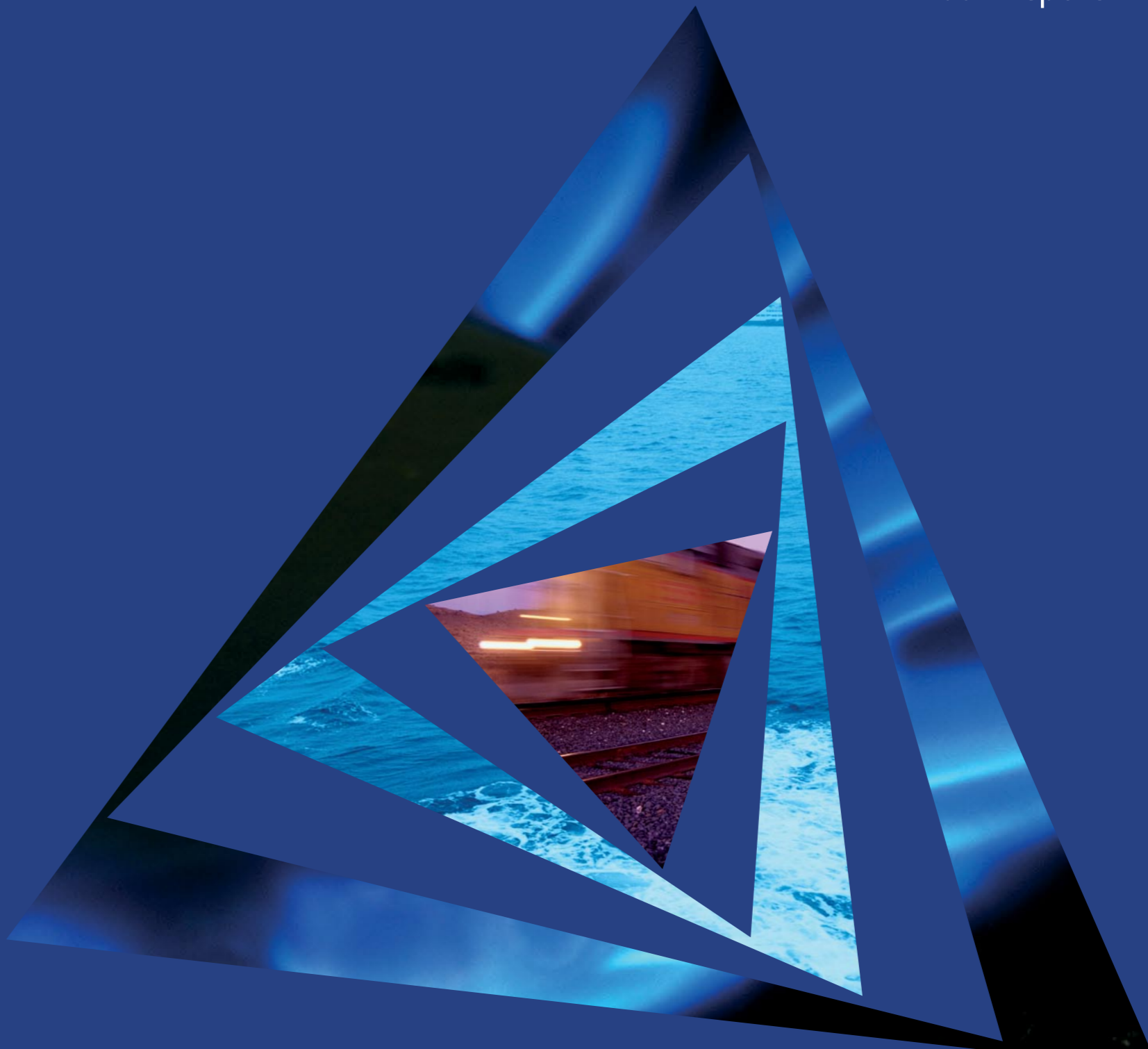


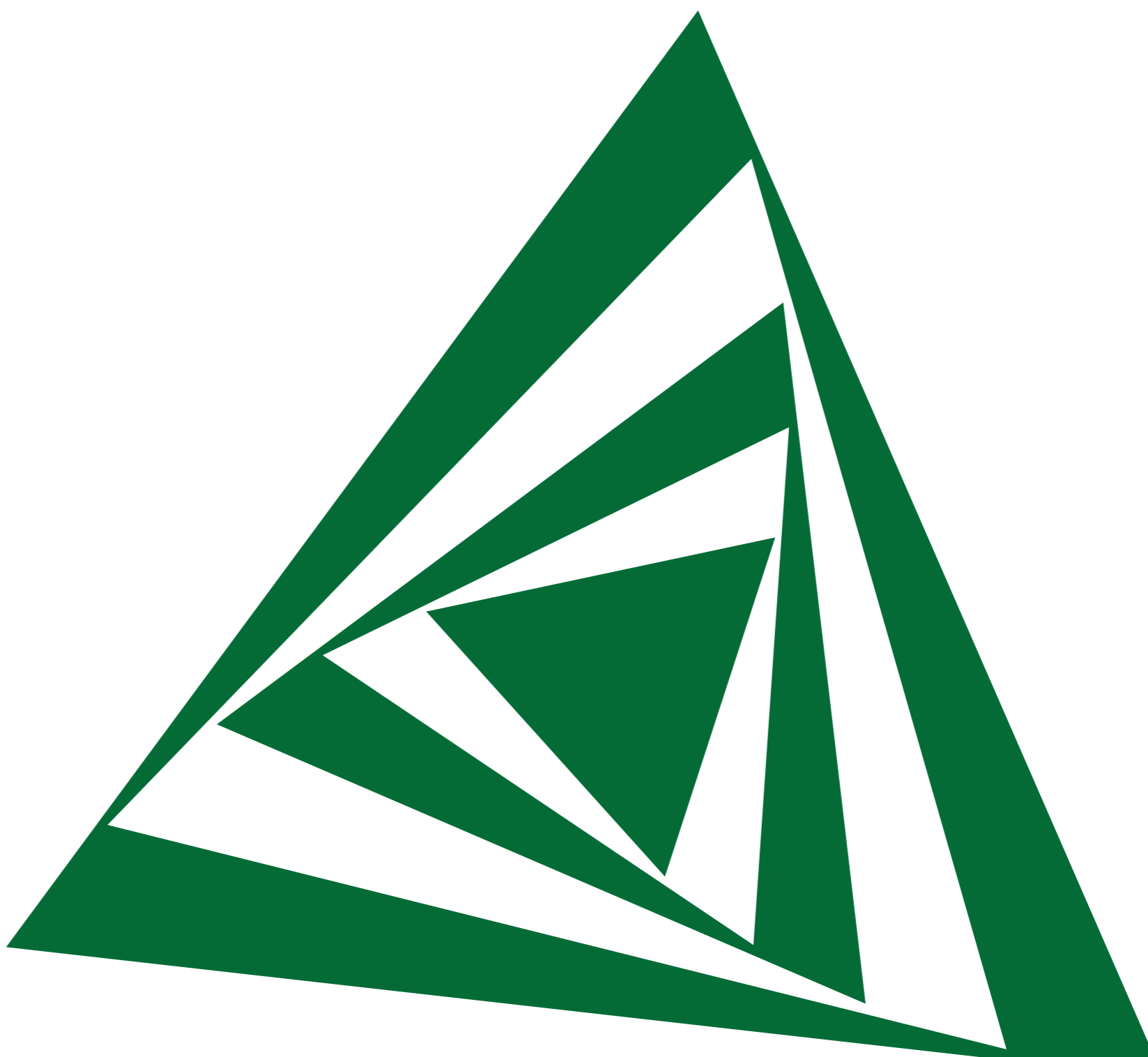


THE LATVIAN PUBLIC UTILITIES COMMISSION

Annual Report 2006



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Dear reader:

The Latvian Public Utilities Commission (the Commission) has completed another year of active work. During the course of 2006, the Commission particularly focused on regulations in the areas of electronic communications and energy.

In the area of electronic communications, the Commission devoted significant resources to market analysis, doing so in accordance with European Commission requirements vis-à-vis the electronic communications market and the services which it provides. Late in 2006, we did the necessary preliminary work to launch quality inspections of Internet access services at the beginning of this year – inspections which are impatiently awaited by many users of the relevant services.

