



PUBLIC  
UTILITIES  
COMMISSION

THE PUBLIC UTILITIES  
COMMISSION'S

# ANNUAL REPORT

2 0 1 9

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# 1.

## CHAIRMAN'S FOREWORD



2019 has been a dynamic year with significant changes for the Public Utilities Commission (PUC). The regulatory framework was improved, and new responsibilities were assigned to the PUC.

A significant development was the change in the approach for calculating the rate of return on capital, which affects most of the regulated sectors. The new approach ensures a fairer return for merchants taking into account their investments. This means a reduction in the profit included in the tariff for some merchants, but lower tariffs for consumers.

In the electricity sector, the electricity distribution tariff was reduced for the first time in Latvia. Thanks to the PUC's achieved reduction in the rate of return on capital and changes in the methodology, as well as the implementation of the efficiency program of JSC Sadales tīkls, the best possible solution for all electricity end-users was achieved together. Changes to invoices are visible to all users from the beginning of 2020.

At the same time, we are pleased with the final European-wide process for the establishment of a single natural gas market between Finland-Estonia-Latvia, which will start operating in 2020. We worked on this project for about three years. When transporting natural gas through the systems of these countries, the cross-border charge will no longer apply from 2020. This significantly reduces the cost of the system service.

Last year was also user-friendly in terms of changes in market prices. The natural gas market has experienced a sharp decline in prices, reaching record lows over the last 10 years. Thanks to these changes, the costs of natural gas are lower for both households and commercial users. The low price of natural gas was also followed by a high demand for natural gas storage in the Inčukalns storage facility, reaching the maximum available capacity last year.

Due to the fall in fuel market prices, the tariffs of many regulated heat supply companies have decreased last year. This was more evident for those companies who seized the opportunity to obtain a permission to set their own tariff in case of changes in fuel prices.

Changes have also taken place in the water management sector. Some merchants still apply the charges set by local governments in certain areas of activity. However, there is a positive trend - a transition to the PUC-approved tariffs is becoming more active. This is due to our amendments to the regulations, which motivate to submit a tariff proposal to the PUC.

Last year, higher tariffs for municipal waste disposal services for several companies were approved due to not only the inclusion of the natural resources tax in the tariff, but also the increase in costs because of investments in landfills related to replacement of used equipment. Last autumn, the Saeima also entrusted the PUC with the task of approving and monitoring the fee for participation in the deposit return system for beverage containers. The PUC is the only regulator in Europe with such an obligation. The deposit packaging system will start operating on February 1, 2022.

In the electronic communications sector, we continued the work on the quality control. We have performed more than 211,000 serial measurements of Internet quality. Thanks to the measurement results, we have observed that 4G coverage in Latvia has improved. The retail tariff ceiling also came into force in May, making it cheaper to make international calls to Europe. At the same time, given the growing number of numbering fraud cases, the work on customer protection has continued with the development of a regulatory framework for charging fees for numbering resources allocated to merchants.

Changes also took place in the postal sector. The PUC approved new universal postal service tariffs for JSC Latvijas Pasts, which had not been revised for more than 10 years. Although during the evaluation of the tariff proposal the total costs were reduced by 4.76 million EUR, the tariffs for letter correspondence increased. On the other hand, the prices decreased for certain other postal services.

Last year, the work of the PUC and the chairman was also appreciated at the international level. The Chairman of the PUC was elected Vice-Chair of the Council of European Energy Regulators (CEER) and Vice-Chair of the Board of Regulators of the Agency for the Cooperation of Energy Regulators (ACER). Also, in cooperation with the Regional Association of Energy Regulators (ERRA), an unprecedented energy conference was organized in Latvia, which was attended by participants from 37 countries.

**Rolands Irklis**  
Chairman

# 2.

## TERMS AND ABBREVIATIONS

**ACER** – Agency for the Cooperation of Energy Regulators

**BaltReG** – Regulators of electronic communications and postal services in the Baltic States

**BEREC** – Body of European Regulators for Electronic Communications

**CAIDI** – Customer Average Interruption Duration Index

**CEER** – Council of European Energy Regulators

**CEREMP** – Centralised European Register of Energy Market Participants

**CERP** – The European Committee for Postal Regulation

**CO<sup>2</sup>** – carbon dioxide

**CSB** – Central Statistical Bureau of Latvia

**EaPeReg** – Eastern Partnership Electronic Communications Regulators Network

**EC** – European Commission

**EEA** – European Economic Area

**European Electronic Communications Code** – Code

**ERGP** – European Regulators Group for Postal Services

**ERRA** – Energy Regulators Regional Association

**EU** – European Union

**EUR** – euro

**EUR/m<sup>3</sup>** – euro per cubic metre

**EUR/MWh** – euro per megawatt hour

**FinEstLat** – the single natural gas transmission entry-exit system of Finland, Estonia and Latvia

**FKTK** – Financial and Capital Market Commission

**g** – gram

**GB** – gigabyte

**GDP** – gross domestic product

**HHI** – Herfindahl–Hirschman Index

**IT** – information technology  
**JSC** – joint-stock company  
**Kb/s** – kilobits per second  
**kg** – kilogram  
**kWh** – kilowatt hour  
**LLC** – limited liability company  
**LMT** – Latvijas Mobilais Telefons  
**m<sup>3</sup>** – cubic metre  
**Mb/s** – megabits per second  
**Mhz** – megahertz  
**ms** – millisecond  
**MW** – megawatt  
**Mwh** – megawatt hour  
**NB Reg** – Contact network of Nordic and Baltic electronic communications regulators  
**No** – number  
**NRT** – national resources tax  
**OECD** – Organisation for Economic Cooperation and Development  
**PESQ** – Perceptual Evaluation of Speech Quality  
**PTAC** – Consumer Rights Protection Centre  
**POLQA** – Perceptual Objective Listening Quality Analysis  
**PUC** – Latvia Public Utilities Commission  
**REMIT** – Regulation No 1227/2011 on wholesale energy market integrity and transparency  
**SAIDI** – System Average Interruption Duration Index  
**SAIFI** – System Average Interruption Frequency Index  
**SKDS** – market and public opinion research centre SKDS  
**SMS** – short message service  
**TAIEX** – Technical Assistance and Information Exchange Unit



**THD** – total harmonic distortion

**Tw<sub>h</sub>** – terawatt hour

**TV** – television

**UPU** – Universal Postal Union

**UPS** – universal postal service

**VARAM** – Ministry of Environmental Protection and Regional Development

**WAREG** – European Water Regulators

**WMR** – waste management region

**3G** – third generation mobile communications technology

**4G** – fourth generation mobile communications technology

**5G** – fifth generation mobile communications technology

**€** – euro

# 3.

## THE PUC's STRATEGIC PRIORITIES

The **PUC's mission** is to independently and reliably ensure the balancing of the interests of service users and providers by promoting the development of public services. The **PUC's vision** is to become one of the most reliable and open public authorities.

Before determining the priority areas for 2019, the PUC organized discussions with cooperation partners, including leading sector experts, hearing their opinions and proposals. As a result, the PUC set three priority areas in 2019:

- reduction of administrative burdens;
- efficiency incentives in methodologies;
- PUC as an objective expert and advisor.

Continuing the cooperation, the PUC organized a repeated discussion at the end of last year to set new operational priorities for 2020.

The Board adopts decisions on the behalf of the PUC. The Board consists of the Chairman and four Board members appointed by the Saeima. In 2019, the Chairman Rolands Irklis and Board members Gatis Ābele, Intars Birziņš, Imants Mantiņš and Rota Šņuka represented the PUC's Board.



The PUC's employees on August 9, 2019

# 4.

## PUBLIC SERVICE SECTORS IN THE ECONOMIC CONTEXT

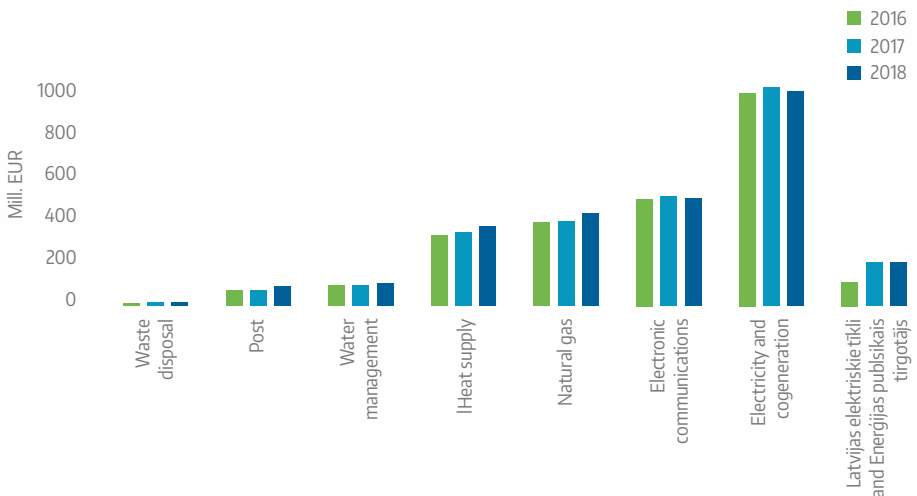
## GROSS DOMESTIC PRODUCT

Data compiled by the Central Statistical Bureau show that the economic growth continued last year, with the gross domestic product (GDP) increasing by 2.2% compared to 2018. GDP at current prices reached 30.5 billion EUR last year. In 2019, the regulated companies whose activities were supervised by the PUC represented the sectors of electricity, gas, district heating, water management, electronic communications, post, and waste management. The share of regulated companies is different in each of these sectors, therefore the published aggregate statistical data on sectors do not always reflect the operational trends of regulated companies.

## TURNOVER OF REGULATED SECTORS<sup>1</sup>

The net turnover of regulated services calculated by using data of reports submitted by regulated companies was 2 795 million EUR in 2018 – 5.3% more than in 2017. In 2018, the net turnover of regulated services increased in several regulated sectors including the waste management sector (by 10.2%), district heating sector (by 6.0%), postal sector (by 20.9%), water management sector (by 9.0%), and natural gas sector (by 10.2%). There was a decrease of the net turnover in the electricity and cogeneration sector (by 2.4%) and electronic communications sector (by 2.1%).

Revenues of regulated services by sector to which state fee is applied

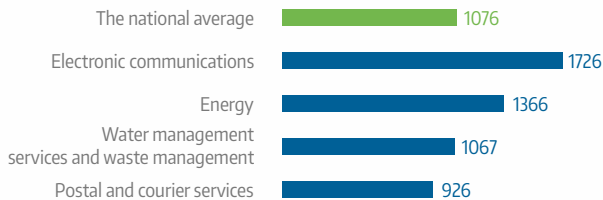


<sup>1</sup>In accordance with the Cabinet of Ministers Regulations No 1227 Regarding Types of Regulated Public Utilities of 27 October 2009.

## REMUNERATION IN THE REGULATED SECTORS

According to the data of the Central Statistical Bureau of Latvia (CSB), in 2019, the average monthly gross wage in the electronic communications and energy sectors was much higher than the average gross wage in the country. Meanwhile, it was lower in the water and waste management, postal and courier sectors. The average gross wage in Latvia increased by 7.2% when compared with 2018. The average gross wage also increased in all regulated sectors. It increased most in the postal and courier sector (by 24.5%), by 9.2% in the water and waste management sector, by 7.1% in the energy sector, and by 9.6% in the electronic communications sector.

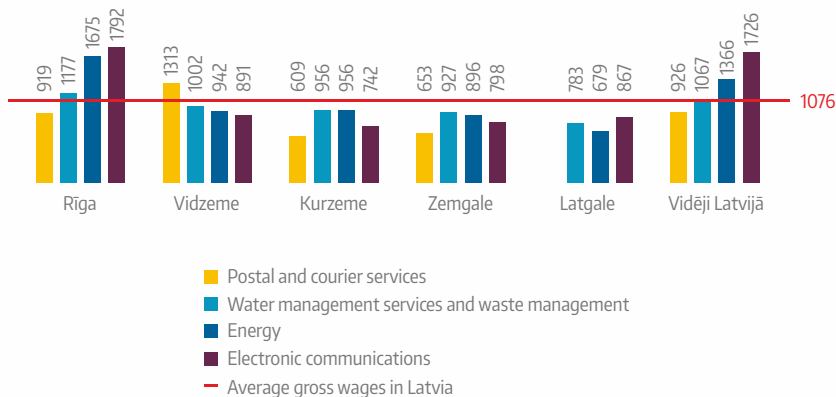
### Average monthly gross wages in public service sectors in 2019, EUR<sup>2</sup>



The average monthly gross wage in public service sectors is different in each region. For example, in the Riga region, the average monthly gross wage in water management and waste management, energy and electronic communications sectors was higher than the average monthly gross wage in all public service sectors as a whole. Meanwhile, in the Latgale region, the indicators of the gross wage are lowest in the energy, water management and waste management sectors. In the electronic communications sector, the lowest indicators of gross wage are in the Kurzeme region. Compared among regions, the largest variation amplitude of the average monthly gross wage is in the electronic communications sector – 1050 EUR, it was 996 EUR in the energy sector, while the average gross wage varies less in the water and waste management sector – it ranges within 394 EUR.

<sup>2</sup> The CSB does not publish data on average monthly wages in the postal and courier sectors in certain regions due to confidentiality.

### Average monthly gross wages in public service sectors in the statistical regions in 2019, EUR<sup>3</sup>



In the Riga region, the average monthly gross wage in almost all public service sectors exceeds the average monthly gross wage in the respective sector in the country. Namely, in the electronic communications sector by 3.8%, energy sector by 22.6%, water services and waste management sector by 10.3%. The exception is the postal and courier sector, where the average monthly gross wage in the respective sector in the country is 7 EUR (0.8%) higher than in the Riga region.

In other regions of Latvia, the average monthly gross wage in the electronic communications, energy, water management services and waste management sectors is lower than the average monthly gross wage in the country. Meanwhile, the postal and courier sector in Vidzeme region has the highest average monthly gross wage, compared to both the average monthly gross wage in the respective sector in the country and with other regions of Latvia.

## THE IMPACT OF REGULATED PRICES ON INFLATION

According to the CSB data, in 2019, services with regulated prices made up 11.04% of all household expenditures (goods and services in the consumer price index basket). This list includes both public services regulated by the PUC and other regulated services which are not supervised by the PUC.

<sup>3</sup> The CSB does not publish data on average monthly wages in the postal and courier sectors in certain regions due to confidentiality.

## Administratively regulated prices and consumer price index in 2019

	Share in expenditures of residents	Price increase (2019 XII vs 2018 XII)	Inflation component (percentage points)
Public services regulated by the PUC (natural gas, district heating, general postal services, water supply, sewerage services, waste management <sup>4</sup> )	6.35%	2.4%	0.15
Other regulated services (compensated medication, patient's fee, passport issuance fee, car parking, notary services, passenger transport, pre-school education, etc.)	4.69%	-2.0%	-0.10
Public services regulated by the PUC and other regulated services, total	11.04%	0.5%	0.06
Consumer Price Index (inflation), total	100%	2.8%	2.8

In 2019, compared to the previous year, consumer prices have increased by 2.8%, while administratively regulated prices - by 0.5%. Prices of public services regulated by the PUC increased by 2.4%.

Of the sectors regulated by the PUC, last year the prices increased the most in the waste management sector (by 18.7%), as well as in the thermal energy sector (by 3.7%), but the prices of postal, water supply and sewerage services remained unchanged. On the other hand, the prices for fixed telephone services and natural gas decreased, i.e. for fixed telephone services by -8.8%, but for natural gas by -9.4%.

### MARKET CONCENTRATION LEVEL (HHI INDICES)

The market concentration level characterises both the options of users to choose a service provider and the proportion of mutual competition among service providers or market power. The market concentration can be assessed by using data on service providers' turnover by sector and type of service. The market concentration evaluated as an index where each market participant's squared market share is summed to obtain the total index value is designated as Herfindahl-Hirschman Index (HHI). If HHI value is smaller than 0.18, but larger than 0.1, such a market may be regarded as moderately concentrated. HHI value above 0.18 indicates that the market is concentrated.

<sup>4</sup> PUC regulates only a part of the waste management sector - disposal of municipal waste in landfills.



The market concentration in the electronic communications sector can be considered moderately concentrated in previous years – the index value increased in 2018 reaching 0.168. The market concentration for postal services is rather stable with a trend to decrease slightly and it reached 0.232 in 2018 which indicates that the market is concentrated. The index value for electricity supply decreased to 0.428 in 2018; however, the electricity trade is still considered a very concentrated market. The natural gas trade market is also considered very concentrated. Its index value reached 0.767 in 2018.

Sector	2014	2015	2016	2017	2018
Electronic communications	0.163	0.156	0.160	0.164	0.168
Post	0.317	0.305	0.268	0.257	0.232
Electricity trade	0.685	0.670	0.609	0.532	0.428
Natural gas trade	-	-	-	0.874	0.767

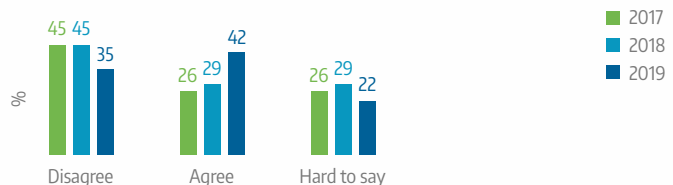
## ASSESSMENT BY THE RESIDENTS

**We make sure that the public receives services of appropriate quality at an economically reasonable price**

The task of the PUC is not only to adopt decisions, but also to explain them, as well as to educate users on issues about which they can address the PUC. The tasks of the PUC are, inter alia, in line with the results of a study carried out by the Market and Public Opinion Research Centre (SKDS)<sup>5</sup>. They show that 42% of the residents of Latvia agree with the statement – the PUC explains developments in regulated areas openly and clearly. This is a much higher number than in 2018 (29%) and in 2017 (26%). The public's trust in the PUC to protect their interests is growing every year.

### PUC defends the interests of public service users

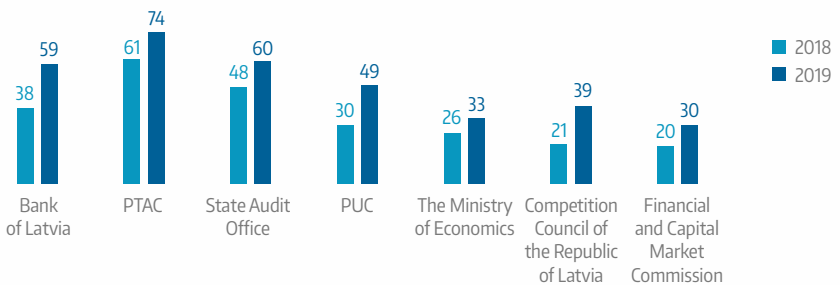
("Please rate how much you agree that the PUC defends your interests!")



<sup>5</sup> "Public image of the Regulator", Latvian Residents' Survey, SKDS, April 2019.

The trust of the residents of Latvia in the PUC compared to other state institutions was also evaluated. In comparison with various supervising institutions in Latvia, including the Bank of Latvia, Consumer Rights Protection Centre (PTAC), Ombudsman, State Audit Office, Competition Council, Financial and Capital Market Commission (FKTK), 49% of the residents trust the PUC which is significantly more than in 2018. It means that the goals set by the PUC for explaining its decisions and involving the public are being achieved.

**Trust in the PUC compared to other supervisory authorities in Latvia**  
("Please rate how much you trust these institutions in Latvia!")



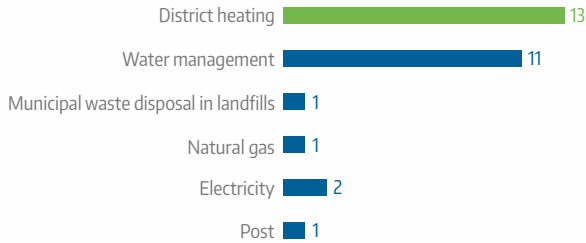
## SOCIAL INVOLVEMENT

The PUC involves users in the process of adopting important decisions by hearing their opinions and suggestions; public involvement is growing every year

In 2019, as in previous years, the tariffs of public services were the most significant topic in the public's opinion. One way how the PUC informs and involves the public and other stakeholders in the evaluation process of tariff proposals is organising public hearings. Public hearings on tariff proposals are a significant part of tariff approval process; a public hearing is organised in the municipality where the tariff proposal is applicable.

