Sabiedrisko pakalpojumu regulēšanas komisija

2024 Annual Report of the Public Utilities Commission of the Republic of Latvia on the National Energy Sector, Prepared for the European Commission

CONTENT

I Foreword

The Public Utilities Commission's (hereinafter – Regulator) report provides an overview of the regulatory developments of the electricity and natural gas sectors in Latvia in 2024. Regulatory activities covered various tasks, mainly stemming from continued implementation of the European Union (hereinafter – EU) directives or regulations, both in electricity and natural gas sectors.

In the electricity sector, the Regulator implemented methodologies derived from European Union legislation for the synchronization of the electricity system with the continental European networks. In the natural gas sector, significant contributions were made to the sustainable functioning of the natural gas market. These processes are strategically important not only for the market but also for energy security. In the electricity sector, national regulatory authorities (hereinafter – NRAs) and Ministries of the Baltic States also continued their coordinated efforts to transpose the requirements set out in the Clean Energy Package, working in close cooperation with other NRAs across the EU.

The Regulator continued the work related to the implementation of the European Commission's network codes to establish a unified, coordinated, and appropriate single day-ahead and intraday electricity market coupling, being more focused on system operation and balancing issues in 2024.

In the natural gas sector, particular focus was placed on the Incukalns underground gas storage (hereinafter – Incukalns UGS) facility. The legislator decided to allocate 4 TWh of storage capacity for the strategic reserve and abolished the Regulator`s obligation to set a tariff for the natural gas storage service. Starting from 2026, the fee for the natural gas storage system service will be determined exclusively through auctions. In turn, the Regulator amended the terms of use for the Incukalns UGS facility to introduce a long-term product, thereby enhancing the transparency of storage operations. These amendments are intended to enable earlier capacity auctions, allowing market participants to secure the necessary capacity in a timely manner prior to acquiring transmission capacity and natural gas.

Alda Ozola

Chair
The Public Utilities Commission of Latvia

II The basic organizational structure and competences of the regulatory authority

The Regulator was established and operates according to the Law on Regulators of Public Utilities. The goal of this law is to ensure the possibility of receiving continuous, safe and qualitative public utilities, whose tariffs (prices) conform to economically substantiated costs, as well as to promote development and economically substantiated competition in regulated sectors.

The Regulator regulates the provision of public utilities as a commercial activity in the following sectors: energy (electricity, natural gas and thermal energy), electronic communications, postal services, municipal waste management, water management and the deposit packaging management.

According to the Law on Regulators of Public Utilities, the Regulator is an institutionally and functionally independent regulatory authority. The Regulator independently performs the functions delegated by the Law on Regulators of Public Utilities as well as other sector-specific legislation and, within the scope of its competence, takes decisions independently and issues administrative acts binding upon specific providers and users of public utilities. The Regulator's decisions may be declared unlawful and repealed only by the court.

The main functions of the Regulator are:

- protect the interests of customers and promote the development of providers of public utilities;
- determine the methodologies for calculating and setting tariffs or the upper limit of tariffs, and also the procedures for applying tariffs or the upper limit of tariffs;
- determine the tariffs or the upper limit of tariffs;
- license and register the providers of public utilities;
- examine disputes;
- promote competition in the regulated sectors;
- supervise compliance of the public utilities with the Law on Regulators of Public Utilities, special regulatory enactments of the regulated sectors, conditions of the license or conditions of general authorisations, as well as various requirements related to quality, technical regulations and standards;
- provide public information about its activities and operations of public service providers.

According to the Regulations of the Cabinet of Ministers of the Republic of Latvia regarding types of regulated public utilities in the energy sector (electricity and natural gas), the Regulator shall regulate:

- the generation of electricity in power plants if the installed electric capacity is more than one megawatt;

- the generation of electricity in cogeneration mode if the total installed electric capacity of cogeneration power plant is more than one megawatt;
- electricity transmission if the voltage is 110 kilovolts and higher;
- electricity distribution if the voltage is higher than one kilovolt and does not exceed 110 kilovolts;
- the trade of electricity to any energy user;
- provision of the demand response service;
- the transmission of natural gas through pipelines;
- the storage of natural gas intended for sale in containers or storage sites;
- the distribution of natural gas;
- the trade of natural gas to any energy users, except the trade of natural gas in gas filling compression stations for vehicles;
- liquefying of natural gas or receiving, unloading, storage and regasification for further delivery to the natural gas transmission system.

The Regulator consists of a Board composed of a Chairperson and four members appointed by the Parliament and an executive body subordinated to the Board. For the purpose of introducing appropriate rotation of the Chairperson and members of the Board the Chairperson is appointed for seven years, two members of the Council - for six years and two members of the Council - for five years. The Board takes decisions on behalf of the Regulator and approves administrative acts which are binding for specific public service providers and customers. The executive body operates under the oversight of the Regulator's Board, and it serves both as a secretariat and as the provider of expert services. The executive body prepares issues and documents for examination at the Board meetings, enacts approved decisions and oversees the implementation of those decisions.

The Electricity Market Law and the Energy Law establish effective, proportionate and dissuasive financial sanctions in the electricity and natural gas sector, namely, the Regulator has the right to apply financial sanctions up to 10% from the net turnover of the previous financial year of the regulated service provider, however not less than EUR 300, in case of failure to comply with their obligations under the relevant national and EU legal acts. Regulations of the Cabinet of Ministers set out a detailed procedure on how the Regulator must calculate the volume of fines.

As regards tariff calculation in the electricity and natural gas sector, methodologies for the calculation of storage, transmission and distribution system service tariffs have been elaborated based on the Electricity Market Law, Energy Law and the Law on Regulators of Public Utilities, and by taking into consideration regulations related to the supply and trade of electricity and natural gas, as well as other legal acts which are in force in Latvia. The main principles set out in these methodologies are the following:

- the regulated utility must clearly and unambiguously reflect the cost of each regulated service, including only those assets and activities which are related to the regulated

services. The regulated utility must apply the cost allocation model according to basic principles and specifications that have been approved by the Regulator. The cost allocation model must be comprehensive and is approved by the Regulator.

- the regulatory asset base and the rate of return on capital must be used in determining capital costs. The rate of return on capital is the weighted average return rate from the rate of return that applies to equity and long-term interest rates on borrowed capital, as defined by the Regulator. The rate of return on capital is calculated for a specified proportion between equity and borrowed capital. The Regulator annually sets the rate of return on capital for each sector, the rate is applied if a new tariff proposal is submitted.
- tariffs must correspond to economically justified costs. When setting the tariff, the Regulator must perform analysis and assessment of costs and profits.

According to the existing procedure, providers of public services submit substantiated tariff proposals. The Regulator must approve or reject the proposal within 120 days. The time when public utilities prepare the requested additional information does not count towards these 120 days. The Regulator's decisions can only be challenged in court.

A service provider may submit a request to the Regulator to receive a permit to set the tariff by itself. In this case, the provider shall publish the tariffs in the official Gazette of the Republic of Latvia not later than within one month prior to the entry into force of the new tariffs and shall inform the Regulator (in natural gas transmission sector – within two months). The service provider shall submit to the Regulator a substantiation for the new tariffs and information regarding the actual costs, forecasted data regarding the new tariffs, and other documents that substantiate the need for the new tariffs. The Regulator shall, within 21 days, evaluate the conformity of the submitted tariffs to legal acts and the economic substantiation of tariffs, as well. If the Regulator has not taken a decision regarding the non-conformity of the submitted tariffs to legal acts or has not rejected the economic substantiation, the tariffs shall come into force on the date specified by the service provider.

The Regulator has the rights to initiate a tariff review if significant changes affecting income or costs of service provision are observed or might be predicted. In this case, the Regulator requests the service provider to submit a new substantiated tariff proposal. The Regulator also may, according to the methodology for calculating and setting tariffs or the upper limit of tariffs and also the procedures for applying tariffs or the upper limit of tariffs, change the draft tariffs of a provider of public utilities, if in the process of evaluating the draft tariffs the provider of public utilities fails to provide additional information to the Regulator on the justification of the costs forming the tariffs or if any of the costs forming the tariffs are economically unjustified, and the Regulator can justify that during the evaluation of the draft tariffs in any other legal way.

III Major developments over the last year in the electricity and natural gas markets

International cooperation is essential to ensure that the energy market functions and develops properly. Regional cooperation on specific cross-border issues is a foundation for successful implementation of the EU legal norms at European level. In 2024, the Regulator participated in forums, conferences and workshops at international level on a regular basis.

At the Baltic Electricity and Gas Market Forums, which were held in January in Estonia and October 2024 in Latvia on a rotating basis, the regulators of the Baltic States, Finland, Poland and Sweden, as well as the market participants, discussed current developments in the electricity and natural gas markets. Among the topics discussed were: an overview of the latest developments in the Baltic electricity market ahead of the desynchronisation; a detailed presentation by transmission systems operators (hereinafter – TSOs) on the progress of synchronization projects; implementation of the Baltic balancing roadmap; market surveillance in the reserves market; and capacity calculation for both short-term and long-term electricity markets following synchronization; development plans of electricity exchanges NORD POOL and EPEX SPOT in the region, the integration of biomethane into the gas grids of the Baltic States and Finland, and the challenges faced by market participants under changing market conditions.

As the Network Codes require Agency for the Cooperation of Energy Regulators (hereinafter – ACER) or regulatory authorities to approve the terms and conditions or methodologies developed by TSOs or nominated electricity market operators (NEMO), the Regulator participates in the ACER`s respective working groups and in the Baltic Capacity Calculation Region`s (hereinafter – Baltic CCR) NRAs`decision-making process on the methodologies under the respective Network Code. In 2024, in relation to the implementation of the requirements of the EU Network Codes the Regulator has adopted several decisions.

On 12 December 2024 the Regulator, the Estonian Competition Authority and the National Energy Regulatory Council of Lithuania adopted decisions on the Baltic TSOs` proposal for the amendments for the Baltic balancing capacity market in accordance with Article 33(1) and Article 38(1) and Baltic CCR NRAs adopted decisions on the Baltic CCR TSOs` proposal for the amendments on the methodology for the market-based allocation process of cross-zonal capacity for the exchange of balancing capacity for the Baltic CCR in accordance with Article 41(1) of Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing (hereinafter – Electricity Balancing regulation).