The Commission received and considered new proposals on electricity and natural gas tariffs as a result of the increased price of imported energy resources. Of importance in 2006 was the Commission's approval of new rules on minimal requirements vis-à-vis the independence of electricity system operators – something that will ensure equal access for companies to power networks.

As has been the case each year, the Commission defined the fee for using the public-use railroad infrastructure in the spring of 2006.

Despite expectations to the contrary, no work began on the establishment of a unified state and local government regulator. It is expected that this process will begin in 2007.

A handwritten signature in black ink, appearing to read 'Valentina Andrejeva'. The signature is stylized and cursive.

Valentīna Andrējeva
Chairwoman, Public Utilities Commission

REGULATION IN LATVIA



The Regulatory System

In countries in which there is a public utilities system, there are also unified ideas about the fact that there are various socio-economic factors which have an effect on the ability of members of the public to receive services that are of key importance in ensuring their quality of life while, at the same time, also affecting the ability of companies to offer these services.

Latvia's is a two-level regulatory system. There is the multi-sectoral regulator which is the Public Utilities Commission, and there are also local government regulators.

The Public Utilities Commission is an institution that is overseen by the minister of economics of the Republic of Latvia, but it is independent in taking its own decisions.

The primary duty of the Public Utilities Commission is to use regulatory tools to make sure that public services are safe and uninterrupted.

The work of the Public Utilities Commission is based on the law "On public utility regulators", along with laws and other normative acts which regulate each of the regulated sectors.

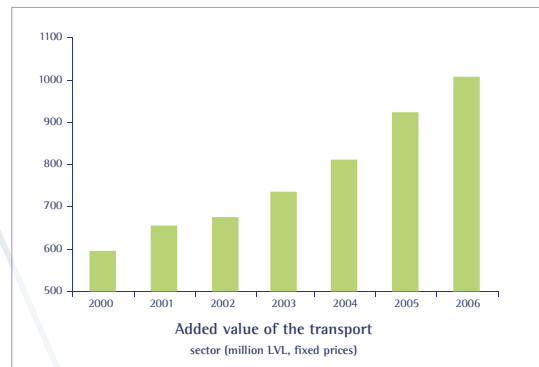
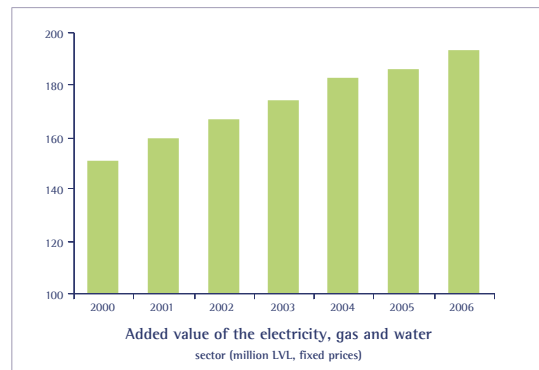
The functions of the Public Utilities Commission include regulating the relevant sectors and companies therein, defining methodologies for calculating tariffs, approving tariffs, issuing licenses, registering permits, promoting competition in the regulated sectors, offering out-of-court settlement of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

Regulated Sectors in the Context of the National Economy

The companies which are regulated by the Public Utilities Commission represent the electricity, gas and water delivery, transport and communications sectors. In 2006, these represented 15.5% of GDP (13.0% for transport and communications and 2.5% for electricity, gas and water delivery). The transport and communications sector experienced the most rapid increase in size in 2006 over 2005 – 9.3% of GDP, while the electricity, gas and water delivery sector expanded by 4.0%. Latvia's overall GDP increased by 11.9% in 2006.

As far as employees are concerned, the regulated sectors employed 11.4% of all working people in Latvia in 2005 – 9.2% in the transport and communications sector, and 2.2% in the energy sector.

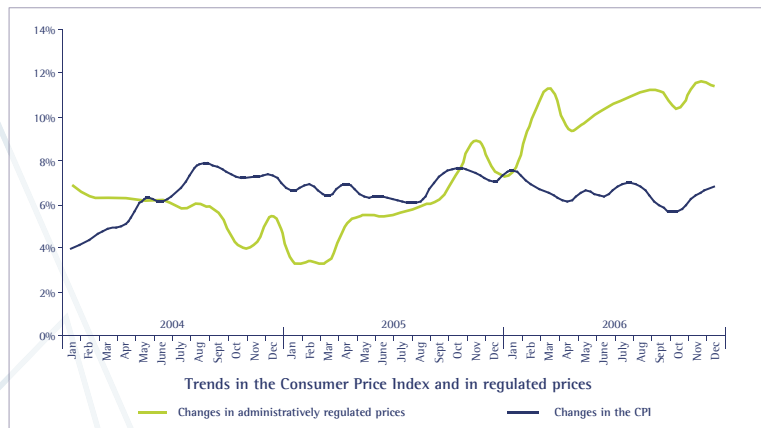
Average wages in the regulated sectors were above the national average in 2005. The average net monthly wage in the transport and communications sector was LVL 235 – LVL 199 for people working in the areas of land transport and pipeline transport, and LVL 270 for those in the postal and telecommunications sector. In the energy supply sector, the average wage was LVL 313, while the average in the entire economy was LVL 216.



The effect of regulated prices on inflation

According to the Central Statistical Bureau, 14% of the goods and services that are listed on the Consumer Price Index are services with administratively regulated prices. These include services that are regulated by the Commission, ones that are regulated by local government regulators, as well as other services that have regulated prices.

In 2006, compared to 2005, consumer prices rose by a total of 7.9%, while administratively regulated prices increased by 11.4%. In accordance with the proportion of administratively regulated prices on the CPI, administratively regulated prices represented 1.6% percentage points, or 20% of overall inflation.



Among the services regulated by the Commission, inflation was most affected by a 33.5% rise in the price of natural gas. This pushed up inflation by 0.21 percentage points. A 6.7% increase in electricity tariffs raised inflation by 0.15 percentage points. An average increase of 51% in postal service tariffs pushed up inflation by 0.02 percentage points. There was a reduction in regulated voice telephony service prices of 1.6%, which reduced inflation by 0.02 percentage points. The direct effect on services regulated by the Commission, all in all, was an increase in the Consumer Price Index of 0.36 percentage points.

Among prices regulated at the local government level, heat tariffs rose substantially in 2006 – by 18.1%. This pushed up inflation by 0.66 percentage points. There was also a significant increase in land-based passenger transport tariffs – 8.5% (0.13 percentage points). Water delivery prices rose by 11.7% (0.08 percentage points), sewage tariffs rose by 16.8% (0.07 percentage points), and waste removal tariffs were increased by 16.4% (0.06 percentage points).

Among other regulated services, inflation was impacted to the greatest degree by increases in housing rental prices – 12.6%, or 0.09 percentage points. The cost of notary services rose by 49%, which increased inflation by 0.08 percentage points.



THE COMMISSION'S OPERATIONS IN 2006



Structure and Employees



Valentīna Andrējeva



Daiga Iljanova



Edvīns Karnītis



Ivars Zariņš



Gints Zeltiņš

Members of the Commission's Council

The decision making institution of the Public Utilities Commission is its Council. The Council acts on behalf of the Commission in taking decisions and issuing administrative acts which are obligatory for specific public service providers and users. In 2006, members of the Council were Valentīna Andrējeva, Daiga Iljanova, Edvīns Karnītis, Ivars Zariņš and Raimonds Jonītis, who resigned on July 1, 2006, and was replaced by Gints Zeltiņš.

The Council also oversees the Commission's executive institution, which serves as the Council's secretariat and source of expert services. This institution prepares issues and documents for Council review, implements the Council's decisions, and monitors the situation to make sure that all administrative acts are implemented properly.

At the end of this reporting period, the Commission was employing 77 employees and five Council members. Of the employees, 74 have a higher education, eight have a doctorate, 28 hold a master's degree, and three have completed two separate bachelor's degrees. Three of our employees are pursuing a doctorate, three are working on a master's degree, while two are pursuing their second bachelor's degree. Seven employees of the Commission have a secondary or special secondary education, and three are still at university. Fully 91% of Commission employees have a higher education or an incomplete higher education.

Major Commission Decisions and Documents

The Commission's Council met 52 times between January 1 and December 31, 2006. Members approved 320 decisions, they issued 18 licenses to public service providers, and they registered 70 permits. The Commission approved several external normative acts and amendments to same, including 12 in the electronic communications sector, four in the energy sector, three in the railroad sector, two in the postal sector, and three of a general nature. The Commission also took active part in preparing four draft laws – amendments to the law on electronic communications, a new law on postal services, a law on public transportation services, as well as amendments to the law on waste management.

