Law

9 2 In the event of any legal or organizational changes, the Licensee is required to immediately apply to the Commission for the re-registration of his License, or for the introduction of amendments and supplements in the License, or for a new License

9 3 Within five days, the Licensee shall notify the ERC in writing about any changes in his legal address, foundation papers and bank account information

**10 Other Provisions**

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**11 Notification**

10 1 All the official notifications, applications (petitions), claims or other correspondence associated with the License should be in writing and be delivered via messengers or registered mail, requiring a verification of receipt. The addresses of the Parties should appear on the envelope. All notices or other correspondence shall be considered effective from the moment of delivery or, if they were not delivered due to the addressee's fault, from the moment of presentation.

Licensee's Postal Code \_\_\_\_\_

Address \_\_\_\_\_

Name \_\_\_\_\_

Bank Accounts \_\_\_\_\_

First and last name of the President \_\_\_\_\_

**In verification of the foregoing, the Energy Regulatory Commission of the Republic of Armenia is issuing this License on the \_\_\_\_\_<sup>th</sup> day of the month \_\_\_\_\_ and the year \_\_\_\_\_ to the following**

\_\_\_\_\_  
*Name of the Company*

\_\_\_\_\_  
*Legal address of the Company*

Registration Date \_\_\_\_\_

Registration Number \_\_\_\_\_

\_\_\_\_\_  
*First and last name of the responsible party and his/her signature*

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**ELECTRICITY GENERATION LICENSE**

Appendix 1  
Approved by the  
ERC Resolution No 41,  
dated August 31, 1998

**ENERGY REGULATORY COMMISSION OF THE REPUBLIC OF ARMENIA**

Approved by the ERC  
Resolution No \_\_\_\_\_  
dated \_\_\_\_\_

**Chairman of the Energy Regulatory Commission**

\_\_\_\_\_  
*Signature*                      *Name*

Seal

**LICENSE NO.**

in \_\_\_\_\_ pages

**for the Generation of Electricity (Capacity)  
in the Republic of Armenia**

## 1 Definitions

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**Licensee** - a legal entity that has been issued the right to carry out entrepreneurial activity in the power sector with this License,

**National Electric Network (NEN)** - as defined by the Energy Law of the Republic of Armenia (RoA),

**Central Dispatch Service (CDS)** - an organizational and technical system of dispatch and operative management in the structure of the National Electric Network

**Importer** - a legal entity that has been issued a License of electricity (capacity) import into Armenia by the ERC

**Consumer** - a physical or legal entity which has signed an electricity (capacity) supply contract (power purchase agreement) with the Licensee, or the Distributor, or the Transmitter, and is connected to a corresponding electric network, and has electricity consuming devices in his belonging

**Transmitter** - a legal entity that has been issued a License for the transmission of electricity (capacity),

**Distributor** - a legal entity that has been issued a License for the distribution of electricity (capacity),

**Exporter** - a legal entity that has been issued a License for the export of electricity (capacity) from Armenia,

**Effective date** - the date of registration of the License by the Commission,

**Force Majeure** - an uncontrollable set of circumstances (natural calamities, military activities major accidents in the power system, restrictions provided by the RoA Legislation), occurred regardless of the Licensee's will, which make the implementation of the Licensed Activity partially or completely infeasible

## **2 Effective Period of the License**

2 1 This License becomes effective from the moment of its registration

2 2 This License is issued for a period of \_\_\_\_\_ years

## **3 Area of the Licensed Activity**

3 1 With this License, the Licensee is given the right to carry out the Licensed Activity on a legally authorized territory\*

## **4 Installations**

4 1 With this License, the Licensee shall carry out the Licensed Activity with the help of the energy installations specified in Appendix 1

## **5 Essence of the Licensed Activity**

5 1 With this License, and starting the effective date, the Licensee is given the right to carry out electricity (capacity) generation, transformation and sale, using the energy installations in conformance with the provisions of this License

5 2 The Licensee does not have the right to transfer (sell) any of the functions specified in Item 5 1 (which are the essence of the Licensed Activity) by contract or otherwise to other entities

