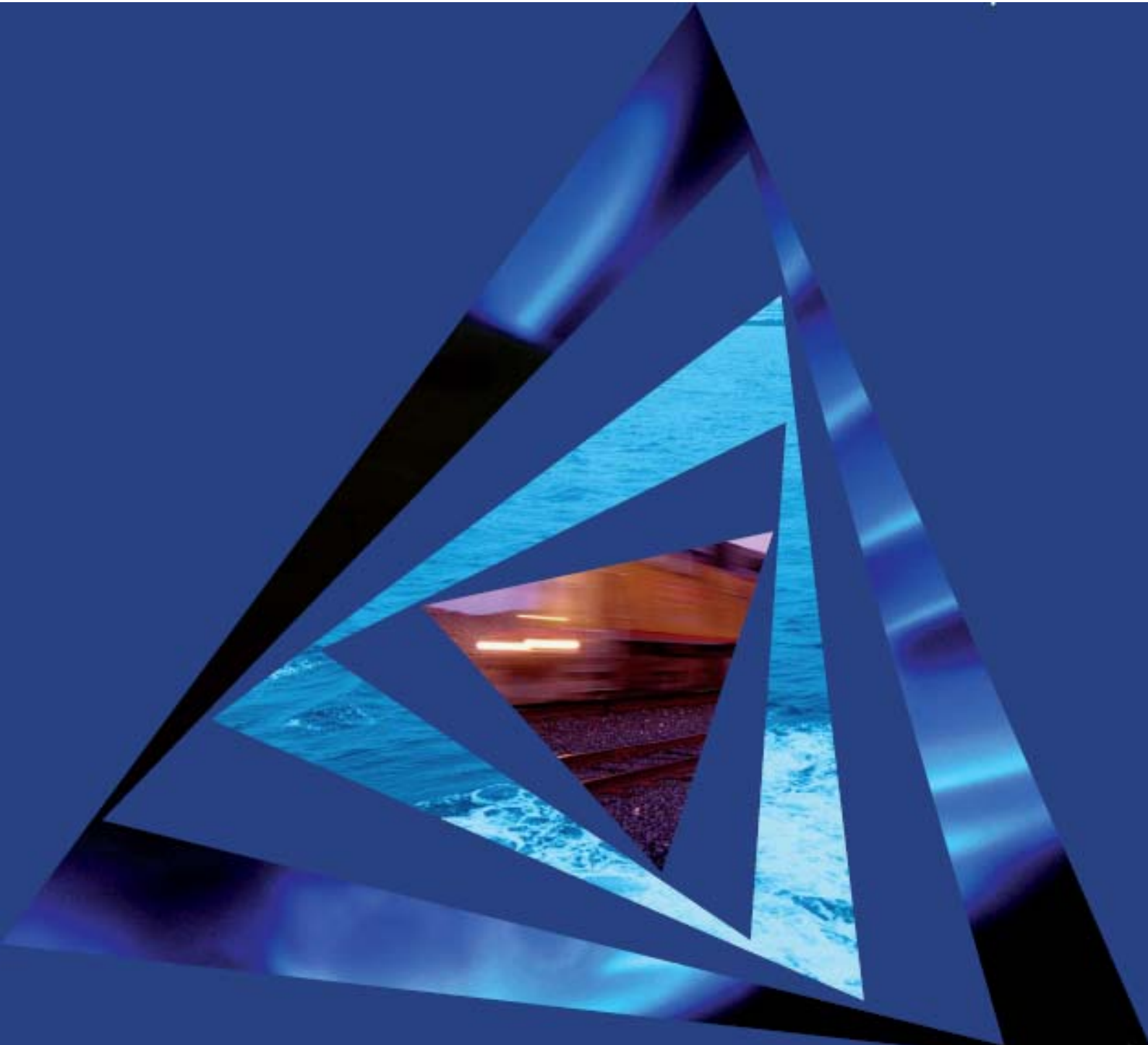


# **ANNUAL REPORT 2010**



**LATVIA PUBLIC UTILITIES COMMISSION**

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## INTRODUCTION

Dear reader!

This report provides an insight into the public utilities regulation and regulated sectors in 2010, as well as outlines future trends. One of the trends is the rise of energy prices globally. Higher oil prices in global commodity markets resulted in higher gas and district heating tariffs in the second half of 2010, and this trend continues in 2011. The Regulator's task is to make sure that changes in costs which are included in tariffs are substantiated and whether all calculations conform to regulated companies' concluded agreements and operating conditions.



During the reporting year, the Regulator's experts spent a lot of time and effort to evaluate the operation of electricity distribution networks. After a delay of several years, the fixed assets of electricity networks were revaluated; thus, adequate amortisation deductions will be provided for network maintenance. At the end of the reporting year, some users experienced interruptions of electricity distribution services because of insufficient resources for proper maintenance of electricity networks. The Regulator will closely monitor companies to reduce such risks in the future.

In the energy sector, further opening of the markets to competition continued. In 2010, preparation for the implementation of the European energy directives or the so called „third package” continued in Latvia, and the Regulator actively participated in this work. In 2010, the switching of suppliers was more active in the electricity market as customers had more understanding of the process. Also, electricity markets were opened up to competition in Lithuania and Estonia. Hopefully, the competition will reduce energy prices or at least slow their growth in the near future.

In the market with more advanced competition – electronic communications – the Regulator paid special attention to other issues: quality of services and provision of objective, non-discriminatory contracts for customers. The Regulator continued developing its technical capabilities for testing the quality of electronic communications services, and service providers know the regulator as a strict supervisor of service quality. The winners are customers who, using the control system provided by the Regulator, may verify the quality of the received Internet services and request an adequate price from a service provider. The quality of services of voice telephony and television

transmission may also be tested by the Regulator's experts. Market competition combined with the Regulator's supervision of service quality helps customers to objectively choose the most suitable service provider.

Further implementation of market principles was the reason for changes in legal norms and new division of functions in the sector of railway service regulation. Amendments to the law adopted in 2010 specify that hereafter the fee for the use of the public railway infrastructure will be calculated by an independent company. The Regulator will continue setting the fee calculation methodology and will review disputes in connection with fee setting. The Regulator's responsibilities for supervision of the quality of passenger carriage by railway have also been enhanced.

In the reporting year, modernisation of water supply and sewage systems continued actively in many regions of Latvia, financed by the EU funding. Modernisation projects significantly improve the quality of drinking water, extend the availability of service, as well as provide for adequate water treatment in accordance with legal requirements. However, a tariff increase usually accompanies these advantages. The Regulator carefully evaluates calculations and documents submitted by the regulated companies so that only justified costs are included in tariffs; however the justified costs are objectively higher for services of better quality.

Taking into account the trend of increasing water tariffs and the complicated situation with payments for energy services, the Regulator is working on the introduction of a universal service encompassing all regulated sectors. We hope to achieve real progress for this project in 2011 and expect active cooperation from other institutions and service providers to solve problems with service delivery to economically vulnerable customers.

Valdis Lokenbahs,  
Chair  
Latvia Public Utilities Commission

## REGULATION IN LATVIA

### The Regulatory System

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

The Public Utilities Commission (hereinafter – the Commission) is a multi-sector regulator performing regulatory functions in energy, electronic communications, post, railway transport, water management and municipal waste management sectors. The Commission's task is to ensure that all users may receive continuous and safe services at economically reasonable prices, and companies providing public services are profitable.

The reporting year was the first full year when a unified regulator regulated public services nationally and regulatory functions were performed by a single institution – the Public Utilities Commission.

The reform of the public utilities regulatory system was carried out in 2009, and since November 2009 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 ensured.

Previously, a two-tier regulatory system existed in Latvia. Public services in state regulated sectors were regulated by the Commission and public services in municipally regulated sectors were regulated by municipal public utilities regulators. In accordance with June 11, 2009 amendments to the law „On Regulators of Public Utilities” the Commission took over the regulatory functions from municipal regulators or municipal councils in the heating supply, municipal waste management and water management sectors by November 1, 2009. The Commission took over regulatory functions from 16 municipal regulators, commencing the regulation of additional 445 companies which provide public services in heating supply, municipal waste management and water management sectors. The Commission regulated a total of 949 companies at the end of the reporting year.

The regulated sectors are specified by the law „On Regulators of Public Utilities” and they are:

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

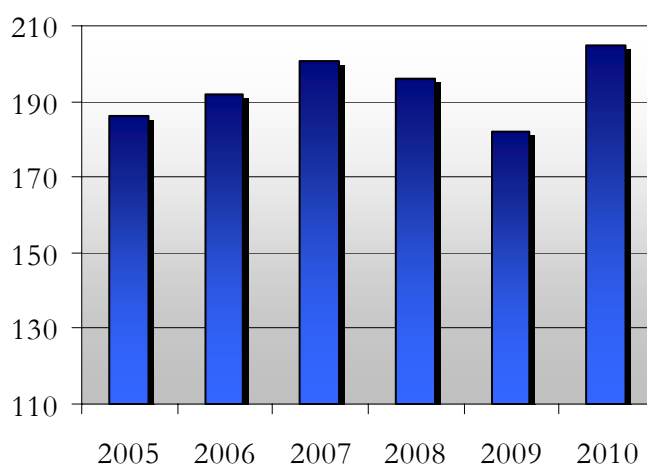
The functions of the Public Utilities Commission include regulating the relevant sectors and companies therein, defining methodologies for calculating tariffs, approving tariffs, issuing licenses, registering authorisations, promoting competition in the regulated sectors, offering out-of-court settlement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

The Commission is an institution independent in making its own decisions, overseen by the Minister of Economics of the Republic of Latvia. The Commission’s Board members are appointed by the Saeima, the Commission’s decisions may be declared illegal and cancelled only by court. The Commission’s operations are financed by a state fee on public service regulation which is calculated from turnover of regulated services and is paid by all regulated companies.

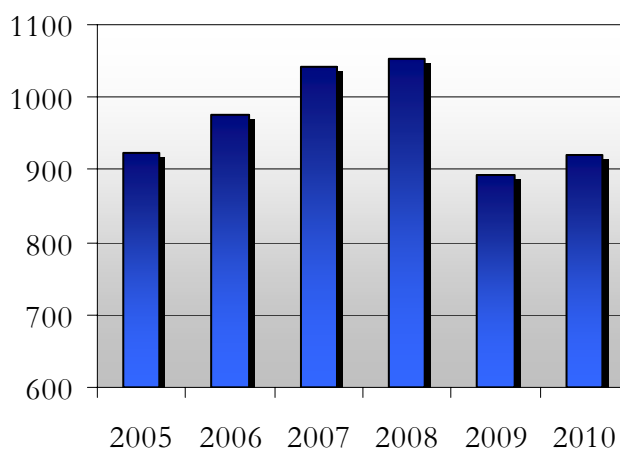
The work of the Commission is based on the law “On Regulators of Public Utilities”, as well as on the laws and other normative acts, which regulate each of the regulated sectors.

## 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 2010, these sectors represented 16.6% of the total value added (12.5% for transport and communications, 4.1% for electricity, gas and water supply). The transport and communications sector grew by 3.0% in 2010 over 2009, while the electricity, gas and water supply sector increased by 12.7%. The overall GDP of Latvia decreased by 0.3% in 2010.



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 2010. The average net monthly wage in the transport and storage sector was 353 LVL, the average salary in the electricity and gas supply sector was 455 LVL, and the average salary in water supply, wastewater, waste management and sanitation sector was 320 LVL, while the average in the entire economy was 316 LVL. Compared to 2009, the national average net monthly salary has decreased by 7.6%, the salary in the electricity and gas supply sector increased by 1.6%, while in the transport and storage sector the salary decreased by 4.1%. The average salary decreased by 4.8% in water supply, wastewater, waste management and sanitation sector.

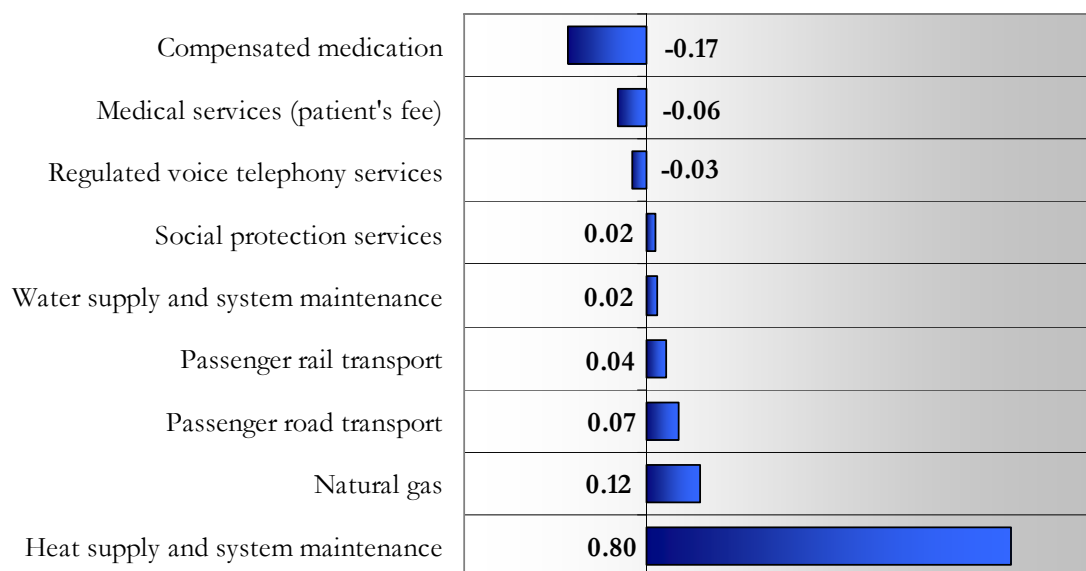
## The Effect of Regulated Prices on Inflation

According to the data provided by the Central Statistical Bureau, in 2010, 15.29% of all goods and services listed in the Consumer Price Index were services with administratively regulated prices. Administratively regulated prices consist of prices for public services regulated at the state level, municipally supervised public services, and some normatively regulated services. Regulation of municipal waste management services was within the competence of the Commission until November 18, 2010 when the new Waste Management Law came into force (since November 18, 2010 the Commission performs regulatory functions only regarding disposal of waste in landfill sites or waste dumps), therefore for the purposes of this report waste management was part of the state regulated prices until the end of 2010.

