

April 11, 2001

The RoA Energy Law signed by the RoA President

ENERGY LAW OF THE REPUBLIC OF ARMENIA

SECTION I

GENERAL PROVISIONS

Article 1 Subject of Regulation of the Law

This Law shall regulate the relationships between the government bodies, legal entities of the energy sector operating under this Law, and consumers of electricity, thermal energy and natural gas in the Republic of Armenia.

Article 2 Objective of the Law

The objective of this Law is the establishment of the government policies in the energy sector and the mechanisms for their implementation.

Article 3 Energy Sector of the Republic of Armenia

1. The energy sector of the Republic of Armenia (hereafter referred to as "Energy Sector") is a system of economic entities engaged (for provision of public services) in electric and thermal power generation (electric and thermal power combined generation included), electric and thermal power and natural gas transmission (transportation) and distribution, provision of electric energy and natural gas sector system operator service, construction of new generation capacities or their rehabilitation in electric and thermal energy sectors, as well as construction of a transmission (transportation) or distribution network in electric and thermal energy, and natural gas sectors; as well as import and export of electrical energy and natural gas; regardless of the form of ownership, the necessary complex of assets essential for the implementation of the above activities and structures providing public services to the energy market.

2. The components of the energy sector are:

- a) the electrical energy system;
- b) the thermal energy supply systems;
- c) the gas supply system.

Article 4 Basic Definitions

The main definitions used in this law have the following meanings:

Safety Zones - the territories surrounding the energy facilities (buildings, installations, communication, transmission (transportation) and distribution lines, etc.), which are supposed to ensure their normal operation, safety of the operating personnel and other citizens, as well as reciprocal safety of other entities.

Distribution Network - the unified system of electricity or natural gas or thermal energy distribution lines, substations, gas regulation stations, and other facilities controlled and operated by the Distribution Licensee, through which electricity or natural gas or thermal energy are delivered from the generator and/or transporter to the consumers.

Sub-consumer - consumer, using the electric network of another consumer, and which, in the manner provided, has a bilateral or tripartite energy or natural gas supply contract.

Services Provided to the Power Market

- – centralized services provided to the power market in order to regulate and maintain the transparency of that market.

Energy - - electric energy (capacity) and thermal energy.

Company

Confidential

Information

- – information on the financial status and trade secrets, or other information of the Licensee, the disclosure of which may harm the Licensee as well as private information on Licensees consumers served by the Licensee.

License – - a document issued by the Commission to a legal entity, confirming the rights and obligations of that entity to perform activities and provide services in the Energy Sector, according to the terms specified in this Law.

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Licensee – - a legal entity holding a License issued pursuant to this Law.

Licensed Operation – - activity that is subject to licensing pursuant to this Law.

Commission - the Energy Regulatory Commission of the Republic of Armenia

Transmission

(Transportation)

Network

- – the unified system of electric or thermal energy or natural gas transmission (transportation) lines (substations, gas regulation stations, and other facilities) controlled and operated by the Licensee, through which electric or thermal energy or natural gas are delivered from generators or importers to distributors and/or customers and/or wheeled to a third country.

Rules of Supply and

Use

- - regulatory documents approved by the Commission, establishing the terms and conditions for the supply of electricity, thermal energy and natural gas by the suppliers, and the use thereof by the consumers.

Market Rules - the fundamental document, approved by the Commission, setting procedures for the relationships between the Licensees operating in electric energy sector and the general rules and standards related to the reliability and safety of the system, as well as the necessary instruments for the maintenance of their normal operation with the market.

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Decisions - a legal act, adopted by the Commission within its jurisdiction and in compliance with this Law.

Tariff - the sale price per unit of electric energy and/or capacity, thermal energy and natural gas, for supply of services in the energy sector which are considered licensed operations (except for operations in construction, re-construction and export), established in compliance with this Law.

Consumer - a physical person or legal entity, or the organization that does not have the status of legal entity, which has a demand in electric energy (capacity), natural gas, and/or thermal energy, and has

executed an energy supply contract with the Licensee.

Behavioral Rules - rules of professional conduct, approved by the Commission, between the Commissioners and the Staff of the Commission, between the Staff and the energy sector Licensees, as well as between the Staff and the consumers.

Economic Dispatch

[regulation]

- a method of notifying, scheduling and regulating the generating capacity, the electrical energy import and transmission capability, which results in the lowest supply cost for electrical energy, while maintaining the reliability and safety standards.

SECTION 2

STATE POLICIES IN THE ENERGY SECTOR

Article 5 Basic Principles of the State Policies in the Energy Sector

1. The basic principles of the state policies for the energy sector are as follows:

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- a) Enhancement of competition and efficient operation in the energy sector and creation of essential conditions for the development of a competitive environment;
- b) Regulation of the energy sector operation;
- c) Separation of the economic activity, government management, and regulation functions;
- d) Protection of the rights of the consumers and the economic entities in the energy sector, and the balancing of their interests;
- e) Efficient use of domestic energy resources and alternative sources of energy and implementation of economic and legal mechanisms for that purpose;
- f) Encouragement of investments in the energy sector;
- g) Ensuring transparency of the licensed operations in the energy sector;
- h) Ensuring safety in the energy sector;
- i) Enhancement of the energy independence of the Republic, including the differentiation of domestic and imported energy resources and ensuring the maximum utilization of generating capacities ;
- j) Ensuring the protection of the environment;
- k) Encouragement of scientific-technical progress and employment of new energy-efficient and energy-saving technologies, as well as encouragement of personnel training and re-training;
- l) Encouragement of the formation and development of energy markets;
- m) Separation of the generation, transmission (transportation), distribution, export, import, System Operator functions and functions of service provision to the power market.

