

# **ANNUAL REPORT**

# 2009

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## INTRODUCTION



Dear reader!

Evaluating the events of 2009, I must highlight the fact that significant progress was made regarding the reform of the unified regulator. The Parliament (Saeima) passed the required amendments in legislation in June and by November 1, 2009 the Public Utilities Commission (hereinafter – Commission) took over the implementation of regulatory functions from municipal regulators. From November 2009, in addition to electricity, gas supply, electronic communications, post and railway sectors, the Commission regulates public services in sectors of heat supply, water supply, sewage, and waste management throughout Latvia. From July 2009, the Commission was also entrusted with the control of maintenance of energy supply facilities and supervision of compliance with safety and maintenance requirements for hydro-technical facilities of hydropower stations.

When the Commission took over the regulatory functions of municipal regulators, a foundation was laid for the adjustment of the regulatory system, eliminating differing regulatory approaches which burdened the operation of service providers and hindered the establishment of a common regulatory strategy. Although the scope of functions performed by the Commission has grown repeatedly, setting of a uniform state fee for public service regulation and reduction of state duties paid by companies in municipally regulated sectors could be done by optimising the resources involved in public utilities regulation.

The Commission has also encountered numerous problems concerning practical operation of municipal regulators and its legal aspect. Decisions of municipal regulators significantly differed in both the competence of regulators and the application of legal

norms. These aspects indicate that the reform of the regulatory system was necessary and timely.

Following the trends in the world markets, the prices of imported energy resources decreased in Latvia in 2009. As a result, natural gas tariffs and heat energy (produced from natural gas) tariffs went down throughout the year. Natural gas tariffs for large industrial users were 45% lower in December 2009 compared to December 2008. In turn, end-tariffs of district heating, for example, in Riga were 35% lower in December 2009 compared to the end of 2008. The tariff reduction provided an opportunity for energy companies and users to adjust to the hard economic situation at the time.

Year 2009 has brought significant changes for the European level regulation in several public utilities sectors. Opening of electricity and gas markets and their regulation will be determined by new Directives or the so-called „3rd Energy Package”. It specifies new requirements for unbundling of network operators, monitoring of investments, independence of regulators of the member states, as well as provides for the establishment of the European-level organisation for co-operation of energy regulators.

At the end of 2009, comprehensive amendments to the electronic communications Directives were adopted setting new responsibilities for enterprises and regulators for protection of consumer rights and updating other norms of the European communications regulatory framework. Similarly to the energy sector, the foundation of the European electronic communications regulator is also planned in the electronic communications sector.

Valentīna Andrējeva,  
Chairwoman  
Public Utilities Commission

## REGULATION IN LATVIA

### Regulatory System

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

At the beginning of the reporting year, there was a two-level regulatory system in Latvia. Public services in state regulated sectors were regulated by the Commission, while in municipally regulated sectors - by local government regulators. Until November 2009, the Commission also regulated the provision of public services as a commercial activity in the municipally regulated sectors (heat supply without electricity generation, water supply, sewage, and waste management) in the administrative territory of Riga city. The Commission performed these functions in accordance with the delegation agreement about public utilities regulation which was concluded between the municipality of Riga city and the Commission on November 20, 2007.

In 2009, the reform of the public utilities regulatory system was carried out in Latvia, establishing a unified regulator. In accordance with June 11, 2009 amendments to the law „On Regulators of Public Utilities”, the Commission took over regulatory functions from municipal regulators or municipal councils in the heat supply, household waste management and water management sectors by June 11, 2009. Thus, public utilities regulation is provided by one institution in Latvia since November 2009. Regulated sectors are specified by the law „On Regulators of Public Utilities” and they are as follows:

- energy (heat supply, electricity and gas supply),
- electronic communications,
- post,
- railway transport,
- management of household waste,
- water management.

Since the Commission took over regulatory functions from 16 municipal regulators in heat supply, household waste management, water supply and

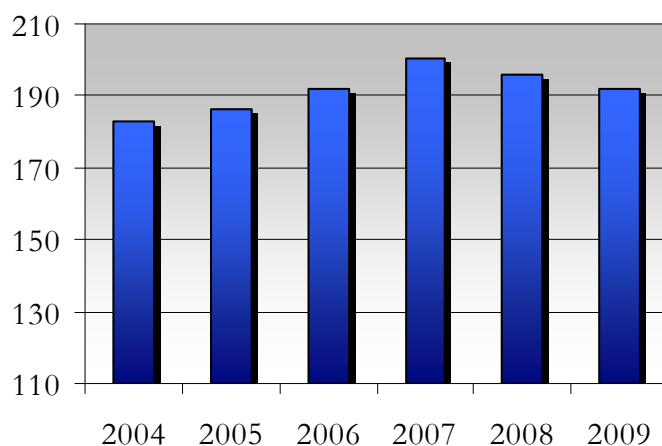
sewage sectors, a centralised and uniform execution of regulatory functions delegated by the law „On Regulators of Public Utilities” is ensured, i.e. a uniform approach to all public service providers is provided. On November 1, 2009, the Commission started regulating 445 companies which provide regulated public services in the heat supply, household waste management, water supply and sewage sectors in addition to the companies whose services the Commission already regulates in the energy, electronic communications, postal, and railway transport 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.

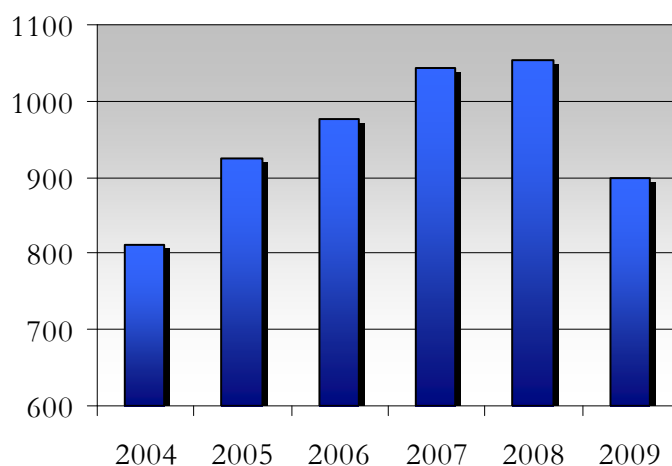
The Public Utilities Commission is an institution independent in making its own decisions, overseen by the Minister of Economics of the Republic of Latvia. The work of the Commission is based on the law “On Regulators of Public Utilities”, as well as on the laws and other normative acts, which regulate each of the regulated sectors.

## Regulated Sectors in the Context of the National Economy

Companies regulated by the Public Utilities Commission represent sectors of electricity, gas and water supply, as well as transport and communications. In 2009, these represented 15.0% of the total value added (11.4% for transport and communications and 3.6% for electricity, gas and water supply). The transport and communications sector decreased by 14.8% in 2009 over 2008, while the electricity, gas and water supply sector decreased by 2.0%. The overall GDP of Latvia dropped by 18.0% in 2009.



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



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



Average monthly wages in the regulated sectors were above the national average in 2009. The average net monthly wage in the transport and storage sector was 368 LVL, the average salary in the electricity and gas supply sector was 448 LVL, while the average in the entire economy was 342 LVL. Compared to 2008, the national average net monthly salary has decreased by 2.3%, in the electricity and gas supply sector - by 4.3%, while in the transport and storage sector the salary increased by 1.7% and in information and communications services sector – by 3.6%.

## The Effect of Regulated Prices on Inflation

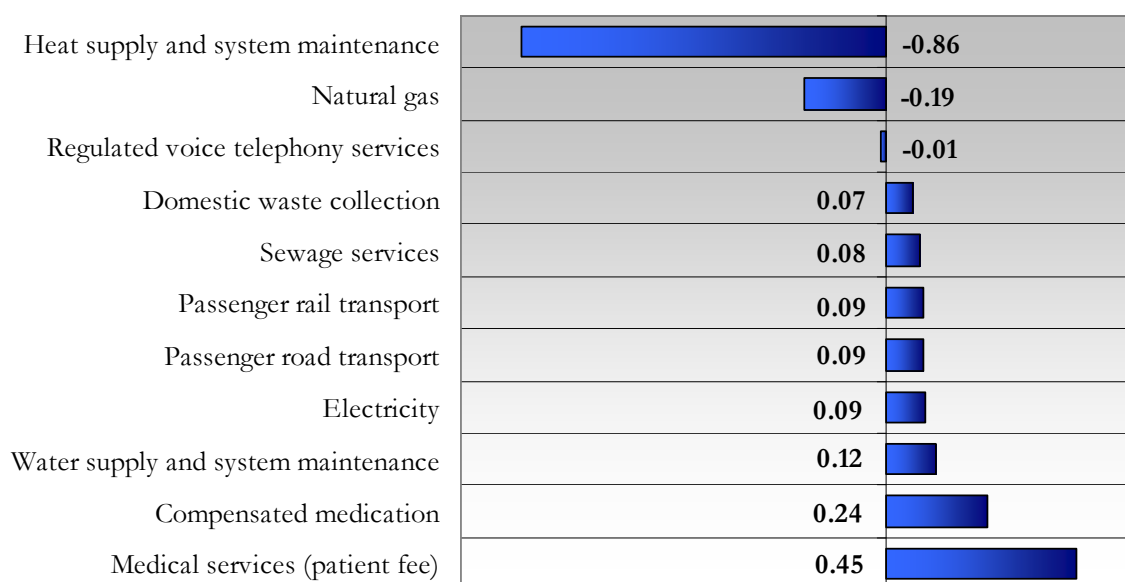
According to the data provided by the Central Statistical Bureau, in 2009, 13.27% of all goods and services listed in the Consumer Price Index were services with administratively regulated prices. As the Commission took over regulation of public services in municipally regulated sectors from November 1, 2009 and did not adopt new decisions about tariffs of regulated companies until the end of 2009, municipally regulated public services are shown for the time period until the end of 2009 in this report. Moreover, the statistical data show several other services with regulated prices on which neither the Commission, nor municipal regulators take decisions.

Public services	Share in expenditures of residents	Price increase (2009 XII vs. 2008 XII)	Inflation component (percentage points)
1) public services supervised at the state level (electricity supply, natural gas, fixed line telephone services, postal services, railway services)	4.1%	-1.5%	-0.06
2) public services supervised at the municipal level (water supply, sewage, waste collection, heat supply, passenger road transport)	7.0%	-6.6%	-0.46
3) normatively regulated public services (apartment rent in municipal buildings, car parking, patient's fee, refundable medications, passport issuing, notary services, kindergartens, social protection services, maintenance costs of personal transport, home delivery of pensions)	2.1%	38.3%	0.81
Administratively supervised and regulated prices, total	13.27%	2.2%	0.29
Consumer Price Index (inflation), total	100%	-1.2%	-1.2

In 2009 (compared to the previous year), consumer prices decreased by a total of 1.2%, while administratively regulated prices increased by 2.2%. Prices of services supervised at the state and municipal level went down, while administratively regulated prices increased by 38.3%.

Among the services regulated by the Commission, inflation in 2009 was mostly affected by a fall in the prices of natural gas, which reduced inflation by 0.19 percentage points. Changes in electricity tariffs caused by the increase in the VAT rate increased inflation by 0.09 percentage points. The direct impact of the services regulated by the Commission was a reduction in the Consumer Price Index by 0.06 percentage points.

Of the municipally regulated prices, heat energy tariffs decreased in 2009, reducing inflation by 0.86 percentage points. Water supply tariffs grew by 0.12 percentage points, passenger road transport tariffs increased by 0.09 percentage points, as did tariffs of sewage (0.08 percentage points) and waste collection (0.07 percentage points).

