Appendix to the resolution #65 of the Regulatory Board of the ERA, 2003

BUSINESS RULE BETWEEN THE LICENSEES

One. General provisions

1.1. The purpose of this Rule is to regulate business relations established between energy sector licensees on electricity sale, purchase, import, transmission, distribution, supply and dispatching regulations, to determine the terms and conditions of agreements to be made between the parties, and to define level and quality of service, service fee payment conditions, rights, obligations of licensees in accordance with the Energy Law.

1.2. The Licensees operating in the Central Energy System shall follow this Rule.

Two. Definitions of the Rule

2.1. The following terms used in this Rule shall have the following meanings.

2.1.1 "Resettlement" is an activity to eliminate difference of the energy settlement and payments caused by a mistaken activity of Licensees or a Legal body.

2.1.2 "Bank guarantee" is an official document issued by one of the commercial banks certifying that the bank will be fully responsible for the electricity payment of the electricity purchasing Licensee,

2.1.3 "Deposit account" is an account of a Distribution/ Supply Licensee in a commercial bank for collecting the consumers' electricity payments,

2.1.4 "Other revenue account" is an account of a Licensee for collecting the revenues from other activities except consumers' electricity payments,

2.1.5 "Withdrawal account" is an account of a Licensee to finance own activities,

2.1.6 "Contract for the service of prompt transaction" is a contract of the Distribution/ Supply Licensee concluded with the commercial bank, which allows to carry out a direct and prompt transfer of cash of the consumers' energy payments from the deposit account *(into the zero balance deposit account*) using a memorial order instead of a payment order.

2.1.7 "Commercial bank that regulates the cash flow of the energy payment" is a commercial bank chosen through the selection that provides a service of carrying out a prompt transaction to disburse cash of the collected revenues of the energy payments into the Licensees' withdrawal accounts based on the pre-determined percentage of cash disbursement in accordance with the Service Agreement concluded with the Transmission Licensee,

2.1.8 "Zero balance deposit account" is the special account of the Transmission Licensee in the commercial bank that regulates cash flow of the energy

payment, for collecting the cash of the energy payment from customers to a Distribution/ Supply Licensee,

2.1.9 "Zero balance main deposit account" is the special account of the Transmission Licensee in the commercial bank, that regulates cash flow of the energy payment, in order to collect the energy payment revenues from all the Distribution/ Supply Licensees for purchased electricity,

2.1.10 "Participant in the cash flow regulation of the energy payment" is a Licensee that receives the energy sales revenue for its own operation *(into the withdrawal account*) based on the pre-determined percentage of cash disbursement through the deposit, zero balance deposit and zero balance main deposit accounts.

2.1.11 "Account for reducing the old debt" is the account of the Distribution and Supply Licensees with a purpose of reducing the old debts of energy entities accumulated before initiating the Single Buyer Model (SBM). (*This clause is added by the resolution # 7 of the Regulatory Board of the ERA, 2003.)*

Three. Business relations between Licensees

3.1. In accordance with the Model of the Business Relations *(currently the SBM)* approved by the State Central Administrative Authority, a Power Purchase Agreement (PPA) between the Generation and Transmission Licensees, and a Power Sale Agreement (PSA) between the Transmission and Distribution/ Supply Licensees, and a prompt regulation agreement between the Dispatching and Transmission Licensees shall be concluded in compliance with the Energy Law and other relevant laws and regulation.

3.2. Licensees concluding an agreement shall qualify the following requirements:

3.2.1 to meet the connection requirements of the CES,

3.2.2 to agree on the terms and conditions of the energy payment stipulated in Article 8 of the this Rule,

3.3. The electricity import and export Licensee shall make contracts on non-regulated electricity export and regulated electricity import with a foreign legal entity engaged in electricity import and export activities.

3.4. The Transmission Licensee based on energy amounts and capacities specified in the PPAs and PSAs shall conclude a Prompt Dispatching Regulation Agreement with the Dispatching Licensee in order to balance power generation and consumption and to regulate the appeared differences based on the least cost principle (merit order) considering the marginal cost of Generation Licensees' variable expenses and technical and technological requirements of the Licensees.

