



SABIEDRISKO
PAKALPOJUMU
REGULĒŠANAS
KOMISIJA

Annual Report 2016

Public Utilities Commission of Latvia

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1. Terms, abbreviations

ACER – Agency for the Cooperation of Energy Regulators

Ad hoc – for this

AST – joint-stock company “Augstsprieguma tīkls”

BALTREG - Baltic Electronic Communications and Postal Regulator

BEREC – Body of European Regulators for Electronic Communications

CACM – Commission Regulation establishing a guideline on capacity allocation and congestion management

CERP - European Committee for Postal Regulation

CSB – Central Statistical Bureau of Latvia

EaPeReg – Eastern Partnership Electronic Communications Regulators Network

EC – European Commission

Entso-E - European Network of Transmission System Operators

EP – European Parliament

ERGP - European Regulators Group for Postal Services

ERRA - Energy Regulators Regional Association

EU – European Union

EUR – euro

GDP - Gross Domestic Product

GHz – gigahertz

HHI –Herfindahl–Hirschman Index

JSC – joint-stock company

LNG terminal - liquefied natural gas terminal

Ltd - limited liability company

m³ – cubic metre

MPC - mandatory procurement component

MW – megawatt

MWh – megawatt hour

NGO - non-governmental organisation

nm³ - normal cubic meter

OECD – Organisation for Economic Cooperation and Development

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”

t – ton

TAIEX – Technical Assistance and Information Exchange Unit

THD – total harmonic distortion

TSO - transmission system operator

US - Universal Service

VAT – value added tax

WAREG - European Water Regulators

2G – second generation mobile communications technology

3G – third generation mobile communications technology

4G – fourth generation mobile communications technology

Regulator's Chairman of the Board

Rolands Irklis



Year 2016 was a year of changes and big challenges for the Regulator. On 25 February 2016, the Parliament (Saeima) of the Republic of Latvia appointed the previous Board member Rolands Irklis as the Chairman of the Board, as well as four new Board members – Gatis Ābele, Rota Šņuka, Imants Mantiņš and Intars Birziņš. The new Board members are high-level professionals with experience in the areas of public administration, energy, postal service and supervision of competition. From the outset, the new Board members were actively involved in solving

topical issues and contributed greatly to the execution of regulatory functions.

In 2016, the Regulator made adjustments to the budget plan due to insufficient financial resources. A very significant decrease in the turnover of regulated companies was observed over the last four years leading to a significant reduction in the actual revenues of the Regulator from the state fee levied on the regulated companies. To continue the execution of the fundamental objectives and ensure high-quality regulation of public services, the Regulator decided to significantly reduce cost items. 20 redundancies (15% of the workforce) were carried out, the Regulator's regional units were closed, mission expenditures were cut by 34%, expenditures for employees' training and required procurements were reduced.

Although the Regulator carried out austerity measures, the Organisation for Economic Co-operation and Development (OECD) gave a positive assessment of the current fulfilment of the Regulator's functions and processes. In September 2016, the OECD finished work on the report "Improvement of the Operational Results of the Public Utilities Commission of Latvia" and provided recommendations for future activities of the Regulator. At the same time, the OECD report contains recommendations for strengthening the Regulator's financial independence and stability and options to improve the existing regulation of the

sectors. The Regulator is working on the implementation of these recommendations in cooperation with the Ministry of Economics.

In 2016, the Regulator adopted several important decisions in the regulated sectors. Last year new tariffs for JSC “Sadales tīkls” electricity distribution system services were approved which approximate the tariff structure to the service cost structure. The Regulator adopted such a decision to incentivise users to choose more appropriate capacities and avoid overpaying for inefficiently burdened infrastructure.

Last year the Regulator also set the historically lowest profit margin or the rate of return on capital for tariff calculation in natural gas, electricity and water management sectors. Such changes were made so that the maximum profit margin permitted for companies from the value of fixed assets used for service provision is justified.

At the beginning of 2016, the Regulator actively participated in the review of amendments to the Energy Law in the Saeima (Parliament) of the Republic of Latvia in relation to the opening of the natural gas market. Meanwhile, after the adoption of the law, the Regulator began active work to prepare all secondary legislation for successful opening and operation of the natural gas market.

In the electronic communications sector, year 2016 was highlighted by significant changes in the regulation of roaming tariffs. In accordance with the European Union Regulation of 25 November 2015, during the transition period from 30 April 2016, mobile communications operators had the right to apply a domestic tariff with additional charge to roaming services which did not exceed the determined (maximum) price. Meanwhile, after the transitional period, as of 15 June 2017, the “Roam Like At Home” principle or cancellation of additional roaming charges was fully implemented. The national regulatory authorities had an important supervisory role in this process so that the Regulation was introduced properly, and operators would comply with it.

The year 2016 in the thermal energy sector was highlighted by tariff reductions linked both to the reduction of the natural gas trade price and the careful evaluation of the tariffs

submitted to the Regulator. Last year, the Regulator evaluated and approved 12 thermal energy tariff proposals.

Meanwhile, in the water management and waste disposal sector, the number of customer complaints about service provision decreased considerably; this is explained by improved quality of provided services resulting in less problem situations.

2. The Regulator's functional tasks

The Public Utilities Commission's (Regulator) **mission** is to independently and reliably ensure the balancing of the interests of service users and providers by promoting the development of public services. The Regulator's **vision** is to become one of the most reliable and open public authorities by implementing new regulatory frameworks and improving the existing ones.

The Regulator's decision-making body is the Board which adopts decisions and issues administrative acts that are binding for the providers and users of public services. The Saeima (Parliament) of the Republic of Latvia appoints the Regulator's Chairman and four Board members.

The Regulator's Chairman of the Board Rolands Irklis took office on 25 February 2016. The Board member Gatis Ābele took office on 25 February 2016, while Imants Mantiņš, Rota Šņuka and perform the duties of Board members since 2 July 2016. More information about the Regulator's structure and work organisation is available in Section 16.1 "Structure and work organisation".



Rolands Irklis



Gatis Ābele



Imants Mantiņš



Rota Šņuka



Intars Birziņš

The Regulator's Board has defined several strategic lines of action 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 service providers, compliance with requirements of license and general authorisation

conditions, specific quality requirements, technical regulations, standards, and contract provisions;

- **quality control** – to perform measurements of the quality of regulated services to protect user interests, promote the development of public utilities providers and ensure continuous improvement of the quality of public services;
- **participate in 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 the new functions of regulators of the member states;
- **development of the legal framework of regulated sectors** including development and implementation of regulatory methods and the comparative approach in order to improve the operational efficiency of service providers;
- **development and operational efficiency of the Regulator** – to improve competencies, expand communication, simplify processes 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 consumers and promote the development of providers of public services,
- 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 services,
- to supervise the compliance of provided services with the requirements of licences and general authorisations, specific quality requirements, technical regulations, standards, and contract provisions,
- to examine disputes,
- to inform the public about the Regulator’s activities and the activities of providers of public services;
- to provide information and proposals on regulatory issues to ministries responsible for the regulated sectors at their request.

When implementing the Regulator's **mission** and **strategic lines of action**, as well as taking into account changes in sector policy, the Regulator is more actively addressing the improvement of regulatory functions. In recent years, the development of public utilities markets is mainly related to their gradual liberalisation; this creates new obligations for the Regulator within the existing sectors and services.

3. The Regulator's operational priorities in 2016

In 2016, the Regulator continued carrying out its fundamental objectives to ensure public service regulation and competition development throughout Latvia in energy, water management, municipal waste disposal, electronic communications, and postal sectors. To ensure an opportunity for public service users to receive continuous, safe and high-quality services in the regulated sectors at economically justified prices, the Regulator continued the ongoing work of company supervision and quality control by participating in the work of international organisations, as well as the development of the legal environment of the regulated sectors. At the same time, the Regulator continued the ongoing work on the development of the Regulator's operational strategy for 2017-2020.

For the development of the regulatory environment

- Participation in the development of the amendments to the Electricity Market Law regarding the implementation of the European network code.
- Preparation and approval of legal acts by the Regulator during the opening of the natural gas market, as well as evaluation and approval of the regulations developed by the natural gas system operator.
- Preparation of proposals for the complex review of the regulatory framework in the electronic communications sector.
- Preparation of the draft amendments to the Postal Law which will contribute to the opening of the postal network and promote the development of competition in the sector.
- Participation in the preparation of amendments to legal acts related to the Water Management Service Law.
- Participation in the preparation of amendments to the Waste Management Law.
- Participation in the preparation of the draft "Administrative Violations Procedure Law".

For authorisation and supervision of companies

- Supervision of companies in the electricity market.
- Supervision of activities of the electricity transmission system operator; evaluation of compliance with certification requirements.

- Supervision of the fulfilment of obligations imposed on electronic communications companies.
- Supervision of companies of the postal market.

For promotion of markets and support for competition

- Evaluation and approval of the ten-year electricity transmission network development plan.
- Supervision of the wholesale electricity market.
- Evaluation of the projects of common interest in accordance with the Regulation No 347/2013 on guidelines for trans-European energy infrastructure.
- Review and determination of obligations for electronic communications companies with significant market power.

For balancing interests of stakeholders

- Organising public hearings on tariff proposals.
- Organising public consultations on draft legislative acts.
- More extensive explanation of decisions adopted by the Regulator to the public.
- Examination of complaints of users and market participants.
- Examination of disputes between users and service providers.

For regulation of public utilities tariffs

- Preparation and approval of the methodology on calculation of the price difference of electronic communications wholesale and retail services.
- Evaluation of the cost allocation model submitted by companies.
- Evaluation of tariff proposals submitted by regulated companies and setting of tariffs.

For protection of service users

- Supervision of obligations for the universal service (US) in electronic communications and postal sectors in 2016.
- Supervision of the quality of public services provided by companies.

4. Public service sectors in economic context

Public service sectors supervised by the Regulator are closely integrated in the overall national economy. Consequently, not only does the development of the regulated sectors affect the overall development of the national economy, but also any changes related to economic activity have an impact on the usage of public services.

4.1. Gross domestic product

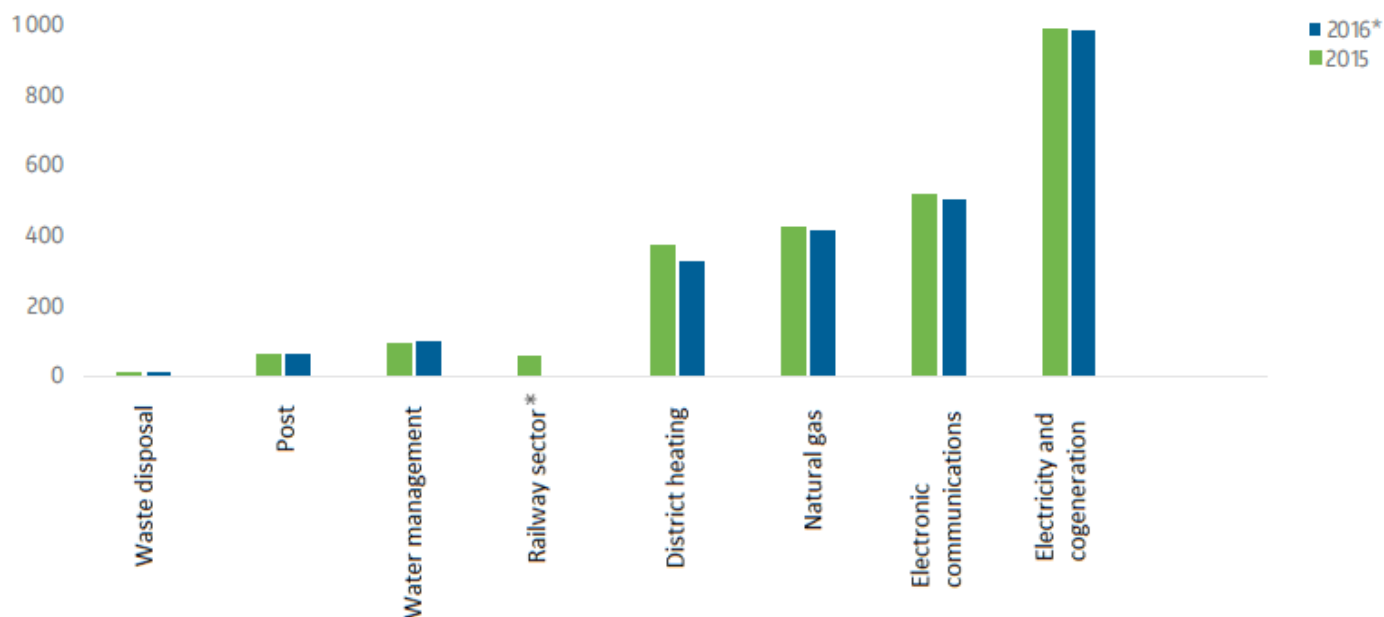
Gross domestic product (GDP) in 2016 when compared with 2015 increased by 2.0%. The volume of GDP in current prices was 25 billion EUR. In 2016, the regulated companies whose activities are supervised by the Regulator represented the sectors of electricity, gas, district heating, water supply, sewerage and waste management, electronic communications and post, as well as railway transport (until 10 March 2016¹).

4.2. Turnover of regulated sectors

The net turnover of regulated services calculated by using unaudited data of reports submitted by regulated companies was 2 664 million EUR in 2016 – 0.6% less than in 2015. In 2016, the net turnover of regulated services increased in the waste disposal sector (by 15%), postal sector (by 11.6%), water management sector (by 4.4%), electricity and cogeneration sector (by 0.9%). In 2016, the district heating sector experienced the largest decrease of the net turnover (by 9.2%) while it decreased by 3.0% in the electronic communications sector and by 1.2% in natural the gas sector.

¹ In accordance with the amendments to the Railway Law, the Regulator's functions in the railway transport sector were transferred to the State Railway Administration, JSC "LatRailNet", the state LLC "Autotransporta direkcija", and the State Railway Technical Inspectorate.

Revenues generated from regulated services for which a fee is applied (by sector, million EUR)



* In accordance with amendments to the Railway Law, a fee for public services regulation was not levied on the net turnover of the regulated services in the railway sector in 2016, while in accordance with amendments to the Electricity Market Law, a fee for public services regulation was levied on the revenues of the electricity system owner (JSC “Latvijas elektriskie tīkli”) and the public trader (JSC “Enerģijas publiskais tirgotājs”) from 1 July 2016.

4.3. Remuneration in regulated sectors

In 2016, the average monthly gross wage in the electronic communications and energy sectors was much higher than the average gross wage in the country; however, it was lower in the water and waste management, postal and courier sectors. The average gross wage in Latvia increased by 5.0% when compared with 2015. The average gross wage also increased in the regulated sectors in 2016 with the exception of the electronic communications sector: it increased by 6.7% in the water and waste management sector, by 4.2% in the energy sector, and by 16.0% in the postal and courier sector. The average gross wage decreased by 1.4% in the electronic communications sector.

The average monthly gross wage in public utilities sectors in 2016, EUR



Source: Central Statistical Bureau

4.4. The impact of regulated prices on inflation

According to the data provided by the Central Statistical Bureau of the Republic of Latvia, in 2016, services with administratively regulated prices made up 11.08% of all household expenditures (goods and services in the consumer price index basket). In this list, administratively regulated prices include both regulated public services and various other regulated services.

	Share in expenditures of residents	Price increase (2016 XII vs 2015 XII)	Inflation component (percentage points)
<u>Regulated public services</u> (natural gas, thermal energy, regulated voice telephony services, general postal services, water supply, sewerage services, waste collection)	6.95%	-1.8%	-0.12
<u>Other regulated services</u> (compensated medication, patient's fee, passport issuance fee, car parking, notary services, passenger transport, pre-school education, etc.)	4.13%	1.9%	0.08
Administratively supervised and regulated prices, total	11.08%	-0.4%	-0.04
Consumer Price Index (inflation), total	100%	2.2%	2.2

In 2016, compared to the previous year, the overall increase of the consumer prices was 2.2%, while the administratively regulated prices decreased by 0.4%. The prices of regulated public services decreased by 1.8% while other regulated service prices grew by 1.9%

compared to December 2015. The administratively regulated prices lead to the overall reduction of the consumer price index by 0.04 percentage points.

In the sectors regulated by the Regulator, regulated voice telephony service prices grew most rapidly (by 57.2%) in 2016, water management service prices also increased (by 2% for water supply and 2.8% for sewerage services). Meanwhile, a decrease in the prices of energy resources in world markets resulted in reduced prices of natural gas (by 14.8%) and thermal energy (by 5.9%). A decrease of service prices in regulated sectors in 2016 reduced the overall consumer price index by 0.12 percentage points.

4.5. Market concentration level (HHI indices)

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. Public utilities providers' data on the net turnover in sectors and according to types of provided services characterise the market concentration level. The market concentration level may be evaluated by using for the calculation the net turnover of companies according to service types in each regulated sector. Herfindahl–Hirschman Index (HHI) is calculated by determining market participants' squared market share in percentage terms. If HHI value is smaller than 0.18, but larger than 0.1, such a market may be regarded as moderately concentrated. HHI value above 0.18 indicates that the market is concentrated.

The market concentration in the electronic communications sector can be evaluated as moderately concentrated in previous years – the index value is stable and fluctuates around 0.16. The market concentration in the postal sector is rather stable with a trend to decrease slightly and it reached 0.275 in 2016 which indicates that the market is concentrated. Meanwhile the index value for electricity trade decreased to 0.667 in 2016 which is related to the activity of households in the open electricity market with an opportunity to choose from the offers of several electricity traders.

Sector	2015	2016
Electricity trade	0.670	0.667
Electronic communications	0.156	0.158
Post	0.305	0.275

5. Public service sectors in social context

Public services must be available across the country and their prices must not be a significant barrier for the reception of services – this process is supervised by the Regulator.

5.1. Household expenditures

In accordance with the CSB data, the total household consumption expenditures in 2015² on average for one household member were 3789.32 EUR per year (315.78 EUR per month). The information compiled by the CSB about household expenditures according to service types indicate all household expenditures related to the relevant service and include different unregulated services (taxes, expenditures of building managers, services provided by unregulated service providers, services at negotiated prices) whose numerical quantity or share cannot be precisely determined. Expenditures of household consumption according to service types are shown in the table indicating the total average expenditures on different services for households which use the relevant services and the households that do not.

Household consumption expenditures in 2015, EUR

Service type	Average expenditures of one household member per month	
	EUR	Share in total expenditures
Total household consumption expenditures	315.78	100.0%
Electricity	11.18	3.5%
District heating	7.93	2.5%
Mobile phone services	5.77	1.8%
Gas	3.68	1.2%
Hot water supply	2.96	0.9%
Collection of sewerage wastewater	1.86	0.6%
Water supply	1.89	0.6%

² The 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 2015 are used in the report.

Waste collection	1.66	0.5%
Landline phone services	0.45	0.1%
Postal services	0.07	0.02%

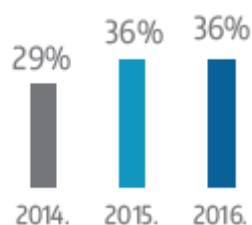
5.2. Assessment by the residents

Public utilities regulation means the balancing of interests of users and service providers based on the assessment of economically justified tariff proposals and taking into account the development trends of the sector.

To ensure this, when performing functions determined by the law, the Regulator not only supervises the activities of companies and protects the interests of public service users but also explains current developments in the regulated sectors. It is also consistent with the results of a study³ performed by Market and Public Opinion Study Centre SKDS (SKDS) in March 2017 which indicate that almost half of respondents (44%) think that one of the Regulator's tasks is to protect the interests of residents. 61% of the respondents in Latvia point out that the Regulator is necessary. A growing number of respondents think that the Regulator exercises its powers sufficiently to influence the prices of regulated public services.

The Regulator sufficiently uses its ability to influence the prices of regulated public services

(Answering the question – in your opinion, does the Regulator sufficiently uses its ability to influence the tariffs of regulated public services (heat tariffs, water tariffs, electricity transmission and distribution tariffs, tariffs of waste disposal at landfills)?)

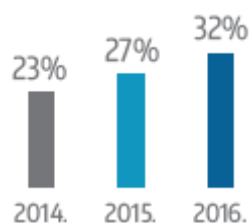


The share of respondents who rate the Regulator's work as good also increases every year.

³ The Regulator's image in the opinion of the public, a survey of residents of Latvia by SKDS. Geographical coverage: all regions of Latvia (127 sampling points). Achieved sampling: 1,003 respondents. Time of the survey: 31 March 2017 - 12 April 2017.

Respondents who rate the Regulator’s work as “good”

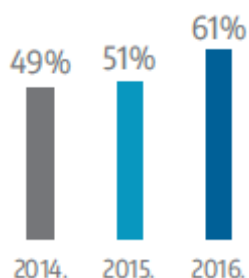
(Answering the question – taking into account all the information you have, how would you rate the Regulator’s work?)



The results of the survey indicate that the number of respondents who think that the Regulator is necessary grows every year.

Respondents who think that the Regulator is necessary

(Answering the question – in your opinion, how necessary is the Regulator?)



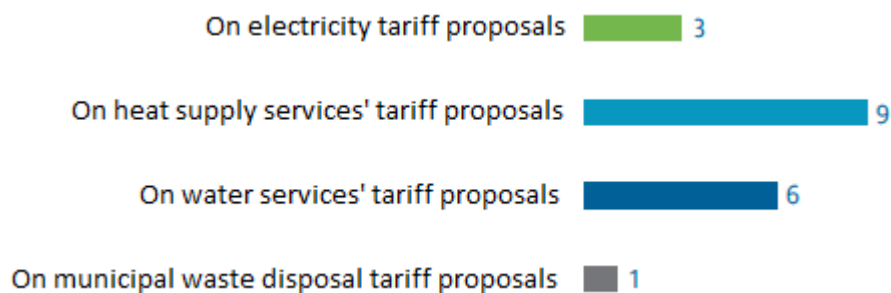
5.3. Social involvement

Before adopting significant decisions, the Regulator finds out the opinion of stakeholders – public service users, companies, authorities, organisations and other interested parties. This process is open and public.