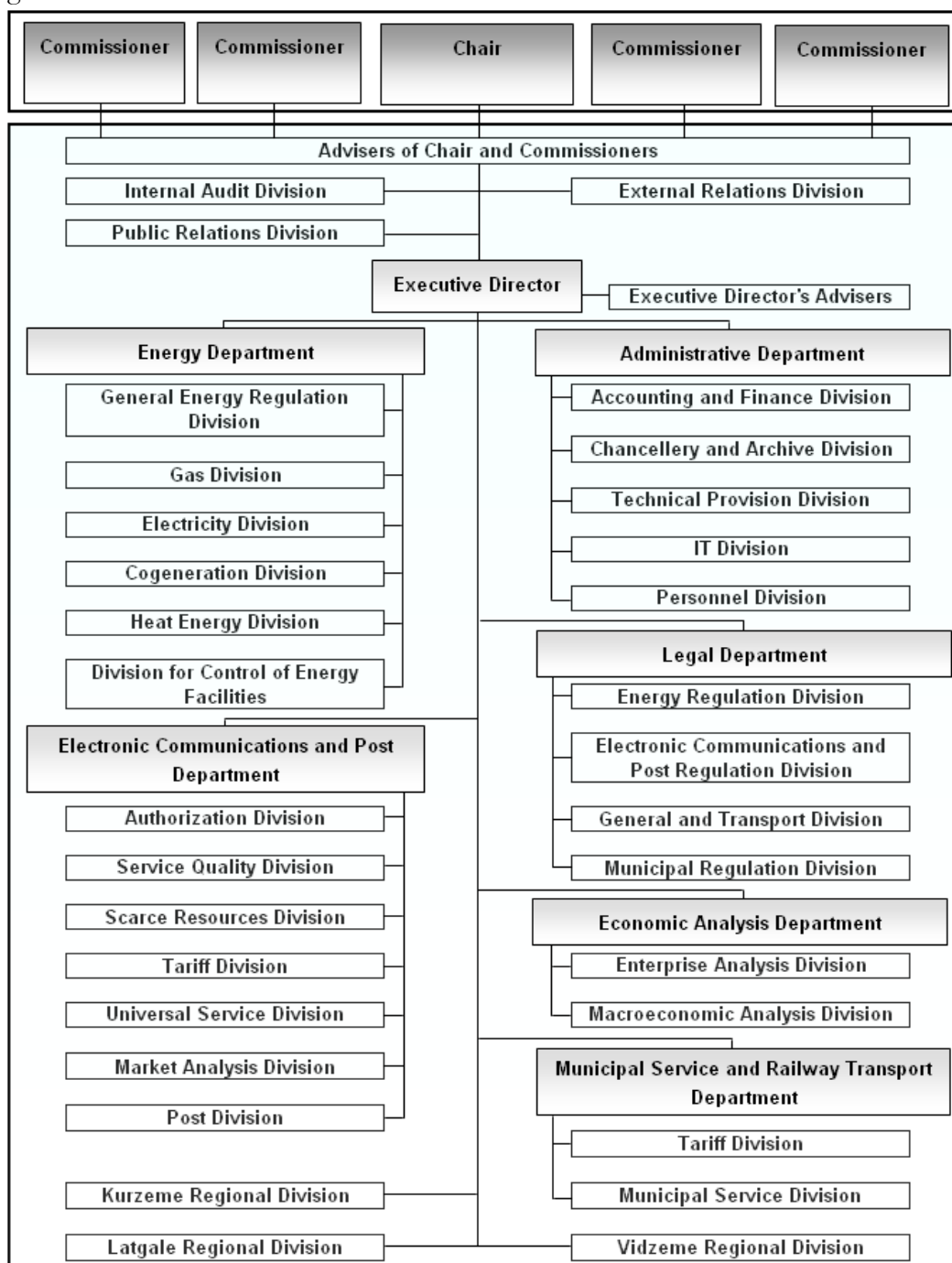


The effect of some administratively regulated prices on inflation (percentage points)

## THE COMMISSION'S OPERATIONS IN 2009

### Structure and Employees

At the end of the reporting period, the Commission had 93 employees and five Board members. Of the employees, 83 have a higher education, nine have a doctorate, 42 hold a master's degree, and one has a master's degree and two bachelor's degrees. One employee has two bachelor's degrees. Two employees are pursuing a doctorate, two are working on their master's degree and two are still at university. Two employees of the Commission have a professional higher education and four have an unfinished higher education. Two employees of the Commission have a secondary or special secondary education. 98% of the Commission's employees have a graduate or a post-graduate degree.



Structure of the Public Utilities Commission

## Major Commission Decisions

The Commission's Board met 46 times between January 1 and December 31, 2009. The Board members have approved 428 decisions, issued 48 licenses to public service providers, issued nine general authorisations in the postal sector and have registered 54 electronic communications companies. Two certificates on the safety of hydro-technical buildings of hydropower stations were also issued.

The Commission actively participated in preparing several draft laws in 2009:

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

In 2009, the Commission participated in the updating of the concept for unified universal service model in public utilities sectors.

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

In the electronic communications sector, the Commission organised two auctions for usage rights of radio frequency spectrum. The Commission granted to the winner the usage rights of six 28MHz radio channels of 28.0525GHz – 28.4445GHz/29.0605GHz – 29.4525GHz radio frequency bands and usage rights of four 28MHz radio channels of 31.8-33.4GHz radio frequency band.

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

- Regulations on information to be included in the standard plan and its publication;
- Regulations on numbering usage rights;
- Amendments to Regulations on the provision of number portability service;

- Regulations on radio frequency spectrum usage rights;
- Regulations on the quality requirements for electronic communications services and the procedure for submission of quality reports;
- Methodology for measuring the quality of electronic communications services;
- Amendments to Methodology for calculating the tariffs of electronic communications services;
- Decisions on the maximum limit of call termination tariffs in 2010-2012 for LLC Lattelecom, LLC Latvijas Mobilais Telefons and LLC Tele 2. As a result, call termination tariffs will decrease by 15% per year in the fixed network and 25% per year in the mobile network.

In the postal sector, the Commission drafted and approved:

- Regulations for a general authorisation in the postal sector;
- Regulations on registration of a postal company;
- Regulations on violations of general authorisation regulations in the postal sector;
- Regulations on the register of the universal postal service;
- Methodology for calculating the universal postal service tariffs.

In the energy sector, the Commission drafted and approved:

- Methodology for calculating mandatory purchase components;
- System connection regulations for participants of the electricity system;
- Methodology for calculating electricity distribution system service tariffs;
- Amendments to Methodology for calculating tariffs of heat power generated in CHP plant and tariffs of electricity generated in CHP plant with capacity above 4 MW.

The Commission also reviewed several cogeneration tariffs and set heat energy tariffs (depending on natural gas trade end-tariffs).

In November 2009, the Commission approved the fee for the use of public railway infrastructure for the year 2010.

## Litigation and Out-of-court Settlements

During the course of 2009, the Public Utilities Commission continued to deal with seven processes of litigation that had begun over the previous years in the electronic communications sector. The most important of these is the court case that relates to the cancellation of the Commission's June 8, 2005 decision No.140 "On maximum tariffs of interconnection services for LLC Lattelecom, LLC Latvijas Mobilais Telefons and LLC Tele2", regarding obligations applicable to Tele2 and cancellation of the Commission's July 1, 2005 decision No.153 "On imposing an administrative fine on LLC Tele2". The decision had imposed an administrative fine of 10,000 LVL on Tele2. During the reporting year, five litigation processes were dismissed, but the Commission was involved in one other court case in the electronic communications sector.

In the postal sector, litigation continued regarding complaints of A. Ratuts about the Commission's actions. In 2009, one process of litigation was dismissed.

In the energy sector, one process of litigation was completed in 2009; three processes were started while ten others are still pending. The most important of these is the cassation complaint submitted by the Commission to the Senate of the Supreme Court of the Republic of Latvia about the request to define an average tariff for the sale of electricity.

One function of the Commission is to pursue out-of-court settlements of disputes in cases involving public service providers and users. In 2009, the Commission was involved in two disputes of this kind in the electronic communications sector. In the energy sector, the Commission reviewed two disputes and took decisions on their settlement.

After taking over the regulatory functions from municipal regulators on November 1, 2009, the Commission has been involved in eight processes of litigation about decisions of municipal regulators in the water management sector and five in the energy sector. The processes will continue in 2010.

The Commission, exercising the authority specified by the Latvian Administrative Violations Code, has also reviewed cases of administrative violations. 61 cases of

administrative violations were reviewed in the electronic communications sector. The Commission has discontinued the operation of 15 electronic communications companies for violations of regulations on general authorisations, withdrawing the rights to provide electronic communications services and provide the electronic communications network. 11 cases of administrative violations were initiated and considered in the postal sector. The authorisation of one company to provide postal services was cancelled.

In the railway transport sector, two cases of litigation were started in 2009. One case about the cancellation of Commission's decision was rejected after a review in the institutions of appeal and cassation. The other case will continue in 2010.



## International Co-operation

### European Union

The European Union (EU) member states adopted significant legal acts in energy and electronic communications sectors in 2009. Legislative package liberalising electricity and gas markets (the so-called 3rd Energy Package), which must be implemented in the legislation of the member states, specifies common rules for energy generation, distribution and transmission, cross-border cooperation of regulators, defines the independence of regulators, and obligations and powers of regulators. The establishment of EU level energy and electronic communications regulatory institutions takes the responsibility and authority of regulators to a new level. For example, the regulators will provide their opinion to the European Commission (EC) on cross-border issues, such as access to cross-border infrastructure in the energy sector, or will follow the application of consistent EU legal regulation in all member states for the development of the internal market in electronic communications. The Commission, as a member of Independent Regulators Group and European Regulators Group (IRG/ERG) and European Energy Regulators (CEER/ERGEG), participated in the discussion of working documents of IRG/ERG, CEER/ERGEG and EC.

In the postal sector, attention in 2009 was still focused on the goals put forward in the 3rd Postal Directive for liberalisation of the postal market by 2013.

In the railway sector in Europe, the debate continued about the financing arrangement of the railway infrastructure. A differential fee for the use of infrastructure is planned. The fee will include a charge for noise levels.

### Regional co-operation

The Commission continued active participation in activities of regional co-operation. The annual meeting of the Baltic electronic communications and postal regulators discussed the setting of interconnection tariffs in fixed and mobile networks, regulation of IP telephony, market supervision, regulation of next generation networks and regulation of international roaming in the electronic communications sector, as well as the implementation of the new legislation in the postal sector. In 2009, two discussion fora

of the participants of the Baltic electricity market took place, which analysed further development of the regional electricity markets. A working group, founded by the forum under the guidance of the Commission, worked on the model of transparency and information exchange and held public consultation on information exchange in electricity companies in the Baltic region. The results of the consultation will be summarised in a report on the transparency of the Baltic electricity market in 2010. As a coordinator of the Baltic regional co-operation, the Commission provided an opinion on an EC study about the prospects of regional co-operation of electricity markets.

At the request of the European Commission, the Commission was included in the working group of the Baltic interconnection plan, which jointly with an EC expert analysed and assessed potential Baltic-Swedish, Estonian-Finnish and Polish-Lithuanian interconnections regarding the aspects of security, costs and impact on market development, as well as drafted the model of the Baltic electricity market. This project was one of the EU priorities in the energy sector in 2009.

#### Bilateral co-operation

In the electronic communications sector, the Commission and the Ukrainian communications regulator worked on a memorandum of co-operation. Responding to the proposition of Ukrainian colleagues, the Commission will convey its experience in the adoption of EU legal acts, market analysis and other regulatory issues.

#### Exchange of experience

The Commission's representatives participated in more than 15 different fora on the universal service, electronic communications and postal issues, and development of the Baltic regional electricity market. At the request of the European Wind Energy Association, the Commission's representatives participated in the discussion about the prospective development of the wind energy in Latvia and the Baltic region.

#### Activities in 2010

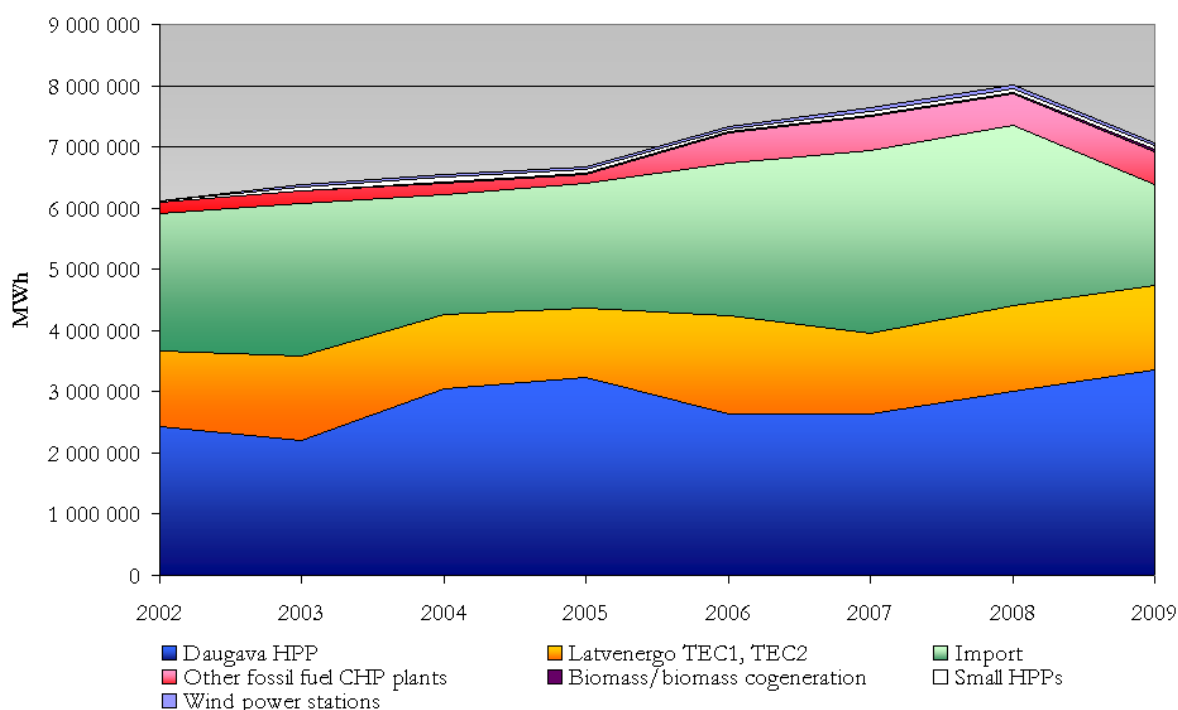
In 2010, the main priorities of the Commission's international co-operation will concern the adopted EU legal acts – participation in the Agency for the Cooperation of Energy

Regulators (ACER) and the Body of European Regulators of Electronic Communications (BEREC), development of regional co-operation, data collection for the 3rd round of electronic communications market analysis, and supervision of markets of passenger transportation by rail. The Commission will also turn the attention to the EU experience in regulating water supply services.