On 28 November 2024 the Regulator took a decision on the All-Central Europe TSOs` proposal for the dimensioning rules for frequency containment reserves (hereinafter – FCR) in accordance with Article 153(2), proposal for additional properties of FCR in accordance with Article 154(2), proposal for the limits on the amount of exchange and sharing of frequency restoration reserves

between synchronous areas in accordance with Article 176(1) and Article 177(1), proposal for the limits on the amount of exchange and sharing of replacement reserves between synchronous areas in accordance with Article 178(1) and Article 179(1) of the Commission Regulation (EU) 2017/1485 of 2 August 2017 establishing a guideline on electricity transmission system operation (hereinafter – Guideline on electricity transmission system operation). Also, the Regulator adopted decision on the All-Central Europe TSOs` proposal for common settlement rules for all intended exchanges of energy as result of the frequency containment process and ramping period in accordance with the Article 50(3), and proposal for common settlement rules for all unintended exchanges of energy in accordance with Article 51(1) of Electricity Balancing regulation. Along with the synchronization of the Latvian electricity transmission system with Continental Europe Synchronous Area (hereinafter – CESA), the Latvian electricity TSO – JSC "Augstsprieguma tīkls" is carrying out a series of technical processes, the successful implementation of which requires the application of the regulations and methodologies governing the relevant processes.

On 21 November 2024 the Regulator, the Estonian Competition Authority, the National Energy Regulatory Council of Lithuania, the Energy Regulatory Office of Poland, the Swedish Energy Markets Inspectorate and the Energy Authority of Finland took decisions on the common Capacity calculation methodology for the day-ahead and intraday market timeframes within the Baltic CCR in accordance with Article 20 of the Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management (hereinafter – CACM regulation). This methodology applies to cover cross-zonal capacity calculation, provision and allocation for day-ahead and intraday time horizons and also takes into account the fact that the Baltic States are to be synchronised with the CESA by a double circuit line connecting Poland and Lithuania.

On 29 August 2024 the Baltic NRAs adopted decisions on the Baltic TSOs` Baltic Load Frequency Control (hereinafter – LFC) Block Operating Agreement in accordance with the conditions set out in Article 119 of the Guideline on electricity transmission system operation, the methodology for determining the size of the Baltic LFC Block Frequency Restoration Reserves (FRR) in accordance with Article 157 of the Guideline on electricity transmission system operation and the Baltic LFC Reserve Pre-qualification Principles.

On 29 February 2024 the Regulator, the Estonian Competition Authority and the National Energy Regulatory Council of Lithuania adopted decisions on the Baltic TSOs` proposal for an exemption from the obligation to allow the transfer of automatic Frequency Restoration Reserves (hereinafter – aFRR) and manual Frequency Restoration Reserves (hereinafter – mFRR) balancing capacity across all bidding zones in the Baltic countries in accordance with Article 34(1) of the Electricity Balancing regulation. In the starting phase of the Baltic balancing capacity market, the Baltic TSOs use the exemption regarding the capacity obligations between bidding zones. However, in the future the need for such an exemption shall be revised considering the maturity

and development of the Baltic balancing capacity market, as well as specific deadlines for when the exemption should be abolished.

On 1 February 2024 the Baltic NRAs decided on the Baltic TSOs` proposal for the Baltic balancing capacity market in accordance with Article 33(1) and Article 38(1) of the Electricity Balancing regulation which determines common and harmonized rules and processes for the exchange and procurement of balancing capacity. In the initial phase of the Baltic balancing capacity market, the Baltic TSOs are using internal resources as demand reduction resources with the aim of ensuring adequate liquidity, avoiding shortages, and reducing the costs of procuring balancing capacity in the Baltic balancing capacity market.

On 25 January 2024 the Regulator, the Estonian Competition Authority, the National Energy Regulatory Council of Lithuania, the Energy Regulatory Office of Poland, the Swedish Energy Markets Inspectorate and the Energy Authority of Finland decided on the Baltic CCR TSOs` Methodology for calculating cross-zonal capacity within the balancing timeframe in accordance with Article 37 of the Electricity balancing regulation. The methodology applies to calculate the cross-zonal capacity during the balancing period for the exchange of balancing energy or for the implementation of the imbalance settlement process.

The first yearly auctioning of Financial Transmission Rights (hereinafter – FTR) on Estonian-Latvian border took place from 23 October 2018 to 29 October 2018 on the Single Allocation Platform (hereinafter – SAP) (before the auctioning was managed by the Latvian and Estonian TSOs). In 2024 quarterly and monthly auctions also took place. In accordance with the analyses of the 2024 yearly auction 30 companies participated in the auction and 16 companies got the right to hedge the price differences on Estonian-Latvian border towards to Latvia.

On 20 April 2020 energy ministries, NRAs and TSOs from Finland, Estonia, Latvia and Lithuania (hereinafter – FinBalt) gave their agreement to a Roadmap on regional gas market integration between Estonia, Finland, Latvia and Lithuania[1] establishing a process for the future regional natural gas market integration of their respective countries. The inter-TSO compensation (hereinafter – ITC) mechanism proposal was submitted by FinBalt TSOs at the end of 2021 in accordance with the Roadmap. FinBalt NRAs evaluated the submitted ITC mechanism proposal in 2022.

However, changes in the geopolitical situation in 2022, and, accordingly, in the natural gas supply routes have caused significant changes in the fundamentals of the region's gas market. Natural gas supplies from the Russian Federation and Belarus have ceased. The GIPL pipeline and the INKOO liquefied natural gas (hereinafter – LNG) terminal have commenced operations, while the

[1] https://ec.europa.eu/info/files/roadmap-regional-gas-market-integration_en

role of the Klaipėda LNG terminal has changed. Consequently, the drivers for further expansion of the joint market have changed and discussion and assessment of the new circumstances is needed to proceed.

IV The electricity market

1.1. Network regulation

1.1.1. Unbundling

The state-owned company JSC "Latvenergo" dominates in the electricity supply sector in Latvia, controlling around 90% of the installed capacity for the generation of electricity in Latvia.

The functions of the public trader are carried out by "Enerģijas publiskais tirgotājs" Ltd – the subsidiary of the JSC "Latvenergo". In accordance with the Electricity Market Law, the public trader has the obligation to buy electricity from biogas, biomass, wind and hydro power plants and pay a guaranteed fee for the installed capacity to plants that have obtained the right to sell the produced electricity within the mandatory procurement.

From 2012, when implementing the unbundling of TSO, the functions of the electricity TSO were carried out by the independent system operator JSC "Augstsprieguma tīkls".

JSC "Augstsprieguma tīkls" has to submit a report annually regarding the compliance of the TSO with the certification requirements in the previous year. After the receipt of the report, the Regulator took a decision on 5 September 2024 stating that JSC "Augstsprieguma tīkls" complies with the certification requirements.

On 31 October 2024, the Regulator approved the national ten-year transmission system development plan (national TYNDP) for 2025 – 2034. In the decision, the Regulator also stated that the national TYNDP complies with the Community-wide TYNDP.

The dominant electricity Distribution System Operator (hereinafter – DSO) JSC "Sadales tīkls" launched its operations as a separate entity within the holding company JSC "Latvenergo" on 1 July 2007. JSC "Sadales tīkls" is unbundled from the vertically integrated undertaking's production and supply affiliates.

Regarding the setting of rules on the compilation of unbundled accounts, the Regulator approves cost allocation methodologies and implements the right to request a compliance audit that is conducted by an independent auditor.

The Regulator must confirm annually that the biggest electricity DSO JSC "Sadales tīkls" has fulfilled the necessary conditions to ensure the independence requirements for the DSO in accordance with the regulations on the requirements for ensuring the independence of the DSO.

On 11 July 2024, the Regulator approved that JSC "Sadales tīkls" fulfils the requirements of the independence of an electricity DSO – it is a separate company and is unbundled from the activities of production, transmission and trade of electricity, thus confirming that board members of the electricity DSO are not engaged in the structures of the vertically integrated electricity undertaking JSC "Latvenergo" and have the right to take decisions independently from JSC "Latvenergo" regarding the distribution system assets. The DSO ensures equal access to the electricity distribution system. As mentioned above, the legislator has provided for sanctions which the Regulator can impose against companies which fail to comply with management, account unbundling or other requirements.

On 5 December 2024, the Regulator approved the national ten-year distribution system development plan for 2025 – 2034. Article 19 Point 1 of the Electricity Market Law sets that the Regulator once every two years approves the ten-year development plan of the distribution system developed by the distribution system operator whose system has more than one hundred thousand users and the Regulator monitors its implementation.

1.1.2. Technical functioning

1.1.2.1. Balancing

The Electricity Market Law sets out guidelines in terms of how the balancing arrangements among customers, producers and system operators should be provided. Customers and producers that are market participants, along with distribution networks, have to conclude a balancing service agreement with the system operator of the network that they are connected to.

The TSO is responsible for the operational reliability of the power system. For this purpose, the TSO has an open supply agreement and maintains operating reserves. Furthermore, those customers (large electricity producers and distribution networks), which are directly connected to the transmission grid, obtain balancing services directly from the TSO after concluding the relevant agreement. The concept of a balancing group has also been set out in law. The idea is that customers have the right to delegate a supplier to settle imbalances with the system operator. In such a case, the supplier concludes a balancing service agreement with the system operator, and it may carry out the netting of imbalances among customers and producers.

The balancing model at the distribution level does not differ from the one at the transmission level. Customers and producers directly connected to the distribution grid have to buy the balancing service from the respective DSO, or they may delegate this task to their supplier. The trader's price for end users may also include the balance energy costs, if the trader has an agreement on balancing the end user.

According to the Electricity Market Law, administration of imbalance settlements is the responsibility of the TSO.

In accordance with Electricity Market Law the national Network Code in the Electricity Sector[2] includes procedures for the system management and utilisation, and the activities of market participants, except final customers. In accordance with the Network Code in the Electricity Sector, the system operators shall perform calculations of balancing openly and without discrimination with respect to all recipients of a balancing service. The customers and producers, who are market participants, and DSOs, have the duty to pay for the balancing service the scope of which is determined based on the data of the transmission and distribution operators. The TSO shall ensure the compliance with the procedures specified in the national Network Code in the Electricity Sector.

On 11 March 2024, the Regulator adopted amendments in the Network Code in the Electricity Sector, taking into account the need to improve the regulation regarding the enforcement of the contractual obligations of the balancing service recipient, and the need for more accurate planning of the required electricity. And 3 October 2024, the Regulator adopted further amendments with necessary additions in response to changes in the balancing energy and capacity markets, effective from October 2024, when JSC "Augstsprieguma tīkls" joined the European balancing platform (MARI) for the exchange of balancing energy from mFRR. Consequently, the common Baltic coordinated balancing area (Baltic CoBA) ceased its operations. Changes were also made to the settlement procedures between the TSO and electricity market participants in connection with the introduction of the 15-minute imbalance price calculation.

