



PUBLIC
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ABBREVIATIONS

4G – 4th Generation

ACER – Agency for the Cooperation of Energy Regulators

BEMIP – Baltic Energy Market Interconnection Plan

BEREC – Body of European Regulators for Electronic Communications

EC – European Commission

ECC – Electronic Communications Committee

ERRA – Energy Regulators Regional Association

EU – European Union

GJ – gigajoule

GSM/2G – Global System for Mobile Communications/2nd Generation

GWh – gigawatt hour

HPP – hydroelectric power plant

IRG – Independent Regulators Group

ITU – International Telecommunication Union

JSC – joint stock company

kV – kilovolt

LLC – limited liability company

LVL – Latvian lat

LVS – Latvian Standard

m³ – cubic metre

MHz – megahertz

MW – megawatt

MWh – megawatt hour

n.m³ – normal cubic metres

NCCIR - National Commission for the State Regulation of Communications and Informatization (Ukraine)

OECD - Organisation for Economic Co-operation and Development

PUC – Public Utilities Commission

RIS – Regulator’s Integrated Information System

SMS – Short Message Service

TAIEX - Technical Assistance and Information Exchange instrument

UMTS/3G – Universal Mobile Telecommunications System/3rd Generation

UN – United Nations

USA – United States of America

VAT – value added tax



Dear reader!

The report shows the situation regarding the provision and regulation of public services in 2012; the Public Utilities Commission acted as an active balanced mediator among the service providers, customers and the state administration.

Year 2012 was the first year for the Regulator as a fully independent institution. It provided new opportunities for independent work and fulfilment of the new duties, especially in the energy and electronic communications sectors. This status simultaneously meant a much larger administrative burden for the economic policy making and implementation – the Regulator actively contributed to the development of the legal and regulatory environment (strategic documents and existing sectoral laws and subordinated normative acts thereof).

In 2012, the processes of market opening and stabilisation continued in the regulated sectors. The development of overall competition is well reflected by market analyses of electronic communications services performed by the Regulator which resulted in cancellation of obligations for companies with significant power in four markets while they were reapplied in only one market. The Regulator within its competence performed the relevant *ex ante* activities for the transfer of all companies to the open electricity market in 2012, as well as the opening of the postal service market from January 1, 2013.

A facilitated process for market entry with an easy registration procedure has been ensured in a number of sectors (electronic communications and postal services, generation and trade of electricity and thermal energy). Hopefully, water management will join these sectors in 2014.

However, the growth of the number of undertakings in the public utilities sectors in the small Latvian markets also means fragmentation; the many small companies cannot objectively use modern technologies, provide high-quality services at reasonable prices, and establish customer and emergency services. Therefore, mergers and acquisitions are a positive sign (for example, in 2012, nine service providers formed three companies by merging in the water supply sector within regional limits). At the same time, we follow *de minimis* principle in the public utilities sectors which means a reasonable threshold of regulation and a reduced administrative burden for small companies. However, we continue following closely the operations of big companies, especially monopolies and undertakings with significant market power.

Regarding the market development in 2012, we performed a number of specific actions which significantly improved market functioning, for example, the PUC performed certification of JSC "Augstsprieguma tīkls" and evaluation of its ten-year development plan, implemented the switching of providers of electronic communications services within one day and keeping a subscriber's telephone number. We modelled the development of the Latvian energy market for the next 20 years, thus building a solid foundation for the performance of the many new regulatory functions in the single European Union market.

Unfortunately, the Latvian companies are not always willing and able to make mutual cooperation and fair competition in open markets compatible, and the Regulator has new tasks at hand fighting unfair competition and cases of fraud. The task of the near future is to improve the availability of any information about activities of companies in the public utilities sectors to the Regulator.

The issues of service quality are and will be on the Regulator's agenda. For many years, the authority and work of our experts regarding the measurements of the quality of electronic communications services have been acknowledged across the European Union. We were entrusted with the preparation of the relevant recommendation of the European Commission in 2012. We continued to expand the measurements of the quality of mobile Internet services across the country by including measurements of the 4G networks and starting long-term measurements. In 2012, the Regulator participated in the development of the standard of electricity quality, as well as began regular measurements of electricity quality.

Although liberalisation of the service markets automatically means fewer sectors where the Regulator determines the prices of services, setting of economically reasonable prices remains a very sensitive Regulator's function for the society and undertakings. In 2012, decisions were made on the reduction of tariffs for mobile telephony between the networks of different operators which resulted in offers to customers with significantly cheaper tariff plans of large volumes. The Regulator continued detailed economic analysis for every submitted tariff proposal which provided significant advantages for customers. Consequently, we reduced consumer expenses by more than 1.3 million LVL in the tariff plans of thermal energy supply in Riga and Liepaja over the previous year.

The use of the EU funds in the public service sectors has led to a dual situation. The projects of renovation of heating supply systems pay off due to more efficient use of equipment and reduction of losses and there is usually no tariff increase for consumers or tariffs even decrease in a number of cases. However, in the water management sector, due to implementation of projects to improve water quality and reduce environmental pollution, a tendency has emerged for tariffs to increase significantly. The Regulator's task in the future will be to analyse options for minimising the impact of the improvement of quality on the prices of services.

Growing problems are caused by the assessment of economic rationale of thermal energy and especially water management tariffs taken over from the local government regulators due to

objectively very different service zones (volume, territory, number of users, terrain etc). In 2012, we began work on a methodology which will provide for the allocation of costs and sources thereof into elementary information units (entities), providing an option for mutual comparison and formation of etalons in the future.

The unified multi-sector principle in the regulatory system has been providing advantages for all involved parties. Both service receivers and undertakings (especially the almost 5% of regulated companies which operate in two and more sectors/segments) have appreciated the established unified procedures for company registration and licensing, tariff methodologies based on anticipated costs and the process of approval thereof, provision of information, dispute settlement and assessment of violations. The coordinated approach provides an opportunity to make the Regulator's actions more efficient including rapid optimisation and clarification of the regulatory procedures. In 2013 and over the coming years, we will expand the unified regulatory approach as far as it will be allowed by rather different treatment of the sectors within the EU legal framework.

Valdis Lokenbahs
Chair
The Public Utilities Commission

The Regulatory System

There are various socio-economic factors, which can affect the ability of the members of the public to receive services that are of key importance in ensuring their quality of life. The public services regulatory system ensures a safe and uninterrupted availability of public services, and also making sure that companies are able to provide these services.

The Public Utilities Commission is a multi-sector regulator performing regulatory functions in the following sectors:

- energy (supply of thermal energy, electricity and gas supply),
- electronic communications,
- post,
- railway transport,
- municipal waste disposal,
- water management.

The work of the Regulator is based on the law "On Regulators of Public Utilities", as well as on the laws and other normative acts, which regulate each of the regulated sectors. The Regulator's task is to ensure that all users may receive continuous and safe services at economically reasonable prices, and companies providing public services are profitable.

The reporting year was the third full year when public services nationally were regulated by a single institution – the Public Utilities Commission. Previously, a two-tier regulatory system existed in Latvia. Public services in state regulated sectors were regulated by the PUC while public services in municipally regulated sectors were regulated by municipal public utilities regulators. The reform of the public utilities regulatory system was carried out in 2009. The PUC took over the regulatory functions from municipal regulators or municipal councils in the heating supply sector, municipal waste management and water management sectors by November 1, 2009. Since November 2009, a centralised and uniform execution of regulatory functions delegated by the law „On Regulators of Public Utilities“ is ensured, i.e. a uniform approach to all public service providers is ensured.

The PUC regulated a total of 1,009 companies at the end of the reporting year.

The PUC's functions include regulating the relevant sectors and companies therein, defining methodologies for calculating tariffs, approving tariffs, issuing licenses and registering authorisations of companies, promoting competition in the regulated sectors, offering out-of-court settlement of disputes and supervising the quality of public services.

The Regulator is institutionally and functionally independent, full-fledged, autonomous body governed by public law and unassisted in the implementation of its budget approved by law. This is stipulated by the amendments to the law "On Regulators of Public Utilities" which came into force on August 11, 2011.

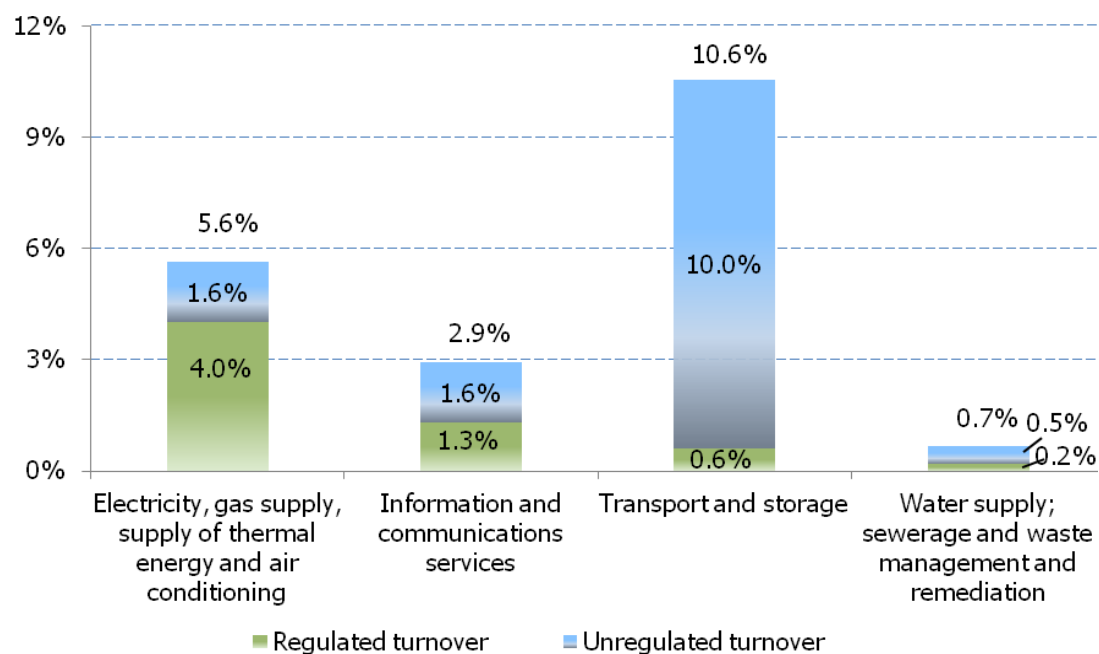
The Regulator's Board members are appointed by the Saeima and the Regulator's decisions may be declared illegal and cancelled only by court. The Regulator's operations are financed by a state fee on public service regulation which is calculated from turnover of regulated services and is paid by all regulated companies.

Regulated Sectors in the Context of the National Economy

Companies regulated by the PUC represent sectors of electricity, gas, thermal energy supply, water supply, wastewater and waste management, as well as transport, electronic communications and postal sectors. The proportion of regulated companies is different in each sector; therefore the published statistical data on aggregate results of sectors do not always reflect the tendencies in the operation of the regulated companies.

In accordance with data publishing deadlines of the Central Statistical Bureau of the Republic of Latvia, financial data of businesses of year 2011 were available and were used in the analysis at the time of preparation of the report.

The total net turnover of companies in the economy in 2011 was 31,971 million LVL, while the turnover of the regulated services was 1,944 million LVL or 6.1% of the total net turnover.



Net turnover by sectors in 2011 (% of the net turnover of all sectors)

The net turnover of companies of electricity, gas supply and heat supply and air conditioning sectors in 2011 was 1,806 million LVL of which 71.4% consisted of the turnover of regulated services.

The net turnover of the information and communications services sector was 943 million LVL of which 42.6% was the turnover of regulated electronic communications services. Regulated electronic communications services in the telecommunications subsector made up 78.3% of the net turnover.

The regulated railway transport and postal services are included in the transport and storage sector. The aggregate net turnover of the sector in 2011 was 3,374 million LVL, of which the

turnover of regulated services was 5.5%. 63.6% of the net turnover was regulated in the subsector of post and courier operations.

The net turnover of companies of the water supply, sewerage, waste management and remediation sector was 209 million LVL in 2011; the share of the regulated services therein was 32.9%. Analysing by subsectors, 91.6% of the net turnover was regulated in the water management sector, while the share of turnover of regulated services in the waste collection, treatment and disposal subsector was 6.2%.

The net turnover of regulated services calculated from the unaudited data of reports submitted to the Regulator by regulated undertakings was 2,095 million LVL in 2012, which is 7.7% more compared to 2011.

Average monthly wages in the regulated sectors (except the postal sector) were above the national average in 2012. The average net monthly salary in the electricity, gas and heat supply sector was 492 LVL, in the water supply, wastewater, waste management and sanitation sector - 352 LVL, in the transport and storage sector - 381 LVL (including in the postal sector 240 LVL), in the telecommunications sector – 631 LVL, while the average in the entire economy was 343 LVL. Compared to 2011, the national average net monthly salary has increased by 3.9%, the salary in the electricity and gas supply sector increased by 4.5%, the average salary grew 3.8% in water supply, wastewater, waste management and sanitation sector, the salary increased by 7.3% in the transport and storage sector (including 3.0% in the postal sector), and it grew by 9.7% in the telecommunications sector.

The Effect of Regulated Prices on Inflation

According to the data provided by the Central Statistical Bureau of the Republic of Latvia, 16.1% of all household expenditures (goods and services listed in the Consumer Price Index) were services with administratively regulated prices in 2012. Administrative prices include both regulated public services and other normatively regulated services in this list.

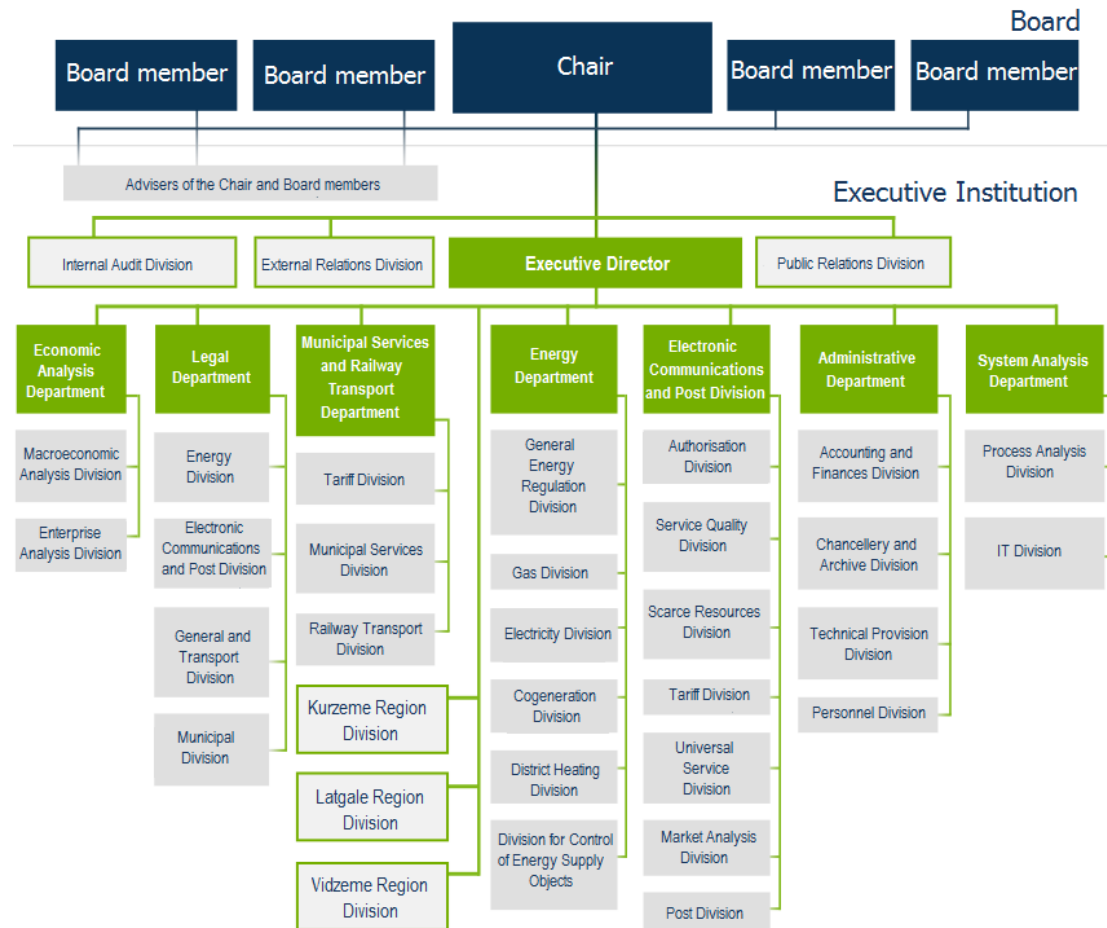
Public services	Share in expenditures of residents	Price increase (2012 XII vs. 2011 XII)	Inflation component (percentage points)
Public services supervised at the state level (electricity, natural gas, thermal energy, regulated voice telephony services, general postal services, water supply, sewerage services)	11.0%	7.5%	0.83
Normatively regulated services (apartment rent in municipal buildings, waste collection, compensated medication, patient's fee, passport issuance fee, car parking, notary services, passenger transport, kindergartens)	5.1%	2.1%	0.11
Administratively supervised and regulated prices, total	16.1%	5.8%	0.93
Consumer Price Index (inflation), total	100%	1.6%	1.6

In 2012 (compared to the previous year) consumer prices increased by 1.6%, while administratively regulated prices grew 5.8%. According to the share of administratively regulated prices in the basket of consumer goods and services, changes in administratively regulated prices made up 0.93 percentage points or 58% of the total inflation. Prices of public services went up more rapidly (by 7.5%) while prices of normatively regulated public services increased by 2.1%, compared to December 2011.

Among the sectors regulated by the PUC, services reflecting the rise of prices of energy resources in regional and international markets underwent the most significant changes. Thus, inflation in 2012 was mostly affected by a rise in the tariffs of natural gas and thermal energy, increasing the aggregate inflation by 0.17 and 0.67 percentage points accordingly. The prices of several regulated services decreased in 2012 – electricity by 2.7%, regulated voice telephony services by 0.7% and water supply by 0.3% reducing the total inflation by 0.03 percentage points. The aggregate direct influence of regulated services on the Consumer Price Index was 0.83 percentage points in 2012.

Structure and Employees

At the end of the reporting period, the Regulator had 117 employees, including five Board members. Of the employees, 107 have a higher education, eight have a doctorate, and 62 hold a master’s degree. Three employees of the Regulator have a professional higher education and four have an unfinished higher education. Three employees of the Regulator have a secondary or special secondary education. 97% of the Regulator’s employees have a graduate or a post-graduate degree.



Structure of the Public Utilities Commission

In 2012, the System Analysis Department was established and started work on the creation of the Regulator’s Integrated Information System. The RIS objective is to support and automate regulatory processes, increase their transparency and openness and provide various levels of the Regulator’s administration and regulated undertakings with regulatory and management information. Collection and analysis of business requirements was done and the concept for the RIS development was elaborated. Based on the concept for the RIS development, auction statute on the development of RIS specification and supervision of the RIS development and implementation was elaborated and an open competition was announced. Work on the RIS will continue in 2013. Competition statute for RIS implementation will be prepared after approving the specification of the RIS requirements.

Major Regulator's Decisions

The Regulator's Board met 47 times in 2012. The Board approved 331 decisions, issued 14 licenses, amended nine licenses, and cancelled seven licenses of public service providers in energy and water management sectors, registered 218 energy companies and 49 electronic communications companies, excluded nine energy companies from the register and stopped operations of 42 electronic communications companies.

The Regulator actively participated in drafting several laws in 2012:

- Amendments to Electronic Communications Law;
- Amendments to Postal Law;
- Amendments to Electricity Market Law;
- Amendments to Law On Safety of Hydro-technical Buildings of Hydropower Plants;
- Amendments to Latvian Administrative Violations Code;
- Amendments to Civil Process Law;
- Amendments to Administrative Process Law;
- Amendments to Residential Housing Management Law;
- Amendments to Waste Management Law;
- Draft of Water Management Law.

In 2012, the Regulator has announced one auction for obtaining the usage rights of radio frequency spectrum and the Regulator has granted to the winner the usage rights of 2300-2360MHz bands of radio frequency spectrum.

In the electronic communications sector, the Regulator developed and approved:

- Regulations on the volume and submittal procedure of the information required for market analysis;
- Amendments to the Regulations on provision of the number portability service;
- Amendments to the Regulations on the information to be submitted to the Public Utilities Commission.

In the energy sector, the Regulator developed and approved:

- Methodology for calculation of electricity tariffs for captive customers;
- Regulations of system connection for electricity producers;
- Regulations of system connection for electricity system participants;
- Regulations on conditions for usage of effective permitted load;
- Regulations on requirements for independence of electricity distribution system operator;
- Regulations on information for electricity end-users;
- Amendments to Methodology for calculation of cogeneration tariffs;
- Amendments to Methodology for calculation of tariffs of thermal energy supply services.

The Regulator approved standard contracts of system services of eight distribution system operators and the standard contract of electricity supply of the public trader JSC "Latvenergo". The Regulator also approved 20 thermal energy and cogeneration tariffs.

In the water management sector, the Regulator approved amendments to the Methodology for calculation of water management service tariffs, as well as approved service tariffs for 16 undertakings.

In the municipal waste management sector, the Regulator approved amendments to the Methodology for calculation of the tariff for municipal waste disposal service, as well as approved tariffs for municipal waste disposal service of two companies.