Also in 2006, the Commission organised active analysis of the market for electronic communications. This work was based on detailed instructions from the European Commission as to the market and services that had to be investigated. The Commission approved regulations on minimal requirements related to the independence of a power system operator – something that ensures equal access to electricity systems and networks for companies.

Because of a rise in the cost of imported energy resources, the Commission received and considered new tariff proposals from the electricity and natural gas sectors. Co-generation tariffs were also reviewed. In April 2006, the Commission set new tariffs on use of the public rail infrastructure.



Litigation and Out-of-court Settlements

During the course of 2006, the Public Utilities Commission continued to deal with processes of litigation that had begun over the previous six years. The most important of these is the court case which relates to the Commission's decision on March 31, 2004 (Decision No. 111) on cancelling administrative sanctions against SIA Tele2. During the reporting year, the Commission became involved in two other lawsuits related to the electronic communications sector.

In the energy sector, four processes of litigation were completed in 2006 and in January 2007, while five others are still pending. The most important of these are individual petitions filed with administrative courts, asking the courts to order the Commission to define an average tariff for the sale of electricity.

One function of the Commission is to pursue out-of-court settlements in cases involving public service providers and users. In 2006, the Commission was involved in four disputes of this kind, and it approved three final decisions. In the energy sector, the Commission reviewed three disputes.

The Commission has also reviewed several types of administrative violations, doing so on the basis of the Administrative Offences Code of Latvia. An administrative fine was imposed on one company from the electronic communications sector, and the Commission achieved the payment of pending administrative fines in 15 cases. In the energy sector, court cases related to two administrative violations were launched in 2005 in the area of sale of liquid gas. The companies had not fulfilled lawfully approved Commission decisions and were punished accordingly.

International Co-operation

During the reporting year, the Commission organised an international meeting for the Licensing and Competition Committee of the Energy Regulators Regional Association. The Commission also took part in a meeting of regulators from the Nordic countries and Baltic States who work in the field of electronic communications. The Commission sent representatives to a high-level working group organised by the European Commission, studied the experience of multi-sector regulators in the United States and Germany, learned about how postal services are regulated in Germany, and became involved in the preparation and implementation of other norms related to regulations and to the rules of the European Communities.

At the beginning of 2006, the European Regulators' Group for Electricity and Gas organised regional forums on co-operation in electricity markets, and the Commission undertook the role of the lead regulator in the Baltic region. During the reporting year, there were three debate forums which were attended by representatives of the European Commission, Baltic region regulators, transmission system operators, sectoral ministries and international organisations. The discussion at these forums focused on the further development of Europe's electricity market.

Regulations in the Energy Sector

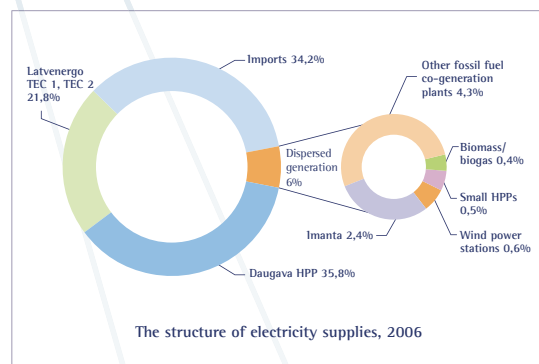
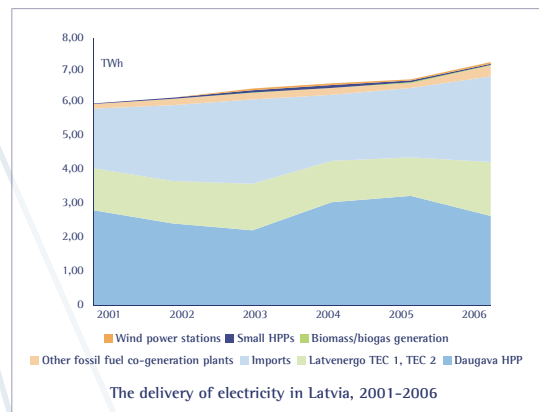
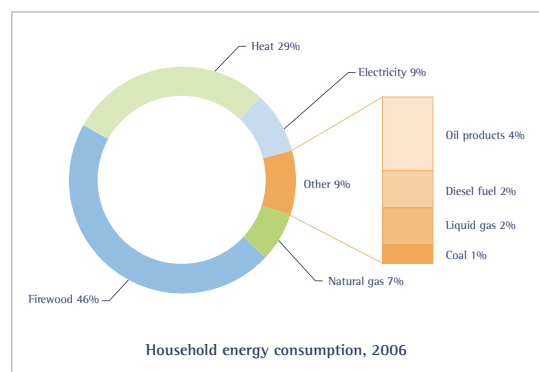
The areas in which Latvia regulates energy tariffs are delivery of electricity and delivery of natural and liquid gas. Among Latvian households, consumption of these products represents 18 to 20% of total energy consumption in Latvia.

By far the most dominant company in electricity delivery is the state-owned share company Latvenergo, which produces more than 90% of the electricity that is produced in Latvia. It imports electricity and ensures transmission, distribution and delivery of electricity to users. There are also some 150 small hydroelectric power plants which produce electricity. They have a total capacity of 25 megawatts. Latvia has 14 wind power stations with a total capacity of 25.2 Mw, as well as 39 co-generation stations with a total capacity of 137 Mw. In addition to Latvenergo, there are 12 other licensed companies which distribute and sell electricity.

In 2006, the total value of the Latvian electricity market was 7.34 terra-watt hours (TWh). Of these, 4.23 TWh were produced by Latvenergo, 2.05 TWh were imported, and the remaining amount of electricity came from independent producers using low-capacity power plants.

Since July 1, 2004, all electricity consumers except households have been allowed to choose alternative suppliers. Several companies which do not have their own distribution networks have been licensed to sell electricity.

The problem is that in Latvia and in the Baltic States, there is insufficient generation capacity to really allow for a market in which operations are based on bilateral agreements, nor is there sufficient participation in the market by consumers requiring a major amount of electricity. In 2006, the ESTLINK connection was established between the electricity transmission systems of Estonia and Finland. This is expected to promote market development.



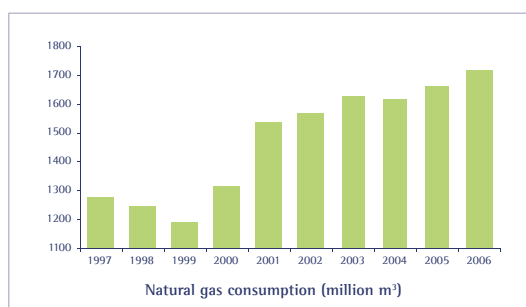
In the area of natural gas deliveries, the stock company Latvijas Gāze holds the monopoly, as it controls the entire network from purchase to delivery to the final user. The company has internal units which are responsible for the transport, storage, distribution and sale of natural gas. Bookkeeping at the company is in line with the functions of these various units, and the Commission has approved a cost allocation methodology for this purpose.

The natural gas system in Latvia is used to deliver natural gas to users. During the winter, natural gas from the subterranean gas storage facility at Inčukalns is delivered to Lithuania, Estonia and Russia, as well.

This natural gas delivery system was established 30 or 40 years ago and has a capacity of some 4 billion cubic metres of gas each year. Last year total consumption in Latvia represented just 45% of the capacity, which means that the natural gas delivery system is never overloaded and can ensure the stable supply of natural gas to all consumers in Latvia.

A law regarding the procedure under which certain articles of the Latvian energy law will take effect (June 30, 2005) stipulates that the natural gas market will not be opened up until January 1, 2010.

Natural gas consumption in Latvia grew by 3% in 2006 to 1.72 billion m³. Of this amount, 59% was used to produce heat and electricity, 7% was consumed by local residents, and 34% was used by industrial users.



Liquefied petroleum gas (propane and butane) which is sold in Latvia is mostly imported from Lithuania and Russia. In 2006, Latvia imported approximately 57,000 tonnes of liquefied gas. Half of it was used in motor vehicles, while the other half was used for household heating and for retailing from tanks and from underground and above-ground group reservoirs. Of this amount, 25% of the gas was used for heat, 10% went toward the delivery of liquefied gas through underground and above-ground group reservoirs, and the rest was filled into tanks.