Public services	Share in expenditures of residents	Price increase (2010 XII vs. 2009 XII)	Inflation component (percentage points)
1) public services supervised at the state level (electricity, natural gas, fixed line telephone services, postal services, railway services, water supply, sewage, waste collection, district heating)	10.6%	9.0%	0.96
2) public services supervised at the municipal level (passenger road transport)	1.7%	4.3%	0.07
3) normatively regulated public services (apartment rent in municipal buildings, car parking, patient's fee, compensated medication, passport issuance, notary services, kindergartens, social protection services, maintenance costs of personal transport, home delivery of pensions)	3.1%	-6.5%	-0.20
Administratively supervised and regulated prices, total	15.29%	5.4%	0.83
Consumer Price Index (inflation), total	100%	2.5%	2.5

In 2010 (compared to the previous year) consumer prices increased by 2.5%, while administratively regulated prices grew 5.4%. Administratively regulated prices made up 0.83 percentage points or 33% of the total inflation. Prices of services supervised at the state and municipal level went up, while prices of normatively regulated public services decreased by 6.5%, compared to December 2009.

Among the services regulated by the Commission, inflation in 2010 was mostly affected by a rise in the tariffs of heat supply and natural gas, increasing inflation by 0.80 and 0.12 percentage points accordingly. Reduction of prices of regulated voice telephony services lowered the inflation by 0.03 percentage points. The aggregate direct influence of services regulated by the Commission on the Consumer Price Index was its increase by 0.96 percentage points.

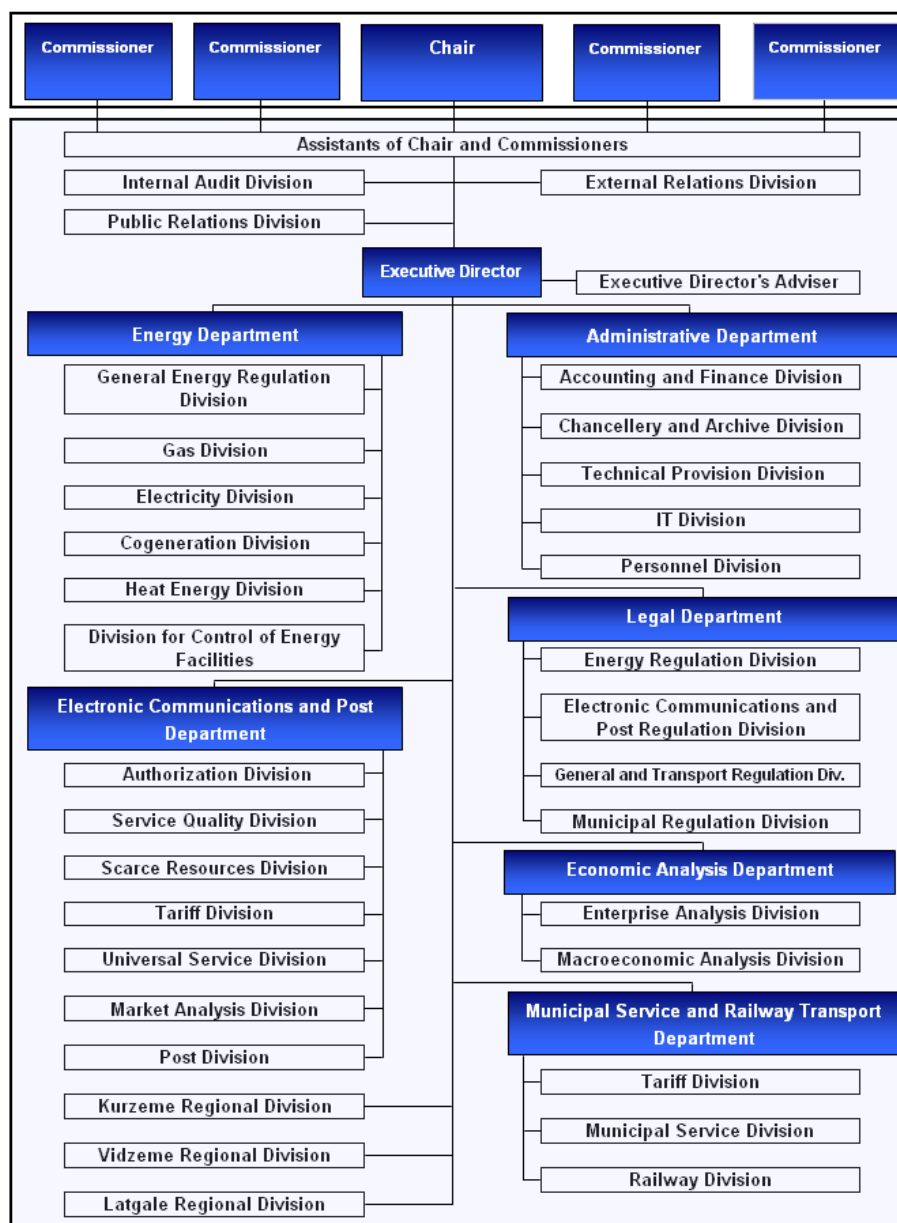


The effect of some administratively regulated prices on inflation (percentage points)

## THE COMMISSION'S OPERATIONS IN 2010

### Structure and Employees

At the end of the reporting period, the Commission had 108 employees, including three Board members. Of the employees, 91 have a higher education, six have a doctorate, 54 hold a master's degree, and two have a master's degree and two bachelor's degrees. One employee has two bachelor's degrees. Three 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. Three employees of the Commission have a secondary or special secondary education. 97% of the Commission's employees have a graduate or a post-graduate degree.



Structure of the Public Utilities Commission

## Major Commission's Decisions

The Commission's Board met 47 times between January 1 and December 31, 2010. The Board members have approved 560 decisions, issued 118 licenses to public service providers in energy, water management and municipal waste management sectors, amended 59 licenses, cancelled 14 licenses, issued eight general authorisations in the postal sector and registered 49 electronic communications companies. Certificates on the safety of hydraulic structures were reissued to five managers of hydraulic structures of hydroelectric power plants and one new certificate was issued.

The Commission actively participated in drafting several laws in 2010:

- Amendments to the law On Regulators of Public Utilities;
- Amendments to Electronic Communications Law;
- Amendments to Energy Law;
- Public Transport Services Law;
- Waste Management Law;
- Official Publications Law;
- Renewable Energy Law;
- Amendments to Latvian Administrative Violations Code.
- Amendments to Railway Law;
- Amendments to Civil Process Law;
- Amendments to Administrative Process Law.

The Commission organised three auctions for rights of use of radio frequency spectrum in 2010. The Commission granted to the winner the rights of use of one 14 MHz radio channel of 3600 MHz - 3700 MHz / 3700 MHz - 3800 MHz bands of radio frequency spectrum and rights of use of 914 MHz – 915 MHz / 959 MHz – 960 MHz bands of radio frequency spectrum. The 2010 auction on rights of use of two radio channels of 450.0 MHz - 457.5 MHz / 460.0 MHz – 467.5 MHz bands of radio frequency spectrum continues in 2011.

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

- Regulations on rights of use of numbering;
- Regulations on rights of use of radio frequency spectrum;

- Regulations on the information required for market analysis and its submittal procedure;
- Regulations on violations of general authorisation regulations in the electronic communications sector;
- Regulations on connection of a private electronic communications network to the public electronic communications network;
- Amendments to Regulations on rights of use of numbering;
- Amendments to Regulations on rights of use of radio frequency spectrum;
- Amendments to Regulations on information to be submitted to the Public Utilities Commission.

In the postal sector, the Commission drafted and approved:

- Regulations on discounts for postal tariffs;
- Methodology for calculation and setting of the net costs for fulfilment of obligations of the universal postal service.

In the energy sector, the Commission drafted and approved:

- Grid code;
- Amendments to Methodology for calculation of mandatory procurement components;
- Methodology for calculation of cogeneration tariffs;
- Methodology for calculation of tariffs for heat energy supply services.

The Commission also approved several CHP and district heating tariffs.

In the water management sector, the Commission approved the Methodology for calculation of tariffs for water management services and approved several tariffs for water management services.

In the railway transport sector, the Commission amended the Methodology for calculation of the fee for the use of public railway infrastructure. The Commission also set the infrastructure fee for the use of public railway infrastructure in 2011.

## Litigation and Out-of-court Settlements

In 2010, three previous litigation processes continued in the electronic communications sector. Of these, the most significant one is the litigation process about the cancellation of the Commission's December 17, 2008 decision No.469 "On LLC Lattelecom's one time fee for porting a number of an end-user". Two litigation processes about administrative fines levied by the Commission were dismissed in 2010, leaving in force the Commission's decisions. In 2010, the Commission was involved in one litigation process about cancellation of the Commission's January 27, 2010 decision No.33 "On dispute settlement between LLC Latvijas Mobilais telefons and LLC Tele2".

In the energy sector, seven litigation processes were completed in 2010, 11 new processes were started while eight others are still pending. Four litigation processes were completed at the beginning of 2011 because the plaintiffs withdrew their complaints. The most important of the ongoing litigation processes concerns the Commission's obligation to define an average tariff for the sale of electricity for a specific time period in the past.

One litigation process was started in the water management sector in 2010, and it will continue in 2011.

One function of the Commission is to pursue out-of-court settlements of disputes in cases involving public service providers and users. In 2010, the Commission took a final decision on one dispute of this kind in the electronic communications sector. In the energy sector, the Commission reviewed five disputes and took decisions on their settlement. Two disputes were settled in the water management sector.

In connection with takeover of regulatory functions from municipal regulators, the Commission has been involved in six processes of litigation about decisions of municipal regulators in the water management sector and six processes in the energy sector (district heating) in 2010. In 2011, four litigation processes will continue in the water management sector and one in the energy sector (district heating) about decisions taken by municipal regulators. The Commission, exercising the authority specified in the Latvian Administrative Violations Code, has also reviewed cases of administrative violations. 97 cases of administrative violations were reviewed in the electronic communications sector. The Commission has taken six decisions about suspending the operation of electronic

communications companies for violations of regulations on general authorisations, withdrawing the rights to provide electronic communications services and the electronic communications network. 12 cases of administrative violations were initiated and considered in the postal sector. The authorisations of four companies to provide postal services were cancelled. One case of administrative violation was reviewed in the energy sector.

In the railway transport sector, two cases of litigation continued in 2010. Of these, one case was heard in the court of first instance; the other was reviewed in the court of appeals. These litigation processes will continue in 2011.



## International Cooperation

### The European Union

In 2010, the Commission was involved in the activities of other regulators and the European Commission (EC) which mainly resulted from legal acts that were recently adopted or are being prepared in energy, electronic communications, postal and railway sectors. These sectors had similar goals regarding the consolidation of internal markets, unbundling of operators, the quality of services, ensuring network access, and implementation of the previous directives.

In 2010, the Commission along with other European Union (EU) regulators continued preparations for implementation of legal acts adopted in 2009 in energy and electronic communications sectors. These legal acts also establish independent energy and electronic communications regulatory institutions at the EU level – the Agency for the Cooperation of Energy Regulators (ACER) and the Body of European Regulators for Electronic Communications (BEREC). The Boards of these institutions are represented by the EU regulators. The directives on liberalisation of electricity and gas markets (the so called 3<sup>rd</sup> energy package) specify that regulators will have to certify transmission system operators, monitor ten-year development plans of transmission system operators, oversee energy retail and wholesale markets, including power exchanges, participate in the drafting of the European grid code and solving of cross-border issues.

In the electronic communications sector, the regulators must perform market analysis, supervise the quality of networks and services, provide opinion at the BEREC level on such issues as market definition, identification of cross-border markets, and fair use of numbering resources including cross-border services to ensure consistent application of the EU legal regulations in all member countries. The Commission participated in the discussion of these and other issues and preparation of working documents as a member of the Independent Regulators Group (IRG), BEREC, the Council of European Energy Regulators (CEER/ERGEG) and ACER. The independent regulators must start performing these new and enhanced functions from 2011.

In the second half of 2010, the European Commission came up with several new proposals which were discussed by the regulators.

In the energy sector, these are the European infrastructure priorities for 2020 and beyond (the so called Infrastructure package) which include network security, financing, modernisation (smart grids), interconnection plans including the Baltic region, the European CO<sub>2</sub> transportation structure, as well as a proposal for a regulation on integrity and transparency of energy markets which for the first time provides for unified supervision of energy markets by regulators of energy and financial markets.

In the railway sector, the EC directive proposed the creation of a Single European Railway Area. The Commission continued work in the European Commission's working groups on general and passenger carriage issues, including regulatory models for further opening of the rail passenger market in connection with the new directive.

In the postal sector, in August 2010, the European Commission established the European Regulators Group for Postal Services which from 2011 will act as the official EC advisor for such issues as implementation of better regulation principles, supervision of customer services, and development of an open postal market. In 2010, the Commission continued work towards the goals put forward in the 3rd Postal Directive for liberalisation of the postal market by 2013.

### Regional cooperation

Regional cooperation focused on topical issues of the regulated sectors. The annual meeting of the Baltic electronic communications and postal regulators, organised by the Commission in 2010, focused on the experience of multi-sector regulation, results of implementation of recommendations for the Roaming Directive and mobile termination rates, next generation networks, analysed the situation in postal markets, impact of market liberalisation on the postal sector and costs of the universal service, models of compensation in this sector. In 2010, two discussion fora of the participants of the Baltic regional electricity market took place which analysed the results of operation of the first electricity exchanges in the Baltic countries, congestion management on the Latvian-Estonian border, the Baltic electricity market interconnection plan (BEMIP), drafted a document on requirements for transparency in the electricity market. The operators of the Baltic States worked alongside regulators in preparatory working groups of the forum (Congestion management, Transparency and information exchange, BEMIP and Market

supervision). As a coordinator of the Baltic regional cooperation, the Commission informed ERGEG about the results of the forums and expressed opinion on the future model for regional cooperation of electricity markets.

The Commission also participated in the European Commission's work meetings assessing projects in the Baltic region – the approved EU priorities (BEMIP): the Baltic-Swedish, Estonian-Finnish and Polish-Lithuanian interconnections plans, the model of the Baltic electricity market, and the promotion of the regional cooperation among the Baltic States in solving the issues of safety of natural gas supply.

The Commission also continued work in the Energy Regulators Regional Association's (ERRA) Tariff and Licensing Committees, and Legal Regulation Working Group, participating in the drafting of relevant documents.

#### Bilateral cooperation

In the electronic communications sector, following the initiative of the Ukraine's National Commission for Communications Regulation, a memorandum of bilateral cooperation was signed. In 2010, a number of consultations took place within the framework of the memorandum about specific sectoral issues with emphasis on the Commission's experience in the implementation of the EU normative acts.

#### Exchange of experience

The Commission's representatives participated in more than 20 different fora on topical electronic communications and postal issues, development of the Baltic regional electricity market, safety of gas supplies, the model for the provision of the universal service, and Latvia's experience in regulating multi-sector public services. The Commission repeatedly welcomed representatives of the EU Eastern Partnership and other countries within the framework of the EU projects on regulation of the energy sector, as well as shared its experience in the seminars of the EC's TAIEX and the International Telecommunication Union with the Ukrainian, Kosovo, and Croatian regulators in such matters as the secondary legislation in the electronic communications sector, numbering issues for the emergency service 112, and implementation of regulation for the next generation access (NGA) networks. After taking over the

functions of the municipal regulators, the Commission got acquainted with regulation of heat supply and water management sectors in Lithuania.

