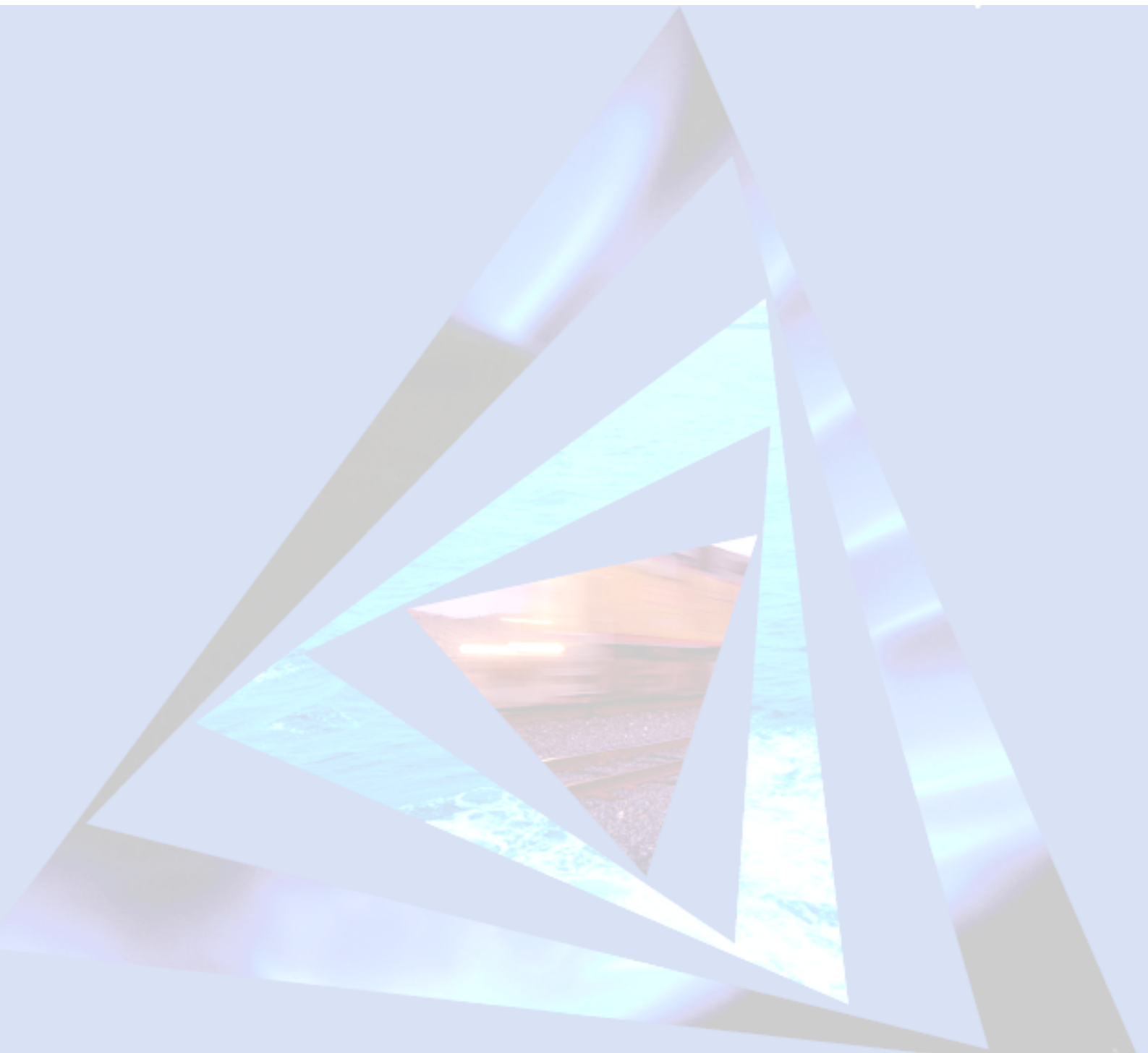


ANNUAL REPORT 2011



LATVIA PUBLIC UTILITIES COMMISSION

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INTRODUCTION

Dear reader!

The Annual Report shows the situation regarding the provision and regulation of public utilities in 2011. At the same time, the Public Utilities Commission (PUC), the first unified regulator in the European Union, celebrated its 10th anniversary in 2011; this is a reference point to assess if we have succeeded in becoming an active mediator among service providers, customers and the state administration. This is also the time for setting future goals and defining future activities.



Ten years ago, we were the only multi-sector regulator in the European Union and sometimes we were not fully understood. Our path was not always infallible over these years. The consequences of operations of various small and incompetent local government regulators have not fully been eliminated; full independence of the Regulator also has not been achieved. However, the overall achievements are still significant.

Each year, companies regulated by the PUC provide for 8-9% of the aggregate value added in Latvia, their services are used by every Latvian household, company and institution. It clearly shows the significance of our work. The PUC's activities to achieve general availability of high-quality services have three aspects.

In order to improve access to services, the Regulator has consistently promoted and supported healthy competition in all sectors where this is possible and as much as possible, has taken care of the consumers' rights to choose a supplier of utilities and change it quickly.

The offering of advanced services is very diverse in the electronic communications sector. There has been no highly concentrated market in the sector for many years; today it is in a moderately concentrated market stage and will be a fully competitive market in the near future. The final decisive step for full opening of the postal market must be made in the postal sector. The electricity sector is rapidly heading in the right direction; households already have an option to choose the best offer in the free market. Liberalisation of the natural gas supply will be the next challenge for the Regulator.

Natural monopoly companies and monopoly services during the existence of the Regulator have been supervised firmly, but fairly. It is confirmed by the Regulator's litigation statistics over a ten-year period – out of more than 50 disputed decisions made by the Regulator, the court decision may be regarded as unfavourable for the Regulator only in one case and the reason was a differing interpretation of contentious legal norms.

The Regulator pays close attention to the second aspect, namely, service quality. Ever new types of electronic communications services are included in quality measurements and the largest operators in Latvia acknowledge the Regulator's authority in the continuous monitoring. Inspections of the quality of postal services are also performed on a regular basis. After adjusting normative acts, we are ready to start an intensive control of the quality of the supplied electricity throughout Latvia.

Prices of services have always been a sensitive aspect of the Regulator's work. In the electronic communications sector, the Regulator continues purposeful activities to significantly reduce tariffs for communications with other operators and customers of other countries. Energy companies are regularly required to reduce energy losses and less substantiated expenditures. As a result, the regulated tariffs in the energy sector in Latvia are one of the lowest in the European Union, and changes in prices of energy services in recent years were mainly determined by a rise in resource prices – globally and consequently in Latvia. However, public services which are technologically advanced and resource-intensive cannot be inexpensive due to the small population of Latvia. Households pay 10% of their budget for services, and the poorest households pay even 12% although they use fewer services. For many years, the Regulator has actively tried to persuade the government about the necessity to introduce a system of the universal service which would also provide for the availability of services for low-income households in Latvia. There is a hope that this idea will be implemented in the near future.

Today it can be concluded clearly that only the unified regulatory model is the correct approach for successful regulation of public services in a small country. The concentration of economic and legal competence, unification of regulatory processes, and acquiring inter-sector know-how are the main factors for these opportunities. The achieved competence level of the Regulator has laid a foundation for successful

cooperation with not only the largest Latvian companies, but also with their transnational shareholders whose annual turnovers exceed the GDP of Latvia. In order to further advance and optimise the quality of regulatory processes, we plan to formalise and model processes, establish a unified know-how base not only for our own needs, but also to form a more operational link with regulated enterprises.

The Commission's ten year experience is significant enough, the gains are relevant, and the advantages of the multi-sector regulatory model have been proven. Taking notice of the events in Latvia, the unification of regulators representing different sectors has already taken place in Estonia, Germany and Hungary; several other countries are considering such an option. We have become a distributor of our experience in other EU countries.

Integration of regulatory processes in Latvia is at a comparatively higher level. To maintain this position among the EU regulators, we will continue the successfully started work in the next decade.

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 second full year when public services nationally were regulated by a single institution – the Public Utilities Commission. 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. The reform of the public utilities regulatory system was carried out in 2009. 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. 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.

The Commission regulated a total of 921 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 (supply of thermal energy, electricity and gas supply),
- electronic communications,
- post,
- railway transport,

- municipal waste disposal,
- 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 and registering authorisations of companies, promoting competition in the regulated sectors, offering out-of-court settlement of disputes and supervising the quality of public services.

On August 11, 2011, amendments to the law “On Regulators of Public Utilities” came into force stipulating that the Commission shall be institutionally and functionally independent, full-fledged, autonomous body governed by public law and unassisted in the implementation of its budget approved by law.

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 Commission represent sectors of electricity, gas, water supply, wastewater and waste management, as well as transport, electronic communications and postal sectors. The proportion of regulated companies is different in each sector, therefore the published statistical data on aggregate results of sectors do not always reflect the tendencies in the operation of the regulated companies. In 2011, the above-mentioned sectors represented 21.3% of the total value added (13.0% for transport and storage, 3.4% for electricity, gas supply and heat supply, 1.1% for water supply, wastewater, waste management and sanitation, and 3.8% for information and communications services). The transport and storage sector grew 8.0% in 2011 over 2010, information and communications services sector increased by 3.1% while the

electricity, gas supply and heat supply sector fell 1.5%, water supply, wastewater, waste management, and sanitation sector decreased by 1.5%. The overall GDP of Latvia increased by 5.5% in 2011.

The net turnover of the regulated companies was 1,944 million LVL in 2011, growing 4.3% compared to 2010.

Average monthly wages in the regulated sectors (except the postal sector) were above the national average in 2011. The average net monthly salary in the electricity, gas and heat supply sector was 471 LVL, in the water supply, wastewater, waste management and sanitation sector - 339 LVL, in the transport and storage sector - 355 LVL (including in the postal sector 233 LVL), in the telecommunications sector – 575 LVL, while the average in the entire economy was 330 LVL. Compared to 2010, the national average net monthly salary has increased by 4.4%, the salary in the electricity and gas supply sector increased by 3.5%, the average salary grew 5.9% in water supply, wastewater, waste management and sanitation sector, the salary increased by 0.6% in the transport and storage sector (including 2.2% in the postal sector) while it decreased by 3.0% in the telecommunications sector.

The Effect of Regulated Prices on Inflation

According to the data provided by the Central Statistical Bureau, 16.5% of all household expenditures (goods and services listed in the Consumer Price Index) were services with administratively regulated prices in 2011. Administrative prices include both regulated public services and other normatively regulated services in this list.

Public services	Share in expenditures of residents	Price increase (2011 XII vs. 2010 XII)	Inflation component (percentage points)
public services supervised at the state level (electricity, natural gas, thermal energy, regulated voice telephony services, general postal services, water supply, sewerage services)	10.9%	10.1%	1.11

normatively regulated services (apartment rent in municipal buildings, waste collection, compensated medication, patient's fee, passport issuance fee, car parking, notary services, passenger transport, kindergartens)	5.6%	0.3%	0.02
Administratively supervised and regulated prices, total	16.5%	6.8%	1.12
Consumer Price Index (inflation), total	100%	4.0%	4.0

In 2011 (compared to the previous year) consumer prices increased by 4.0%, while administratively regulated prices grew 6.8%. According to the share of administratively regulated prices in the basket of consumer goods and services, changes in administratively regulated prices made up 1.12 percentage points or slightly more than one fourth of the total inflation. Prices of public services went up more rapidly while prices of normatively regulated public services increased slightly - by 0.3%, compared to December 2010.

Among the sectors regulated by the Commission, services reflecting the rise of prices of energy resources in regional and international markets underwent the most significant changes. Thus, inflation in 2011 was mostly affected by a rise in the tariffs of electricity, natural gas and thermal energy, increasing the aggregate inflation by 0.80, 0.12 and 0.12 percentage points accordingly. The aggregate direct influence of services regulated by the Commission on the Consumer Price Index was 1.11 percentage points in 2011.

Household Expenditures on Regulated Services

In accordance with the data of the Central Statistical Bureau, household consumption expenditures for one household member on average were 2,136.16 LVL/year (178 LVL/month) in 2010. The information collected by the Central Statistical Bureau about household expenditures by service types indicate all household expenditures related to the respective service and include several types of unregulated services (taxes, housing management expenditures, services of unregulated service providers, services for contract prices), whose numerical extent or share may not be precisely determined. An explanation for each service type is provided in footnotes below the table.

Service type	Average expenditures for one household member per year		Average annual expenditures for one household member in households for which the respective service is available and which have paid for it, LVL
	LVL	Share of total expenditures	
Water supply ¹	14.31	0.67 %	19.14
Sewerage services ¹	13.42	0.63 %	18.80
Waste collection ²	10.51	0.49 %	12.58
Electricity	65.91	3.09 %	66.73
Network gas	17.40	0.81 %	39.83
District heating ³	77.15	3.61 %	161.64
Hot water supply ³	22.10	1.03 %	50.71
Payments for fixed private and public telephone services ⁴	11.93	0.56 %	44.10
Payments for services of mobile communications operators ⁴	54.40	2.55 %	72.14
Postal services	0.73	0.03 %	20.28
Railway passenger transport ⁵	6.49	0.30 %	76.08
Total expenditures	2,136.16	100.00 %	

Household consumption expenditures in 2010 (LVL)

¹Water supply and sewerage services also include charges for the inspection and installation of meters, and servicing of internal networks. In the water management sector, the Commission regulates water extraction, storage, and preparation for use, water supply to service users, and waste water collection and conducting to waste water treatment equipment, waste water treatment and conducting to surface water facilities.

²Fees for municipal waste management (except municipal waste disposal) are set by the respective local government. In accordance with the Waste Management Law, the Commission regulates only the disposal of municipal waste in landfill sites and waste dumps.

³Charges for district heating and the supply of hot water include all central heating supplied to households. For heat energy supply, the Commission regulates such companies' thermal energy generation, transmission, distribution, and trade whose aggregate volume of thermal energy (which is transferred to users, transmitted, distributed, and traded) exceeds 5,000 MWh/year.