Since 2000, the amount of liquefied gas used for household needs has increased by 8% - from 25,000 tonnes in 2000 to 27,000 tonnes in 2006.

Licensing and license supervision

According to Cabinet of Ministers Regulation No. 297, 2001, the Commission regulates co-generation plants which generate electricity and heat, as long as their maximum output is above one megawatt (Mw). The Commission also supervises the generation of electricity from plants with a capacity of more than one Mw (hydroelectric power plants, wind power plants, and combustion power stations). The Commission regulates the transmission of electricity when the voltage is at least 110 kilovolts, the distribution of electricity if the voltage is between 1 and 110 kV, and sale of electricity to end users if the amount that is provided exceeds 4,000 megawatt-hours (MWh) per year.

At the end of the reporting year, the Commission had issued 60 licenses – 32 for co-generation plants which generate electricity and heat, 15 for wind power stations, two for hydroelectric power plants, one for the transmission of electricity, nine for the distribution of electricity, and 16 for the sale of electricity.

Five new licenses were issued in 2006. Three apply to the generation of electricity in a steam turbine owned by SIA “Steamhammer”, via a biogas system owned by SIA “Liepājas RAS”, and through a wind power station owned by SIA “Lenkas energo”. Two licenses were issued to sell electricity – one to SIA “Steamhammer” and the other to SIA “E Energy”.

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

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

At the end of the reporting period, 68 licenses related to the delivery of liquefied gas had been issued – 10 for storing gas and filling it into tanks, 11 for distributing it, and 47 for selling it.

Eleven licenses on the sale of liquefied gas were issued in 2006. Ten companies continued to deliver liquefied gas – SIA “Pro Gāze”, SIA “LUKoil Baltija R”, SIA “Inter Gaz MT”, SIA “Kalnakrogs”, SIA “Kubs E”, SIA “Himserviss-Autogāze Ventspils”, SIA “Avin”, SIA “La Jan”, SIA “Baltimors” and SIA “Žigulji STM”. Some were issued renewed licenses because their former ones had expired. One new license was issued for the sale of liquefied gas – the company SIA “Propāna butāna gāze” launched commercial operations in this area.

The operations of public service providers are regularly inspected on the basis of Decision No. 329 of the Council of the Public Utilities Commission (December 3, 2003).

In 2006, the Commission inspected 38 companies which deliver liquefied gas and one company which delivers natural gas. During the investigation, it was found that 24 of the companies which sell liquefied gas were not offering all of the public services that were listed in their licenses. If the company indicated that this would continue to be true, the relevant license was annulled.

Also in 2006, the Commission inspected 10 companies which deliver electricity, finding that license requirements were being violated at three of these.

Regulating tariffs

Electricity

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

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

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

New tariffs for Latvenergo's electricity distribution system were approved in June 2006. New tariffs for the stock company "Augstsprieguma tīkls" (High Voltage Network) took effect on August 1 of the same year. New tariffs for the sale of electricity took effect at Latvenergo on March 1, 2006.

New electricity tariffs were approved for several co-generation stations – TEC-1 and TEC-2, which are run by the Latvenergo subsidiary "Rīgas termoelektrostacija", the "Imanta" heating plant run by the stock company "Rīgas siltums", one owned by the stock company "Daugavpils siltumtīkli", and other run by SIA "Liepājas enerģija."

According to Eurostat data from 2006, Latvia had among the lowest electricity tariffs for households and commercial users in the entire European Union.

The price of electricity in Eastern Europe and the Nordic countries, 2005 and 2006, for household users with annual consumption of 3,500 KWh and industrial users with annual consumption of 2,000 MWh

Natural gas

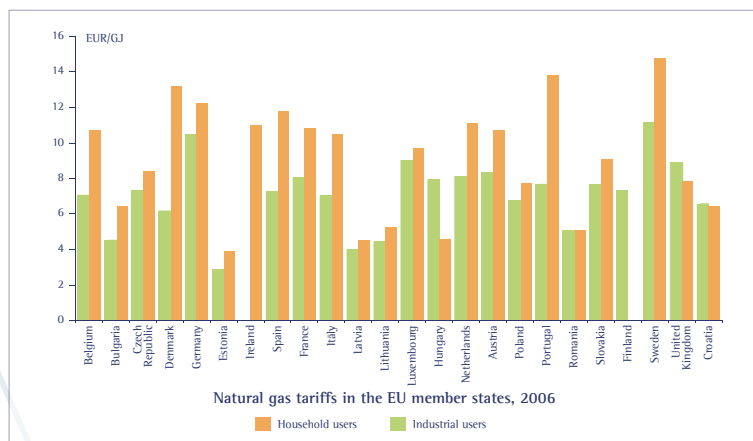
Tariffs on the sales of natural gas are based on the purchase price of natural gas on the borders of the state and on the cost of services related to the delivery of natural gas to users – transmission, storage and differentiated distribution and sale. The purchase price for natural gas is transferred without any changes to differentiated end tariffs.

The methodologies to calculate natural gas delivery tariffs were drafted in 2002 and early in 2003. Late in 2005 and at the beginning of 2006, the tariffs were amended in accordance with amendments to the law on energy and to other normative acts. The following methodologies are currently in effect to calculate natural gas supply tariffs:

- A methodology to calculate the natural gas transmission service tariff;
- A methodology to calculate the natural gas storage service tariff;
- A methodology to calculate the natural gas distribution service tariff;
- A methodology to calculate the natural gas sales tariff.

New natural gas supply tariffs for 2006 were approved during the reporting year.

Eurostat tells us that in 2006, Latvia had among the lowest natural gas tariffs for households and the second lowest natural gas tariffs for commercial users among all European Union member states. The low tariffs in earlier years did not hinder the ability of natural gas suppliers to develop successfully. This was achieved by increasing efficiency, increasing turnover, expanding supply networks, increasing investments several times over, and achieving better and better profit indicators.



Liquefied gas

Amendments to Latvia's energy law which were approved in 2006 state that only general sector regulations are to be preserved in the market for liquefied gas – licensing and market supervision.

Protecting user rights

The European Union's electricity directive and various regulations related to the electricity sector mean that the Public Utilities Commission oversees the way in which the market is developed, ensuring transparent market information and equal rules for all participants in the market.

In 2006, the Commission received and reviewed 72 complaints (claims, applications) from public service users in the area of energy. There were also 32 questions submitted electronically vis-à-vis the provision of public services. The number of complaints has declined, particularly insofar as electricity and heating services are concerned. The number of complaints related to gas deliveries has not changed over the last few years. Of all complaints, 91% have been received from private individuals.

Among the complaints (claims, applications) that were received in 2006, 28% involved issues related to energy supplies (11 concerning electricity and nine concerning gas). The remaining 72% of applications (52 in all) were complaints.

Answers related to electricity deliveries mostly had to do with the supply of electricity (47%), the registration of electricity uses and the resultant bills (26%), and the quality of the electricity that is delivered (8%).

In the area of gas deliveries, most complains had to do with the natural gas delivery system (46%), registration of use and resultant bills (39%), and liquefied gas (15%).

Complaints	Electricity		Gas		Total	
	Number	%	Number	%	Number	%
Justified	11	31	1	6	12	23
Unjustified	9	25	13	81	22	42
Unrelated to Commission's work	16	44	2	13	18	35
Total	36	100	16	100	52	100

Regulations in the Electronic Communications and Postal Sectors

General description of the sectors

At the end of 2006, there were approximately 655,000 fixed telephone lines in Latvia. In comparison to the previous year, that number had increased by 1.5%.

The number of mobile telecommunications users in Latvia reached a level of 2.2 million at the end of 2006, which was 12.8% more than at the end of the previous year.