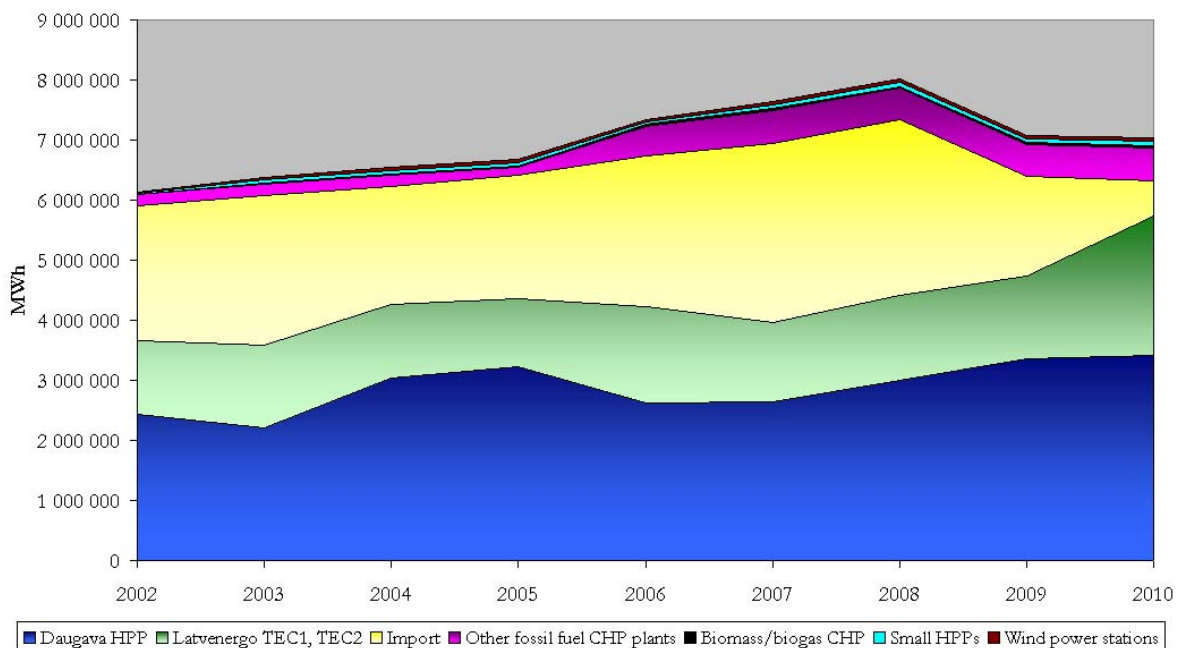
#### Activities in 2011

In 2011, the main priorities of the Commission's international cooperation will concern the EU legal acts to be implemented in 2011 which specify new obligations for regulatory functions on the state level and also for cross-border issues in the Body of European Regulators of Electronic Communications (BEREC) and the EU Agency for the Cooperation of Energy Regulators (ACER) which will also take over the coordination of development of the regional energy markets. Active participation in the European Regulators Group for Post (ERGP), supervision of rail passenger markets and other issues will also be on the Commission's agenda.

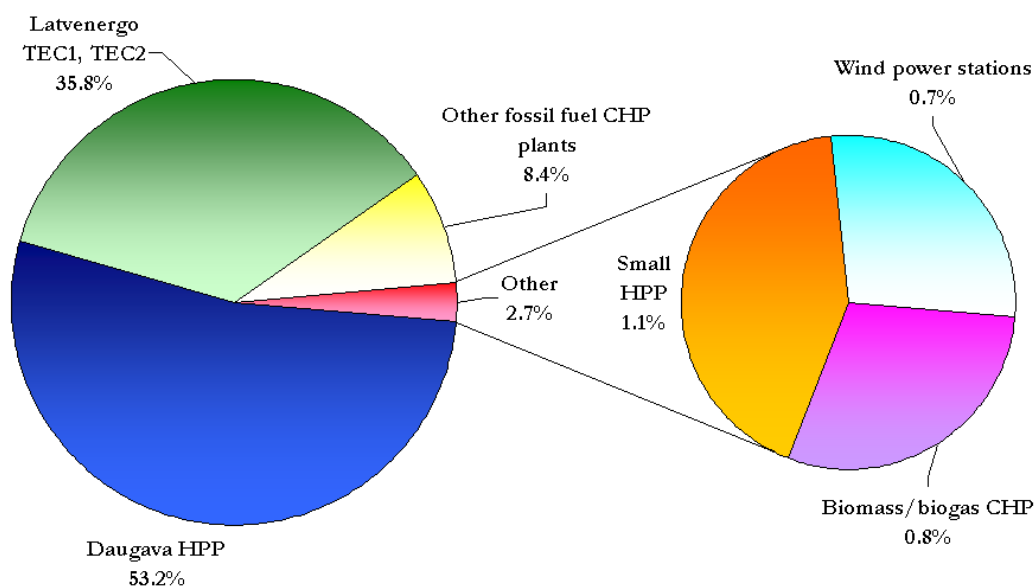
## Regulation in the Energy Sector

The areas in which the Commission regulates energy supply tariffs are the supply of electricity, the supply of natural gas, the distribution of liquefied gas and the 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. The stock company Augstsprieguma tīkls (the daughter company of Latvenergo) transmits electricity along 330 kV and 110 kV transmission lines. The stock company Sadales tīkls distributes electricity along medium voltage (6-20 kV) and low voltage networks. There are also 140 small hydroelectric power plants that generate electricity. They have a total capacity of 25 megawatts (MW). Latvia has 30 wind power stations with a total capacity of 31 MW, and 52 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 2002-2010



The structure of electricity generation in 2010

In 2010, 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.

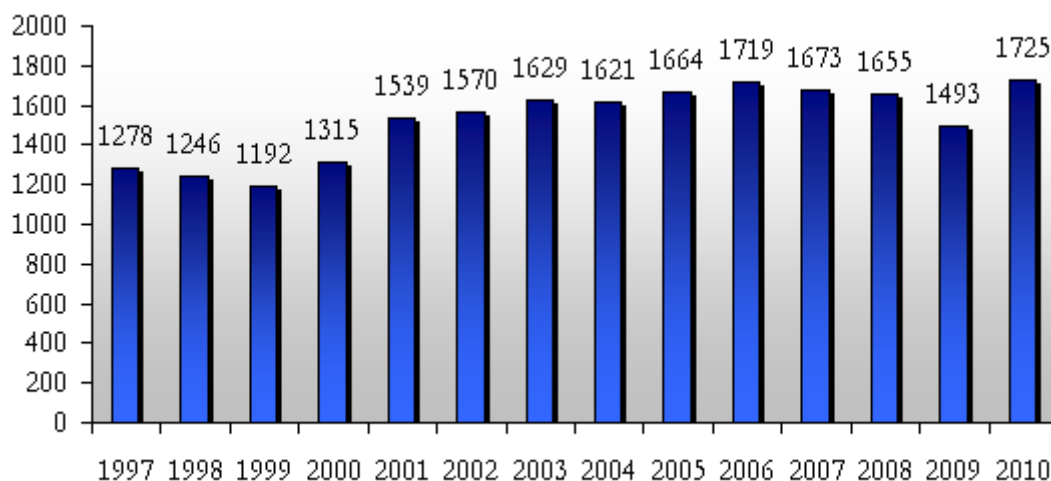
Since July 1, 2007, all electricity consumers, including households, may choose alternative electricity suppliers.

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 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 43% 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.

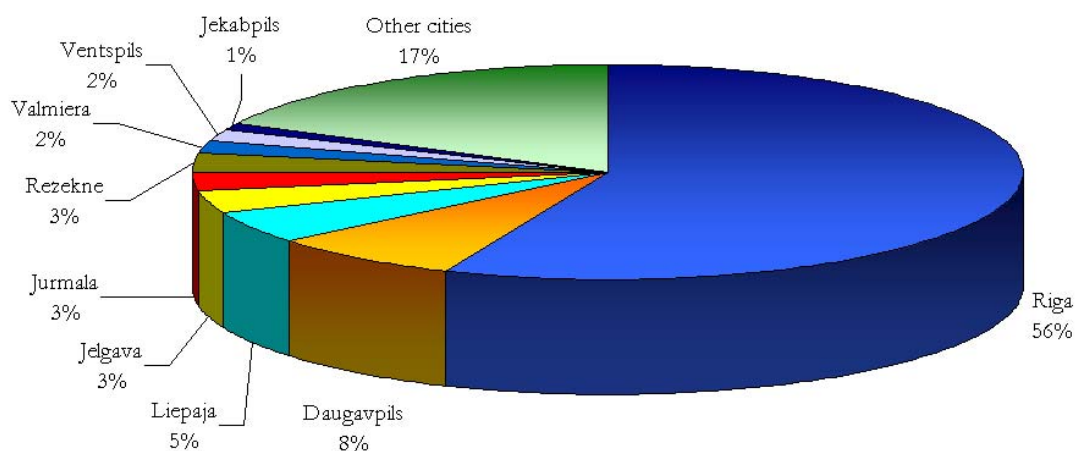


Natural gas consumption in Latvia, million m<sup>3</sup>

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 increased by 15% in 2010 as compared to 2009 and was 1.725 billion m<sup>3</sup>. Of this amount, 59% was used to produce heat and electricity, 18.9% was used to supply industrial users, 12% to supply businesses and communal companies, 8.7% to supply residential users, and 1.4% to supply agricultural companies.

In December, 2010, 156 companies using various types of fuel for generation of heat energy were regulated in the heat supply sector. The largest producers of heat energy, e.g. Latvenergo, Rīgas siltums, Daugavpils siltumtīkli, Liepājas enerģija and Fortum Jelgava mainly use natural gas for generation of heat energy. Smaller companies also use woodchips and other wood fuel.



Distribution of heat energy produced in Latvian cities in 2010

### 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:

- 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, if 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;
- generation of heat energy in facilities with installed heat capacity above 1 MW;
- transmission of heat energy through pipes with diameter larger than 200 millimetres;
- distribution of heat energy to any energy user, if the total trade volume exceeds 20,000 MWh annually;
- trade of heat energy to any energy user, if the total trade volume exceeds 20,000 MWh annually.

At the end of the reporting year, the Commission had licensed 155 companies in the electricity supply sector. The Commission issued 167 licenses - 75 for co-generation



plants that generate electricity and heat, 43 for wind power stations, two for solar power plants, 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 32 for the trade of electricity.

In 2010, the Commission issued 51 new licenses of which 12 were issued for electricity trading. 39 licenses were issued for electricity generation, 26 of these are for generation of electricity and heat power in CHP plants, 11 are for electricity generation in wind power stations, and two are for electricity generation in solar power plants.

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

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

In accordance with October 27, 2009 Cabinet of Ministers Regulations No.1227 “Regulations on types of regulated public utilities”, seven licenses were issued in 2010 for the distribution of liquefied petroleum gas from underground and above-ground reservoirs through pipelines to a connection point in a residential building.

At the end of 2009, the Commission took over regulation of 180 companies in the heat energy sector, beforehand regulated by 16 different municipal regulators, therefore acquisition and updating of information about regulated companies took place in 2010. Each company’s conformity to the issued licence and regulatory criteria was evaluated by a common approach.

At the end of the reporting year – in December 2010, 156 companies were regulated in the heat energy supply. 155 licences for heat energy generation, 88 licences for heat energy transmission, 73 licences for heat energy distribution and 69 licences for heat

energy trade have been issued. In 2010, 29 new licences were issued, 10 licences were amended and 9 licences were cancelled.

### Supervision of facilities of energy supply companies

According to the Energy Law and the law “On Safety of Hydraulic Structures of Hydroelectric Power Plants”, the Commission controls the compliance of operation of hydraulic structures of hydroelectric power plants (hereinafter – HPP) with requirements of normative acts.

In the reporting year, facilities of 59 energy supply companies were inspected in order to carry out preventive actions and gather information about the compliance of facility maintenance with requirements of normative acts.

#### Performance indicators

Activities		Energy companies and managers of hydraulic structures of hydroelectric power plants			
		HPPs	Electricity supply	Heat supply	Gas supply
1.	Issued certificates of safety for HPP hydraulic structures	6			
2.	Approved safety programs for HPP hydraulic structures	1			
3.	Number of inspections	18	11	28	2
4.	Violations found	16	7	15	2

To verify the fulfilment of licence conditions, inspections were performed in newly built energy supply facilities which had not yet been put into operation. Companies were ordered to eliminate the technological and organizational shortcomings of the production process which were identified during the inspections before the facilities were put into service.

After assessing the results of surveys of energy companies' facilities, the Commission concluded that companies comply with legislative requirements of the sector. No serious violations were found, and the violations indicated in inspection files were eliminated by the deadline set by the Commission.

The most significant violations found during inspection of facilities of heat supply companies:

- boundary of ownership of heating systems between a heat energy supplier and heat energy users had not been determined;
- commercial meters were not sealed;
- timely verification of commercial meters had not been done;
- several entries of energy efficiency indicators in the registration journal were not made within the required time period.

Violations were eliminated by the deadline set by the Commission.

Evaluating the results obtained from inspection of facilities of heat supply companies, the Commission concluded that companies perform the public service function. Serious violations which could jeopardise the supply of heat to users were not found in the reporting period.

154 hydraulic structures are listed in the register of hydraulic structures of hydroelectric power plants. Of these, 11 do not operate commercially.

18 hydraulic structures were inspected in the reporting period. Five hydraulic structures were inspected because renewed safety certificates had to be issued.

The Commission reviewed safety declarations of five hydraulic structures and safety certificates were repeatedly issued to managers of five hydraulic structures.

The Commission approved the program for safety of HPP hydraulic structures and issued a safety certificate to one new HPP hydraulic structure managed by LLC “VN ūdens dzirnavas” in Strazde municipality, Talsi district.

The safety of HPP hydraulic structures is a complex of measures which includes systematic control and regular evaluation of the condition of hydraulic structures.

The following violations were found during inspections of hydraulic structures:

- wash-outs in the penstock at the concrete foundation of river bed;
- water leaks in turbine feed pipes;
- uncleaned drainage canal;
- no instruction for the personnel of a hydroelectric power plant how to act in case of an HPP accident;
- no entries made in the section “Visual observation of concrete structures and reinforced concrete constructions” of the visual survey journal of a hydroelectric power plant.

The managers of hydraulic structures eliminated the violations by the deadline set by the Commission.

