



**ANNUAL
REPORT
2008**

PUBLIC UTILITIES COMMISSION OF LATVIA

Contents

INTRODUCTION	4
REGULATION IN LATVIA.....	6
The Regulatory System.....	6
Regulated Sectors in the Context of the National Economy	7
The Effect of Regulated Prices on Inflation	9
THE COMMISSION'S OPERATIONS IN 2008	11
Structure and Employees.....	11
Major Commission Decisions	12
Litigation and Out-of-court Settlements	14
International Cooperation	15
Regulation in the Energy Sector	18
Licensing and license supervision	20
Regulating tariffs	22
Electricity.....	22
Natural gas	24
Liquefied gas	25
Protecting user rights	26
Regulation in the Electronic Communications and Postal Sectors	27
Registering companies.....	27
Supervising companies	28
Market analysis for determining significant market power	28
Market situation	29
Quality of services and complaints	30
Universal service	32
Scarce resources	34
Regulating tariffs	35
Postal sector.....	37
Regulation in the Rail Transport Sector.....	40
Licensing of public service providers.....	40
Supervision of public service providers	40
Updating normative documents	41
Drafting methodologies	41

Setting the fee for the usage of the public use railroad infrastructure.....	41
Informing the public and public service providers.....	41
Consumer complaints about railway transport services.....	41
Regulation in Municipal Sectors in the Administrative Territory of Riga.....	42
Heat supply sector (without additional generation of electricity).....	42
Licensing of public service providers.....	42
Regulation of tariffs.....	42
Water supply and sewage sector	42
Licensing of public service providers.....	43
Supervision of public service providers	43
Evaluation of water supply and sewage tariff proposals.....	43
Consideration of user complaints about water supply and sewage services	43
Waste management sector.....	44
Public Communications	45
Client compass.....	45
FINANCING AND SPENDING	46
Independent auditor's report.....	48
THE COMMISSION'S OPERATIONAL VISION FOR 2009	49
Priorities in the energy sector	49
Priorities in the electronic communications and postal sectors	49
Priorities in the rail transport sector	50
Priorities in the sectors of municipal services	50
APPENDIX	51
Decisions and Documents	51
External normative acts issued by the Commission	51
Internal normative acts issued by the Commission	53

INTRODUCTION



Dear reader!

Reflecting on the events of 2008, I must stress drastic changes in trends of development which were observed in different sectors of the national economy, affecting also the regulated sectors. After rapid economic growth, which still continued in the first half of 2008, considerable decline of economic activity was clearly visible at the end of the year.

In the middle of 2008, prices of energy resources in the world reached an unexpectedly high level, causing a tense situation in the sectors of gas, electricity and heat power supply. Taking into account the actual conditions of the supply of energy resources, prices of energy resources for users in Latvia increased at a slower rate and to a lesser extent. End-tariffs of several services have decreased slightly since November.

Because of changes in legal acts in the middle of the year, the electricity market became more active, large users switched to contract prices and some users chose to change the supplier. Latvia is the first Baltic State to relinquish regulation of end-tariffs for a user group and actually open electricity market for competition.

Introduction of new technologies and services continued in the electronic communications sector, competition strengthened and users had more options. The prices of electronic communications services decreased as a result.

There were significant changes in the postal sector – over the course of the previous year the provider of general postal services restructured its operations and accounting, solved quality problems, separated the costs of each service and reduced losses significantly. After the adjustment of the accounting system, tariffs of general postal services were

raised at the end of the year to approximate wages of its workers to the average wages of the sector.

Over the course of the year, the Public Utilities Commission (hereinafter – Commission) carefully followed the rapid changes of the situation to make sure that regulated tariffs do not exceed costs of service provision, safe and uninterrupted services are available and necessary investments are made for secure access to services in the future.

The scope of the Commission's responsibilities expanded from the beginning of 2008 – taking into account the government's plans on the formation of a unified public utilities regulator in Latvia, the Commission has already made the first step in this direction by starting regulation of public utilities in municipally regulated sectors in the capital Riga.

The Commission regards the improvement of legal acts to set a flexible procedure for tariff application in 2008 as significant – when costs of supplied energy resources change, automatic reduction of natural gas, cogeneration and heat energy end-tariffs will be possible.

Valentīna Andrējeva,
Chairwoman
Public Utilities Commission

REGULATION IN LATVIA

The Regulatory System

There are various socio-economic factors, which can affect the ability of the members of the public to receive services that are of key importance in ensuring their quality of life. The public services regulatory system influences the ability of companies to provide these services, ensuring a safe and uninterrupted availability of public services.

At present, there is a two-level regulatory system in Latvia. In accordance with the law “On regulators of public utilities”, public services in state regulated sectors are regulated by the Public Utilities Commission, while in municipally regulated sectors - by the local government regulators.

Before the reporting year – on November 20, 2007, the Public Utilities Commission and the municipality of Riga city concluded a delegation agreement on the regulation of public services in the administrative territory of Riga city. The delegation agreement authorises the Public Utilities Commission to regulate the provision of public services as a commercial activity in the administrative territory of Riga city in the municipally regulated sectors (heat supply without electricity generation, water supply, sewage, and waste management) as of January 1, 2008.

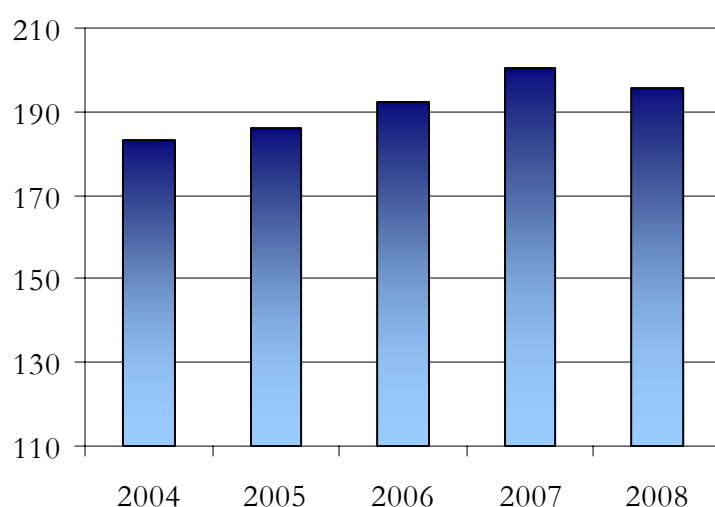
The functions of the Public Utilities Commission include regulating the relevant sectors and companies therein, defining methodologies for calculating tariffs, approving tariffs, issuing licenses, registering authorisations, promoting competition in the regulated sectors, offering out-of-court settlement of disputes and supervising the quality of public services.

The Public Utilities Commission is an institution independent in making its own decisions, overseen by the Minister of Economics of the Republic of Latvia.

The work of the Public Utilities Commission is based on the law “On regulators of public utilities”, as well as on the laws and other normative acts, which regulate each of the regulated sectors.

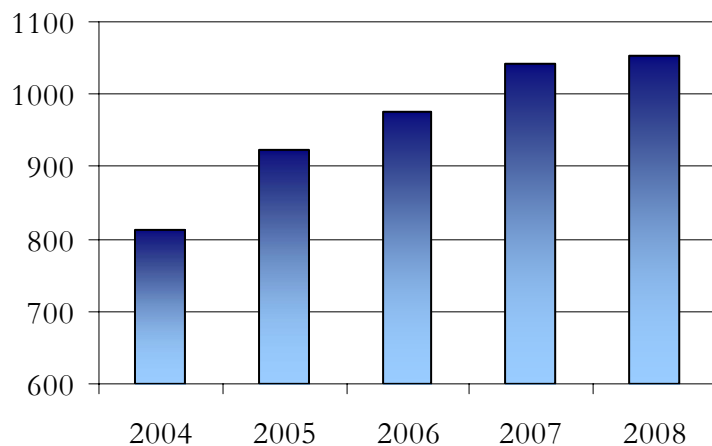
Regulated Sectors in the Context of the National Economy

Companies regulated by the Public Utilities Commission represent sectors of electricity, gas and water supply, as well as transport and communications. In 2008, these represented 13.6% of the total value added (10.8% for transport and communications and 2.8% for electricity, gas and water supply). The transport and communications sector grew by 1.1% in 2008 over 2007, while the electricity, gas and water supply sector decreased by 2.4%. The overall GDP of Latvia dropped by 4.6% in 2008.



Value added of electricity, gas and water supply sector (million LVL, const. prices)

A total of 1124 thousand people were employed in the Latvian national economy in 2008. The regulated sectors covered 11.3% of the total number of the employed population in Latvia (9.4% in the transport and communications sector, and 1.9% in the energy supply sector).



Value added of transport and communications sector (million LVL, const. prices)

Average monthly wages in the regulated sectors were above the national average in 2008. The average net monthly wage in the transport and communications sector was 377 LVL, the average salary in the energy supply sector was 501 LVL, while the average in the entire economy was 350 LVL. Compared to 2007, the national average net monthly salary has increased by 22.4%, in the energy supply sector - by 20.1% and in the transport and communications sector - by 26.9%.

The Effect of Regulated Prices on Inflation

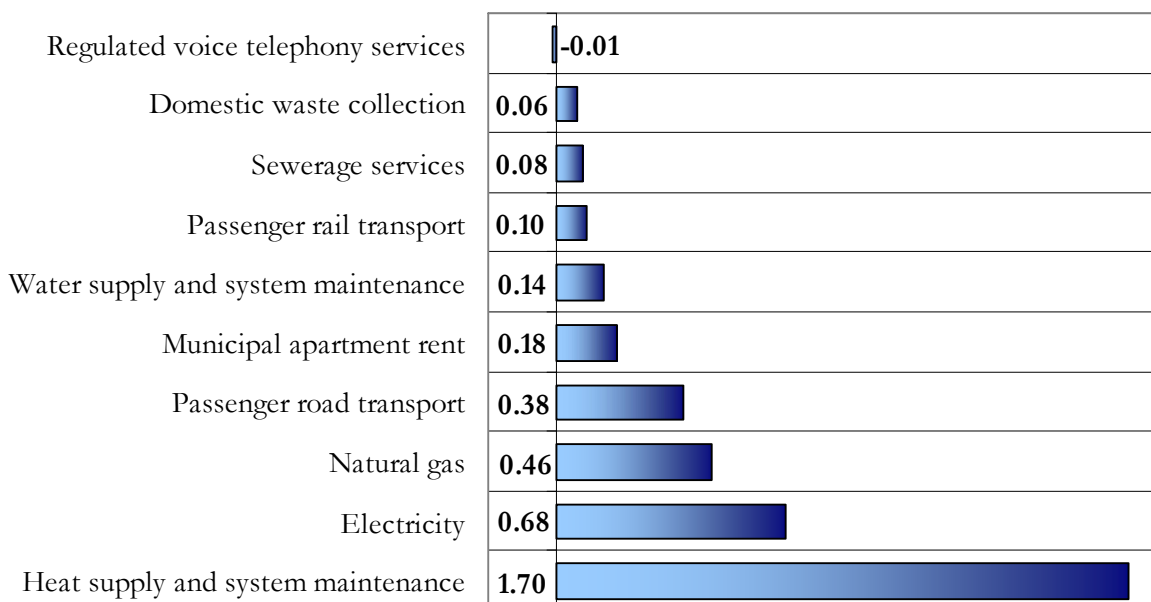
According to the data provided by the Central Statistical Bureau, in 2008, 11.46% of all goods and services listed in the Consumer Price Index were services with administratively regulated prices. These include services that are regulated by the Commission, services that are regulated by local government regulators, as well as other services that have regulated prices.

Public services	Share in expenditures of residents	Price increase (2008 XII vs. 2007 XII)	Inflation component (percentage points)
1) public services supervised at the state level (electricity supply, natural gas, fixed line telephone services, postal services, railway services)	3.6%	32.5%	1.17
2) public services supervised at the municipal level (water supply, sewage, waste collection, heat supply, passenger road transport)	6.1%	39.1%	2.38
3) normatively regulated public services (apartment rent in municipal buildings, car parking, patient's fee, refundable medications, passport issuing, notary services, kindergartens, social protection services, maintenance costs of personal transport)	1.8%	18.7%	0.34
Administratively supervised and regulated prices, total	11.46%	34.6%	3.97
Consumer Price Index (inflation), total	100%	10.5%	10.5

In 2008 (compared to the previous year), consumer prices rose by a total of 10.5%, while administratively regulated prices increased by 34.6%. In accordance with the proportion of administratively regulated prices on the CPI, administratively regulated prices represented 3.97 percentage points or approximately 38% of the overall inflation.

Among the services regulated by the Commission, inflation in 2008 was mostly affected by a rise in the prices of electricity and natural gas, which boosted

inflation by 0.68 and 0.46 percentage points respectively. There was a reduction in the prices of regulated voice telephony services, which reduced inflation by 0.01 percentage points. The direct impact of the services regulated by the Commission was an increase in the Consumer Price Index by 1.17 percentage points.



