

CHAPTER I – GENERAL CONDITIONS OF A LICENSE

ARTICLE 1 - INTRODUCTION

- 1.1. This License is issued to Elektroprivreda Crne Gore AD Niksic (hereinafter referred to as the: Licensee) to conduct **activity of electricity generation** in accordance with the terms and conditions set forth in the License.
- 1.2. This license is issued by the Energy Regulatory Agency (hereinafter referred to as the: Agency), pursuant to Article 19 (1) of the Energy Law (Official Gazette of the Republic of Montenegro, No.39/03, hereinafter referred to as the: Law) and Regulation on Licenses in the energy sector of Montenegro (Official Gazette of the Republic of Montenegro, No. 50/04, hereinafter referred to as the: Regulation on licenses).
- 1.3. The License shall be valid from 01.01.2006., and unless revoked earlier in accordance with the Law, Regulation on licenses and provisions of this License, expires upon legal unbundling of functional unit performing activity for which this License has been issued.
- 1.4. The terms of this license shall by no means be understood as exempting from, replacing, or in any other way modifying any obligation Licensee may have pursuant to any valid law or other regulation. Obligations set forth with this license constitute additional obligations to the existing legal obligations.

ARTICLE 2 – DEFINITIONS AND INTERPRETATIONS

- 2.1. Unless the context otherwise requires, all references in this License to any law, regulation or any other document shall be understood as a reference also to all laws, regulations and other relevant documents which are modifying, supplementing or replacing them.
- 2.2. Unless the context otherwise requires all references in this License to any body which ceases to exist or whose functions are transferred to some other body shall be understood as references to a body that is replacing it, or is to a major extent a successor to its functions, authorities and responsibilities.
- 2.3. Unless the context or the purpose otherwise requires all definitions from the Law shall have the same meaning in this License as well.
- 2.4. Terms used in this License such as: energy, generation, transmission, distribution, supply and market, relate to electricity unless otherwise indicated or unless the context or the purpose otherwise requires.
- 2.5. Unless the context otherwise requires all terms used in this License shall be interpreted in line with the following definitions:
 1. **co-owner**: any physical or legal entity who owns shares of a Licensee or a legal entity whose shares are partly owned by a Licensee;
 2. **real time**: when it relates to a market or a system, means data describing current status of the market or a system;
 3. **area served**: a territory where a Licensee is entitled to perform his activity;
 4. **independent auditor**: independent legal or physical person entitled to perform audit of statements on business operation;

5. **licensed activity:** activity defined by the license;
6. **Ancillary rules:** all rules other than the general ones such as Market Rules, codes, Regulation on tariffs, etc., which govern operation of this or other Licensees which are promulgated or approved by the Agency;
7. **Regulation on tariffs:** regulation determining methodology for setting charges and tariffs;
8. **market participant:** physical or legal person who, in accordance with the Market rules, participates in a wholesale market ;
9. **settlement of market instruments:** procedure for monetary settlement of market operations;
10. **competition in supply:** participation of a considerable number of competitive suppliers;
11. **competitive wholesale market:** a set of agreements, codes on practice and other related acts concerning energy wholesale regulated by the Market rules ;
12. **financial settlement of a wholesale:** settlement system for transactions with energy and services in line with the Market Rules, using real time data;
13. **tariff:** specification which defines elements involved and methodology for calculation of an amount a customer/buyer supplied with electricity and/or who uses electric power services, in accordance with regulated tariff system, pays directly or through a Supplier;
14. **service charge:** cash equivalent paid by a user for a service provided;
15. **Agreement for ancillary services:** agreement on securing and payment of ancillary services;
16. **Participation Agreement:** agreement between Market Operator and market participants on accepting obligation to observe Market rules;
17. **Power purchase and sale agreement:** agreement governing sale and purchase relations between buyer and seller of electricity;
18. **Generating plant:** plant and equipment for generation, i.e. for provision of ancillary services defined in the license;
19. **Scheduling and dispatching:** all activities required to develop operating schedule for electric power system and real time dispatching in accordance with the Market Rules ;
20. **transmission network:** interconnected system of lines and plants connecting Generators with Distribution network and with Customers ;
21. **Grid Code:** a code defining a minimum technical and organisational requirements and procedures for connection to transmission network and its use, interconnection with other transmission networks as well as planning and dispatching criteria;
22. **Transmission Network Connection Contract:** agreement for connection which is signed between a Transmission Licensee and any entity connected to the transmission network ;
23. **Transmission Use-of-System Agreement:** An agreement between the Transmission Licensee and any user of the transmission network concerning use of the network;
24. **Distribution Network Connection Contract:** an agreement between a Licensee for Distribution and Distribution Network Operator and any entity connected to the distribution network concerning the connection;
25. **Distribution Use-of-System Agreement:** an agreement between the Licensee for Distribution and Distribution Network Operator and any user of distribution network concerning the use of the network;
26. **Distribution System:** system of lines, devices and equipment that serve for electricity distribution;
27. **Distribution Code:** a code defining minimum technical and organisational requirements and procedures for connection to distribution network and its use as well as planning and dispatching criteria;