2. In the implementation of the government policies, the state government and regulatory bodies of the energy sector of the Republic of Armenia, within the limits of their authority, must be guided by the principles specified in this Article.

Article 6 Nuclear Energy

1. Nuclear Energy is a state monopoly.

2. The organizational, legal and technical systems for nuclear and radioactive safety shall be established and their activity shall be controlled by the state bodies authorized by the RoA Government. Nuclear energy, its effect on the environment, and related safety issues are regulated pursuant to international treaties and the legislation of the Republic of Armenia. The electricity generation

operations implemented by the nuclear power plants is regulated by this Law.

Article 7 Land Use Right for Generating Capacities, Energy Networks and Installations

1. The provision of state-owned land for construction of new generating facilities, transmission (transportation) and distribution networks and installations, as well as for construction and reconstruction (extension) of the existing ones, shall be based on a priority right and in accordance with the defined procedures under the law, taking into account the proof provided for the least expenses related to that construction (rehabilitation) for provision of services to the public. The paths and safety zones provided for construction of overhead and cable lines, as well as natural gas and thermal energy networks shall comply with the requirements of technical regulations.

2. Before the enactment of this Law, for the state-owned lands used for the safety zones and structures of the existing energy facilities (generating plants, cables and overhead lines, substations, gas regulation joints, gas and thermal energy pipelines, etc.) of the Licensees, a compulsory and free of charge servitude is hereby established.

3. In case of the liquidation of the energy installation, the owner is obliged to restore or improve the land (area), according to procedures set out by law.

SECTION 3

REGULATION IN THE ENERGY SECTOR

Article 8 Regulation

Regulation of the energy sector is a part of the state policies, aimed at balancing of the customers' and Licensees' interests by defining and supervising the market rules, for electricity, thermal energy and natural gas, the regulated tariffs, and the license conditions, as well as the creation of equitable conditions for the Licensees and to benefit the formation and development of a competitive market.

Article 9 Basic Principles of Regulation

1. The basic principles of regulation are as follows:

- a) Regulation by an autonomous body, within the framework of authorities specified by Law;
- b) Transparency of the regulation for the public;
- c) Elimination of discrimination of customers or any Licensee;
- d) Balance of interests between the consumers and entities engaged in operations in the energy sector;
- e) Collegiality of decision making of regulating body;
- f) Restriction of the scope of regulation consistent with the development of competitive market.

Article 10 Primary Methods of Regulation

The primary methods of regulation are as follows:

- a) Licensing, establishment of license conditions and their supervision;
- b) For reporting purposes to the regulatory body, implementation of accounts and sub-accounts for the energy sector Licensees in conformity with National Chart of Accounts, and laws and legal acts related to accounting;
- c) Setting regulated tariffs;
- d) Development of model contracts or mandatory terms for energy and/or natural gas supply (service provision) between Licensees, as well as energy and/or natural gas supply (sale/purchase) to consumers, and the registration of contracts executed between Licensees;

- e) Defining the market rules and regulations;
- f) Development of legal acts and oversight of their implementation by the regulatory body, within the framework of its authorities;
- g) Development of service quality requirements;
- h) Study of the investment programs presented by the Licensees with the purpose of their (full or partial) inclusion in the tariff or rejection .

Article 11 Regulatory Body

1. Regulation of the Republic of Armenia's energy sector is carried out by the Commission , which acts pursuant to the authorities vested in the Commission by this Law, and is autonomous within its jurisdiction.
2. The Commission may not be dissolved or its authorities may not be changed, without amending this Law. The Commission is the legal successor of the Energy Commission of the Republic of Armenia.
3. The Main Office of the Commission is located in the City of Yerevan. The Commission's seal bears the coat of arms of the Republic of Armenia and the following words: "Energy Regulatory Commission of the Republic of Armenia".

Article 12 The Structure of the Commission

1. The Commission shall consist of five Commissioners.
2. The Commissioners are appointed by the President of the Republic of Armenia, upon the RoA Prime-Minister's nomination, based on the principle of annual rotation (appointment of one Commissioner each year), for a five-year term of office, except for cases provided in Item 3 of this Article. The RoA President, upon the RoA Prime-Minister's nomination, shall appoint the Chairman and the Deputy Chairman from among the Commissioners.
3. In case of an early termination of a Commissioner's term, the RoA President, upon the RoA Prime Minister's nomination, shall appoint a new Commissioner to serve for the remainder of the unexpired term. In such event, if the remainder of the unexpired term is less than one year, the term of office of the new Commissioner shall be 5 years plus the remainder of the unexpired term.
4. Upon the expiration of their term, the Commissioners may be re-nominated for a new term of office.
5. The Commissioners must be citizens of the Republic of Armenia with high education, who have the Professional Competence to execute the powers prescribed by this Law.
6. No individual shall be eligible to be appointed as a Commissioner:
 - a) who by the decision of the court, entered into force, was found incompetent or partly incompetent; or
 - b. who has been disqualified from a certain position under procedure defined by the Law;
7. A Commissioner, upon the decision of the President of the Republic of Armenia, may be removed from office prior to the completion of his/her appointed term, based on the Prime-Minister's presentation, pursuant to points 6 (a) and (b) of this Article, as well as if the Commissioner loses his/her Armenian citizenship, or accepts another position, or fails to fulfill his/her official responsibilities if a decision by the Commission exists, or has failed to attend the Commission sessions more than five times during a one year period without providing an acceptable excuse, or if he/she has been convicted by a legally enforced Court decision.
8. A Commissioner may resign by submitting a letter to the President of the Republic of Armenia, and informing the Prime Minister of the Republic of Armenia. The

President of the Republic of Armenia shall accept the resignation of the Commissioner within one month.