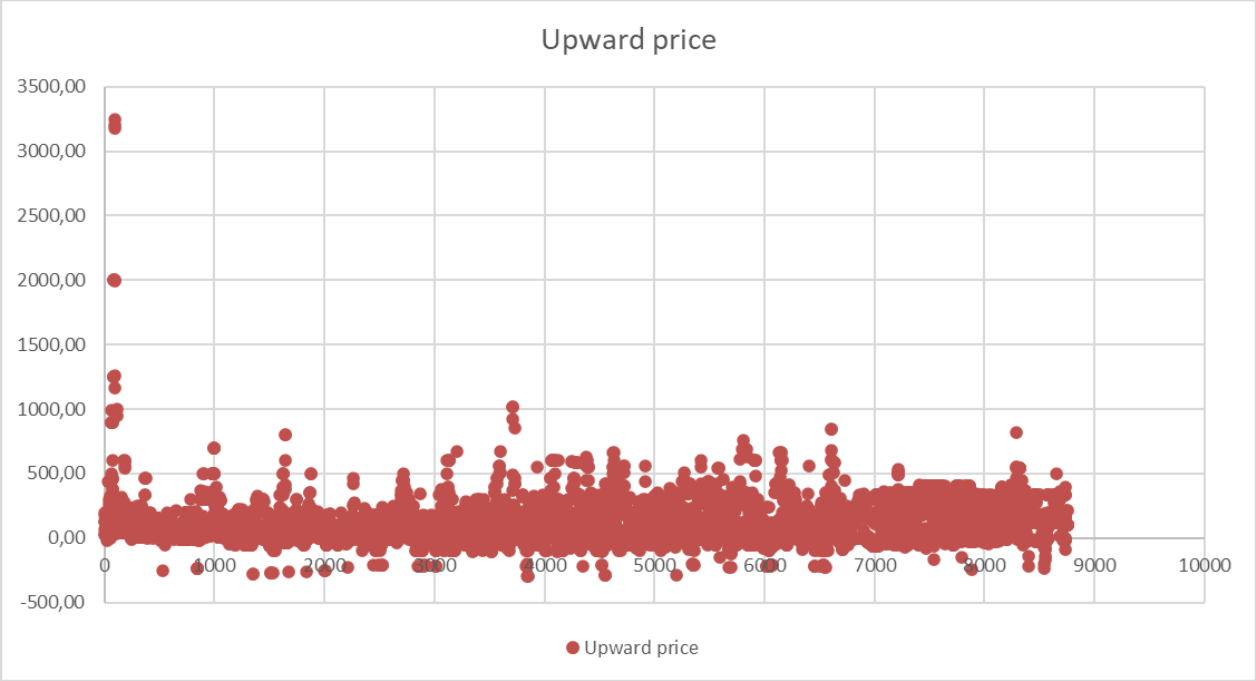
The Baltic States imbalance settlement rules describe the imbalance settlement mechanisms between the TSO and balance responsible party including the calculation of imbalances and imbalance prices. The joint approach to the imbalance responsibility is as follows:

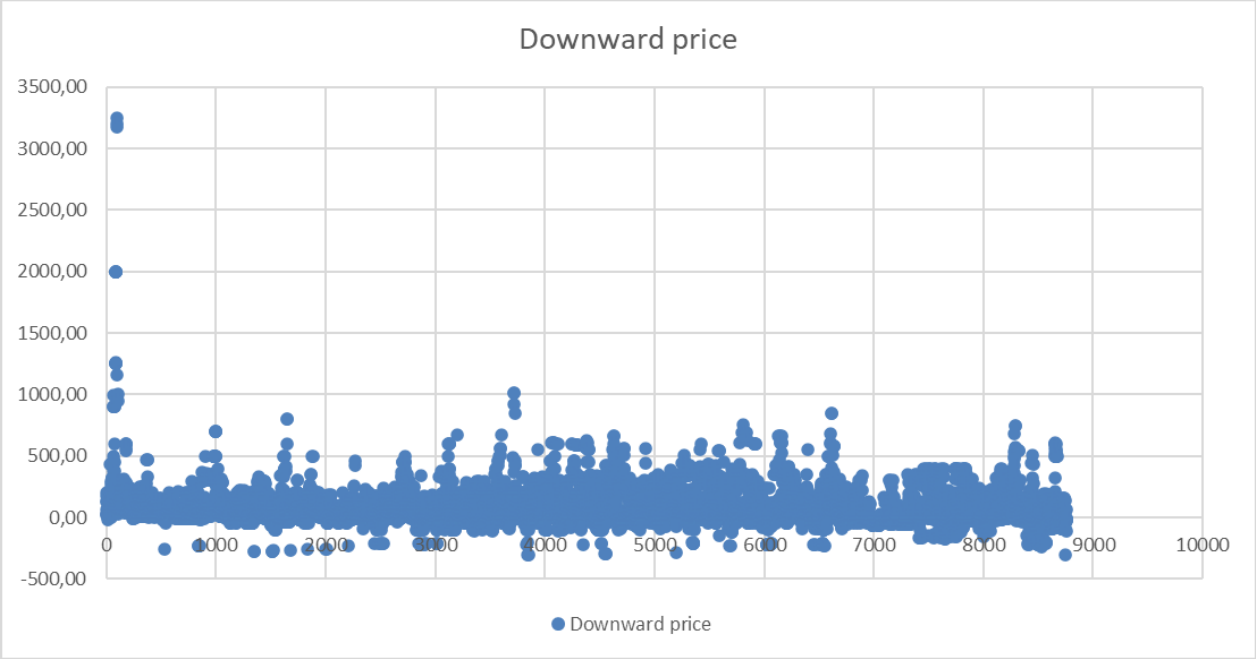
- the total imbalance of each Baltic State is the responsibility of the respective TSO;
- the imbalance part in the Estonian, Latvian and Lithuanian electric power systems that can be eliminated (compensated for) within the total Baltic imbalance region is referred to as the netted imbalance. The Baltic States TSOs mutually buy and sell the netted imbalance for the applicable imbalance price;
- the imbalance part that cannot be eliminated (compensated for) within the total Baltic imbalance region is referred to as the non-netted imbalance. The Baltic States TSOs jointly buy and sell the non-netted imbalance to the open balancing service providers at a predetermined price.

[2] https://likumi.lv/doc.php?id=257943 (available in Latvian only)

The TSO publishes balance energy purchase and selling prices on an hourly basis and customer costs for balancing energy are calculated in accordance with balance energy calculation methodology published on the TSO web page.

Generally, the upward balancing price (on average 112,64 EUR/MWh) in Latvia is higher than the downward balancing price (on average 69,84 EUR/MWh).





The balancing prices during year 2024 (EUR/MWh)

In Latvia, balancing energy prices decreased by 13% on average to 90,07 EUR/MWh. On 7 October 2021, complying with the provisions of the Electricity Balancing regulation (Article 20 and 62), the Regulator decided to grant the Latvian electricity TSO a derogation from the obligation to use a European platform for the exchange of balancing energy from frequency recovery reserves with manual activation (MARI platform). On October 2024, the Baltic TSOs – JSC "Augstsprieguma tīkls", Elering AS and Litgrid AB joined the MARI platform. Participation in this market provides new opportunities for Latvian, Estonian and Lithuanian electricity producers, consumers and high-capacity battery operators to offer balancing services to the region's TSOs. The new balancing market provides additional revenue opportunities for market participants, while TSOs gain broader access to the resources necessary for balancing the energy system. With the Baltics joining the European MARI platform, the balancing trading interval is 15 minutes. The previous requirement for the minimum reserve offer for regulation - one megawatt - remains unchanged, but the new interval allows this amount of capacity to be offered for shorter terms. This means that smaller electricity market participants can also enter the balancing reserve market with their own offers. In the future, it is planned to introduce a 15-minute trading interval for the intraday and day-ahead electricity markets.

1.1.2.2. Quality of service and supply

Quality requirements are defined in the Rules on Public Power Supply Network Voltage Requirements adopted by the Cabinet of Ministers[3]. Rules prescribe the mandatory applicable standard that applies to the public power supply network voltage, which is the European Standard EN50160. Standard EN50160 defines, describes and specifies the main characteristics of the voltage at a network user's supply terminals in public low voltage, medium and high voltage alternating current electricity networks under normal operating conditions. In 2024, the average amount of time needed for repairs in the distribution network for the final customers (including all unplanned events) was 54 minutes per one interruption. There were 12 interruptions in the transmission network with an average duration of 2.66 hours. Planned system average interruptions duration (SAIDI) in the distribution network for 2024 was 74 minutes, unplanned (including all events) – 141 minutes and planned system average interruptions frequency index (SAIFI) per customer for 2024 was 0.50, unplanned (including all events) – 1.67.

The operations of public service providers are regularly inspected on the basis of the Regulator's decisions. In 2024, 31 objects of electricity supply companies were inspected in order to examine their operations and compliance with license requirements or general authorization conditions. The objects of the companies were inspected according to the schedule and taking into regard

[3] https://likumi.lv/doc.php?id=237330 (available in Latvian only)

the necessity to ascertain the operation of the companies in accordance with legislation. In addition, the Regulator carried out electricity supply quality measurements in 42 objects according to the European Standard EN 50160 requirements. Some inspections were also conducted at facilities following the complaints that had been received.

1.1.3. Network tariffs for connection and access

The Regulator approves electricity transmission and distribution tariffs. Within the framework of the tariff assessment process of the electricity transmission system service, the Regulator has an obligation to assess the justification of the costs of the electricity TSO, thus balancing the interests of public service users and service providers and protecting the interests of the electricity TSO in matters related to the provision of the relevant services.

In August 2022, the tariff calculation methodology for electricity transmission system services have been amended, with the need to ensure the financial stability of the system operators of the energy sector, which was affected by the development of global prices, especially the rapid increase in the prices of energy resources in the world, and to promote provision of safe, efficient and high-quality services. Changes have been made regarding the regulation of the regulatory and tariff period, determination of the cost efficiency ratio for TSO and reconciliation of the regulatory account. The methodology was amended on 17 November 2023 (with the aim of supplementing the regulation by introducing the possibility of setting a tariff period shorter than one year, specifically a six-month period), and on 17 June 2025 (with the aim of clarifying the regulation concerning the determination of allowed revenue, the procedure for calculating and applying the regulatory account, as well as the review of the differentiated tariff structure).