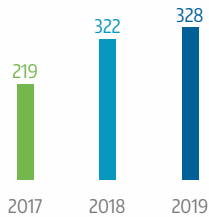
In 2019, a total of 29 public hearings were organised by the Regulator. One public hearing was organised regarding the ten-year electricity transmission system development plan.

### Public hearings on tariff proposals organized by the PUC in each sector in 2019

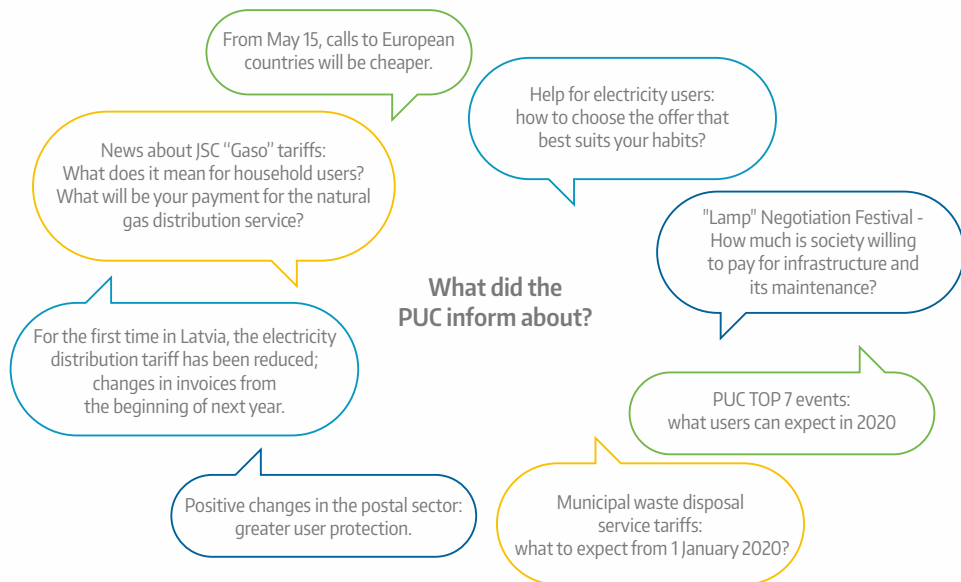


Compared with other years, in 2019, there was an increase in the number of public service users who participated in public hearings.

### Number of participants in public hearings organized by the PUC by year



In 2019, the PUC cooperated with various industry associations and organized information campaigns to promote greater involvement of the public and non-governmental organizations.



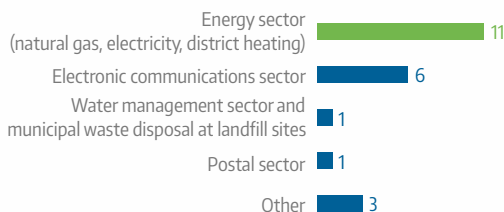
## MERCHANT INVOLVEMENT

Increasing involvement of merchants in the regulation process; merchants have a more positive view of the PUC's performance

The regulatory framework developed by the PUC is binding for public service providers; therefore, the PUC encourages merchants to participate in the drafting of the regulatory framework and the decision-making process.

Involvement of merchants and finding out their opinions take place in various forms - public consultations, working meetings and sectoral discussions or informative events. Last year 22 public consultations on various regulatory enactments were announced. Meanwhile, a repeated public consultation was held on amendments to the methodology for calculating the rate of return on capital.

### Public consultations announced by the PUC in each sector



To promote closer cooperation with public service providers and address uncertainties face to face, the PUC organized various events for regulated merchants in 2019. This allows for discussion and exchange of views with a wide range of stakeholders.

Sectoral events	Sector
Current developments in the natural gas sector, including new tariffs for natural gas transmission services	Energy
Discussion on the changes in the methodology for the calculation of the rate of return on capital	All sectors except municipal waste disposal
The PUC informs the members of the Latvian Association of Heating Companies about the current situation in the district heating sector	District heating
Discussion on natural gas transmission system connection regulations	Energy
Discussion on the new electricity distribution service tariffs	Electricity

The results of the survey of regulated merchants conducted by SKDS also show that the PUC's communication with the merchants is in line with expectations of the merchants, and this rating was stable over the last years. The regulated merchants rate their cooperation with the PUC as good over the previous year. 40% of respondents believe that the PUC's work has improved over the last year. Compared to 2018, the rating has decreased by 2%, but is still stable.

#### Merchants which claim that the PUC's work is improving every year



This confirms that the measures taken by the PUC to promote cooperation with merchants were justified.

# 5.

## ELECTRICITY

FACTS AND FIGURES: IN BRIEF

**58.58**  
EUR/MWh 

electricity price  
for households

**47.43**  
EUR/MWh 

electricity price  
for commercial users

**16** 

new legislative acts to  
meet the requirements  
of the Network Code


**7-20%** 

lower variable part of  
JSC Sadales tīkls  
tariffs

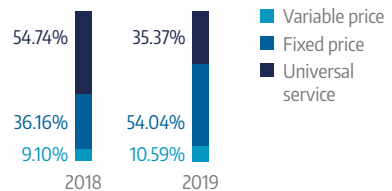
**135** 

reduced distribution tariff  
for users with  
inadequate voltage quality

**Expected benefits for Latvia  
from infrastructure projects:**

-  cross-border trade in electricity will be facilitated
- higher security of electricity supply in the region

**Fixed price products are becoming  
the most popular household choice**



**45%**  → 

fewer complaints

→ **The main reason  
for the disagreement:**  
failure to report electricity  
consumption readings

**Number and duration of electricity supply outages  
(per user in 2019)**

**0.57 x 2h**  planned

**2 x 2h**  unplanned

Significant changes in the sector regulation;  
lower electricity distribution tariffs have been approved for the first time in Latvia;  
the number of complaints continues to decrease

## REGISTRATION AND SUPERVISION OF MERCHANTS

The transmission and distribution system operators are compliant with independence requirements

Four types of regulated services are distinguished in the electricity sector in Latvia:



TRANSMISSION



DISTRIBUTION



GENERATION



TRADE

Electricity transmission and distribution services may be provided only by licensed service providers. The transmission service in Latvia is provided by one system operator for which a tariff approved by the PUC has been set. Meanwhile, the distribution service is provided by 11 system operators; the PUC has approved distribution system service tariffs for six of these operators.

Electricity generation and trade can be provided by registered service providers which provide the service at a market price rather than a regulated price. Last year, 68 active electricity producers were listed in the PUC Producers' Register, while nine were excluded from the Register during the year and no new merchants were registered. 37 electricity traders were listed in the Traders' Register, of which 27 had started electricity trading.

### Supervision of the transmission system operator

Electricity transmission in Latvia is performed by the transmission system operator JSC Augstsprieguma tīkls. In 2013, the PUC certified and approved JSC Augstsprieguma tīkls as an independent transmission system operator. It is obliged to submit a report on the compliance with the certification requirements to the PUC every year, while the owner of the electricity system shall submit an annual report on its compliance with the requirements specified in the Electricity Market Law. After assessing these reports, the PUC decides whether the transmission system operator has continued the fulfilment of the certification preconditions.

The PUC evaluated the prepared report on the compliance of JSC Augstsprieguma tīkls with the certification requirements, including independence requirements, in 2018 and concluded that it complies with the requirements:



1. The shareholder of JSC Augstsprieguma tīkls - the Ministry of Finance - is neither a direct nor indirect shareholder of the electricity system owner JSC Latvijas elektriskie tīkli or a shareholder of merchants engaged in electricity generation, trade and distribution.
2. The person which appoints members of the Supervisory Council or Management Board of JSC Augstsprieguma tīkls may neither directly nor indirectly appoint the members of the Supervisory Council or Management Board of JSC Latvijas elektriskie tīkli or such merchant which is engaged in electricity generation, trade and distribution.
3. The same person may not simultaneously hold the position of the member of the Supervisory Council or the Management Board in JSC Augstsprieguma tīkls and in a capital company engaged in electricity generation, trade or distribution.

At the same time, the PUC evaluated the report prepared by the electricity system owner JSC Latvijas elektriskie tīkli and decided that the measures taken by JSC Latvijas elektriskie tīkli to ensure independence in 2018 were sufficient.

### **JSC Augstsprieguma tīkls' development plan - what benefits are expected for Latvia?**

Every year, the PUC approves the ten-year development plan of the JSC Augstsprieguma tīkls and monitors its implementation. The development plan includes several significant projects for Latvia that will ensure further integration of Latvia into the single European Union (EU) market, creating a strong electricity transit corridor through the Baltic States. This will increase the security of electricity supply in the region and promote cross-border trade of electricity.

#### **The most important measures included in the development plan:**

- Construction of Latvia-Estonia third interconnection;
- Internal line between Riga TEC-2 and Riga HPP (LV);
- Integration and synchronization of the Baltic electricity transmission system with the European networks. Phases 1 and 2;
- 330 kV transmission network reinforcement projects - power transmission lines Tartu (EE) - Valmiera (LV), Tsirgulina (EE) - Valmiera (LV).

The plan also includes projects to halt the aging of the transmission networks, ensuring the stable operation of the transmission system, and projects aimed at maintaining the operational capacity of the transmission system.

### **Supervision of the distribution system operator**

In Latvia, the electricity distribution service is provided by 11 distribution system operators to which the PUC has issued licences; every operator has its own operational territory. JSC Sadales tīkls ensures 99% of electricity supply to consumers with an active electricity licence until 30 June 2027.

Each year, JSC Sadales tīkls is obliged to submit to the PUC by 1 April a report on its compliance with the independence requirements and fulfilment of the compliance program in the previous calendar year. The operation of JSC Sadales tīkls must be separated from electricity generation, transmission and trade. The PUC concluded that in 2018 the system operator had taken the necessary measures to ensure its independence from electricity generation, transmission and trading activities and ensured equal access to the distribution system for all electricity market participants.

JSC Latvenergo, a vertically integrated electricity supply company operating in the Latvian electricity market, has subsidiaries engaged in the generation, trade, and distribution of electricity. The PUC concluded that the members of the Board of JSC Sadales tīkls are not involved in the entities of JSC Latvenergo.

The members of the Board of JSC Sadales tīkls are granted the rights irrespective of JSC Latvenergo to make decisions regarding the assets necessary for the operation, maintenance, and development of the distribution system. JSC Sadales tīkls is the only electricity distribution system operator in Latvia, which is subject these requirements, as it has more than 100 000 users.

Considering that a large part of the costs included in the distribution tariff are capital costs, in the autumn of 2018, the PUC submitted to the Ministry of Economics a proposal to amend the Electricity Market Law. It proposed the PUC's competence to annually approve the ten-year distribution system development plan developed by JSC Sadales tīkls and monitor its implementation. Changes to the law were included at the beginning of 2020 and provide PUC the opportunity to participate in the assessment of capital costs and, if necessary, to prevent unjustified increase in costs.

## **CROSS-BORDER INTEGRATION AND DEVELOPMENT**

The PUC continues to work on market integration - 16 new normative acts have been adopted at the national level to meet the requirements of the Network Codes

### **Clean Energy Package (CEP)**

To ensure a successful harmonization of the European electricity market, four new pieces of legislation have been approved from the CEP, which provide for the following substantial changes:

- Restrictions have been imposed on Member States to maintain a regulated electricity price (the requirements have already been met in Latvia with the opening of the market).
- Tariffs shall include price signals for both electricity consumers and producers, which shall contribute to the long-term efficiency of the system and ensure non-discriminatory treatment of transmission and distribution system users.
- Promoting cross-border trade by imposing an obligation to offer for trade a cross-border transmission capacity which is not less than 70% of the transmission capacity of a power line.

- Measures shall be taken to prevent congestion in the transmission network. In 2014, a restriction for 70% of the hours occurred in the Estonian-Latvian interconnection and the Estonian-Latvian wholesale electricity prices differed on average by 12.5 EUR/MWh per year, while in 2018 a restriction for only 26% of the hours occurred and the price difference decreased to 2.8 EUR/MWh. After the construction of a power transmission line between Estonia and Latvia, which will be commissioned at the end of 2020, the structural restriction on the Estonian-Latvian border will be removed.
- Restriction of capacity payments. Member States have the option of introducing a capacity mechanism if concerns about resource scarcity are identified. The Member States with such a problem need to develop an implementation plan to eliminate the identified market failures and coordinate with the European Commission (EC). In addition, the regulation provides for other restrictions - capacity charges may be granted only to those producers whose CO<sub>2</sub> emissions per kWh produced do not exceed 550 g. This means that coal-fired power plants that do not produce electricity in cogeneration mode will not be able to receive capacity payments. Such a restriction is particularly important for Poland.

## Electricity Network Codes and Guidelines

Last year, the PUC, in cooperation with the transmission system operator, neighbouring regulatory authorities and ACER, continued to work on the implementation of the requirements of the EU Electricity Network Codes and Guidelines in Latvia and the Baltic Capacity Calculation Region. In total, the European Commission has issued eight Network Codes and Guidelines, which are divided into three groups: connection regulation, system regulation and market regulation. As a result, last year the PUC adopted 16 decisions related to the implementation of the requirements of the EC Network Codes and Guidelines at the national level.

## The accession of the Baltic States to the European Continental Synchronous Area

In May 2019, the Agreement on the Conditions for the accession of the Baltic States to the European system entered into force<sup>6</sup>. At the same time, in 2019, active international work on the synchronization of the Baltic States with continental Europe continued, developing an application for funding for Phase 2. The PUC's application for funding was approved in May 2020.

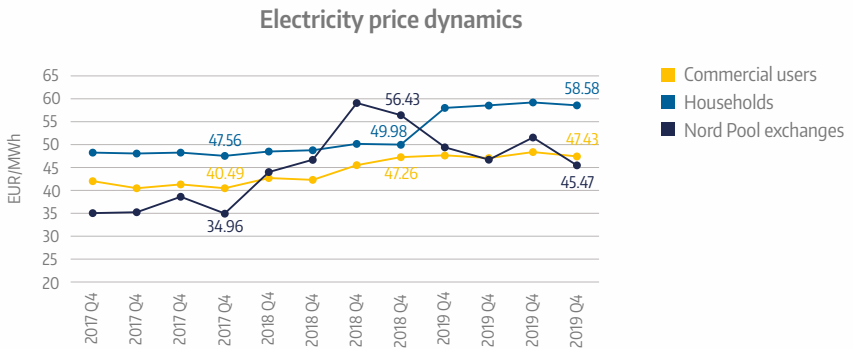
## SERVICE PRICES AND TARIFFS

Interest in the universal service is declining significantly, but is gradually increasing for variable price contracts

<sup>6</sup> Agreement on the Conditions for a Future Synchronous Interconnection of the power system of the Baltic States and the power system of Continental Europe.

## Retail electricity market: prices and contracts

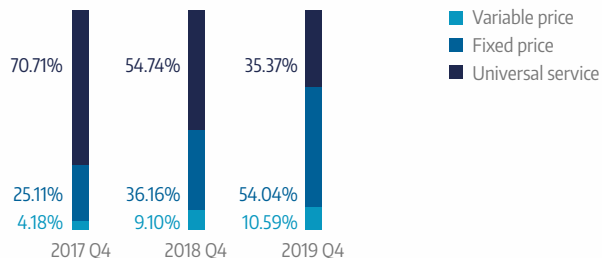
Electricity prices in 2019 have increased compared to 2018. At the end of 2018, the weighted average price for households was 49.98 EUR/MWh, while in 2019 the price reached almost 59 EUR/MWh. This was due to a significant rise in prices on the power exchange at the end of 2018, which affected the price forecasts at the time of the renewal of contracts. The increase in prices compared to 2018 was also observed for commercial users, but it was much flatter, as there is more competition in this segment, as well as a higher share of variable price contracts.



## Contract structure for household users

There are three main types of electricity trading contracts for household users: universal service, fixed-price contracts, which provide for a specific price for one or more years, and variable price contracts, which link the price of electricity to the power exchange price.

Last year, the share of fixed-price contracts increased significantly and, for the first time since the market was opened (in 2015), the number of fixed-price contracts exceeded the number of universal service contracts. The share of variable price contracts has also gradually increased.



## TARIFFS, TARIFF CALCULATION METHODOLOGIES AND TARIFF CHANGES

New tariffs of JSC Sadales tikls were approved;  
significant changes in the sector regulation

The year 2019 was significant in the electricity sector with two important changes in the regulatory framework - amendments to the methodology for determining the rate of return on capital and the methodology for calculating tariffs for electricity distribution system services. At the same time, new mandatory procurement (MP) components for 2020 were approved, and the tariffs of JSC Sadales tikls were approved, which entered into force on 1 January 2020.

### Methodology for calculating the rate of return on capital

The amendments to the methodology envisage that the permitted profits for regulated companies that previously applied the rate of return on capital to revalued fixed assets will be reduced. Namely, in the future, when determining the return on capital in real terms, price changes will be taken into account, and thus the return on capital will decrease.

By revaluing fixed assets, merchants have so far earned a return or profit also on the revalued part of the value. The new PUC approach ensures a fairer return on the investment. The methodology was supplemented with a formula for calculating the real rate of return on capital, which takes into account price changes. This means that the amount of profit to be included in tariff costs is reduced for some regulated service providers. The amendments to the methodology entered into force on 22 August 2019.

### Electricity distribution system service tariff calculation methodology

The most significant changes are changes in the regulatory regime, efficiency incentives and the producers' tariff.

The change in the regulatory regime is due to a gradual transition to tariff setting, following a "revenue cap" approach. Prior to the changes in the methodology, the "hybrid approach" was the tariff setting approach included in the tariff methodology. It was primarily based on a "cost-plus" approach for setting tariffs, with the addition of simple efficiency incentives to reduce costs. The "revenue cap" approach is characterized by predictable and stable tariffs, business-oriented corporate governance, and more options for the application of incentive-based regulation.

The "revenue cap" approach is one of the most common pricing approaches for system operators in Europe. The amendments to the methodology also stipulate that, as is currently the case for electricity consumers, all system users, including electricity producers, will be obliged to contribute to the costs of maintaining the electricity network in the future. The amendments to the methodology came into force on October 3, 2019.

## JSC Sadales tikls tariff

In 2019, JSC Sadales tikls submitted a new tariff proposal in accordance with the developed tariff methodology. The tariff was approved on November 27, 2019 and is effective from January 1, 2020. This is the first electricity distribution tariff characterized by a reduction in total costs. In general, the final tariff for electricity users, compared to the previously approved tariff, could be reduced due to three significant items - the reduction of the PUC's return on capital by 26 million EUR, reduction of operating costs by 13.5 million EUR and a reduction by 7 million due to future efficiency measures. Additional revenue of 0.6 million EUR of the electricity producers had a smaller effect on the reduction of the end-user tariff.

The approved tariff envisages that from 1 January 2020, the variable part of the distribution tariff for users will decrease on average from 7% to 20%, while the fixed part will remain unchanged. The amount of reduction depends on the capacity demanded by users and electricity consumption. Consequently, the impact of changes in distribution system service tariffs on each end-user is different.

During the tariff evaluation, the introduction of a fixed charge for electricity producers provoked extensive discussions. Both users and producers bear the connection costs, but so far producers did not contribute to the rest of the system maintenance costs. The producer tariff for generators connected to the distribution system will be applied from 2021, when it is planned to set the same tariff for producers connected to the transmission system. At the same time, when setting the producer tariff at the distribution level, the maximum cost threshold stipulated by European law for producers connected to the transmission system was taken into account. This ensures that there is neither positive nor negative discrimination between generation connected at the distribution level and generation connected at the transmission level.

## Mandatory procurement component

The PUC has been evaluating the electricity mandatory procurement (MP) components calculated and submitted by JSC Enerģijas publiskais tirgotājs since 2008. JSC Enerģijas publiskais tirgotājs calculates and submits MP components to the PUC for approval in accordance with the PUC methodology. Trends show that the value of the MP component has been stable since 2014, when the state budget grant was introduced. The sharpest decline was observed in 2018, when the government's decision on a lower average value of MP and capacity components came into force.