- 2.6. Titles of articles in this License are used only as a guide, without intention to reduce, modify or limit individually enumerated terms.
- 2.7. Terms when used in this License such as: Generator, Transmission, Transmission Network Operator, Distribution and Distribution Network Operator, Market Operator and Supplier are used with a meaning of a Licensee for referred activities.

ARTICLE 3 – GENERAL OBLIGATIONS OF A LICENSEE

- 3.1. General obligations of a Licensee are :
 - a. to observe provisions of the Law and the License related to the licensed activity;
 - b. to have adequate financial, technical and HR resources to perform licensed activity in accordance with the Law, codes, rules, standards of service and other regulation mentioned in this License;
 - c. to observe all relevant laws and rules and especially those referring to: prohibition of monopolistic behaviour, unfair competition, safety and protection at work, standards and regulation on environmental protection.
 - d. To observe all relevant technical standards and quality standards.

ARTICLE 4 – OBLIGATION TO OBSERVE RULES

- 4.1. Licensee shall observe Market Rules, codes, standards and other regulation promulgated or approved by the Agency. Rules proposed by the Licensee and approved by the Agency may be modified only upon Agency's approval.
- 4.2. In case the Licensee becomes at any time aware that anyone, including himself, materially violates general acts from the paragraph 4.1 he shall immediately inform the Agency of it.
- 4.3. In case the Licensee considers any provision from any of the regulation under paragraph 4.1 inadequate or impossible to be implemented, he may appeal to the Agency for exemption from this rule. In case the Agency does not approve this request or until the exemption is approved, all provisions from the paragraph 4.1 shall be fully applied.

ARTICLE 5 - APPROVAL OF SUPPLEMENTARY ACTIVITIES

- 5.1. The Licensee is entitled to perform the licensed activity in accordance with the terms and conditions from this License.
- 5.2. Besides from the licensed activity, the Licensee may perform supplementary activities in case this has been approved by the Agency. The Agency shall issue such an approval in case it finds that the consequence of the Licensee performing that supplementary activity would not be the following:
 - a. a negative financial effect on the basic activity, i.e. licenced activity; or
 - b. unfavourable influence over its HR and technical capacity.

- 5.3. Together with an application for supplementary activity to be approved, the Licensee shall provide all necessary information that will enable the Agency to make an adequate decision.
- 5.4. While performing supplementary activity, the Licensee shall regularly inform the Agency of all changes that have occurred or that might occur, and which relate to the conditions from the paragraph 5.2 of this Article. In case Agency finds that performance of this approved supplementary activity would jeopardize performance of the licensed activity, the Agency shall ban this activity.
- 5.5. The Licensee shall not participate either indirectly or directly in any other business activity nor shall voluntarily assume any financial obligation connected with some other business activity.
- 5.6. The Licensee shall undertake everything reasonably in his powers to prevent any of his co-owners from being directly or indirectly involved into an activity, or from voluntarily assuming some obligation, that may negatively impact capacity of the Licensee to maintain adequate material resources and professional skills required by this License, so that he may perform his licensed activity in accordance with the conditions set forth in his License.

