Annual Report of the Public Utilities Commission of Republic of Latvia to the European Commission

1 Foreword

The third year of the operation of the Public Utilities Commission has passed. I am glad that we have gained noticeable respect from regulated companies and international recognition of our work as a multi-sector regulator. We have joined all European regulatory associations as a full-fledged member and the professionalism of our experts has been highly appreciated.

The previous year passed in the light of possible “gas threat”. Oil prices in world markets reached unexpectedly high levels. Gas supply contracts between JSC “Latvijas Gaze” and “Gazprom” were renegotiated, however new tariff proposals were not received in 2004. The “threats” which emerged in 2004 are turning into reality and in the year 2005 new tariff proposals were analyzed and the new tariffs set by the decision of the Commission. These tariffs should come into effect from the August 1, 2005.

An important function of the Commission is promotion of competition. To activate competition and promote the entry of alternative suppliers in the electricity supply market, an independent transmission system operator is established. The requirements of European Union directives are transposed into Latvia’s legal acts. In the previous year the Commission’s experts participated in the preparation of amendments to the Energy Law and elaboration of Electricity Market Law. It is important to evaluate the essence of norms which are introduced in this process so that the actions taken would correspond to the situation in Latvia and serve the interests of the entire society.

Despite the increase of electricity prices from January 1, 2004, according to Eurostat data both households and commercial users in Latvia enjoyed the lowest electricity tariffs in the European Union in 2004. It was determined by both the comparatively low purchasing power of consumers and the significant share of large-scale hydropower plants in energy generation.

Latvia experienced unusually high inflation in 2004. Several experts, analyzing causes of inflation, stressed only the visible tip of the iceberg – regulated prices. In fact causes of inflation are much wider and deeper – they affect all sectors of the national economy and are also reflected in regulated services. Regulated prices constituted only 0.87 percentage points of the total annual inflation which reached 7.3% in December. Moreover, a small but real tariff decrease was observed in the telecommunications sector and this trend is expected to continue in future.

Since the operation of the Commission is financed from the duty paid by regulated companies it is important to ensure rational utilisation of these resources. To clearly organize and control the work of the Commission, the regulatory processes are managed in accordance with the quality management system, and the Commission received ISO 9001:2000 certificate in 2004. The survey results of the regulated companies are also encouraging, as most companies value Commission’s work higher than the performance of other state and municipal institutions.

In conclusion I would like to thank all Commission’s employees for their contribution to the results of our common work.

Chair of the
Public Utilities Commission — Professor Inna Steinbuka

2 Summary

Regulatory system in Latvia

After the law On Regulators of Public Services was passed on October 19, 2000, a two-tier system of public service regulation was established. The first tier regulator – the Public Utilities Commission – regulates public services on the state level, while the second tier regulators – local government regulators – regulate local service providers in the territories of the respective local governments. Before the reform regulatory functions were performed by several institutions: the Ministry of Transport, Energy Regulation Council, Telecommunication Tariff Council and Railway Administration, as well as local governments. By taking over the functions of these regulatory institutions (except the functions of local government regulators), the unified multi-sector regulator started its operations in 2001. It regulates energy (electricity, gas and heat, if heat is produced in a combined heat and power plant), electronic communications, post, and railway sectors on the state level. Local government regulators supervise waste management (except waste recycling), water supply, sewerage, and heat supply.

The Commission and local government regulators according to the law are independent in their decision making and are not subject to the decisions of the government, local governments or other state institutions. Regulators' decisions may be declared illegal and repealed only by court. The Commission does not supervise local government regulators and has no right to influence their work.

Advantages of unified regulation

More than three years have passed since the Commission started its operations, and the advantages of unified multi-sector regulator have clearly demonstrated themselves. The first advantage is the use of unified approach – unified regulatory strategy, unified requirements for information provision by service providers, unified procedure for organizing public hearings and finding out public opinion, uniform approach to issuance of licenses, tariff setting and dispute settlement. The use of unified approach improves predictability of regulation, clarifies the investment environment for the existing service providers and new entrants in the market, as well as enables more efficient use of regulator's funds and expertise. The unified approach is especially significant for companies which simultaneously operate in several regulated sectors. An advantage of multi-sector regulation is also the opportunity to apply the experience accumulated in one sector to other sectors, taking into account the specifics of each sector.

The position of unified regulator provides an insight of the considered issues in a wider context; evaluate the existing situation in each sector and the relative development prospects against other sectors. Mutually complementing information about processes in several sectors ensures more accurate analysis about the mutual impact of energy sub-sectors, the impact of possible changes on the overall price level, competitiveness of the national economy and other macroeconomic indicators. To make certain that regulated services are provided in sufficient quality and their price is justified, the Commission has the right to request all the necessary information from service providers.

One of the main tasks of the Commission is to find balance between the interests of involved parties, protecting consumers and promoting the development of service providers, ensuring safe and continuous availability of services at present, in the medium and long term. Economic regulation of several important sectors for society in one institution provides better opportunities to balance the interests, eliminating the possibility of capture by the interests of a separate sector,

creating a better idea about consumer opportunities and needs, as well as the overall situation of the national economy.

The existence of unified independent multi-sector regulator means that the Commission is sufficiently strong to fulfil the delegated functions – service providers have to respect the Commission's opinion. After the Commission started operations, a certain time period passed before service providers were convinced about the Commission's independence and impartiality, and currently cooperation is constructive in most cases, the Commission is an equal discussion partner for the largest Latvian enterprises, several of which are incorporated in world scale corporate groups.