The PUC approved the values of MP components for 2020 on November 27, 2019. The average value of MP and capacity components for the next year will stay at the current level - 22.68 EUR/MWh or 0.02268 EUR/kWh. The capacity components approved by the PUC in 2018 will remain unchanged until 2021. Meanwhile, the MP component, paid in proportion to consumption, will be 14.76 EUR/MWh or 0.01476 EUR/kWh from 2020.

According to the data available to the PUC, the state budget grant to cover the MP costs in 2020 is planned to be the lowest so far - 13.53 million EUR. The highest grant was in 2016 - 78.92 million EUR. The reduction is due to the end of the state aid period for several power plants or the abolition of the state aid. The impact of these activities on the values of the MP components will be observable when the state grant is no longer used to cover the MP costs.

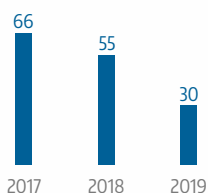
## SUPERVISION OF THE SERVICE QUALITY

The number of complaints has decreased by more than 50% in three years; distribution tariff was reduced for 135 users due to inadequate voltage quality

### User protection

Last year, the PUC received 30 complaints, which is 45% less than in 2018. The PUC has not received any user complaints about tariffs. Of the submitted complaints, 23 were unjustified, four did not fall within the competence of the PUC, while three complaints were justified and within the competence of the PUC.

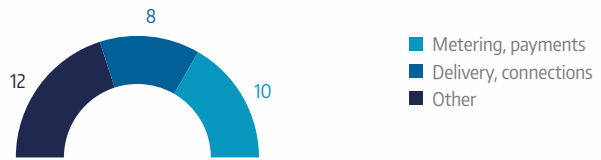
### Dynamics of the number of complaints in the electricity sector



When analysing the content of the applications, the main reason for disagreements in 2019 was related to non-reporting of electricity consumption readings. There have also been cases where a smart meter was installed in the user's facility, but data transmission communication problems had occurred. In such cases, the distribution system operator calculates the data according to the historical consumption of the user, therefore disagreements arose regarding the consumption data recorded by the user and provided by the distribution system operator.

If, due to data transmission communication problems, the data reading system has not been able to receive all the daily consumption data of the facility from the smart meter, the missing consumption data is read during the next successful data reading and the consumption is adjusted accordingly.

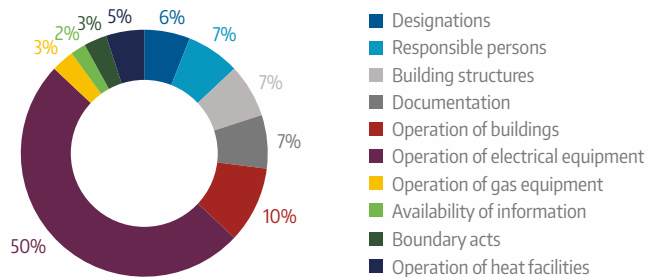
Received complaints by their type



## Supervision of energy supply facilities

### Inspections of electricity supply merchants

It is the PUC's responsibility to carry out control of the facilities of electricity supply merchants (system operators and electricity producers) to verify the impact of a facility on the security of electricity supply. Last year, the PUC carried out the control of the compliance of 26 merchant facilities, during which 75 facilities were inspected. During the inspections, 68 non-compliances were found in 21 inspections (80% of the total). 73 non-compliances were corrected last year, the remaining non-compliances according to the PUC's instructions were eliminated in the first quarter of 2020 or will be eliminated during 2020.



The highest number of non-compliances (34 cases) was found in the operation of electrical installations. In eight cases, there were non-compliances regarding equipment earthing and in six cases violations regarding the periodicity of preventive measurements of electrical installations were found. The other non-compliances were related to the general condition of premises and equipment, incorrectly built part of equipment and informative designations.

Most of the shortcomings in the operation of the facilities found during inspections do not directly affect the reliability of the electricity supply, but may, in specific circumstances, cause significant disruption of production processes and damage to equipment. The most significant non-compliances were eliminated within the deadlines specified by the PUC.



## Service quality

In 2019, compared to 2018, the duration and number of planned and unplanned electricity supply outages have decreased. Electricity supply reliability depends on power outages and voltage drops. Users expect high security of supply with the lowest possible tariffs, low number of voltage outages and shortest possible interruption times. It is therefore the task of the system operators to minimize these outages with the least possible investment. The PUC's obligation is to supervise this process so that the system operator ensures the security of electricity supply to the users at economically justified costs.

Security of electricity supply is measured by the number and duration of power outages. In 2019, on average, less than one scheduled disconnection per user was observed and lasted for two hours.

### Number of planned power outages per user (SAIFI)

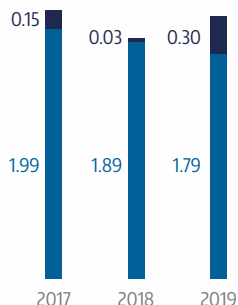


### Duration of planned power outages (in minutes) per user (SAIDI)

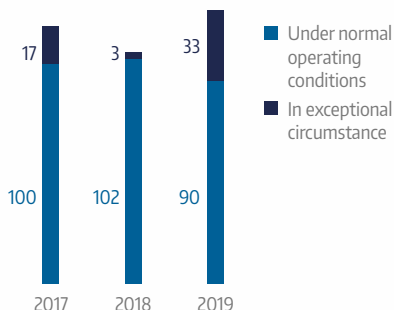


Unplanned power outages per user happened two times on average and lasted for two hours.

**Number of unplanned power outages per user (SAIFI)**



**Duration of unplanned power outages (in minutes) per user (SAIDI)**



The indicators of the duration of unplanned outages have stabilized, which indicates that the resources invested by the system operator in the reconstruction and maintenance of the distribution network infrastructure are adequate to maintain the achieved security of supply and duration of unplanned outages. In addition, the indicator has stabilized at the average level set by European countries. It means that the merchant provides an increasingly high-quality service to its users.

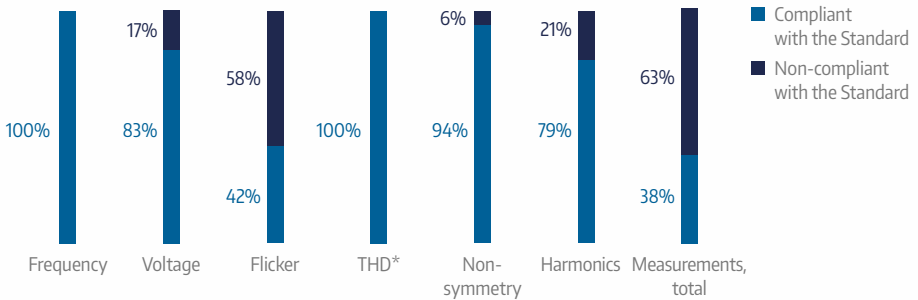
### Voltage and power supply quality

In 2019, the PUC carried out 48 measurements, mainly in rural areas. There were 30 cases of non-compliance with the voltage characteristics of power supply networks stipulated by the Standard<sup>7</sup> – regarding the characteristic "Flicker" (28 cases), harmonic distortion for individual harmonics (10 cases) and voltage value (8 cases).

Most of these non-compliances were found in rural areas due to the continued use of long power lines, built in the 1970s and designed for light loads (~1 kW) which was sufficient at the time. The capacity of modern electrical equipment is insufficient for the cross-section of these lines.

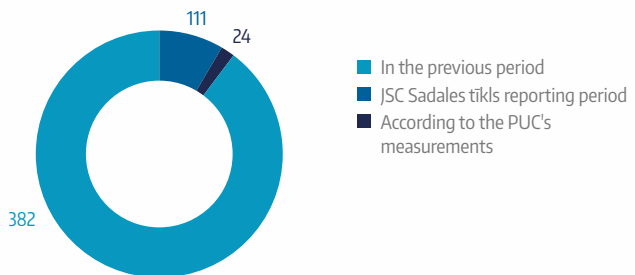
<sup>7</sup> The Standard LVS EN 50160:2010 "Voltage characteristics of public electricity supply networks", defined as mandatory by the Cabinet of Ministers Regulations No 759 "Regulations on Voltage Requirements of Public Power Supply Networks" of 4 October 2011.

### Share of non-compliances in measurements



In all cases of non-compliance, the operators submitted to the PUC an action plan to remedy the non-compliances.

Users are entitled to pay half the tariff for the distribution system service for inadequate voltage quality. During 2019, the reduced tariff was applied for 135 users, including 24 users for whom the Regulator had performed voltage quality measurements. At the end of the reporting period, the reduced tariff was applied to 517 users.



\* Total distortion coefficient of the supply voltage sinusoid.

## SECTOR DEVELOPMENT TRENDS AND CHALLENGES IN 2020

Līga Kurevska, Director of the Department

In 2020, in the electricity sector, it is planned to develop several significant draft regulatory enactments, for example, regulations for the elaboration of the investment development plan of the electricity distribution system operator. These amendments will reflect a broader trend in the EU, where greater emphasis will be placed on long-term cost optimization and targeted innovation for the supervision of distribution system operators. That is why we have placed great emphasis on the assessment of the existing infrastructure and specific needs-based long-term goals in the regulations for monitoring additional investments.

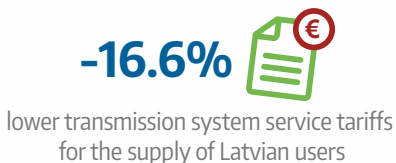
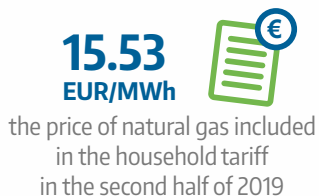
The PUC also plans to develop a new methodology for calculating electricity transmission system service tariffs. The scope of the changes includes both a transition to a "revenue cap" regulatory regime and changes to the tariff structure, including a producer tariff and a tighter separation of fixed and variable costs. In January 2021, a new transmission system service tariff for JSC Augstsprieguma tīkls is also expected. Together with JSC Augstsprieguma tīkls, the PUC will continue to work actively on the synchronization project with continental Europe, both by assessing the possibilities of attracting funding and by supervising the development of the project as a whole.

At the same time, we plan to work on the development of service quality regulation, both by incorporating compensation mechanisms for users into the regulatory framework and by reviewing the rules of connection and efficient connection.

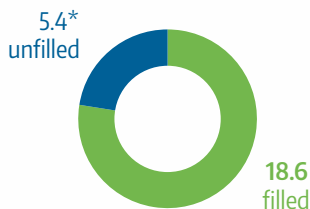
# 6.

## NATURAL GAS

## FACTS AND FIGURES: IN BRIEF



## Inčukalns storage filling (TWh)



\* Not available due to technical limitations.

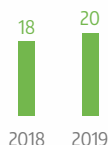
## The process of establishing a regional natural gas market has been completed



The transmission tariff is not applied  
for the transportation of natural  
gas between the countries\*  
within the system

\* (Latvia, Estonia, Finland)

## COMPLAINTS RECEIVED



→ **The main reason for the disagreements:**  
the information in the received annual  
equalised payment report

## NUMBER AND DURATION OF NATURAL GAS SUPPLY INTERRUPTIONS

planned interruptions  
(per user):

**0.48 times** → **56 min.**

unplanned interruptions  
(for all users):

**425 times** → **0.09 min.**

Lower natural gas transmission system service tariff for the supply of Latvian users;  
the price of natural gas for households and commercial users was significantly reduced

## REGISTRATION AND SUPERVISION OF MERCHANTS

The transmission and distribution system operator is compliant with independence requirements;  
the number of traders is growing

Four types of regulated services are distinguished in the natural gas sector in Latvia:



TRANSMISSION



DISTRIBUTION



STORAGE



TRADE

Only licensed service providers may provide natural gas transmission, storage, and distribution services. In Latvia, one system operator provides both transmission and storage services, and one system operator is responsible for providing the distribution service. Tariffs approved by the PUC have been set for both merchants.

Natural gas can be traded by registered service providers which provide the service at a market price, not a regulated price, while a regulated natural gas price is available to household users – a captive user tariff.

Last year, 22 natural gas traders were listed in the PUC Traders' Register, of which 16 had started trading in natural gas. During 2019, five new merchants were registered, while 12 were excluded from the Register.

### Supervision of the transmission system operator

The EU requirements and the Energy Law stipulate that natural gas transmission system operators must be independent of natural gas traders and producers.

During the certification process the PUC instructed JSC Conexus Baltic Grid to ensure that JSC Gazprom does not have the possibility to exercise direct or indirect control over JSC Conexus Baltic Grid by 1 January 2020. The risks of conflict of interest caused by the simultaneous participation of Marguerite Gas I and Marguerite Gas II in both JSC Conexus Baltic Grid and JSC Latvijas Gāze also had to be avoided.

JSC Conexus Baltic Grid did not agree with the PUC's decision, although the European Commission provided an opinion agreeing with the PUC's position.

JSC Conexus Baltic Grid considered the conditions mentioned in the Certification Decision as legally unenforceable and appealed the decision to the Regional Administrative Court. In September 2019, the application of JSC Conexus Baltic Grid was rejected by a court judgment; however, JSC Conexus Baltic Grid filed a cassation appeal with the Supreme Court.

In 2019, when performing the annual assessment of the compliance with the certification requirements, the PUC additionally set a new condition - to ensure that an author's supervision of the Inčukalns underground gas storage facility from 1 January 2020 is performed by a merchant that is not directly or indirectly connected to JSC Gazprom and its related merchants.

On 12 December 2019, the PUC received an application from JSC Conexus Baltic Grid with a request to extend the deadline for the fulfilment of the conditions of the Certification Decision. In 2019, the PUC requested additional information and extended the deadline for reviewing the application. In 2020, the PUC decided to reject the request for the extension of the deadline.

## Monitoring the independence of the distribution system operator

The reorganization of JSC Latvijas Gāze took place in several stages and was started in the summer of 2017. As a result, JSC Gaso was established which provides a distribution system service. In accordance with the Energy Law, JSC Gaso is obliged to prepare<sup>8</sup> and submit a report to the PUC in accordance with the PUC's regulations.

After assessing the legal separation of JSC Gaso to ensure independence from JSC Latvijas Gāze, the PUC concluded that JSC Gaso complies with the requirements set by the Energy Law. At the same time, the members of the Supervisory Council and Management Board of JSC Gaso were not involved in the structures of JSC Latvijas Gāze directly or indirectly responsible for the production, transmission and storage of natural gas, and the provision of liquefied natural gas services and their trade. The Supervisory Council and Management Board members of JSC Gaso were granted the right to make decisions independently regarding the assets necessary for the operation, maintenance or development of the natural gas distribution network.

When evaluating the list of outsourced contracts concluded with JSC Gaso, the PUC established that JSC Latvijas Gāze cannot influence the activities of JSC Gaso and that there was no conflict of interest regarding the use of services. JSC Gaso had undertaken all necessary measures to ensure the confidentiality of commercial information obtained during its duties as a natural gas distribution system operator.

<sup>8</sup> Decision No 1/3 "Regulations on requirements for the independence of the natural gas distribution system operator" of 26 January 2017.



## CROSS – BORDER INTEGRATION AND SYSTEM DEVELOPMENT

A unique Europe-wide process for creating a single market for natural gas has been completed; the market will start functioning on 1 January 2020

One of the most significant achievements of the PUC is the joint agreement between regional policy makers, regulators and natural gas transmission system operators on the establishment of a single natural gas transmission entry-exit system in Finland, Estonia and Latvia (FinEstLat).

As a result of the establishment of the single natural gas transmission entry-exit system, no transmission tariffs will be applied to natural gas transportation between Latvia, Estonia and Finland from 2020. This means that a tariff is applied only once when the natural gas crosses the border of the single natural gas transmission entry-exit system. Furthermore, the tariff is the same at all entry points of the single natural gas transmission entry-exit system.

The establishment of the single natural gas transmission entry-exit system activates the operation of the regional natural gas market, strengthens Latvia's energy independence, including reducing the domination of the incumbent supplier JSC Gazprom in the region, promotes competition in the natural gas market and facilitates more efficient use of the regional natural gas infrastructure, including the Inčukalns underground gas storage facility. This in turn results in more competitive natural gas prices and high-quality services, benefiting natural gas users.

Prior to the launch of the single natural gas entry-exit system in the Baltics, as elsewhere in Europe, the applicable entry-exit transmission tariff system created barriers to natural gas trade between Member States and often resulted in inefficient use of infrastructure. Namely, “tariffs accumulate” if natural gas is transported through the borders of several zones, thus making natural gas more expensive and hindering natural gas trade. This is the first time that such a single three-country natural gas transmission entry-exit system has been established in the EU and has received a great deal of attention and recognition from the EU Member States.

An important precondition for the launch of the single natural gas transmission entry-exit system was the existence of a unified system use and balancing regulation. In autumn 2019, amendments were made to the Energy Law, which stipulate the regulatory framework of the regional natural gas market. Based on the provisions of the Energy Law and in agreement with the Estonian regulator, the Uniform Regulations Regarding the Use of the Natural Gas Transmission System and the Uniform Regulations Regarding Balancing Natural Gas in the Transmission System were agreed upon, as well as amendments to Regulations Regarding the Use of the Inčukalns Underground Gas Storage Facility. The second important precondition was the successful consultation of an appropriate methodology for calculating tariffs for natural gas transmission system services at European level and the evaluation and approval of tariffs based thereon.

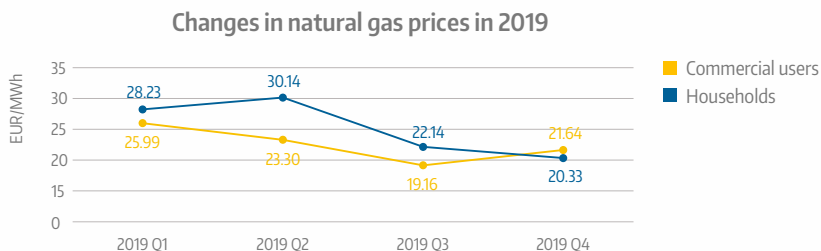
## SERVICE PRICES

The price of natural gas for both households and commercial users decreased significantly

### Natural gas retail market: prices

During 2019 a relatively significant decrease in costs was observed. At the end of 2018 the weighted average price of natural gas for households was 26.43 EUR/MWh, while at the end of 2019 - 21.64 EUR/MWh. At the end of 2019, 98.58% of household customers used fixed-price contracts, including payments for natural gas at the captive user price which is reviewed semi-annually.

There is a higher-price dynamic among commercial users, which closely follows the events on the exchange. In this segment, changes in the exchange price are reflected faster, as most of them are variable-price contracts - 74.22%. Also, in this segment there is a significant decrease in natural gas prices - compared to 2018, in the last quarter of 2019 the price decreased by 8 EUR/MWh, reaching a relatively low-price level - 20.33 EUR/MWh.



## TARIFFS, TARIFF CALCULATION METHODOLOGIES, AND TARIFF CHANGES

The tariff for natural gas transmission system services for the supply of Latvian users is decreasing

### Changes in tariff calculation methodologies

The most significant changes in the tariffs for regulated services in the natural gas sector are amendments to the methodology for calculating the rate of return on capital (see the Electricity section) and, accordingly, the methodology for calculating natural gas transmission system service tariffs.

## Natural gas transmission system service tariff calculation methodology

The main changes are related to the change in the regulatory regime, the move to a "revenue cap" approach and the inclusion of requirements for the entry-exit system regulations covering several Member States with several natural gas transmission system operators, and the introduction of efficiency incentives.

The change in the regulatory regime is related to the goal set by the PUC in the energy sector to gradually move to tariff setting by following the "revenue cap" approach. Prior to the changes in the methodology, the tariff setting approach in the methodology was described as a 'hybrid approach', primarily based on a "cost-plus" approach.

The "revenue cap" approach is characterized by a predictable and stable tariff, business-oriented corporate governance, and greater scope for incentive-based regulatory mechanisms. The "revenue cap" approach is one of the most common tariff-setting approaches for system operators in Europe.