After assessing the results of survey of hydraulic structures of hydroelectric power plants, no violations which could cause accidents of the hydraulic structures were found.

## 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.

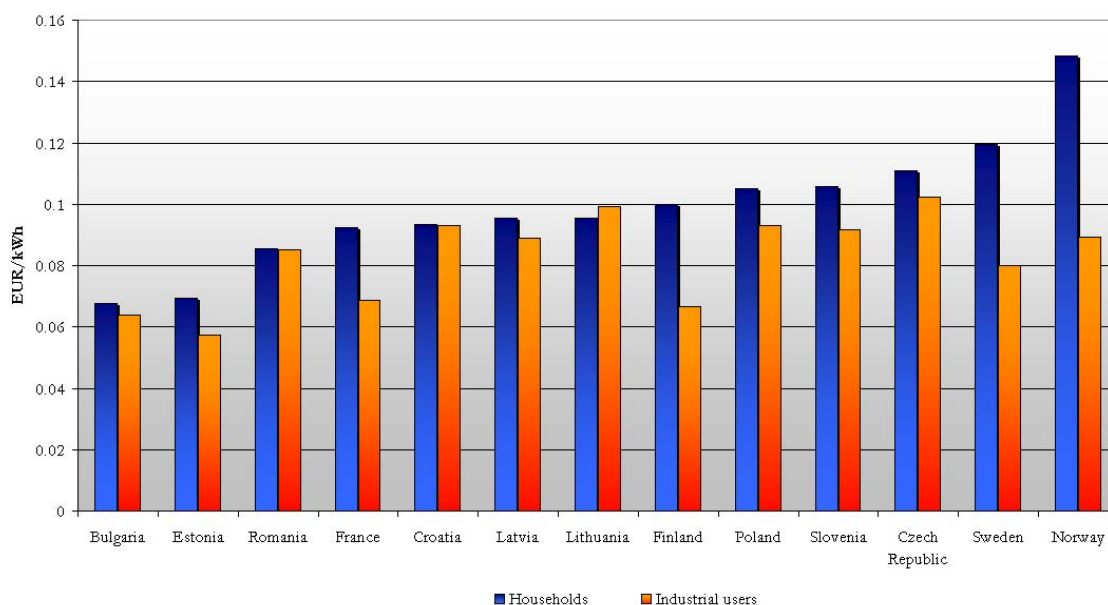
The price of imported electricity is based on agreements between Latvenergo and suppliers of electricity in Russia, Lithuania and Estonia and trade transactions in the Nordic electricity market (*Nord Pool*). The Commission defines the tariff for generating electricity at co-generation stations with 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 2010, the Commission approved tariffs of the stock company Augstsprieguma tīkls for electricity transmission system services.

New electricity and heat energy tariffs were approved for CHP plants of the stock company Latvenergo (TEC-1 and TEC-2) and LLC Windau. The tariff approval for Latvenergo's TEC-1 and TEC-2 plants was related to the application of an excise tax for

natural gas used as fuel for production of heat energy from July 1, 2011 (in accordance with the law “On Excise Tax”, from July 1, 2011 an excise tax amounting to 15.60 LVL/thousand n.m<sup>3</sup> is applied to natural gas used for generation of heat energy). Tariffs were approved in a tabular form and are applicable depending on the natural gas trade end-tariff set by the stock company *Latvijas gāze* for a specific month.

In 2010, the Commission rejected the stock company *Sadales tīkls* tariff proposal for electricity distribution system services.



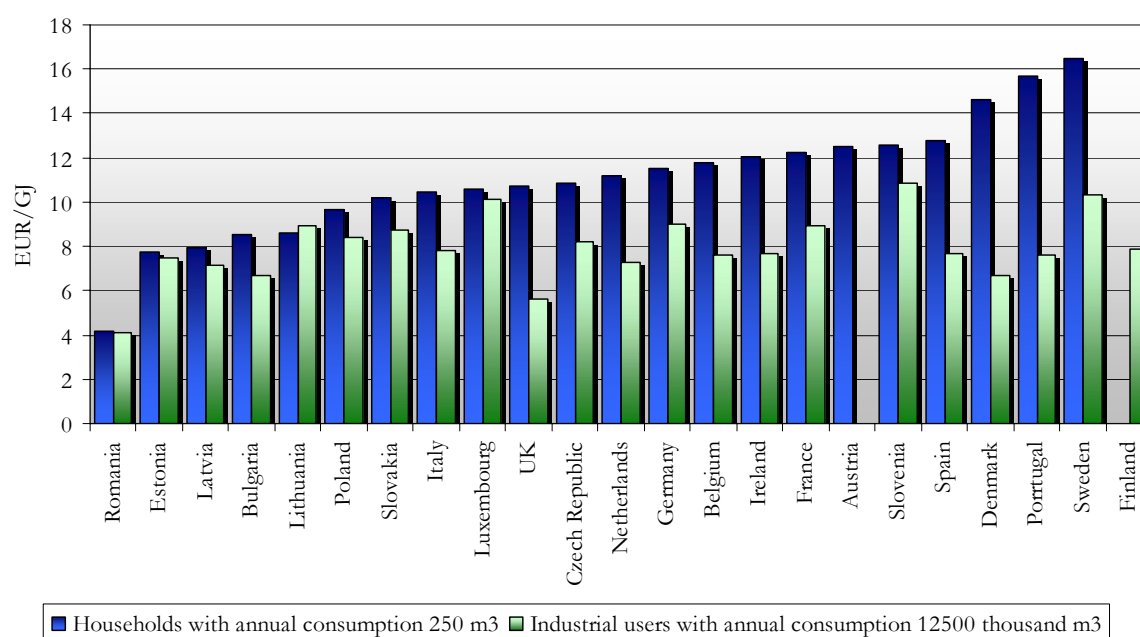
Electricity prices for households with annual consumption of 3500 kWh and industrial users with annual consumption of 2000 MWh in the Eastern Europe and the Nordic countries in 2010

According to the *Eurostat* data for 2010, electricity tariffs in Latvia were about the same level as tariffs in the Eastern EU 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 2010, Latvia had the third lowest natural gas tariffs among all member states of the European Union.



Natural gas prices in the member states of the European Union in 2010 (EUR/Gj)

## Heat energy

In 2010, Methodology for calculation of tariffs for heat energy supply services was approved with the following basic principles:

- Potential investment costs are not included in the tariff, only investments already made are included;
- Investments in the reduction of heat supply costs are stimulated because a company can increase its profits by 50% of the total reduction of costs;

- Optimisation of generation capacities and boosting of operational efficiency of district heating networks are stimulated. A company can include the maximum level of profit in a tariff only if its operation meets certain criteria of efficiency;
- The methodology specifies the maximum permitted profitability of own and borrowed capital.

In 2010, the Commission approved several district heating tariffs:

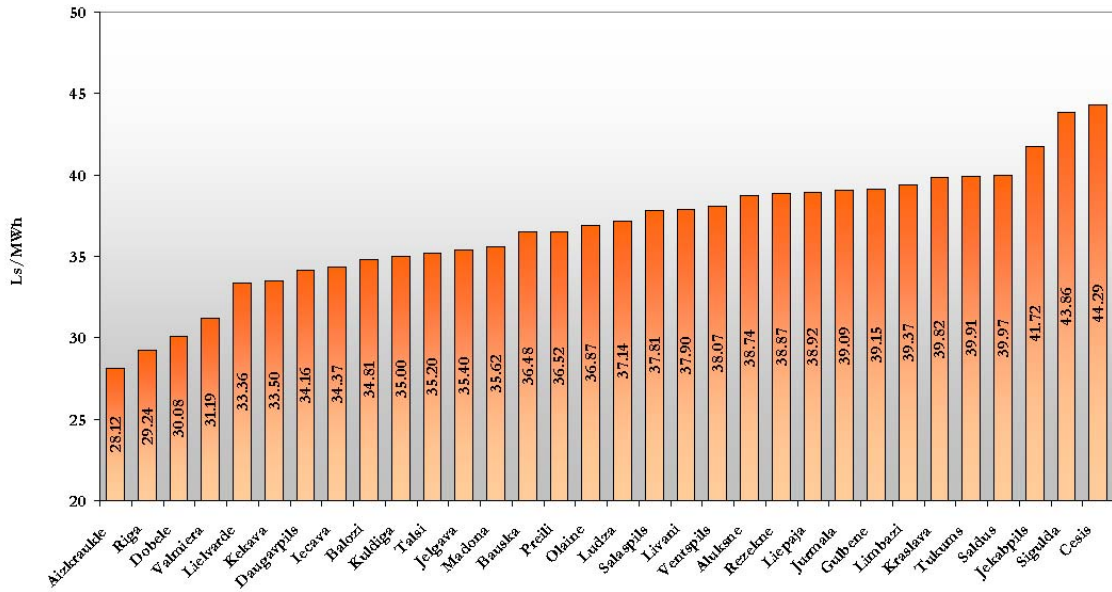
- Stock company “Daugavpils siltumtīkli” district heating tariff – a decrease of 8.0 %;
- LLC “Žīguru namsaimnieks” district heating tariff - a decrease of 24.1 %;
- LLC “Rebes sitēmas” district heating tariff - a decrease of 2.2 %;
- LLC “Brēķu studenti” district heating tariff - a decrease of 2.2 %;
- LLC “8 CBR” (in Smiltene city) district heating tariff - a decrease of 10.9 %.

During the reporting period, three additional tariff proposals (by the stock company "Rēzeknes siltumtīkli", LLC "Green Energy Trio" (Jaunjelgava) and LLC „Viļakas namsaimnieks”) were submitted and considered, but they were recalled during their evaluation.

All companies whose tariffs were reviewed and approved during the reporting period were previously under the supervision of the regional regulators.

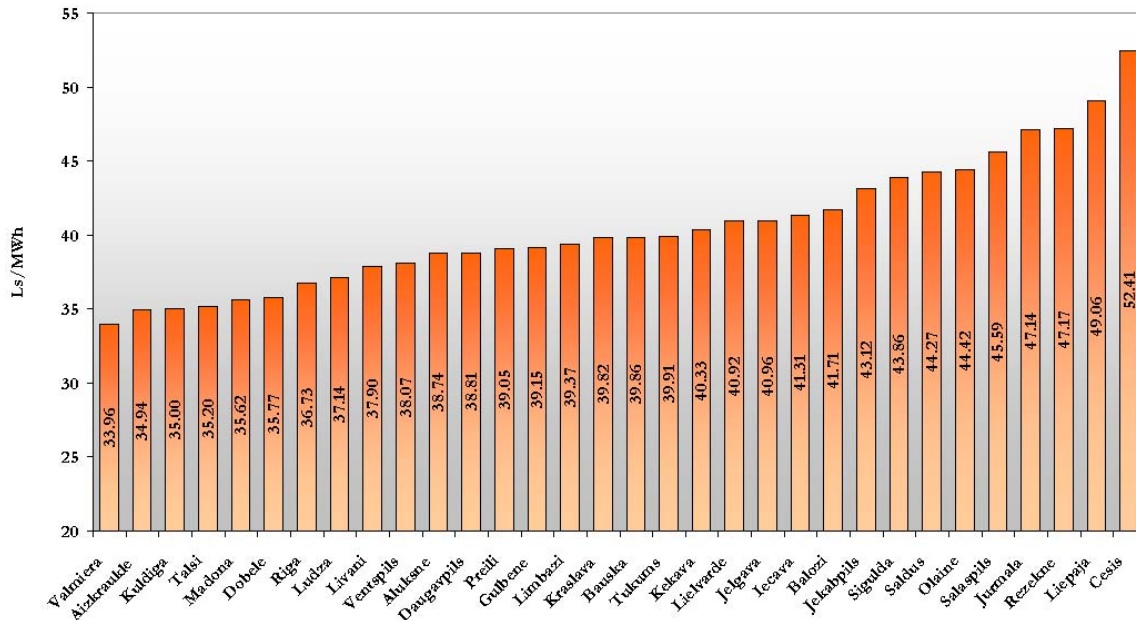
The district heating tariffs in the largest cities are shown in the graph below at the trading price of natural gas – 115 LVL/thousand nm<sup>3</sup> which were approved at the beginning of 2010.





District heating tariffs in Latvian cities in January, February, and March 2010  
(The trading price of natural gas was 115 LVL/thousand nm<sup>3</sup>)

The next graph shows the situation at the end of 2010 when the natural gas trading price was comparatively high – 170 LVL/thousand nm<sup>3</sup>, but the prices of firewood remained at the previous year’s level.



District heating tariffs in Latvian cities in October, November, and December 2010  
(The trading price of natural gas was 170 LVL/thousand nm<sup>3</sup>)

## 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 2010, 116 complaints of public service users were received and reviewed in the energy sector. 44 questions related to public service provision were sent by electronic means. 88% of complaints were received from individuals.

Answers related to electricity supplies mostly had to do with the delivery of electricity (16%), installation of a new connection and the connection fee (19%) and the registration of the amount of electricity used and the resultant bills (40%). In the gas supply sector, most complaints concerned issues of natural gas supply (88%). In the district heating sector, 91% of the received complaints were related to issues on district heating tariffs and payments for provided services.

