



PUBLIC
UTILITIES
COMMISSION
OF LATVIA

ANNUAL REPORT

2021

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**CHAIR'S
FOREWORD**



Alda Ozola,
PUC's Chair

The year 2021 was full of changes and challenges for the Public Utilities Commission (PUC). The PUC marked the 20th anniversary of developing the regulatory environment, a new management of the PUC took over the responsibilities, an operational strategy for 2022-2026 was developed, while in the regulated sectors, along with the usual work, there have been historical events, requiring both merchants and consumers, as well as the makers of the legal framework and the PUC to adapt to the new situation.

The mandate of Roland Irklis as the head of the PUC ended in January 2021; he had made significant contribution to the development of the regulatory framework of public utilities sectors over a ten-year period. In the summer, I was elected as the head of the PUC until 2028. Along with me, a new Board also started work – Rota Šņuka, Imants Mantiņš and Intars Birziņš continue their work as Board members, while Anna Upena was newly elected to the Board. For the first time, the Board members have different terms of office, which will ensure a gradual change in the composition of the Board

in the future, thus enabling better transfer of knowledge and ensuring the professionalism of the Board.

In August, even before the end of the operating cycle of the previous PUC strategy, the PUC started work on the development of the strategy for 2022-2026, involving cooperation partners – associations, merchants and representatives of the Advisory Board. In December, the PUC finished designing the strategy, and it was approved in January this year.

The most important challenges to which special attention was paid in the development of the strategy: concern for promoting the well-being of public service users under changing market conditions and the impact of the European Green Deal on the development of regulated sectors. In the following years, changes are expected in the production of electricity and thermal energy and in the municipal waste management sector. Therefore, by its actions on tariff setting methodologies, the PUC should provide the necessary signals for the movement towards wider use of renewable energy resources and the implementation of the principles of the circular economy in practice. In these circumstances, ensuring a balance between the interests of the economy, consumers and merchants will definitely be a challenge for the PUC.

To adapt to the dynamic changes in the regulated sectors, the PUC continued work on strengthening the competences of its experts and improving the internal processes of the institution – all processes important to the organization were successfully provided remotely, fully switching to electronic document circulation and decision-making in remote Board meetings.

The Regulator has taken into account the results of the survey by the research centre SKDS, evaluating the opinions of both the public and regulated merchants. Since 2020, the Regulator has been participating in the "Sustainability Index", which allows to improve the operational principles and look at them more broadly. Promoting sustainability in the regulated sectors is a priority for the PUC, contributing to the implementation of

environmental and economic goals and balancing public interests. Therefore, the Regulator purposefully integrates sustainability aspects into the organization's strategy and everyday life. Last year, the PUC received an award which was one level higher than in the previous year – a silver category.

Although the PUC as an organization is still only halfway in the sustainability process compared to other institutions, a lot of work has been done. For example, two important amendments have been made in the development of the regulatory framework in the energy sector. The changes in the System Connection Regulations for the Electricity Distribution System should be specifically highlighted, due to which this process has become simpler, more understandable and shorter for the user. With equally significant changes, the PUC pushed ahead with improving the regulatory framework of the Inčukalns underground gas storage facility, clarifying the procedure for organizing capacity auctions and introducing the auction calendar. These changes will have a positive impact on system users' awareness of storage capacity booking and usage, so that activities can be planned in advance, as well as improve the transparency for natural gas storage in the storage facility.

Looking back at the development of the sectors, it must be noted that the year 2021 in the **energy resources market**, both in Latvia and in Europe, was marked by a rapid increase in the prices of energy resources, which was especially noticeable immediately after the year of the historically lowest prices of energy resources. The increase in the prices of energy resources significantly affected the users of the district heating system. In the heat supply sector, in 2021, the PUC approved a record number of tariffs of regulated thermal energy merchants – 54, which consists of the evaluation of both self-determined tariffs and full tariff proposals. Comparing the final tariffs of the previous (2020/2021) and the current (2021/2022) heating season, we see that the tariffs of slightly more than half of the thermal energy merchants have not changed. On the other hand, of those merchants whose tariff has changed, for about a third the tariff increase has not exceeded 30%, while for a tenth – the tariff has doubled.

After assessing the profit margin or rate of return on capital in the regulated sectors, the Regulator set them lower. As a result, profit margins for merchants in the regulated sectors were approved at a historically low level. For several merchants in 2022, this means a reduction in the profit included in the tariff, while for consumers – lower capital costs included in the tariffs.

It must be noted that the events in the **electronic communications sector** unfolded just as quickly. The PUC conducted one of the most extensive analyses in history regarding the cooperation of LLC Tele2 and LLC BITE Latvija in the use of mobile communications frequencies. The task of the Regulator was to make sure that the cooperation between the two operators does not jeopardise competition in the electronic communications market in Latvia. The decision drafted as a result of the evaluation was later cancelled by the PUC based on the request of LLC Tele2 and LLC BITE Latvija. The operators evaluated other possibilities of cooperation to use the network together without frequency sharing.

The organization of the frequency auction for the deployment of the 5G network was also a milestone event. As a result of the auction, the rights to use frequencies were obtained by three mobile operators, with the total auction revenues reaching 13.273 million euro, which were transferred to the state budget.

In the **postal sector**, the Regulator worked on defining new requirements for tender

applicants in the provision of the universal postal service (UPS). The PUC's task was to determine the new UPS provider for the next five years through a tender process. At the end of the tender organized by the PUC, the state JSC Latvijas Pasts was confirmed as the winner. Accordingly, the PUC continued to evaluate the UPS tariff proposal submitted by the state JSC Latvijas Pasts, which entered into force on 1 January 2022.

Changes have also taken place in the **water management sector**, which was significantly affected by the administrative-territorial reform. Local governments, together with water management service providers, began to evaluate how to provide water management services in the future – whether to create one service provider in the municipality, or to entrust the provision of services to several service providers. In order to provide clear conditions, what tariff should be applied after the unification of the territories, the PUC approved changes to the regulations after consultations with the stakeholders.

Changes in the **waste management sector** due to regulatory changes are expected over the course of several years. For example, the PUC will have to make significant changes in the calculation of tariffs for the regulated service and related legislative acts, taking into account that the national plan in the medium term envisages decommissioning part of the currently active waste storage facilities, but the decisions thereon will have to be made by local governments. Last year, the PUC already started developing amendments to several legislative acts. The Regulator also approved several tariffs for municipal waste disposal services. The most significant changes in tariffs were related to the introduction of biological waste processing technologies that meet environmental requirements.

The PUC is also involved in the regulation of the beverage packaging **deposit system**, which is an important step towards the recycling and reuse of used beverage packaging, as well as a cleaner environment. At the beginning of 2021, the PUC registered LLC Depozīta Iepakojuma Operators in the register of deposit system service providers, and the beverage packaging deposit system began operating in Latvia on 1 February 2022. Taking into account the PUC's new duties – supervision of the deposit system operator and evaluation and approval of the validity of the deposit system participation fee –, the scope of the PUC's work will significantly increase from 2022.

Despite the dynamic events in the regulated sectors and worldwide, the year was successful for the PUC. There is still much work to be done and challenges ahead, but our vision is clear – every resident and merchant is entitled to public services that contribute to their welfare, and service providers evolve in an efficient, sustainable and reliable market.

It should be mentioned that the Regulator has implemented changes in the concept of the annual report, making it more engaging and understandable for readers. To increase understanding of the PUC's activities, separate infographics have been prepared for each regulated sector with the most important data of 2021 compared to 2020, while a broader overview is provided by the directors of the sector departments, which I invite you to read in the continuation of this report.

Sincerely yours,
ALDA OZOLA,
PUC's Chair



TERMS AND ABBREVIATIONS

ACER – Agency for the Cooperation of Energy Regulators
BEREC – Body of European Regulators for Electronic Communications
CEER – Council of European Energy Regulators
CSB – Central Statistical Bureau
EC – European Commission
EU – European Union
GB – gigabyte
GDP – gross domestic product
HHI – Herfindahl–Hirschman Index
IoT – Internet of Things
IRG – Independent Regulators Group
km – kilometre
LLC – limited liability company
LMT – Latvijas Mobilais Telefons
M2M – Machine-to-machine – sending and receiving real-time information between devices connected to the Internet
MHz – megahertz
min – minute
MPC – mandatory purchase component
MWh – megawatt hour
NRT – national resources tax
No – number
OECD – Organisation for Economic Cooperation and Development
OPEC+ – Organisation of the Petroleum Exporting Countries Plus

PESQ – Perceptual Evaluation of Speech Quality
POLQA – Perceptual Objective Listening Quality Analysis
PUC – Public Utilities Commission
Q1 – first quarter
Q2 – second quarter
Q3 – third quarter
Q4 – fourth quarter
SAIDI – System Average Interruption Duration Index
SAIFI – System Average Interruption Frequency Index
SMS – Short Message Service
t – ton
TTF – Title Transfer Facility – virtual trading point for natural gas in the Netherlands
TWh – terawatt hour
UPS – universal postal service
VAT – value added tax
WAREG – European Water Regulators
XII – December
5G – fifth generation mobile communications technology

ABOUT THE PUC

The Public Utilities Commission is an independent state institution that monitors the activities of public service providers (regulated merchants) and market development in Latvia and ensures that residents receive continuous, safe and high-quality public services at economically reasonable prices.

The activities of public service providers is monitored in **six** public service sectors – energy (natural gas, electricity, thermal energy), water management, electronic communications, postal services, packaging deposit and municipal waste disposal.

In 2021, the PUC continued its work within the priority directions defined in the 2018-2021 strategy. Tasks to be achieved in 2021 were specified for each of the established operational priorities (economically reasonable prices, service availability, appropriate service quality and work efficiency), and the work thereon was completed at the end of 2021.

The PUC approved the new operational strategy for 2022-2026 in January 2022. When developing the new strategy, **professionalism, cooperation, accountability** and **development** were set as the core values.

VISION Every resident and merchant is entitled to public services that contribute to their welfare, and service providers evolve in an efficient, sustainable and reliable market.

MISSION Ensure high-quality public services at economically reasonable prices, promoting efficient provision of services and competition in the regulated sectors.

The strategic goals set for the next five-year operational cycle – improved empowerment of users to assert rights effectively and maximise benefit from the market, sustainable and efficient market and infrastructure, accountable and fit for purpose regulatory practice.

The operation of the PUC is financed from the revenues obtained in accordance with the laws and regulations by collecting the state fee for the regulation of public services and payments for the services provided by the PUC. All public service providers in the regulated sectors pay the state fee to provide for the operation of the PUC.

ESTABLISHMENT
YEAR OF THE
AUTHORITY

2001

ACTUAL TOTAL
NUMBER OF
EMPLOYEES

115

BUDGET

5.7 million EUR

Actual
revenue

5.3 million EUR

Actual
expenditure

THE PUC'S TEAM

DECISION-MAKING AUTHORITY

The Board is the decision-making body of the PUC and includes the Chair and four Board members. The Chair and each Board member have a subordinate consultative employee – an advisor who performs the function of an adviser on the matters of the regulated sectors and support related issues.

The Chair and Board members are appointed for a term of office that is no shorter than five and no longer than seven years, thus ensuring adequate rotation. A Board member, including the Chair, can be reappointed only once.

The Board adopts decisions by voting. A decision is adopted if at least three Board members vote for it. Applicants for the positions of the Chair and Board members are selected by the Cabinet of Ministers in an open competition, but are appointed by the Saeima (Parliament).



Alda Ozola, Chair of the Board

Chair of the PUC Board from 2021. Previously, since 2013, she performed the duties of the Deputy State Secretary of the Ministry of Environmental Protection and Regional Development. She has also served as a board member of the state JSC Vides investīciju fonds and the port of Mērsrags. Before that, she was the head of several non-governmental environmental organizations in Latvia, and also worked internationally.

Term of office: until July 1, 2028.



