SABIEDRISKO PAKALPOJUMU REGULĒŠANAS KOMISIJA

Public Utilities Commission Strategy

2022–2026

27 January 2022
Riga

CONTENTS

Mission

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

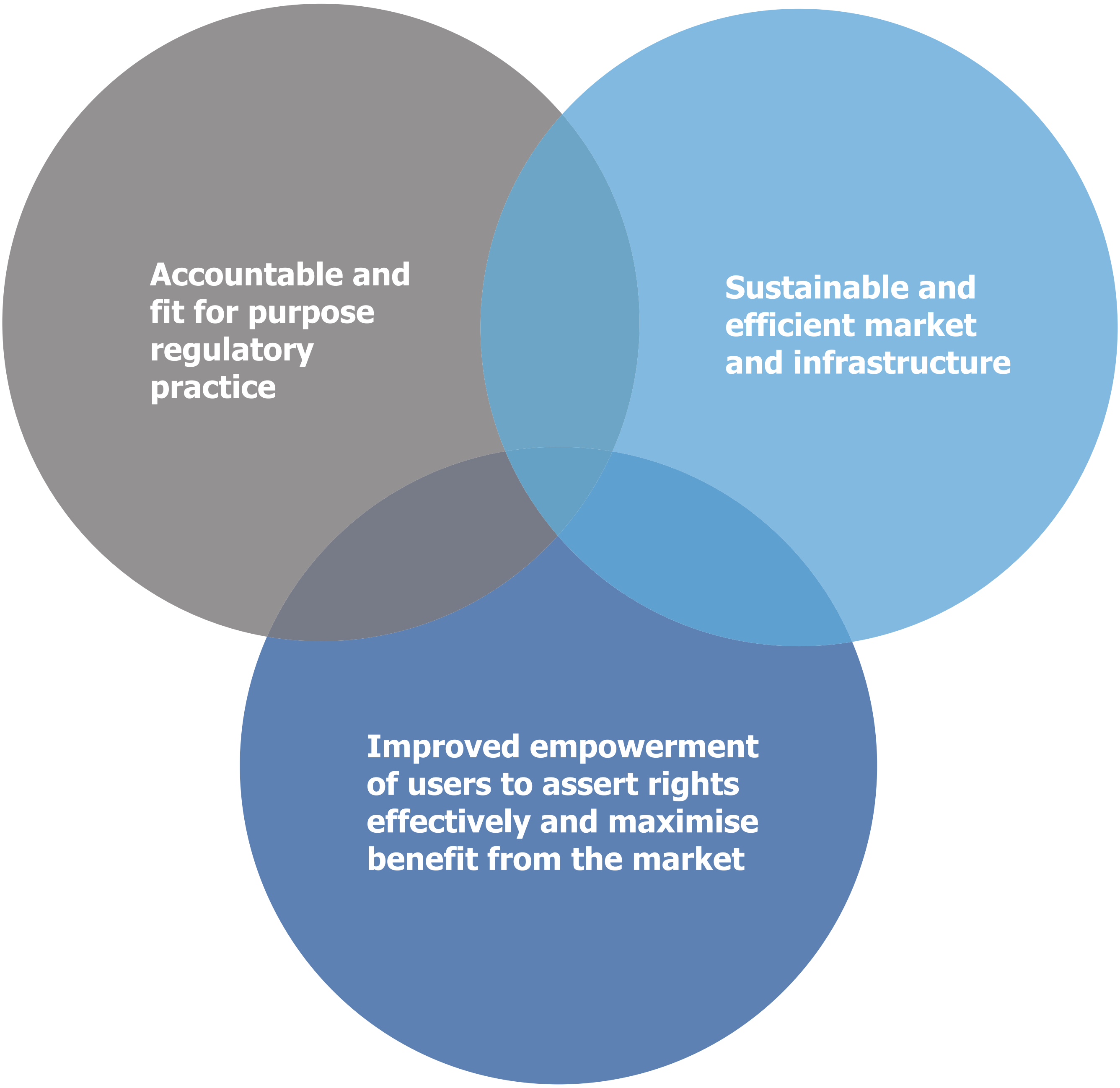
Vision

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.

