

## **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 distribution and distribution network operator** 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. Unfavorable 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**

- 13.1. 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 fulfil an obligation within the given deadline, and he fails to fulfil 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 an 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 distribution and distribution network operator**, by using equipment and devices specified in Chapter III, Article 56.

### **ARTICLE 30 – DUTIES OF A LICENSEE**

- 30.1. Licensee shall be obliged to carry out its activities in a safe and reliable manner and in accordance with conditions and terms of this Licensee and with contracts signed. Licensee must observe contractual obligations related to electricity distribution as well as to the distribution network operator activities. Exceptionally, Licensee shall request a consent from the Agency to deviate from obligation to fulfil certain terms and conditions from this License in the following cases:
- a. When demand for use of the distribution network is bigger than available capacities of the Licensee; and
  - b. If the electricity distribution would lead to violation of conditions of the License, any law or general acts, as well as of regulations or technical codes and standards issued or approved by the Agency.

### **ARTICLE 31 – OBLIGATION TO AWARD CONSENT FOR CONNECTION**

- 31.1. Licensee shall offer reasonable, fair and non-discriminatory conditions for connection, to any customer who wants to connect to the distribution system, and who is located at Licensee's area served. Consent for connection shall be issued within 30 days from the day when customer or licensed supplier, on behalf of the customer, submits a request.
- 31.2. Licensee shall allow connection to the distribution system to any licensee for generation who meets technical requirements. Consent for connection shall be issued within 60 days from the day of submission of request.
- 31.3. Licensee shall provide connection, disconnection and reconnection services in accordance with Distribution code, Market rules, Ancillary rules, standards and other regulations issued or approved by the Agency.

### **ARTICLE 32 – COOPERATION WITH SUPPLIERS AND OTHER DISTRIBUTORS**

- 32.1. Upon supplier's request, Licensee shall be obliged to read meters of his customers, in accordance with their mutual agreement.
- 32.2. In the event that other licensed distributor or distribution network operator requests services from the Licensee in order to facilitate fulfilment of his obligations, the Licensee shall offer his service under reasonable, fair and non-discriminatory conditions within the reasonable time. These services may involve: energy delivery, compensation of reactive power, joint use of fixed assets, metering, testings and other.

### **ARTICLE 33 – NETWORK IMPROVEMENT**

- 33.1. In the event that customer offers to improve Licensee's network at his own expense, in order to avoid a danger to life and safety of persons and property, or in order to improve environmental protection, the Licensee shall issue such consent in accordance with reasonable, fair and non-discriminatory conditions, within the period of 30 days.

### **ARTICLE 34 – MAINTENANCE OF PUBLIC LIGHTING SERVICE**

- 34.1. If owner of the public lighting requests from the Licensee to make an offer for providing maintenance of public lighting service, the Licensee shall make such an offer in accordance with reasonable, fair and non-discriminatory conditions, within the period of 30 days.

### **ARTICLE 35 – NON-DISCRIMINATORY PROVISION OF SERVICES**

- 35.1. Licensee shall ensure non-discriminatory access to all services from this License, to all distribution network users.

### **ARTICLE 36 – OBLIGATION TO ENTER INTO AGREEMENTS**

- 36.1. Once the market is established, the Licensee shall enter into all agreements with Market Operator Licensee, which are necessary for proper functioning of the market.
- 36.2. Upon request from any licensee for generation or supply, Licensee shall enter into Distribution Network Connection Contract, respectively into Distribution Use-of-System Agreement with him.

### **ARTICLE 37 – DEVELOPMENT PLANNING**

- 37.1. Licensee shall prepare plans and programs for development of his network in accordance with provisions of the Distribution code. The program shall contain very concrete activities plan for extension and enhancement of the network, in order to bring it to adequate technical and economical level, taking into consideration ecological standards, safety and reliability of electricity distribution. Two months before beginning of the following year, the Licensee shall submit annual network development plan with concrete action plan for Agency's approval.
- 37.2. Licensee shall provide all necessary data and information to Transmission Licensees, Transmission Network Operators and Market Operators, for the purpose of fulfilment of their obligation to plan development of transmission system and for other activities.

### **ARTICLE 38 – MAINTENANCE AND REHABILITATION**

- 38.1. Licensee shall undertake preventive periodical maintenance of his equipment in accordance with elaborated plans approved by the Agency. In addition, Licensee shall undertake urgent or extensive maintenance works on network's elements for the purpose of ensuring a reliable operation of the distribution system.

- 38.2. Licensee shall replace and rehabilitate network elements that are close to the end of their operating life, or which are damaged for any reason, in accordance with maintenance plans approved by the Agency.

### ***ARTICLE 39 - OUTAGES***

- 39.1. In the event of interruptions in supply because of outages or some other reasons, Licensee shall, as soon as practically possible, remove the cause of interruption and reconnect customers.
- 39.2. The Agency may set forth appropriate standards in order to reduce frequency and duration of outages.