Litigation and Out-of-court Settlements

In 2012, three litigation processes were completed in the electronic communications sector. Litigation is still ongoing about cancellation of the Regulator's August 10, 2011 decision No.218 "On significant power in the market of call termination on individual public telephone networks provided at a fixed location".

In the energy sector, four litigation processes were completed in 2012 and 53 processes are still pending in 2013. The most important of the ongoing litigation processes concerns electricity tariffs for captive customers, as well as the Regulator's obligation to define an average tariff for the sale of electricity for a specific time period in the past.

In 2012, five litigation processes were completed in the water management sector and five will continue in 2013. In connection with takeover of regulatory functions from municipal regulators, the PUC was involved in five processes of litigation about decisions of municipal regulators in 2012.

One function of the Regulator is to pursue out-of-court settlements of disputes in cases involving public service providers and users. In 2012, the Regulator initiated a review of one such dispute in the electronic communications sector and reached the settlement of this dispute. In other sectors, the Regulator reviewed no disputes and took no decisions on dispute settlement in 2012.

The Regulator, exercising the authority stipulated in the Latvian Administrative Violations Code, has also reviewed cases of administrative violations. 75 cases of administrative violations were reviewed in the electronic communications sector. Five cases of administrative violations were considered in the postal sector. Three cases of administrative violations were initiated and reviewed in the energy sector and two cases in the water management sector.

International Cooperation

In the reporting period, the Regulator's contribution to the international cooperation increased significantly compared to the year 2011 because active and regular operations were started by the European Union regulatory organisations established in 2011 – the Body of European Regulators for Electronic Communications, the Agency for the Cooperation of Energy Regulators, the European Regulators Group for Postal Services, as well as the Independent Regulators' Group – Rail. At the same time, the EU legal acts which were already adopted or are being prepared in energy, electronic communications, post and railway transport sectors have significantly increased the scope of competence of the EU regulators and require dealing with specific issues more closely on a cross-border level.

In the electronic communications sector, the Regulator has been actively involved in the development of implementation papers of the *BEREC's* agenda on restriction of the fraudulent use of cross-border numbering and development of documents for the *BEREC* Net Neutrality Expert Working Group. At the initiative of the Regulator, the quality of Internet access services has been established as a priority in the agenda of the working group of *BEREC* and the European Communications Committee *TRIS*, where the Regulator runs the project on quality, and where analytical material on the network and service quality has been developed.

In the energy sector, in accordance with the 3rd Energy package the Regulator for the first time evaluated and approved the ten-year investment plan of the electricity transmission system operator and adopted a draft decision on certification of the electricity operator, moreover, the European Commission had no prior experience in the certification of the independent system operator model chosen by Latvia. At the EC request, regulators had to (legally informally) assess the so-called projects of common interests in the electricity and gas sectors which in 2013-2014 (when the Infrastructure Package will come into force) will be included in the official list of the EU projects of common interest receiving the relevant EU financing and profiting from shorter confirmation deadlines.

In the railway transport sector, the Regulator was involved in the formulation of common positions of *IRG-Rail*, gaining the experience of the institutions of the EU member states regulating the railway transport sector regarding the fulfilment of the requirements of the EU legal acts, as well as commenting drafts of legal acts – the directive developing a Single European Railway Area which will widen the scope of regulatory functions, as well as the 4th Railway Package. The Regulator's experience in the regulation of energy and electronic communications sectors was helpful in the process.

In the postal sector, the issue of universal service was especially topical internationally. Work continued to ensure accessible and high-quality postal services to all residents independent of their location which in turn is associated with financing of these services. In this regard, various suggestions and experience were reviewed to find the best solution for financing losses from the provision of the universal postal service.

The Regulator also continued work in the EU working groups on general issues of railway regulation and the amendments to the 1st Railway Package; in inter-institutional working groups on the EU electricity highways, the Baltic Energy Market Interconnection Plan and electricity and gas projects of common interest; in the work of the EC Communications Committee and the Electronic Communications Committee, the EC working meeting on the Digital Agenda for 2013 and others; in relevant world regulatory forums – the Congress of the Universal Postal Union and the World Forum on Energy Regulation, as well as participated in the *BEREC/OECD* meeting on the Internet protocol and interconnections, and the work of Energy Regulators Regional Association and the UN Economic Committee.

Regional cooperation, especially in the electronic communications and energy sector, happened on two levels – analysing the situation in the three Baltic States, as well as the wider Baltic region. In the meeting of the Baltic and Nordic electronic communications regulators, there was a discussion on network neutrality, while topical sectoral regulatory issues were discussed in the expert meeting of the three Baltic electronic communications and postal regulators. In 2012, the electricity market participants of the Baltic region met in two mini-fora and analysed the consequences of unplanned flows of cross-border electricity and their impact on the regulatory environment, provided a report on the operational results of the *Nord Pool Spot* exchange in the Baltic States and preparation for the implementation of the Latvian bidding area, as well as the ten-year investment plan and the *BEMIP's* impact on the Baltic region.

The Regulator also organised a seminar for the regulators of the three Baltic countries on regulation of water management sector which addressed legislation of the sector, detailed analysis of tariff formation including cases of the EU financed projects. In the forum of Baltic regulators on regulation of gas and thermal energy supply, the regulators addressed such topical issues as the Baltic interconnections and capacity thereof, safety of the gas supply, alternative heating sources and price formation in the supply of thermal energy.

The mutual experiment of the Latvian and Lithuanian regulators in the measurement of the Internet service was significant for the bilateral exchange of experience, and so was the PUC's meeting with the Canadian and US regulators and other market participants preparing for monitoring of the wholesale markets, certification of the independent system operator and solving specific issues of a multi-sector regulator's activities.

In 2012, the Regulator has significantly increased its contribution for the transfer of its experience including the participation of the PUC experts of different sectors continued in the EU projects – in the electronic communications sector, in the *Twinning* project in Ukraine (in consortium with Spanish and Swedish regulators) and implementation of the EU legislation in TAIEX projects in Kosovo and Serbia; in cooperation with ITU, the PUC shared experience about regulation of electronic communications sector with Ukrainian and Moldova regulators; in the energy sector, representing ERRA transferred knowledge about topicalities of electricity sector regulation to the Ukrainian regulator and welcomed the delegation of the Moldova Competition Council in an exchange visit. The Regulator in cooperation with *BEREC* organised

IRG/BEREC contact network meeting. The Regulator's representatives presented more than 40 presentations: about topical electronic communications and postal issues, including service quality control and protection of consumer interests, market surveillance, experience of the implementation of the EU directives; the development of the Baltic electricity market, safety of gas supply, the implementation experience of the EU energy regulatory framework – the 3rd Energy Package; the universal service provision model, especially in the postal sector; Latvia's experience in the regulation of the multi-sector public services; experience in the issues of water and thermal energy supply.

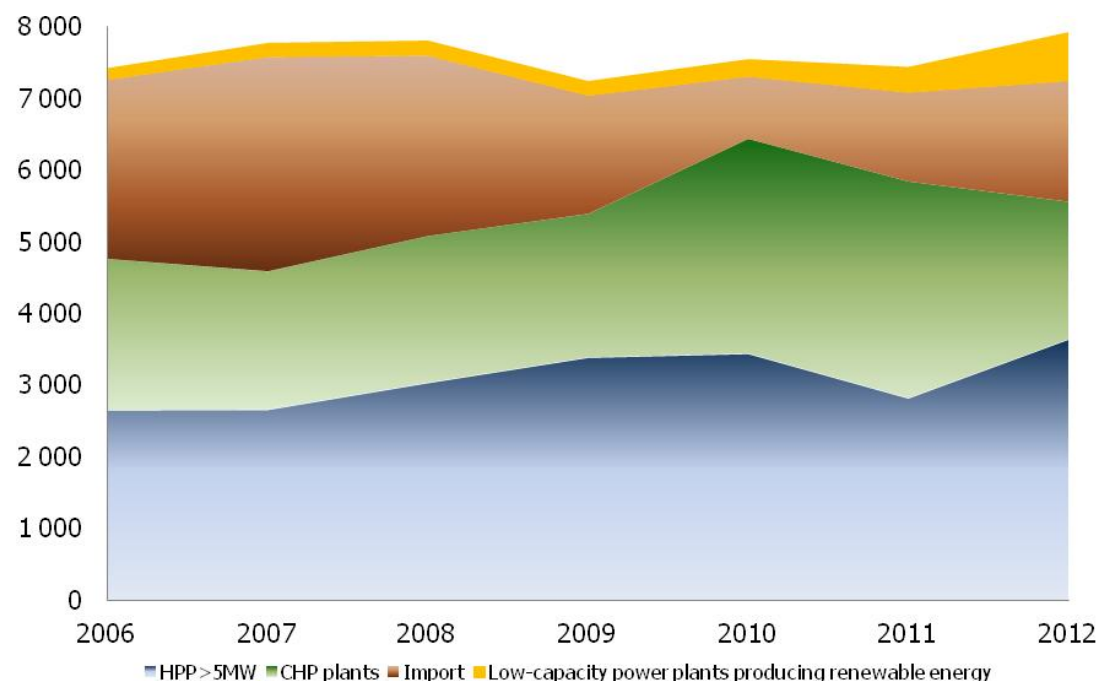
In 2013, the Regulator's priorities for the international cooperation will follow from the necessity to implement the existing EU legal acts and participate in the discussion of the new legal acts. In the energy sector, it is the 3rd Energy Package which includes the supervision of the certified independent system operator, supervision of the wholesale markets, the process of regional initiatives, approval of investment plans, participation in the development of *ACER* recommendations, as well as the new Infrastructure package. In the electronic communications sector – issues of network infrastructure, network neutrality, roaming, service quality, numbering fraud and cross-border issues and others which will be mainly determined by *BEREC* agenda. In the postal sector, the EU is opening market for full liberalisation in 2013; an important issue is the universal service fund in the postal sector. In the railway transport sector, issues connected with the implementation of the Directive 2012/34/EC will be important, which establishes a Single European Railway Area envisaging widening of regulatory functions, and development of the 4th Railway Package. In 2013, issues of water management regulation will also be topical which previously were not regularly analysed in the context of the EU and wider sector regulation.

Regulation in the Energy Sector

In the energy sector, the areas regulated by the PUC are the supply of electricity, the supply of natural gas, and the supply of thermal energy.

Only the JSC "Augstsprieguma tīkls" transmits electricity along 330kV and 110kV transmission lines in Latvia. 11 distribution system operators distribute electricity along medium voltage (6-20 kV) and low voltage networks. The JSC "Sadales tīkls" supplies electricity to 99% of the power users. In order to distribute electricity, companies have to receive a licence from the Regulator indicating its operational zone.

Several companies trade electricity, however, most customers (~94%) buy electricity from the JSC "Latvenergo" which imports and exports electricity and also fulfils the functions of the supplier of last resort as a public trader. In order to trade electricity, companies must be registered in the electricity trader register. In 2012, the JSC "Latvenergo" provided for 89.4% or 6,707.6 GWh of the total electricity consumption in Latvia; other electricity market participants provided 10.6% or 797.4 GWh.

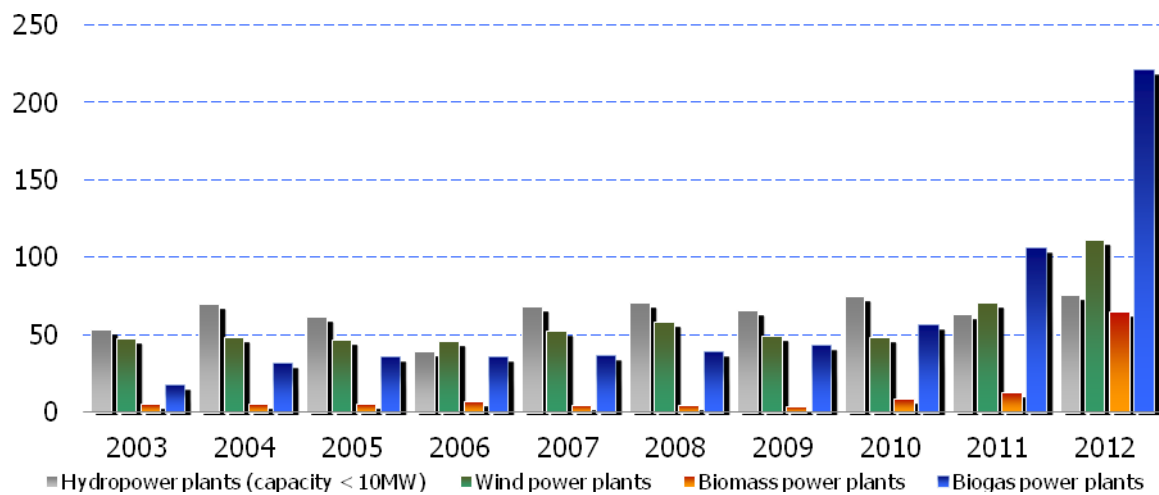


Electricity generation and import in Latvia from 2006 to 2012, GWh

More than 100 companies generate electricity in Latvia. All electricity producers with generating capacity above 1 MW have an obligation to register in the electricity producer register. The largest registered company is Latvenergo.

The statistical data indicate that electricity supplies to the internal market in Latvia were 7,505 GWh in 2012 which is 4.84% more than in 2011.

In 2012, the gross electricity generation reached 6,011 GWh which is 1.39% less than in 2011. 68.1% of the total amount of generated electricity was produced from renewable energy resources (HPP, wind, biogas, biomass power plants).



Electricity generation from renewable energy resources from 2000 to 2012, GWh

136 CHP plants operated in Latvia in 2012 with the total electrical capacity of 947 MW including 38 biogas plants and 17 biomass power plants. The plants generated 2,203 GWh of electricity in 2012. Compared to 2011, the electrical capacity of CHP plants increased by 5.79%. The largest installed electrical capacity of CHP plants was in Riga – 798.6 MW.

The aggregate electrical capacity of wind power plants increased by 23 MW in 2012 and was 59 MW. A total of 112 GWh of electricity was produced which is 58% more than in 2011.

The electrical capacity of biomass power plants increased by 22 MW and was 27 MW, compared to 2011. A total of 65 GWh of electricity was produced or 400% more than in 2011.

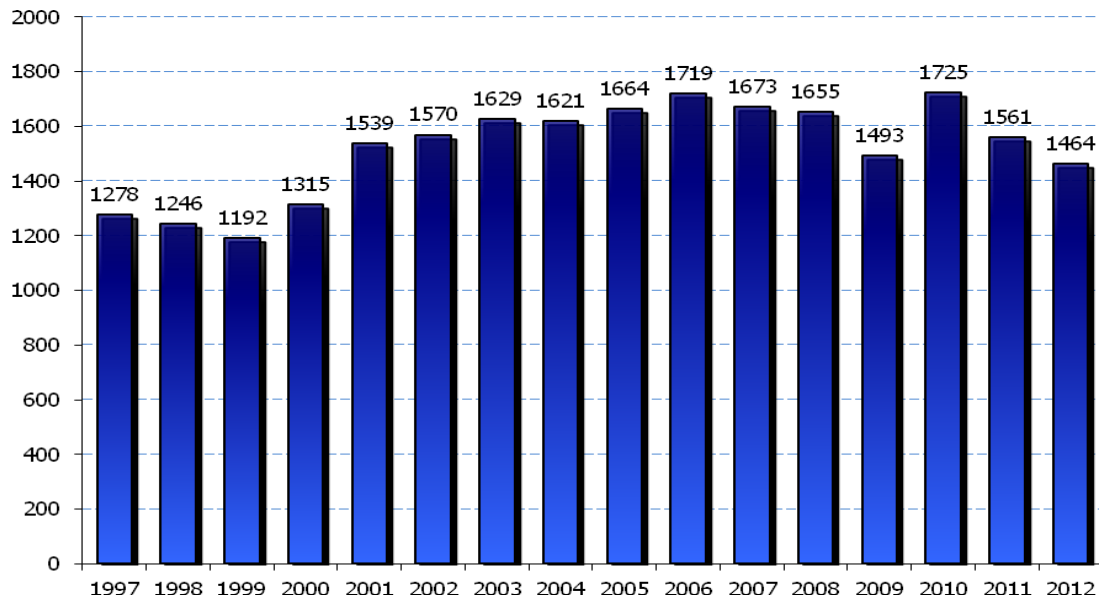
The installed capacity of biogas power plants in 2012 grew from 24 MW in 2011 to 44 MW in 2012 and 222 GWh of electricity were generated in total or 108% more than in the previous year.

The electrical capacity of hydro power plants has remained unchanged, but the volume of produced electricity has grown from 2,887 GWh in 2011 to 3,706 GWh in 2012 or 28.4% more. Hydro power plants with capacity below 10 MW generated the same amount of electricity as in 2011 – 63 GWh. Large hydropower plants with capacity above 10 MW produced 3,643 GWh of electricity or 88.7% of all electricity generated from renewable power resources in Latvia.

In 2012, natural gas (92.3%), as well as biogas, wood, coal, heavy fuel oil, and biodiesel fuel were mainly used for generation of thermal energy and electricity in CHP plants.

The stock company Latvijas Gāze supplies natural gas in the Latvian market. It controls the entire network from purchase to delivery to the end user. The company has internal units that are responsible for the transmission, storage, distribution and trade of natural gas.

Bookkeeping of the company is in line with the functions of these units, and the Regulator has approved a cost allocation methodology for this purpose.



Natural gas consumption in Latvia, million.n.m³

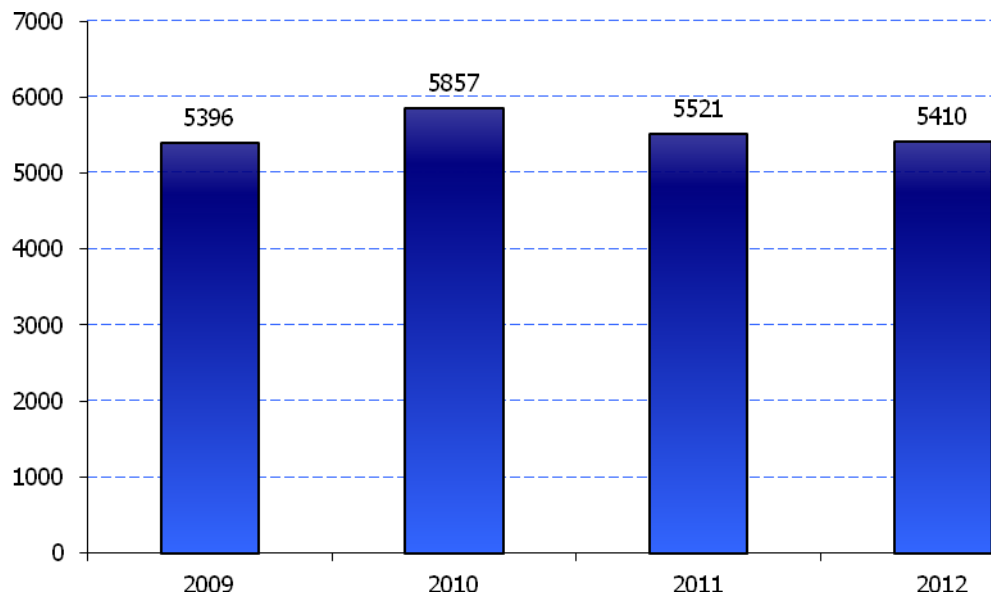
The natural gas delivery system was established 30 - 40 years ago and has a capacity of some four billion cubic metres of natural gas each year. In 2012, the total consumption of natural gas in Latvia represented just 37% of the capacity, which means that the natural gas delivery system is never over-loaded and can ensure a stable supply of natural gas to all consumers in Latvia.

The amendment to the law of December 10, 2009, regarding the procedure under which certain sections of the Energy Law will take effect, stipulates that the natural gas market will not be opened to competition until April 4, 2014.