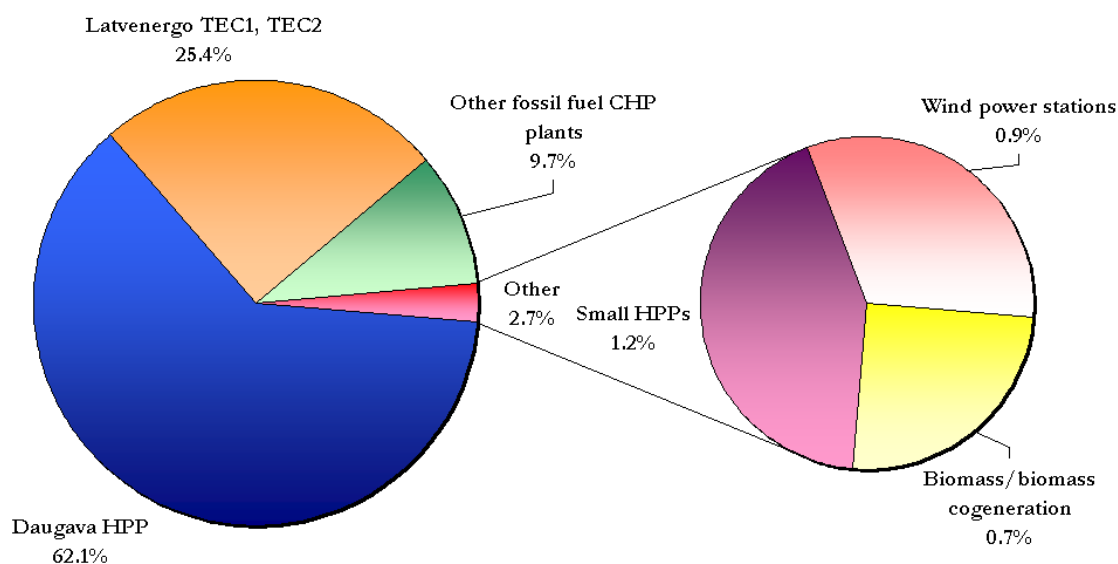
## Regulations in the Energy Sector

The areas in which Latvia regulates energy supply tariffs are the supply of electricity, the supply of natural gas, the distribution of liquefied gas and supply of heat energy. Among Latvia's households, consumption of these products represents 40% of the total energy consumption in Latvia.

The dominant company in electricity supply is the stock company Latvenergo, which generates more than 90% of the electricity produced in Latvia. The main sectors in which Latvenergo operates are electricity generation and trade. Latvenergo imports and exports electricity and fulfils the functions of the supplier of last resort as a public trader. Stock company Augstsprieguma tīkls transmits electricity along 330 kV and 110 kV transmission lines. Stock company Sadales tīkls distributes electricity along medium voltage and low voltage networks. There are also 138 small hydroelectric power plants that generate electricity. They have a total capacity of 25 megawatts (MW). Latvia has 20 wind power stations with a total capacity of 29 MW, and 54 co-generation stations with a total installed capacity of 140 MW. In addition to Sadales tīkls, there are 10 other licensed companies that distribute electricity. Latvenergo sells electricity to both captive users and market participants. LLC Enefit also sells electricity to market participants in Latvia.



Electricity supply in Latvia in 2002-2009



The structure of electricity generation in 2009

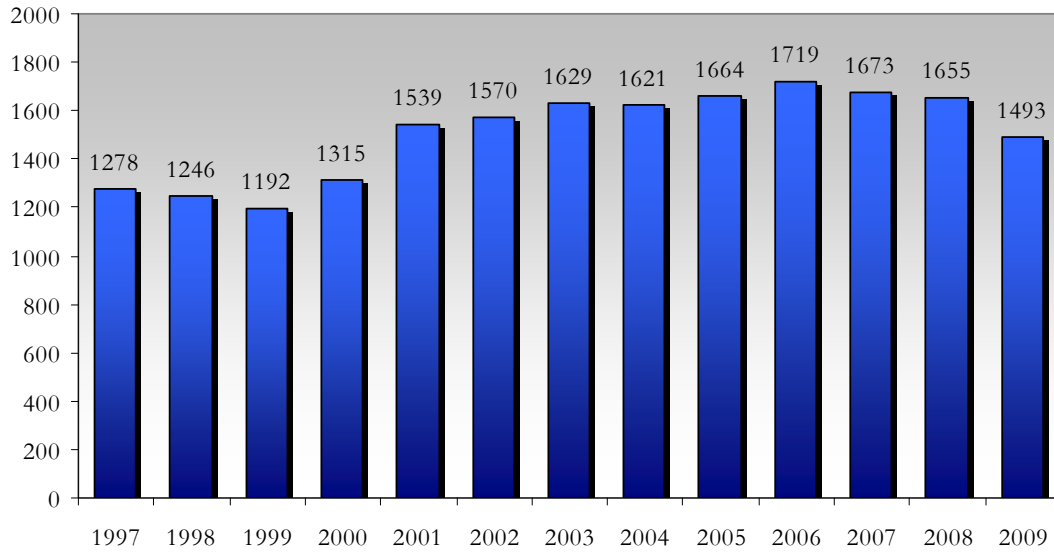
In 2009, the total volume of the Latvian electricity market was 7.2 terra-watt hours (TWh). Of these, 4.7 TWh were generated by Latvenergo, 0.6 TWh were produced by independent power generators, 4.3 TWh were imported, and 2.6 TWh were exported.

Since July 1, 2007, all electricity consumers, including households, have been allowed to choose alternative electricity suppliers.

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

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

The natural gas delivery system was established 30 - 40 years ago and has a capacity of some four billion cubic metres of natural gas each year. Last year the total consumption of natural gas in Latvia represented just 37% of the capacity, which means that the natural gas delivery system is never over-loaded and can ensure a stable supply of natural gas to all consumers in Latvia.



Natural gas consumption in Latvia, million m3

The amendment to the law of December 10, 2009, regarding the procedure under which certain articles of Latvia’s “Energy Law” will take effect, stipulates that the natural gas market will not be opened to competition until April 4, 2014.

Natural gas consumption in Latvia decreased by 10% in 2009 as compared to 2008 and was 1.493 billion m3. Of this amount, 62.5% was used to produce heat and electricity, 17.4% was used to supply industrial users, 11.6% to supply businesses and communal companies, and 8.6% to supply residential users.

### **Licensing and license supervision**

In accordance with the Cabinet of Ministers Regulations No.1227 “Regulations on types of regulated public utilities” (approved on October 27, 2009), the Commission regulates:

- heat supply;
- co-generation plants, which generate electricity and heat as long as their maximum output is above 1 megawatt (MW);
- generation of electricity in plants with electric capacity of more than 1 MW;
- transmission of electricity, when the voltage is at least 110 kV;
- distribution of electricity, if the voltage is between 1 and 110 kV;

- trade of electricity to end-users, if the total amount that is provided exceeds 4,000 MWh per year.

At the end of the reporting year, the Commission had licensed 106 companies in the electricity supply sector. The Commission issued 118 licenses - 50 for co-generation plants that generate electricity and heat, 32 for wind power stations, two for hydroelectric power plants, and one for electricity generation from biogas of waste landfill sites. One licence was issued for the transmission of electricity, 11 for the distribution of electricity, and 21 for the trade of electricity.

In 2009, the Commission issued 43 new licenses of which seven were issued for electricity trading. 30 licenses were issued for electricity generation, 19 of these are for generation of electricity and heat power in CHP plants, and 11 are for electricity generation in wind power stations. Two licences for electricity generation in CHP plants were cancelled in 2009.

The Commission also regulates the storage, transmission, distribution and trade of natural gas, except for trade of natural gas in gas filling stations for auto vehicles.

The stock company Latvijas Gāze has licenses for the storage, transmission, distribution and trade of natural gas. One licence for the distribution of liquefied gas was cancelled in 2009.

In accordance with the Cabinet of Ministers Regulations No.1227 “Regulations on types of regulated public utilities”, seven licenses had been issued for the distribution of liquefied petroleum gas from underground and above-ground reservoirs through pipelines to a connection point in a residential building in 2009.

The operations of public service providers are regularly inspected on the basis of decision No.329 “On supervision of operations of public service providers”, approved

by the Commission's Board on December 3, 2003. 14 energy companies were inspected in 2009.

## **Regulating tariffs**

### **Electricity**

The Commission approves tariffs for companies that generate electricity in co-generation plants, tariffs for the transmission and distribution of electricity, as well as tariffs for the trade of electricity to captive users if the trader has not received a permission to set tariffs. Tariffs for the transmission and distribution of electricity are specified so that, when a free market participant concludes a bilateral agreement on the delivery of electricity and pays for transmission and distribution system services, the rules for accessing the transmission and distribution systems are clearly understood.

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

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

In 2009, amendments were made in Methodology for calculating tariffs of heat power generated in CHP plant and tariffs of electricity generated in CHP plant with capacity

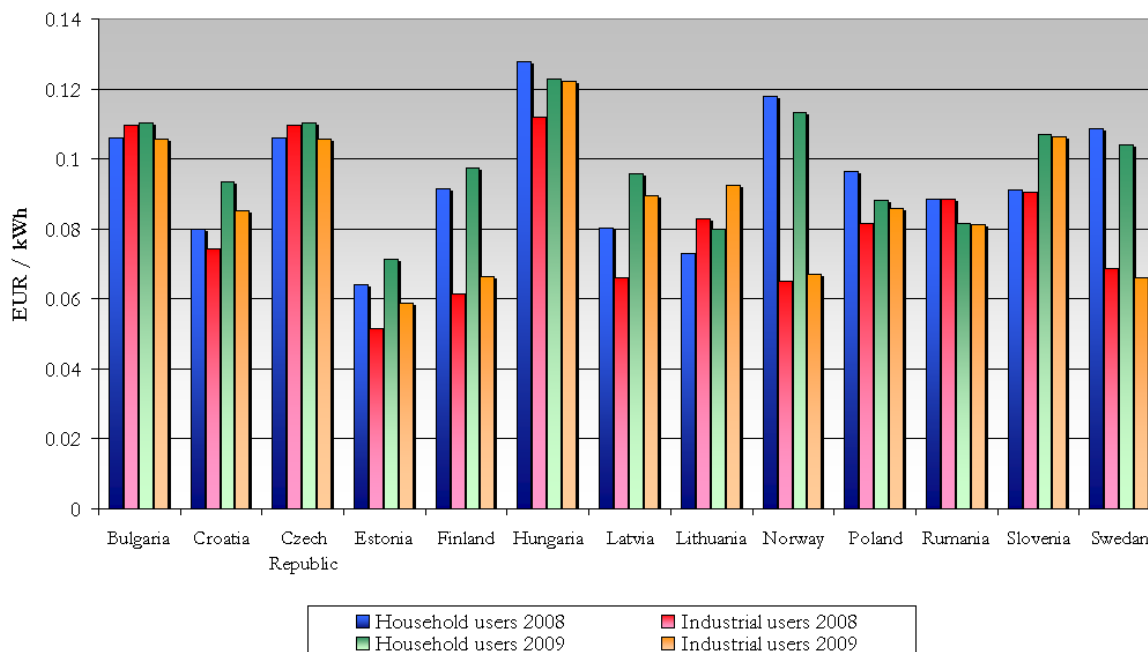


above 4 MW, and Methodology for the calculation of electricity distribution system service tariffs.

