



SABIEDRISKO  
PAKALPOJUMU  
REGULĒŠANAS  
KOMISIJA

15

# REGULATOR'S ANNUAL REPORT 2015

# CONTENTS

<b>1. TERMS, ABBREVIATIONS</b>	6
<b>2. THE REGULATOR'S FUNCTIONAL TASKS</b>	7
<b>3. THE REGULATOR'S OPERATIONAL PRIORITIES IN 2015</b>	10
<b>4. PUBLIC SERVICE SECTORS IN ECONOMIC CONTEXT</b>	13
<b>4.1. TURNOVER OF REGULATED SECTORS</b>	13
<b>4.2. REMUNERATION IN REGULATED SECTORS</b>	14
<b>4.3. THE IMPACT OF REGULATED PRICES ON INFLATION</b>	14
<b>4.4. MARKET CONCENTRATION LEVEL (HHI INDICES)</b>	16
<b>5. PUBLIC SERVICE SECTORS IN SOCIAL CONTEXT</b>	17
<b>5.1. HOUSEHOLD EXPENDITURES</b>	17
<b>5.2. ASSESSMENT BY THE RESIDENTS</b>	18
<b>5.3. SOCIAL INVOLVEMENT</b>	20
<b>6. ELECTRONIC COMMUNICATIONS</b>	26
<b>6.1. AUTHORISATION AND SUPERVISION OF COMPANIES</b>	26
<b>6.2. LEGAL FRAMEWORK</b>	30
<b>6.3. PROMOTION OF COMPETITION</b>	33
<b>6.4. TARIFFS, TARIFF CALCULATION METHODOLOGY, TARIFF CHANGES</b>	36
<b>6.5. PROTECTION OF CONSUMER INTERESTS</b>	37
<b>6.6. UNIVERSAL SERVICE</b>	43
<b>6.7. SECTOR DEVELOPMENT TRENDS</b>	44
<b>7. POST</b>	46
<b>7.1. AUTHORISATION AND SUPERVISION OF COMPANIES</b>	46
<b>7.2. LEGAL FRAMEWORK</b>	46

<b>7.3. PROMOTION OF COMPETITION</b>	50
<b>7.4. TARIFFS, TARIFF CALCULATION METHODOLOGY, TARIFF CHANGES</b>	50
<b>7.5. PROTECTION OF SERVICE USERS</b>	50
<b>7.6. UNIVERSAL SERVICE</b>	51
<b>7.7. SECTOR DEVELOPMENT TRENDS</b>	52
<b>8. ELECTRICITY</b>	53
<b>8.1. AUTHORISATION AND SUPERVISION OF COMPANIES</b>	53
<b>8.2. LEGAL FRAMEWORK</b>	55
<b>8.3. PROMOTION OF COMPETITION</b>	56
<b>8.4. TARIFFS AND PRICES</b>	58
<b>8.5. SERVICE QUALITY AND PROTECTION OF USERS</b>	60
<b>8.6. SECTOR DEVELOPMENT TRENDS</b>	61
<b>9. NATURAL GAS</b>	63
<b>9.1. SUPERVISION OF COMPANIES</b>	63
<b>9.2. LEGAL FRAMEWORK</b>	63
<b>9.3. PROMOTION OF COMPETITION</b>	64
<b>9.4. TARIFFS, TARIFF CALCULATION METHODOLOGY, TARIFF CHANGES</b>	65
<b>9.5. PROTECTION OF SERVICE USERS</b>	67
<b>9.6. SECTOR DEVELOPMENT TRENDS</b>	68
<b>10. THERMAL ENERGY</b>	69
<b>10.1. AUTHORISATION AND SUPERVISION OF COMPANIES</b>	69
<b>10.2. LEGAL FRAMEWORK</b>	70
<b>10.3. PROMOTION OF COMPETITION</b>	72

<b>10.4. TARIFFS, TARIFF CALCULATION METHODOLOGY, TARIFF CHANGES</b>	73
<b>10.5. PROTECTION OF SERVICE USERS</b>	75
<b>10.6. SECTOR DEVELOPMENT TRENDS</b>	76
<b>11. WATER MANAGEMENT</b>	77
<b>11.1. AUTHORISATION AND SUPERVISION OF COMPANIES</b>	77
<b>11.2. LEGAL FRAMEWORK</b>	79
<b>11.3. TARIFFS, TARIFF CALCULATION METHODOLOGY, TARIFF CHANGES</b>	79
<b>11.4. PROTECTION OF SERVICE USERS</b>	82
<b>11.5. SECTOR DEVELOPMENT TRENDS</b>	83
<b>12. MUNICIPAL WASTE DISPOSAL</b>	84
<b>12.1. AUTHORISATION AND SUPERVISION OF COMPANIES</b>	84
<b>12.2. LEGAL FRAMEWORK</b>	86
<b>12.3. TARIFFS, TARIFF CALCULATION METHODOLOGY, TARIFF CHANGES</b>	87
<b>12.4. PROTECTION OF SERVICE USERS</b>	87
<b>12.5. SECTOR DEVELOPMENT TRENDS</b>	88
<b>13. RAILWAY TRANSPORT</b>	89
<b>13.1. SUPERVISION OF COMPANIES</b>	89
<b>13.2. LEGAL FRAMEWORK</b>	89
<b>13.3. PROMOTION OF COMPETITION</b>	90
<b>13.4. TARIFFS, TARIFF CALCULATION METHODOLOGY, TARIFF CHANGES</b>	90
<b>13.5. PROTECTION OF SERVICE USERS</b>	91
<b>13.6. SECTOR DEVELOPMENT TRENDS</b>	91
<b>14. INTERNATIONAL COOPERATION</b>	93

<b>14.1. ELECTRONIC COMMUNICATIONS</b>	93
<b>14.2. POST</b>	94
<b>14.3. ENERGY</b>	95
<b>14.4. RAILWAY TRANSPORT</b>	96
<b>14.5. WATER MANAGEMENT</b>	96
<b>14.6. INTERNATIONAL COOPERATION IN 2016</b>	96
<b>15. MANAGEMENT OF THE REGULATOR</b>	99
<b>15.1. STRUCTURE AND WORK ORGANISATION</b>	99
<b>16. FINANCING AND ECONOMIC ACTIVITIES</b>	102

# 1. TERMS, ABBREVIATIONS

ACER – Agency for the Cooperation of Energy Regulators

Ad hoc – for this

AST – joint-stock company “Augstsprieguma tīkls”

BEREC – Body of European Regulators for Electronic Communications

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

CSB – Central Statistical Bureau of Latvia

EaPeReg – Eastern Partnership Electronic Communications Regulators Network

EC – European Commission

EP – European Parliament

EU – European Union

EUR – euro

GHz – gigahertz

GIPL – a project of common interest “Gas Interconnection Poland–Lithuania”

HHI – Herfindahl–Hirschman Index

JSC – joint-stock company

m<sup>3</sup> – cubic metre

MW – megawatt

MWh – megawatt hour

NPS – Nord Pool Spot

OECD – Organisation for Economic Cooperation and Development

Regulator – the Public Utilities Commission of Latvia

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

SKDS – the market and public opinion research centre SKDS

ST – joint-stock company “Sadales tīkls”

TAIEX – Technical Assistance and Information Exchange Unit

THD – total harmonic distortion

t – ton

US - Universal Service

VAT – value added tax

2G – second generation mobile communications technology

3G – third generation mobile communications technology

4G – fourth generation mobile communications technology

## 2. THE REGULATOR'S FUNCTIONAL TASKS

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

The **Board** adopts decisions on the behalf of the Regulator; the Board consists of a Chairman and four Board members appointed by the Saeima (Parliament). In 2015, the duties of the Regulator's Chairman of the Board were carried out by Valdis Lokenbahs whose powers were approved by the Saeima from 24 February 2011 until 25 February 2016. In 2015, four Board members – Andris Aniņš, Inese Ikstena, Rolands Irklis and Gints Zeltiņš performed their duties on the Regulator's Board together with the Chairman.

On 25 February 2016, the Saeima approved the new configuration of the Regulator's Board for a term of five years by appointing Rolands Irklis as the Chairman of the Board. Gatis Ābele, Rota Šņuka, Imants Mantiņš and Intars Birziņš were appointed as Board members.

See Section 15.1 "Structure and work organisation" for more information about the Regulator's structure and work organisation.



Chairman

Valdis Lokenbahs

Board member

Rolands Irklis

Board member

Andris Aniņš

Board member

Inese Ikstena

Board member

Gints Zeltiņš

The Regulator's Board has defined several strategic lines of action for 2014-2016:

- **for ensuring regulation** – to provide regulation of public utilities and development of competition in regulated sectors throughout the territory of Latvia ensuring an option for public service users to receive continuous, safe and high-quality public services at economically justified prices,

- **for monitoring companies** – to supervise activities of regulated public service providers, compliance with requirements of license and general authorisation conditions, specific quality requirements, technical regulations, standards, and contract provisions,
- **for quality control** – to perform measurements of the quality of regulated services to protect user interests, promote the development of public utilities providers and ensure continuous improvement of the quality of public services,
- **to participate in the work of international organisations** to promote the development and implementation of the European regulatory legal framework in regulated sectors in Latvia and on cross-border issues pursuant to the European Union (EU) directives and the new functions of regulators of the member states,
- **to develop the legal framework of regulated sectors** including development and implementation of regulatory methods and the comparative approach in order to improve the operational efficiency of service providers,
- **to improve the efficiency of the Regulator’s operations and promote development** – to improve competencies, expand communication, increase the efficiency of the processes and develop information systems.

In accordance with the law “On Regulators of Public Utilities”, the Regulator’s **basic functions** are:

- **to protect** the interests of consumers and promote the development of providers of public services,
- **to promote** competition and supervise the activities of companies in the public utilities sectors,
- **to determine** tariffs and the methodology for calculation of tariffs,
- **to authorise** (license, register) providers of public services,
- **to supervise** the compliance of provided services with the requirements of licences and general authorisations, specific quality requirements, technical regulations, standards, and contract provisions,
- **to examine** disputes,
- **to inform** the public about the Regulator’s activities and the activities of providers of public services.

When implementing the Regulator’s mission and strategic lines of action, as well as sector policy, each year the Regulator more intensely addresses the



improvement of regulatory functions and application of new special regulatory functions in the regulated sectors. In recent years, the development of the markets of public utilities sectors is mainly related to their gradual liberalisation; this imposes an obligation on the Regulator to perform new regulatory functions which instead of evaluating tariffs of monopoly companies are targeting the development of market mechanisms, introduction of regulatory measures stimulating competition and supervision of the established market. In the case of market liberalisation, not only the Regulator's functions expand, but the Regulator's role also grows.

### **3. THE REGULATOR'S OPERATIONAL PRIORITIES IN 2015**



**Aivars Veiss**

Executive Director

In 2015, the Regulator continued carrying out its fundamental objectives to ensure public service regulation and competition development throughout Latvia in energy, water management, municipal waste disposal, electronic communications, post and railway transport sectors. To ensure an opportunity for public service users to receive continuous, safe and high-quality services in the regulated sectors at economically justified prices, the Regulator continued the ongoing work of company supervision and quality control, participated in the working groups of international organisations, as well as continued working on the development of the legal environment of the regulated sectors. At the same time, the Regulator continued the ongoing work on the development of the Regulator's operational strategy for 2016-2020.

#### **FOR THE DEVELOPMENT OF REGULATORY ENVIRONMENT**

- Participation in the development of the amendments to the Electricity Market Law regarding the implementation of the European Union network codes.
- Evaluation and approval of the regulations on the use of the natural gas storage, transmission and system developed by the natural gas system operator
- Development of proposals for the complex review of the regulatory framework in the electronic communications sector

- Participation in the progress of the draft law "Water Management Service Law" and development of amendments to related legal acts and subordinated draft legal acts.
- Participation in the progress of amendments to "Waste Management Law" and development of amendments to related legal acts and subordinated draft legal acts.
- Participation in the evaluation and development of the legal acts to transpose the requirements of the directive establishing a single European railway area
- Participation in the development of the draft "Administrative Violations Process Law"

## **FOR AUTHORISATION AND SUPERVISION OF COMPANIES**

- Supervision of companies in the liberalised electricity market
- Supervision of activities of the electricity transmission system operator; evaluation of compliance with certification requirements
- Supervision of the fulfilment of obligations imposed on electronic communications companies
- Supervision of companies of the liberalised postal market

## **FOR PROMOTION OF MARKETS AND SUPPORT FOR COMPETITION**

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

## **FOR BALANCING AND HARMONISATION OF INTERESTS OF STAKEHOLDERS**

- Organising public hearings on tariff proposals
- Organising public consultations on draft legislative acts
- More extensive explanation of decisions adopted by the Regulator.

## **FOR REGULATION OF PUBLIC UTILITIES TARIFFS**

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

## **FOR PROTECTION OF SERVICE USERS**

- Supervision of obligations for the universal service in electronic communications and post sectors in 2015
- Supervision of the quality of public services provided by companies

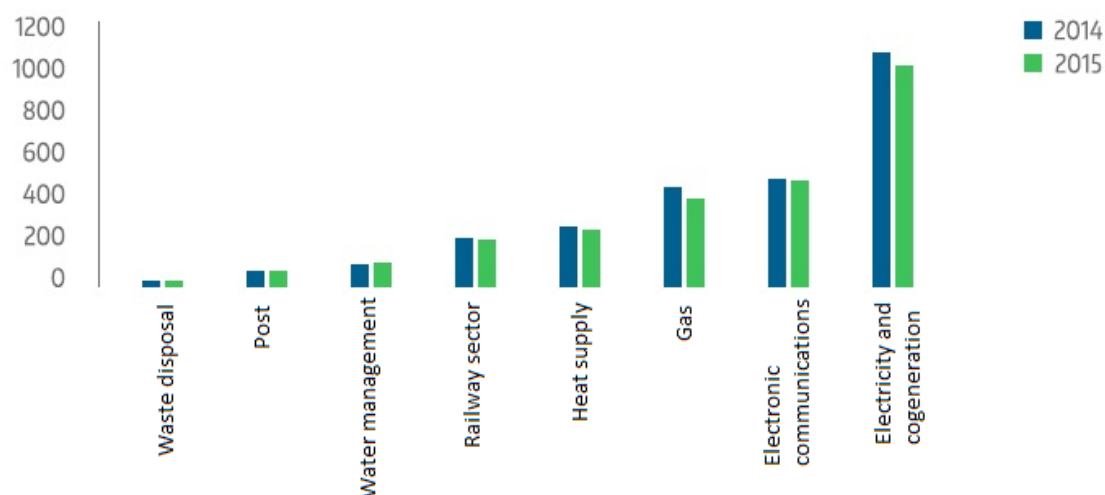
## 4. PUBLIC SERVICE SECTORS IN ECONOMIC CONTEXT

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

### 4.1. TURNOVER OF REGULATED SECTORS

The net turnover of regulated services calculated by using unaudited data of reports submitted to the Regulator was 2 679 million EUR in 2015 – 4.4% less than in 2014. In 2015, the net turnover of regulated services increased in the waste disposal sector (by 10.7%), water management sector (by 0.7%), and postal sector (by 5.5%), while it decreased slightly in the electronic communications sector (by 1.4%). The net turnover dropped more rapidly in energy sectors which was largely determined by the reduction in prices of energy resources globally – in the gas sector, the net turnover of regulated services dropped by 12.2% in 2015; the decrease was 4.2% in the heat supply sector and 3.9% in the electricity and cogeneration sector.

Net turnover of regulated services by sector, million EUR



## 4.2. REMUNERATION IN REGULATED SECTORS

In 2015, the companies of regulated sectors whose activities are supervised by the Regulator represented electricity, gas, heat supply, water supply, sewerage and waste management, as well as railway transport, electronic communications and postal sectors. The share of regulated companies' activities in each of these sectors is different, therefore the published statistical data on the performance of sectors do not always reflect general trends in the work of regulated companies.

In 2015, the monthly average gross wage in the electronic communications and energy sectors was significantly higher than the average gross wage in the country; however, it was lower in the water management, waste management, postal and courier sectors. The average gross wage in Latvia increased by 6.9% when compared with 2014. The average gross wage also increased in the regulated sectors in 2015 with the exception of the postal sector: it increased by 6.5% in the water management and waste management sector, by 5.3% in the energy sector, and by 4.1% in the electronic communications sector. The average gross wage decreased by 0.5% in the postal and courier sector.



Source: Central Statistical Bureau

## 4.3. THE IMPACT OF REGULATED PRICES ON INFLATION

According to the data provided by the Central Statistical Bureau, in 2015, services with administratively regulated prices made up 11.47% of all household expenditures (goods and services in the consumer price index basket). In this list, administratively regulated prices include both regulated public services and various other regulated services.

In 2015, compared to the previous year, the overall increase of the consumer prices was 0.3%, while the administratively regulated prices decreased by 2.6%. The prices of regulated public services decreased (by 7.6%) while other regulated service prices grew (by 6%) compared to December 2014. The administratively regulated prices lead to the overall reduction of the consumer price index by 0.3 percentage points.

Of the regulated sectors supervised by the Regulator, regulated voice telephony service prices grew most rapidly (by 15.1%) in 2015, water management service prices also increased by 0.6% for water supply and 2% for sewerage services; prices for the removal of waste grew by 4.6%. Meanwhile, a decrease in the prices of energy resources in world markets resulted in reduced prices of natural gas (by 12.9%) and thermal energy (by 12.7%). A decrease of service prices in regulated sectors in 2015 reduced the overall consumer price index by 0.54 percentage points.

	Share in expenditures of residents	Price increase (2015 XII vs 2014 XII)	Inflation component (percentage points)
<u>Regulated public services</u> (natural gas, thermal energy, regulated voice telephony services, general postal services, water supply, sewerage services, waste collection)	7.5%	-7.2%	-0.54
<u>Other regulated services</u> (compensated medication, patient's fee, passport issuance fee, car parking, notary services, passenger transport, pre-school education, etc.)	4.0%	4.0%	0.24
Administratively supervised and regulated prices, total	11.47%	-2.6%	-0.30
Consumer Price Index (inflation), total	100%	0.3%	0.3

#### 4.4. MARKET CONCENTRATION LEVEL (HHI INDICES)

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

The market concentration in the electronic communications sector can be evaluated as moderately concentrated in previous years – the index value is stable and fluctuates around 0.16. The market concentration for postal services is rather stable with a trend to decrease slightly and it reached 0.305 in 2015, therefore the market is considered as concentrated. In the electricity supply sector, the index value decreased to 0.67 in 2015 which is related to the transition of the household market to contract prices; however, electricity trade is still considered a very concentrated market.

<b>SECTOR</b>	<b>2014</b>	<b>2015</b>
Electricity trade	0.685	0.670
Electronic communications	0.163	0.156
Post	0.317	0.305



## 5. PUBLIC SERVICE SECTORS IN SOCIAL CONTEXT

Public services must be available across the country and their prices must not be a significant barrier for the reception of services.

### 5.1. HOUSEHOLD EXPENDITURES

In accordance with the CSB data, the total household consumption expenditures in 2014<sup>1</sup> on average for one household member were 3593.79 euro per year (299.48 euro per month). The information compiled by CSB about household expenditures by service types indicate all household expenditures related to the relevant service and include different unregulated services (taxes, expenditures of building managers, services provided by unregulated service providers, services at negotiated prices) whose numerical quantity or share cannot be precisely determined. Expenditures of household consumption by service types are shown in the table indicating the total average expenditures by different service types of households which use the relevant services and the households that do not.

	Average expenditures of one household member per month	
SERVICE TYPE	EUR	Share in total expenditures
<b>Total household consumption expenditures</b>	<b>299.48</b>	<b>100.0%</b>
Electricity	9.32	3.1%
District heating	8.70	2.9%
Payment for services of mobile communications operators	5.08	1.7%
Hot water supply	3.10	1.0%
Network gas	2.66	0.9%
Water supply	1.72	0.6%

<sup>1</sup> The Central Statistical Bureau publishes data on household budgets and consumption expenditures of the previous year in the 3rd quarter of each year, therefore the statistics of consumption expenditures in 2014 are used in the report.