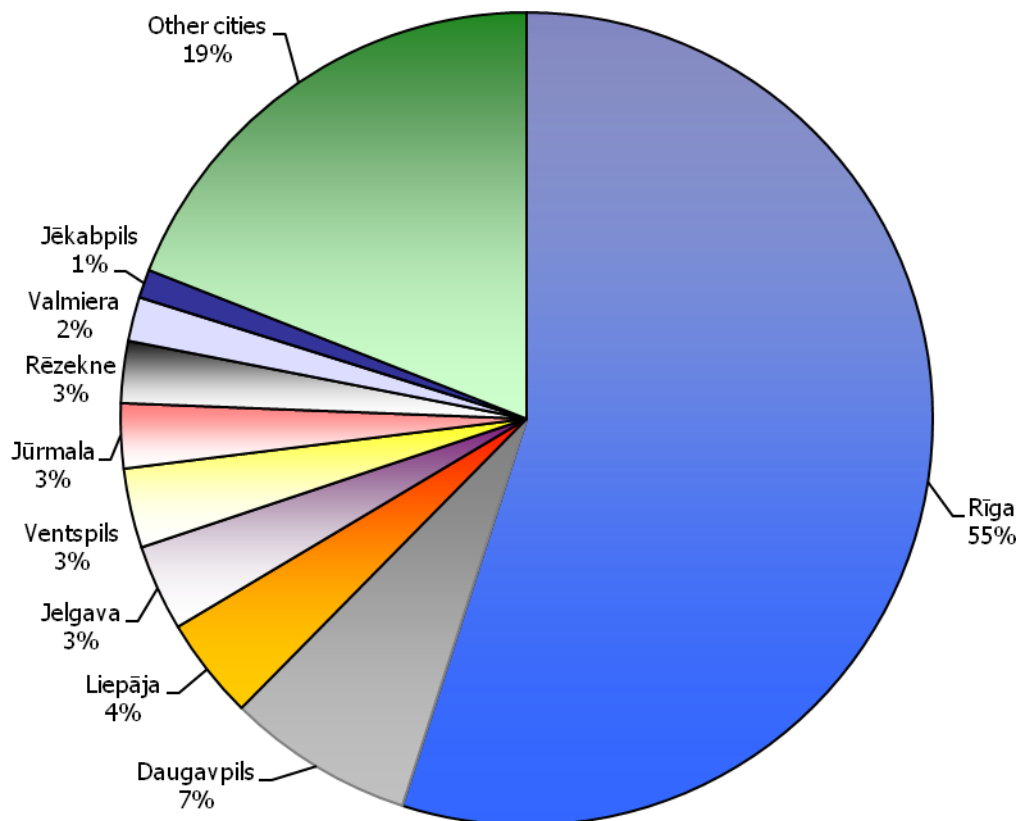
Natural gas consumption in Latvia decreased by 6.2% in 2012 as compared to 2011 and was 1.464 billion m³. In 2012, of this amount, 57.5% was used to produce thermal energy and electricity, 17.6% was used to supply industrial users, 14% to supply businesses and communal companies, 9.1% to supply residential users, and 1.8% to supply agricultural companies.

The supply of thermal energy is very important in the Latvian climate because buildings require heating more than six months per year. About 60% of the total energy necessary for heat supply is received from district heating systems. Most district heating systems were built 30–50 years ago, but significant works of reconstruction and efficiency improvement have been done in the last 10–15 years. Heat supply companies produce thermal energy both in boilers and cogeneration installations. The main fuel types used for generation of thermal energy are natural gas and woodchips.

At the end of the reporting period, 263 companies were regulated in the heat supply sector, and the largest 30 of these supplied to users more than 95% of the total regulated volume of thermal energy. Dynamics of the volume of thermal energy supplied to users by the regulated heat supply companies and distribution in the Latvian cities are shown in the graphs below.



Dynamics of the volume of thermal energy delivered to users from 2009 to 2012, GWh



Generated thermal energy by cities in 2012

Licensing and license supervision

In accordance with the Cabinet of Ministers Regulations No.1227 "Regulations on types of regulated public utilities" (approved on October 27, 2009), the PUC regulates in the energy sector:

- CHP plants, which generate electricity and thermal energy as long as their maximum output is above 1 megawatt (MW);
- generation of electricity in plants with electrical capacity of more than 1 MW;
- transmission of electricity, if the voltage is at least 110 kV;
- distribution of electricity, if the voltage is between 1 and 110 kV;
- trade of electricity to end-users, if the total traded volume exceeds 4,000 MWh per year;
- generation of thermal energy in facilities with installed thermal capacity above 1 MW if the volume of thermal energy transferred to users exceeds 5,000 MWh per year;
- transmission and distribution of thermal energy if the total volume of transmitted and distributed thermal energy exceeds 5,000 MWh per year;
- trade of thermal energy to users, if the total traded volume of thermal energy exceeds 5,000 MWh annually.

In accordance with amendments to the Energy Law, from January 1, 2012 licensing of electricity producers and traders, as well as producers and traders of thermal energy has been substituted by registration simplifying the authorisation procedure for producers and traders.

A company has a right to start generation or trade of electricity if it has been registered in the register of electricity producers or electricity traders according to the procedure specified by the Electricity Market Law. At the end of the reporting year, 249 companies were registered in the register of electricity producers. In 2012, 97 producers were registered including 89 CHP plants and eight wind power plants. Of the 89 CHP plants, 58 use biomass as the primary source of energy and 31 use biogas. One company has been excluded from the register. 44 electricity traders have been registered in the electricity trader register at the end of the reporting period. In 2012, 10 new traders were registered while two traders were excluded from the register. In the electricity supply sector, one licence was issued for electricity transmission and 11 were issued for electricity distribution.

The PUC also regulates the storage, transmission, distribution and trade of natural gas, except for trade of natural gas in gas filling stations for motor vehicles. The JSC "Latvijas Gāze" has licenses for the storage, transmission, distribution and trade of natural gas.

At the end of the reporting period – in December 2012, 263 companies were registered in the registers for thermal energy. Of these, 252 were registered in the register of thermal energy producers and 70 companies were registered in the register of thermal energy traders. In the sector of thermal energy supply, 65 companies have licences for transmission and distribution of thermal energy. In 2012, 94 new companies were registered in the register of thermal

energy producers and four companies were excluded from the register. 16 companies were registered in the register of thermal energy traders and two companies were excluded from the register. In 2012, six new licences were issued for transmission and distribution of thermal energy, one license was amended and two licences were cancelled.

Independent electricity transmission system operator

Implementing the requirements of the Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC, JSC "Augstsprieguma tīkls" has been established as the independent system operator and JSC "Latvijas elektriskie tīkli" as the owner of the electricity system. Implementing the requirements of the Electricity Directive, the Regulator began the process of certification of an independent system operator in 2012 with the objective of approving and designating an independent system operator. In 2012, during the certification process the independent system operator confirmed that it complies with the requirements specified in the Electricity Market Law regarding certification of an independent system operator.

On August 22, 2012, the Regulator approved the ten-year transmission system development plan by decision No. 195 "On the development plan of the electricity transmission system", evaluated the compliance of the JSC "Augstsprieguma tīkls" with certification requirements and according to the procedure on October 8, 2012 sent the draft decision "On certification of the transmission system operator" to the European Commission. After receiving the draft decision, the EC prepared the December 4, 2012 opinion about certification of JSC "Augstsprieguma tīkls" and based on the opinion, the approval and designation of JSC "Augstsprieguma tīkls" as the independent system operator was completed at the beginning of 2013.

Supervision of facilities of energy supply companies

According to the Energy Law and the law "On Safety of Hydraulic Structures of Hydroelectric Power Plants", the Regulator controlled the compliance of operation of hydraulic structures of hydroelectric power plants with requirements of normative acts.

In the reporting year, facilities of 122 energy supply companies were inspected in order to carry out preventive actions and gather information about the compliance of facility maintenance with requirements of normative acts.

Performance indicators

Activities		Energy companies and managers of hydraulic structures of hydroelectric power plants			
		HPPs	Electricity supply	Supply of thermal energy	Gas supply
1.	Issued certificates of safety for HPP hydraulic structures	63			
2.	Approved safety programs for HPP hydraulic structures	6			
3.	Number of inspections	57	38	23	4
4.	Violations found	2	17	19	4

The most significant violations found during inspection of facilities of electricity supply companies:

- unconformity of the condition of constructions of electrical installations;
- inadequate condition of electrical installations;
- incomplete fulfilment of preventive measurements of electrical installations and failure to comply with periodicity;
- regulations of earthing installation were not complied with;
- no order regarding the responsible person;
- incomplete documentation of contracts;
- electrical installation had no connection scheme;
- electricity self-consumption of a CHP plant was connected improperly.

The most significant violations found during inspection of facilities of heat supply companies:

- absence of accounting of thermal energy;
- verification of heat supply meters had not been performed on time;
- temperature schedule had not been developed;
- no registration journal of energy efficiency indicators;
- incomplete fulfilment of preventive measurements and incompliance with periodicity;
- no order on designating the responsible persons;
- instructions for equipment servicing and maintenance had not been developed;
- alarm for emergency gas leak had not been installed;
- protection against lightening had not been installed.

The most significant violations found during inspection of facilities of gas supply companies:

- automatic device for switching off gas supply had not been installed;
- devices and gadgets were not numbered (no operative descriptions);
- parameters of natural gas quality had not been indicated in randomly selected contracts with household users and contracts with industrial users with annual consumption less than 25,000 n.m³;
- technical documentation did not comply with requirements of LVS-364 (27.10.2011.);
- tell-tale of gas concentration had not been installed.

After assessing the results of surveys of energy companies' facilities, the Regulator concluded that companies comply with legislative requirements of the regulated sector. No serious violations were found, and the violations indicated in inspection files were eliminated by the deadline set by the Regulator. 158 hydraulic structures are listed in the register of hydraulic structures of hydroelectric power plants. Of these, 11 do not operate commercially.

In the reporting period, 57 hydraulic structures were inspected because renewed safety certificates had to be issued. The Regulator reviewed safety declarations of 63 HPP hydraulic structures and safety certificates were repeatedly issued to 60 managers of HPP hydraulic structures.

The Regulator approved the program for safety of HPP hydraulic structures and issued safety certificates to three new HPP hydraulic structures.

The safety of HPP hydraulic structures is a complex of measures which includes systematic control and regular evaluation of the condition of hydraulic structures. The following violations were found during inspections of HPP hydraulic structures:

- incomplete fulfilment of preventive measurements of electrical installations and non-compliance with periodicity;
- no order on designating the responsible persons.

After assessing the results of the survey of hydraulic structures of hydroelectric power plants, no violations that could cause accidents of HPP hydraulic structures were found.

On October 4, 2011, the Cabinet of Ministers approved regulations No.759 "Regulations on requirements for voltage of public electricity supply networks", which specified that the European standard LVS EN 50160:2010 "Characteristics of voltage of public electricity supply networks" adapted for Latvia is used in the public electricity networks. The above-mentioned standard obligates system operators to ensure characteristics of electricity supply quality on the ownership boundary of electrical installations. Based on Article 9, Paragraph one, Clause 6 and Article 25, Paragraphs one, two and three of the law "On Regulators of Public Utilities" the Regulator performs regular measurements of the quality of electricity supply in the public electricity networks in Latvia.

Measurements were started in September, 2012. In the reporting period, 14 measurements were performed in Riga; in two cases non-compliance with the standard were found – elevated harmonic distortions for separate harmonics. Harmonic distortions are usually generated by the equipment of electricity users. Distribution operator was informed about inadequacies found to provide technical solutions for their elimination and ensure the quality of electricity supply according to the standard.

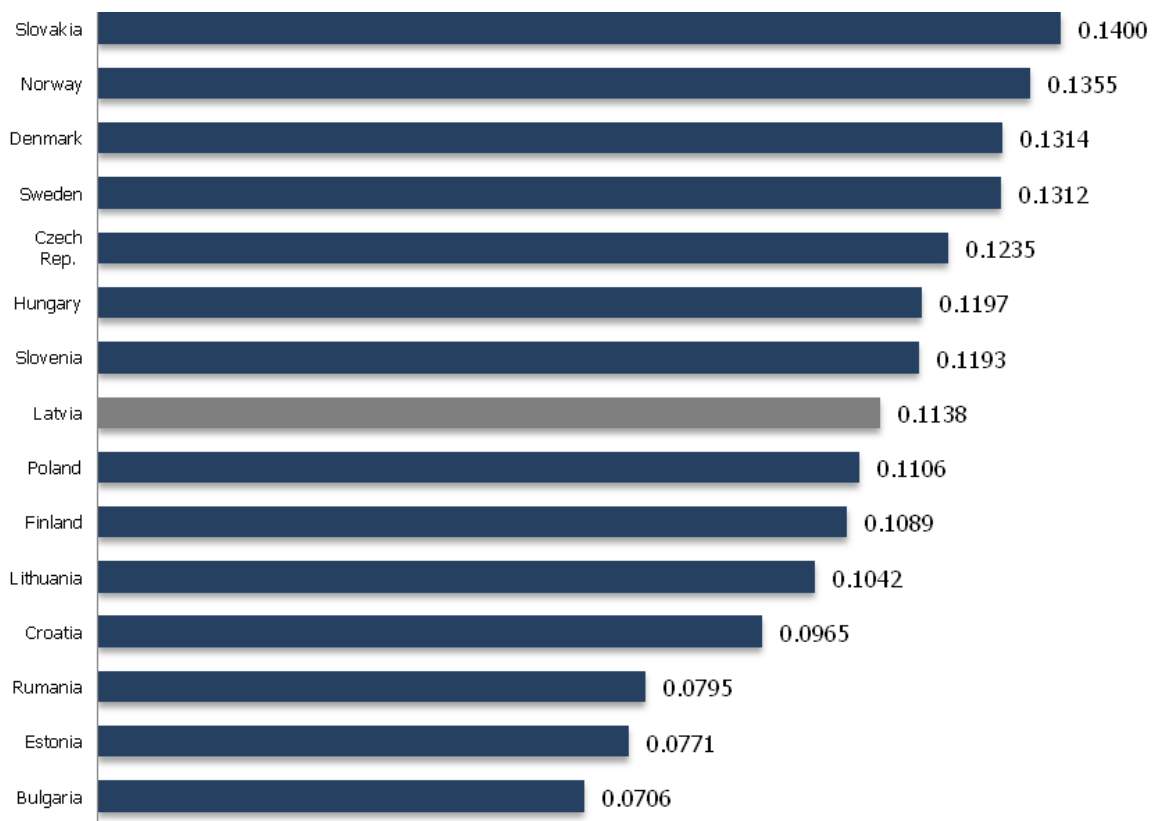
Electricity

The Regulator approves tariffs for companies that generate electricity in CHP plants, tariffs for the transmission and distribution of electricity, as well as tariffs for the trade of electricity to captive customers if the trader has not received a permission to set tariffs. Tariffs for the transmission and distribution of electricity are specified so that, when a free market participant concludes a bilateral agreement on the delivery of electricity and pays for transmission and distribution system services, the rules for accessing the transmission and distribution systems are clearly understood.

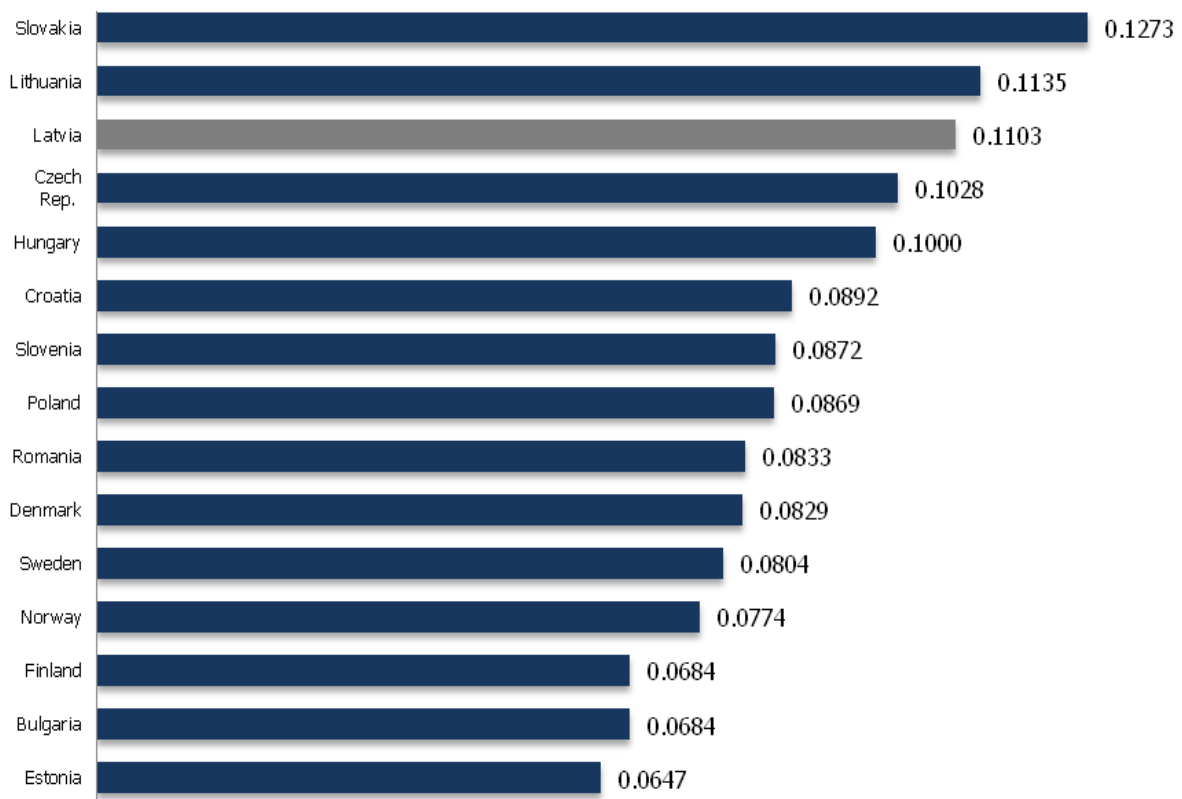
From November 1, 2012, only household users pay for electricity according to captive customer tariffs approved by the Regulator, other users buy electricity at a contract price from electricity trader or within the framework of supply of last resort. Tariffs for captive customers differ from one user group to another, depending on the voltage level, the demanded amount of electricity and time zones. Captive customer tariffs cover the cost of generating and importing electricity, including the cost of electricity generated by renewable energy resources. The tariffs also cover the cost of transmission and distribution systems, as well as the cost of retailing electricity.

The price of imported electricity is based on agreements between JSC "Latvenergo" and suppliers of electricity in Russia, Lithuania and Estonia and trade transactions in the Nordic electricity market (*Nord Pool*). The Regulator defines the tariff for generating electricity at CHP plants with a capacity of more than 4 MW (including TEC-1 and TEC-2). For CHP plants with a capacity of less than 4 MW and for power plants that use renewable energy resources, the procedure for calculating the purchase price for electricity is specified by law.

In 2012, the Regulator also approved JSC "Augstsprieguma tīkls" tariffs for electricity transmission system services.



Electricity prices for household users in the Eastern Europe and Nordic countries in 2012 (excl. taxes)



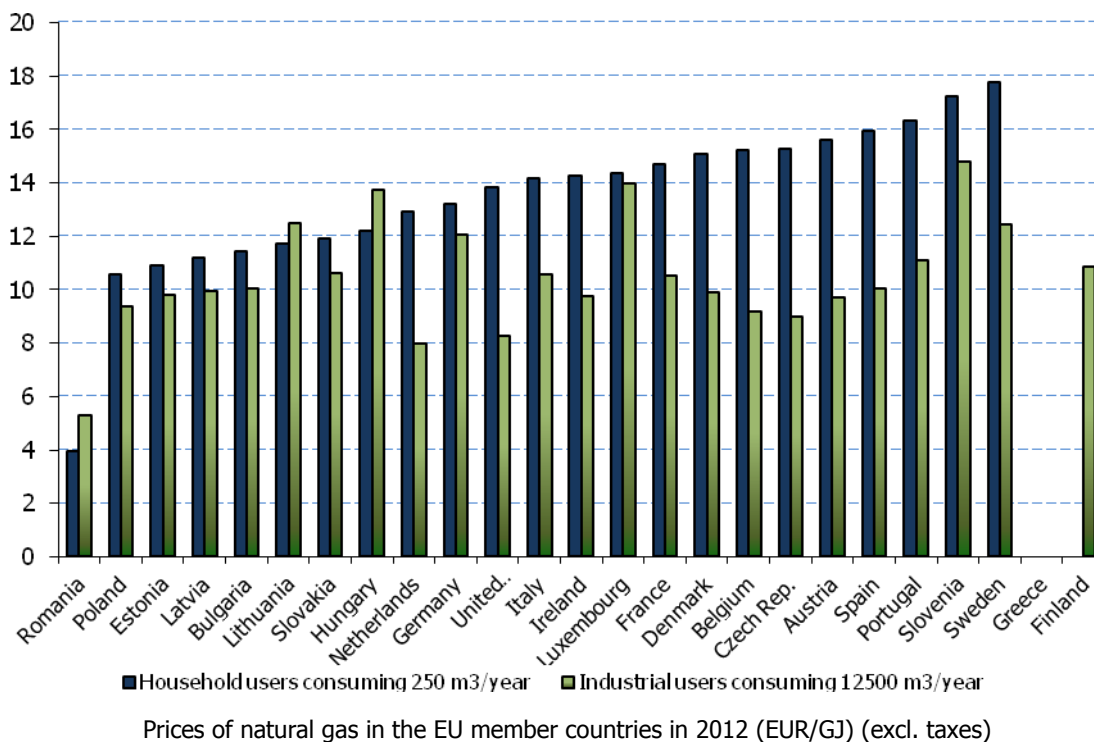
Electricity prices for industrial users in the Eastern Europe and Nordic countries in 2012 (excl. taxes)

According to the *Eurostat* data for 2012, electricity tariffs in Latvia were about the same level as tariffs in the Eastern EU states.