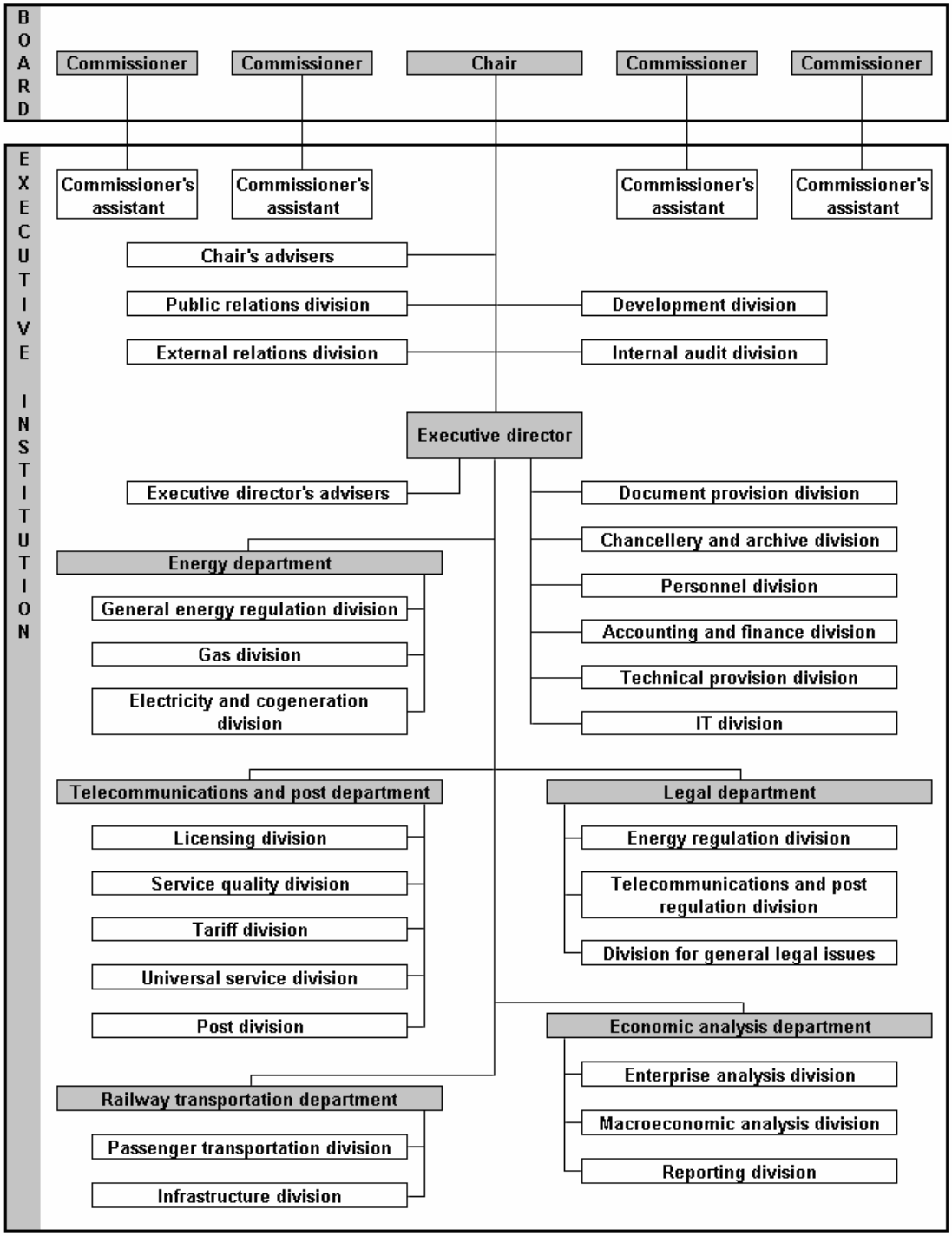
Multi-sector regulatory model, especially in case of Latvia as a small country, creates advantages by concentrating human resources and expertise. Existence of separate regulators would mean that regulatory experts and specialists would be divided among several institutions. A small regulatory institution would also be weaker financially, not being able to attract and retain good specialists. The Commission also uses advantages of unified regulation in its structure because sector departments are complemented by Legal and Economic Analysis Departments which participate in the consideration of issues in all sectors. The high professionalism of the Commission's employees is witnessed by the fact that Commission's experts regularly participate in the working groups of ministries developing sector policy documents and drafting legal acts.

Structure of Public Utilities Commission

The decision-making institution of the Commission is the board consisting of five commissioners. In June 2001 the Saeima following a recommendation of the Cabinet of Ministers appointed the chair of the Commission who is also a commissioner and four other commissioners. In 2004 the commissioners were Inna Steinbuka (Chair), Aigars Jirgens, Raimonds Jonitis, Edvins Karnitis and Ivars Zarins.

The board makes decisions on behalf of the Commission and issues administrative acts which are binding to specific public service providers and users.

The executive institution is subordinated to the board and performs the functions of its secretariat and experts. The executive institution prepares issues and documents for consideration in board meetings and implements the adopted decisions and the administrative acts issued by the board. The executive institution has a respective structural unit for each state regulated sector and other departments performing support functions.



Goals of the Commission

In accordance with the law “On Regulators of Public Services” the goal of regulation is to provide an opportunity to receive continuous, safe and high quality public services whose tariffs (prices) correspond to economically reasonable costs, as well as promote development and economically justified competition in regulated sectors.

Functions of the Commission

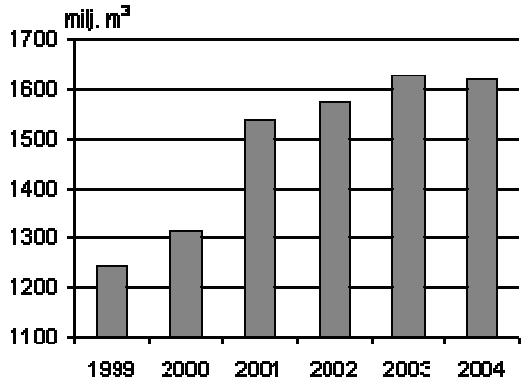
The Commission performs the following functions:

- protects consumer interests and promotes the development of public service providers;
- promotes competition;
- issues licenses, registers authorisations and supervises the adherence to their conditions;
- supervises the compliance of services with requirements for quality, environmental protection, technical regulations, and standards;
- sets tariff calculation methodologies;
- approves service tariffs;
- informs the public about its activities and the operation of public service providers;
- performs extra-judicial dispute settlement.

General overview of the gas and electricity sectors

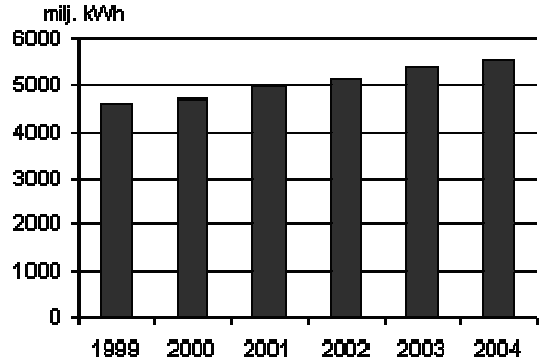
In energy sector the state regulated activities are electricity supply and gas supply. In electricity supply the dominant role is played by state JSC "Latvenergo" producing more than 90% of the electricity generated in Latvia, providing electricity import, transmission, distribution and supply to consumers. Besides state JSC "Latvenergo" there are more than a hundred small generators and 10 licensed companies operate in electricity distribution/sales. Natural gas supply in Latvia is provided by vertically integrated JSC "Latvijas Gaze", but in supply of liquefied gas (propane) more than 70 companies competes in the market.

According to primary data of JSC "Latvijas Gaze", natural gas consumption in Latvia in 2004 was 1621 million cubic meters which is 0.5% less than in the previous year.

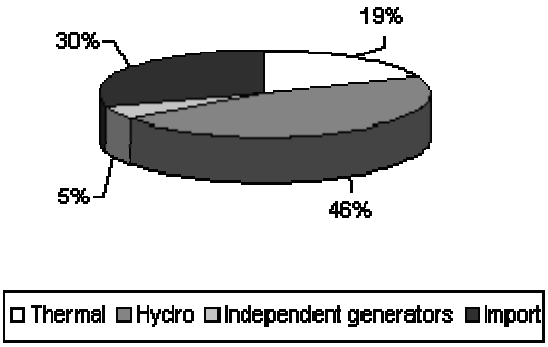


Natural gas consumption (data of JSC "Latvijas Gaze")

According to primary data electricity consumption in Latvia in 2004 compared to the previous year increased by 3.1% and was 5586 million kWh. Total volume of electricity market in 2004 was 6545 million kWh, of which 30% was imported electricity.



Electricity consumption



Electricity supply structure in 2004

Major issues dealt with by the regulator.

Basic documents of the operation of the Commission

The basis of operation of the Commission is set by the law "On Regulators of Public Services". Amendments to the law "On Regulators of Public Services" were prepared during 2004 and approved by Saeima (Parliament) on December 2. These amendments envisage:

- to strengthen the Commission's status as a derived public person;
- to change the existing responsibility regulation of public service regulators;
- to delegate rights to the Cabinet of Ministers to set a stable rate of state duty for public service regulation and the payment procedure of state duty for public service regulation;
- to introduce new efficient regulatory instruments, especially in cases when the public service provider does not abide by or violates the license conditions;
- to delegate rights to the Commission to specify quality requirements for public service provision;
- to harmonize the law with the Administrative Procedure Law, State Administration Structure Law and the Commercial Law, as well as perform editorial revisions.

