PUBLIC
UTILITIES
COMMISSION

2014
Annual Report

CONTENTS

ABBREVIATIONS, SYMBOLS

ACER – Agency for the Cooperation of Energy Regulators
Ad hoc – for this
AST – joint-stock company "Augstsprieguma tīkls"
BEREC – Body of European Regulators for Electronic Communications
CACM – Commission Regulation establishing a guideline on capacity allocation and congestion management
CSB – Central Statistical Bureau of Latvia
De facto – concerning fact
De jure – concerning the law
EaPeReg – Eastern Partnership Electronic Communications Regulators Network
EC – European Commission
Electricity Directive – Directive 2009/72/EC concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC
Elspot – the Nordic power exchange for a day-ahead electricity market
EP – European Parliament
EU – European Union
EUR – euro
Ex ante – before the event
Ex post – after the event
Gas Directive – Directive 2009/73/EC concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC
GDP – gross domestic product
GHz – gigahertz
GIPL – a project of common interest "Gas Interconnection Poland–Lithuania"
GSM/2G – Global System for Mobile Communications/2nd Generation
HHI – Herfindahl – Hirschman Index
IKP – iekšzemes kopprodukts
Implementing Regulation – Commission Implementing Regulation No 1348/2014 on data reporting implementing Article 8(2) and Article 8(6) of Regulation No 1227/2011 of the European Parliament and of the Council on wholesale energy market integrity and transparency
IMS – Internet Protocol Multimedia Subsystem

JSC – joint-stock company
kbit/s – kilobits per second
kV – kilovolts
kWh – kilowatt hour
LED – Light Emitting Diode
Ltd – limited company
m³ – cubic metre
Mbit/s – megabits per second
MEUR – million euro
MPC – mandatory procurement component
MPI – Market Performance Index
MW – megawatt
MWh – megawatt hour
NEMO – nominated electricity market operator
NGO – nominated electricity market operator
nm³ – normal cubic metre
NPS – Nord Pool Spot
OECD – Organisation for Economic Cooperation and Development
POTS – Plain Old Telephone Service
PTAC – Consumer Rights Protection Centre of Latvia
Regulator – the Public Utilities Commission of Latvia
REMIT – Regulation No 1227/2011 on wholesale energy market integrity and transparency
SKDS – the market and public opinion research centre SKDS
ST – joint-stock company "Sadales tīkls"
TAIEX – Technical Assistance and Information Exchange Unit
THD – total harmonic distortion
t – ton
TWh – terawatt hour, 1 terawatt hour equals 1 billion kWh
UMTS/3G – Universal Mobile Telecommunications System/3rd Generation
US - Universal Service
VAT – value added tax
3G – third generation mobile communications technology
4G – fourth generation mobile communications technology

Symbols of regulated sectors used in the annual report:

- Electricity
- Natural gas
- District heating
- Water management
- Waste management
- Electronic communications
- Postal services
- Railway transport

The Regulator is the undisclosed source of information for pictures and tables.
Unaudited reports of companies and operational information are the data sources for 2014, therefore inaccuracies are possible.

CHAIRMAN'S REPORT

Valdis Lokenbahs
The Chairman of the
Public Utilities Commission

DEAR READER!

The mission of the Regulator is to independently and reliably ensure the balancing of interests of service users and providers and further the development of public utilities. We wish to become one of the most reliable and open public authorities by implementing new regulatory frameworks and improving the existing ones. Striving to develop proactive communication with the society and public utilities companies based on mutual trust, the Regulator in the reporting year paid much attention to activities towards information and involvement of the society and companies – organising public hearings and public consultations, organising a special series of meetings in the regions, providing interactive communication on the Regulator's homepage and social networks. According to the results of the survey performed by the research centre SKDS, the Regulator's activities from year to year are receiving higher ratings from households and companies. It shows that our chosen direction is important for all stakeholders.

Evaluating the development of public utilities sectors, I would like to emphasise that year 2014 highlighted a consistent movement towards opening of regulated sector markets to competition which is demonstratively confirmed by the reduction in values of market concentration indexes in the electricity and postal sectors, as well as the low index value in the electronic communications sector. To promote competition in the public utilities sectors, the Regulator actively participated in the transposition of the European Union legal norms and the development of national normative acts in the reporting period. Decisions adopted by the Regulator's Board which are binding for regulated companies were based on the application of market principles.

Assessing the development of the energy sector in the reporting period, I would like to note the significant and extensive work, which was done to provide full opening of the electricity market to competition from 1 January 2015, thereby relinquishing regulation of electricity tariffs for households. The Regulator participated in the development of necessary normative acts and actively took part in the information campaign for households on the opening of the electricity market.

I would also like to point out that 2014 was the first full year of operation of the power exchange "Nord Pool Spot" in the Latvian bidding area and it determined a new agenda in the Regulator's work – the Regulator started full monitoring of the wholesale energy market with the goal to promote its integrity and transparency. Two significant events must be noted within the context of the development of the wholesale electricity market. The largest electricity producer and trader in Latvia – JSC "Latvenergo" started full-scale electricity trading in the exchange meaning the sale of all generated electricity and buying the necessary electricity in the exchange (gross bidding). This event considerably improves the market liquidity in the region and transparency of the wholesale market. In turn, the agreement of the Latvian and Estonian transmission system operators reached at the end of the year, the aim of which is to expand and increase the volumes of auctioned cross-border capacities (PTR-limited), provides an opportunity for wholesale electricity market participants to fix the price difference on a larger scale and mitigates the related risks.

Within the context of the development of the energy sector, the movement towards the liberalisation of the natural gas market must certainly be mentioned. According to the

amendments of the Energy Law, requirements for third-party access to natural gas infrastructure were stipulated and the Regulator was obliged to approve the infrastructure usage rules developed by the natural gas system operator, whose evaluation process was started in the reporting period.

Thinking about the integration of Latvia into the single European Union market, the Regulator's work which was completed in the reporting period assessing the first projects of common interest on cross-border electricity and natural gas infrastructure and coordinating cost allocation with regulators of other countries must be noted. As a result, the Regulator adopted decisions on cost allocation that are significant for the development of the sectors and it enabled the promoters of these projects to submit applications for the European Union cofunding in a timely manner.

Evaluating the electronic communications sector which was characterised by the dynamic development of broadband electronic communications networks in the reporting year, first of all, I would like to mention the Regulator's decisions taken to promote competition – the upper limit of inter-operator rates in the mobile electronic communications network was reduced and a lower upper limit of call termination rate in the fixed telephone network. Lower upper limits of tariffs provide an opportunity for users to receive communications services at lower prices.

In the reporting year, the Regulator invested significant efforts to make the use of electronic communications numbering resources more efficient. The procedure for allocating the rights to use numbering, in which usage of numbering was described as free of charge, promoted an unreasonably high demand. As a result of this, companies requested numbering in big quantities and it created a seeming deficit of numbering. To solve the situation, the Regulator determined specific conditions for the rights to use numbering and obligations for electronic communications companies. As a result, more than 2.4 million numbers were available once again for use in the electronic communications market.

The Regulator continued work on preventing the fraud performed using numbering resources. This issue is topical across the European Union and its solution is complicated, time-consuming, and requires cooperation on the international level. To limit fraud performed using numbering, the Regulator as one of the first in the European Union issued regulations on preventing fraud performed using numbering.

Evaluating the overall development of public utilities sectors in 2014, I would like to emphasise that the tariffs of regulated public utilities basically remained at the previous year's level or even decreased except for the approved water management service tariffs which had an objective reason for tariff increase. Along with the fall of oil prices in world markets, natural gas final tariffs also decreased in Latvia, as consecutively did district heating final tariffs for companies using natural gas as a fuel. Analysing the dynamics of tariffs of regulated public utilities, it must be noted that the changes in tariffs resulted in the reduction of inflation.

Regarding the development of new regulatory methods, I would like to highlight the continued work on the development of benchmarking of water management sector companies and modelling instruments. The first stage in the development of a model for evaluating the water companies' efficiency and economic justification of tariffs concluded with the development of a methodology for modelling water supply companies. Since the new approach is based on evaluating and comparing the information submitted by companies with benchmark information, its use will enable more efficient process of tariff assessment, significantly reducing the administrative burden for companies and considerably accelerating the procedure. The next step in implementing the model is detailed analysis and examination of operational indicators submitted by the companies.

We realise that by implementing public utilities regulatory functions we must also develop and grow ourselves. Market development processes, new technologies and new special functions for sector regulation highlight new challenges for more efficient work organisation and processes, acquiring different working methods, qualitatively new expertise and experience. Therefore, the Regulator paid a lot of attention to improve and develop the competence of employees in the reporting year. To improve skills, acquire new expertise, gather experience and share it, the Regulator's employees attended specialised training courses and participated in the events organised by international and regulatory organisations – the Agency for the Cooperation of Energy Regulators, the Energy Regulators Regional Association, the Florence School of Regulation etc.

I invite you to find out more about the Regulator's accomplishments in 2014 in the annual report. I acknowledge that the initiated work on promoting competition in public utilities sectors will be continued in 2015 and will be one of the Regulator's priorities, simultaneously ensuring the opportunity for public utilities users to receive continuous, safe and high-quality public services at economically justified prices.

1.

WHY REGULATE, WHAT IS THE REGULATOR AND WHAT ARE THE REGULATOR'S FUNCTIONAL TASKS?

1.1.

WHY REGULATE?

A necessity to intervene in a market administratively and regulate services arises in two cases:

1. competition for the provision of the service is not possible and a natural monopoly exists in the market or competition cannot provide sufficient economic gains and efficiency,
2. competition exists for the provision of the service but it may be limited in cases when scarce resources are used for the service provision (for example, numbering) or service provision requires high cooperation level of market participants or access to the infrastructure is required for service provision.

Under free market conditions, competitors try to attract buyers offering as high-quality services as possible and simultaneously ensuring affordable prices to consumers. As a result, the competition naturally ensures the greater economic benefit to buyers – highquality services at affordable prices.

Under monopoly conditions, a service provider does not have the same motivation as under free market conditions. Therefore a market needs administrative interference which is carried out by a national regulatory authority or regulator. The Regulator stimulates the improvement of service quality and provision of services at the lowest possible costs using the following instruments:

- control of cost justification,
- determination of tariffs and charges based on justified costs,
- determination and control of quality standards,
- creation of motivating instruments which stimulate the improvement of companies' efficiency and service quality.

Under conditions when competition is limited due to the necessity to use scarce resources or access infrastructure, the regulator creates clear rules of the game, which provide open and transparent access to these resources and their use, as well as clear rules describing the way companies must cooperate in the use of these resources or under what conditions access to infrastructure must be ensured. These rules may provide for significant obligations for market participants and restrictions on discretionary powers.

1.2.

WHAT IS THE REGULATOR?

Public utilities provided in energy (electricity, natural gas, district heating), electronic communications, post, water management, railway transport and municipal waste management sectors are administratively regulated in Latvia. The types of public utilities which have to be regulated are determined by the Cabinet of Ministers.

A regulatory authority – the Public Utilities Commission (Regulator) is established for public utilities regulation. Regulatory policy and procedures for the sectors, as well as basic principles of operation of the regulatory system are stipulated in the law "On Regulators of Public Utilities" and normative acts regulating relevant sectors – directives, laws, Cabinet of Ministers regulations, and the Regulator's decisions.

The unified multi-sector Regulator in Latvia was established on 1 September 2001 as an authority supervised by the Ministry of Economics taking over regulatory functions from several sector regulators and public authorities – the Energy Regulation Council, the Telecommunications Tariff Council, partly from the State Railway Administration and the Ministry of Transport. In 2009, the Regulator also took over regulatory functions of municipal regulators and municipalities in water management, municipal waste disposal and district heating sectors.

On 11 August 2011, when amendments to the law "On Regulators of Public Utilities" entered into force, the status of Regulator's independence was strengthened – in accordance with the law the Regulator is no longer an authority supervised by the Ministry of Economics from this moment, but is institutionally and functionally independent, full-fledged, autonomous body governed by public law and unassisted in the implementation of its budget approved by law. 2014 was the third year when the Regulator had a status of full independence.

The Regulator independently performs functions determined in law and within its competence independently adopts decisions and issues administrative acts which are binding for specific public utilities providers and users. The decisions on the Regulator's behalf are adopted by the Board, which consists of the Chairman and four Board members designated by the Saeima (Parliament). The Regulator's Chairman Valdis Lokenbahs took office on 25 February 2011. Board members – Andris Aniņš was appointed from 2 July 2011, Inese Ikstena was appointed from 2 July 2011, Rolands Irklis was appointed from 25 February 2011 and Gints Zeltiņš was repeatedly appointed from 2 July 2011. More information on the Regulator's structure and management is available in Section 11.1 "Structure and organisation of work".


Andris Aniņš


Inese Ikstena


Valdis Lokenbahs


Rolands Irklis


Gints Zeltiņš

1.3.

THE REGULATOR'S FUNCTIONAL TASKS

The Regulator's mission is to independently and reliably ensure the balancing of the interests of service users and providers and further the development of public services. Based on the mission, in January 2014, the Regulator's Board defined the Regulator's vision to become one of the most reliable and open public authorities by implementing new regulatory frameworks and improving the existing ones.

The Board has set several strategic goals for 2014-2016:

- for ensuring regulation – to provide regulation of public utilities and development of competition in regulated sectors throughout the territory of Latvia ensuring an option for public service users to receive continuous, safe and high-quality public services at economically justified prices,
- for monitoring companies – to supervise activities of regulated public utilities providers, fulfilment of requirements of license and general authorisation conditions, specific quality requirements, technical regulations, standards, and contract provisions,
- for quality control – in order to protect user interests, perform measurements of the quality of regulated services, promote the development of public utilities providers and ensure continuous improvement of the quality of public utilities,
- to participate in the work of international organisations to promote the development and implementation of the European regulatory legal framework in regulated sectors in Latvia and on cross-border issues pursuant to the European Union (EU) directives and new functions of regulators of the member states,
- in order to improve the operational efficiency of service providers, develop the legal framework of regulated sectors including development and implementation of regulatory methods and the comparative approach,
- to improve the efficiency of the Regulator's operations and promote development – improve competencies, expand communication, increase the efficiency of the process and develop information systems.

In accordance with the law "On Regulators of Public Utilities", the Regulator's basic functions are:

- to protect the interests of users and stimulate the development of providers of public utilities,
- to promote competition and supervise the activities of companies in the public utilities sectors,
- to determine tariffs and the methodology for calculation of tariffs,
- to authorise (license, register) providers of public utilities,
- to supervise the compliance of provided services with the requirements of licences and general authorisations, specific quality requirements, technical specifications, standards, and contract provisions,
- to examine disputes,
- to inform the public of its activities and also of the activities of providers of public utilities.

By carrying out the Regulator's mission, striving to achieve the intended vision and implementing strategic activities, as well as taking into account technological development, changes in sector politics and thinking paradigms which impact the development of public utilities sectors, the Regulator focuses more intensely on the

improvement of regulatory functions and application of new, special regulatory functions of the sectors every year. In recent years, the development of public utilities markets was mainly related to gradual liberalisation thereof which not only imposes new regulatory functions on the Regulator but also forces it to give up the use of several regulatory instruments in specific sectors.

New special functions to be performed by the Regulator in the energy sector are stipulated by regulations of the European Parliament (EP) and of the Council, the Energy Law and the Electricity Market Law.

After opening the electricity market for competition, according to EU regulation No. 1227/2011 on wholesale energy market integrity and transparency (REMIT) and the Electricity Market Law, the Regulator's obligation is to supervise the wholesale energy market integrity and transparency. The Regulator has a task to supervise the wholesale energy market since 3 June 2013 when the Latvian bidding area of the Nordic power exchange "Nord Pool Spot" (NPS) was opened. Supervision of activities of the wholesale energy market are focused on reflecting genuine and competitive interaction of supply and demand by prices set in the wholesale energy markets and so that wholesale market participants could not profit from market abuse. The Regulator's task is also to determine the procedure for management and use of the electricity system, operational principles of market participants, as well as uniform system connection regulations for electricity producers and users.

In accordance with amendments to the Energy Law of 13 March 2014, the Regulator shall approve the regulations for the use of the natural gas transmission and distribution system and the natural gas storage facility developed by the natural gas system operator JSC "Latvijas Gāze", as well as the regulations on the system use developed by the liquefied natural gas system operator. In accordance with the Energy Law, the natural gas transmission system operator must be unbundled from the distribution system operator by 3 April 2017. The liberalisation of the natural gas market will also mean a review of regulatory functions.

In accordance with Regulation No 347/2013 on guidelines for trans-European energy infrastructure, the Regulator assesses and adopts a decision on the cost allocation for projects of common interest in the area of electricity and gas infrastructure which are eligible to receive the EU financial assistance.

On 3 July 2014, amendments to the Electricity Market Law and Energy Law entered into force granting the Regulator the rights to apply sanctions for violations in electricity and natural gas supply sectors. If a company does not comply with requirements for electricity and natural gas supply, the Regulator may impose a fine of up to 10% of the company's net turnover in the fiscal year. The amount of fine is determined in accordance with the Cabinet of Ministers regulations "Procedure for determining the amount of fines in the electricity and natural gas supply sectors" of 23 December 2014.

In the electronic communications sector, the Regulator's special functions are determined in Electronic Communications Law, as well as in the regulations of the EP and of the Council. The law authorises the Regulator to develop regulations and requirements for unbundled access to a subscriber line including optic lines, connected devices and services, access to cables ducts and perform public consultations on the developed draft normative acts.

The Regulator's responsibility is to define markets for electronic communications services, determine companies with significant power in these markets and impose special requirements and obligations thereon.

In accordance with the Electronic Communications Law, the Regulator informs the European Commission (EC), the regulators of the EU member states and the Body of European Regulators for Electronic Communications about its decisions, as well as cooperates with these authorities when reviewing cross-border disagreements between electronic communications companies of Latvia and another EU member state. The Regulator allocates scarce resources which are required for commercial activities of electronic communications companies, supervises the use of numbering and assesses if the allocated numbering is used correctly and if it is not used for fraud.

Special functions in the postal sector are stipulated by the Postal Law. In accordance with the law, the Regulator selects the provider of the universal postal service, obligations of the universal postal service and monitors the fulfilment of these obligations. The Postal Law stipulates that the Regulator selects the provider of the universal postal service by organising a tender. Amendments to the Postal Law of 22 May 2014 stipulate that the universal postal service shall be provided by the state-owned JSC "Latvijas Pasts" until 2019. As a result, the Regulator extended the universal postal service obligations for five years for the current provider of the universal postal service.

The Regulator is also obliged to select a postal company which when providing traditional postal services in the territory of Latvia shall fulfil the provisions included in the documents of the Universal Postal Union – the Universal Postal Convention, Letterpost regulation, Postal parcel regulation – and represent Latvia in relations with postal operators selected by other countries regarding postal issues.

2.
OPERATIONAL PRIORITIES IN 2014

To implement the Regulator's functions and tasks, as well as fulfil the requirements of the EU and national legal acts, the Regulator set several operational priorities for 2014.

FOR DEVELOPMENT OF REGULATORY ENVIRONMENT

- Participation in the progress of the draft law "Water Management Service Law" and development of amendments to related legal acts and subordinated draft 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 full liberalisation of the electricity market and regulation of protected users.
- Implementation of the norms provided for by the EU legal acts on market monitoring in the legal acts regulating the energy sector in Latvia.
- Participation in the evaluation and development of the required amendments to legal acts related to the implementation of the Directive 2012/34/EU establishing a single European railway area.
- Provision of the Regulator's opinion and participation in the development of the EU initiated legal acts in the EU regulatory organisations.

FOR REGISTRATION AND SUPERVISION OF COMPANIES

- Supervision of companies of the liberalised postal market.
- Supervision of activities of the independent electricity transmission system operator and owner of electricity system; evaluation of activities according to certification requirements.
- Supervision of railway passenger carriers in compliance with requirements specified by legal acts of the sector.
- During international roaming usage by customers, supervision of public mobile network operators regarding to implemented unbundling of operators. Restriction of companies' abilities to use numbering resources for fraud, additional supervision over the use of numbering resources according to legal norms.

FOR PROMOTION OF MARKETS AND SUPPORT FOR COMPETITION

- Promoting the liberalisation of public utilities markets.
- Evaluation of projects of common interest according to Regulation No 347/2013 on guidelines for trans-European energy infrastructure.
- Supervision of the electricity wholesale market including monitoring of the dayahead (Elspot) and intraday (Elbas) power trading.
- Evaluation and approval of the ten-year electricity transmission system development plan.

- Supervision of implementation of the rights of usage of the natural gas infrastructure.
- Implementation of the requirements regarding the rights of the electronic communications network operators for the access of connected equipment including cable ducts and optical networks.
- Active participation in the solution of cross-border issues in the electronic communications sector: network neutrality, roaming, Next Generation Networks, Next Generation Access networks, and radio spectrum policy program.
- Analysis of electronic communications markets according to the EC recommendations and a review of obligations of market participants.

FOR BALANCING AND HARMONISATION OF INTERESTS OF STAKEHOLDERS

- 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.
- Sharing of the Regulator's experience to the regulators of other countries on multisector regulation and specific sector regulation issues in the EU and internationally.
- Collection of data and analysis, summarisation of the information for the EU systems.

FOR REGULATION OF PUBLIC UTILITIES TARIFFS

- Evaluation of tariff proposals for electricity, district heating, water management and municipal waste disposal services and setting of tariffs; regulation of infrastructure tariffs.
- Further reduction of voice call termination rates in electronic communications networks of other operators.

FOR PROTECTION OF USERS OF PUBLIC UTILITIES

- Supervision of railway passenger carriers regarding passenger rights.
- Considering the tendencies for the growth of connection speeds and Internet usage, doubling of the connection capacity of the measuring equipment of Internet access service quality.

3.

PUBLIC UTILITIES SECTORS IN ECONOMIC AND SOCIAL CONTEXT

3.1.

ECONOMIC CONTEXT

Regulated public utilities sectors – energy, electronic communications, post, water management, railway transport, waste disposal – are closely integrated in the overall national economy. On one hand, public utilities ensure the functioning of the national economy and significantly influence the rate of economic growth, on the other hand – the economic activity in the country impacts the consumption of public services, investments and technological development.

GROSS DOMESTIC PRODUCT

In 2014, compared with 2013, the gross domestic product (GDP) in comparative prices grew by 2.4% and GDP at nominal prices was 24.1 billion euro. The turnover of public utilities provided by the regulated companies was 2.8 billion euro (the turnover of electronic communications sector includes both regulated and unregulated electronic communications services). Contrary to the GDP growth, the total turnover of regulated public utilities at nominal prices has decreased for the second year running. In 2014, compared with 2013, the turnover decreased by 3%, in 2013 – a drop of 4.3%. Various factors influenced the changes in sector turnover, but mainly – the consumption of public utilities and resource prices. The turnover of regulated sectors is shown in Figure 1.

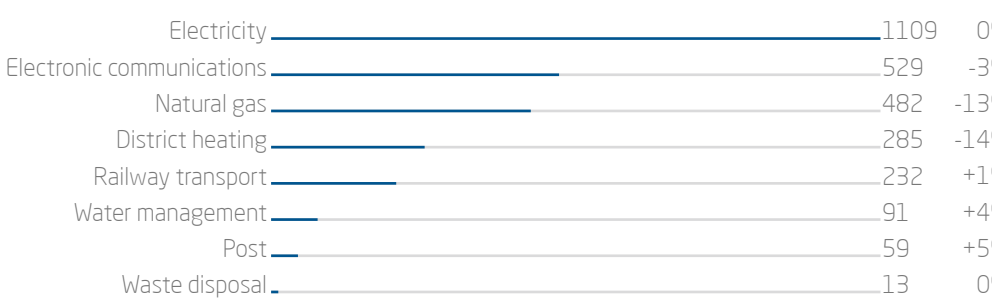


Figure 1. The turnover of companies in regulated sectors in 2014, MEUR, dynamics in 2014/2013, %

THE IMPACT OF PRICES OF REGULATED UTILITIES ON INFLATION

In 2014, the average annual inflation in Latvia was 0.6%. The average consumer price level increased by 0.2% in December 2014 compared with December 2013. In accordance with the data provided by the Central Statistical Bureau (CSB), the prices of goods decreased by 0.9%, while the prices of services increased by 3.3%. The price increase of regulated public utilities (electricity, natural gas, district heating, regulated voice telephony services, general postal services, water supply, and sewerage services) was 0.7% in December 2014, compared with December 2013; price changes of these services increased the consumer price index by 0.07 percentage points. The share of these public utilities in household expenditures was 10.2%.

In December 2014, compared with December of the previous year, the prices of water supply services grew by 7.8% and prices of sewage services grew by 8.6% increasing the consumer price index by a total of 0.1 percentage point. Along with a drop of energy resource prices in world markets, the prices of natural gas and district heating services also decreased – respectively by 1.4% and 0.4%. The prices of regulated electricity, regulated voice telephony services and general postal services did not change in 2014. See Section 9.2 "Tariff changes" for more information on prices of regulated public utilities.

REMUNERATION IN REGULATED SECTORS

Remuneration in public utilities sectors varies. In 2014, the monthly average gross remuneration in electronic communications and energy sectors was significantly higher than the average gross remuneration in the country while it was lower in water management, waste management, postal and courier sectors (see Figure 2). The average gross remuneration in Latvia increased by 6.8% compared with 2013. The average gross remuneration also increased in regulated sectors in 2014. The salaries grew especially fast in the postal and courier sector – the average gross remuneration grew by 19% compared to 2013, but its level is still below the average level of remuneration in Latvia. The increase in remuneration in other regulated utilities sectors was lower than the country's average.

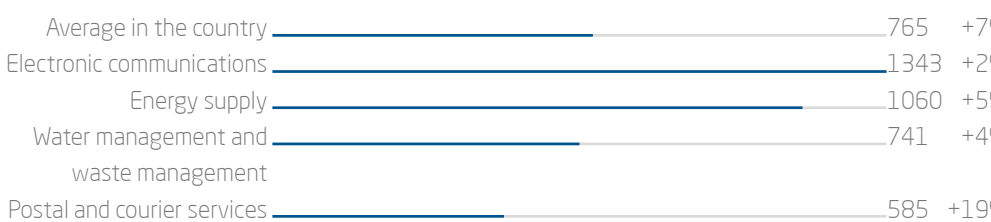


Figure 2. Average gross remuneration in public utilities sectors in 2014, EUR, dynamics in 2014/2013, %
Source: CSB

THE TURNOVER OF REGULATED SECTORS AND ITS INFLUENCING FACTORS

The total turnover of electricity generation, distribution, transmission and trade decreased by 0.3% and was 1109 million euro in 2014 (compared with 2013).The drop in turnover was due to a decrease in the volume of electricity produced in Latvia and import of cheaper electricity from the Nordic countries. The decrease of production was mainly caused by low electricity prices in the Nordic market, the warm winter and untypically small water inflow in the river Daugava. Latvia imported cheap electricity from the Nordic countries, simultaneously reducing electricity generation in gas power plants. The reduction was also caused by warm weather conditions during the heating season resulting in lower demand for thermal energy; thus, electricity production in CHP plants decreased. The change in the support mechanism for big CHP plants which no longer provides for compensation of natural gas costs also reduced electricity production.

The volume of electricity supplied to the domestic market in Latvia grew by 5% and was 7172 million kWh in 2014 (see Figure 3). After the fall in electricity consumption in 2013 which was mainly related to suspension of operations of JSC "Liepājas metalurgs", in 2014, the growth of electricity consumption was improved by growth rates of manufacturing sectors.

