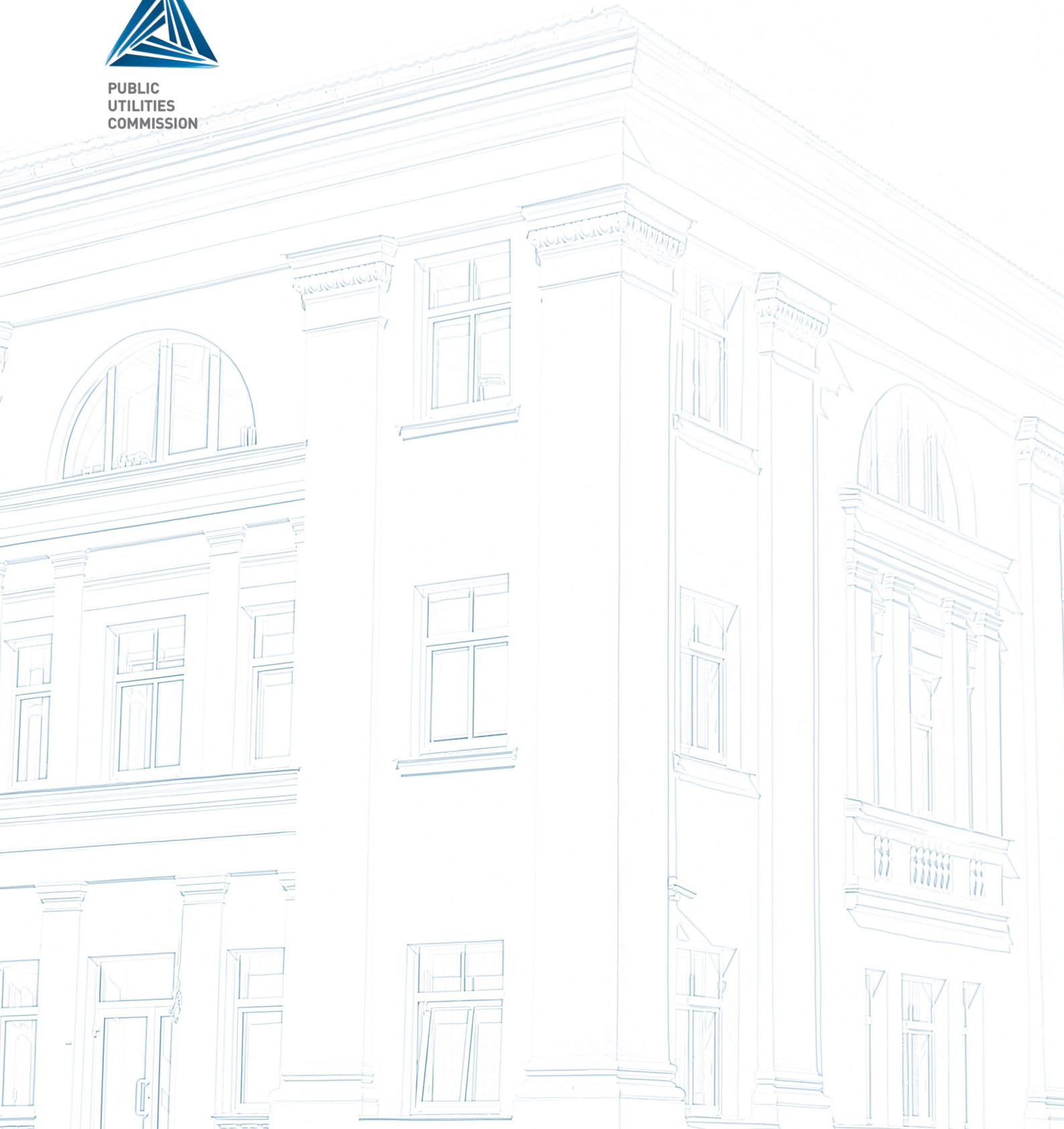




**PUBLIC  
UTILITIES  
COMMISSION**



# **THE PUBLIC UTILITIES COMMISSION'S ANNUAL REPORT 2013**



## CONTENTS

<b>Abbreviations</b>	<b>3</b>	<b>Balancing and harmonisation of stakeholder interests</b>	<b>38</b>
<b>Chairman's report</b>	<b>5</b>	Participation of companies	<b>39</b>
<b>Functional tasks</b>	<b>7</b>	Communication with the society	<b>41</b>
<b>The Regulator's operational priorities in 2013</b>	<b>9</b>	Dispute settlement	<b>42</b>
<b>Public utilities sectors</b>	<b>11</b>	Cooperation with public institutions	<b>43</b>
Economic context	<b>12</b>	International cooperation	<b>44</b>
Social context	<b>15</b>	<b>Service prices and tariffs</b>	<b>46</b>
<b>Regulatory environment</b>	<b>18</b>	Tariff calculation methodology	<b>47</b>
Implementation of harmonised EU regulatory environment	<b>19</b>	Approval of tariffs	<b>48</b>
Participation in the development of normative environment in Latvia	<b>21</b>	<b>Protection of service consumers</b>	<b>52</b>
<b>Authorisation and supervision of companies</b>	<b>23</b>	General availability of services	<b>53</b>
Licensing and registration	<b>24</b>	Service quality	<b>54</b>
Authorisation for fulfilment of special functions	<b>26</b>	Consumer complaints	<b>57</b>
Authorisation for the use of scarce resources	<b>27</b>	<b>Functioning and management of the Regulator</b>	<b>59</b>
Supervision of companies	<b>29</b>	Structure and capacity	<b>60</b>
<b>Market promotion and support for competition</b>	<b>31</b>	Improvement of the quality of regulatory processes	<b>62</b>
Companies' relationships	<b>32</b>	Financing and spending	<b>63</b>
Asymmetric regulation	<b>34</b>	The main tasks in 2014	<b>65</b>
Integration in the single EU markets	<b>36</b>	<b>Independent auditor's report</b>	<b>67</b>

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## ABBREVIATIONS

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

**Ad hoc** – for this

**ARPU** – Average revenue per user

**AST** – joint-stock company  
“Augstsprieguma tīkls”

**BEMIP** – Baltic Energy Market Interconnection Plan

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

**CEER** – Council of European Energy Regulators

**CEPT** – European Conference of Postal and Telecommunications Administrations

**CERP** – European Committee for Postal Regulation

**COCOM** – Communications Committee

**CPI** – consumer price index

**CSB** – Central Statistical Bureau of Latvia

**De facto** – concerning fact

**De jure** – concerning the law

**EaP** – Eastern Partnership

**EC** – European Commission

**ECC** – Electronic Communications Committee

**ENTSO-E** – European Network of Transmission System Operators for Electricity

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

**ERRA** – Energy Regulators Regional Association

**EU** – European Union

**Ex ante** – before the event

**Ex post** – after the event

**GSM/2G** – Global System for Mobile Communications/2<sup>nd</sup> Generation

**INOGATE** – International Energy Cooperation Programme

**IRG** – Independent Regulators Group (electronic communications)

**IRG-Rail** – Independent Regulators’ Group – Rail

**IT** – information technologies

**ITU** – International Telecommunication Union

**LTE/4G** – Long-Term Evolution/4<sup>th</sup> Generation

**LEGMC** – Latvian Environment, Geology and Meteorology Centre

**MEUR** – million euro (10<sup>6</sup> EUR)

**MPC** – mandatory procurement component of electricity tariffs

**MPI** – Market Performance Index

**NCCIR** – Ukrainian National Commission for the State Regulation of Communications and Informatization

**NGA** – Next Generation Access

**NGO** – non-governmental organisation

**NPS** – Nord Pool Spot

**OECD** – Organisation for Economic Cooperation and Development

**Regulator** – the Public Utilities Commission

**REMIT** – Regulation No 1227/2011 on wholesale energy market integrity and transparency

**SMRA** – Simultaneous Multiple Round Ascending



**TAIEX** – Technical Assistance and Information Exchange Unit

**THD** – Total harmonic distortion

**Twinning** – bilateral cooperation project between an EU Member State and a partner country

**UMTS/3G** – Universal Mobile Telecommunications System/3<sup>rd</sup> Generation

**UNECE** – United Nations Economic Commission for Europe

**UPU** – Universal Postal Union

The Regulator is the undisclosed source of information for pictures and tables. Unaudited reports of companies and operational information are the data sources for 2013, therefore inaccuracies are possible.



## CHAIRMAN'S REPORT



Dear reader!

The year 2013 highlighted changes in the Regulator's activities in many ways due to changes and additions to normative functions and our own initiatives to make our operations more efficient.

In the context of electricity market liberalisation, the beginning of operation of a power exchange in Latvia must be mentioned which principally altered the Regulator's functions regarding the regulation of the sector. In 2013, NPS as the power exchange operator has successfully started the operation of the power exchange in Latvia by opening a new "Elsport" bidding area. A long-term goal has been achieved by opening the Latvian bidding area – to establish a transparent and open Baltic electricity market connected to the Nordic electricity market, thus ensuring public availability and reliability of electricity prices.

The first clear proof is the electricity market concentration index which experienced the biggest reduction among the public service sectors in 2013.

The projects of common interest or cross-border projects are highly significant in the establishment of a single EU energy market; the task of the projects is to ensure unified European energy infrastructure to expand the market and be independent from a single supplier of resources. The economic substantiation for the implementation of these projects is to prevent inadequate rise in prices in the EU Member States. Year 2013 was significant for Latvia in this regard because the assessment of the projects of common interest and coordination thereof with the regulators of other countries was initiated.

Year 2013 for the postal sector was the first year under the conditions of a fully liberalised market where an active supply of package machine services was observed as a positive characteristic of an open market. At the same time, the Universal Postal Service became even more important for residents in rural regions under open market conditions.

In 2013, the Regulator started active work on the development of benchmarking instruments to evaluate the efficiency of water supply companies and the economic feasibility of tariffs. The use of the new approach will enable both companies and the Regulator to make the process of evaluation of substantiated costs of water management services more efficient over the next years by providing an option to compare the submitted tariff proposals with benchmark information and thus significantly accelerating the process of preparation and assessment of tariff proposals.

A number of significant activities on which the Regulator worked on in 2012 were



completed in 2013 by adopting the relevant board decisions.

The last year was also significant because we were the first among the colleagues of the Baltic States to successfully complete a qualitatively new process in the diverse registration spectrum of public utilities companies – AST was certified as an independent electricity transmission system operator. The Regulator ascertained that the operator's financial, technical and human resources are sufficient for the performance of its tasks, as well as imposed an obligation on the operator to implement activities for further enhancement of its independence and competence level.

The approval of an investment plan is closely related to the certification of the operator. Henceforth, this new function must be performed by the Regulator every year. At the moment, we can only speculate if the EC will also introduce this approach for the electricity distribution system operator and other public utilities sectors. Wide introduction of such a procedure would mean a completely new approach to regulation of costs and tariffs of monopoly companies.

Expansion of the broadband Next Generation Networks in the electronic communications sector is a very significant precondition for further development of the national economy of Latvia and better quality of life for every member of the society. Certain changes in this sector also took place in 2013. The dynamic development of electronic communications especially in the use of broadband services creates preconditions for the extensive use of completely new services. For Latvia to maintain its place among the leading EU states for Internet data downloads in the future, the Regulator has developed a regulation for access to the Next Generation Networks.

After coordinating this regulation with the regulators of other EU states and the EC, the Regulator's Board approved it.

The Next Generation Networks require the use of much larger bands of frequency spectrum. Spectrum allocation to companies is an absolutely necessary precondition for network expansion. In 2013, the Regulator as one of the first EU Member States completed the allocation of desirable spectrum bands which are currently allocated for the provision of wireless broadband services.

An attentive reader will also notice the different structure of the report. Organisation and presentation of information pursuant to the Regulator's functions will enable easier perception of common traits and problems regarding the development of public utilities sectors in Latvia.

Valdis Lokenbahs

Chairman  
Riga, June 20, 2014





## FUNCTIONAL TASKS

The Regulator is institutionally and functionally independent, full-fledged, autonomous body governed by public law which implements regulation of public utilities in energy, electronic communications, post, railway transport, municipal waste management and water management sectors in accordance with the law "On Regulators of Public Utilities", laws governing regulated sectors, binding regulations of the Cabinet of Ministers, the statute and operational strategy approved by the Regulator.

**Year 2013 was the second year when the Regulator operated as a fully independent institution.**

The Regulator's functions include supervision of companies in the regulated sectors, protecting consumer interests and promoting the development of providers of public utilities, furthering competition in the regulated sectors, registering companies, supervising the compliance of the public utilities with the conditions of licences and general authorisations and specific quality requirements, performing dispute out-of-court settlement and performing other functions specified in special sector laws.

The markets of public utilities sectors are quite dynamic, especially when another market is liberalised. Therefore, the normatively defined functions of the Regulator change each year

accordingly, incorporating ever smarter regulatory functions. Changes related to liberalisation of a market were also experienced in 2013.

Pursuant to REMIT and the amendments to the Electricity Market Law adopted on October 10, 2013, the Regulator has been tasked to monitor the compliance with integrity and transparency of the wholesale energy market.

After the opening of NPS Latvian bidding area on June 3, 2013,

**the Regulator has begun the monitoring of electricity wholesale prices**

pursuant to the REMIT and the Electricity Market Law.

In accordance with Regulation No 347/2013, companies, which develop energy infrastructure projects of common interest covering several EU Member States and would like to attract the EU funding for these projects, shall receive the energy regulators' decision on the allocation of investment costs.

**In 2013, the Regulator started the assessment of several energy infrastructure projects of common interest.**



Amendments of October 10, 2013 supplemented the Electricity Market Law with conditions on the responsibility of companies for ignoring requirements. Conditions provide for a different process of reviewing administrative cases by the Regulator, as well as a different procedure for the calculation of fines – as a percentage of a company's net turnover for the financial year. Respective amendments to the Latvian Administrative Violations Code are required for these aforementioned amendments to come into force.

On February 21, 2013, the Parliament (Saeima) adopted amendments to the law "On Safety of Hydro-Technical Buildings of Hydropower Plants". Amendments to the law altered the responsibilities and obligations for the supervision of hydro-technical buildings.

**The Regulator  
no longer supervises the compliance  
with safety and maintenance of  
hydro-technical buildings of  
hydropower plants.**

In 2013, amendments to the Electronic Communications Law were implemented commencing regulation of the Next Generation Access Networks.

**Regulation of optical access networks  
including setting and monitoring  
optical access obligations was handed  
over to the Regulator.**

Amendments to the Postal Law which were adopted on March 21, 2013 task the Regulator with additional obligations for determining compensation of the Universal Service costs.

**The Regulator's task will be to  
evaluate agreements of the  
Universal Service provider on tariff  
discounts and application of  
special tariffs, as well as evaluate  
the compliance of services  
provided by other postal  
companies with the Universal  
Service or its part – in substance  
and according to characteristics of  
a provided service.**





## **THE REGULATOR'S OPERATIONAL PRIORITIES IN 2013**

The Regulator's operational priorities in 2013 can be split in several functional groups: development of regulatory environment, registration and supervision of providers of public utilities, promotion of rights and support for competition, balancing and harmonisation of stakeholder interests, regulation of public utilities' prices and tariffs, and protection of users of public utilities.

### **Development of regulatory environment**

- Monitoring of the implementation of Regulation No 1371/2007.
- Implementation of REMIT.
- Work on the implementation of Regulation No 347/2013 in relation to projects of common interest.
- Participation in IRG-Rail activities paying special attention to issues related to changes within the framework of the Fourth Railway Package.
- Work on the implementation of the First EU Radio Spectrum Policy Programme 2012-2015.
- Development of normative acts pursuant to amendments in the Postal Law.
- Participation in the improvement of the Waste Management Law regarding issues of public service provision.

### **Registration and supervision of providers of public utilities**

- Auctions of rights to use 791.0MHz-821.0MHz/832.0MHz-862.0MHz and 2570MHz-2620MHz bands of radio

frequency spectrum.

### **Promotion of rights and support for competition**

- Review of the amount of information required for the analysis of electronic communications markets.
- Opening of the postal service market in Latvia for competition from January 1, 2013.
- Regulation of access, including optical, to electronic communications markets, defining obligations and announcing them to the EC and BEREC.
- Monitoring of obligations specified for electronic communications companies with significant market power.
- Approval of the ten-year electricity transmission system development plan.

### **Balancing and harmonising interests of stakeholders**

- Improvement of the companies' data submission and accounting system and improvement of data processing in the district heating sector.
- Participation in the working group of the Ministry of Transport to transpose requirements of the Directive 2012/34/ES into the national legal system.
- Participation in the working group of the Ministry of Environmental Protection and Regional Development to develop the draft Law on Water Management Services and subordinate legal acts.
- Participation in the working groups organised by the EC in all public utilities sectors.
- Organisation of the IRG General Assembly and the regular meeting of the BEREC



Board of Regulators and the Management Committee in cooperation with the BEREC Office.

- Organising the work of the Baltic Electricity Regional Initiative, participation in the implementation of the BEMIP plan.
- Organising the 10<sup>th</sup> Annual Meeting of the Baltic Electronic Communications and Postal Regulators.
- Completion of the biennial “twinning” project of expertise transfer to the Ukrainian regulator NCCIR in cooperation with Spanish and Swedish regulators.

### **Regulation of public utilities’ prices and tariffs**

- Evaluation of tariff proposals, setting of tariffs in public utilities sectors.
- Analysis of electricity market data and impact of the electricity market on end user prices.
- Further reduction of call termination rates in the fixed and mobile networks.

### **Protection of users of public utilities**

- Monitoring of fulfilment of the Universal Postal Service obligations and the extension of obligations in 2014.

# **PUBLIC UTILITIES SECTORS**

**Economic context**

**Social context**





## PUBLIC UTILITIES SECTORS

### Economic context

Public utilities sectors are closely integrated in the overall national economy – on one hand, they ensure the functioning of the national economy, on the other hand – the general economic situation impacts the demand and consumption of services, as well as investment and technological development.

The gradual impact of renewable resources and energy efficiency processes on the consumption of energy resources continued in the energy sector in 2013.

The reduction in the volume of delivered thermal energy by the regulated district heating companies (with annual volume exceeding 5000 MWh) reflects the impact of building insulation, as well as fluctuations of climate conditions (see Figure 1).

The volume of thermal energy produced in CHP plants also affects the consumption of natural gas. The consumption of natural gas is additionally related to increasing use of woodchips for the production of thermal energy and electricity constituting more than 60% of the total natural gas consumption (see Figure 2). In accordance with an expert assessment, the consumption of woodchips has grown 1.5 times in 2013 compared to 2012.

A decrease in electricity consumption in 2013 mainly happened due to the problems of JSC "Liepājas Metalurgs" (see Figure 3).