Values

Professionalism, cooperation, accountability and development.

STRATEGIC GOALS 2022–2026



STRATEGIC TASKS CONSISTENT WITH GOALS

Advanced user skills to exercise rights effectively and derive maximum benefit from the market

- Educate citizens and merchants about the principles of market operation and regulated services.
- Provide timely, easily accessible, easy-to-understand market information to residents and merchants, and facilitate informed service choices.
- Ensure an effective approach to problem solving.

Sustainable and efficient market and infrastructure

- Promote competition in markets by removing regulatory barriers, creating geographically larger markets, and ensuring equal access to networks.
- Support sustainable investment in network infrastructure, ensuring optimal network use and efficient network management.
- Promote digitalisation and the introduction of low-emission technologies at economically reasonable costs.

Responsible and targeted regulatory practice

- Ensure an innovation-friendly and incentive-based regulatory environment.
- Ensure efficient market surveillance and enforcement of the regulatory framework.
- Evidence-based decision making.

KEY PERFORMANCE INDICATORS (KPIs) OF STRATEGIC TASKS

	Indicator's name	Indicator's purpose
1.	**Market concentration (HHI)**	Assess sectoral development trends (including impact of the regulatory environment on market concentration)
2.	**Trends for service quality indicators**	Evaluate trends of service quality characteristics
3.	**Improving the tariff structure**	Ensure a more accurate alignment of tariff structure with cost structure
4.	**Intensity of digitalisation of commercial services**	Evaluate intensity of digitalisation in commercial services provided by regulated merchants
5.	**Efficiency of tools prepared by the Regulator**	Evaluate the trend of tool usability, allowing for optimized communication channels and tool functionality
6.	**Visibility of the Regulator's functions and communication efficiency**	Evaluate residents' understanding of the types of regulated services and the overall tendency of the Regulator's communication efficiency, allowing for identified directions for development.

REGULATORY ENVIRONMENT

The establishment and operation of the Regulator is stipulated by the Law "On Regulators of Public Utilities" (hereinafter – the Law). According to the given delegation, the Regulator is obliged to regulate the provision of public services in six different sectors – electronic communications and postal services, energy, water management, municipal waste management and deposit system management.

The Law stipulates that the Regulator must ensure the possibility to receive continuous, safe and high-quality public services whose tariffs (prices) conform to economically substantiated costs, and also to promote development and economically substantiated competition in regulated sectors, determining procedures for the regulation of public utilities and legal relations in the provision of public utilities.

In the course of its activities, the Regulator applies European-level regulatory enactments and recommendations. At the same time, many factors are taken into account, including: binding documents and guidelines of the associations of regulators of the EU Member States, normative acts at the national level, Cabinet of Ministers regulations, and relevant legal precedent.

The Regulator also takes into account the recommendations of the Organization for Economic Co-operation and Development (OECD), as well as the recommendations of the Institute for Corporate Sustainability and Responsibility, as it seeks to improve regulatory operations. The Advisory Council, which is composed of representatives of sector ministries, sector associations and others, plays a key role in the development and implementation of the Regulator's strategy.

The need to meet the goals of the Green Deal and climate neutrality affects the processes taking place both at the Regulator and in all regulated sectors. Europe's green deal will transform the EU into a modern, resource-efficient and competitive economy, reaching net zero greenhouse gas emissions by 2050, and decoupling economic growth from resource use. The Regulator will promote an effective dialogue with all stakeholders, including policy makers, to achieve the goals of climate neutrality, and will ensure a more active involvement of the Regulator in sector development issues.