ARTICLE 6 – FINANCIAL OPERATION

- 6.1 The licensee shall:
 - a. maintain separate accounts for licensed activity and supplementary activities and
 - b. notify the Agency of all bank accounts he owns.
- 6.2. The Licensee shall maintain accounts and prepare reports which will accurately reflect his financial operation in reference to:
 - a. the licenses activity;
 - b. individual separate supplementary activities, and
 - c. his overall business operations.
- 6.3. With respect to the licensed activity and supplementary activities individually, the Licensee shall:
 - a. maintain accounts in line with the provisions of the Law on Accounting and Audit (Official Gazette of the Republic of Montenegro No. 6/02), which shall be, pursuant to the Law, maintained as for license activity of the independent company, and shall comply with accounting policy, procedures and requests that may be imposed by the Agency;
 - b. compile annual (or as otherwise required by the Agency) reports in line with provisions of the Law on Accounting, prepared in a way that they accurately show revenues, expenditures, assets, liabilities and other important information concerning the licensed activity and shall perform audit thereof, and
 - c. submit to the Agency copies of accounting statements together with reports from independent auditors, not later than 6 months after expiry of the reporting period.

- 6.4. The Agency may request the Licensee to submit accounting information which may be more comprehensive or which may differ from the one included in the annual report as required by the Law on Accounting.
- 6.5. In cases where Licensee, during preparation of accounting reports for specific financial year, changes the base for calculation or allocation of revenues, expenses, or other values, he must, if required by the Agency, in addition to preparation of accounting reports in a manner defined by this License, also prepare accounting report that will reflect changed accounting principles for comparative financial year.

ARTICLE 7 – BUSINESS OPERATION WITH CO - OWNERS

- 7.1. The Licensee shall not without Agency's approval:
 - a. enter into any agreement or arrangement for acquisition of goods and provision of services or in any other way perform business operations with any of the co-owners, under more favorable conditions for him, in relation to third parties, or
 - b. make any other difference in business operation which may be in favour of the co-owner.

ARTICLE 8 – ACQUISITION OF COMMODITIES AND SERVICES

- 8.1. While performing his licensed activity, the Licensee shall acquire commodities and secure services for his own needs under economically most favourable terms, while considering all important operational criteria including, but not limited to, the price, successfulness, reliability, quality and delivery.
- 8.2. The Licensee shall not discriminate between suppliers of goods and services.
- 8.3. Paragraphs 8.1 and 8.2 do not refer to acquisition of commodities or contracting of services whose acquisition conditions are defined by this license, Market Rules, Supporting Rules, codes, standards and other regulation promulgated or approved by the Agency.

ARTICLE 9 – RISK MANAGEMENT AND INSURANCE

- 9.1. The Licensee shall, in accordance with effective laws, apply reasonable risk management policy and risk insurance policy (including own insurance) related to licensed activity and any of the approved supplementary activities.

ARTICLE 10 – TRANSFERABILITY OF A LICENSE

- 10.1. This License is transferrable only subject to obtaining approval from the Agency in writing.

ARTICLE 11 – CONTROL OVER CHANGE OF OWNERSHIP

- 11.1. The Licensee shall report to the Agency any change in ownership structure, which individually or collectively, compared with the previous report, refers to 5 or more percents, as well as any change which brings to increase of individual participation in ownership to 10 or more percents.

ARTICLE 12 – REVOCATION OF A LICENSE

- 12.1. The Agency may temporarily revoke this License in case the Licensee:
 - a. does not follow the Instruction for implementation within the deadline defined in the Article 21 of the Regulation on Licenses;
 - b. does not pay annual license fee within defined deadline.
- 12.2. The Agency may permanently revoke the License in the following cases:
 - a. If Licensee failed to remove the reason that caused temporarily revocation of the Licence, following the period of temporary revocation, or
 - b. In case of a repeated breach of general conditions of the License, repeated, proven technical inadequacy, under-qualified personnel or financial insufficiency which may jeopardize safety or operational, i.e. financial sustainability of service users, the Licensee, other licensees or the Agency.
- 12.3. Exceptionally, the Agency may revoke this License in case the Licensee has fell in bankruptcy, and this only in order to protect interests of service users.
- 12.4. In case the Licensee is temporarily exempted from performing the licensed activity or from revocation of the license, the Agency shall nominate a legal or a physical entity to perform functions belonging to the Licensee, in accordance with the Article 20 (4) of the Law.