In 2016, as in previous years, the tariffs of public services were the most significant topic in the public’s opinion. One way how the Regulator informs and involves the public and other stakeholders in the evaluation process of tariff proposals is organising public hearings. Public hearings on companies' tariff proposals are a significant part of tariff approval process; a public hearing is organised at a location chosen by a service provider which is freely accessible to service users - municipality, village, region or city.

In 2016, a total of 19 public hearings were organised including 18 hearings about tariff proposals. One public hearing was organised regarding the ten-year electricity transmission system development plan submitted by JSC "Augstsprieguma tīkls".

Public hearings organised by the Regulator in 2016



In 2016, to promote more extensive involvement of the society and non-governmental organisations, the Regulator continued informative campaigns in specific regions about organising public hearings – by developing explanatory materials and disseminating information in both traditional and social media. In 2016, all 19 organised public hearings were attended.

To receive answers regarding unresolved issues, residents have an option to address the Regulator by phone or write to the official e-mail address. In addition to issues concerning the Regulator's competency, employees also provide individual consultations.

6. Natural gas

The Regulator supervises the natural gas supply sector including natural gas storage, transmission, distribution and trade.

6.1. Supervision of companies

Supervision of public service providers is one of the functions permanently performed by the Regulator. In accordance with normative acts, the Regulator systematically supervises the activities of companies by directly inspecting companies' facilities and analysing the information provided by companies.

In the natural gas sector, only one vertically integrated company operated in 2016 – joint-stock company (JSC) “Latvijas Gāze” which ensured a full cycle of natural gas supply - natural gas purchase, storage, transmission, distribution and trade in accordance with licences issued thereto.

In 2016, compliance controls of facilities of three companies were carried out during which eight facilities were inspected. No non-compliances were found during the inspection of facilities. Meanwhile, when examining the documentation of one company, it was found that the company's internal procedure “Settlement procedure on natural gas for household users” was incomplete because it did not define criteria according to which the amount of natural gas calculated for a user is reduced if a company has found a violation of records of consumed natural gas in accordance with Regulations on natural gas supply and use. In line with the Regulator's recommendation, the company made changes to the above-mentioned procedure.

In the natural gas sector, the Regulator initiated and reviewed one administrative proceeding in 2016 during which it issued a warning to JSC “Latvijas Gāze”.

Any stakeholder which thinks that a decision adopted by the Regulator is not proportionate and its interests are not met, has an option to appeal the adopted decision in the Regional

Administrative Court. In 2016, two proceedings about the Regulator's decisions were initiated in the natural gas sector regarding the obligation of the natural gas transmission system operator to ensure third party access to the infrastructure and one proceeding on the Regulator's decision about dispute settlement between a user and a public service provider. No decisions regarding the substance of the initiated proceedings have been adopted in 2016.

6.2. Legal framework

To carry out the regulation of public services, the Regulator within its competence independently adopts decisions, issues administrative acts. They are binding for regulated providers of public services and consumers.

On 11 February 2016, amendments to the Energy Law were adopted according to which all natural gas users have a right to freely choose a natural gas trader from 3 April 2017.

To ensure the functionality of an open natural gas market, amendments to the Energy Law specified new obligations for the Regulator:

- to issue new methodologies for calculating the tariffs for natural gas supply services (natural gas transmission, distribution and storage service tariff calculation methodology and methodology for calculating natural gas prices for captive customers) laying down tariffs for natural gas volumes expressed in energy units;
- to prescribe criteria according to which a natural gas storage system operator and liquefied natural gas system operator shall determine which access mode to the natural gas storage facility — either negotiation procedure or regulated procedure — shall be used;
- to create a register of natural gas traders and ensure its public availability;
- to determine the information to be included in the register of natural gas traders, the requirements for registration of natural gas traders and the procedures, by which a natural gas trader shall send a registration notification or a notification regarding termination of activities, the information to be included in the registration notification or the notification regarding termination of activities, as well as the procedures by which a natural gas trader shall be excluded from and re-registered in the register of natural gas traders;

- to determine the provisions of a general authorisation for natural gas trade, which are binding to all natural gas traders, the activities of which must be regulated in accordance with the Law On Regulators of Public Utilities;
- to determine what documents and information must be submitted by the single natural gas transmission and storage system operator or transmission system operator to confirm compliance with the independence and certification requirements specified by the Energy Law;
- to supervise the compliance of the single natural gas natural gas transmission and storage system operator and natural gas transmission system operator with independence requirements;
- to determine what documents and information shall be submitted to confirm that the natural gas distribution system operator complies with independence requirements, as well as specify the procedures for submitting, publishing and evaluating the report on measures taken to ensure independence;
- to determine the criteria and procedures by which direct lines are installed and used;
- to approve natural gas system connection regulations developed by a natural gas transmission system operator for biomethane producers, liquefied natural gas system operators and natural gas users;
- to approve natural gas distribution system connection regulations developed by a natural gas distribution system operator for natural gas users;
- to determine what information and to what extent a natural gas trader and public trader shall include in the bills and informative materials issued to final customers.

In accordance with the amendments to the Energy Law and complying with the deadlines specified therein, the Regulator drafted and approved the following legislative acts in 2016:

- Regulations on the criteria according to which a natural gas storage system operator and liquefied natural gas system operator shall determine the access regime to a natural gas storage facility (1 September 2016);

- Amendments to the Regulator’s decision No 1/10 “Regulations for Registration of Energy Producers and Traders” of 11 June 2014 (13 October 2016)⁴;
- Amendments to the Regulator’s decision No 1/30 “Regulations on a general authorisation in the energy sector” of 23 November 2011 (13 October 2016);
- Methodology for calculation of natural gas transmission system service (28 November 2016)⁵.

Considering the Regulator’s obligations stipulated in the Energy Law, work was started on the development of methodologies for calculation of natural gas supply service tariffs in 2016. In the priority order, the Regulator approved the methodology for calculation of the natural gas transmission system service tariff, while the other methodologies - the methodology for calculation of the natural gas distribution, storage service tariffs, and the methodology for calculation of natural gas prices for captive users - were approved before the opening of the natural gas market on April 3, 2017.

The ownership unbundling of the single natural gas transmission and storage system operator is deemed complete when this operator fulfils all the certification requirements specified in the Energy Law. An operator must be certified before it is approved and designated as a transmission system operator. The Regulator is obliged to determine which documents and information are to be submitted by the unified natural gas transmission and storage system operator or the transmission system operator to certify compliance with certain certification requirements. **In December 2016, a public consultation on the draft Regulations on the Certification of the Single Natural Gas Transmission and Storage System Operator and the Natural Gas Transmission System Operator was initiated**⁶. The draft regulations prescribe which documents and information shall be submitted by the natural gas transmission and storage system operator and the natural gas

⁴ According to Paragraph 43 of the Transitional Provisions of the Energy Law, the registration of natural gas traders must begin on February 10, 2017, and natural gas traders are entitled to start trading of natural gas on April 3, 2017.

⁵ The methodology is based on the concept of an input-output system (zone), introduced by the Regulation No 347/2013 of the European Parliament and of the Council and it provides that the costs of transmission of natural gas no longer have to be directly linked to one particular route. The methodology, changing the principles of tariff setting for the natural gas transmission system service, provides that the natural gas transmission system service is a capacity reservation service and the capacity of the entry and exit points can be reserved separately, thus allowing natural gas suppliers to provide natural gas from any entry point.

⁶ Regulations adopted on February 16, 2017.

transmission system operator to the Regulator to confirm the compliance of the system operator with the certification requirements specified in the Energy Law, the procedure by which the system operator provides the Regulator information about circumstances that could affect the compliance of the system operator with the certification requirements and the procedure by which the Regulator evaluates and provides an opinion on the circumstances and the impact of planned transactions of the system operator on the compliance of the system operator with the certification requirements.

According to the legal regulation of the Energy Law, if a natural gas distribution system operator is vertically integrated in the energy supply company, this operator is a separate corporation with an independent legal personality and separated from the activities of natural gas production, transmission, storage, and LNG service provision and trading, and this in communication and in establishing its brand ensures that its identity is separate from the identity of the trading structure of the vertically integrated natural gas supplier. **In December 2016, a public consultation on the draft Regulations on the requirements for the independence of the natural gas distribution system operator was initiated⁷.**

In 2016, the Regulator actively participated in the process of preparing amendments to the Energy Law and in the process of preparation of several Cabinet of Ministers regulations by both providing opinions on draft regulations and participating in interinstitutional meetings, including:

- Cabinet of Ministers draft regulations "Regulations on the Supply and Use of Natural Gas";
- Cabinet of Ministers draft regulations "Regulations on the sale and use of natural gas";
- Cabinet of Ministers draft regulations "Procedure for evaluating and deciding whether access to natural gas storage facilities (except Inčukalns underground gas storage) is technically and economically justified in order to ensure efficient access to the system for the supply of users and the provision of ancillary services";
- Cabinet of Ministers draft regulations "Amendment to the Cabinet of Ministers Regulations No. 312 "Procedure for the supply to energy consumers and sale of fuel during a declared energy crisis and in the event of a national threat"" of 19 April 2011.

⁷ Regulations adopted on January 26, 2017.

In November 2016, the Regulator started work on the licensing of natural gas system operators. On December 8, 2016, the Regulator issued a license to JSC "Latvijas Gāze" for the distribution of natural gas from February 11, 2017 to February 10, 2037. In December 2016, all necessary preparatory work was carried out, and on January 5, 2017, a joint stock company "Conexus Baltic Grid" was granted a license for natural gas transmission and a license for natural gas storage.

6.3. Promotion of competition

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

On 3 December 2014, Klaipeda liquefied natural gas (LNG) terminal became operational and on 2 October 2015 the project "Capacity enhancement of Klaipeda-Kiemenai pipeline" was completed, ensuring the potential natural gas transmission capacity up to two billion m³ per annum and total integration of Klaipeda LNG terminal into the Lithuanian natural gas system. Concerning the natural gas supply from Klaipeda LNG terminal, the pipeline capacity is sufficient to satisfy partial demand by Latvian and Estonian natural gas users. This enables enhanced competition in the Baltic energy market, provides an opportunity for market participants to diversify natural gas supply sources thus promoting the security of natural gas supply in the region. Although there was an option to purchase natural gas from its neighbour Lithuania in 2016, the natural gas to Latvia was supplied by JSC "Gazprom".

In 2016, the natural gas transmission system operator JSC "Latvijas Gāze" received a customer's application regarding access to the natural gas supply system to transport for its own needs the natural gas belonging to the customer; however, the transmission system operator delayed the response to the customer, namely, neither provided access to the relevant natural gas systems nor gave a substantiated refusal according to the procedure and deadlines laid down in legislative acts. Taking into account the afore-mentioned, the Regulator sent a warning to JSC "Latvijas Gāze" about violations regarding third party access to natural gas infrastructure.

On 2 May 2016, the Regulator received JSC “Latvijas Gāze” application requesting a temporary derogation at least until 3 April 2017 for the rights of third parties to use the natural gas transmission and distribution system. After careful evaluation of the criteria laid down in the Energy Law and analysis of the actual circumstances, the Regulator concluded that granting a derogation would be unjustified.

Furthermore, the Regulator did not find any circumstances which could cause significant economic and financial hardship for JSC “Latvijas Gāze” in 2016 in relation to the fulfilment of the agreed upon “take or pay” obligations. Thus, on 25 August 2016 the Regulator decided to refuse granting a temporary derogation. JSC “Latvijas Gāze” appealed this decision in the Regional Administrative Court simultaneously asking for interim measures. On 21 October 2016 the Regional Administrative Court decided to dismiss JSC “Latvijas Gāze” application for interim measures. The substance of the matter was not considered in 2016.

Although in accordance with the regulatory framework users who purchase natural gas outside the operational area of JSC "Latvijas Gāze" license had an opportunity to use the natural gas supply system for their own supply, access to the systems in 2016 was not ensured.

To promote competition in the natural gas supply market, the Regulator paid attention to the transposition of the EU legal norms in the Latvian legislative acts in 2016. In the natural gas sector, the Regulator actively participated in the development of the EU initiatives in relation to the EU Network Codes.

6.4. Tariffs, tariff calculation methodology, tariff changes

The Regulator determines the methodology for the calculation of natural gas transmission, storage, distribution services and trade tariffs and sets natural gas tariffs accordingly. In 2016, the tariffs approved by the decision of the Regulator's Board of 2008 were in force.

Due to the existing situation in the natural gas supply sector in Latvia, tariffs are regulated which ensures tariff stability and balances the interests of suppliers and consumers. Tariffs were not reviewed in the natural gas sector in 2016. 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. It must be certainly noted that the price also depends on the prices in the European commodity exchanges since the end of 2016. Natural gas trade tariffs for households may change only twice a year – from January 1 and July 1, while they can change every month for other natural gas users.

On March 17, 2016, the Regulator adopted a decision⁸ on the application of the natural gas supply tariffs of the joint stock company "Latvijas Gāze" in order to determine the solution of the application of temporary tariffs until the full opening of the natural gas market on April 3, 2017.

The price of natural gas continued to decline until mid-2016. The decline in natural gas prices has been observed since 2015, due to the fall in oil product prices. In January 2016, the price of natural gas was 206.32 EUR/thousand nm³, in June the lowest natural gas sales price was reached - 142.29 EUR/thousand nm³. From July 2016, the natural gas sales price gradually increased, reaching 170.74 EUR/thousand nm³ in December.

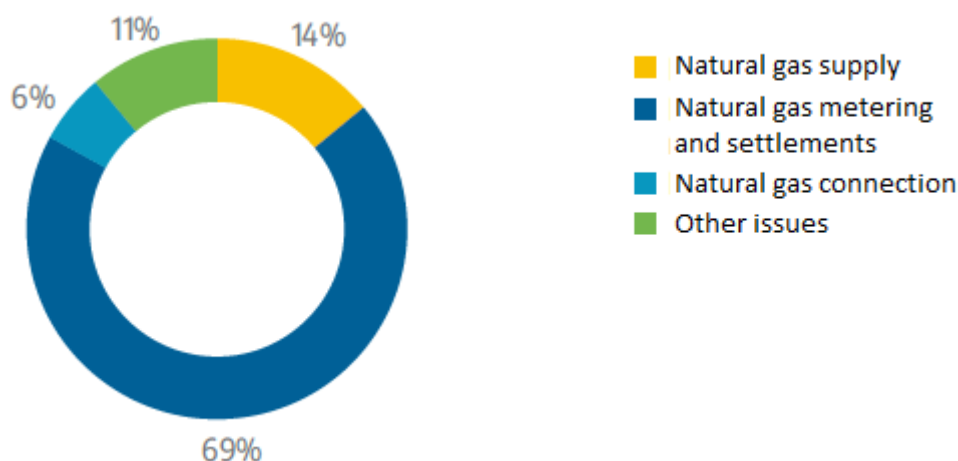
6.5. Protection of service users

To protect consumer interests and ensure continuous improvement of the quality of public services, the Regulator reviews user complaints.

In total, 35 complaints were received in the natural gas supply sector in 2016, of which five were related to natural gas supply issues, 24 concerned the metering of natural gas consumed and payments for natural gas received, two regarding installation of connections, and four for various other issues.

⁸ The Regulator's Board decision No. 36 "Regarding the Decision No. 247 "On the Application of Natural Gas Supply Tariffs of the JSC "Latvijas Gāze".

Received user complaints in the natural gas supply sector



Regarding natural gas supply issues, most complaints were related to the refusal of JSC "Latvijas Gāze" to conclude an agreement on the natural gas supply with a new user, if settlement was not made about the natural gas consumed at the object, while in complaints regarding the measurements of and settlements for consumed natural gas users are mostly dissatisfied with the payment documents issued by JSC "Latvijas Gāze" regarding the amount of unclaimed natural gas consumption.

Complaints about installation of a connection are related to issues regarding payment for connection installation and transfer of the ownership of the relevant infrastructure to the system operator.

In complaints on other issues, users have expressed dissatisfaction with the refusal of JSC "Latvijas Gāze" to provide a full description of the expertise regarding the inspection of the metering unit for the settlement of natural gas removed from the gasified object, the verification of the meter and the refusal to access the natural gas system. After verifying the facts in user complaints, it can be concluded that all complaints received in the natural gas supply sector were unfounded.

To successfully and quickly resolve disagreements between public service providers, one of the Regulator's functions is out-of-court dispute settlement. Out-of-court dispute settlement is free of charge and the time for the adoption of a decision is shorter than in

court. In 2016, eight applications to initiate dispute examination were received in the energy sector regarding natural gas supply. Four of these concerned the refusal to conclude a natural gas supply agreement because there was an outstanding debt for consumed natural gas, one was about metering of consumed natural gas, one - about a violation of rules on natural gas use and calculated compensation, while two disputes were about the provision of natural gas supply. The review of one dispute continues in 2017.

6.6. Sector development trends

In the natural gas sector in 2017, the Regulator will continue to develop secondary regulation related to the opening of the natural gas market. By April 3, 2017, the Regulator has already approved all legislative acts related to the opening of the natural gas market, including the Regulations on Certification of the Single Natural Gas Transmission and Storage System Operator and the Natural Gas Transmission System Operator, and the Regulations on the Requirements for the Independence of the Natural Gas Distribution System Operator, the Regulations on Information for Electricity and Gas End Users, as well as the regulation on using the Inčukalns underground gas storage facility and the regulations on the use of the Natural Gas Transmission System submitted by the system operator. The Regulator also approved new methodologies for calculating the tariffs for transmission, distribution and storage of natural gas, as well as for calculating the prices for captive users. The Regulator will also have to approve the regulations on the connection of the natural gas transmission system for biomethane producers, LNG system operators and users of natural gas, as well as the regulations on the connection to the natural gas distribution system.

The Regulator will continue its work in the Regional Gas Market Coordination Group, whose task is to develop a single regulatory framework for the regional (the Baltic States and, possibly, Finland) natural gas market.

7. Electricity

7.1. Authorisation and supervision of companies

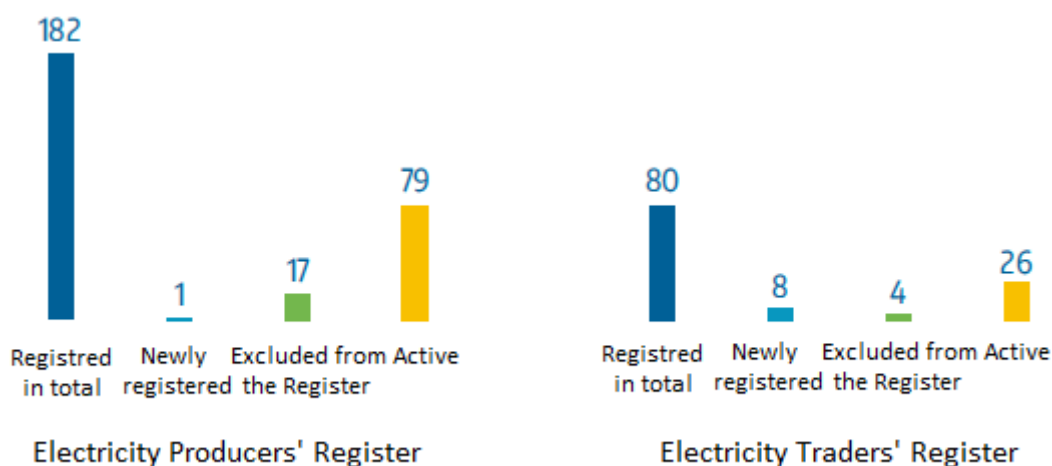
The Regulator's duties in the electricity sector include regulation of electricity tariffs, as well as the review of user applications and complaints regarding energy supply issues and provision of services. In Latvia, electricity trade can be carried out by companies registered in the Electricity Traders' Register. Electricity generation in Latvia is carried out by companies registered in the Electricity Producers' Register.

A total of 262 companies are authorised to provide public services in the electricity sector; of these, 105 companies or 40% are active. 14 companies are authorised to simultaneously provide several following electricity services: generation, transmission, distribution, trade.

On 31 December 2016, 182 companies were registered in the Electricity Producers' Register created and maintained by the Regulator; of these, 79 companies have started to generate electricity – built and commissioned power plants. Out of all companies registered in the producer register, seven companies are also registered in the trader register, although only two of these companies are active traders. 17 companies were excluded from the Electricity Producers' Register in 2016.

In 2016, the Regulator registered eight new traders in the Electricity Traders' Register and excluded four traders from the register. On 31 December 2016, 80 companies were registered in the Electricity Traders' Register; of these, 26 companies provided electricity trade services. Meanwhile, 13 companies were registered in the wholesale power exchange NordPool to operate in the Latvian bidding area.

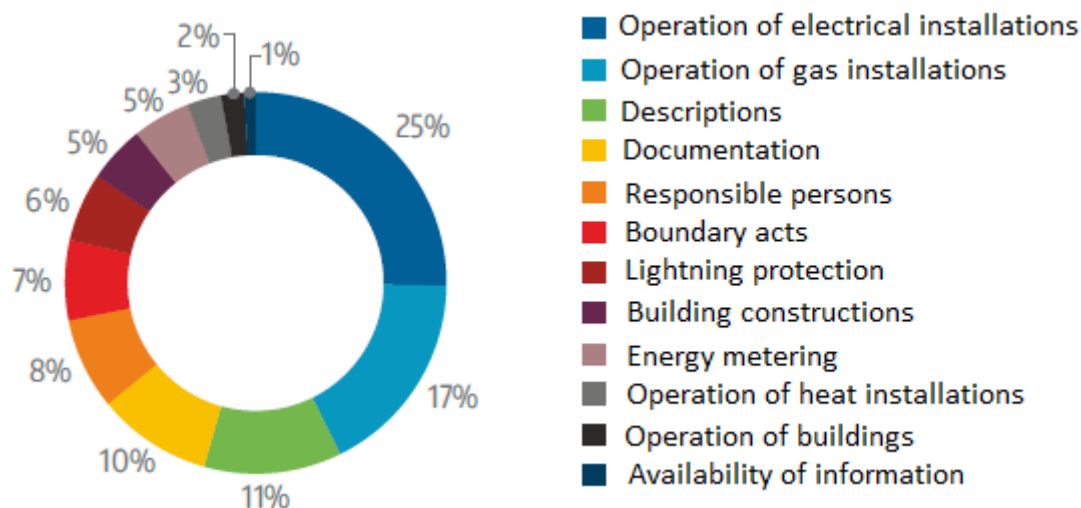
Companies authorised by the Regulator in 2016



Electricity flow from producers to users is ensured by JSC “Augstsprieguma tīkls” (AST); the Regulator issued an electricity transmission licence to AST for a term of 20 years in 2005. 11 licensed distribution system operators operated in Latvia in 2016; seven of these were also registered in the Electricity Trader Register and six are active traders.