## **6 Provisions of the Licensed Activity**

6 1 The Licensee's activity should be consistent with the requirements of this License, the normative standard documents established by the ERC, and the RoA Legislation

6 2 The Licensee shall be required to carry out the licensed activity in conformance with the principles of economic expediency, the active standards of the Republic of Armenia, the safety and reliability standards, ensuring the electricity (capacity) production indicators set by quotas

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\* The Authorization and layout should be attached to the License as its Appendix

- 6 3 The Licensee shall not impede or attempt to impede other Licensee's generation, import, export activities in, into, or from the Republic of Armenia, and/or hinder the competition in the same field
- 6 4 While carrying out his activity, the Licensee is required to ensure the safety of people's life and health, as well as their property, in compliance with the RoA Legislation
- 6 5 Without the ERC's consent, the Licensee cannot become a shareholder or a stakeholder of other energy sector Licensees or merge with the above entities
- 6 6 A shareholder or stakeholder, owning more than 35 % of the Licensee's charter fund cannot obtain shares or stocks of, or have partnership in, another energy sector Licensee, without an authorization from the ERC
- 6 7 All power supply contracts (power purchase agreements) between the Licensee and other entities should be consistent with the model contracts developed by the ERC
- 6 8 All power supply contracts (power purchase agreements) between the Licensee and other power sector are subject to registration with the ERC
- 6 9 The Licensee shall be required to submit reports and information to the ERC, in forms and procedures established by the ERC on the following
- his bank accounts,
  - inspections and results of the inspections conducted by technical monitoring and supervision bodies,
  - previous activities,
  - technical and economic forecasts for the next accounting period,
  - long-term and short-term loan programs,
  - long-term and short-term technical restructurization, rehabilitation and modernization projects, as well as financial investments,

The presented financial and economic projects should be supported with corresponding calculations and should be coordinated with the ERC

- 6 10 The financial accounting and reporting on the licensed activity must be consistent with the accounting requirements established by the RoA Legislation

- 6 11 The financial accounting and reporting must be kept separately from the accounting and reporting of other types of activities carried out by the Licensee
- 6 12 Each year, before April 30, the Licensee shall be required to publish the Financial and Economic Activity Report for the previous year in the national printed press, in accordance with the forms provided by the ERC. The published reports should not contain information of commercial or state confidentiality
- 6 13 Upon the Commission's demand, the Licensee shall carry out an independent auditing of his financial and economic activity
- 6 14 The Licensee is responsible for the accuracy of reports on the licensed activity and any other information submitted to the ERC, in accordance with procedures provided by the RoA Legislation
- 6 15 The ERC shall be the one setting the maximum tariffs for electricity(capacity). The Licensee can use lower tariffs than the ERC-established ones, in accordance with the RoA Energy Law. The Licensee's possible losses occurred due to the application of the tariffs lower than the ones set by the Commission, shall not be taken into consideration during the tariff review process
- 6 16 At any moment during the effective period of the License, at his own initiative, the Licensee can forward a petition for the Commission's review, pertaining the revision of the active tariffs, in forms and procedures established by the Commission
- 6 17 At its own initiative and in accordance with its own procedures, the Commission can revise the active tariffs
- 6 18 The Licensee shall carry out the costs associated with the Licensed Activity in accordance with corresponding cost articles included in tariffs, ensuring the safety and reliability of operation. In the event of a necessity to change the cost structure, the Licensee shall submit corresponding justifications to the Commission for coordination
- 6 19 The ERC retains the right to include in tariffs only those costs which are justified and essential for the implementation of the licensed activity
- 6 20 For the purposes of reviewing the License and the established quotas in set procedures, the Licensee shall be required to submit the following information (with supporting documents) in the following time-frames, to the ERC and the Central Dispatch Service (CDS)

- intention to restrict the electricity (capacity) generation set off by quotas for the current year - at least 6 months in advance,
- intention to reduce the volumes of electricity (capacity) generation in the coming year - at least 9 months prior to the start of the calendar year,
- unforeseen circumstances that have led or may lead to restriction of electricity (capacity) generation by the Licensee - immediately

6 21 The Licensee shall be required to abide by the operative instructions and directions of the Central Dispatch Service (CDS) of the National Electric Network, in accordance with the provisions of the signed contracts and acting regulations