Natural gas

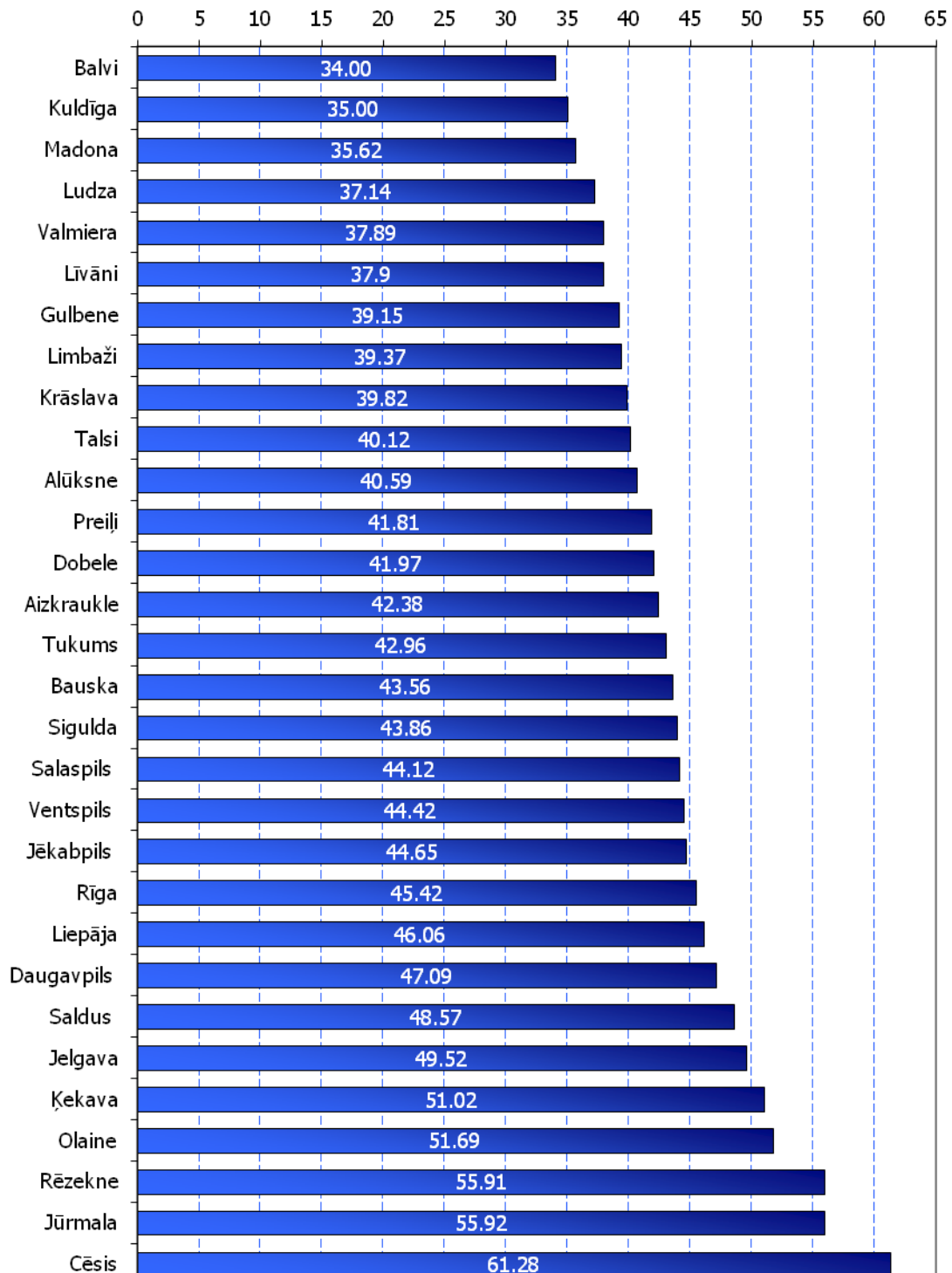
End-tariffs for the trade of natural gas are based on the purchase price of natural gas and on the cost of services related to the delivery of natural gas to users — transmission, storage, differentiated distribution and trade. The purchase price for natural gas is transferred without any changes to differentiated trade end-tariffs.

According to the *Eurostat* data for 2012, Latvia had the fourth lowest natural gas tariffs for household users among the EU member states.



Thermal energy

District heating tariffs differ from city to city in Latvia. The tariff differences are determined by various technical and economic factors, for example, the efficiency of heating networks and the whole district heating system, location of networks, the volume of thermal energy losses, fuel type, the capacity of a district heating system, investments made, geographical location and topography of an urban area. District heating end-tariffs in the biggest Latvian cities in December 2012 are shown in the graph below.



Tariffs of thermal energy in the largest Latvian cities in December 2012, LVL/MWh

In 2012, the Regulator received, reviewed and approved two tariff proposals for production of thermal energy in CHP plants and 18 tariff proposals with end-tariffs for users of thermal energy which include tariffs of production, transmission/distribution and trade in the sector of thermal energy supply.

New tariffs for production of thermal energy were approved for CHP plants - LLC "Liepājas enerģija" and LLC "Sabiedrība Mārupe". The CHP plant of LLC "Liepājas enerģija" in Liepāja, 33 Kaiju Street was commissioned in 2012. A newly built CHP unit is used for production of thermal energy and electricity in the CHP plant which uses wood chips as a fuel, but boilers using natural gas as fuel are operated as peak-load boilers for heating. During the review of the tariff proposal the reduction of production costs was achieved and lower thermal energy tariffs were approved at different trading prices of natural gas ranging from 13.6% to 14.1% compared to the initially submitted tariff proposal. Lower tariffs were also approved for LLC "Sabiedrība Mārupe" at different trading prices of natural gas ranging from 12.2% to 17.4%, compared to the initially submitted tariff proposal.

Tariff for thermal energy are approved in the form of tables and are applicable depending on a specific differentiated end-tariff for natural gas trade determined by JSC "Latvijas Gāze" in a specific month.

End-tariff proposal with 11.3% reduction was approved for LLC "Salaspils Siltums". End-tariff proposals for such companies as JSC "Simone" (in Alūksne), LLC "Talsu BIO-Enerģija", and LLC "Ķekavas nami" were also approved. Three tariff proposals were also approved for JSC "Mārupes komunālie pakalpojumi" – for villages of Tīraine, Mārupe and Skulte. New end-tariffs were also approved for JSC "Rīgas siltums", LLC "Maltas dzīvokļu - komunālās saimniecības uzņēmums", and JSC "Daugavpils siltumtīkli".

Two end-tariff proposals were approved for LLC "Lielvārdes Remte" – for cities of Lielvārde and Lēdmane. New end-tariffs of thermal energy supply services were also approved for LLC "Pļaviņu komunālie pakalpojumi" and LLC "Ventspils siltums". Significant reduction of end-tariffs by 13.4% was determined for LLC "Liepājas enerģija", as well as for LLC "Ikšķiles māja" – reduction of 5.6%. Even more significant reductions of end-tariffs were approved for LLC "Iecavas siltums" – by 17.2% and LLC "Sabiedrība Mārupe" - by 23.4%.

Protecting user rights

The EU Electricity Directive and various regulations related to the electricity sector mean that the PUC oversees the process of market development, ensuring transparent market information and equal rules for all market participants.

In 2012, 98 complaints (claims) of public service users were received and reviewed in the energy sector. Answers related to electricity supplies mostly had to do with the delivery of electricity (27%), quality of electricity (13%), and the registration of the amount of electricity used and the resultant bills (44%). In the gas supply sector, most complaints concerned issues of natural gas supply (54%) and the registration of the amount of natural gas used and the resultant bills (29%). In the sector of thermal energy supply, 48% of the received complaints were related to the issues of thermal energy tariffs and payments for provided services; 28% were about problems with thermal energy supply.

In 2012, compared to 2011, the number of the received complaints has decreased by 25%. In the electricity supply sector, the number of received complaints dropped by 39%, in the gas supply sector by 56%, while the number grew by 39% for the supply of thermal energy.

Most of the received complaints were unjustified; they make up 74% of all complaints, while 6% of the complaints were justified. 20 complaints (20%) were unrelated to the Regulator's work. More detailed distribution of complaints by types of energy supply is available in the table below.

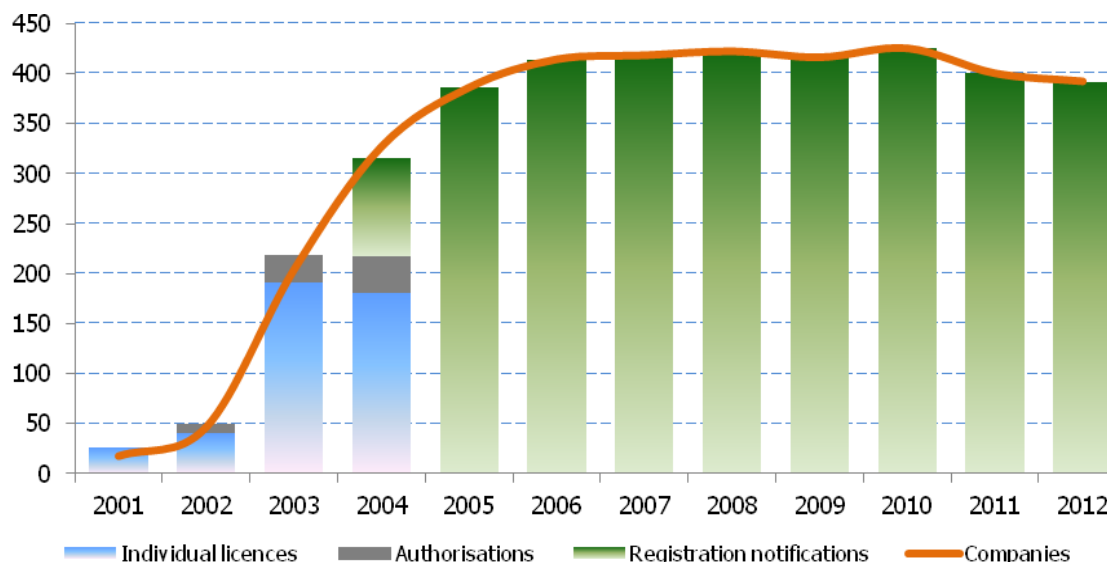
Complaints	Total, including		Electricity		Gas		Supply of thermal energy	
	number	%	number	%	number	%	number	%
Justified	6	6	5	11	1	4	0	0
Unjustified	72	74	35	78	25	89	12	48
Unrelated to Regulator's work	20	20	5	11	2	7	13	52
Total:	98	100	45	100	28	100	25	100

Complaints received in the energy sector in 2012

In 2012, the Regulator purchased measuring instruments registering the voltage quality to perform quality measurements in case of disputes and determine compliance with the Cabinet of Ministers Regulations No.759 "Regulations on the requirements for voltage of the public electricity supply networks" specifying that from January 1, 2012, the application of the standard LVS EN 50160:2010 "Characteristics for voltage of the public electricity supply networks" is mandatory.

Registering companies

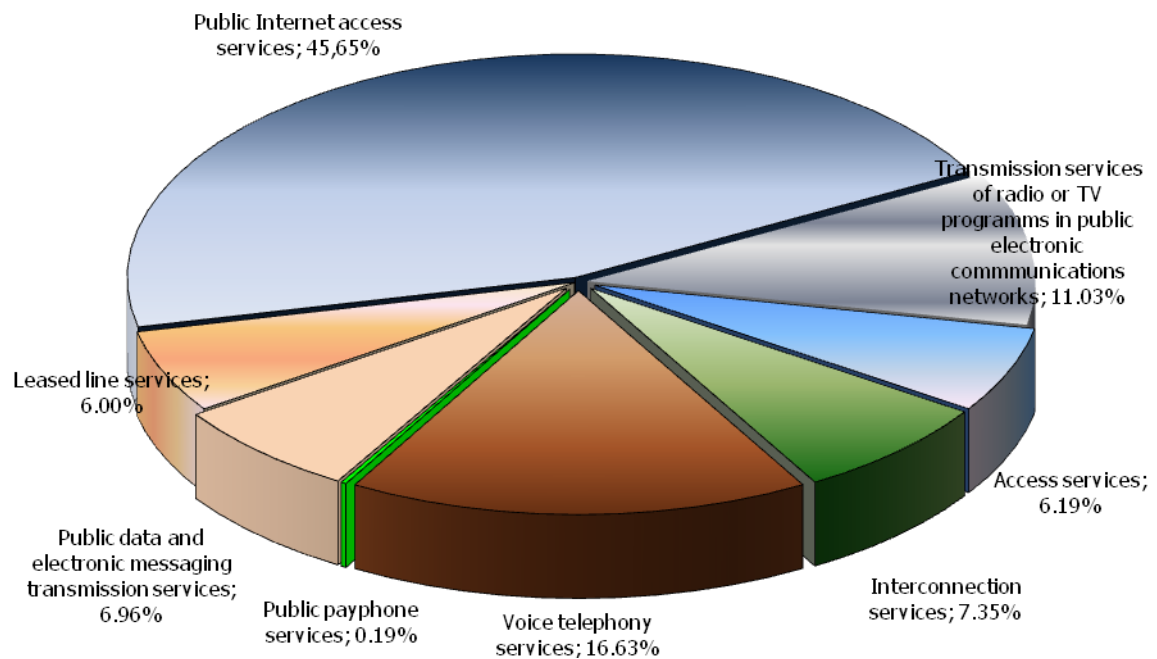
Looking at the changes in the number of electronic communications companies over an extended period and taking into account changes in the licensing regime in the electronic communications sector, a correlation can be observed between the simplification of procedures for market entry and the growing number of companies.



Changes in the number of companies in 2001-2012

Since 2006 the number of registered electronic communications companies has stayed almost constant because the number of new entrants is similar to the number of companies deciding to end or discontinue operations in the electronic communications sector. 48 new electronic communications companies registered with the PUC in 2012 and 42 companies ended their operations in the electronic communications sector.

748 electronic communications companies were registered at the end of the reporting period. Of these, 393 companies were actually operating in the electronic communications sector. Only 52 electronic communications companies have indicated that they operate in the entire territory of the Republic of Latvia. The rest of the companies operate in some districts or cities of Latvia. Most of the electronic communications companies are small and their services are often available only in a small part of a city or district.



Distribution of electronic communications companies by service types in 2012

Supervising companies

The supervision of electronic communications companies is carried out in accordance with normative acts of the electronic communications sector. Electronic communications companies have an obligation to submit information to the Regulator about their operations twice a year.

The Regulator has a right to take a decision about the termination of operation of an electronic communications company if normative acts are violated repeatedly without resolving the violations. In 2012, the Regulator cancelled the rights of 16 companies to provide electronic communications services and electronic communications networks for three years (out of 42 companies which ended their operations in 2012).

Market analysis to determine significant market power

In the reporting year, the Regulator performed market analysis in the market of transit services in the fixed public telephone network.

In the reporting year, the Regulator received objections from the European Commission about the results of analysis of the markets of voice call termination on individual mobile networks and fixed voice telephony services. After receiving the objections from the European Commission, the Regulator performed repeated analysis of the following electronic communications markets in the reporting year:

- Voice call termination on individual mobile networks;
- Publicly available local or national telephone services provided at a fixed location for residential customers;

- Publicly available international telephone services provided at a fixed location for residential customers;
- Publicly available local or national telephone services provided at a fixed location for non-residential customers;
- Publicly available international telephone services provided at a fixed location for non-residential customers.

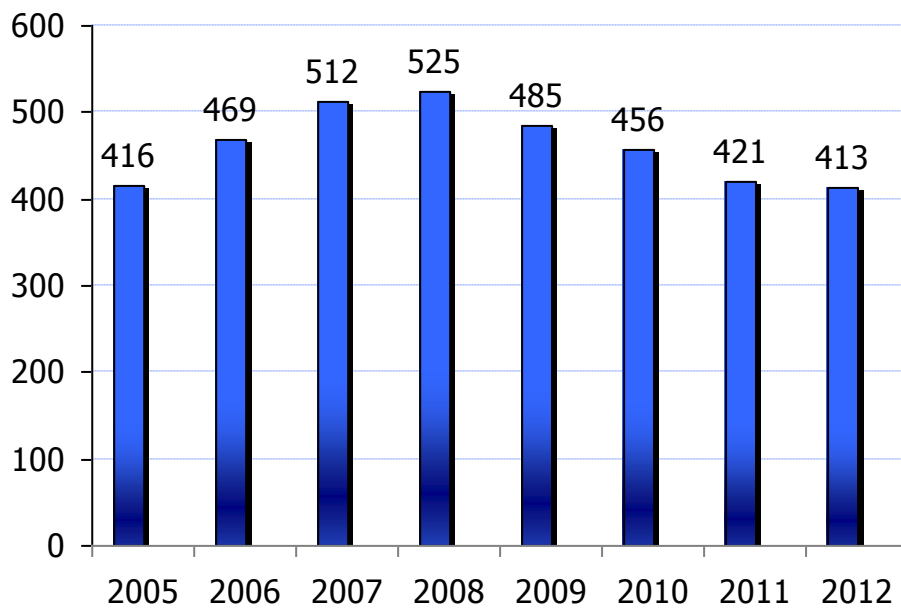
National consultations on these markets have concluded and the results of the market analysis were reported to the European Commission and other national regulators of the EU member states in 2012. After performing repeated market analysis and announcing the results to the European Commission and other regulators, no more objections were received.

During the analysis of the market for call termination on a mobile network, the Regulator decided to significantly change the approach for the market assessment because of the market structure: any company which has concluded at least one interconnection agreement and has received usage rights for numbering is considered a market participant because it can immediately start the provision of call termination services. Every participant of the market of voice call termination on individual mobile networks is regarded as a company with significant market power due to the construction of the service. In the reporting year, the Regulator determined a significantly reduced upper limit of call termination tariff for all companies with significant market power.

The Regulator concluded that in the market of transit services in the fixed public telephone network no company with significant market power exists, therefore a decision was made to cancel all applied obligations.

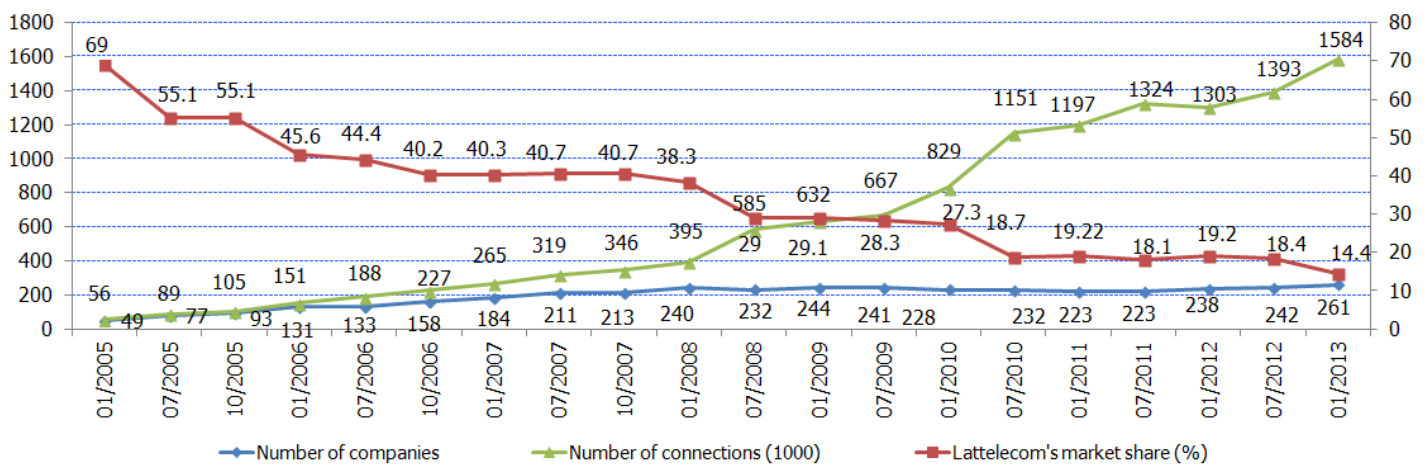
Market situation

In the reporting period, a decrease of turnover in the electronic communications sector was observed. The drop started already in 2009 and symptoms of a probable decline were detected in 2008 when the rate of growth of the sector slowed considerably. The total turnover of the sector is affected substantially by both market competition and the Regulator's decisions which directly influence tariffs of voice telephony services and revenues from interconnection services.



Revenues from the electronic communications services provided to users in the electronic communications sector (million LVL)

During the reporting year, the number of companies providing the Internet access and the volume of the provided Internet access in the mobile and fixed electronic communications networks increased slightly. Lattelecom's market share has stabilised over the last years. Investments of the incumbent operator LLC Lattelecom and the alternative operators in the development of the optical cable network and bundling of services (offering the so-called *double play* or *triple play* services) must be noted.



Internet service providers, number of access lines, market share of the incumbent operator

The share of optical cable networks continued growing in the reporting year. Comparing the number of optical cable connections with all fixed broadband Internet connections, the share of optical cable networks has reached approximately 47% of all fixed access connections.

Quality of electronic communications services and customer complaints

The Regulator engages in the quality control of electronic communications services in the electronic communications sector to monitor the quality of electronic communications services and to inform the public about the results.

The Regulator has prepared the 2012 report on the quality of electronic communications services. It offers the results of quality measurements conducted by the Regulator and comparison between these results and the values of parameters, which the Regulator has specified and the companies have declared.

Measurements of service quality are performed by both the Regulator and the companies in compliance with the conditions of the Regulator's requirements of service quality specified in the Regulations on requirements for quality of electronic communications services and submission and publishing of reports on service quality.

In accordance with the Methodology for measurements of electronic communications service quality, the Regulator conducted quality measurements for the following electronic communications services in 2012:

- the universal service;
- national and local voice telephony service and SMS service in the mobile telephone network;
- SMS service using the interconnection of mobile telephone networks;
- voice telephony service using the interconnection of telephone networks (interconnection service);
- Internet access service.

The Regulator performs measurements of the quality of voice telephony, SMS and interconnection services by using the Quality Control System of Telephone Networks, while the Quality Control System of the Internet Access Service is used for measurements of the quality of the Internet access service <http://itest.sprk.gov.lv>.