3.5. The amounts, prices and tariffs of energy to be purchased or sold, payment and settlement conditions, rights and obligations of the parties, a procedure on estimations of damages to the parties, ways of resolving disputes and a procedure on revoking and/or amending the agreement shall be incorporated in the PPAs and PSAs.

3.6. Monthly, quarterly and annual schedules of energy sale and purchase, daily load schedules, boundaries of ownership and schemes of networks, their technical parameters, operational regime, settings of the protective and automatic equipment, location of the measuring equipment, a formula to determine the electricity losses from boundaries of ownership till the measuring devices shall be attached to the PSAs and PPAs.

3.7. Ordered amounts and the capacity of energy of the purchasing party shall be reflected when concluding the PSAs and PPAs.

3.8. Annual energy purchase orders of Distribution/Supply Licensees shall be submitted to the Transmission and Dispatching Licensees by the August 1st and can be adjusted at the request of the Distribution/Supply Licensees by the November 1st.

3.9. The Dispatching Licensee based on an electricity purchase order of the Transmission Licensee and a heat purchase order of heat distribution and supply licensees shall estimate initial parameters of the operational regime of generators and deliver the estimates to generators. Considering the principle of the marginal cost of Generation Licensees' variable expenses and technical and technological requirements and a need to balance generation and consumption, the Dispatching Licensee shall process generation and import proposals submitted by the Electricity Import and Generation Licensees and determine amounts of electricity to be sold to the Transmission Licensee by each generator.

3.10. The Licensees shall reflect and comply with the prices and tariffs approved by the ERA in the PPAs and PSAs except for the circumstances stipulated in Article 13.2 of the Energy Law.

3.11. The ERA shall inform licensees about changes in their tariffs at least 15 days before the changes become effective. The licensees shall reflect the tariff changes in the PPAs and PSAs within 15 days after the notification by the ERA. If the parties do not amend the PPAs and PSAs, it shall not be a reason for non-compliance of the resolution on tariffs.

3.12. The Licensees shall evaluate implementation of the PPAs and PSAs on a monthly basis.

3.13. The Dispatching Licensee shall evaluate and document the accomplishment of the dispatching regulation and balancing of the energy generation and consumption, which will serve as a basis for evaluation of the PPAs and PSAs.

3.14. If the actual amount of electricity purchased deviates from the power purchase order by more than 2% and if such a deviation becomes a reason for financial losses to the Seller, the Buyer shall compensate the financial losses directly to the Seller. Such a condition shall be included in the PPAs and PSAs.

3.15. If the Distribution/Supply Licensee fails to implement the dispatching regulations and distributes less electricity, the penalty equal to a price of imported electricity shall be applied to every kWh of undistributed electricity. Such a condition shall be included in the PPAs and PSAs.

3.16. If the generator generates more than the requests by the Dispatching Licensee, the excessive amount of electricity generated shall not be regarded as sold electricity.

3.17. The heat sale agreement shall include conditions compensating licensees if heat generated does not meet quality standards and if amounts of additional water and norms of unreturned condensation will be different from the agreement.

3.18. It is prohibited to implement conditions stipulated in the agreements through disconnecting or limiting consumers, who have no violation of a energy consumption contract.

3.19. If a licensee intends to disconnect or limit consumption or reconnect consumers who violated consumption contracts and if such an action necessitates involvement of other licensees due to technology and technical conditions, the licensee shall inform the Dispatching Licensee at least 2 days before the implementation of the action in accordance with the relevant rules and procedures.

3.20. If it is inevitable to revoke an agreement between licensees, such a revocation shall be carried out only after finding alternative ways to supply energy to consumers connected to the licensees without any humiliation of consumers' interest.

Four. Rights and obligations of the Licensees

4.1. Licensees shall have rights and responsibilities stipulated in the Civil Code, Energy Law, Rule on Electricity and Heat Consumption, other relevant laws and regulation as well as in this Rule.

4.2. Licensees are obliged to meet terms and conditions of the Grid Code, Rule of the Centralized Heat Network and licenses and to carry out activities of electricity and heat generation, transmission, distribution and dispatching.

4.3. A Licensee is obliged to determine an amount of energy to be purchased with high accuracy for the contracted period of time.