In 2016, controls of operational compliance of facilities of 30 companies were performed during which 49 facilities were inspected. 103 non-compliances were identified during 22 inspections (73% of all inspections). 67 non-compliances were prevented in 2016; the remaining non-compliances will be prevented during 2017 in accordance with the Regulator’s instructions.

Groups of identified non-compliances



The largest number of non-compliances, 26 cases, was detected in the operation of electrical equipment. In nine cases there were non-compliances regarding the grounding of the equipment, in seven cases - failure to observe periodicity of preventive measurements of fixed electrical installations. Other non-compliances were related to the operational designation deficiencies of the electrical equipment, the general condition of the premises and equipment.

The second largest number of non-compliances was found in the operation of gas equipment. 18 non-compliances were detected, of which in seven cases no gas pipe equipotential bonding was installed or was installed incompletely, in four cases there was no earthed gas entry into the building, in four cases there were non-compliances in the operation of the gas leakage detectors, while in three cases gas pressure relief valves were not sealed.

The third largest number of non-compliances found was due to incomplete designations in the objects (12 cases) and deficiencies in the documentation provided by the companies (10 cases). In eight cases, there was a lack of deployment of personnel responsible for operations, or no valid certificates were presented to the responsible persons for checking expertise for operating the relevant equipment. Non-compliances have also been identified in connection with the energy measurement acts and energy inventory facilities. In several cases, there were non-compliances regarding the protection of objects against lightning strikes, as well as the status of inadequate building structures and inadequate operation of heating equipment and buildings.

Most of the shortcomings in the operation of facilities found during the inspections do not affect the security of electricity supply directly; however, under certain conditions they may cause serious disruptions in the production process and damages to equipment. The most significant shortcomings were prevented within deadlines set by the Regulator.

Regarding electricity supply in 2016, 104 complaints were received, including 53 complaints about JSC Sadales tīkls, 34 concerning JSC Latvenergo and one complaint each about the municipal utility company "Sadzīvu pakalpojumu kombināts" Ltd, JSC "Latvijas dzelzceļš" and "220 Energy" Ltd.

Complaints received can be divided into six groups by content:

- electricity accounting and settlement - questions about the volumes of metered and consumed electricity, issued electricity bills, payment recalculations and drafted acts on unmetered electricity, billing procedures, etc. (~ 49%);
- system connections - installation of electricity system connection, drafted technical specifications and charges for installing a connection of the electricity system, connection type change (~ 11%);
- quality of supplied electricity - interruptions of electricity supply and renewal time of supply, voltage drops, too low or high voltage level (~ 7%);
- electricity trading - electricity trade agreements, their termination and renewal, the selection of the electricity trader and its change, the fee for early termination of the trade contract (~ 7%);
- electricity tariffs - the tariff components of the electricity distribution service, the application of the distribution tariff (~ 13%);
- various other issues - about the actions of JSC "Sadales tīkls" employees for not providing information on smart electricity meters, the pricelist of paid services by the Prison Administration, property rights, payments for mandatory procurement components, etc. (~ 13%).

Distribution of complaints by thematic groups and their validity

Thematic group	Number of complaints in the electricity supply sector		
	Justified	Unjustified	Unrelated to the Regulator's work
Electricity metering and settlement	5	43	3
System connections	0	9	2
Electricity quality	1	6	0
Electricity trade	2	5	0
Electricity tariffs	0	14	0
Other	1	2	11
Total:	9	79	16

In 2016, one proceeding was initiated in the electricity sector about the appeal of the Regulator's decision regarding tariffs for electricity distribution system service approved by the Regulator. The initiated case has not been dealt with in substance in 2016.

7.2. Legal framework

When assessing the current developments in the regulated sectors in 2016, as in the past, the Regulator's agenda in the electricity sector was largely determined by the implementation of EU legislative acts, as well as participation in the drafting of amendments to the laws and the Cabinet of Ministers regulations.

In 2016, the working group of the Agency for Cooperation of Energy Regulators (ACER) continued work on the documents to be submitted as stipulated by the European Commission (EC) Regulation (EU) No 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management (Regulation 2015/1222), which entered into force on 14 August 2015, and the ENTSO-E paper entitled "Capacity calculation regions".

In 2016⁹, transmission system operators and nominated electricity market operators submitted to all EU regulators for consideration a market coupling plan, a common network model, a proposal for a methodology on congestion revenue allocation, a proposal for a methodology on the intraday cross-zonal gate opening time and the intraday cross-zonal gate closure time, and a proposal for a methodology on a guarantee deadline for reserved capacity of the day-ahead market. The Regulator gave an opinion to the CACM Working Group on capacity calculation for regions, market coupling plan, common network model methodology, and proposal for congestion revenue distribution methodology¹⁰. In 2016, the Regulator also provided an opinion on the sharing and recovery of costs of market coupling plan and day-ahead and intraday market coupling. The working group discussed issues related to the introduction of the electricity balancing network code and the methodology for determining the balancing energy price. The Regulator has provided an opinion to the Ministry of Economics on the preparation of

⁹ In accordance with Regulation No 2015/1222.

¹⁰ In accordance with the EC Regulation establishing a network code for capacity allocation and congestion management.

Latvia's position on a draft regulation establishing guidelines for the operation of the electricity transmission system.

In compliance with the requirements of the EC Regulation¹¹, AST, on 21 June 2016, asked the Regulator to approve all TSOs' proposal for a generation and load data provision methodology in accordance with Article 16 of Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management. The public consultation on the initial regulation of the Production and Load Data Acquisition Methodology developed by the TSOs was organized from 4 February 2016 until 4 March 2016. On 26 September 2016, national regulatory authorities - ACER and CACM TF (task force) - expressed their support for approving production and load data acquisition methodologies. The ACER Electricity Working Group (EWG) endorsed the conclusions and requests from the CACM TF to support the adoption of this methodology in the Energy Regulators' Forum. Subject to the provisions of Article 9(6)(c) of the Regulation 2015/1222, the Regulator approved the Methodology for Production and Load Data Acquisition on December 8, 2016. In October 2016, all regulatory authorities (including the Regulator) sent a request to the electricity market operators nominated by the EU Member States to amend their proposed market-coupling operators' plan. The amendments are expected in 2017.

In November 2016, the Regulator participated in the Baltic Electricity Market Forum's working group in Tallinn and in December 2016 in the Nordic Energy Regulators' working group on the methodology for the future market assessment and a working meeting with the Estonian and Lithuanian regulators on the introduction of long-term transmission rights.

In December 2016, the regulatory authorities of all EU Member States (including the Regulator) sent a request to the transmission system operators requesting to amend the methodology on the common network model submitted by the transmission system operators.

¹¹ Requirements of the Article 16 (1) of Regulation No 2015/1222.

In 2016, the Regulator regularly cooperated with various international organizations of the sector, sharing experience on the Baltic electricity market, providing information necessary for market analysis, as well as information to facilitate the implementation of projects of common interest. The Regulator worked closely with the following organisations in 2016:

- Council of European Energy Regulators;
- Organisation for Economic Co-operation and Development;
- ACER on projects of common interest.

In 2016, the Regulator actively participated in the meetings of the Saeima Economic, Agricultural, Environmental and Regional Policy Committee in the process of adoption of the Energy Efficiency Law and amendments to the Electricity Market Law. On March 3, 2016, the Law on Energy Efficiency was adopted, while amendments to the Law on the Electricity Market were adopted on 19 May 2016 and 23 November 2016. On March 3, 2016, the Energy Efficiency Law was adopted, while amendments to the Electricity Market Law were adopted on 19 May 2016 and 23 November 2016. In 2016, the Regulator participated in the working group on the draft regulation of the Cabinet of Ministers "Regulations on the Energy Efficiency Obligations Scheme". The Regulator also gave opinions on several draft Cabinet of Ministers regulations in the electricity sector, including:

- amendments to the Cabinet of Ministers Regulations No 221 "Regulations Regarding Electricity Production and Price Determination upon Production of Electricity in Cogeneration" of 10 March 2009;
- amendments to the Cabinet of Ministers Regulations No 262 "Regulations Regarding the Production of Electricity Using Renewable Energy Resources and the Procedures for the Determination of the Price" of 16 March 2010;
- amendments to the Cabinet of Ministers Regulations No 681 "Procedure for providing the protected user trading service and how the responsible institutions provide information about the protected user status" of 1 December 2015;
- Procedure for compensating the provision of the trade service and distribution system service for protected users.

Along with the amendments to the Electricity Market Law of 19 May 2016, the Regulator made amendments to the methodology on calculation of mandatory procurement

components (MPC), by providing a different application procedure for the reduction of the mandatory procurement components subsidised by the state budget. The total MPC value from 1 April 2016 remains unchanged at 0.02679 EUR per kilowatt-hour.

On March 17, 2016, the Regulator approved changes to the system connection regulations for the members of the electricity system. The changes made will reduce the duration of system connection construction and allow users to build a system connection using a deferred payment.

In order to accelerate the tariff review process and reduce the administrative burden, at the beginning of November 2016, the Regulator approved amendments to the Regulator's decision No 1/6 "Methodology on calculation of electricity transmission system service tariffs" of 26 February 2015 and decision No 1/32 "Methodology on calculation of electricity distribution system service tariffs" of 15 December 2011. In accordance with amendments to the methodologies, from this point forward, the Regulator shall approve the rate of return on capital once a year until November 1; an electricity transmission and distribution system operator will apply this rate when preparing a tariff calculation. In 2016, the Regulator approved the rate of return on capital of 4.43% for electricity system operators; this is the historically lowest rate of return on capital.

7.3. Promotion of competition

Independence of transmission and distribution system operators from electricity producers and traders is a significant precondition for competition and successful operation of the electricity market. The Regulator's task is to supervise the compliance of the operators with specified independence requirements.

In the electricity sector, obligations have been imposed on AST and JSC "Sadales tīkls". On 30 January 2013, AST was certified as an independent transmission system operator which pursuant to legislative acts and the 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 verified that AST guarantees equal conditions for the use of the electricity transmission system to all participants of the electricity transmission system.

On 29 April 2016, the Regulator's Board adopted a decision on the compliance of the distribution system operator ST with independence requirements confirming 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 decision making regarding assets required for operation, maintenance and development of the distribution system. 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 electricity sector, access by third parties to interconnected electricity transmission and distribution systems is ensured in Latvia. The small distribution network operators (10 in total) are connected to both the 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.

A liberalised electricity market and the establishment of the single EU energy market imply additional obligations for the Regulator related to the promotion of competition and market supervision. After opening the electricity market to competition¹², one of the Regulator's obligations is to supervise the wholesale energy market integrity and transparency to prevent market abuse and manipulations with wholesale electricity prices. This is stipulated by the Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency (REMIT). Operation

¹² In accordance with Regulation (EC) No 1227/2011 on wholesale energy market integrity and transparency (REMIT) and the Electricity Market Law.

of a transparent market is essential to ensure that electricity users pay a market price under competitive conditions excluding market manipulations. Consequently, the Regulator's task is to determine the procedure for management and use of the electricity system, principles of operation of market participants, as well as unified system connection rules for electricity producers and users.

To promote transparency in accordance with the requirements of Article 9(1) of REMIT, the obligation of electricity market participants is to provide information to the Centralized European Register for Energy Market Participants (CEREMP). This register is supervised by ACER.

To ensure the implementation of REMIT requirements in Latvia, on 17 March 2015, the Regulator created access to ACER's CEREMP register and started registering market participants therein. 33 companies are currently registered in the CEREMP register in Latvia. In accordance with the requirements of Article 8(1) of REMIT, the European market participants have an obligation to report on transactions in wholesale energy markets from 7 October 2015 and start reporting on contracts concluded outside an organised market (bilateral transactions) from 7 April 2016.

The data at the Regulator's disposal indicate that around 2,600 households have changed their electricity traders in the third quarter of 2016, which is 0.3% of the total number of electricity consumers. 99% of the total amount of electricity supplied to households was delivered by JSC Latvenergo last year and 1% by other traders. Approximately 100,000 users are captive customers, which means that these users receive certain amount of electricity at reduced electricity and distribution service prices.

When analysing wholesale electricity prices in 2016 compared to 2015, wholesale prices fell by 14% due to the commissioning of the Lithuanian-Swedish interconnection. In February 2016, the average wholesale prices reached the lowest level over the last years - 26.95 EUR/MWh. During the whole year, there was a decrease in electricity wholesale prices. The highest price of the year was recorded in January 2016 - 50.01 EUR/MWh. The reason for the high price was the volatile operation of the Lithuanian-Swedish interconnection in the first month of operation.

7.4. Tariffs, tariff calculation methodology, tariff changes

Payment for electricity is made up by an electricity price, transmission and distribution system service tariffs and mandatory procurement components.

Although on 1 January 2015, the electricity market was fully opened to competition and therefore the electricity price for households is determined by the market supply, the Regulator continues to set transmission and distribution service tariffs in the electricity sector. On May 5, 2016, the Regulator adopted the decision No 73 “On the tariffs of the electricity distribution system services of the joint-stock company Sadales tīkls”, which approved new tariffs for the distribution system service and stipulated that the tariffs would come into force on 1 August 2016. The fixed component of the differentiated tariffs increased, while the variable component decreased, therefore the payment for the distribution service is reduced for the electricity users who effectively use the demanded capacity.

Any stakeholder which thinks that a decision adopted by the Regulator is disproportionate and his interests have not been respected, has an opportunity to appeal the Regulator’s decision to the Administrative District Court. In 2016, a case was initiated about annulment of the above-mentioned Regulator's decision regarding the part about the S4 tariff. The decision on the substance of the initiated case has not been adopted in 2016.

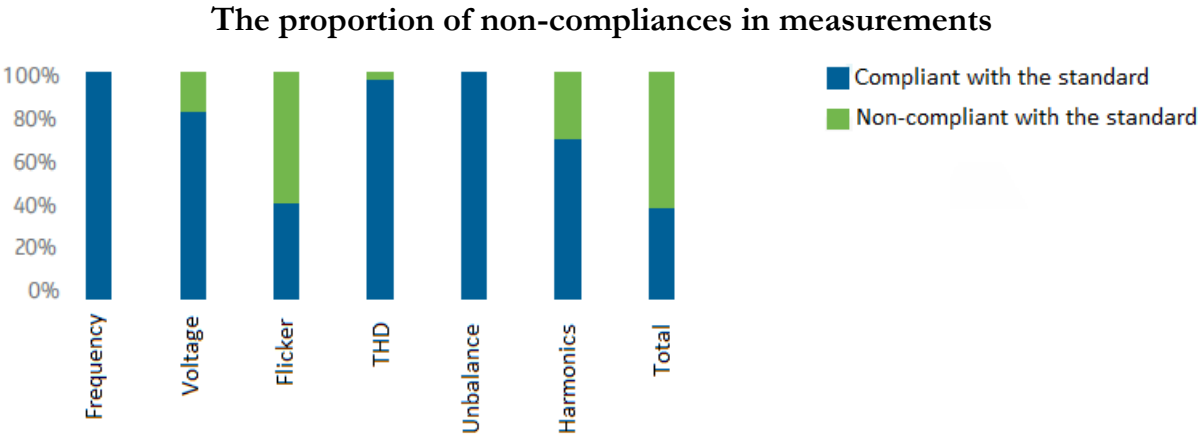
7.5. Protection of service users

To promote the supervision and development of the quality of electricity services, the Regulator compiles and analyses indicators on the quality of electricity distribution services for four consecutive years.

In 2016, 42 measurements of characteristics of system operators’ electricity supply quality and voltage of electricity networks were made and their compliance with the Standard¹³ was analysed. Non-compliances with characteristics of electricity supply quality and voltage of electricity networks specified in the Standard were found in 25 cases. Non-compliance with

¹³ Cabinet of Ministers Regulations No. 759 "Regulations on the Voltage Requirements for Public Electricity Networks"

the characteristic “Flicker” (24 cases) was found most often, as were harmonic distortions for separate harmonics (12 cases).

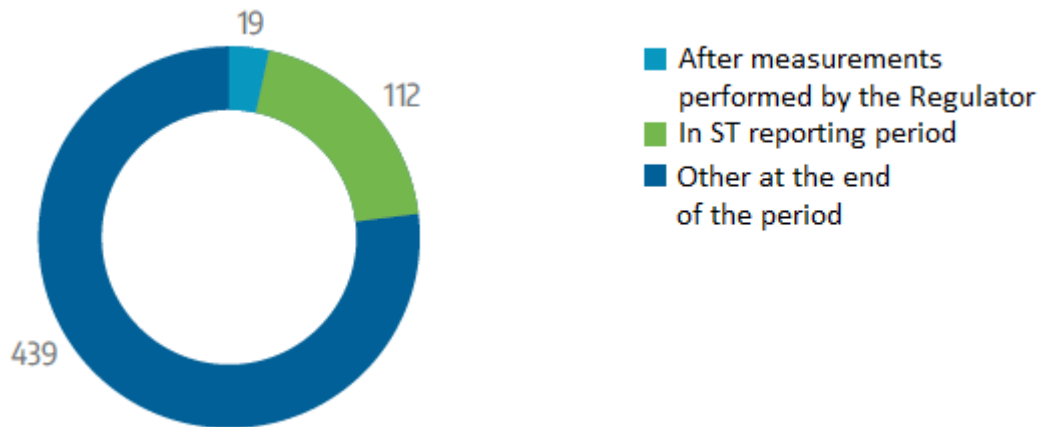


Most of these non-compliances were detected in rural areas. The reason for the inadequate power supply quality is the long power supply lines, built in the 1970's and designed for small loads (~ 1 kilowatt), which at that time was sufficient. In turn, the cross-section of wires of these lines is insufficient for the capacities of modern electrical equipment.

In cooperation with the system operator, a priority was given to measurement locations with low voltage networks or in areas with potentially critical voltage quality. Thus, the measurement statistics for the year, which in 25 cases show non-compliance with characteristics of electricity supply quality and voltage of electricity networks specified in the Standard, cannot be attributed to the overall quality of electricity supply in Latvia under any circumstances.

Consumers have a right to pay a 50% lower tariff of the distribution system service for non-compliant voltage quality. In 2016, a reduced tariff was applied for 131 users, including 19 users for whom the Regulator had made voltage quality measurements. On the whole, at the end of the reporting period, the reduced tariff was applied for 570 users.

Reduced tariffs were applied (number)



To resolve disagreements between providers and users of public services or between public service providers, one dispute was initiated in the energy sector regarding electricity supply in 2016 concerning the refusal to conclude an electricity system service contract and one dispute related to commercial metering of electricity.

7.6. Sector development trends

In 2017, in the electricity sector, the ongoing process of creating the single market will continue. To implement the creation of the single market for electricity in the EU, work will continue on developing common regulations¹⁴, methodologies, and approval of other documents drafted by nominated electricity market operators and transmission system operators. Work will continue on the introduction of EC regulatory requirements. Work will also continue on the introduction of the requirements of the EC regulations¹⁵. It should be emphasized that in 2017 the work on the implementation of the EC network codes in the electricity sector will continue, confirming the rules and methodologies developed by the electricity exchanges and the transmission system operators of the Member States. The Regulator will assess the efficient functioning of the electricity market in the Baltic region and hedging instruments, including the introduction of long-term transmission rights. One of the most important documents to be approved by all EU national regulators in 2017 is

¹⁴ In conjunction with Regulation No 2015/1222.

¹⁵ Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation, Commission Regulation (EU) 2016/631 of 14 April 2016 establishing a network code on requirements for grid connection of generators, and Commission Regulation (EU) 2016/1388 of 17 August 2016 establishing a Network Code on Demand Connection.

the market coupling plan developed by the nominated electricity market operators. A new intraday platform in the Baltic electricity market will be implemented and its modification in the coming years in order to introduce competition between electricity exchanges in the Baltic electricity market.

In 2017, the Regulator plans to continue work on the analysis of commercial quality indicators by identifying options for clarification of commercial quality standards in order to improve the level of commercial quality in the country, thus protecting the interests of users and promoting the development of service providers.

In 2017, the evaluation of projects of common interest will continue in accordance with EC Regulation No 347/2013 of 17 April 2013, as well as monitoring the independent activity of the electricity transmission system operator and assessing and approving the ten-year electricity transmission system development plan.

In 2017, the work will also continue on the projects of common interest which have been included in the second list of Projects of Common Interest – the Baltic corridor projects which would ensure sufficient capacities of the electricity transmission system for electricity supply from the north to the southeast. As soon as the project promoters address the Regulator with an investment request, the Regulator will be obliged to adopt a decision on cross-border cost allocation.

8. Thermal energy

8.1. Authorisation and supervision of companies

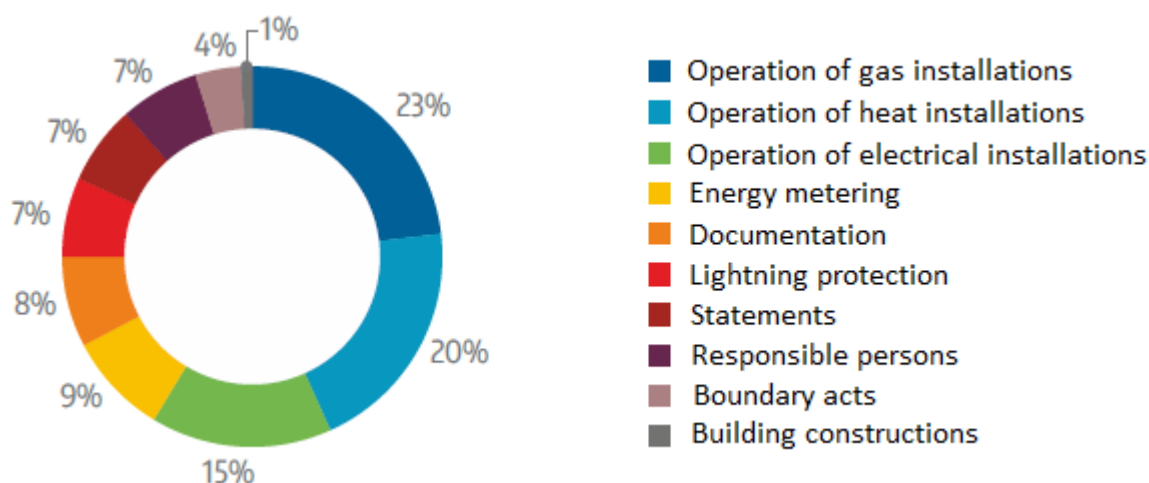
In the heat supply sector, the regulated services are the production of thermal energy, as well as transmission, distribution and trade of thermal energy. The regulatory “threshold” is taken into account in determining which services are regulated. The heat supply service is regulated if the total amount of thermal energy exceeds 5,000 MWh/year.