Intars Birziņš, Commissioner

The PUC Commissioner for the second term. From January 28 to July 1, 2021, he was the acting Chairman of the PUC. Before taking up duties at the PUC, he worked for the Competition Council, managing the work of the Analytical Department for many years. He also worked for the State Revenue Service.

Term of office: until July 1, 2027.



Imants Mantiņš, Commissioner

The PUC Commissioner for the second term. He previously provided consultations on business management and investment issues. Worked as a member of the board of the state JSC Latvijas Pasts. He was a member of the council of the state JSC Latvijas gaisa satiksme and the municipal LLC Rīgas satiksme, as well as fulfilled the duties of both the board and the council member of the state JSC Privatizācijas aģentūra.

Term of office: until July 1, 2026.



Rota Šņuka, Commissione

The PUC Commissioner for the second term. Previously, she worked for many years in the Ministry of Economics with matters of energy, European Union (EU) affairs and international relations. She gained extensive experience by participating in various EU-funded and international projects.

Term of office: until July 1, 2027.



Anna Upena, Commissioner

The PUC Commissioner for the first term. Prior to that, she mainly worked at the Ministry of Economics and was an advisor at the Permanent Representation of the Republic of Latvia in the EU. She chaired Latvia's presidency of the EU Council in Brussels on the matters of economic development. She was the deputy head of the association Latvijas būvuzņēmēju partnerība.

Term of office: until July 1, 2026.

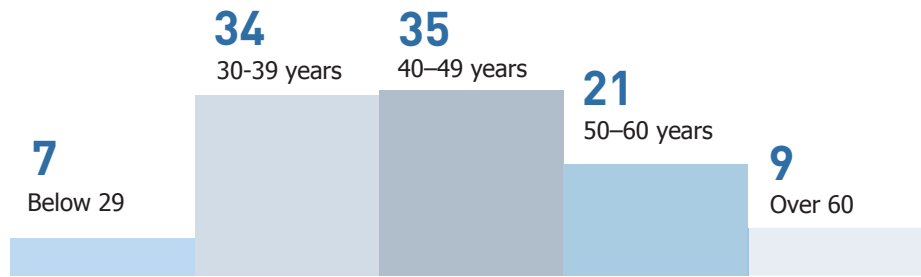
EXECUTIVE BODY

The executive body is subordinated to the Board and performs the functions of the Board's secretariat and experts, preparing documents for consideration at the Board meetings; it also implements the decisions adopted by the Board and the issued administrative acts.

The executive body consists of the executive director, seven departments, including units for each regulated sector and one independent unit. A corresponding structural unit exists for each regulated sector. The PUC's employees are highly qualified, knowledgeable professionals who regularly improve their skills and competences in working groups and seminars both in Latvia and abroad.

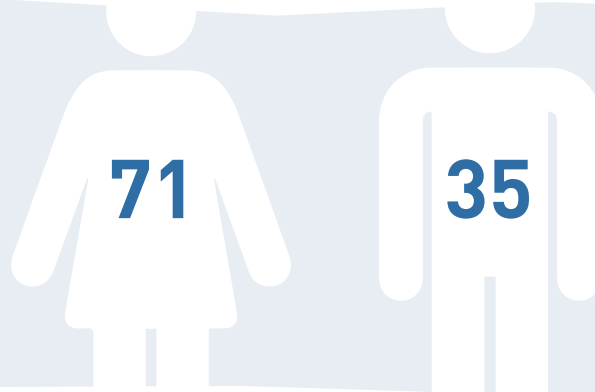
As of 31 December 2021, PUC had **106** employees. During the year, **14** new employees joined the team while **18** employees left the PUC for new challenges.

AGE*

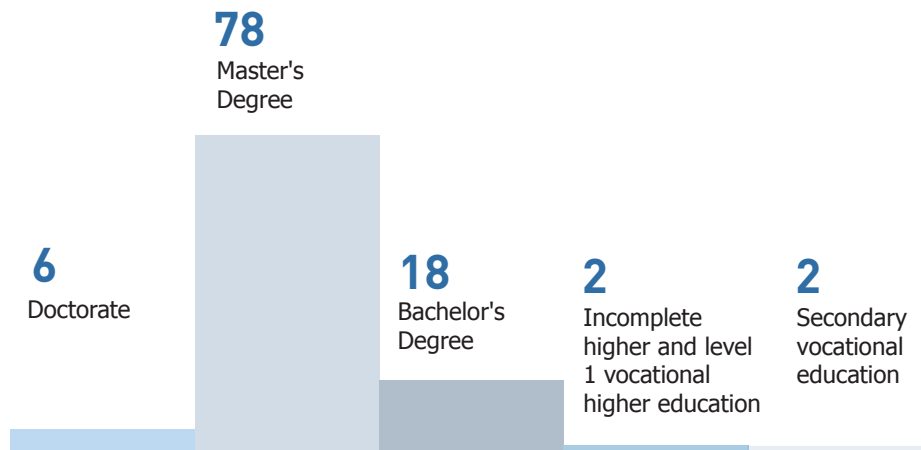


* Average age: ~44

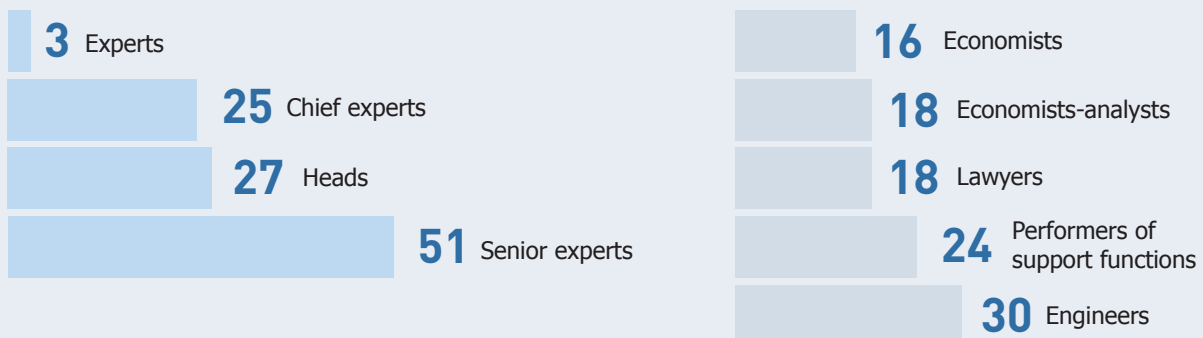
GENDER



EDUCATION LEVEL



DISTRIBUTION OF POSITIONS



**THE PUC'S KEY
PERFORMANCE
INDICATORS**

PUC'S KEY INDICATORS 2021

NUMBER OF REGULATED SECTORS

8



REGISTER OF MERCHANTS

637

Total (31 December 2021)

+47 New

-81 Excluded



MEETINGS

54 Board meetings

2 Advisory Board meetings



RECORD KEEPING

11 199 Documents received

414 Applications by individuals

236 Decisions adopted

LEGISLATION



15 Issued external legislative acts



35 Public consultations

LICENSES

+1 New

-3 Cancelled

9 Amended

52 Cabinet of Ministers draft regulations

28 draft laws

4 information reports

3 Cabinet of Ministers draft orders

OPINIONS ON

SOLVING PROBLEM SITUATIONS



155 Complaints



DISPUTES 1 Heard 2 Initiated



31 Heard cases of administrative violations

13 Heard cases of non-compliance with requirements

APPROVED TARIFFS (VAT EXCLUDED)

26



* Tariffs with full cost evaluation

44

Approved tariffs set by merchants themselves

ALLOCATION OF SCARCE RESOURCES



18

Number of merchants which have been granted the right to use frequencies



1

Frequency auction



Allocated numbers

802

 thousand

26.8

 thousand

Cancelled numbers

0

701.6

 thousand

INSPECTIONS AND MEASUREMENTS



INSPECTED FACILITIES THROUGH OPERATIONAL COMPLIANCE CHECKS OF MERCHANTS' FACILITIES



80



67



41

NUMBER OF VOICE TELEPHONY MEASUREMENTS ON MOBILE AND FIXED NETWORKS

VOLTAGE AND POWER SUPPLY QUALITY MEASUREMENTS



40



In the fixed network
38 000



On mobile networks
75 000

INTERNATIONAL COOPERATION



29

Total number of memoranda



1

New

110

Participation and expression of opinion in working groups and sub-groups, plenary sessions, forums and high-level meetings

20

Participation in international organizations



Indications on comparisons against the year 2020

**PUBLIC SERVICE SECTORS
IN THE LATVIAN ECONOMY**



Māra Bērziņa,
Director of the Economic
Analysis Department

The growth and trends of the sectors regulated by the PUC develop along with the general tendencies of the national economy. Merchants whose activities are regulated by the PUC represent the sectors of electricity, gas, heat supply, water management, electronic communications, postal services, and waste management (in which the PUC regulates only one part – the disposal of municipal waste in landfills), as well as the management of deposit packaging.

The proportion of activities of regulated merchants of different sectors varies in each of the sectors, therefore the published statistical data on the overall performance of the sectors do not always reflect the trends in the work of specific regulated merchants.

This review will provide a brief overview of the sectors regulated by the PUC in the context of the national economy. It should be emphasized that the 2021 data on the turnover of the regulated sectors will be available to the PUC in 2023. This is common practice, taking into account the practical

aspects of preparing financial statements of regulated merchants and their alignment with the planning calendar of the national budget.

GROSS DOMESTIC PRODUCT

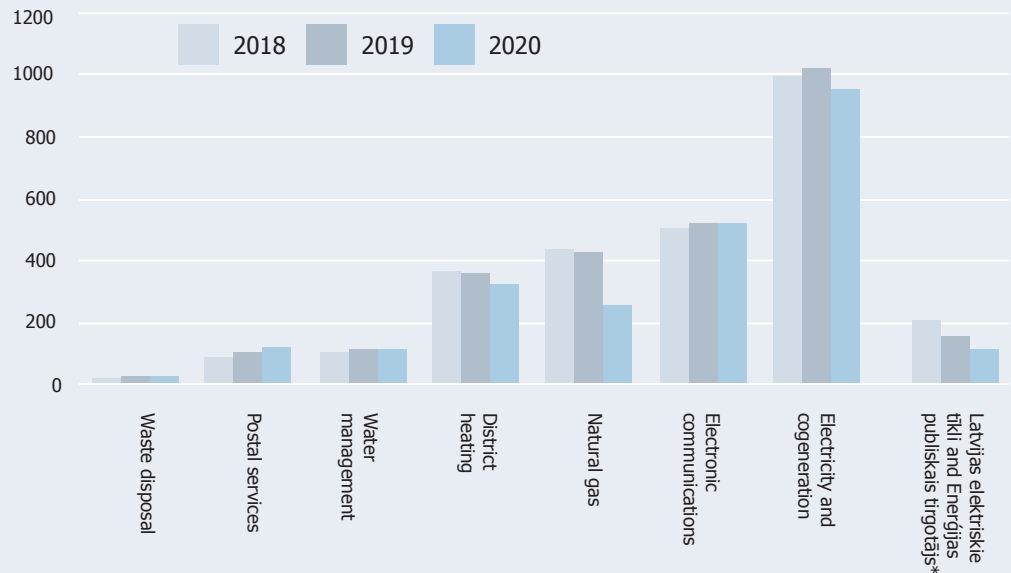
After the economic recession caused by Covid-19 in 2020, according to the data of the Central Statistical Bureau (CSB), in 2021 the gross domestic product (GDP) increased by 4.5%, reaching 32.9 billion euro. The turnover of regulated merchants in 2020 was 8.5% of GDP, which is a significant part of the national economy.

TURNOVER OF REGULATED SECTORS

The net turnover of regulated services, calculated from the data provided by merchants, was 2,500 million euro in 2020, which is 10% less than in 2019.