6 22 All circumstances which lead or may lead to a breach of the provisions of this License, should be immediately reported to the ERC

## 7 **Monitoring of the Licensed Activity**

7 1 The ERC shall carry out a monitoring of compliance with the provisions of this License in procedures set by the ERC

7 2 In order to ensure the monitoring of compliance with the License provisions, the ERC and its authorized representatives shall have the right of free access to the premises of the Licensee. In the course of such inspections, the Licensee is required to be cooperative with and render assistance to the ERC and its authorized representatives

7 3 On the premises of the Licensee, the ERC and its authorized representatives shall observe the company's internal rules and regulations, the safety and firefighting regulations, as well as the standards of the RoA Legislation

## 8 **Penalties, License Suspension and Revocation**

8 1 The ERC shall be the one carrying out the monitoring of compliance with the License provisions, in cooperation with other authorized government bodies

8 2 In the event of inappropriate compliance, noncompliance or violation of the License provisions, the ERC is authorized to exercise the following penalties, in accordance with Article 27 of the RoA Energy Law

- a) A notice to the Licensee with instructions to rectify the violation,
- b) License suspension,
- c) License revocation

The procedures of application of the above penalties shall be determined by the ERC. The ERC can penalize the Licensees in accordance with the procedures provided by the RoA Legislation.

8.3 In the event of penalizing the Licensee, the ERC and the Licensee shall be guided by Article 37 of the RoA Energy Law, as well as the RoA Legislation.

8.4 A License can be terminated at the initiative of the Licensee, based on his application in writing. Until the issuance of a corresponding ERC resolution on suspension or revocation of the License, the Licensee shall be required to continue his activity, in accordance with the License provisions.

8.5 Item 8.2 of this License shall not apply to the Licensee, if the recorded noncompliance with the License provisions was provoked by Force Majeure circumstances.

## 9 Amendments to the Provisions and Terms of the License

9.1 Amendments to the Operation License can be introduced at the initiative of both, the ERC and the Licensee, in accordance with procedures set by the Law.

9.2 In the event of any legal or organizational changes, the Licensee is required to immediately apply to the Commission for the re-registration of his License, or for the introduction of amendments and supplements in the License, or for a new License.

9.3 Within five days, the Licensee shall notify the ERC in writing about any changes in his legal address, foundation papers and bank account information.

**10 Other Provisions**

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**11 Notification**

11 1 All the official notifications, applications (petitions), claims or other correspondence associated with the License should be in writing and be delivered via messengers or registered mail, requiring a verification of receipt. The addresses of the Parties should appear on the envelope. All notices or other correspondence shall be considered effective from the moment of delivery or, if they were not delivered due to the addressee's fault, from the moment of presentation.

Licensee's Postal Code \_\_\_\_\_

Address \_\_\_\_\_

Name \_\_\_\_\_

Bank Accounts \_\_\_\_\_

First and last name of the President \_\_\_\_\_

**In verification of the foregoing, the Energy Regulatory Commission of the Republic of Armenia is issuing this License on the \_\_\_\_\_<sup>th</sup> day of the month \_\_\_\_\_ and the year \_\_\_\_\_ to the following**

\_\_\_\_\_

*Name of the Company*

\_\_\_\_\_

*Legal address of the Company*

Registration Date \_\_\_\_\_

Registration Number \_\_\_\_\_

\_\_\_\_\_

*First and last name of the responsible party and his/her signature*

**ENERGY REGULATORY COMMISSION OF THE REPUBLIC OF ARMENIA**  
**ELECTRICITY GENERATION LICENSE**

\_\_\_\_\_  
*License Code*

\_\_\_\_\_  
*License Number*

The License has been issued to \_\_\_\_\_  
*Full name of the company*

**LIST**  
**of the Generating Unit(s) of the Plant(s)**

Name of the Plant	Plant number of the Unit	Nominal Capacity (MW)	Year of Operation

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**DRAFT ELECTRICITY TRANSMISSION LICENSE**