In 2009, the Commission approved LLC RTO Elektrotīkli electricity distribution system service tariffs and differentiated tariffs of electricity trade for captive users.

New electricity and heat power tariffs were approved for several co-generation stations – stock company Valmieras enerģija, power stations TEC-1 and TEC-2 of the stock company Latvenergo, district heating plant Imanta of stock company Rīgas siltums, LLC Cēsu siltumtīkli, LLC Fortum Jelgava, and municipal stock company Daugavpils siltumtīkli. Tariff application procedures were also set for Latvenergo plant TEC-2, LLC Cēsu siltumtīkli and LLC Juglas jauda.

In 2009, the Commission rejected five submitted tariff proposals: twice a tariff proposal for heat energy and electricity generated in Latvenergo plant TEC-2, LLC Cēsu siltumtīkli tariff proposal for heat energy generated in CHP plants, stock company Sadales tīkls tariff proposal for electricity distribution system services, stock company Augstsprieguma tīkls tariff proposal for electricity transmission system services.



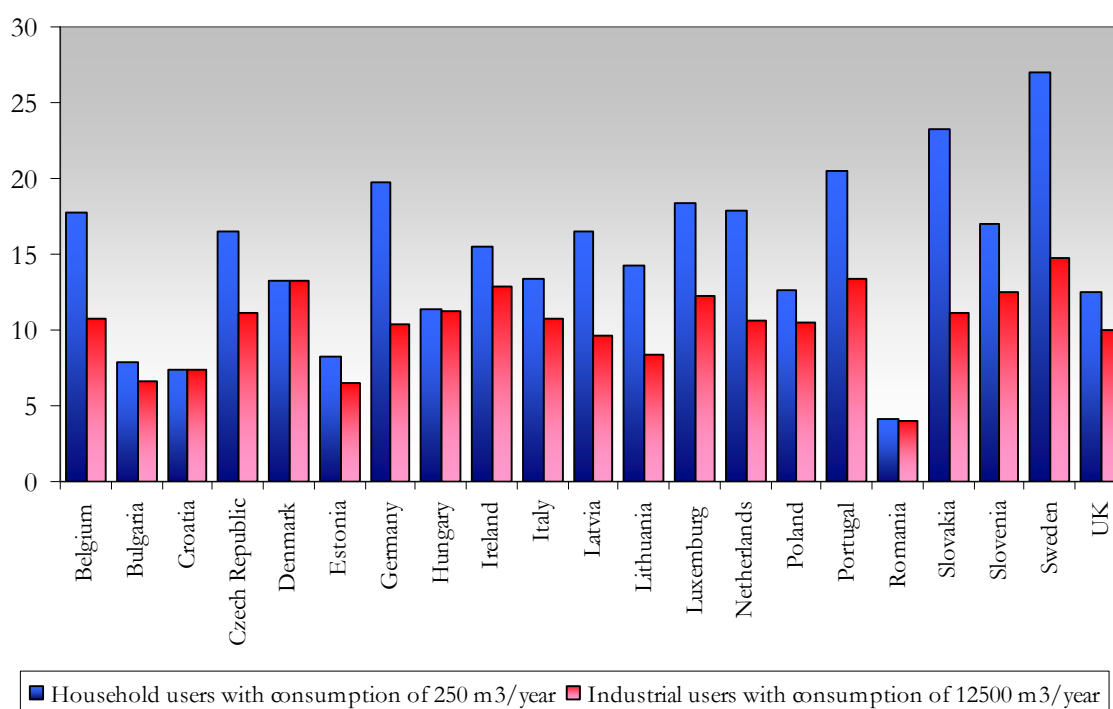
Electricity prices for household users with annual consumption of 3500 kWh and industrial users with annual consumption of 2000 MWh in Eastern Europe and Nordic countries in 2008 and 2009

According to the Eurostat data for 2009, electricity tariffs in Latvia were about the same level as tariffs in the Eastern European Union states.

### Natural gas

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

According to the Eurostat data for the second half of 2009, Latvia ranked among the lowest natural gas tariffs among all member states of the European Union.



Natural gas prices in the member states of the European Union in the second half of 2009 (EUR/GJ)

## Protecting user rights

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

In 2009, 71 complaints of public service users were received and reviewed in the energy sector. 56 questions related to public service provision were sent by electronic means. 90% of complaints were received from individuals.

Answers related to electricity supplies mostly had to do with the delivery of electricity (21%), installation of new connection and connection fee (23%) and the registration of the amount of electricity used and the resultant bills (30%). In the area of gas supply, most complains had to do with natural gas tariffs (34%), registration of natural gas use and resultant bills (22%), and natural gas delivery issues (34%).

Complaints	Total, including		Electricity		Gas supply		Heat supply	
	number	%	number	%	number	%	number	%
Justified	10	14	10	19				
Unjustified	40	56	30	57	5	56	5	56
Explanation provided	9	13	7	13	2	22		
Unrelated to the Commission's work	12	17	6	11	2	22	4	44
<b>Total:</b>	<b>71</b>	100	<b>53</b>	100	<b>9</b>	100	<b>9</b>	100

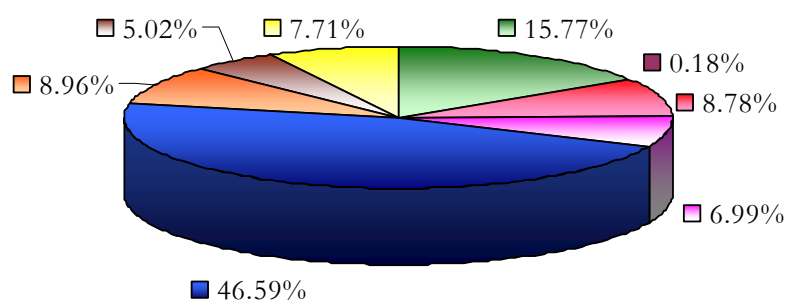
Complaints received in the energy sector in 2009

## Regulations in the Electronic Communications and Postal Sectors

### Registering companies

54 new electronic communications companies registered with the Public Utilities Commission in 2009, while 64 companies ended their operations in the electronic communications sector.

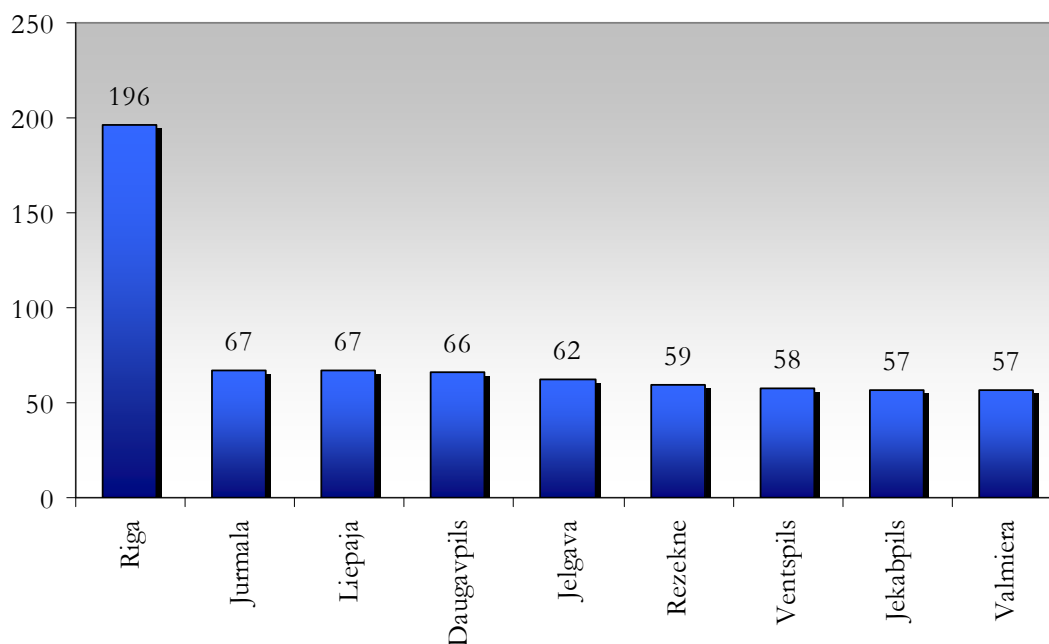
In the 4th quarter of 2009, the Commission polled electronic communications companies about their activities in the electronic communications sector. According to the data collected, 419 electronic communications companies were registered at the end of 2009. Of these, 297 companies were actually operating in the electronic communications sector.



- Voice telephony services
- Public payphone services
- Public data and electronic messaging services
- Leased line services
- Public Internet access services
- Radio or TV transmission services in public electronic communications networks
- Access services
- Interconnection services

Distribution of electronic communications companies by service types in 2009

47 electronic communications companies have indicated that they operate in the whole territory of the Republic of Latvia. The rest of the companies operate in some districts or cities of Latvia. Most of the electronic communications companies are small and their services are often available only in a small part of city or district.



Distribution of electronic communications companies in Latvian cities in 2009

### Supervising companies

The supervision of electronic communications companies is carried out in accordance with the normative acts of the electronic communications sector. The electronic communications companies have an obligation to submit information to the Commission about their operations in the reporting period twice a year.

While monitoring the fulfilment of Regulations on general authorisations, 253 violations were identified about non-submittal of information to the Commission by the deadline. The Commission levied an administrative fine on 61 companies for this violation.

The Commission has a right to take a decision about the termination of operation of an electronic communications company if normative acts are violated repeatedly without resolving the violations. In 2009, the Commission cancelled the rights of 15 companies to provide electronic communications services and electronic communications networks for three years – until December 7, 2012.

## Market analysis for determining significant market power

During the reporting year, the Commission completed market analysis in the following markets as recommended by the European Commission:

- access to the public telephone network at a fixed location for residential and non-residential customers;
- call origination on the public telephone network provided at a fixed location;
- call termination on individual public telephone networks provided at a fixed location;
- wholesale (physical) network infrastructure access (including shared or fully unbundled access) at a fixed location.

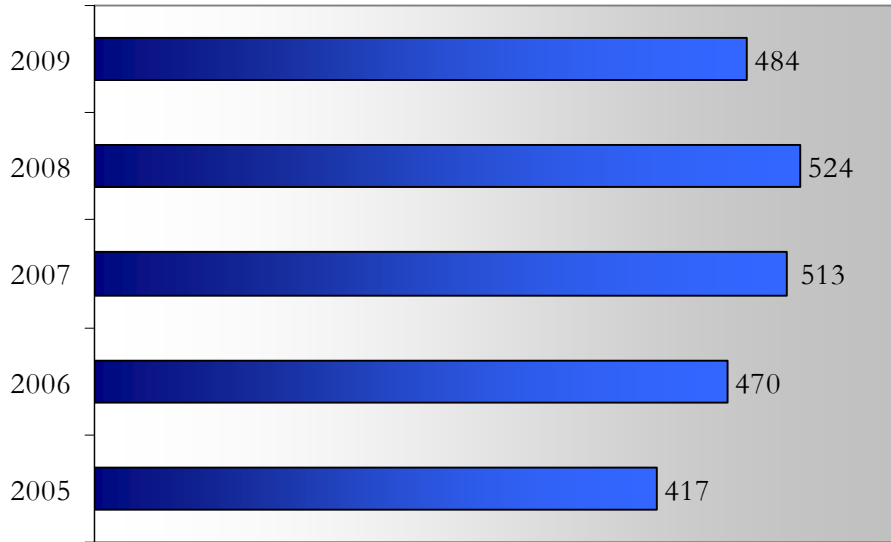
In 2009, national consultations were completed on the following electronic communications markets:

- wholesale broadband access;
- wholesale terminating segments of leased lines, irrespective of the technology used to provide leased or dedicated capacity;
- voice call termination on individual mobile networks.