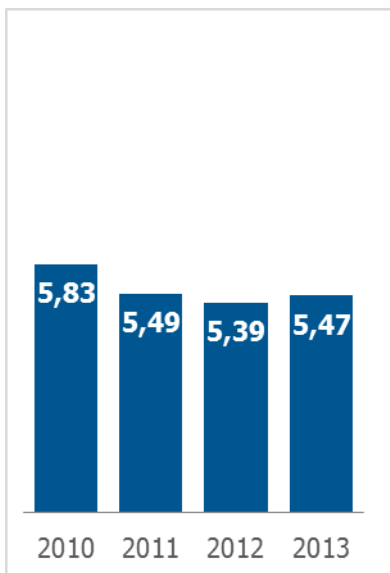


Figure 1  
**Thermal energy delivered to users by regulated companies, TWh**

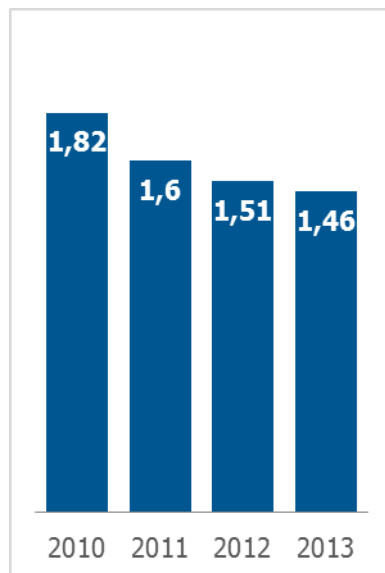


Figure 2  
**Natural gas consumption, billions m³**  
Source: CSB

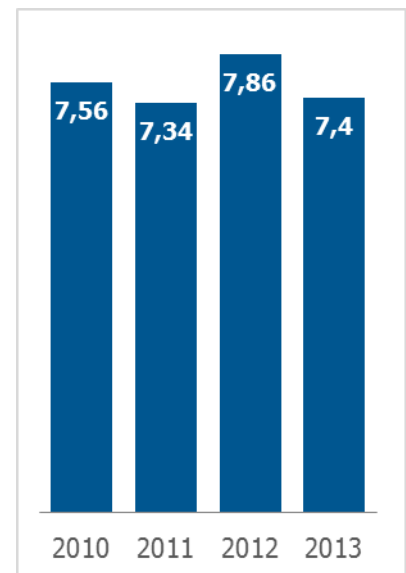


Figure 3  
**Electricity consumption, TWh**



Electronic communications sector was highlighted by the development of broadband services in 2013.

Development of electronic communications is the principal reason for the decrease in the annual volume of postal deliveries.

An increase in speed and volumes of data processing and transmission, increasing availability of services in the regions of Latvia, technological diversity and more consumer options lead to a growing number of users (see Figure 4).

The minor increase in the number of delivered parcels can not compensate the drop in volumes of letter correspondence and press subscriptions (see Figure 6).

Rapid growth in the use of mobile broadband continued both quantitatively (number of users) and qualitatively (UMTS/3G and LTE/4G).

The use of the fixed broadband grew more moderately; an increase in popularity of optical connections was dynamic, substituting less capable technologies such as "Ethernet" connections and "xDSL" technology (see Figure 5).

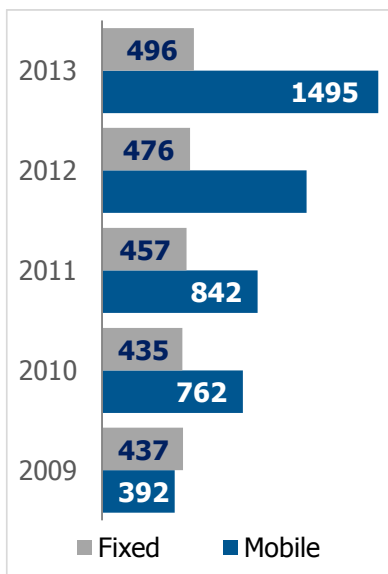


Figure 4  
Number of fixed and mobile connections, thousands

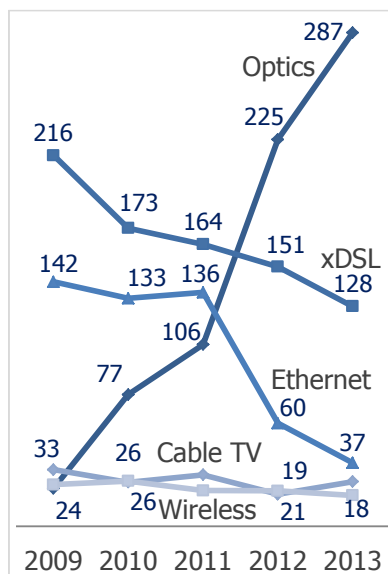


Figure 5  
Number of broadband connections at the end of the year, thousands

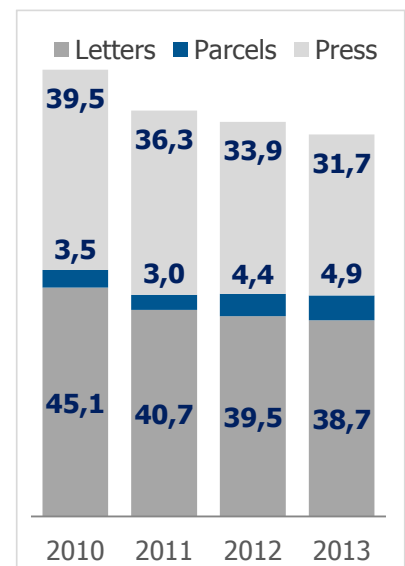


Figure 6  
Volume of postal items, millions



The dynamics of passenger carriage by rail correlate with the number of residents in Latvia, as well as the volume of the annual public procurement (see Figure 7).

The amount of municipal waste accepted for disposal has been quite stable over the years despite the demographic situation and activities of separate waste collection and sorting, as well as activation of waste recycling (see Figure 8).

In the water management sector, companies actively continued the implementation of projects for improving water quality and decreasing environmental contamination by using the EU co-funding.

In 2013, the total turnover of regulated services in the public utilities sectors was close to **3 000 MEUR.**

The volumes for specific sectors are very different (see Figure 9). In 2013, the total turnover of regulated sectors decreased by 4.3% compared to 2012. There were several causes for the changes:

- changes in service volumes (railway, natural gas, electricity, district heating, water management),
- changes in resource prices (natural gas, district heating),
- regulation of tariffs (waste disposal, electronic communications, district heating),
- competition (mobile communications),
- changes in service structure (post).

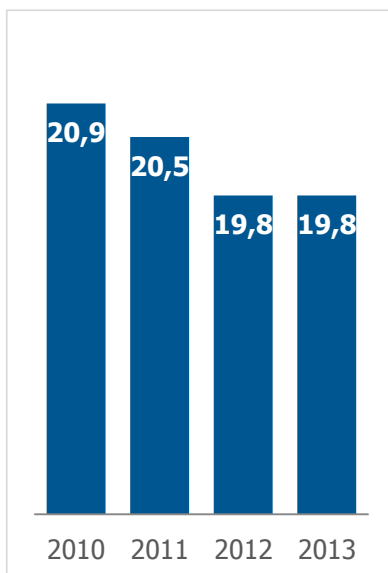


Figure 7  
**Passenger carriage by rail, millions passengers**

Source: CSB

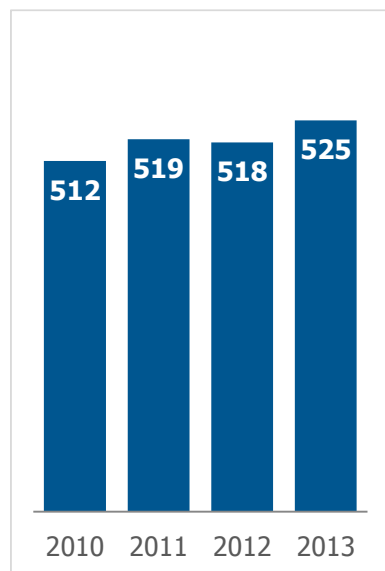


Figure 8  
**Unsorted municipal waste accepted for disposal at landfills, thousands tons**

Source: LEGMC

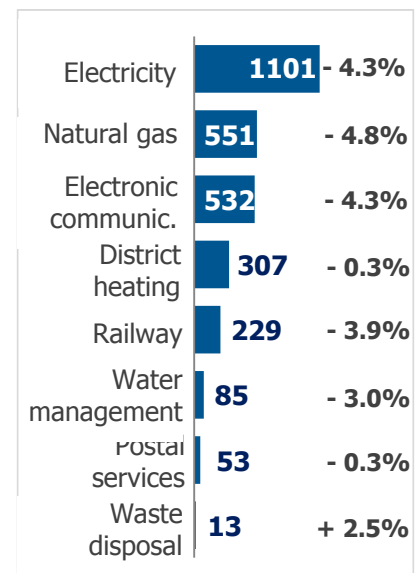


Figure 9  
**Turnover of companies in regulated sectors in 2013, MEUR, and dynamics in 2013/2012, %**





The level of remuneration in the sectors was proportional to the significance of sectors and the technological complexity thereof (see Figure 10). In 2013, the remuneration increased in the lowest-paid sector – postal and courier services (6.2%); the remuneration level was unchanged in the other sectors compared to 2012.

## Social context

The significance of public utilities for every person, their health, even life, and social inclusion is easily understandable. At the same time, households in the first quintile spent less money on public utilities compared to the average level which means that these households also consumed fewer public utilities (see Figure 11). In comparison, households in the fifth quintile spent considerably more compared to the average indicator in the country.

The volume of public utilities consumption by households in the first quintile and, respectively, their quality of life is lower compared to the average in the country.

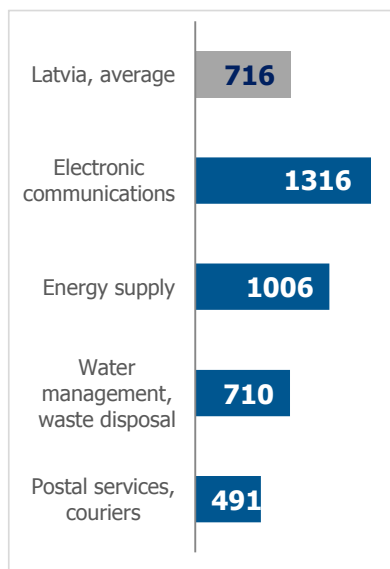


Figure 10

**Average gross wages in public utilities sectors in 2013, EUR per month**

Source: CSB

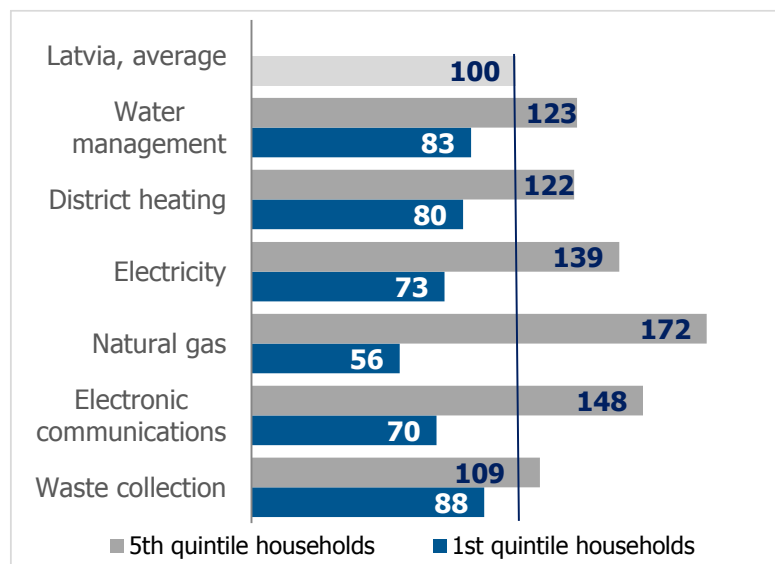


Figure 11

**Normalised expenditures of one household member for public utilities in 2012, % of all household expenditures for the respective service**

Source: CSB



The prices of regulated public services have a relatively large share in the total Consumer Price Index (see Table 1). Price changes for households were very positive in 2013 – a considerable reduction in the two significant positions of energy costs (natural gas and district heating) and unchanged prices for electricity. However, such progress may not be regarded as systematic because the average 2010-2013 indicators are drastically different.

The cause of the reduction in the costs of natural gas supply is changes in gas prices. The costs of JSC "Latvijas gāze" services (gas transmission, distribution, storage, and trade) have not changed since the Regulator's 2008 decision. The reduced district heating tariffs approved by the Regulator in 2013 complemented the decrease of natural gas and woodchip prices.

Municipalities are responsible for waste transportation prices; however, changes in these prices are also slightly affected by the municipal waste disposal tariffs approved by the Regulator which are included in the transportation prices.

The actual costs of public utilities for residents, which use the relevant service and pay for it, are much higher (see Figure 12). On average, the residents of Latvia spend more than 22% of their household budget on public utilities.

A more detailed analysis indicates that this especially concerns the households in the first quintile which spend a bigger portion (up to 29%) of their considerably smaller budget. It also proves the enduring significance of the Universal Service concept (see the section of this report on the general availability of services).

Public utilities with regulated prices	CPI weight, %	Changes in regulated prices, %	
		2013	2010-2013 annual average
Water supply	0.73	0	0.9
Waste collection	0.59	1	3.5
Sewage services	0.56	0	0.6
Electricity	3.41	0	6.5
Natural gas	1.15	-6.5	9.7
District heating	4.52	-8.5	7.1
General postal services	0.03	0	0

Table 1

**Administratively regulated prices in the Consumer Price Index**

Source: CSB

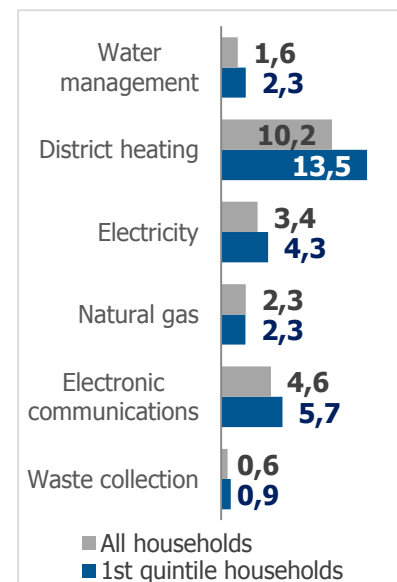


Figure 12

**Household expenditures in 2012, % of the total household expenditures**

Source: CSB



The residents of Latvia are relatively satisfied with the supply, availability, quality, selection of public utilities and protection of consumer rights compared to the EU level data.

The 2012 consumer survey published by the EC Directorate-General for Health and Consumers in 2013 rated 30 different service markets including eight public utilities markets (see Figure 13). Contrary to the overall EU assessment, the Latvian respondents have rated the public utilities higher than financial, transport, leisure and other services. The ratings of voice telephony and passenger carriage by rail were third among all 27 Member States according to the valuation of the obtained integrated index MPI, while mobile

telephony was in the fifth place. The low rating of electricity and water supply services was an exception which confirms the necessity for the Regulator to perform certain activities in these sectors. These services have respective 20<sup>th</sup> and 26<sup>th</sup> positions in the rating of the EU Member States.

Evaluating several resident surveys, a very interesting picture is obtained (see Figure 14). Only 20% of the interviewed Latvian residents are fully or at least generally informed about the Regulator's activities. At the same time, the percentage of residents who are satisfied with the received public services is much higher. It means that the Regulator generally fulfils its functions in accordance with the law despite the fact that there is no emphasis on more extensive explanation of the functions to the public and other stakeholders by using mass media.

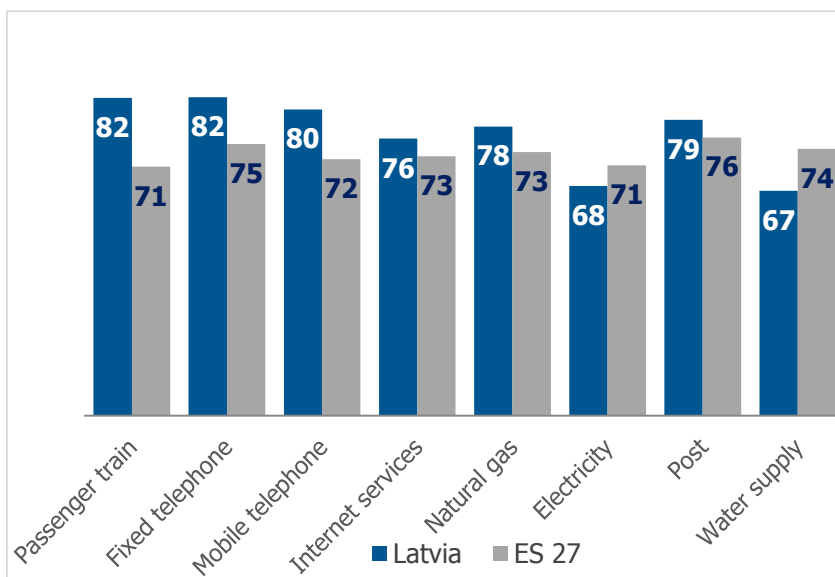


Figure 13  
**MPI assessment on 100 point scale in the opinion of Latvian and EU 27 customers**  
 Source: EC

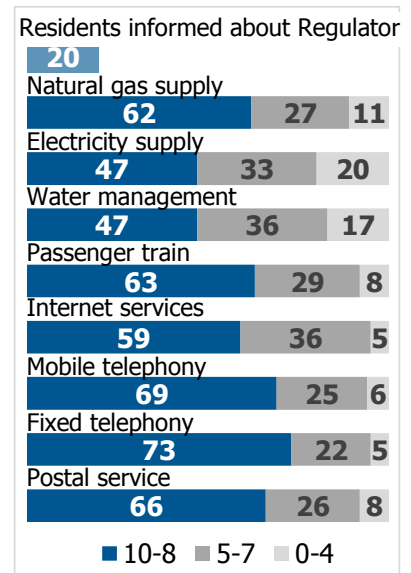


Figure 14  
**Satisfaction of the society with received services on 10 point scale, %**  
 Source: EC, Regulator/SKDS



## **REGULATORY ENVIRONMENT**

**Implementation of  
harmonised EU regulatory  
environment**

**Participation in the  
development of normative  
environment in Latvia**





## REGULATORY ENVIRONMENT

Precise, unambiguous, clearly applicable, transparent and understandable legal regulation on a national and international level is highly important in the regulation of public utilities.

Transposition of the EU initiatives and legal acts in Latvia, development of national legal acts is a unified, multi-faceted and complicated process concerning public utilities sectors and their regulation.

**In 2013, the Regulator continued to follow the balance principle in the development and application of legal norms, on the one hand, protecting consumer interests and, on the other hand, furthering the development of public utilities providers.**

During the approbation of the requirements of the EU normative acts and the development of drafts of the required legal acts for adoption by the Cabinet of Ministers or the Parliament and independently issuing relevant external legal acts, special attention was paid to regular analysis of topical events regarding problems of regulated sectors and markets. Norms of legal acts were simultaneously explained to providers and users of public utilities in an understandable manner.