ARTICLE 13 – SALE OF PROPERTY

- 13.2. In case the Licensee intends to sell, lend or assign operating control over any part of assets of gross book value over €100,000 the Licensee shall, with at least two months notice, submit a request for approval to the Agency. The Licensee shall also submit all additional information required by the Agency which refer to relevant assets or to circumstances of planned sale or intention of the party interested to acquire the assets or to gain operational control over it.

ARTICLE 14 – PROVISION OF INFORMATION TO THE AGENCY

- 14.1. Not later than end of June of the current year, the Licensee shall submit to the Agency a report on business operation for the previous year and by the end of the current year he shall submit a work plan for the following year. The plan and the report have to cover technical, operational, administrative and financial aspects of the licensed activity.
- 14.2. The Licensee shall submit to the Agency all agreements he entered into with other licensees, buyers and users of services related to the licensed activity, except from the agreements with electricity buyers whose power consumption is not metered and shall provide all additional explanations.
- 14.3. The Licensee shall provide to the Agency all information and data required, in a manner and within a deadline set by the Agency.
- 14.4. Without limiting generality of the previous paragraph or other requirements from this License that relate to provision of information, the Agency may require from the

Licensee to provide accounting information which may be more comprehensive or which may differ from those contained in the annual report, pursuant to the Law on Accounting.

- 14.5. Exceptionally, the Licensee shall not have to provide information if this would mean a breach of some act of the authorised court.

ARTICLE 15 – CONFIDENTIALITY OF INFORMATION

- 15.1. The Licensee shall ensure that all confidential information he obtains while performing the licensed activity are:
- a. maintained as confidential, except if otherwise allowed or required by the Agency, this License, valid laws and general acts of the Agency;
 - b. available only to those employees to whom they are necessary for the purpose of performing their duty related to the licensed activity or consultants and professional advisors of the Licensee who have pledged in writing that they would respect confidentiality of such information;
 - c. protected from use in purposes different from what they are acquired for, and
 - d. protected from misuse in purposes of gaining commercial advantage in purchase of goods or services not related to licensed activity.
- 15.2. The Licensee may ask the Agency for confidential treatment of information he submitted.
- 15.3. Provisions of this Article may not be interpreted as obligating the Licensee or the Agency to maintain confidential the information that was made publicly available not by mistake or act of Licensee, the Agency or a person to whom the information was disclosed.
- 15.4. The Licensee may reveal a confidential information to court upon request from the court.

ARTICLE 16 – REPORTING ABOUT BREACHES

- 16.1. The Licensee shall monitor compliance of the activity he is performing with the terms of this License and shall report to the Agency about any individual breach and shall also notify the Agency of all circumstances which result or which may result in change to any data from the Application for the license.
- 16.2. In case the Licensee becomes aware that any other licensee breached the terms of his license or the Law, he shall notify the Agency of it.
- 16.3. In case of event from the previous paragraph, the Licensee shall submit to the Agency also all available additional information requested by it.

ARTICLE 17 – LICENSE FEE

- 17.1. The Licensee shall pay fees in line with Decision on Defining License fee. By the time Decision on Defining License fee for the following year is prepared, the decision from the previous year shall be applied.

- 17.2. The Licensee shall pay fees from the previous paragraph within the deadline set by the Regulation on licenses.

ARTICLE 18 – MODIFICATION OF LICENSES

- 18.1. This Licensee may be modified in accordance with the Article 20 of the Law and Article 15 of the Regulation on license.

ARTICLE 19 – DISPUTES

- 19.1. Any dispute in relation to the License shall be resolved in accordance with the Article 17 of the Law.