On 31 December 2016, 203 companies were registered in the Thermal Energy Producers’ Register. In the reporting year, four companies were registered, while 18 traders were excluded from the register. As of 31 December 2016, 74 companies had licenses for the provision of thermal energy transmission and distribution services. During the reporting year licenses for the provision of heat transmission and distribution services were issued to five companies, one licence was revoked, and one was amended.

On 31 December 2016, 78 companies were registered in the Thermal Energy Traders’ Register. The Regulator registered three companies and excluded two companies from the Register in the reporting year.

Control of operational compliance of 31 companies’ facilities were carried out in 2016 during which 67 facilities were inspected. 104 non-compliances by 23 companies (74% of all inspections) were identified during these inspections. 59 non-compliances were prevented in 2016 while the remaining non-compliances will be eliminated in 2017 in accordance with the Regulator’s instructions.

Groups of identified non-compliances



The largest number of non-compliances, 24 cases, was detected in the operation of gas appliances. Gas pipeline potential equalization was not installed or incompletely installed in 10 cases, gas overpressure relief valves were not sealed in seven cases, inconsistencies were identified in the operation of gas leakage devices in six cases, and there was no grounded gas entry in the building in one case.

Most of the shortcomings found during inspections regarding the operation of facilities do not directly affect the security of heat supply, however, under certain circumstances, may result in significant interruptions in the production process and damage to the installations. The most significant shortcomings were prevented within deadlines set by the Regulator.

Performing the function of the market supervisor, three litigations were completed in the energy sector (heat supply) in 2016 about the cancellation of the Regulator's decisions and provision of information. The applicants' claims were dismissed in all litigations.

8.2. Legal framework

To ensure the development of the regulatory environment in the thermal energy sector and promote harmonisation of legal norms, the Regulator independently issues and updates regulatory legislative acts.

In connection with the amendments to the Energy Law adopted on February 11, 2016, which stipulate that the natural gas market will be opened after April 3, 2017, the final tariff for the trade of natural gas will no longer be approved and the price of natural gas will be formed under market conditions. The Regulator will continue to approve tariffs for natural gas transmission, storage and distribution.

So far, companies which produce heat and use natural gas in the production process have set tariffs in tabular form with various natural gas trade prices; companies which purchase heat at a price which is set according to different natural gas trade prices, also determine tariffs in tabular form with various natural gas trade prices. Taking into account that, with the opening of the natural gas market, final natural gas tariffs will no longer be approved in order to create conditions that an appropriate solution is ensured for setting heat tariffs and tariff application with the opening of the natural gas market, conceptual solutions for the amendments to the Cogeneration tariff calculation methodology and Methodology for setting tariffs for heat supply services were analysed in 2016.

8.3 Tariffs, tariff calculation methodology, tariff changes

In the heat supply sector, the Regulator determines the tariffs for the generation, transmission, distribution and trade of thermal energy.

67% of the regulated heat supply companies work with the final tariffs approved by the Regulator; the remaining companies apply tariffs which were approved by municipal regulators at the time. In 2016, 10 tariff proposals were received by the Regulator from thermal energy companies. The Regulator approved 12 heat supply tariff proposals and adopted 14 decisions on tariff application in 2016.

Heat supply service tariffs approved in 2016	Operational area	Approved tariff*	Reduction compared to the initially submitted tariff proposal
		EUR/MWh	EUR/MWh
Saulkrastu komunālserviss Ltd	Saulkrasti	69.98	-1.39
Aizkraukles siltums Ltd	Aizkraukle city and rural territory	43.48	-1.17
Energoapgādes tīkli 1 Ltd	Olaine municipality	25.20	-1.07
Energoapgādes tīkli 2 Ltd	Olaine municipality	25.32	-0.81
Energoapgādes tīkli 3 Ltd	Olaine municipality	25.80	-0.97
Fortum Jelgava Ltd	Jelgava	48.42	-7.61
JSC Rēzeknes siltumtīkli, boiler house	Rēzekne	38.40	-6.81
JSC Rēzeknes siltumtīkli, cogeneration	Rēzekne	37.02	-4.55
JSC SIMONE	Alūksne	55.05	-0.70
ETO Ltd	Olaine municipality	28.41	-0.22
Lielvārdes Remte Ltd	Lielvārde and Lēdmane rural territory	52.50	-0.54
Wesemann-Sigulda Ltd	Sigulda	60.63	-0.18

* at natural gas trading price 149.4 EUR/thousand nm³.

In 2016, natural gas trading prices ranged from 206.32 EUR/thousand nm³ to 142.29 EUR/thousand nm³, reaching the lowest trading price of natural gas over the past three years.

Along with the relatively fast decrease in the natural gas trade prices applied by JSC "Latvijas Gāze", a situation was possible that companies would not have a heat tariff approved if the applicable natural gas sales trade had become even lower.

In view of the Regulator's function to protect the interests of users and to promote the development of public service providers, it was essential to react in this situation to protect the interests of users, namely, so that the public service provider would reflect its expenditures in accordance with the JSC "Latvijas Gāze" final natural gas trade tariff applicable in the respective month. Therefore, 14 tariff application decisions were adopted.

The thermal energy supply tariffs continued to decrease in 2016 and the heating was up to 16% cheaper in the residential areas in Latvia where thermal energy supply tariffs were determined according to the natural gas price. For example, the tariff reduction ranged from 11% to 16% in Riga, Daugavpils, Jūrmala, Dobeles, Grobiņa, Ikšķile, Olaine, and Ķekava; the reduction was lower in other areas.

In 2016, 12 thermal energy supply service tariffs were evaluated and approved, and from January 1, 2017, reduced heat supply tariffs entered into force in areas with some of the highest tariffs for heat supply services - in Lēdmane and Sigulda. At the same time, it should be noted that in 2016, after the Regulator evaluated the tariffs for heat energy services, the initially submitted tariffs for heat energy services by were reduced, obtaining a cost reduction of 1.5 million EUR.

8.4. Protection of service users

To ensure that public service providers provide continuous, safe and high-quality public services, the Regulator evaluates the received consumer complaints and is involved in the solution of problems.

In comparison with previous years, the number of complaints in which users of thermal energy express their dissatisfaction about the high price of heating has decreased in the heat supply sector. It is largely related to the effective efforts of the Regulator to explain to public service users what issues fall within the Regulator's competence and which ones concern the management of residential buildings.

In 2016, a total of 10 complaints were received about heat supply issues, of these, seven complaints were related to settlements for the supplied thermal energy, one was about concluding a thermal energy supply contract, one about tariff applications and one about the provision of district heating in the municipal area.

In the energy sector (thermal energy supply), one dispute over the restoration of heat supply and the payment of compensation has been initiated and dismissed, as the public service provider paid compensation for the amount of undelivered thermal energy and the submitter withdrew the application for dispute settlement.

8.5. Sector development trends

Amendments to the Energy Law which provide for changes in the natural gas market, as well as other legislative acts will affect the setting of tariffs of thermal energy produced in CHP plants and thermal energy supply services. The situation is changing after the opening of the natural gas market because there is no longer a single set price and a single approved tariff. Therefore, changes in the legal framework are required and one of the main tasks of the Regulator in the heat supply sector will be to develop tariff setting methodologies adjusted to the new circumstances in accordance with legislative acts.

ELECTRONIC COMMUNICATIONS AND POSTAL SECTOR

9. Electronic communications

In the electronic communications sector, the Regulator regulates services provided by electronic communications companies – voice telephony, data and electronic message transmission, leased lines, Internet access, distribution of radio or television programmes in the public electronic communications networks, access to networks and infrastructure, as well as interconnections of electronic communications operators.

9.1. Authorisation and supervision of companies

Only a registered electronic communications company has the right to provide electronic communications services. Companies are registered by the Regulator.

25 new companies were registered in the electronic communications sector in 2016. A total of 351 companies were listed in the Electronic Communications Companies' Register at the end of 2016.

39 companies were excluded from the Electronic Communications Companies' Register in 2016 - both at the request of companies terminating activities in the electronic communications sector and by decisions of the Regulator's Board enforcing the termination of activities as a penalty for repeated and unresolved violations of General Authorisations' Regulations, as well as based on the decisions of the State Revenue Service about the termination of economic activities of the companies.

The most popular service offered by newly established electronic communications companies still is the provision of Internet access.

A trend continues to use the latest technological platforms to provide electronic communications services which enables the provision of various integrated solutions bundled together.

The scarce resources required for the provision of electronic communications services – the rights to use radio spectrum and numbering – are assigned to electronic communications companies by the Regulator.

The Regulator allocates the rights to use numbering and radio spectrum for commercial purposes to registered electronic communications companies. 2.4GHz and 5GHz radio spectrum bands (“exempt spectrum bands” licence) may be used for commercial purposes without a Regulator’s decision in accordance with specific conditions defined in the National Radio Frequency Plan. The Regulator allocates the rights to use numbering according to the National Numbering Plan.

The Regulator allocates the rights to use spectrum bands for commercial purposes specified in legal acts by a tendering procedure or auction. The rights to use numbering are allocated to companies free of charge except for the short codes; to use these, an annual state fee for the rights to use numbering must be paid. Such a procedure facilitated a practice by companies requesting the Regulator to allocate an unreasonably large amount of numbers; thus, the quantity principle dominated when numbering resources were requested, and the resources were not used over a long period.

In 2016, the Regulator set specific conditions for the rights to use numbering for nine electronic communications companies when allocating new rights to use numbering in order to prevent inefficient use of scarce resources. These conditions provide that electronic communications companies 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. Consequently, electronic communications companies only request as many numbers as necessary for commercial purposes.

Allocated numbering in 2016

Numbering	Allocated		Cancelled	
	Numbers	Companies	Numbers	Companies
Public fixed telephone network numbers	183 000	7	152 900	11
Public mobile telephone network numbers	300 000	4	90 000	1
Toll-free numbers	100	1	3125	6
Shared payment service numbers	0	0	18 900	9
Premium rate service numbers	100	1	3505	5
Numbers for other types of services	121 100	3	40 200	7
Short codes	15	8	14	7
Identification codes	8	4	41	18

In 2016, auctions of radio spectrum bands were not organised because the Regulator did not receive any requests from companies. In May 2016, the Regulator's Board adopted a decision on the transfer of the rights to use radio spectrum bands and in May and November - decisions on extending the term for the rights of two companies to use radio spectrum to ten years, while in December – a decision on amendments to the rights to use radio spectrum allocated to two companies related to re-planning in the 3.4GHz-3.8GHz radio spectrum band, as well as a decision on the allocation of the rights to use radio spectrum for other types of radio communications. No rights allocated to companies to use radio spectrum were cancelled in 2016.

Since 2004 the Regulator has implemented and repeatedly optimised the number portability service if users switch operators. Consequently, the use of the service increases every year. The operators currently provide this service within one working day or other time agreed upon by consumers. According to the database data of the state-owned JSC "Elektroniskie

sakari”, 1.28% of fixed and 4.7% of mobile communications users have switched an operator and ported their numbers in 2016.

As in other countries, more active use of various fraudulent schemes using numbering resources was also observed in Latvia in 2016. The detection of such schemes is very complicated because the process of fraud is dynamic – it is terminated soon after its initiation. To limit fraudulent activities, foreign operators (due to suspicion only and without specific evidence) may prohibit calls in their electronic communications networks to Latvian numbers preventing consumers from making calls while being abroad.

In 2016, the Regulator received six applications from different Latvian and foreign operators and organisations stating that 14 different numbers in three different numbering ranges allocated to two Latvian electronic communications companies; unallocated numbers were also used for fraudulent purposes.

Although the Regulator evaluated all applications in detail, there is currently no judicial evidence that these numbers were used for illegal purposes. Permanent and stable international cooperation is necessary for fraud to be detected and proved; the cooperation is currently incomplete. Simultaneously, a respective legislative base is required and has not been developed yet.

The Regulator has performed actions within its competence to limit cases of fraud: the Regulator developed amendments to Regulations on preventing fraud performed using numbering. Amendments to the regulations specify new characteristics for cases of fraud performed using numbering and regulate SMS or MMS messages more tightly. The regulations simultaneously specify terms and procedure for information exchange between electronic communications companies and the Regulator and how the Regulator identifies, and companies prevent cases of fraud.

Supervision of activities of electronic communications companies is carried out in accordance with legislative acts of electronic communications sector – laws, Cabinet of Ministers regulations and Regulator’s regulations.

Electronic communications companies have an obligation to biannually submit regular information to the Regulator about their activities in the reporting period. The supervision is mainly carried out by ensuring the analysis of information submitted by companies. Planned inspections are carried out for supervision purposes; detailed information about the inspections can be found in the section about the service quality.

Regarding information to be submitted for market analysis, in 2016, 73 cases of non-delivery of information (letters of warning were sent) were detected and 33 cases of administrative violations were initiated.

In 2016, three litigation proceedings were terminated in the electronic communications sector asking to dismiss the Regulator's decision to cancel the rights to use numbering. In all three cases, the Court adopted a judgment favourable to the Regulator.

In 2016, three lawsuits were filed against the decisions of the Regulator. Two proceedings concerned the decision of the Regulator, imposing an administrative penalty for the provision of electronic communications services without sending a registration notice. The Administrative District Court is hearing the case regarding the repeal of the Regulator's decision, in which the Regulator had established that the electronic communications company failed to comply with the legislative acts regulating roaming and ordered the elimination of the established violation.

9.2. Legal framework

To carry out the regulation of public services in the electronic communications sector, the Regulator within its competence adopts decisions, issues administrative acts in accordance with changes in the Latvian legislation and EU legislative acts – regulations, directives and recommendations.

The Regulator was also actively involved in drafting a package of legislation to implement the Directive of the European Parliament and of the Council on measures to reduce the cost of deployment of high-speed electronic communications networks¹⁶. The framework law for the implementation of the Directive is the Law on High-Speed Electronic

¹⁶ Directive 2014/61/EU of the European Parliament and of the Council of 15 May 2014 on measures to reduce the cost of deploying high-speed electronic communications networks.

Communications Network, which provides for a new function of the Regulator - the settlement of disagreements between an electronic communications company and an owner of another residential network operator or owner of a non-residential building. The subject of disputes includes both access to physical infrastructure and internal physical infrastructure, coordination of construction works, physical infrastructure survey and providing information about the physical infrastructure. It is planned that the Regulator will be given the new function in mid-2017.

Last year the Regulator participated in the development of the draft law "Amendments to the Electronic Communications Law" on issues related to the conduct of the market analysis process and determination of obligations, the universal service, and review of end-user complaints. The law clarifies the Regulator's right to establish equal treatment obligations, including in the obligations that an electronic communications company with significant market power must provide services and information to others in the same way as it provides them to its related companies and as its related companies do so to other electronic communications companies. The law also includes the principle that, in the event of complaints, the end user initially contacts the service provider. The regulator has observed the practice that end-users do not address their service provider about the complaints before contacting the Regulator, although the situation can be quickly resolved by the end-user approaching the provider. The amendments to the Electronic Communications Law came into force, which stipulated that the list of services included in the universal service no longer includes a comprehensive directory inquiry service and a comprehensive directory of subscribers but is supplemented by the clause that persons with disabilities are entitled to receive special services. A new condition has also been introduced: if any service included in the universal service is provided by the market, the Regulator does not include it in the universal service obligations. In view of the above, the Regulator developed and adopted the Regulations on the universal service in the electronic communications sector.

In January 2016, amendments to the Electronic Communications Law came into force, which established the prohibition on transferring the rights to use numbering, if the Regulator has identified fraudulent use by numbering or misuse of numbering in the activities of an electronic communications company (transferor or receiver). Taking into

account the above, the Regulator accordingly made changes to the Regulations on the rights to use numbering, detailing the transfer process. On 30 April 2016, Regulation (EC) No 2015/2120 of the European Parliament and of the Council of 25 November 2015 entered into force regarding the part on roaming services setting a transitional period (from 30 April 2016 to 15 June 2017) for 'roam like at home' and the ceilings for retail charges applicable during the transitional period. While monitoring the implementation of the Regulation, the Regulator found a violation in the actions of one merchant and adopted a decision ordering prevent the violation. Litigation on the above-mentioned Regulator's decision is currently ongoing.

The Regulator made amendments to the Regulations on the Number Portability Service, specifying that the number portability service applies to all numbers provided by the electronic communications company for use by end-users. Thus, end-users, if using a short code, can use a number portability service.

Considering the practice identified in the market, the Regulator updated the features of fraud using numbering specified in the Regulations on preventing fraudulent use of numbering. A new feature for fraudulent use of numbering concerning a complete or partial replacement of the caller's number was included in the regulations.

The Regulator developed the Regulations on informing end-users about premium rate calls. These regulations regulate that an electronic communications company can inform its end users with a warning signal before a connection is made that the call will be subject to an increased charge. The regulations also ensure that the end user, if his or her service provider offers such an option, can choose whether or not to receive a warning signal.

The Regulator updated the Regulations on the amount of information necessary for market analysis and the procedure for submission thereof, as well as the Regulations on the information to be submitted in order to adapt to the EC requirements for performing market analysis and determining obligations for electronic communications companies with significant market power, optimise and make the acquisition of necessary information and data from electronic communications companies more efficient. The regulations relate to the introduction of new technologies in the electronic communications sector and keeping

data records. The Regulator also made amendments to several legislative acts in order to ensure the supervision and fulfilment of obligations specified for electronic communications merchants with significant market power – Regulations on access to related equipment, Regulations on a reference offer for access, common use of related equipment, access to data traffic and unbundled access to subscriber lines, Methodology for calculating the difference of adequate prices for services.

Based on the analysis of the market for the wholesale high-quality access at a fixed location, the Regulator plans to impose new obligations on the electronic communications company with significant market power – Lattelecom Ltd. Application of such obligations is being evaluated to promote competition in this field. In accordance with the results of the market analysis, legislative acts also had to be updated therefore the Regulator made amendments to **Regulations on a reference offer for interconnections and leased lines**¹⁷ and issued a new version of **Regulations on a reference offer for leased lines**¹⁸. They specify requirements to be complied with by Lattelecom Ltd, as well as align and systemise technical requirements for leased line services to ensure the minimum required amount of information to be included in a reference offer and available to electronic communications companies that want to use leased line services.

9.3. Promotion of competition

The ability of companies to simultaneously compete and mutually cooperate is and will be one of the main problems in an open market; it is also a part of a time-consuming regulatory process for the Regulator. Companies' rights, obligations and responsibilities across all sectors are determined by mutual contracts containing all technical, commercial and other provisions and agreements.

Relationships of electronic communications companies are legally determined by several types of agreements. The objective of interconnection agreements is to ensure compatibility between operators' networks so that end users of one public electronic communications network may communicate with end users of another public electronic communications network. Taking into account the significance of this agreement, within ten working days

¹⁷ No 1/11 "Amendments to Public Utilities Commission's 19 December 2013 decision No 1/38 "Regulations on a reference offer for interconnections and leased lines"" of 20 August 2015.

¹⁸ No 1/10 "Regulations on a reference offer for leased lines" of 20 August 2015.

after the conclusion or amendment of an interconnection agreement one copy of the agreement must be submitted to the Regulator.

Access to the electronic communications network infrastructure is a service provided to another company with specific conditions for accessing the network infrastructure (network, connected devices, data flow) required for the provision of electronic communications services. The Regulator imposes relevant access obligations on the company with significant market power.

Terminating segments of leased lines are used to provide a local loop of another electronic communications company. It is a segment from an end user's connection point to the nearest electronic communication network's switching or routing equipment.

In accordance with Regulations on access reference offer, Regulations on interconnection reference offer, and Regulations on leased line reference offer, an electronic communications company with significant market power must publish interconnection and leased line reference offers.

In 2016, the following reference offers were published:

- “Interconnection reference offer” published by “Lattelecom” Ltd on 1 October 2016;
- “Wholesale reference offer for terminating segments of Ethernet leased lines” published by “Lattelecom” Ltd on 1 June 2016;
- “Wholesale reference offer for terminating segments of analogue and digital leased lines” published by “Lattelecom” Ltd on 1 June 2016, 2nd edition;
- “A reference offer for services of mutual use of related equipment” published by “Lattelecom” Ltd on 15 December 2016, 3rd edition.

In 2016, 14 new interconnection agreements were registered with the Regulator reaching a total of 131 interconnection agreements at the end of the year. At the same time, we may conclude that contrary to interconnections, all types of access and shared use of infrastructure are not popular among companies. The infrastructure competition characteristic for Latvia continued in 2016.