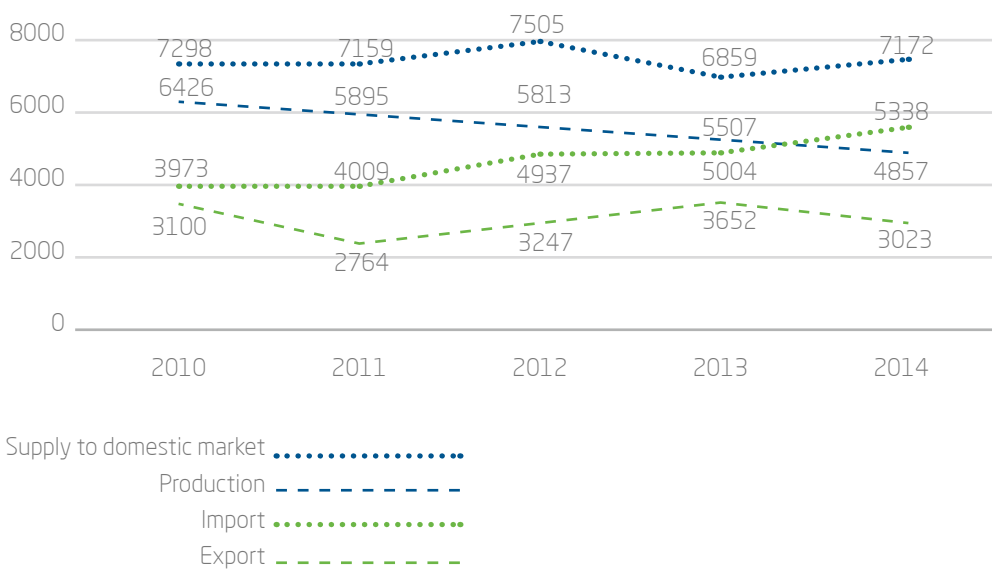


Figure 3. Electricity balance in 2010-2014, million kWh, sum of monthly data
Source: CSB

76% of electricity supplied to the domestic market in 2014 was consumed by companies and 24% was consumed by households. Households buy electricity at a determined tariff while companies buy electricity at an agreed price influenced by the wholesale electricity price in the NPS exchange. Electricity price makes up 40-50% in the total payment for electricity by companies. In the reporting year, the day-ahead weighted average electricity price for the Latvian bidding area in the NPS power exchange ranged from 42.07 EUR/MWh in January to 60.54 EUR/MWh in July, while the yearly weighted average price in the Latvian bidding area was 51.36 EUR/MWh (see Figure 4).

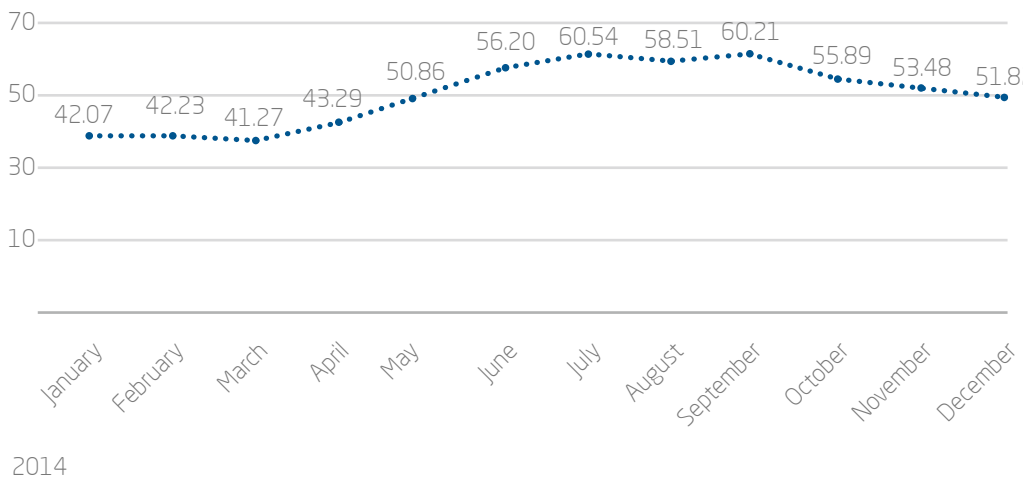


Figure 4. The weighted average electricity price in the NPS power exchange for the Latvian bidding area in 2014, EUR/MWh
Source: NPS

The turnover of natural gas transmission, distribution, storage intended for trade and trade decreased by 13% and was 482 million euro in 2014. The cause of significant decrease of turnover was the drop in natural gas consumption. A simultaneous decrease in natural gas trade prices was also observed in the market (see Figure 5). The weighted average natural gas trade price was 282.71 EUR/thousand nm^3 in 2014 which was 11.3% lower compared with 2013.

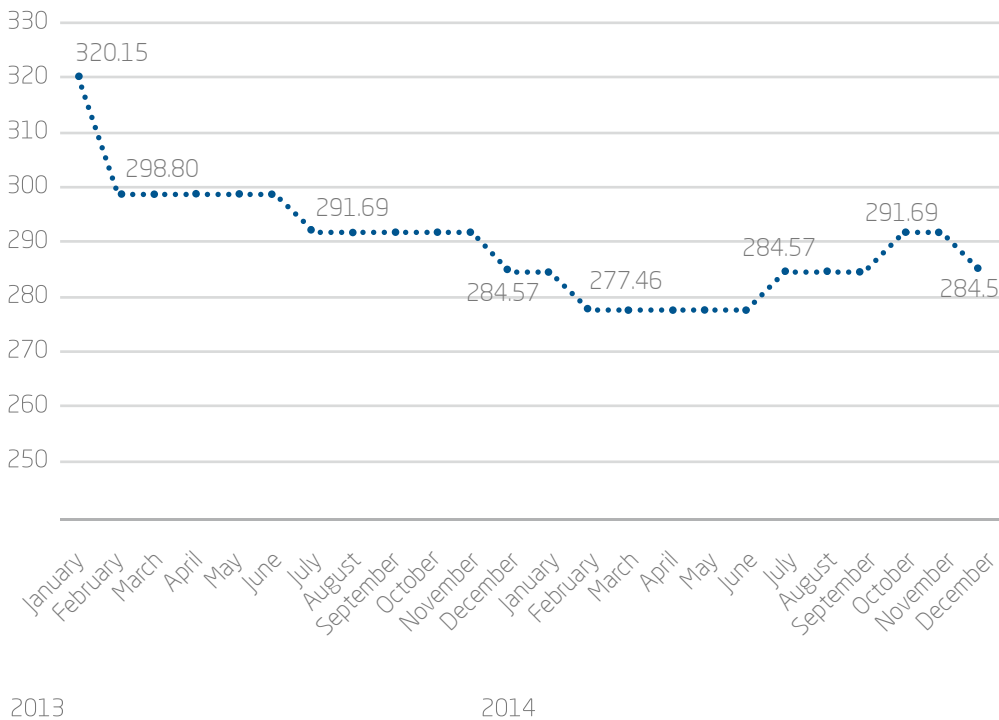


Figure 5. Natural gas trade prices in 2013-2014, EUR/thousand nm^3
Source: JSC "Latvijas Gāze"

In 2014, the amount of consumed natural gas decreased to 1.313 billion m^3 which is 10% less compared with 2013 (see Figure 6). Due to warm winters in recent years and investments made by district heating companies in the use of renewable energy resources by partly substituting fossil fuels with woodchips, the decrease in natural gas consumption is observed since 2011. The consumption of energy sector makes up 65-68% of the natural gas trade balance.

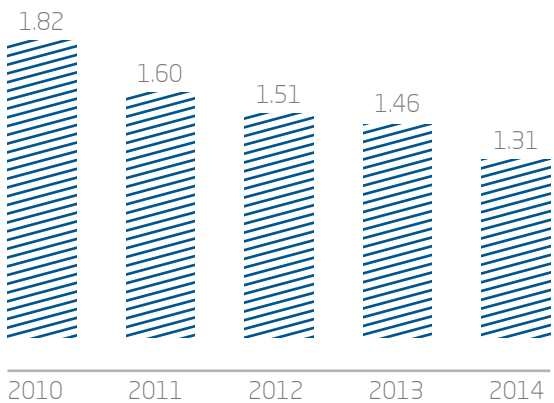


Figure 6. Natural gas consumption in 2010-2014, billion m^3
Source: CSB

In 2014, the total turnover of thermal energy production, distribution, transmission and trade by regulated companies decreased by 14% and was 285 million euro compared to 2013. The rapid drop in the turnover of the district heating sector was caused by lower consumption of thermal energy for heating and a reduction in district heating tariffs.

The volume of thermal energy delivered to users by regulated companies decreased by 9% in 2014 compared with 2013 and was 4.97 TWh (see Figure 7). The decrease of thermal energy consumption is caused by various factors; the most significant of these are the warm air temperature in 2014 and building insulation activities carried out by households.

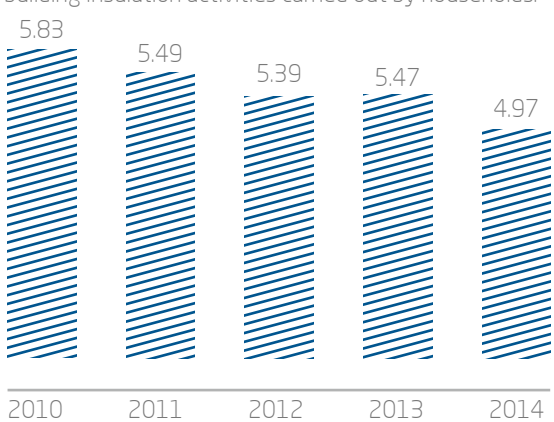


Figure 7. Thermal energy delivered to users by regulated companies in 2010-2014, TWh

A continuous decrease of natural gas trade prices in 2014 determined the reduction of district heating tariffs of those companies which use natural gas for thermal energy production. At the same time, the Regulator approved new, lower tariffs for a number of companies in 2014. The opportunity to review and reduce district heating tariffs was facilitated by companies' investments in modernising technologies, thus switching to more efficient technologies for thermal energy production, as well as the performed measures of energy efficiency in heating mains (replacement and insulation of heating mains) and facilities resulting in lower thermal energy losses. After modernising thermal energy production facilities, companies often chose to switch from fossil fuels (natural gas, heavy fuel oil, and coal) to wood fuel resulting in lower fuel costs.

Despite the decrease of consumption of centrally supplied water, the turnover of water supply and sewage services provided by regulated companies in the water management sector increased by 4% and was 91 million euro in 2014. The increase was caused by the growth of water sector tariffs, which was related to investments in infrastructure projects made by service providers and increase in costs related to service provision, namely, a rise in electricity prices and remuneration, as well as inclusion of depreciation of newly created fixed assets in tariffs.

The turnover of services provided at municipal waste landfill sites remained at the previous year's level in 2014 and was 13 million euro. According to provisional data, the volume of municipal waste accepted for disposal at landfill sites was 521 thousand tonnes in 2014 (see Figure 8). Compared to 2013, the volume has decreased by 2%.The decrease in the volume of waste accepted for disposal at landfill sites is related to the growth of separately collected waste, as well as repeated sorting of unsorted municipal waste before delivering it for disposal at landfill sites.

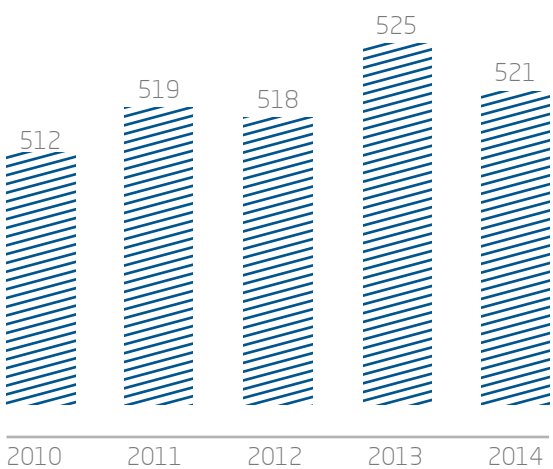


Figure 8. Unsorted municipal waste accepted for disposal at landfill sites in 2010-2014, thousand tonnes

In 2014, the turnover of regulated companies in the electronic communications sector was 529 million euro (turnover of regulated and unregulated services) which is 3% less than in 2013. The reduction of the sector's turnover is related to lower turnover for individual electronic communications services. Most of the sector's turnover (69%) is represented by voice telephony, data transmission and interconnection services (see Figure 9) whose turnover decreased by 7%.

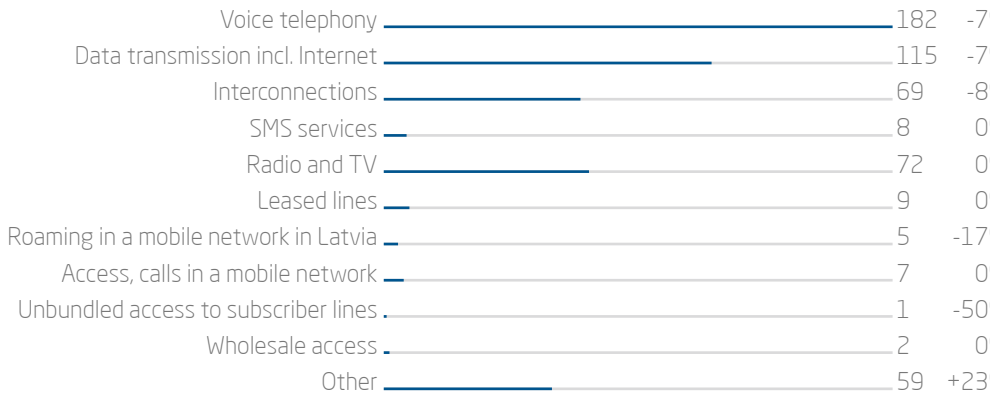


Figure 9. The turnover of electronic communications services in 2014, MEUR, dynamics in 2014/2013, %

In 2014, the turnover of voice telephony services decreased by 7 %, the turnover of data transmission including Internet access services also declined by 7% due to a reduction in service prices. Although in the reporting year a reduction of the average revenue (from one user) was observed, the volume of consumed services increased, especially for data transmission.

The turnover in call termination service markets (interconnections) decreased by 8% in 2014 which is due to the fact that new, significantly lower tariff ceilings determined by the Regulator for the provision of call termination services were applied.

Regarding the number of users of electronic communications services, the number of fixed and mobile broadband connections remained stable in the reporting year and was 1.968 million connections (see Figure 10).

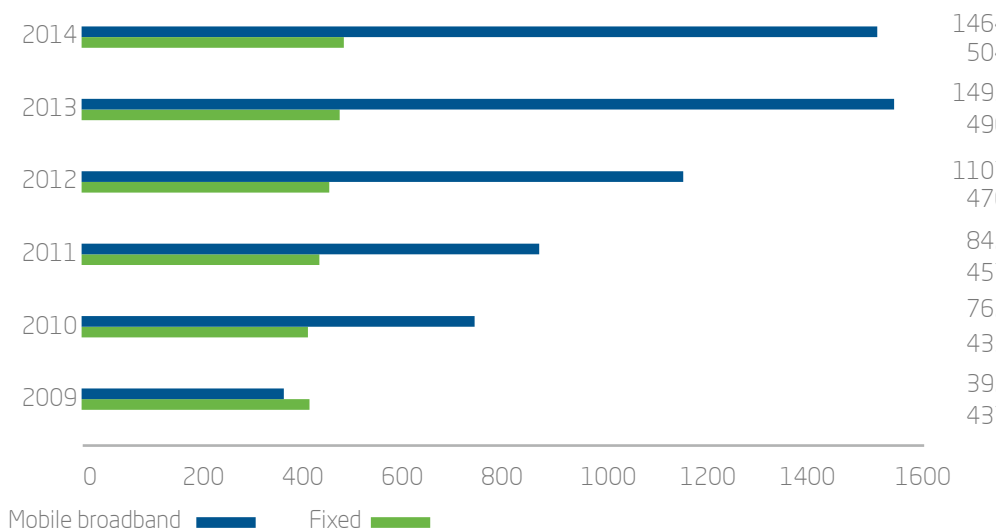


Figure 10. The number of fixed and mobile broadband connections on December 31, 2009 – 2014, thousand

In the reporting year, the development of the market for optical broadband Internet services continued; the total number of Internet users increased and the density of broadband service availability reached 99% of the population. In the reporting year, a rapid growth of the number of mobile Internet users was also observed (see Figure 11); the volume of connections using optical fibre also increased providing ultra high speed Internet access services (see Figure 12).

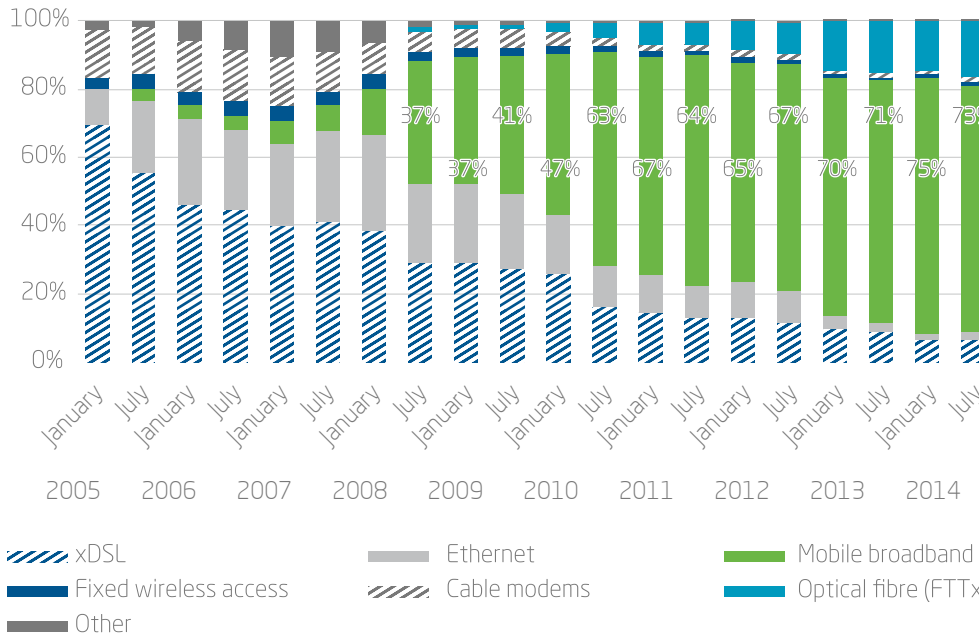


Figure 11. The share of connections by technology types in 2005-2014 including mobile broadband, %

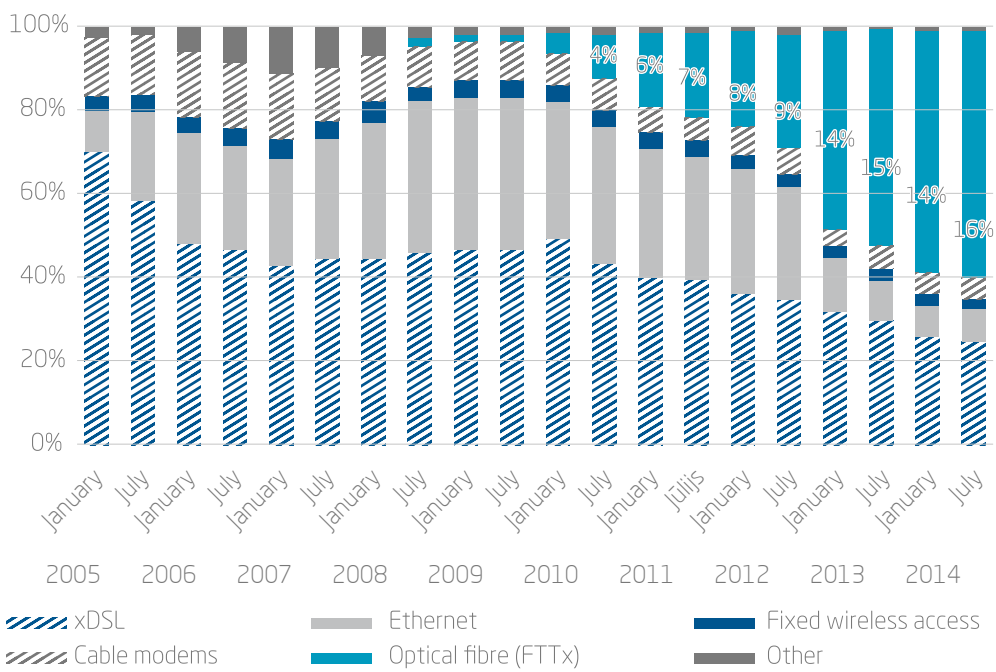


Figure 12. The share of connections by technology types in 2005-2014 excluding mobile broadband, %

The turnover of regulated companies in the postal sector grew by 5% and was 59 million euro in 2014. The growth is related to an increase of the number of postal items, mainly due to more active use of e-commerce resulting in a rapid growth of deliveries of domestic and cross-border postal parcels and small packets (see Figure 13). The prices of regulated postal services have not changed since 2010.

The number of deliveries of a traditional postal service – postal parcels – more than doubled in 2014 and reached 617 thousand. 42.5 million letters were sent in 2014; the number of delivered letter-post items increased by 12%. The number of delivered express mail and courier parcels and letter items reached 5.9 million increasing by 10% compared to 2013.

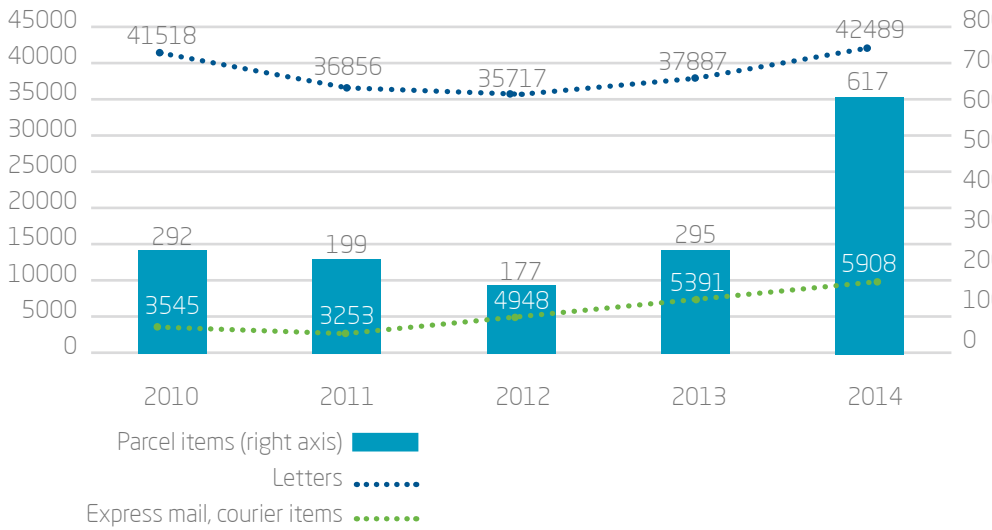


Figure 13. The number of delivered postal items in 2010-2014, thousand

The turnover of regulated companies in the railway transport sector increased by 1% and was 232 million euro in 2014. Although the number of carried passengers decreased in 2014, the increase in turnover was stimulated by the growth of the volume of transported cargo and an increase in the charge for the use of public railway infrastructure.

The number of passengers carried by rail decreased by 3% and was 19.2 million (see Figure 14). The number of domestic passengers decreased by 2.5%, while the number of international passengers dropped by 21.3%. The number of domestic passengers makes up 98.5% of all railway passengers.

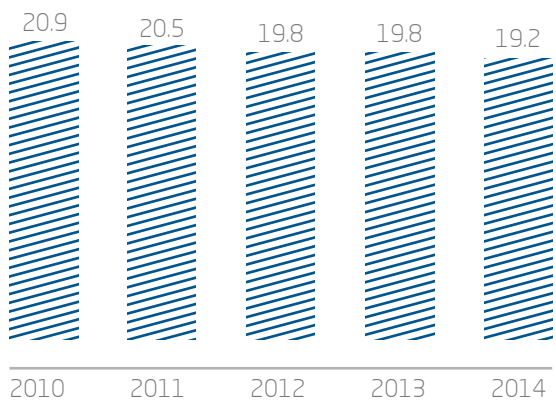


Figure 14. The number of passengers carried by rail in 2010-2014, million
Source: CSB

3.2.

SOCIAL CONTEXT

Everyday life of the society is unthinkable without public utilities. Electricity, water, heating, electronic communications and other public utilities not only provide for the functioning of the society, but also are significant for life and health of the population and involvement in social processes. The significant role of public utilities in everyday life of each citizen means that these services must be available across the country and their price must not be a substantial obstacle for the availability of a service.

HOUSEHOLD EXPENDITURES

In accordance with CSB data, the total expenditures for household consumption were 3608.61 euro per year (300.72 euro per month) on average for one household member in 2013[1] . The share of expenditures on public utilities in the total consumption was 12% or 37 euro per month for one household member (see Table 1). Compared with 2012, the share of expenditures on public utilities in the total consumption has decreased by one percentage point. In 2012, expenditures on public utilities formed 13% of the total household consumption expenditures of 281.95 euro per month. Payments for electricity and district heating constitute the largest share of expenditures. The charge for the use of mobile communications also forms a significant share of the total expenses.

[1] CSB publishes data on household budgets and consumption expenditures of the previous year in the 3rd quarter of each year, therefore the statistics of consumption expenditures in 2013 are used in the report.

Service type	Average expenditures for one household member per month	
	EUR	Share in total expenditures
Total household consumption expenditures	**300.72**	**100%**
Total household expenditures on public utilities	**37.05**	**12.47%**
District heating	10.32	3.4%
Electricity	9.90	3.3%
Payment for services of mobile communications operators	5.21	1.7%
Hot water supply	2.98	1%
Network gas	2.79	0.9%
Water supply	1.72	0.6%
Sewerage services	1.67	0.6%
Waste collection	1.46	0.5%
Payment for fixed private and public telephone services	0.90	0.3%
Postal services	0.10	0.0%

Table 1. Household consumption expenditures in 2013, EUR
Source: CSB

CONSUMER ASSESSMENT

The EU-level survey on consumer markets[2] carried out by the EC in 2013 and published in June 2014 reveals that the market performance assessment (a total of 52 goods and services markets) by the Latvian consumers has improved and it is higher than the average indicator of the EU member states.

After the evaluation of public utilities sectors, the highest assessment in Latvia was given to electronic communications services – mobile and fixed telephony and Internet. Despite this fact, the assessment of fixed telephony services has been decreasing over the last three years. In contrast, the assessment of mobile telephony services is increasing and is 10 percentage points higher than the EU average indicator. Water supply and electricity services have the lowest assessment among public utilities. The assessment of water supply services decreases every year and is 10 percentage points lower than the average indicator of the EU member states.

Consumer markets were assessed according to four components in this survey:
1. possibility to compare offers of goods and services,
2. consumer trust in companies,
3. identified problems and how many of them lead to complaints,
4. consumer satisfaction.

These assessments form Market Performance Index (MPI) on a scale from 0 to 100. The assessment of public utilities in Latvia in comparison to the average EU indicator is shown in Figure 15.