This decrease was mainly determined by the drop in the prices of energy resources – natural gas, electricity and fuel – on the world market, which was affected by the decrease in overall demand. Meanwhile, in the postal sector, the net turnover increased by 23% due to the impact of the Covid-19 crisis resulting in higher demand for postal services.

FEE-BASED REVENUE FROM REGULATED SERVICES BY SECTOR (EUR)

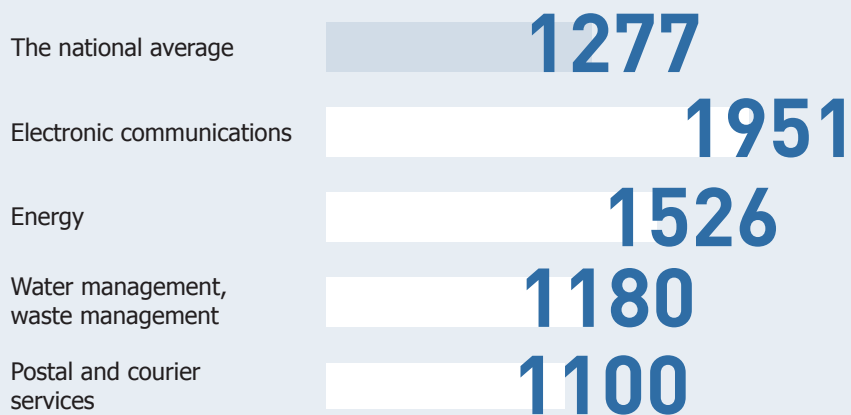


* JSC Latvian electricity grid pays no fee because it was merged with JSC Augstsprieguma tīkls from 25 November 2020

REMUNERATION IN THE REGULATED SECTORS

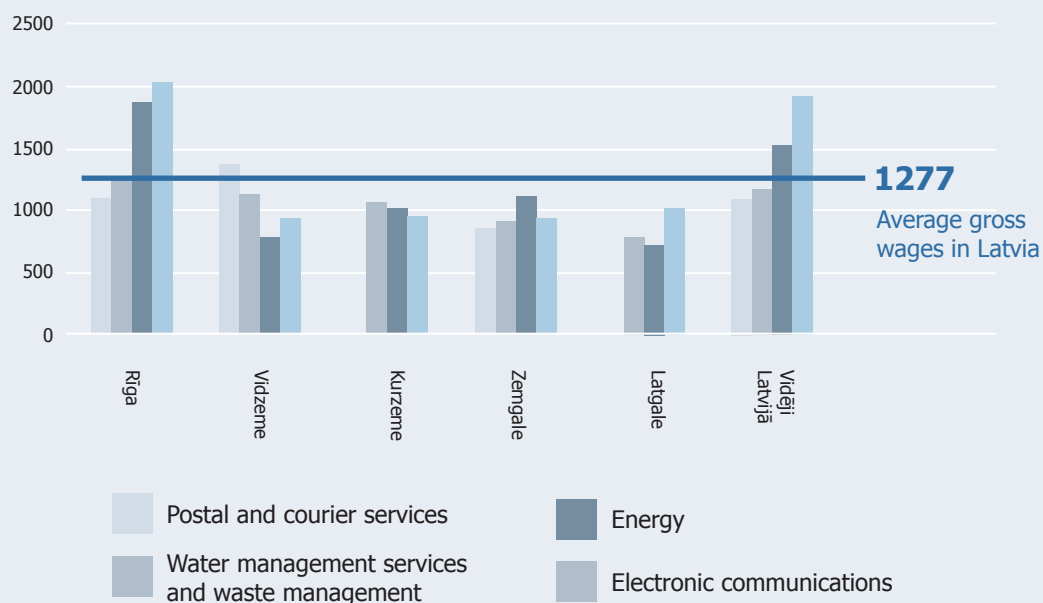
According to the CSB data, the average wage in the country increased by 11.7% in 2021 compared to 2020. The remuneration increased the fastest for the employees in the health sector, however, an increase in wages was also observed in all sectors regulated by the PUC. For postal and courier activities, the increase was 11%, in the electronic communications sector – 8.6%, in the energy sector – 8%, and in water management services and waste management sector – 3.8%.

AVERAGE MONTHLY GROSS WAGES IN PUBLIC SERVICE SECTORS IN 2021 (EUR)



Remuneration in public service sectors is different in statistical regions of Latvia – in Kurzeme, Latgale, Pierīga, Rīga, Vidzeme and Zemgale. For example, Latgale still has the lowest wages in the energy, water management services and waste management sectors. Meanwhile, in the electronic communications sector, the lowest wages are in Vidzeme. According to the available data on the postal and courier sector, Vidzeme has the highest monthly average gross salary compared to the average salary in the relevant sector in the country and other regions of Latvia. It should be emphasized here that data on the average monthly wages in the postal and courier sector in certain regions are not published by the CSB due to their confidentiality.

AVERAGE MONTHLY GROSS WAGES IN PUBLIC SERVICE SECTORS IN STATISTICAL REGIONS IN 2021 (EUR)



IMPACT OF REGULATED PRICES ON INFLATION

According to the CSB data, in 2021, services with regulated prices made up 10.85% of all household expenditures (goods and services in the consumer price index basket). The table shown below includes both public services regulated by the PUC and other regulated services which are not supervised by the PUC.

Administratively regulated prices and consumer price index in 2021

	Share in expenditures of residents	Price increase (2021 XII vs 2020 XII)	Inflation component (percentage points)
Public services regulated by the PUC	6,49%	19,6%	1,27
Other regulated services (compensated medication, patient's fee, passport issuance fee, car parking, notary services, passenger transport, pre-school education, etc.)	4,36%	0,2%	0,01
Public services regulated by the PUC and other regulated services, total	10,85%	11,8%	1,28
Consumer Price Index (inflation), total	100%	7,4%	7,4

Last year, compared to 2020, consumer prices in general increased by 7.4%, while administratively regulated prices – by 11.8%, which was facilitated by a 19.6% increase in the prices of public services in the sectors regulated by the PUC.

Of the services regulated by the PUC, the prices rose the fastest in the natural gas sector – by 51.3%, with heat energy prices also increasing sequentially – by 21.9%. This was facilitated by the economic recovery after the economic recession caused by Covid-19 in 2020 and the subsequent rise in the prices of energy resources in the world markets in 2021. Taking into account the large share of these services in the basket of goods and services, the rise in natural gas prices increased inflation by 0.4 percentage points, and the increase in heat energy prices – by 0.8 percentage points. Prices also increased for waste management services – by 5.3%, while for water supply services the increase was 1.6% and for sewerage services – 0.7%. Only the prices of the fixed telephone and postal services remained unchanged.

MARKET CONCENTRATION LEVEL (HHI INDICES)

The market concentration level characterises both the options of users to choose a service provider and the mutual competition among service providers or market power. If the Herfindahl–Hirschman Index (HHI) value is smaller than 0.18, but larger than 0.1, such a market may be regarded as moderately concentrated. The HHI value above 0.18 indicates that the market is concentrated.

In recent years, market concentration has been falling in all sectors regulated by the PUC, except the electronic communications sector, where it has been assessed as moderately concentrated for several years. The level of the postal services market has also fallen to a moderately concentrated one. Despite the significant decrease in concentration, the electricity and natural gas trade market is still considered concentrated. This means that the specific market has a small number of participants.

Sector	2016	2017	2018	2019	2020
Electronic communications	0.160	0.164	0.168	0.168	0.173
Postal services	0.268	0.257	0.232	0.183	0.163
Electricity trade	0.609	0.532	0.406*	0.375	0.275
Natural gas trade	–	0.874	0.767	0.594	0.424

*The 2018 and 2019 HHI calculation has been updated by making a correction for the electricity wholesale revenue share of JSC Latvenergo

SUMMARY

Although the year 2021 in Latvia began with epidemiological restrictions in the first quarter resulting in a slight economic recession, after the lifting of restrictions, economic growth was observed in all regulated sectors in the second and third quarter. However, at the end of the year, in October and November, the country's Covid-19 restrictions slowed down the growth of the national economy again. In addition, the expected forecasts about the growth of the national economy at the end of the year did not materialise, because the financial savings accrued by households during Covid-19 partially went to foreign economies (as citizens actively resumed travelling and looked for areas with less restrictions), as well as part of the household savings lost their nominal value due to the increase in prices of energy resources.

Therefore, the significance of the regulated sectors in the context of the national economy was relatively smaller at the beginning of the year and continued to increase in the second half of the year, resulting in the increase of several indicators, including inflation.

OVERVIEW OF THE ENERGY SECTOR



Līga Kurevska,
Director of the Energy
Department

Last year in the energy resources market, both in Latvia and in Europe, will go down in history with the rapid increase in the prices of energy resources, which was especially felt immediately after the year of the historically lowest prices of energy resources.

The highest energy resource prices of the year were reached last December, when the monthly wholesale market price of natural gas was 112.99 EUR/MWh, and the monthly average price of electricity was 207.40 EUR/MWh. At the same time, the historically highest electricity wholesale market hourly price (1000.07 EUR/MWh) was also reached in December. The rapid price changes in the wholesale markets naturally had an impact on the Latvian retail market as well, namely, the prices for the final consumers, which have increased twice for electricity on an annual basis, and even two or three times for natural gas.

Taking into account the significant impact of the price increase of energy resources on the Latvian retail market, some energy traders looked for an opportunity to review the

terms of the contract, which in some cases resulted in disagreements. Accordingly, last year the PUC received 13% more complaints from users than in 2020. It should be noted the largest number of justified complaints so far – eight – was also among them. In seven cases, the service provider's disagreements with users were resolved and the non-compliances were eliminated, while in one case the service provider did not agree with the PUC's opinion and legal proceedings were initiated.

It should be noted that due to the high prices of natural gas, fossil fuels were gradually abandoned in the energy sector, with the development of distributed electricity generation (solar, wind) and the expansion of the use of biomass (wood chips, pellets) as fuel for heat supply instead.

As a result of the rising fuel prices, the increase in costs also affected the users of the district heating system. In the heat supply sector, the PUC approved a record number of tariffs of regulated thermal energy merchants during the year – 54, including the evaluation of both self-determined tariffs and full tariff proposals. Comparing the final tariffs of the previous (2020/2021) and this (2021/2022) heating season, it can be concluded that the tariff has not changed for slightly more than half of the thermal energy merchants. On the other hand, of those merchants whose tariff has changed, for about a third the tariff increase has not exceeded 30%, while for a tenth the tariff has more than doubled.

Last year, tariff changes also came into effect for natural gas distribution services and natural gas storage services in the first half of the year. In both cases, the tariff structure was also revised compared to the previous tariff period.

Every year, operational compliance control is also carried out in the facilities of electricity supply and heat supply merchants. In the electricity sector, inspections were carried out in 80 facilities, and in a little more than half of the cases, non-compliances were found, which were mostly related to the operation of electrical equipment. Meanwhile, in the heat supply

sector, inspections were carried out in 67 facilities, and non-compliances were found in almost half of the cases, while in natural gas supply, where 41 inspections were carried out, no non-compliances were found.

The PUC also ensures that the quality of the service provided by the regulated merchants meets certain quality standards. For example, a lower system service tariff is set for inadequate provision of electricity voltage quality to Latvian electricity users, which was granted to 144 users last year.

It is positive that the indicators of the quality of electricity supply services in Latvia have stabilized. This indicates that the funds invested by the system operator in the reconstruction and maintenance of the infrastructure of distribution networks have made it possible to maintain the achieved reliability and availability of electricity supply.

Despite the tense situation in the market, the PUC continued its work on the preparation and issuance of external legislative acts, also involving market participants in public consultations. Of the amendments developed in 2021, two should be highlighted. One of them is the changes in the regulations on the use of the Inčukalns underground gas storage facility, which clarified the procedure for organizing capacity auctions and introducing the auction calendar. These changes will have a subsequent positive impact on system users' awareness of the process of booking and using the storage capacity to be able to plan operations in advance, as well as improve transparency for natural gas storage in the storage facility. This will prevent storage congestion and promote its sustainable use.