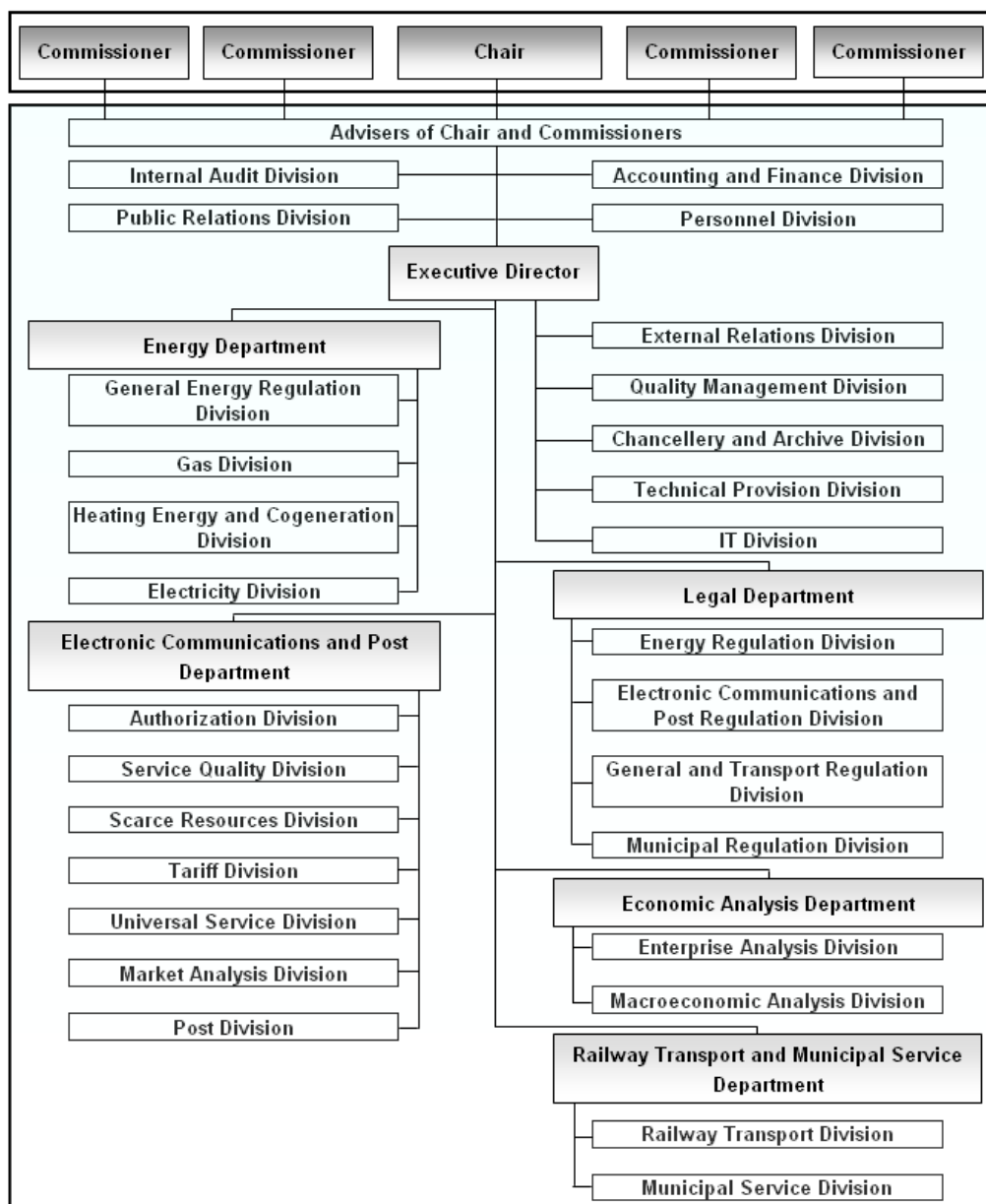
The effect of some administratively regulated prices on inflation (percentage points)

Of the municipally regulated prices, heat energy tariffs grew considerably in 2008, increasing inflation by 1.70 percentage points. There was also a significant increase of tariffs of passenger road transport which increased inflation by 0.38 percentage points. The municipal apartment rent also increased (by 0.18 percentage points), as did water supply tariffs (by 0.14 percentage points).

THE COMMISSION'S OPERATIONS IN 2008

Structure and Employees

At the end of the reporting period, the Commission had 83 employees and five Board members. Of the employees, 76 have a higher education, nine have a doctorate, 34 hold a master's degree, one has two master's degrees, and one has a master's degree and two bachelor's degrees. One employee has two bachelor's degrees. One employee is pursuing a doctorate, two are working on their master's degree and six are still at university. Two employees of the Commission have a professional higher education and four have an unfinished higher education. Two employees of the Commission have a secondary or special secondary education. 98% of the Commission's employees have a graduate or a post-graduate degree.



Structure of Public Utilities Commission

Major Commission Decisions

The Commission's Board met 49 times between January 1 and December 31, 2008. The Board members have approved 616 decisions, issued 17 licenses to public service providers, issued 12 general authorisations in the postal sector and have registered 53 electronic communications companies.

The Commission actively participated in preparing several draft laws in 2008:

- Amendments to the law "On Regulators of Public Utilities";
- Amendments to the "Electronic Communications Law";
- Amendments to the "Energy Law";
- Amendments to the "Electricity Market Law";
- "Postal Law";
- "Public Transport Services Law";
- Amendments to the "Waste Management Law";
- Amendments to the "Latvian Administrative Violations Code".

In 2008, the Commission also participated in drafting of the concept for unified universal service model in public utilities sectors.

The Commission prepared and approved "Regulations on the information to be submitted to the Public Utilities Commission".

In the electronic communications sector, the Commission prepared and approved four auction statutes and granted usage rights for four radio channels of 24.773 GHz - 25.445 GHz / 25.7816 GHz - 26,453 GHz radio frequency spectrum band, four radio channels of 450,0 MHz - 457,5 MHz / 460,0 MHz - 467,5 MHz band, two radio channels of 410,0 MHz - 420,0 MHz / 420,0 MHz - 430,0 MHz band, and 903,3MHz-904,1 MHz / 948,3 MHz - 949,1 MHz band.

In the electronic communications sector, the Commission drafted and approved:

- Regulations on the amount of information required for market analysis and its submittal procedure;
- Regulations on violations of general authorisation provisions;

- Regulations on procedure of consultations with market participants;
- Regulations on registration of electronic communications companies and register of electronic communications networks and services;
- Regulations on quality requirements for electronic communications services and procedure for submitting quality reports;
- Regulations on numbering usage rights;
- Amendments to Methodology for quality measurements of electronic communications services.

In the energy sector, the Commission drafted and approved:

- Grid Code;
- Methodology for the calculation of natural gas transmission service tariffs;
- Methodology for the calculation of natural gas storage service tariffs;
- Methodology for the calculation of natural gas sales tariffs;
- Methodology for the calculation of natural gas distribution service tariffs;
- Methodology for the calculation of liquefied petroleum gas distribution service tariff;
- Regulations on connection to the natural gas system;
- System connection regulations for participants of electricity system;
- System connection regulations for electricity generators;
- Amendments to Methodology for calculating tariffs of heat power generated in CHP plant and tariffs of electricity generated in CHP plant with capacity above 4 MW.

Due to the rise in the prices of imported energy resources, the Commission received and considered a new natural gas tariff proposal. Several co-generation tariffs were also reviewed, and heat energy tariffs (depending on natural gas sales end-tariffs) were set.

In the rail transport sector, the Commission drafted and approved amendments to Methodology for the calculation of the fee for the use of public railway infrastructure for transportation. In November 2008, the Commission approved the fee for the use of public railway infrastructure for the year 2009.

Litigation and Out-of-court Settlements of Disputes

During the course of 2008, the Public Utilities Commission continued to deal with five processes of litigation that had begun over the previous years in the electronic communications sector. The most important of these is the court case that relates to the cancellation of the Commission's June 8, 2005 Decision No.140 "On maximum tariffs of interconnection services for LLC Lattelecom, LLC Latvijas Mobilais Telefons and LLC Tele2", regarding obligations applicable to Tele2 and cancellation of the Commission's July 1, 2005 Decision No.153 "On imposing an administrative fine on LLC Tele2". The decision had imposed an administrative fine of 10,000 LVL on Tele2. During the reporting year, one litigation process was dismissed, but the Commission was involved in three other court cases related to the electronic communications sector.

In the postal sector, a previously launched litigation process was underway. It was reviewed by the Administrative district court and was appealed to the Administrative regional court. In 2008, the Commission was involved in another litigation process.

In the energy sector, one process of litigation was completed in 2008; four processes were started while two others are still pending. The most important of these is the case in the Senate of the Supreme Court that is asking the Court to order the Commission to define an average tariff for the sale of electricity.

One function of the Commission is to pursue out-of-court settlements of disputes in cases involving public service providers and users. In 2008, the Commission was involved in one dispute of this kind in the electronic communications sector and approved one final decision on dispute settlement. In the postal sector, the Commission considered two disputes and settlements were reached in both of them. In the energy sector, the Commission reviewed four disputes and took four decisions on their settlement.

The Commission has also reviewed several types of administrative violations, doing so on the basis of the Latvian Administrative Violations Code. 77 cases of administrative violations were initiated in the electronic communications sector. 74 electronic communications companies were fined. Five electronic communications companies were excluded from the register of electronic communications companies for violations of

provisions of general authorisations. In the postal sector, five cases of administrative violations were initiated and fines were imposed on five companies. One postal company has been excluded from the register due to violations of provisions of general authorisations. In the energy sector, four cases of administrative violations regarding the non-submittal of information were launched in 2008. As a result, three companies were fined and one administrative case was dismissed.

International Cooperation

As in previous years, in 2008 the Commission's main focus of international cooperation was on the participation in working groups of regulatory associations, cooperation with the European Commission (EC) and regional and bilateral contacts on issues important to the Commission. The main partners of cooperation were Independent Regulators Group/European Regulators Group (IRG/ERG) in the electronic communications sector, European Committee for Postal Regulation (CERP) in the postal sector, Council of European Energy Regulators and European Regulators Group for Electricity and Gas (CEER/ERGEG), and Energy Regulators Regional Association (ERRA) in the energy sector.

In 2008, regulators continued the "second round" of market analysis in the electronic communications sector (the first round concluded in 2007). After the Roaming Regulation took effect in June 2007, regulators had to follow the reduction of tariffs for voice telephony roaming calls, participate in the preparation of the benchmarking report and prepare for the planned extension of the Regulation's provisions regarding SMS and data transmission services. The above-mentioned issues, as well as practical application of the directive and the model of universal service in the electronic communications sector were discussed in the annual work meeting of the electronic communications and postal regulators of the Baltic States with participation of the Nordic regulators.

In the postal sector, attention was focused on the goals put forward in the new Postal Directive for liberalisation of the postal market by 2013. That was one of the significant issues in the work meeting of the electronic communications and postal regulators of the Baltic States.

In May 2008, the Commission organized the work of the CERP Plenary Meeting in Riga. In 2008, the Commission's representatives participated in the Universal Postal Union Congress, which meets every four years, and where the sector strategy for the next four years is determined.

At the forefront of the energy sector in 2008 were issues related to the new, so-called 3rd Energy Legislative Package, more active involvement of regulators in measures of consumer protection, participation in preparation of the EU benchmarking reports on the quality of energy supplies, and development of electricity and gas markets. Within the Electricity Regional Initiative (ERI) organized by the European Regulators Group for Electricity and Gas (ERGEG), two mini-fora of the Baltic States (Estonia, Latvia, Lithuania) took place, where regulators of the energy sector, transmission system operators and other market participants discussed issues of the electricity balancing and the compensation mechanism for interconnection systems of transmission system operators, as well as analyzed the conditions for formation of a free electricity market. In 2009, the Baltic ERI working group, under the guidance of the Commission, will develop a document of market transparency and publicly available information.

Following the European Commission's request, the Commission has been included in the working group of the Baltic Interconnection Plan, which together with an EC expert analyzes and evaluates potential Baltic-Swedish, Estonian-Finnish and Polish-Lithuanian interconnections from the aspects of security, costs and impact on market development, as well as shapes a model of the Baltic electricity market. This project is one of the priorities of the EU in the energy sector for 2009.

In the railway sector in Europe, the international debate was mainly about the financing arrangement of the railway infrastructure. The proposal for a differential fee for the use of infrastructure is being discussed. This fee would also include a payment for noise levels.

There is also a growing interest in the experience of the Commission. As an expert of the European Commission, the Commission's representative evaluated the cost calculation models of mobile connection termination and access to unbundled local loops of the Slovenian telecommunications regulator. Upon the request of the Ukrainian regulator, the Commission's expert presented colleagues with the allocation procedure of

authorisations, licences and usage rights for scarce resources. In 2008, the Commission welcomed the delegations of Georgia and the energy regulator of Moldova.