## Implementation of harmonised EU regulatory environment

In 2013, similar to previous reporting periods, the Regulator's agenda for international cooperation was mainly determined by the transposition of the EU initiatives and legal acts in Latvia, thus ensuring a regulatory environment in Latvia that has been harmonised across the EU. Certain difficulties were caused by the development and EU-wide implementation of insufficiently unified regulation principles in public utilities sectors despite the increased popularity of multi-sector regulation concept in the EU Member States. Issues related to the implementation of the Directive 2012/34/EU were significant in the railway transport sector. The Directive provides for the establishment of a single European railway area. There are plans for an expansion of regulatory functions, establishment of a single regulatory authority, changes in the calculation of infrastructure charges, changes in licensing requirements for carriers and other changes. The Regulator continued work in the EC working groups on general issues of railway regulation and monitoring how the passenger rights and obligations defined by the EU legislation are ensured.

In the electronic communications sector, the Regulator continued the performance of tasks to further improve cross-border cooperation and exchange experience on net neutrality, roaming, service quality, numbering fraud, net infrastructure and market analysis issues.



The Regulator's representatives participated in the work of BEREC and the EC Committees COCOM and ECC. The Regulator's contribution to update the problem of numbering fraud must be especially noted. The contribution of the Regulator's employees to the BEREC working group was also significant.

**A report on service quality within the framework of net neutrality project was developed; an ECC study on the methods for measuring Internet service quality was also performed.**

In 2013, activities related to the preparation for the implementation of the REMIT regulation were significant in the energy sector.

**Activities related to market monitoring, supervision of the certified independent system operator, coordination and assessment of the projects of common interest, the process of regional initiatives and participation in the development of ACER recommendations were carried out.**

Active participation in the inter-institutional working groups on the BEMIP plan and on the projects of common interest in electricity and gas continued.

Preparatory work was carried out on the implementation of requirements of the EU legal acts on market monitoring. On July 17, 2013, the Regulator signed a multilateral Memorandum of Understanding between ACER and the regulators on cooperation and coordination of market monitoring.

In the postal sector, the Regulator analysed the existing regulatory practice under the conditions of a liberalised market, as well as in the context of the Universal Service fund in order to use the learned information in Latvia.

**In 2013, regulatory issues in the water supply sector were updated on the international level for the first time.**

The Regulator was involved in this initiative, actively participating in the events organised by OECD, ERA and the Florence School of Regulation. One of the objectives of this initiative - further permanent cooperation of the EU water sector regulators and exchange of experience, similar to other regulated sectors.





## Participation in the development of normative environment in Latvia

In 2013, the Regulator participated in the development of 24 draft laws, as well as provided opinions on several draft laws (see Table 2).

Several significant draft laws have been developed concerning the execution of regulatory functions.

- The draft "Water Management Law" which provides for unified requirements and conditions for the provision and use of water management services including obligations and rights of service providers and users in the context of mutual relationships, state and municipal competence for the regulation of water management services, as well as instruments to encourage residential connections to water management systems.
- Amendments to the law "On Regulators of Public Utilities" update the procedure for licensing and registration of public service providers, the rights to request and receive information including restricted access information, process of dispute settlements, as well as the procedure for collection of state duty and repayment of debt on state duty.
- Amendments to the Energy Law provide for the liberalisation of the natural gas market by unbundling the transmission operator and distribution operator and ensuring the rights of users to choose a trader, as well as introduction of effective, preventive and proportional fines in the natural gas sector.
- Amendments to the Electronic Communications Law provide for obligations applicable as a result of market analysis (maximum price cap and margin squeeze remedies), symmetrical obligations for access to civil engineering infrastructure and regulations in cases of fraud using numbering.

	Development of draft laws		Development of draft Cabinet regulations		Development and adoption of external normative acts
	Participation	Opinions	Participation	Opinions	
General, concerning several sectors	9	14	1	4	-
Waste disposal	1	1	-	-	1
Railway	1	-	-	-	2
Electronic communications	2	1	-	5	14
Energy	9	4	-	13	14
Post	1	1	-	5	5
Water management	1	2	-	-	1
<b>Total</b>	<b>24</b>	<b>23</b>	<b>1</b>	<b>27</b>	<b>37</b>

Table 2

### The Regulator's activities in the development of normative environment in 2013



- Amendments to the Electricity Market Law envisage full market opening in 2014, reduction of MPC (taking into account state budget subsidy for the reduction of MPC in the calculation of costs to be compensated to a public trader), as well as introduction of effective, preventive and proportionate fines in the electricity supply sector.
- Amendments to the Waste Management Law complement the costs of landfill construction and maintenance with transfer station costs, as well as clarify issues related to accumulation and use of costs of closure and re-cultivation of landfills.
- The Regulator has developed the Cabinet of Ministers draft regulations "On the amendment to the Cabinet of Ministers regulations No.1227 "Regulations on Types of Regulated Public Services" of October 27, 2009" excluding money transfers and transfer services provided by using a postal network from regulated public utilities, as well as provided opinions on many Cabinet of Ministers draft projects.
- special issues of the sectors (energy, electronic communications).

In 2013, the Regulator developed, clarified, amended and approved 37 external legal acts which mainly concerned:

- registration of companies and related regulations (electronic communications, energy, post),
- calculation of tariffs and charges (waste disposal, railway, energy, water management),
- Universal Service (electronic communications, post),
- service quality (electronic communications),

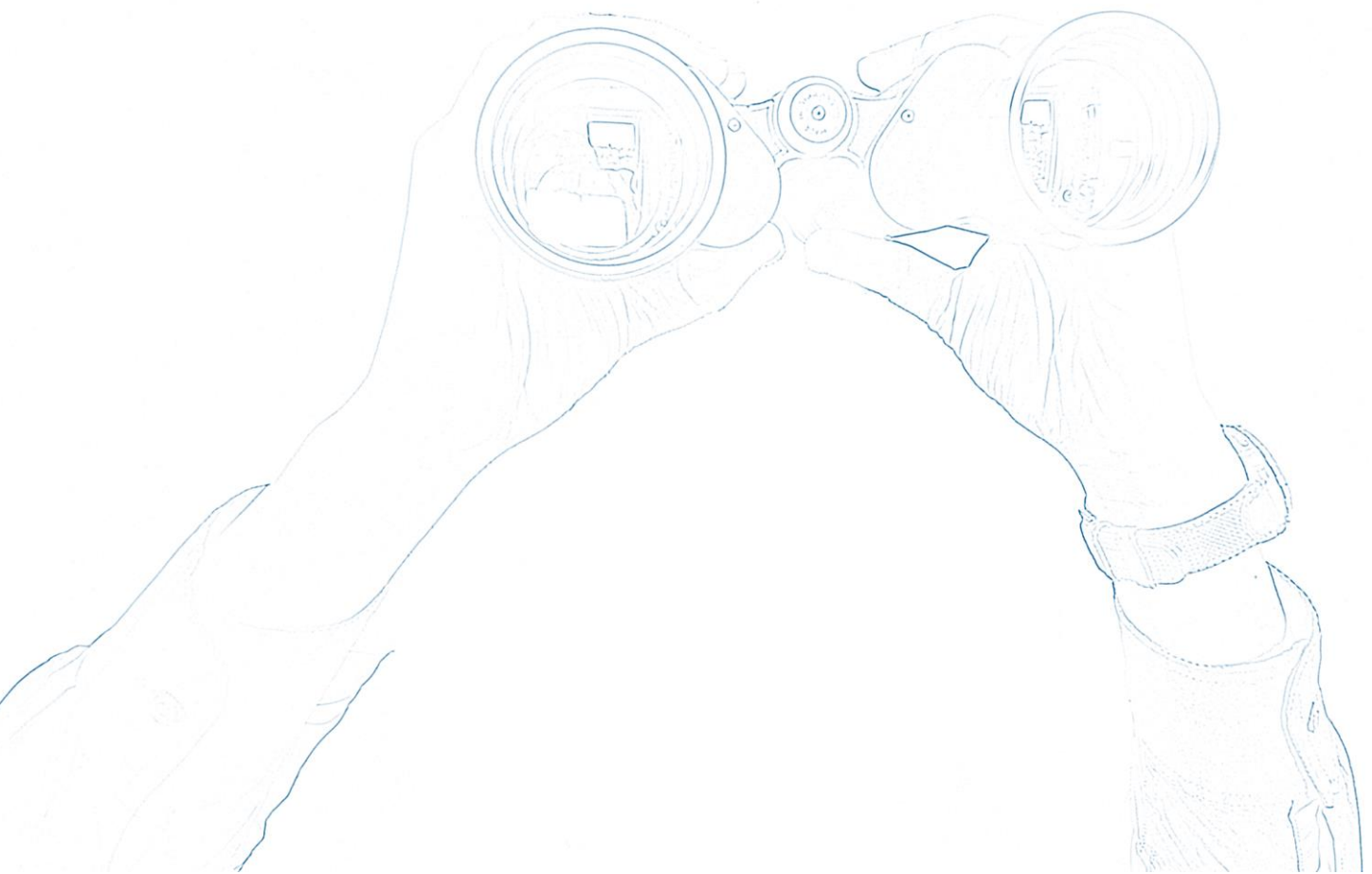
# **AUTHORISATION AND SUPERVISION OF COMPANIES**

**Licensing and registration**

**Authorisation for fulfilment of  
special functions**

**Authorisation for the use of  
scarce resources**

**Supervision of companies**





## AUTHORISATION AND SUPERVISION OF COMPANIES

In the territory of Latvia, public utilities may be provided by companies which are authorised, i.e. registered or licensed, by the Regulator and listed in the Register of Enterprises of the Republic of Latvia.

### Licensing and registration

Two different procedures for the authorisation of companies exist in the public utilities sectors – licensing and registration.

1. Licensing – specific requirements are demanded from a company, and it submits documents to the Regulator which confirm the fulfilment of these requirements. After document analysis and a positive decision, a company receives a terminable licence for the provision of specific services in a specified territory with defined conditions.

2. Registration which has few requirements and they are very general. A company may start operations either upon sending a registration notification to the Regulator (electronic communications, post) or in a short defined time period (energy).

More than 1,060 companies were authorised at the end of 2013 (see Figure 15); more than 5% of these were authorised to operate in two or more regulated sectors.

### In 2013, the Regulator authorised 109 new market participants.

In 2012, a common tendency emerged within the EU – transition to registration in order to facilitate market entry for new market participants (see Figure 16).

This progress also had some negative features.

1. 80 companies were excluded from company registers in 2013.

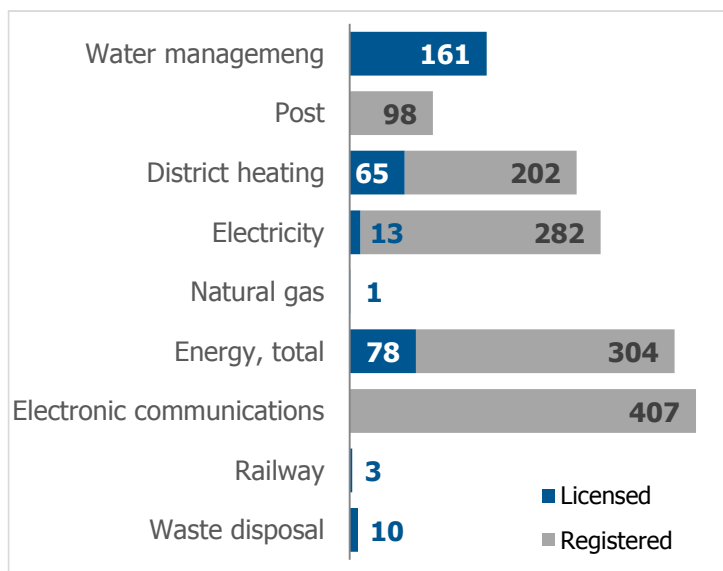


Figure 15  
The number of authorised companies in public utilities sectors on December 31, 2013

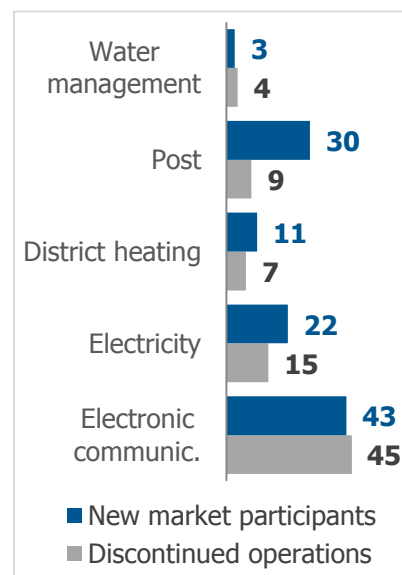


Figure 16  
New market participants and companies that have discontinued operations in public utilities sectors in 2013



We may conclude that many companies which overestimate themselves apply for registration – they do not understand the relevant sector, market, their functions and activities therein; they do not have resources and capacity to operate in the market. At best, such companies merge, at worst – leave the market or their operations are suspended for administrative violations. The big influx of new market participants in the electricity and district heating sectors over the previous years, especially generation and trade where transition to registration regime happened in 2012, resulted in the reduction of market participants in 2013. The year was also highlighted by the rapid growth of expectations in the opened postal market; traditionally high turnover of companies continued in the electronic communications sector. Assessing the impact of fluctuations on market stability, we must conclude that fluctuations above 10% may have unfavourable consequences.

2. Many companies do not start operations for several years after being registered. At the end of 2013, a third of the authorised companies (a total of 349) only formally had a status of public service providers because they were inactive (see Figure 17).

A big proportion of inactive companies were observed in energy and postal sectors. Such a trend also had a positive feature – the markets are not overly fragmented.

In 2013, active companies provided a range of different services, especially in the electronic communications sector (see Figure 18). Only 53 companies have indicated in their registration notifications that they operate throughout the territory of Latvia, the others operate in a few districts or cities. Most of the companies are small in size and their electronic communications services are often available only in a small part of a city or district. Similarly, only eight companies provided traditional postal services in the postal sector, while 24 companies provided express mail services and 21 – courier mail services.

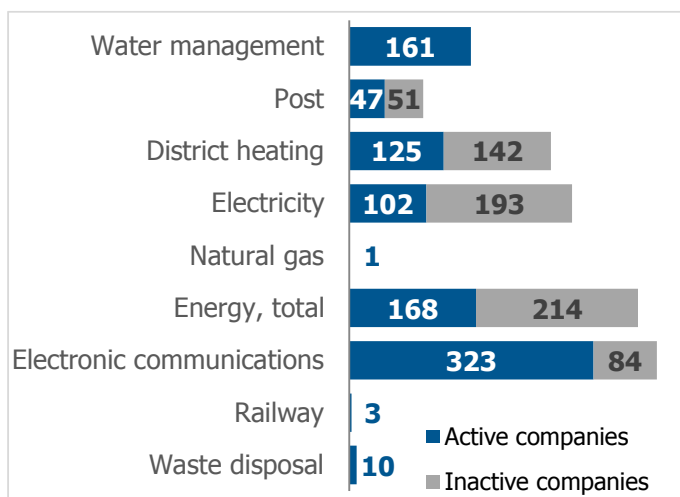


Figure 17  
**The number of active and inactive companies in public utilities sectors on December 31, 2013**

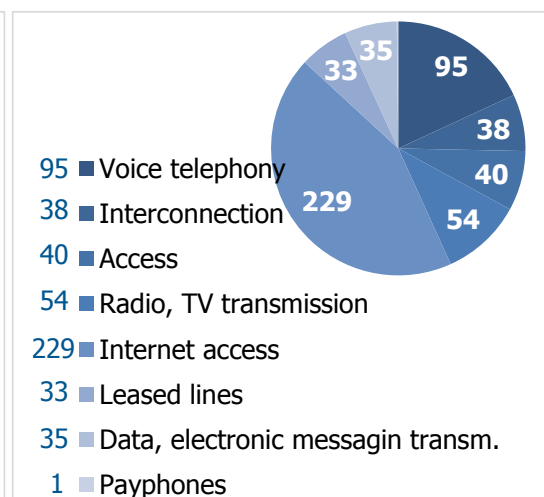


Figure 18  
**Distribution of active electronic communications companies by service types; number of companies on December 31, 2013**



## Authorisation for fulfilment of special functions

In accordance with the EU guidelines and pursuant to the Electricity Market Law, the Regulator must perform the certification of an independent electricity transmission system operator.

### In 2013, the Regulator adopted a decision on certification approving AST as the only independent transmission system operator in Latvia.

To ensure this, unbundling of the transmission system operator was performed. The European Commission indicated in its opinion that the choice of the unbundling model complies with legal norms of the Directive 2009/72/EC "Concerning common rules for the internal market in electricity" and acknowledged that it was implemented in accordance with the requirements.

### The certification of the transmission system operator is a significant part of electricity market liberalisation.

The certification of AST confirms that the European Union requirements on the unbundling of the transmission system from the generation and trade concern were met and that AST complies with the necessary independence requirements. Latvia was the first of the Baltic States to conclude the certification process.

During certification the Regulator ascertained that the transmission system operator has sufficient financial, technical and human

resources to fulfil its tasks. At the same time, the Regulator imposed several conditions in the certification decision.

- Over a period of two years, AST must prepare for the development of the transmission system, construction of new networks, reconstruction of the existing networks, as well as servicing and maintenance of all the fixed assets by itself or by choosing a company which is not related to electricity generation, trade and distribution. To ensure this, AST must fulfil these conditions without compromising the implementation of the projects for development of the transmission system, construction of new networks, and reconstruction of the existing networks for which an approval on the EU funding has been received.
- At least once every two years AST must review contracts concluded with JSC "Latvenergo" on the provision of subcontracted services by organising a procurement procedure or ascertaining that JSC "Latvenergo" continues to be the only technically feasible provider of the specific subcontracted service in the territory of Latvia.

To fulfil these conditions, the company must prepare an implementation plan by a specified deadline, as well as regularly inform the Regulator about the implementation process of the conditions. In 2013, working groups were established to implement the certification conditions, identification and review of procurement procedures, as well as definition of IT software necessary for AST operation was carried out. The implementation of the most of the aforementioned activities is planned in 2014.





## Authorisation for the use of scarce resources

The Regulator allocates the rights to use radio spectrum for commercial purposes to registered electronic communications companies. Without a Regulator's decision, 2.4 GHz and 5 GHz frequency bands may be used for commercial purposes ("exempt spectrum bands" licence) in accordance with specific conditions defined in the National Radio Frequency Plan.

The Regulator allocates the rights to use a number of spectrum bands for commercial purposes specified in legal acts by a procedure of competition or auction.

### Two auctions of spectrum bands were organised in 2013.

The statutes of both auctions were publicly available before the auctions took place and the Regulator organised consultations with the interested companies.

Spectrum band	Assignment	Company	Expiration date
791.0 – 821.0MHz / 832.0 – 862.0MHz to be used for mobile services from 01.07.2015.	2X10MHz	BITE Latvija	30.06.2033.
	2X10MHz	LMT	30.06.2033.
	2X10MHz	TELE2	30.06.2033.
2500.0 – 2690.0MHz	50MHz	LMT	31.12.2028.

Table 3  
**Technical results of auctions of radio frequency bands in 2013**

The auctions were organised in SMRA format, using the electronic management system developed and tested by the Regulator in 2012. The auction results are shown in Table 3.

Both the Regulator and the companies rated both auctions as successful. No complaints were received after the completion of the auctions.