Meanwhile, amendments to the System Connection Regulations to the Electricity Distribution System will contribute to the simplification of the connection installation and renewal process, namely, it will be shorter and more understandable for users. The changes in the regulations also provide for the introduction of a capacity maintenance fee to motivate users to choose the appropriate connection capacity.

Encouraging targeted and reasonable investments in energy infrastructure, intensified work on the development of legislative acts is planned this year as well. The PUC also plans to make changes and clarifications in the methodologies for calculating tariffs for regulated energy services, providing mechanisms to adapt to the dynamic challenges created by the energy resources market as efficiently as possible.

Looking back at the previous year in the energy sector, we see that there were several reasons for the increase in natural gas prices last year. European countries, like Latvia, are mostly importers of natural gas. Reserves in European natural gas storage facilities were much lower after the cold winter of 2020/2021, but worldwide demand increased with the recovery of economic activity after the restrictions of Covid-19 were lifted – especially in China and the Asia region. The reason is also the reduced supply of natural gas in the world market, following the agreement of the OPEC+ group of oil producing countries on the limits of oil production volumes. In addition to these reasons, the record low oil and natural gas prices in 2020 also had an additional negative impact. As a result, no investment was made in developing US shale oil wells. At the end of last year, the increase in natural gas prices was also caused by increasingly tense relations between Russia and the Western world.

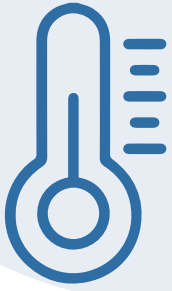
Meanwhile, the rapid rise in electricity prices in the second half of 2021 was determined by several factors – increased demand for electricity due to the cold weather, the already mentioned high prices of natural gas and carbon emissions quotas, repairs in the largest thermal

power plants in the Baltic States, temporarily suspending their operation, as well as a reduced level of hydro resources in the Nordic countries.

In these rapidly changing times, international cooperation is especially important. Together with the regulators and system operators of the Baltic States, active work on the creation of the single natural gas market continued. The most significant achievement regarding the integration of regional energy systems is the proposal of the natural gas transmission system operators developed at the end of 2021 on the inter-operator compensation mechanism for the creation of the single natural gas entry-exit system of four countries. This is a prerequisite for the entry into operation of the single FinBalt natural gas market, which currently operates between the three countries of the Baltic region (Finland, Estonia and Latvia).

Meanwhile, in the electricity sector, in 2021, the transmission system operators of the Baltic States continued the project for the synchronization of the electricity systems of the Baltic States with the electricity systems of continental Europe, implementing the PUC's decision on the distribution of cross-border funding between the participating countries (Poland, Lithuania, Latvia and Estonia). As a result, agreements were signed on the allocation of funding for the first round (in 2020) and the second round (in 2022) of the second stage of the Synchronization Project. Accordingly, in 2021, the PUC, based on safety considerations, provided an assessment of the need for the successful provision of the synchronization process to use batteries that will belong to the Latvian transmission system operator and will be operated to ensure the stability of the electricity frequency in the Latvian electricity system. Until the start of synchronization in 2025, the PUC, as one of the participants in the process, is participating in consultations and approval of various documents related to the provision of transnational market processes, so that appropriate regulatory framework is also ensured along with the fulfilment of technical conditions.

The experience gained last year and the ability to adapt to the changing situation will be useful for both merchants, consumers and the developers of the legal framework in 2022, when even greater upheavals are expected in the energy sector. Meanwhile, the Energy Department of the PUC, as the regulatory body, will continue the enhanced monitoring of fair commercial practices of regulated merchants and economically reasonable pricing, while also informing users about their rights and opportunities to save energy resources.



THERMAL ENERGY 2021



REGISTER OF MERCHANTS

TRADERS

67

Total (31 December 2021)

+ **2** New

- **5** Excluded

PRODUCERS

100

Total (31 December 2021)

+ **2** New

- **28** Excluded

LEGISLATION



1 Issued external legislative act



3 Public consultations

LICENSES

- **3** Cancelled

+ **5** Amended

SOLVING PROBLEM SITUATIONS

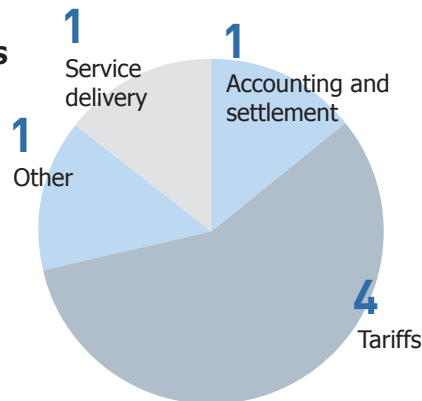


7

Complaints

-36%

TYPES OF COMPLAINTS



2

Cases of administrative violations

OPERATIONAL COMPLIANCE CHECKS



23 Inspected merchants

29 Number of non-compliances found

67 Inspected facilities

7 Number of non-compliances eliminated

TARIFFS (VAT EXCLUDED)



44

Approved tariffs set by merchants themselves

10 Approved merchant tariffs with full cost evaluation

11

Permits granted to merchants to set their own tariffs



HIGHEST IN THE COUNTRY*

101.93 EUR/MWh
Āne village, Ozolnieki municipality

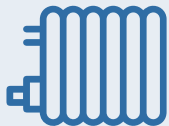
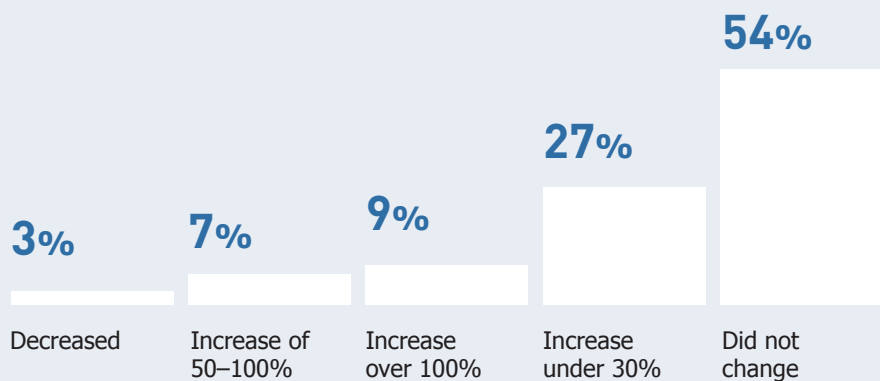
LOWEST IN THE COUNTRY*

30.70 EUR/MWh
Rēzekne city

* As of 31 December 2021

SECTOR INDICATORS

CHANGES IN TARIFFS OF REGULATED MERCHANTS (MAY 2021 VS MAY 2022)



VOLUME OF HEAT ENERGY DELIVERED TO USERS

5 788 922 MWh

+13%



NATURAL GAS WHOLESALE MARKET PRICE IN DECEMBER

56.30 EUR/MWh

+71%



WOOD CHIP PRICE ON THE "BALTPOL" EXCHANGE IN DECEMBER

20-25 EUR/MWh

+10 EUR/MWh



Indications on comparisons against the year 2020



ELECTRICITY 2021

AGGREGATORS

3

Total (31 December 2021)



New

LEGISLATION



5

Issued external legislative acts

LICENSES



New



Amended



7

Public consultations

MEASUREMENTS OF SERVICE QUALITY



40

Voltage and power supply quality measurements

144

Users were granted a reduced distribution tariff for inadequate quality in 2021

598

Users received a reduced distribution tariff for inadequate quality (total number as of 31 December 2021)



REGISTER OF MERCHANTS

TRADERS

44

Total (31 December 2021)



New



Excluded

PRODUCERS

69

Total (31 December 2021)

SOLVING PROBLEM SITUATIONS

TYPES OF COMPLAINTS

12

Other issues

7

Accounting and settlement



51

Complaints

+32%

3

Quality

6

Tariffs

9

Proceedings for non-compliance with requirements

23

Delivery and connection



DISPUTES

1

Heard

1

Initiated

TARIFFS (VAT EXCLUDED)

MANDATORY PURCHASE COMPONENT (MPC)

17.51 EUR/MWh

Average value of MPC

-23%

OPERATIONAL COMPLIANCE CHECKS

24

Inspected merchants

44

Number of non-compliances found

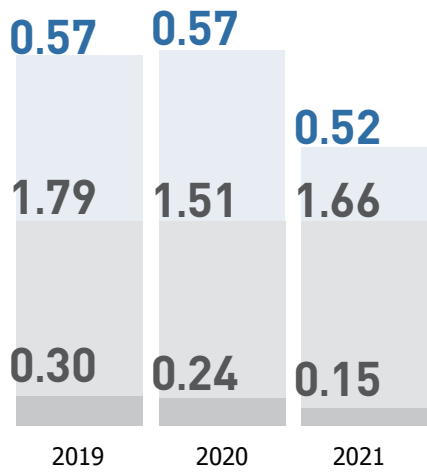
80

Inspected facilities

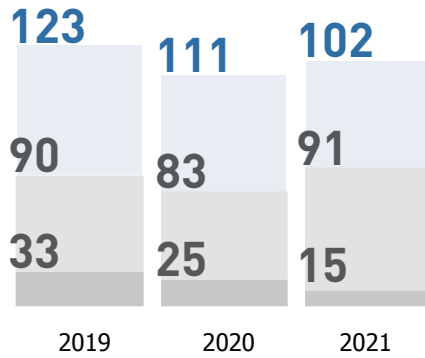
30

Number of non-compliances eliminated

SAIFI: AVERAGE NUMBER OF POWER OUTAGES PER CUSTOMER PER YEAR



SAIDI: AVERAGE DURATION OF POWER OUTAGES (min) PER CUSTOMER PER YEAR

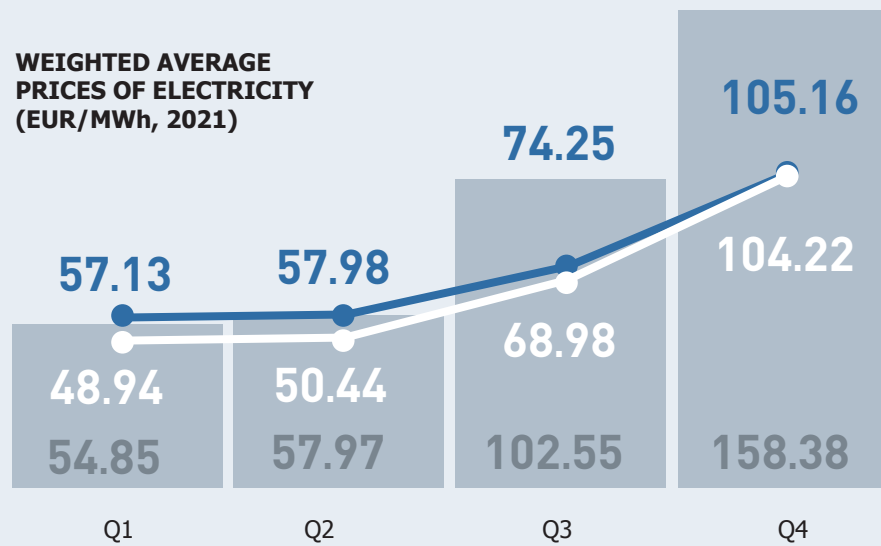


Unplanned Planned In emergency situations

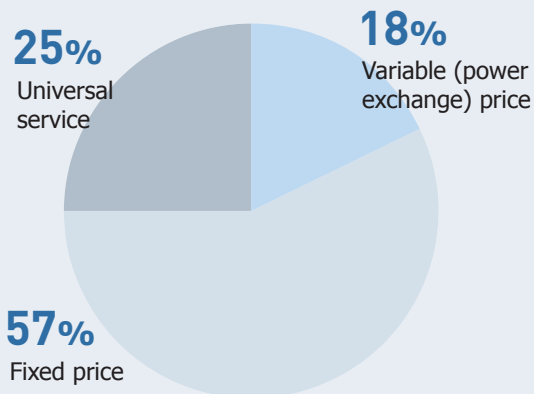
SECTOR INDICATORS*

- CORPORATE USERS
- HOUSEHOLDS
- "NORD POOL" EXCHANGE

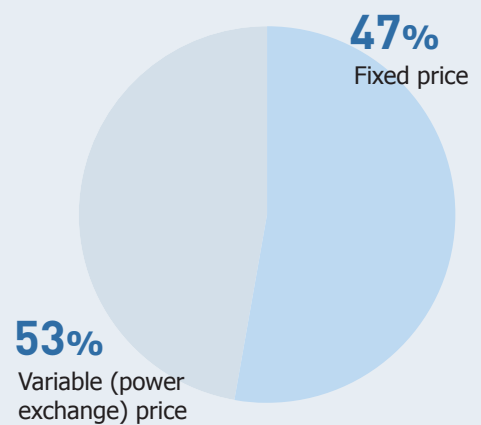
WEIGHTED AVERAGE PRICES OF ELECTRICITY (EUR/MWh, 2021)