[2] http://ec.europa.eu/consumers/consumer_evidence/consumer_scoreboards/10_edition/

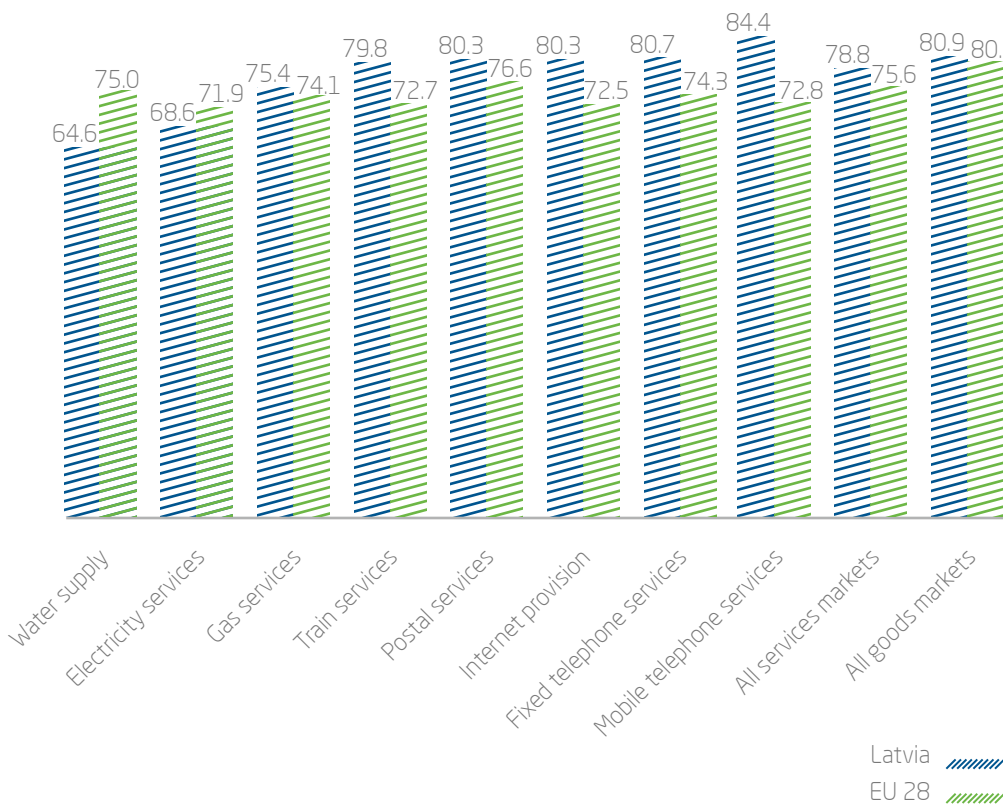
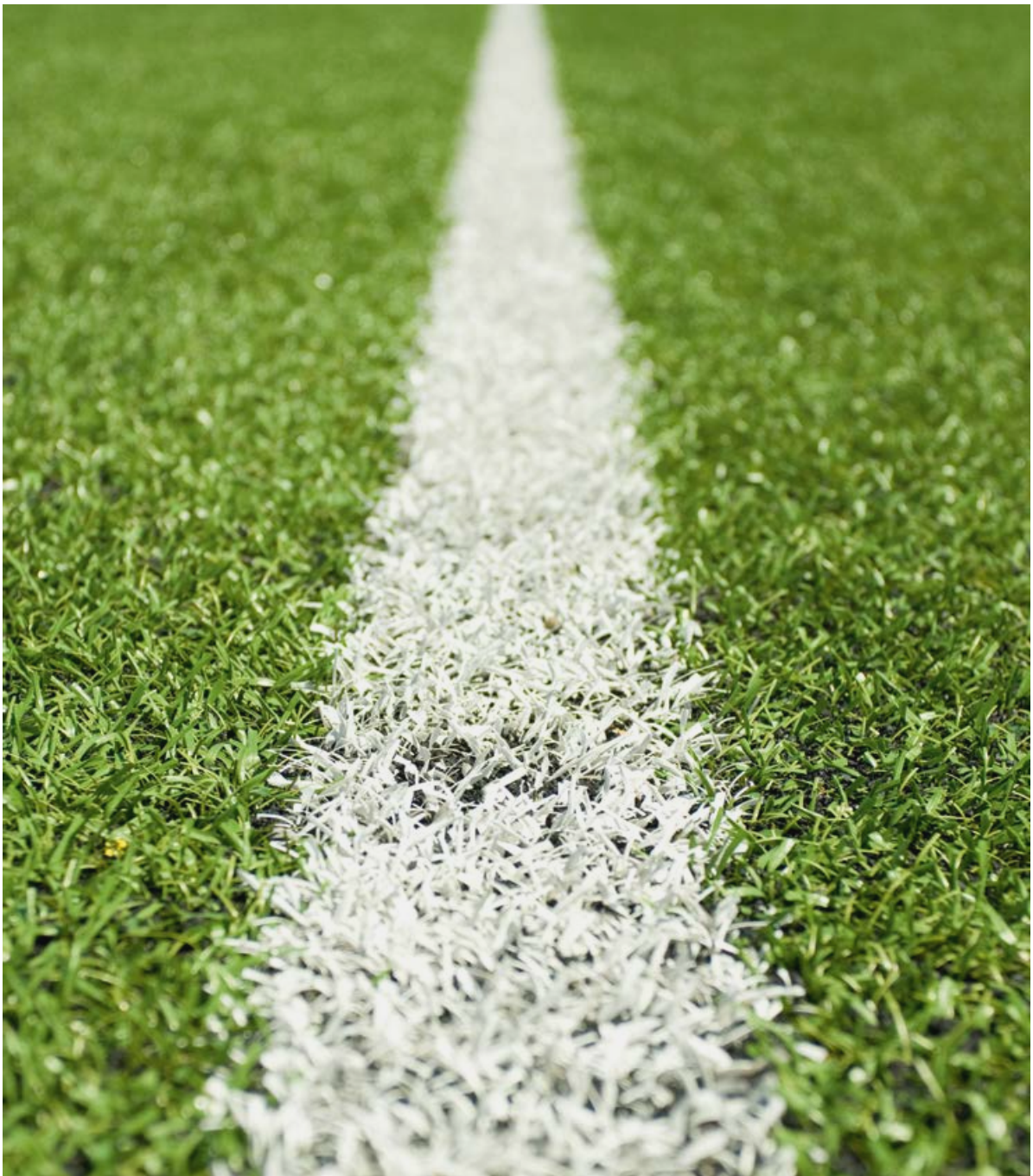


Figure 15. The assessment of public utilities in 2013, MPI
Source: EU consumer markets scoreboard in 2013



4.
LEGAL FRAMEWORK

4.1. IMPLEMENTATION OF HARMONISED EUROPEAN UNION REGULATORY ENVIRONMENT

When implementing regulatory functions, the Regulator strictly obeys the requirements of legal acts – both when pushing amendments to laws and the Cabinet of Ministers regulations and issuing own regulations and transposing the EU directives into national legislation. It is important that normative acts are precise, unambiguous and clear on a national and international level.

Participating in the work of international organisations, the Regulator promotes the development of appropriate European regulatory framework. During the transposition of EU legal norms, the Regulator complies with the balancing principle and takes into account the interests of users when applying normative acts, simultaneously furthering the development of public utilities providers. Transposition of the EU legal acts and the development of national legal acts is a unified, multi-faceted and complicated process during which the Regulator pays great attention to constant analysis of topical issues in the regulated sectors.

In 2014, similar to previous reporting periods, the Regulator's agenda was largely defined by the transposition of the EU legal norms into the Latvian legal acts, thus ensuring mutual harmonisation of legal norms in the EU and Latvia's regulated sectors. The Regulator actively participated in the development of the EU initiatives (new legal acts), mainly related to the EU grid codes in the electricity and gas sectors.

In the energy sector, amendments to the Energy Law of 13 March 2014 implemented the requirements of the Third Energy Package as far as they concern Latvia as an isolated natural gas market (considering derogation for the implementation of individual norms specified in the Gas Directive). Along with these amendments, requirements specified in the EU legal acts (Gas Directive, Electricity Directive, and REMIT) to apply efficient, proportionate and dissuasive sanctions for natural gas and electricity companies which do not comply with obligations were implemented. These requirements were also implemented in the Electricity Market Law by amendments which entered into force on 3 July 2014.

Considering the delegation in the Electricity Market Law and Energy Law, the Cabinet of Ministers adopted regulations "Procedure for determining the amount of fines in the electricity and natural gas supply" on 23 December 2014. The regulations specify a procedure how the Regulator determines the amount of fines about

non-compliance with requirements stipulated in the Electricity Market Law and Energy Law. Thus, the EU requirements about efficient, proportionate and dissuasive sanctions in the electricity and natural gas sectors are fully implemented in the Latvian normative acts.

In 2014, the Regulator also actively participated in the development of the EU normative acts by formulating the Regulator's position on the national issues relevant for Latvia. The most important new EU initiatives were:

- The EU Implementing Regulation which according to REMIT Regulation lays down rules for the submission of data to the Agency for the Cooperation of Energy Regulators (ACER) and regulators. The Regulation defines what information must be reported by the wholesale energy market participants, what are the appropriate channels for data reporting and timing and regularity of data reports.
- The EU Regulation establishing the Network Code on Capacity Allocation and Congestion Management (CACM). The EU member states adopted this Regulation in Comitology procedural framework on 5 December 2014 and it will enter into force after the scrutiny from the European Parliament and Council which could provisionally take place in mid-2015. One of the first tasks in the CACM implementation process is designation of a nominated electricity market operator (NEMO) according to Article 4 of CACM. According to Article 4(1) of CACM, four months after CACM enters into force the member states must ensure that at least one NEMO is designated in their territories which provides for the coupling of day-ahead and/or intraday electricity markets. Unless member states have stipulated otherwise, regulatory authorities are responsible for designation of NEMO and supervision of the fulfilment of designation criteria. As soon as CACM enters into force, the Regulator will have to approve various methodologies developed by NEMO and transmission system operators and stipulated by CACM.

Preparing for the implementation of REMIT, the Regulator has signed three cooperation agreements in the reporting period:

- a memorandum of understanding between ACER and member state regulators on information exchange in accordance with REMIT regulation,
- an agreement with ACER on the use of the Centralised European Registry for Energy Market Participants (CEREMP),
- a memorandum of understanding among the Nordic and Baltic regulators and NPS about cooperation on market surveillance, information exchange, investigation and implementation issues in accordance with the REMIT regulation.

The EC and EP Directives 2009/136/EC and 2009/140/EC of 25 November 2009 regulating the electronic communications sector were already implemented in the Electronic Communications Law and subordinated legal acts in 2011. The requirements of the implemented directives currently are being carried out and fulfilled.

On 15 May 2014, Directive 2014/61/EU on measures to reduce the cost of deploying high-speed electronic communications networks was adopted. This directive must be implemented by 1 January 2016; therefore relevant legal acts must be developed. The directive aims to increase the Internet speed available to end-users by the roll-out of high-speed electronic communications networks and the joint use of existing physical infrastructure.

In 2014, the Regulator signed a memorandum of understanding between BEREC and the Eastern Partnership Electronic Communications Regulators Network (EaPeReg) to cooperate on competition, consumer interests' protection and technological issues.

Issues related to the implementation of the Directive 2012/34/EU are significant in the railway transport sector. The Directive provides for the establishment of a single European railway area, 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. In 2014, the Regulator continued participation in the working group of the Ministry of Transport regarding the transposition of the requirements of this Directive into national legal acts and continued work in the EC working groups on general issues of railway regulation.

4.2.

THE REGULATOR'S PARTICIPATION IN THE DEVELOPMENT OF NORMATIVE ENVIRONMENT IN LATVIA

In 2014, the Regulator participated within its competence in the development of various draft laws and the Cabinet of Ministers draft regulations taking part in the meetings of the Saeima committees and providing opinions.

The Regulator participated in the development of several significant legal acts approved in 2014:

Amendments to the law "On Regulators of Public Utilities" adopted on September 25 in addition to licensing of companies introduce registration of public utilities providers and stipulates the procedure for registration of companies. In accordance with the amendments, henceforth a Board decision will be adopted if at least three Board members vote for it. A simple majority was needed according to the previous procedure. The amendments also specify cases when a restricted access status is designated for information or part of it received by a public utilities provider.

- Amendments to the Energy Law adopted on March 13 transpose the requirements of the Directive 2012/27/EU on energy efficiency which obliges the member states to set an indicative national energy efficiency target and reach it by employing energy efficiency measures. The amendments also implemented the requirements of the EU Gas Directive including requirements for third party access to natural gas infrastructure – distribution and transmission systems and natural gas storage facility, defined the timing for system operators' unbundling and fines for violations. The amendments also provide for the introduction of a balancing charge and prohibition of cross-subsidies.

- Amendments to the Electricity Market Law adopted on March 20 impose an obligation of JSC "Latvenergo" to provide services to captive customers until the electricity market is opened for households, i.e. 31 December 2014. Amendments of September 18 introduce a category of protected electricity users and provide for maintaining an electricity trade price of 0.0131 EUR/kWh for this user category in 2015. Amendments of December 17 provide for an assistance to energy intensive manufacturing companies and specify a deadline for the reception of the assistance for electricity producers which use renewable energy resources and started operations before the Electricity Market Law had entered into force.

- Amendments to the Electronic Communications Law adopted on January 9 clarify the coordination procedure of the Regulator's draft decisions or measures with the EC, provides for regulation on the creation of additional capacities, stipulating the Regulator's rights to impose such an obligation on an electronic communications company which constructs or reconstructs cable ducts. The

amendments delete the norm on determining a radiofrequency spectrum fee and clarify legal norms on fraud performed using numbering and incorrect use of numbering. Amendments of March 13 provide that henceforth the coordination of construction projects of electronic communications networks is performed only in local government building authorities relinquishing the function of the state-owned JSC "Elektroniskie sakari" to ensure supervision of installation and construction of electronic communications networks.

- Amendments to the Postal Law adopted on May 8 stipulate a procedure how any losses caused by the provision of delivery services of the subscribed press publications shall be compensated and imposes an obligation on the provider of the universal postal service to make contributions to the compensation fund of the universal postal service. Amendments adopted on June 5 clarify the time period for compensating losses borne by a company while providing a delivery service of the subscribed press publications, namely, it is the period until 31 December 2019. These amendments also specify that a tender for the determination of the universal postal service provider shall not be organised and the Regulator extends the obligations of the universal postal service imposed on the state-owned JSC "Latvijas Pasts" for five years.

- Amendments to the Waste Management Law adopted on March 27 clarify the expenses to be included in tariffs for services of municipal waste disposal at landfill sites (including reloading stations of landfill sites) and include delegation to the Cabinet of Ministers to stipulate a procedure how expenses for closing and recultivation of a landfill site and monitoring of a closed landfill site are determined. These amendments simultaneously specify a procedure for the supervision of accumulation and use of funds transferred into the account in the Treasury for closing of a landfill site.

- Amendments to the Cabinet of Ministers "Regulations on national numbering plan" adopted on September 2 are significant for the development of the electronic communications sector. The amendments provide that numbers of the public mobile telephone network are used in the public mobile telephone network using the radiofrequency spectrum of Latvia. Such a condition is important to prevent fraud performed using numbering.

4.3.

NORMATIVE ACTS ISSUED BY THE REGULATOR

In accordance with the requirements of normative acts, the Regulator within its competence adopts decisions and issues legal acts binding to third parties. In 2014, the Regulator made amendments and issued several external normative acts.

The activities of companies in the energy sector in the reporting period were regulated by 23 legal acts issued by the Regulator; of those, 10 were methodologies for tariff calculation of services provided in the electricity, district heating, and natural gas sectors. In 2014, the Regulator issued three new normative acts, approved the procedure for the use of load developed by the distribution system operator and amended the methodology:

- "Regulations on the conditions for efficient use of permitted load" were approved on March 12 specifying a procedure how electricity distribution system operators shall develop, submit for approval to the Regulator and publish conditions for efficient use of permitted load. The regulations apply to new electricity system connections or amplification of permitted load for the existing electricity system connections.
- "Regulations on registration of energy producers and traders" were approved on June 11. The adopted regulations alter the procedure how an electricity or thermal energy producer or trader can be excluded from a relevant register if general authorisation regulations are repeatedly violated. Henceforth, if a company violates regulations repeatedly, it can permanently be excluded from the register and not only for a specific time period. The new procedure was implemented on the basis of the amendments to the Energy Law.
- New "Regulations on information for electricity and natural gas final customers" were approved on December 4. They determine what information and in what extent must be included in the bills and informative materials for final customers by an electricity and natural gas trader. The regulations simultaneously provide that information on actual energy consumption over the last two years is available to electricity and natural gas final customers.
- "Procedure on the conditions for efficient use of permitted load" developed by JSC "Sadales tīkls" was approved on July 16. The procedure defines a connection with efficiently used permitted load and conditions which a system operator shall apply to a customer who fulfils the criteria for efficient use of permitted load. In accordance with the Electricity Market Law, the system operator shall develop, submit for approval to the Regulator and publish conditions for efficient use of permitted load and procedures for the application thereof to new connections conforming to the requirements of the Regulator.
- A new version of the "Methodology for calculation of mandatory procurement components" was approved on February 26 which includes necessary corrections for final electricity consumption, administrative costs and the State budget subsidy. The amendments were made in accordance with the Electricity Market Law which stipulates that the State budget subsidy for the reduction of the amount of mandatory procurement components shall be

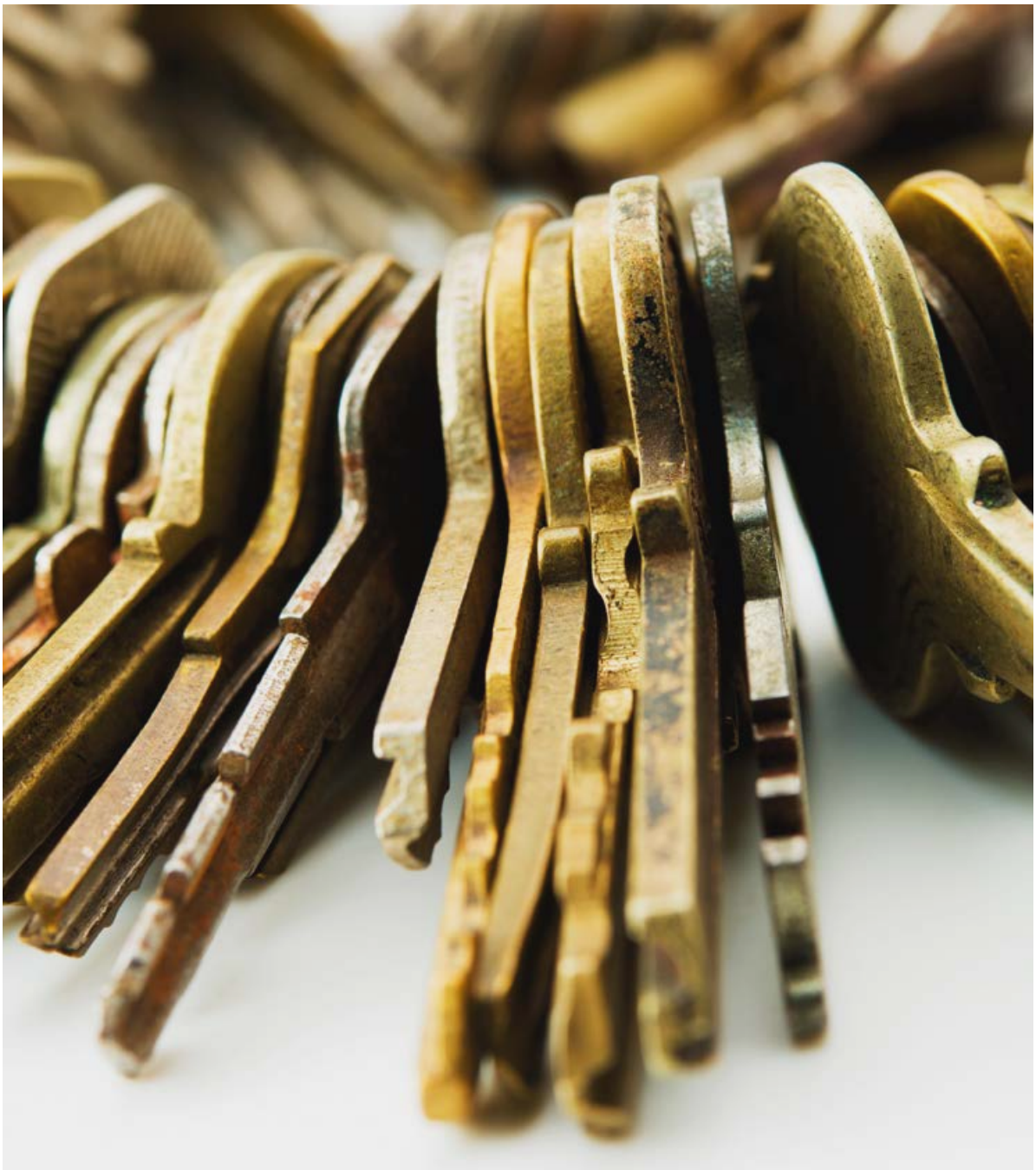
taken into account for the calculation of expenses of mandatory procurement to be compensated. In accordance with the amendments, payments for installed electrical capacity in CHP plants and electrical plants using biomass or biogas shall be made by a public trader and not the transmission operator from 1 January 2014. Amendments to the methodology were also made on July 30, clarifying it pursuant to the amendments to the Electricity Market Law related to the postponement of the electricity market opening for households until 1 January 2015.

Pursuant to the amendments to the law "On Regulators of Public Utilities", the Regulator approved regulations on general authorisations and registration in the water management sector and for municipal waste disposal at landfill sites on 24 October 2014. The regulations provide for a new procedure of companies' authorisation – henceforth, companies will not have to receive a licence, but according to a procedure specified by the Regulator will be obliged to register in the register of service providers.

The activities of electronic communications companies are regulated by a total of 28 normative acts issued by the Regulator; of these, four are methodologies for calculation of tariffs and costs, performance of quality measurements. In 2014, the Regulator amended two legal acts and issued four new legal acts:

- Amendments to the "Regulations on the volume and submittal procedure of information required for market analysis" were made on January 29 clarifying information which electronic communications companies must submit to the Regulator.
- Amendments to the "Regulations on the rights to use numbering" were made on February 19 and December 4. The amendments clarify the procedure for allocating the rights to use numbering of a mobile telephone network stipulating that these rights to use numbering shall be allocated to an electronic communications company which will use them in a public mobile telephone network using radiofrequency spectrum of the Republic of Latvia. The amendments also clarify circumstances when the rights to use numbering shall not be allocated or shall be cancelled; for example, fraud performed using numbering, incorrect use of numbering or if an electronic communications company has not started using the allocated rights to use numbering within the prescribed period and in the amount specified by the Regulator. Pursuant to the amendments, the Regulator may determine specific conditions for the use of numbering when allocating the rights to use numbering.
- New "Regulations on access to connected devices and services" were approved on April 9. The regulations specify a procedure how access to electronic communications cable ducts is ensured – both for the existing and newly built ones providing for requirements for construction of additional capacities of cable ducts for potential providers of electronic communications services.
- New "Regulations on providing an operator selection service or operator pre-selection service" were approved on April 23 which stipulate a procedure and time periods for phone users to receive operator selection or operator pre-selection services. It means that a fixed telephone subscriber by dialling the short code of the selected operator may receive the services provided by this operator to make international calls, domestic longdistance calls or local calls, as well as calls to a mobile telephone network.
- "Regulations on unbundled access to a subscriber line or its part" were issued on June 18. The regulations were issued repeatedly in accordance with changes of delegation included in the Electronic Communications Law. The regulations stipulate requirements for a subscriber line intended for unbundled access and the procedure how unbundled access to a subscriber line or its part is carried out and technical and operational regulations of the electronic communications network for access to a subscriber line or its part, as well as information to be included in a basic offer for unbundled access to subscriber lines and the required level of detail thereof.
- "Regulations on preventing fraud performed using numbering" were issued on October 1. The Regulator is one of the first in the EU to issue regulations to limit fraud performed using numbering and reduce losses which may be borne by both final customers and electronic communications companies. The new regulations specify characteristics of fraud performed using numbering. They also specify terms and the procedure for organising the exchange of numbering between an electronic communications company and the Regulator and how the Regulator detects fraud and a company prevents it.

The Regulator also made amendments to several tariff calculation methodologies over the last year. More information on the amendments to the methodologies is available in Section 9.1 "Tariff calculation methodology".



5.
AUTHORISATION AND SUPERVISION OF COMPANIES

5.1.

LICENSING AND REGISTRATION

In order to provide public services, the activities of companies registered in the Register of Enterprises of Latvia must be authorised by the Regulator - receive a licence or register in the register of service providers maintained by the Regulator. Supervision of services provided by authorised companies is one of the main functions of the Regulator.

Legal acts determine the type of authorisation of a public utilities provider – licensing or registration.

Licensing is an allocation of rights to provide specific public utilities in a specific territory with defined conditions for a defined time period. When a company's request to issue a licence is received, the Regulator ascertains if the company meets the requirements imposed on a public utilities provider and will be able to ensure the provision of public services.

Registration means an administratively simplified process for authorising a company. During the registration of a company for the provision of specific public utilities, the Regulator records an entry in the register which is also publicly available on the Regulator's homepage. In this case, a company is obliged to comply with general requirements.

In Latvia, a licence is required for the provision of infrastructure services in the public utilities sectors (provision of electricity, district heating, natural gas transmission and distribution services, natural gas storage and trade) and provision of services of passenger carriage by rail.

Preferential authorisation procedure, namely, company registration is determined for the following public services:

- electricity generation and trade,
- production (if the installed capacity of a company's equipment is larger than 1 MW and the total thermal energy volume delivered to all users by the company exceeds 5,000 MWh/year) and trade (if the total thermal energy volume sold to users exceeds 5,000 MWh/year) of thermal energy,
- provision of electronic communications services,
- provision of electronic communications networks,
- provision of postal services,
- provision of water supply and sewerage services if the service volume exceeds 100 thousand m^3 per year (licensing of companies was in force until 28 October 2014),
- provision of services of municipal waste disposal at landfill sites (licensing of companies was in force until 28 October 2014).

In the reporting period, the authorisation process was facilitated for companies which provide services in the water management sector and municipal waste disposal at landfill sites when amendments to the law "On Regulators of Public Utilities" entered into force. Since 28 October 2014 these companies no longer require a licence for service provision, but they must register with the Regulator. According to the law, the Regulator issued new general authorisation and registration regulations. All companies which were licensed on the day these regulations entered into force were registered in the register of service providers on the Regulator's initiative. New companies which are willing to start the provision of water management services or operate in the sector of municipal waste disposal at landfill sites must submit a registration notification to the Regulator.

A total of 968 companies were authorised by the Regulator on 31 December 2014 (see Figure 16). 162 companies were simultaneously authorised for public service provision in the electricity and district heating sector, 22 companies in the water management and district heating sector, and one company in the electricity and electronic communications sector.

Figure 16. Companies authorised to provide public utilities on 31 December 2014, number

Water management Waste management

In 2014, the Regulator authorised 66 new market participants and excluded from registers or cancelled licences for 153 companies (see Figure 17). Substantiation for company exclusion is mainly due to the fact that companies' plans to provide public services have not been implemented and companies do not plan to start providing public services in the near future.