4.4. A Licensee has a right to submit its proposal to the ERA for amending the service terms and conditions, price and tariffs.

4.5. A Licensee is obliged to estimate the amount of sold energy using the measuring devices calibrated and verified by the authorized organization.

4.6. A Licensee has a right to install controlling measuring devices in order to monitor the accuracy of the measuring devices.

4.7. A power-selling Licensee is obliged to provide energy purchasing parties with high accuracy and modern technology measuring devices; and buyers have no right to interfere the implementation of this obligation.

4.8. A Licensee, cash flow of the energy payment of which is unregulated, is obliged to obtain a banking guarantee certifying the full payment in accordance with payment conditions agreed upon.

4.9. Licensees, cash flow of the energy payment of which is regulated, are obliged to fulfill requirements stipulated in Article 9 of this Rule.

4.10. The Dispatching Licensee shall implement the activity of balancing the generation and consumption in accordance with the energy amount and quality terms agreed in the PPAs and PSAs, and is obliged to dispatch based on the least cost principle (merit order) considering the marginal cost of Generation Licensees' variable expenses and technical and technological requirements of licensees.

4.11. The Dispatching Licensee has a right to disconnect and limit an energy supply to licensees in the events of major accidents in the main electricity and heat networks, in emergency situations with potential damages to human life, state interest and consumers' activities as well as in force majeure circumstances.

4.12. Licensees have no right to refuse concluding the PPAs and PSAs and fulfill the agreed obligations without respectful reasons.

4.13. The Transmission Licensee has a right to distribute off-sets among generators as payments for purchased electricity. (*This clause is added by the resolution # 7 of the Regulatory Board of the ERA, 2003.)*

4.14. The Transmission Licensee shall respect interest of all the involved parties in distributing off-sets. The distribution of off-sets shall be transparent and honest. (*This clause is added by the resolution # 7 of the Regulatory Board of the ERA, 2003.)*

Five. Service level

5.1. A Licensee shall provide a reliable energy supply to purchasers, which qualifies the amount and quality requirements agreed in the PPAs and PSAs.

5.2. A power-selling Licensee shall organize all the prevention work from emergency and accidents.

5.3. The necessary labor force, materials, equipment, machinery and technical facilities shall be ready for providing the reliability of the electricity supply.

5.4. A power-selling Licensee shall provide with metering equipment verified by the National Center for Standards and Measurement.

5.5. Licensees shall operate in compliance with technical terms, conditions and prompt service requirements stipulated in licenses, the Grid Code, Connection Rule, Safety Rule and other rules and procedures.

5.6. The planned interruptions shall be notified to the concerned parties at least 4 hours before the interruption.

5.7. Disputes and complaints regarding the PPAs and PSAs shall be discussed by the parties and resolved within 7 working days.

5.8. The purchased electricity shall be billed and measuring devices shall be checked at least once in a month.

Six. Electricity Quality

6.1. In compliance with the Mongolian National Standard (MNS) 1500:1982 “Electricity Network, Normal Voltage”, the normal voltage levels at the general purpose overhead and cable electricity network of constant and alternating current with 50Hz frequency shall be follows.

The normal voltage at the electricity network, V		
Constant current	Alternating current	
	1 phase	3 phases
220	220	220/380
400	-	380/660
-	-	6000

6.2. In compliance with the MNS 1778-88 “Electricity Quality Norms for Consumers Connected to the General Purpose Electricity Network”, the electricity quality in the energy system and in the regular and emergency operational regimes of the setlled electricity networks of alternating and direct current with 50Hz frequency shall qualify the following norms:

6.2.1. A frequency average deviation within a 10 minutes period in the energy system shall be ± 0,1 Hz for the regular operational regime and ± 0,2 Hz the temporary operational regime. The energy system shall have a frequency of 50Hz with a deviation of 0,1 Hz.

6.2.2. The voltage at the terminal of the lighting installed in the production facilities requiring more eyesight concentration and in the street lights shall be within the deviations between -2,5% and +5% from the defined value.

6.2.3. The voltage at the terminal of the operating electric engine and apparatus shall be within the deviations between -5% and +10% from the defined value.