Sewerage services	1.69	0.6%
Waste collection	1.49	0.5%
Payment for fixed telephone services	0.75	0.3%
Postal services	0.13	0.04%

## 5.2. ASSESSMENT BY THE RESIDENTS

**Public services must be available across the country and their prices must not be a significant barrier for the reception of services.**

To ensure this, when performing functions determined by the law, the Regulator not only supervises the activities of companies and protects the interests of public service users but also explains current developments in the regulated sectors. It is also consistent with the results of SKDS study<sup>2</sup> performed in March 2016 which shows that approximately half of respondents (46%) think that one of the Regulator’s tasks is to protect the interests of residents which are public service users. 34% of the respondents agree with the statement: “the Regulator protects my interests” while 21% of the respondents agree with the statement: “the Regulator openly and clearly explains the developments in the regulated sectors”.

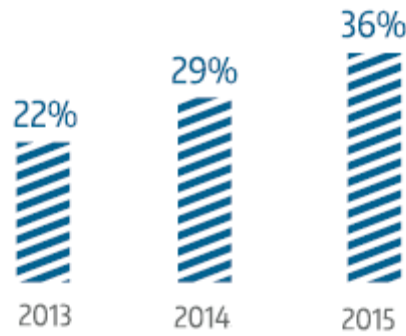
At the same time, a growing number of residents think that the Regulator exercises its powers sufficiently to influence the prices of regulated public services.

---

<sup>2</sup> “The Regulator’s image in the opinion of the public”: a survey of residents of Latvia. Geographical coverage: all regions of Latvia (125 sampling points); Achieved sampling: 1,001 respondents. Time of the survey: March 2016.

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

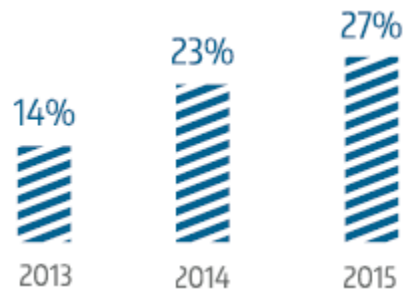
(Answering the question: In your opinion, does the Regulator sufficiently uses its ability to influence the prices of regulated public services (heat tariffs, water tariffs, electricity transmission and distribution tariffs, tariffs of waste disposal at landfills))



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

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

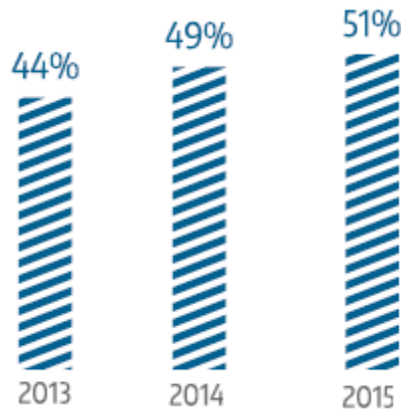
(Answering the question: Taking into account all the information you have, how would you rate the Regulator’s work?)



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

### Respondents who think that the Regulator is necessary

(Answering the question: In your opinion, how necessary is the Regulator?)



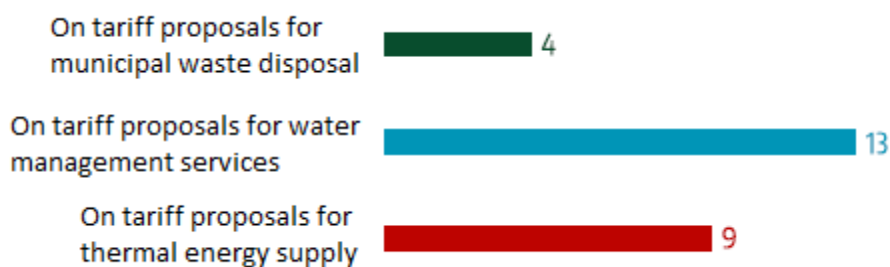
### 5.3. SOCIAL INVOLVEMENT

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

In 2015, as in previous years, the tariffs of public services were the most significant topic in the public's opinion. One way how the Regulator informs and involves the public and other stakeholders in the evaluation process of tariff proposals is organising public hearings. Public hearings on tariff proposals are a significant part of tariff approval process; a public hearing is organised in the region covered by the relevant tariff proposal.

In 2015, a total of 28 public hearings were organised including hearings about 26 tariff proposals.

#### Public hearings organised by the Regulator in 2015



One public hearing was organised regarding the ten-year electricity transmission system development plan.

The interest of residents to participate in the evaluation of tariff proposals grows every year which is suggested by the ever-increasing number of participants in public hearings. The interest of NGOs to participate in public hearings and represent the interests of public service users is also growing.

In 2015, to promote more extensive involvement of the society and NGOs, the Regulator continued informative campaigns in specific regions about organising public hearings – by developing explanatory materials and disseminating information in both traditional and social media. As a result, compared to 2014, the number of participants continued to grow. In 2015, all 26 organised public hearings were attended. In comparison, 32 hearings were organised in 2014 and four of these hearings had no participants.

To receive answers regarding unresolved issues, residents also contact the Regulator by phone. During “ad hoc” individual consultations with public utilities users, in addition to issues within the Regulator’s competence, the Regulator often has to explain issues which are not the Regulator’s responsibility and are related to relationships of households with building managers as intermediaries for the reception of public utilities. Supply and distribution of water and heating in the internal networks of buildings, issues of payments on the application of a water coefficient, circulation of hot water, costs of a heated square metre of premises – these issues fall within the competence of building managers.

## **TARIFF SETTING PROCEDURE**

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

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

### **Evaluation up to 90 days**

Within 10 days after submitting the tariff proposal to the Regulator, the company:

- publishes an announcement in the official journal “Latvijas vēstnesis” and on its homepage
- sends a notification to the local government for publication on its homepage and informing residents

The Regulator organises a public hearing for residents and

- carefully evaluates the economic substantiation of costs,
- publishes the announcement and the summary on the Regulator’s homepage,
- evaluates user suggestions and recommendations

If necessary, the Regulator:

- requests to submit additional information and documents by a specific deadline (no less than 10 days) if information is not sufficient,
- orders to recalculate the tariff proposal by a specific deadline (no less than 5 business days) if it is calculated incorrectly or costs are unsubstantiated.

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

### **Decision adoption up to 30 days**

The Regulator’s Board adopts a decision on the new tariff

### **ANNOUNCEMENT up to 10 days**

The decision on the approved tariff:

- is published in the official journal “Latvijas vēstnesis”,
- is published on the Regulator’s homepage,
- is sent to the local government, published on its homepage and residents are informed,

- is delivered to the company

The tariff enters into force no sooner than within 30 days

**The new tariff enters into force**



# When and how the Regulator consults with stakeholders? Find out and participate!



TO LEARN THE OPINION OF STAKEHOLDERS ABOUT A DRAFT EXTERNAL REGULATORY ENACTMENT, A TARIFF PROPOSAL OR OTHER ISSUES, THE REGULATOR CONSULTS WITH PUBLIC UTILITIES PROVIDERS AND USERS, INSTITUTIONS, ORGANISATIONS AND OTHER STAKEHOLDERS BEFORE ADOPTING THEM.

CONSULTATIONS ARE ORGANISED:



as extramural public consultations



as intramural public hearings

## PUBLIC CONSULTATIONS



A public consultation is organised about a draft external regulatory enactment or other issues about which the opinion of stakeholders must be learned.



### THE REGULATOR PREPARES A CONSULTATION DOCUMENT

A consultation document shall contain an objective, description of the existing situation or problem, the procedure for submitting proposals and comments, time period, and contact information. The document about which an opinion is to be learned shall be appended.



### THE REGULATOR ANNOUNCES A PUBLIC CONSULTATION AND INVITES STAKEHOLDERS TO SUBMIT PROPOSALS AND COMMENTS:

- a consultation document is published on the website [www.sprk.gov.lv](http://www.sprk.gov.lv)
- in the electronic communications sector, an announcement about a consultation document is additionally published in the official journal "Latvijas Vēstnesis" [www.vestnesis.lv](http://www.vestnesis.lv)
- mass media are informed

No later than 5 working days after reviewing it in a Board meeting



### STAKEHOLDERS SUBMIT PROPOSALS, COMMENTS

Stakeholders shall submit proposals and comments to the Regulator according to a procedure specified in a consultation document by sending them by mail or e-mail.

Time period for submission of proposals and comments - at least 2 weeks if legal acts do not specify otherwise. For example, in the electronic communications sector - 30 days from publication in [www.vestnesis.lv](http://www.vestnesis.lv).



### THE REGULATOR PUBLISHES THE RECEIVED PROPOSALS AND COMMENTS ON THE WEBSITE [WWW.SPRK.GOV.LV](http://WWW.SPRK.GOV.LV)

Within 3 working days after receiving proposals and comments



### THE REGULATOR EVALUATES PROPOSALS, PREPARES A SUMMARY OF OPINIONS AND, IF NECESSARY, AN UPDATED DRAFT DOCUMENT

Work meetings may be organised to update opinions.



### THE REGULATOR'S BOARD

- issues a normative act or adopts a decision
- or if the consulted document must be significantly amended as a result of received proposals and comments or legal circumstances have changed, decides:
  - to organise a recurrent public consultation or
  - to organise a public hearing or
  - to terminate the consultation



### THE REGULATOR PUBLISHES THE SUMMARY OF OPINIONS ON THE WEBSITE [WWW.SPRK.GOV.LV](http://WWW.SPRK.GOV.LV)

No later than 5 working days after reviewing it in a Board meeting



# PUBLIC HEARINGS



Public hearings are organised for tariff proposals, issues previously consulted in a public hearing and other significant regulatory issues regarding which the opinion of stakeholders must be learned.

No public hearing may be organised when an issue must be moved forward urgently.



## A PUBLIC UTILITIES PROVIDER (COMPANY) SUBMITS A TARIFF PROPOSAL TO THE REGULATOR

In accordance with the Regulator's "Regulations on familiarising oneself with a tariff proposal", during the evaluation of a tariff proposal, a stakeholder can familiarise oneself with:

- the announcement about a tariff proposal which a company publishes in the official journal "Latvijas vēstnesis" and its homepage, if it exists
- publicly available information included in a tariff proposal at a utilities provider or the Regulator
- a summary prepared by the Regulator and published on the website simultaneously with an announcement about a public hearing

within 10 days from submission of a tariff proposal



## THE REGULATOR'S BOARD DECIDES TO ORGANISE A PUBLIC HEARING ABOUT:

- a previously consulted issue, for example, a draft external regulatory enactment
- significant regulatory issues, for example, the ten-year electricity transmission network development plan elaborated by a public utilities provider and submitted to the Regulator for approval or about a draft document developed by the Regulator



## THE REGULATOR ANNOUNCES A PUBLIC HEARING INVITING STAKEHOLDERS TO PARTICIPATE IN THE HEARING AND PROVIDE PROPOSALS, AND:

- publishes an announcement about a public hearing on the website [www.sprk.gov.lv](http://www.sprk.gov.lv)
- informs mass media
- sends the announcement about a public hearing to the relevant local government for publishing on the local government's website and informing residents

no later than 10 days before a public hearing about a tariff proposal

### The following shall be indicated in an announcement about a public hearing:

- regarding what issue the hearing is organised and where a stakeholder can familiarise oneself with the document
- place and time of the hearing and a contact person (name, surname, phone number and e-mail)
- an instruction for participants to inform the Regulator's contact person about their participation in a hearing at least one working day in advance
- a notice that a hearing is conducted in the national language
- in the pre-election period - a notice that pre-election campaigning is forbidden during a hearing



## THE REGULATOR INVITES TO A PUBLIC HEARING

- sends an invitation letter to a public utilities provider (company) to participate in a public hearing to provide information about a tariff proposal or developed document and answer questions
- sends an invitation letter to the stakeholder which has submitted proposals and comments about a consultation document

no later than 10 days before the planned public hearing about a previously consulted issue



## STAKEHOLDERS INFORM THE REGULATOR ABOUT THEIR PARTICIPATION IN A PUBLIC HEARING

Stakeholders who had not previously applied may also participate in a hearing.

### Opinions, proposals and recommendations about consulted issues by the participants of a hearing:

- shall be expressed orally during a public hearing or submitted to the Regulator in writing
- suggestions about a tariff proposal may also be submitted to a service provider



## THE REGULATOR CONDUCTS A PUBLIC HEARING AND TAKES MINUTES

### Procedure of a public hearing:

- a minute taker registers participants before the hearing
- the manager of the hearing informs about the objective and procedure of the hearing and the procedure for further progress of the document in the Regulator
- informs participants about the time which each participant of the hearing shall be given for providing comments, proposals and recommendations
- gives the floor to the company to provide information about a tariff proposal or elaborated document and invites to ask questions
- invites participants of the hearing to express proposals and recommendations
- when all participants have been heard, the manager shall announce closing of the hearing



## THE REGULATOR PUBLISHES THE MINUTES OF A PUBLIC HEARING ON THE WEBSITE [www.sprk.gov.lv](http://www.sprk.gov.lv)

### The minutes of a public hearing shall contain:

- place and time of the hearing, the number of the minutes
- name and surname of the manager and minute taker
- the number of participants appending the list of participants to the minutes
- reviewed issues by recording comments, proposals and recommendations applicable to the assessment of the issue
- if written comments, proposals and recommendations have been received during a hearing, they shall be appended to the minutes and a note about it shall be made in the minutes



## THE REGULATOR EVALUATES THE PROPOSALS EXPRESSED IN A PUBLIC HEARING AND REFLECTS THEM IN A DECISION

The decision is published on the website [www.sprk.gov.lv](http://www.sprk.gov.lv) - ABOUT US - Board Meetings and Decisions (in the Latvian version)

## 6. ELECTRONIC COMMUNICATIONS

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

### 6.1. AUTHORISATION AND SUPERVISION OF COMPANIES

**Only a registered electronic communications company has the right to provide electronic communications services. Registration of companies is performed by the Regulator.**

30 new companies announced the launch of operations in the electronic communications sector in 2015 by sending a registration notification of an electronic communications company to the Regulator. 357 electronic communications companies were listed in the Electronic Communications Companies' Register at the end of 2015.

In 2015, the consolidation of companies observed over the previous years continued – acquisitions of several companies and mergers under one brand thus ensuring broader geographical coverage for service reception and wider range of services.

58 companies were excluded from the Electronic Communications Companies' Register in 2015 at the request of companies themselves terminating activities in the electronic communications sector and by decisions of the Regulator's Board enforcing the termination of activities as a penalty for repeated and unresolved violations of general authorisations' regulations, as well as based on the decisions of the State Revenue Service about the termination of economic activities of the companies.

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

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

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

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

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

In 2015, the Regulator set specific conditions for the rights to use numbering for 17 electronic communications companies when allocating new numbering to prevent inefficient use of scarce resources. These conditions provide that companies must start using at least 30% of allocated numbers within six months. If these conditions are not met, the Regulator cancels the rights to use numbering. Consequently, electronic communications companies only request as many numbers as necessary for commercial purposes.

Amendments were made to the National Numbering Plan in 2014 envisaging that public mobile telephone numbers shall be used in the public mobile telephone network using radio spectrum of the Republic of Latvia. 490,000 mobile numbers

were freed for use in the electronic communications market at the beginning of 2015 after the Regulator’s decision was adopted.

Numbering allocations in 2015				
Numbering	Allocated		Cancelled	
	Numbers	Companies	Numbers	Companies
Public fixed telephone network numbers	155 600	9	121 300	11
Public mobile telephone network numbers	190 000	3	510 000	14
Toll-free numbers	1 022	5	115	3
Shared payment service numbers	105 000	3	110 000	2
Premium rate service numbers	4 011	3	145	4
Numbers for other types of services	11 100	5	2 030	1
Short codes	15	6	16	8
Identification codes	1	1	0	0

In 2015, auctions of radio spectrum bands were not organised because the Regulator did not receive any requests from companies. In June and July, the Regulator’s Board adopted decisions on extending the term for the rights of two companies to use radio spectrum for mobile communications to ten years, while in March – a decision on allocation of the rights to use radio spectrum bands for mobile satellite radio communications to one company for just under 12 years, as well as in May and December – on extending the term for the rights of three companies to use radio spectrum for other types of radio communications. No rights allocated to companies to use radio spectrum were cancelled in 2015.

Since 2004 the Regulator has implemented and repeatedly optimised the number portability service in cases when users switch operators. Consequently, the usability of the service improves every year. The operators currently provide this service within one working day or other time agreed upon by consumers. According to the database data of the state-owned JSC “Elektroniskie sakari”, 1.27% of fixed and 2.47% of mobile communications users have switched an operator and ported their numbers in 2015.

As in other countries, an increase in various fraudulent schemes using numbering resources was also observed in Latvia in 2015. The detection of such schemes is very complicated because the process of fraud is dynamic – it is terminated soon after its initiation. To limit fraudulent activities, foreign operators (due to suspicion only and without specific evidence) may prohibit calls in their electronic communications networks to Latvian numbers preventing our consumers from making calls while being abroad.

In 2015, the Regulator received three applications from foreign operators and organisations stating that 17 numbers in three different numbering ranges allocated to four Latvian electronic communications companies were used for fraud. At the same time, there are concerns that the number of actual fraud cases is much higher because operators attempt to counter smaller scale fraud without involving responsible institutions.

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

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

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

Electronic communications companies have an obligation to biannually submit regular information to the Regulator about their activities in the reporting period.

The supervision is mainly carried out by ensuring the monitoring of the data submitted by companies. Planned inspections are carried out for supervision purposes; detailed information about the inspections can be found in the section about the service quality.

In cases of consumer complaints, exceptional inspections are performed, if necessary. In 2015, more than 200 violations regarding failure to provide information within a specified reference period were detected. As a result of consultations provided by the Regulator and successful cooperation with companies, only 50 protocols for administrative violations were drawn up.

Amendments provide for the division of numbering into geographic and non-geographic numbering to be abandoned. Consequently, the numbering used for voice telephony services in the fixed electronic communications network is no longer divided into numbering areas that indicated a specific urban area to which a caller belonged.

## **6.2. LEGAL FRAMEWORK**

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

In the electronic communications sector, the Regulator participated in the development of draft “Amendments to **Electronic Communications Law**” about issues related to numbering, market analysis process, as well as the universal service in the electronic communications sector. The Regulator was also actively involved in the development of the package of draft laws to implement the Directive of the European Parliament and of the Council on measures to reduce the cost of deploying high-speed electronic communications networks<sup>3</sup>.

In relation to numbering issues, the Cabinet of Ministers also approved the new version of the regulations on the National Numbering Plan last year.

---

<sup>3</sup> Directive 2014/61/EU of 15 May 2014

Consequently, to improve legislative acts in the electronic communications sector in accordance with the performed changes, the Regulator amended several legal acts – made amendments to the **Regulations on preventing fraud performed using numbering** while issuing new versions of **Regulations on a number portability service**<sup>4</sup> and **Regulations on the rights to use numbering**<sup>5</sup>.

Under the current market conditions mutual balancing of the tariffs offered to end users is no longer necessary in the electronic communications sector and the number of services which are provided to end users and regulated due to insufficient competition in the market has decreased. Taking into account the above-mentioned circumstances, the Regulator developed a new **Methodology on calculation of electronic communications services tariffs**<sup>6</sup> which entered into force on 1 January 2016. The Regulator abandoned the use of tariff baskets and price ceiling formulas when calculating tariffs of electronic communications services provided to end users. The new methodology provides for special regulation for tariffs of domestic calls to other electronic communications networks because a decrease in call termination rates has resulted in significant reduction of costs for such domestic calls. The obligation to comply with the methodology has currently been imposed for access to Lattelecom’s public telephone network at a fixed location.