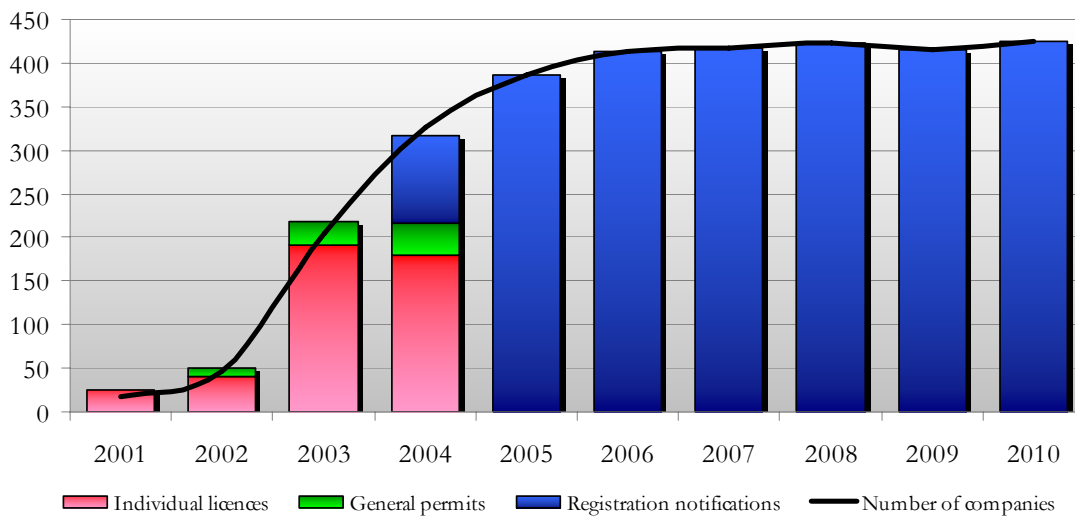
Complaints	Total, including		Electricity		Gas supply		District heating	
	number	%	number	%	number	%	number	%
Justified	9	8	8	14			1	3
Unjustified	64	55	36	63	24	96	4	12
Explanations provided	25	22	6	11			19	56
Unrelated to the Commission's work	18	15	7	12	1	4	10	29
<b>Total</b>	<b>116</b>	100	<b>57</b>	100	<b>25</b>	100	<b>34</b>	100

Complaints received in the energy sector in 2010

## Regulation in the Electronic Communications and Postal Sectors

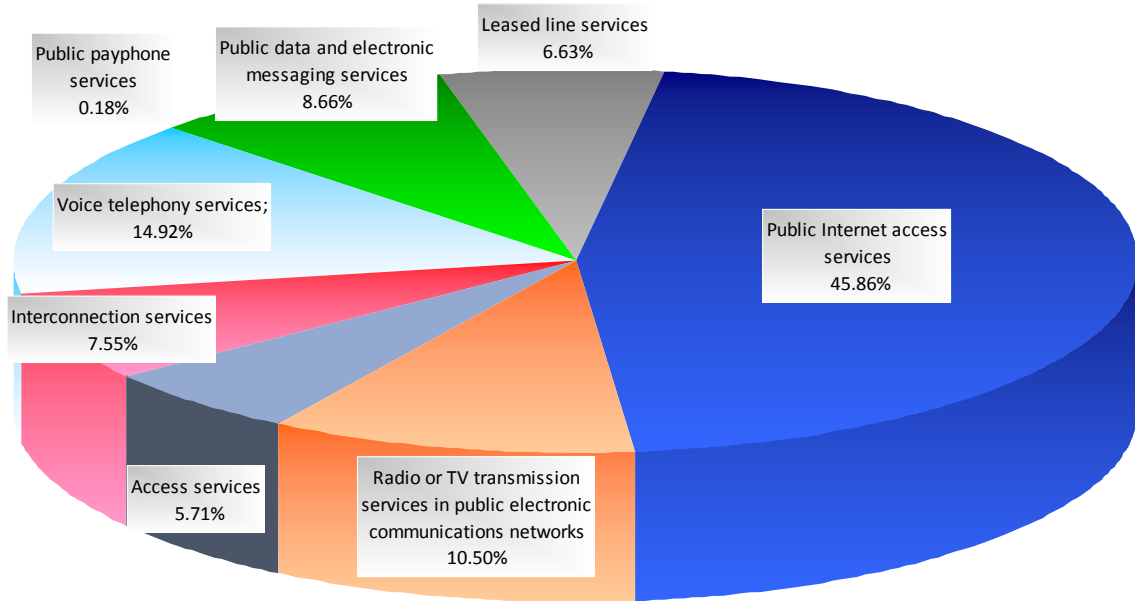
### Registering companies

Looking at the changes in the number of electronic communications companies over a 10 year period (since the establishment of the Commission – from 2001 to 2010) and taking into account changes in the licensing regime in the electronic communications sector, a correlation can clearly be seen between the simplification of procedures for market entry and the growing number of companies.



Changes in the number of electronic communications companies from 2001 to 2010

During this year 50 new electronic communications companies notified about activities in the electronic communications sector, but 22 companies ended their operations in the electronic communications sector.



Distribution of electronic communications companies by service types in 2010

425 electronic communications companies were registered at the end of 2010. Of these, 307 companies were actually operating in the electronic communications sector. Only 51 electronic communications companies have indicated that they operate in the entire 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 a city or district.

### Supervising companies

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

In 2010, 97 violations were identified about non-submittal of information to the Commission by the deadline. The Commission levied an administrative fine on 10 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 2010, the Commission cancelled the rights of six companies

to provide electronic communications services and electronic communications networks for three years – until August 23, 2013.

### **Market analysis to determine significant market power**

In the reporting year, the Commission concluded market analysis in the following electronic communications markets:

- Publicly available local or national telephone services provided at a fixed location for residential customers;
- Publicly available international telephone services provided at a fixed location for residential customers;
- Publicly available local or national telephone services provided at a fixed location for non-residential customers;
- Publicly available international telephone services provided at a fixed location for non-residential customers;
- Call termination at a fixed location.

National consultations on these markets have been finalised, and their notification to the European Commission and other national regulators of the EU member states is planned in the spring 2011.

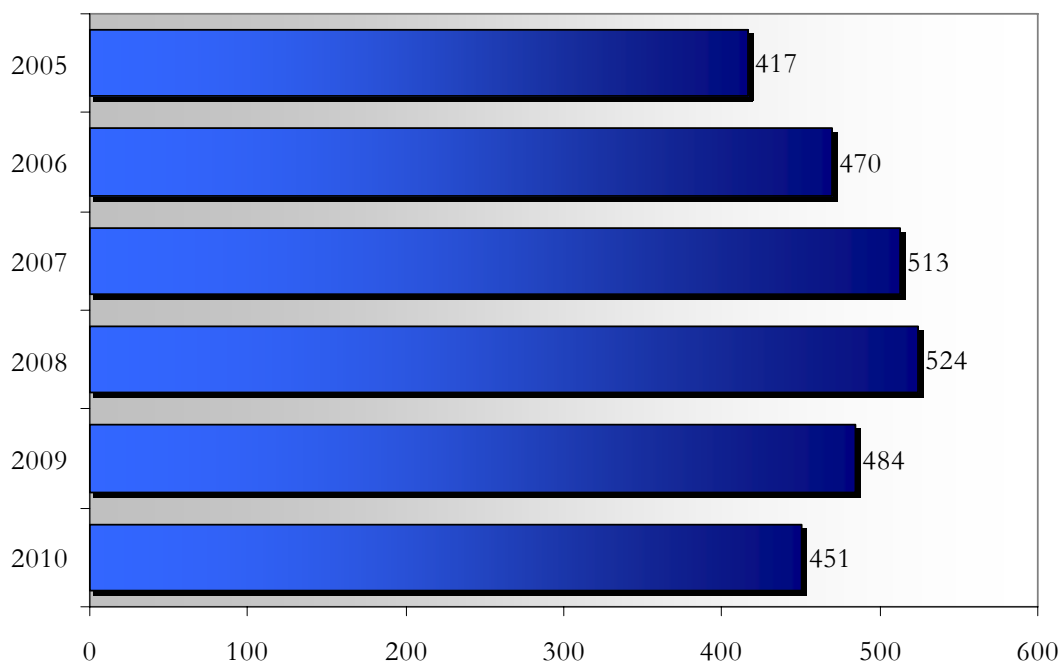
During the analysis of the market for call termination at a fixed location, the Commission decided to significantly change the approach for the market assessment because of the market structure: any company which has concluded at least one interconnection agreement and has received rights of use of geographic numbering is considered a market participant because it can immediately start the provision of call termination services. Considering the principle of proportionality, the Commission plans to apply only the obligation of regulating call termination tariffs, setting these tariffs equivalent to the tariff of the incumbent market operator whose costs and tariffs are regulated by the Commission.

Detailed information about activities in the electronic communications markets has also been summarised in the reporting period and is already being used for the 3<sup>rd</sup> round of

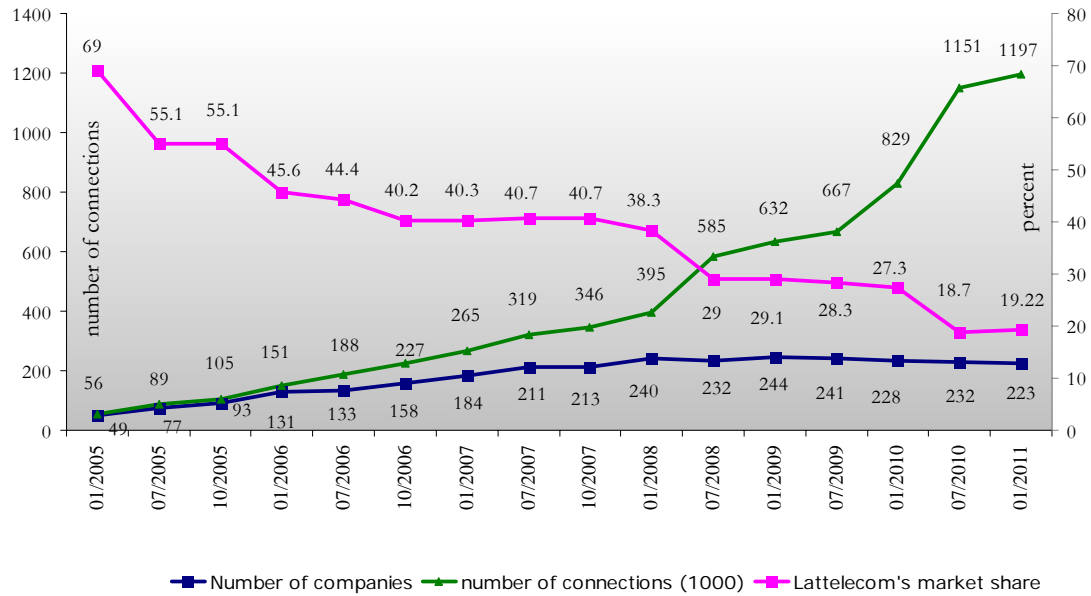
market analysis. The conclusion of the 3<sup>rd</sup> round of market analysis is planned in the 2<sup>nd</sup> quarter of 2012.

### Market situation

In the reporting period, a decrease of turnover in the electronic communications sector was observed. The drop started already in 2009 and symptoms of a probable decline were detected in 2008 when the rate of growth of the sector slowed considerably. The total turnover of the sector is affected substantially by both market competition and the Commission's decisions which directly influence tariffs of voice telephony services and revenues from interconnection services.



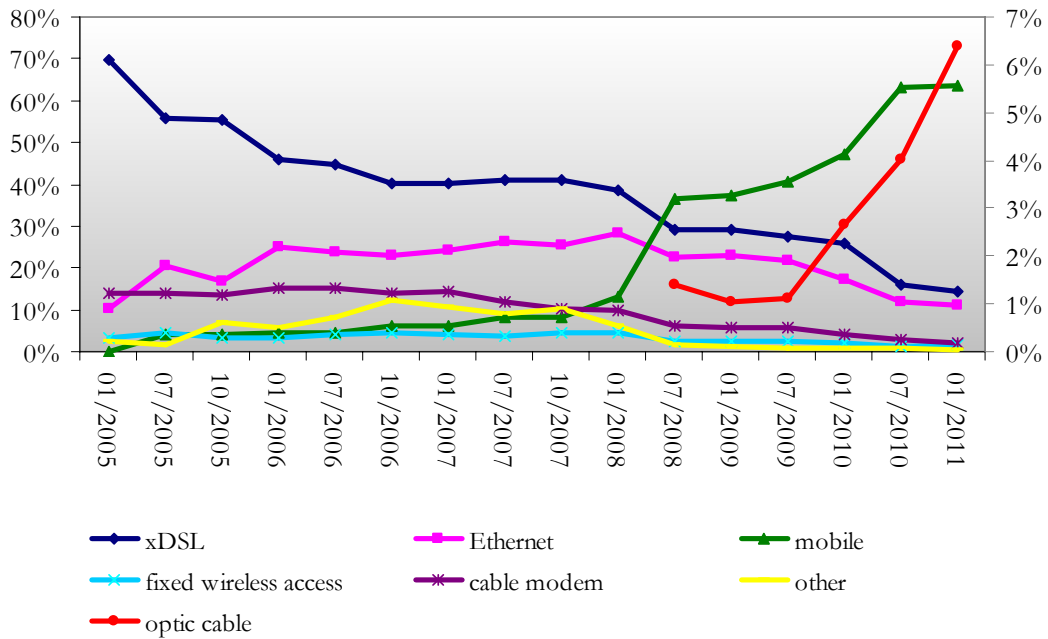
Revenues in the electronic communications sector from electronic communications services provided to users (million LVL)



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

During the reporting year, the number of companies providing the Internet access services continued to decline. The rate of increase in the number of the Internet access lines also slowed down. The market share of the incumbent operator LLC Lattelecom increased due to the development of the optical cable network and bundling of services (offering *triple play* services).

The share of optical cable networks grew significantly in the reporting year. The growth is evident by comparing the number of optical cable connections with all fixed broadband Internet connections – the share of optical cable networks has reached approximately 17% of all fixed access connections.