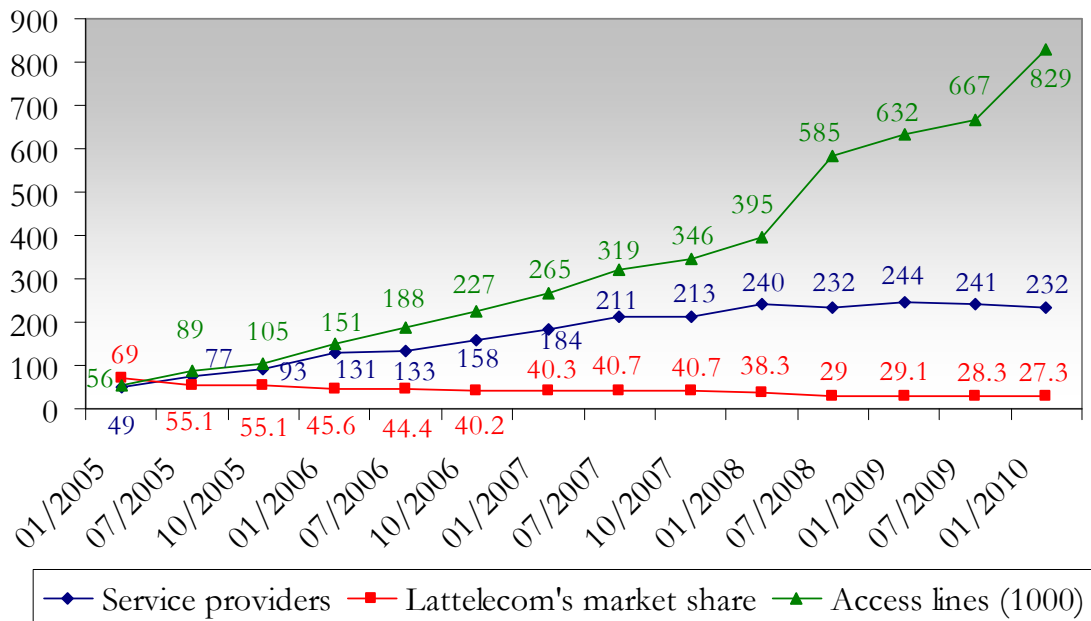
In the reporting period, the Commission gathered information to be used in the 3<sup>rd</sup> round of market analysis. The Commission plans to conclude the 3<sup>rd</sup> round of market analysis in the second quarter of 2012. During market analysis prerequisites were created for significant reduction (*glide-path*) of call termination tariffs over the next years. The reduction of call termination tariffs will significantly affect the level of end-user tariffs.

## Market situation

In 2008, the rate of growth of the electronic communications sector declined, while in 2009, the total volume of the electronic communications market also decreased. The trend of consolidation in the electronic communications market, which was visible already in 2008, continued in 2009.



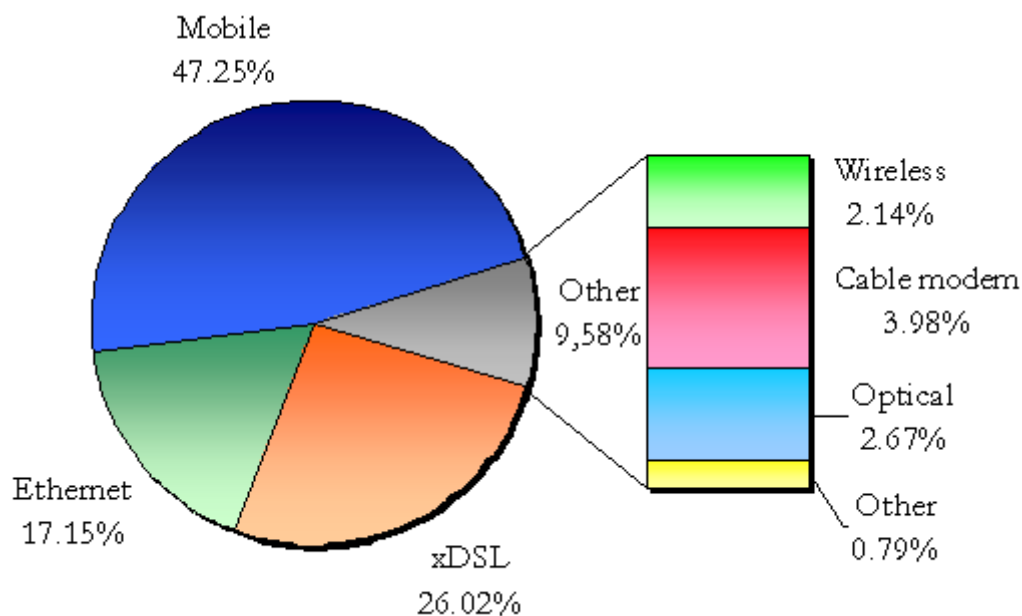
Revenues in the electronic communications sector from electronic communications services provided to electronic communications users (million LVL)



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

During the reporting year, there was a decrease in the number of companies providing Internet access services. However, there was a significant increase of the Internet access lines. As a result, the market share of the incumbent operator LLC Lattelecom decreased. By developing the optical cable network and bundling services (offering *triple play* services), LLC Lattelecom strengthened its position in the provision of high speed Internet access services.

Mobile communications operators have an increasingly significant role in the provision of Internet access services. An important role in the market is played by comparatively small operators using their own infrastructure – the Latvian electronic communications market greatly surpasses many member states of the European Union in this area.



Technologies used for Internet access at the end of 2009

### Quality of services and complaints

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

The Commission has prepared a 2009 report on the quality of electronic communications services. It offers the results of quality measurements conducted by the Commission and comparison between these results and the values of parameters, which the Commission has specified and the companies have declared.

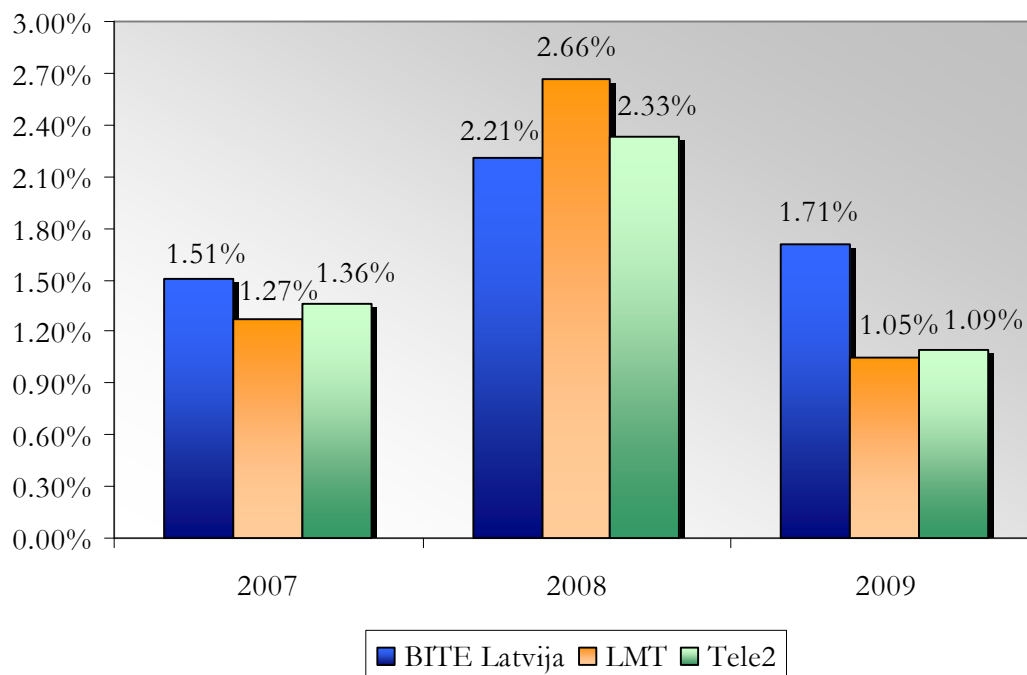


In 2009, the Commission conducted quality measurements for the following electronic communications services:

- universal service (domestic and local voice telephony service in the fixed telephone network, payphone service, operator services (help desks), and comprehensive telephone directory enquiry service);
- domestic and local voice telephony service and SMS service in the mobile telephone network;
- SMS service using the interconnection of mobile telephone networks;
- voice telephony service using the interconnection of telephone networks (interconnection service).

In 2009, to determine the quality of the universal service, 115,058 test calls were made in the fixed telephone network of the universal service provider LLC Lattelecom, 304 payphones were tested, 800 calls were made to the unit that accepts damage complaints, and 800 calls were made to the comprehensive telephone directory enquire service. For the third straight year, measurements of the quality of electronic communications services were performed by an automatic control system for voice telephony services.

To determine the quality of services in the public mobile telephone networks, 92,502 test calls were made and 3,049 test SMS messages were sent. The calls and messages were distributed evenly in the mobile telephone networks of LLC Bite Latvija, LLC Latvijas mobilais telefons and LLC Tele2.



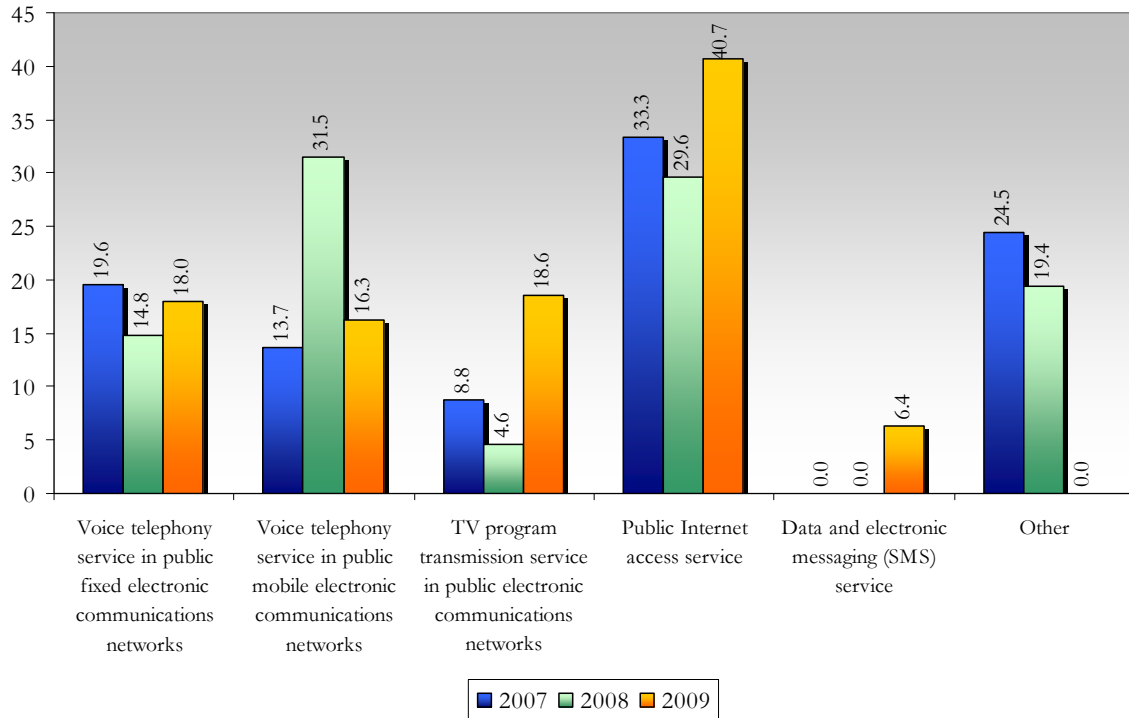
Comparison of unsuccessful call ratio among mobile telephone networks

To determine the quality of interconnection service, 117,614 test calls were made in the telephone networks and 6,209 test SMS messages were sent in the mobile telephone networks.

In 2009, a parameter quality control system of Internet access services was used. The system is available to the Commission's experts and the providers of Internet access services, and from October 29, 2009 – to the users of Internet access services.

In comparison to 2008, in 2009, the quality of the voice telephony service improved in the fixed telephone network of the universal service provider LLC Lattelecom, and in the mobile telephone networks of LLC Bite Latvija, LLC Tele2 and LLC Latvijas Mobilais Telefons.

The Commission continued reviewing complaints of users of electronic communications services in 2009. In total, the number of complaints in 2009 was 166, compared to 108 complaints in 2008. The largest increase of complaints was about the quality of Internet access services.



Distribution of complaints by service types in 2007 – 2009 (%)

### Universal service

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

In 2009, the universal service was provided in accordance with the Commission’s December 21, 2007 decision “On universal service obligations”. Since 2003, LLC Lattelecom has been the only company to handle the obligations of the universal service in the electronic communications sector.