Based on the analysis of the market for the wholesale high-quality access at a fixed location, the Regulator plans to impose new obligations for the electronic communications company with significant market power – Lattelecom Ltd. Application of such obligations is being evaluated to promote competition in this field. In accordance with the results of the market analysis, legislative acts also had to be updated therefore the Regulator made amendments to **Regulations on a reference offer for interconnections and leased lines**<sup>7</sup> and issued a new version of **Regulations on a reference offer for leased lines**<sup>8</sup>. They specify requirements to be complied with by Lattelecom Ltd, as well as align and systemise technical requirements for leased line services to ensure the minimum required amount of information to be included in a reference offer and available to electronic communications companies that want to use leased line services.

---

<sup>4</sup> No 1/19 “Regulations on the provision of a number portability service” of 3 December 2015

<sup>5</sup> No 1/18 “Regulations on the rights to use numbering” of 3 December 2015

<sup>6</sup> No 1/14 “Methodology on calculation of electronic communications services tariffs” of 15 October 2015

<sup>7</sup> Regulations on a reference offer for interconnections and leased lines

<sup>8</sup> No 1/10 “Regulations on a reference offer for leased lines” of 20 August 2015

To simplify information to be submitted by electronic communications companies to the Regulator and ensure comparative records of quality parameters of electronic communications services, the Regulator made amendments to **Regulations on quality requirements of electronic communications services, submission and publication of quality reports**<sup>9</sup>. The changes specified in the quality regulations will reduce the defined number of quality parameters of electronic communications services for some types of provided electronic communications services and will reduce the amount of information to be submitted regularly by companies whose number of end users of a specific electronic communications service does not exceed the limits set by the Regulator. Changes in the conditions for submission of regular information and requested volume of information do not mean that burden is reduced for certain electronic communications companies because service quality conditions to be included in an electronic communications service contract with a subscriber are equally applicable irrespective of the number of subscribers or other considerations. The regulations entered into force on 1 January 2016.

**Regulations on the general authorisation**<sup>10</sup> issued by the Regulator also entered into force from 1 January 2016; the regulations were developed and approved in 2015. They clarify the specific conditions for consumer rights protection, for instance, about ensuring a subscriber's access to information and conditions of the application of a credit limit. Regulations on the general authorisation include technical conditions for an interconnection (defining an interconnection point, technology used). Last year the Regulator also adopted **Regulations on preventing violations of general authorisation regulations**<sup>11</sup>. The regulations define a procedure how the Regulator implements the prevention of violations of general authorisation regulations of electronic communications companies.

In 2015, as in recent years in the electronic communications sector, the Regulator reviewed the list of those electronic communications networks and services about which companies have to send a registration notification to the Regulator before the provision of services is initiated. When updating the list, the Regulator made the necessary changes in **Regulations on the registration of electronic**

---

<sup>9</sup> No 1/21 "Regulations on quality requirements of electronic communications services, submission and publication of quality reports" of 3 December 2015

<sup>10</sup> No 1/8 "Regulations on the general authorisation in electronic communications sector" of 4 June 2015

<sup>11</sup> No 1/3 "Regulations on preventing violations of general authorisation regulations in electronic communications sector" of 12 February 2015



**communications companies and the list of electronic communications networks and services.** A number of electronic communications services and their definitions were updated and supplemented<sup>12</sup>.

### **6.3. PROMOTION OF COMPETITION**

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

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

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

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

In accordance with "Regulations on interconnection reference offer" and "Regulations on leased line reference offer", an electronic communications company with significant market power must publish interconnection and leased line reference offers. In 2015, the following reference offers were published:

---

<sup>12</sup> No 1/9 "Regulations on the registration of electronic communications companies and the list of electronic communications networks and services" of 4 June 2015

- “A reference offer of the public telephone network interconnection for Latvian electronic communications companies” published by “BITE Latvija” Ltd in 2015
- “A reference offer for services of mutual use of related equipment” (2<sup>nd</sup> edition) published by “Lattelecom” Ltd on October 1, 2015.

In 2015, 11 new interconnection agreements were registered with the Regulator reaching a total of 132 at the end of the year. At the same time, we may conclude that contrary to interconnections, all types of access and shared use of infrastructure is not popular among companies.

The infrastructure competition characteristic for Latvia continued in 2015. Regulations on access to related equipment and services obliges electronic communications companies to cooperate regarding the use of cable ducts, while the shared use of other infrastructure is recommendatory for the time being. In December 2015, in the Cabinet’s State Secretary meeting, the Law on the High Speed Electronic Communications Network was announced; after the law’s entry into force Directive 2014/61/EU will be implemented. The Ministry of Transport together with other relevant ministries and the Regulator are currently working to improve the draft law. As a result, a separate law will impose an obligation on almost all network (gas, electricity, district heating etc.) owners to lease their infrastructure to electronic communications companies for installing high-speed electronic communications networks including an obligation for mobile operators to share their masts and towers for the installation of other operators’ equipment. To fully implement this Directive, amendments to many legislative acts must still be made. The Regulator’s functions for dispute settlement will consequently be expanded and will concern not only disputes between electronic communications companies, but also between electronic communications companies and operators (owners) of other networks.

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

In the electronic communications sector, closer links between voice telephony services provided in the mobile and fixed networks have been observed for a long time. In 2015, the Regulator performed an in-depth assessment of substitutability

of fixed and mobile voice telephony and found that changes in service tariffs, the number of users and the volume of the used services indicate that end users actively substitute fixed voice telephony services with mobile voice telephony services. Such conclusions require the Regulator to analyse the fixed and mobile voice telephony market as a single market which affects the process and results of analysis of several electronic communications markets.

**As in previous years, the establishment of a single European market maintained its priority in 2015. Consequently, the work was continued to implement the single market rules in the legislation of the member states.**

The single European market regulation entered into force in 2015; it entails unified net neutrality and roaming principles across all EU member states. The regulation of net neutrality specifies the applicable transparency measures to ensure access to open Internet, as well as common rules to ensure equal and non-discriminatory treatment towards data flow and protect the rights of direct users when providing Internet access services. Integration of the electronic communications sector into the single EU market was strengthened by promoting simplification and availability of roaming services, introducing the *roam like at home* principle throughout the entire territory of the EU member states. The Regulator together with other Nordic regulators actively opposed the inclusion of disadvantageous provisions for efficient operators in the single roaming regulation and achieved the inclusion of Latvian mobile communications operators in the group of efficient operators which will have a right to apply more favourable roaming terms for Latvian users in the international wholesale settlements.

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

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

In 2015, final decisions were adopted about the application of obligations and removal of obligations in the market for voice call termination on individual mobile networks or Market 2. The market analysis resulted in a conclusion that eight companies are no longer the participants of Market 2 therefore all previously applied obligations were cancelled. One company – “ECO Networks” Ltd was declared a company with significant power in Market 2 and obligation of transparency, tariff regulation and access were specified for this company. In 2015, the market analysis of the wholesale high-quality access provided at a fixed location (Market 4) was completed. After the market analysis, national consultation with market participants was carried out; the Regulator also consulted with the European Commission, BEREC and regulators of other EU member states about the analysis and obligations of Market 4. On August 20, the final decision was adopted about declaring one company – Lattelecom Ltd as company with significant market power and application of obligations thereon. The following obligations were imposed on Lattelecom Ltd: access obligations for wholesale terminating segments of leased lines, equal treatment obligation, transparency obligations, obligations of tariff regulation and cost calculation, obligation to keep separate accounting of activities for access to wholesale terminating segments of leased lines.

#### **6.4. TARIFFS, TARIFF CALCULATION METHODOLOGY, TARIFF CHANGES**

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

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

Considering changes in the National Numbering Plan from 1 January 2016 which cancel the breakdown of calls into local calls and domestic long-distance calls in the fixed voice telephony network by introducing the term “domestic call”, the Regulator developed and approved a new Methodology on calculation of electronic communications services tariffs on 15 October 2015. The Regulator

abandoned the use of tariff baskets and price ceiling formulas in the methodology because mutual balancing of tariffs for end users is no longer necessary under current market conditions and the number of services provided to end users which are regulated due to insufficient competition in the market has decreased.

The methodology lays down special regulation for tariffs for domestic calls to other electronic communications networks because the costs of such domestic calls have decreased significantly due to reductions in call termination rates.

An obligation to comply with afore-mentioned methodology is currently imposed only on “Lattelecom” Ltd.

## **6.5. PROTECTION OF CONSUMER INTERESTS**

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

### **Quality of the universal service**

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

When evaluating the quality of voice telephony services in Lattelecom’s fixed telephone network, the Regulator analyses such parameters as the unsuccessful call ratio, the average call setup time and the average speech transmission quality.

When evaluating the results of measurements of domestic voice telephony services, we see that the values of some parameter indicators, for example, the unsuccessful call ratio and the speech transmission quality in Lattelecom's fixed electronic communications network have maintained good quality.

It was also concluded that the value of the unsuccessful call ratio was very negligible (0.002%) in 2015 and complies with the value limit specified in the universal service's quality requirements – 0.85 percent. Furthermore, the speech transmission quality of 4.12 points is convincingly higher than 3.50 points which is the parameter value declared by Lattelecom Ltd and ensures perfect audibility for users.

When assessing the quality of the fault reporting service 178 and the comprehensive telephone directory enquiry service 1188, the Regulator determines such parameters as the average time to answer a call, as well as the number of calls answered within 20 seconds.

In 2015, the quality indicators of the fault reporting service 178 and the comprehensive telephone directory enquiry service 1188 deteriorated. The average response time of the comprehensive telephone directory enquiry service 1188 still tends to grow and its value does not comply with the 10 second limit for the parameter value as determined in the universal service quality requirements exceeding it by more than five seconds. The total response time is clearly influenced by the announcement played before the operator's response that a conversation will be recorded due to quality control and it indicates insufficiently fast servicing of calls more frequently than in previous years.

### **Voice telephony and SMS service quality in the mobile network**

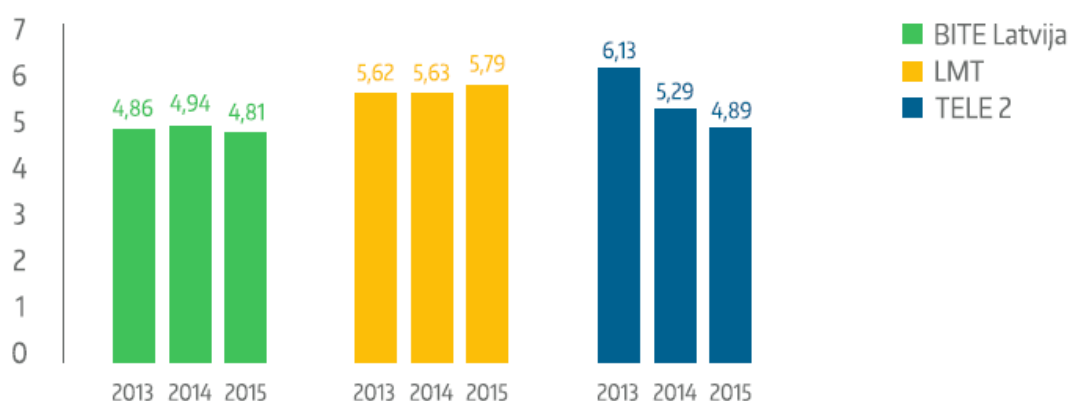
To determine the quality of voice telephony services in the mobile network, the Regulator evaluates such parameters as the unsuccessful call ratio, the call setup time and the average speech transmission quality.

After compiling the results of measurements of the quality of voice telephony services of "BITE Latvija" Ltd, "Tele2" Ltd and "Latvijas Mobilais telefons" Ltd

(“LMT” Ltd), we concluded that they are rated as very good in locations where a stable coverage of the mobile electronic communications network is ensured. Only minor differences in the quality indicators of voice telephony services were observed in the mutual comparison of the operators’ mobile electronic communications networks which attests to an equivalent level of service quality for voice telephony services provided by all operators.

When assessing the indicators of the call setup time of the domestic voice telephony service over a longer time period, comparatively small changes in the average values of this indicator were observed in the mobile electronic communications networks of “BITE Latvija” and “LMT”. Whereas, comparing indicators in “Tele2” mobile electronic communications network, a gradual decrease of the average call setup time is observed every year which attests to an improvement of this indicator and is currently in similar range of values compared to other operators.

**Comparison of the results of measurements of the average call setup time (seconds)**



Reviewing the quality indicators of the SMS services of the above-mentioned operators, the Regulator has concluded that they are impeccable and the average SMS delivery time does not exceed seven seconds. Only a few unsuccessful SMS messages were detected during measurements in 2015 which means they were received after more than five minutes. It attests to the stable and impeccable operation of SMS services in the mobile electronic communications networks of BITE Latvija, Tele2 and LMT.

## **The quality of Internet access service**

During the measurements of Internet service quality, the Regulator determines such parameters as connection speed (download and upload), latency, jitter, and packet loss ratio. In 2015, if possible, the measurements were performed simultaneously in the mobile electronic communications networks of “Bite Latvija”, “LMT”, “Tele2”, and “Telekom Baltija” in more than 400 freely selected geographical locations as uniformly as possible across the whole territory of Latvia including 50 locations in Riga.

In 2015, all operators significantly expanded the coverage of mobile electronic communications networks, thus promoting the availability of Internet services. In 2015, BITE Latvija began the introduction of 4G technology while LMT and Tele2 continued developing 4G data transmission technology which was introduced in previous years.

Despite the rapid implementation of the data transmission technology, the measurements detected that only 2G technological coverage is available to some users; there are also some locations where the mobile Internet service is not available due to an unstable or non-existent coverage of the mobile electronic communications network.

Assessing the dynamics of changes in connection speeds of Internet services, an increase in values of connection speeds was observed in comparison with the measurement data of previous years; it highlighted the development of 4G technology more sharply.



### Data transmission technologies used for downloads in Latvia

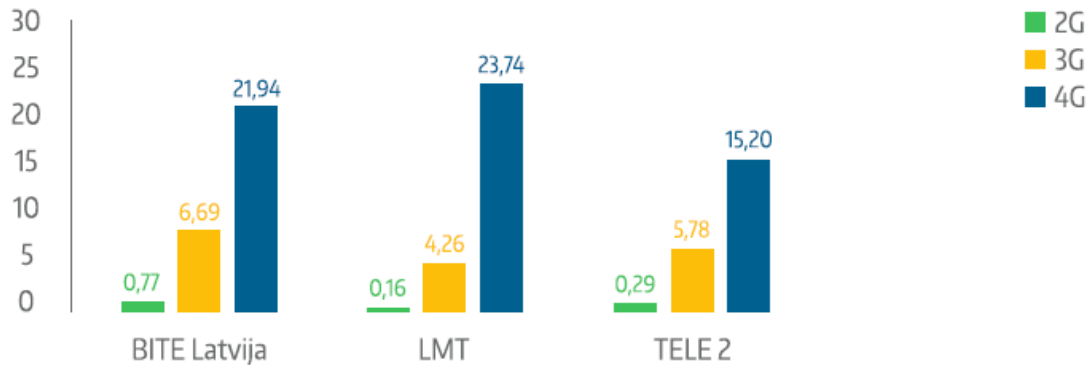


After compiling the results of Internet service quality measurements performed in 2015 and analysing connection speeds in “BITE Latvija”, “LMT” and “Tele2” mobile electronic communications networks, there is still evidence that significantly different connection speeds are provided for Internet users with average values of Internet download speeds ranging quite extensively from 4 to 40 megabits per second in different locations and time periods:

- average values of “BITE Latvija” download speed range from 4 to 34 Mb/s;
- average values of “LMT” download speed range from 4 to 40 Mb/s;
- average values of “Tele2” download speed range from 2 to 21 Mb/s;
- average speed values for Internet connection service provided by “Telekom Baltija” range from 2 to 6 megabits per second as in previous years.

Despite high values of connection speeds available at some time periods, the most frequently recorded average Internet download speed in the mobile networks of “BITE Latvija”, “LMT” and “Tele2” was less than 25 megabits per second in 2015.

### Average values of download speeds of data transmission technologies used by BITE Latvija, LMT and Tele2



As a result of the development of 4G data transmission technology, Internet service users have an opportunity to receive speedier Internet services reaching up to 40 megabits per second in some residential areas. At the same time, in areas where the coverage of 4G data transmission technology is unstable or variable, sometimes the equipment connected to an end user, while selecting a mobile network, automatically connects to a newer generation mobile network despite unstable coverage thereof. In cases of variable mobile network coverage, if it is possible to choose a stable coverage provided by older technology, for example, 3G, it is useful to set the consumer equipment in connectivity mode of the specific technology, thus ensuring stable and constant signal reception resulting in higher average values of Internet connection speed.

The Regulator's experts point out that even when 4G data transmission technology is available, significant drops in values of connection speeds up to 3 Mb/s or even lower are possible in the mobile electronic communications network which may be caused, for instance, by congestion in the mobile network due to numerous Internet service users at the given moment.

### User applications, complaints

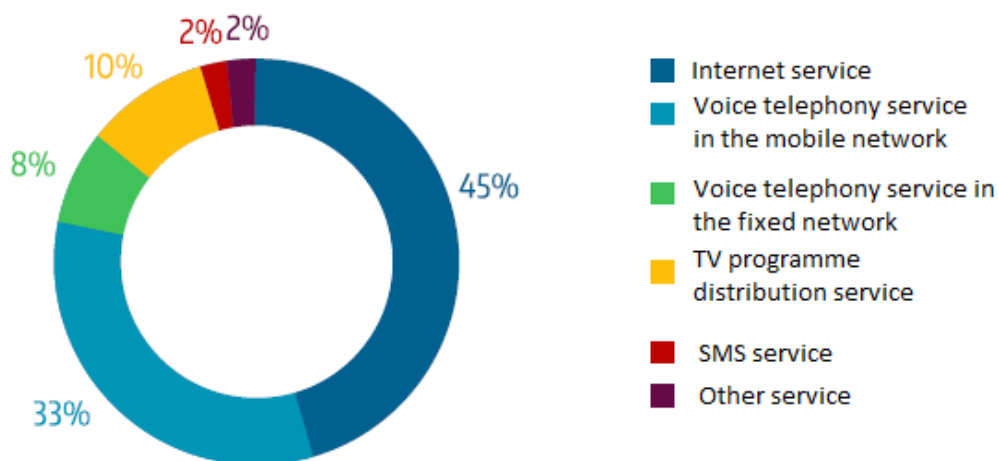
In 2015, the Regulator received and replied to 40 consumer complaints about the provision of services; ten complaints were received from legal persons.

When assessing the reasons for complaints according to the type of the provided service, we may conclude that the received consumer complaints mostly had to do

with service quality (47%) and subscriber bills including telephone records and application of tariffs (30%). A comparatively small number of complaints concerned the number portability service (10%) and electronic communications service contracts (8%), as well as other problems related to service reception (5%).

When evaluating the complaints received about services in 2015, it can be noted that most complaints are still submitted about voice telephony services in the mobile network and Internet services. Moreover, most complaints about Internet services are directly related to the Internet service in the mobile network.

**Comparison of the complaints received in 2015 (in percentage terms for each service)**



In 2015, the Regulator received more than 100 complaints by telephone about the provided services. The subjects of the received telephone complaints mainly had to do with service quality (41%), subscriber bills, telephone records and application of tariffs (27%). Telephone complaints were also received about contracts (7%), as well as other problems related to the reception of services (25%).

## 6.6. UNIVERSAL SERVICE

**For public services to be available for everyone including low-income households and users in less populated regions, one of the most significant instruments of the national policy is the universal service.**

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

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

Since 2003 the Regulator has obliged Lattelecom Ltd to fulfil this function. In 2015, a number of universal service obligations and service quality requirements with specific parameters were maintained for the operator. In 2015, according to legal acts and after the analysis of the submitted information, the Regulator confirmed that the provision of the universal service obligations caused losses to be compensated from the state budget in the amount of 173,871 euro in 2014.

## **6.7. SECTOR DEVELOPMENT TRENDS**



**Andris Virtmanis**

Director, Electronic Communications and Post Department

Regulatory tasks for 2016

1. After the Telecoms Single Market (TSM) Regulation (EU) 2015/2120 entered into force on 29 November 2015, the sector regulators will have to ensure in 2016:

- Compliance with net neutrality requirements in public electronic communications networks stipulated by the regulation;
  - Compliance with international roaming requirements in public mobile networks stipulated by the regulation.
2. The Regulator will continue the development and application of the requirements for access to electronic communications operators' public network infrastructure.
  3. In the second half of 2016, publishing of specific European Commission proposals for the regulatory reform of the electronic communications sector developed within the framework of the Digital Single Market (DSM) concept is expected and will be followed by public consultations.
  4. Implementation of the Companies' Information Input and Processing System (IIAS) ordered by the Regulator will be ensured.