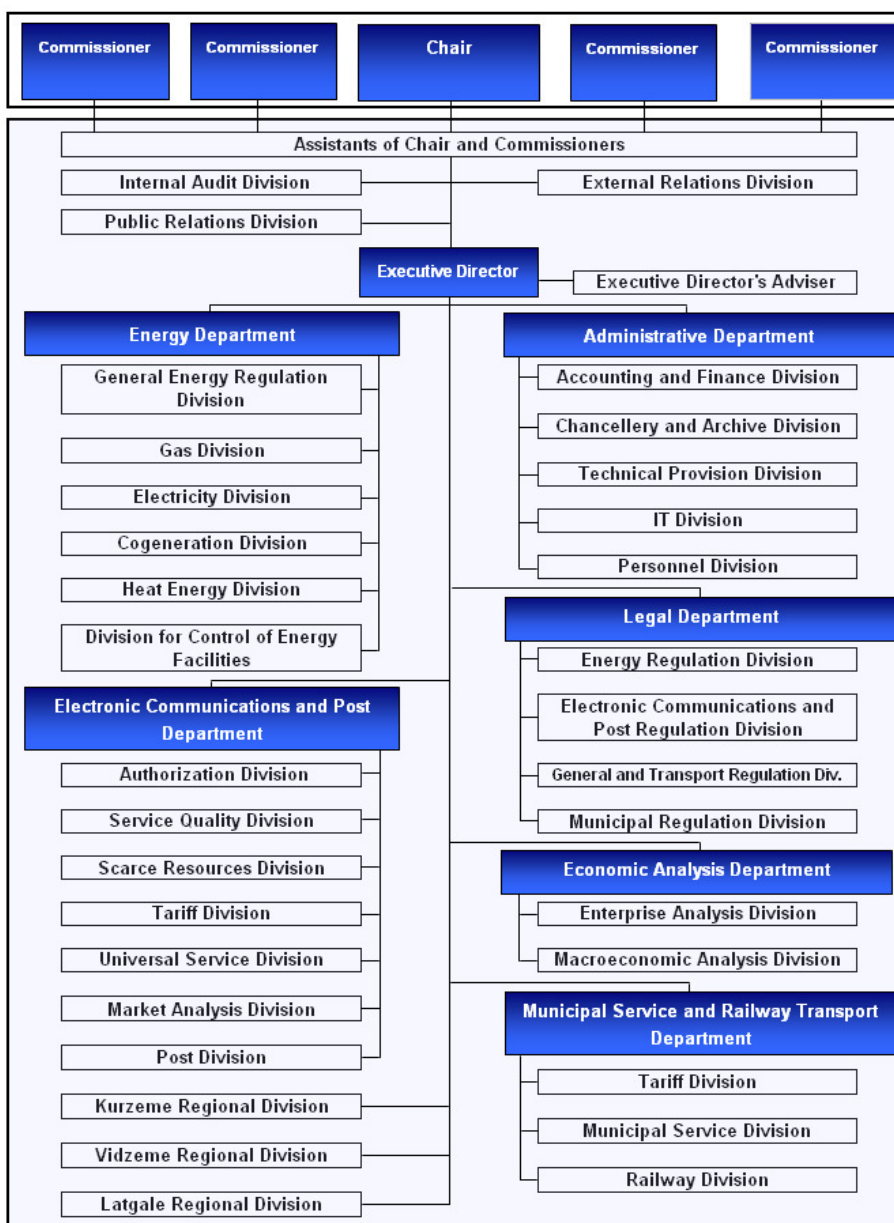
⁴In the electronic communications sector, the Commission specifies obligations for companies with significant market power. Retail rates are set by service providers.

⁵The Commission supervises companies which carry passengers by rail, as well as sets the Methodology for calculation of the charge for the use of the public railway infrastructure (use of railway tracks). The carriage charge is set by managers.

THE COMMISSION'S OPERATIONS IN 2011

Structure and Employees

At the end of the reporting period, the Commission had 111 employees, including five Board members. Of the employees, 101 have a higher education, seven have a doctorate, 58 hold a master's degree, and two have a master's degree and two bachelor's degrees. Two employees are pursuing a doctorate, two are working on their master's degree and two are still at university. Two employees of the Commission have a professional higher education and three 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, 2011. The Board have approved 433 decisions, issued 90 licenses to public service providers in energy, water management and municipal waste management sectors, amended 47 licenses, cancelled 13 licenses, issued seven general authorisations in the postal sector and registered 32 electronic communications companies. Certificates on the safety of hydraulic structures were reissued to 34 managers of hydraulic structures of hydroelectric power plants, one new certificate was issued, and one certificate was cancelled.

The Commission actively participated in drafting several laws in 2011:

- Amendments to Law on Regulators of Public Utilities;
- Amendments to Electronic Communications Law;
- Amendments to Postal Law;
- Amendments to Energy Law;
- Amendments to Electricity Market Law;
- Law on Public Transport Services;
- 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;
- Amendments to Residential Housing Management Law.

The Commission organised two auctions for usage rights of radio frequency spectrum in 2011. The Commission granted to the winner the usage rights of two 1.25 MHz radio channels of 450.0MHz – 457.5MHz/460.0MHz – 467.5MHz bands of radio frequency spectrum. The 2011 auction on usage rights of 2500MHz-2690MHz band of radio frequency spectrum continues in 2012.

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

- Regulations on numbering usage rights;
- Regulations on the provision of number portability service;

- Regulations on radio frequency spectrum usage rights;
- Amendments to Regulations on violations of general authorisation regulations in the electronic communications sector;
- Regulations on the control of payments for the use of the public telephone network;
- Regulations on unbundled access;
- Regulations on access to associated facilities;
- Regulations on information to be included in the standard plan and its publishing;
- Regulations on the quality requirements for electronic communications services and the procedure for submission and publishing of quality reports;
- Methodology for measuring the quality of electronic communications services;
- Regulations on general authorisations;
- Regulations on consultation procedure with market participants;
- Regulations on the procedure for dispute settlement in the electronic communications sector.

In the energy sector, the Commission drafted and approved:

- Regulations on the development plan of the electricity transmission system;
- Regulations on certification of a transmission system operator;
- Methodology for calculation of electricity transmission system service tariffs;
- Methodology for calculation of electricity distribution system service tariffs;
- Regulations on general authorisations in the energy sector;
- Regulations on registration of energy producers and traders;
- Amendments to Methodology for calculation of cogeneration tariffs;
- Amendments to Methodology for calculation of tariffs for thermal energy supply services.

The Commission also approved several CHP and district heating tariffs.

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

In the municipal waste management sector, the Commission drafted and approved the Methodology for calculation of a tariff for a municipal waste disposal service.

In the railway transport sector, the Commission drafted a new version of and approved the Methodology for calculation of the charge for the use of public railway infrastructure. The Commission also drafted and approved the Procedure for applying the infrastructure charge for the use of public railway infrastructure and the Settlement procedure of the charge for the use of the public railway infrastructure.

Litigation and Out-of-court Settlements

In 2011, one litigation process was completed in the electronic communications sector - about cancellation of the Commission's January 27, 2010 decision No.33 "On dispute settlement between LLC Latvijas Mobilais telefons and LLC 'Tele2'". In 2011, 10 litigation processes were started in the electronic communications sector (nine of these concerned the setting of obligation of interconnection tariff regulation).

In the energy sector, 17 litigation processes were completed in 2011, 52 new processes were started while 56 others are still pending in 2012. The most important of the ongoing litigation processes concerns electricity tariffs for captive customers, as well as the Commission's obligation to define an average tariff for the sale of electricity for a specific time period in the past.

In 2011, two litigation processes were completed in the water management sector, one process was started, and six will continue in 2012. In connection with takeover of regulatory functions from municipal regulators, the Commission was involved in six processes of litigation about decisions of municipal regulators in 2011.

In the railway transport sector, two cases of litigation continued in 2011. Of these, one case was heard in the court of the first instance; the other was reviewed in the court of appeals. These litigation processes will continue in 2012.

One function of the Commission is to pursue out-of-court settlements of disputes in cases involving public service providers and users. In 2011, the Commission initiated a review one such dispute in the electronic communications sector and reached the settlement of this dispute. In the energy sector, the Commission reviewed no disputes

and took no decisions on dispute settlement in 2011. Four disputes were reviewed and settled in the water management sector.

The Commission, exercising the authority stipulated in the Latvian Administrative Violations Code, has also reviewed cases of administrative violations. 93 cases of administrative violations were initiated and reviewed in the electronic communications sector. Six cases of administrative violations were initiated and considered in the postal sector. Two cases of administrative violations were initiated and completed in the energy sector.

International Cooperation

The European Union

2011 was a significant year for more intensive cross-border cooperation of the European Union (EU) regulators. It was determined by the adopted or drafted legal acts in the energy, electronic communications, postal and railway sectors, including the establishment of the first EU-level regulators - the Body of European Regulators for Electronic Communications (BEREC) and the Agency for the Cooperation of Energy Regulators (ACER), the European Regulators Group for Postal Services (ERG-Post), as well as the Independent Regulators' Group – Rail (IRG-Rail). The Commission was involved in the activities of these organizations whose fundamental goals are the consolidation of internal markets, service quality, ensuring network access and the new cross-border functions, implementation of the directives in line with competencies of the regulators, as well as specific objectives for each sector, such as preparation for certification of transmission system operators and supervision of power exchanges in the energy sector, use of numbering in cross-border regions and the Next generation technologies in the electronic communications, calculation of costs and prices for postal services and liberalisation of the postal market, and establishment of a single, competitive, efficient and sustainable railway market in Europe.

The Commission also continued work in the European Commission's working groups on general issues of railway regulation and amending the 1st Railway Package; in the inter-institution working group on the EU Gas Market Target Model, security of the European gas supply and the Baltic Interconnection Plan; in the meeting of the postal regulators (CERP) about topical postal regulatory issues; in the work of the EC Communications

Committee (COCOM) and the Electronic Communications Committee (ECC), as well as participated in the work of the Independent Regulators Group (IRG) and BEREC/OECD in the electronic communications sector, and in the work of the European energy regulators (CEER/ERGEG), the Energy Regulators Regional Association (ERRA) and the UN Economic Commission.

Regional cooperation

Two annual events with emphasis on the Baltic regional cooperation must be specially mentioned. They are a part of the European Union processes. Recommendations on regulated access to the Next Generation Access Networks, the Roaming Regulation, the EC draft recommendations on the financing model of the universal service, service quality, implementation results of regulations on customer protection and access were discussed in the 2011 meeting of the Baltic electronic communications and postal regulators. The situation in postal markets and the impact of market liberalisation on the postal sector were also analysed in the meeting. The participants of the Baltic regional electricity market analysed the aspects of implementation of the 3rd Energy Package, provided a review on the operational results of power exchanges in the Baltic States, as well as a review of the working group on the regional aspects of the European Energy Work Plan 2011-2014 which were coordinated by the Commission, including the preparation of the single regional report for submission to ACER and the European Commission. In 2011, a special Baltic regulatory forum (with participation of the Nordic countries) took place about current issues in the gas, thermal energy and water supply sectors.

Exchange of experience

The Commission has increased its contribution for regulatory organisations and experience exchange including organising the first IRG/BEREC plenary meeting in Riga, the first CEER working group meeting, and two CEPT ECC meetings – about numbering and the establishment of the Next generation network infrastructure. In consortium with the Spanish regulator CMT and the Swedish regulator PTS, the Commission obtained the rights to provide for the implementation of the Twinning project in the electronic communications sector in Ukraine. The Commission's representative heads the Tariff/Pricing Committee of the Energy Regulators Regional

Association (ERRA); the Commission has also participated in the drafting of documents about regulatory issues of the energy sector within the ERRA framework. The Commission's representatives made presentations in more than 40 events about topical electronic communications and postal issues including service quality control and supervision of consumer interests, market monitoring, experience in the implementation of the EU directives; development of the electricity market of the Baltic region, security of gas supplies, experience in the implementation of the EU energy regulatory framework - the 3rd Energy Package; the model of the universal service, especially in the context of the postal sector; the Latvian experience in multi-sector public utilities regulation; experience regarding the issues of water supply and thermal energy supply. The Commission has welcomed representatives of the EU Eastern partnership countries and other representatives within the framework of the EU projects several times. Also, the Commission's experts shared their experience with the Ukrainian, Kosovo, Albanian, Armenian and other regulators during short-term visits organised by the Technical Assistance and Information Exchange (TAIEX).

On June 10, 2011, the Commission organised an international conference on the experience of multi-sector regulation and future tasks both in a broad context, and discussing thoroughly topical issues in the electronic communications, energy, thermal energy and water supply sectors. Many sector representatives, representatives from other state institutions, as well as the Estonian, Lithuanian, German regulators, and the representatives of the European Commission and the World Bank participated in the conference.

Activities in 2012

In 2012, the priorities of the Commission's international cooperation will be determined by the necessity to implement the existing EU legal acts and participate in the discussion of the new legal acts. In the energy sector, it is the 3rd Energy Package which includes certification of the transmission system operators, monitoring of power exchanges, the process of regional coordination, approval of investment plans, participation in the drafting of ACER recommendations, and especially the new Infrastructure Package. In the electronic communications sector – availability of the radio frequency spectrum, network neutrality, universal service regulations, broadband access, cross-border issues and other issues which will be determined mainly by the BEREC's agenda. In the postal sector, the EU will open the market to full liberalisation in 2013. In the railway sector,

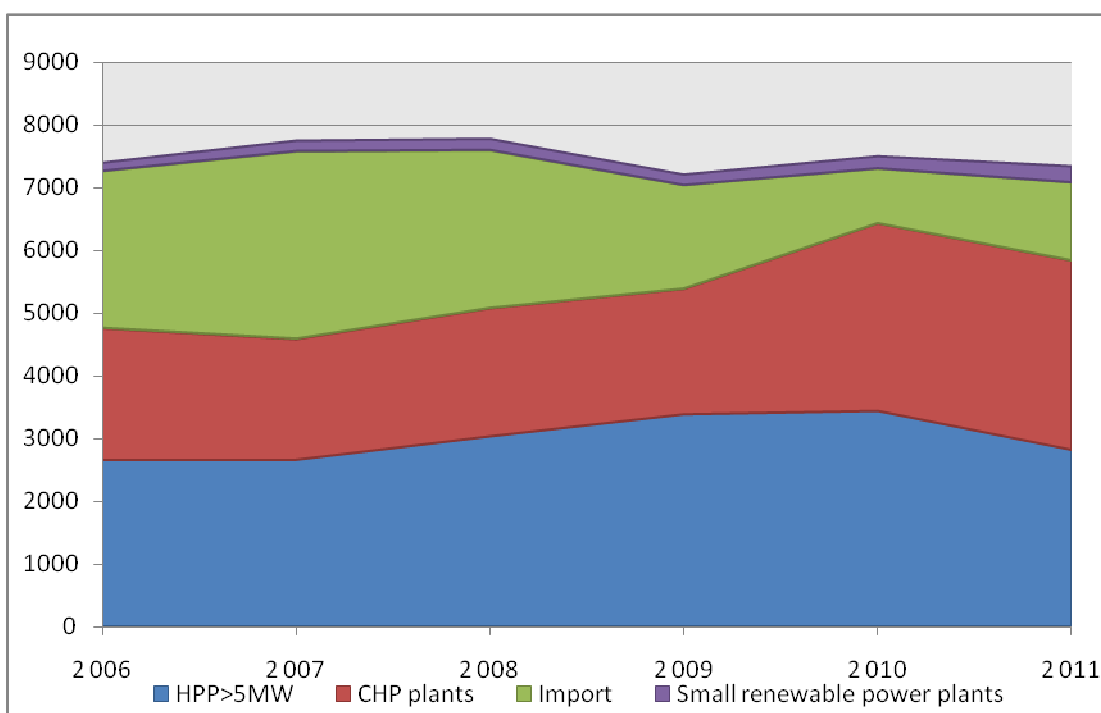
the progress of the new Railway directive will be the most significant event, setting broader regulatory functions.

Regulation in the Energy Sector

In the energy sector, the areas regulated by the Commission are the supply of electricity, the supply of natural gas, the distribution of liquefied gas and the supply of thermal energy.

Only the stock company “Augstsprieguma tīkls” transmits electricity along 330kV and 110kV transmission lines in the territory of the Republic of Latvia. 11 distribution system operators distribute electricity along medium voltage (6-20 kV) and low voltage networks. The stock company Sadales tīkls supplies electricity to 99% of the power users. In order to distribute electricity, companies have to receive a licence from the Commission indicating its operational zone.

Several companies trade electricity, however, most customers (~94%) buy electricity from the stock company Latvenergo which imports and exports electricity and also fulfils the functions of the supplier of last resort as a public trader. In order to trade electricity, companies must be registered in the electricity trader register. The stock company Latvenergo provided for 94% or 6,749.7 GWh of the total electricity consumption in Latvia; other electricity market participants provided 6% or 430.8 GWh.