A predictable regulatory environment is a prerequisite for promoting economic, financial, and administrative stability, with a view to ensuring lower investment risks. In increasingly volatile market conditions, the Regulator will ensure a dynamic regulatory framework, as well as the application of appropriate tariff regulation methods and tools. This dynamic regulatory framework includes regulatory tools such as the regulatory sandbox – the possibility for existing or potential participants in the regulated market, with the prior agreement of the Regulator, to implement pilot projects with innovative solutions or operational models.

To ensure an efficient decision-making process, including various impact assessments, and a risk-based approach to market surveillance, the Regulator will conduct more extensive data analysis, including: data collection, availability of analytics, and information for merchants and users. In regulatory practice, economic rationale is based on comparisons and market research. As a result, higher data quality – as well as more efficient data management, storage, and processing – will allow for better comparison of various data at both national and regional levels, and the setting of different benchmarks.

In the digital age, the Regulator is aware of the importance of the principle of zero bureaucracy; for example, the number of reports to be submitted to the Regulator has been optimized, and the Information Entry and Processing System has been technically and substantively improved.

Effective involvement of service providers, users, and other stakeholders in the development of the Regulator's decisions, is indispensable in the decision-making process. The Regulator will strengthen the role and skills of consumers in the market, thus promoting competition in the regulated sectors. The more educated users are, the more effectively they can exercise their rights and derive the maximum benefit from the market; for example, by obtaining and monitoring contract terms that correspond to their habits.

To support the achievement of strategy goals, the Regulator participates in international organizations, especially in the institutions of the European Union. The objectives and tasks of the Regulator, including those stemming from the Green Deal, the Electronic Communications Code, and the support for digitalisation and innovation, can only be achieved through international cooperation between regulatory bodies. It is important to further develop the regional dimension in regulated sectors in order to create a common vision and adopt joint decisions. To this end, the Regulator participates in the preparation and adoption of regional decisions on a regular basis within these international organizations, as well as in regional events initiated by regulators or in other formats.

Achieving the common goals of the Regulator requires the development of employees' competencies and skills, which is a prerequisite for managing innovative ideas and successful change. The image of an attractive employer ensures the motivation and loyalty of existing employees, while also attracting new and talented professionals.

SECTOR DEVELOPMENTS

ENERGY

Changes in the energy sector are happening due to three main drivers: technological and information flow development, as well as a determined move towards a climate-neutral economy. The impact of these global processes is also felt in Latvia – the availability of energy-related technologies promotes a partial decentralization of energy systems, such as productive consumers and energy communities. Digitalisation generates the potential for new types of services, and allows users to better compare available services. Meanwhile, a targeted move towards a climate-neutral economy creates an incentive for active technology change and more dynamic energy markets.

In accordance with the changes in the modus operandi of the sector, significant changes in the regulated environment of the sector are also expected in the coming years. In connection with sectoral policy, the most significant changes are directly related to the transposition of the European regulatory framework (Clean Energy Package, European Green Deal, planned changes for natural gas regulation) into the national regulatory framework. The Latvian Energy and Climate Plan include the following targets to be reached by 2030 – ensure at least a 50% share of renewable energy in final energy consumption; ensure 0.372 TWh of new energy savings annually; connect electricity infrastructure to the European continental grid, and reduce energy poverty, amongst other targets.

ELECTRICITY

In practice, implementing the requirements of the Latvian Energy and Climate Plan means changes to the provision of regulated electricity supply services – both new and established (for example, demand elasticity services, electromobility services, electricity storage, various electricity sharing solutions). In parallel to the sector's move towards climate neutrality, the transmission systems of the Baltic States are on course to the final stage of synchronization with continental Europe. The strengthening of energy system networks and the development of new principles for the operation of reserve markets are underway.

In addition to creating a regulatory framework that promotes sector development, these changes also require the adaptation of tariff setting processes to a more dynamic sector. Renewable energy sources (especially solar and wind energy) and active consumers will play a greater role therein, as will the development of a regulatory framework for the quality of services and the availability of information to promote user proficiency and efficiency of service delivery.