## 7. POST

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

### 7.1. AUTHORISATION AND SUPERVISION OF COMPANIES

A company has a right to start the provision of postal services if it has sent or personally submitted a registration notification to the Regulator. The Regulator keeps and maintains a register of postal companies and ensures its public availability.

In 2015, 14 postal companies were entered into the postal companies' register. 12 companies were excluded from the register. In 2015, the Regulator inspected the quality requirements of the universal postal services in 15 locations where the state-owned JSC "Latvijas Pasts" provides postal services. The information available at the locations of postal service provision about the range and tariffs of the universal postal service, as well as information on business hours was examined during the inspections. No violations were found during the inspections.

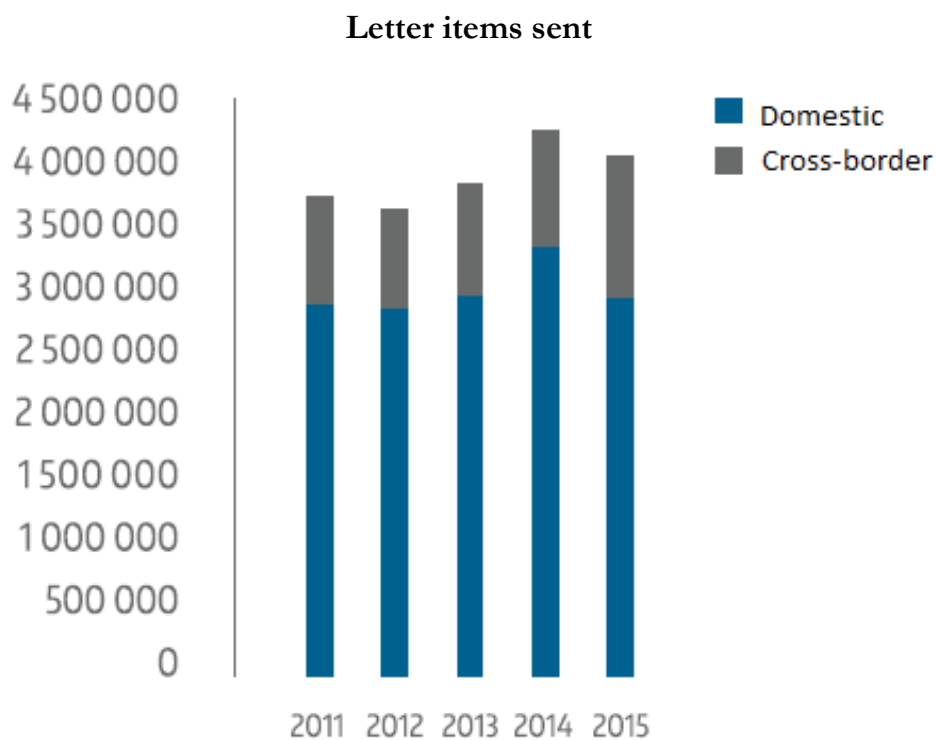
### 7.2. LEGAL FRAMEWORK

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

On 12 February 2015, the Regulator's Board adopted **Regulations on preventing violations of general authorisation rules in the postal sector**. The regulations optimise the process how the Regulator informs postal companies about an identified repeated violation of general authorisation rules and warns

about the consequences to be expected if the identified repeated violation of general authorisation rules is not prevented.

On 3 December 2015, amendments to **Methodology on calculation and determination of net costs for fulfilling obligations of the universal postal service** were approved; they entered into force on 9 December 2015. The amendments were made to ensure the compliance of the Methodology on calculation and determination of net costs for fulfilling obligations of the universal postal service<sup>13</sup> with the transitional provisions of the Postal Law<sup>14</sup>.

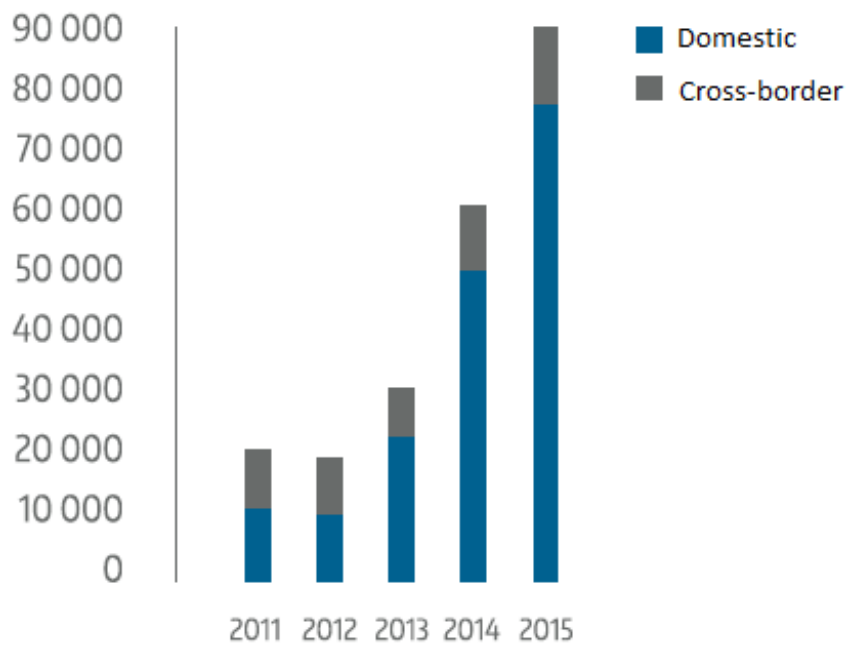


---

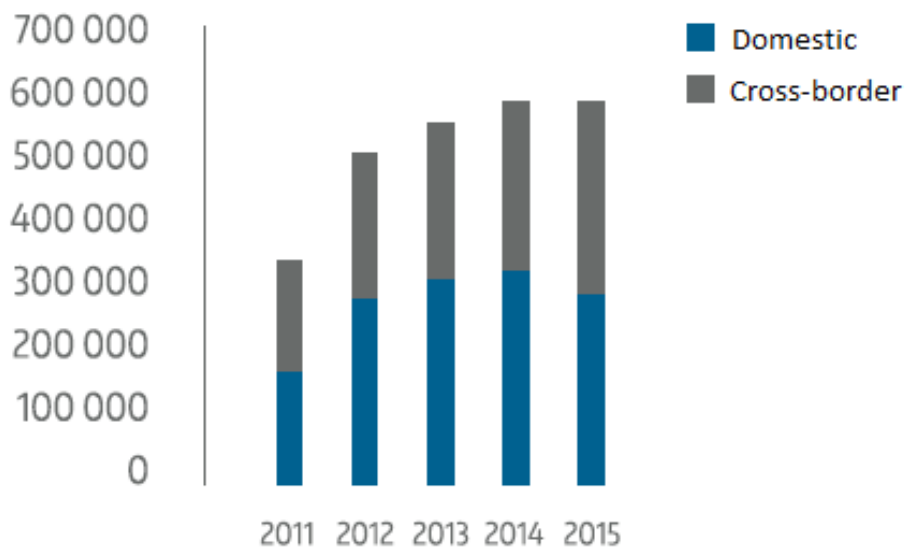
<sup>13</sup> Decision No 1/29 Methodology on calculation and determination of net costs for fulfilling obligations of the universal postal service of 11 October 2013

<sup>14</sup> Section 12 of the Transitional Provisions of the Postal Law

**Parcels sent**



**Express mail and courier mail sent**



To update the legislation and ensure clear, understandable and predictable legal framework, express the Regulator's position during the coordination process of draft legal acts, the Regulator participated in the development, coordination and updating of Cabinet of Ministers draft legal acts in 2015.



**The Regulator participated in interinstitutional meetings and provided opinions on:**

- Draft “On the Supervision of Activities of the State-owned Joint-stock Company “Latvijas Pasts” Regarding the Prevention of Money Laundering and Terrorism Financing”
- Amendments to Postal Policy Guidelines 2011-2017
- Informative report “On the provision of proposals for further actions towards JSC “Elektroniskie sakari””

**The Regulator provided opinions on:**

- Informative draft report “On measures to reduce the cost of deploying high-speed electronic communications networks”
- Conceptual draft report “On measures to reduce the cost of deploying high-speed electronic communications networks”
- Amendments to the Cabinet of Ministers regulations No 1151 “Regulations on the allocation of radio spectrum bands by radio communication types and allocation to radio communications systems, as well as on general provisions for the use of radio spectrum bands (National Radio Frequency Plan)” of 6 October 2009
- Cabinet of Ministers draft “Regulations on the national numbering plan”
- Cabinet of Ministers draft “Regulations on Latvian construction standard LBN 262-15 “Electronic communications networks””
- Cabinet of Ministers draft “Amendments to Cabinet of Ministers regulations No 501 “Procedure for installation, construction and supervision of electronic communications networks” of 19 August 2014”
- Cabinet of Ministers draft “Regulations on State information systems’ integrator”

**In 2015, the Regulator also provided opinions on the European Union initiatives and draft legislation:**

- The Single Digital Market strategy on parcel delivery and reform of the telecoms regulatory framework
- During the Latvian Presidency in the Council of the European Union, 8 opinions were prepared about EC legislative initiative which was supported in the first reading by the European Parliament. The support of the Regulator’s experts was provided within the Council’s working group

especially for issues related to roaming and net neutrality. The Regulator currently operates within BEREC's framework as an expert to provide a possible opinion within the Trialogue.

### **7.3. PROMOTION OF COMPETITION**

**Despite the fact that the universal postal service in Latvia is provided by the state-owned JSC "Latvijas Pasts", the Regulator's task is to promote competition in the sector and protect consumer interests.**

In 2015, no postal company used the opportunity provided by the Postal Law: by a mutual agreement, postal companies may use a postal network or elements of the network owned by another postal company for a fee.

In the establishment of the single European postal parcel market, the main emphasis in 2015 was on the compilation of results of the EC Green Paper "An integrated parcel delivery market for the growth of e-commerce in the EU". To establish a single delivery market, the Regulator's representatives actively participated in the EC working and project groups.

### **7.4. TARIFFS, TARIFF CALCULATION METHODOLOGY, TARIFF CHANGES**

**Tariffs in the postal sector are determined by postal companies, but the universal postal service tariffs are approved by the Regulator.**

### **7.5. PROTECTION OF SERVICE USERS**

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

In the postal sector in 2015, the Regulator received and reviewed 16 complaints about postal service providers. 13 complaints were received about services provided by the universal postal service provider – state-owned JSC “Latvijas Pasts”. The complaints mainly concerned the delivery of domestic and cross-border postal items, mainly postal parcels and small packets, delay of delivery and indication of incorrect (incomplete) address, as well as delivery of registered domestic letters to addressees.

## **7.6. UNIVERSAL SERVICE**

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

The weight of domestic and cross-border parcels included in the universal service obligations (excluding the parcels received from other EU countries) is up to 10 kilograms. According to the quality requirements of the universal service specified by the Regulator, the state-owned JSC “Latvijas Pasts” ensured 620 locations for the provision of postal services and 1,073 mailboxes.

The number of letter items sent within the framework of the universal service was 37.7 million, while the number of sent parcels was 146 thousand.

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

## 7.7. SECTOR DEVELOPMENT TRENDS

**Andris Virtmanis,**

Director, Electronic Communications and Post Department

In the postal sector, it is necessary to improve the regulatory supervision of the parcel market, as well as develop competition in markets of letter item services by promoting access to the postal network of the provider of the universal postal service.

The Postal Sector Expert Council established by the Ministry of Transport has started operations; the main task of the Council is to develop amendments to the Postal Law. The Regulator's representatives actively participate in the Council's work by proposing changes in the legislative environment of the postal sector.

To ensure the development of the sector, it is necessary to improve the regulatory supervision of the parcel market and develop competition for access to markets of letter items by opening the postal network of the provider of the universal postal service.

Considering the reduction in volumes of letter items and increasing numbers of parcels as a result of e-commerce, tighter regulatory supervision of the parcel market is required, as well as more comprehensive market data to get a complete and precise insight into the universal postal service and the parcel market and fully develop the potential of the single digital market.

Despite full market opening, the competition in the market for letter items has developed slowly, and the universal service provider has maintained the largest market share (89%). Due to the growing competition in the market for letter items, direct delivery is more widespread and is carried out by operators which have established their own supply network to deliver items directly to recipients (Post Service, DPD, Omniva, ACD). In the opinion of the Regulator's experts, access competition should be developed by opening the postal network of the universal postal service provider, namely, after the initial sorting of the letters, other operators would hand over the letters to the universal service provider for final delivery.

## 8. ELECTRICITY

### 8.1. AUTHORISATION AND SUPERVISION OF COMPANIES

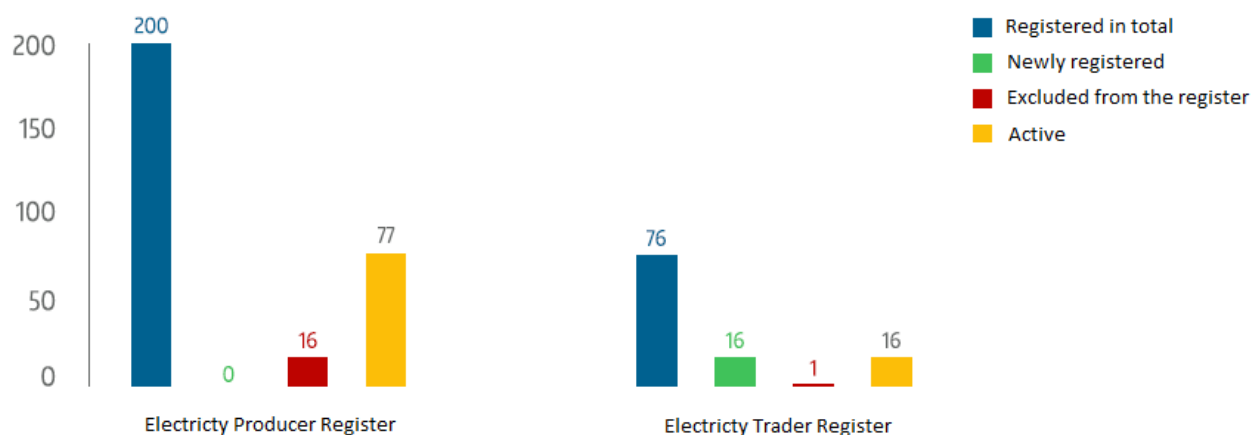
In Latvia, electricity trade can be carried out by companies registered in the Electricity Trader Register; however, most users currently buy electricity from JSC “Latvenergo”. Electricity transmission in Latvia is carried out by one transmission system operator – JSC “Augstsprieguma tīkls”. Electricity distribution is performed by 11 distribution system operators. JSC “Sadales tīkls” ensures electricity supply to 99% of electricity users. Electricity generation in Latvia is carried out by companies registered in the Electricity Producer Register. JSC “Latvenergo” is the largest electricity generator in Latvia.

A total of 256 companies are authorised to provide public services in the electricity sector; of these, 102 companies or 39% are active. 14 companies are authorised to provide more than one of the following electricity services: generation, transmission, distribution, or trade.

On 31 December 2015, 200 companies were registered in the **Electricity Producer Register** created and maintained by the Regulator; of these, 77 companies have started electricity generation – built and commissioned power plants. Out of all companies registered in the producer register, seven companies are also registered in the trader register, although only two of these companies are active traders. **16 companies were excluded** from the Electricity Producer Register in 2015.

In 2015, the Regulator registered 16 new traders in the Electricity Trader Register and **excluded one trader** from the register. On 31 December 2015, **76** companies were registered in the Electricity Trader Register; of these, only 16 companies provided electricity trade services. Meanwhile, 12 companies were registered in the wholesale power exchange NordPool to operate in the Latvian bidding area.

## Companies authorised by the Regulator in 2015



Electricity flow from producers to the distribution system and some large users is ensured by JSC “Augstsprieguma tīkls” (AST); the Regulator issued an electricity transmission licence to AST for a term of 20 years in 2005. 11 licensed distribution system operators operated in Latvia in 2015; seven of these were also registered in the Electricity Trader Register and six are active traders.

In 2015, controls of operational compliance of facilities of 37 companies were performed during which 69 facilities were inspected. 91 non-compliances were identified during the inspections. 69 non-compliances were prevented in 2015; the remaining non-compliances will be prevented during 2016 in accordance with the Regulator’s instructions. Most of the shortcomings found during the inspections of operational facilities do not affect the security of electricity supply directly and the most significant of these shortcomings were prevented within deadlines set by the Regulator.

While performing the function of the sector supervisor in 2015, the Regulator was involved in two proceedings initiated by the Constitutional Court in the energy (natural gas and electricity) sector. The Regulator provided an opinion in the proceeding No 2014-35-03 initiated by the Constitutional Court “Regarding the compliance of Section 54.1 of the Cabinet of Ministers Regulations No 221 “Regulations Regarding Electricity Production and Price Determination upon Production of Electricity in Cogeneration” of 10 March 2009 with Sections 1 and 105 of the Constitution of the Republic of Latvia and Section 28, paragraph two of the Electricity Market Law”. The Regulator also expressed its opinion in the proceeding No 2014-12-01 initiated by the Constitutional Court “Regarding the compliance of Section 3, paragraph one, Section 4, paragraph one and Section 5

of the Subsidised Electricity Tax Law with Sections 1 and 105 of the Constitution of the Republic of Latvia”.

## 8.2. LEGAL FRAMEWORK

**In 2015, as in previous years, the Regulator’s agenda for the electricity legal framework was related to the transposition of the EU legal norms, as well as participation in the development of new laws, Cabinet of Ministers regulations and improvement of the regulatory framework adopted by the Regulator.**

On 14 August 2015, simultaneously with the European Commission (EC) Regulation<sup>15</sup>, amendments to the **Electricity Market Law** entered into force; the Regulator participated in the development of these regulations. The amendments specify the Regulator’s competence regarding the designation of a nominated electricity market operator and supervision of its activities. Based on this Regulation and the Electricity Market Law, on 3 December 2015, the Regulator designated AS “Nord Pool Spot” as the nominated electricity market operator in the Latvian electricity bidding area for four years.

Together with amendments to the Electricity Market Law, the Regulator made amendments to the methodology on calculation of mandatory procurement components (MPC) and issued a new version of the **Methodology on calculation of electricity transmission system service tariffs. Amendments to the MPC methodology provided for the exclusion of regulation on calculation and setting of the average tariff of electricity trade for captive consumers after 1 January 2015.** Meanwhile, the new version of the methodology on calculation of the **transmission** system service tariffs clarifies the procedure how the costs related to MPC levying, administration and fulfilment of the settlement obligation towards a public trader are included in transmission system service tariffs.

In order to accelerate the tariff review process and reduce the administrative burden, at the beginning of November 2015, the Regulator approved amendments to **Methodology on calculation of electricity transmission system service**

---

<sup>15</sup> Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management

**tariffs and Methodology on calculation of electricity distribution system service tariffs.** In accordance with amendments to the methodologies, from this point forward, the Regulator will approve the rate of return on capital once a year until November 1; an electricity transmission or distribution system operator will apply this rate when preparing a tariff calculation.