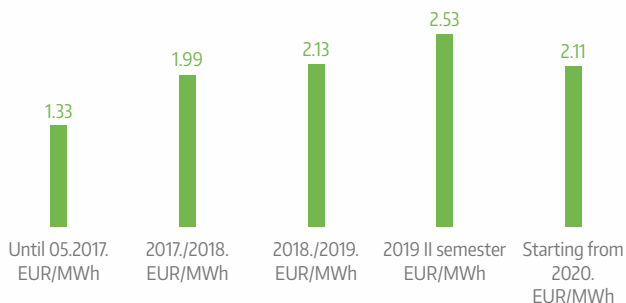
Amendments to the methodology regarding the single natural gas transmission entry-exit system were an important precondition for the launch of the single system, as it envisages abandoning tariffs for transmission between the single system countries (Latvia, Estonia, Finland) and setting the same tariff for entry points from other transmission entry-exit systems. Consultations on the methodology were held not only with Latvian stakeholders, but also at the European level. An evaluation report was also received from ACER in accordance with EC regulations on the methodology.

## Natural gas transmission system service tariffs

In 2019, natural gas transmission tariffs were evaluated twice. Tariffs were approved in April for the period from 1 July, but although many cost items were significantly reduced, such as capital costs by 4% and staff costs by 13%, the total costs to be included in the tariff calculation increased. This was related to the costs of the security of supply to users, which are determined by an annual auction.

After the adjustment of the regulatory framework to the single entry-exit system, the natural gas transmission system service tariffs were reviewed again, taking into account the mutual compensation mechanism of transmission operators and the entry tariff of the single system. The tariff was set for 33 months, additionally incorporating the application procedure to reflect the costs of the security of supply to users in the tariffs. Thus, from January 1, 2020, the fee for the use of the exit point for the supply of Latvian users has decreased, while for the next two years, on October 1 of each year, it will be determined according to the amount of the security auction costs.

### Natural gas transmission system service tariffs for supply of Latvian users



### Natural gas distribution system service tariffs

According to the methodology and the authorisation issued by the PUC, if JSC Gaso establishes that the volume of natural gas delivered to users in a calendar year has changed by 5% compared to the volume forecast included in the current tariffs for 2018, the merchant is obliged to recalculate tariffs and submit them to the PUC for evaluation.

This approach is designed to hedge against a large accumulation of unforeseen revenues/expenditures during the tariff period. The PUC is obliged to assess within 21 days from the receipt of the notification whether the tariffs are justified and calculated in accordance with the methodology.

In 2019, such a deviation was detected and JSC Gaso calculated tariff adjustments. Taking into account the changes in consumption of each user group, JSC Gaso made adjustments to the natural gas distribution system service tariffs. For users without seasonal natural gas consumption, the variable share of tariffs will increase slightly in 2020, but for other groups - it will decrease. However, notwithstanding these accepted changes in distribution system service tariffs, the final payment for natural gas is not significantly affected. This is due to the fact that natural gas prices have decreased during the last six months, as well as the natural gas transmission system service fee for the use of the exit point to supply Latvian users has decreased.

Meanwhile, for users with seasonal natural gas consumption, i.e. those who consume natural gas in certain months, the tariffs remain at the current level. The adjusted tariffs were approved by the PUC on December 18, 2019 and are effective from January 1, 2020.

## Natural gas storage service tariff

After two years of relatively low demand, considering the great dynamics of the natural gas market, there was a significant interest of traders in the use of the natural gas storage service in 2019. Due to significant fluctuations in demand, technical difficulties were identified during the pumping season and the storage operator had to limit the total storage and pumping capacity. The available capacity during the pumping season was fully reserved, reaching 18.6 TWh of filling.

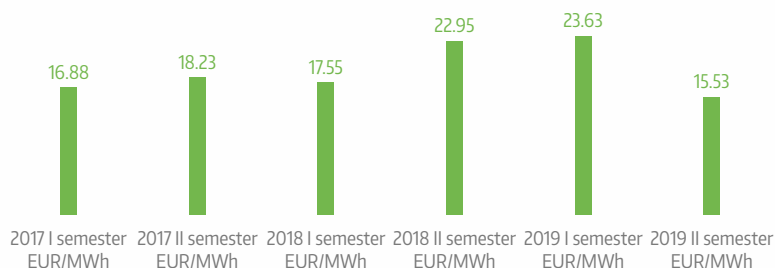
At the end of the season, the tariff values set for storage services were as follows:

- bundled capacity product – 0.82 EUR/MWh;
- two-year bundled capacity product – 4.90 EUR/MWh;
- market product – 5 EUR/MWh.

## Tariff for captive users of natural gas (households)

The tariff for the captive users of natural gas until the approval of a new tariff proposal is determined in accordance with the decision of the PUC<sup>9</sup>. The tariff is reviewed twice a year until the 10th date of the last month of the semester. In the first half of 2019, the differentiated trade end-tariffs for natural gas were set at the natural gas trade price of 23.63 EUR/MWh, while in the second half of the year the tariffs were set according to the natural gas trade price of 15.53 EUR/MWh. In the second half of 2019, the price of natural gas was the lowest since the opening of the natural gas market.

### Natural gas prices at which the tariff for captive users is set



<sup>9</sup> Decision No 247 "On the natural gas supply tariffs of the joint stock company Latvijas Gāze of 24 July 2008.

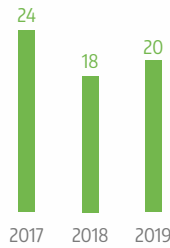
## SUPERVISION OF SERVICE QUALITY

Most users have complained about natural gas accounting and billing

### User protection and review of applications

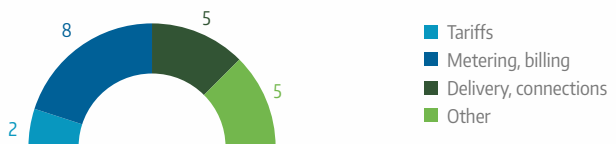
Compared to 2018, in 2019, the number of user complaints increased by two, a total of 20 complaints were received. Of these, 14 were unjustified, while six did not fall within the competence of the PUC.

Complaints received



The most common reason for complaints is the misunderstanding of the information contained in the received annual equalised payments statement. The principle of equalised natural gas consumption is a payment method according to which a user pays a constant amount each month, calculated on the basis of the user's historical natural gas consumption. When the user's habits or weather conditions (heating) change, there is a difference between the forecast and the actual consumption. In order to equalise the difference, a statement of the equalised payment is prepared, in which the actual consumption of natural gas is compared with the calculated equalised consumption of natural gas and the total amount payable in the reporting period with the amount actually paid.

Complaints received by type



Two complaints were received regarding changes in the tariff structure of JSC Gaso as of January 1, 2019. The major part of the distribution system service costs consists of the fixed costs of maintaining the infrastructure required for the supply of natural gas, which do not depend on the consumption of natural gas. Consequently, to maintain the infrastructure in an appropriate technical condition and to ensure other activities necessary for the functioning of the distribution system, the tariff structure was changed, also determining a fixed part of the tariff. Otherwise, a situation would arise where users who do not actually use natural gas or use it rarely would not contribute to the infrastructure costs but would have the opportunity to use natural gas at any time. Meanwhile, the maintenance of the necessary infrastructure for such users would have to be provided at the expense of funds received from other users.

Four users did not acknowledge the claims prepared by the service providers regarding the payment for the used natural gas and the calculated compensation in connection with the violation of the regulatory enactments on the use of natural gas. The service providers have established a violation of the above-mentioned regulatory enactments or contractual provisions, as a result of which the natural gas user has had the opportunity to reduce the amount of consumption of the metered natural gas or to consume natural gas free of charge.

## **MONITORING OF ENERGY SUPPLY FACILITIES**

The number and duration of planned natural gas interruptions are increasing

### **Supervision of the transmission system operator**

In 2019, two compliance checks of natural gas transmission facilities were performed during which 32 facilities were inspected. During the inspections, six shortcomings were identified, which were related to the installation of lightning protection of the facilities, operation of heating equipment and informative designations of the facilities. Four of these shortcomings were eliminated in 2019, while the other two will be eliminated in 2020.

### **Quality of the natural gas distribution system service**

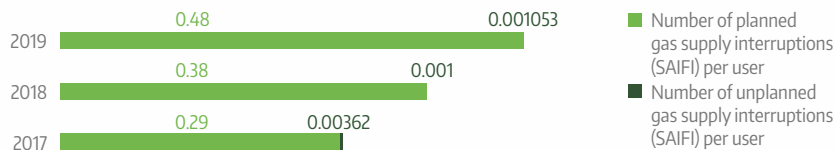
To promote the improvement of the quality of natural gas distribution system service in Latvia, the PUC started to measure the parameters characterising the quality of the natural gas distribution system service. The PUC annually inspects the operations of JSC Gaso.

In 2019, two operational compliance checks of natural gas distribution facilities were performed, in which 15 facilities were inspected. During the inspections, one non-compliance was found, which was related to the compliance with the gas pipeline earthing regulations and will be eliminated within the deadlines specified by the PUC.

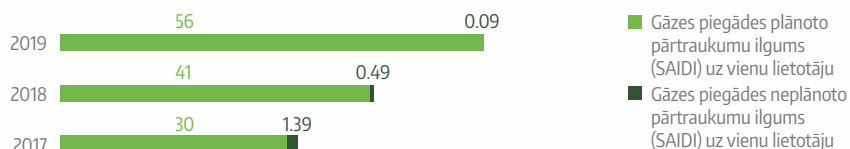
In 2019, the planned number of natural gas supply interruptions (SAIFI) and duration (SAIDI) per user in the natural gas distribution system was 0.48 times and 56 minutes.

The number of unplanned interruptions in the supply of natural gas was 425 times, while the duration per user (SAIDI) was 0.09 minutes. Meanwhile, the time for the resumption of natural gas supply after unplanned interruptions (CAIDI) in 2019 was 88 minutes or an hour and a half.

### Number of natural gas supply interruptions (SAIFI) per user



### Duration of natural gas supply interruptions in minutes (SAIDI) per user<sup>10</sup>



## SECTOR DEVELOPMENT TRENDS AND CHALLENGES IN 2020

Līga Kurevska, Director of the Department

Year 2020 will start with a special event – the single Finnish-Estonian-Latvian natural gas transmission entry-exit system (single natural gas market) will start operating. This implies significant changes for market participants; therefore, the PUC will have to pay special attention to the functioning of the wholesale and retail markets in 2020. In addition to the launch of the single market, active work will continue on its development to add Lithuania and, in the long run, Poland to the single market.

Work will also continue on the regulatory framework of the natural gas sector - improvement of the regulations regarding the Inčukalns underground natural gas storage facility and tariffs. The aim of regulation will be to find a way to balance the market participants' growing need for product flexibility with the long-term technical needs for the storage. In addition, it is planned to develop a new regulatory framework for the methodology for setting natural gas distribution service tariffs, as well as to start work on reviewing the price of natural gas for captive users. From 2020, new tariffs for natural gas distribution services and new tariffs for natural gas storage are expected.

<sup>10</sup> Information submitted by JSC Gaso.



# 7.

## DISTRICT HEATING

FACTS AND FIGURES: IN BRIEF

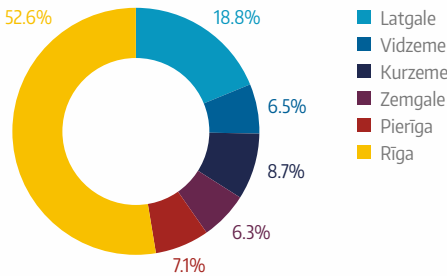


FOR 8 merchants the tariff has decreased

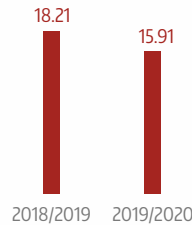
FOR 6 merchants the tariff has increased

**Reasons for the decline:**  
a sharp fall in prices in the fuel market

Volume supplied to users

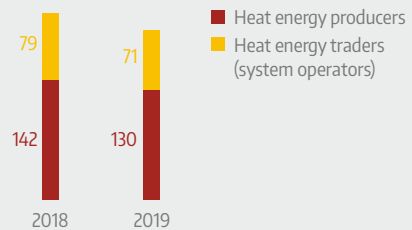


Average price of woodchips in Latvia (EUR/MWh)



Heat supply companies have actively seized the opportunity to receive a permit to set the tariff themselves

Distribution of merchants in the district heating sector



The number of heat supply merchants is decreasing;  
Woodchip prices are falling, and there is a growing interest of merchants to set the tariff themselves after receiving a permit

## REGISTRATION AND SUPERVISION OF MERCHANTS

The number of heat supply merchants is decreasing

In the heat energy sector in Latvia, three types of regulated services are distinguished:



TRANSMISSION  
AND DISTRIBUTION



TRADE

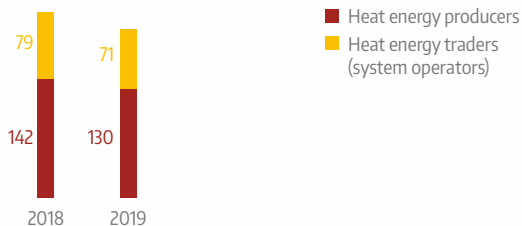


GENERATION

Heat energy transmission and distribution – the PUC supervises service providers which supply more than 5.000 MWh/year to users. A regulated service can be provided only by licensed service providers, and the price of services is regulated (fixed tariff). At the beginning of 2019, 76 licensed service providers had been registered, four new licenses were issued during the year, and seven licences were revoked.

Heat energy trade – the PUC supervises trade service providers which sell heat energy that is transmitted through the heating networks of a regulated merchant, therefore in most cases heat energy trade is carried out by merchants which are simultaneously licensed as heat transmission and distribution service providers. At the beginning of last year, 79 service providers were listed in the PUC's Register of Heat Energy Traders. In 2019, four new merchants were registered, while 12 merchants were excluded from the Register.

Heat energy generation – the PUC monitors service providers which supply more than 5.000 MWh/year to the district heating system and whose total installed capacity exceeds 1 MW. At the beginning of 2019, 142 service providers were listed in the PUC's Register of Heat Energy Producers, four new merchants were registered during the year, while 16 were excluded from the Register, as a result of which 130 merchants were listed in the Register at the end of the year.



The number of heat energy producers has decreased, because after the end of the state support period, many companies could no longer continue operating in the heat supply and electricity generation sectors. Moreover, as of 8 June 2019, amendments to the Cabinet of Ministers Regulations<sup>11</sup> are in force, which narrow the scope of regulation by excluding individual heat supply from regulated services.

## SERVICE COSTS

Woodchip prices are falling;  
the eight largest cities in Latvia consume  
about 80% of the heat produced in Latvia

### Description of heat supply service costs

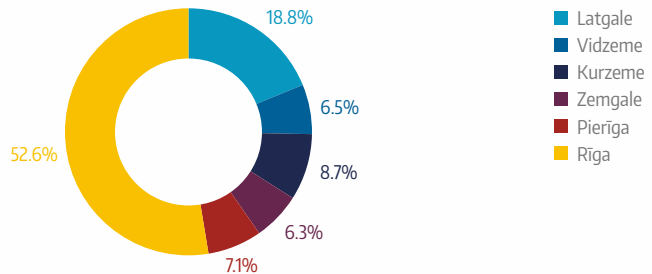
#### Description of the sector

When assessing the sector as a whole, it is important to take into account the specificity of Latvia. The district heating sector is fragmented. More than 50% of heat energy in Latvia is consumed by the residents of Riga (service provider JSC Rīgas Siltums). The eight largest cities in terms of heat energy consumption - Riga, Daugavpils, Liepāja, Jelgava, Ventspils, Jūrmala, Rēzekne, Valmiera - consume about 80% of the total heat produced in Latvia.

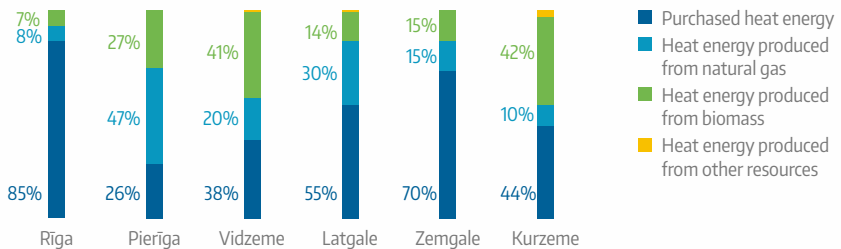
The structural and geographical fragmentation of the sector is one of the considerations to be taken into account to improve the regulation of the sector. The support, supervision, and efficiency targets that would be beneficial to the large business segment may differ significantly from the needs of most small businesses.

<sup>11</sup> The Cabinet of Ministers Regulations Regarding Types of Regulated Public Utilities.

### Heat energy volume supplied to users in 2019



### The structure of the origin of heat energy supplied to users in the municipalities in 2018<sup>12</sup>

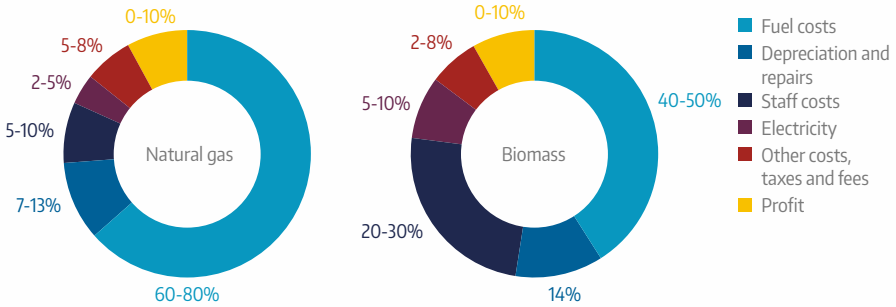


### Fuel price characteristics

In addition to the network topology and the density and intensity of district heating connections, the type of heat acquisition has a significant impact on the tariff. There are three sources of heat energy (natural gas, biomass, purchased heat energy) and others. Under normal market conditions, woodchip fuel provides the opportunity to produce heat cheaper than using natural gas. Differences are possible if a merchant uses natural gas to produce heat in electricity cogeneration and simultaneously receives the state support for electricity production within the framework of mandatory procurement.

<sup>12</sup> Data on the structure of heat energy origin are based on 2018 data. The summary for 2019 is planned in the third quarter of 2020.

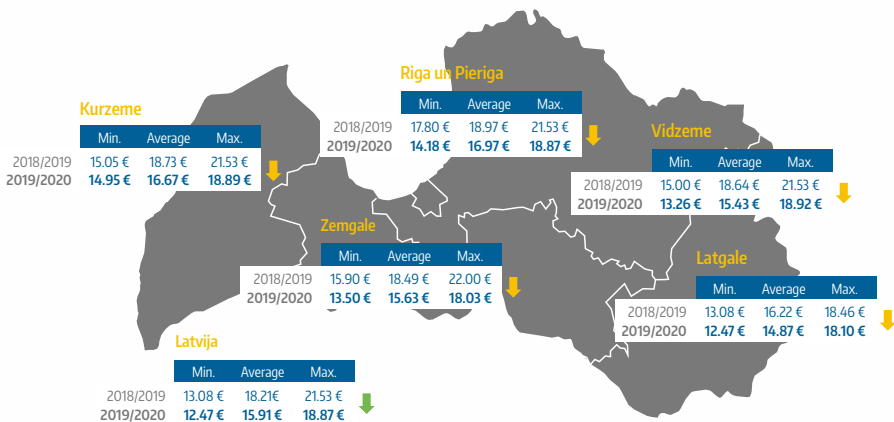
### The cost structure of heat energy production



Woodchips are the most used fuel out of all biomass types. The Latvian woodchip market is primarily affected by the amount of woodchips produced, the import of the resource from Lithuania and Belarus, as well as exports to the Nordic countries and Central Europe. In 2018, a sharp increase in the price of woodchips was observed in Latvia. This was due to unfavourable weather conditions to produce wood chips in Latvia and neighbouring countries, as well as an unexpected increase in the demand for woodchips. In 2019, the weather conditions normalized, which caused woodchip prices to decrease in the 2019/2020 heating season.

There are regional differences in woodchip prices - in places where supply and demand are balanced, woodchip prices are lower. On the other hand, in regions where export by sea is possible and in regions where the share of biomass fuels in the production and/or supply of heat has increased significantly, the consumption has grown faster than production. Consequently, the price in some regions of Latvia has remained relatively high.