The regulations on access to related equipment and services impose an obligation on electronic communications companies to cooperate in the use of cable ducts, while common use of other infrastructure is recommended for the time being. Regulations on access to related equipment and services obliges electronic communications companies to cooperate regarding the use of cable ducts, while the shared use of other infrastructure is recommendatory for the time being. On 19 April 2017, the Law on the High Speed Electronic Communications Network entered into force; after the law's entry into force Directive 2014/61/EU will be implemented. On 19 April 2017, the Law on the High Speed Electronic Communications Network entered into force; thus, the Directive 2014/61/ EU of the European Parliament and of the Council of 15 May 2014 on measures to reduce the cost of deploying high-speed electronic communications networks will be implemented. The Law on the High Speed Electronic Communications Network in the part regarding the examination of disputes will enter into force simultaneously with amendments to the Civil Procedure Law about the enforcement of decisions of the Regulator (is currently being reviewed by the Saeima (Parliament)). As a result, a separate law will impose an obligation on almost all network (gas, electricity, district heating etc.) owners to lease their infrastructure to electronic communications companies for installing high-speed electronic communications networks including an obligation for mobile operators to share their masts and towers for the installation of other operators' equipment. The Regulator's functions for dispute settlement will consequently be expanded and will concern not only disputes between electronic communications companies, but also between electronic communications companies and operators (owners) of other networks. Simultaneously with the amendments to the Civil Procedure Law on the enforcement of the decisions of the Regulator, the Regulations of Payment Disputes of the Regulator will enter into force. Simultaneously with the amendments to the Civil Procedure Law on the enforcement of the decisions of the Regulator, the Regulations on Dispute Settlement will enter into force.

The fundamental objective of electronic communications regulation is to balance the benefit to users and consumers in terms of the selection, price and service quality by promoting competition and rational use of resources for service provision. The benefit to service users is balanced if electronic communications companies mutually compete freely and efficiently for each consumer with fair methods (services, their quality, characteristics, prices).

To determine if free competition among companies has no obstacles or restrictions, the Regulator analyses the conditions of competition in electronic communications markets. When analysing electronic communications markets, the Regulator builds on the market analysis concept which recommends how to perform market definition, analysis and application of obligations.

In 2016, final decisions were adopted on the application of obligations and the abolition of obligations for the wholesale call termination on individual public telephone networks provided at a fixed location or Market 1. As a result of the market analysis, it was found that eight companies no longer participate in Market 1, so all the obligations that were previously applied to them were cancelled. One company – SanCom Ltd - was recognized as a company with significant power in the Market 1 and transparency, tariff regulation and access obligations were set for the company. In 2016, a market analysis (Market 2 (2007 Recommendation)) was completed for the wholesale call origination on the public telephone network provided at a fixed location. After market analysis, a national consultation with market participants was carried out; The Regulator also consulted with the EC, the Body of European Regulators for Electronic Communications (BEREC) and regulators of other EU countries on the analysis and obligations of Market No. 2, until, on August 25th, the final decision was finally adopted on the cancellation of all obligations for the sole company with significant power in this market – Lattelecom Ltd.

In 2016, two retail voice telephony markets were analysed. The market for public local or domestic voice telephony services for residential customers provided at a fixed location and the market for public local or domestic voice telephony services for non-residential customers provided at a fixed location were analysed. These markets were mentioned in the 2003 EU Recommendation, respectively, as Market 3 and Market 5. Taking into account the Regulator's conclusions on the substitutability of fixed voice telephony services with mobile voice telephony, when analysing these markets in 2016, the Regulator concluded that no companies with significant market power could be identified in these markets. As a result, all obligations that were applied to the sole company with significant power in these markets - SIA Lattelecom were cancelled.

9.4. Tariffs, tariff calculation methodology, tariff changes

The Regulator regulates interconnection and access (wholesale) tariffs, as well as end-user (retail) tariffs. The Regulator adopts a decision on tariff regulation after market analysis if it finds that efficient competition does not exist in the market.

The Regulator also supervises the application of roaming tariffs. The Regulator ensures that electronic communications companies apply tariffs approximated to costs for mutual settlements for the provision of the number portability service.

On March 10, 2016, the Regulator approved the Methodology for calculation of sufficient service price difference in the electronic communications sector. The Methodology determines how the Regulator calculates the difference between the electronic communications services' retail prices and the wholesale infrastructure access service prices and the information to be submitted by companies for the performance of the Price Difference Test. The obligation to comply with the methodology is currently limited to SIA Lattelecom. The Regulator will use the results of the Price Difference Test for the regulation of tariffs for wholesale access services in accordance with the procedure provided for in Section 42, Paragraph three of the Electronic Communications Law.

In order to defend the interests of end-users and to promote the development and competitiveness of electronic communications service providers, from 1 July 2016 the Regulator abolished the application of the upper-limit for termination rates for calls received from countries outside the European Economic Area. For connections initiated in Latvia or in one of the countries of the European Economic Area, companies continue to apply tariffs that do not exceed the upper limits of the pre-established termination rates.

9.5. Protection of consumer interests

Latvia is among leaders in Europe in terms of indicators of electronic communications service quality. Since its establishment in 2001, the Regulator has ensured continuous quality measurements of voice telephony and later also Internet access services for the largest market participants and requiring regular declaration of the quality of provided services from other market participants. The Regulator has invested considerable resources in the development of technical equipment for quality measurements and methodologies for measurements.

Since 2003 the universal electronic communications service in Latvia is provided by “Lattelecom” Ltd in accordance with the Regulator’s decision; several universal service obligations and service quality requirements with specific parameters were imposed on “Lattelecom” Ltd. Parameters of service quality and their values have been set for such electronic communications services included in the universal service as voice telephony service in the fixed telephone network, fault reporting service 178, as well as the telephone directory enquiry service 1188.

Voice telephony service quality

Measurements of service quality parameters are performed both by the Regulator and companies in accordance with the conditions of the quality requirements for electronic communications services provided for in the Regulations Regarding Quality Requirements, Submission and Publication of Quality Reports for Electronic Communications Services.

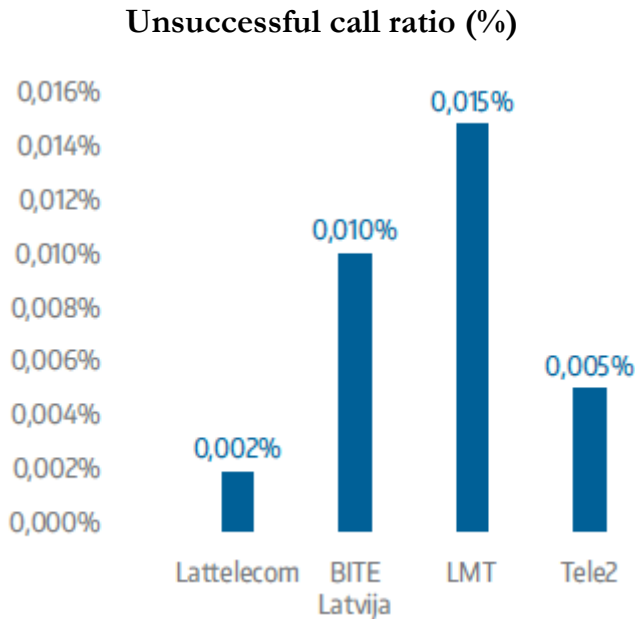
During measurements of the quality parameters of voice telephony services in the electronic communications network, the Regulator evaluates such parameters as the ratio of unsuccessful calls, average call set-up time and average speech transmission quality.

After compiling the 2016 results of the measurements of the domestic voice telephony service in Lattelecom's electronic communications network, it was noted that all parameters have maintained consistently good quality.

At the same time, it was observed that the value of the unsuccessful call ratio (0.002%) in 2016 remained the same as in 2015. In general, the results of the measurements in Lattelecom's electronic communications network indicate that the value of unsuccessful call ratio in the last three years has not exceeded 0.02% value, thus ensuring that the user does not feel disturbances when using the service.

After assessing the results of measurements of the quality parameters of voice telephony services of “BITE Latvija” Ltd, “Latvijas Mobilais telefons” Ltd (“LMT” Ltd), and “Tele2” Ltd, we concluded that they are rated as very good in locations where a stable coverage of the mobile electronic communications network is ensured. Only minor differences in the quality indicators of domestic voice telephony services were observed in the mutual

comparison of the operators' mobile electronic communications networks which attests to an equivalent level of service quality for the domestic voice telephony services provided by "BITE Latvija" Ltd, "LMT" Ltd, and "Tele2" Ltd.



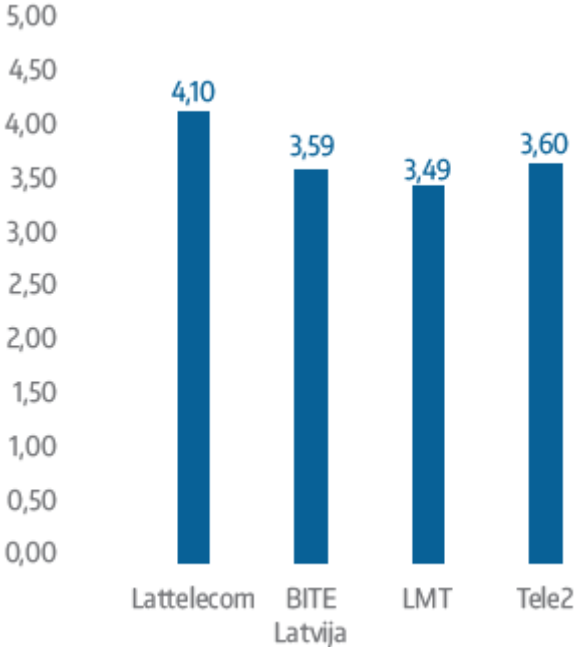
After assessing the quality of speech transmission in Lattelecom's electronic communications network, it was concluded that in 2016 the quality of the domestic voice telephony service has remained at a stable and invariably good level, providing very good audibility without perceptible distortions.

With regard to the clarification of quality indicators, it should be noted that a user perceives a deterioration in the quality of speech transmission if the audibility reaches a score of 2.5 or less. In this case, talking is difficult, for example, there are well-audible background sounds, acoustic disturbances, or interruptions in the conversation.

After analysing the indicators of speech transmission quality of BITE Latvija Ltd, LMT Ltd and Tele2 Ltd domestic voice telephony services, we may conclude that all operators of mobile electronic communications networks provide an equivalent high-quality service. The value of speech transmission quality evaluated during the measurements indicates perfect audibility and conversation reception in all three operators' networks.

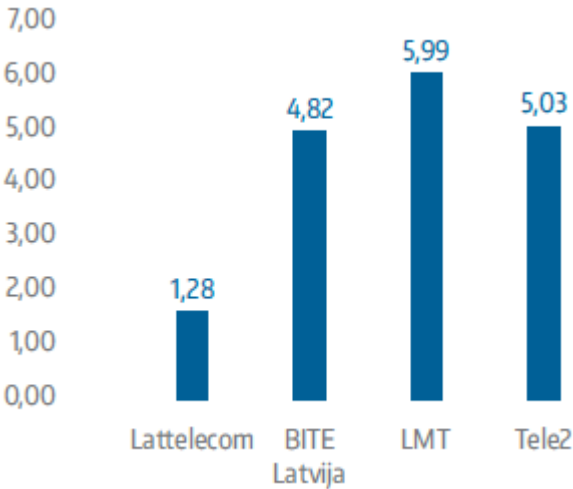
After analysing the results of measurements over a three-year period, we may conclude that the quality of speech transmission continues to improve every year, moreover, such tendency is observed in the electronic communication networks of all four operators.

Average speech transmission quality (point scale)



After analysing the indicators of the domestic voice telephony service set-up time over a longer period of time and comparing the changes in indicators over the last three years, it was observed that the quality indicators have remained at a constant level. Lattelecom Ltd ensures a much shorter call set-up time in the fixed electronic communications network than in mobile electronic communications networks, which is explained by technological differences of the networks and is typical for such networks.

Average call set-up time



Internet service quality

During the measurements of Internet service quality, the Regulator determines such parameters as connection speed (download and upload), latency, jitter, and packet loss ratio. In 2016, the measurements were performed at more than 405 freely selected geographical locations as uniformly as possible across the whole territory of Latvia including 50 locations in Riga. According to the population size in the largest 20 cities of Latvia, the number of measurements was selected in proportion to the population.

In 2016, BITE Latvija Ltd, LMT Ltd and Tele2 Ltd continued developing 4G data transmission technology which was introduced in previous years and enhancing the coverage of the mobile electronic communications network thus ensuring the availability of 4G data transmission technology in most parts of Latvia.

In 2016, individual locations were identified during measurements, where only 2G technology coverage is available, and there are places where the coverage of the mobile electronic communications network is not available. However, when evaluating the results of the measurements, we have concluded that the number of such sites decreases each year, and in 2016 no location was identified where at the mobile electronic communications network of at least one operator was unavailable.

When looking at BITE Latvija Ltd, LMT Ltd and Tele2 Ltd average values of the Internet download speeds in Latvia, they range quite extensively from 4 to 55 Mbit/s:

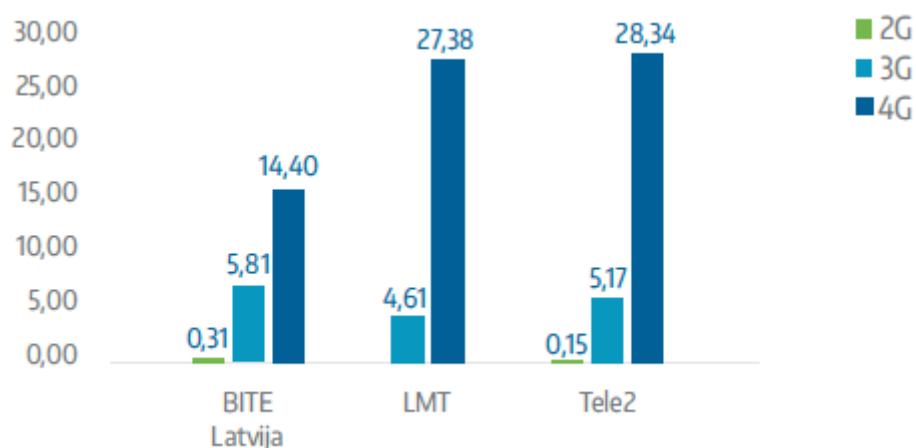
- the average values of BITE Latvija Ltd download speed range from 4 to 23 Mbit/s;
- the average values of LMT Ltd download speed range from 7 to 43 Mbit/s;
- the average values of Tele2 Ltd download speed range from 8 to 53 Mbit/s.

At the same time, a download speed above 100 Mbit/s was recorded at several measurement locations in 4G network in 2016.

The average speed values for the Internet service provided by JSC Telekom Baltija range from 1 to 6 megabits per second as in previous years.

Comparison of the average values of the download speed in Latvia between data transmission technologies used by BITE Latvija Ltd, LMT Ltd and Tele2 Ltd

The average connection speed (Mbit/s) in Latvia

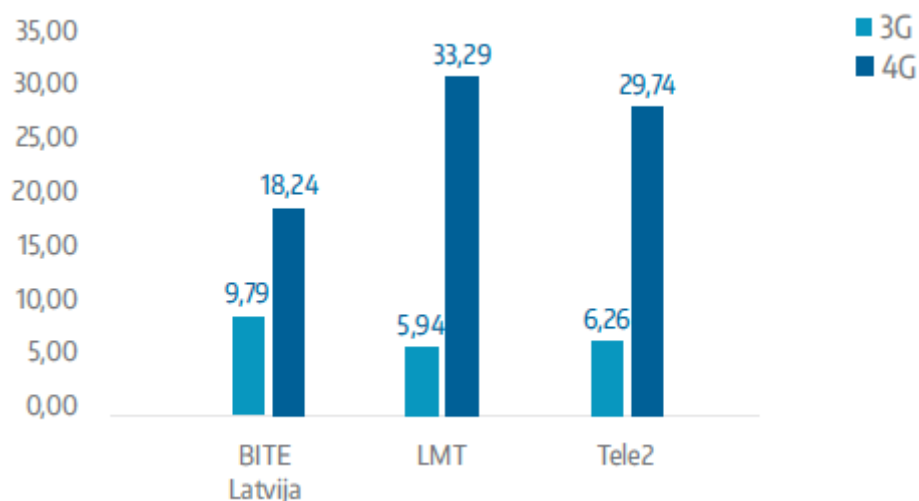


When looking at BITE Latvija Ltd, LMT Ltd and Tele2 Ltd average values of the Internet download speeds in Riga, they range quite extensively at different measurement locations:

- the average values of BITE Latvija Ltd download speed range from 3 to 35 Mbit/s;
- the average values of LMT Ltd download speed range from 6 to 93 Mbit/s;
- the average values of Tele2 Ltd download speed range from 4 to 111 Mbit/s.

Comparison of the average values of the download speed in Riga between data transmission technologies used by BITE Latvija Ltd, LMT Ltd and Tele2 Ltd

The average connection speed (Mbit/s) in Riga



Although the indicator of the average value of the connection speeds ensured by all technological platforms does not characterise the availability of an actual Internet service for a specific user, the average values clearly demonstrate the general development and availability of technologies in Latvia.

When assessing the dynamics of change in the Internet service connection speed over a three-year period, we observe an increase in the values of the connection speed in comparison with the measurement data of the previous years; year 2016 marked the continuation of the development of 4G technology. Although the availability of the Internet service still differs in various populated areas in Latvia, BITE Latvija Ltd, LMT Ltd and Tele2 Ltd provide Internet services of good quality in areas where a stable coverage of a mobile electronic communications network and sufficient resources of a mobile electronic communications network exist; furthermore, there is a trend for the values of the quality parameters of the provided Internet service to improve every year.

Annual percentage breakdown of the download speed according to data transmission technologies in Latvia



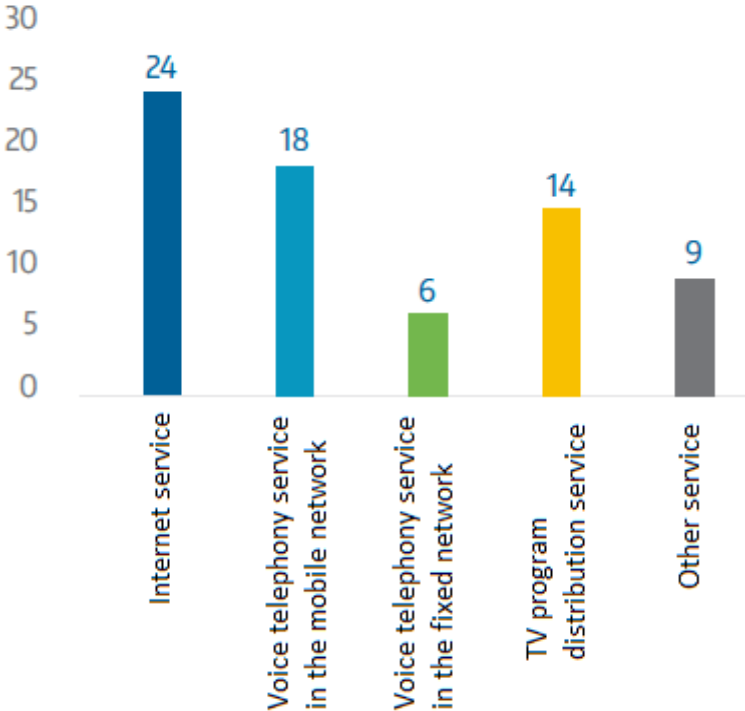
In Latvia, the development of 4G coverage remains dynamic and the coverage is expanded regularly, thus enabling the use of 4G technologies by more customers. Considering the activities of users over the Internet, as well as availability of different content services and resources online, the operators must develop and ensure continuous availability of the Internet service at an appropriate level as requested by users, at the same time complying with the principles of open Internet access. These principles specify that users have a right to access un disseminate any legal information and content over the Internet, use and

provide services and applications and use terminal equipment of their choice. The principles of open Internet provide that all Internet traffic is processed in a non-discriminatory manner irrespective of the transmitted content, as well as irrespective of its sender or recipient. Non-discriminatory processing of traffic means that service providers when transferring data must not give a priority to specific applications or data transferred by a content provider.

Users' applications and complaints

In 2016, the Regulator received and responded to 71 complaints, including 24 complaints about internet services, 18 complaints about voice telephony services in the mobile network, 14 complaints about television distribution services, six complaints about voice telephony services in the fixed network and nine complaints about others matters that did not fall within the Regulator's competence.

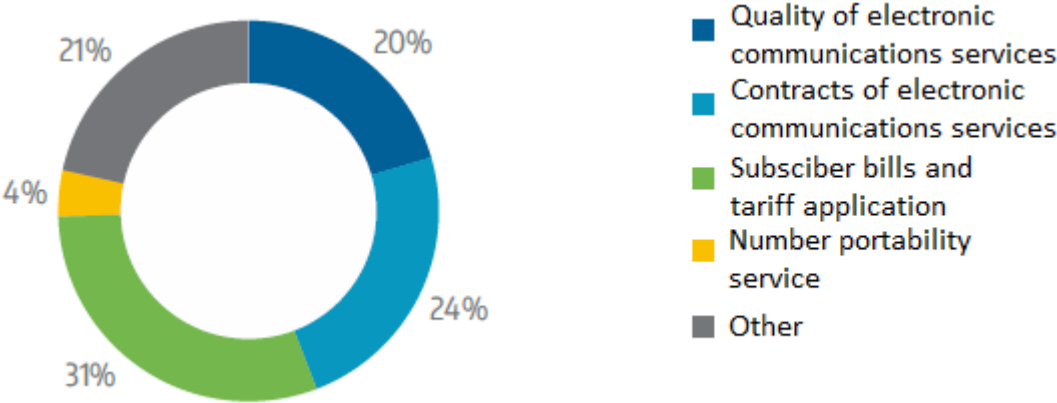
The number of complaints received by the Regulator according to service type in 2016



When assessing the reasons for the complaints, the Regulator found that the user complaints were mainly about subscriber bills and tariff application (31%), contracts (24%)

and quality of services (20%). There has been an increase in the number of complaints that qualify as different (21%).

The percentage breakdown of complaints received by the Regulator in 2016 according to the subject of complaints



In 2016, the Regulator reviewed two disputes between end-users and electronic communications companies in the electronic communications sector. One of the disputes was about a call's traffic data records performed by a public service provider and the denied access to this information by the applicant in order to verify the accuracy of the invoice. When considering the dispute, the Regulator decided to reject the end user's claim that the public service provider failed to record the call's traffic data, and the end user was denied the opportunity to receive this information (a printout of the calls stating the date and time of the start and end of the call) in order to verify the accuracy of the invoice. One of the disputes was whether a public service provider complied with the requirements of legislative acts and informed the applicant about the electronic communications network in which the roaming service was provided. The user's claim was rejected. The Regulator concluded that there was a dispute as to whether the Regulation (EU) No 531/2012 of the European Parliament and of the Council of 13 June 2012 on roaming on public mobile communications networks within the Union (Regulation No 531/2012) is binding for a public service provider in this situation and whether the public service provider had an obligation (in accordance with the Article 14(1)(1) of Regulation (EC) No 531/2012) to provide individual basic pricing information on roaming charges thus informing the user that the roaming service is provided on the satellite network. After assessing the

information available to the Regulator, the Regulator concluded that Regulation No 531/2012 does not apply to the specific situation because the call was made on the satellite network (not on the land-based public mobile communications network).