### **8.3. PROMOTION OF COMPETITION**

**The Regulator promotes competition in the electricity market by performing constant wholesale market supervision and ensuring equal access of market participants to system services. Independent operation of transmission system and distribution system operators is a significant precondition for successful operation and development of the electricity market by ensuring equal and non-discriminatory treatment of electricity market participants. The Regulator's task is to monitor the compliance of these system operators with independence requirements.**

In the electricity sector, obligations have been imposed on JSC “Augstsprieguma tīkls” and JSC “Sadales tīkls”. On 30 January 2013, JSC “Augstsprieguma tīkls” was certified as an independent transmission system operator which pursuant to legislative acts and the licence conditions must comply with market principles and obligations to ensure access to the electricity transmission system for system users and applicants. AST has an obligation to guarantee equal conditions for the use of the electricity transmission system to all participants of the electricity transmission system. The tariffs of transmission system services are set by the Regulator. After performing the annual examination on the compliance of the electricity transmission system operator with certification requirements and the sufficiency of the measures carried out to ensure the independence of the electricity system owner, the Regulator concluded that measures carried out by AST are sufficient to ensure independence and verified that AST guarantees equal conditions for the use of the electricity transmission system to all participants of the electricity transmission system. It means that AST has complied with the requirements for ensuring independence specified in the Electricity Market Law. No such documents or information have been brought to the Regulator's attention which would suggest that financial, technical and human resources at the disposal of AST are insufficient to ensure the fulfilment of obligations of the transmission system operator as stipulated by legislative acts. AST has developed and complies with the ten-year transmission system network development plan and fulfils its obligations stipulated by Regulation No 714/2009 of the European Parliament and of the Council. AST has fulfilled the conditions of the Regulator's decision



“On certification of an electricity transmission system operator” within the specified time period. AST has taken over from JSC “Latvijas elektriskie tīkli” servicing and operational maintenance of the transmission system’s fixed assets, development of the transmission system, construction of new networks, as well as reconstruction and renewal of the existing networks. AST has submitted a report on contracts concluded with providers of outsourced services and informed about the justification of their selection.

On 2 July 2015, the Regulator’s Board adopted a decision on the compliance of the distribution system operator ST with independence requirements confirming that measures performed by ST to ensure independence are sufficient. It means that ST board members are not involved in the structures of other electricity companies and are independent in decision making regarding assets required for operation, maintenance and development of the distribution system. ST has an obligation to guarantee equal conditions for the use of the electricity distribution system to all users of the electricity distribution system. After evaluating the measures taken by ST, the Regulator concluded that they are sufficient for equal access to the network by all electricity traders. The tariffs of distribution system services are set by the Regulator.

In the electricity sector, access by third parties to interconnected electricity transmission and distribution systems is ensured in Latvia. The small distribution network operators (10 in total) are connected to both the high-voltage grid and ST grid. The Grid Code issued by the Regulator regulates the procedure for operation of transmission and distribution system operators, management and use of the electricity system, as well as the obligations and activities of all market participants.

A liberalised electricity market and the establishment of the single EU energy market imply additional obligations for the Regulator related to the promotion of competition and market supervision. After opening the electricity market to competition<sup>16</sup>, one of the Regulator’s obligations is to supervise the wholesale energy market integrity and transparency to prevent market abuse and manipulations with wholesale electricity prices. This is stipulated by the EU regulation on wholesale energy market integrity and transparency<sup>17</sup> (REMIT). Operation of a transparent market is essential to ensure that electricity users pay a market price under competitive conditions excluding market manipulations.

---

<sup>16</sup> In accordance with EU regulation No 1227/2011 on wholesale energy market integrity and transparency (REMIT) and Electricity Market Law

<sup>17</sup> EU regulation No 1227/2011

Consequently, the Regulator's task is to determine the procedure for management and use of the electricity system, principles of operation of market participants, as well as unified system connection rules for electricity producers and users.

To promote transparency in accordance with REMIT requirements<sup>18</sup>, the obligation of electricity market participants is to provide information to the Centralized European Register for Energy Market Participants (CEREMP). This register is supervised by ACER.

To ensure the implementation of REMIT requirements in Latvia, on 17 March 2015, the Regulator created access to ACER's CEREMP register and started registering market participants therein. 21 companies are currently registered in the CEREMP register in Latvia. In accordance with REMIT requirements<sup>19</sup>, the European market participants have an additional obligation to start reporting on transactions in wholesale energy markets from 7 October 2015.

#### **8.4. TARIFFS AND PRICES**

**Payment for electricity is made up by an electricity price, transmission and distribution system service tariffs and mandatory procurement components. An electricity price is offered by competing electricity traders while other components are approved by the Regulator in accordance with adopted methodologies.**

In 2015, transmission and distribution service tariffs were regulated in the electricity sector. From 1 January 2015, the market was fully opened to competition and therefore the electricity price for households is no longer regulated; it is determined by the market supply.

As evidenced by the data at the Regulator's disposal, approximately 2,600 households have switched their electricity trader which makes up 0.3% of the total number of electricity users – households (800 thousand). 99% of the total volume of electricity delivered to households last year was supplied by JSC “Latvenergo”; the remaining 1% was delivered by five other traders. Around 10 thousand or 1% of the households had chosen to purchase electricity at a price linked to an

---

<sup>18</sup> REMIT Article 9(1)

<sup>19</sup> REMIT Article 8(1)

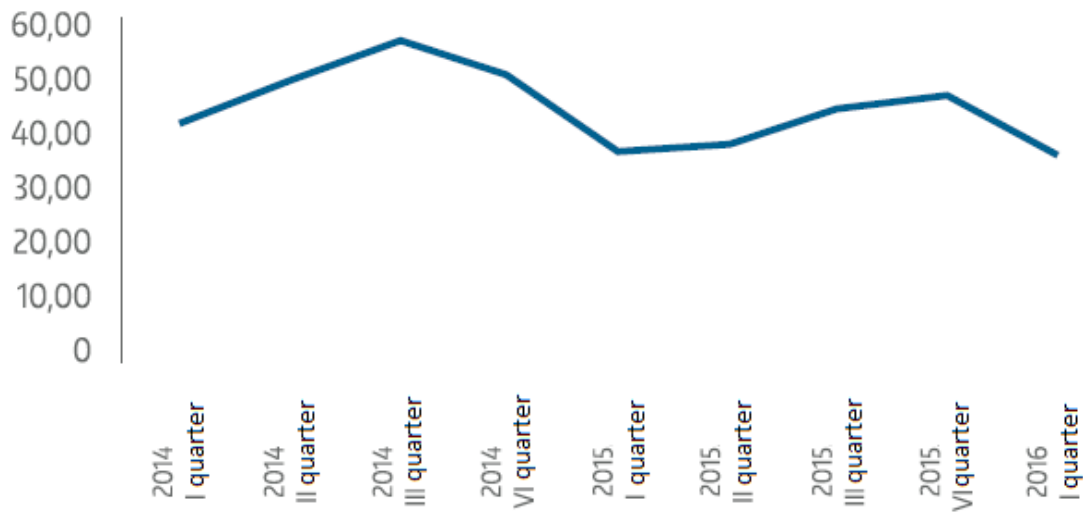
exchange price. Around 100 thousand users are supported users which means that these users receive a specific volume of electricity at a reduced electricity price. As regards 34,043 legal persons, approximately 1% conclude new agreements every quarter.

When analysing wholesale electricity prices in 2015 compared to the previous year, the Regulator found that the wholesale prices decreased reaching the lowest price in March in recent years – 32.22 EUR/MWh. An increase in wholesale electricity prices was observed over the next six months until it reached the maximum price of the year in October 2015 – 60.72 EUR/MWh; however, a price drop was observed again in November and December.

Although an electricity price for households is determined by the market supply, the Regulator continues to set transmission and distribution service tariffs in the electricity sector. On 18 June 2015, the Regulator approved JSC “Augstsprieguma tīkls” differentiated tariffs for electricity transmission system services which entered into force on 1 August 2015. Depending on the connection point of electricity installations, the reduction in the electricity transmission tariff for the transmission system ranged from 0.8% to 8.1% while the decrease in the charge for transmission capacity maintenance and development was from 0.1% to 3.9%.

In 2015, the Regulator also changed the procedure how the rate of return on capital for electricity distribution and transmission services is determined (using 50% as borrowed capital and 50% as own capital in the calculation). If previously the rate of return on capital was determined individually for each company, then the new procedure provides that the Regulator annually approves the rate of return on capital which is applied by an electricity transmission or distribution system operator when preparing a tariff calculation. Thus, the Regulator had an opportunity to determine one of the historically lowest rates of return on capital – 5% for electricity distribution and transmission companies. In the future, such changes will positively impact distribution tariffs for final consumers.

**Elsport electricity price for the Latvian bidding area EUR/MWh**



## **8.5. SERVICE QUALITY AND PROTECTION OF USERS**

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

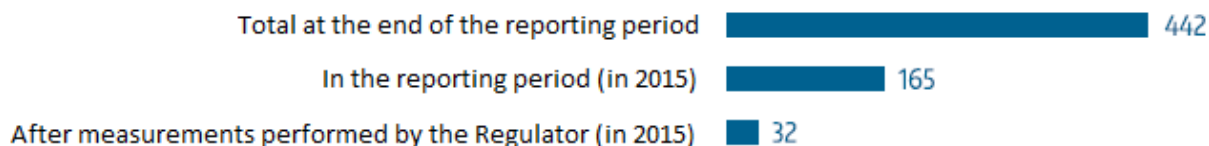
In 2015, 50 measurements of characteristics of system operators' electricity supply quality and voltage of electricity networks were made and their compliance with the Standard<sup>20</sup> was analysed. Non-compliances with characteristics of electricity supply quality and voltage of electricity networks specified in the Standard were found in 41 cases. Non-compliance with the characteristic "Flicker" (36 cases) was found most often, as were harmonic distortions for separate harmonics (19 cases).

Most of these non-compliances were detected in rural areas; the reason for non-compliances may be long power lines with insufficient cross-section of wires which cannot ensure the capacity indicated in agreements with consumers, while harmonic distortions are generated by the electrical equipment of users. In cooperation with the staff of the system operator ST, a priority was given to measurement locations with low voltage networks, in areas with potentially critical voltage quality. Thus, the measurement statistics for the year, which in 41 cases show non-compliance with characteristics of electricity supply quality and voltage of electricity networks specified in the Standard, cannot be generalised as the overall quality of electricity supply in Latvia under any circumstances.

<sup>20</sup> Characteristics of the voltage of public electricity supply networks EN50160

Consumers have a right to pay a 50% lower tariff of the distribution system service for non-compliant voltage quality. A reduced tariff was applied for 197 users in 2015.

### A reduced tariff was applied



To resolve disagreements between providers and users of public services or between public service providers, one dispute was initiated and examined in the energy sector regarding electricity supply in 2015; the dispute was about determining the boundary of ownership and servicing of electrical equipment (the applicant's claim was dismissed). Another dispute about the resumption of electricity supply was initiated but the proceeding was dismissed as the user withdrew the request for dispute settlement because the system operator had met the user's demands.

## 8.6. SECTOR DEVELOPMENT TRENDS



**Ainārs Meņģelsons,**  
**Director, Energy Department**

In the electricity sector, year 2016 will be highlighted by further development of the single European Union market. To implement the establishment of the single electricity market in the European Union it is necessary to develop common

regulations therefore electricity Network Codes are developed and approved; the codes provide that various methodologies and other documents developed by power exchanges and transmission system operators are approved by the national regulators. Implementation of guidelines on capacity allocation and congestion management<sup>21</sup> has begun and there are plans for several Network Codes to enter into force in 2016: regarding requirements for producers, user connections, high-voltage direct current connections, allocation of future capacities, planning and fulfilment of activities.

In 2016, the work will also continue on the projects of common interest which have been included in the second list of Projects of Common Interest – the Baltic corridor projects which would ensure sufficient capacities of the electricity transmission system for electricity supply from the north to the southeast. After the project promoters submit an investment request to the Regulator, the Regulator must adopt a decision on cross-border cost allocation.

---

<sup>21</sup> Commission Regulation (EU) 2015/1222 establishing a guideline on capacity allocation and congestion management

## 9. NATURAL GAS

### 9.1. SUPERVISION OF COMPANIES

In the natural gas sector, only one vertically integrated and licensed company operates – joint-stock company “Latvijas Gāze” which ensures a full cycle of natural gas supply - natural gas purchase, storage, transmission, distribution and trade. Licences for the joint-stock company “Latvijas Gāze” have been issued until February 2016. The Regulator will continue licensing natural gas transmission, distribution and storage operators. From February 2016, gas traders will be registered according to a similar procedure which currently exists for electricity traders.

In 2015, three inspections of the operational compliance of JSC “Latvijas Gāze” facilities were performed during which 10 facilities were inspected. Two non-compliances were detected during the inspections and were prevented within deadlines indicated by the Regulator.

### 9.2. LEGAL FRAMEWORK

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

Last year the Regulator carried out the necessary work to improve the legislative environment regarding the rights of system users to access and use natural gas transmission and storage systems. On 10 September 2015, the Regulator approved the **regulations on the use of the natural gas transmission system and regulations on the use of the natural gas storage**<sup>22</sup> concluding a year’s work on the assessment of these regulations and consultation with market participants. The approval of these regulations is a precondition for the use of the natural gas transmission system and underground gas storage and allocation of free capacities to be transparent, open and operational on equal conditions in the future.

---

<sup>22</sup> “Regulations on the use of JSC “Latvijas Gāze” natural gas transmission system” and “Regulations on the use of JSC “Latvijas Gāze” Inčukalns underground gas storage”

Previously, the third party access was based on a bilateral agreement with JSC “Latvijas Gāze”. Taking into account the delegation provided by the law, the Regulator included such rules in the regulations according to which natural gas may be transported from the transmission system to the distribution system for Latvian system users. Considering that all natural gas users in Latvia are connected to the distribution system, strengthening of such regulation was a precondition for access rights to natural gas infrastructure to be also used by Latvian system users and not only companies of neighbouring countries for natural gas transit.

In 2015, intensive work was also carried out to develop and implement the European Union natural gas network codes/guidelines. These codes/guidelines define a number of new tasks to be performed by the Regulator, mainly when approving methodologies developed by transmission system operators and/or nominated electricity market operators.

Each stakeholder which thinks that a decision adopted by the Regulator is not proportionate and their interests have not been respected has an option to dispute the decision adopted by the Regulator or appeal it in the Regional Administrative Court. In 2015, one litigation about the Regulator’s failure to act, when not issuing an administrative act, and compensation of losses was terminated in the energy (natural gas and electricity) sector. The litigation was terminated due to the expiry of the procedural time period. In 2015, one proceeding was initiated about the regulations on the use of the natural gas transmission system and regulations on the use of the natural gas storage; these regulations had been approved by the Regulator. The proceeding was dismissed at the beginning of 2016.

### **9.3. PROMOTION OF COMPETITION**

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

In accordance with the Energy Law which is currently in force, only one trader – JSC “Latvijas Gāze” can trade natural gas to end users in Latvia until April 2017. At the same time, Latvian consumers have an option to purchase natural gas from the suppliers of other countries and supply it to their facilities by using the rights of access to natural gas infrastructure. Although a theoretical option to buy natural



gas from alternative sources existed, there was only one natural gas supplier for Latvia in 2015 – the Russian joint-stock company “Gazprom”.

To promote competition in the natural gas supply market, the Regulator paid attention to the transposition of the EU legal norms in the Latvian legislative acts in 2015. In the natural gas sector, the Regulator actively participated in the development of the EU initiatives in relation to the EU Network Codes.

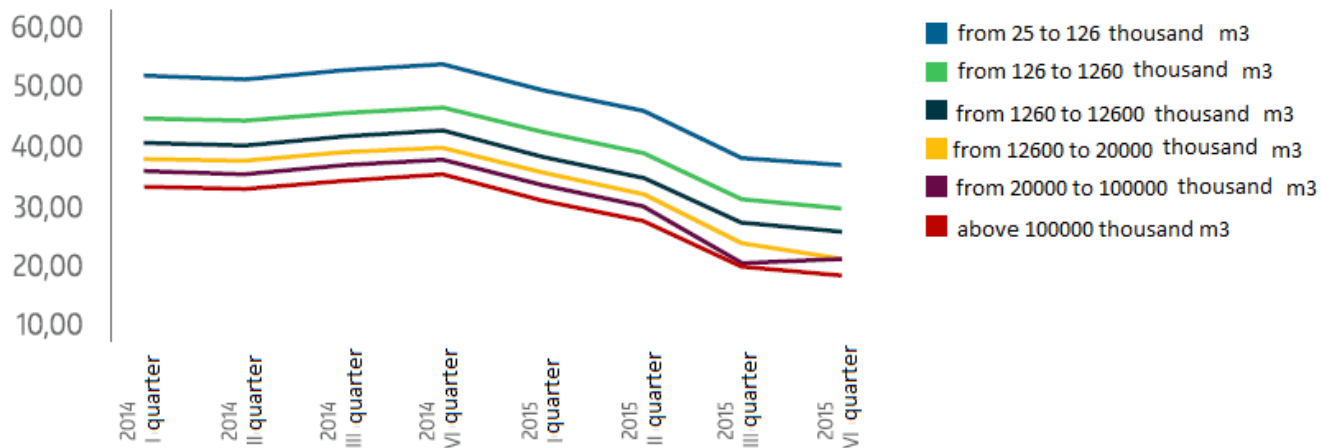
#### **9.4. TARIFFS, TARIFF CALCULATION METHODOLOGY, TARIFF CHANGES**

**The Regulator determines the methodologies for natural gas transmission, storage, distribution services and methodology for the calculation of trade tariffs and sets natural gas tariffs accordingly. Tariffs approved by the Regulator’s Board decision in 2008 are currently in force and the procedure for their application was determined by the Regulator’s Board decision in 2010.**

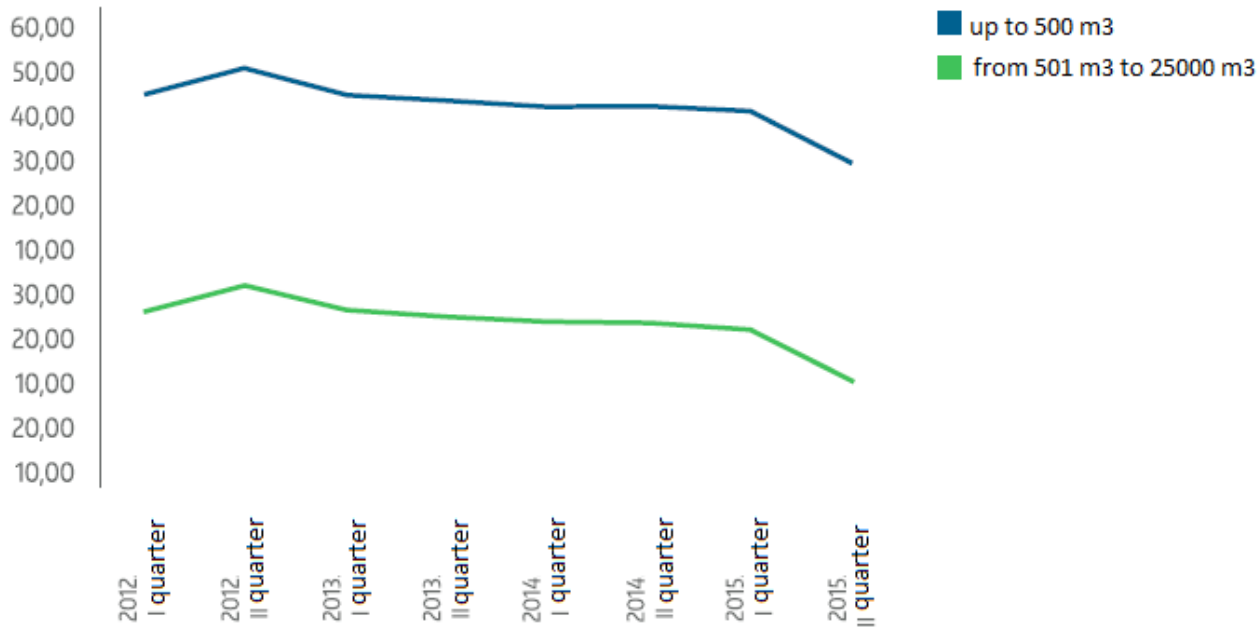
Due to the existing situation in the natural gas supply sector in Latvia, tariffs are regulated which ensures tariff stability and balances the interests of suppliers and consumers. Tariffs were not reviewed in the natural gas sector in 2015. Natural gas trade tariffs are set in a tabular form and when the natural gas trade price changes depending on the price of oil products in the commodity exchange, so does the natural gas trade tariff. Natural gas trade tariffs for households may change only twice a year – from January 1 and July 1, while they can change every month for other natural gas users.