### Woodchip prices in Latvian regions (EUR/MWh)



## TARIFFS, TARIFF CALCULATION METHODOLOGIES AND TARIFF CHANGES

Heat supply companies have actively seized the opportunity to receive a permit to set the tariff themselves

### Regulatory development

As for the setting of tariffs, it is necessary to point out the amendments to two regulatory enactments and a positive trend towards more active use of the existing regulatory framework.

Amendments to the methodology for determining the rate of return on capital provide for the application of this methodology to heat supply companies also (as soon as such regulation is included in the methodology for determining tariffs). Following the asset accounting practice, the rate of return on capital is applied to heat supply companies in nominal terms.

Amendments to the Cabinet of Ministers Regulations No 1227<sup>13</sup> narrows the scope of regulation by excluding individual heat supply from the regulated services. As a result, some merchants were excluded from the registers of regulated services, while the number of users receiving regulated services decreased for other merchants.

From 2019, in accordance with the Cabinet of Ministers Regulations No 243<sup>14</sup> merchants must ensure that the amount of losses does not exceed 17% (the allowed threshold was 19% in 2018).

Regarding the use of the existing regulatory framework, last year there was a great interest of merchants to request the PUC to determine the procedure for applying tariffs or to issue a permit (obligation) to set their own tariff if the price of fuel, purchased heat or sold electricity changes. Such an opportunity has been available to merchants since April 3, 2017, but in 2019, considering the significant fluctuations in the fuel price market, merchants started to use the permit mechanism more actively. At the end of 2019, 11 permits were issued (of these, five permits and three tariff decisions together with permits were issued during 2019).

At the same time, the PUC actively worked on a new tariff setting methodology, both by meeting with the representatives of the sector and exchanging experience with other EU regulators supervising the district heating sector, as well as by successfully applying for European funding to attract consultants.

### Changes in tariffs

In total, energy users in 94 territories receive heat supply services in Latvia at regulated tariffs. In three of the territories, the procedure for applying an end-tariff has been established, which means that the tariff changes every month. In other territories, the tariff changes due to the use of a permit or a full revision of the tariff.

<sup>13</sup> Cabinet of Ministers Regulations Regarding Types of Regulated Public Utilities.

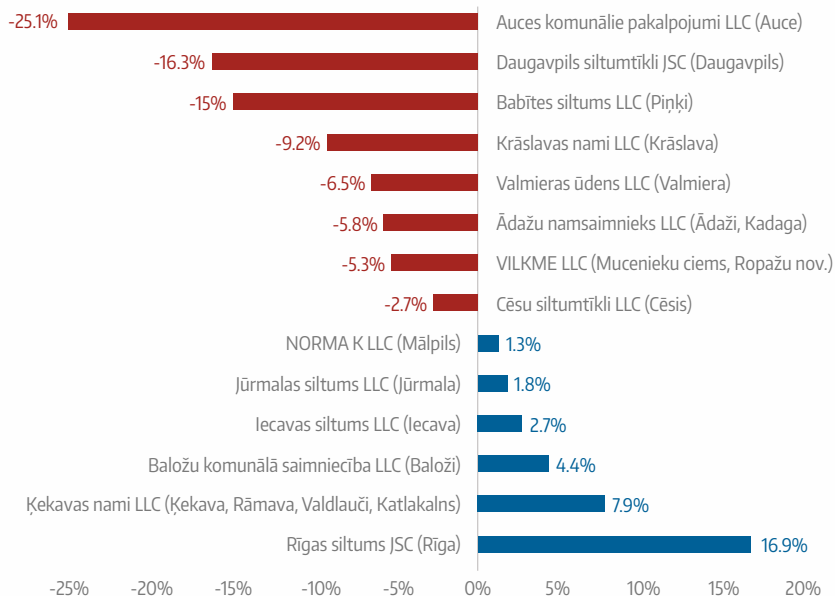
<sup>14</sup> Cabinet of Ministers Regulations Regarding the Energy Efficiency Requirements for Centralised Heating Supply Systems in the Possession of a Licensed or Registered Energy Supply Merchant, and the Procedures for Conformity Examination Thereof.

The average heat energy tariff in Latvia at the end of 2019 was 55.21 EUR/MWh (0.34 EUR/MWh less compared to the beginning of 2019). The lowest tariff set by the PUC was in Auce (44.73 EUR/MWh), while the highest tariff was in Saulkrasti and Zvejniekiemis (69.98 EUR/MWh).

In 2019, a total of 23 tariff decisions were considered, one tariff proposal was withdrawn during its review. Considering that some of the decisions were related to the use of permits, tariffs changed repeatedly in several populated areas. In total, 14 merchants experienced tariff changes compared to the beginning of 2019. Of these, the tariff decreased in eight cases and increased in six cases.

The decrease in tariffs was related to a significant decrease in fuel prices, while the increase in costs was mainly related to unforeseen expenses accumulated in previous periods. The most significant tariff increase took place in Riga. JSC Rīgas siltums had not revised the tariff for a long time and accumulated significant unplanned expenses related to the purchased heat energy, which had become more expensive in 2017–2018.

### Tariff changes in 2019





## SUPERVISION OF SERVICE QUALITY

Non-compliances of 28 merchants were identified; part of non-compliances was eliminated in 2019

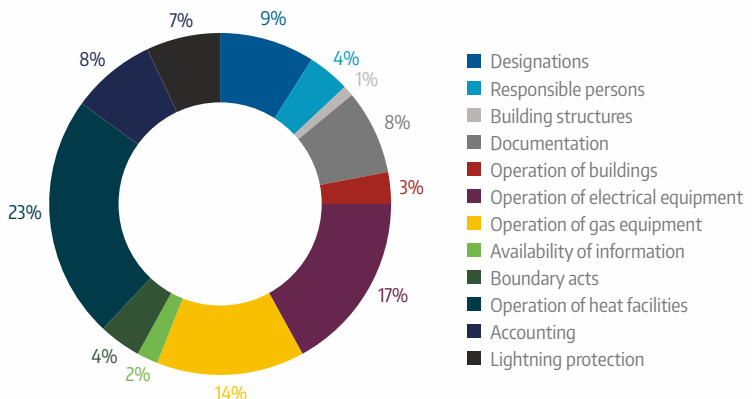
### User protection and review of applications

Compared to 2018, the number of user complaints decreased by one in 2019. Of the six complaints received, one was not justified, while the other five did not fall within the PUC's competence.

The objections were mostly related to the management services provided by the managers of residential apartment buildings and the invoices sent regarding the heat energy supply services. Complaints were mainly filed against merchants that do not provide regulated public services, i.e. the residential building management sector is not a regulated sector according to the law and the services provided therein are not regulated public services. The regulatory framework does not provide for the PUC's competence in the residential building management sector. Disputes regarding fees for heat supply in residential houses beyond the ownership boundary<sup>15</sup> shall be resolved in accordance with the concluded agreements, by agreement of the parties.

### Supervision of heat supply facilities

In 2019, operational compliance checks of 37 facilities of merchants were performed, during which 91 facilities were inspected. During the inspections, 122 non-compliances were found for 28 merchants (83% of the total inspections). 36 non-compliances were eliminated last year, other discrepancies according to the PUC's instructions were eliminated in 2019 or will be eliminated during 2020.



<sup>15</sup> Border of belonging to a connection point in the building.

The largest number of non-compliances – 28 cases – was recorded in the operation of heating equipment. Non-compliances were related to the registration of energy efficiency indicators (18 cases), in two cases the merchants did not perform the regular inspection of the boiler, in five cases the merchant had not approved the temperature schedule, in three cases the installed boiler heat carrier was improperly pressurized. The second largest number of non-compliances was found in the operation of electrical installations – 21 cases. In most cases (13), non-compliance with the periodicity of practical measurements of electrical installations was found, in other cases non-compliance with the earthing of equipment and inadequately constructed electrical installation parts and technical documentation was identified.

Most of the shortcomings identified during inspections of the operation of the facilities did not directly affect the security of heat supply, however, in certain circumstances they can cause significant disruptions to the production process and damage to equipment. The most significant shortcomings were eliminated within the deadlines specified by the PUC.

## SECTOR DEVELOPMENT TRENDS AND CHALLENGES IN 2020

Līga Kurevska, Director of the Department

The year 2020 will be characterised by joint work in the district heating sector, developing and improving the regulatory framework of the heat supply sector. Amendments to the Energy Law are planned to help clarify the roles of market participants, and the use of European funds is planned for the development of the heat supply tariff methodology, looking for ways to promote targeted innovation to achieve climate goals, while at the same time ensuring and strengthening user cost optimization and healthy competition. The first proposals from the European Green Deal package are also expected, which may also impose new requirements on heat supply companies.

At the same time, active work is being carried out to improve the existing regulation and develop the regulatory framework. Fuel markets are becoming more dynamic, which also requires the PUC to provide and support merchants in a changing environment. The PUC plans to organize meetings and seminars to promote high-quality cooperation between the sector and the supervisory institution and to find a way together to provide high-quality services at an affordable price.

# 8.

## WATER MANAGEMENT


## FACTS AND FIGURES: IN BRIEF

**63**   
merchants

**2**   
merchants excluded  
from the Register

**TOP1**   
reason for tariff  
review:


**6**   
6 inspections  
of merchants

**2**   
non-compliances  
found




EU-funded projects carried out  
to ensure the quality  
and availability of services


## APPROVED TARIFFS

**9**  water supply  
service tariffs

**14**  sewerage  
service tariffs

## TARIFF CHANGES

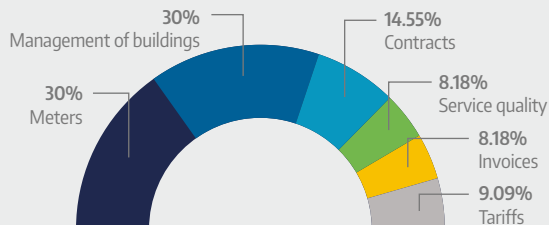
**13**  a reduction compared  
to the originally  
submitted tariffs

**10**  an increase compared  
to the originally  
submitted tariffs

## COMPLAINTS

**12** 

**84** 



The availability, quality and costs of water management services are increasing

## REGISTRATION AND SUPERVISION OF MERCHANTS

The number of service providers is decreasing

In the water management sector, the PUC regulates water supply and sewerage services provided by merchants, if the volume of water management services in at least one of the four types of the public service exceeds 100,000 m<sup>3</sup> per year:



WATER EXTRACTION AND PREPARATION



WATER SUPPLY



WASTEWATER COLLECTION AND DISCHARGE



WASTEWATER TREATMENT

Last year, 63 merchants were registered in the Register of Water Management Service Providers. Although no new service providers were registered last year, two merchants were excluded from the Register - LLC Līgatnes komunālserviss and LLC Ūdensnesējs Serviss, because they did not meet the defined regulatory criteria.

The task of the PUC is to supervise the activities of merchants. Last year, the PUC carried out six inspections of merchants at their sites of operation, during which two non-compliances were identified. In one case, the reports submitted to the PUC did not correctly indicate all the water management systems separated by the merchant. In the second case, the tariff approved by the merchant was not applied after taking over a new populated area from the local government in the merchant's territory of operation. Both non-compliances were eliminated in the reporting year.

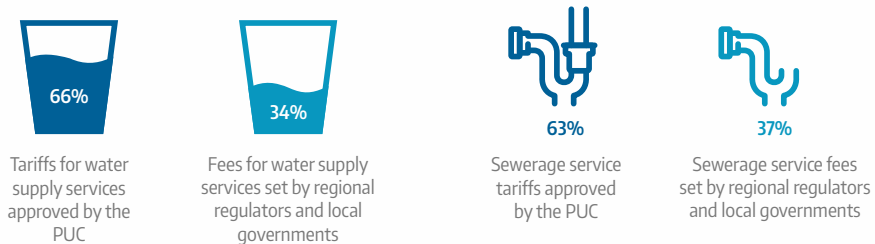
## TARIFFS, TARIFF CALCULATION METHODOLOGY, TARIFF CHANGES

Some merchants still apply tariffs approved by regional regulators in certain areas of operation

Last year, merchants operated by applying 57 water supply tariffs and 59 sewerage tariffs approved by the PUC. Meanwhile, the water management service tariffs approved by regional regulators and the fees approved by local governments were applied by merchants in 30 water supply and 34 sewerage service provision territories.

Some merchants still apply tariffs approved by regional regulators or fees set by local governments in certain areas of operation. The PUC started monitoring the water management sector in 2009, approving tariffs for merchants calculated according to the PUC methodology.

Of all the tariffs applied, the tariffs set by regional regulators and the fees set by local governments still account for a relatively high share.



To facilitate the transition to tariffs approved by the PUC and at the same time speed up the setting of tariffs for new merchants, the PUC amended the Regulations<sup>16</sup>. They determine the procedure for submission of tariffs for newly registered merchants, as well as for those which, by 15 April 2019, did not have a public water management service tariff approved by the PUC or the local government regulator. The amendments ensure that users can receive a regulated water management service as soon as possible at a technically and economically justified price, with the PUC checking all costs related to the service in the tariff proposal.

### How many new tariffs were approved last year?

Last year, new water management tariffs were approved for nine companies (a total of nine water supply tariffs and 14 sewerage tariffs). During the examination of the tariff proposals, in 13 cases the PUC managed to reduce the tariffs or leave them unchanged compared to the initially submitted ones. However, in 10 cases, the tariffs increased after the necessary adjustments were carried out.

<sup>16</sup> Regulations Regarding the General Authorisation, Registration and Submission of Information in the Water Management Sector.

Merchant's name	Area of operation of the water service tariff	Approved tariff for water supply services (changes compared to the initially submitted tariff), EUR/m <sup>3</sup>	Approved sewerage service tariff (changes compared to the initially submitted tariff), EUR/m <sup>3</sup>
LIELVĀRDES REMTE, LLC	Lielvārde municipality	1.01 (-0.02)	1.62 (0.15)
PRIEKULES NAMI, LLC	Priekule, Priekule rural territory, Virga rural territory	1.03 (-0.08)	1.73 (-0.20)
BN KOMFORTS, LLC	Valmiera rural territory, Ēvele rural territory, Rencēni rural territory, Vecate rural territory, Matīši rural territory, Burtnieki rural territory	1.72 (0.03)	1.27 (-1.23)
LUDZAS APSAIMNIEKOTĀJS, LLC	Ludza	1.17 (-0.05)	1.59 (0.02)
MADONAS ŪDENS, JSC	Madona city, Lazdona rural territory, Ļaudona rural territory, Prauliena rural territory, and Dzelzava rural territory, Madona municipality	1.18	1.48
PLAVIŅU KOMUNĀLIE PAKALPOJUMI, LLC	Pļaviņas, Vietalva rural territory	1.01 (0.04)	1.73
SALTAVOTS, LLC	Sigulda municipality	1.05 (-0.05)	1.38 (0.01)
GROBIŅAS NAMSERVISS, LLC	Grobiņa municipality	0.93 (-0.03)	-
	Grobiņa, Robežnieki village,	-	1.23 (0.09)
	Dubeņi village, Āres, Grobiņa rural territory (initially for Dubeņi village the tariff proposal was calculated separately)	-	1.23 (-0.09)
	Cimdenieki village, Grobiņa rural territory	-	1.63 (0.28)
	Kapsēde village, Medze rural territory	-	1.49 (0.33)
	Bārta village, Bārta rural territory	-	0.81 (0.02)
	Gavieze village, Vārtāja, Gavieze rural territory	-	0.75 (-0.02)
ĀDAŽU ŪDENS, LLC	Ādaži municipality	0.94 (-0.16)	1.50 (0.01)

## Why did the tariffs change?

Currently, the need to revise tariffs in the water management sector is mainly determined by the implementation of water management development projects co-financed by the European Union funds in the territory of the country in recent years, which is still ongoing. Merchants are constantly obliged to ensure the improvement of the quality of service for the residents of their region, which requires large financial investments for the improvement of the water supply system. The objectives of these projects are several, mainly to provide users with:

- the availability and continuity of water management services;
- water that meets the requirements of quality and safety;
- reduction of environmental pollution risks from sewerage services.

At the same time, the tariffs were revised last year due to the expansion of the areas of operation of merchants, where the provision of regulated services to users was planned. Increasingly, local governments are reorganizing merchants by merging several companies, as well as transferring the provision of services to merchants in the territories where services have been provided by local government institutions so far.

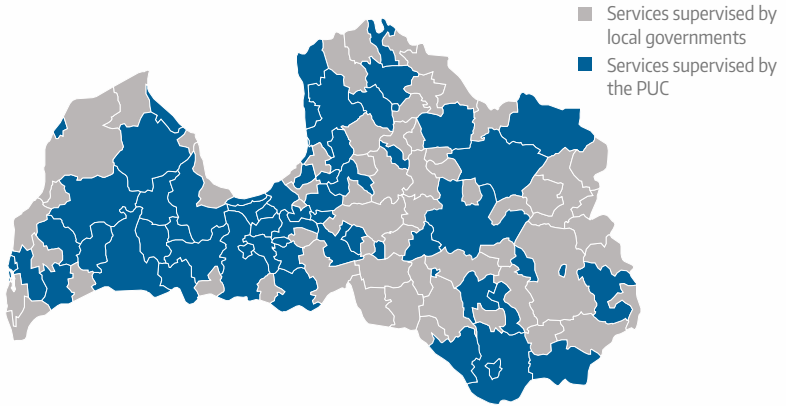
In 2019, LLC SALDUS KOMUNĀLSERVISS, Krimulda municipality LLC Entalpija-2, and LLC NAUJENES PAKALPOJUMU SERVISS added new territories to their existing service provision areas, where the provided services were previously supervised by local governments.

## SERVICE USER PROTECTION

Service users and merchants solve their mutual problems independently;  
as a result, the number of the received complaints has not changed significantly over  
the last three years

In the water management sector, the PUC monitors 63 companies, which provide most of the public water services in Latvia in terms of the service volume.

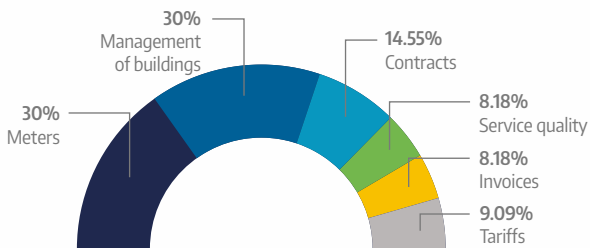




Last year, the PUC provided 84 telephone consultations and answers to 12 complaints about the provision of water management services. In the four years since 2015, the number of complaints has decreased by almost 71%. The adjustment of the regulatory framework of the sector, which started in 2016, has been of great importance.

Uncertainties have arisen mainly over commercial metering units, the installation of commercial metering units and issues related to the management of buildings. These issues should be addressed in cooperation with the service provider or building manager and are not under the supervision of the PUC.

### Complaints by their type in 2019



## SECTOR DEVELOPMENT TRENDS AND CHALLENGES IN 2020

Aigars Mežals, Acting Director of the Department

In 2020, the implementation of the water sector's development projects co-financed by the 2014-2020 EU Cohesion Policy programming period will continue. In cooperation with the Ministry of Environmental Protection and Regional Development (VARAM), we will continue to provide insight into the situation in the regions regarding the need to expand and renew water management systems. The information will be used to discuss the allocation of funding for the next programming period of the EU Cohesion Policy.

In connection with the implemented water management development projects, as well as the amendments made last year to the PUC regulations, from 2020 onwards, an active review of water management service tariffs is expected. This will facilitate the transition from the application of fees set by regional regulators or local governments to tariffs approved by the PUC. After listening to the suggestions expressed by the companies in the sector, the possibility of making changes in the methodology for the calculation of tariffs for water management services will be assessed in 2020. The amendments will be related to the option of setting a two-part tariff for water management services. This will reduce the impact of seasonality on the merchants' cash flow from the provision of public services. The possibility to set a different tariff for sewerage services for users will also be evaluated, if the amount of services provided in a separated sewerage engineering network of the merchant will exceed 10% of the total amount of sewerage service provided by the merchant in this engineering network.

In addition, the possibility of introducing periodicity when setting tariffs will be considered to reduce potential losses from the provision of public services in the long run. It is expected that the administrative and territorial reform, which is also a priority issue for the PUC in 2020, will create new challenges for local governments and merchants.