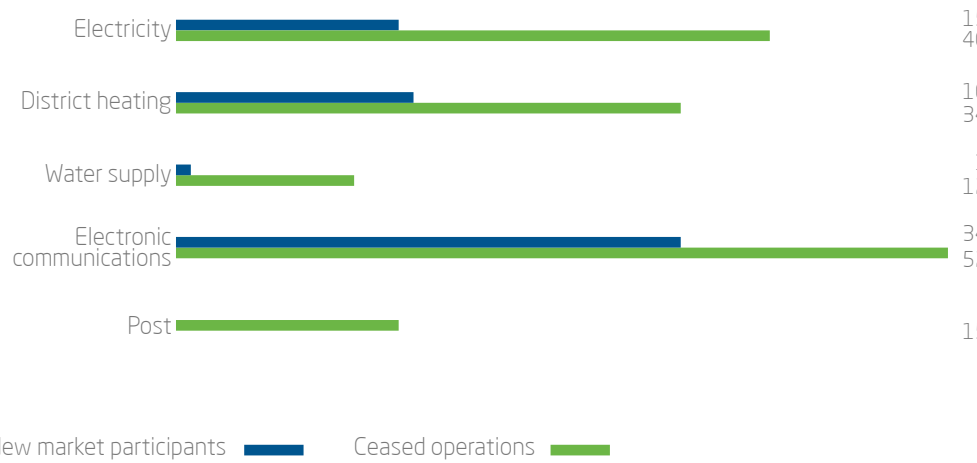


Figure 17. New market participants and companies which have stopped operations in the public utilities sectors in 2014, number

A total of 274 companies were authorised for public utilities provision in the electricity sector; of these, 101 companies or 37% were active. 13 companies are authorised to provide several electricity services simultaneously (generation, transmission, distribution, and trade).

On 31 December 2014, 214 companies were registered in the Electricity Producer Register created and maintained by the Regulator; of these, 73 companies have started production of electricity – built and commissioned power plants. Of all companies registered in the producer register, six companies are also registered in the trader register, although only two of these companies are active traders. 30 companies were excluded from the Electricity Producer Register in 2014.

A transmission and distribution system ensures electricity flow from producers to users. In accordance with the Electricity Market Law, one transmission system operator – JSC "Augstsprieguma tīkls" (AST) operates in Latvia for which the Regulator in 2005 issued a licence for electricity transmission for twenty years. Distribution system services are provided by several operators – in 2014 11 licensed distribution system operators operated in Latvia. Seven of distribution system operators have also registered in the Electricity Trader Register and six are active traders.

Only companies registered in the Electricity Trader Register may carry out electricity trade in Latvia. In 2014, the Regulator registered 15 new traders and excluded 10 traders from the register. On 31 December 2014, 61 companies were registered in the Electricity Trader Register; of these, only 15 companies provided electricity trade services. 10 companies were registered in the wholesale power exchange NPS to operate in the Latvian bidding area.

One company currently operates in the natural gas supply sector - JSC "Latvijas Gāze" which has received four licences – for natural gas transmission, storage, distribution and trade. JSC "Latvijas Gāze" is exclusively entitled to provide natural gas transmission, storage, distribution and trade services result from privatisation agreements of the company and it has been granted these exclusive rights until 2017.

243 authorised companies provide public services in the district heating sector; of these, 131 companies or 54% are active. 77 district heating companies or 32% are entitled to provide several district heating services – production, transmission, distribution, and trade.

On 31 December 2014, 232 companies were registered in the Thermal Energy Producer Register. Four companies were registered in the reporting year while 29 companies were excluded from the register. The comparatively large number of excluded companies is due to the fact that companies which had not started production of thermal energy in CHP plants within a specific deadline were excluded from the register.

At the end of 2014, 69 companies were licensed to provide thermal energy transmission and distribution services. The Regulator issued licences for the provision of thermal energy transmission and distribution services to seven companies in the reporting year. Licences of four companies were amended while two licences were cancelled.

On 31 December 2014, 78 companies were registered in the Thermal Energy Trader Register. The Regulator registered five companies and excluded three companies from the register in the reporting year.

In the water management sector, 149 companies were registered in the Register of Water Management Service Providers on 31 December 2014 to provide water supply and sewerage services.

In order to facilitate the procedure of companies' authorisation, in 2014 licensing was replaced with registration. 148 companies were licensed until 28 October 2014 when licensing process was in force. 16 licences were issued in this period mainly because licence duration had ended for a previously issued licence. Amendments were made to seven licences and eight licences were cancelled due to reorganisations and mergers of companies and overtaking of service provision territories or handing over to local governments. The Regulator registered one company and excluded four companies from the register in the reporting year.

In order to provide waste disposal at landfill sites, 10 companies are registered at the Regulator. In accordance with Waste Management State Plan, Latvia is allocated into 10 waste management regions. One landfill site for municipal waste disposal is established for each region except for Zemgale region which has two landfill sites for municipal waste disposal. One company operates in each region which is responsible for the maintenance and management of a municipal waste landfill site and which has a right to accept municipal waste for disposal. No changes were made in the company register in 2014.

389 companies were registered in the electronic communications sector by 31 December 2014; of these, active were 318 or 82% of the registered companies. 34 companies were registered in the Register of Electronic Communication Companies during the year and 55 companies were excluded from the register. The reasons for exclusion from the register were requests of companies themselves (31), suspension of the operations, liquidation of a company (1) and initiative of the Regulator in cases when violations of general authorisation regulations were detected (23).

A varied range of services provided by active companies was observed in 2014. Only 50 companies indicated in the registration notification that they operate in the whole territory of Latvia. The remaining 339 companies are small and provide services in some regions or a part of a region, cities or villages. Most companies offer Internet access services and voice telephony. The distribution of active electronic communications companies by service types is shown in Figure 18.

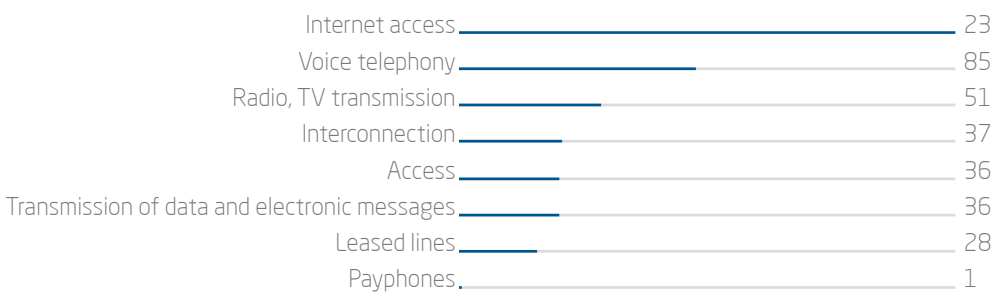


Figure 18. The distribution of active electronic communications companies by service types, number on 31 December 2014

In postal sector, 85 postal service providers were registered on 31 December 2014; of these, 61 companies or 72% were active. 15 companies were excluded from the postal companies' register over the course of the year. In 2014, eight registered companies provided traditional postal services, three – services of subscribed press delivery, 26 – express mail services and 34 – courier services.

In the railway transport sector, passenger carriages by rail are licensed. On 31 December 2014, three railway undertakings were licensed for domestic and international passenger carriage by rail – JSC "Pasažieru vilciens", "LDZ CARGO" Ltd and "Gulbenes-Alūksnes bānītis" Ltd.

5.2. AUTHORISATION FOR FULFILMENT OF SPECIAL FUNCTIONS

In accordance with the EU legal regulation and in compliance with the Electricity Market Law, the Regulator certifies the electricity transmission system operator and every year examines its compliance with certification requirements. The transmission system contains interconnected networks and installations including cross-border interconnections with voltage of 110 and more kV which are used for electricity transmission to the distribution system or users.

The Regulator certified JSC "Augstsprieguma tīkls" as the only independent transmission system operator in Latvia on 30 January 2013. Henceforth, the Regulator has an obligation to ascertain if AST meets certification requirements every year. After assessing the documents and information submitted by the company, the Regulator's Board on 9 July 2014 adopted a decision that approves that the measures performed by AST in 2013 for ensuring independence are adequate and the company meets certification requirements. It means that the transmission system operator is independent and JSC "Latvenergo" electricity transmission is separated from the generation, distribution and trade activities and AST has sufficient financial, technical and human resources to ensure the performance of the tasks of the transmission system operator. According to the certification decision, AST is obliged to develop a ten-year electricity transmission system development plan, which has to be reviewed every year. On 13 August 2014, the Regulator approved the electricity transmission system development plan from 2015 till 2024. AST is also obliged to perform the tasks specified for a transmission system operator in the Regulation No 714/2009 of the EP and of the Council on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation No 1228/2003 and ensure fair and equal treatment of participants of the electricity system and market.

Taking into account the specifics of the model of the independent transmission system operator selected by Latvia, the Regulator also assesses the compliance of the electricity system owner JSC "Latvijas elektriskie tīkli" with independence requirements and its ability to comply with obligations stipulated in the Electricity Market Law.

After ascertaining that JSC "Latvijas elektriskie tīkli" complies with independence requirements, on 9 July 2014, the Regulator's Board adopted a decision that approves that measures performed by JSC "Latvijas elektriskie tīkli" to ensure independence are sufficient, namely, the company's board members have not simultaneously occupied positions in the structures of the vertically integrated electricity company – JSC "Latvenergo" concern and the company is independent in its decision making.

Independent operation of the transmission system operator is a significant precondition for the implementation of a liberalised electricity market. Independent operation of the distribution system operator is an equally important condition to stimulate competition in the electricity sector. The distribution system includes medium and low voltage distribution networks and installations which are used for electricity supply to users and whose voltage is lower than 110 kV.

There are 11 distribution system operators in Latvia. The distribution system operator JSC "Sadales tīkls" serves 96% of the electricity final customers. The Regulator's task is to supervise that the activities of the distribution system operator are independent. On 16 April 2014, the Regulator's Board adopted a decision that approves that distribution system operator ST complies with independence requirements and that measures performed by ST to ensure independence are sufficient. It means that ST board members are not involved in the structures of other electricity companies and are independent in decision making regarding assets required for operation, maintenance and development of the distribution system.

5.3. AUTHORISATION FOR THE USE OF SCARCE RESOURCES

The Regulator allocates the rights to use numbering and radio spectrum for commercial purposes to registered electronic communications companies. The Regulator allocates the rights to use numbering in accordance with the National Numbering Plan. 2.4 GHz and 5 GHz frequency bands may be used for commercial purposes without a Regulator' s decision ("exempt spectrum bands" licence) by complying 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.

The rights to use numbering are allocated to companies free of charge except for the short codes which must be paid for. Such a procedure has stimulated a companies' practice of asking the Regulator to allocate an unreasonably large amount of numbers; thus, the quantity principle dominated, the requests for numbering resources and the resources were not used for a long time. The inefficient use of numbering resources created a seeming numbering deficit especially for mobile numbering. For example, in April 2014, only 53 companies or 49% of all 109 companies which had received the rights to use scarce numbering resources were actually using them. Only one fourth of the 49 companies which had received mobile telephone numbers were using them. On 1 April 2014, 90% of 10 million mobile telephone numbers had been allocated for use. 64% of the two million fixed telephone network numbers were assigned for use in Riga numbering area (see Figure 19).

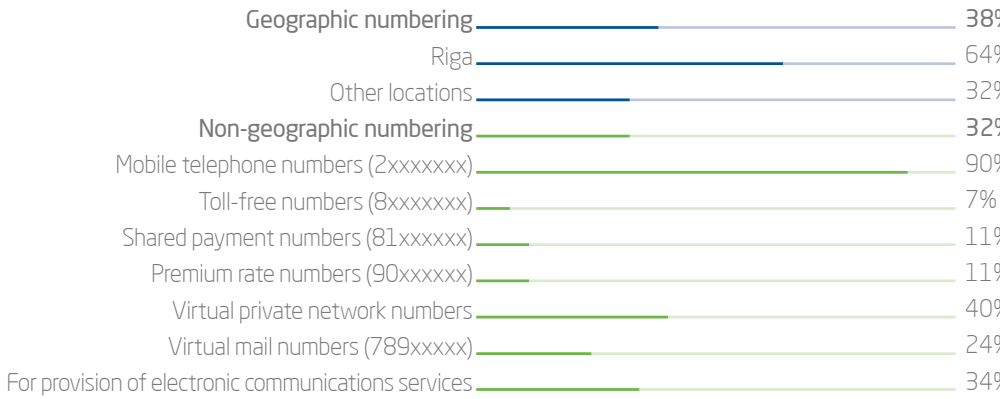


Figure 19. Allocated numbering in accordance with the National Numbering Plan on 1 April 2014, %

To prevent inefficient use of scarce resources, in 2014, the Regulator set specific conditions for the rights to use numbering for 75 electronic communications companies and imposed specific obligations on 17 electronic communications companies when allocating new numbering. The specific conditions provide that service providers must start using at least 30% of allocated numbers within six months. If these conditions are not met, the Regulator cancels the rights to use numbering. As a result, more than 2.4 million numbers were available for use in the electronic communications market at the end of 2014. Electronic communications companies relinquished unused numbering by releasing more than 2 million numbers, while 410 thousand numbers were released following the Regulator's initiative. Numbering allocations in 2014 are shown in Table 2.

Numbering	Allocated		Cancelled	
	Numbers	Companies	Numbers	Companies
Geographic numbering	212 800	13	1 123 000	34
Numbers for the provision of other types of services	125 010	7	118 730	18
Public mobile telephone numbers	600 000	6	1 430 000	26
Shared payment service numbers	0	0	46 515	10
Toll-free call numbers	1 211	5	15 456	19
Premium rate service numbers	1 100	2	46 635	21
Short codes	11	6	5	4
Identification codes	2	2	19	10

Table 2. Numbering allocations in 2014, number

In 2014, auctions of spectrum bands were not organised because the Regulator did not receive any requests from companies. In March and December, the Regulator's Board adopted decisions on extending the term for two different rights to use radio frequency spectrum for five years for one company, while in June – a decision on allocation of the rights to use radio frequency spectrum bands to another company for ten and a half years. No allocated rights to use radio frequency spectrum were cancelled in 2014.

Users of electronic communications services for almost ten years can choose a number portability service in cases when operator is changed. According to the database of the state-owned JSC "Elektroniskie sakari", 3.4% of fixed and 6.6% of mobile communications service users have switched an operator and ported their numbers in 2014.

One of the significant issues in the electronic communications sector which is being solved on the national and international level is fighting the use of numbering resources in various fraudulent schemes. Since the process of fraud is dynamic, the detection of such schemes is very complicated. The acquisition of legal evidence about illegal use of numbering is a lengthy process also requiring international cooperation and not always results in success because fraudsters can react quickly and change both numbers and schemes used for fraud.

For example, a few mobile communications companies were identified which set a higher wholesale voice call termination rate to their own electronic communications networks and themselves generated calls from abroad by using roaming or otherwise (so called artificial load) to their electronic communications networks. As a result, foreign operators suffer by receiving a large intermediary bill; as do operators registered in Latvia and users because most foreign operators shut down all Latvian numbering or at least all Latvian mobile numbering when faced with such a problem. It means that roaming and international calls to Latvia do not function in these networks.

In 2014, the Regulator received four applications from various foreign operators and organisations stating that 157 numbers in seven different numbering ranges allocated to 12 Latvian electronic communications companies have been used for fraud. Although the Regulator evaluated all applications in detail, there is currently no evidence that these numbers have been used for illegal purposes.

However, to limit fraud performed using numbering, the Regulator improved the normative base within its competence by amending "Regulations on the rights to use numbering" and issued "Regulations on preventing fraud performed using numbering" (see more in Section 4.3 "Normative acts issued by the Regulator").

5.4. SUPERVISION OF COMPANIES

Supervision of public utilities providers is one of the functions regularly performed by the Regulator. According to normative acts, the Regulator systematically supervises the activities of companies, both directly inspecting their facilities and analysing information submitted by the companies.

Inspections at companies' facilities 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 requirements stipulated in legal acts and information provided in the company's reports. In 2014, the Regulator performed 158 external inspections; of these, six were unscheduled inspections (see Table 3).

The major detected violations during inspections of regulated companies 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.

	Inspected companies	Inspected objects	Violations, shortcomings found	Violations eliminated in 2014
Electricity	28	59	81	68
Natural gas	1	3	3	3
District heating	29	46	108	86
Water management	50	–	21	20
Waste disposal	2	2	0	–
Electronic communications	2	–	–	–
Post	1	23	0	–
Railway transport	3	–	0	–

Table 3. Inspections of public utilities companies performed by the Regulator in 2014, number

In the electricity sector, 59 objects were inspected and 81 violations were found in 2014 while performing inspections of electricity supply and generation facilities of 28 companies. Most of the operational shortcomings in the facilities found during inspections do not affect the security of electricity supply directly and the most significant of these shortcomings were eliminated within time periods set by the Regulator. The found violations are mainly related to incomplete placement of informative and operating descriptions of facilities and equipment. The most significant shortcomings are related to non-compliance with rules for lightning protection, noncompliance with periodicity of preventive measurements, and incomplete technical documentation for operation and the status of structures of electrical installations. Companies eliminated a total of 68 violations in 2014.

In the natural gas sector, inspections of 3 facilities of JSC "Latvijas Gāze" were performed in 2014. During inspections three shortcomings related to non-compliance with periodic testing of gas leak sensors and non-compliance with rules for lightning protection were found. The detected shortcomings were eliminated in 2014.

In the district heating sector, inspections of 46 facilities of 29 companies were carried out in 2014. 108 violations were detected during these inspections. 86 of the most important shortcomings were eliminated within the time periods indicated by the Regulator in 2014. Most of the shortcomings regarding operation of facilities do not directly affect the security of district heating; most shortcomings were related to incomplete placement of informative, warning or operational descriptions in the facilities and shortcomings in border acts of facility ownership and service. The most significant detected shortcomings were non-compliance with periodic inspections of emergency gas leak sensors, noncompliance with periodicity of preventive measurements of electrical installations, ignoring periodicity of inspections for thermal installations and ignoring rules for lightning protection.

In the water management sector in 2014, the Regulator performed inspections of 50 companies including six unscheduled inspections. 21 violations were found during these inspections. Most of the shortcomings were related to accounting and inability to produce documents requested by the Regulator (coordinated monitoring programmes, copies of meter certifications and the like). The most substantial shortcomings (in 20 cases) were eliminated within the time periods set by the Regulator.

In the waste disposal sector in 2014, the Regulator carried out inspections of two landfill sites for municipal waste disposal; no shortcomings were found.

In order to monitor the compliance of activities of electronic communications companies with requirements imposed, in the electronic communications sector the Regulator performs quality measurements of electronic communications services (see more in Section 10.2 "Service quality"). When the Regulator receives complaints regarding the quality of services, the Regulator carries out inspections by visiting the user of electronic communications services to ascertain the truth of claims. When the Regulator receives complaints about activities of a company, an inspection of the company is carried out at its legal address. In 2014, the Regulator inspected two companies and no violations were found.

In the postal sector in 2014, the Regulator inspected the quality requirements of the universal postal services in 23 locations where JSC "Latvijas Pasts" provides postal services. The available information about the range and tariffs of the universal postal service, as well as information on business hours was examined during the inspection. No violations were found during the inspections.

In the railway transport sector in 2014, the Regulator carried out annual inspection regarding the compliance with requirements of passenger carrier licences for all licensed passenger carriers. During three inspections, the fulfilment of the requirements of the Regulation 1371/2007 of the EP and of the Council on rail passengers' rights and obligations was also verified. No shortcomings that must be eliminated were found during the inspections.

While carrying out the supervision of companies, the Regulator regularly analyses and examines information indicated in the annual reports of the companies and submitted reports, compares the information with the situation established during examinations of facilities, establishes the tendencies of sector development and analyses markets. The Regulator asks companies to provide additional information if necessary. The reviewed and analysed information during the reporting period results in obligations imposed on companies in the electronic communications and energy sectors. After analysing the information provided by the companies on indicators of service volume and costs for companies, the Regulator found it unnecessary to propose a review of service providers' tariffs.

As shown by the survey of regulated companies carried out by the research centre SKDS[3], 89% of the interviewed companies admit that they have sent reports to the Regulator in 2014, although obligation to submit report is attributable to all public utilities companies (see Figure 20). Failure to submit information is one of the most common violations committed by regulated companies.

Figure 20. The cooperation of the Regulator and public utilities companies in 2014, % of interviewed companies
Source: SKDS

[3] The survey of regulated companies was carried out by the research centre SKDS in March 2015

If the Regulator finds out that a company has violated the general authorisation regulations, licence conditions or does not comply with the requirements of legal acts including the Regulator's decisions, the Regulator warns the company and imposes an obligation to eliminate the violation.

If the violation is not eliminated or the company has committed repeated violations, the Regulator decides on the punishment of the company by exercising the powers stipulated in normative acts.

In 2014, 115 administrative violations cases were reviewed; final decisions were adopted on these cases and companies were given a warning or fined (see Figure 21). In accordance with the Administrative Violations Code the maximum fine which the Regulator can impose on public utilities providers is 14,000 euro. The situation is different for electricity and natural gas companies – according to amendments in the Electricity Market Law and Energy Law made in 2014, the Regulator can impose a fine of up to 10% of the company's net turnover in the previous fiscal year. Imposing a maximum fine does not always prevent violations while imposing a fine according to a company's turnover does have a preventive effect; it is also more equal for all companies – both big and small market participants. It is important to implement a preventive, dissuasive and more equal penalty system in the other regulated sectors. The Regulator participates in the development of the draft law "Administrative Violations Procedure Law" to achieve this objective.

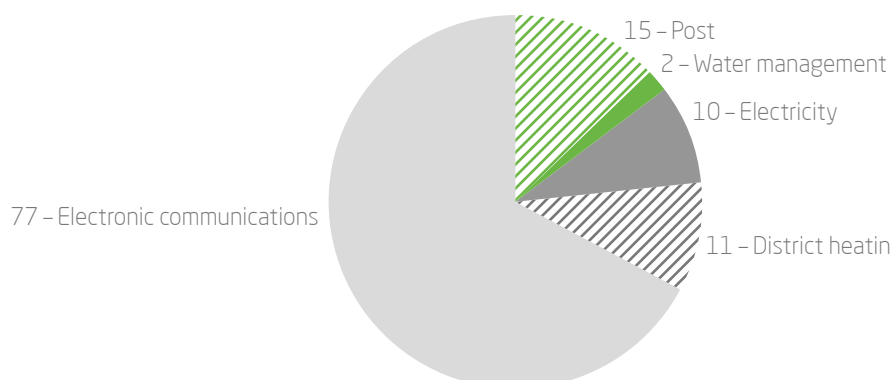
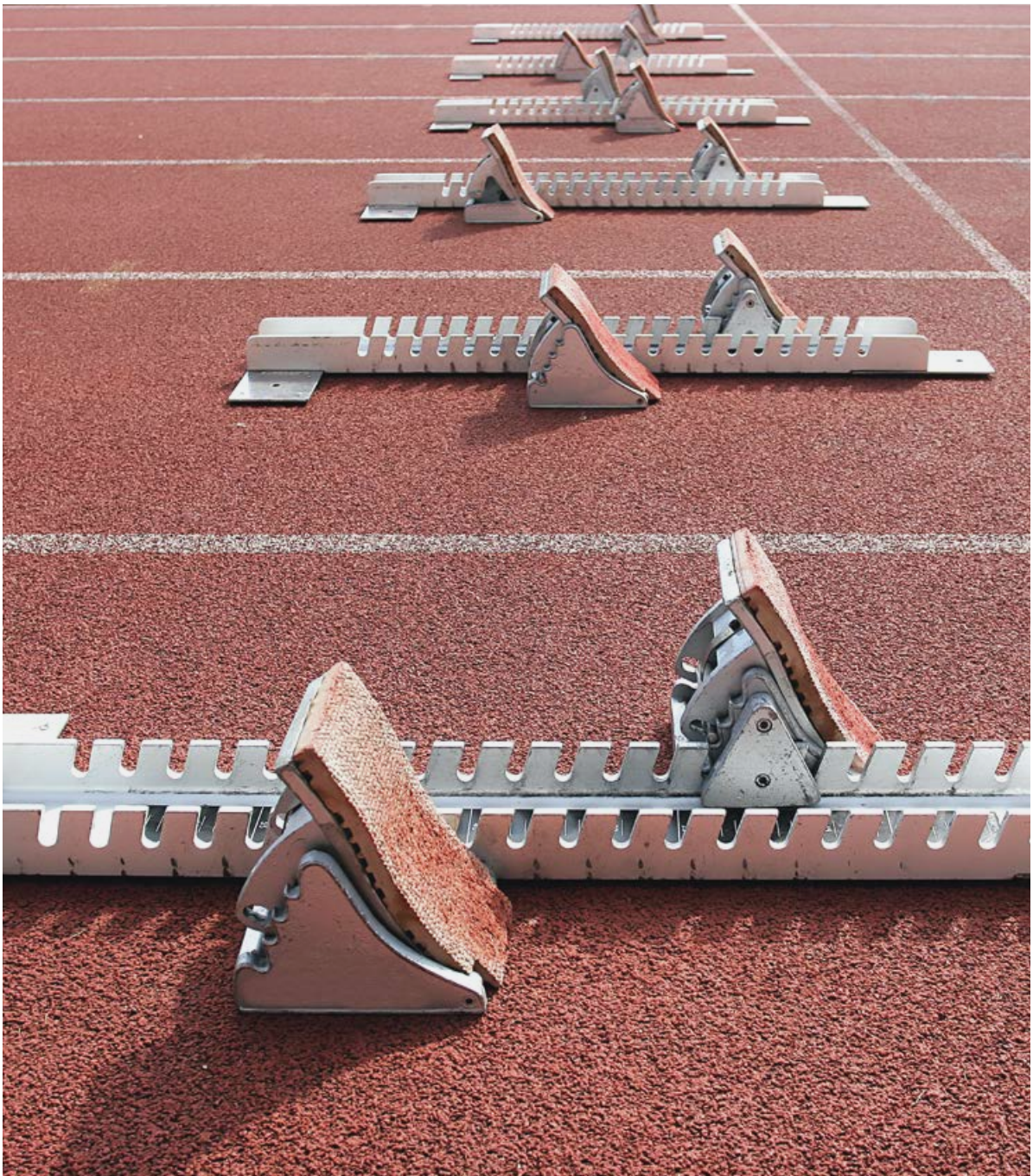


Figure 21. Administrative violations cases reviewed in 2014 on which final decisions were adopted, number



6.
PROMOTION OF COMPETITION IN THE REGULATED MARKETS

The development of public utilities sectors which is characterised by efficient, sustainable and fair operation of companies and mutual competition is a precondition for promoting benefits of public utilities users. Therefore basic principles of the free market are increasingly introduced in the regulated sectors.

In 2014, competition processes which are the basis of free market development strengthened and it is clearly shown by the concentration level of the markets in the regulated sectors (see Figure 22).