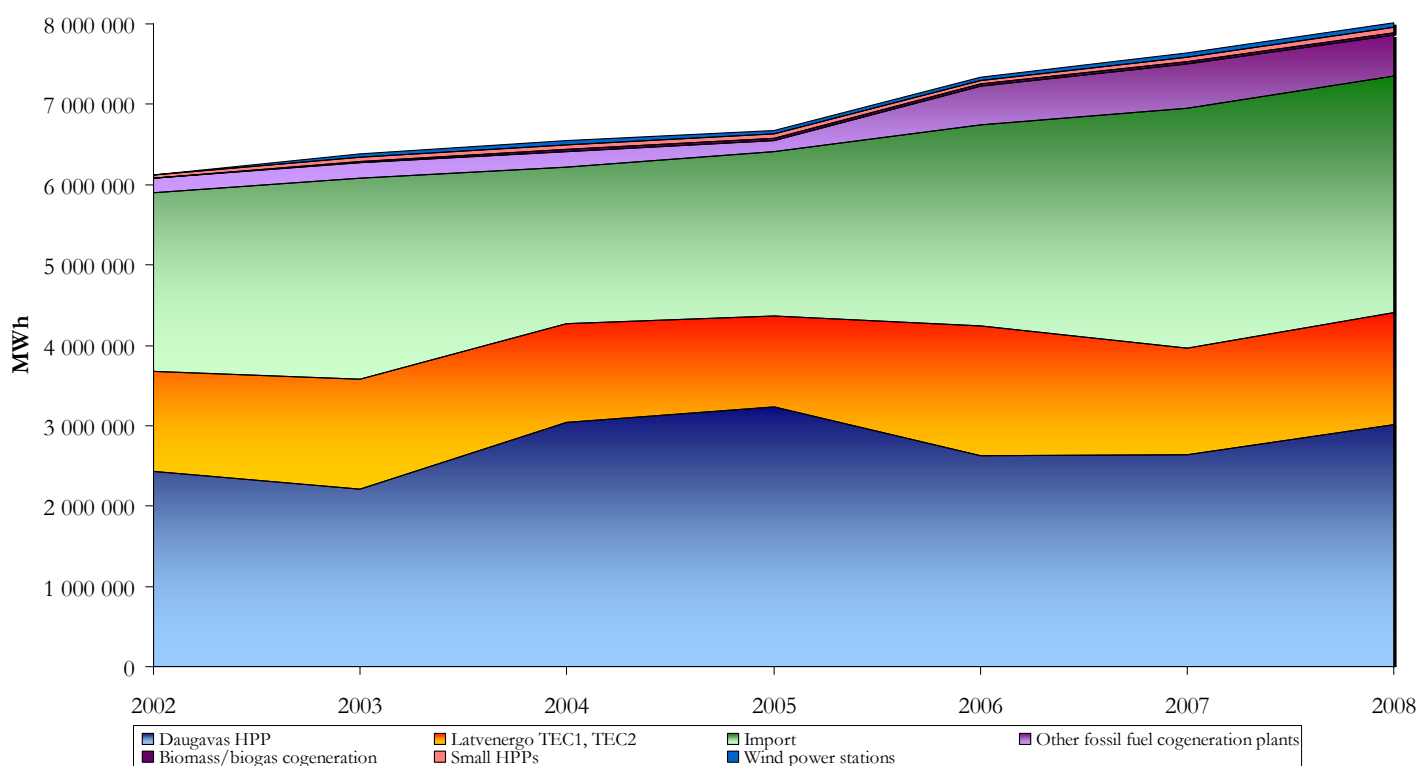
The Commission's representatives, with the aid of U.S. regulators association NARUC, had an opportunity to discuss with federal and state regulators such issues as electricity wholesale and retail; practice of connecting new electricity consumers; practical experience with purchasing of electrical capacities and tendering procedures; application of the universal service in the energy and electronic communications sectors; forms of cooperation with companies of the sectors; service quality; access to networks and the role of a regulator; number portability and other issues. Regulation in the USA, as well as in Latvia, is designed by the principle of multi-sector regulation. The Commission also participates in the EU-US regulatory roundtable discussions on regulatory issues.

In 2009, the Commission's international cooperation would be associated with the expected changes to the European Commission's legislation regarding the regulated sectors, introduction of new technologies and respective changes in the regulatory environment, and issues specifically affecting the activities of multi-sector regulators.

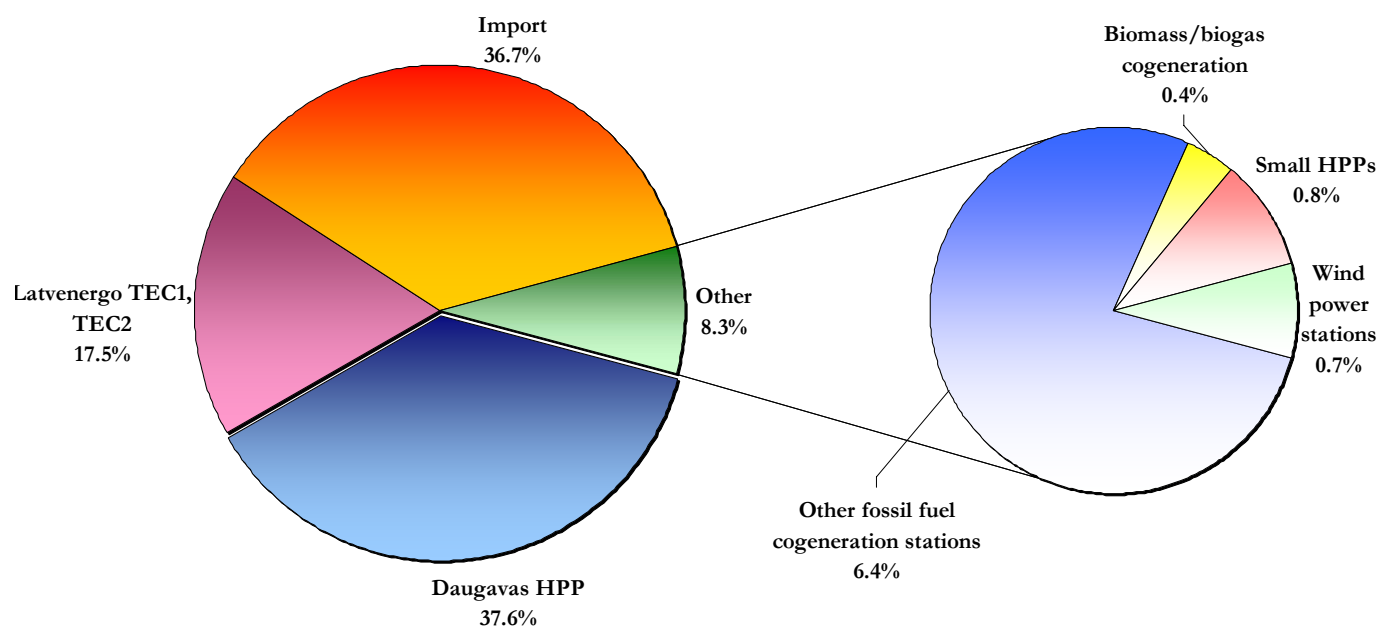
Regulation in the Energy Sector

The areas in which Latvia regulates energy supply tariffs are the supply of electricity and the supply of natural gas and the distribution of liquefied gas. Among Latvia's households, consumption of these products represents 18 to 20% of the total energy consumption in Latvia.

By far, the most dominant company in electricity supply is the state-owned stock company Latvenergo, which generates more than 90% of the electricity produced in Latvia. It imports electricity and ensures its transmission, distribution and supply to users. There are also some 150 small hydroelectric power plants that generate electricity. They have a total capacity of 25.2 megawatts (MW). Latvia has 15 wind power stations with a total capacity of 27.2 MW, and 43 co-generation stations with a total capacity of 130 MW. In addition to Latvenergo, there are 17 other licensed companies that are involved in selling and distributing electricity. In 2008, the competing company E.Energy started active electricity trading in Latvia. In total, seven companies, which do not own distribution networks, have received licences for electricity trading.



Electricity supply in Latvia in 2002-2008



The structure of electricity consumption in 2008

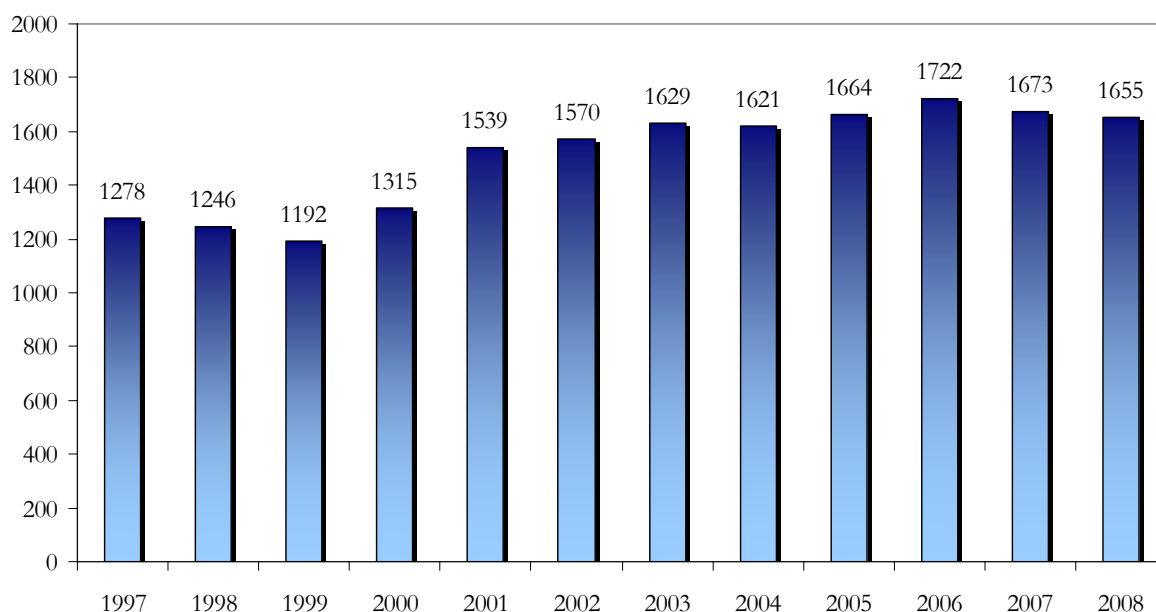
In 2008, the total value of the Latvian electricity market was 8.1 terra-watt hours (TWh). Of these, 4.6 TWh were generated by Latvenergo, 0.6 TWh came from independent power generators, and 2.9 TWh were imported.

Since July 1, 2004, all electricity consumers, excluding households, have been allowed to choose alternative electricity suppliers.

The stock company Latvijas Gāze supplies natural gas in the Latvian market. It controls the entire network from purchase to delivery to the final user. The company has internal units that are responsible for the transport, storage, distribution and sale of natural gas. Bookkeeping of the company is in line with the functions of these various units, and the Commission has approved a cost allocation methodology for this purpose.

The natural gas system provides natural gas to the users in Latvia; during the winter, natural gas from the subterranean gas storage facility at Inčukalns is also delivered to Lithuania, Estonia and Russia.

This natural gas delivery system was established 30 - 40 years ago and has a capacity of some four billion cubic metres of gas each year. Last year the total consumption of natural gas in Latvia represented just 45% of the capacity, which means that the natural gas delivery system is never over-loaded and can ensure a stable supply of natural gas to all consumers in Latvia.



Natural gas consumption in Latvia, million m³

The law of June 30, 2005, regarding the procedure under which certain articles of Latvia's "Energy Law" will take effect, stipulates that the natural gas market will not be opened up until January 1, 2010.

Natural gas consumption in Latvia decreased by 1% in 2008 as compared to 2007 and was 1.655 billion m³. Of this amount, 59% was used to produce heat and electricity, 8% was consumed by residential users and 33% was used by industrial users.

Licensing and license supervision

According to the Cabinet of Ministers Regulations No.297 "Regulations on types of regulated public utilities", the Commission regulates:

- heat supply with electricity being generated in the production process;

- co-generation plants, which generate electricity and heat as long as their maximum output is above one megawatt (MW);
- generation of electricity in plants with capacity of more than one MW;
- transmission of electricity, when the voltage is at least 110 kilovolts;
- distribution of electricity, if the voltage is between 1 and 110 kV;
- sale of electricity to end-users, if the total amount that is provided exceeds 4,000 megawatt-hours per year.

At the end of the reporting year, the Commission had licensed 73 companies in the electricity supply sector. The Commission issued 84 licenses — 33 for co-generation plants that generate electricity and heat, 21 for wind power stations, two for hydroelectric power plants, and one for electricity generation in biogas power station. One licence was issued for the transmission of electricity, 10 for the distribution of electricity, and 16 for the sale of electricity.

In 2008, the Commission issued 17 new licenses of which two were issued for electricity trading. 15 licenses were issued for electricity generation, 10 of these are for simultaneous generation of electricity and heat power in CHP plants, and five are for electricity generation in wind power stations.

Three licenses were cancelled in 2008 – one license for electricity generation in a CHP plant, one for heat power generation and one for electricity trading.

The Commission also regulates the storage, transmission, distribution and sale of natural gas, except for petroleum gas and other gaseous hydrocarbons that are used as fuel.

The stock company Latvijas Gāze has licenses for the storage, transmission, distribution and sale of natural gas.

Amendments were made to the Cabinet of Ministers July 3, 2001 Regulations No.297 “Regulations on types of regulated public utilities”, which came into force on November 1, 2007. Eight licenses had been issued for the distribution of liquefied petroleum gas from underground and above-ground reservoirs through pipelines to a connection point in a residential building at the end of the reporting year.

Since January 1, 2008 in accordance with the “Delegation agreement on regulation of public services in the administrative territory of Riga city” which was concluded on November 20, 2007 between the Commission and Riga Council, the Commission supervises heat power generation, transmission, distribution and trading in the administrative territory of Riga city.

At the end of the reporting year, six companies were licensed in the heat supply sector. Eight licenses were issued to these companies. Of these licenses, one was for heat energy transmission, one for heat energy distribution; four were for heat energy generation and two for heat energy sales (trading).