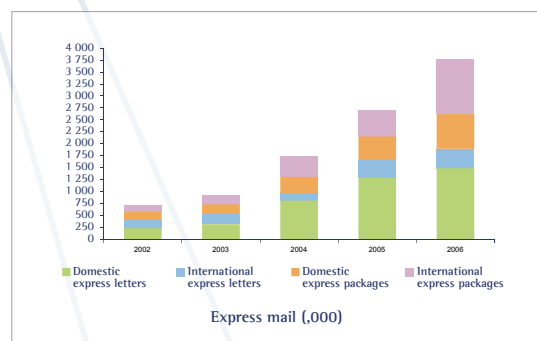
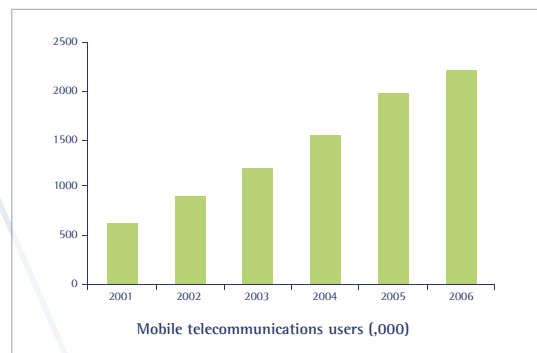
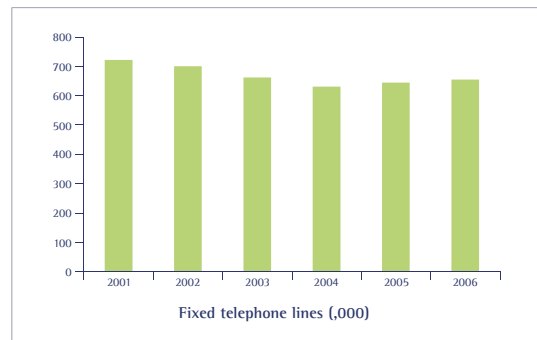
In terms of postal services in Latvia, general postal services (handling letters and packages with a weight of up to 10 kilograms) are offered by the stock company "Latvijas Pasts". In 2006, people sent 68.5 million letters and 110,900 packages weighing up to 10 kilograms.

During the reporting year, Latvijas Pasts began to offer a differentiated rate on international and domestic letters – Class A (Priority mail) and Class B (Economic mail).

In comparison to the previous year, the number of letters and packages sent declined by 7.8% (5.5% for letters and 50.6% for packages).

There are 36 service providers in the field of express mail in Latvia, and four of them received permits in 2006. In 2006, there were 4.6 million express shipments -- fully 170.4% more than in 2005. Among these shipments, 66.2% were domestic express letters and express packages. The proportion of domestic express letters increased the most in the reporting year.

The rate at which the number of fixed telephone lines in Latvia declined slowed down in the reporting year, both because of enhanced competition and because of a new service which allows people to switch service providers without losing their phone number. The market share of new participants in the sector continued to grow. There has been particular competition in the market for voice services.



A new operator entered the mobile market, and the service allowing people to switch providers without losing their number was implemented in this sector, too. Increasingly better services and tariffs led to an increasing battle over the redistribution of existing users.

In the area of Internet access services, 2006 was an important year in that despite the significant increase in the number of service providers, the historical market participant SIA "Lattelecom" actually saw its market share rise by the end of 2006. This is because the company found greater numbers of DSL Internet service users.

Major decisions in the sectors

Two auctions were held in 2006 to allocate radio frequency spectrum usage rights, and nine decisions were taken on awarding, extending or annulling such rights.

Also in 2006, an auction was held to determine who will control the high-level .lv domain, because this is required in the law on electronic communications. The Institute of Mathematics and Informatics of the University of Latvia was the winner of this particular competition.

As noted above, the service which allows people to switch service providers but keep their phone numbers was implemented in 2006, and the Public Utilities Commission determined the procedure whereby this service is offered to clients. In 2006, the service was quite popular, particularly in the mobile market. A total of 28,120 mobile phone numbers and 8,880 fixed phone numbers were switched to a different service provider.

Because of a lack of mobile numbering resources, all mobile phone numbers in Latvia took on additional digit on November 1, 2006, thus becoming eight-digit numbers. Free numbering resources have been available in the mobile sector since then. The fixed telephony system is moving toward eight-digit numbering, and that will completely resolve the shortage of numbers in the public fixed telecommunications network.

In 2006, the Commission took 106 decisions on numbering usage rights.

On November 8, 2006, the Commission approved regulations on the basic level of detail in bills which are sent to clients by service providers. There are requirements which mean that electronic communications service providers must allow clients, at no cost to themselves, to examine and control their public telephone network usage costs at a specific location, also looking at the cost of other electronic communications services, at use of the public telephone network and the related expenditures, etc. This allows people to keep the reins on their spending.

Also in 2006, the Commission worked with the German regulator, *BnetzA* on a successful EU Transitional Facility project, "Strengthening legal regulation of the postal sector and the administrative capacity of the Latvian postal regulator." This led to proposals on improving norms which relate to the sector, on defining Universal Service obligations, and on introducing and examining standards in the sector.

During the reporting year, the Commission sent a number of control letters so as to assess the quality of the postal service of sending letters. The results showed that the amount of time needed for the delivery of an ordinary letter did not satisfy

quality requirements. According to Cabinet of Ministers regulations, 97% of Class A letters must be delivered on the next business day, while 97% of Class B letters must be delivered within three business days.

Of key importance for the Commission is the Universal Service in the electronic communications sector. This refers to the minimum volume of electronic communications services that must be made available at a specific level of quality and for an acceptable price to all existing and potential users, irrespective of their actual location. Regulations on the Universal Service were approved by the Commission on December 13, 2005. The Commission defines those companies which must offer the Universal Service, the list of services that are included in the Universal Service, the scope of the Universal Service, the geographic territory in which it must be provided, and the range of end users of the service.

In 2006, the Universal Service was provided in accordance with a decision taken by the Commission on December 23, 2005. It spoke to the obligation of the limited liability company "Lattelecom" to offer the Universal Service in 2006. Since 2003, "Lattelecom" has been the only company to handle the obligations of the Universal Service.

The Universal Service obligations defined for "Lattelecom" in 2006 included access to the company's public telephone network at fixed connection sites, thus allowing users to make and receive local, domestic and international calls, as well as data and electronic message transmission services. This requirement applies to all existing SIA "Lattelecom" service clients who wish to receive such services. The Commission has defined principles on determining the acceptable tariff for the Universal Service, and the duty of service providers is to offer at least one elective tariff plan to individual users. This elective plan would have a monthly fee for phone line that is lower than the Commission's stated acceptable tariff, if such has been defined, as well as continued discounts for differently abled people on those services for which the discounts were offered in 2002. The company was also obliged to ensure that Universal Service users have access to all-encompassing information services and to an all-encompassing list of users.

"Lattelecom" was also obliged in 2006 to maintain the number of payphones which existed on December 31, 2005, and to maintain the payphones in working order. The operator is allowed to reduce the number of payphones by no more than 5% of the total number if the Commission allows it to do so and if the relevant local government agrees.

Market analysis

Competition in the electronic communications sector began to develop on January 1, 2003, when regulatory rules were applied to certain electronic communications companies with an eye toward stimulating their operations under conditions of competition. In some areas of the sector, these rules remained important in the reporting year, as was seen in market analysis which the Commission performed in several market segments.

At the retail level:

- 1) Ensuring access to the public telephone network for individuals at a fixed location;
- 2) Ensuring access to the public telephone network for legal entities at a fixed location;
- 3) Ensuring access to publicly available local or domestic telephone communications services for individuals at a fixed location;
- 4) Ensuring access to publicly available international telephone communications services for individuals at a fixed location;
- 5) Ensuring access to publicly available local or domestic telephone communications services for legal entities at a fixed location;
- 6) Ensuring access to publicly available international telephone communications services for individuals at a fixed location;
- 7) The minimum set of leased lines.

At the wholesale level:

- 8) Originating connections in the public fixed telephone network;
- 9) Terminating connections in the individual public telephone network at a fixed location;
- 10) Transit services in the public fixed telephone network;
- 11) Unbundled access (including partial access) to metallic client loops and sub-loops at the wholesale level so as to ensure the provision of broadband data transmission and voice transmission services;
- 12) Wholesale broadband access;
- 13) Wholesale terminating segments of leased lines;
- 14) Wholesale trunk segments of leased lines;
- 15) Access and connections in public mobile telephone networks;
- 16) Termination of voice connections in individual mobile networks.

Market analysis also involved a look at whether conditions of competition in each segment indicated that competition could develop without regulatory intervention. In those areas where competition was declared to be inefficient, decisions were taken on obligations for market participants with dominant market influence – obligations which, on the one hand, would limit the ability of the relevant participant to use its market power while, on the other hand, not deforming its competitiveness and ensuring overall development of competition in the market.

Before taking any such decision, the Commission must receive approval for its plans from the European Commission and from the institutions which regulate the electronic communications sector in all European Union member states. The aim is to ensure that obligations in the unified market for electronic communications are all harmonised.

In 2006, the Commission approved more than 20 decisions on applying specific obligations to electronic communications companies with dominant market influence. These decisions will be reviewed on a consistent basis in accordance with changes in the market for electronic communications services.