HOUSEHOLDS



CORPORATE USERS



PROPORTION OF FIXED/VARIABLE PRICE CONTRACTS



Indications on comparisons against the year 2020

* According to the information provided by electricity merchants



NATURAL GAS 2021



REGISTER OF MERCHANTS

TRADERS

30

Total (31 December 2021)

+ **5** New

- **4** Excluded

LEGISLATION



1 Issued external legislative act

LICENCES

+ **1** New

- **4** Amended



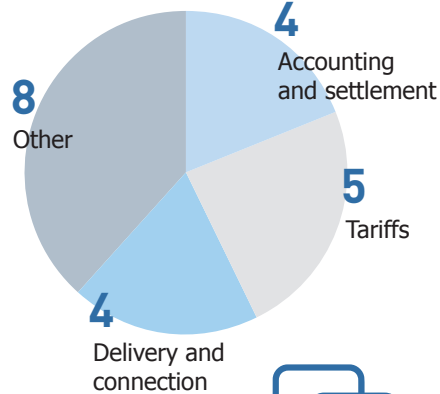
4 Public consultations

SOLVING PROBLEM SITUATIONS



21 Complaints

TYPES OF COMPLAINTS



4 Proceedings for non-compliance with requirements



DISPUTES 1 Initiated

TARIFFS (VAT EXCLUDED)



APPROVED TARIFFS

JSC GASO DISTRIBUTION SERVICE TARIFFS

JSC CONEXUS BALTIC GRID TRANSMISSION SERVICE TARIFFS

REVISION OF TARIFFS *

NATURAL GAS TRADE PRICES AT WHICH THE CAPTIVE USER TARIFF IS DETERMINED

20.63

15.53

12.15

8.78

10.80

20.25

2019 I

2019 II

2020 I

2020 II

2021 I

2021 II

* According to the PUC decision No 247 "On natural gas supply tariffs of the joint-stock company Latvijas Gāze"

NATURAL GAS TRANSMISSION SERVICE TARIFFS FOR THE SUPPLY OF CONSUMERS IN LATVIA**

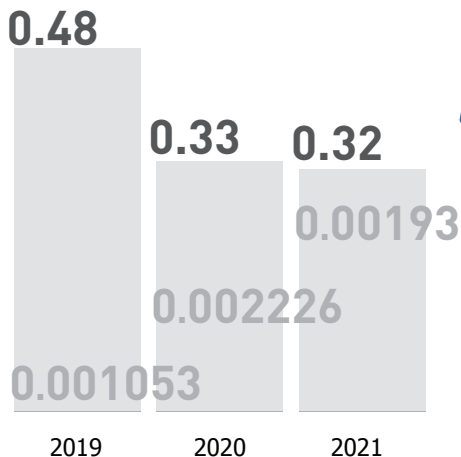
1.93 EUR/MWh

-4%

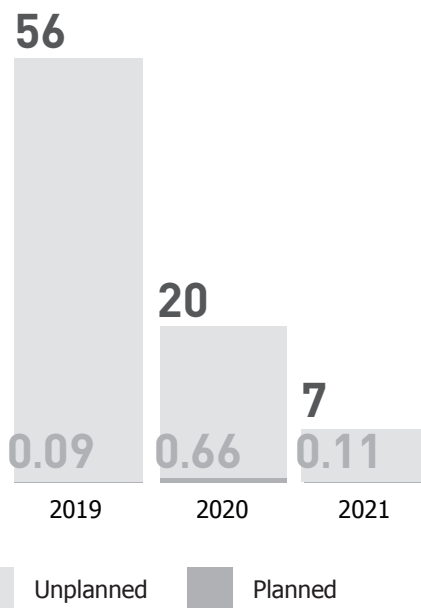
** Tariffs change every year on October 1

MEASUREMENTS OF SERVICE QUALITY

SAIFI: NUMBER OF PLANNED NATURAL GAS SUPPLY INTERRUPTIONS PER USER



SAIDI: DURATION OF NATURAL GAS SUPPLY INTERRUPTIONS (min) PER USER

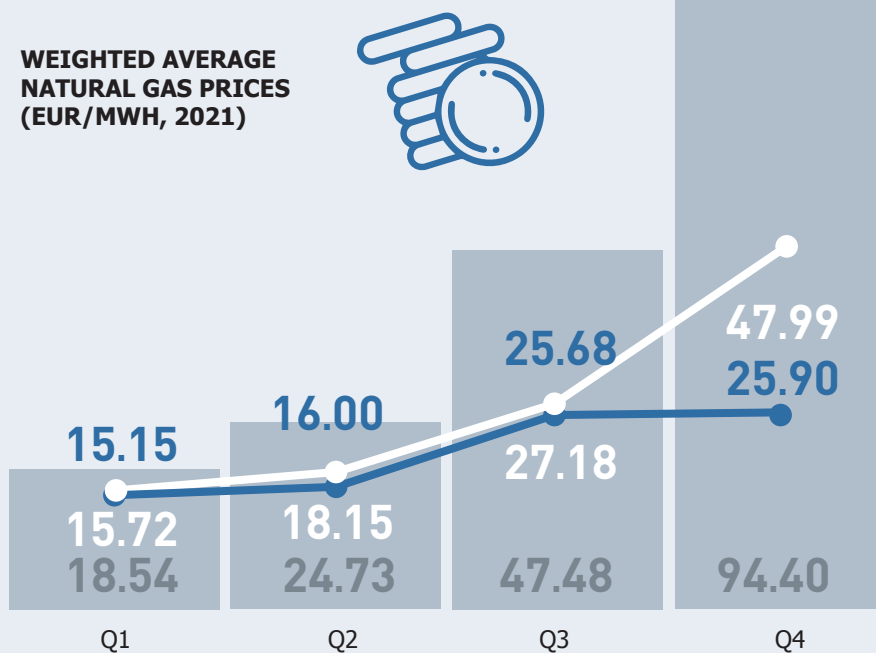


SECTOR INDICATORS***

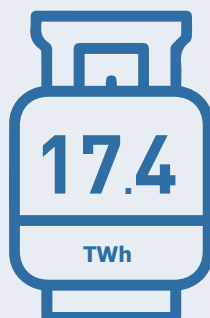
*** According to the information provided by natural gas merchants

WEIGHTED AVERAGE NATURAL GAS PRICES (EUR/MWH, 2021)

- CORPORATE USERS
- HOUSEHOLDS
- TTF EXCHANGE



INČUKALNS



80%
Filling of the Inčukalns storage facility

At the end of the injection season



Indications on comparisons against year 2020

OVERVIEW OF THE ELECTRONIC COMMUNICATIONS AND POSTAL SECTOR



Ivars Tauniņš,
Director of the Electronic
Communications and Post
Department

In 2021, the Covid-19 restrictions significantly changed the habits of electronic communications and postal users. The duration of phone conversations and data consumption among users in both mobile and fixed networks increased, and the number of domestic and cross-border postal items also increased rapidly.

At the beginning of the year, the PUC approved the regulatory framework, according to which electronic communications merchants can obtain the right to use IoT/M2M numbers, which are assigned for mutual communication between devices. Until now, devices used mobile phone numbers with an eight-digit combination, now – specialized numbers are used. As a result, the numbers used for mobile phones will not be exhausted, and the separation of numbers will also help electronic communication merchants to organize the existing system. The most typical example of the use of such numbers is electricity smart meters, where communication takes place between the smart meter and the operator for the purpose of remote data reading. During the year, the PUC issued a total of 60 thousand of such numbers for three

mobile operators – LLC Latvijas Mobilais Telefons, LLC BITE Latvija and LLC Tele2.

One of the most important decisions of the PUC last year was related to the cooperation of LLC Tele2 and LLC BITE Latvija in the use of mobile communications frequencies, before which a comprehensive study of the case was conducted. The PUC evaluated the benefits of joint cooperation by conducting a factual analysis, which is also used by other European countries. The PUC verified that the cooperation of the two operators – LLC BITE Latvija and LLC Tele2 – does not jeopardise competition in the electronic communications market in Latvia. One of the important factors was that all three mobile operators have equal opportunities to conduct commercial activities in the market and equal access to the scarce frequency resources.

As a result of this joint project, it was planned to increase network coverage in Latvia, as well as to ensure higher Internet speed. However, the PUC cancelled the adopted decision in May of last year based on the request of LLC Tele2 and LLC BITE Latvija. In their application, the operators stated that the partial joint use of frequencies does not meet the technical and commercial capabilities and interests of the operators to implement the initial plan for the development of the cooperation project. The operators evaluated other opportunities for cooperation in order to start investing in network development in Latvia in the shortest possible time. Moreover, the existing regulatory framework allows them to share the network without frequency sharing.

Taking into account the significant changes in the postal market, there were also several changes in the regulatory framework of the postal sector. From the very beginning of the year, the PUC worked on defining new requirements for tender applicants in the provision of the universal postal service (UPS). To promote competition and interest in participation in the tender for the UPS provider, the PUC made changes to the regulations, clarifying several requirements for applicants. The task was to determine the new UPS provider for the next five years through a tender process. In July, the tender for the UPS provider organized by

the PUC ended. The state JSC Latvijas Pasts was confirmed as the winner, which will provide the UPS from 1 January 2022 to 31 December 2026.

Accordingly, the PUC continued to evaluate the UPS tariff proposal submitted by the state JSC Latvijas Pasts, also listening to market participants at the public hearing organized by the PUC. The new tariffs were approved in November and entered into force on 1 January 2022. Some of the approved UPS tariffs were increased, while some were decreased. For example, the tariff for domestic letters increased by 0.20 euro. The PUC also approved the tariff for the delivery of subscription press, the application of which has been postponed until 1 January 2023. From now on, the delivery tariff will be uniform throughout the country. The new tariff was determined separately for the delivery of one press unit and for the delivery of one kilogram of press.

At the end of the year, the application for the 20 January 2022 auction of the radio frequency spectrum band in the 1.5 GHz range for increasing the capacity of the mobile communications network was announced. This spectrum band will strengthen the capacity of the mobile communications network, including ensuring high download speeds and data coverage in the country, taking into account the increasing amount of download data to be transmitted.

The PUC ended the year by organizing a frequency auction for the deployment of the 5G network and confirming its results; the auction was organized remotely for the first time in the history of the PUC. The Regulator auctioned the radio frequency band in the 700 MHz range, offering the right to use three basic bands for 20 years (until 31 January 2042), as well as the right to use two additional bands (from 1 February 2025 to 31 January 2042). The starting price for the basic band was set at 2.2 million euro, and for the additional band – 150 thousand euro. As a result of the auction, the rights to use frequencies were obtained by the three mobile operators, with the total auction revenues reaching 13.273 million euro, which was transferred to the state budget. This frequency spectrum band is important for the development of 5G, as well as electronic communications network services and competition in Latvia. Taking into account its coverage characteristics and the conditions of the rights to use the acquired bands, it is expected that users will experience the most significant benefits in less populated areas.