After amendments to the law the new Commission's statutes were prepared and approved on December 15.

The Commission continued to follow the "Strategy and Basic Principles of Operation of the Public Utilities Commission" approved in 2002, as well as the "Code of Ethics of the Public Utilities Commission" approved in 2003.

Specific Commission's functions, tasks and rights in each regulated sector are specified by the respective sector laws – Energy Law, Postal Law, Electronic Communications Law and Railway Law. In 2004 amendments were made to the existing sector laws, as well as new laws were passed.

In 2004 work was done on the amendments to the Energy Law which was adopted in 2005, and Electricity Market Law was adopted in year 2005 as well.

Licensing and license supervision

According to the Cabinet of Ministers regulations No.297 On the types of regulated public services, in the energy sector the Commission regulates the following types of energy supply:
1. Generation of electricity and heat in combined heat and power plants with maximal electric capacity above one megawatt;
2. Generation of electricity in power plants with capacity above one megawatt, including hydropower plants, wind power stations, combustion power stations;
3. Transmission of electricity if the voltage is 110 kV and above, distribution of electricity, if the voltage is above one kV and does not exceed 110 kV, and sales of electricity to any consumer if the volume of annually sold electricity exceeds 4000 MWh;
4. Natural gas storage, transmission, distribution and sales for any energy user;
5. Liquefied gas storage and filling into containers, cisterns or cylinders, distribution, sales in any type of container (except oil gas and other gaseous hydrocarbons used as fuel).
By December 31, 2004 79 licenses had been issued in the electricity supply sector including 35 licenses for electricity and heat energy generation in CHP plants, 14 licenses for wind power generators, two licenses for hydropower plants, one license for electricity transmission, 15 licenses for electricity distribution and 12 licenses for electricity sales of which four licenses were issued for CHP plants, one license for distribution and five licenses for sales. Renewed licenses were issued for 22 companies.

In the natural gas supply sector JSC “Latvijas gaze” has one license for each sector of natural gas storage, transmission, distribution and sales.
By December 31, 2004 in the liquefied gas supply sector 25 licenses were issued and are in force for storage and filling, 35 licenses for distribution and 58 licenses for sales of which seven licenses were cancelled in 2004. Three new licenses were issued in 2004 and seven renewed licenses for liquefied gas sales and one license for distribution were issued.
In 2004 it was planned to inspect 34 objects of energy supply companies to check the actual operations of companies and fulfilment of license requirements. All planned companies were inspected according to the schedule. Companies which had submitted documents for alteration of license conditions, license reception or tariff approval or about which complaints were received were also inspected. Additionally, nine more objects were inspected.

Tariff calculation methodologies and tariff setting

Electricity

Electricity supply tariff calculation methodologies were elaborated in 2002 and early 2003 and approved in early 2003. These methodologies include:
- Tariff calculation methodology for heat energy generated in combined heat and power plants (CHPs) and for electricity generated by CHPs with capacity above 4 megawatts
- Tariff calculation methodology for electricity generated by hydropower plants
- Electricity transmission network service tariff calculation methodology
- Electricity distribution network service tariff calculation methodology
- Electricity sales end tariff calculation methodology

In October 2003 the electricity supply tariffs of state JSC Latvenergo were approved, taking effect on January 1, 2004. Simultaneously with these tariffs a special tariff was approved for purchase of electricity from independent local generators. This tariff for independent local generators was challenged in court, and court established that the necessary procedures were not strictly observed during decision making. To avoid further litigation on electricity tariffs, in August 2004 the Commission amended the methodology for calculation of final tariffs for electricity and approved new tariffs for purchase of electricity from independent local generators.
Due to changes in Latvenergo tariffs, tariff proposals were submitted also by other electricity distribution and sales companies which purchase their electricity from Latvenergo. After analysis of these proposals, in March 2004 new electricity distribution and sales tariffs were approved for some local distribution companies

Natural gas

Natural gas supply tariff calculation methodologies were elaborated in 2002 and early 2003 and approved in early 2003. These methodologies include:
- Natural gas transmission service tariff calculation methodology
- Natural gas storage service tariff calculation methodology
- Natural gas distribution service tariff calculation methodology
- Natural gas sales tariff calculation methodology

No new decisions were made regarding natural gas tariffs in 2004. From July 1, 2004 the second step of tariff increase took place according to the decision from April 9, 2003.

Liquefied gas

Until 2004 the sector of liquefied gas (propane) supply operated according to the tariff methodology adopted by the Energy regulation council in 1998. The methodology envisaged setting of maximum tariffs enabling suppliers to compete, staying below the maximum tariff. The developing competition and the maximum tariffs approved in 2000 constituted a stable regulatory

environment for several years. Market participants did not express any suggestion concerning changes to the methodology or the maximum tariffs.
In the second half of 2004 due to rapid changes in import prices of liquefied gas, the issue of setting new maximum tariffs emerged. Evaluation of the liquefied gas market situation showed, that the existing methodology does not correspond to the market structure, specialisation of service providers and the necessary flexibility in price setting. Therefore a new Liquefied gas tariff calculation methodology was elaborated and approved on November 11, 2004.
The methodology envisages continuation of strict regulation in the distribution of liquefied gas, where distribution networks are used for supply of customers from underground or surface group reservoirs. Customers connected to such networks cannot choose alternative suppliers, therefore the existing suppliers have significant market power. To preclude abuse of market power, liquefied gas distribution service tariffs are set fixed separately for each liquefied gas supplier.
A high level of competition and good opportunities to choose alternative suppliers exist in the liquefied gas retail sector for the delivery of gas in cylinders or by auto cisterns and containers. The available market data show that no market participant has a dominant position, but the observed price fluctuations reflect the prices set by external suppliers. Therefore according to the new methodology the Commission decided to equate the retail price to the price which forms under competition by market participants.
In the liquefied gas wholesale sector six market participants were identified which have significant liquefied gas storage capacities and which potentially can influence wholesale prices in the country or specific region. A maximum liquefied gas wholesale price has been set for these companies. To protect the users the Commission decided to monitor wholesale prices by requesting the five most significant market participants to provide quarterly data on actual prices in the previous period and planned prices for the next period. Using the received data the Commission will decide about the necessary action for regulating the liquefied gas market on the wholesale level.

3 Regulation and Performance of the Electricity Market

3.1 Regulatory Issues

3.1.1 General

The Latvia electricity generation market is small 5.6Twh (2004) with one dominant player- power company Latvenergo with 95% share in domestic production.
All industrial customers are eligible from July1, 2004. At the present market opening is 76%.
Due to specific cost structure (prevailing hydro and economy of scale) no one of eligible customers has executed their rights to purchase electricity from other supplier.
Starting from July 1, 2007 all customers will become eligible with 100% market opening.

3.1.2 Management and Allocation of interconnection capacity and mechanisms to deal with congestion

The Mini-Forum held in Riga February 14, 2005 recalled that at present there is not a justified evidence of congestions in and between the Baltic States.
In 2004 Baltic and Finnish power companies initiated the first commercial interconnection project to link Baltic's grid with the Finnish grid. Project has been launched and partners are planning to complete it in November, 2006.
Baltic power companies in 1998 have established common Baltic Power System Control Centre which takes care about day to day electricity flow control within Baltic and neighbouring countries.

3.1.3 The regulation of the tasks of transmission and distribution companies

There is one Transmission system operator- daughter's company of power company SJSC Latvenergo. The owner of the biggest distribution system operator is also Latvenergo. In addition to that there are 7 local distribution companies.