Also in 2006, the Commission prepared information for the European Commission's routine report on the development of the electronic communications sector in the European Union. This report was published on March 30, 2007.



Registering companies which wish to start commercial operations in the area of electronic communications

A total of 75 new electronic communications companies registered with the Public Utilities Commission during the course of the reporting year, while some 50 ended their operations, failed to launch operations, or asked that they be removed from the list of such companies.

On December 31, 2006, there were 456 companies registered in the electronic communications sector. According to information that is at the Commission's disposal, at least 390 of these actually offer electronic communications services.

In the postal sector, the Commission's database lists 39 companies. During the report year, the Commission registered four general postal permits and annulled six such permits. The Commission investigated the work of 16 companies in the postal sector and found no violations.

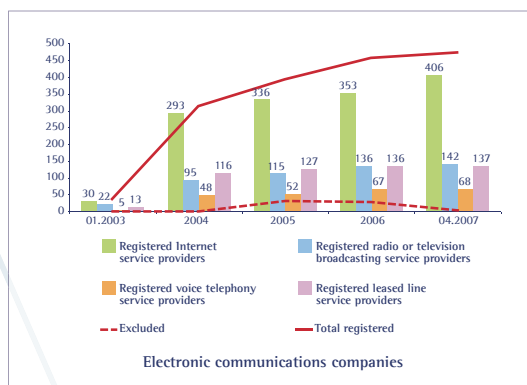
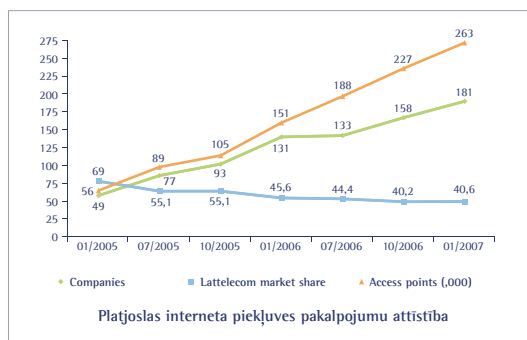
Regulating tariffs

During the reporting year, the Commission's Tariff Division considered eight tariff proposals submitted by SIA "Lattelecom". These applied to calls which "Lattelecom" clients make to the clients of other public fixed electronic communications networks. The Commission's Council approved seven of those proposals.

On September 6, 2006, the Council ordered a reduction in "Lattelecom" tariffs on international calls to numbers in Russia. The tariff proposal submitted by SIA "Lattelecom" was based on the regulatory parameters that were defined by the Commission on April 30, 2003, "On confirming regulatory parameters for the limited liability company 'Lattelecom SIA', as well as on October 28, 2004, "On regulatory parameters for the limited liability company 'Lattelecom SIA'.

Protecting user rights

According to the law on electronic communications and the law on public service regulators, the Public Utilities Commission engages in quality control over electronic communications services. This process forces companies to devote more attention to the quality of the electronic communications services which they provide. All quality indicators in this sector have been assembled together in a quality report for the electronic communications sector, and this annual report can be found on the Commission's homepage, www.sprk.gov.lv. The report offers the results of quality inspections conducted by the Commission and by companies, offering comparison between these results and the parameters which the Commission has specified and the companies have declared.

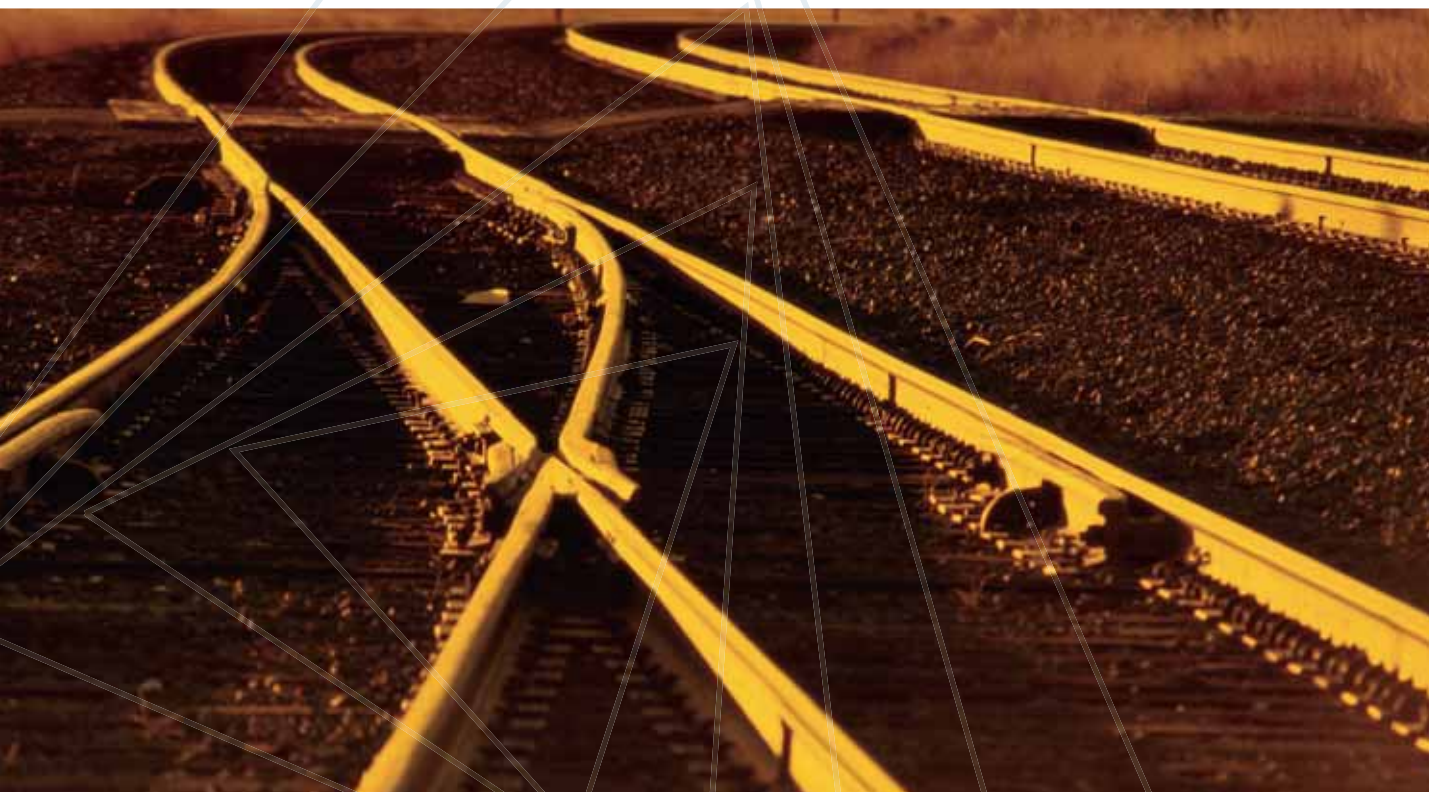


During the reporting year, the Commission conducted quality inspections in the public fixed telephone network (local and domestic voice telephony, payphones, the unit which accepts damage complaints, and the unit which offers information services via the telephone). The Commission conducted similar investigations in the mobile telephone network and in the area of voice telephony services where a public electronic communications network interconnection is used.

All told, this quality inspection service involved 42,660 test phone calls in public fixed telephone networks, inspection of 383 payphones, 400 calls to the unit which accepts damage complaints, and 400 calls to the telephone information service. To test the quality of voice telephony services in public mobile telephone networks, experts made 2,460 calls. The test of interconnection services involved 14,400 calls. To check the quality of SMS services, 480 messages were sent in the public mobile telephone network. Another 720 SMS messages were sent to test the quality of the public mobile telephone network interconnections.

In the postal sector, the Commission received and considered 16 complaints about postal service providers during the reporting year. Of these, 15 applied to the Latvian Postal Service – 14 from individuals and one from a company. One complaint was received about an express mail service provider. Most of the complaints had to do with the poor quality of postal services. The Commission upheld seven of the complaints.

In 2006, the Commission placed something called the “Client Compass” on its homepage to help users to find their way around the homepage more easily. At this time, this section includes information about fixed telephone communications. In one location, clients can find information about fixed telephone communications service providers, their obligations, quality, methods for switching providers, and useful answers to other questions.