9.6. Sector development trends

In the electronic communications sector, the EC has set the objective of creating preconditions for the development of the so-called Gigabit Society in the EU Member States by 2025 by offering a number of proposals for changes in the regulatory framework and incorporating them into a new directive: the European Electronic Communications Code. A detailed discussion of the proposals for the directive will take place in 2017, with a view to their harmonized implementation in the Member States from 2018. In the context of the proposals, the tasks and functions of national regulatory authorities are also being updated. 2017 is the first year when regulators should begin to ensure that net neutrality requirements are complied with in national electronic communications networks and to monitor the implementation of new rules for the international roaming regulation for mobile electronic communications services, which provides for abolition of increased prices for mobile telephony service users while staying abroad within the EU. The Regulator will also continue to develop and enforce requirements for access to the public network infrastructure of electronic communications operators.

At the same time, the work started by the Regulator on the implementation of the Information Input and Processing System (IIPS) for companies should be emphasized. The IIPS will improve the communication with companies, as they will be able to submit reports and other necessary information to the Regulator electronically.

10. Universal service

10.1. Electronic communications sector

For public services 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. The universal service is basically a guaranteed opportunity for everyone to continuously and in a non-discriminating way receive a defined set of public services of specific quality and for a socially affordable price.

The universal service concept in the electronic communications sector is historically oldest and therefore the most developed one. This means the minimum volume of electronic communications services that is available at a specific level of quality and for an affordable price to all existing and potential users irrespective of their geographical location.

Since 2003 the Regulator has obliged Lattelecom Ltd to fulfil this function. In 2016, a number of universal service obligations and service quality requirements with specific parameters were maintained for the operator. In 2016, according to legal acts and after the analysis of the submitted information, the Regulator confirmed that the provision of the universal service obligations caused losses to be compensated from the state budget in the amount of 267,612 EUR in 2015.

In 2016, the Regulator performed measurements of the parameters of the universal service quality.

10.2. Postal sector

In the postal sector, universal service obligations have been imposed on the incumbent postal operator – the state-owned JSC Latvijas Pasts. It means that the state-owned JSC Latvijas Pasts has an obligation to deliver letters and parcels to any address in Latvia at tariffs set by the Regulator within the universal service framework.

The weight of domestic and cross-border parcels included in the universal service obligations (excluding the parcels received from other EU countries) is up to 10 kilograms.

According to the quality requirements of the universal service specified by the Regulator, the state-owned JSC Latvijas Pasts ensured 618 locations for the provision of postal services and 1,068 mailboxes. The number of letter items sent within the framework of the universal service was 38.7 million, while the number of sent parcels was 150 thousand.

To control the fulfilment of obligations of the universal postal service, the Regulator carried out the measurements of the delivery time of the most popular type of postal items – ordinary Class B letters by sending control letters. In accordance with the quality requirements, at least 98% of all letters must be delivered to addressees within three business days after the letter was handed over at a postal access point or placed in a letterbox. After 1,000 letters were sent over various routes, 99.5% of all letters were delivered within three business days which attests to excellent quality.

11. Post

In the postal sector, the Regulator regulates traditional postal services, courier services, express mail services and delivery services of the subscribed press publications. The Regulator's task is to supervise the provision of postal services, especially the universal postal service, as well as be responsible for the promotion of competition in the sector and protection of consumer interests.

11.1. Authorisation and supervision of companies

A company has the right to start providing postal services if it has sent or personally filed a registration notification with the Regulator. The Regulator establishes and maintains the Postal Companies' Register and ensures its public availability.

In 2016, the Regulator inspected the quality requirements of the universal postal service in 22 locations where the state-owned JSC "Latvijas Pasts" provides postal services. The information available at the locations of postal service provision about the range and tariffs of the universal postal service, as well as information on business hours was examined during the inspections. No violations were found during the inspections.

In 2016, the Regulator has examined five cases of administrative violations regarding failure to submit information to the Regulator and non-compliance with the provisions of the general authorization.

11.2. Legal framework

To carry out regulation of public services in the postal sector, in accordance with the requirements of the EU directives and legislative changes in Latvia, the Regulator within its competence independently adopts decisions and issues administrative acts.

On November 29, 2016, amendments to the Postal Law regarding the registration of postal companies entered into force. The Postal Law has included the criteria by which the Regulator should refuse the registration of a company and inclusion in the Register of Postal Operators, for example, if a company has a tax debt or an insolvency proceeding has been

started. The Postal Law also includes the criteria by which the Regulator excludes a postal operator from the Register of Postal Operators, for example, a postal company has not started to provide postal services within 12 months from the day it was registered in the Register of Postal Operators. In order to ensure that postal operators comply with tax and customs laws in their operations, the Postal Law stipulates that the Regulator shall make an entry in the Register of Postal Operators that the postal operator has been deprived of the right to provide postal services for three years on the basis of a notification submitted by the State Revenue Service that the postal operator has been repeatedly punished within a year for non-compliance with the rules of circulation of goods subject to excise duty or smuggling.

In view of the above, the Regulator has accordingly drafted and adopted the Regulations on the Registration of Postal Companies.

11.3. Promotion of competition

Although the universal postal service in Latvia is provided by the state-owned JSC “Latvijas Pasts”, the Regulator’s task is to promote competition in the sector and protect consumer interests.

In 2016, no postal company used the opportunity provided by the Postal Law: by a mutual agreement, postal companies may use a postal network or elements of the network owned by another postal company for a fee.

In the establishment of the single European postal parcel market, the main emphasis in 2016 was on the drafting of the Regulation of the European Parliament and of the Council on cross-border parcel delivery services. The Regulator’s representatives actively participated in the EC working and project groups to draft the Regulation.

11.4. Tariffs, tariff calculation methodology, tariff changes

The postal service tariffs are set by the postal operator, but the universal postal service tariffs are approved by the Regulator.

The Universal postal service tariffs were approved in 2008.

Domestic postal parcel shipment rates¹⁹

Type of postal item	Tariff, EUR
Consignment of Class B domestic postal parcel weighing up to 1 kg	2.99
Consignment of Class B domestic postal parcel weighing 1-3 kg	3.54
Consignment of Class B domestic postal parcel weighing 3-5 kg	4.10
Consignment of Class B domestic postal parcel weighing 5-10 kg	5.73
Consignment of Class B domestic postal parcel weighing 10-15 kg	8.48
Consignment of Class B domestic postal parcel weighing 15-20 kg	11.23

11.5. Protection of service users

A postal service provider has an obligation to ensure continuous, safe and high-quality public services to postal service users. Requirements for service provision in the postal sector are governed by laws, Cabinet of Ministers regulations and Regulator's regulations.

In the postal sector in 2016, the Regulator received and reviewed 27 complaints about postal service providers. 15 complaints were received about services provided by the universal postal service provider – state-owned JSC “Latvijas Pasts”. The complaints mainly concerned the delivery of domestic and cross-border postal items, mainly postal parcels and small packets, delay of delivery and indication of incorrect (incomplete) address, as well as delivery of registered domestic letters to addressees.

In 2016, the Regulator has examined one dispute between a user and a postal company regarding the compliance of the activities of the public service provider with the special

¹⁹ Approved by the Regulator's Board decision No 525 of 29 November 2010.

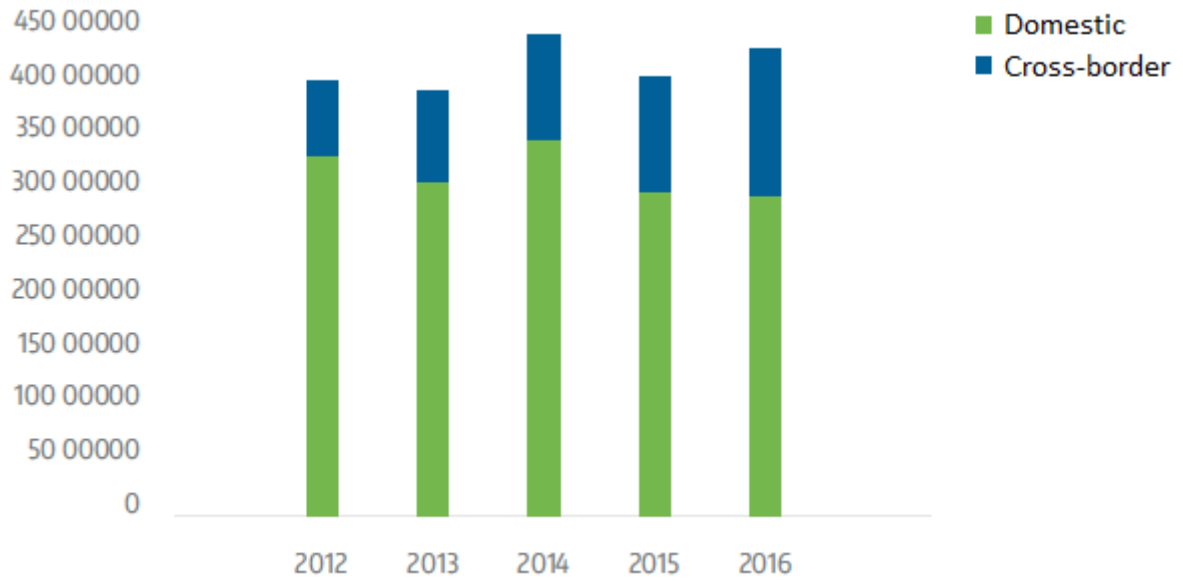
regulatory enactments of the postal sector concerning an item sent by a public service user. After reviewing the dispute, the Regulator concluded that the postal company provides publicly available information on the rates of postal services provided and the conditions for the delivery of postal items, including the conditions for the packaging of postal items, and provides for handling complaints of postal users. The user, on the other hand, had not complied with the conditions for packaging the postal item specified in the postal operator's packaging manual – the user had not selected the appropriate packaging for the postal item. Taking into account the above, the user's claim was rejected, as it was not found that the operation of the postal operator was non-compliant with the special legislative acts of the postal sector when sending the postal item to the user.

11.6. Sector development trends

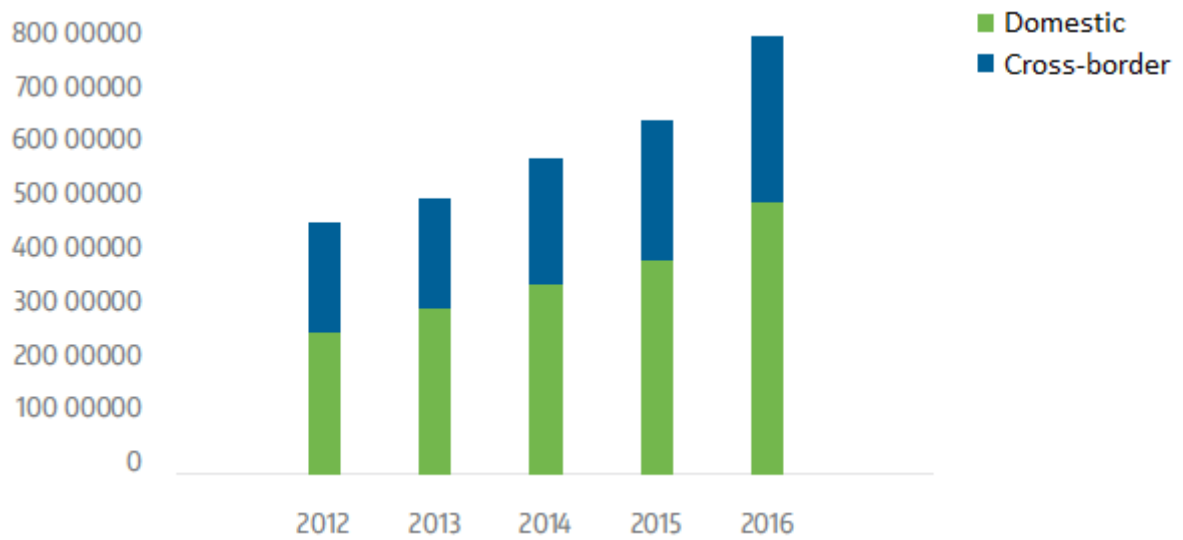
From 2017 new responsibilities for regulating the postal sector are expected in connection with the adoption of the Regulation on cross-border parcel delivery in the EU. The European Regulators Group for Postal Services (ERGP) has developed a medium-term (2017-2019) operational strategy for the EU regulators to facilitate the provision of a sustainable universal postal service, promote the competitiveness of the EU single postal market and ensure the protection of service users, including postal services' quality control.

In the postal sector, the regulatory supervision of the market for postal parcels must be improved, as well as competition must be developed in the markets for letter services by facilitating access to the postal network of the universal postal service provider.

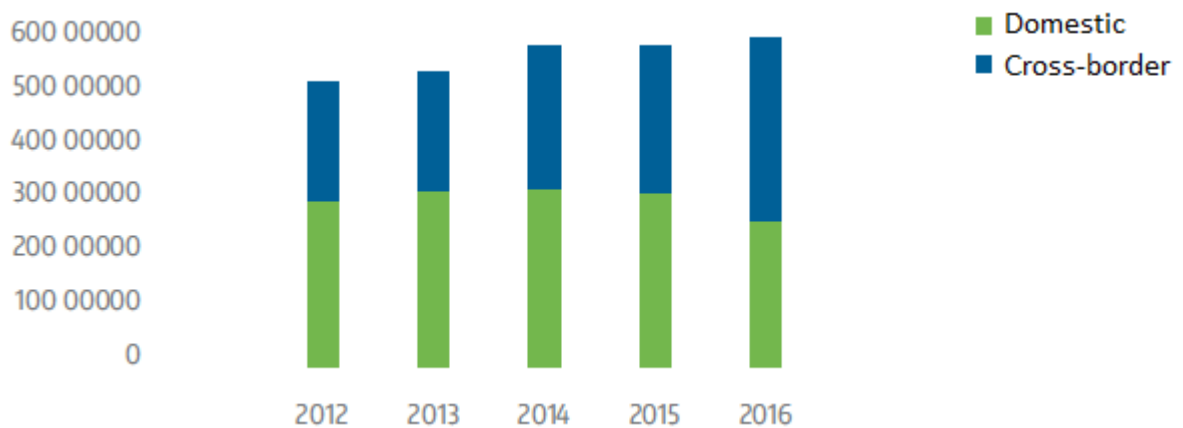
Letter items sent



Parcels sent



Express mail and courier mail sent

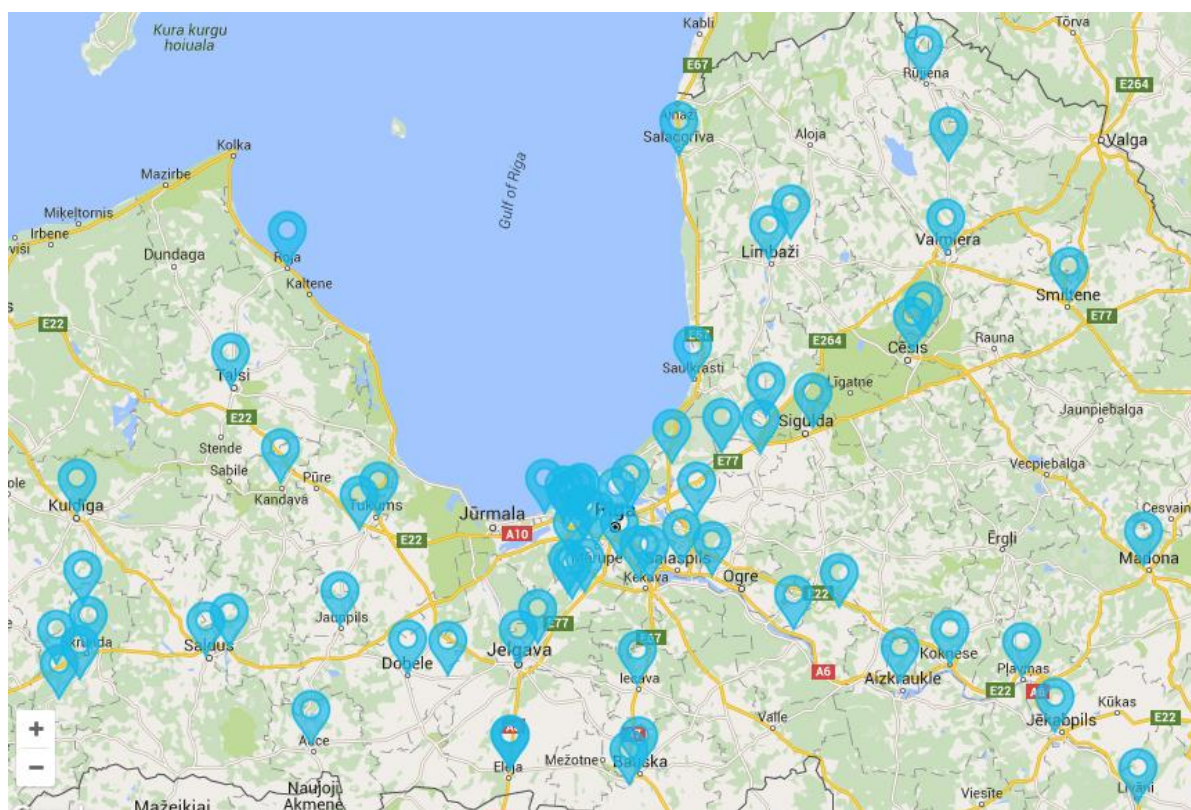


WATER MANAGEMENT AND WASTE DISPOSAL SECTOR

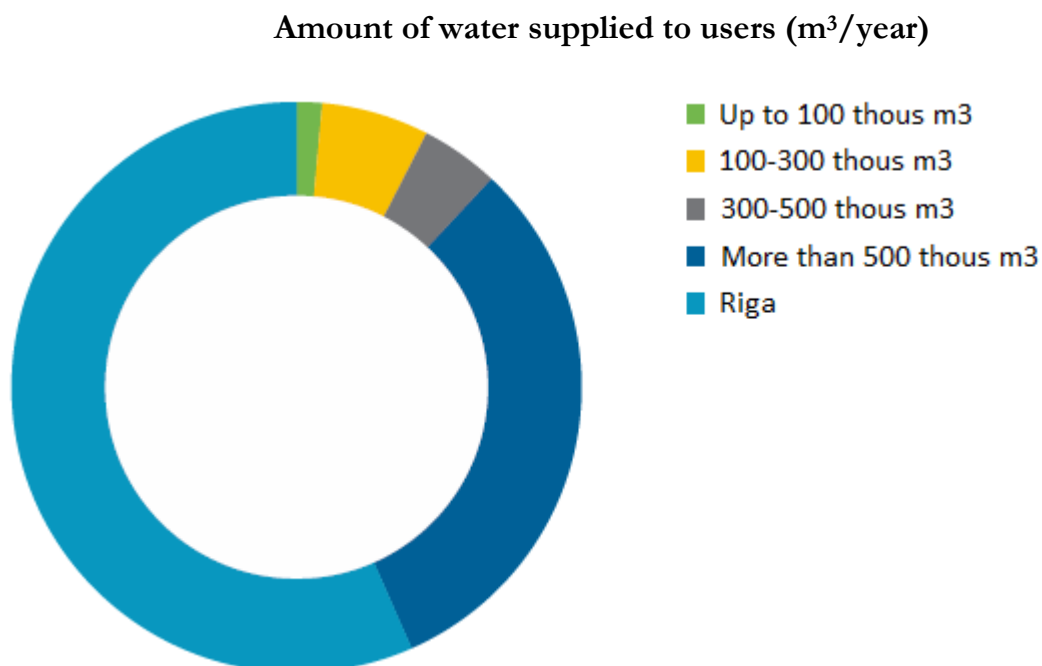
12. Water management sector

In the water management sector, the Regulator is tasked with regulation of water supply services (water extraction and preparation, water delivery) provided by water companies and regulation of sewerage service (wastewater collection and disposal, wastewater treatment) if the volume of public water management services provided by a company exceeds 100,000 m³/year for at least one of the above-mentioned four types of public services.

Although more than 140 companies (both regulated and unregulated) operate in the water management sector in Latvia they do not compete directly because they operate in different locations. In accordance with the Water Management Law, non-regulated water supply service providers are monitored by municipalities that have concluded contracts with these companies for the provision of water management services in their administrative territory.



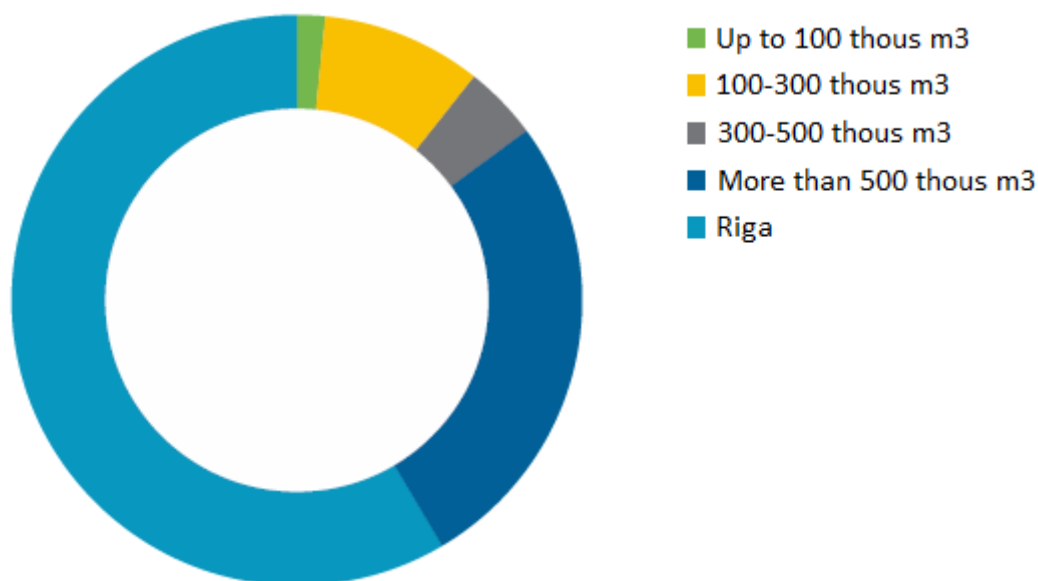
Regulated water companies can be divided into four groups according to the volume of provided water services provided.