The operations of public service providers are regularly inspected on the basis of decision No.329 “On supervision of operations of public service providers”, approved by the Commission’s Board on December 3, 2003.

Regulating tariffs

Electricity

The Commission approves tariffs for companies that generate electricity in co-generation plants, tariffs for the transmission and distribution of electricity, as well as tariffs for the sale of electricity to captive users. Tariffs for the transmission and distribution of electricity are specified so that, when a free market participant concludes a bilateral agreement on the delivery of electricity and pays for transmission and distribution system services, the rules for accessing the transmission and distribution systems are clearly understood.

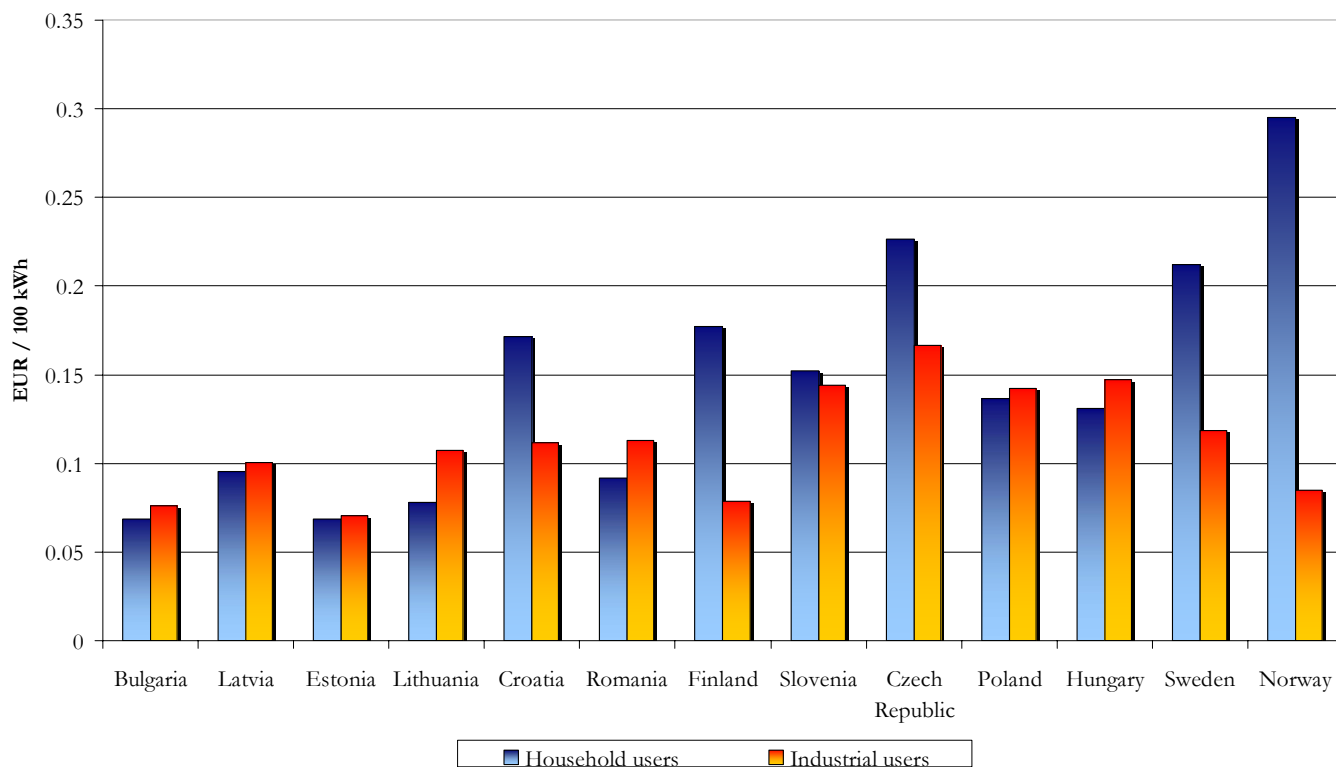
Captive user tariffs are defined for those users of electricity in Latvia, who have not taken advantage of the opportunity that is guaranteed by law — the right to freely choose the supplier of electricity. These clients pay for electricity in accordance with tariffs that are defined by the Commission. Captive user tariffs differ from one user group to another, depending on the voltage level, the demanded amount of electricity and time zones. Captive user tariffs cover the cost of generating and importing electricity, including the cost of electricity generated by renewable energy resources. The tariffs also cover the cost of transmission and distribution systems, as well as the cost of retailing electricity.

The price of imported electricity is based on agreements between Latvenergo and suppliers of electricity in Russia, Lithuania and Estonia and trade transactions in the Nordic electricity market (*Nord Pool*). The Commission defines the tariff for generating electricity at co-generation stations with a capacity of more than 4 MW (including TEC-1 and TEC-2). For co-generation stations with a capacity of less than 4 MW and for power plants that use renewable energy resources, the purchase price for electricity is specified by law.

In 2008, Amendments were made in Methodology for calculating tariffs of heat power generated in CHP plant and tariffs of electricity generated in CHP plants with capacity above 4 MW, Methodology for the calculation of electricity transmission system service tariffs and Methodology for the calculation of electricity distribution system service tariffs.

On April 1, 2008, Latvenergo's differentiated tariffs of electricity trade for captive users took effect. The tariffs were approved on February 20, 2008. The Commission also approved electricity distribution system service tariffs and differentiated tariffs of electricity trade for captive users for LLC Vats and stock company Latvijas dzelzceļš, as well as LLC Geriants electricity distribution system service tariffs.

New electricity and heat power tariffs were approved for several co-generation stations — LLC Juglas jauda, power stations TEC-1 un TEC-2 of the stock company Latvenergo, stock company Valmieras enerģija, stock company Rīgas siltums and LLC CB.



Electricity prices for household users with annual consumption of 3500 kWh and industrial users with annual consumption of 2000 MWh in Eastern Europe and Nordic countries in the second half of 2008

According to Eurostat data from 2008, Latvia ranked among the lowest electricity tariffs for households and commercial users in the European Union.

Natural gas

End-tariffs for the trade of natural gas are based on the purchase price of natural gas and on the cost of services related to the delivery of natural gas to its users — transmission, storage, differentiated distribution and trade. The purchase price for natural gas is transferred without any changes to differentiated end-tariffs.

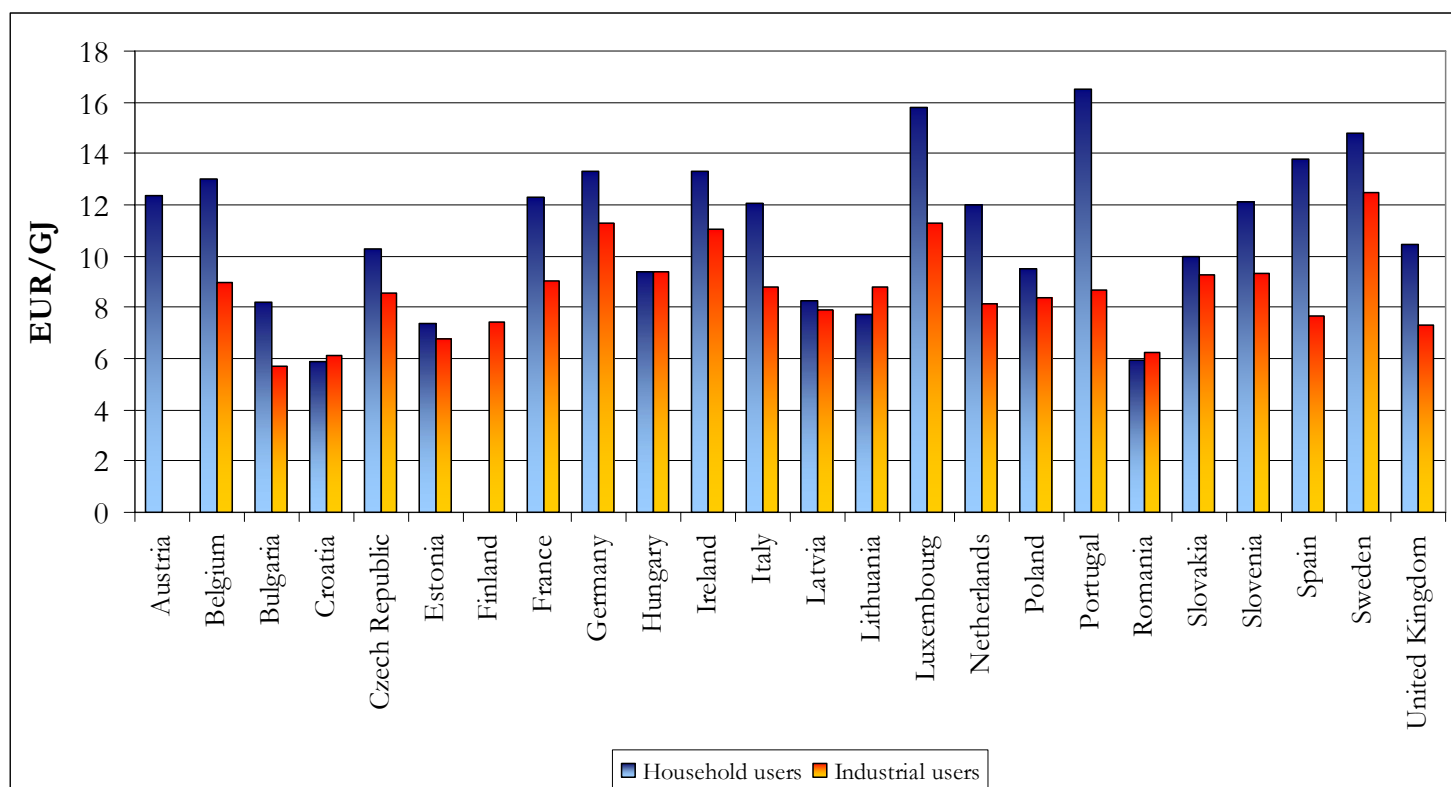
In the natural gas sector, the Commission updated and complemented the following tariff calculation methodologies:

- Methodology for the calculation of natural gas transmission service tariffs;
- Methodology for the calculation of natural gas storage service tariffs;
- Methodology for the calculation of natural gas distribution service tariffs;

- Methodology for the calculation of natural gas sales tariffs.

New natural gas supply tariffs of stock company Latvijas Gāze entered into force on October 1, 2008. These tariffs were approved on July 24, 2008.

According to the Eurostat data of 2008, Latvia ranked among the lowest natural gas tariffs among all European Union member states.



Natural gas prices in the member states of the European Union in 2008

Liquefied gas

Certain amendments were made to the Cabinet of Ministers July 3, 2001 Regulations No.297 “Regulations on types of regulated public utilities”. The amendments entered into force on November 1, 2007. As a result, the only licensed type of activity in the liquefied gas supply sector is the distribution of liquefied petroleum gas from underground and above-ground reservoirs through pipelines to a connection point in a residential building.

Methodology for the calculation of liquefied petroleum gas distribution service tariffs was approved on April 30, 2008.

The tariff for distribution of liquefied petroleum gas from surface and underground tanks by pipelines to a connection point in a residential building came into effect on November 1, 2008. The tariff was approved on September 10, 2008.

Protecting user rights

The European Union's Electricity Directive and various regulations related to the electricity sector mean that the Commission oversees the process of market development, ensuring transparent market information and equal rules for all market participants.

In 2008, 74 complaints of public service users were received and reviewed in the energy sector. 75 questions related to public service provision were sent by electronic means. The total number of complaints has decreased; only complaints about electricity supply have increased slightly. The increase is due to more complaints about problems with electricity delivery and electricity connection. 85% of complaints were received from individuals.

Answers related to electricity supplies mostly had to do with the delivery of electricity (24%), installation of new connection and connection fee (36%) and the registration of the amount of electricity used and the resultant bills (16%). In the area of gas supply, most complaints had to do with natural gas tariffs (42%), registration of natural gas use and resultant bills (25%), and natural gas delivery issues (25%).