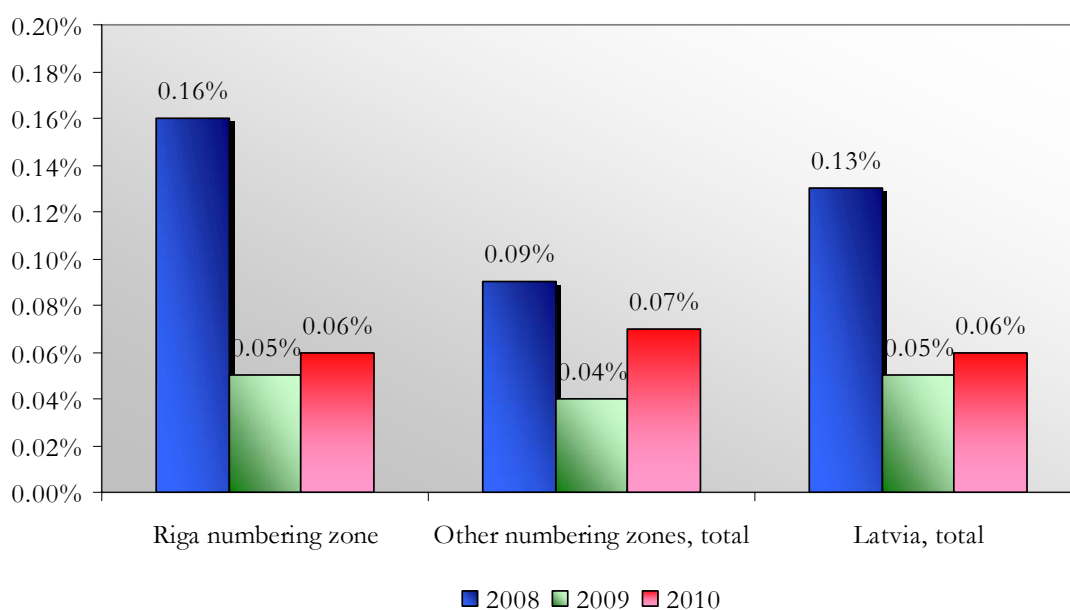
Technologies used for Internet access at the end of 2010

### Quality of electronic communications services and customer 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 the 2010 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 2010, the Commission conducted quality measurements for the following electronic communications services:
  - universal service (national and local voice telephony service in the fixed telephone network, payphone service, operator services (help desks), and comprehensive telephone directory enquiry service);
  - national and local voice telephony service and SMS service in the mobile telephone network;

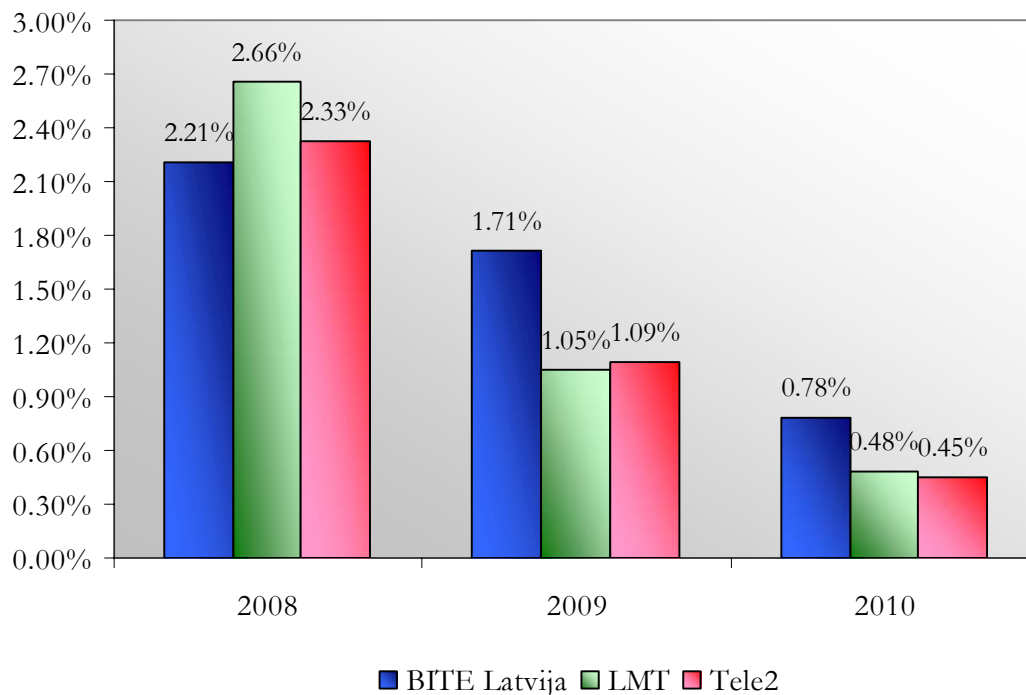


- SMS service using the interconnection of mobile telephone networks;
- voice telephony service using the interconnection of telephone networks (interconnection service).
- To determine the quality of the universal service, 122,970 test calls were made in the fixed telephone network of the universal service provider LLC Lattelecom, 107 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.



Ratio of unsuccessful calls in the fixed telephone network of the universal service provider LLC Lattelecom (%)

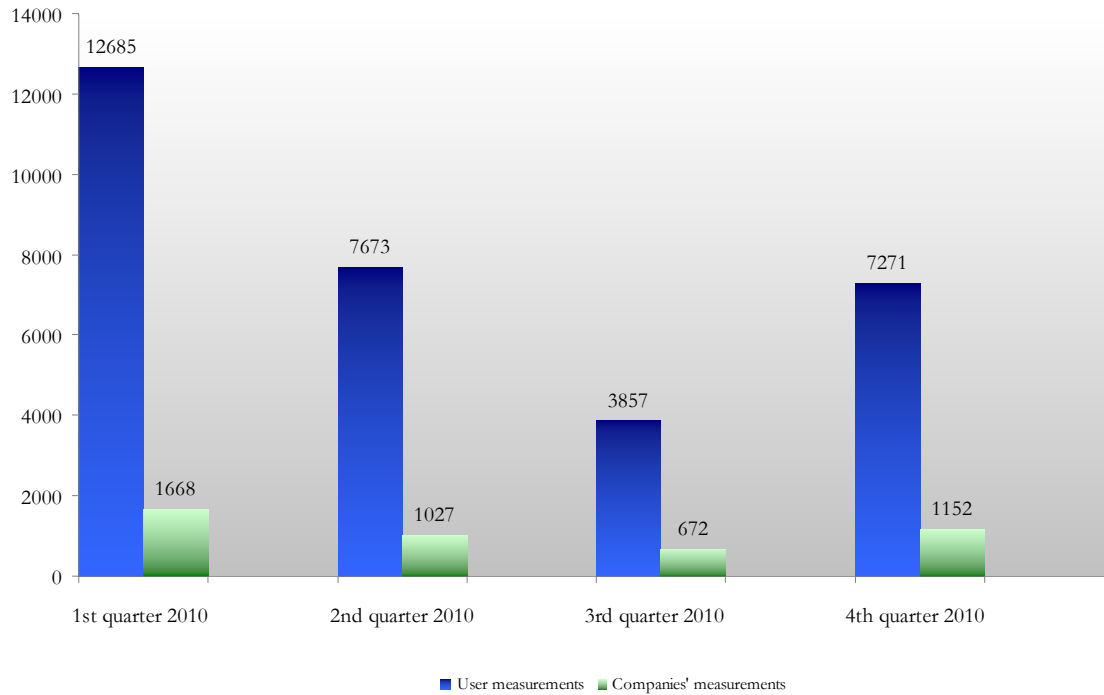
94,611 test calls were made and 3,100 test SMS messages were sent in the mobile telephone networks of Bite Latvija, Tele2 and LMT.



Comparison of unsuccessful call ratio among mobile telephone networks

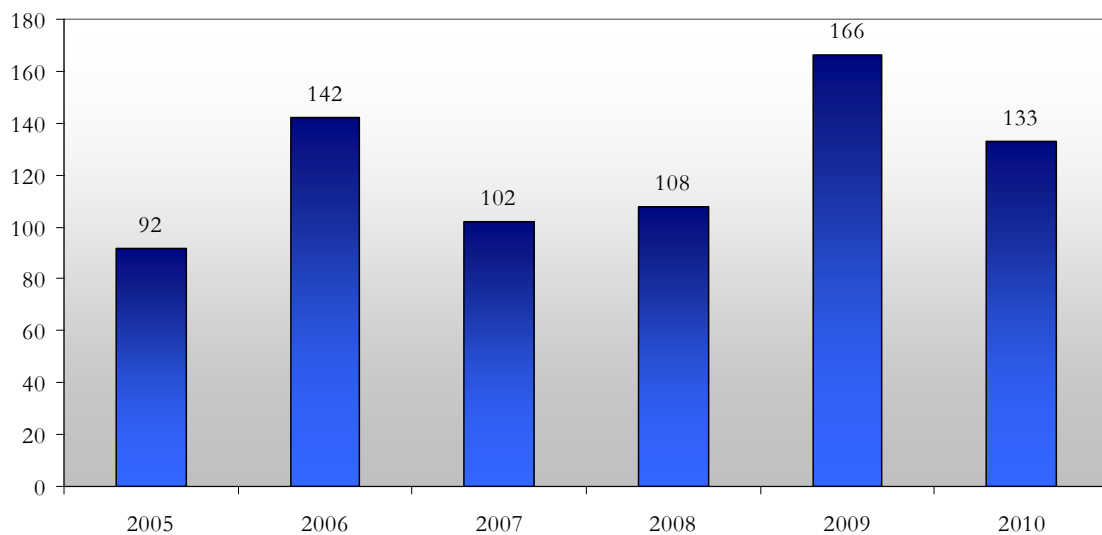
To determine the quality of interconnection service and SMS service using interconnection of mobile phones, 124,555 calls were made in the telephone networks and 6,028 SMS messages were sent in the mobile telephone networks.

From October 29, 2009, the quality control system of the Internet access services is available to every user of the Internet access services at <http://itest.sprk.gov.lv> and provides an opportunity to assess the quality of the received Internet access service.



The number of measurements registered in the PUC's quality control system of the Internet access services

The Commission continued reviewing complaints of users of electronic communications services in 2010. The number of submitted complaints decreased in 2010.



The number of complaints 2005-2010

However, the number of complaints about TV program transmission service grew significantly in 2010, and many complaints about the Internet access service were registered.

### **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.

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 2010:

- 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 regulated basic monthly fee for individual users;
- To provide the following discounts for disabled persons in the first disability group using text phones and disabled persons in the second disability group:
  - 100% for a telephone line's installation fee;
  - 100% for a telephone line's re-registration fee;
- To provide the following discounts for disabled persons in the first disability group who use text telephones as end-user devices at fixed locations of the public telephone network:
  - for access services - 75% for a telephone line's monthly fee;

- for voice telephony services - 20% for local call charges;
- 100% for an installation fee for broadband Internet access services and associated services (bundled electronic communications services) consisting of broadband Internet access service and a telephone line;
- 8,65 LVL/month of the applied monthly fee for broadband Internet access services and associated services (bundled electronic communications services) consisting of broadband Internet access service and a telephone line;
- 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, a payphone card, a credit card or a call card may be used as means of payment:
  - local, national 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”;
  - free of charge call set-up services;
  - services of the unit that accepts damage complaints;
  - comprehensive telephone directory enquiry services;
  - access to a comprehensive subscriber directory.
- To maintain payphones in working order if losses from payphone maintenance do not exceed the payphone’s maintenance costs of the previous year. LLC Lattelecom must coordinate the payphone removal in advance with the relevant council of a city or district. LLC Lattelecom shall inform the Commission half yearly in written form about all cases of moving or removing payphones. LLC Lattelecom shall be obliged not to reduce the existing number of payphones in hospitals, schools, institutions specified in the Law on Social Services and Social Assistance, except if the respective institution does not object to the removal of payphones;
- To ensure the fulfilment of 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 2009, amounting to 93,557 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 rights of use 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.

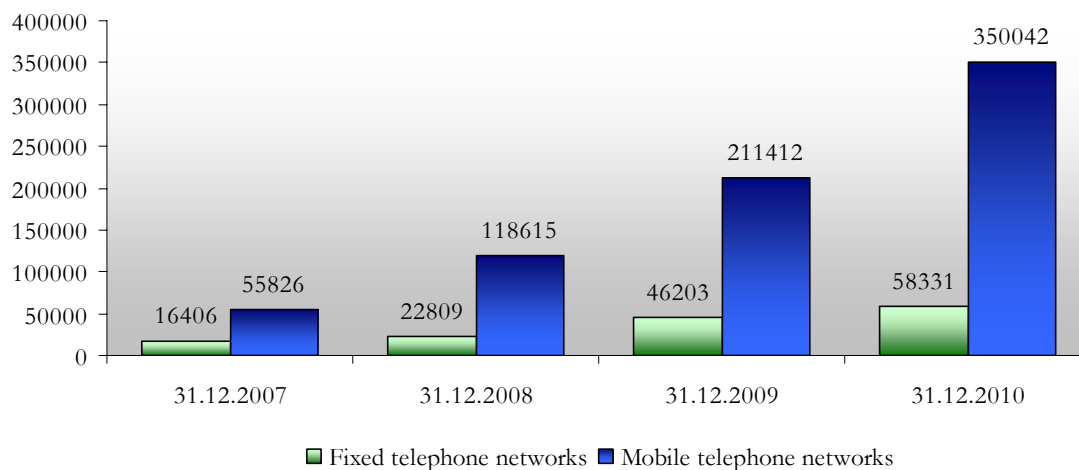
In 2010, the Commission has taken 14 decisions on rights of use of radio frequencies – about assignation of such rights, and setting, extending or cancellation of their terms.

Three auctions on rights of use of radio frequency spectrum were organised in 2010:

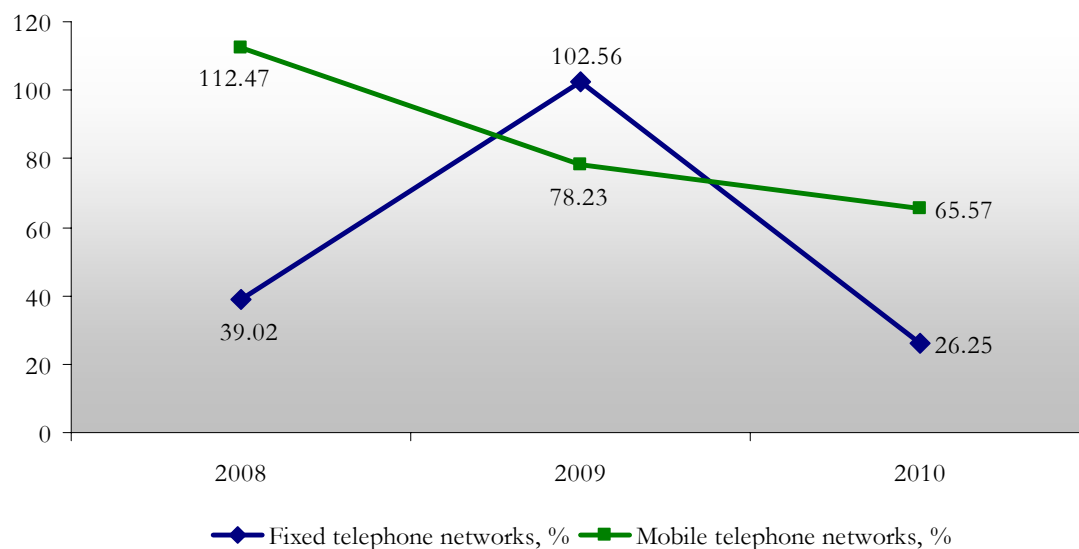
- rights of use of one 14 MHz radio channel of 3600 MHz - 3700 MHz / 3700 MHz - 3800 MHz bands of radio frequency spectrum (won by LLC Telia Latvija);
- rights of use of 914 MHz – 915 MHz / 959 MHz – 960 MHz bands of radio frequency spectrum (won by LLC Tele2);
- rights of use of two 1,25 MHz radio channels of 450.0 MHz - 457.5 MHz / 460.0 MHz – 467.5 MHz bands of radio frequency spectrum (the auction continues in 2011).

99 decisions were approved on rights of use of numbering in the Commission's Board meetings in 2010.

In 2010, the electronic communications companies continued providing the number portability service for end-users within terms specified by the Commission.