Article 13 Restrictions of the Rights of the Commissioners and the Staff

1. The Commissioners cannot be members of any representative body, or take any other state position, or perform any other jobs for the energy sector Licensees.
2. During their term of office the Commissioners and the Staff shall not have the right to directly or indirectly own shares or securities in entities licensed in the energy sector, or make any other investments or have any other material interest, in the operation of the licensed entities or in the Licensee's transactions necessary for its operations.

Article 14 Chairman of the Commission

1. The Chairman of the Commission shall:
 - a) Organize and secure the work of the Commission and its staff.
 - b) Call and chair the sessions of the Commission, sign the decisions of the Commission and the meeting protocols [minutes].
 - c) Within the scope of his/her jurisdiction, the Chairman issues decrees.
 - d) Within his jurisdiction, represent the Commission in the Republic of Armenia, and other countries and international organizations, and sign documents on behalf of the Commission.
2. When the Chairman of the Commission is not available or is unable to accomplish his/her official duties, the Deputy Chairman of the Commission shall replace the Chairman. When the Deputy Chairman is not available or is unable to accomplish his/her official duties, the Commissioner with the most seniority shall replace the Deputy Chairman.

Article 15 Commission Staff

The Commission organizes its operation with the help of the staff, and the number, structure and the scope of their responsibilities shall be determined by the Commission, upon the recommendation of the Chairman of the Commission.

Article 16 The Regulation of Commission's Work

1. Within its jurisdiction, the Commission shall promulgate decisions by means of an open voting.
2. The Commission shall keep the records of adopted acts. The normative acts of the Commission shall be published in the "Reference Book of Ministerial Normative Acts of the Republic of Armenia".
3. The Commission shall ensure public access to all legal acts promulgated by the Commission.
4. The Commission shall promulgate normative legal acts, which regulate the meetings between the Commissioners or the members or the Staff of the Commission with any individual, who has submitted a case to be reviewed by the Commission regarding the issuance or review of an operational license or the establishment of its tariffs. None of the Commissioners, without providing a prior notice, as well as an opportunity to participate to all parties, shall consult with the interested party or his/her authorized individual, regarding the question subject to review.
5. The Commission shall organize its activities by holding sessions. The sessions of the Commission shall be public ["open door"], except for meetings where cases subject to court review, state and official [service] secrets and the Commission's internal procedural issues are to be discussed.
6. The Commission shall conduct its sessions as needed but not less frequently than once every month.
7. The Commission in compliance with its own procedure shall announce the place and

time of its sessions, the agenda, and shall give an opportunity to the interested parties and representatives of the public to participate in the sessions, to give information and to take floor.

8. The sessions of the Commission shall be legally valid if at least three of the Commissioners are present, including the Chairman or the Deputy Chairman or the Commissioner performing the official duties of the Chairman of the Commission pursuant to item 2 of Article 14 of this Law.

The Commission shall adopt a decision, if approved by at least three of the Commissioners.

9. The representatives of the Commission, provided by the jurisdiction and obligations of the Commission, shall have free access to the Licensees' operation territory.

10. The Commission shall have the authority to involve independent experts in its activities, as long as those independent experts do not have any financial interest or participation in the Licensees' operations.

11. The Commission shall ensure the publicity of its activities.

12. The Commission shall approve and publish "Behavioral Rules" that regulate the professional conduct of Commissioners and staff and their relationships with licensees and consumers.

13. In case of violation of the provisions of this Law the authorities of the Commission shall be held liable in procedures defined by Law.

Article 17 Authorities of the Commission

The Commission shall:

a) set the regulated tariffs for electrical and thermal energy and natural gas, transmission (transportation), distribution in the energy sector, System Operator, services provided in energy market, as well as maximum tariffs for electricity and natural gas import.

b) issue Licenses for operations in the energy sector.

c) oversee compliance with the License conditions and apply penalties provided by this Law.

d) approve, reject or set conditions for purchase of Licensees' shares (unless otherwise provided by Laws on privatization of state property), as well as for the sale or other form of transfer of any asset essential to the provision of the services provided by licensed entities, in compliance with Article 27 of this Law.

e) establish rules of supply and use of electrical and thermal energy and natural gas.

f) approve the energy market rules in cooperation with the RoA Government authorized body .

g) establish model forms or mandatory provisions for energy and natural gas supply and service contracts to be signed between energy sector Licensees and, pursuant to the procedures established by the Commission, register such contracts as well as contracts for export and import of electric power and natural gas.

h) establish model electricity and natural gas supply contracts, or mandatory provisions thereof, between Licensees and consumers and ensure their employment.

i) conduct discussions regarding disagreements between Licensees to review the inquiries and complaints from the consumers regarding supply of energy and natural gas, including disputable bills submitted to the

- consumers, and issue decisions and/or clarifications on discussed issues.
- i) in order to monitor the implementation of license conditions, and to check the accuracy of financial-economic reports and information provided by Licensees, carry out or organize inspections of the Licensee's installations and review the Licensees' financial-economic operations, by requiring the requisite substantiating documents.
 - k) in accordance with procedures established by the Commission, request from the Licensees and License applicants all information and data necessary for the Commission for issuing a License, setting tariffs, settling disputes, or any other issues being addressed by the Commission.
 - l) set quality requirements for services provided to the consumers by the companies.
 - m) prescribe accounts and sub-accounts in conformity with RoA laws, approved National Chart of Accounts and other legal acts of the Republic of Armenia for regulatory reporting.
 - n) review Licensees' development-investment projects in order to make a decision as to whether the investments (fully or partially) will be included or rejected in the future tariffs.
 - o) ensure enforcement of and provide comments on the Resolutions adopted by the Commission.