**ENERGY REGULATORY COMMISSION OF THE REPUBLIC OF ARMENIA**

**LICENSE SAMPLE No \_\_**

**On Electricity/Capacity Transmission Activity**

- 1 This License authorizing electricity transmission activity fulfillment within the territory of RoA under the procedure established by the RoA Energy Law is granted by the Energy Regulatory Commission to

\_\_\_\_\_   
 name of Licensee

\_\_\_\_\_   
 legal address of Licensee

- 2 Attached are the terms and rules of activity implementation mentioned in item 1 which is the integral part of this License

Energy Regulatory Commission  
of the Republic of Armenia  
" \_\_\_\_ " \_\_\_\_\_ 199\_

Registration date

" \_\_\_\_ " \_\_\_\_\_ 199\_

Decree No \_\_\_\_\_

Registration No \_\_\_\_\_

\_\_\_\_\_   
 Seal

Chairman of the Commission

\_\_\_\_\_   
 signature

### **3 TERMS AND RULES OF ELECTRICITY /CAPACITY/ TRANSMISSION ENTREPRENEURIAL ACTIVITY FULFILLMENT**

#### **General**

3 1 1 The terms and rules of electricity /capacity/ transmission entrepreneurial activity fulfillment are specified in conformity with the RoA Legislation, including RoA Energy Law

#### **3 2 Definitions**

3 2 1 Given the objectives of the License, some of the concepts not specified in this License in case if written in capitals are defined as follows

#### **3 3 License Validity**

3 3 1 This License shall enter into force from the moment of registration

3 3 2 This License is issued on permanent basis

#### **Licensed activity**

Under this License the Licensee is authorized to transmit electricity /capacity/ through National Electric Network from entities having electricity generation, import license to entities having electricity distribution, export license and, in particular cases, directly to consumers

The Licensee is issued an Exclusive Right to fulfill transmission activity within the territory of RoA during the period of \_\_\_\_\_ years

In accordance with the Exclusive Right issued under this License, the Commission shall not authorize any entity other than the Licensee to fulfill licensed activity in the territory of RoA during the period specified in item 3 4 2 To protect all rights bestowed upon the Licensee under this License, the Commission assumes the responsibility of prohibiting within its jurisdiction any other entity to fulfill the activity mentioned in item 3 4 2 within the Service area

In case of any changes in the Licensee's service area, the Licensee shall submit a proposal to the Commission about corresponding changes in the License

The exclusive right issued to the Licensee under this License should not be considered as a transgression of the RoA Antimonopoly or other laws

The Licensee shall fulfill his activity by organizing and implementing all activities required for the electricity transmission with established standards and observing the electricity quality indicators

To guarantee the implementation of the terms and requirements of this License, the Licensee agrees to implement the licensed activity observing the established reliability and safety parameters and with least costs

In case if any changes (writing off, construction, replacement, liquidation, etc ) of main production means required for the Licensed activity and mentioned in item \_\_\_ of this License are needed, the Licensee shall apply to the Commission under the procedure specified in item \_\_\_ for approval and making changes in License

The contracts signed between the Licensee and other legal entities under which the provisions (materials provision, service, repair) required for the implementation of the Licensed activity are guaranteed shall be submitted to the Commission by the Licensee for discussion and registration

In case if a certain part of the works related with the Licensed activity is transferred under the Contract to other entities, the Licensee shall apply to the Commission under the procedure specified in article \_\_\_ of this License for discussion and confirmation (refusal)

The Licensee is authorized to implement the following activities within the territory of RoA from the date of validity

Planning and implementation of service, operation and maintenance activities of electric facilities of the National Electric Network,

Electricity purchase (acceptance) from the entities having electricity generation and/or import License, transmission and sales to the entities having distribution and export License or, in case of sales quotas availability, to consumers,

Operative management of Electric energy network in normal and emergency (post-emergency) regimes through Central Dispatch Service,

Calculation of relay protection, automatics settings, application in National Electric Network and submission to entities having generation and/or distribution license for mandatory application

Coordination of electricity generation, transmission and distribution networks prospective (long-term) development planning

Formulation and implementation of National Electric Network development, rehabilitation and modernization plans

Accidents analysis and elaboration of mandatory complex measures to be implemented by the entities having generation and distribution license