NATURAL GAS

At the end of 2021, the European Commission published a proposal for a natural gas regulatory framework aimed at promoting the decarbonisation of the sector — promoting the use of hydrogen gas while reducing methane emissions. At the same time, considering the significant price volatility in the wholesale natural gas market— especially at the end of 2021— driven by unbalanced global demand and supply dynamics, declining European natural gas production, and the difficult geopolitical situation, opportunities are being sought to promote European energy independence and strengthen the security of supply.

In Latvia, the development of The FinBalt (Finland, Estonia, Lithuania and Latvia) single natural gas market, the streamlining of the existing infrastructure, and the adoption of a common European regulatory framework aimed at climate neutrality in terms of costs and benefits, will also play an important role in Latvia in the next planning period.

HEAT SUPPLY

District heating faces three major challenges: fluctuations of resource costs, reduced consumption as a result of energy efficiency measures, and sectoral changes due to the availability of individual heating solutions. In addition, the sector is facing climate and technological change, and reduced funding opportunities for investment projects envisaging the use of fossil fuel.

In the next planning period, one of the key tasks is to develop a regulatory framework of the sector in order to facilitate the transition of the sector to environmentally friendly technological solutions in a way that promotes the competitiveness of district heating , while also offering alternative individual heating solutions when and where possible.

ELECTRONIC COMMUNICATIONS

The development of high-speed electronic communications networks was established as an important task in the Body of European Regulators for Electronic Communications' (BEREC) Strategy 2021-2025 and in the Latvian Electronic Communications Sector Development Plan 2021–2027. This network category includes both fixed fiber optic networks and the latest generation 5G mobile electronic communications networks.

To achieve these goals, the Regulator will promote the development of a geographic information system for services which will enable both individual users and entrepreneurs to choose the most efficient service provider based on: the available technology, the relevant service provider and, in particular, the quality of the electronic communications services at the specific address.

To ensure the quality of services, the Regulator will develop the latest generation measurement and control tools, which will enable the regulator to conveniently evaluate the main quality indicators of Internet connections (data download, upload speeds, data latency, etc.) using various end-user terminal equipment.

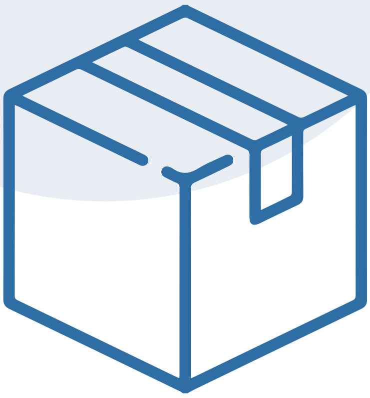
For easily comparable information on tariffs for electronic communications services, the Regulator will develop an online tariff comparison tool that will enable it to choose the most advantageous service offers according to consumer habits. The Regulator will continue to ensure equal opportunities for competition for electronic communications market participants by allocating the rights to use numbering and frequency resources to merchants.

The Regulator will promote the development of mobile networks, both by auctioning the rights to use radio frequencies for the deployment of 5G technology, and by setting specific requirements for the deployment of networks when allocating usage rights, for example: for mobile network coverage.

By performing analysis of the electronic communications market and using the asymmetric regulatory approach on a regular basis, the Regulator will respond to changes in service markets to ensure the regulation of technology-neutral markets. Using the information obtained from market participants, the Regulator will prepare regular reports on the main indicators of the electronic communications sector.

The Regulator will continue measures to promote infrastructure competition and support efforts of the representatives of the sector to reduce bureaucratic procedures for the installation and construction of electronic communications networks.

Following the adoption of the new Electronic Communications Law, in consultation with the representatives of the sector, a high-quality package of secondary legislation will be prepared for the next decade to achieve the regulatory objectives set out in the Electronic Communications Code.