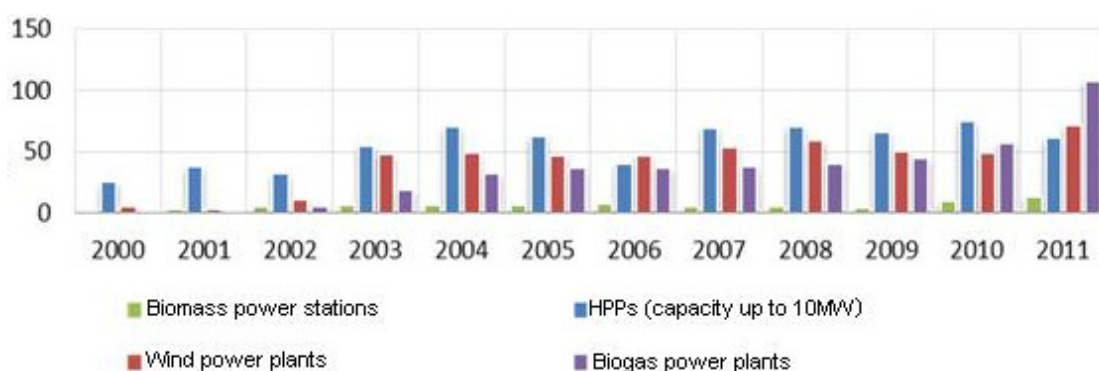


Electricity generation and import in Latvia in 2006-2011 (GWh)

More than 100 companies generate electricity in Latvia. All electricity producers with generating capacity above 1 MW have an obligation to register in the electricity producer register. The largest registered company is Latvenergo.

The statistical data indicate that electricity supplies to the internal market in Latvia were 7,159 GWh in 2011 which is 1.9% less than in 2010.

In 2011, the gross electricity generation reached 6,096 GWh which is 8% less than in 2010. 50.5% of the total amount of generated electricity was produced from renewable energy resources (HPP, wind, biogas, biomass power stations).



Electricity generated from renewable resources in 2000-2011 (GWh)

84 CHP plants operated in Latvia in 2011 with the total electrical capacity of 966.2 MW. The plants generated 3,122 GWh of electricity and 4,175 GWh of thermal energy which is 60.9% of the total amount of generated thermal energy. Compared to 2010, the electrical capacity of CHP plants increased by 1.95%. The largest installed electrical capacity of CHP plants was in Riga – 880.1 MW.

The aggregate electrical capacity of wind power stations increased by 6 MW in 2011 and was 36 MW. A total of 71 GWh of electricity was produced which is 31% more than in 2010.

The electrical capacity of biomass power stations remained unchanged - 5 MW, compared to 2010. A total of 13 GWh of electricity was produced or 30.8% more than in 2010.

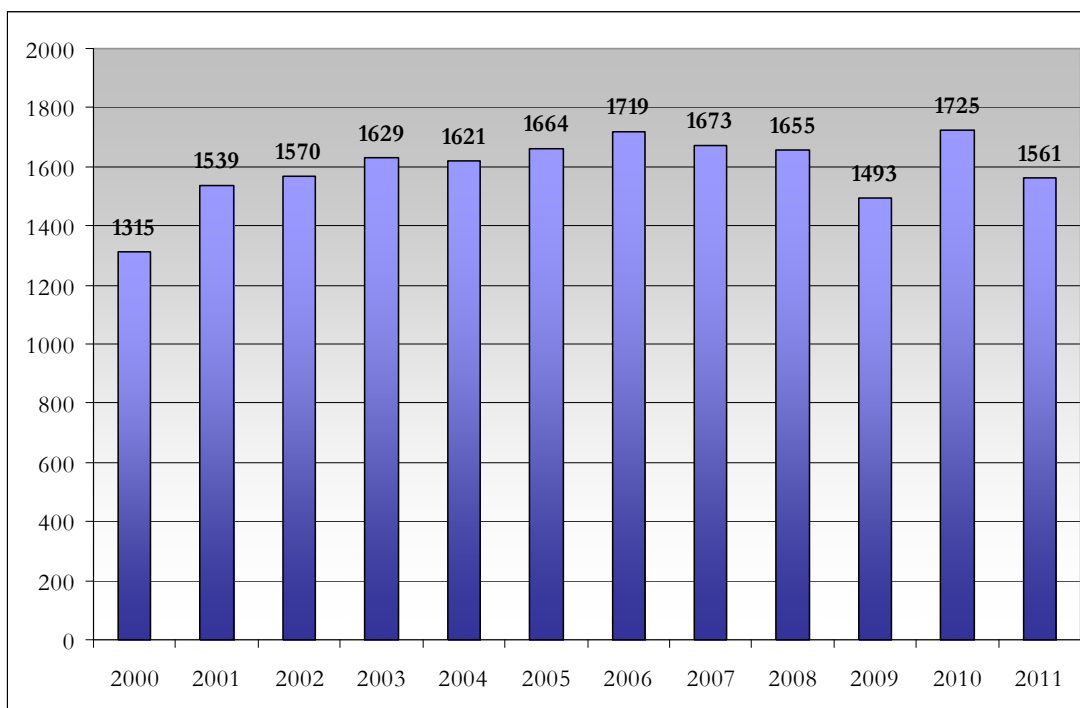
The installed capacity of biogas power plants in 2011 grew from 11 MW in 2010 to 24 MW in 2011 and 107 GWh of electricity were generated in total or 53% more than in the previous year.

The electrical capacity of hydro power plants has remained unchanged, but the volume of produced electricity has decreased from 3,635 GWh in 2010 to 3,078 GWh in 2011, a drop of 15.3%. Hydro power plants with capacity below 10 MW generated 63 GWh of electricity or 16% less than in 2010. Large hydropower plants with capacity above 10 MW produced 2,826 GWh of electricity or 91.8% of all electricity generated from renewable power resources in Latvia.

In 2011, natural gas (92.3%), as well as biogas, wood, coal, heavy fuel oil, and biodiesel fuel were mainly used for generation of thermal energy and electricity in CHP plants.

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.



Natural gas consumption in Latvia, million n. m³

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.

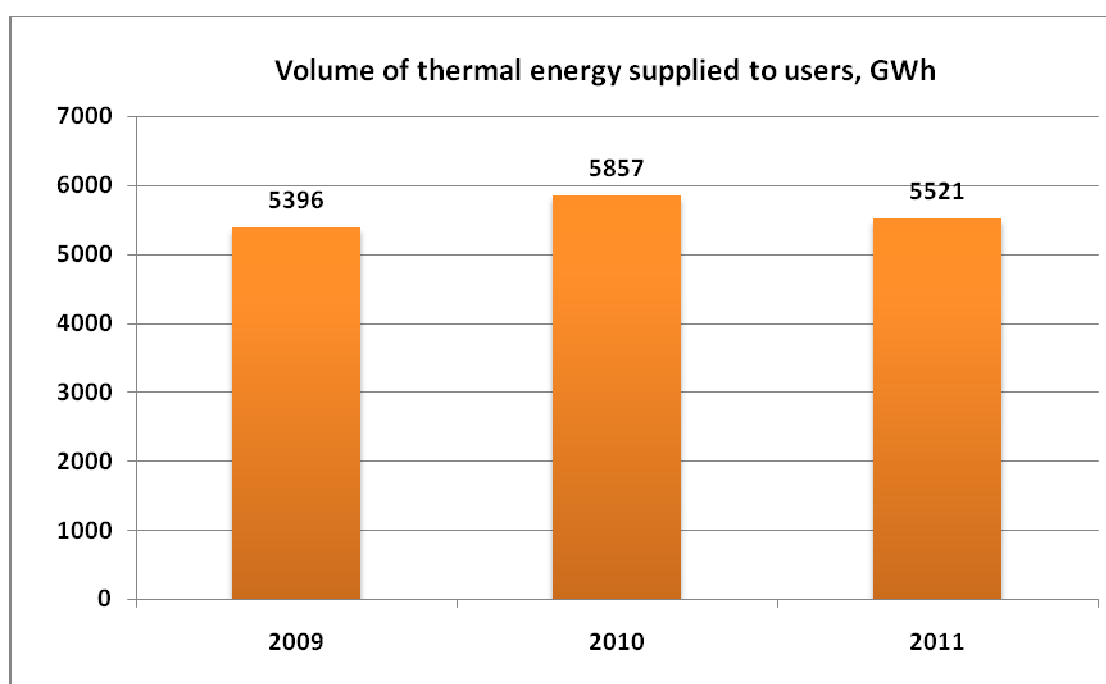
The amendment to the law of December 10, 2009, regarding the procedure under which certain sections of the Energy Law will take effect, stipulates that the natural gas market will not be opened to competition until April 4, 2014.

Natural gas consumption in Latvia decreased by 13% in 2011 as compared to 2010 and was 1.561 billion m³. Of this amount, 62% was used to produce heat and electricity, 16% was used to supply industrial users, 12% to supply businesses and communal companies, 8.5% to supply residential users, and 1.5% to supply agricultural companies.

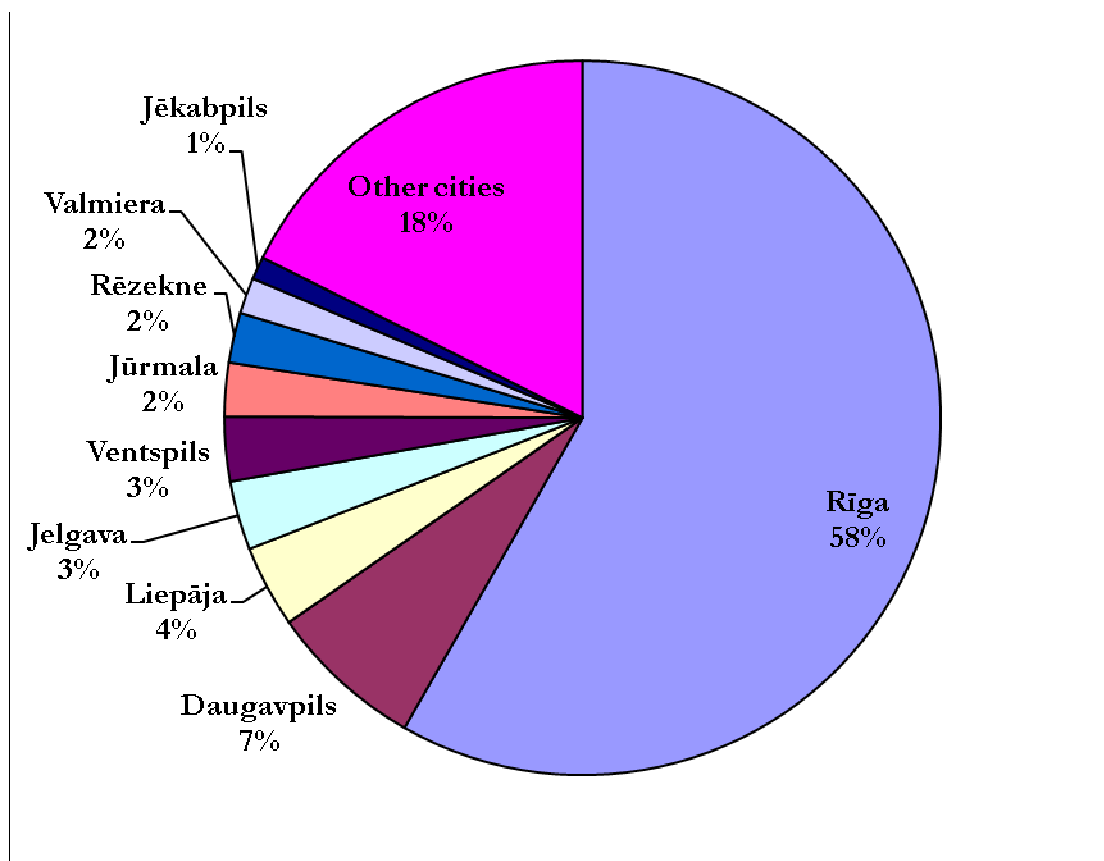
The supply of thermal energy is very important in the Latvian climate because buildings require heating more than six months per year. About 60% of the total energy necessary for heat supply is received from district heating systems. Most district heating systems were built 30 – 50 years ago, but significant works of reconstruction and efficiency

improvement have been done in the last 10 – 15 years. Heat supply companies produce thermal energy both in boilers and cogeneration installations. The main fuel types used for generation of thermal energy are natural gas and woodchips.

In December, 2011, 91 companies were regulated in the heat supply sector, and the largest 30 of these supplied to users more than 95% of the total regulated volume of thermal energy. Dynamics of the volume of thermal energy supplied to users by the regulated heat supply companies and distribution in the Latvian cities are shown in the graphs below.



Dynamics of the volume of thermal energy supplied to users in 2009-2011



Distribution of thermal energy produced in Latvian cities in 2011

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 in the energy sector:

- CHP plants, which generate electricity and thermal energy as long as their maximum output is above 1 megawatt (MW);
- generation of electricity in plants with electrical 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 traded volume exceeds 4,000 MWh per year;
- generation of thermal energy in facilities with installed thermal capacity above 1 MW if the volume of thermal energy transferred to users exceeds 5,000 MWh per year;
- transmission and distribution of thermal energy if the total volume of transmitted and distributed thermal energy exceeds 5,000 MWh per year;

- trade of thermal energy to users, if the total traded volume of thermal energy exceeds 5,000 MWh annually.

At the end of the reporting year, the Commission had licensed 191 companies in the electricity supply sector. The Commission issued 203 licenses - 97 for CHP plants that generate electricity and heat, 53 for wind power stations, two for solar power plants, one for electricity generation from biogas of waste landfill sites, and two for hydroelectric power plants. One licence was issued for the transmission of electricity, 11 for the distribution of electricity, and 36 for the trade of electricity.

In 2011, the Commission issued 41 new licenses of which six were issued for electricity trading. 35 licenses were issued for electricity generation, 25 of these are for generation of electricity and thermal energy in CHP plants and 10 are for electricity generation in wind power stations. Licensing of electricity producers and traders has been substituted with registration since January 1, 2012.

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 the liquefied gas supply, seven companies had been licensed at the end of the reporting period; the licences were issued for the distribution of liquefied petroleum gas from underground and above-ground reservoirs through pipelines to a connection point in a residential building. In accordance with December 27, 2011 amendments to October 27, 2009 Cabinet of Ministers Regulations No.1227 “Regulations on types of regulated public utilities”, the above-mentioned service type has been excluded from types of regulated public utilities from January 1, 2012.

On March 19, 2011, amendments to the Cabinet of Ministers Regulations No.1227 “Regulations on types of regulated public utilities” were approved defining more precise criteria for the regulated service of the thermal energy supply and specifying that thermal energy generation, transmission and distribution or trade shall be regulated only if the service volume exceeds 5000 MWh/year.

At the end of the reporting year – in December 2011, 91 companies were regulated in the thermal energy supply sector. The regulated companies have 90 licences for thermal energy generation, 65 licences for thermal energy transmission, 57 licences for thermal energy distribution and 60 licences for thermal energy trade. In 2011, 27 new licences were issued, 10 licences were amended and three licences were cancelled. Licensing of thermal energy producers and traders has been substituted with registration since January 1, 2012.

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 87 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	Supply of thermal energy	Gas supply
1.	Issued certificates of safety for HPP hydraulic structures	52			
2.	Approved safety programs for HPP hydraulic structures	1			

3.	Number of inspections	58	6	20	3
4.	Violations found	32	6	16	5

To verify the fulfilment of licence conditions, inspections were performed in newly built power 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.

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

- Unconformity of the condition of constructions of electrical installations;
- Inadequate condition of electrical installations;
- Incomplete fulfilment of preventive measurements of electrical installations and failure to comply with periodicity.

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

- Absence of thermal energy accounting;
- Failure to comply with periodicity of verification of heat supply meters;
- No registration journal of energy efficiency indicators.

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

- Boundary acts have not been drawn up for facilities;
- Failure to comply with the deadline of verification of gas leakage sensors;
- Maintenance of territories of gas supply facilities;
- Failure to comply with periodicity of preventive measurements.