### **The Status of the Licensee**

During the licensing and activity fulfillment, the License shall have a status of a legal entity dealing with entrepreneurial activities defined by the RoA Legislation, without restrictions of proprietorship type

In the event of changes in the legal-organizational and/or proprietorship type of the Licensee, the latter shall apply to the Commission, under the procedure defined by the Commission, about obtaining of new License under the general principles

In case of structural changes and/or reorganization of the Licensee, if the reorganization is not qualified as changes stipulated by item 3 5 2, the Licensee shall under the established procedure apply to the Commission for permission and making corresponding alterations in the License

Each entity which becomes the Licensee's successor by amalgamation, separation, management transfer, merging, liquidation, reconstruction or otherwise shall, as a necessary provision for such successorship, submit beforehand an application to the Commission about absolute transfer of rights and responsibilities stipulated in the License and for obtaining License

### **3 6 Restrictions of the Licensee's Proprietorship Rights**

The Licensee does not have the right to become a shareholder or stockholder of another energy sector Licensee, or establish a corporation with the above without an authorization from the RoA Energy Regulatory Commission

Any shareholder or stockholder owning more than 35% participation in the Licensee's charter fund, does not have the right to acquire shares or stocks of another energy sector Licensee as well as alienate his shares without an authorization from the RoA Energy Regulatory Commission

In the event of failure to adhere by the terms of forfeiture of a License or obtaining a new License, the Licensee shall alienate the complex of essential assets in his proprietorship In case of failure to do so, as an exclusive measure, the above assets will be alienated in favor of the society and the state with an equal preliminary compensation in conformance with the RoA Energy Law and under the procedures stipulated in Article 28 of the RoA Constitution

### **3 7 Terms of Licensed Activity**

The Licensee shall fulfill his activity in accordance with the RoA Energy Law of the RoA Legislation in force, Energy Regulating Commission's normative acts, legislative requirements of nature protection in force in RoA and by realizing and/or observing the requirements of the changes of these norms being done under the established procedure

The Licensee shall sell the electricity to Distribution network and/or Consumers by wholesale and/or retail tariffs defined by the Commission within the sales quotas limits issued to him by the Commission

The Licensee does not retain the right to implement without the authorization of the Commission any other activity which hinders or can hinder the implementation of the Licensed activity in accordance with the terms and rules of this License

The Licensee does not retain the right to finance or provide with subsidies the enterprises with his participation and/or new enterprises being organized by himself, including daughter enterprises

The Licensee shall under the procedure defined by this License submit to the Commission corresponding documents for calculation and control of tariffs, implementation and supervision of the terms of the License, supervision of the Licensee's economic prospective development plans' implementation progress

The Licensee shall implement his activities in compliance with economic efficiency principles, i e to produce and deliver electricity with possible least costs, guarantee the reliability and safety of electricity generation and delivery

All contracts on sales permitted under the item \_\_\_\_ of this License shall be produced in the form of sample contracts defined by the Commission and are subject to registration by the Commission

The Licensee shall inform promptly the Commission about unforeseen circumstances that bring or can bring to temporary (partly) or long-term non-fulfillment of the contractual obligations by the Licensee or violations of the terms of this License

In case of restrictions, under any reasons, of electricity (capacity) transmission specified by quotas for the year or in case of restrictions (reduction) of the same indicators during the next year and/or generation termination decision, the Licensee shall inform the Ministry of Energy and the Commission 9 months ahead and submit a feasibility study for his plans The Licensee shall perform his contractual obligations until the confirmation of Licensee's plans by the Commission and the Ministry of Energy

The Licensee's designs and plans of construction, reconstruction and rehabilitation activities affecting the production self-cost are subject to registration and the cost estimates and/or tender terms are subject to confirmation by the Commission

Before reception of Activity License, the Licensee shall acquire License of Professional Competency from the Ministry of Energy under the procedures and terms defined by the latter

#### **4 Licensed Activity Rules**

##### **4.1 Submission of Reports and Information**

The Licensee shall from the date of validity of the License submit to the Commission reports in volumes defined by the Commission and in forms defined by the Ministry of Economy and Finances and the Department of Statistics, State Register and Analysis as well as additional report about Licensed activity under the procedures and forms defined by the Commission