Article 18 Cooperation with State Bodies

1. The Commission may apply to the Government bodies to receive information, that is within its jurisdiction.
2. Within its jurisdiction the Commission shall participate in the development of economic and financial programs of the Government of the Republic of Armenia and provide recommendations.
3. The Chairman of the Commission participates in meetings of the Government of the Republic of Armenia with the right of an advisory vote.

Article 19 Annual Reports

The Commission shall:

- a) Each year, until October 1, make public at the National Assembly of the Republic of Armenia its operation program for the following year, which shall include a forecast of consumption of electrical and thermal energy and natural gas, generation, export and import of electrical energy, import volumes of natural gas, forecast of tariffs for electrical and thermal energy and natural gas, as well as other programs within the authorities vested upon the Commission by this Law;
- b) Each year, until May 1, publish a report regarding its activities for the preceding year.

Article 20 Confidentiality

1. All information received by the Commission from the Licensees shall be open to the public, as long as the given information is not considered 'not subject to disclosure' by the Licensee, or if the information is considered confidential by the company and marked "Company Confidential Information".
2. The Licensee has the right to prove that public disclosure of the information, including the "Company Confidential Information" provided would inflict harm on the competitive business interests of the company and that such harm outweighs the public interest in disclosure. The Commission is entitled to approve or reject the Licensee's request to withhold such information from disclosure.

3. In procedures defined by RoA Law, the Commissioners and the staff are liable for disclosure of confidential information and its use for personal benefit.

SECTION 4

SETTING REGULATED TARIFFS AND PAYMENTS FOR SERVICES

Article 21 Principles of Setting Regulated Tariffs

The basic principles of setting tariffs for electric and thermal energy and natural gas, as well as sizes of payments for rendered services are as follows:

- a) Providing for compensation of justified operation and maintenance costs, as well as the depreciation allocations of the fixed assets and non-material assets essential for the conduct of the Licensed Operation in compliance with the License provisions;
- b) Providing the opportunity for reasonable profit;
- c) Inclusion of justified loan service costs;
- d) Establishment of differentiated tariffs for customers dependent on the consumption volume, requested capacity, season, time of use, connection terms, type of service;
- e) Inclusion of justified and essential insurance costs;
- f) Inclusion of justified costs related to compliance with environmental norms;
- g) Inclusion of mothballing and preservation costs of the installations subject to mothballing in conformance with the RoA Government Energy Development Program;
- h) To ensure that the costs of the safe keeping of the utilized nuclear fuel are met and that the requisite allocations to the Nuclear Plant Decommissioning Fund are made;
- i) Inclusion of justified technical and commercial losses;
- j) Inclusion of other justified and necessary costs as provided by the Legislation.

Article 22 Setting and Implementation of Regulated Tariffs

1. The Commission shall set the procedures for setting and reviewing tariffs, and the forms and list of documents (application package) to be submitted by the Licensees in that regard.
2. The established tariffs shall become effective 30 days after the adoption of the Resolution. Tariffs shall be in effect for a minimum of 6 months, except in the event that a Licensee breaches the conditions of its License issued by the Commission. In those cases the Commission may adjust the Licensee's tariffs prior to the expiration of the effective period, and those tariffs will remain effective until such time as the Licensee corrects its breach.
3. The Commission can set a long-term tariff for the operation of the Licensee.
4. The established tariff may be expressed as a definite number value, or as a clear formula based on certain calculation of parameters.
5. Tariff review may take place upon the initiative of both the interested Licensee, as well as the Commission. The Commission shall review (reaffirm or adjust) the tariffs and make a decision within 90 days of the receipt of the Licensee's Application package for tariff review.
6. Tariffs can be reviewed and renewed upon the initiative of the Commission according to the procedures set forth by the Commission, based on the results of the economic activity, investment programs of the Licensee, as well as Licensee's compliance with the customer service quality requirements.

7. A Licensee can sell electrical and thermal energy and natural gas or provide licensed services at a lower tariff than established by the Commission, provided that it does not or will not jeopardize the Licensed Operation and/or is not aimed at the acquisition of a monopoly status in the market and if such tariff decrease is carried out at the account of the Licensee's profit. In the event of such tariff decrease, when establishing a new tariff the Commission shall disregard possible losses of the Licensee due to tariff decrease.

SECTION 5

LICENSING OF THE ACTIVITIES OF ECONOMIC ENTITIES IN THE ENERGY SECTOR

Article 23 Licensing of Operations in the Energy Sector

1. No person may engage in generation of electricity and thermal energy (including combined electric/thermal generation), transmission (transportation) and distribution of electricity, thermal energy and natural gas, implementation of system operator services in electric energy and natural gas sectors, construction or reconstruction of new generating capacities in the electric and thermal energy sectors, as well as construction of transmission (transportation) and distribution networks in electric/thermal energy or natural gas sectors, electricity and natural gas import and export activities, as well as power market services provision activities without a License issued by the Commission. Only the Licensees holding adequate Operational Licenses in compliance with this Law may engage in electric and thermal power and natural gas sale/purchase (purchase with an intent to sell) activities, in accordance with the License conditions and Market Rules.
2. The essential functions of activities established by this Article and subject to licensing shall be set in the appropriate Operation License. The generation of electrical and thermal energy exclusively for the own needs of the plant shall not be licensed.
3. The effective period of the Operation License and the geographical area of operations shall be set forth by the corresponding Commission decision and stated in the License.