The Commission defined the following universal service obligations for 2009:

- Until a universal service provider is determined in accordance with Section 64, paragraph 3 of the “Electronic Communications Law”, to ensure access to Lattelecom’s public telephone network at fixed connection locations, thus

allowing users of the universal service to make calls and receive voice telephony services, as well as public data and electronic message transmission services at connection speed no less than 9600 bits per second at a price which does not exceed the actual cost of the service. LLC Lattelecom has a right to apply discounts to such a price, but the discounts shall not be included in the net costs of the universal service obligations;

- To provide at least one alternative tariff plan to individual users. This alternative plan would have a monthly fee for a phone line that is lower than the Commission's stated affordable tariff, in accordance with the principle of setting an affordable tariff specified by the Commission, if such has been defined, as well as continued discounts for disabled people on those electronic communications services, for which the discounts were provided in 2002;
- To ensure that universal service users have access to a comprehensive telephone directory enquiry service;
- To ensure that universal service users have access to a comprehensive subscriber directory;
- To ensure the following free of charge call services or services for which coins, payphone card, credit card or call card may be used as means of payment:
  - local, domestic and international voice telephony services;
  - free of charge calls to the State fire and rescue service, the State police, emergency medical service, gas emergency service and emergency number "112";
  - services of the unit that accepts damage complaints;
  - comprehensive telephone directory enquiry services;
  - access to a comprehensive subscriber directory.
- Until a universal service provider is determined in accordance with Section 64, paragraph 3 of the "Electronic Communications Law", obligation to maintain payphones in working order if losses from payphone maintenance do not exceed 20% of payphone maintenance costs of the previous year. LLC Lattelecom shall coordinate the payphone removal in advance with relevant local government. LLC Lattelecom shall inform the Commission every quarter about all cases of moving or removing payphones - by April 1 regarding the first quarter, by July 1 regarding the second quarter, by October 1 regarding the third quarter and by December 31 regarding the fourth quarter. LLC Lattelecom shall be obliged to

not reduce the existing number of payphones in hospitals, schools and social care institutions, except if the respective institution does not object to the decrease of the number of payphones (payphone removal);

- To ensure the fulfilment of service quality requirements for quality parameters of voice telephony services in accordance with “Regulations on the universal service in the electronic communications sector”.

During the reporting year, LLC Lattelecom submitted and the Commission approved (after the analysis of the submitted information) the net costs of the universal service for 2008, amounting to 378,915 LVL. The Commission’s decision means that LLC Lattelecom may claim compensation for losses incurred from the universal service in accordance with provisions of the “Electronic Communications Law”.

### **Scarce Resources**

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

In 2009, the Commission has taken 32 decisions on radio frequency usage rights – about assignation of such rights, and setting, extending or cancellation of their terms.

Two beauty contests on usage rights of radio frequency spectrum were organised in 2009:

- Beauty contest on granting usage rights of four 28MHz radio channels of 31.8-33.4GHz radio frequency bands (LLC Tele2 was declared winner);
- Beauty contest on granting usage rights of six 28MHz radio channels of 28.0525GHz – 28.4445GHz/29.0605GHz – 29.4525GHz radio frequency bands (LLC Stream Networks was declared winner, acquiring three 28MHz radio channels of 28.0525GHz – 28.4445GHz/29.0605GHz – 29.4525GHz radio frequency bands).

136 decisions were approved on numbering usage rights in the Commission’s Board meetings in 2009.

On August 11, 2009, the Cabinet of Ministers approved regulations No.892 “Regulations on annual state fee for numbering usage rights” which specified that from October 1, 2009 the electronic communications companies must pay a state fee for the usage rights of short codes. The Commission has cancelled usage rights of 112 short codes for 37 electronic communications companies upon their request.

<b>Type of short code</b>	<b>Number of cancelled short codes</b>
Carrier selection code (3 digit numbers)	9
Carrier selection code (4 digit numbers)	11
Codes of operators of public telephone networks (3 digit numbers)	36
Codes of operators of public telephone networks (4 digit numbers)	50
Codes of operators of public telephone networks (5 digit numbers)	4
Numbers of enquiry services (4 digit numbers)	2
Total:	112

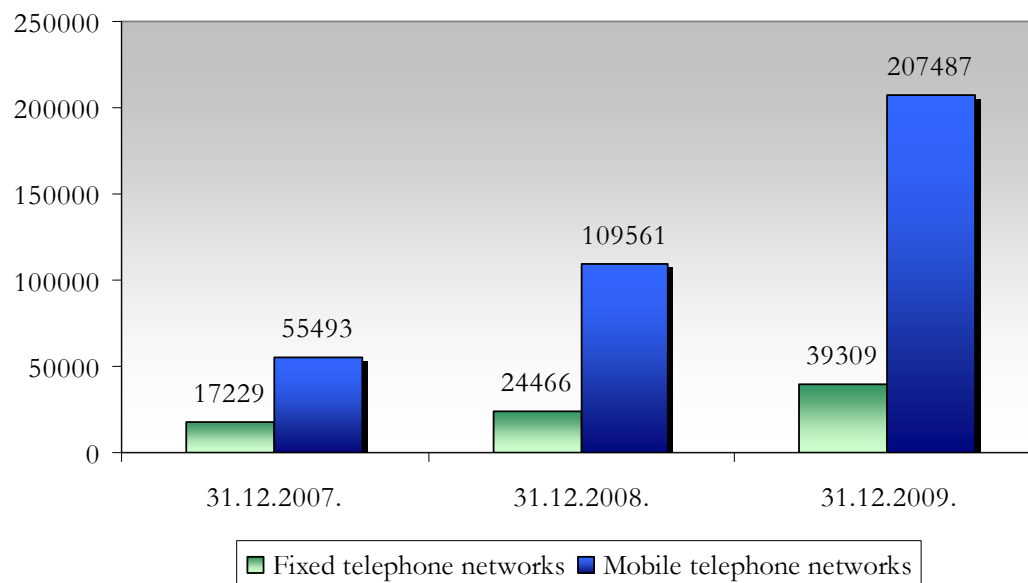
Cancelled short codes

In 2009, the electronic communications companies continued providing the number portability service for end-users within terms specified by the Commission.

The end-users continued active porting of numbers in the mobile telephone networks in 2009.

<b>Time period</b>	<b>Fixed telephone networks</b>	<b>Mobile telephone networks</b>
2009	60.67%	89.38%
2008	42.00%	97.43%

Changes in ported numbers of end-users (%)

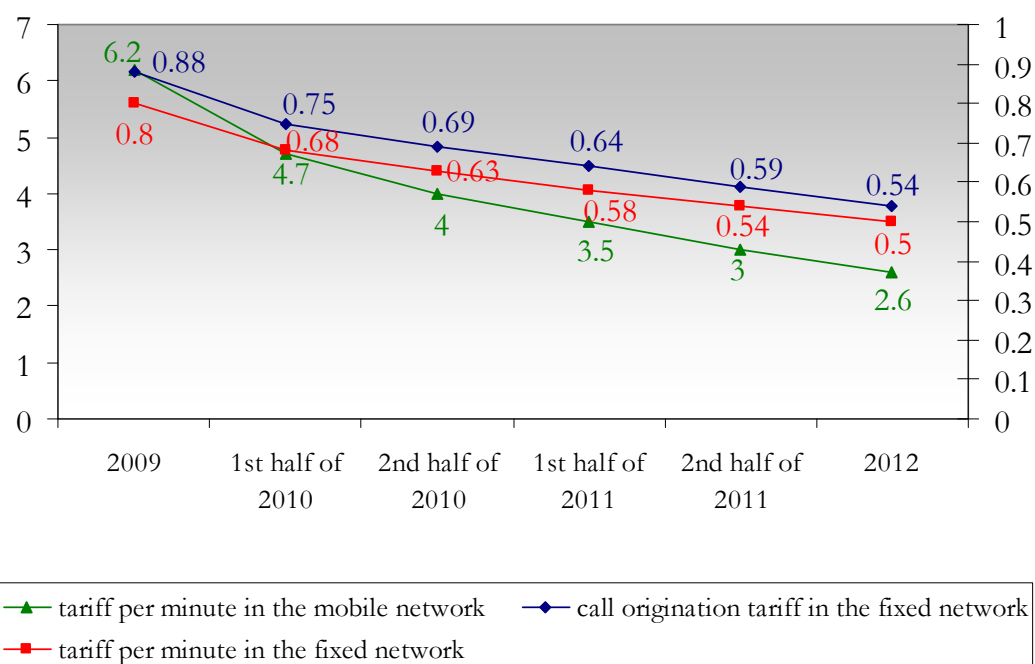


Ported numbers since the introduction of the service on December 1, 2005

## Regulating tariffs

In 2009, the Commission received and considered three tariff proposals submitted by LLC Lattelecom. These applied to calls that LLC Lattelecom clients made to the clients of other public fixed electronic communications networks. Decisions were prepared and accepted at a Board meeting on LLC Lattelecom tariffs for calls to subscribers of fixed electronic communications networks of LLC Tele Media, LLC Lumar, LLC Master Telecom, LLC Interneta Pasaule, LLC AWA Baltic, LLC Baltkom TV SIA and LLC iLink. On June 17, 2009, the Commission made amendments to the Methodology for calculating tariffs of electronic communications services which provides for a different procedure of application of tariffs for calls to the clients of other public fixed electronic communications networks and their coordination with the Commission.

On June 3, 2009, the Commission published a consultation document on regulation of call termination tariffs in the electronic communications sector in 2009-2012. The consultation document predicted gradual reduction of call termination tariffs for this time period – reduction of 15% in the fixed network and reduction of 25% in the mobile communications network. Taking into account the consultation results, on October 14, 2009, the Commission’s Board took decisions about the maximum limit of call termination tariffs in 2010-2012 for LLC Lattelecom, LLC Latvijas Mobilais Telefons and LLC Tele2.



Gradual reduction of call termination tariffs in 2010-2012 (tariffs are indicated in santims)



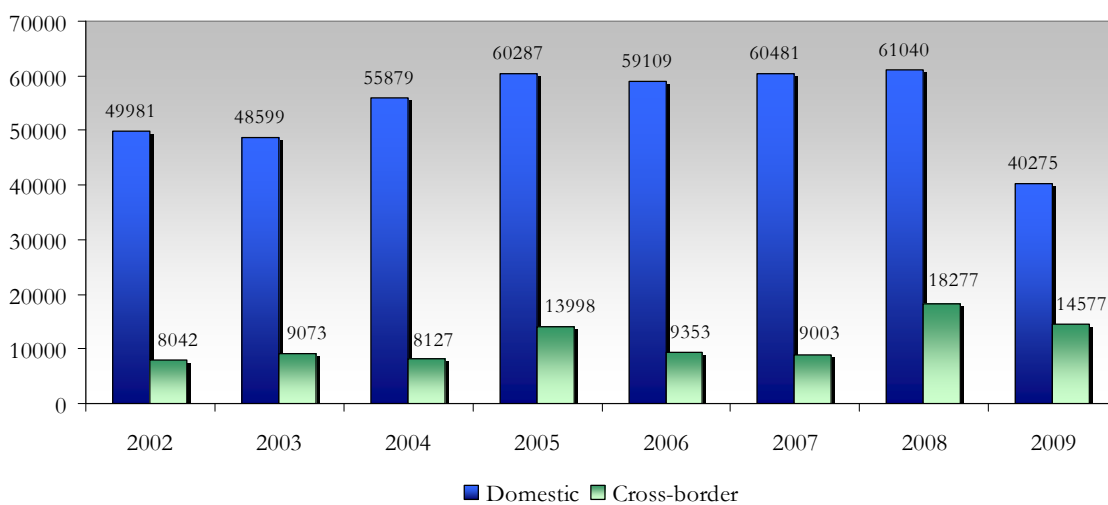
On June 18, 2009, The European Parliament and the Council adopted Regulation (EC) No. 544/2009 amending Regulation (EC) No.717/2007 on roaming on public mobile telephone networks within the Community and Directive 2002/21/EC on a common regulatory framework for electronic communications networks and services, therefore the reduction of Latvian mobile telephone network operators' tariffs for roaming services in the European Union countries continued in 2009. Since July 1, 2009, tariff for a call made using a roaming service in a European Union country must not exceed 0.30 LVL per minute (without VAT), while the tariff for an SMS must not exceed 0.08 LVL (without VAT). An incoming call must not be charged more than 0.13 LVL per minute (without VAT).