The accounting and reporting of the licensed activity shall be separated from the accounting and reporting of other types of activities being implemented by the Licensee

The financial-economic reports of the licensed activity shall comply with the unified system of reports elaborated by the Commission on the basis of international standards of accounting The Licensee shall make all the changes defined by the Commission in the above mentioned system

In case of any changes in financial-economic reports system, the Commission shall notify the Licensee according to the procedure mentioned in item \_\_\_

The Licensee shall submit information about his activity during the previous year and foreseen for the current year in accordance with the procedures and forms defined by the Commission

The Licensee shall allocate on well-grounded basis and in accordance with the requirements of the Commission common expenses between the Licensed activity and other types of activity

The Licensee shall submit within the scope of his authorities any information required by the Energy Regulatory Commission under the established procedures and terms

The Licensee shall within \_\_\_ days inform the Energy Regulatory Commission by forwarding written notice under the procedure specified in item \_\_\_ about any changes in

- legal address
- founding documents
- bank details

The Commission shall within \_\_\_ days after the reception of the above documents make a corresponding decision and inform the Licensee within 10 days period

#### **Tariffs for the Main Services of the Licensee and Calculation of Other Payments**

Main monopoly services' tariffs are subject to regulation and shall be defined by the Commission The tariff defined by the Commission is considered to be maximum

The Licensee can at the expense of his profits sell his production with lower tariff than defined by the Commission provided that he will comply with the following requirements

- Same tariffs shall be defined for the same group of consumers
- Income reduction shall not result in reduction of generation reliability and safety

- Tariff reduction for any consumer group during a certain period shall not bring to increase of sales average tariff during the subsequent period
- Direct sales of electricity to the consumers by the Licensee shall be realized by purchase contracts signed between them under the following terms
  - The electricity wholesale and/or retail tariffs are defined by the Commission,
  - The contract on transmission shall be signed by the Licensee with the Distributor and the Licensee shall pay for transmission,
  - Tariffs of other monopoly services rendered by the Licensee and their current changes shall be defined by the Commission,
  - At any point during the validity of the License, the Licensee has the right to submit proposals for discussion to the Commission under the procedures defined by the latter about the changes of acting tariffs of services rendered by him

The Commission can under the procedure defined by RoA Legislation upon his own initiative change the tariffs on the basis of financial-economic and other reports of the Licensee as well as of other Licensees dealing with similar Licensed activities and also of the prospective reconstruction (rehabilitation) plans of the Licensee's economy confirmed with the Commission

### **Technical Requirements**

The Licensed activity shall comply with the acting state standards, safety rules and provisions and requirements of other normative technical documents. In case if the Licensee shall apply equipment designed and mounted in conformity with other countries' and/or international standards, the equipment shall be tested technically and certified before the application (installation)

The Licensee shall implement his activity in compliance with the environmental protection standards and rules defined by RoA Legislation

The Licensed activity shall not endanger the safety and health of population in compliance with the requirements defined by the RoA Legislation

The damage taken place due to violation by the Licensee of nature protection and environmental norms and standards and safety norms shall be compensated at the expense of Licensee's profits under the procedure defined by RoA Legislation

The Licensee shall elaborate a grounded financial-economic system for operation, service, repair activities implementation and submit it to the Commission for confirmation

In case of lifetime termination and/or removal from operation of the devices and equipment of the Licensee, the latter shall at his expense not later than within \_\_\_ months implement the dismantling, site clearing and rehabilitation works

## **Supervision of the Licensed Activity**

The Commission supervises the implementation of the License terms and rules

The Licensee shall guarantee the accessibility of the constructions and equipment of the Licensed activity for the authorized representatives of the Commission to conduct any audits and inspection of the equipment, constructions and documents within the scope of authorities of the Commission

In case of such inspections the Licensee shall contribute and support wholly the Commission and its authorized representatives

The Commission can, upon the claim of the third party or his initiative, undertake the testing of the Licensed activity of the Licensee