On 14 October 2022 electricity TSO JSC "Augstsprieguma tīkls" submitted to the Regulator a proposal for electricity transmission tariffs for two-and-half year period. On 22 May 2023, the Regulator approved electricity transmission system tariffs applicable from 1 July 2023. The average tariff has increased by 30%. The main reason for tariff increase is rapid electricity price increase in 2022 and the previous approved regulatory period ended on 31 December 2022.

In accordance with the permit issued by the Regulator allowing JSC "Augstsprieguma tīkls" to determine tariffs for future tariff periods, on 30 November 2023, the company published in the official gazette "Latvijas Vēstnesis" the self-determined tariff rates to be applied as of 1 January 2024. These rates were calculated in accordance with the tariff calculation methodology for electricity transmission system services and were accompanied by a justification for the established tariffs.

On 31 October 2024, the Regulator adopted the Procedure for calculating and applying the electricity transmission system service tariff discount for users. The TSO applies a transmission tariff discount to a user who installs a new connection to the transmission system (except for a special connection): in the amount of 80% of the user's fee for maintaining the transmission

capacity, if the installed capacity of the new connection is less than 25 MW; 90% of the user fee for maintaining transmission capacity if the installed capacity of a new connection is equal to or more than 25 MW. The discount is applied from the moment of signing the system service agreement and to those users who have submitted an application from 1 May 2024 for receiving technical requirements for the installation of a new connection to the transmission system.

In November 2023, the tariff calculation methodology for electricity distribution system services have been amended. Changes have been made regarding the regulation of the tariff period and the right of the distribution system operator to review the tariff structure. In light of changes in the electricity sector, the aforementioned methodology was also amended in June 2025 to ensure its alignment with the current situation and the inclusion of economically justified costs in the tariffs, as well as to ensure the financial stability of system operators.

In November 2022 electricity DSO JSC "Sadales tīkls" submitted to the Regulator a proposal for electricity distribution tariffs for four-and-half-year regulatory period. On 22 May 2023, the Regulator approved electricity distribution system tariffs applicable from 1 July 2023. The tariffs increased for all consumers in comparison with previously set tariffs. The average electricity distribution tariff has increased by 31%. Tariff increase for each tariff group depends on the consumer tariff plan and voltage level. Also on 19 December 2023, the Regulator approved electricity distribution system tariffs applicable from 1 January 2024. The average electricity distribution tariff decreased by 1%.

The tariffs of the electricity distribution system services are structured so as to create the incentive to decrease the connection capacities if not all the capacity is being used efficiently at each connection point. That incentivises not only the electricity users to choose more appropriate capacities and avoid overpaying for inefficiently burdened infrastructure, but also positively impacts the distribution system allowing the distribution system operator to reassess and reduce the investment needed for distribution system development.

In 2022, the Regulator adopted a Methodology for Accounting and Calculation of Capital Costs which set unified principles of calculation of regulatory asset base (hereinafter – RAB), depreciation and the weighted average cost of capital (hereinafter – WACC) in the regulated sectors (electricity, gas, water, district heating and postal services), as well as introduced ex-post treatment of capital costs for new investment.

In particular, the most important changes brought by the methodology were:

- Unified definition of RAB across all the sectors (while taking into account technical and other differences between sectors).
- The revaluations of assets done by the operators after 31 December 2021, are not taken into account when calculating RAB value.

- WACC in the regulated sectors is calculated as nominal pre-tax rate. However, in sectors with recent revaluations of assets (electricity and gas, postal services) a real pre-tax rate is calculated currently and the change to nominal WACC will happen in 2026.
- Unified approach in all sectors to calculation of depreciation: linear method and minimum useful asset lives for asset groups set in methodology.
- Ex-post treatment of capital costs for new investment (in sectors where revenue/ cost adjustments are taken into account when determining the allowed revenue). The RAB value for the regulatory period is fixed and any new investment during the regulatory period can be included in RAB only after commissioning at the start of the next regulatory period. However, for the period between actual commissioning and actual inclusion in RAB the capital costs for new investment are calculated separately according to the actual costs incurred and are included in tariff ex post - in the next regulatory period. This remuneration mechanism is provided for all investment included in network development plans approved by Regulator.

The aforementioned methodology was amended in August 2024, among other things, by introducing a transitional provision stating that in 2024 the Regulator shall not determine the rate of return on capital for the calculation of draft tariffs for regulated services whose tariff calculation methodologies provide for regulatory periods. This regulation was introduced taking into account that, at the time, the existing regulatory periods for regulated undertakings did not end before 31 December 2025; accordingly, the Regulator saw it as reasonable to make the amendments in order to reduce the administrative burden.

On 10 August 2023, the Regulator approved the WACC for the electricity distribution system operators and the TSO. For year 2024, the real WACC for micro and small electricity DSOs is 3.18% and for medium and large DSOs and the TSO the WACC is 1.48%. The approved WACC relates to the electricity TSO – JSC "Augstsprieguma tīkls" and the authorised DSOs. When evaluating the TSO and DSOs tariffs, the Regulator, by checking the justification of the costs, may propose a review of tariffs in response to changes in factors which influence tariffs, including profitability.

According to the Eurostat, electricity prices in the second half of 2024 in Latvia were about 13% lower for household users and 9% lower for non-household users compared to the EU average price.

In order to guarantee the security of the system in the interconnected electricity transmission system and to take into account the expected significant changes in the operation of the electricity system related to the planned synchronization with the Continental European electricity system, in 2020 the Regulator adopted decisions determining that the requirements of the EU regulations on demand connection and grid connection of generators are applicable after their modernization to three substations of JSC "Sadales tīkls", as well as to power-generating modules of JSC "Latvenergo" Kegums hydro power plant, Riga CHP-1 and Plavinas hydro power plant.

As the application of certain EU regulatory requirements for grid connection of generators requires large investments that exceed the socio-economic benefits from their implementation, the Regulator instructed JSC "Augstsprieguma tīkls" to perform a quantitative cost-benefit analysis to find out which requirements are economically justified and which electricity generation modules should be exempted.

1.1.4. Cross-border issues

1.1.4.1. Implementation of EU Network Codes

In June 2021, the regulatory authorities of Estonia and Finland adopted coordinated decisions on cross-zonal risk hedging opportunities for the Finland-Estonia (FI-EE) bidding zone border, asking the relevant TSOs to issue long-term transmission rights (hereinafter – LTTRs) on the FI-EE bidding zone border. On 8 September 2022, the regulatory authorities of the countries of the Baltic CCR agreed on the approval of the regional concept of the long-term transmission rights of the Baltic CCR in accordance with Articles 31 of the FCA.

The type of LTTRs offered in the Baltic CCR are financial transmission rights – options in the meaning of Article 33 of FCA in direction from Estonia to Latvia and in direction from Finland to Estonia. The form of product is base load, its fixed amount of MW. The bidding zone borders covered by LTTR regional design proposal include all borders between three bidding zones, which are part of the Baltic CCR. The LTTR regional design proposal does not apply to bidding zone borders for which the competent NRAs have adopted coordinated decisions not to issue LTTRs in accordance with paragraph 1 of Article 30 of the FCA. Therefore, LTTR regional design proposal is applied to Estonia, Finland and Latvia bidding zone borders.

The LTTR regional design proposal includes a forward capacity allocation time frames for the EE-LV bidding zone border, as follows:

- yearly timeframe;
- quarterly timeframe;
- monthly timeframe;

and for the FI-EE bidding zone border, as follows:

- yearly timeframe;
- monthly timeframe.

A compensation cap for curtailments, which shall be applicable to the FI-EE bidding zone border, is stipulated in the Specific Annex in accordance with Article 59(3) of the ACER`s decision of 2 October 2017 and amended ACER`s decision of 22 December 2023 on Harmonised Allocation

Rules for Long-term Transmission Rights[4] to ensure that compensations do not surpass the congestion income. The Estonian Competition Authority (ECA), Regulator and the Energy Authority of Finland (EA) assessed Specific Annex proposal, and reached an agreement that it meets the requirements of FCA and as such can be approved. Regulator took a decision on 15 September 2022.

In accordance with Article 30(8) of the Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation, the task on the assessment (at least every four years) of respective bidding zone hedging instruments and implementation of transmission rights is delegated to the national NRAs. Regulator acknowledged that the following electricity trading risk hedging instruments are available in the bidding zone of Latvia: NASDAQ Electricity derivatives and LTTRs on the Estonian - Latvian border (direction to Latvia as a Financial Transmission Rights-option). On 3 June 2021, the Regulator in cooperation with Baltic and Nordic NRAs adopted coordinated decision not to issue new LTTRs in the bidding zone of Latvia.

Power exchange "Nord Pool AS" (hereinafter – NP) ensures allocation of the capacity for the market participants on the basis of information provided by the Baltic States TSOs and according to the Rules. NP ensures implicit auctions between the Baltic States. As stipulated in Article 37^3 of the Electricity Market Law, the transactions of market participants, which exceed borders of one bidding area and include the physical transmission of electricity, must only be performed in the power exchange.

The Net Transfer Capacity (NTC) between the Estonian and Latvian systems will continue to be distributed for allocation. At the same time, FTR (300 MW on annual, 50-100 MW on quarterly and 25-274 MW on a monthly basis) is sold at an auction with the obligation to sell them back to the TSOs. For the repurchased capacity, the TSOs will pay to the holders of FTR a fee equivalent to the price difference of the NP Estonian and Latvian price zone in the corresponding period. The FTR auctions from the year 2019 are organized by Joint Allocation Office (hereinafter – JAO). On 1 October 2018, JAO became the Single Allocation Platform (SAP) for all European TSOs that operate in accordance with EU legislation, since it is able to implement and fulfill all regulatory obligations and requirements. The auctions in the SAP doubled the number of the participants and increased competition for volume offered by TSOs.

In 2024, the total amount of electricity import to Latvian electricity grid was 4,247 GWh, export from the Latvian electricity grid was 3,173 GWh, and net exchange minus 1,074 GWh.

On 16 December 2021 Regulator approved the Baltic TSOs' proposal for the establishment of the Baltic Regional Coordination Centre according to Article 35(1) of Regulation (EU) 2019/943 of the

[4] ACER Decision 18/2023 on Harmonised Allocation Rules Amendment (europa.eu)

European Parliament and of the Council of 5 June 2019 on the internal market for electricity. The seat of the Baltic Regional Coordination Center (hereinafter – Baltic RCC) is Tallinn, Estonia. The highest governing body of the Baltic RCC is the shareholders' meeting. The shareholders of the Baltic RCC are Elering AS, JSC "Augstsprieguma tīkls" and Litgrid AB.