Meanwhile, users contacted the PUC mainly in connection with the quality of electronic communications services, service contracts and invoices, and in the postal sector – for lost and damaged items, as well as for deliveries of postal items. However, in general, the PUC received fewer complaints about electronic communications and postal services last year than in 2020, while at the same time, the PUC provided consultations that exceeded the number of received complaints almost three times.

The PUC observed the impact of the Covid-19 restrictions in the received user complaints. If in 2020 the users were mostly dissatisfied with the quality of the provided electronic communications services, then last year most complaints were about the terms of the contract, which provide for the application of a contractual penalty. The aggravation of the issue was more often associated with changing the service provider due to inadequate service quality, without paying due attention to the terms of the contract of the next operator in case of contract termination.

The PUC continued to monitor the quality of voice services in the country and also worked

on improving the regulatory framework in both sectors. In total, the PUC performed more than 38 thousand measurements of the voice telephony service in the fixed network and more than 75 thousand measurements in mobile networks. In general, it was concluded that the operators maintain high quality of the provided voice telephony services, good audibility and perceptibility of the conversations are ensured. At the same time, competition promotes both the improvement of voice telephony service quality and the availability of high-quality voice telephony service to a wider range of users.

Overall, the year was dynamic and full of changes in the electronic communications and postal sector. This required quite a few challenges, especially in the evaluation of the issue of frequency sharing, which was one of the largest evaluations in the history of the PUC. The decisions on the development of sector regulation were equally important, which the PUC will continue to work on in the future.



ELECTRONIC COMMUNICATIONS 2021



REGISTER OF MERCHANTS

238

Total (31 December 2021)

+ **16** New

- **23** Excluded

LEGISLATION



3 Issued external legislative acts



14 Public consultations

SOLVING PROBLEM SITUATIONS



45 ^{+2%} Complaints



120 ^{-11%} Consultations



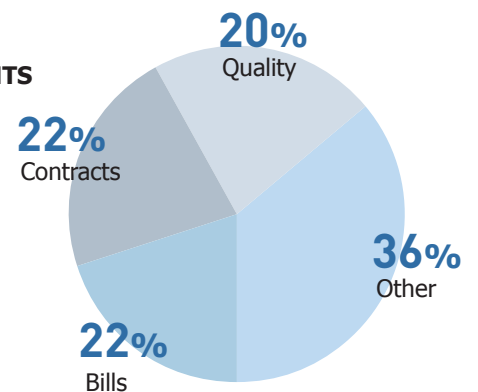
17 Cases of administrative violations

^{+27%}



19 Applications of merchants on numbering fraud

TYPES OF COMPLAINTS



MEASUREMENTS OF SERVICE QUALITY



VOICE SPEECH TRANSMISSION QUALITY (ON A 5-POINT SCALE)



In the fixed network
38,000



In the mobile network
75,000

3.48 BITE Latvija

3.32 LMT

3.32 TELE2

Using the PESQ algorithm.

3.25 BITE Latvija

3.15 LMT

3.20 TELE2

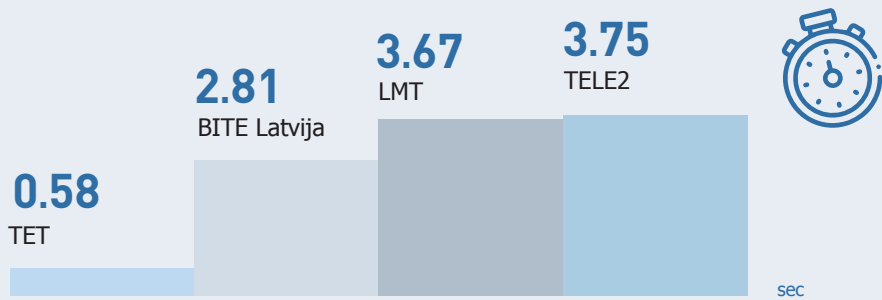
Using the POLQA algorithm.



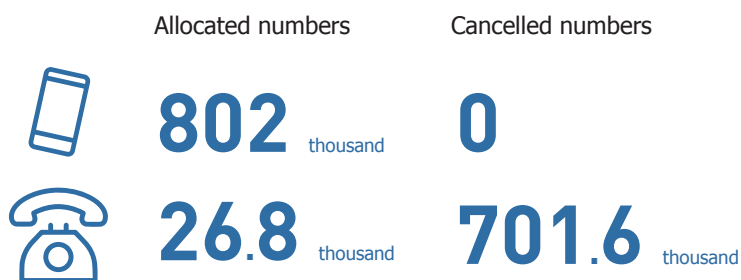
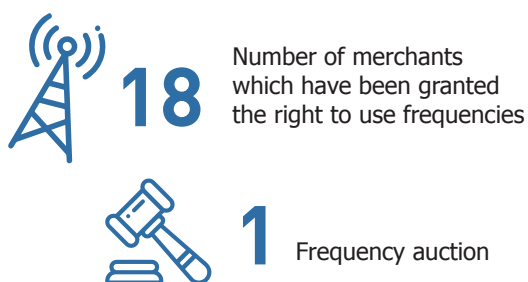
4.00 TET

Using the PESQ algorithm.

AVERAGE CALL CONNECTION TIME IN FIXED AND MOBILE NETWORKS (IN SECONDS)

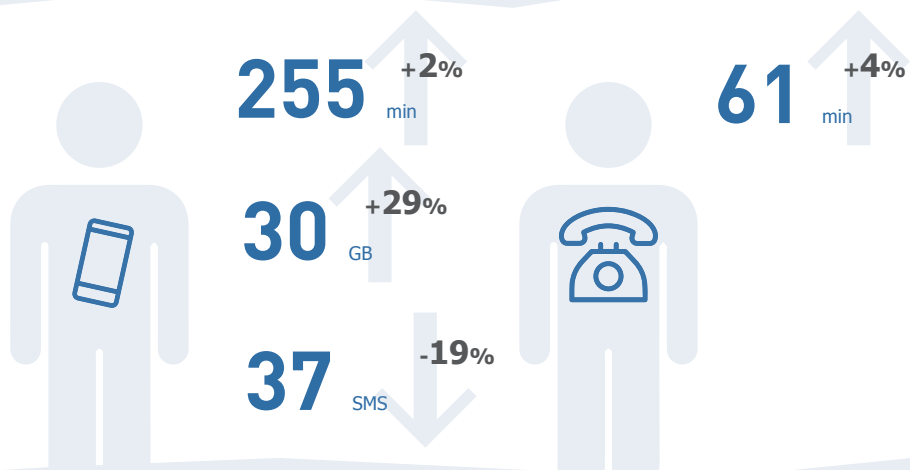


ALLOCATION OF SCARCE RESOURCES



SECTOR INDICATORS*

AVERAGE CONSUMPTION PER USER PER MONTH

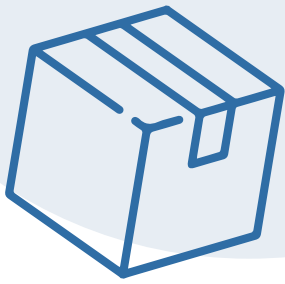


SERVICE REVENUES OF ELECTRONIC COMMUNICATIONS MERCHANTS (EXCLUDING VAT)



Indications on comparisons against the year 2020

* According to information provided by electronic communications merchants



POSTAL SERVICES 2021



REGISTER OF MERCHANTS

71

Total (31 December 2021)

+ 8 New

- 11 Excluded

TIESISKAIS REGULĒJUMS



2 Issued external legislative acts



2 Public consultations

SOLVING PROBLEM SITUATIONS



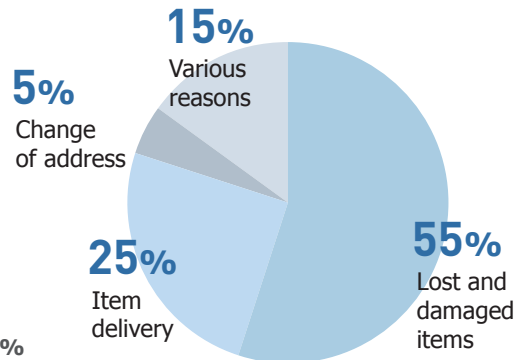
12 Cases of administrative violations



20 Complaints

-40%

TYPES OF COMPLAINTS



220 Consultations

+10%

TARIFFS



New tariffs approved for universal postal services (UPS) provided by the state JSC Latvijas Pasts

As a result of the tender for the UPS provider organized by the PUC in 2021

TRENDS IN THE USE OF POSTAL SERVICES*



NUMBER OF
ITEMS

Cross-border +45%

11 million

Iekšzemē +72%

14 million



NUMBER OF
ITEMS

12.5 million -2%

15 million -17%



Indications on comparisons against the year 2020

* According to information provided by postal operators

OVERVIEW OF THE WATER MANAGEMENT, DEPOSIT SYSTEM AND WASTE SECTOR



Agnese Kozlovskā,
Ūdenssaimniecības, depozīta
sistēmas un atkritumu
departamenta direktore

In the dynamic and challenging year 2021, the PUC's Water, Deposit System and Waste Management Department continued to ensure that users and merchants can receive consultations on both changes in the sector's binding legislative acts and tariffs.

The biggest changes affected the waste management sector, where significant changes are expected in the coming years. The Cabinet of Ministers approved the National Waste Management Plan 2021-2028. The PUC also actively participated in the collection of submitted data and in the plan development process. It determines the policy directions and measures necessary to fulfil the obligations and goals set in the international and national policy planning documents and legislative acts in the waste management sector for the next eight years. According to the national plan, local governments will have to switch from the current ten waste management regions to five. Meanwhile, the changes that will directly affect the merchants regulated by the PUC are related to the task given to local governments – to create regional waste management centres on the basis of the current municipal waste landfills regulated by the PUC, which will be in charge

of the management of waste generated in the relevant region, including the provision of the regulated service.

The PUC will continue to be responsible for determining the costs of circulation of unsorted municipal waste collected in the relevant regions and handed over for further management, including approval of waste disposal tariffs and supervision of regional centres. In turn, local governments will have to develop appropriate regional waste management plans. In accordance with economically and technologically justified decisions of local governments, the plans will determine the functions of regional waste management centres, including ensuring the future operation of waste landfills.

In the coming years in the waste management sector, the PUC will have to make significant changes in the calculation of tariffs for the regulated service and in the related legislative acts, taking into account that the national plan envisages conserving a part of the currently active waste storage facilities. The sectoral ministry has started work on the development of amendments to several legislative acts, in the creation of which the PUC is also contributing significant work.

The most significant changes in waste disposal service tariffs were related to the introduction of environmentally friendly biological waste processing technologies, the purchase of which can be co-financed by the European Cohesion Fund. LLC Getliņi EKO, a merchant of the sector regulated by the PUC, was the first to put into operation the biodegradable waste processing complex, in which biological waste separated from the flow of unsorted municipal waste, as well as separately collected biological waste, is processed, producing technical compost material that can be returned to the national economy and biogas, which is used for the generation of heat and electricity. It is planned to supplement the infrastructure under the control of five more regulated merchants with similar technologies.

By making investments in the upgrading of the infrastructure of waste landfills, as well as in the introduction of new equipment and technologies, without which it is impossible to implement all the requirements set out in the environmental legislative acts, the tariffs of the regulated service are increasing. They are also increasing due to the rise in the prices of electricity, natural gas, fuel and labour costs in the country. The increase in tariffs is also facilitated by the annual increase in natural resources tax rates for waste disposal, which the state applies as an additional tool for waste generators to reduce as much as possible the volume of unsorted municipal waste, which is not fully recyclable and is therefore partially buried in waste landfills.