After assessing the results of surveys of energy companies' facilities, the Commission concluded that companies comply with legislative requirements of the regulated sector. No serious violations were found, and the violations indicated in inspection files were eliminated by the deadline set by the Commission. 156 hydraulic structures are listed in the register of hydraulic structures of hydroelectric power plants. Of these, 11 do not operate commercially.

58 hydraulic structures were inspected in the reporting period. 56 hydraulic structures were inspected because renewed safety certificates had to be issued. The safety certificate of one hydraulic structure (Garsene HPP managed by the farm Dzirnavas in Garsene municipality, Akniste district) was cancelled due to an accident in this HPP.

The Commission reviewed safety declarations of 49 HPP hydraulic structures and safety certificates were repeatedly issued to 34 managers of HPP 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 SURMIS in Nkrace municipality, Skrunda 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 a river bed;
- absence of protection against lightning;
- absence of an act for a levelling rapper;
- the lack of an instruction for the personnel of a hydroelectric power plant on 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;
- absence of horizontal and vertical deformations;
- washed out dam, heavily damaged drainage construction;
- wash-outs in the exit canal at the concrete foundation of a river bed;
- wash-outs in the foundations of an HPP structure, cracks and defects in a wall with or without leakage of water;
- closures and their supports of an HHP drainage structure are washed-out;
- the specified water level is not maintained in a reservoir;
- cover cap of a circuit board chain is damaged;
- the principal scheme of an electrical installation does not correspond to the existing composition of equipment;
- the generating installation is not attached to the earthing system;
- periodic and prophylactic inspection, measurements, repairs are not performed in a planned manner;
- electrical installation is not implemented in line with fire regulations;
- cable protection against mechanical damages is not provided.

After assessing the results of the survey of hydraulic structures of hydroelectric power plants, the operation of one HPP was found to be inadmissible because of an accident in this HPP. The safety certificate of the hydraulic structure of this HPP was cancelled. Violations that could cause accidents of HPP hydraulic structures were not found for the remaining inspected HPPs. The managers of hydraulic structures eliminated the violations by the deadline set by the Commission.

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 customers 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.

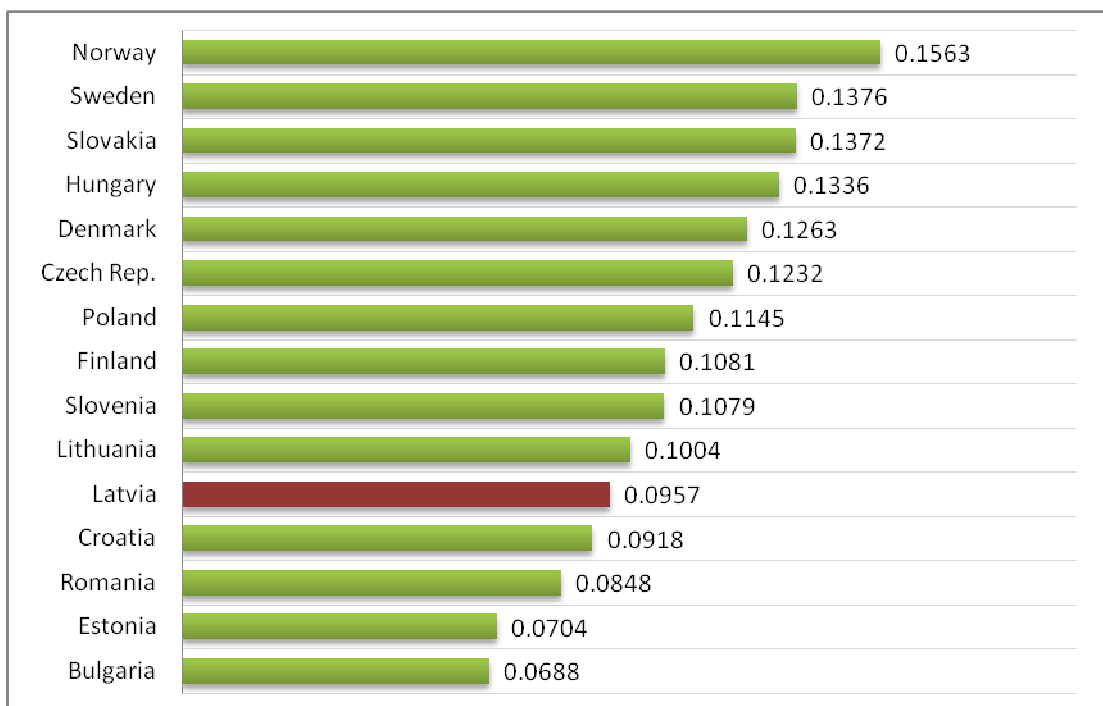
Captive customer tariffs are defined for those users of electricity in Latvia, who have not taken advantage of the opportunity to freely choose the supplier of electricity. These clients pay for electricity in accordance with tariffs that are defined by the Commission. Tariffs for captive customers differ from one user group to another, depending on the voltage level, the demanded amount of electricity and time zones. Captive customer 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 CHP plants 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.

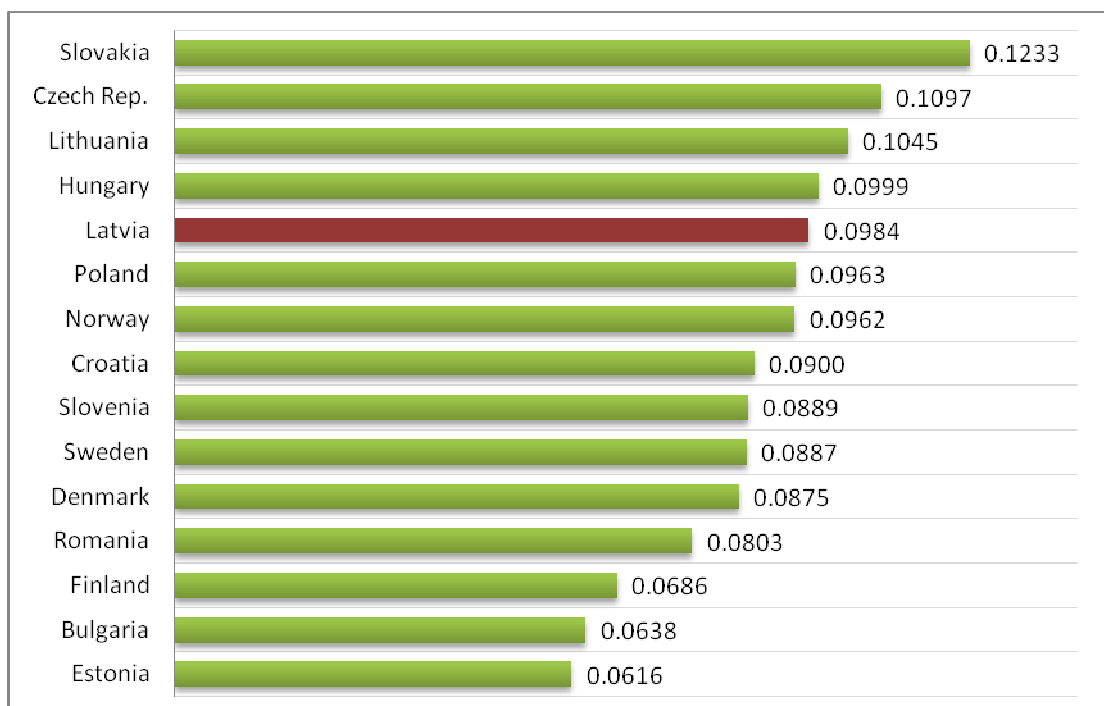
New electricity and thermal energy tariffs were approved for several CHP plants including the stock company Latvenergo (TEC-1 and TEC-2 plants), the heating plant Imanta and the CHP plant of the stock company Rīgas siltums in Keramikas Street 2a, LLC Windau, the stock company Valmieras enerģija, LLC Fortum Jelgava, LLC Liepājas enerģija, the municipal stock company Daugavpils siltumtīkli, LLC Sal-Energo.

The approval of tariffs for Latvenergo’s TEC-1 and TEC-2 plants and the stock company Valmieras enerģija was related to changes in the application of the excise tax for natural gas used as fuel for production of thermal energy from July 1, 2011, (in accordance with the law “On Excise Tax”, from July 1, 2011 an excise tax amounting to 12.00 LVL/thousand n.m3 is applied to natural gas used for generation of thermal energy). It was also related to August 8, 2011 decision No.39 “On granting emission quotas to operators in 2008-2012” of the Ministry of Environmental Protection and Regional Development. The tariff approval for LLC Fortum Jelgava, LLC Liepājas enerģija, and LLC Windau was related to changes in the application of the excise tax for natural gas used as fuel for production of thermal energy from July 1, 2011.

Tariffs were approved for CHP plants which have recently started operations and submitted electricity tariff proposals for the first time: LLC Sal-Energo, the CHP plant of the stock company Rīgas siltums in Keramikas Street 2a, LLC Liepājas enerģija, and the municipal stock company Daugavpils siltumtīkli. 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 2011, the Commission approved the tariff proposal of the stock company Sadales tīkls for electricity distribution system services.



Electricity prices for households in the Eastern Europe and the Nordic countries in 2011



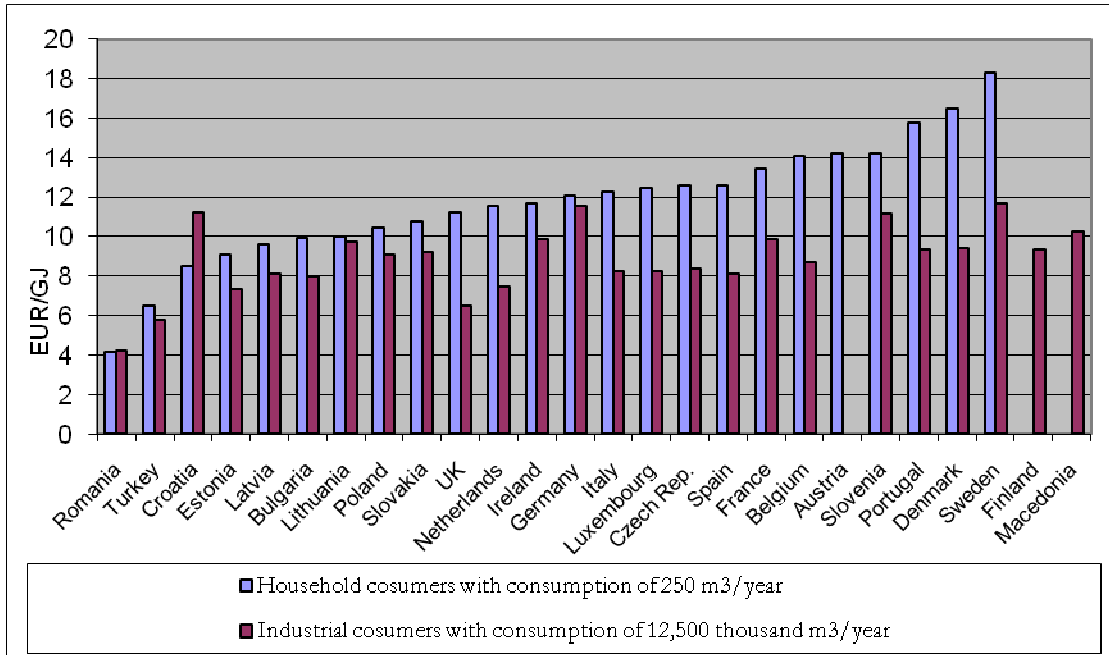
Electricity prices for industrial users in the Eastern Europe and the Nordic countries in 2011

According to the *Eurostat* data for 2011, 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.

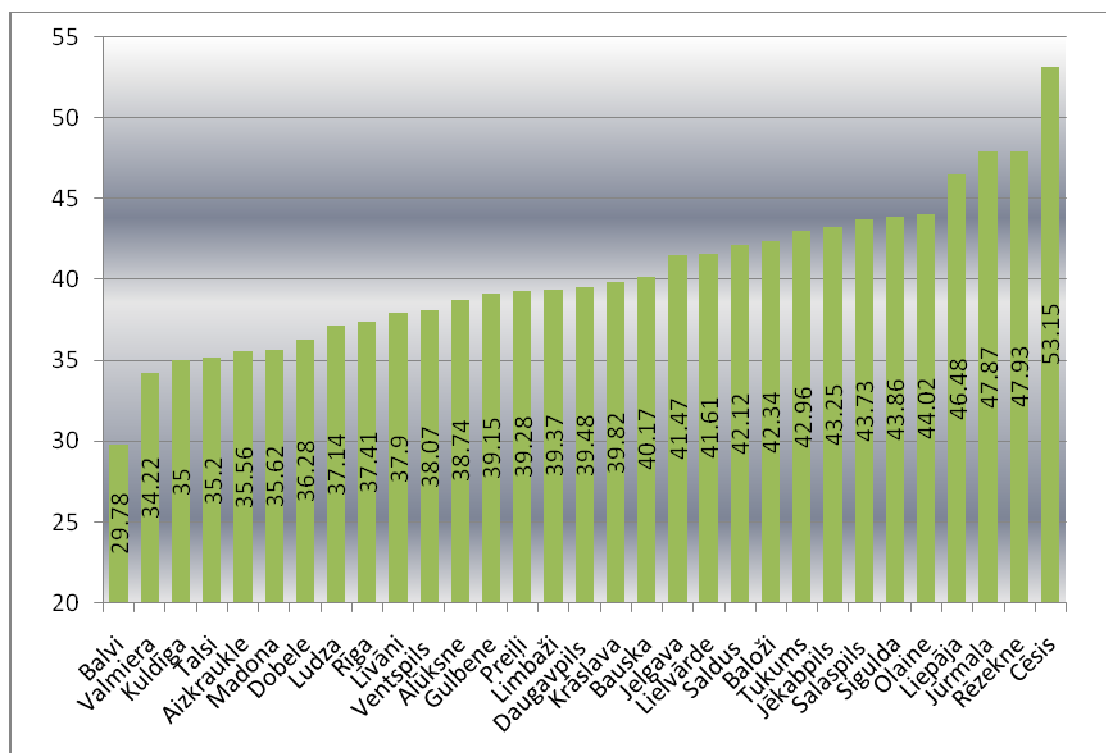
According to the *Eurostat* data for 2011, Latvia had the third lowest natural gas tariffs among the member states of the European Union and the fifth lowest natural gas tariffs among the European countries.



Natural gas prices in the member states of the European Union in 2011 (EUR/GJ)

Thermal energy

District heating tariffs differ from city to city in Latvia. The tariff differences are determined by various technical and economic factors, for example, the efficiency of heating networks and the whole district heating system, location of networks, the volume of thermal energy losses, fuel type, the capacity of a district heating system, investments made, geographical location and topography of an urban area. District heating end-tariffs in the biggest Latvian cities in December 2011 are shown in the graph below.



District heating tariffs in the biggest Latvian cities in December 2011 (LVL/MWh)

16 tariff proposals were received, reviewed and approved in the sector of thermal energy supply.

A significant factor which in many cases was the main reason for a tariff increase was the application of the excise tax for natural gas from July 1, 2011.

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 2011, 131 complaints of public service users were received and reviewed in the energy sector. 90% of complaints were received from individuals.

Answers related to electricity supplies mostly had to do with the delivery of electricity (16%), quality of electricity (20%), and the registration of the amount of electricity used and the resultant bills (39%). In the gas supply sector, most complaints concerned issues of natural gas supply (82%). In the sector of thermal energy supply, 44% of the received

complaints were related to issues on thermal energy tariffs and payments for provided services; 22% were about problems with thermal energy supply.