Complaints	Total, including		Electricity		Gas		Heat supply	
	number	%	number	%	number	%	number	%
Justified	13	18	12	22	1	8		
Unjustified	44	59	35	63	6	50	3	43
Unrelated to Commission's work	6	8	2	4			4	57
Explanation provided	11	15	6	11	5	42		
Total:	74	100	55	100	12	100	7	100

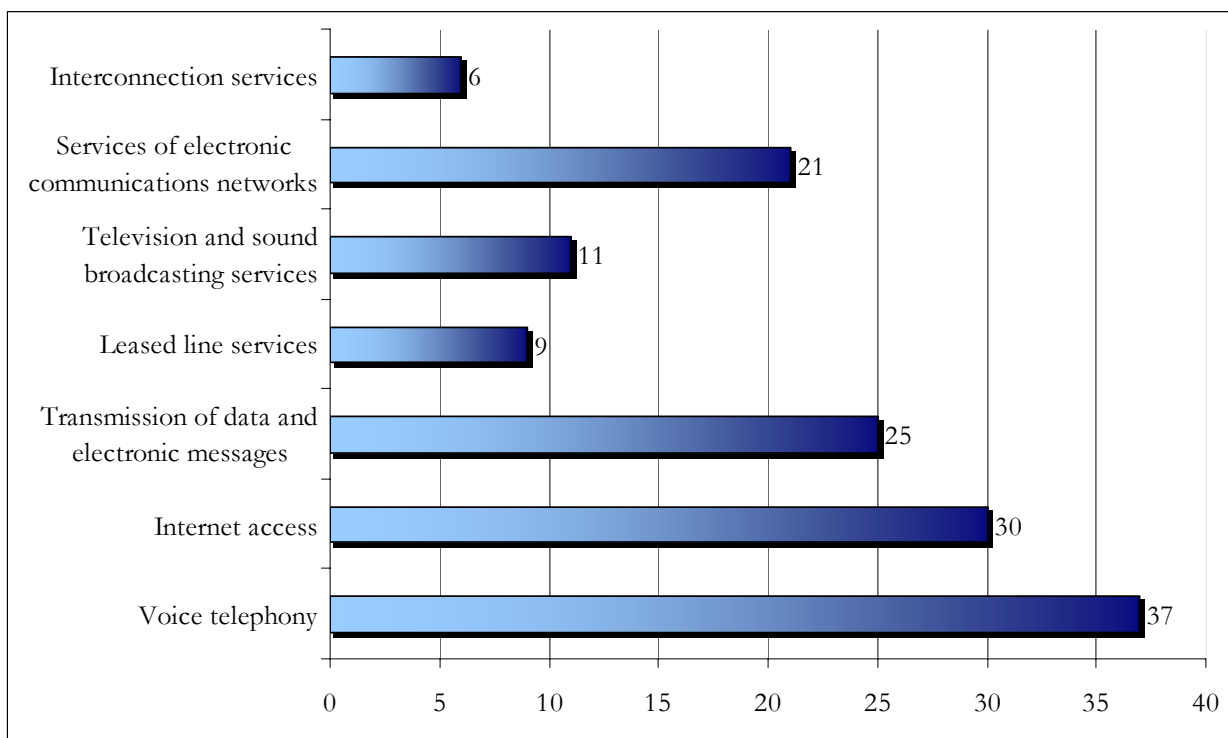
Complaints received in the energy sector in 2008

Regulation in the Electronic Communications and Postal Sectors

Registering companies

In 2008, registration of companies in the electronic communications sector continued.

53 new electronic communications companies registered with the Public Utilities Commission during the course of the reporting year, while 51 companies ended their operations or failed to launch operations and asked that they be removed from the register of such companies.



Distribution of newly registered electronic communications companies by service types in 2008 (in accordance with information in registration notifications)

On December 31, 2008, a total of 558 companies had been registered in the electronic communications sector. According to information that is at the Commission's disposal, 310 of these actually provide electronic communications services.

Supervising companies

In the electronic communications sector, companies operate in accordance with Regulations on general authorisations. The Commission regularly supervises electronic communications companies by gathering information from companies about their commercial activities in the sector, as well as visiting companies.

While monitoring the fulfilment of Regulations on general authorisations, 430 violations were identified about non-submittal of information to the Commission by the deadline. The Commission levied an administrative fine on 74 companies for this violation.

Market analysis for determining significant market power

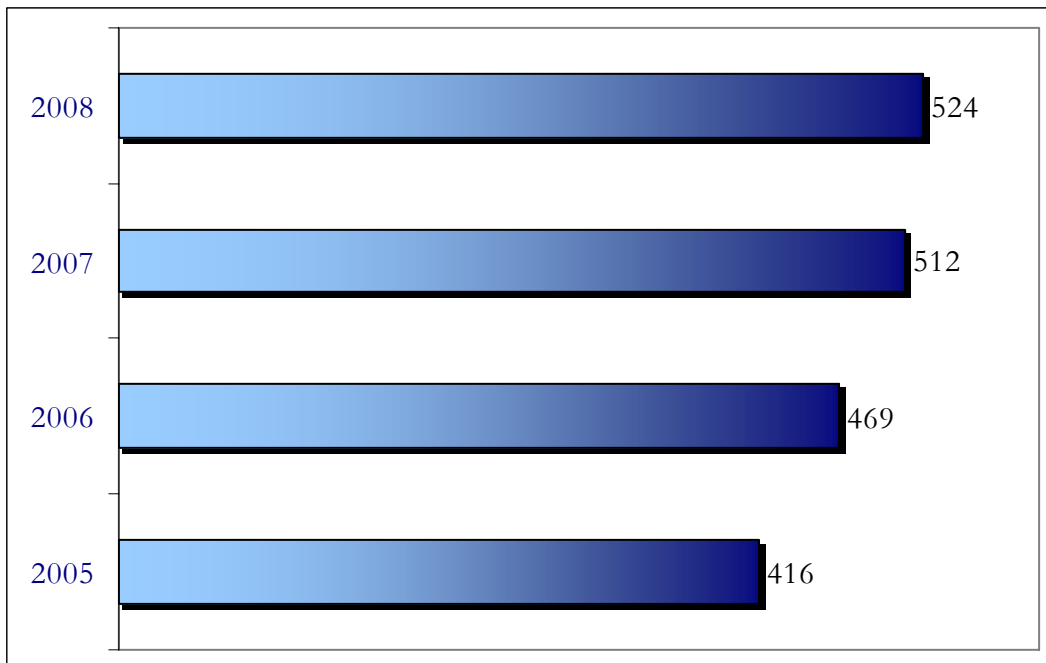
During the reporting year, the second round of market analysis was started. The goal is to find out if no significant changes, which may influence the previous regulation in the market, have taken place in the market, as well as to verify the efficiency of the previously specified regulation.

To ensure successful progress of market analysis, the Commission planned measures for market analysis till the end of 2009. In the summer of 2008, the Commission had already gathered the required market information, as well as prepared detailed requests of information from the largest market participants in accordance with a formula drafted by the Commission. It specifies that detailed information is requested from those market participants whose total share of the market in descending order is at least 95%. Such approach ensures that comparatively small companies do not receive excessive requests of information for market research.

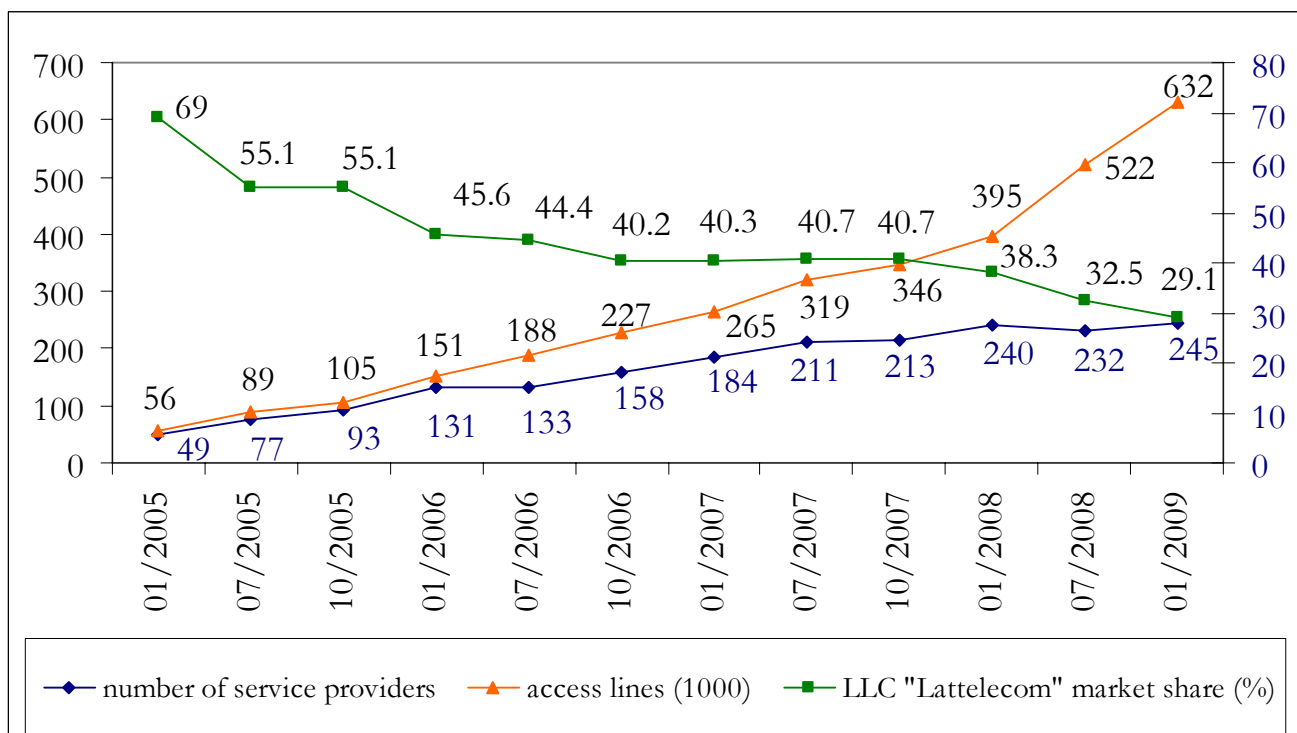
In 2008, the first 2nd round report on market analysis for terminating connections at a fixed location was prepared. The national consultation procedure was started for this market, and it was to be reported to the European Commission at the beginning of 2009.

Market situation

In 2008, the electronic communications market continued to grow. However, the rate of growth was slower in 2008.

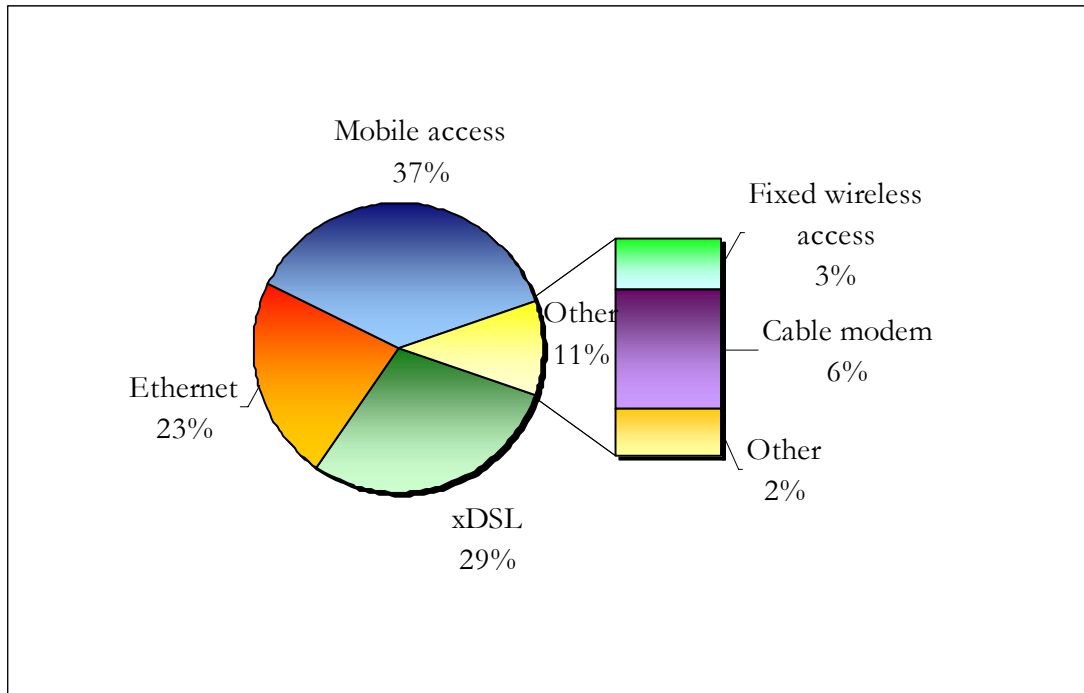


Revenues in the electronic communications sector from electronic communications services provided to electronic communications users (million LVL)



Internet service providers, number of access lines, market share of the incumbent operator

During the reporting year, there was an increase in the number of companies providing Internet access services. As a result, the market share of the incumbent market participant LLC Lattelecom decreased. The decrease was due to the entry of mobile operators into Internet access service markets, for example, offering specially adapted end-user equipment. Also, alternative technologies to *xDSL* strengthened their position in the market.



Technologies used for Internet access at the end of 2008

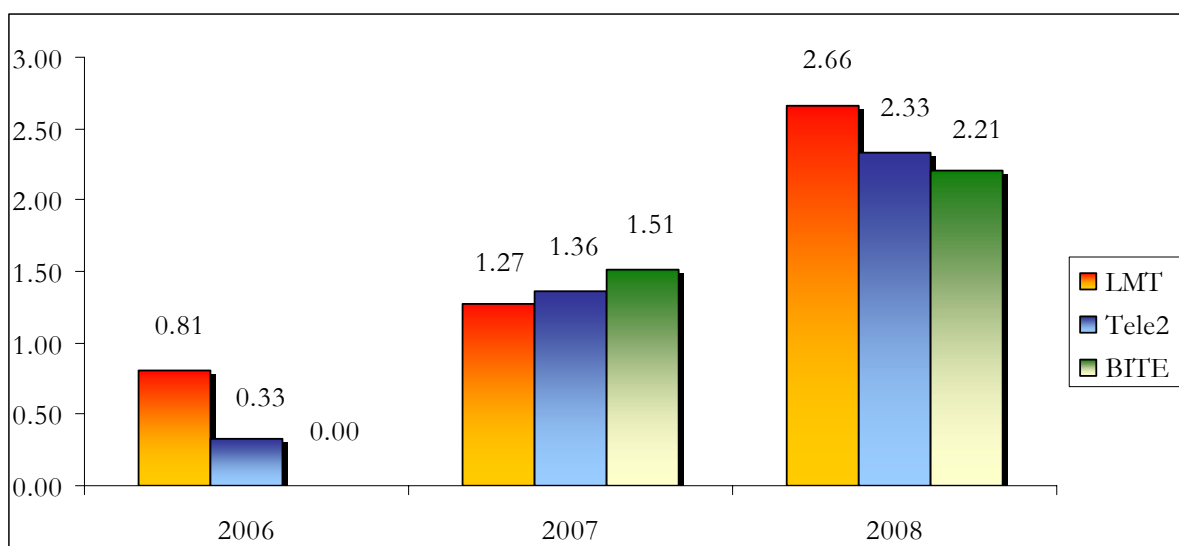
Quality of services and complaints

The Commission engages in the quality control of electronic communications services in the electronic communications sector to monitor the quality of electronic communications services provided by electronic communications companies and to inform the public about the results.