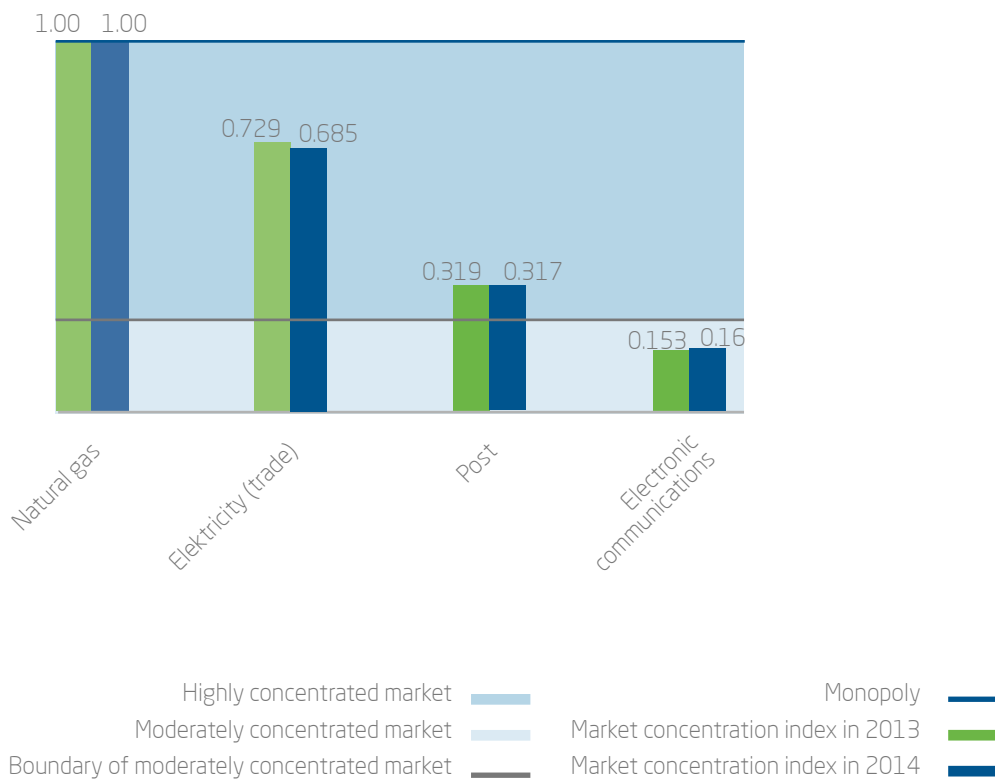


Figure 22. Herfindahl–Hirschman Indexes in the regulated sectors in 2013-2014

The market concentration level characterises both the options of users to choose a service provider and the proportion of mutual competition among service providers or market power. Market concentration can be evaluated using data on the turnover of service providers by sectors and service types. Market concentration evaluated as an index where each market participant's squared market share is summed to obtain the total index value is designated as Herfindahl–Hirschman Index (HHI). If HHI value is smaller than 0.18, but larger than 0.1, such market may be regarded as moderately concentrated. HHI value above 0.18 indicates that the market is concentrated.

▶ Market concentration in the electronic communications sector can be evaluated as moderately concentrated over the last years – the index value is stable and fluctuates around 0.16. ▶ Market concentration for postal services is rather stable with a trend to decrease slightly and reached 0.317 in 2014, therefore the market is considered as concentrated.

▶ Reduction of market concentration is observed in the electricity supply if only electricity trade to final customers is assessed; the index value was 0.83 in 2012 while it was under 0.69 in 2014. However, it is still a very concentrated market.
▶ In the natural gas supply sector, the monopoly established by the privatisation agreement was maintained in 2014 with a corresponding index value of 1.

In the other sectors, services are provided in territorially separated markets only, therefore numerical assessment of the total market concentration of these sectors is not possible.

6.1.

MUTUAL RELATIONSHIPS OF COMPANIES

The ability of companies to compete and simultaneously mutually cooperate is and will be one of the main challenges of an open market.

To further competition in the regulated sectors, legal acts and decisions adopted by the Regulator in specific areas are directed at the promotion of companies' mutual cooperation. It means that not only companies which have strengthened their market positions are given an opportunity to provide services in the market, but new market players are encouraged to enter. The public utilities users are thus provided with a wider range of services and larger selection among public utilities providers. The cooperation of companies is best seen in the electronic communications sector where companies' rights, obligations and responsibilities are determined by mutual agreements, as well as in the electricity sector.

- In the electricity sector, access by third parties to interconnected electricity transmission and distribution systems is ensured in Latvia. The small distribution network operators, a total of 10, are connected to both high-voltage grid and ST grid. The Grid Code issued by the Regulator regulates the procedure for operation of transmission and distribution system operators, management and use of the electricity system, as well as the obligations and activities of all market participants.
- In the natural gas supply sector, companies cooperate in the use of infrastructure. Inčukalns underground gas storage facility of JSC "Latvijas Gāze" stores natural gas for Latvian, Estonian, Russian, and Lithuanian companies. In 2014, the company has concluded nine new agreements about cooperation of operators and the use of transmission and/or natural gas storage services.
- In the district heating sector, district heating system operators are not obliged by normative acts to cooperate with all existing producers of thermal energy in the operator's territory. In accordance with the Energy Law, a district heating system operator buying thermal energy when at least two generators exist shall act in accordance with the economic gradual approach including the price of the thermal energy (Section 47 and 49 of the Energy Law). Since rights to mandatory procurement is not guaranteed for the generated thermal energy, when developing a new thermal energy generation facility, a company must be certain about the necessity of the generated thermal energy in the specific area of district heating, as well as an ability to offer a competitive price.

In the electronic communications sector, mutually concluded agreements determine the relationships of companies. Interconnection agreements are most common. In 2014, the Regulator registered nine new interconnection agreements; at the end of the year a total of 127 agreements had been concluded among companies. The essence of interconnection agreements is to establish an interconnection of companies' electronic communications networks so that voice or data exchange between the users of these companies could take place.

Contrary to interconnections, all types of access and shared use of infrastructure is not popular among companies, at the same time, access to electronic communications infrastructure is a precondition for the development of competition. The Regulator imposes access obligations for companies with significant market power (for backbone network, access network, connected devices, and data flow).

If an electronic communications company provides cable ducts, it has an obligation to ensure access to cable ducts for another electronic communications company according to technical capabilities. If an electronic communications company builds or reconstructs cable ducts or constructs an inlet of electronic communications network, it has an obligation to ensure additional capacity for cable ducts.

To promote the conclusion of mutual cooperation agreements, the Regulator sets an obligation for companies with significant market power to publish their reference offers for interconnections or leased lines. Companies publish reference offers pursuant to "Regulations on reference offers for interconnections and leased lines" issued by the Regulator. In 2014, "Latvijas Mobilais Telefons" Ltd and "Lattelecom" Ltd published their offers of interconnection reference. "Lattelecom" Ltd also published reference offers for the provision of other services in the reporting year -"Wholesale reference offer for termination points of leased lines", "Reference offer for services of unbundled access to a subscriber line, its part and termination point", "Reference offer for services of shared use of unbundled devices", and "Reference offer for services of access data flow".

In the postal sector, in accordance with the Postal Law the cooperation of companies is a voluntary process. By a mutual agreement, the postal companies may use a postal network or elements of the network owned by another postal company for a fee. In 2014, package machine operators "Post Service" Ltd and "Post 24" Ltd cooperated with postal carriers and suppliers "DPD" Ltd and "Venipak Latvija" Ltd.

6.2. ASYMMETRIC REGULATION

Companies with monopoly position or market participants with significant market power may use their market power for profit. To prevent this and promote competition in the market, the Regulator applies asymmetric regulation measures.

Asymmetric regulation means imposition of obligations on a company to achieve such behaviour of a company in the market as under competition conditions, thus creating an operational environment characteristic for a competitive market which would stimulate the entrance of new participants in the market. Taking into account various development stages and specifics of regulatory sectors, as well as the Regulator's functions stipulated in normative acts, the Regulator implements asymmetric regulation activities in electricity and electronic communications sectors.

▸ In the electricity sector, obligations were imposed on AST and ST. On 30 January 2013, AST was certified as an independent transmission system operator which pursuant to normative acts and licence conditions must comply with market principles and obligations to ensure access to the electricity transmission system for system users and applicants. AST has an obligation to guarantee equal conditions for the use of the electricity transmission system to all participants of the electricity transmission system. The tariffs of transmission system services are set by the Regulator. After performing the annual examination on the compliance of the electricity transmission system operator with certification requirements and the sufficiency of the measures carried out to ensure the independence of the electricity system owner, the Regulator concluded that measures carried out by AST are sufficient to ensure independence and made sure that AST guarantees equal conditions for the use of the electricity transmission system to all participants of the electricity transmission system.

Similar to previous years, in 2014, the Regulator evaluated if the electricity distribution system operator ST has performed all legally prescribed measures to ensure independence from associated companies and thus avoid threats to fair competition among electricity traders. ST has an obligation to guarantee equal conditions for the use of the electricity distribution system to all users of the electricity distribution system. After evaluating the measures taken by ST, the Regulator concluded that they are sufficient for equal access to the network by all electricity traders. The tariffs of distribution system services are set by the Regulator.

In the electronic communications sector, the Regulator constantly analyses markets for electronic communications services. In the electronic communications sector, 16 different service markets are defined. As a result of market analysis, the Regulator determines companies with significant power in each of the markets and imposes relevant obligations on these companies. In 2014, following the EC recommendations on product and service markets within the electronic communications sector susceptible to ex ante regulation, the Regulator developed normative acts and completed the analysis of two electronic communications markets - wholesale broadband access market and wholesale (physical) network infrastructure access (including shared or fully unbundled access at a fixed location) market. After market analysis, the Regulator expanded the previously defined obligations including also wholesale services based on optical networks.

In 2014, "Lattelecom" Ltd 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 abuse its market power in the future:

- access obligations – to provide access to the electronic communications network or related elements thereof to other companies,
- wholesale broadband access services and access to civil engineering infrastructure,
- non-discrimination obligation – to ensure 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,
- obligation to perform separate accounting of performed activities.

6.3. INTEGRATION IN THE SINGLE EUROPEAN UNION MARKET

The establishment of a single European market maintained its priority in 2014 and work was continued on implementing the single market rules in the legislation of the member states to promote free trade of goods and services in all 28 member states. There are sectors where cross-border trade is intensive and there are sectors where the single market does not operate yet, therefore the Regulator's activities in various sectors are different.

The core of the single EU market in electricity and natural gas is modern infrastructure with adequate cross-border interconnections and secure transmission grids. The energy system of Latvia is gradually integrated in the single EU system. In 2014, the Regulator adopted decisions on the allocation of cross-border costs for four projects of common interest which will ensure better integration of Latvia into the single EU market. The EC supported three of the four afore-mentioned projects which were submitted by their promoters to the EC to request co-funding. Funding was not granted to the project "Modernization and expansion of Inčukalns Underground Gas Storage".

The four projects of common interest on which the Regulator adopted decisions were as follows:

– Projects "Interconnection between Kilingi-Nõmme and Riga CHP2 substation" and "Internal line between Harku and Sindi". The implementation of these projects will

increase the capacity of the interconnection of the Estonian and Latvian electricity transmission systems, thus stimulating the convergence of power exchange prices in Estonia and Latvia. The goal of the projects by building 330 kV power transmission lines is to prevent the overload of power transmission lines in the Latvia – Estonia interconnection by increasing the capacity of Latvia – Estonia interconnection by 500-600 MW which will considerably enhance the security of electricity supply in the Baltic States and meets the EU goal to establish a single and integrated electricity market by ending the isolation of the Baltic electricity market.

– Project "Internal line between Ventspils, Tume and Imanta" which is the third stage of the "Kurzeme Ring" project. The "Kurzeme Ring" project is part of a cluster of projects "NordBalt" which is implemented to integrate the Baltic electricity market into the single EU electricity market. The most important part of "NordBalt" is the construction of direct current submarine cable for the Lithuania – Sweden interconnection. By implementing the "Kurzeme Ring" project, the potential to maximally use installed transmission capacities of Lithuania – Sweden direct current cable will be ensured. Since wholesale electricity prices have been lower in Sweden so far, electricity users in Latvia and Lithuania will be able to use the advantages of the single market after the implementation of the cluster of projects "NordBalt". The implementation of the "Kurzeme Ring" project anticipates the construction of 330 kV overhead high-voltage power lines in Kurzeme and it will be carried out in three stages. During the first stage, "TEC-1" and "Imanta" substations were connected by constructing a 330 kV cable. 330 kV high-voltage line in the section "Grobiņa- Ventspils" is being built during the second stage. A 330 kV overhead high-voltage power line in the section Ventspils – Tume – Imanta is planned to be built until 2018 during the third stage. By implementing the third stage of the project, the security of the electricity supply will also be improved and the probability of emergency disconnections of power lines will decrease, therefore power outages caused by violent storms will be shorter. The "Kurzeme Ring" project also provides for more opportunities to use renewable resources enabling the connection of new wind farms to the power transmission networks in the future. The capacities of the existing 110 kV power transmission lines are insufficient for the connection of new wind farms. It is expected that wind power stations with capacities up to 450 MW could be connected to the 330 kV grid in addition to the existing wind stations.

- Project "Capacity enhancement of Klaipeda-Kiemenai pipeline in Lithuania". The project intends to modernise the natural gas transmission pipeline connecting Klaipeda and Kursenai, ensuring the potential transmission capacity of up to 2 billion m^3/year. The enhancement of the pipeline capacity will enable the efficient use of the Lithuanian liquefied natural gas terminal in Klaipeda and enable Latvia to receive alternative natural gas supplies. The project will be implemented in 2015-2016.
- Project "Modernization and expansion of Inčukalns Underground Gas Storage". The first stage of the project of modernization and expansion of Inčukalns Underground Gas Storage anticipates to increase the natural gas withdraw capacity up to 32 million m^3/day, thus furthering an increase in the natural gas supply security in the Baltic States. 30 million m^3 of natural gas per day can be currently withdrawn from the storage. The implementation of the project would enable the provision of the demanded natural gas volumes in Latvia, Lithuania and Estonia in situations when the demand for natural gas would be higher than usual, for example, due to weather conditions or interrupted supplies of natural gas from third countries.

In the reporting period, the Regulator also evaluated the cost allocation for "Poland-Lithuania gas interconnection" (GIPL) project. Agreement on cross-border cost allocation among Polish, Lithuanian, Latvian and Estonian regulators of the member states involved in the project was not reached. Therefore the project promoters submitted the project to ACER to adopt a decision on cost allocation. ACER adopted a decision on cross-border cost allocation on 11 August 2014. The objective of GIPL is to connect the isolated gas market of the Baltic States with the EU gas market providing access to the single EU gas market.

Since June 2013, NPS as the power exchange operator has started the operations of the power exchange Elspot in Latvia. In order to solve issues related to wholesale market monitoring on a regional – Baltic-Nordic – level, the Regulator became a member of the NPS Regulatory Council. In 2014, to clarify the mechanism of overload capacity management active cooperation with the Baltic transmission system operators and the Baltic regulators continued. In November of the reporting year, the transmission system operators agreed to expand and increase the volumes of auctioned capacities (PTR-limited) which was appreciated by market participants because it enables wholesale market participants to fix the price difference on a larger scale and mitigates related risks.

The Regulator has an obligation to supervise the fulfilment of conditions of cross-border interconnection congestion management and overload prevention in cooperation with a relevant authority or authorities of the member state which it has an interconnection with. In 2014, implementing the price monitoring function in the electricity market, the Regulator in cooperation with NPS experts of wholesale market supervision and Baltic and Nordic regulators participated in working groups of regulatory experts which analysed possible manipulations in the power exchanges in the Nordic and Baltic regions. In 2014, the Regulator did not investigate any possible manipulation in the wholesale electricity market.

In the electronic communications sector, the reporting year was highlighted by the work on the EC single market strategy (Connected Continent), the evaluation of possible influence of its components and preparation of the Latvia's position on the issues of international roaming and net neutrality.

In Latvia, a significant volume of high speed broadband services is available in both fixed and mobile electronic communications networks. From a user's perspective, it means data transmission speeds and service availability which are much higher than the EU average. The main problem for further development of the networks is availability of content on equal terms across the EU (geoblocking).

In the establishment of the single European postal parcel market, the main emphasis in 2014 was on the summary of results of the EC Green Paper "An integrated parcel delivery market for the growth of e-commerce in the EU". To establish a single delivery market, the Regulator's representatives actively participated in the EC working and project groups.

When characterizing the railway sector in the context of integration in the single EU market in 2014, 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.

7.

BALANCING AND HARMONISATION OF STAKEHOLDER INTERESTS

7.1.

PARTICIPATION OF COMPANIES

One of the basic principles of the Regulator's activities is identifying and balancing opinions and interests of all stakeholders. Since the involved parties are very different – companies, public utilities users, public authorities – their interests are different, sometimes even contradictory.

The Regulator's task is to be neutral and implement its functions by adopting economically reasonable decisions which are in balance with benefits of all parties. Taking a side with a stakeholder may lead to either a company's decision to leave a market or unavailability of services. "De jure" and "de facto" independence, but simultaneously active "ex ante" information of all stakeholders and "ex post" cooperation with them is the foundation on which the Regulator carries out its activities.

The Regulator's decisions are binding for public utilities providers. Therefore the Regulator invites companies to participate in the process of development of normative acts and adoption of decisions. Participation of companies and identification of opinions is ensured in various ways – public consultations, discussions, meetings, public hearings, and correspondence.

The most common type of cooperation with companies to find out opinions extensively is public consultations. Companies and any interested person are invited to send their opinions on any consultation document prepared by the Regulator 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 2014, the Regulator published 28 consultation documents (see Figure 23).

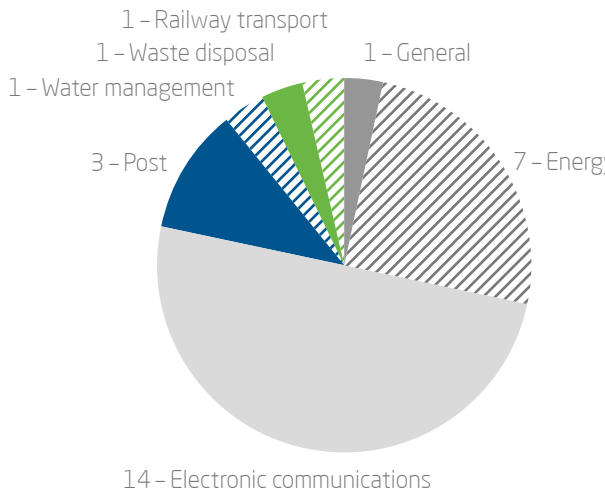


Figure 23. The distribution of published consultation documents by regulated sectors in 2014

The topics of consultation documents are wide ranging. In 2014, public consultations were organised on new draft regulations and planned amendments to the existing draft regulations, amendments to tariff calculation methodologies and reports on the electronic communications market.

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

Regular consultations also take place with companies' associations – professional associations. The Regulator actively cooperated with the Latvian District Heating Association on the development of amendments to the cogeneration tariff calculation methodology. Issues and solutions in the draft Water Management Law were discussed with the Latvian Water Supply and Sewerage Entrepreneurs' Association. 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.

The results of the survey of the regulated companies performed by the research centre SKDS show that the Regulator's communication with companies meets the companies' expectations and the Regulator's rating is growing every year (see Figure 24).

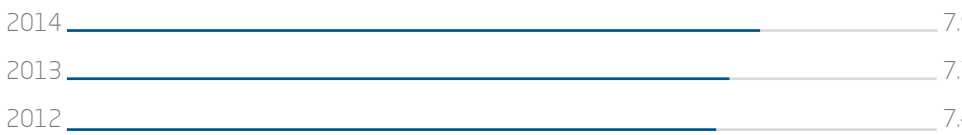


Figure 24. The Regulator's ability to explain its decisions, actions and role in solving various issues, 2012-2014, points on a 10 point scale
Source: SKDS

94% of the interviewed companies believe that they had no complications or difficulties when cooperating with the Regulator. During two years the indicator has improved by six percentage points (see Figure 25).

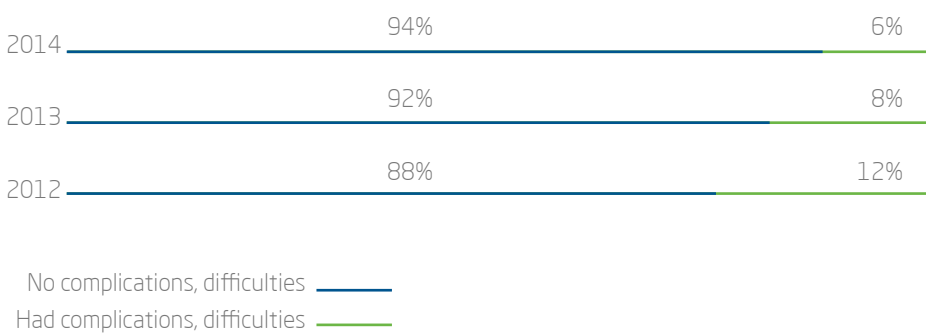


Figure 25. Companies' assessment on complications or difficulties when cooperating with the Regulator, 2012-2014, % of interviewed companies
Source: SKDS

Although 70% of the companies cooperate with the Regulator for more than five years, only 54% of the companies rate their knowledge about the Regulator's work as good or very good and 27% admit that their knowledge is rather bad or very bad (see Figure 26).

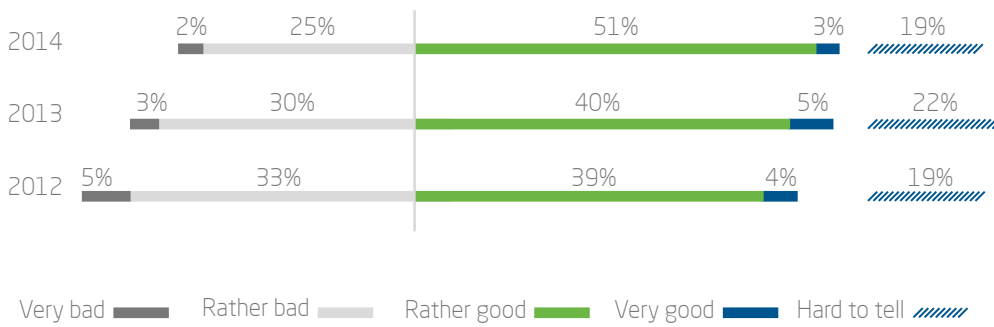


Figure 26. Companies' self-assessment on the knowledge about the Regulator's work, % of the interviewed companies
Source: SKDS

Companies' average rating on a scale from -100 (very bad knowledge) to +100 (very good knowledge) about their knowledge on the Regulator's work was 18 in 2014 (see Figure 27).

Figure 27. Companies' self-assessment on the knowledge about the Regulator's work, points on a scale from -100 to +100
Source: SKDS

THE REGULATOR'S REGIONS DAYS 2014

To stimulate closer cooperation with public utilities providers and further their involvement in the process of the development of normative regulations and adoption of decisions, during the reporting period the Regulator organised a series of events for water management and district heating companies – "Regulator's Regions Days 2014". In order to inform and educate companies on topicalities in the regulated sectors, this was the first time when the Regulator's representatives visited companies in the six biggest Latvian cities (Valmiera, Jelgava, Ventspils, Liepāja, Rēzekne, and Jēkabpils).

To achieve direct results in the round of meetings, the Regulator addressed companies in the district heating sector whose final tariffs are approved – a total of 71 companies. In the water management sector, the Regulator addressed all 143 regulated companies because final tariffs are approved for these companies. The companies were invited to a meeting in the geographically closest location of the "Regulator's Regions Days 2014". The Regulator was represented by employees from Riga and regional divisions in each event.

When meeting with the companies, topical issues in the district heating and water management sectors, trends, and tariff setting procedures were discussed; recommendations on presentation of tariff proposals in public hearings and preparation of companies' reports were also provided.

74 or 52% of invited water management companies and 39 or 55% of invited district heating companies participated in the Regulator's Regions Days which is a good achievement (see Figure 28).

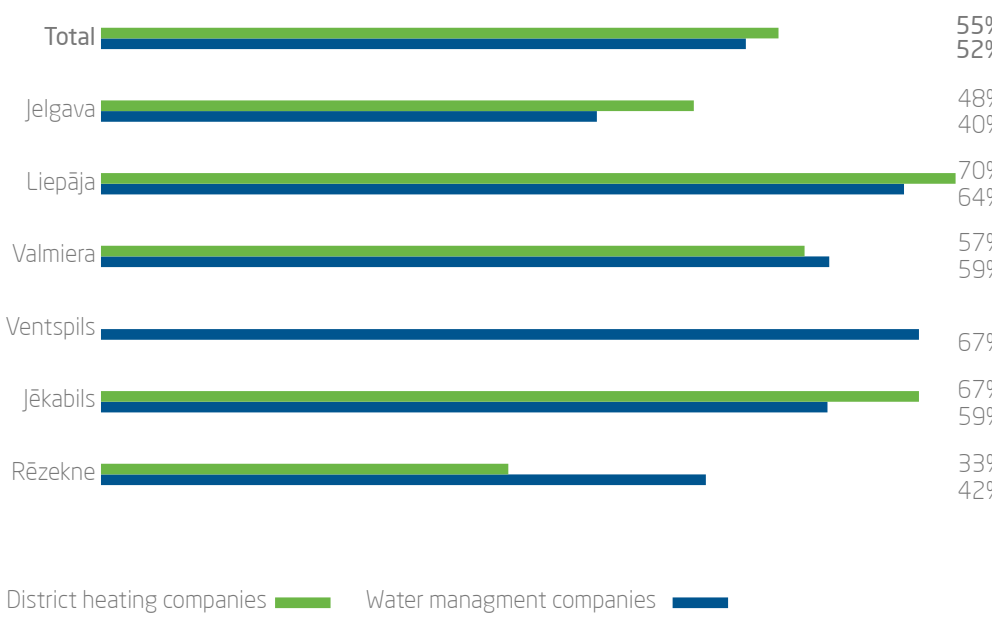


Figure 28. Participation of water management and district heating companies in the Regulator's Regions Days 2014, % of invited companies

To assess the results of the Regulator's Regions Days, companies were asked to express their opinions about the event. Questionnaires were filled out by 78 or 70% of participating water management companies and 51 or 94 % of participating district heating companies. After summarising the results, we may conclude that both the contents of the event and organisational work were rated very well (see Figure 29 and 30).

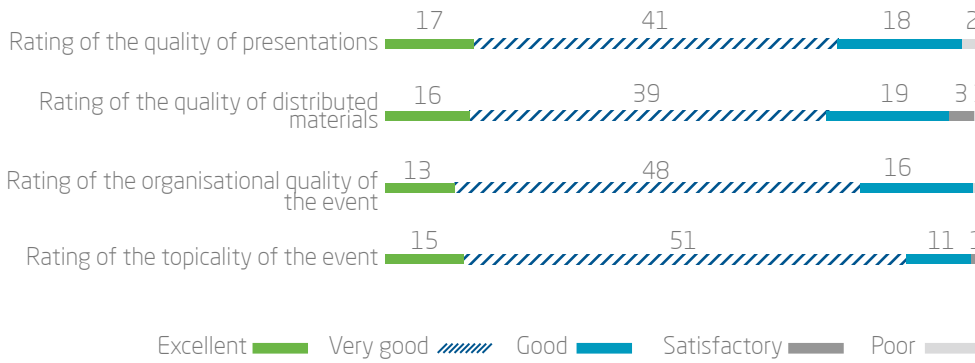


Figure 29. Assessment of the Regions Days 2014 by water management companies, number

Figure 30. Assessment of the Regions Days 2014 by district heating companies, number

86% of the companies indicated that the contents the event met expectations, while 89% indicated that the acquired information will be useful in the future. 16 or 12% of filled-out questionnaires contained a proposal to organise the Regions Days on a regular basis. 62 of the participants of the Regions Days subscribed to receive news from the Regulator's homepage.

District heating Water management

7.2.
COMMUNICATION WITH THE SOCIETY, PARTICIPATION OF THE SOCIETY

One of the basic principles of the Regulator's operations are actions which are open, transparent and clear to the society.