In 2011, compared to 2010, the number of the received complaints has grown 44%: in heat supply – 20%, electricity supply – 45%, and gas supply – 56%.

After reviewing the complaints received in 2011, the Commission concluded that 19% or 25 complaints were unrelated to the Commission’s work, nine complaints (7%) were justified, and 97 complaints (74%) were unjustified. More detailed distribution of complaints by types of energy supply is available in the table below.

Complaints	Total, including		Electricity		Gas supply		Supply of thermal energy	
	number	%	number	%	number	%	number	%
Justified	9	7	9	12				
Unjustified	97	74	52	70	37	95	8	44
Unrelated to the Commission’s work	25	19	13	18	2	5	10	56
Total	131	100	74	100	39	100	18	100

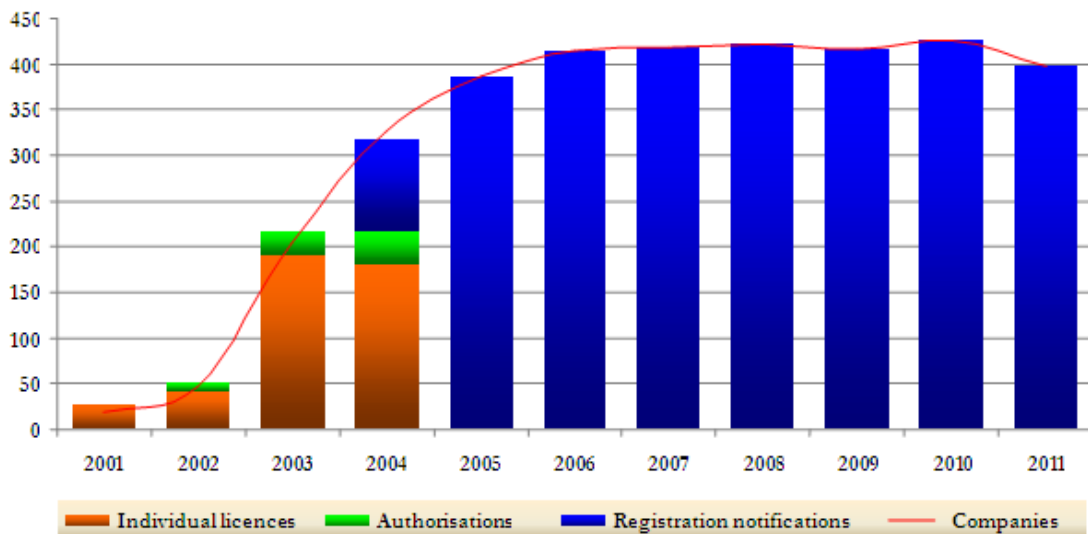
Complaints received in the energy sector in 2011

In order to provide the electricity supply service in adequate quality, on October 4, 2011, the Cabinet of Ministers Regulations No.759 “Regulations on the requirements for voltage of the public electricity networks” were approved specifying that from January 1, 2012, the application of the standard LVS EN 50160:2010 “Attributes for voltage of the public electricity networks” is mandatory. In 2012, the Commission plans to purchase measuring instruments registering the voltage quality and to perform quality measurements and objectively assess situations in case of disputes.

Regulation in the Electronic Communications and Postal Sectors

Registering companies

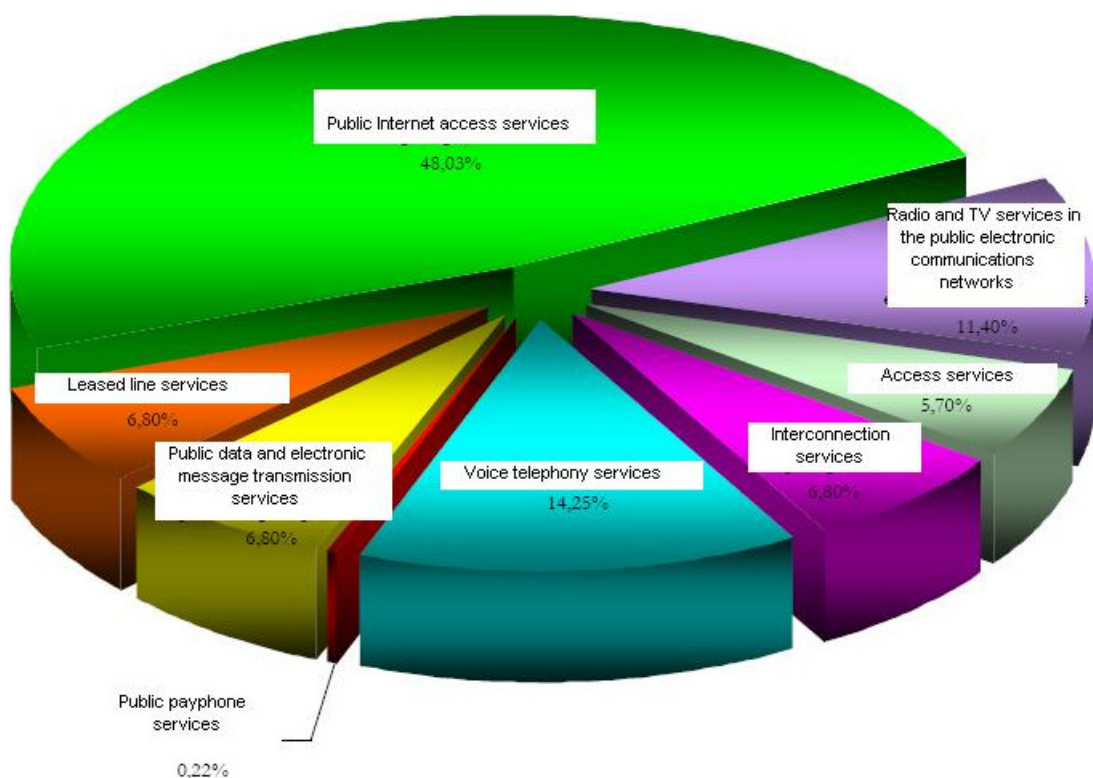
Looking at the changes in the number of electronic communications companies over an extended period and taking into account changes in the licensing regime in the electronic communications sector, a correlation can clearly be seen between the simplification of procedures for market entry and the growing number of companies.



Changes in the number of electronic communications companies from 2001 to 2011

Since 2006 the number of registered electronic communications companies has stayed almost constant because the number of new entrants is similar to the number of companies deciding to end or discontinue operations in the electronic communications sector. 32 new electronic communications companies registered with the Public Utilities Commission in 2011 and 56 companies ended their operations in the electronic communications sector.

701 electronic communications companies were registered at the end of 2011. Of these, 378 companies were actually operating in the electronic communications sector. Only 38 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.



Distribution of electronic communications companies by service types in 2011

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.

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 2011, the Commission cancelled the rights of 23 companies to provide electronic communications services and electronic communications networks for three years (out of 56 companies which ended their operations in 2011).

Market analysis to determine significant market power

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

- Voice call termination on individual mobile networks;

- Call termination on individual public telephone networks provided at a fixed location;
- The minimum set of leased lines;
- 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.

National consultations on these markets have concluded and the results of the market analysis were reported to the European Commission and other national regulators of the EU member states in 2011. Due to objections of the European Commission, notifications of the markets for telephone services provided at a fixed location were recalled in 2011 and will be reported again in 2012.

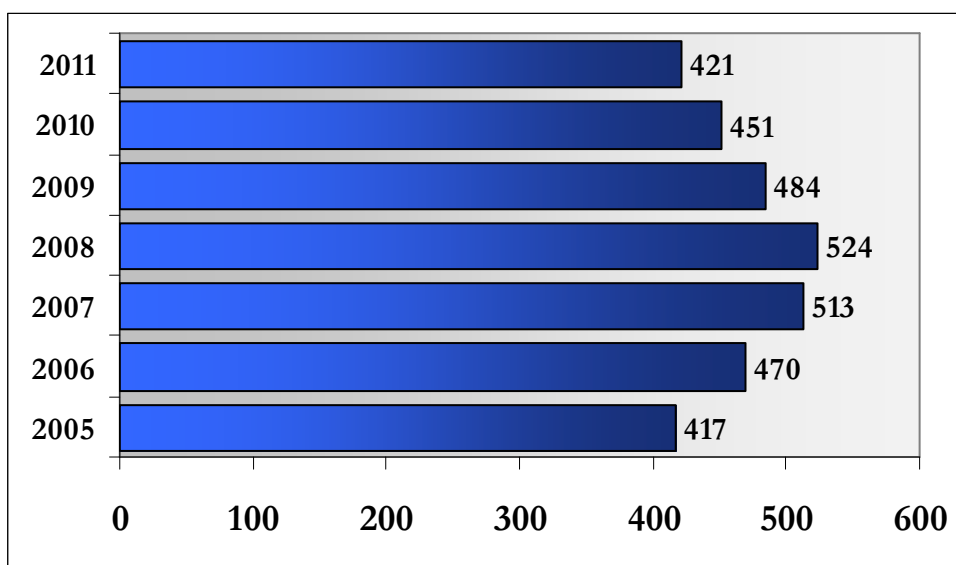
During the analysis of the market for call termination on a mobile network, the Commission decided to significantly change the approach for the market assessment because of the market structure: any company which has concluded at least one interconnection agreement and has received usage rights for numbering 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, and the obligations for access which would oblige each electronic communications company with this obligation to make an interconnection with any electronic communications company requesting it.

Detailed information about activities in the electronic communications markets has also been summarised in the reporting period and is already being used for the 3rd round of market analysis. The conclusion of the 3rd round of market analysis is planned in the 2nd quarter of 2013.

Market situation

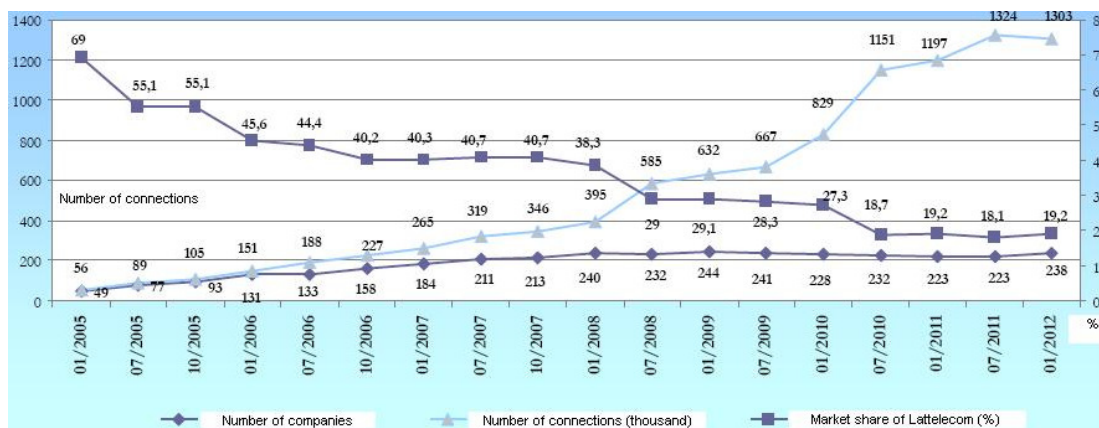
In the reporting period, a decrease of turnover in the electronic communications sector was observed. The drop started already in 2009 and symptoms of a probable decline were detected in 2008 when the rate of growth of the sector slowed considerably. The total turnover of the sector is affected substantially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

The Commission made decisions on the reduction of the upper limit of call termination rates. These decisions are predicted to result in the continued reduction of the total revenues in the electronic communications sector.



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

During the reporting year, the number of companies providing the Internet access services increased slightly. The number of the Internet access lines reached its peak and started to slow down. The number of companies and Lattelecom's market share have stabilised over the last two years. Investments of the incumbent operator LLC Lattelecom in the development of the optical cable network and bundling of services (offering *triple play* services) must be noted.



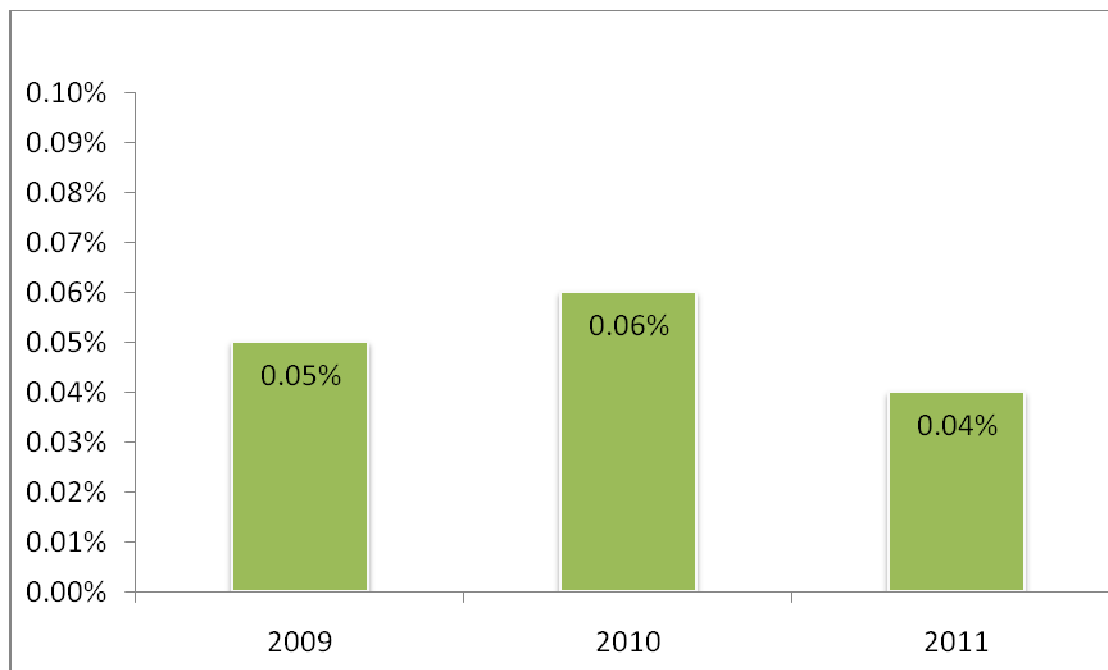
Internet service providers, number of access lines, market share of the incumbent operator

The share of optical cable networks continued growing in the reporting year. Comparing the number of optical cable connections with all fixed broadband Internet connections, the share of optical cable networks has reached approximately 23% of all fixed access connections.