### Companies had to transfer almost 5 MEUR to the state budget for the auctioned rights to use spectrum bands.

The Regulator allocates and extends the rights to use a number of frequency bands in such order as companies have applied ("first come, first served") by coordinating technical issues with state-owned JSC "Elektroniskie sakari". Allocations of spectrum without tendering in 2013 are shown in Table 4.

In 2013, the Regulator did not have to cancel the allocated spectrum rights of any company.

Spectrum band	Company	Territory	Expiration date
10.3-10.5 GHz	Telia Latvija	Latvia	29.05.2018.
146-146.8 MHz	Korteks	Latvia	23.09.2023.
17.7-19.7 GHz	Ērika un Co Ltd	Iecava, Bauska, Rundāle, Vecumnieki region	31.10.2018.
17.7-19.7 GHz	Stream Networks	Latvia	26.11.2023.
22-22.6 GHz/ 23-23.6 GHz	Stream Networks	Latvia	26.11.2023.
406.1-409.2125 MHz	Korteks	Latvia	23.09.2023.

Table 4  
**Allocations of spectrum without tendering in 2013**



The Regulator also allocates and cancels numbering usage rights for commercial purposes complying with the conditions of the National Numbering Plan. In 2013, the allocated and cancelled numbering resources after receiving applications of electronic communications companies are shown in Table 5.

A scarcity of numbering resources has not been observed in Latvia after switching to 8-digit numbering; however, the efficiency of numbering use has deteriorated. Since the use of numbering resources is free of charge in Latvia, except for the short codes, the forecasts of many companies regarding the use of numbering resources are unreasonably optimistic – the resource is not used at all for a long time or only a small part of it is used. Such a situation creates a seeming deficit of numbering especially for mobile numbering,

therefore the Regulator introduced allocation of numbering with conditions on its use in 2013.

Since 2004 the Regulator has introduced and repeatedly optimised a number portability service in cases when a user changes an operator. Thus, the service usability grows each year. The operators currently provide this service within one working day or other time agreed upon by the user. According to the database of JSC "Elektroniskie sakari",

**1% of fixed and 4.4% of mobile service users have switched an operator and ported their numbers in 2013.**

Numbering	Assigned		Cancelled	
	Numbers	Companies	Numbers	Companies
Geographical numbering	94 000	13	87 900	5
Numbers for the provision of "Virtual private network" service, terminal connection in the public radio communications network	1 000	1		
Numbers for provision of electronic communications services	15 000	4		
Numbers for installation of payphone lines in the fixed network, provision of "Virtual post" service	1 000	1		
Public mobile telephone numbers	1 320 000	18		
Shared payment service numbers	26 400	6	410 000	6
Toll-free call numbers	3 161	7	30	3
Premium rate service numbers	10 211	8	100	1
8-number numbering, total	1 470 772		498 030	
Short codes	42	7	14	7
Identification codes	13	10	25	15

Table 5

**Allocated numbering resources in 2013**



Similar to other countries, year 2013 in Latvia was marked by continued activation of various fraudulent schemes by using numbering resources. The detection of such schemes is very complicated because the fraud process is dynamic – it is started and terminated within a short time span. To limit fraudulent activities, foreign operators, even if only suspicious without concrete evidence, can prohibit to make calls to Latvian numbers on their public mobile phone networks, thus preventing our customers from making calls while abroad.

In 2013, the Regulator received 17 applications from various foreign operators and organisations stating that

**658 numbers in 20 different numbering ranges allocated to 16 Latvian electronic communications companies have been used for fraud.**

There are fears that the actual number of fraud cases is much higher because the operators attempt to fight small-scale fraud without the involvement of the relevant authorities.

Although the Regulator has evaluated all applications in detail, there is currently no legal evidence that these numbers have been used for illegal purposes. To prove fraud, a sustained and stable international cooperation is required; this issue is not currently settled. Simultaneously, a respective normative base is necessary which has not been developed yet. Despite this, the Regulator acted within its competence to limit fraud cases. At the Regulator's initiative, the Parliament has adopted several amendments to the Electronic Communications Law to limit such fraud and other illegal use of numbering more efficiently and rapidly.

## Supervision of companies

Pursuant to normative acts, the Regulator systematically monitors the activities of companies – both directly inspecting their facilities and analysing information submitted by companies. Inspections are carried out in accordance with a developed plan. If needed, an inspection is made to ascertain the compliance of a specific company's activities with the principles stipulated in legal acts. The results of inspections carried out in 2013 are shown in Table 6.

The major detected violations are similar for all sectors:

- technological and organisational requirements for operational safety are not fully complied with,
- accounting and technical documentation is not in order or up-to-date,
- equipment lacks informative and operating descriptions.

The Regulator monitors the activities of electronic communications companies by analysing information which registered companies must submit twice a year about all aspects of their activities in the reporting period. Thus, inspections of companies are carried out to evaluate the received customer complaints.

In 2013, no violations were found during annual inspections of companies regarding the compliance with quality requirements for passenger carriers by rail, as well as in 25 locations of postal service provision of JSC "Latvijas Pasts".



In cases of serious and repeated violations, the Regulator, using the powers defined in normative acts, is also forced to initiate and review cases of administrative violations. The Regulator also has a right to remove the rights of companies to provide public utilities for a period of three years if repeated violations of conditions of general authorisations are committed. More than 116 companies were administratively fined in 2013 (see Figure 19).

	Inspected companies	Violations found	Violations eliminated in 2013
Waste disposal	4	1	0
Railway	3	0	0
Natural gas	1	1	1
Electricity	33	81	68
District heating	31	82	76
Post	1	0	0
Water management	42	24	20

Table 6  
**Inspections of public utilities companies performed by the Regulator in 2013**

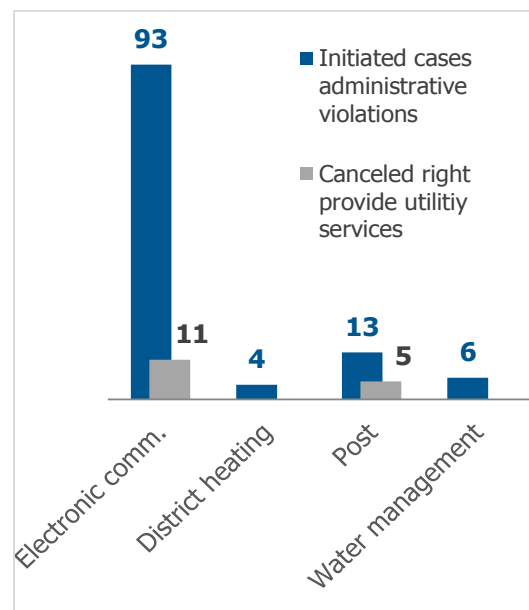


Figure 19  
**Cases of administrative violations in 2013**



## **MARKET PROMOTION AND SUPPORT FOR COMPETITION**

**Companies' relationships**

**Asymmetric regulation**

**Integration in the single  
EU markets**





## MARKET PROMOTION AND SUPPORT FOR COMPETITION

Development of the free market processes, efficient, sustainable and fair competition of companies by the quality, selection, and prices of services – these are the prerequisites for the promotion of benefits of public utilities users.

In 2013, a common trend remained – strengthening of competition processes in public utilities sectors graphically demonstrated by the market concentration index (see Figure 20).

The electronic communications sector was the first sector in which market concentration decreased to the moderately concentrated level a few years ago. The other sectors have not reached this limit yet.

In 2013, the fastest development of competition was observed in the electricity trade sector, the value of the index was 0.675 in 2012. Further progress in the electronic communications and postal sector was much slower. In the natural gas supply sector, the monopoly of JSC "Latvijas gāze" cemented in the privatisation agreement was maintained. In the other sectors, companies legitimately strengthened their regional monopolies, therefore competition is not anticipated.

### Companies' relationships

The ability of companies to simultaneously compete and mutually cooperate is and will be one of the main problems of an open market which is a time-consuming part of the regulatory process for the Regulator too. Rights, obligations and responsibilities of companies in all sectors are determined by mutual contracts which include all

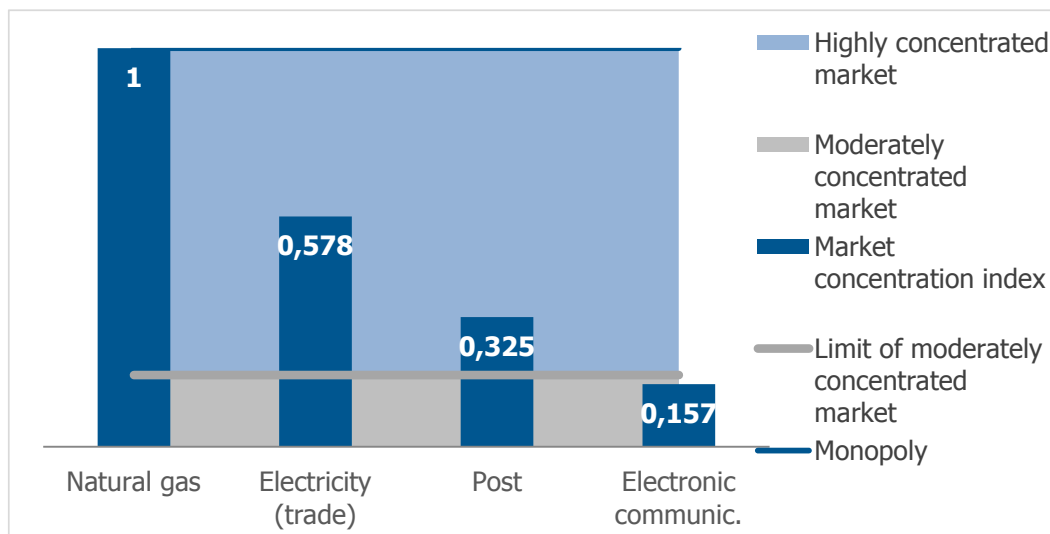


Figure 20

### Market concentration indices in regulated sectors





technical, commercial and other provisions and agreements.

The relationships of electronic communications companies are normatively stipulated by several types of agreements.

- The objective of interconnection agreements is to ensure an exchange of information among subscribers of different companies. Considering the significance of this agreement, within ten working days of concluding or amending an interconnection agreement, one copy must be submitted to the Regulator.
- Access to the infrastructure of an electronic communications network is a service provided for another company with specific conditions for access to the network infrastructure required for the provision of electronic communications services (network, connected devices, data traffic). The Regulator imposes respective access obligations on companies with significant market power.
- The terminating segment of leased lines is used to provide a subscriber line to another electronic communications company. It is a segment from the connection point of an end-user to the closest access node of an electronic communications network.

On December 31, 2013, "Regulations on reference interconnection and leased line offer" approved by the Regulator came into force stipulating a procedure according to which an electronic communications company with significant market power publishes a reference interconnection or leased line offer, as well as requirements for the information to be included in the reference offer, the required level of detail thereof and publication of the reference offer.

17 new interconnection agreements were registered with the Regulator in 2013 reaching a total of 141 at the end of the year. At the same time, we can conclude that

unlike interconnections shared access and use of infrastructure is not popular among companies.

### **In 2013, infrastructure competition characteristic for Latvia continued and companies were still not interested to compete with services.**

Potential cooperation among postal companies is a voluntary process. In 2013, the cooperation between package machine operators LLC "Post Service" and LLC "Post 24" and postal carriers and suppliers LLC "DPD" and LLC "Venipak Latvija" was the most active. Examples of cooperation among traditional postal companies were not observed.

Access by third parties to interconnected electricity transmission and distribution systems is ensured in Latvia. The small distribution network operators, a total of 11, are connected to both high-voltage grid and JSC "Sadales tīkls" grid. In 2013, the Regulator approved the updated Grid Code to coordinate cooperation of all market participants. The Grid Code regulates activities and services of the transmission system operator and distribution system operator for stable operation of the electricity system, as well as obligations of all market participants. In the updated edition, changes were made in sections about cross-border interconnection capacities, congestion management and overload avoidance, balancing of the electricity system and electricity trade.



## Asymmetric regulation

Measures of asymmetric regulation are applied to companies with monopoly power or, even more significantly under open market conditions, to companies for which significant market power in a specific market has been found and which can use their market power for profit. The obligations applied to companies are not limited to tariff regulation (see section "Service prices and tariffs"); they are complemented by a number of specific obligations. Fair use of market power is expected for the application of obligations. The Regulator evaluates the possibility of unfair cases and applies "ex ante" obligations.

In 2013, market analysis was completed and associated normative acts were developed pursuant to the EC Recommendations on relevant product and service markets within the electronic communications sector susceptible to ex ante regulation, the defined wholesale (physical) network infrastructure access including shared or fully unbundled access at a fixed location and wholesale broadband access. The Regulator expanded the previously defined obligations in the market including also wholesale services based on optical networks.

### LLC "Lattelecom" was recognized as a company with significant power in wholesale broadband markets,

defining a number of obligations for the company which restrict its ability to unfairly use its market power in the future:

- access obligations – to provide to other companies, which request it, wholesale broadband access and access to civil engineering infrastructure,

- non-discrimination obligation – to provide broadband access services for any company that reasonably requests it, as well as information under the same conditions and at the same quality as for its own structural units,
- transparency obligation – to develop and publish a reference offer and technological solutions,
- obligation of tariff regulation and cost calculation by approximating tariffs to the costs,
- accounting separation obligation.

After AST was certified as the independent transmission system operator, the control of the implementation of the obligations provided for by the certification conditions was initiated. To monitor the operator's investments, the Regulator analyses and approves the annual ten-year electricity transmission system development plan and supervises its implementation. Each of the projects of common interest is evaluated according to the criteria specified by ENTSO-E – security of electricity supply, social and economic benefits, integration of electricity produced from renewable energy resources, efficiency of electricity, CO<sub>2</sub> emissions, security limit, flexibility, impact on the environment and social aspects, and carrying capacity. The situation regarding possible EU co-funding is being clarified.

Other investments in the transmission system are assessed pursuant to the approved evaluation criteria for the necessity of reconstruction of 330/110 kV transmission system objects in Latvia.



The Regulator concluded that the implementation of the plan will ensure the connection of users to the transmission system, development of the transmission system and security of the power system, as well as eliminate the overload of cross-border interconnections.

Similar to previous years, in 2013, the Regulator evaluated if the electricity distribution system operator JSC "Sadales tīkls" has performed all legally prescribed measures to ensure independence from associated companies and avoid threats to fair competition among electricity traders. The Regulator concluded during the evaluation that

**the measures taken by JSC "Sadales tīkls" are sufficient for equal access to the network by all traders.**

Specific obligations of employees, as well as measures to be taken which are set out in

the compliance programme developed by JSC "Sadales tīkls" exclude discriminatory conduct. Board members of JSC "Sadales tīkls" do not occupy positions in the structures of the vertically integrated electricity company – JSC "Latvenergo" Group; board members have rights to decide on assets which are necessary for the operation, maintenance or development of the distribution system independently from JSC "Latvenergo". In 2013, an in-depth check-up of the validity of JSC "Sadales tīkls" costs was carried out when the Regulator along with LLC "MMX Energy" interviewed construction companies and performed the assessment of costs of newly built and reconstructed electricity distribution system objects in Latvia in comparison with the construction of analogous objects in Estonia and Lithuania (see Figure 21). Comparing the results, we may conclude that the price level of Estonian builders is considerably higher than the price level in Latvia; the total costs were also higher in Lithuania.

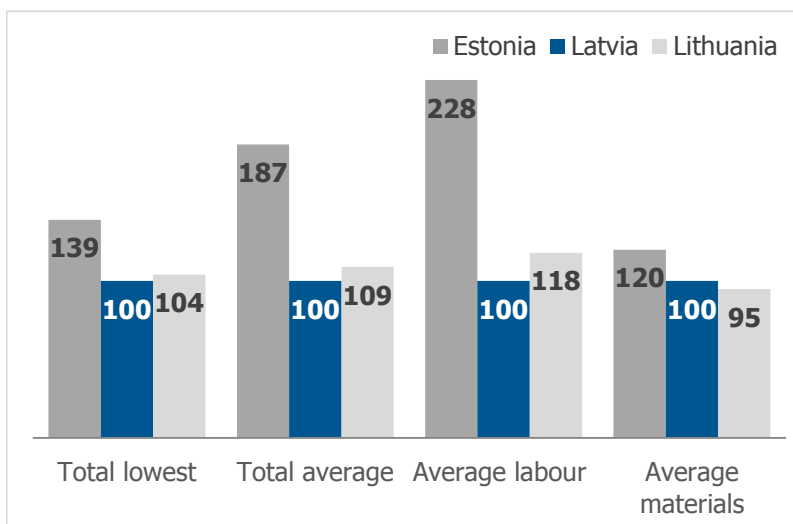


Figure 21

**Comparative costs of construction of electricity distribution system objects in the Baltic States, in Latvia – 100%**

Source: Regulator, LLC "MMX Energy"



The prices of specific equipment, i.e. substations, distribution, are higher in Latvia compared to the costs in Estonia and Lithuania due to higher demands for equipment specification by the customer JSC "Sadales tīkls"; however, higher construction costs are compensated by lower operational costs of equipment monitoring and maintenance.

In 2013, during the assessment of natural gas capacity, overload of natural gas capacity was not found; therefore, activities directed at the solution of capacity overload problems were not necessary.

## Integration in the single EU markets

The establishment of a single European market maintained its role as a big challenge for the union of different countries with economies that are still separate. Integration in this market in the public service sectors is necessary to strengthen the common European integration processes for Latvia's small and very open economy. When there is a single goal, priority tasks are different, thus, the Regulator's activities in various sectors are different.

In the energy sector, i.e. electricity and natural gas supply, the core of the single market is modern infrastructure with adequate cross-border interconnections and secure transmission grids. It will enable Latvia to integrate its energy system into the common EU system and diversify energy supply sources. The Regulator monitors the fulfilment of conditions of interconnection congestion management and overload avoidance in cooperation with the relevant authority or authorities of the member state with which the interconnection exists.

Since June 2013, NPS as the power exchange operator started the operations of the power exchange "Elsport" in Latvia

("Elsport" is NPS's day-ahead power market). The Regulator became a member of NPS Regulatory Council to solve issues related to wholesale market monitoring on a regional – Baltic-Nordic – level. At the end of 2013, active cooperation with the Baltic transmission system operators and the Baltic regulators took place to clarify the mechanism of overload capacity management.

In 2013, implementing the price monitoring function in the electricity market, the Regulator in cooperation with NPS experts of wholesale market supervision participated in several investigations of high power exchange prices. On June 25, 2013, after detecting unusually high (more than 200 EUR/MWh) and equal hourly electricity prices in NPS "Elsport" wholesale market in the Latvian, Lithuanian and Estonian bidding areas, the Regulator carried out an investigation on possible price manipulations in the power exchange in cooperation with Baltic regulators and NPS. Manipulations in NPS "Elsport" wholesale market were not found. One of the factors for the high price was the low liquidity of the power market in the Latvian bidding area, as well as the small traded volume in the respective day. The planned repairs of several electricity generation units in Estonia and limited capacity of cross-border interconnection from Belarus to Lithuania also had a significant impact. This example reflects problems arising from insufficient infrastructure capacity. Its enhancement is expensive; several countries may benefit from cross-border interconnections which further complicates the funding of projects.