The Commission has prepared a report of 2008 on the quality of electronic communications services. It offers the results of quality measurements conducted by the Commission and by companies and comparison between these results and the values of parameters, which the Commission has specified and the companies have declared.

In 2008, the Commission conducted quality measurements in the fixed telephone networks (local and domestic voice telephony, payphones, operator services (help desks), and comprehensive telephone directory enquire service). The Commission conducted similar measurements for the voice telephony in the mobile telephone network and in the area of voice telephony services, where an electronic communications network interconnection is used.

To determine quality of services in the public mobile telephone networks, 94,770 test calls were made and 3,006 test SMS messages were sent. The calls and messages were distributed evenly in the mobile telephone networks of LLC Bite Latvija, LLC Latvijas mobilais telefons and LLC Tele2.



Comparison of unsuccessful call ratio among mobile telephone networks

To determine the quality of interconnection service, 107,207 test calls were made in the public telephone networks and 6,128 test SMS messages were sent in the mobile telephone networks.

For the second straight year, measurements of the quality of electronic communications services are being performed by an automatic control system for voice telephony services. The system provides measurements of the quality of voice telephony services in the fixed and mobile telephone networks, and measurements of the quality of voice telephony services in the fixed and mobile telephone networks, using interconnection, as well as measurements of SMS service in the mobile telephone networks.

In 2008, a quality control system of Internet access services was used. The system is available not only to the Commission's experts, but also to the providers of Internet access services.

The Commission continued reviewing complaints of users of electronic communications services in 2008. In total, the number of complaints in 2008 has remained approximately the same as in 2007.

Universal service

The universal service refers to the minimum volume of electronic communications services that is available at a specific level of quality and for an affordable price to all existing and potential users, irrespective of their geographical location. The Commission defines the companies that must provide the universal service and the list of services that are included in the universal service, the scope of the universal service, the geographic territory in which it must be provided and the range of end users of the service.

In 2008, the universal service was provided in accordance with the Commission's December 21, 2007 decision "On universal service obligations". Since 2003, LLC Lattelecom has been the only company to handle the obligations of the universal service in the electronic communications sector.

The Commission defined the following universal service obligations for 2008:

- From January 1, 2008 to December 31, 2008 or until a universal service provider is determined in accordance with Section 64, paragraph 3 of the "Electronic Communications Law", to ensure access to Lattelecom's public telephone network at fixed connection locations, thus allowing users of the universal service to make calls and receive voice telephony services, as well as public data and electronic message transmission services at connection speed no less than 9600 bits per second at a price which does not exceed the actual cost of the service. LLC Lattelecom has a right to apply discounts to such a price, but the discounts shall not be included in the net costs of the universal service obligations.
- To provide at least one alternative tariff plan to individual users. This alternative plan would have a monthly fee for a phone line that is lower than the

Commission's stated affordable tariff, in accordance with the principle of setting an affordable tariff specified by the Commission, if such has been defined, as well as continued discounts for disabled people on those electronic communications services, for which the discounts were provided in 2002.

- To ensure that universal service users have access to a comprehensive telephone directory enquiry service.
- To ensure that universal service users have access to a comprehensive subscriber directory.
- To ensure the following free of charge call services or services for which coins, payphone card, credit card or call card may be used as means of payment:
 - local, domestic and international voice telephony services;
 - free of charge calls to the State fire and rescue service, the State police, emergency medical service, gas emergency service and emergency number "112";
 - services of the unit that accepts damage complaints;
 - comprehensive telephone directory enquiry services;
 - access to a comprehensive subscriber directory.
- From January 1, 2008 to December 31, 2008 or until a universal service provider is determined in accordance with Section 64, paragraph 3 of the "Electronic Communications Law", to maintain payphones in working order if losses from payphone maintenance do not exceed 30% of payphone maintenance costs of the previous year. LLC Lattelecom shall coordinate the payphone removal in advance with relevant local government. LLC Lattelecom shall inform the Commission every quarter about all cases of moving or removing payphones - by April 1 regarding the first quarter, by July 1 regarding the second quarter, by October 1 regarding the third quarter and by December 31 regarding the fourth quarter. LLC Lattelecom shall be obliged to not reduce the existing number of payphones in hospitals, schools and social care institutions.
- To ensure the fulfilment of service quality requirements for quality parameters of voice telephony services in accordance with Appendix 1 of "Regulations on the universal service in the electronic communications sector".

During the reporting year, LLC Lattelecom submitted and the Commission approved (after the analysis of the submitted information) the net costs of the universal service for 2007, amounting to 1.87 million LVL. The Commission's decision means that LLC

Lattecom may claim compensation for losses incurred from the universal service in accordance with provisions of the “Electronic Communications Law”.

Scarce resources

In the electronic communications sector, the Commission assigns usage rights of scarce resources (bands of radio frequency spectrum and numbering) to electronic communications companies, as well as supervises and regulates the use of these rights.

In 2008, the Commission has taken 37 decisions about radio frequency usage rights – about assignation of such rights, and setting, extending or cancellation of their terms.

Four auctions on usage rights of radio frequency spectrum took place over the reporting period:

- Auction on allocation of usage rights for radio frequency bands 903.3MHz-904.1MHz/948.3MHz-949.1MHz (LLC Tele2 was declared winner of the auction);
- Auction on allocation of usage rights for two radio channels of radio frequency bands 410,0MHz-430,0MHz (stock company Telekom Baltija was declared winner of the auction);
- Auction on allocation of usage rights for radio frequency bands 450,0MHz-457,5MHz/460,0-467,5MHz (stock company Telekom Baltija un LLC SELKOMS were declared winners of the auction);
- Auction on allocation of usage rights for radio frequency bands 24,773-25,445GHz/25,781-26,453GHz (auction concluded without a result).

87 decisions were approved on numbering usage rights in the Commission’s Board meetings in 2008.

The number of allocated usage rights for geographic and non-geographic numbering has grown by 3-4% in 2008. The usage of geographic numbering decreased by 5.5% in 2008. The usage of non-geographic numbering increased by 8.43%, which is more than the allocated numbering usage rights for non-geographic numbering. Thus, large additional numbering resources are available for electronic communications companies.

	Geographic numbering		Non-geographic numbering	
	Total on 31.12.2008.	% change (vs. previous year)	Total on 31.12.2008.	% change (vs. previous year)
Assigned numbering usage rights	3,421,400	3.21%	4,938,240	4.23%
Used numbering usage rights	880,993	-5.5%	2,462,552	8.34%

Numbering usage rights – changes over a year (on December 31, 2008)

In 2008, the electronic communications companies continued providing the number portability service for end-users within terms specified by the Commission.

The volume of ported numbers in the mobile phone networks has increased significantly in 2008. This is explained by the possibility to port numbers of pre-paid services in the mobile phone networks from February 1, 2008. Over the course of 2008, number portability by changing electronic communications company has taken place in 99,386 cases. Of these, 82% were in the mobile telephone networks.

Fixed telephone networks		Mobile telephone networks	
Total on 31.12.2008.	% change (vs. previous year)	Total on 31.12.2008.	% change (vs. previous year)
17,860	20.58%	81,526	157.80%

Changes in the volume of ported numbers for end users, in comparison to 2007

Regulating tariffs

In 2008, the Commission received and considered eight tariff proposals submitted by LLC Lattelecom. These applied to calls that LLC Lattelecom clients made to the clients of other public fixed electronic communications networks. Decisions were prepared and accepted at a Board meeting on LLC Lattelecom tariffs for calls to subscribers of fixed electronic communications networks of LLC IZZI, LLC Telenet, LLC Tele2 Telecom, LLC MWTV, LLC Telecentrs, LLC ADVEM, LLC Neolains, LLC MPE Nets, LLC

ECO Solutions, LLC IT Baltija, LLC Datagrupa.lv, LLC Datu Tehnoloģiju Grupa, LLC Telekomunikāciju Grupa and LLC Unistars.

On January 30, 2008, the Board approved LLC Lattelecom tariffs for 2048 Kbit/s digital leased lines, setting a differing monthly fee depending on the distance between connection points of a line and whether connection points are located in the same area.

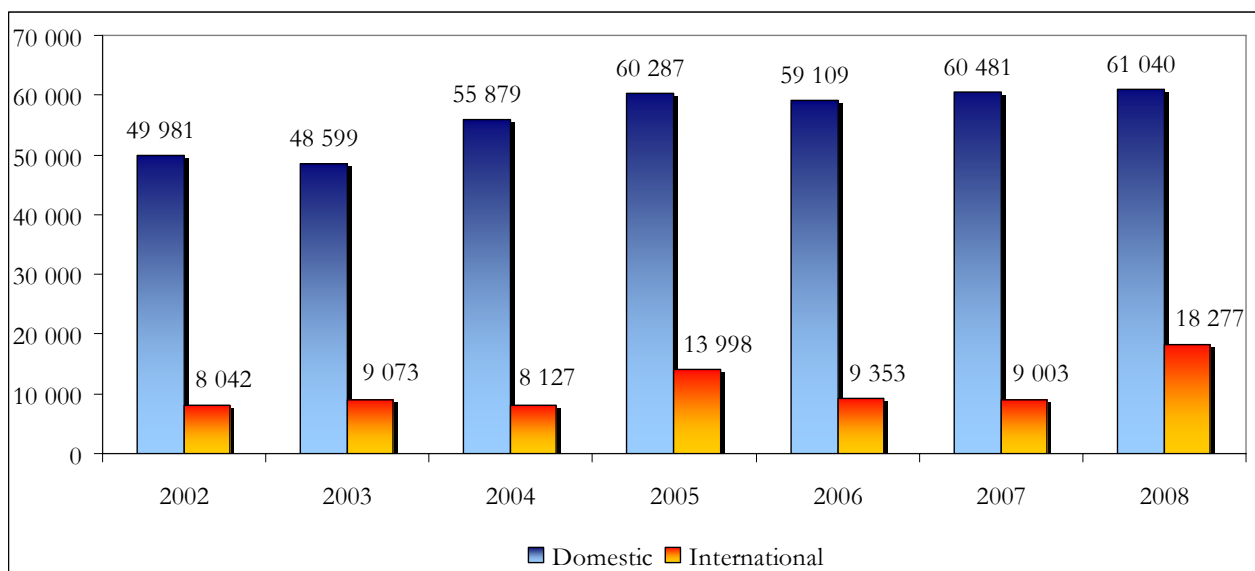
In accordance with the June 27, 2007 Regulation No.717/2007 of the European Parliament and of the Council on roaming in public mobile telephone networks within the Community, and amending Directive 2002/21/EC, the reduction of Latvian mobile telephone network operators' tariffs for roaming services in European Union countries continued in 2008. Since August 30, 2008 tariff for a call made using a roaming service in a European Union country must not exceed 0.32 LVL per minute (without VAT). An incoming call must not be charged more than 0.15 LVL per minute (without VAT).

On November 17, 2008, the Commission's Board approved the report on compliance with methodology for cost calculation in the electronic communications sector and notification about electronic communications companies, which are obliged to apply the methodology for cost calculation. The report was published in issue No.199 of newspaper "Latvijas Vēstnesis" on December 22, 2008.

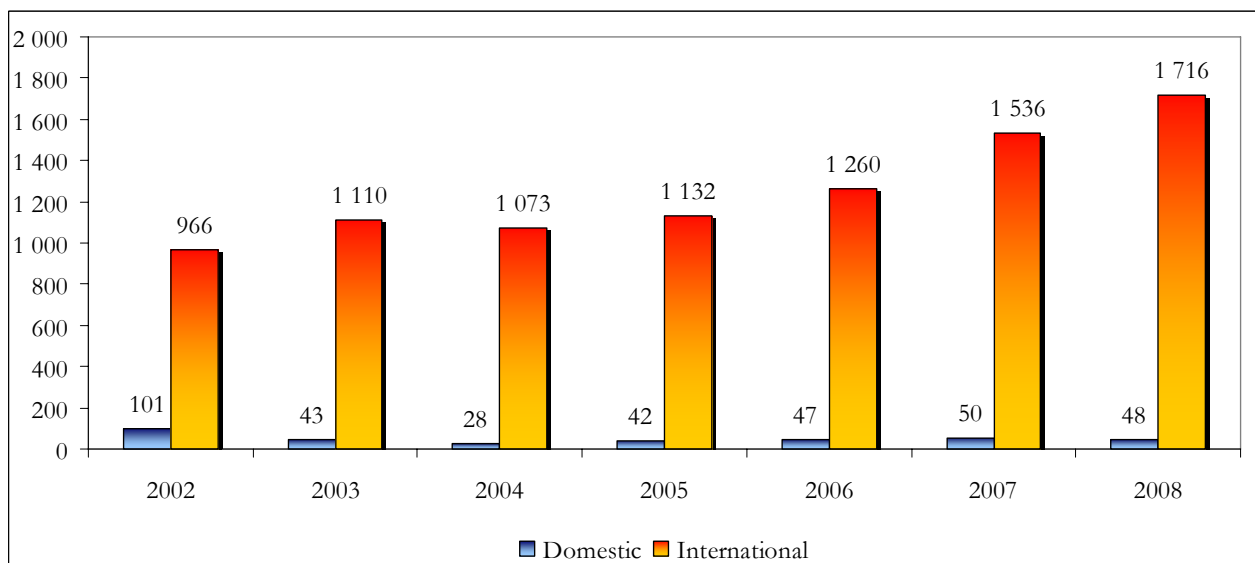
Postal sector

In terms of postal services in Latvia, general postal services (handling letters and parcels with a weight of up to 10 kilograms) are provided by state stock company Latvijas Pasts. In 2008, people sent 79.32 million letter-post items and 1.76 million postal parcel items, including 151 thousand packages weighing up to 10 kilograms.