Quality of electronic communications services and customer complaints

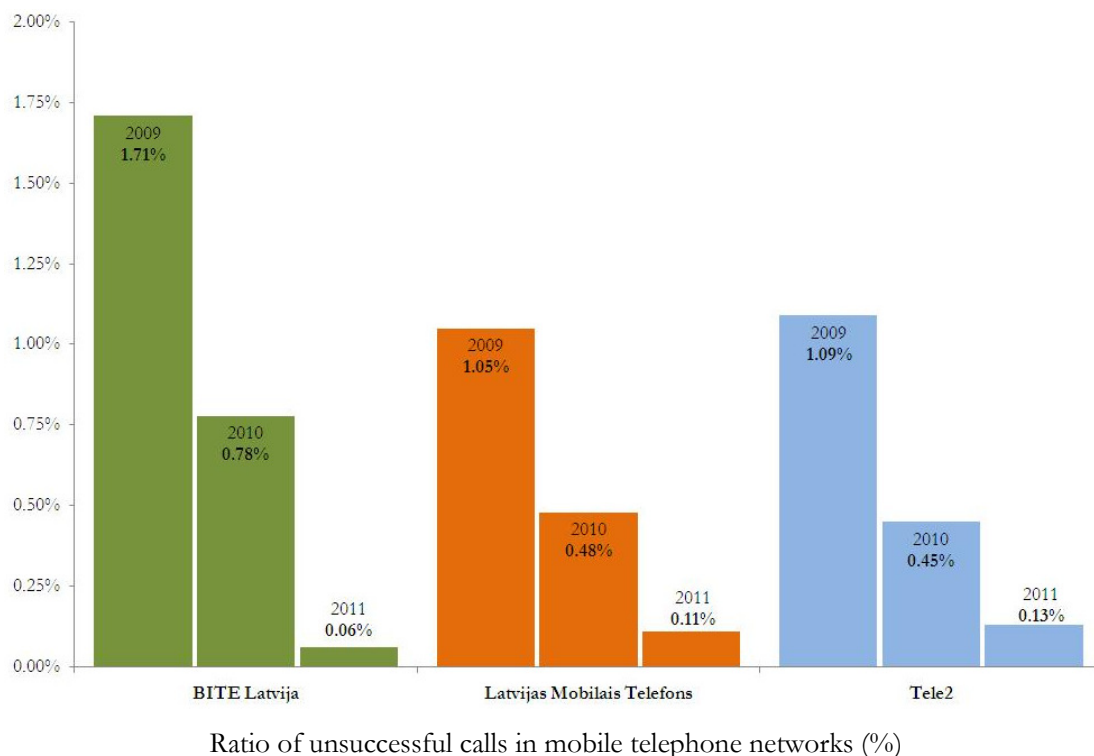
- The Commission engages in the quality control of electronic communications services in the electronic communications sector to monitor the quality of electronic communications services and to inform the public about the results.
- The Commission has prepared the 2011 report on the quality of electronic 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 2011, the Commission conducted quality measurements for the following electronic communications services:
 - the universal 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;
 - Internet access service.

In 2011, to determine the quality of the universal service, the Commission made 118,465 test calls in the fixed telephone network of the universal service provider Lattelecom, tested 56 payphones, made 800 calls to the unit that accepts damage complaints, and 800 calls to the comprehensive telephone directory enquiry service.



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

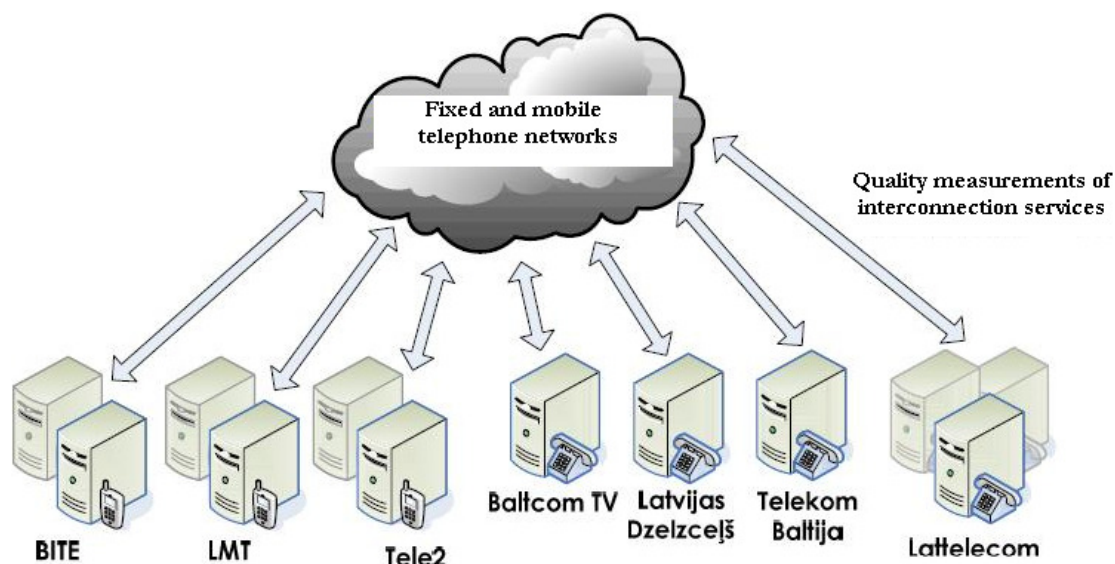
57,247 test calls were made and 9,145 test SMS messages were sent in the mobile telephone networks of BITE Latvija, Tele2, and LMT.



After evaluating the results of measurements of quality parameters of services provided by mobile telephone network operators BITE Latvija, Tele2, and LMT over an extensive time period, the Commission concluded that indicators of service quality have improved compared to the results of measurements in the previous years; this reflects investments of operators in the modernisation of their electronic communications networks.

Quality assessment of services provided by operators of mobile telephone networks show only relatively minor differences in the quality indicators, which points to an equivalent level of quality of voice telephony and SMS services provided by all operators.

To determine the quality of the interconnections service, 110,409 test calls were made in the telephone networks of the operators involved in these measurements.

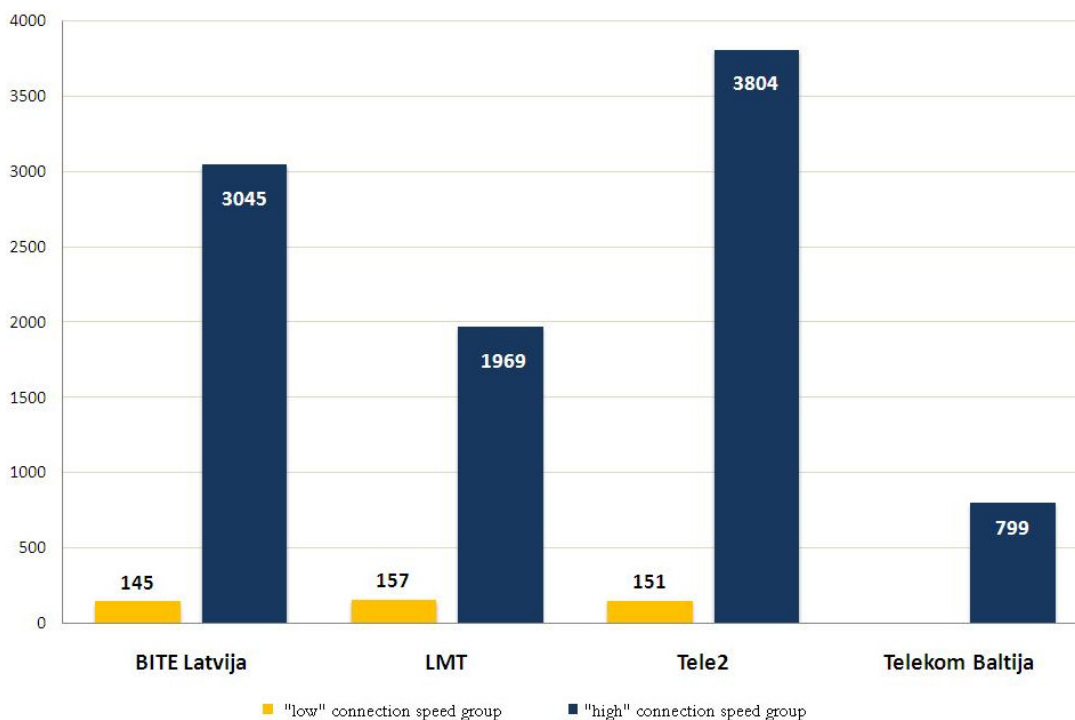


Operators involved in the measurements of interconnections

After evaluating the results of measurements of interconnection service quality parameters, the Commission concluded that the actual level of service quality meets the values declared by companies.

In 2010 and 2011, the Commission received questions from several institutions and end-users about the quality of Internet access service in mobile electronic communications networks; therefore at the end of 2011 the Commission on its own initiative performed planned measurements of the Internet access service in the mobile networks of BITE Latvija, LMT, Tele2, and Telekom Baltija.

Since the operators declared values of service quality parameters according to different and uneven distribution and level of detail for data transmission technologies, the Commission, in order to ensure the option of inter-comparison, has included the comparison for the average connection speed in two categories in the mobile networks of Bite Latvija, LMT, and Tele2 – “low” connection speed (GPRS, EDGE, UMTS technologies) and “high” (HSPA, HSDPA, HSUPA technologies) connection speed group.



Average download speeds of the Internet access service (kilobits/s)

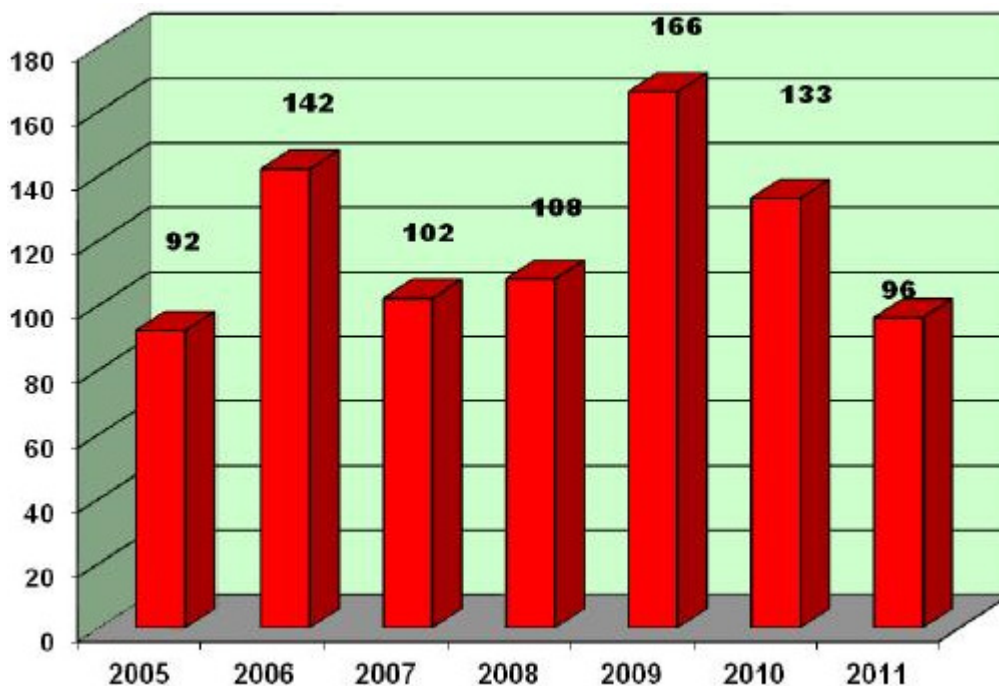
Compared to the declared values of operators, the values of the connection speeds of the Internet access service obtained in the measurements meet the range of values declared or promised in service quality declarations and correspond to information provided in descriptions of operator services regarding the service quality.

Reviewing the values of connection speeds in different freely chosen places of measurement which cover the administrative territory of Latvia as uniformly as possible, besides the fact the mobile networks of BITE Latvija, LMT, Tele2, and Telekom Baltija have different frequency of download and upload connection speed values in different groups of these speeds, irregularity of connection speeds were observed in different places and times for all operators or for simultaneously performed measurements in different time intervals. Taking into account that irregularity of the connection speed is clearly seen in the category of “high” connection speeds, it mainly shows that the operators’ options for service provision are significantly dependant from the number of users at a specific time and place and usage activity of Internet connections.

The Commission continued reviewing complaints of users of electronic communications services in 2011. The number of complaints about the transmission service of TV

programs decreased significantly in 2011 which is explained by digitisation. The Commission still receives most complaints about Internet access.

The Commission's goal is to achieve a situation so that an electronic communications company assesses every complaint submitted by a user, eliminates the problem itself and thus ensures provision of high quality services to its customers.



The number of complaints in 2006-2011

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 2011:

- 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 the net costs of the universal service for 2010. After the analysis of the submitted information, the Commission confirmed that the provision of obligations of the universal service in 2010 has not caused losses.

Scarce resources

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

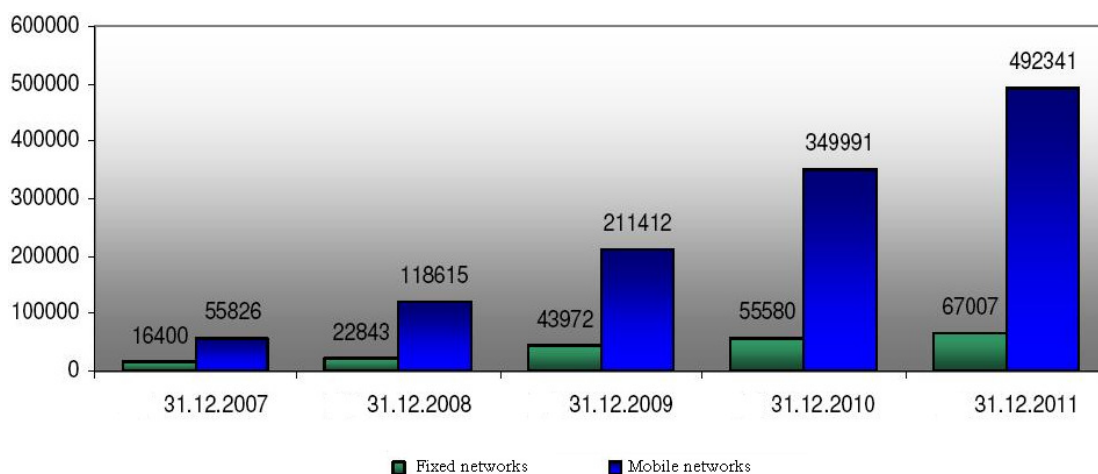
In 2011, the Commission has taken six decisions on radio frequency usage rights – about assignment, extension or cancellation of such rights.

Two auctions on usage rights of radio frequency spectrum were organised in the reporting period:

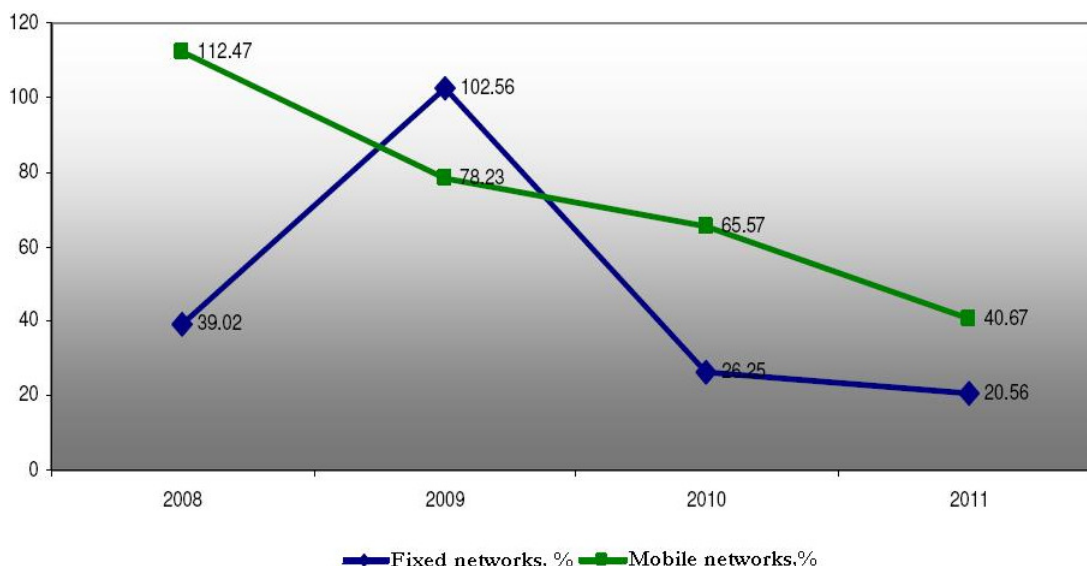
- the usage rights of two 1.25 MHz radio channels of 450.0MHz – 457.5MHz/460.0MHz – 467.5MHz bands of radio frequency spectrum (the auction was won by the stock company Telekom Baltija);
- the usage rights of 2500MHz-2690MHz band of radio frequency spectrum (the auction continues in 2012).