In the water supply sector, water up to 100 thousand m³/year is delivered by nine companies ²⁰, from 100 thousand m³ to 300 thousand m³ – 30 companies, from 300 thousand m³ to 500 thousand m³ – nine companies, above 500 thousand m³ – 17 companies.

²⁰ In accordance with the requirements of the Water Management Law, the Regulator regulates all types of public water management services, if the amount of public water supply services provided by a company exceeds 100 thousand m³ per year for at least one service type.

Amount of waste water collected from users (m³/year)



The distribution of the volume of wastewater collected from users is similar. Up to 100 thousand m³/year of wastewater is collected by 15 companies, from 100 thousand m³ to 300 thousand m³ by 30 companies, from 300 thousand m³ to 500 thousand m³ by six companies, over 500 thousand m³ by 14 companies. In both water supply and sewerage sector, more than half of the regulated water management services are provided in and around Riga, as Riga has the largest concentration of users in Latvia.

12.1. Authorisation and supervision of companies

In order to provide water management services, a public service provider must be registered in the register of water management service providers and requires a water management service tariff approved by the Regulator.

As of 31 December 2016, 65 water management companies were registered in the Register of Water Management Service Providers. In 2016, in connection with the non-compliance of volumes of provided public water supply services with the Cabinet of Ministers Regulations No 1227 "Regulations Regarding Types of Regulated Public Utilities" two companies were excluded from the register; new providers of water services were not registered in 2016. 11 amendments were made in the Register of Water Service Providers which were mostly related to the extension of the water supply service territory to existing companies - in eight cases.

In 2016, the Regulator carried out a detailed analysis of the reports submitted by all registered water utilities operators on regulated activities in the water management sector in 2015. The report was extended by updating the information on the technological processes used in the provision of water management services in each operator's water management system, which enables the Regulator to better understand the specifics of companies' work and the related costs, as well as compare the activities of companies in similar systems. Eight water management companies were inspected on-site.

The analysis of the reports made in 2016 (report data for the year 2015) shows that the volume of water services has decreased by 1%, the volume of sewerage services has decreased by 2%, while the length of water utilities network has increased by 5%. The increase in the length of engineering networks is related to the implementation of projects co-financed by the EU funds for the improvement of the quality of water supply and sewage system services and the provision of new connections and the fact that municipalities continue to transfer water management systems previously managed by municipalities to regulated companies. In turn, the decrease in the volume of services is mainly due to the decrease in the number of residents, as well as the use of more economical services after the installation of water meters.

In 2016, in the water management sector, the Regulator initiated and terminated one dispute over the conclusion of a water management service contract. The submitter withdrew his application for consideration of the dispute, as the public service provider agreed with the draft contract proposed by the public service user.

12.2. Legal framework

The water management sector at EU level is characterised by local specifics, therefore the legal framework is also determined by the improvement of legal acts at national level.

On 1 January 2016, the Law on Water Management Services came into force. For many years, the Regulator has participated in the development of this law in cooperation with the

Ministry of Environmental Protection and Regional Development and other institutions related to the water sector.

The Regulator continues to participate in working groups and interinstitutional meetings on the regulatory framework for the provision and use of water services. The main work of the reporting year in participating in the drafting of the regulatory framework was related to the provision of opinions on the draft Cabinet of Ministers Regulations Regarding the Provision and Use of Public Water Management Services. These Regulations came into force on 1 April 2016.

12.3. Tariffs, tariff calculation methodology, tariff changes

Tariffs differ in various populated areas and these differences are determined by conditions of service provision - the selected technological solutions for the water supply system, compactness of the water supply system and its technical condition, as well as geographic, demographic and other characteristics (relief, buildings, the number of service users, density etc.) of each populated area. Service provision costs which are required to ensure service provision depend on these conditions. The Regulator approves water management service tariffs in accordance with economically justified costs.

In 2016, in the water management sector, tariffs were approved for six companies: seven water supply and seven sewerage service tariffs were set together (water supply and sewerage service tariffs of Kuldīgas ūdens Ltd were approved for two territories). Last year the evaluation of tariff proposal resulted in a minor reduction of initially submitted tariffs compared to the draft tariffs initially submitted to the Regulator for approval.

Company	Area of operations	Approved final tariff	Reduction achieved by the regulator (compared to the initially submitted tariff proposal; final tariff)
Baložu komunālā saimniecība Ltd	Baloži city, Ķekava municipality	2.11	-0.06 EUR/m³
Kuldīgas ūdens Ltd	Kuldīga city and Priedaine village, Kurmāle rural territory, Kuldīga municipality	2.53	-0.01 EUR/m³
Kuldīgas ūdens Ltd	Basi village, Gudenieki rural territory; Īvandes rural territory; Laidu rural territory: Laidu, Vanga and Valtaiķi villages; Kabiles rural area; Kurmāles rural territory, Upīškalna village; Padures rural territory, Deksnas, Ķīmales and Padures villages; Pelču, Rendas, Rumbas, Turlavas and Vārmes rural territories in Kuldīga municipality	2.14	0.00 EUR/m³
Rēzeknes ūdens Ltd	Rēzekne	1.60	-0.08 EUR/m³
Skrundas komunālā saimniecība Ltd	Skrunda municipality	2.15	0.00 EUR/m³

Grobiņas siltums Ltd	Grobiņa, Robežnieki village and „Āres” Grobiņa rural territory, Grobiņa municipality	1.34	-0.01 EUR/m³
Liepājas ūdens Ltd	Liepāja	1.53	-0.08 EUR/m³

The slight reduction in tariffs compared to the initially submitted tariffs is due to the fact that the work of the Regulator has provided results regarding individual consultations with water management companies about the preparation of tariff proposals, and thus the tariff projects submitted are less and less error-prone. Explanatory materials on the preparation of tariff proposals and the allocation of costs in accordance with the tariff calculation methodology are also available to water companies on the Regulator’s website.

On 14 January 2016, the Regulator approved the new edition of the Methodology on calculation of water management service tariffs which entered into force on 19 January 2016. The new edition of the tariff calculation methodology was developed by taking into account changes in the legislative acts of the sector – the new Law on Water Management Services and sector terminology for Construction Standards for Water Management and Sewerage Facilities in Latvia.

In the approved tariffs, the ratio between the costs directly related to the provision of water supply services (direct costs make up 77% of the tariff-forming costs) and the costs associated with the administration and support of the provision of water supply services (administration and support costs make up 23% of the tariff-forming costs) remains unchanged.

Direct water supply costs consist of capital costs - depreciation of fixed assets, lease payments for fixed assets and credit payments related to the creation of fixed assets - and operating production costs - the cost of staff (involved in production) remuneration, the cost of purchased repair services, the cost of materials, transport, electricity and the environmental testing.

Meanwhile, the costs associated with the administration of the water supply and the supply of water services consist of remuneration of the administrative staff, transport and electricity costs, other insignificant costs of economic activity, and taxes.

A similar picture is also observed in the costs of sewerage service charges - costs directly related to the provision of sewage services account for 81% of the total cost of the sewerage tariffs, while the costs associated with administration and support of sewerage services account for 19% of all costs of sewerage service tariffs.

12.4. Protection of service users

The monitoring of the quality of services provided in the water management sector and compliance of water quality with requirements of legislative acts is the responsibility of the Health Inspectorate as 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 inspections of companies, the Regulator ascertains if companies implement a drinking water monitoring programme and if agreements with laboratories to examine water quality have been concluded.

In 2016, the Regulator received and replied to 15 applications and complaints regarding the provision of water services. 14 complaints were addressed directly to the Regulator, while one complaint was transferred from the Consumer Rights Protection Center. Compared to 2015, the number of complaints has decreased significantly (by 25), which is explained by the above-mentioned adjustment of the regulatory environment of the water sector, which reduces the number of emerging problems, as well as user consultations performed by the Regulator and companies.

Distribution of complaints	2015	2016
Justified	1	2
Unjustified	9	3
Explanation provided	18	4
Unrelated to the Regulator’s work	13	6
Total:	41	15

In the water management sector, five of the received complaints were related to service contracts. Four complaints have been received on prepared payment documents (invoices), including invoicing costs in the case of direct payments in the water sector. One complaint was received regarding the application of tariffs. Two of the received complaints were related to questions about submitted tariff proposals for water services, including the justification of included cost items. One complaint was received regarding the provision of centralized water management services. One complaint was received regarding the ownership and repair of water supply engineering networks, and one complaint was received about a company's actions when it found out that a user had arbitrarily connected to the centralized water supply system and about calculating the charge for consumed water.

12.5. Sector development trends

In 2017, the Regulator's participation in the development of draft legislative acts arising from the Law on Water Management services will continue.

Since 2014 the specific aid objective 5.3.1 "To develop and improve the quality of water supply and sewage system services and to ensure connection possibilities" of 2014-2020 Growth and Jobs Program of the EU Structural Funds is being implemented. The planned allocated financing for water management development projects is 148.91 million EUR including Cohesion Fund co-financing of 126.57 million EUR to be completed by the end of 2018.

As part of this specific support objective, water utilities will continue to implement water management projects, focusing mainly on expanding the availability of sewage services, which is very important from the environmental point of view.

Water service providers are also given the opportunity to participate in cross-border programs Latvia-Lithuania, Latvia-Estonia and Latvia-Russia, where projects can be implemented in the areas of water management, efficiency improvement, pollution prevention, and sustainable waste water management. Environmental and resource efficiency pilot and demonstration projects can be supported through the LIFE program.

To promote connection of new users to newly constructed engineer networks, the Law on Water Management Services provides for indirect incentives to establish connections, for

example, an agreement with a service provider that a connection can be paid for in instalments, as well as that a municipal council may also decide on the allocation of funding for partial payment for these works from the municipal budget.

13. Waste disposal

In the municipal waste management sector, the Regulator only regulates the disposal of municipal waste at landfill sites. Other activities related to the organization and supervision of municipal waste management services fall within the competence of local governments.

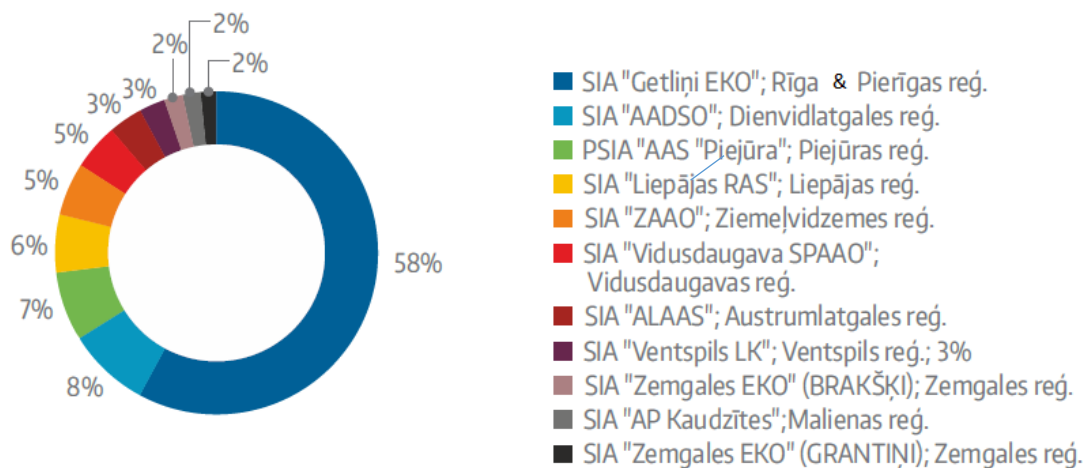
13.1. Authorisation and supervision of companies

To provide a municipal waste disposal service, a public service provider must be registered in the register of providers of services at municipal waste disposal landfills and requires a tariff for municipal waste disposal services approved by the Regulator.

In 2016, no new regulated sector companies were registered in the municipal waste disposal sector. The construction of new landfills is not anticipated in the Waste Management Plan 2013-2020; in 2016, 11 landfill service companies were registered in the Register of Municipal Waste Disposal Service Providers.

In the waste disposal sector in 2016, the Regulator performed one inspection of a municipal waste disposal site at the location where the service was provided, and no deficiencies were identified at the location. The activities of other companies were analysed by evaluating the reports submitted annually by the companies.

The distribution of the volume of municipal waste transferred for disposal at landfill sites shows that more than half (about 58%) of waste is delivered to the "Getlini" landfill, serving the Riga and Pieriga municipal waste management region with the highest concentration of waste producers in Latvia.



13.2. Legal framework

Legal framework in the waste disposal sector is determined by the Waste Management Law, Cabinet of Ministers regulations and legal acts developed by the Regulator.

In the waste disposal sector, the Regulator provided an opinion last year on the draft law "Amendments to the Waste Management Law", adopted on November 17, 2016, and also provided two opinions on the updated draft Cabinet of Ministers Regulations "Amendments to the Cabinet of Ministers Regulations No 1032 "Regulations Regarding the Construction of Landfill Sites, the Management, Closure and Re-cultivation of Landfill Sites and Waste Dumps" of 27 December 2011", adopted on December 13, 2016.

On January 1, 2016, a new version of the Methodology for calculating the tariff for municipal waste disposal service came into force. The methodology was updated in conjunction with amendments to the Waste Management Law adopted in 2015 which stipulated that a tariff for municipal waste disposal at landfills should additionally include costs related to the reduction in the volume of disposable biodegradable waste including regeneration of biodegradable waste and costs related to the maintenance of a landfill for 30 years after its closure.

Meanwhile, amendments to the Waste Management Law adopted by the Saeima on November 17, 2016, which entered into force on January 1, 2017, stipulate that the tariff shall also include the costs of R&D activities related to the reduction of waste deposited at landfills. At the same time, the landfill operator when calculating the tariff must reduce the

costs included in the tariff for the disposal of municipal waste for the part of the revenue that it receives as the difference between the payment for the natural resources tax paid for the quantity of municipal waste disposed of in the landfill and the natural resources tax paid to the state budget for the disposal of municipal waste. Taking into account amendments to the Waste Management Law, on 16 February 2017 the Regulator approved a new version of the Methodology for calculating the tariff for municipal waste disposal services and is ready to begin the review of tariffs for all municipal waste landfills, as the amendments to the Waste Management Law provide that municipal waste landfill operators shall prepare and not later than December 31, 2017 submit a new tariff proposal for consideration to the Regulator; the tariff proposal shall be calculated taking into account changes in the Waste Management Law.

13.3. Promotion of competition

There are 11 public service providers in Latvia which provide a municipal waste disposal service and are regulated by the Regulator.

The Regulator regulates the disposal of municipal waste in landfills in the municipal waste management sector. The municipal waste disposal tariff is only one part of the municipal household waste management fee paid by a waste producer. In turn, according to the National Waste Management Plan, each individual waste management area is serviced by landfills identified in the plan. Consequently, the landfills do not compete with each other because they service waste producers from different administrative territories.

Company name	Service provision territory and landfill address	Waste management region and serviced municipalities
AP Kaudzītes Ltd	Waste landfill “Kaudzītes”, Litene rural territory, Gulbene municipality	Maliena region. 10 municipalities: Alūksne, Ape, Baltinava, Balvi, Cesvaine, Gulbene, Lubāna, Madona (Dzelzava, Liezēre rural territory), Rugāji, and Viļaka municipalities

Atkritumu apsaimniekošanas Dienvidlatgales starppašvaldību organizācija Ltd	Waste landfill "Ciniši", Demene rural territory, Daugavpils municipality	Dienvidlatgale region. Daugavpils and nine municipalities: Aglona, Dagda, Daugavpils, Ilūkste, Krāslava, Līvāni, Preiļi, Riebiņi, and Vārkava municipalities
Atkritumu apsaimniekošanas sabiedrība „PIEJŪRA” Ltd	Waste landfill "Janvāri", Laidze rural territory, Talsu municipality; Tukums transfer-marshalling station; Jūrmala transfer-marshalling station; Roja transfer-marshalling station; Kandava transfer-marshalling station	Piejūra region. Jūrmala and eight municipalities: Dundaga, Engure, Jaunpils, Kandava, Mērsrags, Roja, Talsi, and Tukums municipalities
ALAAS Ltd	Waste landfill "Križevņiki", "Križevņiki 2", Križevņiki, Ozolaine rural territory, Rēzekne municipality	Austrumlatgale region. Rēzekne and six municipalities: Cibla, Kārsava, Ludza, Rēzekne, Viļāni, and Zilupe municipalities
Getliņi EKO Ltd	Waste landfill "Getliņi", Rumbula, Stopiņi municipality	Pierīga region. 20 municipalities: Ādaži, Babīte, Baldone, Carnikava, Garkalne, Ikšķile, Inčukalns, Ķegums, Ķekava, Lielvārde, Mālpils, Mārupe, Ogre, Olaine, Ropaži, Salaspils, Saulkrasti, Sēja, Sigulda, and Stopiņi municipalities
Liepājas RAS Ltd	Waste landfill "Ķīvītes", Grobiņa rural territory, Grobiņa municipality	Liepāja region. Liepāja and 12 municipalities: Aizpute, Brocēni, Durbe, Grobiņa, Kuldīga (Laidi, Pelči, Snēpele, Vārme rural territories), Nīca,

		Pāvilosta, Priekule, Rucava, Saldus, Skrunda, Vaiņode municipalities
Municipal company “Ventspils labiekārtošanas kombināts” Ltd	Waste landfill “Pentuļi”, ”Jaunpentuļi”, Vārve rural territory, Ventspils municipality	Ventspils region. Ventspils and three municipalities: Alsunga, Kuldīga (Kuldīga city, Ēdole, Gudenieki, Īvande, Kabile, Kurmāre, Padure, Renda, Rumba, Turlava rural territories), and Ventspils municipalities
Vidusdaugavas SPAAO Ltd	Waste landfill ”Dziļā Vāda”, Mežāre rural territory, Krustpils municipality; Madona transfer-marshalling station; Aizkraukle transfer-marshalling station	Vidusdaugava region. Jēkabpils and 14 municipalities: Aizkraukle, Aknāste, Ērgļi, Jaunjelgava, Jēkabpils, Koknese, Krustpils, Madonas (Madona city and other 12 rural territories), Nereta, Pļaviņas, Sala, Skrīveri, Viesīte, and Varakļāni municipalities
ZAAO Ltd	Waste landfill ”Daibe”, ”Stūri”, Stalbe rural territory, Pārgauja municipality	Ziemeļvidzeme region. Valmiera and 21 municipalities: Aloja, Amata, Beverīna, Burtnieki, Cēsis, Jaunpiebalga, Kocēni, Krimulda, Limbaži, Līgatne, Mazsalaca, Naukšēni, Pārgauja, Priekuļi, Rauna, Rūjiena, Salacgrīva, Smiltene, Strenči, Valka, and Vecpiebalga municipalities
Zemgales EKO Ltd*	Waste landfill ”Grantiņi”, Code rural territory, Bauska municipality	Zemgale region. Four municipalities: Bauska, Iecava, Rundāle, and Vecumnieki municipalities
Zemgales EKO Ltd (until 30 March 2016)	Waste landfill “Brakšķi”	Zemgale region. Jelgava and five municipalities: Auce, Dobeļe, Jelgava, Ozolnieki, and Tērvete municipalities

	(1 st round), Līvberze rural territory, Jelgava municipality
Jelgavas komunālie pakalpojumi Ltd (from 1 April 2016)	Waste landfill “Brakšķi” (2 nd round, Sectors 3 and 4), Līvberze rural territory, Jelgava municipality

** service at landfill “Grantiņi” was provided until 31 December 2016. From 1 January 2017 the public service at landfill “Grantiņi” is provided by “VIDES SERVISS” Ltd.*

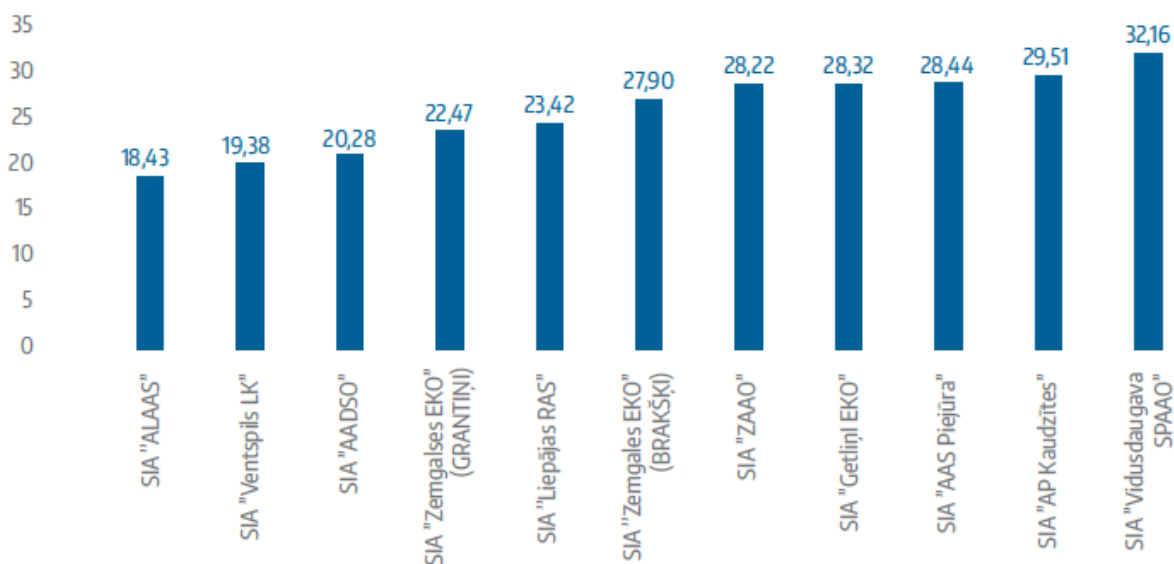
13.4. Tariffs, tariff calculation methodology, tariff changes

The municipal waste disposal tariff is one part of the total municipal waste management fee paid by the waste producer. The second part is the fee for collecting, transporting, transfer and storing municipal waste, which is determined by the municipality on the basis of an agreement concluded between the municipality and the public service provider which the municipality has chosen by tender. The third part is a natural resources tax on waste disposal in the amount specified in legislative acts.