ARTICLE 20 – COMPLIANCE ANALYSIS

- 20.1. Licensee shall conduct compliance analysis of its activities with terms and conditions stipulated by this License, Market rules, Ancillary rules, codes, standards and other regulation issued or approved by the Agency.
- 20.2. Compliance analysis shall be performed annually by the Licensee's expert or other expert nominated by the Licensee.
- 20.3. The results of the Compliance analysis shall be submitted to the Agency immediately upon its finalisation.

ARTICLE 21 – TARIFFS

- 21.1. If Licensee wishes to modify tariffs, he shall, according to the Article 18 of the Law, submit a request to the Agency for approval of modification, taking into consideration the Regulation on Electricity Tariffs issued by the Agency.

ARTICLE 22 – PUBLICATION OF TARIFFS

- 22.1. Licensee shall be obliged to make tariffs for licensed activity available to public and to any interested individual.

ARTICLE 23 – ACCESS TO THE SITE IN ORDER TO PERFORM INSPECTION

- 23.1. Licensee shall ensure free access to the site to all authorised representatives of the Agency, for the purpose of gathering information in relation to the licensed activity

ARTICLE 24 – PARTICIPATION IN REGULATION DRAFTING

- 24.1. Licensee shall, upon a request from the Agency, participate in a process of drafting of general act, rules, regulations and standards for the system, as well as for the energy market.

ARTICLE 25 – IMPLEMENTATION OF A LICENSE

- 25.1. In case License requires the Licensee to fulfill an obligation within the given deadline, and he fails to fulfill it, the obligation shall remain valid and effective even after expiration of the given deadline, whereby this will not affect the available rights and legal means against Licensee.

- 25.2. The Agency is authorised to implement control of compliance with the conditions from this License, modification, suspension and revocation thereof, in accordance with the Article 20 par. (2) and (3) of the Law, and also to initiate commencement of legal offence procedure referred to in the Article 41 of the Law, in a manner determined by the Regulation on Licenses.

ARTICLE 26 – SUBMISSION OF DOCUMENTS

- 26.1. All documents, data or other information which, pursuant to terms and conditions of the License, Licensee is required to submit to the Agency in a written form, may be submitted by fax or by electronic mail. In such cases original documents shall be submitted to the Agency within a period of time determined by the Agency.

ARTICLE 27 – CUSTOMERS SERVICE SYSTEM

- 27.1. Licensee shall establish and implement a customer service system which will include procedure for delivery of bills, answering to enquiries, including those related to service quality, as well as efficient processing of orders and requests. Licensee shall submit a documentation containing description of the system to the Agency asking for its approval within 60 days from the day of issuing the License. Licensee shall be obliged to submit all modifications to this system as well, for the Agency's approval. Licensee shall be obliged to submit to the Agency annual reports on operation of such a system.
- 27.2. System from the previous paragraph of this Article shall ensure that the Licensee:
- a. Operates in a manner that ensures quickness and accuracy in performing transactions;
 - b. Defines a complaint procedure;
 - c. Provides all services with maximum use of modern electronic equipment;
 - d. Prepares and publicly announces holding of periodical meetings with representatives of customers, with the objective to exchange information and opinions, resolve rights and obligations and discuss improvement of service levels;
 - e. Undertakes measures that would facilitate providing of services, and
 - f. Provides adequate premises for receipt of complaints, providing of information, answering questions, presentation of requests, receiving orders and/or payment of bills.

ARTICLE 28 – REGISTRATION OF COMPLAINTS

- 28.1. Licensee shall:
- a. Establish a system for receiving notifications on outages and complaints related to quality and reliability of electricity supply;
 - b. Establish and regularly maintain a separate register with notifications and complaints from the above paragraph, that shall contain name of the one that submitted the complaint, type of complaint or notification, time and place of outage and time required for action upon the complaint or for the repair of the fault, and

- c. Submit to the Agency a detailed monthly report on all faults and outages in providing services, their frequency and duration.

CHAPTER II – SPECIAL CONDITIONS OF A LICENSE

ARTICLE 29 – LICENSED ACTIVITY

- 29.1. Licensee shall carry out the activity of **electricity generation**, by using generating plants specified in Chapter III, Article 36.