To facilitate this process, the EU developed the status of projects of common interest with unified management of the projects and EU co-funding for the implementation of the projects; the involvement of



regulators of the participating countries is one of the aspects for the implementation of the projects.

At the end of 2013, the Regulator received information prepared by Latvian companies and started the assessment of several projects cooperating with ACER, EC and the regulators of other countries. The Regulator coordinates the assessment of projects with regulators concerning:

- the third stage of the electricity transmission network “Kurzeme Ring” project,
- construction of the third interconnection of the electricity transmission network between Estonia and Latvia,
- modernisation of Incukalns Underground Gas Storage with participation of Estonia, Lithuania and Finland.

Simultaneously, the Regulator continued participation in the assessment of the project coordinated by Lithuania on the capacity enhancement of Klaipeda – Kiemenai gas pipeline.

JSC “Latvijas Gāze” stores natural gas for Latvia, Estonia, Russia, and Lithuanian company “Lietuvos Dujos” in the Incukalns Underground Gas Storage. In 2013, an agreement with the operator of Klaipeda liquefied natural gas terminal “Litgas” was concluded on storage of its natural gas in the Incukalns Underground Gas Storage. The agreement was concluded until spring of 2017 and it provides for an option to inject 100 million cubic metres of natural gas in 2015 and 2016, store and supply the gas from the storage during heating season.

When characterizing the railway sector in the context of integration in the single EU market in 2013, we must mention the availability

of access to the railway infrastructure. Although currently domestic passenger carriage by rail in Latvia is provided on the basis of a government order contract, the railway infrastructure may be accessed and passenger carriage by rail may be performed by other carriers. A carrier’s licence issued in another EU Member State is valid in the territory of Latvia enabling carriers of other EU Member States to provide transportation services in the territory of Latvia if other requirements of normative acts are met. By analogy, a railway carrier which is licensed in Latvia has an opportunity to provide transportation services in another EU Member State.

Regarding the establishment of the single European electronic communications market, the main emphasis in 2013 was on services, removing barriers for service providers to operate across the EU and for service users to receive modern services anywhere. To fulfil this task, expansion of fixed and mobile broadband networks is fundamentally necessary. Carrying out regulatory functions in 2013, the Regulator has created a very favourable environment for the development of mobile broadband services –

**Latvia was one of the first EU Member States to auction all attractive spectrum bands for the creation of wireless broadband networks;**

moreover, the operators’ payments are adequate for broadband demand and actual ARPU of mobile operators in the country.

## **BALANCING AND HARMONISATION OF STAKEHOLDER INTERESTS**

**Participation of companies**

**Communication with the  
society**

**Dispute settlement**

**Cooperation with public  
institutions**

**International cooperation**







## BALANCING AND HARMONISATION OF STAKEHOLDER INTERESTS

In the public utilities sectors, the interests of active stakeholders, i.e. service providers, users and government are rather different, sometimes even contradictory; therefore the balancing of interests is a significant, yet a complicated function performed by the Regulator. The Regulator's inclination to one side or the other may quickly result in the loss of companies' interest to carry out specific commercial activities or unavailability of services. "De jure" and "de facto" independence, but simultaneously active "ex ante" information of all market participants and "ex post" cooperation with them is the foundation on which the Regulator carries out its activities.

To ensure the balancing of stakeholder interests, activities which provide the involved parties with necessary information must be implemented. To achieve this objective, a new Regulator's homepage was introduced in 2013 where information was arranged in three categories:

- information for utility users,
- information for utility providers,
- information about the Regulator and the Regulator's work.

Such an approach provides an opportunity for everybody to find topical information arranged according to specific subjects.

Up-to-date information which may directly and indirectly interest all the above-mentioned target audiences is published on the homepage on a regular basis – about the Regulator's board meetings and adopted decisions, organised public hearings and consultations, as well as other significant events.

Since the launch of the new homepage in June, 2013, almost 30 thousand visits were made in six months; 60% of the visitors viewed the homepage repeatedly. An average visit lasts four minutes which is a high indicator. An option to apply for the reception of topical information by email was also created in the homepage. The regulated companies, representatives of the media, and residents have received weekly information about the Regulator's work in this way.

### Participation of companies

Since the Regulator's decisions are binding for public utilities providers, companies are invited to participate in the process of development of normative regulations and adoption of decisions.

**When planning various regulatory activities, the Regulator asks stakeholders to participate and express their opinions in the announced public consultations.**

To ensure this, the Regulator prepares a consultation document which analyses the relevant aspect of public utilities and the existing problem, as well as lays out the planned initiatives and activities. The document offers possible solutions to the problem and questions to which the Regulator proposes to provide answers within the framework of the public consultation. In 2013, the Regulator published 39 consultation documents (see Figure 22).

The topics of consultation documents are wide ranging – registration of companies, provision of information, aspects of the Universal Service, measurements of service quality, tariff methodologies, auctions of





frequencies, various external normative acts developed by the Regulator.

In 2013, the Regulator received 46 applications with suggestions and comments on 18 announced consultation documents which helped to find the most efficient solutions. More than 90% of applicants were companies actively working in the respective sector and sector associations; the other were received from public institutions.

**To ensure efficient participation by companies, the Regulator organises the exchange of opinions in various formats – meetings, discussions, and working groups are organised on a regular basis.**

In 2013, the discussed issues included the development of various legal acts, explanation of legal acts, the Regulator's decisions and their execution, as well as reviewing user applications.

The Regulator individually communicates with companies daily. "Ad hoc" individual consultations in all sectors and about every issue especially with small companies and new market participants take place both face to face or in a written form and by phone or e-mail. Regular topics of interest are explanations of the company registration process, obligations and fulfilment thereof, cost accounting and formation of tariffs, configuration of application documents for licences and tariff proposals, agreements with consumers, procedures for public hearings, as well as submission of information and reports to the Regulator. Introduction of the euro was actual topic in the second half of 2013.

In 2013, the biggest necessity to regularly communicate remained in the water management sector. It is related to the sector specifics – a large number of small companies with little capacity. In 2013, visual material "Development of a tariff proposal for water management services" was prepared.

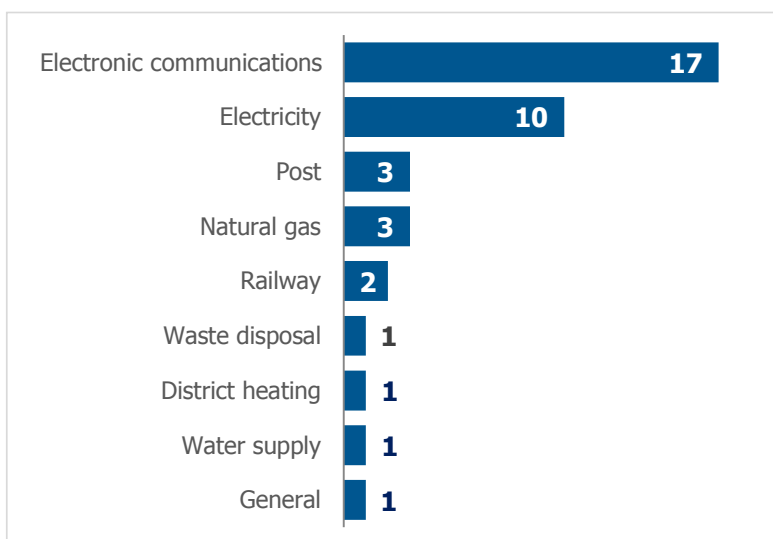


Figure 22  
**Distribution of published consultation documents by regulated sectors**



The recommended information submission forms for completing the substantiation of costs which are included in a tariff proposal and explanatory material on information to be indicated in annual reports were published on the homepage. A respective presentation was made to the companies in a special seminar organised by the Regulator and supported by the Latvian Water Supply and Sewerage Entrepreneurs' Association. Cooperation with this association also took place during the development of the draft "Water Management Service Law", as well as within the framework of "The Baltic Water Works Conference".

Regular consultations are organised with the Latvian Association of District Heating Companies including in relation to the application of the Law on the Tax of the Subsidized Electricity. Exchange of opinions with experts of the energy sector happens regularly within the framework of the Energy Committee of the National Economy Council. In 2013, the Regulator's representatives participated in the expert discussions on energy issues organised by the Soros Foundation. During the certification of the electricity transmission system operator, the Regulator cooperated with the trade union "Enerģija" coordinating the planned transfer of employees from JSC "Latvijas elektriskie tīkli" to AST. The Regulator traditionally participated in the annual report meetings of the Latvian Internet Association and Latvian Telecommunications Association informing about the development of the regulatory environment in the country. In 2013, active consultations with JSC "Sadales tīkls" took place about actions to successfully prepare for the opening of the electricity market for households.

In January 2013, after the Regulator's proposal, a round table discussion took place in the EC representation in Latvia

where sector experts, representatives of sector associations and companies exchanged opinions on the future development of broadband networks and services in Latvia. During the discussion, the Regulator provided information on the EC priorities indicating the necessity to increase investments for wider availability of broadband services to residents as the most significant one because the fulfilment of the goals of the Digital Agenda is endangered due to the economic situation in Europe.

## **Communication with the society**

Actions which are open and maximally transparent to the society are one of the cornerstones of the Regulator's operations. In 2013, the Regulator improved its communication with the society and other stakeholders by implementing activities directed at information and involvement on the Regulator's homepage and in traditional and social media.

**The Regulator will continue informing all stakeholders not only "ex post", but also "ex ante", enabling everybody to obtain timely information on the planned changes and express their opinion.**

In 2013, the society and the media were mostly interested in tariffs of public utilities. One way how the Regulator provides this information to the society and other involved parties is by organising public hearings. Public hearings on tariff proposals are a significant part of the tariff approval procedure and they take place in the territory of a tariff zone. A total of 38 public hearings were organised in 2013



including on tariff proposals:

- waste disposal – 1 hearing,
- district heating – 21 hearings,
- water management – 16 hearings.

Evaluating the content of public hearings and based on the comments of participants, we may conclude that public hearings on district heating in 2013 were dominated by general comments on tariffs that are too high in the users' opinion. More precise suggestions were made during public hearings on water management – directed at specific expenditure positions of companies.

### **The willingness of society to participate in the regulatory process is still quite low.**

Only 348 residents participated in 29 hearings about tariff proposals, the rest of the public hearings had no participants. The interest of NGOs representing public utilities users was still very low.

During individual consultations, in addition to issues within the Regulator's competence, for example, the quality of Internet services, switching operators that offer electronic communications services, district heating and water management tariffs etc., issues which concern relationships of households with building managers as intermediaries for the reception of public utilities must be explained quite often. These issues are not within the Regulator's competence – supply of water and heating in the internal networks of a building, issues of payments on the application of a water coefficient, the quality of user's drinking water, circulation of hot water, costs of heated cubic metre.

Since 2013, the tariffs of district heating, water management and waste disposal are published as tariff maps on the Regulator's

homepage. It is a convenient tool which allows interested parties to find, view and compare all service tariffs approved for regulated companies on a map of Latvia.

The Regulator's "YouTube" account was created so that society could better understand various issues related to public utilities regulation, as well as obtain more extensive and unambiguous information on the authority's work. Press conferences and various explanations of topical issues are published in the account. In 2013, residents were invited to view video stories on how district heating tariffs are formed and how the mandatory procurement component included in the electricity tariff is formed. All the information which is published on the "YouTube" channel is also available on the Regulator's homepage in the section "Regulator's video".

In 2013, education of pupils and students continued when they participated in the annual event "Shadow Day". The students of Riga Technical University attended the Regulator and followed the work of the Regulator's board members.

### **Dispute settlement**

Despite varied and extensive cooperation and the efforts to find compromise with all stakeholders, not all service providers and users are satisfied with the Regulator's decisions.

**Any stakeholder has a right to dispute any decision adopted by the Regulator and to appeal it in the Administrative Court requesting to repeal the decision.**



The results of litigation processes may be regarded as a certain indicator of the quality of the Regulator's activities. In 2013, the Regulator was involved in a number of litigation processes; most of these are continuing for several years. Of all the initiated litigation processes, 15 processes were completed. One litigation process was completed by a formally unfavourable result for the Regulator when the Senate of the Supreme Court established case law for a factually and legally ambiguously treated case (see Figure 23).

Nine completed cases concern the electronic communications sector, four cases – energy sector including the only case with unfavourable result for the Regulator. Two cases are related to the water management sector. In 2014, 71 litigation processes will continue in various stages; of these, 65 concern the energy sector and six – the water management sector.

## Cooperation with public institutions

The Regulator is not an institution which formulates national policy. At the same time, the Regulator's competence concerning issues of services of general economic interest is recognised and acknowledged; therefore the Regulator's assessments and proposals as an expert are requested and considered. The topics which the Regulator assessed for the most relevant cooperation partners are extensive:

- Ministry of Economics – integrity and transparency of the electricity wholesale market, responsibility of market participants for failure to comply with REMIT requirements providing efficient, proportionate and dissuasive sanctions, limiting the support mechanism for electricity generators, and ensuring the independence of the natural gas distribution system operator,
- Ministry of Finance – state duty for public service regulation, introduction of euro,

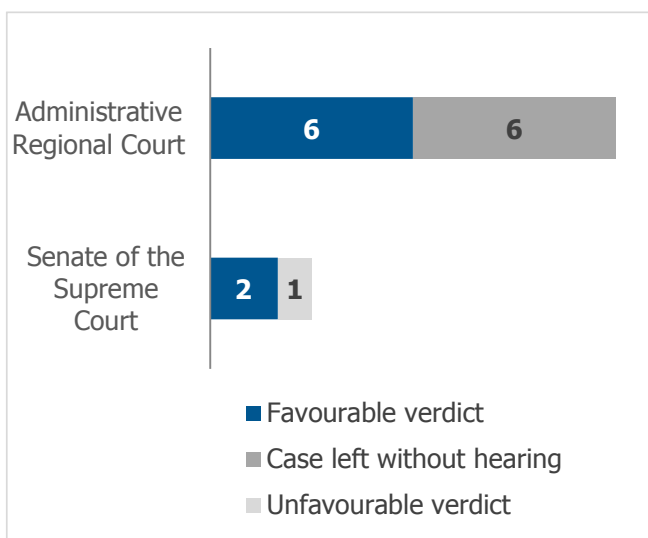


Figure 23

### The Regulator's litigation cases reviewed by court in 2013



- Ministry of Transport – NGA networks, restriction of fraud using numbering, obligations for electronic communications companies with significant market power, co-payments of the Universal Postal Service provider to compensate net costs of the Universal Service obligations, expansion of regulatory functions in the railway sector,
- Ministry of Justice – initiation, review and appeal of administrative violations cases and other procedural issues,
- Ministry of Environmental Protection and Regional Development – the minimum regulatory threshold for water management services, substitution of licensing of water management service providers with registration, issues related to costs of closure, re-cultivation of landfill sites and monitoring of a closed landfill in the tariff of a municipal waste disposal service,
- Ministry of Agriculture – electricity connections in rural areas,
- Competition Council – monitoring of the wholesale electricity market, legal solutions in cases when a debt of an apartment owner for received public utilities has arisen, opinions on the analysis of electronic communications markets,
- Consumer Rights Protection Centre – complaints of residents about issues of public utilities,
- Register of Enterprises – exchange of information about regulated public utilities companies.

The Regulator participated in the meetings of the Parliament Economic, Agricultural, Environmental and Regional Policy Committee and the Cabinet Committee on a regular basis; proposals were submitted

when reviewing issues within the competence of the Regulator.

## **International cooperation**

The Regulator constantly participated in plenary meetings of the European regulatory associations in various sectors, activities of contact committees and working groups including BEREC, IRG, ACER, CEER, CERP, ERGP, and IRG-Rail with the goal to implement unified, coordinated market conditions in the regulated sectors and cross-border cooperation of the regulators on various issues. Of these, the most significant ones are market monitoring, cost allocation, net costs, price regulation, and satisfaction of customers. Along with the aforementioned sector organizations, the Regulator actively expressed comments on the EU initiatives and proposals for legal acts including the proposal for the EC regulation on the establishment of a single electronic communications market, Energy Infrastructure Package, and the fourth Railway Package.

Considering the general and simultaneously specific nature of regulatory issues, the Regulator constantly participates in the work of other regulators and international organisations beyond the scope of the EU by participating in the work of ERRA, ITU, UPU, OECD and UNECE Committee on Sustainable Energy.

In 2013, the Regulator organized the 10<sup>th</sup> meeting of the Baltic electronic communications and postal regulators' experts where the regulators discussed the development and quality of broadband access services in the region, as well as issues related to the EU Radio Spectrum Policy Program, the Universal Service in the postal sector and many others. The Regulator participated in two mini-fora of



where special attention was paid to aspects the Baltic electricity market participants of operation and monitoring of the electricity market which is one of the topical themes in the context of the ACER electricity regional initiative. In cooperation with BEREC, the Regulator organised IRG/BEREC plenary meeting and the first stakeholder forum in Riga where the EU electronic communications regulators and various European operators' associations participated.

By performing the stipulated functions, the Regulator increased its contribution to the regulators' organisations and the EU projects in 2013. In the electronic communications sector, the "twinning" project in Ukraine was successfully completed; the project was implemented in cooperation with Spanish and Swedish regulators. The Regulator also participated in the Eastern Partnership programme. Within the TAIEX framework, the Regulator shared experience with representatives of six countries on a wide range of regulatory issues. In the energy sector, the Regulator's experts participated in the "twinning" project in Georgia lead by the Austrian regulator, as well as shared experience with the representatives of the Caspian and Black Sea Region countries within the framework of the INOGATE project.