Article 24 Conditions for Granting an Operational License

1. The list of documents and forms to be submitted for an Operational License shall be determined by the Commission.
2. An Operational License is issued if the requesting legal person owns or according to an agreement has at its disposal necessary assets.
3. The procedures and terms for reviewing applications and issuing a License shall be established by the Commission.
4. The Commission, within the specified period, which shall not exceed sixty (60) days from the date when all the required documents are submitted by the applicant to the Commission, will review and act on all License applications.
5. Within 10 days after the decision is made by the Commission, a copy of the decision granting or refusing to grant a License shall be sent to the applicant.

Article 25 Conditions for the Operational License

The conditions for an Operational Licenses shall be determined by the Commission.

Article 26 Guarantees for granting an Operational License

To issue Licenses for the import, export of electricity, the construction or rehabilitation of generating plants, the import of natural gas, the Commission shall require from the applicants certain guarantees that are not in conflict with the Legislation of the Republic of Armenia. The procedures for calculation of the size of such guarantees, as well as the procedure of their submission shall be determined by the Commission.

Article 27 Restriction of Ownership Rights of the Licensees

1. No Licensee may own 25% or more shares or participation in any other Licensee, and no Licensee may merge with any other Licensee, without the Commission's permission.
2. No shareholder that holds 25% and more participation in the charter fund of a licensed entity, may, without the Commission's permission, purchase any 25 % and more shares or securities, or have participation in the same or any other Operational Licensee or sell 25% or more shares.
3. No sale or any other form of transfer of ownership of essential assets used in the Licensed Operation (buildings, constructions, structures, generating capacities, operating installations and lines) shall be allowed without the permission of the Commission.

Article 28 Responsibilities of the Licensee

Each Licensee shall be obligated to:

- a) Comply with all conditions set forth in this Law, the legislation of the Republic of Armenia, other legal acts, the legal acts adopted by the Commission, and the conditions set forth in the License;
 - b) Forward for the Commission's approval a time schedule and a plan of activities ensuring the implementation of environmental and safety requirements;
 - c) Implement the operation, technical service and repair of the equipment under its management, ensuring the safety and health of the staff and the citizens;
 - d) Make sure the equipment used during the implementation of the Licensed operation complies with the RoA effective technical rules and conditions provided in a License;
 - e) Make the buildings, constructions, structures, installations and lines included in the licensed operation accessible for the representatives of the Commission and other entities defined by Law;
 - f) Pass on to the general population knowledge about the technical safety rules as well as about the License and contracts related rights and responsibilities of the parties stipulated by other norms;
 - g) In conformance with the License provisions, conduct technical audits (including technical losses, specific fuel consumption, consumption of energy or natural gas consumption for the plant's own needs, etc.) and/or financial audits, with the involvement of independent experts;
 - h) In established procedures, coordinate with the Commission the development investment programs, in order to obtain an opinion regarding the inclusion (partially or completely) of investments or rejection thereof in the future tariffs;
 - i) Submit for the Commission's approval the calculation methodologies of inevitable technological losses, specific fuel consumption, energy or natural gas used for own needs and other tariff constituent elements;
 - j) Perform other responsibilities provided by this Law.
2. Other economic activities performed by the Licensee must not jeopardize adequate compliance with the license provisions.

Article 29 Reports of the Licensees

The Licensees shall submit to the Commission their reports, other information and requisite supporting documents related to the licensed operation pursuant to the

procedures established by the Commission.

Article 30 Procedures for Modifications to the Operation License

1. The acceptance and review of applications to modify the License shall be conducted in accordance with procedures established by the Commission.
2. The License provisions may be modified based on the initiative of the Commission, only with consent of the Licensee, unless the intended amendments are required for due implementation of the RoA laws.
3. Expenses incurred by the Licensee, resulting from the modification of license provisions initiated by the Commission, shall be compensated by the tariff.

Article 31 Technical Oversight of the Licensee's Installations

The technical oversight of the Licensee's installations during construction, commissioning and operation shall be carried out in accordance with the procedures and in casesset forth in the law of the Republic of Armenia.

Article 32 Import Licenses for Electricity and Natural Gas

1. Electrical energy (capacity) Import Licensee is granted the authority to import and sell electrical energy (capacity) according to the Market Rules, contracts and the license terms.
2. Natural gas Import Licensee is granted the authority to import and sell natural gas to the natural gas Transportation Licensees and/or natural gas Distribution Licensees and/or directly to the consumers pursuant to the procedure established by the Commission.

Article 33 Export Licenses for Electricity

1. Electric energy (capacity) Export Licensee is granted the authority to purchase electric energy (capacity) from the electrical energy Generation Licensees and (or) to export the electric energy (capacity) that it generated pursuant to the market rules and the license terms. Electric energy (capacity) Export License is issued only when domestic market is fully supplied and the export of electricity will not impair the interests of domestic consumers.
2. The tariffs for exported electricity (capacity) shall not be regulated.

Article 34 Licenses for Construction or Reconstruction of Generation Capacities

1. Entities holding a license for construction or reconstruction of generation capacities shall have the right to construct electric and (or) thermal energy plants (including electric and thermal combined energy generation) in compliance with the License provisions.
2. Licenses defined by this Article shall be issued being guided by RoA energy sector prospective development programs, need for efficient use of domestic energy resources and protection of the interests of the domestic market consumers.

Article 35 Generation Licenses

1. The Electricity (Capacity) Generation Licensees are granted the right to generate electricity (capacity) and to sell it in accordance with the market rules.
2. The thermal energy Generation Licensees are granted the authority to generate thermal energy and to sell it in accordance with the procedures established by the Commission.
3. The relationships between the Electricity (capacity) Generation Licensees, the Electricity System Operator and other market members shall be regulated by market rules and contracts.