ARTICLE 30 - OBLIGATION TO ENTER INTO AGREEMENTS

- 30.1. Licensee shall enter into agreements with the licensee for market operator in accordance with Market rules.
- 30.2. Licensee shall enter into Transmission Network Connection Contract and Transmission Use-of System Agreement with licensee for electricity transmission.
- 30.3. Licensee shall enter into Ancillary Services Agreement with Transmission Network Operator.
- 30.4. Licensee shall, if required, enter into Distribution Network Connection Contract and Distribution Use-of-System Agreement with licensee for electricity distribution and distribution network operator.
- 30.5. Licensee shall, while required, enter into bilateral agreements on energy sale and purchase with licensees for electricity supply.
- 30.6. Licensee shall observe obligations specified in the Power Purchase and Sale Agreement and, upon a request, shall give to the Agency a detailed information regarding prices and energy offered.
- 30.7. Licensee must observe Grid Code and Distribution Code.

ARTICLE 31 - PROVISION OF INFORMATION TO TRANSMISSION NETWORK OPERATOR AND MARKET OPERATOR

- 31.1. Licensee shall provide all information to Transmission Network Operator and Market Operator concerning generating plants, which they might need for the purpose of fulfilling obligations specified by their licenses. These information may be an addition to information specified by Market rules and Ancillary rules.

ARTICLE 32 - PROVISION OF ADDITIONAL SERVICES

- 32.1. Licensee shall, in accordance with his own possibilities, offer terms and conditions for provision of additional services (energy, ancillary services or other) that are not included in the Power Purchase and Sale Agreement or in the Participation Agreement, to Licensee for Transmission Network Operator and to the Licensee for Market Operator, upon their request.
- 32.2. Licensee shall, upon Agency's request, submit information on type, scope, and terms and conditions of offered services. Licensee shall also justify to the Agency all expenses based on which he established the price for offered services.

ARTICLE 33 - METERING

- 33.1. Licensee shall install, maintain, regularly seal and calibrate metering devices, at all points of electricity delivery into transmission, i.e. distribution network.
- 33.2. Licensee shall observe Market rules, Ancillary rules, codes, standards and other regulations issued or approved by the Agency at every metering point.
- 33.3. Electricity delivered into transmission or distribution network at the time of malfunction of meters, shall be settled based on provisions of bilateral agreements and provisions of Market rules.
- 33.4. Licensee shall deliver to other licensees for generation, i.e. supply all data required for entering into bilateral agreements, from each installed metering point. Licensee may request from Agency to define the rights of licensees for generation, i.e. supply, to receive such data.

ARTICLE 34 - TARIFFS AND CHARGES

- 34.1. Licensee shall charge delivered electricity according to a tariffs determined on the basis of the Regulation on Electricity Tariffs issued by the Agency.
- 34.2. Licensee shall submit a Request for approval of tariffs to the Agency four months prior to the day requested for their application. Agency shall decide on this Request within 90 days as of day of receipt of this request.

CHAPTER III – SPECIAL PROVISIONS FOR A LICENSEE

ARTICLE 35 – LICENSEE’S GENERATION PLANTS

- 35.1. Licensee shall carry out electricity generation activity in plants individually listed and specified in documentation that he submitted to the Agency with a request for a License, in special forms – Appendix B, as follows:
 - BH 1. HPP "Perucica"
 - BH 2. HPP "Piva"
 - BHD 1. HPP "Glava Zete"
 - BHD 2. HPP "Slap Zete"
 - BHD 3. HPP "Rijeka Musovica"
 - BHD 4. HPP "Rijeka Crnojevica"
 - BHD 5. HPP "Podgor"
 - BHD 6. HPP "Savnik"
 - BHD 7. HPP "Lijeva Rijeka"
 - BT 1. TPP "Pljevlja".
- 35.2. The Agency and Licensee shall each keep one copy of documents based on which this License is issued.

ARTICLE 36 - NUMBER OF COPIES

- 36.1. This License shall be issued to the applicant in one copy.