Setting of tariff calculation methodologies

On January 29, 2003 the Commission's board approved electricity supply tariff calculation methodologies. There are four methodologies – tariff calculation methodology for electricity generated by hydropower plants, electricity transmission network service tariff calculation methodology, electricity distribution network service tariff calculation methodology and electricity sales end tariff calculation methodology. Application of a specific methodology for each type of activity allows clear separation of costs for specific services and eliminates possible cross-subsidies. Such methodological approach enables flexible application of the approved tariff calculation methodologies even if subsidiaries of the state JSC "Latvenergo" were transformed into separate companies as a result of restructuring. Moreover, electricity distribution network service tariff calculation and electricity sales end user tariff calculation methodologies are applicable also to other providers of these regulated services, not just state JSC "Latvenergo".

Electricity distribution network service tariff calculation methodology envisages grouping of costs according to the voltage level of the connection used by a user taking into account costs of energy supply incurred by a certain group of users.

The new methodologies are based on the unified approach adopted by the regulator which uses a price cap principle; accordingly the maximum tariff will be periodically adjusted for changes in inflation and operational efficiency of the company.

The methodologies were elaborated in cooperation with representatives of energy companies, taking into account recommendations of the Counselling Board and other experts.

The regulator has delegated rights by Laws to approve tariff calculation methodologies and electricity production tariffs, network tariffs and sales tariffs for captive customers.

The General regulations and basic principles of the transmission system services tariffs calculation methodology are the following:

The methodology is developed in conformity with Energy Law, Law On Regulators of Public Utilities, Electricity Supply and Usage Regulations, as well as other legal acts, which are in force in the Republic of Latvia, and the methodology shall be applied when setting transmission service tariffs. The main principles of methodology are:
-Tariff ceiling method shall be used to set service tariffs.
-The regulated enterprise shall clearly and unambiguously reflect the costs of each regulated service including only the assets and activities related to the regulated services. The regulated enterprise shall apply the cost allocation model, following approval of its basic principles, specification and introduction by the regulator. The cost allocation model shall be comprehensive.
-The duration of the tariff review cycle is three years. The regulator may adopt a decision on the extension of the tariff review cycle if the tariff of the next tariff review cycle has not been approved at the end of the tariff review cycle.
-Regulatory asset base and the rate of return on capital shall be used for the determination of capital costs. The rate of return on capital is regulator's determined weighted average return rate from the rate of return set for equity and long-term interest rate set for borrowed capital. The rate of return on capital is calculated for a specific relation between equity and borrowed capital. The rate of return on capital shall be set in such a way as not to affect the choice of the enterprise between the use of equity and borrowed capital. On enterprise's request the regulator shall set the rate of return on capital before the submission of the tariff proposal.
-In accordance with the Law On Regulators of Public Utilities tariffs shall correspond to economically justified costs. When setting the base tariff the regulator shall perform cost and profit analysis and assessment.
-Two interrelated activities included in this methodology constitute the basis of tariff setting:
- setting economically justified base tariffs for the base year of the tariff review cycle,
- setting tariff ceiling for each year of the tariff review cycle.

-The regulator approves the average tariff ceiling of transmission services.
-The transmission service provider shall present all costs with precision up to 0.5 thousand lats [ths.Ls] and the quantity of transmitted electricity with precision up to 0.5 million kilowatt hours [mln.kWh].
-Since 110 kV and 330 kV transmission networks operate in parallel to ensure the safety of transmission system operation, transmission service costs for users connected to 110 kV or 330 kV voltage levels are the same.
-Additional losses in the transmission network caused by transit flows are compensated on the basis of bilateral agreements concluded by transmission system operators.
-The installed load of the transmission network for users is calculated as the sum of nominal capacities of 110/20-10-6 kV transformers in conformity with technical passports of the transformers, while for generators it is calculated as the required load for self consumption purposes if the power plant does not generate electricity.

According to the procedure companies submit reasonably justified tariff proposals. Within maximum 120 day Regulator should pass decision to approve or reject tariff proposal. Decision of regulators can be challenged only at the court.

Regulator has the following indicators regarding the continuity of supply:

1. Actual number of damages:
   - transmission network (110-330 kV) – 12;
   - distribution network 6 -20 kV – 3909

- distribution network 0.4 kV – 37062

2. Average time of repair:
   - transmission network (110-330 kV) 420.98 h
   - distribution 6-20 kV 3.7 h;
   - distribution network 0.4 kV – 3.6 h

The obligation for TSO and DSOs to provide information about tariffs and connection charges and conditions to the market participants is defined in the Electricity market law.

Estimated national average network charges for the one year period for the typical household, commercial and industrial customers are the following:

1. Household 3500kWh a year connected to 0.4 kV lines:
   TS 3500 x 0.00424 = 14.84 LVL = 21 EUR
   DS 3500 x 0.01727 = 60.44 LVL = 86 EUR
   Total without VAT 107 EUR or 0.03 EUR/kWh

2. Commercial customer 50 MWh a year, permitted load 50 kW
   a) connection 6-20 kV lines
   TS 50 000 x 0.00424 = 302 EUR
   DS 50 000 x 0.00787 = 560 EUR
   Fee for permitted load 50 x 2.50 = 178 EUR
   Total without VAT 1040 or 0.0208 EUR/kWh

   b) connection 6-20 kV buses
   TS 50 000 x 0.00424 = 302 EUR
   DS 50 000 x 0.00296 = 211 EUR
   Fee for permitted load 50 x 2 = 142 EUR
   Total without VAT 655 or 0.0131 EUR/kWh

Difference: 0.0208 – 0.0131 = 0.0077 EUR/kWh

3. Industrial customer 24 GWh a year, permitted load 4000 kW

   a) connection point 110 kV lines
   ET tariff 24 000 000 x 0.00104 = 35 515 EUR
   GPM tariff 4000 x 2.816 = 16 027 EUR
   Total without VAT 51 542 EUR or 0.0021 EUR/kWh

   b) connection point low voltage side of 110/6-20 kV transformer
   ET tariff 24 000 000 x 0.00147 = 50 199 EUR
   GPM tariff 4000 x 3.990 = 22 709 EUR
   Total without VAT 72908 EUR or 0.0030 EUR/kWh

Difference: 0.0030 – 0.0021 = 0.0009 EUR/kWh

Transmission system services tariffs

Public Utilities Commission has approved tariffs with the board decision No.43 of 24 February year 2005 “On State Joint Stock Company’s “Latvenergo” electricity transmission network service tariffs” from the 1st April of 2005 (without value added tax):

Transmission network services:	Measurement unit	Tariff
1. Tariffs for transmission service users, whose connection is at 110 kV lines:		
- electricity transmission tariff	Ls/kWh	0.00104
- tariff for grid's power maintenance *	Ls/kW/year**	2.816
2. Tariff for transmission service users, whose connection is at 110 kV buses:		
- electricity transmission tariff	Ls/kWh	0.00121
- tariff for grid's power maintenance *	Ls/kW/year**	3.753
3. Tariff for transmission service users, whose connection is on the low voltage side of 110/6-20 kV transformer***:		
- electricity transmission tariff	Ls/kWh	0.00147
- tariff for grid's power maintenance *	Ls/kW/year**	3.990
4. Tariff for transmission service users, whose connection is at distribution networks	Ls/kWh	0.00424

* Tariff for grid's power maintenance is the charge according to capacity of transformers.
** Capacity of transformer (kW) corresponds to the nominal capacity (kVA) shown in the technical documentation of equipment
***Transmission network service tariffs are set for case when the border of electrical facility belonging is on the 110/6-20 kV transformer's 6-20 kV outputs.
In conformity with the Cabinet of Ministers regulations No.299 of 10.10.1995 „Regulations on Electricity Sales Prices", reactive energy price, if *tg φ* is bigger than 0.4 *(cos φ* <0.929), is 0.003 Ls/kVArh.
Note: 1Ls = 1.42 EUR