If in the result of the testing the Commission concludes that the Licensee does not comply with the terms of this License, the Commission can within his authorization and in accordance with the principles of this License enforce necessary measures

The Licensee shall inform the Commission about infringement of any of this License terms within one week from the moment of detection of this fact

The Licensee shall fulfill the decisions of the Commission concerning the elimination of violation of this License terms in conformity with the decisions defined by the Commission

## **Penalties**

The Energy Regulatory Commission is authorized to apply the following reinforcements measures under the procedure defined by himself if the Licensee fails to comply with the terms of RoA Legislation, including "Energy Law" and "Energy Efficiency Law", Commission's or other normative acts, of this License or fulfills them not properly or violates them

- notice and instructions to eliminate the drawbacks,
- suspension of the Activity License
- revocation of the Activity License

The provisions of item 3 5 1 of this License are not applied to the Licensee if non-fulfillment of the terms of this License is a result of Force Majeure and if the Force Majeure which hinders the implementation of his obligations by the Licensee does not last more than 12 months

Within 48 hours after Force Majeure event the Licensee shall inform the Energy Regulatory Commission about the time, duration and termination of the event

The Licensee shall adjust his activity with the terms of this License not later than required by the certain Force Majeure event

The Energy Regulatory Commission can also assign penalties to the Licensee under the procedure defined by RoA Legislation

The validity of this License can be suspended by the Energy Regulatory Commission if

- The Licensee violated any of the terms of this License and has not fulfilled the Commission's decision about elimination of the violation

The License shall be suspended in accordance with the Licenses' suspension procedure defined by the Commission

The Licensee shall retain the right to appeal the Commission's decision about License suspension

The Commission is authorized to deprive the Licensee of this License

- a) Under the Licensee's initiative in case if written notification has been submitted to the Commission,
- b) In case if the information included in the application and attached documents submitted for obtaining this License does not correspond to the reality,
- c) In case if after the suspension of the License by the Commission, the Licensee does not eliminate the violations occurred and does not fulfill the Commission's corresponding decisions,
- d) If the Licensed activity threatens the environment and the health of population,
- e) If the Licensee is announced insolvent under the procedure defined by RoA legislation

The Licensee shall retain the right to appeal the Commission's decision about deprivation of the License

### **Alterations of Terms and Rules of the License**

The terms and rules of this License can be altered upon the initiative of the Licensee as well as of the Commission under the procedures defined by the latter

Reception and discussion of the application about changes by the Licensee in the terms of the License shall be fulfilled in accordance with the procedure established by the RoA Energy Regulatory Commission

The confirmed by the Commission changes shall be published in "Reference Book of Departmental Normative Acts"

### **Other Provisions**

Resignation of any of the rights defined by this License by either of the parts or failure or violation of fulfillment of the terms of this License shall not be deemed for the other part as resignation of any other right defined by the License, failure or violation of terms of similar or dissimilar character

In case if any of the items of the License shall be acknowledged as invalid, such decision shall not effect the validity of other terms of the License

The provisions of this License and the issues related to their validity are settled by the RoA Legislation and normative acts of Energy Regulatory Commission

The validity of this License shall not be applied to the Daughter Enterprises of the Licensee

No administrative actions foreseen by the Commission that can damage materially or cause changes of the terms and rules of the License or in the result of which fines and penalties will be imposed on the Licensee, shall be fulfilled without notification to the Licensee in written form and without giving the latter the opportunity to submit his standpoints during the open session of the Commission

### **Notification**

All official notifications, applications, requirements or other message concerning the License sent to the parties or between them shall be in written form and sent by messenger or registered letter about reception of which shall be given written statement and for the services of which shall be paid in advance. The following addresses or the address by means of which the parties can communicate shall be mentioned on the letter. Any notification or message shall be valid from the moment of reception or from the moment of submission in case if it has not been received through the fault of the addressee.

#### Addresses for notifications

If addressed to the Licensee

“\_\_\_\_\_” State Stock Company  
375001, Yerevan  
Republic of Armenia

Tel

Fax

If addressed to the RoA Energy Regulatory Commission

RoA Energy Regulatory Commission  
str Isahakian 18  
375010, Yerevan  
Republic of Armenia

Tel

Fax