Regulations in the Rail Transport Sector

General description of the sector

In 2006, the total amount of cargo transported by rail in Latvia amounted to 48.7 million tonnes, or 8.7% less than in 2005. Cargo turnover declined by 6% over the figure in 2005.

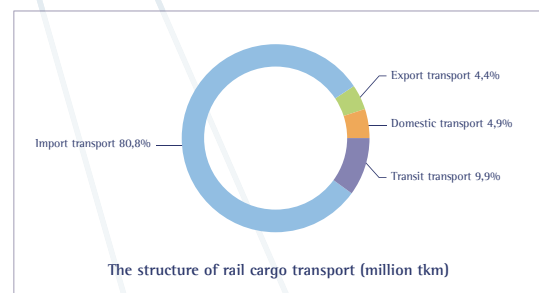
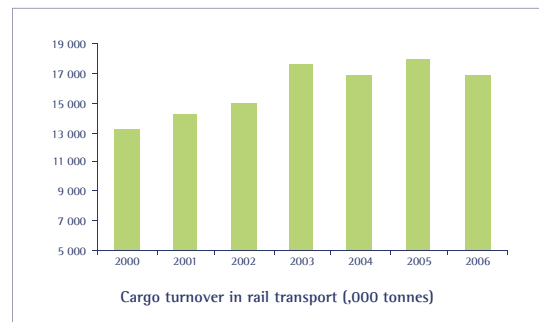
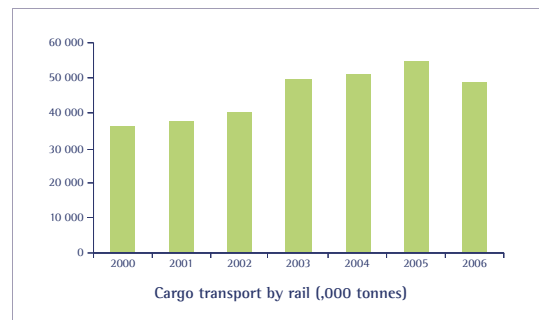
Passenger transport by rail achieved a level of 27.4 million passengers in 2006 – 5.9% more than in 2005.

The public usage rail infrastructure in Latvia is controlled by the state-owned stock company “Latvijas dzelzceļš”. The company also offers rail cargo transportation services, handling more than 90% of the cargo that is transported in Latvia. The rest is handled by the stock companies “Baltijas ekspresis” and “Baltijas tranzīta serviss”. The Commission does not regulate rail cargo transporters.

Domestic passenger transport by rail is offered by a “Latvijas dzelzceļš” subsidiary, the stock company “Pasažieru vilciens”. There is also a short narrow-gauge rail line between the towns of Gulbene and Alūksne, and it is handled by the company SIA “Gulbenes-Alūksnes bānītis”. International rail transport is offered by the stock company “Starptautiskie pasažieru pārvadājumi” and by “Latvijas dzelzceļš”.

Licensing and license supervision

As of March 15, 2007, licenses to provide passenger transportation by rail had been received by five public service providers – “Latvijas dzelzceļš” for transport via international passenger trains, “Pasažieru vilciens” for domestic passenger transport, “Starptautiskie pasažieru pārvadājumi”, which stopped providing passenger transportation on May 28, 2006, transferring its routes to “Latvijas dzelzceļš”, “Gulbenes-Alūksnes bānītis”, which offers transport on the narrow-gauge railroad between the two towns, and SIA “L-Ekspresis”, which



has not yet begun to offer public services, because it has not yet been issued the safety certificate from the State Railway Technical Inspection which is needed before passenger transport is licensed.

In 2006, the Commission did not receive any applications to amend licensing terms or to annul a license.

During the year, the license of “Gulbenes-Alūksnes bānītis” and that of “Pasažieru vilciens” expired. The Council of the Commission re-licensed the former on April 5, 2006, and the latter on September 13, 2006, with both licenses still authorising passenger transport by rail.

In 2006, the Commission investigated five companies in the rail transport sector. In all instances it was concluded that for the most part, the provision of public services in the sector is occurring in accordance with licensing terms and all relevant norms and regulations.

In accordance with regulations concerning passenger transport by rail, the Commission conducted three investigations to see how quality requirements are being observed – one of the passenger transport offered by “Gulbenes-Alūksnes bānītis”, one of the work done by conductors and ticket-takers at “Pasažieru vilciens”, and one of the sanitary condition of domestic passenger trains run by “Pasažieru vilciens”.

Tariff regulations

In 2006 and early in 2007, the Commission evaluated eight proposals from public rail transport service providers vis-à-vis cost calculations related to the process in 2006 and 2007. All of these calculations were declared to be in line with approved methodology.

The Commission found that:

- The cost calculations for 2006 submitted by “Gulbenes-Alūksnes bānītis” on February 14, 2006, are in line with the methodology;
- The cost calculations for 2006 submitted by “Latvijas dzelzceļš” on April 5, 2006, are in line with the methodology;
- The cost calculations for 2006 submitted by “Starptautiskie pasažieru pārvadājumi” on April 5, 2006, are in line with the methodology;
- The cost calculations for 2006 submitted by “Pasažieru vilciens” on May 5, 2006, are in line with the methodology;
- The cost calculations for 2006 submitted by “Latvijas dzelzceļš” on September 27, 2006, are in line with the methodology;
- The cost calculations for 2007 submitted by “Gulbenes-Alūksnes bānītis” on December 27, 2006, are in line with the methodology;
- The cost calculations for 2007 submitted by “Pasažieru vilciens” on December 20, 2006, are in line with the methodology;
- The cost calculations for 2007 submitted by “Latvijas dzelzceļš” on March 14, 2007, are in line with the methodology.

During the reporting year, the Council of the Commission approved fees for the use of the public use railroad infrastructure insofar as train schedules are concerned in 2006 and 2007.

Late in 2005 and in 2006, the Commission’s Council approved a new methodology to calculate the cost of using the public use rail infrastructure for transportation services. The methodology was amended on December 13, 2006.

Protecting user rights

The Commission's functions in the rail sector include licensing, supervision of operations, setting of methodologies to calculate tariffs, etc. In accordance with the law on public service regulators, the Commission also defines quality requirements for the public services that are offered. One tool for the Commission in handling this function is the review of user complaints that are submitted to it. The Commission also analyses complaints received from users by public service providers.

In 2006, the Commission received two complaints, as well as several electronically submitted questions from users. The Commission sent responses and explanations to all of these.

The Commission also analysed complaints received by companies and prepared a report on these. This report contains discussions about keeping to schedules in rail transport, ensuring sanitation in trains, and ensuring the quality of the work of train conductors and ticket-takers. These complaints will be taken into account when the Commission supervises the extent to which these public service providers obey quality requirements.

Public Communications

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

The Commission offers information to public service users who file complaints, claims or applications, and to the public at large, making use of the mass media, of the Commission's own homepage, and of meetings and consultations for this purpose.

Because of the universal importance of these various public services, the mass media display a great deal of interest in the regulator's work. The Commission regularly prepares mass media information releases. The Internet homepage is an important communications channel, as it contains up-to-date information about all of the regulated sectors.

FINANCING AND SPENDING



The Commission does its work under the auspices of an Economics Ministry programme that is called “Ensuring honest competition and protecting the domestic market and user rights”. The Commission’s budget is approved by the government on a yearly basis and is a line item in the Economics Ministry’s budget.

The Commission received financing in 2006 from fee-based services, payment of state fees for public services regulation (this fee is paid by all companies which are regulated), and foreign financial assistance. The national fee in 2006 was 0.2% of the net turnover received by the company for the relevant public service in 2005.

Planned expenditures in 2006 were LVL 2,022,384, which was LVL 511,584 more than in 2005. Actual spending amounted to LVL 2,022,361, which was LVL 574,768 more than in 2005. Actual spending was almost identical to planned spending.

Administrative costs in 2006 increased by LVL 379,818 in 2006 over 2005, because wage costs and facility maintenance costs went up during the course of the year.

Capital investment expenditures in 2006 rose by LVL 194,950 over the figure in 2005, because in 2006, the Commission bought equipment to measure the quality of electronic communications services. The equipment ensures voice telephony service quality inspections in fixed and mobile telephone networks, and it checks the amount of time that it takes to deliver SMS messages in mobile telephone networks.

In 2006, the Commission successfully concluded a project from the European Union’s 2004 transitional programme, “Twinning Light” – “Strengthening legal regulation of the postal sector and the administrative capacity of the Latvian postal regulator.” This led to the development of proposals as to how the normative base of the postal sector could be improved, obligations related to the Universal Service could be determined, and quality standards could be introduced and inspected.