In comparison to 2007, the total number of letters sent increased by 12.4% (international items - by 50.75% and inland items - by 0.9%). The number of postal parcels sent grew by 10.1% compared to 2007.



Letters (thousand)



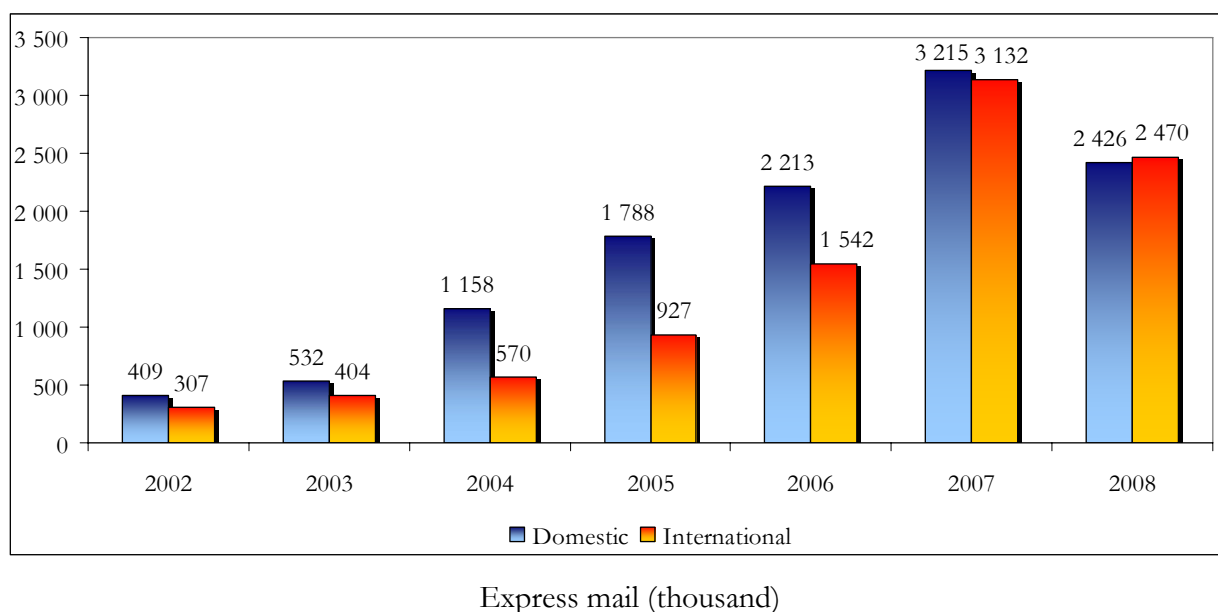
Postal parcels (thousand)

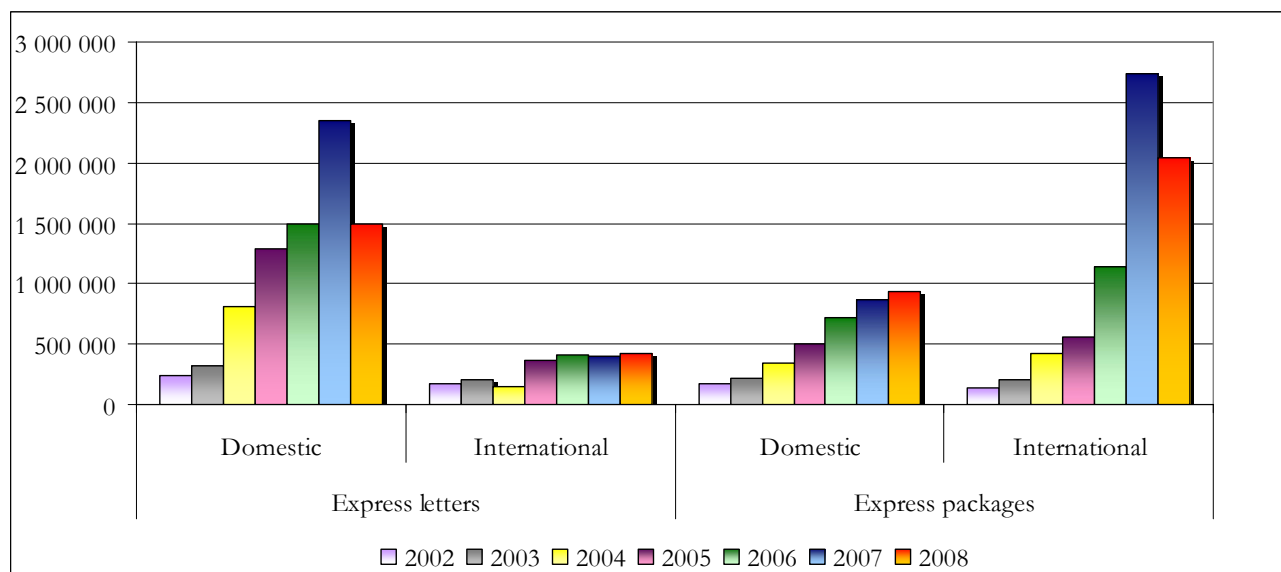
In 2008, state-owned stock company Latvijas Pasts moved nine post offices to new premises and closed 18 post offices. There were a total of 698 post offices at the end of 2008.

In the reporting year, the Commission sent a number of control letters to assess the quality of the postal service. In accordance with Cabinet of Ministers regulations 97% of Class A letters must be delivered on the next business day, while 97% of Class B letters must be delivered within three business days. The results of the performed measurements show that delivery time for Class A letters did not meet the specified quality standards. 96.1% of Class A letters were delivered on the next business day after the control letters were sent, while 99.5% of Class B letters were delivered within three business days.

48 postal companies were listed in the Commission's database at the end of the reporting year. The Commission registered 12 general postal authorisations for postal service provision and annulled five such authorisations in 2008.

There are 39 service providers in the field of express mail. In 2008, there were 4.93 million express shipments - 23% less than in 2007. Among these shipments, the share of domestic express letters dropped significantly (by 36.5% in comparison to 2007), while the share of international express packages decreased by 25.2%.





Express mail

In the postal sector in 2008, the Commission received and considered 16 complaints regarding postal service providers. All complaints were concerning services provided by Latvijas Pasts. 13 complaints were received from individuals and three from business entities. Most of the complaints were about unsatisfactory delivery of postal items. The Commission upheld six of the complaints.

On October 24, 2008, the Commission's Board approved new Latvijas Pasts general postal service tariffs which took effect on December 1, 2008. The tariff increase is connected with increase in costs of Latvijas Pasts, mainly for wages, transport services and expenditure of infrastructure maintenance. The Board decision approved tariffs for domestic and international letters, printed matter and small packets. A special, lower tariff was approved for domestic letters if the sender personally collects letters, does the initial sorting, and sends at least 1,000 postal letters at a time. During Christmas – from December 15, 2008 to January 15, 2009 – a lower tariff was applied for regular Class B postcards and letters weighing up to 20g which were paid for by postcards.

Regulation in the Rail Transport Sector

In the rail transport sector, passenger transport by rail in 2008 was provided by the following companies:

- Stock company *Pasažieru vilciens* provided passenger transport by rail with domestic passenger trains;
- State-owned stock company *Latvijas dzelzceļš* provided passenger transport by rail with international passenger trains;
- LLC *Gulbenes-Alūksnes bānītis* provided passenger transport by rail in a narrow-gauge rail line between the towns of *Gulbene* and *Alūksne*

The public usage rail infrastructure in Latvia is controlled by the state-owned stock company *Latvijas dzelzceļš*.

Licensing of public service providers

In 2008, the Commission received a licence application from LLC LDZ Cargo and issued a licence for passenger transport by rail on January 9, 2009. LLC LDZ Cargo, using the trademark of state-owned stock company *Latvijas dzelzceļš*, carries out international passenger transportation by rail since March 1, 2009.

In 2007, the Commission did not receive any applications to amend licensing terms or to cancel a license.

Supervision of public service providers

In 2008, the Commission investigated three companies in the rail transport sector. In all instances it was concluded that the provision of public services is occurring in accordance with licensing terms and all relevant norms and regulations.

Updating normative documents

The Commission provided opinion on draft law “Amendments to Railway Law”, draft law “Amendments to Public Transport Services Law”, and draft concept “On Management of Public Usage Railway Infrastructure”.

Drafting methodologies

By decision No.41 of February 13, 2008, The Commission made amendments to the Methodology for the calculation of the fee for the use of public railway infrastructure for transport services by updating the time period for which the fee was set.

Setting the fee for the use of public railway infrastructure

By decision No.451 of November 28, 2008, the Commission approved the fee for the use of the public railway infrastructure for the year 2009.

Informing the public and public service providers

On November 13, 2008, the Commission organized a discussion on the draft of the use of public railway infrastructure for the year 2009.

Consumer complaints about railway transport services

By performing the functions specified in Section 10, paragraph 3 and Section 13, paragraph 2 of the law “On Regulators of Public Utilities”, the Commission considers user complaints about the public services provided by railway companies.

In 2008, the Commission received two complaints about public services provided in the rail transport sector. Both complaints were received electronically. The complaints were reviewed according to the procedure specified by law, and thorough answers were provided on the issues mentioned in the complaints.

In addition, supervising the operations of railway service providers, the Commission analysed complaints received by railway companies and prepared a report thereon. This

report deals with issues like keeping to schedules in rail transport, provision of information to users, and ensuring the quality of the work of train conductors and ticket-takers. These complaints will be taken into account when the Commission supervises the compliance with licence terms of the railway companies.

Regulation in Municipal Sectors in the Administrative Territory of Riga

Heat supply sector (without additional generation of electricity)

The Commission regulates public service provision in municipally regulated sectors in the administrative territory of Riga city including heat supply sector (without electricity generation) from January 1, 2008.

Licensing of public service providers

At the end of the reporting year, six companies were licensed in the heat supply sector, and eight licenses were issued: one for heat energy transmission, one for heat energy distribution, four for heat energy generation and two for heat energy sales (trading).

Regulation of tariffs

Tariffs are set in accordance with the Cabinet of Ministers regulations „Public service tariff calculation methodology in municipally regulated sectors”.

On September 10, 2008, the Commission approved stock company *Rīgas siltums* heat energy tariffs (depending on natural gas end-tariffs which correspond to natural gas trading prices). The new heat energy tariffs came into force on October 15, 2008. In accordance with the table of approved tariffs, if the natural gas end-tariff applied by stock company *Latvijas Gāze* is reduced, the heat energy tariff is also reduced.

Water supply and sewage sector

The following companies provide municipally regulated services in the water supply and sewage sector in the administrative territory of Riga city:

- LLC Rīgas ūdens

- LLC Ūdensnesējs
- LLC EMR

Licensing of public service providers

The Commission received one application for the reception of a licence, amendment of licence conditions or cancellation of a licence.

Supervision of public service providers

The Commission inspected three companies in the water supply and sewage sector in 2008. The Commission concluded that provision of public services was performed in accordance with licence conditions and requirements of legal acts.

Evaluation of water supply and sewage tariff proposals

The Commission evaluated and set two tariffs for water supply and sewage services in 2008.

Consideration of user complaints about water supply and sewage services

In accordance with the law “On Regulators of Public Utilities”, the Commission:

- protects interests of public service users;
- supervises compliance of public services with licence conditions, requirements for quality and environmental protection, technical regulations, standards, and contract provisions.

In 2008, the Commission received eight complaints about quality of water supply or sewage services. Complaints were reviewed according to the procedure specified by law, thorough answers were provided on the issues mentioned in the complaints.

Waste management sector

In accordance with paragraph 9 of Transitional provisions of the law “On Regulators of Public Utilities”, only setting of tariffs in the transitional period concern regulation in the waste management sector.

The following companies provide municipally regulated services in the waste management sector in the administrative territory of Riga city:

- LLC Cleanaway
- LLC EKO Rīga
- Exto D
- LLC Nelsens
- LLC L&T

The household waste burial sector has not been delegated to the Commission.

Public Communications

The most important job for the Commission is to balance out the interests of public service users and service providers. Public communications are of vast importance, so that the Commission can explain its decisions.

The Commission offers information to public service users, who file questions, complaints, claims or applications, and to the public at large, making use of the mass media, of the Commission's homepage and of meetings and consultations for this purpose. The Commission invites cooperation partners and other interested parties to such meetings.