Distribution system services tariffs

Public Utilities Commission has approved tariffs with the board decision No.106 of May 11 year 2005 "On State Joint Stock Company's "Latvenergo" electricity tariffs for distribution network services" from July 1 of year (without value added tax):

Distribution network service tariffs:	Measurement unit	Tariff
1. Distribution service tariff for electricity from 110/6-20kV transformers' 6-20kV buses		
- tariff for transmission of electricity	Ls/kWh	0.00296
- fee for permitted load	Ls/kW/year	2.00
2. Distribution service tariff for electricity from 6-20 kV distribution points and 6-20kV lines		
- tariff for transmission of electricity	Ls/kWh	0.00787
- fee for permitted load	Ls/kW/year	2.50
3. Distribution service tariff for electricity from 6-20/0.4kV transformers' 0.4kV buses		

3.1. circuit protection breaker's current strength 800 A and above		
- tariff for transmission of electricity	Ls/kWh	0.01207
- overload protection device current charge	Ls/A/ year	1.44
3.2. circuit protection breaker's current strength from 200 A to 799 A		
- tariff for transmission of electricity	Ls/kWh	0.01212
- overload protection device current charge	Ls/A/ year	1.44
3.3. circuit protection breaker's current strength 199 A and below		
- tariff for transmission of electricity	Ls/kWh	0.01247
- overload protection device current charge	Ls/A/ year	1.44
4. Distribution service tariff for transmission of electricity from 6-20/0.4 kV transformers 0.4kV buses for street lighting	Ls/kWh	0.01369
5. Distribution service tariff for electricity from low-voltage 0.4kV lines (single-phase connection)		
- tariff for transmission of electricity	Ls/kWh	0.02020
- overload protection device current charge	Ls/A/ year	0.75
6. Distribution service tariff for electricity from low-voltage 0.4kV lines (other connections)		
- tariff for transmission of electricity	Ls/kWh	0.02020
- overload protection device current charge	Ls/A/ year	1.50
7. Distribution service tariff for transmission of electricity from low-voltage (0.4kV) lines for residents	Ls/kWh	0.01789

Note: 1 Ls = 1.42 EUR

In conformity with the Cabinet of Ministers regulations No.299 of 10.10.1995 „Regulations on Electricity Sales Prices", reactive energy price, if *tg φ* is bigger than 0.4 *(cos φ* <0.929), is 0.003 Ls/kVArh.

Balancing

Methodology on the price calculation for the balancing service is prepared by the SJSC "Latvenergo". Methodology sets the main principles for the calculation of the price for balancing service used by eligible customers for the deviations from the declared consumption of electricity.
TSO is responsible for the balancing of the electricity system in Latvia. Eligible customer purchases electricity from the one or several suppliers according to the hourly schedule which is agreed with transmission or distribution system operator.
Balancing energy to the eligible customer will be supplied by the system operator with whom the eligible customer is connected according Conditions on the ancillary services stated in the Grid Code.
TSO or DSO operators are responsible for supplying of the balancing energy to the captive customers which are connected with their network. Balancing service costs are included into differentiated end user tariffs approved by the Regulator.
Balancing service price is based on the electricity system price C in the competitive market which is set as an average weighted value in the trading period.
If the actual consumption of the eligible customer is more than declared in the certain trading period the price for balancing service is:

C_{bal+} = C x K x K_{bal+} (LVL/kWh);

If the actual consumption of the eligible customer is less than declared in the certain trading period the price for balancing service is:

C_{bal-} = C X K x K_{bal-} (LVL/kWh).

K – coefficient for the time zone;
K_{bal+} - coefficient of the received balancing energy from the operator's network;
K_{bal-} - coefficient of the released balancing energy to the operator's network.

3.1.4 Effective unbundling

There are 8 DSOs in Latvia - 7 comparatively small operators and the dominant company SJSC "Latvenergo" (99% of electricity distribution market). There is a single TSO - a joint stock company "Augstsprieguma tīkls", 100% owned by "Latvenergo", which starts operations as a separate entity from September 1, 2005.
The TSO, as well as significant number of DSOs, are located separately from production and supply affiliates.
At this stage the TSO has separate name of company, but does not have separate website and logo. The biggest DSO - SJSC "Latvenergo" - is using the same name of the company, logo and website for generation, distribution and trade activities.
So far no separate balance sheet of the TSO and the DSO "Latvenergo" has been published. However, the Electricity market law includes the obligation for TSOs and DSOs to publish separate balance sheets.
As regards setting rules on the compilation of unbundled accounts, the regulator has approved cost allocation methodologies and has executed rights to order compliance audit by an independent auditor.
The proportion of the costs of the network operators that are typically shared with other business units of the company are following. 13% of the administrative costs of "Latvenergo" are related to the TSO. 31% of TSO costs are related to electricity transmission losses and provision of the technological process in the transmission network, 29% are personnel costs, 13% are administrative costs, including 7.5% allocated from total company administrative costs, 11% costs of regular operational property maintenance repairs, 10% shared with other business, 4% costs of materials.
20% of Latvenergo DSO costs are related to electricity transmission losses and provision of the technological process in the transmission network, 38% are personnel costs, 13% are administrative costs, including 9.7% allocated from total company administrative costs, 7% costs of regular operational property maintenance, 3% service maintenance, 13% costs of materials.
The legislator has provided sanctions available to the regulator for companies failing to comply with management or accounts unbundling requirements or other administrative offences. According to the Latvian Code of Administrative Offences the PUC is entitled to punish service providers in energy sector for following administrative offences:

- not delivering information to the regulator or delivering of false information;
- failing to comply with legal decisions carried out by the regulator;
- providing services without licence or breaching the provisions of the licence.

3.2 Competition Issues

3.2.1 Description of the wholesale market

Electricity supply

Since July 1, 2004 all electricity users, except households, have an option to choose alternative electricity suppliers. However, no eligible electricity user has actually changed electricity supplier. Last year when approving new electricity supply tariffs for state JSC "Latvenergo" the Commission paid special attention so that transmission and distribution tariffs would not hinder the potential eligible users to accept the offers of other suppliers. From January 1, 2004 the new tariffs took effect, several companies received licenses only for electricity sales and planned to operate as intermediaries in the supply of eligible users, but there was no real competition.

The inactivity of eligible users is partially explainable by the concentrated generation structure and complicated organisation of cross border energy flows. Electricity generation in Latvia is concentrated in state JSC "Latvenergo" while practically each independent electricity generator separately is quite small to offer serious energy volumes for large eligible users. Moreover, most

independent electricity generators sell energy for support tariffs set by the state, thus they are not interested to offer energy to eligible users at competitive prices. Regarding import of alternative energy, the potential intermediaries and eligible users face energy export quotas set by some countries, specific balancing conditions and unwillingness of foreign operators to get involved in small volume deals. In 2004 the Commission worked on the preparation of the license of independent transmission operator. During the preparation of the license draft special attention was paid to the possibility of ensuring real independence of transmission system operator so that division of state JSC "Latvenergo" functions would not be only a formal step but would really contribute to market development and strengthens competition. Preparation of the license of independent transmission network operator was not completed in 2004 because legal acts which specify the operation of the electricity market were in the process of development. License for the independent TSO 100% owned by SJSC "Latvenergo" was issued in year 2005. Simultaneously Commission's experts were involved in the preparation of amendments to the Energy Law and development of the Electricity Market Law aiming to adopt European Union directives for the electricity market. Both documents were adopted in year 2005.