Article 36 Transmission (Transportation) Licenses

1. The electrical energy Transmission Licensee is granted the right to provide electricity

(capacity) transmission service throughout the Republic of Armenia and the right to transmit electricity (capacity) through the territory of the Republic of Armenia to third countries. The Electricity (capacity) Transmission Licensee shall comply with the market rules and contracts.

2. The relationships between the Electricity (capacity) Transmission Licensees, the System Operator and the market members shall be regulated by market rules and contracts.

3. The natural gas Transportation Licensee is granted, pursuant to the procedures established by the Commission, the authority to transport natural gas through the entire territory of the Republic of Armenia, to purchase natural gas from the producer and (or) importer and to sell natural gas to export or distribution Licensees or directly to consumers, and through the territory of the Republic of Armenia to transport natural gas into third countries.

4. The Thermal Energy Transportation Licensees are granted the authority pursuant to the procedures established by the Commission, to receive and (or) purchase thermal energy from the producer and to deliver thermal energy to distribution Licensees or to sell directly to consumers, and to perform dispatch operation services. The authority to be engaged in thermal energy transportation operations, subject to thermal energy transportation technology, may be granted to the thermal energy production or distribution licensee, with the same license.

Article 37 System Operator Licenses

1. The Energy System Operator Licensee is granted the exclusive right to:

- Provide technical and economical operational dispatch of electric energy sector;
- Carry out system planning and coordination of electric energy generation, import, export, transit operations in compliance with the concluded contracts;
- Calculate and specify the settings for system importance control and protection equipment, present them to the Licensees in that system and monitor the operation of the equipment, in accordance with the conditions of a License and Market Rules.
- Ensure the parallel operation of the RoA electric energy sector with the regional electric energy systems.

2. Electric energy System Operator Licensee, based on the requirements of the Technical Rules and Procedures and cooperating with Operational Licensees prepares safety and reliability standards of the system, which shall be approved by the Commission and the authorized body of the Government of Armenia.

3. Electric energy System Operator Licensee must ensure compliance with the safety and reliability standards contained in the Market Rules, while implementing the process of planning, coordination and dispatching.

4. Natural gas System Operator Licensee is granted an exclusive right to carry out the operative technical dispatch of the import, transport (including storage) and transit of natural gas.

5. Natural gas System Operator must ensure, pursuant to the license terms, compliance with the safety and reliability standards of import, transport (including storage) and transit of natural gas while implementing the process of planning, coordination and dispatching.

Article 38 Distribution Licenses

1. The electricity Distribution Licensee is granted an exclusive right, within a defined

geographic area in the Republic of Armenia to distribute electrical energy to end-use consumers, as well as to purchase and sell electric energy (capacity) pursuant to the market rules and the license terms. Possible exceptions are only the cases described in item 2 of Article 47 herein.

2. The relationships between the Distribution Licenses, System Operator Licensee and other market members shall be regulated by market rules and contracts.

3. A natural gas Distribution Licensee is granted the exclusive right to accept natural gas from the natural gas Transport and (or) Import Licensees and, within a defined geographic area of the Republic of Armenia, to distribute natural gas to the consumers, as well as the authority to buy and sell natural gas, pursuant to the procedure established by the Commission. Possible exceptions are only the cases described in item 2 of Article 47 herein.

4. Thermal energy Distribution Licensee is granted the authority to accept and (or) purchase thermal energy from thermal energy Generation or Transportation Licensees and to distribute and (or) sell thermal energy to the consumers pursuant to the procedure established by the Commission. Possible exceptions are only the cases described in item 2 of Article 47 herein

Article 39 Operation Licenses for Rendering Services to the Energy Market

1. The Commission shall establish the list of structures providing services to the energy market, the types of operations subject to licensing, and shall issue corresponding licenses.

2. The license holders for supplying services to the energy market shall be granted exclusive rights for such operation during the period provided by the license.

SECTION 6

ELECTRIC AND THERMAL POWER, AND NATURAL GAS PROVISION CONTRACTS

Article 40 Contracts and their registration

Concluded contracts between Licensees, as well as import and export contracts become effective from the moment of their registration with the Commission. The ultimate term for the registration or refusal of registration of the contracts shall not exceed 10 days.

Article 41 Consumer Contracts and Liability for Breach of Obligations

1. Electric and thermal energy or natural gas supply or service provision to the consumer shall be conducted in compliance with the supply contracts, according to which the Supplier is obligated to supply electricity, natural gas in compliance with procedures established by supply contract, laws and other legal acts, and the consumer (customer) is obligated to accept the energy or natural gas supplied and pay for it.

2. Energy and natural gas Supply contracts define the terms of supply (consumption), in conformance with the laws, legal acts and supply and usage rules.

3. Damages caused by non-performance of the contractual obligations shall be compensated by the party in breach, according to the procedures set by the Law. Only the contractual parties shall be supervising the performance of the contract.

4. In accordance with procedures established by the Supply contract the Supplier shall have the right to refuse the energy (gas) supplies completely or partially if the consumer:

a) has used the energy or natural gas under his authority by tampering with the metering device, which resulted in decrease of the energy or natural gas consumption level registered by the metering device;

b) has consumed energy or natural gas without the contractually-required

metering device or by means of bypassing it.

5. The supplier shall also have the right to disconnect the supply of electricity, thermal energy or natural gas to a customer if the customer does not pay a bill within the period of time established by the Commission. Such disconnection from energy and/or natural gas supply shall follow all warning procedures set forth by the Commission.