On December 1, 2009, the Commission published the report on compliance with methodology for cost calculation in the electronic communications sector and notification about electronic communications companies, which are obliged to apply the methodology for cost calculation. The report was published in the newspaper "Latvijas Vēstnesis"

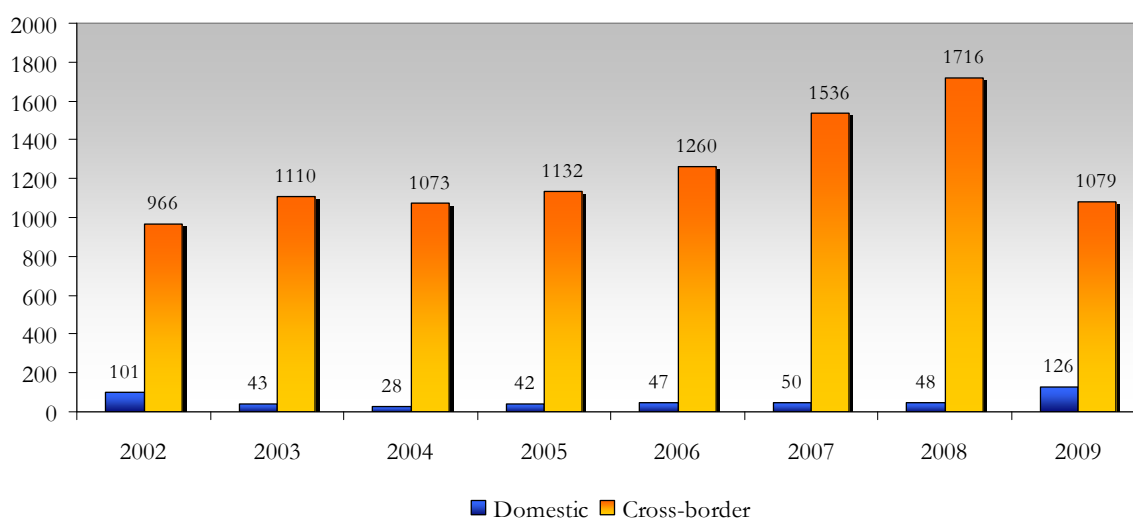
## Postal sector

In terms of postal services in Latvia, the universal postal service (handling letters and parcels) are provided by state stock company Latvijas Pasts. In 2009, people sent 54.9 million letter-post items and 1.2 million postal parcel items.

In comparison to 2008, the total number of letters sent decreased by 27.4% (cross-border items - by 27.3% and domestic items - by 27.5%). The number of postal parcels sent dropped 27.2% compared to 2008.



Letters (thousand)

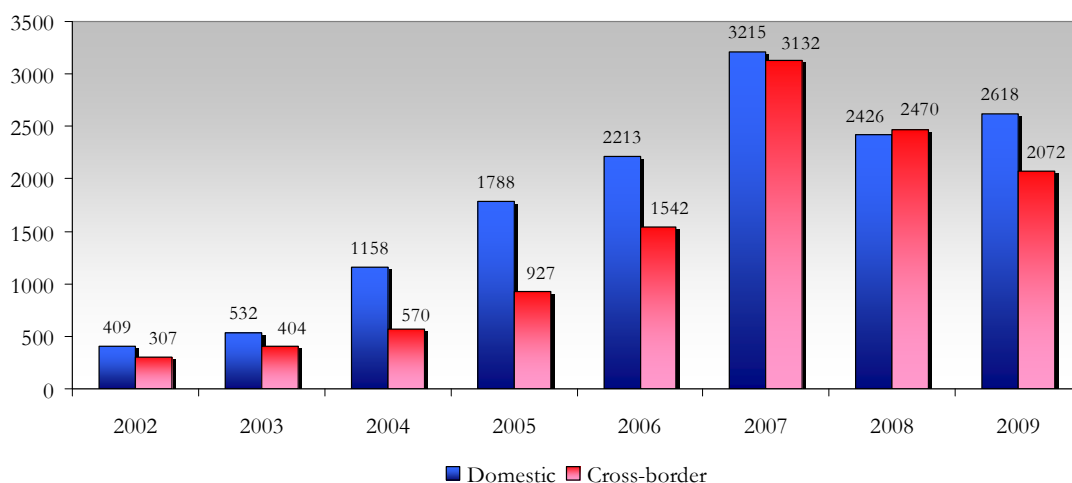


Postal parcels (thousand)

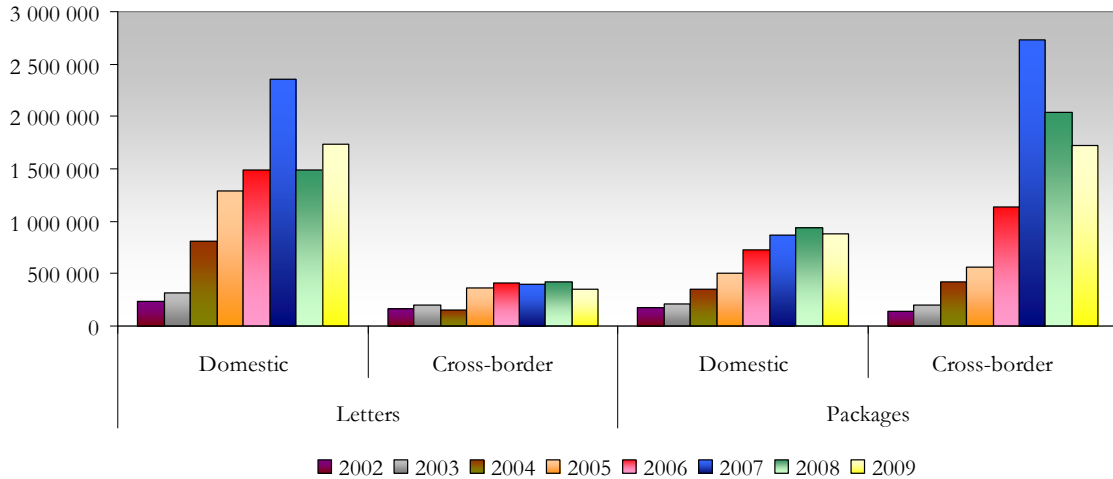
In 2009, state-owned stock company Latvijas Pasts moved 10 post offices to new premises and closed 74 post offices. There were a total of 626 post offices at the end of 2009.

In the reporting year, the Commission sent a number of control letters to assess the quality of the postal service in accordance with the methodology for measuring the quality of the universal postal service (ordinary letters). The results of the performed measurements show that delivery time for Class A letters did not meet the specified quality standards in 2009. 96.3% of Class A letters were delivered on the next business day after the control letters were sent, while 99.5% of Class B letters were delivered within three business days. In accordance with Cabinet of Ministers regulations 97% of Class A letters must be delivered on the next business day, while 97% of Class B letters must be delivered within three business days.

53 postal companies were listed in the Commission's database at the end of 2009. The Commission registered nine new postal companies and six postal companies were excluded from the register of postal companies in 2009. There are 36 service providers in the field of express mail and courier mail of which seven registered in the register of postal companies in 2009. In 2009, there were 4.65 million shipments – 4.9% less than in 2008. Among these shipments, the share of domestic packages dropped by 9.5% in comparison to 2008, while the share of cross-border packages decreased by 15.9%.



Express mail and courier mail (thousand)



Express mail and courier mail

In the postal sector in 2009, the Commission received and considered 11 complaints regarding postal service providers. All complaints concerned the provider of the universal postal service – state-owned stock company Latvijas Pasts. Eight complaints were received from individuals and three from business entities. Most of the complaints were about unsatisfactory delivery or loss of postal items. The Commission upheld five of the complaints.

On September 17, 2009, the Commission’s Board approved the Methodology for calculating the universal postal service tariffs which provides for cost allocation, using a direct or indirect causality and cost-based calculation of tariffs, as well as procedure for submitting of regular reports connected to the costs.

In 2009, in accordance with the new Postal Law the Commission issued new normative acts – Regulations on the list of universal postal service, Regulations on the registration of a postal company, Regulations on general authorisation in the postal sector, and Regulations on the violations of general authorisation in the postal sector.

## **Regulations in the Rail Transport Sector**

In the rail transport sector, passenger transport by rail in 2009 was provided by the following companies:

- Stock company Pasažieru vilciens provided passenger transport by rail with domestic passenger trains;
- LLC LDZ CARGO provided passenger transport by rail with international passenger trains;
- LLC Gulbenes-Alūksnes bānītis provided passenger transport by rail in a narrow-gauge rail line between the towns of Gulbene and Alūksne.

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

## **Licensing of public service providers**

In 2009, the Commission did not receive any applications to amend licensing terms or to cancel a license.

## **Supervision of public service providers**

In 2009, the Commission investigated three companies in the rail transport sector. In all cases it was concluded that the provision of public services is occurring in accordance with licensing terms and all relevant norms and regulations.

## **Updating normative documents**

The Commission provided opinion on draft law “Amendments to Railway Law” in the reporting year.

## **Setting the fee for the use of public railway infrastructure**

By decision No.392 of November 25, 2009, the Commission approved the fee for the use of the public railway infrastructure for the year 2010.

### **Informing the public and public service providers**

On November 13, 2009, the Commission organized a discussion on the proposed fee for the use of public railway infrastructure for the year 2010.

### **Consumer complaints about railway transport services**

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

In 2009, the Commission received one complaint about public services provided in the rail transport sector. The complaint was received electronically and was reviewed according to the procedure specified by law. A thorough answer was provided on the issues mentioned in the complaint.

In addition, supervising the operations of railway service providers, the Commission analysed complaints received by railway companies and prepared a report thereon. This report deals with issues like keeping to schedules in rail transport and provision of information to users. The information of the report will be taken into account when the Commission supervises the compliance with licence terms of the railway companies.

## **Regulations in Municipal Sectors**

From November 1, 2009, the Commission took over the regulatory functions in municipally regulated sectors in the whole territory of Latvia. Until then – since the beginning of 2008, the Commission regulated provision of public utilities in the municipal sectors of the administrative territory of Riga city.

### **Heat supply sector (without additional generation of electricity)**

In accordance with amendments to the law „On Regulators of Public Utilities”, on November 1, 2009, the operation of municipal regulators was ceased, and all regulatory functions of heat energy supply service in Latvia are provided by the Public Utilities Commission. After taking over the functions of municipal regulators, the Commission supervises more than 180 companies that operate in the sector of heat energy supply.

The Commission has established a separate Heat Energy Division which deals with licensing, tariff reviews and applications of individuals and business entities.

### **Licensing of public service providers**

In the reporting year, four companies were licensed in the heat supply sector, and four licenses were issued: two for heat energy generation and two for heat energy trade.

### **Regulation of tariffs**

In the reporting period, tariffs were set in accordance with the Cabinet of Ministers regulations „Public service tariff calculation methodology in municipally regulated sectors”.

In 2009, the Commission approved heat tariffs of stock company Rīgas siltums and LLC Vidzemes enerģija. In accordance with the table of approved tariffs, if the natural gas end-tariff applied by stock company Latvijas Gāze is reduced, the heat energy tariff is also reduced.

## **Water supply sector**

From November 1, 2009, the Commission took over the regulatory functions in regulated sectors throughout Latvia, including the water supply sector. 170 companies provide regulated services in the water supply sector.

### **Licensing of public service providers**

In 2009, the Commission received one application for the reception of a licence, amendment of licence conditions or cancellation of a licence.

### **Supervision of public service providers**

In 2009, the Commission inspected one company in the water supply sector and found that public service provision was done in accordance with requirements of the licence and normative acts. Since November 1, 2009, the Commission supervises 170 companies providing regulated services in the water supply sector.

### **Evaluation of water supply tariff proposals**

The Commission did not evaluate or set tariffs in the water supply sector in 2009.

### **Consideration of user complaints about water supply services**

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

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

In 2009, the Commission received four complaints about quality of water management services. Complaints were reviewed according to the procedure specified by law, thorough answers were provided on the issues mentioned in the complaints.



## **Waste management sector**

In accordance with paragraph 9 of Transitional provisions of the law “On Regulators of Public Utilities”, only setting of tariffs in the transitional period concerns regulation in the waste management sector. Complete regulation - issuing licences and setting tariffs – is done only in the household waste disposal sector.

By November 1, 2009, the Commission took over regulatory functions in municipally regulated sectors, including household waste management. 68 companies provide services of household waste management in Latvia. Services of household waste disposal are provided by 26 companies.

### **Licensing of public service providers**

In 2009, the Commission received one application for the reception of a licence, amendment of licence conditions or cancellation of a licence.

### **Supervision of public service providers and consideration of complaints**

Since taking over regulatory functions in municipally regulated sectors on November 1, 2009, the Commission supervises 94 household waste management companies.

In 2009, the Commission received no complaints about the quality of services of household waste management.

### **Evaluation of waste management tariff proposals**

The Commission did not evaluate or set tariffs of waste management services in 2009.

## **Public Communications**

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

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

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

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

## FINANCING AND SPENDING

The Commission does its work under the auspices of an Economics Ministry programme called “Ensuring honest competition and protecting the domestic market and consumer rights”. In accordance with the law “On State Budget for 2009”, the Commission’s budget is a line item in the budget of the Ministry of Economics.

The Commission’s operations are financed from fees for public services regulation. The fees are paid by all regulated companies. From November 1, 2009, the Commission took over regulatory functions from municipal regulators or municipal councils. On July 1, 2009, the Commission took over the functions of the State Construction Inspection regarding the control of maintenance of energy supply facilities and supervision of compliance with safety and maintenance requirements of hydro-technical facilities of hydropower stations.

In the reporting year, the state fee in the state regulated sectors was 0.17% of the net turnover of the public service provided by the company in 2008; the fee was 0.35% in the municipally regulated sectors.