# 9.

## MUNICIPAL WASTE DISPOSAL

## FACTS AND FIGURES: IN BRIEF



10  
waste management  
regions



11  
merchants



11  
municipal landfill  
sites



5  
approved tariffs



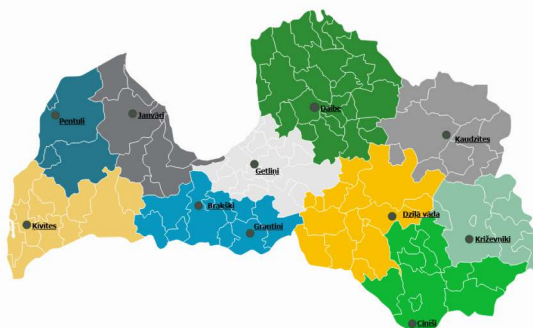
## Reasons for tariff increase:

Increase in the natural resources tax (NRT)  
Increase in production costs  
Fluctuations in the secondary raw materials market

Municipal waste  
disposal service  
tariffs  
at the NRT rate  
of 43 EUR/t



From 42.85 EUR/t  
to 65.77 EUR/t



No complaints have been received  
from users about the regulated service



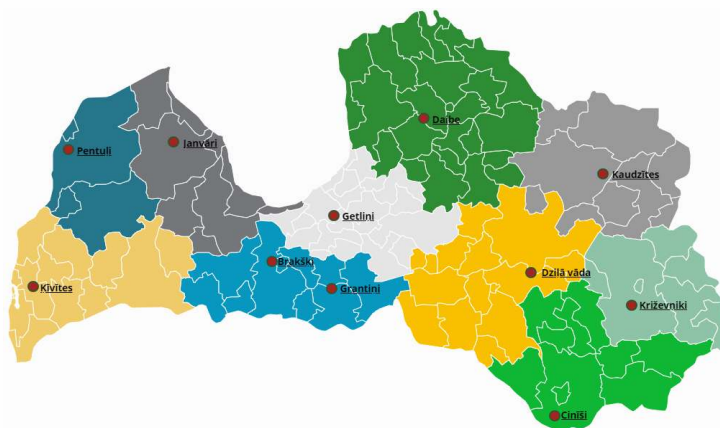
From February 1, 2022, the deposit packaging system  
will start operating, which the PUC will also supervise

In the autumn of last year, the Saeima decided to entrust the PUC with the supervision of the beverage packaging deposit system

## REGISTRATION AND SUPERVISION OF MERCHANTS

Number of merchants – unchanged

In the municipal waste management sector, the PUC regulates municipal waste disposal services at municipal waste landfills sites. According to the National Waste Management Plan, Latvia is divided into 10 waste management regions, and 11 municipal waste landfill sites (landfills) have been established, which are serviced by 11 regulated service providers.

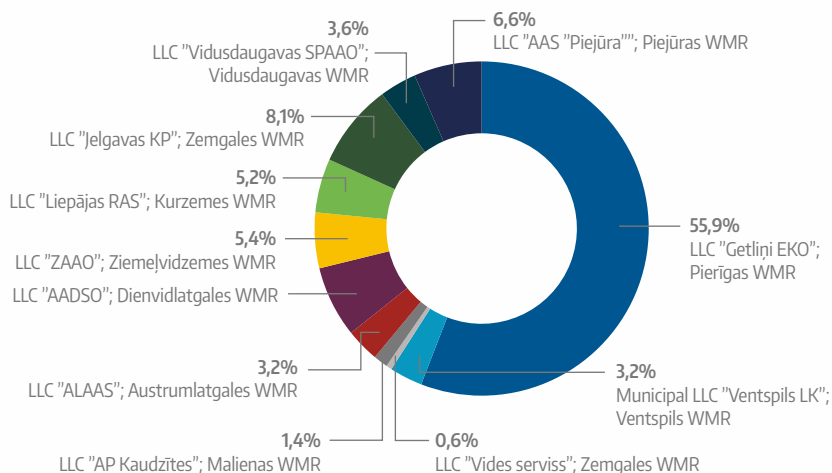


Last year, 11 companies were listed in the Register of Providers of Municipal Waste Disposal Services at Landfill Sites. Their number has been unchanged since 2017.

According to the latest data submitted to the PUC on the economic activities of regulated merchants in 2018<sup>17</sup>, a total of 527 thousand tons of unsorted municipal waste was accepted at landfill sites which does not differ significantly from previous periods. As every year, most waste was accepted at the landfill "Getliņi", which manages ~56% of the total amount of unsorted municipal waste accepted at the landfill sites. The least waste was accepted at the landfill "Grantiņi" (0.6%) and the landfill "Kaudzītes" (1.4%).

<sup>17</sup> Information on economic activity in 2019 will be compiled from reports that merchants must submit to the PUC for evaluation of annual activity by 15 May 2020 or 15 August 2020, if the merchant meets the criterion "large company" in accordance with the Law on the Annual Financial Statements and Consolidated Financial Statements (in accordance with the PUC decision Provisions of General Authorisation and Regulations Regarding the Registration and Submission of Information for Solid Waste Disposal Service at Landfills for Solid Waste of 23 October 2014).

### The ratio of the volume of municipal waste accepted at landfill sites to the total volume of municipal waste, %



## TARIFFS, TARIFF CALCULATION METHODOLOGY, TARIFF CHANGES

Tariffs are increasing - both Natural Resources Tax (NRT) for disposal and the cost of additional investment in landfills are included in the tariffs

Last year, the PUC continued to review tariff proposals submitted by several merchants in connection with changes in the PUC Methodology<sup>18</sup>. Changes to the Methodology were made based on amendments to the Waste Management Law. From 1 January 2018, they envisaged changing the procedure for calculating the tariffs for waste disposal services by providing for the inclusion of the NRT in the tariff for municipal waste disposal services for the amount of disposed municipal waste<sup>19</sup>. For this reason, several companies submitted tariff proposals for evaluation:

- LLC "Jelgavas komunālie pakalpojumi";
- LLC "Vides serviss";
- LLC "Vidusdaugavas SPAAO";
- LLC "Atkritumu apsaimniekošanas sabiedrība "Piejūra"".

Meanwhile, LLC "ZAAO" submitted a tariff proposal for evaluation, because new investments were attracted to improve the infrastructure of the landfill "Daibe". The specialized equipment that ensured the technological process of waste disposal was obsolete and was not able to fully perform its functions. To ensure the continuity and efficiency of the regulated service, the company had to purchase new equipment.

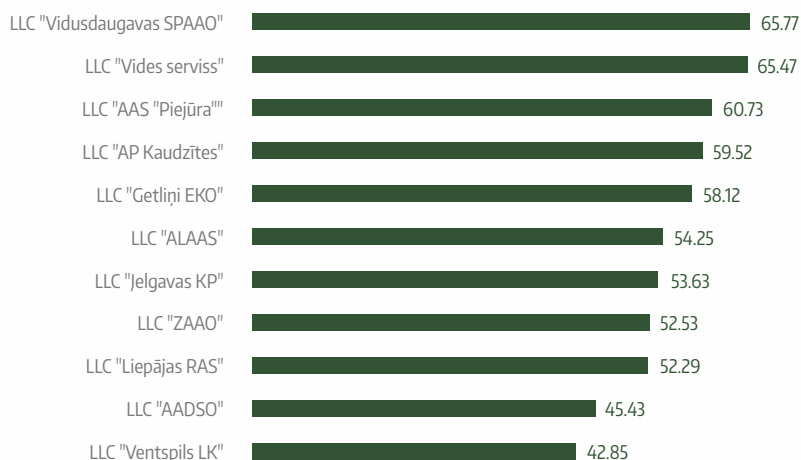
<sup>18</sup> Decision No 1/1 of 18 January 2018 Amendments to Decision No 1/5 of the Public Utilities Commission of 16 February 2017 "Methodology for Calculating the Tariff for Municipal Waste Disposal Service", which entered into force on January 23, 2018.

<sup>19</sup> Until 31 December 2017, the NRT was not included in the tariffs, but was a separate component of the waste management fee.

Last year, the PUC approved five tariffs for the municipal waste disposal service, which were higher than the previous tariffs. The increase in tariffs was caused not only by the inclusion of the NRT in the tariff, but also by the increase in costs, which was affected by:

- economic development in the country;
- investments made in landfills due to the replacement of obsolete equipment;
- acquisition of new fixed assets to ensure the efficient provision of the regulated service in accordance with the requirements of environmental regulatory enactments.

### Tariffs for municipal waste disposal service approved by the PUC on 31 December 2019



Tariff with NRT (at the NRT rate of 43 EUR per ton), EUR per ton

**In 2022, a deposit packaging system will start operating in Latvia, in the regulation of which the PUC will also participate. The PUC will develop regulatory enactments and a methodology that will determine the calculation of the deposit system provision service.**

During the reporting year, the PUC participated in the working group organized by VARAM, which developed the draft law "Amendments to the Packaging Law", which was adopted on October 24, 2019. These amendments are related to the introduction of the deposit packaging management system in Latvia from February 1, 2022.

In the autumn of last year, the Saeima decided to entrust the PUC with the supervision of the beverage packaging deposit system. The PUC is the only regulator in Europe with such an obligation. Last year the PUC already started work on the development of a methodology, according to which an economically justified fee will be set for the deposit system operator to start operating in 2022; the work will continue this year. The methodology should enter into force on 30 September 2020.

The PUC will also consider potential disputes that may arise between the operator and the participants (traders, manufacturers) regarding the deposit packaging management fee. In 2023, the PUC will start performing the functions of supervising the participants of the new sector, resolving disputes and reviewing the participation fee of the deposit system.

## PROTECTION OF SERVICE USERS

### No complaints have been received about the regulated service over the last two years

Like the year before, in 2019 the PUC did not receive any complaints from users of the municipal waste disposal service. The PUC continued work on informing the regulated merchants, waste generators and representatives of local governments regarding the competencies in the waste management sector and setting the waste management fee. On a day-to-day basis, the PUC both clarified issues related to the regulated service and provided instructions to interested parties on where to find answers and solve problem situations related to waste management.

Last year, the PUC developed an interactive explanatory material on the composition of tariffs and costs and revenues in the submitted tariff proposals, as well as information on economic performance indicators for the tariffs at each of the landfills: <https://bit.ly/2wH5o58>.



## SECTOR DEVELOPMENT TRENDS AND CHALLENGES IN 2020

Aigars Mežals, Acting Director of the Department

The sector is currently facing changes due to the new National Waste Management Plan (Plan) for 2021-2028. The boundaries of existing waste management regions, as well as the range of services to be provided at landfill sites are expected to be reviewed in the Plan.

It is expected that one of the priorities of the Plan will be the introduction of a separate collection system for bio-degradable waste (BDW) for local governments, in parallel with the development of the existing separate collection of paper, glass, plastic and metal packaging. As a result, the amount of municipal waste sent to landfills for disposal will gradually decrease. BDW makes up a significant proportion (~40%) of the total unsorted municipal waste. At present, BDW is separated from unsorted municipal waste streams by the waste treatment facilities at landfill sites. Large investments have already been made to treat this BDW sorted at landfills, as well as separately collected BDW in the near future in line with EU targets and requirements. LLC "Getliņi EKO" has started the construction of a BDW recycling plant at the landfill "Getliņi", receiving for this purpose the EU Cohesion Fund co-financing of 29.6 million EUR<sup>20</sup>. Other landfill operators are also ready for the construction of new BDW recycling facilities, but this requires EU co-financing support, which is expected in the near future through a selection tender in the next funding period.

The planned increase in the NRT rate in the near future, as well as the planned introduction of a deposit packaging system in the country from 2022, will also have an impact on the flow of unsorted municipal waste delivered to landfills and the activities of regulated merchants.

<sup>20</sup> According to the information compiled on the website ES fondi.lv  
<https://www.esfondi.lv/es-fondu-projektu-mekletajs/project?number=5.2.1.2%2F18%2FA%2FO08>.

# 10.

## ELECTRONIC COMMUNICATIONS

## FACTS AND FIGURES: IN BRIEF

**247**   
merchants

**10**   
new merchants



In the  
mobile  
network



~380 thousand allocated numbers



~420 thousand cancelled numbers



In the  
fixed  
network



~20 thousand allocated numbers



~105 thousand cancelled numbers

### USERS WERE MAINLY DISSATISFIED WITH:



agreements



quality



tariff application  
and invoices

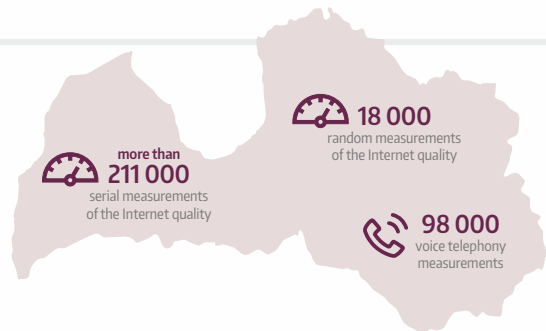
✓ Countries to which Latvian citizens called the most last year:  
**Lithuania, the United Kingdom, Germany**

✓ There is a price cap for calls and text messages to Europe

**0,06 EUR per SMS**  
**EUR 0.19 per call minute**

✓ The speech transmission quality in mobile networks was assessed as good

✓ The quality in the fixed network was excellent



### Average download speeds in the 4G network (Mbps)



The number of populated areas where the service is not provided is decreasing

BITE Latvija		28.86
LMT		32.63
Tele2		48.41

The quality of communication services is improving

## MARKET SURVEILLANCE

The number of cases of numbering fraud is increasing; the PUC continues work on the protection of users

The PUC monitors seven different electronic communications services: voice telephony, transmission of data and electronic messages, leased lines, Internet access, distribution of radio or television programs on public electronic communications networks, access to communications networks and infrastructure, and interconnections between operators.



the total number of merchants



new merchants registered in 2019

## Allocation of numbering resources

Last year, 65 decisions were adopted on granting the right to use numbering. In total, such rights were to 59 electronic communications merchants, while 52 decisions were adopted on special conditions for the right to use numbering. They determine by which date and to what extent an electronic communications merchant must start using the numbering resources allocated thereto.

The PUC continues to monitor the efficient use of numbering resources - to ensure that electronic communications merchants promote the development of the service and ensure that end-users receive electronic communications services as opposed to not using the numbering allocated to them. The PUC also has the right to cancel the granted numbering rights if the use of numbering rights has not been started to a specified extent and within a certain period of time.

## Rights to use numbering allocated to companies in 2019

	Cancelled	Allocated
Identification codes	104	7
Short codes	25	23
Numbers for other types of services	61 910	60
Premium rate service numbers	26 650	150
Shared payment service number	2 110	50
Toll-free numbers	29 471	125
Public mobile telephone network numbers	420 000	380 000
Public fixed telephone network numbers	105 800	20 400

### Allocation of the right to use frequencies

Last year, three decisions were adopted on the right to use frequencies - one on the amendment of the expiry of the usage rights and two on the extension of the term. Two public consultations were also announced - on the auction conditions for the allocation of the right to use the 1432.0 MHz - 1492.0 MHz radio spectrum band and a consultation on the amendments to the rules of the procedure for the auction of the right to use the radio spectrum.

The changes were made to promote a more effective and efficient conduct of a radio spectrum auction, which the PUC has been organising for 10 years - since 2010. Taking into account the experience gained in organizing these auctions, the PUC saw the need to clarify the auction procedure. Namely, to clarify the conditions for conducting an auction, if several auction items are auctioned at the same time, including changing the conditions for the payment of collateral. The changes to the rules will make it easier for bidders to apply for the participation in the auction, which is expected in 2020.

### Numbering fraud: how to reduce the prevalence of such cases?

The PUC worked with the Ministry of Transport and the Cabinet of Ministers for the adoption of the decision that in the future, numbering resources allocated to electronic communications merchants must be subject to a fee. Latvian national numbers can only be used in Latvia. However, Latvian merchants often violate the regulatory framework and use the numbers abroad, therefore some of the numbers are not even available to Latvian residents.

Latvian national numbers are increasingly used in cases of fraud both at home and abroad. Users often receive calls from an unfamiliar caller with a Latvian number with the intent to perform fraudulent schemes, such as forcing the recipient of the call to call back. At the same time, this happens because the numbering rights allocation to and use by electronic communications merchants is free of charge. Consequently, the PUC will continue to work on the application of numbering fees in to reduce the prevalence of such fraud.

The number of fraud cases has remained steady - in 2018, 10 applications about fraud were received from both Latvian and foreign electronic communications companies, while last year 12 such applications were received. The numbers allocated to seven Latvian electronic communications merchants have been used for fraudulent purposes.

### Interconnection agreements and access to the electronic communications network

Relationships of electronic communications companies are determined by several types of agreements. Operators shall conclude an interconnection agreement (agreement) to enable end-users of one public electronic communications network to communicate with end-users of another public electronic communications network. The agreement shall include all technical, commercial, and other provisions for access or interconnection. Arrangements relating to opening numbering for call routing, call origination and termination, as well as transit tariffs are also specified.

The PUC specifies the requirements for the information to be included in the agreements, therefore a merchant must submit the agreement to the PUC within 10 working days after concluding or amending the agreement. The PUC verifies that the agreements contain all the information specified by the PUC, which helps to avoid possible disputes. One of the reasons for disputes may be the information to be included regarding actions and payment procedures if fraudulent use of numbering is detected.



7 interconnection agreements registered last year



8 interconnection agreements terminated last year



118 interconnection agreements currently in force

Access is a service provided to another electronic communications company with conditions for accessing equipment and services required for the provision of electronic communications services (mainly provision of Internet and TV services to end-users).

While monitoring the access to the markets, the PUC concluded that electronic communications merchants have limited access to communications services that are used to develop Internet and TV services, as well as 5G in the territory of Latvia. These services include access to related equipment (cable ducts and poles), unbundled access to the local loop and data traffic (access services).

To ensure the possibility for other electronic communications merchants to access the above-mentioned services, they must take into account the conditions previously specified by LLC "Tet" as the incumbent in the reference offer. Assessing the situation, the PUC found that the conditions were excessive, therefore the access services were not actively used.

For these reasons, in 2018, the PUC held a national consultation with market participants. As a result, amendments to three regulations, as well as new regulations entered into force in 2019. The aim of the regulatory framework was to promote competition, the development of Internet and TV services and the preconditions for the development of 5G services in Latvia.

The decision adopted by the PUC means that LLC "Tet" must ensure access, transparency, and equal treatment for access to electronic communications services. As a result, five access agreements were registered with the PUC last year, which is more than in 2018 and means that the electronic communications sector in Latvia is characterized by infrastructure competition.

## **TARIFFS, TARIFF CALCULATION METHODOLOGY, TARIFF CHANGES**

### **Calls to European countries have become much cheaper**

On 15 May 2019, retail tariffs for international calls to the European Economic Area (EEA) entered into force. For calls to Europe, an operator was allowed to charge users a maximum of EUR 0.19 per call minute and EUR 0.06 per text message. No such tariff ceiling had been set for international calls to Europe so far. Each operator charged different tariffs to users.

Even after 15 May, the tariffs for the international calls and SMS provided by operators to EEA countries may differ for users with different tariff plans, but such tariffs may not exceed the set upper limit.

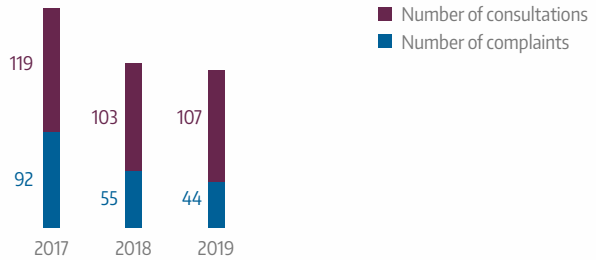
It can be concluded from the compiled data that last year Latvian residents most often called the neighbouring country Lithuania, as well as the United Kingdom and Germany. Prior to these changes, calls to Lithuania cost up to 0.27 EUR per minute, while calls to Germany and the UK – up to 0.49 EUR per minute.

## **PROTECTION OF SERVICE USERS**

### **Last year, the number of complaints received by the PUC about the Internet, TV and mobile communications decreased**

Last year, 44 user complaints were received and answered, and 107 telephone consultations were also provided, which is less than in 2018.