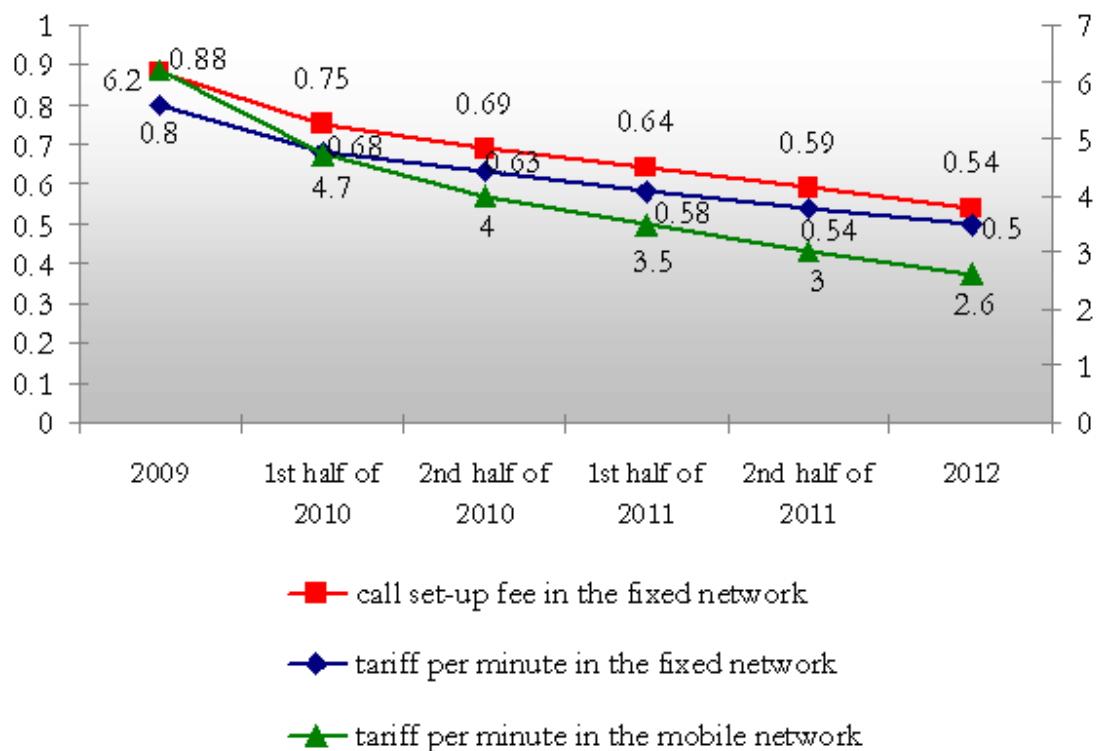
Ported numbers since the introduction of the service on December 1, 2005



Changes in ported numbers of end-users (%), compared to previous years

### Regulating tariffs

By February 24, 2010 Board decision, the Commission set the upper limit of the call termination rate for LLC “Bite Latvija” in 2010-2012, thus ensuring that by April 1, 2010 a symmetric upper limit of the call termination rate is applied to the three largest operators of mobile communications. The upper limit of call termination rates for LLC Latvijas Mobilais Telefons, LLC Tele2 and fixed communications operator Lattelecom was already set in 2009, and its application was started on April 1, 2010.



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

On June 18, 2009, The European Parliament and the Council adopted Regulation No. 544/2009 amending Regulation 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, and accordingly the reduction of Latvian mobile telephone network operators' tariffs for roaming services in the European Union countries continued in 2010. Since July 1, 2010, tariff for a call made using a roaming service in a European Union country must not exceed 0.28 LVL per minute, while the tariff for an SMS must not exceed 0.078 LVL. An incoming call must not be charged more than 0.11 LVL per minute. The average wholesale tariff for roaming was set at 0.156 LVL/minute, the average wholesale tariff for an SMS message – 0.0284 LVL, the average wholesale tariff for 1 MB data roaming – 0.5672 LVL (all above mentioned tariffs are without VAT).

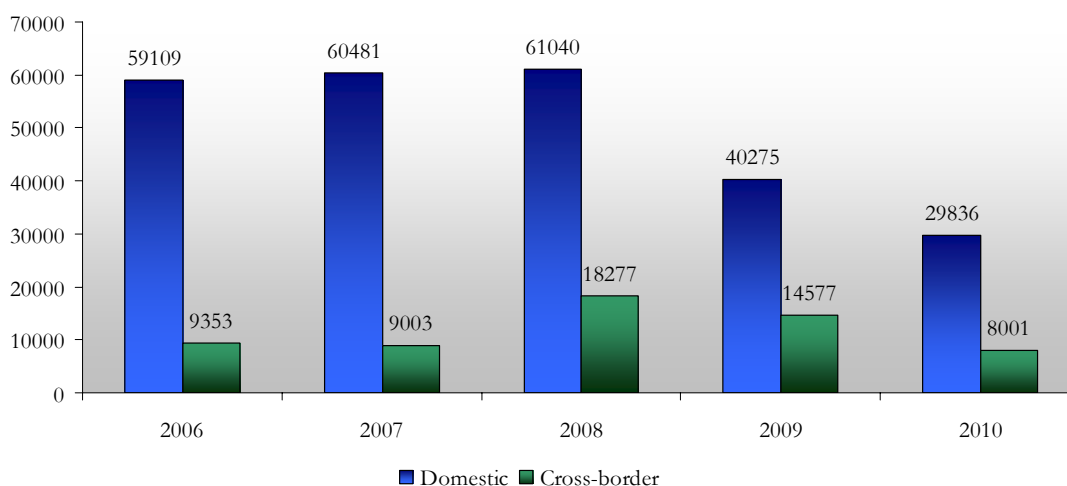
On November 16, 2010, the Commission published the report on compliance with methodology for cost calculation in the electronic communications sector and notification about electronic communications companies, which are obliged to apply the methodology for cost calculation. The report was published in the newspaper “Latvijas Vēstnesis”.



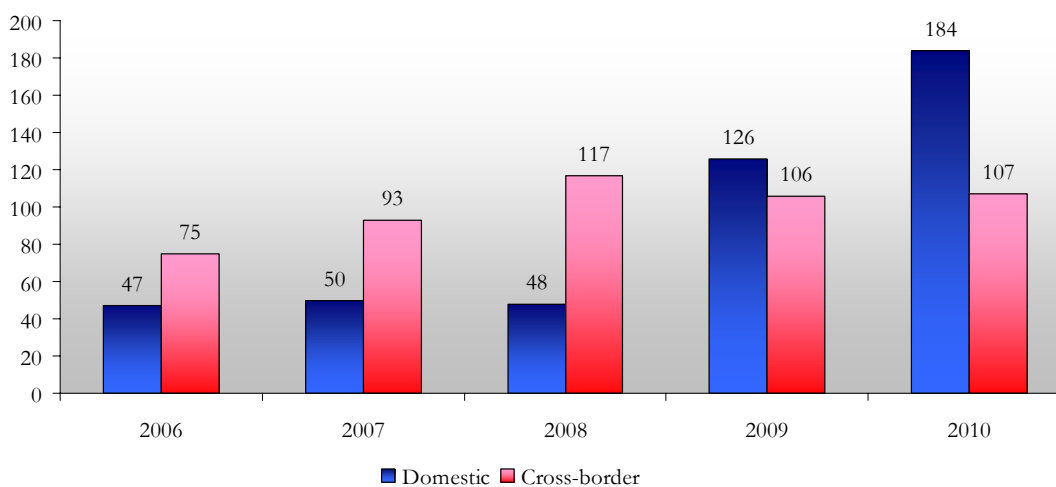
## Postal sector

In terms of postal services in Latvia, the universal postal service (handling letters and parcels) is provided by the state stock company Latvijas Pasts. In 2010, people sent 37.8 million letter-post items and 292 thousand postal parcel items.

In comparison to 2009, the total number of letters sent decreased by 31% (international items - by 45.1% and domestic items - by 25.9%). The number of postal parcels sent increased 25.4% compared to 2009.



"Latvijas Pasts" letter-post items (thousand)



"Latvijas Pasts" postal parcels (thousand)

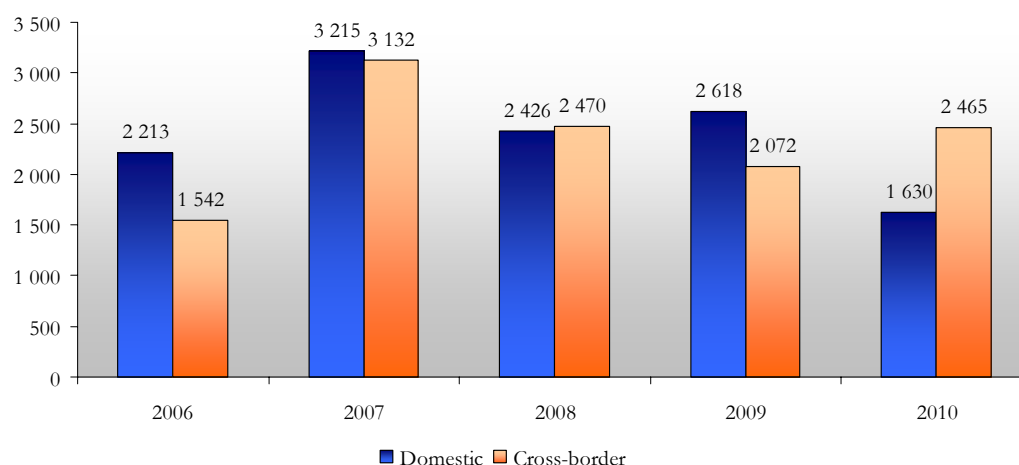
In 2010, the state-owned stock company Latvijas Pasts moved 18 post offices to new premises and closed one post office. There were a total of 625 post offices at the end of 2010.

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 letters met the specified quality standards in 2010. 97.3% of Class A letters were delivered on the next business day after the control letters were sent, and 99.5% of Class A letters were delivered within two business days. 99.5% of Class B letters were delivered within three business days.

In accordance with quality requirements specified by the Commission, 90% of Class A letters must be delivered on the next business day, 99% of Class A letters must be delivered within two business days, and 98% of Class B letters must be delivered within three business days.

60 postal companies were listed in the Commission’s database at the end of 2010. The Commission registered eight postal companies and cancelled the rights of four postal companies to provide postal services in 2010.

There are 35 postal service providers in the field of express mail and courier mail of which three registered in the register of postal companies in 2010. In 2010, there were 3.8 million express mail and courier mail shipments – 19.2% less than in 2009.



Express mail and courier mail items (thousand)



Express mail and courier mail items (thousand)

In the postal sector in 2010, the Commission received and considered 15 complaints regarding postal service providers. All complaints concerned the provider of the universal postal service – the state-owned stock company Latvijas Pasts. 14 complaints were received from individuals. Most of the complaints were about unsatisfactory delivery or loss of postal items. The Commission upheld five of the complaints.

In 2010, the Commission received and reviewed three tariff proposals submitted by the stock company “Latvijas Pasts”. The Commission approved tariffs for Latvijas Pasts’ direct postal items, bulk postal items, cross-border postal parcel items and inland postal parcel items.

On March 24, 2010, the Commission approved “Regulations on discounts for postal tariffs” and on November 24, 2010 – “Methodology for calculation and setting of the net costs for fulfilment of obligations of the universal postal service”.

## **Regulation in the Rail Transport Sector**

In the rail transport sector, passenger carriage by rail in 2010 was provided by the following companies:

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

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

## **Licensing of public service providers**

In 2010, the Commission did not receive any applications to amend licensing terms or to cancel a license.

## **Supervision of public service providers**

In 2010, 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.

The Commission approved amendments to Methodology for calculation of the fee for the use of the public railway infrastructure by decision No.1/20 on November 10, 2010.

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

By decision No.535 of November 29, 2010, the Commission approved the fee for the use of the public railway infrastructure for the year 2011.

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

On October 29, 2010, the Commission organized a discussion on the proposed fee for the use of the public railway infrastructure for the year 2011.

### **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 2010, the Commission received three complaints about public services provided in the rail transport sector – two about late running of trains and one about application of a fine. The complaints were reviewed according to the procedure specified by law, and answers and explanations were provided on the issues mentioned in the complaints.

In addition, supervising the operations of railway service providers, the Commission analysed complaints received by railway companies and prepared a report thereon. This report deals with issues like late running of trains 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 by the railway companies.

## **Regulation in the Water Management Sector**

160 companies provide regulated services in the water management sector in Latvia.

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

In 2010, the Commission issued 31 licences for companies in the water management sector, amended 12 licences and cancelled two licences.

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

The Commission inspected 32 water management companies in 2010. Inspections found that 12 companies (38% of water management companies) operate in violation of the licensing zone. The Commission requested and the companies in question submitted the required documents for amendments of licence conditions.

### **Evaluation of tariff proposals in the water management sector**

In 2010, the Commission reviewed and approved tariff proposals of six water management companies.

### **Reviewing user complaints in the water management sector**

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

- protects interests of users of public utilities;
- supervises compliance of the public utilities with the conditions of the licence, specified quality and environmental protection requirements, technical specifications, standards, and other contract provisions.

In 2010, the Commission received 14 written complaints about water supply services, when the users could not settle disputes with providers of water management services. The complaints were reviewed according to the procedure specified by the law and the submitters of complaints received answers and explanations about issues mentioned in the complaints.

## **Updating normative documents**

The Commission's May 12, 2010 decision No.1/8 approved "Methodology for calculation of water management service tariffs" which specifies the procedure for calculating proposals of water management service tariffs by providers of water management services.

## **Regulation in the Municipal Waste Management Sector**

On November 18, 2010, the new Waste Management Law entered into force in accordance with which the Commission regulates only the disposal of municipal waste in landfill sites and waste dumps. Fees for municipal waste management (except disposal of municipal waste) are determined by the respective local government. During the transition period (until a service agreement about municipal waste management is concluded between a local government and a company/waste manager which will be chosen by a public procurement procedure), in accordance with Waste Management Law the fee for municipal waste management is equal to the last waste management tariff approved by a public utilities regulator before this law took effect.

In 2010, municipal waste management services in Latvia were provided by 67 companies. Waste disposal services are provided by 15 companies.

## **Licensing public service providers**

In 2010, the Commission issued four licences to companies providing municipal waste disposal services, amended five licences and cancelled two licences.

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

In 2010, the Commission received three written complaints in the waste management sector about application of waste management tariffs, fees charged for collection of bulky waste, and a current tariff of a waste management company. The complaints were reviewed according to the procedure specified by law and answers and explanations were provided on the issues mentioned in the complaints.

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

In 2010, the Commission reviewed and approved one tariff proposal submitted by a municipal waste management company.



## **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. In order to provide the opportunity to receive continuous, safe and high quality public services whose tariffs correspond to economically reasonable costs, as well as to promote development and economically justified competition in the regulated sectors, the Commission involves members of the public in its activities.

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.

The Commission must balance the interests of different groups of the society, namely, must reach a compromise solution when the normative regulation and adopted decisions are in the interests of the entire society. The process of opinion survey must be open, and the Commission must be independent throughout this process, it must not influence the opinions of other parties.