### ***ARTICLE 40 – DISTURBANCES IN SUPPLY***

- 40.1. In case of implementation of necessary preventive maintenance measures, replacement of devices, reconnection or construction, that may lead to interruption or decrease in quality of distribution services, the Licensee shall, at least two days in advance, adequately inform the customers who will be affected by this.
- 40.2. If activities described in the above paragraph may have consequences to customers at 10kv voltage level and higher levels, the Licensee shall inform an authorised person about this in a writing, by fax or electronic mail, with date and time of interruption and with date and time of reconnection specified.

### ***ARTICLE 41 – RECORD OF OUTAGES***

- 41.1. Licensee shall maintain a regular record and statistical data on outages in a manner and according to instructions given by the Agency.

### ***ARTICLE 42 – COMPLIANCE WITH GRID CONNECTION STANDARDS***

- 41.2. During construction of connection to transmission network, Licensee shall observe the Market rules, Ancillary rules, codes, standards and other regulations issued or approved by the Agency.

### ***ARTICLE 43 – QUALITY OF SERVICE***

- 43.1. Licensee shall observe all applicable standards and criteria that define the quality of electricity supply as well as reliability level for the distribution system.
- 43.2. Licensee shall submit, for approval by the Agency, the Distribution services Quality Standards and Plan for reaching these standards, within 90 days as of the day of issuing this License. The Plan shall be prepared and further improved in accordance with acquired experience and best international practice.
- 43.3. The Plan will contain precise network improvement objectives that will be realised through development of quality standards, defining methods for monitoring of compliance with determined objectives, as well as through defining competencies for decision making.

- 43.4. In the annual report that Licensee submits to the Agency, he shall justify in detail all activities undertaken with the objective to realise the Plan described in the paragraph above.

#### **ARTICLE 44 – POWER FACTOR**

- 44.1. Licensee shall install devices and equipment in order to maintain power factor in distribution network at the proper level.
- 44.2. In order to fulfil the terms from paragraph 1 of this Article, Distribution Network Connection Contracts and Distribution Network use-of-system Agreements shall, where appropriate, specify an obligation for customers to install devices for correction of power factor at connection points.
- 44.3. Depending on whether a customer takes over energy with power factor that is better or worse than a defined level, the appropriate tariff determined in accordance with the Regulation on Electricity Tariffs issued by the Agency, shall be applied.

#### **ARTICLE 45 – LOSSES**

- 45.1. Licensee shall undertake necessary measures for reduction of technical and commercial losses in his network up to the level specified by Article 47 paragraph 2 of the Regulation on Electricity Tariffs.
- 45.2. Licensee shall submit to the Agency for approval the Plan for reduction of losses, up to the specified level, for a period that is not longer than five years.
- 45.3. Licensee shall be obliged to submit to the Agency annual report on realized losses in the previous year as well as Plan for reduction of losses for current year, and upon the Agency's request, he shall also submit periodical reports on losses and plans for their reduction.
- 45.4. Agency may set forth a required level of reduction of losses for a defined period.

#### **ARTICLE 46 – METERING**

- 46.1. Licensee shall install, maintain, seal, calibrate and protect metering devices from tampering or destruction, at all metering points within the distribution system.
- 46.2. Metering devices shall comply with criteria specified by the Market rules, Ancillary rules, codes and existing standards.
- 46.3. Licensee shall deliver to other licensees for generation, i.e. supply all data required for settlement of their bilateral agreements, respectively for resolution of disputes in relation to the 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.
- 46.4. While building a connection to the transmission network, the Licensee shall observe Market rules, Ancillary rules, codes, standards and other regulation issued or approved by the Agency. Licensee shall install electricity meters and devices for power metering

at his own expense. In case of damage or malfunction of devices due to any reason that is out of control of a customer, the Licensee shall repair the damage, remove the problem causing malfunctioning or replace metering devices as soon as possible and at his own expense.

- 46.5. Electricity delivered at the time of malfunction of meters, shall be settled based on provisions of bilateral contracts and provisions of Market rules.

#### ***ARTICLE 47 – ENERGY DEMAND AND POWER ENGAGED FORECAST***

- 47.1. Based on energy demand and engaged power growth indicators, the Licensee shall prepare and submit energy demand and power engaged growth studies according to consumption structure, to Transmission Network Operator, Market Operator and to the Agency. These studies shall be as follows: short-term (one year), mid-term (three years) and long-term (ten years). Licensee shall also provide all other data he is responsible for, as required by Transmission Network Operator and Market Operator for facilitation of realization of their obligations.

#### ***ARTICLE 48 – SYSTEM EXTENSION***

- 48.1. Licensee shall harmonize his plan of works for extension of distribution system with Transmission Network Operator and Market Operator, in order to reduce impact of such activities on distribution costs as well as on overall system costs.