91 decisions were approved on numbering usage rights in the Commission’s Board meetings in 2011.

In 2011, 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



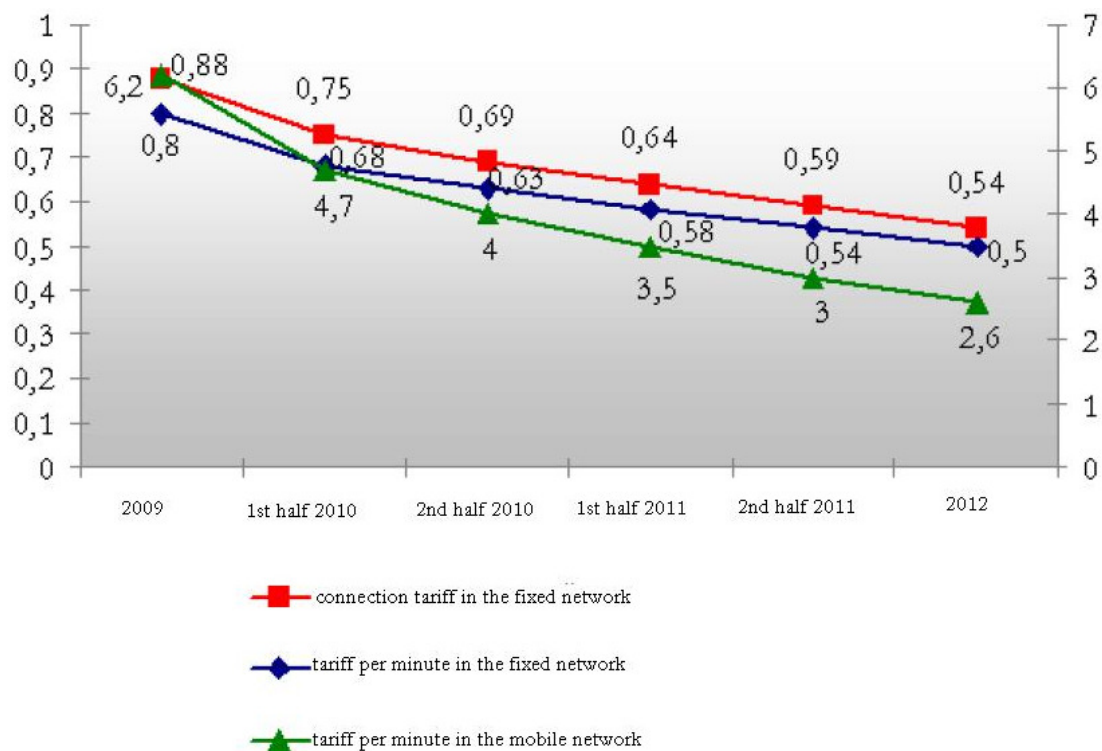
Changes in ported numbers of end-users (%), compared to previous years

Regulating tariffs

In 2011, gradual reduction of the upper limits of the call termination rates applied to the three largest operators of mobile communications - LLC Latvijas Mobilais Telefons, LLC Tele2, LLC Bite Latvija and the fixed communications operator Lattelecom continued. From January 1, 2012, the upper limit of call termination rate is 0.54 santims for a connection and 0.5 santims for a connection minute in the fixed network, and 2.6 santims per connection minute in the mobile network.

On August 10, 2011, after market analysis of call termination on individual public telephone networks provided at a fixed location, the Commission set the upper limit of the call termination rate for 39 companies – from March 1, 2012, the upper limit of the call termination rate has been set 0.0054 LVL for a connection and 0.005 LVL for a connection minute for LLC „BALTKOM TV SIA”, LLC „CSC TELECOM”, LLC „Datagrupa.lv”, LLC „FINORS TELEKOM”, the stock company „Latvenergo”, the state stock company „Latvijas dzelzceļš”, LLC „SIGIS”, LLC „OPTRON”, the stock company „Telekom Baltija”, LLC „UNISTARS”, LLC „D-COM”, LLC „AUGSTCELTNE”, LLC „TELENET”, LLC „INTERNETA PASAULE”, LLC „Telia Latvija”, LLC „IZZI”, LLC „Tivi”, LLC „Telegrupa Baltija”, LLC „Master Telecom”, LLC „IT GROUP”, LLC „TELEFANT”, LLC „Rigatta”, LLC „Fastnets”, LLC „HIG Serviss Baltija”, LLC „iLink”, LLC „TELECENTRS”, LLC „Advem”, LLC „ECO Solutions”, LLC „MPE NETS”, LLC „TeleMedia”, LLC „DATU TEHNOLOĢIJU

GRUPA”, LLC „Stream Networks”, the stock company „BALTICOM”, LLC „TG Transit”, LLC „TELEGLOBAL”, LLC „SOTUS”, LLC „ESTERIA 79”, LLC „MWTV”, and LLC „10 1/2”. The Commission guarantees that from March 1, 2012, symmetric tariffs which are approximated to costs of an efficient operator are applied in the market for call termination on individual public telephone networks provided at a fixed location.



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

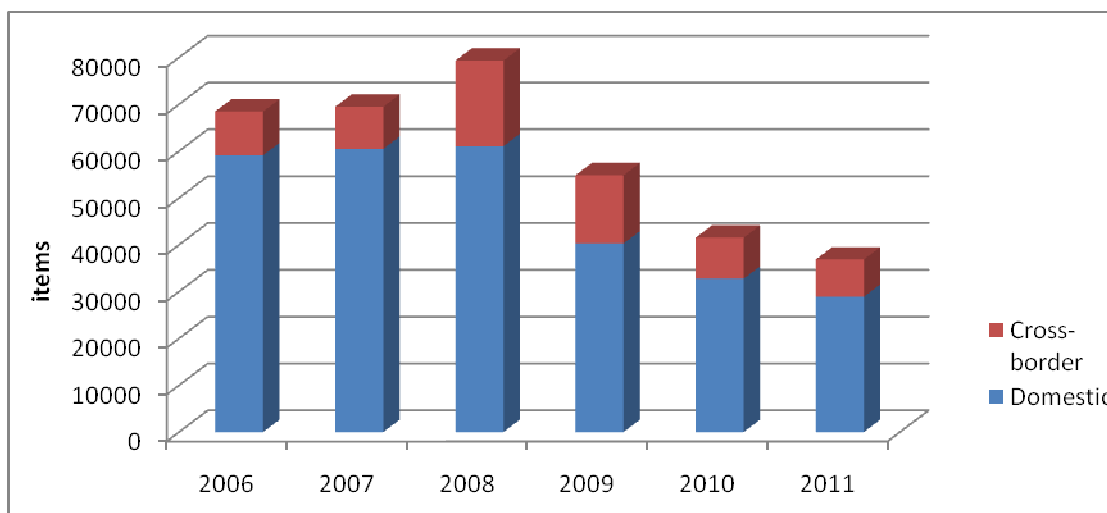
On June 18, 2009, The European Parliament and the Council adopted Regulation No. 544/2009 amending Regulation No.717/2007 on roaming on public mobile telephone networks within the Community and Directive 2002/21/EC on a common regulatory framework for electronic communications networks and services, 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, 2011, tariff for a call made using a roaming service in a European Union country must not exceed 0.25 LVL per minute, while the tariff for an SMS must not exceed 0.078 LVL. An incoming call must not be charged more than 0.078 LVL per minute. The average wholesale tariff for roaming was set at 0.13 LVL/minute, the average wholesale tariff for an SMS message – 0.0284 LVL, the average wholesale tariff for 1 MB data roaming – 0.3548 LVL (all above mentioned tariffs are without VAT).

On December 21, 2011, 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”.

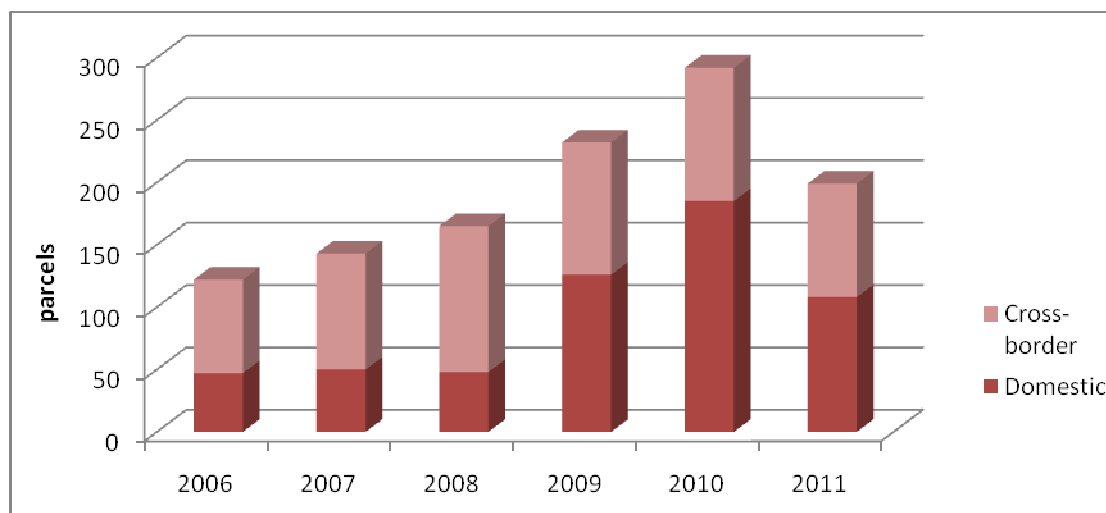
Postal sector

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 2011, 36.9 million letter-post items and 199 thousand postal parcel items were sent and 37.1 million subscribed press publications were delivered.

In comparison to 2010, the total number of letters sent decreased by 11.2% (international items - by 9% and domestic items - by 11.8%). The number of postal parcels sent dropped 31.8% compared to 2010.



"Latvijas Pasts" letter-post items (thousand)



"Latvijas Pasts" postal parcels (thousand)

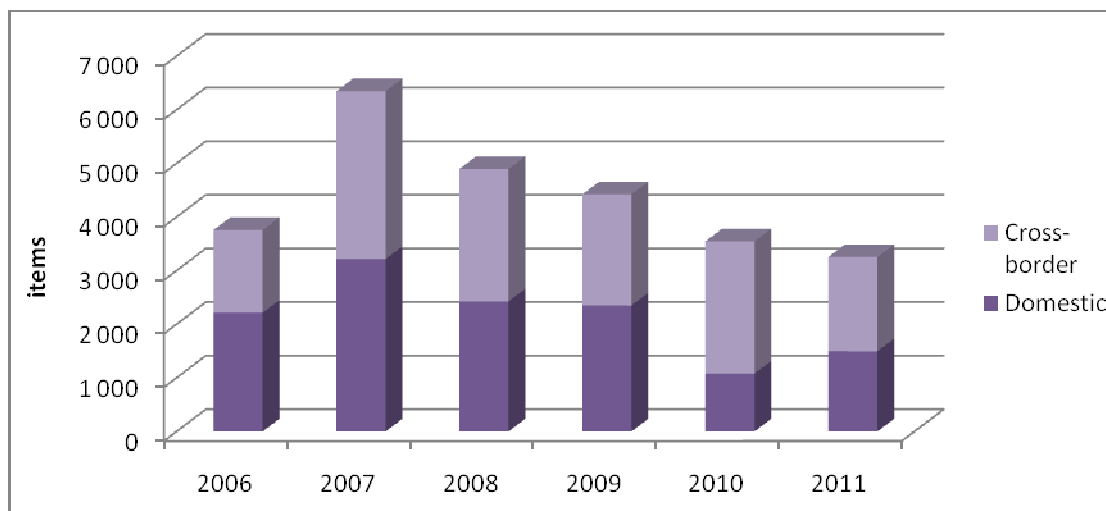
In 2011, the state-owned stock company Latvijas Pasts coordinated with the Commission the closure of 218 mailboxes, movement of 33 post offices to new premises and location changes of 54 mailboxes. There were a total of 625 post offices and 1055 mailboxes at the end of the reporting year.

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 Class B letters). 99.4% of Class B letters were delivered within three business days after the control letters were sent. In the reporting year, the state-owned stock company provided for independent quality measurements of the Class A postal items in accordance with the requirements of the standard LVS EN 13850+A1:2007 "Postal services. Quality of services". In line with the 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.

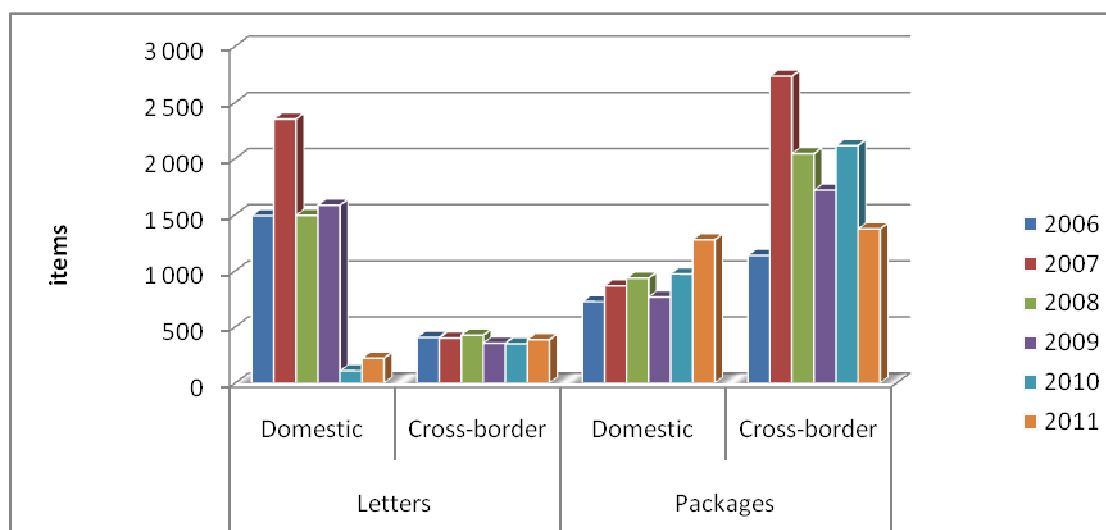
65 postal companies were listed in the Commission's database at the end of 2011. The Commission registered seven postal companies and cancelled the rights of two postal companies to provide postal services in 2011.

The remaining traditional providers of postal services, excluding the state-owned stock company "Latvijas Pasts", delivered 3.1 million letter-post items, 4 thousand postal parcel items, and 2.5 million subscribed press publications.

There are 37 active postal service providers in the field of express mail and courier mail. In 2011, there were 3.2 million express mail and courier mail shipments – 8.2% less than in 2010.



Express mail and courier mail items (thousand)



Express mail and courier mail items (thousand)

In the postal sector in 2011, the Commission received and considered 16 complaints regarding postal service providers. All complaints concerned the provider of the universal postal service – the state-owned stock company Latvijas Pasts. 15 complaints were received from individuals. Most of the complaints were about unsatisfactory delivery or loss of postal items. The Commission upheld three of the complaints.

Regulation in the Rail Transport Sector

In the rail transport sector, passenger carriage by rail in 2011 was provided by the following companies:

- The 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 2011, the Commission repeatedly issued a licence to LLC Gulbenes-Alūksnes bānītis which provides passenger carriage by rail in a narrow-gauge rail line between the towns of Gulbene and Alūksne, as well as repeatedly issued a licence to the stock company Pasažieru vilciens which provides passenger carriage by rail throughout Latvia.