Planned expenditures in 2009 were 2,921,815 LVL, which was 133,185 LVL less than in 2008. Actual spending amounted to 1,895,427 LVL, which was 625,055 LVL less than in 2008. Actual spending constituted 64.9% of planned spending.

Paragraph 9 of the December 28, 2004 Cabinet of Ministers regulations No.1068 “Regulations on the rate of the state fee for public service regulation and its payment procedure” states that if the paid state fee exceeds the required expenditures for providing operations of the regulator in the respective year, then in the next year for public service provider the state fee for the overpaid sum is reduced proportionally to the amount of the state fee paid by each public service provider.

The surplus of resources not used by the Commission was 703,696 LVL on December 31, 2008. In accordance with Cabinet of Ministers regulations, the Commission had to reduce the payment of the fourth quarter fee in the amount of the above mentioned sum in 2009. Paragraph 13 of the December 29, 2008 Cabinet of Ministers order No.882 “On measures to provide for fiscal discipline and monitoring” specifies that the surplus of

other own income at the end of the year must be transferred to a separate account of deposited resources. After the Commission's request to return the surplus of financial resources to fulfil Paragraph 9 of the Cabinet of Ministers "Regulations on the rate of the state fee for public service regulation and its payment procedure", the Ministry of Finance returned only 361,882 LVL to the Commission's account, therefore the overpaid state fees were returned to public service providers in the amount of 361,882 LVL.

The financial report was prepared in accordance with Cabinet of Ministers October 20, 2009 Regulations No.1193 "Regulations on the procedure for preparing annual reports", Cabinet of Ministers November 17, 2009 instruction No.17, "Procedure for preparation of budget report, cash flow report and report on financial results by budgetary institutions", and Ministry of Economics January 14, 2010 procedure No.1-8-13 "Procedure for preparing the consolidated annual report of the Ministry of Economics".

The annual report 2009 was submitted to the Ministry of Economics for inclusion in its consolidated annual report. On February 26, 2010, the report was audited without objections by LLC Revīzija un vadības konsultācijas, licence No.79 of sworn auditor's commercial entity.

The Commission concluded 45 economic co-operation agreements in 2009, including three price surveys and 20 procurement procedures.

No.	Finances	2008 (actual numbers, LVL)*	2009 (LVL)	
			defined by law	actual numbers*
1.	Total revenues, including	3 032 594	2 559 933	3 006 540
	<i>fee based services, other income</i>	3 032 594	2 559 933	3 006 540
2.	Total spending	2 520 482	2 921 815	1 895 427
2.1.	Administrative costs (total)	2 474 109	2 809 588	1 846 992
	<i>international cooperation</i>	18 759	25 108	25 108
	<i>other administrative costs</i>	2 455 350	2 784 480	1 821 884
2.2.	Capital investments	46 373	112 227	48 435

\* in accordance with cash flow principle

## Independent auditor's report



Revīzija un vadības konsultācijas SIA

### Neatkarīgu revidentu ziņojums


#### Latvijas Republikas Saeimai

Mēs esam veikuši Sabiedrisko pakalpojumu regulēšanas komisijas 2009. gada finanšu pārskata, uz kuru pamatojoties ir sagatavots saīsinātais Sabiedrisko pakalpojumu regulēšanas komisijas 2009. gada finanšu pārskats, revīziju saskaņā ar Latvijā atzītajiem starptautiskajiem revīzijas standartiem. Mūsu 2010. gada 26. februāra revidentu ziņojumā mēs sniedzām atzinumu bez iebildēm par Sabiedrisko pakalpojumu regulēšanas komisijas 2009. gada finanšu pārskatu, uz kuru pamatojoties ir sagatavots saīsinātais Sabiedrisko pakalpojumu regulēšanas komisijas 2009. gada finanšu pārskats.

Mūsaprāt, iepriekš minētais saīsinātais finanšu pārskats visos būtiskos aspektos atbilst Sabiedrisko pakalpojumu regulēšanas komisijas 2009. gada finanšu pārskatam, uz kuru pamatojoties ir sagatavots saīsinātais finanšu pārskats.

Lai gūtu pilnīgāku priekšstatu par Sabiedrisko pakalpojumu regulēšanas komisijas finansiālo stāvokli 2009. gada 31. decembrī, tās 2009. gada darbības rezultātiem un mūsu veiktās revīzijas darba apjomu, iepriekš minētais saīsinātais finanšu pārskats būtu jāvērtē kopā ar Sabiedrisko pakalpojumu regulēšanas komisijas 2009. gada finanšu pārskatu, uz kuru pamatojoties ir sagatavots šis saīsinātais finanšu pārskats, un attiecīgo mūsu revidentu ziņojumu.

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

  
Zigrīda Šneidere  
Atbildīgā zvērinātā revidente  
Sertifikāta Nr. 110  
Valdes locekle

Rīgā, 2010. gada 26. februārī

## THE COMMISSION'S OPERATIONAL VISION FOR 2010

### Priorities in the energy sector

The Commission's priorities in the energy sector in 2010:

- licensing and supervision of public service providers in the electricity supply sector, assessment of tariff proposals, setting of tariffs;
- assessment of costs which constitute electricity transmission and distribution service tariffs;
- analysis of trends of changes in electricity wholesale prices.

### Priorities in the electronic communications and postal sectors

The Commission's priorities in the electronic communications and postal sectors in 2010:

- supervision of obligation fulfilment for electronic communications companies with significant market power;
- preparation for the beginning of the 3rd round of market analysis;
- evaluation of costs of services provided by electronic communications companies, end-tariff regulation and gradual reduction of call termination tariffs in 2010-2012;
- implementation and monitoring of EC regulations on regulation of international roaming which provides for special tariff ceilings for international roaming, SMS and data transmission tariffs, and protection of service providers from large unscheduled bills;
- amendments to normative acts due to changes in legal regulation of the European electronic communications sector at the end of 2009;
- implementation of a measure for protecting consumer rights – drafting regulations about a warning signal when making calls to other electronic communications networks;
- monitoring of compliance of the universal service with specific requirements in the electronic communications and postal sectors;
- organising the annual meeting of electronic communications and postal regulators of the Baltic States.

## **Priorities in the rail transport sector**

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

- defining a fee for the use of the public railway infrastructure for year 2011;
- amending the Methodology for determining the fee for the use of the public railway infrastructure;
- participation in the working group of the Ministry of Transport which drafts amendments to Railway Law;
- supervision of companies in accordance with requirements specified in licences and normative acts;
- participation in the railway working group of the European Conference of Ministers of Transport and other international forums.

## **Priorities in the sectors of municipal services**

The Commission's priorities in the sectors of municipal services in 2010:

- licensing and supervision of public service providers in the heat supply sector, assessment of heat power tariff proposals, determining heat power tariffs;
- drafting Methodology for calculating tariffs of heat energy and water management services;
- licensing of public service providers in sectors of water management and household waste management, consideration of tariff proposals and setting of tariffs;
- supervision of companies in accordance with licence provisions and requirements of legal acts.

## APPENDIX

### Decisions and Documents

#### External normative acts issued by the Commission

- Regulations on information to be included in the standard plan and its publishing (Commission's decision No.11 on January 21, 2009);
- Amendments to Methodology for calculating tariffs of heat power generated in CHP plant and tariffs of electricity generated in CHP plant with capacity above 4 MW (Commission's decision No.28 on February 4, 2009);
- Amendments to Methodology for calculating tariffs of heat power generated in CHP plant and tariffs of electricity generated in CHP plant with capacity above 4 MW (Commission's decision No.53 on March 18, 2009);
- System connection regulations for participants of the electricity system (Commission's decision No.74 on April 1, 2009);
- Amendments to Regulations on the information to be submitted to the Public Utilities Commission (Commission's decision No.165 on May 20, 2009);
- Amendments to Regulations on the provision of number portability service (Commission's decision No.179 on June 3, 2009);
- Amendments to Methodology for calculating the tariffs of electronic communications services (Commission's decision No.188 on June 17, 2009);
- Regulations on radio frequency spectrum usage rights (Commission's decision No.192 on July 1, 2009);
- Regulations on the register of universal postal service (Commission's decision No.1/3 on September 17, 2009);
- Methodology for calculating the universal postal service tariffs (Commission's decision No.1/4 on September 17, 2009);
- Methodology for calculating mandatory purchase components (Commission's decision No.1/2 on August 19, 2009);
- Regulations on registration of a postal company (Commission's decision No.1/7 on November 25, 2009);
- Regulations on violations of general authorisation regulations in the postal sector (Commission's decision No.1/9 on December 7, 2009);



- Regulations for a general authorisation in the postal sector (Commission's decision No.1/10 on December 7, 2009);
- Regulations on the quality requirements for electronic communications services and the procedure for submission of quality reports (Commission's decision No.1/11 on December 7, 2009);
- Methodology for measuring the quality of electronic communications services (Commission's decision No.1/12);
- Methodology for calculating electricity distribution system service tariffs (Commission's decision No.1/6 on November 25, 2009);
- Regulations on the information to be submitted to the Public Utilities Commission (Commission's decision No.1/5 on November 11, 2009).

#### **Cabinet of Ministers or Saeima normative acts drafted by the Commission**

- Amendments to Energy Law (draft law and annotation submitted to the Ministry of Economics by the Commission's letter No.1-2.21/2816 on August 13, 2009);
- Cabinet of Ministers draft Regulations on types of regulated public utilities (submitted to the Ministry of Economics by the Commission's letter No.1-2.23/2335 on July 9, 2009);
- Cabinet of Ministers draft Regulations on the rate of the state fee for public service regulation and its payment procedure (submitted to the Ministry of Economics by the Commission's letter No.1-2.23/2335 on July 9, 2009);
- Amendments to Latvia Administrative Violations Code (draft law and annotation submitted to the Ministry of Economics by the Commission's letter No.1-2.22/4085 on October 30, 2009 and letter No.1-2.22/4315 on November 19, 2009).

### **Internal normative acts issued by the Commission**

- Amendments to procedure for work remuneration (Commission's decision No.15 of January 21, 2009);
- Amendments to procedure for work remuneration (Commission's protocol No.23, 7.p of June 19, 2009);
- Procedure for keeping register of legal files (Commission's procedure No. 2.06/1 of January 27, 2009);
- Procedure of providing circulation of information by a representative delegated by the Public Utilities Commission about issues of international organisations (Commission's procedure No. 2.06/2 of February 2, 2009);
- Statute of the Advisory Council of the Public Utilities Commission (Commission's statute No. 2.06/3 of February 2, 2009);
- Procedure for assessment of a tariff proposal (Commission's procedure No. 2.06/4 of April 1, 2009);
- Procedure for supervising companies in regulated sectors (Commission's procedure No. 2.06/5 of April 9, 2009);
- Accounting organisation procedure (Commission's procedure No. 2.06/6 of May 22, 2009);
- Statute of Energy Department (Commission's statute No. 2.06/7 of June 19, 2009);
- Procedure of document management (Commission's procedure No. 2.06/8 of August 20, 2009);
- Structure of the Public Utilities Commission (Commission's procedure No. 2.06/9 of September 28, 2009);
- Procedure for work remuneration of employees of the Executive Institution of the Public Utilities Commission (Commission's procedure No. 2.06/10 of September 28, 2009);
- Statute of Municipal Advisory Council (Commission's statute No. 2.06/11 of October 28, 2009);
- Structure of the Public Utilities Commission (Commission's statute No. 2.06/12 of October 28, 2009);

- Statute of competition for applicants to positions of executive director, department director, division director (Commission's statute No. 2.06/13 of November 11, 2009);
- Statute of Vidzeme Regional Division (Commission's statute No. 2.06/14 of November 11, 2009);
- Statute of Latgale Regional Division (Commission's statute No. 2.06/15 of November 11, 2009);
- Statute of Kurzeme Regional Division (Commission's statute No. 2.06/16 of November 11, 2009);
- Statute of External Relations Division (Commission's statute No. 2.06/17 of November 11, 2009);
- Statute of Energy Department (Commission's statute No. 2.06/18 of November 11, 2009);
- Statute of Municipal Service and Railway Transport Department (Commission's statute No. 2.06/19 of November 11, 2009);
- Statute of Administrative Department (Commission's statute No. 2.06/20 of November 11, 2009);
- Statute of Economic Analysis Department (Commission's statute No. 2.06/21 of November 11, 2009);
- Statute of Electronic Communications and Post Department (Commission's statute No. 2.06/22 of November 11, 2009);
- Statute of Legal Department (Commission's statute No. 2.06/23 of November 11, 2009);
- Amendments to Accounting organisation procedure approved by the Commission's procedure No. 2.06/6 of May 22, 2009 (Commission's procedure No. 2.06/24 of November 26, 2009).