As shown by the survey of residents[4] performed by the research centre SKDS, only 24% of the residents think that they are informed about issues related to the Regulator. Although 55% of the residents mentioned that they have heard about the Regulator, their knowledge is not sufficient because some residents think that the Regulator regulates fuel retail, all services in waste management sector, sale of medication and management of apartment houses. The results of survey show that communication with the society and other stakeholders must be organised more intensively by carrying out various informative and educational events.

To promote more intensive communication with the society and its involvement, in 2014, the Regulator paid much attention not only to more extensive explanation of its adopted decisions, but also to explanation of topical issues in several sectors using both media as a communications channel and the Regulator's homepage as an information channel. It led to a gradual increase in the awareness of those residents which have heard about the Regulator. In accordance with survey data of the research centre SKDS, the share of the Latvian residents who rate the Regulator's work as good over the last two years has almost doubled. In 2015, 27% of the respondents who have heard about the Regulator's activities rate it as good (see Figure 31). At the same time, the number of followers on social media and users of the homepage grew.

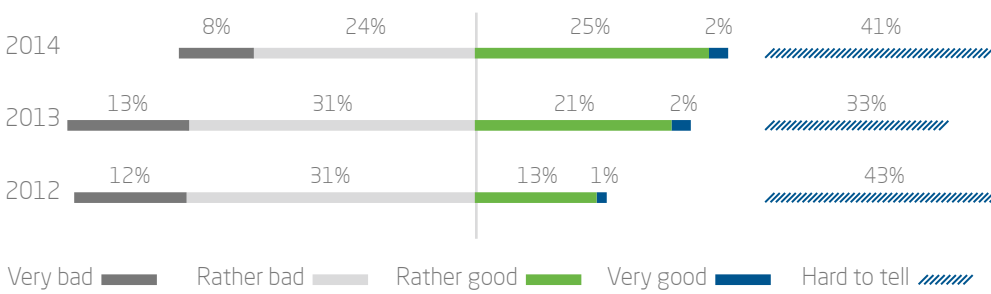


Figure 31. Residents' rating of the Regulator's work, %
Source: SKDS

[4] Survey of residents was performed by the research centre SKDS in March 2015.

In addition, to increase the level of residents' awareness and understanding about the Regulator, its functions, tasks and adopted decisions, in November 2014, the Regulator organised a series of meetings with residents and media representatives in the eight largest cities of Latvia – "Regulator's Regions Days 2014" (see Figure 32). This was the first time when the Regulator's experts visited the residents of Latvia to explain unclear issues related to regulation on such a large scale.

To change faulty stereotypes prevalent in the society and educate residents on how charges for district heating and water management services are formed, separate sessions on these topics were organised. Also, since one of the most significant events in the last year was preparation for the opening of the electricity market for households, special attention was paid to these issues in the Regulator's Regions Days. Cooperation partners – the Ministry of Economics, ST and the Consumer Rights' Protection Centre (PTAC), were attracted to the information campaign of the society so that residents could receive answers to all questions related to the electricity market opening. The Ministry of Economics informed about the necessity of electricity market opening and the social support model, the Regulator – about the formation of the electricity price and comparison of different offers, PTAC – about electricity contracts and aspects to pay attention to when concluding contracts – terms, types of settlement, payment procedure, while ST – about main activities to be performed by households. Residents were also given an opportunity to personally meet electricity traders and discuss companies' offers and contract conditions.

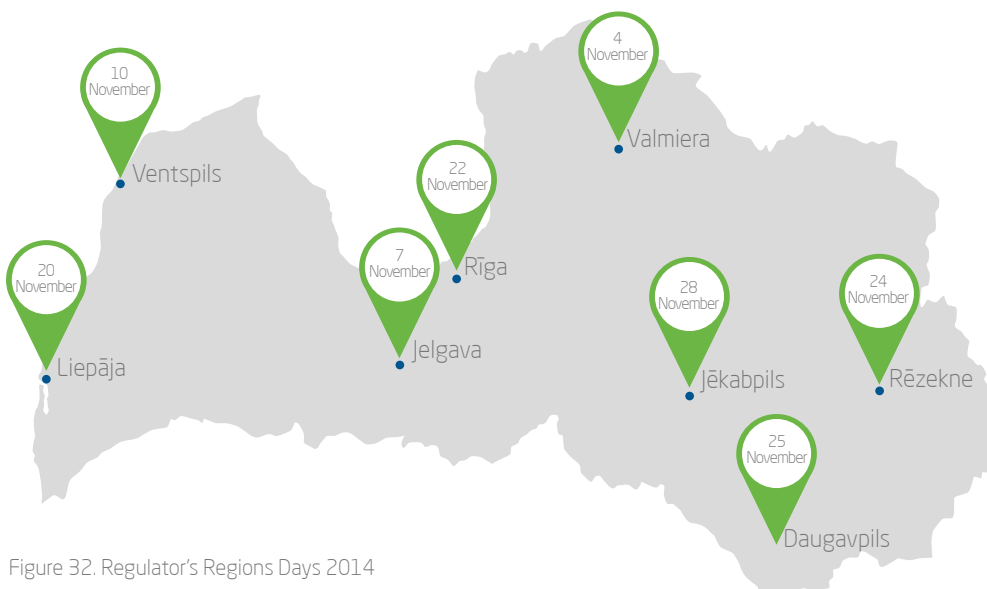


Figure 32. Regulator's Regions Days 2014

District heating Water management Electricity

Both residents of the relevant regions and non-governmental organisations (NGOs) were invited to the Regulator's Regions Days, thus also ensuring the participation of leaders of informal opinions in the discussions. We may conclude that the responsiveness of residents was high because an average of 50 participants took part in each location of the event.

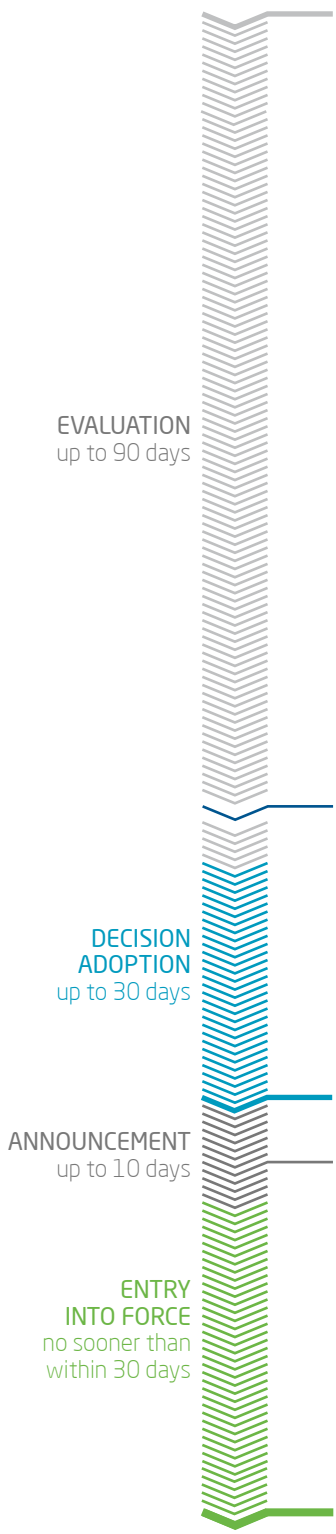
While preparing for the electricity market opening for households to inform the residents of Latvia about the expected market opening, the Regulator developed educational video materials which were published on social networks and sent to the media. Video materials were developed both in Latvian and Russian and are available on the Regulator's Youtube account:

- What a customer should know of the open electricity market? (in Latvian)
  http://www.youtube.com/watch?v=VwLJQgF2LWo
- How a household should choose an electricity trader? (in Latvian)
  http://www.youtube.com/watch?v=1WHfTjyEkmc
- How a household should evaluate a contract with an electricity trader on electricity supply (in Latvian)
  http://www.youtube.com/watch?v=ELb_joOsvMI
- What a customer should know of the open electricity market? (in Russian)
  http://www.youtube.com/watch?v=KH2FXII5JiA
- How a household should choose an electricity trader? (in Russian)
  http://www.youtube.com/watch?v=8kBeIbQu_gE
- How a household should evaluate a contract with an electricity trader on electricity supply (in Russian)
  http://www.youtube.com/watch?v=tbK3K1UK4Kk

An interactive test was also prepared for residents to test their knowledge about the electricity market opening for households. The test is available on the Internet homepage www.elektribastirgus2015.lv.

In 2014, like every year, the society and the media were mostly interested in tariffs of public utilities. One of the ways how the Regulator informs the society and other involved parties about the expected tariff proposal and involves stakeholders to express their opinions is by organising public hearings about tariff proposals. Public hearings on tariff proposals are a significant part of the tariff approval procedure and they are organised in the region, which the tariff proposal concerns. More information on the evaluation of tariff proposals, adoption of decisions, and obligations of the Regulator and companies is shown in Figure 33.

TARIFF SETTING PROCEDURE



EVALUATION
up to 90 days

DECISION ADOPTION
up to 30 days

ANNOUNCEMENT
up to 10 days

ENTRY INTO FORCE
no sooner than within 30 days

In accordance with the Regulator's methodology, a **company** on its own initiative or after the Regulator's request submits to the Regulator the calculated tariff proposal together with documents substantiating costs and announcement about the tariff proposal.

Within 10 days after submitting the tariff proposal to the Regulator, **the company**:
– publishes an announcement in the official journal "Latvijas vēstnesis" and on its homepage,
– sends a notification to the local government for publication on its homepage and informing residents.

Residents may get acquainted with the tariff proposal and submit suggestions and recommendations to the company and the Regulator.

The Regulator:
- carefully evaluates the economic substantiation of costs of the tariff proposal,
- publishes the announcement of the tariff proposal and the summary of the tariff proposal on the Regulator's homepage,
- organises a public hearing,
- evaluates the suggestions and recommendations on the tariff proposal.

If necessary, **the Regulator**:
- asks the company to submit additional information and documents by a specific deadline (no less than 10 days) if information is not sufficient,
- orders the company to recalculate the tariff proposal by a specific deadline (no less than 5 business days) if it is calculated incorrectly or costs are not substantiated.

Time needed for recalculation of the tariff proposal and preparation of additional information is not included in the time period for the evaluation of the tariff proposal.

The Regulator adopts a decision on the new tariff.

The decision on the approved tariff:
– is published by the Regulator in the official journal "Latvijas Vēstnesis",
– is published on the Regulator's homepage,
– is sent by the Regulator to the local government and published on its homepage; residents are informed,
– is delivered by the Regulator to the company.

The new tariff enters into force no sooner than within 30 days after its publication in the official journal "Latvijas vēstnesis".

Figure 33. Tariff setting procedure

The desire of residents to participate in the evaluation of tariff proposals is passive. The interest of NGOs to participate in public hearings and represent the interests of public utilities users is also critically low. To improve the situation, the Regulator started actively informing the residents of relevant regions about public hearings in 2014 – developing informative materials, disseminating information in traditional and social media. As a result, compared to 2013, the number of attendees continued to grow. In 2014, only four of the 32 organised public hearings were not attended by any resident. For comparison – 38 hearings were organised in 2013 and nine of them were not attended.

To receive answers to unclear questions, residents also contact the Regulator by phone. During "ad hoc" individual consultations with public utilities users, in addition to issues within the Regulator's competence the Regulator explains issues which are not the Regulator's responsibility and are related to relationships of households with building managers as intermediaries for the reception of public utilities must be explained quite often. Supply and distribution of water and heating in the internal networks of buildings, issues of payments on the application of a water coefficient, the quality of drinking water supplied to users, circulation of hot water, costs of a heated cubic metre – these issues are within the competence of building managers.

7.3. DISPUTE SETTLEMENT

To successfully and quickly solve disagreements between public utilities providers and users or between public utilities providers, one of the Regulator's functions is dispute settlement.

Such mechanism for out-of-court dispute settlement is free of charge and the time for adoption of a decision is shorter than in court. If a party involved in a dispute is not satisfied with the Regulator's decision on dispute settlement, it has a right to go to court or arbitration according to a procedure specified by the Civil Procedure Law. The court adjudicates this dispute on the merits between the parties. A party involved in a dispute can also immediately go to a general jurisdiction court without settling the dispute in the Regulator.

In 2014, the Regulator settled and adopted decisions on two disputes:

1. On 19 February 2014 – a decision settling a dispute on the refusal of the natural gas supply company to conclude a contract on the delivery of natural gas to a facility which had a debt on previously supplied natural gas. The submitter asked the Regulator to settle the dispute and oblige the natural gas supply company to conclude a contract with the submitter. The Regulator determined that the leaseholder of the facility asks for the conclusion of the contract on natural gas delivery although the owner of the facility has not paid for the previously supplied natural gas. The Regulator concluded that until payments for previously supplied natural gas are made the natural gas supply company has no reason to conclude a contract with the facility's leaseholder (submitter). Considering the afore-mentioned information, the Regulator declined the submitter's claim to oblige the natural gas supply company to conclude a contract on the delivery of natural gas to the facility.
2. On 30 April 2014, a decision was adopted settling a dispute between an electronic communications company and a final customer. The dispute was initiated on the basis of a final customer's application that an electronic communications company has not fulfilled the conditions of the electronic communications service agreement and the service provided by the company has significant deficiencies. The final customer's mobile phone was stolen in Spain and fraud was performed using numbering of this phone which caused for the customer losses of 2,547 euro (1,790 Lats). The final customer believes that these losses could have been prevented because the electronic communications company had to determine sooner that fraud was performed using numbering and a credit limit should have been applied. The Regulator did not find violations of the electronic communications service agreement in the activities of the electronic communications company, but found that the electronic communications company has included ambiguous conditions on the credit limit and connection of a callhold service without its disclaimer in the agreement.

7.4.

APPEALING THE REGULATOR'S DECISIONS

Any stakeholder who believes that a Regulator's decision is not proportionate and its interests have not been respected has a right to dispute the decision adopted by the Regulator and to appeal it in the Administrative Regional Court requesting to revoke the decision.

The Administrative Regional Court adjudicates a case as a first instance court consisting of three judges. A court decision may be appealed by submitting a cassation complaint. The fact that a party has gone to court and submitted an application to revoke a Regulator's decision, declare a decision to have ceased to be in effect or invalid does not stay the operation of the decision.

The results of litigation processes may be regarded as a certain indicator of the quality of the Regulator's activities. The Senate has adopted 26 decisions during 14 years of the Regulator's operation. The Senate has not revoked the Regulator's decisions in most cases. The Senate decided to revoke the Regulator's decisions in only two cases – court revoked the Regulator's decision adopted in 2006 about the refusal to set a new average electricity sales tariff and Regulator's decision (the Regulator's letter which the court qualified as the Regulator's decision) about a refusal to conclude a natural gas supply contract.

In 2014, the Regulator was involved in a number of litigation processes; most of these have been continuing for several years. Of all the litigation processes initiated about the Regulator's decisions, eight processes were terminated in 2014; the court left the Regulator's decisions in force in five cases (District Court -1, Administrative Regional Court -1, Senate – 3) and three cases were terminated due to formal legal considerations (Administrative Regional Court – 2, Senate – 1):

- The case of JSC "Latvenergo" captive users' tariffs and case of AST tariffs in the energy sector. The Senate refused to initiate cassation litigation in both cases and the verdicts of the District Court were favourable to the Regulator.
- A civil dispute about concluding a water management service contract in the water management sector. The parties continue to settle the dispute in a general jurisdiction court.
- The court declined an application to revoke the Regulator's decision on tariffs of JSC "Rīgas siltums" and the court declined an application about an appealed Regulator's reply to a person's submission in the district heating sector.
- Three cases were dismissed by the court due to formal legal considerations – two in the water management sector and one in the district heating sector.

In 2015, 62 litigation processes will continue in various stages: 51 in the energy sector, five in the district heating sector, two in the water management sector, and four in the electronic communications sector.

7.5. COOPERATION WITH PUBLIC AUTHORITIES

The Regulator is not an authority which formulates national policy. At the same time, the Regulator's competence on issues of public utilities 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 – draft Energy Efficiency Law, Latvian natural gas market, implementation of the subsidised electricity tax, draft Consumer Out-of-court Dispute Settlement Law, draft Regulation establishing a Guideline on Capacity Allocation and Congestion Management, Implementing Regulation, REMIT, achievement of the indicative goal of the national energy efficiency and the national energy efficiency action plan 2014–2016, regulation of the activities of the public electricity trader,
- Ministry of Finance – ensuring the financial stability of AST operations, collection of the mandatory electricity procurement component,
- Ministry of Transport – Postal Policy Guidelines 2011-2017, compensation of the net costs of the fulfilment of the universal postal service obligations, conceptual solution for the establishment of the universal service fund or other financing and compensation mechanism, setting the charge for the use of public railway infrastructure and financing of the manager, carrier licensing and expansion of regulatory functions, draft regulation on a single market for electronic communications, development of the Latvian space communications policy, mapping of the infrastructure of the electronic communications networks,
- Ministry of Justice – system for the implementation of sector administrative violations codification,
- Ministry of Environmental Protection and Regional Development – National Radio Frequency Plan and National Numbering Plan, regulation of water management services in Lapenieki village of the Ķekava region, regulation of water management service tariffs, issues of waste management,
- Competition Council – refusal to conclude a natural gas supply contract,
- Consumer Rights Protection Centre – usage options of the public mobile Internet access service using 3G and 4G technologies, inclusion of prices and tariffs in electronic communications service agreements, legal regulation for electricity trade, fraud in the electronic communications sector.

As in previous years, the Regulator participated in the meetings of the Parliament committees, the Cabinet and the Cabinet Committee, in which proposals regarding issues within the competence of the Regulator were submitted and reviewed.

8. INTERNATIONAL COOPERATION

8.1.

PARTICIPATION IN INTERNATIONAL ORGANISATIONS

In 2014, the Regulator's agenda on international cooperation was mainly determined by the EU initiatives and legal acts.

The Regulator constantly participated in the work of BEREC, the electronic communications Independent Regulators Group (IRG), ACER, the Council of European Energy Regulators (CEER), the European Regulators Group for Postal Services (ERGP), as well as Independent Regulators Group – Rail (IRG-Rail) to implement single, coordinated market conditions in the regulated sectors and crossborder cooperation of the regulators. These regulatory organisations were actively involved in commenting the EU initiatives and proposals for legal acts including the proposal for the EC regulation on the establishment of a single market for electronic communications, and the fourth Railway Package.

Regarding regulation of the energy sector, in 2014, the Regulator was actively involved in measures directed at the implementation of REMIT Regulation, coordination and assessment of cross-border investments or the so called projects of common interest, the regional initiative process and participation in the development of ACER recommendations. In the electronic communications sector, the Regulator participated in the discussions on the strategy of the single digital market, achieved a significant progress in raising the issue of numbering fraud on the European level, continued work to improve cross-border cooperation and exchange experience on net neutrality, roaming, service quality, and issues of network infrastructure and market analysis. In the postal sector, 2014 was a significant year because the Regulator analysed the results of the free market opening on 1 January 2013. In the railway transport sector, issues related to the implementation of the Directive 2012/34/EU establishing a single European railway area which provide for the expansion of regulatory functions were essential. The Regulator was actively involved in the establishment of the first international regulatory platform of the water management sector participating in the 1st International Water Regulators' Forum and the Network of European Water Service Regulators (WAREG) where the Regulator was involved in the comparative analysis of regulatory frameworks and tariff structures.

The Regulator also continued work in the EU working groups on general railway regulation issues, monitoring how the EU stipulated passengers' rights and obligations are insured, inter-institutional working groups on the projects of common interest in electricity and gas, working discussions with the EC on market analysis, the EC Communications Committee (COCOM), the European Electronic Communications Committee (ECC), and the European Conference of Postal and Telecommunications Administrations (CEPT).

Considering the general and simultaneously specific nature of regulatory issues, the Regulator constantly participates in the work of regulators and other international organisations beyond the scope of the EU. In 2014, the Regulator participated in the Energy Regulators Regional Association (ERRA) where the Regulator has been appointed to the Presidium, EaPeReg, the International Telecommunication Union (ITU), the Universal Postal Union (UPU), the United Nations Economic Commission for Europe (UNECE), and the events of the Florence School of Regulation (FSR). Supporting Latvia's accession process to the Organisation for Economic Co-operation and Development (OECD), the Regulator has cooperated with various Latvian authorities providing data on regulatory issues, as well as cooperated with OECD including participation in the OECD research "Applying Better Regulation in the Water Sector" and "Product Market Survey 2013".

8.2. REGIONAL AND BILATERAL COOPERATION

Regional cooperation on specific cross-border issues is a foundation for successful implementation of the EU legal norms on a European level.

In the annual meeting of the Baltic electronic communications and postal regulators, the regulators discussed the implementation of the Directive 2014/61/EU on measures to reduce the cost of deploying high-speed electronic communications networks. The participants of the meeting addressed the stimulation of investments in the broadband, provision of the universal postal service and other topical issues. Particular interest was showed regarding the Regulator's experience in organising frequency auctions.

The Regulator also actively participated in the 18th Baltic Electricity Market Forum and organised the 17th Baltic Electricity Market Forum where the Baltic and Finnish regulators, the three Baltic transmission system operators, other electricity market participants, ACER, NPS and representatives of the ministries discussed congestion management, the use of risk hedging instruments in the cross-border trade, implementation of REMIT and a number of other issues important for the region.

After the implementation of REMIT, the Regulator constantly participates in the NPS Regulatory Council and working groups where the wholesale electricity market supervision in the Nordic and Baltic region is one of the most important issues.

Regarding bilateral international cooperation projects, cooperation within TAIEX framework with the telecommunications regulator of the Kosovo Republic which has established a service quality system for voice telephony according to specification recommended by the Regulator must be especially emphasised. In the energy sector, the Regulator proposed to focus on the improvement of technical standards of the electricity transmission infrastructure and cooperated on this issue with the Estonian regulator.

9.
SERVICE TARIFFS AND TARIFF CEILINGS

With gradual liberalisation of public utilities markets, prices are increasingly determined by a free market and the share of regulated tariffs decreases.

In 2014, transmission and distribution service tariffs were regulated in the electricity sector with the exception of households for which electricity generation and trade tariffs were also determined. On 1 January 2015, the electricity market was fully opened to competition. Therefore electricity prices for households are no longer regulated, but are determined by market supply. Meanwhile the Regulator continues to set transmission and distribution service tariffs.

In the natural gas supply sector, the Regulator approves natural gas transmission, storage, distribution, and trade tariffs for JSC "Latvijas Gāze". Unlike district heating or water management sectors, free trade is being established in the natural gas sector in Europe. Therefore natural gas trade service is no longer regarded as a natural monopoly. The monopoly rights of JSC "Latvijas Gāze" in the natural gas supply sector are established by the privatisation agreement until 2017.

High market concentration is characteristic in the district heating sector and a district heating company is a natural monopoly, therefore the Regulator determines thermal energy generation, transmission, distribution, and trade tariffs. The Regulator does not regulate the activities of those companies whose facilities' installed capacity is smaller than 1 MW and the total volume of thermal energy delivered to users does not exceed 5,000 MWh/year. Similar situation exists in the water management sector – the Regulator sets water supply and sewerage service tariffs. If the volume of a service provided by a water management company does not exceed 100 thousand m^3 per year, the Regulator does not regulate the company's activities.

A different situation is observed in the electronic communications sector where the market was liberalised a few years ago. Therefore the final tariffs of electronic communications services are no longer regulated except for tariffs of fixed electronic communications services provided by "Lattelecom" Ltd. "Lattelecom" Ltd is the only company with significant power in the fixed retail electronic communications market and the fixed wholesale electronic communications market. To stimulate competition in the market, the Regulator determines the upper limit of interconnection and access (wholesale) tariffs and also monitors the application of roaming tariffs.

In the postal sector, the Regulator sets tariffs only for the universal service provider – state - owned JSC "Latvijas Pasts", while the provision of express mail and courier services is not regulated.

In the waste disposal sector, the Regulator determines tariffs for municipal waste disposal at landfill sites.

Electricity · Natural gas · District heating · Water management
Electronic communications · Postal services · Waste management

9.1. TARIFF CALCULATION METHODOLOGY

The procedure how public utilities tariffs are calculated and set is determined by the tariff calculation methodology. The methodology is developed and approved by the Regulator. The tariff calculation methodology is based on the principle to base tariffs only on those costs that are necessary for efficient provision of services.

Tariff regulation is stipulated for energy, electronic communications, water management and waste disposal sectors. The tariffs to be regulated and the methodologies to be developed by the Regulator are listed in the law "On Regulators of Public Utilities" and laws regulating the afore-mentioned sectors. 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 justified costs of companies,
- when setting a 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 in the tariff 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 the 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 in accordance with amendments to the normative acts. In 2014 Amendments were made to three tariff calculation methodologies.

- Amendments to the "Methodology for calculation of the charge for the use of public railway infrastructure for carriage" entered into force on 1 April 2014. Amendments to the methodology were made according to the requirements of the Railway Law in which new regulation of historical heritage railway was included. In accordance with the amendments, henceforth, the funding allocated by the State Railway Administration must be taken into account when calculating the charge for the use of infrastructure of the narrow-gauge railway line Gulbene-Alūksne.
- Amendments to the "Methodology on calculation of electricity transmission system service tariffs" made in February according to amendments in the Electricity Market Law in further tariff calculation do not include the costs incurred by payments for the guaranteed charge for the electric capacity installed in a plant. Amendments made to the methodology in December clarify the correction of costs applicable in case of unplanned factors enabling the application of the correction gradually over several years, as well as clarify the determination of profitability of a company's turnover. In accordance with this methodology, transmission system service tariffs are determined.
- Due to the setting of natural gas excise component, amendments to the "Methodology on calculation of cogeneration tariffs" were made in January. Amendments envisage the procedure of calculating the natural gas excise component.

9.2. TARIFF CHANGES

In 2014, the Regulator evaluated and approved 32 tariff proposals submitted by companies in the district heating, water management and municipal waste disposal sectors (see Figure 34).

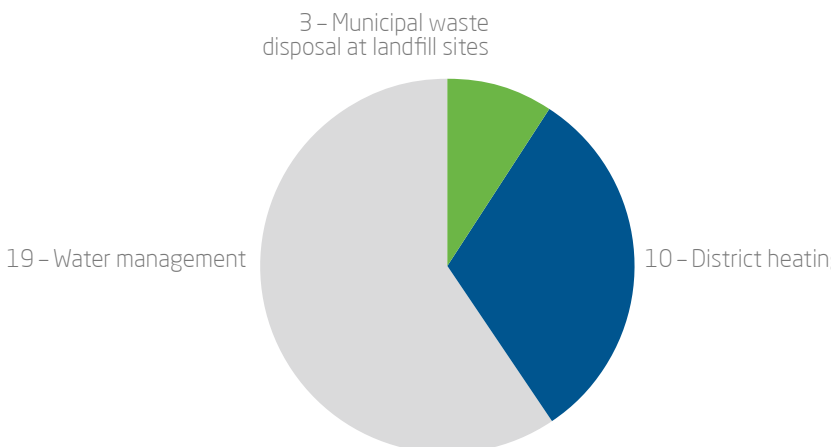


Figure 34. Public utilities tariffs approved by the Regulator in 2014, number

Tariffs in the electricity and natural gas sectors were not reviewed. Market prices of energy resources have a large share in the tariffs of energy sector (electricity, district heating, and natural gas supply) services. The market prices are characterised by continuous changes which are not always logical and predictable. Changes in market prices of energy resources resulted in changes in natural gas supply tariffs applied to users, as well as changes in district heating tariffs if natural gas is used in the production of thermal energy. Tariffs for companies are approved in a tabular form for a specific range of natural gas trade prices – if the natural gas trade price changes, so does the tariff applied to users.