When assessing the most important developments in the natural gas sector in Latvia in 2015, we must certainly mention the reduction of natural gas trade prices. In September 2015, the lowest natural gas trading price since 2010 was reached – 206.32 EUR/thousand nm<sup>3</sup>. The natural gas price was 26% lower in December 2015 when compared to January.

**Changes in differentiated natural gas trade end tariffs for industrial users from 2014 until 2016 (EUR/thousand nm<sup>3</sup> without VAT) with consumption above 25 000 m<sup>3</sup> per year**



**Changes in differentiated natural gas trade end tariffs for household users from 2014 until 2016 (EUR/thousand nm<sup>3</sup> without VAT)**

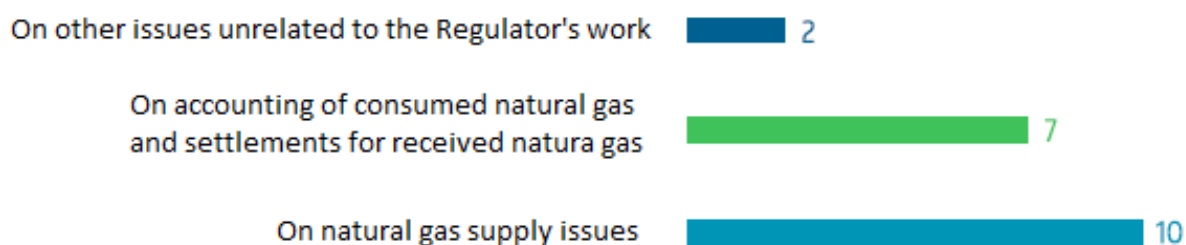


## 9.5. PROTECTION OF SERVICE USERS

To protect consumer interests, promote the development of public service providers and ensure continuous improvement of the quality of public services, one of the Regulator's tasks is the review of user complaints.

In the natural gas supply sector in 2015, as in previous years, most complaints were related to natural gas supply issues – a total of 19 complaints were received; of these, 10 complaints were related to natural gas supply issues.

### Received consumer complaints about natural gas issues



Regarding natural gas supply issues, natural gas users expressed dissatisfaction with:

- A refusal of JSC “Latvijas Gāze” to conclude an agreement on the natural gas supply with a new user (4);
- Interruption of the natural gas supply because a natural gas user had not paid for the used natural gas (5);
- A refusal of JSC “Latvijas Gāze” to terminate the concluded agreement on the natural gas supply (1).

After verifying the facts mentioned in consumer complaints, the Regulator concluded that out of all complaints received in the natural gas supply sector, only one complaint was justified, 16 complaints were unjustified and two complaints did not fall within the Regulator's competence.

To successfully and quickly resolve disagreements between public service providers, one of the Regulator's functions is out-of-court dispute settlement. This mechanism is free of charge and the time for the adoption of a decision is shorter than in court. Two disputes about the provision of natural gas supply were

initiated in the energy sector in 2015. One dispute was examined and the applicant's claim was dismissed. The review of the second dispute continued in 2016.

## **9.6. SECTOR DEVELOPMENT TRENDS**

**Ainārs Meņģelsons**

**Director, Energy Department**

This year in the natural gas sector will be associated with the expected market liberalisation in 2017. The Regulator's future challenge will be active participation in discussions with sector representatives and responsible institutions to prepare all necessary measures for the opening of the gas market from the development of the legal framework to supervision of companies' activities because market opening signifies new types of obligations and responsibilities for market participants.

19 January 2015 when the Regional Gas Market Coordination Group started operations must be certainly mentioned within the context of sector development. Within its framework, a mutual coordination of the development trends of the Baltic and Finnish gas markets was begun in order to jointly move forward to the single natural gas market. Regular meetings of country representatives and information exchange are highly appreciated. Latvia will be the presiding country of this working group in 2016.

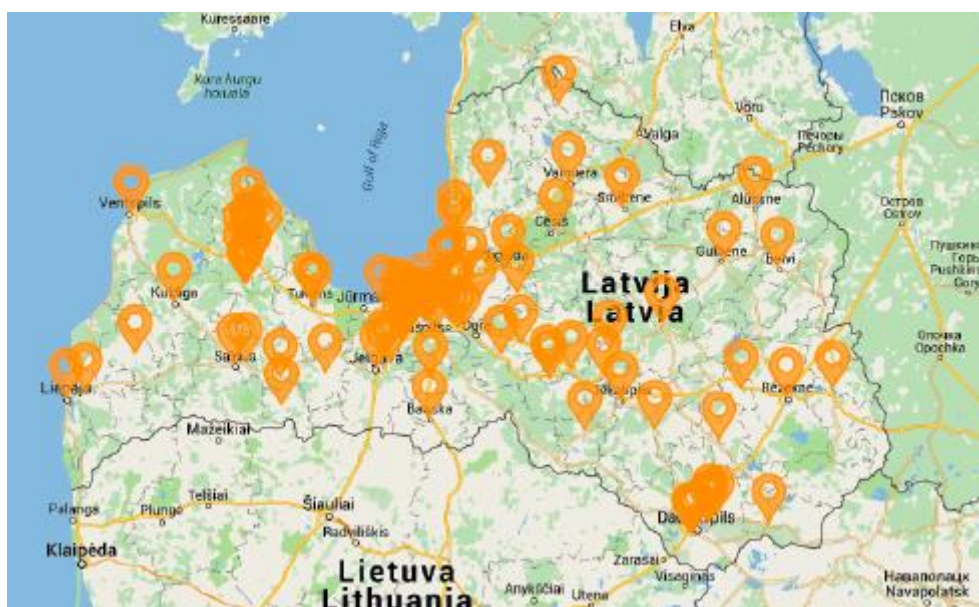
## 10. THERMAL ENERGY

### 10.1. AUTHORISATION AND SUPERVISION OF COMPANIES

In the heat supply sector, the regulated services are the production of thermal energy, as well as transmission, distribution and trade of thermal energy. A company has to receive a licence or register in the following registers maintained by the Regulator in order to provide any of the aforementioned services:

- for production of thermal energy – if the capacity installed by a company is larger than 1 MW and the total thermal energy volume delivered to all users by the company exceeds 5,000 MWh/year;
- for thermal energy trade – if the total thermal energy volume sold to users exceeds 5,000 MWh/year.

#### District heating tariffs in Latvia



On 31 December 2015, 79 companies were registered in the Thermal Energy Trader Register. The Regulator registered three companies and excluded two companies from the register in the reporting year.

Controls of operational compliance of 30 companies' facilities were carried out in 2015 during which 79 facilities were inspected. 122 non-compliances were

identified during these inspections. 111 non-compliances were prevented in 2015 while the remaining non-compliances will be prevented in 2016 in accordance with the Regulator's instructions. Most of the shortcomings found during inspections regarding the operation of facilities do not directly affect the security of heat supply; the most significant of these shortcomings were prevented within deadlines set by the Regulator.

Performing the function of the market supervisor, three litigations were completed in the energy sector (heat supply) in 2015 about the cancellation of the Regulator's decisions and provision of information. The applicants' claims were dismissed in all litigations. Two litigation processes continue in the energy sector (heat supply) in 2016.

## **10.2. LEGAL FRAMEWORK**

**To ensure the development of the regulatory environment in the thermal energy sector and promote harmonisation of legal norms, the Regulator independently issues various legislative acts in accordance with the current changes in legislation.**

To prevent a drastic increase of tariffs of thermal energy produced in CHP plants, the Regulator approved amendments to the **Methodology on calculation of cogeneration tariffs**<sup>23</sup> at the beginning of 2015. Considering that the Cabinet of Ministers regulations specified a limited time period during which electricity produced by a CHP plant can be sold within the framework of a mandatory procurement, there was a risk for an immediate rise of thermal energy tariffs when calculating thermal energy tariffs for a ten-year period.

Such a risk existed in cases when after the end of the support period a company would no longer plan to operate cogeneration equipment and would plan to produce the required volume of thermal energy from hot-water boilers or plan to continue electricity generation by applying a lower electricity sales price in the calculation. Amendments to the "Methodology on calculation of cogeneration tariffs" prevented the above-mentioned risks and users of thermal energy have maintained the benefit from thermal energy generated during the cogeneration process as long as a CHP plant receives support. The amendments mainly concern

---

<sup>23</sup> Decision No 1/5 "Methodology on calculation of cogeneration tariffs" of 19 February 2015

CHP plants which receive the state guaranteed support within the framework of the mandatory procurement for electricity and which have operated for less than ten years.

**To update the legislation and ensure clear, understandable and predictable legal framework, express the Regulator's position during the coordination process of draft legal acts, the Regulator participated in the development, coordination and updating of Cabinet of Ministers draft legal acts in 2015.**

**The Regulator participated in interinstitutional meetings and provided opinions on:**

- Cabinet of Ministers draft regulations "Procedure how energy-intensive manufacturing industry companies obtain rights for reduced participation in the compensation of costs borne by a public trader within the framework of mandatory electricity procurement and guaranteed charge"
- Cabinet of Ministers draft regulations "Requirements for insertion and transportation of biogas and gas produced from biomass, as well as liquefied natural gas transformed into gaseous state in the natural gas transportation system"

**The Regulator provided opinions on:**

- Draft informative report "On the influence of electricity mandatory procurement and subsidised electricity tax on tariffs of thermal energy supply services"
- Cabinet of Ministers draft "Regulations on the influence of electricity mandatory procurement and subsidised electricity tax on tariffs of thermal energy supply services"
- Cabinet of Ministers draft regulations "Amendments to the Cabinet of Ministers regulations No 876 "Regulations on supply and use of thermal energy" of 21 October 2008"
- Guidelines on the development of the energy sector in 2014-2020
- Cabinet of Ministers draft "Regulations on Latvian construction standard LBN 243-15 "Internal and external gas pipeline system of the liquefied petroleum gas""
- Cabinet of Ministers draft regulations "Amendments to the Cabinet of Ministers regulations No 218 "Regulations on the energy information system" of 28 May 2002"

- Cabinet of Ministers draft regulations “Amendments to the Cabinet of Ministers regulations No 40 “Statute of the national energy crisis centre” of 29 January 2002”
- Cabinet of Ministers draft regulations “Amendments to the Cabinet of Ministers regulations No 664 “Regulations regarding the licensing of public utilities” of 30 August 2015”

**In 2015, the Regulator also provided opinions on the European Union initiatives and draft legislation:**

- The document prepared by ENTSO-E “Harmonised Allocation Rules for Forward Capacity Allocation” and Annex 16 (Estonia – Latvia border)
- Network Codes, participation in the development of ENTSO-E document “Harmonised Allocation Rules”
- The draft of the national position prepared by the Ministry of Economics “Regarding the second list of the EU Projects of Common Interest compiled in accordance with REGULATION (EU) No 347/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL 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”

### **10.3. PROMOTION OF COMPETITION**

**Heat supply services provided by about 240 companies (the number is variable) are regulated in the heat supply sector in Latvia; the regulated services make up 93% of the total volume of the heat supply market. Most companies are producers of thermal energy.**

Operators of the heat supply system purchase thermal energy from independent producers. Under the Energy Law, when purchasing thermal energy if at least two producers exist, an obligation is imposed on the operator of the heat supply system to follow the economic gradual approach including the offered price of the thermal energy<sup>24</sup>.

---

<sup>24</sup> Sections 47 and 49 of the Energy Law



In accordance with the Energy Law and other legislative acts, a mandatory procurement is not guaranteed for the generated thermal energy. When developing a new thermal energy production facility, a company must be certain about the necessity of the produced thermal energy in the specific heat supply area, as well as about an offer of a competitive price.

#### 10.4. TARIFFS, TARIFF CALCULATION METHODOLOGY, TARIFF CHANGES

In the heat supply sector, the Regulator determines tariffs for thermal energy generation, transmission, distribution, and trade. 62% of the regulated heat supply companies work with the final tariffs approved by the Regulator; the remaining companies apply tariffs which were approved by municipal regulators at the time.

<b>Company</b>	<b>Operational territory</b>	<b>Approved tariff</b>	<b>Reduction achieved by the Regulator (compared to the initially submitted tariff proposal)</b>
"SM Energo" Ltd	Smiltene	49.77 EUR/MWh (at the natural gas trade price at the specific date)	1.50 EUR/MWh
"Ventspils siltums" Ltd	Ventspils	58.30 EUR/MWh	0.09 EUR/MWh
"Liepājas enerģija" Ltd	Liepāja	54.95 EUR/MWh (at the natural gas trade price at the specific date)	1.80 EUR/MWh
"Ādažu namsaimnieks" Ltd	Ādaži village and Kadaga village, Ādaži municipality	56.16 EUR/MWh (at the natural gas trade price at the specific date)	-

"Talsu namsaimnieks" Ltd	Talsi municipality: Sabile, Stende, Valdemārpils, Abava rural territory, Ģibuļi rural territory, Laidze rural territory, Lauciene rural territory, Lībagi rural territory and Virbas rural territory	61.55 EUR/MWh	0.31 EUR/MWh
--------------------------	---	---------------	--------------

In 2015, the Regulator received tariff proposals of 12 district heating companies. The Regulator approved tariffs of heat supply services for five companies.

<b>Company</b>	<b>Approved tariff</b> (at the natural gas trade price at the specific date)	<b>Comparison with the previous tariff</b>
CHP plant of "Liepājas enerģija" Ltd, 33 Kaiju Street	35.00 EUR/MWh	-32%
CHP plant of "Liepājas enerģija" Ltd, 2a Tukuma Street	20.82 EUR/MWh	-32%

As natural gas trade prices fell in 2015, an overall reduction in thermal energy tariffs was also observed. The heating was up to 19% cheaper in the residential areas in Latvia where thermal energy supply tariffs were determined according to the natural gas price. For example, the tariff reduction ranged from 16% to 19% in Riga, Daugavpils, Dobeles, Grobiņa, Ikšķile, and Jūrmala; the reduction was lower in other areas.

A careful evaluation of the tariff proposals for thermal energy services by the Regulator resulted in reduced tariffs of thermal energy services when compared to the initially submitted tariffs; cost savings of 0.4 million EUR were achieved.

## **10.5. PROTECTION OF SERVICE USERS**

**To ensure that public service providers provide continuous, safe and high-quality public services, the Regulator not only supervises the activities of companies and carefully evaluates the submitted tariff proposals, but also compiles and analyses the received consumer complaints.**

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

In 2015, a total of eight complaints were received about heat supply issues, of these, two complaints were about tariffs of thermal energy supply services, one about the calculation of the hot water charge; one about the resumption of hot water supply after hydraulic testing of heating networks, two about thermal energy metering and the system for meter reading, one about thermal energy supply, and one about the actions of a service provider when determining the responsibility of a service user for the maintenance of energy supply infrastructure crossing the property of the user.

In the energy (thermal energy supply) sector, one dispute was initiated and examined concerning both thermal energy and water management sector about the right to conclude agreements on the provision of public services. The applicant's claim was dismissed.

## 10.6. SECTOR DEVELOPMENT TRENDS

**Ainārs Meņģelsons,**

**Director, Energy Department**

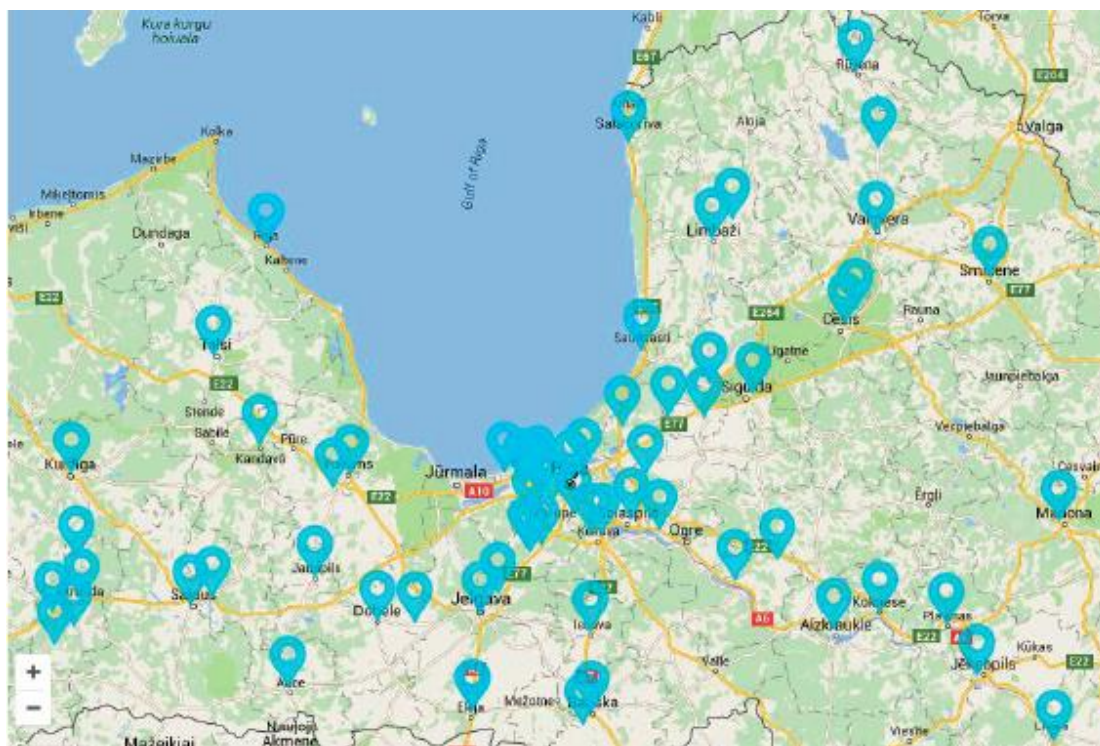
Amendments to the **Energy Law** which provide for changes in the natural gas market, as well as other legislative acts will affect the setting of tariffs of thermal energy produced in CHP plants and thermal energy supply services. The situation is changing after the market opening because there is no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

Many tariffs have been reduced in the heat supply sector in previous years – it was related to various factors including investments made in the heat supply networks, reduction of losses, as well as transition from natural gas as fuel to woodchips. At the same time, the previous year's developments in the thermal energy sector show that the threshold has been achieved when heating is cheaper with natural gas; however, if the price of natural gas increases woodchips as fuel may be more beneficial. Year 2016 will also highlight a certain trend in this regard.

## 11. WATER MANAGEMENT

In the water management sector, the Regulator is tasked with regulation of water supply services (water extraction and preparation, water delivery) provided by water companies and regulation of sewerage service (wastewater collection and disposal, wastewater treatment) if the volume of public water management services provided by a company exceeds 100,000 m<sup>3</sup>/year for at least one of the above-mentioned four types of public services.

Although more than 140 companies (both regulated and unregulated) operate in the water management sector in Latvia they do not compete directly because they operate in different locations.



### 11.1. AUTHORISATION AND SUPERVISION OF COMPANIES

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

Since February 2015 the Regulator no longer regulates water management companies whose volume of provided services does not exceed 100 thousand m<sup>3</sup>, therefore the number of companies in the register of water management service providers has decreased from 145 to 66 companies in February 2015. In 2015, one company was registered, 7 amendments were made in the register and 79 companies were excluded from the register. A total of 67 water management companies are listed in the register.

In 2015, the Regulator performed inspections of 63 companies in the water management sector. During 54 inspections, companies were ordered to submit updated reports on the volume of provided services, costs and revenues. In all cases, violations were prevented within the deadlines given by the Regulator.

In the framework of the supervision of companies last year, the Regulator performed extensive inspections of service providers, performing on-site verification of the compliance of reports submitted by the companies and compiling and updating the information required for the Regulator's work. In previous years, the Regulator also selectively performed on-site inspections of companies; however, last year the extent of inspections was significantly enhanced. In order to evaluate the quality of the submitted data and gather technical information about water management systems that will enable the Regulator to compare service provision costs in similar systems, almost all regulated water management companies were inspected.