The decision to create a deposit system was an important step towards the recycling and reuse of used beverage packaging, as well as a cleaner environment. The PUC is also involved in the regulation of this sector. At the beginning of the year, the State Environmental Service concluded a contract with LLC Depozīta Iepakojuma Operators, which was selected as the most suitable for the implementation of the deposit system in Latvia out of two applicants. Accordingly, the PUC registered LLC Depozīta Iepakojuma Operators in the register of deposit system service providers, and the system started operating in February 2022. Taking into account the PUC's new duties – supervision of the deposit system operator and evaluation and approval of the validity of the deposit system participation fee – the scope of the PUC's work will significantly increase.

Meanwhile, the water management sector was significantly affected by the administrative-territorial reform, which entered into force in July. Local governments, together with water management service providers, began to evaluate how to provide water management services in the future – whether to create one service provider in the municipality, or to entrust the provision of services to several service providers. The territory of service provision in the register maintained by the PUC was updated for four merchants of the sector regulated by the PUC. The biggest changes in the areas of service provision are expected in 2022 and 2023. In the opinion of the PUC, transferring the management of water systems to the largest water service providers will promote the efficiency of their management.

To ensure clear conditions, which tariff should be applied after the unification of territories that previously had different water management service providers and tariffs, the PUC, after consultations with the stakeholders, made changes to the regulations, which entered into force in November.

Overall, new tariffs for water management services were approved for nine merchants, of which the amount of tariffs, compared to the previously valid ones, increased for eight merchants, and decreased for one merchant. Tariff changes were basically related to a general increase in prices and costs in the country, as well as financial investments of companies in upgrading infrastructure. The increase in the price of electricity in the country at the end of the year inevitably affected the water management sector as well. The extent to which the tariff increases also depends on the year from which the tariff has been in force and how many significant infrastructure projects have been implemented after its approval.

Despite the changes and challenges in the country, including the regulated sectors, the Water, Deposit System and Waste Management Department continues to work to protect the interests of users and promote the development of public service providers.



WATER MANAGEMENT 2021



REGISTER OF MERCHANTS

63

Total (31 December 2021)

+1 New

-1 Excluded

LEGISLATION



1 Issued external legislative act



2 Public consultations

SOLVING PROBLEM SITUATIONS



11 Complaints



38 Consultations

-31%

TYPES OF COMPLAINTS

55% Bills

27% Quality

18% Contracts

TARIFFS (VAT EXCLUDED)

HIGHEST IN THE COUNTRY*

3.65 EUR/m³
Jelgava municipality

LOWEST IN THE COUNTRY*

1.41 EUR/m³
Olaine

2.34* EUR/m³ +3%
Average tariff for water management (water supply and sewerage)



Approved

9 -1

* As of 31 December 2021

SECTOR INDICATORS**



113,872 +5%

Number of water supply connections

6,199 km +357 km

Length of water supply engineering networks



94,478 +7%

Number of sewer connections

5,973 km +469 km

Length of sewer engineering networks



Indications on comparisons against the year 2020

** According to the information provided by the water management merchants for the year 2020. Information for the year 2021 will be compiled from the reports that merchants must submit to the PUC by the third quarter of 2022



MUNICIPAL WASTE DISPOSAL 2021



REGISTER OF MERCHANTS

10

Total (31 December 2021)

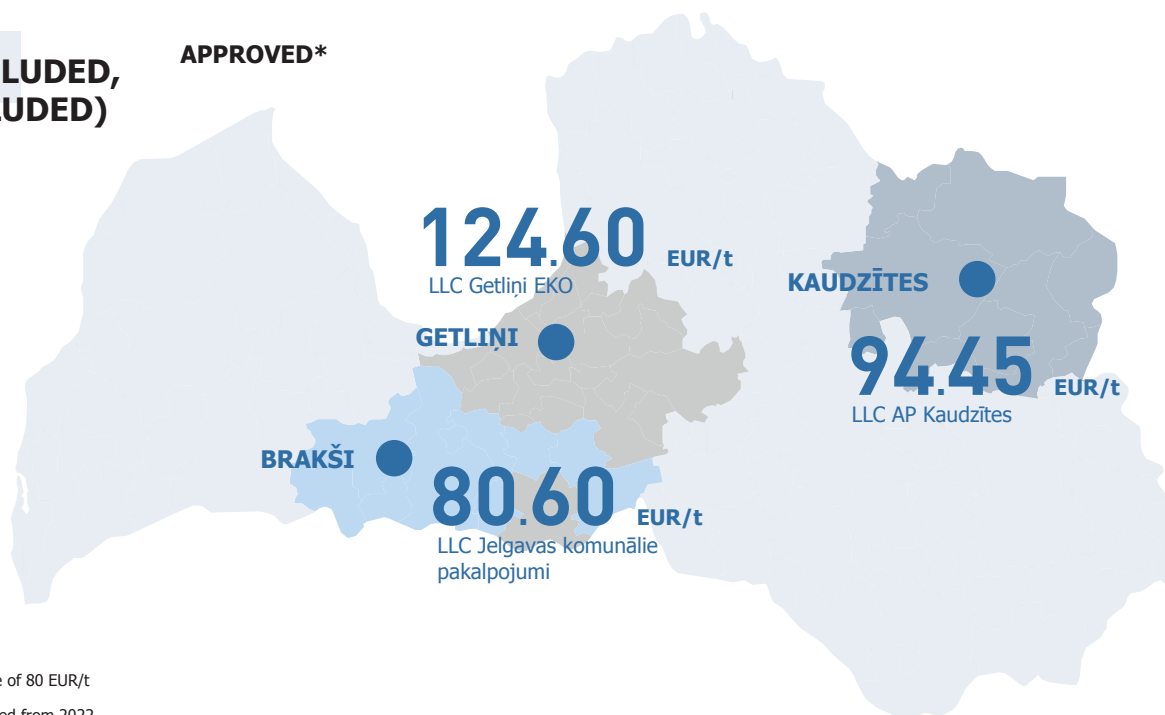
LEGISLATION



1 Public consultation

TARIFFS (NRT INCLUDED, VAT EXCLUDED)

APPROVED*

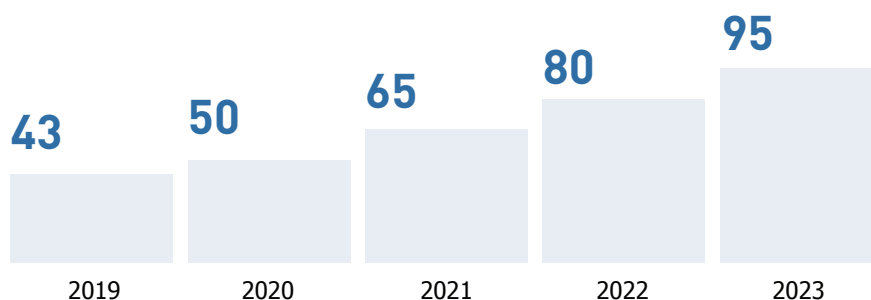


* At the NRT rate of 80 EUR/t

! Tariffs are applied from 2022

NATIONALLY APPLICABLE NRT RATES FOR 2019-2023 (EUR/t)

Municipal waste disposal tariffs are approved at different NRT (natural resources tax) rates for waste disposal



SECTOR INDICATORS**

517 thousand tonnes
Amount of municipal waste accepted at landfills

152 thousand tonnes
Amount of municipal waste disposed of at landfills



Indications on comparisons against the year 2020

** According to information provided by merchants for year 2020. Information for the year 2021 will be compiled from the reports that merchants must submit to the PUC by the third quarter of 2022

INTERNATIONAL COOPERATION



Lija Makare,
Head of International Relations

International cooperation in 2021 took place remotely, but no less intensively. The PUC was actively involved in 110 different working groups, sub-groups, plenary sessions, forums and high-level meetings in strengthening the sectors regulated by the PUC, gaining and sharing knowledge internationally. Several important projects in the electronic communications and energy sectors also ended last year. Meanwhile, the activities and development progress of the PUC were commended by the Organization for Economic Cooperation and Development (OECD), which published the second report on the PUC's activities.

ELECTRONIC COMMUNICATIONS

The PUC was actively involved in the implementation of the strategy objectives of the Body of European Regulators for Electronic Communications (BEREC). According to the European Electronic Communications Code, BEREC completed the development of 12 guidelines last year.

Regulators also expressed their opinion that after the revision of the code the regulations on access to high-speed electronic communications networks and the security of information systems in the European Union (EU) should also be revised, as well as the term of the Roaming Regulation should be extended for ten years. Other important areas of activity were related to the impact of 5G technologies on regulation, access to high-speed networks and frequency issues, where the PUC shared its experience of conducting frequency auctions.

Last year, in cooperation with BEREC, the PUC organized a contact network meeting of the European Independent Regulators Group (IRG) and BEREC. The Regulator also participated in the most important regional meeting BaltReg of Estonian, Latvian and Lithuanian regulators' electronic communications and postal experts and as an expert in the EU4Digital project.

POSTAL SECTOR

In the European Regulators Group for Postal Services (ERGP), a discussion unfolded that the current postal directive, which was last amended in 2008, should be revised. The PUC fully supported this ERGP position, regarding which the ERGP also informed the European Commission (EC). The revised directive would be a step towards digitizing the sector and would help preserve the universal postal service (UPS), possibly reducing the UPS basket as well. Evaluating the results of the regulation on cross-border parcel delivery services after its two-year period of operation, the regulators concluded that no tariff increase was observed due to competition. Meanwhile, the EC highly appreciated the work of the regulators in collecting sectoral data, in which the PUC also participates effectively.

ENERGY

Last year the PUC participated in 22 working groups of the Agency for the Cooperation of Energy Regulators (ACER) and 19 working groups of the Council of European Energy

Regulators (CEER), also chairing the CEER work program development committee. Active involvement also took place in the groups established by the EC and in the work of the Energy Regulators Regional Association (ERRA), including the role of the representative of PUC as the deputy head of the ERRA's Natural Gas Markets and Economic Regulation Committee and as a member of the Finance Committee.

Regulators approved a new CEER operational strategy for 2022-2025, agreed on a joint position of ACER and CEER in response to EC legislative proposals, including the hydrogen and decarbonized gas package, discussed energy system integration and other issues.

To discuss the further development of the Finnish and Baltic single natural gas market, the PUC organized the second high-level working meeting of the regulators of the three Baltic States, and also participated in the annual Baltic Electricity and Gas Market Forums.

WATER MANAGEMENT AND WASTE MANAGEMENT

The PUC also actively participated in the Association of European Water Regulators (WAREG). In the working group of European municipal waste regulators established under the auspices of this organization, the PUC was involved in the exchange of experience on specific aspects of regulatory practice. To deepen the development of both sectors in the future, WAREG has started cooperation with the Florence School of Regulation and the EC.

THE MOST IMPORTANT COOPERATION PROJECTS IN THE ELECTRONIC COMMUNICATIONS AND ENERGY SECTORS

In the electronic communications sector, two "Twinning" projects in Israel and Ukraine ended in 2021, where the PUC experts shared their knowledge. In the above-mentioned projects, the PUC was in charge of tasks related to the harmonization of legal norms of both countries with EU norms. For Israel, the PUC prepared proposals for the introduction of the regulatory framework of the electronic communications sector, while in Ukraine it was responsible for the development of legislative proposals for strengthening the capacity of the regulator in the field of market access and monitoring the quality of services. In Ukraine, there was also interest in the PUC's experience in registering merchants.

Meanwhile, in the energy sector last year, the PUC completed the project "Development of an effective regulatory framework in setting tariffs for energy merchants", which was implemented with the help of the EC Structural Reform Support Program. It was an opportunity to analyse in more detail the progress from the principle of reasonable costs and mark-up (profit) to the application of incentive regulation mechanisms in several sectors – electricity and gas distribution (where separate elements of incentive regulation have already been incorporated in the tariff structure), as well as heat supply – using international experience and the advantages of the multi-sector regulator. The project was one of the steps for the PUC to ensure the use of more up-to-date regulatory tools in a dynamic and changing regulatory environment.