6.2.4. The voltage at the terminal of consumers’ apparatus shall be within the deviations of ± 5% from the defined value.

6.2.5. The voltage in the regime after an emergency situation can be reduced by 5%.

6.2.6. The inverted value of the voltage at the terminal of any electricity consumer with symmetrical 3 phases shall be within the deviations of 2% for a longer period of time.

6.2.7. The voltage non-sinusiodal coeffecient at the terminal of any consumers’ apparatus shall not exceed 5%.

6.2.8. The coefficient of the direct current voltage at the terminal of direct current electricity engine shall not exceed 8%.

Seven. Heat quality

7.1. Generation, Distribution, Supply Licensees shall follow the regime set by the Dispatching Licensee. /deviations in the network water pressure shall be ± 5%, in temperature ± 4^0C/

7.2. The hot water temperature at heat centers and heat junction points with installed hot water heat exchangers shall be adjusted to be 55-60^0C.

Eight. Energy payment and settlements

8.1. A power-selling Licensee shall install measuring devices at the boundaries of ownership of the purchaser' energy network and facilities. In case of uninstalled meters at the boundaries, the purchaser shall be responsible for electricity losses at lines and transformers incurred till the measuring point of the Purchaser.

8.2. The measuring devices shall be calibrated at the laboratory of the relevant authority and sealed with a certain guarantee period.

8.3. Amounts of sold and purchased energy shall be measured at least once in a month and documented.

8.4. If the measuring devices are disconnected from the circuit or repaired, two parties shall negotiate on estimation of the amount of energy sold based on energy balance.

8.5. Any differences in the amount of sold and purchased energy incurred due to the human factor and inaccuracy of the measuring devices shall be negotiated by the parties and resettled in the next month payment and settlement.

8.6. Payments shall be carried out based on the purchaser's meters until meters of the seller are installed.

8.7. A power-purchasing licensee shall make a full payment of purchased energy by 10^{th} of the following month.

8.8. A power-purchasing licensee shall have a bank guarantee certifying that the bank will be fully responsible for the electricity payment.

8.9. Licensees, cash flow of the energy payment of which is regulated as stipulated in Article 9 of this Rule shall not be subject to a clause 8.8.

8.10. Licensees shall be penalized for delays in payment based on the penalty rate of at least 0.15% per day. The maximum days for penalty payments should not exceed 30 days.

Nine. Regulation of cash flow of the energy payment

9.1. The electricity transmission, distribution and supply licensees shall have deposit, other revenue and withdrawal accounts.

9.2. Distribution/Supply Licensees shall collect consumers' energy payment only in the deposit accounts.

9.3. Energy payments from consumers received in cash shall be transferred into the deposit account within 1 working day.

9.4. A Distribution/Supply Licensee shall conclude a contract for the service of prompt transaction with a commercial bank for collecting the consumers' energy payment promptly into the deposit account and shall register the contract at the ERA.

9.5. The Transmission Licensee shall conclude the Service Agreement with the commercial bank that regulates the cash flow of the energy payment on prompt transactions of the energy payments by Distribution/Supply Licensees based on the pre-determined percentages of disbursement and shall register this contract at the ERA.

9.6. It is prohibited to use other accounts except the deposit account of a licensee in a commercial bank agreed in the contract registered at the ERA for collecting the revenue of the energy payments from consumers.

9.7. In accordance with the contract made with the commercial bank, energy payments from consumers collected in the Distribution/Supply Licensees deposit accounts shall be promptly transferred into the Transmission Licensee's zero balance deposit account in the commercial bank that regulates the cash flow of the energy payment.

9.8. Prompt disbursement transactions of cash from the zero balance deposit account of the Transmission Licensee into the zero balance main deposit account of the Transmission Licensee, and withdrawal accounts of Distribution/Supply and Dispatching Licensees shall be carried out based on the pre-determined cash disbursement percentages.

9.9. Prompt disbursement transactions of cash from the Transmission Licensee's zero balance main deposit account in the commercial bank that regulates the cash flow of the energy payment into the withdrawal accounts of Generation Licensees and the Transmission Licensee shall be carried out based on the pre-determined percentages of cash disbursement.