According to Baltic RCC Annual Report 2024, during 2024 new enhancements for Coordinated Security Assessment, Common Grid modelling, Outage Planning Coordination and Inconsistency assessment were implemented, complementing the responsibilities' portfolio of Baltic RCC. In addition, the Training and Certification process was launched to ensure the high level of quality. The Common Coordinated Capacity Calculation tool has been developed and successfully tested. At the end of 2024, the Baltic RCC was officially designated as Capacity Calculator for the Baltic region.

1.1.4.2. Investment plans and projects of common interest

Taking into account the investment requests for cross-border cost allocation for the projects of common interest included in the project cluster No.3.3 "Integration and synchronisation of the Baltic States' electricity system with the European networks" (hereinafter – Project cluster 3.3) from the project promoters – Baltic TSOs (Elering AS, JSC "Augstsprieguma tīkls" and Litgrid AB), on 6 September 2018, the Regulator took a decision on phase 1 regarding the allocation of the investment costs for the Project cluster No.3.3 and on 7 May 2020 took decision on phase 2 pursuant to the Regulation (EU) 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure and repealing Decision No 1364/2006/EC and amending Regulations (EC) No 713/2009, (EC) No 714/2009 and (EC) No 715/2009 (hereinafter – Regulation 347/2013).The implementation of the Project cluster 3.3 was an important prerequisite for maintaining reliable and stable operation of the electric power systems of the Baltic States after they began working synchronously with Continental Europe, on February 2025. Furthermore, the implementation of the Project cluster 3.3 improves the reliability of electric power supply of the entire Baltic region, ensuring effective operation of the electric power market both in the Baltics and the Nordic countries. It strengthens the electric power system of the Baltic States and its connections to the electric networks of the Nordic countries and Continental Europe, serving as a reliable and stable alternative route for importing or exporting electric power from the Nordic countries to Europe.

All the following projects of common interest are included in the national TYNDP and Community wide TYNDP.

Pursuant to Regulation 347/2013 the commissioned Project No.4.8.1 on the fifth PCI list "Interconnection between Tartu (EE) and Valmiera (LV)" (hereinafter – Project 4.8.1) and the commissioned Project 3.3.1 "Interconnection between Tsirguliina (EE) and Valmiera (LV)" (hereinafter – Project 3.3.1) and the Project 3.3.5 "Further infrastructure aspects related to the implementation of the synchronisation of the Baltic States' system with the continental European

network" (hereinafter – Project 3.3.5), are part of the priority electricity corridor of the Baltic Energy Market Interconnection Plan in electricity, specified in Annex I.4 of Regulation 347/2013: interconnections between Member States in the Baltic region and reinforcing internal grid infrastructures accordingly, to end isolation of the Baltic States and to foster market integration inter alia by working towards the integration of renewable energy in the region.

Pursuant to Article 3(4) of Regulation 347/2013, the European Commission adopted the Commission Delegated Regulation (EU) 2024/1041 of 28 November 2023 amending Regulation (EU) No 2022/869 of the European Parliament and of the Council as regards the Union list of projects of common interest and projects of mutual interest (hereinafter – EC Regulation 2024/1041) the European Commission approved the sixth list of projects of common interest. The inclusion of the Project 3.3.1 and Project 3.3.5 in the sixth list of projects of common interest demonstrates their compliance with the projects of common interest criteria set out in Article 4 of Regulation 347/2013. The sixth list of projects of common interest also include offshore Project No.5.1 "Latvia and Estonia Hybrid Offshore interconnector" (known as "Elwind") and hydrogen Project No.11.2 "Hydrogen interconnector between Finland, Estonia, Latvia, Lithuania, Poland and Germany" (known as Nordic-Baltic Hydrogen Corridor). In April 2024, the European Commission officially granted the Nordic-Baltic Hydrogen Corridor the status of a European project of common interest as part of the "Baltic Energy Market Hydrogen Interconnection Plan". The status of a European project of common interest brings various advantages, such as the right to apply for European Union project funding and accelerate the procedure for receiving necessary permits.

On 1 July 2024, JSC "Augstsprieguma tīkls" submitted a request to the Regulator for the approval of the ten-year transmission system development plan 2025 – 2034. On 16 July 2024, the Regulator held a public hearing about the submitted ten-year transmission system development plan. On 31 October 2024, the Regulator approved the ten-year transmission system development plan 2025 – 2034, which inter alia ensures sufficient renewal of the transmission system and reduces the risks of technological disruptions.

On 28 August 2024, JSC "Sadales tīkls" submitted a request to the Regulator for the approval of the ten-year distribution system development plan 2025 – 2034. On 16 September 2024, the Regulator held a public hearing about the submitted ten-year distribution system development plan. On 5 December 2024, the Regulator approved the ten-year distribution system development plan 2025 – 2034 which foresees purposeful investments to continue reconstructing and modernising the distribution system according to the industry development trends and the demands of the public. It is planned to facilitate the use of innovative technical solutions in the renovation of the network and carry out work on the development of a smarter electrical network.

1.2. Promoting competition

The electricity market was opened on 1 July 2007, when all customers became eligible to choose a supplier of electricity. There are several companies in Latvia which sell electricity to market

participants. In 2024, five largest electricity traders in the retail market by volume were JSC "Latvenergo", Ltd "Enefit", Ltd "Ignitis Latvija", Ltd "AJ Power" and Ltd "Tet".

	2023	2024
Herfindahl-Hirschman Index:	High concentration	high concentration
Households	5 362	5 327
Legal entities	3 176	2 423
Registered suppliers	43	56
Contracts, households:	894 662	890 108
Fixed price	757 048 (85%)	745 687 (84%)
Variable spot price	137 614 (15%)	144 141 (16%)
Contracts, legal entities:	40 079	40 436
Fixed price	19 387 (48%)	23 141 (57%)
Variable spot price	20 692 (52%)	17 295 (43%)

There is still high domination of the former incumbent in the market, nevertheless the market becomes more active both by suppliers and consumers, which is in long-term reflected by the decreasing Herfindahl-Hirschman Index. There are different preferences for contracts based on variable spot price or fixed price contracts – while both legal entities and households are preferring fixed price contracts, legal entities are more equal in their preferences, but for households fixed price contracts are far more preferred. JSC "Latvenergo" owns the biggest electricity DSO – JSC "Sadales tīkls". In addition, there are 6 local distribution companies, serving less than 100,000 electricity customers.

1.2.1. Description of the wholesale market

In 2024, 56 companies were registered as traders of electricity and 25 of them actively operated as intermediaries in the supply of electricity customers. 7 companies were registered as aggregators. Electricity generation in Latvia is dominated by JSC "Latvenergo" providing approximately 82% of the total produced electricity in Latvia. The other electricity producers are too small to offer significant volumes of energy for potential customers. In 2024, the total annual consumption, including losses and self-consumption, was 6,979 GWh. Latvia produced 5,905 GWh of electricity, which is 2.9% less than a year ago. In 2024, consumption was covered by local generation in the amount of 84.6%. The missing amount of electricity – 1,074 GWh in the Latvian

transmission network was imported from neighboring countries. The amount of electricity produced in Latvia in 2024 in the generation of renewable resources - hydroelectric power plants produced 16% less, wind power plants - 2% more, and significantly – by 210% – increased the amount of electricity produced by solar power plants. However, total contribution of solar power plants to Latvia's total electricity in the balance is still small - 6.7%.

JSC "Latvenergo" is the only company in Latvia that has a share of more than 5% of the installed capacity.

The average spot price of electricity decreased from 93.89 EUR/MWh in 2023 to 87.43 EUR/MWh in 2024 (-6.9%). The decrease in electricity prices was mainly driven by lower prices of gas and other fossil resources, which reached record highs in 2022, as well as higher electricity production from renewable energy resources – in wind parks and solar power plants.

There were no major acquisitions or mergers in the electricity sector in Latvia in 2024.

1.2.2. Description of the retail market

In 2024, electricity supply companies supplied 6,822 GWh to their customers (Regulator's data). Most of household customers consume a comparatively small volume of electricity (about 150 kWh per month).

At the end of the reporting year, there were 99 companies registered in the electricity producers' register (some – for several types of activities) – 46 for co-generation plants, 11 for wind power plants, 46 for solar power plants and two for hydroelectric power plants. In 2024, the Regulator registered 19 new electricity traders and 7 new aggregators. Also, there are 7 licensed DSOs and one TSO.

The Latvian electricity consumption structure in 2024 was as follows:

- households – 25%;
- non-household users – 75%.

In 2024, 100% of total electricity was traded in the electricity market at contract prices in accordance with bilateral agreements. During the year, 2.4% of all households and 28.24% of all non-household users changed electricity trader. Serving customers and billing is traders' responsibility, therefore internal policies for setting a market offer are taken into consideration. However, the regulation states that a universal offer must be included in the product portfolio for all traders willing to supply households. A universal offer is defined as one which comes with a fixed electricity price for a period of 12 months and does not contain any restrictions on early termination of the contract (no penalty for customer). Nevertheless, products with a fixed price for different time periods and products with a variable power exchange price are offered on the market.

1.3. Security of supply

The total electricity consumption including losses and self-consumption in 2024 amounted to 6,979 GWh. Peak load in 2024 was 1,218 MW. Forecasts for the peak loads in years 2025 - 2026 are as follows:

- 2025 – 1,243 MW;
- 2026 – 1,308 MW.

The currently available generation capacity amounts to 3,534 MW.

Each year, the TSO shall prepare an annual evaluation report and shall assess the security of supply of electricity and the production capacity for a 10-year period.

There are 7 DSOs, and their license conditions state that they must supply all customers with electricity and connect new customers in their licensed zones of operations. JSC "Sadales tīkls" was the biggest DSO in Latvia in 2024 covering around 99% of the whole territory of Latvia.

The total capacity of the transmission network is currently 8 825 MVA, which is seven times more than the peak load in 2024. This ensures a continuous supply of electricity.

V The natural gas market

Facilitating free movement of natural gas within the region and preventing discrimination of supply routes, lowering barriers for new market entrants, promoting more competition, and ensuring higher marker liquidity as well as ensuring better utilization of the existing infrastructure – these are the main objective for the single natural gas transmission entry-exit system of Finland, Estonia and Latvia (hereinafter – FinEstLat system) development.

FinEstLat system became operational on 1 January 2020, and it has one entry tariffs zone.

Considering the different level of natural gas market maturity in the countries of FinEstLat system and following the stepwise integration approach, during the transition period two balancing areas were set up within the FinEstLat system – the common Estonian - Latvian balancing zone and the Finnish balancing zone.