Electricity Natural gas District heating

In the reporting year, regulated tariffs in the postal sector were not reviewed and changed. Call termination rates in mobile and fixed networks were reviewed and approved in the electronic communications sector.

In the electricity sector, the Regulator approves electricity distribution and transmission tariffs and mandatory electricity procurement components. A payment for electricity consists of the afore-mentioned electricity distribution and transmission service tariffs and the mandatory procurement component (MPC), as well as the electricity price.

The electricity price is not regulated and it is established in the wholesale power exchange NPS as a result of supply and demand. The only exception in the reporting year was households for which the electricity trader JSC "Latvenergo" applied tariffs approved in 2011. The "Start" tariff or payment for the first consumed 1,200 kWh was 11.64 euro cents/kWh including the 21% value added tax, while the payment for the next consumed kWh or "Basic" tariff was 15.54 euro cents. Electricity price made up only 24% in the household payment for electricity in the reporting year, while the electricity price made up 40-50% in the total payment for electricity for companies which buy electricity in a free market.

In 2014, transmission tariffs were not reviewed and AST applied differentiated tariffs of transmission system services approved by the Regulator in 2012. In November, the Regulator approved AST's rate of return on capital of 7.4% which is a basis for preparation of a new tariff proposal. At the end of December, AST submitted to the Regulator a new tariff proposal for electricity transmission system services which depending on the connection point of electrical installations to the transmission system anticipates a tariff increase from 3% to 9% while the increase in the charge for maintenance and development of transmission capacity is planned from 1% to 5%.

Tariffs of distribution system operators were not reviewed in 2014. ST applied distribution system service tariffs approved by the Regulator in 2011.

The Regulator also has to approve MPC. MPC is established within the framework of the mandatory electricity procurement by purchasing electricity from supported producers at a higher price compared to electricity procurement in the electricity market. MPC is reviewed once a year. From 1 April 2014, MPC approved by the Regulator is 0.02679 EUR/kWh, MPC for energy produced from renewable energy resources – 0.00942 EUR/ kWh and MPC for energy produced in cogeneration – 0.01737 EUR/kWh. Compared to 2013, MPC remained at the same level because the state budget in 2014 provided for a subsidy to cover the cost component of the mandatory procurement.

The Regulator approved the natural gas infrastructure service (transmission, storage, and distribution) and trade tariffs in 2008. Natural gas trade tariffs are set in a tabular form and when the natural gas trade price changes depending on the price of oil products in the commodity exchange, so does the natural gas trade tariff. Natural gas trade tariffs for households may change only twice a year – from January 1 and July 1, while for other natural gas users they can change every month.

The natural gas trade price continued decreasing in the context of global natural gas prices in 2014. The weighted average natural gas trade price in 2014 was 282.71 EUR/thousand nm^3 which is 11.3% lower compared with 2013 (see Figure 5 in Section 3.1 "Economic context"). Reduction in natural gas trade prices also positively impacted those district heating tariffs when thermal energy is generated by using natural gas.

In the district heating sector, the Regulator determines thermal energy generation, transmission, distribution, and trade tariffs. 60% of the regulated district heating companies work with the final tariffs approved by the Regulator. The remaining companies apply tariffs which were approved by municipal regulators. Companies whose final tariffs were approved by the Regulator make up 93% of the national heating market or 83% of the heating market if the market share of JSC "Rīgas Siltums" is excluded.

Evaluating the overall situation, we may conclude that 2014 was a beneficial year for users regarding district heating tariffs because tariffs decreased both as a result of falling natural gas trade prices and due to the measures of equipment modernisation and energy efficiency carried out by companies resulting in lower tariffs. In 2014, the Regulator approved district heating service tariffs of 10 companies.

All approved tariffs were reduced with the exception of the district heating tariffs in Balvi city. The district heating service tariff in Balvi city increased because the previously approved tariff did not cover the costs of provided services.

Tariffs approved in 2014 led to an overall reduction of annual costs for users amounting to more than 2 MEUR at constant energy prices. 30% of this benefit is a direct contribution by the Regulator during the process of tariff review without previous consultations and methodical cooperation with companies.

Similar to electricity and natural gas supply sector, the prices of energy resources in the district heating sector also significantly influence the final tariff of thermal energy because 65% to 80% of the final district heating tariff consists of thermal energy generation tariff. Overall, district heating tariffs which depend on natural gas trade price are determined for 30 regulated companies. When the natural gas trade price changes, so does the final district heating tariff which these companies must apply. The largest heating supplier in Latvia JSC "Rīgas Siltums" also uses natural gas in the production of thermal energy. The amount of heat delivered to users by JSC "Rīgas Siltums" makes up 55% of the heat delivered to final customers by all regulated companies. Figure 35 shows how the district heating tariff applied by JSC "Rīgas Siltums" changes according to the natural gas trade price.

Figure 35. Natural gas trade prices and the actual tariff applied by JSC "Rīgas Siltums" in 2013-2014, EUR/MWh (without VAT), EUR/thousand nm^3

Comparing the other capitals of the Baltic States, Riga has the lowest district heating tariffs in the Baltic States (see Figure 36).

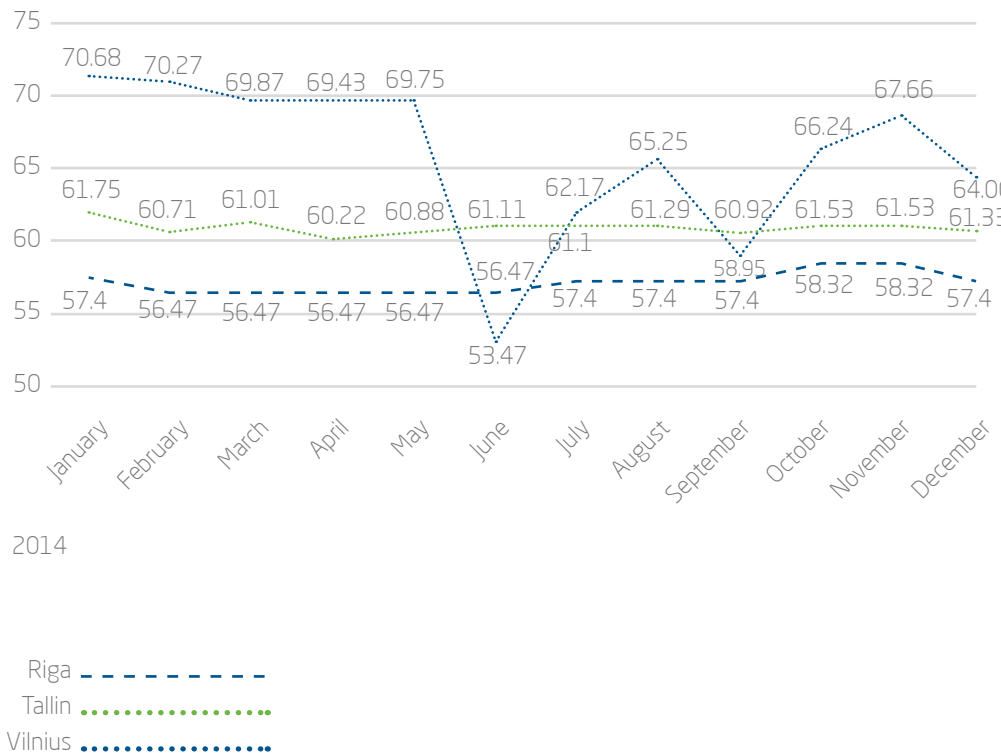


Figure 36. District heating tariffs in the capitals of the Baltic States in 2014, EUR/MWh, Source: The Baltic regulators

62% of the regulated companies at least partially use woodchips in the production of thermal energy. The prices of woodchips are highly scattered depending on quality, delivery distance and country region (see Figure 37), but over several years – depending on the demand volume and weather conditions.

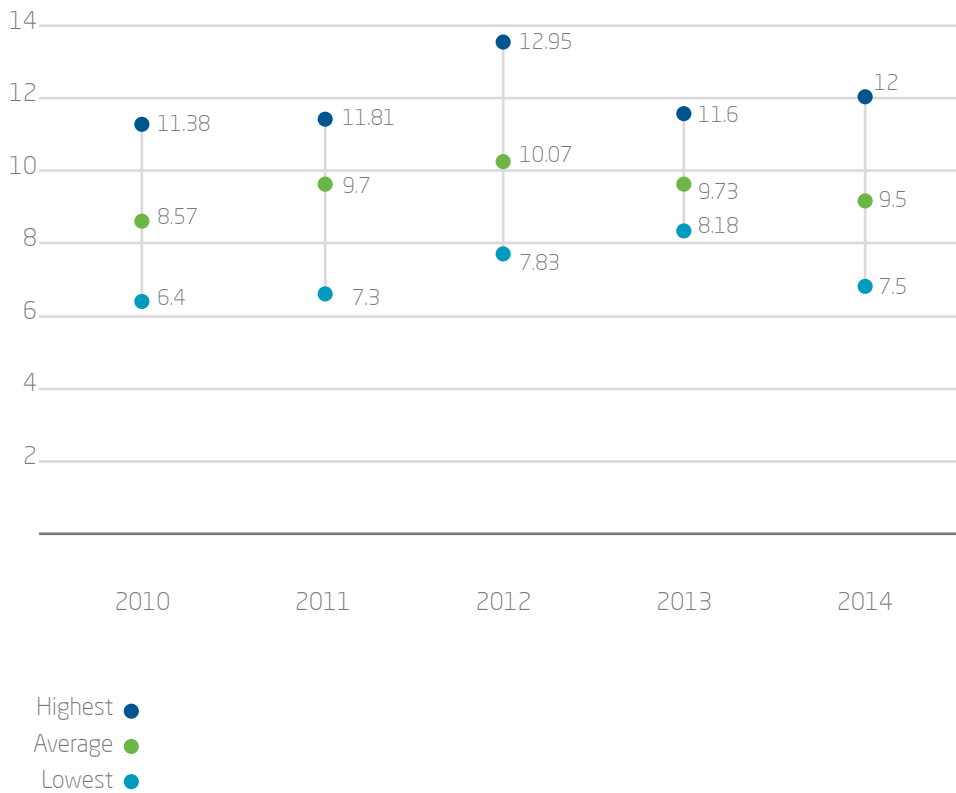


Figure 37. Woodchip prices in Latvia in 2010-2014, EUR/bulk m^3

In the water management sector, where the Regulator evaluates and approves tariffs since 2009, tariffs were approved for 19 companies in the reporting year. Due to the implementation of water management projects co-funded by the EU and improved service quality which leads to cost increase, tariffs grew objectively in this sector.

The total annual increase of expenditures for water users was 240 thousand euro in 2014. However, costs of water services in Latvia constitute only a small part of total household costs.

In the waste disposal sector, where the Regulator approves the tariff for municipal waste disposal at landfill sites, the approved tariffs for landfill sites in 2013 and 2014 range from 15.54 EUR/t to 28.44 EUR/t.

In 2014, the Regulator approved the municipal waste disposal tariff at the landfill site "Janvāri" in Talsi region managed by "Atkritumu apsaimniekošanas sabiedrība "Piejūra"" Ltd. The municipal waste disposal tariff was set at 28.44 EUR/t. During evaluation of the tariff proposal, after clarifying tariff forming costs and volumes of waste used for calculations, the tariff was reduced by 2% compared to the tariff proposal previously submitted to the Regulator. Municipal waste from Jūrmala city, Engure, Kandava, Jaunpils, Dundaga, Roja, Mērsrags, Tukums, and Talsi region is transported to the landfill site "Janvāri".

The tariff for municipal waste disposal at landfill site is only a fraction of the total cost for municipal waste management paid by waste producers. The total charge for municipal waste management to be paid by waste producers is determined by a local government by concluding a contract with a chosen waste manager in its administrative territory.

Also in the electronic communications sector, the Regulator implements the function of setting administratively regulated prices. Although intense competition is currently observed in the mobile voice telephony market, mobile operators with significant market power have an opportunity to set a higher rate for incoming calls in their networks for those operators which have a smaller or small number of users. To stimulate competition and prevent the abuse of significant market power, the Regulator based on market analysis data specifies companies with significant market power and approves the upper limit of call termination rate in individual mobile networks for these companies. It means that the Regulator sets the maximum rate for the mobile operator with significant market power which can be collected from mobile or fixed communications operators for calls made by their users to users of this operator.

On 19 March 2014, the Regulator adopted a decision to reduce inter-operator settlement tariffs in the mobile electronic communications network by 34%. From 1 July 2014, the upper limit of call termination rate in the individual public mobile phone network is set at 0.0105 euro per call minute, providing an opportunity for users to receive electronic communications services at lower prices. The decision is targeted at strengthening the competitiveness of small market participants by stimulating competition among service providers. In accordance with information collected by the EC, mobile communications service rates in Latvia are the third lowest in the EU; only the tariffs in Lithuania and Romania are lower.

The Regulator has calculated the upper limit of the call termination rate in the mobile telephone network based on the costs of an efficient company which were determined by using a comparative evaluation method. This method fits the market situation in Latvia and national circumstances. When setting the upper limit of the rate, the Regulator has assessed call termination rates in those EU member states which have implemented cost calculation models compliant with the EU Recommendation 2009/396/ EC and base their tariffs on efficient service provision costs. The average call termination rate in a mobile network among these countries is 0.0105 euro.

The Regulator similarly determines the upper limit of call termination rates in fixed communications networks. From 1 July 2014, the upper limit of call termination rate in the fixed telephone network is 0.00083 euro per call and 0.00076 euro per call minute, providing an opportunity for fixed communications users to receive communications services at lower prices. The decision was adopted to approximate the call termination rate with efficient costs of service provision.

When setting the upper limit of the call termination rate in the fixed telephone network, the Regulator has assessed call termination rates in those EU member states which have implemented cost calculation models compliant with the EU Recommendation 2009/396/EC and base their tariffs on efficient service provision costs, namely, France, Italy, Ireland, Malta, the Netherlands, Bulgaria, and Slovakia.

According to the EC Recommendation 2009/396/EC, the Regulator had determined a significant power and tariff regulation obligation in the call termination markets for 36 fixed communications companies and 15 mobile communication companies by 1 July 2014. From 5 November 2014, significant power in the call termination market and an obligation to comply with the upper limit of call termination rate was cancelled for 10 companies, while the obligation to comply with the upper limit of rates was set for 12 fixed communications companies from 8 December 2014.

On 1 July 2014, new roaming rates in the EU public mobile communications networks entered into force setting a lower maximum rate value for voice calls, SMS messages and data transmission (see Table 4). The new tariffs entered into force according to the Regulation No 531/2012 of the EP and of the Council on roaming on public mobile communications networks within the Union.

Service	Rate (excl. VAT)	Rate (incl. VAT)
Outgoing voice call minute	0.19	0.23
Incoming voice call minute	0.05	0.06
SMS message	0.06	0.07
Data transmission, 1 megabyte	0.20	0.24

Table 4. Roaming rates in public mobile communications networks in force from 1 July 2014, EUR

From 1 July 2014, mobile communications operators must ensure an option for final customers to choose services of an alternative or another roaming service provider. Such an option will only be available when a foreign operator will have concluded a service agreement with Latvian operators. The mobile service operators will inform about it on their homepages.

In the postal sector, the Regulator approves the tariffs of the universal postal service. The universal postal service provider – state-owned JSC "Latvijas Pasts" currently applies tariffs for domestic and international postal items approved by the Regulator on 24 October 2008.

10.
PROTECTION OF SERVICE USERS

10.1.

GENERAL AVAILABILITY OF SERVICES

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.

For public utilities to be available for everyone including low-income households and users in less populated regions, one of the most significant instruments of the national policy is the Universal Service (US). The US 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 Regulator has imposed the US obligations in the electronic communications and postal sectors.

The US 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.

Since 2003, the universal electronic communications service in Latvia according to the Regulator's decision is provided by "Lattelecom" Ltd on which a number of the US obligations and service quality requirements with specific parameters were imposed. Parameters of service quality and their values have been set for such electronic communications services in the US as voice telephony service in the fixed telephone network, fault reporting service 178, as well as the telephone directory enquiry service 1188. See Section 10.2 "Service quality" for more information.

In 2014, according to legal acts and after the analysis of the information submitted by the company, the Regulator confirmed that the provision of the US obligations has caused losses in the amount of 292,153 euro for the company in 2013 to be compensated from the state budget. The requirement to provide payphone services was excluded from the US obligations in 2014 taking into account technological developments and the popularity of mobile phones.

In the postal sector, the obligations of the US provision are imposed on the incumbent monopoly – the state-owned JSC "Latvijas Pasts". Although it was anticipated that the Regulator will choose the universal postal service provider by tendering procedure in 2014, amendments to the Postal Law of 5 June 2014 stipulated that a tender will not be organised and the Regulator shall extend the universal postal service obligations for the state-owned JSC "Latvijas Pasts" for five years. Thus, the state-owned JSC "Latvijas Pasts" has an obligation to deliver

letters, parcels and subscribed press to any address in Latvia at tariffs set by the Regulator within the universal service framework until 31 December 2019.

The weight of domestic and cross-border parcels included in the US obligations (excluding the parcels received from other EU countries) is set at 10 kilograms. According to the quality requirements of the US specified by the Regulator, the state-owned JSC "Latvijas Pasts" must ensure 618 locations for the provision of postal services and 1,063 mailboxes.

In the electricity sector, the operation of the US is regulated by the Electricity Market Law. If electricity producers, traders and distribution system operators with less than 100 thousand users connected to their distribution networks offer electricity to households, they also have an obligation to develop a US offer in accordance with the Electricity Market Law. The US conditions are stipulated in the Cabinet of Ministers "Regulations Regarding the Trade and Use of Electricity" of 21 January 2014 and it must contain have the following features:

- the electricity trade period is 12 months,
- the price of electricity shall remain unchanged throughout the electricity trade period,
- the user has the right to withdraw from the US before the end of the electricity trade period without the payment for early termination of the contract being applied.

In accordance with the Electricity Market Law, final customers, who have no valid electricity trade or balancing service agreement with any of electricity traders and who do not receive a US, are entitled to receive electricity within the framework of supply of last resort. The supply of last resort to final customers shall be ensured by a system operator or electricity trader selected by a system operator in accordance with the procedures laid down in the Electricity Market Law. In December 2014, 20% 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.

10.2.

SERVICE QUALITY

Quality of service as a complex concept is one of the 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.

In the electricity sector, the Regulator started regular measurements of voltage characteristics in public electricity networks in 2013 to monitor their compliance with the standard LVS EN 50160:2010 "Characteristics of voltage of public electricity supply networks". In the reporting period, the Regulator in cooperation with the staff of the system operator performed 52 measurements in cities and rural areas selecting priority locations of potentially critical quality in low voltage networks. Non-compliances with characteristics of electricity supply quality and voltage of electricity networks specified in the Standard were found in 44 cases or 85% of the performed measurements. Noncompliance with the characteristic "Flicker" (43 cases) was found most often, as were harmonic distortions for separate harmonics (19 cases). Considering the tactic chosen by the Regulator – to examine those locations in the electricity grid which have a high risk of critical quality, the measurement statistics for the year cannot be clearly generalised as the overall quality of electricity supply in Latvia. The Regulator performs measurements in accordance with the methodology indicated in the Standard for one week and non-compliance of any parameter with the Standard means an overall noncompliance of the measurement.

One of the most important parameters – frequency of supply voltage – fully conforms to the Standard and the main problem is a lowered voltage which must nominally be 230V and voltage fluctuations. In a number of measurement locations, especially in rural areas, the cause of this problem is long power lines built in the 1970s and designed for small loads (~1kW) which were sufficient at the time, however, the cross-section of wires for these lines is insufficient for capacities of modern electrical installations. Voltage fluctuations of 40-50 volts were registered in almost all measurements which formally comply with +10/-15% range specified by the Standard, but these fluctuations along with voltage fluctuations caused by temporary impact loads cause flicker which causes discomfort for visual perception. Flicker is the most frequently identified non-compliance with the Standard. Flicker is most perceptible when using incandescent light bulbs which are being replaced in most households by economic or LED bulbs for which such voltage fluctuations do not impact light output. Flicker does not have a significant impact on other electrical devices.

In all cases of non-compliance, the distribution system operators have submitted to the Regulator an action plan for eliminating non-compliances. In five cases, non-compliances were eliminated already in 2014. In three cases, non-compliances are planned to be eliminated in 2015. The other objects were put on a list of investment objects with inadequate voltage quality.

Users who receive electricity service which is non-compliant with quality requirements have a right to apply for a lower distribution service tariff. In 2014, a lower distribution service tariff was applied for 38 users. This is only one of the clear examples indicating a necessity to perform the monitoring of service quality in regulated sectors in Latvia.

When evaluating the service quality in regulated sectors, the electronic communications sector must be particularly mentioned. Latvia is among world leaders regarding average mobile and fixed Internet speeds available to users for several years which is affirmed by the research of "Ookla" company[5]. To maintain such quality level, the Regulator carefully follows all aspects of regulated service quality in the electronic communications sector, determines service quality parameters, their values and performs measurements to ascertain if quality requirements imposed for electronic communications services are complied with.

SERVICE QUALITY IN THE FIXED TELEPHONE NETWORK

When evaluating the quality of voice telephony services in the fixed telephone network, the Regulator analyses such parameters as the coefficient of unsuccessful calls, the average connection time and the average quality of voice transmission. Examining the results of measurements of voice telephony services, we see that the values of several parameter indicators, for example, the coefficient of unsuccessful calls and the quality of voice transmission in "Lattelecom" Ltd fixed telephone network have maintained invariably good quality.

In 2014, the Regulator performed measurements by choosing both connections with POTS technological solution and connections with IMS technology. Performing measurements of connection time for connections with IMS technology it was found that the connection time for the voice telephony service provided by "Lattelecom" Ltd had increased up to 6–8 seconds compared with the results from measurements for connections with POTS technology where the time is 1–2 seconds. Compared to previous years, the average connection time due to the change of the afore-mentioned technology has increased significantly approaching the boundary of the value specified in the US quality requirements – 1.9 seconds (see Figure 38).

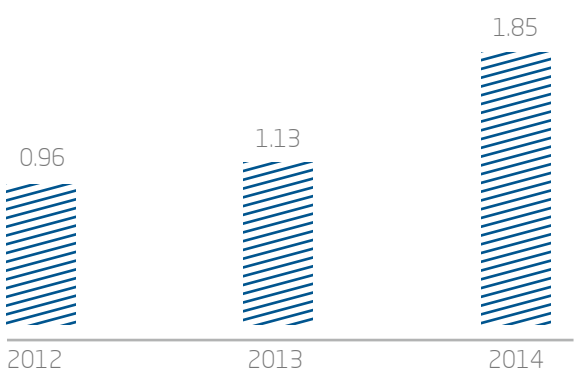


Figure 38.The average connection time in "Lattelecom" Ltd fixed telephone network in 2012-2014, seconds

[5]http://explorer.netindex.com/maps

When assessing the quality of fault reporting service and the telephone directory enquiry service, the Regulator determines such parameters as the average mean time to answer, as well as the number of calls answered within 20 seconds. Compared with the previous years, in the reporting year the average answer time of "Lattelecom" Ltd telephone directory enquiry service 1188 has increased and its value no longer complies with the limit of the parameter's value specified in the US quality requirements which is 10 seconds (see Figure 39). In turn, the non-compliances of separate indicators of the fault reporting service 178 are minor and have remained on the previous level. The Regulator will continue to analyse the detected non-compliances that are the most significant and the issues of eliminating non-compliances will be solved alongside the US provider.

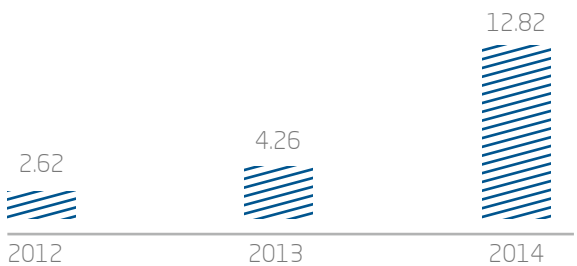


Figure 39. The average response time of the telephone directory enquiry service1188 in 2012-2014, seconds

SERVICE QUALITY IN THE MOBILE TELEPHONE NETWORK

Similar to previous years, the Regulator performed measurements of service quality in the networks of mobile electronic communications companies in 2014. The overall quality of voice telephony services is rated as very good in locations where a stable coverage of the mobile network is ensured. Only minor differences in the quality indicators of voice telephony services are observed in the mutual comparison of the companies' mobile telephone networks which attests to equivalent level of service quality for voice telephony services provided by all companies. When comparing also the quality indicators of voice telephony services between GSM/2G and UMTS/3G technologies used in mobile telephone networks, only minor differences were detected.

Indicators of SMS service quality have remained impeccable. Moreover, compared to the previous years, the delivery time of SMS messages has remained almost unchanged. The difference of the average delivery time is around one second. It attests to stable and impeccable operation of the SMS service in the companies' mobile telephone networks.

THE QUALITY OF INTERNET ACCESS SERVICE

The Regulator also pays a lot of attention to the monitoring of the quality of Internet access service. The measurements of the quality of Internet access service are performed simultaneously in the mobile networks of four operators - "Bite Latvija" Ltd, "Latvijas Mobilais Telefons" Ltd, "Tele2" Ltd, and "Telekom Baltija" Ltd in various freely selected geographical locations as uniformly as possible across the whole territory of Latvia. In the measurements of Internet service quality the Regulator determines such parameters as connection speed (download and upload), latency, jitter, and packet loss ratio.

Although mobile communications operators make significant investments to ensure the availability of higher Internet service connection speeds to more users, after evaluating Internet service connection speeds in "BITE Latvija" Ltd, "Latvijas Mobilais Telefons" Ltd, "Tele2" Ltd, and JSC "Telekom Baltija" mobile networks in different residential areas of Latvia, differences in options for Internet service reception were still observed (see Figure 40).