To successfully and quickly solve disagreements between public service providers in 2015, the Regulator implemented one of its functions in the water management sector – out-of-court dispute settlement. In the water management sector, one dispute was initiated and settled; the dispute concerned both the water management sector and district heating sector regarding the rights to conclude agreements on the provision of public services. The applicant's claim was dismissed<sup>25</sup>.

---

<sup>25</sup> Decision No 100 of 2 July 2015

## 11.2. LEGAL FRAMEWORK

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

In 2015, the Regulator actively participated in the development of the **Law on Water Management Services** in cooperation with the Ministry of Environmental Protection and Regional Development (VARAM) and other institutions related to the water management sector. The law was adopted by the Saeima on 18 June 2015 and entered into force on 1 January 2016. Before this date, a special sector law did not exist in the water management service sector. In cooperation with VARAM, the Regulator continued the ongoing work on the development of the Cabinet of Ministers draft “Regulations on the provision and use of public water management services” which were adopted on 22 March 2016.

## 11.3. TARIFFS, TARIFF CALCULATION METHODOLOGY, TARIFF CHANGES

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

13 tariffs were approved in the water management sector in 2015. Due to the implementation of water management projects co-funded by the EU and improved service quality which simultaneously contributed to an increase of costs, tariffs grew objectively in this sector.

Last year, the evaluation of tariff proposals resulted in the reduction of costs initially included in the submitted tariff proposals – costs included in the tariff

proposals were reduced by 8% on average in comparison with the costs initially included in the tariff proposals submitted for the approval by the Regulator.

<b>Company</b>	<b>Operational area</b>	<b>Approved final tariff (includes both water supply tariff and sewerage tariff)</b>	<b>Reduction achieved by the Regulator (compared to the initially submitted tariff proposal; final tariff)</b>
"ZEIFERTP" Ltd	Stūnīši and Jaunolaine villages, Olaine rural territory	2.06 EUR/m <sup>3</sup>	-0.14 EUR/m <sup>3</sup>
"Aizkraukles ūdens" Ltd	Aizkraukle municipality	2.17 EUR/m <sup>3</sup>	-0.11 EUR/m <sup>3</sup>
"Valgums-S" Ltd	Salaspils city and Acone village, Saulkalne village, Silabriežu village and farm "Guntiņas", Salaspils municipality	1.96 EUR/m <sup>3</sup>	-
"Jaunpils KS" Ltd	Jaunpils municipality	1.57 EUR/m <sup>3</sup>	-
"TALSU ŪDENS" Ltd	Talsi, Stende; Zvirgzdi and Paugurciems, Laidze rural territory; Mundigciems and Dižstende, Lībagu rural territory, Talsi municipality	2.10 EUR/m <sup>3</sup>	-0.03 EUR/m <sup>3</sup>
"BN KOMFORTS" Ltd	Valmiera rural territory; Ēvele village, Ēvele rural territory; Rencēni village and Līzdēni village, Rencēni rural territory; Vecate village, Vecate rural territory; Matīši rural territory and Burtnieki rural territory, Burtnieki municipality	2.57 EUR/m <sup>3</sup>	-0.80 EUR/m <sup>3</sup>
"ORNAMENTS" Ltd	Ilūkste municipality	2.41 EUR/m <sup>3</sup>	-0.19 EUR/m <sup>3</sup>
"MĀRUPES KOMUNĀLIE PAKALPOJUMI" Ltd	Mārupe, Skulte, Tīraine and Vētra villages	Water supply tariffs in the entire Mārupe municipality – 0.62 EUR/m <sup>3</sup> ; Sewerage tariffs in Mārupe, Skulte, Tīraine and Vētra	For water supply in the entire Mārupe municipality – reduced by 0.04 EUR/m <sup>3</sup> ; For sewerage services in Mārupe, Skulte,



		villages – 1.46 EUR/m <sup>3</sup> ; Sewerage tariffs in Jaunmārupe village – 1.01 EUR/m <sup>3</sup>	Tīraīne and Vētra villages – reduced by 0.16 EUR/m <sup>3</sup> ; For Sewerage services in Jaunmārupe village – reduced by 0.09 EUR/m <sup>3</sup>
”RŪPE” Ltd	Alūksne and Alsviķi, Jaunalūksne, Pededze, Mārkalne, Veclaicene, Ziemeļi, Mālupe, Jaunlaicene, Ilzene and Zeltiņu rural territories, Alūksne municipality	2.49 EUR/m <sup>3</sup>	For water supply – reduced by 0.23 EUR/m <sup>3</sup> ; For sewerage services – increased by 0.23 EUR/m <sup>3</sup>
”Kandavas komunālie pakalpojumi” Ltd	Kandava and Kandava, Cēre, Matkule, Vāne and Zemīte rural territories, Kandava municipality	2.37 EUR/m <sup>3</sup>	-0.51 EUR/m <sup>3</sup>
”NAUJENES PAKALPOJUMU SERVISS” Ltd	Krauja, Lociki, Naujene and Vecstropi villages, Naujene rural territory; Birkinēļi, Kalkūni, Muita and Randene villages, Kalkūne rural territory, Daugavpils municipality	2.34 EUR/m <sup>3</sup>	-0.02 EUR/m <sup>3</sup>
”Ozolnieku KSDU” Ltd	Ozolnieki municipality, Ozolnieki rural territory, Brankas and Jaunpēternieki villages, Cenāns rural territory and Emburgas and Garoza villages, Salgale rural territory	2.30 EUR/m <sup>3</sup>	-0,03 EUR/m <sup>3</sup>
”Salacgrīvas ūdens” Ltd	Salacgrīva municipality	2.44 EUR/m <sup>3</sup>	For water supply – reduced by 0.06 EUR/m <sup>3</sup> ; For sewerage services – increased by 0.05 EUR/m <sup>3</sup>

In 2015, the Regulator developed a new edition of the draft **Methodology on calculation of water management service tariffs**. Multiple consultations with sector representatives took place regarding the draft methodology. The final

edition of the draft methodology was approved in January 2016. The new edition of the draft Methodology on calculation of water management service tariffs was developed by taking into account changes in the legislative acts of the sector – the new Law on Water Management Services and Construction Standards for Water Management and Sewerage Facilities in Latvia.

#### **11.4. PROTECTION OF SERVICE USERS**

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

In 2015, the Regulator received and provided answers to 41 complaints about the provision of water management services. Compared to 2014, the number of complaints has increased which is explained by more active participation of service users in the tariff evaluation process.

After reviewing the complaints received in 2015, in 18 cases (43%) the Regulator provided explanations to applicants about various issues related to the water management and municipal waste management sector. In 14 cases (33%) the Regulator found that complaints were not related to the Regulator’s work, while in 9 cases (21%) the Regulator concluded that complaints were unjustified. Out of all received complaints, only one complaint was justified. The situation mentioned in the complaint was solved.

The Regulator received six complaints from legal persons and 35 complaints from natural persons.

## 11.5. SECTOR DEVELOPMENT TRENDS



**Agnese Kozlovska**

Director, Water Management and Waste Disposal Services Department

In 2016, participation in the development of draft legal acts related to the water management sector continues.

Water management service providers will continue carrying out projects by attracting co-financing of the EU funds. In previous planning periods, many companies attracted funds to put in order water extraction points and preparation facilities, as well as wastewater treatment facilities, therefore there are plans to focus more on network renewal and expansion, providing centralised water management services to a growing number of residents over the next years. The expansion of the sewerage networks is very significant from environmental perspective; however, there are often problems to establish new connections because a large number of potential users do not have sufficient financial resources to finance the construction of the connections. To promote more connections to centralised sewerage and water supply systems, the new Law on Water Management Services provides for indirect incentives to establish residential connections, for example, an agreement with a service provider that a connection can be paid for in instalments. A municipal council may decide on the allocation of funding for partial payment for these works from the municipal budget.

## 12. MUNICIPAL WASTE DISPOSAL

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

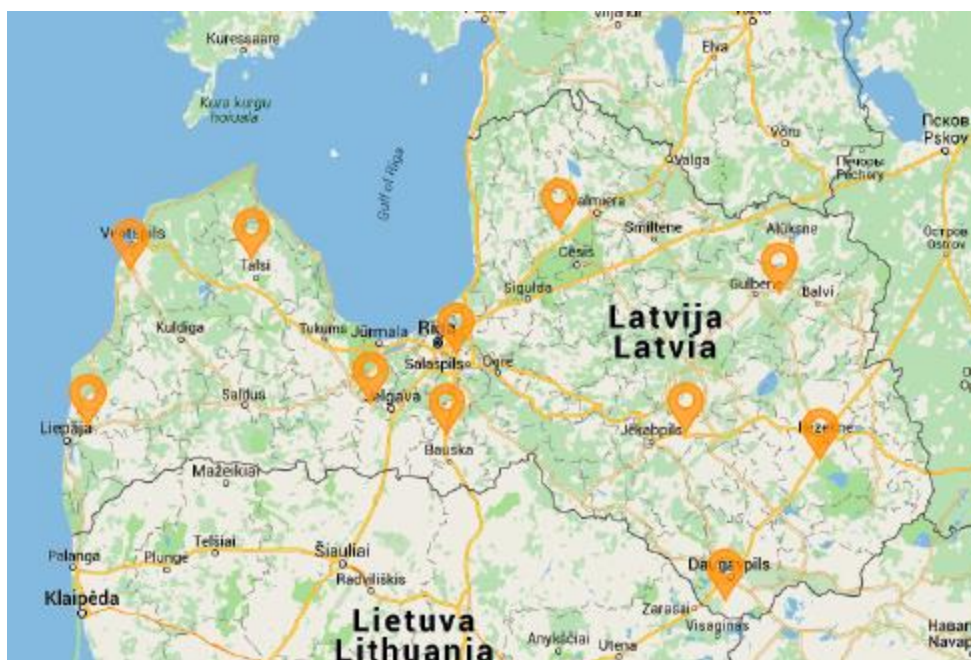
### 12.1. AUTHORISATION AND SUPERVISION OF COMPANIES

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

One company was registered in the municipal waste disposal sector in 2015; it will provide a waste disposal service at the landfill site “Brakšķi” (Sectors 3 and 4). “Zemgales Eko” Ltd previously provided the waste disposal service at the landfill site “Brakšķi” (Sector 1), but after the closure of the Sector 1 storage Jelgava City Council delegated the provision of waste disposal services to the company that manages the Sector 2 storage of the waste landfill site “Brakšķi”. A total of 11 waste disposal companies are registered in the register.

In the waste management sector in 2015, the Regulator inspected one municipal waste disposal landfill and did not find any shortcomings.

## Tariffs of waste disposal services



In Latvia, municipal waste disposal services are provided by 11 public utilities providers whose activities are regulated by the Regulator.

Landfills do not compete with each other because 10 waste management regions operate in Latvia in accordance with the Waste Management State Plan; these regions were established on the basis of agreements by local governments. Municipal waste created in local government territories which are located in a specific waste region is disposed only at the municipal waste landfill of the respective region or transferred to reloading stations managed by the landfill.

Company	Service provision territory and landfill address
AP Kaudzītes	Waste landfill "Kaudzītes", Litene rural territory, Gulbene municipality
ATKRITUMU APSAIMNIEKOŠANAS DIENVIDLATGALES STARPPAŠVALDĪBU ORGANIZĀCIJA	Waste landfill "Ciniši", Demene rural territory, Daugavpils municipality
Atkritumu apsaimniekošanas biedrība "PIEJŪRA"	Waste landfill "Janvāri", Laidze rural territory, Talsu municipality
AALAAS	Waste landfill "Križevņiki", "Križevņiki 2", Križevņiki, Ozolaine rural territory, Rēzekne municipality

Getliņi EKO	Waste landfill "Getliņi", Rumbula, Stopiņi municipality
Liepājas RAS	Waste landfill "Ķīvītes", Grobiņa rural territory, Grobiņa municipality
Ventspils labiekārtošanas kombināts	Waste landfill "Pentuļi", "Jaunpentuļi", Vārve rural territory, Ventspils municipality
Vidusdaugavas SPAAO	Waste landfill "Dziļā Vāda", Mežāre rural territory, Krustpils municipality
ZAAO	Waste landfill "Daibe", "Stūri", Stalbe rural territory, Pārgauja municipality
Zemgales EKO	Waste landfill "Grantiņi", Code rural territory, Bauska municipality
Jelgavas komunālie pakalpojumi	Waste landfill "Brakšķi" (Sectors 3 and 4), Līvberze rural territory, Jelgava municipality

## 12.2. LEGAL FRAMEWORK

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

In the waste disposal sector, the Regulator participated in the discussion of the "Amendments to the Waste Management Law" in 2015; the law was adopted on April 30.

In accordance with this law, on 14 December 2015, the Regulator approved the new edition of the Methodology for calculation of a municipal waste disposal service tariff which entered into force on 1 January 2016. The Regulator's Methodology for calculation of a municipal waste disposal service tariff<sup>26</sup> was updated in conjunction with "Amendments to the Waste Management Law" adopted in 2015. These amendments in the Waste Management Law<sup>27</sup> stipulated that a tariff for municipal waste disposal at landfills should additionally include costs related to the maintenance of a closed waste landfill and costs related to the reduction in the volume of disposable biodegradable waste including regeneration of biodegradable waste. This norm entered into force on 1 January 2016. At the same time, other amendments were made in the Methodology for calculation of a municipal waste disposal service tariff which make it more transparent and

<sup>26</sup> Regulator's decision No 1/1 of 9 March 2011

<sup>27</sup> Section 41 of the Waste Management Law

comprehensible; allocation of cost items to be included in a tariff proposal was also clarified and a new section on the accounting of revenues and costs was added.

### **12.3. TARIFFS, TARIFF CALCULATION METHODOLOGY, TARIFF CHANGES**

**A tariff for municipal waste disposal is one part of the total charge for municipal waste management paid for by the producer of waste. The second part is a charge for municipal waste collection, transportation, transfer and storage which is set by a local government based on an agreement concluded between a local government and a public service provider which the local government has chosen following a tender procedure. The third part is an environmental tax for waste disposal at a level stipulated by legislative acts.**

In 2015, the Regulator approved one municipal waste disposal tariff at the landfill “Kīvītes” in Grobina Region, Grobina Parish; the landfill is managed by “LIEPĀJAS RAS” Ltd. The tariff for the municipal waste disposal was set at 23.42 EUR/t. During the evaluation of the tariff proposal, after clarifying the costs that make up the tariff and waste volumes used for calculations, the tariff was reduced by 25.5% when compared to the initial tariff submitted to the Regulator.

### **12.4. PROTECTION OF SERVICE USERS**

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

In 2015, one electronic message was received by the Regulator concerning the municipal waste management sector. As the Regulator regulates only municipal waste disposal at landfill sites in the municipal waste management sector, the complaint did not fall within the Regulator’s competence.

## 12.5. SECTOR DEVELOPMENT TRENDS

**Agnese Kozlovska**

Director, Water Management and Waste Disposal Services Department

In 2016, participation in the development of the amendments to the Waste Management Law, amendments to related legal acts and subordinated draft legal acts will be essential; as will be updating the methodology after the amendments enter into force.

Managers of landfills continue to implement waste preparation for disposal as provided for by the EU legal acts which stipulate that biodegradable waste and other materials which may be used for recycling must be separated from unsorted municipal waste. To implement this, waste processing facilities are installed at landfill sites and other methods of recycling and regeneration of biodegradable waste are developed; it means that waste disposal costs will grow because landfills will have to recover costs invested in technologies for the reduction of the volume of the disposal waste. Meanwhile, changes in charges for residents would not be so significant because a landfill tariff makes up only a part of the waste management charge; the volume of disposed waste also decreases as a result of sorting. An environmental tax that must be paid for this volume makes up a comparatively large part of the waste management charge.



## 13. RAILWAY TRANSPORT

In 2015, the review of complaints about the applied railway infrastructure charge and supervision of the passenger carriage market were the Regulator's most significant tasks in the railway transport sector.

### 13.1. SUPERVISION OF COMPANIES

When performing the functions laid down by the law, the Regulator has a right to request and have an unhindered access to the information necessary for the fulfilment of its tasks regardless of the confidentiality level of such information. The Regulator may request the information from public service providers and users, state and municipal authorities, as well as officials.

In the railway transport sector in 2015, the Regulator carried out annual inspections of all licensed passenger carriers regarding the compliance with requirements of passenger carrier licences. During the inspections of JSC "Pasažieru vilciens" and "Gulbenes-Alūksnes bānītis" Ltd, the fulfilment of the requirements of the Regulation 1371/2007 of the European Parliament and of the Council on rail passengers' rights and obligations was also examined. No shortcomings were found during the inspections.

### 13.2. LEGAL FRAMEWORK

The legal framework in the railway transport sector in 2015 was determined by laws, Cabinet of Ministers regulations and legal acts issued by the Regulator.

In 2015, the Regulator participated in the development of national draft legislation – amendment to the law On Regulators of Public Utilities and amendments to the Railway Law to ensure the transposition of the requirements of the **EU Directive establishing a single European railway area**<sup>28</sup>. One of the Directive's

---

<sup>28</sup> Directive 2012/34/EU of the European Parliament and of the Council of 21 November 2012 establishing a single European railway area

requirements is to establish a single regulatory authority for the railway transport sector.

### **13.3. PROMOTION OF COMPETITION**

**When characterizing the railway sector in the context of integration into the single EU markets in 2015, we must mention the availability of access to the railway infrastructure.**

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

### **13.4. TARIFFS, TARIFF CALCULATION METHODOLOGY, TARIFF CHANGES**

**The Regulator does not approve tariffs in the railway transport sector.**

Until 10 March 2016, the Regulator was responsible for the following in the railway transport sector:

- determining the methodology for calculation of the charge for the use of public railway infrastructure;
- determining the procedure for the application of the charge for the use of public railway infrastructure;
- determining the settlement procedure for the charge for the use of public railway infrastructure;
- licencing of railway passenger carriers and supervision of compliance with railway passenger rights.

In 2015, no changes were made to the methodology for calculation of the charge for the use of public railway infrastructure for carriage.

### 13.5. PROTECTION OF SERVICE USERS

**The Regulator reviews complaints about services provided by passenger carriers.**

In 2015, the Regulator received and provided answers to two complaints about services provided by JSC “Pasažieru vilciens”. After evaluating these complaints, the Regulator’s experts concluded that they were unsubstantiated.

### 13.6. SECTOR DEVELOPMENT TRENDS

**Agnese Kozlovska**

Director, Water Management and Waste Disposal Services Department

Year 2016 was characterised by a change of regulatory authorities in the railway transport sector, namely, after the amendments to the **Railway Law and amendments to the law On Regulators of Public Utilities** entered into force, the Regulator’s functions in the railway transport sector were taken over by the State Railway Administration, JSC “LatRailNet”, state-owned “Autotransporta direkcija” Ltd and State Railway Technical Inspectorate from 10 March 2016.

The State Railway Administration is responsible for the licensing of passenger carriers by rail, review of complaints about the stipulated railway infrastructure charge, as well as the supervision of the market of passenger carriage by rail. JSC “LatRailNet” develops schemes of charge calculation and levying which will replace the external legislative acts of the railway transport sector issued by the Regulator. Meanwhile, the state-owned “Autotransporta direkcija” Ltd, State Railway Administration and State Railway Technical Inspectorate must ensure that passenger rights are respected as stipulated by the Regulation (EC) No 1371/2007 of the European Parliament and of the Council of 23 October 2007 on rail passengers’ rights and obligations.

Amendments to the Railway Law were made by transposing into national legislation the requirements of the Directive 2012/34/EU of the European Parliament and of the Council of 21 November 2012 establishing a single European railway area.

## 14. INTERNATIONAL COOPERATION

Representing Latvia, the Regulator cooperates with regulators of other countries in all regulated public service sectors. The Regulator is active in various international organisations for cross-border cooperation whose functions are related to planning and development of regulatory legal framework, safe and sustainable development of the internal market, as well as solving various regulatory issues at international level, simultaneously promoting the activities of the Regulator in Latvia.