Because of the universal importance of public services, the mass media display a great deal of interest in the Commission's work. The Commission regularly informs mass media about adopted decisions and the most significant draft decisions, as well as other topical issues regarding regulation of public services. The Internet homepage is an important communications channel, as it contains up-to-date information about all of the regulated sectors.

Client compass

In order to help users better understand the electronic communications sector, a section "Client compass" has been created in the Commission's homepage, where the consumers can find information about electronic communications:

- fixed line service providers, their obligations, quality, number porting and other aspects;
- mobile communications and news about roaming.

FINANCING AND SPENDING

The Commission does its work under the auspices of an Economics Ministry programme called “Ensuring honest competition and protecting the domestic market and consumer rights”. In accordance with the law “On State Budget for 2008”, the Commission’s budget is a line item in the budget of the Ministry of Economics.

The Commission’s operations are financed from fees for public services regulation. The fees are paid by the regulated companies. From January 1, 2008, the Commission started regulating public services in the administrative territory of Riga city.

In the reporting year, the state fee in the state regulated sectors was 0.2% of the net turnover of the public service provided by the company in 2007; the fee was 0.4% in municipally regulated sectors.

Planned expenditures in 2008 were 3,055,000 LVL, which was 718,811 LVL more than in 2007. Actual spending amounted to 2,520,482 LV, which was 286,050 LVL more than in 2007. Actual spending constituted 82.5% of planned spending.

Paragraph 9 of the December 12, 2004 Cabinet of Ministers Regulations No.1068 “Regulations on the rate of the state fee for public service regulation and its payment procedure” (hereinafter – Cabinet of Ministers regulations) states that if the paid state fee exceeds the required expenditures for providing operations of the regulator in the respective year, then in the next year for public service provider state fee for the overpaid sum is reduced proportionally to the amount of the state fee paid by each public service provider. In accordance with the Cabinet of Ministers regulations, the Commission reduced the payments of the fourth quarter for public service providers by a total of LVL 191,584 in 2008.

The financial report was prepared in accordance with Cabinet of Ministers November 13, 2007 Regulations No.749 “Regulations on the procedure for preparing annual reports by national budget institutions and local governments”, Cabinet of Ministers November 15, 2005 Regulations No.867 “Procedure for accounting in budget institutions” and the Cabinet of Ministers January 6, 2009 instruction No.1, “Procedure for preparation of budget report, cash flow report and report on financial results by budgetary institutions”.

In 2008, the report was submitted to the Ministry of Economics for inclusion in its consolidated annual report. On February 16, 2009, the 2008 Commission report was audited without objections by LLC Revīzija un vadības konsultācijas, licence No.79 of sworn auditor's commercial entity.

The Commission concluded 42 economic co-operation agreements in 2008, including five price surveys in accordance with the "Law on Public Procurement" and 29 procurement procedures in accordance with the September 12, 2006 Regulations No.762, "Procedure for making procurements if the estimated contract price is from 1,000 to 10,000".

No.	Finances	2007 (actual numbers)*	2008 (LVL)	
			defined by law	actual numbers
1.	Total revenues, including	2 342 709	3 055 000	3 032 594
	<i>fee based services, other income</i>	2 342 709	3 055 000	3 032 594
2.	Total spending	2 234 432	3 055 000	2 520 482
2.1.	Administrative costs (total)	2 167 142	2 897 475	2 472 109
	<i>international cooperation</i>	12 874	21 308	18 759
	<i>other administrative costs</i>	2 154 268	2 876 167	2 455 350
2.2.	Capital investments	67 290	157 525	46 373

* in accordance with cash flow principle

Independent auditor's report



Revīzija un vadības konsultācijas SIA

Neatkarīgu revidentu ziņojums

Latvijas Republikas Saeimai

Ziņojums par saīsināto finanšu pārskatu

Klāt pievienotais saīsinātais finanšu pārskats ir sagatavots balstoties uz Sabiedrisko pakalpojumu regulēšanas komisijas 2008. gada finanšu pārskatu. Sabiedrisko pakalpojumu regulēšanas komisijas vadība ir atbildīga par šī finanšu pārskata sagatavošanu. Mēs esam atbildīgi par atzinuma sniegšanu par to, vai šis saīsinātais finanšu pārskats visos būtiskajos aspektos ir atbilstošs pilna apjoma finanšu pārskatam, uz kuru balstoties ir sagatavots saīsinātais finanšu pārskats.

Mēs veicām Sabiedrisko pakalpojumu regulēšanas komisijas 2008. gada finanšu pārskata revīziju saskaņā ar Latvijā atzītajiem starptautiskajiem revīzijas standartiem. Mūsu 2009. gada 16. februāra neatkarīgu revidentu ziņojumā mēs sniedzām atzinumu bez iebildēm par Sabiedrisko pakalpojumu regulēšanas komisijas 2008. gada finanšu pārskatu, uz kuru balstoties ir sagatavots saīsinātais Sabiedrisko pakalpojumu regulēšanas komisijas 2008. gada finanšu pārskats.

Mūsaprāt, klātpievienotais saīsinātais finanšu pārskats visos būtiskajos aspektos ir atbilstošs pilna apjoma Sabiedrisko pakalpojumu regulēšanas komisijas 2008. gada finanšu pārskatam, uz kura balstoties ir sagatavots saīsinātais finanšu pārskats un par kuru mēs sniedzām atzinumu.

Lai gūtu pilnīgāku priekšstatu par Sabiedrisko pakalpojumu regulēšanas komisijas finansiālo stāvokli 2008. gada 31. decembrī, tās darbības rezultātiem pārskata gadā, kā arī mūsu veiktās revīzijas saturu, iepriekš minētais saīsinātais finanšu pārskats ir jālasa kopā ar pilna apjoma finanšu pārskatu, uz kuru balstoties ir sagatavots saīsinātais finanšu pārskats, kā arī mūsu neatkarīgu revidentu ziņojumu par pilna apjoma finanšu pārskatu.

SIA Revīzija un vadības konsultācijas
Zvērinātu revidentu komercsabiedrības licence Nr. 79

Zigrīda Šneidere
Atbildīgā zvērinātā revidente
Sertifikāta Nr. 110
Valdes locekle

THE COMMISSION'S OPERATIONAL VISION FOR 2009

Priorities in the energy sector

The Commission's priorities in the energy sector in 2009:

- Assessment of costs which constitute electricity transmission and distribution service tariffs;
- Analysis of trends of changes in electricity wholesale prices;
- Analysis of situation with establishment of connections of electricity supply systems, amending the "System connection regulations";
- Participation in the Gas Working Group of the Baltic Energy Market Interconnection Plan;
- Participation in the Working Group of the EC Baltic Interconnection Plan;
- Participation in the introduction of the new energy legislation of the European Union (the 3rd energy package).

Priorities in the electronic communications and postal sectors

The Commission's priorities in the electronic communications and postal sectors in 2009:

- Conclusion of the 2nd round of market analysis, reviewing the obligations imposed on companies previously and taking into account newcomers to the market;
- Intensified supervision of obligation fulfilment for companies with significant market power;
- Evaluation of costs of services provided by electronic communications companies and continuation of tariff regulation;
- As a measure protecting consumer rights, it is envisaged that the European Union regulation about regulation of services of international roaming data transmission will come into force which will provide for special price caps for tariffs of international roaming, SMS messages and data transmission;
- New EU basic principles regulating the electronic communications sector are expected;

- New European Commission regulation on harmonized regulation of call termination in fixed and mobile telephone networks and next generation access networks will enter into force;
- In accordance with the new “Postal Law”, new normative acts will have to be updated or passed anew;
- Development of consumer friendly “client compass” will be continued;
- Meeting of electronic communications and postal regulators of the Baltic States is planned in Lithuania.

Priorities in the rail transport sector

The Commission’s priorities in the railway sector in 2009:

- Defining a fee for the use of the public railway infrastructure for year 2010;
- Supervision of companies in accordance with requirements specified in licences and normative acts;
- Participation in the railway working group of the European Conference of Ministers of Transport and other international forums.

Priorities in the sectors of municipal services

The Commission’s main tasks in the sectors of municipal services in the administrative territory of Riga city in 2009:

- Licensing and supervision of public service providers in the heat supply sector, assessment of heat power tariff proposals, determining heat power tariffs;
- Licensing of public service providers in the water supply and sewage sector and tariff setting;
- Setting of waste management tariffs until the Riga municipality concludes new contracts with companies selected according to the procedure for public procurements;
- Supervision of companies in accordance with licence provisions and requirements of legal acts.

APPENDIX

Decisions and Documents

External normative acts issued by the Commission

- Grid Code, approved by the Commission Board's decision No.16 on January 16, 2008;
- Methodology for the calculation of natural gas storage service tariffs, approved by the Commission Board's decision No.36 on February 6, 2008;
- Methodology for the calculation of natural gas transmission service tariffs, approved by the Commission Board's decision No.37 on February 6, 2008;
- Methodology for the calculation of natural gas distribution tariffs, approved by the Commission Board's decision No.57 on February 27, 2008;
- Methodology for the calculation of natural gas sales tariffs, approved by the Commission Board's decision No.58 on February 27, 2008;
- Amendments to Methodology for the calculation of the fee for the use of public railway infrastructure for transportation, approved by the Commission's Board decision No.41 on February 13, 2008;
- Methodology for the calculation of liquefied petroleum gas distribution service tariff, approved by the Commission's Board decision No.158 on April 30, 2008;
- Amendments to Methodology for the calculation of mandatory purchase components, approved by the Commission's Board decision No.178 on May 15, 2008;
- Regulations on the amount of information required for market analysis and its submittal procedure, approved by the Commission's Board decision No.206 on June 6, 2008;
- Amendments to Methodology for the calculation of electricity transmission service tariffs, approved by the Commission's Board decision No.207 on June 6, 2008;
- Amendments to Methodology for the calculation of electricity distribution system service calculation tariffs, approved by the Commission's Board decision No.208 on June 6, 2008;

- Regulations on information to be submitted to the Public Utilities Commission, approved by the Commission's Board decision on June 18, 2008;
- Amendments to Methodology for calculating tariffs of heat power generated in CHP plant and tariffs of electricity generated in CHP plant with capacity above 4 MW, approved by the Commission's Board decision No.230 on July 2, 2008;
- Natural gas system connection regulations, approved by the Commission's Board decision No.233 on July 16, 2008;
- System connection regulations for participants of electricity systems, approved by the Commission's Board decision No.264 on August 20, 2008;
- System connection regulations for electricity generators, approved by the Commission's Board decision No.280 on September 3, 2008;
- Regulations on violations of general authorisation provisions, approved by the Commission's Board decision No.293 on September 17, 2008;
- Regulations on procedure of consultations with market participants, approved by the Commission's Board decision No.297 on September 17, 2008;
- Regulations on registration of electronic communications companies and register of electronic communications networks and services, approved by the Commission's Board decision No.425 on November 12, 2008;
- Amendments to Regulations on information to be submitted to the Public Utilities Commission, approved by the Commission's Board decision No.468 on December 12, 2008;
- Regulations on numbering usage rights, approved by the Commission's Board decision No.477 on December 17, 2008;
- Amendments to Methodology for quality measurements of electronic communications services, approved by the Commission's Board decision No.486 on December 17, 2008;
- Regulations on quality requirements for electronic communications services and procedure for submitting quality reports, approved by the Commission's Board decision No.487 on December 17, 2008.

Internal normative acts issued by the Commission

- Procedure No.2.06/1 of January 1, 2008: Procedure for using credit cards issued to employees of the Public Utilities Commission;
- Procedure No.2.06/2 of January 11, 2008: Procedure for using work transport vehicles;
- Procedure No.2.06/3 of January 14, 2008: Procedure for using communications equipment;
- Procedure No.2.06/4 of January 14, 2008: Procedure for supervising payments of state fees for public service regulation;
- Procedure No.2.06/5 of February 11, 2008: Licensing procedure;
- Procedure No.2.06/6 of March 4, 2008: Coordination procedure of Latvian national positions, instructions and other documents related to decision making in the EU;
- Procedure No.2.06/7 of March 5, 2008: Statute of the Public Utilities Commission;
- Procedure No.2.06/8 of March 26, 2008: Procedure of document management;
- Procedure No.2.06/9 of March 31, 2008: Procedure of document management in the Public Utilities Commission;
- Procedure No.2.06/10 of April 16, 2008: On the procedure of assessment of tariff proposals;
- Procedure No.2.06/11 of May 16, 2008: Amendment to the Accounting procedure;
- Procedure No.2.06/12 of May 16, 2008: Amendment to Accounting organization procedure;
- Procedure No.2.06/13 of May 28, 2008: Amendments to Procedure No.2.06/9 of October 24, 2007: Procedure for reviewing administrative violations by the Public Utilities Commission;
- Procedure No.2.06/14 of July 23, 2008: Procedure for work remuneration;
- Procedure No.2.06/15 of July 30, 2008: Procedure for accounting and write-off of representative expenditures;
- Procedure No.2.06/16 of August 21, 2008: Documentation procedure;

- Procedure No.2.06/17 of September 8, 2008: Procedure for public procurements;
- Procedure No.2.06/19 of November 7, 2008: Procedure for using service and personal vehicles;
- Procedure No.2.06/20 of December 12, 2008: Licensing procedure.