Involvement of society representatives gives the Commission an opportunity to obtain practical information which can be provided by individuals who are themselves involved and who are affected by a specific issue. As a result, the adopted decision or legal act is better, but the society has a chance to make sure that the Commission performs its mission – protects the interests of users and promotes the development of providers of public utilities in accordance with the principles of justice, transparency, neutrality, equality and proportionality.

One way to ensure participation of the society in the Commission's work is the Consultation Council whose goal is to promote and organise the Commission's cooperation with scientists, promote efficiency of supervision of regulated sectors and give a scientific opinion on the Commission's activities and drafted documents.

Another form of participation of the society is the Commission's public consultations during which every individual can express his or her opinion on the issues of public utilities regulation. The expressed opinions and arguments have a recommendation status when the Commission's Board takes a decision. All interested parties have a right to participate in public consultations and express their opinion, comment or make proposals on the issue analysed in the meeting. Public service users, representatives from associations for protection of user interests, representative from companies, representatives from institutions related to regulated services, independent experts, academic institutions and others can participate in the meetings. This guarantees a wide representation of various interests in the open 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 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. The goal of the "Client compass" is to provide users with easy-to-understand and useful information about the sector in the context of public service regulation.

The section "Your question" is also available in the Commission's home page where any member of the society can ask the Commission a question and receive the Commission's answer.

## 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 2010”, 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 regulated companies. In the reporting year, the state fee in the regulated sectors was 0.17% of the net turnover of the public service provided by the company in 2009.

The Commission’s planned expenditures in 2010 were 2,929,337 LVL, which was 7,522 LVL more than in 2009. Actual spending amounted to 2,066,075 LVL, which was 170,648 LVL more than in 2009. Actual spending constituted 70.5% of the planned spending.

Paragraph 6 of the December 22, 2009 Cabinet of Ministers regulations No.1623 “Regulations on the rate of the state fee for public service regulation and the payment procedure of the fee” states that if the paid state fee exceeds the required expenditures for providing operations of the Commission in the respective year, in the next year the state fee for the overpaid sum is reduced proportionally to the amount of the state fee paid by each public service provider.

In 2010, the actual surplus of financial resources was 3,085,477 LVL. In 2011, this surplus will be returned to public service providers reducing the payment of the state fee proportionally to the amount of the paid state fee by each public service provider in 2010.

The financial report was prepared in accordance with the Cabinet of Ministers August 17, 2010 Regulations No.777 “Procedure for preparing an annual report”, the Cabinet of Ministers October 26, 2010 instruction No.17, “Procedure for preparing a budget report, cash flow report and report on financial results by budgetary institutions, derived public persons partly financed by the state budget and institutions not financed by the state

budget”, and the Ministry of Economics December 14, 2010 procedure No.1-8-40 “Procedure for preparing the consolidated annual report of the Ministry of Economics”.

The annual report 2010 was submitted to the Ministry of Economics for inclusion in its consolidated annual report. On March 15, 2011, the annual report was audited without objections by LLC Revīzija un vadības konsultācijas (licence No.79 the of sworn auditor’s commercial entity).

The Commission concluded 62 economic co-operation agreements in 2010, including one open competition and 22 procurement procedures in accordance with the Public Procurement Law.

No.	Finances	2009 (actual numbers, LVL)*	2010 (LVL)	
			defined by law	actual numbers*
1.	Total revenues, including	3 006 540	3 700 000	3 336 743
	<i>fee based services, other income</i>	3 006 540	3 700 000	3 336 743
2.	Total spending	1 895 427	2 929 337	2 066 075
2.1.	Administrative costs (total)	1 846 992	2 799 087	2 023 813
	<i>international cooperation</i>	25 108	25 108	25 108
	<i>other administrative costs</i>	1 821 884	2 773 979	1 998 705
2.2.	Capital investments	48 435	130 250	42 262

\* in accordance with cash flow principle

## Independent auditor's report



Revīzija un vadības konsultācijas SIA

### Neatkarīgu revidentu ziņojums

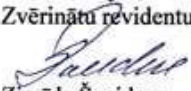
#### Latvijas Republikas Saeimai

Mēs esam veikuši Sabiedrisko pakalpojumu regulēšanas komisijas 2010. gada finanšu pārskata, uz kuru pamatojoties ir sagatavots saīsinātais Sabiedrisko pakalpojumu regulēšanas komisijas 2010. gada finanšu pārskats, revīziju saskaņā ar Latvijā atzītajiem starptautiskajiem revīzijas standartiem. Mūsu 2011. gada 15. marta revidentu ziņojumā mēs sniedzām atzinumu bez iebildēm par Sabiedrisko pakalpojumu regulēšanas komisijas 2010. gada finanšu pārskatu, uz kuru pamatojoties ir sagatavots saīsinātais Sabiedrisko pakalpojumu regulēšanas komisijas 2010. gada finanšu pārskats.

Mūsaprāt, iepriekš minētais saīsinātais finanšu pārskats visos būtiskos aspektos atbilst Sabiedrisko pakalpojumu regulēšanas komisijas 2010. gada finanšu pārskatam, uz kuru pamatojoties ir sagatavots saīsinātais finanšu pārskats.

Lai gūtu pilnīgāku priekšstatu par Sabiedrisko pakalpojumu regulēšanas komisijas finansiālo stāvokli 2010. gada 31. decembrī, tās 2010. gada darbības rezultātiem un mūsu veiktās revīzijas darba apjomu, iepriekš minētais saīsinātais finanšu pārskats būtu jāvērtē kopā ar Sabiedrisko pakalpojumu regulēšanas komisijas 2010. gada finanšu pārskatu, uz kuru pamatojoties ir sagatavots šis saīsinātais finanšu pārskats, un attiecīgo mūsu revidentu ziņojumu.

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

  
Zigrīda Šneidere  
Atbildīgā zvērīnātā revidente  
Sertifikāta Nr. 110  
Valdes locekle

Rīgā, 2011. gada 15. martā

## THE COMMISSION'S OPERATIONAL VISION FOR 2011

### Priorities in the energy sector

The Commission's priorities in the energy sector in 2011:

- licensing and supervision of public service providers in the electricity supply sector, assessment of tariff proposals, setting of tariffs;
- participation in the implementation of the Baltic Energy Market Interconnection Plan (BEMIP);
- implementation of the legal framework of the EU 3rd energy package;
- certification of the electricity transmission system operator;
- analysis of trends of changes in electricity wholesale prices;
- improvement of data submission and reporting system in the heat supply sector, improvement of supervision of heat supply companies and data processing.

### Priorities in the electronic communications and postal sectors

The Commission's priorities in the electronic communications and postal sectors in 2011:

- supervision of obligation fulfilment for electronic communications companies with significant market power;
- implementation of the 3rd round of market analysis;
- evaluation of costs of services provided by electronic communications companies, gradual reduction of call termination tariffs;
- implementation and monitoring of the European Commission's regulations on international roaming services 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, implementing authorisations stipulated in the draft law "Amendments to Electronic Communications Law";
- monitoring compliance of the universal service obligations with specific requirements in the electronic communications and postal sectors.

### **Priorities in the railway transport sector**

The Commission's priorities in the railway transport sector in 2011:

- amending the Methodology for calculation of the fee for the use of the public railway infrastructure;
- drafting the procedure for application of the fee for the use of public railway infrastructure and the procedure for payment of the fee for the use of 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;
- supervision of implementation of the Regulation No.1371/2007 of the European Parliament and of the Council on rail passengers' rights and obligations;
- participation in the European Commission's working groups and other international forums.

### **Priorities in water management and waste management sectors**

The Commission's priorities in the water management and waste management sectors in 2011:

- drafting methodology for calculation of the tariff for municipal waste disposal service;
- licensing public service providers in water management and municipal waste disposal sectors, reviewing tariff proposals and setting 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 rights of use of numbering (the Commission's 06.01.2010. decision No.1/1);
- Procedure for granting by auction the rights of use of one 14 MHz radio channel of 3600 MHz - 3700 MHz / 3700 MHz - 3800 MHz bands of radio frequency spectrum (the Commission's 24.02.2010. decision No.1/2);
- Grid code (the Commission's 24.02.2010. decision No.1/3);
- Regulations on postal tariff discounts (the Commission's 24.03.2010. decision No.1/4);
- Regulations on rights of use of radio frequency spectrum (the Commission's 24.03.2010. decision No.1/5);
- Amendments to the Commission's August 19, 2009 decision No.1/2 "Methodology for calculation of mandatory procurement components" (the Commission's 24.03.2010. decision No.1/6);
- Methodology for calculation of heat energy supply service tariffs (the Commission's 14.04.2010. decision No.1/7);
- Methodology for calculation of water management service tariffs (the Commission's 12.05.2010. decision No.1/8);
- Amendment to the Commission's January 6, 2010 decision No.1/1 "Regulations on rights of use of numbering" (the Commission's 26.05.2010. decision No. 1/9);
- Methodology for calculation of cogeneration tariffs (the Commission's 11.06.2010. decision No.1/10);
- Regulations on the information required for market analysis and its submittal procedure (the Commission's 14.07.2011. decision No.1/11);
- Regulations on substantiation of tariff costs (the Commission's 14.07.2010. decision No.1/12);
- Procedure for granting by auction the rights of use of 914 MHz – 915 MHz / 959 MHz – 960 MHz bands of radio frequency spectrum (the Commission's 21.07.2010. decision No.1/13);



- Regulations on violations of general authorisation regulations in the electronic communications sector (the Commission's 25.08.2010. decision No.1/14);
- Amendment to the Commission's July 14, 2010 decision No.1/12 "Regulations on substantiation of tariff costs" (the Commission's 25.08.2010. decision No.1/15);
- Regulations on connection of a private electronic communications network to the public electronic communications network (the Commission's 22.09.2010. decision No.1/16);
- Amendments to the Commission's January 6, 2010 decision No.1/1 "Regulations on rights of use of numbering" (the Commission's 02.11.2010. decision No.1/17);
- Amendments to the Commission's March 24, 2010 decision No.1/5 "Regulations on rights of use of radio frequency spectrum" (the Commission's 02.11.2010. decision No.1/18);
- Amendments to the Commission's November 11, 2009 No.1/5 "Regulations on information to be submitted to the Public Utilities Commission" (the Commission's 02.11.2010. decision No.1/19);
- Amendments to Methodology for calculation of the fee for the use of public railway infrastructure (the Commission's 10.11.2010. decision No.1/20);
- Methodology for calculation and setting of the net costs for fulfilment of obligations of the universal postal service (the Commission's 24.11.2010. decision No.1/21);
- Procedure for granting by auction the rights of use of two 1.25MHz radio channels of 450.0 MHz -457.5 MHz / 460.0M Hz – 467.5 MHz bands of radio frequency spectrum (the Commission's 15.12.2010. decision No.1/22).

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

- Draft law "Amendments to the law On Regulators of Public Utilities";
- Draft law "Amendments to the Administrative Process Law".

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

- The structure of the Public Utilities Commission (the Commission's 06.01.2010. procedure No.2.06/1);
- Amendments to the Licensing procedure (the Commission's 06.01.2010. procedure No. 2.06/2.);
- Procedure for work remuneration in the Public Utilities Commission (the Commission's 27.01.2010. procedure No.2.06/3);
- The structure of the Public Utilities Commission (the Commission's 22.01.2010. procedure No. 2.06/4);
- Licensing procedure (the Commission's 24.02.2010. procedure No.2.06/5);
- Statute of the auction committee for granting by auction the rights of use of one 14 MHz radio channel of 3600 MHz - 3700 MHz / 3700 MHz - 3800 MHz bands of radio frequency spectrum (the Commission's 24.02.2010. statute No.2.06/6);
- Statute of the Public relations division (the Commission's 05.03.2010. statute No.2.06/7);
- Procedure for supervising state fee payments for public utilities regulation (the Commission's 31.03.2010. procedure No.2.06/8);
- Accounting procedure (the Commission's 31.03.2010. procedure No.2.06/9);
- Amendments to the Accounting procedure (the Commission's 01.04.2010. procedure No.2.06/10);
- Procedure for reviewing tariff proposals (the Commission's 28.04.2010. procedure No.2.06/11);
- Procedure for public procurements (the Commission's 07.05.2010. procedure No.2.06/12);
- Procedure for supervising companies of the regulated sectors (the Commission's 01.06.2010. procedure No.2.06/13);
- Amendments to the Licensing procedure (the Commission's 16.06.2010. procedure No.2.06/14);
- Procedure for supervising state fee payments for public utilities regulation (the Commission's 28.06.2010. procedure No.2.06/15);

- Procedure for preparation and confirmation of a budget and a draft of budget amendments and procedure for budget execution (the Commission's 23.07.2010. procedure No.2.06/17);
- Amendments to the Commission's 19.12.2007 procedure Nr.2.06/14 Internal work organisation procedure (the Commission's 28.07.2010. procedure No.2.06/18);
- Procedure for using service and personal vehicles (the Commission's 24.08.2010. procedure No.2.06/19);
- Amendments to Procedure for work remuneration in the Public Utilities Commission (the Commission's 13.10.2010. internal regulations No.2.06/20);
- Amendments to Internal work organisation procedure (the Commission's 10.11.2010. internal regulations No.2.06/21);
- Procedure for safety of work with computers (the Commission's 16.11.2010. internal regulations No.2.06/22);
- Procedure of work safety for drivers of service vehicles (the Commission's 16.11.2010. internal regulations No.2.06/23);
- Procedure for safety of work with heavy objects and sharp cutting tools (the Commission's 16.11.2010. internal regulations No.2.06/24);
- Procedure for an introductory instruction on workplace safety (the Commission's 23.11.2010. internal regulations No.2.06/25);
- Procedure for providing first aid (the Commission's 30.11.2010. internal regulations No.2.06/26);
- Statute of the Internal audit division (the Commission's 01.12.2010. internal regulations No.2.06/27);
- Procedure for carrying out internal audit (the Commission's 03.12.2010. internal regulations No.2.06/29);
- On statute of the auction commission (450MHz) (the Commission's 22.12.2010. internal regulations No.2.06/30);
- Amendments to the Statute of the Public Utilities Commission (the Commission's 22.12.2010. internal regulations No.2.06/31);
- Procedure of document management (the Commission's 22.12.2010. internal regulations No.2.06/32);

- Structure of the Public Utilities Commission (the Commission's 22.12.2010. internal regulations No.2.06/33);
- Procedure for reviewing cases of administrative violations (the Commission's 22.12.2010. internal regulations No.2.06/34);
- Amendments to the Procedure for work remuneration in the Public Utilities Commission (the Commission's 22.12.2010. internal regulations No.2.06/35);
- Statute of the Municipal service and railway transport department (the Commission's 22.12.2010. statute No.2.06/36).