#### ***ARTICLE 49 – DISTRIBUTION CODE***

- 49.1. On the basis of a Final Instruction for preparation of Grid code and Distribution code, the Licensee shall prepare and submit to the Agency for approval the Distribution code, not later than June 31<sup>st</sup> 2006.
- 49.2. Until promulgation of Distribution Code, the Licensee shall observe provisions of Temporary Distribution Code approved by the Agency.
- 49.3. The Code shall be modified in accordance with manner and procedure for its issuing.

#### ***ARTICLE 50 – COMPLIANCE WITH TRANSMISSION NETWORK OPERATOR'S INSTRUCTIONS***

- 50.1. Licensee shall observe instructions from Transmission Network Operator, in order to ensure that electricity distribution and load management would be handled on optimal economical, technical and operational basis.

#### ***ARTICLE 51 – PROVISION OF INFORMATION TO TRANSMISSION NETWORK OPERATOR AND MARKET OPERATOR***

- 51.1. Licensee shall provide all information to Transmission Network Operator and Market Operator, which they might need for the purpose of fulfilling obligations specified by Market rules, Ancillary rules, codes and other regulations.

**ARTICLE 52 – BAN ON PURCHASE OR SALE OF ELECTRICITY**

- 52.1. Licensee shall not buy electricity, except for covering of losses in the distribution system or to meet his energy demand.
- 52.2. License holder can not engage in purchase/sale of energy in any case whatsoever.

**ARTICLE 53 – TARIFFS AND CHARGES**

- 53.1. Licensee shall charge use-of-distribution network service according to tariffs determined on a basis of the Regulation on Electricity Tariffs issued by the Agency.
- 53.2. Licensee shall submit a Request for approval of tariffs for use of distribution network 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.
- 53.3. In order to ensure non-discriminatory access for third parties, the Agency may request the Licensee to submit the Request for use of distribution network tariff until the precisely specified date.
- 53.4. Licensee shall charge connection to distribution network fee according to Methodology for setting fair and realistic charges for connection to the distribution network that shall be approved by the Agency upon his request.
- 53.5. Licensee shall charge a standard connections fee in accordance with a Price list for standard connections to the distribution network, prepared according to approved Methodology from paragraph 4 of this Article. The Agency shall approve the Price list, upon the Licensee's proposal.
- 53.6. Licensee shall charge a non-standard connections fee on the basis of economical study prepared individually for each connection.
- 53.7. Licensee shall submit proposals of the Methodology and the Price list referred to in paragraphs 4 and 5 of this Article to the Agency for approval, within 60 days as of the day of issuing the License.

**ARTICLE 54 – OBLIGATION TO PARTICIPATE IN PREPARATIONS FOR MARKET OPENING**

- 54.1. Licensee shall, within the deadline specified by the Agency, be ready to support development and functioning of wholesale market and introduction of full competition in supply.
- 54.2. Licensee shall, within the deadline specified by the Agency, prepare, check and put into operation all necessary equipment, data transmission procedures, implement system agreements and undertake all other measures necessary for fulfilment of obligations from the above paragraph.
- 54.3. Upon the Agency's request, the Licensee shall participate in all working bodies established with the aim to develop necessary infrastructure that would support introduction of wholesale market and full competition in supply.

**ARTICLE 55 – PREPARATION FOR EMERGENCY EVENTS**

- 54.1 Licensee shall undertake all necessary activities which may be reasonably required from him, and that relate to resolving emergency events and reestablishing regular functioning of the distribution system, as well as suitable exercises and checks for emergency procedures.
- 55.2 Licensee shall prepare and implement all necessary procedures in order to ensure highest possible reliability and unremitting operation of the distribution system in cases of disturbance, taking into consideration provisions of Market rules, Ancillary rules, codes and other standards and regulations issued or approved by the Agency.

### **CHAPTER III – SPECIAL PROVISIONS FOR A LICENSEE**

#### **ARTICLE 56 –EQUIPMENT AND AREA SERVED**

- 56.1. Licensee shall conduct activities of electricity distribution and distribution network operator in the territory of the Republic of Montenegro by using distribution lines and transformer stations listed and specified in documents that he has submitted to the Agency together with a request for a license, in special forms – Appendix E, as follows:
- a. E 1. – General data on distribution system (length of lines, number of transformer stations, transformation levels, number of customers, energy delivered to customers) as a total figure and by distribution units of the Licensee: ED Bar, ED Berane, ED Bijelo Polje, ED Budva, ED Zabljak, ED Kolašin, ED Kotor, ED Mojkovac, ED Niksic, ED Pljevlja, ED Podgorica, ED Rozaje, ED Tivat, ED Ulcinj, ED Herceg Novi and ED Cetinje.
  - b. E 2. Specified list of equipment and installations – distribution transformers (name of transformer station, location, connection point to the transmission network and type of transformer) for TS 35/10 kV, 35/6 kV, 35/0.4 kV and 10/0.4 kV, by distribution units of the Licensee.
- 56.2. The Agency and Licensee shall each keep one copy of documents based on which this License is issued.

#### **ARTICLE 57 – NUMBER OF COPIES**

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