According to Eurostat data Latvia had the lowest electricity tariffs for households and commercial users among the European Union countries in 2004. It was determined by both the relatively low purchasing power of consumers and the significant share of large hydropower plants in the energy generation. The cost price of the electricity generated by hydropower plants is relatively small, neither other electricity sources in Latvia, nor prices of electricity imported from closest neighbours can compete with it. At the same time it must be stressed that the existing level of end tariffs is not an obstacle for the development of the energy supply sector – the most significant companies are financially stable, operate profitably, and extensive investments are made in networks and generation capacities.

In the year 2004 the total consumption of electricity was 5 585.7 GWh and the amount of installed available generation capacity was 2684 MW. There was only one company having 5% share of installed available capacity -the largest producer SJSC "Latvenergo" produces about 93% of the total generation volume. The market for the ancillary services is designed, but does not operate yet.
All the electricity is sold for the regulated prices according to approved tariffs.
Latvia has connection lines with 2 neighbouring Member States – Estonia and Lithuania and there is an opportunity for establishing common Baltic electricity market.
There were neither any acquisitions nor mergers in the year 2004 in Latvia in the electricity industry.

3.2.2 Description of the retail market

In 2004 electricity supply companies supplied the requisite volume of energy, selling to consumers 5585.7 GWh of electricity, which is 3.5% more than year 2003. One fourth of the volume of electricity sold was consumed by inhabitants for household needs, and three-fourths by commercial consumers. The number of electrical power consumers has not changed significantly. Most consumers consume a relatively small volume of electricity. In 2004, only 103 consumers of electricity used more than 5 million kilowatt-hours of electricity each; 496 consumers, or about 0.05%, of the total number of customers used more than 1 million kilowatt-hours each. There are 997967 household and 86106 commercial consumers.
The distribution of the electricity consumer groups in year 2004 was the following:

- industry – 31%;
- households – 24%
- trade – 9%
- agriculture – 2%
- others – 34%

The generation, transmission, distribution and sales company SJSC “Latvenergo” embraced about 99% of the total supply market share.
In preparing for the liberalization of the electricity market, Latvenergo continued work in 2003 and 2004 on a modern and effective Customers Service and Billing System (CS&B). The implementation of this vast project will continue in 2004 and 2005.In 2004, Latvenergo continued developing and opening various communication channels with their clients. The company’s Call Centre answered more than 60 000 customers’ calls during the year. Electronic mass media are playing an increasingly larger role . The Centre replied to about 2 300 customers who sent their e-mails to the company’s web site. In any of Latvenergo’s Customer Service and Consultation Centres (CSCC) clients can receive free consultations on questions related to electricity consumption and billing, on possibilities for increasing the capacity and the procedure for doing so, as well as on electrical energy tariffs. The Centre operators answer both phone calls and visitors’ questions. There were 3 new centres opened in year 2004 and at the moment there are eight such Centres operating in Latvia.

Further we are providing calculation of the end – user tariffs for the three typical consumer groups:

Household 3500 kWh a year, connection point 0.4 kV lines, tariff T-1:
Charge for electricity 3500 X 0.038136 = 133 LVL = 190 EUR
Total without VAT 18% 190 EUR
VAT 18% 34 EUR
Total 214 EUR or 0.061 EUR/kWh

Medium commercial customer 1.5 GWh per year with load 300 kW, connection point 6-20 kV lines Tariff T-6:
Charge for electricity 50 000 X 0.02732 = 1366 LVL = 1944 EUR
Subscription charge 12.12 LVL = 17 EUR
Charge for the permitted load 50 X 2.50 = 125 LVL = 178 EUR
Total without VAT 2139 EUR
VAT 18% 385 EUR
Total 2524 EUR or 0.050 EUR/kWh
Large industrial customers 24 GWh, load 4 MW, connection point 6-20kv buses, Tariff T-8:
Time zones: night time and weekends 10%
day time 70%
maximum hours 20%

Charge for electricity:
Night time and weekends 24 000 000 x 0.1 x 0.01883 = 45 192 LVL = 64 303 EUR
Maximum hours 24 000 000 x 0.2 x 0.02950 = 142 000 LVL =201 480 EUR
Day time 24 000 000 x 0.7 x 0.02391 = 401 688 LVL = 571 554 EUR
Subscription charge 69.60 LVL = 99 EUR
Charge for permitted load 4000 x 2.50 = 10 000 LVL = 14 229 EUR
Total without VAT 851 665
VAT 18% 153 300
Total 1 004 965 EUR or 0.042 EUR/kWh

End-users purchase electricity for regulated prices, calculated in accordance with the methodology set by the Regulator. Public Utilities Commission Board decision Nr.278 in 15.10.2003. “About the state joint stock corporation’s “Latvenergo” electric energy differentiated sales end tariffs and the average transmission service tariff” from the 1st January of 2004 has approved:

1.1. Resident sector:

Tariff type	Measurement unit	Tariff
T-1 (for consumers with protection circuit breaker's current strength including and up to 40A)		
Charge for electricity	Ls/kWh	0.038136

T-2 (for consumers with protection circuit breaker's current strength above 40A)		
Charge for electricity	Ls/kWh	0.034746
Fixed charge of protection circuit breaker	Ls/A/year	0.60
T-3 (for consumers independently from protection circuit breaker's current strength)		
Subscription charge	Ls/year	48.00
Charge for electricity:		
night zone and weekend	Ls/kWh	0.018644
day zone	Ls/kWh	0.029660
Fixed charge of protection circuit breaker	Ls/A/year	2.10

The time zones of the differentiated tariff T-3:

day zone – working days from 7.00 until 23.00;

night zone – working days from 23.00 until 7.00, Saturdays un Sundays – day and night.

1.2. Other electricity consumers:

Tariff type	Measurement unit	0.4 kV lines	0.4 kV buses	6-20 kV lines	6-20 kV buses	110 kV
T-4 (single-phase connection)						
Subscription charge	Ls/year	9.60				
Charge for electricity	Ls/kWh	0.04140				
Fixed charge of protection circuit breaker	Ls/A/year	0.75				
T-5 (single-phase connection, two time zones)						
Subscription charge	Ls/year	12.12				
Charge for electricity:						
- night zone and weekend	Ls/kWh	0.03867				
- day zone	Ls/kWh	0.04679				
Fixed charge of protection circuit breaker	Ls/A/year	0.75				
T-6 (one time zone with the permitted load up to 400 kW)						
Subscription charge	Ls/year	12.12	12.12	69.60	69.60	
Charge for electricity	Ls/kWh	0.04140	0.03017	0.02732	0.02459	
Fixed charge of protection circuit breaker	Ls/A/year	1.50	1.30			
Charge for the permitted load	Ls/kW/year			2.50	2.50	

T-7 (two time zones with the permitted load up to 99.9 kW or 200A)						
Subscription charge	Ls/year	15.00	15.00	69.60	69.60	
Charge for electricity:						
- night zone and	Ls/kWh	0.03867	0.02705	0.02420	0.02105	
weekend	Ls/kWh	0.04679	0.03517	0.03232	0.02812	
- day zone						
Fixed charge of protection	Ls/A/year	1.50	1.30			
circuit breaker	Ls/kW/year			2.50	2.50	
Charge for the permitted load						
T-8 (three time zones, all permitted loads)						
Subscription charge	Ls/year	15.00	15.00	69.60	69.60	104.52
Charge for electricity:						
- night zone and	Ls/kWh	0.03835	0.02673	0.02388	0.01883	
weekend	Ls/kWh	0.04902	0.03740	0.03455	0.02950	0.01322
- maximum hours	Ls/kWh	0.04343	0.03181	0.02896	0.02391	
- day zone						0.02389
Fixed charge of protection	Ls/A/year	1.50	1.30			
circuit breaker	Ls/kW/year			2.50	2.00	0.01830
Charge for the permitted load						
						7.09

Tariff T-9 (street lighting):

Charge for electricity

- night zone and weekend	Ls/kWh	0.02930
- day zone	Ls/kWh	0.03742

Time zones for the usage of differentiated tariffs:

By two zone tariff (T-5, T-7, T-9):

- day zone – working days from 7.00 until 23.00,
- night zone - working days from 23.00 until 7.00, in Saturdays and Sundays – day and night.