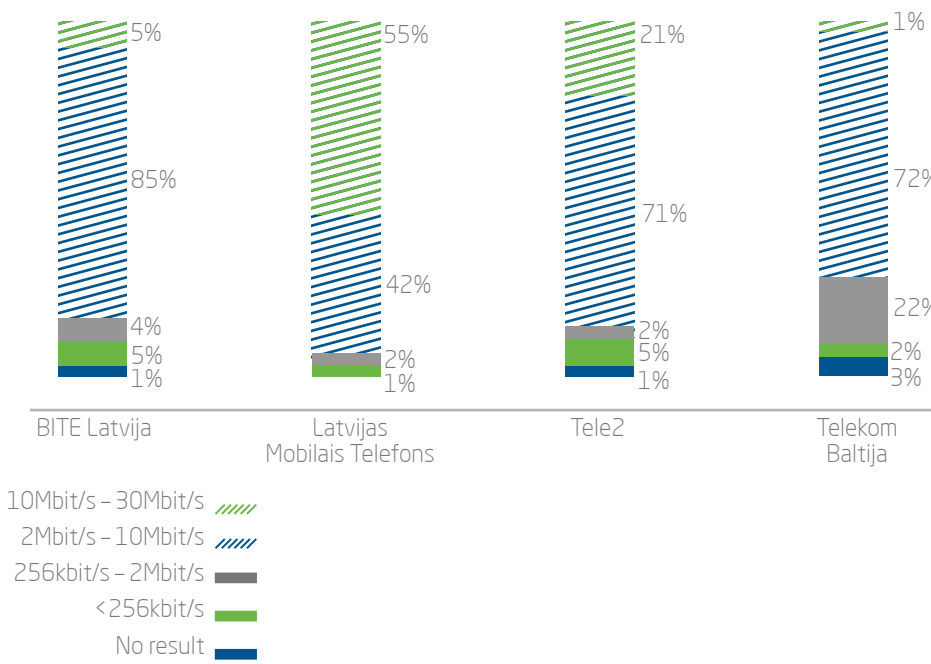


Figure 40. Percentage distribution of the results of measurements of download speeds in the territory of Latvia in 2014

The range of the connection speeds of the Internet services provided by "BITE Latvija" Ltd and JSC "Telekom Baltija" is comparatively uniform in Riga and the rest of Latvia ensuring equivalent opportunities for service reception in most locations where mobile communications network coverage is available. At the same time, examining measurement results in "Latvijas Mobilais Telefons" Ltd and "Tele2" Ltd mobile electronic communications networks, large differences among connection speeds available to users in different locations were observed due to the fact of gradual implementation of 4G data transmission technology and higher indicators of Internet connection speeds. Due to the development of 4G data transmission technology, users have an opportunity to receive the Internet service with the average connection speed of up to 20 megabits per second; however, considerable drops in the connection speeds are possible in the mobile electronic communications networks with any data transmission technologies, for example, due to congestion created by many simultaneous users of mobile Internet services.

The rapid growth of 4G data transmission technology is especially noticeable in Riga. In 2014, when performing measurements of Internet services in "Latvijas Mobilais Telefons" Ltd electronic communications network, 4G coverage was detected in all selected measurement locations in Riga. 4G coverage of "Tele2" Ltd in Riga was detected in 60% cases of all selected locations in Riga.

By performing around-the-clock measurements of the quality of Internet access service, the Regulator obtains information on the dynamics of changes in connection speeds in a specific location which also characterises the options of Internet service provision in the mobile electronic communications network depending on the load intensity in different time periods. The analysis of the data obtained from measurements shows that speed values in different times of the day are markedly different in locations where resources of the mobile electronic communications network are insufficient for a specific number of users or intensity of Internet use reaching a difference of up to 80% between the highest and lowest download speed limit. It means for a user that the quality of Internet service received at the moment or time period of the drop in connection speed is significantly different from the received service quality at those time periods when the overall user activity is low.

The overall quality of the Internet service is determined by the mutual interaction of many factors, including the afore-mentioned values of quality parameter indicators. Moreover, physical peculiarities of propagation of radio waves must be taken into account in addition to resource availability in various sections and segments of the mobile electronic communications network. The mobile network operators consider this and other conditions when planning and developing their electronic communications networks, especially investing in the development of 4G technologies at the moment although they have a differing territorial coverage for users of different operators.

In the postal sector, the Regulator inspects the quality of the universal postal service. In 2014, after examining information about the range and tariffs of the universal postal services available in 23 locations where the state-owned JSC "Latvijas Pasts" provides postal services, as well as information about the business hours of the locations of postal service provision, no violations were found. According to the US obligations determined by the Regulator, the state-owned JSC "Latvijas Pasts" operates 618 locations for the provision of postal services and 1,063 mailboxes in the territory of Latvia.

In 2014, the Regulator carried out the quality measurements of ordinary Class B letters examining if the specified quality parameter, namely, the delivery time of ordinary letters during weekdays is complied with. In accordance with obligations for quality requirements determined by the Regulator, ordinary Class B letter items must be delivered within three business days not including the business day when the item was handed over at an access point of a postal network or placed in a letterbox (until the last time the contents of the letterbox were collected). Within this time, the company must deliver at least 98% of all ordinary Class B letter items.

In 2014, after sending 1,000 control letters, 99.4% of all letters were delivered to addressees within the specified time period, therefore the universal postal service provided by the state-owned JSC "Latvijas Pasts" meets the imposed quality requirements.

In 2014, the state-owned JSC "Latvijas Pasts" provided for independent quality measurements of the Class A postal items in accordance with the requirements of the standard LVS EN 13850+A1:2007 "Postal services. Quality of services. Measurement of the transit time of end-to-end services for single piece priority mail and first class mail". In accordance with audit results of the state-owned JSC "Latvijas Pasts", 90.8% of all domestic Class A ordinary letters were delivered to addressees on the next business day which meets the quality requirements of the Standard.

The monitoring of the quality of services provided in the water management sector and compliance of water quality with requirements of normative acts is the responsibility of the Health Inspectorate stipulated by the Cabinet of Ministers regulations "Mandatory Harmlessness and Quality Requirements for Drinking Water, and the Procedures for Monitoring and Control Thereof" of 29 April 2003. During the inspection of companies, the Regulator ascertains if companies implement a drinking water monitoring programme and if agreements with laboratories to examine water quality were concluded.

10.3. USER APPLICATIONS AND COMPLAINTS

One of the Regulator's functions is a review of complaints of public utilities users. According to the procedure stipulated in normative acts, public utilities users first address a public utilities provider with their complaint and if the reply of a service provider is not satisfactory, a service user submits the complaint to the Regulator.

In 2014, 174 applications were submitted to the Regulator expressing claims about the actions of public utilities providers, the quality of public utilities, applied tariffs, settlements and other issues including issues that are not related to the Regulator's competence. In the electronic communications sector, one application often contains several claims against different service providers resulting in 70 claims or complaints in 59 applications received in 2014. Therefore we may assume that 185 complaints were submitted to the Regulator in 2014. Compared with 2013, the Regulator received 58 applications and 53 complaints less in the reporting year which can be explained by better cooperation between companies and users and that a large part of the complaints are solved without the Regulator's intervention. The number of received applications by sectors is shown in Figure 41.

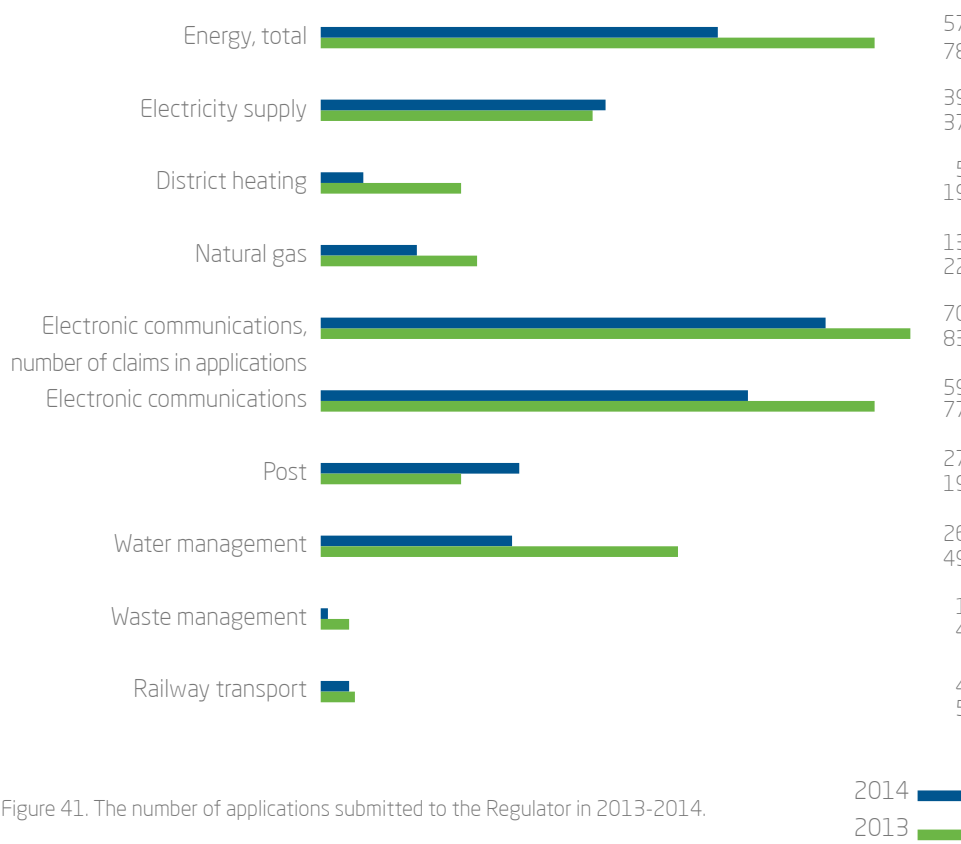


Figure 41. The number of applications submitted to the Regulator in 2013-2014.

Of all applications received by the Regulator, only 20 applications were submitted by legal persons; the rest of applications were received from natural persons. Also, applications were forwarded to other public authorities – the Consumer Rights Protection Centre, the Competition Council, and Ombudsman's Bureau etc.

To objectively evaluate a received complaint and determine the substantiation thereof, the Regulator requests additional information and explanations from utilities providers, inspects facilities and performs necessary measurements.

After evaluating all 185 complaints, the Regulators determined that 32 complaints were justified, while most complaints or 106 were unjustified. 38 complaints concerned issues that are not related to the Regulator's work and the Regulator provided explanations to nine persons about issues in the complaints (see Figure 42).

In addition to complaints received in a written form or by electronic means, the Regulator provides explanations to public utilities users by phone. Explanations provided by phone are not counted.

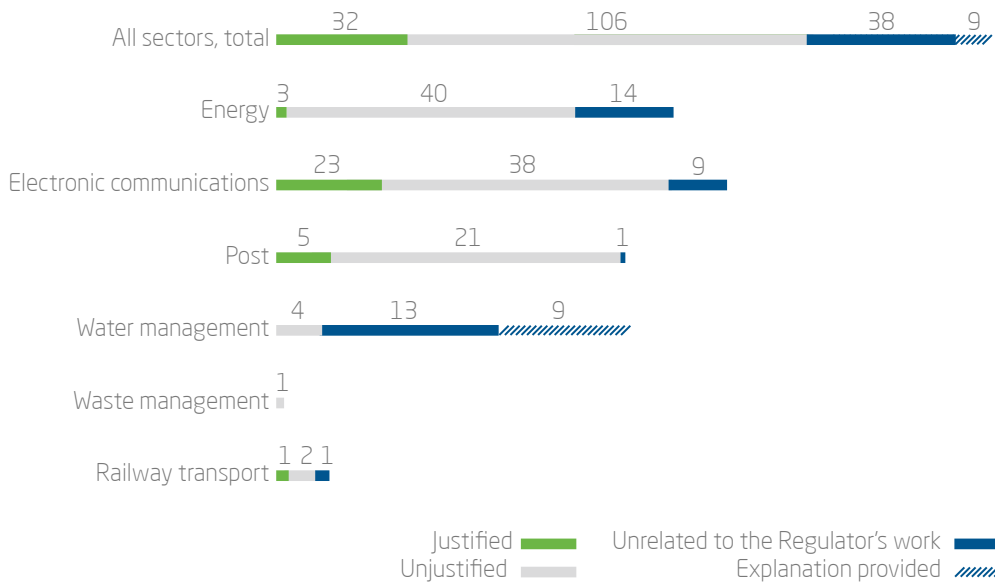


Figure 42. Distribution of complaints received by the Regulator in 2014 according to their justification

According to normative acts, the universal postal service provider in the postal sector and passenger carriers in the railway transport sector provide information to the Regulator about the number of directly received complaints and results of their assessment.

- As shown by information provided by the state-owned JSC "Latvijas Pasts", the company received and reviewed 779 complaints in 2014, of these, 115 complaints or 15% were justified.
- According to the information provided by railway passenger carriers, "Gulbenes-Alūksnes bānītis" Ltd and "LDZ CARGO" Ltd in 2014 have not received complaints about provided services. JSC "Pasažieru vilciens" received 51 complaints or three times less than in 2013.

11.
MANAGEMENT OF THE REGULATOR

11.1.

STRUCTURE AND ORGANISATION OF WORK

The Regulator's organisation of work and structure is stipulated by the law "On Regulators of Public Utilities".

According to the law, the decision-making institution is the Board of the Regulator consisting of the Chairman and four Board members appointed by the Saeima. The Chairman and Board members are appointed for a five year term. 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 2014, 43 board meetings were organised and 371 decisions were adopted.

The executive institution is subordinated to the Board and carries out the functions of the Board's secretariat and experts to prepare issues and documents for board meetings and implement the execution of the Board's decisions and issued administrative acts. The executive institution consists of the executive director, seven departments including a structural unit for each regulated sector and seven independent divisions including three regional divisions – Kurzeme, Vidzeme, and Latgale divisions.

On 31 December 2014 at the Regulator worked 121 employees. The number of employees has grown by three during the year. 96 employees work directly on the implementation of regulatory functions and 25 employees perform technical and administrative support functions.
The Regulators structure is shown in Figure 43.

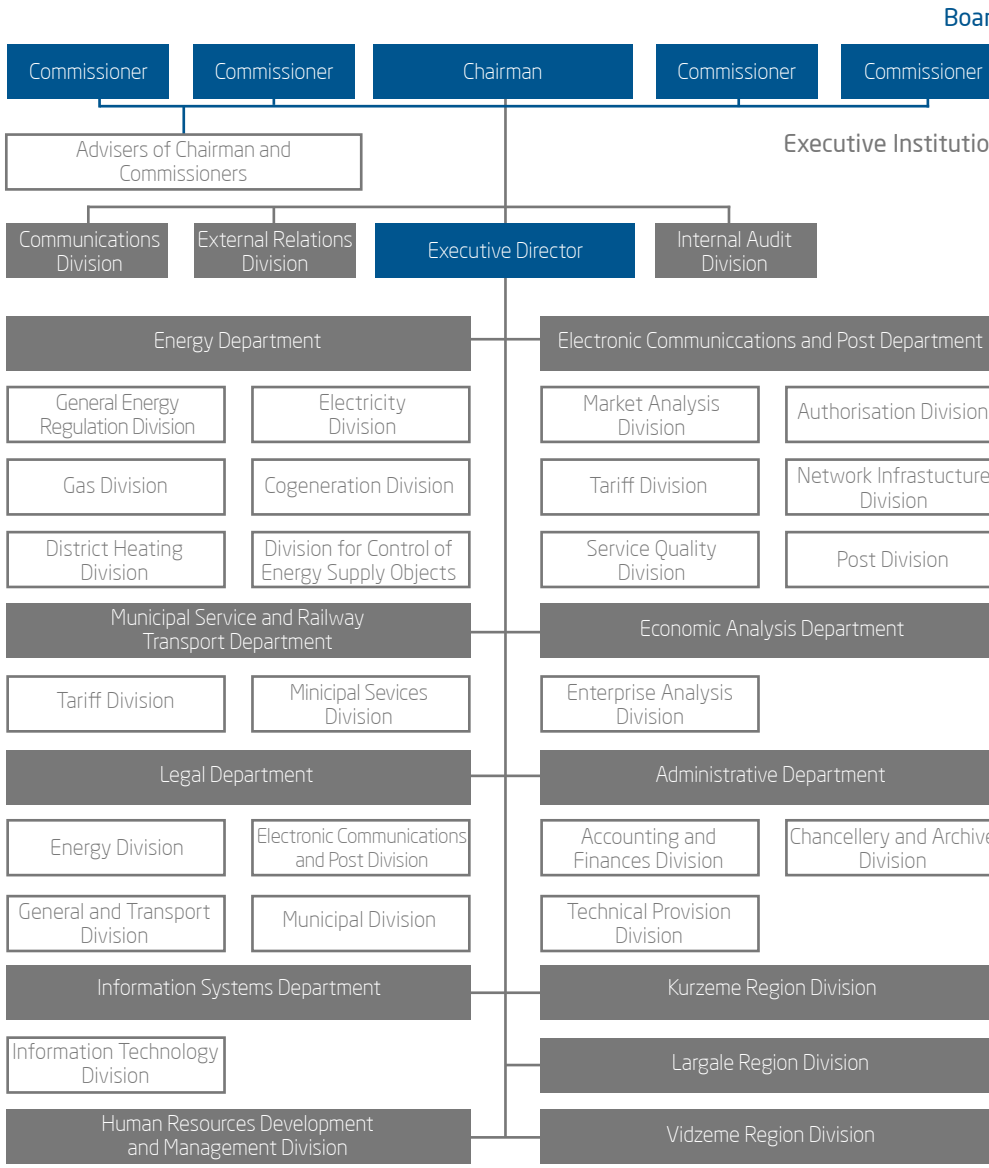


Figure 43. The Regulator's structure on 31 December 2014

In order to carry out regulatory functions, the Regulator's employees must be highly competent. 94% of the Regulator's employees have a university degree. Detailed information about the qualification of employees is shown in Figure 44. To maintain high capacity, the Regulator also supports various training events for employees. In 2014, 106 employees (more than 85% of the total number of employees) were involved in such events.

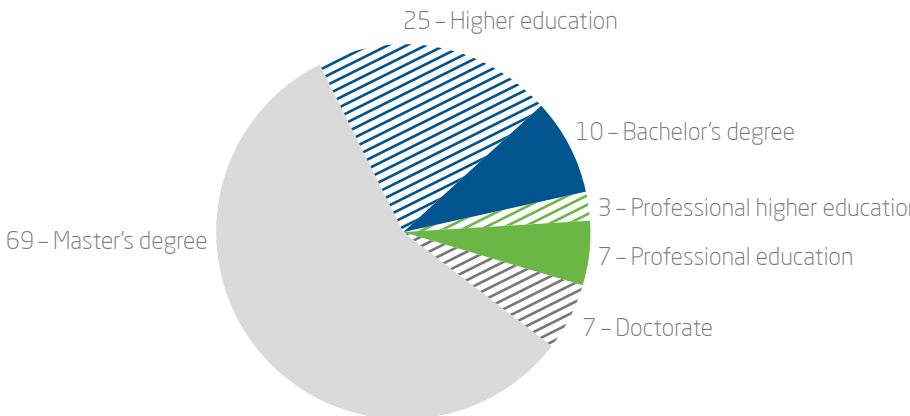


Figure 44. The qualification level of the Regulator's employees on December 31, 2014, number

Rating by regulated companies also confirms the Regulator's employees' adequate competence. The data of companies' survey performed by the research centre SKDS in March 2015 show that companies rate the competence and professional expertise of the Regulator's employees with 8.3 points on a 10-point scale (see Figure 45). The companies also rate highly the response of the Regulator's employees in solving problems of the companies – with 8.3 points.

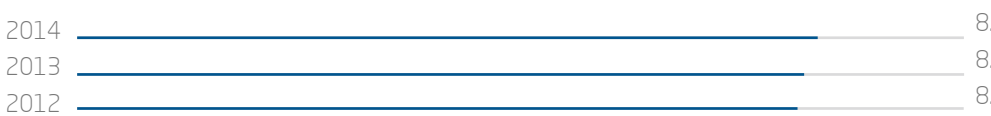


Figure 45. Rating of the competence and knowledge of the Regulator's employees by regulated companies in 2012-2014, points on a 10-point scale
Source: SKDS

To ensure and guarantee qualitative and efficient implementation of the Regulator's functions and minimise possible risks, the Regulator assesses regulatory processes and carries out internal control on a regular basis. System audits are planned and implemented by performing a risk assessment and analysis of each system. Most attention is paid to operational processes.

Seven planned audits of the Regulator were carried out in 2014. Three operational systems and four management and support processes were audited. 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 processes, informing about risks and sufficiency of 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 operational objectives are achieved.

After evaluating the facts found during audits, 18 recommendations have been developed of which 28% were classified as high priority recommendations. 13 high priority recommendations were implemented during the reporting year. To implement the remaining recommendations work is continuing. No facts were found which would negatively impact the Regulator's activities because the recommendations are related to further improvement of process quality and efficiency in the interests of companies and users.

To improve the exchange of information and use of information systems in the Regulator, in 2014 several measures were taken to improve information systems and infrastructure – on the development of the Companies' Information Input and Processing System a tender was completed successfully, a contract was concluded and the development of the system was started. The use of Office 365 cloud service was started using all the options provided by the service. Unified software was introduced, security audit was performed, computers and servers were updated, as were other information systems used by the Regulator.

11.2.

FINANCING AND SPENDING

In 2014, the Regulator carried out its activities in a separate budget programme approved by the law "On State Budget for the Year 2014".

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 2013.

The Regulator's planned expenditures in 2014 were 5,084,757 euro including the expenditures of 23,149 euro 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" and 1,306 euro 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 4,718,723 euro, which was 92.8% of the planned spending (see Table 5).

Article 31, Clause 2.4 of the law "On Regulators of Public Utilities" and paragraph 6 of the Cabinet of Ministers regulations "Regulations on the rate of the state fee for public utilities regulation and the payment procedure of the fee" of December 22, 2009 state 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.

At the end of 2014, the total surplus of financial resources was 669,285 euro consisting of actual surplus of financial resources of 276,182 euro in 2014 and the surplus of financial resources of 393,103 euro in 2013. Since the surplus of the Regulator's own income exceeding the actual surplus has been approved in the law "On State Budget for the Year 2014", the whole sum of 669,285 euro is being returned to public utilities providers in 2015 reducing the payment of the state fee proportionally to the amount of the paid state fee by each public utilities provider in 2014.

The Regulator's financial report 2014 was prepared in accordance with the Cabinet of Ministers regulations "Procedure for preparing an annual report" of October 15, 2013.

Financial report 2014 has been submitted to the Treasury. On March 18, 2015, the Regulator's annual report 2014 was audited without objections by "D. Daņēvičas revidentu birojs" Ltd (licence No.33 of the sworn auditor's commercial entity).

In 2014, in accordance with the Public Procurement Law the Regulator concluded 87 economic cooperation agreements and organised 23 public procurements.

No	Finances	2013 actual numbers*	2014	
			Defined by law	Actual numbers*
1	**Total revenues, incl.**	**4 824 630**	**3 804 172**	**3 714 321**
	Fee based services and other income	4 737 584	3 779 717	3 689 868
	Other previously unclassified income for special purposes	87 046	24 455	24 453
2	**Total spending**	**4 147 932**	**5 084 757**	**4 718 723**
2.1.	Administrative costs (total)	4 033 943	4 793 429	4 441 817
	International cooperation	27 257	25 765	25 765
	Other administrative costs	4 006 686	4 767 664	4 416 052
2.2.	Capital investments	113 989	291 328	276 906

* - in accordance with cash flow principle

Table 5. The Regulator's finances in2014, EUR

12.
THE REGULATOR'S PRIORITIES IN 2015

To ensure public utilities regulation and competition development across Latvia in energy, water management, municipal waste disposal, electronic communications, postal and railway transport sectors the Regulator in 2015 will continue to fulfil its basic tasks. To ensure continuous, safe and high-quality services for public utilities users in the regulated sectors at economically reasonable prices, the Regulator will continue to work on supervision of companies, quality control, participate in the working groups of international organisations, and the development of legal environment of the regulated sectors. The Regulator has also set a task to develop the Regulators operational strategy for 2016-2020.

DEVELOPMENT OF REGULATORY ENVIRONMENT

- Participation in the development of the amendments to the Electricity Market Law in relation to the implementation of the European Grid Code.
- Evaluation and approval of the Regulations on the use of natural gas storage, transmission and distribution system developed by the natural gas system operator.
- Development of proposals for an integrated review of the regulatory framework of the electronic communications sector.
- Participation in the progress of draft "Water Management Service Law" and development of amendments to related legal acts and subordinated draft legal acts.

- Participation in the progress of amendments to "Waste Management Law" and development of amendments to related normative acts and subordinated draft legal acts.
- Participation in the evaluation and development of legal acts to transpose the requirements of the Directive establishing a single European railway area.
- Participation in the development of the draft "Administrative Violations Procedure Law".

AUTHORISATION AND MONITORING OF COMPANIES

- Supervision of companies of the liberalised electricity market.
- Supervision of the activities of the electricity transmission system operator, assessment of the compliance with certification requirements.
- Supervision of fulfilment of obligations imposed on electronic communications companies.
- Supervision of the companies of the liberalised postal market.

PROMOTION OF MARKETS AND SUPPORT FOR COMPETITION

- Facilitating the liberalisation of public utilities markets.
- Evaluation and approval of the ten-year electricity transmission system development plan.
- Supervision of wholesale electricity market.
- Evaluation of the projects of common interest according to Regulation No 347/2013 on guidelines for trans-European energy infrastructure.
- Development of draft amendments to the Postal Law which will stimulate the opening of the postal network and further competition development in the sector.
- Review and determination of obligations for electronic communications companies with significant market power.

BALANCING AND HARMONISATION OF STAKEHOLDER INTERESTS

- Organising public hearings on tariff proposals.
- Organising public consultations on draft legal acts.
- More extensive explanation of the Regulator's adopted decisions.

REGULATION OF SERVICE TARIFFS

- Developing a methodology on the calculation of a price difference between the wholesale and retail electronic communications services.
- Assessment of the cost allocation model submitted by companies.
- Evaluation of tariff proposals submitted by regulated companies and setting of tariffs.
- Detailed analysis and examination of operational indicators of water supply companies in accordance with the model on evaluation of companies' efficiency and economic substantiation of tariffs.

PROTECTION OF SERVICE USERS

- Supervision of the universal service obligations for 2015 in the electronic communications and postal sectors.
- Supervision of the quality of public utilities provided by companies.

INDEPENDENT AUDITOR'S REPORT

SIA D. DANĒVIČAS REVIDENTU BIROJS

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NEATKARĪGU REVIDENTU ZIŅOJUMS

Latvijas Republikas Saeimai

Ziņojums par saīsināto finanšu pārskatu

Mēs esam veikuši Sabiedrisko pakalpojumu regulēšanas komisijas 2014. gada finanšu pārskata, uz kuru pamatojoties ir sagatavots saīsinātais Sabiedrisko pakalpojumu regulēšanas komisijas 2014. gada finanšu pārskats, revīziju saskaņā ar Starptautiskajiem revīzijas standartiem.

Mūsu 2015. gada 18. marta revidentu ziņojumā mēs sniedzām atzinumu bez iebildēm par Sabiedrisko pakalpojumu regulēšanas komisijas 2014. gada finanšu pārskatu, uz kuru pamatojoties ir sagatavots saīsinātais finanšu pārskats.

Mūsuprāt, iepriekš minētais saīsinātais finanšu pārskats visos būtiskos aspektos atbilst sabiedrisko pakalpojumu regulēšanas komisijas 2014. gada finanšu pārskatam, uz kuru pamatojoties ir sagatavots saīsinātais finanšu pārskats.

Lai gūtu pilnīgāku priekšstatu par Sabiedrisko pakalpojumu regulēšanas komisijas finansiālo stāvokli 2014. gada 31. decembrī, tās 2014. gada darbības rezultātiem un mūsu veiktās revīzijas darba apjomu, iepriekš minētais saīsinātais finanšu pārskats būtu jāvērtē kopā ar Sabiedrisko pakalpojumu regulēšanas komisijas 2014. gada finanšu pārskatu, uz kuru pamatojoties ir sagatavots šis saīsinātais finanšu pārskats, un attiecīgo mūsu revidentu ziņojumu.

SIA D. Daņēvičas revidentu birojs(licence Nr.33) vārdā:

Dagnija Daņēviča, valdes locekle, zvērināta revidente, sertifikāts Nr 72

2015. gada 18. martā, Rīgā, Tērbatas ielā 6/8-75

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