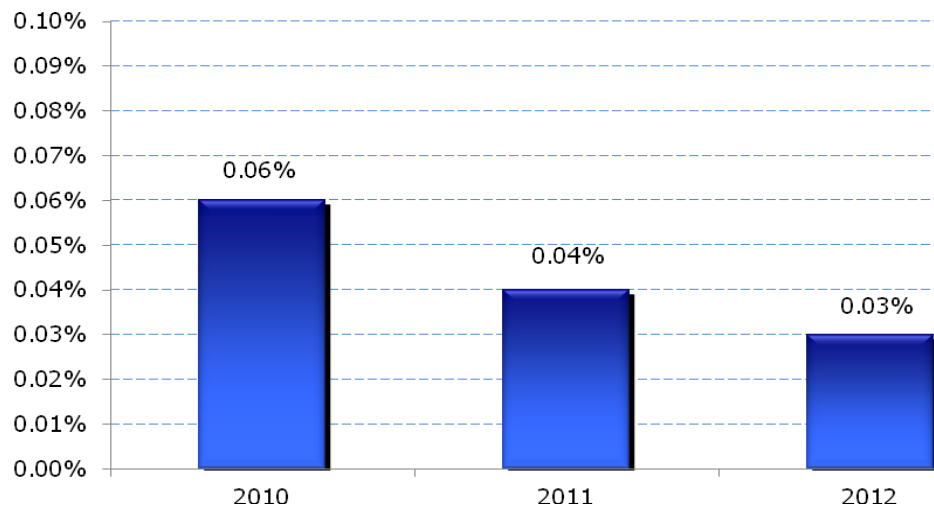
The Regulator specifies parameters of service quality and values thereof for the following services provided by the universal service provider LLC "Lattelecom":

- national and local voice telephony service in the fixed telephone network;
- service of the unit that accepts damage complaints;
- comprehensive telephone directory enquiry service.

After evaluating the results of measurements of quality parameters of the universal service, the Regulator concluded that the majority of measurement results comply with the existing quality requirements specified in the universal service obligations except separate parameters related to damage repair. Although gradual improvement of these parameters is observed annually, inconsistencies for damage repair are still observed for a specific time and the part

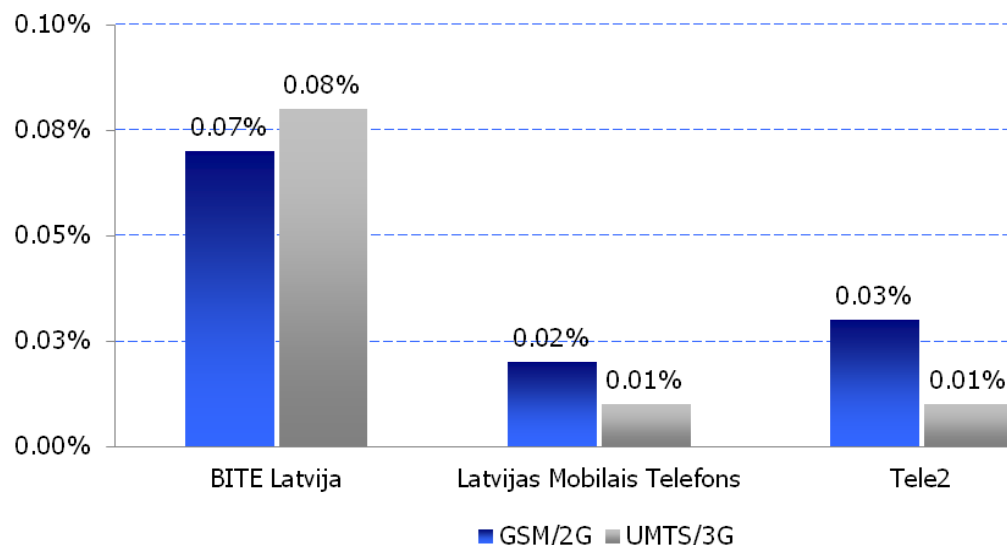
of the day agreed upon, as well as for the response time of the unit that accepts damage complaints. Overall, inconsistencies associated with damage repair are comparatively minor, but to eliminate them completely LLC "Lattelecom" must take steps for more optimal planning of resources or provide additional resources in this area.

The collected and analysed values of service quality parameters for parameters affecting calls – connection time, quality of voice transmission and the coefficient of unsuccessful calls show that the indicators have been invariably good over the last three years which attests to the excellent technical maintenance of LLC "Lattelecom" electronic communications network for the provision of the voice telephony service.



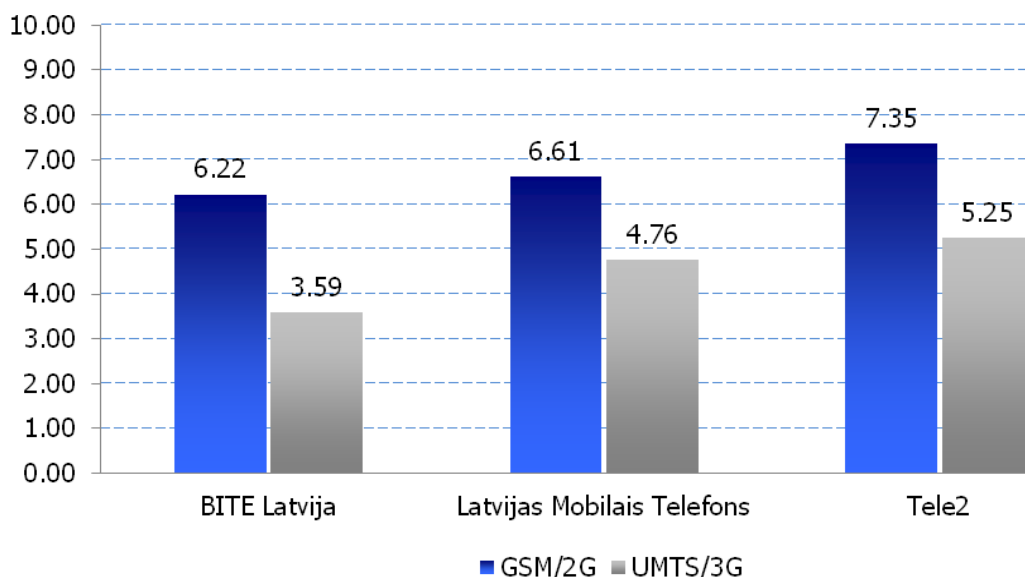
Ratio of unsuccessful calls in the fixed telephone network of the universal service provider LLC Lattelecom (%)

Summarising the quality indicators of the voice telephony services provided by mobile operators LLC "BITE Latvija", LLC "LMT" and LLC "Tele2", overall, the indicators can be evaluated as very good in areas where stable coverage of mobile telephone networks is ensured. The coefficient of unsuccessful calls does not exceed 0.1% for all operators which means that in cases of typical or forecasted usage of telephone networks all calls are successful and the service is always accessible.



Ratio of unsuccessful calls in the mobile telephone networks of Bite Latvija, LMT and Tele2 (%)

In 2012, calls in mobile telephone networks were made in separate groups depending on the technologies used – GSM/2G and UMTS/3G. As shown by the measurement results, no clear distinguishing differences can be seen for the coefficient of unsuccessful calls and indicators of voice transmission quality, however, connection time which is significant for users to make a quick call is on average two seconds faster in UMTS/3G telephone network than in GSM/2G and in most cases ranges from four to five seconds.



Average connection time in the mobile telephone networks of Bite Latvija, LMT and Tele2 (seconds)

Indicators of SMS service quality in the mobile telephone networks are perfect and the average SMS delivery time is shorter than in the previous year and was about six seconds, taking into account that some SMS messages were sent using technologies of UMTS/3G telephone networks with faster delivery time.

In 2002, no unsuccessful SMS message was detected during measurements meaning that all SMS messages set in all mobile operator networks were received in time not exceeding 300 seconds.

Analysing quality measurements of the interconnection service, the Regulator found that in 2012 for no combinations of interconnections included in measurements a significant number of unsuccessful connections was detected and the coefficient value of unsuccessful calls is smaller than 0.2% which is a very high indicator of this service quality parameter.

Moreover, indicators of connection time have decreased in comparison to the data of previous years and differences in various combinations of interconnections are determined by technological solutions used for service provision. However, the connection time does not exceed seven seconds even for interconnections of mobile telephone networks.

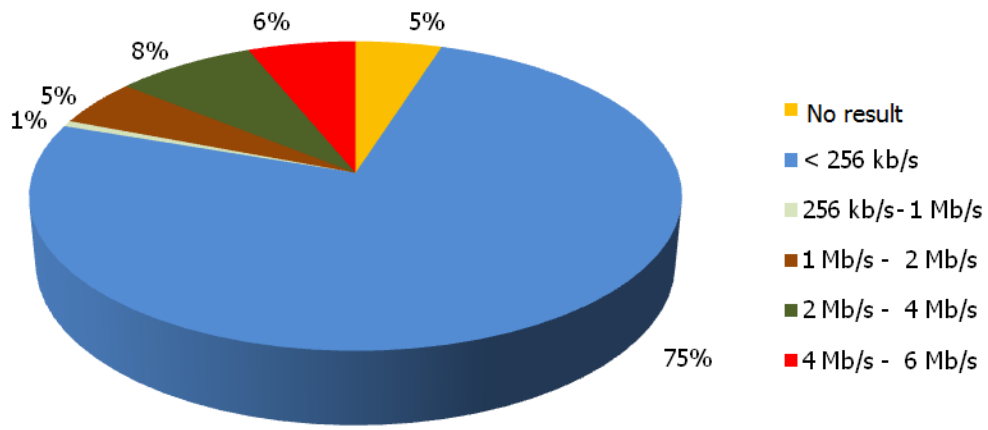
The average indicators of quality of voice transmission do not differ sharply and show 3-4 points in all combinations of interconnection within equally good hearing range. Differences recorded among different directions of interconnection are mainly determined by the used

technological solutions of transmission and processing of voice signals in specific electronic communications networks. The highest rating was recorded for combinations among fixed telephone networks which use the technological solutions of classic chain commutation.

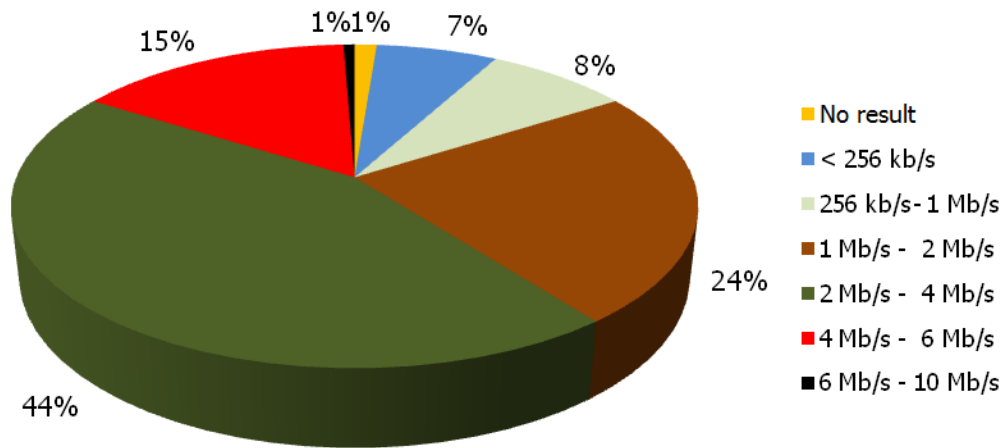
Taking into consideration the fact that issues regarding the quality of Internet access service in mobile electronic communications networks are still topical and that technological development in this area is one of the fastest, in 2012, the Regulator on its own initiative performed planned measurements of the Internet access service in the mobile networks of LLC "BITE Latvija", LLC "LMT", LLC "Tele2" and JSC "Telekom Baltija". To acquire additional information, the Regulator performed measurement of the quality of Internet access services in the fixed electronic communications network of LLC "Lattelecom" for connections with speed up to one Mbit/s provided by using the digital subscriber line (DSL) technology.

If possible, measurements were made simultaneously in the mobile networks of LLC "BITE Latvija", LLC "LMT", LLC "Tele2" and JSC "Telekom Baltija" over the course of the reporting year in different times of the day in more than 250 freely selected geographical locations as uniformly as possible across the whole territory of Latvia, including 36 locations in Riga. Measurements in the fixed electronic communications network of LLC "Lattelecom" have been made in more than 50 geographical locations in the territory of the Republic of Latvia.

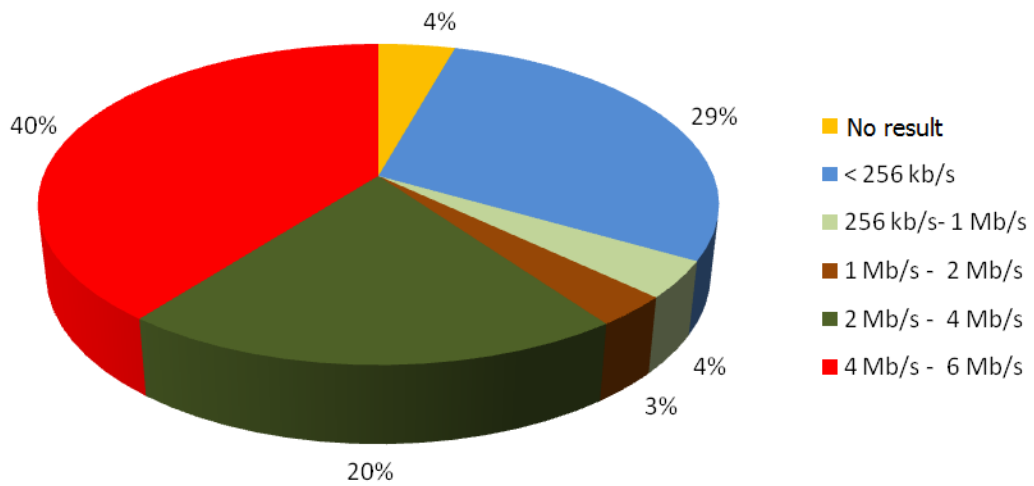
Evaluating the values of connection speed of Internet access services in the mobile network, various technological solutions, as well as service provision geographically, in some cases rather significant and contrasting differences can be seen for ensuring the available connection speed for users. Differences even within the electronic communications network of one operator are determined by the specific coverage of the mobile network which is comparatively well shown in the coverage maps on the operators' Internet homepages. However, also in places where the mobile network coverage is stable and its technological capacity is unchanged in different times the connection speed changes by rather big amplitudes as it is mainly determined by user activities and the consequent mobile network traffic in a specific place. The extent of inequalities of the connection speed changes is mostly affected by both the available physical resources for mobile technologies and the investments by operators and the options to provide service stability according to mobile network traffic which constantly grows due to requirements and intensive use of various end-devices of the mobile networks, for example, smartphones.



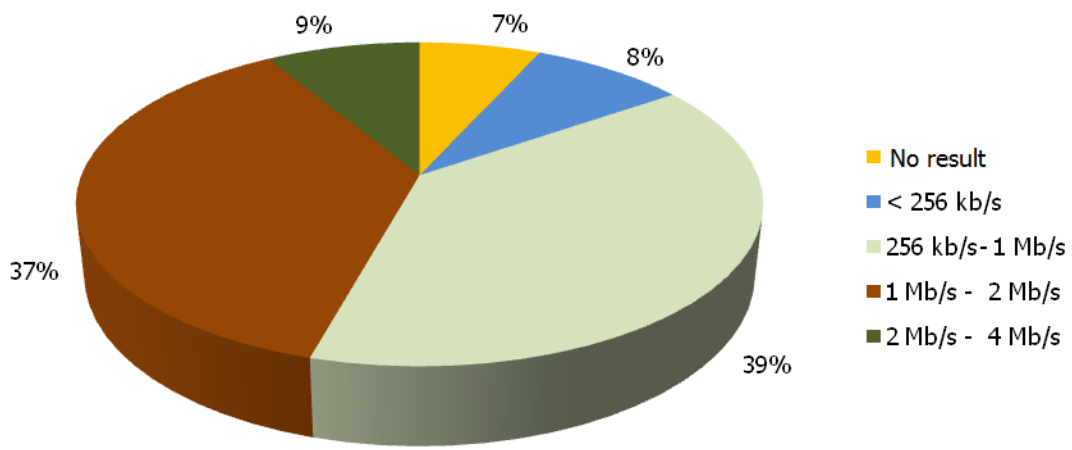
Distribution of download speeds of LLC "Bite Latvija"



Distribution of download speeds of LLC "LMT"

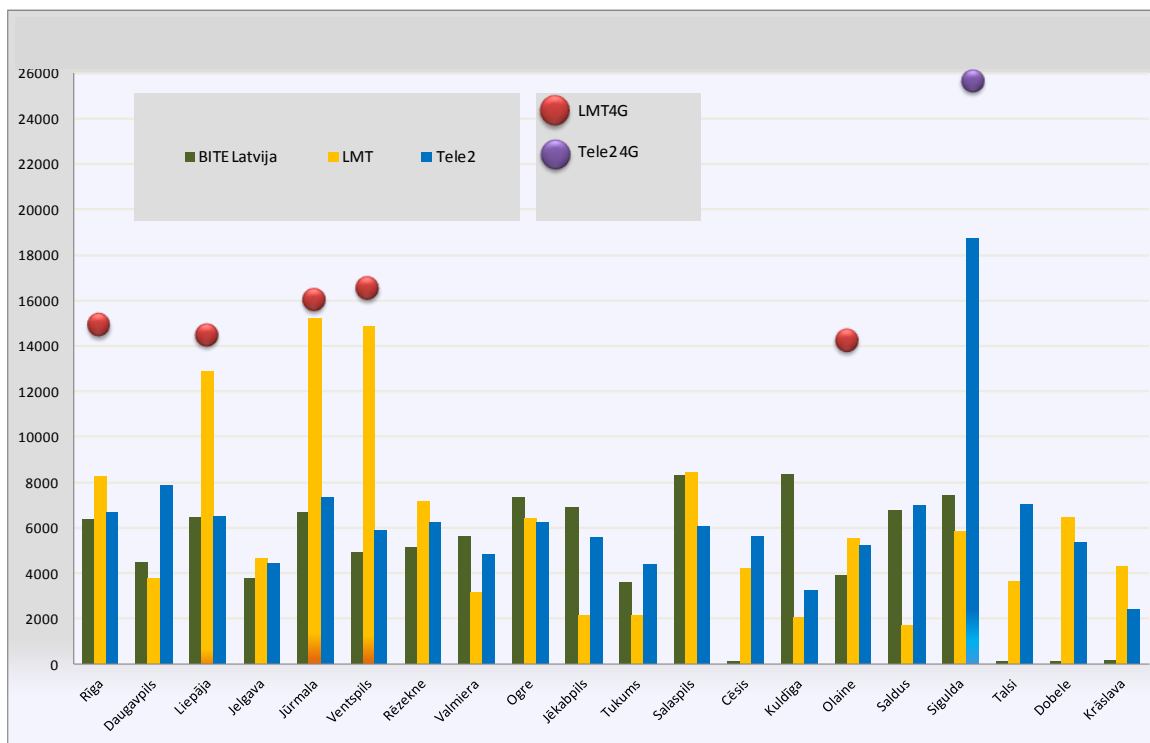


Distribution of download speeds of LLC "Tele2"



Distribution of download speeds of LLC "Telekom Baltija"

Higher values of connection speed can be reached in mobile networks built with the fourth generation (4G) technologies which were provided by LLC "LMT" in separate areas of Latvia in 2012. At the end of 2012, the provision of Internet access services in the 4G mobile network in test mode was started by LLC "Tele2".

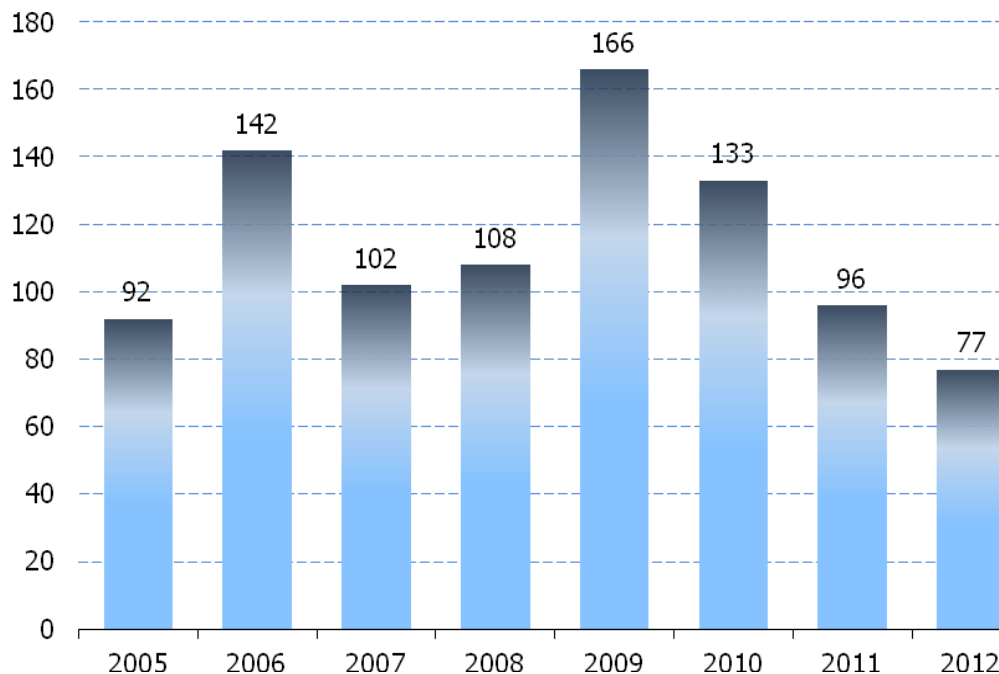


Average download speeds of LLC "BITE Latvija", LLC "LMT" and LLC "Tele2"

Evaluating in detail the results of measurements of service quality it must be noted that although the connection speed in the 4G mobile network is in the group of higher speeds, specific characteristics of services provided in mobile networks must also be taken into account which in some cases significantly influence the stability of service quality parameters. This is graphically shown by the difference in stability of connection speeds comparing changes of indicators in the 4G mobile network of LLC "LMT" with real traffic and unchanged indicators in the so far unused 4G mobile network of LLC "Tele2".