The Commission's income

The Commission's financing and spending

National budget financing and spending (sub-programme summary), LVL

Nr.	Finances (LVL)	2005	2006	
		Actual*	Defined by law	Actual*
1.	Total financial resources	1 644 277	2 148 889	1 915 968
1.1.	Subsidies			
1.2.	Fee-based services, other income	1 531 128	2 022 384	1 817 221
1.3.	Foreign aid	113 149	126 505	98 747
2.	Total spending	1 560 742	2 148 889	2 121 108
2.1.	Administrative total	1 521 325	1 914 514	1 886 741
2.1.1.	Subsidies and grants, including payments to international organisations	5 642	8 182	8 182
2.1.2.	Other administrative costs	1 515 683	1 906 332	1 878 559
2.2.	Capital investments	39 417	234 375	234 367

* Defined in accordance with the cash flow principle

A foreign financial assistance project in 2006 had planned expenditures of LVL 126,505, while actual spending was just LVL 98,747, or 78% of the planned sum.

The Commission's 2006 financial report was prepared in accordance with Cabinet of Ministers Regulation No. 466, June 21, 2005, "The procedure for preparing annual reports by national budget institutions and local governments". In 2006, the report was submitted to the Economics Ministry for inclusion in its consolidated annual report. The 2006 Commission report was audited by Zigrīda Šniedere, a sworn auditor from SIA "Revīzija un vadības konsultācijas", certificate No. 110.

Procurement processes conducted during the course of the year were all in line with the law on public procurement – 12 price surveys, 18 procurement procedures and two open bids for tender. All in all, the Commission concluded 47 co-operation agreements during the course of the year.



THE COMMISSION'S VISION FOR 2007



During the reporting year, the Commission continued work on a conceptual document to establish a regulatory model that is efficient and appropriate for Latvia's situation. Work on this document will continue in 2007. The Commission has selected a model which involves the establishment of a unified regulatory system so as to ensure a unified approach to all regional service providers, a centralised and unified way of reviewing all issues related to the regulatory procedure, and a unified national fee for the regulatory process.

Priorities in the energy sector

In the electricity sector in 2007, the Commission will continue to implement and monitor rules related to the electricity market. One aspect is the independence of operators in the transmission and distribution system. In addition to market monitoring in co-operation with the European Electricity and Gas Regulator working group, there will be forums for Baltic State regulators, transmission system operators, relevant ministry departments and other market participants so as to study problems which hinder the development of the electricity market.

In the area of natural gas, the Commission will begin to define quality criteria. In the market for liquefied gas, the Commission will monitor market developments and price trends.

When it comes to licensing, the Commission will continue to work on ensuring an equal and non-discriminatory approach vis-à-vis all companies which approach the Commission with a licensing application. The Commission wants to judge each application on its merits, it does not want to place any limits against business operations, and it hopes always to issue licences within the 30-day time period that is defined by law. The Commission will work actively to make sure that licensed companies offer safe, uninterrupted and high-quality public services to their clients. The Commission will regularly investigate the extent to which licensing requirements are being met, and there will be ongoing supervision of all licensed companies.

Priorities in the electronic communications and postal sectors

In 2007, the Commission plans to conclude its first phase of market analysis, adopting the remaining decisions that are related to the European Commission's harmonisation procedure. The Commission will also analyse broadcasting services in the delivery of broadcast content to end users.

The Commission also plans to analyse the national wholesale market for public roaming services in mobile networks.

In 2007, the Commission plans to review its regulations concerning the information that is needed for market analysis and the procedure for submitting such information. The rules need to be revised in accordance with experience which the Commission has gained during its market analysis procedures, and this will be done in preparation for the second phase of market analysis in 2008.

In defence of consumer rights, the Commission also plans to implement regulations on international roaming services. A special procedure will be put in place to define international roaming tariffs.

Normative acts will have to be adjusted or prepared anew in accordance with amendments to the law on electronic communications.

The Commission will develop and improve its "Client Compass", which is found on the Commission's homepage and offers information about various kinds of electronic communications services.

Several radio frequency auctions are planned for 2007.

A contact meeting of the European Regulator Group and the Independent Regulator Group is scheduled to take place in May 2007 in Jūrmala, with participation by electronic communications sector regulators from more than 30 countries. Representatives of the European Commission are also to be on hand. The main issues to be discussed include a further review of the basic principles that are related to regulations in the electronic communications sector.

A meeting of electronic communications and postal regulators from the Baltic States and Nordic countries is scheduled to take place in Latvia in September 2007.

Priorities in the railroad sector

The Commission will improve the methodology for calculating fees for the use of the public railroad infrastructure for transportation.

The Commission also plans to update the methodology for calculating rail passenger, transport and riding fees.

In 2007, the Commission will define a fee for the use of the public railroad infrastructure for scheduled rail transport in 2007 and 2008.

The Commission will prepare responses to the cost calculations submitted by public service providers vis-à-vis rail passenger transportation.

The Commission this year will help to draft and agree upon a new law on public transportation services.

In 2007, the Commission will take part in the work of a working group that is being set up by the secretariat of European transport ministers, as well as in other international forums, as well.



APPENDICES



Decisions and Documents

External normative acts issued by the Commission

- Amendments to the natural gas sales tariff calculation methodology, approved by Council decision No.25 (prot. No. 5(270), 11.p.), 25 January 2006;
- Methodology for calculating the fee for the use of the public railway infrastructure for transportation, approved by Council decision No.17 (prot. No. 4(269), 3.p.), 18 January 2006;
- Regulations on minimum requirements for independence of electricity system operator, approved by Council decision No.37 (prot. No. 7 (272), 9.p.), 8 February 2006;
- Regulations on information for electricity end users, approved by Council decision No.77 (prot. No. 13 (278), 6.p.), 22 March 2006;
- The procedure for application, maintenance, alteration or cancellation of special requirements for electronic communications companies, approved by Council decision No.120, 17 May 2006;
- Amendments to regulations on carrier selection and carrier pre-selection, approved by Council decision No.134, 7 June 2006;
- Amendments to regulations on the universal service in the electronic communications sector, approved by Council decision No.133, 7 June 2006;
- Amendments to the electronic communications service cost calculation and allocation methodology, approved by Council decision No.135, 7 June 2006;
- Amendments to Universal Service obligation net cost calculation and setting methodology, approved by Council decision No.136, 7 June 2006;
- Amendments to regulations on general authorisation in the postal sector, approved by Council decision No.137, 7 June 2006;
- Amendments to the general postal service tariff calculation methodology, approved by Council decision No.138, 7 June 2006;
- Amendments to the methodology for calculating fees for the use of the public railway infrastructure for transportation, approved by Council decision No.139, 7 June 2006;
- Amendments to the railway passenger transportation fee calculation methodology, approved by Council decision No.140, 7 June 2006;
- Amendments to system access regulations for participants in an electricity system, approved by Council decision No.147, 16 June 2006;

- Regulations on the provision of the number portability service, approved by Council decision No.152, 21 June 2006;
- Amendments to regulations on numbering usage rights, approved by Council decision No.195, 26 July 2006;
- Amendments to regulations on the amount and submission of information necessary for market analysis, approved by Council decision No.196, 26 July 2006;
- Amendments to regulations on requirements for the holder of the top level domain .lv registry, approved by Council decision No.256, 13 October 2006;
- Regulations on the basic level of detail for client bills, approved by Council decision No.275, 8 November 2006;
- Regulations on the Universal Service in the electronic communications sector, approved by Council decision No.301, 13 December 2006;
- Amendments to regulations on numbering usage rights, approved by Council decision No.302, 13 December 2006;
- Amendments to Regulations on information to be submitted to the Public Utilities Commission, approved by Council decision No.303, 13 December 2006;
- Regulations on quality of service requirements for electronic communications services and the submission of quality reports, approved by Council decision No.310, 20 December 2006;
- Amendments to the Statutes of the Public Utilities Commission, approved by Council decision No.315, 27 December 2006;

Internal legal acts issued by the Commission

- Amendments to the Statutes of the Public Utilities Commission, approved by Council decision No.33, 1 February 2006;
- Procedure for using means of communications at the Public Utilities Commission, approved by the executive director's order No.19, 17 February 2006;
- Procedure for document management at the Public Utilities Commission approved by the executive director's order No.80, 1 November 2006.