POSTAL SERVICES

Taking into account the impact of digitalisation in the postal sector, with the volume of traditional postal items (letters, postal matter) decreasing, and the number of delivered postal parcels rapidly increasing as a result of e-commerce, the Regulator's main task will be ensuring universal postal service quality and economically reasonable prices.

At the same time, the Regulator will promote the development of competition in the postal sector and will continue monitoring the quality of cross-border and national consignments, while also providing the information required for the comparison tool of EU international parcel tariffs.

As the universal postal service basket also includes subscribed press delivery services, the Regulator in cooperation with the representatives of press publishers will also facilitate the supervision of the quality requirements and tariffs for the subscribed press deliveries, as well as the review of the services in the universal service basket if needed.

To promote development and competition in the postal sector, the Regulator will facilitate the regular preparation of reports on the markets and other performance indicators of the postal sector.

WATER MANAGEMENT

Municipalities and water service providers are evaluating how to provide water management services after administrative-territorial reform. One of the current issues is whether to create one service provider in a particular municipality for the provision of water management services, or whether several service providers can continue the provision of services. In the opinion of the Regulator, the consolidation of water system management service providers could contribute to increasing the efficiency of water system management.

The issue of sludge management in the wastewater treatment process is relevant and has not been addressed at the national level for a long time. Under the supervision of the ministry of the sector, the Sewage Sludge Management Strategy in Latvia has been prepared, and will be integrated into policy planning and investment planning documents for the medium term. The next issue will be to attract funding for the adjustment of sludge management – whether public investment support will be available to co-finance the costs or all costs will have to be covered through sewerage service tariffs.

The Regulator will continue to improve the tariff calculation methodology by introducing tariff regulation methods and tools appropriate for the market situation, such as the revenue ceiling method, tariff review periodicity, regulatory account, as well as methodological principles for provisioning for future investments to restore water infrastructure established with the financial support of the European Union and the depreciation of which was not included in the tariff calculation so far.

MUNICIPAL WASTE MANAGEMENT

In the waste management sector, the policy directions and measures necessary to achieve the obligations and goals specified in the international and national policy planning documents and regulatory enactments are determined by the National Waste Management Plan (NWMP). The NWMP 2021–2028 includes the targets set in EU directives, which stipulate that 65% of generated municipal waste must be recycled by 2035, and that 10% of generated municipal waste may be disposed of in municipal landfills.

Given the significant differences in the amount of waste generated within existing waste management regions (WMRs), it has been assessed that optimizing the structure of the regions can better achieve these objectives. The NWMP therefore envisages a reform of the WMRs, moving from 10 WMRs to 5 WMRs to ensure economically justified waste management that strikes a reasonable balance between the waste management infrastructure required for the WMRs and the waste generated in the region, as well as taking into account reasonable waste transportation distances.

Landfills are expected to be reorganized into regional waste management centers. By 31 December 2022, municipalities in the relevant regions will have to draw up regional waste management plans determining which waste management centers will continue waste disposal, if it is economically and technologically justified, and in which centers other waste management and treatment services will be provided. To implement the new NWMP, amendments to several regulatory enactments are expected, which may also expand the scope of the Regulator's activities.

The Regulator will actively participate not only in the arrangement of the regulatory framework, but also in the development issues of the sector, sharing its experience and information to solve issues that fall within its competence.

DEPOSIT PACKAGING MANAGEMENT

To ensure the recycling and reuse of used beverage packaging, thus reducing its release into the environment, a deposit system for the collection of used beverage packaging has been operational in Latvia since 1 February 2022.

Several institutions are involved in the implementation of the deposit packaging system and its supervision and regulation, and each of them have their own responsibilities. The Regulator will be in charge of assessing and approving the justification of the deposit system membership fee so that it is economically reasonable and covers the costs of the operator, balancing the interests of traders and the deposit operator.

The Regulator is also entrusted with the examination of any disputes that may arise between the deposit system operator and traders or manufacturers regarding the management fee for the deposit packaging, which will form a significant part of the costs of the deposit system membership fee.