For the implementation of the common balancing zone, TSOs of Estonia and Latvia prepared and the Regulator (Regulator's decisions No 164 and No 165 of 28 October 2019) and Estonian NRA approved "Common regulations for the use of natural gas transmission system" and "Common regulations for the natural gas balancing of transmission system", which entered into force on 1 November 2019 with the full application as of 1 January 2020.

Ensuring the technical balancing of the natural gas transmission system in the common Estonian - Latvian balancing zone natural gas TSOs Elering AS and JSC "Conexus Baltic Grid" found

necessity to facilitate the changes in gas market operations related to the settlement of imbalance and neutrality charges. On 25 November 2021 the Regulator, in coordination with Estonian NRA, approved "Common regulations for the natural gas balancing of transmission system" in new version, determining the use of the Dutch Title Transfer Facility (hereinafter – TTF) exchange price as a reference price in determining the daily imbalance price, if there is insufficient liquidity for trading platform or for some other objective and justified reason, requirements for the prevention of negative imbalance as well as clarifying the neutrality fee attribution principles and imbalance price calculation algorithm.

On 20 June 2024 the Regulator, in coordination with Estonian NRA, approved "Common regulations for the use of natural gas transmission system" in new version, to supplement with legal regulation on: issuing invoices if the allocated capacity is disconnected; changes in the conditions for the use of capacity if the capacity is transferred to the secondary market or to the TSO as part of congestion management measures; processing of personal data; principles that are followed when allocating capacity at the entry point from the liquefied natural gas facility and at the exit point to the liquefied natural gas facility; capacity allocation at the entry and exit points of Balticconnector interconnection. In addition, the new version harmonizes the legal framework between the two TSOs regarding the security of obligations, as well as the legal framework of confidentiality with balancing rules.

2.1. Network regulation

2.1.1. Unbundling

Natural gas market was opened on 3 April 2017. The legislator considered that the most effective solution was the full ownership unbundling of the single natural gas transmission and storage system operator from the energy production, distribution, and trading activities.

The unbundling of the single natural gas transmission and storage system operator JSC "Conexus Baltic Grid" was completed by 31 December 2017. The Regulator took a first decision in September 2018 stating that JSC "Conexus Baltic Grid" is certified.

As part of the annual evaluation process, the Regulator took a decision on 20 June 2024 that, for the year 2023, the unified natural gas transmission and storage system operator JSC "Conexus Baltic Grid" complies with the independence requirements of the unified natural gas transmission and storage system operator specified in the Energy Law, as well as the certification requirements. Furthermore, on 8 August 2024, the Regulator adopted a decision to certify JSC "Conexus Baltic Grid" as a natural gas storage system operator.

According to the legal regulation of the Energy Law, if a natural gas DSO 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 terminal service provision and trading, and in communication and in establishing its brand

the DSO ensures that its identity is distinct from the identity of the trading structure of the vertically integrated natural gas supplier. Until 17 July 2023 DSO JSC "Gaso" was the subsidiary of the trading company JSC "Latvijas Gāze", starting from 17 July 2023 JSC "Eesti Gaas" owns 100% of the shares. On 18 July 2024, the Regulator approved that, for the year 2023, JSC "Gaso" fulfilled the independence requirements applicable to a gas DSO.

On 16 November 2023, the Regulator approved the first national 10-year natural gas distribution system development plan for 2024-2033. The development plan includes targeted investments in the development of the natural gas distribution infrastructure. The 10-year development plan of JSC "Gaso" was developed in accordance with the rules approved by the Regulator Council's decision No. 1/1 of February 1, 2023, titled "Rules on the Development Plan for the Natural Gas Distribution System", which determines that JSC "Gaso" must prepare and submit for approval to the Regulator a development plan for the natural gas distribution system every two years for the following 10 years. On 19 December 2024, the Regulator amended the rules, supplementing them with the condition that together with the plan the distribution system operator submits to the Regulator a capital investment cost-benefit analysis for the planned newly constructed capital investment facilities that are not included in the approved plan and in which the distribution system operator's planned capital investments exceed 500 thousand euros. The Regulator also amended the rules on the national 10-year natural gas transmission system development plan, including the condition.

2.1.2. Technical functioning

2.1.2.1. Balancing

According to the Energy Law, balancing of the natural gas supply system must be ensured by the natural gas TSO. Network user is responsible for ensuring that all its inputs, off-takes of natural gas and virtual trading point transactions are in balance within gas day. Balancing calculations are made in accordance with the Common Regulations for the Natural Gas Balancing of Transmission System.

Common Regulations for the Natural Gas Balancing of Transmission System sets out the rights and obligations and the information exchange procedure between the natural gas TSOs of Estonia and Latvia and the network user in relation to the terms and procedure for providing information and general data exchange between TSO and the network user regarding their balance status, the order and procedure for operations in the virtual trading point, submission of trade notifications, allocation of initial and final imbalance quantity by network users, settlement and invoicing of imbalance charges, the terms and procedure governing the operational balancing of the gas transmission networks by the TSO and requirements for the collaterals for the fulfilment of the network user's obligations.

The TSOs can undertake balancing actions to maintain the transmission network within its operational limits and to achieve at the end of gas day linepack position in the transmission network different from the one anticipated on the basis of expected inputs and off-takes for that gas day, consistent with economic and efficient operation of the transmission network. TSO seeks to purchase gas when the total estimated quantity of planned inputs by network users to the transmission system during the gas day is lower than the quantity of planned off-takes from the transmission system and to sell gas when the total estimated quantity of planned inputs by network users to the transmission system during the gas day is higher than the quantity of planned off-takes from the transmission system, also taking into account the flexibility of the transmission systems in the Estonian-Latvian common balancing zone.

The trading platform – UAB "GET Baltic" gas exchange – is the first gas source of TSOs balancing actions. Yet, until the trading platform liquidity is sufficient, the TSOs can also rely on balancing service providers. TSOs of the Estonian - Latvian common balancing zone must agree between themselves on use of trading platforms and the balancing services. Standardized short-term (day-ahead or within-day) products with delivery to the virtual trading point are selected as priority for balancing operations, buying or selling them on the UAB GET Baltic trading platform.

The Regulator took a decision on 5 September 2024 to allow JSC "Conexus Baltic Grid" to extend the term of the balancing service agreements of the unified natural gas balancing zone signed on 19 and 22 January 2024 until 30 September 2025, and to instruct JSC "Conexus Baltic Grid" to announce a procurement for the provision of balancing services of the unified natural gas balancing zone by 30 November 2024, in accordance with Article 8(3) of the Regulation (EU) No 312/2014 of 26 March 2014 establishing a network code on gas balancing of transmission networks.

Latvian TSO JSC "Conexus Baltic Grid", acting as the settlement and balancing coordinator of the Estonian – Latvian common balancing zone, performed a total of 409 balancing operations (239 balancing activities were performed to eliminate positive imbalances and 170 balancing activities – to eliminate negative imbalances). The total number of balancing actions performed during the year is less than the number of balancing actions of the previous year - 467, respectively - a more pronounced decrease in the number of actions for clearing the negative imbalance of system users can be observed. In 2024, 96% of all balancing transactions were performed on the trading platform, while offers submitted by transmission system balancing service providers were used in 4% of cases. Compared to the previous year, in 2024, the share of balancing transactions performed on the trading platform decreased by two percentage points. The TSO registers and publishes information regarding capacity available, nominations and allocations, capacity used, all network users' imbalance position, balancing actions (gas source, number of trades, quantity of natural gas traded, total) balancing sell and buy prices of gas day D, daily neutrality charge for the previous month.

The network user enters into balancing agreement with any of the Estonian - Latvian common balancing zone TSOs and transmission service agreement with TSO, with whom the balancing agreement has been concluded. In case of conclusion of the balancing agreement the network user has an obligation to present appropriate collateral for the fulfilment of the network user's obligations under the balancing agreement.

Any transaction at the virtual trading point or interconnection point is registered by TSO in the balancing portfolios of the network users. The network users have an obligation to settle accounts for imbalance.

All daily imbalance charges are subject to a financial clearing to the financial account of the TSO. The imbalance charges accumulated to the financial account of the TSO is cleared to or by the network user on a monthly basis. For each gas day D, the TSO determines the daily imbalance prices on gas day (D+1). The marginal sell price for gas day D is equal to the lower of:

- the lowest price of any sales of title products in which a TSO was involved at relevant trading platforms in respect of gas day D;
- the weighted average price of all trades in title products at relevant trading platforms in respect of gas day D, multiplied by the marginal sell price incentive factor.

The marginal buy price for gas day D shall be equal to the greater of:

- the highest price of any purchases of title products in which a TSO was involved at relevant trading platforms in respect of gas day D;
- the weighted average price of all trades in title products at relevant trading platforms in respect of gas day D, multiplied by the marginal buy price incentive factor.

In case it is not possible to determine either the marginal sell price or the marginal buy price as due to the lack of liquidity at the relevant trading platform or any other objective and substantiated reason, the TTF gas price index published on the platform indicated on TSOs webpage in respect of gas day D multiplied by the respective incentive factor shall be used. If the TTF gas price index for the gas day D is not available, then the latest gas price index available for the gas day before gas day D multiplied by the respective incentive factor shall be used.

According to the neutrality charge calculation methodology, all costs and revenues of the balancing actions are allocated to the neutrality charge and paid by or to the network users. The daily neutrality charge has the same value for each gas day of the previous month. The neutrality charge applied in 2024 ranged from -0.02 EUR/MWh to 0.06 EUR/MWh. The average neutrality charge in 2024 was 0.01 EUR/MWh per month.

2.1.2.2. The quality of service and supply

The operations of public service providers are regularly inspected on the basis of the Regulator's decision. In 2024, 43 facilities of the DSO – JSC "Gaso" and TSO – JSC "Conexus Baltic Grid" were inspected in order to examine the company's operations and compliance with license requirements or general authorisation conditions. The facilities of the JSC "Gaso" and JSC "Conexus Baltic Grid" were inspected according to the schedule and taking into regard the necessity to ascertain the operation of the companies in accordance with legislation.

In 2024, the average amount of time needed for repairs in the distribution network for final customers was 54 minutes per one interruption. The planned system average interruptions duration (SAIDI) in the distribution network for 2024 was 4 minutes, unplanned – 0.05 minutes and planned system average interruptions frequency index (SAIFI) per customer for 2024 was 0.45, unplanned – <0.01.

2.1.3. Network tariffs for connection and access

The Regulator is responsible for the preparation and approval of calculation methodologies for natural gas transmission, storage, distribution system service tariffs and approval of the corresponding tariffs. According to the Energy Law, until the end of April 2023 households were captive consumers – they had a right to choose to become a market participant or receive gas at a regulated price. From May 2023 all users are market participants and natural gas price for final users is no longer regulated.