In 2016, "Getliņi EKO" Ltd municipal waste disposal tariff for the "Getliņi" landfill was approved by the Regulator at 28.32 EUR/t, excluding VAT and natural resources tax. The tariff applies to those companies and individual waste suppliers who transfer municipal waste to the landfill "Getliņi", - the Riga City and Pieriga waste management region.

In 2016, the following tariffs set by the Regulator for municipal waste disposal at landfills were in force.

Tariffs in force in 2016, EUR/t



The difference in tariffs for municipal waste disposal services is determined by a number of factors, for example, whether or not a waste pre-treatment centre has already been set up at a landfill, where organic waste and materials for further processing are mechanically separated from municipal waste, population density and development of a separate waste collection system in the territory from which waste is delivered to the respective landfill, as the total amount of waste deposited in the landfill depends on it. The technologies used, such as infiltration management and biogas utilization, as well as whether landfill transshipment stations exist in the waste management region, are also important for difference in tariffs.

13.5. Protection of service users

Performing functions specified by the law, the Regulator annually compiles information about complaints submitted to the Regulator including the waste disposal sector.

In 2016, one electronic message (a complaint) was received by the Regulator concerning the municipal waste management sector.

The Regulator regulates only municipal waste disposal at landfill sites in the municipal waste management sector. According to the first paragraph of Article 8 of the Waste Management

Law, municipal waste management, with the exception of municipal waste disposal at landfills, falls within the competence of the relevant municipality.

The small number of complaints in the waste management sector (one complaint per year also in 2014 and 2015) is due to the fact that the waste producers are not the direct users of waste disposal service at landfills. Waste managers are the direct users. Consequently, all waste producer complaints are dealt with by waste managers in municipalities. The electronic shipment-complaint filed in 2016 did not contain issues within the Regulator's competence.

13.6. Sector development trends

Council Directive 1999/31/EC of 26 April 1999 on the landfill of waste provides that by 2020 only 35% of the biodegradable waste disposed of in 1995 must be landfilled, as well as for re- at least 50% (by weight) of waste from paper, metal, plastic and glass in domestic waste and other similar waste streams must be prepared for secondary use and recycled.

To do this, landfills are equipped with mechanical pre-treatment facilities for household waste and biodegradable waste is separated from the total mass, reducing the amount of waste to be disposed of. By means of pre-treatment facilities, materials for secondary use are separated from unsorted municipal waste, which can then be recycled or regenerated, ensuring the efficient use of resources.

Investments made by companies can be recovered only through tariffs, therefore, the trend in this regulated area of the waste management sector is a constant increase in tariffs in order to facilitate the separate collection of waste and the pre-treatment of collected waste before being transferred to landfills to reduce the amount of landfilled waste.

INTERNATIONAL COOPERATION

14. International cooperation

The Regulator, representing Latvia, cooperates with regulators of other countries in all regulated public services sectors. The Regulator is active in various international organisations for cross-border cooperation whose functions are related to the planning and development of regulatory frameworks, safe and sustainable development of the internal market, and the resolution of various regulatory issues at international level, while contributing to the Regulator's activities in Latvia.

In 2016, as in the previous reporting period, the Regulator had various tasks in the area of international cooperation, depending on the degree of liberalization of the markets and the specifics of the sectors; specific plans were drawn up for each sector to implement the EU single market as stipulated by the respective EU regulatory framework.

In addition, the co-operation project between the Regulator and the OECD ended successfully in 2016 - a peer review of the Regulator was carried out by OECD, following a specific methodology for assessing a regulator's independence, significance, objectives, inputs, the regulatory environment in which the Regulator operates, and the professional assessment. This project was also valuable for the OECD, as it provided an in-depth look into the operation of a multi-sector regulator for the first time. The Regulator, for its part, was able to compare its performance with indicators from other OECD regulators and receive the OECD's support to strengthen the independent Regulator. The OECD's assessment and recommendations were published in the OECD Report: Driving Performance at Latvia's Public Utilities Commission (2016).

14.1. Electronic communications

In the electronic communications sector, the most important issue was the proposal for a directive on the creation of the European Electronic Communications Code (Code), which was published on 14 September 2016.

The Regulator actively participated in discussions with BEREC and its working groups on the proposals included in the Code, the Nordic-Baltic Meeting with Nordic operators, the annual meeting of the Baltic Electronic Communications and Postal Regulators (BALTREG) and elsewhere. Particular mention should be made of roaming and net neutrality issues. In addition, on 30 August 2016, BEREC adopted guidelines on the new network neutrality, which will help regulators to apply the new legislation in practice. The development of such guidelines follows from Regulation 2015/2120 on access to open internet.

Meanwhile, the Regulator's representatives are the main developers of documents in the Next Generation Network Working Group of the European Telecommunication Committee, which prepares guidelines for the European Communication Committee in this area.

In 2016, the Regulator actively participated in various regional and bilateral regulatory cooperation projects. While performing duties of the Vice-Chair of the Eastern Partnership Electronic Communications Regulators Network (EaPeReg) in 2016, the Regulator repeatedly spoke in the EaPeReg events, sharing experience on important areas of EaPeReg's activities, including quality of service, regulation of access networks, handling complaints, user protection and other regulatory aspects.

Continuing its long-standing cooperation with the Office of Technical Assistance and Information Exchange (TAIEX) within the framework of the EU regulatory framework, the Regulator and Kosovo Electronic Communications and Postal Regulator signed a Memorandum of Understanding in Riga on November 10, 2016. Meanwhile, following the EC invitation, the Regulator's experts participated in the evaluation of the regulatory framework for electronic communications of Jordan and Montenegro.

In 2016, the Regulator, in co-operation with the BEREC Office, organized the BEREC contact network meeting, the plenary session of the Eastern Partnership Electronic Communications Regulators Network (EaPeReg), the annual BALTREG meeting, and the meeting of the Network and Numbering Working Group of the European Telecommunications Committee.

14.2. Post

In the postal sector the Regulator participated in the work of ERGP, CERP and EC working groups, as well as the UPU Congress where an important discussion for regulators on defining postal consignments took place. The Regulators actively participated in discussions including the BALTREG meeting on EC regulation proposal about the delivery of cross-border packages.

14.3. Energy

In the energy sector, particular emphasis should be placed on cooperation between regulators at European and regional level through the implementation of network codes. To this end, a separate Energy Regulators' Forum (ERF) was established within CEER which shall adopt the so-called decisions of all EU regulators on issues arising from the CACM Regulation (Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing capacity allocation and congestion management guidelines). Within the framework of the ERF, the Regulator participated in all regulators' decision-making regarding proposals on the methodology for allocation of congestion revenue, market coupling plan, common network model methodology, production and load data acquisition methodology and other proposals under the CACM Regulation. Preparation for the opening of the Latvian gas market was essential; the Regulator organised or participated in regional working meetings with Lithuanian, Estonian, Finnish and Polish regulators. To ensure high-quality electricity market surveillance in accordance with REMIT, the Regulator participated in the Nord Pool Regulators' Council and its working groups, including discussions with the Baltic and Nordic regulators about the transformation of the Council, involving the exchanges that will operate in the region in the future.

Regulators of the Baltic States, Finland and Poland, the Baltic Transmission System Operators, traders, representatives of the Lithuanian Gas Exchange and the ministries discussed the most pressing issues in the region, including the implementation of REMIT and network codes, the EU electricity and gas infrastructure's projects of common interest, improvement of the energy market and others during the Baltic Electricity Market and the Baltic Gas Market Forums held in Vilnius and Tallinn in 2016 as well as at the Baltic Regulators' meeting on the importance of thermal energy. The Regulator informed the

forum participants about regulatory developments in Latvia, about third-party access to the gas infrastructure, and about regulation of the heat supply system in Latvia.

The Regulator's representative was re-elected for the ERRA Presidency, where, in response to a significant issue of the ERRA training course, it has developed a new ERRA Training Strategic Proposal that has received ERRA Member State support. ERRA's representative has also been elected as deputy chairman of the ERRA Tariff/Pricing Committee.

14.4. Water management

In the water sector, the Regulator continued to be active in the WAREG and ERRA working groups by exchanging experiences on various aspects of regulation in the sector and continuing to work on comparisons of indicators for the operation of regulated companies in different countries.

15. International cooperation in 2017

In the water sector, the Regulator continued to be active in the WAREG and ERRA working groups by exchanging experiences on various aspects of regulation in the sector and continuing to work on comparisons of indicators for the operation of regulated companies in different countries. The electronic communications, energy and postal sectors are areas where the review of the existing regulatory framework will continue. Consequently, the Regulator will have to actively engage in international cooperation, at least at European and regional level, expressing the views of the Regulator and preparing for new regulatory obligations.

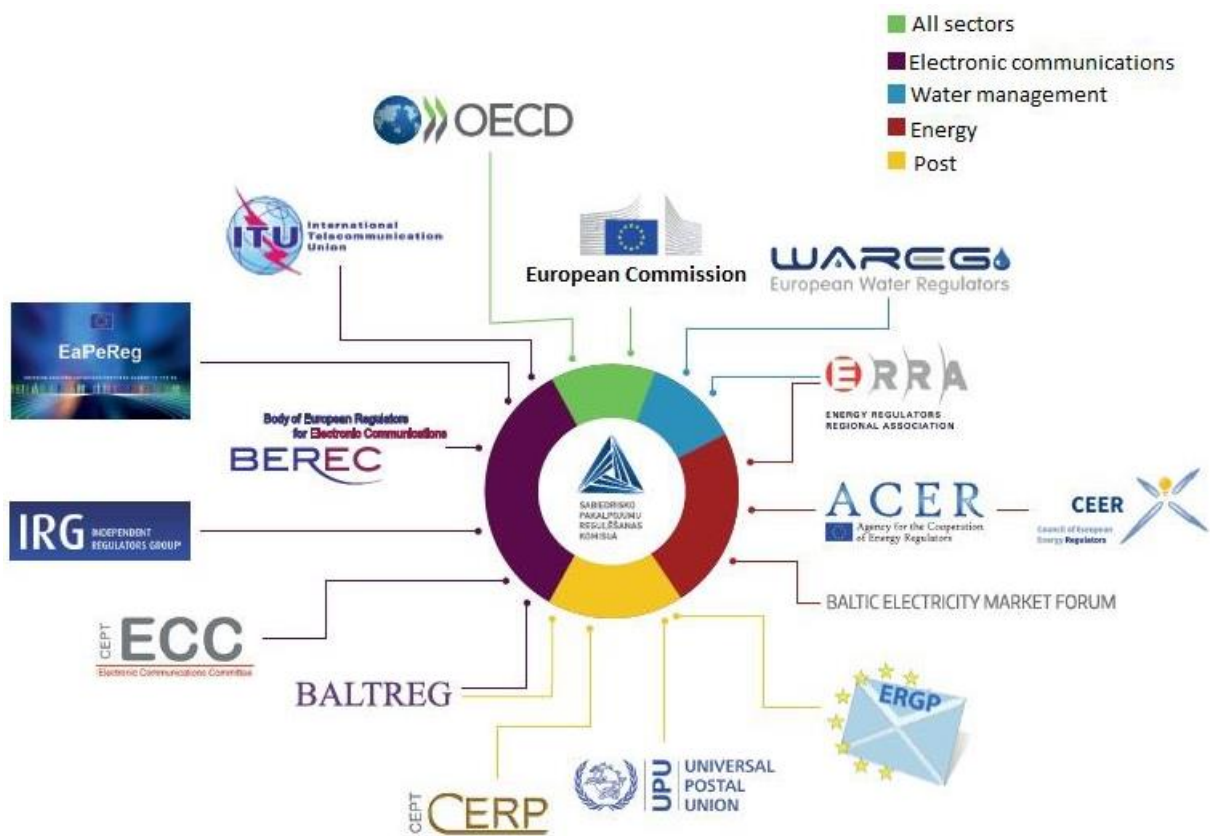
In the electronic communications sector, regulators will focus on the proposal for a directive on the establishment of the European Electronic Communications Code. The Regulator's representative manages one of the head groups of BEREC member states, which will mainly focus on aspects of radio spectrum and OTT services that are part of the proposal for the Code. Roaming will remain on the agenda of regulators, as roaming tariffs (*roam-like-at-home*) will be abolished from 15 June 2017.

The most important issues in the postal sector, including the regulation of e-commerce, will follow from the EC Proposal for a Regulation of 25 May 2016 on cross-border parcel

delivery preparing for the 2018 approval (between Congresses) of the postal reform started in 2016 Istanbul UPU Congress 2018.

In the energy sector, the most important agenda items will be the implementation of network codes in the electricity and gas sectors, participation in the review of the EC package of documents "Clean Energy for All Europeans" and the formulation of regulators' opinions. The EC proposals include specific sectoral regulation as well as governance issues. The overall decision-making practice of the capacity calculation region (the three Baltic States, Finland, Sweden, Poland) will be further strengthened during regional co-operation.

In the water sector, the Regulator will actively engage in strengthening WAREG, with the organization gaining a new legal personality.



ORGANISATION AND MANAGEMENT

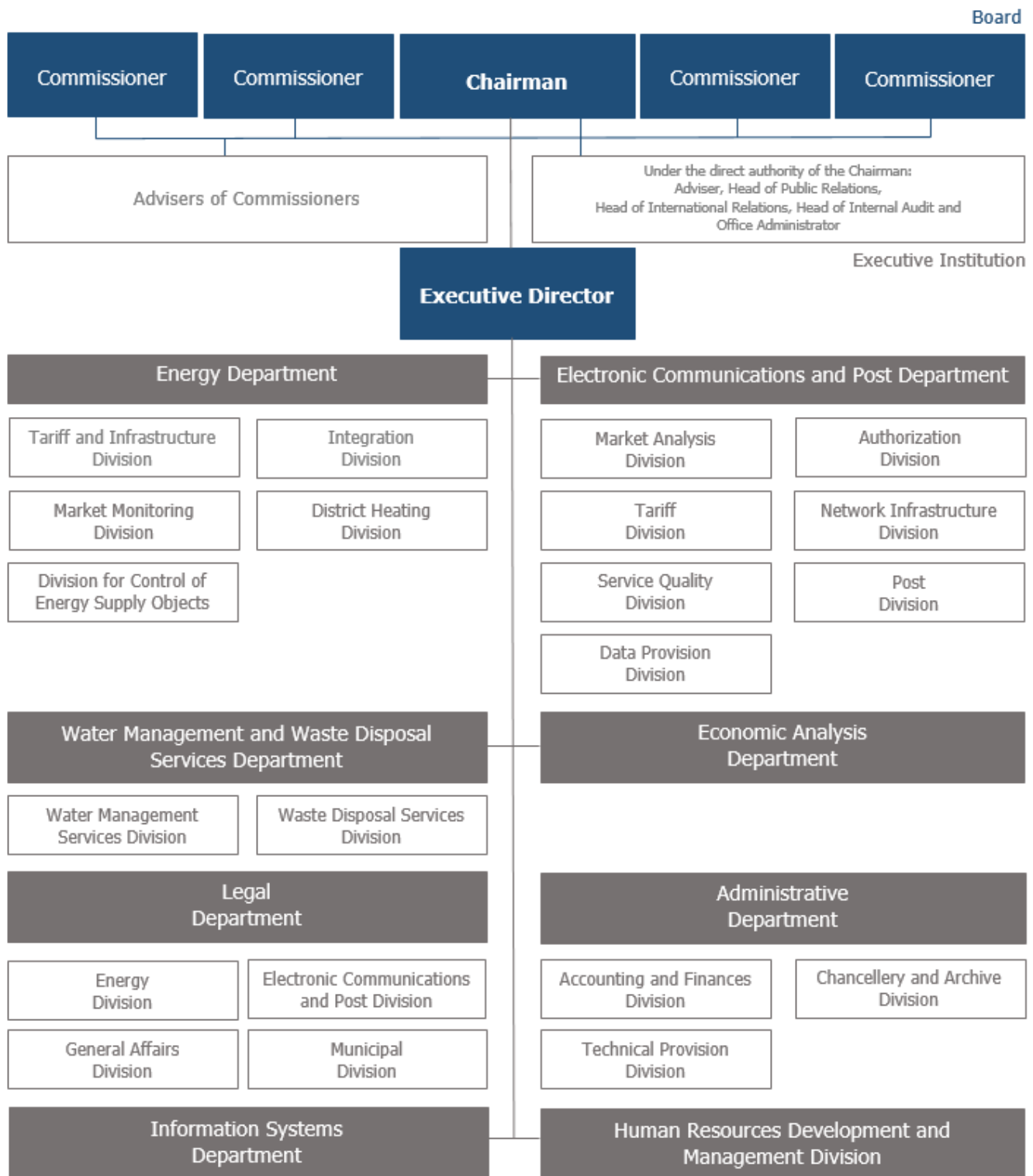
16. Management of the Regulator

16.1. Structure and work organisation

The Regulator's work organisation and structure is stipulated by the law "On Regulators of Public Utilities". According to the law, the decision-making institution of the Regulator is the Board 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 2016, 50 board meetings were organised, and 291 decisions were adopted.

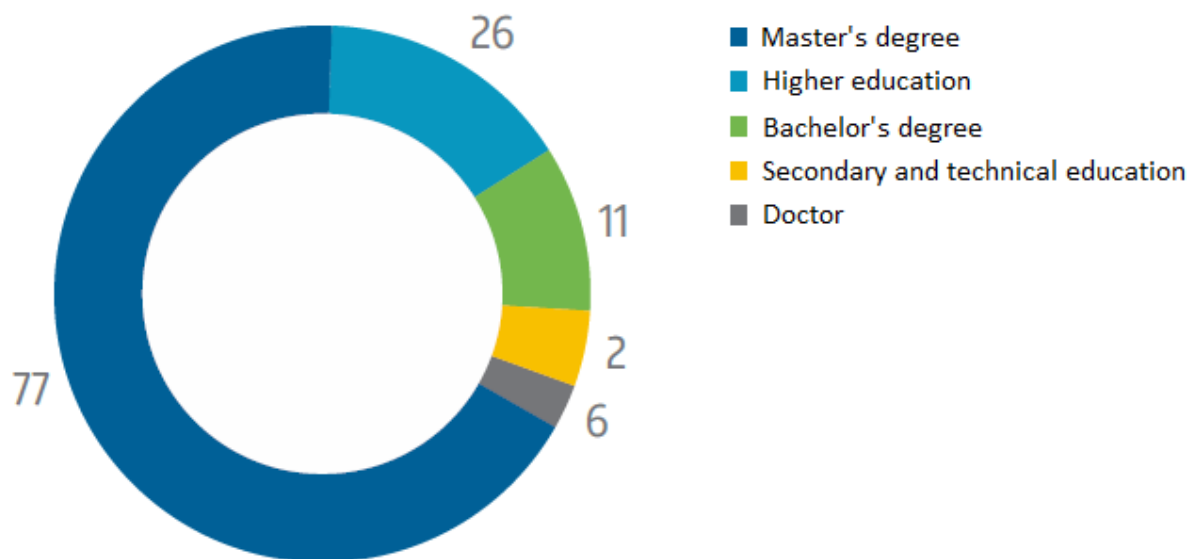
The executive institution is subordinated to the Board and carries out the functions of the Board's secretariat and experts to prepare issues and documents for Board meetings and implement the execution of the Board's decisions and issued administrative acts. The executive institution consists of the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

On 31 December 2016, 110 employees worked at the Regulator. The number of employees increased by 25 during the year while 43 employees terminated their employment. 90 employees or 82% work directly on the implementation of regulatory functions and 20 employees or 18% perform technical and administrative support functions. The Regulator's structure on 31 December 2016.



In order to carry out regulatory functions, the Regulator’s employees must be highly competent. 96% of the Regulator’s employees have a university degree. To maintain high capacity, the Regulator also supports various training events for employees.

Qualification level of the Regulator's employees on 31 December 2016 (number of employees)



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.

17. Financing and economic activities

In 2016, the Regulator carried out its activities in a separate budget programme approved by the law “On State Budget for the Year 2016”.

The Regulator’s operations are financed by the 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 relevant public service provided by the regulated company in 2015.

The Regulator’s planned expenditures in 2016 were 4,798,792 EUR. Actual spending amounted to 4,472,212 EUR, which was 93.2% of the planned spending in the reporting year.

Section 31(2.4) of the law “On Regulators of Public Utilities” and paragraph 6 of the Cabinet of Ministers Regulations No 1623 “Regulations on the rate of the state fee for public utilities regulation and the payment procedure of the fee” of 22 December 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.

The Regulator’s financial report 2016 was prepared in accordance with the Cabinet of Ministers Regulations No 1115 “Procedure for preparing an annual report” of 15 October 2013.

The financial report 2016 has been submitted to the Treasury. On 17 March 2017, the Regulator’s annual report 2016 was audited without objections by “D. Daņēvičas revidentu birojs” Ltd (licence No.33 of the sworn auditor’s commercial entity).

In 2015, the Regulator concluded 50 economic cooperation agreements and organised 18 public procurements in accordance with the Public Procurement Law.

No	Financial resources	Previous year (actual numbers) *	Reporting year (EUR)	
			Approved by law	Actual numbers *
1	Total revenues, incl.	4 080 482	4 298 792	4 472 112
	<i>Fee based services and other income</i>	4 080 482	4 298 792	4 472 112
2	Total spending	4 749 667	4 798 792	4 472 212
2.1.	Administrative costs (total)	4 565 471	4 683 342	4 385 790
	<i>International cooperation</i>	75 765	75 765	75 765
	<i>Other administrative costs</i>	4 489 706	4 607 577	4 310 025
2.2.	Capital investments	184 196	115 450	86 422

* *in accordance with the cash flow principle*