Comparing variability of connection speeds and change dynamics it is graphically seen that compared to the results obtained in mobile networks the stability and uniformity of the connection speed is considerably higher in the fixed network.

In 2012, the Regulator received and reviewed a total of 77 complaints. The total number of complaints compared on an annual basis (2005-2012) is shown in the graph below.



Number of submitted complaints in 2005-2012

Comparing years 2012 and 2011, the number of complaints about electronic communications services submitted to the Regulator has decreased by 19 complaints which is 24.7% less than in 2011.

Based on complaints submitted by users, the Regulator's employees performed several measurements in 2012 testing the quality of electronic communications services provided by electronic communications companies.

In 2012, the number of complaints about the quality of electronic communications services has decreased which is explained by the fact that the quality of electronic communications services has improved.

Universal service

The universal service refers to the minimum volume of electronic communications services that is available at a specific level of quality and for an affordable price to all existing and potential users, irrespective of their geographical location. The Regulator defines the companies that must provide the universal service and the list of services that are included in

the universal service, the scope of the universal service, the geographic territory in which it must be provided and the range of end users of the service.

Since 2003, LLC "Lattelecom" has been the only company to handle the obligations of the universal service in the electronic communications sector.

The Regulator defined the following universal service obligations for 2012:

- To ensure access to Lattelecom's public telephone network at fixed connection locations, thus allowing users of the universal service to make calls and receive voice telephony services, as well as public data and electronic message transmission services at connection speed no less than 9600 bits per second at a price which does not exceed the actual cost of the service. LLC "Lattelecom" has a right to apply discounts to such a price;
- To provide at least one alternative tariff plan to individual users. This alternative plan would have a monthly fee for a phone line that is lower than the PUC's regulated basic monthly fee for individual users;
- To provide the following discounts for disabled persons in the first disability group using text phones and disabled persons in the second disability group:
 - o 100% for a telephone line's installation fee;
 - o 100% for a telephone line's re-registration fee;
- To provide the following discounts for disabled persons in the first disability group who use text telephones as end-user devices at fixed locations of the public telephone network:
 - o for access services - 75% for a telephone line's monthly fee;
 - o for voice telephony services - 20% for local call charges;
 - o 100% for an installation fee for broadband Internet access services and associated services (bundled electronic communications services) consisting of broadband Internet access service and a telephone line;
 - o 8,65 LVL/month of the applied monthly fee for broadband Internet access services and associated services (bundled electronic communications services) consisting of broadband Internet access service and a telephone line;
- To ensure that universal service users have access to a comprehensive telephone directory enquiry service;
- To ensure that universal service users have access to a comprehensive subscriber directory;
- To ensure the following free of charge call services or services for which coins, a payphone card, a credit card or a call card may be used as means of payment:
 - o local, national and international voice telephony services;
 - o free of charge calls to the State fire and rescue service, the State police, emergency medical service, gas emergency service and emergency number "112";
 - o free of charge call set-up services;
 - o services of the unit that accepts damage complaints;

- comprehensive telephone directory enquiry services;
- access to a comprehensive subscriber directory;
- To maintain payphones in working order if losses from payphone maintenance do not exceed the payphone's maintenance costs of the previous year. LLC "Lattelecom" must coordinate the payphone removal in advance with the relevant council of a city or district. LLC "Lattelecom" shall inform the Regulator half yearly in written form about all cases of moving or removing payphones. LLC "Lattelecom" shall be obliged not to reduce the existing number of payphones in hospitals, schools, institutions specified in the Law on Social Services and Social Assistance, except if the respective institution does not object to the removal of payphones;
- To ensure the fulfilment of requirements for quality parameters of voice telephony services in accordance with "Regulations on the universal service in the electronic communications sector".

During the reporting year, LLC Lattelecom submitted and the Regulator approved the net costs of the universal service for 2011. After the analysis of the submitted information, the Regulator confirmed that the provision of obligations of the universal service in 2011 has caused losses in the amount of 42,658 LVL.

Scarce resources

In the electronic communications sector, the Regulator assigns usage rights of scarce resources (bands of radio frequency spectrum and numbering) to electronic communications companies, as well as supervises and regulates the use of these rights.

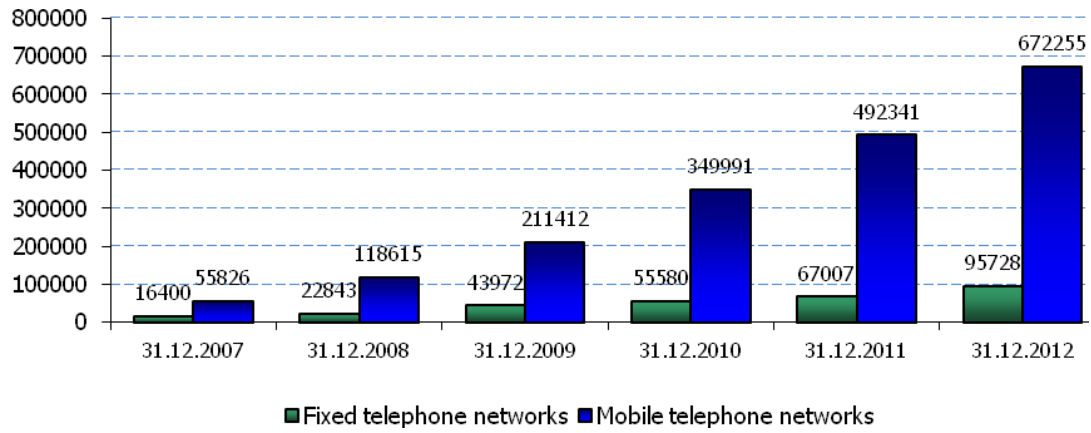
In 2012, the Regulator has made 14 decisions on radio frequency usage rights – about assignation, extension or cancellation of such rights.

In the reporting period, an auction was organised for assigning usage rights for 2500MHz – 2690MHz band of radio frequency spectrum. The auction resulted in assigning of usage rights of radio frequency spectrum 2500MHz -2520MHz/2620MHz - 2640MHz bands to LLC "LMT", 2520MHz - 2540MHz/2640MHz - 2660MHz bands to LLC "Tele2", 2540MHz - 2560MHz/2660MHz - 2680MHz bands to LLC "Bite Latvija" and 2560MHz – 2570MHz/2680MHz – 2690MHz bands to SIA "BALTCOM TV" for commercial use.

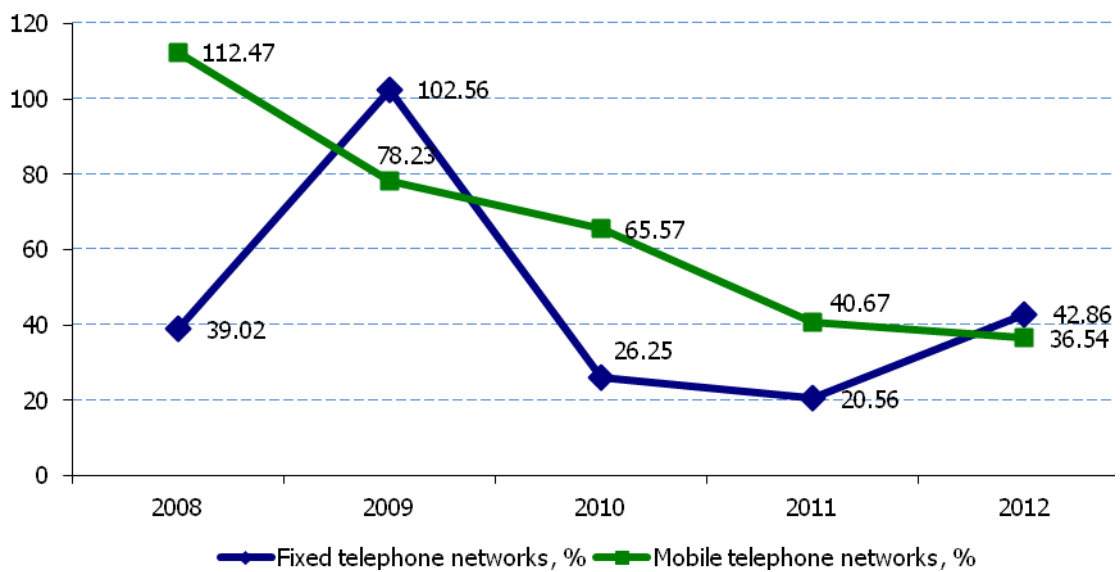
In the reporting period, an auction for granting usage rights for 2300MHz – 2360MHz bands of radio frequency spectrum was announced and organised. In the auction, the usage rights for 2300MHz -2330MHz bands of radio frequency spectrum were granted to LLC "LMT" and 2300MHz - 2360MHz bands were granted to LLC "BITE Latvija" for commercial use.

85 decisions were adopted on numbering usage rights in the Regulator's Board meetings.

In 2012, the electronic communications companies continued providing the number portability service for end-users within terms specified by the Regulator.



Ported numbers since the introduction of the service on December 1, 2005



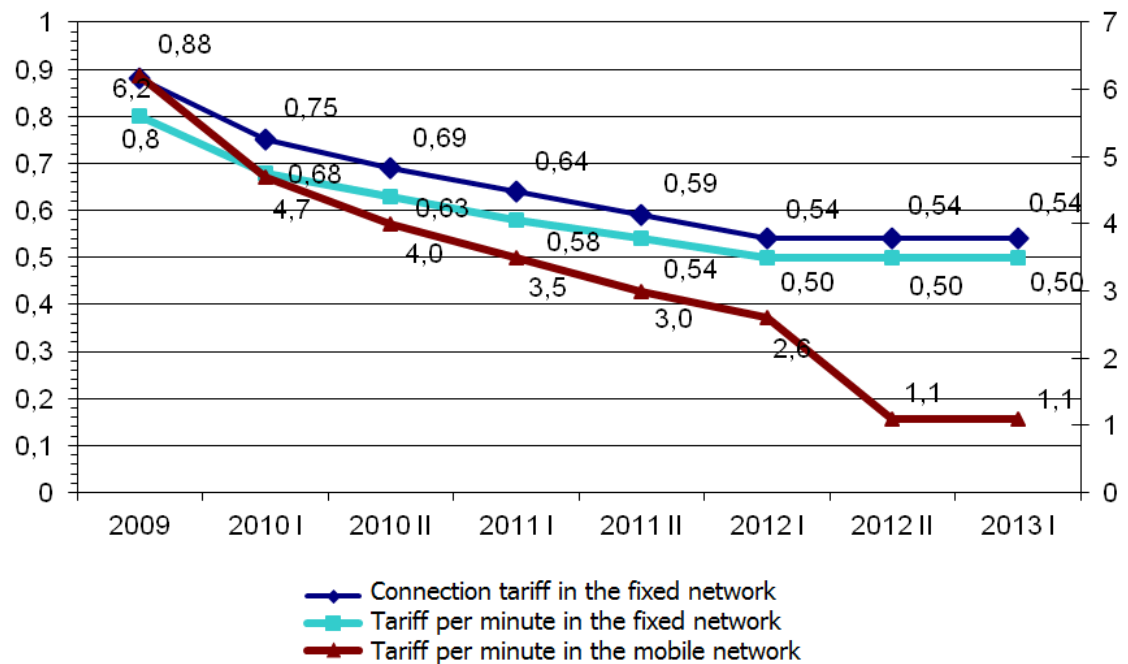
Changes in ported numbers of end-users (%), compared to previous years

Regulating tariffs

In 2012, gradual reduction of the upper limits of the call termination rates applied to the three largest operators of mobile communications - LLC "LMT", LLC "Tele2", and LLC "Bite Latvija" continued. From January 1, 2013, the upper limit of call termination rates in the mobile networks is 1.1 santims per connection minute.

On September 19, 2012, after market analysis of call termination on individual mobile telephone networks, the Regulator determined significant market power and the obligation of tariff regulation for complying with the upper limit of the call termination rate – 1.1 santims per minute - for 13 mobile communications companies: LLC "Amber Telecom", JSC "BALTICOM", LLC "Camel Mobile", LLC "ECO Solutions", LLC "INTERNETA PASAULE", LLC "Master Telecom", LLC "Radio Telecommunication Network", LLC "Rigatta", LLC "SOTUS", JSC "Telekom Baltija", LLC "Telegrupā Baltijā" and LLC "Tivi". Thus, the Regulator guarantees that from April 1, 2013, symmetric tariffs which are approximated to costs of an efficient

operator are applied in the market for call termination on individual mobile telephone networks.



Gradual reduction of call termination rates in 2010-2013 (tariffs in santims)

On June 13, 2012, The European Parliament and the Council adopted Regulation No. 531/2012 on roaming on public mobile telephone networks, and accordingly the reduction of Latvian mobile telephone network operators' tariffs for roaming services in the European Union countries continued in 2012. Since July 1, 2012, tariff for a call made using a roaming service in a European Union country must not exceed 0.20 LVL per minute, while the tariff for an SMS must not exceed 0.063 LVL. An incoming call must not be charged more than 0.0568 LVL per minute. The average wholesale tariff for roaming was set at 0.0983 LVL/minute, the average wholesale tariff for an SMS message – 0.021 LVL, the average wholesale tariff for 1 MB data roaming – 0.175 LVL (all above mentioned tariffs are without VAT).

On December 11, 2012, the Regulator published the report on compliance with methodology for cost calculation in the electronic communications sector and notification about electronic communications companies, which are obliged to apply the methodology for cost calculation. The report was published in the newspaper "Latvijas Vēstnesis".

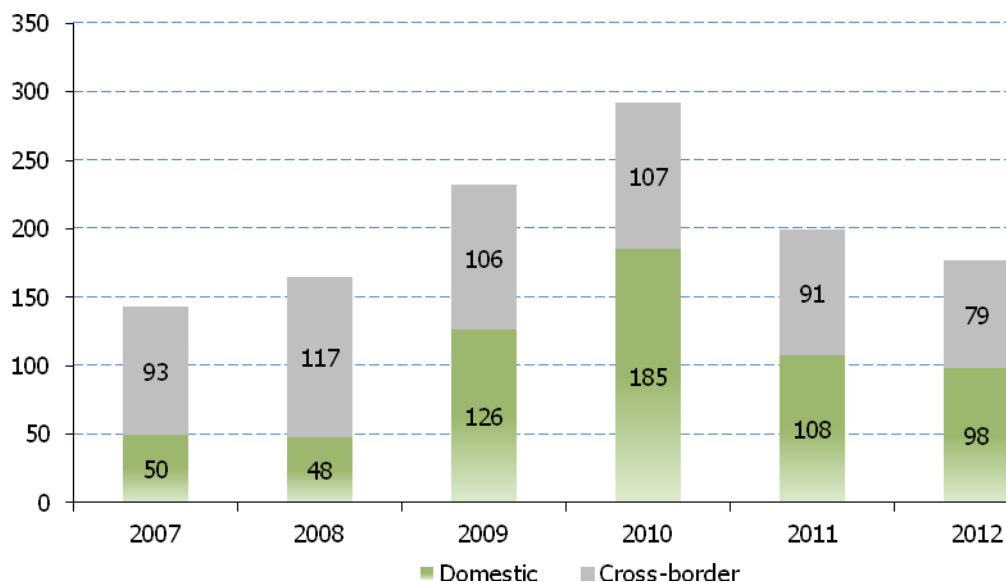
Postal sector

In terms of postal services in Latvia, the universal postal service (handling letters and parcels) is provided by the state JSC Latvijas Pasts. In 2012, 35.7 million letter-post items and 177 thousand postal parcel items were sent and 31.6 million subscribed press publications were delivered.

In comparison to 2011, the total number of letters sent decreased by 3.3% (international items - by 11% and domestic items - by 0.9%). The number of postal parcels sent dropped 11.6% compared to 2011.



JSC "Latvijas Pasts" letter-post items (thousand)



JSC "Latvijas Pasts" postal parcels (thousand)

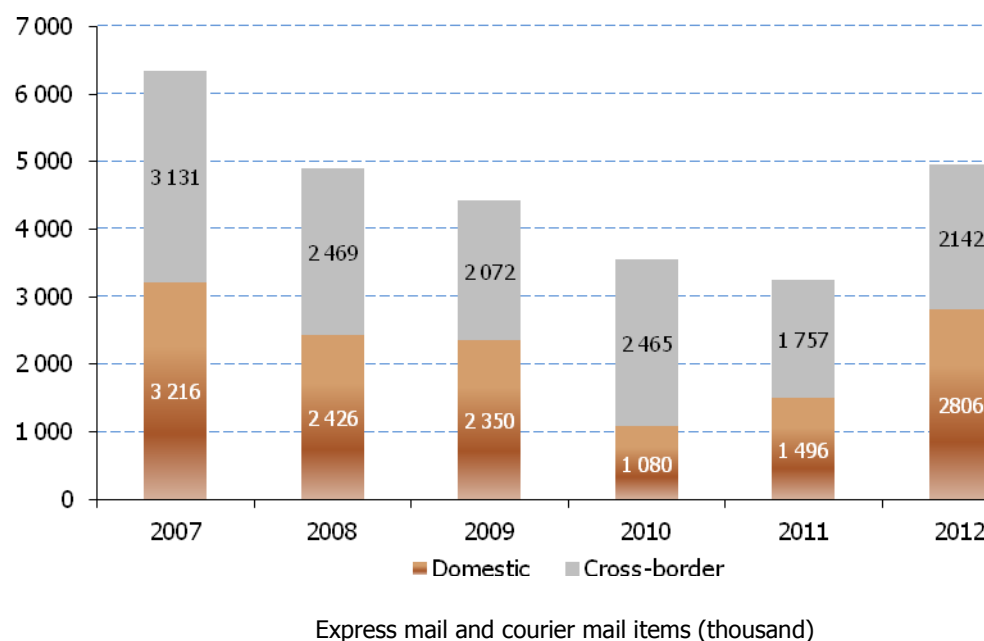
In 2012, the state-owned JSC Latvijas Pasts coordinated with the Regulator the closure of seven post offices, movement of 24 post offices to new premises and location changes of 25 mailboxes. There were a total of 618 post offices and 1055 mailboxes at the end of the reporting year.

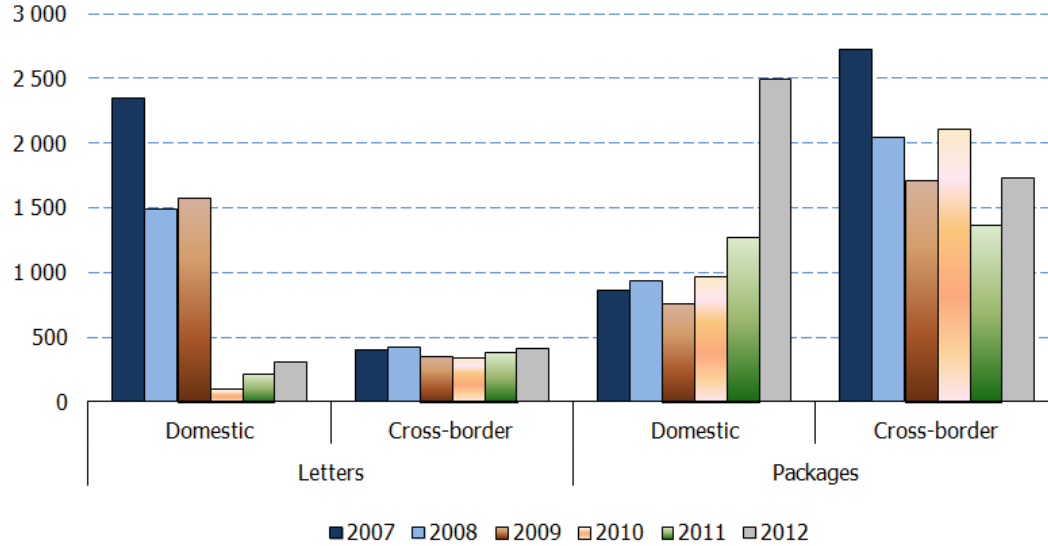
In the reporting year, the Regulator sent a number of control letters to assess the quality of the postal service in accordance with the methodology for measuring the quality of the universal postal service (ordinary Class B letters). 99.6% of Class B letters were delivered within three business days after the control letters were sent. In the reporting year, the state-owned stock company provided for independent quality measurements of the Class A postal items in accordance with the requirements of the standard LVS EN 13850+A1:2007 "Postal services. Quality of services". In line with the quality requirements specified by the Regulator, 90% of Class A letters must be delivered on the next business day, 99% of Class A letters must be delivered within two business days, and 98% of Class B letters must be delivered within three business days.