### Number of complaints and consultations in 2017–2019

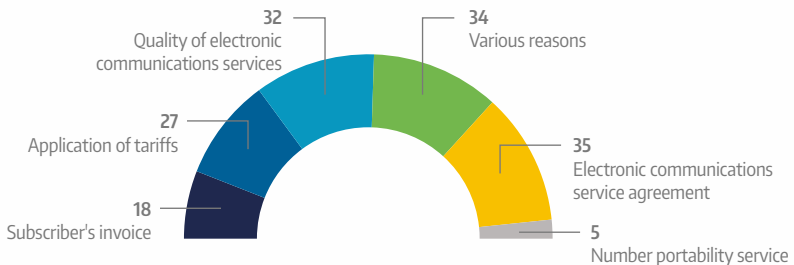


Complaints and questions about services in the mobile network were received 84 times, while about services in the fixed network - 67 times. Users were most often dissatisfied with the services provided by LLC “Tele2”, LLC “BITE Latvija”, and LLC “Tet”, while less often with LLC “Latvijas Mobilais Telefons” (LLC “LMT”), and LLC “Baltcom”.

### Users were mainly dissatisfied with:



### Number of complaints by type





## Quality of voice telephony services

Measurements of service quality for the voice telephony service in the mobile and fixed networks throughout the territory of Latvia are performed by both the PUC and the operators. During the measurements of the voice telephony service, the PUC evaluates the unsuccessful call ratio, call set-up time and speech transmission quality.

The PUC performed the measurements using a voice control system. Last year, the measuring equipment in the fixed network of the voice telephony service was located in 10 places and the measuring equipment of the mobile network - in more than 40 different locations, uniformly covering the entire territory of Latvia.

The speech transmission quality, which is assessed by simulating a two-way conversation and performing voice transmission, reflects the audibility and intelligibility of the conversation. The PUC evaluates this parameter by using the PESQ<sup>21</sup> and since 2019 also the POLQA<sup>22</sup> algorithm. The evaluation of the speech transmission quality is described according to the 5-point scale in the following table.

Quality assessment	Value score	Explanation of the assessment
Excellent	$\geq 4$	Voices can be heard clearly, and no disturbing background noise can be heard
Good	$\geq 3 \text{ līdz } < 4$	Conversation with a small noise background
Satisfactory	$\geq 2 \text{ līdz } < 3$	Due to insufficient hearing or temporary interruptions, certain words may not be heard clearly
Weak	$\geq 1 \text{ līdz } < 2$	Due to high noise or interruptions, only certain words can be heard
Bad	$< 1$	Communication is not possible

The results of the 2019 measurements show that the speech transmission quality in both the fixed and mobile networks is equivalent to the measurements of previous years, and the conversations were provided in a clearly audible, perceptible, and good quality in mobile networks and in excellent quality in the fixed network.

The average call set-up time<sup>23</sup> values provided by the operators show that calls are set up quickly, and the caller does not perceive the time delay between the call set-up and receiving a response signal as a nuisance. In the mobile network, the average observed call set-up time was from 3 to 6 seconds, while in the mobile network - from 1 to 2 seconds on average.

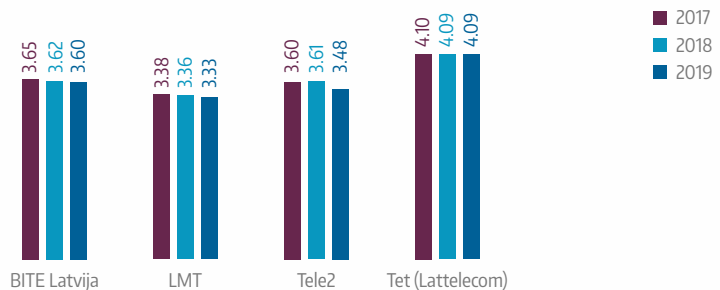
<sup>21</sup> Perceptual Evaluation of Speech Quality.

<sup>22</sup> Perceptual Objective Listening Quality Analysis.

<sup>23</sup> LTime period from the moment the number is called until the call control signal, busy signal or answer is detected.

In the networks of all operators, low unsuccessful call ratios<sup>24</sup> were also ensured. Only in rare cases, unsuccessful calls were observed during the measurements - failed call attempt, call interruption, etc. Consequently, voice telephony services were provided to users in good quality last year, regardless of the technology used by the service provider.

### Results of measurements of the average speech transmission quality over the last three years



### Internet service quality

When measuring the quality of Internet service, the PUC evaluates several parameters:

- connection speed (download and upload),
- latency,
- jitter,
- packet loss ratio.

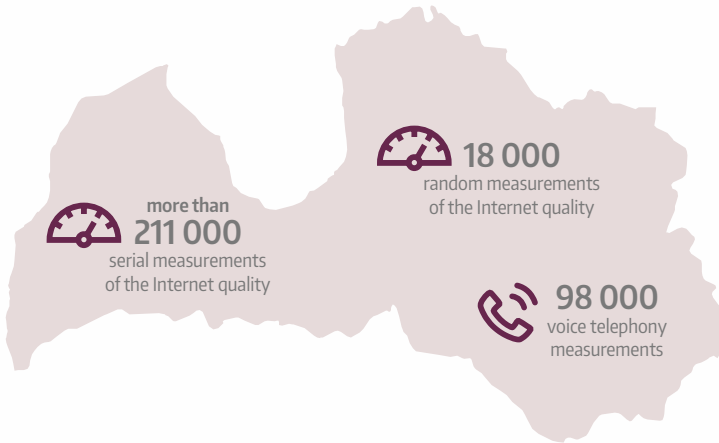
Last year, both random<sup>25</sup>, and serial<sup>26</sup> Internet service quality measurements were performed in the mobile electronic communications networks of LLC "Bite Latvija", LLC "LMT", and LLC "Tele2" at various locations in Latvia.

In total, random measurements were performed at 1,200 freely chosen, mostly populated geographical areas, covering the entire territory of Latvia as uniformly as possible, including more than 200 locations in Riga, performing approximately 18,000 measurements. During 2019, serial measurements were performed at 24 different locations in Latvia, providing more than 211,000 measurements in total.

<sup>24</sup> Describes the ratio of the number of failed connections to the total number of connection attempts in percentage terms.

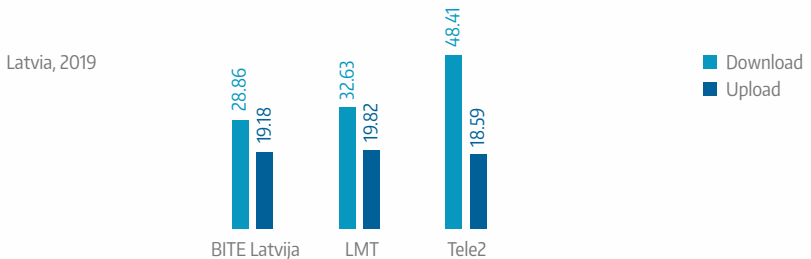
<sup>25</sup> Random measurements reflect the quality of Internet service available at a specific place and time, as well as the penetration of mobile networks and the development of technologies in Latvia.

<sup>26</sup> Serial measurements reflect the quality indicators available at a particular location and the dynamics of their changes during a 24-hour period.



It can be concluded from the compiled data that a 4G connection in the networks of all mobile operators in populated areas in Latvia was available in 97–99% of the measurements. Despite the extensive penetration of 4G networks and high connection speeds, during the 2019 measurements outside the cities<sup>27</sup>, there were still locations where the Internet service was not available due to unstable or non-existent coverage. However, it can be concluded that in locations where Internet service was not available in the network of one mobile operator during the measurements, the Internet service in the networks of other mobile operators was detected with an average download speed of at least 2 Mbps, while in most cases – above 10 Mbps.

### Average connection speed values in 95% of measurements using the 4G data transmission technology, Mbps

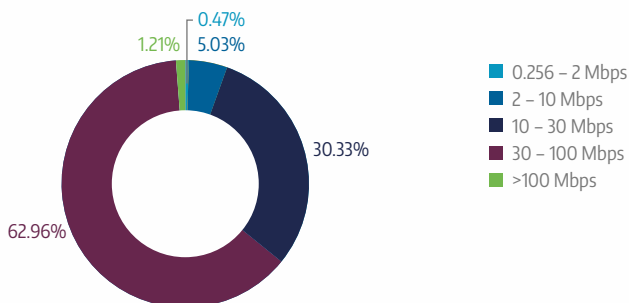


<sup>27</sup> Nine republican cities and 67 municipal cities in accordance with the Law on Administrative Territories and Populated Areas.

It should be taken into account that the average connection speed values characterize the general level of the mobile Internet service quality and its development dynamics in Latvia. These figures may vary from place to place and even within a few meters, as well as at different hours of the day. Consequently, the average values cannot be considered as an actual evaluation of the Internet service at each connection point.

Download speeds are mainly provided in the speed range of 10 to 30 Mbps and 30 to 100 Mbps. The data submitted by the operators show that in Latvia on aggregate, the Internet connection speed above 30 Mbps was ensured by about 70% of the operators providing the fixed Internet service; 62% of the operators provided speeds above 100 Mbps. Two-thirds of mobile operators provided speeds above 30 Mbps.

### Percentage distribution of Internet service measurement download speed by speed ranges in the networks of all mobile operators



The PUC's General Authorisation Regulations require mobile operators to ensure a minimum guaranteed connection speed of 256 kbps. All measurements showed that the download speed values met this criterion. Consequently, all mobile operators comply with the requirement.

Summarizing the obtained latency<sup>28</sup> values and comparing the information submitted by the mobile operators in the 2019 quality declarations, it can be concluded that all mobile operators provide average latency indicators in accordance with the values indicated in the quality declarations.

To open a website with high-volume content without interruption, the allowable latency, or time delay, from the moment a user interacts with the web until a response is received is 50 to 400 milliseconds (ms). For example, for services such as online video games, the latency allowed may be much lower – from 10 to 150 ms. Last year, the networks of all mobile operators had fast network response times, so the users could use Internet services without interruption.

<sup>28</sup> Parameter indicating the time delay between requesting information and receiving information.

	Measurements in 4G network	Measurements in 3G network	Declared value
BITE Latvija	25,01	28,72	≤100
LMT	17,51	31,30	≤400
Tele2	25,99	36,60	≤100

In some cases, latency values may be much higher than the average indicators, however, in the 2019 measurements, no latency values above 100 ms were observed in the network of LLC "Bite Latvija" and LLC "LMT", while in the network of LLC "Tele2" 0.07% of measured latency values exceeded 100 ms.

Similarly, the values of the average jitter<sup>29</sup> and packet loss ratio<sup>30</sup> generally correspond to the values indicated in the quality declarations of the merchants and are provided at a sufficient level for the use of the Internet service, although reaching critically high values in a few measurements.

## THE UNIVERSAL SERVICE IN THE ELECTRONIC COMMUNICATIONS SECTOR

### Historically oldest type of the universal service is available since 2003

The universal service concept in the electronic communications sector is historically oldest and therefore the most developed one. The universal service is 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.

Historically, the scope of the universal service was much wider - payphone services, access to the subscriber list (telephone directories), directory inquiry services, etc. As digital technologies and capabilities evolved, these services lost their significance. At the same time, the universal services basket was maintained, ensuring favourable conditions for the provision of services to persons with special needs. Since 2003 the PUC has obliged LLC Tet (previously LLC Lattelecom) to provide the universal service. Consequently, as in 2018, the operator was obliged to provide disabled persons with specific discounts for electronic communications services.

The PUC, after analysing the submitted information, confirmed that in 2018 the provision of the universal service in the prescribed amount caused losses of EUR 343,729 for which LLC Tet must be compensated from the state budget.

<sup>29</sup> Parameter that determines the uneven time delay between sending and receiving data packets.

<sup>30</sup> Parameter that determines the ratio of lost packets to the total number of transmitted packets.

## SECTOR DEVELOPMENT TRENDS AND CHALLENGES IN 2020

Andris Virtmanis, Director of the Department

Next year, the biggest challenge will be the adoption of the new Electronic Communications Law and related secondary acts in accordance with the European Electronic Communications Code (Code) to which at least 30 PUC regulations are related. Two radio frequency auctions for the use of 5G technology are also planned in Latvia.

In the context of the Code, the Body of European Regulators for Electronic Communications (BEREC) is developing a total of 12 guidelines for the implementation of the various requirements of the Code. The PUC also participates in the work of all BEREC expert working groups, including the development of those guidelines.

The wholesale roaming tariff (for payments between operators) for “Roam Like at Home” in EU countries will continue to decrease to 3.50 EUR per 1 Gb from 1 January 2020, thus further improving travellers' access to the Internet.

In 2020, the EC will take forward the project of setting fixed call termination rates in both fixed and mobile electronic communications networks. This will reduce labour-intensive market analysis processes for regulators and the EC in both markets. Last time, the tariffs set by the PUC for these services entered into force in the Latvian market on January 1, 2018.

# 11.

POSTAL SECTOR

FACTS AND FIGURES: IN BRIEF

70   
total number  
of merchants


7   
new merchants

16   
merchants excluded  
from the Register

70 mill.   
postal items

15   
administrative violation  
cases were reviewed

USERS WERE MAINLY  
DISSATISFIED WITH:

12   
complaints



  
delivery of  
postal items



damage  
to postal items



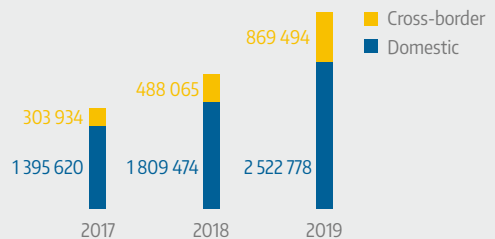
loss  
of postal items

✓ New universal postal service tariffs were approved for JSC "Latvijas Pasts"

✓ The price of sending letters has increased, while the price of certain postal services has decreased

 Net costs for the fulfillment of universal service obligations in 2018 in the amount of 1.5 million EUR were not recognized

NUMBER OF POSTAL PARCELS SENT





New tariffs of JSC "Latvijas Pasts" have been approved; an increase in the prices for sending letters, while the prices for certain postal services have decreased

## MARKET SURVEILLANCE

The postal parcel services segment is growing rapidly

In the postal sector, the PUC regulates traditional postal services, express mail services, courier services and subscription press delivery services.

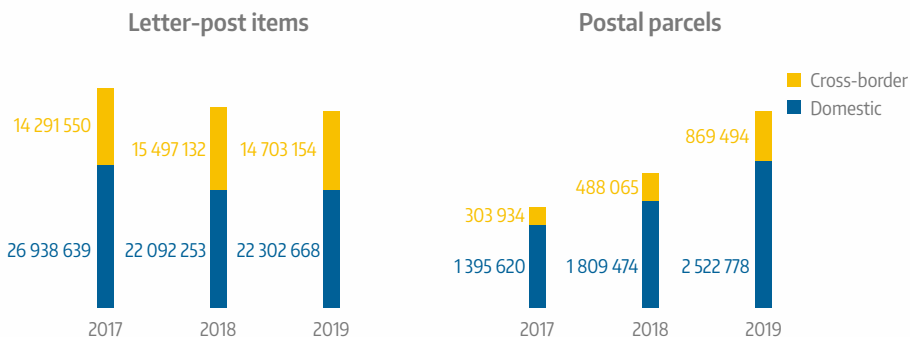
**70**   
the total number  
of merchants

**7**   
new merchants  
during the year

**16**   
merchants excluded  
from the Register

Postal operators were mostly excluded from the Register because the provision of postal services was not started in the last 12 months. A total of 15 administrative violation cases were reviewed during the year for non-compliance with the terms of the general authorisations, namely, failure to provide information to the PUC. One merchant was deprived of the right to provide postal services for three years.

The postal services market is growing faster in the postal parcel segment. The main reason for this is the development of e-commerce and the related delivery of parcels. Considering the trends of the previous years and the growth of electronic services, the volume of sent letters continues to decrease.



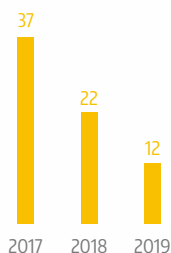
## PROTECTION OF SERVICE USERS

The number of postal service users' complaints about express mail and courier services continues to grow

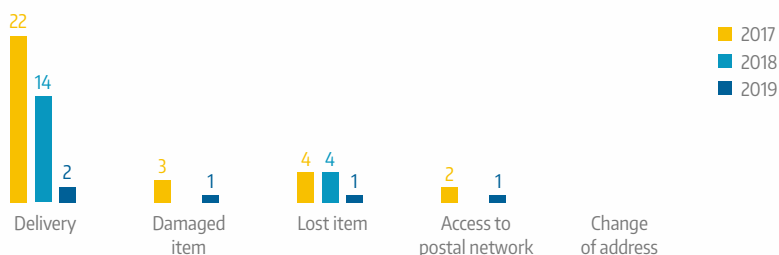
70 million postal items were sent in 2019; the PUC received and provided written responses to 12 user complaints about postal services and related issues. Compared to 2018, the number of complaints has decreased by 10 complaints or 83%. Complaints were mainly received about the delivery of postal items and the loss or damage of postal items.

To ensure greater protection against receiving low-quality services, in 2019, the PUC approved new requirements for postal service providers, namely the obligation to publish on their websites the quality requirements set by the service providers, including the liability for the provision of low-quality services. The regulatory framework is a positive signal for users to be aware of their options and rights to receive a postal service in accordance with the quality requirements of a postal operator.

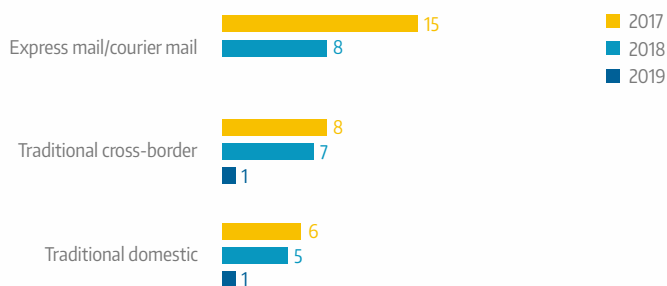
Dynamics of the number of complaints in 2017–2019



Comparison of the number of received complaints according to the subject of the complaint by year



### Comparison of the number of received complaints according to postal services by year



## THE UNIVERSAL SERVICE IN THE POSTAL SECTOR

For the first time, the net costs of the 2018 universal postal service obligations were not approved

The universal postal service is a minimum set of certain quality postal services available to all users throughout the territory of the Republic of Latvia, regardless of their geographical location. The universal postal service provider is obliged to ensure the collection, sorting, transportation and delivery of domestic and cross-border letter-post items (including registered and insured items), the weight of which do not exceed two kilograms; collection, sorting, transport and delivery of domestic and cross-border parcels (including insured parcels) up to 10 kilograms in weight and delivery of cross-border parcels (including insured parcels) received from other European Union countries up to 20 kilograms.

For more than 25 years, the provision of the universal postal service in Latvia was provided by JSC "Latvijas Pasts". Pursuant to the Postal Law, in 2019 the PUC organized a tender for the designation of the universal postal service provider from 1 January 2020 to ensure the continuity of the universal postal service provision and its availability throughout the territory of Latvia, including remote rural areas. Only one participant applied for the tender - JSC "Latvijas Pasts", which then withdrew its application. As a result, the PUC stipulated that until 31 December 2021 JSC "Latvijas Pasts" shall be the universal postal service provider in accordance with the Postal Law.

The PUC annually inspects the quality of the universal postal service in accordance with the sector-specific regulatory enactments. Assessing the quality of the service, it complied with the specified requirements, including the absence of any violations. At the same time, JSC Latvijas Pasts is obliged to coordinate with the PUC in writing the changes in the location of points for provision of postal services and letter boxes. The PUC agreed to 12 changes in the location of points for provision of postal services and 121 letter boxes, including closure of six points for provision of postal services of JSC "Latvijas Pasts".

In accordance with the regulations, in 2019 the PUC analysed the net costs of fulfilling the universal postal service obligations submitted by the universal postal service provider but did not approve their amount. The PUC is obliged to ensure that only justified losses are compensated. However, the evidence and clarifications received by the PUC were not sufficient to justify the calculated losses. 2018 was the first year when the provision of the universal postal service in the specified amount had caused losses to be compensated from the universal postal service compensation fund.