THE IMPACT OF THE OECD ASSESSMENT ON THE FUTURE DEVELOPMENT PLANS OF THE PUC

In 2021, the OECD published its second report, this time analysing how the PUC managed the implementation of the recommendations of the 2016 report, and recommending new directions for development. The OECD commended the Regulator's performance and development progress. It was also found that the PUC had made significant progress in implementing recommendations where legislative support was needed, such as a more robust fee-setting process and the creation of an advisory board.

The OECD will include Latvia's example of the accumulation of the Regulator's fee, which allows overcoming an unplanned decrease in financial revenues, at least in the short term, in its study on the adequacy of regulators' resources.¹

The PUC is currently the only one of the regulators represented in the OECD Economic Regulators Contact Network, which has repeatedly received the OECD assessment. From the point of view of the OECD, repeated analysis of the activity and development of regulators is also a new and valuable experience for it as an organization.

¹Survey on the Resourcing Arrangements of Economic Regulators, OECD (not published yet).

**COMMUNICATION
TO THE PUBLIC**



Baiba Jakobsons,
Public Relations
Project Manager

The PUC's task is not only to supervise the activities of regulated merchants, but also to ensure clear and understandable communication with users and the public. At a time when regulated sectors are undergoing dynamic changes and upheavals, it is especially important to explain complex processes to the public in an easy-to-understand way.

In addition to the usual daily work in communication, in 2021, much more explanatory materials were designed. For example, the rapid changes in the prices of energy resources in the market significantly affected the payments of almost every consumer for electricity, natural gas and heat energy. Therefore, the PUC's task, addressing users and sharing informative materials, including advice, was to explain to users their rights in the electricity market. For example, if a trader unilaterally terminates a contract or revises the price of electricity during the concluded contract.

An innovation was introduced in the interactive reviews of the electricity and natural gas markets, which are regularly published by the PUC – they were supplemented by detailed articles, as well as comments in the media, explaining the current market developments, the world prices, the reasons for the changes and the impact on users. Usual market reviews in the electricity and natural gas sector are published on a regular basis – every quarter in the "Sector Indicators" section of the PUC website.

Meanwhile, with the increase in heat energy tariffs, the PUC provided an information guide on the possibilities of saving energy resources – what the users can do by themselves without the involvement of others, and what – by contacting the building manager. Monthly summaries of heat energy tariffs for the 2021/2022 heating season were also created in comparison to the previous season, indicating in which residential areas the tariffs of regulated merchants have increased, where they have decreased, and where they have not changed. During the heating season, the PUC continued to inform users by developing a recommendation guide for evaluating the price of natural gas if a new natural gas contract is concluded. The material was essential both for thermal energy merchants and users with a large consumption of natural gas.

Various advisory messages were also published in the telecommunications sector, for example, warning users about the increased activities of fraudulent callers and informing about the quality of calls in Latvia and user habits – monthly Internet consumption, the duration of conversation minutes in both mobile and fixed networks, and other indicators.

In addition to educating various target groups, the PUC's experts participated in several public activities. For example, in the Riga Technical University's Career Day, this time accepting the invitation of JSC Augstsprieguma tīkls to participate in the Virtual Career Day to discuss future skills in the labour market in the era of energy and technology development. Meanwhile, at the energy supply innovation forum AC/DC Tech 2021 organized by JSC Sadales tīkls, the PUC shared insights on the development of demand response in Latvia.

In June, an ambitious PUC anniversary conference was held, celebrating 20th anniversary of

the PUC's establishment. It looked back on what has been done in the regulated sectors in the last 20 years since the establishment of the PUC, also talking about the role of the consumer and its transformation. The State President Egils Levits, Speaker of the Saeima Ināra Mūrniece, OECD Deputy Secretary General Jeffrey Schlagenhauf, Auditor General Rolands Irklis and other sector representatives, including foreign regulators, also spoke at the conference.

At the end of the summer, the PUC organized Region Days 2021, meeting remotely with heat energy and water management service providers, as well as representatives of local governments. The experts informed about the current regulatory changes, tips for concluding contracts for the purchase of energy resources, opportunities for state aid, interactive tools that are useful in everyday life and are available on the PUC website, as well as the procedure for applying tariffs if a merchant's operational territory is expanded.

Continuing the usual practice, two meetings were held with the Advisory Board, which consists of 12 representatives from various organizations, ministries and sector associations. Its task is to provide recommendations on the priorities and strategic directions of the PUC's activities, as well as examine the progress of the PUC's strategy implementation and make proposals for improving the work. During the meetings, the PUC informed both about the work it has done within the framework of the 2018-2021 strategy and about upcoming plans.

Meanwhile, to ensure even more comprehensible, simpler and easy-to-understand written communication with users, guidelines for writing the PUC's official letters were developed and put into practice to improve communication.

In total, about 200 informative announcements were prepared for the media during the reporting period, including on issues important to the public decided at the Board meetings, and more than 80 comments, interviews and answers to media questions were provided. Of the prepared announcements, more than half were news from the energy sector, news from the water management sector made up 17% of the total volume, news from the electronic communications sector – 15%, and news from the waste disposal sector – 7%. Meanwhile, journalists mostly addressed the PUC with questions about the energy sector – 85% and about the electronic communications sector – 10%.

On a daily basis, experts from the PUC's departments regularly create various interactive and explanatory visual materials and reports, including several interactive maps that are maintained and regularly updated. For example, heat energy tariff map, submitted water management service tariff map and water management service tariff map. Anyone interested also has the opportunity to contact the PUC's experts through the call center. Active communication with users also takes place in the social networks - "Facebook", "Twitter" and "LinkedIn".

For the convenience of service users and regulated merchants, functional and content improvements are regularly made to the PUC website. It is also possible to receive a summary of the news published in the news section of the website once a week in your e-mail.

At the end of last year, work began on the development of the communication strategy for 2022-2026, in the creation of which the organization's employees and management were also involved.

In communication, the PUC aims to make the public more knowledgeable about the PUC's activities and how the PUC can be useful to users. The more extensive the users' knowledge of regulated services and the usefulness of the PUC, the more thoughtful and appropriate choices will be made for themselves as households. The goal of the communication strategy is to continue to improve the image and credibility of the PUC, to strengthen the position of an objective expert and opinion leader for the public in Latvia.

FINANCING AND SPENDING

In 2021, the PUC carried out its activities in a separate budget programme approved by the law "On State Budget for the Year 2021". The PUC's operations are financed by the fees for public utilities regulation; the fees are paid by regulated merchants. In the reporting year, the state fee in the regulated sectors was 0.2% of the net turnover of the relevant public service provided by the regulated merchant in 2019. Merchants which started providing public services in 2021 calculated the state fee from the merchant's planned net turnover of the relevant type of public service in the first year of operation.

The PUC's planned expenditures in 2021 were 5,599,814 EUR. Actual spending amounted to 5,284,987 EUR, which was 94.38% of the planned spending in the reporting year.

In accordance with Article 31(7) of the law "On Regulators of Public Utilities", the actual balance of financing means, which in a given calendar year exceeds the costs necessary for the operation of the PUC, is credited to the PUC's account in the Treasury in the state fee accruals to be used for ensuring the PUC's activities in future periods according to the budget of the PUC approved by the law on state budget. The balance of financial resources as of 31 December 2021 in the basic budget was 291,266 EUR, which has been transferred to the account of the deposited funds of the PUC and used to accrue the state fee.

Revenue and expenditure within the framework of the EU-funded institution strengthening program twinning project No IL 13 ENPI-TE 01 16 (IL/13) "Strengthening Israel's regulatory capacity in the telecommunications sector with a focus on service delivery through networks of other operators" were planned in the amount of 3,877 EUR in the reporting period. In fact, 768 EUR or 19.8% of the planned financial resources for the reporting period were spent. The balance of financial resources on 31 December 2021 was 3,109 EUR.

Revenue and expenditure for the EU-funded institution strengthening program twinning project No UA 18 ENI TE 01 19 "Strengthening the regulatory capacity of the Ukrainian national regulatory authority in the telecommunications sector with a focus on market access and service quality monitoring system" are planned in the amount of 163,257 EUR in 2021. 98,367 or 60.3% of financial resources received in 2021 were actually spent in the reporting period. The balance of financial resources on 31 December 2021 was 64,890 EUR.

The PUC's financial statement 2021 was prepared in accordance with the Cabinet of Ministers Regulations No 344 "Procedure for preparing an annual report" of 19 June 2018. The financial statement 2021 was submitted to the Treasury on 4 April 2021. The PUC's financial statement 2021 was audited without objections by LLC D.Danēvičas revidentu birojs (licence No 33 of the sworn auditor's commercial entity).

In 2021, the PUC concluded 63 economic cooperation agreements including six public procurements in accordance with the Public Procurement Law.

Financial resources	Previous year (actual numbers)*	In the reporting year (EUR)	
		Approved by law	Actual numbers*
Revenues	5 545 265	5 715 289	5 760 057
Fee based services and other income	5 471 861	5 548 155	5 592 923
Other previously unclassified revenue earmarked for special purposes (EU project No IL 13 ENPI-TE 01 16 (IL/13) Israel)	14 816	3 877	3 877
Other previously unclassified revenue earmarked for special purposes (EU project No UA 18 ENI TE 01 19 Ukraine)	58 588	163 257	163 257
Expenditure	5 226 389	5 766 948	5 284 987
Administrative costs	4 912 328	5 383 484	5 041 759
International cooperation	96 080	96 080	35 202
Other previously unclassified revenue earmarked for special purposes (EU project No IL 13 ENPI-TE 01 16 (IL/13) Israel)	14 816	3 877	767
Other previously unclassified revenue earmarked for special purposes (EU project No UA 18 ENI TE 01 19 Ukraine)	14 816	3 877	98 367
Capital investments	144 577	120 250	108 892

* In accordance with the cash flow principle

AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT ON THE CONDENSED FINANCIAL STATEMENT

to the Saeima of the Republic of Latvia

We have audited the 2021 financial statement of the Public Utilities Commission, on the basis of which the condensed 2021 financial statement of the Public Utilities Commission has been prepared, in accordance with International Standards on Auditing. In our auditors' report dated April 28, 2022, we provided an unqualified opinion on the 2021 financial statement of the Public Utilities Commission, on the basis of which the condensed 2021 financial statement of the Public Utilities Commission has been prepared.

The attached condensed financial statement does not include all the information to be disclosed in accordance with the Cabinet of Ministers regulations No 344 "Procedure for preparing an annual report" of June 19, 2018. Therefore, the condensed financial statement does not replace the full financial statement of the Public Utilities Commission, prepared in accordance with the Cabinet of Ministers regulations No 344 "Procedure for preparing an annual report" of June 19, 2018 for the year ending on December 31, 2021.

Responsibility of the management

The management is responsible for preparing the condensed financial statement in accordance with the audited statement prepared in accordance with the Cabinet of Ministers regulations No 344 "Procedure for preparing an annual report" of June 19, 2018.

Responsibility of auditors

We are responsible for issuing an auditors' opinion on this condensed financial statement based on procedures performed in accordance with International Standard on Auditing 810 "Engagements to Report on Summary Financial Statements".

Opinion

In our opinion, the attached financial statement, prepared on the basis of the audited statement of the Public Utilities Commission for the year ending on December 31, 2021, is in all material respects consistent with the audited financial statement prepared in accordance with the Cabinet of Ministers regulations No 344 "Procedure for preparing an annual report" of June 19, 2018.

On behalf of LLC D. Daņevičas revidentu birojs (license No. 33):


Dagnija Daņeviča, board member, sworn auditor, certificate No. 72

April 28, 2022, Riga, 8B-75 Tērbatas Street



PUBLIC
UTILITIES
COMMISSION
OF LATVIA

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