In 2015, the Regulator dealt with different tasks in the field of international cooperation depending on the degree of market liberalisation and specific nature of each sector. Specific plans were elaborated in each sector regarding the implementation of the single EU market as stipulated by the relevant EU regulatory framework.

In 2015, the Regulator was actively involved in OECD measures participating in a new OECD study on the independence of regulators and making a presentation about the experience of the multi-sector regulator. The Regulator also applied for the OECD peer review of the Regulator's activities according to special methodology for assessing regulators' independence, importance, objectives, contribution, as well as the regulatory environment in which the Regulator operates. The Latvian Regulator is the second regulator which has applied for this independent and professional review. During the review, OECD and three representatives of different regulators of the European Union member states evaluated the Regulator and compared its activities with indicators of OECD member states and regulatory experience in different operational areas. For its part, OECD was interested in the in-depth analysis of the work of a multi-sector regulator for the first time. OECD assessment and recommendations are expected to be published in 2016.

### 14.1. ELECTRONIC COMMUNICATIONS

In the **electronic communications** sector, the Regulator actively supported two issues highlighted during the presidency of Latvia – roaming and net neutrality to include them in the European Commission's (EC) draft regulation on the

European single market for electronic communications and recommended to continue in-depth work on these issues in BEREC working groups.

Roaming and net neutrality topics were also discussed during the annual Baltic Electronic Communications and Postal Regulators' (BALTREG) meeting. The Baltic regulators also discussed the development of the Internet of Things and Long Term Evolution (LTE) technology market.

BEREC signed a memorandum of cooperation with the Eastern Partnership Electronic Communications Regulators Network (EaPeReg) on 4 December 2014 while the Regulator was elected as EaPeReg deputy chairman in 2016. On several occasions, the Regulator's representatives spoke at EaPeReg events about significant EaPeReg activities including service quality, regulation of access networks, radio frequency planning and roaming.

The Regulator shared its experience about different regulatory aspects of electronic communications sector during several international events, as well as with regulators of other countries. During the international conference "TELCO Trends" which took place in Riga in August 2015, the Regulator's representatives spoke about the development of service quality and regulatory models taking into account the implementation of new telecommunications technologies. Meanwhile, the Regulator's experts introduced the Moldavian colleagues with service quality supervision within the framework of TAIEX project.

In cooperation with BEREC Office, the Regulator organised a BEREC plenary meeting; a mutual seminar on e-commerce was organised by electronic communications and postal regulators' organisations BEREC and ERGP within the framework of the meeting.

## **14.2. POST**

In the **postal** sector, the Regulator participated in the work of ERGP, CERP and EC working groups, in addition to the afore-mentioned e-commerce discussing the new model for postal statistical data collection and compilation, access to the postal service market and other issues.

### 14.3. ENERGY

In the **energy** sector, the successful registration of Latvian wholesale energy market participants in the register of the participants of the single EU market must be especially emphasised, as well as preparation for wholesale market supervision in accordance with REMIT (Regulation No 1227/2011 on wholesale energy market integrity and transparency) which must be initiated from 7 April 2016. To ensure qualitative supervision of the electricity market, the Regulator organised a seminar on risk hedging instruments for the Baltic regulators, expressed proposals in Nord Pool Regulatory Council and ACER Board of Regulators and working groups and closely cooperated with the Baltic and Nordic regulators. On 17 December 2015, the Regulator signed another multilateral memorandum of understanding of the EU regulators and ACER – this time on the coordination of activities and cooperation on market surveillance as stipulated by REMIT.

During the Baltic Electricity Market and Baltic Gas Market Forums which were organised by the Regulator on November 3 and 4, the Baltic, Finnish, Polish and Greek regulators, Baltic transmission system operators, traders, ACER, representatives of Finnish and Lithuanian gas exchanges and ministries discussed the most topical issues for the region including the implementation of REMIT and network codes, EU infrastructure projects of common interest, improvement of market operation and others. The experience of the Greek regulator in the development and regulation of the gas market, as well as the experience of the Polish regulator dealing with electricity congestions uncovered possible risks which the Baltic region must avoid in the future.

To gain in-depth information about several regulatory aspects, the Regulator organised seminars on the regulation of the gas sector; Belgian and French regulators presented their experience to the Latvian market participants in these seminars. An exchange of experience of the Latvian and Italian regulators about the supervision of the quality of electricity supply also took place.

Within the framework of TAIEX programme, the Regulator's representatives provided support in the implementation of EU legal acts to the Georgian energy regulator, as well as to the Ukrainian energy regulator in the development of the secondary legislation for the opening of the wholesale energy market; this project was supported by the European Energy Community.

The Regulator's representative also made a presentation and participated in the discussion during the conference organised by the European Commission; while preparing for the development of a new strategy, the European Commission addressed the issues of heating and cooling more extensively for the first time during the conference.

#### **14.4. RAILWAY TRANSPORT**

In the **railway** transport sector, the Regulator participated in the work of IRG-Rail and EC working groups to implement unified and coordinated market conditions in the regulated sectors and cross-border cooperation of regulators.

#### **14.5. WATER MANAGEMENT**

In the **water management** sector, the Regulator continued active participation in WAREG and ERRA working groups, thoroughly addressing the comparative analysis of regulated companies and tariff structure in different countries.

#### **14.6. INTERNATIONAL COOPERATION IN 2016**

**Within the context of international cooperation, several significant developments are expected in 2016 which also highlight the Regulator's tasks to promote international cooperation. Electronic communications and energy sectors are those sectors where changes in regulatory frameworks are expected.**

In the electronic communications sector, year 2016 will be especially significant for the regulators of the European Union member states because the review of the existing regulatory framework will continue. There are several new topics such as the inclusion of the "Internet of Things" in the regulation, application of the fast or superfast broadband Internet, review of the BEREC's role and others which will be discussed and whose solutions will impact the Regulator's activities and long-term regulation of the sector. Therefore, to express the Regulator's position and vision about the issues of sector development, the Regulator's representatives will participate in BEREC meetings and will include these issues in

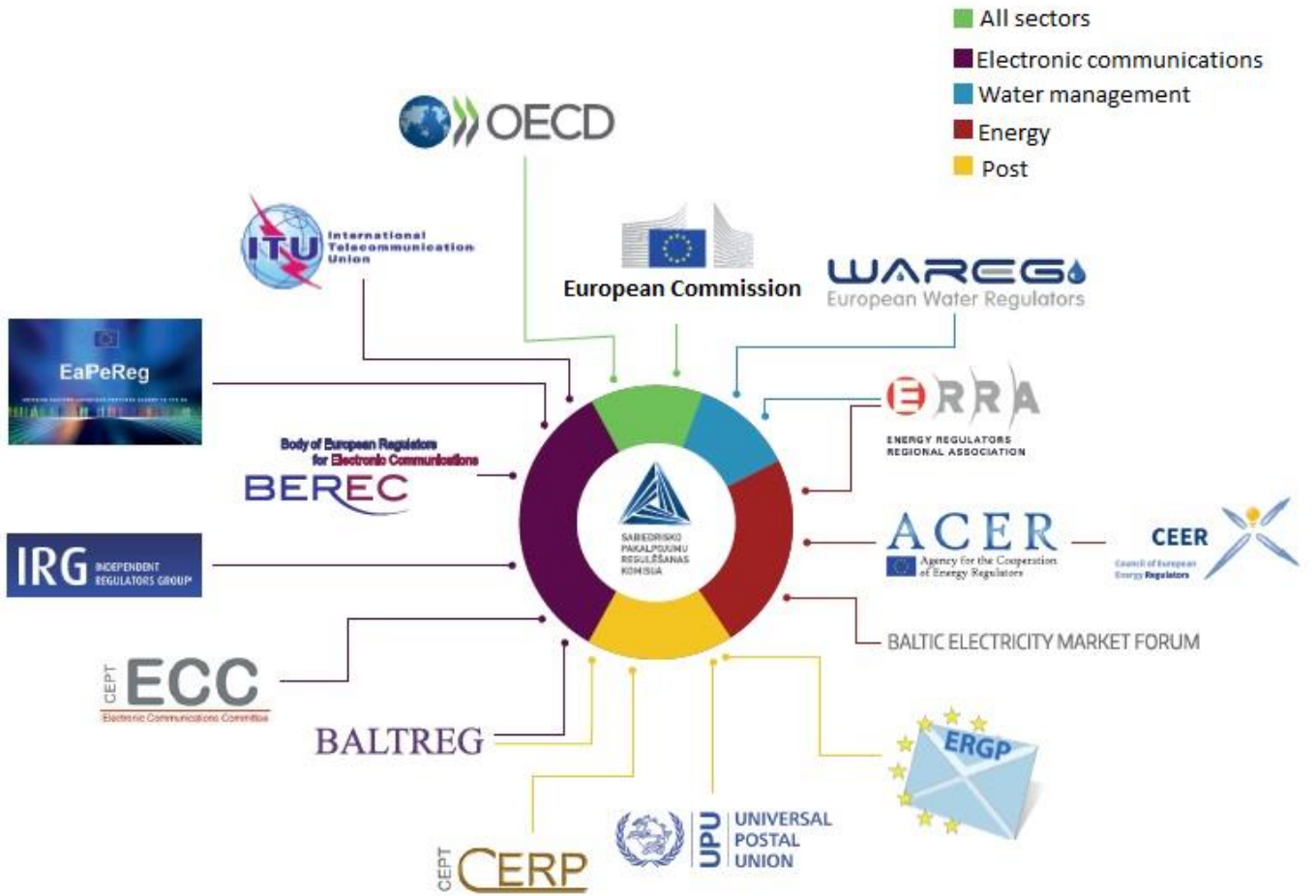


the agendas of the BALTREG meeting and ECC Numbering and network working group organised by the Regulator.

As the deputy chairman of EaPeReg in 2016, the Regulator is co-responsible for the fulfilment of the EaPeReg Programme 2016. It will organise an EaPeReg plenary meeting in Latvia together with the European Commission in the spring of 2016. One of the most important topics of the plenary meeting will be dedicated to the experience of the European Union member states in the management of the electronic communications sector.

In the energy sector, the Regulator will continue close regional cooperation, actively participate in the Nord Pool Regulatory Council and ACER to continue work on the implementation of efficient market surveillance measures. Cooperation of the Baltic and Nordic regulators will be especially significant regarding the surveillance practice by improving and developing separate market surveillance mechanisms based on the existing memorandums of cooperation, in a similar way as unified principles for the surveillance of Urgent Market Messages were determined in 2015.

The Regulator will also follow the implementation of network codes in the energy sector by coordinating work with regulators of the Baltic States, Finland, Poland and Sweden.



## 15. MANAGEMENT OF THE REGULATOR

### 15.1. STRUCTURE AND WORK ORGANISATION



**Kristīne Briede**

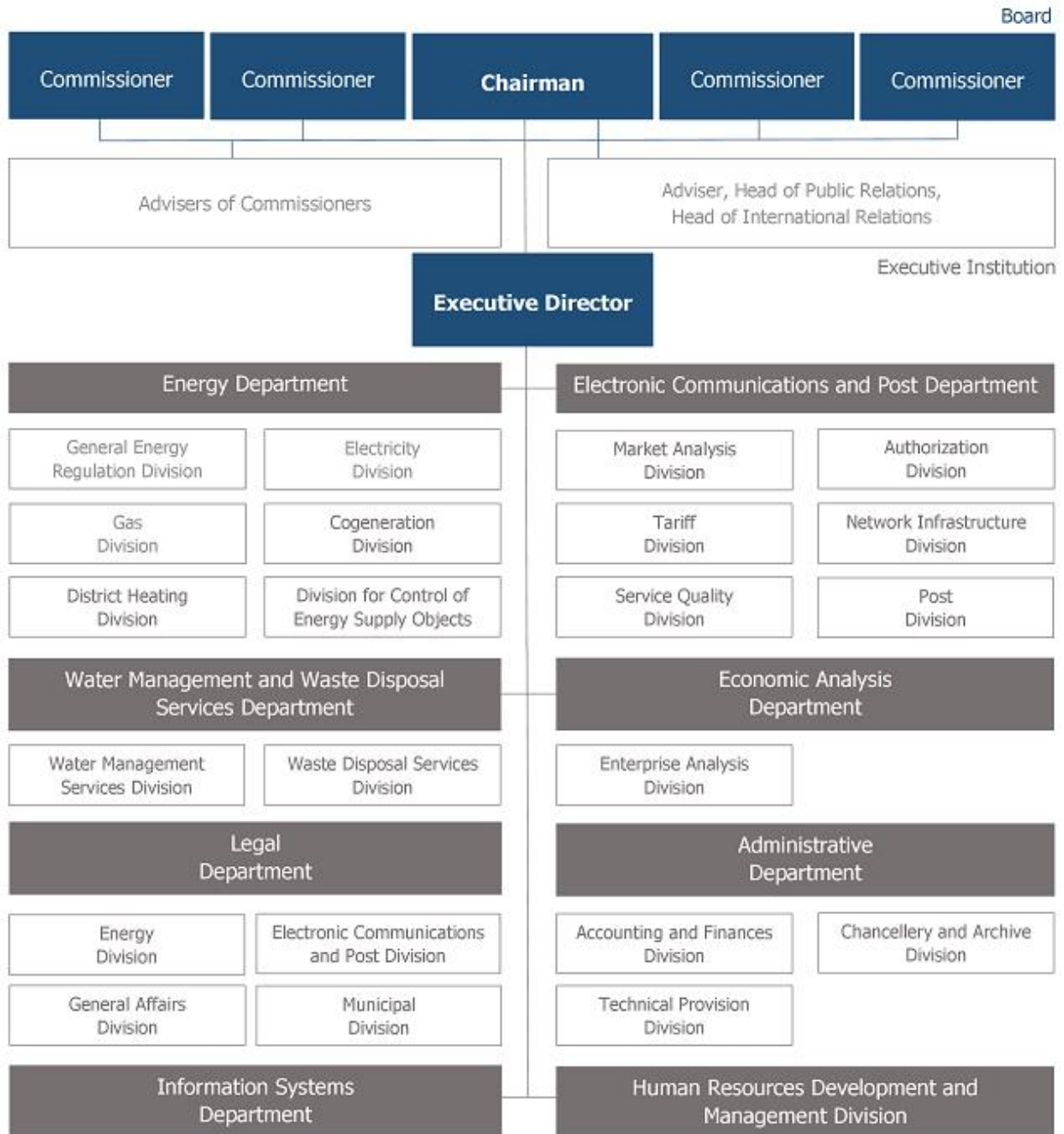
Head, Human Resources Development and Management Division

The Regulator's work organisation and structure is stipulated by the law "On Regulators of Public Utilities". According to the law, the decision-making institution of the Regulator is the Board consisting of the Chairman and four Board members appointed by the Saeima. The Chairman and Board members are appointed for a five-year term. The Board adopts decisions and issues administrative acts in the name of the Regulator which are binding to specific public utilities providers and users. In 2015, 39 board meetings were organised and 182 decisions were adopted.

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

On 31 December 2015, 130 employees worked at the Regulator. The number of employees increased by seven during the year; the same number of employees terminated employment at the Regulator. 103 employees work directly on the

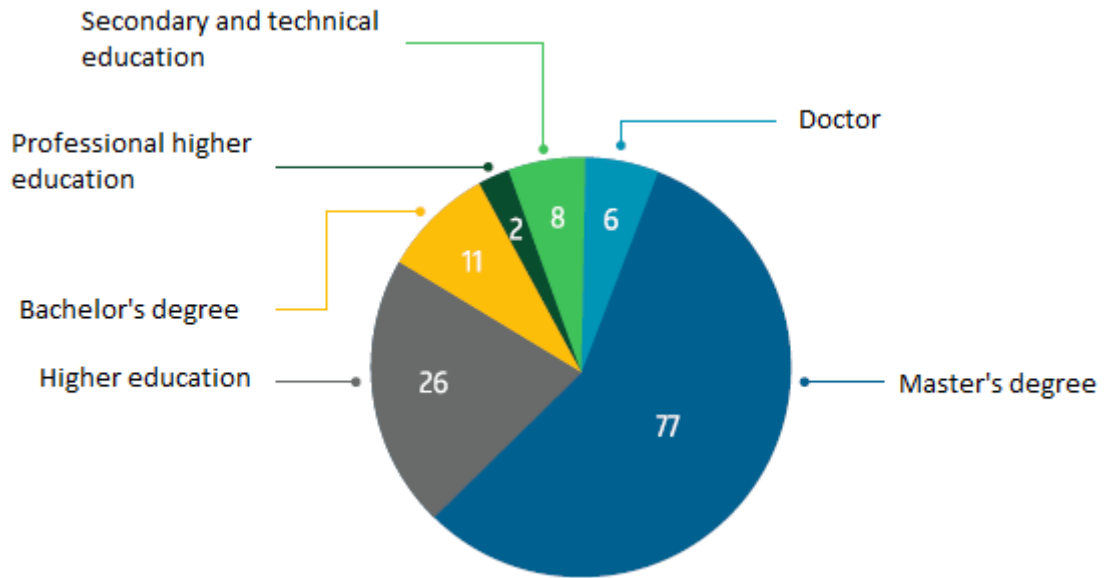
implementation of regulatory functions and 27 employees perform technical and administrative support functions.



In order to carry out regulatory functions, the Regulator’s employees must be highly competent. 94% of the Regulator’s employees have a university degree. Detailed information about the qualification of employees is shown in the figure. To maintain high capacity, the Regulator also supports various training events for

employees. In 2015, 112 employees (more than 85% of the total number of employees) were involved in such events.

**Qualification level of the Regulator's employees on 31 December 2015  
(number of employees)**



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

## 16. FINANCING AND ECONOMIC ACTIVITIES

In 2015, the Regulator carried out its activities in a separate budget programme approved by the law “On State Budget for the Year 2015”.

The Regulator’s operations are financed by the fees for public utilities regulation; the fees are paid by regulated companies. In the reporting year, the state fee in the regulated sectors was 0.17% of the net turnover of the relevant public service provided by the regulated company in 2014.

The Regulator’s planned expenditures in 2015 were 5,100,192 EUR. Actual spending amounted to 4,749,667 EUR, which was 93.1% of the planned spending in the reporting year.

Section 31(2.4) of the law “On Regulators of Public Utilities” and paragraph 6 of the Cabinet of Ministers Regulations No 1623 “Regulations on the rate of the state fee for public utilities regulation and the payment procedure of the fee” of 22 December 2009 state that if the paid state fee exceeds the required expenditures for providing operations of the Regulator in the respective year, in the next year the state fee for the overpaid sum is reduced proportionally to the amount of the state fee paid by each public utilities provider.

At the beginning of 2015, the total surplus of financial resources was 669,285 EUR which was returned to public utilities providers in 2015 by reducing the payment of the state fee proportionally to the amount of the paid state fee by each public utilities provider in 2014. The total surplus of financial resources was 100 EUR at the end of 2015.

The Regulator’s financial report 2015 was prepared in accordance with the Cabinet of Ministers Regulations No 1115 “Procedure for preparing an annual report” of 15 October 2013.

The financial report 2015 has been submitted to the Treasury. On 18 March 2016, the Regulator’s annual report 2015 was audited without objections by “D. Daņēvičas revidentu birojs” Ltd (licence No.33 of the sworn auditor’s commercial entity).

In 2015, the Regulator concluded 66 economic cooperation agreements and organised 19 public procurements in accordance with the Public Procurement Law.

No	Financial resources	Previous year (actual numbers)*	Reporting year (euro)	
			Approved by law	Actual numbers*
1	Total revenues, incl.	3 714 321	4 200 192	4 080 482
	Fee based services and other income	3 689 868	4 200 192	4 080 482
	Other previously unclassified income for special purposes	24 453	0	0
2	Total spending	4 718 723	5 100 192	4 749 667
2.1	Administrative costs (total)	4 441 817	4 910 378	4 565 471
	International cooperation	25 765	75 765	75 765
	Other administrative costs	4 416 052	4 834 613	4 489 706
2.2	Capital investments	276 906	189 814	184 196

\* in accordance with the cash flow principle