By three zone tariff (T-8):

- day zone – working days from 7.00 until 8.00, from 10.00 until 17.00 and from 20.00 until 23.00,
- maximum hour zone – working days from 8.00 until 10.00 and from 17.00 until 20.00,
- night zone - working days from 23.00 until 7.00, in Saturdays and Sundays – day and night.

Latvenergo average electricity sales end tariff 0.00137 Ls/kWh (without value added tax).
In conformity with the Cabinet of Ministers regulation Nr.299 in 10.10.1995 „Regulation about electric energy sales prices", the cost for reactive energy, if *tg* φ is bigger than 0.4 *(cos φ* <0.929*)* and if the permitted load is or is higher than 100 kW, is 0.00300 Ls/kVArh .
Value added tax (VAT) is 18%.
Note: 1 Ls = 1.42 EUR

3.2.3. Measures to avoid abuses of dominance

Each licensed service provider, including electricity generation and supply companies, is obliged to submit certain information to the regulator in accordance with rules adopted by the PUC. In case of necessity, regulator is entitled to require additional data in order to get complete information about service provider's activities. Other market participants and individuals can request information about service provider from regulator in accordance with the Freedom of Information Law.
The regulator is entitled to request any additional information, also information on business activities other than providing of public services, from the service provider if necessary.
Existing legal framework is not setting specific rules on content and structure of electricity supply contracts. However, there exist some general principles that should be observed likewise in other contracts of civil matter. Supply of electricity usually is provided in accordance with standard contracts; however parties are not precluded from stating some additional provisions in their contract. The forms of standard contracts are available on the regulator's website.
The situation will change after full enforcement of the new Electricity Market Law that requires to the regulator to set out rules on form and content of electricity supply contracts and accounts.

4. Regulation and Performance of the Natural Gas market

4.1 Regulatory Issues

4.1.1 General

In 2004 in the field of natural gas supply the Commission's experts participated in the preparation of amendments to the Energy Law aiming to adopt European Union directives on gas market development and adjust them to the situation of Latvia. At the moment the goal of amendments to the law is to prepare the legal environment for third party access because it is unlikely that real competition could develop in the market soon. It is determined by dependence on external suppliers – JSC "Gazprom" and LLC "Itera-Latvija" supply gas through networks belonging to Gazprom. Alternative gas supply would be possible if the gas market in Russia would be liberalized or if connections with other EU countries and Norway would be ensured. But the construction of new connections would require significant additional investments which would not be cost-effective at the present end tariff level.

Taking into account the lack of competition in the natural gas supply sector regulation of all consumer tariffs is justified also in the future. The regulatory process ensures greater tariff stability, balancing the interests of the supplier and users. According to Eurostat data in 2004 Latvia had the lowest natural gas tariffs for households among EU countries and one of the lowest tariffs for commercial users (tariffs were still lower in Estonia). However, it was not an obstacle for the natural gas supplier to develop successfully in recent years, increasing operational efficiency, raising turnover and expanding networks, multiplying investment volumes, as well as achieving ever-increasing profits.

4.1.2 Management and allocation of interconnection capacity and mechanisms to deal with congestion

Latvian natural gas transmission system was developed about 40 years ago and the following principles were put in the design as keystones:

1) natural gas is supplied to Latvia using Latvian-Russian pipeline only during warm part of the year (April-September) and is accumulated in the underground gas storage;
2) during cold part of the year gas from the underground gas storage is supplied to Latvian consumers as well as transmitted to Estonia and back to Russia;
3) the connection with Lithuania also exists but is used only as emergency backup system for the supply of limited region in Lithuania;
4) the transmission system was designed for annual consumption level in Latvia up to 4 bcm;

The natural gas transmission system is operated by vertically integrated company "Latvijas Gāze", who transmits natural gas by the orders of the owners of natural gas (JSC "Gazprom" and LLC "Itera-Latvija"). During the winter season about 1 bcm of natural gas is transmitted to the Russia and Estonia.

4.1.3 The regulation of the tasks of transmission and distribution companies

The General regulations and basic principles of the tariffs calculation methodologies:

-The methodologies are developed in conformity with Energy Law, Law On Regulators of Public Utilities, Gas Supply and Usage Regulations, as well as other legal acts, which are in force in the Republic of Latvia, and the methodologies shall be applied when setting transmission and distribution service tariffs.
-Price cap method shall be used to set service tariffs.
-The regulated enterprise shall clearly and unambiguously reflect the costs of each regulated service including only the assets and activities related to the regulated services. The regulated enterprise shall apply the cost allocation model, following approval of its basic principles, specification and introduction by the regulator. The cost allocation model shall be comprehensive.
-The duration of the tariff review cycle is three years. The regulator may adopt a decision on the extension of the tariff review cycle if the tariff of the next tariff review cycle has not been approved at the end of the tariff review cycle.
-Regulatory asset base and the rate of return on capital shall be used for the determination of capital costs. The rate of return on capital is regulator's determined weighted average return rate from the rate of return set for equity and long-term interest rate set for borrowed capital. The rate of return on capital is calculated for a specific relation between equity and borrowed capital. The rate of return on capital shall be set in such a way as not to affect the choice of the enterprise between the use of equity and borrowed capital. On enterprise's request the regulator shall set the rate of return on capital before the submission of the tariff proposal.
-In accordance with the Law On Regulators of Public Utilities tariffs shall correspond to economically justified costs. When setting the base tariff the regulator shall perform cost and profit analysis and assessment.
-Two interrelated activities included in these methodologies constitute the basis of tariff setting:
- setting economically justified base tariffs for the base year of the tariff review cycle,
- setting tariff ceiling for each year of the tariff review cycle.

-The regulator approves the average price cap of transmission and distribution services.
-The service provider shall present all costs with precision up to 0.5 thousand lats [ths.Ls] and the quantity of transmitted electricity with precision up to 10 tcm.

During setting of transmission tariff the relation between total transmitted volume and volume transmitted in favour of Latvian consumers is taken into account.
Distribution tariff is differentiated corresponding to the customer's annual consumption. After the end of transition period additional differentiation criteria – connection pressure – will be taken into account also.

Tariffs for the typical customers (EUR/tcm)

Type	Consumption	Transmission	Distribution
I4-1*	116 300 MWh	12.34	24.58
I1	116.3 MWh	12.34	39.52
D3	23.26 MWh	12.34	39.52

* load factor is not implemented because the transmission and distribution systems are underutilized

In the year 2005 new tariff proposals were analyzed and the new tariffs set by the decision of the Commission. These tariffs should come into effect from the August 1, 2005.

Balancing

Currently the balancing is done by the TSO on the basis of consumption rate.
Industrial consumers are required to fall into tolerance thresholds for over- and under consumption (+/-10%, daily based) following rules fixed in gas supply contracts.