In the reporting year, the Regulator registered 17 postal companies. 72 postal companies were listed in the Regulator's database at the end of 2012.

The remaining traditional providers of postal services, excluding the state-owned JSC "Latvijas Pasts", delivered three million letter-post items, nine thousand postal parcel items, and 2.4 million subscribed press publications in 2012.

There are 42 active postal service providers in the field of express mail and courier mail. In 2012, there were 4.9 million express mail and courier mail shipments – 36.7% more than in 2011.





Express mail and courier mail items (thousand)

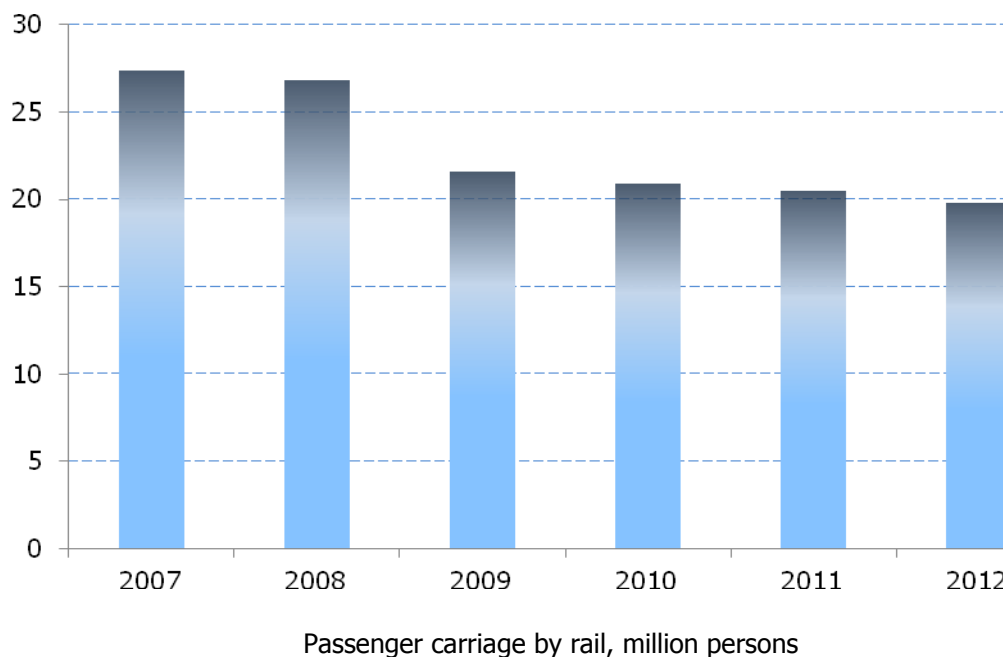
In the postal sector in 2012, the Regulator received and considered 23 complaints regarding postal service providers. 20 complaints concerned the provider of the universal postal service – the state-owned JSC Latvijas Pasts, and three complaints concerned services provided by other postal companies. 21 complaints were received from individuals. Most of the complaints were about unsatisfactory delivery of cross-border items or loss of postal items. The Regulator upheld only one complaint.

Regulation in the Rail Transport Sector

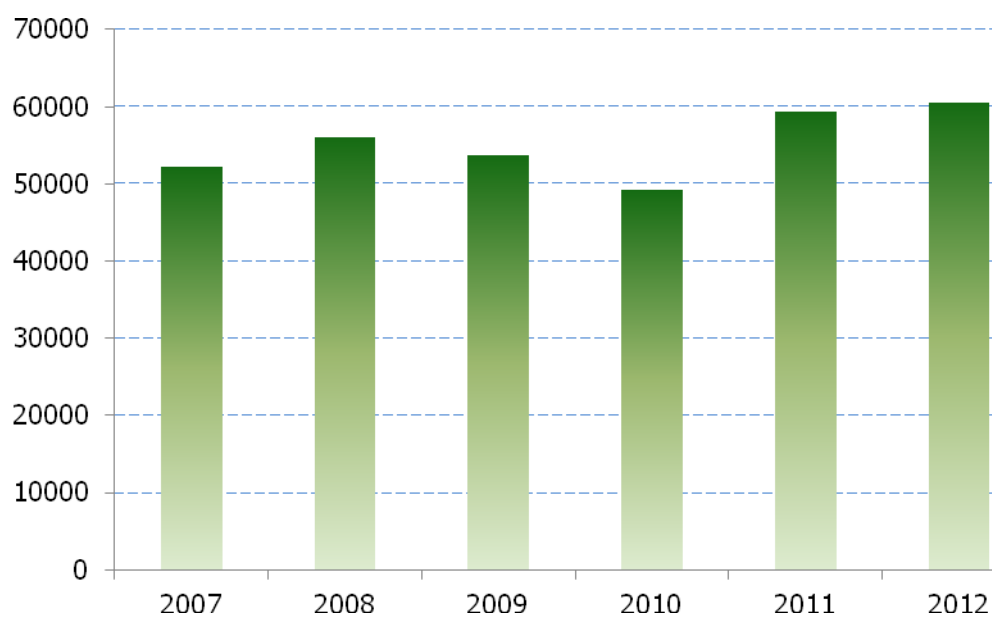
In the rail transport sector, passenger carriage by rail in 2012 was provided by the following companies:

- JSC "Pasažieru vilciens" provided domestic passenger carriage by rail;
- LLC "LDZ CARGO" provided international passenger carriage by rail;
- LLC "Gulbenes-Alūksnes bānītis" provided passenger carriage by rail in a narrow-gauge rail line between the towns of Gulbene and Alūksne.

The public railway infrastructure in Latvia is controlled by the state-owned JSC "Latvijas dzelzceļš". The performer of the essential functions of the public railway infrastructure manager is JSC "LatRailNet".



In 2012, 19.8 million passengers were transported by rail which is 3.4% less than in 2011. Cargo transportation by rail in 2012 compared to 2011 increased by 2.0% and reached 60.6 million tons.



Cargo transportation by rail, thousand tons

In 2012, the Regulator has not issued, amended or cancelled licences for passenger carriage by rail.

In 2012, the Regulator investigated three companies in the railway transport sector. In one case, the Regulator concluded that a company has not ensured the fulfilment of the actual train timetable amounting to at least 95% of the approved train timetable in the first three quarters of 2012. After examining the reasons for this non-compliance, the Regulator concluded that it was not the fault of the company. The Regulator continues to monitor if the company ensures the fulfilment of the train timetable amounting to at least 95% of the approved train timetable requesting explanations in cases of non-compliance.

In 2012, the Regulator organised discussions and consulted state-owned JSC "Latvijas dzelzceļš" and JSC "LatRailNet", as well as representatives of carriers about the changes proposed by the Ministry of Transport in the Methodology for calculation of the charge for the use of the public railway infrastructure. The Regulator also reviewed the amendments proposed by JSC "Pasažieru vilciens" in the Settlement procedure of the charge for the use of the public railway infrastructure. Amendments to these legal acts were not carried out.

By performing the functions specified in Article 10, paragraph 3 and Article 13, paragraph 2 of the law "On Regulators of Public Utilities", the Regulator considers user complaints about the public services provided by railway companies.

In 2012, the Regulator received two complaints about public services provided in the rail transport sector – about service quality in an international passenger train, as well as changes in the timetable. The complaints were reviewed and the complainants received answers and explanations about the issues mentioned in the complaints.

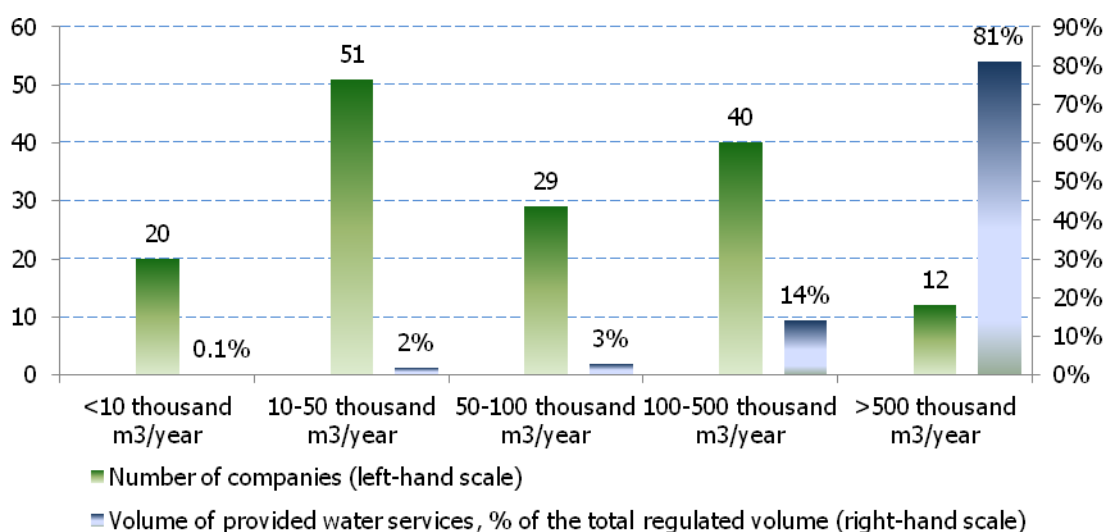
Half-yearly, passenger carriers submit to the Regulator a summary of the user complaints received about the provided public services by indicating the number of complaints, their nature and a solution to the mentioned problems. The Regulator analysed complaints received by railway companies and prepared a report thereon. This report is available on the Regulator's homepage.

The information of the report (especially about keeping to the train timetable, abiding by obligations for work quality of conductors – controllers and cashiers, and provision of information to passengers) will be taken into account when the Regulator supervises the compliance with licence terms by the railway companies.

Regulation in the Water Management Sector

In 2012, 157 companies provided regulated services in the water management sector in Latvia. In 2012, the Regulator issued seven licences for companies in the water management sector, amended eight licences and cancelled five licences.

81% of the aggregate regulated water supply services were provided by 12 companies; the volume of water supply services provided by these companies exceeds 500 thousand m³ annually. These companies provide water management services in Latvia's biggest cities. 40 companies, whose volume of the provided water supply services is from 100 to 500 thousand m³, provide 14% of the total amount of the regulated service. The remaining regulated companies provide only 5.1% of the total amount of regulated services.



Volume of water supply services and the number of companies in 2012

The Regulator inspected 46 water management companies in 2012. The most common violation found in inspections: companies do not separate accounting for each type of regulated services. The companies eliminated the inconsistencies found by inspections and informed the Regulator thereon.

In 2012, the Regulator approved tariffs for 16 undertakings of the water management services sector after evaluating their tariff proposals. The necessity to approve tariffs arose because companies had completed projects of improving water management systems co-financed by the European Union resulting in better quality of drinking water and eliminated risks for environment pollution which in turn increased the costs of service provision. During evaluation of tariff proposals, the Regulator has achieved the reduction of tariffs from 1% to 32% compared to the initially submitted ones.

In 2012, the Regulator received and provided answers to 42 written complaints and 14 e-mails with questions about the provision of water management services. The complaints were reviewed according to the procedure specified by the law and the submitters of complaints

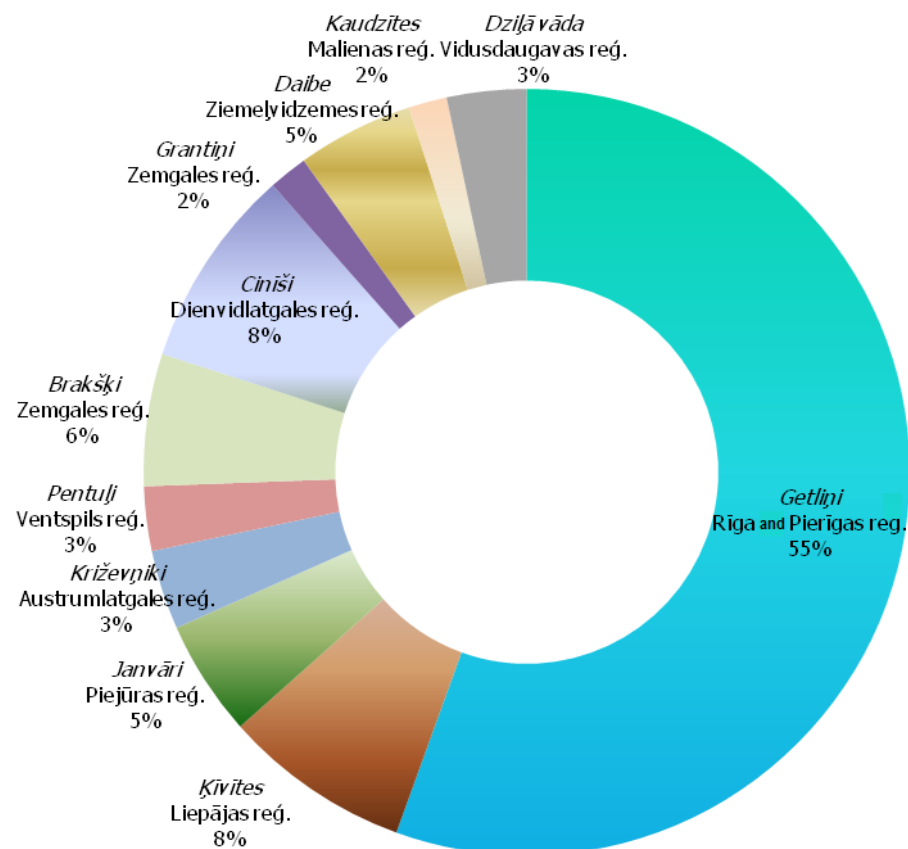
received answers and explanations about issues mentioned in the complaints. Reviewing the complaints received in 2012, the Regulator provided answers about various issues related to the water management sector amounting to 73% of the total number of complaints, 21% were unrelated to the Regulator's work, and 5% of complaints were justified. The complaints received by the Regulator continue to grow compared to previous years and this is explained by the fact that service users follow the process of monitoring water management services more actively, especially during tariff evaluation.

The Regulator adopted decision No.1/10 on April 4, 2012 amending the Methodology for calculation of water management service tariffs.

Regulation in the Municipal Waste Disposal Sector

In accordance with the State Plan for Waste Management, Latvia is divided in 10 waste management districts and 11 landfill sites have been established. Municipal waste disposal services in Latvia are provided by 10 public service providers regulated by the PUC. The Waste Management Law specifies that after the establishment of the landfill site system the disposal of waste in landfill sites is discontinued and in accordance with regional plans of waste management the construction of new landfill sites in the territory of Latvia shall not be provided.

The largest volume of municipal waste or 55% of the total volume of disposed municipal waste is disposed at the landfill site "Getliņi" located in the waste management region of Riga. The volume of the disposed municipal waste ranges from 2% to 8% of the total volume of disposed municipal waste at the landfill sites located in the other waste management regions.



The volume of the disposed municipal waste in 2012, % of the total volume of disposed municipal waste

In 2012, the Regulator has not issued, amended or cancelled licences for municipal waste disposal services.

In 2012, the Regulator inspected one company in the municipal waste disposal sector. Violations of licence conditions were not found. The Regulator received three written complaints and three e-mails in the municipal waste management sector in 2012. The

complaints were reviewed according to the procedure specified by law and answers and explanations were provided on the issues mentioned in the complaints.

In 2012, the Regulator approved two tariffs for municipal waste disposal after review, and on April 4, 2012 adopted decision No.1/9 amending the Methodology for calculation of the tariff for the municipal waste disposal service.

Public Communications

The most important job for the Regulator is to balance out the interests of public service users and service providers. Public communications are of vast importance, so that the Regulator can explain its decisions. In order to provide the opportunity to receive continuous, safe and high quality public services whose tariffs correspond to economically reasonable costs, as well as to promote development and economically justified competition in the regulated sectors, the Regulator involves members of the public in its activities.

The Regulator offers information to public service users, who file questions, complaints, claims or applications, and to the public at large, making use of the mass media, of the Regulator's homepage and of meetings and consultations for this purpose. The Regulator invites cooperation partners and other interested parties to such meetings.

The Regulator must balance the interests of different groups of the society, namely, must reach a compromise solution when the normative regulation and adopted decisions are in the interests of the entire society. The process of opinion survey must be open, and the Regulator must be independent throughout this process, it must not influence the opinions of other parties.

Involvement of society representatives gives the Regulator an opportunity to obtain practical information which can be provided by individuals who are themselves involved and who are affected by a specific issue. As a result, the adopted decision or legal act is better, but the society has a chance to make sure that the Regulator performs its mission – protects the interests of users and promotes the development of providers of public utilities in accordance with the principles of justice, transparency, neutrality, equality and proportionality.

In order to further the participation of the society in the Regulator's decision making process, the PUC organised 41 public hearings this year (12 in the energy sector, one in the electronic communications sector, one in the railway sector, 24 in the water management sector, and three in the waste management sector). Such a forum plays a vital role during the process of reviewing any tariff proposal if the Regulator has to make a decision on tariff setting, as well as about drafts of legal acts. By arguing their position, all interested parties can express their opinion in a public hearing about a specific public service tariff or draft document, service provider or regulatory issues, comment or make proposals on the issue analysed in the meeting. This means that public service users, representatives from associations for protection of user interests, representative from companies, representatives from institutions related to regulated services, independent experts, academic institutions and others can participate in the meetings. This guarantees a wide representation of various interests in the open meetings. The expressed opinions and arguments have a recommendation status when the Regulator's Board adopts a decision.

Information on public hearings organised by the Regulator is publicly available. Information on all planned public hearings is published on the Regulator's homepage. Also, when

considering a tariff proposal which concerns a specific administrative territory, information on the submitted tariff proposal and the public hearing organised by the Regulator is published in the regional mass media and homepages of the local governments.

Any non-governmental organisation has an opportunity to participate in the process of reviewing public service regulatory issues, which representing a social, professional or other public group wants to express their opinion. Since the Regulator's Board meetings are open except separate cases when confidential issues are considered, the members of the public have an opportunity to participate in a live Board meeting. The time and agenda of a Board meeting is published on the Regulator's homepage at least three working days before the Board meeting so that everybody can find out what issues will be considered in the relevant Board meeting, as well apply for participation therein.

Another form of cooperation for promoting participation of the society is the public consultations organised by the Regulator. Supervising markets in public utilities sectors, analysing the necessity of regulation and planning regulatory measures, the Regulator welcomes every member of the public to get involved and express opinion in the public consultations announced by the Regulator. To report on the analysed public service sector and service segment, the Regulator prepares a consultation document. The document sets out planned steps and the Regulator's initiatives. It also includes issues on which the Regulator asks to provide answers within the framework of the public consultation. The received recommendations and suggestions are taken into account when planning regulatory measures and developing legal documents. In 2012, the Regulator published 12 consultation documents on its Internet homepage; 11 of these documents were related to the electronic communications sector.

The Regulator regularly informs mass media about adopted decisions and the most significant draft decisions, as well as other topical issues regarding regulation of public services. The Internet homepage is an important communications channel, as it contains up-to-date information about all regulated sectors.

The Regulator has started using video presentations to inform the public. Video presentations and other video materials prepared by the Regulator are published in the Regulator's *Youtube* channel, as well as on the Regulator's homepage. The objective of communications measures is to ensure access to information and promote informed society about the Regulator, regulatory issues, rights and obligations of users and companies, topicalities of regulation etc.

FINANCING AND SPENDING

From 2012, the Regulator has a separate budget programme approved by the law "On State Budget for the Year 2012" therefore on January 1, 2012, The Regulator prepared the closing financial report due to change of subordination. The Regulator's Financial Report 2012 contains the transferred initial balance from the budget programme of the Ministry of Economics called "Ensuring honest competition, protecting the domestic market and consumer rights".

The Regulator's operations are financed from fees for public service regulation. The fees are paid by regulated companies. In the reporting year, the state fee in the regulated sectors was 0.17% of the net turnover of the public service provided by the company in 2011.

The Regulator's planned expenditures in 2012 were 3,497,075 LVL, including expenditures of 44,375 LVL for implementation of target cooperation project for strengthening institutions financed by the European Union "Strengthening of regulatory and legal competence of the Ukrainian National Commission for the State Regulation of Communications and Informatization". Actual spending amounted to 2,509,905 LVL, which was 288,581 LVL more than in 2011 or 71.8% of the planned spending.

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

In 2012, the actual surplus of financial resources was 700,688 LVL, but only the surplus of cash of the Regulator's own income in the amount of 200,000 LVL has been approved for the Regulator in the law "On State Budget for the Year 2013". In 2013, this surplus is being returned to public service providers reducing the payment of the state fee proportionally to the amount of the paid state fee by each public service provider in 2012. The remaining cash of 500,688 LVL is deposited in a separate account and is not available to the Regulator in 2013.

The financial report was prepared in accordance with the Cabinet of Ministers August 17, 2010 Regulations No.777 "Procedure for preparing an annual report" and the Cabinet of Ministers October 26, 2010 instruction No.17, "Procedure for preparing a budget report, cash flow report and report on financial results by budgetary institutions, derived public persons partly financed by the state budget and institutions not financed by the state budget".

The Annual Report 2012 was submitted to the Treasury. On March 15, 2013, the annual report was audited without objections by LLC Revīzija un vadības konsultācijas (licence No.79 of the sworn auditor's commercial entity).