On 13 July 2023 Regulator adopted new Methodology for the Calculation of Natural Gas Transmission System Service Tariffs. The methodology includes changes related to the regulatory and tariff periods, the determination of the cost-efficiency coefficient, and the alignment of the regulatory account, i.e., changes in the procedure for submitting the regulatory account, recording the differences between revenues and expenses, and making revenue adjustments.

In August 2023 the natural gas distribution system tariff calculation methodology was amended with the need to ensure the financial stability of the distribution system operator, which was affected by the development of global prices, especially the rapid increase in the prices of energy resources in the world, and to promote provision of safe, efficient and high-quality services. Changes have been made regarding the regulation of the regulatory and tariff period, determination of the cost efficiency ratio from distribution system operator and reconciliation of the regulatory account.

On 1 September 2020 natural gas distribution system operator JSC "Gaso" submitted to the Regulator a proposal for natural gas distribution tariffs. On 30 April 2021, the Regulator approved distribution system tariffs. The tariffs entered into force on 1 July 2021. The tariff period was set for 54 months, but the Regulator allowed the system operator to calculate new tariff values itself, in accordance with the methodology.

JSC "Gaso" used the permission to calculate tariff for next tariff period granted by Regulator, reviewing the differentiated distribution tariff structure and published new distribution tariff values in official Gazete on 29 November 2023. New tariffs for the third tariff period came in to force from 1 January 2024. Tariff fixed and variable parts increased in all differentiated tariffs, with different increases in each tariff group. Tariff increase mainly is related to the sharp increase in natural gas prices (costs of system losses increase) and sharp decrease of natural gas consumption.

NRAs of FinEstLat system including the Regulator agreed on the following natural gas transmission system service tariff setting principles in FinEstLat system:

- interconnection points within the FinEstLat system are eliminated, including the interconnection point to or from Incukalns UGS facility;
- Postage Stamp methodology applied separately in each country;
- flat entry tariffs are set across the FinEstLat system through benchmarking and rescaling;
- resulting entry tariffs revenue shared through ITC mechanism according to the proportions of the nationally consumed natural gas volumes;
- exit tariffs are set to recover each TSOs remaining allowed transmission revenue;
- non-transmission revenues are treated nationally.

In 2023, based on the selected tariff model for the FinEstLat system, the Regulator amended the methodology for the calculation of the tariffs on the natural gas transmission system service and approved the transmission tariffs applicable from the 1 December 2023, taking into account all measures specified by the Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas (hereinafter – TAR Network Code) – the consultation on the application of the methodology for the calculation of the tariffs on the natural gas transmission system service pursuant to Article 28 and 26 of TAR Network Code was carried out and the decision on the methodology was taken based on the ACER Report – the analysis of the public consultation document for Latvia.

On 26 October 2023, the Regulator approved natural gas transmission system service tariffs applicable from 1 December 2023.

New natural gas transmission system service tariffs were set for 34 months regulatory period. The same tariff was set at the FinEstLat system entry points located in Latvia as at the other FinEstLat system entry points, but a discount of 100% was applied for the tariffs for an entry point from the Incukalns UGS and an exit point to the Incukalns UGS.

In October 2020 the natural gas storage system tariff calculation methodology was amended, introducing regulatory revenue cap and the transition of the tariff period from the calendar year to the storage cycle.

Along with the changes in Methodology for Calculation of Natural Gas Storage System Service Tariff, the regulatory account has been introduced, the purpose of which is to ensure the opportunity for the system operator to recover (return) the difference between the planned and actually generated revenue, as well as non-controllable costs.

The regulatory account records the differences between the revenue and costs. The balance of the regulatory account is reduced when the balance of the regulatory account is allocated to the revenue correction (relating to the allowed revenue) or to the correction of the planned revenue (relating to the planned revenue).

The revenue correction shall be determined before the submission of the tariff proposal and shall be applied to an equal extent to the tariff periods within one regulatory period.

The revenue correction shall be set so that the balance of the regulatory account at the beginning of the regulatory period is zero. An exception is a situation when the accumulation of the regulatory account surpasses 50% - in such cases it is provided that the Regulator may decide on the use of the accumulation of the regulatory account for other purposes related to the provision of the capacity booking service.

No later than 1 November of each year, natural gas storage system operator shall submit to the Regulator information regarding the balance of the regulatory account.

On 25 November 2020 natural gas storage system operator JSC "Conexus Baltic Grid" submitted to the Regulator a proposal for natural gas storage tariffs with a regulatory period five years. If the demand for storage capacity exceeds the technically available capacity, the price for storage service is determined by auction. The approved tariffs are applied as the starting price in auctions. Actual fees for one-year bundled unit capacity product and two-year bundled unit capacity product in 2024 were determined in auctions.

Pursuant to the amendments to the Energy Law adopted by the legislator on 12 September 2024, as of 1 May 2026, the natural gas storage system operator JSC "Conexus Baltic Grid" will no longer provide natural gas storage services at tariffs set by the Regulator or by the service provider in accordance with the tariff calculation methodology approved by the Regulator, even if such approval has been granted. Starting from 1 January 2026, the fee for natural gas storage system services will be determined through an auction, in accordance with the Incukalns UGS market-based capacity auction rules, developed by the system operator and published on its website.

On 10 August 2023, the Regulator set the WACC for the natural gas transmission, distribution and storage system operator. For year 2024 the real WACC is set 3.18% for micro and small companies and 1.48% for medium and large companies.

2.1.4. Cross border issues

Taking into account the investment request for cross-border cost allocation for the project of common interest No.8.2.4 on the fifth PCI list "Enhancement of Incukalns Underground Gas Storage" (hereinafter – Project 8.2.4) from the project promoter JSC "Conexus Baltic Grid", on 4 October 2018, the Regulator took a decision regarding the allocation of the investment costs for the Project 8.2.4 pursuant to the Regulation 347/2013, and the project received EU financial assistance. Project 8.2.4 is planned to be commissioned by the end of 2025.

Pursuant to Regulation 347/2013, the Project 8.2.4 are part of the priority gas corridor of the Baltic Energy Market Interconnection Plan in gas, specified in Annex I.8 of Regulation 347/2013: gas infrastructure to end the isolation of the three Baltic States and Finland and their dependency on a single supplier, to reinforce internal grid infrastructures accordingly, and to increase diversification and security of supplies in the Baltic Sea region.

2.2. Promoting competition

2.2.1. Description of the wholesale market

On 3 April 2017, the natural gas market in Latvia was opened. In 2024, 39 companies were registered as natural gas traders, of which 25 were active in 2024. In 2024, 8,971 TWh of natural gas were imported by the traders.

On 1 January 2023, the requirement of the Energy Law regarding the ban on natural gas supplies from Russia entered into force in Latvia. In order to ensure the safe and predictable availability of natural gas, natural gas traders have already actively diversified their natural gas supply sources and made natural gas supplies from Klaipeda LNG and Inkoo LNG terminals.

Latvia's natural gas supply system is part of FinEstLat system, and it is directly connected to the natural gas transmission systems of Lithuania, Estonia, and the Russian Federation, ensuring natural gas transmission both in regional gas pipelines in the territory of Latvia and in interconnections with the natural gas transmission systems of the neighboring countries. In 2024, natural gas transmission system's maximal technical capacity was (GWh/day) as follows:

- Incukalns UGS entry point – 253 GWh/day;
- Incukalns UGS exit point – 128 GWh/day;
- Kiemenai (LV/LT) entry point – 90 GWh/day;
- Kiemenai (LV/LT) exit point – 82 GWh/day;
- Luhamaa (EE/RU) entry point – 126 GWh/day;
- Luhamaa (EE/RU) exit point – 105 GWh/day.

The cross-border connections with Lithuania and Estonia provide the ability to supply natural gas in both directions – to Latvia's natural gas supply system and from it, thereby ensuring the security of supply of natural gas in Latvia.

The task of the gas storage facility is to ensure a constant supply of gas to consumers, regardless of the seasonal changes in its consumption, by injecting natural gas in summer and withdrawing it in winter. The Incukalns UGS is the only functioning underground gas storage facility in the Baltic States. Natural gas from the underground facility is delivered to Latvian consumers, as well as supplied to Estonia, Lithuania and Finland, and through the Lithuania-Poland interconnection (GIPL) to Central Europe. The creation of the FinEstLat regional gas market has boosted network users' interest in storage. Estonia–Finland interconnection (Balticconnector) opened at the beginning of 2020, ensured the additional withdrawal of natural gas from the Incukalns UGS for supply to Finnish customers.

To ensure uninterrupted natural gas supplies to Latvia, Lithuania, Estonia and Finland in the 2024/2025 heating season the Incukalns UGS was filled to the level 85% (19.5 TWh) at the end of the injection season.

2.2.2. Description of the retail market

In 2024, 39 companies were registered in the natural gas traders register. From May 2023 there are no captive consumers – all the natural gas customers have chosen a natural gas trader.

In 2024, the total Latvian natural gas consumption was 8,8 TWh. The Latvian natural gas consumption structure in 2024 was as follows:

- households – 1,1 TWh or 12,5%;
- non-household users – 7,7 TWh or 87,5%.

In 2024, there were 369,934 natural gas customers. Due to the switching to other energy resources the number of customers has slightly decreased compared to 2023 when there were 377,998 customers.

2.3. Security of supply

Security of supply measures are being implemented in accordance with the requirements of Regulation (EU) 2017/1938 of the European Parliament and of the Council of 25 October 2017 concerning measures to safeguard the security of gas supply and repealing Regulation (EU) No 994/2010 (hereinafter – Regulation No 2017/1938) – the Ministry of Economics of the Republic of Latvia is the competent authority with regards to the mentioned Regulations.

The infrastructure standard N-1 for Latvia is 220.67%.

In 2024, there have been no periods when the natural gas demand was not fully covered. Since the consumption of natural gas in 2024 was 8.8 TWh per annum, which is 0.7 TWh more than in the corresponding period of the previous year. Changes in natural gas consumption were affected by lower temperatures in January 2024 compared to the corresponding period of 2023. The capacity of the pipeline system is designed for an annual consumption 33.94 – 45.25 TWh and taking into account the availability of the Incukalns UGS, all the natural gas consumers were supplied without supply interruptions.

Considering the close correlation of the measures for mitigation of natural gas supply risk listed in the risk assessment and those included in the investment program of the natural gas and storage system operator, the preventive measures mainly are based on the investment program of the mentioned system operators.