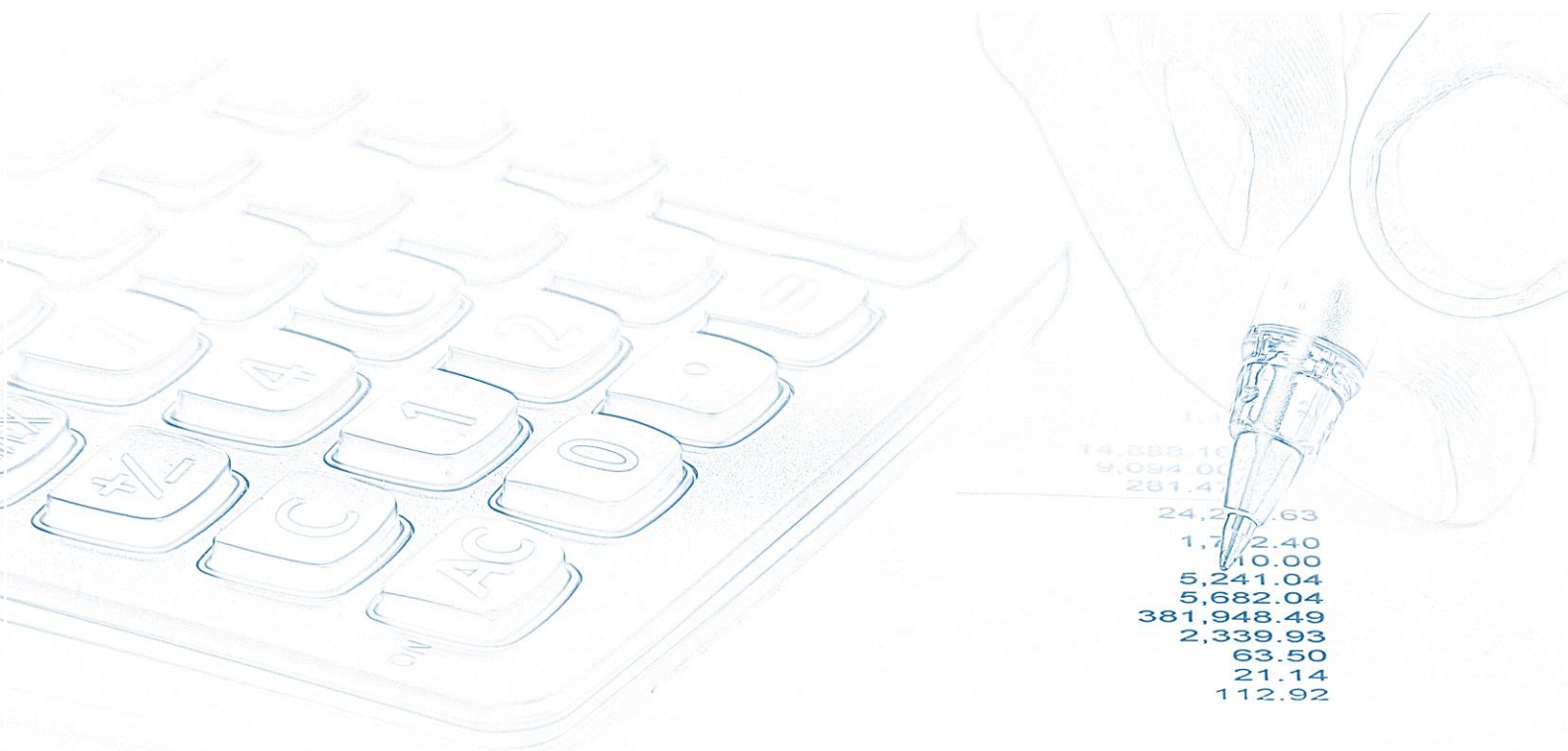
In all sectors, the Regulator participated in the relevant contact networks and ensured the gathering of the necessary information on Latvia's experience with the EU-level information analysis and databases.



# **SERVICE PRICES AND TARIFFS**

**Tariff calculation methodology**

**Approval of tariffs**







## SERVICE PRICES AND TARIFFS

The gradual process of liberalisation of public utilities markets has resulted in prices being increasingly determined by a free market and accordingly the share of regulated tariffs decreases. Year 2013 was the first full year when all companies purchased electricity at market prices. Natural gas trade prices are beyond the scope of the Regulator's activities just like biomass which is purchased at market prices. As a result, the dependence on the full energy costs for users is still growing which was also observed in 2013.

### Tariff calculation methodology

Since gas supply, district heating, water management and waste disposal companies, as well as operators of the electricity network are national or local monopolies, the regulation of their tariffs is substantiated. The regulatory process ensures the stability of tariffs and balances interests of a supplier and users. This has not hindered companies to ensure their successful development over recent years. In accordance with the current tariff setting methodology, companies are able to invest in the security of supply by improving infrastructure, as well as gain a reasonable profit for their shareholders.

Tariff calculation methodologies of the different sectors have been developed in accordance with the law "On Regulators of Public Utilities", sectoral laws and many other normative acts which are in force in the EU and Latvia. The unity of general regulations and basic principles of methodologies is one of the characteristic examples which best shows the unified approach of the multi-sector Regulator to all public utilities sectors, including:

- tariffs must meet economically and legally substantiated costs of companies,
- when setting the base tariff, the Regulator must carry out cost-benefit analysis and assessment,
- companies have to clearly and unambiguously reflect costs for each regulated service by including only those assets and activities that are related to regulated services,
- a company has to apply a cost allocation model,
- to determine capital costs, the Regulator uses regulatory asset base and the rate of return on capital which is set so that it does not affect a company's choice between the use of own capital and borrowed capital; the Regulator determines the rate of return on capital before the submission of a tariff proposal if a company requests it.

All methodologies are regularly updated and renewed according to changes in the normative environment which happened in various sectors in 2013.

- Considering the amendments to the Postal Law, to successfully organise a tender on the provision of the Universal Postal Service, the "Methodology for calculation of the Universal Postal Service tariffs" was approved. It specifies the procedure how a participant in the tender which has not previously provided the Universal Postal Service calculates the planned postal service tariffs.
- In the "Methodology for calculation and setting of the net costs for fulfilling the obligations of the Universal Postal Service", pursuant to amendments to the Postal Law, the list of services included in the Universal Service has been updated and determination of intangible



benefits made up by market benefits has been improved.

- To promote access to the Next Generation Networks, further competition and improve the investment climate in the area of broadband services, updated “Methodology for calculation and allocation of costs of electronic communications services” has been approved. The new procedure determines a special regulation of cost accounting and calculation for services provided in wholesale access markets while keeping the defined principles of cost calculation and allocation of previous methodology.
- “Methodology for calculation of electricity transmission system service tariffs” was updated taking into account the norms included in the Electricity Market Law regarding the guaranteed payment for electric capacity installed in a power plant.
- “Methodology for calculation of cogeneration tariffs” was updated in relation to amendments in the Cabinet of Ministers “Regulations on electricity production and price determination upon production of electricity in CHP plants”. Cost allocation between production of thermal energy and electricity was coordinated with norms on payments for capacity and pricing of electricity according to power exchange prices for plants with capacity above 4 MW, as well as the methodology was updated regarding the range of natural gas prices at which a tariff proposal is calculated.
- “Methodology for calculation of tariffs for district heating services” was updated regarding the range of natural gas prices at which a tariff proposal is calculated.

- In the “Methodology for calculation of water management service tariffs”, the inclusion of costs related to fixed assets financed by the EU funds in tariffs was coordinated for companies which apply the return on capital and companies which apply the return on turnover. The methodology was updated regarding indicators of service volumes used for the calculation of a tariff proposal.
- The use of terms in the “Methodology for calculation of the municipal waste disposal service tariff” has been clarified.

Legal norms providing for the required procedures for recalculation of tariff proposals were included in all tariff calculation methodologies pursuant to the norms of the Law on the Procedure for Introduction of Euro.

## Approval of tariffs

Activities of evaluation and approval of tariff proposals submitted by companies in 2013 mainly concentrated on district heating and water supply sectors. Large portion of them, similar to other years, was related to evaluation and adjustment of tariffs set by municipal regulators.

Tariffs of all energy sectors had a large share of market prices of resources characterised by constant price changes which were not always logical and predictable.

Duration of NPS activities has been too brief to make serious conclusions based on the data of the second half of 2013 and differentiate random processes from regularities (see Figure 24).



In 2013, the natural gas trading price was in a continuous downward trend in the context of global natural gas prices (see Figure 25). The average weighted trading price of natural gas was 4% lower in 2013 compared to 2012.

The prices of woodchips are highly scattered depending on quality, delivery distance and country region (see Picture 26), but over several years – depending on demand volume and climatic conditions.

In 2013, changes in regulated electricity and natural gas tariffs were determined only by the impact of resource prices.

The regulated tariffs for households remained relatively low in 2013 (see Figure 27).

The price of electricity including taxes was the second lowest among 28 EU states at the average electricity consumption level of 1,000 – 2,500 kWh/year.

The price of natural gas was the sixth lowest among the EU countries in the consumption group 500–5,000 m<sup>3</sup>/year.

In the district heating sector, half of the regulated companies work with tariffs approved by the Regulator; the tariffs for the remaining companies were approved by the municipal regulators, which discontinued operations in 2009, and these tariffs are still in force. These companies constitute almost 90% of the district heating market or 70% of the district heating market of the whole country except for Riga.

Despite making up a significant part of the household budget, district heating tariffs in Latvia are beneficial to users.

This is mainly determined by costs of energy resources (see Figure 28).

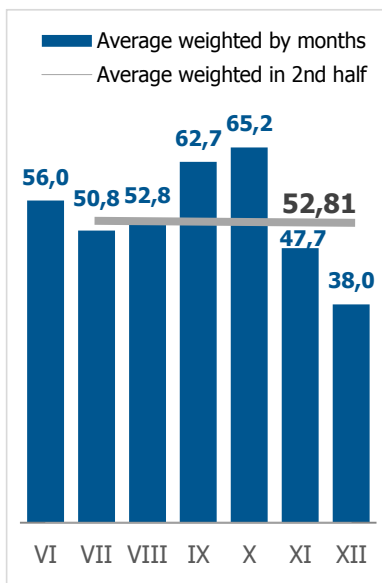


Figure 24  
NPS day-ahead average weighted electricity prices in 2013, EUR/MWh Source: NPS

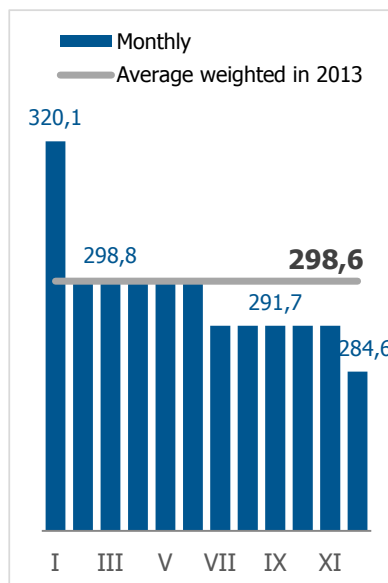


Figure 25  
Natural gas trading prices in 2013, EUR/1000m<sup>3</sup> Source: JSC "Latvijas gāze"

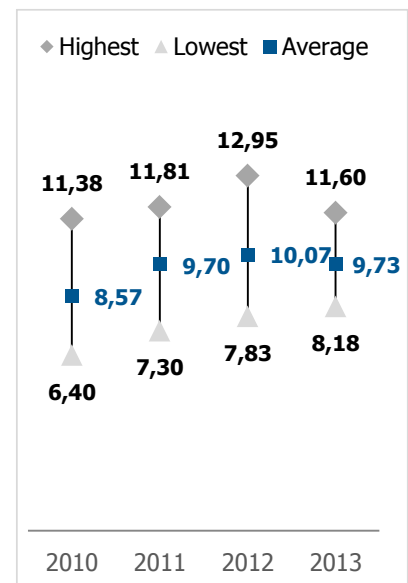


Figure 26  
Woodchip prices in Latvia, EUR/bulk m<sup>3</sup>



The Regulator's activities to adjust district heating tariffs were dual in 2013 – the Regulator increased the district heating tariff in small cities where the old tariff did not cover costs in order to ensure the sustainability of the service, while a tariff decrease was observed in most cases in the big cities. On the whole, year 2013 was beneficial for users in the area of district heating tariffs.

**In 2013, tariffs approved for 15 district heating companies lead to an overall reduction of annual costs for users amounting to more than 10 MEUR at constant energy prices.**

14.8% of this benefit is a direct contribution by the Regulator during the process of tariff review without previous consultations and methodical cooperation with companies.

In the water management sector, the number of regulated companies is much higher because unlike district heating every company is regulated. 34% of sector companies have tariffs approved by the Regulator, the remaining market participants still have the tariffs which were approved by the municipal regulators.

In 2013, the Regulator approved tariffs of water supply and sewage services for 14 companies. Due to the implementation of water management projects co-funded by the EU and improved service quality which lead to cost increase, tariffs grew objectively in this sector. A reduction in service volumes was one of the factors causing the cost increase.

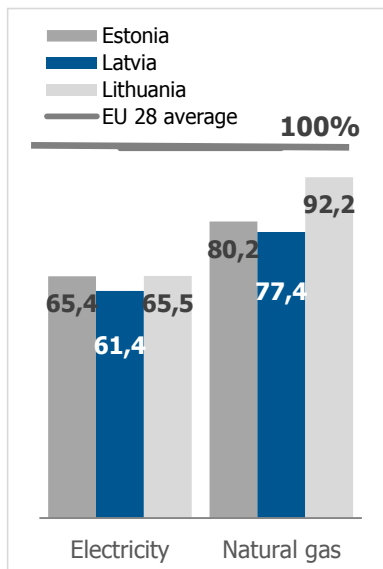


Figure 27  
**Comparative energy prices for households in the Baltic States at the average consumption including taxes, the first half of 2013, %**  
Source: Eurostat

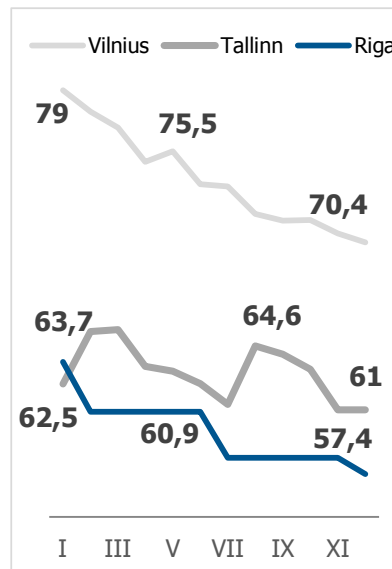


Figure 28  
**District heating tariffs in the capitals of the Baltic States in 2013, EUR/MWh**  
Source: Baltic regulators

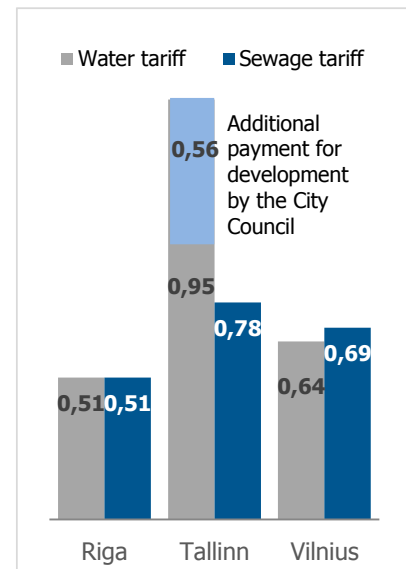


Figure 29  
**Water management tariffs in the capitals of the Baltic States in 2013, EUR/m³**  
Source: Baltic regulators



The total annual increase of expenditures for water users was 0.24 MEUR in 2013.

During the approval process of water management tariffs, the planned increase was reduced by **11.2%.**

These costs constitute only a small part of total household costs (see Figures 12 and 29).

The tariff of municipal waste disposal service as part of the total payment for municipal waste management service is determined by the total volume of disposable waste and existence of landfill transfer stations and a waste pre-treatment centre.

It is also determined by applied technologies, i.e. management of infiltrate, utilisation of biogas etc. The landfill tariffs which are currently in force and were approved by the Regulator in 2013 range from 18.43 EUR/t to 32.16 EUR/t.

Pursuant to the EC Recommendation 2009/396/EC, the Regulator has specified an obligation of tariff regulation and cost calculation for LLC "Bite Latvija", LLC "Latvijas Mobilais Telefons" and LLC "Tele2" – an obligation to bring down call termination rates and the rates of related services to costs of service provision. On April 1, 2013, the Regulator's decision on the reduction of the upper limit of call termination rates in the mobile communications networks came into effect setting the upper limit of call termination rates in own public mobile network – 0.011 LVL for a call minute for these companies. The upper limit of tariffs was set excluding the value added tax.

The Regulator's decision clearly contributed to changes – the mobile operators started offering attractive tariff plans at lower prices to users.

Taking into account further reduction of actual costs in fixed and mobile networks, in October 2013, the Regulator organised consultations about the reduction of call termination rates from July 1, 2014 in the fixed network by 89% and mobile network by 33%. As a result of consultations, the Regulator prepared draft decisions "On the upper limit of call terminations rates at a fixed location in an individual public telephone network" and "On the upper limit of the call termination rate in individual mobile networks" which were notified to the EC, regulators of the EU Member States and BEREC.





## **PROTECTION OF SERVICE USERS**

**General availability of services**

**Service quality**

**User complaints**





## PROTECTION OF SERVICE USERS

Service users are not only the most interested market participants, but also the least protected ones. Thus, in addition to balancing interests, measures for user protection are carried out to ensure stable and continuous availability of high quality public utilities not only today, but also in the medium and long term.

### General availability of services

For public utilities to be available for everyone including low-income households which are the households in the first quintile and users in less populated regions, one of the most significant instruments of the national policy is the Universal Service.

**The Universal Service is a guaranteed opportunity for everyone to continuously and in a non-discriminating way receive a defined set of public utilities of specific quality and for a socially affordable price.**

The Universal Service concept in the electronic communications sector is historically oldest and therefore the most developed one. This means 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 Regulator has assigned the performance of this function to LLC "Lattelecom" since 2003. In 2013, a number of the Universal Service obligations and requirements of service quality with specific parameters were maintained for the operator. In 2013, pursuant to legal norms and after the analysis of the submitted information, the Regulator confirmed that the provision of the Universal Service obligations has caused losses in the amount of 168,772 LVL in 2012 to be compensated from the state budget.

In 2013, the Regulator also performed the measurements of the quality parameters of the Universal Service. The results of the measurements show that the parameters of calls are good – call set up time, voice transmission quality and unsuccessful call ratio. This attests to the excellent technical maintenance of LLC "Lattelecom" network.

At the same time, a minor negative trend was observed in 2013 – the response time for services of the unit 178 that accepts damage complaints and comprehensive directory enquiry service 1188 increased (see Figure 30). To prevent this, the control of these services will be intensified in 2014.

Regarding the Universal Service in the postal sector in 2013, slightly corrected obligations remained for the delivery of letters, parcels and subscribed press which were assigned to the state-owned JSC "Latvijas Pasts". An option to send an addressee an electronic informative message about a received parcel or registered/insured letter correspondence was introduced. The weight of domestic and cross-border parcels included in the Universal Service obligations (excluding the parcels received from other EU countries) was reduced to 10 kilograms. In accordance with quality requirements of the Universal Service specified by the Regulator,





there were 618 locations for the provision of postal services and 1,058 mailboxes in Latvia. To control the fulfilment the of conditions of the postal Universal Service, the Regulator carried out time measurements of delivery of the most popular type of postal correspondence – ordinary Class B letters by using control letters. In accordance with the quality requirements, 98% of all letters must be delivered to addressees within three business days after leaving a letter at a postal collection point or dropping it in a mailbox. After sending 1,000 letters by various routes, 99.7% of all sent letters were delivered within three business days which attests to excellent quality. The delivery of the remaining letters was slightly delayed; no letters were lost.

Examining the Universal Service in the electricity sector, it must be pointed out that a number of supply obligations are included in licences of energy companies. Regulations on licensing of a public electricity trader contain an obligation of mandatory supply to captive customers. In December 2013, 17% of users received electricity from a supplier of last resort.

Licence conditions for distribution system operators provide for mandatory supply of electricity to any existing user within the operator's operational zone if the relevant normative conditions are met.

An analogous regulation (if adequate technological and economic conditions are met) is included in JSC "Latvijas Gāze" licence.

## Service quality

Service quality as a complex concept is one of cornerstones of user protection. It covers all aspects of service provision:

- service delivery, user connections,
- compliance of company's actions with agreements with users,
- service tariffs, accounting, settlements,
- technical quality of services.

The quality of Latvian public services is acknowledged across the world. A global study performed by PricewaterhouseCoopers on behalf of the UPU analysed customer service of postal services, servicing quality and delivery speed.