The Regulator concluded 59 economic cooperation agreements in 2012, including 16 procurement procedures in accordance with the Public Procurement Law.

No.	Finances	2011 (actual numbers)*	2012 (LVL)	
			Defined by law	Actual numbers*
1.	Total revenues, <i>including</i>	411,770	2,221,152	1,934,670
	<i>Fee based services, other income</i>	411,770	2,176,777	1,890,296
	<i>Other previously unclassified income for special purposes</i>	0	44,375	44,374
2.	Total spending	2,221,324	3,497,075	2,509,905
2.1.	Administrative costs (total)	2,159,530	3,297,051	2,402,511
	<i>International cooperation</i>	25,108	25,108	25,108
	<i>Other administrative costs</i>	2,134,422	3,271,943	2,377,403
2.2.	Capital investments	61,794	200,024	107,394

* - in accordance with cash flow principle



NEATKARĪGU REVIDENTU ZIŅOJUMS

Latvijas Republikas Saeimai

Mēs esam veikuši Sabiedrisko pakalpojumu regulēšanas komisijas 2012. gada finanšu pārskata, uz kuru pamatojoties ir sagatavots saīsinātais Sabiedrisko pakalpojumu regulēšanas komisijas 2012. gada finanšu pārskats, revīziju saskaņā ar Starptautiskajiem revīzijas standartiem. Mūsu 2013. gada 15. marta revidentu ziņojumā mēs sniedzām atzinumu bez iebildēm par Sabiedrisko pakalpojumu regulēšanas komisijas 2012. gada finanšu pārskatu, uz kuru pamatojoties ir sagatavots saīsinātais Sabiedrisko pakalpojumu regulēšanas komisijas 2012. gada finanšu pārskats.

Mūsuprāt, iepriekš minētais saīsinātais finanšu pārskats visos būtiskos aspektos atbilst Sabiedrisko pakalpojumu regulēšanas komisijas 2012. gada finanšu pārskatam, uz kuru pamatojoties ir sagatavots saīsinātais finanšu pārskats.

Lai gūtu pilnīgāku priekšstatu par Sabiedrisko pakalpojumu regulēšanas komisijas finansiālo stāvokli 2012. gada 31. decembrī, tās 2012. gada darbības finanšu rezultātiem un mūsu veiktās revīzijas darba apjomu, iepriekš minētais saīsinātais finanšu pārskats būtu jāvērtē kopā ar Sabiedrisko pakalpojumu regulēšanas komisijas 2012. gada finanšu pārskatu, uz kuru pamatojoties ir sagatavots šis saīsinātais finanšu pārskats, un attiecīgo mūsu revidentu ziņojumu.

SIA Revīzija un vadības konsultācijas
Licences Nr. 79

Zigrīda Šneidere
Valdes locekle
LR zvērināta revidente
Sertifikāta Nr. 110

Rīgā, 2013. gada 15. martā

Priorities in the energy sector

The Regulator's priorities in the energy sector in 2013:

- licensing, registration, and supervision of public service providers in the electricity supply sector, assessment of tariff proposals, setting of tariffs;
- organising the work of the Baltic Electricity Regional Initiative, participation in the implementation of the Baltic Energy Market Interconnection Plan;
- approval of the electricity transmission system's ten-year network development plan;
- analysis of electricity market data and their impact on end-user prices;
- improvement of data submission and reporting system in the sector of thermal energy supply, improvement of supervision of thermal energy supply companies and data processing;
- implementation of the Regulation No 1227/2011 of the European Parliament and of the Council on wholesale energy market integrity and transparency;
- work on the implementation of the Regulation No 347/2013 of the European Parliament and of the Council on guidelines for trans-European energy infrastructure and repealing Decision No 1364/2006/EC and amending Regulations (EC) No 713/2009, (EC) No 714/2009 and (EC) No 715/2009 in relation to the projects of common interests.

Priorities in the electronic communications and postal sectors

The Regulator's priorities in the electronic communications and postal sectors in 2013:

- amendments to legal acts made at the beginning of 2013 specified procedure and deadlines for starting the use of the digital dividend for providing mobile electronic communications services. Due to this reason, the Regulator in 2013 has to announce and perform an auction of usage rights for 791,0MHz - 821,0MHz/832,0MHz - 862,0MHz bands of radio frequency spectrum;
- the Regulator has received a request from an electronic communications company for assigning usage rights for 2570MHz – 2620MHz band of radio frequency spectrum in the Republic of Latvia from January 1, 2014. The Regulator has to announce and organise the auction in due time so that a decision on granting the requested usage rights of radio frequency spectrum would be adopted no later than by November 27, 2013;
- the first EU Radio Spectrum Policy Programme 2012-2015 will continue operating; it will promote more efficient management of the radio frequency spectrum and its availability for wireless broadband technologies;
- a decision will be adopted on further reduction of call termination tariffs in fixed and mobile networks;
- regulation of access, including optic, markets (markets No. 4 and 5) is planned and determination of obligations and informing the EC and *BEREC*;
- Regulations on the volume of information required for market analysis will be reviewed;

- supervision of obligation fulfilment for electronic communications companies with significant market power will continue;
- the 10th Annual Meeting of the Baltic Electronic Communications and Postal Regulators will take place in Latvia;
- the PUC along with the Body of European Regulators for Electronic Communications will organise the European Independent Regulators Group's General Assembly and the 16th BEREC Plenary Meeting in Riga;
- in cooperation with the Spanish and Swedish regulators the two-year *TWINING* experience exchange with the Ukrainian regulator *NCCIR* will be completed;
- from January 1, 2013, the postal service market in Latvia is open for competition;
- the Regulator must extend the obligations of the universal postal service for one year from January 1, 2014;
- in accordance with the amendments to the Postal Law, the Regulator must adopt or amend several legal acts in the postal sector;
- monitoring of compliance of the universal service obligations with specific requirements in the electronic communications and postal sectors will continue.

Priorities in the railway transport sector

The Regulator's priorities in the railway transport sector in 2013:

- participation in the working group of the Ministry of Transport regarding transposition of the requirements of the Directive 2012/34/EU in the national legal system;
- supervision of companies in accordance with requirements specified in licences and normative acts;
- supervision of implementation of the Regulation No.1371/2007 of the European Parliament and of the Council on rail passengers' rights and obligations;
- participation in activities of IRG-Rail, paying special attention to issues related to changes in the framework of the 4th Railway Package;
- participation in the European Commission's working groups and other international forums.

Priorities in water management and municipal waste disposal sectors

The Regulator's priorities in the water management and municipal waste disposal sectors in 2013:

- participation in the working group of the Ministry of Environmental Protection and Regional Development drafting the Water Management Law;
- participation in the development of amendments to legal acts associated with the Water Management Law, as well as the law and legal acts regarding implementation of legal norms for public service regulation after the law comes into force;
- submission of proposals for updating the Waste Management Law on issues of public service provision;
- licensing public service providers in water management and municipal waste disposal sectors, reviewing tariff proposals and setting tariffs;

- supervision of companies in accordance with licence provisions and requirements of legal acts;
- participation in international forums on regulatory issues of water management.

Decisions and Documents**Internal normative acts issued by the Regulator**

- 06.01.2012. internal regulations No.2.06/1 "Amendments to August 12, 2011 PUC internal regulations No.2.06/11 "Regulations on business trips"";
- 15.02.2012. internal regulations No.2.06/2 PUC internal regulations "Structure of the Public Utilities Commission";
- 07.03.2012. internal regulations No.2.06/3 PUC internal regulations "Regulations on document management";
- 21.03.2012. internal regulations No.2.06/4 "Amendment to February 15, 2012 PUC internal regulations No.2.06/2 "Structure of the Public Utilities Commission"";
- 28.03.2012. internal regulations No.2.06/5 "Amendments to August 31, 2011 PUC internal regulations No.2.06/13 "Procedure for evaluation of a tariff proposal"";
- 26.04.2012. internal regulations No.2.06/6 "Accounting procedure";
- 27.04.2012. internal regulations No.2.06/7 "Amendments to February 15, 2012 PUC internal regulations No.2.06/2 "Structure of the Public Utilities Commission"";
- 27.04.2012. statute No.2.06/8 "Statute of the Administrative Department";
- 27.04.2012. statute No.2.06/9 "Statute of the System Analysis Department";
- 27.04.2012. internal regulations No.2.06/10 "Regulations on implementation of the projects financed by the European Union";
- 09.05.2012. internal regulations No.2.06/11 "Statute of a competition commission for determining a provider of the universal postal service according to a tender procedure";
- 11.06.2012. internal regulations No.2.06/12 "Procedure for preparation and approval of a budget and amendments to a budget and procedure for the implementation of a budget";
- 20.06.2012. internal regulations No.2.06/13 "Registration regulations";
- 20.06.2012. internal regulations No.2.06/14 "Licensing regulations";
- 27.06.2012. internal regulations No.2.06/15 "On declaring the internal regulations "Statute of a competition commission for determining a provider of the universal postal service according to a tender procedure" obsolete";
- 18.07.2012. internal regulations No.2.06/16 "Amendments to March 7, 2012 PUC internal regulations No.2.06/3 "Regulations on documents management"";
- 01.08.2012. internal regulations No.2.06/17 "Regulations on reviewing cases of administrative violations";
- 06.08.2012. internal regulations No.2.06/18 "Amendment to April 26, 2012 PUC internal regulations No.2.06/6 "Accounting procedure"";
- 08.08.2012. internal regulations No.2.06/19 "Statute of a competition commission for assigning usage rights of 2300MHz-2360MHz band of radio frequency spectrum according to an auction procedure";
- 03.10.2012. internal regulations No.2.06/20 "Amendments to June 20, 2012 PUC internal regulations No.2.06/14 "Licensing regulations"";

22.11.2012. internal regulations No.2.06/21 "Amendments to August 12, 2011 PUC internal regulations No.2.06/11 "Regulations on business trips"";

26.11.2012. internal regulations No.2.06/22 "Amendments to June 13, 2011 PUC internal regulations No.2.06/6 "Accounting procedure"";

19.12.2012. internal regulations No.2.06/23 PUC internal regulations "Remuneration procedure in the Public Utilities Commission".

External normative acts issued by the Regulator

- 18.01.2012. decision No.1/1 "Regulations on conditions for the use of the effective permitted load";
- 08.02.2012. decision No.1/2 "Regulations on information for electricity end-users";
- 22.02.2012. decision No.1/3 "Methodology for calculation of electricity tariffs for captive customers";
- 22.02.2012. decision No.1/4 "Regulations on requirements for the independence of an electricity distribution system operator";
- 22.02.2012. decision No.1/5 "Regulations on the system connection for participants of the electricity system";
- 22.02.2012. decision No.1/6 "Regulations on the system connection for electricity producers".
- 28.03.2012. decision No.1/7 "Amendment to April 14, 2010 PUC decision No.1/7 "Methodology for calculation of tariffs of thermal energy supply"";
- 28.03.2012. decision No.1/8 "Amendment to June 11, 2010 PUC decision No.1/10 "Methodology for calculation of cogeneration tariffs"";
- 04.04.2012. decision No.1/9 "Amendments to March 9, 2011 PUC decision No.1/1 "Methodology for calculation of a tariff for municipal waste disposal service"";
- 04.04.2012. decision No.1/10 "Amendments to May 12, 2010 PUC decision No.1/8 "Methodology for calculation of tariffs of water management services"";
- 09.05.2012. decision No.1/11 "Statute for determining a provider of the universal postal service by tender procedure";
- 06.06.2012. decision No.1/12 "Amendments to November 11, 2009 PUC decision No.1/5 "Regulations on information to be submitted to the Public Utilities Commission"";
- 08.08.2012. decision No.1/13 "Statute for assigning usage rights of 2300MHz-2360MHz band of radio frequency spectrum by tender procedure";
- 17.10.2012. decision No.1/14 "Amendments to June 16, 2011 PUC decision No.1/6 "Regulations on providing number portability service"";
- 21.11.2012. decision No.1/15 "Regulations on the amount of information required for market analysis and the submittal procedure thereof".

The Cabinet of Ministers or Saeima's legal acts drafted or co-drafted by the Regulator

- Law "Amendments to the Law on Remuneration of Officials and Employees of the State and Local Government Institutions";
- the draft law replacing Section 24 of the transitional regulations of the law "On Regulators of Public Utilities" with new text regarding monitoring of HPPs was prepared and sent to the Ministry of Economics;
- the draft law providing for the inclusion of effective, preventive and proportional fines in the electricity supply sector was prepared and sent to the Ministry of Economics;
- proposals on the draft law "Amendments to the Postal Law" were prepared and sent to the Saeima Economic, Agricultural, Environmental and Regional Policy Committee;
- participation in the working group of the Ministry of Environmental Protection and Regional Development drafting the "Water Management Law";
- participation in the Housing Subcommittee of the Saeima Public Administration and Local Government Committee regarding such draft laws:
 - o "Amendments to the Civil Process Law" (No.100/Lp11);
 - o "Amendments to Residential Housing Management Law" (No.262/Lp11);
- the Cabinet's draft regulations "Amendments to August 30, 2005 Cabinet Regulations No.664 "Regulations on Licensing of Public Services"" were prepared and sent to the Ministry of Economics;
- Participation in inter-ministerial meeting on the Cabinet's draft regulations "Amendments to March 10, 2009 Cabinet Regulations No.221 "Regulations on Electricity Generation and Price Setting for Electricity Generated in CHP Plants"";
- Participation in inter-ministerial meeting on the Cabinet's draft regulations "Amendments to March 16, 2010 Cabinet Regulations No.262 "Regulations on Electricity Generation Using Renewable Energy Resources and the Price Setting Procedure"".

Provided opinions on draft laws

- Opinion on the draft law "Amendments to the Law "On Regulators of the Public Utilities"" (12.06.2012.);
- opinion on the draft law "Amendments to the Latvian Administrative Violations Code" (VSS-66) (19.06.2012.; 25.01.2012.);
- opinion on the draft law "Amendments to the Postal Law" (TA-463) (28.06.2012.);
- opinion on the draft law "Amendments to the Law on Remuneration of Officials and Employees of the State and Local Government Institutions" (VSS-1152) (24.01.2012.; 28.02.2012.; 04.04.2012.);
- opinion on the draft law "Amendments to the Electricity Market Law" (VSS-902) (20.09.2012.);
- opinion on the draft law "Amendments to the Law On the Freedom to Provide Services" (VSS-718) (19.07.2012.);
- opinion on the draft law "Law on the Universal Service for Electricity Supply" (18.09.2012.);

- opinion on the draft law "Amendments to the Latvian Administrative Violations Code" (19.10.2012.);
- opinion on the draft law "Amendments to the Electronic Communications Law" (VSS-383) (20.04.2012.; 26.07.2012.; 8.10.2012.; 22.10.2012.);
- opinion on the draft law "Amendments to the Electronic Communications Law" (VSS-1070) (19.11.2012.);
- opinion on the draft law "Amendments to the Postal Law": 20.02.2012. (VSS-1226); 02.03.2012. (TA-463); 10.05.2012., 14.05.2012., 06.06.2012. (TA-463); 20.07.2012. (TA-463), 19.09.2012.;
- opinion on the draft law "Amendments to the Law "On Taxes and Duties"" (VSS-714) (14.08.2012.);
- opinion on the draft law "Amendments to the Law "On Safety of Hydro-technical Buildings of Hydropower Plants"" (VSS – 65) (25.01.2012.; 02.04.2012.; 01.03.2012.; 19.10.2012.);
- opinion on the draft law "Amendment to the Electricity Market Law" (VSS-64) (03.02.2012.; 16.05.2012.);
- opinion on the draft law "Law on the Energy Efficiency of Buildings" (VSS-286) (30.03.2012.);
- opinion on the draft law "Euro Introduction Law" (VSS-580) (18.06.2012.);
- opinion on the draft law "Amendment to the Railway Law" (No.235/Lp11) (12.06.2012.).

Provided opinions on draft legal acts of the Cabinet of Ministers

- Opinion on the draft concept "Concept on the Development of the Administrative Fine System" (VSS – 611) (17.02.2012.);
- opinion on the Cabinet draft ordinance "A Plan of Measures for the Implementation of "Silent Agreement" Principle in the Administrative Practice of the Relevant Institutions" (VSS-196) (28.02.2012.);
- opinion on the Cabinet draft regulations "Amendments to the June 21, 2010 Cabinet Regulations No.541 "Regulations on the Accounting System for Remuneration of the Officials of the State and Local Government Institutions"" (VSS-50) (02.02.2012.; 08.05.2012.);
- opinion on the Cabinet draft instruction "Procedure for the Purchase and Rent of Service Passenger Cars" (VSS-551) (07.06.2012.);
- opinion on the Cabinet draft regulations "Amendments to August 30, 2005 Cabinet regulations No.664 "Regulations of Public Service Licensing"" (VSS-593) (21.06.2012.);
- opinion on the Cabinet draft regulations "Statute of the Open Competition "Complex Solutions for the Reduction of Greenhouse Gas Emissions" Funded by the Climate Change Financial Instrument" (05.04.2012.);
- opinion on the Cabinet draft regulations "Amendments to March 10, 2009 Cabinet regulations No.221 "Regulations on Electricity Generation and Price Setting for Electricity Generated in CHP Plants"" (VSS-359) (13.04.2012.; 08.06.2012.; 27.06.2012.; 18.07.2012.);

- opinion on the Cabinet draft regulations "Amendments to March 16, 2010 Cabinet regulations No.262 "Regulations on Electricity Generation Using Renewable Energy Resources and the Price Setting Procedure"" (13.04.2012.; 12.06.2012.);
- opinion on the Cabinet draft regulations "Amendments to April 25, 2006 Cabinet Regulations No.319 "Regulations on Mandatory Insurance of Third Party Liability of a Manager of Hydro-technical Buildings of Hydropower Plants" (20.08.2012.; 19.10.2012.);
- opinion on the Cabinet draft regulations „Amendments to Cabinet January 26, 2010 regulations No.70 „Regulations on safety programmes and declarations of hydro-technical buildings of hydropower plants"" (19.10.2012.);
- opinion on the Cabinet draft regulations "Amendments to February 2, 2010 Cabinet Regulations No.104 "Procedure for Recognition and Registration of Food Companies"" (VSS-1208) (15.11.2012.);
- opinion on the Cabinet draft regulations "Regulations on Remuneration of Officials and Employees of the State and Local Government Institutions and the Determination Procedure Thereof" (VSS-1177) (29.11.2012.);
- opinion on the Cabinet draft regulations "Amendments to November 29, 2011 Cabinet Regulations No.914 "Regulations on Electricity Trade and Usage" (19.07.2012.);
- opinion on the Cabinet informative draft report "On the Full Opening of the Latvian Electricity Market" (05.10.2012.; 01.11.2012.);
- opinion on the Cabinet draft regulations "Regulations on the Participation of Stationary Technological Equipment in the European Union Emission Quota Trading System" (05.10.2012.);
- opinion on the Cabinet draft strategy "Long-term Strategy of the Energy Sector 2030 – Competitive Energy for the Public" (12.10.2012.);
- opinion on the Cabinet informative draft report "On risks of an Electricity Price Increase and Limiting thereof" (14.12.2012.);
- opinion on the Cabinet draft regulations "Amendments to August 11, 2009 Cabinet regulations No. 892 "Regulations on Annual State Fee for Numbering Usage Rights"" (09.01.2012.);
- opinion on the Cabinet draft regulations "Amendments to March 1, 2011 Cabinet Regulations No.166 "Procedure for Installing and Building Electronic Communications Networks" (VSS-917) (11.01.2012.);
- opinion on the Cabinet draft regulations „Amendments to The Cabinet August 25, 2008 Regulations No.684 "Regulations on the National Numbering Plan"" (VSS-1386) (27.01.2012.; 29.02.2012.);
- opinion on the Cabinet draft concept "On the Transmission of Digital Terrestrial Television Programmes from 2014" (VSS-1346) (03.02.2012.);
- opinion on the Cabinet informative draft report "Informative Report "On Coordination of the Implementation of the Basic Initiative of the Strategy EU 2020 "Digital Programme for Europe" in Latvia" (VSS-930) (28.02.2012.);
- opinion on the Cabinet draft concept "Concept of the Development of the Next Generation Networks in 2013–2020" (VSS-466) (17.05.2012.; 14.09.2012.; 18.10.2012.);
- opinion on the Cabinet draft regulations "Amendments to October 6, 2009 Cabinet regulations No.1151 "Regulations on the Allocation of Radio Frequency Bands for Radio

Communications Types and Radio Communication Systems, as well as the General Conditions for the Use of Radio Frequency Bands (the National Radio Frequency Plan)"" (VSS-1071) (01.11.2012.);

- opinion on the Cabinet draft regulations "Amendments to October 6, 2009 Cabinet regulations No.1151 "Regulations on the Allocation of Radio Frequency Bands for Radio Communications Types and Radio Communication Systems, as well as the General Conditions for the Use of Radio Frequency Bands (the National Radio Frequency Plan)"" (VSS-1201) (05.12.2012.);
- opinion on the Cabinet draft regulations "Amendments to February 16, 2010 Cabinet regulations No.143 "Regulations on Bands of Radio Frequency Spectrum for the Efficient Use of Which Assigning of Usage Rights of Radio Frequency Spectrum for Commercial Activities in the Electronic Communications Sector Must Be Limited" (VSS-1202) (05.12.2012.).