9.10. The ERA shall estimate percentages of cash disbursement from the zero balance deposit account and the zero balance main deposit account into withdrawal accounts of licensees in accordance with the Methodology of Estimating Percentages of Cash Flow of the Energy Payments and discuss them at the Meeting of Licensees with authorized representatives of the licensees. 70% of votes of the authorized representatives are enough for approval. If votes for approval will not reach 70%, the Regulatory Board of ERA shall resolve.

9.11. The ERA shall organize the Meeting of Licensees and the head of the Price & Tariff Department shall chair the meeting. An officer responsible for the Single Buyer Market shall write minutes of meeting.

9.12. The decision of the Meeting of Licensees shall be in the written form signed by the chairman and the officer, who writes minutes of meeting.

9.13. The Transmission Licensee shall amend the terms and conditions of the Service Agreement with the commercial bank that regulates the cash flow of the energy

payment just after changes in percentages of cash disbursement from the zero balance deposit account and the zero balance main deposit account into withdrawal accounts of licensees.

9.14. A percentage of off-set transactions on operations between the Transmission Licensee and a Distribution/Supply Licensee shall not exceed a percentage of cash disbursement from the zero balance deposit account of the Transmission Licensee into the withdrawal account of the Distribution/Supply Licensee.

9.15. It is prohibited to settle energy payments through barters.

9.16. If the Distribution/Supply Licensee's payment exceeds the current bill, the amount exceeded shall be used for reducing debts between generators and the Distribution/Supply Licensee.

9.17. The Transmission Licensee shall set a monthly amount of revenues to be disbursed from the zero balance deposit account into the zero balance main deposit account based on PSAs with Distribution/Supply Licensees, PPAs and the document certifying the beginning balance of energy payments of a current month, and has a right to transfer the exceeded amount into the account for reducing the old debt. (*This clause is added by the resolution # 7 of the Regulatory Board of the ERA, 2003.)*

Ten. Estimation of damages to licensees incurred by the business relations, compensation

10.1. If energy procured does not meet requirements of quantity and quality agreed in the PPAs and PSAs, the situation shall be informed promptly to the related licensee.

10.2. The party failed in meeting terms and conditions of the PPAs and PSAs shall compensate damages to the other party.

10.3. The damages to licensees caused by business relations on electricity sale, purchase, import, transmission and distribution shall be determined based on the measuring devices evaluations by the Dispatching Licensee, and damage to consumers and shall be certified by the joint statement agreed by the licensees.

10.4. The joint statement on damages shall be agreed and approved by the related parties within 14 days; the failed party shall compensate damages within one month.

10.5. Licensees shall not bear any damages incurred resulted by natural disasters and force majeure circumstances as stipulated in the Energy Law.

Eleven. Operational procedure in the condition of emergency and force majeure

11.1. In case of emergency situations with interrupted generation and supply functions that may cause a serious damage to the country and society, the licensees shall operate in compliance with the Operational Procedure for the Energy Sector Entities in the Conditions of Natural Disaster, Emergency and Force Majeure approved by the authorized organization.

11.2. The licensees shall operate in the emergency situations undertaking all the measures to eliminate impacts of accident in electricity networks as quick as possible in compliance with the Operational Procedure for the Energy Sector Entities in the Conditions of Natural Disaster, Emer gency and Force Majeure and shall inform promptly the time to be taken for recovery.

Twelve. Dispute resolution

13.1. Licensees in a way of compromising shall settle disputes between licensees regarding energy sale, purchase, import, transmission and distribution. If licensees fail to solve disputes, the settlement of the disputes shall be transferred to the ERA.

13.2. If any of the dispute parties disagrees with the decision of the ERA, the party shall appeal to the court.

Fourteen. Monitoring the implementation of the Business Rule, penalties

14.1. Licensees, the ERA and state inspectors on energy shall monitor the implementation of the Business Rule.

14.2. Any person violated the Business Rule shall be penalized in accordance with the Energy Law and other relevant laws and regulation.

14.3. The licensee violated the Business Rule shall be penalized by the authorized organization and officials in accordance with the Energy Law and other relevant laws and regulation.