6. The Supplier shall restore the supplies to the breaching consumer, after compensation of the damages or receipt of guarantees for such compensation under conditions acceptable for the Supplier.

7. If electric and thermal energy and (or) natural gas consumption was carried out without a contract (illegal consumption), the Supplier shall disconnect the consumer immediately and request compensation for the damages caused to him, in conformance with the procedures defined in the RoA Legislation.

SECTION 7

ENFORCEMENT

Article 42 Penalties

In instances of non-compliance or inadequate compliance or violation of the requirements of this Law, the legal acts of the Commission, or the License provisions by the Licensees, the Commission shall have the power to issue instructions to rectify the violation and exercise the following penalties:

- a) a warning;
- b) reduction of the tariffs;
- c) suspension of the License;
- d) revocation of the License.

The procedures of the enforcement of the above measures shall be established by the Commission. According to such procedures, the Licensee shall have the right to express his opinion, voice his suggestions or disagreement regarding the imposed penalties at the Commission's session.

Article 43 The Procedure for Appealing the Legal Acts Issued by the Commission

The appeal against legal acts issued by the Commission can be filed in Court. The magnitude of tariffs established by the Commission are not subject to appeal and cannot be changed by Court.

SECTION 8

COMMISSION FUNDING

Article 44 Commission's Cost Estimate

1. Each year the Commission prepares its cost estimate for the next year (proposed budget), which shall be presented without changes by the RoA Government as a separate line in the State Budget for approval by the RoA National Assembly.
2. The RoA National Assembly shall approve the Commission's annual budget, as a protected budgetary expense.

Article 45 The Salaries of the Commissioners and Commission's Staff

1. The size of the salaries for the Commissioners shall be established by the Commission upon the presentation of the Chairman and within the scope of the Commission's budget approved by the RoA National Assembly.
2. The size of the salaries for the Commission's Staff shall be established by the Commission upon the presentation of the Chairman.

Article 46 Commission's Financial Reporting and Auditing of the Financial Activity

Each year the Commission shall submit a financial report to the authorized body of the Government of Armenia, which may conduct an audit to ensure the accuracy of the financial report of the Commission. The Commission shall cooperate in such audits.

SECTION 9

GUARANTEES FOR INSURING ENERGY SUPPLIES TO CONSUMERS

Article 47 Energy Supply to Consumers

1. A Distribution Licensee must supply energy and natural gas to every consumer in its service territory who has met the requirements of the Supply and Usage Rules approved by the Commission.
2. For certain military facilities having vital defense significance for the safety of the Republic of Armenia, the Commission may develop separate options of energy and gas supply. The list of such facilities shall be approved by the Government of the Republic of Armenia.
3. The protection of the consumers' rights and interests in regards to supply relationships shall be carried out in compliance with this Law and procedures set forth in the RoA Legislation.
4. Issues related to power supply to consumers not regulated by this Law shall be regulated by other legal acts and Commission Resolutions related to energy supply.

Article 48 Power Supplies to Sub-consumers

The consumer shall, pursuant to the contract signed with the Supplier, according to the technical parameters and based on the service fees calculated in accordance with the methodology established by the Commission, transmit through its energy installations the Supplier's energy or natural gas, which is intended for other consumers (sub-consumers), or the Supplier's other networks. The relationship between the consumers, the subconsumers and the Supplier shall be regulated by the Supply and Usage Rules.

Article 49 Situations Requiring Unavoidable Supply Limitations

1. All licensees shall prepare operational programs for dealing with situations requiring unavoidable restriction of electric and thermal energy and natural gas supply, based on the procedures established by the Commission. These programs shall reflect conditions of priority for service to certain customers. The list of such customers shall be established by the Government of the Republic of Armenia before October 1 each year. If the Government of the Republic of Armenia does not establish the new list of such customers, the list from the previous year shall be used. These programs shall be reviewed and approved jointly by the body authorized by the Government of the Republic of Armenia and the Commission.
2. During situations requiring unavoidable supply limitations, licensees shall follow and implement the appropriate actions set forth in the approved programs and shall cooperate with the Commission, with a body authorized by the Government and with the Municipal Government providing information to all customers regarding the extent and duration of supply limitations.

Article 50 Emergencies

In emergency situations, as declared in cases and in procedures provided for in legislation of the Republic of Armenia, the Government of the Republic of Armenia shall take necessary measures to direct and (or) coordinate the energy sector operations.

Article 51 Connection of New or Reconstructed Consumers to the Electric, Thermal Energy or Natural Gas Network

1. The technical conditions for connection of the installations of new or reconstructed consumers to the distribution network or to the installations of other consumers shall be proposed by the Distribution Licensee, and the additional conditions shall be

proposed by the entity whose electric installations the new or reconstructed customer is connecting to. All connections of the consumers, including necessary new construction or upgrading of facilities, will be done in accordance with the Supply and Usage Rules.

2. Technical conditions of connection for new consumers shall be coordinated with those consumers.
3. The Licensee shall acquire and install the billing meter of the new consumer, unless otherwise stated in the Supply and Usage Rules or the Contract.
4. Issues related to issuance of technical conditions (connection agreements) that are not regulated by this Law shall be regulated by the Supply and Usage Rules.

Article 52 Guarantees for Protection of Consumers Interests

1. In the case of a License revocation or its renunciation by Licensee, and in order to provide continuous energy supply to the consumers, the Commission has the right to issue a corresponding Resolution to compel the entity that was deprived of or has renounced the License to continue temporary operation in compliance with the terms and conditions prescribed by the Commission until the issuance of a new Operation License. In the event of non-compliance with such Resolution, provisions of item 3 of this Article shall be applied.