Supervision of public service providers

In 2011, the Commission investigated two companies in the rail transport sector. In one case, the Commission concluded that a company only partly complied with an obligation to place information in a visible place in train stations about the transportation charge for passengers, hand luggage, luggage, and load luggage, charge discounts and information about the list of items (also substances) which are prohibited to be transported in hand luggage, luggage, and load luggage. The company eliminated the shortcomings.

Updating normative documents

The Commission approved the new version of the Methodology for calculation of the charge for the use of the public railway infrastructure by decision No.1/21 on September 21, 2011.

The Commission approved the Procedure for application of the charge for the use of the public railway infrastructure by decision No.1/11 of June 16, 2011 and approved the Settlement procedure of the charge for the use of the public railway infrastructure by decision No.1/10 of June 16, 2011.

The Commission amended the Procedure for application of the charge for the use of the public railway infrastructure by decision No.1/26 of November 16, 2011 and amended the Settlement procedure of the charge for the use of the public railway infrastructure by decision No.1/25 of November 16, 2011.

Methodology for setting the charge for the use of the public railway infrastructure

Until 2011, the Commission approved the charge for the use of the public railway infrastructure. On September 23, 2010, amendments were made to the Railway Law specifying that the charge for the use of the public railway infrastructure is set by the performer of relevant functions of the manager of the public railway infrastructure. On December 1, 2011, the stock company LatRailNet as the performer of relevant functions of the manager of the public railway infrastructure made a decision on the charge for the use of the public railway infrastructure for 2012.

The Commission's competence is to review complaints about the charge for the use of the public railway infrastructure set by the performer of relevant functions of the manager of the public railway infrastructure. No complaints were received in 2011.

The Commission still has the obligation to determine the Methodology for calculation of the charge for the use of the public railway infrastructure.

Informing the public and public service providers

In 2011, the Commission organized discussions and consulted the representatives of the state-owned stock company Latvijas dzelzceļš and the stock company LatRailNet on the drafts of the Methodology for calculation of the charge for the use of the public railway infrastructure, the Settlement procedure of the charge for the use of the public railway infrastructure, and the Procedure for application of the charge for the use of the public railway infrastructure.

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 2011, the Commission received one complaint about public services provided in the rail transport sector about service quality in an international passenger train. The complaint was reviewed and the complainant received an answer and an explanation about the issues mentioned in the complaint.

Half-yearly, passenger carriers submit to the Commission a summary of the user complaints received about the provided public services by indicating the number of complaints, their nature and a solution to the mentioned problems. The Commission analysed complaints received by railway companies and prepared a report thereon. This report is available on the Commission’s homepage.

The information of the report (especially about keeping to the train timetable, abiding by obligations for work quality of conductors – controllers and cashiers, and provision of information to passengers) will be taken into account when the Commission supervises the compliance with licence terms by the railway companies.

Regulation in the Water Management Sector

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

Licensing of public service providers

In 2011, the Commission issued 16 licences for companies in the water management sector, amended 22 licences and cancelled six licences.

Supervision of public service providers

The Commission inspected 43 water management companies in 2011. The most common violation found in inspections: operating in violation of the licensing zone due to optimisation of water management services provided by local governments. 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 2011, the Commission reviewed and approved tariff proposals of 17 water management companies.

Reviewing user complaints in the water management sector

In 2011, the Commission received and provided answers to 31 written complaints and nine e-mails about 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, 2011 decision No.1/2 amended the Methodology for calculation of water management service tariffs.

Regulation in the Municipal Waste Disposal 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 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 2011, municipal waste disposal services in Latvia were provided by 10 companies in 11 landfill sites. The Waste Management Law specifies that after the establishment of the landfill site system the disposal of waste in landfill sites is discontinued and in accordance with regional plans of waste management the construction of new landfill sites in the territory of Latvia shall not be provided.

Licensing public service providers

In 2011, the Commission issued four licences to companies providing municipal waste disposal services and amended one licence.

Supervision of public service providers and reviewing complaints

In 2011, the Commission inspected one company in the municipal waste disposal sector. The Commission received one written complaint and two e-mails in the municipal waste management sector in 2011. 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 2011, the Commission reviewed and approved four tariff proposals for municipal waste disposal.

Updating normative documents

The Commission approved the Methodology for calculation of the tariff for the municipal waste disposal service by decision No.1/1 of March 9, 2011.

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

Until December 31, 2011, the Commission did 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 2011”, the Commission’s budget was a line item in the budget of the Ministry of Economics. However, the Commission has a separate budget program since 2012.

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 2010.

The Commission’s planned expenditures in 2011 were 3,205,570 LVL, which was 276,233 LVL more than in 2010. Actual spending amounted to 2,221,324 LVL, which was 155,249 LVL more than in 2010. Actual spending constituted 69.3% of the planned spending.

Section 31, Clause 2.4 of the law “On Regulators of Public Utilities” and 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 2011, the actual surplus of financial resources was 1,275,923 LVL. In 2012, 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 2011.

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 2011 was submitted to the Ministry of Economics for inclusion in its consolidated annual report. On March 15, 2012, the annual report was audited without objections by LLC Revīzija un vadības konsultācijas (licence No.79 of the sworn auditor’s commercial entity).

The Commission concluded 76 economic co-operation agreements in 2011, including 11 procurement procedures in accordance with the Public Procurement Law.

No.	Finances	2010 (actual numbers, LVL)*	2011 (LVL)	
			defined by law	actual numbers*
1.	Total revenues, including	3,336,743	120,093	411,770
	<i>fee based services, other income</i>	3,336,743	120,093	411,770
2.	Total spending	2,066,075	3,205,570	2,221,324
2.1.	Administrative costs (total)	2,023,813	3,073,958	2,159,530
	<i>international cooperation</i>	25,108	25,108	25,108
	<i>other administrative costs</i>	1,998,705	3,048,850	2,134,422
2.2.	Capital investments	42,262	131,612	61,794

* 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 2012

Priorities in the energy sector

The Commission's priorities in the energy sector in 2012:

- licensing, registration, and supervision of public service providers in the electricity supply sector, assessment of tariff proposals, setting of tariffs;
- organising the work of the Baltic Electricity Regional Initiative, participation in the implementation of the Baltic Energy Market Interconnection Plan (BEMIP);
- approval of the electricity transmission system's Ten-Year Network Development Plan and certification of the electricity transmission system operator;
- analysis of electricity market data and their impact on end-user 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 2012:

- Year 2012 has started with a significant event for the electronic communications sector: on January 2, 2012, the auction on usage rights of 2500MHz-2690MHz band of radio frequency spectrum has already taken place; the four auction winners will be able to use the acquired rights of the radio frequency spectrum for commercial offers of the LTE technology from January 1, 2014;
- the first EU Radio Spectrum Policy Programme 2012-2015 will start operating; it will promote more efficient management of the radio frequency spectrum and its availability for wireless broadband technologies;
- regulation of access (including optic) markets (markets No. 4 and 5) is planned;
- supervision of obligation fulfilment for electronic communications companies with significant market power will continue;
- decisions will be made on regulation of call termination rates in 2013-2014;
- 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;

- in accordance with the Postal Law, the Commission must extend the obligations of the Universal Postal Service for one year from January 1, 2013;
- monitoring of compliance of the universal service obligations with specific requirements in the electronic communications and postal sectors will continue.

Priorities in the railway transport sector

The Commission's priorities in the railway transport sector in 2012:

- 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 activities of IRG-Rail, paying special attention to the proposal for a Directive of the European Parliament and of the Council establishing a single European railway area;
- 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 2012:

- participation in the working group of the Ministry of Environmental Protection and Regional Development drafting the Water Management Law;
- submission of proposals on the required amendments to the Waste Management Law;
- 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

- Methodology for calculation of a tariff of a municipal waste disposal service (The Commission's 09.03.2011 decision No.1/1);
- Regulations on the procedure for dispute settlement in the electronic communications sector (The Commission's 09.11.2011 decision No.1/24);
- Regulations on numbering usage rights (The Commission's 16.06.2011 decision No.1/5);
- Regulations on the provision of number portability service (The Commission's 16.06.2011 decision No.1/6);
- Regulations on radio frequency spectrum usage rights (The Commission's 16.06.2011 decision No.1/7);
- Regulations on the control of payments for the use of the public telephone network (The Commission's 30.06.2011 decision No.1/13);
- Regulations on unbundled access (The Commission's 20.07.2011 decision No.1/14);
- Regulations on access to associated facilities and services (The Commission's 20.07.2011 decision No.1/15);
- Regulations on information to be included in the standard plan and its publishing (The Commission's 20.07.2011 decision No.1/16);
- Regulations on the quality requirements for electronic communications services and the procedure for submission and publishing of quality reports (The Commission's 27.07.2011 decision No.1/17);
- Methodology for measuring the quality of electronic communications services (The Commission's 27.07.2011 decision No.1/18);
- Regulations on general authorisations (The Commission's 17.08.11 decision No.1/19);
- Regulations on consultation procedure with market participants (The Commission's 24.08.2011 decision No.1/20);

- Procedure for granting by auction the usage rights of two 1,25MHz radio channels of 457,5MHz/460,0MHz – 467,5MHz bands of radio frequency spectrum of 450,0MHz (The Commission’s 16.06.2011 decision No.1/8);
- Procedure for granting by auction the usage rights of 2500MHz-2690MHz band of radio frequency spectrum (The Commission’s 16.11.2011 decision No.1/27);
- Regulations on the electricity transmission system development plan (The Commission’s 23.11.2011 decision No.1/28);
- Regulations on certification of a transmission system operator (The Commission’s 23.11.2011 decision No.1/29);
- Methodology for calculation of electricity transmission system service tariffs (The Commission’s 26.10.2011 decision No.1/23);
- Methodology for calculation of electricity distribution system service tariffs (The Commission’s 15.01.2011 decision No.1/32);
- Regulations on general authorisations in the energy sector (The Commission’s 23.11.2011 decision No.1/30);
- Regulations on registration of energy producers and traders (The Commission’s 23.11.2011 decision No.1/31);
- Amendments to the Commission’s April 14, 2010 decision No.1/7 “Methodology for calculation of tariffs for thermal energy supply services” (The Commission’s 16.06.2011 decision No.1/3);
- Amendments to the Commission’s May 12, 2010 decision No.1/8 “Methodology for calculation of tariffs for water management services” (The Commission’s 12.05.2011 decision No.1/2);
- Amendments to the Commission’s 25.08.2010. decision No.1/14 “Regulations on violations of general authorisation regulations in the electronic communications sector” (The Commission’s 16.06.2011 decision No.1/9);
- Amendments to the Commission’s June 11, 2010 decision No.1/10 “Methodology for calculation of cogeneration tariffs” (The Commission’s 16.06.2011 decision No.1/4 and 30.06.2011 decision No.1/12);
- Settlement procedure of the charge for the use of the public railway infrastructure (The Commission’s 16.06.2011 decision No.1/10);
- Procedure for applying the infrastructure charge for the use of public railway infrastructure (The Commission’s 16.06.2011 decision No.1/11);

- Methodology for calculation of the charge for the use of public railway infrastructure (The Commission's 21.09.2011 decision No.1/21);
- Amendment to the Commission's 11.11.2009 decision No.1/5 „ Regulations on information to be submitted to the Public Utilities Commission” (The Commission's 19.10.2011 decision No.1/22);
- Amendment to the Commission's 16.06.2011. decision No.1/10 "Settlement procedure of the charge for the use of the public railway infrastructure" (The Commission's 16.11.2011 decision No.1/25);
- Amendment to the Commission's 16.06.2011. decision No.1/11 " Procedure for applying the infrastructure charge for the use of public railway infrastructure " (The Commission's 16.11.2011 decision No.1/26).

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”;
- Draft law “Amendments to Administrative Process Law”;
- Draft law “Amendments to Energy Law”;
- Draft law “Amendments to Electricity Market Law”;
- Amendments to the Cabinet of Ministers 16.03.2010 Regulations No.262 “Regulations Regarding the Production of Electricity Using Renewable Energy Resources and the Procedures for the Determination of the Price”;
- Amendments to the Cabinet of Ministers 27.10.2009 Regulations No.1127 “Regulations on Types of Regulated Public Services”.

Internal normative acts issued by the Commission

- Amendments to the record-keeping procedure (The Commission's 04.01.2011 internal regulations No.2.06/1);
- Creditors' claims submission procedure (The Commission's 03.05.2011 internal regulations No.2.06/2);
- The structure of the Public Utilities Commission (The Commission's 30.05.2011 internal regulations No.2.06/3);
- The Statute of the Economic Analysis Department (The Commission's 30.05.2011 internal regulations No.2.06/4);
- Records management procedure (The Commission's 03.06.2011 internal regulations No.2.06/5);
- Bookkeeping management procedure (The Commission's 13.06.2011 internal regulations No.2.06/6);
- Statute of the Consultation Council (The Commission's 16.06.2011 internal regulations No.2.06/7);
- Statute of the auction committee for granting usage rights of two 1.25 MHz radio channels of 450.0MHz – 457.5MHz/460.0MHz – 467.5MHz bands of radio frequency spectrum (The Commission's 16.06.2011 internal regulations No.2.06/8);
- Amendments to the remuneration procedure in the Public Utilities Commission (The Commission's 27.07.2011 internal regulations No.2.06/9);
- Amendments to the Commission's March 5, 2008 statute No. 2.06/7 „Statute of the Public Utilities Commission” (The Commission's 10.08.2011 internal regulations No.2.06/10);
- Regulations on business and work trips (The Commission's 12.08.2011 internal regulations No.2.06/11);
- Amendments to the Commission's February 24, 2010 procedure No.2.06/5 "Licensing procedure" (The Commission's 31.08.2011 internal regulations No.2.06/12);
- Procedure for evaluation of a tariff proposal (The Commission's 31.08.2011 internal regulations No.2.06/13);
- Procedure for using the means of communication (The Commission's 19.09.2011 internal regulations No.2.06/14);

- Procedure for accounting and write-off of representative expenditures (The Commission's 19.09.2011 internal regulations No.2.06/15);
- Amendments to the Commission's 28.06.2010 procedure No.2.06/15 "Procedure for monitoring payments of the state fee for public service regulation" (The Commission's 04.10.2011 internal regulations No.2.06/16);
- Procedure for carrying out an internal audit (The Commission's 02.11.2011 internal regulations No.2.06/17);
- Regulations on dispute resolution (The Commission's 09.11.2011 internal regulations No.2.06/18);
- Statute of the auction committee for granting usage rights of 2500MHz-2690MHz band of radio frequency spectrum (The Commission's 16.11.2011 internal regulations No.2.06/19);
- Regulations on a register of legal issues (The Commission's 21.11.2011 internal regulations No.2.06/20);
- Regulations on reviewing cases of administrative violations (The Commission's 23.11.2011 internal regulations No.2.06/21);
- Amendments to the Commission's 19.09.2011 internal regulations No.2.06/14 "Procedure for using the means of communication" (The Commission's 13.12.2011 internal regulations No.2.06/22);
- Amendments to the Commission's 05.03.2008 statute No.2.06/7 "Statute of the Public Utilities Commission" (The Commission's 21.12.2011 internal regulations No.2.06/23);
- Amendments to the Commission's 27.01.2010 internal regulations No.2.06/3 "Remuneration procedure in the Public Utilities Commission" (The Commission's 21.12.2011 internal regulations No.2.06/24);
- Amendments to the Commission's 19.12.2007 internal regulations No.2.06/14 "Procedure for internal work management" (The Commission's 21.12.2011 internal regulations No.2.06/25).