On 27 August 2024, the Cabinet of Ministers adopted Regulation No. 576 "Procedures for the Supply of Energy Users During a Declared Energy Crisis and in Case of Endangerment to the State", which replaced the previous Cabinet Regulation No. 312 of 19 April 2011 "Procedures for the Supply of Energy Users and Sale of Heating Fuel During a Declared Energy Crisis and in Case of Endangerment to the State". The updated regulation outlines the procedures for supplying energy to users during a declared national energy crisis, the procedures for the establishment and use of strategic natural gas reserves to ensure, as far as possible, the uninterrupted supply of natural gas to users, as well as the procedures for supplying natural gas and electricity to the National Armed Forces, the State Fire and Rescue Service, the State Police, the State Border Guard, the Emergency Medical Service, and mobilised civil protection units in the event of a threat to the state.

Pursuant to the amendments to the Energy Law adopted by the legislator on 12 September 2024, access to the Incukalns (UGS) facility is organized in accordance with the natural gas storage service rules developed by the unified natural gas transmission and storage system operator. These rules apply to a designated storage part with a capacity of 4 TWh, where natural gas may be stored by: merchants from countries that are part of the unified natural gas transmission entry-exit system, merchants from European Union Member States that have concluded an agreement on solidarity measures for the protection of gas supply security. This applies only to those merchants whose respective country has imposed an obligation to store natural gas for reasons of security of supply, in accordance with Regulation (EU) 2017/1938. Access to the solidarity part of the Incukalns UGS facility is granted only if the Ministry of Climate and Energy certifies that the amount of natural gas stored or to be made available to the merchant is necessary to fulfil the storage obligation related to supply security. If the total storage capacity requested by merchants for reasons of gas supply security exceeds 4 TWh, the maximum storage capacity allocated to merchants from each country shall be determined proportionally, based on the number of countries whose merchants have applied for storage in the solidarity part of the Incukalns UGS facility — without exceeding the total capacity limit of 4 TWh.

VI Consumer protection and dispute settlement in electricity and natural gas

National legal acts and legal acts of the EU related to the energy sector provide legal basis for the Regulator's competence to oversee the process of market development, ensuring transparent market information and equal rules for all the market participants.

In 2024, 50 complaints of public utilities users were received and reviewed in the energy sector (37 concerning electricity and 13 concerning gas). Complaints on electricity supply were related to 9 other issues (24%), 8 quality (22%), 7 the metering of the amount of electricity consumed and the resultant bills (19%), 5 connection to the grid and supply of electricity (14%), 4 contracts conditions (11%), 2 provider switching (5%) and 2 tariffs (5%). In the natural gas supply sector, most complaints were received about issues of the 8 metering of the amount of natural gas consumed and resultant bills (62%), 2 contracts conditions (15%), 2 other issues (15%) and 1 tariff (8%).

3.1. Public service issues

The Public Service Obligations requirements are defined in several laws, particularly in the Energy Law, the Electricity Market Law and the Law on Regulators of Public Utilities. Additionally, the Regulator has also passed a number of important legislative measures (i.e. adopted amendments) to ensure promotion of best practices in regulated sectors.

In the electricity sector, a DSO has an obligation to connect every customer in the licensed area while complying with the regulations on the connection to the grid, set by the Regulator. In accordance with Article 9 of the Electricity Market Law the connection charge (the cost of construction) for all DSOs, if the connection voltage does not exceed 400 voltage and the incoming protection device rating does not exceed 100 amperes, the costs are shared equally between the customer and the DSO, where the customer pays 50% and the DSO 50%. If the input protection device rating exceeds 100 amperes or the voltage level is 6-20 kV, then 50% of costs are covered only by the DSO with at least 100,000 users, and on the condition that the load is not reduced for five years.

In accordance with Cabinet of Ministers Regulation No. 703 of 5 November 2024 "Procedure for Financing the Installation of an Electricity System Connection for a Protected Customer", 50% of the connection installation costs – either construction costs or the cost of constructing a load unit – are covered by the electricity DSO, while the remaining costs are covered from the state budget.

In 2024 other customers and generators are obliged to cover 100% of the connection costs.

Laws have defined several tasks for system operators, as well as for the Regulator issuing licenses:

- According to the law, all licensed system operators must, in accordance with their licensing terms, ensure safe, continuous, and stable delivery of electricity, thermal energy, natural gas or other types of energy and fuel to existing and potential customers, doing so at an economically justified level of quantity and quality and in conformity with environmental protection requirements.
- The system operator has a permanent obligation to ensure for system users and applicants' access to energy transmission or distribution systems or natural gas storage sites if such access is compatible with appropriate technical regulations and safety requirements.

The obligation to purchase electricity that is produced in an effective cogeneration regime or electricity is produced from renewable energy resources is imposed on the public trader of electricity. The Electricity Market Law specifies that producers can obtain the right to sell electricity to the public trader and the public trader has the obligation to buy it, as long as the producer satisfies requirements that have been defined in the Regulations of the Cabinet of Ministers "Regulations Regarding the Generation of Electricity Using Renewable Energy Resources, and also the Procedures for Price Determination and Monitoring", adopted on 2 September 2020.

On 2 September 2020, the Cabinet of Ministers adopted the Regulations Regarding the Generation, Supervision, and Pricing of Electricity in Generation of Electricity in Cogeneration, covering particular criteria and requirements which regulate mandatory procurement. These regulations contain provisions on the operating regime, the security of the supply, the efficiency, and the formula for determining the price of electricity.

Until 2023 the Regulator approved the renewable energy fee and cogeneration fee that should be paid by all the electricity customers proportionally to their consumption. In 2023 the Electricity Market Law was amended and the costs of mandatory procurement are no longer attributed to electricity consumers. In 2024, the amount of electricity produced from renewable energy resources reached 73% of net production, including hydropower plants with installed capacity more than 5 MW. Green energy production in Latvia consists of hydroelectric power plants (produced 16% less electricity year-to-year), wind power plants (2% more year-to-year), and solar power plants (210% more year-to-year). However, the overall contribution of solar power to Latvia's electricity balance remains modest at 6.7%.

3.2. Protection of vulnerable customers

The Cabinet of Ministers has issued the regulation No 345[5] of 1 June 2021 to provide detailed rules about electricity supply and distribution to vulnerable customers. These rules entered into force on 1 September 2021.

From 1 September 2021 electricity supply to vulnerable customers can be provided by any of the active electricity traders. The service is provided by JSC "Latvenergo", Ltd "Tet", Ltd "Enefit" (from 1 January 2023), JSC "Latvijas dzelzceļš" (from 1 September 2023) and Ltd "Virši Renergy" (from September 2024). The electricity price according to the Electricity Market Law is mutually agreed between a trader and a customer. In accordance with the Electricity Market Law vulnerable customers are poor or low-income families (persons), large families or families which care for disabled children or persons with the first disability group. With these regulations, the application of the discount has been changed and simplified. Pursuant to Electricity Market Law the procedures for financing installation of the connection for a protected user shall be determined by the Cabinet of Ministers.

3.3. Labelling the primary energy source

Producers who conform to criteria may receive guarantees of origin in terms of the produced electricity, in accordance with specified procedures prescribed by the Cabinet of Ministers. An institution authorised by the government issues the guarantee of origin. In 2024, the Latvia Domain of Guarantees of Origin issued guarantees for 5.01 TWh of electricity by electricity TSO – JSC "Augstsprieguma tīkls" and in the gas sector TSO – JSC "Conexus Baltic Grid" issued 18 123 guarantees of gas obtained from renewable energy resources. Both TSOs issue and manage Guarantees of Origin under the European Energy Certificate System (EECS) scheme. TSOs are full members of the European Association of Issuing Bodies (AIB).

3.4. Customer protection issues

According to the Law on Regulators of Public Utilities, the Regulator is obliged to deal with customer complaints. In simpler cases, where an agreement between the parties involved in the dispute is achievable, the Regulator provides oral or written consultations or delivers an opinion. In more complicated cases, the dispute resolution procedure is applicable.

In 2024, 37 applications were submitted to the Regulator about the actions of regulated service providers in the electricity sector. Two complaints were justified and one was not related to the Regulator's competence. In 2024, no dispute resolution procedure was initiated.

[5] https://likumi.lv/ta/en/en/id/323662

In 2024, 13 applications were submitted to the Regulator about the actions of regulated service providers in the natural gas sector. Two complaints were justified and two were not related to the Regulator's competence. In 2024, the Regulator made a substantive decision on a dispute in the natural gas sector, initiated in 2023, and rejected the claim. The subject of the dispute was related to the question of whether the connection to be established at the natural gas distribution system is part of the system operator's responsibility, and whether the gas metering and quality control equipment included in this connection are part of the unified natural gas transmission and storage system operator. In 2024, no new dispute resolution procedure was initiated.

When replying to complainants, the Regulator makes sure that service providers provide thorough and transparent information to customers about applicable prices and tariffs, as well as apply equal terms and conditions, when it comes to the accessibility and use of electricity and natural gas services.

It can be concluded that the Regulator ensures transparent, simple and free-of-charge procedures for dealing with customer complaints. Such procedures make it possible to settle disputes fairly and promptly, providing for a system of reimbursement or compensation where necessary.

3.5. Regulation of final customer prices

In the electricity sector, the Regulator sets only network tariffs, supply prices are set by bilateral agreements. Both electricity produced and electricity consumed in Latvia are being sold and bought in a power exchange. The supply price is a subject of agreement, and the price can be fixed or variable (tied to the spot price).

In the gas sector, the Regulator sets network tariffs and storage tariffs, supply prices are set by bilateral agreements. According to amendments in the Energy Law, storage tariffs will be abolished from May 1, 2026.

3.6. Activities of the Regulator in ensuring transparency of terms and conditions of supply contracts

A very important duty is to ensure the transparency of terms and conditions when it comes to supply contracts. The Cabinet of Ministers has issued the regulation No 635 "Regulations Regarding the Trade and Use of Electricity"[6] of 7 November 2023 including main provisions and conditions of electricity supply contracts.

[6] https://likumi.lv/ta/id/347235-elektroenergijas-tirdzniecibas-un-lietosanas-noteikumi

In the gas sector, the Cabinet of Ministers regulation No 78 "Regulations on trade and use of natural gas"[7] of 7 February 2017 sets the main provisions and conditions of natural gas supply contracts, as well as stipulates general rules for the supply of natural gas.

The Regulator supervises the content of the contracts to prevent discrimination of energy users or non-transparent requirements.

[7] https://likumi.lv/ta/en/en/id/289031-regulations-regarding-the-trade-and-use-of-natural-gas