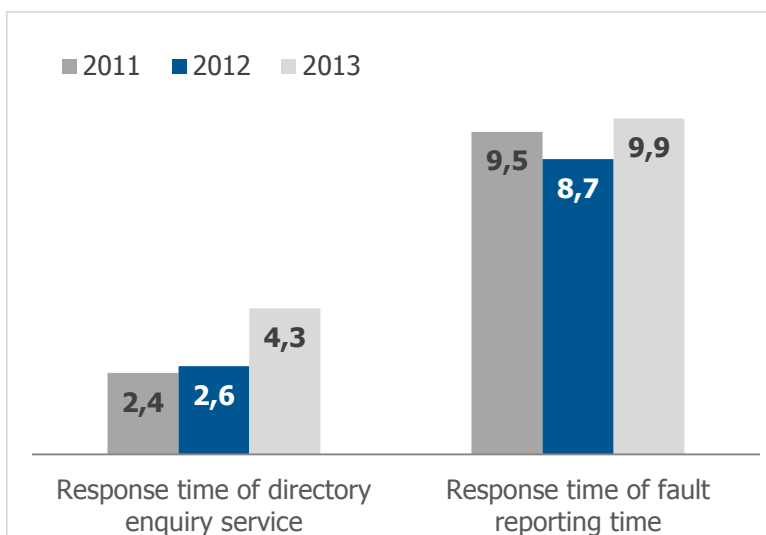


Figure 30

**Average response times of LLC "Lattelecom" services in 2013, seconds**



The study recognised

**state-owned JSC "Latvijas Pasts" as the best provider of courier services in 2013.**

In the regular measurements of fixed Internet connections performed by "Akamai Technological",

**Latvia has been among world leaders with its average and peak Internet download speeds for several years.**

To maintain such level of quality, the Regulator continued to carefully follow all aspects of the quality of regulated services in 2013.

Extensive measurements of service quality were carried out in the networks of mobile electronic communications companies. The quality of voice telephony and SMS services is still regarded as very good in locations where a stable coverage of the mobile network is ensured. Differences of voice transmission quality among operators are insignificant, connection time is affected by network technology: connection time is four to five seconds in UMTS/3G network, while it is two seconds longer in GSM/2G network on average.

**Indicators of SMS service quality are impeccable; the average SMS delivery time does not exceed seven seconds.**

The measurements of the quality of interconnection service including the unsuccessful call ratio, connection time, and the quality of voice transmission in various

combinations of operators show a very good average quality level and stable parameters to the correspondence to declared values.

**Ever increasing attention is paid to monitor the quality of mobile Internet access service,**

performing measurements in more than 180 freely selected geographical locations as uniformly as possible across the whole territory of Latvia in the mobile networks of LLC "Bite Latvija", LLC "Latvijas Mobilais Telefons", LLC "Tele2" and LLC "Telekom Baltija". The measurements were performed using the Regulator's quality control system of the Internet access service in a section between a network termination point and a Latvian Internet exchange point.

Distributions of download and upload speeds indicate that sharp differences remain in terms of options of service reception regarding both technological solutions and territories (see Figure 31 and 32). At the same time, one may conclude that

**all operators pay most attention to service quality in Riga.**

Compared to 2012, quality improvement in the mobile networks was observed:

- In LLC "Bite Latvija" network, most locations with 2G technologies have been substituted by 3G exceeding 4 Mb/s download speed in many locations.
- LLC "Latvijas Mobilais telefons" has actively expanded the number of locations where 4G technologies are provided exceeding 20 Mb/s in some locations.



- LLC "Tele2" network maintained stable connection speeds of 6-10 Mb/s in most locations, an option to receive 4G services is available in some locations in Riga.
- LLC "Telekom Baltija" improvements in 2013 were the results of introducing the technological solution of the latest generation EVDO Rev B2 in 2012.

In 2013, the Regulator started regular measurements of voltage characteristics in public electricity networks to monitor their correspondence to the national standard.

In 2013, around-the-clock measurements of the quality of Internet access service were started,

identifying load impact on the actual speed. The results indicate even tenfold drop during peak load including locations equipped with the latest technologies. This situation points to the necessity for operators to pay special attention to compliance with declared quality level of provided services.

Locations of potentially critical quality assessed by experts in low voltage networks were selected as priority locations for the measurements. Thus, measurement statistics for the year which were non-compliant with the standard in 61% of the cases clearly cannot be generalized as the overall quality of electricity supply in Latvia (see Figure 33). The measurements are performed in accordance with the methodology indicated in the standard for one week and non-compliance of any parameter with the standard means an overall non-compliance of the measurement.

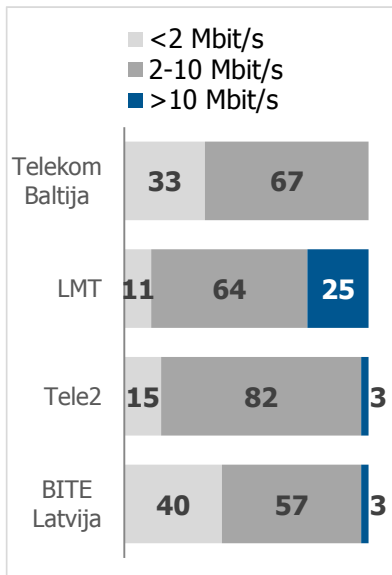


Figure 31  
Distribution of download speeds by speed groups for selected measurements in Latvia Mb/s,%

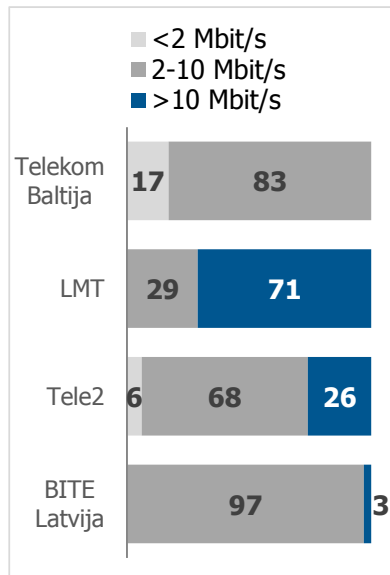


Figure 32  
Distribution of download speeds by speed groups for selected measurements in Riga Mb/s,%

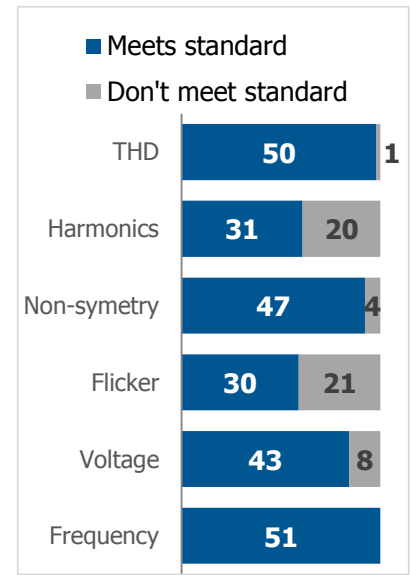


Figure 33  
Measurement results for voltage characteristics of problematic locations in public power networks, number



**If one of the most important parameters – frequency of supply voltage – fully conforms to the standard, then a lowered voltage value which must nominally be 230V is the main problem.**

In a number of measurement locations, especially in rural areas, the cause of this problem is long power lines with insufficient cross-sections of wires for actual load. In a number of additional locations which formally comply with +10/-15% standard, voltage fluctuations in the range of 40-50V were registered. There is an analogous reason for voltage fluctuations caused by temporary impact load, flicker which causes discomfort.

Non-symmetry of phase voltages and voltage distortions caused by higher harmonics have a relatively smaller impact. Although non-compliance of separate harmonics, especially the 15<sup>th</sup> harmonic is rather significant, the total distortion of harmonics THD is insignificant.

In all cases of non-compliance, the distribution operator has submitted to the Regulator an action plan for eliminating non-compliances. In three cases, non-compliances were eliminated already in 2013.

In 11 cases, non-compliances are planned to be eliminated in 2014, one object will be reconstructed in 2015. A lower distribution service tariff has been applied for six customers. The other objects were put on a list of investment objects with inadequate voltage quality.

**The Regulator has informed users that until non-compliances are eliminated they have an option to apply for a lower distribution service tariff.**

## **User complaints**

One of the Regulator's functions is a review of user complaints. In 2013, the Regulator received applications from 539 persons; of these, 206 were complaints including the ones forwarded from the Consumer Protection Centre. In comparison to year 2012, the complaints have decreased by 5.5%; however, the actual number of unsatisfied users is considerably larger (see Figure 34).

The Regulator daily receives a lot of anonymous complaints by phone. The service providers also regularly receive complaints by phone which are being solved and are not registered in addition to written complaints. At the same time, the customer service of companies is gradually improving; a lot of claims are solved and compensated without interference from the Regulator.

The main subjects of the received user complaints are mostly similar in all sectors covering various aspects including specific issues of the sectors – number porting, loss of letters, energy meters, border area problems in the mobile communications sector etc.

Evaluating the received complaints in 2013, we may conclude that 21% of them were not related to the Regulator's work (see Figure 35). They were addressed to the relevant institutions and users were informed about it. The examination of the remaining complaints related to requests of additional information from companies, inspection of objects, measurements etc. revealed that most of them were not substantiated.

**Only 22% of the received complaints were substantiated and are being solved.**



In cases when a user is still not satisfied with a solution of a specific problem after improvements made by a public utilities provider, the Regulator performs out-of-court dispute settlement between a user and provider of public utilities. In 2013, one dispute was initiated – between LLC “Marka-M” and JSC “Latvijas Gāze”; a decision on the dispute settlement will be adopted in 2014.

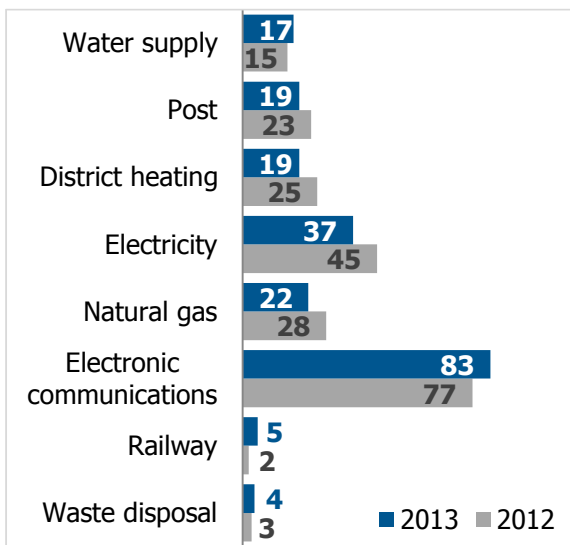


Figure 34  
**Number of received user complaints by service sectors**

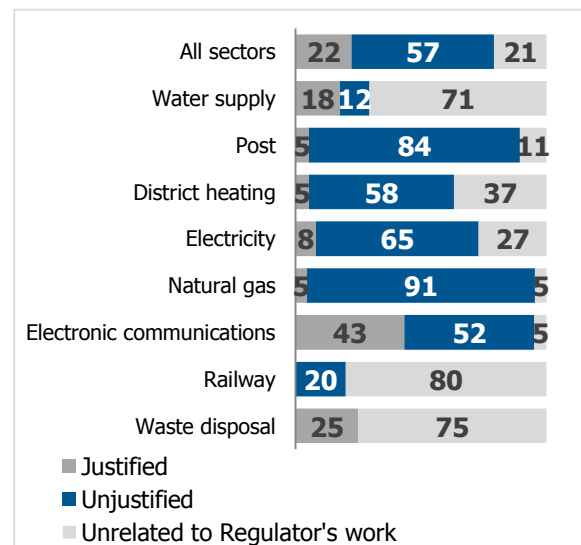


Figure 35  
**Distribution of received complaints by their justification in 2013, %**



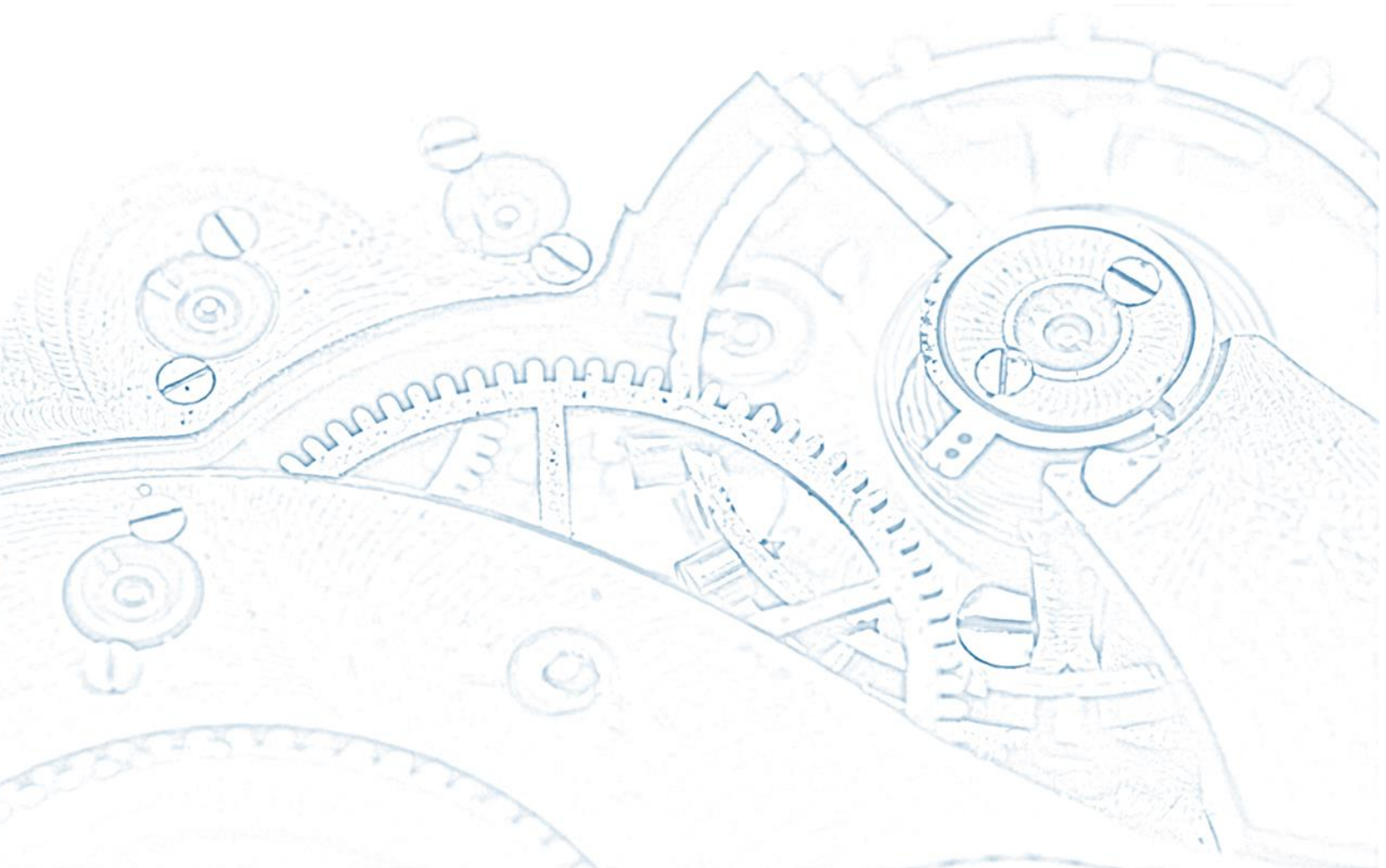
# **FUNCTIONING AND MANAGEMENT OF THE REGULATOR**

**Structure and capacity**

**Improvement of the quality  
of regulatory processes**

**Financing and spending**

**The main tasks in 2014**







## FUNCTIONING AND MANAGEMENT OF THE REGULATOR

### Structure and capacity

Although the Regulator's structure (see Figure 36) did not change in 2013, some changes were made – the Personnel Division was transformed into the Human Resources Development and Management Division and the Public Relations Division into the Communications Division maintaining the existing functionality and adding new functions.

The Board is the decision-making institution of the Regulator. The Board adopts decisions and issues administrative acts in the name of the Regulator which are binding to specific public utilities providers and users. In 2013, 47 board meetings were organised and 330 decisions were adopted including 43 internal and 42 external normative acts.

The executive institution is subordinated to the Regulator's Board carrying out the functions of the Board's secretariat and experts, preparing issues and documents for board meetings and implementing the execution of Board's decisions, as well as administrative acts. The executive institution consists of the executive director, seven departments and seven independent divisions including three regional divisions – Kurzeme, Vidzeme and Latgale. Their task is to carry out specific Regulator's functions in the regions. 118 employees worked at the Regulator in 2013; the number of employees has grown by one during the year. 93 employees work directly on the implementation of regulatory functions (respective structural units are tinted in the figure), 25 employees perform technical and administrative support functions, while the executive director and the External Relations Division partially perform both functions.