Service tariffs in the postal sector are set by the postal operator, but the universal postal service tariffs are approved by the PUC. In 2019, new universal postal service tariffs were approved for JSC "Latvijas Pasts". The tariffs approved for JSC "Latvijas Pasts" in 2010 caused losses of more than 1.5 million EUR in 2018. The new tariffs are expected to ensure the cost-effectiveness of the provision of the universal postal service.

For example, from 1 January 2020, the charge for ordinary Class A letter-post items weighing up to 20 grams is 1.00 EUR instead of the current 0.57 EUR. Meanwhile, for example, the largest charge reduction for sending a domestic postal parcel is for parcels weighing more than 15 kg - from 11.23 EUR to 8.04 EUR. But, for example, an insured small parcel weighing between 50 and 100 g can be sent as insured mail for 1.91 EUR (previously 3.56 EUR) - a reduction of 46%.

## SECTOR DEVELOPMENT TRENDS AND CHALLENGES IN 2020

Andris Virtmanis, Director of the Department

The PUC participated in the Extraordinary Congress of the Universal Postal Union (UPU), which approved key directions of the postal sector reform for adoption at the UPU Congress in 2020.

Work will continue on monitoring the compliance with the quality requirements of the provided postal services, at the same time reviewing the relevance of the services included in the universal postal service. The requirements in the tender regulations will also be updated, when selecting a new universal postal service provider in 2020, which will provide the universal postal service in Latvia from 2021. This will promote not only competition between service providers, but also the quality of services.

At the same time, in 2020 the PUC will start evaluating the tariffs for the delivery of subscribed press publications, which will take effect from 2021. Last year, amendments to the Postal Law entered into force, extending the provision of the press delivery service in 2020 under the same conditions as before. This means that in the period from January 1, 2020 to December 31, 2020, JSC "Latvijas Pasts" will be compensated for the losses incurred in providing press delivery services.

Following the adoption of the regulation on cross-border parcel delivery services in 2018, the PUC has been monitoring the cross-border postal parcel market annually since 2019 and analysing the availability of these services and the justification of their costs, which will continue in 2020.

# 12.

## LEGAL FRAMEWORK

**FACTS AND FIGURES: IN BRIEF**

**PUC'S PARTICIPATION  
IN LEGAL PROCEEDINGS**

57 

1 



5   
concluded favorably

52  1   
continue

22   
written explanations  
to the courts



**The longest litigation in the history of the PUC:**

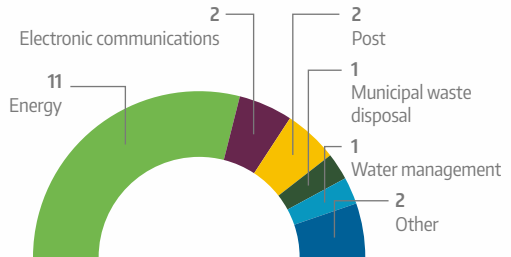
Until the end of 2019, the longest litigation process - "small HPP" cases, which started in 2006 and is still pending in court

**Internal regulatory enactments  
issued by the PUC**

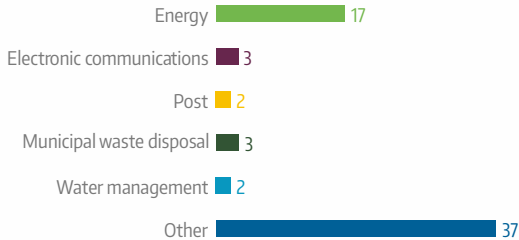
8  
govern the PUC's  
internal processes  
in the regulated  
sectors

21  
govern the PUC's  
internal  
administrative  
processes

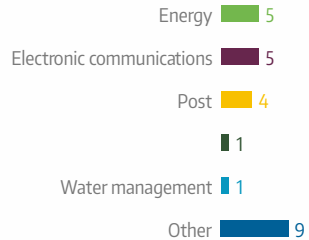
**External regulatory enactments issued by the PUC**



**Opinions provided on draft regulations  
of the Cabinet of Ministers**



**Opinions provided  
on draft laws**



 Energy sector  Postal sector

# 13.

## INTERNATIONAL COOPERATION

One of the most significant events in 2019 was the election of the PUC's Chairman as Vice-Chair of the ACER Board of Regulators and one of the Vice Presidents of CEER.

The work of representing ACER and CEER internationally and preparing the agendas of the ACER Board of Regulators and the CEER General Assembly has further strengthened the credibility of the PUC among European regulators. At the same time, the Latvian regulator has contributed to the activities of ACER and CEER at the time when the implementation of the norms of the Clean Energy package began. In addition, the PUC's Chairman continued to serve as ERRA Presidium Member and was re-elected as the Co-Chair of the Eastern Partnership Electronic Communications Regulators Network (EaPeReg).

The achievements of the Baltic regulators, transmission system operators and ministries while working towards the creation of a single natural gas market must be particularly emphasised.

## **ELECTRONIC COMMUNICATIONS**

### **Participation in international organisations and forums**

The PUC continued to participate in various regional and bilateral cooperation projects of BEREC. During the cooperation with BEREC, the PUC focused on the development of a single authorisation form and a standard customer agreement form, as well as dealing with numbering fraud. Some of these measures will soon be introduced in Latvia.

The PUC also organised a meeting of the Baltic Electronic Communications and Postal Regulators (BaltReG) to discuss the tasks to be performed after the entry into force of the Electronic Communications Code (on 11 December 2018). The agenda of the meeting also included market analysis, M2M/Internet of Things, eCall system solutions and international projects (EU4Digital, EaPeReg, and Twinning projects).

Meanwhile, the main topic of the meeting of the 2nd Contact Network of the Nordic-Baltic Electronic Communications Regulators (NB Reg) was "Preparation for making 5G ready". The regulators analysed what IT tools they use in their daily work, shared their vision on the implementation of the Electronic Communications Code, got acquainted with the Norwegian regulatory framework on emergency networking using commercial networks, and discussed the security and development of 5G networks.

In cooperation with the European Commission, the PUC also organized the EaPeReg plenary session and the seminar "Roam Like at Home".



## Expert contribution to international projects

The PUC won in a consortium with Italian and German electronic communications regulators in the Twinning project on the implementation of electronic communications regulatory framework in Israel. In this project, the PUC makes proposals to harmonize the Israeli regulatory framework with the EU framework. Meanwhile, after winning in a consortium with the Lithuanian regulator in the “Twinning” project on strengthening the capacity of the Ukrainian regulator in the field of market access and monitoring the quality of services, the PUC signed the project launch document.

The PUC experts also participated in the EUR4Digital project. It aims to transfer the EU's digital single market experience to six Eastern Partnership countries. By participating in the projects of the Technical Assistance and Information Exchange (TAIEX) unit, the PUC provided expertise to several regulators:

- In Ukraine – on the applicable obligations for operators with significant market power and dispute settlement;
- In Moldova - on the monitoring of open Internet requirements;
- In Kosovo - on infrastructure sharing and the review of the market analysis regulatory framework.

The PUC also signed a Memorandum of Cooperation with the Armenian multi-sectoral regulator on cooperation in regulating the sector, as well as updated the Memorandum of Cooperation with the Ukrainian regulator, which was signed for the first time in 2010.

## POSTAL SECTOR

### International discussions on the future of the postal sector

In 2019, the European Regulators Group for Postal Services (ERGP) worked on the next three-year strategy for 2020-2022, while the discussions in the plenary session of the European Committee for Postal Regulation (CERP) mainly focused on the mutual parcel settlements in a changing postal service environment.

Meanwhile, at the regional meeting of BaltReg, the regulators discussed changes in postal laws related to the EU regulation on cross-border parcel delivery services and the universal postal service. This issue is especially important for Latvia, considering changes in consumer habits and technological development, at the same time experiencing a significant reduction in the volume of sent letters and a rapid development of e-commerce.

## ENERGY

### Changes in the implementation of international regulatory framework

In the electricity and natural gas sectors, agreements have been reached in regional markets to meet the conditions of the Clean Energy Package (CEP) and the Third Energy Package. In the electricity sector in the Baltic States, the 70% threshold required by the CEP has been met to ensure the net transmission interconnection capacity.

Work also continued on the implementation of the Network Codes and Guidelines (including the almost complete implementation of the CACM regulatory framework), as well as discussions with the EC on the methodology for calculating cross-border capacity with third countries. The PUC also appointed European Market Coupling Operator AS as a nominated electricity market operator in the Latvian bidding area. In monitoring the wholesale electricity market, the PUC continued to participate in the ACER Wholesale Market Monitoring (REMIT) working groups and the Nordic-Baltic Regulators Board, which oversees the regional market.

For example, Latvian, Estonian, Finnish, and Swedish regulators, and ACER cooperated in the investigation of a suspicious case at the request of Nord Pool. On its own initiative, the PUC also started the audit of the Centralised European Register of Energy Market Participants (CEREMP) registered in Latvia.

### Single market for natural gas

For the single natural gas market to become operational on 1 January 2020, regulators and operators in Finland, Estonia, and Latvia were working on a common regulatory package. From now on, when importing natural gas into the unified system, the transmission system service tariff will be applied only once and will be the same at all entry points of the single transmission system.

The PUC's agenda also included participation in the ACER and CEER working groups, including participation in the examination of the EC's "Clean Energy for all Europeans" package and the formulation of opinions. At the same time, the PUC participated in a comparative study of the efficiency of European electricity and natural gas transmission system operators. The results of the research are used by the PUC in its daily work.

### Transfer of the PUC's expert knowledge to foreign colleagues

With the participation of the PUC last year, several international events took place in Latvia in the energy sector. The ERRA conference in September was attended by experts and sector representatives from 37 countries and 5 continents. The Baltic Electricity Market and the Baltic Gas Forum also brought together many participants from ACER, CEER, and the regulators of the Baltic States, Finland, Sweden, Germany, and Poland.

The PUC experts, representing ERRA, CEER, ACER or via TALEX, have shared experience and expertise with regulators of several countries on third party access, opening and transparency of energy markets, independence of regulators, Baltic and Nordic natural gas market, European regulatory framework, tasks of system operators in the period of energy restructuring, interconnection of regional electricity and natural gas markets, as well as regulation of the district heating sector in Latvia.

## WATER MANAGEMENT

In 2019, the PUC participated in the development of the European Water Regulators' (WAREG) internal guidelines and report "Tariff regulatory frameworks in WAREG member countries" and also participated in a seminar on national experience in attracting investment for water infrastructure. Regulators concluded that the different contexts of the water sector in different countries need to be taken into account and that the "one size fits all" approach does not apply.

## INTERNATIONAL COOPERATION IN 2020

In 2020, the Organization for Economic Co-operation and Development (OECD) will begin evaluating the three-year (2018-2020) operating cycle of the PUC, following the OECD's first 2016 report on promoting the PUC's operation and development.

### Electronic communications and post



Implementation of the Electronic Communications Code on 21 December 2020



Implementation of the BEREC Strategy for 2020-2024



Participation in the "Twinning" project in Israel, Ukraine, EU4Digital program



Implementation of the new ERGP strategy for 2020-2022 - development of the single European postal market, creation of a universal postal service in the interests of consumers

## Energy



Implementation of the ACER framework and the Electricity Regulation



Examination of EC proposals for the new regulatory framework of the energy infrastructure and gas sector



Establishment of harmonized compensation mechanism solutions in the single tariff area between Finland, Estonia, Latvia, and Lithuania



The project “Recommendations for the Development of an Effective Regulatory Framework for Setting Tariffs for Heat, Electricity and Gas Distribution” has been launched with the help of the EU Structural Reform Support Program

## Water management



Participation in WAREG activities and implementation of the WAREG strategy for 2020-2022

# 14.

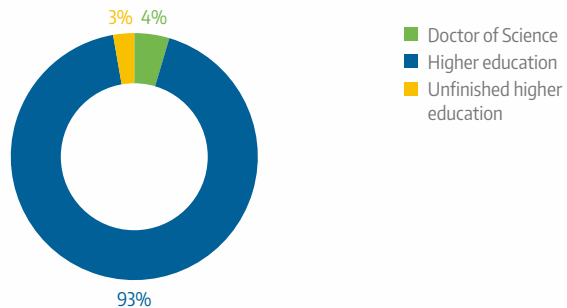
## STRUCTURE AND WORK ORGANISATION

The organisation and structure of the PUC's operation is determined by the Law on Regulators of Public Utilities. Pursuant to the legislation, the Board is the PUC's decision-making body which consists of the Chairman and four Board members appointed by the Saeima (Parliament). The Chairman and the members of the Board are appointed for a term of five years. The Board adopts decisions on behalf of the Regulator and issues administrative acts that are binding for public service providers and users. In 2019, 49 Board meetings were held in which 287 decisions were adopted.

The executive institution is subordinated to the Board and performs the functions of the Board's secretariat and experts to prepare questions and documents for consideration at the Board meetings and to implement the decisions and administrative acts issued by the Board.

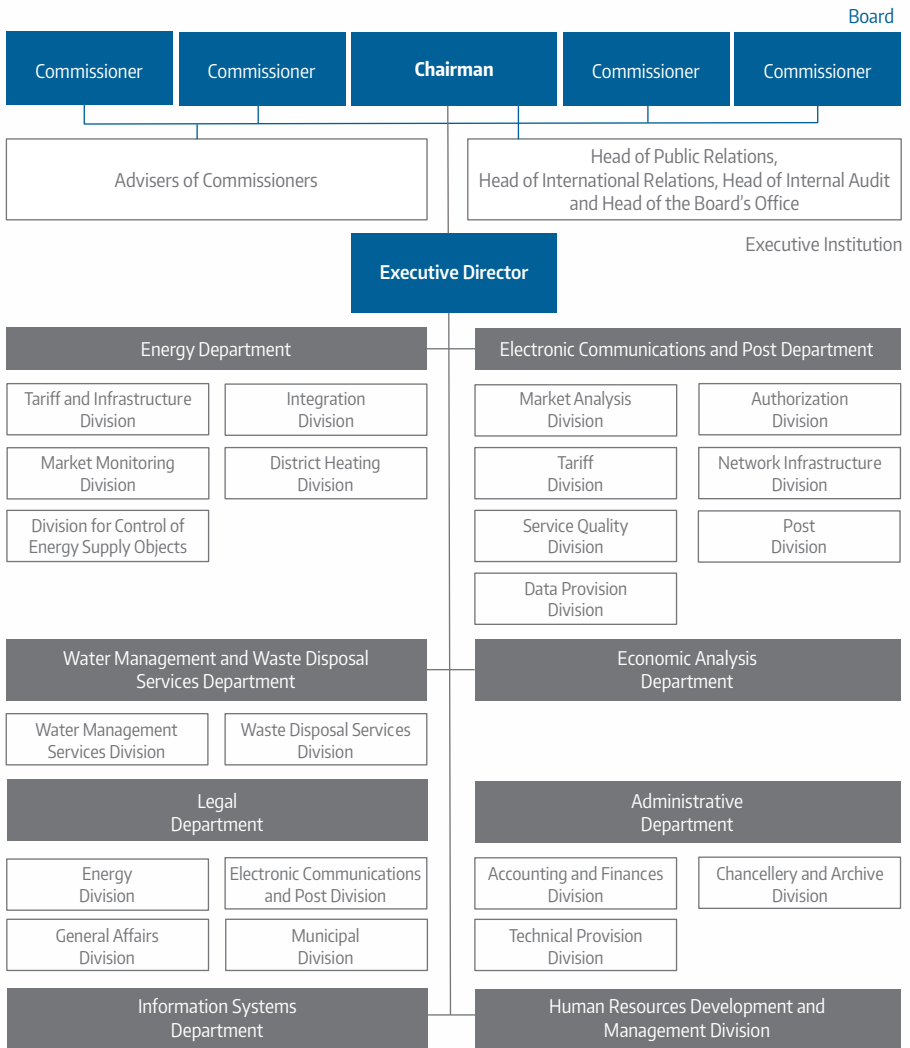
The executive institution consists of the executive director, seven departments, including a unit for each regulated sector, and one independent unit. As of 31 December 2019, the PUC had 109 employees. During the year, 12 employees have joined the team while 12 have moved forward to new challenges. 36 gentlemen and 73 ladies work for the PUC; the average age of a PUC's employee is 40 years.

Qualification level of the PUC's employees (%)



## STRUCTURE AND WORK ORGANIZATION IN 2020

Next year is a year for major projects for the Human Resources Development and Management Division. Changes to the Personnel and Accounting System will be started, which provides for the introduction of one unified system, electrification of all processes, abandonment of various types of orders, as well as the creation of a unified application system for all PUC employees.



# 15.

## FINANCING AND ECONOMIC ACTIVITIES



In 2019, the PUC carried out its activities in a separate budget programme approved by the law "On State Budget for the Year 2019". The PUC's operations are financed by the fees for public utilities regulation; the fees are paid by regulated companies. In the reporting year, the state fee in the regulated sectors was 0.2% of the net turnover of the relevant public service provided by the regulated company in 2017. The merchants, which started to provide public services in 2019, calculated the state fee from the net turnover of the respective type of public service planned by the merchant in the first year of operation.

The PUC's planned expenditures in 2019 were 5,460,630 EUR. Actual spending amounted to 5,263,126 EUR, which was 96.4% of the planned spending in the reporting year.

Pursuant to Article 31(7) of the Law On Regulators of Public Utilities, the actual balance of financing means, which in a given calendar year exceeds the costs necessary for the operation of the PUC, is credited to the PUC's account in the Treasury in the state fee accruals and can be used for ensuring the activities of the PUC in future periods according to the budget of the PUC approved by the law on state budget. The balance of financial resources as of 31 December 2019 in the basic budget was 145,176 EUR, which has been transferred to the PUC's deposited funds account and used to accrue the state fee.

Revenue from the EU-funded institution strengthening program twinning project No IL 13 ENPI-TE 01 16 (IL/13) "Strengthening Israel's regulatory capacity in the telecommunications sector with a focus on service delivery through networks of other operators" was planned in the amount of EUR 80,447 in the reporting period. In fact, 71,255 EUR or 88.6% of the planned financial resources for the reporting period were spent. The balance of financial resources on 31 December 2019 was EUR 9,192.

Revenue and expenditure for the EU-funded institution strengthening program twinning project No UA 18 ENI TE 01 19 "Strengthening the regulatory capacity of the Ukrainian national regulatory authority in the telecommunications sector with a focus on market access and service quality monitoring system" are indicated in the amount of 176,499 EUR for the whole project; it actually started in August 2019 and will continue after the reporting period. 31,291 EUR or 17.7% of the project's planned financial resources were actually spent in the reporting period. The balance of financial resources on 31 December 2019 was EUR 145,208.

The PUC's financial report 2019 was prepared in accordance with the Cabinet of Ministers Regulations No 344 "Procedure for preparing an annual report" of 19 June 2018. The financial report 2019 was submitted to the Treasury on 2 April 2020. The PUC's financial report 2019 was audited without objections by "Revīzija un vadības konsultācijas" Ltd (licence No.79 of the sworn auditor's commercial entity).

In 2019, the PUC concluded 68 economic cooperation agreements including 10 public procurements in accordance with the Public Procurement Law.

No	Financial resources	Previous year (actual numbers)*	In the reporting year (EUR)	
			Approved by law	Actual numbers*
1.	Total revenues, incl.	5 378 216	5 717 576	5 510 848
	Fee based services and other income	5 344 148	5 460 630	5 408 302
	Other previously unclassified revenue earmarked for special purposes (EU project No IL 13 ENPI-TE 01 16 (IL/13) Israel)	34 068	80 447	71 255
	Other previously unclassified revenue earmarked for special purposes (EU project No UA 18 ENI TE 01 19 Ukraine)	-	176 499	31 291
2.	Total spending	5 275 949	5 363 176	5 365 672
2.1.	Administrative costs (total)	5 068 541	5 460 630	5 263 126
	International cooperation	27 480	27 810	27 810
	Other administrative costs	5 041 061	5 300 930	5 104 068
2.2.	Capital investments	207 408	131 890	131 248

\* in accordance with the cash flow principle