4.1.4 Access to Storage, Linepack and other ancillary services

Currently the underground gas storage capacity is used by 3 companies – JSC “Gazprom”, LLC “Itera Latvia” (suppliers) and JSC “Latvijas Gaze”. Booking of capacities is based on contractual terms of purchase of natural gas and is distributed approximately in 50%, 20% and 30% respectively.
The total volume of underground storage operated by JSC “Latvijas Gaze” is 4.3 bcm; average volume of cushion gas – 2.1 bcm. The main role of the underground gas storage is to be the only source of natural gas for Latvia during the winter season. The effective use of linepack currently is impossible due to the age of transport pipelines.
The SSO is a part of vertically integrated company JSC “Latvijas Gaze” with unbundled accounts. Corresponding to the privatization agreement among government of Latvia and investors, JSC “Latvijas Gaze” is granted the rights of exclusive use of underground gas storage until 2017.

4.1.5 Effective Unbundling

Current regulatory requirement is to have unbundled accounts for all regulated activities. Regulator approves the cost allocation methodology elaborated by company and has rights to request compliance audit by independent auditor. All SOs are sharing only administrative costs. There is no special compliance officer appointed. Currently company provides only consolidated accounts as requested by the law of accountancy.
Offices of TSO and DSO are located separately. Both have the same logos and no separate websites.

4.2 Competition Issues

4.2.1 Description of the wholesale market

Total annual consumption of natural gas of Latvian consumers are approx. 1.6 bcm, 100% of which is imported from Russia. All import operations are done by JSC “Latvijas Gaze” based on supply agreement among JSC “Latvijas Gaze” and JSC “Gazprom” and LLC “Itera Latvia”.
Currently wholesale market of natural gas in Latvia does not exist.

4.2.2 Description of the retail market

The Latvian retail market structure is as follows:

- the households and small commercial sector (e.g 50MWh/year and under) – 8%
- in the medium sized industrial and commercial sector (e.g. up to 1mcm) -35%%

- large and very large industrial customers (above 25mcm /year) 57%

There are no gas fired power plants, except those operating in CHP regime. It must be noted that 67% percent of total volume is consumed by district heating companies and 8% – by two large industrial users (7 by steel refinery and 1 by wood processing company).
All consumers are supplied by vertically integrated company JSC “Latvijas Gaze”
Taking into account the current lack of alternative suppliers and no interest shown in establishing such, we could forecast 0% switching for the nearest years.
All prices on retail market are set by the regulator and are differentiated correspondingly the annual consumption level of customers.
Final price of natural gas builds up from the price of services, natural gas import price and VAT (EUR/tcm).

Type	Consumption	Transmission	Distribution	Storage	VAT 18%	fin.price
I4-1*	116 300 MWh	12.34	24.58	5.67	19.59	128.43
I1	116.3 MWh	12.34	39.52	5.67	22.28	146.06
D3	23.26 MWh	12.34	39.52	5.67	22.28	146.06

Additionally, consumers pay a fixed monthly fee for the metering ranging from 1.04 to 1.09 EUR depending on the ownership of meter.

5 Security of Supply

5.1 Electricity

The total consumption of electricity in the year 2004 was 5586 GWh what is 3.5% more than in year 2003. Generally, there is a tendency of increase of the electricity consumption every year for about 3 – 5% a year and it is expected that this tendency will remain the same for at least next three years.
Current peak demand is 1194 MW. Forecasts for the years 2005 – 2008 are the following:
2005 – 1353 MW
2006 – 1390 MW
2007 - 1410 MW
2008 – 1430 MW

Currently available generation capacity is 2684 MW.
According to received applications by the Regulator, up to end of the year 2006 the new generation capacities (CHPP) of 84 MW would be introduced.
Every of the 8 distribution system operators, according to conditions, stated in the license, has the obligation to supply all the customers with electricity and to connect new customers in its operation zone. As SJSC “Latvenergo” is the biggest DSO in Latvia and covers 99% of the demand, according to Electricity Market Law, the functions of the Supplier of Last Resort will be imposed on this company.

5.2 Gas

Annual gas consumption level of Latvian consumers is around 1.6 bcm with annual growth 2%, currently available technical import capacity – 3.5 - 4 bcm.
The mentioned growth is build upon the extension of the use of gas for heating purposes. Big changes of gas consumption could not be expected due to the lack of large industrial consumers. In the same time, with the raise of price of the natural gas, the increase in gas consumption could stop or even decrease if some industrial customers will not be able to bear increased fuel costs (the increase of gas import price for Latvia is set to approx 40-50% in 3 years).
JSC "Latvijas Gaze" is the only supplier of natural gas in Latvia and in the licence given to the company is stated obligation to supply natural gas within the zone of licence – currently – whole Latvia.

6 Public Service Issues

All customers are subject to price control unless they have decided to use their rights as eligible users.
Licensing conditions stated clear rules to the energy suppliers concerning the treatment of the customers. Distribution operators of electricity have the obligation to provide electricity to every customer in its operating zone. The legislation basis for the relationships between suppliers and customers and procedures of disconnections are described in the Regulations of the Cabinet of Ministers.
In the year 2004 there were 30 305 cases of disconnections of the electricity consumers and 1100 cases for gas consumers owing to non-payment.
All the energy consumers have rights to apply to Commission in case of problems with supplier.

The Commission has received 96 complaints (claims, applications) concerning energy issues in 2004. The distribution of complaints by energy supply types is as follows:

- electricity supply – 64;
- natural gas supply – 13;
- liquefied gas supply – 2;
- heat supply – 17.

22 complaints (claims) were received from legal persons and 74 from natural persons.

Examining the complaints (claims, applications) received in 2004 it was established that in 46% of the total number or in 44 answers the applicants were given explanations about various energy issues (38 – in electricity supply and heat supply, 6 – in gas supply), 54% or 52 applications were classified as complaints (claims). More detailed distribution of complaints is as follows:

- valid – 11 (electricity supply – 11; gas supply – 0);
- invalid – 21 (electricity supply – 17; gas supply – 4);
- not within competence of the Commission – 20 (electricity supply – 15; gas supply – 5).

The subject of the received complaints (claims) is very different. The largest thematic groups in the electricity supply are as follows:

- issues associated with electricity supply – supply interruption cases, renewal, installation of new connections (34.9%);
- electricity metering and payments – issues of recorded and consumed electricity volumes and unpaid bills, terms of bill payment etc. (11.6%);
- quality of supplied electricity (4.7%);

• various other issues – problems related to the reduction of the permitted load, issues regarding commercial meter status and servicing, electricity network reconstruction issues, fulfilment of license conditions, heat energy issues etc. (48.8%).

The received complaints (claims) in the gas supply sector may be divided into the following thematic groups:

• gas metering and payments – about the application of the average distributed payment, about the accuracy of consumed gas bills (33%);
• maintenance of the gas supply system – issues associated with approval of technical regulations when rebuilding the gas pipe, about elimination of gas transit transmission, about replacement of gas equipment (33%);
• various other issues – about the quality of liquefied gas, about fee for information provision etc. (33%).

84 complaints (applications) were directly addressed to the Commission (87.5 %), 12 were forwarded from other state institutions (12.5 %), including seven from the Consumer Rights Protection Centre, three from municipal regulators, one from Daugavpils Prosecutor's Office and one from Problem Prevention Bureau.

The Commission has evaluated and provided answers on 86 complaints (89.6 %), 10 complaints (10.4 %) which were not within the competence of the Commission were forwarded to other institutions including nine to Riga city regulator.

Additional information was requested in 33 cases (34.4 %) to provide more objective answers.