2. The Commission shall undertake all necessary measures to speed up the process of issuing a new License. The entity deprived of its License is eligible to apply to the Commission for a new Operation License according to the general terms if that entity satisfies the conditions for obtaining an Operation License.

3. If the entity deprived of the License is unable to satisfy the conditions for obtaining a new Operation License or if it refuses to apply for a new License, then that entity shall sell the fixed assets which are used to implement the licensed activities or the Government of the Republic of Armenia shall offer to the shareholders of the Operation Licensee, which has been deprived of its license, to alienate their shares, pursuant to the procedures agreed upon with the Government of the Republic of Armenia. If the entity deprived of an License does not satisfy the conditions for obtaining a new License and the entity fails to sell the fixed assets which are used to implement the licensed activities, only as an extreme measure, according to the procedures set out under Article 28 of the Constitution of the Republic of Armenia, those assets shall be sold in favor of the public and state interests, with an advance fair compensation. To protect the consumers' interest, during the alienation of the assets, the Commission shall assign a temporary trustee for the management of the assets of the entity deprived of License.

Article 53 Right of Access to Electric Transmission, Natural Gas Transportation and (or) Distribution Networks

1. Generation and Import Licensees' access to transmission (transportation) and distribution network shall be conducted pursuant to the procedure established by the Market Rules.

2. Transmission (Transportation) and Distribution Licensees must transmit (transport) and distribute electric energy (natural gas) through their networks to other Licensees or the customer based on the contracts and at the tariff established by the Commission, provided such transmission (transportation) and (or) distribution shall be in conformance with system reliability, safety and technical rules and procedures.

Article 54 Metering of Electric and Thermal Energy, and Natural Gas

The metering of electrical and thermal energy and natural gas shall be carried out by means of metering devices that comply with the requirements of the established

technical regulations and conditions coordinated with the Commission and (or) by using calculation methods approved by the Commission.

Article 55 Disputes Among the Licensees

1. The disagreements arising between the Licensees shall be resolved by means of negotiations. Either party may apply to the Commission to resolve the issue at dispute within the Commission's authority.
2. This Article does not limit the right of the parties to resolve the disputes in a Court.

Article 56 Safety Zones of Energy Facilities

1. The facilities in the energy sector are protected by Safety zones.
2. The size of, and the utilization procedures for, the Safety zones of the facilities within the energy sector shall be established by the Government of the Republic of Armenia.
3. No actions may be undertaken in the territory of the Safety Zones of the energy facilities that may pose a threat for the normal work of the energy facility, life and health security of the citizens and the operational staff and the security of the property, pursuant to the technical regulations.
4. In the Safety Zones of the energy facilities it is prohibited to:
 - a) carry out any land related work without the permission of the owner or manager of the energy facility;
 - b) build buildings, constructions, structures, or carry out activities, that make it impossible or difficult the maintenance of the energy facilities, or threatens their reliability and safety.
5. The owners of equipment (engineering constructions, transmission lines) in the energy and other sectors, which have cross over points, must cooperate with each other to ensure the safety, reliability and normal operation of such equipment.

SECTION 10

INTERNATIONAL TREATIES

Article 57 International Treaties

In case when the provisions set forth in International Treaties of the Republic of Armenia are inconsistent with provisions prescribed in this Law, the provisions of International Treaties shall prevail.

SECTION 11

TRANSITIONAL PROVISIONS

Article 58 Inconsistent or Conflicting Acts

Other legal acts enacted before the adoption of this law and not having the power of law, shall be effective to the extent that they are not in conflict with this law.

Article 59 Transitional Provisions

1. The following restrictions are established in the energy sector from the moment of the adoption of this Law:
 - a) within three years the Commission shall have the right to establish mandatory annual quotas for generation, and purchase of electric energy (capacity) for domestic use, pursuant to which the export to the regional market from the generation plants with lower generation tariffs is limited (prohibited);
 - b) the Distribution Licensee is granted an exclusive right to sell electricity (capacity) for 5 years to customers within the Service Area defined in the License (possible exceptions are only the cases described in item 2 of Article 47 herein);
 - c) All electricity (capacity) generated at small hydro power plants, as well as from renewable sources of energy within the next 15 years shall be purchased

pursuant to the Market Rules.

2. From the moment of the enactment of this Law, the Government of the Republic of Armenia shall:

- a) issue respective Decrees within 6 months, which shall set procedures for providing guarantees for long-term supply of the estimated amount of water essential for power generation at hydro power plants;
- b) Within one year submit to the National Assembly a draft law consistent with Article 31 of this law;

3. In conformance with item 1 of Article 28 of this law, the activities aimed at the implementation of environmental and safety requirements set forth in the Legislation of the Republic of Armenia, shall be conducted by the Licensees in compliance with the phase-by-phase program and the timetable approved by the Commission. During the implementation of the approved program, the deviations from the requirements of the norms and standards set forth in the Technical Rules and Procedures included in such program shall not be considered breach of norms.

4. Within one year from the adoption of this Law, the Commission shall establish and introduce power market rules and legal acts ensuring their implementation.

5. Within one year of the enactment of this law, the Commission shall adjust the former decisions of the Energy Commission of the Republic of Armenia with the requirements of this Law, and, within three years, shall have the right to introduce amendments and supplements in the licenses issued in accordance with the former law, pursuant to the procedures established by the Commission.

6. In regards to the adoption of this Law, the Energy Commission of the Republic of Armenia shall be renamed into the “Energy Regulatory Commission of the Republic of Armenia”.

7. From the date of the enactment of this Law, the Energy Law passed by the National Assembly on June 9, 1997 shall be considered ineffective.