In order to carry out its functions, the Regulator must be highly competent at

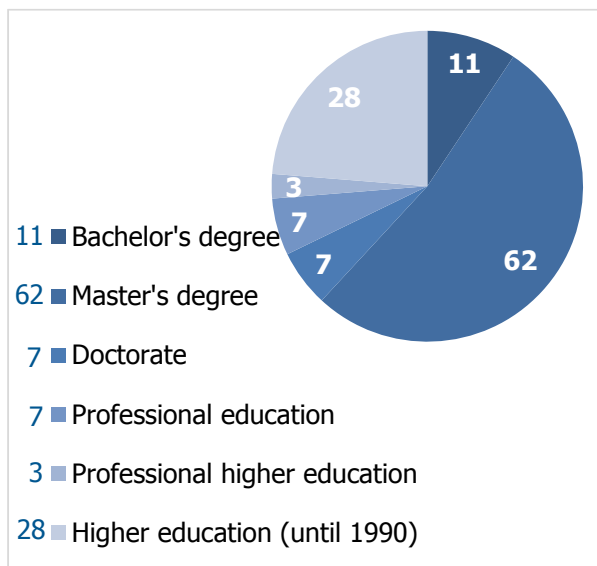


Figure 37  
**The qualification level of the Regulator's employees on December 31, 2013, number of employees**

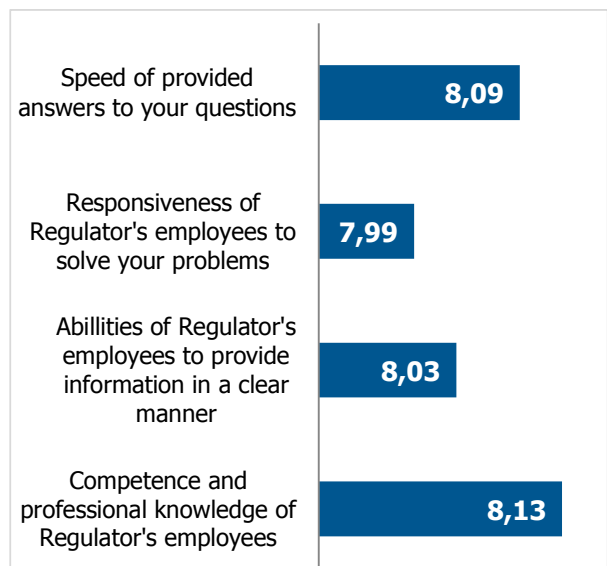


Figure 38  
**Rating of the Regulator's employees on a scale from 1 (very negative) to 10 (very positive).**  
Source: SKDS



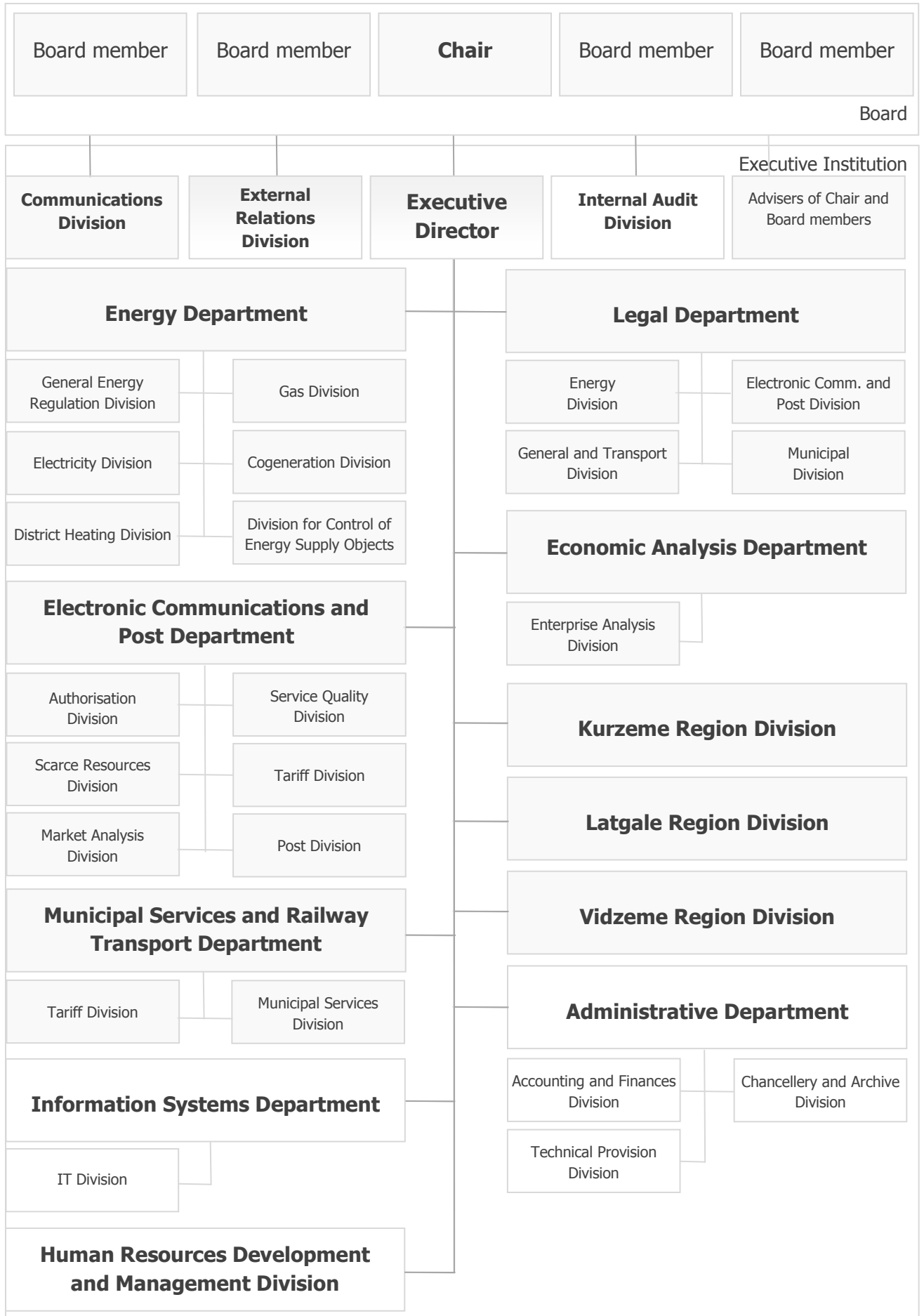


Figure 36  
The structure of the Regulator



solving problems of the regulated sectors. The current qualification level of the Regulator's employees (see Figure 37) is adequate which is indirectly confirmed by speeches of 20 Regulator's employees in various international conferences, seminars etc. in 2013.

Rating by regulated companies also confirms the Regulator's adequate competence (see Figure 38).

The regulated companies have highly rated the competence and actions of the Regulator's employees in 2013 survey where

**in a scale of 10, the overall evaluation of employees was 8,06.**

Examining the competence of the Regulator's employees, we must simultaneously conclude that the existing level of remuneration cannot ensure that the most qualified employees will work for the long-term in the Regulator. The specialty of the Regulator's functioning unlike other public authorities is an individual and regular communication with regulated companies where the remuneration level of employees with equal qualification is even several times higher. As a result, more qualified and experienced employees are regularly approached with offers to work for regulated companies which they often do. The professionals which have left must be substituted by new employees who are inexperienced in issues of public utilities regulation. In 2013, the employee turnover was high – 10.7%.

To maintain high capacity, the Regulator supports various training events for employees. In 2013, 72 employees (more than 60% of the total number of employees) were involved in such events.

## **Improvement of the quality of regulatory processes**

To achieve more qualitative and efficient performance of regulatory processes and minimise possible risks, assessment and internal control of regulatory processes are carried out on a regular basis.

The Regulator has identified 17 systems of regulatory processes; of these, eight include operational processes performed by the Regulator and nine – management and support processes. Each of these systems contains five to six processes. Internal control, i.e. system audits are planned and implemented by performing an analysis of each system which is mainly done by evaluating the remaining risks; most attention is paid to operational processes.

In 2013, seven audits were carried out; of those, four audited operational systems – "Management of licences and scarce resources", "Supervision of the fulfilment of conditions of licences and regulated sectors", "Market analysis in the electronic communications sector", and "Quality of services in the electronic communications sector". Three audits were performed by evaluating support processes – "Policy and organisation of information technologies", "Data processing and protection of natural persons", and "Cooperation with international organisations". The performed audits have resulted in the assessments about:

- compliance of operations of structural units with normative acts, specific functions and approved work plans,
- improvement of the overall management process, informing about risks and control in the relevant sectors,
- efficiency of the established internal control system and its compliance with the achievement of set objectives.



The evaluated systems are generally adequate and efficient giving confidence that risks are managed and the Regulator's objectives are achieved.

26 recommendations were provided of which 15% were classified as high priority recommendations. Of these, 19 or 73% were implemented during the reporting year; work is continuing to implement the remaining recommendations. No facts were found which would negatively impact the Regulator's activities, the recommendations concern further improvement of process quality and efficiency in the interests of companies and users. During the audit "Supervision of the fulfilment of conditions of licences and regulated sectors", seven recommendations were provided for the improvement of this subsystem related to improvements of emergency and planned inspections of companies. To improve the reporting environment for companies, development and implementation of an electronic reporting system for regulated companies of all sectors was recommended. Such system will enable harmonisation of submission of various reports, significantly reduce risks related to late submissions of reports, as well as enable the Regulator to optimise the volume of requested information.

## Financing and spending

In 2013, the Regulator carried out its activities in a separate budget programme approved by the law "On State Budget for the Year 2013".

The Regulator's operations are financed from fees for public utilities regulation. The fees are paid by regulated companies. In the reporting year, the state fee in the regulated sectors was 0.17% of the net turnover of the public utilities provided by the company in 2012.

The Regulator's planned expenditures in 2013 were 3,527,042 LVL (see Table 7) including the following expenditures:

- 64,203 LVL for implementation of target cooperation project No. UA-2010-ENP-PCA-TE-2 for strengthening institutions financed by the European Union "Strengthening of regulatory and legal competence of the Ukrainian National Commission for the State Regulation of Communications and Informatization",
- 9,172 LVL for implementation of target cooperation project No. E10-ENP-PCA-EY-01 for strengthening institutions financed by the European Union "Strengthening the capacity of the Georgia National Energy and Water Regulatory Commission to improve tariff calculation methodologies".

Actual spending amounted to 2,915,183 LVL, which was 82.7% of the planned spending.

Article 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 utilities regulation and the payment procedure of the fee" states that if the paid state fee exceeds the required expenditures for providing operations of



the Regulator 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 utilities provider.

In 2013, the total surplus of financial resources was LVL 1,176,274 consisting of actual surplus of financial resources of LVL 475,586 in 2013 and the surplus of financial resources of LVL 700,688 in 2012. The Regulator's own income in the amount of LVL 900,000 or EUR 1,280,585 has been approved in the law "On State Budget for the Year 2014". In 2014, this surplus is being returned to public utilities providers reducing the payment of the state fee proportionally to the amount of the paid state fee by each public utilities provider in 2013. The remaining cash of LVL 276,274 or EUR 393,103 is deposited in a separate account and is not available to the Regulator in 2014.

The Regulator's financial report 2013 was prepared in accordance with the Cabinet of Ministers October 15, 2013 Regulations No.1115 "Procedure for preparing an annual report".

Financial report 2013 has been submitted to the Treasury. On March 18, 2014, the annual report was audited without objections by LLC "Revīzija un vadības konsultācijas" (licence No.79 of the sworn auditor's commercial entity).

In 2013, the Regulator concluded 64 economic cooperation agreements and organised 20 public procurements in accordance with the Public Procurement Law. The Regulator changed its legal and actual address from April 22, 2013, therefore part of economic cooperation agreements and public procurements are related to the improvement of new premises and provision of services therein including security and maintenance of the premises and purchase of office furniture.

No	Finances	2012 (Actual numbers*)	2013 (LVL)	
			Defined by law	Actual numbers*
1	<b>Total revenues, incl.</b>	<b>1 934 670</b>	<b>3 327 042</b>	<b>3 390 769</b>
	Fee based services and other income	1 890 296	3 253 667	3 329 593
	Other previously unclassified income for special purposes	44 374	73 375	61 176
2	<b>Total spending</b>	<b>2 509 905</b>	<b>3 527 042</b>	<b>2 915 183</b>
2.1.	Administrative costs (total)	2 402 511	3 393 640	2 835 071
	international cooperation	25 108	25 108	19 156
	other administrative costs	2 377 403	3 368 532	2 815 915
2.2.	Capital investments	107 394	133 402	80 112

Table 7

**The Regulator's finances in 2013, LVL**  
\*in accordance with cash flow principle



## The main tasks in 2014

### Development of regulatory environment

- Participation in the progress of "Water Management Service Law" and development of drafts of amendments to related legal acts and subordinated legal acts.
- Participation in the progress of amendments to "Waste Management Law" and development of amendments to related normative acts regarding issues of public utilities provision.
- Participation in the development of legal acts in relation to further opening of the electricity market to all households.
- Implementation of the norms provided for by the EU legal acts on market monitoring in the energy sector.
- Participation in the evaluation and development of the required amendments to legal acts for the transposition of the Directive 2012/34/EU.
- Provision of the Regulator's opinion and participation in the development of the EU initiated legal acts in the EU regulatory organisations.

### Authorisation and monitoring of companies

- Supervision of companies of the liberalised postal market.
- Monitoring of activities of the independent electricity transmission system operator and its compliance with certification and independence requirements.
- Supervision of railway carriers regarding compliance with requirements specified by sectoral legal acts including passenger rights.
- Monitoring of public mobile network operators regarding implemented

unbundling of operators when customers use international roaming.

- Further restriction of companies' abilities to use numbering resources for fraud, additional supervision over numbering use pursuant to legal norms.

### Promotion of markets and support for competition

- Special attention to facilitate the opening of public utilities markets.
- Evaluation of the projects of common interest pursuant to Regulation No 347/2013.
- Supervision of electricity wholesale market including monitoring of the full use of the intraday power trading platform ("Elbas").
- Evaluation and approval of the ten-year electricity transmission system development plan.
- Supervision of non-discriminatory implementation of usage rights of natural gas infrastructure.
- Implementation of requirements for the access of operators of electronic communications networks to connected equipment including cable sewage and optical networks.
- Active participation in the solution of cross-border issues in the electronic communications sector: network neutrality, roaming, Next Generation Networks and Next Generation Access networks, and radio spectrum policy program.
- Implementation of the new EC recommendation for analysis of electronic communications markets and review of obligations of market participants.



### **Balancing and harmonisation of stakeholder interests**

- More extensive explanation of the Regulator's activities and adopted decisions, furthering constructive involvement of service providers and the society in the regulation of public utilities.
- Active participation in the process of the regional initiatives of the EU electricity markets.
- Transfer of the Regulator's experience to the regulators of other countries – expertise on issues of multi-sector regulation and specific sectors, implementation of the EU legislation.
- Collection and analysis of market data in all sectors, summarization of information for the EU systems.

### **Regulation of service prices and tariffs**

- Evaluation of tariff proposals of CHP plants, district heating, water management and municipal waste disposal and setting of tariffs.
- Further reduction of voice call termination rates in electronic communications networks of other operators.

### **Protection of service users**

- Control of railway carriers regarding passenger rights.
- Doubling the capacity of connections of the measuring equipment of Internet access service quality considering the trends for growth of connection speeds and Internet use.



## INDEPENDENT AUDITOR'S REPORT



Revīzija un vadības konsultācijas SIA

### NEATKARĪGU REVIDENTU ZIŅOJUMS

#### Latvijas Republikas Saeimai

Mēs esam veikuši Sabiedrisko pakalpojumu regulēšanas komisijas 2013. gada finanšu pārskata, uz kuru pamatojoties ir sagatavots saīsinātais Sabiedrisko pakalpojumu regulēšanas komisijas 2013. gada finanšu pārskats, revīziju saskaņā ar Starptautiskajiem revīzijas standartiem. Mūsu 2014. gada 18. marta revidentu ziņojumā mēs sniedzām atzinumu bez iebildēm par Sabiedrisko pakalpojumu regulēšanas komisijas 2013. gada finanšu pārskatu, uz kuru pamatojoties ir sagatavots saīsinātais Sabiedrisko pakalpojumu regulēšanas komisijas 2013. gada finanšu pārskats.

Mūsaprāt, iepriekš minētais saīsinātais finanšu pārskats visos būtiskos aspektos atbilst Sabiedrisko pakalpojumu regulēšanas komisijas 2013. gada finanšu pārskatam, uz kuru pamatojoties ir sagatavots saīsinātais finanšu pārskats.

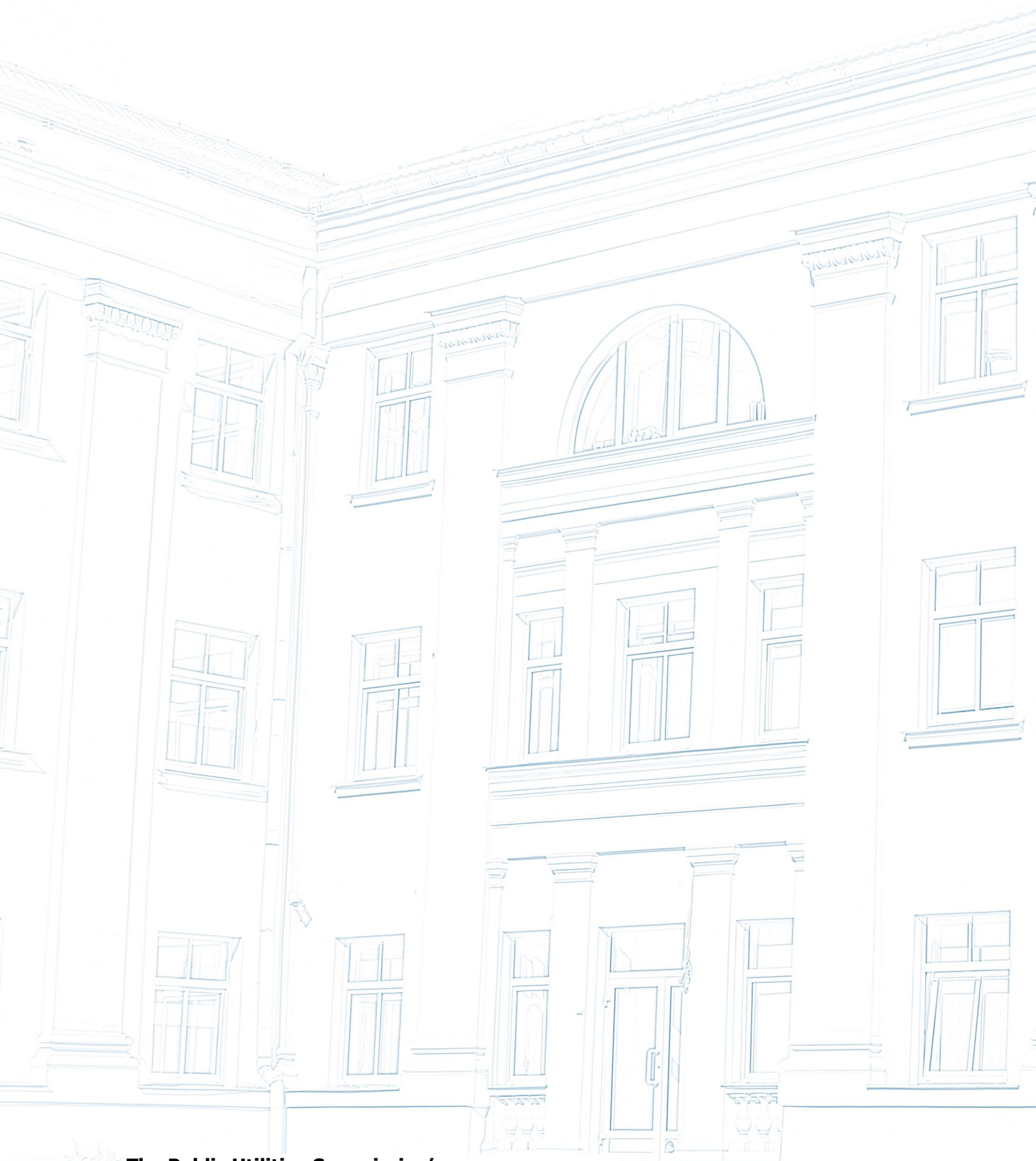
Lai gūtu pilnīgāku priekšstatu par Sabiedrisko pakalpojumu regulēšanas komisijas finansiālo stāvokli 2013. gada 31. decembrī, tās 2013. gada darbības finanšu rezultātiem un mūsu veiktās revīzijas darba apjomu, iepriekš minētais saīsinātais finanšu pārskats būtu jāvērtē kopā ar Sabiedrisko pakalpojumu regulēšanas komisijas 2013. gada finanšu pārskatu, uz kuru pamatojoties ir sagatavots šis saīsinātais finanšu pārskats, un attiecīgo mūsu revidentu ziņojumu.

SIA Revīzija un vadības konsultācijas  
Licence Nr. 79

Zigrīda Šneidere  
Valdes locekle  
LR zvērināta revidente  
Sertifikāta Nr. 110

Rīgā, 2014. gada 18. martā





**The Public Utilities Commission's  
Annual Report 2013**

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